

# Meritage

## Small Cap Growth Equity

The Meritage Small Cap Growth Equity strategy was established in 2008, capitalizing on the firm’s conviction in quantitative methodologies to drive security selection.

The investment approach is quantitatively driven by the Meritage multi-factor ranking process which identifies attractive companies with reasonable valuations and above-average cash flow returns on invested capital. Earnings quality, market reaction, capital deployment, and valuation factors provide a collective assessment of upside opportunity based on historical correlations. The combination of these multiple perspectives results in a broad corroboration of appreciation opportunities in small-cap stocks. An overlay of macro-economic and investment style analysis enables factor weighting to be dynamic. A qualitative assessment comes in at a secondary level, focused on non-quantitative aspects with regard to financial quality and portfolio diversification.

### Core Beliefs

- Market inefficiencies and return opportunities are greater in small cap stocks.
- Small caps stocks provide diversification to currency exposure, geopolitical events, trade policy, and large-cap momentum driven markets.
- A systematic, factor-based security selection process is highly efficient for identifying companies that rank the best across a set of pre-defined characteristics.
- A distinctive process to identify and assess investment opportunities is crucial in order to produce differentiated results.

### Key Facts

|                       |                                |
|-----------------------|--------------------------------|
| Inception             | December 31, 2008              |
| Benchmark             | S&P SmallCap 600 Growth        |
| Firm AUM              | \$2.3 billion as of 12/31/2023 |
| Total Strategy Assets | \$28.8 million                 |
| Firm Associates       | 17                             |

# Meritage Small Cap Growth Equity Investment Process

**Small cap universe defined by market cap range** between \$150mln and \$6B, financial quality and liquidity.

**3500 securities reduced to 1800**

**A sell discipline** is primarily driven by the deterioration in a stock's multi-factor rank.

**5-Yr. historical turnover** approximately 85%



**Multi-factor ranking process combines two independent perspectives:** 1) Earnings quality, market reaction, capital efficiency, and valuation factors that correlate with subsequent price movement; 2) Intrinsic valuation.

**Top ranked candidates (deciles 1-2) of universe** form primary buy candidate list

**Qualitative assessment follows,** focused on risk control with regard to portfolio diversification and financial quality.

**Portfolio construction**  
**50 – 90 securities**

## Portfolio Construction

- Sector diversification: Moderately sector neutral; Alpha driven primarily from security selection
- Non-U.S. holdings limited to 20% of portfolio value
- No quant-engineered ex-ante tracking error target or risk optimization
- Cash balances are primarily frictional
- Portfolio characteristics controlled within ranges relative to benchmark
- Top ten holdings will typically not exceed 20% of portfolio value

# Quantitative Analysis

- Multifactor Screen and Rank
- Objective Discipline Generates Buy Ideas (Deciles 1-2)
- Binds Investment Team to a Common Mindset

Our quantitative evaluation process integrates data from several outsourced research firms, enabling us to focus our time more productively on the model's output.

This combination of resources enhances our ability to interpret underlying trends and make dynamic adjustments as the investment cycle evolves. This work compliments our 30 years' experience of implementing a process-driven approach in identifying attractive investments.

## **Our Growth model evaluates companies from several key perspectives:**

An overlay of macro-economic and investment style analysis enables factor weighting to be dynamic. This draws on signals from the fixed income, commodity, currency, and equity markets.

The model emphasizes cash flow-based valuation and profitability, intangible asset evaluation, R&D investment, earnings quality and capital spending analysis, market price trends, and investor sentiment.

Newer research using Artificial Intelligence and Big Data impacts model factor weights and introduces new factors like media sentiment and news intensity.

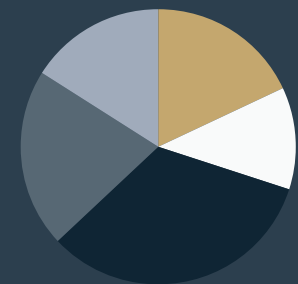
Forward looking judgments come into play when the research team identifies key changes in factor effectiveness.

