FPA Queens Road Small Cap Value Fund

The inception to date performance for the Fund of 7.99%, and the Russell 2000 Value Index of 6.33%, mentioned in the article is for the period June 13, 2002 through April 30, 2020.

You should consider the Fund's investment objectives, risks, and charges and expenses carefully before you invest.

The Prospectus details the Fund's objective and policies, charges, and other matters of interest to a prospective investor. Please read the Prospectus carefully before investing. The Prospectus may be obtained by visiting the website at www.fpa.com, by email at crm@fpa.com, by calling toll-free at 1-800-982-4372, or by contacting the Fund in writing.

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Please click here for most recent Standardized Performance for FPA QRSCV.
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Effective November 1, 2020, as approved by the shareholders of each series of Bragg Capital Trust ("Bragg Trust"), including the Fund: (i) FPA became the investment adviser to the Fund; (ii) Bragg Financial Advisors, Inc. ("BFA" or "Sub-Adviser"), the former investment adviser to the Fund, transitioned to serving as the sub-adviser to the Fund pursuant to a subadvisory agreement by and among FPA, BFA and the Bragg Trust. BFA continues to be responsible for the day-to-day management of the Fund, subject to FPA's oversight; and (iii) each of the current Trustees of the Fund were elected by shareholders of the Bragg Trust to serve as the Board of Trustees of the Bragg Trust, replacing the previous Board of Trustees of the Bragg Trust in its entirety. No changes to the Fund's principal investment strategies were made in connection with these changes in management of the Fund, and Steve Scruggs, CFA, Director of Research and Senior Portfolio Manager for BFA, continues to serve as the portfolio manager for the Fund.

As of the most recent prospectus, the Fund's Total Annual Operating Expenses before reimbursement is 1.16% (Investor Class), 1.11% (Advisor Class), and 1.06% (Institutional Class). As of the most recent prospectus, First Pacific Advisors, LP, the Fund's Adviser, has contractually agreed to waive its management fees and to make payments to limit Fund expenses, until December 11, 2023 so that the total annual operating expenses (excluding interest, taxes, brokerage fees and commissions payable by the Fund in connection with the purchase or sale of portfolio securities, fees and expenses of other funds in which the Fund invests, and extraordinary expenses, including litigation expenses not incurred in the Fund's ordinary course of business) of the Fund do not exceed 1.04%, 0.99% and 0.89%, for Investor Class, Advisor Class, and Institutional Class shares, respectively. These fee waivers and expense reimbursements are subject to possible recoupment by the adviser from the Fund in future years (within the three years from the date when the amount is waived or reimbursed) if such recoupment can be achieved within the lesser of the foregoing expense limits or the then-current expense limits. The expense limit agreement may be terminated only by the Fund's Board of Trustees, upon written notice to the adviser.

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Small Capitalization Companies: The FPA Queens Road Small Cap Value Fund primarily invests in securities of small-capitalization companies, defined as those with market capitalization less than the largest company in the Russell 2000 Value Index. Investing in small companies involves special risks including, but not limited to, the following: smaller companies typically have more risk and their company stock prices are more volatile than that of large companies; their securities may be less liquid and may be thinly traded which makes it more difficult to dispose of them at prevailing market prices; these companies may be more adversely affected by poor economic or market conditions; they may have limited product lines, limited access to financial resources, and may be dependent on a limited management group; and small cap stocks may fluctuate independently of large cap stocks. All investment decisions are made at the discretion of the Portfolio Manager, in accordance with the then current Prospectus. Comparison to any index is for illustrative purposes only.

The prices of securities held by the Fund may decline in response to certain events taking place around the world, including those directly involving the companies whose securities are owned by the Fund. Securities in the Fund's portfolio may underperform due to inflation (or expectations for inflation), interest rates, global demand for particular products or resources, natural disasters, pandemics, epidemics, terrorism, regulatory events and governmental or quasi-governmental actions. There is a risk that you may lose money by investing in the Fund.

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Index / Benchmark / Category Definitions
Indices are unmanaged and index returns do not reflect transactions costs (e.g., commissions), investment management fees or other fees and expenses that would reduce performance for an investor. It is not possible to invest directly in an index. Indices have limitations when used for comparative purposes because they may have volatility, credit, or other material characteristics that are different from the referenced fund. For example, the referenced fund may hold underlying securities that are not included in any index used for comparative purposes and FPA/BFA makes no representation that the referenced fund is comparable to any such index in composition or element of risk involved. Any comparisons herein of the investment performance of a referenced fund to an index are qualified as follows: (i) the volatility of such index may be materially different from that of the referenced fund; (ii) such index may employ different investment guidelines and criteria than the referenced fund and, therefore, holdings in such fund may differ significantly from holdings of the securities that comprise such index; and (iii) the performance of such index may not necessarily have been selected to represent an appropriate index to compare to the performance of the referenced fund, but rather, is disclosed to allow for comparison of the referenced fund's performance (or the performance of the assets held by such fund) to that of a well-known index. Indexes should not be

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Other Definitions

Dividend Yield is a financial ratio (dividend/price) that shows how much a company pays out in dividends each year relative to its stock price. The reciprocal of the dividend yield is the price/dividend ratio.

