The Ballast composite portfolio returned 6.3% net of fees for the second quarter of 2023, which compares to the Russell 2000 Value's 3.2% return and the Russell 2500 Value's 4.4%.

Performance		Yearly Returns									Annualized Returns*		
		2015**	2016	2017	2018	2019	2020	2021	2022	2023 YTD	3 Yrs	5 Yrs	Inception
Ballast Portfolio[1]	Gross	0.9%	23.8%	13.5%	-2.2%	16.1%	12.5%	41.8%	-13.3%	11.9%	22.4%	9.2%	12.5%
	Net	0.7%	22.5%	12.4%	-3.2%	15.0%	11.4%	40.4%	-14.2%	11.4%	21.2%	8.1%	11.4%
Russell 2000 Value[2]		2.9%	31.7%	7.8%	-12.8%	22.4%	4.6%	28.2%	-14.5%	2.5%	15.4%	3.5%	8.1%
Alpha		-2.2%	-9.2%	4.6%	9.6%	-7.4%	6.8%	12.2%	0.3%	8.9%	5.8%	4.6%	3.3%

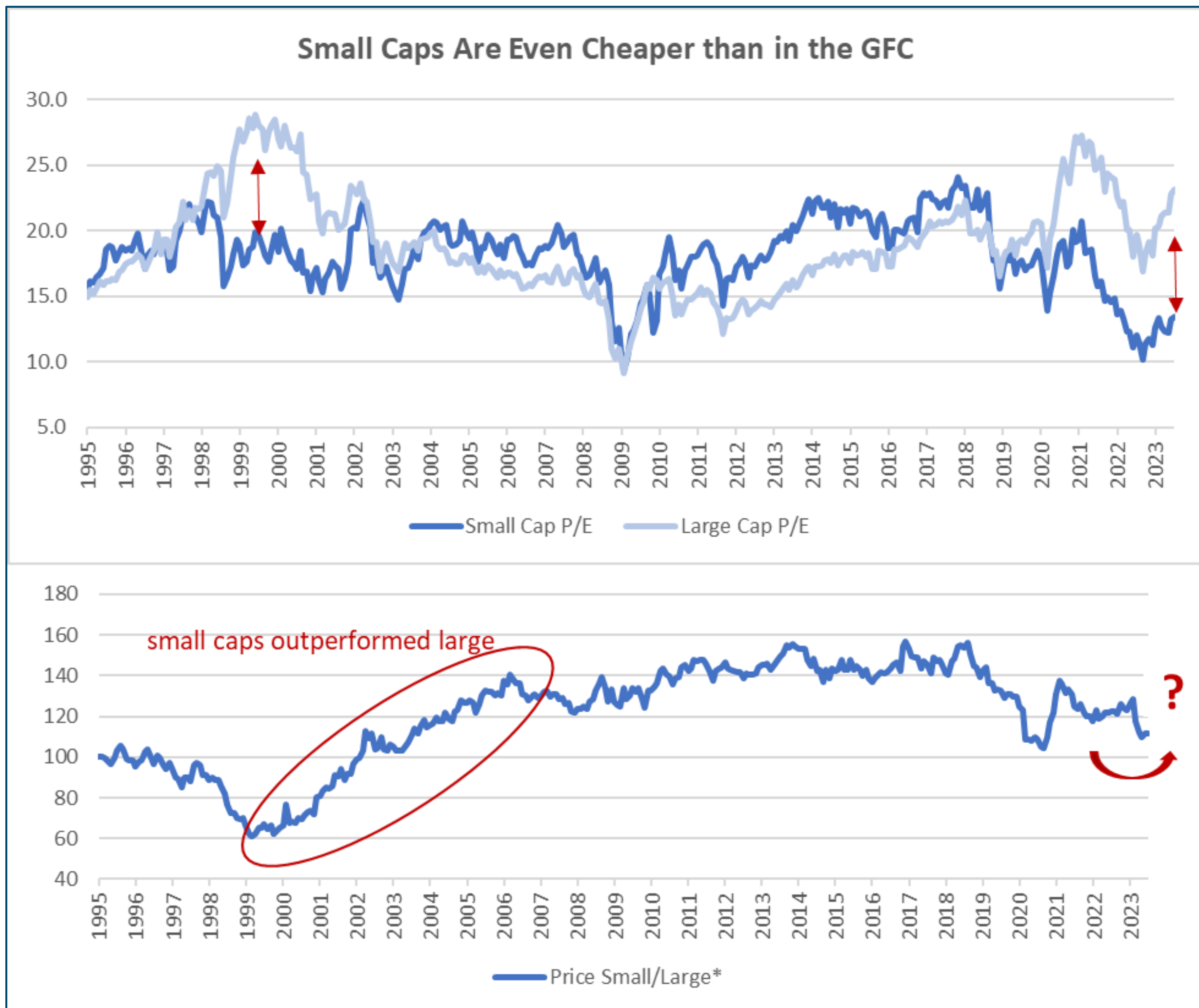
*Annualized 3-Year, 5-Year and (since Inception performance start date 10/01/15) returns reported through 6/30/23

