BARKSDALE
INVESTMENT & RESEARCH
Valuing Growth | Growing Values

2021 First Quarter Commentary
U.S. All-Cap Value Model Portfolio
April 12, 2021

BI&R's All-Cap Value (ACV) portfolio increased 22.1% (gross of fees) last quarter versus 11.9% for the Russell 3000® Value benchmark (R3000V) and 6.2% for the S&P 500. Since the onset of COVID (12/31/2019), our ACV strategy has risen 40.8% versus 15.1% and 25.7%, respectively, for the R3000V and S&P 500. Since October 1, 2016,[1] the accounts I continued managing have risen 114.1% (gross) versus 61.3% and 100.0% for the R3000V and S&P 500 [2] indices.

As occurred during my prior 30 ¾ years managing the original Equity Investment Corporation's strategies (***1986-EIC*** [1]), we achieved these above-market returns with below-market down capture while delivering our most significant outperformance during a market crisis. Given the low volatility, the excess return (alpha) from my continuous management since 1986 has been over 3% per year.

Barksdale-Managed Portfolio Returns Since 1986 [2] (Gross of Fees)			
	Barksdale	R3000V	S&P 500
ACV at 1986-EIC (January 1, 1986 - September 30, 2016)			
Cumulative	3030.8%	2073.9%	1980.0%
Annualized	11.9%	10.5%	10.4%
Since October 1, 2016			
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	15.3%	2.9%	18.4%
2021 - YTD thru Mar. 31	22.1%	11.9%	6.2%
Cumulative	114.1%	61.3%	100.0%
Annualized	18.4%	11.2%	16.6%
Barksdale All-Cap Value Since 1986			
Cumulative	6601.7%	3407.0%	4059.5%
Annualized	12.7%	10.6%	11.2%

Repeatability of performance follows continuity of philosophy, process, and decision-making people (the 4-P's). BI&R provides continuity of Jim Barksdale's investment decision-making from January 1986 to October 1, 2016, at ***1986-EIC*** [1].

How We Navigated the 2020 COVID Crisis

Some advisors have asked how we performed so well since the onset of COVID, given the concerns we expressed about the impact of economic shutdowns in March 2020. The underlying attitude was much the same as navigating the 1987 crash, the 2001-2 tech and large-cap bubble, and the 2008-9 credit crisis; namely, rather than predict the outcome, we focused on the opportunities before us. As in these past crises, attractive values were plentiful. However, given the uncertainty, we also emphasized cash flow coverage of debt during economic downturns and the sustainability of growth given the reset caused by COVID. In the opportunity set presented in 2020, this meant:

1. Overweighting capital-market financials most exposed to the market's fears. Our weighting reached 18.5% versus 4.5% for the Russell 1000 Value index through positions in Eaton Vance, Federated Hermes, Invesco, Northern Trust, Raymond James, State Street, and T. Rowe Price.

2. Adding to our communications cable content companies (AMC Networks, Discovery, and ViacomCBS), where COVID's impact on advertising was exacerbating fears of structural change from cord-pulling and increasing advertising share by social media firms. These content companies had reasonable odds of re-packaging their content for streaming, which they did.

3. Purchasing light-industrial firms, principally distributors, where any decline in revenues due to an economic downturn would be offset by reductions in inventory, payables, and capital expenditures to maintain positive cash flow. Our investments included MSC Industrial Select, Genuine Parts, MMM, and Wesco.

4. Underweighting utilities, REIT's and energy stocks, where cash flows are less manageable in an economic downturn, and because yield is a poor barometer of long-term value.

The positive impact of the above stock selections in these sectors is detailed in the attribution table below. Since COVID, roughly 22 of our 26 percentage points of outperformance versus the Russell 1000 Value ETF (or 84% of the outperformance) has been due to stock selection. Last quarter, 100% was due to stock selection. Further attribution details are available upon request.

Attribution Summary: BI&R (Gross) vs. R1000V (Periods Ending March 31, 2021 [2])

Sector	Since December 31, 2019			First Quarter 2021		
	Sector Allocation	Stock Selection	Total	Sector Allocation	Stock Selection	Total
Communication Services	1.1%	6.5%	7.6%	(0.0%)	6.5%	6.4%
Financials	0.2%	5.5%	5.7%	0.8%	0.8%	1.6%
Energy	3.1%	0.6%	3.7%	(0.6%)	0.0%	(0.6%)
Information Technology	1.5%	1.9%	3.4%	(0.0%)	0.0%	(0.0%)
Industrials	0.3%	2.2%	2.5%	(0.1%)	(0.0%)	(0.1%)
Consumer Staples	0.3%	2.1%	2.4%	(0.2%)	1.6%	1.5%
Consumer Discretionary	0.2%	1.2%	1.5%	(0.0%)	(0.0%)	(0.1%)
Health Care	(1.0%)	1.9%	0.9%	(0.1%)	1.9%	1.8%
Real Estate	0.9%	0.0%	0.9%	0.1%	0.0%	0.1%
Utilities	0.6%	0.0%	0.6%	0.5%	0.0%	0.5%
Materials	(0.8%)	0.0%	(0.8%)	0.0%	0.0%	0.0%
Cash	(2.2%)	0.0%	(2.2%)	(0.4%)	0.0%	(0.4%)
Totals	4.2%	21.9%	26.1%	0.0%	10.8%	10.8%

Availability of BI&R Model Portfolios Via F/m Acceleration

Our results and attribution make plain the importance of continuity of investment decision-making. BI&R's portfolios are now available in SMA and model-delivery formats via F/m Acceleration. F/m's mandate is to *"enable talented managers to focus on what they do best: managing investments and delivering performance."* That is my focus at BI&R.

