TOWLE & CO.

April 29, 2026

Orderly broadening.

For years, many investors have taken comfort in the belief that passively owning "the market" is synonymous with diversification. But when the top ten companies represent nearly 40% of the S&P 500, that comfort is misplaced.

Narrow leadership has a way of planting the seeds of its own fragility. Expectations rise, valuations stretch, and a crowded consensus forms. And in early 2026, an emerging shift in leadership appears to be unfolding harmoniously. We believe our recent outperformance versus the S&P 500 offers a quiet acknowledgement that the next opportunities may not come from the same handful of companies that defined the last cycle.

What is changing beneath the surface is not just the flow of incremental capital, but the valuation gap those flows may expose. AI may be written in code, but its expansion depends on steel, power, equipment, and infrastructure. If that continues, the benefits should extend to a much broader set of companies tied to the physical economy, many of which sit squarely in our small-cap value universe. The Iran war interrupted that trend but did not reverse it. Capital remains crowded in expensive digital leaders, while many of the businesses behind the physical buildout trade at undemanding valuations.

Towle Value Composite ("TVC") returns as of March 31, 2026, are presented below alongside benchmark results, with periods longer than one year shown on an annualized basis.

Periods ending 3/31/26	*TVC (Gross of fees)*	*TVC (Net of fees)*	*Russell 2000 Value*	*S&P 500*
Q1	6.35	6.09	4.96	-4.33
1 year	27.86	26.61	28.09	17.80
3 years	6.33	5.28	13.80	18.32
5 years	3.37	2.35	5.79	12.06
10 years	8.82	7.74	9.61	14.16
20 years	7.75	6.68	6.98	10.53
30 years	11.63	10.52	9.28	10.00
Inception (1/1/82)	14.36	13.22	11.29	12.05

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

AI Revolution Meets Physical Reality

We fully acknowledge that new technologies can be both real and transformative. They can also attract speculation that outruns reality. Those ideas are not in conflict. Railroads changed the world. The Internet did too. Both also passed through periods when capital flooded in, expectations detached from economics, and investors briefly confused inevitability of adoption with inevitability of returns.

We suspect AI will follow a similar path: world-changing, enormously productive, yet still prone to pockets of excess. Progress rarely remains monopolized for long. It diffuses. And as it diffuses, the early leaders attract competition, invite overinvestment, and often give rise to a broader set of second- and third-order beneficiaries than the market initially expects.

One of the more useful frameworks we have encountered recently comes from Latticework, which describes a "Great Rotation" from the 2D world of screens, software, and digital abundance to the 3D world of atoms, energy, metals, manufacturing, logistics, and infrastructure. While digital businesses benefit from low friction, low marginal costs, and abundant supply, physical-economy businesses answer to scarcity, permitting, and physics. For years, the market rewarded one and ignored the other, pricing much of the digital world for perfection and much of the physical world for irrelevance. That spread is starting to close.

Even AI reinforces the point. The interface is digital, but its economic footprint is unmistakably physical. More compute still requires more power, more cooling, more equipment, and more infrastructure. Claude can write code. It cannot build a copper mine or power station. The market has spent years underwriting the digital layer and overlooking the physical one beneath it. We think that is beginning to change, and many small-cap value companies stand to benefit.

Valuation Sets the Table

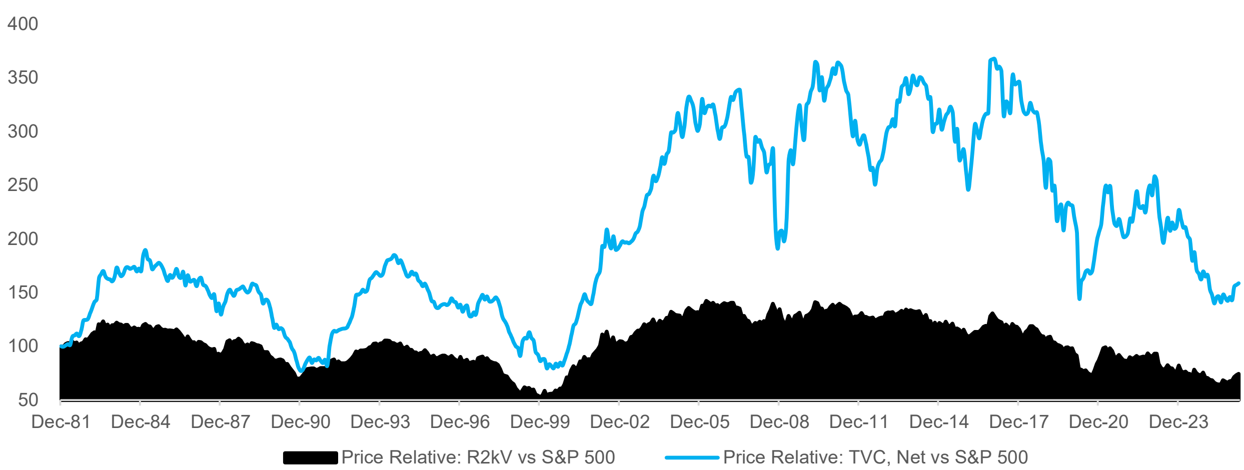
If the case for broader small-cap participation is improving, valuation makes the opportunity investable. And institutional investors appear to be catching up to the opportunity:

- In its 2026 public-equity outlook, Cambridge Associates recommends an overweight to developed-market small caps, citing attractive valuations, solid fundamentals, and supportive macro and policy dynamics. They also describe developed-market small caps as trading at multi-decade discounts to larger peers on normalized earnings measures. [1]
- T. Rowe Price's Asset Allocation Committee increased its overweight to U.S. small caps, arguing that the recent relative move looks durable rather than merely technical.[2]
- On a recent podcast, Research Affiliates' founder Rob Arnott said that today's valuation extremes create a compelling long-term setup for small-cap value relative to large-cap growth.[3]

We have seen this before. Long stretches of underperformance do more than test investor patience; they also reset expectations, compress valuations, and improve the forward setup. That is often how an asset class regains traction: the arithmetic improves before sentiment does. From current levels, small-cap value does not require perfection or significant macro clarity. It simply needs outcomes modestly better than those already priced in.

