



## 2020 Third Quarter Commentary U.S. All-Cap Value Model Portfolio October 15, 2020

Last quarter our All-Cap Value (ACV) model portfolio rose 4.9% versus 5.4% for the benchmark R3000V (gross of fees). Year-to-date (YTD), our ACV model declined -6.9% versus -12.2% for the R3000V (gross of fees). While the S&P 500® capitalization-weighted index has risen 5.6%, this is deceiving and does not represent the typical stock. Twenty percent of the index consists of five mega-cap technology stocks benefitting from COVID (Microsoft +34.4%, Apple +58.8%, Amazon +70.4%, Alphabet +9.4%, and Facebook +27.6%, YTD). The median stock in the S&P 500 and R3000V has declined -3.3% and -16.4%, respectively in 2020, which gives a better picture of the typical stock performance this year.

Barksdale Gross Returns Since 1986 <sup>1</sup>			
	<u>Barksdale</u>	<u>R3000V</u>	<u>S&amp;P 500</u>
<b><u>EIC All-Cap Value During Barksdale Tenure as "Controlling Manager" <sup>1</sup></u></b>			
(January 1, 1986 - September 30, 2016)			
Cumulative	3030.8%	2073.9%	1980.0%
Annualized	11.9%	10.5%	10.4%
<b><u>Barksdale Managed Portfolios Since October 1, 2016</u></b>			
Q4 2016	8.0%	7.2%	3.8%
2017	17.6%	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%
Q2	20.2%	14.6%	20.5%
Q3	4.9%	5.4%	8.9%
YTD	-6.9%	-12.2%	5.6%
Cumulative	41.6%	23.0%	67.9%
Annualized	9.1%	5.3%	13.8%
<b><u>Barksdale Lifetime As "Controlling Manager" <sup>1</sup></u></b>			
Cumulative	4333.9%	2573.8%	3393.2%
Annualized	11.5%	9.8%	10.7%

### Going Where Growth & Value Lead In A Volatile Market

Our investment approach was founded on determining the value of participating as an owner in a firm's long-term growth. Warren Buffett called this "the reinvestment privilege" and its drivers are a company's return on capital versus inflation, the amount of capital that can be reinvested to earn this return through growth, and length of time over which these can continue. That is why he says the best holding horizon is forever, because that would mean the business's reinvestment privilege value stayed intact. Knowing that business fortunes can fade with time, our approach has been to value businesses on a 4, 7, or 10-year growth horizon depending on the strength of a business's competitive position.

This approach has resulted in fairly stable portfolio characteristics over the years, principally above-market return on capital, below-market yield and debt, and high "active share" versus indices. Key

characteristics as of September 30 appear below.

Key Characteristics <sup>2</sup> September 30, 2020		
	BI&R	R1000 Value
Market Cap (\$, Bil.)	121.7	122.2
Active Share	92%	-
Forward P/E	11.8	21.6
Dividend Yield	2.2%	2.5%
Dividend Growth (10 Yr.) <sup>A</sup>	13.0%	11.7%
Net Debt / EBITDA Multiple <sup>B</sup>	2.3	3.2
Return on Assets (5 Yr. Avg)	6.9%	5.7%
<sup>A</sup> Last 10 years		
<sup>B</sup> Net debt after cash and investments		

**More Growth  
Less Leverage  
High ROA**

COVID provides a good example of how business prospects can change with time. Grocers, technology, shipping, and communications have seen dramatically improved prospects, while retailers, restaurants, hospitality, and airlines are encountering existential threats. In addition, fiscal and monetary policies have created artificial demand for both goods and financial assets. *Bottom line, this is a particularly difficult market in which to determine reasonable assumptions regarding long-term growth and value, and to separate the real and lasting from the fleeting and artificial.*

We have focused on organic growth (rather than per-share growth), debt coverage during downturns (using 2008-9 as the comparison-basis), and price versus value. The table below summarizes the directional changes in our sector exposures versus last year (pre-COVID), as well as the individual buys and sells that resulted in the sector changes.

