The Ballast composite portfolio returned 17.4% net of fees for the full year of 2023, which compares to the Russell 2000 Value's 14.6% return.

Performance		Yearly Returns							Annualized Returns*		
		2017	2018	2019	2020	2021	2022	2023	3 Yrs	5 Yrs	Inception
Ballast Portfolio[1]	Gross	13.5%	-2.2%	16.1%	12.5%	41.8%	-13.3%	18.6%	13.4%	13.7%	12.5%
	Net	12.4%	-3.2%	15.0%	11.4%	40.4%	-14.2%	17.4%	12.2%	12.6%	11.4%
Russell 2000 Value[2]		7.8%	-12.8%	22.4%	4.6%	28.2%	-14.5%	14.6%	7.9%	10.0%	9.1%
Alpha		4.6%	9.6%	-7.4%	6.8%	12.2%	0.3%	2.8%	4.3%	2.6%	2.3%

*Annualized 3-Year, 5-Year and (since Inception performance start date 10/01/15) returns reported through 12/31/23

If you did not know, Football is big in Texas. Real big. As a kid, after bailing hay, harvesting crops and tending to a herd of cattle, we always mustered the strength to practice and play. As a fan, former player, father of players and youth coach, I have seen tens of thousands of hours of football. One strategy that always provokes a visceral reaction in me is the prevent defense. In theory, the leading team simply tries to "prevent" big plays from the other team by allowing only short gains and running out the clock. In practice, it often backfires, see Houston Oilers vs Buffalo Bills, January 3, 1993, for instance. It makes me cringe when they stop doing what gained a decisive lead to that point. To put it in investment terms, they changed the *Process* midgame.

We finished the year up over 17%, net of fees, and beat our benchmark by nearly 3%. However, at the end of the 3rd quarter, we were up 9% on the benchmark, albeit with absolute returns of about half of the total for the year. The short-term relative giveback was frustrating, but we do not play prevent defense – we stick to our Process.

While the stability, profitability, and resilience of the businesses we own led to lower volatility and better returns for much of the year, those quality businesses did not participate in the "junk rally" after chairman Powell's comments in early December mentioning the potential for the Fed to begin cutting rates in 2024. That single comment may have saved low-quality businesses that were overly indebted and reliant on capital markets for their growth/existence. It also provided a light for the banking industry, which was feeling enormous strain on profitability.

In fact, the best performing "factor" in Q4 was going long the most highly shorted stocks. (Normally, the most shorted stocks underperform.) From our perspective, that was a "trade" that might even continue in 2024. Nonetheless, we will continue to compete using our time-tested strategy of owning businesses with higher cash flow growth, lower debt and with management teams that are excellent operators and allocators of capital.

