TOWLE & CO.

July 18, 2025

Turning the corner! As highlighted in our first quarter letter, the Towle Value Composite (TVC) has experienced a dramatic period of underperformance at a scale that historically precedes pivotal turning points. Forward returns from those turning points – 1991, 2000, and 2008 – have historically been very positive in both absolute terms and relative to benchmarks.

In line with this context, TVC advanced 10% net of fees in the second quarter, exceeding the 5% rise of the Russell 2000 Value Index. Our outperformance versus both the Russell 2000 Value and S&P 500 following the Trump administration's tariff pause in early April, including the month of July, has been particularly encouraging.

Fiscal policy has become a dominant market force, and with the passage of the Big Beautiful Bill (BBB) we believe the fiscal backdrop supports accelerating small-cap earnings. In addition to locking in the reduced income tax rates from the 2017 Tax Cuts and Jobs Act, **we believe the BBB's focus on incentivizing domestic business investment will favor smaller companies over large, real economy over digital, and value over growth. Time will tell!**

Towle Value returns are highlighted below, alongside benchmark results, with periods greater than one year annualized:

Periods ending 6/30/25	*TVC (Gross of fees)*	*TVC (Net of fees)*	*Russell 2000 Value*	*S&P 500*
Quarter	10.31	10.04	4.97	10.94
YTD	-5.32	-5.80	-3.16	6.20
1 year	-5.22	-6.17	5.54	15.16
3 years	3.98	2.95	7.45	19.71
5 years	14.42	13.29	12.47	16.64
10 years	6.23	5.18	6.72	13.65
20 years	7.48	6.41	6.80	10.73
30 Years	11.25	10.15	9.11	10.47
Inception (1/1/82)	14.23	13.10	10.99	12.11

Returns are preliminary and subject to change. Past performance is no guarantee of future outcome.
Please refer to the last page for additional disclosures.

Shifting Narrative, Strong Foundation

While geopolitics and tariff-fueled trade negotiations loudly dominated headlines this past quarter, **we see a quieter but sturdier story underneath: a resilient U.S. consumer, a shifting investment narrative, and an undervalued Towle portfolio poised for long-term outperformance.**

Recent data suggest the American consumer is in better shape than many expected, and consumer sentiment is rebounding – quickly. The University of Michigan's consumer sentiment survey jumped 16% in June, its third-largest monthly increase ever and the biggest since 1992. Earnings reports mentioning the U.S. consumer echo this strength, providing anecdotal confirmation.

What is supporting this confidence? Inflation and unemployment remain muted, creating a constructive backdrop. In addition, research from Torsten Slok at Apollo Global Management[1] highlights improving credit conditions in the banking sector. Banks are increasingly willing to lend, and healthier consumer credit should bode well for real economic activity.

[1] "Outlook for US Banks" – June 2025 – Torsten Slok, Rajvi Shah, and Shruti Galwankar

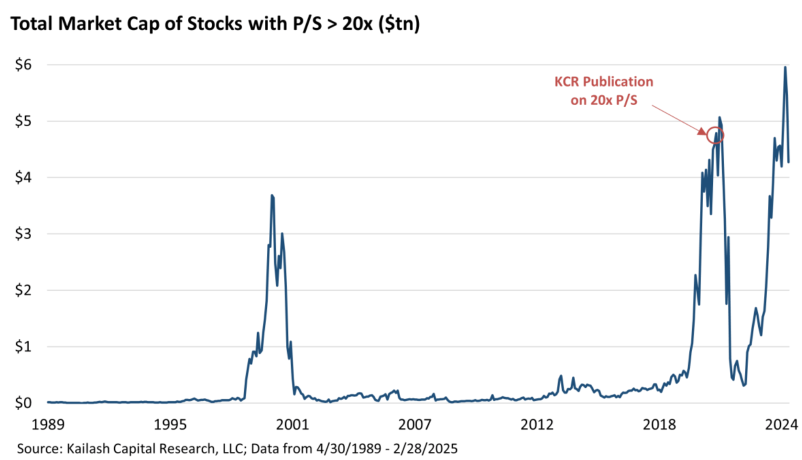
Our portfolio thrives on real economic activity – when people work, build, drive, fly, buy things, and eat. Towle holdings produce and distribute gasoline, steel, car parts, lumber, food, industrial trucks, tires, shoes, paperboard, and clothing. They fly people and move goods.