Interestingly, Cambridge also notes that a meaningful share of small caps' long-run excess return versus large caps came in the post-tech-bubble period through 2011. We are not suggesting a replay of that cycle. But we think the historic analogy is worth respecting, especially in the context of current valuations, expectations, and the evolving sentiment of institutional allocators

The relative price data point in the same direction. The charts below compare the Towle Value Composite (TVC) and the Russell 2000 Value (R2KV) with the S&P 500. Small-cap value has endured a prolonged period of relative weakness, but the pattern now appears increasingly consistent with a durable basing process, similar to those that preceded prior periods of excess return in the early 1990s and early 2000s:



---

[1] *2026 Outlook: Public Equity Views, Cambridge Associates Insights, 12/3/25*
[2] *Are U.S. small-caps finally back? T. Rowe Price Monthly Market Playbook, Timothy C. Murray, CFA, February 2026*
[3] *Excess Returns: "The Widest Valuation Gap in History" (Apple Podcasts), 3/5/26*

Taken together, the setup appears increasingly favorable. Historically wide valuation discounts are being recognized and acted upon by leading institutional allocators. The long cycle may finally be starting to turn.

Quarterly Portfolio Review

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

Introducing VALT

As discussed in our 2025 year-end letter, we have come to view constructive price behavior as a useful complement to our longstanding valuation discipline. Our core value strategy has not changed: we seek to buy undervalued businesses trading at depressed multiples to revenue where we believe earnings power is underappreciated. What has evolved is our implementation.

We now formally refer to this implementation tool as the Towle VALT score. VALT combines valuation (VAL) with traction (T), our proprietary measure of equity pricing strength. Valuation remains the anchor. VALT helps us distinguish between stocks that are merely cheap and those where value and market recognition are beginning to align.

At the security level, VALT is designed to improve patience and capital efficiency. It is designed to help us avoid committing capital too early simply because a stock appears cheap, particularly when there is little evidence that the market has any interest in the underlying value. It should also help us hold successful investments longer when market validation continues to build. We believe both effects should improve capital deployment over time by reducing premature entries and allowing stronger positions more room to work.

At the portfolio level, VALT may be even more valuable by allowing the portfolio to adapt to the evolving character of the opportunity set without requiring a top-down macro call. At market bottoms, when price behavior is uniformly weak but valuations are unusually depressed, the process leans toward the cheapest stocks. If conditions improve and differentiation returns, VALT can tilt toward holdings that still meet our valuation parameters while also exhibiting stronger market traction. We believe that flexibility will improve capital deployment across the full cycle and reduce the severity of drawdowns during periods of market stress.

To be clear, our investment philosophy has not changed. Our north star remains buying undervalued companies at low multiples to revenue with underappreciated earnings potential. We believe that VALT is simply a better way to execute that discipline.

The Next Phase

Looking ahead, we believe the backdrop is becoming more constructive for small-cap value. Leadership is beginning to broaden, earnings improvement is spreading beyond the largest companies, and several of the market’s most neglected areas still begin from deeply discounted valuations.

There are, of course, risks. Higher-for-longer rates could persist and weigh on smaller companies more than we expect. Commodity volatility could become more disorderly, complicating planning and capital allocation across the real economy. Fiscal or monetary policy mistakes could add to the strain. And we must allow for the possibility that highly concentrated capital could remain in place longer than seems reasonable. But those are risks to be managed, not reasons to ignore the setup. Selectivity and discipline matter most when the environment is uneven, and our value strategy, enhanced by VALT, does not require a clean macro backdrop to perform.

What matters now is that the opportunity set appears to be improving while valuations remain attractive. Capital has spent years crowding into the same expensive winners and that rarely persists indefinitely. As the market begins to reward a broader set of businesses, we believe the case for rotating capital into undervalued areas becomes stronger. Small-cap value is one of the clearest places where that gap between price and opportunity still exists.

After 13 years with the firm, James Shields has decided to leave Towle & Co. to pursue his next endeavor. During his tenure, James made important contributions to both our investment effort and the broader development of the firm. He brought analytical rigor, a builder's mindset, and a thoughtful, data-driven approach that helped strengthen our organization and refine aspects of our investment process. He also played a vital role in bridging the ownership group and our emerging professionals, who have since stepped into greater responsibilities and are increasingly leading the next phase of the firm's development.

We view this transition as a natural progression and a reflection of healthy succession within our team. Because our investment process is systematic, durable, and deeply embedded across the organization, this transition has been executed seamlessly and without disruption to our research or decision-making framework. Importantly, James remains constructive on the long-term opportunity in small-cap value and intends to remain a Towle investor. He will also be available as a consultant to the team over the coming months. We are deeply grateful for his 13 years of dedication and are excited to see him apply his unique talents in his next chapter.

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

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.