

Mid Cap Strategy



3Q:24

MISSION STATEMENT

At QSV Equity Investors we strive to deliver a smoother ride in good markets and bad, seeking to help our clients reach their long-term investment goals by setting clear expectations and through investment in high-quality small and mid cap value stocks.

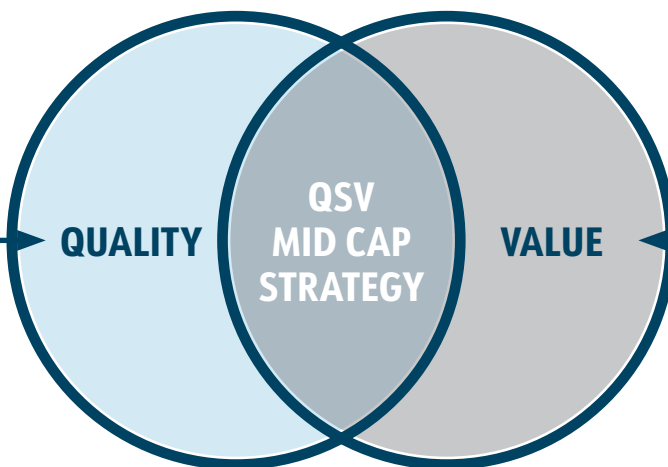


INVESTMENT TEAM

QSV's investment team has navigated markets together for more than 25 years. Jeff Kautz and Randy Hughes founded QSV (formerly Ballast Equity Management) in 2016 and worked together previously at Perkins Investment Management, a subsidiary of Janus Henderson. While there, Jeff held roles including Portfolio Manager, CEO and Chief Investment Officer and Randy held the roles of Director of Research and Analytics and Equity Analyst. QSV is 100% employee owned and fosters a culture that marries independent thought with collaboration. Employee-owners invest alongside the clients of the firm in each of its strategies.

QSV Quality Bias: Invest in companies exhibiting strong balance sheets, stable and growing cash flows and returns on invested capital (ROIC) well in excess of their cost of capital (WACC).

Strong financial characteristics are sustained through the presence of a durable competitive advantage allowing the companies to drive economic profits well into the future.



QSV purposefully acts like business owners, focusing on a company's intrinsic value and blocking out day-to-day price moves.

QSV believes that buying wealth-creating businesses at discounts to intrinsic value will offer our clients stability, with less volatility and lower drawdowns, pursuing our goal to create long-term wealth.

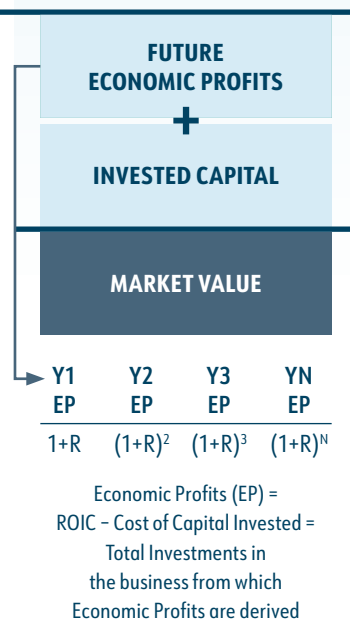
STRATEGY

OBJECTIVE QSV Equity Investors (QSV) Mid Cap Strategy strives to deliver a smoother ride in good markets and bad, seeking to outperform the Russell Mid Cap Value Index and Russell Mid Cap Index with less risk over a full market cycle.

OVERVIEW QSV Mid Cap Strategy invests with conviction in 50-70 high quality companies which can deliver high returns on invested capital, well in excess of their cost of capital, sustained through strong, durable competitive advantages. Identification and selection of these companies is supported by proprietary Quality Scores and fundamental research. QSV is patient and will only add a company to the Mid Cap Strategy when its stock can be purchased at a reasonable valuation.

