Portfolio Commentary

Navigator® Small Cap Core U.S. Equity

Portfolio Manager

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Co-Head of Equity

Top Contributors as of December 31, 2023

Company Name	Avg. Weight (%)	Contribution to Return (%)
Photronics, Inc.	1.72	0.98
Core & Main, Inc. Class A	2.27	0.85
Amphastar Pharmaceuticals, Inc.	2.31	0.79

Top Detractors as of December 31, 2023

Company Name	Avg. Weight (%)	Contribution to Return (%)
Belden Inc.	0.91	-1.21
Axcelis Technologies, Inc.	2.48	-0.72
AMN Healthcare Services, Inc.	0.33	-0.28

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.

Declaring Victory Too Soon?

Market Review

When managing an economy to achieve both full employment and contained inflation, you can never really "claim victory." Play is continuous. So yes, the U.S. Central Bank's 16-month tightening regime, which lifted the Fed Fund's rate 5.25% from zero has successfully reduced broad measures of inflation while sustaining economic growth. However, maintaining this dual mandate is an ongoing, challenging, never-ending pursuit. In response to the current success, equities rallied in Q4 with the Russell 2000 and Russell 1000 Large Cap Growth indices gaining about 14% each.

Monetary policy has thus far been "sufficiently restrictive" to push Core PCE down to 3.2% and reduce labor market tightness, all without pushing the economy into recession. The unicorn of economic outcomes – the soft landing – is before us as Fed Funds futures now anticipate interest rate cuts in 2024.

Equities have rallied in response to both the removal of the Fed's tightening bias and the likelihood of future rate cuts. The Russell 2000 Small Cap Index – the fragile laggard of the prior two years due to both its pronounced interest rate and economic sensitivity – reversed higher in both November and December.

December's 12.2% gain for the Russell 2000 Small Cap Index brought the quarterly gain to 14%, nearly matching the advances of the Russell 1000 Large Cap Index. The January anomaly typically associated with small-cap stock price gains post tax-loss selling at year-end potentially occurred two months early as capital market liquidity changed abruptly. Disinflation and its impact on Central Bank tendencies, long rates, and credit spreads have all contributed to P/E ratios expansion across the equity marketplace.

In November, Core PCE inflation, a favored Fed inflation metric, retreated to 3.2% from its February 2022 peak of 5.6%. 10-year U.S. Treasury yields have fallen 1.1% from their October 19th high of 5% and 5-year high yield spreads have collapsed over 1.5% in just two months. Falling inflation in all large categories including goods, services, and services less housing, coincide with lower wage pressures to move expectations of the May 2024 Fed Funds rate down a full 0.5% to 4.8%. Fragile company risk has receded.

Fourth Quarter Portfolio Highlights

- The Navigator® Small Cap strategy remains fully invested with 60.1% of the portfolio in small-cap stocks with the balance in mid-cap stocks and cash.
- As rolling recessionary conditions persist, pushing earnings estimates lower for a large portion of the investing universe, we are actively balancing the portfolio. This balance involves selecting high-quality, undervalued companies with improving business momentum, as well as identifying highly antifragile, undervalued companies that we believe will not only survive their current earnings downturn but also thrive during the next economic recovery.
- Consumer Discretionary, Financials, Healthcare, Industrials, and Information Technology represent our largest sector weights, each greater than 11%.

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

- Our positioning in Energy and Consumer Discretionary helped relative performance while our positioning in Information Technology and Financials acted as a drag.
- The top three contributors to absolute portfolio return in the quarter were Photronics Inc., Core & Main Inc., and Amphastar Pharmaceuticals Inc. The top three detractors to absolute portfolio return in the quarter were Belden Inc., Axcelis Technologies Inc., and AMN Healthcare Services Inc.
- During the quarter, to benefit from improving business fundamentals, the three most recent additions to the portfolio were Arrow Electronics Inc., Cabot Corp., and H&E Equipment Services Inc. The three most recent exits were LPL Financial Holdings Inc., Boyd Gaming Corp., and Sanmina Corp.

Positioning and Outlook

Like prior periods, our portfolios seek to follow business momentum, and after long economic periods, tend to get slightly offsides at turning points. To this end, our quality and antifragility focus helped the bottom-up equity portfolios during the recently extended period of rising interest rates and expanding credit spreads through October.

Our lower risk bias, however, provided a performance governor during the November and December period as the positive change in liquidity conditions served more fragile and higher beta companies. As such, we are adjusting our Small and SMID Cap portfolio risk to reflect this change – all within our process of selecting what we believe are undervalued, high-quality companies with improving business momentum. Additionally, we are increasing our exposure to these same companies in our All Cap Core portfolio to offset the overweight position of large-cap growth as they relatively outperformed.