# Small Company Growth

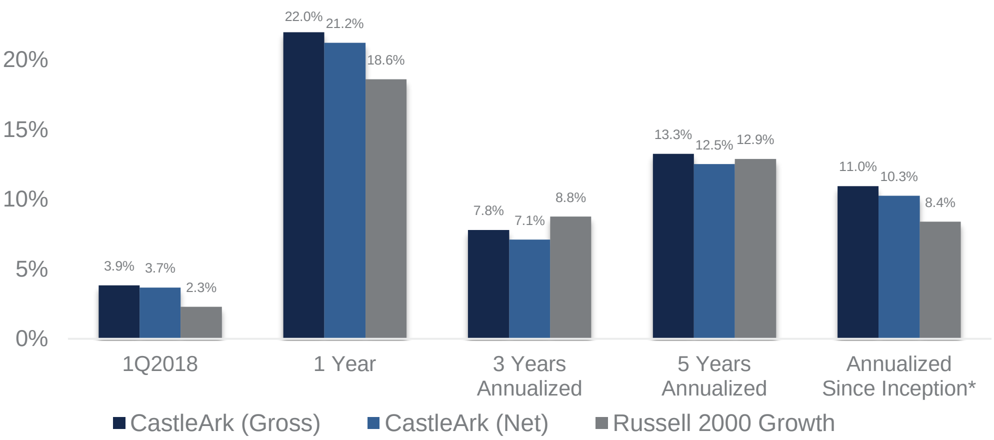
CASTLEARK

March 31, 2018

## First Quarter 2018 – Performance Update

The CastleArk Small Company Growth composite return for the quarter was +3.85% (gross) and +3.69% (net), comparing favorably to the benchmark Russell 2000 Growth return of +2.30%. The composite's one year performance of +22.00% (gross) and +21.23% (net) outperformed the benchmark Russell 2000 Growth of +18.63%. Since inception, May 31, 2007, the CastleArk Small Company Growth composite has outperformed with an annualized return of +10.96% (gross) and +10.27% (net), compared to the benchmark Russell 2000 Growth return of +8.41% for the period ending March 31, 2018.

## CastleArk Small Company Growth Performance*




*Inception 05/31/07
Past performance is no guarantee of future results.

## First Quarter 2018 – Portfolio Review

U.S. equity markets got off to a strong start in 2018 posting one of the best Januaries since 1997. The factors for the strong start to the year were largely a continuation of the drivers for 2017, a strong corporate earnings outlook driven by tax reform, deregulation, and synchronized global growth. Things started to change in February as volatility returned after a long absence. Concerns of rising wages and inflation, leading to tighter monetary policy and higher interest rates, and a crowed short-volatility trade that unwound rapidly, led to a quick double-digit decline in the major indices. The concerns quickly started fading and markets recovered as corporate earnings came in better than expected. As the quarter was winding down volatility re-emerged, and markets took another hit on fears of a global trade war and possible increased regulatory environment within the technology sector. When it was all said and done, most indexes finished in the red for the first quarterly loss in two years. Both Small Cap stocks and Growth stocks outperformed during the quarter allowing Small Cap Growth stocks to post positive returns for the eighth consecutive quarter.

Our out performance for the quarter was driven exclusively by stock selection. Strong stock selection in Technology, Health Care, Telecomm, and Energy were offset by weak results in Materials and Industrials. The positive contribution from our underweighting in Real Estate and Consumer Staples was offset by our slight over weight in Energy, the worst performing sector for the quarter, and underweight in Health Care.

## Top 10 Portfolio Holdings*

| | |
|---|---|
| GTT Communications, Inc. | 1.5% |
| RealPage, Inc. | 1.5% |
| Chart Industries, Inc. | 1.5% |
| AxoGen, Inc. | 1.4% |
| Insulet Corporation | 1.4% |
| Varonis Systems, Inc. | 1.4% |
| Interxion Holding N.V. | 1.3% |
| Green Dot Corporation Class A | 1.3% |
| ICU Medical, Inc. | 1.3% |
| Chegg, Inc. | 1.3% |
| **Percentage of Total Assets** | **14.0%** |

## Portfolio Characteristics*

| | CastleArk Small Company Growth | Russell 2000 Growth Index |
|---|---|---|
| Number of Companies | 110 | 1,188 |
| Forward P/E | 23.3x | 20.3x |
| Historical EPS Growth | 11.7% | 19.8% |
| Expected Growth | 20.4% | 14.9% |
| Return on Equity | 3.0% | 7.5% |
| Debt/Capital | 33.6% | 33.5% |
| Weight by Market Cap | $3.4B | $3.0B |
| Median Market Cap | $2.8B | $1.0B |

*Representative client portfolio.

