

## 3Q24 NCG PERFORMANCE COMMENTARY

### Market Review

In the third quarter of 2024, equity markets were positive and small cap stocks outperformed large cap stocks. Small cap stocks were particularly strong in July as it became more apparent the Fed would start the much-anticipated rate cutting cycle at the September Fed meeting. Overall economic data continues to be mostly solid, and inflation continues to decline and is now approaching the Fed's target level of 2%. Meanwhile, the monthly jobs' reports softened in the middle part of the year and the unemployment rate ticked up. The combination of these datapoints led the Fed to initiate a 50bp rate cut in September as well as set expectations for continued cuts going forward. Given the market strength in 3Q and YTD 2024 and the improving breadth across small caps and the equal weighted large cap indexes, it appears investors believe the Fed has engineered a soft landing or no landing and that the US economy will avoid recession.

Third quarter performance notwithstanding, large caps have significantly outperformed for the better part of the last decade. Through 3Q 2024, the Russell 1000 Growth Index has delivered a 10-year annualized return of 16.52% vs the Russell 2000 Growth and Microcap Growth Indexes at 8.94% and 5.42%, respectively. Since the inception of our small cap and large cap track records over 25 years ago, the Russell 1000 Growth Index has delivered an annualized return of 8.48% vs the Russell 2000 Growth of 7.06%, and that includes the massive outperformance of large caps the last 10 years. With the Fed rate cut in September and combined with attractive valuations and an improving earnings outlook, we believe we could be at an inflection point where small caps start to improve on an absolute basis and outperform large caps on a relative basis.

- There have been periods in the past when small caps outperform large caps for long periods of time. *See Exhibit 1.*
- The valuation of the small cap sector relative to large caps is in the 11<sup>th</sup> percentile historically (zero being the least expensive relatively and 100 being the most expensive). *See Exhibit 2.*
- Earnings growth is expected to improve for the remainder of 2024 and 2025. *See Exhibit 3.*
- Small caps have generally outperformed large caps following the first Fed rate cut and for a sustained period afterward. *See Exhibit 4.*

Much of this performance delta over the last decade relates to healthy business fundamentals of large cap companies, which we think can be sustained. But we also believe there is opportunity building for our smaller cap strategies.

### Portfolio Review

Our investment philosophy emphasizes direct research and adhering to a strong sell discipline. We strive to own companies that we believe can grow revenue and profits at strong rates in any economic and market environment. We feel we have the opportunity, if we pick the right stocks, to perform better than the index in all market environments. However, we do not outperform in every quarter or every year, and in the third quarter, we underperformed in all strategies (net of fees). In these environments, we believe our team must remain committed to our philosophy and process. Our strategies have been tested over multiple decades and many different market and macro environments, and our team has been together through most of that time. Sticking with our discipline amidst periods of short-term underperformance has helped us outperform over the long-term in all strategies. Please see the performance table below for details.

For the quarter, our large cap strategy outperformed in financials, underperformed in industrials, health care, and consumer, and was inline in technology. In small cap and smid cap, we outperformed in technology and energy and underperformed in health care, industrials, financials, basic materials, and consumer. Our micro cap strategy outperformed in technology, consumer, and basic materials and underperformed in industrials and health care.

