

Small Cap Quality Growth | THIRD QUARTER 2024

STRATEGY OBJECTIVES

- Capital appreciation:** Since inception Sharpe ratio of 0.52 gross / 0.33 net versus the Russell 2000 Growth's and Russell 2000's Sharpe ratio of 0.34 and 0.32, respectively¹
- Downside protection:** Daily downside capture of 67.2% and 74.3% across all Russell 2000 Growth and Russell 2000 down days, respectively, during the quarter²
- Income:** 1.2% yield³

MARKET RECAP AND OUTLOOK

During 3Q2024, small cap equities as proxied by the Russell 2000 and Russell 2000 Growth outperformed their large-cap counterparts, as represented by the S&P 500. Though the anticipation of a Federal Funds Rate cut no doubt helped to fuel the small cap rally, dividend payers within the Russell 2000 and Russell 2000 Growth outperformed non-payers suggesting defensive undertones. Investor preference for consistent fundamentals amid potential economic, political, geopolitical, and market uncertainties has become more pronounced.

Heightened investor risk aversion was supportive of Bahl & Gaynor's dividend growth strategies. We believe favorable strategy-level return outcomes have been driven by strong underlying fundamental performance of portfolio holdings as well as increased investor need for inflation-adjusted income and risk-aware access to small cap equity exposure under-represented in client portfolios.

With the proportion of unprofitable small cap index constituents, companies with negative earnings over the previous twelve-month period, hovering around 30% for the Russell 2000 and Russell 2000 Growth indices (source: FactSet), we believe the opportunities pursued according to our investment philosophy remain highly relevant for investors seeking exposure to the space. Lagging small cap index returns vis-à-vis large-cap counterparts over the last several years likely remains an investable mean-reversion thesis. But economic and market outcomes are likely to remain uncertain, and we believe strategy outcomes are strongly supported by our unique commitment to the principles of compounding dividend income and downside protection in this portion of the market cap spectrum.

3Q2024 RESULTS RELATIVE TO STRATEGY OBJECTIVES

Capital Appreciation

- The strategy returned +10.59% gross / +9.77% net versus the Russell 2000 Growth's +8.41% and the Russell 2000's +9.27% during the quarter.
- A mixture of strong stock selection, highlighted by picks within Industrials, and prudent sector positioning drove outperformance versus both indices.
- Market breadth widened during the quarter with eight of eleven sectors outpacing the Russell 2000 Growth.

Downside Protection

- During the quarter, the strategy delivered daily downside capture of 67.2% and 74.3% across all Russell 2000 Growth and Russell 2000 down days, respectively. Year-to-date, the strategy delivered daily downside capture of 61.4% and 68.8% across all Russell 2000 Growth and Russell 2000 down days, respectively.²

Income

- During the quarter, 6 strategy holdings announced dividend hikes with an average trailing-twelve-month (TTM) increase of +14.1%, signaling continued business stability and financial health of the portfolio.

3Q2024 Dividend Increases		
Company	TTM% Increase	Current Yield
Avnet (AVT)	6.5%	2.4%
Chemed (CHE)	25.0%	0.3%
Home Bancshares (HOMB)	8.3%	2.9%
Littelfuse (LFUS)	7.7%	1.1%
Terreno Realty (TRNO)	8.9%	2.9%
Victory Capital (VCTR)	28.1%	3.0%

3Q2024 Trades Executed	
Initiations	Eliminations
American Financial Group (AFG)	Nexstar Media (NXST)
Gildan Activewear (GIL)	Stepan (SCL)
Increases	Reductions
American Financial Group (AFG)	CSG Systems (CSGS)
Gildan Activewear (GIL)	UFP Industries (UFPI)
Texas Roadhouse (TXRH)	
UTZ Brands (UTZ)	

Source: Bahl & Gaynor and FactSet, 2024.

Portfolio Review

The Small Cap Quality Growth portfolio returned +10.59% gross / +9.77% net versus the Russell 2000 Growth's +8.41% and the Russell 2000's +9.27% during 3Q2024. Strong stock selection in Industrials and Financials, coupled with an underweight position in Energy, contributed positively to strategy performance. Stock selection in Materials, Consumer Staples, and Health Care detracted from strategy performance.

The largest positive drivers of current quarter performance:

- Within Industrials, stock selection within aerospace and defense, including the strategy's second-largest holding Curtiss-Wright (CW), contributed positively to strategy performance. Selection within building products along with an above average exposure to Tetra Tech (TTEK), a leader in environmental services consulting, also aided results.
- An underweight allocation to the Energy sector, the only negative performing sector for the quarter, and no ownership of exploration & production companies bolstered strategy performance. Additionally, ownership of refining and marketing company World Kinect Corporation (WKC) benefitted the strategy.
- Stock selection within property and casualty insurance providers, along with positions in investment bank Evercore (EVR) and asset management firm Victory Capital (VCTR) contributed positively to performance.

