Punch

A BOUTIQUE INVESTMENT ADVISORY

Small Cap Equity Strategy
Second Quarter 2022 Commentary

INTRODUCTION

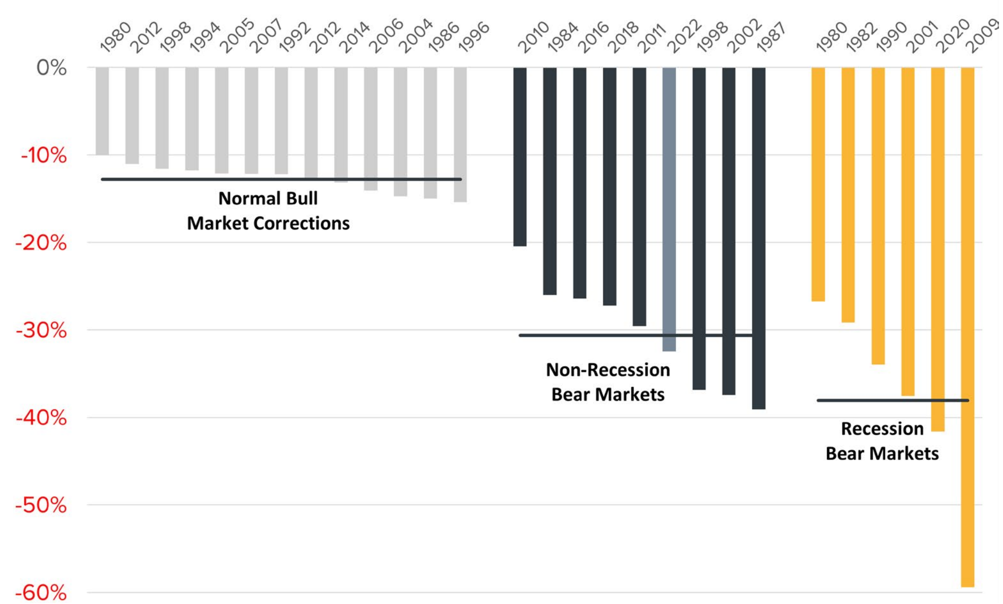
The second quarter of 2022 was a lousy quarter for capital markets, with both stocks and bonds declining during the quarter. The S&P 500 Index fell 16.1%, and the Bloomberg Aggregate Bond Index dropped 4.7%. Small cap stocks were not spared from this decline either, as they fell 17.2% during the quarter with year-to-date returns standing at -23.4%. From the peak in November 2021, small cap stocks are down nearly 30%. Heightened inflation readings prompted a hawkish Federal Reserve to raise the Fed Funds rate by 0.75% in a single meeting for the first time since 1994. This action drove strong selling, as investors adjusted to higher prices for consumers and heightened borrowing costs across the economy. The Fed's push to tamp down the highest levels of inflation in the past 40 years now has investors concerned that the economy may be pushed into recession in order to restore price stability to the economy.

The Punch Small Cap Strategy modestly outperformed the Russell 2000 Index for the quarter, returning -16.7% (net of fees) versus the index's return of -17.2%. Over the last year, our strategy returned -21.2% versus -25.2% for the index. Since its inception, the Punch Small Cap Strategy has returned an annualized 9.77% versus 7.60% for the index.

RECESSION? NO RECESSION? DOES IT MATTER?

With each of our holdings, we regularly review our investment thesis and examine the potential upside compared to the downside risk at prevailing price levels. We are more confident in our ability to assess individual companies run by people

R2000 Corrections & Bear Markets



Source: Furey Research Partners. Data as of 6/30/22.

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See disclosures at the end of this commentary with a business plan than predicting how the stock market will perform over the near term. That said, we are students of history and look for help in assessing the general investing environment. The Russell 2000 Index has lost nearly one-third of its value since early November. This is slightly worse than the median decline for a non-recessionary bear market and only a few percentage points away from the median decline for a recessionary bear market. While we acknowledge that stocks could decline further, our philosophy remains that opportunities are greatest where capital is most scarce. Based on the last eight months, we have good reason to believe that buyers are scarce, and investors willing to pick through the stock market rubble may be rewarded over the next few years.

