

Smallcap QUALITY VALUE STRATEGY



**BALLAST EQUITY
MANAGEMENT, LLC**
STABILITY. QUALITY. VALUE.

3Q:20

MISSION STATEMENT

At Ballast Equity Management we strive to deliver a smoother ride in good markets and bad, seeking to help our clients reach their long-term investment goals by setting clear expectations and through investment in high-quality small- and mid-cap value stocks.

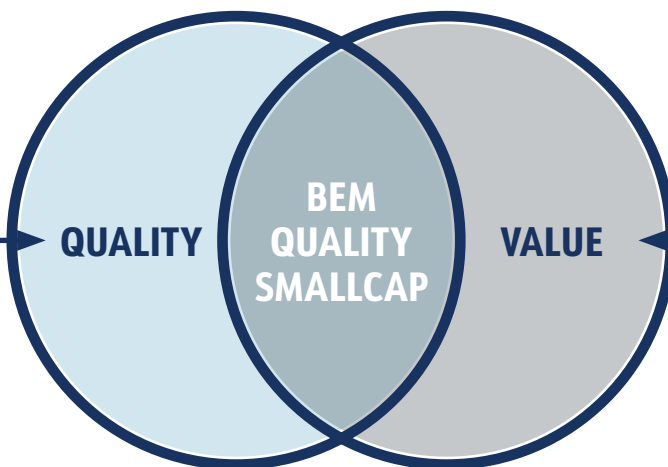


INVESTMENT TEAM

Ballast's investment team has navigated markets together for more than 20 years. Jeff Kautz and Randy Hughes founded Ballast in 2016 and worked together previously at Perkins Investment Management, a subsidiary of Janus Henderson. While there, Jeff held roles including Portfolio Manager, CEO and Chief Investment Officer and Randy held the roles of Director of Research and Analytics and Equity Analyst. Ballast is 100% employee owned and fosters a culture that marries independent thought with collaboration. Employee-owners invest alongside the clients of the firm in each of its strategies.

Ballast Quality Bias: Invest in companies exhibiting strong balance sheets, stable and growing cash flows and returns on invested capital (ROIC) well in excess of their cost of capital (WACC).

Strong financial characteristics are sustained through the presence of a durable competitive advantage allowing the companies to drive economic profits well into the future.



Ballast purposefully acts like business owners, focusing on a company's intrinsic value and blocking out day-to-day price moves.

Ballast believes that buying wealth-creating businesses at discounts to intrinsic value will offer our clients stability, with less volatility and lower drawdowns, pursuing our goal to create long-term wealth.

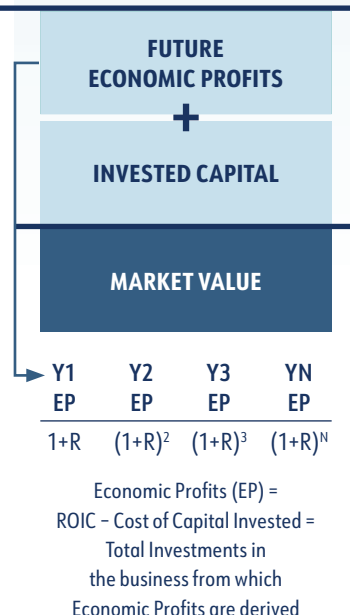
STRATEGY

OBJECTIVE Ballast Equity Management (BEM) Quality Value Smallcap Strategy strives to deliver a smoother ride in good markets and bad, seeking to outperform the Russell 2000 Value Index and Russell 2000 Index with less risk over a full market cycle.

OVERVIEW BEM Quality Value Smallcap Strategy invests with conviction in 50-70 high quality companies which can deliver high returns on invested capital, well in excess of their cost of capital, sustained through strong, durable competitive advantages. Identification and selection of these companies is supported by proprietary Quality Scores and fundamental research. Ballast is patient and will only add a company to the Quality Value Smallcap Strategy when its stock can be purchased at a reasonable valuation.

