Punch

Small Cap Commentary
First Quarter, 2020

Overview

Our firm has managed the Punch Small Cap Strategy since our founding in 2002. This strategy's objective is long-term capital appreciation. We do this by investing in some of the smallest, least-followed publicly traded companies where we think opportunities to find undervalued securities are greatest.

We are value investors, and across all the Punch strategies we seek to protect against permanent loss of capital. We like to find solid businesses and buy them at valuations that we feel provide a meaningful margin of safety. If we do this consistently, when something goes wrong, the businesses in the portfolio can still survive and eventually thrive when the environment normalizes.

We believe that a few factors are causing some of our favorite companies to be punished more than others in this environment. During the past three months:

1. Small companies underperformed large companies, as investors flocked to the best-known entities;
2. Indiscriminate selling occurred within asset classes, as investors adopted a "ready, fire, aim" approach, simply seeking to de-risk portfolios; and,
3. Less liquid securities quickly fell out of favor in the "dash for cash."

Annualized Performance as of 3/31/2020 *(net of fees)*

	Q1 2020	1 Year	3 Years	5 Years	10 Years	Since Inception*
Punch Small Cap	-35.9%	-28.9%	-7.1%	-2.0%	5.8%	7.3%
Russell 2000 Index	-30.6%	-24.0%	-4.6%	-0.3%	6.9%	6.1%

**Inception date is 3/31/2002. Figures over one year are annualized.*

The Current Market Environment

The COVID-19 pandemic is likely impacting every business across the world in some way. A small fraction of companies may benefit in the near term. The vast majority of companies are like people going through this pandemic, their businesses have no choice but to adapt. Some will have to do so rapidly. Companies with relatively stable demand (or demand that they can recoup) are best positioned to drive shareholder return. Those with deferred demand will need to find ways to defer costs and maintain enough liquidity on their balance sheets to get to the other side of the crisis. Our strategy has always favored businesses with entrenched customer bases (which should leave demand relatively intact or only deferred), strong balance sheets, and strong management teams.

Reassessing Business Models

We are not being Pollyannaish with respect to COVID-19 and its near- and long-term implications for businesses. Our investment team is hard at work having lengthy conversations with the management teams of the companies in our portfolios. While conversing with management is a regular part of our research process, in recent weeks we have put this this practice into overdrive. We have had dozens of conversations daily with companies. That said, we recognize that the world has changed in the last three weeks, which means that a conversation from a month ago may already be quite stale.

Over time, we believe the market will reward small cap companies, even though our strategy lagged the Russell 2000 Index during the quarter. Sector allocation was a main reason for the underperformance. The Punch Small Cap Strategy was underweight in the healthcare sector and overweight in the consumer discretionary sector. As you might expect during a pandemic with social distancing as the only near-term solution, healthcare was a top performing sector, and consumer discretionary was one of the worst. The companies in the Russell 2000 healthcare sector tend to be some of the most speculative with little current earnings power. With our focus on downside protection, we are content to underweight companies with these characteristics.

A majority of the consumer discretionary companies in the Punch Small Cap Strategy have characteristics that make demand largely deferred (housing-related, cars, golf equipment, etc.) but not lost (for example, we do not own any restaurants). We believe, with time, our companies will regain much of their near-term lost revenue, have the balance sheets to sustain themselves, and even gain market share during this pause in economic activity. We maintain our belief that we have positioned the portfolio well to survive the present economic damage.

Comparing our strategy to the Russell 2000 Index, it becomes apparent that:

1. We favor companies with less debt. Our small cap portfolio has leverage of 2.1x equity compared to the Russell 2000 Index of 5.3x equity.
2. Our companies are more profitable. Over three quarters of companies in the Punch Small Cap strategy are operationally profitable over the last 12 months compared to just over 62% of companies in the Russell 2000 Index.
3. We focus on management alignment. Our companies' leadership owned nearly 35% more of their companies' stock than the average management team in the Russell 2000 Index.