SO, WHAT USUALLY HAPPENS NEXT?

When there is widespread pain in the markets, especially the kind we've witnessed since November of last year, our investment team tends to get pretty excited. The work we do is thorough, and with recent market weakness, we are operating with an added sense of urgency to discover the future prospects for the companies in which we're invested. While it's difficult to pinpoint exactly when the pain might end, what usually follows is a much different experience for small cap investors. The table below shows the 14 bear markets since the inception of the Russell 2000 Index. Historically, when each of these markets has bottomed and collective fear has turned to optimism, returns have more than made up for the losses in just six to twelve months. It is also worth noting that performance for small cap indices is usually stronger than that of large cap indices coming out of a trough, generating an average return that is seven percent better per year over the ensuing two years.

R2000 BEAR MARKET		PRICE CHANGE	R2000 ABSOLUTE PRICE CHANGE (%)			R2000 PRICE CHANGE RELATIVE TO SP5 (%)		
Start	Bottom	From Peak (%)	Fwd. 6M	Fwd. 1Y	Fwd 2Y (A)	Fwd. 6M	Fwd. 1Y	Fwd. 2Y (A)
02/08/80	03/27/80	(26.7)	60.1	75.2	20.7	29.1	38.1	14.0
06/15/81	08/12/82	(29.2)	62.1	92.4	30.6	20.6	34.7	4.9
06/24/83	07/25/84	(26.0)	18.7	30.5	23.3	(0.4)	1.8	(3.2)
08/25/87	10/28/87	(39.1)	36.5	39.7	26.6	23.9	19.1	5.4
10/09/89	10/31/90	(34.0)	45.7	54.0	28.9	20.5	24.7	11.4
04/21/98	10/08/98	(36.9)	32.7	37.7	25.6	(8.9)	(1.5)	4.4
03/09/00	10/09/02	(46.1)	13.9	59.4	32.9	1.7	25.7	12.6
10/09/07	03/09/09	(59.4)	66.2	95.1	55.0	16.0	26.5	15.2
04/23/10	07/06/10	(20.5)	35.3	42.6	17.8	11.6	12.5	2.2
04/29/11	10/03/11	(29.6)	37.0	37.9	33.0	8.4	6.4	9.0
06/23/15	02/11/16	(26.4)	28.9	45.6	25.0	9.4	19.0	4.5
08/31/18	12/24/18	(27.2)	19.8	32.4	25.9	(4.1)	(4.7)	0.6
02/20/20	03/18/20	(41.6)	56.6	128.8	44.3	15.4	65.5	8.7
11/08/21	06/16/22	(32.5)	TBD	TBD				
		Average	**39.5**	**59.4**	**30.0**	**11.0**	**20.6**	**6.9**
		Median	**36.5**	**45.6**	**26.6**	**11.6**	**19.1**	**5.4**

Source: Furey Research Partners. Data as of 6/30/22.

TOP AND BOTTOM CONTRIBUTORS

During the quarter, the top contributor to our return was **Digi International Inc. (DGII, $850 million market cap)**. This Minnesota business provides Internet of Things (IoT) connectivity products, solutions, and services. During the quarter, Digi reported strong numbers as they successfully navigated supply chain challenges while showing robust demand with record bookings and backlog. We believe the business is becoming increasingly predictable as 1) the recurring solutions business becomes a larger piece of the sales mix; and 2) customers' transition to IoT has accelerated because of tight labor markets.

StoneX Group Inc. (SNEX, $1.6 billion market cap), a provider of execution, clearing, and payments services to commercial and retail clients, was a top contributor to performance during the quarter. StoneX reported strong results as market volatility drove high levels of activity across its various business lines. The company also benefitted from rising interest rates. In June, we caught up with the management team at their office in New York and walked away encouraged by the number of high-return investment opportunities for their business as they continue to gain scale in the coming years.

