

PORTFOLIO MANAGERS: DONALD RADTKE & MARK WYNEGAR
FIRST QUARTER 2024

	Quarter	Year to Date	1 Year	3 Years	5 Years	Since Inception*
Tributary Capital Management (Gross of Fees)	6.5%	6.5%	21.5%	8.9%	12.9%	12.1%
Tributary Capital Management (Net of Fees)	6.3%	6.3%	20.6%	8.0%	12.0%	11.2%
Russell 2500 Index	6.9%	6.9%	21.4%	3.0%	9.9%	9.7%
Russell 2500 Value Index	6.1%	6.1%	21.3%	5.4%	9.4%	7.7%

**Inception: 12/31/2016*

PORTFOLIO REVIEW

As 2023 concluded, the small/mid cap asset class was on a tear. Falling interest rates from October through December prompted a surge in the Russell 2500 benchmark, especially in the lowest-quality members. By the end of the year, some investors were banking on as many as six interest rate cuts in 2024, a far cry from the hand-wringing over potentially “higher for longer” interest rates that permeated attitudes only a few months earlier.

Expectations for rate cuts were tempered in the first quarter of 2024, with Fed comments reeling consensus back to three rate cuts by year end, starting in or around June. Inflation remained sticky, and the ten-year Treasury rate crept higher over the course of the quarter. As expectations shifted, the Russell 2500 Index initially backtracked, dropping -2.6% in January. But notions of a soft landing combined with anticipated rate cuts in the back half of 2024 reignited the asset class, and the Russell 2500 posted gains of +5.4% and +4.1% in February and March, respectively. Encouragingly, in both of these months the Russell 2500’s return exceeded that of the S&P 500, indicating a possible (and welcome) broadening of the market. Since the low on October 27, 2023, the Russell 2500’s performance is leading the S&P 500 Index, climbing +31.1% through March 31st compared to +28.5% for the S&P 500.

For the first quarter in its entirety, the Russell 2500 Index rose +6.9%. In a somewhat unusual occurrence for the benchmark, though, a single company in the index constituted an abnormally large portion of the benchmark’s return. Super Micro Computer, a hardware and server business that is benefitting from artificial intelligence trends, boasted a \$56.5 billion market cap at quarter’s end, far exceeding typical market caps in the Russell 2500. While Super Micro Computer will certainly move out of the benchmark at the mid-year reconstitution, its size combined with its eye-popping +255% return this quarter noticeably impacted the index’s return. Without this one stock, the Russell 2500’s return would have been +6.4%.

The Tributary Small/Mid Cap Strategy, by comparison, provided a +6.5% (gross of fees) return in the quarter. Investment style presented a minor headwind, with the Russell 2500 Value Index rising +6.1% and the Russell 2500 Growth Index up +8.5%. (Worth noting, however, is that Super Micro Computer is a component of the Growth Index and certainly juiced its return.) Conversely, the portfolio’s

higher quality characteristics were positive influences on returns this quarter, with the Russell 2500’s larger companies performing well and profitable companies outperforming unprofitable businesses. Furthermore, companies with the highest price/earnings ratios underperformed, providing additional support for our more valuation-sensitive investment approach.

The financials sector was the portfolio’s most significant contributor during the quarter, rising +7% compared to +3% for the index. Banks were an important driver, rising +2% versus a drop of -4% for the benchmark, and insurance-related holdings delivered strong returns as well. Energy had a stellar quarter for the strategy. Led by a +29% return from SM Energy, the portfolio’s energy holdings rose +22%, double the +11% delivered by the index. The technology sector was the most meaningful detractor, falling -3% while the Russell 2500’s technology holdings rose +9%. Super Micro Computer had an unquestionable impact on the benchmark sector this quarter, but even excluding it the sector still rose +4%. Portfolio holdings Blackbaud, Power Integrations and Qualys were all drags on returns this quarter, but were somewhat offset by a favorable return from MKSI Instruments. Industrials, with a strong contribution from Carlisle Companies, rose a solid +9% for the portfolio, yet modestly trailed the +12% generated by the index.

For the trailing twelve months, the Small/Mid Cap portfolio has delivered a return of +21.5% (gross of fees), compared to +21.4% for the Russell 2500 Index (+20.7% without Super Micro Computer). The consumer staples, energy, materials and real estate sectors delivered the most favorable contributions over the last year, while technology, healthcare and consumer discretionary were the primary detractors.

PORTFOLIO CHANGES

Two positions were added to the strategy in the first quarter. *Lancaster Colony Corporation* is a manufacturer of food products for retail and foodservice channels, with brands including Marzetti salad dressing and licensed brands including Chick-fil-A sauces and Olive Garden salad dressing. Through its owned and licensed brands, Lancaster has favorable growth prospects, and has opportunities to expand margins over time. *Integer Holdings Corporation* is an outsourced manufacturer of medical devices, specializing in cardiovascular,

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neuromodulation and other surgical-based markets. The company is expected to benefit from the continued outsourcing trend by device manufacturers, as well as the scale it gains through periodic acquisitions.

