Small Cap Growth

Commentary | Quarterly update: 1Q24

Separately managed account

Brent Lium, CFA® Managing Director – Head of Equity Investments

Top 10 holdings (%)	
Super Micro Computer, Inc.	2.96
Vistra Corp.	2.54
Shockwave Medical Inc	2.47
Casella Waste Systems, Inc. Class A	1.77
Landstar System, Inc.	1.73
Sprouts Farmers Market, Inc.	1.62
National Storage Affiliates Trust	1.62
Procore Technologies Inc	1.59
Natera, Inc.	1.58
Ensign Group, Inc.	1.57
Total % of portfolio	**19.44**

Crossmark uses a model account to manage the individual client accounts that have selected this investment strategy. The portfolio characteristics shown are based on the model account. The characteristics of any individual account may differ from those of the model account. All performance information shown is composite performance derived from the aggregate of all accounts included in the composite.

Markets and performance

The stock market strength that ended 2023 continued into the first quarter of 2024 as the economy continues to show resilience in the face of the higher interest rates. The long-anticipated recession continues to be pushed out, if not put off completely. Crossmark Small Cap Growth strategy returned 8.54% in the first quarter, besting the primary benchmark, the Russell 2000 Growth, which returned 7.58%. Security selection in Healthcare and Utilities drove the outperformance, while security selection in Technology hurt performance.

Positive andnegative contributors to performance

The Strategy's top contributors during the period were Super Micro Computer (1.69% of total net assets), up 255.32%; Shockwave Medical (1.92% of total net assets), up 70.88%; and Vistra (2.18% of total net assets), up 81.43%. Shockwave, a maker of devices to treat blocked arteries utilizing soundwaves, reported another strong quarter, with revenue growth over 40%. In addition, rumors surfaced that Johnson & Johnson wanted to acquire them. Super Micro provides server components for data centers and is experiencing the same explosive growth that is driving NVDIA and the AI boom. Wall Street finally woke up to the myriad of changes over the last few years at Vistra, an electric power producer. They have dramatically paid down debt, stabilized business trends, acquired greener generation assets, and reinstated and subsequently increased its dividend. All of this led to a major rerating of the stock to a valuation similar to other power producers.

The strategy's bottom contributors during the period were Amphastar Pharmaceuticals (1.33% of total net assets), down 29.01%, and Navitas Semiconductors (1.12% of total net assets), down 40.89%. Amphastar, a manufacturer of hard to produce generic drugs, reported a disappointing quarter with expenses higher than expected. We believe this is a temporary issue and their fundamentals should return to trendline. Navitas, a leading semiconductor company, provided revenue guidance for Q1 of 2024 to nearly double which was below Wall Street's expectations. We believe Navitas's GaN chips are in the very early innings of replacing silicon in power applications with a decade of growth in front of them. We continue to hold it.

Looking ahead

Looking forward, the economic data continues to show more strength than we anticipated despite the large increases in interest rates from the Fed. Also, inflation is continuing to come down, albeit slowly. The strategy is positioned neutrally from a macro, top-down perspective. Instead, the strategy is concentrating on finding the companies that best exhibit the three pillars of our investment process. We continue to focus on businesses with secular growth, good business models, and strong balance sheets which we believe will help us outperform over the entire business cycle.

Composite performance (%)	Quarter	YTD	1-year	Since inception
Small Cap Growth (Wrap) – Gross	8.54	8.54	18.39	-4.43
Small Cap Growth (Wrap) – Net[1]	7.76	7.76	14.99	-7.30
Russell 2000 Growth Index	7.58	7.58	20.35	-4.27

1 Net performance was calculated using the hypothetical highest annual all-inclusive wrap fee of 3.00% by deducting .75% from the last month of each quarter. Gross performance is shown as supplemental information and is stated as pure gross of all fees as the returns have not been reduced by transaction costs. Wrap fees include Crossmark's portfolio management fee as well as all charges for trading costs, custody, and other administrative fees. Due to the effect of compounding, annual returns shown net of fees may be lower than the return that would be shown if the fee were deducted from the gross return at a single point in time.

Our firm

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All Investments are subject to risks, including the possible loss of principal. Past performance does not guarantee future results. The Small Cap Growth Strategy may not achieve its objective if the managers' expectations regarding particular securities or markets are not met. Equity investments generally involve two principal risks—market risk and selection risk. The value of equity securities will rise and fall in response to general market and/or economic conditions (equity market risk). The value of any individual equity security will rise and fall in response to the market's perception of the issuer's revenues, earnings, balance sheet, credit worthiness, business plan, and overall perception of the viability of the issuer's business (selection risk).

Small-cap investments may be subject to smaller companies risk. Stocks of smaller, less seasoned companies are generally subject to greater price fluctuations, less liquidity, higher transaction costs, and higher investment risk than those of larger, more seasoned issuers. Smaller companies may have limited product lines, markets, or financial resources, and they may be dependent on a limited management group or lack substantial capital reserves or an established performance record. There is generally less publicly available information about such companies than for larger, more established companies.

The strategy's values-based screening policies which exclude certain securities issuers from the universe of otherwise available investments. As a result, the strategy may not achieve the same level of performance as it otherwise would have in the absence of the screening process. If the strategy has invested in a company that is later discovered to be in violation of one or more screening criteria and liquidation of an investment in that company is required, selling the securities at issue could result in a loss to the strategy. Further, the strategy's values-based screening policies may prevent the strategy from participating in an otherwise suitable investment opportunity.

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Crossmark claims compliance with the Global Investment Performance Standards (GIPS®). Prospective clients can obtain a GIPS Composite Report by sending a request to: advisorsolutions@crossmarkglobal.com.

The U.S. Dollar is the currency used to express performance. The performance reflects the reinvestment of dividends and other earnings to the extent that client accounts included in the composite elected to reinvest dividends and earnings. Performance figures shown gross of fees do not reflect the payment of investment advisory fees.

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