ASHFORD

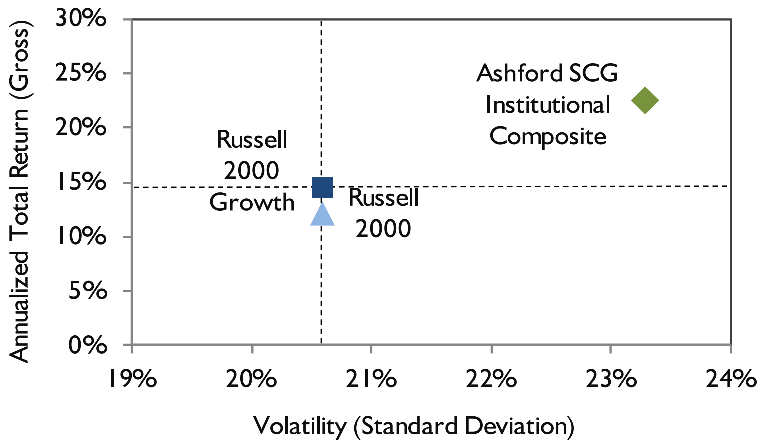
CAPITAL MANAGEMENT

Q4 2021 COMMENTARY

Our Process at Work

Ashford Capital Management is a growth-oriented investment firm. Our focus is on building a portfolio of high-conviction investments with a strong probability of producing sustainable cash flow and earnings growth over periods of years, not just quarters. Our goal is to continue to earn multiples on your invested capital by benefiting from the fundamental improvement of the portfolio businesses as they grow.

Ashford Small Company Growth Strategy
Risk/Reward for the 5 Year Period Ending 12.31.21



What Are We Seeing?

The fourth quarter was a busy time for the investment team. In addition to a full travel schedule to visit companies and attend industry events, we also hosted two important meetings. The first was the annual offsite planning meeting where we review the portfolio composition and a deep analysis of each company in the portfolio. We review all our buy and sell decisions throughout the year. The team also tests our fundamental growth metrics and updates our analysis on the long-term potential for each business.

During the third week of November, we hosted a separate meeting with our advisory directors. This meeting helps us get an independent view of the portfolio as well as provide an interactive forum to present and defend several of the businesses in the portfolio. In summary, it is a second review of the risk and reward in the portfolio.

Ashford Small Company Growth Strategy
Performance for Periods Ending 12.31.21

Period	Q4	1 Year	3 Year	5 Year	10 Year
Ashford SCG*	-4.8%	-1.9%	27.7%	**21.6%**	19.1%
R2000 Growth	0.0%	2.8%	21.2%	14.5%	14.1%
R2000	2.1%	14.8%	20.0%	12.0%	13.2%

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

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In the spirit of continuous improvement, we are also constantly trying to identify resources that

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challenge and refresh our due diligence process to help us stay focused on generating long-term investment returns. In October, the investment team read 7 Powers: The Foundation of Business Strategy by Hamilton Helmer. It lays out seven ways in which a business can create sustainable competitive advantages that help generate long-term differentiated returns on capital.

One topic in the book which stood out to our team and one we have included in our criteria for many years is *process power*. The focus is on identifying the unique processes in an organization which contribute to its ability to improve product attributes and/or lower costs. The author argues that competing companies would need significant investment, knowledge, and time to catch up to the leader since certain superior incumbent business processes are complex and hard to recreate. We own shares in several businesses that exhibit process power. One of our core holdings is a company that manufactures modular power components for telecom, industrial, military, test, and data processing markets. The management of this company has focused on its power module packaging platform since the company was founded over 40 years ago. Its engineers have been able to continuously upgrade a unique power delivery network that is smaller, lighter, and more power-efficient than competitive offerings. We believe the management team has created a durable cost advantage as well.

Where Are We Spending Our Time?

The markets are sorting through many crosscurrents. Concerns around higher inflation, ongoing supply chain challenges, rising interest rates, and increasing Omicron case numbers have brought volatility to many areas of the markets including smaller growth companies. The corrections in higher growth technology (software) stocks have been especially aggressive as discussions around near-term interest rate hikes have fueled rapid contractions in their multiples. We own two holdings that fit this profile. In both cases, the revenue growth rates are slowing from pandemic highs but should remain above our hurdle of 20% for years to come. For one company's freelancer platform, the long-term trend of workers seeking more flexible work options remains in place. For the other, the business value generated from social data continues to grow. Both companies have scheduled their business updates for late February, and we expect positive outlooks.

On another positive note, domestic economic growth remains strong and is expected to stay elevated above long-term trends for at least the next two years. While we are waiting for year-end updates and outlooks from many of our companies, the early reports have been solid. Several managements have already reported strong top-line growth and in most cases improvement in the demand environment for their products and services.

What Are We Seeing?

The team is constantly updating its work to make sure we continue to own companies with high returns on investment, superior revenue per employee metrics, and pricing power.

We also continue to look for investment opportunities in the cybersecurity industry. Managements and contacts working in the space tell us that cybercrime damages will grow to over $11 trillion dollars in 2025, up from an estimated $5 trillion in 2021 (this is supported by a Gartner report from 5/17/21).

The team is also devoting more resources to focusing on the impact that semiconductors and related software will have in areas such as artificial intelligence and quantum computing. We remind ourselves that the semiconductor industry has traditionally been cyclical and somewhat sensitive to economic cycles. However, we are already seeing selected companies prepare for longer-term capacity increases as demand for electronic vehicles, artificial intelligence applications, crypto mining, and data analysis continue to accelerate.

Outlook and Conclusion

We expect more market volatility as rising interest rates, higher inflation, and geopolitical flare ups continue to command the attention of many market participants including the Federal Reserve. We have been using the elevated levels of downside volatility to add to several current holdings in December and January. Attractive new opportunities also exist, but skillful security selection backed by in-depth fundamental research will remain critical to our success.