



SEPTEMBER 30, 2023

CAMPBELL NEWMAN

SMALL CAP GROWTH

3Q 2023 COMMENTARY

MARKET OVERVIEW

The Russell 2000 Growth Index (R2G) gave back some of its robust 13.55% first half return in 3Q, with performance of -7.32%. Stocks remained bifurcated by market capitalization, with large caps outperforming small caps. Within the R2G, sector leadership rotated to Energy (18.96% return) and Financials (2.04%) in the face of higher interest rates and rising oil prices. These were the only positive returns among the 11 sectors during the quarter, while the worst performers were Health Care (-14.76%) and Utilities (-11.96%).

As noted, interest rates were up in the quarter with the July Fed Funds rate increasing to 5.25%-5.50%. Longer-term rates also rose, with the 10-Year U.S. Treasury starting the quarter at 3.81% and hitting 4.61% on 9/27 before closing the quarter at 4.59%. In total, the Fed Funds rate has increased by 5.25 percentage points in just over 16 months, the fastest pace of central bank increases in 40 years. The yield on the 10-Year U.S. Treasury has more than doubled from 2.20% over that same period. These increases have helped drive inflation

down from 9.1% in June 2022 to a June 2023 low of 3.0% before it popped back up in July to 3.2% and again in August to 3.7%.

While inflation has come down, prices have remained elevated. Even though the unemployment rate is near its lows for this cycle (3.8% in August vs. 3.4% in April), higher price levels along with higher interest rates have started to affect the economy, with the lower-end consumer hit hardest so far. This, combined with the expectation that consumer spending power would be pressured by the resumption of student debt repayments, explains much of the negative performance of consumer stocks in the quarter.

PORTFOLIO REVIEW

The Campbell Newman Small Cap Growth portfolio's -6.33% gross of fees return (-6.49% net of fees) outperformed



the Russell 2000 Growth's -7.32% return.

Stock selection in the Health Care sector was the greatest positive contributor to relative performance, adding 215 bps due to the portfolio's sector return of -4.58% vs. the benchmark's -14.76%. Seven of nine holdings outperformed during the period. Stock selection in Information Technology added 95 bps to relative performance with a sector return of -4.47% vs. -8.37%. Three holdings delivered double-digit positive returns, led by Fabrinet (FN) with a 28.28% return.

Stock selection in the Industrials and Consumer Discretionary sector detracted 172 bps and 63 bps, respectively. The portfolio's Industrials return was -15.87% vs. -6.10%, with underperformance driven by the three Engineering & Construction holdings as each were down more than 13%. The increase in interest rates has led to delays in contracts, but the team remains confident in long-term demand, supported by significant government stimulus. The portfolio's Consumer Discretionary return was -10.87% vs. -6.64%, with homebuilding holdings negatively impacted by higher interest rates.

Energy also detracted 70 bps from relative performance largely due to allocation as the portfolio had an underweight exposure (3.13% vs. 5.23%) to the quarter's best performing sector (18.96% return).

TOP CONTRIBUTORS

Fabrinet (FN), an optical packaging and electronic manufacturing services company, posted strong fiscal 4Q 2023 results. FN is poised to become an early beneficiary of the artificial intelligence boom led by optical component demand given its positioning with industry leader, Nvidia, which accounted for 13% of total revenue in fiscal 2023.

Ollie's Bargain Outlet Holdings, Inc. (OLLI), a value retailer, reported 2Q 2023 results that were above expectations. Management raised 2023 same-store sales guidance due to strong deal flow and investments in marketing and supply chain that are beginning to pay off. We remain confident in Ollie's long-term growth strategy, fueled primarily through new store openings. The company currently operates 500 stores and has targeted a total of over 1,200 stores nationwide by increasing the store count by approximately 15% per year.

Corcept Therapeutics, Inc. (CORT), a company engaged in the discovery of drugs that treat severe metabolic and oncologic disorders by modulating the effects of cortisol, reported a strong quarter with revenues up 14% driven by an increase in the number of patients receiving Korlym for Cushing's syndrome, showing the benefit of its recently expanded sales force. Additionally, management announced further progress on the company's pipeline, with data readouts from three important clinical trials and a submission to the FDA for approval of lead candidate, relacorilant, all expected within the next year.

