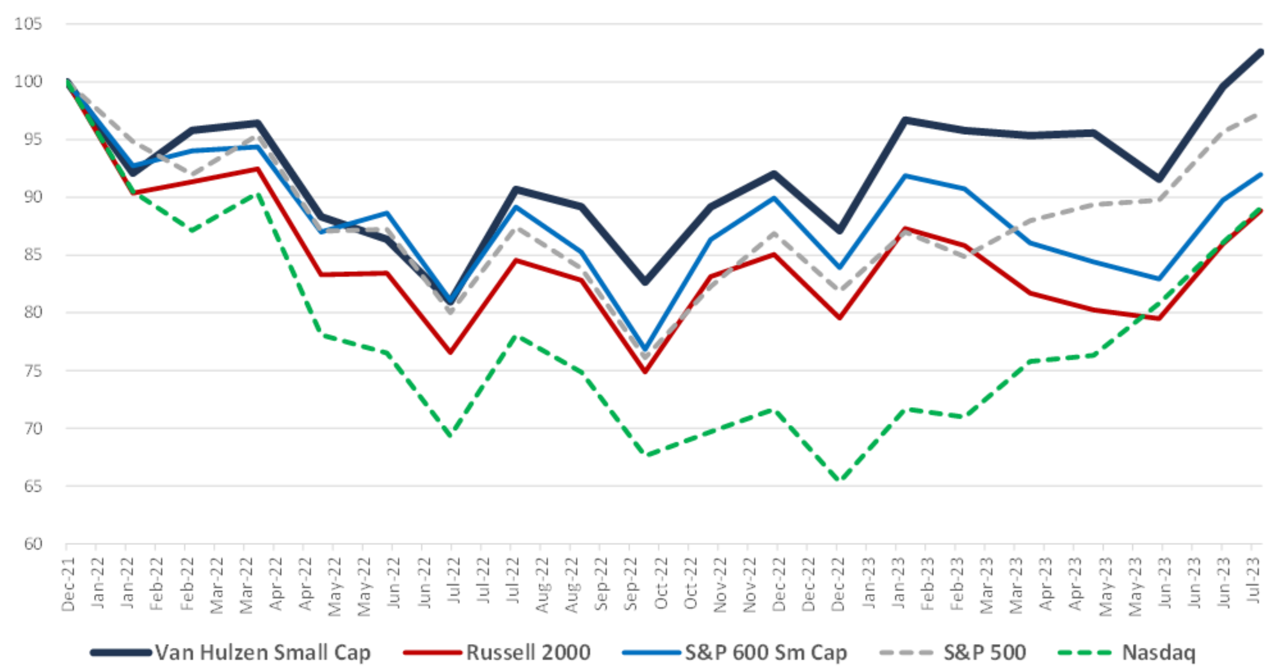
Investment Commentary: Small Cap Q2 2023

First To All Time Highs

We normally lead with the macro environment, not performance. But we want to highlight that as of this writing our strategy has officially made back all its 2022 losses and is solidly in the black (+2.6% since Dec 2021), well ahead of all major indices. Losing less than the major benchmarks last year (max drawdown of -19% versus an average of -27% for the Russell 2000, S&P 500 and Nasdaq) put us in a position to break even much faster, which we have done. Our focus on quality continues to pay off. Just one example: Our three regional bank holdings have averaged +10% YTD versus -22% for the Regional Bank index (ticker KRE). As we've said many times, the small cap space is full of land mines. Quality will continue to be our primary focus.

