Punch

Small Cap Commentary
Second Quarter, 2017

Overview

The second quarter of 2017 saw a continuation of the recent trends in equity markets: strong outperformance of "growth" areas like healthcare and technology and continued underperformance of "value" areas like energy and financial services. While the Russell 2000 Growth Index is up 9.5% so far in 2017, the Russell 2000 Value is down 0.4%.

As a whole, the Russell 2000 Index was up 2.5% in the second quarter and is up 5.0% for the first six months of the year. While that relatively muted return sounds unimpressive, it masks some sizable moves in underlying sectors: healthcare stocks as a group are up 22.5% year-to-date, while energy is down 27%. Technology, the second best-performing sector, has returned 11% through June 30.

In short, "hot" areas of the market have gotten hotter, while "cold" areas of the market have remained cold—not a great recipe for disciplined, valuation-sensitive investors like ourselves who have found many hot stocks simply "too hot to handle." The Punch Small Cap Strategy remains significantly underweight the healthcare sector (4.3% vs 13.3% average weight) as well as technology (14.3% vs 17.8%), and we have not added a new healthcare stock to the portfolio in nearly two years. Unsurprisingly, the strategy underperformed its benchmark on a net-of-fees basis in both the second quarter (1.8% vs 2.5% total return) and year-to-date (+2.1% vs +5.0%) periods.

Deconstructing the Benchmark

Of the 2,010 stocks in the Russell 2000 Index, only twenty-five accounted for approximately half of the year-to-date index return. Of these twenty-five stocks, ten were biotechnology or pharmaceutical-related companies and were up an average of 105% in the first half. These ten stocks are a microcosm of some of the excesses we are seeing in pockets of the market today. Together, they accounted for over $42 billion of combined market value—even though half of them had negligible revenues and only two were profitable on an operating (EBITDA) basis over the past twelve months. As a group, they trade at nearly 13x revenues while producing over $1.5 billion of operating losses.

Our investment process is focused on minimizing risks first and maximizing returns second. As part of that process, we insist on operating profitability for all our portfolio companies, unless there is a significant margin of safety to offset that risk. We look for companies with a strong history and track record of generating profits and free cash flows, and we prefer companies that are returning excess capital to shareholders.

Annualized Performance as of 6-30-2017 *(net of fees)*

	Q2 2017	1 Year	3 Years	5 Years	10 Years	Since Inception*
Punch Small Cap	1.81%	22.58%	6.62%	13.76%	7.21%	10.41%
Russell 2000 Index	2.47%	24.61%	7.36%	13.70%	6.92%	8.41%

**Inception date is 3-31-2002*

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We believe that for some of the best-performing companies in the index today, profitability is nowhere in sight. Rather than generating cash, many are consuming it, relying on ready and willing capital markets to fund their business development. We think the risks associated with such business models are manifold—development projects could turn out to be too optimistic, capital markets could close to new ventures, and valuations could simply become more "reasonable." Time will tell how these businesses fare in the long run.

Portfolio Attribution

In the second quarter of 2017, the Punch Small Cap Strategy produced a total return of 1.8%, below the benchmark return of 2.5%. Of this 0.7% underperformance, our sector allocations (notably an overweight to energy stocks and an underweight to healthcare) detracted 0.9% while our individual stock selection contributed 0.2% to performance. More details follow.

Bottom Contributors

Holding	Average Weight	Total Return	CTR** (bps)
EW Scripps Co.	2.70	-24.02%	-78
Hackett Group	2.16	-19.71%	-50
Digi International	2.95	-14.71%	-49
Drive Shack	1.38	-24.10%	-39
Rignet	1.25	-25.17%	-37

Top Contributors

Holding	Average Weight	Total Return	CTR** (bps)
Ferro Corp.	3.67	20.41%	65
Callaway Golf	4.15	15.54%	58
Lendingtree	1.62	37.38%	54
Etsy	1.51	41.11%	54
Novanta	1.61	35.59%	50

Bottom Contributors to Performance

E.W. Scripps Company (SSP, $1.5 billion market cap) was our top contributor to performance in the first quarter of 2017, but our worst contributor in the second quarter. Following the presidential election in November, many television broadcast stocks rose meaningfully on speculation of a looser regulatory environment and the prospects for increased consolidation in the industry. As the new administration has been slow to implement its policy agenda, though, some of these "Trump Bump" stocks have given up their post-election gains.

