Punch

Small Cap Commentary
Third Quarter, 2020

Overview

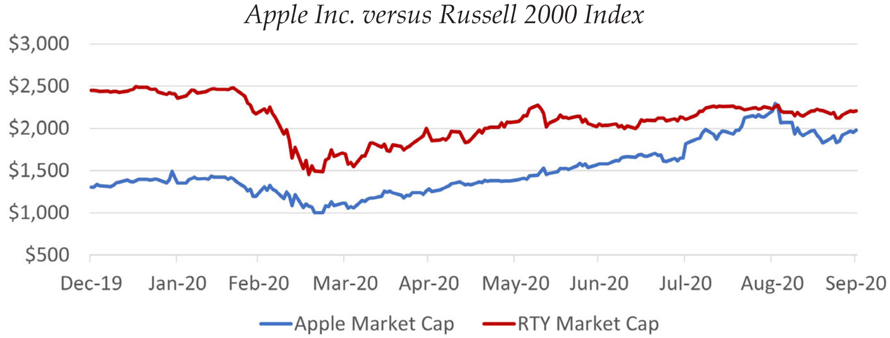
Along with all the other historical records set this year, we would like to add one more.

For a brief few days at the beginning of September, the market value of one company—Apple Inc.—was greater than the market value of the entire Russell 2000 Index, which represents the 2,000 smallest public companies in the United States. If you had a spare $2.3 trillion, you could either own all of Apple, or you could own all of Papa John's Pizza, WD-40, iRobot, La-Z-Boy, Del Monte, and 1,995 other companies.

The pandemic of 2020 has upended many businesses and industries while rewarding others in unexpected ways, and nowhere is that more apparent than in the extreme concentration of market value among a very small handful of stocks, many of which are prime beneficiaries of lock-down orders, social distancing, and work-from-home arrangements.

Some have referred to this as a "K-shaped" economic recovery: while the largest technology companies are doing well today, many others are not.

Market Capitalization (in billions)
Apple Inc. versus Russell 2000 Index



The recovery is by no means uniform.

Apple, one of the most respected companies in the country, is not a cheap stock. Today, shares trade at 35x price-to-earnings and 7x price-to-sales. Despite its label as a growth company, earnings per share grew only 4% in 2019 and since 2015 the company's operating income is actually down. If Apple were a bond, it would have a paltry 3% yield.

The Russell 2000, by contrast, trades at a more reasonable 17x price-to-earnings and 1.1x price-to-sales. While earnings for the index are projected to be flat in 2020, the outlook for 2021 earnings is 11% growth. In bond terms, the earnings yield on the index is a respectable 6%.

The disparity in performance between groups of stocks this year is also one for the record books. The difference between small cap growth (up 4% in 2020) and small cap value (down 22%) has not been this wide since the dot-com bubble of 2000. Companies like manufacturers, banks, and utilities

Annualized Performance as of 9/30/2020 (net of fees)						
	Q3 2020	1 Year	3 Years	5 Years	10 Years	Since Inception*
Punch Small Cap	6.77%	-4.65%	0.01%	6.67%	9.65%	9.00%
Russell 2000 Index	4.93%	0.38%	1.76%	8.00%	9.85%	7.51%

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

all depend on a return to economic normalcy for their businesses (and their share prices) to recover from the pandemic effects. In contrast, many technology companies benefit now, but may be hurt later, once COVID-19 gets under control and normal patterns of living resume.

Attribution

The third quarter saw a continuation of a rebound in small cap equities from their spring lows, with the Russell 2000 rising 4.9% to September 30. From the March 18 low for the index, small cap stocks are up 53% compared to large cap stocks up 42%. One a year-to-date basis, small caps trail large caps, down 8.7% compared to up 5.6%.

In the third quarter, the Punch Small Cap Strategy had a total return of 6.8% compared to a benchmark return of 4.9%. The outperformance for the quarter came from sector allocation (+2.6%) while individual security selection detracted from performance (-1.1%).

Positive contribution from sector allocation came largely from an overweight to the consumer discretionary sector (26.1% average weight compared to 12.9% for the index), as this was the best-performing sector in the index for the quarter, rising 16.5% compared to 4.9% for the Russell 2000 overall. Consumer spending has strongly rebounded this year, and our holdings in car dealerships, golf equipment, and boat manufacturing have benefited. The sector is now mostly flat year-to-date, trailing only healthcare, up 11.1%.

An overweight to the financials sector hurt performance in the quarter, however, with the benchmark group declining 2.7%. Low interest rates and broader credit concerns are an overhang for banks, brokers, insurers, and asset managers.

