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CAMPBELL NEWMAN

SMALL CAP GROWTH 2Q 2024 COMMENTARY

MARKET OVERVIEW

Market participation remained narrow in 2Q 2024 as investors maintained their AI-centric focus. The selectivity, favoring Mega-Cap Growth by style, can be seen in the differing quarterly returns of the Russell Top 200 Growth Index, the S&P 500 Index, S&P 500 Equal Weight Index and the Russell 2000 Index of 10.03%, 4.28%, -2.63% and -3.28%, respectively.

In this environment, Campbell Newman Small Cap Growth strategy's benchmark, the Russell 2000 Growth Index (R2G), recorded a -2.92% return. Weakness was spread broadly with only three of the R2G's 11 sectors managing positive returns. In a market that prized AI adjacency, it was an unusual turn for the top-performing sector to be Consumer Staples with 5.75% return, driven by food and beverage stocks. As with the large caps, however, Communication Services and Utilities outperformed, with returns of 2.25% and 1.63%, respectively. Real Estate (-7.51% return) was the greatest laggard, as elevated interest rates continued to hamper

transactions, followed by Consumer Discretionary (-5.62%) and Financials (-5.45%).

Economic signals were mixed in the quarter. Despite the ongoing 2-10 Treasury yield curve inversion (since July 2022, the longest on record) the economy remained in expansion mode with 2Q GDP expected to be 1.5%. The Fed Funds target rate was left unchanged in the quarter at 5.25%-5.50% because the inflation rate has stubbornly stayed around 3.3% at the same time unemployment has hovered around 4.0%. Expectations regarding the pace and degree of interest rate cuts in 2024 continue to be pushed out. In December 2023, 15 of 19 FOMC participants expected two or more 25 bps rate cuts in 2024, with the most extreme view expecting total cuts of 150 bps, while only one participant expected the rate to stay the same. As of June 2024, four participants expect no change to the policy, seven project a 25 bps cut and eight expect two 25 bps cuts.



PORTFOLIO REVIEW

The Campbell Newman Small Cap Growth strategy beat its benchmark with 2Q performance of 5.89% (5.72% net of fees) vs. -2.92%.

The three greatest contributors to relative performance were:

- 1.) Stock selection in Information Technology added 282 bps due to the portfolio's 8.69% return vs. -3.30% for the benchmark.
- 2.) Stock selection in Health Care added 250 bps due to the portfolio's 10.70% return vs. -1.82%.
- 3.) Stock selection in Industrials added 213 bps as the portfolio outperformed with a 6.86% return vs. -3.59%.

The three greatest detractors to relative performance were:

- 1.) Stock selection in Consumer Discretionary cost 89 bps, with a portfolio sector return of -10.26% vs. -5.62% for the benchmark. (Please see "Bottom Contributors" for commentary.)
- 2.) Stock selection in Energy cost 16 bps (-4.89% portfolio return vs. -1.98% benchmark).
- 3.) An overweight to the underperforming Consumer Discretionary sector cost 18 bps.

Portfolio turnover was 2.12% in 2Q. Two new stocks were added in 2Q: Transmedics Group (TMDX), the developer of the Organ Care System (OCS), the only FDA approved, portable, multi-organ, warm perfusion technology platform for the preservation, assessment and transportation of donor organs for transplantation, and premium commercial rooftop HVAC equipment manufacturer AAON (AAON). Fabrinet (FN) and Onto Innovation (ONTO) were trimmed because strong performance pushed their weights above the strategy's 5% risk-control maximum and CEVA (CEVA), which provides silicon and software IP solutions to semiconductor and original equipment manufacturer (OEM) companies worldwide, was sold for fundamental reasons.

TOP CONTRIBUTORS

Vital Farms, Inc. (VITL), a producer of pasture-raised shell eggs, butter, hard-boiled eggs and liquid whole eggs in the U.S. through a network of more than 300 family farms,

reported exceptional 1Q results with revenue growth of 24.1% to a record \$147.9 million and earnings per share of \$0.43, more than twice the year-ago quarter.

Fabrinet (FN), an optical packaging and electronic manufacturing services company, posted strong fiscal 3Q 2024 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 greater than 10% of total revenue in fiscal 2023.

Onto Innovation, Inc. (ONTO), a global leader in process and yield management solutions for wafer production and wafer processing facilities, delivered stronger-than-expected 1Q 2024 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

Five Below, Inc. (FIVE), a specialty value retailer that provides a wide range of merchandise for \$5 or below, reported a disappointing quarterly result, including -2.3% same-store sales versus analyst expectations for slight growth. Like peers, management noted consumers being more frugal with their spending choices as recent inflation impacts budgets. FIVE cut sales and earnings guidance for the full year given the current environment. However, a strong unit growth story, reduced expectations and easing comparisons lead to a better risk reward going forward.

Century Communities, Inc. (CCS) and **LGI Homes, Inc. (LGIH)**, both top-10 U.S. homebuilders, underperformed during the quarter in reaction to rising interest rates with the average 30-year mortgage rate up nearly 0.5% at one point in the quarter. Both companies reiterated guidance for closings to be up mid-single digits to high-teens percent for the full year, implying a strong second half and another solid year of growth. We continue to believe both companies are 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

Information Technology remained the portfolio's largest absolute sector weight at 23.2% at quarter end, roughly in line with the benchmark. The Industrials and Health Care accounted for 22.4% and 22.0%, respectively, at slight overweights relative. Consumer Discretionary accounted for

15.0% of the portfolio, overweighted by approximately 4.5%. The Financials, Energy, Consumer Staples and Materials sectors each accounted for less than 5% weights with no exposure to Communication Services, Real Estate and Utilities. As always, the portfolio's sector weights are primarily a residual of the team's bottom-up stock selection, reflective of where they see the best risk/return opportunities when applying the strategy's methodology.

TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

2Q 2024 TOP CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
Vital Farms, Inc.	2.96%	101.15%	208 bps
Fabrinet	5.04	29.49	131
Onto Innovation, Inc.	5.14	21.24	101
Transmedics Group, Inc.	1.64	64.04	101
Lantheus Holdings, Inc.	3.29	28.99	92

2Q 2024 BOTTOM CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
Five Below, Inc.	1.90%	-39.92%	-105 bps
Century Communities, Inc.	2.80	-15.11	-54
LGI Homes, Inc.	1.59	-23.10	-48
Supernus Pharmaceuticals, Inc.	1.66	-21.58	-44
Lithia Motors, Inc.	1.90	-15.92	-38

PERFORMANCE

	2Q 2024	YTD 2024	1 YEAR	5 YEARS	10 YEARS
Representative Account (Gross)	5.89%	11.02%	18.53%	12.91%	11.12%
Representative Account (Net)	5.72	10.66	17.75	12.24	10.52
Russell 2000 Growth Index	-2.92	4.44	9.14	6.17	7.39

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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