### Market Regime Overlay



|  |     |
|--|-----|
| Regime Indicator                           | 30% |
| Treasury Bond Market's Term Premium        | 15% |
| Level & Direction of Our Valuation Spreads | 35% |
| Machine Learning Macro Indicator           | 20% |

### The Growth Model



|                    |     |
|--------------------|-----|
| Earnings Quality   | 33% |
| Market Reaction    | 21% |
| Valuation          | 18% |
| Machine Learning   | 16% |
| Capital Deployment | 12% |

Source: Empirical Research Partners

# Meritage Small Cap Growth Equity Performance

## Annualized Returns (%)

Periods Ending 12/31/2023

|  | QTR <sup>+</sup> | 1 Year | 3 Years | 5 Years | 10 Years |
|--|------------------|--------|---------|---------|----------|
| Meritage Small Cap Growth Equity Gross                                 | 9.4              | 25.4   | 8.0     | 14.9    | 10.4     |
| Meritage Small Cap Growth Equity Net of Institutional Fee <sup>1</sup> | 9.3              | 24.7   | 7.3     | 14.2    | 9.7      |
| Meritage Small Cap Growth Equity Net <sup>2</sup>                      | 9.2              | 24.3   | 7.0     | 13.9    | 9.4      |
| S&P SmallCap 600 Growth Index  | 14.3             | 17.1   | 4.3     | 10.4    | 9.0      |

<sup>+</sup>Unannualized results.

## Calendar Year Returns (%)

|   | 2023 | 2022  | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|------|-------|------|------|------|------|------|------|------|------|
| Meritage Small Cap Growth Equity Gross                        | 25.4 | -24.1 | 32.3 | 29.5 | 22.8 | -8.1 | 18.1 | 15.4 | 2.6  | 4.2  |
| Meritage Small Cap Growth Equity Net of Inst Fee <sup>1</sup> | 24.7 | -24.8 | 31.7 | 28.8 | 22.2 | -8.7 | 17.3 | 14.6 | 2.0  | 3.5  |
| Meritage Small Cap Growth Equity Net <sup>2</sup>             | 24.3 | -24.8 | 31.2 | 28.4 | 21.8 | -8.9 | 17.1 | 14.4 | 1.7  | 3.3  |
| S&P SmallCap 600 Growth Index                                 | 17.1 | -21.1 | 22.6 | 19.6 | 21.1 | -4.1 | 14.8 | 22.2 | 2.8  | 3.9  |

<sup>1</sup>The standard Meritage institutional fee of 0.65%/year is modeled into results. Fee breaks at higher asset levels are not reflected.

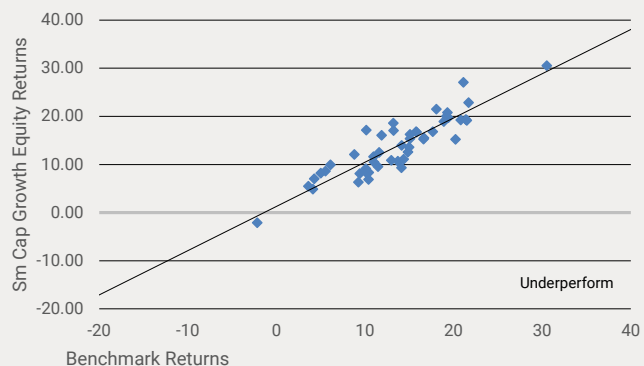
<sup>2</sup>The standard Meritage private client fee of 0.875%/year is modeled into results. Fee breaks at higher asset levels are not reflected.

## Consistency of Returns

**Rolling 3-Year (Net of Fees) Periods vs. S&P SmallCap 600 Growth Index exceeds benchmark 53% of periods**  
For Periods 12/31/2008 to 12/31/2023

Performance figures are net of fee.