**2015 Performance from 10/01/2015 through 12/31/2015

Outlook

It has been a while since I have told a story about my youth growing up on a ranch, but this environment reminds me of a valuable lesson I learned the hard way. If you are riding a horse and you notice that its ears go back flat on its head, and it goes board stiff, you feel its body swell beneath you and its head goes down – be very careful, those are the signs that horse is about to buck you off. Several options exist to avoid getting thrown, including being off the horse before it happens.

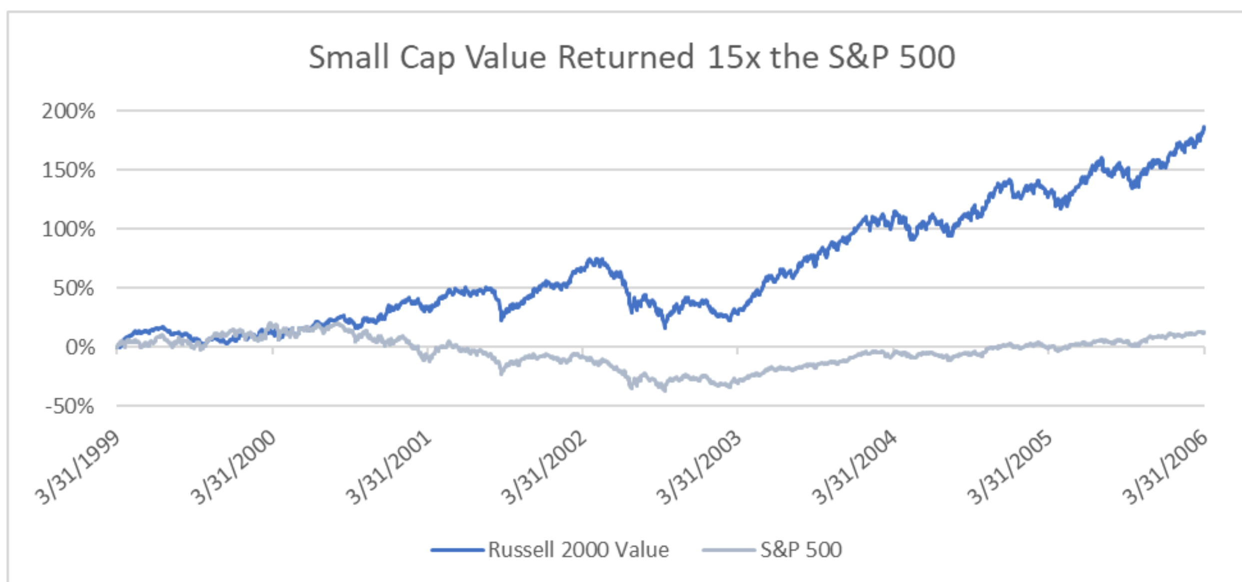
As we look at the market, economic, and interest rate environments, along with the stark contrast in valuations between Growth (particularly Large Cap) and that of Small Cap Value, we get an eerie sense that we have seen this before in our careers. It sort of feels like large cap growth has its ears flat, like it did in 1999, when the Fed Funds rate was 6.5% and the economic outlook was increasingly uncertain. A euphoria permeated the Technology sector, which propelled valuations to multiple standard deviations above "normal." Traditional Value investing became so repugnant that it made the Luddites blush and then the reckoning came with full vengeance.



