TOWLE & CO.
DEEP VALUE INVESTING
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Whatever it takes! Paired with emergency fiscal stimulus, Federal Reserve Chairman Jay Powell's unequivocal commitment to backstop the financial system invigorated stock market participants in the second quarter. The unprecedented actions by policymakers and central banks globally stabilized markets and helped to mitigate the lockdown's economic impact on Main Street.

In response, the Towle Deep Value Composite rebounded sharply in the second quarter, mimicking the speed and magnitude of the first quarter's historic decline. Our second quarter advance of 40.3% net of fees outpaced the Russell 2000 Value and S&P 500 for the period and marked the second-best quarterly gain in Towle & Co.'s 38-year history. This outperformance of the Towle Deep Value Composite is consistent with historical return patterns following cyclical bear lows, but only time will tell if we've entered a new bull market.

Towle Deep Value Composite returns are highlighted below with periods greater than one year annualized.

Periods ending 6/30/20	*Towle DVC (Gross of fees)*	*Towle DVC (Net of fees)*	*Russell 2000 Value*	*S&P 500*
3 months	40.54%	40.29%	18.91%	20.54%
1 year	-19.50	-20.09	-17.48	7.51
3 years	-10.24	-10.91	-4.35	10.73
5 years	-1.37	-2.09	1.26	10.73
10 years	7.44	6.67	7.82	13.99
20 years	11.10	10.27	7.65	5.91
30 years	12.55	11.75	9.45	9.74
Inception (1/1/82)	14.21	13.39	10.80	11.54

Returns are preliminary and subject to change. Past performance is no guarantee of future outcome.
Please refer to the last page for additional disclosures.

Investment Environment

The spike in coronavirus cases in late March was met with an unprecedented fiscal, monetary, and societal response. From our perspective, these collective actions bore more resemblance to a wartime response than to a traditional recession. While our societal actions undoubtedly slowed the spread for a period of time, thus illuminating the steps necessary to eventually turn the corner, the data shows that we have not yet won the war. Rising case numbers, hospitalizations, and deaths in many states have led to new and renewed regional lockdowns. To be sure, not all health trends are negative. For instance, the case fatality rate has been declining as the healthcare system has learned how to manage the virus better. But in the absence of a federal pandemic plan to test, isolate, and trace, the U.S. will need effective treatments before the economy returns to full capacity. Until such treatments are widely available, the pace of economic reopening will likely be dictated by current limitations on the healthcare system, particularly the availability of nurses and critical care beds.

Given the challenges facing the U.S. healthcare system and the broader economy, why is the market so resilient? We believe the answer lies in Chairman Powell's "whatever it takes" commitment and an open checkbook for federal stimulus. In wartime periods federal spending increases, the federal deficit grows, and the worst market reaction closely follows the initial shock. For example, in the midst of World War II the market set a bottom only months after Pearl Harbor and just after the Fed agreed to hold short-term rates near zero. Today, it appears that the Fed and Congress are willing to exhaust all possible avenues to ensure that employers survive this downturn and participate when the economy fully resumes. In our view, this should keep the economic growth engine intact.

As we all hoped, economic activity rebounded sharply from the lockdown. Unfortunately, this sharp reversal appears to lack the magnitude necessary to foster robust structural job growth in the near term. Although continuing jobless claims improved in June, they remain elevated at 19.3 million, the highest level on a per capita basis in 45 years. The rise in permanent job losses reported by the Bureau of Labor Statistics also bears monitoring. According to Strategas Research Partners, "there remains the lingering effect of high unemployment which is unstable economically and politically. So, the expected plateau in economic growth still needs to be digested, as permanent U.S. layoffs continue to climb."

During a virtual news conference on June 10, 2020, Chairman Powell provided encouraging comments about unemployment and the expectation for continued support:

> "We quickly lowered our policy interest rate to near zero, where we expect to keep it until we are confident that the economy has weathered recent events and is on track to achieve our maximum-employment and price-stability goals."

> "We will use our tools to support maximum employment and take that definition to heart. But obviously that's something that will require an all of society, all of government response."

We believe that the Chairman's call for an "all of government response" will likely be met with an additional, though more targeted fiscal package and that the challenge facing Congress today echoes the Truman Committee's post-war Strategy of Full Employment (1945):

> "The fight for full employment is a twofold battle. On the one hand, the Government must do everything in its power to stimulate increased opportunities for employment in private enterprise. This is the major front. On the other hand, to the extent that private enterprise cannot by itself assure the full employment, the Government must take such measures as may be necessary to fill the gap."

Achieving this balance is truly difficult, but we believe Congress can rise to the occasion.

Will the Fed's commitment and more-to-come federal stimulus give the market enough confidence to continue looking across the earnings valley? This is one of the unanswerable questions that makes today's environment so uncertain.

Portfolio Review

This section has been removed for compliance reasons to exclude discussing specific securities transactions.

Looking Ahead

Without question, the near-term environment is highly uncertain, and the ultimate economic impact of the virus remains unknown. This sentiment is echoed in the thoughts of prominent scientific and business leaders:

> "I know less about this virus today than I did six weeks ago. The more we learn, the more humble we need to be about what it means." - Dr. Michael T. Osterholm, Director of the Center for Infectious Disease Research and Policy at the University of Minnesota, *Conversations with D. Bauchner* podcast, June 24, 2020

> "So the Fed's W case, they made it very clear. Their W case is that COVID comes back in a big way in the fall and you have to shut down the economy again. And obviously, we've got to be prepared for that, too. We don't know the probability of that. We simply don't know." - Jamie Dimon, CEO JPMorgan Chase, Q2 2020 Earnings Call, July 14, 2020

Amongst this uncertainty, humanity's quest for innovation marches on. We see examples in the conversion of unused parking lots into drive-in theatres, food banks, and testing centers; the production of ventilators by automobile manufacturers; the expansion of food and grocery delivery services; the design, production, and sale of masks by both individuals and companies; and the rapid, cross-border collaboration in the scientific community. Ultimately, we expect humanity will prove triumphant over this pandemic. The healthcare system will generate solutions to confront the virus while households, businesses, schools, and other institutions will adapt to the changing landscape. In aggregate, these efforts should pave the way for a self-sustaining recovery and a corporate earnings rebound in the coming quarters.

From a market perspective, the Towle team believes that a retest of the March 2020 lows is unlikely due to the actions of the Fed and fiscal policymakers. And despite the foggy, near-term economic picture, our conviction in the certainty of human progress and multi-year investment horizon still guides us. As you may expect, we have no intention of deviating from our deep value parameters. We patiently wait during this uncertain time for compelling opportunities to appear and believe our current portfolio is well positioned for the recovery.

In April and May, we received multiple inquiries about Towle & Co.'s approach to the Paycheck Protection Program (PPP) under the CARES Act. Upon close review of the PPP application and required attestations, we quickly determined that accepting government aid would not have been appropriate for us, particularly given the operating challenges faced by other PPP applicants. We are grateful that our conservative, debt-free approach to running Towle & Co. has provided the financial footing to properly fund our operations during this difficult period.

For the safety of our staff and communities, the Towle team continues to work remotely. Our offices in St. Louis and Denver will remain closed to visitors and in-person meetings until further notice. Of course, we are always open to questions and comments and can be reached via info@towleco.com or 314-822-0204.

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