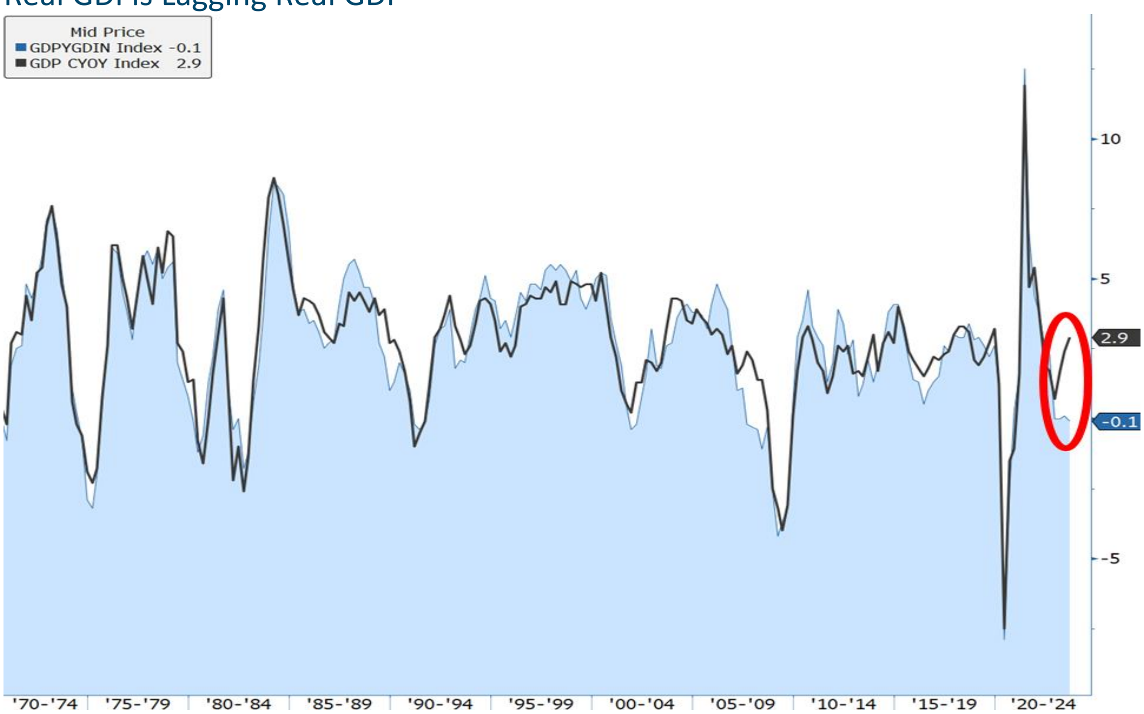
Risks We Are Focused On

While we do not invest with a top-down view, we also understand that it would be foolish to not pay attention to the world around us. Furthermore, it is easier to sail with the wind than to tack into the wind. With that, here are some of the risks we are closely monitoring, largely because these risks do not appear front and center within market narrative.

We believe consensus expectation for a soft landing is the most significant risk. Currently and particularly following the fourth quarter rally, the consensus is that the economy has slowed but is stable, inflation is under control, and thus the Fed will begin cutting rates as early as March. That seems optimistic given that the Fed has rarely (if ever) orchestrated a "soft landing." Additionally, multiple indicators/data points put the likelihood of a soft-landing scenario into serious question.

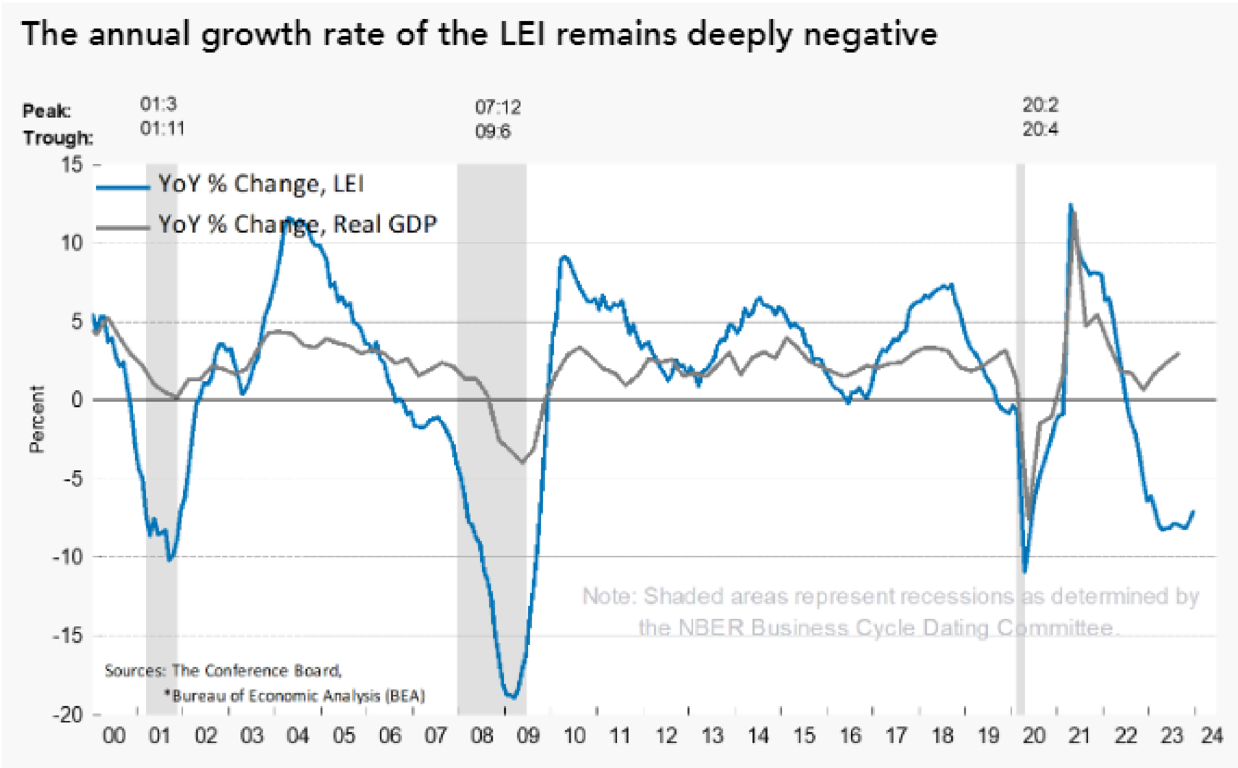
For one example, we are concerned that consumer softening is lagging in the macroeconomic data, boosted by excess savings and transfer payments over the COVID years. We think it very likely that folks simply do not want to throttle back the post-COVID lifestyle and are spending beyond their means. Note the divergence between Gross Domestic Product (all that was produced) and Gross Domestic Income (all that which was earned). As you can see in the chart below, historically these two move together tightly, and yet recently have diverged with GDI turning negative.

