BALLAST
ASSET MANAGEMENT

For third quarter 2018, the Ballast Portfolio returned 3.3% before fees and 3.1% net of fees, compared to 4.7% for the Russell 2500 and 2.7% for the Russell 2500 Value.

Performance (as of 9/30/2018)		Periodic Returns							Annualized Returns	
		2015*	2016	2017	1Q 2018	2Q 2018	3Q 2018	YTD 2018	1 Year	3 Years
Ballast Portfolio [1]	Gross	-7.6%	23.7%	13.5%	3.6%	9.2%	3.3%	16.9%	22.1%	18.3%
	Net	-8.0%	22.9%	12.7%	3.4%	9.0%	3.1%	16.0%	20.9%	17.2%
Russell 2500 [2]		-6.9%	17.6%	16.8%	-0.2%	5.7%	4.7%	10.4%	16.2%	16.1%
Russell 2500 Value [3]		-5.8%	25.2%	10.3%	-2.6%	5.8%	2.7%	5.8%	10.2%	14.5%

* 2015 performance from 8/11/2015 through 12/31/2015

“It’s not rocket science, just use common sense,” my mentor often said, usually adding that common sense wasn’t all that common. His point: Keep it simple, check the facts, think it through, and you’ll do well enough just by avoiding easy mistakes. Markets incorporate opinions quite efficiently, but those opinions aren’t always sensible. The intuitive jumps our brains make in the name of efficiency often lead to too much optimism or pessimism. This mentor enjoyed illustrating his point with examples like IPG Photonic’s last quarter. It reported 12% sales growth and 16% EPS growth versus the prior year, but the stock dropped more than 25% after missing consensus sales by 1.2% and consensus EPS by 1.9%. How does a 2% miss justify a 25% drop? Hard data knocked some common sense into the market, cutting its 30x Price/Earnings multiple down to a presumably more realistic 22x.

He also cautioned, “Just because it’s common sense doesn’t mean it’s easy.” In that vein, the BAM team meets from time to time to “State the Obvious.” We spend 30 minutes or so listing, without comment or judgment, issues like “interest rates have increased quite a bit recently” or “another hurricane just hit Florida” or “home equity is back to pre-mortgage bubble levels” or “mid-term elections are in less than a month.” Then we go through the list, item by item, asking how each might impact our companies or the portfolio as a whole. Usually, we have already considered it and the answer is, it will not. It is a list of the obvious, after all. But amazingly, nearly every time, we surface an issue or two that we and/or the market has yet to consider.

Our recent list included trade wars, which first appeared late last year. Obvious, right? Wrong. Despite the media drone, the risk is already half resolved. There’s a “cease fire” with Europe, and Mexico and Canada are resolved. The US Imports about $615b from those two countries, about 20% more than the $510b imported from China. The export side is more than half settled – Mexico and Canada account for $540b of US exports versus just $130b to China. Now, China is a big trading partner and should not be ignored, but the fact trade risks are far smaller, in aggregate, than six months ago seems underappreciated.

Here is another one: The US economy is doing very well. Inflation, as measured by the Fed's five-year forward breakeven rate, remains as firmly in the 2% range as it has all year, despite tax cut stimulus bumping GDP growth up a few ticks and unemployment hitting a 60-year low. This is largely consistent with what we expected at the start of the year – solid real economic performance and more difficult financial markets. Sadly, we were only partly right about the real economy as hopes for synchronous global growth faded a bit early in the year. The economic growth differential is also reflected in the performance of US equities, with the S&P 500 up 1.3% YTD compared to MSCI World ex-US down 10.4% YTD as of this writing.

One last obvious point: US interest rates are rising. Less obviously, this is part of the reason small cap indices have underperformed the large cap S&P 500. Since September 1, the Russell 2000 (the small cap portion of our SMID cap Russell 2500 benchmarks) fell 15% to October 29, compared to the S&P 500's decline of 8.8%. An October 10th *Financial Times* article links the differential to debt levels, noting the companies in the Russell 2000 average Net Debt to EBITDA is nearly 3.5x, versus 2.0x for the S&P 500.[1] It also reports that roughly half of Russell 2000 companies pay floating interest rates compared to only about 25% of S&P 500 companies. In other words, as interest rates increase, the cost of servicing debt increases faster for companies in the Russell 2000 than for those in the S&P 500.