◆ Meritage — S&P SmallCap 600 Growth Index



Please see GIPS Report for the Meritage Small Cap Growth Equity Strategy on pages 7-8.

# Meritage Small Cap Growth Equity Portfolio

Period Ending 12/31/2023

## Sector Diversification (%)

|                        | Strategy | Index |
|------------------------|----------|-------|
| Energy                 | 4.3      | 6.1   |
| Materials              | 4.8      | 6.6   |
| Industrials            | 29.9     | 19.7  |
| Consumer Discretionary | 20.3     | 16.0  |
| Consumer Staples       | 0.0      | 4.5   |
| Health Care            | 11.8     | 11.6  |
| Financials             | 7.3      | 10.6  |
| Information Technology | 14.3     | 14.3  |
| Communication Services | 1.9      | 3.5   |
| Utilities              | 0.0      | 1.6   |
| Real Estate            | 0.0      | 5.4   |
| Market ETFs            | 5.4      | 0.0   |
| Closed-End Funds       | 0.0      | 0.1   |

## Top Ten Holdings (%)\*

|                             |     |
|-----------------------------|-----|
| Comfort Systems USA         | 5.4 |
| Sterling Infrastructure     | 4.3 |
| Atkore Intl Group           | 3.5 |
| Rivian Automotive           | 3.5 |
| Installed Building Products | 3.2 |
| TriNet Group                | 3.1 |
| Mueller Industries          | 3.1 |
| Group 1 Automotive          | 3.0 |
| Medpace Holdings            | 2.8 |
| Rambus Inc                  | 2.8 |

\*Not including periodic use of sector/market ETFs.

Portfolio information is for a representative account.

## Portfolio Characteristics

|                           | Strategy | Index |
|---------------------------|----------|-------|
| Risk (5-Yr Beta)          | 0.91     | 1.00  |
| Price/Oper Earnings       | 18.0     | 19.2  |
| Price/Cash Flow           | 12.8     | 19.4  |
| CFROI                     | 21.3     | 11.2  |
| Non-U.S. Holdings (%)     | 2.3      | 3.5   |
| Dividend Yield (%)        | 0.8      | 1.1   |
| MPM Growth Decile Rank    | 3        | 4     |
| Wghtd Avg Mkt Cap (\$bil) | 6.3      | 3.4   |
| Median Mkt Cap (\$bil)    | 4.3      | 2.2   |

## Market Cap Distribution (%)

|                   | Strategy | Index |
|-------------------|----------|-------|
| > \$3 Billion     | 76       | 54    |
| \$1 - \$3 Billion | 24       | 43    |
| < \$1 Billion     | 0        | 3     |

## Non-U.S. Holdings: 2.3% (2 Stocks)

|        |     |
|--------|-----|
| Israel | 1.4 |
| France | 0.8 |

# Meritage Small Cap Growth Equity Strategy Manager



**Leonard C. Mitchell, CFA**  
Principal, Senior Portfolio Manager

Len is a Principal and serves as manager of the Small Cap Growth Equity strategy.

Len has over 35 years of investment experience. Len began his investment career as an oil and energy analyst.

He received his B.A. in Accounting and M.B.A. from Texas Christian University with Honors.



Meritage Portfolio Management is an institutionally based investment management firm, providing asset management and wealth management services for individuals, families, foundations, corporations and qualified retirement plans. The firm manages \$2.3 billion in assets for local, regional, and national clients from its base in Overland Park, Kansas.

