TOWLE & CO.
DEEP VALUE INVESTING
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Pullback! Following an exuberant U.S. stock market in January, the Towle Deep Value Composite turned decidedly negative in February and March. Results noted below are annualized for periods greater than one year.

Periods ending 3/31/18	Towle DVC *(Gross of fees)*	Towle DVC *(Net of fees)*	Russell 2000 Value	S&P 500 Total Return
3 months	-9.12	-9.28	-2.64	-0.76
1 year	1.00	0.30	5.13	13.99
3 years	12.02	11.24	7.87	10.78
5 years	14.78	13.98	9.96	13.31
10 years	11.48	10.67	8.61	9.49
20 years	11.86	11.04	8.04	6.46
30 years	14.39	13.57	10.77	10.47
Inception (1982)	16.42	15.59	12.05	11.66

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

The first quarter letter segments as follows: **Investment Environment**, **Portfolio Update,** and **Road Ahead**.

Investment Environment

Journalist Ben Levisohn said it well, "The market is so discombobulated right now that it can't even decide what it's afraid of." (*Barron's,* March 19, 2018) In an effort to more fully explain the recent decline in Towle Portfolio prices, we highlight four main issues:

1. **Overextended valuations in January**. A key measurement of stock market value, the Rule of 20, topped out at 23.2, the highest reading since the founding of Towle & Co. in 1981. We define the Rule of 20 as the Value Line P/E plus the Consumer Price Index (inflation).

Period	***Reading***
January 31, 2018	23.2
March 30, 2018	21.1
Five Year Average	19.9

   We embrace the equity price decline of February and March. While still above the five-year average, the Rule of 20 dropped by nearly 10% since January, a constructive move.

2. **Higher inflation and interest rates.** As inflation and interest rates move up, valuation multiples or P/E ratios typically decline. This relationship is reflected in the Rule of 20 readings in the above table. Jim Paulsen, Chief Investment Strategist of The Leuthold Group, sums it up. "The secret sauce of this bull market has been the economy's ability to grow without inflation or sparking higher interest rates. That's changed."

3. **Tariffs and trade**. On March 1st, the Trump administration announced potential tariffs on aluminum and steel. The threat of an escalating trade war with China and other nations introduced substantial uncertainty for investors.

4. **No love for value**. Large capitalization and technology stocks have driven S&P 500 performance of late and continue to be the "darlings" of the investment community. "Growth's recent victory over value has been both stark and historic." (Fortune, Ryan Derousseau, April 1, 2018)

Deep value investing is conclusively out of favor. Based on Capital IQ consensus earnings estimates for 2018 and 2019, a noticeable valuation gap between the Towle Portfolio and the S&P 500 has formed.

	Towle Portfolio		**S&P 500**	
	2018	2019	2018	2019
Median P/E (X)	7.6	7.5	16.9	15.4
Median Earnings Yield (%)	12.9	13.4	5.9	6.5

The ebullient investor sentiment of January turned into hesitancy and skepticism by the end of March, a welcomed shift from an overextended market. A correction is now underway, tempering the speculative fervor and "bubble-like" behavior of January.

Portfolio Update

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

Road Ahead

Prospects for continued economic growth in 2018 appear intact. Consumer confidence and small business optimism approach all time highs. Energy and related commodity prices are manageable. Interest rates, as measured by the 10-year Treasury Bond, are relatively low at 2.74%. Reported inflation of 2.2% remains below levels of concern. The International Monetary Fund projects global GDP growth of 3.9% in 2018 compared to annual GDP growth of 3.4% since 2012. A dramatic reduction in the U.S. tax rate for corporations is now the law of the land, declining from 35% to 21%. Possibly, tax reform and recently signed stimulus legislation will offset, to some degree, the impact of higher rates of interest and inflation, enabling economic expansion to continue into the future.

For investors, however, uncertainties remain that run counter to the positive economic backdrop. The stock market is approaching the longest "bull run" in recent history, and volatility has resumed. Improving growth may not last, resulting in a recession. Inflation and interest rates may rise faster than market expectations. Corporate and federal debt are high and heading higher.

Amidst these competing forces, the Towle Deep Value Composite languishes, down 9.3% year-to-date, net-of-fees. However, we have learned over the years that today's weak stock prices don't necessarily translate into "bad news" tomorrow. Based on Capital IQ earnings estimates (see table on page 2) and our three-year sell target projections, the Towle Portfolio is undervalued in our view. Thus, we remain upbeat.

At Towle & Co., we simply believe in the value of capital creation for all and the certainty of economic progress. Over many years, we have found that a persistent deep value strategy has been a productive capital creator. In today's positive economic environment, we will continue to invest in deep value equities as long as those investments meet our strict standards. We eagerly await the Road Ahead. Please don't hesitate to contact us as questions or comments arise.

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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. 4) 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.