Ballast's Small and Mid-cap portfolio (SMid), in stark contrast, averages 1.2x Net Debt to EBITDA. That is also significantly lower than our small and mid-cap benchmarks, the Russell 2500 at 2.1x and the Russell 2500 Value at 3.1x. BAM's low average leverage is a deliberate choice, part of our discipline of putting downside mitigation first. In tough times, companies with manageable debt loads can execute their business plans with less disruption and, because financial distress is more remote, stock prices of low-leverage companies tend to drawdown less than more indebted ones. A strong balance sheet ensures the good cash flow and high Returns on Invested Capital of our holdings accrue to shareholders, not distress creditors. As a result, our portfolio ought to hold up better than capitalization-weighted benchmarks in periods of recession or financial stress.

Lower leverage is only one aspect of putting downside risk management first. It is deeply embedded in the process we use to analyze each candidate position and manage the portfolio on a day-to-day basis. Rather than some theoretical discussion, we offer the investment rationale behind three of our positions for more textured insight into our approach and how it integrates downside mitigation.

InterActive Corp (IAC)

InterActive Corp is an internet media conglomerate founded with the acquisition of telemarketing network QVC in 1995, by a proven value creator, chairman Barry Diller. Since then he has built a long

[1] Net Debt to EBITDA is a quick and dirty way to compare how much companies owe creditors (total debt minus cash on hand) with a proxy for how much cash it generates each year (Earnings Before Interest Taxes Amortization and Depreciation). Lower financial lever is usually better, especially after extended periods of economic expansion, and particularly for companies with high operating leverage and/or cyclical end markets. Note: The index and portfolio Net Debt to EBITDAs exclude financial companies, for which EBITDA isn't a useful metric.

history of growing popular media properties and unlocking their value, while returning significant cash to shareholders along the way. His usual tactics for realizing shareholder value are spinoffs and partial listings, including well-known brands like Expedia, TripAdvisor, Home Shopping Network (HSN), Ticketmaster, LendingTree.com, Interval Leisure Group (ILG), Match.com, Angie's list and HomeAdvisor. We followed the company and owned the stock for several years prior to starting Ballast. An inaugural holding from BAM's inception in August of 2015, IAC has generated annualized shareholder returns in excess of 40%.

IAC continues to offer the excellent upside potential with downside support that is a cornerstone of BAM's stock selection process and our thesis remains unchanged. Safety first, downside risk is moderated by:

- Rock-solid balance sheet: IAC is arguably underleveraged with 0.50x Net-Debt-to-EBITDA Moreover, its net debt of $250m is miniscule in comparison to $6.2b of GAAP assets; even excluding goodwill and intangibles, net debt is still just 8% of assets.
- Sticky businesses: Customers return to its sites over and over, perhaps as much through habit as any sense of brand loyalty, which produces steady, predictable cash flows, averaging 13% of sales over the last 15 years with no negative years.
- Internally financed growth: Debt markets are open to IAC, but Diller mostly uses cash flow from IAC's mature businesses to fuel promising new ventures, sort of a tech-savvy implementation of Warren Buffett's capital allocation strategy. As the list of spinoffs indicates, this reinvestment is profitable.
- Shareholder alignment: Over the last 10 years, IAC has paid out about $300m per year in dividends and share repurchases, one obvious example of management's long history of handling corporate resources with an ownership mentality. It stands to reason, Diller personally owns about 7% of the stock, including 100% of super-voting Class B shares.
- Margin of safety: IAC trades at more than a 20% discount to the market value of its listed assets alone.

We derive that simple initial 20% discount by observing the market value of IAC's leading internet dating site Match.com and ANGI Homeservice, which owns Angie's List and HomeAdvisor. They trade independently under their own symbols, but in both cases IAC owns more than 80% of the economics and effectively 100% of the control. MyHammer, which is an effort to establish a HomeAdvisor-like business in Europe, listed in Germany, doesn't make much difference to the valuation case, but we included it for completeness. Subtracting the value of these companies from IAC's market cap reveals the market's implicit estimate of the value of IAC's remaining business is negative $3.5bn. It completely ignores 35 other internet business, about $1 billion of investable or returnable cash and Diller's extraordinary track record of value creation.

