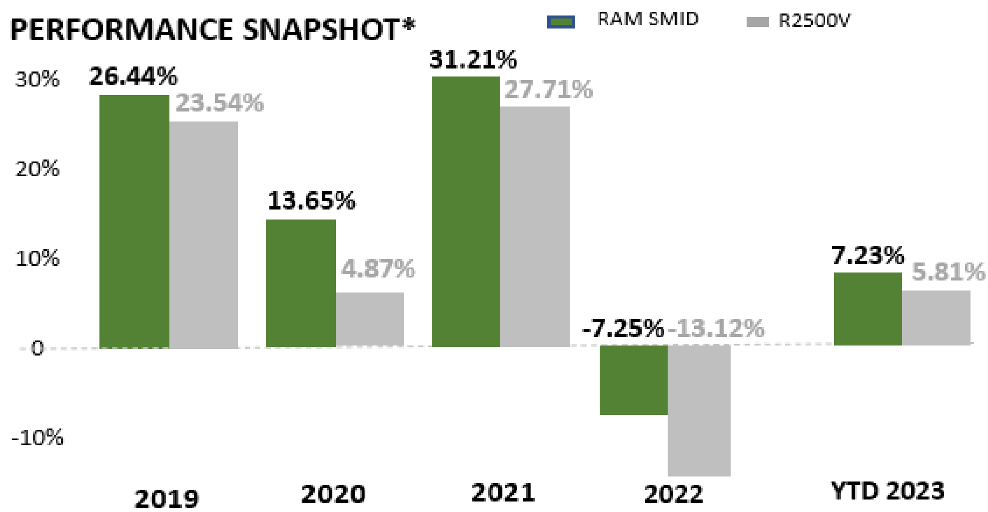
July 2023

The quarter started on a weak note for the Russell 2500 Value Index (R2500V), falling 4.15% in April and May, before turning around and rallying a strong 8.89% in June to finish up 4.36%. While our RAM composite did not keep pace with the R2500V for the quarter, returning -2.00%, we are pleased with our year-to-date out-performance versus the R2500V, with a return of 7.23% vs. 5.81%.[1,2]



Source: Rewey Asset Management, Index returns sourced from Bloomberg 6/30/2023.

**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.*

A Pause That Refreshed

On June 14th, the Federal Reserve did nothing, and the market loved it. Specifically, the Fed chose to hold its Fed Funds rate steady, breaking the blistering string of increases that raised rates 500 basis points since March 2022. This pause was received positively by investors, as it supported the thesis that the cumulative increase in rates cycle to-date will likely prove to be enough to break the growth of inflation. Indeed, the PCE inflation report from June 30th supports this view, as the PCE was only up 0.1% in May (3.8% Y/Y) slowing dramatically from April's 0.4% (4.3% Y/Y). Core PCE, a more favored metric of the Fed, also fell as well, at 0.3% for May vs 0.4% for April (4.6% YTD vs 4.7% YTD April), continuing a steady decline since Sept. 2022's 5.2% peak.[3,4]

Fearing a Recession?

We have not held the "impending recession" view that most economists have been predicting for 2023, and the economic data continue to support our view. On June 29th, 1Q GDP was revised up to 2.0%

from the prior reading of 1.3%, and Conference Board's consumer confidence index rose to 109.7, the highest level since January 2022. The labor market remains healthy as well, with May non-farm payrolls up 339K, and a reacceleration in job-openings (JOLTS) to 10.1 million in April.[5,6,7]

We believe the Fed when it says rates will be higher for longer, and do not believe the Fed will cut rates in 2H23. In our view, the 500 basis point increase in Fed funds is still working its way through the economy, and the Fed was correct in its decision to pause. We feel the Fed made a large mistake in keeping rates too low for too long as it held on to its transitory inflation theme, and thus in our view, the Fed is judicious now in pausing to determine the true impact of its cumulative hikes.

Return of a Stock Picker's Market?

