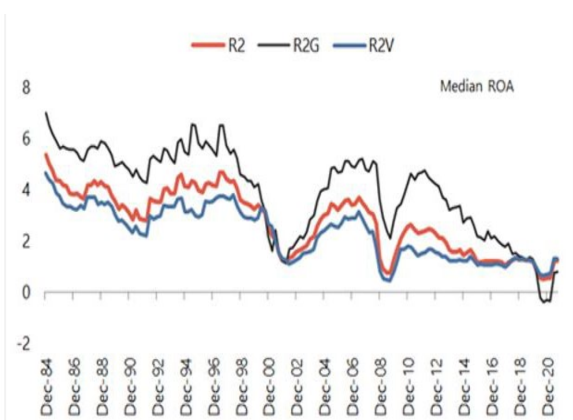
Cramer Rosenthal McGlynn

3Q 2022 Market Commentary

The market sell-off in the first nine months of this year ranks in the top five of worst performances in the last century. These corrections, however painful they may be, are part of the normalization process as accommodation is removed from the system and the Federal Reserve combats decade-high inflation. The dramatic rise in interest rates across the curve this year and this quarter has contributed to the 6-7x P/E multiple compression for the market. We have also now migrated into the earnings normalization phase for the market. The estimate cuts are first occurring at the COVID beneficiaries as demand normalizes from its unsustainable pace during the pandemic. We expect to see additional downward estimates revisions in other sectors to varying degrees as higher interest rates, a stronger US dollar and curtailment of pricing increases roll through corporate results. This is an unsettling environment, but we believe long-term value is being uncovered by patient investors. The foundation of the market and corporate balance sheets remain firm. We believe the economy lacks major financial imbalances and labor markets remain relatively robust which should help cushion the economic slowdown in the near term.

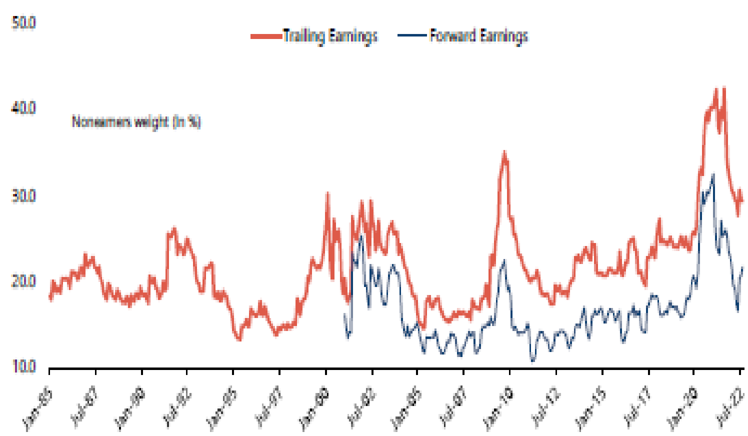
As we have discussed with clients and prospects in the past, the quality of market indices has declined dramatically over the past few years as newly formed SPACs, meme stocks and non-profitable/non-revenue companies have become as greater percentage of the market (see graphs below). This creates an increasingly attractive market opportunity for nimble, active managers.

ROA levels are hitting new lows across the Russell indexes



Source: FactSet; FTSE Russell; Jefferies

Nonearners weight has risen and will impact benchmark performance



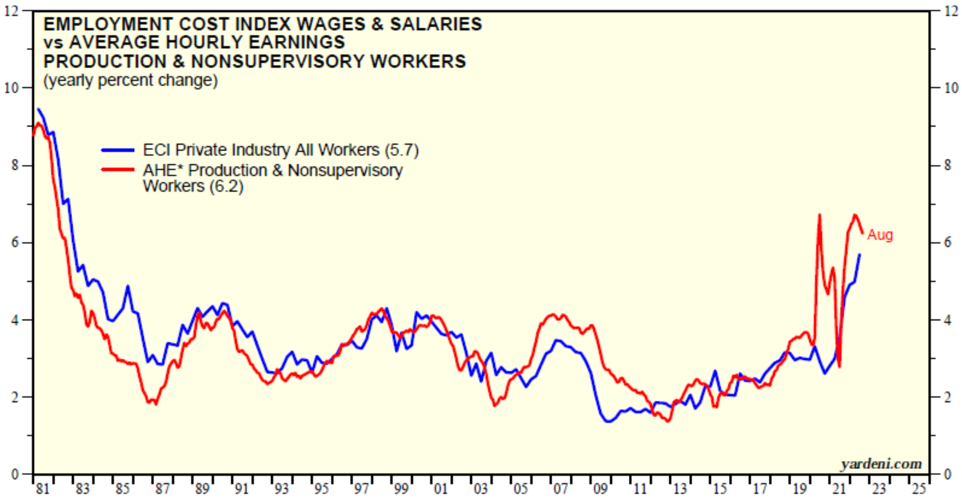
Source: FactSet; FTSE Russell; Jefferies

