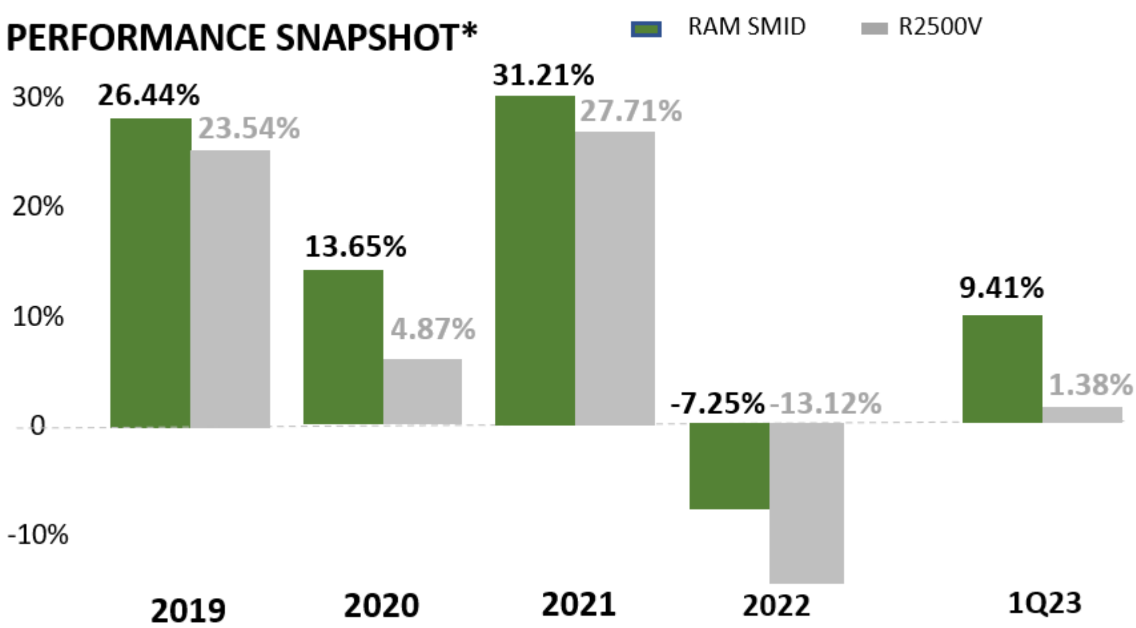
April 2023

The quarter started out strong for the major stock indices, however the collapse of Silicon Valley Bank roiled the market in March. Despite giving back some of the early quarter strength, most indices rallied towards quarter-end to finish in the green. The Russell 2500 Value index (R2500V) posted a modest gain of 1.38% for 1Q23, while the S&P500 gained 7.48%. We were pleased with the performance of our RAM Smid cap strategy, which gained 9.41% in 1Q23, 8.03% ahead of our R2500V benchmark, and 1.93% ahead of the S&P500 index.[1,2]



Source: Rewey Asset Management, Index returns sourced from Bloomberg 3/31/2023.

**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.*

Market Thoughts

We continue to believe that the economy remains healthy. Many of our companies are reporting strong sales growth and an improving supply chain. This improvement should allow them to grow revenues and deliver on large backlogs that accumulated during the Covid related supply chain disruptions. Also, price decreases in commodities (metal, fuel, etc.) as well as less 'whack-a-mole' procurement efforts are leading to margin improvements. The potential downside is that backlogs could fall as sales ramp up, which could send confusing signals on improved confidence in carrying less safety inventories, versus end market weakness.

Banks Dominated the News in March

The collapse of Silicon Valley Bank in March decimated investor confidence in regional banks and financials in general, and the banking group was the worst performing sector in 1Q23[3]. There has been much written about the problems at Silicon Valley, so we will not reiterate in detail, but our quick summary is that Silicon Valley was a very non-traditional bank and in many ways was more like a venture capital incubator. In our view, the unique profile of the bank and the specific failures on duration management should not be used as an analog for the entire regional banking system. While the quick rise in interest rates over the past year has impacted the trading market value of longer dated bonds, we believe most banks have been disciplined in their asset vs. liability matching. Also, while credit problems at banks are always a risk, we believe that most banks manage this risk well, from a underwriting perspective and a diversitiy of loans perspective. While many market pundits are focusing on possible credit risks at banks, credit at banks remains remarkably healthy. Of course, if the economy were to enter a significant recession, credit performance would weaken, but this is not a new risk. As we discuss above, both the industrial base of the country and the consumer in general, remain very healthy. That said, we are continually monitoring duration risk and credit risk, along with many other risk factors that we consistently review, such as geopolitical, raw material and energy, geographic, pandemic and other risks.

