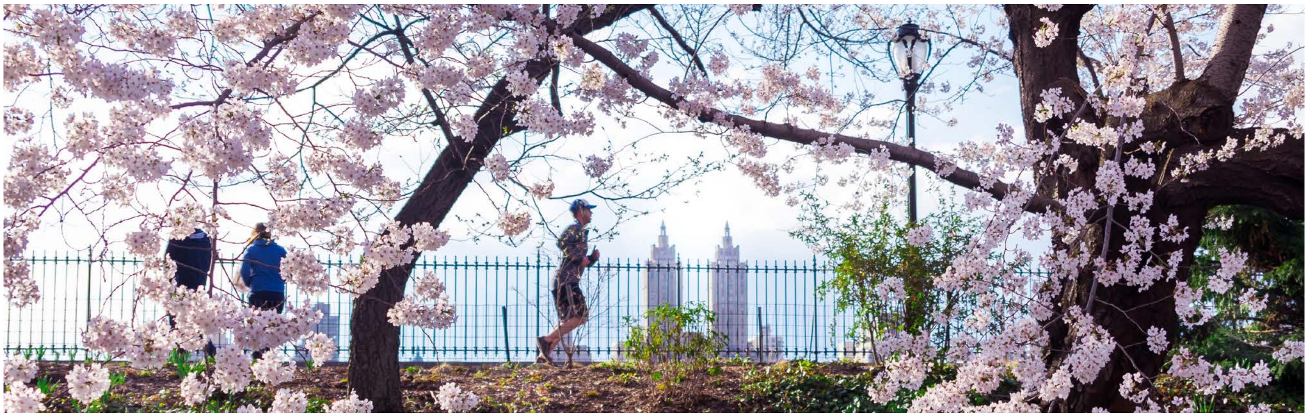
VALUEWORKS
QUALITY ASSETS COMPELLING VALUATIONS

VOLUME 20,1 FIRST QUARTER 2022



Our portfolio continued to generate meaningful gains through the first quarter despite a harsh broad-market sell-off. For the quarter, the Nasdaq lost over 9%, the S&P 5%, and the Dow lost 4%. Few investors are generating these types of returns. More important, our gains from two years ago, when many other investors were fleeing to the safety of cash, provide a solid base to build upon.

The broad exposure we built in the energy sector during the early-pandemic-days drove the bulk of this outperformance. While the advance on those names was typically in the 25-75% range in the quarter, the combination of a starting place of unrealistically low valuations, and the critically changed outlook for energy prices, suggests we have considerable downside protection despite the recent run, and still compelling upside from today's higher absolute levels. Beyond those names, the rest of our portfolio appears to us increasingly well priced and attractively positioned. There are a myriad of well-valued and diverse names in the portfolio that are arguably better positioned to generate gains today than they were when this advance started two years ago. While we will inevitably go through a few months or quarters where performance reverses, we consider the outlook for today's portfolio to be particularly attractive looking out over a timeline of 1 to 3 years.

The major cross-currents that are buffeting the markets on a daily basis are, understandably, creating very significant near-term volatility. Coming into the first quarter, investors were trying to position for: a very hot economy growing powerfully, ramping higher inflation and commodity prices that came with it, tight-end markets and global supply constraints, two years of a pandemic that appeared to be finally exhausting itself, offset by the prospect of higher interest rates and a major rotation with stock groups. When Russia invaded Ukraine this set-off a geopolitical maelstrom. Oil went from negative two years ago to $130 per barrel. Those cross-currents trigger volatility.

As investors, our take is that the central theme to focus on amidst all these gyrations is the prospect for economic growth in the next 3-9 months and the outlook beyond. Our take is that that prospect is pretty good. Even as the Fed starts tightening, real interest rates are highly likely to be negative for at least another year (more likely three to five years). That is stimulative. The pandemic fiscal stimulus is still finding its way into the economy. Individual and corporate balance sheets are healthy and both sectors have full wish-lists of where they want to spend those resources (the booming housing sector is just one area where we are seeing the impact of a very healthy consumer balance sheet). And we are just coming to the collective reflection that inflation means that holding cash translates into earning negative real returns.

Then there is Russia and war, which as just one element of all this uncertainty is itself so discombobulating. Even the first step of turning one's focus from the gruesome, terrible reality of what is happening to so many human beings that were just going about living their lives, to assessing likely outcomes and their impact on our portfolios, is a confusing emotional turn. As for the next step of gaming the likely scenarios between unending war or partitioning the country, etc., I am going to take a pass. I add nothing in terms of expertise. (I do hope though that we discover Western technology is light-years ahead of what is developed by a 144 million-population, somewhat isolated, autocratic, stagnant, commodity-oriented Russian economy; and that sophisticated technology makes all the difference when fighting wars. But we really just don't know.)