Forward Price-To-Earnings (Forward P/E) is a version of the ratio of price-to-earnings (P/E) that uses forecasted earnings for the P/E calculation. While the earnings used in this formula are just an estimate and not as reliable as current or historical earnings data, there is still benefit in estimated P/E analysis.

Free Cash Flow Yield is a financial solvency ratio that compares the free cash flow per share a company is expected to earn against its market value per share. The ratio is calculated by taking the free cash flow per share divided by the current share price.

Price/Earnings ratio (P/E) is the price of a stock divided by its earnings per share. P/E and average P/E reflect the trailing 12 months. P/E, next 12 months utilizes forward earnings expectations.

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Value Investor INSIGHT

The Leading Authority on Value Investing

Keeping It Simple

Disciplined value investors welcome the opportunity market volatility provides, says Steve Scruggs: "Over the past ten weeks we've had an awful lot to do."

INVESTOR INSIGHT

Steve Scruggs
Queens Road Funds

Investment Focus: Seeks out of favor but well managed and well financed companies that are in expanding industries with favorable economics for long-term growth.

A self-proclaimed "project guy," Steve Scruggs likes to build things. A few years ago it was a canoe. He fashioned a hunting knife from scratch. Then there was the stand-up paddleboard. "I like rolling up my sleeves and digging in to figure something out," he says.

While he doesn't have a side project at the moment – "I'm working from home with four teenage daughters, does that count?" – Scruggs' penchant for figuring things out has served him well as an investor. The Queens Road Small Cap Value Fund he's managed since inception in 2002 has earned a net annualized 8.0%, vs. 6.3% for the Russell 2000 Value Index. In today's roiling market he sees opportunity in such areas as footwear, apparel, industrial distribution, infrastructure and contract manufacturing.

Inside this Issue

FEATURES

Interview: Steve Scruggs
Going small to find bigger bargains in stocks such as MSC Industrial, G-III Apparel, Fabrinet, MasTec and Deckers Outdoor.

Interview: David Green
Taking cyclical risk for long-term reward and finding upside today in Evercore, TE Connectivity, General Electric and News Corp.

Strategy: Japan
In a market without the "FAANGs of the world," finding long-term opportunity nonetheless.

Uncovering Value: AMG
Have investors soured too much on the business of investing?

A Fresh Look: Grubhub
Timely updates on a much-in-the-news contrarian bet.

INVESTMENT HIGHLIGHTS

INVESTMENT SNAPSHOTS
Affiliated Managers Group
Deckers Outdoor
Evercore
Fabrinet
G-III Apparel
General Electric
Grubhub
Keyence
MasTec
MSC Industrial Direct
News Corp.
TE Connectivity

Other companies in this issue:
Anicom, Anthem, Goldman Sachs, Imax, Microsoft, Oracle, PepsiCo, Powell Industries, Royal Dutch Shell, Shimano, SoftBank, Tesla, TripAdvisor, Wells Fargo, Uber

Investor Insight: Steve Scruggs

Queens Road Funds' Steve Scruggs explains how this bear market has been very different from the last one, how he's been handicapping various in-the-crosshairs-of-the-pandemic ideas, how he's processing macroeconomic concerns, and why he sees unrecognized value in MSC Industrial Direct, G-III Apparel, Fabrinet, MasTec and Deckers Outdoor.

How "prepared" would say your flagship small-cap portfolio was for the market onslaught that hit it in March?

Steve Scruggs: I'd like to say that we were fully prepared because we saw this thing coming and predicted the virus panic and selloff. But we're not that smart and we're not very good at predicting things.

We were prepared in the sense that we do our homework and had a long watchlist of companies that we wanted to buy. We also had a lot of dry powder, not because we were predicting a decline, but simply because stocks looked expensive to us. The selloff gave us a chance to buy at much better prices.

It's probably helpful to explain our process, which we go through religiously to identify the companies whose stocks we think give us the best odds for maximizing after-tax returns while limiting volatility.

We start on the quantitative side, looking for companies with solid balance sheets, strong cash flow and serviceable levels of debt. We then look at valuation by normalizing economic earnings over a full market cycle to arrive at a discounted-cash-flow estimate of intrinsic value. It's a classic Graham & Dodd approach, looking for shares trading with a margin of safety.

On the qualitative side, we look at management's long-term record in defining effective strategies, taking measured risks, and executing against stated objectives. We put a lot of emphasis on clear and honest communication from leadership and a willingness to admit mistakes. Finally, we want to make sure that the companies we own are competing in industries that are growing, have favorable economics, and have rational competition.

We're very valuation focused and will let cash grow if we can't find investments that meet what we think are pretty strict criteria. That's where we were coming into this year, after what we consider a Fed-fueled rally in 2019 that left market valuations generally stretched relative to business fundamentals. Without finding enough to buy with a margin of safety adequate for the risk we were taking, our cash position at the end of 2019 was 16%. That got close to 20% earlier this year.

