

Mid Cap Strategy



1Q:23

MISSION STATEMENT

At QSV Equity Investors 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.

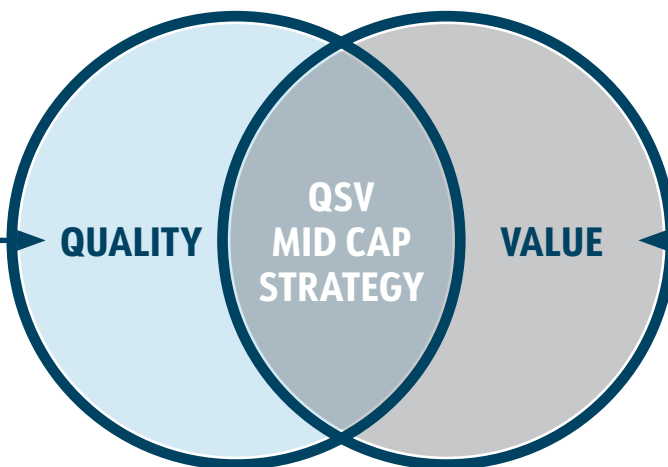


INVESTMENT TEAM

QSV's investment team has navigated markets together for more than 20 years. Jeff Kautz and Randy Hughes founded QSV (formerly Ballast Equity Management) 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. QSV 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.

QSV 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.



QSV purposefully acts like business owners, focusing on a company's intrinsic value and blocking out day-to-day price moves.

QSV 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 QSV Equity Investors (QSV) Mid Cap Strategy strives to deliver a smoother ride in good markets and bad, seeking to outperform the Russell Mid Cap Value Index and Russell Mid Cap Index with less risk over a full market cycle.

OVERVIEW QSV Mid Cap 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. QSV is patient and will only add a company to the Mid Cap Strategy when its stock can be purchased at a reasonable valuation.

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

 SCREENING	 QUANTITATIVE ANALYSIS	 QUALITATIVE ANALYSIS	 VALUATION
<p>QSV 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; QSV only considers those that appear undervalued.</p>	<p>QSV 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. QSV focuses on stocks with Quality Rankings in the top two quintiles of its universe.</p>	<p>QSV 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. QSV professionals carefully assess the durability of each business's competitive advantages.</p>	<p>QSV strongly believes that valuation plays a vital role in successful investing. Forecasting future economic profits and capital allocation decisions allows QSV to answer its primary question: "Does the company create wealth for investors over time?"</p>



FUTURE ECONOMIC PROFITS			
+			
INVESTED CAPITAL			
MARKET VALUE			
Y1	Y2	Y3	YN
EP	EP	EP	EP
$1+R$	$(1+R)^2$	$(1+R)^3$	$(1+R)^N$

Economic Profits (EP) =
 ROIC - Cost of Capital Invested =
 Total Investments in
 the business from which
 Economic Profits are derived

1Q:23 COMMENTARY

Equity markets finished the quarter with positive returns, while the path to those gains was a rocky one. January was marked by robust performance, with shares of lower-quality, higher beta companies showing significant gains. Markets were dampened in February with news that inflation, while cooling, persists and employment remains strong. March followed with the big story of the quarter, the “don’t say bailout” banking crisis, and the ninth in a string of interest rate increases from the Federal Reserve.

The **QSV Mid Cap Strategy** led the returns of both the Russell Mid Cap Value and Russell Mid Cap Indexes during the quarter. QSV’s security selection added value in the Energy and Consumer Staples sectors, while security selection in Financials detracted.

MID CAP TOP CONTRIBUTORS

WEST PHARMACEUTICAL SERVICES (WST) rose by 47% during the quarter on further evidence of pricing power and margin increases across its portfolio of products. WST has competitive advantages as a key supplier to pharmaceutical, biotechnology, and generic drug businesses, with expertise in the development and manufacture of supplies for the containment and administration of injectable drugs. The company delivers Returns on Invested Capital of 22%.

