

Smallcap QUALITY VALUE STRATEGY



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

4Q: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.

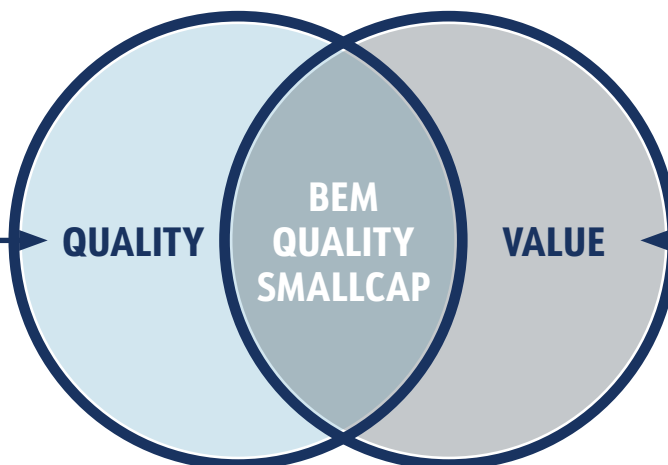


INVESTMENT TEAM

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.

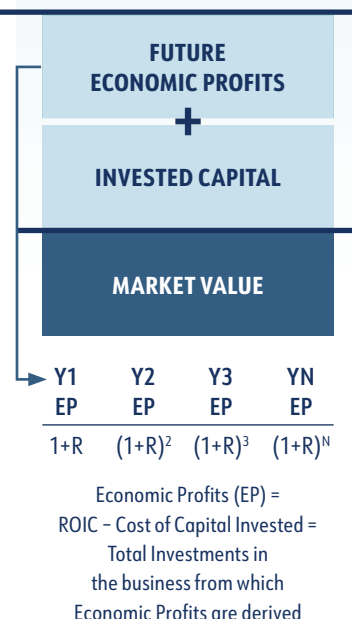
Ballast believes that buying wealth-creating businesses at discounts to intrinsic value will offer our clients stability, with less volatility and lower drawdowns, pursuing our goal to create long-term wealth.

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:



4Q:22 COMMENTARY

Q4 2022 began with a bear market rally that continued into November but waned in December. Rate hikes by the Federal Reserve and Chairman Powell's comments that it was too soon to consider a pause tested investors' resolve. November's mid-term election delivered the ingredients for gridlock in Washington, and we ended 2022 with investors feeling the sting of a difficult year that offered few places to hide from sharply negative results.

The exceptional place to hide for equity investors in 2022 was the energy sector. Ballast has generally found few businesses in this sector that we believe make prudent capital allocation decisions and our underweight to these companies was a meaningful drag on our annual performance. Ballast's Quality Value Smallcap strategy did produce returns ahead of both the Russell 2000 Value and Russell 2000 indices in 2022, with over 800 basis points added through stock selection for the year.

The **Ballast Quality Value Smallcap Strategy** lagged the Russell 2000 Value Index while leading the Russell 2000 Index return during the fourth quarter. Security selection in Healthcare and Energy helped performance, while an underweight and negative security selection in Consumer Discretionary companies detracted.

QUALITY VALUE SMALLCAP TOP CONTRIBUTORS

Rocket propulsion supplier **AEROJET ROCKETDYNE HOLDINGS INC. (AJRD)** was the leading contributor to performance during the quarter. Shares rose nearly 40% on news that the company would be acquired by L3Harris Technologies (LHX) after AJRD was courted by multiple suitors. Earlier in 2022, an acquisition of the company by Lockheed was scuttled over antitrust concerns. We continue to hold AJRD and believe the likelihood that the deal will close in early 2023 is high.

Shares of property and casualty insurer **RLI CORP. (RLI)** rose more than 35%. Despite the impact of Hurricane Ian, RLI quarterly results were strong, with lower-than-expected losses and a 13% increase in gross premiums written. Earnings reflected the gains on the sale of RLI's minority ownership in eyewear maker Maui Jim for \$686 million, a stake held for more than 25 years due to RLI's legacy ophthalmic services subsidiary.

TOP 10 HOLDINGS¹

	% Weighting
Insperty, Inc.	2.42%
CSG Systems International, Inc.	2.24%
NAPCO Security Technologies, Inc.	2.17%
Addus HomeCare Corporation	2.14%
RLI Corp.	2.11%
World Wrestling Entertainment, Inc. Class A	2.07%
Medpace Holdings, Inc.	2.06%
Aerojet Rocketdyne Holdings, Inc.	2.06%
Innospec Inc.	2.05%
Getty Realty Corp.	2.04%
TOTAL	21.36%

PERFORMANCE

	1Q:22	2Q:22	3Q:22	4Q:22	1 Year	3 Year (Ann)	5 Year (Ann)	Annual Total Return (since inception) 6/30/17
BEM - Smallcap (Gross) ³	-6.50%	-7.88%	-2.90%	6.58%	-10.86%	4.72%	6.63%	7.35%
BEM - Smallcap (Net) ³	-6.58%	-7.96%	-3.04%	6.49%	-11.23%	4.04%	5.79%	6.49%
Russell 2000 Value ²	-2.40%	-15.28%	-4.61%	8.42%	-14.48%	4.70%	4.11%	5.07%
Russell 2000 ²	-7.53%	-17.20%	-2.19%	6.23%	-20.44%	3.10%	4.13%	5.42%

4Q:22 COMMENTARY – CONTINUED

QUALITY VALUE SMALLCAP TOP DETRACTORS

SIMULATIONS PLUS INC. (SLP) was the leading detractor to performance for the quarter as shares dropped on earnings that were below street expectations. SLP is a leading provider of software and services used by major pharmaceutical, biotech, and regulatory agencies to make better informed, data-driven decisions. While earnings are expected to be more muted in the coming year due to higher labor costs, we see long term value due to the company’s high switching costs, intellectual assets, and a 93% renewal rate by its customers. SLP produces operating margins of 29% on average and its shares are well below our estimate of intrinsic value.