Indexed Performance Since Market Top *(Dec 31, 2021 thru July 18, 2023)*



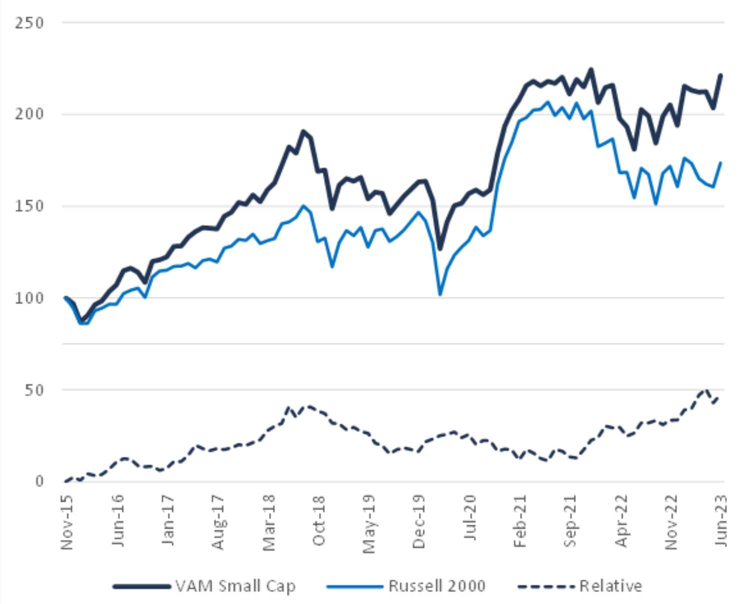
Performance Since 2021 Market Top *(thru July 18)*

	Return	Std Dev	Max Drawdown
Van Hulzen Sm Cap	2.6%	21.9%	-19.0%
Russell 2000	-11.2%	23.6%	-25.1%
S&P 600 Sm Cap	-8.0%	23.4%	-23.2%
S&P 500	-2.7%	20.3%	-23.9%
Nasdaq	-10.9%	25.7%	-34.7%

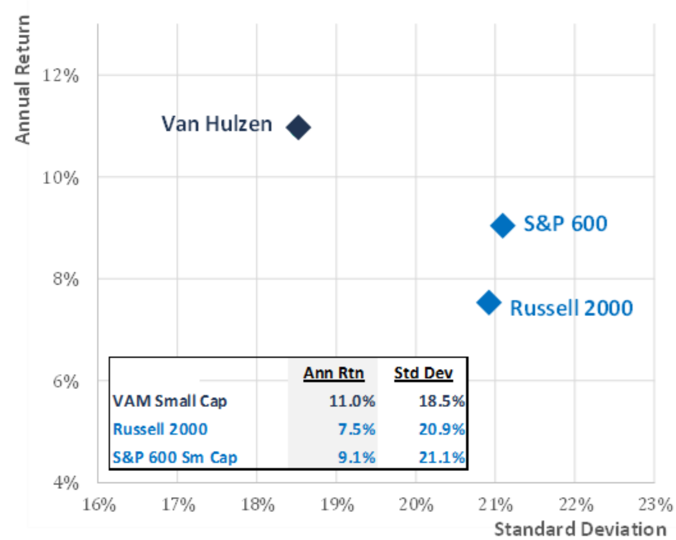
LONG TERM TRACK RECORD

Our strategy was +13.9% (net) for the first half, versus +8.1% for the Russell 2000 and +7.0% for the S&P 600.

Relative Performance



Risk/Return Matrix



Data range: Nov 30, 2015 – Jun 30, 2023
Net of 0.70% management fee

PERFORMANCE & RISK STATISTICS

Performance	**VAM Gross**	**VAM Net**	**Russell 2000**	**S&P 600**
Month	8.8%	8.7%	8.1%	8.2%
3 Months	4.5%	4.3%	5.2%	4.3%
Year To Date	14.3%	13.9%	8.1%	7.0%
1 Year	23.0%	22.2%	12.3%	10.7%
3 Years (annualized)	14.2%	13.4%	10.8%	15.5%
5 Years (annualized)	4.7%	3.9%	4.2%	5.4%
Inception (annualzed)	**11.8%**	**11.0%**	**7.5%**	**9.1%**

Risk Statistics *(since inception)*				
Standard Deviation	18.5%		20.9%	21.1%
Alpha (relative to Russell 2000)	**4.7%**			
Beta	0.8			
Sharpe Ratio	0.4			
Information Ratio	0.5			
Tracking Error	7.8%			

Upside/Downside Capture	
Up capture	95%
Down capture	81%
Ratio	**1.2**

Performance period: 11/30/2015 – 6/30/2023
Net returns are net of 0.70% average management fee

Portfolio Highlights

Healthcare and building products led the way in Q2, with our top five performers representing these two sectors. Our bottom performers included a defense subcontractor (the entire defense sector was weak) and two retailers (ETSY and CROX) which we trimmed in late 2022 after they significantly outperformed in Q4. We trimmed four of our top performers in Q2, as valuations became stretched.