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TOP CONTRIBUTORS IN Q2 2022			
HOLDING	AVERAGE WEIGHT	TOTAL RETURN	CTR** (BPS)
Digi International Inc	2.85%	12.55%	0.35%
Stonex Group Inc	5.77%	5.17%	0.29%
Par Pacific Holdings Inc	2.22%	19.74%	0.27%
Healthstream Inc	2.12%	8.99%	0.19%
Franklin Covey Co	2.40%	2.12%	0.11%

***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 Q2 2022			
HOLDING	AVERAGE WEIGHT	TOTAL RETURN	CTR** (BPS)
Global Ship Lease Inc	3.89%	-41.06%	-1.84%
B. Riley Financial Inc	3.68%	-38.33%	-1.68%
EW Scripps Co	3.37%	-40.02%	-1.60%
Ranpak Holdings Corp	1.63%	-65.74%	-1.53%
Columbus Mckinnon Corp	1.83%	-32.96%	-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						
RETURNS (Net of Fees)	Q2 2022	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION
Punch Small Cap	-16.69%	-21.22%	8.51%	7.82%	10.75%	9.77%*
Russell 2000 Index	-17.19%	-25.2%	4.20%	5.16%	9.35%	7.60%

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

The third-largest contributor to performance was **Par Pacific Holdings, Inc. (PARR, $937 million market cap)**, an owner of refineries, gas stations, and other energy infrastructure located predominately in Hawaii. Disruptions in Europe and Asia are helping to expand refinery spreads which should improve the economics of Par's refineries. The resumption of travel to Hawaii is also driving increased demand. Finally, we believe the improved sentiment and valuations for energy assets could create an attractive opportunity for Par to divest some valuable, non-core assets.

The largest detractor from performance was **Global Ship Lease, Inc. (GSL, $610 million market cap)**, an owner and lessor of mid-sized containerships. After two years of incredibly strong shipping demand, container freight rates started to decline during the quarter, creating negative headlines for the industry. While sentiment around the space has begun to sour, we believe the company is somewhat isolated from near-term swings in shipping rates as over 87% of the fleet is already contracted to liners through 2023. We remain comfortable holding shares as they trade at an undemanding valuation of less than 3x earnings while sporting over a 9% dividend yield.

Longtime holding **B. Riley Financial, Inc. (RILY, $1.2 billion market cap)** was a detractor as their capital markets businesses slowed during the quarter. After a remarkably strong 2020 and 2021, capital markets activity came to a halt during the first quarter, but B. Riley managed to stay profitable. Management has strategically built out less episodic businesses like wealth management and advisory along with counter-cyclical businesses including liquidation and restructuring to help offset the inherent cyclicality within capital markets. We believe the business has a strong balance sheet and is well positioned to weather this slowdown while still paying a healthy 9% dividend yield.

The E.W. Scripps Company (SSP, $1.0 billion market cap) operates a portfolio of local television stations and content networks in 41 markets across the U.S. The stock was a top detractor in the quarter despite reporting solid results as investors are likely concerned about advertising spending in a more uncertain economic environment. While demand for advertising might soften, we believe inflation will increasingly push consumers to watch free, over-the-air television, as cutting the cord and unsubscribing from streaming platforms becomes more appealing. Additionally, we anticipate that political ad spending this fall will be strong and will provide a significant windfall with several important U.S. Senate and gubernatorial races occurring in Scripps's markets.

We initiated one new position during the quarter in **Heritage-Crystal Clean, Inc. (HCCI, $655 million market cap)**. The company's primary business is a route-based service that provides cleaning and waste collection for small- and medium-sized industrial businesses and vehicle maintenance providers. Heritage-Crystal Clean is the second largest full-service oil collector and re-refiner in North America

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and should benefit from rising oil prices. We believe the route-based business model is highly recurring and profitable, and industry fragmentation creates a long runway for the company to continue growing through acquisitions.

