

Smallcap 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.

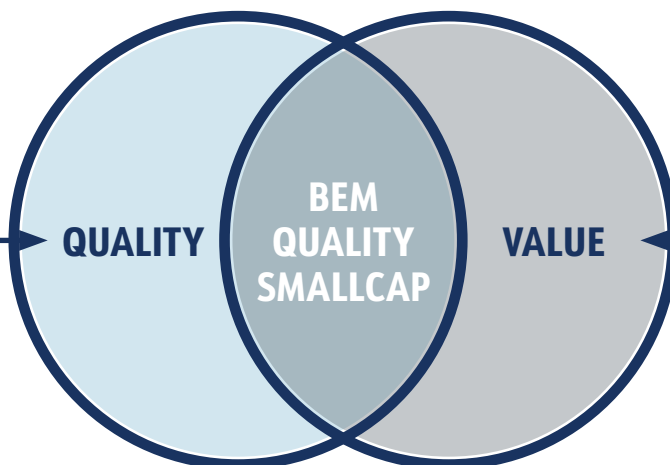


INVESTMENT TEAM

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.

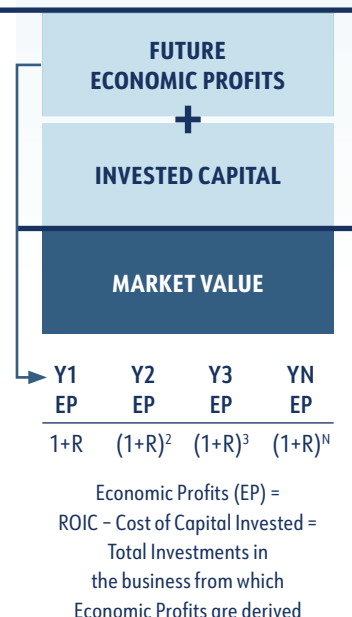
Ballast believes that buying wealth-creating businesses at discounts to intrinsic value will offer our clients stability, with less volatility and lower drawdowns, pursuing our goal to create long-term wealth.

STRATEGY

OBJECTIVE Ballast Equity Management Quality Value Smallcap Strategy strives to deliver a smoother ride in good markets and bad, seeking to outperform the Russell 2000 Value Index and Russell 2000 Index with less risk over a full market cycle.

OVERVIEW BEM Quality Value Smallcap 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 Value Smallcap 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 Smallcap Strategy** outperformed both the Russell 2000 Value Index and the Russell 2000 Index during the quarter. Security selection in Healthcare, Industrials and Information Technology helped performance, 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 SMALLCAP TOP CONTRIBUTORS

UFP TECHNOLOGIES, INC. (UFPT) was the leading contributor to performance during the quarter, as shares rose 20%. UFPT designs and manufactures products and packaging for customers in seven target industries including medical, automotive, aerospace, consumer, and industrial markets, using foams, plastics, composites, and natural fiber materials. The company produces returns on capital of 9% supported by its “medical centric” revenue mix that has high barriers to entry and is recurring in nature.

MGP INGREDIENTS, INC. (MGPI) shares rose on a strong earnings report during the quarter. MGPI manufactures distilled spirits and specialty wheat protein and food ingredients, operating through its Distillery Products and Ingredient Solutions segments. The Distillery Products business is more than fifty years old and produces whiskey, rye, bourbon, and vodka for the premium beverage market. In addition to its premium brands, MGPI gained over 100 spirits brands and national distribution capabilities in 2021 through its acquisition of Luxco. The company produces returns on invested capital of 17%.

TOP 10 HOLDINGS¹

	% Weighting
UFP Technologies Inc.	2.76%
Simulations Plus, Inc.	2.46%
CSG Systems International, Inc.	2.41%
NAPCO Security Technologies, Inc.	2.30%
Dorman Products, Inc.	2.23%
Insperty, Inc.	2.19%
MGP Ingredients	2.18%
Seacoast Banking Corporation of Florida	2.00%
Ituran Location and Control Ltd.	1.97%
Innospec Inc.	1.96%
TOTAL	22.46%

PERFORMANCE

	3Q:21	4Q:21	1Q:22	2Q:22	1 Year	3 Year (Ann)	5 Year (Ann)	Annual Total Return (since inception) 6/30/17
BEM - Smallcap (Gross) ³	-1.68%	6.67%	-6.50%	-7.88%	-9.66%	6.47%	7.38%	7.38%
BEM - Smallcap (Net) ³	-1.77%	6.57%	-6.58%	-7.96%	-9.99%	5.68%	6.48%	6.48%
Russell 2000 Value ²	-2.98%	4.36%	-2.40%	-15.28%	-16.28%	6.18%	4.89%	4.89%
Russell 2000 ²	-4.36%	2.14%	-7.53%	-17.20%	-25.20%	4.21%	5.17%	5.17%

2Q:22 COMMENTARY – CONTINUED

QUALITY VALUE SMALLCAP TOP DETRACTORS

Shares of **CARGURUS (CARG)** fell during the quarter, along with other online auto retailers, due to price volatility and softer retail sales. CARG offers a leading marketplace for both individuals and dealerships to buy, market and sell vehicles in the U.S. as well as Canada and the U.K. Asset light CARG has the competitive advantage of a strong network effect with over thirty-nine million unique visitors each month and over 30,000 paying dealerships globally. The company produces returns on invested capital of 16% and shares trade significantly below Ballast's view of intrinsic value.

