

Q4 2021 ESG SMID VALUE STRATEGY

By Adam Peck

The SMID strategy beat its benchmark for the quarter, but slightly trailed for the year. Earlier in the year as the meme stock hysteria peaked, unprofitable companies like GameStop and AMC theaters drove index returns. Our SMID strategy did not participate in the meme stock trend as we focus on quality companies that earn their cost of capital. These types of companies finally led the way in the second half of 2021.

The two largest contributors to performance in 2021 were Atkore Inc. (ATKR) and Verso Corp. (VRS). Atkore crushed earnings expectations every quarter in 2021 and coming out of 2020 was priced at only 3x the earnings generated in 2021. Even after a nice return in 2021, the stock still trades at a below market earnings multiple of 11x eps.

Verso Corp agreed to be sold for \$27 per share in cash in December to BillerudKorsnas AB of Sweden. We felt that the stock was worth at least \$30 with improving fundamentals for the paper industry, but beggars can't be choosers. We are already looking at new ideas to reinvest the proceeds.

Hannon Armstrong (HASI) was the second largest detractor to performance for 2021. Hannon is a top tier REIT that excels in ESG practices. It was a significant outperformer in previous years, and we think the stock is just consolidating previous gains.

Redhill Biopharma (RDHL) was the largest detractor to performance. It was a disappointment as we liked their focus on the GI space, but they decided to put a lot of effort into finding a COVID treatment for hospitalized patients. The phase 2/3 covid trial did not meet its endpoint and the stock subsequently sold off. The company spent valuable capital in the effort and with the drain on resources was forced to raise capital one too many times during 2021. We sold the position in the fourth quarter.

In the quarter we bought two new names and sold three – Agnico Eagle (AEM), the aforementioned Redhill, and CatchMark (CTT). Agnico was a decent holding we initiated at the Covid bottom in late March 2020 but was sold to invest in companies that we believe have better outlooks and upside.

CatchMark was a name we have owned since day one. It had a robust dividend for a REIT and was a stable investment over the timeframe. We sold out at roughly breakeven but had a gain with the dividend included. CatchMark 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 for us to part ways.

We added Levi Strauss (LEVI), a company most people are likely familiar with. LEVI's is known for their denim-oriented products, including jeans, shirts, and other clothing. We are not the most fashionable bunch, but we believe that as fashion trends evolve coming out of the pandemic, Levi's casualness should appeal to consumers. It trades at a below market multiple with very high returns on capital. They are leaders in sustainability; one of their key targets includes all owned-and operated facilities to be run by renewable electricity by 2025.

Gentherm (THRM) is a thermal physiology management company focused on optimizing temperature. Their core business is primarily for the automobile with heated and cooled seats, heated steering wheel and climate control functions. With 65% market share in heated/cooled seats, odds are good that you've been a user. Customer penetration is still low for heated/cooled seats even though it's the number one requested option. We think there are years of growth left and are excited for the opportunity in their emerging Battery Performance Solutions and Climate Control Solutions capabilities.

Although different products, their objective is similar in that they allow battery and heating and cooling functions to operate in a more efficient manner resulting in greater range for electric vehicles. In cold weather testing, their technology was able to cut battery use over 50% which significantly extends battery range. As auto manufactures transition to EVs across all markets, we believe they will look to Gentherm to enhance their products. We think sales growth will inflect higher in the years to come.

Letter continues below with ESG SMID Value Strategy Largest Contributors & Detractors Q4 2021 and 2021.

ESG SMID Value Strategy Largest Contributors & Detractors Q4 2021

5 Best - Absolute Contribution

Ticker	Company	Average Weight	Contribution
CIEN	Ciena Corporation	4.32 %	177 bps
BLDR	Builders FirstSource	2.85 %	140 bps
ATKR	Atkore Inc	5.87 %	125 bps
VRS	Verso Corp	3.44 %	99 bps
INFU	InfuSystem Holdings, Inc	2.77 %	61 bps
5 Best Total		19.25 %	602 bps

5 Worst - Absolute Contribution

Ticker	Company	Average Weight	Contribution
CMBM	Cambium Networks Corp	2.27 %	-64 bps
CTT	CatchMark Timber Trust	0.84 %	-57 bps
RDHL	Redhill Biopharma Ltd.	0.93 %	-45 bps
CRL	Charles River Laboratories	2.95 %	-34 bps
REGI	Renewable Energy Group, Inc.	1.65 %	-25 bps
5 Worst Total		8.65 %	-225 bps

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 SMID Value Strategy Largest Contributors & Detractors 2021

5 Best - Absolute Contribution

Ticker	Company	Average Weight	Contribution
ATKR	Atkore, Inc	4.85 %	477 bps
VRS	Verso Corp	2.85 %	271 bps
ZBRA	Zebra Technologies Corp	3.98 %	257 bps
JLL	Jones Lang LaSalle	3.49 %	219 bps
CRL	Charles River Laboratories	4.16 %	216 bps
5 Best Total		19.32 %	1440 bps

5 Worst - Absolute Contribution

Ticker	Company	Average Weight	Contribution
RHL	RedHill Biopharma Ltd.	2.03 %	-176 bps
HASI	Hannon Armstrong	5.25 %	-87 bps
CMBM	Cambium Networks Corp	0.57 %	-64 bps
AEM	Agnico Eagle Mines Ltd.	1.76 %	-63 bps
EEFT	Euronet Worldwide, Inc.	1.25 %	-33 bps
5 Worst Total		10.86 %	-424 bps

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