We think that there is still real potential for regulatory change in the broadcast industry, particularly with respect to station ownership rules that may allow owners like Scripps to own more properties in the same markets, and we think these changes could drive substantial economic value for broadcasters. Scripps management has a history of intelligent and rational capital allocation, particularly with respect to M&A, and we believe they have the best balance sheet in the industry to execute such deals.

The "existential threat" to television broadcasting is, of course, news and entertainment content delivered over the internet and via "over the top (OTT)" providers like Netflix and Hulu. Recently, though, Scripps signed retransmission agreements with YouTube and other OTT providers, allowing them to carry local news broadcasts and other content, which we think validates Scripps' content and business model in this evolving media landscape. In addition, Scripps owns a successful OTT property of its own, on-demand news provider Newsy and has a growing digital advertising business. We think that, over time, these will be meaningful drivers of value for shareholders.

The Hackett Group (HCKT, $450 million market cap) was the second-worst detractor from performance in the second quarter, following disappointing second quarter results and a lowered outlook for the third quarter.

Hackett is a business management consulting firm that has shrunk its shares outstanding by over 25% in the past five years, deploying its substantial free cash flow into Dutch auction-style stock repurchases and select acquisitions of smaller, niche consulting firms. We think highly of the company and its CEO, Ted Fernandez, for their intelligent growth strategy, high-potential new business ventures, and rational capital allocation. We can't help but attribute some of Mr. Fernandez's track record of sharehold-

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er-friendly actions to the fact that he is the company's largest shareholder, owning over 12% of the stock.

In the second quarter, Hackett had a rare sales and earnings disappointment, missing consensus earnings by a sizable margin and lowering their third quarter guidance to an outright decline in sales. Management blamed the shortfall on an increased focus by clients on digitization and robotics process automation (RPA) projects, two areas where Hackett has comparatively less expertise. In short order, the company has already announced two acquisitions to address these holes in their consulting offerings, and we think that this disruption does not impair the company's long-term ability to compete.

Digi International (DGII, $270 million market cap) has struggled so far in 2017, and fell another 15% in the second quarter as the prospects for a takeover by Belden Corp (BDC) materially worsened and quarterly results were disappointing.

In late 2016, Digi received an unsolicited takeover offer at a premium from industrial conglomerate Belden Corp. Digi's management rejected the offer. Since then, it has been unclear whether a deal would ultimately be consummated as both sides have remained silent. On May 4th, Belden announced an acquisition of a networking products company called Thinklogical for $160 million in cash—not significantly different from Digi's year-end enterprise value of roughly $200 million—effectively giving their response to Digi's formal rejection.

This acquisition, announced on the same day as Digi's disappointing second quarter earnings, had the net effect of a significant sell-off in Digi shares.

While the second quarter results were indeed disappointing (revenue down 9%, EBITDA down 40%), we think the relatively new management team at Digi is focused on the right things (simplifying the business, boosting margins to acceptable levels, getting into new and growing niche markets), and the company still has over $110 million in cash to deploy into acquisitions or stock buybacks. As a sign of confidence in their strategy and valuation, the company recently expanded its buyback authorization to $20 million (over 7% of the shares outstanding).

Top Contributors to Performance

Our top contributor to performance in the second quarter was **Ferro Corp. (FOE, $1.5 billion market cap)**, a specialty chemical and materials company that we profiled one year ago in our Second Quarter 2016 Commentary as a new addition to the portfolio. Ferro is a producer of tile, glass, and ceramic coatings primarily used in construction and automotive markets around the globe, and 80% of its sales are outside of the U.S.

We were originally attracted to Ferro Corp. because their new management team, having come on in 2012, had virtually transformed the business from a low-return, over-leveraged, diversified specialty chemicals business into a lean, free cash flow-oriented company focused on the niches of specialty coatings and colorings where it was the market leader. Much of this transformation had gone unrecognized and under-appreciated since the company only had a small handful of sell-side analysts covering it, and the stock's below-average valuation reflected that.