TOP 5 PERFORMERS

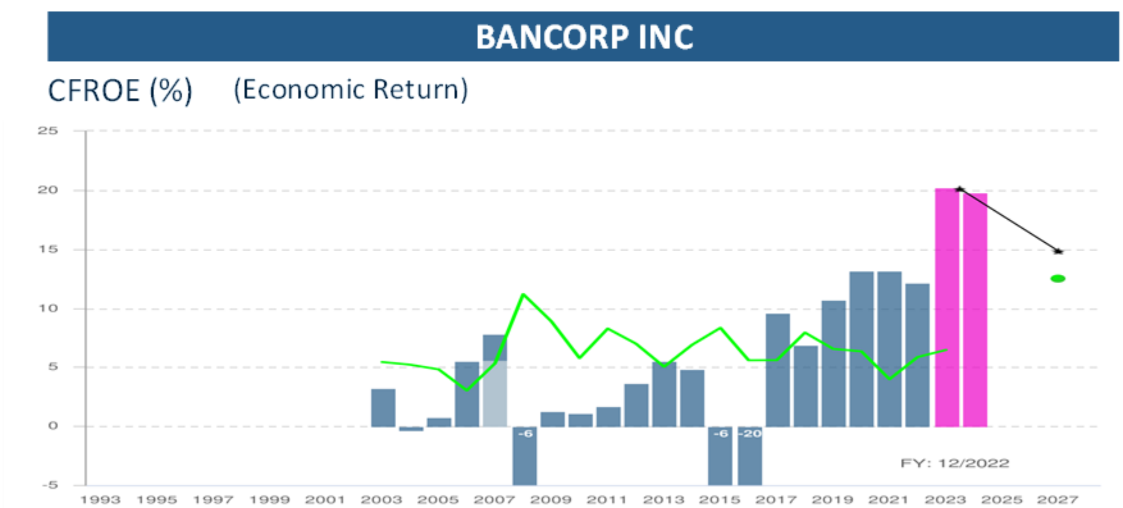
		Return	Description	Actions/Notes
LMAT	LeMaitre Vascular	31.4%	Vascular treatements	*Trimmed*
SWAV	ShockWave	31.2%	Medical technologies	*Trimmed*
ROCK	Gibraltar	30.1%	Building products	*Trimmed*
AZEK	AZEK Company	28.6%	Recycled building materials	*Trimmed*
ACAD	Acadia Pharma	27.3%	CNS biopharma	

BOTTOM 5 PERFORMERS

		Return	Description	Actions/Notes
MRCY	Mercury Systems	-32.3%	Defense systems	
ETSY	Etsy	-24.6%	Internet retail	
CBSH	Commerce Bancshares	-16.2%	Regional bank	*Sold, bought TBBK*
ADUS	Addus HomeCare	-14.0%	Personal home care	
CROX	Crocs	-11.1%	Casual footwear	

Example Trades in Q2

BOUGHT on fundamental strength: Bancorp Inc (Wilmington, DE)

