

# Portfolio Commentary

## Small Cap Growth

# Q2 | 2019

### MARKET REVIEW

U.S. growth stocks in general continued to march higher during the quarter, outperforming their value peers, led by large-cap securities. The Russell 2000® Growth Index climbed 2.75%. The best-performing sectors in the Index were industrials (+9.39%), financials (+4.73%), and utilities (+4.28%). Only the energy (-8.97%), communication services (-4.50%), and real estate (-0.19%) sectors posted declines.

Stocks broadly continued to trade on fundamentals, which remained largely positive. Continued low inflation and a strong job market also helped to prop up valuations, despite moderately weaker broad economic data. Growing expectations for the Federal Reserve to ease U.S. interest rates helped investors shrug off trade tariff tensions and slowing global manufacturing data. While most major economies around the world appeared to be either flat or slightly contracting, the U.S. was still clearly in expansionary mode, without any major signs of imminent recession, although this growth has come off recent peaks and continues to exhibit classic signs of late-cycle softening.

### PERFORMANCE

For the quarter, the Silvant Small Cap Growth Strategy Composite outperformed the Russell 2000 Growth Index with a return of 7.10% (gross)/6.84% (net) versus 2.75% for the benchmark. Stock selection in the healthcare, information technology, consumer discretionary, and financials sectors added the most to performance. Stock selection in the industrials and consumer staples sectors detracted from returns.

Array BioPharma and Roku were the strongest stock contributors to performance.

- Clinical-stage pharmaceutical company Array BioPharma's stock rose on positive data from its colorectal cancer trial. Its shares also rallied on an acquisition bid from Pfizer late in the quarter. We continued to hold the stock as of quarter-end.
- Streaming-video provider Roku climbed on strong growth and upbeat forward-looking guidance. The company delivered higher-than-expected revenue driven by gains in its two businesses—Roku digital media players, which allow over-the-top streaming to televisions, and Roku Channel, an ad-supported free channel offering content. Total streaming hours on its devices are also accelerating. We maintained our position given the company's strong fundamentals and attractive growth potential.

### PORTFOLIO CHARACTERISTICS

	Portfolio	Benchmark
Wtd. Avg. Market Cap (\$b)	4.85	2.92
Price-to-Earnings*	27.97	20.23
Price-to-Book	4.83	3.79
Price-to-Sales	3.54	1.66
Std. Dev. (3 yr) (%)	16.90	17.20
Alpha (3 yr) (%)	2.41	0.00
Beta (3 yr)	0.95	1.00
Std. Dev. (5 yr) (%)	16.57	17.23
Alpha (5 yr) (%)	1.37	0.00
Beta (5 yr)	0.93	1.00
Est. 3-5 Yr EPS Growth (%)	21.57	16.63
Operating Margin (%)	7.55	7.82

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

### TOP

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

	Average Weight	Relative Attribution
Array BioPharma Inc.	2.45	1.46
Roku, Inc. Class A	2.31	0.65
Sarepta Therapeutics, Inc.	1.86	0.45
Fair Isaac Corp.	3.39	0.42
Insulet Corp.	1.50	0.33
Teledyne Technologies Inc.	2.33	0.28
Interxion Holding N.V.	2.57	0.27
Cable One, Inc.	1.55	0.24
Q2 Holdings, Inc.	3.41	0.23
Coupa Software, Inc.	1.25	0.22

### TOP

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

	Average Weight	Relative Attribution
E. W. Scripps Co. Class A	0.97	-0.33
Texas Roadhouse, Inc.	1.82	-0.27
HealthEquity Inc.	1.61	-0.19
Chart Industries, Inc.	1.07	-0.18
iRobot Corp.	0.81	-0.14
Inter Parfums, Inc.	0.92	-0.13
Forward Air Corp.	1.16	-0.12
Alder Biopharmaceuticals, Inc.	0.66	-0.11
American Eagle Outfitters, Inc.	0.66	-0.11
Franklin Electric Co., Inc.	1.08	-0.10

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

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

Array BioPharma Inc.	3.92
Fair Isaac Corp.	3.50
Q2 Holdings, Inc.	3.45
Interxion Holding N.V.	2.62
Roku, Inc. Class A	2.50
Mercury Systems, Inc.	2.46
Teledyne Technologies Inc.	2.45
Sarepta Therapeutics, Inc.	2.22
Chemed Corp.	1.91
Balchem Corp.	1.85

Source: FactSet. All data as of 6/30/2019.

