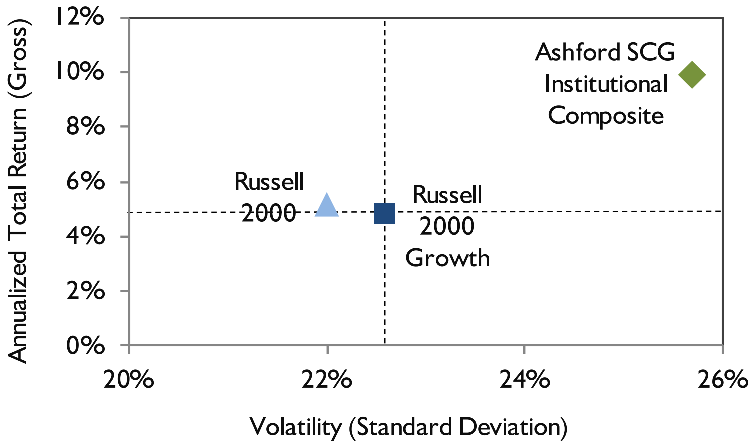
ASHFORD
CAPITAL MANAGEMENT

Q2 2022 COMMENTARY

The second quarter was a period of tremendous uncertainty. The financial markets started the quarter focused on inflation and finished with growing concerns about a recession. Esther L. George, President and Chief Executive of the Federal Reserve Bank of Kansas City summed it up best in an April interview: *“Volatility is surging due to uncertainty…inflation is too high. Inflation needs to level out and decelerate… interest rate adjustments are needed…consumer behavior is changing.”* Then on June 15, 2022, Jerome Powell, Chair of the United States Federal Reserve, stated *“This is an extremely uncertain environment*.” The financial markets do not like uncertainty and equities reacted accordingly and declined in the quarter. Smaller growth companies were especially hard hit.

The Federal Reserve Bank is addressing inflation by increasing the cost of borrowing money, raising interest rates so money is no longer free. The rise in interest rates has financial markets concerned about a slowdown in the economy and by the end of June, equity markets seemed to price in a recession in conjunction with inflation. While no one knows for certain what will happen in the future, we expect the road will be bumpy over the next few quarters as we work through the economic cycle. However, investors need to be careful not to become too negative because uncertain environments create both risks and opportunities. Our 43 years of experience has shown us that when the investment community is the most negative and valuations become compelling, it is usually the best time to invest.

Ashford Small Company Growth Strategy
Risk/Reward for the 5 Year Period Ending 6.30.22



Ashford Small Company Growth Strategy
Performance for Periods Ending 6.30.22

Period	Q2	1 Year	3 Year	5 Year	10 Year
Ashford SCG*	-23.9%	-38.3%	2.8%	**9.1%**	13.8%
R2000 Growth	-19.3%	-33.4%	1.4%	4.8%	9.3%
R2000	-17.2%	-25.2%	4.2%	5.2%	9.3%

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

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Our Process at Work

Ashford Capital Management is a bottom-up fundamental investment firm. As we have outlined in many of our letters, the investment team spends considerable time traveling to meet managements, attend industry conferences, and meet with references. However, we must also consider the current macroeconomic headwinds in our proprietary analysis and forecast for each company. From a risk perspective, we continue to prepare for multiple outcomes: what is possible and what is probable? What are the knowns and what are the unknowns? For example, a recession may cause a temporary slowdown in demand, but inflation may provide an opportunity to increase revenue if the company has pricing power. Top management teams also find ways to improve their businesses by making goods and services faster, cheaper, and better and these productivity improvements can often increase long-term margins. Therefore, we continue to focus on Ashford Capital's time-tested tenets and concentrate on criteria companies with the following characteristics:

- 20% revenue growth
- Proprietary products or a leadership position that creates a moat or a durable competitive advantage
- Underfollowed and/or misunderstood by the investment community
- Experienced management team
- A strong balance sheet and financial metrics (return on equity and free cash flow)
- Opportunities to reinvest cash at high returns

Where Are We Spending Our Time?

Uncertainty and multiple outcomes also need to be taken into consideration in **portfolio construction**. When recession fears rise, stocks with lower liquidity and weaker balance sheets typically perform worse than profitable and well-financed companies. We construct the portfolio with businesses that have strong balance sheets and cash flow characteristics. Currently, there are 15 companies with more than $100 million of net cash in the portfolio which represents more than 50% of the total holdings. Four companies currently have over $1 billion in excess cash and are producing strong free cash flows. These characteristics should help these managements stay aggressive in hiring exceptional talent, investing in R&D, acquiring unique assets, and exploring other shareholder-friendly options. In addition, the portfolio has only 11.8% exposure to foreign exchange revenue. This provides some protection against the current stronger dollar and weaker international sales and earnings headwinds.

What Are We Seeing?

