January, 2022

Dear Clients,

We are pleased with the performance of our RAM Smid strategy, which as of year-end 2021 has out-performed our benchmark Russell 2500 Value (R2500V) index every year since inception on Jan 1, 2019. Our RAM SMid composite rose 4.65% in 4Q21, which although was slightly under the R2500V at 6.34%, finished the year up 31.21% vs. 27.71% for the R2500V. Although past performance is no guarantee of future results, this performance builds upon the Ram Smid returns in 2020 and 2019 of 13.65% and 26.46%, vs. the R2500V at 4.87% and 23.54%, respectively.[1]

We are also pleased to announce the launch of our RAM All-Cap strategy in 4Q21. This strategy will build upon, and primarily be represented by companies found in our RAM Smid strategy, but also have the flexibility to opportunistically buy larger cap companies. This strategy will hold approximately 25 postions, similar to our Smid strategy, with well-researched and high conviction investments producing a differentiated portfolio and targeted high active share levels.[2]

4Q21

The fourth-quarter of 2021 saw a continuation of value indices outperforming their growth counterparts. The Russell 2500 Value (R2500V) index rose 6.34% in the quarter vs. 0.19% for the Russell 2500 Growth (R2500G) index. For the year, the R2500V gained 27.71%, vs. 5.03% for the R2500G. Size also was a factor in the quarter, with the larger cap indices outperforming small peers. The Russell 3000 Value (R3000V) index gained 7.52% and the S&P 500 (SP500) index rose 11.02%, but size was not as much a factor for the year, with RAV up 25.33% and the SP500 up 28.68% for 2021. We continue to believe that we are in the early innings of a resurgence of the value indices vs. the growth indices, and note that despite the R2500V outperforming the R2500G four times in the last 10-years (2014 was more of a tie), the R2500G still cumulatively has outperformed by 332.7% vs. 222.3% for the R2500V. Although any investment style involves risk and will likely experience ups and downs along the way, with the economy continuing to improve, inflation roaring, and the fed set to raise rates, we think the value-style of investing sits well positioned versus growth into 2022 and beyond.[3]

Supply Shocks and Inflation Restraining Growth

Inflation continued to run at a scorching hot pace in 4Q21, with the November CPI at 6.8%, the highest level since June 1982, and the November PPI at a blistering 13.3%, the highest level since 2Q80. Wage inflation accelerated as well, with U.S. Personal Income growth reported at 7.4% in November, as demand for workers pushed the U-3 Unemployment rate down to 4.2%. These higher inflation levels, combined with the supply shortages in everything from microchips to construction materials, served to slow GDP growth in 3Q21 to 2.3%, down substantially from the 6.7% and 6.3% pace of 2Q21 and 1Q21, respectively. Based on our discussions with companies, conference call transcripts and anecdotal experience, consumer demand remains strong heading into 2022, and represents a strong underpinning of forward looking economic strength, as back-ordered items are delivered and end-market inventories rebuilt.[4,5,6,7,8]

The Fed Folds

Not so-shockingly in our opinion, Fed Chairman Powell and the U.S. Federal Open Market Policy Committee finally capitulated on the flawed opinion that inflation shocks were transitory. On December 15th, the Fed doubled the pace of its tapering of bond purchase intentions for January 2022 forward. More importantly, the FOMC Committee now forecasts three Fed Fund rate increases for 2022 and three more for 2023, as they move to battle the hotter inflation levels that they now expect to run over their 2% long-term target through at least 2024. Importantly, the 12/15/21 FOMC projections also agree with our view that the economy can continue to strengthen in 2022, as the committee raised its 2022 GDP forecast to 4.0%, and projected that the unemployment rate will fall back to its February 2020 pre-pandemic level of 3.5% in 2022.[9,10]

Our Investment Baseline for 2022

Although we are not macro forecasters, and indeed one of our favorite sayings is that economists issue one yearly forecast and 51-weekly revisions, we do believe the following investing themes will develop in 2022. While we do not purchase stocks on investment themes, these baseline parameters serve as risk control guidelines to our investment cases and our portfolio construction activities.

- Economic growth should continue its post-Covid acceleration, as consumer demand remains strong, deferred orders are filled and depleted inventories are rebuilt.
- Companies with the ability to raise price above the rate of inflation should prosper.
- Companies will likely look to relocate more of their supply chain back to the USA, as the far flung global Just-In-Time manufacturing doctrine has shown its flaws with shortages in 2021.
- Accelerated Fed tapering actions and raised Fed Fund funds rates should benefit financial companies through greater spread income.
- Growth companies with negative current free cash flow are likely to suffer from valuation headwinds caused by higher interest rates used in discounted cash flow (DCF) models.
- The trade-off between risk and projected return is likely to return to investor prominence, as the "Fed Put" of low rates and stimulus is reversing.

