



1Q:22

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.

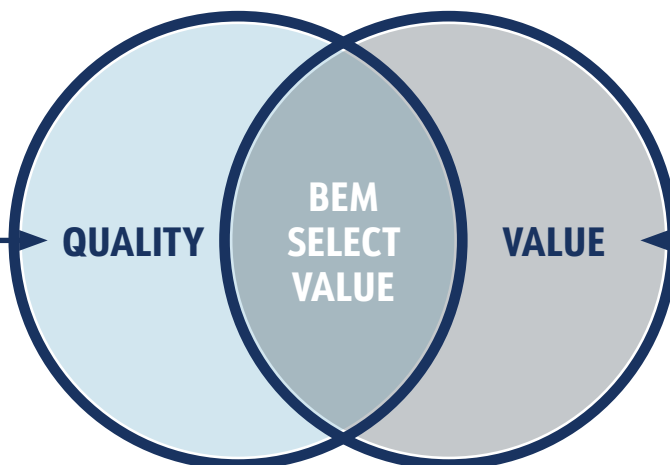


INVESTMENT TEAM

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.

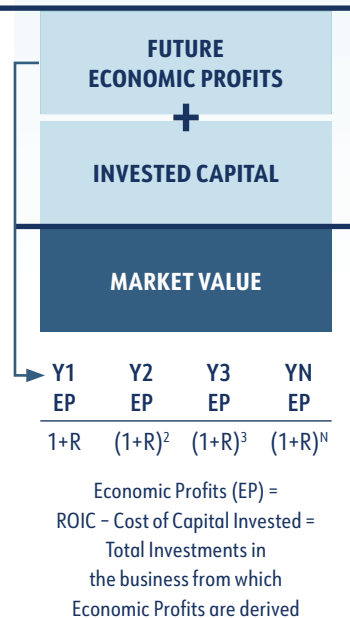
STRATEGY

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:

 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>



1Q:22 COMMENTARY

Ballast concluded its commentary last quarter with a list of “known risks” that included a continuation of inflation, the Federal Reserve’s tightening cycle and trajectory, and the fact that attention paid by investors to geopolitical risks stood at a four-year low, while the ambitions of China, Iran and Russia continued to rise. These risks emerged in more profound ways than we expected, with war in Ukraine, a more hawkish Fed, and inflation spiking to 40-year highs. Markets reacted to these risk factors with heightened volatility and negative returns across equity market caps. Performance by energy stocks greatly outstripped all other sectors as worries over global supply – already escalated prior to the war in Ukraine – rose further.

The **Ballast Select Value Strategy** lagged the returns of both the Russell 2500 Value and Russell 2500 Indexes. Select Value is a high conviction strategy that takes Ballast’s “best ideas” from its Quality Value Smallcap and Quality Value Midcap strategies. Security selection more than offset the negative impact of an overweight in Technology companies during the quarter. Ballast’s overweight and its security selection detracted from performance in Healthcare and its meaningful underweight to Energy also detracted. Ballast has historically been significantly underweight in Energy holdings, as these businesses generally do not have the high returns on invested capital or consistency of business performance we seek.

SELECT VALUE TOP CONTRIBUTORS

Energy services company **CORE LABORATORIES (CLB)** rose over 40% as investor sentiment turned favorable toward the company’s prospects in its reservoir description and production enhancement services divisions. CLB is the singular energy holding in the Ballast strategy and has competitive advantages that include its intangible assets (patents, proprietary technology, and human capital) and network effects (multi-client reservoir studies). Prior to the start of the conflict in Ukraine, CLB announced that it expects double digit gains in 2022 for both its business segments; these gains could improve further as exploration and production increases.

Financial technology company **JACK HENRY & ASSOCIATES, INC. (JKHY)** was the second greatest contributor to performance during the quarter. JKHY provides automation software, payment processing, and outsourcing solutions to community banks and credit unions and has moved up market into larger banking organizations over the past ten years. The company produces returns on invested capital of 20%, supported by high switching costs and a scalable business model.

TOP 10 HOLDINGS¹

	% Weighting
Booz Allen Hamilton Holding Corp.	3.94%
Laboratory Corporation of America Holdings	3.31%
Broadridge Financial Solutions, Inc.	3.14%
Tyler Technologies, Inc.	3.12%
Church & Dwight Co., Inc.	3.08%
ICON Plc	2.99%
CSG Systems International, Inc.	2.83%
National Storage Affiliates Trust	2.80%
Synovus Financial Corp.	2.79%
Rollins, Inc.	2.73%
TOTAL	30.73%

PERFORMANCE

	2Q:21	3Q:21	4Q:21	1Q:22	1 Year	3 Year (Ann)	Annual Total Return (since inception) 7/31/17
BEM – Select Value (Gross) ³	4.32%	2.04%	9.44%	-8.76%	6.27%	15.14%	12.42%
BEM – Select Value (Net) ³	4.09%	1.82%	9.20%	-8.96%	5.37%	14.10%	11.37%
Russell 2500 Value ²	5.00%	-2.07%	6.36%	-1.50%	7.73%	12.96%	9.62%
Russell 2500 ²	5.45%	-2.68%	3.82%	-5.82%	0.34%	13.79%	11.70%

1Q:22 COMMENTARY – CONTINUED

SELECT VALUE TOP DETRACTORS

MASIMO CORPORATION (MASI) shares fell in mid-quarter on the news of its planned acquisition of consumer technology company Sound United. MASI is a medical technology company which develops, manufactures, and markets non-invasive vital sign monitoring devices. While the thesis behind the acquisition is confusing on the surface, it makes strategic sense as MASI is eager to build infrastructure and relationships for marketing its future consumer-focused products, such as the Masimo W1 smartwatch. MASI produces returns on invested capital of 18% and remains a key portfolio holding. Ballast will closely monitor the integration of Sound United along with the overall business performance of the company.