MONOLITHIC POWER SYSTEMS INC (MPWR) gained more than 40% during the quarter on optimism over the firm’s year-over-year results, diversification of its manufacturing capabilities, and long-term growth prospects. MPWR is a global provider of high-performance, semiconductor-based power solutions. As a “fabless” company – one that does not manufacture the chips used in its products – MPWR has benefitted from devoting more resources to chip design rather than capital expenditures, resulting in greater free cash flows, higher margins, and Returns on Invested Capital of 24%.

TOP 10 HOLDINGS¹

	% Weighting
Booz Allen Hamilton Holding Corporation Class A	2.88%
Arthur J. Gallagher & Co.	2.72%
Copart, Inc.	2.68%
West Pharmaceutical Services, Inc.	2.62%
Laboratory Corporation of America Holdings	2.48%
Broadridge Financial Solutions	2.14%
Motorola Solutions, Inc.	2.13%
Monolithic Power Systems, Inc.	2.11%
Chemed Corporation	2.06%
Etsy, Inc.	2.05%
TOTAL	23.87%

PERFORMANCE

	2Q:22	3Q:22	4Q:22	1Q:23	1 Year	3 Year (Ann)	5 Year (Ann)	Annual Total Return (since inception) 6/30/16
QSV Mid Cap (Gross) ³	-12.94%	-3.17%	9.03%	5.28%	-3.25%	20.18%	10.66%	11.64%
QSV Mid Cap (Net) ³	-13.16%	-3.41%	8.76%	5.02%	-4.18%	19.02%	9.59%	10.55%
Russell Mid Cap Value ²	-14.68%	-4.93%	10.45%	1.32%	-9.22%	20.69%	6.53%	7.90%
Russell Mid Cap ²	-16.85%	-3.44%	9.18%	4.06%	-8.78%	19.20%	8.05%	9.76%

1Q:23 COMMENTARY – CONTINUED

MID CAP TOP DETRACTORS

Shares of exploration and production company **APA CORP (APA)** fell as recessionary concerns and waning oil and natural gas prices weighed on investor sentiment. We see APA as a strong operator with geographically diversified sources of production and the ability to emphasize oil or gas production as each presents itself as more advantageous. APA is committed to returning 60% of its strong free cash flow to shareholders in the form of dividends and share repurchases.

Shares of management consulting firm **BOOZ ALLEN HAMILTON (BAH)** pulled back during the quarter due to a potential Federal government shutdown and feared budget cuts. While these actions would impact revenues to BAH, the current backlog of projects should produce growth for the business in 2023 and beyond. Additionally, BAH has been more resilient as it focuses on large government-wide acquisition contracts (GWACs) that can be less susceptible to reductions across government agencies.

