



DECEMBER 31, 2024

CAMPBELL NEWMAN

SMALL CAP GROWTH 4Q 2024 COMMENTARY

MARKET OVERVIEW

The Russell 2000 Growth Index (R2G) recorded a 1.70% 4Q return to deliver full-year performance of 15.15%. Following a broadening of participation in 3Q, 4Q sector returns were mixed; six sectors outperformed while delivering positive returns as the other five sectors posted negative returns. Information Technology (9.60% return) and Communication Services (6.75%) led the way, while laggards included interest-rate sensitive areas like Real Estate (-8.24%) and Utilities (-4.71%), along with Health Care (-7.74%), Materials (-5.26%) and Energy (-2.77%).

The Fed Funds rate was cut in November and December by 25 bps each to a level of 4.25%-4.50%, down one percentage point so far in this loosening cycle -- despite stubborn inflation and amidst solid GDP growth (estimated at 2.5% in 2024) and full employment (unemployment rate just over 4%). Taken with the recognition that the annual interest expense on the \$35+ trillion federal debt has surpassed \$1 trillion and talk of the return of the “bond vigilantes”, the

yield curve responded by steepening, with the benchmark 10-year U.S. Treasury rising from 3.74% on October 1 to 4.58% on December 31. Also, the Fed’s December 18 “dot plot” projected only two 25 bps cuts in 2025, replacing the September 18 projection of four 25 bps cuts.

The election’s impact during the quarter is hard to pin down but November’s 12.26% performance for the R2G was viewed by some as a “Trump bump.” Overall, market sentiment and flows into equities were positive as the year ended.

PORTFOLIO REVIEW

The Campbell Newman Small Cap Growth strategy underperformed its Russell 2000 Growth benchmark during the quarter with a return of -2.69% (-2.85% net of fees) vs. 1.70%.



The greatest contributors to relative performance were:

- 1.) An underweight to the underperforming Health Care sector added 35 bps.
- 2.) Stock selection in the Consumer Staples sector added 29 bps due to the portfolio's sector return of 10.84% vs. the benchmark's 5.07%.
- 3.) Energy sector stock selection added 18 bps due to the portfolio's sector return of 1.62% vs. -2.77% for the Index.

The greatest detractors to relative performance were:

- 1.) Stock selection in the Information Technology sector cost 279 bps due to the portfolio's -4.81% return vs. 9.60% for the benchmark sector.
- 2.) Consumer Discretionary stock selection cost 108 bps due to the portfolio's sector return of -3.39% vs. 3.77% for the Index.
- 3.) Stock selection in the Industrial sector cost another 105 bps due to the portfolio's 1.17% return vs. 5.35% for the benchmark sector.

TOP CONTRIBUTORS

Ciena Corp. (CIEN), a networking systems, services and software company, reported fiscal 4Q 2024 results in line with consensus expectations driven by strong order flow reflecting its increasing technology leadership and positive industry dynamics. As cloud computing and AI drive bandwidth demand across the network, CIEN is positioned for accelerated revenue growth and market share expansion moving forward.

ExlService Holdings, Inc. (EXLS), a leading data analytics and digital operations company, reported strong 3Q 2024 results and raised full-year 2024 guidance. The company continues to see strong growth in its Digital Operations segment, benefiting from large deal signings momentum. Encouragingly, its Analytics segment improved and attained its 10% organic growth rate forecast this quarter. The company continues to invest in these two segments, which should drive growth over the coming years.

Stride, Inc. (LRN), an educational services company, delivered an exceptional earnings result well above expectations. Revenue grew 15%, supported by broad-based enrollment growth and an increase in revenue per enrollment.

Additionally, the company provided strong guidance for fiscal 2025, calling for 11% revenue growth and 39% operating income growth with expectations for strong margin expansion on improved utilization of teacher capacity. Management remains confident in achieving its financial targets of a 10% revenue CAGR and 20% EPS CAGR from fiscal 2023-2028.

BOTTOM CONTRIBUTORS

Transmedics Group, Inc. (TMDX), a leading provider of medical equipment for the transplant industry, reported disappointing 3Q results relative to expectations, leading to underperformance in shares. Growth remained strong overall with revenues growing 64% in the quarter, but declined sequentially due to a slowdown in industry volumes and maintenance on company-owned aircraft that resulted in fewer aircraft to transport organs. However, an Investor Day in December highlighted the expectation for a reacceleration of growth in 2025 as multiple new clinical programs look to emphasize the company's competitive advantages and thus we remain positive on shares.

ePlus, Inc. (PLUS), a leading provider of technology solutions and services, reported mixed fiscal 2Q 2025 results. The company experienced lower demand from its enterprise customers as they continued to digest products delivered as part of last year's supply chain flush. Though, service revenue grew 46% in the quarter, driven by both professional and managed services. Professional services benefited from the acquisition of Bailiwick as well as an increase in organic demand, while the managed services business saw continued momentum in enhanced maintenance support and cloud services.

