LYONS INVESTMENT MANAGEMENT

QUARTERLY NEWSLETTER

Q2 2022

CONTENTS

LYONS INVESTMENT MANAGEMENT
280 W Canton Ave, Ste 430
Winter Park, FL 32789

Phone: 386-775-1177
Fax: 407-559-8323

Email: info@lyonsinvest.com
Web: lyonsinvest.com

It was a brutal quarter for US stocks, ranking in the top 20 for largest quarterly declines since 1926. The reason for this decline was that the economic picture became a lot darker. Out of control inflation has been driving interest rate increases, a combination that reliably creates a downturn.

The Fed is in panic mode, a result of being behind the curve, and is desperate to regain control. They will do anything to get inflation down. Their mechanisms of action are “financial conditions” (i.e. the stock and bond markets) and overall demand in the economy. They will use their tools (interest rates and quantitative tightening) to reduce both. This is not a typical Fed cycle where they are trying to balance multiple objectives. Short term interest rates will still go a lot higher from here.

Inflation is higher than it has been in 40 years. This goes beyond energy prices to include wages and services which sealed the deal for the Fed. Recently, the entire commodity complex including energy, food, and metals has seen prices drop sharply. This doesn’t change the near term outlook, although it’s certainly a necessary component of getting inflation back down longer term.

The US economy most likely peaked this spring and is entering into a recession this summer. The exact timing or the label doesn’t particularly matter. Leading indicators of economic activity are falling rapidly. Measures of past economic strength, like the low unemployment rate, aren’t predictive of what happens next. Financial news is full of reports that the economy is “strong”, as though that will prevent the downturn. It won’t.

After the quarter we’ve had, none of this is any longer a surprise to markets. The question now is what the recession will look like. My guess is that this is going to be a grind lower that lasts for an extended period. Durables like autos and housing are indicative. On the one hand, there was no buildup of inventory as there is ahead of most peaks. However, affordability is bad and about to get worse with falling income, so the most likely outcome is a slow decline. Some parts of the goods economy will likely decline faster because there was excess demand coming out of the pandemic which can fade quickly.

Is this downturn inevitable? In the short term it is, due to the damage that has already happened from inflation and Fed. However, the depth and duration of the recession will depend on policy decisions and some luck. For example, it’s positive that longer term interest rates have not risen commensurately with inflation and are sitting around 3%. This expresses the market’s belief that the Fed will be successful in getting inflation down eventually.

A lot of eyes are on Energy as a major inflation contributor. There is a relevant comparison to the 1970’s in that geopolitics are playing an important role. Russia is and will be pivotal in setting the global price of the entire fossil fuels complex (oil, refined products, natural gas, and coal). They have to consider their relationship with China, an energy importer, but mostly they want higher prices. So far, they have chosen to focus on natural gas as a way of hurting Europe. The important thing to realize is that this isn’t a normal cycle where supply and demand will react purely to price.

American companies now are coping with yet another U-turn in the business environment. It’s been one after the other: Trump’s Trade War, the pandemic drop, the post pandemic rebound and supply chain disruption, and now inflation and recession. One of the positives is that things have been so uncertain that there was very little opportunity to overinvest. Companies have needed to be nimble, and that just continues here. I discuss the outlook for stock prices in a separate piece this quarter.

The market's job is to try to predict the future. Since investors alternate between chasing price gains and running from losses, the market often overstates the impact of both good and bad events. Professional investors that dominate market trading are typically paid to be ahead of their competition and care mostly about being directionally correct. The net result, which we see empirically, is that the future is over-hyped in bullish phases, and disaster is over-discounted in bearish ones.

After a big decline like we've seen in the first half of 2022, it's worth asking if the market has over-discounted the coming economic downturn. Notwithstanding the current high levels of bearishness which likely will give us some short term reversion, we need to figure out if stock prices today reflect enough of the bad news about future earnings and the multiple where those earnings might be priced in the future. The theory of overshooting says that there should be pessimism that shows up in how stocks are priced today, reflecting a view that conditions will only get worse.

Unfortunately, I don't think we're there yet. The market's current valuation is now roughly in line with its 25 year average and somewhat below the recent history of the last 5 years. Off the bat that's not enough to form a strong opinion that we've overshot to the downside. To make things worse, there's reason to believe that both earnings and PE multiples should be lower using conservative assumptions. This is due to the negative effect of inflation and the Fed's current actions to fight it.

