



MARCH 31, 2023

CAMPBELL NEWMAN

SMALL CAP GROWTH 1Q 2023 COMMENTARY

MARKET OVERVIEW

Despite bouts of volatility during the quarter, the Russell 2000 Growth Index managed to produce a return of 6.07%. January brought a return of the “risk on” mentality. The promise of the mass application of artificial intelligence through ChatGPT ignited the market’s imagination, fueling the Russell 2000 Growth’s 9.95% monthly performance. Then, February’s mood turned somber, with the Russell 2000 Growth recording a -1.08% return. This was as the Fed continued ratcheting up interest rates at a pace and magnitude not seen in 40 years (+450 bps in less than one year!), causing greater movement of bank deposits into higher yield-bearing instruments. Concurrently, ongoing cost pressures brought fewer positive surprises during earnings season, thus casting doubts on the vitality of earnings growth and valuations, while the yield curve’s steepening inversion also pointed to trouble ahead. Finally, the second and third largest bank collapses in U.S. history during March caused increased

volatility among smaller banks, thus driving the Russell 2000 Growth to a -2.47% return. During the month, small-cap stocks significantly underperformed large-caps as the bank-induced panic led to a “flight to quality” into mostly mega-cap tech stocks.

The upheaval caused varied quarterly returns among market segments. Large Caps generally outperformed Small Caps by style and Growth outperformed Value across market capitalizations by wide margins. For example, the Russell 2000 Growth’s 6.07% return bested its Value counterpart by nearly 700 bps. It follows that among Russell 2000 Growth sector returns, the top performers were Information Technology (13.94% return), Consumer Discretionary (13.18%) and Communication Services (13.14%). Conversely, two sectors reported negative performance, Energy (-7.31%) and Health Care (-0.06%).



PORTFOLIO REVIEW

The Campbell Newman Small Cap Growth portfolio underperformed its Russell 2000 Growth benchmark with a gross of fees return of 5.23% (5.06% net of fees) compared to 6.07%.

The greatest positive contributor (96 bps) to relative performance was stock selection within the Health Care sector, with a portfolio return of 4.64% vs. the benchmark's return of -0.06%. An overweight allocation to the best performing sector, Information Technology, added 58 bps. Finally, an underweight to the Energy sector contributed 53 bps to relative return with Energy being the worst performing sector in the benchmark.

The greatest detractor (-142 bps) from relative performance was from stock selection within the Industrials* sector, with a portfolio return of -0.37% vs. 7.68% for the benchmark. Stock selection within Information Technology detracted 131 bps from relative performance (8.79% vs. 13.94%). Finally, Consumer Staples cost another 57 bps from a combination of stock selection and an underweight exposure to an outperforming sector. During the quarter, the sole Consumer Staples holding, Medifast (MED), was sold.

TOP CONTRIBUTORS

Lantheus Holdings, Inc. (LNTH), a leading provider of imaging diagnostics and targeted therapeutics, posted 4Q 2022 results above expectations and provided 2023 guidance calling for continued strong growth supported by the rapid uptake of PYLARIFY, for use in prostate cancer imaging. The rapid uptake has led management to recently expand the total addressable market opportunity, with low overall current penetration resulting in an expectation for multiple years of solid growth ahead.

Monolithic Power Systems, Inc. (MPWR), a high-performance analog and mixed signal semiconductor manufacturer, delivered impressive 4Q 2022 financial results and guidance, bucking the trend toward weaker results that was pervasive across the semiconductor sector. Management remains confident in its ability to deliver continued outsized growth due to a wide array of growth drivers in Automotive, Enterprise Data, Communications and Consumer end-markets.

MarketAxess Holdings, Inc. (MKTX), the operator of a leading electronic fixed-income trading platform, reported a strong fourth quarter after reporting an inline quarter in September. The company beat consensus estimates in the quarter due to strong market share gains across its core products and record credit trading volume. We continue to believe MKTX has a long runway for future growth as it gains market share in the high-yield and European markets.

BOTTOM CONTRIBUTORS

NV5 Global, Inc. (NVEE), a provider of professional and technical engineering and consulting services, reported 4Q 2022 revenue and earnings below expectations as interest rate sensitive businesses and contract delays pressured results. However, backlog grew as the company continued to win new business. Also, the company's strong balance sheet allowed for multiple acquisitions that should drive growth and provide scale in key business units. Management remains optimistic on the growth outlook over the coming years supported by secular tailwinds (environmental spending) and government stimulus.

