SIGNIA CAPITAL MANAGEMENT

Specializing in Small & Micro Cap Value Investing

Commentary: Year-End | 2023

***Signia Capital Management** is a boutique money management firm specializing in Small-Micro Cap Value investing. The firm is majority owned by the portfolio management team. Signia is built upon the belief that markets are inefficient, that inefficiencies exist more often in smaller companies, allowing for the firm's fundamental investing process to capitalize on those inefficiencies.*

*Our **Small-Micro Cap Value** strategy invests in high quality, catalyst rich companies that we expect will experience a significant improvement in earnings within the next 12 to 24 months. Our team identifies compelling investment opportunities through a rigorous bottom-up research process that includes direct dialogue with the management teams of each company under consideration. The process results in a concentrated portfolio of 25 to 35 individual investments, each with its own unique and compelling investment catalyst.*

Investment Team

Richard Beaven, CFA	*Principal- Lead Portfolio Manager*
Colin Kelly, CFA	*Principal- Dir. of Research & Portfolio Manager*

Portfolio Characteristics

Investment Process	*Fundamental Bottom-Up*
Mkt. Cap Range	*$1.5b and Below*
Median Market Capitalization	*$550m*
Number of Holdings	*25-35*

Top 10 Holdings (%) 12/31/2023

Red Robin Gourmet Burgers	*6.2%*
Universal Technical Institute	*5.0%*
Tejon Ranch	*4.7%*
Natural Grocers	*4.7%*
The Bancorp	*4.7%*
TrueCar	*4.6%*
Arhaus	*4.0%*
Osisko Gold Royalties	*3.8%*
HomeStreet	*3.7%*
Yatra Online	*3.7%*

Sectors Weightings (%) 12/31/2023

Technology	*7.9%*
Consumer Discretionary	*20.6%*
Energy	*10.9%*
Materials & Processing	*10.2%*
Producer Durables	*16.9%*
Financial Services	*17.2%*
Consumer Staples	*4.7%*
Healthcare	*8.6%*
Cash	*3.1%*
Total Portfolio	***100.0%***

2023 Review

For the full year 2023 the Signia Small-Micro Cap Value portfolio returned 32.71% (net of fees) vs. 8.87% for the Russell Microcap Value and 14.65% for the Russell 2000 Value.

In early 2023 we were interviewed by the Wall Street Transcript and discussed several portfolio holdings as well as our outlook for the year. The title of the article was, "Choppy, High-Inflation Environment Benefits Value Investors." The article title seems fitting for what we experienced in 2023. Many economists and strategists were calling for a recession in 2023. Additionally, the market had to wrestle with rapidly increasing interest rates, geo-political tensions, debt ceiling debates, and bank failures just to mention a few market concerns. But as the old adage goes, the market tends to climb the wall of worry. From our standpoint, these macro concerns are worthwhile to consider when analyzing companies and building a portfolio. However, our investible universe is vast and inefficient, and our time is better spent talking with management teams, hunting for catalysts, and constructing the investment mosaic on individual companies. In other words, let's use the market choppiness in our favor.

Our largest holding at the end of last quarter was for-profit education company Universal Technical Institute (UTI). Our thesis was two-fold. UTI's recent acquisition of healthcare focused Concorde and new campus openings would drive EBITDA from roughly $60m in 2022 to close to $100m in 2024. Additionally, UTI's business is counter-cyclical and benefits from a softening labor market as individuals look to upskill and improve their earning potential in softer labor markets. UTI reported a strong Q4 (Sept. year-end) and gave initial guidance of $98-102m in EBITDA for 2024 vs. the street at $90m. UTI was up 86% in 2023 as our catalysts are playing out.

Another top 5 holding, Natural Grocers (NGVC), reported a strong Q4 (Sept. year-end) as well. NGVC provided guidance of $1.00 - $1.10 in EPS for fiscal 2024 vs. the street at $.90. Our conviction in NGVC was bolstered by proprietary third-party data that indicated accelerating transaction count, as well as that on October 24 the company put out an 8-k regarding one-time discretionary bonuses for management which we interpreted as a sign of positive business momentum. Given the strong results and significant free cash flow, NGVC declared a $1 per share special dividend in Q4 as well. NGVC's debt-free balance sheet allows management to return excess cash to shareholders.

