



MARCH 31, 2025

CAMPBELL NEWMAN

SMALL CAP GROWTH 1Q 2025 COMMENTARY

MARKET OVERVIEW

The Russell 2000 Growth Index (R2G) recorded 1Q 2025 performance of -11.12% following back-to-back years of >15% returns amidst a backdrop of “greater uncertainty.” DeepSeek’s January 27th announcement that it had developed a cost-efficient, high-performance open-source large language model called into question the conventional thinking regarding the necessary spending for an AI buildout, which had been seen as a key growth driver. Additionally, not only did the potential imposition of a broad swath of tariffs on imports take center stage but there was no clarity regarding timing, scale or products affected.

As a result, the market rotated away from the narrow AI-focused stocks that led the 2023-2024 rally, with what was formerly one of the strongest Index sectors, Information Technology, reporting the weakest 1Q performance at -18.88%. Consumer Discretionary, with many companies negatively exposed to potential tariffs due to foreign manufacturing, was the second worst at -17.14%.

Concurrently, market participation broadened as seven of 11 Index sectors outperformed, with positive returns from two defensive sectors, Real Estate (1.76%) and Consumer Staples (0.67), and Utilities close behind at -0.05%.

The status quo also saw upheaval geopolitically, with renewed fighting in the Middle East and the changing positions of the U.S. regarding Ukraine and NATO.

Given the uncertainties, confidence waned in 1Q. Among consumers, the personal saving rate crept up to 4.6% in February vs. 3.3% in December, implying people are saving rather than consuming because they expect a rougher road ahead. Yet, people remain employed (February unemployment rate of 4.1%, up only 0.2% versus a year ago) and personal income has been rising (February +0.8%, January +0.7%). Among businesses, it appears some activity may have been pulled forward to get ahead of tariffs while other decisions are being delayed, awaiting more clarity.



PORTFOLIO REVIEW

During this time of market turbulence, the Small Cap Growth portfolio held up with a gross-of-fees return of -4.72% (net-of-fees -4.89%) compared to the Russell 2000 Growth benchmark return of -11.12%.

Stock selection within the Health Care sector was a notable standout with six of eight portfolio holdings outperforming the Index sector. Performance was led by Corcept Therapeutics (CORT, 126.66% performance) on the back of a positive Phase III trial result. Overall, stock selection in the sector added over 500 bps to relative return.

Stock selection in Consumer Discretionary added 127 bps to relative performance due to a portfolio sector return of -10.02% vs. -17.14% for the R2G sector. The largest portfolio holding in the sector, Stride (LRN), led with a quarterly performance of 21.71%. Modine Manufacturing (MOD, -33.80%) was the worst laggard, as it was negatively impacted by a sentiment shift in AI-related stocks and saw profit-taking after exceptional returns in 2023 and 2024.

Lastly, stock selection within Energy added 50 bps to relative return with a portfolio sector return of 2.86% vs. -10.19% for the Index sector. Both sector holdings outperformed during the quarter.

The greatest detractors from relative performance in the quarter were: 1.) Stock selection in the Financials sector cost 85 bps driven by the two capital market holdings, Evercore (EVR, -27.71%) and Moelis (MC, -20.34%), as optimism around a better year of M&A quickly evaporated with the rising uncertainty; and 2.) The portfolio's overweight position in the underperforming Consumer Discretionary sector, which cost 49 bps.

TOP CONTRIBUTORS

Corcept Therapeutics, Inc. (CORT), a company engaged in the discovery of drugs that treat severe metabolic and oncologic disorders by modulating the effects of cortisol, reported positive Phase III results from its trial evaluating its product Relacorliant on progression-free survival in patients with platinum-resistant ovarian cancer. This sets the stage for approval in 2026 and represents another growth driver for

CORT. The company's core product, Korlym, is guided to have over \$900 million in sales in 2025, growth of over 30%. With multiple growth drivers, remaining assets in the pipeline and a net cash balance sheet, we remain positive on shares.

Halozyne Therapeutics, Inc. (HALO), a biopharma drug delivery company, delivered very strong quarterly results with revenue growth of 30% and earnings growth of 54% on the back of continued growth in royalties tied to strength from pharmaceutical partners. Additionally, over the past few months, multiple new pharmaceutical products that use HALO's technology have been approved, providing more visibility and a strong growth outlook for the coming years.