First Quarter Portfolio Changes

Our portfolio turnover was higher than normal last quarter because of our 22% gain. We sold our positions in American Express, Discovery, Marathon Petroleum, UPS, and ViacomCBS after significant price increases. Also, due to price rises, we trimmed our positions in Mohawk and McKesson.

We added new positions in Carter's and Cardinal Health. Carter's is the leading supplier of branded baby apparel. While the firm's long-term position, prospects, and profitability remain in place, baby apparel has experienced lower demand during the COVID environment, impacting earnings and stock price. Carter's offers high returns on capital, long-term growth, cash-on-hand almost equal to debt, and an attractive stock price due to short-term earnings uncertainties.

Despite growth in revenues and earnings, Cardinal Health's stock price had languished over the past four years. Like Carter's, it has achieved high returns on capital, long-term growth and has little debt compared to revenues and cash-on-hand.

Finally, we added to our positions in Wells Fargo, U.S. Bancorp, and Molson Coors. Banks should benefit as Federal stimulus checks reduce delinquencies, and Molson Coors should benefit as vaccines permit more regular social gatherings.

After our sale of ViacomCBS at just over $95, several banks were forced to quickly liquidate their holdings due to margin calls on Archegos Capital. The stock's price fell in half, and we re-established our position.

We ended the quarter with about 1% in cash.

A Personal Note: Outperforming Passive Indices & BI&R Personnel

According to the latest Standard & Poor's mutual fund scorecard, 94% of U.S. large-cap mutual funds underperformed the passive S&P 500 index over the past 20 years. In comparison, a dollar invested in my approach increased 713.4% gross, or 566.9% net of 1% annual fees, versus 409.2% for the S&P 500 and 353.0% for the Russell 3000 Value index for the 20-years ending March 31, 2021[2].

I avoided many of the traditional investment attitudes that lead to these high failure rates for active managers by working in a business environment before entering the investment field professionally in 1986. Thus, I viewed investing from a business and engineering perspective rather than as a research analyst. Like a business person, my Buffett-inspired valuation methodology valued long-term growth and focused on long-term structural health (what Buffett called "franchise value"). This engineered, structural, business approach to investing is fundamentally different from traditional active analysts, who typically concentrate on predicting and discounting future earnings.

On a similar track, I am pleased to announce that my son William, who has also invested as a hobby since high school and has spent the past several years inside growing businesses as a software systems engineer, will be joining BI&R as Research Systems Engineer. With this addition, I hope to develop a succession pathway that continues the structural approach to investing that I established in 1986 when I formed the original Equity Investment Corporation.

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

[1] Jim Barksdale founded the original Equity Investment Corporation in 1986 (CRD # 108510 / SEC # 801-27781, or 1986-EIC). On May 2, 2016, ***1986-EIC's*** other investment team members (Bruner, Zabor, Irrgang) obtained Georgia registration for their firm, BZI Partners. BZI Partners (BZI) received its SEC registration approval on June 15, 2016 (CRD # 283930 / SEC # 801-107945). On October 1, 2016, ***1986-EIC*** sold certain of its assets to BZI, which changed its name to Equity Investment Corporation (***2016-EIC)***.

[2] The SEC recently updated and clarified its advertising rules, broadly re-affirming prior No-Action letters regarding advertising of performance results achieved at another firm. Page 267 states, *"prior performance results of accounts managed by a predecessor entity may be used so long as: (i) the person responsible for such results is still the adviser."* The SEC previously concluded that a change in the investment team advising an individual exercising decision authority (the *Controlling Manager*) would not preclude his or her subsequent advertising of performance from another firm so long as there is continuity of the individual exercising ultimate decision authority across firms. (See Horizon Asset Management, available September 13, 1996, at https://www.sec.gov/divisions/investment/noaction/1996/horizonasset091396.pdf).

BI&R only advertises results for strategies and periods in which Jim Barksdale was primarily responsible for results as a strategy's Controlling Manager. From January 1, 1985, through September 30, 2016, Barksdale held and exercised sole veto and decision authority over investment decisions for all investment strategies at ***1986-EIC*** (CRD # 108510 / SEC # 801-27781) [3]. Barksdale was assisted by three additional investment team members who joined ***1986-EIC*** in 1999, 2003, and 2005. On October 1, 2016, ***1986-EIC*** sold certain of its assets to a firm formed by the three other investment team members (***2016-EIC)*** [1]**.**

Barksdale had no role in investment decisions for ***2016-EIC's*** [4] ACV, LCV, and MCV strategies after the sale, but he continued as an employee of 2016-EIC, where he managed 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, 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. The Protestant Value portfolio advertised by BI&R earned 17.3%.

Since January 1, 2019, 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. **BI&R's results from October 1, 2016, through December 31, 2020, have been independently certified following a review by The Spaulding Group to ensure the firm's policies, procedures, and performance results follow industry advertising guidelines and best practices. A copy of their review and certification is available upon request.**

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.

[3] See ***1986-EIC's*** Form ADV, Part 2, dated March 2, 2016 (CRD # 108510 / SEC # 801-27781). Page 18 states: "*The four members of our investment team are responsible for all investment decisions including idea generation, fundamental research, and portfolio construction….. **Jim Barksdale retains final investment authority over all investment decisions.** Andrew Bruner, Terry Irrgang, and Ian Zabor report to Jim.*"

[4] See pages 23 and 24 of BZI Partners' (subsequently Five Falls Capital and Equity Investment Corporation) ADV – EIC ADV Part 2 dated October 4, 2016, where the firm's investment members are Andrew Bruner, Terry Irrgang, and Ian Zabor.

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