

Mid Cap Strategy



1Q:24

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.

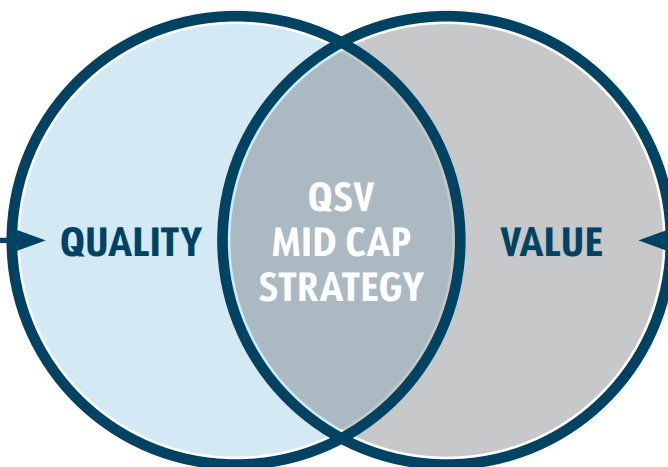


INVESTMENT TEAM

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) 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:24 COMMENTARY

Stocks marched higher in Q1 2024 with participation broadening from the mega cap winners of 2023 to mid-cap and smaller capitalization companies. U.S. economic growth, a steady consumer, and high expectations for interest rate cuts by the Federal Reserve promoted continued risk taking by investors. Gains in equity markets were largely multiple driven as earnings gains were modest and the stocks of lower quality small cap companies outpaced the returns of higher quality companies during the quarter. Using the Russell Stability indexes as proxies for high and low quality, the Russell 2000 Defensive index, containing businesses with higher Returns on Assets, lower leverage, and lower volatility underperformed low-quality businesses, as measured by the Russell 2000 Dynamic indexes, by 375 basis points for the quarter.

QSV Mid Cap lagged the returns of both the Russell Mid Cap Value Index and the Russell Mid Cap Index during the quarter. Security selection in Healthcare and Communication Services companies helped relative performance, as did our underweight to Communication Services names. Selection in the Financials, Industrials and Energy sectors detracted.

MID CAP TOP CONTRIBUTORS

Contract research organization **ICON PLC (ICLR)** was the leading contributor to performance as it bounced back following concerns over its acquisition of competitor PRA Health. The cultures of ICLR and PRA Health are similar, and the combined organization will bring synergies and the benefit of reduced client concentrations. ICLR produces returns on invested capital of 10% on average, and its shares sell at a discount to our measure of intrinsic value.

LINCOLN ELECTRIC HOLDINGS (LECO) also contributed to performance during the quarter with revenue and margin results that exceeded expectations. Founded in 1895, LECO is a trusted name in welding, cutting, and brazing products, with a leading global market share. While still in the commercialization phase, LECO is developing an EV charger business that represents a growth opportunity the business. The company has raised its dividend for twenty-two years and produces returns on invested capital of 20% on average.

TOP 10 HOLDINGS¹

	% Weighting
Booz Allen Hamilton Holding Corporation Class A	2.86%
TriNet Group, Inc.	2.59%
Lincoln Electric Holdings, Inc.	2.46%
ICON Plc	2.45%
Monolithic Power Systems, Inc.	2.44%
Corpay, Inc.	2.41%
West Pharmaceutical Services, Inc.	2.26%
Akamai Technologies, Inc.	2.19%
Chemed Corporation	2.13%
Otis Worldwide Corporation	2.11%
TOTAL	23.90%

PERFORMANCE

	2Q:23	3Q:23	4Q:23	1Q:24	1 Year	3 Year (Ann)	5 Year (Ann)	Annual Total Return (since inception) 6/30/16
QSV Mid Cap (Gross) ³	4.09%	-4.32%	12.32%	4.66%	17.09%	8.06%	12.67%	12.32%
QSV Mid Cap (Net) ³	3.84%	-4.55%	12.05%	4.42%	15.96%	7.02%	11.58%	11.23%
Russell Mid Cap Value ²	3.86%	-4.46%	12.11%	8.23%	20.40%	6.79%	9.93%	9.44%
Russell Mid Cap ²	4.76%	-4.68%	12.82%	8.60%	22.35%	6.07%	11.10%	11.30%

1Q:24 COMMENTARY – CONTINUED

MID CAP TOP DETRACTORS

MARKETAXESS HOLDINGS (MKTX) was the leading detractor to performance during the quarter despite earnings results that exceeded analysts' expectations and strong forward guidance. MKTX is the leading platform for trading fixed income securities, where it continues to grow market share due to the growing adoption of electronic execution. Greater adoption by retail and institutional investors and by the company's network of dealers improves liquidity and the effectiveness of the platform for its clients. MKTX produces returns on invested capital of 27% on average and its shares are at a discount to QSV's measure of intrinsic value.

