

# Mid Cap Strategy



4Q: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.

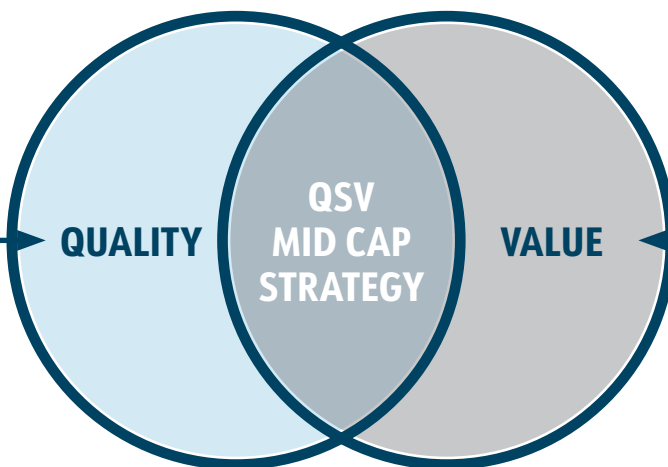


## INVESTMENT TEAM

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.

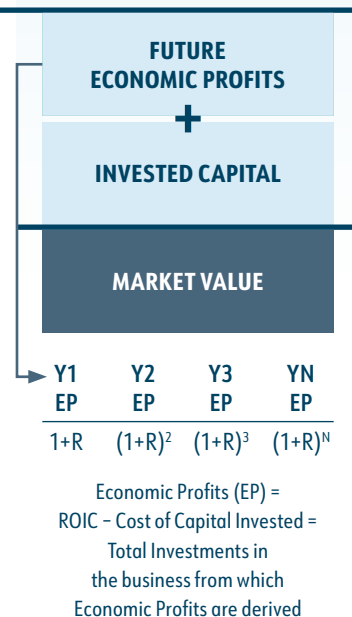
# STRATEGY

**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:

 <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>



## 4Q:24 COMMENTARY

The fourth quarter capped a second consecutive calendar year of leadership by large cap technology stocks, with the “Magnificent 7” companies being joined by Broadcom to become the “BATMMAAN” confederation of stocks that have dominated market performance. The Russell Mid Cap Value Index ended in negative territory for the quarter as markets pulled back during a dismal December that reflected expectations for fewer interest rate cuts from the Federal Reserve in 2025 and rising bond yields. Lower quality stocks, as represented by the Russell Dynamic Indexes, outperformed higher quality stocks, as represented by the Russell Defensive Indexes, presenting headwinds to QSV’s quality-biased process.

**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 Consumer Discretionary companies helped performance. Company selection in Information Technology detracted from performance, as did selection and an overweight to Industrials companies.

### QSV MID CAP TOP CONTRIBUTORS

**PAYCOM SOFTWARE INC. (PAYC)** was the leading contributor to performance as shares rose by over 23%. Paycom's unified platform appeals to midsize and enterprise clients that prefer an all-in-one payroll and human capital management solution. PAYC benefits from high switching costs, which has resulted in a 93% client retention rate. The company has approximately 5% penetration of its total addressable market, which we believe it can expand. PAYC has returns on invested capital of 25%.

GPS-enabled hardware and software provider **GARMIN LTD. (GRMN)** also contributed to performance during the quarter as its shares rose 18%. The company significantly beat earnings estimates and raised its full year earnings guidance by over 10%. Garmin has diverse end market exposure in wearables, marine, automotive and aviation, with its premium priced fitness and outdoor products representing most revenues. The company produces returns on invested capital of 18%.

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

	% Weighting
Booz Allen Hamilton Holding Corporation Class A	3.22%
Broadridge Financial Solutions, Inc.	2.70%
Akamai Technologies, Inc.	2.47%
TriNet Group, Inc.	2.42%
Monolithic Power Systems, Inc.	2.36%
Corpay, Inc.	2.30%
Bank OZK	2.24%
Labcorp Holdings Inc.	2.21%
Lincoln Electric Holdings, Inc.	2.18%
ICON Plc	2.14%
<b>TOTAL</b>	<b>24.23%</b>

### PERFORMANCE

	1Q:24	2Q:24	3Q:24	4Q:24	1 Year	3 Year (Ann)	5 Year (Ann)	Annual Total Return (since inception) 6/30/16
QSV Mid Cap (Gross) <sup>3</sup>	4.66%	-5.15%	8.15%	-2.95%	4.20%	1.58%	9.68%	11.11%
QSV Mid Cap (Net) <sup>3</sup>	4.42%	-5.38%	7.89%	-3.19%	3.20%	0.60%	8.63%	10.03%
Russell Mid Cap Value <sup>2</sup>	8.23%	-3.40%	10.08%	-1.75%	13.07%	3.88%	8.59%	9.13%
Russell Mid Cap <sup>2</sup>	8.60%	-3.35%	9.21%	0.62%	15.34%	3.79%	9.92%	11.04%

## 4Q:24 COMMENTARY – CONTINUED

### QSV MID CAP TOP DETRACTORS

Shares of **BOOZ ALLEN HAMILTON (BAH)** fell more than 20% on fears that its double-digit growth may be at risk following the loss of two top ten programs over the past year. Concerns also exist due to the change in administrations and geopolitical tensions, which could impact end market visibility. Quarterly results included double digit revenue growth, strong margins, and improved guidance for the full fiscal year. BAH produces returns on invested capital of 14%. We remain confident in BAH due to its scale advantages as a provider of artificial intelligence, cybersecurity, data analytics, and augmented reality 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.