Inflation continues to surprise to the upside as was the case with the August Consumer Price Index (CPI) report which was released in mid-September. Reported CPI was up 8.3% year over year while the core CPI accelerated to 6.3% (see graph below). We haven't experienced this pace of inflation since the late 1970s-early 1980s. Over the next few months, we expect headline inflation to moderate but the core CPI might prove to be stickier than expected. This quarter, we witnessed a sharp decline in the volatile components of inflation (energy and commodities prices) which should translate into lower future reported inflation. West Texas Intermediate Crude Oil (WTI) prices declined from a recent peak of $122/barrel on June 8th to about $80/barrel by September 30th of this year. The price of lumber, an input in many consumer products, declined from a recent high of about $1,400/thousand board feet on March 11th to about $420/thousand board feet on September 30th, almost back to its pre-pandemic levels. These are examples of the many positive developments for reported inflation components.

We believe some of the core inflation constituents, such as owners' equivalent rent, will prove to be stickier than consensus expects and will take longer to normalize. As an example, the housing market is becoming challenged for many buyers as the 30-year mortgage rate as reported by Bankrate has increased from nearly 3% at the beginning of the year to almost 7% today. Thus, the average buyer's mortgage payment will increase over 50% from earlier this year. As an indicator of this trend, the housing affordability index has plummeted to levels not seen since the housing crisis prior the Great Financial Crisis of 2007-2008. We expect home prices to fall over the next year, but owners' equivalent rent won't decline for months later due to how it is calculated on a lagged and smoothed basis for CPI purposes. Another headwind to a rapid reduction core inflation is prices paid for services, the largest percentage of the US economy, which are still rising and likely to offset the declines we are seeing in prices for goods. Lastly, the breath of components rising as indicated by the trimmed mean remains elevated, which is a challenge to a quick recovery.

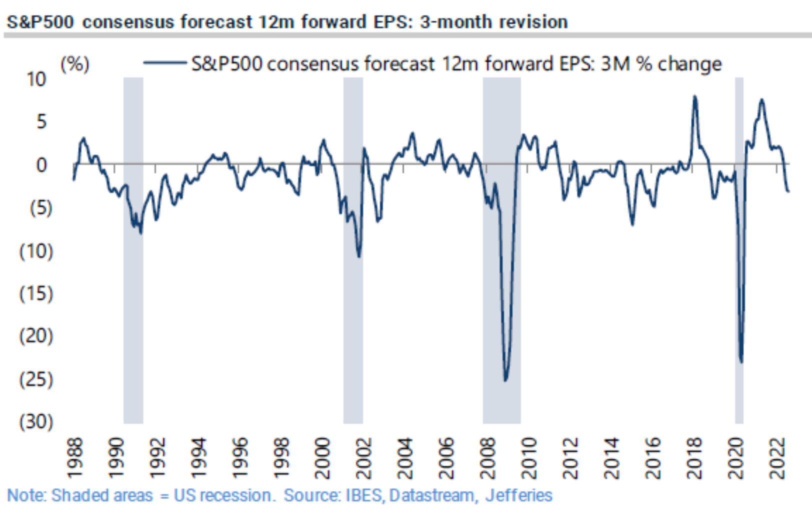
The Federal Reserve's goal is to bring inflation back towards its long-term goal of 2% while at the same time orchestrating a soft landing. This is looking more challenging as inflation remains stubbornly high. Importantly, the Federal Reserve needs to balance the potential policy mistakes on both ends, between prematurely easing monetary policy in an elevated inflationary environment to cushion a more dramatic economic deceleration and over-tightening monetary policy to stamp out inflation.