PROCESS QSV employs a research and screening process that includes four distinct steps:

 SCREENING	 QUANTITATIVE ANALYSIS	 QUALITATIVE ANALYSIS	 VALUATION
<p>QSV screens a universe of over 3000 small and mid cap stocks by charting the ratio of Enterprise Value to Invested Capital relative to the Return on Invested Capital for the companies. Investors should be willing to pay more for a business that earns high returns on capital; QSV only considers those that appear undervalued.</p>	<p>QSV ranks stocks in its universe according to its proprietary Quality Rankings Model, using factors that identify companies with strong financial flexibility, stable and growing cash flow and stable and improving profitability metrics. QSV focuses on stocks with Quality Rankings in the top two quintiles of its universe.</p>	<p>QSV believes strongly that high returns on capital are maintained and defended through proven, durable competitive advantages, such as economies of scale, strong intangible assets, high switching costs, network effects and cost advantages. QSV professionals carefully assess the durability of each business's competitive advantages.</p>	<p>QSV strongly believes that valuation plays a vital role in successful investing. Forecasting future economic profits and capital allocation decisions allows QSV to answer its primary question: "Does the company create wealth for investors over time?"</p>



3Q:24 COMMENTARY

Last quarter we lamented that investors have paid little attention to the pond QSV fishes in, small and mid-cap stocks. After considerable waiting, small and mid-cap stocks outperformed the stocks of their larger brethren in Q3 2024, although it was hardly a straight line up and to the right during the quarter. Smaller companies' stocks began a rally in July that was punctuated by selloffs in early August and early September. Their climb persisted higher to the end of the quarter supported by an interest rate cut by the Federal Reserve and investor confidence that inflation was under control.

Returns of **QSV Mid Cap** trailed the 10.08% return of the Russell Mid Cap Value Index and the Russell Mid Cap Index return of 9.21% during the quarter. Security selection in Technology companies helped performance while an overweight to the sector detracted. Company selection and an overweight to Financials also aided performance. Selection in Industrials and Healthcare companies detracted from performance.

MID CAP TOP CONTRIBUTORS

Shares of **JONES LANG LASALLE (JLL)** was the leading contributor to performance as shares rose over 31%. Revenues and earnings for JLL both exceeded industry trends and came in above expectations. The outlook for commercial real estate remains challenging but JLL offers a broad array of services, and the company is cautiously optimistic for the remainder of the year. During the quarter, JLL completed its acquisition of SKAE, enhancing its project management capabilities for data centers.

Equity exchange and market-services provider **NASDAQ (NDAQ)** also contributed to performance during the quarter as its shares rose 21.56%. In June, the company announced its acquisition of Adenza, a provider of risk management and regulatory software for the financial industry. The acquisition strengthens the position of NDAQ within the global financial system and speeds its transition to a greater emphasis on recurring revenue business.

TOP 10 HOLDINGS¹

	% Weighting
Booz Allen Hamilton Holding Corporation Class A	3.05%
Otis Worldwide Corporation	2.39%
Labcorp Holdings Inc.	2.39%
Corpay, Inc.	2.38%
Monolithic Power Systems, Inc.	2.28%
Check Point Software Technologies Ltd.	2.23%
Garmin Ltd.	2.17%
Arthur J. Gallagher & Co.	2.13%
Nasdaq, Inc.	2.13%
Rollins, Inc.	2.08%
TOTAL	23.23%

PERFORMANCE

	4Q:23	1Q:24	2Q:24	3Q:24	1 Year	3 Year (Ann)	5 Year (Ann)	Annual Total Return (since inception) 6/30/16
QSV Mid Cap (Gross) ³	12.32%	4.66%	-5.15%	8.15%	20.59%	6.11%	11.85%	11.88%
QSV Mid Cap (Net) ³	12.05%	4.42%	-5.38%	7.89%	19.43%	5.09%	10.77%	10.79%
Russell Mid Cap Value ²	12.11%	8.23%	-3.40%	10.08%	29.01%	7.38%	10.32%	9.65%
Russell Mid Cap ²	12.82%	8.60%	-3.35%	9.21%	29.33%	5.75%	11.30%	11.31%

