BALLAST
ASSET MANAGEMENT

For the first quarter, the Ballast Portfolio returned 3.6% gross and 3.4% net of fees, compared to -0.2% for the Russell 2500 and -2.6% for the Russell 2500 Value.

		2015*	2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2017	Q1 2018
Ballast Portfolio[1]	Gross	-7.60	23.70	2.10	2.10	4.20	4.50	13.50	3.59
	Net	-8.04	22.90	1.90	1.90	4.10	4.30	12.70	3.42
Russell 2500[2]		-6.85	17.60	3.80	2.10	4.80	5.20	16.80	-0.24
Russell 2500 Value[3]		-5.80	25.20	1.60	0.30	3.80	4.20	10.30	-2.63

* 2015 is a partial year starting on August 11, 2015

Comment on the Quarter

The first quarter of 2018 reminded me of a sign I first saw as a kid at the entrance to a roller coaster ride called the *Texas Cyclone* at AstroWorld, an amusement park in Houston, Texas. That sign read, "You must be this tall to ride this ride." The premise being that riders must be a certain size in order for the safety equipment to be effective. Regardless of my height, or lack thereof, I knew after looking at that sign and the potential danger behind it, I wanted nothing to do with that ride.

As I watched the instruments formerly known as Inverse Volatility ETFs and ETNs trade during the early days of February, I was reminded of that sign, and of the feelings I had before ever getting on that roller coaster. Part of the philosophy at Ballast ties into a concept Nassim Taleb laid out in his book, *Fooled by Randomness*. Specifically, one should not be concerned with how likely an event is to happen (probability), it is the magnitude of the outcomes that matters. We believe in this concept whole-heartedly, and it is the main reason that we focus so keenly on two things in our process:

1) Require asymmetry in our Risk/Reward calculations (3x the Reward for every unit of Risk), and;
2) Quantify potential loss (downside) in a stock when we are wrong.

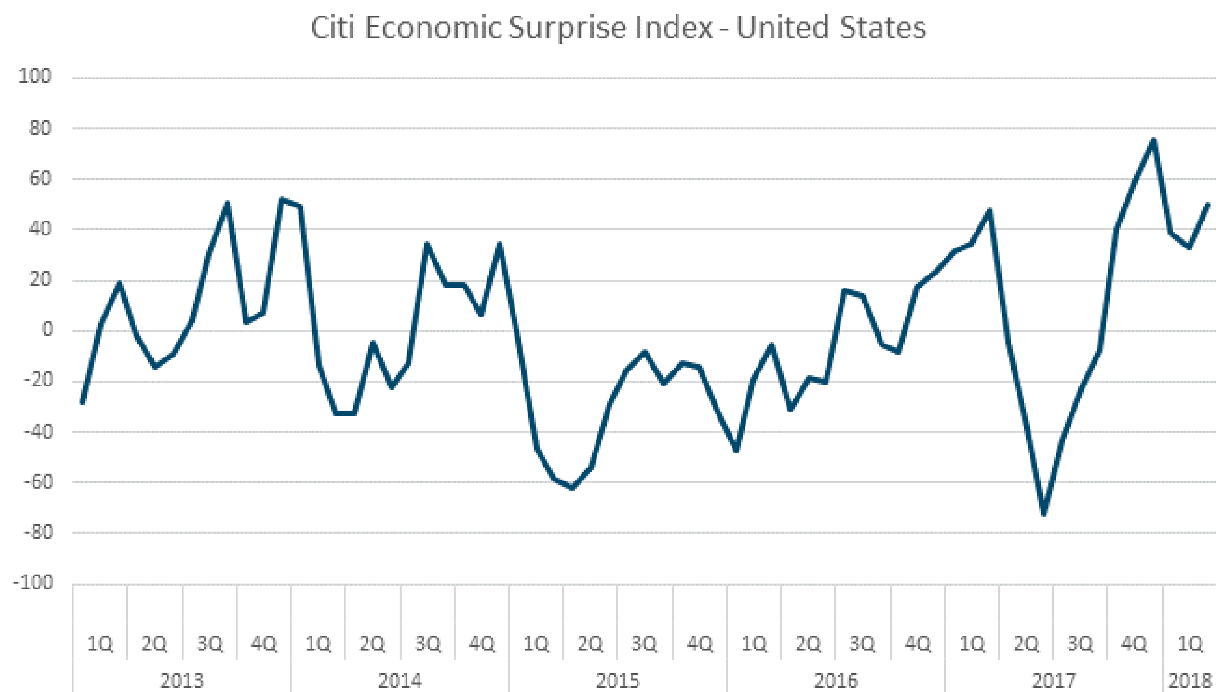
Our process is designed to rely less on the probability that we will be right, and more on the magnitude of the outcomes in either scenario. Further, our exhaustive focus on quantifying the downside serves to limit the potential losses when we are wrong. These are the safety features meant to keep us in the car when market volatility spikes. We still dislike roller coasters.

