



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.

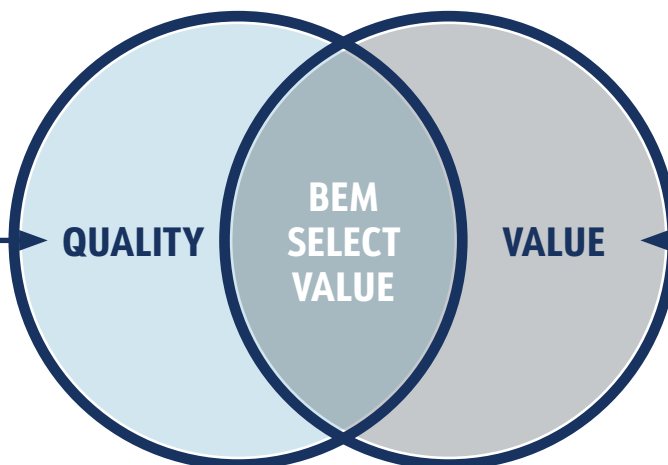


## INVESTMENT TEAM

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.

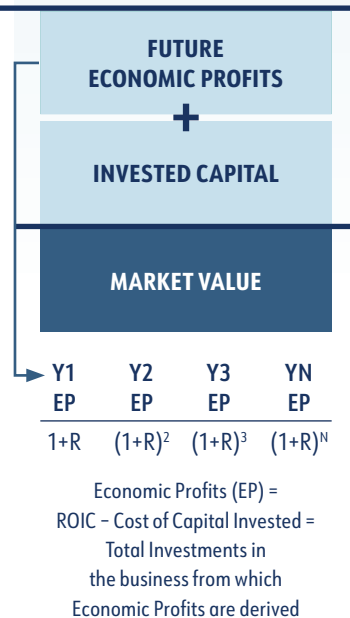
# STRATEGY

**OBJECTIVE** Ballast Equity Management (BEM) 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>



## 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 **Select Value Strategy** outperformed both the Russell 2500 Value and Russell 2500 Indexes during the quarter. Security selection delivered nearly all the outperformance during the quarter, with the greatest benefit in Industrials and Consumer Discretionary companies. An underweight and negative security selection in Energy and an absence of Utilities companies detracted.

### SELECT VALUE TOP CONTRIBUTORS

Record high sales lifted the shares of automotive parts provider **DORMAN PRODUCTS, INC. (DORM)** during the quarter. Products from DORM are offered through aftermarket retailers such as Advance Auto Parts, AutoZone, and O'Reilly Automotive and distributors such as NAPA. The aging of cars is a tailwind to growth for DORM and the company produces returns on invested capital of 13% while shares remain discounted relative to Ballast's view of intrinsic value.

**WD-40 COMPANY (WDFC)** shares aided performance during the quarter. The company reported a quarterly upside earnings surprise, while cutting its fiscal year 2022 earnings outlook due to higher oil-based input costs. WDFC benefits from one of the strongest consumer brands with 95% recognition. Growth opportunities are seen in international markets which the company estimates could reach \$1 billion. WDFC produces returns on invested capital of 25%.

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

	% Weighting
Booz Allen Hamilton Holding Corp.	4.50%
Laboratory Corporation of America Holdings	3.27%
Broadridge Financial Solutions, Inc.	3.20%
Church & Dwight Co., Inc.	3.19%
Rollins, Inc.	3.02%
CSG Systems International, Inc.	2.96%
Clorox Company	2.78%
Service Corporation International	2.64%
Insperty, Inc.	2.59%
Tyler Technologies, Inc.	2.59%
<b>TOTAL</b>	<b>30.74%</b>

### PERFORMANCE

	3Q:21	4Q:21	1Q:22	2Q:22	1 Year	3 Year (Ann)	Annual Total Return (since inception) 7/31/17
BEM – Select Value (Gross) <sup>3</sup>	2.04%	9.44%	-8.76%	-9.72%	-8.02%	8.90%	9.46%
BEM – Select Value (Net) <sup>3</sup>	1.82%	9.20%	-8.96%	-9.91%	-8.80%	7.92%	8.44%
Russell 2500 Value <sup>2</sup>	-2.07%	6.36%	-1.50%	-15.39%	-13.19%	6.18%	5.47%
Russell 2500 <sup>2</sup>	-2.68%	3.82%	-5.82%	-16.98%	-21.00%	5.91%	6.94%