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.

QUALITY VALUE SMALLCAP PORTFOLIO ACTIVITY

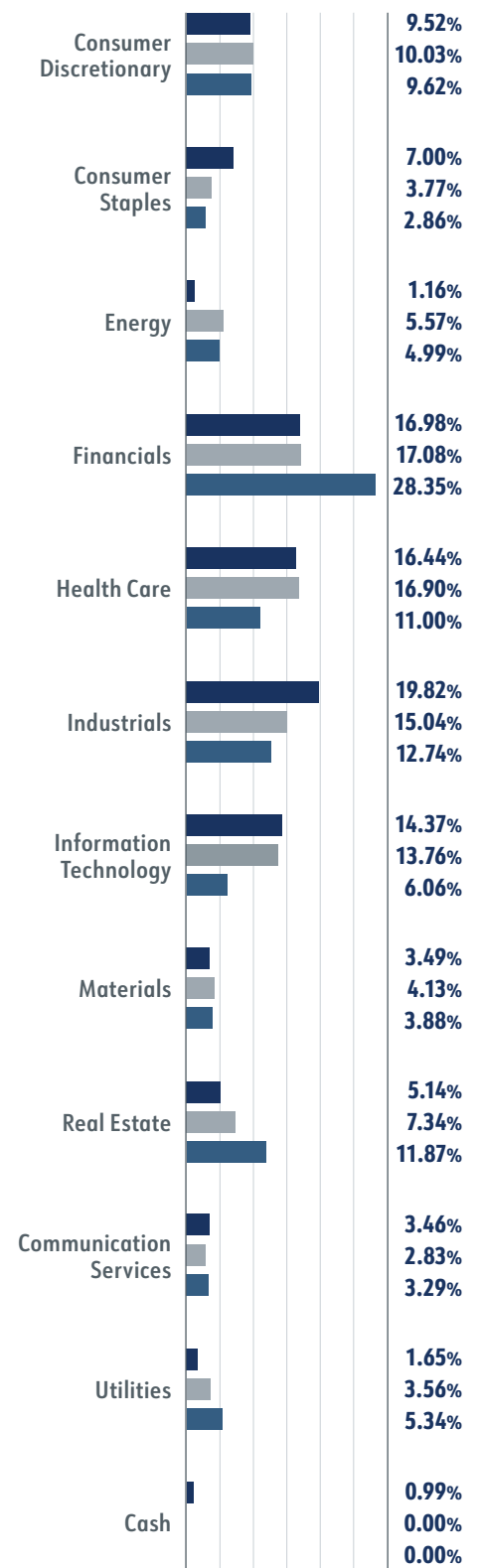
Based on our conviction in certain holdings in the Quality Value Smallcap portfolio and on the valuations of certain stocks, some trims and additions were made during the quarter. There were no outright sales or additions of holdings.

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 Smallcap¹

Russell 2000²

Russell 2000 Value²

0 5 10 15 20 25 30 %

PORTFOLIO CHARACTERISTICS

	BEM Quality Value Smallcap	Russell 2000	Russell 2000 Value
Active Share		96.17	97.76
Number of Securities	57	1,990	1,403
Weighted Average Market Cap (MM)	2,442.38	2,543.17	2,199.12
Median Market Cap	2,066.34	955.64	818.67
Dividend Yield	1.34	1.92	2.70
ROIC	12.82	3.59	3.60
Debt/Capitalization	33.63	52.72	53.11
EV/EBITDA	15.79	9.74	9.24

RISK METRICS

	BEM Quality Value Smallcap	Relative to Russell 2000	Relative to Russell 2000 Value
Annualized Alpha		0.24	0.14
Beta		0.76	0.79
Up Capture		75.21	70.04
Down Capture		85.37	83.06
Standard Deviation*	17.39	23.92	25.1
Information Ratio		0.25	0.03
Sharpe Ratio	0.34		

*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 Smallcap Strategy are taken from the model portfolio.

² The BEM Quality Value Smallcap Strategy is compared to the Russell 2000 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.

³ BEM Quality Value Smallcap returns are for the BQV Smallcap 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.

Ballast Equity Management, LLC claims compliance with the Global Investment Performance Standards (GIPS[®]). GIPS[®] is a registered trademark of the CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. To receive a GIPS report, please contact Ballast at (844) 3-BALLAST.

Ballast Equity Management, LLC claims compliance with the Global Investment Performance Standards (GIPS[®]). GIPS[®] is a registered trademark of the CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. To view a GIPS report, please visit ballastequity.com.

This information is presented for informational purposes only and is not intended as an offer or sale of securities. Past performance does not guarantee future results. The performance data quoted represents past performance. The principal value of an investment and investment return will fluctuate so that an investor's portfolio, when redeemed, may be worth more or less than the original cost.

Ballast Equity Management, LLC is a registered investment advisor. For additional information about the firm and its professionals please visit the SEC's website at adviserinfo.sec.gov.