SMALL CAP GROWTH

4Q 2023 COMMENTARY

MARKET OVERVIEW

The Russell 2000 Growth Index (R2G) recorded a 12.75% return in 4Q to produce an 18.66% return for the full year -- an almost unimaginable outcome at the beginning of 2023 when the consensus called for an imminent recession. The quarter began much like the challenging third quarter with the month of October delivering a -7.71% return for the Index; however, a resurgence of the risk-on mentality in November produced return of greater than 22% for the last two months of the quarter.

Most notable in 4Q was the broadening of market participation, which had been very narrow since March when the AI-centric mega-cap “Magnificent Seven” began driving performance. As interest rates began to decline from their October 19 peak (10-year Treasury at 4.99%, closing the year at 3.88%) due to inflation numbers consistently in the mid-to-low 3s, a more dovish-sounding Fed and talk of a soft landing, the laggards came to life and participation broadened meaningfully.

Examining the R2G’s sector performance, Real Estate had the highest return of 21.08%, undoubtedly helped by the decline in interest rates. Healthcare (15.52%) was also strong, led by Biotechnology’s 26.44% return. Also outperforming were Communication Services (14.57%), Consumer Discretionary (14.18%), Information Technology (13.92%), Consumer Staples (13.63%) and Materials (13.20%). Consistent with better market participation, 10 of the Index’s 11 sectors recorded positive returns in 4Q, with Energy posting the only negative (-7.60%) as the price of WTI oil dropped by about 20% from approximately $90/bbl to almost $72/bbl.

PORTFOLIO REVIEW

The Campbell Newman Small Cap Growth portfolio’s 13.98% return (13.79% net of fees) outperformed the Russell 2000 Growth’s 12.75% return.

Stock selection in the Information Technology sector was the greatest positive contributor to relative performance, adding 113 bps due to the portfolio's sector return of 18.60% vs. the benchmark's 13.92%. Eight of eleven holdings outperformed, led by Monolithic Power (MPWR, 36.74% return). Stock selection in Consumer Discretionary added 96 bps to relative performance with a sector return of 21.38% vs. 14.18%, as home building stocks Century Communities (CCS, 36.92%) and LGI Homes (LGIH, 33.84%) outperformed with the help of falling interest rates. Lastly, stock selection in the Industrials sector added 71 bps to relative return with a portfolio return of 16.62% vs. 12.52%.

In terms of detractors, an average cash balance of 11.46% cost 110 bps. Stock selection in the Health Care sector detracted 102 bps as the portfolio return of 10.44% trailed the benchmark's 15.52% sector return. Lantheus (LNTH, -10.78%) was the largest detractor from performance due to a potential new product's disappointing test results. We remain positive on the stock due to a strong core diagnostics business.

TOP CONTRIBUTORS

Monolithic Power Systems, Inc. (MPWR), a high-performance analog and mixed signal semiconductor manufacturer, delivered impressive 3Q 2023 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 Artificial Intelligence, Automotive, Enterprise Data, Communications and Consumer end-markets.

Medpace Holdings, Inc. (MEDP), a global contract research organization providing Phase I-IV clinical development services to the biotechnology and pharma industries, reported a strong 28% increase in revenues. While the funding environment for small biotechnology companies remains choppy, management noted they continue to see a strong business environment with new business awards setting a record during the quarter, leading to continued market share gains.

Century Communities, Inc. (CCS), a top 10 U.S. homebuilder, once again handily beat expectations on both revenues and earnings, while management also raised guidance as build cycle times continue to improve. Additionally, during the quarter, interest rates fell substantially with the average 30-year fixed mortgage rate peaking in late October at 7.79% and finishing the year at 6.61%, helping to support the housing industry. Overall, we believe CCS continues to benefit from the current undersupply of homes and strong demand as the Millennial generation enters peak home-buying years.

BOTTOM CONTRIBUTORS

Lantheus Holdings, Inc. (LNTH), a leading provider of imaging diagnostics and targeted therapeutics, posted a solid quarterly result in early November showing continued solid growth from PYLARIFY, for use in prostate cancer imaging. However, in mid-December, POINT Biopharma reported underwhelming data on a new radiotherapeutic drug that is partnered with Lantheus. While disappointing relative to expectations, we continue to believe the strong growth from the core diagnostic business plus long-term potential from pipeline assets leave LNTH well positioned for growth.

Cambium Networks Corp. (CMBM), a provider of wireless broadband networking infrastructure solutions, continues to face major headwinds including delays in government defense orders due to budgetary issues, decrease in orders from distributors serving enterprises and general macro-economic weakness. Anemic 4Q 2023 guidance indicates a slow path to recovery. We struggle to see how Cambium can overcome these issues in the short-to-intermediate term and, as a result, sold the stock.

Magnolia Oil & Gas Corp. (MGY), an independent exploration and production operator within the Eagle Ford Shale and Austin Chalk formations in South Texas, stock price was negatively impacted by the 20% decline in oil prices in the quarter as investors worried about global oil demand following weak economic data from the U.S. and Asia.

PORTFOLIO POSITIONING

Portfolio turnover was 1.3% in the quarter and 9.8% for the full year. Three trades were made in 4Q: In early October, the 1% position in Cambium Networks was sold due to fundamental issues and concerns over its long-term growth prospects. Next, in late October, a new position was initiated in Matador Resources (MTDR), as we believe the company is in the enviable position of being able to deliver predictable volume growth and return a meaningful amount of cash to its shareholders. Lastly, in December, Monolithic Power was trimmed as strong performance caused its position size to breach the strategy's 5% risk management maximum.

While the Fed may be finished with Fed funds rate increases for this cycle, the team believes part of the 4Q rally was based upon the unlikely scenario that rapid interest rate cuts will occur in 2024 at the same time the economy remains in growth mode. It's more likely that cuts would be made in response to economic duress.

This scenario continues to favor stock selection which focuses on earnings growth and profitability, as well as valuation discipline. The portfolio's positioning reflects the team's best risk/return opportunities within its methodical stock selection process. As of 12/31/23, Information Technology had the highest exposure at 26.6%, followed by Health Care (19.1%), Industrials (18.3%), Consumer Discretionary (14.9%), Financials (5.0%), Energy (4.4%) and Materials (1.5%). There remain no holdings in Communication Services, Consumer Staples, Real Estate or Utilities.

TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

4Q 2023 TOP CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
Monolithic Power Systems, Inc.	4.77%	36.74%	171 bps
Medpace Holdings, Inc.	4.72	26.59	127
Century Communities, Inc.	2.81	36.92	102
Five Below, Inc.	2.96	32.47	89
Onto Innovation, Inc.	3.94	19.89	79

4Q 2023 BOTTOM CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
Lantheus Holdings, Inc.	3.59%	-10.78%	-40 bps
Cambium Networks Corp.	0.05	-31.11	-33
Magnolia Oil & Gas Corp.	3.19	-6.57	-28
Ciena Corp.	2.25	-4.76	-13
Matador Resources Co.	1.23	-5.54	-12

PERFORMANCE

	4Q 2023	2023	5 YEARS	ITD
Representative Account (Gross)	13.98%	16.00%	14.41%	10.29%
Representative Account (Net)	13.79	15.22	13.75	9.71
Russell 2000 Growth Index	12.75	18.66	9.22	7.16

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.

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