		Jan-18	Feb-18	Mar-18
Ballast Portfolio[1]	Gross	4.61	-1.65	0.69
	Net	4.55	-1.70	0.63
Russell 2500[2]		3.05	-4.11	0.96
Russell 2500 Value[3]		1.26	-4.89	1.10

Market Commentary

Going forward, we anticipate solid global growth, tighter interest rate policies, higher financial market volatility, tighter capacity utilization in many industries, and increasing dispersion in stock returns. The "global synchronous growth will lead to accelerating growth" narrative that dominated in later 2017 into January 2018 was predictably overoptimistic and is now being challenged by a reprise of the bearish version of "extreme debt levels have structurally lowered the potential growth rate" and the emerging "global growth is at stall speed" narratives. The former may have some merit in the long term, but we doubt the latter.

The Citi Economic Surprise Index chart supports a simpler theory that squares with the principle that sentiment moves faster than reality. Absent of some hidden crisis, synchronous global growth just does not flip to a global stall in one quarter. Low expectations at the start of 2017, lingering from a rugged 2016, set up conditions for consistent positive surprises in the second half of 2017, fueling the US equity rally, with both feeding back into overly optimistic estimates for 2018.



Trade war, real war and tech regulation are the nominal causes, but the equity slide since January had more to do with preexisting "avalanche conditions" including a record share of assets tied to index/quantitative strategies, low volatility entering 2018 and overconfidence in its persistence, stretched index-level starting valuations, and tightening monetary policy/liquidity (for example, the Fed's Financial Stress Index worsened from "not a care in the world" to comfortably relaxed).

Tech regulation could cut into returns for major indices that are market-capitalization weighted; however, it is not much of a threat to global economic growth. It would likely increase the dispersion of stock returns, which favors fundamental bottom-up investors like BAM. If US trade belligerence becomes bellicosity with mounting action and reaction, long-term global growth potential would be lower. However, there are many far more benign scenarios than the dire cases that get media attention. Political risks are usually harder to estimate than business prospects, even more so lately.

As always, we will continue to invest bottom-up, company-by-company, in sound cash-flowing businesses with appropriate capital structures at attractive valuations with upside optionality.

Trades in the Quarter

During the quarter, we initiated positions in **Eagle Materials (EXP)**, **Criteo (CRTO)**, and **Edgewell Personal Care (EPC)**.

Eagle Materials manufactures cement, gypsum wallboard, concrete and aggregates for residential, infrastructure and commercial construction. It also produces and distributes northern white sand for hydraulic fracture oil and gas wells. The company faces oligopolistic to at-worst-rational competition and should retain the benefit of lower corporate tax rates. Most of its end markets appear midcycle, but it is at least four or five years to peak conditions at the subdued growth rates seen so far this cycle. Despite the sluggish volume recovery, we have seen capacity tighten enough to create meaningful pricing power. As demand continues to grow and capacity continues to tighten, we expect further price increases to drive Eagle's margins to or past prior peak levels in the next few years.

Criteo is a technology company involved in programmatic advertising that uses propriety machine learning algorithms, coupled with large volumes of granular shopping intent data and deep insights into consumer intent and purchasing habits. By measuring the value it delivers on a post-click sales basis, the company is able to provide clear return on investment measurements for advertiser clients. The online advertising industry is shifting from a traditional selling model, whereas advertisers and publishers dealt directly with one another, to a complex, data-driven model that allows for dramatically more personalized and targeted delivery of ads. We believe Criteo is an undervalued growth company with a secular tailwind propelling its growth outlook and with technological and structural moats protecting its competitive positioning.

