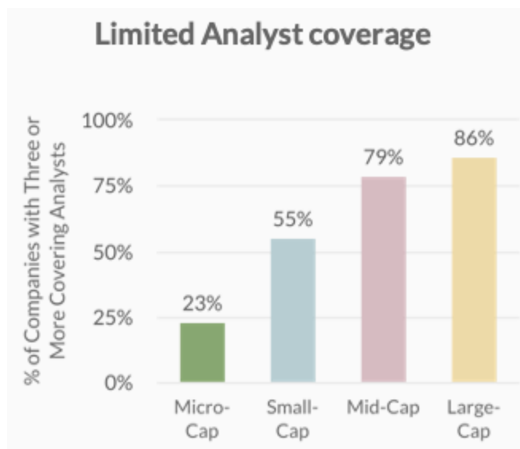
VALUE CREATION THROUGH CONSTRUCTIVE ACTIVISM

Micro-cap stocks are an attractive asset class offering the opportunity to deliver outsized returns to investors and we believe are important to have as part of an investment portfolio.

The micro-cap universe of stocks is currently made up of approximately 4,500 companies. Approximately 3,300 of these companies have market capitalizations of less than $250 million, and approximately 2,000 are less than $100 million.[1] These small market capitalization companies have small floats and low volume making investing large amounts of capital practically impossible for funds with larger asset bases. While most of these companies are listed on a national exchange such as the NASDAQ or NYSE, some companies trade over the counter, or OTC. In some cases, these OTC companies may be ones that were listed on a national exchange and were delisted due to delays in filing financial statements with the SEC. Many funds and brokers limit the ability to invest in companies that do not have up-to-date financial statements, are not listed on a national exchange, and/or have stock prices that trade below $5 per share. In short, the number of investor eyeballs digging into the businesses, financial statements and other important aspects of these microcap companies is significantly less than companies with larger market capitalizations.

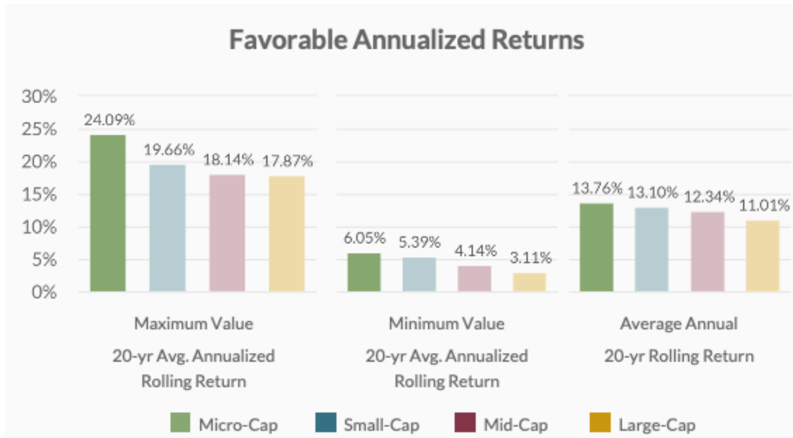
The same is true on the bank analyst side. As this chart shows, nearly 75% of companies in the micro-cap space are followed by less than three analysts. Our experience suggests that a vast majority of these names are not covered by a single analyst. The majority of analysts and institutional investors are simply unable to spend the requisite time to familiarize themselves with these opportunities due to position size limitations, liquidity restrictions and overall capacity constraints. This dynamic creates a compelling opportunity for those investing in the micro-cap universe to be on the forefront of discovering overlooked, orphaned stories and to benefit from the forthcoming value / size appreciation that can follow if these companies can execute on their business.



Before exploring the process we use to find stocks that we believe can beat the microcap market, it is worth understanding the superior returns generated in microcaps generally. A recent examination conducted on historical equity returns across market cap classifications and summarized in the chart on the top of the next page highlights the micro-cap premium on both maximum annualized upside returns (24.1% for micro-caps vs 17.9% for large-caps) and average annualized returns (13.8% for micro-caps vs 11% for large-caps) over a subset of seventy-three 20-year rolling periods dating from 1926-2019. Unsurprisingly, the higher historical return profile and lower trading volume does tend to cause micro-cap stocks to experience higher volatility. Taking that into account however, the study sample showed

[1] Sources of the data included in this document: Bloomberg, Ibbotson Classic Yearbook, 2015 and FRP and FactSet, 2019.
Micro-cap stocks defined as the bottom two deciles of securities ranked by market capitalization from 1926-2019. Small-cap defined as deciles 6-8. Large company stocks are represented by the S&P 500 index. Rolling return is the annualized average return for a period ending with the listed year. For example, the twenty-year rolling return for 1995 covers Jan 1, 1976, through Dec 31, 1995. The twenty-year rolling return for 1996 is the average annual return for Jan. 1, 1977, through Dec. 31, 1996, etc.

