Portfolio Commentary

Navigator® Small Cap Core U.S. Equity

Portfolio Manager

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Senior Portfolio Manager

Top Contributors as of December 31, 2021

Company Name	Avg. Weight (%)	Contribution to Return (%)
UFP Industries, Inc.	2.40	0.73
Newmark Group, Inc. Class A	2.47	0.68
Atkore Inc	2.67	0.64

Top Detractors as of December 31, 2021

Company Name	Avg. Weight (%)	Contribution to Return (%)
Encompass Health Corporation	0.82	-0.37
Select Medical Holdings Corporation	1.55	-0.33
Jack in the Box Inc.	1.30	-0.25

Source: Factset. For illustrative purposes only. Past performance does not guarantee future results. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. In the chart above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance during the period. To obtain the calculation methodology and a list showing every holding's contribution to the overall composite during the period, contact: PortfolioAnalytics@ccmg.com.

Time to Recalibrate

Market Review

Investors looked past the surge in the highly contagious Omicron variant and focused on the variant's lower virulence, which drove all major equity indices to new highs at some point during the quarter. However, threats of persistent inflation and the Fed's response to it has investors beginning to alter their equity preferences. For the quarter, large-cap growth extended its outperformance over large-cap value, small-caps, and international equities and has stretched its winning streak over large-cap value to four consecutive years.

Since the end of 2017, large-cap growth has outpaced large-cap value, U.S. small-caps and foreign equities by 13.5%/year, 12.7%/year, and 18.2%/year, respectively. Large-cap growth's persistent outperformance can be primarily attributed to a combination of rising sales, earnings, cash flow margins and falling interest rates.

As an increasing portion of inflation appears permanent and the Fed is beginning to remove its ultra-easy monetary policy, we believe investors should recalibrate their 2022 return expectations, especially for longer duration assets like growth stocks, which have unequally benefitted from their bond-like characteristics.

Economic growth, earnings gains and inflation continue to exceed expectations. The Atlanta Fed's GDP Now projects fourth quarter GDP to exceed 6%. The unemployment rate dipped to 3.9% in December and broad measures of inflation like the Consumer Price Index (CPI), Producer Price Index (PPI) and average hourly earnings are all expected to show more than 5% in gains. Looking forward to 2022 and beyond, we believe large-cap growth and broad equity returns should more closely mirror market-cycle earnings gains of 7-10% and not benefit from an expansion in P/E multiples.

Fourth Quarter Performance Highlights

- For the fourth quarter of 2021, the strategy had a gain of 10.11% gross (9.32% net) vs a 2.14% gain for the Russell 2000 Index.
- For the year ending December 2021, the Navigator® Small Cap Core U.S. Equity strategy delivered annualized gains of 36.93% gross (32.98% net) versus a 14.82% gain for the Russell 2000.
- Positioning in Healthcare and Information Technology helped relative performance while positioning in the Consumer Staples and Financials sectors acted as a drag.
- During the quarter, our holdings in UFP Industries Inc. and Newmark Group Inc. helped performance while positions in Encompass Health Corporation and Select Medical Holdings Corporation hurt performance.

Past performance is not indicative of future results.
This is not a recommendation to buy or sell a particular security. Please see attached disclosures.

Positioning and Outlook

We continue to focus investment decisions in the portfolios on our commitment to own what we believe are undervalued, high-quality companies with improving business momentum. During 2021, improved mobility, strong economic and cyclical earnings growth pushed our positioning to the more cyclical and higher beta portions of each market segment.

As the advance in equities approaches 22 months and many broad indices have advanced over 100% since the pandemic lows, we recognize that we must be more selective in our security purchases and sales. Valuations appear more normalized, and a change in central bank policy from extreme accommodation and record negative real rates necessitate greater scrutiny. We may no longer have a generally "rising tide which lifts all boats" environment. To this end, recent small increases in 10-year Treasury rates have abruptly stopped the advance in many growth stocks. Last year, portfolios greatly benefitted from avoiding both highly overpriced and low-quality securities.

Moving into 2022, we expect that the pent-up savings created by pandemic fiscal stimulus and supported by monetary easing still have a way to go before being completely worked off. Although Fed policy is transitioning to contain inflation, we expect interest rate increases to be deliberate in nature as to not threaten labor gains or economic growth.

Given the general transition in Central Bank policies and an expectation for continued economic and earnings growth, albeit at a lower level from the beginning of the post-pandemic period, we are positioning portfolios to maintain a balance between cyclicals/value (high quality, high cash flow yielders) as they have underperformed and represent opportunity in a strong economy and high quality, high cash flow margin growers as they continue to compound returns.