



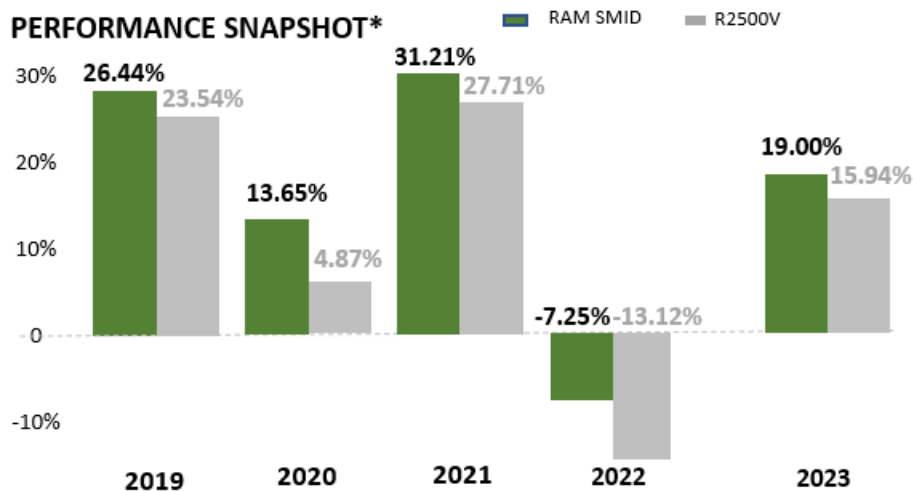
January 2024

I want to open this letter by wishing you and your family a Happy New Year!

2023 marked the 5-year anniversary for the RAM Smid composite. We are pleased to share that we outperformed the Russell 2500 Value benchmark every year for the past five years and we are even more excited for the future.

The market indices roared higher in 4Q23, and posted strong double digit returns for 2023. The 4Q23 rally showed broad strength, with the S&P 500 index gaining 11.68%, the Russell 2500 Value index gaining 13.75% and the Russell 2000 Value index gaining 15.25%.

Our RAM Smid composite gained 14.50% in 4Q23 and finished 2023 with a 19.00% gain, vs. up nicely vs. our Russell 2500 Value index benchmark which rose 13.75% in 4Q23 and 15.94% in 2023.^{1,2}



Source: Rewey Asset Management, Index returns sourced from Bloomberg 12/29/2023.

**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.*

Has the Fed Stuck a Soft-Landing?

Economic data strengthened considerably throughout 4Q23. Core PCE cooled dramatically in 4Q23, with a November print of just 0.1% month/month. GDP remained strong, finishing 3Q at 4.9% q/q and the unemployment rate fell in November month/month to 3.7% vs. 3.9%.

This economic data challenged the market consensus expectation at the end of 3Q23 that the U.S. was likely headed for an early 2024 recession. The mood change was evident in the cadence of market



returns, as the fourth quarter started on a negative note, actually falling through October 27, before reversing sharply higher into early December.^{3,4,5}

Value Takes the Lead

In our 3Q23 letter, we wrote that we believed the Fed was done hiking rates this cycle, despite most market pundits predicting one or even two more hikes into early 2024. On December 13th, Fed Chair Powell sent a strong message in the Fed press conference that with inflation cooling, the Fed was now able to consider cutting rates in early 2024. These comments spiked what was already a strong market performance, and the indices raced higher in the last two weeks of the year.

Notably, smaller caps and value took the lead in this rally, as investors, in our view, had become too negative and too complacent on the sector. The Russell 2500 Value rose 6.81% from December 12th through year-end, trouncing the S&P 500 which returned 2.78% during this period.⁶

More to Come?

After the 4Q23 rally, many investors are wondering how much further smid cap value can run. We think there is room for continued appreciation for two reasons.