As for the impact we are seeing so far, if we slowed down our spending for a month or two and pulled back our stock exposure in the first quarter as we were asking ourselves how confident we were that a nuclear weapon would not be set off, that makes sense to us. I think it has been a while since we asked ourselves if we were 99% or 80% sure a nuclear weapon would not go off in the next month. But I would not read much into that slow-down past the current quarter. My sense is that shocks like that tend to be very transient.

One impact that I do expect to have legs, is that commodity prices broadly -- and energy in particular -- are likely to stay elevated for at least the next year or so as a result of this conflict. The only way sanctions are going away anytime soon is if Russia miraculously returns to a Glasnost moment, and democracy breaks out in Moscow. And even if that happens, we will be so giddy, everything will go up as exuberance reins and we cash in on a huge peace dividend.

This adds one more leg to our positive economic outlook. The energy sector is a big economic swing factor. Two years ago when energy prices collapsed, employment and incomes in that space also collapsed. I see that reversing powerfully in the year ahead. And it is not in today's numbers. These companies are just starting to react. One important difference in the markets today is that single decision investing is not working. That approach – identifying companies with enticing long-term potential and owning them at any price – generally speaking worked extremely well from 2016 through 2020, effectively stalled through most of 2021, and then melted down over the past six months.

### TOP 10 HOLDINGS

1. Whiting Petroleum
2. United Natural Foods Inc.
3. Cheniere Energy Inc.
4. Qualcomm Inc.
5. Star Bulk Carriers Corp.
6. Mesabi Trust
7. MBIA Inc.
8. Apple Inc.
9. Air Lease Corporation
10. Goldman Sachs Group Inc.

—As of 3/31/22—

*see notes on pg 4 for additional details

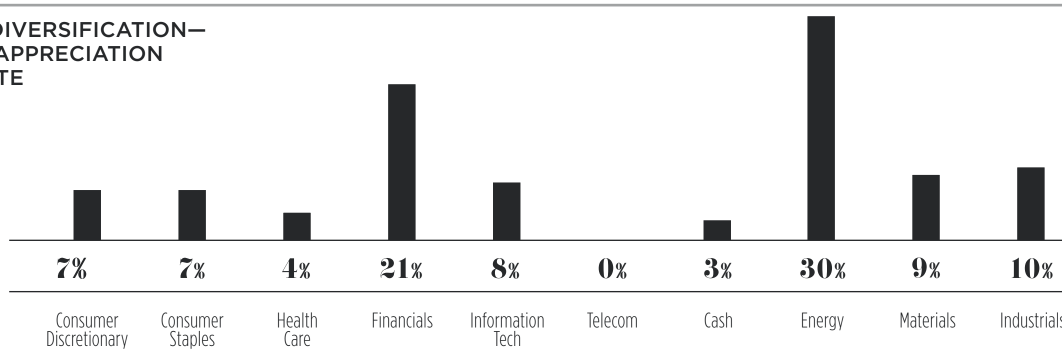
That style of investing was clearly the driver that provided investor returns for most of the past five years.

Given the damage in those previously high-flying names, we expect the next phase of market leadership to come from elsewhere. There are a number of sectors and groups -- including energy, financials, health care, consumer products, etc., that could credibly provide that leadership. We have diverse exposure to many of those areas that may well provide market leadership over the next year or two.

But beyond that period, we would expect that ultimately, very richly priced, exciting companies that engender massive investor enthusiasm will, like they did 20 years ago, carry the markets to a frothy and over-extended market top. In a positive scenario, that should be quite a few years ahead of us. Expecting that, we continue to stock the portfolio with names that are well priced, but that could potentially generate that sort of investor enthusiasm as perceptions change. Surely, we had something like that experience in the energy space over the last two years. We have built diverse exposure in many other specific names and sectors where we anticipate a similar sort of re-valuation could occur and will remain focused on building on that exposure as opportunities develop.

-Charles Lemonides, CFA

### SECTOR DIVERSIFICATION—CAPITAL APPRECIATION COMPOSITE




## DEFINING OUR PHILOSOPHY

At ValueWorks we define value investing as buying the best-quality assets at the best possible prices. We like to think of ourselves as bargain hunters: it is our goal to pay only $0.50 to $0.75 for $1.00 worth of assets. We evaluate the component parts of a company, assigning each of its assets a dollar value that, when added together, comprises the underlying value of the company; if this is higher than the company's stock price, we consider it an investment opportunity.

