



SMALL CAP CORE

INVESTMENT COMMENTARY & REVIEW

by Quinn Stills

Third Quarter 2023

Our outlook is for continued moderate economic growth for the fourth quarter; however, as we move into 2024, we expect higher interest rates to slowly choke down broad economic growth like a python slowly constricting its prey. Specifically, we see a slowly growing collection of losses on securities and loans held in bank portfolios. In addition, we see some slowdown in consumer spending. In light of these developments, our portfolio has further reduced its exposure to regional banks. Outside of the financials, our portfolio is invested in several companies that we believe are industry disruptors. These companies are growing sales because of their innovation. In addition, many of our portfolio companies have no net debt and are cash flow positive, which should enable them to weather any economic downturn. Importantly, we do not expect rates to stay elevated through all of 2024.

During the quarter, the top contributing sectors were information technology, communications services, utilities, and real estate. The weakest contributions on a sector basis included industrials, energy, financials, and health care. On the individual stock level, the top contributors included Camtek LTD, Aehr Test Systems, Super Micro Computers, and Ardelyx.

The stocks that detracted the most from performance included Tecnoglass, Enovix, Transmedics, and Silicon Laboratories.

The PIA Small Cap Core Strategy is focused on companies with positive business momentum, positive and growing cash flows and low levels of debt. This bottom-up approach has led to a significant overweight in information technology, an overweight in industrials, and an overweight in select utilities. In contrast to these sectors, our focus on positive business momentum has also led to a significant underweight in financials, consumer discretionary, and real estate, all of which have a plethora of negative revisions and negative business momentum. In particular, many regional banks are carrying growing portfolios of underwater loans, securities and real estate assets. We remain confident that our portfolio of high quality balance sheets will prove resilient for 4Q2023 and beyond.

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Investing involves risk of loss, including the loss of principal invested. A few of the main risks associated with Small Cap Equities are liquidity, capital financing, lack of operational history and lack of information about the company. For a full description of these and other risks facing the portfolio please review the Risk of Loss section in our ADV Client Brochure. Past performance is not an indicator of future results.

¹ For informational purposes only, the specific investments shown represent only the top contributors and detractors for the relevant performance time period. The selection criteria used to determine the top contributors and detractors remains the same across performance measurement periods.

The Russell 2000 index measures the performance of the 2,000 smallest companies in the Russell 3000 index. The Frank Russell Company created the index in 1984, and it was one of the first broad benchmarks of the U.S. equity market.

Indexes are unmanaged, do not incur management fees, costs, and expenses, and cannot be invested in directly.

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