

Mid Cap Strategy



2Q: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.

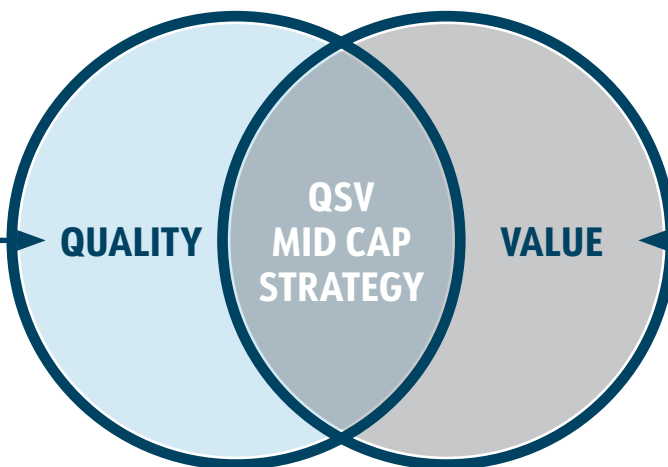


INVESTMENT TEAM

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.

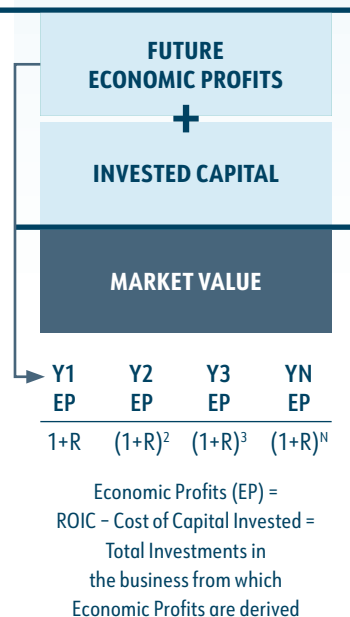
STRATEGY

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>



2Q:24 COMMENTARY

No one needs another investment commentary noting the divergence of Nvidia and the “Magnificent 7” stocks’ performance with that of the broader market, but it is hard to live through a quarter like Q2 2024 without that on our minds. This compact group of companies has contributed more than 60% of the returns of the index in 2024 and, when the returns of the capitalization weighted S&P 500 are compared to an equally weighted S&P 500, there is a 10% difference in favor of the cap weighted benchmark. While this dynamic plays out, investors have paid little attention to the pond QSV fishes in, small and mid-cap equities, where the returns were quite different, and negative during the quarter. Each sector of the Russell 2000 Value index delivered losses in Q2, with Utilities (supported by the prospects for data centers for the AI revolution?) only slightly in negative territory and Healthcare, where QSV finds an ample supply of quality businesses, suffering losses of more than 10%. Returns for mid-cap indexes were in similar, negative, territory.

QSV Mid Cap trailed the returns of the Russell Mid Cap Value Russell Mid Cap Indexes during the quarter. Security selection in Consumer Staples companies helped performance, as did company selection and an overweight to Information Technology companies. Selection in Financials detracted as did selection and an overweight to Healthcare.

MID CAP TOP CONTRIBUTORS

MONOLITHIC POWER SYSTEMS INC. (MPWR) was the leading contributor to performance in the quarter as the company delivered strong earnings growth and benefitted from the outlook for AI-related tailwinds. 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 profited 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 22%.

TERADYNE INC. (TER), a provider of semiconductor chip testing equipment, also contributed to performance during the quarter as it beat earnings estimates and affirmed guidance. AI-related opportunities are contributing to current growth and an enhanced outlook while the company’s exposure to mobility produces headwinds due to lower demand. TER produces returns on invested capital of 26% and sells below our estimate of intrinsic value.

TOP 10 HOLDINGS¹

	% Weighting
Booz Allen Hamilton Holding Corporation Class A	3.12%
ICON Plc	2.40%
Otis Worldwide Corporation	2.39%
Labcorp Holdings Inc.	2.35%
Lennox International Inc.	2.28%
Corpay, Inc.	2.19%
Monolithic Power Systems, Inc.	2.19%
Garmin Ltd.	2.17%
Rollins, Inc.	2.16%
Arthur J. Gallagher & Co.	2.12%
TOTAL	23.37%

PERFORMANCE

	3Q:23	4Q:23	1Q:24	2Q:24	1 Year	3 Year (Ann)	5 Year (Ann)	Annual Total Return (since inception) 6/30/16
QSV Mid Cap (Gross) ³	-4.32%	12.32%	4.66%	-5.15%	6.69%	3.89%	10.24%	11.18%
QSV Mid Cap (Net) ³	-4.55%	12.05%	4.42%	-5.38%	5.67%	2.89%	9.18%	10.10%
Russell Mid Cap Value ²	-4.46%	12.11%	8.23%	-3.40%	11.98%	3.65%	8.49%	8.66%
Russell Mid Cap ²	-4.68%	12.82%	8.60%	-3.35%	12.88%	2.37%	9.46%	10.46%

