2020 Q1 Commentary
U.S. Equity Value Model Portfolio
April 2, 2020

***"We picked up bits of ice, played snowballs for a while.
I was told 'there's no danger,' so I went back to bed."***

Edith Russell, Titanic survivor, 1957 interview

Markets sank last quarter. Not because they were egregiously over-priced, the Fed removed the stimulus punch-bowl, a trade war or tariffs impaired trade, or other foreseeable headwinds. Instead, our world hit a Covid-19 iceberg and economies ground to a halt. All hands are now on deck. However, given the potential for cascading shocks to our economic system, it is too early to conclude whether "buying when others were fearful" will, in retrospect, be analogous to Edith Russell's premature return to her bed.

Our investments offered a little shelter versus the Russell 3000 Value (R3000V) benchmark, with our U.S. Equity Value Model Portfolio (EVMP) falling 26.1% versus 27.3% for the index. However, both fell more than the S&P 500's 19.6% decline. As has been true since I began investment operations in 1986, my approach continues to provide above-benchmark returns with below-benchmark downside.

Barksdale Investment Results Since 1986[1]			
	BI&R / EIC	R3000V	S&P 500
As EIC CIO w/ Sole Decision Authority (All-Cap Value, Annualized)			
(1/1/1985 - 9/30/2016)	11.9%	10.5%	10.4%
Since Departure From EIC Investment Committee			
Q4 2016	8.0%	7.2%	3.8%
2017	17.9%	13.2%	21.8%
2018	-7.6%	-8.6%	-4.4%
2019	29.6%	26.3%	31.5%
2020 Q1	-26.1%	-27.3%	-19.6%
Cumulative	12.7%	1.9%	27.2%
Annualized	3.5%	0.5%	7.1%
Barksdale Lifetime			
Cumulative	3527.9%	2214.2%	2660.4%
Annualized	11.0%	9.5%	10.1%

Summary of the Market's Response to the Crisis

Broadly, companies exposed to debt (whether as borrower, investor, or lender) fell significantly due to default concerns. Also, companies impacted by social-distancing fell dramatically (airlines, restaurants, retail, hospitality, sports). Many declines seem irrational when seen against past cyclical ups and downs. However, for the most part, they reflect understandable concerns about an abrupt halt in growth, declines in earnings, and rising bankruptcy risks from the new business landscape.

Sectors where growth has been least-impacted have held up best (staples, health, and technology). However, we believe these sectors are priced for a resumption of growth rather than a recession. That is why our exposure to staples and technology stocks declined versus 2019 year-end.

Summary of Our Response to Changed Investment Environment

First and foremost, while aware of the many risks, we can venture no prediction. Surely we all hope that a quick vaccine and cure will be found.

We cannot claim to have navigated the crisis well, but also experienced some 'bad luck.' For example, in December and January, we reduced positions in technology stocks that had benefitted from excitement over 5G (Apple, Taiwan Semiconductor, and Qualcomm). In retrospect, these were a relative 'safe haven' during the crisis, so these sales hurt our results. Second, we failed to recognize the severity of the Coronavirus threat. As a result, the cash from those sales, as well as our 13% cash held at the end of 2019, was invested before the market's March decline. Worse, by 'going where value led,' these purchases were principally in more economically exposed industries that suffered more in March's decline. Finally, the changed economic environment and price declines triggered significant portfolio changes during March, resulted in timing lags between sales and purchases during a period of considerable volatility.

By comparison, our 2019 Year-End portfolio (assuming no changes) performed about three percentage points better than our actual U.S. Equity Value Model portfolio. This is not dissimilar from my experience at EIC during the 2008-9 financial crisis, when a frozen-portfolio of our holdings as of the market peak (May, 2007) out-performed our actively-managed accounts through the market's trough (February 2009). In both cases, decisions to 'go where value led' while upgrading quality during the crisis reduced results. However, post-2009-crisis returns were significantly improved by quality upgrades made during the decline. We hope that will be the case going forward as well.

Model Portfolio Changes

The changed landscape and price declines last quarter triggered numerous model portfolio changes. As detailed below, we reduced holdings within stronger-performing areas, and increased investments in areas of weakness, with an eye on quality. The result of the changes is that the ratio of debt / EBITDA for our investments fell from 2.3x to 1.7x during the quarter, versus 2.7x for the R1000V index companies[2].