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Portfolio Snapshot 12/31/2023

Current Number of Holdings	*32*
EV/EBITDA	*13.6*
Price to Book	*1.6*
Price to Sales	*.70*
Price to Cash Flow	*15.5*
L.T. Debt to Capital	*27.4%*
Price to Earnings (forward)	*21.6*
2024 Vs. 2023 EPS Growth	*62.1%*
Weighted Average Mkt. Cap (m)	*$757*
Average Turnover (annual)	*40-60%*

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On November 9, 2023, portfolio manager, Rich Beaven, was featured in the Wall Street Journal article titled, "The $2 Million Coal Mine that Might Hold a $37 Billion Treasure" discussing portfolio holding Ramaco Resources (METC). Ramaco's core business is mining and processing metallurgical coal which is utilized in the steel making process. We initiated our position in METC in early June in the $7 range. We specifically like Ramaco's low-cost profile, notable production growth which is going from 2.7m tons in 2022 to 4m tons in '24, strong free cash flow generation, and its emerging rare earth elements deposit in Wyoming. After our discussions with management, we believed that the market was not providing any value to the company's rare earth deposits and that further development of this project could significantly increase shareholder value. Rare earth elements are critical inputs into magnets which go into electric vehicles, smartphones, and defense applications. With 90% of rare earths coming from China, the Wall Street Journal article highlighted the strategic importance and value of rare earths to the United States. Although we do not have a $37 billion price target on METC as mentioned in the Wall Street Journal, we do believe that the continued development of this property has the ability to drive increased shareholder returns while the core business continues to grow production and generate substantial cash flow.

Portfolio Activity:

In our mid-year update we discussed the emerging opportunities in regional banks as a result of the bank failures of Silicon Valley Bank (SIVB) and First Republic Bank (FRC) earlier in 2023. In our opinion, many banks were experiencing net interest margin (NIM) compression as funding costs were rising at a faster pace than new loan originations resulting in depressed profitability near-term. With over 200 banks trading below book value, investors were pricing in NIM pressure for the foreseeable future. From our viewpoint, if one is willing to extend their time horizon a little further, 9-18 months, it is very reasonable to assume a much different funding environment for the banks. Given recent Federal Reserve comments and expectations, which currently call for 3 rate cuts in 2024, that change in funding costs is starting to emerge.

In Q3 2023 we re-initiated a position in First Internet Bancorp (INBK). We previously owned INBK but sold out of our position in early January given our concerns around rising funding cost pressuring net interest margin and ultimately earnings. We like the bank's branchless model as well as its limited commercial and office real estate loan exposure. Over the past year INBK has seen NIM pressured, however we believe that Q3 likely represented the bottom in NIM and that earnings should improve in Q4 and going into 2024. With a tangible book value of $39.57, we were buying INBK at .58x tangible book value, and roughly 7.5x 2024 EPS, and with an improving earnings profile. We see upside to INBK's tangible book value over the next 12 – 24 months.

Another new buy in the second half of 2023 was technology company Applied Optoelectronics (AAOI). AAOI provides fiber-optic networking equipment for datacenters and cable providers. We previously owned AAOI in 2016, at approximately $10 per share, as AAOI's optical equipment was being used in the cloud datacenter build out for Amazon, Microsoft, and Facebook. Given strong customer demand and a growing customer list, AAOI experienced rapid growth in revenue and earnings with earnings per share peaking at $4.62 per share and a stock price that reached $103 in late 2017 allowing us to capitalize on AAOI's growth during that time period. We've monitored AAOI over the ensuing years and once again became interested in the name when the company announced a 5-year supply agreement with Microsoft in June of this year. In our due diligence it was uncovered that Microsoft was replacing copper interconnects with AAOI's fiber-optic networking products due to the cost/speed advantage of AAOI's products. After multiple discussions with management, we initiated our position in September at approximately $7 per share. AAOI's products are being used in Microsoft's data heavy AI/machine learning programs, and given Microsoft's lead in AI, we believe other large datacenter companies could be interested in partnering with AAOI similar to the cloud build-out in 2016/2017.