ON MARKET GYRATIONS:

The bear market this time around has been very different from 2008-2009 in terms of how far valuations fell.

Given our cash position and the conservative profile of the companies we tend to favor, the small-cap portfolio came through the worst of the downturn in relatively good shape. That's not at all to say we're happy with a 22% drawdown in the first quarter, but the Russell 2000 Value Index over the same period was down nearly 36%. That relative performance is pretty consistent with how we've done in other sharp corrections – in 2002-2003, 2007-2009, 2015-16 and in the fourth quarter of 2018 – which has been key to our outperformance in general over time. We're never making market calls, it's just a byproduct of the process we've been following for the last 18 years.

Describe where you focused your attention as the market started its descent.

SS: Volatility provides us with opportunity and we tried to take advantage of that. With existing holdings, we got quickly up to speed on what managements were saying and doing and ended up adding to some positions we really liked but had been underweight due to valuation concerns. We were going through our watch list as valuations came down, and ended up adding some new positions from there as well. We also continued to screen for new ideas and dove deeper on a few that we ended up adding to the portfolio. These tended to be smaller cap, sub-$300 million, where the lack of liquidity contributed to the share prices just being decimated.

How much cash did you get to work?

SS: We generally do things in a measured way – and in the middle of all this we also started getting some decent inflows – so we got cash down to about 10% before the market turned enough that we couldn't put more of it to work.

The bear market this time around has been very different from 2008-2009 in terms of how far valuations fell. Back then everything was cheap and it was like shooting fish in a barrel as the market priced in a pretty scary outlook. We didn't get anywhere near that this time. The smaller the companies, the harder it was to take a full position quickly. As they've bounced sharply off the bottom, we haven't gotten the chance to add to them.

Give an example of the type of small company in which you established a new position last quarter.

SS: Powell Industries [POWL], which makes equipment and systems for industrial electrical distribution and monitoring, is one. There's nothing sexy about it, but what they do is extremely important to their customers. There's good visibility from long-term contracts, and they've operated profitably for a long time. The company is going to make it, but because it's small – the market cap today is around $315 million – and underfollowed, we thought the share price was overly impacted when everything was selling off. Here we were fortunate to get in very close to the low and it's done very well since. [*Note*: Powell shares, at $49 at the beginning of the year, fell as low as $15.60 in March. They now trade at around $27.]

Do the uncertainties around the pandemic make it harder to normalize earnings?

SS: In some ways, yes. We try, though, to separate it feeling more difficult from it actually being more difficult. We always say that when things are really good they're probably not as good as they seem, and when things are really bad they're not as bad as they seem. Not to sound like a Pollyanna, but things usually just aren't as bad as they seem.

The businesses we want to own tend to stick to the thing they're good at, but are managed in a way to continuously improve on every aspect of what that is, from product, to distribution, to supply, whatever. There's a demonstrated track record of successfully evolving and adapting around core strengths. In normalizing earnings, the question whenever something causes the shares to appear undervalued is whether things are going to be fundamentally different on the other side or not. There are obviously some new twists to take into consideration when it comes to the pandemic, but the normalization process itself is much the same.

One company we looked at closely through all this was Imax [IMAX]. It no longer owns and operates most Imax theaters, but it digitally remasters films for the format and leases its proprietary equipment so they can be shown. With no one going to theaters we thought it might be a good contrarian bet on things returning to normal. But as we dug in not only did we find it particularly difficult to assess when and to what degree people are going to go back to the theaters, there's also a lot of uncertainty around how movie-production companies are rethinking their models with respect to new releases. Trying to arrive at what normal would look like here was just too difficult.

Out of curiosity we also looked at cruise lines, which we've never owned before and concluded we probably never would. The business model has huge operating leverage, which can be particularly problematic in times like these. We might be wrong on this – if things get back on track fairly quickly and the companies make it through, investors in this business can make a lot of money. But looking at it probabilistically, the risk/reward profile just didn't work for us.

ON CRUISE LINES:

We out of curiosity looked at them – we've never owned them before and concluded we probably never would.

We see you did establish a new position last quarter in TripAdvisor [TRIP], which is certainly in the crosshairs of the pandemic as well. Why did it pass muster?

SS: This is a company we'd looked at for quite a while and stepped that up as the shares were cut in half in February and March. It's a bigger and more profitable company than I think most people would expect, with an excellent business model built on providing user-generated reviews and travel content. They were already facing increased competition and then the coronavirus hit the entire travel industry. We expect TripAdvisor to be around and thrive again over the next three to five years as people's travel habits return more to normal. If we're right about that, the valuation got so attractive that we decided to take a position. The bright side of all the uncertainty about future prospects is that it often results in much cheaper valuations. That increases our margin for error. [*Note*: TRIP shares at recent $21.15 are up 55% from their 52-week low, but still down 55% from their 52-week high.]

Turning to another new addition to the portfolio last quarter, describe your investment thesis for distributor MSC Industrial Direct [MSM].

