TOWLE & CO.

January 29, 2026

***"You have to keep learning if you want to become a great investor. When the world changes, you must change*.**"
–Charlie Munger

Lessons learned! We cannot control markets – but we *can* control our response. That duty starts with accountability and follows with careful, calculated evolution.

We are not satisfied with recent results and take responsibility. The opportunity cost of investing with us during the past two years has been high. Net of fees, the Towle Value Composite (TVC) fell 7% from December 31, 2023, to December 31, 2025, while the Russell 2000 Value appreciated 22%. As shown below, the impact on our long-term performance statistics has been noteworthy. From the end of 2023 to the end of 2025, TVC pivoted from delivering clear excess returns to materially lagging our benchmark:

Towle Value, Net vs. Russell 2000 Value
Annualized Returns and Delta (TVC minus R2000V)

	At 12/31/23			At 12/31/25		
	TVC, net	**R2000V**	**Delta**	**TVC, net**	**R2000V**	**Delta**
1-Year	19.1%	14.6%	4.5%	2.2%	12.6%	-10.4%
3-Year	13.5%	7.9%	5.6%	3.4%	11.7%	-8.3%
5-Year	13.7%	10.0%	3.7%	6.3%	8.9%	-2.6%
10-Year	7.2%	6.8%	0.5%	8.0%	9.3%	-1.3%

Source: Towle & Co.

With substantial personal capital invested alongside you, we share your frustration.

We have not been satisfied with our performance for some time, and that reality has driven years of focused, largely behind-the-scenes work to strengthen our investment process. Deeply aligned with and invested in Towle's strategy, our objective has been to build a best-in-class framework. The Towle team has been deliberate in developing new capabilities, refining decision-making, and reworking core elements of security selection. That work required patience, but it has reached an important inflection point, with our strongest improvements now being rolled out.

These enhancements – detailed later in this letter – have already produced encouraging results. And we believe the market backdrop is beginning to shift in ways that should favor our small-cap value approach.

TVC returns as of December 31, 2025, are presented below alongside benchmark results, with periods longer than one year shown on an annualized basis.

Periods ending 12/31/25	*TVC (Gross of fees)*	*TVC (Net of fees)*	*Russell 2000 Value*	*S&P 500*
Q4	1.63	1.37	3.26	2.66
1 year	3.18	2.16	12.59	17.88
3 years	4.48	3.44	11.73	23.01
5 years	7.38	6.32	8.88	14.42
10 years	9.07	7.99	9.27	14.82
20 years	7.91	6.84	7.40	11.00
30 Years	11.50	10.40	9.26	10.35
Inception (1/1/82)	14.28	13.15	11.24	12.23

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

*"**Experience is what you get when you didn't get what you wanted**."*
–Howard Marks

I. Changes to Market Structure

We have always believed that buying deeply undervalued securities – often clouded by uncertainty, depressed sentiment, and misunderstood earnings power – creates opportunity and, with time and patience, can deliver superior returns. This core belief remains intact.

However, in recent years, we believe the market's mechanism for recognizing value has fundamentally changed. Equity returns are increasingly driven by capital flows and trading mechanics rather than the slow, fundamental tug-of-war known as price discovery. Today's marginal buyers and sellers seem to respond more to rules, liquidity, and positioning than to refreshed assessments of company fundamentals.

Several forces have made this shift more pronounced:

- **Passive investment vehicles** now exert large, daily buying and selling pressure with no regard for intrinsic value.
- **Global capital** moves faster and more mechanically than ever before.
- **Capital devoted to fundamental valuation work** has shrunk, reducing natural sponsorship for unpopular stocks.
- **The rise of the retail investor**, armed with institutional-grade tools, real-time information, and a social-media-driven feedback loop, has created a fast-moving force that can disconnect price from fundamental value for long stretches.

II. Cheap Is Not Enough

The market can now remain indifferent to fundamental value far longer than it used to, and sometimes longer than we can afford to wait. In this environment, statistically cheap stocks can stubbornly drag on performance almost indefinitely. The distinction between being early and being wrong seems to be disappearing.

The evolving equity market has made one point abundantly clear: **"cheap" is not enough.**

In hindsight, we've been slow to adapt an investment process that treated cheap valuation as the primary buy signal and assumed the market would close the gap on a familiar timetable. We have been relying too heavily on valuation *as a catalyst*. Valuation still matters, but in today's market it must be paired with other tools that turn capital flows from a headwind to a tailwind. **And we're no longer willing to tolerate the cost of funding price stagnation.**

This realization isn't unique to us. Overreliance on valuation is a common behavioral weakness for traditional value investors: entries often occur too early, while fundamentals and flows remain adverse, and positions are typically sold as price approaches fair value – again, too early – missing a meaningful portion of the upside.

Consistently deploying capital into a headwind is inefficient. Exiting positions just as tailwinds emerge is equally inefficient. The solution to these problems is a more disciplined process that aligns valuation, timing, and capital flows.

III. Building a Better Process

For years, instinct told us to investigate where liquidity was building and how capital rotates. In the summer of 2024, we turned that intuition into a formal research mandate. We committed real time and capital to test it with the same rigor we apply to security selection.

The question was simple: can we enhance our value discipline by spending less time fighting the market?