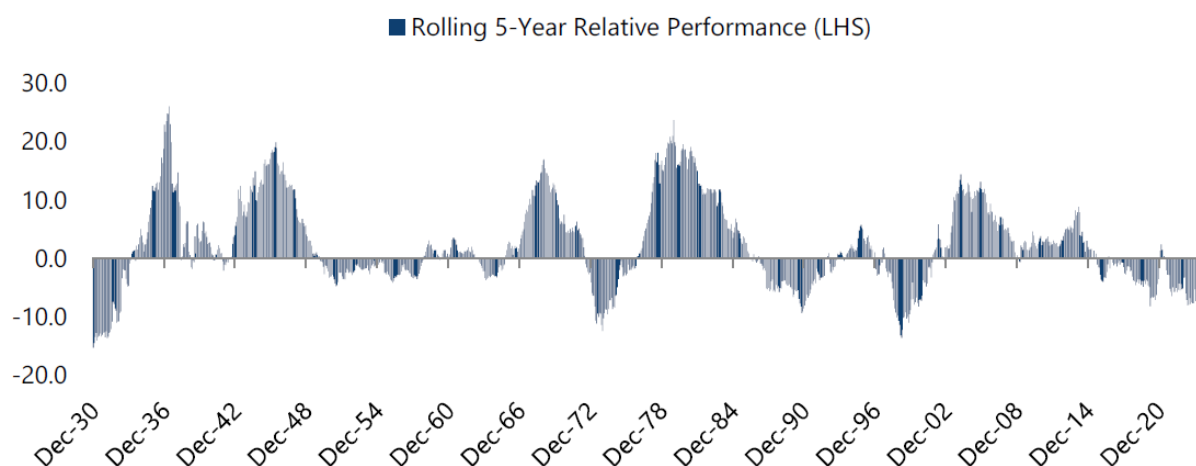
### Market Outlook

We believe the future direction of the market will depend on the path of the economy and the direction of earnings estimates. With the first Fed rate cut in the rearview mirror, the Fed continues to lean toward a more accommodative position but is expected to closely monitor the economic data to inform future decisions. After a strong September jobs report, the expectation around the magnitude of expected rate cuts was pared back for the November and December Fed meetings. The presidential election is also being closely watched by investors. Given polls indicate a close race, we believe the market could experience some volatility leading up to and shortly after November 5<sup>th</sup>. However, in our experience, moving past election outcomes allows the market to refocus on the path of the economy and the direction of earnings estimates. As of now, investors are expecting strong earnings growth in 2025 for small, mid and large cap companies. *See Exhibit 3.*

Our experienced and stable team has worked through many of these environments over the past 25 years, and we believe we can lean on our experience of bottom-up stock picking to navigate this market as well. As always, we will stay focused on our core investment philosophy. We believe a portfolio of high-quality growth companies, selected using our original research, and combined with a strong sell discipline will lead to compounding of portfolio value and market outperformance over time. We believe our since inception investment results continue to support this approach.

