



“A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty.” – Winston Churchill

Summary for 2019 Q2

As of June 30, 2019, the investment results for the Uniplan Micro Cap portfolio are as follows:

<u>As of June 30, 2019:</u>	<u>QTD</u>	<u>YTD</u>
Uniplan Micro Cap Gross	5.97%	28.93%
Uniplan Micro Cap Net	5.40%	27.58%
Russell Micro Cap	0.93%	14.16%

The micro cap stock benchmarks lagged the broader market slightly during the first half of the year, with the micro cap indices up about +14% vs. the large cap benchmarks up approximately +19%. We have been pleased with our portfolio as it has outperformed the micro cap and broader market benchmarks for the month, quarter and year-to-date on mostly positive news across our portfolio companies.

In our 2018 year-end report, with our benchmarks down sharply, we penned a report in January with an observation about rolling returns and mean-reversion within the micro cap sector. The key thought is reprinted below:

*“.....micro caps are currently experiencing a relatively deep and lengthy deceleration of returns. Although there could be more downside, **one would expect mean-reversion to begin to emerge at some point in the near future and appears to be reversing given the January rebound as of this writing**”.*

The complete Flash Report with the supporting statistical analysis can be found on our website at: <https://uniplanic.com/micro-cap-flash-2018-q4/>. The key takeaway for the note is that when the rebound begins, it lasts on average for seven months and returns on average are +31%. This seems to be playing out as projected.



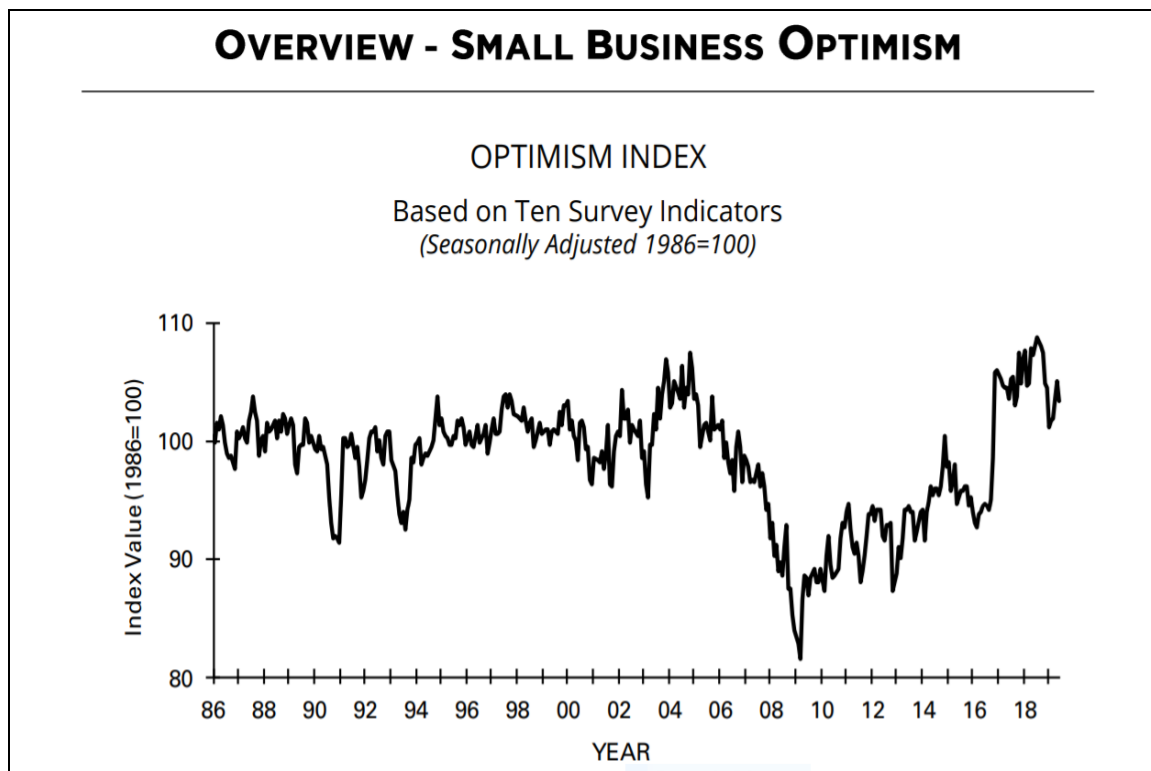
(Source: StockCharts.com)

It's All About Confidence

Small-business confidence hit record highs in 2018, according to the National Federation of Independent Businesses index, and remains strong for 2019 though off the record highs of 2018. The index came in at 103.3 in June, down slightly from a 45 year high for the benchmark.

