



## SILVERCREST ASSET MANAGEMENT GROUP

### U.S. SMID CAP VALUE UPDATE

#### FOURTH QUARTER AND FULL-YEAR 2022 REVIEW AND OUTLOOK

In the fourth quarter ended December 31, 2022, the Silvercrest U.S. SMID Cap Value portfolio returned +8.50% versus returns of +9.21% for the Russell 2500 Value Index and +7.43% for the Russell 2500 Index. For the full year 2022, the Silvercrest portfolio returned -15.45% versus -13.08% for the Russell 2500 Value Index and -18.37% for the Russell 2500 Index.

Russia's February 24th invasion of Ukraine and the ensuing sanctions set off a global rethinking about energy independence and stoked already marked inflation. Gas-price jumps in Europe pushed that region into recession, which buoyed the already-strong US dollar against most currencies. China's economy faltered under the weight of COVID lockdowns with that stress being felt in supply chains worldwide. The first half of 2022 marked the worst equity and bond markets in over a decade. About midyear, the U.S. Treasury Yield Curve inverted between the two-and-ten-year maturities, warning investors that a U.S. recession might occur.

Inflation was higher than expected in 2022: the U.S. Consumer Price Index (CPI) rose from +7% in January to +9% in June before pulling back to about +7% by the end of the year. Central banks worldwide increased rates to quell inflation, tightening finances and slowing global growth. Labor markets tightened, commodity prices jumped, and supply chains made only plodding improvement. U.S. housing starts, turnover, and prices suffered from higher mortgage rates. U.S. GDP growth slowed but remained positive as the labor market held up even as job openings dropped off. Value issues generally outperformed their Growth peers. The year brought the first prolonged negative equity-market returns since 2008 (major U.S. indices down -9-33%), with the fixed-income market not offering the diversification it historically has (major index returns down -11-16%).

Negative equity returns generally came from multiple compression because earnings mostly grew. For example, the S&P 500's -18% drop came as earnings rose +3% while the price-to-earnings multiple(P/E) compressed, subtracting -22% with dividends adding almost +2%. In the Russell 1000 Value, earnings climbed +5%, the P/E fell -14%, and dividends added a bit more than +2%. The effect was accentuated down market cap as indicated by Russell 2000 earnings up +7%, while the P/E plunged -27% with dividends adding about a point. The -14.48% return for the Russell 2000 Value Index in 2022 was its third-worst since the index was created in 1979.

The fourth quarter was mostly risk-on, rebounding from despair in the third quarter. Broad market volatility, measured by the CBOE Volatility Index (VIX), fell -31%. Equities around the world generally appreciated, as did bonds. Generally, higher-quality factors did well both in the fourth quarter and the full year, providing a tailwind for our style. Within this context, we are disappointed by the U.S. SMID Value strategy's modest underperformance relative to the value index, which was driven primarily by a handful of disappointing stocks in what felt like an unusually volatile year at the individual stock level.

All sectors of the Russell 2500 Value Index logged a positive return in the fourth quarter with Basic Materials (20%) leading the pack followed by Industrials (14%), Consumer Discretionary (+13%), and Consumer Staples (+11%). On the flip side, the small Telecommunications (4%), Health Care (+5%), Real Estate (5%), and Technology (5%) all lagged. Overall, the sector allocation impact to our performance in Q4 was modestly positive at just over 50 basis points, with the largest contributor being our relative overweight in Industrials (26% vs. 18% for the index sector).

