

Returns for the last 12 months show the strategy up 10.9% compared to 18.7% for the Russell 2000 Growth[®] and 16.9% for the Russell 2000[®].

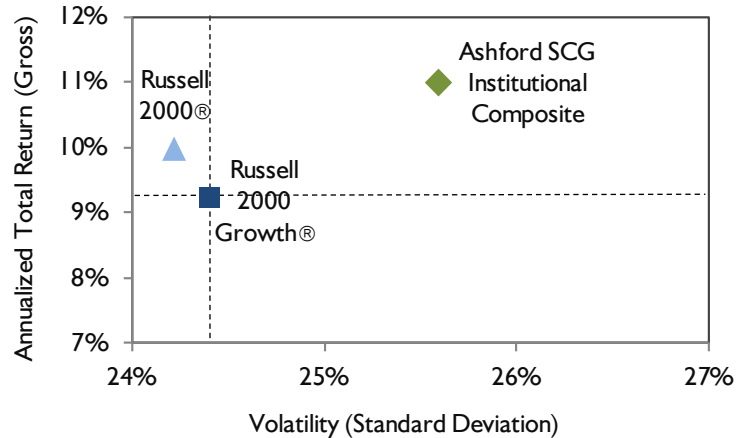
What Are We Seeing?

During the fourth quarter, the market experienced a strong rebound in small capitalization stocks and the portfolio rose 9.5%. This was primarily due to a growing market belief that the Federal Reserve will cut (lower) interest rates multiple times starting as early as March of 2024.

As we enter 2024, inflation remains elevated but inflationary pressures appear to be easing and the corporate sector continues to be resilient. Also, The Federal Reserve is sternly focused on lowering inflation. Therefore, a March interest rate cut appears unlikely. The bottom line is the equity markets are holding up well due to strong quarterly earnings being reported year to date. The market is rewarding those (greater than 5% stock price increase) companies that exceed expectations and punishing those (greater than 5% stock price decrease) that do not meet expectations. Companies in the artificial intelligence and cyber security sectors have price momentum along with other innovative companies that are executing above expectations.

The current market environment has increased focus on balancing risk versus reward for the long term. As one smart investor once said, “be fearful when others are greedy and greedy when others are fearful”. These words of wisdom seem prudent in the current market environment for long-term investors.

Ashford Small Company Growth Strategy Risk/Reward for the 5 Year Period Ending 12.31.23



Ashford Small Company Growth Strategy Performance for Periods Ending 12.31.23

Period	Q4	1 Year	3 Year	5 Year	10 Year
Ashford SCG*	9.5%	10.9%	-8.5%	10.2%	10.5%
R2000 Growth [®]	12.8%	18.7%	-3.5%	9.2%	7.2%
R2000 [®]	14.0%	16.9%	2.2%	10.0%	7.2%

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

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Our Process at Work

The Ashford Capital investment team remains focused on uncovering new investment opportunities and managing the existing portfolio. The firm believes our competitive advantage is investing in businesses that can grow to become larger and more profitable over time. We continue to look for the highest quality growth businesses with experienced management teams, strong balance sheets, durable business models, and high returns on equity (ROE). Companies with these characteristics can compound earnings and cash flows reliably over long periods of time.

We are often asked about how we find new businesses which fit our investment criteria. While the firm is bottom-up, we do look for attractive growing markets. An example of some of our current themes and sectors with tailwinds include the following:

- Artificial Intelligence (AI)
- Cybersecurity
- Precision medicine
- Training and reskilling of the workforce
- Increases in insurance premiums

The Portfolio

Ashford's portfolio construction is driven by our fundamental bottom-up approach. There are currently 30 companies in the portfolio. We anticipate holding 30 to 35 companies. This process will be balanced by the risk and reward of finding criteria companies that meet our entry price discipline.

The top three contributors to the portfolio for the year were an insurance broker, a life science diagnostic company, and an online vehicle remarketing service provider. The insurance broker's management team has built a company that provides unprecedented transparency and choice for their customers. Their goal is to provide every customer with the best insurance at the best price. This strategy appears to be working. The CEO of the life science diagnostic company has completed reorganizing the business operations and building an experienced management team, on a mission to change the way healthcare is diagnosed and researched, primarily in diseases related to the central nervous system. They have developed an Alzheimer's test that is faster, cheaper, and better than current diagnostic methodologies. The vehicle remarketing service provider offers suppliers, primarily insurance companies, services and ways to salvage vehicles through auto auctions. This company has been a long-term holding in the portfolio. The team's consistent and reliable performance has been world-class.



The top three detractors for the year were a pharmaceutical company, an online learning platform, and a therapeutic biopharmaceutical company. We have eliminated the positions in the first two, and continue to hold shares in the latter. That company currently trades around 17x GAAP EPS and 12x adjusted non-GAAP EPS. Net income margins are 25% and growing, while earnings and free cash flow are expected to grow greater than 20% over the next three years. In addition, the company has \$3.8 billion of cash (\$17 a share) and no debt.

Outlook and Conclusion

One of the oldest heuristics in the investment community is “Do not fight the Fed”. In general, it appears that market participants are following that guidance. However, it is better to listen to what the Federal Reserve Chairman Jerome Powell says than to listen to speculators in the market. For now, the equity markets appear to be hyper focused on the path of the Federal Reserve’s interest rate policy. That will change one day, or some other unknown will come along to drive investor sentiment.

Our proprietary bottom-up investment research process and discipline guides us to find great companies that perform in all markets over the long term. To reiterate, durable companies that deliver strong revenue, earnings, and cash flow growth will continue to be rewarded by the market. Therefore, a portfolio containing high-quality companies that have a track record of delivering “reliable growth” has an increased probability of outperforming in all market environments. We believe that many of the holdings in the portfolio have these characteristics.

As we begin 2024, we remain confident the portfolio offers the prospect of compelling rewards for the risks being taken.

