

# TOWLE & CO.

DEEP VALUE INVESTING

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Finally! The winds have changed. In a showcase of human ingenuity, the introduction of Covid-19 vaccines has illuminated the end of the tunnel. The investment community now anticipates stronger economic growth, corporate earnings, and employment. Economically sensitive sectors, with extra support from expansionary monetary policies and fiscal stimulus, surged during the fourth quarter. While unknowns certainly persist – including the length of time it will take to return to pre-pandemic norms – we believe a burgeoning economic cycle may be ushering in a long-awaited revival for value investing.

With these winds at our back, the encouraging performance trends of the second and third quarters persisted through year end. The Towle Deep Value Composite returned 35.8% net of fees in the fourth quarter versus 33.4% for the Russell 2000 Value and 12.2% for the S&P 500. Perhaps our deep value strategy is finally starting to garner its due attention.

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

<i>Periods ending 12/31/20</i>	<i>Towle DVC (Gross of fees)</i>	<i>Towle DVC (Net of fees)</i>	<i>Russell 2000 Value</i>	<i>S&amp;P 500</i>
3 months	36.06%	35.81%	33.36%	12.15%
1 year	7.08	6.28	4.63	18.40
3 years	-2.90	-3.64	3.72	14.18
5 years	10.78	9.97	9.65	15.22
10 years	8.85	8.07	8.66	13.88
20 years	12.95	12.10	8.54	7.47
30 Years	15.54	14.72	11.49	10.70
Inception (1/1/82)	15.20	14.38	11.55	11.96

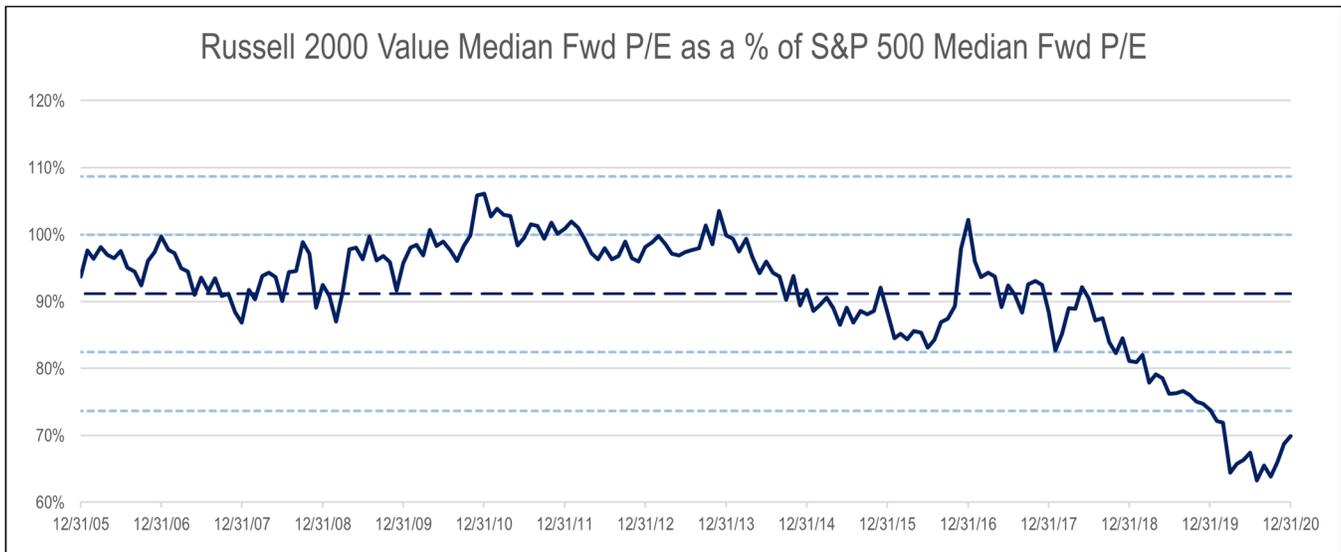
*Past performance is no guarantee of future outcome. Please refer to the last page for additional disclosures.*

## **Investment Environment**

The year 2020 was unlike any in our lifetimes, but as it progressed, investor optimism overtook the fearful uncertainty of March and April. Aided by do-whatever-it-takes central bank policy, fiscal support from the CARES Act, and an indomitable human spirit, a collapse of the financial system was avoided and the most rapid bull market rebound in history began.

Now, promises of continued monetary support, the arriving cavalry of vaccines, and the probability of increased government spending have energized expectations for an improved economic environment into 2021 and beyond. Equity markets have continued to soar, with economically sensitive stocks like ours charging ahead. But even with this substantial performance in the rear view, we believe our space has more room to run.

Last quarter, we introduced a chart that illustrates the recent valuation imbalance between small-cap value and large-cap growth by measuring the median forward P/E ratio of the Russell 2000 Value as a percentage of the S&P 500's median forward P/E ratio. Despite the outperformance of the small-cap value index in the back half of 2020, our space continues to trade at an historic discount:



Source: S&P Capital IQ, Towle & Co.

We believe further closing of this valuation disparity will reward the patient value investor.

### **Portfolio Review**

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

### **Looking Ahead**

The Towle team remains vigilant, focused on the fundamental, bottom-up earnings power of our portfolio companies. As such, we are pleased by the aggressive actions that many of our companies have taken to rationalize cost structures, optimize working capital, and bolster liquidity during the pandemic. Contrary to investor fears at the outset of the crisis, Towle portfolio companies have largely prevailed in 2020 and we feel are positioned advantageously for 2021.

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While we expect these improved fundamentals to continue supporting our still-undervalued securities, near-term market undulations can be wildly disconnected from underlying company performance. As always, we rely on a multi-year time horizon to guide us through the short-term noise. The Towle family and employees are deeply invested in the process and have experienced the same volatility in our investment portfolios as you have. Yet, as we look ahead, we remain confident in our investment process and believe that the future is bright for the Towle Deep Value strategy.

### **Firm Update**

Effective February 1, 2021, J. Ellwood “Woody” Towle will step back from his day-to-day portfolio management duties and continue his work on the investment team in a senior advisor role. With his emphasis on low price-to-sales and high forward earnings yield, Woody has persistently demonstrated the power of running against the crowd since pioneering our strategy four decades ago. His passionate focus on the effective execution of our deep value discipline remains unabated. As always, his guidance and perspective remain invaluable to each of us.

Simultaneously, Luke Barthelmeß will become a portfolio manager and full member of the investment team. During his three years at the firm, Luke has added substantial value to our research activities and been intimately involved in our decision-making process. We will continue to benefit from his strategic thought, investment acumen, and rigorous work ethic.

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We appreciate your confidence through this historic period and anticipate better days ahead. Please be in touch with any questions or comments.

J. Ellwood Towle  
Christopher D. Towle  
Peter J. Lewis, CFA  
James M. Shields, CFA  
Wesley R. Tibbetts, CFA

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