Regarding stock selection in the fourth quarter, the Silvercrest SMID Value portfolio had a drag of approximately 100 basis points, concentrated within Industrials where our stocks only appreciated +6% vs. the index sector's +14% return. Commercial roofing and building product provider Carlisle Companies Inc. (CSL, -16%), our worst contributor to return during the quarter, declined despite a solid Q3 earnings report. We added to our position during the quarter and believe the company has attractive long-term prospects available at a discounted valuation. Healthcare services company Syneos Health Inc. (SYNH, -22%), our steepest decliner on a percentage basis, had a poor Q3 report with much lower bookings than expected largely due to sales execution related issues, some project push-outs by biopharma clients, and a lower-than-expected win rate for awarded projects. We have maintained our small position for now, awaiting better visibility, and given our belief that SYNH has long-term franchise value as a top global CRO as well as the fact that the CRO Mergers & Acquisitions (M&A) market has been active. Our best relative performance came in Consumer Staples (+24% vs. +11%) and Technology (+18% vs. +5%). Packaged food maker Lancaster Colony Corp. (LANC, +32%) performed well on the back of a faster-than-anticipated recovery in profit margins from prior inflationary pressure in its cost structure, refocusing investors on its growth opportunities, including licensing. Electrical and mechanical contractor EMCOR Group. (EME, +28%), the largest positive contributor to portfolio returns in the quarter, had a robust Q3 report, as trends in its end markets remain solid and we think the company could be a longer-term beneficiary of manufacturing reshoring in the U.S.

Moving to full year 2022 performance, the Silvercrest U.S. SMID Cap Value outperformed in three of the ten sectors in which we had exposure. From a sector allocation standpoint, the portfolio had an unusually large tailwind of just under 200 basis points, with the largest contributor being our underweight in Real Estate, a sector that underperformed the index. Looking at what drove returns at the index level (Russell 2500 Value Index), the leading sector by far was Energy (+47%) which surged on the back of higher commodity prices, in part due to geopolitical events and the war in Ukraine, but also due to healthier fundamentals (measured growth, better balance sheets) across the sector versus years past. Texas-based exploration and production company Matador Resources (MTDR, +56%) was the portfolio's largest gainer on a percentage basis and second-largest contributor to return. The worst-performing sectors on an absolute basis for the index were the small Telecommunications sector (-32%) and Technology (-25%). On a relative basis, our worst sector performance was in Basic Materials (-14% vs. flat for the index sector), hurt by specialty paper and fiber maker Glatfelter Corp. (GLT) where we exited our position earlier in the year due to disappointing results and lower conviction. We also had disappointing stock selection in Health Care (-36% vs. -23%) where SYNH (-64%) was our largest detractor from returns due to the above-referenced issues. Our best sector relative performance was in Financials (2% vs. -11%), helped by the February announcement that First Horizon Corp. (FHN, +34%) would be acquired by a larger peer. Overall, we are disappointed in the stock selection performance in 2022 which detracted approximately 340 basis points from return.

During the fourth quarter, we initiated four new positions. Avantor Inc. (AVTR) a leading provider of healthcare lab products and services to customers in the biopharma industry (50-55% of revenue), medical device & diagnostics (roughly 10%), education & government (10-15%), and other industries (approximately 25% of revenue into the semiconductors, aerospace & defense, water/wastewater, consumer, energy, mining, and other industrial markets). The majority of the company's revenue is derived from materials and consumables with recurring-type attributes. With attractive long-term growth in its end markets, margin expansion potential, and solid free cash flow, we view the current discounted valuation vs. peers as an opportunity. To further increase our Health Care exposure, we also added a position in Integer Holdings Corp. (ITGR), a manufacturer of value-added components for medical devices. We believe the portfolio has improved in recent years, suggesting better revenue growth potential including growth from new product introductions. With improvements in manufacturing excellence and productivity outlined by management, the company's operating leverage and earnings growth prospects may further improve going forward. Diversifying our Real Estate exposure in the portfolio, we initiated a position in self-storage provider Life Storage Inc. (LSI), which has a coast-to-coast presence in over 35 states. We are attracted to the industry's recession-resistant nature, high margins, limited capex needs, and short-term leases which can keep up with inflation. After the stock pulled back from prior highs (perceived as a "COVID winner" in 2020-2021), we view valuation as reasonable and

like the long-term outlook. Lastly, we started a position in Columbia Banking System Inc. (COLB), a regional bank based in the Northwest with operations in Washington, Oregon, Idaho, and California. We have followed COLB for many years and like its markets, financial characteristics, and management. COLB has announced a merger with Portland, OR-based Umpqua Holdings Corporation (UMPQ), which we believe could provide attractive expense rationalization opportunities, and the combined company will be run by COLB's management team.