In this past quarter, Ferro reported sales and earnings significantly ahead of consensus estimates, with a marked acceleration in organic sales growth to the mid-single digits and EBITDA margins improving to nearly 20%. As management has reiterated several times, the company is now in growth mode, having largely completed the turnaround, and has a "very robust" pipeline of both organic and inorganic growth opportunities they are pursuing. We believe that the valuation gap between Ferro and its coatings peers remains wide and that most investors are only beginning to appreciate the growth trajectory of this once struggling business.

Our second-best contributor to performance in the quarter was **Callaway Corp (ELY, $1.2 billion market cap)**, currently our second largest holding in the portfolio. After years of declines in golf participation in the U.S., 2017 is showing tentative signs of stability, and the golf equipment market is growing again, albeit slowly.

Callaway regained its mantle this year as the number-one market share leader in the driver, iron, and putter categories and surprised many with the success of its biggest product launch in years, the Epic driver, in the spring of 2017. When we initially took our stake in Callaway several years ago, the golf industry was in the doldrums, and golf equipment was clearly an out-of-favor business. We are hopeful that 2017 is the beginning of a return to favor for this industry in general and Callaway in particular as there were more new players to the game this past year than in any of the past decade (source: Bloomberg LP).

TopGolf, the driving range entertainment concept which now has nearly thirty locations nationwide, remains a significant driver of value for Callaway shares. TopGolf continues to open 8-10 new locations annually and is expanding into unique and innovative formats like temporary driving ranges in sports stadiums, golf simulators in hotels, and even potential locations in shopping malls.

Etsy, Inc. (ETSY, $1.7 billion market cap) had a tumultuous second quarter after the company announced disappointing first quarter results in April combined with the departure of its CEO, Chad Dickerson, but the stock rose on the news of the shake-up and potential strategic review of the business, making it our third best contributor in the quarter.

Etsy's business model is an attractive "marketplace" business boasting the largest community of handmade crafters on the internet (1.6 million sellers and 24 million buyers). The company takes no inventory risk and has minimal capital requirements, and earns its revenues from transaction fees paid by sellers who list their goods on the website as well as from ancillary services sold to sellers, such as payment processing, advertising, and inventory management.

Recently, sales growth has slowed to the mid-teens as the company works to enhance its mobile and search capabilities, and margins have been crimped by both infrastructure and marketing spending. As a result of disappointing results, a new CEO was appointed in May to reinvigorate growth. Josh Silverman has impressive credentials as he was the founder of Evite Inc. and has held executive positions at both Skype and Ebay (a business model fundamentally similar to Etsy's). Silverman announced a strategic review of the business shortly after his appointment, and there is some speculation that the company could be sold. We think that Etsy could very well thrive under new leadership, and we remain excited about the potential of this out-of-favor e-commerce business.

Initiations and Exits

We initiated two new positions in the second quarter and exited three, ending with a total of 47 positions in the strategy as of June 30.

Our first new position in the quarter was **B. Riley Financial (RILY, $360 million market cap)**, a diversified financial services firm whose primary business is retail auctions and liquidations. Under the trade name "Great American," the company is one of the largest liquidators of retail stores in the country, a niche, oligopolistic industry with surprisingly high barriers to entry. Whenever you drive by a retail store with gaudy "Going out of Business" signs or shelves and cash registers for sale, there are decent odds Great American is managing the liquidation.

The barriers to entry in the business derive mainly from a 40-year operating history which has created both credibility and an intimate knowledge of precise liquidation values of millions of individual product SKUs. Most retail liquidations are actually auctions whereby liquidators bid on store assets and then liquidate them as quickly and efficiently as possible. Only certain liquidators are usually invited to bid, and there is risk in participating if you cannot make an intelligent bid.