	Market Cap (mil)	IAC Ownership	Value to IAC (mil)
ANGI Homeservices	$9,476	87%	$8,201
Match Group	$13,845	81%	$11,266
MyHammer	$55	80%	$44
Implied value of all other businesses			**-$3,534**
IAC/Inveractive market value (mil)			$15,976

We can't say exactly how much value is in those other business, but we know for certain there is far more than the market gives IAC credit for. Consider, for instance, Ask.com, which you may more easily recognize by its prior name AskJeeves.com. It offers general search and unique natural-language Q&A services. It's not unobtrusively ubiquitous like Google, but the natural-language Q&A attracts significant monetizable traffic, not least because Google features Ask.com prominently at the top of relevant search results. However, because it earns its revenues via advertising services and algorithms owned by Google, with contracts up for renewal every three years, the market episodically speculates that Google will terminate the deal with Ask.com because Google sees it as a competitor. We think that's an ill-conceived worry, completely undercut by more than 15 years of history. It does not grow fast, but Ask.com generates significant cash with which IAC invests into higher returning assets, one of which is the leading online dating company Match.com.

America's Car-Mart (CRMT)

America's Car-Mart (CRMT) finances older used cars and trucks needed for basic transportation by its very-low-to-no credit score customers (deep subprime). It has integrated retailing and underwriting at each of its 143 dealerships, in communities fanning out over Southcentral US from Bentonville, Arkansas. Management consistently maintains disciplined underwriting and conservative loss reserves, seeks efficiencies to control costs, keeps a strong balance sheet for a financial company, and allocates capital with an ownership mentality. Book value per share has grown at an impressive 12% CAGR since 2003, while earning a median ROE of 15%. Recent industry and company improvements ought to raise ROE into the 20% range and accelerate growth. It currently trades at 2.0x P/B, which we think is reasonable given downside protection and the evidence it is a long-term compounder that could justifiably trade at 3.0-4.0x P/B.

Deep subprime auto finance seems to range from indifferent to predatory, with some exceptions like Car-Mart, which works to ensure its customers can afford their vehicles, because it holds loans to maturity, wants repeat business, and is both ethical and profitable. Customers typically return when the vehicle needs to be replaced, and ideally with a little salvage equity to use as the next down payment. Among the reasons customers choose to repeat, Car-Mart typically charges 300-500bp less interest than the industry average, currently 16.5% versus the industry's 20%-21%, which is necessary to offset typical default rates of 25%-30%. More importantly, from the perspective of customers with tight budgets and insecure incomes, Car-Mart will modify loans for customers that can stay current once modified. Loan modification is an unusual option for these customers. Mainstream financials often cannot modify loans, because they have been bundled into ABS deals. Shady "buy here, pay here" dealers actually hope for defaults – they repossess the car, pocket whatever they have taken from the customer (sometimes hounding them for more) and repeat the process with another victim.

How can Car-Mart, lending to customers with an industry default rate of 25%-30%, have limited downside?