As valuations decline, we are finding opportunities to add to existing holdings where we continue to have high conviction in the long-term outlook for the business. One of the positions we added to recently was a company that operates an electronic trading platform for institutional investors and broker-dealer companies worldwide. While the stock declined during the period, the company's business prospects and

competitive advantages continued to improve.

The company's electronic bond trading platform is benefitting from the higher volatility across the fixed income landscape. Most importantly, the higher level of volatility across the corporate bond markets and credit markets is leading to higher trading volumes from both existing and new clients. As management stated recently, *"Electronic trading is a wonderful solution where volatility is on the rise, portfolio turnover is increasing, and lots of asset shifts are happening…With widening credit spreads, our All-to-All solution is producing great trading outcomes in terms of price savings on execution quality."* The company also continued to expand the capabilities of its global trading platform by introducing new and updated products and continuing to make significant investments in new trading protocols.

A second company provides a technology service platform that that allows consumers to make saving decisions on their Health Savings Accounts (HSA) and other healthcare benefits. The company is designated as a non-bank health savings trustee, which allows the company to be the custodian of HSA accounts regardless of which financial institution holds the funds. The company essentially operates as a bank but without the credit risk, collecting customers savings as float and providing other services. The company is an under-the-radar interest rate beneficiary in a rising rate environment. The management team runs the company conservatively and continues to gain market share in the sector. The guidance provided by the company for 2022 appears conservative as they are only projecting one rate hike in their financial guidance outlook for the year. The company's long-term plan is to make HSAs more common than 401(k)s.

Outlook

We trust it is only a matter of time before investors turn their attention back to smaller growth companies which can compound their growth for many years. We believe we continue to own a group of businesses that have durable competitive advantages, sound strategies for growth, and conservative balance sheets. Recently, entry prices for many of the businesses in the portfolio have become much more compelling. We are looking forward to the second quarter commentaries and business updates from our portfolio companies and plan to continue to add to those positions where our conviction and the risk return profile are the strongest.

Conclusion

Uncertainty often creates opportunity. Fortunately, history tells us that stocks often show strong returns after periods of upheaval and significant drawdowns, as the following table shows:

Wilshire 5000 - Worst 6 Months Periods & Forward Returns (1971 - 2022)

Worst 6 Month Periods				Forward Total Returns					
Rank	Total Return	Start Month	End Month	3-Month	6-Month	1-Year	3-Year	5-Year	10-Year
1	-42.4%	Sep-08	Feb-09	26%	42%	56%	102%	189%	372%
2	-36.4%	Jun-08	Nov-08	-16%	6%	27%	53%	132%	288%
3	-34.7%	Aug-08	Jan-09	8%	23%	35%	73%	147%	309%
4	-33.3%	Apr-74	Sep-74	9%	36%	41%	84%	153%	392%
5	-31.0%	Oct-08	Mar-09	17%	36%	52%	91%	167%	341%
6	-29.5%	Jul-08	Dec-08	-11%	4%	28%	52%	134%	246%
7	-29.4%	May-08	Oct-08	-14%	-7%	11%	41%	108%	250%
8	-27.3%	Apr-02	Sep-02	8%	4%	26%	66%	115%	129%
9	-26.3%	Mar-74	Aug-74	-1%	18%	29%	62%	121%	333%
10	-21.4%	Oct-00	Mar-01	7%	-10%	3%	9%	33%	55%
11	-20.9%	Jan-22	Jun-22						
12	-20.4%	Jun-87	Nov-87	18%	17%	24%	49%	120%	432%
13	-19.6%	Sep-00	Feb-01	2%	-7%	-8%	2%	22%	44%
14	-19.3%	Feb-74	Jul-74	-5%	1%	21%	50%	90%	255%
15	-18.5%	Aug-87	Jan-88	5%	10%	21%	44%	103%	387%
16	-18.3%	Jul-87	Dec-87	8%	15%	18%	43%	109%	405%
17	-18.2%	Jul-74	Dec-74	25%	46%	38%	70%	135%	356%
18	-17.9%	May-74	Oct-74	7%	22%	26%	51%	100%	318%
19	-17.9%	Feb-02	Jul-02	-3%	-5%	13%	51%	85%	98%
20	-17.8%	Jun-74	Nov-74	19%	35%	36%	65%	123%	334%
Average Worst Periods				**6%**	**15%**	**26%**	**56%**	**115%**	**281%**
Average All Periods				**3%**	**6%**	**12%**	**41%**	**79%**	**219%**
Differential				**3%**	**9%**	**14%**	**15%**	**36%**	**62%**

COMPOUND @CharlieBilello

The team remains patient and motivated as we focus on uncovering opportunities in this uncertain environment. We look to take advantage of our "prepared mind" themes including edge computing and cybersecurity. As part of the Ashford Capital culture, the team is never satisfied. As an organization, we focus on continuous improvement to evolve and grow. We believe this is key to long-term success.