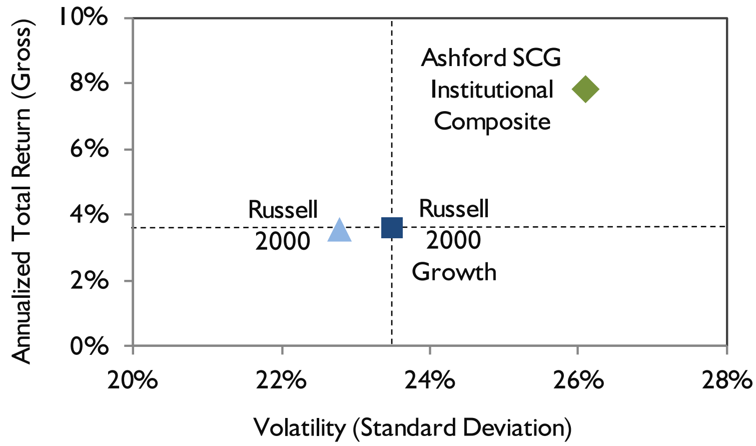
ASHFORD
CAPITAL MANAGEMENT

Q3 2022 COMMENTARY

Similar to the second quarter, the third quarter of 2022 continued to be a period of heightened uncertainty. The financial markets remained focused on inflation and the probability and severity of an economic recession. The equity markets staged a mild recovery in late July and early August on the hope for a more moderate rise in interest rates. However, Chairman Powell's recent comments that the Fed is committed to keep tightening monetary policy even if further rate hikes have a negative impact on growth has brought further selling pressures across most asset classes. We mentioned in our last letter that we expect the road will remain bumpy over the next few quarters, and our view has not changed.

The silver lining is that a growing number of high-quality growth businesses are being marked down to increasingly attractive valuations, and we have been adding to several positions.

Ashford Small Company Growth Strategy
Risk/Reward for the 5 Year Period Ending 9.30.22



Ashford Small Company Growth Strategy
Performance for Periods Ending 9.30.22

Period	Q3	1 Year	3 Year	5 Year	10 Year
Ashford SCG*	-0.7%	-37.0%	5.4%	**7.1%**	13.2%
R2000 Growth	0.2%	-29.3%	2.9%	3.6%	8.8%
R2000	-2.2%	-23.5%	4.3%	3.6%	8.5%

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

IN THIS UPDATE

Our Process at Work

One of the investment areas we continue to focus on is cybersecurity. We believe cybersecurity spending will continue to grow for enterprises and service providers even in an economic downturn due to the increase in high profile cyber-attacks at companies like Uber, American Airlines and Aon. Our thesis is supported by the recent news that one of our portfolio holdings was acquired in an all-cash transaction for $4.6 billion dollars ($24.90 per share). The company is a world leader in security awareness and simulated phishing training and is growing subscription revenue at more than 30% annually. The company is also generating strong (88%) gross margins

and improving operating and free cash flow margins even as some of their clients start to cut their broader IT budgets. While we are disappointed that one of our portfolio companies is being acquired, we continue to update our work on several new criteria companies in the space as we believe cloud security remains in a secular growth mode with a long runway ahead.

Where Are We Spending Our Time?

September was an especially busy travel month for the investment team. Our top priority is to frequently communicate with managements, industry analysts, vendors, and customers in order to update and challenge our investment theses. We have learned over our long history that bear markets often give us the chance to learn the most about management's decision making and shareholder focus, the durability of demand for a company's products and services, and the sustainability of pricing power.

During a September trip to the West Coast, we were able to connect with the managements of several portfolio holdings, as well as interact with customers of three additional portfolio companies. In nearly every case, the outlook for organic revenue growth was reviewed with a more cautionary tone, which we expected. End markets including automotive, industrial, and data centers are expected to soften with order patterns from customers in Europe and China likely to slow the most.

In one case, we were encouraged to hear that capital expenditures should moderate at the same time price increases take hold on their updated product offerings. This combination should lead to higher cash flow generation and an even stronger balance sheet. We heard from several holdings that their competitive positions continue to improve as earlier stage competitors now have more limited access to new capital to fund their unprofitable growth. We have owned one such company for over two decades and experienced periods like this where they are able to solidify and extend their market leadership position.

What Are We Seeing?

Over the past three years, we have increased our research focus on renewable energy and more specifically renewable natural gas (RNG). Jeff Rollins has spearheaded this effort for our team given his strong operating background in the space.

Our work led us to one Houston-based company where we made an investment earlier this year. The company builds and operates renewable natural gas facilities to capture waste emissions from landfills and convert them into low carbon fuel. Unlike traditional natural gas, RNG comes from landfill-sourced natural biogas that is collected and processed to remove impurities.

We are seeing larger players in the waste management and energy spaces become more interested in this fast-growing niche. This past summer, our portfolio company announced a joint venture to co-develop

over 30 landfill sites. On October 17, 2022, there was a bid to acquire the company for $4.1 billion ($26 per share) as larger companies expand into low carbon fuels. While we will lose our position, we have recently added two businesses in the space to our new idea list.

Outlook

We are coming up on mid-term elections and recently came across an older research piece we found especially interesting:

© 2018 Leuthold Group Mid-Term Year	Small Cap * May - Oct. Total Return	Small Cap * Nov. - April Total Return
1942	38.0%	79.0%
1946	-27.4%	-8.0%
1950	10.3%	21.6%
1954	19.6%	31.1%
1958	28.4%	19.5%
1962	-17.5%	27.7%
1966	-21.7%	42.4%
1970	-3.1%	40.8%
1974	-14.5%	29.3%
1978	-6.3%	30.7%
1982	18.3%	39.3%
1986	-5.7%	16.7%
1990	-23.9%	44.8%
1994	1.8%	5.4%
1998	-21.2%	15.2%
2002	-26.3%	7.6%
2006	0.9%	6.9%
2010	-1.2%	23.7%
2014	4.8%	4.6%
2018	-1.4%	6.1%
Average	**-2.4%**	**24.2%**
Standard Deviation	**18.5%**	**19.5%**
No. of Positive Periods	**8**	**19**
No. of Negative Periods	**12**	**1**
Avg Performance if May-Oct was negative		**23.1%**
Avg Performance if May-Oct was positive		**25.9%**

* Small Cap Returns for Ibbotson Small Company Stocks 1942-1978; Russell 2000 thereafter.

As always, past market performance is no guarantee of future results and however interesting this may be, it still drives us to continue to ask the tough questions in a period of heightened volatility.

Conclusion

Recently, a client sent us Amazon's 2014 shareholder letter. In the letter, Jeff Bezos cited four characteristics of an exceptional business:

- Customers love it
- It can grow to a larger size
- It has strong returns on capital
- It is durable in time

We believe we hold a strong line up of smaller-growth CRITERIA companies which fit these characteristics and should continue to produce strong competitive long-term returns.

Thank you for your support as the team continues to work hard to earn your trust. Please reach out with any comments or questions.