Dear Friends and Clients,

We are pleased to report that our Rewey Asset Management (RAM) composite returned a positive 31.1% in 2Q20, vs. 20.6% for the Russell 2500 Value index, 26.6% on the Russell 2500 core index and 32.9% for the Russell 2500 Growth index. Year-to-date, RAM returned -18.0% vs. -21.2% on the Russell 2500 value index. [1]

Market Commentary – Economic Shock and Awe

The scale and speed of the economic stimulus by the U.S. Federal Reserve and the Cares Act were tremendously effective, in our view, in stabilizing investor confidence and inspiring a robust recovery of the stock market from its March 23, 2020 low. In addition to Congress passing the Cares Act which injected $2.3 billion into the economy, the Fed brought the real thunder, cutting rates a cumulative 150 bps to zero and announcing a slew of lending and asset purchase programs, some now of unlimited size. These measures are estimated to total as much as a $6 trillion injection into the economy, all quickly announced by the 9th of April. [2] This Fed action also included the intention to purchase $500 billion in corporate bonds from "fallen angels" or companies whose debt has been downgraded, in effect, turning the Fed into a value investor! "Don't Fight the Fed" is a long-term idiom that proved prescient in 2Q20. These stimulus actions will likely continue to fuel economic growth, given their absolute size and the potential for a second stimulus bill over the next few months

These Fed and Congressional actions blunted the impact of the recently reported economic data. U.S. Continuing Jobless Claims soared from 1.78 million as of March 13th, to a shocking 24.9 million on May 8th. U.S. linked-quarter GDP fell to -5% for 1Q20 and is now estimated to fall almost 37% in 2Q20[3]. While these data points are staggering, the market is looking forward from these lows and has embraced forward looking green shoots of better news to come. For example, June 27th Initial Jobless Claims improved to only 1.4 million, and 3Q20 GDP is estimated to rise 21% off 2Q lows[4]. While these estimates do not return the economy to pre-Covid levels, we believe the expectation that the worst has passed and that future reports will continue to improve, drove investor confidence and market averages higher by the end of the quarter.

A Supply Shock, Not A Demand-Driven Recession

The Covid-related lockdown orders drove a negative supply shock through the economy, which was a completely different paradigm than past economic recessions, which were driven by a collapse in demand. Almost immediately following the Covid lockdowns, goods such as toilet paper and cleaning supplies were out of stock, while services such as restaurant dining, bars, gyms, cruise vacations and even dental services, among others, were mandated to zero, despite strong consumer demand. This

pattern is unlike the financial crisis of 2007-2009, where speculative excesses finally cratered into recession due to plunging demand. The Fed and Congress should be applauded for their rapid stimulus response which provided a quick bridge of support to consumers and businesses, and preserved the underpinnings of a still-healthy economy. The question remaining from here forward is time. If States can keep the virus from blossoming into a severe second wave before a vaccine is widely available, we believe the economy can recover to its pre-Covid cadence in 2021. If alternatively, vaccines are significantly delayed into mid-to-late 2021 and States do not vigilantly monitor and manage the spread of the virus, a second shelter-in-place order could push the economy towards a weak demand recession, as consumers suffer a more long-lasting financial impact. Still, even in this more negative scenario, the statements by the Fed to do 'whatever it takes' and by Congress to pass more consumer and business direct relief measures, should likely continue to offset dramatically weaker economic erosion.

Portfolio Highlights

We believe that our portfolio is very attractive from a valuation perspective. Nine holdings are trading under book value, three additional holdings are trading at less than 1.5x book, and our composite portfolio is trading at an average of 1.56x book value.[5] It is also worth highlighting that three of our names have no sell-side coverage, and seven others have five or fewer covering analysts.[6] This anonymity provides us with the opportunity to identify companies that pass under the radar for other investors, and secure positions at attractive valuations.

