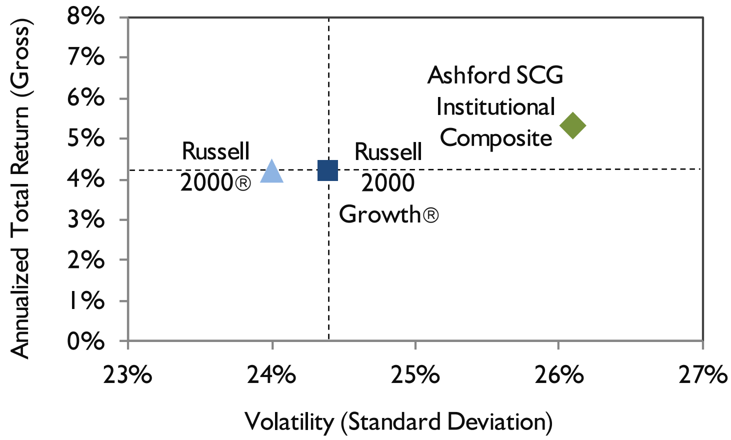
ASHFORD
CAPITAL MANAGEMENT

Q2 2023 COMMENTARY

Equity markets performed surprisingly well in the second quarter. Unlike the first quarter where volatility was more extreme, the recent three-month period seemed to reflect gradual but growing optimism for a soft landing and slowing inflation. The bottom line is the U.S. economy is staying resilient despite the Fed's restrictive monetary actions.

Ashford Small Company Growth Strategy
Risk/Reward for the 5 Year Period Ending 6.30.23



What Are We Seeing?

The strongest market returns year to date continue to be driven by a small number of larger technology names. As a reference, the S&P 500 was up 16.9% in the first six months and 74% of this return was generated by just seven companies including AAPL, NVDA, TSLA, META, AMZN, MSFT, and GOOGL. Fortunately, the breadth of the market began to expand in mid-June to include more sectors and smaller companies. However, in the smaller growth areas, the lowest ROE companies increased 11%, unprofitable companies 12%, and companies with no revenues increased 20.5% according to a recent Jefferies report. Our investment disciplines keep us away from these more speculative type of businesses.

Ashford Small Company Growth Strategy
Performance for Periods Ending 6.30.23

Period	Q2	1 Year	3 Year	5 Year	10 Year
Ashford SCG*	4.1%	13.9%	2.3%	**4.6%**	12.8%
R2000 Growth®	7.1%	18.5%	6.1%	4.2%	8.8%
R2000®	5.2%	12.3%	10.8%	4.2%	8.4%

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

IN THIS UPDATE

Our Process at Work

We have engaged many of the managements of our portfolio companies in discussions about AI (Artificial Intelligence). AI is a field which includes computer science and robust datasets to improve problem solving. It involves the simulation of human intelligence processes by computers. AI systems focus on incorporating large amounts of labeled data, studying the data for patterns and correlations, and using the analysis to generate insights and make predictions.

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One of the most interesting insights we are hearing from several managements is the power of AI to automate complex as well as more mundane tasks. Several of our portfolio companies have launched initiatives to improve productivity and lower costs of manual processes including a specialty insurance company, a financial technology company which developed a leading trading platform for institutional investors, a business services company which focuses on consumer experience, a financial technology business which specializes in HSA administration, and a technology company which provides their customers with a robust toolkit to manage their online social media.

We also expect to benefit from the growth in AI through our investment in a global power technology company which is part of the semiconductor value chain enabling more computer power. The business is a leader in high performance power modules and systems for the conversion of electrical power in electronic systems. The management has highlighted the significant acceleration in demand for AI systems over the past two months as their new plant and updated AI-focused product offerings come online in late summer.

The Portfolio

Overall portfolio activity remained relatively low in the quarter. There were 28 positions in the Ashford Small Cap Institutional Growth Composite on June 30, 2023 versus 29 on March 31, 2023. We allocated more capital to several holdings including a business support systems software company and a company which reduces friction in commerce through identity intelligence. We also executed small baitbacks on a company which develops apps and devices for both law enforcements and civilians, as well as an independent media buying platform which helps marketers target customers in a more relevant manner. An education technology company represented our only elimination. We made the decision to sell our shares after studying the new emerging threat of Chat GPT to its core business.

The top five contributors in the quarter were a biomedical company working in the precision health arena, a company with a measurement and analytics software platform which optimizes marketing spend, a global provider of commercial and residential real estate information, analytics, and online marketplaces, an independent insurance agency, and an online vehicle auction company which also provides remarketing services to automotive resellers such as insurance, rental car, fleet and finance companies. The latter business represents an example of our long-term investment focus. We first purchased shares in the Ashford Small Cap Institutional Growth Composite over a decade ago, and the company continues to report strong results while also reinvesting capital back into the salvage vehicle auction market at high rates of return. One beneficial trend for the business is the proliferation of technology into automobiles which we expect will elevate repair costs and increase the number of vehicles sent to auction.

Another long-term holding which continues to perform in diverse macroeconomic climates is a company which provides information, analytics, and marketing services to the commercial property industry in the United States and Europe. Our position was initiated in 2012, and it is currently a top five holding in the

portfolio. Company management invested aggressively during COVID to expand its leadership positions in the real estate information, analytics, and marketplaces. In combination with its recent uptick in investment into residential business, we expect these initiatives to help generate improving revenues and margins later in 2023 and calendar year 2024.

The top five detractors included a technology business which provides electronic platform trading to institutional clients, an education technology company, a specialty pharmaceutical company, a global biopharmaceutical company, and a financial services company. While the last company is a recent addition, the other four have been in the portfolio for more than six years. In the cases of the two pharmaceutical companies, our recent meetings with management have increased our conviction in their capital allocation plans. The first is seeing strong returns from a novel non-stimulant ADHD product. Launched in 2021, this product is quickly gaining traction with patients taking alternative products with stimulants. Prescriptions grew 14% sequentially in the first quarter and we expect this growth trajectory to remain strong going forward.

The second pharmaceutical company also has an emerging new franchise platform in its FDA-approved prescription medication for skin conditions including atopic dermatitis. We believe the revenues could grow from $128 million in 2022 to more than $500 million in 2025 and contribute to an acceleration of overall revenue growth and profitability.

Outlook and Conclusion

In our recent letters, we have highlighted our focus on entry-price discipline—the price per share we will pay to become a longer-term owner of a criteria company. Currently we have a growing list of new ideas with the following characteristics:

- Durable competitive advantages
- Large and growing addressable markets
- Experienced management teams
- Attractive business models with recurring revenues and free cash flows

We expected to add several of these new businesses to the portfolio this past quarter, but valuations have remained elevated. We will continue to be disciplined on entry price and will look to take advantage of any unwarranted downside volatility as the companies report second quarter business updates.