Real GDI is Lagging Real GDP



Source: Bloomberg – Real Gross Domestic Income and Gross Domestic Product, Chained Dollars YoY% SA

Another example is the Conference Board's Leading Economic Indicators. Although December showed a slight improvement, the index remains decidedly in negative territory.



Other concerns include:

- Rising credit card delinquencies and delinquency rates in multifamily housing (highest since GFC).
- Tighter credit standards and lower overall bank lending is a drag on growth.
- M2 shrinking and the Fed's quantitative tightening are removing liquidity from the system, which tightens credit and increases the risk of a financial event.
- Increased shipping rates/slower delivery due to conflict in the Red Sea and drought in Panama – could lead to higher goods prices (e.g., Supply Chain disruption).
- The Bank Term Funding Program (BTFP) ends on March 11. Recall, this facility was put in place last year when Silicon Valley Bank failed. It allowed banks to park their Treasury holdings with the Fed at par to avoid showing unrealized losses that could potentially push leverage ratios below required levels or even insolvency.
- The Chinese economy slowing secularly due to demographics and denominator effect, and cyclically due to dislocations caused by the collapse of its massive real estate bubble.
- Continued conflict in the Middle East, Ukraine and potentially other regions.

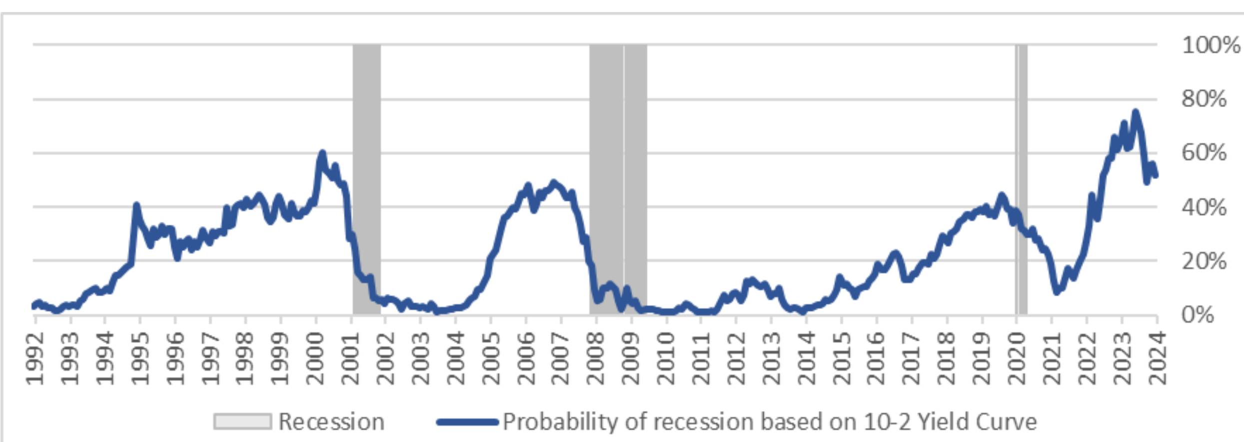
Outlook

At the end of 2022, consensus broadly anticipated a US recession in 2023 and the general expectation was for US stocks to drop, bonds to rally, and Chinese equities and commodities to outperform as the nation emerged from COVID lockdown. Each of those expectations went the wrong direction. The Russell 3000 had a total return of nearly 26%, ten-year treasuries were flat after retreating from a high of 5% in October, the Hang Seng dropped about 10%, and the GSCI commodity index dropped 12%. So much for consensus.

As an aside, investing in the same direction as expectations is usually not a very profitable strategy, because asymmetry works against you. If you are with consensus and right, you stand to make only a little, but if consensus is wrong you can lose a lot when the crowd unwinds its position. Conversely, betting against a strong consensus you might lose a little if you are wrong but if you are right, you stand to gain a lot when the market updates its beliefs. Simple contrarianism is insufficient – to paraphrase Seth Klarman, you need to be a "contrarian with a calculator" and pick your spots.

For 2024, the predominant view seems to be that interest rates will finally start to slow the economy, but not enough to push it into a deep recession and that as inflation comes down further, the Fed will cut rates to avert a deep recession, boosting both stocks and bonds. However, as JP Morgan CEO Jamie Dimon has recently expressed in his concern, inflation might not go away as quickly as the market expects. If inflation picks up again and the Fed needed to hike rates, it would leave the market wrong-footed and potentially cause a bear market. We don't think that this is a central case, but it's definitely a reasonable scenario that's not discounted and could broadly tank stocks and bonds if it were to happen. As of this writing, the market no longer expects the first cut by March, but the futures market still expects Fed Funds to exit 2024 at 4%, equivalent to five quarter point cuts. Maybe.

Right now recent economic data seems especially like a Rorschach test – there is evidence to support both recession and soft landing. Interestingly, the 10-2 spread implies only a 51% chance of recession in the next 12 months. Bloomberg's 1-year recession probability forecast, which is derived from survey data, also says 50% chance. The NY Fed Model is at 62%, so call it 55% on average. Even if it were only 40%, it seems the market is mostly ignoring the risks of recession or inflation reaccelerating.