Employment has been a positive and a negative for the economy and the market this year. We are experiencing one of the strongest employment markets in our history. There are nearly 2 job openings for each unemployed individual in the U.S. Historically, this ratio has been closer to 1-1.2x. Labor force participation has still not returned to pre-pandemic levels. This combined with a rapid recovery in consumer demand post the pandemic has led to employment costs rising 5-6% year over year, a level we haven't experienced since the 1980s (see graph below). While these absolute wage gains are historic, they are not keeping pace with inflation. So, despite the low unemployment rate and the strong wage gains, the employment market is not as healthy as it looks on the surface given the current levels of inflation. By raising the fed funds rate and pursuing quantitative tightening, the Federal Reserve will look to slow demand, pull individuals back into the labor market, and lower the ratio of job openings to unemployed individuals to better balance the labor market and lower overall inflation. The question is, will companies look to retain more workers as the economy slows and endure operating margin compression given the difficulty of hiring post the pandemic? Also, will this be the beginning of a trend where employees receive a higher percentage of profits compared to shareholders? Either way, we anticipate increasing pressure on operating margins for the average company as we look towards 2023.



*Yearly percent change using three-month average.
Source: Bureau of Labor Statistics

Expectations have begun to grow for a negative earnings revision cycle which is already underway. There are several pressures that will drive 2023 results downward including lower demand, higher interest rates, a stronger US dollar and less of a benefit from pricing. We have begun to see estimates revised down for many of the COVID beneficiaries as demand for their products/service normalize. We will get additional data points from companies over the next couple of quarters which will help reset expectations that should provide a better base to build off. As we have experienced in past cycles, stocks tend to rally before the trough in earnings, so anticipatory investors looking to capture favorable future returns need to be invested prior to the turn.



We believe the US will continue to be an attractive market for investors. Europe is weighed down by the war in the Ukraine and the related energy crisis heading into an uncertain winter. China continues to struggle with its "Zero-Covid" policy which has led to mass testing and lockdowns in major economic centers. Emerging markets are faced with the pressure of a rising US dollar and political unrest in several countries. Despite the pullback in the U.S. market, the foundation here remains healthy with financial leverage for corporates and consumers below historical averages, the banking industry well capitalized and no industry threatening systemic risk. Lastly, the mid-term elections in the U.S. could result in a split government which has historically been positive for market returns.

The market sell-off has been intense but it has uncovered tremendous value for patient long-term investors. We believe investors should favor relative value, actively managed strategies with portfolios constructed with companies that have healthy balance sheets and growing market shares. We look for cash flow generation and low financial leverage to be characteristics that the market rewards. We believe the small and mid-cap stocks have been more impacted during this sell-off and are extremely neglected today. This group, which tends to be more domestically oriented, should benefit from the re-shoring and near-shoring of supply chain that have failed many companies over the past few years. In the more immediate term, we believe shorter duration, value-oriented strategies should outperform long duration, growth portfolios as nominal and real yields continue to rise (see graph below). This has been a challenging and volatile year for investors. However, we believe it's important to focus on the long-term, and continue to identify those companies with healthy balance sheets, strong market positions, good free cash flow and the ability to manage through changing economic conditions. This is an attractive market for nimble, active managers.

Long vs. short duration trade has followed real yields

Short duration equities typically outperform as real rates rise

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CRM All Cap Value
3Q 2022 Strategy Commentary

During the third quarter of 2022, the CRM All Cap Value strategy outperformed the Russell 3000 Value benchmark by 117 bps on a net of fees basis, -4.39% vs. -5.56%[2]. From a sector perspective, stock selection within the Financials and Consumer Staples sectors was the largest contributor to relative performance, while Health Care and Information Technology provided the largest headwind to relative performance. Based on our bottom-up selection process, the portfolio remains significantly overweight in the Industrials sector, with a more moderate overweight to the Information Technology and Consumer Discretionary sectors versus the Russell 3000 Value benchmark. Conversely, the portfolio is currently significantly underweighted in the Communication Services sector, with a more moderate underweight to the Real Estate, Utilities, and Consumer Staples sectors.