- Despite the strong quarterly performance, the R2500 Value index still lags the S&P year to date, up 15.94% versus the S&P 500 up 26.26%. The S&P500 returns in 2023 were highly concentrated in the top-7 positions, with the S&P 500 return without these 7 names only up 13.73% for 2023, 2.21% under the Russell 2500 Value. We think many investors are over concentrated in the S&P 500 index, and will look to broaden their holdings throughout 2024.⁷
- If investors sell just 1% of the S&P 500 Index, represented by the SPY ETF, and rotate it into the small or mid value space, this would represent buying 8% of the Russell 2500 value index and 23% of the Russell 2000 value index.^{8,9}

| <u>Index (12/29/23)</u> | <u>Market Cap \$Bil.</u> | <u>1% of S&P 500</u> |
|-----------------------------------|--------------------------|--------------------------|
| Russell 2000 Value Index (RUJ) | 1,971 | 23% |
| Russell 2500 Value Index (R2500V) | 5,336 | 8% |
| SP500 (SPY ETF) | 44,440 | 1% |

*Source: Bloomberg

We see 4Q23 as more of a long-term trend beginning than a short-term end. Those who would like to wait for a pullback risk compounding their market timing costs.



The Risks of Timing and Short-termism Amplified Again

Investors who were caught underinvested after Powell's comments faced the emotional decision of chasing the market up or hoping for a market dip to invest. Trying to adjust your portfolio to market moving news in a short-term emotional rush, in our view, is a strategy that is destined to underperform a well thought out long-term strategy, where time is your ally. We see this sharp move as another example of:

- The risks of market timing for individual investors
- The downside of having a short-term investment mindset, which introduces the aspect of time as an investment risk.

Those who pursue short-term and/or timing strategies inherently make time an adversary in their investing decisions.

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.

Even if short rates are cut in 2024, we believe long term rates will continue to creep up over time. As such, we are focusing on companies with low leverage and strong free cash flow. Five of our composite holdings have net cash on the balance sheet and ten others have net debt to EBITDA under 1.5x. Thirteen holdings are trading at less than 1.5x book. At quarter-end, our RAM Smid cash level averaged 4.8%. We added six new companies to the portfolio in the quarter and sold out six positions.¹⁰

Cadence Bank (CADE) was our strongest performer in the quarter, gaining 40.50%. For the year, CADE gained 25.38%, a stellar performance vs. the regional bank group. Not only is CADE successfully realizing the synergies of its 2021 merger with BancorpSouth, but during the quarter it sold its insurance division for \$904 million which bolstered its already strong capital position and allowed it to announce a 10 million share buyback for 2024.¹¹

Belden Inc. (BDC) was our weakest performer in the quarter, falling 15.09%. BDC was punished after announcing a weak 3Q23 earnings report. BDC is facing the industry wide headwinds of slower end customer demand and related inventory overhang. We believe BDC continues to have a strong leadership position in the connectivity and networking space and the long-term drivers of this industry remain robust. With its strong balance sheet and cash flow profile, we believe BDC will weather this cyclical storm and recover towards or price target over time.¹²



ARIS Water Solutions Inc. (ARIS)

We purchased shares of ARIS Water Solutions, a \$484 million market cap provider of water disposal and recycling solutions to oil and gas producers in the Permian Basin. Shares of ARIS ended the quarter at \$8.39, a whopping 33% below its October 2021 IPO price of \$13. We think ARIS is misunderstood by the market, as its revenues correlate with produced oil volumes, not prices. ARIS fills the critical need to treat and dispose of water that is produced in oil production, up to a 5:1 ratio in the Permian. ARIS is also increasing the amount of produced water that can be re-used in drilling, avoiding the need to tap fragile aquifers in the arid region. Our conservative price target is set at \$12, which represents a potential 43% return, plus its attractive 4.3% dividend yield.

ARIS has a strong financial profile, supported by its long-term contracts with customers. ARIS's network of pipelines and recycling plants represents a barrier to entry to competitors, who would find it economically challenging to create a competing network. Although it continues to build out its gathering and treatment assets, we believe ARIS will continue to reduce its net debt level of 2.3x EBITDA, through improving free cash flow. Additionally, ARIS has \$24 million in cash on its balance sheet, and in October it extended and upsized its revolving credit facility to \$350 million, providing ammunition for potential M&A opportunities.

