# LYONS INVESTMENT MANAGEMENT

# QUARTERLY NEWSLETTER

Q1 2021

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# Lyons Investment Management
## Investment Outlook by Mark Zavanelli

Q1
2021

The beginning of 2021 has continued a dramatic period for US small cap stocks. Important changes are happening as we recover from the pandemic, and these are becoming reflected in market prices. We all know the story of how Technology and Media giants came to dominate the market, and even benefited from the pandemic. But now things are moving in a different direction. At one point during the first quarter, as we saw the anniversary of the market lows last March, the small cap Russell 2000 Index had beaten the large cap S&P 500 over a trailing one year period by a greater amount than at any other point in its 40 year history. Similarly, the trailing one year return for the Russell 2000 at the end of March was its second highest on record. The Russell 2000 Value Index, a small cap value index, had its highest six month return on record at the end of March. These types of moves aren't random, and this is how market cycles turn. It takes forever, then happens surprisingly fast. Here are some key points:

1. The economic recovery in the US is in blast off mode. The pandemic recession was unusual, and so is the recovery. It's much faster than prior post recessionary periods. Foreign economies are behind right now but they will see a similar dynamic.
2. Vaccination is proceeding rapidly in the US and this is putting Covid in the rear-view mirror from an economic perspective. The same thing will happen in other countries when they are vaccinated. From a medical perspective, the virus is still with us and won't disappear, but its power over our lives is ending.
3. The US is trying something new from a policy perspective. This is combined monetary and fiscal stimulus on a massive scale, delivered even as a recovery is clearly in place. This is probably a short term experiment, but for the moment it's rocket fuel for the recovery. Don't mistake this period for the years after the Great Financial Crisis where the economy was stagnant.
4. In fact, don't believe anything negative about the economy right now. The unemployment rate is misleading, boosted by incentives not to work, and is set to decline. Job openings are surging, and there's actually a labor shortage in many industries. Supply bottlenecks can depress current numbers but help the recovery by encouraging investment.
5. This policy change is a double-edged sword. It's magical for creating a recovery, but harmful for long term growth. There's a reason that we haven't done this before. More on this in a separate piece this month.
6. Value stocks are back, and for good reason. This is not the same economic environment as we had pre-pandemic. The gains are based on rapid earnings growth. I think there is a lot more to come. The US is leading, but I think it spreads.
7. Hyper growth stocks are fading after their own gigantic run, which was fueled by the pandemic. Growth investors are about to find out something that will surprise many of them. Yes, innovation and disruption are happening and are a necessary ingredient. But an expanding market valuation is also critical for a growth led market. That multiple expansion is behind us now that rates are moving higher.

From an economic perspective, these are very strange times. Historical parallels have limited usefulness, because the nature of a pandemic is more like a natural disaster – albeit a very extended one – than a traditional recession. When the disaster ends, there's a lot of rebuilding to do. That's where we find ourselves today. We also have a government response in the US that tried to replace every bit of lost economic output, so we have the odd situation of the private sector being "richer" (although the government is poorer, having more debt) than when the pandemic started. Money supply growth is off the charts at a 27% annualized rate. For the moment it's a boom. This strength in the US will spill over to the rest of the world economy (it already has in China) as vaccination and reopening progress. It is a reverse of the last several years when the Trade War depressed global activity. The boom can't last, but we're early enough in a new economic growth cycle that it's not the right time to think about how it ends.

The implications for the market are clear. Interest rates will keep on rising and the yield curve will steepen. Earnings growth

will become the driver for stock returns, not stocks getting more expensive. Earnings growth will be strong, so stocks can fight through higher rates. This is a time for value stocks. They will have faster earnings growth in the short run, driven by the rapid economic improvement. As value stocks gain momentum, growth stocks will lose part of their attractiveness because they are no longer the only game in town (this is especially true of the most dominant companies). Usually the other side of a growth euphoria period such as we've seen is a panic as everyone tries to exit at once. But there's no sign of that so far, even though hyper growth stocks are down substantially from their highs in February. I would not have thought it possible for the overall market to be able to move higher under these circumstances, but here we are at record highs.

