



MARCH 31, 2024

CAMPBELL NEWMAN

SMALL CAP GROWTH 1Q 2024 COMMENTARY

MARKET OVERVIEW

The stock market's positive trends continued into 2024 with the Russell 2000 Growth Index (R2G) recording a strong 7.58% total return in 1Q. Although Small Cap Growth again underperformed Large Cap Growth, the impact of the "Magnificent 7" diminished and market breadth showed further improvement as the quarter progressed.

AI remained a top-performing theme in 1Q with Information Technology the best performing R2G sector with a return of 16.38%. The Energy sector, with an 11.10% return, was the second-best Index performer as oil prices rallied about 18% over the last three months. By quarter-end, OPEC+ production cuts, strong demand and geopolitical concerns caused U.S. crude futures to rise to \$85/bbl, a level not seen in almost six months. Industrials, with a 9.19% return, was the third best performer as market participants continued to project accelerating growth for many sector constituents due to infrastructure and reshoring spending expectations. The

last outperforming sector was Consumer Staples with a return of 8.01%.

Utilities (-9.75%) and Real Estate (-1.16%) were two of the worst performing sectors, likely because the 10-Year Treasury yield rose from about 3.85% to 4.30% in the quarter. Communication Services (-4.82%) and Materials (-1.20%) were the other two negative performers in the quarter.

PORTFOLIO REVIEW

The Campbell Newman Small Cap Growth portfolio recorded a 4.84% return (4.67% net of fees) compared to the R2G's 7.58% performance. Stock selection in the Information Technology sector was the greatest detractor, costing 299 bps due to a return of 5.78% vs. 16.38% for the benchmark. While this portfolio sector lagged over the past three months,



the team's ongoing analysis of each holding does not indicate major changes are warranted or desirable. Stock selection in Consumer Discretionary cost 150 bps (-2.89% portfolio return vs. 6.30%) and an average cash balance of 9.08% cost another 63 bps relative.

Stock selection in Health Care was the greatest positive contributor to relative performance, adding 69 bps due to the portfolio's 7.63% return vs. the benchmark's 3.52%. Performance was led by the largest holding, Medpace (MEDP, 31.84%), which significantly outperformed on strong earnings. Stock selection in Energy added 39 bps with both holdings outperforming the Index sector return of 11.10%: Magnolia Oil & Gas (MGY, 22.63%) and Matador Resources (MTDR, 17.82%). Finally, the portfolio's lack of exposure to the underperforming Communication Services sector added 27 bps relative.

TOP CONTRIBUTORS

Medpace Holdings, Inc. (MEDP), a global contract research organization providing clinical development services to the biotechnology and pharma industries, reported another strong quarter with revenue increasing 26.5%. Management's tone was significantly improved regarding the operating environment as biotechnology funding has improved relative to previous quarters. The company now believes if the funding improvement can continue, growth in 2025 will be even higher than this year.

Monolithic Power Systems, Inc. (MPWR), a high-performance analog and mixed signal semiconductor manufacturer, delivered a slight beat in 4Q 2023 and raised 1Q 2024 guidance. Strength was once again led by Enterprise Data (up +30% sequentially on AI tailwinds). Looking forward, while visibility remains limited in the company's cyclical segments, it expects continued growth in Enterprise Data driven by AI and Automotive driven by design wins.

Onto Innovation, Inc. (ONTO), a global leader in process and yield management solutions for wafer production and wafer processing facilities, delivered stronger-than-expected 4Q 2023 results driven by a surge in demand for its advanced and specialty packaging equipment. Also, strong demand for its wafer inspection equipment was driven by new applications in the AI packaging space.

BOTTOM CONTRIBUTORS

Corcept Therapeutics, Inc. (CORT), a company engaged in drug discovery for products that treat metabolic and oncology disorders by modulating the effects of cortisol, lost a patent case early in the quarter, which may allow earlier entry of a generic competitor. However, the company is appealing the decision which means a final decision is delayed. Meanwhile, the company delivered results above expectations and has seen advancements in its pipeline with multiple trial results expected to read out during 2024. Success in the company's pipeline candidates would help offset fears of generic entry on its existing products.