Bottom Contributors to Return

StoneX Group Inc. (SNEX, $991 million market cap) was the biggest detractor to performance in the quarter. StoneX, formerly known as INTL FCStone, is a longtime holding of the Punch Small Cap Strategy. The company is a global brokerage and financial services firm for commercial customers. As a beneficiary of higher volatility, the company saw its earnings nearly double during the first half of 2020. Market volatility decreased during the third quarter, though, and the company's stock price retreated in kind. We think the company remains well-positioned with a shareholder-aligned management team that continues to take market share organically and through acquisitions. With a platform capable of handling much larger volumes, incremental margins are attractive. The company remains one of the largest positions in the strategy.

Phibro Animal Health Corporation (PAHC, $704 million market cap) is a global animal health company focused primarily on the livestock market. The entire feed supply chain was disrupted by COVID-19 related issues this year, and the company's stock price reflected these challenges. Further impacting the company's performance are investments in the business which will position the company well for the long-term but suppress near-term profitability. As a family-controlled business, the company has the luxury to focus on the longer term and we are comfortable as their partner. As the economy normalizes and the investments made the last several years turn to profit drivers, we believe shareholders will benefit.

Bottom Contributors: Third Quarter 2020			
Holding	Average Weight	Total Return	CTR** (bps)
StoneX Group Inc.	5.97%	-13.63%	-97
Par Pacific Holdings Inc.	1.55%	-24.69%	-45
Phibro Animal Health Corp.	1.10%	-33.38%	-45
Franklin Covey Co.	1.69%	-17.10%	-35
Hackett Group Inc.	2.01%	-15.75%	-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.*

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Par Pacific Holdings, Inc. (PARR, $365 million market cap) owns and operates energy and infrastructure businesses in the Pacific Northwest and Hawaii. Across the entire Small Cap Strategy, Par Pacific experienced one of the greatest disruptions from the pandemic and was a detractor to the third quarter's performance. We remain comfortable continuing to own the company as it reduced costs where possible and raised capital to bridge the operations during this challenging period. The company has a unique set of assets with geographic moats and there are no signs of the company losing market share. As travel trends continue to improve and mobility restrictions ease, the company should benefit. Relative to the potential earnings power of the company we think it is attractively priced at the current valuation and has the balance sheet to sustain during the downturn.

Top Contributors to Return

During the third quarter our top contributor to performance was longtime holding **TechTarget, Inc. (TTGT, $1.2 billion market cap)**. As a reminder, TechTarget has a large library of articles and data that helps enterprise buyers of technology research their purchases ahead of time. The company collects valuable information on the users reading these articles, which they sell on a subscription basis to technology vendors looking for a targeted call list of prospective customers.

Throughout the quarter and much of 2020, shares of TechTarget have climbed as IT spend proves to be resilient during the pandemic. While many businesses slashed expenses, technology represents one of the few areas that companies are often maintaining or even increasing spend to support the work from home transition. In August, TechTarget reported a strong quarter fueled by these work from home trends and impressive 25% international growth. After a recent conversation with management, we believe the company's competitive position continues to strengthen and there are numerous opportunities for growth within smaller businesses. We believe the company will continue to benefit from strong industry tailwinds for years to come.

After receiving government stimulus earlier this year, it appears many Americans decided to purchase a car over the summer. Our holding in auto dealership operator **Lithia Motors, Inc. (LAD, $5.2 billion market cap)** was a top contributor to performance during a quarter marked with robust earnings growth as margins were lifted by tight vehicle supply.

Lithia Motors also announced several acquisitions as they continue their strategy of acquiring underperforming dealerships and applying a proven playbook to improve operations. Since first purchasing shares of Lithia Motors in 2012, the company has refined their acquisition playbook helping them to more than triple sales and quadruple earnings per share while actually lowering their leverage ratio. We believe that this proven acquisition strategy bolstered by several new technology offerings can continue to drive long term shareholder value at Lithia Motors.

Americans were not only taking advantage of low interest rates and government stimulus to purchase cars, they were also purchasing homes this summer. Our Texas based homebuilder **Green Brick Partners, Inc. (GRBK, $828 million market cap)** experienced record growth throughout the summer driven by a confluence of strong tailwinds.

Since 2016, we have owned shares in Green Brick in part because of its above average industry margins, below average leverage and geographic exposure to hot housing markets in Dallas and Atlanta. During the quarter the company reported 27% sales growth and 133% earnings growth while expanding the backlog by nearly 35%. Green Brick was positioned well coming into 2020 to benefit from first time millennial homebuyers, a trend towards sunbelt and suburban relocations and working from home. Recent conversations with management give us confidence that the current

Top Contributors: Third Quarter 2020

Holding	Average Weight	Total Return	CTR** (bps)
TechTarget Inc.	4.02%	46.39%	173
Lithia Motors Inc.	3.24%	50.80%	147
Green Brick Partners Inc.	3.49%	35.86%	111
Etsy Inc.	5.33%	14.50%	77
B. Riley Financial Inc.	5.05%	16.68%	77

***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.*

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housing boom does not change the overall strategy of the company and that execution will remain sound despite record growth. Shares of Green Brick exchange hands today for 11x earnings or 1.1x sales, a valuation that we believe is fair given the proven strategy and tailwinds present.