There are two primary forces now pushing both earnings and multiples down. First, interest rates and stock multiples are negatively correlated. When rates go up, PE multiples go down, and vice versa. The increase in rates marked the end of the bull market for growth stocks, the same way it did for the Nifty Fifty in the early 1970's. Growth dominated bull markets always rely on both sales growth and higher valuations and can't persist without both. Growth stock multiples are still much higher than the 25 year average, so it's unlikely that they have declined enough. Notably, that average doesn't include any high inflation periods.

The other force is affecting value stocks. The post pandemic period was a perfect storm boosting value stock earnings. Margins increased dramatically and mundane companies were suddenly very profitable. The source of this is the same as the roots of inflation (which is why there is a long term correlation): excess money combined with supply constraints. Energy and related cyclicals are a typical example. The negative side of the story is that these excessive margins can yo-yo back down as the positive conditions fade. This typically happens as inflation and Fed policy reduce demand. So inflation is first good and then bad for value stocks. This is why there was such an abrupt U-turn in value stock performance this quarter. The only saving grace for these economically sensitive stocks, perhaps, is that inflation moved so quickly that the market never really got a chance to overprice them. Multiples compressed significantly as earnings rose, so they look much cheaper than average. When earnings fall, there is room for multiples to re-expand. As a value stock manager, I can tell you from experience that this isn't typically a fun time as earnings often move more than you think they will.

At least we can say that the market is cheaper than it was at the beginning of the year, and part way through the process of revaluation. The outlook is poor, but that's necessary to create the market's normal overshoot. With a little patience and fortitude, we can look forward to some really exciting values that set the stage for future performance. However, it might be necessary to stomach some more declines first.

Lyons Investment Management
Fundamental Small Cap Value Strategy

Q2 2022

PERFORMANCE AS OF 6/30/2022

	QTR	YTD
Small Cap Value	-11.47%	-13.65%
Russell 2000	-17.20%	-23.43%

PORTFOLIO STATS AS OF 6/30/2022[1]

	SCV	S&P 500
Number of Holdings:	58	503
Mkt Cap Mil (Avg).:	$2,030	$66,661
P/E (TTM):	7.1	22.9
P/B:	1.5	4.6
ROE (Median):	19.8%	18.1%

TOP 5 HOLDINGS AS OF 6/30/2022[2]

AMRK	A-Mark Precious Metal
EGY	VAALCO Energy
PKBK	Parke Bancorp
PLUS	ePlus Inc.
SMP	Standard Motor Products Inc.

LARGEST CONTRIBUTORS Q2 2022[3]

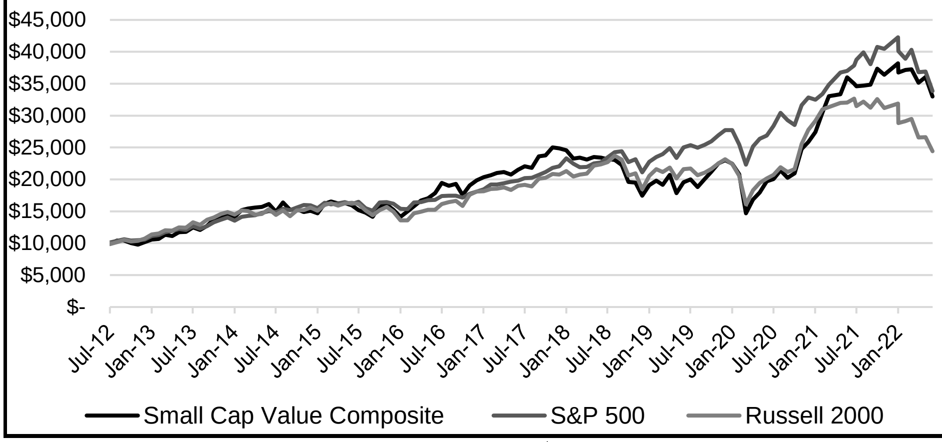
		Impact
ULH	Universal Logistics Hold	0.61%
RGP	Resources Connection	0.29%
EGY	VAALCO Energy	0.25%
MOD	Modine Manufacturing	0.20%
CRMT	America's Car-Mart	0.20%

LARGEST DETRACTORS Q2 2022[3]

		Impact
CUBI	Customers Bancorp	-1.42%
AMRK	A-Mark Precious Metal	-0.91%
LEGH	Legacy Housing Corp	-0.90%
SHYF	Shyft Group Inc	-0.72%
AVNW	Aviat Networks	-0.52%

