UNIPLAN
A BETTER ALTERNATIVE

"The world as we have created it is a process of our thinking. It cannot be changed without changing our thinking." **— Albert Einstein**

"Everyone thinks of changing the world, but no one thinks of changing himself." **— Leo Tolstoy**

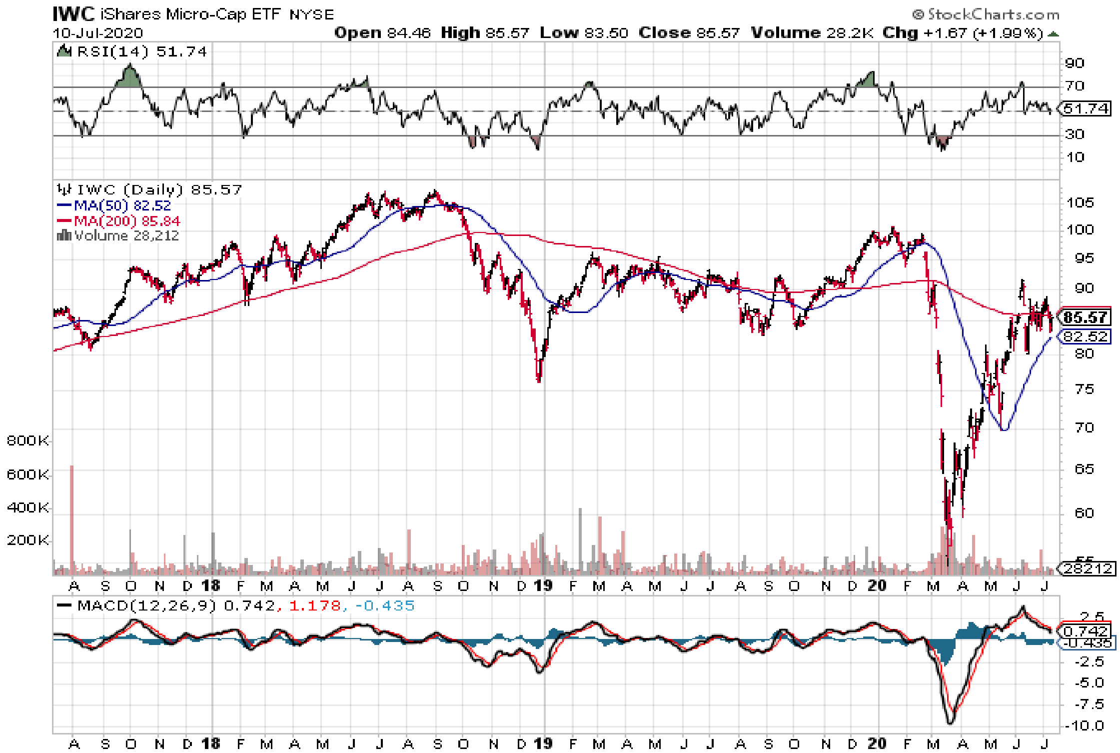
Summary for 2020 Q2 – The Covid-19 World Continued…

For the year-to-date period ended June 30, 2020, the investment results for the Uniplan Micro Cap Portfolio are as follows:

	QTD	YTD
Uniplan Micro Gross	26.51%	-16.96%
Uniplan Micro Net	25.87%	-17.91%
Russell Micro	30.55%	-11.22%
Wilshire Micro	28.96%	-14.68%

Slow Motion in a High-Speed Market

As we said in our Q1 Micro Cap Flash Report, "For those who are not in the market, it is perhaps a once in a generation window to position in investments that may not see valuations like this for decades." With a long-term view in mind, micro cap stocks peaked in early September of 2018 and had been moving lower slowly until mid-January of 2020 when prices collapsed in a relentless cascade downward until mid-March, when they bottomed 48% below the 2018 peak. During Q2, Micro Caps recovered about half of the drop, moving up about 27% during the quarter.



The implications of the improbable always take market participants by surprise, but the speed and breadth of both the market selloff and the rapid reversal was nothing short of arresting. We continue to use the broad-based sell-off and extreme weakness in micro cap value stocks as a mandate to reposition portfolios into new opportunities that better reflect the new reality of a post Covid-19 world.

