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# Ballast Provides Portfolio Stability Amid Market Disruptions

In the same way that weight is added to specific parts of a ship to provide balance, small- to mid-cap equity manager Ballast Asset Management focuses its efforts on providing stability to portfolios regardless of the market environment.

Dallas-based Ballast was born in August 2015 following the departure of Senior Portfolio Manager Ragen Stienke from smid-cap equity firm Westwood Management, where his smid-cap portfolio had a 10-year track record.

Ballast hit its five-year anniversary in 2020, providing a five-year independent performance record that investors can now look at "in conjunction with a total 15-year track record," according to Stienke.

"We've seen a dramatic increase and interest in and activity coming off of that five-year number," he said.

With the firm able to reference the longer track record that Stienke was responsible for at Westwood, Ballast can "operate from a good point of strength," according to Head of Marketing & Investor Relations Joyce Schaer, who added that there has been "an increase in investor interest in small-cap and value given the rotation that's been happening in the market for the last six months or so."

Stienke believes that periods of market disruption offer a unique time for active management to avoid risk but also take advantage of the opportunities.

"If you look back at the Great Financial Crisis and the different industries that had seen their businesses extraordinarily disrupted, their balance sheets decimated and the performance of companies and industries over the next five and 10 years, there was really a drag on passive performance as a result of that," he said.

Stienke implied that as a result of the COVID-19 pandemic and through no fault of their own, many of those businesses are still in existence, most of their employees still have jobs and they still service their customers and generate products, but at best they have seen their balance sheets stretched and, at worst, destroyed.

**Ragen Stienke**

"I am afraid the next five to seven years could experience equity values that are either stagnant or worse just because they are having to work out of a very pressured position from a balance sheet perspective and don't have returns necessary to award equity holders as they're trying to pay down debt and repair their current business," he said.

**Tried and True Research Process**

Stienke indicated his belief that what the firm has built is tried and true and anything challenging is outside of their control and will play out in the short term.

"For instance, the latest and greatest fad may or may not have anything to do with fundamentals [such as] the chance of success [or] the potential cash generation," he said. "We're going to remain true to our investment discipline regardless of what is going on in the world around us and we're not going to be swayed," Stienke said.

While there are times when the firm's style or process is out of favor because it is not what the marketplace is focused on at the moment, Ballast remains comfortable and confident in their strategy.

"That's okay because our singular goal is to compound returns over time and outperform the market over time," he said.

Ballast seeks out companies that generate significant levels of cash flow, have attractive returns on assets and return on investment capital, have low levels of leverage and management teams that are "extraordinary stewards of capital" that can "allocate really well and on behalf of their shareholders."

"If you think about the process of identifying those companies, it starts with eliminating things that we know don't fit what we do," Stienke continued. In other words, "Companies that aren't making money today or companies that have too much financial leverage."

Stienke remarked that many of the companies the firm owns are not what you would typically see on CNBC or Bloomberg TV in the morning, but rather companies that are often overlooked because, "we're looking for companies where there's some misperception within the market about why they're able to do that today and how they'll grow that going forward," he said.

Based on more in-depth analysis and research, Ballast then projects out what it believes a company can grow in revenue, expand margins and generate cash based on the business over a three-year period. The firm will then come up with its price target for the stock three years ahead and marry those two bits of analysis to determine a reward to risk ratio where the upside is at least three times that of the downside.

"We are able to avoid a significant part of the drawdowns during times of market

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# BALLAST: Track Record, Strategy Offerings Set Course For AUM Growth

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dislocation as a result of our downside analysis," Stienke said.

The team also looks to quantify a downside price target.

"What we're trying to do is buy stocks within 20% to 30% of what we believe, based on our analysis, is the worst-case scenario," he said. "Once we've established that and how we evaluate and quantify what the risk is, then we'll look at the upside."

The firm is trying to manufacture alpha by maintaining discipline in the way it invests without getting distracted, Stienke explained.

