ASHFORD
CAPITAL MANAGEMENT

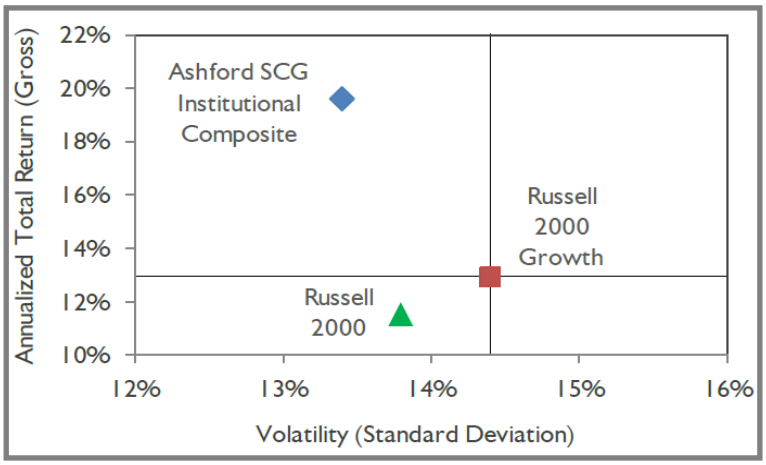
Q1 2018 COMMENTARY

MARKET TRENDS: VOLATILITY IN PLAY

The broad U.S. equity market finished its eighth positive consecutive quarter, breaking previous records. Global equity markets fell modestly in Q1 as investors became more concerned with the speed of rising interest rates, the threat of global tariff wars, and weakness in the technology sector originating from increased regulatory noise.

By market cap, small cap equities outperformed mid and large cap equities, with Growth continuing to outperform Value during the quarter. The Russell 2000 Index Q1 return was –0.1%, while the Russell 2000 Growth Index returned 2.3%. The quarter was volatile, with the volatility of the Russell 2000 and Russell 2000 Growth doubling from their lows. Much of the volatility in the latter part of the quarter came from tariff saber-rattling between the U.S. and Chinese governments. The back-and-forth registered directly with global markets and caused whiplash in investors. New Fed Chairman Jerome Powell raised rates 25 bps to 1.75% at his first meeting in March. This increase was anticipated by most market participants, but the market was jarred by the Fed's 2019 outlook and rhetoric. The Fed, which had previously telegraphed two rate hikes, has changed course and now expects to raise rates three times in 2019 as the economy is stronger than previously observed. However, a slow and steady approach to normalization is still the consistent message delivered by the Fed. Economic data remains strong and currently show no indications of a recession on the horizon.

ASHFORD RISK/REWARD FOR 5 YEAR PERIOD ENDING 3/31/2018



Period	Q1	1 Year	3 Year	5 Year	15 Year
Ashford SCG*	7.6%	29.2%	20.2%	19.6%	13.8%
R2000 Growth	2.3%	18.6%	8.8%	12.9%	12.0%
R2000	-0.1%	11.8%	8.4%	11.5%	11.5%

Performance represents Ashford Small Company Growth Institutional Composite, net of fees.

The final revisions of Q4 GDP showed economic growth at 2.9% for the past four quarters and 2.3% for the full year. 2018 economic growth and corporate earnings should continue to rise as companies and consumers benefit from lower taxes and a recently passed $1.3 trillion spending bill. Earnings expectations are high; this year marks the largest number of S&P 500 companies raising earnings guidance since 2006. The estimated first quarter earnings growth rate for the S&P 500 is 17.1%, which if achieved, would be the highest earnings growth rate since the first quarter of 2011. Capital spending plans by U.S. corporations are encouraging and should be a significant factor in maintaining a strong economy. This is further supported by accommodative monetary policy, government spending, and tame inflation. With the recent pullback, stock valuations appear slightly more reasonable, even with some signs that the economic growth rate might be decelerating.

www.ashfordcapital.com
302.655.1750

One Walker's Mill Road
Wilmington, DE 19807

THE SMALL COMPANY GROWTH ENVIRONMENT

Historically, previous implementations of tariffs in the U.S. did not cause true trade wars, but instead led to a depreciation in the U.S. dollar. International trade increased and tariff threats proved to be a very effective bargaining tool for the U.S. Further, since approximately 80% of revenues are derived domestically, U.S. small cap stocks have a buffer against currency volatility, international hazards, and, as we experienced in Q1 when the tariff noise got loudest, the potential to benefit from equity-seeking cash rushing to small cap stocks.

