



# SMALL CAP GROWTH COMMENTARY | QUARTERLY UPDATE: 4Q 2022

Separately Managed Account



written by  
**Brent Liem, CFA**<sup>®</sup> Managing Director – Head of Equity Investments

Top 10 Crossmark Small Cap Growth Portfolio Holdings	
Shockwave Medical, Inc.	2.7%
Lancaster Colony Corp.	2.4%
Academy Sports & Outdoors	2.4%
Halozyyme Therapeutics, Inc.	2.3%
HealthEquity, Inc.	2.3%
Medpace Holdings, Inc.	2.2%
Clearway Energy, Inc.	2.2%
Iridium Communications, Inc.	2.2%
Qualys, Inc.	2.2%
World Wrestling Entertainment	2.2%
<b>Total % of Portfolio</b>	<b>23.1%</b>

## Markets and Performance

The fourth quarter of 2022 finished off a tough year for the market and the Small Cap Growth strategy. The markets rallied in the fourth quarter as the Fed signaled they would slow the pace of interest rate increases as inflation appears to have peaked. Similar to last quarter, the higher interest rates continued to hurt the performance of growth companies as they are long duration assets (i.e. earnings are out in the future). The Russell 2000 Growth index produced a positive quarter returning 4.13%, while maintaining its bear market status for the year to date at -26.36%. The Crossmark Small Cap Growth composite also had a positive quarter with a return of 1.73% but a tough year returning 28.75% for the year 2022.

## Positive and Negative Contributors to Performance

The strategy's top contributors during the period were Halozyyme Therapeutics (2.3% of total net assets), up 43.90%, BioXcel Therapeutics (1.5% of total net assets), up 81.73%, and Outset Medical (1.4% of total net assets), up 62.08%. Halozyyme, with a novel drug delivery system, continued their strong revenue growth and added to their pipeline of future drugs. BioXcel, launched their first approved drug for agitation in patients with schizophrenia or bipolar. The drug is also in trials to expand its indication to agitation in patients with dementia with results expected in Q1. Outset Medical, a medical technology company that provides dialysis machines designed for clinic and home use, reported stronger than expected revenue growth.

The strategy's bottom contributors during the period were Shockwave Medical (2.7% of total net assets), down 26.06%, Qualys (2.2% of total net assets), down 19.48%, and R1 RCM (0.9% of total net assets), down 40.91%. Shockwave, with a novel soundwave treatment for artery disease, was the top contributor last quarter. Despite another strong quarter with revenue growth over 100%, the stock gave up some of its prior gains. We believe they have years of strong growth ahead. Qualys, a cloud security company, reported another strong quarter. However, the stock underperformed as higher growth companies and technology in particular were out of favor during the quarter. We don't think the long term trends in cloud and the need for cyber security will change going forward. R1 RCM, a software and service provider for revenue management in hospitals and medical practices, reported a disappointing quarter with lower incentive fees. We believe RCM will recover from this as there is tremendous growth ahead for this category leader.

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.

\* 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.

**Looking Ahead**

Looking forward, we expect the market to continue to be volatile. While some of the prior issues have faded or the market has become comfortable with, a new issue will face the market in 2023. The Fed appears to have solved the inflation issue by dramatically raising interest rates however, the concern has shifted to will it now cause a recession. We continue to focus on our key three pillars of investing in companies with visible and durable growth trends, strong business models, and healthy balance sheets.

Composite Performance	QTD	YTD	1 Year	Since Inception
Small Cap Growth (Wrap) - Gross	1.73%	-28.75%	-28.75%	-21.41%
Small Cap Growth (Wrap) - Net*	0.92%	-30.97%	-30.97%	-23.84%
Russell 2000 Growth	4.13%	-26.36%	-26.36%	-21.55%

**Contact a member of our Advisor Solutions Team**

advisorsolutions@crossmarkglobal.com | 888.845.6910

**Crossmark Global Investments, Inc. (Crossmark)** is an investment adviser registered with the Securities and Exchange Commission that provides discretionary investment management services to mutual funds, institutions, and individual clients. Investment advice can be provided only after the delivery of Crossmark’s firm Brochure and Brochure Supplement Form ADV (Parts 2A and 2B) and Form CRS, and once a properly executed investment advisory agreement has been entered into by the client.

**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.

These materials reflect the opinion of Crossmark on the date of production and are subject to change at any time without notice. Where data is presented that was prepared by third parties, the source of the data will be cited, and we have determined these sources to be generally reliable. However, Crossmark does not warrant the accuracy of the information presented.

Information and recommendations contained in market commentaries and writings are of a general nature and are not intended to be construed as investment, tax or legal advice. These materials reflect the opinion of Crossmark on the date of production and are subject to change at any time without notice. Where data is presented that was prepared by third parties, the source of the data will be cited, and we have determined these sources to be generally reliable. However, Crossmark does not warrant the accuracy of the information presented.

This content may not be reproduced, copied or made available to others without the express written consent of Crossmark.

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.

**GIPS is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy of quality of the content contained herein.**

**Crossmark Global Investments, Inc.**  
 15375 Memorial Drive, Suite 200, Houston, TX 77079  
 888.845.6910 advisorsolutions@crossmarkglobal.com  
**crossmarkglobal.com**

**Not FDIC Insured - No Bank Guarantee - May Lose Value**