

Midcap QUALITY VALUE STRATEGY



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

2Q: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.

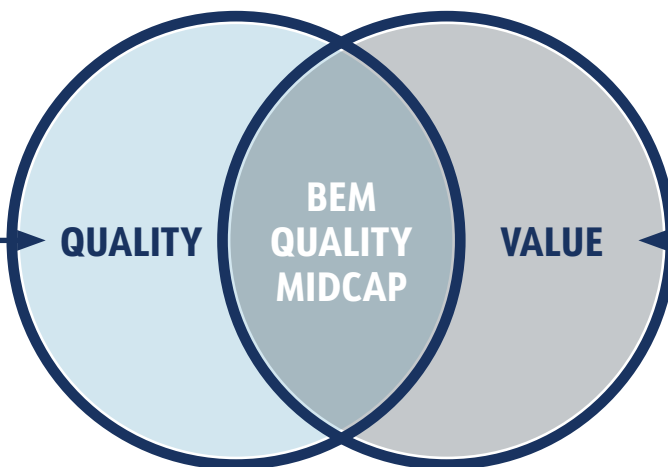


INVESTMENT TEAM

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.

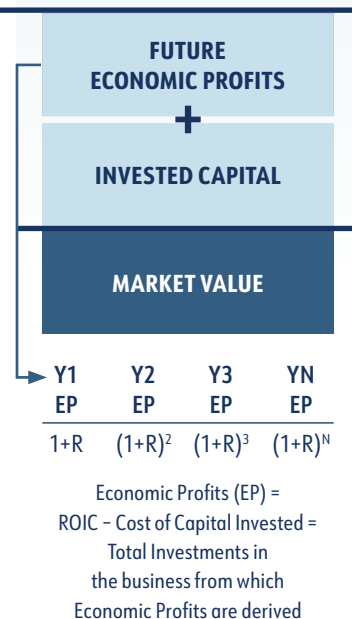
Ballast believes that buying wealth-creating businesses at discounts to intrinsic value will offer our clients stability, with less volatility and lower drawdowns, pursuing our goal to create long-term wealth.

STRATEGY

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

OVERVIEW BEM Quality Value Midcap 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 Midcap Strategy when its stock can be purchased at a reasonable valuation.

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



2Q:22 COMMENTARY

Stocks were sharply lower during the second quarter of 2022, as persistently high inflation and the response from the Federal Reserve sparked worries over the severity of a resulting economic slowdown and risks of a recession. Consumers, the growth engine of the economy, showed fatigue as both their spending and savings rates waned in reaction to rising food and energy costs. Inflation hurt investor confidence and the visibility into future corporate earnings. While not immune to the selloff, stocks of higher quality companies weathered the downturn better than those of lower quality companies. 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 significantly outperformed low quality businesses, as measured by the Russell Dynamic indexes, across the market cap spectrum.

The **Quality Value Midcap Strategy** outperformed both the Russell Midcap Value Index and the Russell Midcap Index during the quarter. Ballast's security selection added value in the Industrial and Financials sectors, while an underweight and negative security selection in Energy and an absence of Utilities companies detracted. Ballast generally finds few businesses with high returns on invested capital in the Energy and Utilities sectors and these exposures are typical for our portfolios.

QUALITY VALUE MIDCAP TOP CONTRIBUTORS

W.R. BERKLEY CORPORATION (WRB) rose during the quarter adding to strong business and stock performance in the first quarter of 2022. WRB provides specialty coverages within the property and casualty insurance and reinsurance markets. Rate increase tailwinds and robust premium growth have supported strong business performance that is reflected in returns on average tangible equity of 18%. While we have conviction in WRB as a business, Ballast exited its position during the quarter to capture gains and pursue companies with more compelling valuations.

CAMPBELL SOUP COMPANY (CPB) aided performance during the quarter on strong business performance and an increase in guidance for 2022. Inflation and increasing input costs stand as a risk and management has acknowledged the headwinds that costs for steel cans and other inputs will create in the second half of 2022. Pricing actions in both the first and second half of the year and supply chain productivity gains are expected to offset much of these pressures. CPB produces returns on invested capital of 12% and shares currently trade at a discount to Ballast's estimate of intrinsic value.