Fortunately, the narrative in the investment community seems to be coming our way. As Todd Sohn at Strategas recently pointed out, "many investors may not realize how overexposed they are to the large-cap Growth style."[2] As investors increasingly recognize the concentration risk of passive large-cap exposure and seek diversification into attractively valued areas, we believe our portfolio stands to benefit. Recent research underscores this shift:

- In a piece published in June[3], Research Affiliates takes a data-driven approach to examine "smart beta" and valuation. Their conclusion? "On the bright side, there is a lesson here: **Valuations do matter… This gives us hope that the relationship between current valuations and future excess returns is still intact and that valuations are still relevant today."**

- In an ocean of analysis, Bank of America's recent 306-page quantitative primer[4] highlights, **"We continue to favor Value, as valuation dispersion remains elevated; Value stocks' valuations are well below historic average; and positioning remains favorable."**

- Kailash Capital Research published the following chart[5] showing the total market cap of stocks trading above a price/sales ratio of 20x. **It is a stark reminder of the risks of investor complacency, because, as seasoned investors will remember, the Nasdaq took a full 15 years to regain its turn of the century dot-com bubble highs:**



- In "Scared & Loaded"[6] from early July, Jim Paulsen points out that the combination of elevated investor pessimism and excess cash on the sidelines is more emblematic of market bottoms than market tops. This describes today's environment. He emphasizes: "Although I worry about many of the same issues bearish strategists highlight today, my guess is the big elephant in the room – **the ability to buy stocks when attitudes are extremely pessimistic and when substantial idle buying power is sitting on the sidelines – is too compelling to ignore."**

- In May, Morgan Stanley published a piece[7] on the advantages of active management. "While the recent rally in artificial intelligence investing benefited passive strategies, we believe current market choppiness mirrors the late 1990s' internet bubble and volatility-driven price swings. **In this environment, active managers have the potential to capitalize on inefficiencies and mispriced assets, while passive funds remain tethered to broader market fluctuations.**"

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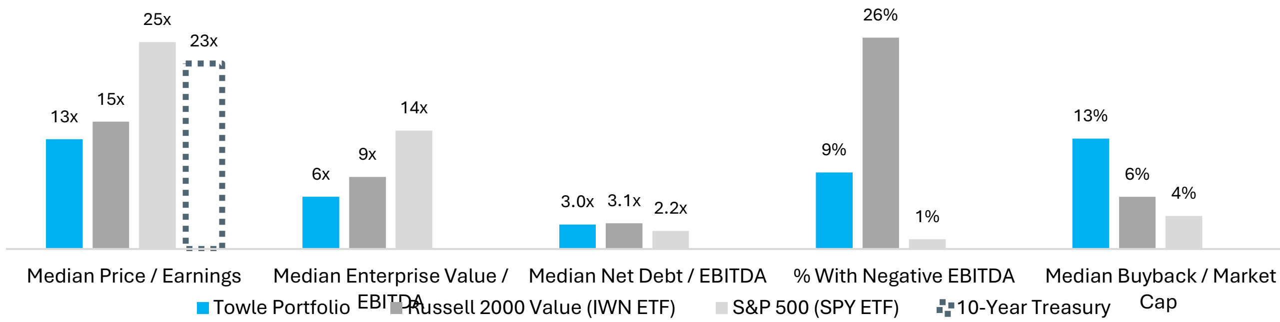
[2] "How much large-cap Growth do you own?" – July 15, 2025 – Strategas ETF Research
[3] "How Can 'Smart Beta' Go Horribly Right?" – June 17, 2025 – Research Affiliates, LLC
[4] "Everything you wanted to know about quant*…" – June 13, 2025 – BofA Global Research
[5] "Sometimes the Most Obvious Things to Do are the Most Difficult" – March 21, 2025 – Kailash Concepts, LLC
[6] "Scared & Loaded" – July 3, 2025 – Jim Paulsen, Paulsen Perspectives
[7] "Active Management Is Suited to Uncertain Times" – May, 2025 – Morgan Stanley Investment Management

