



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

Sustainability Inside

November 2021

The “Intel Inside” advertising program that began 1991 is thought to be the most powerful cooperative marketing program in history. Intel Corporation successfully aimed its advertising toward consumers, convincing them that Intel chips were the ingredient needed to have a positive personal computing experience. Today, ESG investing is capturing minds and investment dollars, with both individual and institutional investors driving flows toward funds that emphasize environmental, social and governance issues. According to Morningstar, assets in U.S. sustainable funds totaled more than \$330 billion as of September 30, 2021, a 9% increase over the previous quarter and 1.8 times the \$183 billion record set one year earlier, in the third quarter of 2020.ⁱ Ballast Equity Management does not represent itself as an ESG firm or its investment strategies as ESG focused. Ballast does, however, consider ESG factors as part of its investment process and many of its holdings have strong sustainability initiatives in place. Investment considerations begin prior to Ballast’s investment and will continue during our ongoing monitoring of portfolio companies. As with every investment decision, Ballast takes a company specific approach and understands that ESG factors vary across industries, geography, and time.

ESG data is readily available from most large corporations, but disclosures have lagged among small-mid cap companies that have lesser resources to devote to disclosure and reporting. This has left investors with an incomplete view of the initiatives and risks that may exist. Ballast maintains its focus on these small and mid-capitalization companies, with the belief that its quality-biased, value equity strategies can add alpha for its clients over full market cycles. Based on investor demand, more sustainability disclosures are becoming available from these small to medium cap companies. A survey conducted by White & Case, LLP, while limited in scope, showed that small and mid-cap companies providing sustainability disclosures rose from 35% to 51% in the 2019 to 2020 period.ⁱⁱ Such disclosures permit Ballast to supplement the detailed analysis it has historically done to understand each business, its risks, and opportunities more deeply.

ESG and sustainability initiatives within Ballast’s holdings

Copart (CPRT) operates the largest global marketplace for salvage vehicles. The company has established wide moats based on its property ownership, permitting vehicle storage, and a global digital marketplace that drives strong auction returns. By definition, its role in the recycling of salvage vehicles, either as drivable cars or reusable parts, lessens the impact on the environment of cars that would otherwise be scrapped. Many of the vehicles sold through Copart’s auction platform are purchased for use in developing countries where affordable transportation is a critical enabler of economic development, agriculture production, education, health care, and well-being. Other important steps taken by the business include operating heavy equipment with the latest and cleanest emissions technology available, maintaining a tire recapping program to limit the effects on the environment of tire manufacturing and

waste, and the implementation of operational policies that control fuel burn and idling that have reduced use by over 300,000 gallons per year, significantly reducing generated emissions.

ICON PLC (ICLR) offers late stage outsourcing services to pharmaceutical, biotechnology and medical device companies. Noteworthy is its recent support of Pfizer and BioNTech on their COVID-19 vaccine trial, where the company worked with 153 sites in the US, Europe, South Africa, and Latin America to ensure the recruitment of more than 44,000 trial participants over a four-month period. Also of note is the nature of ICON's business, where its leadership in the development of new drugs can have a significant impact on patient health and wellbeing. The company established its ESG Committee in 2019 and has established specific goals and objectives aligned with the 2030 United Nations Sustainable Development Goals. Among these are environmental goals to use 100% renewable electricity by 2025, a 20% reduction in kilowatt hours of electricity by 2030 and net zero carbon emissions on Scope 1 & 2 by 2030. ICON has significant diversity and inclusion efforts in place, led by its Inclusion & Belonging Steering Committee. Governance is strong, with eight independent directors out of ten as of December 2020. Following the merger of ICON with PRA, four of the twelve board seats are held by women.

Professional employer organization **Insperty, Inc. (NSP)** fills a lucrative niche within mid-high income white-collar employers, serving them as they outsource their increasingly complex human resources and benefit services needs. NSP has conservation initiatives to improve its carbon footprint. 463,400 pounds of paper are recycled through NSP's conservation efforts, equivalent to 3,940 trees saved, 88,000 gallons of oil, 1.62 million gallons of water, and 695 cubic yards landfill space. NSP is highly involved in the community, with 60% of NSP's employees participating in community activities. NSP also fosters a culture of Diversity, Equity and Inclusion which helps its own employees as well as its clients.

