Punch

Small Cap Commentary
First Quarter, 2018

Overview

In a quarter that felt more volatile than it was, the small cap Russell 2000 benchmark fell a mere 0.08% between January 1st and March 31st and logged its first negative quarter in two years. It may come as a surprise that, based on average daily price changes, the first quarter was slightly less volatile than average over the last twenty years (source: Furey Research Partners). **It appears that last year's calm waters were the anomaly, not the rougher seas of 2018.**

Despite the quarter's turbulence, the growth and momentum cycles appear to be firmly intact. Growth stocks did better than value among small caps in the first quarter (+2.3% for the Russell 2000 Growth Index compared to -2.6% for the Russell Value Index), and for the fourth time in the past five quarters, healthcare stocks outperformed the index.

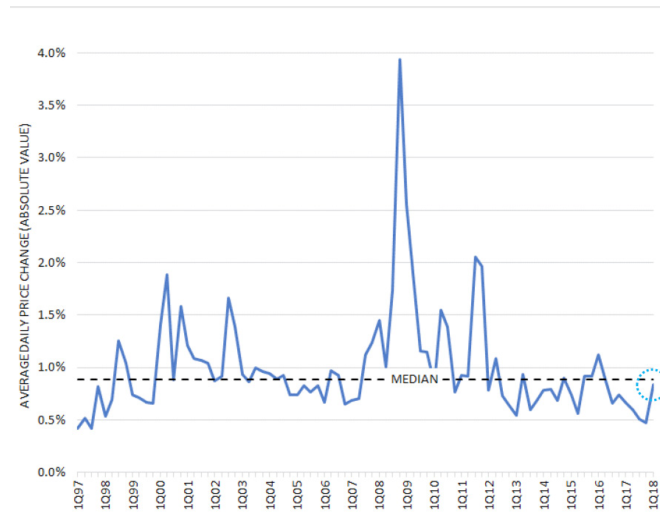
From a sector perspective, it is interesting to note that among the worst-performing groups were real estate (-8.1%), utilities (-6.4%), and telecommunications (-4.9%). All three tend to have above-average correlations to interest rates and have served as a sort of "bond proxy" throughout the past few years. As rates rose due to inflation fears in the first quarter, these groups suffered.

Portfolio Attribution

The Punch Small Cap Strategy produced a total return of +2.4% in the first quarter (net of fees), largely driven by stock selection (+302 basis points). Sector allocation was a drag on the portfolio (-48 basis points). **As fundamental, bottoms-up investors with a relatively concentrated portfolio (48 holdings), we would expect that, over time, individual stock selection should drive most of our performance.**

In the first quarter, our performance was driven by our overweight to industrials—our third largest sector in the portfolio today—and strong securi-

RUSSELL 2000 DAILY PRICE CHANGES WERE JUST BELOW THEIR 20-YEAR MEDIAN IN Q1 2018



Source: Furey Research Partners and FactSet. Represents an average of absolute daily price changes during each quarter.

ty selection in technology. We had one takeover in the portfolio in the first quarter which was an e-commerce supply chain company acquired by a consortium of private equity funds.

Energy was the worst performing sector in the quarter (down 11.4%, on the heels of an 18.6% downdraft in 2017), and we continue to be attracted to this beleaguered area of the market. We added to our largest energy holding (more below) and maintain a close watch list of exploration and production (E&P), service, and infrastructure companies whose shares have been affected by this industry downturn.

Bottom Contributors to Return

The largest detractor from performance in the first quarter was television broadcaster **E.W. Scripps Company (SSP, $980 million market cap)**. Scripps, one of the largest owners of local television affiliates in the country, is a company in transition after longtime CEO Rich Boehne retired last year, and Adam Symson assumed the reins as CEO. Symson is a younger executive who cut his teeth in the television business and most recently ran Scripps's digital division.

We believe that the big opportunity today for television broadcasters like Scripps is the rewriting of the 42-year-old Federal Communications Commission rules (effective November, 2017) which previously disallowed ownership of multiple TV stations in the same markets. The economies of scale that come with owning multiple stations in the same market are compelling, as there's potential for significant operating margin expansion over a larger revenue base. What's more, it may not require capital on the part of broadcasters to capture this scale, as station owners may simply "swap" stations with each other for mutual benefit. While the process to either acquire or swap stations has yet to begin, we believe that, when it does, there will be a re-rating of the entire industry. In the meantime, we've noticed some frustration on the part of investors that consolidation is not happening more quickly, and this sentiment may be weighing on shares industrywide. The Dow Jones Small Cap Broadcast Index declined by 7.5% in the first quarter.

