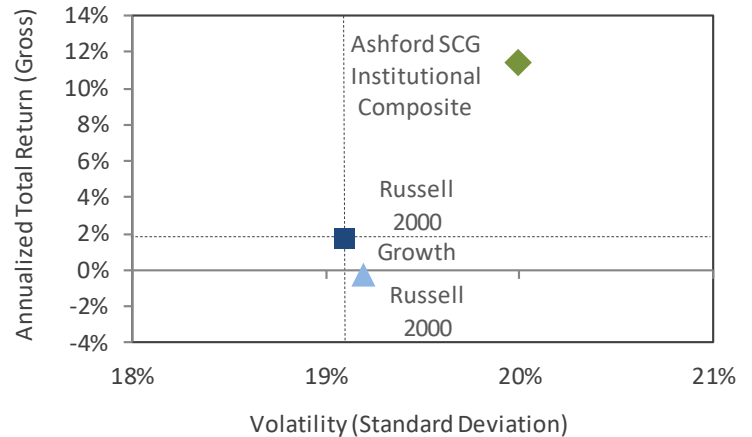


What Are We Seeing As We Execute our Investment Process?

The world has changed dramatically since we last wrote you in January. The COVID-19 pandemic accelerated quickly and has caused volatility in society, the economy, and the global markets. Most importantly, we are inspired by the commitment and resolve of the people on the front lines fighting the virus. The nurses, doctors, and other health care professionals who go to work every day to save lives are helping to give us hope and get all of us through these difficult times. One of the more uplifting moments came from a video from the Upper East Side in New York City. People are cheering from their windows for health care workers as they change shifts at a hospital. Our thoughts and prayers are with them and all the patients they are treating around the world as we fight to get to the other side of this pandemic.

As we turn to our work for you, the expected duration and severity of the pandemic remain unknown. However, with each day we gain more insight into its impact. We believe there will be several longer-term ramifications from the pandemic including higher unemployment, lower interest rates, and the residual impacts of a recession. However, history shows us the recovery in our economy and markets will come and will likely provide some compelling investment opportunities. In several cases, they already have. We include the table below to provide some further historical context.

ASHFORD SCG RISK/REWARD FOR THE 5 YEAR PERIOD ENDING 3.31.20



ASHFORD SCG PERFORMANCE FOR THE PERIOD ENDING 3.31.20

Period	Q1	1 Year	3 Year	5 Year	10 Year
Ashford SCG*	-19.5%	-12.8%	7.2%	10.6%	13.2%
R2000 Growth	-25.8%	-18.6%	0.1%	1.7%	8.9%
R2000	-30.6%	-24.0%	-4.6%	-0.3%	6.9%

* Performance represents Ashford Small Company Growth Institutional Composite, net of investment management fees.

IN THIS UPDATE

- **What are We Seeing as We Execute our Investment Process?**
- **How Are We Handling This Period?**
- **Our Process at Work—Quality Matters**
- **Putting Capital To Work**
- **Outlook and Conclusions**



Forward Returns Following History's Worst Bear Markets

Total Returns for the S&P 500

Peak	Trough	Drawdown	1 Year	3 Years	5 Years
1929 Sep	1932 Jun	-86.2%	162.9%	170.5%	344.8%
1932 Sep	1933 Feb	-40.6%	98.7%	194.6%	154.6%
1933 Jul	1933 Oct	-29.8%	2.9%	120.1%	87.3%
1934 Feb	1935 Mar	-31.8%	83.8%	16.3%	84.9%
1937 Mar	1938 Mar	-54.5%	35.2%	38.2%	84.5%
1939 Oct	1940 Jun	-31.9%	8.0%	59.7%	118.8%
1940 Nov	1942 Apr	-34.5%	61.2%	128.6%	144.9%
1968 Nov	1970 May	-36.1%	34.8%	50.6%	42.2%
1973 Jan	1974 Oct	-48.2%	38.1%	72.7%	117.5%
1987 Aug	1987 Dec	-33.5%	23.2%	55.5%	121.7%
2000 Mar	2002 Oct	-49.1%	24.4%	59.0%	105.1%
2007 Oct	2009 Mar	-56.8%	53.6%	98.0%	181.6%

Table: Ben Carlson Source: DFA/Bloomberg Fortune Magazine

system involves owning the highest quality businesses, continuously updating and confirming our assumptions and criteria, and adding to holdings when they are mispriced.