Three positions were eliminated from the portfolio during the quarter. *Coca-Cola Consolidated*, the largest independent bottler of Coca-Cola products in the United States, was sold due to price appreciation and to fund the purchase of Lancaster Colony. *Pacira Biosciences*, a developer and manufacturer of non-opioid pain management products, had become a small position in the strategy, and was sold to partially fund the purchase of Integer Holdings. *Omniceil*, a healthcare technology company providing medication management systems to hospitals, has delivered disappointing results in recent quarters, as hospital capital spending budgets have been curtailed and orders for Omnicell's products have been delayed. The stock had become a small position in the portfolio, and the funds were redeployed into other healthcare holdings that we felt represented better investment opportunities.

TOP CONTRIBUTORS

Tractor Supply, a retailer of merchandise targeted towards rural consumers and recreational farmers, generated above consensus margins and EPS, driven by lower transportation costs and cost controls implemented by management.

Carlisle Companies, a building products manufacturer with significant non-residential roofing exposure, reported fourth quarter sales and earnings that were above consensus and provided optimistic 2024 guidance as the industry recovers from inventory corrections. The company also announced an attractive acquisition in an adjacent building materials product area.

Burlington Stores, Inc., an off-price retailer, generated above consensus same-store sales, margins and EPS. Same-store sales growth was driven by increased foot traffic as the company continued capturing market share from department stores and full priced retailers.

MKS Instruments, a manufacturer of instruments used to monitor, analyze and control critical aspects in advanced manufacturing processes, has had no obvious fundamental story driving strong returns for the stock since the market bottomed in October of 2023. However, optimism for improved inventory positions in the semiconductor industry and attractive valuation could be providing a catalyst.

SM Energy, an oil and gas exploration and production company operating in Texas, reported strong fourth quarter cash flow generation due to better-than-expected production in the Permian Basin and South Texas. Shares also benefitted from a 17% upward move in oil prices in

the quarter, which was bolstered by OPEC's decision to continue oil production restraints.

TOP DETRACTORS

Blackbaud, a provider of back office financial, analytical and relationship management software solutions for nonprofits and social good-focused businesses, gave guidance for 2024 that disappointed investors due to higher investment spending and taxes.

Power Integrations, a manufacturer of components used in high-voltage power conversion, has been negatively impacted by high inventory in the supply chain that must be worked through before growth can resume. The company is optimistic that end markets will improve sometime in the middle of 2024.

Qualys, a security software company, lost its default position as the vulnerability manager in Microsoft's Defender for Cloud because Microsoft is going to use its internal product as default. The revenue impact appears to be less than 1% of total Qualys revenue.

Omniceil, a medical equipment company specializing in automated pharmaceutical dispensing systems, printed a good quarter but provided weak '24 guidance due to lower-than-expected Advanced Services and Software sales. This surprised investors as these offerings had recently done well.

AMN Healthcare Services, a temporary hospital staffing services provider (nurses, doctors), had good fourth quarter results but offered weak first quarter 2024 guidance as hospital customers prioritize hiring permanent over temporary staff.

PORTFOLIO OUTLOOK

The Federal Open Market Committee meeting in March gave investors more confidence that rate cuts are on the way, despite inflation data in January and February that was hotter than expected. Only time will tell if inflation is stickier than anticipated or if the recent data are just bumps along the road. The Fed appears to be in a wait and see mode with a bias toward rate cuts. Given the economy's continued strength and the Fed's expectation that inflation will continue to slow, it seems that the Fed doesn't believe a recession is necessary to bring down inflation.

Investors were encouraged by this as well as the increase in the Fed's GDP growth projection for 2024, which moved from 1.4% to 2.1%. In response, the Russell 2500 rallied in the days following the Fed's press conference. Little known to most investors is that since small- and mid-cap stocks bottomed in October of last year, they have outperformed both the S&P 500 and the NASDAQ Composite indices. Despite this favorable recent relative performance, the Russell 2500 remains 3% below its high

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set in November of 2021, while the S&P 500 and the NASDAQ have been notching new highs.

Though widely expected, we anticipate that the first cut in interest rates will be embraced by investors and most vigorously so by small-cap investors with mid-cap investors a close second. A much higher proportion of the debt in the Russell 2500 is floating rate debt than in the S&P 500, and lower rates will be almost immediately additive to earnings and cash flow. If recession fears continue to fade and inflation is brought into check, this should be more supportive to small- and mid-cap stocks. Earnings of these small- and mid-sized companies are also more sensitive to changes in the economy, so an improving outlook should provide a constructive backdrop. If lower interest rates, a growing economy and an anticipated earnings recovery come together, it may motivate investors to begin increasing their allocations to these attractive asset classes.

