Portfolio Commentary

Navigator® Small Cap Core U.S. Equity

Portfolio Manager

Tony Soslow, CFA®
Co-Head of Equity

Top Contributors as of June 30, 2022

Company Name	Avg. Weight (%)	Contribution to Return (%)
United Therapeutics Corporation	1.86	0.53
Stride, Inc.	2.31	0.35
Dorman Products, Inc.	1.96	0.31

Top Detractors as of June 30, 2022

Company Name	Avg. Weight (%)	Contribution to Return (%)
Diodes Incorporated	2.75	-0.77
Synaptics Incorporated	1.52	-0.70
Advansix, Inc.	1.84	-0.69

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.

A Distinction Without a Difference

Market Review

Call it a recession – two negative GDP quarters – or just slower economic growth and declining earnings expectations, equity markets indifferently reversed May's gains in June pushing the S&P 500 to its worst first half start since 1970 – declining 19.97%. The bear market continued to feed on the headwinds of high inflation, the Fed's response to it, and early signs of a negative earnings revision cycle.

Coordinated Central Bank tightening was highlighted by the U.S. Fed's surprise lifting of the federal funds rate from 0.75% to 1.50% with further indications of continued neutralization of monetary policy tightening until short term rates approach either current inflation (Consumer Price Index (CPI) +8.6% year-over-year May) or intermediate term inflation expectations (down to just 2.62% as of June 30, 2022). Just as the gap between the federal fund's rate and inflation at the beginning of the year produced a shockingly wide negative real interest rate, implying a forthcoming Fed tightening cycle, the current wide gap between current inflation and inflation expectations indicates that the accumulated total of 1.50% of rate hikes plus anticipated higher federal funds rates has accomplished much of the needed tightening of monetary policy to both reduce economic growth and contain inflation expectations. 10-year Treasury yields have responded to both – declining 0.60% to 2.87%, producing a flat yield curve to both 2-year notes and 1-year bills.

Second Quarter Performance Highlights

- For the five years ending June 30, 2022, the Navigator® Small Cap Core U.S. Equity strategy delivered annualized gains of 6.76% gross (3.61% net) versus 5.17% gains for the Russell 2000.
- For the second quarter of 2022, the strategy had a return of -12.66% gross (-13.34% net) vs. a 17.20% loss for the Russell 2000 Index.
- Positioning in Healthcare and Consumer Discretionary helped relative performance while positioning in Real Estate and Energy sectors acted as a drag.
- Our holdings in United Therapeutics and Stride helped performance in the quarter while holdings in Diodes and Synaptics acted as a drag.

Positioning and Outlook

Portfolios began the quarter well positioned for rising corporate finance rates, a consumer constrained by higher food and energy costs, and continued Fed tightening. Our focus on more antifragile companies helped portfolios decline less than their benchmarks apart from our ADR/International Equity portfolio, which suffered due to its highly underweight position in an outperforming China.

While we continue to anticipate additional Fed tightening, slower economic growth,

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

and growing inventories, the large price declines in many sectors of the market combined with lower inflation expectations give us growing confidence that equity investors should expect typical equity market cycle returns from this point forward. P/E ratios for our Small Cap, SMID Cap and ADR/International Equity strategies near 13 and thus offer earnings yields – a historically important component of long-term returns – of over 7.5%. As upward changes in finance rates tends to hurt both high duration and fragile companies the most, and we don't know the precise end and impact of Fed tightening, we are continuing to prefer companies with more consistent and less cyclical cashflows.