

## Q4 2021 ESG MICRO Cap Opportunities Update and Market Outlook

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### ESG MICRO Cap Opportunities Strategy Update

The micro strategy was roughly flat for the quarter and outperformed the Russell 2000 for the quarter and the year.

Our largest contributors to performance for the quarter were Verso Corp. (VRS) and Centrus Energy (LEU). VRS is a producer and supplier of coated paper and products, an industry which was hit hard during the pandemic. Nevertheless, it was able to survive the decline in the paper industry and position itself as a leader with a debt free balance sheet. As the paper market recovered, VRS was able to increase pricing as minimal supply came back online. We were not the only ones to notice how attractive this business was; VRS accepted a buyout from a Swedish materials company this quarter for \$27 a share.

LEU is an interesting company that is involved in producing HALEU (High-assay low-enriched uranium) for new small modular nuclear reactors. While they will start production in 2022, LEU has been caught up in the increase in uranium spot price due to the new Sprott Physical Uranium Trust created six months ago. It is the only publicly listed fund that holds physical uranium and is now estimated to hold one third of the world's supply. We do like LEU for the long-term in helping the US get to a more carbon neutral environment but ended up trimming the position on the massive run up.

Our largest detractors from performance were Usio (USIO), and Orion Group Holdings (ORN). USIO has part of its business linked to cryptocurrency and has seen some stock selling as the crypto currency market has sold off. This is still a name we like because internal metrics are improving in its core payments business, the company is self-funding, and it has call option-like business in crypto currency payments that could be big.

ORN has had a tough year due to the timing of its marine projects in the gulf coast. They put up an underwhelming quarter that was not received well by Wall Street. However, new contract wins have picked up in Q4'21, management has non-core real estate to sell, and the infrastructure bill spending should start in the second half of 2022. We added to both USIO and ORN in the quarter.

We had one new addition to the micro portfolio: USA Truck (USAK). USAK is one of North America's top 25 truckload carriers and has two reportable segments: (1) trucking, consisting of the company's truckload and dedicated freight service offerings, and (2) USAT Logistics, consisting of the company's freight brokerage, logistics, and rail intermodal service offerings. USAK will benefit from higher trucking rates that we believe will be sustained for a long period of time. USAK published its first sustainability report in 2021 and recently signed an LOI to purchase 10 zero emission trucks.

We sold two positions this quarter. We sold Nephros (NEPH), a company that makes water filters for hospitals, as they were having trouble gaining traction in hospitals due to the coronavirus.

Also, the delays in ramping commercialization could lead to having to raise additional capital, thus diluting existing holders like us. Immersion (IMMR) had changes in management, and suddenly reported earnings without a conference call to discuss the quarter and answer questions. After tracking down the new CEO, our faith was not restored and we sold our position.

Oramed Pharmaceuticals (ORMP) had a short report come out questioning its product's efficacy and management's promotional behavior. While we believe ORMP's diabetes product was revolutionary, the short report likely puts a cap on the stock until results come out. Phase III trials take a long time, and the risk/reward was not as appealing since the stock appreciated roughly 5x from our initial purchase. TPI Composites (TPIC) was sold due to deteriorating fundamentals and a likely industry recovery one to two years away. CatchMark Timber Trust (CTT) withdrew from a joint venture and announced a dividend cut as earnings would drop with the loss of JV cash flows. That was a signal to us to part ways.

## 2022 Microcap Outlook

We believe that the markets in 2022 will likely be more volatile but could also offer more opportunities in the microcap space. While the economy, and likely your personal life, were impacted by coronavirus in 2021, the stock market for the most part looked past all the negative news to the other side of the pandemic. In the second half of 2021, the stock market took its cue from Federal Reserve (Fed) activity and the increase in inflation. This is likely to continue into 2022 and has already been impactful based on Jerome Powell's last comments from the December FOMC meeting and the release of those meeting minutes in the first week of January.<sup>1</sup> The market is currently seeing three interest rate hikes in 2022 and a faster drawdown of the Fed's balance sheet than previously thought. We wanted to touch on this because microcaps are a volatile asset class and will be impacted more than large cap equities if volatility in the market picks up.