It should come as no surprise that the retail industry is in a period of unprecedented upheaval today (thanks, Amazon!) and there were more retail bankruptcies in the first quarter of 2017 than there were in all of 2016. Industry research from commercial real estate brokerage Cushman & Wakefield suggests that we are only at the beginning of this wave of store closures, with the average number of expected store closings going from an average of 4,000 a year historically, to an expected 10,000 in 2017 and to nearly 12,000 in 2018.

In addition to the retail liquidation business, the company also owns a capital markets business (under the B. Riley, FBR, and Wunderlich headers), an asset management business, and has over $100 million in net cash.

B. Riley, as a public company, has no analyst coverage and relatively concentrated shareholder ownership, with the top five shareholders owning over 60% of the stock. The CEO and founder, Bryant Riley, is the largest shareholder (21.9%), pays himself only a $300,000 salary and has been accumulating shares

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in the open market recently. The company has paid two special dividends and two regular dividends so far in 2017 and has a 12-month dividend yield near 4%.

Our second new position in the quarter is residential furniture manufacturer **Hooker Furniture (HOFT, $480 million market cap)** based in Martinsville, Virginia. Hooker has historically focused on high-end upholstered and casegoods furniture sold through independent retailers and interior designers around the country. Most of the actual product manufacturing is outsourced overseas, allowing the company to run a relatively asset-light business that generates free cash flow and remain profitable throughout the downturn in 2008 and 2009.

Most furniture purchases are made simultaneously with a home purchase or remodel, and while new and existing home sales are still below historical trend, we believe there are tentative signs of an increase in housing activity in this country. In particular, millennials who have been delaying household formation now appear to be joining the ranks of homeowners in larger numbers, according to Ellie Mae (a software company that analyzes mortgage data). We believe this will be a tailwind for the industry over the next several years.

In 2016, Hooker made the largest acquisition in its 93-year history, with the $100 million purchase of Home Meridian International (HMI), a furniture manufacturer focused on entry-level products with large and growing relationships with both Costco and online retailer Wayfair. HMI caters directly to millennials with low prices and online distribution channels, and so far management has done a nice job integrating this growth business.

The stock today trades at only 13.5x next year's earnings estimates, compared to a historical median of 18.5x, and we believe that furniture remains an out-of-favor area of the market with lackluster housing markets the past few years.

Our three exits in the quarter were Photronics Inc. **(PLAB, $700 million market cap)**, Calavo Growers **(CVGW, $1.2 billion market cap)**, and First Business Financial **(FBIZ, $200 million market cap)**. These three stocks were sold for **o**perational, **v**aluation, and **r**eputational reasons (as in, it's OVR!), respectively.

Photronics Inc. is a semiconductor capital equipment company engaged in the production of photomasks, which are the "blueprints" for semiconductor chip design. We made our initial investment in Photronics in May 2010 when the semiconductor cycle appeared to be at its nadir and many capital equipment businesses were trading at low single-digit multiples of operating income. Since then, the semi cycle has improved and management of the company has done an admirable job of investing during the downturn to re-position themselves as the technology leader in this niche.

The "operational" frustrations that we had with the company that ultimately led to our exit were related to the company's inability to generate meaningful returns on capital or free cash flow over time. We were always attracted to Photronics' prodigious cash flow, and one of our assumptions about the company that turned out to be incorrect was that, after a period of heavy re-investment, cash flows would become "free" cash flow available to shareholders. However, the business of producing photomasks requires significant up-front set-up capital each time a "blueprint" for a new technology is made—a burden born entirely by the photomask producers and not by the company's customers, who tend to be large and influential chip manufacturers. With large customer concentration and the constant threat of insourcing, producers like Photronics are forced to front these heavy capital expenditures in order to secure future product commitments. As a result, returns on capital in this business have never exceeded the low single-digits—well below their cost of capital—and free cash flow is elusive.

The final straw for us was the announcement by the company that, after this lengthy period of re-investment in the business, they would be constructing a new $150 million photomask facility in China at the request of their largest customers. With our hopes for free cash flow dashed, we decided it was time to move on from this low-return, capital intensive business with structural challenges. Given the unpredictability of the business, we reasoned that the stock was unlikely to get much more of a valuation than it does today and exited.