Edgewell is a consumer staples company that owns several household names in wet shave, sun and skin care, feminine care and infant care. The company's largest segment, wet shave, has faced disruption and increased competition from shave clubs, resulting in a punitive valuation and extrapolation of pricing pressure and share losses. The price reset, which we believe was one-time in nature, restores a competitive value proposition for traditional players relative to the shave clubs, and the traditional players benefit from scale over new entrants. The company's private label businesses and skin care portfolios are undervalued and will help drive organic growth in 2019, while cost take-outs will aid margins.

We sold **Dean Foods (DF)** after the stock violated our investment thesis. It became evident that the cost advantage and nonfluid milk businesses were not sufficient to offset pressures facing the industry including shift to private label, higher input costs, and declining fluid milk volumes. Having owned Dean for several years, this one will be moved to the top of the list for our Post Mortem analysis this year.

RSP Permian (RSPP) was sold upon announcement of an agreement to be acquired by Concho Resources in an all-stock transaction at a 29% premium to the previous day's closing price.

We began exiting our position in **XL Group (XL)** after the company announced a sale to AXA Insurance in a $15.3 billion deal, a 30% premium to previous close.

Woodward (WWD), **FMC Corp (FMC)**, and **Alexandria Real Estate (ARE)** were sold after hitting our price targets.

	Top 10 Positions Name			
TDC	Teradata Corp		XOXO	XO Group Inc
ZION	Zions Bancorporation		LNGG	Linn Energy Inc
NTAP	NetApp Inc		CRMT	America's Car-Mart Inc/TX
IAC	IAC/InterActiveCorp		CIT	CIT Group Inc
CRTO	Criteo SA		EML	Eastern Co/The

10 Largest Positions as of 3/29/2018

<u>Conclusion</u>

Thanks again for your interest in Ballast. If you have any questions about our firm, our people, or our process, please feel free to reach out.

Best regards,

Ballast Asset Management

About the Firm

Ballast is a boutique investment firm that employs a fundamental, bottom-up approach to investing in Small and Mid-Cap stocks. We emphasize a team-based culture and stress chemistry and fit of each member. We have a proven, repeatable process with a specific focus on limiting downside volatility and exploiting asymmetric Reward/Risk profiles. Just as a ballast is used to give stability to a ship, we actively manage our client portfolios to operate safely and successfully, regardless of market conditions. Ballast operates as a wholly owned, independent subsidiary of Inverdale Capital Management.

Important Notes and Disclosures

The investment decisions we make for clients' accounts are subject to various market, economic, and other risks, and there is no guarantee that those investment decisions will always be profitable. Clients are reminded that investing in any security entails risk of loss, which they should be willing to bear. The past performance of the firm or its principal is no guarantee of future results.

Some information contained in this communication was obtained from third-party sources. While these sources are believed to be accurate, that information has not been independently verified.

1. The Ballast Portfolio represents the performance of a proprietary account managed in the firm's model strategy that was launched on August 11, 2015. Gross Performance represents the returns of the account after all expenses, but before deduction of management fees. An individual client's account would be subject to the deduction of management fees in accordance with the Ballast fee schedule. Net Performance represents returns net of all expenses and the highest management fee rate (1%) in the firm's fee schedule. The returns achieved by an individual client's account may vary from those reported for various reasons, including management fee rate, timing of cash flows, frequency of rebalancing of individual accounts, and an individual client's restrictions. Past performance does not guarantee future results.

2. The Russell 2500 Index is a market capitalization weighted index of the 2,500 smallest companies in the Russell 3000 universe of United States equities. Returns shown include the reinvestment of dividends and are based on data obtained from FTSE Russell.

3. The Russell 2500 Value Index measures the performance of those Russell 2500 companies with lower price-to-book ratios and lower forecasted growth values. Returns shown include the reinvestment of dividends and are based on data obtained from FTSE Russell.

100 Crescent Court, Suite 1825, Dallas, TX 75201 • 469.420.5220