Some of the value adjustment will happen with foreign stocks. They haven't seen it so far, due to a slower pandemic recovery, but I think it is coming. I believe that new value areas will emerge as the world economy gets moving. This is a period where we need to keep our eyes open and be receptive to change.

I'm sure that Ben Bernanke is cheering right now. He finally got his helicopter money. For economists, providing stimulus to offset a downturn is a free lunch, because it's an investment that pays for itself by avoiding economic damage. Fine, in theory, but humans are more complex than economic models. The problem is visible right now. People start to depend on the support, and bill after bill follows. Who wants to be the emperor that cancels bread and circuses? To the contrary, there's a seduction about being the political party that delivers the bread and circuses to its loyal voters. This is about something much more basic to our nature as social beings than a limited economic theory.

We've learned a few things about stimulus and government spending over the years, from the Japan experience and the post-GFC years in the US. Worrying about the "demand side" (i.e. incentivizing consumption, whether government or private), is useful to fill a hole when demand suddenly collapses (like during Covid) but can't produce lasting economic growth. It doesn't actually do a thing except to create an IOU. This shouldn't be a surprise. If we build a bridge to nowhere, that spending doesn't lead to any growth because the investment has a zero return and there's no improvement in the capacity to produce in the future. If the bridge builders happen to be unemployed at the time, there is some benefit because it prevents the loss of productive capacity. Unfortunately, the impact of government spending on average is the economic equivalent of the bridge to nowhere. Some of it does promote capability (think research, education, and advances driven by military technology) while much of it actively suppresses capacity (like paying people to exit the workforce). The supply side is the economy's potential, and government sponsored demand historically doesn't do much to improve it. A great example of the supply side in action is a post war boom as labor transitions from fighting to building.

Bad economic events are usually about negative shocks to capital (although admittedly Covid was not). The history is that capital is a lot more volatile and vulnerable to busts. I read a great piece recently about Japan's lost decades. It explained that the real estate crash and banking crisis was such a huge hit to private capital that private debt was overwhelming and a long deleveraging occurred. The economy's supply relies on both labor and capital. Capital in Japan shrank dramatically in the years after the crash and didn't rebound. Demand was never the problem, and the government spending didn't do anything to fix the capital problem (in fact, it hurt it). Since the problem was with capital shrinkage, the response had to be in that area to fix it! To this day, they don't understand that only growth of capital investment will offset their labor decline to produce economic growth. In the US, after the Great Financial Crisis, we thankfully were able to recapitalize banks and get capital growing again, which was the key difference in the outcome from a similar crash coming from real estate debt. The moral of the story is that you want to avoid causing capital bubbles (Hello, Jay Powell?) and that you need to fix them when they bust. With Covid, the demand stimulus was reasonable and effective. But unfortunately, it doesn't stop there.

How does prolonged massive government overspending impact the supply side? It depends on the return from that investment. I've already argued that the return is close to zero in terms of economic productivity (but hopefully something in terms of public good). There's an analogy to medicine taken when someone is sick that can become toxic when taken during health. Unemployment insurance that is higher than working paychecks literally pays people not to work. Government spending always expands the government workforce, which generally is employed to regulate and control private sector activity. The private sector then hires lawyers and compliance professionals to navigate the regulations. Not too much innovation is happening on the government side, and they are busy finding ways to contain the innovation that happens on the private side. Take the gig economy, for example, a great innovation for improving labor productivity. Needless to say, the government wants to regulate it. We crowd out productive capital that has to earn a return with non-productive government spending that is politically based and unavoidably corrupt. Congress is bringing back earmarks to spending bills, what a surprise. Finally, the most damaging are the tax and capital confiscation policies that cause supply side shrinkage instead of growth. The history of modern deficit spending is economic stagnation. It doesn't produce growth or prosperity, but instead an economy that doesn't provide advancement for its participants. For those that think prosperity is overrated, consider that it has a better track record of solving societal problems than not having prosperity does. So ironically, if you want to fight climate change and improve social justice, the effective way is to incentivize the private sector to do it, not for the government to spend gigantic sums for every year out to infinity.