- Car-Mart only rarely loses money on a per vehicle cash-on-cash basis. Defaults concentrate around the tenth month from origination, but customer payments have covered what Car-Mart spent to acquire the vehicle by about the fifth or sixth month. Whatever the (usually) repossessed vehicle sells for at wholesale or for scrap reduces the number of months to cover Car-Mart's cash outlay to two or three months.
- Disciplined underwriting keeps its defaults well below industry levels. Prior to 2014, Car-Mart's default rate was under 25%. In 2016, it briefly spiked above 30% but has since trended down to 27% and is likely to decline further. Over that period, expected (and experienced) default rates in deep subprime ABS ranged around 35%.
- Conservative loss reserving prevents write-offs and understates liquidation value. For example, its loss reserves of 22% of receivables (currently 25%) were more than adequate to withstand the 2007 housing bust's hit to its customers' employment opportunities without any write-offs.
- It has a strong balance sheet, which is far less levered than a typical financial – about 2.0x Assets/Equity and 33% debt-to-assets.
- Profitability is not quite counter-cyclical, but it is resilient. Although ROE dropped from 15% in 2006 to 3.5% in 2007, it recovered to about 12% in 2008-09, financial crisis notwithstanding. Demand was supported by repeat business and the tough 2007-10 economy increasing the size of its target market. Profitability was supported by other lenders pulling back, and Car-Mart capitalizing on its balance sheet strength at favorable risk-adjusted rates, earning 16% ROE in 2010.
- Owner's equity is protected by short duration assets. Liquidation is improbable, but as a thought-experiment, Car-Mart could lower originations to one-third of maturing receivables, shrink the store base, consolidate inventory, and pay off all debt in less than 12 months from cash flow. The going concern would be 30% smaller, but shareholder equity would be intact.

High interest rates and strong performance of automotive asset-backed securities over 2007-2010 led to very strong investor demand, which private equity-sponsored start-ups and traditional auto finance companies met by aggressively entering deep subprime. Heightened competition and inexperience eroded credit standards, especially after 2013. At the worst, many of Car-Mart's best credits defected to competitors offering 72- to 80-month terms (longer than expected vehicle service life) with zero down payment (no skin in the game) and loan-to-value nearing 100% (higher charge-offs), virtually guaranteed to end in losses. As usual, Car-Mart maintained lending discipline, only extending terms to about 32 months from about 28, forgoing growth to protect return on capital. Although customers could not really afford newer used vehicles, now able to qualify for risky mainstream financing, many traded up, sometimes leaving Car-Mart to collect defaulted vehicles from competitors' dealerships.

We have followed the company for more than 15 years and, with the operational initiatives Car-Mart had in place to respond to uneconomic competition (which compressed ROE to mid-single digits), BAM took an initial position in April 2017, at roughly 1.2x trailing book value per share. We reckoned the downside was no more than 1.0x P/B and that Car-Mart ought to recover mid-teens ROEs, even with no change in competition, given operational improvements and the competitive advantage of its local community presence and integrated business model. Since then, responding to rising default rates, competitors have been tightening credit standards and withdrawing capital. Car-Mart's existing dealership profitability and competitiveness are improving, and it is once again methodically opening new dealerships. Restored underwriting profitability and a slight increase in leverage relative to 2010-2015 levels ought to produce 20%-25% ROE, easily sustaining its long-term 12% book value CAGR and justifying P/B of 3.0-4.0x.

Designer Shoe Warehouse (DSW)

Designer Shoe Warehouse is a footwear chain that sells branded shoes and accessories at value prices through more than 500 retail locations and an online store. We first acquired shares of DSW in 2016 when the retail sector was depressed by low traffic, tepid same-store sales, and high degrees of pessimism due to heightened online competition. For DSW, warehouse is more than just a name. The company operates its retail stores as a fulfillment network to meet demand in-store and online with free shipping, and it does so profitably. DSW is differentiated as a result of key investments made in the business starting more than a decade ago which are, oddly, not very common across the retail industry. These investments and differentiators include:

- Strong balance sheet, with no debt and about 10% of market value in cash. Even if you capitalized operating leases, the company had a manageable pro forma net debt level of about 1.6x EBITDA.
- Information systems that enable online fulfillment also grant store reps visibility into companywide product availability and allow the merchandising teams to mark down specific product SKUs, if needed, rather than storewide discounts to reduce inventory levels.
- Direct sourcing model to buy inventory outright from vendors. This direct model evolved from close-out acquisitions in its early days, which today account for around 10% of the business. Coupled with their information systems, this sourcing model allows the company to meet demand for fashionable and seasonal trends, quickly cut and liquidate losing products when necessary, and turn inventory 30%+ more efficiently than peers.
- Loyalty program which began more than 20 years ago and today has more than 25 million members that consistently represent around 90% of sales. By understanding their customer

base, DSW has discovered valuable insights and opportunities. For example, DSW learned that many of its Rewards customers were young moms and grandmothers and that by introducing children's footwear across its store base, they could enhance customer value and boost market share.