## OUR PORTFOLIO STRUCTURE

We believe risk can be better contained through educated security selection than through over-diversification. Consequently, our position sizes range between 3 – 5 % of the overall portfolio value. Fully invested portfolios tend to hold 25 – 35 individual investments.

We enter investments that we view as 25 – 50% undervalued and sell them when we see them as fairly priced. Our anticipated holding period tends to be one to two years which results in only modest portfolio turnover.

Because our decisions are based on research and sound fundamentals we view depressed price action on our securities as buying opportunities rather than sell signals.

We use senior debt and preferred instruments—offerings that can be easily misunderstood by traditional equity or fixed income investors—to gain equity type returns on safer vehicles.

## OUR CLIENT SERVICES

ValueWorks provides independent investment management on an individual account basis. Our clients receive the benefits of owning securities directly, coupled with the advantages of having a dedicated portfolio manager.

Working directly with your financial consultant, we evaluate your investment profile and build a plan designed to meet your specific goals. As a high-end investment alternative, you receive:

- Individual review of your portfolio requirements
- A separately tailored portfolio created and maintained to your investment objectives and risk tolerance
- Access to the Portfolio Manager on an ongoing basis with timely and responsive communication
- Flexibility to meet your changing tax requirements and investment needs
- Comprehensive quarterly performance reports.

Working within the framework of our value investment discipline, we build portfolios that cover a wide spectrum of risk-tolerance, from aggressive to much more conservative and income oriented.

## DEFINING OUR PROCESS

### 1 *Identification*

We monitor the financial markets to identify securities that match our investment criteria—focusing on opportunities that appear misunderstood by the general market.

### 2 *Appraisal*

First we identify the assets; then we appraise them. This allows us to determine the company's underlying value. We then decide whether the assets are of high quality and therefore likely to appreciate over time.

### 3 *Assessment*

Here we assess any claims against a company's assets; we then compare the market price of the claims to the company's underlying value. If a particular security trades at a discount, we identify factors that could eliminate the valuation gap and increase its price. We then make a decision on the purchase of the security.

### 4 *Re-Evaluation*

We continuously monitor our positions to determine if our original investment thesis still applies, taking necessary action to optimize our portfolio.

### 5 *Exit*

We exit a position when a security either reaches full valuation or changes in its outlook invalidate part of our original thesis.

## *Objective*

Our objective is uncomplicated, but achieving it requires a high level of research, expertise, discipline and independent judgment. By applying this framework consistently we remove emotion from the investment decision making process, enabling us to capitalize on inefficiencies built into the market.