LPL Financial Holdings Inc. (LPLA), an independent broker/dealer, has outperformed in the third quarter and year to date as its client cash sweep revenues have benefited from higher interest rates. In addition, the company has continued to post strong net new asset (NNA) growth due to the differentiated capabilities and scaled offering it provides for financial advisors on its platform. **Valmont Industries, Inc. (VMI),** a manufacturer and designer of steel pole solutions for the utility and telecommunications industry and agricultural irrigation suppliers, raised guidance this quarter following better price/cost favorability and continued strong growth in agricultural spending in the Middle East, South America, and U.S. market. The successful acquisitions of Rexnord PMC and Arrowhead have transformed **Regal Rexnord Corporation (RRX)** from a motors and controls manufacturer to a provider of higher growth, more profitable motion control systems. In addition to merger synergies and internal continuous improvement opportunities, Regal should also benefit from external tailwinds such as reshoring manufacturing, increasing emphasis on energy efficiency, and a drive toward higher factory automation.

Clarivate PLC (CLVT), a data and analytics company focused on intellectual property and life sciences end markets, underperformed due to weaker than anticipated organic growth in the quarter and lower organic growth targets. We believe new management is well suited for executing on improved organic growth and margin improvement over the next few years and have recently set more conservative targets that reflect the more uncertain macro environment. **Avantor, Inc. (AVTR)** is a global manufacturer and distributor of laboratory equipment, consumables, and services in the pharmaceuticals, government, academic, healthcare, and clinical, and industrial end markets. The company was a detractor this quarter as they lowered forward outlook on revenue and profit expectations due to softer performance in their two recent acquisitions, lower COVID-19 testing and vaccine contributions, as well as foreign exchange impacts. Recently at an investor conference, the company further revised expectations for its acquisition performance, yet importantly maintained that the core business is achieving its organic growth expectations. The combination of softer current expectations, poor communication on setting appropriate expectations, elevated leverage, as well as macroeconomic concerns have driven Avantor's valuation to recession levels and a substantial discount to life science peers. **DZS, Inc. (DZSI),** a broadband access and mobile transport equipment supplier, underperformed this quarter following disappointing 2Q22 results due to FX headwinds.

We initiated a position in **Charles Schwab Corporation (SCHW),** a leading financial services and wealth management company. We believe Schwab is well positioned to benefit from the favorable growth trends in the wealth management industry, particularly growth in the RIA channel for financial advisors. The company also benefits from higher interest rates, and we believe there could be greater revenue and expense synergy upside from their recent acquisition of TD Ameritrade.

CRM Mid Cap Value
3Q 2022 Strategy Commentary

In the third quarter of 2022, the CRM Mid Cap Value strategy underperformed the Russell Mid Cap Value benchmark by 54 bps on a net of fees basis, -5.47% versus -4.93%[2]. From a sector perspective, the largest headwind to relative performance was our stock selection within the Health Care and Information Technology sectors. Our stock selection within the Materials and Financials sectors provided the largest tailwind to relative performance this quarter. Based on our bottom-up stock selection, the portfolio maintains a significant overweight to the Industrials sector, with a more moderate overweight to the Materials and Consumer Staples sectors vs. the Russell Mid Cap Value benchmark. Conversely, the portfolio is currently significantly underweighted in the Real Estate sector and more moderately underweight in the Communication Services sector.

The successful acquisitions of Rexnord PMC and Arrowhead have transformed **Regal Rexnord Corporation (RRX)** from a motors and controls manufacturer to a provider of higher growth, more profitable motion control systems. In addition to merger synergies and internal continuous improvement opportunities, Regal should also benefit from external tailwinds such as reshoring manufacturing, increasing emphasis on energy efficiency, and a drive toward higher factory automation. **LPL Financial Holdings Inc. (LPLA),** an independent broker/dealer, has outperformed in the third quarter and year to date as its client cash sweep revenues have benefited from higher interest rates. In addition, the company has continued to post strong net new asset (NNA) growth due to the differentiated capabilities and scaled offering it provides for financial advisors on its platform. **Valmont Industries, Inc. (VMI),** a manufacturer and designer of steel pole solutions for the utility and telecommunications industry and agricultural irrigation suppliers, raised guidance this quarter following better price/cost favorability and continued strong growth in agricultural spending in the Middle East, South America, and U.S. market.