Source: Bloomberg

Today, the Fed Funds rate is 5.25% (with at least 1 more rate hike likely on the come) and the economy appears to be slowing rapidly, especially when viewed through the lens of more real-time fundamental data (Micro and Macro). Yet despite inflation making a steady decline, and M2 pointing to further deceleration (more on that below), the Fed appears hell-bent on raising rates until something breaks.

The good news is, there is another horse to ride. If we examine the period of 1999-2006, you will notice that SCV outperformed LCG going into the eventual recession and then dramatically outperformed coming out. Notably, during the period from March 1999 to March 2006, the S&P 500 cumulative total return was just 12% compared to 186% for the Russell 2000 Value.



Source: Bloomberg

Why did this happen in 1999? Fundamentals eventually came to bear, as high interest rates drained liquidity and increased the cost of capital, pulling down multiples. Small Cap Value largely avoided that downdraft because it is hard to fall off the floor. As the market began to discount a recovery, small caps ran hardest. Eventually the business cycle fed off of elevated global growth with the emergence of China as a global economic power that represented the new marginal buyer of most commodities, further propelling the Value trade.

As the saying goes, history does not always repeat, but often rhymes. While the future is always uncertain, the current signs inform our view and positioning. The amount of idiosyncratic return potential in the Ballast portfolio remains as high as we can remember in nearly 20 years. Our businesses can self-fund due to a combination of low-leverage and high sustainable cash flow. The overall valuation of the portfolio remains near historic lows. We prefer the horse we are riding.

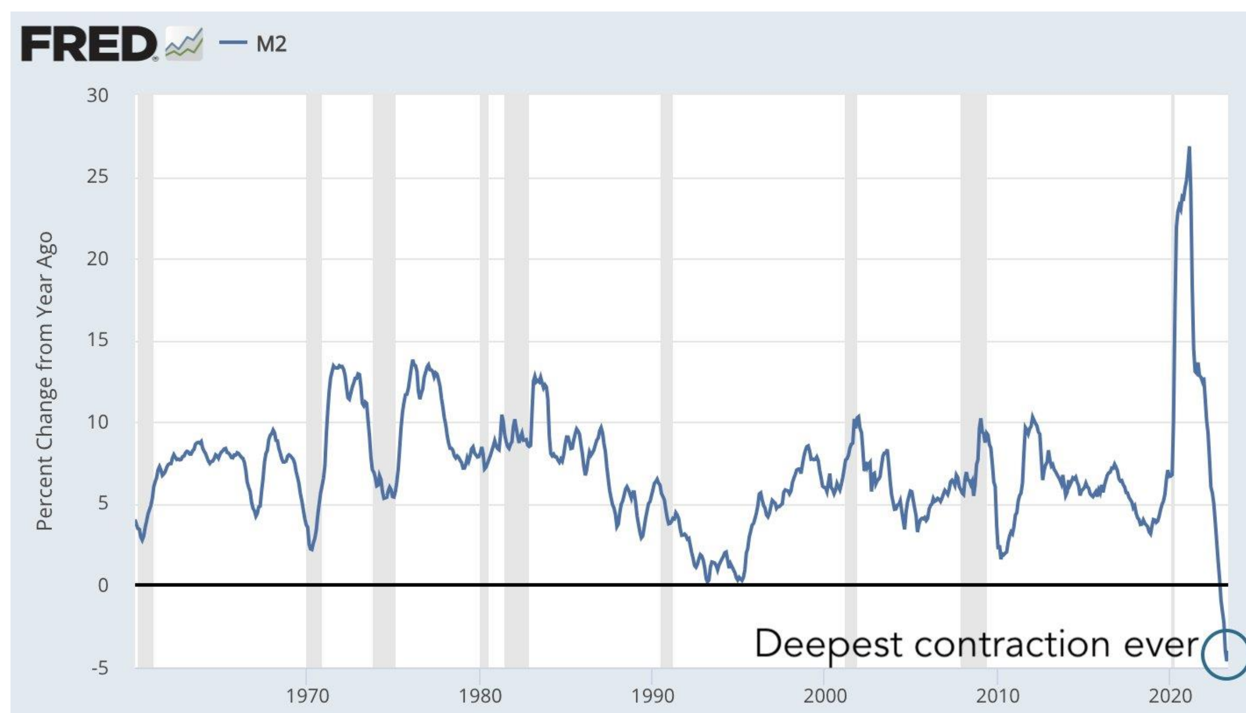
Why Inflation Could Soften Faster Than Expected

