Palisade
CAPITAL MANAGEMENT

Value Investing and Avoiding Value Traps

Ben Graham Centre for Value Investing
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Stock Selection Process

Select Compounders

Strive to Execute a Repeatable, Virtuous Cycle

Business Models

- Culture of Continuous Improvement
- Recurring Revenues
- Niche-Oriented
- Innovation as a Process/Commercial Execution
- Cost/Quality/Delivery Leadership
- Talent Development/Rewards
- Disruption Resistant
- Shared Purpose

Lean Execution

Key Performance Indicators

- Moderate Core Growth
- 100%+ Free Cash Flow Conversion
- Competitive ROIC (CFROIC)

Strategy Deployment

Compounding Shareholder Value

Integration/ Governance Process

Internal Investments

- Breakthrough Growth Initiatives
- Breakthrough Process Improvements
- Disciplined Capital Expenditures

Portfolio Management

Capital Deployment

- Allocation Priorities
  - *Invest > Dividend; Dividend Growth*
- M&A Track Record
- ROIC Discipline
- Portfolio Strategy

Investment Process

Initial Universe and Screen
APPROX. 1,500 STOCKS

Initial Review
APPROX. 150 STOCKS

Fundamental Research
APPROX. 75 STOCKS

Portfolio Holdings
APPROX. 20-30 STOCKS

FE Key Performance Indicators (KPIs)

- U.S. Equities with a market cap typically greater than $5 billion
- Financial metrics including sell-side cash flow and earnings estimates
- Cash flow and return metrics (CFROIC, FCF Conversion, Net FCF Yield)
- Moderate earnings Growth
- Deal history

Experienced-Based Discernment and Pattern Recognition

- Potential Compounders
- Targeted fundamental characteristics
  - Diversified recurring revenue streams
  - M&A track record
  - Scalable asset light businesses
- Disruption-resistant business models
- Initial Valuation

Engagement with Management

- "Select Compounders" among holdings and watch list
- Lean operating systems and continuous improvement culture
- Competitive moats
- Innovation and product vitality
- Improving cash flow and return metrics
- Capital deployment philosophy, strategy, and track record

Iterative Process

- Proprietary projections and price targets, including future capital deployment
- Holding size optimization
- Ongoing analysis and conviction testing

There is no guarantee the strategy will achieve its objectives. Please refer to important information at the end of this presentation.

Portfolio Construction

20-30 Stock Portfolio

Position Size

- Generally initiate position at 1-3%
- Increase to full position over time (typically 3-8%) based on:
  - Long term value creation
  - Risk/return profile
  - Valuation upside to target price
- Target cash position to be <10%

Sector Weightings

- Key opportunity sectors: Information Technology, Industrials, and Health Care
- Sectors typically expected to be underweight due to constrained opportunity set: Consumer Staples, Real Estate, Utilities, and Energy
- Monitor risk decomposition for unintended/excessive sector and industry exposures

Quantitative Risk Analysis

- Quantitative and qualitative analysis to ensure that risk levels are consistent with investment process, thesis, and mandate
  - Sector and industry exposure
  - Fundamental factor exposures
  - Portfolio risk statistics – beta, absolute risk, tracking error

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Sell Discipline

Misallocation of Capital

- A degradation of our assessment of the company as a steward of capital
- A major acquisition or capital expenditure program associated with:
  - Lack of ROIC discipline
  - Excessive risk, “transformational”
  - Failed due diligence
  - Missed targets
  - Poor integration
  - Bad timing

Growth Concerns

- Disruption, threats
- Moat erosion, decline of innovation

KPI Degradation

- Declining free cash flow conversion, ROIC, margins
- Balance sheet issues

Leadership Concerns

- Succession issues, change in philosophy, process, culture, goals
- Repeated execution issues; degradation of “Say/Do” patterns

Position Size Concerns

- Valuation, less upside to target prices, reallocation for higher potential returns
- Excessive contribution to active risk
- Monitor and control detraction outliers