Moving to portfolio sales, we exited six positions during the fourth quarter. We sold our remaining holdings of furniture and engineered component manufacturer Leggett & Platt Inc. (LEG) on waning conviction due to disappointing guidance which left the shares close to our estimate of fair value. Semiconductor supplier Semtech Corp. (SMTC) has made an acquisition offer for Sierra Wireless, and while the deal may have longer-term appeal, we stepped aside in the SMID portfolio due to other higher-conviction ideas in Technology. Similarly, MKS Instruments Inc. (MKS), a supplier into the semiconductor capital equipment and other industries, is currently being challenged by difficult end markets made more complicated by recent U.S. sanctions against China, weakening wafer fab equipment spending, and an acquisition that added debt during a downturn. While an excellent company with a strong track record, we step aside for now though may revisit the company in the future. Insurance holding company Horace Mann Educators Corp. (HMN) was close to our estimate of fair value and was used as a source of cash for other ideas. Specialty chemical and agricultural product manufacturer FMC Corp. (FMC) had appreciated toward the upper end of the SMID market cap band, leading us to monetize the position. Lastly, we sold the portfolio's small position in home health provider Enhabit Inc. (EHAB) which was received as a spin-off from Encompass Health (EHC) as we did not envision making it a larger position.

While it seems most market and economic prognosticators are fairly bearish on the near-term outlook, we find ourselves less pessimistic. Discussions with our company management teams do perhaps suggest some softening and caution, but nothing overly calamitous. Recessions come and go, but by focusing on what we believe to be above average quality companies, we feel our holdings will generally emerge stronger. Generally, supply chain issues appear to be improving, inflation is moderating, and thus far at least, demand seems somewhat resilient. With the portfolio selling at roughly 13-times estimated next twelve months' earnings, we continue to see reasonable value within our portfolio holdings offering a median mid-teens potential upside to our estimates of current fair value.

## U.S. SMID CAP VALUE NOTES TO PERFORMANCE

TOP 10 CONTRIBUTORS—Q4 2022			BOTTOM 10 CONTRIBUTORS—Q4 2022		
HOLDING	CONTRIBUTION TO RETURN (%)	ABSOLUTE RETURN (%)	HOLDING	CONTRIBUTION TO RETURN (%)	ABSOLUTE RETURN (%)
Emcor Group Inc.	0.71	28.41	Carlisle Companies Inc.	-0.52	-15.71
Curtiss Wright Corp.	0.64	20.13	Syneos Health Inc.	-0.35	-22.21
Matador Resources Co.	0.62	17.19	MKS Instruments Inc.	-0.24	-18.68
Lancaster Colony Corp.	0.50	31.84	ICF International Inc..	-0.24	-9.02
Concentrix Corp.	0.47	19.56	Hasbro Inc.	-0.17	-8.54
The Interpublic Group of Companies Inc..	0.45	31.22	Life Storage Inc.	-0.15	-11.71
United Bankshares Inc.	0.44	14.25	Columbia Banking System Inc.	-0.11	-9.14
Magnolia Oil & Gas Corp.	0.43	18.82	Brightview Holdings Inc.	-0.11	-13.22
Simply Good Foods Co.	0.41	18.88	Trimble Inc.	-0.10	-6.84
Independent Bank Corp.	0.40	14.02	Pebblebrook Hotel Trust	-0.08	-7.65

