

SMALL CAP GROWTH

COMMENTARY | QUARTERLY UPDATE: 3Q 2022

Separately Managed Account



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Top 10 Crossmark Small Cap Growth Model Account Holdings ¹	
Shockwave Medical, Inc.	3.7%
Qualys Inc.	2.8%
HealthEquity Inc.	2.5%
World Wrestling Entertainment	2.3%
Clearway Energy Inc.	2.2%
National Storage Affiliates	2.2%
Lancaster Colony Corp.	1.9%
Academy Sports & Outdoors	1.9%
Iridium Communications, Inc.	1.9%
Sensient Technologies Corp.	1.8%
Total % of Portfolio	23.2%

Markets and Performance

The market sell-off hit its third quarter in a row marking one of the worst starts to a year in decades. Concerns over a recession, the Fed raising rates, and the Russia/Ukraine conflict have intensified as the year progressed. The Russell 2000 Growth index eeked out a small positive quarter returning +0.24%, while maintaining its bear market status for the year to date at -29.29%. The Crossmark Small Cap Growth model portfolio had a rough quarter giving up all of the outperformance for the year with a return of -3.23% for the quarter and -29.37% for year to date.

Positive and Negative Contributors to Performance

The strategy's top contributors to performance during the period were Shockwave Medical, up 45.46%, KnowBe4, up 33.23%, and Academy Sports and Outdoors, up 18.87%. Shockwave, with a novel soundwave treatment for artery disease, reported another blow out quarter growing revenue more than 100% year over year. KnowBe4, a security awareness training software company, received an all cash takeover offer from Vista Equity Partners. We believe Vista will raise their offer. Academy Sports and Outdoors, reported a solid quarter easing fears of a consumer slowdown.

The strategy's bottom contributors to performance during the period were Sotera Health, down 62.63%, Calavo Growers (1.4% of total net assets), down 23.90%, and National Storage (2.2% of total net assets), down 16.01%. Sotera Health, a medical device sterilization and lab testing company, unexpectedly lost a lawsuit over emissions from a plant. We exited the position over concerns of additional lawsuits. Calavo Growers, a leading avocado producer and processor, reversed its outperformance from last quarter with disappointing earnings as they continue to struggle with normalizing their business post-covid disruptions. National Storage, a leading self-storage REIT, continued its streak of strong earnings. However, despite the strong fundamentals, its stock suffered due to recession fears and the potential for higher interest rates to slow its growth.

Looking Ahead

Looking forward, we expect the market to continue to be volatile. While there are some overarching concerns with the Russia/Ukraine conflict and the global ramifications, the market seems to waffle between thinking the Fed is done raising rates, aka "peak rates", and thinking we are headed to a recession. We continue to focus on our key investment pillars of investing in companies with visible and durable growth trends, strong business models, and healthy balance sheets.

¹ Model Portfolios are based on a hypothetical account managed during the current quarter. Actual characteristics and income may differ materially from model. As of 9/30/2022.

Our Firm

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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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