BALLAST
ASSET MANAGEMENT

The Ballast composite portfolio returned 10.5% net of fees for the fourth quarter of 2022, which compares to the Russell 2500 Value's 9.2% return and the Russell 2500's at 7.4%.

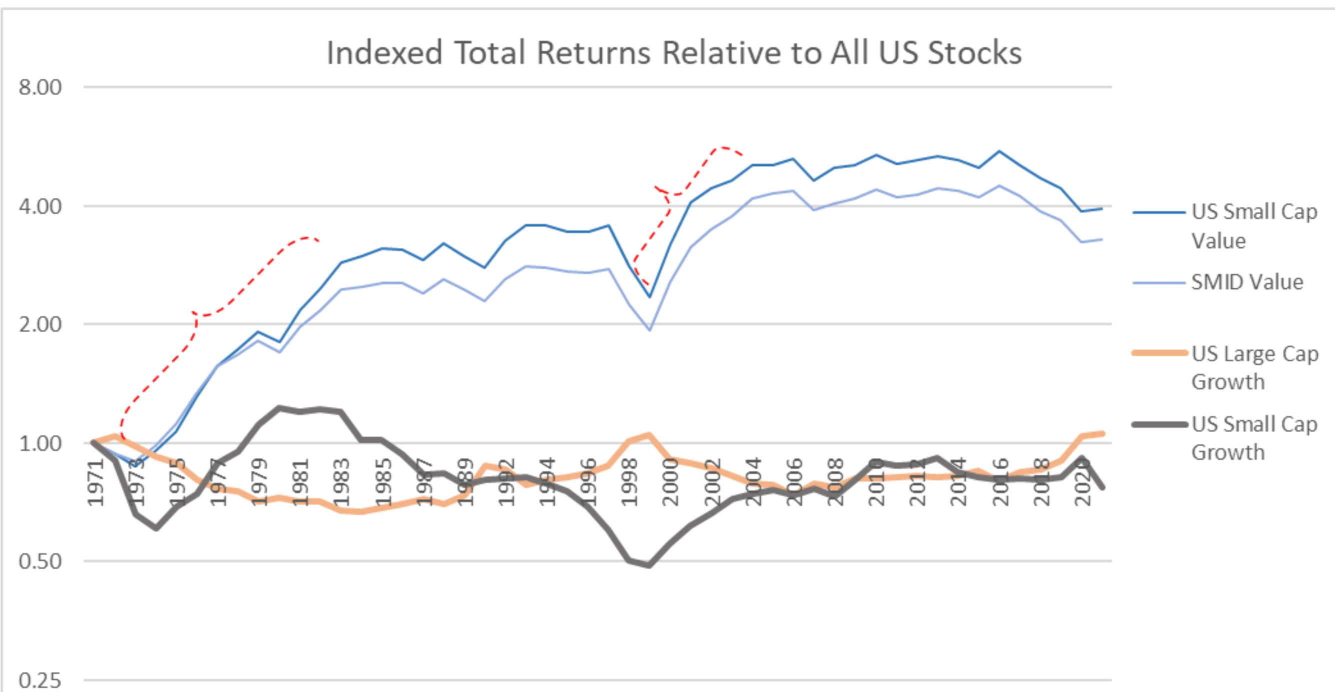
Performance		Yearly Returns								Annualized Returns*		
		2015**	2016	2017	2018	2019	2020	2021	2022	3 Yrs	5 Yrs	Inception
Ballast Portfolio[1]	Gross	-7.6%	23.8%	13.5%	-2.2%	16.1%	12.5%	41.8%	-13.3%	11.4%	9.4%	11.7%
	Net	-8.0%	22.5%	12.4%	-3.2%	15.0%	11.4%	40.4%	-14.2%	10.3%	8.4%	10.6%
Russell 2500 Value[2]		-5.8%	25.2%	10.3%	-12.4%	23.5%	4.9%	27.7%	-13.1%	5.2%	4.7%	8.3%
Russell 2500[3]		-6.9%	17.6%	16.8%	-10.0%	27.7%	20.0%	18.1%	-18.4%	5.0%	5.9%	9.1%