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The story of Calavo Growers (CVGW) is an interesting one and an excellent example of what we look for in a portfolio company.

Calavo Growers was founded in 1924 as a cooperative of avocado farmers in California, and its primary business was not to own farmland but rather to market and distribute avocados. In 2001 the farmers who owned the cooperative decided to list their shares on a stock exchange to facilitate the transfer of ownership, and thus was born the public company that exists today. The company never had an IPO and has never in its history raised outside capital. As a result, Calavo didn't receive much Wall Street attention until only recently. Even today, the company has only a small handful of analysts and does not hold public conference calls.

The avocado business is attractive for several reasons. First, avocado consumption has grown significantly in the past fifteen years, in large part because of the influx of Hispanics (Mexicans consume six times the amount of avocados per capita than Americans) and the passage of NAFTA, which allowed Mexican and South American supply into the U.S., thereby changing avocados from a seasonal fruit (yes, it's a fruit!) to a year-round one. Second, Calavo's business as a marketer, and not a grower, means that it does not take traditional farming risk but rather collects fees based on volume. Third, the company has a processed foods division (think guacamole and salsa) with significantly higher margins and growth.

We have been out to the company's headquarters in the avocado groves of Santa Paula, California, several times and we would highly recommend the visit to anyone as the area is stunningly beautiful We parted ways with the shares in the second quarter for valuation reasons.

Our final exit in the quarter was First Business Financial (FBIZ). First Business is a community bank based in Madison, Wisconsin, in which we initially took a position back in December of 2014. The bank operates a branchless banking model focused on lending to small- and medium-sized business customers. We were initially attracted by the bank's growth orientation, its low-cost branchless model, and its highly asset-sensitive balance sheet, which would see dramatically improved earnings in a rising interest rate environment.

In mid-2014, First Business acquired a Kansas City-based bank with a similar operating model called Alterra Bank, for $45 million. Alterra appeared to be a low-cost lender with an entrepreneurial culture and was the number one SBA lender in Kansas City at the time. While results at Alterra were good for several years following the deal, late in 2016 it came to light that underwriting issues were surfacing at the subsidiary and credit losses were mounting.

We are firm believers that culture and reputation are paramount in the banking business, where underwriting results often don't show up for years after a loan is made, and when a bank has meaningful credit deterioration in a benign credit environment, it is likely that those issues will be magnified when the cycle does eventually turn. As a result, we exited First Business in relatively short order during the second quarter.

Outlook and Conclusion

While there do seem to be pockets of froth in today's market, we are not, coincidentally, having difficulty finding new and interesting ideas for our portfolio. The small end of the small cap market (sub-$1 billion) where we generally focus, routinely offers up instances of pricing inefficiency. We believe that these inefficiencies in large part cannot be exploited by large, sophisticated managers of capital for structural reasons. Spin-off securities, orphan public companies with little analyst coverage, and simply out-of-favor areas are our "sweet spot" and we salivate when we find fundamentally attractive businesses whose shares are "on sale" for what we believe are behavioral or structural reasons.

We believe that investing in the smallest public companies remains a largely unexploited investment strategy and, because of size constraints, one which is unlikely to ever attract significant capital. The result would be a universe of inefficiently-priced but fundamentally attractive businesses, and those are the ones we are focused on finding every day.

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Composite performance is shown net-of-fees and brokerage commissions paid by the underlying client accounts. Certain client accounts have directed us to reinvest income and dividends, while others have directed us to not reinvest such earnings. As such, performance data shown includes or excludes the reinvestment of income and dividends as appropriate, depending on whether the account has directed us to reinvest income and dividends. Past performance is no guarantee of future results, and investing in securities may result in a loss of principal.

Punch & Associates claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Please refer to the attached Composite Profile and Schedule of Performance for information regarding Punch & Associates' compliance with GIPS® standards.

The reference to the top five and bottom five performers within the Punch Small Cap Equity Strategy portfolio is shown to demonstrate the effect of these securities on the strategy's return during the period identified. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients during the period of time shown. Past performance does not guarantee future results; therefore, it should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities in this list. Please contact Punch & Associates at andy@punchinvest.com or (952)224-4350 to obtain details regarding the calculation's methodology or to obtain a list showing every holding's contribution to the overall strategy's performance during the period of time shown.

