



"Avoiding danger is no safer in the long run than outright exposure. The fearful are caught as often as the bold."

-- Helen Keller

Micro Cap market volatility moved higher since May, as the risk-on risk-off trade modulates across the small and micro cap space. Since our last mid-quarter report, the global economy has continued its rebound from the pandemic while the rise of the Delta variant has been a cause for growing concern and the US domestic economy has recently shown some signs of decelerating because of rising new infections.

The preliminary estimated results for Uniplan Micro Cap Portfolio as of August 31, 2021, are as follows:

	MTD	QTD	YTD
Uniplan Micro Gross	0.84%	-0.64%	17.43%
Uniplan Micro Net	0.66%	-1.01%	15.74%
Russell Micro	3.59%	-2.14%	26.26%

For the quarter-to-date, the Micro Cap portfolio has outperformed with positive contributions from the Communications and Industrial sectors of the portfolio. Financials and Energy were the lagging sectors for the quarter-to-date. The portfolio has trailed the broader micro cap universe benchmarks for the year-to-date due to our underweight position in pre-revenue biotech and biopharma companies which have performed very strongly in a post covid research environment and benefitted in numerous fund-raising rounds from aggressive liquidity in the equity capital markets.

Although micro cap stocks are prone to move up and down in bigger increments than larger capitalization stocks, the current spate of volatility is worthy of mindful examination and appropriate risk management to harvest returns and alpha that can easily appear and then disappear in a few ticks of the market while also adding incremental investment to current positions that have been curiously punished for no apparent reason. As such, we continue to trade a bit more actively than is typical given the unusual volatility we have seen recently in the markets.

Micro Caps Setting up for a Strong 2022

The case for micro cap exposure looks strong on a go-forward basis. The sizable pool of risk-on liquidity that has fueled Special Purpose Acquisition Companies (SPACs) and many new small and micro IPOs continues to roll through the market. This new liquidity is driven in part by SPACs, also known as "blank check" companies. These are public companies created through an initial public offering (IPO) for the purpose of acquiring an existing operating business which is

usually operating as a private company. The history of SPACs goes back over 40 years, but until the second half of 2020, when they exploded into the mainstream, SPACs were largely relegated to a sleepy corner of the finance world which focused on bringing promising private businesses into the public market without the extensive and costly process of an underwritten IPO.

This SPAC phenomenon has triggered a wave of M&A activity in the US that has totaled a record \$1.3 trillion during the first half of 2021 and continues strong according to REFINITIV Global. To date, this has been driven by private equity firms that have done over 6,000 deals in the past year and have accounted for nearly 20% of all M&A volume according to REFINITIV. This is likely to be the first wave in a long cycle of M&A driven by liquidity in private equity and the desire for stronger growth among both public and private companies. Among C-suite executives we speak with, balance sheets with ample cash coupled with easy access to reasonably priced debt have combined with increasing confidence in a durable post-COVID economic recovery to drive a broad-based interest in doing deals. Compelling relative valuations have made the small and micro cap space a primary target for attractive acquisitions.

Relative Valuations

It would be simple to cite a long list of small public companies that appear to be interesting businesses trading at compelling valuations. But it is more interesting to look at the aggregate value of small vs. large companies over time. Since the year 2000, the Russell 2000 P/E has traded at about a 6% premium to the larger cap Russell 1000, and the Russell Micro Cap Index has traded at about a 9% premium for the same period. As of August 31, the Russell 2000 and Russell Micro Cap are trading at a 27% and 30% P/E discount respectively to the Russell 1000. These deep discounts relative to their longer-term values suggest that small and micro cap companies offer an attractive relative value to their larger company counterparts while also providing an attractive universe of potential deal targets for M&A activity driven by both private equity players and larger growth-oriented public companies. This is further supported by an improving, albeit choppy economic outlook as the markets look forward into 2022.

