



1st Quarter 2022

We were not quite able to post a positive return for the quarter, but were close enough to breakeven to declare a victory in a period when potential disasters seemed omnipresent.

The restructuring strategy, with our focus on risk reduction, performed as we would have hoped in a difficult market environment, doing better than all the major indices. Value investing continues its return to favor, with the Russell 2000[®] Value Index (-2.4%) performing substantially better than its growth counterpart (-12.6%), the S&P 500[®] (-4.6%), and the NASDAQ[®] (-9.1%).

There has been a change in the type of buyback announcement that attracts our attention as we progress in the post-pandemic environment. In addition to the companies with depressed earnings where management is signaling a recovery, we are increasingly seeing companies with record earnings selling at extremely low multiples and making strong statements about undervaluation. To illustrate our decision process for these peak EPS equities, let's set up a hypothetical battle between two companies named for mythological gods. We will contrast current holding Triton (god of the sea) to potential early 2022 addition Thor (god of thunder). Triton recently increased the pace of its repurchases, while Thor announced a new buyback authorization.

Triton International, a container leasing firm, started the year at \$60 with projected EPS of ~\$9.50, PE ratio 6.3x. Thor Industries, a manufacturer of recreational vehicles, started the year at \$104 with projected EPS of ~\$15, PE ratio 6.9x. Call the first round even. The next step is to evaluate capital allocation. Triton spent 2020 and 2021 adding massively to its container fleet with 13–15 year life-of-asset leases at extremely attractive rates. Thor made a large acquisition that lessened its dependence on new vehicle production. Second round edge to Triton.

The final and most critical fundamental step (before considering governance issues) is our evaluation of earnings sustainability. Triton is perhaps generating an excess \$1-2 EPS from sale of used containers into an exceptionally hot spot shipping market. Given the company's free cash flow, Triton can replace these per-share earnings through share buybacks at the current market price. While new container leases will undoubtedly be written at lower than current rates, they could still be above existing rates on maturing 5–7 year contracts. Thor is selling RVs at a record rate, as the pandemic has made these vehicles a preferred travel option. However, three factors are making the long-term outlook cloudier: 1) air travel is opening up again 2) RVs are close to the ultimate durable purchase; they are generally utilized sparingly and last for a long time – used RVs compete strongly with new vehicles in weak economic periods 3) rising interest rates will make it more difficult to finance new purchases. Conclusion – tidal wave of evidence for Triton. Thor is rejected; we hope the big guy doesn't take it too hard.

We don't know what plans the market gods have for the periods ahead. Undoubtedly, there will be occasional storms and rough seas. We will maintain our disciplined approach as we attempt to navigate through these difficult times.

Abbott J. Keller, CFA
Chief Investment Officer

Ending March 31, 2022	1Q22	YTD	1 Year	3 Year Annualized	5 Year Annualized	10 Year Annualized	Since Inception
Kestrel Gross	-0.2%	-0.2%	11.8%	15.4%	11.2%	11.0%	13.0%
Kestrel Net	-0.4%	-0.4%	10.8%	14.3%	10.2%	9.9%	11.9%
Russell 2000 [®] Value Index	-2.4%	-2.4%	3.3%	12.7%	8.6%	10.5%	10.1%

PORTFOLIO HOLDINGS¹ - as of 3/31/2022

Restructuring (96.1%)

Allscripts Healthcare Solutions Inc	Dana Inc	Radiant Logistics Inc
Avid Technology Inc	DT Midstream Inc	Spectrum Brands Holdings Inc
AXIS Capital Holdings LTD	ePlus Inc	Sprouts Farmers Market Inc
AZZ Inc	Great Lakes Dredge & Dock Corp	The Hanover Insurance Group Inc
Banner Corp	H&R Block Inc	The ODP Corp
Big Lots Inc	Kforce Inc	Triton International LTD
Blucora Inc	Kimball Electronics Inc	TTM Technologies Inc
Brighthouse Financial Inc	Koppers Holdings Inc	Univar Solutions Inc
BrightSphere Investment Group	Loyalty Ventures Inc	Vidler Water Resources Inc
California Resources Corp	Matthews International Corp	Vista Outdoor Inc
Civista Bancshares Inc	Prestige Consumer Healthcare Inc	Xperi Holding Corp
CNO Financial Group Inc	PROG Holdings Inc	ZimVie Inc
CNX Resources Corp	Radian Group Inc	

Cash (3.9%)

The specific securities identified and described do not represent all of the securities Kestrel has purchased or sold for clients, and the reader should not assume that investments in the securities identified and discussed were or will be profitable.

