BALLAST
ASSET MANAGEMENT

Real World, Real Businesses, Real Values

The Ballast composite portfolio returned -4.3% net of fees for the third quarter of 2022, which compares to the Russell 2500 Value's -4.5% return and the Russell 2500 at -2.8%.

Performance		Yearly Returns								Annualized Returns*		
		2015**	2016	2017	2018	2019	2020	2021	2022 YTD	3 Yrs	5 Yrs	Inception
Ballast Portfolio[1]	Gross	-7.6%	23.8%	13.5%	-2.2%	16.1%	12.5%	41.8%	-21.7%	9.9%	8.2%	10.5%
	Net	-8.0%	22.5%	12.4%	-3.2%	15.0%	11.4%	40.4%	-22.3%	8.8%	7.1%	9.4%
Russell 2500 Value[2]		-5.8%	25.2%	10.3%	-12.4%	23.5%	4.9%	27.7%	-20.4%	4.5%	3.8%	7.3%
Russell 2500[3]		-6.9%	17.6%	16.8%	-10.0%	27.7%	20.0%	18.1%	-24.0%	5.3%	5.4%	8.4%

*Annualized 3-Year, 5-Year and from Inception returns reported through 9/30/22

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

Outlook – Economy vs Financial Markets

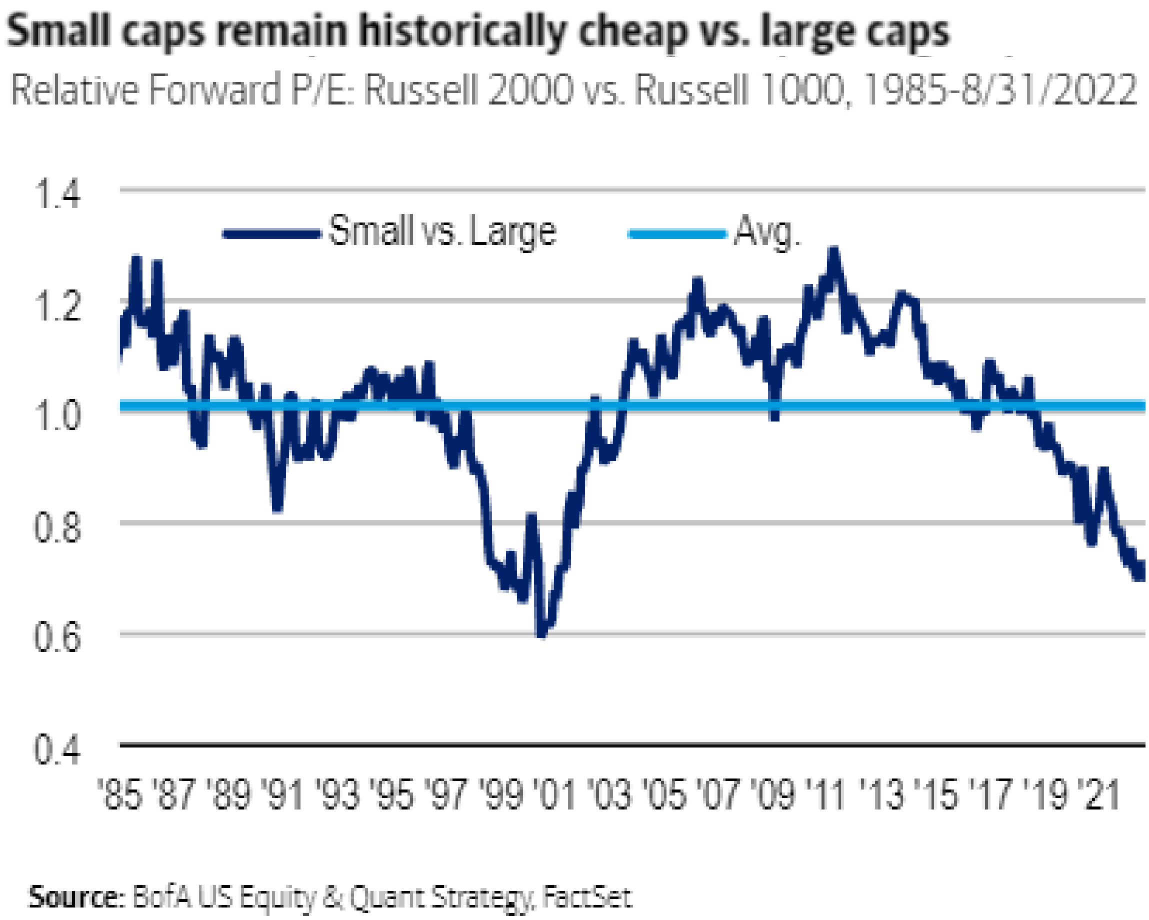
The broader financial markets continue to struggle based on the idea that we are headed for a recession. As we stated last quarter, we believed we were already in a recession, based on the traditional definition of two quarters of negative real GDP growth. The 2.6% 3Q GDP print notwithstanding, we anticipate further contraction of economic activity over the next several quarters. However, we do not view this as a classical recession, but rather a Fed-induced recession, and we believe that distinction makes a big difference.

