

Small Cap Quality Growth

Third Quarter 2023

Bahl & Gaynor

Strategy Objectives

1. Price appreciation: Compelling alpha and Sharpe Ratio
2. Downside protection: Competitive daily downside capture¹
3. Income: 1.7% yield

3Q2023 Results Relative to Strategy Objectives:

Price Appreciation

- During the third quarter of 2023 the strategy's dividend growth focused mandate outperformed the Russell 2000 Growth benchmark. Following narrow market leadership in the first half of the year, market breadth increased in the third quarter.
- In the small market capitalization range, third quarter returns were witness to high dispersion with more traditionally value parts of the market, like Energy, Financials, and Consumer Staples outperforming more traditionally cyclical sectors like Communication Services and Consumer Discretionary.
- The market continues to work through numerous crosscurrents including higher (and possibly still rising) interest rates, a falling Consumer Price Index, and the possibility of revolutionary growth drivers through the continued advancement of Generative AI. Amidst these conflicting signals, we believe a focus on sustainable dividends and stable fundamentals within the small market cap range remains ripe for investment opportunity.

Downside Protection

- Daily downside capture of 72.0% and 78.5%¹ across all negative Russell 2000 Growth and Russell 2000 days, respectively, in the quarter-to-date period ended 9/30/2023.

Income Growth

- 5 strategy holdings announced dividend hikes with an average TTM increase of +11.2%, signaling continued business stability and financial health of the portfolio holdings.

3Q2023 Dividend Increases			3Q2023 Small Cap Quality Growth Trades Executed	
Company	% TTM Increase	Current Yield	Initiations	Eliminations
Chemed (CHE)	5.3%	0.3%		Brunswick (BC)
Littelfuse (LFUS)	8.3%	0.8%	Increases	Reductions
MDC Holdings (MDC)	10.0%	4.3%	BWX Technologies (BWXT)	Exponent (EXPO)
Terreno Realty (TRNO)	12.5%	2.7%	Chemed (CHE)	Home BancShares (HOMB)
UFP Industries (UFPI)	20.0%	1.0%	Chesapeake Utilities (CPK)	Horace Mann Educators (HMN)
			CSG Systems (CSGS)	Inter Parfums (IPAR)
			Curtiss-Wright (CW)	Lemaitre Vascular (LMAT)
			Ensign Group (ENSG)	Progress Software (PRGS)
			Innospec (IOSP)	TTEC Holdings (TTEC)
			Perrigo (PRGO)	US Physical Therapy (USPH)
			Victory Capital (VCTR)	

Source: Bahl & Gaynor and Factset, 2023.

This material is deemed supplemental and complements the portfolio statistics and disclosure at the end of this presentation.

¹Bahl & Gaynor and FactSet; historical downside capture is the sum of strategy returns on all Russell 2000 Growth and Russell 2000 down days divided by the sum of index returns on all respective down days. Down days are defined as any trading day the index posts a negative total return. Strategy performance is derived from the internal rate of return (IRR) of a single non-fee paying representative/model account.

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Portfolio Review:

The Small Cap Quality Growth portfolio outperformed versus the Russell 2000 Growth Index in the third quarter. Stock selection in Health Care and Industrials and an overweight in certain industries within Financials contributed positively to performance. An underweight in Energy and stock selection in Consumer Staples and Materials detracted from performance.

The largest positive drivers of current quarter performance included:

- Within Financials, ownership of boutique investment bank Evercore (EVR), excess & surplus insurer Kinsale (KNSL), and asset manager Victory Capital (VCTR), contributed positively to the strategy's third quarter performance. This positive contribution was partially offset by the ownership of regional banks.
- Strong stock selection in Health Care through ownership of high-quality, dividend paying health care services and pharmaceuticals companies while not owning largely unprofitable and volatile biotechnology companies buoyed performance. This benefit was partially offset by the ownership of health care equipment companies.
- Within Industrials, ownership of select aerospace and defense companies, Curtiss-Wright (CW) and BWX Technologies (BWXT), proved beneficial to strategy performance. Not owning air freight & logistics companies and discount passenger airliners within the index were also positive contributors during the quarter.