Investment Style

Kestrel specializes in analyzing restructurings, such as corporate share repurchases, spin-offs and asset sales, in order to identify companies where management is actively working to increase shareholder value. Our experience and research, more than forty years, convince us that companies selected from this segment are more likely to produce superior long-term returns for their shareholders.

We invest in companies with managements who have implicitly or explicitly identified their stock as undervalued and who are taking concrete steps to improve their share valuation. For this reason, we find the risk/return relationship of our approach to be particularly attractive.

Contact

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KESTREL SMALL-CAP VALUE COMPOSITE¹ - through 3/31/2022

	Gross Return (%)	Net Return (%)	Russell 2000® Value Index (%)	Composite 3-Yr Annualized Std Dev (%)	Russell 2000® Value 3-Yr Annualized Std Dev (%)	Number of Accounts in Composite ²	Internal Dispersion (%)	Composite Assets ² (\$ millions)	Composite Firm Assets ³ (%)	Total Firm Assets ³ (\$ millions)
2022 (1st Quarter)	-0.2	-0.4	-2.4	25.1	24.9	10	N/A	220.1	100.0	220.1
2021	36.3	35.0	28.3	25.5	25.4	10	0.3	226.1	100.0	226.1
2020	8.5	7.6	4.6	26.8	26.5	11	1.3	213.4	100.0	213.4
2019	17.2	16.1	22.4	17.3	15.9	14	0.2	220.6	100.0	220.6
2018	-17.5	-18.2	-12.9	15.3	16.0	18	0.6	202.1	100.0	202.1
2017	24.6	23.5	7.8	13.0	14.2	18	0.2	295.2	100.0	295.2
2016	36.7	35.4	31.7	14.0	15.7	18	0.2	273.4	100.0	273.4
2015	-13.3	-14.1	-7.5	12.2	13.7	31	0.6	289.5	100.0	289.5
2014	0.6	-0.4	4.2	11.5	13.0	41	0.6	461.1	59.5	774.4
2013	28.7	27.5	34.5	12.9	16.0	46	0.9	528.8	63.2	836.1
2012	13.5	12.4	18.1	15.3	20.2	48	0.4	420.4	52.8	796.6
2011	3.3	2.3	-5.5	23.2	26.4	48	0.4	398.2	54.4	732.3
2010	20.4	19.3	24.5	27.3	28.8	49	0.5	402.3	54.4	740.2
2009	35.2	33.9	20.6	26.3	26.0	52	0.8	337.5	54.2	622.6
2008	-33.0	-33.7	-28.9	19.5	19.4	53	1.0	263.1	53.8	488.7
2007	0.2	-0.8	-9.8	11.9	12.8	57	0.5	471.7	57.8	816.5
2006	24.9	23.8	23.5	11.2	12.5	58	0.6	480.5	50.4	952.8
2005	4.6	3.6	4.7	12.8	14.3	56	0.6	420.9	50.9	826.3
2004	28.3	26.8	22.3	15.7	17.8	62	0.9	944.2	100.0	944.2
2003	36.9	35.7	46.0	17.4	18.7	60	1.1	784.2	100.0	784.2
2002	-6.6	-7.7	-11.4	15.7	17.6	64	0.9	627.9	100.0	627.9
2001	19.6	18.3	14.0	14.3	14.9	61	1.7	719.3	100.0	719.3
2000	16.1	14.8	22.8	15.0	16.8	71	2.2	609.9	100.0	609.9
1999	7.7	6.7	-1.5	15.8	16.6	100	1.9	522.2	100.0	522.2
1998	2.0	1.0	-6.5	14.5	15.3	114	1.2	478.6	100.0	478.6
1997	31.8	30.7	31.8	10.3	9.5	55	1.1	228.1	100.0	228.1
1996	37.4	36.3	21.4	10.5	9.5	10	0.8	83.7	100.0	83.7
1995	31.3	30.2	25.8	N/A	N/A	6	0.4	41.6	100.0	41.6
1994	9.9	9.0	-1.5	N/A	N/A	4	0.4	28.8	100.0	28.8
1993 (8/17/93)	9.6	9.3	7.7	N/A	N/A	1	N/A	18.0	98.9	18.2
Since Inception (8/17/93)										
Cumulative	3170.0	2391.8	1456.5							
Annualized	13.0	11.9	10.1							