Bottom Contributors: First Quarter 2020

Holding	Average Weight	Total Return	CTR** (bps)
Par Pacific Holdings, Inc.	3.20%	-69.45%	-266
Callaway Golf Company	4.65%	-51.77%	-246
RadNet, Inc.	2.98%	-48.23%	-161
INTL FC Stone, Inc.	6.88%	-25.74%	-138
Capital Southwest Corp.	3.06%	-42.92%	-137

***CTR represents the contribution to total return in basis points. Contribution data is reflective of a representative account in the Punch Small Cap Equity Strategy.*

Bottom Contributors to Return

Par Pacific Holdings, Inc. (PARR, $381 million market cap) was a detractor in the quarter. Par Pacific owns refineries, energy infrastructure, and gas stations in Wyoming, Washington, and Hawaii. The company's strategy is to focus on geographically isolated markets where it can build a durable competitive advantage. Washington was an early hot spot for the US COVID-19 outbreak, and a decrease in Hawaiian tourism and related air travel caused near-term challenges for the company. We believe the reduction in demand for energy is temporary, and its advantaged locations allow Par to be well positioned when the economy normalizes. Today, the company trades at approximately 60% of its book value with substantial cash on hand and access to further liquidity through credit lines. In addition, it has no near-term debt maturities and very few debt covenants. We are also encouraged that management is buying stock in the open market during the downturn. While not naïve to the short-term risks, we think Par Pacific will rebound and has an aligned and capable management team to lead it through a challenging period.

Callaway Golf Company (ELY, $962 million market cap) manufactures and sells golf equipment and apparel. Our ownership stake was another detractor for the strategy. Consumer discretionary stocks as a whole did not do well in the quarter, and Callaway was no exception. Golf has not completely gone away during our sheltering-in-place because it is one of the few sports that is compatible with social distancing. We believe recent decreases in

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equipment demand will likely be regained as their customer base tends to be loyal, and they refresh their equipment regularly. Our larger near-term concerns are the lifestyle apparel segment and debt taken on in 2019 to finance a related acquisition. We are comfortable with the company's overall capital structure and their ability to navigate through the downturn. Most of the company's debt does not mature until 2026 and does not have financial maintenance covenants. With a business diversified from both a geographic and segment perspective, strong brand recognition, and a loyal customer base, we remain invested in the company.

RadNet, Inc. (RDNT, $533 million market cap) was another detractor in the quarter. RadNet operates over 300 outpatient diagnostic imaging clinics. The company's operations were impacted meaningfully by COVID-19, as elective procedures were deferred. In addition, RadNet's concentration in California and New York, which were especially affected, didn't help. We believe RadNet's business is an example where demand is deferred but not permanently lost. The company started conserving cash by furloughing employees in March, cutting executives' pay, and putting planned investments on hold. There is some short-term optionality embedded in the business, as the company could dedicate certain facilities to help battle COVID-19, though those discussions are at an early stage. Prior to the pandemic, the company was below its debt covenant ceilings and had room to maneuver. Long-term, we believe the company should be well positioned: the industry dynamics continue to favor RadNet's business model, and we feel it should be able to gain market share as one of the strongest industry participants.

Top Contributors: First Quarter 2020

Holding	Average Weight	Total Return	CTR** (bps)
Spok Holdings, Inc.	1.47%	-11.43%	-8
Novanta, Inc.	2.43%	-9.68%	-20
CSW Industrials, Inc.	1.95%	-15.64%	-29
Varex Imaging Corp.	1.62%	-23.82%	-31
Hooker Furniture Corp.	0.98%	-38.52%	-35

***CTR represents the contribution to total return in basis points. Contribution data is reflective of a representative account in the Punch Small Cap Equity Strategy.*

Top Contributors to Return

During the quarter, the top contributor to our return was **Spok Holdings, Inc. (SPOK, $203 million market cap)**. This healthcare communications company designs and sells software used in hospitals that allows doctors and nurses to communicate through several mobile modalities, a vital resource especially during the current pandemic. Over the past few years, Spok has harvested cash flow from their declining pager business to fund the development of an integrated software platform while also paying a steady dividend to shareholders.