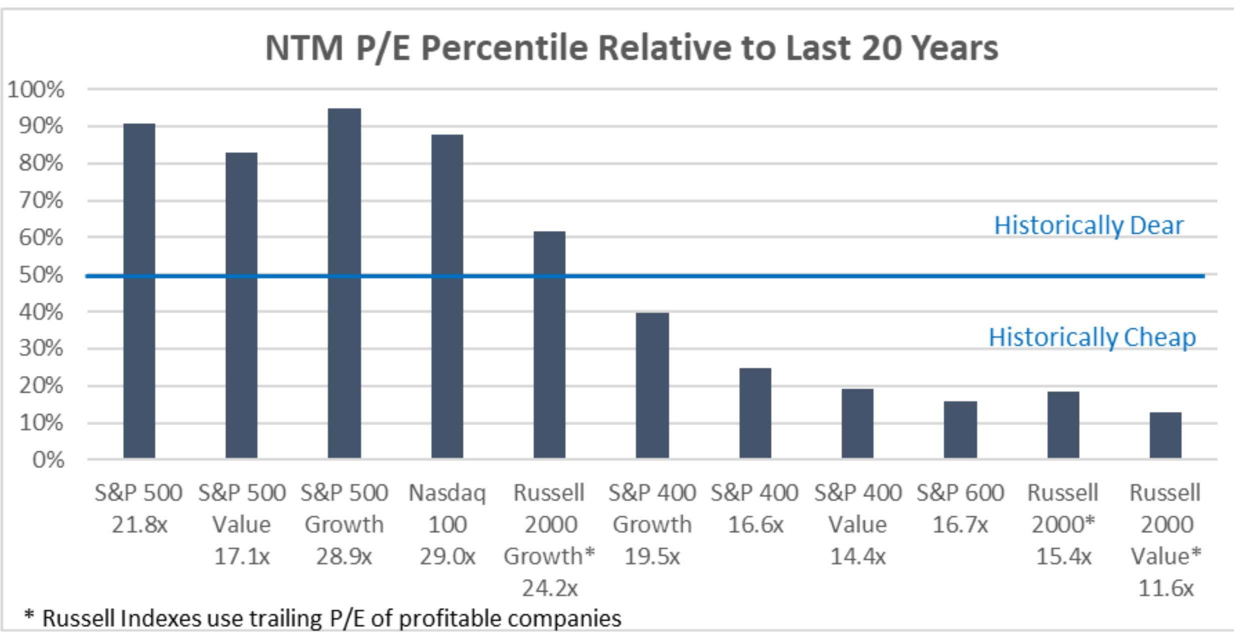


Source: Bloomberg

Since it's nearly impossible to consistently guess all these risks correctly over our investment horizon, we focus on the microeconomics of individual businesses. Rather than bet on predictions, we seek to manage downside risk by owning good businesses run by competent, owner-oriented management. We emphasize strong balance sheets because we cannot know with enough precision whether 2024 (or any year) will be a recession year. Security selection can help mitigate downside risks, which in Ballast's case is reflected in our downside capture ratio of ~80% (e.g., when the market is down, we have only experienced 80% of the drawdown). We can avoid panicking because the companies we own are almost certain to come out on the other side as strong or stronger. That gives us the behavioral bandwidth to sort through the wreckage for more great businesses at cheap multiples with limited downside.

Glass Houses

We're no better than average at predicting these sorts of macro things. At the end of 2022, we expected small caps to reverse their underperformance relative to large cap because small caps were so much cheaper than large caps, particularly mega cap tech stocks which were trading on very extend valuations. That situation has not really changed – large caps are still very expensive relative to their own history while small cap value is very cheap.