PROCESS Ballast employs a research and screening process that includes four distinct steps:

 SCREENING	 QUANTITATIVE ANALYSIS	 QUALITATIVE ANALYSIS	 VALUATION
<p>Ballast screens a universe of over 3000 small and mid-cap stocks by charting the ratio of Enterprise Value to Invested Capital relative to the Return on Invested Capital for the companies. Investors should be willing to pay more for a business that earns high returns on capital; Ballast only considers those that appear undervalued.</p>	<p>Ballast ranks stocks in its universe according to its proprietary Quality Rankings Model, using factors that identify companies with strong financial flexibility, stable and growing cash flow and stable and improving profitability metrics. Ballast focuses on stocks with Quality Rankings in the top two quintiles of its universe.</p>	<p>Ballast believes strongly that high returns on capital are maintained and defended through proven, durable competitive advantages, such as economies of scale, strong intangible assets, high switching costs, network effects and cost advantages. Ballast professionals carefully assess the durability of each business's competitive advantages.</p>	<p>Ballast strongly believes that valuation plays a vital role in successful investing. Forecasting future economic profits and capital allocation decisions allows Ballast to answer its primary question: "Does the company create wealth for investors over time?"</p>



3Q:20 COMMENTARY

Market participants experienced two sharply different environments during the quarter with U.S. equities marching higher propelled by stimulus fuel in July and August while renewed investor concerns, market volatility, and negative returns returned in September. Within small cap indexes, returns from certain consumer cyclical stocks were the standout performers, as companies in retail, auto sales, home improvement, and gaming benefitted from the COVID economy. Returns for energy companies were a mirror image of those positive returns and bank financials were also challenged. Large cap indexes continued to be dominated by a few large tech names, prompting Ballast to “talk its book” and advocate that the stocks of quality small and mid-cap businesses present more compelling opportunities.

QUALITY VALUE SMALLCAP TOP CONTRIBUTORS

As COVID-19 restrictions eased in the U.S., investor optimism returned to **OMEGA FLEX (OFLX)** and other industrial stocks related to construction. OFLX is a manufacturer of flexible metal hose with products used in residential and commercial construction. Residential housing has been a positive during 2020 and OFLX benefits as more homes use gas for heating. Leadership extends to other markets, including road transportation, semi-conductor, medical, pharmaceutical, and petrochemical products. OFLX benefits from high switching costs once its solutions are designed into these products. Returns on Invested Capital are 33% and OFLX has net margins of 16%.

SIMULATIONS PLUS (SLP) produces software and provides consulting analytics for use in drug discovery. SLP is approaching a 20% market share of the pharmaceutical, biotechnology, and generic companies that would be potential users of its software and consulting services. Its StrategiesPlus COVID-19 ACT Program, launched in early 2020, is designed to help speed pharmaceutical research and accelerate the process of regulatory approval, contributing to resolving the COVID-19 pandemic. Positive results are also expected as employees of pharma and biotech customers return to work following the COVID-19 pandemic and commit to new engagements with SLP. High switching costs, intellectual property and high contract renewal rates support operating markets of 28%.

TOP 10 HOLDINGS¹

	% Weighting
Simulations Plus, Inc.	2.87%
Computer Services, Inc.	2.87%
Omega Flex, Inc.	2.45%
UniFirst Corporation	2.42%
Dorman Products, Inc.	2.31%
Advanced Energy Industries, Inc.	2.31%
Emergent BioSolutions Inc.	2.28%
UFP Technologies, Inc.	2.26%
Choice Hotels International, Inc.	2.25%
National Storage Affiliates Trust	2.24%
TOTAL	24.27%

PERFORMANCE

	4Q:19	1Q:20	2Q:20	3Q:20	1 Year	3 Year	Annual Total Return (since inception) 6/30/17
BEM - Smallcap (Gross) ³	5.24%	-26.11%	15.74%	1.41%	-8.73%	2.45%	3.42%
BEM - Smallcap (Net) ³	4.98%	-26.30%	15.48%	1.16%	-9.62%	1.44%	2.41%
Russell 2000 Value ²	8.49%	-35.66%	18.92%	2.56%	-14.87%	-5.12%	-3.27%
Russell 2000 ²	9.94%	-30.62%	25.42%	4.93%	0.38%	1.76%	3.36%