¹ The returns and assets figures presented for the current year are preliminary. Final figures will be available upon request and, if different from the preliminary figures, will be included in the next Fact Sheet. Final figures for 4th quarter 2021 did not differ from reported preliminary numbers. This information is incomplete without the performance disclosure statement below.

² Effective January 2005, an existing large account was shifted from Kestrel's Small-Cap Value Composite to a new Small/Mid-Cap Value Composite leading to a change in the Composite Assets.

³ During the second quarter of 2015, Kestrel's single Small/Mid-Cap Value account was closed, leading to a reduction in Total Firm Assets.

Past performance does not guarantee future results. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities included in this report. Kestrel Investment Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Kestrel has been independently verified for the periods 01/01/2001 – 12/31/2017. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. The Small-Cap Value Composite has been examined for the periods 01/01/2001 – 12/31/2017. The verification and performance examination reports are available upon request. Kestrel is a value manager that invests primarily in small- and mid-cap U.S. securities and is registered with the SEC as an investment adviser. Kestrel is not affiliated with any parent organization. The Small-Cap Value Composite, created in August 1993, includes all discretionary accounts managed across the small capitalization segment of the U.S. equity market including accounts no longer with the firm. Kestrel invests primarily in the securities of companies undergoing voluntary restructuring activities such as share repurchases and spin-offs. Internal dispersion is calculated using the asset-weighted standard deviation of all accounts included in the composite for the entire year; it is not presented for periods less than one year or when there are five or fewer portfolios in the composite for the entire year. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. All returns are expressed in U.S. Dollars. The Russell 2000® Value Index is an unmanaged market-capitalization weighted index and includes Russell 2000® companies with lower price-to-book ratios and lower forecasted growth values. It is diversified across companies, industries and sectors and is constructed to provide a comprehensive and unbiased barometer for the small-cap value segment of the U.S. equity market. The Index's performance is calculated on a total return basis with dividends reinvested, but does not reflect the deduction of any transaction or management fees. The volatility of the Russell 2000® Value Index may be materially different from that of the strategy depicted, and the holdings in the strategy may differ significantly from the securities that comprise the Index. Index performance information is included solely to show market performance generally during the periods for which composite returns are presented, and does not reflect a belief by Kestrel that investing in an index is a viable investment alternative or is in any way comparable to Kestrel's performance. The Russell 2000® Value Index is a trademark /service mark of the London Stock Exchange Group companies. Kestrel may concentrate its investments in relatively few stocks, industries or sectors; may invest in stocks with smaller or larger market capitalizations than the stocks in the index; may trade actively; and may be more or less volatile than the index. Gross returns are net of actual transaction costs; net returns are net of actual transaction costs and actual investment management fees. During the period from 1999 through 2004, the Composite included two accounts subject to performance-based fees and a lower flat fee. For separate accounts, Kestrel's standard non-institutional fee schedule is 1.25% for the first \$3 million and 1.0% thereafter, and its standard institutional fee schedule is 1.0% for all assets. Actual investment advisory fees incurred by clients may vary. Fees are payable quarterly. Performance results include the reinvestment of all income. Account returns are calculated monthly, using a time weighted total return which includes realized and unrealized gains and losses and accrued interest and dividends. Quarterly and annual returns are calculated by geometrically linking monthly returns. For the period from 1994 through 1997, the Composite included one non-fee-paying account representing less than 1.0% of total assets at all times; net returns have been calculated as if that account paid fees at standard rates. A complete list and description of Kestrel's composites and policies for valuing portfolios, calculating performance and preparing compliant presentations is available upon request.