3Q:24 COMMENTARY – CONTINUED

MID CAP TOP DETRACTORS

Independent exploration and production company **APA CORPORATION (APA)** was the leading detractor to performance during the quarter as its shares fell 16% as the company reported mixed results. APA produced better-than-expected earnings and total production and reported a return of approximately 60% of free cash flows back to shareholders. However, APA offered production guidance for the coming quarter that was below expectations due to lower demand and anticipated higher capital expenditures.

Contract research organization **ICON PLC (ICON)** detracted from performance during the quarter as the company reported revenues and earnings that were below expectations. To the positive, the ICON's backlog increased year over year and it provided earnings guidance that is above previous guidance. Management noted that the biotech sector is facing short-term challenges due to a tightening funding environment and restructuring and budget cuts from large pharma clients. ICON earns returns on invested capital of 8% and its shares are trading at a significant discount to our estimate of its intrinsic value.

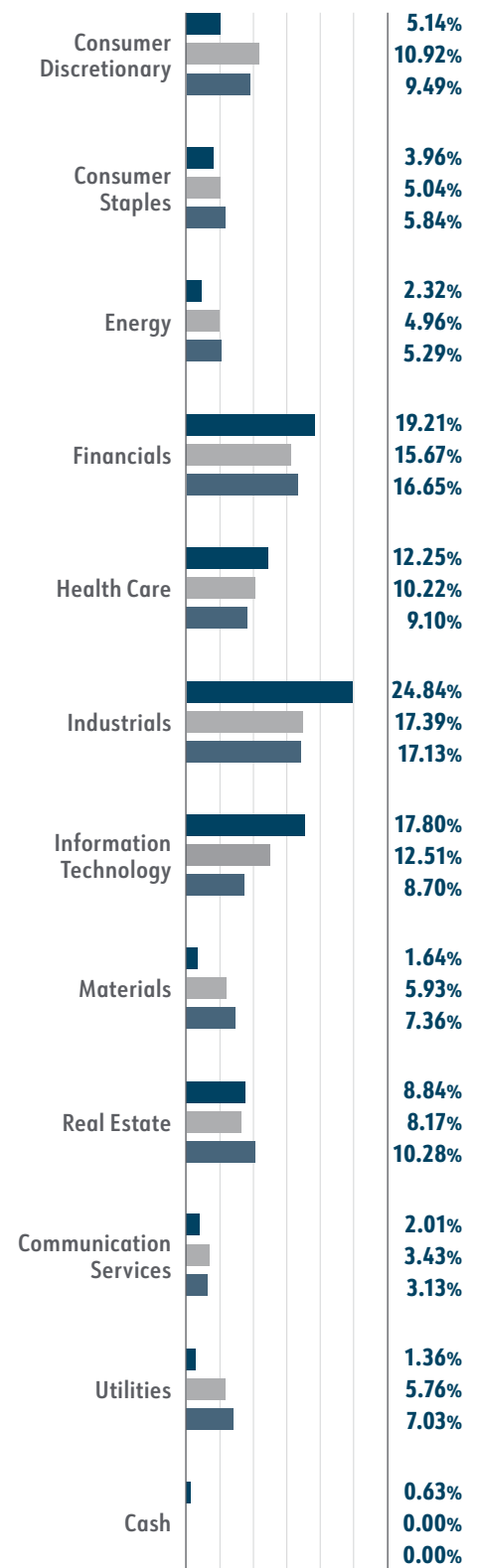
MID CAP PORTFOLIO ACTIVITY

QSV added **MEDPACE HOLDINGS INC. (MEDP)**, a leading clinical contract research organization (CRO) focused on Phase I-IV clinical development, to its Mid Cap portfolio during the quarter. Other trims and additions to existing positions were made based upon valuation and our convictions in the fundamentals of the businesses.