- Near-optimal store base in the value channel – sufficient in number to give them scale needed to compete online, but not so many that they were "over-stored" like many retailers.

At our purchase, the stock traded at a 14% normalized free cash flow yield, compared to historic 7%-8% on average, despite generating low double-digit returns on invested capital. With an efficient and differentiated operating model, high levels of cash flow, and substantial net cash position, we saw limited downside even when the industry was under pressure. While many retailers struggle to service debt and contain inventory levels as traffic shifts online, DSW.com, launched more than 10 years ago and an early adopter of free-shipping policies, is a leading online retailer that leverages its physical retail footprint.

More recently, DSW announced a transaction with Authentic Brands Group to buy Camuto Group. DSW acquired 100% of Camuto's sourcing and wholesale business and took a 40% stake in the brands, with ABG taking the other 60% interest in brands. The stock reacted negatively, losing more than $300m in value on a $256m deal that included $100m of working capital. The market doubts the merits of this deal because it is a vertical acquisition, poses execution risk, and it will be dilutive to earnings in the near term. We like the deal and think it has presented an outstanding buying opportunity.

Among numerous strategic reasons for the transaction highlighted by the company, one important dynamic of this deal is the leverage it creates for DSW's e-commerce and fulfillment expertise. Setting aside the brand portfolio, consider that DSW paid $200m to acquire Camuto's $326m wholesale business, which obviously sells shoes at wholesale prices. While maintaining the existing wholesale channels, DSW plans to develop direct-to-consumer strategies for Camuto's brands, and those sales will come through at retail prices. In other words, there is tremendous revenue and margin upside on taking branded wholesale volume direct to consumers.

Another merit of the deal includes acquisition of a sourcing organization. Why are we in support of a vertical acquisition? You wouldn't expect to see an auto dealer move into designing cars, would you? In the auto industry, design and manufacturing are highly interconnected and consolidated. In the footwear industry, design capability is an extension of sourcing and branding that works iteratively and closely with various factories in-country to develop product. Manufacturers in the footwear industry are highly fragmented, with capacity dispersed through China, India, Brazil, Vietnam, Indonesia, etc. The design teams and capability offer strategic value to DSW's existing sourcing function and private label lines, which DSW intends to grow from about 10% of sales today to 20% in the coming years.

One of the benefits of operating with low debt levels is that it creates dry powder to act on opportunities as they arise. DSW will use approximately one-third of cash on hand and draw $160m on their credit facility to fund the acquisition. After the deal, they will maintain a neutral cash position and a gross debt to EBITDA ratio of 0.5x, excluding any EBITDA contribution from the acquisition. Further, consistent with their history of being underlevered, DSW intends to pay down that debt over the next three years from cash flow.

Portfolio Additions/Deletions

We initiated a position in AstroNova Inc. (ALOT) this quarter and exited our position in Patterson Companies (PDCO).

AstroNova (ALOT) CEO Greg Woods, a Danaher alum, has rationalized the product lines of a formerly sleepy, family-controlled business into a portfolio of niche industrial products with more growth and upper teens return on capital potential. It recently traded at 12.0x trailing EV/EBITDA, with a $142m market cap and $15m of net debt, which leaves it very safely capitalized for its industries at less than 1.4x net debt to EBITDA.

Trailing 12-month sales of $126m increased more than 25% from a year ago. Approximately 70% of revenue comes from recurring service and consumable media and ink sales, which significantly moderates downside business risk. Trailing 12-month EBIT margin increased to 8.3% from 4.8%, auspicious execution against the CEO's 2017 five-year plan to organically double revenue from $98m in 2017 and boost operating margin to 15% with the existing asset base. Potential reinvestment of $50-60m of future cash flow into related tuck-in acquisitions at about 1.0x revenue makes up the difference with his 2021 target revenue goal of $250m.

The company has two business segments, the larger of which is QuickLabel Systems, accounting for two-thirds of revenue. It sells and supports a range of digital label printers, principally for high-resolution color imaging on lower-volume packaging materials. Its printers, which are integrated with desktop publishing and range from tabletop to factory-floor light commercial systems, eliminate setup, simplify in-house production and reduce turnaround time. For short and medium production runs, this is much more cost-effective than outsourcing at a cost of about 25% of entry-model full-scale commercial digital presses. Printer sales are followed by a long tail of service, proprietary media and ink sales.