In our view, the outperformance of the value style of investing in 2021 looks well positioned to continue into 2022 and beyond. The post financial crisis 10-year era of low treasury yields, a zero Fed Funds rate and massive and unprecedented stimulus actions has most likely, finally, come to an end. The growth style of investing, in our estimation, has in great measure been driven by the impact of low interest rates and an investor perception that the "Fed has you back", meaning it would step in to provide stimulus support to any signs of weakness. We think growth and quantitative investors have become overly aggressive in their valuation metrics, which primarily rely on discounted cash flow (DCF) models, due to the impact of low interest rates which prop up the value of projected out-year cash flows. The end of low rates, as the Fed accelerates its taper and projects to raise rates three times in 2022, are likely to be a strong headwind for growth valuations.

Conversely, small and value companies are likely to benefit in 2022 from the end of lower rates, higher inflation and re-shoring of manufacturing facilities. Small cap industrials and consumer companies should be able to pass through inflationary pressures with price increases, provided that end market demand remains strong. Further, higher interest rates and a steeper yield curve should benefit financial companies, which post the financial crisis have greatly increased the amount of capital on their balance sheets, but have not had the benefit of spread income on these assets.

Portfolio Highlights

We believe our RAM Smid portfolio is well positioned for continuing economic strength, rising rates and rising inflation, while also very attractive from a valuation perspective. Five holdings are trading under book value and three additional holdings are trading at less than 1.5x book. It is also worth highlighting that three of our holdings have no sell-side coverage, and twelve others have five or fewer covering analysts. We believe this anonymity provides us with the opportunity to identify companies that pass under the radar for other investors, and help secure positions at attractive valuations.[11,12]

At year-end, our RAM Smid cash level averaged 4.3%. Our cash levels will fluctuate as part of our investment process. We continue to find new ideas for our work-in-process lists, and have never held the view that there are no actionable, individual ideas to be found in the market. It was an active quarter for us, as we added four new positions and sold three from the strategy, as they approached our Assessed Fair Value (AFV) price targets.[13]

Hub Group (HUBG) was RAM Smid's top percentage gainer in the quarter, rising 22.5% to close the year at $84.24. HUBG gained post a strong 3Q21 report, marked by pricing power and raised earnings guidance for the year. HUBG was able to capitalize on the transportation shortages roiling the country, with pricing up 26% in its intermodal operation and 31% in its truck brokerage division. HUBG also gave a strong outlook for 2022, indicating that the early bid season looked strong. In our view, intermodal rail operations stand to take further share from over-the-road class 8 trucks, due to cost efficiency, and positive ESG benefits including better air quality, fuel efficiency and less highway congestion. Additionally, The Infrastructure Investment and Jobs Act, signed into law 11/5/21, provides increased funding for rail investment, maintenance, and safety for railroads, which should further accelerate intermodal rail growth. We continue to see strong investment upside for HUBG through organic growth, and over the longer term HUBG could become an attractive take-over target for a larger shipping company.[14]

Haemonetics (HAE) was the largest percentage decliner in the quarter, as it pulled back from a strong 2Q21 performance and fell 24.86% to close at $53.04. Shares fell post its 3Q21 report, where despite posting revenue growth in all business segments, results came in under street expectations due to the resurgent negative impact of Covid on plasma collection volumes and elective surgery procedures. While the new Omicron strain of Covid is likely to continue to be a headwind to revenues into 1Q22, we think the long-term investment case for HAE remains strong. As Covid impacts moderate, plasma gathering volumes should reaccelerate, not only to rebuild depleted system inventories, but to support growth in new plasma based medical applications. HAE is well positioned as its new Persona system increases plasma yields 9%-12% over current offerings, and has been well received by customers. Elective surgery volumes should also recover as demand has been deferred and not permanently lost. With its strong free cash flow profile, HAE also looks poised to continue its acquisition program. Despite the Covid pullback this quarter, we see strong upside potential for HAE into 2022 and beyond.[15]

Mayville Engineering (MEC): Solving Just-To-Far Supply Chain Issues

We think Mayville Engineering (MEC) is the most exciting and potentially most investor neglected manufacturing company in our small cap universe. Shares of this $307 million market-cap company fell from its 52-week high of $22.16 per share, to close the year at $14.91, and represent, in our opinion, a compelling investment opportunity.

