



JUNE 30, 2020

CAMPBELL NEWMAN

SMALL CAP GROWTH

2Q 2020 COMMENTARY

MARKET OVERVIEW

The Russell 2000 Growth Index recouped most of its pandemic-induced decline with a 30.58% 2Q return, bringing YTD performance to -3.06%. The quarter began with stocks in deeply oversold levels following a 38.50% decline in the Russell 2000 Growth Index over just 23 trading days from February 19 to March 23.

Concurrently, we saw multiple developments supportive of the rally. The rapid and massive fiscal and monetary policy responses in March helped dampen the impact of the steep economic contraction and helped shift the discussion toward reopening the economy. The news flow regarding COVID-19 improved, including a better understanding of the risks, more effective treatments, and progress toward a vaccine. It also became evident that worse-case predictions were unlikely. Finally, the incredibly quick and smoother-than-expected transition to work-from-home and other online commerce made possible by technology surprised many.

The broad market rallied but there was wide dispersion between returns. Among styles, Growth trounced Value

across market caps as pantry stocking came to an end. Also, the Value indices have significantly higher relative weightings to the underperforming Financial sector which hurt their returns. For example, the Russell 2000 Growth delivered a 30.58% return vs. the Russell 2000 Value's 18.91%.

All 11 of the Russell 2000 Growth Index economic sectors recorded positive returns in the quarter though only three outperformed the benchmark. Consumer Discretionary (54.28%) performed best, responding to the easing of shelter-in-home orders nationwide and the gradual resumption in commerce due to pent-up demand. Energy (48.49%) performed well as oil prices rebounded sharply from their never-before seen negative pricing levels attained early in the quarter.

The outperformance of Health Care (32.37%) was heavily influenced by company-specific new product and drug approvals. Other notable performers included: Information Technology (29.96%), Industrials (29.55%) and Materials (29.23%).



PORTFOLIO REVIEW

The Small Cap Growth portfolio's return far outpaced its Russell 2000 Growth benchmark. The strategy is designed to participate on the upside and protect on the downside, with the goal of outperforming over a market cycle by investing exclusively in small cap growth stocks with a proven record of profitability.

The portfolio's Consumer Discretionary sector contributed 272 bps to relative performance. The portfolio sector's return of 67.73% compared favorably to the benchmark return of 54.28% with 4 of 7 holdings sharply outperforming. Additionally, the portfolio was overweighted to this outperforming sector (15.93% vs. 10.91%).

The portfolio's Consumer Staples sector contributed 236 bps to relative performance. The portfolio's lone sector holding, Medifast, Inc. (MED), performance of 123.84% greatly exceeded the bogey's sector return of 21.37%.

Conversely, the Real Estate sector had the largest negative impact to relative return (52 bps). The portfolio's sector return lagged the benchmark sector (10.83% vs. 18.59%). Portfolio holding CoreSite Realty's (COR) return of 5.50% was due to short-lived operational issues. The portfolio's other sector holding, CyrusOne (CONE), performed in-line with the benchmark sector at 18.62%.

The Information Technology sector negatively impacted relative performance by 19 bps. While the portfolio's sector return was in-line with the benchmark sector (29.31% vs. 29.96%), security selection nonetheless detracted 22 bps. Notable performers in the quarter included CEVA, Inc. (CEVA), (50.10%) and Brooks Automation (BRKS), (45.39%).

Cash, a residual of the bottom-up process, detracted 177 bps from relative performance. As well, the portfolio's lack of exposure to the rebounding Energy sector (48.49%) detracted 10 bps from relative performance.

TOP CONTRIBUTORS

Shares of **Horizon Therapeutics plc (HZNP)**, a pharmaceutical company focused on rare and rheumatic diseases, reacted positively to strong first quarter results, highlighted by the rapid uptake of TEPEZZA, the first and only FDA-approved medicine for treatment of Thyroid

Eye Disease (TED). The first-quarter results for TEPEZZA greatly exceeded the company's expectations, generating sales of \$23.5 million.

Medifast, Inc., a leading manufacturer and distributor of clinically proven, healthy living/weight loss products and programs, outperformed in the quarter as the company reported revenue and EPS exceeding guidance driven by a record number of active OPTAVIA coaches. The total number of active earning OPTAVIA coaches increased 19.9% to 32,600, compared to 27,200 for the first quarter of 2019. The company maintains a strong financial position with \$105.3 million of cash, with no debt.

Highly differentiated and fast growing, extreme value retailer of brand name merchandise, **Ollie's Bargain Outlet Holdings, Inc. (OLLI)**, reported 1Q20 results significantly above expectations. Management stated 2Q was off to a strong start with same-store sales up 20%. Based on its proven business model, strong track record of success in both good and bad economic times, and with growth opportunities ahead, we find the stock attractive.