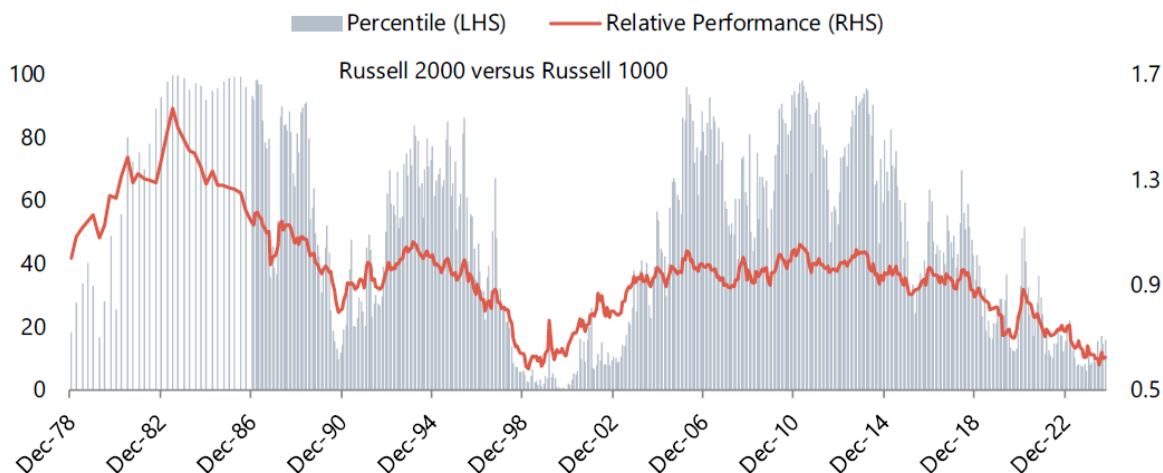
Next Century Growth Investors	Latest 1	Latest 3	Latest 5	Latest 10	Inception <sup>^</sup>		
Compound annual returns as of 09/30/2024	3Q24	YTD	Year	Year	Year	Year	To Date
Large Cap Growth Composite (%) (net of fees)	0.67	20.36	37.49	9.84	19.62	16.44	10.90
Russell 1000® Growth Index (%)	3.18	24.54	42.19	12.02	19.74	16.52	8.48
Small Cap Growth Composite (%) (net of fees)	3.96	9.91	15.13	(1.83)	17.37	14.43	10.68
Russell 2000® Growth Index (%)	8.41	13.22	27.65	(0.35)	8.81	8.94	7.06
Micro Cap Growth Composite (%) (net of fees)	3.32	9.25	19.68	(5.29)	19.86	19.45	16.81
Russell Microcap® Growth Index (%)	8.56	9.28	26.37	(8.31)	6.86	5.42	7.78
Smicro Cap Growth (%) (net of fees)	4.45	10.59	16.89	(2.47)	17.84	16.14	16.10
Russell 2000® Growth Index (%)	8.41	13.22	27.65	(0.35)	8.81	8.94	10.52
SMID Cap Growth Composite (%) (net of fees)	3.74	10.94	16.32	(1.65)	17.28	13.14	7.37
Russell 2500™ Growth Index (%)	6.98	11.19	25.20	(0.74)	9.74	9.98	6.38

**Exhibit 1. Rolling 5-year Relative Performance of Russell 2000 vs Russell 1000<sup>+</sup>**



Source: Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business; Jefferies

## Exhibit 2. Relative Valuation and Relative Performance of Russell 2000 vs Russell 1000<sup>+</sup>



Source: FactSet; FTSE Russell; Jefferies

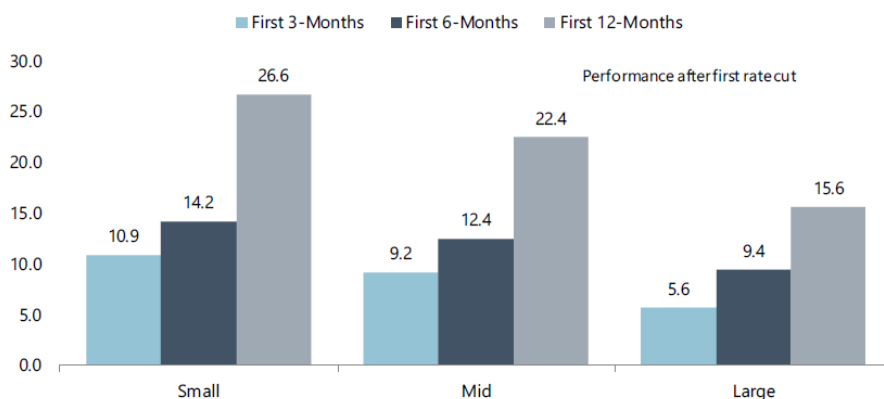
## Exhibit 3. 2024 and 2025 Earnings Growth Estimates (as of 9/24/2024)