Energy - Over the past five years, we have had virtually no energy exposure. It has been persistently one of the market's worst-performing sectors, and this was true again last quarter. Energy companies are volatile businesses due to dramatic and uncontrollable fluctuations in oil prices. Moreover, energy companies are under siege from alternative energy sources due to concerns about the climate impact of carbon and greenhouse gases. These issues make these investments difficult to value. With the collapse in oil prices to unsustainably low levels last quarter, however, we established an energy position in oil and gas producer Total S.A., and in our country's largest oil refiner, Marathon Petroleum. As a result, our energy exposure is now in line with our benchmark, about 5.1% [2].

Low-Volatility Companies – As investors fled cyclically exposed stocks in March, consumer staples companies like Ingredion and Kroger performed well, and were sold. However, we established new positions in three relatively stable companies after prices fell in March, namely:

1. Laboratory Corporation of America - one of the largest clinical test providers,
2. 3M – a diversified manufacturer of industrial, safety, health, consumer, and energy products
3. Genuine Parts – a distributor of automotive replacement parts in the U.S., Canada, and Mexico.

We also increased our positions in Molson Coors and McKesson following significant price declines.

Technology – We re-established our position in Qualcomm after its price fell, and established new positions in Alibaba and Baidu. Alibaba is an on-line and mobile commerce store, analogous to Amazon in the U.S.A. Baidu is a Chinese-language internet search provider, similar to Google in the U.S.A. We also reduced our position in Intel, Google, and Facebook. As a result, our technology and communications exposure fell from 33.7% at the start of 2020 to 25.6% [2].

*Financials – T*he financial sector was among the hardest hit, falling over 32% [2]. We began the year with 27.4% invested in financials versus 23.9% for the benchmark. Nonetheless, we added new positions in:

1. Global Life - a provider of life insurance and supplemental health policies,
2. Federated Hermes - a provider principally of money-market and bond funds, and
3. Raymond James Financial – a retail and institutional brokerage and asset management firm

We also added to our positions in Travelers Companies and Eaton Vance after significant price declines, while trimming our position in T. Rowe Price, and selling Franklin Resources. As a result, our exposure to the financial sector rose to 32.9%, consisting of 10.6% in banks, 4.4% in insurance, 14.3% in investment and brokerage services, and 3.5% in consumer financial services [2].

Various – We sold Bookings and BT Group mainly to provide the cash needed to make the above purchases, which we viewed as more attractive in today's market. Also, before the onset of the crisis, we purchased a new position in Wesco, a small-cap distributor of maintenance, repair and operating parts for the electrical, industrial, communications industries.

Our U.S. Equity Value Model Portfolio as of March 31, 2020 is attached. About 33% of our investments today were owned in EIC's December 31, 2019 All-Cap Value portfolio. These are highlighted in green.

GIPS & SEC Advertising Standards & Compliance

BI&R does not claim GIPS compliance because it is not an SEC-registered investment advisor. However, BI&R's results are calculated in a manner consistent with GIPS valuation principles and methodologies [1]. GIPS standards do not allow returns from separate firms to be linked unless the investment decision-makers at both firms are the same. Jim Barksdale was the individual with sole decision and veto authority over investment decisions for all investment strategies from January 1, 1985 until September 30, 2016 for his-EIC (founded and SEC-registered in 1986). Thereafter, he was employed at today's-EIC (founded and SEC-registered in 2016). There, he had sole decision and veto authority over the firm's socially-responsible strategies until his departure in 2019**. BI&R only links its returns to strategies and time periods in which Jim Barksdale was the individual with sole decision and veto authority over investment decisions.**

Conference Call

We will host a conference call on April 15 at 4:30 pm (EST). You may listen at (602) 609-9483, or participate on-line at https://join.startmeeting.com/barksdale. (Meeting ID = Barksdale) Please register for the call at https://barksdaleinvestment.com/documents/, and we will make sure you receive a PDF of the slides before-hand.

To learn more about BI&R's investment services, please visit www.BarksdaleInvestment.com.

