

# Portfolio Commentary

## Small Cap Growth

# Q1 | 2019

### MARKET REVIEW

Growth stocks led U.S. markets higher during the first quarter, with small-cap growth securities broadly delivering the largest gains. The Russell 2000® Growth Index climbed +17.14%, rising across all sectors. Information technology (+24.52%), energy (+23.58%), real estate (+19.74%), healthcare (+17.96%), and materials (+17.24%) were the strongest sector performers.

The sharp rebound from the fourth quarter's steep losses was driven by marked improvement in investor sentiment. Fears of possible global recession gave way to enthusiasm around the Federal Reserve's more accommodative monetary policy outlook, emerging indications of a potential U.S.-China trade deal, and continued signs that U.S. consumer financial health remained strong. Balance sheets improved, unemployment remained low, and inflation stayed in check. Still, the quarter's rally, much like the prior quarter's sell-off, was not the result of any real change in stock fundamentals, despite continued signs of late-cycle softening.

### PERFORMANCE

For the quarter, the Silvant Small Cap Growth Strategy Composite's return of +23.11% (gross)/+22.83% (net) significantly outperformed the Russell 2000 Growth Index's return of +17.14%. Information technology, healthcare, and consumer discretionary stock selection contributed the most to performance. Financials and consumer staples stock selection detracted the most from returns, though on a relatively smaller basis in comparison.

Loxo Oncology and Roku were among the strongest stock contributors in the quarter.

- Biopharmaceutical company Loxo Oncology rose on the announcement it would be acquired by Eli Lilly and Company for a 68% premium. The company develops target cancer therapies, and its first drug was approved in November. The deal was announced in January and closed in February.
- Streaming-video company Roku rebounded on higher-than-expected earnings. We continue to hold the stock. The firm's two businesses—Roku digital media players that allow over-the-top streaming to televisions and Roku Channel, an ad-supported free channel offering content—are both experiencing solid revenue gains with upbeat outlooks. Total streaming hours on its devices are also accelerating.

### PORTFOLIO CHARACTERISTICS

	Portfolio	Benchmark
Wtd. Avg. Market Cap (\$b)	4.23	2.65
Price-to-Earnings*	26.28	19.37
Price-to-Book	4.64	3.80
Price-to-Sales	3.33	1.63
Std. Dev. (3 yr) (%)	16.20	16.05
Alpha (3 yr) (%)	0.12	0.00
Beta (3 yr)	0.98	1.00
Std. Dev. (5 yr) (%)	16.82	16.91
Alpha (5 yr) (%)	-0.03	0.00
Beta (5 yr)	0.97	1.00
Est. 3-5 Yr EPS Growth (%)	28.02	16.73
Operating Margin (%)	9.27	8.38

\*P/E is calculated using forward 12-month earnings.

### TOP

#### CONTRIBUTORS<sup>1,2</sup>

	Average Weight	Relative Attribution
Loxo Oncology Inc	1.24	0.83
Roku, Inc. Class A	1.63	0.83
Fair Isaac Corp.	2.95	0.67
Array BioPharma Inc.	1.97	0.63
Q2 Holdings, Inc.	3.17	0.54
Paycom Software, Inc.	1.57	0.45
Rogers Corp.	1.39	0.41
Tandem Diabetes Care, Inc.	1.42	0.41
Mercury Systems, Inc.	2.27	0.32
Spark Therapeutics, Inc.	0.56	0.32

### TOP

#### DETRACTORS<sup>1,2</sup>

	Average Weight	Relative Attribution
Encompass Health Corp.	1.97	-0.42
AMN Healthcare Services, Inc.	1.15	-0.38
Dycom Industries, Inc.	0.79	-0.31
WD-40 Co.	1.24	-0.28
ICU Medical, Inc.	1.69	-0.22
Texas Roadhouse, Inc.	2.20	-0.22
Proto Labs, Inc.	1.22	-0.22
Axogen, Inc.	0.08	-0.17
Air Transport Services Group, Inc.	1.07	-0.15
First Financial Bankshares Inc	1.35	-0.15

Relative attribution: excess return relative to the benchmark, limited to stocks held in the portfolio.

