

PORTFOLIO MANAGERS: DONALD RADTKE & NICHOLAS NEVOLE
SECOND QUARTER 2023

	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years
Tributary Capital Management (Gross of Fees)	7.0%	12.3%	17.0%	14.6%	11.9%	11.7%
Tributary Capital Management (Net of Fees)	6.8%	11.9%	16.2%	13.9%	11.1%	11.0%
S&P 500 Index	8.7%	16.9%	19.6%	14.6%	12.3%	12.9%
Russell 1000 Index	8.6%	16.7%	19.4%	14.1%	11.9%	12.6%

MARKET REVIEW

The second quarter marked a continuation of the recent market rally which began in October 2022. In April and May, the S&P 500 experienced narrow tech leadership to maintain positive index returns despite the Equal Weight Index being slightly negative. The narrow mega cap tech rally was aided by healthy earnings reports and artificial intelligence optimism among investors. The Federal debt crisis was also a hot topic in the first few months of the quarter, though the issue was resolved by early June. This, combined with favorable economic prints, contributed to a broader market rally in the last month of the quarter.

The Tributary Large Cap Equity Strategy participated in this market rally, generating a total return of +7.0% for the quarter. The S&P 500's total return was even stronger at +8.7%. Two-thirds of the S&P 500's total return in the quarter, or +5.8%, came from its seven largest constituents: Apple (+130 basis point contribution), Microsoft (+120 basis points), NVIDIA (+110 basis points), Amazon (+70 basis points), Alphabet (+60 basis points), Meta (+50 basis points) and Tesla (+40 basis points). Combined, these securities represented an average weight of nearly 26% of the S&P 500. Meanwhile, the S&P 500 Equal Weight Index was +3.5% for the quarter (excluding dividends).

Given the concentrated rally in some of the largest names in the index, it is no surprise that the best performing sectors of the S&P 500 included information technology (+17%), consumer discretionary (+15%) and communication services (+13%). In general, stocks that performed the best included those with high valuation multiples, high betas, mega caps, high returns on capital and little-to-no dividends. Conversely, defensive sectors were out of favor this quarter. The three weakest performing sectors included utilities (-3%), energy (-1%) and consumer staples (0%). Energy was weak as crude oil was down 7% in the second quarter after being down 6% in the first quarter. Growth outperformed value this quarter with the Russell 1000 Growth Index +12.8% versus the Russell 1000 Value Index +4.1%.

For the Large Cap Strategy, our relative underperformance was driven by information technology (+13% vs. +17%), consumer staples (-2% vs. flat) and healthcare (+1% vs. +3%). Within information technology, the primary cause of the underperformance was not owning NVIDIA (+53%), which is arguably the top beneficiary in the thematic

AI trade. In addition, while the strategy has meaningful exposure to the other large tech names mentioned previously, these position sizes are smaller than their index weights, thus causing underperformance on a relative basis. Within consumer staples, Dollar General sold off after a weak earnings print. Our healthcare underperformance was primarily related to our pharma and life sciences holdings.

The underperformance was partially offset by relative outperformance in several sectors including materials (+9% vs. +3%), energy (+1% vs. -1%) and industrials (+7% vs. +6%). Within materials, our chemicals-related holdings outperformed nicely. As for energy and industrials, we owned a mix of underperformers and outperformers, though on aggregate they performed better than their respective sectors.

Following a market pullback that began at the beginning of 2022, the S&P 500 is +26% since bottoming on October 12th of last year. On a cumulative basis, the S&P 500 is still -4.3% versus year end 2021. Meanwhile, the Large Cap strategy is -1.8% (net of fees) over the same period. The downside protection offered by the strategy during the 2022 market correction has more than offset the underperformance experienced during this recent market rally.

PORTFOLIO CHANGES

During the quarter *Keysight Technologies* was added to the portfolio. Keysight is the largest global provider of electronic design and test instruments and software. Their products enable its customers to design, test and optimize electronic devices and systems, ensuring their performance, reliability and compliance with industry standards.

Two positions were eliminated during the second quarter. Realty Income was eliminated to fund purchases in existing holdings with more attractive valuations. The REIT's defensive characteristics helped the stock outperform a challenged real estate sector over its holding period. *Regeneron* was eliminated as our investment thesis played out favorably since our initiation, including the steady growth of blockbuster drug, Dupixent, and resilient sales from its cash-cow drug, EYLEA. Proceeds were used to help fund the initiation of Keysight Technologies.

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Microsoft reported solid earnings during the quarter. The company highlighted the importance of investing in artificial intelligence, noting that its Azure computing platform is seeing a positive impact from the technology. Also, the company likely benefitted from investors' desire to own large cap technology stocks during the quarter.

Apple reported a better-than-expected quarter for revenue, margins and earnings. iPhone revenue was the main positive, driven by the recapture of lost sales due to previous supply issues as well as solid performance in developing markets. Additionally, the company likely benefitted from investors' desire to own large-cap technology stocks during the quarter.

Amazon beat on revenue and EPS, with the revenue beat driven by stronger than expected retail sales in North America, and the EPS beat driven by an easing of cost pressures for the company.

Meta Platforms (Facebook) reported a quarter with stronger advertising revenue than expected, possibly signaling a stabilization of the advertising market. Additionally, Meta's operating expense guidance was lower than anticipated, benefitting future cash flow generation.

