



3Q:21

## 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.

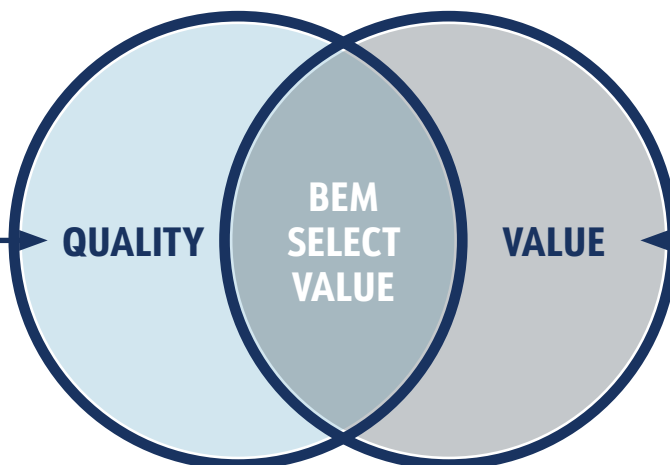


## INVESTMENT TEAM

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.

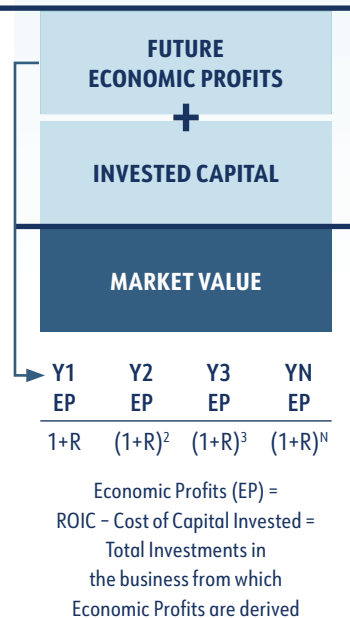
# STRATEGY

**OBJECTIVE** Ballast Equity Management (BEM) Select Value Strategy strives to deliver a smoother ride in good markets and bad, seeking to outperform the Russell 2500 Value Index and Russell 2500 Index with less risk over a full market cycle.

**OVERVIEW** BEM Select Value Strategy is a high conviction portfolio holding the best ideas from the firm's Quality Value Smallcap and Quality Value Midcap strategies. The Strategy invests with conviction in 30-50 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 Select Value Strategy when its stock can be purchased at a reasonable valuation.

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

 <b>SCREENING</b>	 <b>QUANTITATIVE ANALYSIS</b>	 <b>QUALITATIVE ANALYSIS</b>	 <b>VALUATION</b>
<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:21 COMMENTARY

As noted in our outlook last quarter, U.S. equity markets delivered between one and two years of expected returns in just the first six months of 2021. Equity markets pushed higher through August, but fell in September, as uncertainty regarding fiscal and monetary policy, inflation concerns, and slowing growth impacted investor sentiment. Factors driving performance shifted multiple times during the quarter. Using the Russell Stability indexes as proxies for high and low quality, the Russell Defensive indexes containing businesses with higher Returns on Assets, lower leverage, and lower volatility outperformed low quality businesses, as measured by the Russell Dynamic indexes, across the market cap spectrum.

Quality “Ballast-like” businesses, those with less sensitivity to economic and credit cycles and with more sustainable business models, outperformed. Security selection was a strong contributor to performance, adding more than 100% of the strategy’s relative outperformance.

### SELECT VALUE TOP CONTRIBUTORS

**ICON PLC (ICLR)** contributed to performance as shares were propelled by strong business results and optimism over expected synergies in its acquisition of PRA Health. ICLR is a late-stage contract research organization that provides drug development and clinical trial services to pharmaceutical, biotechnology, and medical device firms. While the business has operated globally, its purchase of PRA Health is expected to enhance these capabilities and deepen its relationships with clients including Pfizer.

Shares of real estate management and investment firm **JONES LANG LASALLE (JLL)** rose over 25% as earnings results exceeded expectations. While some drivers behind this outperformance are temporary, the key drivers were the strong recovery in transactional leasing activity and the benefit of more permanent cost-saving measures. Competitive advantages of JLL include its retention rate of 90% when it takes over real estate management services from its clients.