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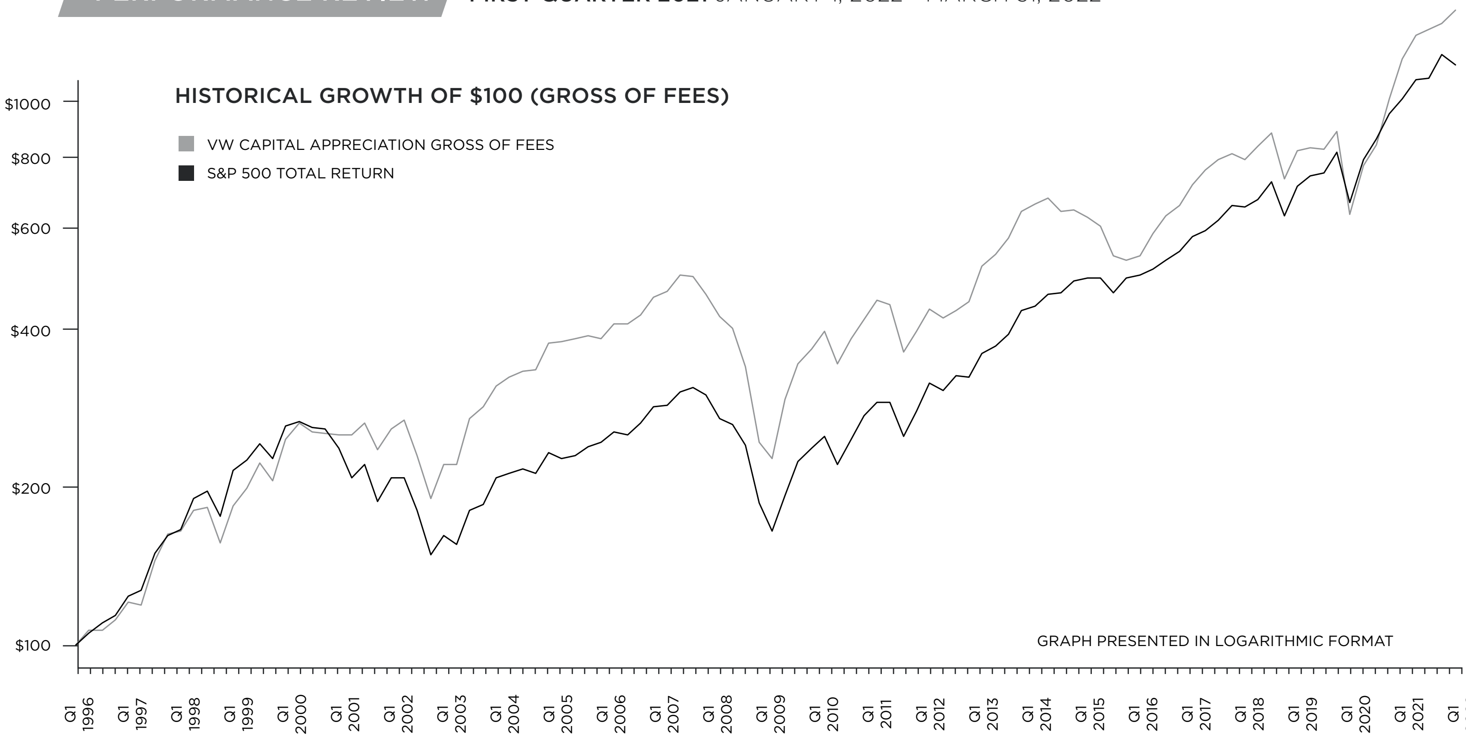
## PERFORMANCE REVIEW

**FIRST QUARTER 2021** JANUARY 1, 2022 - MARCH 31, 2022




## TRAILING PERFORMANCE DATA

### VALUEWORKS' CAPITAL APPRECIATION COMPOSITE

| | GROSS OF FEES | NET OF FEES | S&P 500 TR |
|---|---|---|---|
| **2022 Q1** | 5.84 | 5.51 | -4.59 |
| **2022 YTD** | 5.82 | 5.51 | -4.59 |
| **1 year** | 22.66 | 21.23 | 15.66 |
| **3 years** | 21.97 | 20.58 | 18.81 |
| **5 years** | 15.96 | 14.64 | 15.86 |
| **10 years** | 13.60 | 12.26 | 14.58 |
| **Life*** | 10.88 | 9.35 | 9.90 |

*Life is 26.25 years (inception 1/1/1996)

### VALUEWORKS' BALANCED COMPOSITE

| | GROSS OF FEES | NET OF FEES | BLENDED INDEX* |
|---|---|---|---|
| **2022 Q1** | 5.68 | 5.33 | -5.35 |
| **2022 YTD** | 5.68 | 5.33 | -5.35 |
| **1 year** | 21.61 | 20.20 | 5.51 |
| **3 years** | 23.58 | 22.09 | 10.55 |
| **5 years** | 16.11 | 14.65 | 9.31 |
| **10 years** | 13.22 | 11.72 | 8.48 |
| **Life*** | 11.23 | 9.57 | 7.67 |

**PAST PERFORMANCE MAY NOT BE INDICATIVE OF FUTURE RESULTS.**

This Newsletter is intended to be presented with the Capital Appreciation Fact Sheet which contains additional disclosure information.

The above benchmark indices are unmanaged indices. The benchmark performance numbers reflect the reinvestment of dividends and interest but do not reflect the deduction of any fees or expenses. ValueWorks' value investing style is not limited to the securities in any of the above indices and utilizes specific investment techniques which are not utilized in the above indices and which may or may not increase volatility. Returns include all dividends, interest, accrued interest and other cash flows received as they may result from the implementation of a particular investment strategy. Trade date accounting has been used. Results for the full period are time weighted. Accounts are included in composite at the start of the first full period under management. From 1996—Q1 1998 exiting accounts are included through the period in which they left. Starting in Q2 1998 exiting accounts are included through the last full period under management. Results were generated at other firms prior to 9/30/01. Information on other composites is available on request. Investments in this strategy may lose value.
**This material is approved for client use.**

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