

Small 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.

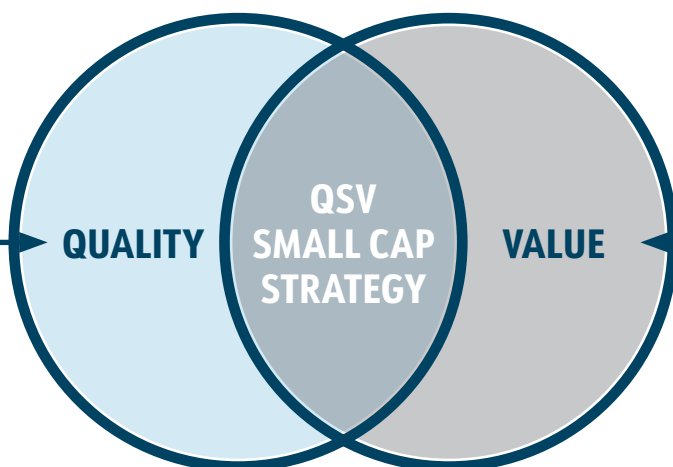


INVESTMENT TEAM

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) Small Cap Strategy strives to deliver a smoother ride in good markets and bad, seeking to outperform the Russell 2000 Value Index and Russell 2000 Index with less risk over a full market cycle.

OVERVIEW QSV Small 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 Small 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>



FUTURE ECONOMIC PROFITS			
+			
INVESTED CAPITAL			
MARKET VALUE			
Y1	Y2	Y3	YN
EP	EP	EP	EP
$1+R$	$(1+R)^2$	$(1+R)^3$	$(1+R)^N$

Economic Profits (EP) =
 ROIC - Cost of Capital Invested =
 Total Investments in
 the business from which
 Economic Profits are derived

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.

Performance of **QSV Small Cap** exceeded the Russell 2000 Value Index return of 10.15% and the Russell 2000 Index return of 9.27% during the quarter. An underweight to Energy companies aided performance. Security selection and an overweight in Industrials also helped performance. Security selection and an overweight to Technology businesses detracted from returns.

SMALL CAP TOP CONTRIBUTORS

DOXIMITY, INC. (DOCS) shares rose over 55% supported by strong revenue and earnings, both of which surpassed analysts' expectations. DOCS also provided optimistic Q2 and fiscal year 2025 guidance, projecting higher revenue than analysts' expectations. DOCS offers a suite of tools that support an on-line community for physicians, nurse practitioners and physicians' assistants, enabling them to coordinate patient care, conduct patient visits and manage their careers. DOCS' Q1 earnings call highlighted a net revenue retention rate of 114% and 21% growth from its top 20 clients. The company has returns on invested capital of 16%.

HAWKINS INC. (HWKN), rose more than 40%, contributing to performance. HWKN is a leading provider of chemicals and ingredients sold through its industrial, water treatment and health and nutrition segments. The company continues to benefit from capital deployment and fast growth in its largest segment, the high margin water treatment business, which is expected to drive higher earnings and free cash flow growth. HWKN produces returns on invested capital of 13%.

TOP 10 HOLDINGS¹

	% Weighting
Innoviva, Inc.	2.74%
Doximity, Inc. Class A	2.58%
Progress Software Corporation	2.41%
Hawkins, Inc.	2.33%
Brady Corporation Class A	2.29%
National Storage Affiliates Trust	2.28%
Walker & Dunlop, Inc.	2.27%
Dorman Products, Inc.	2.13%
Evercore Inc. Class A	2.12%
Glacier Bancorp, Inc.	2.03%
TOTAL	23.18%

PERFORMANCE

	4Q:23	1Q:24	2Q:24	3Q:24	1 Year	3 Year (Ann)	5 Year (Ann)	Annual Total Return (since inception) 6/30/17
QSV Small Cap (Gross) ³	15.03%	0.78%	-3.76%	10.30%	23.05%	5.79%	8.52%	8.77%
QSV Small Cap (Net) ³	14.93%	0.72%	-3.84%	10.21%	22.67%	5.42%	7.92%	8.02%
Russell 2000 Value ²	15.26%	2.90%	-3.64%	10.15%	25.88%	3.77%	9.28%	7.09%
Russell 2000 ²	14.03%	5.18%	-3.28%	9.27%	26.76%	1.84%	9.39%	7.92%

3Q:24 COMMENTARY – CONTINUED

SMALL CAP TOP DETRACTORS

SIMULATIONS PLUS INC. (SLP) was the leading detractor from performance for the quarter as shares dropped on a mixed demand environment and lower margins. SLP is a leading provider of software and services used by major pharmaceutical, biotech, and regulatory agencies to make better informed, data-driven decisions. We see the potential for improved demand and long-term value creation due to the company’s high switching costs, intellectual assets, and a 93% renewal rate by its customers. SLP produces operating margins of 26% on average and its shares are well below our estimate of intrinsic value.

