# Small/Mid Cap Core

The Small/Mid Cap Core strategy returned 6.28% net of fees versus its benchmark, the S&P 1000, which reported a return of 4.30% for the quarter ended September 30, 2020. Year-to date, the strategy returned -5.34% net of fees versus the S&P 1000 benchmark which returned -10.59%

At quarter end, the portfolio contained 68 stocks, representing ten of the economic sectors comprising the S&P 1000 index; we are currently not invested in the Energy sector. During the quarter, relative to sector weights in the S&P 1000, the portfolio was overweight the Information Technology, Industrials, Consumer Staples, Healthcare, Communication Services and Utilities sectors. The portfolio was underweight Real Estate, Consumer Discretionary, Materials, and Financials.

During the summer, the market continued on the spring's optimistic recovery path as economic data showed continued growth from the winter's depth. That optimism faltered a bit in the month of September, as the market pulled back. This quarter, while not nearly as volatile as the first half, did continue to experience bouts of risk-on/risk-off saw sentiment throughout the quarter; with risk-on (at least related to the re-opening trade) holding onto its gains in the end. This was demonstrated by the strength in cyclical sectors such as Consumer Discretionary (+14%) and Industrials (+9%). However, the index's return was widely dispersed, with strength in more defensive sectors as well - such as Staples (+8%) and Healthcare (+5%). Negative returns in interest rate sensitive areas such as regional banks and REITs muted strength in other sectors as the Fed announced a major policy shift, to keep interests low in order to focus more on unemployment. Our core, diversified, ESG investment approach held in well throughout the volatility.

With this in mind, we have not made meaningful changes to the portfolio. We trimmed some of our winners, such as West Pharmaceutical and Tractor Supply, though they still remain top positions. With software exposure via other holdings, we exited larger-cap Ansys software, as its market cap was no longer appropriate for a SMID portfolio. We exited long-term holding, Interface, as its exposure to office space leaves us cautious and exited traditional gas utility One Gas, to increase our exposure to geothermal player Ormat Technologies, which we conclude has more attractive growth prospects. In addition, we added two new positions: Trex, a high performance wood-alternative decking company and Nanostring, a biotechnology company. Trex's outdoor living products offer a wide range of style options with fewer ongoing maintenance requirements than wood, as well as being an environmentally responsible choice. This name is expected to benefit from the strength in home projects related to more time at home given COVID restrictions and "lower for longer" interest rates.

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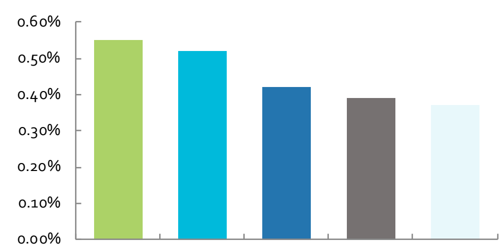
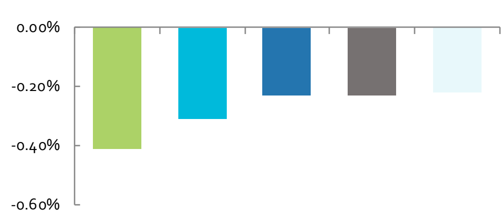
| Top 5 Contributors (%) | Average Weight | Portfolio Return | Relative Contribution |
|---|---|---|---|
| Quanta Services, Inc. | 2.13 | 34.87 | 0.55 |
| West Pharmaceutical Services, Inc. | 3.33 | 21.08 | 0.52 |
| LHC Group, Inc. | 2.88 | 21.94 | 0.42 |
| Xylem Inc. | 1.77 | 29.91 | 0.39 |
| First Solar, Inc. | 1.74 | 33.74 | 0.37 |




| Top 5 Detractors (%) | Average Weight | Portfolio Return | Relative Contribution |
|---|---|---|---|
| Hexcel Corporation | 1.35 | -25.81 | -0.41 |
| Rogers Corporation | 1.26 | -21.30 | -0.31 |
| WW International, Inc. | 0.76 | -25.65 | -0.23 |
| Syneos Health, Inc. Class A | 1.99 | -8.74 | -0.23 |
| East West Bancorp, Inc. | 1.76 | -8.95 | -0.22 |




This information is not intended as investment advice or a recommendation to purchase or sell specific securities. Sector and stock performance included in portfolio commentary reflects a representative account as of 9/30/2020 and excludes cash. Actual holdings will vary for each client and there is no guarantee that a particular client's account will hold any or all of the securities/sectors listed. Additional information regarding the calculation methodology, as well as each holding's contribution to the strategy's performance is available on request.

