



Portfolio Commentary

Navigator® Small Cap Core U.S. Equity

Portfolio Manager



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Co-Head of Equity

Top Contributors as of September 30, 2023

Company Name	Avg. Weight (%)	Contribution to Return (%)
NextGen Healthcare, Inc.	2.20	0.93
Sprouts Farmers Market, Inc.	2.80	0.45
ePlus inc.	2.72	0.29

Top Detractors as of September 30, 2023

Company Name	Avg. Weight (%)	Contribution to Return (%)
Photronics, Inc.	2.87	-0.62
Amphastar Pharmaceuticals, Inc.	2.03	-0.49
WESCO International, Inc.	1.95	-0.48

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 and the last 12 months, contact: PortfolioAnalytics@ccmg.com.

Fitch Downgrade Pushes Bonds and Stocks Lower, but Economy Remains Mostly Unfazed

Market Review

Fitch downgraded the U.S.'s Long-Term Foreign Currency Issuer Default rating from AAA to AA+ on August 1st, citing concerns about poor governance and a rising debt burden. This led to an abrupt rise in real interest rates and a decline in equity prices over the quarter.

Despite August's decline in Core PCE inflation to 3.9% year-over-year, real interest rates, as described by TIPs yields, increased about 1% to 2.40%. The Russell 2000 experienced a 12% correction during the quarter, while broad equity indices only fell between 3-5%. Low-coupon long-dated U.S. Treasuries fell about 14%.

In the previous bull market, equity earnings yields exceeded bond yields and inflation, which made stocks the only attractive asset class (TINA, or There Is No Alternative). However, Fitch's downgrade flipped the script on August 1st, as rising yields were accompanied by rising P/E ratios (lower earnings yields).

Thus far, the U.S. economy has remained largely unfazed by either the 525 basis point rise in the fed funds rate or the dramatic lift in real rates. Unemployment rests at 3.8%, which is just 0.4% above the full-employment low. Job openings remain robust and estimates for Q3 GDP exceed 4%. Calls for a 2023 recession may be wrong or premature.

With Fed policy is largely known for their dual mandate, we believe that fiscal policy remains the larger wildcard for rates, the economy, and stock prices moving forward. Additional inability to reach a responsible budget could lead to further credit downgrades and capital market disruption despite a backdrop of declining inflation and a strong labor market.

Third Quarter Portfolio Highlights

- Navigator® Small Cap remains fully invested with 50.6% of the portfolio in small-cap stocks with the balance in mid-cap stocks and cash.
- As rolling recessionary conditions with sticky services inflation continues to push earnings estimates lower for a growing portion of the investing universe, we continue to balance the portfolio between high quality, undervalued companies with improving business momentum and those highly antifrangible, undervalued companies which we believe will survive their current earnings downturn and thrive during the next economic recovery.
- Financials, Healthcare, Industrials, and Information Technology represent our largest sector weights, each greater than 12%.
- Our positioning in Healthcare and Consumer Staples helped relative performance while our positioning in Materials and Energy acted as a drag.
- During the quarter, to benefit from improving business fundamentals, the three most recent additions to the portfolio were Worthington Industries Inc., Ziff Davis Inc., and Sterling Infrastructure Inc. The three most recent exits were Diodes Inc., Shockwave Medical Inc., and Acuity Brands Inc.
- The top three contributors to absolute portfolio return in the month were NextGen Healthcare Inc., Sprouts Farmers Market Inc., and ePlus Inc. The top three detractors to absolute portfolio return in the month were Photronics Inc., Amphastar Pharmaceuticals Inc., and WESCO International Inc.

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

Changes in consumer preferences and the response of consumer companies to these preferences and inflation had a meaningful impact on our portfolio positioning in the third quarter. Declining business momentum inspired us to remove some Consumer Staples and Discretionary companies from our U.S.-focused portfolios, and luxury-focused international companies hurt performance in our ADR strategy.

We continue to find what we believe are undervalued, high-quality/antifragile companies with improving business momentum in the U.S. and internationally, across most sectors and all market capitalizations. While the yield curve becomes less inverted, causing less stress on the Financials sector, we remain underweight in this sector as deposit outflow risk and the realization of held-to-maturity losses persist. Financials and bond surrogates will have their day in the sun, but we have not shifted portfolios in their favor yet.

Our focus on those companies with antifragile business models helped performance during the quarter as high-quality companies outperformed. This bias tends to outperform when junk yields rise, as financing/re-financing opportunities for fragile companies become scarce.

References to market or composite indices, benchmarks or other measures of relative market performance over a specified period of time (each, an "index") are provided for your information only. Reference to an index does not imply that the portfolio will achieve returns, volatility or other results similar to that index. The composition of the index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which are subject to change. Investors cannot invest directly in an index.

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Equity securities are subject to price fluctuation and possible loss of principal. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. Certain investment strategies tend to increase the total risk of an investment (relative to the broader market). Strategies that concentrate their investments in limited sectors are more vulnerable to adverse market, economic, regulatory, political, or other developments affecting those sectors

The volatility (beta) of a client's portfolio may be greater or less than its respective benchmark. It is not possible to invest in these indices. The securities of mid-cap companies may be subject to more abrupt or erratic market movements and may have lower trading volumes.

The Russell 2000 index is a market index comprised of 2,000 small-cap companies.

A Leading Economic Indicator is a measurable set of data that may help to forecast future economic activity.

The U.S. Treasury index is based on the recent auctions of U.S. Treasury bills. Occasionally it is based on the U.S. Treasury's daily yield curve.

The Core Personal Consumption Expenditure (PCE) Price Index measures the changes in the price of goods and services purchased by consumers for the purpose of consumption, excluding food and energy.

Price to earnings (P/E) ratio is a way to value a company by comparing the price of a stock to its earnings.

Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced in a specific time period by a country or countries.

Antifragile companies are those which possess a large majority of strong balance sheet, income statement and other metrics such as debt-to-equity, gross margins, earnings variability - which have shown to demonstrate less stock price volatility on a going forward basis. Companies with poor credit metrics, high financial and operating leverage high historically been more fragile to adverse changes in economic and earnings conditions.

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