In recent history, recessions have come about because of excesses in the economy – bubbles became too big and busted. The market tends to sniff out those situations and begins selling equities 6-9 months before economic statistics confirm we are in a period of contraction. We think the market is reacting in the same manner currently, except the market adjusted based on the Fed pivot – both the increase in interest rates and Quantitative Tightening. Small cap indices peaked in November '21, with the S&P peaking a month later. Said plainly, we are nearly a year into the process of financial markets (equities, bonds, currencies) pricing in a recession, even though we still do not "yet" have the accompanying fundamental characteristics of a recession (rising unemployment, falling earnings, etc.). We emphasize "yet" because we think the fundamental characteristics of a recession will become apparent in 2023. We believe small cap stocks have already priced that in, and we are much closer to a recovery in the financial markets than we are to a peak.

We continue to believe the next market cycle will look much more similar to that of the early 2000s than what we have seen over the last decade. Stated plainly, we believe we are in the first phase of a 5- to 10-year period of Value outperforming Growth, with some specific factors that favor Small Caps over Large Cap stocks.

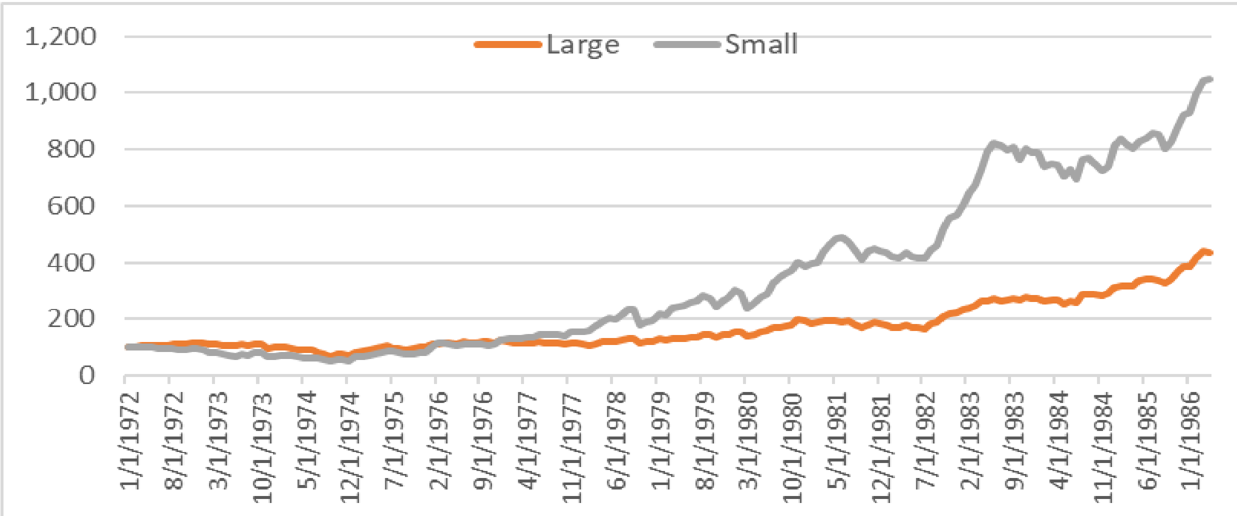
Phase 1

We believe we are well on the way to the first phase of the transition from Growth to Value resulting from a historically massive valuation gap. Over the last year, SCV has outperformed LCG by ~500bps and the NASDAQ by >800bps. Most of this outperformance results from multiple compression, and we think we have a long way to go here. The chart below from Bank of America's strategy team tells the story.