Halozyne Therapeutics, Inc. (HALO), a biopharma drug delivery company, reported a solid 4Q 2022 with revenue of up 78% over last year. Management reaffirmed the 2023 guidance of total revenue of \$830 million and EPS of \$2.50-\$2.65. The stock has underperformed this quarter due to a revocation of a co-formulation patent on JNJ's Darzalex, one of HALO's partners. The company does not expect any biosimilar drug on the market and expects to generate royalties from Darzalex through 2030. We continue to see HALO as an attractive investment.

Cambium Networks Corp. (CMBM), a provider of wireless broadband networking infrastructure solutions, 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, CMBM reported 4Q 2022 results ahead of expectations. This marked the fourth consecutive quarter of improved results benefiting from supply chain normalization, new product introductions and strong demand.



PORTFOLIO POSITIONING

The portfolio's positioning changed modestly during the quarter with turnover of 5.06%. The portfolio's Health Care exposure saw the most changes. LHC Group (LHCG) was sold because it was being acquired, and the proceeds were reinvested in a new stock, Halozyme Therapeutics, along with additional shares of Ensign Group (ENSG) and Lantheus Holdings. Overall, the weight of the Health Care sector increased during the quarter to 20.35% from 19.35%. Separately, two additional holdings were sold during the quarter, Medfast (MED) in Consumer Staples and Stellar Bancorp (STEL) in Financials.

Portfolio sector weights indicate where the team has identified the individual securities with the best risk/return through bottom-up analysis, in what it expects to be a volatile, back and forth environment. The portfolio continues to emphasize Information Technology (26.03% weight), Health Care (20.35%), Industrials* (16.37%) and Consumer Discretionary (13.90%) in absolute terms.

*During the quarter, GICS moved ExlService Holdings (3.52%) from the Information Technology to the Industrials sector. The attribution analysis and portfolio sector weights presented in this report are as if this stock was in the Industrials sector since 12/31/22.

TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

1Q 2023 TOP CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
Lantheus Holdings, Inc.	2.78%	62.01%	147 bps
Monolithic Power Systems, Inc.	4.19	41.83	132
MarketAxess Holdings, Inc.	1.79	40.59	61
Century Communities, Inc.	2.27	28.31	58
Onto Innovation, Inc.	2.26	29.06	57

1Q 2023 BOTTOM CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
NV5 Global, Inc.	3.29%	-21.44	-76 bps
Halozyme Therapeutics, Inc.	1.31	-27.77	-70
Cambium Networks Corp.	2.42	-18.23	-48
Medpace Holdings, Inc.	3.58	-11.48	-41
United Bankshares, Inc.	2.42	-12.21	-31

PERFORMANCE

	1Q 2023	1 YEAR	5 YEARS	ITD
Representative Account (Gross)	5.23%	-6.27%	9.50%	10.00%
Representative Account (Net)	5.06	-6.87	8.90	9.44
Russell 2000 Growth Index	6.07	-10.60	4.26	6.46

IMPORTANT DISCLOSURES:

Returns greater than 1 year are annualized.

Past performance is not indicative of future results. All investments involve risk, including possible loss of principal. There is no guarantee investment objectives will be met. Gross returns are presented before deducting management fees (and custodian fees) and include the reinvestment of all income. Net returns are presented after the deduction of a model fee based on the highest fee paid then in effect for the period shown and include the reinvestment of all income. Performance returns are calculated using a time-weighted formula with appropriate adjustments for cash flows, and include all dividends and interest, accrued income, and realized and unrealized gains or losses. Indexes are unmanaged and do not incur fees or expenses. It is not possible to invest directly in an index. Portfolio sector weights reflect a representative account and are subject to change without notice. Sector returns are presented net of management fees. It should not be assumed that an investment in the sectors listed were, or will be, profitable. Portfolio holdings reflect a representative account and are subject to change. Other accounts within the strategy may have different holdings. Portfolio holdings should not be considered a recommendation to buy, hold or sell securities. Current and future portfolio holdings are subject to risk. Past performance does not guarantee future results. The future performance of any specific investment should not be assumed to be profitable or equal to past results. The performance of the holdings discussed above may have been the result of unique market circumstances that are no longer relevant. The holdings identified above do not represent all of the securities purchased, sold or recommended. Securities mentioned should not be construed as recommendation for purchase.

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