3Q:20 COMMENTARY – CONTINUED

QUALITY VALUE SMALLCAP TOP DETRACTORS

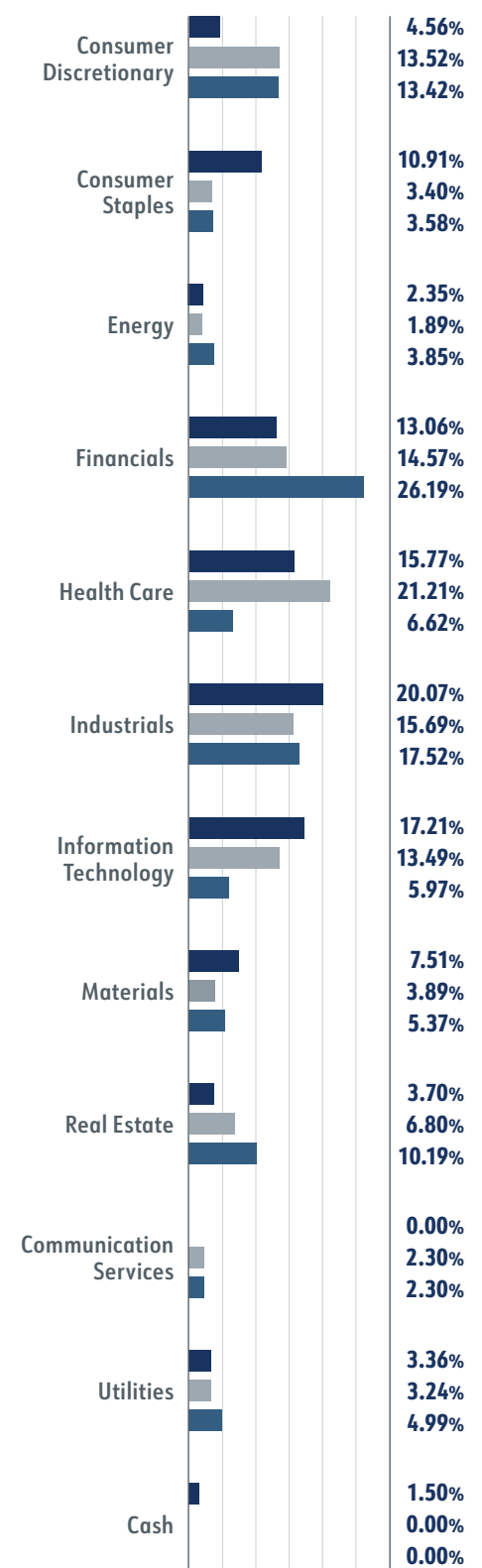
PAYSIGN, INC. (PAYS) provides prepaid card programs specializing in corporate incentive products, payroll cards, general purpose re-loadable cards, and travel cards. Areas of growth for the business include its pharmaceutical payment assistance programs and plasma donor network services. PAYS offers promotional campaigns to limit a patient’s out-of-pocket prescription drug costs through a prepaid debit card in the former and donor payment programs in the latter. PaySign benefits from a high level of contractually recurring revenue, but still suffered from impacts related to the pandemic that lowered revenues in its Pharma and Plasma businesses during the second quarter. While challenges exist, Returns on Invested Capital are 45% and shares are selling at a significant discount to Ballast’s view of intrinsic value.

OIL SERVICES INTERNATIONAL (OIS) was a leading detractor during Q3 2020. OIS is a provider of specialty products and services to the drilling, production and infrastructure sectors of the oil and gas industry. Barriers to entry are high in each of its markets which supports high margin products. Ballast has been mindful of risks to the business including being levered to the number of new wells completed in the U.S. We believe OIS to be well managed but have concerns over its balance sheet because of challenges to its end markets. Ballast exited its position in early September, avoiding the subsequent slide in OIS’ stock price.