The Test & Measurement segment contains a steady business in data acquisition recorders and aerospace networking components. It also holds an aircraft cockpit printer business it built through a series of small acquisitions and is now the leading independent cockpit printer company, including sole-source positions in the industry volume-leading Boeing 737 and Airbus A380. It's not quite an oligopoly, but as far as we can tell its competitors are buried within major aerospace companies, where it is more of an afterthought within a much larger, more expensive product suite. It recently acquired Honeywell's aircraft printer business, which is currently driving unit volume growth, with installed base growth pulling through proprietary service, media and ink sales.

Patterson Companies (PDCO) is a full-service dental and animal health distributor in the US, Canada and the UK. We just took the position in 2Q, but quickly exited in 3Q after 1FQ19 results violated our thesis in two ways. First, our thesis that its high-touch full-service business model with rental, financing, servicing and consulting elements would protect pricing power in consumables and equipment was violated by incremental pricing pressure from Amazon, which was beyond management's prior expectation. Second, with the ERP system fully implemented for two quarters, we expected implementation costs to drop off and improving inventory efficiency to boost core margin. Not only did margins fall, but inventory/sales rose even after two consecutive quarters of write-downs triggered by higher visibility into inventory levels. Working capital and FCF nominally improved, but only through the somewhat gimmicky one-time benefit of implementing an accounts receivable borrowing facility. It is unusual for us to exit a stock so shortly after initiation, but that's our discipline – we sell when a thesis is violated.

Top and Bottom Performance Contributors

Top Performing Positions			Bottom Performing Positions		
	Name	Total Return		Name	Total Return
IAC	IAC/InterActiveCorp	42%	CRTO	Criteo SA	-30%
CRMT	America's Car-Mart Inc/TX	26%	HBI	Hanesbrands Inc	-16%
DSW	DSW Inc	32%	EXP	Eagle Materials Inc	-19%
PINC	Premier Inc	26%	ON	ON Semiconductor Corp	-17%
NCMI	National CineMedia Inc	29%	EPSEF	Epsilon Energy Ltd/Canada	-10%

Conclusion

We hope these examples provide a more nuanced view of our process. Each investment theory is approached uniquely, according to its specific facts, circumstances and unknowns, but also consistently in our analysis of cash flow, valuation, leverage, business risk and market risk. We are perhaps a bit less sanguine with respect to the real economy given the global backdrop and it seems probable financial volatility will continue to challenge small and mid-cap indexes. Of course, we invest in stocks not indexes, and our lower-leverage preference for steady, high return on capital businesses is some insulation. Additionally, volatility can create opportunities to acquire great businesses that do not often trade at attractive valuations. We have successfully employed this process for more than 15 years and our experience with its long-term success, across market conditions, enables us to consistently act with thoughtfully balanced conviction.

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 Ballast

Ballast Asset Management was founded by Ragen Stienke in August of 2015. Ragen previously served as Senior Portfolio Manager for Westwood Management's SMidCap Equity Strategy which had $3.5b of assets under management at his departure. Ballast Asset Management entered into a strategic relationship with Inverdale Capital Management in 2017 to support the growth of Ballast Asset Management. Ballast Asset Management, LP is now a subsidiary of Inverdale Capital Management, LLC.

Ballast's approach to investing is fundamental and bottom up, seeking to invest when the market has undeservedly low expectations for companies with a demonstrated ability to generate free cash flow, maintain a healthy balance sheet, allocate capital effectively and execute successfully. Ballast's portfolio typically consists of 40-70 long equity positions ranging between $100 million and $10 billion in market capitalization.

We foster a culture of individual initiative, mutual respect, unrelenting intellectual honesty, and independent judgment. We believe our culture is an integral component of achieving superior risk-adjusted returns. For instance, it ensures our formal thesis reviews honestly challenge each individually sponsored idea and that the team is united behind the goal of making the best possible decision.

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.