# Lyons Investment Management
# Fundamental Small Cap Value Strategy

Q1
2021

## PERFORMANCE AS OF 03/31/2021

| | QTR | YTD |
|---|---|---|
| Small Cap Value | 27.73% | 27.73% |
| Russell 2000 | 12.70% | 12.70% |

## PORTFOLIO STATS AS OF 03/31/2021[1]

| | SCV | S&P 500 |
|---|---|---|
| Number of Holdings: | 51 | 505 |
| Mkt Cap Mil (Avg).: | $1,433 | $70,070 |
| P/E (TTM): | 13.7 | 39.9 |
| P/B: | 1.9 | 4.1 |
| ROE (Median): | 14.5% | 12.4% |

## TOP 5 HOLDINGS AS OF 03/31/2021[2]

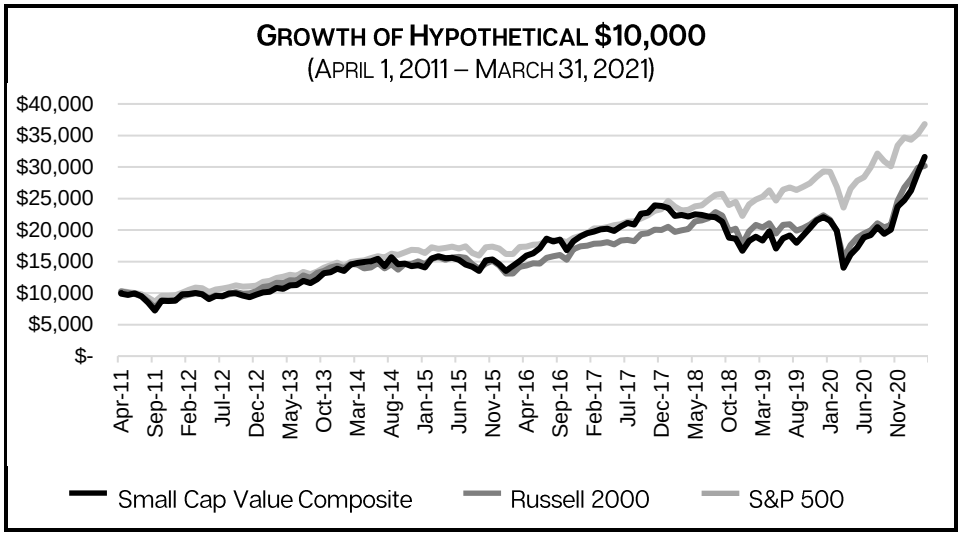
| | |
|---|---|
| SHYF | Shyft Group |
| AVNW | Aviat Networks Inc. |
| RCKY | Rocky Brands |
| ECOM | ChannelAdvisor Corp. |
| CUBI | Customers Bancorp Inc. |

## LARGEST CONTRIBUTORS Q1 2021[3]

| | | Impact |
|---|---|---|
| AVNW | Aviat Networks Inc. | 2.34% |
| RCKY | Rocky Brands | 1.87% |
| UCTT | Ultra Clean Holdings | 1.37% |
| CUBI | Customers Bancorp | 1.12% |
| SHYF | Shyft Group | 1.08% |

## LARGEST DETRACTORS Q1 2021[3]

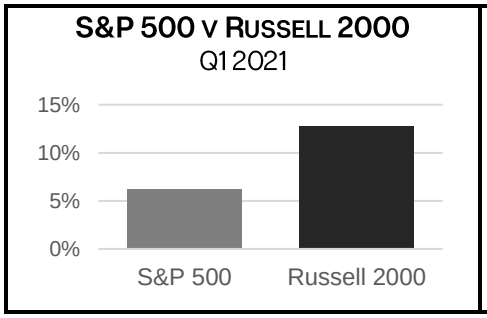
| | | Impact |
|---|---|---|
| VOXX | VOXX International | -0.16% |
| EGY | VAALCO Energy, Inc. | -0.14% |
| AP | Ampco-Pittsburgh | -0.10% |
| HELE | Helen of Troy Limited | -0.10% |
| GDP | Goodrich Petroleum | -0.09% |

