TOWLE & CO.

DEEP VALUE INVESTING

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To: Investors

Stay the course! Consumer confidence as measured by The Conference Board hits a 16 year high. Small business optimism surges according to the National Federation of Independent Business. Forecasts abound for enhanced global economic growth. And we expect the Towle portfolio to participate in this upward path of economic progress.

Since the Great Recession, the Federal Reserve Bank has maintained historically low, short term interest rates in order to boost spending, borrowing, and investment. In recent years, private sector unemployment has declined substantially, dropping from a high of 10.2% in November 2009 to the current rate of 4.5%. Both the Federal Reserve and the private sector have paved the way to economic recovery, but the missing link to more robust growth may well be Congress and the Executive Branch. Now is the time to end the persistent policy logjam in Washington. Tax reform, health care revision, government deregulation, and infrastructure renewal cry out for decisive action. It is our hope that meaningful change will occur in the foreseeable future, leading to an improved economic backdrop.

As noted below, 2017 begins with an uptick for the Deep Value Composite (DVC). Results are annualized for periods greater than one year.

Periods ending 3/31/17	Towle DVC *(Gross of fees)*	Towle DVC *(Net of fees)*	Russell 2000 Value	S&P 500 Total Return
3 months	4.34	4.15	-0.13	6.07
1 year	50.69	49.66	29.37	17.17
3 years	12.56	11.77	7.62	10.37
5 years	19.71	18.89	12.54	13.30
10 years	9.57	8.76	6.09	7.51
20 years	14.30	13.47	9.72	7.86
30 years	13.72	12.90	10.29	9.67
Inception (1982)	16.89	16.06	12.26	11.60

The first quarter 2017 letter segments as follows: **Looking Back**, **Portfolio Update,** and **Road Ahead**.

Looking Back

Over time, earnings and revenue growth propel stock prices forward. However, frenzy-like, short term trading plays a mighty role in determining day-to-day prices. In certain periods, human tendencies compel market participants to forgo common sense and to rush to poor judgment. Investors sell when they should be buying and buy when they should be selling. Within the last 20 years, two periods stand out as particularly difficult and speak to the necessity of taking a “reasoned” approach when investing. In both instances, logic and historical perspective took a back seat to reactionary impulse and fear.

The dot-com bubble from mid 1998 to early 2000 was a period of investing that reached the highest levels of irrationality. In just 22 months, the NASDAQ posted a gain of 151%. Initial public offerings of technology companies with no revenues easily came to market! During this same time, our deep value strategy declined by 28% as hundreds of well-run, mainstream companies were indiscriminately sold. Numerous clients of Towle & Co. felt we misunderstood the new world of investing and withdrew funds from our management. In the years following, it became apparent that many investors exhibited remarkably poor judgment by allocating increasing amounts of capital to the technology bubble.

The second period of substantial price disruption was the Great Recession. Weak performance by the Towle portfolio lasted 21 months from May 2007 through February 2009. The decline started slowly as credit markets began to detect flaws in the financial system starting in the summer of 2007. By the fall of 2008, equity markets were besieged by a tidal wave of fearful selling as investors arbitrarily liquidated holdings. The unspeakable collapse of stock prices in October and November of 2008 resulted in a stunning 47.9% decline for the Towle strategy. While this short term panic brought much concern and discontent, it provided an extraordinary opportunity to reposition the portfolio for long term wealth creation.

The behavioral miscues by many investors during the technology bubble and the Great Recession illustrate the necessity of executing an effective investment discipline that works over the long, long haul. In both periods, the divergence from acceptable performance was relatively brief, about 20 months. Looking back, neither period represented an accurate picture of the long term investment scene.

Jeremy Grantham is a seasoned, contrarian value investor and a co-founder of Grantham, Mayo, Van Otterloo & Co., a Boston-based investment firm managing $77 billion. Jeremy capably predicted the credit crisis of 2007-2008. He also forecasted the demise of the technology bubble of 1998-2000 so his thoughts merit consideration by all long term equity investors. Here are a few of Jeremy's investment tenets:

- At all cost, stick to one's investment strategy.
- The principles of effective investing do <u>not</u> change from generation to generation.
- Patience is the bed rock of investing.
- Short term underperformance happens.
- Asset bubbles break, and values revert to the mean.

The mission at Towle & Co. continues unabated. Our only goal is to provide client-satisfying, long term returns on investment, fully recognizing that short term disturbances in stock market pricing will transpire. Judgment, experience, and rationality win the way in our efforts, supported by a global economy that steadily grinds upward.

Portfolio Update

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

Road Ahead

While stock prices and valuations in general are elevated, Towle & Co. remains fully invested in its highly selective, deep value portfolio. Here's why:

1. In many respects, the U.S. economic recovery since the Great Recession has been tepid. The current economic expansion is now balanced, not extreme.
2. Many economists sense that worldwide economic growth will improve in 2017 and 2018, the first synchronized global expansion since the Great Recession.
3. A shift in U.S. public policy toward a greater emphasis on the private sector versus federal government involvement will assist in expanding economic growth.
4. Interest rates, energy prices, and inflation are still manageable, providing a backdrop for better times.
5. Commodity prices deflated dramatically in 2014-2015 causing pronounced harm to thousands of companies and countries that depend on commodity related exports. Prices are recovering, enabling producers to post improved results.
6. Following declines in 2015-16, corporate earnings are projected to advance in 2017-18.

Throughout the globe, political and economic uncertainty abounds. Conversely, lofty stock market valuations clearly indicate that good times should persist. A dichotomy exists between worldwide uncertainty and equity prices. Investing necessitates making a choice about the likelihood of future events. So, at Towle & Co., our choice is as follows: deep value investing works. Stay the course!

Effective April 1, 2017, Chris Towle became the CEO of Towle & Co. CT is fully prepared to take on this role and possesses 22 years of experience in deep value asset management. Although relinquishing the CEO slot, Woody will remain wholly engaged with all aspects of portfolio management.

We are most grateful for your confidence in our services and will gladly respond to your comments or questions.

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

DISCLOSURES

Past performance is no guarantee of future outcome. The Deep Value Composite results are time-weighted total returns, dollar-weighted for the size of each account, including cash reserves and reinvestment of income. Performance figures are calculated after the deduction of all transaction costs, commissions, and other portfolio expenses. Returns are subject to adjustment at any time. 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. Towle & Co. invests in considerably fewer companies than the index with lower average multiples to book value, sales, earnings, and cash flow, and with different industry weightings. As a result, the volatility and returns of the benchmark index may be materially different from the individual performance attained by a Towle & Co. investor. We urge investors to carefully compare the enclosed appraisal reports from Towle & Co. with your account statement received directly from the custodian, in the case of separate accounts, or from the third-party administrator, in the case of the two limited partnerships. Results for specific holdings highlighted in this communication represent the gross returns of those positions in Towle & Co.'s model portfolio and may not be indicative of an individual investor's actual experience.