



DECEMBER 31, 2019

CAMPBELL NEWMAN

SMALL CAP GROWTH 4Q 2019 COMMENTARY

MARKET OVERVIEW

The market looked through the political tumult of the third-ever Presidential impeachment and expectations for lackluster 2019 earnings growth (FactSet estimates for the S&P 500: -1.4% for the 4Q and 0.3% for 2019) and to an accommodative Fed again growing its balance sheet (in an economy with 3.5% unemployment), building optimism regarding a China trade deal and expectations of 9%+ S&P 500 earnings growth in 2020. This allowed the Index to deliver three consecutive months of positive performance resulting in the attainment of new record highs and returns of 9.07% and 31.49% for the quarter and year, respectively.

Not to be outdone, small cap growth stocks as represented by the Russell 2000 Growth Index exhibited strong returns for the quarter and year as well, 11.39% and 28.48%, respectively. Despite this strong performance, the Russell 2000 Growth Index finished the year approximately 3% below the previous record high set in August 2018.

While 10 of the 11 sectors of the Russell 2000 Growth Index had positive returns, only the Health Care sector outperformed (23.02%) during the quarter. Other noteworthy sector performance came from Materials (9.96%), Consumer Discretionary (9.50%), Energy (9.10%), Industrials (7.50%) and Financials (7.11%). The Utilities sector was the lone negative performer (-2.30%).

PORTFOLIO REVIEW

The Campbell Newman Small Cap Growth composite underperformed the Russell 2000 Growth Index strong quarterly return. The strategy is designed to participate on the upside and protect on the downside, with the goal of outperforming over a market cycle by investing exclusively in stocks that are profitable over the last four quarters.



For the quarter, both stock selection and allocation contributed negatively to relative performance during the quarter, -563 bps and -102 bps respectively.

The greatest negative impact on the benchmark return was stock selection in Healthcare (23.02%), the highest returning sector, vs. 7.79% for the portfolio. Less robust 3Q earnings or weaker short-term outlooks for portfolio holdings hurt, although many top benchmark contributors do not meet the strategy's most important minimum investment criteria of four consecutive quarters of profitability.

Industrial sector stock selection had the second greatest negative impact with a return of -5.21% vs. 7.50% for the benchmark sector. Stock selection in the Consumer Discretionary sector has the third greatest negative impact, with a -0.03% return vs. 9.50% for the bogey's sector.

Conversely, Information Technology stock selection had the greatest positive impact with a return of 10.79% vs. 6.94% for the benchmark sector. The Financial sector also contributed positively due to stock selection with a return of 11.11% vs. the bogey's sector return of 7.11%.

TOP CONTRIBUTORS

Shares of **Horizon Therapeutics PLC (HZNP)**, a pharmaceutical company focused on rare and rheumatic diseases, reacted positively to receiving an FDA Advisory Committee approval recommendation for its drug, Teprotumumab, used for the treatment of Thyroid Eye Disease (TED). Currently, there are no drugs on the market that adequately treat TED. We expect final FDA approval sometime in the first quarter of 2020.

Custom software developer and IT services provider **EPAM Systems, Inc. (EPAM)** continued its streak of strong quarterly performance with the announcement of 3Q financial results. The company noted a pick-up in spending by its largest accounts as well as providing a strong outlook for 2020.

Fabrinet (FN), which provides precision optical, electro-mechanical and electronic manufacturing services to OEMs, reported strong F1Q results with both revenues and earnings exceeding analyst expectations. The company continues to

benefit from growth in its optical communications segment, increased use of outsourcing and strong growth in industrial lasers.

BOTTOM CONTRIBUTORS

Engineering and consulting solutions firm, **NV5 Global, Inc. (NVEE)**, reported weak 3Q financial results which were impacted by delayed start dates in a couple of their energy and transportation projects. Positively, backlog increased by 35% year over year. Valuation at current levels is extremely attractive. We believe these issues are short-lived and the company remains well positioned on a go-forward basis.