Trade policy continues to be a major factor in small business psychology. Some “tariff” related inflation pressures seem to be surfacing, as the percent of firms raising selling prices rose significantly in the last few months with owners reporting strong demand and lean inventories. In fact, according to NFIB, a main driver of business optimism came from the inventory sector, with owners marking existing stocks as very “lean” and planning to add to them.

Credit conditions, which are the lifeblood of small business activity, are about as favorable as they have ever been in the 46-year survey history. Twenty-eight percent of all owners reported borrowing on a regular basis (down 3 points). The average rate paid on short maturity loans fell 100 basis points to 6.8 percent. Overall, credit markets have been very supportive of growth and will not likely become an impediment this year given the current positioning of the Fed.



(Source: NFIB)

Conclusion

Small business confidence remains historically strong; although, off its recent peak by a touch. The 2018 tax cuts along with the current administration's economic policies, particularly in the area of deregulation, are proving to be an exceptional boost to business confidence. Recall that small businesses are benefitting disproportionately from lower taxes, as their tax burden had been more onerous due to less foreign tax jurisdictions. The new tax law is providing higher cash flow for businesses to pay down debt, buy back shares, increase dividends, reinvest in their business, expand critical personnel, pay higher wages, and buy other companies. In addition, the capital markets, in the form of both debt and equity, are currently open for small business in general and micro cap companies in particular. We would argue that all these factors are positive for small business in general and micro caps in particular.

History has shown that small companies have provided superior risk-adjusted returns compared to large companies. Other research has shown that this return premium is the result of the limited liquidity in smaller companies and the lack of research or analyst coverage on many of these companies. While micro-cap stocks do tend to have greater volatility and higher trading costs (wider bid-ask spreads), they offer

long-term investors an opportunity to capitalize on market inefficiencies that are not possible for large institutional investors to exploit. In addition, these stocks offer diversification benefits when added to a portfolio of larger-company stocks, since the two groups do not tend to move in perfect unison. For these reasons, we believe micro-cap stocks have a meaningful place in the portfolios of individual investors.

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Richard Imperiale
Chief Investment Officer

The Uniplan Micro Cap Portfolio is a low-turnover high-conviction micro cap strategy designed to offer investors a quality alternative to private equity having a similar unlevered return while providing daily liquidity. The Uniplan core investment thesis is focused on companies trading at a low multiple of cash flow or EBITDA, those with little or no debt and meaningful insider holdings. We search for smart money activity which we define as insider buying which is found in 13G/13D filings. A cash dividend and an identifiable macro or company-specific catalyst are preferred.

Important Information: 1. Uniplan Investment Counsel is a boutique investment firm, with roots dating back to 1984, that manages a variety of portfolios primarily for US clients. Uniplan maintains a complete list and description of composites that is available upon request. 2. The composite was created August 1, 1999. Performance is calculated in US dollars utilizing a time-weighted total rate of return. Total return for the composite is represented by the asset-weighted returns of the portfolios within the composite. Trade-date valuation is used. 3. Performance is net of all transaction costs and net performance is net of transaction costs and (maximum allowable total) investment management fee, but before any custodial fees (that may be incurred separately by the client). 4. The benchmark for the composite is the Wilshire US Micro Cap Index that represents a float-adjusted, market capitalization-weighted portfolio of all stocks below the 2,500th rank by market capitalization in the Wilshire 5000 at March 31 and December 31 of each year. The index is used to measure small stocks and is adjusted to reflect the reinvestment of dividends, when applicable. It is not possible to invest directly in an index. The index figures do not reflect any deduction for fees, expenses or taxes. 5. The dispersion of annual returns is measured by the standard deviation of asset-weighted portfolio returns represented within the composite for the full year. The standard deviation of the annual returns for the period August 1, 1999 to June 30, 2019 is 18.08% for the composite and 24.74% for the Wilshire Micro Cap Index. 6. The composite does not have a minimum size criterion for composite membership. All fee-paying discretionary accounts with similar investment objectives are included. Leverage is not used in this composite as a means to generate higher returns. There may be non-fee paying portfolios in the composite. Individual account holdings may vary depending on numerous factors including the size of an account, cash flows, and account restrictions. 7. There have been no changes in the personnel responsible for the management of this composite. 8. The composite contains both traditional and wrap fee portfolios. Uniplan has a flexible and negotiable fee schedule reflecting the differences in size, composition and servicing needs of clients' accounts. A complete description of investment advisory fees is contained in Uniplan's Form ADV and is available upon request. 9. Uniplan Investment Counsel does not claim GIPS Compliance. Individual account performance may vary from the results shown because of differences in inception date, restrictions and other factors. 10. Investors should understand that micro cap stocks are subject to a higher degree of risk than other equity investments due to the small size of the companies and the limited trading volume inherent in micro cap stocks. **Past performance is no guarantee of future results. Investment involves a risk of loss.**