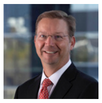
Small Cap Growth

Commentary | Quarterly update: 4Q 2023

Separately managed account



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

Top 10 portfolio holdings (%)	
Qualys, Inc.	2.29
Cboe Global Markets, Inc.	2.28
Simpson Manufacturing Co., Inc.	2.05
Landstar System, Inc.	1.90
Vistra Corp.	1.88
National Storage Affiliates Trust	1.87
Grand Canyon Education, Inc.	1.79
Intra-Cellular Therapies, Inc.	1.77
RxSight, Inc.	1.72
Casella Waste Systems, Inc.	1.67
Total % of portfolio	**19.22**

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

For the final quarter of 2023, the Crossmark Small Cap Growth composite exhibited strong performance, returning 10.86%. However, it was not enough to keep up with the primary benchmark, the Russell 2000 Growth Index, which returned 12.75%. Our focus on quality tends to hold performance back in rapidly rising markets such as the one we saw in the fourth quarter. For example, we don't invest in many biotechnology companies given their lack of revenue and the binary nature of their clinical trials. In the fourth quarter, our underweight of biotech hurt performance by 101 basis points (bps). We think that over time the underweight of biotech will be to the fund's advantage. Outside of biotech, performance was driven mostly by security selection.

Positive and negative contributors to performance

The strategy's top contributors during the period were RxSight (1.72% of total net assets), up 44.57%, Qualys (2.29% of total net assets), up 28.67%, and Simpson Manufacturing (2.05% of total net assets), up 32.40%. RxSight, maker of an intraocular lens to treat cataracts that can be adjusted after surgery, reported another quarter of very strong growth. It is one of our top holdings and a category leader that should have years of growth ahead. Qualys, which provides security and risk solutions to prevent cyber-attacks, continued their strong revenue growth and margin expansion. Simpson Manufacturing, a leading manufacturer of wood building products, performed well as sentiment on construction improved while interest rates went down.

The strategy's bottom contributors during the period were R1 RCM (0.93% of total net assets), down -29.86%, Chart Industries (1.00% of total net assets), down -19.39%, and Kinsale Capital (0.98% of total net assets), down -19.10%. R1 RCM, which provides revenue cycle management services to healthcare providers, has struggled recently, having some issues in late 2022 with implementing some new clients which hurt the company's earnings. This quarter they had some additional accounting issues which added to investors' frustrations. We believe the poor execution issues are behind them and investors will once again appreciate the company's long-term contracts, revenue growth, and strong margins. Chart Industries, which provides engineered equipment to the industrial gas and energy markets, saw underperformance in sympathy with lower energy prices. Kinsale Capital, a property & casualty insurance firm, pulled back in the quarter after a very strong start to the year. Despite the pullback, it handily outperformed for the year, returning 37.13%

Looking ahead

Looking forward, we continue to think the historically fast and large increase in Fed fund rates is beginning to show up in the economic data. While this helped the Fed achieve their goal of slowing inflation and the market has reacted favorably to that, we are afraid that it will also push the economy into a shallow recession. We have a slight skew in the portfolio to prepare for such an environment by focusing on less cyclical and more defensive areas of the market like staples, healthcare, and utilities. As always, 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 (%)	QTD	YTD	1-year	Since inception
Small Cap Growth (Wrap) – Gross	10.86	16.75	16.75	-7.93
Small Cap Growth (Wrap) – Net[1]	10.09	13.35	13.35	-10.71
Russell 2000 Growth Index	12.75	18.66	18.66	-7.43

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.

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