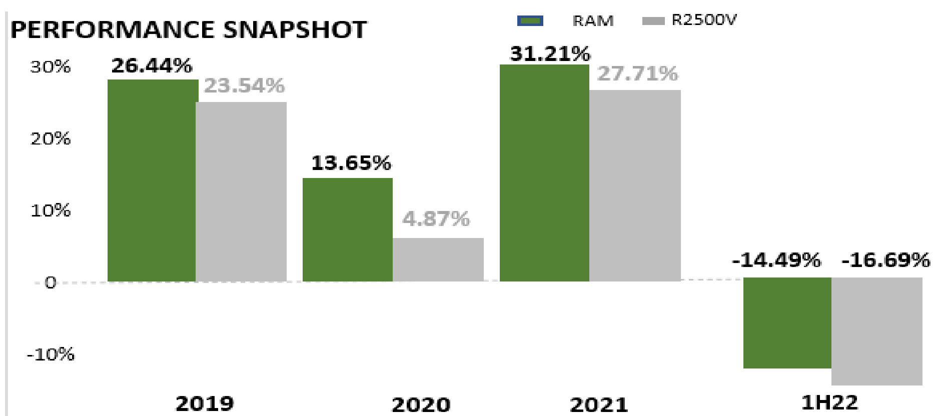
July 2022

It was a tough quarter for the market as investor concerns heightened over the impact of the Federal Reserve's rate hikes and the potential for an economic recession. Our RAM Smid cap strategy declined 14.49% in the quarter, which was slightly ahead of our benchmark the Russell 2500 value index, which fell 15.41%.[1] Despite the negative return in the quarter, the smid cap value sector continued to pace well ahead of the Russell 2500 Growth index, which fell 19.55% in 2Q22 as well as the broader markets, with the S&P 500 falling 16.11% and the Nasdaq Composite falling 22.77%. While we are mindful of the broader market concerns, we have anticipated higher fed rates and inflation for some time, and we think we have positioned our portfolio to take advantage of the current economic backdrop. We don't own 'the market'. While we believe the larger and growthier sectors still appear overvalued and vulnerable, we see compelling value in the 25 companies we own in our RAM Smid strategy.[2]



Source: Rewey Asset Management, Index returns sourced from Bloomberg 6/30/2022

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.

The Fed's Actions Dominated Market Sentiment

As we discussed in our last quarterly letter, and our "Every Meeting Is Live" blog, we believed the Fed would act aggressively to raise interest rates, as the fallacy of its "transitory inflation" narrative became evident. This past quarter, the Fed raised rates at an accelerating pace, 50 basis points on March 14th and another 75 basis points on June 14th. With inflation surging at an annual pace of 8.6% in May, we believe the Fed has little choice but to continue to raise rates aggressively, as well as trim back its inflated balance sheet. We are in general agreement with most market pundits that the Fed will continue to raise aggressively, likely 75 bps in July and at least another 50 beyond that before year end.[3,4]

We Think Inflation Will Moderate

Despite the Fed being in a reactive mode, we believe inflation is at or near its peak and will slow in the second half of this year, albeit not down to the Fed's hoped for 2% target level. We see two drivers of slowing inflation. First, we believe that a good portion of the current inflationary spike is driven by a significant reduction in manufacturing due to Covid related closures and scarce worker availability. However, this phenomenon seems to be abating, with manufacturing capacity utilization rising to a post Covid peak of 79% in May, and a drop in unemployment to 3.6%. In short, businesses are open and people are getting back to work.[5,6]

Second, normal supply and demand pressures appear to already be kicking in to alleviate commodity price spikes – as we have long witnessed, the cure for high commodity prices is high commodity prices. High prices spur incremental production, while also curbing marginal demand – both are factors to lower prices. The table below shows several commodities have already declined substantially from their peak levels.

US Dollars	12/31/2019	12/31/2021	Peak*	6/30/2022
Copper USD/lb	285.25	443.05	470.85 *3/7/2022	371.00
Steel, Hot Rolled Coil USD/Short Ton	580	1580	1960 *9/3/2021	980
Lumber USD/110K board ft.	405.3	1147.9	1711.2 *5/10/2021	637.2
Oil, West Texas Int. USD/bbl.	61.06	75.21	130.50 *3/7/2022	105.76
2-year US Treasury yield	1.57%	0.12%	3.43% *6/14/2022	2.95%

Source: Bloomberg. See footnote xx for exact data series referenced.[7]

While oil is down marginally from its peak, we believe the laws of supply and demand will lower prices through the year. Factors that we see contributing to lower prices include i) reduced consumer consumption due to high prices, ii) increased production, both domestically and from OPEC, and iii) re-routed Russian supplies to China, India and other nations that have not sanctioned or reduced their purchases of Russian oil. As these nations increase their Russian purchases, more OPEC oil becomes available for Western markets.