*Annualized 3-Year, 5-Year and from Inception returns reported through 12/31/22

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

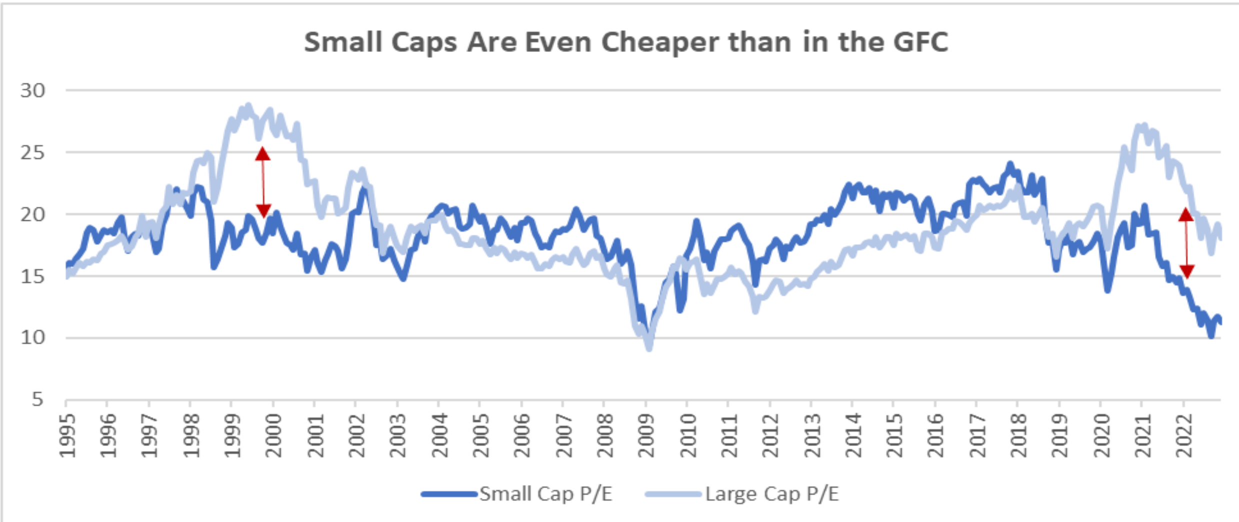
Outlook

The Small Cap Value trade is just beginning, in our view. We were in a Growth bubble of increasing intensity over the last 10 years until 2021. We are convinced that bubble burst in 2022, and Small Cap Value investing will take a leadership position for the next 5 years or more, similar to the cycle in the 1970s after the Nifty-Fifty bubble burst in 1973 and 1974, and then in the tech wreck of the early 2000s.



Source: Portfolio Visualizer

Historically high valuation and performance discrepancies between small value and both small and large growth. Eventually, mean reversion takes over. From the end of 1999 to the end of 2006, the Russell 2000 Value outperformed the Nasdaq 100 by nearly 240%. With Small Caps even cheaper than in the 2000 cycle, it is quite likely that either or both the duration and magnitude of outperformance will be more like the post Nifty-Fifty outperformance.



Source: Bloomberg

Why it matters. From '99-'06, the S&P 500 had a total return of 8%. *Total* return, not annual. During that same period, the Russell 2000 Value generated a total return of 185%. Notably, it took until September of 2006 before the S&P 500 returned to positive territory.

What was the catalyst? Although we hear and read comments about Value investing being dead (a clear sign change is just around the corner), the real pushback we get on our perspective is more grounded – what is the catalyst? We believe the catalyst is the Fed ending Zero Interest Rate Policy (ZIRP) and winding down Quantitative Easing (QE).

How we got here. The financial reasons are straightforward – higher interest rates lead to a higher cost of capital, which makes financing growth more expensive. It also drives risk aversion as investors seek investments with higher near-term returns and cash flows.

Psychological factors amplify the normalization process. At the end of 2021, we were teetering at valuation levels for Growth stocks not seen since the Dot-com bubble. While higher rates and a spike in inflation likely catalyzed the initial change, we believe the psychological impact will come via the realization of just how out of sorts financial markets had become. Combine that with an increasing realization that ZIRP and QE are not coming back anytime soon, and we get the making of a lasting trend.