BOTTOM CONTRIBUTORS

MasTec, Inc. (MAS), a diversified infrastructure specialty contractor, reported a disappointing earnings result, including a reduction in annual guidance. Weakness was evident in its Clean Energy segment due to project delays. However, management remains steadfast in its belief that demand remains strong, though in the near term the delayed projects lead to an underutilized workforce and thus pressured margins. With demand supported by strong government spending and valuation attractive at less than 12x 2024 projected earnings, we remain positive on the investment story.

Cambium Networks Corp. (CMBM), a provider of wireless broadband networking infrastructure solutions, executed well in relation to its near-term targets despite increasing macro-economic pressures, though concerns around slowing demand led management to take a more cautious approach on revenue growth guidance through the balance of 2023.

LGI Homes, Inc. (LGIH), a top ten U.S. homebuilder, reported a solid 4Q with EPS well above consensus expectations. Additionally, the company guided for an expansion in margins and 2023 home closings up 5% year-over-year, both solid relative to expectations. However, as the quarter progressed, interest rates increased leading to a rise in mortgage rates, impacting housing affordability in the near term. We continue to believe LGIH is well positioned to benefit from the country's undersupply of homes and continued strong demand as the Millennial generation enters their peak home buying years.



PORTFOLIO POSITIONING

The portfolio's positioning changed modestly during the quarter with turnover of 3.6%. Planet Fitness (PLNT) was sold as the team believes the company will have a difficult time achieving its growth projections, partly due to an unexpected management shakeup during the quarter. The proceeds were reinvested in Lithia Motors (LAD) as the stock trades at a compelling value given the significant opportunity we believe is in front of it. Separately, Fabrinet was trimmed due to strong performance triggering one of our hard-wired risk control disciplines, while Syneos Health (SYNH) was

acquired during the quarter in an all-cash deal. Additionally, a new position in APi Group (APG) was purchased.

The team expects to see additional fallout over time from tightening monetary conditions, making stock selection with a focus on profitability and earnings predictability all the more critical. The portfolio's positioning reflects where the team has identified the best risk/return opportunities within its disciplined stock selection process. At the end of the quarter, Information Technology had the highest exposure at 26.8%, followed by Health Care (19.7%), Industrials (17.9%) and Consumer Discretionary (14.0%). There remain no holdings in Communication Services, Consumer Staples, Real Estate or Utilities.

TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

3Q 2023 TOP CONTRIBUTORS

	WEIGHT	RETURN (NET)	IMPACT (NET)
Fabrinet	4.30%	28.28%	113 bps
Ollie's Bargain Outlet Holdings, Inc.	2.13	33.23	53
Corcept Therapeutics, Inc.	2.14	22.45	29
Onto Innovation, Inc.	3.29	9.48	28
Magnolia Oil & Gas Corp.	3.13	10.15	27

3Q 2023 BOTTOM CONTRIBUTORS

	WEIGHT	RETURN (NET)	IMPACT (NET)
MasTec, Inc.	4.24%	-40.00%	-189 bps
Cambium Networks Corp.	1.27	-51.84	-85
LGI Homes, Inc.	2.32	-26.24	-67
Monolithic Power Systems, Inc.	4.64	-14.30	-68
Lantheus Holdings, Inc.	3.74	-17.22	-65

PERFORMANCE

	3Q 2023	YTD 2023	1 YEAR	5 YEARS	ITD
Representative Account (Gross)	-6.33%	1.77%	13.21%	5.85%	9.09%
Representative Account (Net)	-6.49	1.26	12.47	5.24	8.78
Russell 2000 Growth Index	-7.32	5.24	9.59	1.55	6.04

Returns greater than 1 year are annualized.

**IMPORTANT DISCLOSURES:**

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. Portfolio holdings returns are presented net of management fees. 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 or sale. Portfolio transactions should not be considered a recommendation to buy, hold or sell securities.

SCGC0930-01