Sector	Exposure Change *	Sales + Trims	Buys + Adds
Information Technology	-11.1%	Apple, IPG Photonics, Taiwan Semiconductor, QUALCOMM	Cisco Systems
Consumer Staples	-2.7%	General Mills, Ingredion, Kroger	Kroger
Utilities	-2.2%	National Grid	
Communication Services	-1.9%	Baidu, BT Group, WPP, plc	Baidu, AMC Networks, Viacom-CBS
Energy	2.8%	Total, SA	Marathon Petroleum, Total SA
Industrials	5.3%	Manpower	General Dynamics, MMM, Wesco
Health Care	5.7%		Cigna, CVS, Laboratory Corp., McKesson
Financials	5.9%	Franklin Resources, KeyCorp, Suntrust-Truist	Aflac, Eaton Vance, Globe Life, Invesco, Northern Trust, PNC
Consumer Discretionary	6.7%	Bookings Holdings	Alibaba, Borg Warner, Genuine Parts, Mohawk Industries
* Since 9/30/2019			

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The declines in our exposures to technology and consumer staples have been driven by price increases as the market favors sectors with a COVID tail-wind. Conversely, our increased exposures to consumer discretionary, financials, health, industrials, and a small energy position have been driven by large declines in price among stocks where COVID has increased earnings concerns. However, we have tried to avoid stocks that faced existential threats whether due to reduced demand or high levels of debt.

## Model Portfolio Changes & Characteristics

During the quarter we added new positions in Aflac, Cisco Systems, and Mohawk industries. Each had fallen significantly in price over the past year largely due to reduced earnings resulting from COVID. Nonetheless, we believe each firm's underlying structural health and ability to grow remains intact and that current prices do not reflect long-term value. Also, we sold our last holdings in Genuine Parts and Qualcomm. Market prices for both rose to levels that we believe reflect a full appreciation of each company's long-term growth prospects. As a result, our cash position fell from 12.1% to 5.6%. Our model portfolio appears below.

BI&R U.S. All-Cap Value Model Portfolio							
September 30, 2020							
	BI&R	R1000 V	+/-		BI&R	R1000 V	+/-
<b>FINANCIALS</b>	34.1%	18.5%	15.6%	<b>INFORMATION TECHNOLOGY</b>	9.0%	10.2%	(1.2%)
<b>Banks</b>	7.5%	7.1%		Infosys Limited	2.0%		
PNC Financial Services	2.5%			Intel Corporation	2.5%		
U.S. Bancorp	2.5%			Cognizant Technology Solutions	2.0%		
Wells Fargo & Company	2.5%			Cisco Systems	2.5%		
<b>Insurance</b>	7.0%	3.5%		<b>HEALTH CARE</b>	12.8%	14.1%	(1.4%)
Globe Life Inc.	2.5%			Cigna Corporation	3.5%		
The Travelers Companies, Inc.	2.0%			CVS Health Corporation	3.5%		
Aflac, Inc.	2.5%			McKesson Corporation	3.5%		
<b>Capital Markets</b>	18.5%	4.1%		Laboratory Corp. of America	2.3%		
Eaton Vance Corp.	3.0%			<b>INDUSTRIALS</b>	13.3%	12.3%	1.0%
Federated Hermes, Inc.	3.0%			United Parcel Service, Inc.	2.0%		
Invesco	3.0%			MSC Industrial Direct Co., Inc.	3.0%		
Northern Trust	2.0%			3M Company	2.5%		
Raymond James Financial, Inc.	2.5%			WESCO International, Inc.	2.8%		
State Street Corporation	2.5%			General Dynamics	3.0%		
T. Rowe Price Group, Inc.	2.5%			<b>COMMUNICATION SERVICES</b>	9.8%	9.3%	0.4%
<b>Consumer Finance</b>				Facebook, Inc.	2.8%		
American Express Company	1.1%	1.0%		Alphabet Inc.	3.0%		
<b>CONSUMER DISCRETIONARY</b>	7.8%	7.0%	0.8%	AMC Networks	2.0%		
BorgWarner Inc.	2.8%			ViacomCBS Inc.	2.0%		
Alibaba Group Holding Limited	2.5%			<b>ENERGY</b>	2.8%	5.3%	-2.6%
Mohawk Industries	2.5%			Marathon Petroleum Corporation	2.8%		
<b>CONSUMER STAPLES</b>	5.0%	8.1%	(3.1%)	<b>UTILITIES</b>	0.0%	5.9%	-5.9%
Kroger	3.0%			<b>MATERIALS</b>	0.0%	4.5%	-4.5%
Molson Coors Beverage Company	2.0%			<b>REAL ESTATE</b>	0.0%	4.8%	-4.8%
				<b>CASH</b>	5.6%	0.0%	5.6%