The management transition at Scripps, coupled with the frustrating pace of M&A in the industry, has attracted the attention of activist shareholders. In February, Scripps holder GAMCO Asset Management nominated three directors to the board at the annual meeting to be held in May. We will be watching the proxy process carefully and believe that the one thing that both sides agree on is that the value of the company's assets are significantly higher than the market capitalization today.

Annualized Performance as of 3-31-2018 *(net of fees)*

	Q1 2018	1 Year	3 Years	5 Years	10 Years	Since Inception*
Punch Small Cap	2.44%	14.40%	8.91%	11.99%	10.53%	10.71%
Russell 2000 Index	-0.08%	11.79%	8.39%	11.47%	9.84%	8.59%

**Inception date is 3-31-2002. Please see disclosures at the end of this commentary.*

Bottom Contributors: Quarter Ending 3-31-2018

Holding	Average Weight	Total Return	CTR** (bps)
E.W. Scripps Company	1.76%	-23.01%	-44
Lithia Motors	2.93%	-11.28%	-35
Westwood Holdings	1.93%	-13.64%	-26
Drive Shack Inc.	1.79%	-13.56%	-25
Par Pacific Holdings	2.12%	-10.94%	-25

Top Contributors: Quarter Ending 3-31-2018

Holding	Average Weight	Total Return	CTR** (bps)
Etsy Inc.	2.39%	37.21%	83
Techtarget Inc.	2.11%	42.82%	77
Callaway Golf Co.	4.49%	17.52%	74
Franklin Covey	1.87%	29.64%	60
Douglas Dynamics	3.25%	15.35%	46

***CTR represents the contribution to total attribution in basis points. Attribution data is reflective of a representative portfolio in the small cap strategy.*

Entertainment company **Drive Shack Inc. (DS, $320 million market cap)** detracted from performance in the first quarter, possibly in sympathy with weak results at public company comparable Dave & Busters (PLAY, -24% in Q1), but we added to the position in anticipation of the April 8th opening of Drive Shack's first driving range entertainment concept in Orlando, Florida. The concept is largely modeled after Top Golf which now has 42 locations in the U.S. and U.K. We believe that this emerging industry of golf entertainment has room for two national players, with Top Golf and Drive Shack rapidly building out a network of locations in major metro areas around the country.

Drive Shack has publicly stated that they can self-finance 15 locations with existing capital and cash proceeds from the sale of their portfolio of 28 owned golf courses. With an up-front cost of $25 million, management projects that each Drive Shack location will produce a "mid-to-high-teens" return on capital, and they believe they can build between five and 10 sites per year.

Drive Shack has also been a company in transition over the past couple of years, as this former real estate investment trust (REIT) has moved away from distressed debt investing and toward becoming a pure play entertainment company. In the process, the company changed its name from Newcastle Investment Corp., dropped its REIT status, and internalized its management structure. Now that the first Drive Shack location is officially open, we think that investors will better understand the company and pay more attention to it.

Refinery company **Par Pacific (PARR, $780 million market cap)** ended the quarter as our largest energy-related holding after we added to it on weakness, as energy was the worst-performing sector in the quarter. As we have detailed in past commentaries, Par Pacific was originally a defunct E&P energy concern with over $1 billion in net operating losses (NOLs) that investor Sam Zell recapitalized in 2012. Today, Par Pacific has multiple refinery locations in addition to a network of convenience stations on the island of Oahu and assorted logistics assets in both Hawaii and Wyoming. At today's valuation, these assets produce an attractive 10% free cash flow yield.

In addition, the company has a 42% equity interest in a Colorado-based E&P company that is something of a "hidden asset." We think that this asset could represent a meaningful portion of the market value of the company today and will likely be monetized over the next couple of years.

Top Contributors to Return

The two top contributors to return in the quarter were both technology companies. Online consumer marketplace **Etsy Inc. (ETSY, $3.4 billion market cap)** was the largest contributor and continues its turnaround under new leadership. We believe that Etsy maintains an enviable edge over other online retailers given its sizable community of buyers and sellers and the network effects commensurate with a marketplace business. Marketplace revenues accelerated for the first time in nearly two years in the fourth quarter, and margins expanded nicely. Despite its valuation today, we think that the strategic value of the platform—and the growth potential for this once-broken IPO—warrant Etsy as a continued holding in the strategy. What's more, the new CEO and the new CFO (whom we know and respect as the CFO of a previous portfolio holding) have been on the job for less than a year, and we believe that more meaningful improvement in the business is ahead.

The second largest contributor to performance in the quarter was **Techtarget Inc. (TTGT, $550 million market cap)**, a long-time holding for the Punch Small Cap Strategy. We have been shareholders of the company since 2012. Techtarget operates a network of business-to-business (B2B) online marketing websites aimed at IT professionals. With articles, reviews, whitepapers, and customer data, the company provides sophisticated buyers of technology with the resources they need to find, research, and ultimately decide on which providers to select. We believe that Techtarget is one of the largest B2B technology marketing platforms today, and its unique content library, data on buyer behavior, and relationships with the largest IT advertisers in the world all create a competitive advantage that is not easily replicable.

