

# Portfolio Commentary

## Small Cap Growth

# Q3 | 2020

### MARKET REVIEW

U.S. growth stocks delivered strong gains in the third quarter, with large-cap stocks generally outperforming small-cap stocks. The Russell 2000® Growth Index rose 7.16%, led by the consumer discretionary (+17.16%), industrials (+15.30%), and consumer staples (+9.82%) sectors. Only the communication services (-1.32%), utilities (-3.76%), and energy (-6.05%) sectors posted losses.

Economic fundamentals added support, continuing to improve off the relatively low base set earlier in the year, albeit with a general slowing in the recovery as the quarter progressed. Labor force participation improved, and unemployment fell to 8.4% in August, much better than forecasts. Both industrial production and retail sales also rose, if at a softening pace. Further, this all occurred against the backdrop of the Federal Reserve's seemingly unlimited market-supportive stance. The largely constructive climate drove multiple expansion for much of the period, with the market peaking in early September followed by a slight pullback before resuming its climb.

### PERFORMANCE

For the quarter, the Silvant Small Cap Growth Strategy Composite returned 8.41%/8.14% (gross/net), outperforming the 7.16% return of the Russell 2000 Growth Index. Stock selection in the healthcare and consumer staples sectors, an overweight position in the industrials sector, and an underweight position in the utilities sector added the most to performance. Stock selection in the industrials, consumer discretionary, and materials sectors weighed on returns.

Novocure and Boston Beer Company were the strongest stock contributors to relative performance.

- Medical instruments firm Novocure rose on higher-than-expected revenue and gains in year-over-year product usage. There had been some concerns around how the company might be affected by the COVID-19 crisis, but it has performed better than anticipated. We held onto the stock as the firm is also undergoing several promising phase III trials.
- Boston Beer Company gained on revenue and earnings strength. The brewer benefited from strong performance and higher margins in its Truly Hard Seltzer beverage line. We held our position given the business's strong fundamentals.

### PORTFOLIO CHARACTERISTICS

	Portfolio	Benchmark
Wtd. Avg. Market Cap (\$b)	5.61	2.94
Price-to-Earnings*	38.79x	23.38x
Price-to-Book	5.66x	4.44x
Price-to-Sales	3.80x	1.96x
Std. Dev. (3 yr) (%)	22.24	22.79
Alpha (3 yr) (%)	6.26	0.00
Beta (3 yr)	0.94	1.00
Std. Dev. (5 yr) (%)	19.27	19.96
Alpha (5 yr) (%)	2.39	0.00
Beta (5 yr)	0.93	1.00
Est. 3-5 Yr EPS Growth (%)	29.30	17.86
Operating Margin (%)	5.10	4.04

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

### TOP

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

	Average Weight	Relative Attribution
Novocure Ltd.	1.49	0.91
Boston Beer Company, Inc. Class A	1.42	0.57
Aimmune Therapeutics, Inc.	0.45	0.50
Natera, Inc.	1.83	0.48
Inspire Medical Systems, Inc.	1.62	0.43
Five9, Inc.	3.72	0.36
Chart Industries, Inc.	1.15	0.34
Insulet Corp.	2.06	0.28
LHC Group, Inc.	2.29	0.22
Lithia Motors, Inc. Class A	0.91	0.20

### TOP

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

	Average Weight	Relative Attribution
Reata Pharmaceuticals, Inc. Class A	1.51	-0.83
Sarepta Therapeutics, Inc.	2.29	-0.46
Meridian Bioscience, Inc.	0.39	-0.26
Everbridge, Inc.	1.46	-0.24
GW Pharmaceuticals PLC Sponsored ADR	0.83	-0.24
Ollie's Bargain Outlet Holdings Inc.	1.28	-0.23
Teledyne Technologies, Inc.	2.90	-0.22
Mercury Systems, Inc.	2.02	-0.19
Coupa Software, Inc.	2.34	-0.17
PROS Holdings, Inc.	0.26	-0.17

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.	4.23
Five9, Inc.	4.02
Teledyne Technologies, Inc.	2.84
Tandem Diabetes Care, Inc.	2.83
Chemed Corp.	2.60
LHC Group, Inc.	2.47
Natera, Inc.	2.34
Insulet Corp.	2.32
Coupa Software, Inc.	2.20
Casella Waste Systems, Inc. Class A	2.11

Source: FactSet. All data as of 9/30/2020.

<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 404-845-7640.

Reata Pharmaceuticals and Sarepta Therapeutics were the largest stock detractors from relative performance.

- Despite strong revenue and earnings, drug company Reata Pharmaceuticals fell on announced delays in two of its pipeline products: omeveloxolone, a treatment for rare genetic disorder Friedreich’s Ataxia, and bardoxolone methyl, a treatment for rare kidney disease Alport syndrome. We maintained our position, as we expect both drugs will still come to market with strong sales potential.
- Drug company Sarepta Therapeutics also reported solid financial results but declined on the announcement that the FDA had unexpectedly asked for an additional potency assay for its gene therapy SRP-9001 for Duchenne muscular dystrophy prior to a planned trial. We made no changes in our position, as we remain positive on the treatment and expect a pushback of only three months or so.