When narratives shift, capital usually follows. The emerging outlook? **Valuation matters. Passive carries elevated risk. Value looks better than growth.**

The Towle portfolio seems ideally positioned for this evolving market landscape. **Compared to the Russell 2000 Value and the S&P 500, our holdings are definitively cheap, definitively active, and definitively outside the large-cap universe.** Below we show selected portfolio metrics for the Towle portfolio as of mid-July:



Source: S&P Capital IQ, FRED, data as of 7/14/25; Please refer to the last page for additional disclosures.

One last sign that interest is returning to value stocks: a notable pickup in buyout activity across our space. For example, in Q2 alone, SpartanNash (food distribution) and Radius Recycling (steel production)[8] both received buyout offers. In addition, share buybacks have been reiterated or increased across many Towle holdings, and activist investors are on the prowl.

The narrative is evolving, and we believe our portfolio is exceptionally well positioned to respond to these changes.

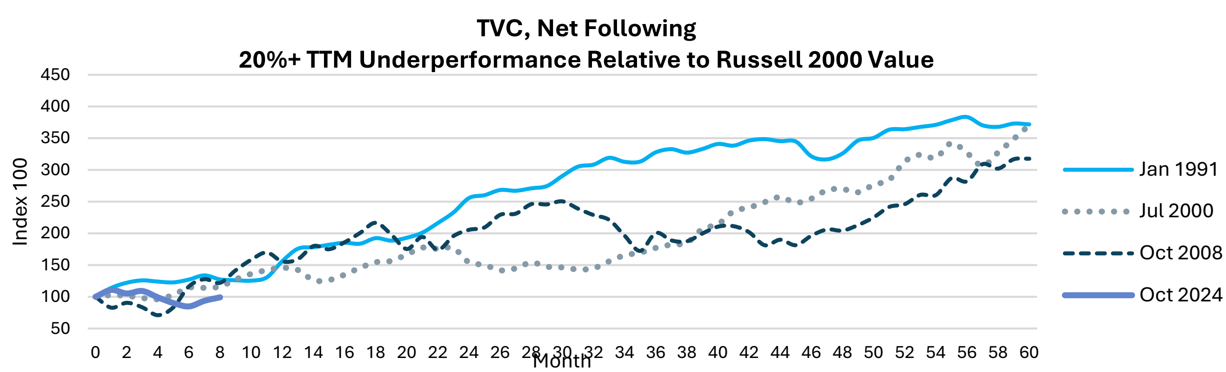
Quarterly Portfolio Review

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

Building on Q2 Momentum

The first quarter of 2025 presented historically poor readings in consumer sentiment, fund manager confidence, and economic policy uncertainty. It's not surprising that such extreme pessimism and uncertainty set the stage for a strong Q2. **The question now is: can the tailwinds continue?**

In our Q1 letter, we discussed the few periods in our history when TVC lagged the Russell 2000 Value by 20% or more over the prior twelve months. We initially tripped the 20% underperformance level on 1/31/91, 7/31/00, 10/31/08, and 10/31/24. As we also pointed out in the Q1 letter, performance following those periods was very positive. Below, we show TVC's 5-year flight path out of 1991, 2000, 2008, and the path we are currently on:

