Punch

A BOUTIQUE INVESTMENT ADVISORY

Small Cap Equity Strategy

First Quarter 2022 Commentary

INTRODUCTION

Against a backdrop of geopolitical conflict, rising inflation and interest rates, and continued pandemic effects, small cap stocks struggled in the first quarter. While the Russell 2000 Index declined 7.5%, this disguises the fact the index declined over 22% from its November peak to its February trough. Such a decline is worse than the -15% historical average by small cap stocks in the first half of a recession, suggesting that investors have already priced in a meaningful amount of bad news (source: Jefferies).

While the economic outlook clouded in the past ninety days, there are a few notable positives:

- The adjusted forward price-to-earnings ratio for the Russell 2000 Index is at its lowest since March 2020 and, before that, September 2011. Trading at only 14.2x estimated (positive) earnings, this historically was a trough level of valuation, and compares to the median valuation of 17.5x over the past thirty years.
- Despite uncertainty over spending in the face of higher prices, the average American consumer is in the best financial health in decades. A tight labor market and rising wages are an offset to these headwinds. Consumer discretionary stocks as a whole are the cheapest they have been in thirty years, largely reflecting this uncertainty.
- Small cap value stocks continue their strong performance relative to growth stocks, falling only -2.4% in the quarter compared to -12.6% for growth. Over the past year, value stocks are up 3.3% while growth stocks are down 14.4%. Small cap growth stocks as a group remain significantly above their historical average relative valuations, despite recent underperformance.

The Punch Small Cap Strategy had a total return of -11.9% for the quarter compared to -7.5% for the benchmark Russell 2000. A lack of exposure to energy and materials (the best performing groups), as well as a significant overweight to consumer discretionary (the worst), hurt relative performance in the quarter. Stock selection in several areas also hurt performance and detracted 2.6% from the 4.4% relative underperformance of a representative separate account.

TOP AND BOTTOM CONTRIBUTORS

The top contributor to performance in the quarter for the Punch Small Cap Equity Strategy was containership owner **Global Ship Lease (GSL, $1.0 billion market cap)**. A shortage of shipping capacity worldwide led to significant increases in freight rates for shippers in the pandemic, and Global Ship Lease is well-positioned for these windfall rates. Having expanded its fleet with opportunistic vessel acquisitions over the past year, the company is now focused on locking in long-term charters and returning capital to shareholders.

StoneX Group (SNEX, $1.5 billion market cap) was the second largest contributor to performance in the quarter, as the company announced strong fourth quarter results. As a provider of execution,

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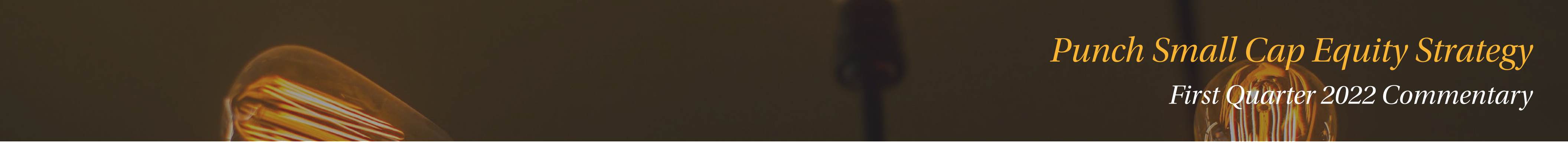

TOP CONTRIBUTORS IN Q1 2022			
HOLDING	**AVERAGE WEIGHT**	**TOTAL RETURN**	**CTR** (BPS)**
GLOBAL SHIP LEASE INC	4.42	25.58	1.10
STONEX GROUP INC	4.84	21.19	1.11
HACKETT GROUP INC	2.68	12.87	0.59
EW SCRIPPS CO	3.89	7.44	0.37
ARCOSA INC	2.14	8.74	0.26

