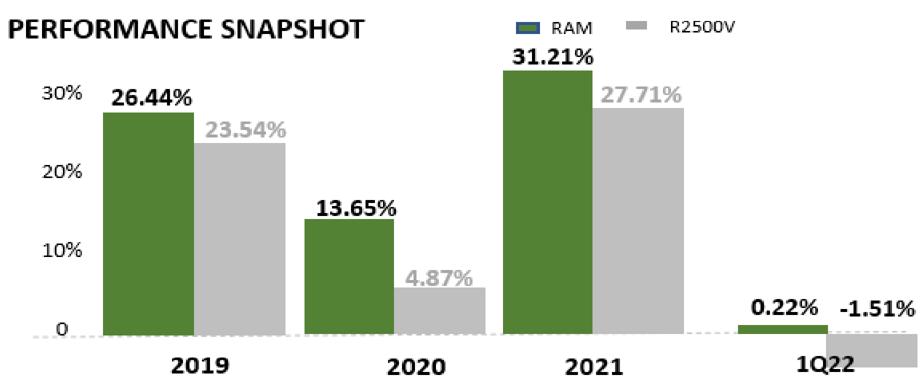
April 2022

We are pleased with the performance of our RAM smid strategy which rose 0.22% in 1Q22, nicely ahead of the R2500 Value index which fell 1.51%.[1] The smid cap value sector continued to pace well ahead of the Russell 2500 Growth index, which fell 12.31% in 1Q22 as well as the broader markets, with the S&P 500 falling 4.62% and the Nasdaq Composite falling 8.94%. We envisioned the outperformance of the small/mid value sector and in our view this trend has the potential to continue for 2022, while the larger, and growth/momentum strategies appear vulnerable.[2]



Source: Rewey Asset Management, Index returns sourced from Bloomberg 3/31/2022

Please note that there are material limitations inherent in any comparison between RAM Smid strategy and the R2500 Value Index. The R2500 Value Index is unmanaged and you cannot invest directly in an index. The RAM portfolio is actively managed and holds concentrated investments in the equity securities of small-mid capitalized companies.

1Q22 In Review

The first quarter of 2022 was full of significant economic and geopolitical events. The Russian invasion of the Ukraine sent shock waves through markets, and led to surging commodity prices, most significantly oil, as the investors wrestled with the impact of disrupted global supply chains. But in our view, the most significant economic development was the Fed Funds 25 basis point rate hike on March 16, and the accompanying commentary that the Fed planned this move to be the first of several aggressive moves.[3]

As we discussed in our *Every Meeting is Live* Market Musing blog ([Every Meeting is Live (reweyassetmanagement.com)](reweyassetmanagement.com)), Fed Chairman Powell, in our view, was clear that one of his main concerns was the regressive impact of inflation on the lower income segment of our country, and thus we believe the Fed will deliver on its intent to raise rates in an attempt to curb surging inflation, which spiked to 7.9% in February.[4]

We believe the implications for investors are clear, and in line with the views we have written about for over 2-years in our Market Musing blogs (Market Musings | Rewey Asset Management | Long-Term Investing). We think the recent performance of small cap value has the potential to continue, and that:

- Banks have the potential to prosper from higher rates. Excess deposits at banks curb the impact of higher short rates, and should allow substantially higher interest earnings for 2022 and 2023.
- Industrials with strong demand should be able to raise prices to overcome inflation.
- Domestically focused small industrials should prosper from higher demand as the fallacy of over stretched Just-In-Time global supply chains have been shown to be stretched Just-To-Far, which should mean accelerating domestic capital investment, or "Reshoring".
- The valuation levels of large cap momentum growth stocks could potentially suffer due to higher interest rates (weighted average cost of capital assumptions will most likely soar with rising rates, increasing the denominator in DCF models which will likely dramatically cut the net present values of companies with weak current cash flows and valuations heavily dependent on 10-year+ terminal values).