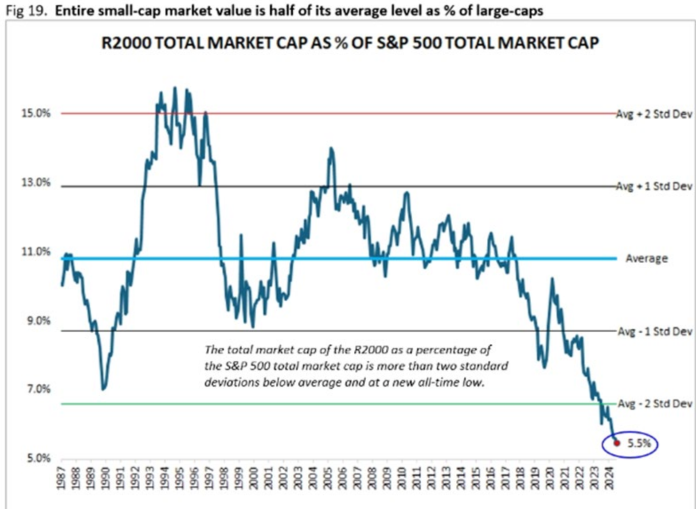


Source: Towle & Co. Past performance is no guarantee of future outcome. Please refer to the last page for additional disclosures.

[8] SpartanNash and Radius Recycling are not current Towle Portfolio holdings.

Investors remain underweight small caps. According to Furey Research, **the total market cap of the Russell 2000 as a percentage of the S&P 500 market cap is currently two standard deviations below average, marking a new all-time low since they started tracking the relationship in 1987:**

Fig 19. **Entire small-cap market value is half of its average level as % of large-caps**



Source: Furey Research Partners and FactSet. Data as of 6/30/25; R2000 market cap based up newly reconstituted index.

As Jim Paulsen highlights, the combination of negative sentiment and ample capital on the sidelines suggests we could be in the early stages of a broader recovery. Our own history points to a fruitful flight path ahead, buoyed by renewed fiscal stimulus in the form of the BBB. Notably, Chief Investment Officers and investment committees, often slow to act, could provide consistent incremental flows as they adjust allocations in the coming *years*. Economically essential businesses cannot be ignored forever.

We believe the narrative is shifting. And when narratives shift, capital follows.

This quarter, we were pleased to welcome Brett Meyer as Head of Capital Formation. Brett brings over two decades of experience identifying, evaluating, and partnering with exceptional investment talent. His career arc reflects a deep commitment to long-term investing and a unique ability to help elite portfolio managers build durable franchises.

Brett began his career at Callan Associates, where he spent 12 years conducting investment manager research and advising institutional investors on asset allocation and manager selection. He later joined Artisan Partners, where he led the formation of five distinct investment franchises through lift-outs of high-performing portfolio managers. These franchises today represent over $20 billion in assets.

Brett's decision to join Towle & Co. reflects a strong alignment with our investment philosophy and culture of independent thinking. He brings fresh energy and a long view to our efforts to grow thoughtfully and strengthen our relationships with like-minded investors. We are excited about the flight path ahead and look forward to what we can build together.

Christopher D. Towle
James M. Shields, CFA
Peter J. Lewis, CFA
G. Lukas Barthelmess, CFA

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 Value strategy and member of the Towle 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) The companies identified and described in this communication are intended to illustrate certain concepts employed by Towle & Co. in the management of its Value strategy. Under no circumstances does the information contained within represent a recommendation to buy, hold or sell any security. Towle & Co.'s opinion of a company's prospects should not be considered a guarantee of future events. 6) 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. 7) On page 3, Price / Earnings ratios are calculated on normalized earnings excluding one-time, extra items. P/E and EV/EBITDA ratios exclude companies with negative earnings and negative EBITDA, respectively. EV/EBITDA and Net Debt / EBITDA ratios exclude banks & other financial institutions (EBITDA is not a recognized income statement item for most Financials). % With Negative EBITDA includes banks & other financial institutions by substituting Earnings Before Taxes. The median buyback-to-market cap ratio considers all portfolio holdings with active buyback plans, calculating each company's buyback divided by market cap, and taking the median of those values. The 10-Year Treasury P/E ratio was calculated as 1 / 4.43%, with 4.43% being the market yield via FRED data as of 7/14/25.