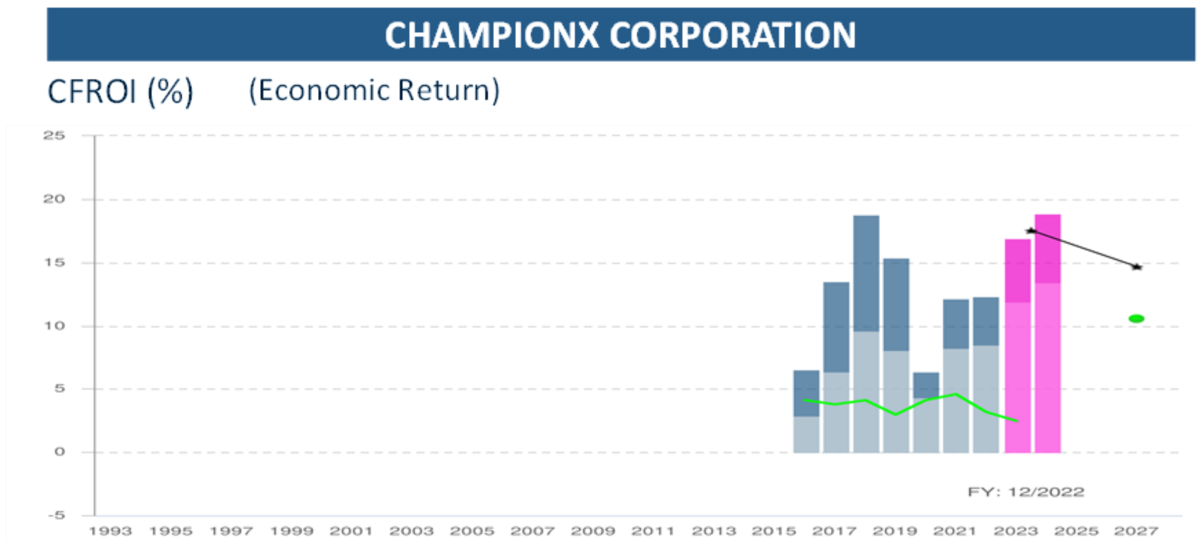


Bancorp Inc (TBBK)

- Regional bank based in Wilmington, DE; $2 billion market cap,
- Highest Cash Flow ROE in the space; below average leverage

- Much more elastic business model than most regional banks, with more variable loans
- Deposits have actually grown by 5% in 2023, compared to a net decrease for most banks
- 90% of deposits are insured (smaller average account value, so less flight risk)
- Shorter than average maturities and lower than average credit risk
- 13.4% Tier 1 ratio (versus 11.9% average)
- 8 positive earnings revisions in the past 12 months
- Added to the portfolio in May (up 23% since then)

BOUGHT on fundamental strength: ChampionX Corp (CHX)

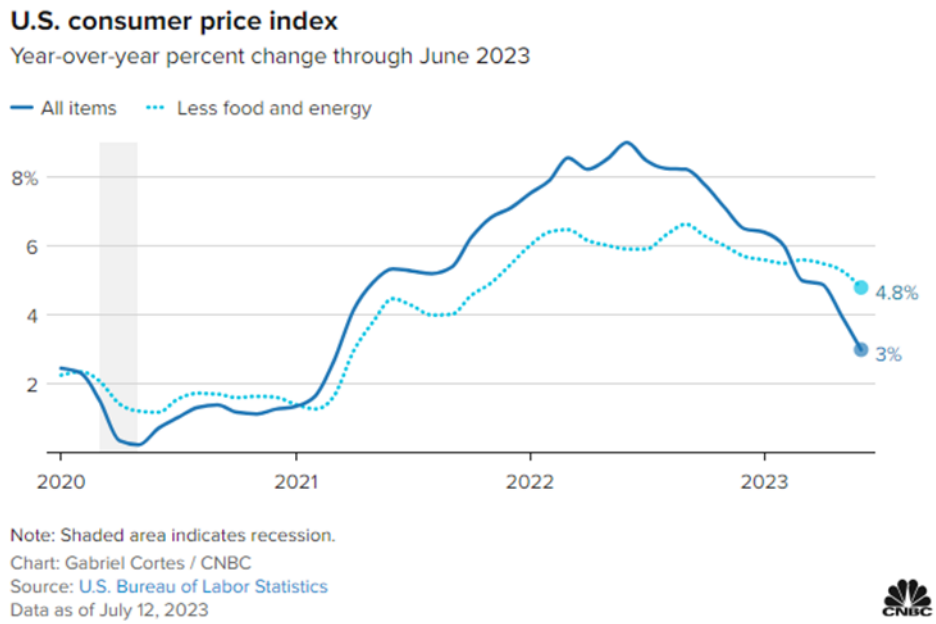


ChampionX Corp (CHX)

- Oil & gas equipment company, focused on specialty chemicals & engineered equipment
- Third highest Cash Flow ROI in the space, due to its strong asset efficiency
- 9% leverage (vs 25% avg for sector). $250 million of cash on hand. 0% default risk (Merton model)
- Revised up in May; have beaten estimates in 6 straight quarters.
- Added to the portfolio in May (up 28% since then)