We believe that the business model is also highly attractive from a financial standpoint, with one-third of revenues being subscription-based, incremental operating margins over 50%, and new, rapidly-growing products representing half of the business. We are also fans of Techtarget's management team which has bought in over 40% of shares outstanding through both dutch tender offers and open market repurchases over the past decade. Part of the reason that this company has been so shareholder-friendly, we believe, is that insiders hold half of the stock. We like to see shareholders' interests aligned with those of management and directors.

The third largest contributor to performance in the first quarter was **Callaway Golf (ELY, $1.6 billion market cap)**, the well-known branded manufacturer of golf equipment. We recently had the chance to sit down with their CEO, Chip Brewer, and their CFO, Brian Lynch, to get an update on the game of golf and on Callaway, more specifically. Maybe it's because we just finished Masters weekend, but we thought it would be fun to include a few snippets from our conversation (paraphrased):

What are the key drivers of the turnaround you have executed at Callaway the past few years?

Callaway's core strength has always been in our brands. We were built on innovation, and that is what golfers know about us. We have re-committed to product innovation and are focused on giving golfers better products at premium prices.

How do you fight declining participation rates for the sport of golf?

We firmly believe that the "gloom and doom" story that the media has put out around golf is wrong. Participation has stabilized, interest in the sport is growing, and junior golf is at its highest levels ever. Specific to the golf equipment industry, now that there has been significant consolidation among competitors, the business is healthier today than at any time since I've been in the industry.

What has been the consumer response to the Epic and Rogue driver launches in 2017 and 2018?

The year 2017 was a phenomenal year for our driver business, and the "jailbreak" technology in the Epic driver is truly breakthrough and allowed us to capture the #1 driver position for the year. So far in 2018, we are seeing solid sell-through for Rogue drivers and irons at retail.

Additions and Exits

We added one new position (Kimball International) and exited one (CECO Environmental) in the first quarter, ending with 48 total positions in the Punch Small Cap Strategy.

Kimball International (KBAL, $640 million market cap) is an Indiana-based manufacturer of furniture for office, residential, hospitality, and healthcare markets. While the company has been public since the early 1980s, for many years it was a quasi-private company that did not engage with outside shareholders and had a dual-class share structure that kept its founding family firmly in control. Kimball had many of the hallmarks of an insular company with little interest in shareholder accountability, including lavish executive pay, several private jets, and sub-par operating margins. Wall Street returned this treatment with apathy, and the company was, for many years, an "orphan" of the public markets.

All of this began to change for Kimball in 2014. At that time, the company decided to split in two, separating the furniture manufacturing and the electronics manufacturing segments into independent public companies by way of a spin-off. At the same time, the company discarded its dual-class share structure in favor of a single class that put shareholders on a more level playing field with insiders. There was significant turnover in management, including a new CEO who remarked to us at one point, "A new day has dawned at Kimball." Gone also were the private jets, executive perks, and poor corporate governance.

On the operating front, management also quickly moved to get financial performance from "worst" to "first." After closing facilities and streamlining operations, operating margins have gone from under 3% in 2014 to over 8% in 2017, with a stated goal of double-digits in the near term. The company now boasts the best return on invested capital (ROIC) in the industry as well as the best balance sheet with no debt and nearly $80 million in cash.

While the commercial furniture industry is competitive and cyclical, we believe that the secular changes occurring today favor smaller players like Kimball. Gone are the days of expensive, large scale, cubicle work environments; instead, today's offices resemble residential environments

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with soft seating, collaborative spaces, and flexible work stations. With unemployment falling and commercial construction booming, Kimball is enjoying the tailwinds of strong end markets.

The company has no analyst coverage and trades at below-market multiples of earnings and cash-flow. We believe that, over time, more investors will wake up to the recent dramatic changes at the company, and the shares could receive a more appropriate valuation.

Early in the first quarter we exited industrial conglomerate **CECO Environmental (CECE, $160 million market cap)**, which is an Ohio-based company with end markets in pollution control equipment, power generation, and specialty pumps. As we detailed last quarter, new management has not reacted with sufficient urgency to address challenges in their deteriorating markets, and after several in-person meetings with both the incoming CEO and CFO, we decided to exit the position.

When we exit a position, especially after a disappointing investment result, we like to perform a "post-mortem" on the holding and on our original investment thesis. We believe it is both a healthy and informative exercise in humility to scrutinize where we went wrong. As famed Fidelity fund manager Anthony Bolton said in his recent book, "*Good fund managers should be humble and **happy to make mistakes** [emphasis added]; mistakes are an integral part of the job.*"

With CECO Environmental, our original thesis was that a talented CEO was executing a series of acquisitions of underperforming, niche industrial businesses and that management was focused on re-energizing this old-line manufacturing company into a diversified, asset-light company with above-average margins and free cash flow.