Phase 2

The longer-term drivers of this shift include higher interest rates and inflation, as well as a stronger dollar, higher energy prices and a significant valuation gap. According to Ibbotson data, **small stocks outperformed large stocks by a factor of 5 between 1973 and 1983**.



Source: Ibbotson, Bloomberg

Like now, it was a period of sluggish growth and high inflation as the world adjusted global economic imbalances that built up under Breton Woods. While there is no obvious proximate cause akin to Nixon closing the gold window in 1972, persistent trade imbalances are otherwise quite germane. We have already seen rising domestic labor conflicts, as in the Rail industry, with more likely given the decline in real earnings. How this plays out is ultimately a political situation: internationally, how governments manage their currencies; domestically, how gross domestic product is split between government, capital, and labor.

Where We Are Finding Value

Stating the obvious – the one consistency we have experienced over our careers during times of market dislocation is that tremendous opportunities arise. Not just that asset prices and valuations are more favorable, but instances of the proverbial baby getting thrown out with the bathwater. We are seeing that again, with stocks in businesses that share Industry Classifications/GICs codes, but otherwise uncorrelated/dissimilar fundamentals, getting punished with industry peers. Below are a couple examples of businesses we recently purchased that we are particularly excited about.

Bioceres Crop Solutions (BIOX)

Classified in the Materials sector, Bioceres is an agricultural technology company. The company reports three primary categories – Crop Protection, Crop Nutrition and Seed & Integrated Products. Crop Protection includes products like insecticide, fungicides, etc. Crop Nutrition includes inoculants and biofertilizers – products that improve efficiency of fertilizer usage by promoting plant growth with reduced application rates. The third segment gets us the most excited. Using a patented technology (HB4), Bioceres has developed drought-resistant Wheat and Soybeans. While this remains a nascent business from a revenue perspective, we believe the global opportunity for expansion and growth is enormous. Notably, the company has received approval from countries throughout the world (U.S., China) for several of their drought-resistant seeds, which we believe will prove the precursor to accelerating growth. Moreover, the stock trades at about a 50% discount to its peer group.

Perimeter Solutions (PRM)

Perimeter also gets lumped into the Materials bucket. It has two primary businesses today – Fire Safety and Specialty Products. What we like most about the business is management's underlying goal – to generate private equity-like returns with the liquidity of a public market, by owning businesses that have:

1) Recurring and predictable revenue streams
2) Long-term secular growth tailwinds
3) Products that account for critical but small portions of larger value streams
4) Significant free cash flow generation with high returns on tangible capital
5) Potential for opportunistic consolidation.

While Fire Safety includes several products (both retardants and foams), the jewel is the products used to fight wildfires – PHOS-CHECK and FIRE-TROL. Perimeter's product is approved by the USDA Forest Service and enjoys a high barrier to switching due to the logistical challenges within the supply chain and usage chain. For example, the red material used for aerial application must be on-site at over 1,000 airfields across the country for use when and as needed.

The Specialty Products business makes additives for lubricants that help prevent oxidation (corrosion) and provides anti-wear protection. The base product (Phosphorus Pentasulfide) is also used in the production of insecticides, flotation chemicals, pharmaceuticals cleaning applications and developing battery technology.

Risks and Concerns

We are particularly focused at the moment on global currency and fixed income markets. The dramatic increase in the dollar relative to our trading partners has been swift and significant and is causing issues with the global currency markets. Tied to that, we are keeping a close eye on global fixed income markets and the general fall-off in liquidity therein. As we said before, recessions are just a part of the business cycle, and they all eventually end. However, the depth of any potentially upcoming recession can be exacerbated if something breaks. Often, the warning signals about that something can be found in the debt and currency markets.

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.

[2]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.

[3]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.

This presentation contains "forward-looking statements" which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "target," "project," "estimate," "intend," "continue" or "believe" or the negatives thereof or other variations thereon or comparable terminology. Because such forward-looking statements involve risks and uncertainties, actual results of Ballast Asset Management may differ materially from any expectations, projections, market outlooks, estimates or predictions (collectively, "Predictions") made or implicated in such forward-looking statements, and all Predictions contained herein are subject to certain assumptions. Other events which were unforeseen or otherwise not taken into account may occur; these events may significantly affect the returns or performance of any investment strategy. Any Predictions should not be construed to be indicative of the actual events which will occur.