VUCA

With the view that the current pandemic environment is a global battle playing out in front of us, we look to military learning to think about the situation. The acronym VUCA is used to describe or to reflect on the **V**olatility, **U**ncertainty, **C**omplexity and **A**mbiguity of general conditions and situations in geopolitical events or military engagements. The U.S. Army War College coined the term in the mid-1980's and it was subsequently cited in the book "Leadership" by Warren Bennis and Burt Nanus, where it found its way into corporate management circles.

The current investing environment is fraught with VUCA. Going back to military doctrine, how does one best proceed in a VUCA environment? The military response to VUCA is the phrase "Slow is Smooth and Smooth is Fast." The idea is that moving too quickly in a VUCA environment can get you killed, but if you move slowly, carefully, and deliberately, you're actually moving as fast as you can without needlessly increasing risk. It seems that repositioning portfolios in just that manner in a VUCA investment environment is the most prudent way to proceed. As such, we continue to evolve our thinking in response to the changing investment landscape. This is not new to our strategy but is evolving more quickly than in a normal market environment.

Micro Cap Reinvention is Beginning

In 1990, during a financial crisis, the Australian treasurer (and future prime minister) Paul Keating said, "This was the recession we had to have." Later, when asked about the statement in an interview, Keating responded he would take the blame for the recession as long as he also got the credit for the subsequent rebound of the economy, and the attendant income growth for average Australians. It was a much-needed reset of the economy and it could be argued that a similar reset is currently happening in the global economy.

This thinking reveals the dual sides of a crisis. For most people, particularly those in the media, all crises are about gloom and doom. As the old newsroom adage goes: "If it bleeds it leads." But, for visionaries and risk takers, a crisis can represent opportunities for real, meaningful change. Not change that is forced upon decision takers but change that is enacted by decision makers. This is the exact thinking that we are hearing from the management teams of many progressive micro cap companies to whom we regularly speak.

The beauty of the small company is their ability to adapt and change rapidly in a VUCA environment. In the business world many commentators are saying that the Covid-19 crisis represents a major threat to the system. There are catastrophic shortfalls in revenue, which have led to massive job cuts and severe business disruptions. For many management teams the Covid-19 pandemic represents an opportunity to undo many of the strategic mistakes and accelerate structural business changes. Unlike large corporations such as IBM and GE that struggle because of an unwillingness or inability to make dramatic and meaningful pivots or changes, small companies can quickly reinvent themselves and we would argue that the reinvention is now beginning.

The implications of everything that is happening now and everything that will happen in the near future will be examined and debated across the globe as the world moves forward. It is probable that the policies of globalization which have been widely embraced for the past 40 years will change dramatically. Certainly, the production of critical products that have a potential impact on national security such as medical equipment and supplies, the raw materials for important drugs, and microchips and processors that are used in critical applications across numerous industries will all be top priorities for policymakers as the global economy begins to normalize in a post Covid-19 world.

As the secular trends that supported globalization, such as the outsourcing of critical manufacturing to low-cost countries, or the manufacture of high-tech components by state supported companies of potentially adversarial regimes, begin to reverse there will be a large and varied opportunity for many small and micro cap companies to thrive in this new post-pandemic world. The present crisis represents a once-in-a-generation opportunity for the truly disruptive and entrepreneurial leaders to stand out. Turning the crisis into an opportunity will require a degree of change at the institutional level that will include breakups, mergers, closures of facilities and deep rethinking of business models. These are changes that few companies want to embark on and often when market forces dictate these changes it is too late.

As our thinking evolves, we are carefully examining our top investment themes that have traditionally been the framework within which we look for companies that present as a relative value while experiencing an internal or external catalyst for positive change. Secular themes like the digitization of retail or the growth of e-commerce remain intact and have accelerated in the current environment. Others, such as the rise in experiential travel and the growth in leisure mobility have been thoroughly destroyed – for the time being. As such we made tactical changes to the Micro Cap portfolio last quarter to reflect these changing themes and have continued to do so this quarter.

Portfolio Notes

During Q2 we continued to make adjustments in positions and holdings given the rebound in the market and the chance to reposition for our evolving thinking.