NanoString is a small cap life science company that sells equipment and accompanying consumables centered on its proprietary "BarCode" identification technology, which is used to profile molecular entities (such as protein, DNA, and RNA) present in tissue samples. The technology is largely applied to profiling tumor tissue and is used for both research and commercial purposes. Our work suggests that the company is poised to be long-term secular growth leader, as it is deeply tied to a number of important trends in healthcare.

Relative to the S&P 1000, the contribution from sector weighting was positive. The largest benefit came from being out of the Energy sector, as well as being underweight Financials and Real Estate, with all sectors delivering negative returns despite the benchmark being positive for the quarter. This was offset partially by our slight overweight to Utilities (also had negative returns) and underweight to the Consumer Discretionary sector which was the strongest sector (+14%) led by COVID re-opening industries such Casinos & Gaming, Restaurants and Specialty Retail as well as continued strength in Homebuilders given lower interest rates for longer.

Overall, we saw positive impact from stock selection in the quarter. The strongest stock selection was in Healthcare and Information Technology. Within Healthcare two names were in our top performers, West Pharmaceuticals (+21%) and LHC Group (+22%). West has dominant market share in providing critical drug delivery and storage components to biopharma and generic drug manufacturers and continues to benefit from a growing use of biologics, particularly during the COVID crisis. LHC Group provides home healthcare and hospice services and is in a favorable position as the system is pushing to provide patient care services in the lowest cost settings, with increased oversight, to reduce hospital readmissions, which in turn is generating better reimbursement outcomes for the care. In Technology, solar energy equipment manufacturer First Solar (+34%) was the top performer. The Company was rewarded for strong operating results and product demand, announcements of business simplification, and the positive groundswell for all renewable energy stocks expected to benefit from shifting federal policy. Finishing up the top five were two Industrial names, Quanta Services (35%) and Xylem (+30%). Quanta provides infrastructure solutions and is seeing solid demand and improved backlog for its services as electric utilities replace aging infrastructure, and execute on grid hardening projects. Additionally, the company is seeing incremental opportunities driven by renewable power generation associated with wind and solar project developments. Xylem provides water and wastewater applications with a broad portfolio of products and services and had been weak earlier in the year on concerns that water utility capital projects would be delayed due to COVID. Better than expected second quarter results along with the pandemic actually putting greater focus on the need for remote operations and digitally enabled smart meter solutions (areas where XYL is well positioned) alleviated concerns, with the stock bouncing back.

Stock selection was weakest in Consumer Discretionary and Industrials. The bottom performer in the quarter was Hexcel (-26%), an airplane component manufacturer, which has been hurt by its exposure to commercial aerospace. Weakness in Consumer Discretionary was related as much to what we didn't own, such as restaurants, homebuilders, etc., as what we did – though WW (formerly Weight Watchers) was a bottom performer (-26%). WW had record total subscriber numbers, but struggled with topline growth as the company continues to lose higher price studio members—a trend that accelerated with COVID related studio closures. We think patience will be rewarded ultimately, once we see more stability post COVID, particularly as digital members are higher margin. Another laggard in the quarter was Rogers (-21%), a manufacturer of high-value, relatively low cost components for a variety of end market such as wireless, automotive and renewable energy, due to weaker than expected revenue performance in the quarter. Pressure on Chinese manufacturers by the Trump administration continues to pose a hurdle for US-based suppliers to these companies. That said, Rogers remains well positioned to take advantage of mobility trends in electric vehicles and also advanced automobile safety systems. Syneos Health (-9%), a contract research organization that runs clinical trials and provides technology and analytical services for biopharma and medical device product companies, took a hit when an early investor liquidated some of its investment thorough a secondary offering. The Company failed to update guidance on the announcement, which worried the Street given concerns that COVID is pushing out clinical trials. While a slowdown is a short-term risk, we believe the longer-term, favorable trend in the business remains intact. Rounding out the bottom 5 is East West Bancorp (-9%), a niche-focused regional bank that was founded to help serve the underbanked Chinese-American immigrant community. As China trade rhetoric has turned combative in recent months, the stock has been harder hit than its peers. Negative impact, if any, on its business operations related to tensions with China has historically proven to be limited and short lived.

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While the market appears seemingly unconcerned with a number of significant events ahead - ,the upcoming U.S. Presidential election, a still active COVID pandemic heading into flu season and lackluster employment data we feel a little more guarded. As such, in the face of massive monetary and fiscal stimulus, we are balancing growth/cyclicality with value/defensiveness characteristics in the portfolio. We remain focused on our bottoms-up, ESG-integrated fundamental investment approach.


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