GROWTH OF HYPOTHETICAL $10,000

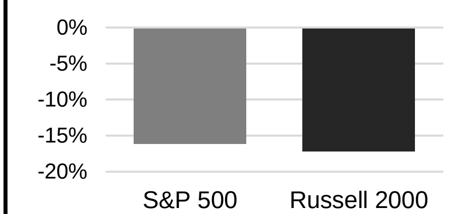
(JULY 1, 2012 – JUNE 30, 2022)



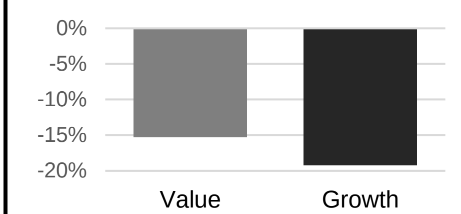
This chart illustrates the performance of a hypothetical $10,000 investment made in the strategies ten years ago or on commencement of operations (whichever is later). Figures include reinvestment of capital gains and dividends. These charts are not intended to imply any future performance.

S&P 500 V RUSSELL 2000

Q2 2022



RUSSELL 2000 VALUE V RUSSELL 2000 GROWTH Q2 2022



SECTOR WEIGHTS AS OF 6/30/2022

Energy	8.46%	Financials	20.83%
Materials	9.04%	Real Estate	0.77%
Industrials	20.01%	Technology	23.25%
Consumer Discretionary	13.21%	Telecommunications Services	0.11%
Consumer Staples	0.00%	Utilities	0.00%
Healthcare	1.80%	Cash	2.52%
		Total	**100.00%**

Past performance is no guarantee of future results. An index is unmanaged and is not available for direct investment. Allocations, holdings, sector weightings, and performance contributors and detractors are subject to change and should not be considered as investment recommendations. It should not be assumed that an investment in any of these securities will be profitable. This is supplemental information. Please refer to the end of this document for important disclosures. Portfolio information is derived from a representative account managed against the index noted and included in the composite. The representative account was selected based on objective criteria, including, but not limited to, the nature of the client, the client's benchmark, and the ability for the mandate to be implemented without material restrictions or limitations.

[1] Statistics in this table are weighted averages except where otherwise noted. Index data provided by Standard & Poors, except for ROE.

[2] Top 5 Holdings: The securities identified are based on the largest positions in the representative account, as a percentage of assets, and do not represent all of the securities purchased, sold, or held in the account.

[3] Largest Contributors and Largest Detractors: The securities identified are the largest performance contributors and detractors in the representative account, and do not represent all of the securities purchased, sold, held or recommended for advisory clients. In order to obtain the calculation methodology and/or a list showing every holding's contribution to the representative account's performance during the quarter, please contact us at info@lyonsinvest.com.

COMMENTARY BY VAIDAS PETRAUSKAS

Global macro factors took center stage this year as currency movements had a much greater impact on our performance than stock prices. We were hit by a double whammy of falling Asian stock markets and currencies. The Yen depreciated by a whopping 15.6% against the US dollar in the first 6 months of 2022 (on top of a 10.5% loss in 2021), and this drop in the yen had by far the biggest impact on our performance. The yen went from 103 to 1 dollar to 136 in 18 months. In Thailand, the currency was down 6% in the first half against the USD while our Thai stocks were barely changed.

Japanese stocks are down single digits this year and are holding up relatively well, mostly ignoring the sell-off taking place in the US stock market. This is a welcome sign because the Japanese stock market usually is correlated to the US stock market. Not this year. There was no sharp rise of Japanese stocks to begin with, so the sell-off is much milder. High-flying Japanese tech stocks are down sharply, but Japanese value stocks are down only slightly.

The weakness in the yen can be explained by the Bank of Japan still being engaged in expansionary monetary policy while other central banks are tightening. It is also being pushed down by the Yen carry trade, when investors borrow cheaply in yen and invest the proceeds into higher yielding assets. Although, to be fair, the dollar has been strong against almost all other currencies this year. The Euro, with its own set of problems, is down 12% against the dollar this year. The British Pound, normally a stable currency, has depreciated by 10%!

The yen's weakness can likely last a while longer, although I do feel that the biggest part of the drawdown is behind us. Markets tend to swing like a pendulum, using Howard Marks's analogy, taking things too far in either direction. Any policy change towards tightening or the relaxation of the yield curve control by the Bank of Japan would reverse the yen's slide, but so far, the Bank of Japan is holding firm.