With the stabilization of interest rates, we see a lessening impact of macro trades based off interest rate policies, and an increasing impact of individual stock selection as contributors to future returns, i.e. stockpicking. In our view, sectors like housing and industries that rely on financing for purchases will likely face increasing headwinds, due to a higher interest burden in monthly payments. Also, we think the 'growth' driven sectors of the market will face increasing headwinds in valuation, as higher discount rates used in discounted cash flow models could mathematically drag down price targets.

We see our portfolio as well positioned to capitalize on the theme of continued moderate economic activity, particularly in sectors that were hit hard by supply chain shortages and companies that are beneficiaries of the 'reshoring' of the country's manufacturing base. We have added a few holdings in the healthcare sector, which we see growing from a post-Covid return of activity, and in the Aerospace and Defense sector, where we see increasing activity on both the commercial and defense sides.

Cr-AI-zed?

Aside from the Fed Funds, the other major story of 2Q23 was the rush of investors to buy any companies involved in the Artificial Intelligence cr-AI-ze. The launch of public ChatGPT brought renewed attention on the potential applications for artificial intelligence. Similar to the year 2000 ".com" boom, investors rushed to purchase companies that could capture AI revenues. While we have long believed that AI will positively impact company productivity (i.e. bank trading reconciliation, call center help line automation, medical pathology diagnostics, etc.), we believe the current boom in valuations has likely ramped too far too fast. We believe valuation always matters, and see stock price vulnerability for many companies that ran up with the cr-AI-ze.

The Magnificent (and Risky) Seven?

The impact of the rush to all things AI was mostly seen in the S&P 500. While the S&P 500 index ETF (SPY) returned 8.72% for 2Q23 and 16.84% YTD, it is notable that the S&P 493, defined here as the S&P

500 (SPY ETF) without the 7-largest weighted positions that are all technology related companies (AAPL, MSFT, AMZN, NVDA, GOOG/L, TSLA, META) returned a much lower 4.13% in the quarter and 5.75% for year-to-date. These top 7 positions in the S&P 500 represented 27.58% of the index at quarter-end. As shown in the table below, the Russell 2500 Value and the RAM Smid composite both outperformed the S&P 500 less the impact of these 7 top weighted positions YTD.[8,9]

Index/Portfolio	YTD Return %	P/E Ratio	Price/Book	Market Capitalization ($ Trillion)
S&P 500 (SPY)	16.84	22.0	4.3	41,154.1
S&P 493 (SPY-7)	5.75	18.7	3.4	28,567.9
R2500 Value	5.81	15.2	1.7	4,983.4
RAM Smid	7.23	13.2	1.7	N/A

Source: Bloomberg, RAM proprietary analysis.

How Risky is Your Index?

The concentrated return profile of the S&P 500 is a reminder that although many investors think of an index ETF as a low-risk way to invest in the markets, we believe ETFs do not really represent 'the market' and that ETFs can actually increase one's risk profile. As an index is a passive group of securities by definition, there are no risk control mechanisms to reduce sector concentrations or other exposures that may not be in the best interest of investors. Any moderation in the growth of these top 7 technology stocks, either from a valuation reset like we saw at the end of the .com bubble, or from the impact of higher interest rates in DCF valuation calculations, would likely drag down the index performance similar to the way it was propped up YTD.

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.

We only own one company with a Net Debt/EBITDA ratio over 3.5x, while six 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, so we have attempted to limit exposure to rising interest expense and to avoid companies needing to raise capital. Five holdings are trading at or under 1x book value and eight additional holdings are trading at less than 1.5x book.[10]

It is also worth highlighting that three of our holdings have no sell-side coverage, and thirteen 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 6.5%. We added six new companies to the portfolio in the quarter, and sold out four positions.[11,12]