## Small Company Growth Team

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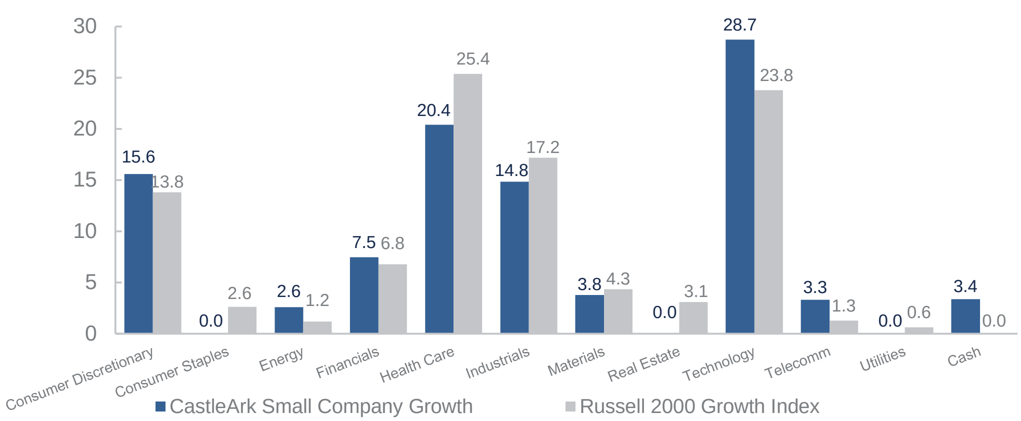
## Market and Portfolio Outlook

Overall, we continue to remain positive on the economic outlook and the environment for small cap stocks. In the short term there several headwinds that could make the next couple of quarters a little choppy. Small Cap growth stocks have been positive for eight consecutive quarters; historically the odds of a positive nine or ten quarters in a row is very low. In addition, Q2 and Q3 of mid term election years historically have been below average. Concerns of rising inflation, tighter monetary policy, the Fed reducing its balance sheet and a global trade war should be offset by the benefits of Tax Reform, deregulation and other fiscal stimulus. While the pace of improvement is slowing, GDP growth remains solid with very little risk of recession in sight. With this economic background, Small Cap earnings are expected to continue to improve throughout the year, which should be positive for the Small Cap market. We continue to focus on companies with improving business fundamentals and through our research process deem these improvements sustainable. The emphasis on improving fundamentals has led to our overweight positions in Technology, Telecommunications, and Consumer Discretionary and our underweighting in Health Care, Consumer Staples, Industrials, and Real Estate.

## CastleArk Small Company Growth Strategy

We believe that earnings growth is the primary driver of stock prices over the long term, and that excess returns can be achieved by investing in those companies with improving business fundamentals. The CastleArk advantage stems from our emphasis on three key attributes: the direction of growth over the absolute level of growth, actual fundamental improvements vs. anticipated improvements, and disciplined analysis focused on the magnitude and sustainability of the drivers of fundamental improvement. CastleArk uses a bottom-up approach when building the Small Company Growth portfolio. Our portfolio managers emphasize risk management and sell discipline to build diversified portfolios of 85-100 stocks. Continuous dialogue, in addition to a weekly review of every holding, allows for fluid adjustments to the portfolio’s holdings. Limits on position size and sector weights, along with constant portfolio attribution analysis, contribute to the CastleArk risk management process. Our sell discipline derives from our belief that losses can be minimized by identifying potential problems before they become fully reflected in the stock price. Our willingness to move on to the next good idea at the first sign of trouble is a key ingredient in our risk management process and, therefore, in our ability to produce alpha.

## CastleArk Small Company Sector Allocation 03/31/18*




*Representative client portfolio.

### First Quarter 2018
Best and Worst Contributors*

| Best: | | Contribution |
|---|---|---|
| 1. | Zendesk, Inc. | 0.33% |
| 2. | Chart Industries, Inc. | 0.32% |
| 3. | AxoGen, Inc. | 0.31% |
| 4. | Nutanix, Inc. Class A | 0.30% |
| 5. | Chegg, Inc. | 0.30% |
| 6. | MuleSoft, Inc. Class A | 0.30% |
| 7. | LivePerson, Inc. | 0.29% |
| 8. | Tabula Rasa Healthcare, Inc. | 0.29% |
| 9. | Insulet Corporation | 0.28% |
| 10. | Varonis Systems, Inc. | 0.27% |

| Worst: | | Contribution |
|---|---|---|
| 1. | EnPro Industries, Inc. | -0.27% |
| 2. | Triton International Ltd. Class A | -0.20% |
| 3. | Scientific Games Corporation | -0.20% |
| 4. | Patterson-UTI Energy, Inc. | -0.20% |
| 5. | Daseke, Inc. | -0.19% |
| 6. | Adamas Pharmaceuticals, Inc. | -0.19% |
| 7. | Puma Biotechnology, Inc. | -0.17% |
| 8. | Lions Gate Entertainment Corp. | -0.16% |
| 9. | Beaxon Roofing Supply, Inc. | -0.15% |
| 10. | Rush Enterprises, Inc. Class A | -0.14% |

*Representative client portfolio. A complete list of each security’s contribution to performance and description of the calculation methodology is available upon request.

### Contact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