### TOP 10 HOLDINGS<sup>1</sup> (% of portfolio)

Q2 Holdings, Inc.	3.40
Fair Isaac Corp.	3.29
Interxion Holding N.V.	2.49
Mercury Systems, Inc.	2.44
Teledyne Technologies Inc.	2.30
Array BioPharma Inc.	2.24
Five9, Inc.	2.22
Texas Roadhouse, Inc.	2.09
Roku, Inc. Class A	1.93
Sarepta Therapeutics, Inc.	1.89

Source: FactSet. All data as of 3/31/2019.

<sup>1</sup> See Holdings Disclosure on page 3.

<sup>2</sup> The contributors/detractors listed do not represent all securities purchased or sold for our clients. To obtain a list showing the contribution of each holding that contributed to overall performance during the quarter and the calculation methodology, please call 1-404-845-7640.

Encompass Health and AMN Healthcare Services were among the largest stock detractors.

- Post-acute healthcare services provider Encompass Health, which was a strong outperformer for much of 2018, continued to lag for a second quarter on proposed changes by the Centers for Medicare & Medicaid Services that could lead to payment reductions for home health services. We maintained our position, as we believe any changes should be manageable and spread out over several years. The company's large-scale operations should also help it benefit from potential consolidation in the industry.
- Nursing care staffing company AMN Healthcare fell on weaker-than-expected revenues for a second quarter. The firm faces continued challenges with its physician placement business and has yet to capture pricing improvements in its nursing segment. We sold the stock.

## PORTFOLIO CHANGES

We established new positions in REGENXBIO and Saia. We sold our position in AMN Healthcare as discussed, and also exited Cantel Medical, Versum Materials, and Dycom Industries.

- New holding biotechnology company REGENXBIO offers a significant intellectual property portfolio in gene therapies and an attractive mix of royalty-generating partnered programs.
- We bought trucking company Saia on expectations of stronger shipping volumes later in the year and the firm's ability to hold its pricing steady.
- We have been trimming our position in medical equipment company Cantel Medical for some time and we sold the remaining shares in March after several quarters of disappointing earnings and organic growth.
- We sold Versum Materials, which provides materials to the semiconductor industry, when its shares rose on the news it would merge with semiconductor equipment supplier Entegris Inc.
- We exited construction engineering company Dycom Industries on weak earnings and margins despite higher volumes as large wireless carriers upgraded their networks to 5G.

## PERFORMANCE ATTRIBUTION (%) AS OF 3/31/2019

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Communication Services	2.57	3.31	0.06	0.25	0.33
Consumer Discretionary	13.48	14.61	0.03	1.03	1.07
Consumer Staples	2.71	2.95	0.10	-0.08	0.03
Energy	0.77	1.86	-0.05	0.29	0.25
Financials	5.82	6.94	0.07	-0.20	-0.11
Health Care	28.31	26.63	0.04	2.24	2.30
Industrials	16.72	17.27	0.08	0.22	0.31
Information Technology	23.47	19.33	0.31	2.13	2.45
Materials	6.15	3.41	0.03	-0.05	-0.01
Real Estate	0.00	3.16	-0.04	0.00	-0.04
Utilities	0.00	0.52	0.07	0.00	0.07
<b>Total</b>			<b>0.68</b>	<b>5.83</b>	<b>6.64</b>

Source: FactSet.

Performance attribution does not incorporate the effects of cash, unclassified securities or expenses and may change at any time without notice. The total impact may not equal the difference between Portfolio and Benchmark returns.

## OUTLOOK

We remain cautiously optimistic in our outlook. Overall market signals continue to be slightly mixed, though without any major fundamental issues. Growth is clearly slowing, but a lower expansion rate makes sense ten years into the cycle. While manufacturing data has been softer, continued low interest rates and generally optimistic consumers (albeit still without any real wage gain momentum) should both offer solid tailwinds.

At this point, we expect current earnings to decelerate a bit, putting company guidance for the second half of the year in an even more critical light. Stocks should continue to offer decent growth potential, but we believe it will be increasingly important to focus in on companies that are best positioned to buck the broader slowing growth trend.