"We don't probability weight those outcomes, [meaning] we're not relying on our ability to be right all the time in our investment thesis, but we want to rely upon a strict discipline and purely buy stocks with this 3-to-1 reward to risk over and over again," he said.

**Marketing Efforts**

With a multi-pronged approach to reach a goal of $100 million, the firm is working on a number of marketing efforts.

Although Ballast did not market the strategy for the first three to three and a half years, Stienke knew that they would get pushback from investment consultants that were aware he was able to generate returns at a bigger company with more resources and was now doing it with a small team at a smaller firm.

"We really wanted to nip that question in the bud by having a three-year independent track record that looked very much like the one that we generated in our previous shop," he said.

Schaer joined in November 2019 and was excited to ramp up those efforts before the pandemic hit and there was a halt to new business development efforts and thus a challenge in being able to conduct face-to-face meetings.

It is also challenging for institutions to invest in Ballast due to the asset level and the internal investment policy of individual clients, however, Stienke expects that the track record's history at Westwood will help unlock this opportunity set as they have heard it repeatedly from previous clients and the institutional consulting universe.

Schaer is leveraging emerging manager consultants to find institutional opportunities as research has shown that emerging managers have historically outperformed.

Additionally, the firm is encouraged about the launch of an ETF on Dec. 3 that brings a "new market opportunity that has historically not had access to the strategy with us."

"With that, we're able to reach out to independent RIAs and high-net-worth individuals with a strategy and a vehicle that is dramatically more tax efficient than some of the alternatives out there," Stienke said.

He further indicated that there are no minimums to invest in the ETF and no lock-up period. What's more, it is one of the first, if not the first active small- to mid-cap ETF, and from inception through May 10, the ETF has been up about 44%.

Stienke believes that a combination of these marketing efforts will help the firm reach their goal quickly, at which point they will pivot and begin leveraging the consultant relationships.

Broadly, experiences with emerging managers-of-managers have proven quite positive, according to Stienke, who noted that the firm has enjoyed getting to know the individuals at the firms through rich conversations.

"It's a joy that they take great pleasure and understand at a very deep level the makeup of emerging managers," he said. "It goes far and beyond just philosophy and process into understanding the underlying business."

The challenge there is that "they may identify somebody that they think is a really incredible talent or a firm that they think is a really great opportunity, but you just have to wait for demand to be there from their clients to be able to take advantage of that," he continued.

**Company Culture and Firm Success**

Ballast prides itself on culture being the single biggest determinant of success within the business, with Stienke indicating that he "wanted to be able to control that culture" and work with people that he had in the past.

> [Managers-of-managers] may identify somebody that they think is a really incredible talent or a firm that they think is a really great opportunity, but you just have to wait for demand to be there from their clients to be able to take advantage of that.

Investment Analyst Jordan Latimer, Ballast's first hire, and Investment Analyst Tom Fogarty, whom Stienke has known for over 20 years, both worked with him previously at Westwood and UBS Investment Bank, respectively.

Similarly, Westwood veterans Schaer, a "no brainer" hire that was "instrumental in raising all of the assets," and Senior Operations Analyst Stefanie Kennedy, who was with the firm for 20 years, has "seen and done a lot and is a great resource for us," according to Stienke.

Ballast currently has 51 holdings, a 25% sector maximum, a 3% position size at purchase and investment universes from $100 million to $10 billion a purchase. Being able to comfortably manage the strategy at $3.5 billion, Stienke stated that it is the firm's intention to do that again.

Along with two other emerging managers, the firm's smid-cap value strategy has been included in a search conducted by emerging manager-of-managers Attucks Asset Management on behalf of the $3.8 billion San Antonio Fire & Police Pension Fund, according to a FIN News report.

At present, Ballast is singularly focused on the smid-cap strategy as Stienke believes the process is proven and "an area that offers an inefficiency that the firm can capitalize on."