Interestingly, the significant decline in the yield curve since 12/31/22 is a positive for any bank that might wish to sell securities. The yield on the 10-year U.S. Treasury at 12/31/22 was 3.87% and 3/31/23 was 3.47%, a decline of 40 bps, touching a low of 3.38% on March 24th. The 2-year yield at 12/31/22 was 4.42%, while on 3/31/23 it was 4.04%, a decline of 38 bps, touching an low of 3.77% on March 24th. This rate decline likely means that banks that have to sell securities (or that choose to sell) can most likely sell at prices higher than year-end levels.[4]

The Fed: A Pause is Likely

It seems to us that the Fed raised rates on March 22nd to show that a pause was not needed because banks in general are healthy enough to live through a raise. In our view, if the Fed had paused, it could have stoked more panic. We now believe the Fed is done raising for this cycle, as reported inflation data has begun to cool, with year/year core PCE on average edging lower month over month, down to 4.6% in February 2023 vs. the September 2022 reading of 5.2%. The 500 basis points increase in Fed Funds, from zero, over the last year should still prove to be a tightening factor for the next 12+ months, which should pressure inflation lower. That said, we are not in the camp that thinks there will be a Fed Fund rate cut in 2023. In our opinion, the economy is still strong. For example, the JOLTS data (job openings) are still 10.8 million for January, while the last recession saw levels of 2.23 million in July 2009, and inflation is still over the long-term Fed target of 2%.[5,6,7]

Debt Ceiling Drama?

The next market worry will likely be the debt ceiling talks. It is our belief that the talks will be resolved in the end with an old-fashioned 'kick-the-can-down-the-road' solution for a moderate raise for 1-2 years, leaving the battle for after next election. That said, we do expect brinkmanship and the accompanying media talking points to dominate the process up until the deadline for the decision.

However, we believe the $31.46 Trillion Federal debt (3/31/23) is concerning. It is not only the size of the obligation, but the potential for interest payments to choke government spending. An extra 1% in the weighted average interest rate on the debt represents a whopping $314.6 billion, or about 5% of the $6.27 trillion the U.S. Government spent in 2022.[8,9]

There are 3 likely ways we will see policy makers try to address this debt in the next few years: 1) Grow GDP which will raise tax revenues, vs. tax rates. 2) Raise tax rates – which could have a tightening effect and slow the economy. 3) Allow moderate inflation - to effectively erode the value of low rate fixed coupon debt. Growth, of course, is the best solution, something to keep in mind as the Fed "walks the line" to tamper inflation by slowing the economy. Thus, we think it is imperative that both parties find a way to make meaningful progress to reduce spending deficits.

Portfolio Highlights

We have built our RAM Smid portfolio based on our 3-pronged investment philosophy of 1) Financial Strength, 2) The Ability to Grow and 3) Discounted Valuations.

Financial Strength, in our view, starts with a strong balance sheet. We only own one company with a Net Debt/EBITDA ratio over 3x, while nine companies have Net Debt/EBITDA under 1x and six additional companies have net cash. We have been of the opinion that interest rates would rise dramatically (to levels where they are now), so we have attempted to limit exposure to rising interest expense and to avoid companies needing to raise capital. Six holdings are trading at or under 1x book value and eight additional holdings are trading at less than 1.5x book.[10]

The Ability To Grow: We believe all of the portfolio companies have good investment opportunities and a positive outlook for growth, a needed point to avoid value traps.

Discounted Valuations: We continue to see upside to our AFV (Assessed Fair Value) price targets for all our holdings.