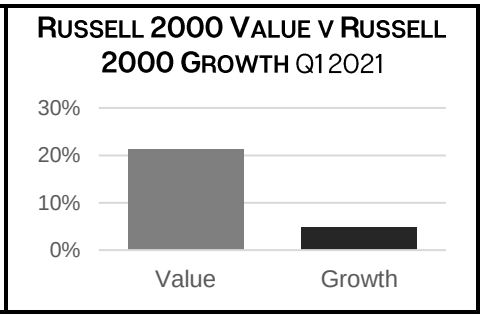



This chart illustrates the performance of a hypothetical $10,000 investment made in the strategies ten years ago or on commencement of operations (whichever is later). Figures include reinvestment of capital gains and dividends. These charts are not intended to imply any future performance.

## SECTOR WEIGHTS AS OF 03/31/2021

| | | | |
|---|---|---|---|
| Energy | 4.02% | Financials | 23.10% |
| Materials | 6.15% | Real Estate | 0.68% |
| Industrials | 18.51% | Technology | 26.45% |
| Consumer Discretionary | 14.99% | Telecommunications Services | 1.18% |
| Consumer Staples | 1.79% | Utilities | 0.00% |
| Healthcare | 1.97% | Cash | 1.15% |
| | | **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.

[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

Our All Asian portfolios returned 1.07% in the first quarter. We were held back by the strength of the US Dollar. Here is how Asian currencies performed against the dollar in the first quarter:

| | |
|---|---|
| Japanese Yen vs USD | -6.89% |
| Thai Baht vs USD | -3.95% |
| Singapore Dollar vs USD | -1.63% |

The yen lost a whopping 6.89% against the dollar. This completely erased the price gains in local currency for our Japanese stocks. The Thai Baht also depreciated by almost 4%.

Currency rate changes are a big part of returns on foreign assets. Our All Asian strategy generally benefits from a weak dollar (unlike this quarter where the dollar was strong). Here are some ways that we are impacted by currencies:

- We report our account values and performance in US Dollars (USD), so the value of our foreign holdings changes along with the currency exchange rates as well as local prices. A weaker dollar boosts the dollar-value of foreign stocks when local prices are converted back to USD.
- The value of the USD versus other currencies is very important to both capital holders (investors) and companies involved in world trade (especially oil, which is traded in USD). For some countries, especially emerging markets, a weaker USD/stronger local currency usually means that investment flows are moving towards those markets. This tends to amplify the local price returns. That encourages more investment, in a virtuous cycle. Some larger companies in these markets also issue debt in USD, which costs less to pay back when the USD is falling.
- For trade dominated economies like Japan, the effect is the opposite. A weaker USD means that they get less money from their exports. This is why Japanese stock prices tend to move in the opposite direction of their currency, so price gains tend to be offset by currency moves and vice versa, unlike markets that are dominated by investment flows.

The Asian currencies in which we invest (Japanese Yen, Thai Baht, and Singapore Dollar) are not currencies which are constantly depreciating, the way some weaker emerging markets currencies tend to do. Instead, their exchange rates tend to move within certain bounds. Those bounds can be fairly wide, as is the case with the Japanese Yen; or narrow, as is the case with the Thai Baht. So, while the dollar acted as a big headwind for us in the first quarter, we think that these ranges will continue to hold and that we'll see a tailwind when the dollar weakens again.

In the short run, currencies are very hard to predict. At the beginning of this year there was a clear consensus among currency experts that the dollar will weaken. And so, of course, it went on to strengthen. There are strong arguments to be made on both sides of the discussion about where the dollar is headed next. But the simple answer is that we don't know. This will depend on many things: success in combating the virus, interest rate differentials between countries, attractiveness of US assets compared to others which will drive capital flows to or from the US, inflation expectations, differences between fiscal policies and government spending, and other factors. Our strategy with currencies is not to hedge the currency risk. As I mentioned above, the rates of currencies in which we invest move around within certain bounds. Also, in Japan, the currency acts as a natural hedge to the stock market as Japanese stocks are negatively correlated with the yen.