Before diving in, please indulge us for a minute as we set up the historical precedence in liquidity versus what we see today. Typically, and as recent as the Great Financial Crisis (GFC), the government and Federal Reserve use the banking system as an intermediary in efforts to boost the economy. Our mentor and author of *Debt Cycle Investing*, Gary Gordon, taught us that people, businesses and governments borrow money to spend. Therefore, demand is stimulated by liquidity from institutions with capital and the ability to lend – that is to say, banks. Unfortunately, increased liquidity to banks does not always or directly lead to increased demand for loans. For example, the TARP program brought $800 billion in incremental liquidity to the banking sector in 2008, but banks held on to that to shore up their own balance sheets. To be fair, that was necessary lest they fail and create a much bigger problem. However, the point remains that what used to be considered a substantial number did not drive increased demand.

Fast-forward to more recent history and the stimulus of the COVID lockdowns when the government injected liquidity directly into the system to the tune of nearly $5 trillion. Child tax credits, deferred student loan repayment, eviction prohibition and direct stimulus payments to individuals represented

steroid injections to the consumer. Payroll loans to companies that would eventually be forgiven, and payroll tax credits not only helped businesses survive but eventually thrive as we reopened. This created a massive increase in the money supply (M2) that eventually led to the inflation we feel today (credit to economist Jeremy Siegel as being the first we saw who called it in the summer of 2021).

While supply chain problems certainly added fuel to the fire, M2 was the canary in the coal mine. While we appreciate those that point out that easy comps on inflation are behind us (energy price declines post the spike from Russia invading Ukraine), M2 is again screaming at us. As the chart below shows, M2 is shrinking at the fastest rate in recorded history. Less money chasing the same goods is inherently disinflationary.



Source: Federal Reserve Bank of St. Louis

With many of the "temporary" protections for the consumer rolling off, interest rates rising and lending standards tightening, it feels like we are applying both the front and back brakes together. The supply chains for most companies we talk and listen to are normalizing quickly now, with some industries even experiencing bloated inventory levels. Are these signals enough to get the Fed to remain on the sideline? Who knows. It certainly raises our eyebrows and causes us to position and prepare for a period of continued declines in the rate of inflation, with the outside risk of potential deflation.

Second Quarter Attribution

Second quarter outperformance was driven by an even combination of sector positioning and stock selection. The top three sector-level contributors to our outperformance were triple overweights in Technology and Materials & Processing, and a 50% underweight in financials. Underweights in Healthcare, Producer Durables and Consumer Discretionary were a modest drag in the quarter. Security selection was particularly strong in Materials & Processing, Financial Services and Producer Durables and weaker in Energy, Technology and Consumer Discretionary. Within Technology, Teradata and Extreme Networks

were the top contributors, which were partially offset by losses in Climb Global and Richardson Electronics. Within Materials & Processing, UFP Technologies and Eagle Materials were the top contributors, while Northern Technologies was a modest drag.

Top Contributors			Bottom Detractors		
Ticker	**Name**	**Total Return**	**Ticker**	**Name**	**Total Return**
XPO	XPO Logistics	56%	**AAP**	Advance Auto Parts	-45%
UFP	UFP Technologies	49%	**RELL**	Richardson Electronics	-26%
TDC	Teradata	33%	**KOS**	Kosmos Energy	-20%
EXP	Eagle Materials	27%	**CLMB**	Climb Global	-10%
CRMT	America's Car-Mart	26%	**NTIC**	Northern Technologies	-9%

Where We Are Finding Value

We added six new positions to the portfolio this quarter: Compass Materials, Genpact, Knowles, RCM Technologies, Richardson Electronics and Sprouts Farmers Market.