SS: We've also followed MSC for some time, which is based in Davidson, NC, about 15 miles from my house. They're in industrial-products distribution and inventory management, with a focus on customers with metal-working and maintenance, repair and overhaul operations. It's a large and fragmented addressable market, and the company has an extremely impressive track record of growth – revenues have grown at better than 10% per year since 1995 – driven by consistent expansion of the product line and sales force and by increasing spending per customer through value-added services.

There's nothing sexy about this business either, but MSC just does what it does very well. They document in a detailed way how they can lower customers' operating costs, and take advantage of their national scale and broad product selection to fulfill orders more quickly and completely. That's resulted in high customer satisfaction and retention, and should allow them to continue to take market share as large manufacturers increasingly look to consolidate spending with large distributors.

If you look at the company's financial performance over full market cycles, even though they're kind of pinned to industrial production and economic growth, they've done a fabulous job managing through that. In 2007, 2008 and 2009 they increased revenues, and profitability held up very well. They'll certainly take a hit due to the shutdown, but the overall diversification across industries is pretty broad and when we normalize we see no reason the business won't come all the way back. When the stock price got very cheap relative to that, we took advantage and added an overweight position.

The stock at around $70.60 is three-quarters of the way back from its March lows. How are you looking at valuation today?

SS: In our discounted-cash-flow analysis we're assuming long-term revenue growth of about 4% per year and a normalized operating margin of 10%. That growth is at the very low end of management guidance and the company is targeting 13.5%

margins. We're concerned that competitive pricing pressures in the spot-market business could bring the normalized margin down, but the company has several initiatives to improve margins, including a sales-force rationalization, pressing suppliers for improved rebate programs, and eliminating unproductive overhead. Success with those could provide upside to our assumptions.

Using a 10% discount rate, the shares today trade at right around our base-case intrinsic value estimate of $71. We'd want a higher discount than that to add new shares at this point, but the rate of return is still very attractive if the value grows as we expect.

Is the balance sheet at all an issue?

SS: We don't think so. On a $3.9 billion market cap, there's only $270 million in debt and the first significant maturity is three years out. The company could pay off all the debt with one year of our estimate of normalized free cash flow.

To us, this is a Warren Buffett-type business. When we look at management, we listen to what they say, but more importantly we look at the numbers to see what they do. The financial results at MSC speak for themselves – they do what they say and they've done it well over time. We wish there were more companies like this out there.

G-III Apparel [GIII] would seem to be an idea much more directly impacted by the current crisis.

SS: The shares had already been under pressure for some time due to broad concerns about the retail apparel industry and about tariffs on China-sourced inventory, but yes, the pandemic and the resulting impact on consumer spending have hit G-III particularly hard.

The company started more than 30 years ago with one product, a leather jacket, and today it sources and markets apparel and accessories for owned, licensed and private-label brands including DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld. Nearly 90% of the business is through wholesale channels – from Nordstrom, to Costco, to Amazon – and that share will increase as the company further winds down its money-losing retail division.

What they've been good at over time is partnering with well-known, mid-tier global brands to grow them profitably through expertise in design, sourcing and marketing. Last year, for example, they took over Calvin Klein's women's jean business in North America and have since announced plans to launch complementary denim lines under two of their other brands. Their knowledge of markets and the trends in those markets increases the value they add to both their brand and retail partners. In a disrupted retail marketplace, we think wholesale-focused businesses like this with the right brands are actually positioned to do well.

There's no doubt this year is going to be ugly operationally for the company, but it has responded quickly and aggressively to the sharp falloff in revenues. On March 31st, they furloughed 60% of the wholesale employees and sharply reduced executive compensation. They didn't provide specific details on expected cost sav-

INVESTMENT SNAPSHOT

MSC Industrial Direct
(NYSE: MSM)

Business: Distribution, primarily in the United States, of industrial equipment and supplies, including cutting tools, measuring instruments, fasteners and safety and janitorial supplies.

Share Information (@5/28/20):

Price	**70.64**
52-Week Range	44.93 – 79.87
Dividend Yield	4.2%
Market Cap	$3.92 billion

Financials (TTM):

Revenue	$3.32 billion
Operating Profit Margin	12.2%
Net Profit Margin	8.0%

Valuation Metrics
(@5/28/20):

	MSM	S&P 500
P/E (TTM)	13.5	25.6
Forward P/E (Est.)	14.4	23.1

Largest Institutional Owners
(@3/31/20 or latest filing):

Company	% Owned
Vanguard Group	10.4%
BlackRock	9.2%
American Century Inv Mgmt	5.8%
Yacktman Asset Mgmt	3.4%
NewSouth Capital Mgmt	3.3%

Short Interest (as of 5/15/20):

Shares Short/Float	4.0%

MSM PRICE HISTORY

THE BOTTOM LINE

Even though it is a "Warren Buffett-type business" that has consistently and profitably expanded its franchise for 25 years, the company's shares got inordinately cheap during the March bear market, says Steve Scruggs. Even after rebounding off its lows, he thinks from today's price the stock can still generate at least a 10% annual rate of return.

Sources: Company reports, other publicly available information

ings, but given that selling, general and administrative costs typically equal nearly one-quarter of normal revenues, the savings should be material.

You mentioned tariff concerns. How has the company responded to that?