Leaving the discussion of currencies behind, our Asian stocks performed well in the first quarter, when measured in local currency. I am especially happy with our Thai stocks. The Thai stock market is very lively and fast moving. So there are plenty of trading opportunities which we can attempt to take advantage of. The Japanese stock market is very different.

It's a sleepy market today, especially for smaller companies. However, as investor interest returns, that can change for the positive.

We estimate our Thai stocks returned 15.5% in local currency in the 1st quarter. This compares to a 10.5% return for the Thai SET index with dividends.

The prospects in Thailand continue to be good as the economy is expected to rebound in 2021 (and grow even stronger in 2022) and most of our companies guided for strong profit growth this year.

Our Singapore stocks continue to perform well. We estimate we earned a return of close to 9% in Singapore in local currency.

Our Japanese stocks returned 5% in local currency and trailed the benchmarks. In Japan we seem to be forever waiting for our stocks to reflect their true value. It has definitely been a frustrating market. I feel fundamentals matter less in Japan than in other markets and valuation certainly does not matter in the short term. What matters is earnings growth and how that compares to expectations. So we no longer hold deep value stocks unless these companies are also growing earnings. We don't hold any Japanese stocks with shrinking earnings. It is encouraging that quite a few of our Japanese companies issued guidance increases. So management is feeling more optimistic. I expect a strong earnings recovery to continue in Japan as reflation takes holds around the world. They should benefit disproportionately from a rebound in world trade over the coming years.

# Lyons Investment Management
# All Asian Strategy

Q1
2021

## PORTFOLIO STATS AS OF 03/31/2021[1]

| | AA | S&P 500 |
|---|---|---|
| Number of Holdings: | 61 | 505 |
| Mkt Cap Mil (Avg): | $314 | $70,070 |
| P/E (TTM): | 10.3 | 39.9 |
| P/B: | 1.1 | 4.1 |
| ROE (Median): | 11.5% | 12.4% |
| Dividend Yield | 3.4% | 1.5% |

## TOP 5 HOLDINGS AS OF 03/31/2021[2]

| |
|---|
| G-7 Company (Japan) |
| Information Planning Co. (Japan) |
| Thantawan Industry PCL. (Thailand) |
| Central Automotive Co. (Japan) |
| MCJ Co. (Japan) |

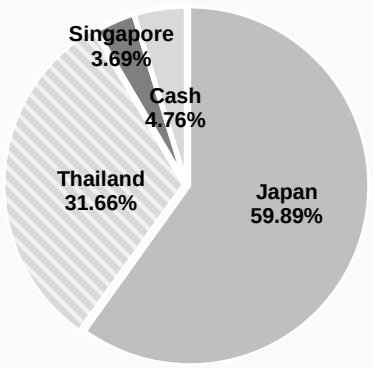
## LARGEST CONTRIBUTORS Q1 2021[3]

| | Impact |
|---|---|
| Sappe PCL. (Thailand) | 0.97% |
| Vintcom Technology (Thailand) | 0.56% |
| Haad Thip PCL. (Thailand) | 0.42% |
| Natoco Co. (Japan) | 0.32% |
| HWA Fong Rubber (Thailand) | 0.31% |

## LARGEST DETRACTORS Q1 2021[3]

| | Impact |
|---|---|
| MCJ Co. (Japan) | -0.70% |
| Information Planning Co. (Japan) | -0.62% |
| Newtech Co. (Japan) | -0.35% |
| DMS Co. (Japan) | -0.32% |
| Copro-Holdings Co. (Japan) | -0.27% |