## PERFORMANCE COMPARISON (%) AS OF 3/31/2019

	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Small Cap Growth Composite (Gross)	23.11	23.11	14.28	16.28	7.69	16.08
Small Cap Growth Composite (Net)	22.83	22.83	13.15	15.13	6.62	15.08
Russell 2000® Growth Index	17.14	17.14	3.85	14.87	8.41	16.52
eVestment Alliance Small Cap Growth Median*	17.44	17.44	10.02	17.69	9.72	18.07
# of Portfolios in Median Calculation	177	177	177	171	163	147

eVestment Alliance data capture date: 4/17/19

**Past performance is not indicative of future results.** This presentation is solely for SUPPLEMENTAL INFORMATION purposes, intended for institutional investor, and may not be provided unless accompanied or preceded by the fully compliant GIPS Composite Presentation. The comparative performance contained herein reflects annualized returns for specific time period, is not indicative of actual annual returns, and may not be relied upon for investment decisions. Complete information regarding Silvant's returns is included on the GIPS presentation on page 4. The performance inception date for the composite is 1/1/2001.

Russell 2000® Growth Index is composed of the securities found in the Russell 2000® Index with a greater-than-average growth orientation. Companies in this index tend to exhibit higher price-to-book and price-to-earnings ratios. Investors cannot invest directly in an index.

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\*eVestment Alliance (eA) is a manager-reported database on hundreds of investment managers and thousands of investment products covering a full range of asset classes, investment styles, and geographic concentrations. Based on manager input, eA independently constructs universes using qualitative and quantitative factors. The investment products are organized into peer groups and assessed on an ongoing basis to ensure the consistency of a product's attributes within a designated style classification. In addition, eA utilizes style analysis tools, performance analytics, and the review of a product's investment strategy narrative in the construction of wide-ranging universes that are both pure in style and consistent over time.

The eVestment Number of Portfolios represents the number of investment products included in the calculation of the median return for the given eVestment universe for the given time period. Individual investment managers may have more than one investment product included in the universe, so the number of observations will likely be greater than the actual number of investment managers represented.

## HOLDINGS DISCLOSURE

The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed do not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings.

It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

## IMPORTANT RISK CONSIDERATIONS

**Equity Securities:** The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small or medium-sized companies may enhance that risk. **Growth Stocks:** Growth stocks are typically sensitive to market movements because their market prices tend to reflect future expectations. When it appears those expectations will not be met, the prices of growth stocks typically fall.

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SMALL CAP GROWTH COMPOSITE 1/1/01 – 3/31/2019

Year	Gross of Fee Return (%)	Net of Fee Return (%)	Benchmark Return (%)	Number of Portfolios	Composite Dispersion (%)	3-Year Standard Deviation		Total Composite Assets at End of Period (US\$ Mil)	Total Firm Assets (US\$ Mil)
						Composite	Benchmark		
2019 YTD	23.11	22.83	17.14	Five or fewer	N/A	16.20	16.05	29	818
2018	-5.55	-6.49	-9.31	Five or fewer	N/A	15.53	16.46	24	748
2017	15.88	14.74	22.17	Five or fewer	N/A	13.54	14.59	30	1,138
2016	10.60	9.50	11.32	Five or fewer	N/A	15.92	16.67	45	1,277
2015	-2.30	-3.27	-1.38	Five or fewer	N/A	14.62	14.95	70	1,382
2014	-3.35	-4.32	5.60	Five or fewer	N/A	14.00	13.82	246	1,736
2013	46.31	44.90	43.30	Five or fewer	N/A	17.18	17.27	301	2,233
2012	16.16	15.02	14.59	Five or fewer	N/A	21.34	20.72	353	3,002
2011	1.05	0.04	-2.91	Five or fewer	N/A	23.39	24.31	427	3,686
2010	25.34	24.14	29.09	6	0.32	26.35	27.70	537	4,093
2009	33.63	32.63	34.47	7	0.42	23.03	24.85	493	3,818

Silvant Capital Management LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Silvant has been independently verified for the period March 31, 2008 through December 31, 2018. A copy of the verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