Growth of the new integrated software platform has been slow and uneven, and as a result, the company has gotten little love from the market. At quarter end, Spok was trading at an undemanding valuation of 0.78x enterprise value-to-revenue while holding over $77 million of net cash. The strong cash flow created by the pager business, along with the opportunity to grow the software platform, attracted a third-party takeout offer during the quarter at $12 per share (a roughly 39% premium). While the board of directors unanimously declined the offer, interest from a potential acquirer and a net cash balance sheet encouraged investors during a volatile market.

Longtime holding, **Novanta Inc. (NOVT, $2.80 billion market cap)**, was a top contributor to performance. This Massachusetts-based company engineers and sells complex components used in both industrial and medical applications. Almost four years ago, the business hired a new CEO who has successfully focused the business on niche, growth areas within the healthcare industry (including DNA sequencing and robotic surgery). Novanta and its valuable patent portfolio is difficult to displace because they design highly engineered components into their customers' products and processes.

During a tumultuous and largely unforgiving quarter, Novanta's shares proved to be resilient, as investors appreciated their medical end market exposure, clean balance sheet, and sticky customer relationships. While the valuation (at 22x enterprise value-to-EBITDA) at quarter end was rich, we believe that attractive end markets and a strong innovation pipeline position the company well to gain market share.

The third largest contributor was **CSW Industrials Inc. (CSWI, $981 million market cap)**. This supplier of specialty chemicals and industrial products serves a diverse group of end markets including HVAC, plumbing, rail, and architecturally specified building products. The company has generated strong results in recent years, as it innovates new products, integrates once siloed operations, and layers on acquisitions to add scale. We believe that CSWI has become less cyclical overtime, as the specialty chemical business grows and customers use more products for repairs instead of new construction. For example, the company sells lubricant to the railroad industry that is used to extend the life of rails and reduce the need to replace expensive train parts. These characteristics, along with a reasonable valuation of 10.7x enterprise value-to-EBITDA, helped the shares hold up during a difficult quarter for the financial markets. Finally, the company has a strong balance sheet and ample liquidity to make it through even the most painful of economic downturns, leaving us to be optimistic about the opportunity for this business to exit the pandemic in a strong position.

Portfolio Activity

We took a position in **FARO Technologies, Inc. (FARO, $777 million market cap)** in late January. FARO makes 3D laser scanners and trackers for measurement, inspection, and precision assembly alignment. We believe FARO plays well into the secular trends of factory automation, robotic assembly, as well as increased efficiencies in the construction and remodeling markets. The company has been on our watchlist for over five years, and we have been writing internal research on it since March 2015. After reinvesting in R&D and sales and marketing in 2016 and 2017, the company focused on refreshing their best-in-class line up of products. Despite the improvements, the company continued to struggle to drive meaningful sales growth. We doubled down on our research efforts once FARO's new CEO, Michael Burger, started in June 2019.

Mr. Burger has a reputation of being a wonderful manager, and he has the track record to prove it. We know this first hand, because we have successfully invested with Mr. Burger in the past. Although FARO is a larger company than others he has managed, he now has a pristine balance sheet with $158 million of cash, no debt, and a strong brand name to boot. Burger's strategic initiatives include increasing the company's value proposition for customers and changing FARO's go-to-market strategy. Before the COVID-19 crisis, management was targeting 20% EBITDA margins—more than double the previous year.

FARO has been through our disciplined research process. We think the company is well positioned to survive this crisis and thrive when it's over. We added to our position in late March when investors were selling stocks indiscriminately.

The Path Forward

COVID-19's economic damage is real, but we recognize the market is forward looking and will eventually see past the current issues. History doesn't repeat itself, but it rhymes. As with past market downturns, our approach is consistent.

