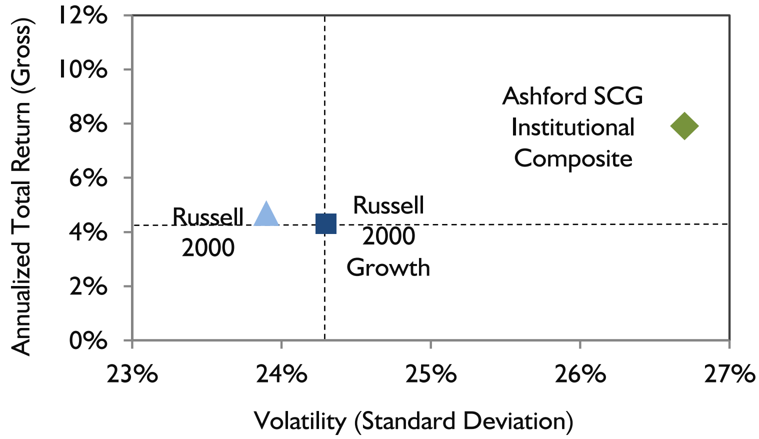
ASHFORD
CAPITAL MANAGEMENT

Q1 2023 COMMENTARY

Equity markets once again had a positive return in the first quarter although March saw some giveback. The biggest positive returns continued to be generated by a small number of mega-cap technology companies including Apple, Microsoft, and Nvidia. The ongoing emergence of generative AI (Artificial Intelligence) and spending on Large Language Models brought more attention and capital to these companies. Fear returned to the market in the month of March as three banks including Silicon Valley Bank, Signature Bank, and Silvergate Capital collapsed quickly. Fortunately, our exposure to financials is focused on unique insurance and differentiated market making platforms rather than financial firms with credit exposure and depositor flight risk.

Ashford Small Company Growth Strategy
Risk/Reward for the 5 Year Period Ending 3.31.23



Ashford Small Company Growth Strategy
Performance for Periods Ending 3.31.23

Period	Q1	1 Year	3 Year	5 Year	10 Year
Ashford SCG*	3.7%	-16.7%	14.0%	**7.1%**	13.2%
R2000 Growth	6.1%	-10.6%	13.4%	4.3%	8.5%
R2000	2.7%	-11.6%	17.5%	4.7%	8.0%

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

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What Are We Seeing?

The March ISM Manufacturing PMI (Purchasing Manager Index) fell to the lowest level since May 2020. This was the fifth consecutive reading below 50, indicating continued contraction in factory activity that increased in the latest month. The most recent Jobs Openings and Labor Turnover Survey (JOLTS) showed the number of job openings fell 6% in February to its lowest level since May 2021. These surveys are consistent with falling inflationary pressures but also imply weaker demand.

As we outlined in the year-end letter, we continue to perform proprietary research. This means interviewing suppliers and customers, conducting company visits and management meetings, and analyzing competitors and new market entrants in the markets we are studying. As we update our information, there are a growing number of references to extended sales cycles, cost cutting

initiatives, and deferral of orders. Fortunately, the deferral of orders has not turned into cancelled orders to date for companies in the portfolio, but we are monitoring this metric closely.

Our Process at Work

Our long history investing in smaller growth businesses has shown us that superior management teams take advantage of challenging periods like we are in now to enhance their competitive advantages and even improve their long-term incremental returns on invested capital.

Examples owned in portfolios include:

A specialty insurance company – expansion of control over underwriting and claims management processes

This company's experienced executive team underwrites hard-to-place risks directly for their clients. Unlike the competitors in the E&S (Excess and Surplus) insurance markets, this company does not extend underwriting authority to outside brokers, agents, or other third parties. This practice helps support an entrepreneurial culture that attracts, retains, and rewards the most experienced and productive executives and protects a lower cost structure.

A technology leader in global public safety – continuous creation of new business opportunities

We recently attended a public safety technology conference where this management outlined investments in areas such as drones, biometric sensors, real time crime center software and virtual reality training for law enforcement. While the majority of these initiatives are in the early stages of development, management outlined how their existing penetration of over 95% of the law enforcement market could allow for faster adoption of these new, innovative offerings going forward.

A company that provides online auctions and vehicle remarketing services globally – emphasis on long-term decision making to protect and develop its real estate footprint

Recently, the Co-CEOs of this company outlined their contrarian focus to continue to buy and expand their land/ storage capacity as well as manage their own fleet of car carriers. Their approach assures the company can control its own destiny, expand existing salvage capacity quickly if necessary, and more closely manage one of its largest costs.

A company that provides information management solutions for the public sector – providing more mission critical solutions to existing clients

The management continues to listen to its core customers and expand its product offerings to the government technology market. The company recently added proprietary capabilities in the court software, payment processing, and tax assessment areas to accelerate the development of the broadest platform in the public sector.

The Portfolio

In a climate where challenges including higher interest rates, elevated inflation, and tighter lending standards add to the growing perception of risk, we continue to focus on owning businesses with:

<u>Strong balance sheets</u>
- Over 80% of the holdings in the portfolio have excess cash.
- Ten holdings have over $500 million in excess cash.

<u>Positive earnings and cash flow</u>
- Only one company in the portfolio is expected to be unprofitable in 2023.

<u>Long-term competitive positions</u>
- We continue to travel extensively to meet with managements, competitors, customers, and references to test our assumptions about the long-tail growth opportunities.
- Specific focus on recurring revenues, pricing power, and cost/scale advantages.

<u>Management with a record of shareholder-friendly capital allocation</u>
- We have owned more than half the portfolio holdings for 5+ years, giving us longer time horizons and more data to assess management's capital allocation decisions and alignment with shareholders.

Based on these criteria, we did begin selling one holding in the first quarter. Over the past several quarters, this company experienced a continuing decline in bidding activity on large contracts from the U.S. government. This trend severely impacted the company's revenue, cash flow, and backlog throughout 2022 at the same time that management was investing in a new offshore vessel. The expected large capital expenditures over the next two years ($150 million in 2023 and over $100 million in 2024) will likely leave the company in a highly leveraged position. Given the heightened liquidity risk, the elevated interest rate environment, and the depressed backlog, our investment disciplines dictated that we sell the holding.

Outlook and Conclusion

We anticipate continuing volatility throughout this year as rate hikes take hold at the economy level and new economic data is absorbed. However, with smaller growth stocks unloved for more than a year in conjunction with weak market sentiment and more compelling valuations, we expect to use further market weakness to build positions in our highest conviction holdings. This will include new ideas, several of which we have been working on for more than twelve months.

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The ability to invest in our highest conviction companies with a longer time horizon remains one of Ashford Capital's most important advantages. While we continue to see average holding periods decline for many investors, we remain focused on buying exceptional businesses with shareholder-focused managements that we believe can compound returns for years.

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