How Many Parts Does It Take to Build a Tow Truck?

From our conversations with companies, and from our own anecdotal experience, we believe industrial and consumer demand still remains at high, if not record levels for many products and services, despite weaker reported earnings results. For example, the US light vehicle annual selling rate fell to 12.68 million in May, and has been under 15 million since June of 2021, versus many analysts who estimate trend sales at 16-17 million units per year.[8] Auto producers have been hampered in meeting strong consumer demand due to shortages of key components, including the widespread scarcity of microchips. The CFO of one of our portfolio companies asked the rhetorical question, how many parts does it take to build a tow truck? Answer: All of them. From chassis to hydraulics, this company, like most companies we speak with, has been hampered delivering sales against its strong orders and backlog levels due to parts shortages. Thus, in our view, quantative investors are misinterpreting revenue and earnings weakness due to supply chain issues, and conversely we see strong demand and the need to rebuild depleted inventories as strong drivers of the economy into 2023.

Our Investment Outlook for 2022 is Unchanged

We believe continued economic strength, high levels of employment and slowing inflation are all supportive of our base case economic assumptions for 2022.

- 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).

Portfolio Highlights

We believe our RAM Smid portfolio is well positioned for continuing economic strength, rising rates and moderating inflation, and is also very attractive from a valuation perspective. Focusing on the balance sheet, ten holdings are trading under book value and eight additional holdings are trading at less than 1.75x book. It is also worth highlighting that six of our holdings have no sell-side coverage, and seven 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.[9,10]

At quarter-end, our RAM Smid cash level averaged 8.1%. While our cash levels will fluctuate as part of our investment process, we attempt to opportunistically take advantage of investor fears in the market. One of our key learnings over our 32-years is that regardless of our views, we know that investor perception in the short run can create reality. In addition to focusing on companies with strong balance sheets, low leverage, and the ability to raise prices to offset inflation, we have demanded a greater discount on new purchases, as we believe emotionally driven selling can lead to wider price discounts. 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. We added four new companies to the portfolio in the quarter, and sold out six positions.[11]

Photronics Corp. (PLAB) was RAM Smid's top percentage gainer in the quarter. Photronics shares rallied following strong first-quarter results that showed strong photomask demand in both high-end and mainstream categories. Moreover, management was incredibly upbeat on its outlook for 2022, indicating that the price increases in mainstream masks would likely continue throught 2022 and perhaps into 2023, unlike the past 'normal' cycle of annual price erosion from older generation masks. As shares rallied to approach our AFV price target, we sold the position.[12]

Cognyte Software (CGNT) was RAM Smid's largest percentage decliner in the quarter. We had bought an entry sized position in CGNT as we believed sales would accelerate over the near-term as the negative impacts of covid lockdowns diminished, and governments and corporations would spend more to enhance security of both internet traffic and live events. However, we were disappointed by the company's June earnings report with saw sales, earnings and cash flow fall dramatically. As management was unable, in our opinion, to adequately explain the shortfall, we exited the position.[13]

PVH Corp. (PVH)

During the quarter, we added PVH Corp. (PVH) to our strategy. PVH is a $3.8 billion market cap manufacturer and wholesale distributor of men's, women's and children's garmets. PVH owns two powerhouse global brands in Calvin Klein (CK) and Tommy Hilfiger (TH), and its wholesale distribution approach removes single brand retail store based risk. Further, PVH has been quick to adjust to direct to consumer distribution at over 40% of sales, with approximately 25% e-commerce sales.

Shares of PVH pulled back dramatically in the quarter to finish at a 52-week low of $56.90, down from its November 5, 2021 high of $125.42. 2022 is proving to be a year of tough revenue comparisons for PVH due to i) the exit of its heritage Phillps Van Heusen brands (about a 4% revenue headwind), ii) the war in the Ukraine (about 2% of revenues) and iii) negative foreign exchange headwinds due to the strong U.S. dollar (about 1%). Underlying these headwinds, we see strong core growth and strong consumer demand for PVH brands and have built the position to a top holding on weakness.

We believe PVH easily meets all of our RAM investment pillars. It has a strong balance sheet with cash over $748 million and a debt-to-ebitda leverage ratio of approximately 1.2x. At $56.90, PVH is trading at about 74% of its book value. With strong free cash flow forecast for 2022 and beyond, PVH announced it was accelerating its 2022 targeted share repurchases to $400 million, up from $100 million.