<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.

E.W. Scripps Company and Texas Roadhouse were the largest stock detractors.

- Media company E.W. Scripps reported lower-than-expected earnings and forward-looking guidance, as well as weaker advertising revenue. Investors also were unsure whether the company would continue its TV station acquisition spree or pause to digest its recent purchases. We continued to hold the stock, as we expect ad revenue to improve on higher political spending as next year's election cycle gears up. Further, we do not believe the company will continue to lever up new acquisitions before its latest station additions are integrated.
- Despite strong revenue growth, Western-themed steak restaurant chain Texas Roadhouse reported disappointing earnings and tighter margins from rising workforce expenses. We maintained our position, given the company's attractive top-line growth and same-store sales gains. We also believe recent labor cost headwinds are somewhat cyclical in nature.

## PORTFOLIO CHANGES

During the quarter, we purchased Kratos Defense & Security Solutions. Notable exits included Dorman Products and Monolithic Power Systems.

- We bought Kratos Defense & Security Solutions, a security technology company that offers an attractive, growing business in unmanned drone systems. The firm's rocket support and satellite management systems also continue to secure higher budget allocations from the U.S. Department of Defense.
- We sold auto part business Dorman Products and integrated power solutions company Monolithic Power Systems, which also has large exposure to the auto industry, based on growth concerns about the overall automotive segment. Monolithic is also heavily exposed to U.S.-China trade tensions through its China operations.

## PERFORMANCE ATTRIBUTION (%) AS OF 6/30/2019

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Communication Services	2.34	3.12	0.07	0.10	0.16
Consumer Discretionary	12.79	14.68	0.01	0.40	0.40
Consumer Staples	2.55	2.92	0.01	-0.20	-0.20
Energy	1.13	1.67	0.06	0.01	0.07
Financials	6.25	7.04	-0.03	0.32	0.30
Health Care	28.64	26.50	-0.03	3.23	3.20
Industrials	18.36	18.52	-0.04	-0.82	-0.87
Information Technology	21.84	18.54	0.04	1.27	1.31
Materials	6.09	3.45	-0.07	0.05	-0.02
Real Estate	0.00	3.02	0.09	0.00	0.09
Utilities	0.00	0.53	-0.01	0.00	-0.01
<b>Total</b>			<b>0.09</b>	<b>4.35</b>	<b>4.45</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 largely positive in our outlook. Earnings continue to decelerate, which may begin to weigh on investor sentiment. However, overall stock fundamentals and the primary tenets of continued U.S. economic expansion, although slowing, remain largely in place. This environment should continue to offer relatively attractive, though perhaps somewhat blander, return potential for growth stocks. To be sure, areas of caution remain. It continues to get harder for companies to beat their earnings expectations, especially after a decade of steady gains. It also remains difficult to assess how the most recent trade war rhetoric might ultimately play out given the unpredictable nature of the Trump administration. Corporate capital spending also remains light, and this will probably remain the case until there is some clarity that trade tariff concerns are behind us. Even with these overhangs though, we do not currently see a material risk of recession and continue to find solid investment potential in carefully selected growth securities.

## PERFORMANCE COMPARISON (%) AS OF 6/30/2019

	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Small Cap Growth Composite (Gross)	7.10	31.85	13.98	16.66	9.55	14.85
Small Cap Growth Composite (Net)	6.84	31.22	12.85	15.51	8.47	13.85
Russell 2000® Growth Index	2.75	20.36	-0.49	14.69	8.63	14.41
eVestment Alliance Small Cap Growth Median*	4.71	23.72	5.59	18.23	10.65	16.46
# of Portfolios in Median Calculation	175	175	175	169	163	148

eVestment Alliance data capture date: 7/19/19

**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 – 6/30/2019

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	31.85	31.22	20.36	Five or fewer	N/A	16.90	17.20	31	822
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.