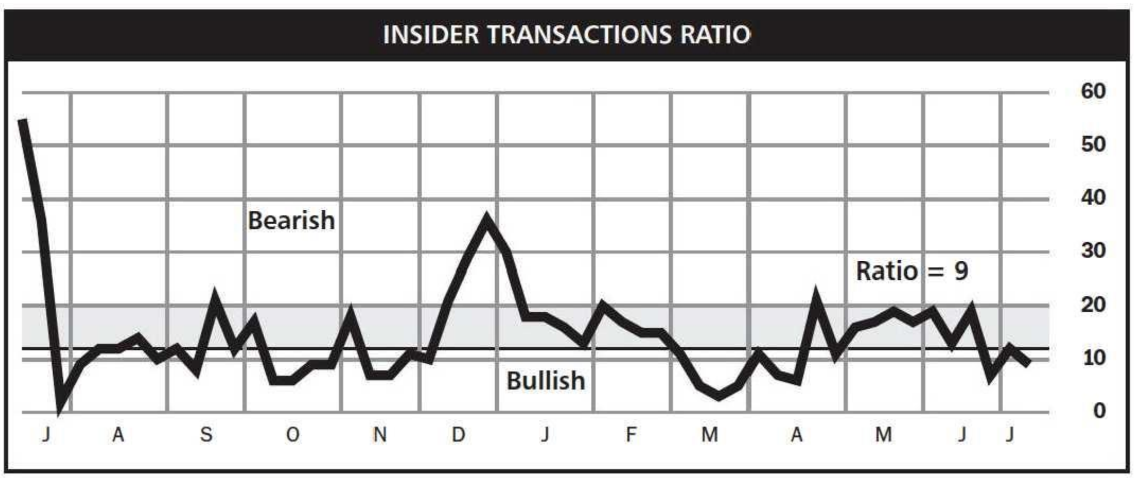
We sold four long term holdings from the portfolio. Two were in the thematic area of what we call “Pets as the new Children”. Our thematic observation is that pets have increasingly become popular among certain cohorts as a replacement for children in a household. The willingness of consumers to spend on their pets continues to grow rapidly. This theme was reflected in our holdings of Freshpet (FRPT), a manufacturer of fresh, refrigerated pet food distributed across North America and Petmed Express (PETS), a seller of prescription and non-prescription pet medications, and other health products for dogs and cats, direct to the consumer. Both held up well in the downturn, they then exceeded their target prices on the rebound and were sold. Two other positions, Tivity Health (TVTY) and Hamilton Beach Brands (HBB) were both sold on a change in business outlook.

Three positions within the portfolio were trimmed for risk management purposes as the stocks had moved nicely higher. The proceeds from those trims were reinvested in two positions which had declined sharply during Q1 and appeared to show exceptional value even when reviewed in the light of Covid.

Finally, we added three new names to the portfolio including one that we had successfully owned in the past. First, AZZ Corporation (AZZ) a defensive service type company that supports industrial, nuclear, and electrical infrastructure applications in the energy sector. They also provide hot dip galvanizing to the steel fabrication industry through facilities located throughout the United States and Canada. Additionally, AZZ serves fabricators or manufacturers that provide services to the electrical and telecommunications, bridge and highway, petrochemical and general industrial markets, and original equipment manufacturers. The valuation looked compelling for this well-run company while any government infrastructure stimulus spending will likely increase demand for their services. Sharps Compliance Corp. (SMED) was also added to the portfolio. They are a national healthcare waste management provider specializing in regulated waste streams including medical, pharmaceutical, and hazardous materials. They service small to medium-size generators of healthcare waste including professional offices, assisted living and long-term care facilities, government agencies, home health care, retail clinics and immunizing pharmacies. Finally, we added Viemed Services (VMD), a home medical equipment supplier that provides post-acute respiratory care services in the United States and Canada.

In volatile environments like today, we maintain an even more active, engaged dialogue with our portfolio companies. We are always thinking about and looking for ways to help create value by encouraging our management teams to pursue intelligent, value accretive capital allocation moves or making changes to upgrade governance, oversight, and business performance. In these times, our quiet and trusted approach to engagement is more productive and appreciated, as we often act as a sounding board for our company management partners.

As our investors know, we also closely monitor insider and smart money activity across our portfolio and the micro cap universe. Insiders at many of our portfolio companies have continued to personally buy shares in the open market this quarter, signaling confidence in their companies and the future of the business and sending the Insider Transactions Ratio into positive territory. This is generally a positive signal for current valuations and future earnings outlook.



