

The Opportunistic Strategy through 3 quarters is tracking a few percentage points worse than its benchmark and slightly under than the S&P 500. The OS is skewed toward value stocks which have outperformed growth stocks this year but the OS is largely made up of more cyclical value stocks that tend to have a higher beta. Also, the international weighting is meaningfully higher than the benchmark, at close to 50% currently. That has dragged on returns. The net return through 3 quarters is negative 24.3%.

As of 9/30/2022 (3,5,SI Annualized)	3Q2022	YTD	1 year	3 year	5 year	Since Inception
OS	-7.3%	-24.3%	-17.7%	11.3%	9.0%	13.5%
Benchmark	-6.8%	-20.5%	-15.9%	2.8%	2.0%	5.6%
SPX	-4.9%	-23.9%	-15.5%	8.1%	9.2%	10.6%
FTSE All World ex US Net	-9.7%	-26.1%	-24.8%	-1.0%	-0.4%	2.9%
Russell 2000 value	-4.6%	-21.1%	-17.7%	4.7%	2.9%	5.7%

Some of the top performing stocks in the 3rd quarter included Atlas Air Worldwide, Impinj, Harmonic, and Canadian Solar, all with return at 20% or above for the quarter. There was a window in 3Q where financial conditions eased and Atlas with an attractive asset base became a target of Apollo. That announced sale to private equity generated strong returns. Impinj and Harmonic are the two small cap tech that the strategy chose to allocate to and both trounced technology returns as a whole. Both have impressive tech addressing secular growth drivers though Impinj has a much larger “sky is the limit” addressable market. Canadian Solar rallied on the prospects for ever increasing solar demand as energy shortages and clean energy initiatives are creating strong growth for solar.

Advancers/Detractors	3Q2022 Return
Atlas Air Worldwide Holdings	54.9%
Impinj, Inc.	36.4%
Harmonic Inc.	50.8%
Canadian Solar Inc.	19.6%
Hanesbrands Inc.	-31.3%
Vodafone Group PLC	-27.3%
Orange SA	-23.9%
Dorel Industries Inc.	-29.7%

Some of the poor performing stocks included Hanesbrands, Dorel Industries and European telecoms Vodafone and Orange. Hanesbrands, as with many apparel companies is struggling with too much inventory, and has quite a bit of leverage as well. (Leveraged companies in a struggling sector generally did very poorly in 3Q.) While Hanesbrands has a more defensive apparel profile than many of its peers and that is a main reason why it was selected as the apparel holding, the market is not being kind to companies with high debt as interest rates rise. Dorel Industries is a consumer discretionary microcap company in Canada that struggles with profitability at times. It has furniture as one of its two divisions and furniture demand has cooled significantly. This company has incredible earnings leverage from many self-help initiatives that may actually come to fruition in 2023. There is also the potential that the company may sell divisions to other PLC companies than can better run the divisions. European telecoms held up well in the earlier part of the year but sold off in 3Q as the euro weakened and rising interest rates lessened the appeal of telecom dividends.

Looking forward, the pieces are in place for broad earnings cuts on both weakening demand and margin pressure. I would expect the market to be choppy through the end of the year. The property market and Covid look to be headwinds in China in the near-future. Europe is facing a difficult winter with the energy crisis but stimulus and other measures should help stabilize the situation and things will look different six months from now. While inflation is a problem globally, it is broader in the United States. Consumer

acceptance of stubbornly high prices during 2022 is increasing the risk of a hard landing in the United States. There are some very real tough economic headwinds on the horizon for the 3 main global growth regions and caution is warranted. However, the OS is not focused on trying to time a bottom and if compelling investment opportunities present themselves, the OS will buy. The OS has made several bond purchases recently and will look for more if economic conditions deteriorate. All purchases have been at a 9% yield or better and have strong risk-reward characteristics. Any end to the war in Ukraine could provide material upside for the OS. Some stock prices in Europe seem to be assuming no end to this war and an investor gets a free call option for being willing to invest in Europe. A good chunk of cash has been spent recently and cash likely will move close to 0% in the fall of 2022.

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Returns presented are time-weighted returns. Valuations are computed and performance is reported in U.S. dollars.

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