The largest negative drivers of current quarter performance:

- Within Materials, exposure to specialty chemicals companies Stepan (SCL) and Innospec (IOSP) detracted from strategy performance.
- Ownership of packaged foods company Lancaster Colony (LANC) within Consumer Staples and not owning food retailers, a top performing sector for the quarter, negatively impacted performance. However, this was partially offset by exposure to fragrance producer Inter Parfums (IPAR) which posted a +12.30% return.
- Within Health Care, ownership of outpatient physical therapy services company U.S. Physical Therapy (USPH) and eschewing exposure to biotech companies detracted from strategy performance. An above average weight in hospice and plumbing business Chemed (CHE) helped mitigate sector relative underperformance.

Largest Portfolio Contributors

1. **Curtiss-Wright (CW):** In the most recent quarter, CW delivered top and bottom-line results that exceeded consensus expectations, supporting an increase to FY2024 guidance targets. Bolstered by ongoing investments across its diverse portfolio, the company is a beneficiary of the recent strength in aerospace & defense markets as well as an improving outlook toward nuclear power.
2. **Evercore (EVR):** EVR posted earnings results above expectations in the most recent quarter, reflecting the company's excellent competitive positioning and supported by strong recent investments in advisor headcount growth. Management continues to stay disciplined on costs while capitalizing on the global rebound in M&A activity.
3. **AAON (AAON):** AAON's strong performance during the most recent quarter can be attributed to its positioning within the attractive commercial HVAC industry, with its unique expertise at supplying partially customized units. The company is benefiting from elevated demand from data center customers as well as heightened focus on clean air and energy efficiency.

Largest Portfolio Detractors

1. **MSA Safety (MSA):** Despite reporting better-than-expected sales growth and operating margins in 2Q2024, MSA's stock underperformed during the quarter. The company is exposed heavily to firefighter equipment replacement cycles, many of which are non-economically sensitive given the continuous evolution of regulatory requirements and safety standards. This powerful driver should offset cyclicity within other parts of the business during periods of economic weakness.
2. **U.S. Physical Therapy (USPH):** Profit margins were pressured during USPH's most recent quarter driven by higher than anticipated labor cost and the increased usage of contract labor. Despite the labor headwind, USPH reported record volumes and pricing. USPH remains well positioned for continued organic and inorganic market share growth given its pristine balance sheet versus peers.
3. **Innospec (IOSP):** IOSP shares were pressured in 3Q2024 due to lowered guidance from the Oilfield Services segment, as a large customer reduced order patterns amid political related disruptions in an election year. These headwinds appear to be short-term in nature and given defensive product offerings, an under levered balance sheet, a history of sound execution and a focus on higher margin and higher value applications, IOSP remains a conviction holding.

STRATEGY STYLE CATEGORIZATION

Asset Class	Benchmarks	Mandate
Domestic Equity	Russell 2000 Growth & Russell 2000	Small Cap Growth

Investment Philosophy

Bahl & Gaynor employs a Growth at a Reasonable Price discipline to purchase high-quality companies at sensible valuations. It is our goal to seek competitive performance while preserving capital in declining markets. In addition, our focus on companies that pay a growing dividend has benefited our clients in the form of a reliable income stream.

We are long-term investors and seek to identify companies that are managed conservatively and for growth, have stable and sustainable business models, and reward shareholders with a growing dividend. It is our intention to identify the best companies that meet these criteria and hold them for long periods of time.

Bahl & Gaynor’s investment philosophy exemplifies our firm belief in the power of long-term investing and compounding dividend income.

Small Cap Quality Growth Positioning

Our Small Cap Quality Growth strategy focuses on owning small-size companies having market capitalizations, at the time of investment, within the range of the market capitalizations of the Russell 2000 Index. Protection of capital in falling markets, providing an above-average income stream, and strong performance relative to the index and other small-cap managers, embody the strategy’s goals.

Bahl & Gaynor’s equity selection process yields an investable universe of companies that are managed conservatively and for long-term growth, have stable and sustainable business models, and currently reward shareholders of the company with a dividend.

Over a full market cycle, Bahl & Gaynor’s Small Cap Quality Growth strategy seeks to outperform its benchmark and small-capitalization growth peers all in the context of a lower-than-average portfolio risk profile.

Client portfolios will generally be diversified among small capitalization common stock with each security typically held for three to five years. Low to moderate rate portfolio turnover combined with the favorable tax treatment of dividend income can result in a cost and tax-efficient portfolio.