While the company did execute several acquisitions successfully, it quickly turned out that the management depth required to integrate and maintain these disparate businesses was lacking, and organic growth remained elusive. A severe downturn in the power generation and refinery markets exposed the cracks in the strategy. These cracks were then compounded by turnover in the c-suite at precisely the wrong time. Debt-fueled rollups carry risks that should be monitored closely, including the ultimate level of leverage, the degree to which acquisitions are integrated, and the health of the business both pre- and post-acquisition.

Conclusion

In a fascinating article in a recent issue of Grant's Interest Rate Observer, editor Jim Grant discusses at length the small cap Russell 2000 Index and what that benchmark looks like today. To summarize the theme of the article, he quotes renowned value investor Chuck Royce who says, ***"The index [today] is not a company you want to buy."***

According to Bloomberg, of the 1,985 companies in the Russell 2000 Index, one third of them were unprofitable over the last twelve months. The median leverage employed at these companies was 2x EBITDA, and 17.6% of companies do not even cover their interest expense with earnings before interest and taxes. What's more, according to the Grant's article, nearly half of the debt incurred by Russell 2000 companies is floating-rate.

In this environment of low interest rates and open capital markets, companies with no earnings, too much debt, and questionable financial profiles can actually do alright. In the first quarter, the one-third of Russell 2000 companies whose businesses are unprofitable outperformed those companies that were profitable. According to Furey Research, the stocks of loss-making companies rose 3.5% while those of profitable companies fell 1.3%.

In the Punch Small Cap Strategy, we focus on companies that have operating profits and conservative financial profiles. We want to own many of these companies for three-to-five years or longer, and we want them to be able to weather any economic storm. While the outperformance of low-quality companies lately has been a frustration for disciplined, value-oriented investors, we believe in the old Warren Buffet saying, "It's only when the tide goes out that you find out who's been swimming naked."

Punch & Associates Investment Management, Inc. (Punch & Associates) is a registered investment adviser; registration as an investment adviser does not imply a certain level of skill or training. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security. Information presented herein incorporates Punch & Associates' opinions as of the date of this publication and is subject to change without notice. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, and actual results may differ materially from those anticipated in forward-looking statements. As a practical matter, no entity is able to accurately and consistently predict future market activities. While we make efforts to ensure information contained herein is accurate, Punch & Associates cannot guarantee the accuracy of all such information presented. Material contained in this publication should not be construed as accounting, legal, or tax advice.

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. Punch & Associates calculated this attribution data using a representative institutional client account which: 1) imposed no material restrictions related to investments made; and 2) was fully invested in the Punch Small Cap Equity Strategy during the entire time period shown. 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 our calculation methodology or to obtain a list showing every holding's contribution to the overall strategy's performance during the period of time shown.

We compile company specific information referenced in this commentary from a variety of sources including SEC filings, quarterly and annual reports, conference calls, conversations with management teams, and Bloomberg LP.

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, or 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.*

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Punch & Associates Investment Management, Inc.
Small Cap Composite
Composite Profile and Schedule of Performance
As of June 30, 2017

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	20.95	19.93	20.35	17.6	16.0	350	307.4	1,101.0	27.9	1.2%
2017 (6/30)	2.51	2.08	5.00	N/A	N/A	374	324.5	1,161.0	28.0	N/A
Cumulative	420.91	353.69	237.41							

Period	Annualized Performance History: Small Cap Gross of Fee	Small Cap Net of Fee	Benchmark[1]
1 Year	23.60 %	22.58 %	24.61 %
3 Year	7.52	6.66	6.82
5 Year	14.69	13.79	13.35
Since Inception	12.28	11.19	8.91

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, 2017. Verification assesses whether (1) the Firm has complied with all the composite construction requirements of the 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 examined for the periods from April 1, 2002 through June 30, 2017. 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 7 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.

See Notes to Composite Profile and Schedule of Performance

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Punch & Associates Investment Management, Inc.
Small Cap Composite

Notes to Composite Profile and Schedule of Performance

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. Accounting Policies

All assets and liabilities in the Composite are reported on a fair value basis using U.S. Generally Accepted Accounting Principles. Investment transactions are recorded on a trade date basis. Dividends are reported on pay date basis. Punch's policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

Note 4. Valuation Methodologies

The Composite values all of its investments at fair value in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification 820 ("Fair Value Measurements") and the GIPS Valuation Principles. The Composite invests in Level 1 securities (i.e. marketable securities for which prices are readily available).

Note 5. 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 6. 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, 2017.

Note 7. 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 8. 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 9. 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.