Compass Minerals International (CMP) is a leading global provider of minerals notably (salt for de-icing roads) and plant nutrition (largest producer in Western Hemisphere of Sulfate of Potash). Their core business is more impacted by weather than the economic environment. Notably this past year there was a below normal number of snow events while a wet spring impacted their production process (evaporation ponds) and one of their major plant nutrition markets (cash crops in the Western US).These weather events pressured the stock and offered us an opportunity to achieve a reasonable return on the base business, while having significant optionality in both flame retardants for forest fires (which has progressed significantly) and their leveraging of existing infrastructure to provide responsibly, domestically sourced Lithium that could be a complete game changer for the company.

Notably, this company became of interest because we had heard they were partnered with a potential competitor (Fortress North America) to a company we held in the portfolio (Perimeter Solutions). Perimeter Solutions had a monopoly on the use of Flame Retardants in forest fires and was a key tenet to the investment thesis and the reason we exited Perimeter. At first blush we wondered how flame retardants were any way related to Compass's business. However, after doing a little research we found that effectively a by-product/low-value product from Compass's existing production process was being used by Fortress in their efforts to enter the forest fire flame retardant market. It was through Fortress's purchases of this typically low-value product that Compass's interest was piqued, given that this could be a higher-value market for an existing low-value product. Compass learned more about the business and initially took a 55% stake, but after the flame retardant was approved by the US Forest Service, Compass bought the rest of the company. At the time of purchase, we did not underwrite value for Fortress in our base case, but there is clearly value and we expect that the first year of their product launch will generate close to $10MM in EBITDA. Over time, we believe that this business could be worth over $500MM (close

to $15 a share versus a low $30s stock price currently); however, it is still too early for us to move this prospective value into the base case without more information on how well they are able to get traction in the market, as there are a number of questions with logistics that could potentially be impediments to adoption.

The most exciting option is the Company's Lithium project which leverages the company's existing infrastructure to be able to extract Lithium Chloride from their existing infrastructure. Given the increasing demand and supply chain concerns (trade and environmental), Compass's project, if successful, would be well received. The company was also proactive in the funding process and received a $252MM investment from Koch for ownership in Compass in 2022 (at prices slightly higher than the current price), therefore the potential dilution from project development has already happened. There are reasons to be optimistic that the project will be successful, and underwriting of the project was done at Lithium prices much lower than today to achieve very attractive returns. Notably, IF the project progresses anywhere close to the initial underwriting, Lithium could be worth multiples of the current stock price.

Genpact Ltd (G) began as a business process outsourcing company, spun off from GE Finance in the mid-2000s. It has since broadened its portfolio to include IT and BPO consulting, helping organizations improve their operations, optimize processes, and leverage technology solutions. They offer a wide range of services, including finance and accounting, supply chain management, customer service, analytics, and digital transformation. Genpact has a significant presence in the global market and serves clients across various industries, including banking, financial services, insurance, healthcare, manufacturing, retail, and more. Their diverse client base includes both large multinational corporations and middle-market companies. The company has over 118,900 employees serving clients in key industry verticals from more than 35 countries.

Revenue grows in the mid-single digits but is quite sticky because switching costs are substantial. Approximately 70% of revenue is recurring. Most of the remaining work is shorter-term projects for the same customers, but it is more economically sensitive. Gross margin is very consistent at approximately 35%, with a range of 34%-36%. SG&A leverage provides some margin expansion, with the company expecting 30bps for 2023. Margin expansion is expected to be driven by a combination of mix, operating leverage and a greater percentage of outcome-based contracts (e.g., a portion of their payments are tied to achieving measurable improvement in various KPIs). It generates low teens ROA and about 30% ROE. The balance sheet is solid, with Net Debt/EBITDA of 1.6x. It does acquisitions, but a transformative deal is unlikely.

