BARKSDALE
INVESTMENT & RESEARCH

Investment Process Overview & Portfolio Characteristics

Valuation - BI&R implements Barksdale's interpretation of business valuation ideas expressed by Warren Buffett in his 1976 article entitled "How Inflation Swindles the Equity Investor." We determine the value of ownership in a business given its ability to a) earn a high return on invested capital, b) reinvest those earnings productively for growth, and c) do so for an extended period.   Unlike conventional investment approaches that try to predict future earnings and ignore the value of growth, BI&R focuses on the long-term value of a business's economic structure. In doing so, BI&R's robust valuation approach tries to overcome the failings of conventional valuation tools, such as price/earnings, price/book, and dividend yield.

Avoiding "Cheap Companies" Unlikely To Grow - BI&R seeks to avoid companies that appear cheap using common financial measures, but which are unlikely to resume or sustain growth. In doing so, BI&R looks for markers of companies with poor structural or managerial health.

Diversification – BI&R model portfolios are typically diversified relatively evenly over 35-40 firms, with sector limits to prevent over-betting of beliefs. Typical position sizes are 2%-4%, with a maximum of 6%.

Portfolio Characteristics

Barksdale's portfolio holdings have exhibited consistent characteristics over time, namely, above-average returns on assets, long-term growth, and low levels of debt.   These characteristics provide confidence that our holdings are better equipped than most to survive difficult times, protecting against permanent loss of capital.

Key Characteristics 12/31/2019[1]		
	BI&R	**R1000V**
Market Cap Size	180	131
Forward P/E (Est)	13.4	18.1
Dividend Yield	2.2%	2.5%
Dividend Growth [2]	11.6%	8.8%
Net Debt / EBITDA [3]	2.30	2.90
Return on Capital	12.5%	5.0%
Return on Assets	8.2%	5.0%

[1] See Disclosures

[2] Last 10 Years

[3] Net Debt After Cash & Investments
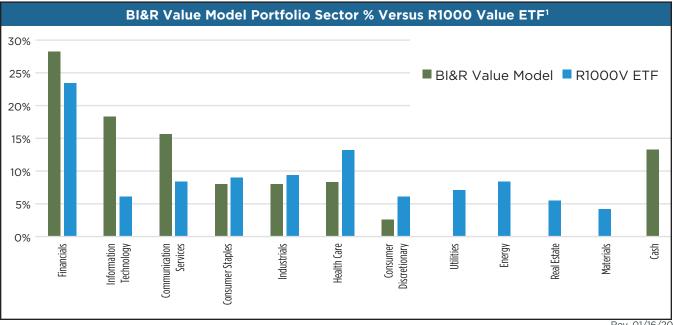
BI&R portfolios typically reflect:
◄ **Above-market long-term Growth**
◄ **Below-market Debt, and**
◄ **Above-market Return on Capital**

Valuing Growth | Growing Values

BI&R U.S. Equity Value Model Portfolio[1]

December 31, 2019

	% Model	R1000V	Over / Under		% Model	R1000V	Over / Under
Financials	27.4%	23.9%	3.5%	**Communication Services**	15.5%	8.2%	7.3%
American Express	3.7%			BT Group	2.3%		
Franklin Resources	1.1%			Facebook	3.7%		
Eaton Vance	2.6%			Alphabet	4.1%		
KeyCorp	1.6%			ViacomCBS	3.2%		
PNC Financial	2.1%			WPP	2.2%		
Truist Banks	1.7%						
State Street Corporation	2.9%			**Consumer Staples**	7.7%	8.9%	-1.2%
T. Rowe Price Group	3.9%			Ingredion	2.2%		
The Travelers Companies	1.4%			Kroger	4.3%		
U.S. Bancorp	3.6%			Molson Coors Brewing	1.2%		
Wells Fargo & Company	2.8%						
				Industrials	7.6%	9.7%	-2.1%
Information Technology	18.2%	6.3%	11.9%	ManpowerGroup	2.2%		
Cognizant Technology	2.4%			MSC Industrial Direct	2.7%		
Apple	3.1%			United Parcel Service	2.7%		
Infosys Limited	3.3%						
Intel	3.6%			**Health Care**	8.2%	13.0%	-4.8%
IPG Photonics	2.5%			Cigna	3.4%		
QUALCOMM	1.8%			McKesson	1.4%		
Taiwan Semiconductor	1.5%			CVS Health	3.4%		
Consumer Discretionary	2.5%	5.9%	-3.4%	**Energy**	0.0%	8.2%	-8.2%
Booking Holdings	2.5%			**Materials**	0.0%	4.3%	-4.3%
				Real Estate	0.0%	5.2%	-5.2%
				Cash	13.0%	0.0%	13.0%

BI&R Value Model Portfolio Sector % Versus R1000 Value ETF[1]