## Conference Call

We will host a conference call on Tuesday, October 27 at 4:30 pm (EST). You may listen at (602) 609-9483, or participate online at <https://join.startmeeting.com/barksdale>. (Meeting ID = Barksdale) Please [reply](#) if you would like to receive a PDF of the slides before-hand or the replay link.

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

## Disclosures

<sup>1</sup> **BI&R only advertises results for strategies and periods in which Jim Barksdale was Controlling Manager.** In the Horizon Asset Management LLC SEC No-Action letter (available September 13, 1996, (<https://www.sec.gov/divisions/investment/noaction/1996/horizonasset091396.pdf>), the Controlling Manager is the individual who holds final authority for investment decisions for a firm or strategy. When one firm wishes to advertise the performance achieved at another, but the investment committee changes, this guidance requires continuity of the investment decision-making authority across firms to prevent violations of the SEC Rule 206(4)-l(a)(5) (The Advertising Rule). The Horizon letter explains that continuity of all investment committee members between firms is not necessary so long as there is continuity of the individual who held final decision-making authority in a team setting where a consensus of committee members was not required for investment decisions, that is, the Controlling Manager.

Jim Barksdale was Controlling Manager at the original Equity Investment Corporation - the firm formed and registered in 1986, or 1986-EIC - from January 1, 1985, through September 30, 2016, holding and exercising sole veto and decision authority over investment decisions for all of 1986-EIC's investment strategies. During this time, the firm's All-Cap Value strategy earned 11.9% per year versus 10.5% and 10.4%, respectively, for the benchmark Russell 3000 Value and S&P 500 indices, based on monthly gross returns reported to Morningstar.

Barksdale was assisted by three additional investment team members who joined 1986-EIC in 1999, 2003, and 2005. These individuals formed and registered BZI Partners in May, 2016. Subsequent name changes led to it being renamed as Equity Investment Corporation on October 4, 2016 (2016-EIC). Barksdale was not on 2016-EIC's investment team for unrestricted strategies (All-Cap Value, Large-Cap Value, and Mid-Cap Value) nor involved in subsequent investment decisions for these strategies. However, Barksdale continued as Controlling Manager for four socially responsible restricted strategies (Environmental, Human Rights, Catholic, and Protestant).

BI&R advertises results from the least-restrictive of these strategies (Protestant Value) from October 1, 2016 until December 31, 2018. During this period 2016-EIC's composites for the Environmental, Human Rights, Catholic, and Protestant strategies increased 17.0%, 14.6%, 16.9%, and 17.6% respectively versus 11.3% for the Russell 1000 Value index. Similarly, the Protestant Value portfolio that BI&R advertises for this period increased by 17.3%.

From January 1, 2019, until September 30, 2020, the results are those of a separately managed account whose holdings and weightings follow BI&R's recommended U.S. All-Cap Value Model Portfolio.

All figures are time-weighted returns, gross of management or administrative expenses. Cumulative results include reinvestment of dividends. 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.

<sup>2</sup> Source for portfolio characteristics, sectors, and attribution is Standard & Poor's Capital IQ service.