Quarter/Year	Earnings Growth (%)								
	Small	Mid	Large	Small Caps		Mid Caps		Large Caps	
				Growth	Value	Growth	Value	Growth	Value
1Q24A	-13.4	-0.9	6.9	-10.3	-15.2	5.4	-2.4	23.6	-3.1
2Q24A	-8.9	2.7	13.5	-3.6	-9.6	15.0	0.9	19.5	8.1
3Q24P	-7.4	-0.6	4.2	-2.0	-10.5	7.0	-2.2	12.2	-0.4
4Q24P	12.9	6.7	14.7	7.4	11.9	9.8	6.8	17.5	10.6
<b>2024P</b>	<b>-2.1</b>	<b>-2.0</b>	<b>8.6</b>	<b>-1.0</b>	<b>-1.9</b>	<b>2.0</b>	<b>-3.3</b>	<b>16.2</b>	<b>2.9</b>
<b>2025P</b>	<b>16.8</b>	<b>14.5</b>	<b>13.1</b>	<b>18.3</b>	<b>15.2</b>	<b>19.7</b>	<b>13.5</b>	<b>15.2</b>	<b>13.0</b>

\*Small represented by Russell 2000, Mid by Russell Midcap, Large by Russell 1000

Source: FactSet; Standard & Poor's; Jefferies

## Exhibit 4. Performance after first Fed interest rate cut<sup>+</sup>



Note: Used Fed Funds from 1954 until 1963, then used the Discount rate from 1963 until 1994 and Fed Funds rate after that.  
Source: Federal Reserve Board; Haver Analytics; Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business; Jefferies

<sup>+</sup>Past performance is not an indicator of future performance. The Russell 2000 Index is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell Index. The Russell 1000 Index is a U.S. stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index, which represent about 93% of the total market capitalization of that index. The Russell Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index.



## NCG MICRO CAP 3Q24 REVIEW

	QTD	YTD	1 year	3 year	Annualized		Since Inception <sup>^</sup>
					5 year	10 year	
<b>Micro Cap Growth (%) (Net of fees)</b>	3.32	9.25	19.68	(5.29)	19.86	19.45	16.81
Russell Microcap <sup>®</sup> Growth Index (%)	8.56	9.28	26.37	(8.31)	6.86	5.42	7.78

<sup>^</sup>Inception 1/1/2003

### 3Q Attribution

Contributors	Detractors
<ul style="list-style-type: none"> <li>Sector outperformance: technology, consumer and basic materials</li> <li>Top 3 contributors to absolute performance: QTWO, USAP, VCYT</li> </ul>	<ul style="list-style-type: none"> <li>Sector underperformance: industrials and health care</li> <li>Top 3 detractors to absolute performance: NSSC, ATEC, RXST</li> </ul>

### 3Q Portfolio Activity

- In health care, we have maintained healthy exposure where we believe fundamentals remain strong. However, the stocks underperformed in 3Q primarily due to the strong performance of the biotech space in July and September, reflecting an anticipation of the first Fed rate cut in many years and following the 50bp cut in mid-September. We also had a few individual stocks that weighed on performance
- Overweight in industrials driven by companies with what we believe have secular growth drivers. This sector underperformed in the 3Q primarily due to one holding that traded down after their earnings report and a subsequent short report, a couple holdings with fundamental issues in the quarter, and a strong rally from many lower quality companies within the sector following the Fed actions mentioned above
- In technology, we are overweight as growth fundamentals remain solid and valuations are more attractive relative to levels seen in 2021
- In the financial sector, we are slightly underweight but have added exposure throughout 2024 with 4 companies in the insurance space
- Sold 9 positions to zero in 3Q: 3 due to market cap (FRPT, AVAV, CRDO), and 6 due to fundamental concerns: 3 in consumer, 2 in health care, and 1 in technology
- Added 12 new positions in 3Q: 2 in financials, 5 in health care (3 in pharma, 1 in diagnostics, 1 in biopreservation), 2 in technology, 2 in industrials, 1 in utilities

**Sector Weights**

As of 9/30/2024

	Micro Cap Growth	Russell Microcap Growth Index
Health Care	33%	39%
Technology	27%	16%
Industrials	19%	16%
Consumer Discretionary	10%	10%
Financials	4%	6%
Basic Materials	3%	2%
Consumer Staples	2%	3%
Utilities	0%	1%
Energy	0%	3%
Real Estate	0%	2%
Telecommunications	0%	1%
Cash	2%	0%

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Source: FactSet for Attribution and Sectors.