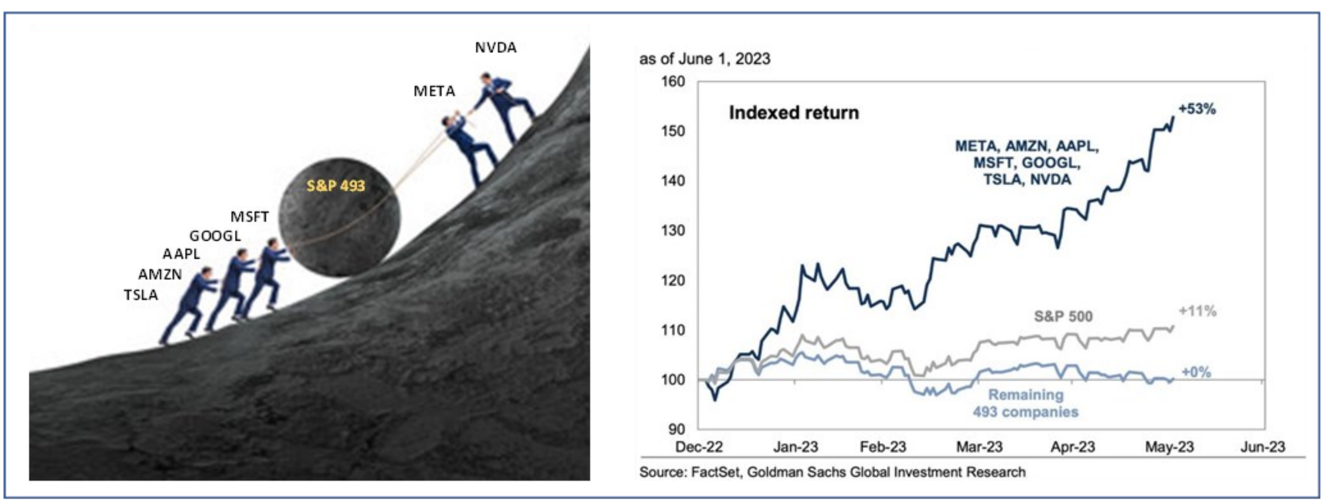
Macro Environment: Recovery Continues

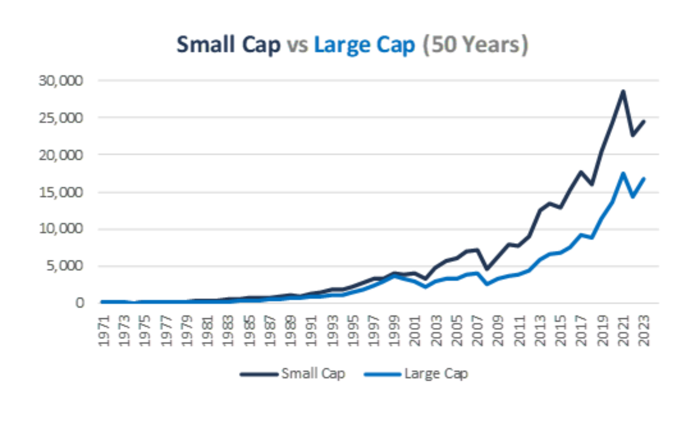
Stock markets turned in a strong Q2, across the board. Small caps were the laggards, as regional bank fears continue to persist, but were positive nonetheless. Inflation has now declined for 12 straight months, which has fueled returns for the largest technology stocks that underperformed in 2022. At first blush, it would appear the Fed's aggressive monetary policy has helped tame the beast. The final verdict is still to come, of course. Fed policy will continue to have a huge bearing on future stock returns, as studies show that markets tend to do well when 10-year treasuries are below 5% but struggle when they are above 5%. The 10-year Treasury bond is current yielding 4%, while the Federal Funds rate is already over 5%.