Limbach Holdings (LMB) was our top percentage gainer in the quarter, up 43.15%. LMB's core market of HVAC system design and installation continues to show robust growth, driven by data centers, hospitals and general manufacturing facilities. LMB's strategy to switch to direct contracting with customers (ODR) is also driving significant margin and free cash flow growth for the company. We continue to see strong upside for this relatively unknown company, driven by operational strength and a valuation that is significantly under larger peer companies.[13]

Richardson Electric (RELL) was our largest percentage decliner in the quarter, falling 25.74%. We believe short-term focused investors grew nervous about forecasted weaker FY4Q23 (May) and FY1Q24 (Aug) revenues from RELL's semiconduction capital equipment customers. We see this decline as normal cycle activity for the group, and believe this fear is over discounted as RELL's customers are already seeing a pickup in activity from the continued impact of chip shortages, reshoring chip production and AI chip shortages. Moreover, we believe investors have not fully embraced the enormous revenue and earnings growth opportunity likely for RELL as its ultracapacitors capture new markets in wind turbines, electric locomotives and cellular base stations. RELL's offerings provide better energy management, including for high energy lithium battery solutions, longer life cycles and lower maintenance costs vs. current solutions. We think investors could embrace not only the significant revenue growth opportunity in front of RELL, but also gravitate to its favorable ESG profile given its significant exposure to green energy solutions.[14]

Premier Inc. (PINC)

During the quarter, we continued to build our position in Premier Incorporated (PINC), the largest public healthcare GPO (Group Purchasing Organization) at a $3.3 billion market cap. Through its supply chain services segment, Premier provides healthcare group purchasing programs for healthcare sites, as well as supply chain co-management and direct sourcing services. Its Performance Services segment provides informatics and consulting services to healthcare providers. We believe Premier suffers from tremendous investor neglect, due to the lingering impact of Covid inventories and hospital utilization, as investors are not focusing on the potential benefits of PINC's IT offerings, the acceleration health care system utilization reported in 2Q-to-date and the catalyst driven upside offered by PINC's ongoing strategic review.

Premier solidly meets our first investment hurdle of a strong financial profile. As of its FY3Q23 (March), PINC had only $370 million in net debt, versus a projected EBITDA level of $500 million (.74x D/EBITDA) and roughly $250 million in expected Free Cash Flow (1.48x D/FCF). Additionally, PINC has investments in several unconsolidated affiliate companies that totaled $230 million at 3/31, or roughly $1.92 per share. Importantly, these estimates do not reflect the June 14th announcement that PINC will divest its non-healthcare GPO operations (food, etc.) for $800 million in cash. This transaction, valued at roughly 16x EBITDA, will place PINC in a net cash position, with the company considering share repurchases and other alternatives. PINC's balance sheet and cash flows easily support its roughly 3% dividend yield. Premier has also grown its book value at an impressive 10.8% CAGR over the trailing 5-year period ended 3/31/23.

In our view, PINC has a compelling growth profile. First, the short-term impact of the inventory overhang of commodity goods should normalize in the next few months. PINC moved to self manufacture commodity supplies like masks and gowns that were in short supply during the pandemic. This over-supply of goods is now being worked off and is a headwind for PINCs revenues in FY23, but should diminish into FY24. We believe the short-term myopia of quarterly-result driven investors has driven PINC's price down over 21% this year, and provided a compelling opportunity to purchase shares at $27.66 at quarter-end.

Improving health care system utilization should be a strong sales driver for PINC as patients return to hospitals and clinics for discretionary procedures, including catching up on procedures deferred during the pandemic. The June earnings reports for both UnitedHealth Group Inc. (UNH) and Patterson Companies (PDCO) specifically mention a pick up in hospital and dental utilization by consumers. Better healthcare system utilization should lead to increased GPO sales and fees for PINC. Additionally, we believe the long-term trends of an aging population, increased procedure volume, better health care insurance coverage and a demanded higher-quality-of-life by people in general, are all strong long-term drivers for PINC.

