



JUNE 30, 2022

CAMPBELL NEWMAN

SMALL CAP GROWTH 2Q 2022 COMMENTARY

MARKET OVERVIEW

The last three months were nothing if not eventful. The shifting sands of rapid inflation, tightening monetary policy, valuation adjustments, geopolitical problems including the Ukraine/Russia war, another China COVID lockdown and supply chain issues (ongoing and new) and, finally, the growing belief a recession is either here or imminent, made it impossible for U.S. equities to gain traction.

The Fed's aggressive, "behind the 8-ball" ratcheting up of rates--and its promise to go further--is worth special note. The Fed Funds rate target was increased to 1.50%-1.75% in the quarter from just 0.25%-0.50% on March 31. The FOMC has telegraphed more increases in 2022 with the expectation the Fed Funds rate will be between 3% and 4% by year end. These actions started to make valuations and fundamentals important again, as evidenced by the severe declines in cryptocurrencies and high P/E, low profitability stocks and the widening of credit spreads.

Trying periods like these cause a flight to "safety" so that Value outperformed Growth and Large caps outperformed Small, although everything was down. Even bond returns were broadly negative. In this environment, the Small Cap Growth portfolio's benchmark, the Russell 2000 Growth Index, had a -19.25% return.

Six of eleven benchmark sectors outperformed, led by Consumer Staples (-1.64% return), Utilities (-9.65%), Industrials (-15.57%) and Energy (-15.87%). Conversely, Information Technology (-23.52%), Real Estate (-23.03%) and Consumer Discretionary (-21.76%) were the worst laggards, down >20%.

PORTFOLIO REVIEW

The Small Cap Growth portfolio's -13.81% return (-13.92% net of fees) outperformed its Russell 2000 Growth benchmark



by 5.44 percentage points due to strong stock selection. The strategy's requirement that all holdings (and stocks under consideration for purchase) have profitable operations, coupled with the team's independent analysis and stock selection, were purposely designed to dampen the portfolio's downside participation during volatile periods.

The portfolio had exposure to eight of the benchmark's eleven economic sectors and outperformed in seven of them. (There was <5 bps positive impact from the excluded sectors.) The greatest contributors by sector were: Information Technology at 185 bps (-17.52% return vs. -23.52% for the Index sector), Health Care at 154 bps (-13.14% vs. -19.71%) and Consumer Discretionary at 90 bps (-15.89% vs. -21.76%).

The greatest detractors to relative performance were an underweight to the outperforming Energy sector (-48 bps) and an overweight to the underperforming Information Technology sector (-32 bps).

TOP CONTRIBUTORS

Value retailer, **Ollie's Bargain Outlet Holdings, Inc. (OLLI)**, reported 1Q 2022 results that were below expectations with comparable store sales down 17.3%. Despite the weak showing, the stock outperformed as the company is seeing an improvement in its second quarter results with increased demand for seasonal products combined with a strong inventory position. We remain confident in Ollie's long-term growth strategy, fueled primarily by new store openings.

Medifast, Inc. (MED), a direct seller of health and wellness products, delivered strong 1Q 2022 results with revenues increasing 23% to \$418 million fueled by a 22% increase in the number of active OPTAVIA Coaches. This growth is supported by the strength of its OPTAVIA lifestyle solution, as well as elevated consumer interest in health and wellness products.

Corcept Therapeutics, Inc. (CORT), a pharmaceutical company engaged in the discovery and commercialization of drugs that treat severe metabolic and oncologic disorders by modulating the effects of the stress hormone cortisol, reported a strong quarter with revenues up 18% over last year. The company also gave a favorable update on its drug pipeline with its next New Drug Application submission in Cushing's syndrome to be filed in the second half of 2023.

BOTTOM CONTRIBUTORS

Cambium Networks Corp. (CMBM), a provider of wireless broadband networking infrastructure solutions, reported 1Q 2022 results that fell short of original guidance. The variance in results was driven by two unexpected events: a lockdown of Shenzhen, China due to rising COVID cases impacted manufacturing operations and a lockdown in Shanghai, China forced the closure of its distribution and warehousing facility late in the quarter. Excluding these two disruptions, CMBM would have been within or above the high-end of its original guidance. We anticipate sequential improvement throughout the remainder of the year with markets eventually normalizing in 2023.

Pacira BioSciences, Inc. (PCRX), a pharmaceutical company focused on non-opioid pain management, reported 1Q 2022 top-line growth of 32% year-over-year, driven by growth in EXPAREL and the acquisition of Flexion Therapeutics. Earnings though missed due to one-time SG&A expenses from the acquisition. The company remains bullish in the long-term outlook but remains cautious near-term due to disruption from Covid and nursing labor shortages which are negatively impacting elective surgeries.

Monolithic Power Systems, Inc. (MPWR), a high-performance analog and mixed-signal semiconductor manufacturer, stock was buffeted by fears of an inevitable contraction in order rates as recession fears loomed large in the shadow of the Fed's aggressive ratcheting up of rates. Regardless, MPWR reported 1Q results ahead of expectations and guided the remainder of the year up. Its diverse portfolio is gaining share/content in markets such as auto, cloud and 5G. Revenues are tracking to 40% growth again this year and the company is on pace to exceed \$2 billion in 2023.

PORTFOLIO POSITIONING

The portfolio's positioning changed modestly with total turnover of 2.05%. Two stocks were added, Magnolia Oil & Gas (MGY) in Energy and MP Materials (MP) in Materials, giving the portfolio exposure to sectors that had previously had none. Knight Swift Transportation (KNX), in Industrials, was sold.

In this difficult environment, the Small Cap Growth



portfolio has held up relative, as designed. It's helpful to remember that bottoming is a process, not an event. A great deal of damage has already been done in the market, and it is working through the process following a period of enormous monetary/fiscal excess. Built through bottom-up

stock selection, the emphasis continues to be in Information Technology (29.22% weighting), Health Care (24.01%), Consumer Discretionary (14.02%), Industrials (12.52%) and Financials (8.28%).

TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

| 2Q 2022 TOP CONTRIBUTORS | WEIGHT | RETURN | IMPACT |
|---------------------------------------|--------|--------|--------|
| Ollie's Bargain Outlet Holdings, Inc. | 1.54% | 36.76% | 44 bps |
| Medifast, Inc. | 3.58 | 6.66 | 21 |
| Corcept Therapeutics, Inc. | 1.67 | 5.60 | 9 |
| ExlService Holdings, Inc. | 3.11 | 2.83 | 8 |
| United Bankshares, Inc. | 2.19 | 1.58 | 3 |

| 2Q 2022 BOTTOM CONTRIBUTORS | WEIGHT | RETURN | IMPACT |
|--------------------------------|--------|--------|---------|
| Cambium Networks Corp. | 1.89% | -38.03 | -99 bps |
| Pacira BioSciences, Inc. | 3.56 | -23.61 | -90 |
| Monolithic Power Systems, Inc. | 3.96 | -20.77 | -87 |
| RH | 2.38 | -34.91 | -84 |
| Horizon Therapeutics plc | 3.26 | -24.19 | -81 |

SMALL CAP GROWTH COMPOSITE PERFORMANCE NOTES:

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