Portfolio Management Parameters	<p>1</p> <p>Companies initiated in the portfolio pay a cash dividend at the time of purchase</p>	<p>2</p> <p>Portfolio typically managed to maximum 5% capital contribution per stock</p>	<p>3</p> <p>Cash is non-tactical and typically represents 0% to 3% of portfolio value</p>
	<p>4</p> <p>Under normal circumstances, at least 80% of the strategy’s net assets are invested in stocks of small capitalization companies with market capitalizations within the range of the market capitalizations of the Russell 2000® Index</p>	<p>5</p> <p>Annual portfolio turnover is low to moderate</p>	<p>6</p> <p>Sell or trim decisions are based upon fundamentals, dividend policy, and better opportunities</p>

Portfolio Details (as of September 30, 2024)

Top 10 Holdings	Small Cap Quality Growth Weight
Ensign Group (ENSG)	6.2%
Curtiss-Wright (CW)	5.5%
Chemed (CHE)	5.3%
Tetra Tech (TTEK)	5.3%
Victory Capital (VCTR)	4.5%
Federal Signal (FSS)	4.5%
Evercore (EVR)	4.4%
AAON (AAON)	4.1%
MSA Safety (MSA)	3.4%
BWX Technologies (BWXT)	3.0%
Total:	46.4%

Sector	Small Cap Quality Growth Weight	Russell 2000 Growth Weight	Russell 2000 Weight
Industrials	33.5%	21.5%	17.3%
Health Care	18.8%	25.3%	17.3%
Financials	14.7%	8.4%	19.4%
Consumer Staples	8.1%	3.2%	2.8%
Information Technology	6.4%	21.4%	14.1%
Materials	5.8%	4.1%	4.7%
Consumer Discretionary	5.0%	10.6%	10.8%
Utilities	2.7%	0.5%	3.0%
Real Estate	2.6%	0.6%	4.6%
Energy	1.0%	3.1%	4.2%
Communication Services	0.0%	1.3%	1.8%
Cash	1.2%	-	-

Portfolio Statistics	Small Cap Quality Growth	Russell 2000 Growth	Russell 2000
P/E Ratio (TTM)	29.0x	23.6x	17.2x
P/B Ratio	3.6x	4.2x	2.0x
Weighted Average Market Cap	\$6.9 B	\$4.1 B	\$3.5 B
Dividend Yield – Gross of Fees ³	1.2%	0.6%	1.3%
Beta since inception (Gross / Net)	0.81 / 0.81	1.00	1.00
Sharpe ratio since inception (Gross / Net) ¹	0.52 / 0.33	0.34	0.32
TTM Turnover	14.6%	-	-

Source: Bahl & Gaynor, FactSet, Zephyr, 2024. Inception date 12/31/2005

Performance (Annualized)	Small Cap Quality Growth WRAP (Pure Gross)	Small Cap Quality Growth WRAP (Net)	Russell 2000 Growth	Russell 2000
QTD (Cumulative)	10.59%	9.77%	8.41%	9.27%
YTD (Cumulative)	15.52%	12.96%	13.22%	11.17%
1 Year	30.48%	26.64%	27.66%	26.76%
3 Years	8.79%	5.58%	-0.35%	1.84%
5 Years	10.76%	7.50%	8.82%	9.39%
10 Years	11.18%	7.91%	8.95%	8.78%
15 Years	12.82%	9.50%	11.09%	10.59%
Since Inception	10.57%	7.31%	8.56%	8.05%

Standard Deviation (Annualized)	Small Cap Quality Growth WRAP (Pure Gross)	Small Cap Quality Growth WRAP (Net)	Russell 2000 Growth	Russell 2000
1 Year	17.23%	17.10%	21.61%	21.49%
3 Years	19.86%	19.94%	22.77%	22.20%
5 Years	19.69%	19.90%	23.89%	23.76%
10 Years	17.45%	17.60%	20.64%	20.27%
15 Years	16.80%	16.84%	20.09%	19.64%
Since Inception	17.36%	17.37%	20.73%	20.32%

Source: Bahl & Gaynor, Zephyr, 2024. Inception date 12/31/2005

¹Sharpe Ratio measures the efficiency, or excess return per unit of risk (volatility), of a manager's returns. Inception: 12/31/2005.

²Bahl & Gaynor; historical downside capture is the sum of strategy returns on all Russell 2000 Growth and Russell 2000 down days divided by the sum of index returns on all respective down days. Down days are defined as any trading day the index posts a negative total return. Strategy returns are derived from the internal rate of return (IRR) of a single non-fee paying representative account.

³Dividend yield includes cash holdings.

