

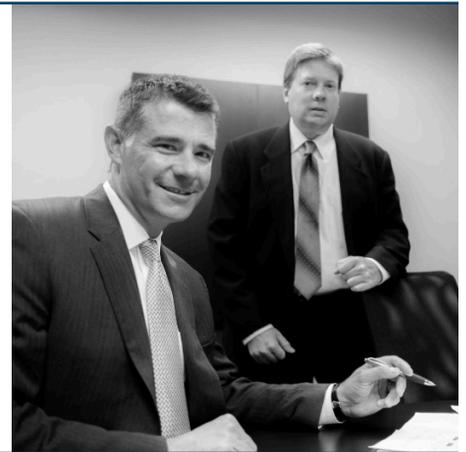
# Select Strategy



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.

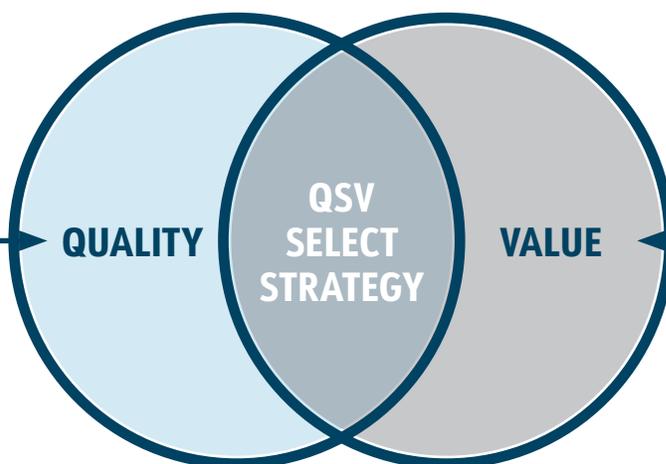


## INVESTMENT TEAM

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.

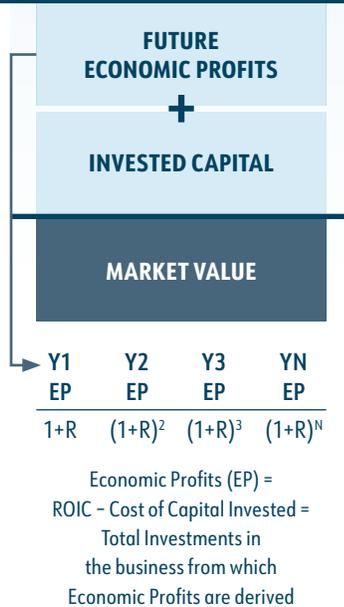
# STRATEGY

**OBJECTIVE** QSV Equity Investors (QSV) Select 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** QSV Select Strategy is a high conviction portfolio holding the best ideas from the firm’s Small Cap and Mid Cap 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. QSV is patient and will only add a company to the Select Strategy when its stock can be purchased at a reasonable valuation.

**PROCESS** QSV 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>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>



## 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 Select Value Strategy** led the returns of both the Russell 2500 Value and the Russell 2500 Indexes during the quarter. Select is a high conviction strategy that takes QSV’s best ideas from our Small Cap and Mid Cap strategies. An underweight and outperformance in Financials helped performance, as did an overweight and outperformance in Healthcare holdings. The leading detractor from performance was our overweight and underperformance in Industrials.

### SELECT 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%.

**MARKETAXESS HOLDINGS (MKTX)**, the leading platform for the electronic trading of corporate bonds, contributed to performance during the quarter as investors continued to move from voice-negotiated trading to electronic trading of bonds. MKTX’s dominance in corporate bonds also stands as a risk, as revenues are tied to the level of corporate bond issuance and credit spread volatility. Trends toward increasing turnover in these bonds and capabilities in trading U.S. Treasuries and municipal bonds should help boost revenues. MKTX produces Returns on Invested Capital of 28% and its shares are at a discount to QSV’s measure of intrinsic value.

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

	% Weighting
West Pharmaceutical Services, Inc.	3.70%
NAPCO Security Technologies, Inc.	3.14%
Masimo Corporation	3.11%
Getty Realty Corp.	3.07%
Broadridge Financial Solutions, Inc.	3.02%
MarketAxess Holdings Inc.	3.00%
Laboratory Corporation of America Holdings	2.94%
Booz Allen Hamilton Holding Corporation Class A	2.92%
Insperity, Inc.	2.90%
Church & Dwight Co., Inc.	2.80%
<b>TOTAL</b>	<b>30.60%</b>

### PERFORMANCE

	2Q:22	3Q:22	4Q:22	1Q:23	1 Year	3 Year (Ann)	5 Year (Ann)	Annual Total Return (since inception) 7/31/17
QSV Select Value (Gross) <sup>3</sup>	-9.72%	-4.72%	8.00%	6.68%	-0.90%	18.61%	9.41%	9.95%
QSV Select Value (Net) <sup>3</sup>	-9.91%	-4.93%	7.76%	6.45%	-1.76%	17.58%	8.41%	8.94%
Russell 2500 Value <sup>2</sup>	-15.39%	-4.50%	9.21%	1.40%	-10.53%	21.80%	5.61%	5.76%
Russell 2500 <sup>2</sup>	-16.98%	-2.82%	7.43%	3.39%	-10.39%	19.42%	6.65%	7.44%

