REPRINTED FROM MAY 15, 2026

THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Targeting Small Caps With 3%-Plus Yields and Rising Payouts

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SECTOR — GENERAL INVESTING

TWST: Welcome back. Remind us about the North Star Dividend Fund in terms of what it focuses on, the size of companies, and its goals.

Mr. Kuby: For the North Star Dividend Fund, we screen for companies that have market caps up to $2.5 billion, that score well in our six characteristics research process. Those six characteristics that we look at are: business quality, valuation, balance sheet, the management alignment with shareholders, businesses that we can understand, and then businesses that are durable — that have been through multiple business cycles.

That's the framework we use to screen all three of our small-cap funds. The additional screen that we overlay on that for the Dividend Fund is a minimum dividend yield of 3%.

It's quite a large universe of companies that have over 3% dividends. It's always a surprise because people think of dividends and they think of larger companies. But there are more companies under $2.5 billion that pay over 3% dividends than those with market caps over $2.5 billion.

So, there's a very big universe of companies to select from — a lot of financial institutions, regional banks, consumer products companies.

TWST: That's interesting. There are relatively few small-cap dividend funds, and you're trying to exploit that inefficiency in the market.

Mr. Kuby: Exactly. We go back to 2009, which is right after the financial crisis, and if you recall, that's when the Fed started taking extraordinary measures to bring interest rates down to basically 0%. That made dividend-paying companies seem very attractive to us as investors searched for assets that offered a decent safe yield.

Conservative investors suddenly were faced with zero percent short-term interest rates and long-term interest rates of 2%, which were not acceptable returns. I think at that time a lot of investors started to look toward dividend-paying companies.

My partner Peter Gottlieb and I had been running the North Star Micro Cap Fund together for 10 years before that, and we were saying, "You know, we think there's a lot of these companies that have nice dividends." If people are looking for dividends, everyone's looking at the same dividend aristocrats, the same universe of dividend companies. But what about our companies? They seemed to have a lot of solid dividend characteristics.

Most of the existing small-cap dividend funds screen for companies that simply pay a dividend. But we focus on those companies that pay a dividend of over 3% and raise their dividends regularly. We think it is important to focus on dividend growth as well as the current yield. We want to invest in companies that comfortably cover their dividends from operating cash and have a history of consistently increasing the dividend.

TWST: I looked at the performance back to inception and it seemed for the first couple of years you were benchmarking pretty close to the Morningstar Small Value Total Return. In more recent years, your fund has lagged Morningstar Small Value and its peer group. So how do you break down what's been driven by the market environment versus stock selection?

Mr. Kuby: I think that in the last five years there have been so many disruptions to the normal stock market activity. Whether it's the pandemic, the tariffs, now it's the war — it seems like there's always been something that's been disrupting the applecart to how these stocks behave normally.

Historically growth stocks were primarily the domain of aggressive investors, but over this extraordinary time, the market has embraced technology companies as safe havens, regardless of valuations. Whereas those companies have durable business models during that turbulent time, we think companies trading at more reasonable cash flow multiples, with good balance sheets, and paying a well-covered dividend, represent a more appropriate investment for one's conservative equity allocation.

It has been a real uphill battle to compete against the attractiveness of the technology sector. The script has flipped back in our favor in 2026, but prior to this year, that was the script.

The other issue that we had was that 2022 was difficult for dividend-paying stocks because that's when the Fed was raising rates at the fastest clip ever. So just like the converse of how great it is when rates are low and coming down for dividend-paying companies — your income stream is increasing and the opportunity cost is decreasing — but we had the exact opposite of that in 2022. Basically, the opportunity cost was getting higher because suddenly you can get 5% on a Treasury bill.

Investor interest in dividend-paying companies, and small-cap dividend-paying companies in particular, just disappeared. And so, small cap value stocks traded down to extremely inexpensive levels due to the lack of interest. Things seem to be normalizing more this year. It started to normalize when the Fed started to lower rates again. Every time they start to lower rates, we think OK, now this is coming our way.

The tariffs were a problem because a lot of our consumer companies are companies that manufacture things overseas, and they were suffering from tariffs. It's been an extraordinarily difficult period. But it seems like we're coming out of it, and we're feeling very optimistic. This year is off to a good start.

TWST: In terms of categories, you have about 20% in consumers, 20% in utilities, 20% in financials, and you have 7% or so in REITs. Tech is pretty low, 1% to 2% of the portfolio. So let's talk about what is working. At least in the past year, there was solid income being generated by the fund, but there were mark-to-market declines. But when we look at holdings like Sprott or Oil-Dri, those fundamentals seem to have played out pretty well. What did you see in those names that the market might have missed?

Mr. Kuby: Thank you for pointing out two excellent performers that we've had. We appreciate that. We've followed **Oil-Dri** (NYSE:ODC) really for decades and decades. It's a local company here in Chicago and really it seemed like a relatively simple business. They have a lifetime supply of a mineral — it's a clay mineral — that is used in a lot of applications, most commonly in kitty litter, but also in absorbent materials. Like if you have an oil spill and you want to clean it up, you have **Oil-Dri** absorbent clay that would be able to clean that up.

