

# Select Strategy



2Q: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.

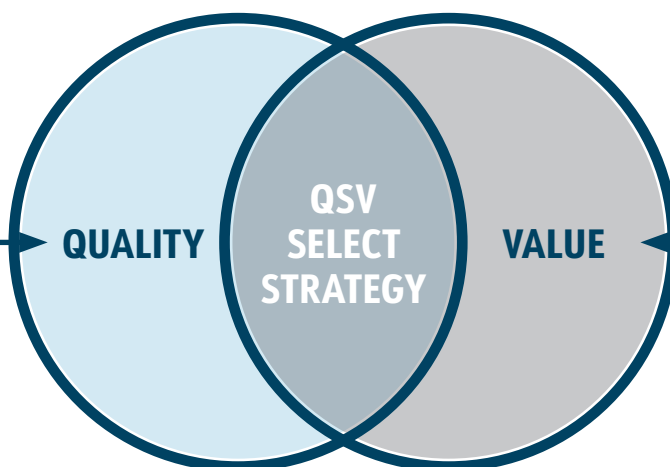


## INVESTMENT TEAM

QSV's investment team has navigated markets together for more than 25 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.

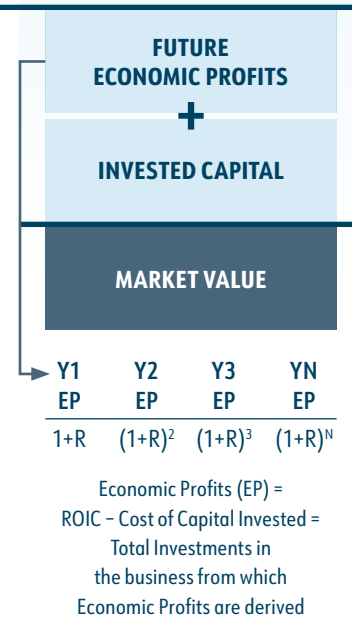
# STRATEGY

**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>



## 2Q:23 COMMENTARY

Stocks climbed a wall of worries in the first half of 2023 that included a banking crisis, higher interest rates and inflation, the debt ceiling debate, and geopolitical concerns. Looking specifically at the “Magnificent Seven” large cap technology stocks, returns of those shares did not climb, but vaulted the wall, leaving other segments of the market in the distance. Bullishness in June lifted shares of lower quality businesses creating headwinds to the quality biased QSV strategies. 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 underperformed low quality businesses, as measured by the Russell Dynamic indexes, across the market cap spectrum for the quarter.

**QSV Select** lagged the returns of the Russell 2500 Value and 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. Company selection in Communication Services and Consumer Staples contributed to performance, while selection in Financials and Real Estate detracted.

### SELECT TOP CONTRIBUTORS

**GENERAC HOLDINGS INC. (GNRC)** was the leading contributor to performance during the quarter. Demand for home standby generators is strong and headwinds from high inventory levels in the company’s supply chain are abating. GNRC benefits from a scale advantage in the home generator market with a market share four times greater than their next competitor. The company produces returns on invested capital of 15% and is actively deploying free cash flow from its legacy generator business into its newer clean energy business. QSV trimmed its position in GNRC as the price appreciated.

Management consulting firm **BOOZ ALLEN HAMILTON (BAH)** was the leading contributor to performance in the quarter. BAH has scale advantages as a provider of cybersecurity, data analytics, augmented reality, and artificial intelligence projects for the Department of Defense, that, like all U.S. government contracts, are subject to elevated levels of scrutiny that serve as barriers to entry for competitors. The company’s standing as the leader in artificial intelligence solutions to the U.S. government helped propel its share price during the quarter.

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

	% Weighting
Booz Allen Hamilton Holding Corporation Class A	3.39%
Broadridge Financial Solutions, Inc.	3.29%
Laboratory Corporation of America Holdings	2.98%
Tyler Technologies, Inc.	2.88%
Generac Holdings Inc.	2.87%
Rollins, Inc.	2.85%
Primerica, Inc.	2.80%
NAPCO Security Technologies, Inc.	2.79%
Getty Realty Corp.	2.77%
Insperty, Inc.	2.74%
<b>TOTAL</b>	<b>29.36%</b>

### PERFORMANCE

	3Q:22	4Q:22	1Q:23	2Q:23	1 Year	3 Year (Ann)	5 Year (Ann)	Annual Total Return (since inception) 7/31/17
QSV Select Value (Gross) <sup>3</sup>	-4.72%	8.00%	6.68%	4.03%	14.18%	13.98%	9.70%	10.24%
QSV Select Value (Net) <sup>3</sup>	-4.93%	7.76%	6.45%	3.80%	13.20%	13.00%	8.71%	9.23%
Russell 2500 Value <sup>2</sup>	-4.50%	9.21%	1.40%	4.37%	10.37%	16.07%	5.32%	6.28%
Russell 2500 <sup>2</sup>	-2.82%	7.43%	3.39%	5.22%	13.58%	12.29%	6.55%	8.04%

## 2Q:23 COMMENTARY – CONTINUED

### SELECT TOP DETRACTORS

**MARKETAXESS HOLDINGS (MKTX)** fell on concerns over slightly lower trading volumes that resulted from uncertainty in the banking sector and seasonal patterns. MKTX is the leading platform for trading fixed income securities, where it continues to take market share due to the growing adoption of electronic execution. It is expected that higher yields will drive greater allocations of assets to fixed income and increased participation by retail and institutional investors. MKTX produces returns on invested capital of 28% and its shares are at a discount to QSV's measure of intrinsic value.