QUALITY VALUE SMALLCAP PORTFOLIO ACTIVITY

Activity during Q3 2020 focused on lowering cyclical and upgrading quality. In addition to the previously mentioned sale of Oil Services International, Ballast sold positions including retailer Kohl’s and bank financials Summit Financial Group (SMMF) and Southern First Bancshares (SFST). Proceeds funded purchases of NIC Inc. (EGOV), a provider of technology services to state and local governments, and Sensient Technologies Corporation (SXT), a manufacturer of colors, fragrances, and flavors. Both businesses benefit from high switching costs. Also added was life sciences company Meridian Bioscience, Inc. (VIVO), a leader in providing diagnostic test kits, antigens and reagents to agri-bio and pharmaceutical companies. The Ballast team has owned VIVO on and off for many years and believes its fundamentals and current share price offer a compelling opportunity.

SECTOR EXPOSURE^



BEM Quality Value Smallcap¹

Russell 2000²

Russell 2000 Value²

0 5 10 15 20 25 30 %

3Q:20 COMMENTARY – CONTINUED

BALLAST'S OUTLOOK

Our thoughts remain the same as they were three short months ago; risks persist and should be managed. Ballast's team balances optimism about the prospects for our holdings with risk management, both at the macro level and in assessing the potential challenges to the companies in our portfolios. One pundit recently noted that historians in the future will need to specify in which quarter of 2020 they specialize, given the continuous stream of events and surprises the year has presented to us all (and may yet offer). Despite the risks we know and those that we do not, Ballast sees complacency on the part of many investors. We believe it is better to play defense in this environment than offense. We play defense by owning high quality companies, purchased at reasonable valuations, and monitored closely by experienced analysts.

PORTFOLIO CHARACTERISTICS

	BEM Quality Value Smallcap	Russell 2000	Russell 2000 Value
Active Share ⁴	96.01	0.00	0.00
Number of Securities	60	2,019	1,459
Weighted Average Market Cap (MM)	2,007.37	2,431.50	1,861.76
Median Market Cap	1,330.41	637.65	552.29
Dividend Yield	1.28	1.66	2.72
ROIC	13.36	-0.21	0.09
Debt/Capitalization	28.23	57.20	58.71
EV/EBITDA	18.89	12.33	8.85

RISK METRICS

	BEM Quality Value Smallcap	Relative to Russell 2000	Relative to Russell 2000 Value
Annualized Alpha		-0.86	6.83
Beta		0.850	0.78
Up Capture		76.52	89.65
Down Capture		87.52	80.99
Standard Deviation*	17.90	22.30	23.00
Information Ratio		0.009	0.89
Sharpe Ratio	0.11		

*Standard Deviation is shown for the BEM Strategy and for each respective Index.



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For more information, please call
844.322.5527 or visit **ballastequity.com**

We thank our clients and invite other like-minded investors to contact us if we may be of service.

DISCLOSURES

No client or potential client should assume that any information presented should be construed as personalized investment advice. Personalized investment advice can only be rendered after engagement of the firm for services, execution of the required documentation, and receipt of required disclosures. Investing carries risk of loss. You should consider the strategy's investment objectives, risks, charges and expenses carefully before investing.

[^] Sector classifications are generally determined by referencing the Global Industry Classification Standard (GICS[®]) and exclude cash. GICS was developed by and/or is the exclusive property of MSCI, Inc. and Standard & Poor's Financial Services LLC (S&P). GICS is a service mark of MSCI and S&P.

¹ Top ten holdings, sector weights and portfolio characteristics for the BEM Quality Value Smallcap Strategy are taken from the model portfolio.

² The BEM Quality Value Smallcap Strategy is compared to the Russell 2000 Indices as they are widely used benchmarks for small capitalization securities. An investment with Ballast Equity Management (BEM) should not be construed as an investment in a program that seeks to replicate, or correlate with, these indices. Market conditions vary between the BEM products and these indices. Furthermore, these indices do not include any transaction costs, management fees and other expenses, as do the BEM Products. Lastly, BEM may invest in strategies and positions that are not included in these indices.

³ BEM Quality Value Smallcap returns are for the BQV Smallcap Composite. Net returns are calculated assuming the maximum advisory fee of 100 bps is applied. Returns are net of both advisory fees and transaction costs. All dividends are assumed to be reinvested. The reporting currency is USD.

⁴ Active Share of the BEM Quality Value Smallcap Strategy is calculated relative to the Russell 2000 Value Index.

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