It seemed that there were other things that this natural resource could be used for, other usages. The stock was very inexpensive, and the management team worked very hard to grow the business. We bought it inexpensively. It is a good example where we feel as if the management team's interests align with the shareholders. The Jaffee family that runs it are very significant shareholders in the company, so the dividend was important to them and the value of the business.

They've made a lot of good decisions to create value for their shareholders, and it was something that nobody really followed. It was a great find for us. We've been involved with **Oil-Dri** for over 10 years.

Sprott (NYSE:SII), on the other hand, was a relatively newer holding. It goes back to about three years. One of our themes, which was macro-driven, was we thought that the dollar, after sort of a very long period of appreciation, seemed vulnerable because of the deficits and all the other factors that were going on. Our thought was, what will benefit if the dollar declines?

It wasn't such an easy answer because the euro has its own problems, the yen has its own problems. Where do you turn? The Swiss franc is small. We're not big believers in digital currencies. So we thought, well, gold could be a good area. And then we found this company in Canada called **Sprott**. We really liked what they did. It is a financial firm that has been in the gold business for a very long time, so they know the gold industry well.

They manage mutual funds and ETFs that provide investors the opportunity to invest in gold, silver, uranium and many other metals and minerals. We understand the money management business well and we understood the concept that if the underlying asset that they're investing in is appreciating and it's attracting investor attention, it's a multiplying effect.

You get both more assets at higher prices of the assets flowing in, which then translates to much higher profits because their variable costs are very low. So that was an exciting find for us. It's far exceeded our expectations.

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TWST: Any other ones that have been a great find?

Mr. Kuby: I'll hit two of the other five largest holdings in the fund.

1-Year Daily Chart of Postal Realty Trust, Inc.

Chart provided by www.BigCharts.com

Postal Realty Trust (NYSE:PSTL): This has been a good, solid company for us. It's a massively misunderstood company, because people hear "postal" and they think post office, they think government, they think the post office is broke and this is a terrible thing. In reality, the U.S. Postal Service is funded outside the normal government funding process. It's got a better credit than the government itself because it has to be funded.

In addition to that, real estate is a small percentage of the costs for the postal service. Their rent expense is not their big expense line, so

that's not something that can really be reduced. And there's a huge network of post offices. Most of them are owned by the U.S. Postal Service, but a lot of them aren't. A lot of them are owned by mom-and-pop type landlords — some people bought a building 100 years ago and the U.S. Postal Service became the renter of that building.

When one of those legacy owners of those buildings wants to sell, the best buyer by leaps and bounds is **Postal Realty Services** because this family that runs Postal Realty has been buying post offices for like 40 years. They know that business. They're the largest owner of those buildings outside of the U.S. Postal Service. And they can offer the sellers of the building units in **Postal Realty Trust**, and that way they don't have to pay the capital gains taxes on the sale of the building.

TWST: It's like a 1031 exchange? That's interesting.

Mr. Kuby: Essentially, yeah. They're in a great position. Also, post offices don't like to move. The post office in downtown Lake Forest, they're not going to one day say, "Oh, let's move three blocks away, that looks like a nicer location." They never move. It's a very steady renter.

In the rare event the postal service does leave, it's an easy asset to sell because it's a nice building in a nice town that's usually underpriced on their book. So that's been a really good company that we felt that people misunderstood.

Also in the top five would be **LSI Industries** (NASDAQ:LYTS). This is a company we've owned for a long time. It's a lighting company, originally a lot of LED lighting. This company was started in Cincinnati like 55 years ago in a guy's garage, and they developed very energy-efficient lighting systems.

They ended up being the primary supplier for all the convenience stores and service stations — that's kind of their niche for lighting. They got into all of the related services for such places — whether it's the cabinets, the refrigerated cabinets for the in-place food services, the LED boards that show what's being offered in a place. They've done a great job growing through some well-thought-out acquisitions.

We're in the middle of a massive upgrade of the lighting infrastructure in the country because of better technology. Some of it's mandated — in some states, you can't actually buy legacy bulbs; you have to get new lighting systems. It's more than a $100 billion lighting market that's flipping over. They've got great products, they've got national distribution, they're vertically integrated. It's been a terrific company for us.

TWST: We talked about how the portfolio has some concentration in areas like utilities, REITs and financials that have faced headwinds in the current rate environment. Are you thinking of changing that up going forward, or are you going to keep that sector allocation?

Mr. Kuby: No, we're bottom-up stock pickers. We research the whole small cap universe to find the best companies. To the extent that utilities and REITs score the highest, we will continue to own them. On the other hand, we are actively looking for attractive candidates in other sectors.

We just added a technology company called **Hackett** (NASDAQ:HCKT). When we find a company that's not a consumer or utility or financial that has the characteristics we like, we get more excited because we would like to diversify into these other sectors to the extent we can find the right companies.