Firm Update:

As mentioned in our last update, September 30th of 2023 marked the 3-year anniversary of our portfolio manager buyout. We continue to see increased interest in the strategy and are pleased to report that since the buyout on 09.30.20 we have returned 134.46% (net) vs. 62.33% and 67.71% for the Russell Microcap Value and Russell 2000 Value, respectively.

In our letter we outlined four core principles

- -Equal and Majority Owned by the Portfolio Managers
- -Flexible and Adaptive Thinking
- -Simplicity of Process
- -Bias Towards Action

These core principles are the foundation of our culture, are key ingredients to our investing process, and ultimately are manifested in our results and alpha generation.

Outlook:

A more dovish Fed policy outlook drove strong returns in Q4 2023, especially in November and December. With the Russell 2000 up 25% in two months, investors may be wondering where do small caps go from here? Encouragingly, as the chart from Furey Research (below) shows, historically when the Russell 2000 is up 25%+ in a two-month period it has resulted in small caps up 86% of the time 1 year later with an average return of 34%.

We wish everyone a happy and healthy 2024 and look forward to updating you at the end of Q2.

	Russell 2000 Return (%)			
Date	**Trailing 2M**	**Forward 3M**	**Forward 6M**	**Forward 12M**
11-Oct-82	26.7	23.8	37.8	58.5
5-Mar-91	28.1	7.5	7.8	29.2
8-Dec-98	29.6	0.2	10.9	18.3
6-Mar-00	26.0	(14.4)	(9.4)	(19.0)
29-Apr-09	26.8	12.0	20.2	52.1
18-May-20	34.9	19.3	31.6	67.6
26-Dec-23	25.1			
Average		**8.1**	**16.5**	**34.4**
Median		**9.7**	**15.6**	**40.7**
% Positive		**86%**	**86%**	**86%**

Source: FRP, FactSet; as of 12/29/23

SIMCOE SIGNIA SMALL-MICRO CAP VALUE COMPOSITE

		Total Return Performance				Annualized			
		Simcoe Signia Composite Net of Model Fee	Simcoe Signia Composite Gross of Fees	Russell Microcap Value Index	Number of Portfolios in Composite	3-Year Std. Dev. Simcoe Signia Composite Net of Model Fee	3-Year Std. Dev. Russell Microcap Value	Total Composite End of Period Assets (USD)	Total Firm AUM End of Period Assets (USD)
2020	**Q4**	35.37%	35.71%	32.76%	5 or fewer	N/A	N/A	$66,239,914	$66,239,914
2021	**Year**	39.14%	40.54%	34.84%	5 or fewer	N/A	N/A	$96,559,530	$96,711,291
2022	**Year**	-6.20%	-5.26%	-16.69%	5 or fewer	N/A	N/A	$77,887,296	$77,887,296
2023	**Q1**	7.09%	7.35%	-5.16%	5 or fewer	N/A	N/A	$77,190,089	$77,190,089
	Q2	3.74%	4.00%	4.54%	5 or fewer	N/A	N/A	$80,270,677	$80,270,677
	Q3	3.81%	4.06%	-5.59%	5 or fewer	25.10%	24.13%	$83,780,455	$83,780,455
	Q4	15.07%	15.35%	16.30%	5 or fewer	23.34%	23.49%	$95,761,208	$95,776,607
2023	**Year**	32.71%	34.03%	8.86%	5 or fewer	23.34%	23.49%	$95,761,208	$95,776,607