Economic Backdrop

When looking at the economic outlook going forward it could be easy to focus on the negatives. Rising COVID cases, growing inflation concerns, and the prospect that pandemic era central bank stimulus may soon begin to wind down have all hung over the markets for the past few months. In addition, many economists lowered their 4Q GDP growth forecast and have suggested that the US economy will likely have seen its highest growth pace in the post-pandemic era during 2Q21.

August ended with news that Consumer Confidence has now dropped sharply as the Conference Board's latest survey index fell to 113.8 from a near-record 125.1 a month ago. Rising cases of the virus and ensuing measures to curb its spread appear to be driving the subdued consumer confidence and the slower growth expectations for the current quarter. But while the data (both hard and soft) are showing some erosion, markets appear to remain focused on the monetary and fiscal stimulus as an antidote for the economy's struggles. So, at least for now, both monetary and fiscal stimulus appears to be in place to offset the virus-driven slowdown, and investors continue to be focused on the here and now.

While the macroeconomic environment appears to have slowed somewhat, it still remains active at a relatively robust level. In looking at the 2Q earnings data, we saw no evidence of a corporate profit slowdown in the results. In fact, 2Q21 earnings results delivered the highest number of EPS and sales beats since at least 1998 according to S&P. As of August 31, 78% of the S&P 500 beat consensus earnings by more than a standard deviation of analyst estimates and 66% beat consensus sales compared with historical averages. This strength was also reflected in the results of small and micro cap companies. Putting the macro headwinds aside, management teams generally seem to be expecting corporate earnings to remain strong through the end of the year. This provides a solid ramp into the transition from 2021 earnings into the 2022 earnings outlook where supply chain disruptions are expected to subside, and materials shortages should begin to ease as global economic activity continues to move toward a more normalized environment. In the aggregate, this sets up a salubrious environment for continued strength in corporate earnings.

Portfolio Review

Given the continued strong and variable moves of many of our micro cap names, we were more active than normal across our portfolios. During the year we have trimmed numerous positions that had grown to outsized weightings within the portfolio. Among them were Arrowhead Pharmaceuticals (ARWR), NeoGenomics (NEO), and Seelos Therapeutics (SEEL), all of which in hindsight were good trades. We also trimmed positions in Sunrun (RUN), Chromadex (CDXC) and OnTrak (OTRK), before ultimately selling OTRK, all of which appear to have been timely in the capturing of alpha. We added the proceeds from those adjustments to existing positions including Caesarstone (CSTE) and Vishay Precision Group (VPG). We also initiated positions in several new names and a small basket of specialty financial companies (CTBI, FFIC, NBN, and SFST) all of which we believe will benefit from increasing business activity, improving portfolio credit, and the steepening yield curve.

Conclusion

As we move into 4Q and turn our attention to 2022, the environment seems to remain positive for small and micro cap stocks. We expect the robust M&A environment to continue strongly into the end of the year as record levels of deal activity continue to be driven by favorable liquidity (both equity and debt) and the desire to fuel strategic growth at the corporate level. The economic backdrop may be a bit more challenging as compared to the first half of 2021, but the overall level of activity remains solid, and the support of the central banks seems to be the palliative on which the market is focused. Add to these factors the compelling relative value of small and micro cap companies in the aggregate when compared to their larger-cap alternatives, and we believe the supporting trends remain strong for small and micro cap companies to do well as we roll into 2022.

Rick Imperiale
Chief Investment Officer
August 31, 2021

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 Microcap 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 strategy principally invests in Micro Cap stocks, including those companies that show growth. Uniplan typically views companies, at time of investment, to be considered a micro capitalization company if the market capitalization falls below the larger of \$500 million or the market capitalization of the largest company in the Russell Microcap Index. 8. 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, 2021 is 20.89% for the composite and 26.86% for the Wilshire Micro Cap Index. 9. 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. 10. There have been no changes in the personnel responsible for the management of this composite. 11. 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. 12. Uniplan Investment Counsel does not claim GIPS Compliance. The performance has been verified by an independent source as of 1/01/2006 – 12/31/2020. Individual account performance may vary from the results shown because of differences in inception date, restrictions and other factors. 13. 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. 14. 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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