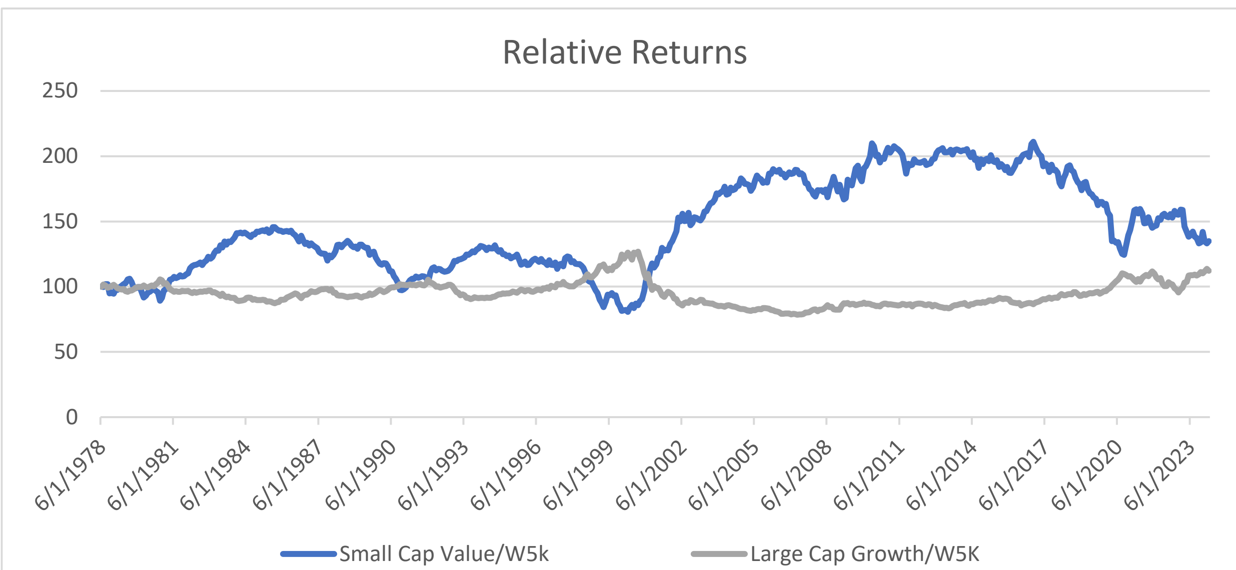
The Ballast composite portfolio returned 3.0% net of fees for the first quarter of 2024, which compares to the Russell 2000 Value's 2.9% return.

Performance	Yearly Returns								Annualized Returns*		
	2017	2018	2019	2020	2021	2022	2023	2024 YTD	3 Yrs	5 Yrs	Inception
Ballast Portfolio[1] Gross	13.5%	-2.2%	16.1%	12.5%	41.8%	-13.3%	18.6%	3.2%	6.1%	12.0%	12.5%
Ballast Portfolio[1] Net	12.4%	-3.2%	15.0%	11.4%	40.4%	-14.2%	17.4%	3.0%	5.1%	10.9%	11.4%
Russell 2000 Value[2]	7.8%	-12.8%	22.4%	4.6%	28.2%	-14.5%	14.6%	2.9%	2.2%	8.1%	9.2%
Alpha	4.6%	9.6%	-7.4%	6.8%	12.2%	0.3%	2.8%	0.1%	2.9%	2.7%	2.2%

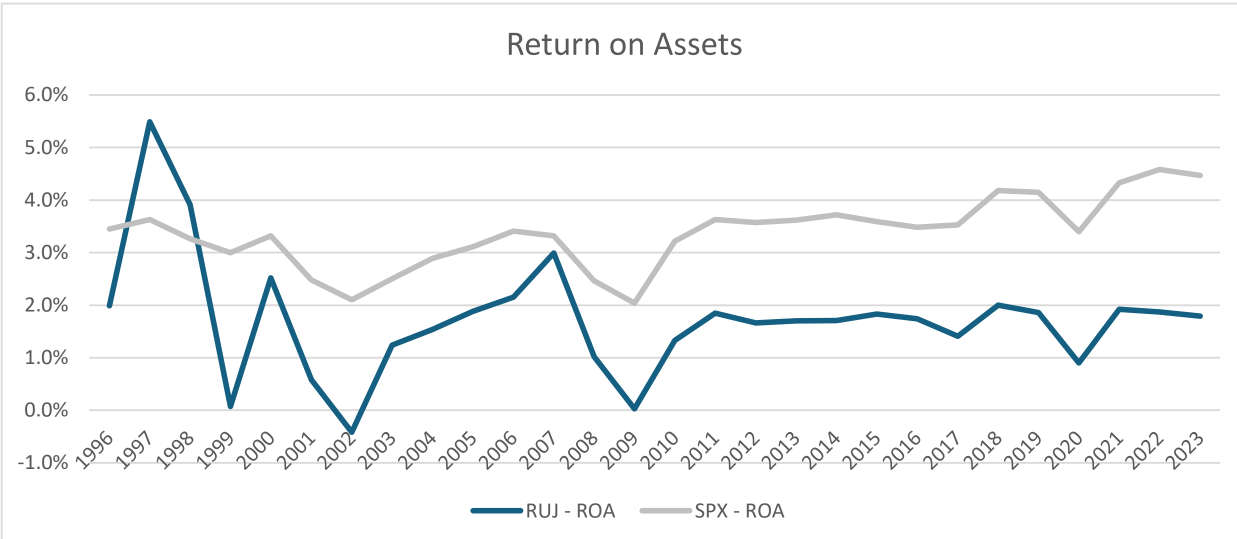
*Annualized 3-Year, 5-Year and (since Inception performance start date 10/01/15) returns reported through 3/31/24