At quarter-end, our cash level was at approximately 9.7%. Cash levels will fluctuate as part of our investment process, as we remain opportunistic to invest in new and existing positions and to harvest from those approaching our Assessed Fair Value (AFV) price targets.[7]

Callon Petroleum (CPE) was our best performer in 2Q20 on a percentage basis. This was a welcome come back from its worst performer rank in 1Q20, as it closed up 101.5%, with an intra-quarter rally of almost 378% as of June 8th. Callon shares recovered along with oil prices overall, and closed out the quarter at $39.27. In addition to an OPEC+ agreement with Russia that allows for renewed and expanded production curtailments, the re-opening of global economies supported higher prices in line with resumed oil demand. For the balance of 2020, Callon is protected by hedges on roughly 70% of its remaining 2020 production at approximately $43 per bbl., and has reduced capital expenditures and G&A expenses to conserve cash. With no debt maturities until 2023, Callon should be able to weather lower oil prices through at least the end of the year. We did use the strength in Callon to trim back our position in the quarter.[8,9]

II-VI Inc. (IIVI) was the strongest contributor to returns in the quarter, with a 66.9% gain and an ending position of 5.8%, after we trimmed 250 bps on strength. II-VI rallied on a strong FY 3Q20 report in May,

driven by record bookings and backlog, highlighted by the acceleration of 5G deployments and network infrastructure upgrades. Late in the quarter, II-VI announced a licensing deal with General Electric Company (GE) to accelerate the development of its 'hidden gem' Silicon Carbide franchise. We continue to see a multi-year pathway for revenue growth and a compelling return profile for II-VI.[10]

Graftech International Ltd. (EAF) was our worst performer in the quarter, falling 1.6%. We think investors are overly negative in their assessment of the current supply vs. demand outlook for graphite electrodes. We continue to see Graftech's LTA's, or long-term agreements for over 70% of its production as providing high revenue and cash flow visibility for the company. With just four sell-side firms covering Graftech, and a float of just ~25% of its $2 billion market cap, we think EAF is a neglected bargain. Graftech, in our opinion, has a compelling growth opportunity, as its minimill customer base continues to increase capacity and take share from blast furnace steel production. Further, as electric vehicles increase their use of needle coke in batteries, Graftech is uniquely positioned to benefit vs. peers as it produces over 70% of its needle coke needs internally. Graftech also scores nicely from an ESG perspective, as minimills are a major recycler of not only steel, but also other high value metals like copper and aluminum. Finally, with estimated free cash flow (FCF) of over $500 million in 2020, Graftech's FCF yield is a compelling 25%, a strong signal in our opinion of undervaluation.[11]

Webster Bank

We believe banks in general are misunderstood in relation to the Covid economic weakness, as the capital strength and earnings outlook for banks is completely different versus the financial crisis period of 2007-2009. The balance sheets of most banks today show very strong capital ratios, disciplined lending metrics and low levels of troubled loans. In our opinion, the strength of bank balance sheets is a direct result of the Comprehensive Capital Analysis and Review (CCAR) process by the Federal Reserve that was enacted by Congress in 2010. CCAR restricted dividends and buybacks from banks over a 10-year period that resulted in continual strengthening of bank balance sheets and capital ratios. The positive result for the banks as they move through the Covid recession, is that capital levels generally remain well over even stress case limits, and the impact of Covid weakness will be an income statement issue vs. a balance sheet issue for the group. Indeed, it is amazing that little notice has been given to the fact that banks have been part of the Fed's solution to the Covid crisis, as they have been tapped to distribute the Paycheck Protection Loan Program (PPP). The architects of CCAR should receive accolades for their 2010 vision, for a strong banking system that today is a solid pillar for an emerging post-Covid recovery.

Webster Financial Corporation (WBS), one of our largest positions, is the holding company for Webster Bank and for HSA bank, with total assets of $31.7 billion and a June 30th market value of $2.6 billion. Webster Bank's footprint is along the I-95 corridor from Boston through Connecticut to New York, with

roughly a 2/3 commercial and 1/3 consumer revenue split. HSA bank administers HSA health savings accounts, and at March 31st had 3.1 million accounts with $8.6 billion in deposits and linked brokerage accounts.

Webster has a very strong financial position, with a March 31st Tier 1 equity capital ratio of 10.96%, or roughly $1 billion over CCAR regulatory minimums. While losses will likely rise due to Covid impacts, it is highly unlikely that losses will be anywhere close to this $1 billion, or almost $11 per share level, reinforcing our belief that Covid will be an income statement vs. a balance sheet issue. Further, after repurchasing roughly 2 million shares in 1Q20, WBS has paused repurchases to bolster capital, but has affirmed its intention to continue to pay its quarterly dividend of $0.40, roughly a 5.6% yield. Webster's March 31st book value of $32.66 per share compares to its June 30th closing price of $28.61, or a price-to-book ratio of just .87x. Like most banks, Webster shares did not strongly participate in the 2Q20 market increase, as shares are still significantly below their 52-week high of $54.04.