James F. Barksdale
Founder, President, & Chief Investment Officer
Equity Investment Corporation (12/31/85 to 9/30/16)
Barksdale Investment & Research (8/1/19 to present)

BI&R Doc# 20040201

Disclosures

[1] **BI&R only advertises returns for investment strategies and for time periods in which Jim Barksdale was the individual with sole decision and veto authority over investment decisions.** Results from January 1, 1985 through September 30, 2016, are monthly gross returns reported by Equity Investment Corporation (EIC) to Morningstar for its All-Cap Value strategy. Jim Barksdale held sole veto and decision authority over all investment decisions made for all investment strategies during that time period. He was assisted by three additional investment team members who joined his firm in 1999, 2003, and 2005. On October 1, 2016, original-EIC's accounts were assigned to a newly registered firm, now also doing business as EIC. From October 1, 2016, until December 31, 2018, results are those of a Protestant Value socially-restricted portfolio over which Jim Barksdale acted as a sole portfolio manager with sole decision authority at the new-EIC. From January 1, 2019, until March 31, 2020, the results are those of a separately managed account whose holdings and weightings follow BI&R's recommended U.S. Equity Value Model Portfolio. All figures are time-weighted returns. Cumulative results include reinvestment of dividends and are gross of management or administrative expenses. Past results do not imply nor guarantee future results.

Barksdale Investment & Research publishes model portfolios, does not tailor investments to client circumstances, and is not a Registered Investment Advisor. Subscriber results may vary depending on the individual implementation of published model portfolios. All investing involves risk, including the risk of loss.

[2] Source for portfolio characteristics, sectors, and attribution is Standard & Poor's Capital IQ service.

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BI&R U.S. Equity Value Model Portfolio

March 31, 2020

	BI&R	R1000 V	+ / -
Financials	**32.9%**	**21.7%**	**11.2%**
Banks	**10.6%**	**9.2%**	
KeyCorp	1.2%		
The PNC Financial Services Group, Inc	1.8%		
Truist Financial Corporation	1.0%		
U.S. Bancorp	3.7%		
Wells Fargo & Company	2.9%		
Insurance	**4.4%**	**3.9%**	
Globe Life Inc.	1.9%		
The Travelers Companies, Inc.	2.6%		
Investment & Brokerage Services	**14.3%**	**3.0%**	
Eaton Vance Corp.	3.9%		
Federated Hermes, Inc.	3.1%		
Raymond James Financial, Inc.	2.3%		
State Street Corporation	2.5%		
T. Rowe Price Group, Inc.	2.5%		
Financial Services			
American Express Company	**3.5%**	**4.2%**	
CONSUMER DISCRETIONARY	**8.4%**	**5.2%**	**3.1%**
BorgWarner Inc.	3.1%		
Genuine Parts Company	2.9%		
Alibaba Group Holding Limited	2.4%		
ENERGY	**5.1%**	**5.2%**	**(0.1%)**
Marathon Petroleum Corporation	2.8%		
TOTAL S.A.	2.3%		
CONSUMER STAPLES	**2.6%**	**10.6%**	**(8.0%)**
Molson Coors Beverage Company	2.6%		

	BI&R	R1000 V	+ / -
INFORMATION TECHNOLOGY	**13.7%**	**6.9%**	**6.7%**
Infosys Limited	3.6%		
QUALCOMM Incorporated	2.6%		
IPG Photonics Corporation	2.5%		
Intel Corporation	2.5%		
Cognizant Technology Solutions C	2.4%		
HEALTH CARE	**13.4%**	**15.3%**	**(1.9%)**
Cigna Corporation	4.0%		
CVS Health Corporation	3.7%		
McKesson Corporation	3.6%		
Laboratory Corporation of America	2.1%		
INDUSTRIALS	**12.1%**	**9.3%**	**2.7%**
United Parcel Service, Inc.	3.1%		
MSC Industrial Direct Co., Inc.	3.0%		
3M Company	2.8%		
WESCO International, Inc.	2.2%		
ManpowerGroup Inc.	1.0%		
COMMUNICATION SERVICES	**11.9%**	**8.7%**	**3.2%**
Facebook, Inc.	4.0%		
Alphabet Inc.	3.1%		
Baidu, Inc.	2.4%		
ViacomCBS Inc.	1.4%		
WPP plc	1.0%		
UTILITIES	**0.0%**	**7.9%**	**(7.9%)**
MATERIALS	**0.0%**	**4.1%**	**(4.1%)**
REAL ESTATE	**0.0%**	**5.0%**	**(5.0%)**
CASH	**0.0%**	**0.0%**	**0.0%**