We believe ARIS stands to benefit from strong revenue growth, margin improvement and free cash flow growth in 2024. While ARIS could suffer revenue weakness if oil production were to fall dramatically, we believe this risk is minimal as it has strong operating partners, including Conoco Phillips, Chevron and others with significant acreage and long-term drilling and production needs. ARIS stands well positioned to grow alongside customers and through continued bolt-on acquisitions. ARIS has also rebuilt its operating margins, which were hit by inflationary pressures, through price increases, cost reductions and strategic initiatives like replacing diesel power with hook-ups to the electric grid and reducing the use of rented vs. owned assets.

Additionally, while we have ascribed no value premium to ARIS ESG activities in our price-target, we think these benefits are compelling and could highlight ARIS as an attractive investment for ESG minded investors. Its ESG positives include replacing trucks with pipelines and reducing ground water depletion through treatment, reuse, and aquifer recharging. Also, through its new research partnership with Conoco, Chevron and Exxon, ARIS has gained approvals from Texas to use treated water to irrigate non-consumed agriculture products like cotton and ryegrass to trap carbon, and is evaluating the potential to extract and sell minerals from its treated water streams.

We believe ARIS represents a compelling valuation opportunity at \$8.39, as it trades for 6.4x and 5.4x 2023 and 2024 EBITDA estimates, respectively, including the potential burden of its legacy partnership



tax sharing agreements. We think consistent execution will help propel the shares higher over time, while the 4.3% dividend yield provides a near-term tailwind.¹³

Looking Forward

4Q23 demonstrated the risks of relying on outside forecasts, which were almost unanimous in their incorrect and dour recessionary views. 4Q23 also showed the dangers of trying to market time, as investors who were mis-positioned for a small/smud value rally were left scrambling to increase their exposure to the space as economic projections quickly changed. We believe taking a long-term view and making time your ally is a much better way to approach investing than trying to market time.

We believe the small and smud cap value sectors always hold investment opportunities, not only due to the sheer number of companies in this universe, but also for the ability to find companies that are misunderstood and/or neglected by investors. Having a strong investment case and a long-term view creates time as an ally for value creation.

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 December 29th, 2023. 2022-2023 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.

2,6,7,9 The Russell 2000 Value, Russell 2500 Value and the S&P 500 Index market cap information and performance levels are sourced from Bloomberg. The Russell 2000 Value, Russell 2500 Value and S&P 500 indices 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. Core PCE inflation statistics sourced from the Bureau of Economic Analysis and Bloomberg.

4. US 3Q GDP sourced from the Bureau of Economic Analysis and Bloomberg.

5. U.S. November unemployment data sourced from Bureau of Labor Statistics and Bloomberg.

8 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 of its top 7 holdings. This data is not guaranteed and is sourced through Bloomberg and Rewey Asset management proprietary analysis.

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. Portfolio statistics discussed are from December 29th, 2023. These statistics will likely change over time. Debt/EBITDA ratio comments exclude financial companies due to non-comparability.

11. Cadence Bank (CADE) quarterly performance information sourced from Bloomberg. Other CADE commentary sourced from company earnings releases, 10Q, 10K filings, company presentations, RAM discussions with management, Bloomberg and Rewey Asset Management proprietary analysis.

12. Belden Inc. (BDC) quarterly performance information sourced from Bloomberg. Other BDC commentary sourced from company earnings releases, 10Q, 10K filings, company presentations, RAM discussions with management, Bloomberg and Rewey Asset Management proprietary analysis.

13. All financial ratios, statistics, and projections discussed in the ARIS Water Solutions Inc. commentary are sourced from ARIS 10-K, Proxy, 10Q filings, company press releases, company public conference calls and webcasts, company slide presentations, Bloomberg, ARIS company webpage 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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