2-10 Inversion Fears are an Emotional Overeaction

We think the current investor obsession over the spread between the 2-year treasury yield and 10-year treasury yield is an emotional overreaction and that the U.S. economy is unlikely to enter a recession in 2022. While the closing yield of the 10-year and 2-year were both 2.33% at March 31st, we think the signal potential of a possible inversion at these levels is not completely relevant vs. prior 2-10 inversions. We suspect a flight-to-safety is taking place from global investors in the 10-year, due to geopolitical concerns including the Russian invasion of the Ukraine, which has depressed the 10-year yield. Since May 31, 2021, the yield on the 10-year has risen 74 basis points from 1.59%, while the yield on the 2-year has risen 217 bps from 0.15%. As we are expecting a total of roughly 225 basis point hikes from the Fed in 2022 (and not concerned whether this comes from nine 25 bps hikes or some 50 bps hikes mixed in), we see the 2-year reflecting most of Fed hike pressure. Conversely, the 10-year yield has not moved nearly as much, and still has to endure the beginning of the Fed selling down its now $8.9 Trillion balance sheet and the impact of an almost $30T U.S. Federal Debt level, which in our view should put upward pressure on the yield. Moreover, the 3-month Treasury Bill yield is not supporting the move in the 2-year, closing the quarter at 48 basis points versus zero at May 31, 2021.[5]

The Domestic Economy Remains Healthy

Surging economic indicators are at a significant contrast to fears of a demand-driven recession. Non-farm payrolls grew 431K in March and 750k in February. Hourly earnings rose 5.6% in March.[6] Even the Fed's own projections from March 16th show 2022 GDP rising 2.8% in 2022 and the unemployment rate falling to 3.5% for 2022 vs. 3.6% in March.[7] The Fed rate hikes are aimed at curbing the significant inflationary impact of supply contrained price hikes, which should ease throughout the year as capacity reopens now that Covid driven lockdowns have ended. Further, we have learned from our 32 years of experience, that the cure for high commodity prices is high commodity prices. High prices encourage accelerated production and demand destruction/subsititution. We see the commodity driven price surges in oil, steel and even automobiles easing as production improves throughout the year. These factors should allow for a continuation of moderate economic growth, as consumer and business demand factors remain healthy.

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. Focusing on the balance sheet, seven holdings are trading under book value and five additional holdings are trading at less than 1.5x book. Eight of our holdings have net cash on the balance sheet, and Weyerhauser is our only holding with over 3x Debt/EBITDA (at 3.1x), but given its REIT structure and the unrecognized value of its timber and real estate holdings, we are comfortable with this leverage. It is also worth highlighting that five of our holdings have no sell-side coverage, and ten 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.[8,9]

At quarter-end, our RAM Smid cash level averaged 7.9%. 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 five new positions and sold four from the strategy, inclusive of the merger driven activity of First Horizon.[10]

First Horizon Corp. (FHN), was RAM Smid's top percentage gainer in the quarter, delivering a 44.78% return to close at $23.55. On February 28th, FHN announced it agreed to be acquired by TD Bank for $25 per share in cash. Due to the fixed cash merger consideration, and our opinion that the premium was sufficiently high to deter other bidders, we exited our position post the news and redeployed the proceeds into another regional banking powerhouse trading at a compelling valuation with several near and medium term investment catalysts. Our view on regional U.S. banks remains positive, we see deposit heavy balance sheets benefitting from Fed Funds rate hikes, strong credit quality, accelerating loan growth and attractive valuations due to severe investor neglect towards the group in general.[11]

Mayville Engineering (MEC) was RAM Smid's largest percentage decliner in the quarter, falling 37.16% to close at $9.25 per share. Shares fell post its 4Q21 report, where, like most every peer company, sales and margins were impaired by supply chain shortages despite very strong end market demand. We believe investors are misplaying the supply shock impacted companies, and believe that for companies like MEC, where demand is strong and backlogs are rising, 2022 will be a strong year of recovered sales, margins and cash flow. Further, with 99% of its supply chain based in the USA, MEC is a prime candidate to benefit from the reshoring trend of customers moving portions of their far flung supply chains back to the U.S. We believe investor neglect around the Peleton (PTON) cancelled contract is misplaced, as its contractual protections for return of investment are strong. As PTON was to be a new customer, there is no erosion of existing sales or earnings from this cancellation. Last, MEC is keeping the expanded capacity, as it indicates it has strong demand from new customers for which it will need the manufacturing space.[12]

Ultra Clean Holdings Inc. (UCTT)

We had the opportunity to revisit and repurchase shares of Ultra Clean Holdings (UCTT) in the quarter, as the stock pulled back significantly from its 4Q21 high of $60.84 down to a mid-March low of $37.90, despite posting strong 4Q21 earnings and offering, in our view, a compelling investment view.

Based in Hayward California, Ultra Clean is a $1.8 billion market cap supplier of subsytems for the semiconductor capital equipment industry, with a focus on gas delivery systems as a well as parts cleaning and service.