Any benchmark indices shown are for illustrative and/or comparative purposes and have only been included to show the general trend in the markets in the periods indicated. Such indices have limitations when used for comparison or other purposes because they may have volatility, credit, or other material characteristics (such as number and types of securities or instruments represented) that are different from those of the Composite and/or any client account, and they do not reflect the Composite investment strategy or any other investment strategies generally employed by Punch & Associates. For example, the Composite for a particular client investment portfolio will generally hold substantially fewer securities than are contained in a particular index.

**Inception of the Punch Small Cap Equity Strategy was March 31, 2002. **CTR represents the contribution to total attribution.*

Punch
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Punch & Associates Investment Management, Inc.
Small Cap Composite

Notes to Composite Profile and Schedule of Performance

Punch & Associates Investment Management, Inc.
Small Cap Composite
Composite Profile and Schedule of Performance
As of June 30, 2016

Year	Annual Performance History Small Cap Gross of Fee	Small Cap Net of Fee	Benchmark [1]	Composite 3-Year Std Deviation (%) [2]	Benchmark 3-Year Std Deviation (%) [2]	Number of Portfolios	Year-End Composite Assets ($mil)	Year-End Firm Assets ($mil)	Percent of Total Firm Assets	Dispersion [2]
2002 (since 3/31)	-15.21%	-15.85	-23.53 %	N/A	N/A	12	$ 5.1	$ 103.9	4.9 %	N/A
2003	55.64	54.21	47.25	N/A	N/A	29	12.9	167.3	7.7	6.8%
2004	21.93	20.68	18.32	N/A	N/A	52	21.0	206.2	10.2	4.8%
2005	13.02	11.80	4.55	N/A	N/A	67	23.8	258.7	9.2	3.3%
2006	22.83	21.75	18.37	N/A	N/A	98	38.8	335.0	11.6	3.3%
2007	3.65	2.65	-1.57	N/A	N/A	272	103.9	397.0	26.2	3.7%
2008	-33.54	-34.18	-33.80	N/A	N/A	243	65.5	261.5	25.0	2.1%
2009	32.65	31.41	27.20	N/A	N/A	257	85.2	340.4	25.0	3.3%
2010	18.87	17.77	26.85	N/A	N/A	283	108.4	395.6	27.4	1.0%
2011	0.81	-0.14	-4.18	20.7	25.3	284	113.6	475.6	23.9	0.7%
2012	20.07	19.04	16.34	17.4	20.5	292	152.4	613.6	24.8	0.8%
2013	42.63	41.52	38.82	13.6	16.7	320	266.1	832.7	32.0	0.9%
2014	-0.21	-0.91	4.89	12.8	13.3	328	265.0	905.7	29.3	0.7%
2015	0.51	-0.26	-5.11	15.7	14.2	330	254.7	938.1	27.2	0.8%
2016 (6/30)	0.31	-0.13	1.41	N/A	N/A	337	251.2	957.4	26.2	N/A
Cumulative	321.44	270.07	170.77							

Period	Annualized Performance History Small Cap Gross of Fee	Small Cap Net of Fee	Benchmark [1]
1 Year	-8.15%	-8.96 %	-8.14%
3 Year	7.73	6.90	6.54
5 Year	10.65	9.77	8.02
Since Inception	10.62	9.61	7.24

Punch & Associates Investment Management, Inc. (Punch) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Punch has been independently verified for the periods from April 1, 2002 through June 30, 2016. Verification assesses whether (1) the Firm has complied with all the composite construction requirements GIPS standards on a firm-wide basis and (2) the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Small Cap Composite has been exam for the periods from April 1, 2002 through June 30, 2016. The verification and performance examination reports are available upon request.

The Composite creation date is December 31, 2005. The creation date is the date in which Punch started reporting returns at the strategy level while they had previously been reported at the account level.