Portfolio Activity

The Punch investment team routinely runs a process for high priority names that involves half the team developing a bull thesis on the name and the other half of the team cultivating a bear thesis on the same company. We call it our "red team/green team" process. We ran this process on two companies that we ended up taking new positions in during the third quarter.

After putting **Avid Bioservices, Inc. (CDMO, $431 million market cap)** through our red team/green team exercise, we determined the risk/reward profile of CDMO warranted a position in our small cap strategy. Avid is a contract drug manufacturing organization or CDMO for short. It helps pharmaceutical companies manufacture drugs during the development stage and then becomes the large-scale manufacturer when the drugs are approved for commercial use. Being part of the drug approval process makes the business sticky with high regulatory hurdles and material switching costs.

Because high failure rates are common with early stage drug develop, the trend is for pharmaceutical companies not to invest in the expensive manufacturing infrastructure. CDMO's manufacturing capacity is very attractive to drug makers and the company can double capacity within its existing footprint. We recently talked with the recently appointed CEO, Nick Green, and were impressed with his background. Nick has a track record of success and more than 30 years of experience to back it up. We view CDMO as a "buy on assets, sell on earnings" value play.

The other company we put through the red team/green team process was **Ranpak Holdings Corporation (PACK, $677 million market cap)**. We took our initial position in Ranpak in mid-August. PACK provides eco-friendly paper-based product protection solutions for e-commerce and industrial supply chains. Although PACK has roughly 50% share in paper-based packaging protection, paper makes up just 15% of the market – plastic makes up the rest in the form of bubble wrap and airbags. The company benefits through its exclusive relationships with top-tier paper distributors. While industrial packaging has slowed overall during the COVID-19 pandemic, e-commerce has seen a massive surge in demand. PACK is a beneficiary of the online shopping acceleration driven by social distancing requirements and people staying at home more. We expect the industrial business to recover as the world gets a better handle on the virus.

We believe Ranpak is led by an exceptional CEO that is aligned with shareholders. The CEO, Omar Asali, owns 8% of the company and we understand he is backed by the largest shareholder, which owns 46% of shares outstanding. The company is likely to be a beneficiary as automation becomes a bigger part of paper packaging and for warehouse logistics generally. We are excited about PACK as it focuses on driving revenue growth, expanding free cash flow, and reducing debt along the way.

We initially bought **BioSpecifics Technologies Corporation (BSTC, $388 million market cap)** in Q2 2020, but added in Q3 2020 based on our increased confidence in its market opportunities and the management team. BSTC owns the patent rights to an FDA approved drug called XIAFLEX and collects royalty revenue from licensing the drug. BioSpecifics does not manufacture, research, or sell the drug, so margins on the royalty revenue are robust. Today XIAFLEX is approved for two medical indications and the company is expecting an early 2021 approval for an injection that treats cellulite. We believe the opportunity for their cellulite treatment is materially underappreciated by the market. The company has almost $120mm of cash on its balance sheet and no debt. We have been impressed by the vision of Joe Truitt, the CEO of BioSpecifics, who joined the company in May 2020. Joe is relatively new to the business but brings exceptional experience to the table. We recently did reference checks on Joe, and we were encouraged by the positive feedback and commentary around his ability to execute his vision at his prior companies. We think he can do it again with BTSC.

We exited consumer staples holding **Farmer Brothers Co. (FARM, $75 million market cap)** in the quarter because of the severe disruptions in the restaurant and hospitality industry due to COVID-19. The company, a national roaster and distributor of coffee to restaurants, hotels, convenience stores, and large retail chains saw its direct-store-distribution business fall by over 70% at its worst during the lock-down orders of March and April. While management of the company, who joined in late 2019, has performed admirably on cost cutting and cash preservation under the circumstances, we believe that the current pandemic conditions are creating long-lasting headwinds for many Farmer Brothers customers.

Conclusion

In the Punch Small Cap Strategy, our research team has been busy uncovering new investment ideas despite the limitations of travel today. Many meetings and site visits have gone virtual, and there is no shortage of activity in monitoring current portfolio companies and sleuthing new ones. Unlike Apple Inc., with 43 brokerage analysts publishing recommendations on its stock, the average Punch company has only five analysts, which provides us ample opportunity to get to know the company better than other investors.

While a return to normalcy is impossible to predict, we believe that many high-quality small cap stocks are being unfairly punished in this COVID era and that, over time, this value will be recognized. In the meantime, we are hard at work identifying those companies that we believe may do well over the next three-to-five years.

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

	Annual Performance History			3-Year Standard Deviation			Year End	Year End		
Year	Gross of Fees	Net of Fees	Benchmark[1]	Composite[2]	Benchmark[2]	Number of Portfolios	Composite Assets (mil)	Firm Assets (mil)	% 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	55.66%	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%							

	Annualized Performance History		
Period	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.