2Q:24 COMMENTARY – CONTINUED

MID CAP TOP DETRACTORS

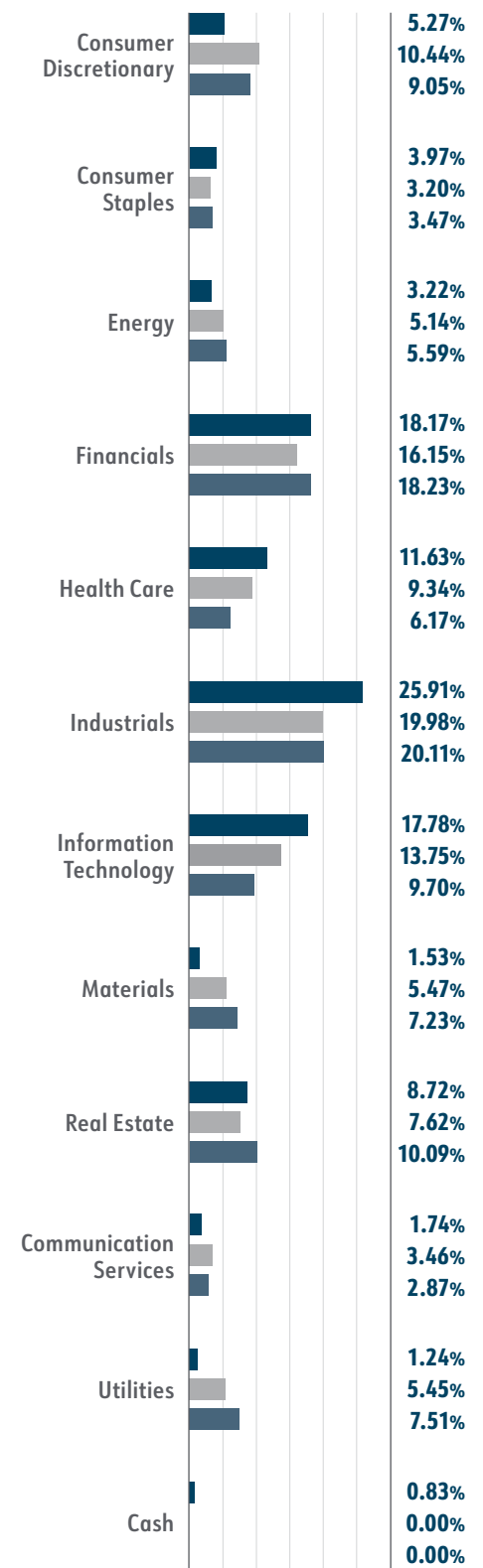
Shares of clinical research organization **FORTREA HOLDINGS (FTRE)** dropped more than 40% during the quarter as the company fell short of analysts' estimates of revenues and earnings and the company lowered its outlook. The company, spun out of **LABCORP (LH)** in 2023, benefits from offering tools and testing to the biotechnology and pharmaceutical industries that are highly scripted in law, regulation, and practice. QSV believes that it is common for a company to struggle initially post-spinoff and has confidence in the long-term outlook for FTRE. As a result, we added to our position on weakness in the share price.

LINCOLN ELECTRIC HOLDINGS (LECO) detracted from performance during the quarter as the company saw softness in its quarterly revenues and lowered its full year earnings guidance. We see these as short-term issues for LECO, 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 an additional growth opportunity for the business. The company has raised its dividend for twenty-two years and produces returns on invested capital of 21%.

MID CAP PORTFOLIO ACTIVITY

There were no total sales or purchases of positions during the quarter. QSV did add to its position in the clinical research organization **FORTREA HOLDINGS (FTRE)** on weakness in its share price and made other trims and additions based upon valuation and our convictions in the fundamentals of the businesses.

SECTOR EXPOSURE[^]



QSV Mid Cap¹

Russell Mid Cap²

Russell Mid Cap Value²

0 5 10 15 20 25 30 %

2Q:24 COMMENTARY – CONTINUED

OUR FOCUS ON THE LONG TERM

We believe that mid-year reflection is appropriate for investors including a close look at asset allocation. With the concentration of returns to-date in large cap equities, and specifically in a handful of companies, many portfolios are tilted in favor of those holdings. Unintended bets may exist where investors in both passive and active funds have stakes in the Magnificent 7 companies that have increased in size. Markets could be “different this time” but if the outperformance of the S&P 500 over the smaller companies in the Russell 2000 persists throughout 2024 it will cap a four consecutive year period of such outperformance, something that has not occurred since 1995-1998. Small and mid-cap value equities excelled in the years that followed that, while investors in large cap stocks endured the “lost decade” of returns. Compelling valuations currently exist in small and mid-cap businesses. Coupled with the possibility of lower inflation, lower interest rates, and potential tailwinds from deglobalization, we see a convincing case for allocating to quality small and mid-cap companies.

PORTFOLIO CHARACTERISTICS

	QSV Mid Cap	Russell Mid Cap	Russell Mid Cap Value
Active Share		92.15	94.19
Number of Securities	57	808	700
Weighted Average Market Cap (MM)	18,952.33	27,725.97	25,651.60
Median Market Cap	13,781.58	10,481.68	9,983.90
Dividend Yield	1.33	1.66	2.03
ROIC	16.24	7.01	6.26
Debt/Capitalization	46.63	51.27	50.03
EV/EBITDA	20.40	11.69	10.50

RISK METRICS

	QSV Mid Cap	Relative to Russell Mid Cap	Relative to Russell Mid Cap Value
Annualized Alpha (RF=10-year Treasury)		0.15	0.30
Beta		0.87	0.83
Up Capture		83.72	85.90
Down Capture		93.54	90.92
Standard Deviation*	16.31	18.32	18.80
Information Ratio		0.16	0.44
Sharpe Ratio	0.57	–	–

*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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