TOWLE & CO.
DEEP VALUE INVESTING
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Rebound! While the market panic and fear of late 2018 are now behind us, there is no shortage of lingering concerns: slowing economic growth, protracted U.S./China trade talks, Brexit uncertainty, and excessive worldwide debt levels. That said, the stock market is a discounting mechanism, typically looking ahead six to twelve months. As such, we believe the notable recovery in equity pricing since the market low in 2018 may be signaling that global economic growth and U.S. corporate earnings have not only stabilized but could advance in the coming years.

With an emerging pattern of better leading economic data, we are encouraged about the earnings prospects of our undervalued, cyclical holdings. Although recent investment performance of the Towle Deep Value Composite (DVC) has been unsatisfactory, we believe that our conservative, three-year sell targets suggest substantial appreciation potential for the Towle portfolio.

Past performance noted below. Results are annualized for periods greater than a year.

Periods ending 3/31/19	*Towle DVC (Gross of fees)*	*Towle DVC (Net of fees)*	*Russell 2000 Value*	*S&P 500*
3 months	12.79	12.62	11.93	13.65
1 year	-14.25	-14.95	0.17	9.50
3 years	9.28	8.48	10.86	13.51
5 years	4.31	3.56	5.59	10.91
10 years	18.70	17.86	14.12	15.92
20 years	12.54	11.70	9.40	6.04
30 years	12.94	12.14	10.24	10.19
Inception (1/1/82)	15.47	14.64	11.72	11.60

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

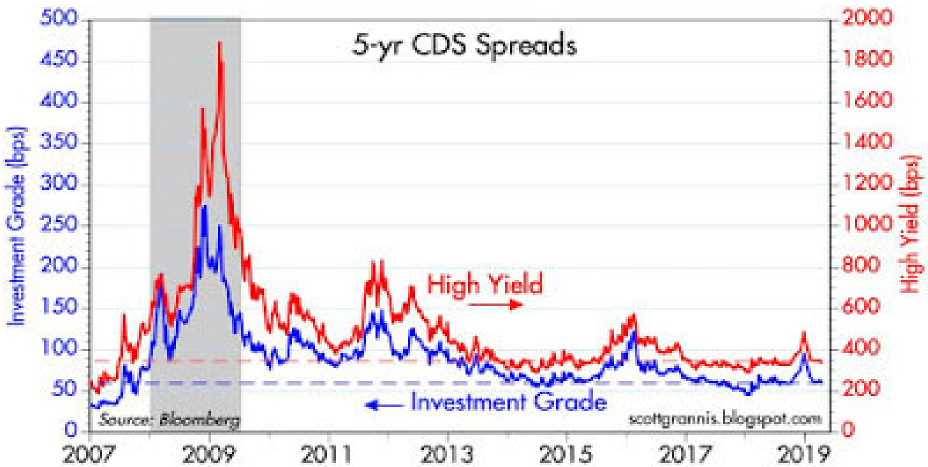
Many stock market strategists grapple with the current reality of slowing global economic growth. The International Monetary Fund recently lowered its 2019 global growth forecast to 3.3%, a marked slowdown from 2017 and 2018. However, the Towle team remains constructive on today's investment environment as the U.S. economy continues to grow at what we feel is a reasonable rate. In addition to broadly positive readings from ACME, our internally generated macroeconomic gauge, three supplementary observations put us in a bullish stance.

1. **Wide Valuation Gap**
   As documented in the financial media, value stocks in general have under-performed growth stocks for a prolonged period. Senior columnist James Mackintosh clarifies the extent of this divergence: "…never have value investors been ground down for so long" (*Wall Street Journal,* March 19, 2019).

   Based on research from Royce & Associates as of March 31, 2019, the valuation gap between small-cap cyclical stocks and their high-growth counterparts may have reached unsustainable levels. Compared to the Russell 2000, cyclicals as measured by Enterprise Value to Earnings before Interest and Taxes are trading at "their deepest discount in 20 years."

   When will equity markets recognize the underrated potential of value investing, especially deep value? We do not know. But, in our judgment, the relative divergence between growth and value combined with compelling absolute valuations provide an attractive backdrop for the diligent deep value investor.

2. **Supportive Credit Markets**
The following chart from Scott Grannis (www.scottgrannis.blogspot.com) shows the path of five year Credit Default Swap (CDS) spreads from just prior to the Great Recession until today. According to Scott, "This is a timely and liquid indicator of the market's outlook for corporate profits—with lower spreads reflecting increasing confidence." While the chart clearly shows a sharp widening of CDS spreads at the end of 2018, spreads have subsequently settled down and remain relatively low, possibly suggesting that conditions for economic growth and credit expansion remain satisfactory.



3. **Better Leading Economic Data**
While current economic readings propose a "muddle thru" growth scenario, the economic research team at Strategas Securities, LLC points to numerous improving trends in leading indicators at the end of the first quarter:
   - U.S. M2 money supply has started to edge higher
   - Weekly jobless claims are at the lowest seasonally adjusted level since 1969
   - Homebuilder surveys have turned up
   - Consumer expectations (Conference Board) are up from their January low
   - U.S. Commercial & Industrial loan growth has moved higher
   - Chinese PMI readings have shown measurable improvement
   - OECD global Leading Economic Indicators are starting to bottom on a 6-month basis

The above observations in conjunction with today's low interest rates, manageable inflation, and reasonable commodity prices create an investment environment that we feel is generally favorable for all types of equities. We remain enthusiastic about the potential gains embedded in the Towle portfolio.

Portfolio Review

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

Road Ahead

At Towle & Co., three fundamental values guide the execution of our contrarian, deep value strategy.

1. **Believe in the certainty of progress**
Economic prosperity is a constant legacy, pushing into the globe's remotest borders. In the highly acclaimed book *Enlightenment Now*, author Steven Pinker writes, "The world has made spectacular progress in every single measure of human well-being."

2. **Be independent, unafraid to stand apart from the crowd**

Unconventional behavior, contrarian views, and a willingness to be wrong are key ingredients to generating above average returns. In the famous words of Byron Wein, “Outsized gains in this business are only possible with non-consensus views.”

3. **Stay disciplined and patient**
   Steadfast adherence to a well-defined, proven discipline will win out over the long haul. Seth Klarman supports this view: “Consistency and patience are crucial. Most investors are their own worst enemies. Endurance enables compounding.”

We work and live by these lasting principles!

While the stock market fell under duress in late 2018 and equity mutual funds experienced their largest monthly outflow in history, the Towle team remained steadfast, actively investing in new ideas and buydown opportunities within the existing portfolio. We feel this contrarian, disciplined action boosted the portfolio’s appreciation potential. With a revamped portfolio and new firepower, we carry on.

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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. 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.