Shares of direct-to-consumer pool and spa provider **LESLIES INC. (LESL)** during Q4 on recession concerns and worries over consumer spending. LESL is the industry leader globally, with both physical stores and strong digital distribution, and benefits from recurring revenues from meeting its customers’ maintenance needs. While we have confidence in its business model, we sold our position in LESL for better opportunities.

QUALITY VALUE SMALLCAP PORTFOLIO ACTIVITY

With the early quarter rally and subsequent decline, Ballast saw many opportunities to upgrade our portfolio. Ballast exited positions in **ALLIED MOTION TECHNOLOGIES (AMOT)**, **CARGURUS INC. (CARG)**, **LESLIES INC. (LESL)**, and **JOHN B. SANFILIPPO AND SON INC. (JBSS)**.

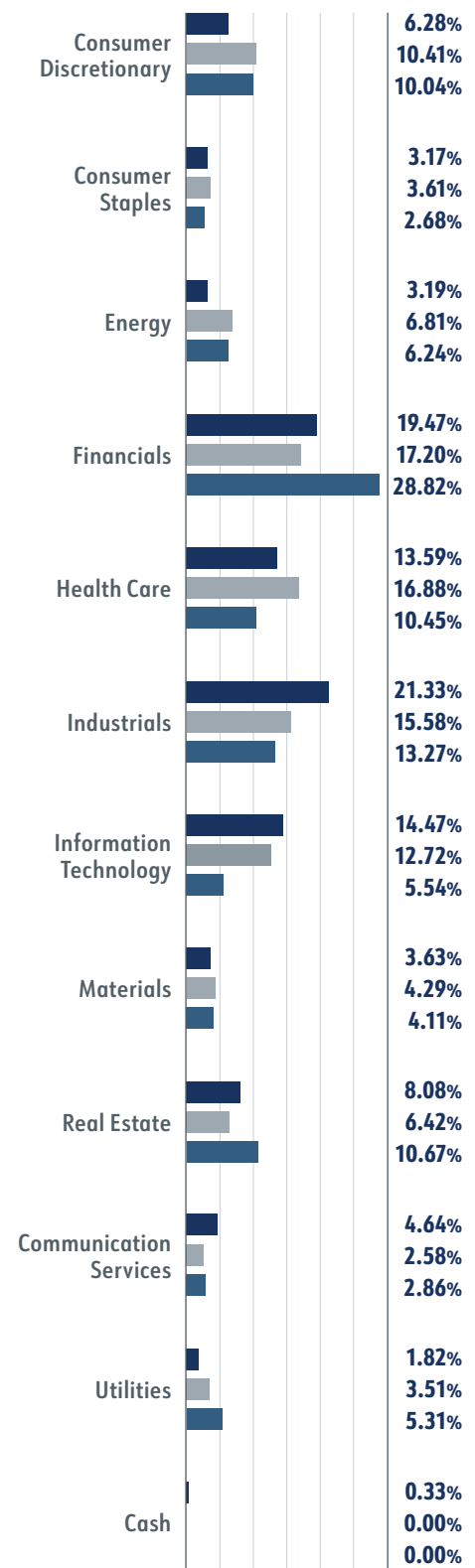
New positions were initiated in title and specialty insurer **FIRST AMERICAN FINANCIAL (FAF)**, home generator manufacturer **GENERAC HOLDINGS (GNRC)**, exploration and production company **PDC ENERGY (PDCE)**, and **UFP INDUSTRIES (UFPI)**, a provider of lumber and treated wood products.

OUR FOCUS ON THE LONG TERM

The folly of predicting macro events was laid bare in 2022 as the Federal Reserve and Wall Street were wildly wrong concerning the persistence of inflation and the direction of equity and bond markets. We suspect that the Federal Reserve has more interest rate hikes in store for 2023, that a recession is possible, that downward earnings revisions are likely, and that consumers face trouble as personal savings rates are down while debt levels are up. To the positive, the employment picture remains strong, although questions remain whether inflation can come down without impacting the labor market.

There is great uncertainty as to the outlook for corporate earnings in 2023. A focus on quality provides some clarity; businesses with low leverage, stable and growing cash flows and returns on invested capital give us a far better starting point for making sound assessments of the future cash flows each business will deliver. The carnage of 2022 has created tremendous opportunities to upgrade to higher quality, small and mid-cap businesses, setting our clients up for success.

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		95.59	97.68
Number of Securities	59	1,950	1,383
Weighted Average Market Cap (MM)	2,939.23	2,732.93	2,361.57
Median Market Cap	2,374.88	930.02	803.73
Dividend Yield	1.57	1.83	2.64
ROIC	14.48	3.75	3.30
Debt/Capitalization	33.27	52.36	53.34
EV/EBITDA	15.39	10.39	9.92

RISK METRICS

	BEM Quality Value Smallcap	Relative to Russell 2000	Relative to Russell 2000 Value
Annualized Alpha		0.24	0.26
Beta		0.74	0.72
Up Capture		73.59	67.63
Down Capture		87.53	85.23
Standard Deviation*	17.35	22.38	23.13
Information Ratio		0.25	0.28
Sharpe Ratio	0.35		

*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.

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