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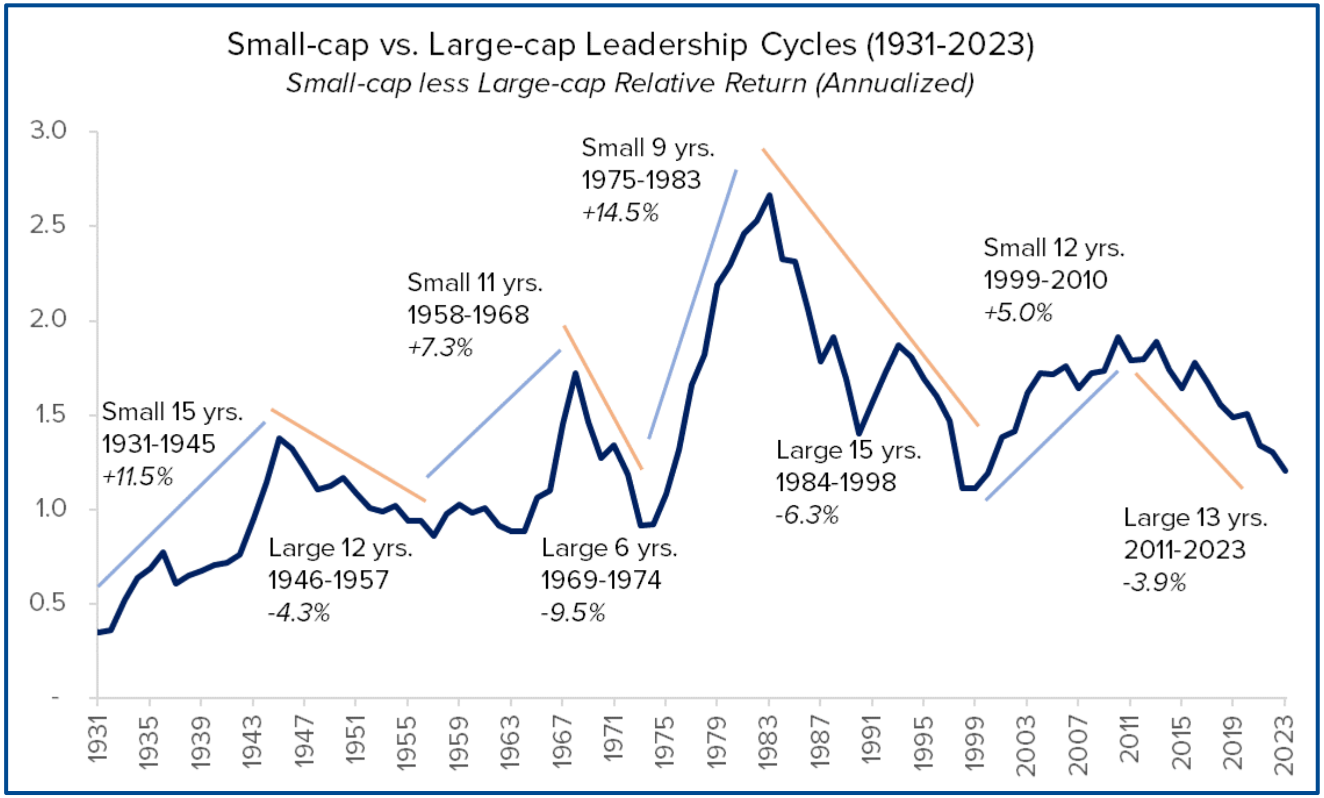
Small/Smid Cap Stocks: The Overlooked Asset Class

U.S. Equity Markets Poised for a Shift

- History shows long-term performance between small-caps versus large-caps runs in cycles
- We believe conditions indicate a cyclical shift is near favoring small- and smid-cap equities
- Key indicators that point to this potential shift:
  - Large/small relative valuations
  - Relationship between interest rate cycles and stock performance
  - Earnings growth trends among small- and smid-cap equities

Cyclical Performance of Large- and Small-Cap Stocks



Since 2011, small-caps have lagged large-caps by 3.9% on an annual basis, the second longest such period in more than nine decades – since 1932. Change in leadership is now overdue and we believe the markets could be close to a multi-year inflection point for small- and smid-cap outperformance relative to large-caps.

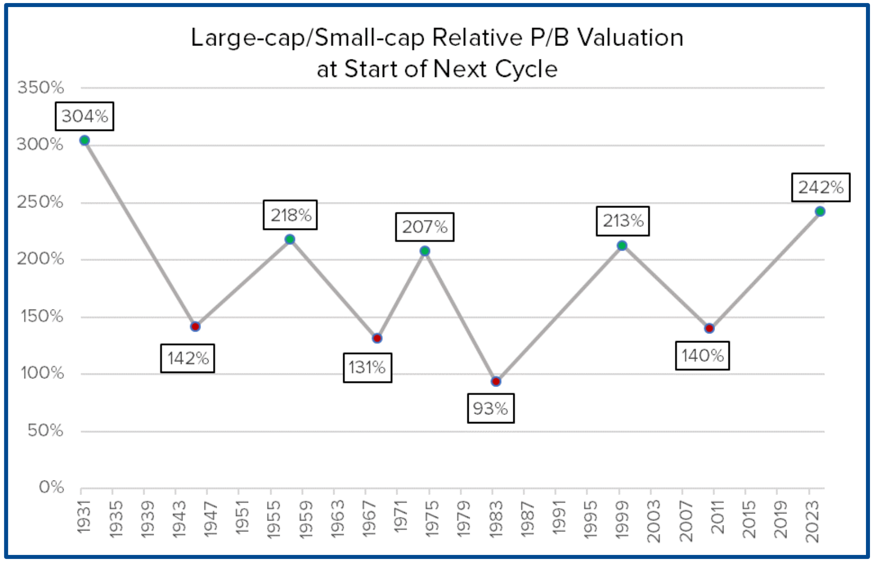
Source: Furey Research Partners, As of 12/31/2023

The dark blue line represents the Small-cap Total Return Index divided by the Large-cap Total Return Index, starting in 1931. When the dark blue line is rising, small-caps are outperforming large-caps and vice versa. Both series are indexed to 1.0 as of 12/31/1925. Small-cap index employs CRSP 6-8 Decile Index returns before 1979 and Russell 2000® Index returns from 1979 to Present. Large-cap index employs S&P 500® returns for all periods. The light blue and light orange lines indicate periods where performance in one size class was dominant over the other.

