TOWLE & CO.

DEEP VALUE INVESTING

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Choppy! Spikes in volatility during the third quarter provided ample opportunity to redeploy capital. Repositioning details are highlighted in our Portfolio Review section below. For the third quarter, the Towle Deep Value Composite (DVC) declined 3.2% net of fees while the Russell 2000 Value fell 3.0% and the S&P 500 inched 0.6% higher. For the trailing 12 months ended 9/30/21, the Towle DVC achieved gains of 67% net of fees compared to the Russell 2000 Value at 64% and the S&P 500 at 30%.

The Towle investment team continues to strengthen its understanding of the deep value space. We encourage you to read the Deep Value Opportunity section at the end of this letter for additional thoughts on what truly drives our returns and why we expect conditions for its continued effectiveness to persist.

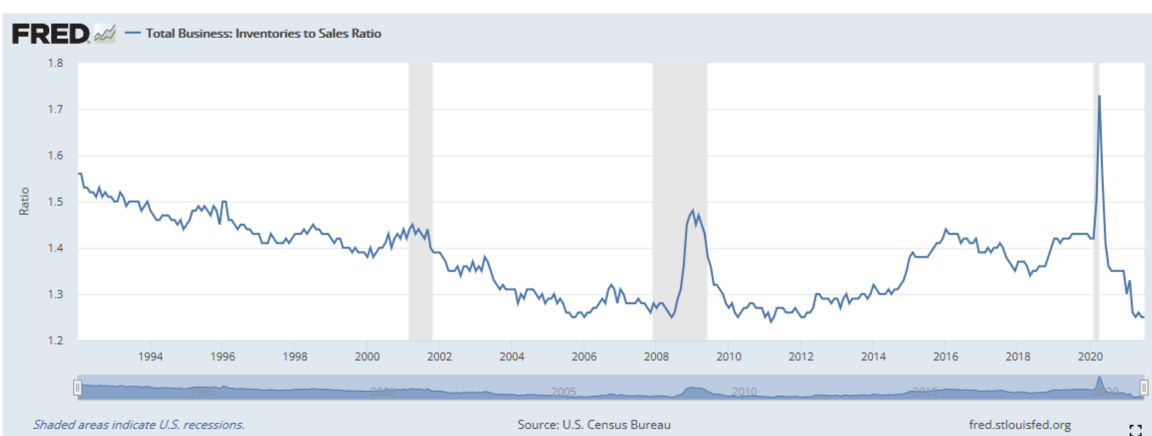
Towle Deep Value Composite returns are highlighted below with periods greater than one year annualized.

Periods ending 9/30/21	*Towle DVC (Gross of fees)*	*Towle DVC (Net of fees)*	*Russell 2000 Value*	*S&P 500*
3 months	-3.04	-3.22	-2.98	0.58
1 year	68.25	67.04	63.92	30.01
3 years	4.78	4.01	8.58	15.99
5 years	9.66	8.85	11.03	16.90
10 years	14.31	13.50	13.22	16.63
20 years	12.97	12.11	9.79	9.51
30 Years	15.18	14.35	11.09	10.56
Inception (1/1/82)	15.51	14.68	11.90	12.13

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

Though troubling headlines abound, underlying cyclical strength supports our deep value investment strategy. Broad economic indicators point to an economy in recovery but not yet firing on all cylinders. During recent quarterly earnings calls, Towle portfolio companies cited ongoing challenges to procure raw materials, stock inventories and staff operations. While these concerns weigh heavily on today's global economy, constricted supply chains and labor shortages will likely improve in the coming quarters. This progress should allow companies to satisfy existing demand and move closer to full-potential revenues and profitability. We believe cyclical companies like those in the Towle portfolio are particularly well positioned as production must not only rise to meet current demand but also to backfill depleted inventories. The following chart shows this potential as total business inventories relative to sales are at all-time lows:



Meanwhile, equity valuations in general are elevated, and many Wall Street strategists are calling for slowing but positive economic growth in 2022 and 2023. Consequently, investors must be deliberate with their capital. We believe this environment is well suited to Towle's fundamental process, characterized by the hunt for deeply undervalued companies with identifiable catalysts for improvement.