Semiconductor manufacturer **MONOLITHIC POWER (MPWR)** fell during the quarter over fears of a potential market share loss at Nvidia, to whom MPWR sells components for its Blackwell processors. MPWR does not expect it will lose market share in this market and predicts a resurgence in demand going into 2025. While Nvidia is important to MPWR, its business is well diversified into industrial, automotive, computing, storage, and consumer products. The company produces returns on invested capital of 22% and its shares sell at a significant discount to our measure of intrinsic value.

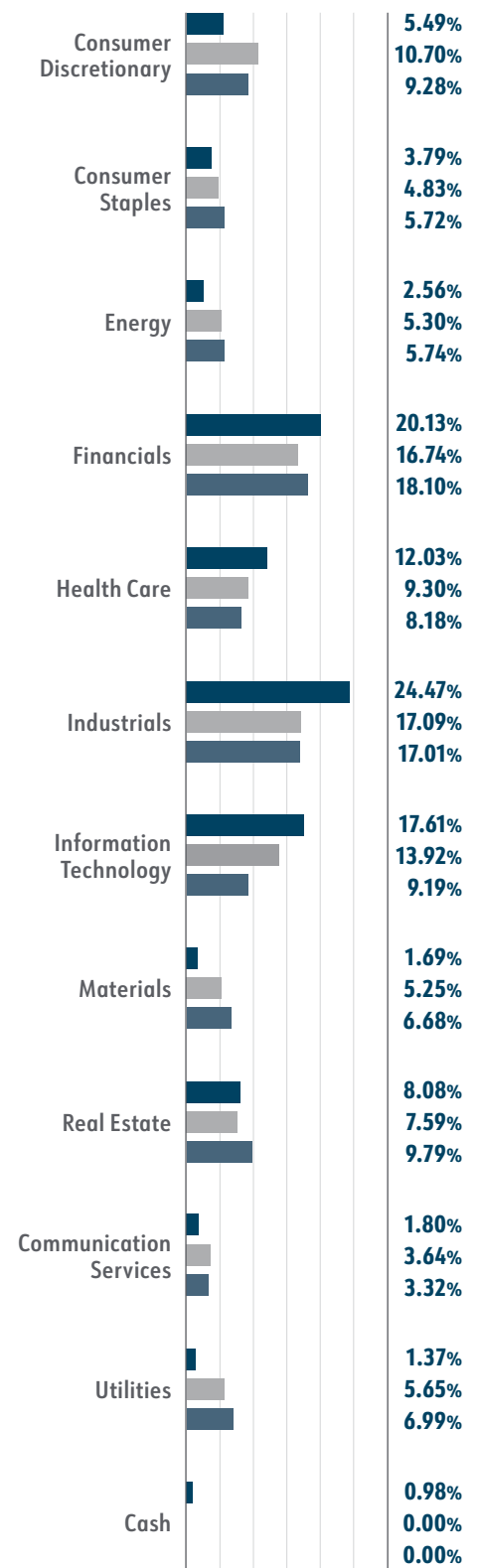
### QSV MID CAP NEW BUYS AND SELLS

Exploration and production company **APA CORPORATION (APA)** was sold to fund a better idea during the quarter. That idea is **HALLIBURTON (HAL)**, North America's largest oilfield service company as measured by market share, during the quarter. Other trims were made to existing positions based upon valuation and our convictions in the fundamentals of the businesses.

### OUR FOCUS ON THE LONG TERM

We begin 2025 with cautious optimism for the markets and for the stocks of quality small and mid-cap companies, in particular. Risks exist, as always, and we go about our company analysis and portfolio construction with our eyes wide open. The new administration brings uncertainty, with the potential positives of lowered regulation, reduced corporate tax rates, and the renewed animal spirits that could increase IPO and merger and acquisition activity. Tariffs offer a mixed bag of potential positives – reshoring of business, increased revenues for the government – and the potential negative impact of inflationary cost increases for consumers and a challenging global trade environment.

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



QSV Mid Cap<sup>1</sup>

Russell Mid Cap<sup>2</sup>

Russell Mid Cap Value<sup>2</sup>

0 5 10 15 20 25 30 %

## 4Q:24 COMMENTARY – CONTINUED

One risk that gives us less concern is the refrain of “unforgiving valuations” cited about our stock markets. As investors in quality small and mid-cap stocks, analyzed and valued one by one, we see opportunities that stand in contrast to the high valuations of the market indexes that have become momentum driven. Smaller companies’ valuations are meaningfully lower than U.S. large caps. Some of this is justified due to the lack of profitability of many smaller companies and the higher borrowing costs they incur, yet we continue to find companies with strong balance sheets, free cash flows, and high returns on invested capital that have been overlooked while investors have been infatuated with big tech.

### PORTFOLIO CHARACTERISTICS

	QSV Mid Cap	Russell Mid Cap	Russell Mid Cap Value
Active Share		92.65	92.92
Number of Securities	57	808	711
Weighted Average Market Cap (MM)	20,287.07	28,850.92	25,114.92
Median Market Cap	15,355.65	11,308.01	10,710.60
Dividend Yield	1.30	1.66	2.01
ROIC	16.61	6.65	6.21
Debt/Capitalization	42.70	54.61	53.15
EV/EBITDA	20.34	11.78	10.67

### RISK METRICS

	QSV Mid Cap	Relative to Russell Mid Cap	Relative to Russell Mid Cap Value
Annualized Alpha (RF=10-year Treasury)		0.11	0.26
Beta		0.87	0.83
Up Capture		80.23	82.80
Down Capture		94.29	91.69
Standard Deviation*	16.25	18.25	18.69
Information Ratio		0.02	0.35
Sharpe Ratio	0.56	–	–

\*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 Mid Cap Strategy are taken from the model portfolio.

<sup>2</sup> 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.

<sup>3</sup> 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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