Pop culture consumer products company **Funko, Inc. (FNKO)** reported strong F3Q results as earnings topped expectations by 20%. Disappointingly, the company did not raise its FY19 guidance, implying a weaker-than-expected F4Q. We attribute this to management's conservatism which is consistent with their actions regarding guidance in the past. We continue to like the stock due to its compelling business model, strong content pipeline, ongoing strategic initiatives to expand shelf space, international growth opportunities and movement into adjacent categories.

CyrusOne, Inc. (CONE), a provider of mission-critical data centers that protect and ensure the continued operation of information infrastructure for over 1,000 customers, corrected in the quarter as speculation of a possible takeover dwindled. Currently, CONE has strong growth prospects from its existing markets and, therefore, we find the stock attractive on a fundamental standalone basis.

PORTFOLIO POSITIONING

No trades were made during the last three months so that the portfolio's positioning is virtually unchanged since last quarter. The portfolio's emphasis remains in Information Technology with a 26.97% weighting (but among a diverse set of 11 holdings), Health Care at 24.01%, Consumer Discretionary at 13.56%, Industrials at 11.73% and Financials at 9.73%. The portfolio continues to have no exposure to the Communication Services, Energy and utilities sectors. The team remains constructive and believes stocks can continue to grind higher over time driven by earnings growth in what should be a relatively low interest rate environment.

**TOP AND BOTTOM ABSOLUTE CONTRIBUTORS**

4Q 2019 TOP CONTRIBUTORS	WEIGHT	RETURN	IMPACT
Horizon Therapeutics PLC	3.21%	32.94%	95 bps
EPAM Systems, Inc.	4.30	16.37	66
Fabrinet	2.61	23.98	57
LHC Group, Inc.	2.68	21.31	53
Brooks Automation, Inc.	3.60	13.58	44

4Q 2019 BOTTOM CONTRIBUTORS	WEIGHT	RETURN	IMPACT
NV5 Global, Inc.	2.27%	-26.10	-70 bps
Funko, Inc.	1.98	-16.60	-42
CyrusOne, Inc.	1.88	-16.65	-36
LGI Homes, Inc.	2.05	-15.21	-34
Blackbaud, Inc.	2.41	-11.75	-31

SMALL CAP GROWTH COMPOSITE PERFORMANCE NOTES:

Campbell Newman Asset Management, Inc., formerly Campbell, Newman, Pottinger and Associates, Inc., is a privately held, independent investment adviser registered with the Securities and Exchange Commission. Registration does not imply a certain level of skill or training. The firm provides advisory services under equity strategies to taxable and tax-exempt clients. The small cap composite is comprised of a tax-exempt portfolio that has a market value greater than or equal to \$50,000 and holdings that are primarily small cap growth stocks and cash. For comparison purposes, the small cap composite performance is shown against the Russell 2000 Growth® benchmark. The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 Index companies with higher price-to-value ratios and higher forecasted growth values. Performance of the Russell 2000 Growth Index includes reinvestment of all dividends. (Source: <http://www.russell.com>). Small cap composite performance results include the reinvestment of all income. All returns presented are calculated using U.S. dollars. Returns are presented gross and net of management fees. Returns reflect the deduction of advisory fees, brokerage or other commissions, and any other expenses that a client would have paid or actually paid, other than custodial fees. In most instances, returns must be shown net of fees. Net of fees performance is calculated using actual management fees. The Small Cap Tax-Exempt composite includes proprietary account(s) that is(are) non-fee-paying. Past performance is not indicative of future results. To receive a complete list of Campbell Newman Asset Management Inc.'s composite descriptions and/or a presentation that adheres to the Global Investment Performance Standards (GIPS®), contact: CN Marketing, 330 East Kilbourn Avenue, Suite 1125 Milwaukee, WI 53202, Telephone: 414-908-6670. Campbell Newman Asset Management, Inc. claims compliance with the Global Investment Performance Standards (GIPS®).