



2021 Second Quarter Commentary U.S. All-Cap Value Model Portfolio July 21, 2021

"We tend to own companies that earn high returns on their shareholders' capital, reinvest earnings in their business for growth, that achieve their earnings and growth with low debt, yet sell at low P/E ratios."

[*Equity Investment Corporation Commentary - Q4, 1986*](#)

BI&R's All-Cap Value (ACV) portfolio increased 5.7% last quarter and 29.1% year-to-date (gross of fees) versus 5.2% and 17.7%, respectively, for the Russell 3000 Value (R3000V) index, and 8.5% and 15.3% for the S&P 500. Since my management of Equity Investment Corporation's ¹ portfolios ended on October 1, 2016, our ACV has risen 126.3% (gross) versus 69.6% for the R3000V and 117.1% for the S&P 500 ². This performance pattern over 35 ½ years, i.e., long-term above-passive index returns with strongest performance achieved during crisis-market navigation, is not chance and reflects a fundamentally different approach versus passive and traditional value strategies.

Barksdale Growing ACV Portfolio Returns ² October 1, 2016 - June 30, 2021				
	<u>Gross</u>	<u>Net of 1%</u>	<u>R3000V</u>	<u>S&P 500</u>
Q4 2016	8.0%	7.7%	7.2%	3.8%
2017	17.6%	16.4%	13.2%	21.8%
2018	-7.6%	-8.5%	-8.6%	-4.4%
2019	29.6%	28.3%	26.3%	31.5%
2020	15.3%	14.2%	2.9%	18.4%
2021 - Q1	22.1%	21.8%	11.9%	6.2%
Q2	<u>5.7%</u>	<u>5.5%</u>	<u>5.2%</u>	<u>8.5%</u>
YTD	29.1%	28.4%	17.7%	15.3%
Cumulative	126.3%	115.9%	69.6%	117.1%
Annualized	18.8%	17.6%	11.8%	17.7%

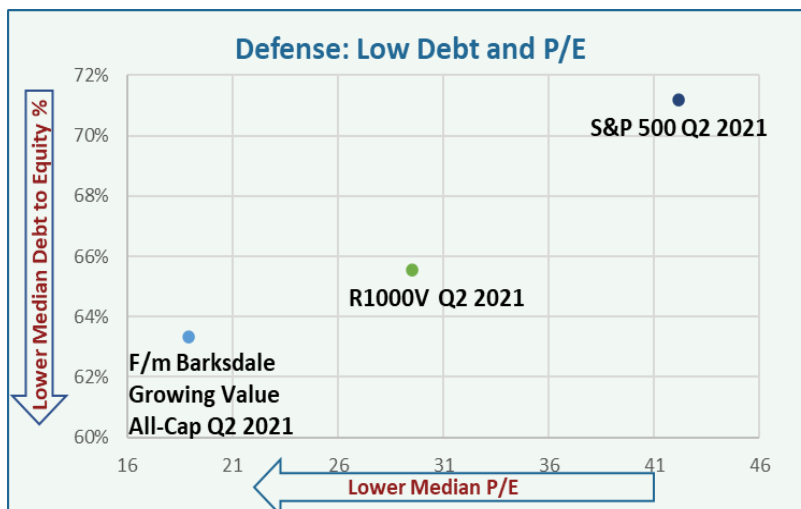
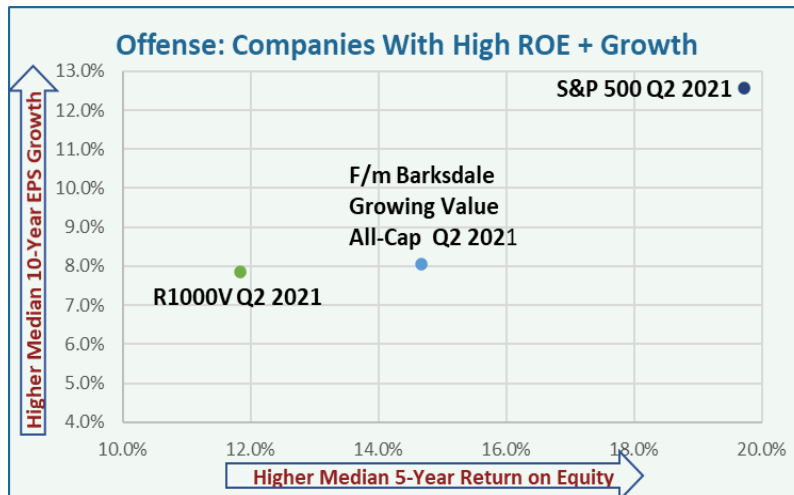
Not A Random Walk Down Wall Street

Our difference began with the 1977 Buffett article "[*How Inflation Swindles the Equity Investor*](#)" (Fortune, May 1977). After I had concluded that traditional valuation models lacked efficacy, Buffett offered a different way of thinking: for an owner, a business has a **bond value** (assuming no growth and relatively easy to value) and a **reinvestment value** that depends on the business's ability to reinvest earnings at high returns on capital for growth. This "reinvestment value" is more difficult to determine, depending on the investor's return objective, time horizon, and risk tolerance - and requires judgment.

By focusing on a business's reinvestment value, one owns companies that create cash through their high returns on the owner's capital, have less need for debt, and grow in value. By applying a strict valuation methodology to these concepts, one protects against overpaying for growth. In other words, our approach embeds strong offense + defense into a portfolio's structure. Companies with low P/E's and

low debt protect against valuation and insolvency risks, while those with high returns on shareholders' capital and growth offer the prospect of growing values that protect against business decay (value-traps) and inflation - the core point of the 1977 Buffett article.

The graphs below illustrate this High ROE + Growth offense combined with Low Debt & Low P/E defense embedded into the approach followed by Barksdale since 1986.



Source: S&P Capital IQ Portfolio Analytics

Second Quarter Portfolio Changes

We sold our position in Discovery during Q1 due to its dramatic price rise. Its stock price fell over 60% since March, and we re-established our position in Q2. We also trimmed several holdings following price increases and sold our shares in 3M. As a result, our cash position rose to 5.8%, as reflected in our [Q2 Model portfolio](#).

Jim Barksdale

Founder, President, & Chief Investment Officer

Equity Investment Corporation – Registered 1986 (12/31/85 to 9/30/16)

[Barksdale Investment & Research](#) (8/1/19 to present)

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Disclosures

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

² **BI&R only advertises results for strategies and periods in which Jim Barksdale was primarily responsible for results as a strategy's Controlling Manager**⁴. 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 **Old EIC**¹ (CRD # 108510 / SEC # 801-27781). Barksdale was assisted by three additional investment team members who joined **Old EIC**¹ in 1999, 2003, and 2005.

At **New EIC**, Barksdale managed four socially responsible restricted strategies for the new firm (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. 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. 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 Net of hypothetical 1% annual fee, billed monthly.

⁴ 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. 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>).



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