# 1Q:23 COMMENTARY – CONTINUED

## SELECT TOP DETRACTORS

Following a solid quarterly earnings report, shares of **SYNOVUS FINANCIAL CORP (SNV)** fell along with the banking industry during the March banking crisis. SNV offers shareholders an opportunity to participate in the rapidly growing southeastern U.S. market. The company produces Returns on Tangible Equity of 20% and Returns on Equity of 16%. Shares sell at a significant discount to QSV’s measure of intrinsic value.

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.

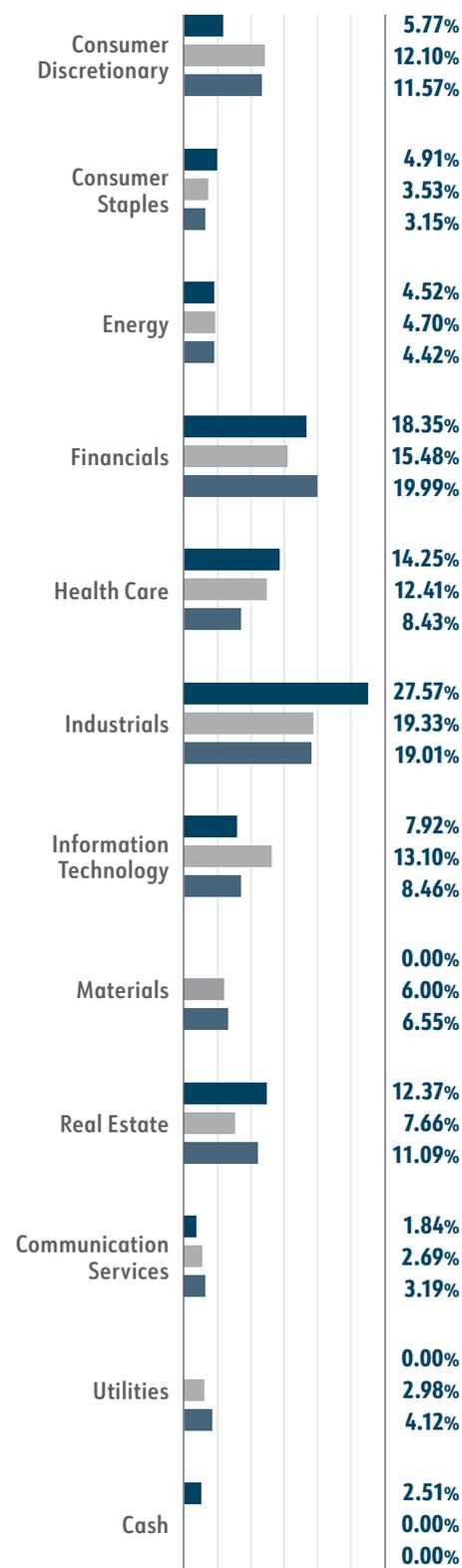
## SELECT PORTFOLIO ACTIVITY

Turnover was limited during the quarter. As in the QSV Mid Cap strategy, we exited shares of premium tool provider **SNAP-ON INC (SNA)** for valuation reasons.

## 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 and mid-cap companies for investors able to dig out those with durable competitive advantages and reasonable valuations.

## SECTOR EXPOSURE<sup>^</sup>



QSV Select<sup>1</sup>

Russell 2500<sup>2</sup>

Russell 2500 Value<sup>2</sup>

0 5 10 15 20 25 30 %

## PORTFOLIO CHARACTERISTICS

	QSV Select	Russell 2500	Russell 2500 Value
Active Share		96.86	97.98
Number of Securities	44	2,417	1,796
Weighted Average Market Cap (MM)	8,486.70	6,181.46	6,258.38
Median Market Cap	5,949.11	1,338.47	1,223.28
Dividend Yield	1.52	1.82	2.35
ROIC	15.35	5.36	5.15
Debt/Capitalization	39.98	53.36	53.73
EV/EBITDA	19.21	10.60	9.86

## RISK METRICS

	QSV Select	Relative to Russell 2500	Relative to Russell 2500 Value
Annualized Alpha		0.32	0.43
Beta		0.75	0.72
Up Capture		71.62	71.29
Down Capture		83.98	81.73
Standard Deviation*	17.11	21.60	22.33
Information Ratio		0.32	0.48
Sharpe Ratio	0.50	—	—

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



For more information, please call  
**844.322.5527** or visit [qsvequity.com](http://qsvequity.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 QSV Select Strategy are taken from the model portfolio.

<sup>2</sup> The QSV Select Strategy is compared to the Russell 2500 Indices as they are widely used benchmarks for small and 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.

<sup>3</sup> QSV Select returns are for the QSV Select 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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