As always, valuation is our north star. Although widely owned portions of the U.S. equity market are richly priced, the deep value space is relatively cheap. At quarter end, the Towle portfolio had a median EV/Sales of 0.51x and forward P/E of 10.1x based on consensus estimates.

Portfolio Review

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

Deep Value Opportunity

The deep value opportunity, as we view it, comes largely from a single source: human behavior. Indeed, humans have a few **behavioral biases** that are critical in the formation of our deep value opportunity set:

1. ***Desire for certainty*:** Market participants yearn for stability. Their disdain for uncertainty can indiscriminately cast aside companies with earnings and cash flow volatility despite little evidence of enterprise risk. Consequently, manageable business cycle-derived volatility often endures the same punishment as excessive leverage-derived volatility. From our perspective, this is the fundamental misinterpretation of risk that fuels our deep value opportunity set.

2. ***Consensus thinking:*** Humans find comfort in the herd. However, in the stock market, herding behavior in one direction tends to create an offsetting scarcity effect in the opposite direction. And where capital is scarce, opportunity is plentiful. At Towle & Co. we put on our contrarian lens and go searching for companies disregarded by the consensus, unafraid to hold a portfolio that is uniquely ours.

3. ***Overreaction:*** Human perception is often far better or worse than reality. The proverbial pendulum can swing wildly above or below the average. Fear of missing out urges market participants to push the prices of popular names ever higher, while fear of losing more leads to further selling of securities at prices that would have once seemed attractive buys. These overreactions drive pricing dislocations that get magnified in volatile deep value equities and yield particularly attractive investment opportunities.

Should this bias-driven deep value opportunity set persist? We believe it will. Humans will always have innate tendencies. Owning a portfolio of deep value securities is inherently uncomfortable – few would want to invest this way. Plus, through no fault of their own, most fundamental security analysts with pedigrees from elite business schools have either been trained to focus on "quality" or to accept the hypothesis that markets price assets efficiently. Not only is deep value emotionally untenable for most investors, but many market participants have been trained systematically to avoid it!

In sum, the deep value opportunity set, formed by the behavioral biases of market participants, has been our home for nearly 40 years. We continue to happily accept earnings and cash flow volatility for the opportunity to buy unduly discounted companies that provide essential goods and services for the betterment of humanity. And we remain confident that human tendencies and the certainty of progress will continue to create deep value investment opportunities for many years to come.

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DISCLOSURES: 1) Performance results are calculated using a time-weighted total-rate-of-return method and are expressed in U.S. dollars. Results include the reinvestment of all income. Gross of fee performance is presented as supplemental information and reflects the deduction of all trading expenses, except in those accounts where ABP (Asset-Based Pricing) fees are assessed in lieu of standard trade commissions. Net of fee performance was calculated using actual management fees and ABP fees. 2) Although Towle & Co. makes no attempt to manage against the composition of a specific benchmark, the Firm provides the Russell 2000 Value Index as a readily accessible indicator of comparative small cap performance as well as the S&P 500 Index as a general indicator of the market at-large. The performance of an index is not an exact representation of any particular investment as one cannot invest directly in an index and investments made by Towle & Co. differ in comparison to the Russell 2000 Value Index in terms of security holdings and industry weightings. Towle & Co. invests in considerably fewer companies than either index with lower average multiples to book value, sales, earnings, and cash flow, and as a result, the volatility and returns of the indexes may be materially different from the individual performance attained by a Towle & Co. investor. 3) Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Unless otherwise noted, references to 'the Towle Portfolio' or 'the Portfolio' refers to a representative, fully discretionary portfolio managed in the Towle Deep Value strategy and member of the Towle Deep Value Composite. Opinions expressed are those of Towle & Co. and should not be considered a forecast of future events or a guarantee of future results. Opinions and estimates offered constitute our judgment as of the date set forth above and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. All material presented is compiled from sources believed to be reliable, but no guarantee is given as to its accuracy. 5) CFA® is a designation issued by the CFA Institute. To earn the designation, candidates must pass three course exams, each requiring approximately 250 hours of self-study, and have completed four years of qualifying work experience.