NEWCENTURY ADVISORS

US Small Cap

AS OF DECEMBER 31, 2024

Q4'24 Commentary

The year ended with much ado about a lot. Trump won, the Federal Reserve drastically cut back its forecasts for interest rate cuts in 2025, and the US almost had another government shutdown. Small cap stocks were whipsawed in the quarter as the post-election euphoria that propelled the Russell 2000 Index up 5.85% on Nov. 6th quickly deflated. The index sold off in December and finished barely flat, returning 0.33% in the quarter.

Quarterly Performance

	NCA US Small Cap *(Gross)*	NCA US Small Cap *(Net)*	Russell 2000
Q4'24	-3.73%	-3.97%	0.33%

Note: Composite performance

Small cap stocks lagged the S&P 500 in 2024, marking a decade of underperformance relative to large caps. This is the second longest stretch since the 1930s. The relative valuation gap is now at the widest since the dot-com bubble. At such extremes, we believe the baby has been thrown out with the bath water, offering outstanding opportunity for small cap stock pickers like ourselves.

First, small cap profit margins in the Russell 2000 remained relatively stable over time, despite a growing percentage of non-earners. This reflects stronger margin growth and profits from the majority of small cap companies. Furthermore, analysts estimate small cap earnings growth will beat large cap in 2025 and 2026.

Second, although small cap companies tend to have more floating rate debt, 50% of that debt is concentrated in just 10% of Russell 2000 constituents. In fact, ~33% of Russell 2000 companies have net cash vs. only 13% for the S&P 500 companies, and their net cash balances are at record highs.

Third, the rise in PE-backed private firms and fall in the number of US publicly listed companies does not herald "the death of small caps" as some lament. Instead, the decline due to M&A far outweighs the decline from the dearth of IPOs according to Dartmouth Professor Epson Eckbo. For example, four of our 45 holdings were acquired, or in talks to be acquired in 2024, which reflects their attractiveness.

Bottom line, we see incredible value in our portfolio with a forward P/E of 16.3x vs. 27.0x for the Russell 1000. With over 97% active share, our portfolio looks dramatically different than the Russell 2000. And therein lies the opportunity for active managers like ourselves, because in order to outperform the market, you cannot look like it.

Strategy Facts

Objective	Long-term capital growth while seeking downside protection
Number of Holdings	25 to 45
Benchmark	Russell 2000 Index
Wtd. Avg. Mkt Cap	$3.7B
Median Mkt Cap	$2.5B
Portfolio Turnover	Typically less than 30%
Portfolio Manager	Christine Song, CFA *20 years industry experience*

Portfolio Statistics (12/31/24)

	NCA US Small Cap	Russell 2000
Characteristics		
Number of Holdings	43	1,966
Wtd Avg Market Cap ($Mil)	$3,716	$3,646
Median Market Cap ($Mil)	$2,504	$987
Valuation		
Forward P/E	16.3	18.7
P/B	2.5	2.1
P/S	3.4	26.6
P/CF	13.2	26.7
Fundamentals		
ROE (positive only)	15.6%	14.9%
Total Debt/Total Capital	24.0%	42.9%
Dividend Yield	1.6%	1.3%
EPS Growth - 3 to 5 years	17.2%	12.5%

Note: Representative account
Source: Bloomberg, FTSE Russell

Risk/Return Statistics

(Inception Q1'11 to Q4'24)

	NCA US Small Cap	Russell 2000
Beta vs. Benchmark	0.70	1.00
Standard Deviation	15.6%	20.6%
Cumulative Return - gross	362.7%	244.6%
Cumulative Return - net	302.7%	244.6%
Sharpe Ratio	0.66	0.39
Tracking Error	8.5%	—
Upside Capture	90.4%	—
Downside Capture	70.0%	—
Active Share	97.5%	—
Information Ratio	0.27	—

Note: Composite data. Statistics shown on a gross basis quarterly
Source: eVestment

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Performance Update

	NCA US Small Cap *(Gross)*	NCA US Small Cap *(Net)**	Russell 2000
Q4'24	-3.73%	-3.97%	0.33%
2024	7.32%	6.25%	11.54%
Annualized SI (1/2011 to 12/2024)	11.56%	10.46%	9.24%

Note: Composite performance.

* Management fee is 1%

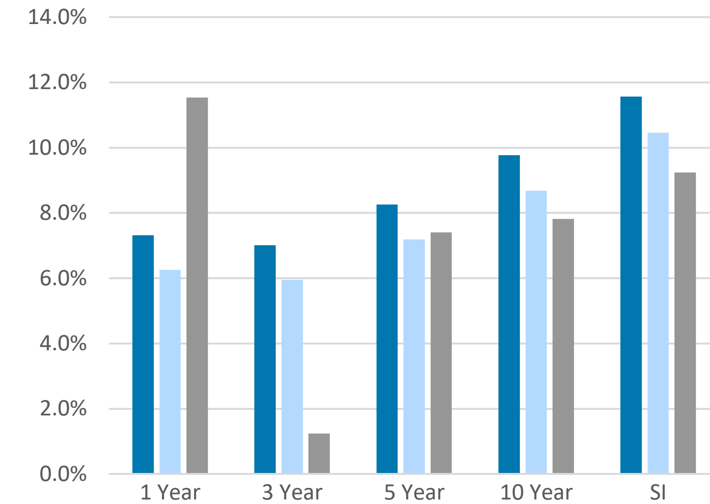
Portfolio Attribution Analysis

In Q4, IT was the best performing sector in the Russell 2000, returning 9.71%. The AI trade that drove large cap returns also drove small cap tech. Consumer Staples and Industrials were the next best performers at 5.61% and 4.05%, respectively. The worst performing sector was Healthcare at -7.58%, followed by Real Estate and Materials, with -5.99% and -4.69% returns, respectively. Sector allocation contributed a net +69 bps to portfolio performance. The strategy's underweight in Healthcare and overweight in Industrials and IT were the main sector contributors. The underweight in Financials and overweight in Real Estate were the main sector detractors. Stock selection detracted a net -474 bps. Cash was an average 0.93% weight during the quarter.