The largest negative drivers of current performance included:

- An active underweight in Energy contributed negatively to strategy performance following continued strength in oil prices. Ownership of oil & gas refiner World Kinect (WKC), partially offset the overall under-allocation. Small cap energy companies historically show high correlation to oil prices and thus exude high volatility in operating results and dividend payouts. These characteristics prevent broader ownership of this sector down the market cap range.
- Within Consumer Staples, ownership of packaged foods companies Lancaster Colony (LANC) and UTZ Brands (UTZ) hurt performance this quarter; this was partially offset by an above average position in fragrance marketer and distributor, Inter Parfums (IPAR).
- Ownership of specialty chemicals companies within the Materials sector detracted from strategy performance during the quarter as the industry continued to face destocking headwinds. This was partially offset by avoiding companies within the fertilizers and metal, glass & plastics industries.

Largest Portfolio Contributors

1. Evercore (EVR) Investor optimism around a future M&A recovery following a period of market uncertainty and supportive risk-on market dynamics benefited EVR during the quarter. A strong backlog and active client dialogue in addition to increased hiring should bode well once the M&A market environment recovers.

2. Kinsale (KNSL) KNSL has taken advantage of large pricing dislocations in the excess and surplus market through stellar written premium growth. The company's technology advantage allows for through-cycle profitability, regardless of market demand or pricing dynamics.

3. Curtiss-Wright (CW) CW is operating in a strong demand backdrop with a defense electronics order book up over 30% year-over-year and a strong forward-looking pipeline. CW continues to see supply chain improvements with shortened lead times and more on-time deliveries. Continued progress in the company's fundamental execution should support pricing power and through-cycle earnings growth.

Largest Portfolio Detractors

1. US Physical Therapy (USPH) USPH underperformed as staffing costs and operating expenses outpaced revenue growth during the quarter. Despite this, the company saw record high volumes in the second quarter which is expected to continue given higher procedure volumes at hospitals. USPH remains one of the strongest players in the physical therapy space which should help sustain current earnings and the dividend going forward.

2. LeMaitre Vascular (LMAT) Heading into the third quarter LMAT had seen multiple expansion due to strong pricing and profitability metrics. However, the company's near-term M&A pipeline recently stalled putting a pause on its primary earnings growth engine. Despite this, the company maintains a strong balance sheet with no debt which allows a solid foundation for the dividend and the opportunity to be nimble should M&A deals arise.

3. Lancaster Colony (LANC) As a top sauce and dressing supplier to quick service restaurants and fast-food chains, LANC has experienced a trade down effect as consumer confidence wanes. With increased capacity from their new state-of-the-art facility, the company should be able to expand production from new licensing deals.

Strategy Style Categorization

Asset Class	Benchmark	Mandate
Domestic Equity	Russell 2000 Growth & Russell 2000	Small Cap Growth

Investment Philosophy

Bahl & Gaynor employs a Growth at a Reasonable Price discipline to purchase high-quality companies at sensible valuations. It is our goal to seek competitive performance while preserving capital in declining markets. In addition, our focus on companies that pay a growing dividend has benefited our clients in the form of a reliable income stream.

We are long-term investors and seek to identify companies that are managed conservatively and for growth, have stable and sustainable business models, and reward shareholders with a growing dividend. It is our intention to identify the best companies that meet these criteria and hold them for long periods of time.

Bahl & Gaynor’s investment philosophy exemplifies our firm belief in the power of long-term investing and compounding dividend income.

Small Cap Quality Growth Positioning

Our Small Cap Quality Growth strategy focuses on owning small-size companies having market capitalizations, at the time of investment, within the range of the market capitalizations of the Russell 2000 Index. Protection of capital in falling markets, providing an above-average income stream, and strong performance relative to the index and other small-cap managers, embody the strategy’s goals.

Bahl & Gaynor’s equity selection process yields an investable universe of companies that are managed conservatively and for long-term growth, have stable and sustainable business models, and currently reward shareholders of the company with a dividend.

Over a full market cycle, Bahl & Gaynor’s Small Cap Quality Growth strategy seeks to outperform its benchmark and small-capitalization growth peers all in the context of a lower-than-average portfolio risk profile.

Client portfolios will generally be diversified among small capitalization common stock with each security typically held for three to five years. Low portfolio turnover combined with the favorable tax treatment of dividend income results in a cost and tax-efficient portfolio.

<p>Portfolio Management Parameters</p> <p>4 Typically, at least 80% of the strategy’s net assets are invested in small capitalization companies within the range of the market capitalizations of the Russell 2000® Index</p>	<p>1 Companies initiated in the portfolio pay a cash dividend at the time of purchase</p>	<p>2 Portfolio typically managed to maximum 5% capital contribution per stock</p>	<p>3 Cash is non-tactical and typically represents 0% to 3% of portfolio value</p>
	<p>5 Annual portfolio turnover is low to moderate</p>	<p>6 Sell or trim decisions are based upon fundamentals, dividend policy, and better opportunities</p>	<p>7 The strategy employs no derivatives, exchange-traded funds or mutual funds</p>

This material is deemed supplemental and complements the portfolio statistics and disclosure at the end of this presentation.

