Catalyst

INTEGRITY ASSET MANAGEMENT

PORTFOLIO UPDATE AND MARKET OUTLOOK

November 30, 2023

CELEBRATING 20 YEARS OF INTEGRITY 2003-2023

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Sometimes it feels like I'm going too fast
I don't know how long this feeling will last
Maybe it's only tonight
Darling, I don't know why
I go to extremes
Too high or too low
There ain't no in-betweens

– Billy Joel

The persistent issue of non-earning companies in our benchmarks has been a recurrent theme in our updates. Just to recap, roughly 18% (by weight) of the Russell 2000® Value consists of companies that aren't profitable.

Our primary concern regarding performance has been our limited exposure to non-profitable companies. We've diligently searched for correlated companies with better fundamentals but have struggled to identify sound investment opportunities.

We hold the view that companies without a long-term path to profitability are not attractive investments. Generating cash flow is imperative, and many of these companies have relied on the capital markets during a period of near-zero interest rates. We believe that era has come to an end. *(continued on page 2)*

Preliminary Performance (%)

Representative Accounts

	MTD			QTD			YTD		
	Gross	Net	vs. Benchmark*	Gross	Net	vs. Benchmark*	Gross	Net	vs. Benchmark*
Small Cap Value	7.84	7.75	-1.16	1.95	1.78	-0.55	8.07	7.08	+6.11
Small/Mid Cap Value	6.86	6.78	-2.22	0.53	0.39	-2.42	5.60	4.78	+0.63
Mid Cap Value	8.10	8.03	-1.33	2.61	2.47	-1.40	6.23	5.44	+1.67
Micro Cap Value	9.70	9.61	+1.09	3.80	3.63	+2.31	3.16	2.22	+8.16

Source: SEI

Past performance does not guarantee future results. Representative accounts include: Integrity Small Cap Value Equity Strategy, Integrity Small/Mid Cap Value Equity Strategy, Integrity Mid Cap Value Equity Strategy, Integrity Micro Cap Value Equity Strategy. Performance is preliminary and subject to change. Benchmark comparison is versus gross performance.

Market Returns (%)

	MTD	QTD	YTD
S&P 500® Index	9.13	6.84	20.80
Nasdaq 100® Index	10.82	8.56	46.96
Russell 2000® Growth Index	9.10	0.69	5.97
Russell 2000® Value Index	9.00	2.50	1.96

Past performance does not guarantee future results. Indices represent different segments of the market and are not correlated to the strategies above, with the exception of the Russell 2000® Value Index, which is the benchmark for Integrity Small Cap Value Equity.

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Interestingly, the market currently disagrees with our stance, as these non-profitable companies are experiencing significant rallies when it appears the Federal Reserve is finished raising interest rates. While we maintain a neutral stance on this, we firmly believe that rates won't return to zero.

In our previous update, we noted that current interest rates are approximately at an average level. Furthermore, we believe that the downward interest rate cycle that began in 1982 has concluded, and we are entering a period of "normal" interest rates. From our perspective, this implies that non-earning companies will need to generate cash flow, consider mergers, or face the possibility of going out of business.

We see this as a potential tailwind for our performance and that of other fundamental managers as these companies undergo this transformative process. Unfortunately, in the short term, the market appears to anticipate a return to zero interest rates, leading to substantial upward moves in these companies' stocks. This volatility, coupled with our underweight position, is evident in our portfolios November performance.

We are currently experiencing exceptional market dynamics, where the performance of the S&P 500 and NASDAQ 100 is largely driven by just seven stocks. According to Jim Bianco's analysis (X, 11/28/23), the top 5 stocks in the S&P 500 now constitute over 25% of the index's value as of November 24, 2023. This marks a historical record dating back to 1964. The top 5 stocks in the S&P 500 at the moment are Apple (7.4%), Microsoft (7.1%), Alphabet (4.3%), Amazon (3.8%), and Nvidia (3%). By comparison, in 1964, the top 5 included AT&T (8.9%), General Motors (7.1%), Exxon (4.9%), IBM (3.7%), and Texaco (3.0%).