The devaluation of the yen increased the competitive position of Japanese companies. Combined with the fact that wages in Japan, unlike everywhere else, are not rising, this gives a huge cost advantage to Japanese firms versus global rivals, which should lead to higher profitability. That is unless we have a global economic downturn.

Looking to the second half of this year, the Bank of Thailand will start raising interest rates. This should arrest the fall in the Thai Baht. No such help for the yen is expected from the Bank of Japan. So, the yen will stay under pressure until something breaks.

I expect good earnings to continue rolling in for Japanese companies due to their increased cost advantage and the cheap yen. The same dynamic applies to Thai exporters due to the historically cheap Thai Baht. But the earnings picture for Thai companies is less clear and differs by company. Costs have risen sharply for Thai manufacturers. Some are able to partially pass on increased raw materials costs, but many are taking some sort of hit to their margins. Some are able to pass on the increase with a 6-month delay. The situation is rapidly changing and bears watching closely. Raw material prices have now gone into reverse due to recession fears. The price of copper, for example, fell from $4.50/lb. to $3.15 in just one month. So companies must work extra hard in trying to source raw materials at reasonable prices and adjust the pricing of their products when the competitive situation allows it. It will be interesting to see how different companies handle this rapidly changing environment. We had COVID in 2020 when there was a steep drop in demand, followed by the after-COVID spike in demand and a shortage of everything, which led to higher prices. Now we are entering the "waiting for recession" stage with an expected fall in demand due to lack of affordability due to higher prices and borrowing costs. The market will reward companies which can successfully navigate these whipsaws in their business.

Lyons Investment Management
All Asian Strategy

Q2 2022

Portfolio Stats As of 6/30/2022[1]

	AA	S&P 500
Number of Holdings:	64	503
Mkt Cap Mil (Avg):	$727	$66,661
P/E (TTM):	7.7	22.9
P/B:	1.0	4.6
ROE (Median):	13.0%	18.1%
Dividend Yield	3.7%	1.4%

Top 5 Holdings As of 6/30/2022[2]

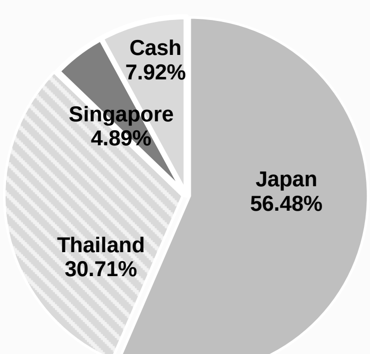
Thantawan Industry PCL. (Thai)
Sahamitr Pressure Container PLC. (Thai)
Information Planning Co. (Japan)
Central Automotive Co. (Japan)
Nippon Systemware Co. (Japan)

Largest Contributors Q2 2022[3]

	Impact
Thantawan Industry PCL	0.41%
QOL Holdings Co.	0.12%
Elematec Co.	0.11%
Sahamitr Pressure Container PL	0.10%
T Hasegawa Co.	0.08%

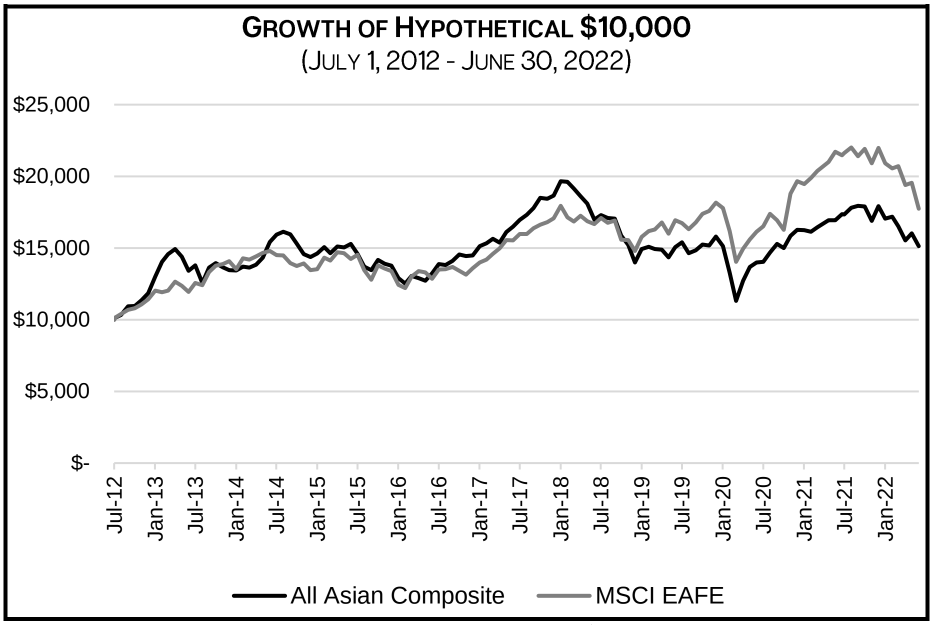
Largest Detractors Q2 2022[3]