The outlook for small- and mid-cap stocks is attractive; however, just like the NCAA March Madness tournament, there is always the potential for spoilers. If inflation or economic growth continue to surpass the Fed's expectations, they may not deliver the rate cuts that are expected, giving investors a reason to pull back. The presidential election this year could also give investors a reason to pause until economic and regulatory policy initiatives begin to emerge. It is also possible that a current or new international conflict could pull the U.S. into involvement, derailing markets. As always, spoilers can often be the events that few investors are seriously considering.

While we are well aware of the domestic and global issues that can move markets, we stay focused on what will drive the intrinsic value of our holdings over the coming years. At the end of the first quarter, the projected 2024 earnings growth for our strategy was 9%, well ahead of the 1% and 3% growth rates projected by Jefferies Research for small- and mid-cap stocks. Our much stronger expected growth is complimented by our 18.8x forward earnings multiple, roughly in line with the index's 18.6x multiple from Jefferies Research. Note, these forward earnings multiples are inclusive of unprofitable companies. About 10% of the Russell 2500 is projected to be unprofitable.

Our portfolio is supported by strong fundamentals and an attractive valuation, building blocks of investing that put our portfolio and our clients' capital in a strong position for the future. Whatever comes to pass over the coming year, be it an advancing economy or an unlikely spoiler, we will adhere to our investment philosophy of finding quality companies, knowing them well, and owning them at a discount to what they are worth. This philosophy has served us and our clients investing in our strategies for more than 25 years.

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Unless otherwise noted, all returns, excluding Tributary Capital Management's strategies, have been obtained from FactSet Research Systems. Sector and security level performance is presented net of fees, using the highest potential fee an investor would pay.

The performance numbers shown above are for the Tributary Small/Mid Cap Equity Composite and are expressed in U.S. dollars. The composite includes all discretionary accounts with an initial market value of \$500,000 that are generally invested in the Small/Mid Cap Equity Strategy. The inception date of the Small/Mid Cap Equity Composite is December 31, 2016.

The portfolio returns for periods other than those starting and ending with calendar month ends are generated using FactSet attribution software to approximate portfolio performance. They are not official composite returns. They are provided for illustrative purposes only and are presented gross of fees meaning they do not reflect the impact of advisory fees which reduces performance returns.

The Russell 2500 is a market cap weighted index that includes approximately 2,500 of the smallest companies in the Russell 3000 Index. The Russell 2500 Value Index measures the performance of the value segment by including those companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2500 Growth Index is designed to measure the performance of those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values. The Standard & Poor's 500 is a basket of 500 stocks that are considered to be widely held. The S&P 600 Index is a stock market index established by Standard & Poor's. It covers roughly the small-cap range of US stocks, using a capitalization-weighted index. The S&P MidCap 400 Index is a stock index that tracks the performance of 400 mid-sized U.S. companies. It is not possible to invest directly in the Russell 2500 Index, Russell 2500 Value Index, Russell 2500 Growth Index, the S&P 500 Index, S&P 600 Index or the S&P Mid Cap 400 Index.

Net-of-fees composite returns are calculated using the highest potential fee the investment advisor will charge investors in the composite. Net performance is reported net of investment advisory fees and transaction costs. Capital gains and dividends are reinvested for performance calculations.

Stocks of small companies are subject to market risk and may be more volatile and less liquid than stocks of large companies. Sector performance in commentary is stated gross of fees.

It should not be assumed that an investment in securities identified was or will be profitable or that the investment decisions we make in the future will be profitable or will equal the performance of the securities discussed herein. Holdings are subject to change. The holdings identified do not represent all of the securities purchased, sold or recommended for the portfolio. The holdings listed should not be considered recommendations to purchase or sell a particular security. The "Top Contributors" and "Top Detractors" represented are based on contribution to portfolio return. To obtain the contribution calculation methodology and a complete list of every holding's contribution to the overall portfolio's performance during the quarter, please contact clientservices@tributarycapital.com.

Tributary, an SEC Registered Investment Adviser, is the combined entity of the prior Tributary (formed Jan. 1, 2005) and First Investment Group (formerly a department of First National Bank of Omaha) which merged in May 2010. Tributary is a wholly owned subsidiary of First National Bank, a wholly owned subsidiary of First National of Nebraska, Inc. and manages mutual funds and equity and balanced portfolios. Tributary Capital Management, LLC ("Tributary") claims compliance with the Global Investment Performance Standards (GIPS®). A fully compliant presentation can be requested by emailing clientservices@tributarycapital.com.

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