



MARCH 31, 2021

CAMPBELL NEWMAN

SMALL CAP GROWTH

1Q 2021 COMMENTARY

MARKET OVERVIEW

The U.S. stock market continued to rally during 1Q while its leadership rotated from Large Cap Growth to Value and smaller capitalizations. Plentiful liquidity, courtesy of another \$1.9 trillion Federal stimulus package passed earlier in March and a super-generous Fed, mixed with increased vaccination rates to promote confidence in strong economic and profit growth for this year and next. The market balked momentarily at rising rates in late-February/early-March when the 10-year Treasury hit 1.5% (after starting the year at 0.93%) before resuming its upward trend, likely influenced by the implications of the steepening yield curve and news regarding the size of an Infrastructure Bill.

The Russell 2000 Growth Index recorded a 4.88% return, with profit leverage to the reopening theme as an important overall driver of performance. The Index's tiniest sector, Energy at <0.20% weight, recorded the outsized return of 41.56% as oil rose ~20% to over \$60/bbl. Consumer Discretionary and Materials recorded the next best

performance at 18.26% and 15.31%, respectively, while Consumer Staples (11.91% return), Industrials (11.41%) and Communication Services (9.21%) also outperformed the benchmark. Lagging sectors included Information Technology (2.83% return), following its 42.57% return in 2020. Profit-taking and market rotation likely contributed to Technology's lag. However, it is also noteworthy that supply shortages began to emerge during the quarter, in areas such as semiconductors and building products. This may have also had an effect. Finally, two Index sectors recorded negative returns, Health Care (-2.74%) and Utilities (-0.47%).

PORTFOLIO REVIEW

The Small Cap Growth portfolio's 13.33% net of fees return outperformed its Russell 2000 Growth benchmark by over 8 percentage points. Stock selection accounted for almost all of the relative outperformance, although sector allocation



was also a net benefit.

While the benchmark's Information Technology sector lagged with a 2.83% return, the portfolio recorded a 18.26% return through superior stock picking, adding 475 bps to relative performance. Twelve of the portfolio's 13 sector holdings outperformed, led by wireless broadband networking infrastructure solutions provider Cambium Networks' (CMBM) 86.28% return and telecommunications analytic systems provider Verint Systems' (VRNT) 31.33% performance.

Stock selection in the Health Care sector contributed 254 bps to performance, with an 8.43% return vs. the benchmark's -2.74%. Notable performers included Horizon Therapeutics PLC (HZNP, 25.82%), Medpace Holdings (MEDP, 17.85%) and NuVasive (NUVA, 16.39%). Allocation effect contributed 86 bps to performance as the portfolio was underweighted an underperforming sector, 22.17% vs 32.79%, respectively.

Stock selection in the portfolio's best performing sector, Industrials (21.49%), contributed 98 bps to relative performance, led by engineering and construction services companies MasTec (MTZ, 37.4% return), Dycom (DY, 22.95%) and NV5 Global (NVEE, 22.58%). Better stock picking in the Financials sector (8.45% return vs. 1.28% for the benchmark sector) contributed 60 bps relative with four of five holdings outperforming.

TOP CONTRIBUTORS

Cambium Networks Corp. (CMBM), a leading supplier of wireless broadband, Wi-Fi and Internet of Things solutions reported strong 4Q 2020 results ahead of consensus estimates with overall sales growth of 29%. Guidance for 2021 exceeded expectations with management noting solid visibility.

MasTec, Inc. (MTZ), a diversified infrastructure specialty contractor, continued to trend higher following a 4Q earnings result that beat consensus expectations. Additionally, management provided 2021 guidance ahead of consensus, with expectations for strong growth from all business units driven by an improving economy.

RH (RH), a leading luxury retailer in the home furnishings marketplace, outperformed as the company reported revenue and EPS above street estimates driven by a record operating margin of 23.7% vs. consensus at 22.5%. Total demand strengthened through the quarter and the company now expects 2021 operating margin to improve by another 100-200 bps, causing management to raise its long-term operating margin to approximately 25%.

BOTTOM CONTRIBUTORS

MarketAxess Holdings, Inc. (MKTX), an operator of electronic platforms for fixed-income trading, reported 4Q revenues up 32% over last year. Despite the strong showing, the stock underperformed as increased investment pressured margins. We believe this should ultimately contribute to higher growth in 2021 and beyond. Electronic trading is in its early stages of market penetration putting MKTX in a strong position to capitalize on this market opportunity.

LHC Group, Inc. (LHCG), a national provider of in-home healthcare services to patients, reported strong results for 4Q, but gave below consensus guidance for 2021 due to continued COVID-19 related costs and expenses. We expect this headwind to dissipate by the second half of the year through vaccination. The company continues to benefit as patient care shifts from the institutional setting into the home.

Pool Corp. (POOL), a wholesale distributor of swimming pool and related backyard products, reported 4Q results of \$1.44 per share that were \$0.70 per share above expectations. The stock underperformed in the quarter as the market anticipates tough comparisons in the second half of 2021. We believe this is shortsighted as builders are reporting large backlogs. In addition, its recent acquisitions, along with new sales center openings, will contribute to solid growth in 2021.

PORTFOLIO POSITIONING

After no changes in 4Q 2020, turnover moved up a bit in the quarter to just under 7%. The greatest positioning changes were a 4.80 percentage point reduction in Health Care and increases of 3.30 and 2.70 percentage points in Information Technology and Industrials, respectively.



The portfolio's emphasis remains in the Information Technology, Health Care and Consumer Discretionary sectors with weights of 31.10%, 21.00% and 18.98%, respectively.

The Industrials sector accounts for 12.87% of the portfolio, followed by the Financials sector at 9.01%.

TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

| 1Q 2021 TOP CONTRIBUTORS | WEIGHT | RETURN | IMPACT |
|--------------------------|--------|--------|---------|
| Cambium Networks Corp. | 2.99% | 86.28% | 182 bps |
| RH | 3.57 | 33.31 | 119 |
| MasTec, Inc. | 3.35 | 37.43 | 111 |
| Verint Systems, Inc. | 2.11 | 31.33 | 107 |
| Horizon Therapeutics plc | 3.97 | 25.82 | 98 |

| 1Q 2021 BOTTOM CONTRIBUTORS | WEIGHT | RETURN | IMPACT |
|-----------------------------|--------|--------|---------|
| MarketAxess Holdings, Inc. | 2.50% | -12.63 | -37 bps |
| LHC Group, Inc. | 2.78 | -10.36 | -34 |
| Pool Corp. | 3.05 | -6.92 | -29 |
| Corcept Therapeutics, Inc. | 1.85 | -9.06 | -18 |
| CyrusOne, Inc. | 1.03 | -10.32 | -15 |

SMALL CAP GROWTH COMPOSITE PERFORMANCE NOTES:

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