AKAMAI TECHNOLOGIES (AKAM) detracted from performance during the quarter. AKAM operates through its Security, Compute, and Content Delivery Network (CDN) segments. AKAM is known for its CDNs that the company estimates deliver between 15% and 30% of global web traffic supported by over 350,000 servers arrayed in over 4,100 networks across the globe. Its growing network and application security business is a major focus for AKAM. With revenue growth in the mid-teens, this segment is expected to produce one-half of AKAM's revenues in 2024.

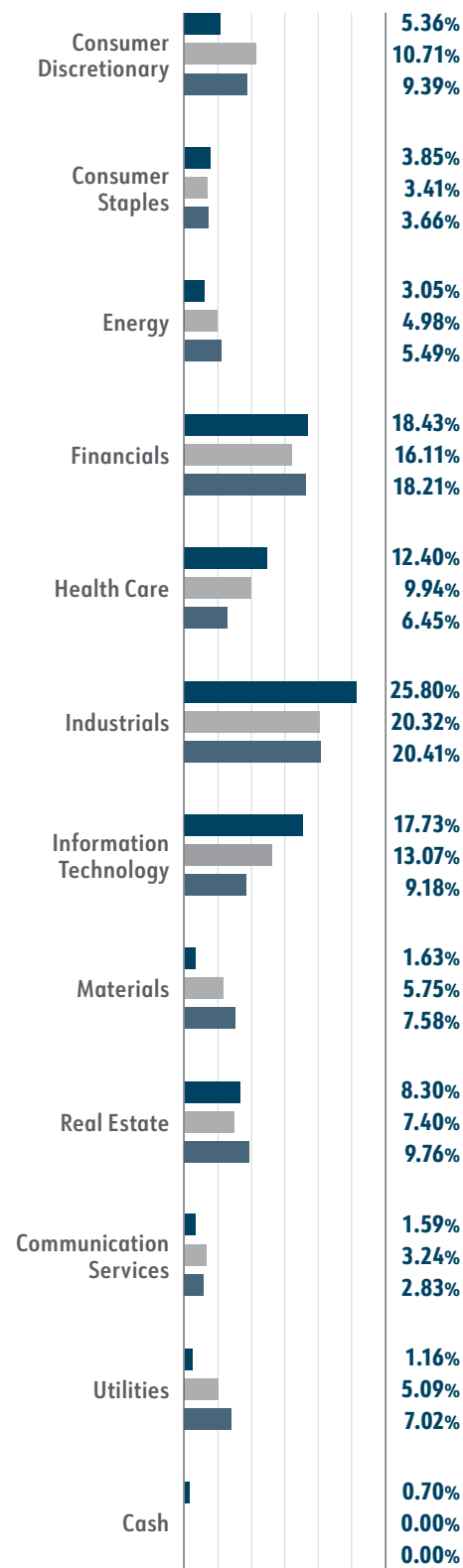
MID CAP PORTFOLIO ACTIVITY

There were no total sales or purchases of positions during the quarter. QSV did add to its position in the payroll and human capital management platform **PAYCOM (PAYC)** on weakness in its share price.

OUR FOCUS ON THE LONG TERM

We believe a good deal of 2024's potential returns were pulled forward in Q4 2023. We also feel that market prices reflect near perfection in the economic and geopolitical outcomes of the coming quarters. Unfortunately, the world is imperfect and uncertain. At QSV, we do not invest in markets, but focus on building portfolios of quality businesses with durable competitive advantages purchased at reasonable valuations. We anticipate that 2024 will bring both surprises and the consequential market volatility. To prepare for this we recommend that long term investors focus on businesses with solid balance sheets, strong free cash flows, and high returns on invested capital. We continue to find these traits in the small and mid-capitalization businesses in each of the QSV portfolios and invite you to join us as we invest alongside our clients.

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		92.15	94.19
Number of Securities	57	808	699
Weighted Average Market Cap (MM)	18,894.55	27,589.92	25,853.43
Median Market Cap	15,720.95	11,034.38	10,626.31
Dividend Yield	1.25	1.50	1.84
ROIC	16.54	10.64	9.01
Debt/Capitalization	45.46	51.07	49.65
EV/EBITDA	21.16	29.57	19.31

RISK METRICS

	QSV Mid Cap	Relative to Russell Mid Cap	Relative to Russell Mid Cap Value
Annualized Alpha (RF=10-year Treasury)		0.19	0.33
Beta		0.86	0.83
Up Capture		85.78	88.78
Down Capture		93.12	90.48
Standard Deviation*	16.34	18.45	18.92
Information Ratio		0.24	0.51
Sharpe Ratio	0.65	—	—

*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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