	Impact
Nippon Pillar Co.	-0.58%
MCS Steel PCL	-0.58%
G-7 Co.	-0.57%
Thai Optical PCL	-0.52%
Supalai PCL	-0.41%



Performance As of 6/30/2022

	Quarter	YTD
All Asian	-8.40%	-15.57%
MSCI EAFE	-14.29%	-19.25%
Nikkei 225	-5.13%	-8.33%
Thai SET index (Baht w divs)	-6.81%	-3.83%
Singapore FTSE All Share	-8.97%	-1.95%
Japanese Yen vs USD	-10.77%	-15.57%
Thai Baht vs USD	-5.89%	-6.09%
Singapore Dollar vs USD	-2.84%	-3.19%



This chart illustrates the performance of a hypothetical $10,000 investment made in the strategies ten years ago or on commencement of operations (whichever is later). Figures include reinvestment of capital gains and dividends. These charts are not intended to imply any future performance.

Past performance is no guarantee of future results. An index is unmanaged and is not available for direct investment. Allocations, holdings, sector weightings, and performance contributors and detractors are subject to change and should not be considered as investment recommendations. It should not be assumed that an investment in any of these securities will be profitable. This is supplemental information. Please refer to the end of this document for important disclosures. Portfolio information is derived from a representative account managed against the index noted and included in the composite. The representative account was selected based on objective criteria, including, but not limited to, the nature of the client, the client's benchmark, and the ability for the mandate to be implemented without material restrictions or limitations.

[1] Statistics in this table are weighted averages except otherwise noted. Index data provided by Standard & Poors, except ROE.

[2] Top 5 Holdings: The securities identified are based on the largest positions in the representative account, as a percentage of assets, and do not represent all of the securities purchased, sold, or held in the account.

[3] Largest Contributors and Largest Detractors: The securities identified are the largest performance contributors and detractors in the representative account, and do not represent all of the securities purchased, sold, held or recommended for advisory clients. In order to obtain the calculation methodology and/or a list showing every holding's contribution to the representative account's performance during the quarter, please contact us at info@lyonsinvest.com.

COMMENTARY BY MARK ZAVANELLI

It was another down quarter in the market and many of the performance trends from the first quarter continued. Safety factors were successful, which is not surprising in a quarter with steep declines. Value and Momentum also were successful. Former growth darlings continued to decline more than the market, while Energy stocks drove better returns to Value. I suspect that this dynamic showed up in the returns for most factors. In fact, there is an unusually high degree of correlation between Value, Momentum, and Profitability. This means they can all succeed together, as they are currently, but can also fail together when the market dynamics change.

Company size was useful again this quarter, with large continuing to outperform small. The average large cap stock lost -14.09% while the average microcap lost -20.68%.

Within microcaps, here is how factors performed:

- The best returns were provided by two factors in our Safety group. Low Volatility and High Dividend Yield.
- Value worked very well. All the Price to Earnings variants and Price to Book were very successful.
- Momentum worked, especially Price Momentum. Trends in place continued.
- Profitability worked. Interestingly, the most profitable firms underperformed the second quintile of profitability. I think this was caused by the poor performance of some cyclical companies, which currently occupy the best rank, during the steep drop in June.
- Low Volume finally helped this quarter. It typically does well in down quarters.
- Short Interest continued to be successful as highly shorted firms underperformed.

The factor backdrop was very favorable for our quantitative strategies this quarter, and all three outperformed the average microcap stock by a wide margin. Volume Value was particularly successful, only losing around 5%, a quarter of the loss suffered by the average microcap.