Ballast holding **LabCorp (LH)** chartered an ESG Steering Committee in 2020 that works together with the company's CEO and Executive Committee. The company has environmental initiatives in place to reduce emissions and optimize energy consumption. These include optimizing its courier vehicle fleet, investing in more energy efficient equipment and LED lighting, and utilizing renewable energy sources. In 2019, the company reduced greenhouse gas emissions by 3.6% while total energy consumption was flat relative to the prior year. Led by its Chief Diversity and Inclusion Officer, social initiatives include adding historically Black colleges to key recruiting schools, putting greater emphasis into developing female leadership and facilitating forums for women to share perspectives with the executive team, and promoting use of employee resource groups. In 2020, 78% of global interns were female and, in the U.S., 32% were underrepresented minorities. LabCorp was one of only 18 companies recognized by the U.S. National Business Group on Health for the Best Employers Excellence and Well-Being Platinum Award. Governance is a critical issue within LabCorp and in Ballast's analysis of the business. Nine out of 10 board members are independent, and five out of 10 board members are female and/or ethnically diverse. Stockholder friendly policies include annual election of directors, annual say-on-pay vote, shareholder right to call special meetings, and no supermajority voting requirement. 77.5% of CEO compensation is performance based and at risk.

For two consecutive years, **Watts Water Technologies (WTS)** has been named by Newsweek magazine as one of "America's Most Responsible Companies." The company is uniquely situated to aid in energy conservation as it provides water and gas products that contribute to energy efficiency and the sustainability of water supplies for commercial and residential uses. The company benefits from a shift to eco-friendly products and is committed to delivering 25% of revenue from smart and connected products by 2023. Watts has reduced its water intensity by 39% since 2019, has reduced 4,000 metric tons of CO₂ and avoided 830,000kWh of electricity. Watts is involved in community outreach, such as its Covid-19

relief efforts where it supplied front-line healthcare workers with personal protective equipment, donated laptops and school supplies to students for remote learning and raised over \$21.5 million to support 43,000 restaurants across the U.S.

Next Steps

Intel has moved beyond 1991 and the 386 microprocessor. ESG investing and its definitions will also evolve, likely becoming a more meaningful source of new data to supplement traditional investment data. The Ballast team also began working together in the 1990s and has refined its process and accountability to clients over that time. Our emphasis on quality businesses, ones that deliver persistent earnings and returns on invested capital supported by durable competitive advantages, has remained steadfast in this period. This focus leads us to companies that are often forerunners in pursuing sustainability initiatives. Management of these companies know that such initiatives may provide pathways to improved business performance that should support attractive returns and risk profiles for investors. Ballast will continue to enhance our research, paying careful attention to sustainability initiatives and acknowledging that they offer a valuable addition to the fundamental characteristics our process demands.

About Ballast Equity Management, LLC

Ballast Equity Management, LLC is an employee-owned asset management firm that invests alongside its clients in high conviction portfolios of quality small and mid-capitalization businesses. Ballast manages these portfolios of publicly traded companies for individuals, family offices and institutions. Based in Oakbrook Terrace, Illinois, Ballast was founded in 2016 by Jeff Kautz and Randy Hughes, investment professionals who previously held senior roles at Perkins Investment Management and have invested together for over 20 years. For more details on the specific performance and characteristics of Ballast's strategies, including a fully GIPS compliant presentation, please contact Dave Mertens at dmertens@ballastequity.com.

ⁱ <https://direct.morningstar.com/research/doc/1063673/Global-Sustainable-Fund-Flows-Q3-2021-in-Review>

ⁱⁱ [A Survey of Sustainability Disclosures by Small and Mid-Cap Companies \(harvard.edu\)](#)