7500 College Blvd., Ste 1212,  
Overland Park, KS 66210  
913.345.7000

[www.meritageportfolio.com](http://www.meritageportfolio.com)

# Meritage Small Cap Growth Equity



## GIPS Report

| Meritage Small Cap Growth Equity Returns |                        |                      |                      | Annualized Ex-Post          |                       | Composite Assets     |                                |                     |                   |
|--|------------------------|----------------------|----------------------|-----------------------------|-----------------------|----------------------|--------------------------------|---------------------|-------------------|
| Year Ending                              | Total Gross Asset-Wtd. | Total Net Asset-Wtd. | SP600SCGR* Benchmark | Gross Composite 3-Yr St Dev | Benchmark 3-Yr St Dev | Number of Portfolios | Asset-Wtd. Internal Dispersion | End of Period (Mln) | Firm Assets (Mln) |
| 12/31/14                                 | 4.2%                   | 3.3%                 | 3.87                 | 13.18%                      | 12.27                 | <6                   | N/A <sup>1</sup>               | 0.2                 | 1,593.3           |
| 12/31/15                                 | 2.6%                   | 1.7%                 | 2.78                 | 13.32%                      | 13.25                 | <6                   | N/A <sup>1</sup>               | 0.3                 | 1,528.3           |
| 12/31/16                                 | 15.4%                  | 14.4%                | 22.16                | 14.04%                      | 14.81                 | <6                   | N/A <sup>1</sup>               | 0.3                 | 1,513.8           |
| 12/31/17                                 | 18.1%                  | 17.1%                | 14.79                | 12.30%                      | 13.10                 | <6                   | N/A <sup>1</sup>               | 0.4                 | 1,646.6           |
| 12/31/18                                 | -8.1%                  | -8.9%                | -4.05                | 14.02%                      | 16.14                 | 8                    | N/A <sup>1</sup>               | 5.1                 | 1,530.2           |
| 12/31/19                                 | 22.8%                  | 21.8%                | 21.13                | 13.81%                      | 15.80                 | <6                   | N/A <sup>1</sup>               | 2.0                 | 1,810.4           |
| 12/31/20                                 | 29.5%                  | 28.4%                | 19.6%                | 21.15%                      | 24.11%                | <6                   | N/A <sup>1</sup>               | 3.1                 | 1,942.4           |
| 12/31/21                                 | 32.3%                  | 31.2%                | 22.6%                | 19.30%                      | 21.45%                | 24                   | N/A <sup>1</sup>               | 15.4                | 2,315.7           |
| 12/31/22                                 | -24.1%                 | -24.8%               | -21.1%               | 23.74%                      | 25.04%                | 25                   | 0.11%                          | 13.3                | 1,939.7           |
| 12/31/23                                 | 25.4%                  | 24.3%                | 17.1%                | 21.11%                      | 20.22%                | 33                   | 0.22%                          | 26.3                | 2,342.3           |

N/A<sup>1</sup> - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

### Composite Description:

The Meritage Small Cap Growth Equity composite is an actively managed small-cap growth equity strategy that evaluates companies with capitalization levels at or below \$6 billion on original purchase and is driven by Meritage's growth and value-centric quantitative process. Portfolio holdings focus on companies that exhibit attractive sustainable growth and above average cash flow/return on investment. The Manager combines experienced-based qualitative fundamental analysis with the firm's proprietary multi-factor models. The benchmark is the S&P SmallCap 600 Growth index.

### Benchmark Description:

The S&P SmallCap 600 Growth Index is a market-cap weighted index and measures the performance of the small-cap growth segment of the U.S. equity universe. The primary benchmark for the Small Cap Growth Equity composite was retroactively changed to the S&P SmallCap 600 Growth Index, effective 09/30/2020, from the prior benchmark of the Russell 2000 Growth Index. This change was made because both small cap growth indices are similar in compo-

sition yet the cost of the Russell index had dramatically increased.

### Definition of the Firm:

Meritage Portfolio Management is an independent investment management firm that is not affiliated with any parent organization.

### Basis for Composites:

Meritage Portfolio Management's Small Cap Growth Equity Composite, created on December 31, 2008, is composed of managed, fully discretionary accounts managed in the Meritage Small Cap Growth Equity strategy. The composite inception date is 12/31/2008.

### Definition of Significant Cash Flows:

Effective June 30, 2021, Meritage temporarily excludes portfolios from the composite for periods experiencing a significant cash flow defined as an aggregate of flows exceeding 10% of the portfolios beginning market value for the month of the flow.