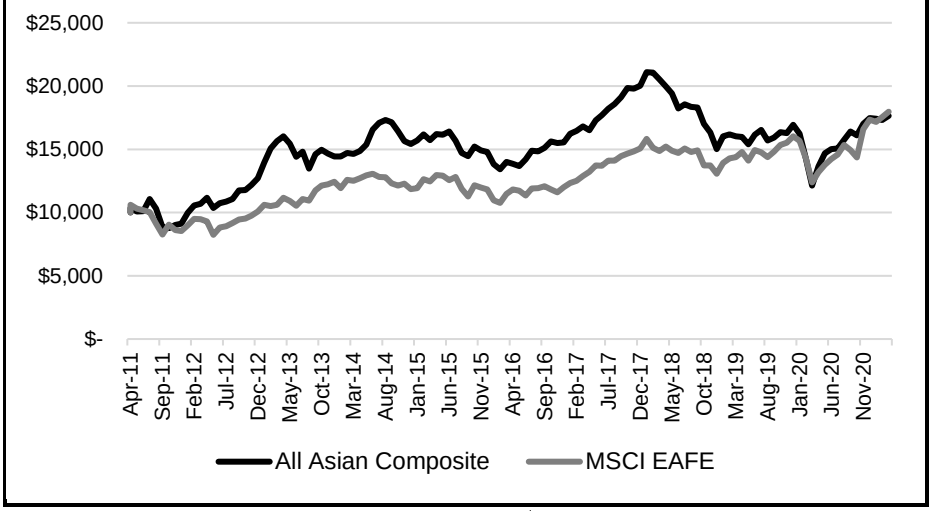
## COUNTRY ALLOCATIONS
AS OF MARCH 31, 2021




## PERFORMANCE AS OF 03/31/2021

| | Quarter | YTD |
|---|---|---|
| All Asian | 1.07% | 1.07% |
| *MSCI EAFE* | 3.60% | 3.60% |
| Nikkei 225 | 6.32% | 6.32% |
| Thai Set Index | 10.49% | 10.49% |
| Singapore FTSE All Share | 10.49% | 10.49% |
| Japanese Yen vs USD | -6.89% | -6.89% |
| Thai Baht vs USD | -3.95% | -3.95% |
| Singapore Dollar vs USD | -1.63% | -1.63% |

## GROWTH OF HYPOTHETICAL $10,000
(APRIL 1, 2011 – MARCH 31, 2021)




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.

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## COMMENTARY BY VAIDAS PETRAUSKAS

The recovery of value stocks continued in the first quarter. Our Volume strategies have now more than made up the losses suffered in the disastrous first quarter of 2020. The recovery was slow as illiquid Micro Cap stocks are the last to catch up to the rest of the market. This again proves the fact that it is dangerous to change strategies after a big sell-off. Often what will happen is that last year's biggest losers will turn into this year's biggest gainers as the market's narrative shifts, which happened to bank stocks in the first quarter.

Looking at individual factors, the first quarter was a continuation of the trends we saw in the fourth quarter of 2020. Here is what worked and didn't work across all market cap categories in the first quarter:

- Volatile stocks, as measured by Beta and Relative Volatility, performed well.
- Related to the above and very importantly for our Volume strategies: low volume did not work. The least liquid quintile of Micro Cap stocks earned 17.89% while the most liquid quintile earned 38.02%.
- Stocks trading near 5-year lows rebounded strongly. These are usually lower quality business which most of the time should be avoided, but they have their moments.
- The above is confirmed by the fact that factors related to Quality performed poorly.
- Value factors are all flashing green. Buying stocks based on book value was especially successful.
- An interesting dynamic was at play with price momentum: 12-month and 3-month price momentum were the exact opposites. 12-month price momentum failed but 3-month price momentum was very successful. This shows that a big rotation from pandemic beneficiaries to value stocks occurred in the 4th quarter and that these stocks continued to outperform in the first quarter.
- Highly shorted stocks performed very well while stocks with low short interest, which we favor, lagged.
- Among style factors small cap value was dominant.

It is interesting to note, that while the Russell 2000 index rose 12.7% in the first quarter, the average Micro Cap stock rose 24.86%. That is a big difference. So smaller was better. For the sake of simplicity you can assume that our Micro Cap 1000 universe contains the smallest 1000 companies in the Russell 2000 index.

That kind of environment was not ideal for our Volume strategies. Among all factors used by the Volume strategies, only price to earnings was successful in picking the winners. So both Volume strategies lagged the average Micro Cap stock, but both beat the Russell 2000 index. Having exposure to bank and energy stocks definitely helped.