The Strategy is designed for long-term investors who are willing to accept short-term market price fluctuations. Principal risks of investing in this strategy include stock market risk, management risk, recent market events risk, and small capitalization company risk. Investing in small-capitalization companies involves greater risk and the possibility of greater price volatility than investing in larger-capitalization and more established companies. All equity investments inherently have aspects of risk associated with them; past performance is no guarantee of future results. Investment involves a risk of loss. An issuer of a security may be unwilling or unable to pay income on a security. Common stocks do not assure dividend payments and are paid only when declared by an issuer’s board of directors. The amount of any dividend may vary over time.

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Portfolio Details

Top 10 Holdings	Small Cap Quality Growth Weight
Chemed Corporation (CHE)	5.3%
Ensign Group (ENSG)	5.2%
Tetra Tech (TTEK)	4.0%
Curtiss-Wright (CW)	4.0%
Inter Parfums (IPAR)	4.0%
Federal Signal (FSS)	3.7%
UFP Industries (UFPI)	3.6%
Evercore (EVR)	3.6%
Kinsale Capital (KNSL)	3.4%
CSG Systems (CSGS)	3.3%

Portfolio Statistics	Small Cap Quality Growth	Russell 2000 Growth	Russell 2000
P/E Ratio (trailing 12 months)	21.1x	19.3x	12.4x
P/B Ratio	2.7x	3.6x	1.7x
Weighted Average Market Cap	\$4.6 B	\$3.3 B	\$2.8 B
Dividend Yield – Gross of Fees ²	1.7%	0.6%	1.6%
B+ or better S&P Quality Ranking ³	51.2%	15.8%	19.0%
Beta since inception (Gross / Net)	0.78 / 0.78	1.00	0.96
Sharpe Ratio since inception (Gross / Net)	0.48 / 0.29	0.30	0.29

Source: FactSet, 2023. Inception date 12/31/2005.

Sector Weight	Small Cap Quality Growth	Russell 2000 Growth	Russell 2000
Industrials	32.8%	19.5%	17.0%
Health Care	19.9%	21.0%	14.5%
Financials	14.2%	6.9%	17.3%
Consumer Staples	7.9%	4.4%	3.6%
Materials	7.6%	4.6%	4.6%
Information Technology	6.9%	24.3%	15.4%
Real Estate	2.9%	0.8%	4.4%
Utilities	2.2%	1.6%	3.0%
Consumer Discretionary	1.8%	10.5%	11.0%
Communication Services	1.4%	1.3%	1.6%
Energy	1.0%	5.2%	7.5%
Money Market	1.4%	-	-

3Q 2023 Performance (Annualized)	Small Cap WRAP (Pure Gross)	Small Cap WRAP (Net)	Russell 2000 Growth	Russell 2000
1 Year	18.29%	14.80%	9.59%	8.93%
3 Years	8.23%	5.05%	1.09%	7.16%
5 Years	4.65%	1.57%	1.55%	2.40%
10 Years	8.86%	5.65%	6.72%	6.64%
15 years	10.68%	7.42%	8.83%	8.13%
Since Inception	9.55%	6.33%	7.58%	7.09%

3Q 2023 Risk (Annualized)	Small Cap WRAP (Pure Gross)	Small Cap WRAP (Net)	Russell 2000 Growth	Russell 2000
1 Year	19.11%	19.34%	19.81%	21.14%
3 Years	19.04%	19.24%	22.61%	22.07%
5 Years	20.64%	20.87%	24.46%	24.17%
10 Years	17.00%	17.16%	19.97%	19.55%
15 years	17.98%	17.98%	21.33%	21.08%
Since Inception	17.33%	17.35%	20.64%	20.22%

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²Dividend yield is inclusive of cash holdings.

³Standard & Poor's (S&P) Quality Ranking: S&P determines "quality" via a company's 10-year history of earnings growth and dividend growth. Those with a quality rating of B+ (or better) are considered "average" (or better).

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Thanks

Your continued support and interest are much appreciated.

Everyone at Bahl & Gaynor would like to thank you for the opportunity to serve your investment needs.

If you would like to speak in greater detail with a member of the B&G Team, please reach out to us through our Institutional Consulting Group.

Contact Us

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