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CAMPBELL NEWMAN

SMALL CAP GROWTH 3Q 2024 COMMENTARY

MARKET OVERVIEW

The U.S. stock market's leadership pivoted and participation broadened during 3Q in anticipation of the September Fed rate cut (50 bps was announced on the 18th) with momentum rotating away from the narrow AI-related megacap focus held since early 2023. In this environment, Value outperformed Growth as Utilities, Real Estate and Financials tended to be among the strongest sectors across market caps while smaller caps finally attracted greater interest and outperformed large caps across styles.

As such, within the context of the broader market, Small Cap Growth had a strong quarter with the Russell 2000 Growth (R2000G) recording an 8.41% return. While lagging the major Russell Value indices (R2000V: 10.15% return, R3000V: 9.47%, R1000V: 9.42%), the Russell 2000 Growth outperformed its larger counterparts by a fairly wide margin (R1000G: 3.19% return, R3000G: 3.42%)

Strength was seen pretty much across the board in small cap

growth stocks. Only one of the R2000G's 11 sector returns was negative, Energy at -8.07%. Other laggards, Information Technology (4.49% return) and Communication Services (5.43%), reflected the market's pivot away from AI-related issues. Conversely, the interest-rate sensitive Real Estate and Financials sectors had the highest quarterly returns of 21.12% and 15.47%, respectively, while Materials also posted a double-digit gain of 11.03%. Consumer Discretionary (9.86% return), Health Care (9.80%), Industrials (9.32%) and Consumer Staples (8.84%) also outperformed.

In conjunction with the Fed's September rate cut, Chairman Powell noted the economy's strength along with the progress made toward achieving the FOMC's dual mandate goals of maximum employment and stable prices. The 12-month change in the CPI has continued to decline steadily during 2024 from 3.1% in January to 2.5% in August, aided largely by lower energy prices, and even as shelter continued to experience upward pricing pressure. The unemployment rate



basically plateaued in the quarter, at 4.1% in September and June, up from the April 2023 post-pandemic low of 3.4%. The Atlanta Fed's current GDPNow estimate for 3Q stands at 2.5% (compared to GDP growth of 3.0% last quarter and 1.6% in 1Q) while the S&P 500's estimated earnings growth for 3Q is 4.6%, according to FactSet.

PORTFOLIO REVIEW

The Small Cap Growth strategy's quarterly performance was 8.55% (8.38% net of fees) compared to its Russell 2000 Growth benchmark's 8.41% return.

Stock selection in the Consumer Discretionary sector was the greatest positive contributor to performance at 110 bps due to the portfolio's sector return of 17.85% vs. the benchmark's 9.86%. Modine Manufacturing (MOD), which is seeing very strong growth in its data center cooling business, and homebuilder LGI Homes (LGIH) were standout performers with returns of 32.54% and 32.44%, respectively. Stock selection in Industrials added 99 bps as the portfolio recorded performance of 13.68% vs. the benchmark's 9.32% sector return. Six of the sector's eight holdings outperformed with commercial HVAC equipment manufacturer AAON (AAON) recording the top sector return of 23.73%. Stock picking in the Financials sector, where all three holdings outperformed, added 33 bps with a return of 23.03% vs. 15.47%.

Stock selection in the Consumer Staples sector cost 121 bps due to the performance of Vital Farms (VITL), which was down 25.02% vs. 8.84% for the Index. Stock selection cost 53 bps in Information Technology (2.28% return vs. 4.49% for the benchmark). An underweight to the outperforming Financials sector cost 22 bps.

Portfolio turnover was approximately 2%. Three stocks were sold: Perficient (PRFT), because it was being acquired, Pacira BioSciences (PCRX), because it lost a patent case on its largest grossing product, and retailer Five Below (FIVE), because of deteriorating fundamentals. The sales' proceeds were used to fund the purchase of Sprouts Farmers Market (SFM).

