Portfolio Commentary

Navigator® Small Cap Core U.S. Equity

Portfolio Manager

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Co-Head of Equity

Top Contributors as of March 31, 2022

Company Name	Avg. Weight (%)	Contribution to Return (%)
Ovintiv Inc	2.49	1.10
PDC Energy, Inc.	2.93	1.04
Amphastar Pharmaceuticals Inc	2.16	0.98

Top Detractors as of March 31, 2022

Company Name	Avg. Weight (%)	Contribution to Return (%)
LCI Industries	1.84	-0.67
Eagle Materials Inc.	2.38	-0.64
Taylor Morrison Home Corporation	2.60	-0.62

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.

Permanent Inflation Threatens Consumer Wallet

Market Review

Equity Markets suffered in Q1 as monetary and political events overwhelmed a generally strong quarter of economic growth and earnings. As anticipated earlier in the quarter, the U.S. Central Bank officially changed monetary policy in March lifting the Fed Funds rate to 0.25% and guiding future policy for additional rate increases throughout the year.

As discussed in previous commentaries, part of the prior 4-year outperformance of large-cap growth stocks was derived from their bond-like characteristics and that an increase in interest rates would serve as a relative performance headwind to that group. This forecast quickly came to pass in Q1 as the Russell 1000 Growth Index declined 9.04%, sharply more than the Russell 1000 Value index's 0.74% decline.

As real interest rates remain at near record negative levels, we anticipate the Fed will continue its tightening policies until intermediate-term inflation expectations level (currently at 3.50%) and interest rates are more closely aligned. Prior to the Great Financial Crisis, real interest rates were typically positive thus implying either a sharp increase in the Fed Funds rate from the current 0.25%, or a sharp decline in headline inflation, or a combination of both. Markets were additionally jarred by the Russian invasion of Ukraine and its ongoing supply impact on oil and commodity markets as well as the general threat to liberal democracy.

Late in the quarter, 5-year U.S. Treasury yields hit 2.50% and junk-Treasury spreads have expanded so that financing rates for some borrowers have increased nearly 50% since year end. Higher financing rates combined with a larger portion of the consumer wallet being consumed by rising food and energy prices have sharply hit Consumer Durable earnings prospects and their stocks.

First Quarter Performance Highlights

- For the first quarter of 2022, the strategy had a loss of -6.76% gross (-7.47% net) vs a -7.53% loss for the Russell 2000 Index.
- For the five years ending March 2022, the Navigator® Small Cap Core U.S. Equity strategy delivered annualized gains of 9.95% gross (6.71% net) versus 9.74% gains for the Russell 2000.
- Positioning in Healthcare and Communication Services helped relative performance while positioning in Consumer Discretionary and Real Estate sectors acted as a drag.
- Our holdings such as Ovintiv and PDC Energy helped performance in the quarter as positions in LCI Industries and Eagle Materials 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

Although portfolios began the quarter balancing growth and value with a foundation of what we believe are high quality, undervalued companies with improving business momentum, we were caught offsides by the Russian invasion of Ukraine, higher-for-longer inflation, and the abrupt change in high yield financing rates.

As such, we have lowered our exposure to Europe as relative growth expectations have been notably lowered and cut our exposure to Consumer Durable stocks as a greater portion of consumer wallets will be dedicated to smaller ticket and less discretionary purchases.

While some portions of inflation will likely recede as supply chain issues get resolved, it is likely that the more permanent components like rent and wages will keep overall inflation levels higher than we have seen in recent decades. As unemployment rates near previously designated "full employment levels," the Fed's policy objective is clearly now focused on containing inflation. As such, we expect short-term interest rates to move higher, potentially inverting the yield curve and slowing U.S. and global growth expectations.

From a portfolio standpoint, lower risk and less financing dependent companies are preferred. We continue to focus on what we believe are undervalued, antifragile companies knowing that a shrinking portion of the investing universe will have accelerating business momentum.