1. We seek to update and confirm our investment theses. We hold in-depth discussions with management teams to obtain real time updates and reassess their prospects. During market downturns, we use our analytical edge to determine who is best positioned for success in the intermediate term.
2. We aim to deploy excess cash throughout the downturn into long-term opportunities.
3. We look to upgrade the portfolio by adding new companies as well as increasing our ownership in our favorite holdings. We intend to make the portfolio even stronger coming out of the crisis.

We have executed these actions over the past few weeks, and we will continue to do so. At the same time, we are careful not to overreact during periods of extreme volatility. As always, we treat each investment as an ownership interest in a business, and in so doing, we maintain a multi-year view for the investment's potential success.

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.

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.

Punch & Associates Investment Management Inc.
Punch Small Cap Composite
Composite Profile and Schedule of Performance as of 6/30/2018

Year	Annual Performance History			3-Year Standard Deviation		Number of Portfolios	Year End Composite Assets (mil)	Year End Firm Assets (mil)	% of Total Firm Assets	Dispersion[2]
	Gross of Fees	Net of Fees	Benchmark[1]	Composite[2]	Benchmark[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	55.66%	54.22%	47.25%	N/A	N/A	29	$12.9	$167.3	7.7%	6.8%
2004	21.92%	20.67%	18.33%	N/A	N/A	52	$21.0	$206.2	10.2%	4.8%
2005	13.01%	11.81%	4.55%	N/A	N/A	67	$23.8	$258.7	9.2%	3.3%
2006	22.84%	21.74%	18.37%	N/A	N/A	98	$38.8	$335.0	11.6%	3.3%
2007	3.64%	2.66%	-1.57%	N/A	N/A	272	$103.9	$397.0	26.2%	3.7%
2008	-33.53%	-34.18%	-33.79%	N/A	N/A	243	$65.5	$261.5	25.0%	2.1%
2009	32.65%	31.40%	27.17%	N/A	N/A	257	$85.2	$340.4	25.0%	3.3%
2010	18.88%	17.78%	26.85%	N/A	N/A	283	$108.4	$395.6	27.4%	1.0%
2011	0.80%	-0.13%	-4.18%	20.7%	25.3%	284	$113.6	$475.6	23.9%	0.7%
2012	20.04%	19.01%	16.35%	17.4%	20.5%	292	$152.4	$613.6	24.8%	0.8%
2013	42.63%	41.54%	38.82%	13.6%	16.7%	320	$266.1	$832.7	32.0%	0.9%
2014	-0.21%	-0.90%	4.89%	12.8%	13.3%	328	$265.0	$905.7	29.3%	0.7%
2015	0.51%	-0.39%[3]	-4.41%[3]	15.7%	14.2%	330	$254.7	$938.1	27.2%	0.8%
2016	20.96%	19.94%	21.31%[3]	17.6%	16.0%	350	$307.4	$1,101.0	27.9%	1.2%
2017	12.96%	11.94%	14.65%	16.5%	13.9%	377	$340.3	$1,241.6	27.4%	0.4%
2018 (through 6/30)	11.58%	11.12%	7.66%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cumulative	540.55%	452.25%	302.88%							

Period	Annualized Performance History		
	Gross of Fees	Net of Fees	Benchmark[1]
1 Year	22.93%	21.88%	17.57%
3 Year	11.76%	10.79%	10.96%
5 Year	13.70%	12.76%	12.46%
Since Inception	12.11%	11.09%	8.95%

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, 2018. 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, 2018. The verification and performance examination reports are available upon request. N/A indicates statistics are not required to be presented for the time period pursuant to GIPS.

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.

3 - According to Punch's Error Correction Policy, this Schedule of Performance has been updated from prior versions which incorrectly displayed the 2015 Composite TWR (net), 2015 Russell 2000 Index, and 2016 Russell 2000 Index figures as -0.26%, -5.11%, and 20.35% respectively.

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, 2018.

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.