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Rebrand, AUM Milestone Propelling QSV Equity Investors Forward

Things are moving forward for QSV Equity Investors, which recently eclipsed the $100 million mark in assets under management.

The domestic small- and mid-cap focused equity firm officially rebranded from Ballast Equity Management on March 21, with its new name a nod to the focus on the factors that drive the team's investment process – quality, sustainability and value.

"We're striving to deliver stability for our investors, low standard deviation, however you want to measure it, a low volatility strategy. We do that by buying quality companies at reasonable valuations," Partner and Head of Business Development Dave Mertens said.

The decision was also influenced by the firm's awareness of the persisting overlap the Ballast name had with other firms in the space as the team discussed rebranding for the better part of the last year, according to Mertens.

"Asset managers in general have taken the name of every rock, tree, river and mountain. There's many names that have been taken and it's hard to find something that's new and original," he added.

QSV was co-founded in 2016 by CEO Jeff Kautz and CIO Randy Hughes, who worked together at Janus Henderson Investors subsidiary Perkins Investment Management before launching Ballast, forming the mid-cap strategy that year prior to introducing small-cap and small- to mid-cap strategies in 2017.

"[Kautz and Hughes] really felt that they needed to kind of get their legs under them and really build a proof statement or a track record of a certain length before we went out to the public," Mertens said.

That focus may have caused the pair to lose touch with some of the contacts they had built up in their time at Perkins and made laying a foundation the primary directive for Mertens upon joining in 2019.

"We were getting out and making calls to some of the [investors] that had done business with Jeff and Randy earlier at Perkins," Mertens said. "We were getting the data in the databases and getting basic blocking and tackling in place."

The firm maintains a Naperville, Ill.- based office, formerly in Oak Brook, Ill., that serves Kautz and Hughes. Mertens, who is based in Colorado, noted the firm hit the road initially in cities like Chicago where they had a more robust network, but that marketing did not get into full swing until early 2020 just as the COVID-19 pandemic hit.

COO Josh Freedman, also based in Colorado, rounds out the current team af-ter joining in 2020 from Denver-based Elk Creek Partners.

"We had worked with him together in late 90s and early 2000s, so we knew Josh well, but we knew that from his experiences at Platte River [Capital Management] and Elk Creek, he knew how to put infrastructure in place that was scalable," Mertens said. "As he got that done in 2020 that really prepared us … to be more ready for the marketplace and the institutional marketplace."

The firm's growth to $100 million in assets has been aided by its relationship with emerging manager-of-managers Legato Capital Management, which has resulted in investments in the firm's domestic small-cap value product by the five New York City Retirement Systems, FIN Searches data shows.

The small-cap strategy, which the Informa PSN database shows has outperformed the Russell 2000 Value Index over the one-, three- and five-year periods ending Dec. 31, comprises the bulk of QSV's assets under management with roughly $83 million, according to Mertens, who noted the firm has built from friends and family to a now majority of institutional investors.

The firm, while "benchmark aware," is focused on its bottom-up process of finding the best businesses, according to Mertens, who noted QSV will generally have position sizes of 1% to 4% and sector weights or no more than 200% or less than 50%.

"The outliers, in terms of sectors, are due to our quality bias and our demand for high returns on invested capital. Historically, we have been very low or absent in energy and utilities. As you can imagine that low weight in energy was a headwind last year, but generally we've just not seen those companies produce high returns on invested capital," Mertens said.

Conversely, the firm tends to overweight areas like technology, healthcare, consumer staples and businesses that produce high returns on invested capital, he added, noting that the technology weight in what the firm calls "chicken tech" represents a differentiator from the typical small- or mid-cap value manager.

"These are not high tech, high growth companies so much as software and services providers that are more steady return on invested capital plays," Mertens said.

QSV anticipates its capacity will top out at roughly $2 billion for the small-cap strategy, $2.5 billion in the smid-cap strategy and $7 billion in the mid-cap strategy, according to Mertens. He noted that closing at a manageable size is a primary consideration for the team, which learned the lesson of managing too much money in a capacity constrained strategy when the Perkins small-cap strategy was reopened after the firm's merger with Janus Henderson.

"They learned from that experience that size is the enemy of performance, and it really did hinder their performance considerably, trying to manage too much money," Mertens said.

QSV does plan to scale the firm in line with asset growth but in the meantime is content with its current setup.

"As the firm grows and as we're able to we certainly want to add in the investment team eventually," Mertens said. "What we have now, in terms of human capital, is certainly enough to get the job done and we are scalable."

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David G. Mertens
Partner & Head of Business Development
(630) 376-4392
www.qsvequity.com