Five Below, Inc. (FIVE), a specialty value retailer that provides a wide range of merchandise for \$5 or below, reported earnings and guidance below expectations. One driver of underperformance was increased shrink (loss of inventory largely due to theft or damages). To fix this issue, the company is scaling back on self-checkouts and deploying more labor to the front of the store. Additionally, management noted a slower start to the year due to delayed tax refunds and weather. While these factors cast a near-term shadow, positive traffic, a long runway for store growth and operational improvements leave us positive on the stock.

MP Materials Corp. (MP), the largest producer of rare earth materials in the Western Hemisphere, underperformed during the quarter as the price of rare earth commodities continued to fall as economic activity in China remains weak. However, MP continues to make substantial progress on the transition from pure mining to magnet production as the company is now processing its own concentrate and is in the early stages of alloy production at its metals facility. As this transition continues, the company will reduce its exposure to commodity movements. With a continued strong balance sheet and significant progress made on their transition, we continue to see MP as well positioned for the future.



PORTFOLIO POSITIONING

Portfolio turnover was 11.96% in the quarter and 16.97% over the last 12 months. Five new positions were initiated during the quarter including K-12 education company Stride (LRN), biopharmaceutical company Catalyst (CPRX), data center software and hardware company Rambus (RMBS), heating & cooling management systems maker Modine Manufacturing (MOD) and the nation's largest producer of pasture-raised eggs, Vital Farms (VITL). Further, the existing positions in ePlus (PLUS) and ExlService (EXLS) were increased. These positions were funded through existing cash, as well as multiple sale transactions. In keeping with our risk management parameters, Medpace (MEDP) was trimmed as strong earnings caused the stock to go above the strategy's 5% risk-management maximum, while Monolithic Power (MPWR) was sold as exceptional performance caused the stock's market capitalization to exceed maximum limits.

Lastly, Integra LifeSciences (IART) was sold due to poor execution and better alternatives.

Information Technology remained the portfolio's largest absolute sector weight at 24.4% at quarter end. Industrials became the second largest absolute weight, increasing from 18.3% to 20.2%. Healthcare remains a significant position at 19.5%, though slightly underweight the R2G. Consumer Discretionary jumped to 17.7% from 14.9% last quarter with the additions of Stride and Modine and is now the most significant overweight sector in the portfolio. Energy is also slightly overweight relative, accounting for 5.0% of the portfolio. Financials (4.7% weight), Consumer Staples (2.0%) and Materials (1.0%) round out the portfolio and are all underweight relative. Communication Services, Real Estate and Utilities continue to have no holdings. Sector weights are a product of the team's disciplined bottom-up stock selection methodology and reflect where it is finding the best risk/return opportunities.

TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

1Q 2024 TOP CONTRIBUTORS

	WEIGHT	RETURN (NET)	IMPACT (NET)
Medpace Holdings, Inc.	4.97%	31.84%	156 bps
Monolithic Power Systems, Inc.	3.85	16.76	87
Onto Innovation, Inc.	4.46	18.42	81
MasTec, Inc.	3.02	23.14	63
Magnolia Oil & Gas Corp.	2.87	22.63	60

1Q 2024 BOTTOM CONTRIBUTORS

	WEIGHT	RETURN (NET)	IMPACT (NET)
Corcept Therapeutics, Inc.	1.66%	-22.44%	-56 bps
Five Below, Inc.	2.81	-14.91	-50
MP Materials Corp.	1.20	-27.96	-46
MarketAxess Holdings, Inc.	1.12	-24.88	-39
NV5 Global, Inc.	2.62	-11.80	-33

PERFORMANCE

	1Q 2024	1 YEAR	5 YEARS	10 YEARS
Representative Account (Gross)	4.84%	15.57%	12.40%	10.83%
Representative Account (Net)	4.67	14.79	11.73	10.24
Russell 2000 Growth Index	7.58	20.35	7.38	7.89

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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