The financial profile of UCTT is strong, with net debt of only $130 million as of year end ($422 million in cash, $552 in debt) equating to a very manageable level of .35x expected EBITDA and .54x expected 2022 free cash flow, by our estimates. UCTT acquired Ham-Let in April of 2021 for $284 million in cash, and has aggressively been paying down debt since, paying off roughly $25 million a quarter, or $75 million in FY2021. Price to book is roughly 2.25x, but more important is the stellar trailing 5-year book value growth compounding of 32.8%, and our view that the factors that drove this growth look as strong as ever for UCTT.

We see a compelling "Ability to Grow" profile for Ultra Clean. UCTT, like peers, has suffered from suppy chain shortages that have impacted its ability to fulfill strong customer demand, which have caused rippling production shutdowns in everything from computer servers to automobile production. UCTT's main customers, Applied Materials (AMAT) and Lam Research (LRCX) are estimating wafer starts (WFE) to be at least $100 billion, up approximately 25% from 2021 levels. We see industry growth poised to accelerate off this level, driven by the growth of rapidly growing technologies such as 5G, Artificial Intelligence and the Internet of Things. The production of both increased volumes of current generation chips, and accelerated investment into newer generations of chips should support accelerated spending on current foundries and new foundry construction.

Further, 'Reshoring' is another potential driver for increased sales for UCTT. On March 28th, the Senate passed its version of the America Competes Act, which will now go back to the House for conference.

This bill provides $52 billion in grants to promote new semiconductor production in the U.S. We see this bill as another potential positive to sustain long-term demand for UCTT.

Due to the late-quarter price sell-off, we were able to establish our new position at an average cost of $39.78 per share, significantly under its April 5, 2021 52-week high of $65.33, or about 5.57x current consensus forecasts for 2022 EBITDA. We think these forecasts can be exceeded, as UCTT offered very conservative guidance due to supply chain uncertainties. We see UCTT producing over $200 million in free cash flow in 2022, or over an 11% FCF yield on our purchase cost. We think this level of free cash flow is more than adequate to allow UCTT to continue to reduce its Ham-Let purchase debt, and fund continued growth initiatives. While, as with any investment, UCTT does carry both risks and rewards that could impact its investment performance, we have set our near-term AFV price target of $55, 38% over our purchase cost, and longer term we believe UCTT has the ability to exceed its previous 52-week high of $65.33.[13,14]

Looking Forward

We believe 2022 will mark a return of risk awareness for investors that has largely been absent since 2009, which was the beginning of the Fed induced quantitative easing cycle. That QE cycle has ended, and is now beginning to reverse. Upside return potential should matter as much to investors as downside risk management scenarios. Most importantly, our concentrated strategy does not "own the market" as we seek to own +/- 25 positions with unique investment cases, built off strong balance sheets, visible growth scenarios and significantly positive risk versus reward characteristics.

We thank you for your trust and support. As always, please do not hesitate to contact us for client service, to discuss our commentary or to simply opine on the market and stocks.

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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 separate customer trading accounts managed collectively (collectively the "Accounts") for the annual and cumulative periods from January 1, 2019 through March 31, 2022. 1Q22 performance unaudited. Please see full Marcum footnotes for RAM Smid composite 2019-2021 at [Microsoft Word - {A44BB912-3141-4B59-AE8E-3D695C6B8BD4} (reweyassetmanagement.com)](). Performance graphic not to scale.
2. The Russell 2500 Value, Russell 2500 Growth, the S&P 500 and Nasdaq Composite Index performance levels are sourced from Bloomberg. The Russell 2500 Value, Russell 2500 Growth, S&P 500 and Nasdaq Composite 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.

3. Federal Reserve release 3/16/2022. Federal Reserve Board - Federal Reserve issues FOMC statement. Federal Reserve press conference 3/16/2022 Federal Reserve Board - News & Events

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

5. U.S. Treasury yield information sourced from Bloomberg.

6. US Non-farm payroll information reported by the Bureau of Labor Statistics, sourced through Bloomberg.

7. Federal Reserve statistical summary The Fed - March 16, 2022: FOMC Projections materials, accessible version (federalreserve.gov).

8,10. All portfolio discussion is based off our model RAM Smid portfolio of separately managed accounts. 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.

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

11. First Horizon (FHN) quarterly performance information sourced from Bloomberg. Other FHN commentary sourced from company earnings releases, 10Q, 10K filings, company presentations, Bloomberg and Rewey Asset Management proprietary analysis.

12. Mayville Engineering (MEC) quarterly performance information sourced from Bloomberg. Other MEC commentary sourced from company earnings releases, 10Q, 10K filings, company presentations, Bloomberg and Rewey Asset Management proprietary analysis.

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

14 Senate Passes China Competition Bill to Start Talks With House (msn.com)