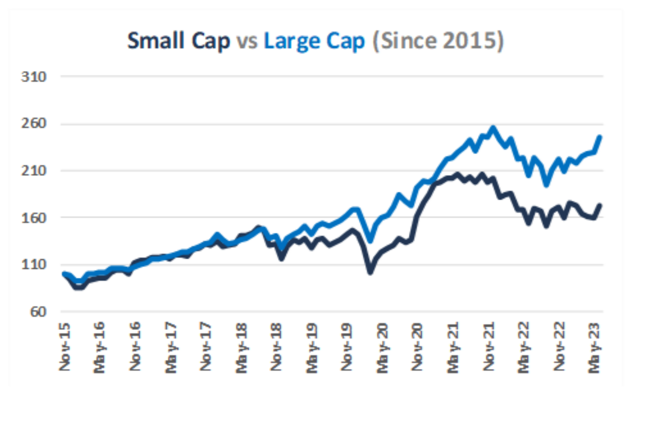


Wide dispersion continued in Q2, with growth dominating value and large dominating small

Growth stocks dominated value stocks in the first half of 2023, with the Russell 1000 Growth beating the Russell 1000 Value by 13.4% in Q1 and then *another* 8.7% in Q2. Big Tech once again led the way. Although market breadth improved somewhat in the month of June, as of June 1 the top seven stocks (coined the Magnificent 7) were up 53% while the other 493 S&P constituents were flat. See below. This concentration at the top has also propelled large caps to dominate small caps so far this year (+16.9% vs +8.1%), continuing the trend that's been in place since the inception of our small cap strategy (2015).