# Lyons Investment Management
## Quantitative Strategies

Q1
2021

### PERFORMANCE AS OF 03/31/2021

| | Quarter | YTD |
|---|---|---|
| Volume Value | 17.35% | 17.35% |
| Volume Winners | 15.29% | 15.29% |
| Russell 2000 | 12.70% | 12.70% |

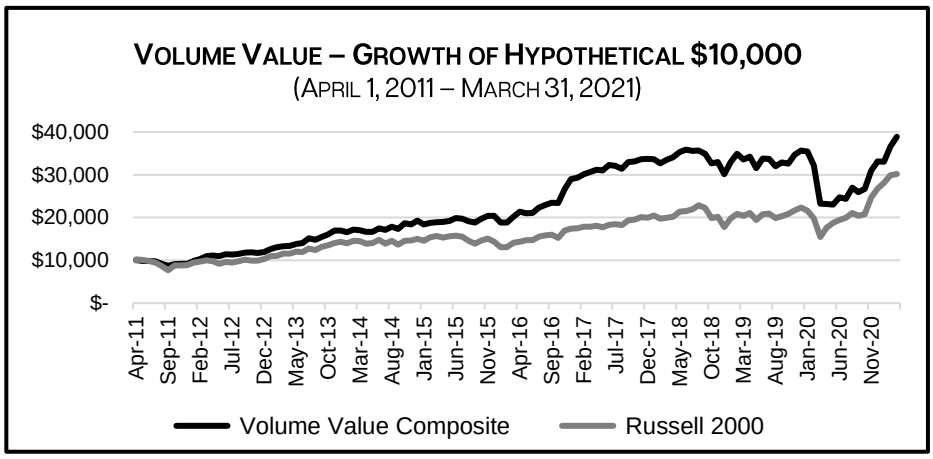
### PORTFOLIO STATS AS OF 03/31/2021[1]

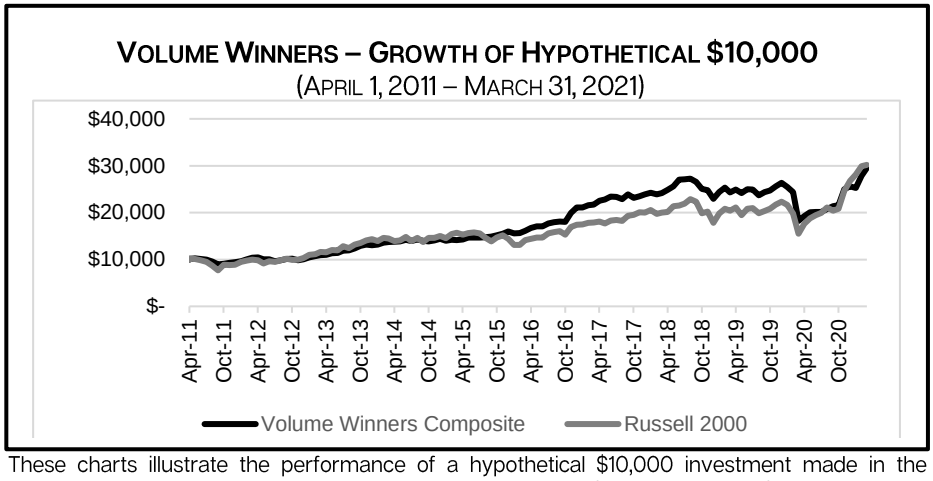
| | Volume Value | S&P 500 |
|---|---|---|
| Number of Holdings: | 41 | 505 |
| Mkt Cap Mil (Avg): | $440 | $70,070 |
| P/E (TTM): | 10.3 | 39.9 |
| P/B: | 1.2 | 4.1 |
| ROE (Median): | 12.4% | 12.4% |

| | Volume Winners | S&P 500 |
|---|---|---|
| Number of Holdings: | 24 | 505 |
| Mkt Cap Mil (Avg): | $333 | $70,070 |
| P/E (TTM): | 11.4 | 39.9 |
| P/B: | 1.6 | 4.1 |
| ROE (Median): | 12.8% | 12.4% |

