

4Q23 Market Update - Network Value Small

- Gradually slowing inflation, steady short-term rates and less aggressive FOMC commentary revived hopes of monetary easing. After peaking near 5%, **Ten-year Treasury yields were rapidly pushed under 3.9%**. Beloved large Growth stocks were lifted, but Real Estate and Financials also responded strongly and small cap Value stocks outperformed, while defensive sectors trailed. The Russell 1000 Growth led Value by 4.7%, but Value led by 2.5% in the small cap 2000 in Q4. For 2023, Growth outperformed by 31% among large caps but just 4% in small, and sector dispersion was very wide. Technology, Communications and Discretionary gained over 50% as a group, while Energy, Utilities, Health Care and Staples were flat.
- Denali's **Network Value Small** composite gained 19.30% in Q4 gross of fees (19.02% net), as the Russell 2000 Value Index gained 15.26%, for 4.04% gross excess return. **For the year 2023, the strategy returned 28.20% gross (26.94% net), against 14.65% for the benchmark, outperforming by 13.55%.**
- Unlike Q3, the relationship of returns to earnings this quarter was disorderly. Benchmark stocks in the quintile with the highest profits for the past year relative to price performed level with the benchmark, while the quintile with the largest losses did best, gaining 20%. Our position favoring stocks in higher E/P quintiles was neutral in effect on return.
- Our Network Value Index*, focused on stocks with both higher earnings and lower liquidity, led the benchmark by 1.7% in Q4, about 40% of our excess, and beat the core Russell 2000 by 2.9%. For 2023 the NV Index outperformed by 5.5%
- Consistent with this, the stock-level Network Value forecast had good predictive performance within small caps in Q4. Intrinsic Value forecast results were slightly negative, and Detailed Estimates model performance slightly positive. Characteristics Trend results were again neutral, as relative factor returns haven't built momentum in recent periods.
- Linear attribution finds our higher **Cash Flow/Price had by far the most positive impact in Q4**, followed by higher S/P and exposure to dividend payers. Higher reported E/P was the worst detractor, but forecast E/P was modestly positive. Higher ROE and momentum were beneficial. **Higher CF/P was also the most positive for the year, followed by forecast E/P, while reported E/P was most negative.** Higher Sales/Assets, ROE, S/P and B/P were beneficial; low beta detracted.
- Sector allocation contributed about 100 bp, mainly from favoring Financials over Energy and Utilities. Selection within sectors was very strong in Consumer Discretionary (homebuilding), Real Estate (services), Communications (media), Industrials (transport) and Technology. Selection detracted in Financials (underweight banks & thrifts) and Staples (personal care). Allocation generated 2.3% in 2023, largely from favoring Discretionary over Health Care and Utilities.

Denali Network Value Small GIPS Composite Report

Denali Advisors, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Denali Advisors has been independently verified for the periods April 1, 2007, through June 30, 2023. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. The Denali Network Value Mid composite has had a performance examination for the periods January 1, 2007, through June 30, 2021. The Denali Network Value Small composite has had a performance examination for the periods June 30, 2021, through June 30, 2023. The performance examination reports are available upon request. Denali is an independent registered investment advisor. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Denali was established in 2001 and manages equity and alternative assets for primarily institutional clients. The U.S. dollar is the currency used to express performance. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. The 3-year standard deviation is calculated using composite gross returns. Leverage is not used. Additional information regarding Denali's policies and procedures for valuing portfolios, calculating performance and preparing GIPS Reports available upon request. The firm's list of composite and pooled fund descriptions is available upon request. Please contact Stephanie Neruda at stephanie@DenaliAdvisors.com. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

Denali Network Value Small: Composite consists of fully discretionary small cap portfolios. Results are compared against the Russell 2000 Value and intend to outperform that benchmark while maintaining similar sector, industry and security characteristics. The Denali Network Value Small Composite inception and creation date is June 1, 2013. The NV Small portfolio construction is based on the analysis of earnings, liquidity and other characteristics of selected companies from the Russell 2000 index. Returns are time-weighted and include the reinvestment of all income. Gross returns are reduced by transaction costs. Net returns are further reduced by management fees. Net returns are calculated by reducing 1/12th of the annual model fee of 1% from gross returns on a monthly basis. The fee schedule for this product is 1.00% on all fund assets under management. Client returns will be reduced by advisory and other expenses the client may incur. There is a marketing minimum of \$1 million. Past performance is not indicative of future results.

Denali Network Value Small	Returns as of 12/31/23, Annualized			
	YTD	1 Year	5 Year	10 Year
Gross Returns	28.20%	28.20%	14.73%	10.43%
Net Returns	26.94%	26.94%	13.60%	9.34%
Composite Benchmark	14.65%	14.65%	10.00%	6.76%

Denali Network Value Small		Composite Assets		Annual Performance Results				3-Year Ann. St. Deviation*	
Year End	Total Firm Assets (millions)	US Dollars (Millions)	Accounts in composite	Composite		Russell 2000 Value	Composite Dispersion	Composite	Benchmark
				Gross	Net				
2023	1,482	301	Five or Fewer	28.20%	26.94%	14.65%	N.A.	22.17%	22.06%
2022	410	262	Five or Fewer	-10.38%	-11.28%	-14.48%	N.A.	27.49%	27.66%
2021	426	227	Five or Fewer	34.70%	33.39%	28.27%	N.A.	25.50%	25.35%
2020	729	197	Five or Fewer	3.58%	2.55%	4.63%	N.A.	25.65%	26.49%
2019	1,338	116	Five or Fewer	24.01%	22.79%	22.39%	N.A.	15.16%	15.90%
2018	1,401	Less than a million	Five or Fewer	-5.89%	-6.84%	-12.86%	N.A.	14.93%	15.98%
2017	1,311	Less than a million	Five or Fewer	5.83%	4.78%	7.84%	N.A.	14.67%	14.17%
2016	762	Less than a million	Five or Fewer	28.85%	27.59%	31.74%	N.A.	15.48%	15.72%
2015	476	Less than a million	Five or fewer	-2.58%	-3.56%	-7.47%	N.A.	N.A.	N.A.
2014	357	Less than a million	Five or Fewer	8.53%	7.46%	4.22%	N.A.	N.A.	N.A.
6/01/2013 -12/31/2013	323	Less than a million	Five or Fewer	24.60%	23.90%	17.12%	N.A.	N.A.	N.A.

*3-Year Annualized Standard Deviation and Composite Dispersion is calculated using gross of fees returns. N.A. means an insufficient number of portfolios or insufficient number of periods.

Network Value Small Index: The results presented reflect research returns of a historical simulation of the construction process for the Denali Network Value Large index beginning at the end of December 1994 and tested through April 2013, combined with the results of index portfolios constructed contemporaneously each month from May 2013 through the most recent month-end. Index portfolios were rebalanced as of the end of each month of the historical period using historical data available at the time as input to Denali's proprietary Network Value index construction process. The security selection universe was the membership of the Russell 2000 index, which is meant to represent the investable small cap stock universe in the United States. Data used in the historical simulation was sourced from Compustat, and the Barra U.S. Equity model was used for performance calculation. Real time performance presented for periods since May 2013 is without the benefit of hindsight in model development. This Index is not offered as an investment vehicle and like all indexes is not directly investable; the returns do not account for any transaction costs of rebalancing.

The attribution analysis is based on a comparison between the Network Value Small holdings and the benchmark Russell 2000 Value index.