TOP 10 CONTRIBUTORS—2022			BOTTOM 10 CONTRIBUTORS—2022		
HOLDING	CONTRIBUTION TO RETURN (%)	ABSOLUTE RETURN (%)	HOLDING	CONTRIBUTION TO RETURN (%)	ABSOLUTE RETURN (%)
First Horizon Corp.	1.02	33.87	Syneos Health Inc.	-1.82	-64.28
Matador Resources Co.	0.94	55.85	MKS Instruments Inc.	-1.44	-61.22
Curtiss Wright Corp.	0.59	21.04	Semtech Corp.	-1.16	-68.09
Emcor Group Inc.	0.54	16.80	NCR Corp.	-1.14	-41.77
United Bankshares Inc.	0.45	16.04	Hasbro Inc.	-0.94	-37.94
The Interpublic Group of Companies Inc.	0.45	30.96	Azenta Inc.	-0.82	-43.54
Lancaster Colony Corp.	0.37	21.63	Brightview Holdings Inc.	-0.80	-51.07
Magnolia Oil & Gas Corp.	0.28	26.44	EastGroup Properties Inc.	-0.79	-33.07
Integer Holdings Corp.	0.27	22.25	Concentrix Corp.	-0.77	-24.92
Independent Bank Corp.	0.23	6.22	Pebblebrook Hotel Trust	-0.69	-40.00

### U.S. SMID VALUE COMPOSITE

For the Period October 1, 2005 to December 31, 2021

	RATE OF RETURN (GROSS)	RATE OF RETURN (NET)	RUSSELL 2500 VALUE INDEX	RUSSELL 2500 INDEX	NUMBER OF PORTFOLIOS	COMPOSITE ASSETS AT ENDING PERIOD (\$ MILLIONS)	TOTAL FIRM ASSETS AT ENDING PERIOD (\$ MILLIONS)	DISPERSION	3 YR ANNUALIZED STD DEV COMPOSITE	3 YR ANNUALIZED STD DEV RUSSELL 2500 VALUE	3 YR ANNUALIZED STD DEV RUSSELL 2500
2005 <sup>1</sup>	0.91%	0.66%	0.92%	1.81%	2	\$3.2	\$5,287.7	N/A	N/A	N/A	N/A
2006	17.95%	16.78%	20.18%	16.17%	6	\$7.9	\$6,961.5	N/A	N/A	N/A	N/A
2007	9.02%	7.94%	-7.27%	1.38%	1	\$0.7	\$7,599.6	N/A	N/A	N/A	N/A
2008	-30.83%	-31.53%	-31.99%	-36.79%	1	\$0.5	\$5,830.8	N/A	N/A	N/A	N/A
2009	32.26%	30.95%	27.68%	34.39%	1	\$0.6	\$5,997.5	N/A	N/A	N/A	N/A
2010	19.28%	18.10%	24.82%	26.71%	2	\$1.0	\$6,308.1	N/A	N/A	N/A	N/A
2011	1.10%	0.12%	-3.36%	-2.51%	4	\$28.6	\$7,067.7	N/A	21.21%	24.23%	23.40%
2012	16.73%	15.60%	19.21%	17.88%	6	\$33.6	\$7,999.1	N/A	17.26%	18.41%	18.97%
2013	33.45%	32.19%	33.32%	36.80%	8	\$44.9	\$10,102.1	0.19%	14.84%	15.07%	15.63%
2014	7.03%	6.03%	7.11%	7.07%	9	\$66.5	\$11,647.1	0.06%	12.23%	11.25%	11.67%
2015	-0.08%	-1.04%	-5.49%	-2.90%	9	\$32.4	\$12,166.1	0.28%	13.05%	12.02%	12.42%
2016	29.30%	28.05%	25.20%	17.59%	11	\$47.8	\$13,860.3	0.17%	14.89%	13.17%	13.67%
2017	15.37%	14.39%	10.36%	16.81%	22	\$163.7	\$15,949.4	0.08%	12.86%	11.81%	12.13%
2018	-12.06%	-12.83%	-12.36%	-10.00%	22	\$193.7	\$14,198.8	0.29%	14.99%	13.58%	14.10%
2019	26.98%	25.86%	23.56%	27.77%	33	\$255.9	\$18,710.2	0.36%	15.87%	14.23%	14.58%
2020	3.43%	2.47%	4.88%	19.99%	38	\$253.9	\$20,593.1	0.34%	25.04%	25.05%	24.21%
2021	28.99%	27.84%	27.78%	18.18%	39	\$304.7	\$24,986.1	0.99%	23.55%	24.15%	22.48%