We see several areas of revenue and earnings growth potential for PVH. First, in the quarter, the new CEO Stephan Larsson, who has been with the company for just over 1-year, introduced the PVH+ revenue and profit improvement plan. PVH+ has targeted 2025 revenues of $12.5 billion, up about 37% from 2022 levels. PVH+ also targets operating margins of 15%, vs. about 10% in 2022. We believe these goals look attainable given they focus on PVH's two core brands (CK and TH) for revenue growth, while also targeting reduced lead times, supply chain improvements and internal restructuring initiatives to enhance margins.

For 2022, PVH reports continued consumer strength in all three of its global markets, the U.S., Europe and Asia. PVH has reported pricing gains of over 10% year-to-date, demonstrating its ability to overcome the negative impact of commodity and wage inflation. Additionally, a core part of its PVH+ strategy is to build consumer enthusiasm with niche brand collaborations, especially in e-commerce distribution. Another positive we think the market is over-looking is the likely return of foreign travelers to the U.S., a material driver of U.S./New York City sales, now that the U.S. has lifed Covid testing re-entry restrictions and the summer of "Covid-Revenge-Travel" seems to be underway.

While any investment carries risk, and investor fears have pressured the stock recently, we think the current valuation levels are compelling. Analyst average earnings per share (EPS) estimates for 2022 and 2023 are over $9.00 and $10.50, respectively, just over a 6x price/earnings (PE) ratio for 2022 and 5.4x for 2023, versus a long-term average of 10x-12x PE. Shares also look compellingly cheap on from a free cash flow (FCF) perspective, with over a 14.5% FCF yield on average 2022 analyst estimates. We see the earnings and cash flow estimates for 2022 as reasonable and believe the upwards trajectory for 2023 makes sense, given the impact of divested brands and the Ukraine invasion will not repeat in 2023. But, even if we are too aggressive, we think investor fears have already driven the shares to levels that price in a considerable consumer recession, removing much of this risk from our investment case. We have set our Assessed Fair Value (AFV) price target at $106, up just under 50% from current levels, but still under 2021 highs.[14]

Looking Forward

We continue to believe that 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 has now ended. Downside risk management should matter as much to investors as upside return potential. In 2022, we see a new cycle of investors learing the value of risk management and investing for return on capital, versus investing for thematic exposure.

While we do see a relatively bumpy second-half for the market, especially the growth and quantitative momentum sectors, we are tremendously enthusiastic about the opportunities we see in our portfolio. We don't own the market. We own 25 distinct companies with unique investment cases, built off strong balance sheets, visible growth scenarios and significantly positive risk versus reward characteristics. We have not built our valuation targets off unrealistically low interest rate levels, and we have focused on companies that can weather the storm and raise prices to over come inflationary headwinds.

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 June 30, 2022. 2022 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 interest rated commentary sourced from FOMC release statements.
4. U.S. CPI Urban Consumers year-over-year (Y/Y) reported by Bureau of Labor Statistics, sourced through Bloomberg.
5. Manufacturing Utilization sourced from U.S. Capacity Utilization from the Federal Reserve, sourced through Bloomberg.
6. US Non-farm payroll information reported by the Bureau of Labor Statistics, sourced through Bloomberg.
7. Copper prices soured from CMX Commodity Exchange, Copper price series, sourced through Bloomberg. Steel prices sourced from NA HRC (Hot Rolled Sheet) USD/Shrot Ton sourced via Bloomberg. Lumber prices sourced from CMX Random Lengths Lumber Futures 110,000 board feet, sourced through Bloomberg. Oil prices source from New York Mercantile Exchange, 1st month future CL1 Oil, sourced via Bloomberg. 2-year U.S. Treasury yield information sourced from Bloomberg.

8. U.S. Light Vehicle Seasonally Adjusted Annual Rate (SAAR) sourced via Bloomberg. Analyst trend commentary is RAM summary of sell-side analyst opinons sourced from Bloomberg and our 28-year history of U.S. Automotive research.
9,11. 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.
10. Covering active sell-side analyst data sourced from Bloomberg.
12. Photronics (PLAB) quarterly performance information sourced from Bloomberg. Other PLAB commentary sourced from company earnings releases, 10Q, 10K filings, company presentations, Bloomberg and Rewey Asset Management proprietary analysis.
13. Cognyte Software (CGNT) quarterly performance information sourced from Bloomberg. Other CGNT commentary sourced from company earnings releases, 10Q, 10K filings, company presentations, Bloomberg and Rewey Asset Management proprietary analysis.
14. All financial ratios, statistics, and projections discussed in the PVH Corp. (PVH) commentary are sourced from PVH 10-K and 10Q filings, company press releases, company public conference calls and webcasts, company slide presentations, PVH company webpage, RAM discussions with PVH management and Rewey Asset Management proprietary financial analysis and Rewey Asset Management industry due diligence. Historical share price information sourced from Bloomberg.