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Signal From Noise

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Despite Gyrating Markets, This Manager Returned 40% in '19

Signal from Noise Question & Answer articles are published occasionally as we run across investment themes and stock ideas relevant to subscribers. It's our intention to familiarize you, if briefly, with the views of successful investment managers or analysts, some you might have read about, but, more importantly perhaps, some you might not have.

This week's Q&A was conducted recently with Marshall Kaplan, Senior Vice President at Ingalls & Snyder, an NYC-based investment advisor and broker dealer with $4 billion in AUM. He has 39 years of investment industry experience and leads the Fundamental Equity Advisors (FEA), an investment management team formed in October 2010 at Morgan Stanley. FEA joined Ingalls & Snyder in 2018. Marshall joined Smith Barney in 1983 as a Portfolio Analyst, where he created and managed that firm's Equity High Net Worth and Portfolio Management programs and served on its Global Investment Committee and Global Portfolio Committee.

Please describe briefly the history of FEA.

The Ingalls & Snyder (FEA) team consists of lead portfolio manager Marshall Kaplan, Rochelle Wagenheim and Michael Nelson. Prior to our tenure at Morgan Stanley, FEA managed model portfolios at Citigroup from 2002 through September 2010.

What has been your performance this year vs. peers and the market?

For 2019 the Ingalls & Snyder Fundamental Equity Advisors All-Cap portfolio was up 40.47% gross of fees, +38.75% net, versus the Russell 3000's return of 31.02%. The Ingalls & Snyder FEA SMID Core portfolio increased by 36.82% gross of fees, +35.24% net, versus the Russell 2500's return of 27.77%. Through 3Q 2020, the All-Cap strategy has gained 5.96% gross of fees, +5.0% net, versus 5.41% for the benchmark. The weak performance of Small/Mid-Cap stocks has caused our SMID strategy to decline by 6.54% gross of fees, -7.37% net, versus a drop of 5.82% for the benchmark. Over the last three years, gross of fees, our All-Cap strategy is up 11.24%, +10% net, and our SMID strategy has advanced by 5.79%, +4.6% net, on an annualized basis. Smaller capitalization issues have underperformed their larger cap brethren over this period.

What are the main contributors to that 2019 performance?

In recent years, particularly in 2019, we've had success in the Information Technology and Healthcare sectors. For example, in Healthcare, critically important products and services offered by life science and diagnostic companies have recorded impressive organic growth. In the IT sector, we've had strong interest and success in the Payments & Processing space. Software and service companies also had stellar performance last year. From time to time, we discover "special situations" that meet our investment criteria, and last year a manufacturer/seller of mechanical and electronic security products and solutions helped our performance.

Describe briefly the fund's investment stock picking thesis?

We use a bottom-up fundamental approach focusing on risk management and capital preservation. We seek to identify undervalued equities by focusing on companies possessing strong or positively inflecting free cash flow, attractive valuations,

For important disclosures see Page 3.

Pictured: Marshall Kaplan

changing internal dynamics, potential for expanding profit margins, market share growth opportunities, and strong management. We analyze a company's financial flexibility, earnings quality, valuation, business model and competitive position. Broader industry trends, relative growth, and investor sentiment are also evaluated. We utilize an independent forensic accounting firm to evaluate a company's earnings quality and validate the team's internal analysis. Each FEA team member brings unique industry experience and skills to the process, while leveraging a common, time-tested approach to investing. We're all generalists, and potential investments are analyzed by all team members. Our team is unconstrained by style boxes and ideas may come from a variety of resources including industry conferences, contacts, proprietary screens, Street research, management calls, etc. Investor sentiment also plays an important role in our overall process.

How does this method distinguish itself from conventional methods?