<sup>1</sup> Returns are for the period from October 1, 2005 (inception date) through December 31, 2005.

The above quarterly strategy commentary is a representative sample of quarterly commentary made available by Silvercrest to our clients. We encourage you to review the commentary alongside the performance report that have been provided herewith, as well as the important disclosures below and at the end of the quarterly strategy commentary. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the recommendations discussed in the Commentary. An investment in any security, including the securities described herein, involves a high degree of risk. No assurance can be given that the investment objectives described herein will be achieved and investment results may vary substantially on a quarterly, annual and/or other periodic basis. No representation is made that Silvercrest or any of its clients will, or is likely to, achieve returns similar to those shown. Estimates of future performance are based on subjective assumptions about circumstances

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## U.S. SMID CAP VALUE NOTES TO PERFORMANCE

The views expressed herein solely reflect the personal views of the analyst on the subject discussed herein as of the date set forth herein, and the opinions expressed herein may change without notice, including judgments to buy, hold or sell a security. The analyst producing this report may have a direct or indirect interest in the companies in the analyst's area of coverage. Returns are based upon a time weighted rate of return of fully discretionary Smid cap portfolios with similar investment objectives, strategies and policies and other relevant criteria managed by Silvercrest Asset Management Group LLC. The U.S. SMID Cap composite was created October 2005 and consists of fee paying portfolios managed on a fully discretionary basis by the Firm according to the strategy. As of October 1, 2019, the composite SMID Cap has been renamed to U.S. SMID Value. Portfolios within the composite are primarily invested in small and mid capitalization securities, with an objective of outperforming the Russell 2500 Index and Russell 2500 Value Index. Performance results are gross of fees and net of commission charges. An investor's actual return will be reduced by the advisory fees and any other expenses it may incur in the management of the investment advisory account. Silvercrest's standard advisory fees are described in Part 2 of its Form ADV. Actual fees and expenses will vary depending on a variety of factors, including the size of a particular account. Returns greater than one year are shown as annualized compounded returns and include gains and accrued income and reinvestment of distributions. Past performance is no indication of future results. Estimates of future performance are based on assumptions that may not be realized. Market and economic views are subject to change without notice and may be untimely when presented here. Readers are advised not to infer or assume that any securities, sectors or markets described were or will be profitable. Unlike the Silvercrest U.S. SMID Cap Value portfolio, the Russell 2500 Index is a capitalization-weighted, unmanaged index that measures the 2500 smallest companies in the Russell 3000 Index. Unlike the Silvercrest U.S. SMID Cap Value portfolio, the Russell 2500 Value Index is a capitalization-weighted, unmanaged index that measures those Russell 2500 Index companies with lower price-to-book ratios and lower forecasted growth. This presentation provides general information only and does not constitute personal investment advice for any particular client or type of client, so the reader should not infer or assume that any securities, sectors or markets described are appropriate to meet the objectives, situation or needs of a particular investor. The implementation of any financial strategy, and the purchase or sale of any security, should only be made after consultation with an attorney, tax advisor and/or investment advisor. All material presented is compiled from sources believed to be reliable, but accuracy or completeness cannot be guaranteed. This publication was prepared for the use of Silvercrest and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express, written consent of Silvercrest. Any unauthorized use or disclosure is prohibited. This publication does not constitute an offer to sell or provide, or a solicitation of any offer to buy, sell, or receive, any securities or investment advisory services. Silvercrest may use the analysis contained in this report in providing investment advice to its clients, and may cause its clients to trade in the same and/or contrary to the manner discussed in this publication. Silvercrest does and seeks to do business with companies covered in its research publications. As a result, you should be aware that Silvercrest may have a conflict of interest that could affect the objectivity of this publication.