Although Small Cap Value is still slightly ahead of Large Cap Growth since 1978 (when Wilshire 5000 style-box data starts), it has underperformed Large Cap Growth for nearly a decade.



Source: Federal Reserve and Ballast Asset Management calculations.

There are several potential reasons for recent underperformance, many of which we have written about before – Zombie businesses, a decade of ZIRP, secular tech themes, etc. Another, more straightforward reason is that the S&P 500 is made up of better businesses than the Russell 2000 Value. The companies in the Russell 2000 Value have much lower levels of profitability, worse returns, are more levered and are more expensive on FCF/EV and P/E basis (see the following charts).



Source: Bloomberg

A major reason for this stems from the construct of the Russell 2000 Value – it relies on a naïve definition of value (sorting for low price multiples like price-to-book). The trouble is that this also sorts for companies with a dearth of intangible assets, low returns, too much debt and dim growth prospects. Physical assets are still important, but more and more economic value derives from *intangible assets* (e.g., information technology). But unlike a factory, it is hard to discern investments in intangible assets because much is expensed as incurred and disappears from the balance sheet. It is not that different from the accounting Coke and Nike have always used for brand investments. These investments are not reflected on the balance sheet or in book value but sustain the abnormally high accounting returns that justify high price-to-book multiples and drive faster intrinsic compounding within the business.

While small cap value indexes and average small cap value stocks may or may not continue to underperform, it is important to remember that we do not invest in the index, and that the portfolio we manage on average has more growth, better profitability, less leverage, and is cheaper than either the Russell 2000 Value or the S&P 500 on most metrics.

The table below compares key fundamental metrics. Notably, the Ballast portfolio has grown 10x faster than the Russell 2000 Value and almost 50% faster than the S&P 500 over the last 12 months. Ballast's Return on Assets is double the S&P 500 and, despite having nearly 50% less leverage, slightly higher Return on Equity and nearly double Return on Invested Capital. Comparison with the average Russell 2000 Value stock is not even close – we invest in a very different type of company.

	Ballast	Russell 2000 Value	S&P 500
Sales Growth	6.0%	0.6%	4.2%
ROA	8.5%	0.4%	3.9%
ROE	19.7%	1.8%	18.1%
ROIC	15.4%	0.9%	8.0%
Net Debt to EBITDA	0.76	4.7	1.4
Total Debt to Total Equity	75%	109%	117%

Source: Bloomberg, as of 3/31/24

Not only are the fundamentals of our portfolio much stronger than the Russell 2000V, it also trades cheaper on most metrics (particularly FCF/EV) as shown below. Ballast's portfolio is even cheaper by comparison with the S&P 500. Our emphasis on buying strong cash flows at good prices is also evident when measured by EV/EBITDA and Price-to-Cash Flow.

	Ballast	Russell 2000 Value	S&P 500
EV/EBITDA	8.3	12.3	14.0
FCF/EV	5.8%	3.5%	3.4%
Price to Book	2.8	1.4	4.6
Price to Cash Flow	7.7	8.6	17.2
Price to Earnings	13.1	24.5	24.0
Current Dividend Yield	2.5%	3.2%	1.5%

Source: Bloomberg, as of 3/31/24

We stick to our method consistently, across cycles and fads, because it has added outperformance in both up and down markets. We invest in well-run companies with good prospects, solid balance sheets and sustainable, above average returns at attractive valuations. The obvious aim of these criteria is downside risk mitigation. More subtly perhaps, this moderates emotional reactivity, sustains an open-minded analytical consistency and behavioral alpha to the exponential power of compounding both valuation and business fundamentals over time.

Economic Outlook

We remain cautious about the overall economic environment. Notwithstanding the reported economic health, at the company level we continue to see signs of stress – Industrials, Banks, Commercial Real Estate, Credit delinquencies and higher ticket items in the Consumer Discretionary space all show signs of stress. We know that reported economic activity is by nature both lagged and backward-looking. To state the obvious, the move in interest rates over the last 18 months was material, and we believe the full effects are still being digested. While the most recent Fed meeting appeared to show signs of potential loosening in policy (announcement that they would begin to taper the balance sheet run-off in June), we fear the longer they remain this restrictive, the higher the probability that something breaks. Notably, the yield curve remains inverted, and has been so for the longest period since 1929.