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^Large Cap Growth Composite Inception 1/1/1999, represent 13.63% firm AUM    ^SMID Cap Growth Composite Inception 4/1/2000, represent 1.89% firm AUM  
^Small Cap Growth Composite Inception 1/1/1999, represent 40.81% firm AUM    ^SMicro Cap Growth Composite Inception 1/1/2013, represent 1.49% firm AUM  
^Micro Cap Growth Composite Inception 1/1/2003, represent 33.35% firm AUM

The Russell Microcap® Growth Index measures the performance of the microcap growth segment of the U.S. equity market. It includes Russell Microcap companies that are considered more growth oriented relative to the overall market as defined by Russell's leading style methodology. The Russell Microcap Growth Index is constructed to provide a comprehensive and unbiased barometer for the microcap growth segment of the market. The Index is completely reconstituted annually to ensure larger stocks do not distort performance and characteristics of the microcap opportunity set. The Russell Microcap Growth Index is not an actual investment and does not reflect the deduction of transaction charges and other expenses that your account must bear. Additional information regarding policies for calculating and reporting returns is available upon request.

The NCG Micro Cap Growth Equity Composite contains portfolios investing primarily in the equity securities of smaller U.S. companies that the portfolio manager believes have substantial potential for high long-term growth. The portfolio manager seeks to identify the fastest growing and highest quality companies for investment. Investment results are measured versus the Russell Microcap® Growth Index.

The Next Century Growth Investors Small/Micro Cap Growth Equity Composite contains portfolios investing primarily in the equity securities of smaller companies that the portfolio manager believes have substantial potential for high long-term growth. The portfolio manager seeks to identify the fastest growing and highest quality companies for investment. The strategy invests in both small and microcap companies. Investment results are measured versus the Russell 2000® Growth Index.

The NCG Small Capitalization Growth Equity Composite contains portfolios investing primarily in the equity securities of smaller U.S. companies that the portfolio manager believes have substantial potential for high long-term growth. The portfolio manager seeks to identify the fastest growing and highest quality companies for investment. Investment results are measured versus the Russell 2000® Growth Index.

The Russell 2000® Growth Index measures the performance of the small-cap growth segment of the US equity universe. It includes those Russell 2000® companies with higher price-to-value ratios and higher forecasted growth values. The Russell 2000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the small-cap growth segment. The index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set and that the represented companies continue to reflect growth characteristics. The Russell 2000® Growth Index is not an actual investment and does not reflect the deduction of transaction charges and other expenses that your account must bear.

The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the US equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics. The Russell 1000® Growth Index is not an actual investment and does not reflect the deduction of transaction charges and other expenses that your account must bear.

The NCG Focused Large Capitalization Growth Composite contains portfolios investing primarily in equity securities of U.S. companies that the portfolio manager believes have substantial potential for high long-term growth. The portfolio manager seeks to identify the fastest growing and highest quality companies for investment. The strategy invests in both large and medium companies with an emphasis on large capitalization. Investment results are measured versus the Russell 1000® Growth Index.

The Russell 2500™ Growth Index measures the performance of the small to mid-cap growth segment of the US equity universe. It includes those Russell 2500™ companies with higher growth earning potential as defined by FTSE Russell's leading style methodology. The Russell 2500™ Growth Index is constructed to provide a comprehensive and unbiased barometer of the small to mid-cap growth market. The index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set and that the represented companies continue to reflect growth characteristics.

The NCG Small/Mid Capitalization Equity Composite contains portfolios investing primarily in the equity securities of small and medium-sized U.S. companies that the portfolio manager believes have substantial potential for high long-term growth. The portfolio manager seeks to identify the fastest growing and highest quality companies for investment. Investment results are measured versus the Russell 2500™ Growth Index.

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