PERFORMANCE AS OF 6/30/2022

	Quarter	YTD
Volume Value	-4.90%	-10.98%
Volume Winners	-9.08%	-15.74%
Russell 2000	-17.20%	-23.43%

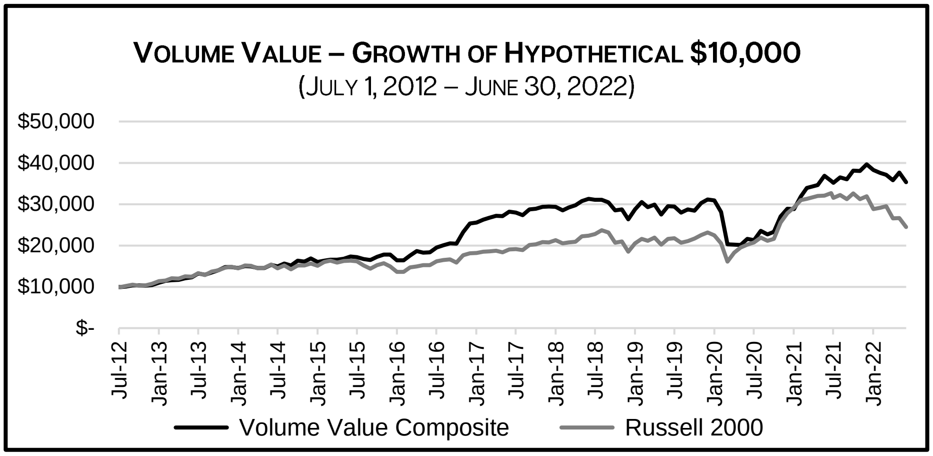
PORTFOLIO STATS AS OF 6/30/2022[1]

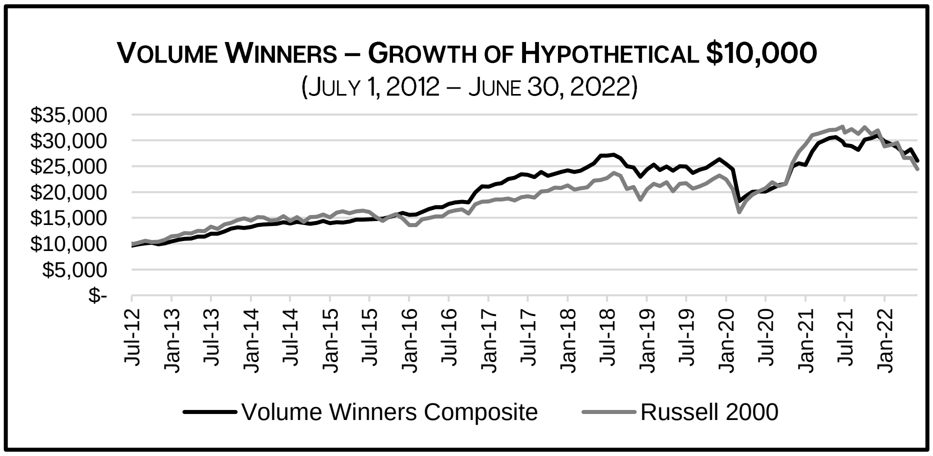
	Volume Value	S&P 500
Number of Holdings:	40	503
Mkt Cap Mil (Avg):	$440	$66,661
P/E (TTM):	6.9	22.9
P/B:	1.0	4.6
ROE (Median):	15.2%	18.1%

	Volume Winners	S&P 500
Number of Holdings:	25	503
Mkt Cap Mil (Avg):	$306	$79,794
P/E (TTM):	9.7	24.1
P/B:	1.1	5.0
ROE (Median):	10.9%	18.5%

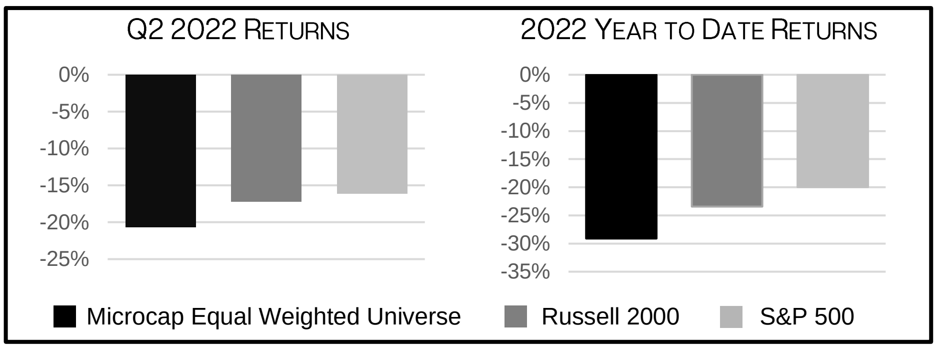
MICROCAP FACTOR PERFORMANCE AS OF 6/30/2022[2]

