

## Issuer Spotlight: Q&A Ballast Asset Management

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### **Q. What are the primary data points you look at given the concerns that inflation may be increasing that others may not be looking at?**

The focus on inflation today appears to be centered on supply chain issues, labor shortages and commodity prices which were all brought about from the Covid 19 lock-down. We do not disagree with the Fed or broader market commentary that those pressures are likely transitory and get sorted out in the next year or so. What we are more concerned about are the inflationary pressures brought about by a transition to a net-zero carbon emissions environment. We believe that will bring about higher energy prices for the foreseeable future for a couple reasons. First, it pulls capital away from the fossil fuel providers, which will likely drive up the cost of capital. E&Ps are already focusing more on free cash generation and less on production growth due to investor demand, which has stymied production growth. We believe a higher cost of capital will further pressure production growth. In addition, the transition away from fossil fuels electricity production and into renewables will likely have a huge price tag. No one really knows what that cost will ultimately be, but we have seen estimates of \$6 trillion in the US alone to fully transition to 100% renewable energy. While governments are likely to lend a hand through incentives, we believe the vast majority of that capital will come through investments, and those investors are going to require a return on that investment, further driving up the cost of electricity production.

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### **Q. What do you believe inflation means for small and midsize companies? Are they better positioned or at greater risk?**

We think less about the effects of inflation on the size of businesses, and more about the types of businesses. For example, if you are operating a business within a fragmented industry, with low barriers to switching and/or non-essential goods, it will likely be very difficult to pass along higher costs, regardless of the size or your business. Think of grocery stores, airlines, hotels, restaurants, cruise ships, etc. Conversely, if you are operating a business that has leading market share, high barriers to switching and product essential goods and services, you are much more likely to be able to pass through elevated costs, and perhaps even benefit from them. Think of commodities, real estate, software companies, etc.

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### **Q. How do you position your fund for this environment and how do you think it will perform?**

It starts with owning high quality businesses with exceptional management teams. What I mean by that is, businesses that generate actual profits and cash flow, with attractive return characteristics, with management teams who have exhibited the ability to execute well, that have a track record of smart decisions with regards to capital allocation and are able to adapt to changing business environments. One of the things we believe is likely in a higher inflationary environment is that the Fed will eventually raise rates in order to combat inflationary pressures. That has several different impacts. First, it pressures businesses that are not self-funding (i.e. require incremental



outside capital to fund their business). Second, it pressures the value of business that rely on outsized growth in future cash flows, as opposed to current cash flow. Conversely, companies that are able to self-fund, which benefit from higher rates and a steeper yield curve and/or have high levels of current cash generation, should be viewed as more valuable in that environment. Simply put and in our opinion, we believe that we have positioned our portfolio to benefit from the later types of businesses and avoid the former.

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### **Note from NYSE Arca:**

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### **Note from Ballast Asset Management:**

Investors should carefully consider the investment objectives, risks, charges, and expenses of the Ballast Small/Mid Cap ETF. This and other important information about the ETF is contained in the Prospectus, which can be obtained at [www.mgmtetf.com](http://www.mgmtetf.com), or by calling (866) 383-6468. The Prospectus should be read carefully before investing. The Ballast Small/Mid Cap ETF is distributed by Northern Lights Distributors, LLC, member **FINRA/SIPC** Northern Lights Distributors, LLC, and Ballast Management are not affiliated.

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ETFs are subject to market fluctuation and the risks of their underlying investments. ETFs are subject to management fees and other expenses. Unlike mutual funds, ETF shares are bought and sold at market price, which may be higher or lower than their NAV, and are not individually redeemed from the fund.

The Fund (MGMT) is a new ETF and has a limited history of operations for investors to evaluate. The Portfolio Manager has prior experience managing a mutual fund. However, the Adviser has not previously managed a mutual fund or an ETF. As a result, investors do not have a long-term track record of managing an ETF from which to judge the Adviser and the Adviser may not achieve the intended result in managing the Fund. Market risk includes the possibility that the Fund's investments will decline in value because of a downturn in the stock market, reducing the value of individual companies' stocks regardless of the success or failure of an individual company's operations. Securities of companies with small and medium market capitalizations are often more volatile and less liquid than investments in larger companies. Small and mid-cap companies may face a greater risk of business failure, which could increase the volatility of the Fund's portfolio. The Fund is actively managed and is thus subject to management risk. The Adviser will apply its investment techniques and strategies in making investment decisions for the Fund, but there is no guarantee that its techniques will produce the intended results. The Fund faces numerous market trading risks, including the potential lack of an active market for Fund shares, losses from trading in secondary markets, and periods of high volatility and disruption in the creation/redemption process of the Fund. The net asset value of the Fund will fluctuate based on changes in the value of the U.S. equity securities held by the Fund.

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### **Further information:**

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