The security-level performance contribution information presented is supplemental to the GIPS-compliant presentation included as part of this presentation. A description of the methodology used to calculate the performance attribution, as well as a full list showing the contribution of all holdings to the overall performance of the representative account during the indicated time period, are available upon request. The particular holdings identified do not represent all of the securities purchased, sold, or recommended for advisory clients. Past performance is no guarantee of future results.

Silvercrest Asset Management Group is an independent investment advisory and financial services firm created to meet the investment and administrative needs of individuals with substantial assets and select institutional investors. Silvercrest Asset Management Group maintains a list including composite descriptions, pooled fund descriptions for limited distribution funds, which is available upon request.

### NET PERFORMANCE INFORMATION

Net performance uses a model fee rate which is calculated by applying the monthly market value of accounts held in the composite to the fee schedule described in our ADV Part 2.

### DISCLOSURES

Silvercrest Asset Management Group claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Silvercrest Asset Management Group has been independently verified for the periods April 1, 2002 – December 31, 2021. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The U.S. SMID Value composite was created October 2005. The U.S. SMID Value composite has been examined for the periods October 1, 2005 – December 31, 2021. The verification and performance examination reports are available upon request.

As of October 1, 2019, the SMID Cap composite has been renamed to U.S. SMID Value.

All returns are based in U.S. Dollars and are calculated on a "time-weighted" total rate of return (the "Return") for the Composite (the "Composite") by the Firm. Past performance is not an indication of future results and may differ for future time periods. The U.S. SMID Value composite consists of fee-paying portfolios managed on a fully discretionary basis by Silvercrest Asset Management Group according to the strategy. Portfolios within the composite are primarily invested in small and mid capitalization securities, with an objective of outperforming the Russell 2500 Index and Russell 2500 Value Index.

The dispersion of comparable performance over time is measured by the asset-weighted standard deviation. This calculation measures the fluctuation of the rates of return of portfolios within the Composite for the entire year in relation to the average return. Dispersion is only calculated gross of fees for composites with greater than five portfolios that were active for the entire year. The 3-year annualized standard deviation is calculated using 36 consecutive months of gross-of-fee returns to the end calculation period.

Benchmarks are used for comparative purposes only and generally reflect the risk or investment style of the investments reported on the composite performance presentation. Investments made by Silvercrest Asset Management Group for the accounts it manages may differ from those of the comparative benchmark. Accordingly, investment results will differ from those of the benchmarks. The benchmark returns are not covered by the Independent Accountant's Report.

Returns include the reinvestment of income. The gross rates of return are presented gross of investment management fees and custody fees and include the deduction of brokerage commissions and transaction costs. An investor's actual return will be reduced by investment management and custody fees. Investment management fees have a compounding effect on cumulative results. For example, assume Silvercrest Asset Management Group achieves a 10% annual return prior to the deduction of fees each year for a period of 10 years. If an annual investment management fee of 1% of assets under management for the 10-year period were charged, the resulting annual average return after fees would be reduced to 8.9%. Generally, investment management fees are charged based upon the size of the portfolio, computed quarterly. The Firm's standard annual asset-based fee schedule is described in Part 2 of its Form ADV and is as follows: 1.0% on the first \$10 million, 0.60% on the balance. The fee schedule may be discounted subject to negotiation.

Beginning January 1, 2008, composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow of 40% of beginning market value. Effective April 1, 2021, the limit is 15%. The temporary removal of such an account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite the month after the cash flow. Additional information regarding the treatment of significant cash flows is available upon request.

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