SS: They've been diversifying their supply chain, and by the end of the year inventory sourced in China is expected to be around 50% of the total, down from 80% four years ago. They've also had some success in pushing suppliers and sellers for concessions to offset some of the tariff impacts. I wouldn't say the concerns have gone away, but the company is continuing to reduce its exposure to the problem of continued trade conflict with China.

The market certainly took no prisoners here as the stock fell 90% in ten weeks, to below $3 on March 18th. Now priced at around $11.20, what do you believe the shares are worth?

SS: In the end, we're confident that people will still want clothes from solid brands like those G-III sells. Free cash flow may be zero this year, but over the past five years it has averaged $80 million per year. That's pretty attractive for a company with a current market cap of $540 million. We have to watch closely what happens with receivables given the retail fallout, but we generally think the balance sheet is clean, with $200 million in net debt and no maturities for three years.

From there, it becomes a question of modeling it all out. We've tried to be conservative about expected inventory writeoffs and what the higher-than-normal levels of promotional spending and discounts will be. We assume only 2% long-term annual revenue growth, compared with 9% over the past five years. We assume normalized operating margins of 6%, which is at the high end of the narrow range of the past several years, but we think is appropriate given the operating and sourcing improvements the company has made. We also increased the required rate of return, using a discount rate of 12%. When we do all that, we arrive at an intrinsic value of around $14 per share.

This is a somewhat more aggressive position for us, but as you mentioned, the stock at the beginning of the year was at $34. We'd argue the visibility and the risk/reward in something like this is far better than in many of the other aggressive positions we could take out there.

Back to a longer-term holding, explain the potential you see today in Fabrinet [FN].

SS: Fabrinet, which was founded in 2000 by Seagate Technology co-founder Tom Mitchell and has been public since 2010, is a contract manufacturer of complex optical components. To describe its business, think about the path that your data travels as it moves from your desktop or phone to another computer or server. With the data traveling as bursts of light through fiber-optic cables, this path requires a complex system of transceivers, adapters, switches and controllers that can handle ever increasing volumes of data. Such components are what companies turn to Fabrinet for help in developing and manufacturing. Of the company's nearly $1.6 billion in 2019 revenue, roughly 75% came from

INVESTMENT SNAPSHOT

G-III Apparel
(Nasdaq: GIII)

Business: Sources, markets and distributes apparel and accessories for owned, licensed and private-label brands, including DKNY, Donna Karan, Calvin Klein and Tommy Hilfiger.

Share Information (@5/28/20):

Price	**11.18**
52-Week Range	2.96 – 34.42
Dividend Yield	0.0%
Market Cap	$537.2 million

Financials (TTM):

Revenue	$3.16 billion
Operating Profit Margin	7.8%
Net Profit Margin	4.5%

Valuation Metrics
(@5/28/20):

	GIII	S&P 500
P/E (TTM)	3.8	25.6
Forward P/E (Est.)	n/a	23.1

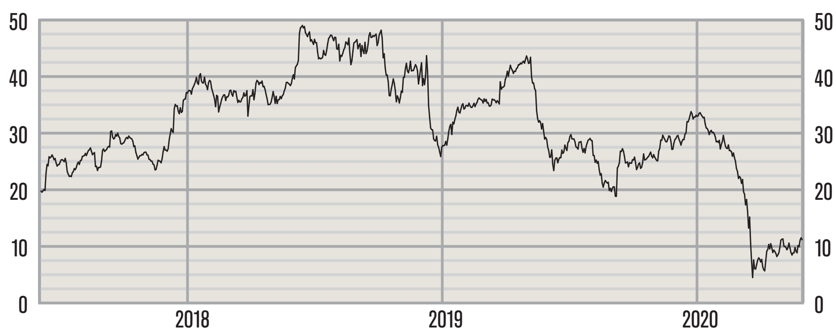
Largest Institutional Owners
(@3/31/20 or latest filing):

Company	% Owned
BlackRock	13.1%
Vanguard Group	9.4%
Dimensional Fund Adv	8.4%
Cramer Rosenthal McGlynn	5.3%
State Street	3.4%

Short Interest (as of 5/15/20):

Shares Short/Float	20.5%

GIII PRICE HISTORY



THE BOTTOM LINE

Steve Scruggs believes the company's well-known, mid-tier brands and wholesale-focused business model position it well in an evolving U.S. fashion-apparel marketplace. Using what he believes are highly conservative growth assumptions and a 12% required rate of return, he estimates the stock's current intrinsic value at around $14 per share.

Sources: Company reports, other publicly available information

optical communications, with the rest from contract work making mostly lasers and sensors for industrial applications.

Contract manufacturing is not a high-margin business – 10% operating margins for Fabrinet would be high – but the company has built strong and integrated relationships with customers who rely on its expertise to deliver reliable products at competitive prices. Its manufacturing base in Thailand gives it a cost advantage and has been a benefit as the trade issues between the U.S. and China have escalated.