HELEN OF TROY (HELE) shares declined during the quarter as management lowered guidance. The consumer products company owns strong discretionary brands that are organized into its Home & Outdoor and Beauty & Wellness segments. Entering the quarter, we incorrectly believed that lower expectations were priced into the stock. With its additional pullback during the quarter and our belief that its risks are reflected, we added to our position. We like HELE’s strong free cash flows and the restructuring plan that management has instituted to cut costs.

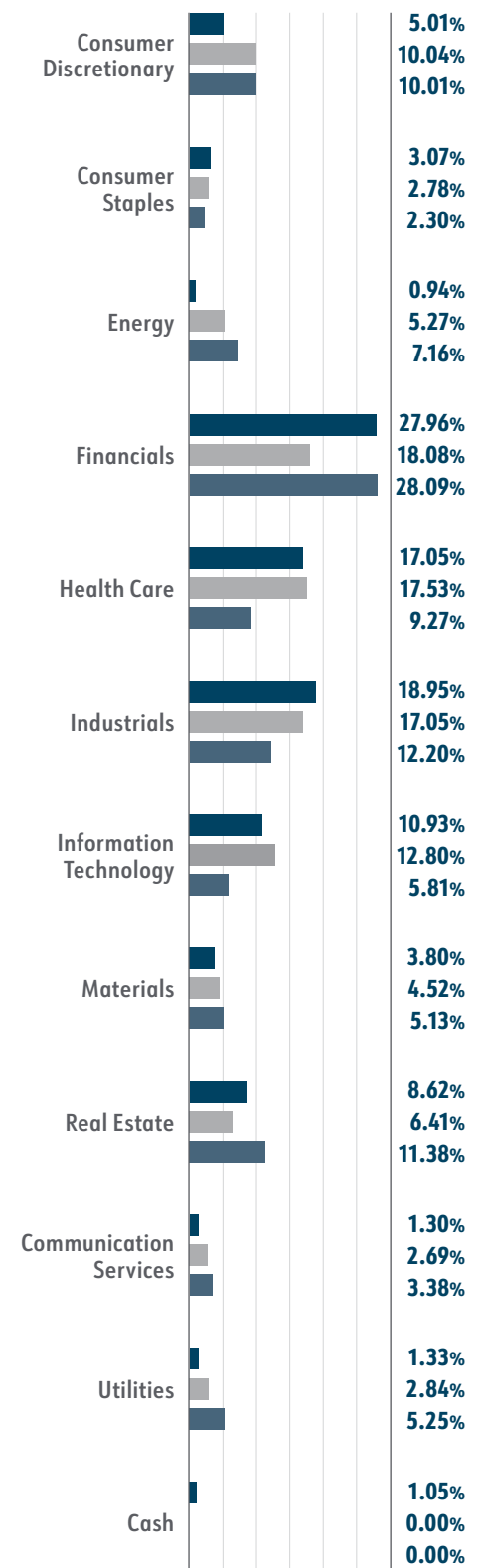
SMALL CAP PORTFOLIO ACTIVITY

Shares of **HANCOCK WHITNEY CORPORATION (HWC)** were purchased as QSV sought to increase its exposure to Financials ahead of anticipated interest rate cuts. **MGP INGREDIENTS (MGPI)**, a maker of premium distilled spirits and specialty wheat protein and starch food ingredients, was also added as its shares reached an attractive valuation. MGPI was previously a profitable holding of QSV Small Cap and has been steadily monitored by our team.

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 Small Cap¹

Russell 2000²

Russell 2000 Value²

0 5 10 15 20 25 30 %

PORTFOLIO CHARACTERISTICS

	QSV Small Cap	Russell 2000	Russell 2000 Value
Active Share		96.10	97.32
Number of Securities	59	1,977	1,438
Weighted Average Market Cap (MM)	3,573.31	3,474.88	2,812.45
Median Market Cap	2,778.33	961.65	777.77
Dividend Yield	1.70	1.71	2.68
ROIC	10.03	1.71	2.68
Debt/Capitalization	32.99	40.76	41.44
EV/EBITDA	16.82	11.54	9.39

RISK METRICS

	QSV Small Cap	Relative to Russell 2000	Relative to Russell 2000 Value
Annualized Alpha (RF=10-year Treasury)		0.18	0.24
Beta		0.78	0.75
Up Capture		69.87	64.37
Down Capture		91.69	89.62
Standard Deviation*	18.01	22.06	22.84
Information Ratio		0.12	0.22
Sharpe Ratio	0.36	—	—

*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 Small Cap Strategy are taken from the model portfolio.

² The QSV Small Cap Strategy is compared to the Russell 2000 Indices as they are widely used benchmarks for small 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 Small Cap returns are for the QSV Small 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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