	Annualized Performance			Annualized Std. Dev.	
	Composite Net of Model Fee	Composite Gross of Fees	Russell Microcap Value Index	Composite Net of Model Fee	Russell Microcap Value Index
Trailing 1 Year	32.71%	34.03%	8.86%	21.16%	27.28%
Trailing 2 Year	11.57%	12.69%	-4.77%	24.55%	25.26%
Trailing 3 Year	20.09%	21.30%	6.93%	22.27%	20.76%
Inception to Date	29.98%	31.28%	16.06%	25.56%	25.04%

Inception date is October 2020

Performance updated through December 31, 2023

* Past performance is not an indicator of future results. Please see the back of this page for Performance Presentation Disclosures

Performance Presentation Disclosures

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Firm. Simcoe Capital (dba Signia Capital Management) ("Signia") is defined as an independent investment management firm that is not affiliated with any parent organization. Signia is an equity manager investing primarily in U.S. traded securities.

Composite Description. The Simcoe Signia Small-Micro Cap Value Composite ("Composite") consists of all discretionary fee-paying accounts invested in diversified portfolios of U.S. Small Micro capitalization equity securities with the objective of maximizing total return. The basis for selection is to include all diversified equity portfolios with a mandate to invest in Small Micro capitalization value companies, with few tax or other constraints that would otherwise impede the objective of maximizing total return. The strategy typically includes 25-35 securities at any given time, and some of these securities may be less liquid with the potential for more price volatility given company size and portfolio concentration. Small-cap equity securities may be less liquid and subject to more price volatility than larger capitalization securities. The composite excludes portfolios with material restrictions imposed by the client that impair our ability to fully implement the intended strategy. The creation and inception date of the composite is October 2020.

Benchmark. The benchmark is the Russell Microcap Value Index. Signia selected this benchmark because the Russell Microcap Value Index is an unmanaged group of securities generally considered to represent the performance of the micro-capitalization segments of the U.S. equity universe. The structure and diversification across economic sectors of portfolios actively managed by Signia may be meaningfully different compared to the index. Index returns reflect the reinvestment of dividends but do not reflect the fees, brokerage commissions, or other transaction costs.

Calculations. Valuations are computed and performance reported in U.S. dollars. Results are calculated at a minimum of monthly and adjusted for external cash flows. Returns are calculated using a time weighted rate of return. Period returns are geometrically linked. Using beginning period market values, the Composite is asset weighted by aggregating assets and cash flows into a single portfolio. Trade date accounting is used. Securities are priced using end-of-day market prices obtained from Interactive Data. Returns include dividends, interest, and realized and unrealized gains and losses. Dividends are recorded on a cash basis. No leverage derivatives are used. The composite gross-of-fees returns have been reduced by all actual transaction costs incurred, but have not been reduced by investment management fees. Net-of-fees returns are presented net of a model fee of 1.00%. Model fees are deducted at a rate of 1/12th per month from the gross-of-fees composite returns. Policies for valuing investments, calculating performance and preparing GIPS Reports are available upon request.

Disperson and Risk. The dispersion of annual returns is measured by the asset-weighted standard deviation across gross-of-fees portfolio returns for those portfolios that were included in the Composite for the full year. For periods presented where there are five or fewer accounts in the composite for the entire year, dispersion, and number of portfolios as of each year end are not presented. The three-year annualized ex-post standard deviation is calculated using the composite net-of-fees returns. It is not presented for the composite or the benchmark for periods where there are fewer than three annual periods of performance.

Fees. Signia's standard fee schedule is 1.00% of assets under management. Fees are negotiable and vary based on the size and type of the investment.

Past performance is not an indicator of future results.

To request a complete list and description of the firm's composites, please contact Colin Kelly at 509-789-8973 or colin@signiacapital.com.

*Source: Simcoe Capital, LLC dba Signia Capital Management, ICE Data Services and the Frank Russell Company. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in our composite at the time you receive this report or that securities sold have not been repurchased. Our portfolio characteristics and sector weightings are based on a representative account and may not be indicative of this strategy's current or future investments. It should not be assumed that any of the holdings discussed herein were or will be profitable or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. This information is shown as supplemental information only and complements the full disclosure presentation (fully compliant GIPS presentation). Past performance is no guarantee of future results.