Using S&P Global's ClariFi database and the addition of seasoned momentum and flow[1] expertise, we ran systematic tests on how flows interact with the valuation measures that underpin our strategy. In a universe of cheap stocks, we wanted to separate those that appear stuck from those that are improving. The results were pivotal. Compared to our legacy approach, the upgraded framework consistently improved entry timing, avoided prolonged value traps, reduced drawdowns, and surpassed our expectations across full market cycles.

To earn conviction, the team maintained a very high bar via different types of testing and real-world implementation work. We ultimately began incorporating these enhancements into our investment decisions in late summer 2025, so the evolved process has now been live for several months and we are excited by the results thus far.

IV. Lessons Learned

Process evolution does not mean abandoning first principles. It means applying them with better tools and allocating capital in a way that respects how value is rewarded in the market. We remain fully committed to our founding principles of **low EV/sales, high earnings potential, and resilient balance sheets.**

What has changed is that we now pair valuation with a disciplined, market-based validation measure designed to identify undervalued stocks that are **gaining sponsorship and improving in both price action and fundamentals.** We have learned how to deploy capital more efficiently and spend less time swimming upstream.

This is not style drift. **We will not chase expensive stocks outside our universe, and we will continue to buy traditional deep value stocks**, particularly in market dislocations. But absent extraordinary valuation or a broad market reset, we see little reason to expose capital – ours or yours – to stocks whose price action reflects ongoing weakness. To earn a place in the renewed Towle portfolio, a stock must also show objective signs that the market is beginning to recognize the value we see.

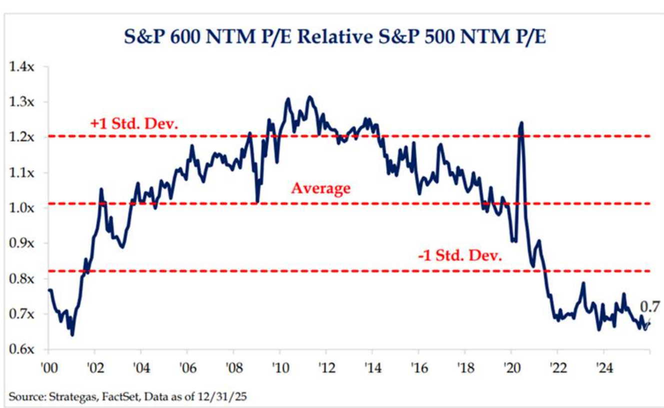
Quarterly Portfolio Review

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

Looking Ahead: Tailwinds for 2026

What we see for 2026 is less about forecasting and more about the arithmetic of cycles: earnings growth, policy support, expectations, and valuation. Several conditions are lining up that have historically favored small-cap value:

1. **Extreme Valuation Dispersion**: The valuation gap between large-caps and small-caps sits near historic extremes. In our view, this dispersion is the cleanest quantitative expression of crowded positioning vs. abandoned stocks, and the mean reversion could be swift (see 2001-2002):



[1]*In equity trading, the interplay between force and flow is crucial for understanding market dynamics. Force refers to the speed and direction of price move ment, while flow represents the volume of trading activity. Momentum trading is a strategy that capitalizes on the speed of price movement, aiming to profit f rom the continuation of existing market trends. Source: Investopedia.*

2. **Easier Money = Cyclical Lift**: Labor is soft and hiring stayed weak into year-end. The Fed has already cut rates multiple times in the last year, so we are hopeful for easier financial conditions ahead. Historically, this has been a direct tailwind for our space.

3. **Low Expectations = Upside Reversion**: Many industrial and manufacturing businesses look like they've gone through a recession in the past several years. With ISM Manufacturing PMI at 47.9 – its 10^{th} straight month in contraction – industrial expectations are deeply depressed. This is exactly the setup where even modest stabilization can drive an outsized re-rating.

4. **Falling Yields Increase Small Cap Appeal:** Money market fund assets stood at **$7.8 trillion** as of January 7, 2026. As cash yields fall with Fed easing, the opportunity cost of sitting in cash rises. Even modest re-risking can be powerful for small caps given their lower baseline ownership and lighter flows after years of relative underperformance.

If the economy and labor markets stay sluggish, policy support may become a major catalyst. We think the biggest beneficiary should be the rate-sensitive, underperforming, economically levered, under-owned segment of U.S. equities: small-cap cyclicals and value.

Critically, we enter this period with an investment process refined by experience and focused effort. Should policy and market tailwinds pick up, the combination with our improved security selection process could have meaningful effects on our portfolio. Time will tell, but we think early 2026 may be one of the great entry points in our 40+ years of investing.

Entering 2026, we see a more constructive environment for Towle Value, and we are confident in the refinements we've made to our process. Our focus is straightforward: **execute with discipline, stay anchored to the evidence, and deliver outstanding results in the year ahead and beyond.**

In other news, we are delighted to announce that Matt Walters has joined Towle & Co.'s investment team as Senior Quantitative Analyst.

Matt wrote his first algorithm to trade S&P 500 futures in 1999 and has been programming systematic research frameworks ever since. His investment work has always focused on validating ideas and turning them into repeatable decision rules – ranking systems, portfolio construction methods, and risk management tools – all backed by careful attention to implementation.

Over the past year and a half, Matt has worked with Towle & Co. as an independent contractor, collaborating closely with the team. His work ethic is obsessive, his curiosity is insatiable, and he naturally brings joy to the craft of discovery. We are thrilled that Matt is now a full-timer.

Christopher D. Towle
James M. Shields, CFA
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DISCLOSURES: 1) Towle Value Composite 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. 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. 4) 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.