The wind at the company's back today is the continued advancement of optical communications technology to keep up with explosive global demand for bandwidth. That requires heavy investment spending by companies to upgrade wireless networks from 4G to 5G and to build out data centers. To some extent that investment spending isn't brand new – it's just replacing spending on older technologies – but the overall market is still growing and we think the continual need to upgrade technology works to Fabrinet's advantage. Given its knowhow and market position, we think it will gain market share as companies look to implement new technology.

Even in today's difficult economic environment, you're not seeing customers say they're cutting back on things like network upgrades and investments. For example, Verizon recently reiterated its planned spending on 5G, and it's unlikely from a competitive standpoint that companies like it or the big data-center providers can substantially pull back. If anything, the current crisis has highlighted the importance of bandwidth capacity going forward.

After taking an initial hit, Fabrinet's shares have come back fairly well and currently trade at around $63.50. How attractive do you consider the stock at that level?

SS: As you can probably tell, we try to be conservative in our modeling around long-term revenue growth. Even though Fabrinet's revenues have grown by 14% annually over the last 5 years – fueled mostly by trends we expect to continue – we're assuming long-term annual top-line growth of 4%. For normalized operating margins we assume 7.5%, which is above the 6.8% average for the last 10 years, but consistent with the improvement the company has shown in recent years that we expect to continue.

Given the consistent margins and profitability, some recent large contract wins, and a strong balance sheet with $225 million of cash and only $62 million of debt, we use a 9% discount rate to come to an intrinsic value estimate of $64 per share. As the shares have come back the discount to estimated value is very thin, but we're happy to hold a stock like this with an implied rate of return close to 10%.

MasTec [MTZ] is a new position of yours with some energy-market exposure. How are you handicapping its prospects?

SS: MasTec is an infrastructure-construction company that builds things like cell towers, pipelines, wind farms and power lines. The primary end markets are oil and gas (43% of 2019's $7.2 billion in revenue), and communications (36% of sales), with the rest of the business primar-

INVESTMENT SNAPSHOT

Fabrinet
(NYSE: FN)

Business: Provider of outsourced manufacturing services primarily to original-equipment manufacturers that need precision optical and electro-mechanical production expertise.

Share Information (@5/28/20):

Price	**63.65**
52-Week Range	42.33 – 71.22
Dividend Yield	0.0%
Market Cap	$2.34 billion

Financials (TTM):

Revenue	$1.64 billion
Operating Profit Margin	7.4%
Net Profit Margin	7.2%

Valuation Metrics
(@5/28/20):

	FN	S&P 500
P/E (TTM)	19.9	25.6
Forward P/E (Est.)	n/a	23.1

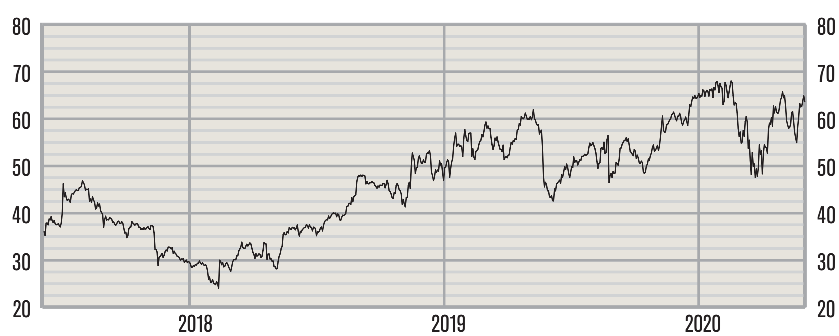
Largest Institutional Owners
(@3/31/20 or latest filing):

Company	% Owned
BlackRock	13.5%
Vanguard Group	8.8%
Wasatch Advisors	7.3%
Fidelity Mgmt & Research	6.6%
Dimensional Fund Adv	5.7%

Short Interest (as of 5/15/20):

Shares Short/Float	1.7%

FN PRICE HISTORY



THE BOTTOM LINE

Given its expertise and market position, the company is likely to gain market share as customers invest in optical-communications technology to keep up with high bandwidth demand, says Steve Scruggs. Though the shares have come back to trade near his intrinsic-value estimate, he's happy to hold them with an implied IRR of close to 10%.

Sources: Company reports, other publicly available information

ily from power-generation and electrical-transmission end markets.

Energy is clearly the most vulnerable sector at the moment, but the vast majority of the company's business in energy comes from building and maintaining natural-gas pipelines, as well as processing and storage facilities. Demand in those areas has held up fairly well and the company recently announced its energy-related backlog increased significantly from the prior quarter, from $1.9 billion to $2.6 billion. Management expressed confidence, based on conversations with customers, that most if not all of the backlog projects are economically viable even at today's energy prices. There could be some delays due to pandemic-related disruptions, but the business isn't going away.

MasTec benefits from some of the same tailwinds in communications that I mentioned before with Fabrinet. One of the hallmarks of 5G networks is that to increase speed they will use higher-frequency microwaves, which have a shorter range and will require more, and more densely distributed, equipment. That requires heavy investment from carriers like Verizon, AT&T and T-Mobile, which will directly benefit MasTec as the largest wireless-system contractor in the U.S. When you see a crew installing a 5G radio on a telephone pole in an urban area, there's a good chance MasTec is doing or managing the work. It's kind of like selling pickaxes during the gold rush.