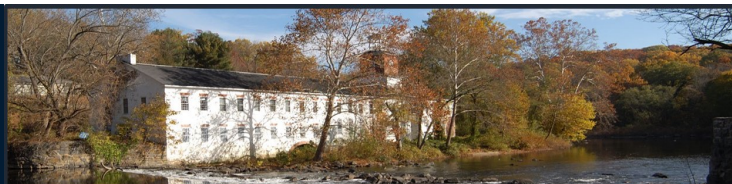
Our Process at Work—Quality Matters

We have highlighted the qualities we look for in businesses in previous letters but thought it would be prudent to outline several critical criteria again here. We always start with managements. As long-term investors, we are betting on the leaders of the businesses we own for you. We count on factors including their experience, high standards of responsibility and accountability, history of capital allocation and their focus on shareholders. We know behavior is tested in periods like the one we are living now, which means we interact with managements and independent references even more frequently. Fortunately, we have analyzed the majority of portfolio holdings for more than three years. To be even more specific, we have analyzed thirteen current holdings for more than twelve years. This means the managements and selected members of the boards of directors have experience in stewarding a public company during challenging times like the financial crisis of 2008. Management teams that demonstrated superior decision-making during that period include a commercial real estate analytics and platform company, as well as an information management solution and services company for local governments. While we owned companies with many different outcomes, these are examples of two durable companies that are still experiencing positive returns over a long period of time.

How Are We Handling This Period?

We focus on people first. This means we have encouraged our team to work remotely and protect themselves and their families. Fortunately, our group is healthy, the business continuity resources are working well, and our team is staying focused and connected.

We also focus on risk management. As a 40+ year-old firm, we have been through several shocks including Black Monday in 1987, the 9/11 World Trade Center bombing and Dot-com bubble in 2001-2002, and the 2008 financial crisis to name a few. Our history tells us that as a long-term investor, the best risk management



A second critical criteria we highlight, especially in periods of market stress, is the strength of the balance sheet. Companies with excess cash as well as a business model that generates cash can take advantage of dislocations in their markets. Examples include hiring special talent, buying a complimentary but depressed asset, adding new customers that leave an undercapitalized competitor, and upgrading and adding systems to become even more productive. We have multiple companies in diverse industries that are leaders in their businesses, have excess cash positions, and are generating cash flow. Our recent conversations with these managements suggest they are eager to take advantage of this landscape to use their cash reserves to further expand their competitive positions. They believe their opportunities to allocate capital at competitive returns could actually improve.

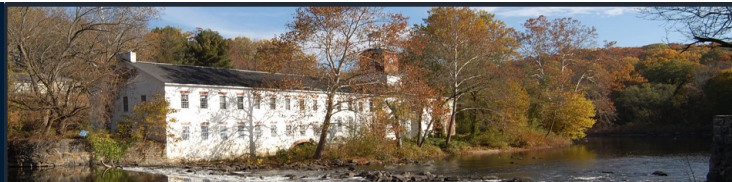
A third featured criteria is the durability or “must-have” nature of a company’s product or service. Does the buyer have a “need” to be filled, not just a “want”? Does the product or service improve the customers’ productivity levels and return on investment? While the demand from customers can fluctuate in periods of economic slowdown, the value often does not erode. In select cases it may grow. We have interacted with several managements over the past several weeks which cite near-term stability and even selected improvement in their businesses. Each management cited the opportunity to gain market share based on their “must-have” offerings and expects beneficial changes in their competitive landscapes.

Putting Capital to Work

Our team was busy in the first quarter. We attended eight conferences, listened to over 120 company presentations, and met face-to-face with 21 management teams to dig deeper into their businesses. We believe this work will pay dividends in the future.

We are being asked if the repricing of assets in the market has given us the chance to buy any new holdings in our pipeline. Over the past month, we have added two new businesses to the portfolio. We have three more where we have entered buy orders since the entry prices are very close to our trigger points. In several cases, we have studied these businesses for more than two years and look forward to our price discipline finally paying off.

With respect to new ideas, we have also spent time as an investment group studying resilient business areas as well as those which may benefit longer-term from several accelerating trends in this quarantine period. As an example, cloud-based architecture is providing agility and resiliency for companies to operate and support remote workforces. Many of you have likely experienced an online video conference from companies like Cisco and Zoom. We believe there will be other beneficiaries, some of which are less discovered, smaller companies in related areas including security and online education.



Outlook and Conclusion

In our last letter, we highlighted a quote citing that *“America has been uncertain since 1776”*. The level of uncertainty has risen short-term as investors review the length and depth of the virus outbreak. Investor time horizons also appear even shorter based on volatility measures. In times like these, we continue to execute our team-based research process to make sure we get multiple insights and viewpoints while removing emotion. We expect more turbulence short-term as market participants, including company managements, work to calibrate the timing and speed of an economic recovery. We believe there are resilient companies we own and others to discover that will become even stronger in this challenging period. The investment team will continue to work hard and follow our disciplines to emphasize the highest quality businesses in your portfolio.