Furthermore, the NASDAQ 100's valuation relative to the Russell 2000 is currently higher than during the tech bubble of 2000 and nearly double its historical average. Additionally, the cost of purchasing a home is now 52% more expensive than renting, marking a historical high point. These trends suggest that we may be approaching the later stages of these extreme conditions influenced by easy monetary policies.

The reversals of these extremes are uncertain in terms of timing and method. As these issues get resolved, we anticipate heightened market volatility. It will also require time for the market to realize that interest rates won't return to zero. Regarding non-earning companies, we don't see any compelling fundamental reasons to hold them, and we won't be pursuing this current market trend. We view it as a temporary situation, albeit one that may be painful in the short term.

In the end, we believe that cash flow is paramount, and valuation is crucial. Our focus remains on acquiring discounted cash flow opportunities.

Attribution:

U.S equity markets rallied to post their best monthly returns of the year. Buoyed by a Consumer Price Index (CPI) report which showed inflation rising by a lower-than-expected amount, investors bid up equities with the belief that the Federal Reserve might be done raising interest rates. The Russell 2000 Value Index, up 9.0%, underperformed both the S&P 500 and the tech heavy Nasdaq (9.1% and 10.8% respectively). For the month, growth outperformed value across three of our four benchmarks (Russell 2500 Value Index outperformed Russell 2500 Growth Index). Our micro cap value strategy was our lone strategy that outperformed its respective benchmark for the month of November.

INTEGRITY ASSET MANAGEMENT

Composite Performance (%) *as of December 31, 2022*

	1 Year		5 Year		10 Year	
	Gross	Net	Gross	Net	Gross	Net
Small Cap Value	-6.67%	-7.61%	5.76%	4.71%	10.74%	9.64%
Small/Mid Cap Value	-6.97%	-7.90%	6.75%	5.68%	10.91%	9.81%
Mid Cap Value	-6.04%	-6.84%	7.29%	6.43%	11.69%	10.78%
Micro Cap Value	-10.73%	-11.63%	5.29%	4.24%	11.56%	10.45%

Returns for periods greater than one year are annualized. Returns reflect the reinvestment of dividends and other earnings and are expressed in U.S. dollars. Gross-of-fees returns for the representative account are presented before management and custodial fees but after all trading expenses.

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All investments carry a certain degree of risk including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class. Interested parties are strongly encouraged to seek advice from qualified tax and financial experts regarding the best options for your particular circumstances.

Each representative account serves as the model against which all accounts in each respective strategy are managed. The representative accounts are actual portfolios and the information provided, including performance, will vary for other accounts. The representative accounts are being used solely as tools to help demonstrate how performance can be attributed to the investment policies applied in the management of each strategy.

Net-of fees returns reflect gross performance less investment management fees, which are calculated by deducting 1/12 of the highest tier of the standard fee schedule in effect for the period noted (the model fee). The composite model fee for each period is either the highest tier of the current fee schedule or a higher value, whichever is required to ensure the model composite net-of-fee return is lower than or equal to the composite net-of-fee return calculated using actual fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and may be found in Part 2A of its Form ADV.

*The Integrity Small-Cap Value Equity Strategy is benchmarked to the Russell 2000® Value Index. The Integrity Small/Mid-Cap Value Equity Strategy is benchmarked to the Russell 2500™ Value Index. The Integrity Mid-Cap Value Equity Strategy is benchmarked to the Russell Midcap® Value Index. The Integrity Micro-Cap Value Equity Strategy is benchmarked to the Russell Microcap® Value Index.

Index returns reflect the reinvestment of dividends and other income but do not reflect advisory fees or any other expenses. Indexes are unmanaged and one cannot invest directly in an index.

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Advisory services offered by Victory Capital Management Inc., an SEC-registered investment advisor, 15935 La Cantera Parkway San Antonio, TX 78256.

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