- Silvant Capital Management LLC ("Silvant") is an SEC-registered investment adviser and is a wholly owned subsidiary of Virtus Partners, Inc., a wholly owned subsidiary of Virtus Investment Partners, Inc. ("Virtus"). Registration of an investment adviser does not imply any level of skill or training. Silvant manages assets on behalf of institutional and retail separate accounts and mutual funds. Silvant became an affiliate of Virtus effective June 1, 2017, when Virtus acquired RidgeWorth Capital Management LLC and RidgeWorth Investments ("RidgeWorth"). Silvant was created March 31, 2008, when all of the investment decision-makers associated with the growth equity investment strategies of RidgeWorth became employees of Silvant. The staff and decision making process remained intact and independent within Silvant. For composite reporting purposes, the Firm is defined as all equity portfolios managed by Silvant. Composite performance results are linked to performance history generated at RidgeWorth.
- The Small Cap Growth Strategy composite includes fully discretionary separately managed investment accounts and registered and unregistered mutual funds managed in accordance with the small cap growth style, with the objective of investing in in stocks with a competitive advantage, strong profitability metrics, above average free cash flow, above average operating margins and positive price trends. Under normal circumstances, Small Cap Growth Portfolios will have at least 80% of their assets invested in common stocks and other U.S. traded equity securities of small cap companies. U.S. traded equity securities may include American Depository Receipts ("ADR's"). Silvant considers small cap companies to be companies with market capitalizations similar to those of companies in the Russell 2000 Growth Index. Silvant will seek out securities it believes have strong business fundamentals, such as revenue growth, improving cash flows, increasing margins and positive earnings trends. Prior to September 1, 2015, the gross of fee return for the mutual fund was calculated by adding back the fund's published total operating expense ratio to the net of fee mutual fund performance; we now use the gross of fee return of the underlying portfolio. A complete description of the composite is available on request.
- The benchmark for the Small Cap Growth Strategy composite is the Russell 2000 Growth Index, which is composed of the securities found in the Russell 2000 Index with a greater-than-average growth orientation. Companies in this index tend to exhibit higher price-to-book and price-to-earnings ratios. The index is calculated on a total-return basis with dividends reinvested. Index returns do not reflect the deduction of any fees or expenses.
- The three-year annualized standard deviations for the composite and the benchmark index are calculated using monthly returns.
- Beginning March 31, 2008, composite policy required the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow of 10% or greater of portfolio assets. This policy was discontinued effective January 1, 2013.
- The dispersion of annual returns is measured by the equal-weighted standard deviation of portfolio returns represented within the composite for the full year. Partial year dispersion is measured by the equal-weighted standard deviation of portfolio returns represented in the composite for the partial year period specified. No dispersion is reported for periods with five or fewer portfolios (shown as N/A).
- Returns are calculated based on total return which (a) includes cash returns, realized and unrealized gains plus income; (b) utilizes trade date and accrual accounting; and (c) is after the deduction of actual trading fees and expenses. Portfolio returns are calculated utilizing daily valuation. Composite returns, calculated monthly, are the weighted average return of the underlying portfolios using beginning-of-period market values. Composite gross of fee returns do not reflect any deduction for investment advisory fees, custodial charges or other costs that a client might incur in connection with the management of an account. Composite net of fee performance is calculated assuming a fee of 1.00%, the highest fee for this type of investment account.
- The standard management fee schedule applicable to small cap growth equity accounts is as follows: 1.00% on the first \$10 million, 0.80% on the next \$40 million, and 0.60% on all over \$50 million. The minimum annual fee is \$10,000. Actual investment advisory fees incurred by clients may vary.
- This composite was created March 31, 2008, the inception date of Silvant, and continues the investment strategy of a composite originally created in 2001. The composite has performance history with an inception date of January 1, 2001.
- The minimum portfolio size for the Small Cap Growth Strategy composite is \$1 million. For further information on investment management fees, please refer to Form ADV Part 2.
- Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.
- A complete list and description of firm composites and performance results is available upon request.
- Past performance is not indicative of future results and no investment is guaranteed for return of principal and/or return on investments. Results will vary among accounts. All information provided and used in calculations is believed to be correct, but accuracy cannot be guaranteed. Please consult with a financial professional before investing.