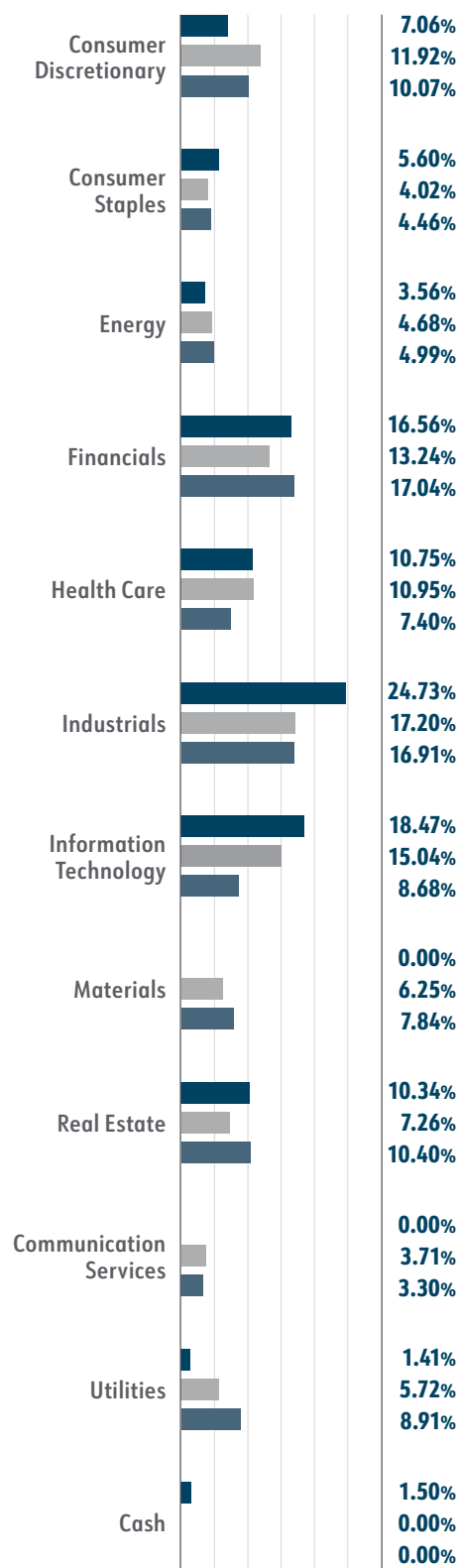
MID CAP PORTFOLIO ACTIVITY

With the early quarter rally and subsequent decline, QSV took opportunities to upgrade its portfolio. QSV exited **CASEY'S GENERAL STORES (CASY)**, **SKYWORKS SOLUTIONS (SWKS)**, and **SNAP-ON INC (SNA)**. New positions were initiated in multi-family real estate investment trust **MID-AMERICA APARTMENT COMMUNITIES (MAA)** and **PAYCOM SOFTWARE (PAYC)**, a provider of payroll and human capital software.

OUR FOCUS ON THE LONG TERM

The banking crisis puts the Federal Reserve in a tenuous spot as it considers additional rate increases in the battle against inflation. Pressure on banks' balance sheets caused by both the stresses on existing borrowers and the need to raise rates credited on deposits will lead to tightened lending standards and diminished lending. This, in turn, will put the brakes on growth and contribute to the risks of a recession. QSV cannot predict with any greater accuracy than the next person whether a recession occurs, but we do know that challenging times such as these generally favor quality businesses that can self-fund growth through free cash flows and less reliance on debt markets. Investors sought quality in a compact list of mega-cap tech companies in early 2023; we believe more compelling opportunities exist in small cap companies for investors able to dig out those with durable competitive advantages and reasonable valuations.

SECTOR EXPOSURE[^]



QSV Mid Cap¹

Russell Mid Cap²

Russell Mid Cap Value²

0 5 10 15 20 25 30 %

PORTFOLIO CHARACTERISTICS

	QSV Mid Cap	Russell Mid Cap	Russell Mid Cap Value
Active Share		91.87	93.73
Number of Securities	54	814	695
Weighted Average Market Cap (MM)	16,577.62	22,155.01	19,971.80
Median Market Cap	14,840.71	9,417.86	8,845.59
Dividend Yield	1.30	1.74	2.27
ROIC	15.43	7.36	6.79
Debt/Capitalization	42.87	52.88	52.24
EV/EBITDA	18.78	11.45	10.31

RISK METRICS

	QSV Mid Cap	Relative to Russell Mid Cap	Relative to Russell Mid Cap Value
Annualized Alpha		0.24	0.38
Beta		0.86	0.82
Up Capture		90.33	93.86
Down Capture		91.49	88.77
Standard Deviation*	16.29	18.45	18.94
Information Ratio		0.42	0.63
Sharpe Ratio	0.64	—	—

*Standard Deviation is shown for the QSV Strategy and each respective Index.



For more information, please call
844.322.5527 or visit qsvequity.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 QSV Mid Cap Strategy are taken from the model portfolio.

² The QSV Mid Cap Strategy is compared to the Russell Mid Cap Indices as they are widely used benchmarks for mid capitalization securities. An investment with QSV Equity Investors (QSV) should not be construed as an investment in a program that seeks to replicate, or correlate with, these indices. Market conditions vary between the QSV products and these indices. Furthermore, these indices do not include any transaction costs, management fees and other expenses, as do the QSV products. Lastly, QSV may invest in strategies and positions that are not included in these indices.

³ QSV Mid Cap returns are for the QSV Mid Cap 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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