TOP CONTRIBUTORS

Lantheus Holdings, Inc. (LNTH), a leading provider of imaging diagnostics and targeted therapeutics, saw shares outperform on the news that CMS proposed a separate payment mechanism which impacts its leading product

PYLARIFY for prostate cancer imaging. Previously, the drug was set to be at a disadvantage relative to peers starting in 2025 regarding reimbursement status. This news quickly removed a negative catalyst and refocuses investors on the underlying growth of the current products and potential from pipeline products.

ePlus, Inc. (PLUS), a leading provider of technology solutions, reported fiscal 1Q 2025 financial results that met expectations. The company is experiencing healthy growth in security and managed services. Also, customer interest in its artificial intelligence and discovery services remains strong.

ExlService Holdings, Inc. (EXLS), a leading data analytics and digital operations and solutions company, reported 3Q results that exceeded expectations. EXLS has strong analytics capabilities, which should remain a key focus area for clients and continue to drive solid growth.

BOTTOM 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 350 family farms, reported exceptional fiscal 2Q 2024 results with revenue growth of 38.5% to a record \$147.4 million and earnings per share of \$0.36, more than twice the year ago quarter. Year-on-year, VITL's total distribution points have increased by 19% to 453 in the natural channel and by 17% to 215 in the food channel. We believe the company has a long growth runway as it increases points of distribution and adds more items to existing shelves at locations where it already has a strong presence and view the quarter's underperformance in the context of its >100% return last quarter.

Medpace Holdings, Inc. (MEDP), a contract research organization providing clinical development services to the biotech and pharma industries, reported bookings for future business below expectations. The issue was due to higher-than-normal project cancellations, partially driven by an acquisition by a large pharmaceutical company that decided to move a project to its preferred provider. While it may take a quarter or two to replenish the canceled contracts, the overall environment remains robust with project requests remaining solid. Management believes this is a short-term issue and continues to expect better-than-industry growth in 2025.



Pacira BioSciences, Inc. (PCRX), a pharmaceutical company focused on non-opioid pain management, lost a patent case on its highest revenue producing product, EXPAREL. Ultimately, this creates a higher likelihood of an elongated and costly legal process as well as the potential of eroding revenue upon the launch of a competing product. The PCRX holding was sold during the quarter as we see a substantial overhang on shares for the foreseeable future.

PORTFOLIO POSITIONING

At quarter end, Industrials, Health Care, Information Technology and Consumer Discretionary remained the portfolio's largest absolute sector weights at 23.41% (1.66 percentage point underweight), 21.65% (3.80 pp underweight), 20.38% (~equal weight) and 15.25% (5.12 pp overweight). The portfolio also had allocations to Financials

(5.18% weight), Consumer Staples (4.76%), Energy (3.78%) and Materials (1.10%). 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.

The Fed's current dot plot calls for another 50 bps of rate cuts this year and 100 bps in 2025, although the much stronger-than-expected September employment report announced on 10/4 may make these projections a bit aggressive. Corporate earnings growth is expected to be positive with FactSet estimating 2024 S&P 500 earnings growth at 10% to \$241, with 2025 growth accelerating to ~15% for estimated earnings of \$277. Although valuations are above their historical averages, lower rates, good liquidity and the projected mid-teens earnings growth present a positive set up, despite the geopolitical issues outstanding.

TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

3Q 2024 TOP CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
Lantheus Holdings, Inc.	4.30%	36.68%	133 bps
ePlus, Inc.	3.48	33.46	100
ExlService Holdings, Inc.	4.04	21.64	81
Corcept Therapeutics, Inc.	2.15	42.44	81
Modine Manufacturing Co.	2.38	32.54	70

3Q 2024 BOTTOM CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
Vital Farms, Inc.	2.82%	-25.02%	-104 bps
Medpace Holdings, Inc.	4.13	-18.96	-83
Pacira BioSciences, Inc.	0.52	-49.39	-70
Rambus, Inc.	1.36	-28.15	-46
Five Below, Inc.	0.26	-30.49	-43

PERFORMANCE

	3Q 2024	YTD 2024	1 YEAR	5 YEARS	10 YEARS
Representative Account (Gross)	8.55%	20.51%	37.36%	14.49%	12.77%
Representative Account (Net)	8.38	19.93	36.47	13.81	12.17
Russell 2000 Growth Index	8.41	13.22	27.66	8.82	8.95

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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