Onto Innovation, Inc. (ONTO), a provider of advanced semiconductor process control equipment and manufacturing software solutions, reported 21.70% revenue growth in 3Q 2024, driven by continued demand for AI inspection tools, recovery in Advanced Nodes and record power semiconductors. Revenue guidance for 4Q came in at the midpoint of expectations, representing healthy 19% growth led by its two largest customers, TSMC and Nvidia.

PORTFOLIO POSITIONING

Portfolio turnover was approximately 3.5% in the quarter.



New positions were initiated in western footwear and apparel retailer Boot Barn (BOOT) and advanced energy and power resiliency solutions provider American Superconductor (AMSC), while the position in Rambus (RMBS) was increased. To fund these purchases, MP Materials (MP) and The Brink's Company (BCO) were sold as challenged fundamentals presented better risk/reward elsewhere.

Overall, portfolio positioning changed little from the end of 3Q. Industrials, Information Technology, Health Care and Consumer Discretionary remained the portfolio's largest

absolute sector weights at 24.4%, 21.0%, 20.0% and 17.2% at quarter end. Financials, Consumer Staples and Energy accounted for 5.6%, 5.4% and 3.9%, respectively. The Materials sector has no holdings as of the end of the quarter with the sale of MP. There also remain no holdings in the Utilities, Real Estate and Communication Services sectors. The portfolio's sector weights are a residual of the team's bottom-up stock selection, reflective of where they see the best risk/return opportunities when applying the strategy's methodology.

TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

4Q 2024 TOP CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
Ciena Corp.	2.70%	37.70%	81 bps
ExlService Holdings, Inc.	4.70	16.32	63
Stride, Inc.	2.51	21.83	47
MasTec, Inc.	4.37	10.58	44
Sprouts Farmers Market, Inc.	2.51	15.09	30

4Q 2024 BOTTOM CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
Transmedics Group, Inc.	1.27%	-60.29%	-125 bps
ePlus, Inc.	3.24	-24.88	-87
Onto Innovation, Inc.	3.75	-19.71	-85
Century Communities, Inc.	2.59	-28.56	-82
Lantheus Holdings, Inc.	3.81	-18.50	-73

PERFORMANCE

	4Q 2024	2024	5 YEARS	10 YEARS
Representative Account (Gross)	-2.69%	17.27%	12.81%	11.55%
Representative Account (Net)	-2.85	16.51	12.13	10.94
Russell 2000 Growth Index	1.70	15.15	6.86	8.09

Returns greater than 1 year are annualized.

IMPORTANT DISCLOSURES:

Past performance is not indicative of future results. All investments involve risk, including possible loss of principal. There is no guarantee investment objectives will be met. Gross returns are presented before deducting management fees (and custodian fees) and include the reinvestment of all income. Net returns are presented after the deduction of a model fee based on the highest fee paid then in effect for the period shown and include the reinvestment of all income. Performance returns are calculated using a time-weighted formula with appropriate adjustments for cash flows, and include all dividends and interest, accrued income, and realized and unrealized gains or losses. Indexes are unmanaged and do not incur fees or expenses. It is not possible to invest directly in an index. Portfolio sector weights reflect a representative account and are subject to change without notice. Sector returns are presented net of management fees. It should not be assumed that an investment in the sectors listed were, or will be, profitable. Portfolio holdings reflect a representative account and are subject to change. Portfolio holdings returns are presented net of management fees. Other accounts within the strategy may have different holdings. Portfolio holdings should not be considered a recommendation to buy, hold or sell securities. Current and future portfolio holdings are subject to risk. Past performance does not guarantee future results. The future performance of any specific investment should not be assumed to be profitable or equal to past results. The performance of the holdings discussed above may have been the result of unique market circumstances that are no longer relevant. The holdings identified above do not represent all of the securities purchased, sold or recommended. Securities mentioned should not be construed as recommendation for purchase or sale. Portfolio transactions should not be considered a recommendation to buy, hold or sell securities. SCGC1231-01