We do not believe the Fed will be able to raise rates as much as the market thinks they can. First, when you think of why we have inflation, is it because of monetary policy or supply chain issues? Just think if the Fed were to raise rates by 1-2%, would that impact all the container ships stuck in ports or suddenly create more truck drivers to drive supplies around the country? We do not believe so. Second, the Fed has guided that the earliest they will think about raising rates is in March. The second quarter this year will have the toughest economic comps compared to last year and without Fed accommodation and fiscal stimulus, the probability of the economy growing faster compared to last year is low. We think it will be difficult for the Fed to raise rates into a slowing economy to fix inflation.

However, we are not macro investors, and we only bring this up as a road map for what we are looking at going into 2022 for the microcap space. Q1'22 will probably see strong economic numbers if Omicron subsides as fast as it arrived. Q2'22 could be tougher with less government stimulus. The second half is more of a toss-up, but we will more than likely see supply chains normalize and inflation roll off peak levels from the second half of 2021. Companies that can do well in this environment are ones that have under-earned during the pandemic and are starting

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<sup>1</sup> <https://www.nasdaq.com/articles/let-the-fed-do-the-worrying>

to grow earnings again, this in contrast to companies that over-earned during the pandemic and are having their numbers mean revert to pre-pandemic levels. Specific industries we are interested in are Industrials, Healthcare, and Consumer Discretionary (specifically in person services). 2020-2021 saw a lot of companies rise on hopes and dreams, while in 2022, we will feel more confident in companies that are producing free cash flow or are hitting an inflection point to become self-sustaining on cash flow.

Hopefully, if there is increased volatility caused by the Fed (that has so far been the case as the year has begun) we'll have an opportunity to allocate to these underfollowed names that could be sold off indiscriminately by the market in the year ahead.

*Letter continues below with the ESG MICRO Cap Opportunities Strategy Largest Contributors & Detractors Q4 2021 and 2021.*

## ESG MICRO Cap Opportunities Strategy Largest Contributors & Detractors

### Q4 2021

#### 5 Best - Absolute Contribution

Ticker	Company	Average Weight	Contribution
VRS	Verso Corp.	5.64 %	1.67 bps
LEU	Centrus Energy	2.35 %	1.08 bps
VECO	Veeco Instruments	3.87 %	0.88 bps
TGLS	Tecnoglass Inc	6.58 %	0.87 bps
PERI	Perion Network	2.74 %	0.74 bps
<b>5 Best Total</b>		<b>21.17 %</b>	<b>5.25 bps</b>

#### 5 Worst - Absolute Contribution

Ticker	Company	Average Weight	Contribution
USIO	USIO Inc.	2.70 %	1.14 bps
ORN	Orion Group Holdings	2.61 %	1.00 bps
AKTS	Akoustis Technologies	2.62 %	0.97 bps
MEC	Mayville Engineering	3.75 %	0.71 bps
CTT	CatchMark Timber Trust	0.60 %	0.68 bps
<b>5 Worst Total</b>		<b>12.28 %</b>	<b>4.51 bps</b>

Contribution reflects the impact of performance and the portfolio weight to total portfolio return.

Data shown is from a representative account of the Strategy Name Composite. All Returns Are Gross-of-Fees. Included as supplemental information and complements a full disclosure presentation, which can be found in the appendix section of this presentation. Reader should not assume that investments in the securities identified were or will be profitable. Timing differences of purchases and sales may have a modest impact on the actual contribution numbers presented. The holdings identified do not represent all of the securities purchased, sold, or recommended. The calculation's methodology along with details on all holding's contribution to the overall account's performance during the measurement period are available upon request. Past performance does not guarantee future results.

## ESG MICRO Cap Opportunities Strategy Largest Contributors & Detractors

### 2021

#### 5 Best - Absolute Contribution

Ticker	Company	Average Weight	Contribution
TGLS	Tecnoglass Inc	4.68 %	6.19 bps
VRS	Verso Corp.	4.65 %	4.31 bps
AMRK	A-Mark Precious Metals	3.70 %	3.35 bps
SI	Silvergate Capital Corp.	0.49 %	2.69 bps
HBIO	Harvard Bioscience Inc.	5.10 %	2.29 bps
5 Best Total		18.62 %	18.82 bps

#### 5 Worst - Absolute Contribution

Ticker	Company	Average Weight	Contribution
AKTS	Akoustis Technologies	3.24 %	1.35 bps
IMMR	Immersion Corp.	2.19 %	1.13 bps
USIO	Usio Inc.	1.38 %	1.07 bps
FARM	Farmer Bros. Co.	1.94 %	0.93 bps
PWFL	PowerFleet Inc.	3.79 %	0.80 bps
5 Worst Total		12.54 %	5.27 bps

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