### Fees:

Returns are presented gross and net of management fees. Gross-of-Fees performance returns are presented before management fees.



# Meritage Small Cap Growth Equity

## GIPS Report

Net-of-Fees performance returns are calculated by deducting Meritage Portfolio Management's standard fee rates from the gross composite return on a monthly frequency. This produces a compounding effect on the total rate of net return. Other fees reflected in both gross and net returns include withholding taxes. Withholding taxes on foreign-based investments have been deducted from both gross and net performance, contingent on how the withholding information is received from the firm's independent third party pricing source. Once withholding tax information is received from the custodian, performance is trued up to be consistent with what the custodian withheld.

As of October 7, 2019 the composite consists of a subset of accounts subject to commission free trading brokerage arrangements.

### Meritage Portfolio Management's standard fee schedules are as follows:

For Equity Strategy Composites the standard fees are: 0.875% on the first \$2,500,000; 0.75% on the next \$2,500,000; 0.625% on the next \$5,000,000; and 0.50% on assets over \$10,000,000.

Actual investment management fees incurred by clients may vary.

### Calculation Methodology:

Returns from cash and cash equivalents held in portfolios are included in total return calculations. Total return includes realized and unrealized gains and losses, plus reinvestment of income. Gross-of-Fees returns are calculated before the deduction of investment management fees and after the deduction of direct trading expenses. Net-of-Fees returns are calculated after the deduction of Meritage Portfolio Management's standard investment management fee rates and direct trading expenses. Both gross-of-fees and net-of-fees returns are calculated after or before the deduction of withholding taxes on foreign dividends, contingent on how the withholding tax information is received from our independent third party pricing source. Accounts may be subject to customized commission schedules. Policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request. Past performance is no guarantee of future results.

### Minimum Account Size:

The established minimum portfolio market value is \$100,000 effective 06/30/2021. A portfolio is included in the composite the month after it reaches the minimum size inclusion level. A portfolio is excluded from composite if the portfolio market value drops below \$100,000. Prior to 06/30/2021 there was no minimum account size.

### Currency:

Returns are calculated and presented in U.S. dollars. eVestment universe returns, benchmark indices and related statistics are presented gross-of-fee.

A list of composite descriptions and a list of limited distribution pooled fund descriptions are available upon request.

Internal dispersion is calculated using the asset-weighted standard

deviation of annual gross returns of those portfolios that were included in the composite for the entire year.

Meritage Portfolio Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Meritage Portfolio Management has been independently verified for the periods December 31, 2000 through June 30, 2023.

A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Meritage Small Cap Growth Equity composite has had a performance examination for the periods December 31, 2008 through December 31, 2022. The verification and performance examination reports are available upon request.

GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

\*S&P SmallCap 600 Growth Index

| Annualized Returns  | Periods Ending 12/31/2023 |       |       |        |
|---|---------------------------|-------|-------|--------|
|   | 1 Yr                      | 3 Yrs | 5 Yrs | 10 Yrs |
| <b>Meritage SC Growth Equity Gross</b>                                | 25.4                      | 8.0   | 14.9  | 10.4   |
| <b>Meritage SC Growth Equity Net of Institutional Fee<sup>1</sup></b> | 24.7                      | 7.3   | 14.2  | 9.7    |
| <b>Meritage SC Growth Equity Net<sup>2</sup></b>                      | 24.3                      | 7.0   | 13.9  | 9.4    |
| <b>S&amp;P SmallCap 600 Growth Index</b>                              | 17.1                      | 4.3   | 10.4  | 9.0    |

<sup>1</sup>The standard Meritage institutional fee of 0.65%/year is modeled into results. Fee breaks at higher asset levels are not reflected.

<sup>2</sup>The standard Meritage private client fee of 0.875%/year is modeled into results. Fee breaks at higher asset levels are not reflected.