BOTTOM CONTRIBUTORS

United Bankshares, Inc. (UBSI), a \$20.4 billion regional bank holding company with locations in Washington, D.C., Virginia, Maryland, West Virginia, Pennsylvania, Ohio, North Carolina and South Carolina, reported disappointing results due to higher provisions for loan losses resulting from an adverse future macroeconomic forecast due to COVID-19 pandemic. Near term results are likely to be weak until the economy improves. UBSI remains attractive long-term given its position in growth markets and its strong balance sheet.

Curtiss-Wright Corp. (CW), a diversified industrial company, 1Q20 results were not impacted by the coronavirus. Though, the company stated it expects its 2Q results to be impacted and possibly beyond, particularly in its commercial aerospace and general industrial end markets. We expect CW to fully recover to its pre-virus standing as the coronavirus impact fades and economic expansion resumes.

Charleston, S.C.-based **Blackbaud, Inc. (BLKB)** engages in the provision of cloud-based and on-premises software solutions and related services for the global philanthropic community. The company has seen demand for its software products decline alongside the economy. We believe the company will eventually return to growth as the enacted fiscal and monetary stimulus revives the economy.



PORTFOLIO POSITIONING

The portfolio's positioning changed little during the quarter with turnover of 1.07%. The Pool Corp. (POOL) holding was reduced due to strong near-term performance and large position size with the proceeds reinvested in existing position Ollie's Bargain Outlet. The positions in RH (RH) and Cantel Medical Devices (CMD) were increased.

The portfolio's emphasis remains in Information Technology

with a 28.21% weighting (but among a diverse set of 11 holdings), Health Care at 25.17%, Consumer Discretionary at 15.93%, Industrials at 9.79% and Financials at 9.24%. The portfolio has no exposure to Communication Services, Energy, Materials and Utilities sectors. The team believes the unprecedented monetary and fiscal support will aid in the resumption of economic growth and recovery in stock prices.

TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

2Q 2020 TOP CONTRIBUTORS	WEIGHT	RETURN	IMPACT
Horizon Therapeutics plc	4.67%	87.64%	343 bps
Medifast, Inc.	2.67	123.84	274
Ollie's Bargain Outlet Holdings, Inc.	3.10	111.40	233
EPAM Systems, Inc.	5.07	35.74	183
MarketAxess Holdings, Inc.	3.56	50.81	155

2Q 2020 BOTTOM CONTRIBUTORS	WEIGHT	RETURN	IMPACT
United Bancshares, Inc.	0.94%	-3.74	-7 bps
Curtiss-Wright Corp.	1.81	-3.20	-7
Blackbaud, Inc.	1.67	2.75	5
Cantel Medical Corp.	1.24	20.85	7
Verint Systems, Inc.	1.25	5.07	7

SMALL CAP GROWTH COMPOSITE PERFORMANCE NOTES:

Campbell Newman Asset Management, Inc., formerly Campbell, Newman, Pottinger and Associates, Inc., is a privately held, independent investment adviser registered with the Securities and Exchange Commission. Registration does not imply a certain level of skill or training. The firm provides advisory services under equity strategies to taxable and tax-exempt clients. The small cap composite is comprised of a tax-exempt portfolio that has a market value greater than or equal to \$50,000 and holdings that are primarily small cap growth stocks and cash. For comparison purposes, the small cap composite performance is shown against the Russell 2000 Growth® benchmark. The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 Index companies with higher price-to-value ratios and higher forecasted growth values. Performance of the Russell 2000 Growth Index includes reinvestment of all dividends. (Source: <http://www.russell.com>). Small cap composite performance results include the reinvestment of all income. All returns presented are calculated using U.S. dollars. Returns are presented gross and net of management fees. Returns reflect the deduction of advisory fees, brokerage or other commissions, and any other expenses that a client would have paid or actually paid, other than custodial fees. In most instances, returns must be shown net of fees. Net of fees performance is calculated using actual management fees. The Small Cap Tax-Exempt composite includes proprietary account(s) that is(are) non-fee-paying. Past performance is not indicative of future results. To receive a complete list of Campbell Newman Asset Management Inc.'s composite descriptions and/or a presentation that adheres to the Global Investment Performance Standards (GIPS®), contact: CN Marketing, 330 East Kilbourn Avenue, Suite 1125 Milwaukee, WI 53202, Telephone: 414-908-6670. Campbell Newman Asset Management, Inc. claims compliance with the Global Investment Performance Standards (GIPS®).