ICON PLC (ICLR) shares fell over concerns that business would slow, post COVID, and that it could stumble in its integration of newly acquired PRA Health. ICLR – and PRAH – are clinical research organizations (CROs) providing outsourced development services to the pharmaceutical, biotechnology, and medical device industries. ICLR has a history of being conservative as it communicates its outlook and previously communicated its expectations for 2022. The cultures of ICLR and PRA Health are similar, and the combined organization will bring synergies and benefit from reduced client concentrations.

SELECT VALUE PORTFOLIO ACTIVITY

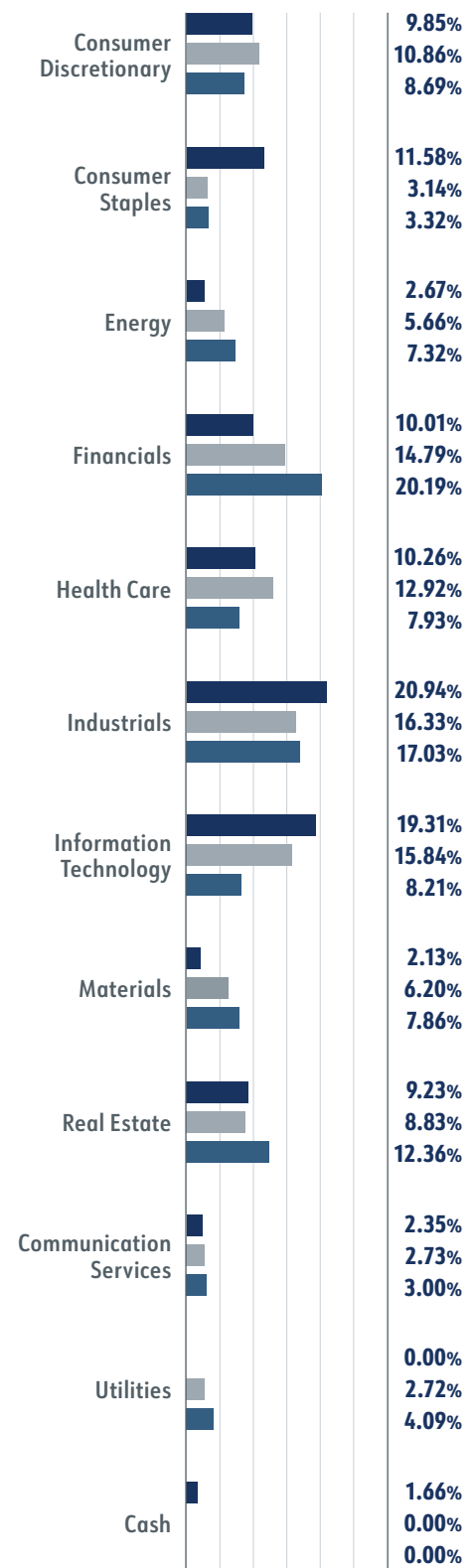
Adhering to Ballast’s emphasis on owning its best small and mid-cap ideas within the Select Value portfolio, Ballast exited **AMDOCS LIMITED (DOX)**, **MAXIMUS INC. (MMS)**, and **QUALYS INC. (QLYS)** during the quarter. New positions were entered in **CLOROX (CLX)**, an existing holding in the Ballast Quality Value Midcap strategy, and **HELEN OF TROY LTD. (HELE)**.

OUR FOCUS ON THE LONG TERM

Inflation, the Fed’s tightening cycle, and geopolitical concerns all weigh on the markets and seem likely to persist during 2022. What seems certain is that economic growth will be slower, leading to slowing corporate earnings growth. The earnings cycle and earnings growth will be in focus, favoring stable and profitable quality businesses such as those emphasized in the Ballast strategies.

Investing in high quality businesses is a winning strategy over time, but we know there will be periods of underperformance. Q1 2022 was painfully such a time, as energy and companies tied to commodity prices drove returns, while stable companies with high returns on invested capital lagged significantly. Investors who can accept these near-term “disconnects” with benchmarks and have the patience to commit to long term ownership are rewarded over time with higher returns and less volatility. We continue to stay disciplined and seek out quality businesses that can be “price makers” in these challenging times.

SECTOR EXPOSURE[^]



BEM Select Value¹

Russell 2500²

Russell 2500 Value²

0 5 10 15 20 25 30 %

PORTFOLIO CHARACTERISTICS

	BEM Select Value	Russell 2500	Russell 2500 Value
Active Share		97.04	97.73
Number of Securities	44	2,518	1,865
Weighted Average Market Cap (MM)	10,204.75	7,844.06	8,120.95
Median Market Cap	7,001.24	1,511.16	1,520.56
Dividend Yield	1.29	1.51	1.96
ROIC	15.50	5.69	6.07
Debt/Capitalization	40.40	52.31	52.90
EV/EBITDA	19.60	10.98	9.43

RISK METRICS

	BEM Select Value	Relative to Russell 2500	Relative to Russell 2500 Value
Annualized Alpha		0.27	0.40
Beta		0.75	0.71
Up Capture		74.42	76.59
Down Capture		82.56	79.61
Standard Deviation*	16.84	22.37	23.72
Information Ratio		0.09	0.32
Sharpe Ratio	0.85	—	—

*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

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 Select Value Strategy are taken from the model portfolio.

² The BEM Select Value Strategy is compared to the Russell 2500 Indices as they are widely used benchmarks for small and mid 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 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.

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