More generally, if our country ever starts spending money on the infrastructure upgrades that we say we need, it would provide additional support for the company's revenue base. The White House recently announced a $2 trillion infrastructure proposal that, among other things, includes up to $200 billion in spending on 5G-related technologies. There's also always talk about the need to improve the electric-power grid. Trying to estimate the timing and form of big government infrastructure initiatives is very difficult, but at the very least the fact that the need isn't going away should eventually be a positive for MasTec's long-term prospects.

With the shares at a recent $39.50, how are you thinking about valuation?

SS: The $8 billion revenue backlog provides more visibility than we're seeing in most cases during the current crisis. We're modeling organic growth of about 3% per year, which is likely to be conservative given that the company has grown much faster than that as a result of a consistent and disciplined acquisition strategy.

For normalized operating margins we use 5%, which is pretty much in line with the average level over the past ten years. Management expects to do better than that over time, but has cautioned that some of the work requirements related to the coronavirus could have near-term negative effects on the profitability of fixed-cost contracts. Our normalized free cash flow estimate is about $350 million per year, which is quite attractive against the current $2.9 billion market cap.

Using a 10% discount rate, we arrive at an estimate of today's intrinsic value of $40.75 per share. Again, the current discount to that value isn't very big, but we're very happy with an implied rate of return of 10% or more.

INVESTMENT SNAPSHOT

MasTec
(NYSE: MTZ)

Business: Engineering, construction, maintenance and upgrade of infrastructure essential to the communications, energy and electric-utility industries, mostly in North America.

Share Information (@5/28/20):

Price	**39.50**
52-Week Range	22.51 – 73.71
Dividend Yield	0.0%
Market Cap	$2.91 billion

Financials (TTM):

Revenue	$7.08 billion
Operating Profit Margin	7.7%
Net Profit Margin	5.4%

Valuation Metrics
(@5/28/20):

	MTZ	S&P 500
P/E (TTM)	7.3	25.6
Forward P/E (Est.)	8.7	23.1

Largest Institutional Owners
(@3/31/20 or latest filing):

Company	% Owned
Vanguard Group	9.5%
BlackRock	8.8%
Macquarie Inv Mgmt	6.0%
Dimensional Fund Adv	3.8%
State Street	2.5%

Short Interest (as of 5/15/20):

Shares Short/Float	15.2%

MTZ PRICE HISTORY

THE BOTTOM LINE

The long-term spending outlook for the types of energy- and communication-related infrastructure projects the company builds is healthier than what appears to be reflected in the current share price, says Steve Scruggs. On his normalized free cash flow estimate of about $350 million per year, the stock trades today at a FCF yield of better than 12%.

Sources: Company reports, other publicly available information

Is debt more of a potential issue in this case than it has been in the other ideas we've discussed?

SS: It is more of an issue. The company currently has around $1.3 billion in debt, but given the revenue and demand visibility, and the fact that there aren't any significant debt maturities due until 2023, we're comfortable that the balance sheet won't be a problem.

One concern we've had is that the Mas family still owns a lot of the shares and they have continued to engage in quite a few related-party transactions. While not ideal, that's been the case for a long time and doesn't appear to have fundamentally impacted the operations of the company or the focus on building shareholder value. We've studied it all closely and don't think it's a material risk.

From infrastructure to footwear, explain why you're bullish on the prospects for Deckers Outdoor [DECK]?

SS: Deckers is best known for its Ugg brand of casual footwear, but it has diversified with such brands as Teva, Sanuk and Hoka One One. Ugg overall accounts for around 80% of total sales, while Hoka One One – which is primarily in performance running shoes – is the #2 brand and growing revenues at 40% per year. Overall gross margins are 50%, which is a great number in footwear.

There have been times over the years when people get worried that Ugg is a fad, but we think the company has done a great job of protecting the brand and keeping it relevant. Ugg sales have always been seasonal and influenced by weather, with warm weather reducing pre-orders and colder weather sometimes causing a spike in spot orders that the company hasn't been able to fulfill.

Instead of accepting that, they have invested in better order-management and logistics systems to avoid missing out on business. They've also expanded into slipper and street shoes to make Ugg more of a multi-season brand. All in all, while there will always be variability in this type of business, the company has done a great job managing inventory and keeping heavy discounting and promotion to a minimum.

The Hoka One One brand has consistently exceeded expectations, profitably growing from $47 million in sales in 2015 to over $185 million in 2019. Initially launched as a premium running shoe with remarkable comfort, they've built on that popularity among avid runners to extend and add to the brand franchise, most recently in launching a trail shoe. I have a pair and I think they're excellent. We think the company is managing the Hoka brand well and expect the strong revenue growth to continue.

You talked about the wholesale/retail mix for G-III. How is Decker positioned on that front?

SS: Wholesale accounts for 65% of total revenues, with the rest coming from a direct-to-consumer segment that has both retail and e-commerce. Management sees strategic value in maintaining Ugg-branded stores, but the emphasis in DTC is clearly shifting toward online sales, which we very much think is the right way to go.