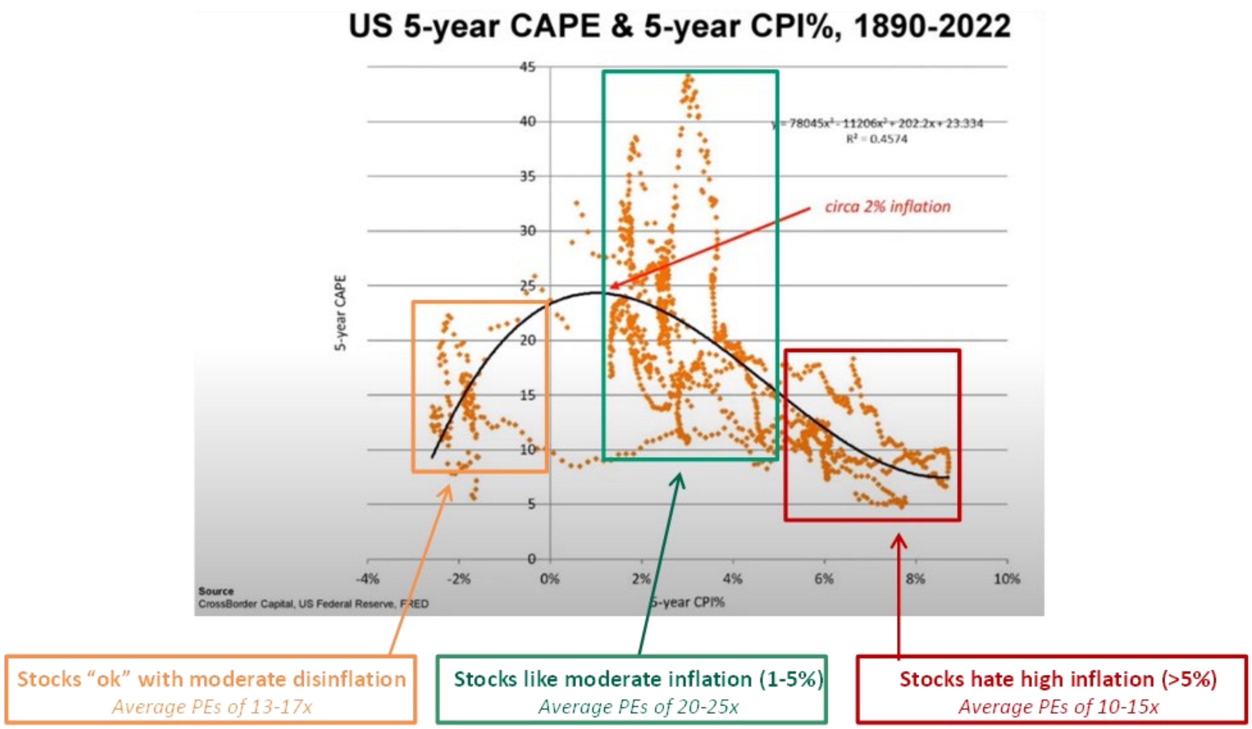




Thoughts on Inflation & Interest Rates

Inflation & Stock Market Multiples

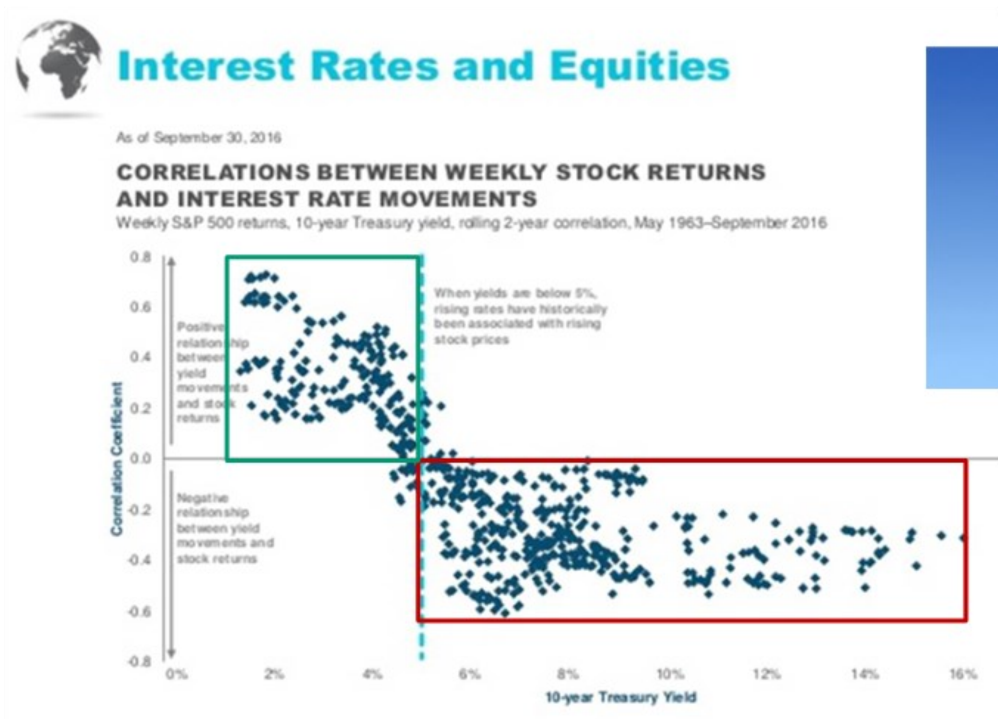
The following chart plots 5yr PE multiples (y axis) against 5yr CPI (x axis). Low single digit inflation (1-5%) corresponds to the highest historical PEs. We are currently in this range, but not by much.



Lookback: *November 2022 Covered Call Commentary ("Between A Hawk & A Hard Place")*

"The prevailing wisdom is that higher rates will weigh on stock returns, as they did in the 1970s. But we had run-away (double digit) inflation in the 1970s, whereas inflation appears to be slowing and rolling over today. We found a T. Rowe Price study that shows that when Treasuries are below 5% (as they are now, barely), rising rates have actually been associated with rising stock prices. It's when rates rise above this 5% threshold that additional increases start to negatively impact the stock market. See below."

The 10-year Treasury bond is current yielding 4%, while the one-month T-Bill rate is slightly above 5%. We are right there, at the “Hard Place.” There’s no question the future outlook for inflation, and the Fed’s response, will continue to be critical.



Key Takeaways

- Inflation declines have fueled a market recovery. However, the outlook for the economy (and particularly the regional banks) remains very uncertain, and most economists are projecting mid-single digits for equity returns over the next 7-10 years.
- The stock market has not been this concentrated at the top since the 1960s. This typically doesn’t bode well for markets, which tend to normalize over time. For example, the “lost decade” of the 1970s followed the concentration of the 1960s.
- After this rebound run in Big Tech, we believe small cap stocks will perform better in the next decade than they did in the past decade. The small cap category performs better over the long run, and we expect this trend to return eventually. The category is very cheap relative to large caps today, but the small cap space is full of land mines. We believe quality will continue to matter more than ever.
- Our portfolio is significantly advantaged compared to the small cap indices. Our holdings have higher ROIs, higher sales growth and lower debt. We are ready for whatever the market throws at us.