Webster meets the second pillar of our investment philosophy, with a strong outlook for growth over the next 3-5 years. Its 157-branch footprint from southern New England to Westchester County, NY is an asset that can produce significant loan growth. In 1Q20, Webster grew loans 11%, with commercial growth of 16%, including over 2000 SBA approved PPP loans totaling $650 million. Webster's loan to deposit ratio of 84.25% highlights its significant room to grow loans without relying on external funding. Webster's HSA Bank is also growing quickly. HSA Bank grew accounts by 6.4% in 1Q20, and grew deposits 9% to $6.76 billion, or 27.5% of total WBS deposits. These low-cost deposits provide long duration, low-cost funding that minimizes the Company's use of wholesale funding in support of loan growth and provides a substantial boost to Webster's profitability vs. peer banks. HSA has also been active in M&A, and announced a $140 million acquisition of State Farm's HSA franchise in 2Q20. WBS has also shown consistent cost discipline with its 2019 efficiency ratio falling to 56.7%, a pre-Covid measure to which we think WBS can return.

From a valuation perspective, WBS is compelling. We believe investors are too focused on the income statement for 2020, where Bloomberg estimates EPS have fallen to $2.16 per share vs. $4.07 in 2019. While Covid will cause some increased provisions and losses, we believe investors are too pessimistic in both their short and long-term views. WBS earned $0.39 in 1Q20 vs. $1.06 in 1Q19, mainly due to an increase in loss provisions of $76 million or roughly $0.66 per share, however, two-thirds of this was a one-time non-cash provision for an adoption of the new CECL accounting standard, i.e. a non-Covid charge. In 1Q20, WBS did have a $0.09 negative impact from lower Net Interest Margins, due to lower Fed Funds rates, and we believe this impact will accelerate through 2020, and be the main headwind for WBS in 2020, not bad loans. WBS, as well as other banks, has greatly improved its underwriting standards since the financial crisis, in part due to CCAR oversight. Further, with the Fed now adding

nearly $6 trillion in liquidity to the economy, including the outright purchase of 'fallen angel' loans, we think credit losses will be even more moderate than in a normal cycle.

At the quarter-end close of $28.61, even on Bloomberg's estimate of 2020 EPS, WBS was trading at the low-end of its historical PE ratio of 12x-20x EPS at a 13.2x multiple. However, this 2020 EPS estimate, in our opinion, should not be the basis of a valuation case, due to the non-operating impacts of the CECL accounting change and our view that the current low-interest paradigm will not persist. At quarter-end, the 10-year treasury yield was 0.66%, impacted by the zero Fed Funds rate, the massive liquidity injections by the Fed and by the likely global flight to yield and safety in U.S. Treasuries. We think U.S. treasury yields are unsustainably low, as the U.S. Federal Debt has grown from $23.2 trillion at year-end to $26.5 trillion at 2Q20, and will likely to continue to rapidly grow[12]. It is highly likely that over our 3-5 year horizon, the U.S. 10-year treasury rate will advance at least back to 2018-2019 levels, and restore a Treasury Yield Curve that supported Webster's 2019 NIM margin of 3.55% and EPS levels over $4 per share. In other words, we believe Webster's earnings power will not be permanently impacted by Covid or low interest rates, and its healthy capital position and balance sheet strength will rapidly allow it to return to a stronger, normalized level of earnings. Even at $4 in EPS, a conservative 14x PE multiple on WBS produces a PT of $56, which is our AFV, up 95.7% from its 2Q20 close and relatively in line with its 52-week high of $54.04 per share, plus an annual dividend yield of 5.59%. This AFV target is also justified by its balance sheet strength, as WBS recent 5-year book-value multiple has ranged from 1.3x-2.2X, and $56 is only a modest 1.7x WBS 1Q20 BV of $32.66.

Finally, we see HSA bank as a hidden asset that WBS can monetize to both increase earnings power and capital levels. WBS could IPO 19.9% of HSA bank and use the new currency to make acquisitions in the rapidly growing and consolidating space. While apples to apples comparisons are difficult, its peer Healthequity Inc. (HQY) trades at a substantial valuation premium to WBS. On what we believe to be a very conservative comparison, if HSA Bank was valued in line with HQY on HSA deposits and number of accounts, WBS would trade at least $3.50 per share, or 12.2% higher than current valuation levels, supporting a monetizing IPO for HSA Bank.[13]