With growing price volatility and slightly higher than normal equity valuations, sticking with our investment process is more critical than ever. At Ashford we are searching for misunderstood companies that have strong balance sheets with minimal debt, outstanding leadership teams, and high barriers to entry. These companies must have the potential for above-average long-term growth. The current market volatility can aid in our entry-price discipline, and the lower leverage may help these companies weather both up and down markets.

Even with rising interest rates and tariff talk affecting the markets, we continue to have high conviction in our portfolio companies and are excited about the opportunities we are encountering, particularly in less discovered sub sectors of the market.

ASHFORD PERSPECTIVES: OPPORTUNITIES AHEAD IN EDUCATION

The education landscape is experiencing a sea change. Technology is revolutionizing the way teachers interact with their students and course material. Digital platforms provide new channels for communication and live conversation, and more, these platforms give students the ability to study on their own schedule in their own homes. These are solutions that are personalized, affordable, and available on-demand. Moreover, with costs of computing waning and the speed of computing accelerating, the consumer is seeing higher quality content, more bandwidth, and faster internet delivery.

The education marketplace is large. Education expenditures in the United States reach $1.3 trillion annually or close to 7% of GDP. There are more than 46 million students in middle school up through university. College and graduate school represents the largest demographic, with approximately 20 million participants. The print and textbook market is estimated to be about $8 billion, while the tutoring and test preparation market is small at $1 billion annually. However, our portfolio management teams in the industry believe that the market for learning aids is approaching an inflection point, and we believe we are in the early innings of a new secular trend.

We are focused on companies which can scale their business models by using technology to provide lower cost solutions to increase productivity for both educators and students. Recently we have accelerated our work on companies which:

- Innovate learning environments both inside and outside the walls of an educational institution to help generate greater student engagement;
- Provide instructors with real-time insights to deliver differentiated instruction; and
- Produce online program management offerings which help schools and universities convert existing classroom-based curriculums into online course materials.

ASHFORD PERSPECTIVES: OPPORTUNITIES AHEAD IN EDUCATION (CONTINUED)

We are also studying emerging trends in the space to improve our ability to identify a disruptive company that can fit our investment criteria. These include:

- Online testing platforms aligned with state exam standards;
- Exam grading software; and
- Career pathways programming in growing job areas including coding, machine learning, and customer success management.

Our ongoing field work and due diligence process is leading us to several education technology conferences, meetings with management teams, industry leaders, and investors. We are doing focused bottom-up work on the business models of companies in our new idea pipeline. To date, we have invested in two education technology businesses and generated positive returns. The investment team is working hard to find our next criteria company in this or a related space.

PHOTO ON PAGE 1: Walker's Mill, originally a textile mill built around 1815, has been home to Ashford Capital Management, Inc. offices since 2004.

1) The Ashford Small Company Growth Institutional Composite is a dollar-weighted composite of all institutional equity accounts that exceed $1,000,000 in market value (including cash). The Composite invests primarily in small cap equity and equity-related securities. The Composite includes terminated accounts; accounts are added to the Composite when they are fully invested with Ashford for two full calendar quarters, whichever comes first. It is not necessarily substantially similar to the Russell 2000 Index or the Russell 2000 Growth Index. The figures for the Ashford Company Small Company Growth Institutional Composite include dividends and interest received and their timely reinvestment and are net of management fees and expenses. All performance calculations are by Ashford Capital Management.

2) The figures for the Russell 2000 Growth Index and the Russell 2000 Index include dividends received and their timely reinvestment. They do not, however, reflect any brokerage commissions or management fees that might be incurred in actually investing in the securities comprising the index. Returns are calculated by the FTSE Russell.

The information provided in this letter should not be considered a recommendation to purchase any particular security. There is no assurance that any securities included in the Ashford Small Company Growth Institutional Composite will remain in the portfolio or that the information provided herein will remain the same at the time you receive this material. The securities portfolio does not represent all of the securities recommended for purchase by Ashford Capital Management. It should not be assumed that investments in all securities were or will be profitable. All investments in securities involve risk and the potential for loss of capital. Potential investment risk also include, but are not limited to investments in illiquid securities, the lack of diversification and the potential conflicts of interest in managing multiple portfolios.

Past performance is not a guarantee of future success. Figures are not audited and are subject to change.