

Small Cap Growth Market Update

Market leadership has continued to shift going into the second quarter of 2021. Small cap stocks, after lagging larger cap issues for most of the past 4 years, strongly outperformed larger cap issues in last year's fourth quarter and also so far this year. More notably, performance trends among smaller cap stocks are favoring those with positive earnings, reversing a trend that was in place for much of 2020.

While there are always a certain percentage of unprofitable companies among small cap indexes, their percentage in recent years has reached historically high levels. Last year unprofitable companies in the Russell 2000 Index reached as high as 45% of the total index in terms of total market capitalization, a level that significantly exceeded the previous high set in the early 2000s. In part, this may reflect the "risk-on" nature of some of the market rally last year as well as indiscriminate buying of stocks by index funds and passive ETFs.

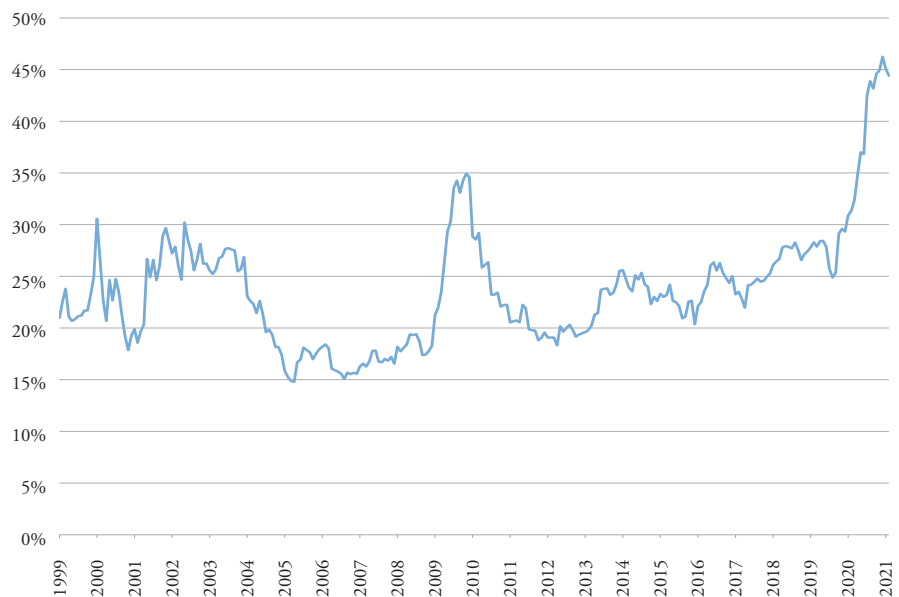
However, over time, unprofitable companies in the Russell 2000 as a group have posted average returns well below those of profitable companies or of the overall index. Over a 20-year period, average returns of profitable companies in the Russell 2000 have exceeded the returns of unprofitable companies by 5.8% per year. 2020 was a major exception, as unprofitable companies, on average, were up 68.1% for the year, compared to the average gain of 15.7% for profitable companies.

We view 2020 as somewhat of an aberration and note that profitable companies have again been outperforming thus far in 2021. Our experience since the inception of

our small Cap Growth portfolio in 1996 suggests that focusing primarily on profitable companies in the small cap space is likely to lead to positive long-term results. Thus far in 2021, our results

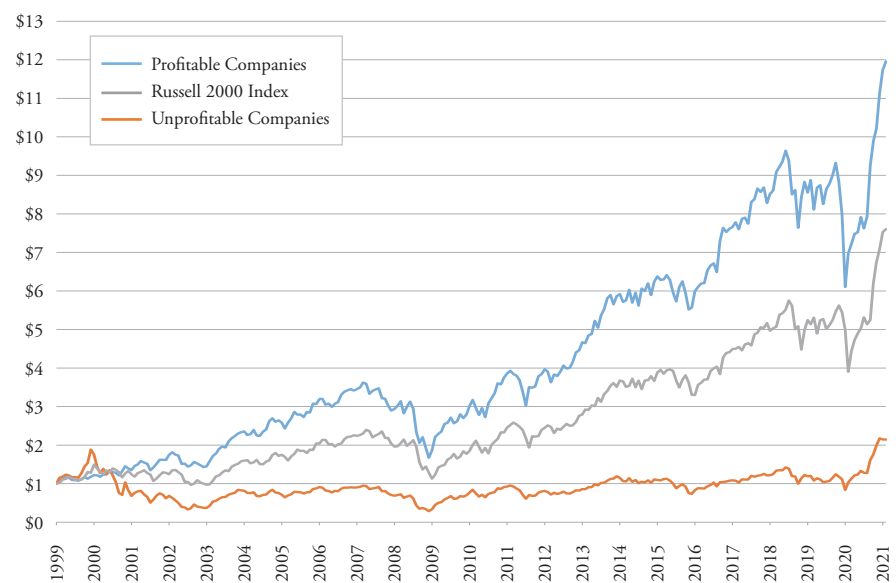
have been comfortably ahead of benchmarks, and we are optimistic about the potential for further good relative performance as trends that favor profitable small cap stocks continue.

PERCENTAGE OF UNPROFITABLE COMPANIES RUSSELL 2000 INDEX



Data from 3/31/1999–4/30/2021
Source: FactSet

GROWTH OF A DOLLAR RUSSELL 2000 INDEX



Data from 3/31/1999–4/30/2021
Source: FactSet

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REFERENCED INDEX

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Russell 2000 Index—The Russell 2000 Index is an index measuring the performance of approximately 2,000 of the smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks. It is a market-cap weighted index.