INVESTMENT SNAPSHOT

Deckers Outdoor
(NYSE: DECK)

Business: Designs, markets and sells casual and performance footwear, apparel and accessories under such brand names as Ugg, Hoka One One, Teva, Koolaburra and Sanuk.

Share Information (@5/28/20):

Price	**186.39**
52-Week Range	91.16 – 203.19
Dividend Yield	0.0%
Market Cap	$5.22 billion

Financials (TTM):

Revenue	$2.15 billion
Operating Profit Margin	16.5%
Net Profit Margin	13.2%

Valuation Metrics
(@5/28/20):

	DECK	S&P 500
P/E (TTM)	20.3	25.6
Forward P/E (Est.)	24.7	23.1

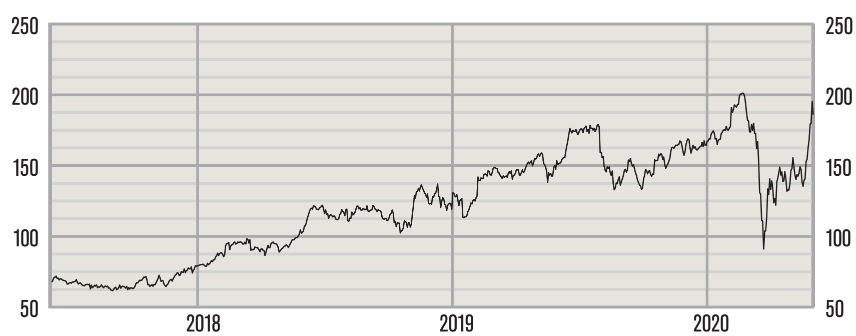
Largest Institutional Owners
(@3/31/20 or latest filing):

Company	% Owned
BlackRock	10.3%
Fidelity Mgmt & Research	9.8%
Vanguard Group	9.4%
Wellington Mgmt	3.9%
State Street	3.3%

Short Interest (as of 5/15/20):

Shares Short/Float	4.7%

DECK PRICE HISTORY



THE BOTTOM LINE

The company has done an excellent job of enhancing its Ugg brand while also developing new ones like Hoka One One in athletic footwear, says Steve Scruggs. While its shares currently trade near his estimate of intrinsic value, he says he's "content to hold given the quality of the business and the growth prospects beyond what we're counting on."

Sources: Company reports, other publicly available information

The stock has been volatile, from a high of $203 in February to a low of $91 in March. Now back up to above $186, are the shares cheap at this level?

SS: Not nearly as cheap as they were two months ago, but after adding to our position, this was our largest holding in the small-cap fund at the end of March.

Our intrinsic value estimate is $194 per share. That assumes 4% long-term annual revenue growth, a normalized operating margin of 13% and a discount rate of 8%. The discount rate is low because the company has $650 million in cash with no debt, valuable brands, and management that has proven capable of growing the company while increasing profitability.

As long as the share price remains reasonable given our intrinsic-value estimate, this is one we're content to hold given the quality of the business and the growth prospects beyond what we're counting on. Having said that, if market volatility provides us with another opportunity to buy more, we'll likely take advantage of that.

We're in rather uncharted territory with the fiscal and monetary responses to the pandemic crisis. Does any of that concern you? Does it impact what you're doing?

SS: You can't help but be concerned and it's very hard to imagine that there won't ultimately be significant repercussions of the government's massive fiscal response. We were already on track to run a $1 trillion federal deficit in the U.S. this year even before this all started, and that was with the economy doing relatively well and with record low unemployment. Now the deficit is going to be what, $5 or $6 trillion? I'm glad I'm just a fundamental, bottom-up stock picker.

ON WHAT'S NEXT:

Whatever is going to happen on the macro front, we have to find companies that can best manage through that.

What do you mean by that?

SS: We're not trying to predict what interest rates are going to do or the impact of quantitative easing. We're looking at individual companies one at a time and trying to determine at any given moment if the market is offering us an opportunity or not. Whatever is going to happen is going to happen on the macro front. We have to find the companies that can best manage through that, based on historical performance, the business model, the competitive position, how good management is, and how we expect the industry to perform going forward.

To us it's a "keep it simple, stupid" kind of thing. Our process and approach has worked well in the past and we're very confident it should continue to work over full market cycles in the future. I'm generally hopeful things are not as bad as they seem. They almost never are. VII

1 The Queens Road Small Cap Value Fund primarily invests in securities of small-capitalization companies, defined as those with market capitalization less than the largest company in the Russell 2000 Value Index. Investing in small companies involves special risks including, but not limited to, the following: smaller companies typically have more risk and their company stock prices are more volatile than that of large companies; their securities may be less liquid and may be thinly traded which makes it more difficult to dispose of them at prevailing market prices; these companies may be more adversely affected by poor economic or market conditions; they may have limited product lines, limited access to financial resources, and may be dependent on a limited management group; and small cap stocks may fluctuate independently of large cap stocks. All investment decisions are made at the discretion of the Portfolio Manager, in accordance with the then current Prospectus.

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