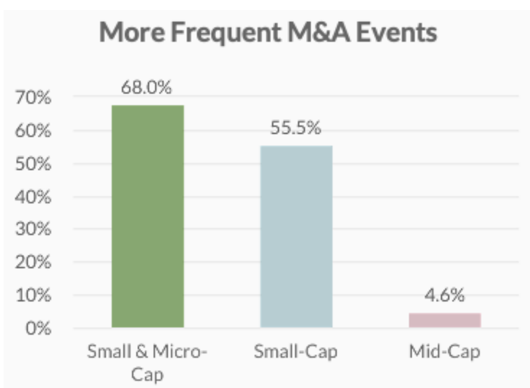
that micro-cap stocks (6.1% for microcap vs 3.1% in large-cap stocks) had superior performance over a minimum 20-year annualized rolling return analysis.



In addition to superior returns, microcap funds provide a much needed offset to balance out portfolios that tend to own asset classes highly correlated to each other. This chart compares the returns of different asset classes to each other. We believe a carefully constructed portfolio with the inclusion of micro-cap portfolios can provide diversification benefits as is evidenced by micro-cap's historical correlation of 0.73 to large-caps.

Lower Correlations to Other Asset Classes

	Large	Mid	Small	Micro
Large	1.00			
Mid	0.90	1.00		
Small	0.82	0.96	1.00	
Micro	**0.73**	0.87	0.94	1.00



Fortunately, the lack of analyst coverage and investor attention is not an indication of poor businesses or inferior management teams. In fact, one of the primary drivers of opportunity in this part of the market is the ability to identify situations where quality management teams are leading businesses that have fallen out-of-favor relative to the market, creating an asymmetric risk/return profile. Many of these opportunities can have several underlying catalysts that, when identified and pursued, can drive substantial value appreciation. For example, a natural outcome in many of these situations across the broader micro-cap space is an M&A event. Nearly 70% of acquisitions throughout the equity market as a whole over the observed period involved small and micro-cap companies. Properly identifying and positioning within this potential universe of targets typically introduces an opportunity for a clean investment exit at substantial premiums.

In addition to enhanced M&A opportunities, there are numerous other potential catalysts that can provide opportunities for micro-cap companies to outperform the market. Among these catalysts are removing unwieldy capital structures, new management teams, monetizing undervalued real estate assets, and even resolving prior legal or accounting issues. All of these potential catalysts have multiple things in common. First, they create the potential for a business to be undervalued relative to peers and to their current results. Second, given the size of these companies, it is often the case that management and boards are unsure of how to fix their problems to catalyze such value-enhancing events, and further, they are often on their own in terms of coming up with any potential solutions.

Ideally, these catalysts are identified previously by the company's existing management team / board of directors who are actively pursuing solutions. Even when management and boards of these companies understand the problem, solutions are often not obvious to them as they can be too close to the problem or lack the experience or expertise to rectify them. Our form of constructive activism employs a multi-layered strategy to explore these potential catalyst opportunities alongside the executive teams to ultimately unlock shareholder value.

There are several additional reasons why some micro-caps have difficulty reaching the "next-level" in the company's life cycle. Many of the more common situations are as simple as proper communication and messaging to the broader investment community. Other situations may require a more hands-on approach to address issues such as misaligned incentive schemes, improper corporate governance protocols or the aforementioned complicated legacy capital structures. While each of these situations are unique, all present an opportunity to use activism constructively to unlock significant value creation for shareholders in these micro-cap companies. Simply put, we believe using a constructive activism approach can enhance our results and enable 180 to drive suitable outcomes for the companies we invest in. We believe pairing micro-cap investing with activism has enabled 180 to differentiate itself from other passive micro-cap investors.

To summarize, the micro-cap market has historically provided higher levels of return than other equity markets, with low correlation, less sell side involvement, and greater M&A activity. We believe that when combined with a constructive activist approach to problem solving, the micro-cap market provides an extremely attractive return profile that should be a part of a broader investment portfolio.

Note: The information discussed above is solely the opinion of 180 Degree Capital Corp. Any discussion of past performance is not an indication of future results. Investing in financial markets involves a substantial degree of risk. Investors must be able to withstand a total loss of their investment. The information herein is believed to be reliable and has been obtained from sources believed to be reliable, but no representation or warranty is made, expressed or implied, with respect to the fairness, correctness, accuracy, reasonableness or completeness of the information and opinions.