### MICROCAP FACTOR PERFORMANCE
AS OF 03/31/2021[2]

| | Quintile | QTR | YTD |
|---|---|---|---|
| **Beta** | High | 43.58% | 43.58% |
| | Low | 13.92% | 13.92% |
| **Forecast P/E** | High | 26.21% | 26.21% |
| | Low | 26.74% | 26.74% |
| **Return on Equity** | High | 17.01% | 17.01% |
| | Low | 28.20% | 28.20% |
| **Exp. Growth** | High | 11.68% | 11.68% |
| | Low | 26.67% | 26.67% |
| **Volume** | High | 38.02% | 38.02% |
| | Low | 17.89% | 17.89% |
| **Momentum** | High | 21.68% | 21.68% |
| | Low | 31.05% | 31.05% |

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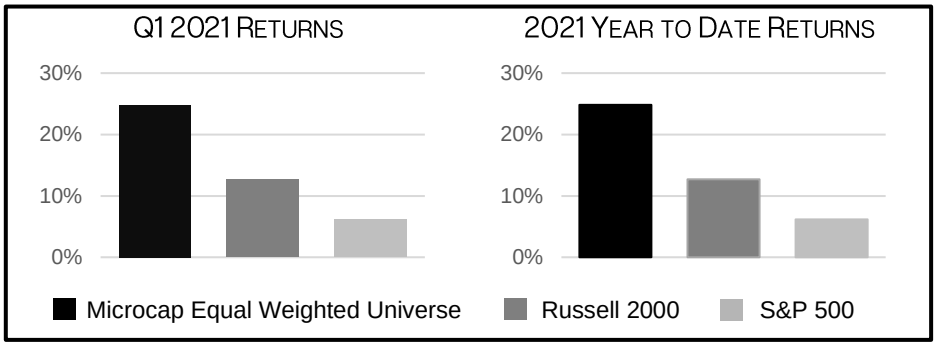


Past performance is no guarantee of future results. An index is unmanaged and is not available for direct investment. Allocations, holdings, sector weightings, and performance contributors and detractors are subject to change and should not be considered as investment recommendations. It should not be 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.

[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.

# Lyons Investment Management
## Just the Numbers

Q1
2021

| Composites<br>**Names in Bold**<br>*Benchmarks in italics* | PERIOD ENDING 03/31/2021 | | | | | |
|---|---|---|---|---|---|---|
| | This Quarter | YTD | 1 Year | 3 Year Annualized | 5 Year Annualized | 10 Year Annualized |
| **Fundamental Small Cap Value** | 27.73% | 27.73% | 125.19% | 12.13% | 15.92% | 12.19% |
| **Volume Value** | 17.35% | 17.35% | 67.50% | 5.88% | 14.54% | 14.80% |
| **Volume Winners** | 15.29% | 15.29% | 61.75% | 6.87% | 12.83% | 11.42% |
| **Volume Momentum** | 18.90% | 18.90% | 73.48% | 3.89% | 10.62% | 10.35% |
| *Russell 2000* | 12.70% | 12.70% | 94.85% | 14.76% | 16.35% | 11.68% |
| | | | | | | |
| *S&P 500* | 6.17% | 6.17% | 56.36% | 16.79% | 16.30% | 13.92% |
| | | | | | | |
| **Global Equity** | 12.24% | 12.24% | 72.50% | 1.46% | 8.81% | 8.00% |
| *MSCI ACWI* | 4.68% | 4.68% | 55.30% | 12.65% | 13.81% | 9.73% |
| | | | | | | |
| **All Asian** | 1.07% | 1.07% | 45.22% | -4.96% | 4.72% | 5.84% |
| *MSCI EAFE* | 3.60% | 3.60% | 45.20% | 6.55% | 9.38% | 6.04% |

| Composites<br>**Names in Bold**<br>*Benchmarks in italics* | This Quarter | YTD | 1 Year | **Since Inception (8/1/19) Annualized** |
|---|---|---|---|---|
| **Asia High Dividend** | 10.93% | 10.93% | 68.86% | 14.73% |
| *MSCI EAFE* | 3.60% | 3.60% | 45.20% | 12.52% |

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.