	Quintile	QTR	YTD
Beta	High	-25.21%	-28.98%
	Low	-17.57%	-26.16%
Forecast P/E	High	-30.90%	-45.47%
	Low	-11.99%	-15.18%
Return on Equity	High	-14.52%	-20.48%
	Low	-31.19%	-45.76%
Exp. Growth	High	-15.73%	-39.34%
	Low	-21.08%	-29.08%
Volume	High	-27.92%	-37.77%
	Low	-14.67%	-21.62%
Momentum	High	-10.55%	-15.30%
	Low	-33.51%	-48.42%





These charts illustrate the performance of a hypothetical $10,000 investment made in the strategies ten years ago or on commencement of operations (whichever is later). Figures include reinvestment of capital gains and dividends. These charts are not intended to imply any future performance.



Past performance is no guarantee of future results. An index is unmanaged and is not available for direct investment. Allocations, holdings, sector weightings, and performance contributors and detractors are subject to change and should not be considered as investment recommendations. It should not be assumed that an investment in any of these securities will be profitable. This is supplemental information. Please refer to the end of this document for important disclosures. Portfolio information is derived from a representative account managed against the index noted and included in the composite. The representative account was selected based on objective criteria, including, but not limited to, the nature of the client, the client's benchmark, and the ability for the mandate to be implemented without material restrictions or limitations.

[1] Statistics in these tables are weighted averages except where otherwise noted. Index data provided by Standard & Poors, except for ROE.

[2] Microcap factor performance is presented for informative purposes only, to illustrate market themes during the period. It does not represent the results of any actual portfolio or any recommendations of the firm.

	Period Ending 6/30/2022					
Composites **Names in Bold** *Benchmarks in italics*	This Quarter	YTD	1 Year	3 Year Annualized	5 Year Annualized	10 Year Annualized
Fundamental Small Cap Value	-11.47%	-13.65%	-5.70%	19.06%	8.94%	12.68%
Volume Value	-4.90%	-10.98%	-0.91%	6.91%	5.08%	13.68%
Volume Winners	-9.08%	-15.74%	-12.42%	1.42%	2.17%	10.06%
Volume Momentum	-12.94%	-17.00%	-10.47%	6.36%	1.54%	9.15%
Russell 2000	-17.20%	-23.43%	-25.20%	4.19%	5.15%	9.34%
S&P 500	-16.10%	-19.96%	-10.60%	10.61%	11.32%	12.97%
Global Equity	-10.52%	-15.44%	-9.93%	7.07%	2.18%	7.20%
MSCI ACWI	-15.53%	-19.97%	-15.35%	6.71%	7.54%	9.33%
All Asian	-8.40%	-15.57%	-12.82%	0.12%	-1.72%	4.22%
MSCI EAFE	-14.29%	-19.25%	-17.34%	1.55%	2.70%	5.90%

Composites **Names in Bold** *Benchmarks in italics*	**This Quarter**	**YTD**	1 Year	**Since Inception (8/1/19) Annualized**
Asia High Dividend	-5.46%	-9.13%	0.14%	18.64%
MSCI EAFE	-14.29%	-19.25%	-17.34%	2.03%

Composite returns are presented net of management fees and trading expenses and include the reinvestment of dividends and other income. All returns are in US dollars.

Past performance does not guarantee future results. The table above reflects (1) performance of the Lyons Investment Management composites named in bold in the first column, (2) performance of the benchmark which reflects the composite's investment mandate, objective, or strategy, and (3) performance of the S&P 500 Index, which is provided for overall comparison and informational purposes. Please see the reverse for important information about composite and benchmark descriptions, how to receive more complete information about the composites, and disclosures regarding the calculation of performance, among other matters. Subsequent markets may perform better or worse than for the periods shown, which will cause the actual results of a portfolio to be better or worse than shown. Lyons Investment Management does not guarantee or offer any assurance that any portfolio or account will be profitable, meet a client's stated objectives, or prevent or reduce losses. **A client may lose money by investing in a portfolio.**

All composites include fully discretionary, management fee-paying and, beginning on January 1, 2011, non-management fee-paying accounts, including those accounts no longer with the firm. The U.S. Dollar is the currency used to express performance, except for the foreign indexes which are reported in their local currencies. Returns are presented net of management fees and include all trading expenses and the reinvestment of all income. Net of fee performance was calculated using actual management fees, except in the case of non-fee-paying accounts where model fees have been imputed. Actual advisory fees and transaction fees will vary depending on, among other things, the portfolio, account size, and activity. Fees are described in LIM's ADV Part 2A.