Ratio of Insiders Sales to Buys. Readings under 12:1 are Bullish. Those over 20:1 are Bearish.
The total top 20 sales and buys are 420,032,720 and 44,568,965 respectively; Source: Thomson Reuters

Value vs. Growth

Another indicator of opportunity is the gap between Value and Growth. The gap exploded during Q1 and continued to widen during Q2. During the quarter, the Russell Micro Cap Value benchmark underperformed the Growth benchmark by 1,586 basis points, the largest quarterly disparity in the history of the benchmark. That brings the total disparity to 2,256 bps for the year-to-date as of June 30. In fact, Value benchmarks were the worst performers across the US equity benchmark universe again this quarter as growth, no matter the valuation, continues to be the preference of investors across all market segments. Historically these large disparities in performance revert to the mean and the out of favor style rotates back by outperforming for some period. During 2018 and 2019, both Growth and Value benchmarks performed very closely with neither significantly besting the other. If history is any guide, value should close the performance gap in the near future.

Over the years we have argued that investing in micro cap stocks can offer excess returns because of the inefficient information flow regarding the thousands of small companies which populate this space. Do your homework, be mindful of valuation and actively manage risk; this is the road to adding alpha in a micro cap portfolio. This thesis in part, is supported by the fact that very few micro cap companies have any formal sell side research analyst coverage. As a result, doing primary source research can often lead to gaining insights and finding opportunities long before the investing public learns about these facts.

While some investors may try to gain exposure via the index or ETF trading in an effort to time and capture market beta, we would argue that this is a less effective way to play small and micro cap opportunities. In a post Covid-19 world, there will be bigger differences between winners and losers on an individual security basis in a market segment where careful fundamental research can still result in an information advantage. Our rigorously screened bottom-up work on business, management, and valuation along with our thematic macro framework helps us distinguish real businesses trading at low historic multiples of cash flow that will grow versus value trap stocks with poor underlying businesses.

Conclusion

We are more excited for the long-term prospects of our portfolio than we have been in a long time. As global markets continue to be rocked by extreme uncertainty and fear we have seen a rapid rise in stock price volatility and a steep decline in investor sentiment with high quality small companies offering compelling values. We have only seen this level of disruption a handful of times and they have always led to new opportunities for our investors.

Due to liquidity constraints and the effects of information flow, being a patient long term investor is an important factor in micro cap investing where “Slow is smooth and smooth is fast”. For the patient long-term investor micro cap stocks offer better return opportunities than any domestic equity class. In looking back at the history of micro cap securities they are often punctuated with periods of extreme volatility. It is easy to argue that we are in one of those periods of volatility. As such, we often look to those periods to reposition and evolve the portfolio and we continue to evolve our thinking to adjust for the new environment. For these reasons we believe now more than ever micro-cap stocks have a meaningful place in the portfolios of individual investors.

While we have discussed here at length the investment opportunity that the market disruption has created, we are deeply saddened by the devastating loss of life and dangerous health impact the Covid-19 pandemic has had for so many globally. The health and safety of our employees, their families, our clients and the community around us remain our top priority. As we all work from home we look forward to the time when we can once again sit together and debate investment opportunities.

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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 core investment thesis is focused on companies trading at a low multiple of cash flow or EBITDA, with little or no balances sheet debt and having meaningful smart money activity in the form of insider buying, or 13G/13D activity along with identifiable macro or company level catalysts.

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. 5. The Russell Micro Index may be used as an alternative benchmark. The Russell Microcap Index is an unmanaged total return index of the smallest 1,000 securities in the small cap Russell 2000 Index and the next smallest 1,000 companies based on a ranking of U.S. equities by market capitalization. 6. It is not possible to invest directly in an index. The index figures do not reflect any deduction for fees, expenses or taxes. 7. 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 30th, 2020 is 20.26% for the composite and 26.22% for the Wilshire Micro-Cap Index. 8. 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. 9. There have been no changes in the personnel responsible for the management of this composite. 10. 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. 11. 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. 12. 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. 13. This information is not an offer to buy or sell a security nor does it constitute investment advice or an offer to provide investment advisory or other services. All information is subject to correction or change. **Past performance is no guarantee of future results. Investment involves a risk of loss.**

All investments carry a certain degree of risk, including possible loss of principal. REITs are subject to illiquidity, credit and interest rate risks, as well as risks associated with small and mid-cap investments. It is important to review your investment objectives; risk tolerance and liquidity needs before choosing an investment style. Value style investing presents the risk that the holdings or securities may never reach their full market value because the market fails to recognize what the portfolio management team considers the true business value or because the portfolio management team has misjudged those values. In addition, value style investing may fall out of favor and underperform growth or other style investing during given periods.

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