It is also worth highlighting that two 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. At quarter-end, our RAM Smid cash level averaged slightly over 8.0%. We added six new companies to the portfolio in the quarter, and sold out five positions.[11,12]

inTEST Corp. (INTT) was RAM Smid's top percentage gainer in the quarter, up 101.36%. In our view investors embraced INTT's induction heating business, which has become a critical supplier to the rapidly growing silicon carbide wafer industry. While we see good long-term opportunities for this segment, we exited the position on strength as we believe investor expectations have run too hot in the near-term.[13]

Columbia Banking System Inc. (COLB) was RAM Smid's largest percentage detractor in the quarter, falling just over 28.25%. Shares sagged in correlation to the regional banking sector in general. Also, while we were pleased that COLB completed its merger with Umpqua Holdings Corp. (UMPQ) on March 2nd (a key driver of our investment case), we believe COLB shares suffered additionally volatility as new investors digested the merger and new share positions. We remain highly enthusiastic about new company, and believe investors have overlooked, or forgotten, the benefits the meger should bring along the lines of earnings accretion from cost synergies and growth opportunities. The new combined bank has emerged as a western U.S. powerhouse with approximately $52 billion in assets, and a balanced deposit base of approximately 52% consumer and 48% commercial. Anecdotally, at the March 8th Raymond James bank conference, COLB noted that not only were they not seeing increased credit stresses across their loan base, but also that they were on track to meet their March systems conversion date for UMPQ. Meeting this conversion date highlights the quality of the management team, and sets up the bank to aggressively move forward on its cost savings initiatives. [14]

We own 4 banks in our RAM Smid strategy. After reviewing the fresh data from the 2022 10-Ks, all published in 1Q23, we feel these banks all have prudently managed their asset and liability duration matching activities. One of these banks has no held-to-maturity securities (HTM), meaning no unrecognized losses, while the other three have cash and available-for-sale security portfolios that are significantly larger than their HTM portfolios in an absolute sense, supporting a balanced view of a conservatively constructed asset vs. liability risk framework. Further, these HTM portfolios are primarily treasuries and GSE's, which have the implicit backing of the U.S. government, and thus should mature at par. Also, the deposit bases of these banks (as well as most other regionals) are well diversified with the significant majority of retail deposits well under the $250K FDIC insurance limit and commercial franchises that have existing business transactional relationships (i.e. payroll, etc), meaning deposits are not there primarily for interest rates.[15]

Vishay Precision Group (VPG)

During the quarter, we continued to build our position in Vishay Precision Group (VPG), a $555 milion market cap manufacturer of precision sensors mainly focused on weighing and testing. VPG is a niche player in the global sensor market, focusing on product performance traits of accuracy, reliability and repeatability for non-discretionary and critical downsteam processes. Spun out from Vishay Intertechnology Inc. in 2010, we believe that Vishay has been neglected by the sell-side investment community. Only one analyst actively follows the company, and investors likely have overlooked its exciting progress in recent years to increase sales into new markets and to improve profitability. We see near-term 25% upside to VPG's current Assessed Fair Value (AFV) price, with considerable longer-term upside if it is successful in meeting its targeted revenue and earnings goals.

Vishay Precisoin Group solidly meets our first investment hurdle of a strong financial profile. VPG's cash position exceeds its debt load by $27.7 million at year-end 2022, and it should continue to produce significant positive free cash flow to fund internal investment, M&A and its new share repurchase program. VPG has delivered compounded equity growth of a 9.6% CAGR over the last 5-years, a trend we see continuing. As VPG has completed 2 expansions last year in Israel and Japan, providing over 30% in extra manufacturing capacity, the company has forecast declining capital investment levels for 2023, which should further enhance free cash flow.

VPG also offers, in our view, a balanced path to revenue and profit growth looking forward. Operationally, VPG proved its ability to combant inflationary pressures in 2022, by netting price increases of over 8%, and significantly improving its operating margins year-over-year. VPG has further set aggressive margin improvement goals, driven by growth and efficiency improvements, with 3 to 5-year operating margin targets of 18% versus an adjusted result of 13% in 2022.

VPG has also targeted low-double digit revenue growth over the same period, half internally driven and half from prospective M&A. We see VPG's internal revenue growth targets as very achievable, based on market growth and the benefit of its strategy pivot in 2021 to focus on new products and internal growth. The company sees its new R&D and manufacturing center for advanced sensors, completed in 2022, as a significant driver of not only new products, but increased efficiency and lower costs. Indeed, on its 4Q22 call, VPG management spoke of new design wins with OEM supplier companies driven from this new R&D focus. Management has indicated that over one-half of the revenue growth goal will likely come from M&A. Given VPG's significant cash balance and its focus on profitable businesses, we think VPG will be able to continue its bolt-on M&A strategy successfully.