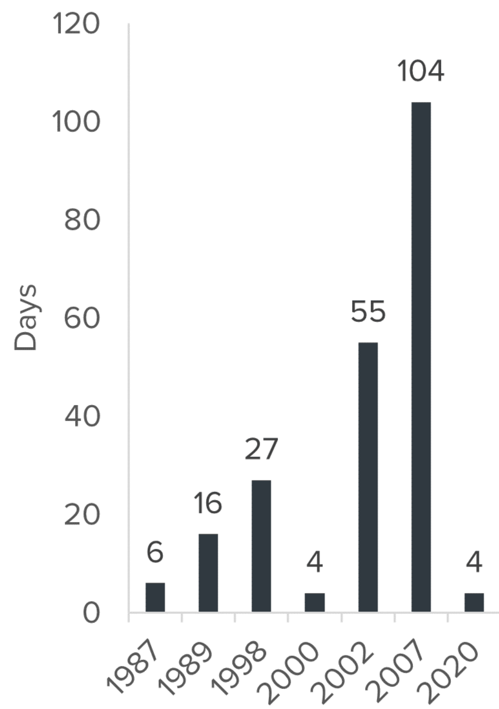
During the quarter we exited our investment in **Faro Technologies Inc. (FARO), $563 million market cap)**. This Orlando based business designs lasers, software and related hardware used in factory automation and robotics. In June 2019, the company named a new CEO that entered with a strong reputation after the company experienced slowing growth and contracting profitability under previous management. Despite refreshing all major product categories, and reinvesting into sales and marketing, Faro has struggled to drive growth or margin improvement. We believe their core hardware business is becoming increasingly commoditized and the transition to software is still in the early stages. Compounding these challenges, supply chain outages and lockdowns in China have held back near-term performance and the company has struggled to pass along price increases for most hardware products in this inflationary environment. We anticipate these headwinds will persist for some time and elected to exit our position.

We finished the quarter with 43 holdings.

	ONE QUARTER ATTRIBUTION	ONE YEAR ATTRIBUTION
Top Contributors to Relative Results	Stock selection in: • Information Technology • Consumer Discretionary • Health Care	Stock selection in: • Information Technology • Consumer Discretionary • Communication Services
Top Detractors from Relative results	Stock selection in: • Materials • Financials Overweight to Communication Services	• Stock selection in Materials • Overweight to Consumer Discretionary • Underweight to Energy

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

Trading Days from the Time R2000 has Corrected 30% to its Trough



Forward Returns from Small Cap Bear Market Trough

R2000 BEAR MARKET		PRICE CHANGE	R2000 PRICE CHANGE (%)	
Start	Bottom	From Peak (%)	Fwd. 6M	Fwd. 1Y
Feb-80	Mar-80	(26.7)	60.1	75.2
Jun-81	Aug-82	(29.2)	62.1	92.4
Jun-83	Jul-84	(26.0)	18.7	30.5
Aug-87	Oct-87	(39.1)	36.5	39.7
Oct-89	Oct-90	(34.0)	45.7	54.0
Apr-98	Oct-98	(36.9)	32.7	37.7
Mar-00	Oct-02	(46.1)	13.9	59.4
Oct-07	Mar-09	(59.4)	66.2	95.1
Apr-10	Jul-10	(20.5)	35.3	42.6
Apr-11	Oct-11	(29.6)	37.0	37.9
Jun-15	Feb-16	(26.4)	28.9	45.6
Aug-18	Dec-18	(27.2)	19.8	32.4
Feb-20	Mar-20	(41.6)	56.6	128.8
Nov-21	Jun-22	(32.5)	TBD	TBD
		Average	**39.5**	**59.4**
		Median	**36.5**	**45.6**

Source: Furey Research Partners. Data as of 6/30/22.

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CONCLUSION

History suggests that now is a good time to be investing in small cap securities. As seen in the chart on the previous page, more than 30% declines, like we are currently experiencing, are rare in the small cap asset class. When a drawdown of that magnitude occurs, historically the market correction bottom was near, reaching it within four to 104 trading days. Even more encouraging is that when the market turns, small caps can experience an equally dramatic upswing.

We spent the second quarter re-underwriting investment theses and checking in with portfolio companies' management teams. We can't control whether a recession occurs or when the economy returns to more stable footing. We can continue to look for new and add to existing companies that can weather a variety of environments and generate attractive returns for shareholders over time. We are as excited as ever about the prospects for future returns.

We are grateful for our partnership with you and appreciative of your trust in our ability to create lasting value through your investment in the Punch Small Cap Strategy.

Data as of June 30, 2022.

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.

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