TOP 10 HOLDINGS¹

	% Weighting
Booz Allen Hamilton Holding Corp.	3.87%
Laboratory Corporation of America Holdings	2.79%
Arthur J. Gallagher & Co.	2.56%
Glacier Bancorp, Inc.	2.38%
First Financial Bankshares Inc.	2.33%
Broadridge Financial Solutions, Inc.	2.29%
Motorola Solutions, Inc.	2.28%
Clorox Company	2.26%
Church & Dwight Co., Inc.	2.18%
Rollins, Inc.	2.18%
TOTAL	25.12%

PERFORMANCE

	3Q:21	4Q:21	1Q:22	2Q:22	1 Year	3 Year (Ann)	5 Year (Ann)	Annual Total Return (since inception) 6/30/16
BEM - Midcap (Gross) ³	1.49%	10.65%	-7.06%	-12.94%	-9.14%	9.69%	10.51%	11.21%
BEM - Midcap (Net) ³	1.25%	10.38%	-7.29%	-13.16%	-10.02%	8.63%	9.44%	10.13%
Russell Midcap Value ²	-1.01%	8.54%	-1.82%	-14.68%	-10.00%	6.70%	6.27%	7.82%
Russell Midcap ²	-0.93%	6.44%	-5.68%	-16.85%	-17.30%	6.59%	7.96%	9.34%

2Q:22 COMMENTARY – CONTINUED

QUALITY VALUE MIDCAP TOP DETRACTORS

Shares of energy services company **CORE LABORATORIES (CLB)** fell during Q2 following robust returns in the first quarter. 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). Business performance has been negatively impacted as both COVID and the war in Ukraine have slowed exploration and production initiatives. Despite the headwinds to business performance, CLB produces returns on invested capital of 10% and we expect improvement in performance supported by strong commodity prices and consumer demand.

As with other bank financials during the quarter, **SYNOVUS FINANCIAL CORPORATION (SNV)** shares fell sharply. Ballast has conviction in SNV and likes the growth potential in its southeastern U.S. footprint. Mortgage loan growth may be depressed by higher interest rates and wealth management revenues will likely be reduced by the depressed market, but higher interest rates and operating efficiencies, that include a reduction in the branch network and greater digital delivery, should more than offset those challenges. SNV produces returns on average tangible equity of 18% and shares are discounted relative to Ballast’s estimate of intrinsic value.