Source: FactSet, Bahl & Gaynor, 2024. Statistics and weight data is drawn from the Small Cap Quality Growth model portfolio that is fully discretionary, unconstrained and subject to change. Individual Bahl & Gaynor clients may or may not hold these positions or have similar characteristics. Risk and return data are representative of the Small Cap Quality Growth WRAP composite. Net of fee performance information shown is calculated by subtracting the highest applicable wrap fee (3.00% on an annual basis, or 0.75% quarterly) on a quarterly basis from the gross composite quarterly return and reflects the reinvestment of income and other earnings. The standard fee schedule in effect is 3.00% on total assets. **Past performance does not guarantee future results.** Other methods may produce different results and the results for individual accounts and for different periods may vary depending on market conditions and the composition of the account. Care should be used when comparing these results to those published by other investment advisers, other investment vehicles and unmanaged indices due to possible differences in calculation methods. No alteration of the composite as presented here has occurred because of changes in personnel or other reasons at any time.

THANKS!

Your continued support and interest are much appreciated.

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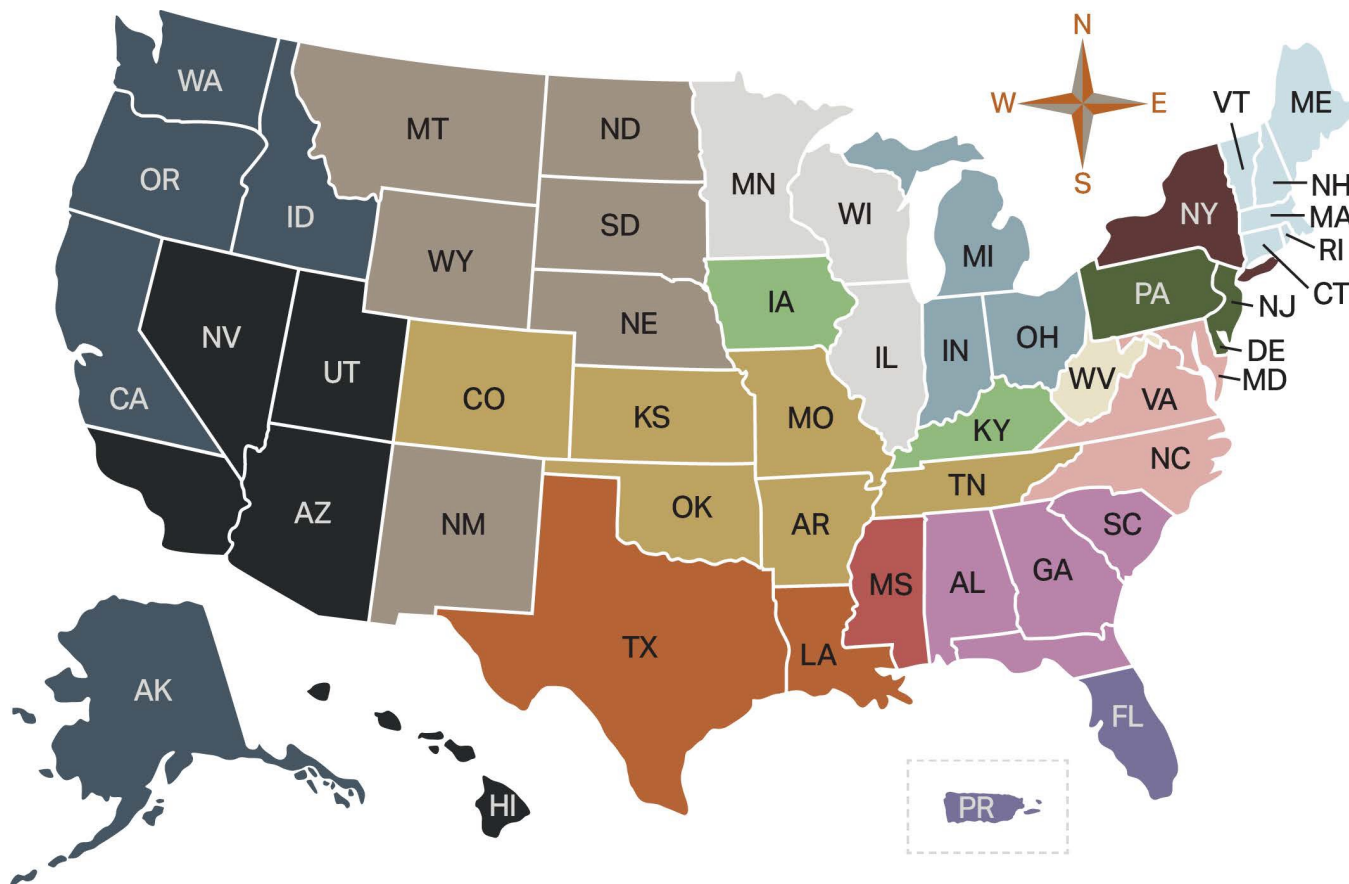
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