Past performance is not a guarantee of future results.

Relative Valuation

- Large-caps trading at the upper end of historical price/earnings (P/E) multiples
  - Dominated by the market's leading technology stocks, the S&P 500® estimated P/E for 2025 is 23x
  - Profitable components of the Russell 2000® trade at a P/E of 17x, about a 30% discount
  - All-time highs for the Russell 2000® occurred on November 8, 2021
- Market Capitalization Dominance
  - Microsoft, Apple, and NVIDIA boast market capitalizations of about $3 trillion or more
  - All have comparable values to the entire market capitalization of the Russell 2000®
  - Combining two of these technology leaders approaches the $7.3 trillion market value for the entire Russell 2500™
- Price/Book (P/B) Valuation
  - Large-cap stocks historically trade at a premium over small-caps
  - Large-caps currently trading at a 242% premium, the highest level since 1931



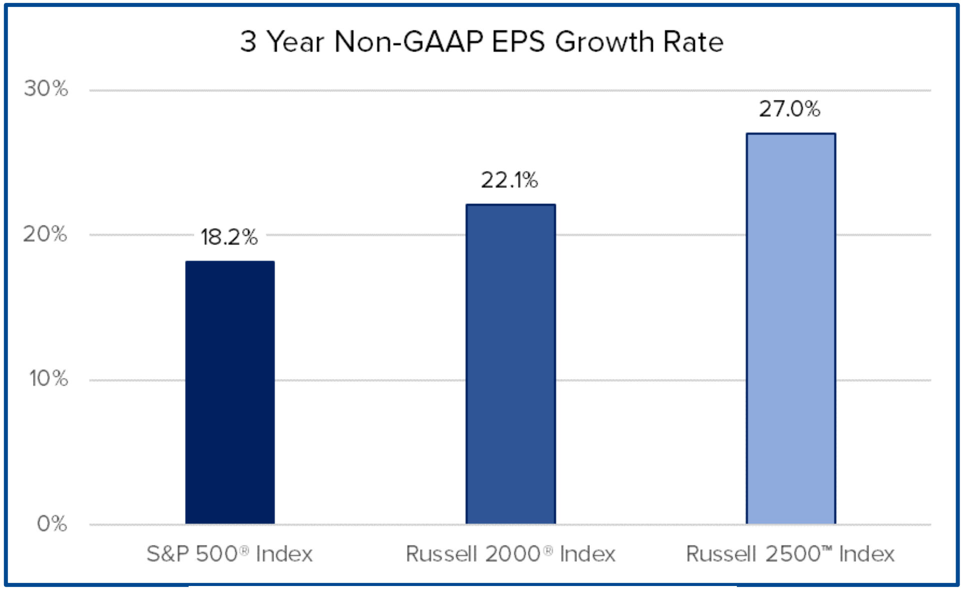
Source: Furey Research Partners; Data as of 3/31/24

Impact of Federal Reserve and Interest Rate Cycles

- The Federal Reserve holds a key to the performance of small- and smid-cap equities
- Small- and smid-cap equities generally perform well after the Federal Reserve concludes a tightening cycle
- Last period of small-cap outperformance (1999-2010) coincided with a slowing economy, the Federal Reserve lowering interest rates, and a revaluation of the largest-cap leadership companies
- Federal Reserve Chair Powell recently indicated that “inflation is on a sustainable path back to two percent” and investors are expecting the first rate cut at the September meeting

Earnings Growth and Drivers

- Strong earnings growth
  - ➢ Annualized earnings-per-share (EPS) growth for the three years ending Q1 24:
    - S&P 500®: 18.2%
    - Russell 2000®: 22.1%
    - Russell 2500™: 27.0%
  - ➢ Supply chain disruptions and other lingering post-COVID-19 headwinds are ending to the benefit of smaller companies



Source: Furey Research Partners; Data as of 3/31/24

- Domestic revenue focus and growth drivers
  - ➢ Small-cap companies generate ~76% of revenue domestically
  - ➢ Financials and industrials comprise 35% of Russell 2000®
  - ➢ Current trends to benefit small- and mid-sized companies
    - Improvement of supply chain reliability and resilience by reshoring
    - Demand for data center and microchip manufacturing
    - Battery manufacturing for electric vehicles
    - Broader infrastructure investment

Invest in Small- and Smid-Cap Equities

- Favorable Risk Reward Profile
  - Small- and smid-cap equities undervalued relative to large-cap equities
  - Earnings growth and valuation trends suggest shift for small-cap is potentially close at hand
- Attractive M&A activity
  - Profitable niche small-caps could be attractive targets for larger companies or private equity
  - M&A activity is picking up, providing downside protection for current valuations
- Long-term Structural Trends
  - Reshoring of supply chains and infrastructure investing create opportunities for small- and smid-cap equities
  - Financial conditions gradually become less restrictive
  - Early in the cycle with potential for multi-year outperformance

Important Information

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The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. It consists of approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

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