### TOP 10 HOLDINGS<sup>1</sup>

	% Weighting
ICON Plc	3.71%
Laboratory Corporation of America Holdings	3.51%
Broadridge Financial Solutions, Inc.	3.34%
National Storage Affiliates Trust	3.25%
Tyler Technologies, Inc.	3.20%
MSCI Inc. Class A	3.05%
Booz Allen Hamilton Holding Corporation Class A	2.95%
NAPCO Security Technologies, Inc.	2.83%
Jones Lang LaSalle Incorporated	2.70%
Insperty, Inc.	2.57%
<b>TOTAL</b>	<b>31.11%</b>

### PERFORMANCE

	4Q:20	1Q:21	2Q:21	3Q:21	1 Year	3 Year (Ann)	Annual Total Return (since inception) 9/30/17
BEM – Select Value (Gross) <sup>3</sup>	18.58%	10.27%	4.32%	2.04%	39.18%	14.44%	14.05%
BEM – Select Value (Net) <sup>3</sup>	18.34%	10.04%	4.09%	1.82%	38.02%	13.39%	12.98%
Russell 2500 Value <sup>2</sup>	28.51%	16.83%	5.00%	-2.07%	54.38%	8.87%	9.61%
Russell 2500 <sup>2</sup>	27.40%	10.92%	5.45%	-2.68%	45.01%	12.45%	13.79%

# 3Q:21 COMMENTARY – CONTINUED

## SELECT VALUE TOP DETRACTORS

**CORE LABORATORIES (CLB)** dropped nearly 30% during the quarter, detracting from performance. CLB helps oil and gas companies better understand how to improve production levels and economics with core and reservoir analysis. Competitive advantages include its intangible assets (patents, proprietary technology, and human capital) and network effects (multi-client reservoir studies). Quarterly results were disappointing as COVID-19 related disruptions weighed on margin performance.

**FAIR ISAAC CORP. (FICO)** detracted from performance as shares fell on disappointing aspects of its quarterly results. The company is a leading data and analytics company focused on predicting consumer behavior through its scores and software. FICO Scores serve as a benchmark “currency” in the U.S. consumer credit industry that are embedded in both industry processes and regulation, and in financial institutions’ systems and workflows. The scale advantage enjoyed by FICO supports high margins and free cash flows and the company produces Returns in Invested Capital of 12%.

## SELECT VALUE PORTFOLIO ACTIVITY

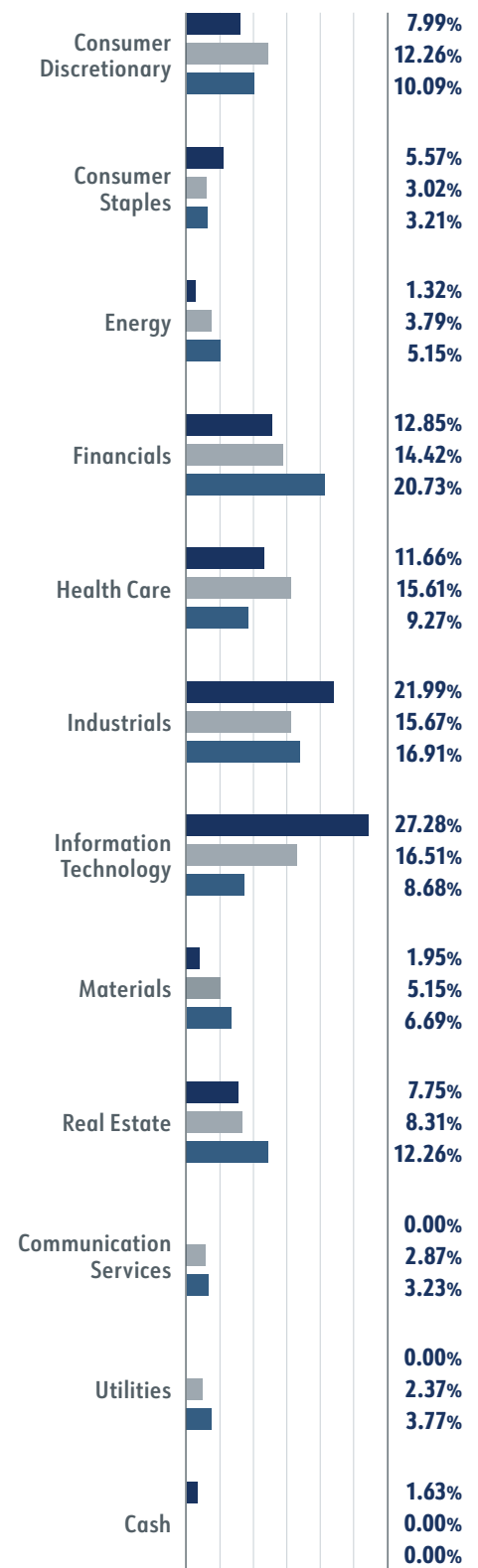
Portfolio activity was higher than typical as rising markets and volatility presented opportunities for taking gains and allocating to better opportunities. New positions were initiated in management consulting firm **BOOZ ALLEN HAMILTON HOLDING CORP. (BAH)** and **CSG SYSTEMS INTERNATIONAL (CSGS)**, a leading provider of billing services to the cable, broadband and satellite industry. Also added during the quarter were government health and human service provider **MAXIMUS (MMS)** and workforce solutions provider **INSPERITY (NSP)**. Ballast exited its holdings in **CBOE GLOBAL MARKETS (CBOE)**, **J&J SNACK FOODS (JJSF)**, **MGP INGREDIENTS (MGPI)**, and **WATERS CORP. (WAT)**.