The stock has come into our range because the street believes AI is poised to undermine Genpact's business. The reality is that AI is complementary and Genpact is an early adopter. It already uses AI to drive efficiency throughout its businesses, which gives it the experience and confidence to bid for work on outcomes-based contracts that are usually higher than average margin. It has demonstrated technology innovation through successes with RPA, automation, and data wrangling, which is the first step in training an AI.

Knowles Corporation (KN) is a developer and manufacturer of advanced micro-acoustic microphones and speakers, audio solutions, higher-performance capacitors and RF Filters. There are 3 segments to Knowles' business:

(1) Med Tech – 30% of sales (primarily hearing aids) where they have a dominate share and EBITDA margins of 40%

(2) Consumer MEMS – 38% of sales of Consumer MEMS Microphones

(3) Precision Devices – 32% of sales (high-performance capacitors and RF Filters) serving defense, Electrical Vehicles, Medical and Industrial Markets

The company was spun off from Dover in 2014 and for the most part has treaded water. However, the mix of businesses has changed materially. When Knowles was originally spun out, it was a play on the Smartphone market (at the time more than 50% of their sales were tied to the mobile market versus 16% today). The Smartphone market sputtered as growth slowed with replacement cycles extending and the overall market maturing. This resulted in margin headwinds in mobile and ultimately the company had to consolidate some capacity as well as repurpose some capacity to serve non-mobile markets, which carry higher margins. Given that the mobile market has been significantly de-emphasized, we believe that margins and sales have re-based to provide much more consistent revenue growth and margin expansion going forward. This consistent growth and margin expansion will be driven by structural growth in Precision Devices, stable growth in Med Tech and margin recovery in Consumer MEMS. Industrial businesses like this rarely trade at single-digit EBITDA multiples and our base case return is being driven by earnings and cash flow growth, while multiple expansion is an option. Notably, most of the improvement does not need a strong economic backdrop given the exposure to (1) Healthcare, (2) Defense, (3) EVs and (4) Self-help margin improvement in the Consumer MEMS segment.

Med Tech is primarily hearing aids. Knowles has 60% market share, and there is only one other real competitor. The margin structure of the ecosystem is healthy, and their customers have 80%+ gross margins. Hearing aids should provide stable growth for Knowles as the market is under penetrated and the population continues to age.

Precision Devices' biggest market is Defense, followed by Industrial, then Med Tech and then EVs. The latter is growing quickly and could be a $100MM business (from $20MM today) in the next 3 to 5 years, which could drive high single-digit revenue growth for the segment on its own. While defense, industrial and medical should grow MSD to HSD. This segment should grow double digits in the intermediate term.

Consumer MEMS margins are currently at/near trough as the segment is working through an overall inventory adjustment from the hangover effects after the strong demand out of COVID. However, this business has been significantly restructured and repositioned with much less reliance on mobile. The company reduced capacity by 33% and took out other costs to appropriately size the business. Margins in Mobile are 20% while non-Mobile are in the 40% range. Over time they believe this business can get to mid-30% gross margins versus 28% gross margins in 2022 and with the restructuring EBITDA margins could push 25% versus 15% in 2022.

Knowles also has a balance sheet where they carry no net debt. While acquisitions are a possibility and leverage could increase, management has been steadfast in not wanting to overpay for acquisitions (primarily looking for Precision Device bolt-ons) and in the current environment of substantial increases in the cost of capital believe acquisitions could be viewed more as optionality than a risk.

RCM Technologies Inc (RCMT) is a staffing company that receives 56% of their revenues from Specialty Healthcare, most of which is provided to schools. The company claims to have visibility into continued

growth in the 2H of the year, while investors are concerned that there will be a COVID hangover to revenue that will result in declines as represented by its undemanding valuation of 4.5x EV/EBITDA and >20% LTM FCF yield, compared to peers at close to 10x EBITDA. Additionally, the company has been aggressively repurchasing shares and continues to do so. In the past two quarters the company has repurchased 10% of its shares outstanding. We believe its mix of business will prove much more resilient and the company will have the opportunity to continue to grow as well as add value through share repurchases.