## 2Q:22 COMMENTARY – CONTINUED

### SELECT VALUE 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.

**TYLER TECHNOLOGIES (TYL)** detracted from performance during the quarter but remain a high conviction holding. TYL is the largest provider of enterprise software products focused solely on the public sector, with a focus on local governments where high switching costs stand as Tyler’s competitive advantage. The company has a 98% customer retention rate and incremental margins in its subscription business of over 70%. We believe TYL will benefit from increased government spending on infrastructure, the move of those clients to cloud-based solutions and a shift from the sale of licenses to a software as a service model with its customer base. The company produces returns on invested capital of 11%.

### SELECT VALUE PORTFOLIO ACTIVITY

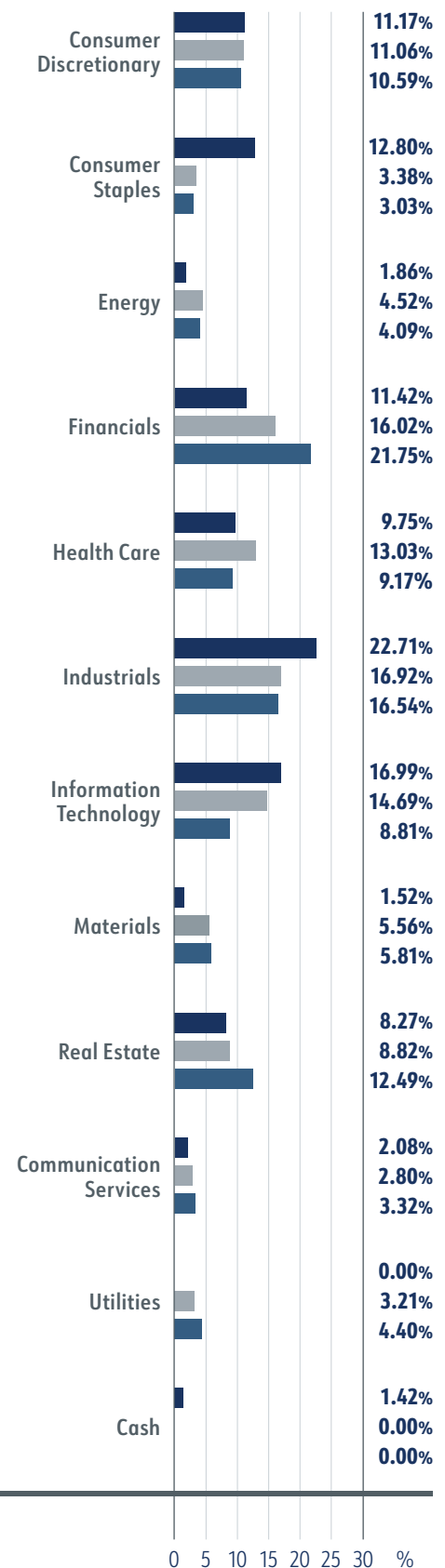
Keeping with its approach to invest in the best ideas of Ballast’s Quality Value Small-cap and Midcap strategies, Ballast exited positions in **COPART (CPRT)**, **FAIR ISAAC CORPORATION (FICO)**, and **ICON PLC (ICLR)**. Ballast initiated positions in **MEDPACE HOLDINGS, INC. (MEDP)**, a leading clinical contract research organization, insurance and investment products provider **PRIMERICA, INC. (PRI)**, and **THE TORO COMPANY (TTC)** during the quarter.

### 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<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		96.68	97.55
Number of Securities	44	2,494	1,842
Weighted Average Market Cap (MM)	8,326.16	5,662.14	5,864.46
Median Market Cap	5,283.20	1,348.10	1,287.86
Dividend Yield	1.52	1.84	2.31
ROIC	15.35	5.54	5.62
Debt/Capitalization	39.80	53.70	53.68
EV/EBITDA	17.31	9.49	8.88

## RISK METRICS

	BEM Select Value	Relative to Russell 2500	Relative to Russell 2500 Value
Annualized Alpha		0.35	0.35
Beta		0.71	0.69
Up Capture		74.76	75.39
Down Capture		82.00	79.91
Standard Deviation*	16.76	23.05	24.38
Information Ratio		0.32	0.25
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

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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 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.

<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.

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