Premier has also developed a wide range of value added software and IT offerings that it is cross-selling to its members. These offerings include analytics, clinical decision support, Contigo Health (enables health systems to go direct to employers), Remitra (enables e-invoicing, e-payables management) and the data driven life sciences offering that works with pharmaceutical companies to recommend appropriate utilization of drugs by physicians. These offerings are targeted to be higher margin and high-recurring revenue services than Premier's existing revenue profile.

Premier announced a strategic review May 8th to consider all strategic alternatives, including a sale. The underwhelming response to this news by the market, PINC closed at $26.42 pre-announcement vs. the June 30th close of $27.66, has provided a call option on value creation at PINC, with seemingly low expectations built into the price due to the announcement. Our investment philosophy will only consider resource conversion events, i.e. "catalysts", if the three pillars of our philosophy are met first (1- Financial Strength, 2-Ability to grow, 3-Discounted Valuation). We believe PINC solidly meets all three of our criteria, and the strategic review does represent a significant potential positive catalyst for the shares. While there are no guarantees this review will be completed with a positive view by investors, we believe the June 15th announcement (only 5-weeks after announcing the strategic review) of the highly value creative non-GPO divestment for $800 million is a strong signal that PINC intends to deliver, with options ranging from more divestitures, potential acquisitions, a large buyback and/or an outright sale of the company.

We have established our AFV (adjusted fair value) price target for PINC of $41 per share. The upside to this target of 49%, plus the 3% dividend yield, provides, in our view, for a compelling investment at the quarter-end price of $27.66. This price target (which is coincidently close to its year-end 2021 level of $41.23) is built upon on-going business metrics such as EBITDA, EPS and Free Cash flow, and does not incorporate any catalyst driven upside from the strategic review. If PINC delivers on a robust buyback and/or a sale of the company, the price could easily exceed our AFV target.[15]

Looking Forward

Expect the unexpected and take the long-term view. 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. Our RAM SMid composite holds companies with well defined investment cases with what we see as visible growth scenarios and 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 inflationary headwinds. And of course, we believe that there should always be interesting investment opportunities, given the vast universe of potential investment options, many of which exist outside of sell-side coverage or stock market ETFs.

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. 2022-2Q23 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.

2,8. 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. Federal Reserve June 2023 Statement: Federal Reserve Board - Federal Reserve issues FOMC statement
4. PCE: PCE and Core PCE inflation statistics sourced from the Bureau of Economic Analysis and Bloomberg.
5. GDP Information sourced from Bureau of Econonic Analysis and Bloomberg.
6. Conference Board consumer confidence information sourced from Conference Board and Bloomberg.
7. Jolts Information sourced from Bureau of Labor and Statistics and Bloomberg.
9. SPY (S&P 500 ETF) Information sourced from Bloomberg. "SPY 493" is not an index, but a term defined in this letter to represent the SPY ETF without the impact its top 7 holdings. This data is not guaranteed and is sourced through Bloomberg and Rewey Asset management proprietary analysis.
10,11. 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. Portfolio statistics discussed are from June 30th, 2023. These statistics will likely change over time. Debt/EBITDA ratio comments exclude financial companies due to non-comparibility.
12. Covering active sell-side analyst data sourced from Bloomberg.
13. Limbach Holdings, Inc. (LMB) quarterly performance information sourced from Bloomberg. Other LMB commentary sourced from company earnings releases, 10Q, 10K filings, company presentations, RAM discussions with management, Bloomberg and Rewey Asset Management proprietary analysis.
14. Richardson Electronics, Ltd. (RELL) quarterly performance information sourced from Bloomberg. Other RELL commentary sourced from company earnings releases, 10Q, 10K filings, company presentations, RAM discussions with management, Bloomberg and Rewey Asset Management proprietary analysis.
15. All financial ratios, statistics, and projections discussed in the Premier Inc. commentary are sourced from PINC 10-K, Proxy, 10Q filings, company press releases, company public conference calls and webcasts, company slide presentations, Bloomberg, PINC company webpage, RAM discussions with PINC 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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