



Thoughtful Investors Managing with Focused Agility

For the second quarter of 2020, the Ballast Portfolio returned **26.6%** before fees and **26.3%** net of fees, compared to 20.6% for the Russell 2500 Value. The portfolio is currently 94% invested in 50 companies.

		Periodic Returns						Annualized Returns			
		2015*	2016	2017	2018	2019	1Q 2020	2Q 2020	1 Year	3 Year	4 Year
Ballast Portfolio¹	Gross	-7.6%	23.8%	13.5%	-2.2%	16.1%	-33.4%	26.6%	-12.9%	1.4%	6.8%
	Net	-8.0%	22.6%	12.4%	-3.2%	15.0%	-33.5%	26.3%	-13.8%	0.4%	5.7%
Russell 2500 Value²		-5.8%	25.2%	10.3%	-12.4%	23.5%	-34.6%	20.6%	-15.5%	-2.6%	2.2%

First, our active management made a big difference in the quarter. During 2Q, we added 10 new names and exited 7. The average gain of the **new names after purchase was 23%**; the average gain of **our exited positions after exiting was just 3%**. Not only did our active decisions help to drive significant outperformance performance in the current quarter, we believe we substantially increased the quality, defensibility, and long-term return-profile of the portfolio by buying great businesses at bargain prices. We are pleased with the near-term results from our active decisions but believe the impact from these high-grading decisions will be greater still.

Second, certain of our investments on a historical basis tend to outperform in the month after the quarter end, a time when most companies publicly report their numbers and more information becomes available. This is especially true following a sudden market sell-off like we experienced in 1Q 2020. The reason is that our companies have specific drivers that we identify and are underpinned by our investment process. These drivers are not necessarily visible to a wide group of investors unless they do the work. For every company we purchase, we thoroughly vet key value drivers, tie those to our 3:1 reward-risk framework and memorialize them with our investment thesis. Secular earnings and growth drivers give these companies resilience, or ballast- (pardon the pun), despite market conditions. Let us look at two examples of how this happened in 2Q.

Horizon Therapeutics (HZNP) gained 88% during the 2Q after declining 18% in 1Q. In May, the company handily beat earnings estimates and raised its full year outlook. The reason for the strong results hinges on early commercial success with an orphaned drug called Tepezza. Tepezza is the first and only drug approved by the FDA to treat Thyroid

Eye Disease (TED), and 8 out of 10 people suffering from the condition see an improvement using Tepezza. The commercialization of Tepezza and other candidates in their orphaned-drug program are a central tenet of our thesis.

Cerence (CRNC) rose 165% during 2Q after declining 32% in 1Q. Despite the downturn in auto production, Cerence signed the two largest contracts in the company’s history, one of which is with a major European car manufacturer. Our thesis on Cerence has little to do with auto-production, rather it depends on secular growth and a defensible market position in vehicle connected services.

Our process requires a patient investor mind-set as the upside is sometimes not seen in near-term results. Rather, we hope that our patience pays off over several months or quarters for the fundamentals and investors to match up in appreciation of a value-creation story. But during sudden selloffs like we experienced in 1Q 2020, we look forward to the quarterly results. Since our investment horizon is 3-5 years, we believe most of our companies are early into their value-creation stories. We could not be more enthused about how our portfolio is positioned to generate future returns.

The top contributors and detractors for the portfolio are outlined below. In the meantime, our team is devoting all efforts to the portfolio and continuing to be on the lookout for other opportunities that market volatility will likely present.

2Q 2020 Top and Bottom Performance Contributors

Top Performing Positions			Bottom Performing Positions		
	Name	Total Return		Name	Total Return
HZNP	Horizon Therapeutics	+88%	CNXM	CNX Midstream Partners	-17%
IAC	IAC/Interactive Corp.	+80%	JCOM	J2 Global	-16%
CRNC	Cerence, Inc.	+165%	MLHR	Herman Miller	-17%
CRMT	America’s CarMart	+56%	WTS	Watts Water	-4%
GDP	Goodrich Petroleum	+69%	EML	The Eastern Co	-8%

As always, our team is available discuss performance in greater detail, as well as the changes we have incorporated during the 2nd quarter. Until then, our team is singularly focused on our existing positions and in an ongoing pursuit of identifying new investments that will contribute to the long-term returns.

We appreciate your continued investment and confidence in our team and strategy. Wishing you and your families continued good health during this unprecedented time.

Regards,

Ballast Asset 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 composite of accounts invested in the firm's model strategy that was launched on August 11, 2015. Gross Performance represents the returns of the composite 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. In April 2019, Ballast transitioned from calculating performance based on a proprietary account to composite. The composite performance should be the sole source of information used when evaluating past performance. Past performance does not guarantee future results.

²The 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.