Stride, Inc. (LRN), an educational services company, reported a strong quarter relative to expectations and increased its fiscal 2025 guidance. Revenue grew 16%, a slight increase over last quarter, while total enrollments grew 19%. Typically, enrollments decline following the start of the academic year, but Stride is outperforming that trend and growing enrollments mid-year. Importantly, management noted it gets "well less than 5%" from federal funds, as funding is largely state and local, thus the company should be protected from cuts.

BOTTOM CONTRIBUTORS

Ciena Corp. (CIEN), a networking systems, services and software company, reported strong fiscal 1Q 2025 results providing management with the confidence it can deliver revenue growth toward the high end of its 8% to 11% guidance range for the year. Importantly, the robust revenue guide in combination with a reiteration of the operating expense outlook, bodes well for the strong operating leverage investors were anticipating on the expanding top-line momentum.

Evercore, Inc. (EVR), a leading global independent investment bank, reported strong fourth quarter revenues of \$981 million, increasing by 24% year-over-year. Fourth quarter operating income of \$218 million increased 76% with earnings increasing by 69% to \$3.41 per share. For 2024, operating income of \$557 million increased 45% and earnings per share of \$9.42 increased 46%. EVR experienced strength across all its businesses as 2024 marked a significant improvement across both the macroeconomic landscape and the broader capital markets.



Onto Innovation, Inc. (ONTO), a provider of advanced semiconductor process control equipment and manufacturing software solutions, delivered record 4Q revenue, up 20.6% year-over-year, on strong AI packaging, advanced node and

power. 1Q 2025 revenues are expected to grow at least 17%, reflecting a continuation of strong demand trends. Onto's engineering culture, critical optics/sensor technology and multi-year planning support long-term growth.

PORTFOLIO POSITIONING

As the quarter drew to a close, the market was in a state of major volatility due to the many uncertainties surrounding tariff policies. This situation brings to mind a quote by Napoleon Bonaparte: "A genius is the man who can do the average thing when everyone else around him is losing his mind."

It's impossible to know exactly what is going to unfold in the days ahead. However, it's essential to stay calm and adhere to our time-tested investment philosophy and process that focuses on quality, profitability and earnings visibility.

The only changes to the portfolio during the quarter were trims of ExlService (EXLS) and Corcept Therapeutics. Both

triggered our hardwired 5% max position size risk control discipline due to strong performance. Portfolio sector weights indicate where the team continues to find the greatest number of attractive longer-term investments. Health Care, Industrials, Information Technology and Consumer Discretionary remain the portfolio's largest absolute sector weights at 23.7%, 21.9%, 18.1% and 16.2%, respectively, at quarter end. Consumer Staples, Financials and Energy remain smaller allocations at 5.6%, 4.5%, and 4.2%, respectively. There remain no holdings in the Communication Services, Materials, Real Estate or Utility sectors. The portfolio's sector weights are a product 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

1Q 2025 TOP CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
Corcept Therapeutics, Inc.	3.52%	126.66%	394 bps
Halozyne Therapeutics, Inc.	2.39	33.47	64
Stride, Inc.	3.42	21.71	43
Sprouts Farmers Market, Inc.	2.88	20.12	41
Lantheus Holdings, Inc.	3.76	9.09	37

1Q 2025 BOTTOM CONTRIBUTORS	WEIGHT	RETURN (NET)	IMPACT (NET)
Ciena Corp.	3.08%	-28.76%	-102 bps
Evercore, Inc.	2.86	-27.71	-90
Onto Innovation, Inc.	3.57	-27.21	-91
AAON, Inc.	2.50	-33.52	-89
Modine Manufacturing Co.	2.08	-33.80	-67

PERFORMANCE

	1Q 2025	1 YEAR	5 YEARS	10 YEARS
Representative Account (Gross)	-4.72%	6.58%	17.89%	10.11%
Representative Account (Net)	-4.89	5.87	17.17	9.51
Russell 2000 Growth Index	-11.12	-4.86	10.78	6.14



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.

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