## BALLAST’S OUTLOOK

There is no shortage of risks in equity markets, including the above-mentioned uncertainty over fiscal and monetary policy, inflation concerns, and slowing economic growth. Tax policy looms as a potential impact to corporate margins and supply chain issues persist. While the potential impact of each of these is important for investors to consider, the macro future isn’t knowable. What we do know is the importance of maintaining a focus on fundamentals and quality businesses that have pricing power and persistent performance.

With 42% of the Russell 2000 companies lacking positive earnings in the trailing twelve months, we know that cheap money and government stimulus have propped up the market returns of low-quality companies. Selectivity will be critical in the coming months, and we will serve our clients through careful diligence and a continued attention to the sustainability of business performance and the price paid for each holding in our strategies.

## SECTOR EXPOSURE<sup>^</sup>



BEM Select Value<sup>1</sup>

Russell 2500<sup>2</sup>

Russell 2500 Value<sup>2</sup>

0 5 10 15 20 25 30 %

## PORTFOLIO CHARACTERISTICS

	BEM Select Value	Russell 2500	Russell 2500 Value
Active Share <sup>4</sup>	95.99	0.00	0.00
Number of Securities	43	2,532	1,863
Weighted Average Market Cap (MM)	11,514.37	7,313.85	7,018.14
Median Market Cap	7,881.12	1,701.75	1,655.73
Dividend Yield	1.07	1.36	1.86
ROIC	14.78	4.45	4.77
Debt/Capitalization	37.97	53.47	53.38
EV/EBITDA	23.65	12.22	9.90

## RISK METRICS

	BEM Select Value	Relative to Russell 2500	Relative to Russell 2500 Value
Annualized Alpha		-0.86	3.02
Beta		0.93	0.86
Up Capture		72.97	77.95
Down Capture		79.80	74.24
Standard Deviation*	18.06	24.24	25.50
Information Ratio		0.031	0.438
Sharpe Ratio	0.71	—	—

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



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

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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.

<sup>^</sup> Sector classifications are generally determined by referencing the Global Industry Classification Standard (GICS<sup>®</sup>) 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.

<sup>1</sup> Top ten holdings, sector weights and portfolio characteristics for the BEM Select Value Strategy are taken from the model portfolio.

<sup>2</sup> The BEM Select Value Strategy is compared to the Russell 2500 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.

<sup>3</sup> BEM Select Value returns are for the BQV Select Value Composite. Net returns are calculated assuming the maximum advisory fee of 100bps is deducted from the quarterly gross composite return from inception through June 30, 2020. Starting July 1, 2020, actual fees charged are used to calculate net performance. Returns are net of both advisory fees and transaction costs. All dividends are assumed to be reinvested. The reporting currency is USD.

<sup>4</sup> Active Share of the BEM Select Value Strategy is calculated relative to the Russell 2500 Value Index.

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