The benchmark and other data provided was obtained from publicly available reports, including internally derived databases and other resources available to Lyons Investment Management. LIM believes such data to be reliable but does not audit, verify, or guarantee its accuracy or completeness. When comparing the performance results to a benchmark, clients should keep in mind that: 1) Indexes are unmanaged and unavailable for direct investment. 2) Benchmark returns include reinvestment of income, but do not reflect taxes, or investment advisory or other fees that would reduce performance. 3) Performance information of benchmark indexes is included for comparison purposes only.

Composite and Benchmark Descriptions:

The S&P 500 and Russell 2000 are market cap weighted indices of large company and small company US stocks, respectively.

The Fundamental Small Cap Value Composite consists of accounts that hold U.S. small cap stocks selected by using LIM Investment Management Fundamental Analysis. This analysis identifies undervalued companies using LIM's GRAPES valuation model and also applies other selection criteria relating to a company's business prospects, management quality, and capital structure. The benchmark for the composite is the Russell 2000 Index, presented in U.S. Dollars. In the past the composite has displayed higher volatility than its benchmark.

The Volume Winners Composite consists of accounts that hold U.S. microcap stocks selected by using LIM Volume Winners Analxysis. This analysis is a quantitative evaluation system incorporating volume, momentum and valuation measures. The benchmark for the composite is the Russell 2000 Index, presented in U.S. Dollars. In the past the composite has displayed lower sensitivity to market returns than its benchmark, which would cause it to underperform in a strongly rising market.

The Volume Value Composite consists of accounts that hold U.S. microcap stocks selected by using LIM Volume Value Analysis. This analysis is a quantitative evaluation system incorporating volume and valuation measures. The benchmark for the composite is the Russell 2000 Index, presented in U.S. Dollars.

The Volume Momentum Composite consists of accounts that hold U.S. microcap stocks selected by using LIM Volume Momentum Analysis. This analysis combines two quantitative evaluation techniques; LIM's price and earnings momentum measure SuperMo, and LIM's volume, momentum and value system Volume Winners. The benchmark for the composite is the Russell 2000 Index presented in U.S. Dollars.

The Global Equity Composite consists of accounts that hold both U.S. and International stocks selected by LIM Fundamental Analysis. This analysis identifies undervalued companies using LIM's GRAPES valuation model and also applies other selection criteria relating to a company's business prospects, management quality, and capital structure. The benchmark for the composite is the MSCI All Country World (Gross) Index, presented in US Dollars. MSCI ACWI is a market capitalization weighted index comprised of equities from developed and emerging markets, including the US. The composite has historically held small cap stocks from a limited set of countries while the benchmark weighting is primarily composed of larger companies spread across many countries. This is likely to cause the composite to have greater volatility than its benchmark. The composite includes the performance of accounts that may occasionally use margin; however, the use of margin is not part of the overall strategy of the composite.

Lyons Investment Management All Asian Composite consists of accounts that hold Asian stocks selected by using LIM's Fundamental Analysis. This analysis identifies undervalued companies using LIM's GRAPES valuation model and also applies other selection criteria relating to a company's business prospects, management quality, and capital structure. The benchmark for the composite is the MSCI EAFE Index, which is comprised of equities from developed markets around the world, excluding the US and Canada. MSCI EAFE is presented in U.S. Dollars. The composite has historically held small cap stocks from a limited set of countries, including emerging markets, while the benchmark weighting is primarily composed of larger companies from developed countries. This is likely to cause the composite to have greater sensitivity to the returns of countries where it invests, and overall greater volatility than its benchmark.

The Asia High Dividend Composite consists of accounts that hold Asian stocks selected by using LIM's Fundamental High Dividend Analysis. This analysis identifies undervalued dividend paying companies and also applies other selection criteria relating to a company's business prospects, management quality, and capital structure. The benchmark for the composite is the MSCI EAFE Index, which is comprised of equities from developed markets around the world, excluding the US and Canada. MSCI EAFE is presented in U.S. Dollars. The composite has historically held small cap stocks from a limited set of countries, including emerging markets, while the benchmark weighting is primarily composed of larger companies from developed countries. This is likely to cause the composite to have greater sensitivity to the returns of countries where it invests, and overall greater volatility than its benchmark.