Clarivate PLC (CLVT), a data and analytics company focused on intellectual property and life sciences end markets, underperformed due to weaker than anticipated organic growth in the quarter and lower organic growth targets. We believe new management is well suited for executing on improved organic growth and margin improvement over the next few years and have recently set more conservative targets that reflect the more uncertain macro environment. **Avantor, Inc. (AVTR)** is a global manufacturer and distributor of laboratory equipment, consumables, and services in the pharmaceuticals, government, academic, healthcare, clinical, and industrial end markets. The company was a detractor this quarter as they lowered forward outlook on revenue and profit expectations due to softer performance in their two recent acquisitions, lower COVID-19 testing and vaccine contributions, as well as foreign exchange impacts. Recently at an investor conference, Avantor's further revised expectations for its acquisition performance, yet importantly maintained that the core business is achieving its organic growth expectations. The combination of softer current expectations, poor communication on setting appropriate expectations, elevated leverage, as well as macroeconomic concerns have driven the Company's valuation to recession levels and a substantial discount to life science peers. **Tenable Holdings, Inc. (TENB),** a cybersecurity software provider, beat expectations and raised their guidance this quarter, but like other software companies highlighted weakness in Europe, which led to growing concerns about the strength of their forward outlook. We believe demand trends remain very robust, and the next few quarters organic performance should resolve any demand-related concerns.

NextEra Energy Partners, LP (NEP) an owner, operator and acquiror of clean energy projects backed by NextEra Energy, Inc. (NEE), should see accelerating new project activity from the recent passing of the Inflation Reduction Act (IRA) as codified tax incentives for wind, solar, storage, and other forms of renewable power lower the cost of deployment and increase the cost effectiveness of these solutions. NEP's long term relationship with NEE, the largest renewable developer in the US, should help it sustain double digit distribution growth for many years.

CRM Small/Mid Cap Value
3Q 2022 Strategy Commentary

During the third quarter of 2022, the CRM Small/Mid Cap Value strategy outperformed the Russell 2500 Value benchmark by 117 bps on a net of fees basis, -3.33% vs. -4.50%[2]. From a sector perspective, stock selection within the Financials and Industrials sectors was the largest contributor to our relative performance this quarter, while stock selection within the Information Technology and Health Care sectors was the largest detractor of performance for the quarter. Based on our bottom-up stock selection, the portfolio maintains a significant overweight to the Industrials sector, with a more modest overweight to the Materials and Consumer Staples sectors versus the Russell 2500 Value benchmark. Conversely, the portfolio is currently significantly underweighted to the Real Estate sector, with a more moderate underweight to the Communication Services and Health Care sectors.

Clean Harbors, Inc. (CLH) provides environmental remediation and industrial waste management services to domestic customers. The company was a top contributor this quarter as operating results in both segments materially outperformed expectations. Strong demand and pricing for its environmental services drove the highest margin outperformance in the peer waste management sector from an achieved pricing versus cost perspective. The company also reiterated guidance in its used motor oil collection segment. Lastly, Clean Harbors is seeing longer-term demand in its customer base to utilize the company's services to assist in customer's ESG efforts. We believe the combination of these factors will drive sustainable operating performance that remains above sell-side expectations, with a cash flow profile that allows for an attractive capital allocation in M&A and internal investments. The successful acquisitions of Rexnord PMC and Arrowhead have transformed **Regal Rexnord Corporation (RRX)** from a motors and controls manufacturer to a provider of higher growth, more profitable motion control systems. In addition to merger synergies and internal continuous improvement opportunities, Regal should also benefit from external tailwinds such as reshoring manufacturing, increasing emphasis on energy efficiency, and a drive toward higher factory automation. **LPL Financial Holdings Inc. (LPLA),** an independent broker/dealer, has outperformed in the third quarter and year to date as its client cash sweep revenues have benefited from higher interest rates. In addition, the company has continued to post strong net new asset (NNA) growth due to the differentiated capabilities and scaled offering it provides for financial advisors on its platform.