***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 IN Q1 2022			
HOLDING	**AVERAGE WEIGHT**	**TOTAL RETURN**	**CTR** (BPS)**
RANPAK HOLDINGS CORP	2.88	-45.64	-1.54
PAR PACIFIC HOLDINGS INC	1.76	-21.04	-0.92
B. RILEY FINANCIAL INC	4.66	-19.99	-0.83
BLUELINX HOLDINGS INC	4.02	-24.94	-0.74
GREEN BRICK PARTNERS INC	3.06	-34.85	-0.68

***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.*

ANNUALIZED PERFORMANCE (Net of Fees)						
	LAST MONTH	**1 YEAR**	**3 YEARS**	**5 YEARS**	**10 YEARS**	**SINCE INCEPTION***
Small Cap (Net)	-11.9%	1.8%	16.5%	12.2%	12.5%	10.9%
Russell 2000 Index	-7.5%	-5.8%	11.7%	9.7%	11.0%	8.7%

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

clearing, and payments services to commercial and retail clients, StoneX benefits from higher interest rates and increased market volatility, both of which returned to capital markets this quarter.

Consulting firm **Hackett Group (HCKT, $700 million market cap)** likewise reported strong results in the quarter and benefited from higher demand among its corporate clients for engagements while operating expenses remained subdued with lower travel and on-site work. As companies look to automate and add efficiencies to their business in a post-pandemic world, Hackett Group is seeing strong demand for its services.

The largest detractor from performance in the quarter was packaging producer **Ranpak (PACK, $1.6 billion market cap)**, whose results were impacted by material cost pressures, customer ordering patterns, and exposure to eastern European paper suppliers. We continue to like this business model of providing sustainable packaging to e-commerce and industrial customers and believe the company has a long runway of profitable growth ahead of it, despite near-term inflationary headwinds.

Refiner **Par Pacific (PARR, $800 million market cap)** was also a detractor from performance in the quarter, despite a positive outlook for the year, as the company's largest shareholder is in the process of liquidating a portion of its holdings via open market sales. We think the current commodity environment could be positive for refineries in general and shares appear undervalued for technical reasons. Par Pacific remains our only exposure to the energy sector, and we favor the business as it has less direct commodity exposure than other exploration, production, and service companies. Our investment process generally avoids companies whose success is primarily tied to the commodity cycle.

B. Riley Financial (RILY, $1.8 billion market cap) detracted from performance in the first quarter following weak banking and brokerage activity. The company is not standing still in a challenging capital markets environment, however, and recently acquired L.A.-based investment bank Focal Point, which we think was an opportunistic purchase that should bolster the firm's capabilities and offset market weakness.

One new company was added to the strategy in the quarter, and there were no exited positions. **A10 Networks (ATEN, $1.1 billion market cap)** is a networking products company based in San Jose, California, that focuses on cybersecurity and network performance. The company's products are considered best of breed and its primary resale partner is one of the largest and best-known names in networking. Under a new CEO in 2019, A10

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Networks refocused its sales and marketing strategy and recently laid out a long-term goal of EBITDA margins well above its current level of profitability, driven by higher-value software and solutions. With only two sell-side analysts and a below-average valuation, we think the company and its prospects are underappreciated by most investors.

The Punch Small Cap Strategy ended the quarter with 44 individual company holdings and had 14% turnover in the past twelve months.

	ONE QUARTER ATTRIBUTION	ONE YEAR ATTRIBUTION
Top Contributors to Relative Results	• Stock selection in Industrials • Underweight to Health Care • Underweight to Information Technology	• Stock selection in Communication Services, Financials, Health Care and Industrials • Meaningful underweight to Health Care • Overweight to Financials
Top Detractors from Relative results	• Underweight and stock selection in Energy • Overweight and stock selection in Consumer Discretionary • Stock selection in Materials	• Overweight to Consumer Discretionary • Stock selection and underweight to Energy • Lack of exposure to Real Estate

Attribution shown is that of a representative small cap separate account.

Data as of March 31, 2022.

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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.

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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