We employ a multi-faceted approach to managing risk. Our intense focus on risk management utilizes a premier independent forensic accounting firm as well as the use of a partial-position strategy. This sets us apart from other managers. In addition, the close monitoring of individual securities and sectors (and weightings), and liquidity management all help support our goal of creating an "all-weather" portfolio. Each member of the team is personally invested in our strategies, ensuring that we are aligned with our clients' interests

How about a few stock picks?

Vertiv Holdings (VRT) is a structural winner, we think. It is a global leader in design, manufacturing, and servicing of critical digital infrastructure that cools and maintains electronics that process, store, and transmit data. We view Vertiv as a mission-critical partner to data centers, communication networks, and commercial & industrial companies worldwide. Our outlook is driven by the secular uptrend in global data usage, a sticky customer base (switching costs are high) and material margin expansion potential. We like the company's recurring revenue stream, more than 60% of sales, and strong management team. At approximately 15x consensus estimates of $1.15 a share for 2021, the shares trade at a modest P/E to Growth (PEG) ratio of 0.34.

Evercore Inc. (EVR) has been a core holding for several years. The company is an independent investment bank with 80% of revenue from Merger & Acquisitions advisory fees and the remainder from Investment Management. We believe the stock will benefit from stronger M&A activity next year, driven by economic recovery and strong demand for restructuring activity. We view the shares as attractively valued, and the recent dividend hike gives us increased conviction that business trends are poised to improve. The shares trade at only 11x consensus 2021 EPS estimates of $7.23.

Teleflex (TFX) is another core holding for us. The company develops, manufactures, and supplies single-use medical devices. Teleflex has consistently delivered impressive organic growth, maintains strong cost controls, and has a healthy balance sheet. Management has a strong track record of making accretive acquisitions while also divesting lower growth businesses, driving a favorable mix shift in margins. We believe growth prospects for the company's Urolift and Vascular Solutions businesses remain compelling and expect upside to current estimates. In our view, Teleflex represents an attractive candidate for a larger medtech company. With forecast growth of 22% and 17%, respectively, for 2021 and 2022, the shares trade at 24.7x consensus 2021 estimates, a slight discount to its historical median.

Disclosure: Any FEA opinions expressed in this material are only current opinions and while the information contained is believed to be reliable there is no representation that

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Prior "Signals"

Date	Topic	Subject / Ticker	The Signal
10/21/20	Stock	10-K Filings Part 3	Other Voices: Why Reading 10-K Filings Is Crucial; Part 3
8/19/20	Stock	10-K Filings Part 2	Other Voices: Why Reading 10-K Filings Is Crucial; Part 2
8/6/20	Stock	Truist Financial **(TFC)**	Never Heard of Truist? This Bank Stock Could Rise Up to 30%
7/29/20	Stock	Weight Watchers **(WW)**	Weight Watchers Can Continue to Outperform Post COVID-19
7/22/20	Stock	Xilinx **(XLNX)**	If EPS Rises to Pre-Covid-19 Level, XLNX Could See Old Highs
7/15/20	Stock	Market Concentration	Narrow Mkt Rally Fuels Worry; We Expect Cyclicals To Join
7/8/20	Stock	SEC Filings	Other Voices: Why Reading 10-K Filings Is Crucial; Part 1
7/1/20	Stock	Simply Good Foods **(SMPL)**	Post-COVID-19, Simply Good Foods Stock Looks Appetizing
6/24/20	Stock	Lam Research, Applied Materials	Lam Research, Applied Materials Set to Reap IoT Harvest
6/17/20	Stock	Nordic Semiconductor **(Nod.NO)**	Continued IoT Growth Good News for Nordic Semiconductor
6/10/20	Stock	Helmerich & Payne **(HP)**	Helmerich & Payne Stock Could Energize Your Portfolio
6/3/20	Options	Van Hulzen Asset Management	For Income Seekers, Why Covered Calls Top Junk Bond ETFs
5/27/20	Stock	JP Morgan Chase **(JPM)**	Why JPMorgan Chase Belongs in Portfolios Post-COVID-19

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