U.S. Small Cap Growth SMA

Quarterly Commentary

Portfolio Review

Stocks posted strong gains. U.S. stocks were broadly higher as investors grew increasingly optimistic that the Federal Reserve (Fed) had engineered a soft landing amid cooling inflation and continued economic growth. As the Fed paused interest rates, signs pointed to possible interest rate cuts in 2024.

Small-cap stocks outperformed. Small-cap issues outperformed their mid- and large-cap peers. Returns for growth stocks exceeded those for value stocks during the quarter, except in the small-cap universe, where value outperformed. Year to date, growth outperformed value across the capitalization spectrum.

Consumer discretionary detracted. Stock selection in the sector was detrimental, especially among diversified consumer services and specialty retail stocks.

Communication services weighed on performance. Stock choices in the sector detracted, especially in the interactive media and services industry.

Information technology benefited performance. The sector outperformed due to stock selection. The electronic equipment and components industry led sector performance. Underweighting computers and peripherals and communications equipment stocks relative to the benchmark also contributed to results.

Key Contributors

Natera. This provider of advanced diagnostics for prenatal and oncology testing reported robust revenue growth along with rapidly improving gross margins and cash flow. Natera also benefited from positive clinical data on a renal transplant diagnostic and won a preliminary injunction on an up-and-coming competitor in oncology testing.

TopBuild. Quarterly results for this installer and distributor of insulation and other building accessories beat analyst expectations, helped by strong commercial and industrial volume growth and sustained pricing power. Our research indicated new homebuilding may be positioned for recovery. We think builders' sentiment has improved as interest rates have started to come down.

Wingstop. This franchise operator of Buffalo-style chicken wing fast-casual restaurants reported quarterly results that were much better than analysts expected, driven by robust same-store sales growth. Our research indicated the company has seen continued strength in new customer acquisition and retention and increasing frequency of usage among new and core guests.

Key Detractors

Expro Group Holdings. Operating results slowed for this oil field services company with an offshore focus and lower activity in some key markets. We think performance was exacerbated by a third-party contractor dropping some of Expro's equipment onto the sea floor, resulting in incremental costs and write-downs.

R1 RCM. This health care technology company is focused on hospital financial systems. The company was subject to a report by a short seller, and although the report was shown to be incorrect, the stock did not recover with the robust market move at year-end.

Goal and Strategy

Seeks long-term capital growth by investing primarily in U.S. smaller companies exhibiting both sustainable accelerating earnings growth and positive price momentum.

Portfolio Management Team

	Start Date	
Name	Industry	Company
Jackie Wagner	2005	2005
Jeff Hoernemann, CFA	2005	2014

Top 10 Holdings (%)

Weatherford International PLC	1.96
AZEK Co Inc/The	1.87
SPS Commerce Inc	1.51
Ryman Hospitality Properties Inc	1.47
MACOM Technology Solutions Holdings Inc	1.45
Wingstop Inc	1.43
Natera Inc	1.40
Guidewire Software Inc	1.34
Five9 Inc	1.31
JELD-WEN Holding Inc	1.28

As of 12/31/2023

The holdings listed should not be considered recommendations to purchase or sell a particular security. Equity holdings are grouped to include common shares, depository receipts, rights and warrants issued by the same company. Fund holdings subject to change.

Kinsale Capital Group. Quarterly results were mixed for this excess and surplus insurance provider. Our research indicated underperformance for the quarter was primarily due to the market rotation amid a lower interest rate environment, which we believe favored lower-quality stocks as opposed to what we think is a high-quality, solidly profitable company, in Kinsale.

Notable Trades

SiteOne Landscape Supply. We established a position in this landscaping product distributor. We believe with a recovery in new home construction and interest rates starting to recede from their near-term high levels, we could see a busier residential construction market.

Knight-Swift Transportation Holdings. We initiated a new position in this trucking company. The trucking industry saw lower load factors and weaker pricing through most of 2023, but with an improvement in supply chains and excess inventories drawn down, we expect load factors to improve and have a positive impact on prices.

National Instruments. Emerson Electric completed its acquisition of National Instruments, a supplier of automated test and instrumentation equipment and software, and we exited our position.

CAE. We eliminated this provider of flight simulator systems and services as our research indicated ongoing pressure on defense margins and a slowing environment for commercial customers.

Portfolio Positioning

Our process uses bottom-up financial analysis aimed at identifying companies we think are capable of producing attractive, long-term earnings growth. We seek to reduce what we've determined are unintended, nonfinancial risks and instead align the portfolio with company-specific risks that we believe will be rewarded over time. As a result of this approach, our sector and industry allocations reflect areas of the market where we think we are finding opportunities at a given time.

We have maintained a cautious outlook. We believe recession remains a risk as manufacturing activity has continued to contract. Inflation could also reaccelerate due to ongoing geopolitical risks, which could prompt the Fed to revert to a tightening cycle, which we believe could lead to earnings growth coming in below expectations.

The portfolio's sector allocation remains neutral. Given the difficult macroeconomic backdrop from decelerating economic growth amid global headwinds and our bottom-up stock selection process, our sector weightings remain roughly neutral compared to the benchmark.

Our sector positioning relative to the benchmark remains narrow. While we have selectively added more cyclicality back to the portfolio, we have maintained underweights relative to the benchmark in the historically more cyclically exposed sectors such as industrials and consumer discretionary. We have remained neutral on typically defensive sectors such as energy and materials.

Our process is ongoing. While the uncertain environment has led us to a roughly neutral positioning compared to the benchmark, we continue to evaluate our positioning regularly while applying our bottom-up process to find what we believe are the best opportunities.

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