TOP TEN HOLDINGS

As of June 30, 2023, the top 10 holdings are as follows:

Company	Business description	Weight	Size ($mm)
Gibraltar Industries (ROCK)	Building products for solar	4.3%	1,900
Qualys (QLYS)	Cyber security	4.3%	4,700
Applied Industrial (AIT)	Motion, fluid & power control	3.8%	5,600
SP Plus (SP)	Parking & travel svcs	3.7%	800
Crocs (CROX)	Footwear	3.4%	7,200
Match (MTCH)	Online dating services	3.3%	11,800
AZEK Company (AZEK)	Recycled materials	3.3%	4,500
CSW Industrials (CSWI)	Building products	3.0%	2,500
ChampionX Corp (CHX)	Oil & gas equipment	3.0%	6,200
Pentair (PNR)	Flow technologies	2.9%	10,500

APPROACH

The strategy uses a “Growth At A Reasonable Profile” approach, which basically means we are not speculative. Just like you’ve come to expect from us in the large cap space, our focus is on quality first. But in the small cap space, we are just as open to growth and momentum stocks as we are value stocks. A “reasonable profile” means the business must be established and already profitable, earning returns above its cost of capital. Beyond these simple parameters, we look for companies that are leaders in their industries, expanding rapidly (2-3x the market), and consistently beating expectations for growth.

Portfolio Construction

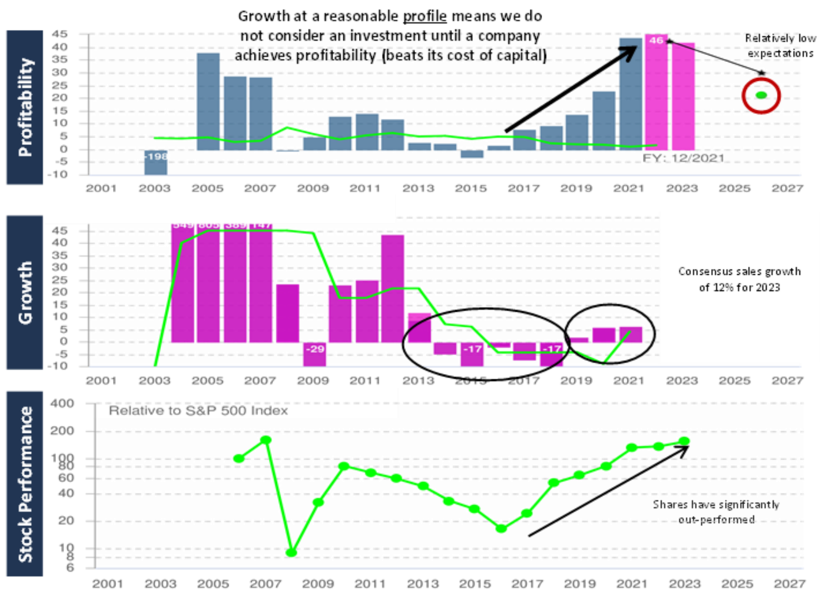
Our strategy is well diversified, with a max position size of 6% and broad representation across sectors. We believe in long term value creation based on a disciplined capital allocation process. A handful of lucky concentrated bets is not the path to achieving long-term goals. We target companies with market caps between $500 million and $3 billion and have a below average portfolio turnover profile.

Fundamental Analysis

Fundamentals come first. Always. But we also incorporate technical analysis into our investment process, to provide key downside/support levels and also to provide confirmation of buy/sell signals. Small-cap stocks can be volatile and technical analysis provides information into position sizing, entry and exit decisions and can trigger due diligence reviews.

To better understand our investment approach, consider one of our holdings: Crocs (CROX). Crocs designs, manufactures, and distributes casual lifestyle footwear and has become a market leader in the space. The company has impressive momentum in its Cash Flow ROIs, and the stock has outperformed the market 10x since 2016.

Investment Process: Small Cap Example (CROX)



Source: Credit Suisse HOLT

Key Points

- Market cap: $7.7 billion
- Strong & improving Cash Flow ROI, by far the highest in the footwear and apparel space.
- Best in class operating margins (beating out LULU) and asset turns (Steve Madden).

- Management restructured the business in 2014-2018, when it was unprofitable…
- Company is back in growth mode now.

- Current stock price reflects low expectations (low green dot in top panel)
- Shares have out-performed nearly 10-to-1 since 2016
- We believe the shares are still undervalued

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