QUALITY VALUE MIDCAP PORTFOLIO ACTIVITY

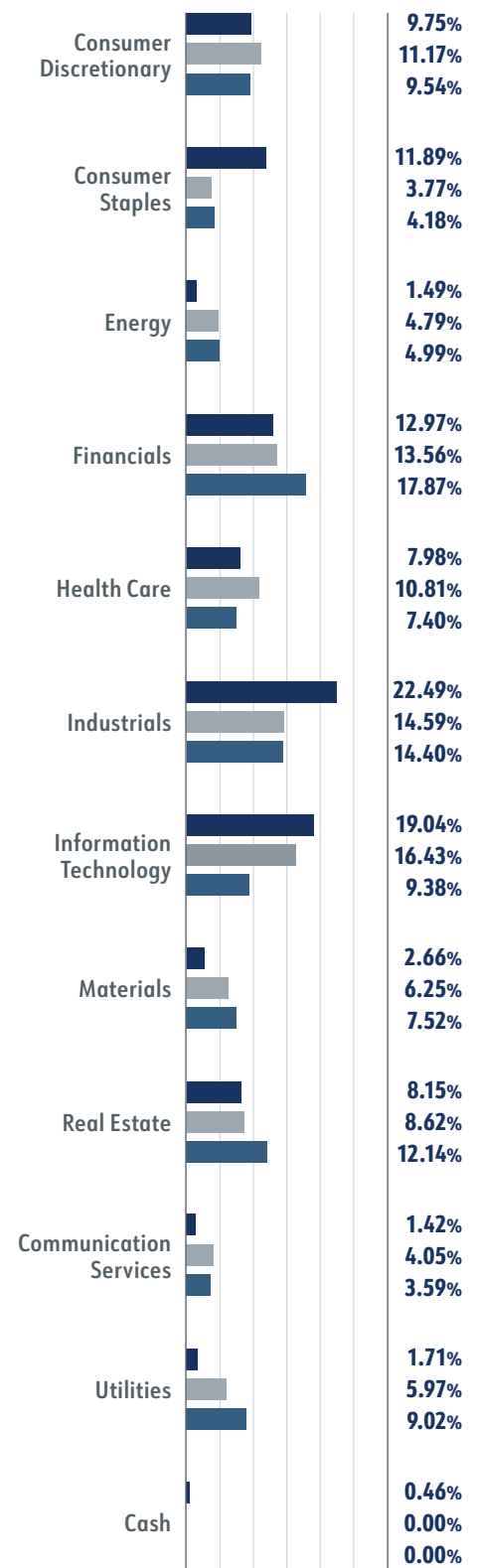
Ballast exited **CBOE GLOBAL MARKETS (CBOE)**, **FAIR ISAAC CORPORATION (FICO)**, **STEVE MADDEN LTD. (SHOO)** and **W.R. BERKLEY (WRB)** during the quarter. Ballast took advantage of the weakness in consumer stocks with new positions in on-line retailer **ETSY INC. (ETSY)** and off-price retailer **ROSS STORES INC. (ROST)**. New positions were also initiated in landscaping equipment provider **THE TORO COMPANY (TTC)** and specialty chemical company **CELANESE CORPORATION (CE)**.

OUR FOCUS ON THE LONG TERM

Inflation, the Fed’s tightening cycle, slowing economic growth and geopolitical concerns all persist as risks for the remainder of 2022. We add to those risks the possibility of a recession as the Federal Reserve seems committed to its war on inflation while armed with the blunt tool of raising rates. Earnings estimates remain high, but inflationary pressures from input costs and wage increases will present challenges, as may weaker spending by consumers and businesses.

Positives sometimes come in unattractive packaging: While economic contraction is painful, a slow or no growth economy could prompt the Fed to slow the increases in interest rates, offering a boost to stock multiples. The pain felt by investors in the first half of 2022 has cut the valuations of many quality businesses to more attractive levels, offering investors the opportunity to upgrade their holdings. These quality businesses generally have less debt, consistent revenue growth, greater free cash flows, and histories of profitability, all supported by durable competitive advantages. Ballast seeks out these qualities in its portfolio companies and we are optimistic that we can deliver compelling long-term results for our clients and ourselves as we invest alongside them.

SECTOR EXPOSURE[^]



BEM Quality Value Midcap¹

Russell Midcap²

Russell Midcap Value²

0 5 10 15 20 25 30 %

PORTFOLIO CHARACTERISTICS

	BEM Quality Value Midcap	Russell Midcap	Russell Midcap Value
Active Share		92.82	93.83
Number of Securities	55	828	706
Weighted Average Market Cap (MM)	14,800.61	19,569.11	18,445.33
Median Market Cap	13,899.88	9,043.15	8,622.86
Dividend Yield	1.37	1.80	2.30
ROIC	16.03	8.17	7.78
Debt/Capitalization	43.22	52.93	52.05
EV/EBITDA	19.00	10.38	9.47

RISK METRICS

	BEM Quality Value Midcap	Relative to Russell Midcap	Relative to Russell Midcap Value
Annualized Alpha		0.31	0.32
Beta		0.84	0.81
Up Capture		91.97	95.16
Down Capture		90.31	87.68
Standard Deviation*	18.30	21.36	22.39
Information Ratio		0.58	0.39
Sharpe Ratio	0.50	—	—

*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 Quality Value Midcap Strategy are taken from the model portfolio.

² The BEM Quality Value Midcap Strategy is compared to the Russell Midcap Indices as they are widely used benchmarks for 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 Quality Value Midcap returns are for the BQV Midcap 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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