Clarivate PLC (CLVT), a data and analytics company focused on intellectual property and life sciences end markets, underperformed due to weaker than anticipated organic growth in the quarter and lower organic growth targets. We believe new management is well suited for executing on improved organic growth and margin improvement over the next few years and have recently set more conservative targets that reflect the more uncertain macro environment. **Tenable Holdings, Inc. (TENB),** a cybersecurity software provider, beat expectations and raised their guidance this quarter, but like other software companies highlighted weakness in Europe, which led to growing concerns about the strength of their forward outlook. We believe demand trends remain very robust, and the next few quarters organic performance should resolve any demand-related concerns. Our new position in **Burlington Stores, Inc. (BURL),** an off-price retailer, was a detractor this quarter. Burlington underperformed in the quarter as the company revised full year sales and earning guidance lower due to weakening demand from the low-end consumer. We believe earnings are set to inflect higher as the company benefits from consumer trade down and an increasingly over inventoried retail environment. Burlington also has several company-specific initiatives that should drive margin expansion and higher returns on capital over time.

In addition to Burlington Stores, Inc., we initiated a position in **Equity Commonwealth (EQC).** We believe Equity Commonwealth, a Real Estate Investment Trust, is well positioned to take advantage of potential dislocations in the REIT market due to its substantial cash position and seasoned management team. The company's shares are highly attractive, trading at a discount to Net Asset Value.

CRM Small Cap Value
3Q 2022 Strategy Commentary

During the third quarter of 2022, the CRM Small Cap Value strategy outperformed the Russell 2000 Value benchmark by 405 bps on a net of fees basis, 0.56% vs. -4.61%[2]. From a sector perspective, stock selection in the Industrials, Financials, and Consumer Staples sectors was the largest contributor to relative performance. Conversely, our stock selection in the Energy sector was the largest headwind to relative performance. Based on our bottom-up selection process, the portfolio maintains a significant overweight to the Industrials sector, and a more modest overweight to the Consumer Staples and Utilities sectors versus the Russell 2000 Value benchmark. Conversely, the portfolio maintains a significant underweight in the Financial and Health Care sectors, with a more moderate underweight to the Communication Services sector. **Clean Harbors, Inc. (CLH)** provides environmental remediation and industrial waste management services to domestic customers. The company was a top contributor this quarter as operating results in both segments materially outperformed expectations. Strong demand and pricing for its environmental services drove the highest margin outperformance in the peer waste management sector from an achieved pricing versus cost perspective. The company also reiterated guidance in its used motor oil collection segment. Lastly, Clean Harbors is seeing longer-term demand in its customer base to utilize the company's services to assist in customer's ESG efforts. We believe the combination of these factors will drive sustainable operating performance that remains above sell-side expectations, with a cash flow profile that allows for an attractive capital allocation in M&A and internal investments. **Valmont Industries, Inc. (VMI),** a manufacturer and designer of steel pole solutions for the utility and telecommunications industry and agricultural irrigation suppliers, raised guidance this quarter following better price/cost favorability and continued strong growth in agricultural spending in the Middle East, South America, and U.S. markets. **Agilysys, Inc. (AGYS),** a software provider to the hospitality and gaming industries, reported strong earnings for the second quarter of 2022, supported by a combination of improving travel trends and continued market share gains.

Envestnet, Inc. (ENV), a financial services software company, suffered from declining markets and increased volatility, which reduced the assets under management and administration for its customers. We believe this decline is temporary and the company will see accelerating revenue growth from recent product investments once the markets stabilize. Despite better-than-expected earnings, shares of **Steven Madden, Ltd. (SHOO),** a fashion footwear company, declined as the multiples in the footwear industry contracted in the face of escalating recession fears. SHOO has meaningfully improved its cost structure and invested behind digital growth, which we believe will drive upside to future earnings and a higher valuation. Shares of **Northwest Natural Holding Co. (NWN),** a gas utility, declined in the quarter as interest rates continued to increase, depressing the relative value of utility dividend yields.

We initiated a position in **Abcam PLC (ABCM),** a leading provider of antibodies to life science research institutions and the biopharma industry. We believe Abcam has substantial margin recovery potential following several years of heightened reinvestment back into its business. We also believe Abcam will benefit from a strong product leadership position in end-markets with favorable long-term fundamentals.