### PORTFOLIO CHANGES

MyoKardia and Repay Holdings were new additions to the portfolio in the quarter. We exited Shake Shack and Viasat.

- We bought clinical-stage biopharmaceutical company MyoKardia on positive phase III data for its cardiac drug mavacamten.
- New portfolio entry payments technology firm Repay Holdings is a leader in debt-based loan payment automation and should benefit as the low penetration of this service continues to grow.
- We sold fast-food chain Shake Shack on soft earnings, margins, and same-store sales. The company continued to struggle more than competitors due to some of its locations.
- We exited satellite broadband provider Viasat on lower demand for its inflight Wi-Fi services and large upcoming capital expenditures for a planned new satellite launch.

### PERFORMANCE ATTRIBUTION (%) AS OF 9/30/2020

	Quarter-end Sector Weights		Impact		
	Portfolio	Benchmark	Sector Weight	Stock Selection	Total
Communication Services	2.67	2.32	0.00	0.12	0.12
Consumer Discretionary	14.32	13.65	0.06	-0.68	-0.62
Consumer Staples	2.80	3.22	-0.01	0.37	0.36
Energy	0.00	0.14	0.03	0.00	0.03
Financials	5.22	4.21	-0.04	-0.10	-0.15
Healthcare	33.65	34.52	0.09	2.20	2.30
Industrials	16.58	13.81	0.25	-1.16	-0.91
Information Technology	20.93	20.12	0.05	0.11	0.16
Materials	2.86	2.57	0.00	-0.20	-0.20
Real Estate	0.97	3.75	0.02	0.07	0.09
Utilities	0.00	1.68	0.21	0.00	0.21
<b>Total</b>			<b>0.65</b>	<b>0.73</b>	<b>1.38</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

It may be surprising to read that we were reassured by the late-quarter pullback. When growth stocks have been on a tear, as they have since rebounding after the first quarter selloff, a normalized pause can help indicate a healthier market with stronger support for shares starting to rise again. On the plus side, fundamentals remain solid and continue to improve, though we do not expect a linear recovery, even if the general trajectory appears to be slowly but surely getting better.

Markets are also trying to gauge the odds and timing of a COVID-19 vaccine, as well as the potential U.S. election outcome. For the latter, we do not spend a lot of energy trying to predict who might win and instead focus on how opportunities may shift under different scenarios. However, it does appear that the market has grown more comfortable with a potential Biden presidency. In terms of a vaccine, there are a number of solid global programs moving ahead, and we expect investors to watch closely at how well these proceed through phase trials and FDA approval. The expectation for now seems to be that, regardless of the election outcome, we will eventually be able to solve the problem of the virus and return to a more normalized economy.

## PERFORMANCE COMPARISON (%) AS OF 9/30/2020

	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Small Cap Growth Composite (Gross)	8.41	10.53	20.27	14.47	13.32	13.35
Small Cap Growth Composite (Net)	8.14	9.71	19.09	13.34	12.20	12.23
Russell 2000® Growth Index	7.16	3.88	15.71	8.18	11.42	12.34
eVestment Alliance Small Cap Growth Median*	9.01	10.74	21.16	13.73	14.97	14.56
# of Portfolios in Median Calculation	176	176	176	174	168	154

eVestment Alliance data capture date: 10/19/2020

**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.

Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company.

This information and general market-related projections are based on information available at the time, are subject to change without notice, are for informational purposes only, are not intended as individual or specific advice, may not represent the opinions of the entire firm, and may not be relied upon for individual investing purposes. Information provided is general and educational in nature, provided as general guidance on the subject covered, and is not intended to be authoritative. All information contained herein is believed to be correct, but accuracy cannot be guaranteed. This information may coincide or conflict with activities of the portfolio managers. It is not intended to be, and should not be construed as investment, legal, estate planning, or tax advice. Silvant Capital Management does not provide legal, estate planning, or tax advice. Investors are advised to consult with their investment professional about their specific financial needs and goals before making any investment decisions. Portfolio characteristics, sector analysis, and holdings exclude cash and may change at any time.

\*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. **Market Volatility:** Local, regional, or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio manager(s) to invest the portfolio's assets as intended.

For information, contact:

Silvant Capital Management | 404-845-7640 | [www.silvantcapital.com](http://www.silvantcapital.com)

# Q3 | 2020 Small Cap Growth

SMALL CAP GROWTH COMPOSITE 1/1/01 – 9/30/2020

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		
2020 YTD	10.53	9.71	3.88	Five or fewer	N/A	22.24	22.79	30	793
2019	37.52	36.19	28.48	Five or fewer	N/A	16.58	16.37	30	821
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

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, 2019. 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 registered 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.