OUR FOCUS ON THE LONG TERM

Most expect interest rate cuts by the Federal Reserve to continue, which should benefit smaller companies that require borrowing and, in many cases, offer better potential growth. Like the two-handed economist, we must consider that “on the other hand” there are cracks in the economy, geopolitical concerns, the Longshoremen’s strike that could spark inflation, and a contentious election cycle to grind through. Valuations continue to be more compelling in small and mid-cap businesses, and the possibility that something negative occurs – a pause in rate cuts, a recession, or some other shock – is priced into these stocks more than those of large companies. Investors should be selective and demand balance sheet strength, high returns on invested capital, and strong free cash flows as a substantial portion of smaller companies continue to be unprofitable. We suspect that year-end asset allocation reviews will reveal an overweight to large caps that have outperformed year to date and for the trailing years and believe the answer is quality small and mid-caps purchased at reasonable prices.

SECTOR EXPOSURE[^]



QSV Mid Cap¹

Russell Mid Cap²

Russell Mid Cap Value²

0 5 10 15 20 25 30 %

PORTFOLIO CHARACTERISTICS

	QSV Mid Cap	Russell Mid Cap	Russell Mid Cap Value
Active Share		92.58	93.20
Number of Securities	58	810	713
Weighted Average Market Cap (MM)	20,357.59	26,091.62	25,016.99
Median Market Cap	15,458.57	11,207.92	10,885.12
Dividend Yield	1.27	1.65	1.95
ROIC	17.40	6.88	6.45
Debt/Capitalization	44.79	50.02	48.60
EV/EBITDA	21.82	11.84	10.91

RISK METRICS

	QSV Mid Cap	Relative to Russell Mid Cap	Relative to Russell Mid Cap Value
Annualized Alpha (RF=10-year Treasury)		0.15	0.29
Beta		0.87	0.83
Up Capture		82.94	84.35
Down Capture		93.54	90.92
Standard Deviation*	16.19	18.1	18.6
Information Ratio		0.13	0.39
Sharpe Ratio	0.61	—	—

*Standard Deviation is shown for the QSV Strategy and each respective Index.



For more information, please call
844.322.5527 or visit qsvequity.com

WE THANK OUR CLIENTS AND INVITE OTHER LIKE-MINDED INVESTORS TO CONTACT US IF WE MAY BE OF SERVICE.

DISCLOSURES

No client or potential client should assume that any information presented should be construed as personalized investment advice. Personalized investment advice can only be rendered after engagement of the firm for services, execution of the required documentation, and receipt of required disclosures. Investing carries risk of loss. You should consider the strategy's investment objectives, risks, charges and expenses carefully before investing.

[^] Sector classifications are generally determined by referencing the Global Industry Classification Standard (GICS[®]) and exclude cash. GICS was developed by and/or is the exclusive property of MSCI, Inc. and Standard & Poor's Financial Services LLC (S&P). GICS is a service mark of MSCI and S&P.

¹ Top ten holdings, sector weights and portfolio characteristics for the QSV Mid Cap Strategy are taken from the model portfolio.

² The QSV Mid Cap Strategy is compared to the Russell Mid Cap Indices as they are widely used benchmarks for mid capitalization securities. An investment with QSV Equity Investors (QSV) should not be construed as an investment in a program that seeks to replicate, or correlate with, these indices. Market conditions vary between the QSV products and these indices. Furthermore, these indices do not include any transaction costs, management fees and other expenses, as do the QSV products. Lastly, QSV may invest in strategies and positions that are not included in these indices.

³ QSV Mid Cap returns are for the QSV Mid Cap Composite. Net returns are calculated assuming the maximum advisory fee of 100bps is deducted from the quarterly gross composite return from inception through June 30, 2020. Starting July 1, 2020, actual fees charged are used to calculate net performance. Returns are net of both advisory fees and transaction costs. All dividends are assumed to be reinvested. The reporting currency is USD.

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