TWST: There's a lot of debate about where interest rates are going. Just when we thought at the beginning of the year we had some sightlines on that, geopolitics happened. If rates do remain up this year, how are you positioning the portfolio? Do you see any meaningful changes coming along?

Mr. Kuby: I think this most recent spike in inflation is clearly driven by the energy prices, which I don't think is going to last — the market's telling us it's not sustainable. If you look at forward contracts on oil or just the lack of volatility in the stock market, I think this spike in energy prices is, while it's not going away in a day, it's probably going to be limited because there still is a glut of oil in the world.

The energy cost push is going to come back down. I think it opens the door towards the end of the year for rate cuts to resume. I think that's the direction. Obviously, there's a lot of political pressure to go that way. And I do think that Jerome Powell has said, "We are tighter than average," meaning the policy is restrictive. And there doesn't strike me to be any reason for policy to be restrictive.

It might just be a half a percent lower would be a normal policy rate, but we think we're going to get there. We think we're going to get down to what would be just a normal policy rate. If the jobs market starts to weaken again, it might even be lower than that. We still think that that's the direction, so we're not making any changes.

TWST: What do you see as the key strengths and weaknesses of the fund?

Mr. Kuby: We have very little international exposure; this is a very U.S.-centric fund. These companies not only are all domestic companies, but they also derive the vast majority of their revenue domestically.

A risk would be a real downturn in the U.S. economy, because our companies do almost all their business in the United States. Opportunity would be a real strength in the U.S. economy. While the U.S. economy's been resilient, a whole swath of U.S. consumers have struggled; it's not been a good economy for them.

Any kind of rebound on the bottom half of our economic ladder would be particularly positive for some of our portfolio companies that service those consumers. Tariff relief should also offer a boost to the economy and specifically many of those companies.

Finally, there could be an acceleration of merger and acquisition activity. The companies with our six characteristics are often attractive acquisition candidates. If we have a more normal environment, you should see more M&A activity. There's been a lot of uncertainty, which has and reduced M&A activity in the last couple of years. A pickup in M&A activity would help also.

TWST: Thank you. (JMM)

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See disclosures on next page

North Star Disclosures:

Fund Holdings as of 5.14.26:

Sprott (SII) – a 3.46% holding in the North Star Dividend Fund and a 3.34% holding in the North Star Small Cap Value Fund.

Oil-Dri (ODC) – a 3.76% holding in the North Star Dividend Fund.

Postal Realty Trust (PSTL) – a 2.07% holding in the North Star Micro Cap Fund and a 4.71% holding in the North Star Dividend Fund and a 3.82% holding in the North Star Small Cap Value Fund.

LSI Industries (LYTS) - a 1.19% holding in the North Star Micro Cap Fund and a 3.48% holding in the North Star Dividend Fund and a 3.18% holding in the North Star Small Cap Value Fund.

Hackett (HCKT) – is a 0.52% holding in the North Star Micro Cap Fund and a 0.69% holding in the North Star Small Cap Value Fund.

Eric Kuby, Chief Investment Officer, North Star Investment Management, acts as portfolio manager for the North Star Micro Cap Fund, the North Star Opportunity Fund, the North Star Bond Fund, the North Star Dividend Fund and the North Star Small Cap Value Fund.

North Star Micro Cap Fund Investment Objective: The primary investment objective of the North Star Micro Cap Fund is capital appreciation and, secondarily, to derive income from short term liquid securities.
North Star Dividend Fund Investment Objective: The investment objective of the North Star Dividend Fund is to generate dividend income, it's secondary objective is capital appreciation.

Important Risk Information:
Mutual funds have investment risks including loss of principal. There is no guarantee either fund will meet its objective. In general, the price of a fixed income security falls when interest rates rise. There is a risk that issuers and counterparties will not make payments on securities and other investments held by the Fund, resulting in losses to the Fund. The Fund may invest in high yield securities, also known as "junk bonds". High yield securities provide greater income and opportunity for gain but entail greater risk of loss of principal. Foreign common stocks and currency strategies will subject the Fund to currency trading risks that include market risk, credit

risk and country risk. Municipal securities are subject to credit risk where a municipal security might not make interest and principal payments as they come due. The Advisor follows an investing style that favors value investments. At times when the value investing style is out of favor, the Fund may underperform other funds that use different investing styles. Investments in lesser known, small and medium capitalization companies may be more vulnerable than larger, more established organizations. As with any investment, there are risks associated with REITs. Investments in lesser-known, small and medium capitalization companies may be more vulnerable than larger, more established organizations. The Advisor does not attempt to keep the portfolio structure or fund performance consistent with any market index. Increased portfolio turnover may result in higher brokerage commissions, and other transaction costs may result in taxable capital gains. No-load mutual funds are sold without sales charge; however, they have ongoing expenses, such as management fees.

Investors should carefully consider the investment objectives, risks, charges and expenses of the North Star Funds. This and other important information about each of the Funds are contained in the prospectus, which can be obtained at www.nsinvestfunds.com or by calling (855) 580-0900. The prospectus should be read carefully before investing. The North Star Funds are distributed by Northern Lights Distributors, LLC member FINRA/SIPC.