**GLACIER BANCORP (GBCI)** fell during the quarter as investors reacted to the bank's lower net interest margins and higher deposit costs. While these results are disappointing, they were not unexpected given the current market environment. We see GBCI as a strong banking franchise with prudent expense management and a thirty-year history of making acquisitions to fuel growth in its business. GBCI produces returns on tangible equity of 16%.

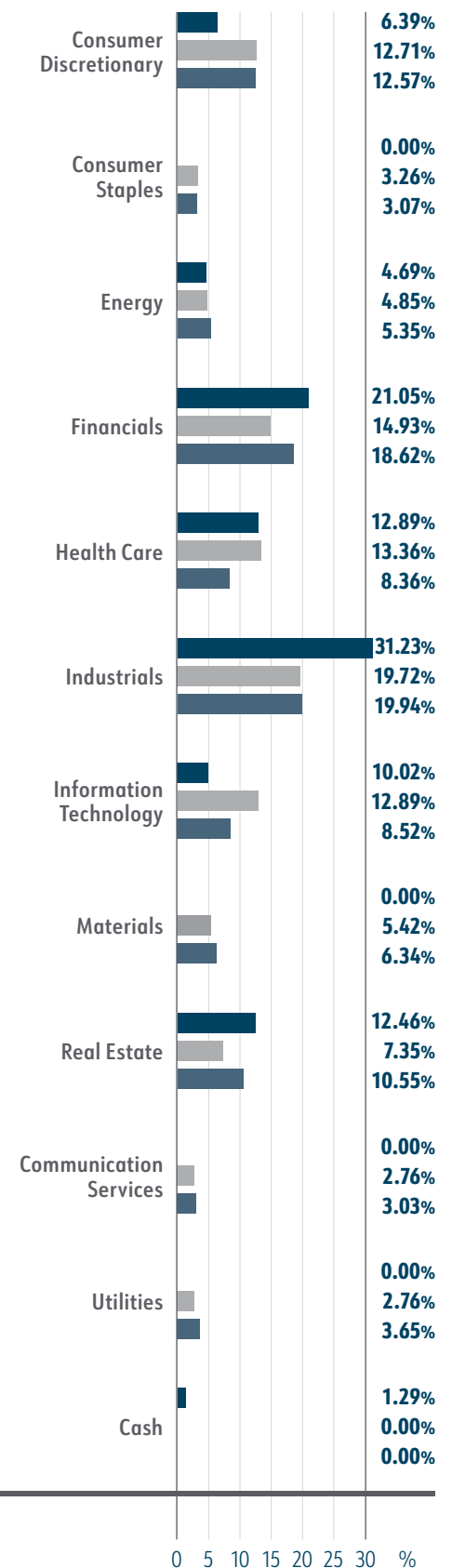
### SELECT PORTFOLIO ACTIVITY

QSV took opportunities to upgrade the Select portfolio during the quarter. Shares of **CHURCH & DWIGHT (CHD)**, **PUBMATIC (PUBM)**, and **WD-40 (WDFC)** were sold for valuation reasons and to purchase higher conviction companies. Positions were initiated in **EPAM SYSTEMS, INC. (EPAM)**, **JACK HENRY & ASSOCIATES (JKHY)**, and **PAYCOM SOFTWARE (PAYC)**.

### OUR FOCUS ON THE LONG TERM

Optimism has returned to the markets and to consumer sentiment, and somewhat rightfully so. 401(k) and brokerage account balances have improved measurably from the end of 2022. This optimism has supported stronger consumer spending on services and is reflected in the performance of certain stocks, with cruise line operators Carnival, Norwegian and Royal Caribbean standing out as the top three S&P 500 performers in Q2.

### 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 %

## 2Q:23 COMMENTARY – CONTINUED

For those seeking out areas for concern (and not believing that it is different this time) risks exist. Core inflation, the measure excluding food and energy, remains well above target and is declining at a glacial pace. The Federal Reserve and its peer central banks have not yet gotten the desired results from a string of rate hikes. Chairman Powell's comments that we have "a long way to go" in getting back to 2% policy rates signal more rate increases to come. Elevated borrowing costs are likely to eat into corporate profits and we believe this puts the current valuations of lower quality, more leveraged small and mid-cap companies at risk. Opportunities exist for equity investors, and we counsel an emphasis on quality businesses with limited debt, high interest rate coverage and strong free cash flows. As always, this remains our focus for delivering long-term results for our clients as we invest alongside them.

### PORTFOLIO CHARACTERISTICS

	QSV Select	Russell 2500	Russell 2500 Value
Active Share		96.70	97.75
Number of Securities	44	2,503	1,895
Weighted Average Market Cap (MM)	9,204.49	6,242.97	6,470.31
Median Market Cap	7,204.38	1,343.20	1,214.81
Dividend Yield	1.53	1.80	2.31
ROIC	15.40	4.83	5.18
Debt/Capitalization	38.91	53.18	52.96
EV/EBITDA	19.46	10.84	9.66

### RISK METRICS

	QSV Select	Relative to Russell 2500	Relative to Russell 2500 Value
Annualized Alpha		0.30	0.42
Beta		0.75	0.72
Up Capture		71.20	70.60
Down Capture		84.71	82.27
Standard Deviation*	17.03	21.42	22.17
Information Ratio		0.29	0.46
Sharpe Ratio	0.51	–	–

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



For more information, please call  
**844.322.5527** or visit [qsvequity.com](https://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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