To be fair, government stimulus has also been at unusually high levels. That clearly has had a dampening effect on more restrictive Monetary Policy. It also makes the Fed's job trickier given the persistent battle with inflation. While there is a path for Powell to orchestrate a soft landing, we fear it continues to narrow. For these reasons, we continue to seek out companies with idiosyncratic risk whereby their ultimate success or failure relies more on their own execution than on interest rates, inflation or economic tailwinds.

Top Contributors

Top Contributors	Average Weight	Total Return
Eagle Materials	3.8	34.1
Climb Global Solutions	3.4	29.6
AZZ Inc	3.1	33.4
Phinia	2.5	27.8
Tripadvisor	2.2	29.1

Bottom Detractors	Average Weight	Total Return
QuidelOrtho	1.3	-35.0
Compass Minerals	1.4	-37.4
Consol Energy	2.9	-16.7
RCM Tech	1.8	-26.4
Ferroglobe	1.6	-23.3

New Positions

Patrick Industries (PATK)

In February, we bought shares of Patrick Industries, a manufacturer of parts and systems for RVs, Manufactured Housing, Boats and Power Sports equipment. It has a highly flexible cost structure for a manufacturer as demonstrated by its 14% ROE despite being at the bottom of the cycle for its most important segments. RVs account for more than half of revenue and the industry is running at less than half of trend demand and starting to improve. A partial recovery to 450,000 units over the next few years should drive ROE back into the 30% range, which would eventually lead its price multiples to double on top of the underlying profit growth driving more than 200% upside to our price target over the next three years. Even if volume remains flat, the stock is trading at levels which should still result in modest multiple expansion over time. Moreover, the downside appears limited given that it is trading on 0.8x EV/Sales. Net Debt to EBITDA is 2.9x, which is at the higher end of our normal range, but easily supported given the currently depressed EBITDA. Capital discipline is pushed out to lower management via individual performance targets that feed into annual bonuses and all major capex and acquisitions are surfaced to the board level, where former CEO Todd Cleveland, who has an excellent track record as an operator and with capital allocation, is in position to enforce capital discipline.

GEO Group (GEO)

Geo Group is an operator/provider of detention, community reentry and electronic supervision services. The company primarily contracts with federal and state government agencies, with ICE (Immigration and Customs Enforcement) being their largest customer. GEO generates substantial FCF and has made material progress in delevering since COVID. Net debt has decreased by over $1 billion, while EBITDA has increased over 15% (which we believe is still well below its potential) the equity value had only increased by $400 million at the time of purchase. While the company has faced headwinds with easy parole policies and budgetary pressures that have reduced utilization of some of their services (particularly with ICE), the most recent Federal budget was much more supportive of GEO's business. We believe the company has much higher margin and return potential given the capital light business of Electronic Supervision services (which has 40%+ EBITDA margins) where they have been the sole provider to ICE. This business could grow substantially with the large backlog of processing immigrants. While not necessary for our thesis, we believe it to be a significant growth driver. The company also has quite a few idle facilities (no contribution to EBITDA) that could be a source of material value creation, either through a sale or new contracts to utilize the facilities. The company is burdened with high-cost debt and has opportunities to lower its borrowing cost and further reduce a meaningful amount of their debt with free cash flow, followed by a pivot to returning a meaningful amount of cash to shareholders over the next 12 to 18 months. Our underwriting in the base case assumes flat EBITDA and cash just gets allocated to further improvement of the balance sheet. We believe the downside is also well supported from an asset value/replacement cost perspective, as well as its cash flow. The company has consistently delivered over $200 million in FCF per annum on a current market cap of $1.3 billion at the time of purchase. Additionally, their prison beds alone (i.e., not including their electronic monitoring or reentry services) would imply a new replacement cost of close to $10 billion versus a current enterprise value of $3.5 billion.

Bel Fuse (BELFB)

Bel Fuse designs and manufactures electronic components. Historically, Bel Fuse was known for good product quality and service but was not an organization that focused on returns. In addition, Bel Fuse "had" an over-levered balance sheet on its well below peer margins. The company embarked on a transformation in 2020 where they wanted to drive both growth and profitability. Since 2019, EBITDA margins have tripled, the balance sheet has moved from over-levered to over-capitalized (now has net cash and just initiated its first stock buyback program), ROE has improved from sub 5% to > 20% and sales increased 30% over this period. Management incentives across the organization are becoming more aligned with profitability and growth (prior to embarking on this journey there was not really any alignment or incentive for either). We believe the market remains skeptical on the sustainability of their margins given the rapid run up – believing the company was a beneficiary of COVID and supply chain problems. We believe that this change is structural. As evidence, in the most recent quarter where sales declined 25%, gross margins improved 600 bps year over year and EBITDA margins also remained at historical highs. While there was a mix benefit (lower margins sales fell much harder), we believe the results are a testament to structural improvements that are not all reflected in the valuation on an absolute basis (7.0x 2024 EBITDA and FCF to EV of 9.5%) despite what we believe are earnings that are below mid-cycle.

During the first quarter 2024, we exited three positions: American Eagle Outfitters (AEO), Everest Re (EG), and Richardson Electronics (RELL).

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 31, 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.