Based in Mayville, Wisconsin, MEC is a 76-year old U.S.-based manufacturer that provides a broad range of prototyping, tooling, fabrication, coating, assembly and aftermarket offerings. MEC is a Tier 1 U.S. supplier to original equipment manufacturers (OEMs) serving diverse end markets including commercial vehicles (18-wheelers), construction & access equipment, powersports, agriculture, military and other markets. It has 2150 employees across 19 facilities that comprise almost 2.7 million square feet of manufacturing capacity. MEC listed its shares through its initial public offering (IPO) in May 2019, at $19.00 per share.

The share price pull-back, in our view, was caused by short-term supply-chain and inflation pressures, which also impacted almost every manufacturing company in 2H21. We think investor neglect exacerbated the move, as in addition to its relatively recent public listing, employees own approximately 50% of the company through its ESOP program, which reduces the freely traded shares available and potentially limits its visibility to larger investors. Availability of parts impacted the production of MEC's customers, and lowered volumes. Additionally, one of its largest customers, Deere, suffered lower production levels due to a strike, which is now resolved. Further, higher raw material prices impacted margins. MEC contractually passes on higher prices, but at a lag, and these price increases, while beneficial, impact margins due to higher revenues but no additional margin.

We believe MEC meets all three of our investment pillars. Beginning with the balance sheet, MEC has a very manageable debt level of 1.2x debt to trailing twelve-month EBITDA as of September 30th. Combined with healthy operating cash flow and a $200 million credit line that matures in 2024 (with an accordion feature up to $300 million), MEC has the financial fire power it needs to fund its aggressive capital expansion projects, consider bolt-on acquisitions and opportunisticly execute its recently announced $25 million share repurchase program. At year-end, MEC traded at a modest multiple 1.45x its $10.09 book value.

MEC's ability to grow is compelling in our view, driven by a recovery from 2H21 supply and inflationary pressures, and an exciting list of new business opportunities anchored by its current capx program. With 99% of its supply chain based in the U.S., MEC stands to benefit from industrial America's reshoring of its supply chain, as Just-In-Time manufacturing has gone Just-Too-Far.

Despite the softer customer production volumes, particularly in commercial vehicles and Ag, MEC indicated that end-market demand remained very strong, orders were deferred and not cancelled, and that depleted customer inventories would need to be rebuilt, all providing a strong outlook into 2022. MEC indicated that 2021's projected revenues of $470-$490 million were still under 2018's peak at $560 million, a level MEC indicates it could regain and exceed. Moreover, the impact of price increases has added $40 million of revenue to 2021's total vs. 2018, indicating the true base level revenue gap to make up is still over $110 million. The outlook for powersports, military and oil & gas end markets all look positive into 2022 as well, based on contractually higher volumes and market share gains across multiple programs.

The most compelling aspect for MEC in 2022 is the new customer commitment it secured for fitness equipment. MEC is spending $35-$40 million to build a 450,000 square foot production facility in Hazel Park, Michigan, with a long-term customer volume guarantee. This facility alone increases MEC's production square footage by 16.7%, add 400 employees (an 18.6% increase), and is targeted to add $15 million in annual EBIT, with production starting in 1Q22. The customer is relocating its disparate global production footprint, primarily in Asia, back to the U.S. to manage its supply chain and take advantage of MEC's 99% US based sourcing network. Excitingly, MEC indicated that it is in talks with several more customers on production agreements like this, and on its 3Q21 call said that it decided to add a second phase of capacity at the same location to support overall demand trends for other customers. Additionally, MEC continues to scout for U.S. based acquisition opportunities as well, building on its successful track record of seven acquisitions in the last 10-years.

MEC's outlook for improvement goes beyond its revenue growth opportunities, as MEC is committed to reaching a 15% EBIT margin. Incremental margins of 22%-23% on revenue growth, combined with the benefits of investing in automation, 6-sigma productivity programs and prior facility closure savings are the key drivers towards this goal.

With a market cap of $307 million, and roughly $55 million in debt, MEC is trading at an intriguing multiple of only 7.85x its expected $46 million EBITDA. We note, that even this multiple is mis-understood by investors, as 2021 includes roughly $4.0 million in start-up costs for the new Hazel Park facility. Adjusting for this expense, MEC's EBITDA multiple falls to 7.2x on 2021 estimates. In our view, this valuation stems from investors that are leary of the continuing negative impacts of supply chain constraints, customer volume deferrals and inflation headwinds and their impact on MEC's current profitability and cash flow. Risk does exist with MEC, as with any investment, and if these investment headwinds continue longer that we expect, MEC's stock valuation could languish.