Alphabet received a boost from its Google I/O developer conference where the company discussed its plans for integrating generative artificial intelligence across its portfolio of products and services.

TOP DETRACTORS

Revvity, a medical technology company, printed mixed first quarter results as underwhelming diagnostics sales were partially offset by strong gross margins and cost controls. The real problem was the lowered '23 organic sales guidance as Chinese and small biotechnology customers are struggling through broader, macroeconomic headwinds.

Dollar General missed on same-store sales and EPS, driven by lower-than-expected tax refunds, reduced SNAP benefits, its customers being hurt by inflation and increased price competition from other dollar store companies.

Walt Disney missed consensus estimates for Disney+ subscribers, and the company experienced a larger-than-expected decline in operating profit within its television operations.

United Parcel Service saw global macroeconomic weakness negatively impact international volumes in the first quarter, which also caused the company to reduce its outlook for the year. The prospect of a union strike this summer also weighed on shares.

Bristol-Myers Squibb, a pharmaceutical developer, reported sales and EBIT that missed expectations as new generic entries cost the company business within its

Revlimid franchise (treats blood disorders). The lighter-than-expected higher-margin sales hurt overall profitability. Meanwhile, 2023 guidance was maintained and looks very achievable.

PORTFOLIO OUTLOOK

Large-cap stocks traded in a fairly narrow range during the second quarter until the resolution to Congress' self-inflicted debt ceiling crisis. Standoffs over the debt limit have become the norm when the president and congress are from different parties. Despite the commonality of this newly established ritual, investors became increasingly nervous as the deadline to default loomed. Immediately following the resolution, stocks surged and the S&P 500 delivered a +6.6% total return for the month of June, the bulk of the index's return for the quarter.

With continued uncertainty over the direction of the economy and the prospect for higher interest rates, large-cap stocks may be benefitting at the expense of small- and mid-cap stocks. Some economists and forecasters have adjusted their forecasts and believe that a soft-landing scenario, where the U.S. avoids a recession, due in part to the strong labor market, is the most likely outcome. Still many other investors believe a recession is on the way. A recession probability model from the New York Fed that uses the spread between the three-month Treasury bill and the 10-year Treasury note indicates that there is a 67% likelihood of a recession in the next 12 months. In addition to macroeconomic uncertainty, the Fed has yet to stop raising rates, and investors have begun to believe that a rate cut is not likely until sometime in 2024. Larger companies are more insulated to changes in interest rate expectations as they tend to have lower leverage than smaller companies at lower rates and are less sensitive to changes in the U.S. economy.

These macroeconomic factors may be prompting some investors to add to their large-cap stock allocations in search of safety relative to small- and mid-cap stocks. However, investors are not seeking only safety, but also opportunity. A key theme in the quarter and going forward is the burgeoning artificial intelligence (AI) industry. AI has the potential to be a long-term opportunity that can increase efficiencies and add value to companies for years to come. However, some view this theme as overhyped and a leading cause of the S&P 500 being led by a notoriously narrow group of stocks this year. The top 10 companies in the S&P 500 by performance contribution accounted for 80% of the index's return over the last six months, and the median return for these companies was 57%.

Looking beyond the market leaders and tech-oriented investment themes, there are a number of reasons to find domestic equities attractive. Many companies are and will continue to benefit from increasingly reliable supply

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chains, which allows them to lower their inventories and increase cash flow because they can restock inventories quickly if needed. Additionally, price increases implemented while raw material prices were surging continue to contribute to revenues, even as transportation and some input prices are coming down, providing opportunities for increasing profit margins.

The market's strength in the quarter combined with a tepid near-term earnings outlook pushed the S&P 500's forward price-to-earnings ratio to 19.1x, above its 20-year average of 15.5x. However, much of this increase has been due to a handful of stocks. The lack of breadth in the index has provided us with opportunities, and while some investors will continue to flock to what's working, we will continue to find and add to our holdings companies that have been overlooked or misunderstood, positioning the strategy to generate attractive returns for the years to come.

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 Large Cap Equity Composite and are expressed in U.S. dollars. Due to the merger described below, the creation date of Tributary's Large Cap Equity Composite is Jan 1, 2005. The composite includes all discretionary accounts with an initial market value of \$500,000 that are generally invested in a large capitalization equity strategy. The inception date of the Large Cap Equity Composite is March 31, 1985. The Tributary Large Cap Equity Composite was formerly known as the Tributary Large Cap Value Equity Composite through periods ending March 31, 2019. The Standard & Poor's 500 is a basket of 500 stocks that are considered to be widely held. The S&P 500 index is weighted by market value, and its performance is thought to be representative of the stock market as a whole. The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance. The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. The Russell 1000 Growth Index measures the performance of the large cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. s today's modern day industrials. It is not possible to invest directly in the S&P 500, S&P 500EWI, Russell 1000 Index, Russell 1000 Value Index or the Russell 1000 Growth 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.

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. Sector performance in commentary is stated gross of fees.

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 report can be requested by emailing clientservices@tributarycapital.com.

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Past performance does not guarantee future results. Investments: Are Not FDIC Insured • May Go Down in Value • Are Not a Deposit