Looking Forward

Despite the extreme volatility we have witnessed, our seasoned perspective and experience has again proven its merit as a solid guide for periods of both economic strength and weakness. Our philosophy starts with the importance of the Balance Sheet, as there is no replacement for a strong financial position. The shock of shut-downs, lost revenue, and sky rocketing unemployment have only reinforced our belief that the balance sheet is much more important to assess a company over the long-term. Without a strong financial position, a company cannot survive shocks and live to emerge from a position of strength. We believe that the Income Statement, while important, is ephemeral, as it is a snapshot of

historical information that may, or may not, be relevant for future periods. The second tenet of our philosophy focuses on the ability to grow, which forces us to look forward past periods of weakness, like the panic that existed at the end of 1Q20, while at the same time avoiding declining value-traps. Finally, the third tenet of our philosophy, is valuation – which always matters. Alternative strategies based on momentum or charting rapidly became irrelevant in late March, or worse, led investors to sell at the worst time. With a foundation of financial strength, the ability to grow and a discounted valuation, we invest with conviction versus panic.

Our purchases in late March and early April served us well and we are excited about the strong upside we see for our portfolio names. This optimism goes beyond recovering year-end 2019 levels, but additionally, in all but one instance, achieving our original AFV price targets that are considerably over our purchase levels. In other words, we still see very good opportunity in our portfolio, and in the small cap value space over the long term.

Thank you for your continued trust and support. Stay safe and healthy. 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 Rewey Asset Management composite results from Black Diamond/ASN performance reporting. Russell 2500 Value, Core and Growth Index performance levels are sourced from Bloomberg.
2 CARES Act passed 3/27/20. U.S. Federal Reserve announcements from Federalreserve.gov. Articles summarizing these actions from CNBC https://www.cnbc.com/2020/04/13/coronavirus-update-here-is-everything-the-fed-has-done-to-save-the-economy.html and Forbes https://www.forbes.com/sites/leonlabrecque/2020/03/29/the-cares-act-has-passed-here-are-the-highlights/#4d7ecf3468cd.
3,4 US Initial Jobless Claims and Continuing Claims data sourced from U.S. Department of Labor. US GDP statistics sourced from Bureau of Economic Analysis. US GDP forecasts are from Federal Reserve Bank of Atlanta GDPNow Model and Bloomberg Research and Analysis Model article reference 6/30/20.
5,7 All portfolio discussion is based off our model portfolio. 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 and names held. Book value portfolio estimates exclude Insperity Inc. and Graftech International, due to negative equity positions.
6 Covering active sell-side analyst data sourced from Bloomberg.
8 Callon Petroleum financial data sourced from company press releases, 10-Q and 10-K filings and corporate presentations. Callon RAM return information sourced from Black Diamond/ASN performance reports.
9 WTI oil price at 6/30/2020 sourced from Bloomberg.

10 II-VI RAM return information sourced from Black Diamond/ASN performance reports. Other II-VI commentary sourced from company 10Q, 10K filings and company presentations and Rewey Asset Management proprietary analysis.
11 Graftech RAM return information sourced from Black Diamond/ASN performance reports. Other Graftech commentary sourced from company 10Q, 10K filings and company presentations and Rewey Asset Management proprietary analysis.
12 Ten-year U.S. treasury yield information sourced from Bloomberg. U.S. outstanding debt figures sourced from U.S. Federal Reserve via Bloomberg.
13 All financial ratios, statistics, and projections discussed in the Webster Financial Corp. (WBS) commentary are sourced from WBS's 10-K and 10Q filings, company press releases, company public conference calls and webcasts, company slide presentations, Healthequity (HQY) press releases, 10Q and 10K filings and Rewey Asset Management proprietary financial analysis. Historical share price information sourced from Bloomberg.

Advisory services offered through Rewey Asset Management, a Member of Advisory Services Network, LLC.

All information contained herein is derived from sources deemed to be reliable but cannot be guaranteed. All economic and performance data is historical and not indicative of future results. All views/opinions expressed herein are solely those of the author and do not reflect the views/opinions held by Advisory Services Network, LLC. These views/opinions are subject to change without notice. The information and material contained herein is of a general nature and is intended for educational purposes only. This does not constitute a recommendation or a solicitation or offer of the purchase or sale of securities. There is no assurance that any securities discussed herein will remain in the portfolio at the time you receive this report or that the securities sold have not been repurchased. Securities discussed do not represent the entire portfolio and in aggregate may represent only a small percentage of the portfolio's holdings. Before investing or using any strategy, individuals should consult with their tax, legal, or financial advisor.