Richardson Electronics (RELL) Richardson Electronics manufactures engineered solutions, power grid and microwave tubes, and related consumables; power conversion and RF and microwave components; high-value replacement parts, tubes, and service training for diagnostic imaging equipment; and customized display solutions.

The company's end markets have several tailwinds that should last years, largely driven by electrification and 5G. The legacy Power and Microwave Technology business serves traditional power management and new technology industries (5G, Semiconductors). The Healthcare and Canvys (specialty monitors) businesses are a steady source of growth, whereas the company is experiencing tremendous growth in Green Energy Systems tied to electric windmills. Optionality exists on electric trains via a partnership with Progress Rail (Caterpillar).

The three "legacy" businesses are all growing mid-single/low-double digits with tailwinds from 5G, Semi-fabs, Manufacturing and Healthcare. These businesses provide a base level of earnings and growth that support the current valuation. GES is growing at over 100%, although this business is fairly small (20% of revenue), it is gaining quickly and has a long runway for growth in electric windmills and option value on electric trains. The current backlog represents 75% of forecasted 2023 revenue, which should prevent a cliff earnings moment.

Sprouts Farmers Market (SFM) is a specialty grocery retailer headquartered in Phoenix with 386 stores in 23 states as of January 1, 2023. It is one of the largest and fastest growing specialty retailers of fresh, natural, and organic food in the United States. Its expansion has been focused on specific regions of the United States, particularly the Southwest and West Coast, which leaves many areas of the country that can provide opportunities for future growth room to triple its store base.

Although the grocery industry is characterized by a large number of players, ranging from small independent stores to large multinational chains, with fierce competition at all levels, Sprouts has generated robust growth with mid-20s ROE and about 10% ROA. It has used its excess cash flow to return capital to shareholders, buying back nearly 10% of the stock over the last three years. The business model combines low single-digit same store sales comps, 10% store growth, and buybacks to drive low double-digit EPS growth with solid cash flow conversion.

The stock came into our valuation range because the street thinks Sprouts will need to sacrifice margin to grow its market share. However, the main reason it has the highest gross margins in the grocery industry is because it does not carry Consumer Packaged Goods, which are highly competitive categories with narrow retail margins. More importantly, management seems focused on targeting a narrow slice of customers with a preference for "natural" products (e.g., fruits, vegetables, etc.) and charging fair prices rather than discounting to appeal to all customers. The main warning signs our thesis is broken would include a shift in price/market share discipline, slowing traffic or shrinking gross margin.

Portfolio Exits

Advanced Auto Parts (AAP) – Advanced Auto was added to the portfolio last quarter. It was very simply a thesis violation. We bought AAP as a self-help margin improvement story. While we felt there was risk to the margins turning around, we felt the backdrop of a stable industry that was driven more by a company's ability to deliver products on time as opposed to price created an environment that would allow for steady margin improvement. However, in the most recent quarter the company indicated they were going to use price to get business which violated a key tenet of our investment thesis.

XPO, Inc (XPO) – We purchased XPO in early 2019 when its valuation was dislocated by a "truthy" short report that was off the mark. Our view at the time was that Former CEO Brad Jacobs was an excellent capital allocator and operator, akin to the executives profiled in William Thorndyke's book *The Outsiders*, and we found his levering up the company to buy back stock a ringing endorsement of the underlying business. Valuation was further depressed by fear that Amazon would do to trucking what it has done in retail, whereas its so far proven to be just another competitor in a fragmented business. We sold the stock following a strong run in the share price to reduce the portfolio's sensitivity to macroeconomic risks.

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 withholdings 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 US 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.

Ballast Asset Management, LP claims compliance with the Global Investment Performance Standards (GIPS®) and has been independently verified for the period October 1, 2015 through December 2020. Verification assesses whether (1) the firm has complied with all of the composite construction requirements of the GIPS Standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS Standards. The verification report is available upon request. Verification does not ensure the accuracy of any specific composite presentation. A list of composite descriptions is available upon request.

[2] The Russell 2000 Value Index measures the performance of the smallcap value segment of the US equity universe. It includes those Russell 2000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (2 year) growth and lower sales per share historical growth (5 years).

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.