Our average purchase cost for VPG shares is approximately $39.76, down from its 52 week-high of $45.69 on March 1st. We think shares pulled back due to investor concerns around a weaker 4Q22 book-to-bill ratio. In our view, we believe these fears are overblown due to tough comparisons to 3Q22 when VPG posted large contract wins, and even less meaningful when considering VPG's long-term growth opportunities into new areas like EV battery testing, precision agriculture, medical and transportation segments. Our AFV price target of $51 represents our view of where VPG could trade this year, up about 25% from quarter end levels. This price target is built off conservative revenue and margin estimates for 2023. If VPG attains all, or most, of its 3-5 year revenue and margin improvement goals, we think the longer term price target could be significantly higher.

While we are enthusiastic about VPG, we do note that due to the controlling interest the Zandman family has in the company through ownernship of the majority of the Class B shares, we would not expect a hostile takeover of the company. However, as Dr. Zandman has passed away and his widow now effectively controls the equity, we would not be surprised to see a friendly transaction at some point. [16]

Looking Forward

Expect the unexpected. Our philosophy is built first from buying companies where we see financial strength. Unexpected shocks will likely to continue to pop up where no one expected, and the key, in our view, to managing these risks are to own companies that have sufficient capital to continue to fund operations and not be forced to go to the capital markets in times of systematic stress.

More importantly, we don't own the market. RAM SMid owns 27 companies with well defined investment cases, built off strong balance sheets, visible growth scenarios and what we believe are significantly positive risk versus reward valuation characteristics. We have selected companies with low and manageable debt levels and where we see pricing power to overcome inflationionary headwinds. And of course, we believe that there should always interesting investment opportunities, given the vast universe of potential investment options.[17]

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.

-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 separate customer trading accounts managed collectively (collectively the "Accounts") for the annual and cumulative periods from January 1, 2019 through March 31st, 2023. 2022-1Q23 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 and the S&P 500 Index performance levels are sourced from Bloomberg. The Russell 2500 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.
3. S&P Sub-sector banking performance for 1Q23 sourced from Fidelity Investments: [Sectors & Industries - Performance - Fidelity]
4. U.S. 10-year and 2-year treasury yiled information sourced from Bloomberg.
5. Federal Reserve March 2023 statement: Federal Reserve Board - Federal Reserve issues FOMC statement
6. PCE: February U.S. Personal Consumption Expenditure Core Price Index YOY, from the Bureau of Economic Analysis.
7. JOLTS: January U.S. Job Openings by Industry Total Seasonally Adjusted, from the Bureau of Labor Statistics.
8. March 31st Federal Debt Level: [Debt to the Penny | U.S. Treasury Fiscal Data]
9. 2022 Federal Spending: [Federal Spending | U.S. Treasury Fiscal Data]
10,12,15,17 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. Portfolio statistics discussed are from March 31st, 2023. These statistics will likely change over time. Debt/EBITDA ratio comments exclude financial companies due to non-comparibility.
11. Covering active sell-side analyst data sourced from Bloomberg.
13. inTEST Corp. (INTT) quarterly performance information sourced from Bloomberg. Other INTT commentary sourced from company earnings releases, 10Q, 10K filings, company presentations, RAM discussions with management, Bloomberg and Rewey Asset Management proprietary analysis.
14. Columbia Banking System Inc. (COLB) quarterly performance information sourced from Bloomberg. Other COLB commentary sourced from company earnings releases, 10Q, 10K filings, company presentations, RAM discussions with management, Bloomberg and Rewey Asset Management proprietary analysis.
16. All financial ratios, statistics, and projections discussed in the Vishay Precision Group (VPG) commentary are sourced from VPG 10-K, Proxy, 10Q filings, company press releases, company public conference calls and webcasts, company slide presentations, Bloomberg, VPG company webpage, RAM discussions with VPG management and Rewey Asset Management proprietary financial analysis and Rewey Asset Management industry due diligence. Historical share price information sourced from Bloomberg.

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