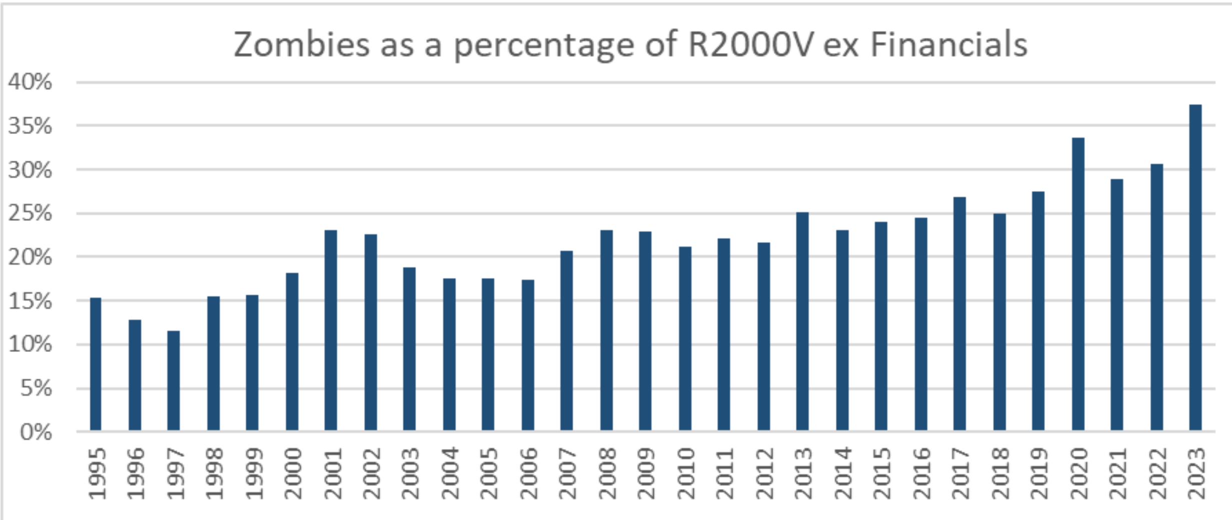


Source: Bloomberg

We use only positive earnings for the Russell 2000 Value PE to get a meaningful time series. It's also more reflective of the type of companies we invest in. Just because small caps are starting the year at historic low valuations does not mean the segment will outperform this year, but it does indicate a large opportunity set for active managers skilled in security selection.

One good argument against small cap value outperforming is that the Russell 2000 Value index is chock-full of zombie companies that do not earn enough operating profit to cover interest expense, never mind investing for future growth and profits. In the case of the Russell 2000 Value, we calculate that 36% of the index is zombies. Rising rates over the last year or so have only made it worse – that is up from 30% in

2022 about 25% pre-COVID. This is a major reason we strongly advocate active management in small cap value.



Source: Bloomberg

Performance Attribution

Avoiding Banks and unprofitable Healthcare businesses were a source of alpha for 2023 as a whole, although it admittedly cost us relative performance in the fourth quarter. While we maintain a significant underweight within Financials, GSE and agricultural lender FarmerMac (AGM) continued its multidecade compounding efforts during ’23. Similarly, we were underweight Healthcare, but long-time holding and specialty medical packaging company UFP Technology (UFPT) continued its exceptional execution history and is now up over 3x since our initial investment in 2020. Our Energy holdings also boosted performance due to stock selection – specifically with our royalty metallurgical coal company Natural Resource Partners (NRP) that likely generated $300mm in free cash flow (Q4 not reported yet), equal to 45% of its market value at the beginning of the 2022. Oil and Gas company Unit Petroleum (UNTC) paid out regular and special dividends totaling roughly 65% of its market capitalization during the year. Our coal company Consol Energy (CEIX) was able to leverage its marine terminal assets to access global markets with much higher prices to generate what we expect to be ~$700mm in free cash flow, or roughly 1/3 the value of the business.

On the flip side, our biggest detractors for the year largely came from specific stocks, rather than allocation. Specifically, ethanol producer Green Plains (GPRE) suffered from a double whammy of poor crush margins on its ethanol products, along with construction delays in its multiyear effort to produce high-protein animal feed. Engineered solutions company Richardson Electronics (RELL) faced a number of headwinds, some potentially cyclical, some due to choppy order patterns. As long-term investors, we typically look through short-term issues, but mis-execution across multiple different end markets and business lines brought into question our original evaluation of management, and we have since sold the stock. Finally, oilfield supplier Solaris Infrastructure (SOI) faced slower activity as oil prices softened, at the same time they were finishing up a capital spending project. That said, the company has a rock-solid balance sheet and a management team that has historically been excellent allocators of capital. We expect capex to fall dramatically this year, propelling free cash flow to multiyear highs, potentially driving multiple expansion from an especially attractive valuation.

Top Net Contributors		Bottom Net Contributors	
Natural Resources Partners (NRP)	+256bp	Green Plains (GPRE)	-123bp
Federal Agricultural Mortgage (AGM)	+162bp	Richardson Electronics (RELL)	-99bp
UFP Technologies (UFPT)	+146bp	Solaris Oilfield Infrastructure (SOI)	-96bp
Consol Energy (CEIX)	+129bp	Olaplex (OLPX)	-94bp
Climb Global Solutions (CLMB)	+105bp	Rimini Street (RMNI)	-88bp

During the fourth quarter 2023, we did not initiate any new positions and exited four: Criteo (CRTO), Eagle Bulk Shipping (EGLE), F5 Networks (FFIV), and Olaplex (OLPX).

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 includes those Russell 2000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (2 years) 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.