However, we believe that over time MEC will overcome these headwinds, and that the valuation opportunity in our opinion is compelling. With a well-defined path to re-attaining its 2019 baseline revenue level, full recovery of inflationary costs, market share gains in commercial vehicles, Ag and military and the addition of the new Hazel Park facility, we think the consensus revenue expectation of $570 million for 2022 looks too low. Likewise we think the $75 million EBITDA estimate is also beatable. On the 2022 consensus, MEC is currently trading at astoundingly low valuation of 4.8x EBITDA. Our AFV price target of $26, is up 78% from year-end close, and still only represents roughly an 8x EV/EBITDA multiple. While 2023 is too early to call, if MEC continues to win reshoring opportunities and achieves its 15% EBITDA margin target, we would expect upside well beyond this 2022 AFV target.[16]

Looking Forward

We are excited to begin operations under our independent RIA structure, and we thank you for your continued patience, trust and support through the transition in 4Q21. Stay safe and healthy. Please do not hesitate to contact us for client service, to discuss our commentary or to simply opine on the market and stocks.

-Chip

1. Past performance is no guarantee of future results. The RAM SMID Value Composite schedule of net investment performance of Rewey Investment Management LLC (the "Schedule") represents the activity of twelve separate customer trading accounts managed collectively (collectively the "Accounts") for the annual and cumulative periods from January 1, 2019 through

December 31, 2021. Please see full Marcum footnotes for RAM Smid composite at https://www.reweyassetmanagement.com/website-disclaimers

2. Active Share, as defined by Cremers and Petajisto, represents the share of portfolio holdings that differ from the benchmark index holdings. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=891719

3. The Russell 2500 Value, Russell 2500 Growth, Russell 3000 Value and S&P 500 Index performance levels are sourced from Bloomberg. The Russell 2500 Value, Russell 2500 Growth, Russell 3000 Value and S&P 500 indicies are an unmanaged group of securities considered to be representative of the small and mid-cap stock market, and the large-cap stock market in general, respectively. Indexes are unmanaged and do not incur management fees, costs, or expenses. It is not possible to invest directly in an index. There are material differences between the RAM SMID Value Composite portfolio and the indexes used for comparison purposes. The RAM portfolio is actively managed and holds concentrated investments in the equity securities of small-mid capitalized companies. An index is generally designed to illustrate the performance of a specific asset class (i.e. small cap), but is not actively managed and the index performance does not reflect the impact of advisory fees and other investment costs.

4. U.S. CPI Urban Consumers year-over-year (Y/Y) reported by Bureau of Labor Statistics, sourced through Bloomberg.

5. U.S. PPI Final Demand Y/Y SA reported by Bureau of Labor Statistics, sourced through Bloomberg.

6. U.S. Personal Income Y/Y reported by Bureau of Labor Statistics, sourced through Bloomberg.

7. U-3 U.S. Unemployment rate Y/Y reported by Bureau of Labor Statistics, sourced through Bloomberg.

8. 3Q21 U.S. GDP reported by U.S. Bureau of Economic Analysis, sourced through Bloomberg.

9.Fed Reserve FOMC Statement 12/15/21 https://www.federalreserve.gov/newsevents/pressreleases/monetary20211215a.htm

10. FOMC Projections Release 12/15/21 https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20211215.htm

11, 13. All portfolio discussion is based off our model RAM Smid portfolio. Company financial estimates sourced from Rewey Asset Management proprietary analysis, and Bloomberg BEST company estimates. Historical pricing and company financial data sourced from company 10Q and 10K filings, and Bloomberg. Individual portfolios may hold slight deviations in position sizes, cash levels and positions held.

12. Covering active sell-side analyst data sourced from Bloomberg.

14. Hub Group (HUBG) quarterly performance information sourced from Bloomberg. Other HUBG commentary sourced from company earnings releases, 10Q, 10K filings, company presentations, Bloomberg and Rewey Asset Management proprietary analysis.

15. Haemonetics (HAE) quarterly performance information sourced from Bloomberg. Other HAE commentary sourced from company earnings releases, 10Q, 10K filings, company presentations, Bloomberg and Rewey Asset Management proprietary analysis.

16. All financial ratios, statistics, and projections discussed in the Mayville Engineering (MEC) commentary are sourced from MEC 10-K and 10Q filings, company press releases, company public conference calls and webcasts, company slide presentations, MEC company webpage, RAM discussions with MEC management and Rewey Asset Management proprietary financial analysis and Rewey Asset Management industry due diligence. Historical share price information sourced from Bloomberg.

Rewey Asset Management is a registered investment advisor in the State of New Jersey

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