



Portfolio Commentary

Navigator[®] Small Cap Core U.S. Equity

Portfolio Manager



Tony Soslow, CFA[®]
Co-Head of Equity

Top Contributors as of June 30, 2024

Company Name	Avg. Weight (%)	Contribution to Return (%)
Sprouts Farmers Market, Inc.	4.08	1.09
United Therapeutics Corporation	2.26	0.77
Lantheus Holdings Inc	2.60	0.66

Top Detractors as of June 30, 2024

Company Name	Avg. Weight (%)	Contribution to Return (%)
H&E Equipment Services, Inc.	1.14	-0.64
Atkore Inc	1.50	-0.58
Core & Main, Inc. Class A	2.59	-0.46

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.

Balanced Risks

Market Review

Charged with a dual mandate of both full employment and containing inflation, the recent loosening of labor market tightness and slowing inflation statistics begins to solidify a likely change in direction for Fed monetary policy. As economic growth has persisted for years since the beginning of the Fed's 5.5% tightening regime, many assumed that "long and variable lags" meant that monetary policy had no impact on reducing demand. "Rolling recessions," however, have now lifted the U.S. unemployment rate to 4.1% in June, the highest reading since November 2021 and up from its low of 3.4% in April 2023.

Sahm rule devotees may later claim that June 2024 marked the beginning of the U.S. recession. Initial and continuing unemployment claims data corroborate a change in the labor markets. The four-week average of initial claims is the highest since September 2023 and continuing claims at 1.86 million are the highest since November 2021. Most importantly, inflation is slowly declining towards the Fed's 2% objective as both PCE Deflator and Core PCE Deflator reached 2.6% in May. The Cleveland Fed's InflationNOW forecasts that Core CPI is just 3.1% and is likely heading lower.

Deep into bull markets or markets where a concentrated portion of companies outperform the broad swath of equities, our value add as investors feels forgotten. The market-weighted S&P 500 index continues to significantly outpace the equal-weight index by over 10% for each of the last two years.

This extreme performance concentration mirrors the markets of 1970-1971 and 1998-1999 when the market-weight benchmark exceeded the equal-weight benchmark by over 20%. Focused on the winners, our clients asked about Nvidia price targets, Apple portfolio weights, and question why we own small-cap, SMID-cap and international stocks at all. We believe the relative value differences are being ignored. Up 17.4% this year (on top of 2023's 26%), the S&P 500's P/E sits more than one standard deviation over its 25-year average of 17.5. We believe large-cap companies' earnings and earnings estimates have grown faster and their monopoly-like features give them antifragility attributes, it's easy to wonder if other asset classes can compete.

Second Quarter Portfolio Highlights

- The Navigator[®] Small Cap portfolio is positioned with approximately 44% in small-cap stocks with the balance in mid-cap stocks and cash.
- Financials, Healthcare, and Industrials represent our largest sector weights, each greater than 13%.
- Our positioning in Healthcare and Consumer Staples helped relative performance while our positioning in Industrials and Materials acted as a drag.

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



- The top three contributors to absolute portfolio return in the quarter were Sprouts Farmers Market Inc., United Therapeutics Corp., and Lantheus Holdings Inc. The top three detractors to absolute portfolio return in the quarter were H&E Equipment Services Inc., Atkore Inc., and Core & Main Inc.
- During the quarter, to benefit from improving business fundamentals, the three most recent additions to the portfolio were Reynolds Consumer Products Inc., Trustmark Corp., and Stride Inc. The three most recent exits were ePlus Inc., The Middleby Corp., and Core & Main Inc.

Positioning and Outlook

Like prior periods, our portfolios seek to follow business momentum, and after long economic periods, tend to get slightly offside 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.

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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 1000 represents approximately 93% of the US market. The Russell 1000® Index is constructed to provide a comprehensive and unbiased barometer for the large-cap segment and is completely reconstituted annually to ensure new and growing equities are included.

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 chartered financial analyst (CFA) charter is a globally-recognized professional designation offered by the CFA Institute, an organization that measures and certifies the competence and integrity of financial analysts.

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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