For the year, IT once again was the best performing sector in the benchmark at 25.24%, followed by Consumer Staples and Industrials, returning 24.34% and 17.68%, respectively. The worst performing sector, as well as the only one with negative returns, was Energy at -2.97%. Healthcare and Materials were the next two laggards, returning 1.63% and 2.27%, respectively. Sector allocation contributed a net +56 bps to performance. The strategy's overweight in IT and Industrials and underweight in Healthcare were the main sector contributors. The underweight in Financials and overweight in Real Estate and Energy were the main sector detractors. Stock selection detracted a net -471 bps for the year which was due entirely to Q4 shortfall. Cash averaged 0.83% weight in 2024.

Based on our sell discipline, we exited three of the top detractors (AVNW, RMBS and SAFE). Despite their having strong balance sheets and cash flows, the disruption caused by the pivot in capital allocation to AI investments, combined with heightened profit-taking, triggered further review. Since they no longer met our investment process's 3-to-1 upside/downside ratio requirement for each holding, we sold the positions and reinvested the proceeds in more attractive opportunities meeting our buy criteria. We believe our concentrated portfolio of high quality holdings is well positioned for 2025 with superior earnings selling at discount.

Annualized Composite Returns



	1 Year	3 Year	5 Year	10 Year	SI
Gross	7.3%	7.0%	8.3%	9.8%	11.6%
Net	6.3%	6.0%	7.2%	8.7%	10.5%
Russell 2000	11.5%	1.2%	7.4%	7.8%	9.2%

Market Cap Breakdown

	NCA Small Cap	Russell 2000
Greater than $5B	28.7%	25.0%
$1B to $5B	57.4%	62.5%
Less than $1B	12.4%	12.5%
Cash/Other	1.6%	0.0%
TOTAL	**100.0%**	**100.0%**

Note: Representative account

Sector Weightings

	NCA Small Cap	Russell 2000	*Diff*
Industrials	23.5%	17.8%	*5.7%*
Information Technology	17.3%	13.8%	*3.4%*
Financials	19.9%	18.7%	*1.1%*
Energy	5.8%	5.1%	*0.7%*
Consumer Staples	2.9%	2.8%	*0.1%*
Real Estate	5.9%	6.0%	*-0.1%*
Utilities	2.1%	2.7%	*-0.7%*
Materials	3.6%	4.3%	*-0.7%*
Communication Services	1.5%	2.7%	*-1.2%*
Consumer Discretionary	4.9%	9.7%	*-4.8%*
Healthcare	11.1%	16.3%	*-5.3%*
Cash	1.6%	0.0%	*1.6%*
TOTAL	**100.0%**	**100.0%**	

Note: Representative account. Slightly off due to rounding.

Important Disclosures:

PAST PERFORMANCE IS NOT AN INDICATOR OF FUTURE RESULTS. An investor should carefully consider the Strategy's investment objective, risks, charges and expenses before investing. One cannot invest directly in an index. There is no guarantee that the investment objective of the strategy will be achieved. Index returns reflect the reinvestment of income dividends and capital gains, if any, but do not reflect fees, brokerage commissions or other expenses of investing. Period data over one year is annualized. You should not rely on this document as the basis upon which to make an investment decision. The Strategy's return may not match the return of the underlying index. Investing involves risk, including possible total loss of principal.

The principal risks of investing in this strategy include: Equity securities risk, Sector Risk, Non-diversification Risk, Effects of Compounding and Market Volatility Risk, Market Risk, Counterparty Risk, and Rebalancing Risk, which can increase volatility. The Strategy may invest in derivatives, which are often more volatile than other investments and may magnify the Strategy's gains or losses.

The performance returns contained the deduction of advisory fees, which will reduce the return. The deduction of advisory fees and the compounding effect thereof over time will reduce the total return on any account. For example, an account of $10 million with a 1% fee that experienced a 10% compounding annualized total return over a period of five years would result in an ending dollar value of $16,105,100 without the deduction of advisory fees. If an annual advisory fee of 1% were deducted from the account for the same five-year period, the annualized return would be 9%, with an ending dollar value of $15,315,789. Additional information regarding policies for calculation and reporting returns is available upon request. Additional fees may apply, including brokerage and custodian fees, settlement fees, interest charges, wire fees, transfer fees and fund expenses, incurred in connection with the management of a client's account.
A FEE SCHEDULE IS AN INTEGRAL PART OF A COMPLETE PRESENTATION AND IS DESCRIBED IN PART II OF THE FIRM'S ADV, WHICH IS AVAILABLE UPON REQUEST. RETURNS INCLUDE THE REINVESTMENT OF DIVIDENDS AND OTHER EARNINGS, WHERE APPLICABLE.

Certain performance calculations are prepared internally and have not been audited or verified by a third party. The use of a different methodology for preparing, calculating or presenting performance returns and portfolio characteristic data may lead to different results and such differences may be material. "Representative Account(s)" discussed were selected based on a number of factors including, length of time in the composite and investment guideline applicability.

HOLDINGS AND SECTOR WEIGHTINGS – Sector and Holdings are subject to change and are not buy/sell recommendations. An investor should consider their objectives, financial situation or needs and risk profile before making any investment decision.

Prior to June 2023 the US Small Cap Strategy was known as the US SMID Cap Strategy and the prior benchmark was the Russell 2500. The benchmark was changed to reflect the portfolio characteristics.

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