A 15-year history lesson in brief – coming out of the Great Financial Crisis, the Fed literally did everything it could to push investors out on the risk curve. By cutting rates to zero, and dramatically increasing liquidity, competition for yield increased dramatically. That inflated asset prices for yield instruments (Debt, Dividend-paying stocks, MLPs, etc.). Next, the extraordinarily low cost of capital and anemic global economic growth created a thirst for anything that was actually growing. The more growth, the higher the multiple applied, and that relationship was not linear.

Perfect conditions for a bubble – the emergence of truly disruptive technology and incredible revenue growth – Cloud Computing, FinTech, Social Media, Renewable Energy, etc. Much like in the late ’90s, companies were able to market stories of unimaginable growth and market opportunities. Some even executed on those opportunities (Google, Amazon, Meta, Apple, etc.). Many did not and will not – at least from a profitability perspective.

In sum, we could be in for a long, sustained sideways market for the S&P 500, and assuming previous post-bubble periods hold true to form, returns for the former leading constituents are likely to be quite paltry over the next 5-7 years. However, we do not invest in the stock market, but in the market for stocks where we see plenty of interesting and attractively valued companies. Whether or not the S&P 500 and other broad-based passive indexes work is entirely tangential for our portfolio of businesses and its return potential. *The weighted-average reward-to-risk ratio (upside/downside) is more than 5x based on our fundamental analysis and price targets*.

Where We Are Finding Value

Olaplex (OLPX) is a science-led hair care products company that has provided an innovative solution to strengthen hair. Olaplex’s solution created a new category within hair care and has given the brand credibility with the consumer and stylists, driving strong uptake in both salon and consumer channels. Slowing growth and an exodus of growth investors has created an opportunity to own a strong branded hair products company at a multiple far below comparable businesses. Despite slowing growth and more competition, it is a not a zero sum game for Olaplex’s higher-end hair products, as higher-end hair products continue to outpace growth of the overall category. Although there may be an inventory digestion period as growth slows in the near term, we believe the longer-term opportunity is still under-penetrated and that adjacency opportunities for the company can continue to drive modest growth. The stock traded down to less than 8x EBITDA from north of 20x EBITDA, while comparable modest growth diversified consumer products companies traded at 15x EBITDA.

Sitio Royalties (STR) is an Oil and Gas Mineral/Royalty ownership company that currently has almost 260K net royalty acres with the majority of their assets located in the Permian Basin. Royalty companies benefit from higher commodity prices without the risk of services and capital development inflation. The company entered into a number of transactions as it scales and consolidates its mineral ownership. Complexity from aggregating all the financials from those transactions, along with a volatile commodity environment, created an opportunity to purchase high-quality minerals assets with greater than a double-digit FCF Yield.

Kosmos (KOS) is an offshore Oil and Gas Producer with assets in West Africa and the Gulf of Mexico – almost all of their revenue is oil derived. The market appears to be completely ignoring any value from their major LNG development in Mauritania/Senegal that is set to start producing later this year. We believe that this event will be transformational for the company. The potential for a substantial bump in cash flow while a reduction in the demand for capital will drive Free Cash Flow substantially higher, allowing for significant deleveraging and cash returns to shareholders. Additionally, the Phase 2 and Phase 3 of their LNG development will be substantially more capital-efficient than Phase 1.

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] Account returns are presented both gross and net of management fees. All account returns are net of transaction costs and gross of non-reclaimable withholding taxes, if any, and reflect the reinvestment of dividends and other earnings. Monthly composite returns are calculated by weighting each account's monthly return by its relative market value. All returns are expressed in U.S. dollars. **Past performance does not guarantee future results.**

The gross performance results presented do not reflect the deduction of investment advisory fees. Actual returns will be reduced by such advisory fees and other expenses as described in the individual contract and, where applicable, Form ADV Part 2A.

Net performance results do not reflect the deduction of investment advisory fees actually charged to the accounts in the composite but do reflect the deduction of a model investment advisory fee of 1.00%, which is the maximum advisory fee rate in effect for the respective time period. Actual advisory fees may vary among clients invested in the strategy. Returns for each client will be reduced by such fees and expenses as described in the individual contract and, where applicable, in Form ADV Part 2A.

[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 and do not reflect the expenses of managing a portfolio as an index is unmanaged and not available for direct investment.

[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 and do not reflect the expenses of managing a portfolio as an index is unmanaged and not available for direct investment.

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.