[1] The Russell 2000 Index is the Composite's benchmark.
[2] See Note 5 for discussion of the composite dispersion and 3-year standard deviation calculation. N/A indicates statistics are not required to be presented for the time period pursuant to GIPS.

Note 1. **Organization and Nature of Business**
Punch & Associates Investment Management, Inc. (Punch) is an investment adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. The term "Firm," as defined by Global Investment Performance Standards (GIPS), represents Punch & Associates Investment Management, Inc.
The Punch Small Cap Strategy (Small Cap Composite) invests in U.S. listed public companies with market capitalizations between $250 million and $2 billion. Companies from the small cap universe are selected on the basis of economically attractive business models, accelerating fundamentals, cash flow characteristics, valuation relative to cash flow, and general investor recognition.
This description of products and services of the Small Cap Composite (the Composite) is not an offering. Past performance is not an indication or a guarantee of future results. Investments are subject to risk and may lose value. A list of our composite descriptions and our policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

Note 2. **Performance Presentation Standards**
This report includes all of GIPS' mandatory disclosures as well as additional disclosures deemed prudent by Punch's management. Investment philosophies did not change materially during the reporting periods or from period-to-period.

Note 3. **Calculation of Rates of Return**
The portfolio returns for the period are based in U.S. dollars and have been calculated using a time-weighted, monthly, geometrically linked rate of return formula to compute quarterly percentage returns. Each portfolio's monthly rate of return is the monthly percentage change in the market value, including earned interest and dividends, after allowing for the effects of cash flows.
The monthly composite rate of return calculation is weighted by beginning values. This results in an asset's size-weighted rate of return. Security transactions and any related gains or losses are recorded on a trade-date basis.

Note 4. **The Composites**
Punch has established composites for all fee-generating portfolios for which it has full discretionary investment decision-making authority. Punch's client base within the composites was comprised of institutional and individual investors with a minimum asset balance of $100,000. No alterations have been made to the composites as a result of changes in investment professionals. In addition, Punch is the investment adviser to transitory portfolios that were not eligible for inclusion in any composite because the portfolios are either new for the month first funded, or the portfolios had restructuring which took place during the month.
The Small Cap Composite is one of several composites managed by Punch. Punch's list is available upon request.
Performance is based on total assets in the portfolio, including cash and substitute securities. Generally, a portfolio will enter a composite on the first day of the first full month following its inception. A portfolio is removed from a composite as of the last day of its last full month. Historical performance results include the results of clients who are no longer clients of Punch. Each composite is comprised of separately managed portfolios.
The Composite is subject to Punch's large cash flow policy which defines a cash withdrawal of more than 10 percent of the portfolio's market value as a large cash flow which requires the Composite to be valued at the date of the withdrawal. This policy has been in effect for the periods from April 1, 2002 through June 30, 2016.

Note 5. **Composite Dispersion**
Composite dispersion measures represent the consistency of a firm's composite performance results with respect to an individual account's portfolio returns within a composite. Account dispersion is measured by the standard deviation from the central tendency (mean return).
The dispersion of the annual returns of the Composite is measured by the asset-weighted standard deviation method. Standard deviation attempts to measure how much exposure to volatility was taken historically by the implementation of an investment strategy. Only portfolios that have been managed for the full year have been included in the annual dispersion calculation of the Composite. Effective for the year ended December 31, 2011, GIPS requires the presentation of the three-year annualized standard deviation. This statistic measures the volatility of returns for the Composite and benchmark over the preceding 36-month period.

Note 6. **Investment Management Fees**
The net performance results set forth in the Schedule of Performance reflect the deduction of actual investment management fees. The standard fee structure is based on 1 percent of assets per annum on all discretionary assets unless otherwise specified. Prior to December 31, 2005, the fee structure was variable based on strategy and account size, not to exceed 1.5 percent per annum.
Account minimums and fees are negotiable on a case-by-case basis due to potential growth, size and services rendered.

Note 7. **Comparison with Market Index**
Punch compares its Small Cap Composite returns to a certain market index management believes has similar investment characteristics. The returns of this index do not include any transaction costs, management fees or other fees. This index is the Russell 2000 Index.