



Quarterly Commentary

*I walk a lonely road
The only one that I have ever known
Don't know where it goes
But it's home to me, and I walk alone*

– Green Day

This could be the value investors' motto of late. In fact, any investor without money in the Magnificent Seven. At the end of the second quarter, the year-to-date return on the S&P 500[®] Index was 15.3%. The return on the equal-weight S&P 500 was 5.1%, a difference of over 10%. The discrepancy is similar to the returns for 2023 (S&P 500 23.3%; equal weight S&P 500 13.8%).

This has been one of the most concentrated markets of all time. The top three companies (MSFT, NVDA, AAPL) in the S&P 500 currently make up roughly 20% of the index. Not since 1980 have the top three been this concentrated. Moreover, the top five companies (NVDA, GOOG, MSFT, AMZN, AAPL) have been the source of almost 60% of the S&P 500's return year-to-date (57%, to be precise). In 2023, they were about half of the return. Narrowing the field, NVIDIA alone has been responsible for 30% of the S&P 500 return so far this year. These last two years are two of only nine years since 1952 that returns have been this concentrated (source: Empirical Research Partners, Portfolio Strategy, 6/24/24).

With this type of top-heavy returns, it's no surprise that small-cap stocks continue to lag large-caps. According to Jefferies research, small-caps have only been cheaper 10% of the time relative to large-caps since 1978. Furthermore, the ratio of small-cap price to large-cap price (IWM vs. SPY) sits at its lowest level since November 2000, the end of the tech bubble.

The tech bubble years are an interesting comparison to the recent strength we've seen from the top end of the S&P 500. Will this market see a reversal like that seen in 2000, where tech sells off dramatically and smaller value stocks outperform? No one knows for sure. However, Empirical Research did look at how those nine heavily concentrated markets reversed. They found that in the year following, "long rates often declined and undervalued issues usually led, by somewhat more than usual, with low PE stocks in the lead. On the other hand, the companies with the best top-line growth lagged, and price momentum strategies faltered."

We continue to preach diversification. We also know that's been a losing strategy of late. Our hunch is that investors are far too heavily invested in these top five stocks and don't realize how concentrated the S&P 500 has become. The S&P 500 is talked about as if it is a broadly diversified portfolio. In reality, it has become a highly concentrated technology fund, at least for now. I wish we knew when this would reverse, but we don't.

Utilities and financials were the top performing sectors in the benchmark. Health care was the worst performing sector within the benchmark. Small cap value underperformed small cap growth.

The Integrity Small Cap Value Fund (A shares without sales charge) underperformed its benchmark, the Russell 2000[®] Value Index for the quarter. Security selection in financials, industrials, materials, and consumer discretionary led to underperformance. Stock selection in technology and communication services aided performance. Sector weights were a modest positive, as our underweight to biotechnology within health care helped. Lower volatility than the benchmark was a positive style attribute.

Vestis Corp. (VSTS) was the largest detractor within industrials. The company delivered disappointing earnings and issued a large guidance reduction as sales and customer retention are pacing lower than expected. We exited the position. Other names also hurt performance. Atkore Inc. (ATKR) reduced its annual guidance on continued weak telecom sales and further destocking. ArcBest Corp. (ARCB) lagged as slowing industrial demand pressured volumes, leading management to offer less sanguine guidance for the

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upcoming quarter. Wabash National Corp. (WNC) missed earnings because of delayed customer shipments; however, management maintained guidance. Alight, Inc. Class A (ALIT) reported a messy first quarter where sales missed, and the company guided second quarter below consensus as its backlog wins are taking longer to ramp up than previously communicated. Brink's Company (BCO) aided performance. The company reported upside first quarter results and showcased solid momentum in its ATM servicing business.

Myers Industries, Inc. (MYE) and Summit Materials, Class A (SUM) hindered performance in materials. Myers Industries, Inc. (MYE) reported weak first quarter results as orders were delayed until later in the year and updated its guidance to be near the low end of the original guide. While quarterly results were better than expected for Summit Materials, Class A (SUM), the stock traded lower through the quarter on fears about slowing private construction demand and impacts to volumes. Not owning Carpenter Technologies Corp. (CRS), up 54%, also hurt performance. ATI Inc. (ATI) was a bright spot, as strong commercial aerospace engine demand resulted in an earnings beat and raise to its guidance.

Bloomin' Brands, Inc. (BLMN), PVH Corp. (PVH), Marriott Vacations Worldwide Corp. (VAC), and American Eagle Outfitters, Inc. (AEO) led to underperformance within consumer discretionary. Softer-than-expected results as well as concerns about the promotional environment and the health of the consumer hurt Bloomin' Brands, Inc. (BLMN). Early in the quarter, PVH Corp. (PVH) issued disappointing guidance resulting from European weakness coupled with a reduction in European third-party digital sellers. Marriott Vacations Worldwide Corp.'s (VAC) earnings beat and inline guidance failed to overcome concerns about the health of the consumer. American Eagle Outfitters, Inc.'s (AEO) mixed results and reiterated guidance failed to allay consumer health concerns. Nordstrom, Inc. (JWN) was a positive highlight as shares rallied on news that the Nordstrom family was exploring taking the company private.

Selection in semiconductors powered solid performance within technology. Veeco Instruments Inc. (VECO) generated better-than-expected results, driven by strength in their laser annealing systems. FormFactor, Inc.'s (FORM) second quarter guidance exceeded expectations, benefitting from demand for HBM (high bandwidth memory) probe cards used in AI applications.

Cinemark Holdings, Inc. (CNK) and Magnite, Inc. (MGNI) led the way within communication services. Strong box office performance from *Inside Out 2* and an analyst upgrade boosted Cinemark Holdings, Inc. (CNK) shares. Magnite, Inc. (MGNI) rallied on news that Netflix had named the company as a key partner for their global programmatic advertising business.

Overall performance in health care was positive, largely aided by our underweight to biotechnology. Fortrea Holdings Inc. (FTRE), down 42%, limited performance. Management delayed their first quarter earnings release and subsequently issued disappointing results and guidance driven by divestiture challenges and underperformance in their core business.

Stock selection in energy led to slight outperformance. Diamond Offshore Drilling Inc. (DO) agreed to be acquired by Noble Corp. (NE). International Seaways, Inc. (INSW) delivered better-than-expected revenue results driven by a strong tanker market, as geopolitical risk has been a tailwind.

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The Russell 2000® Value Index is a market-capitalization-weighted index that measures the performance of those companies in the Russell 2000® Index with lower price-to-book ratios and lower forecasted growth values.

Fund holdings mentioned in the Quarterly Commentary are as of 6/30/2023 and the percentages shown are based on net assets as of that date. Fund holdings are subject to change and should not be considered purchase recommendations. There is no assurance that the securities mentioned remain in the Fund's portfolio or that securities sold have not been repurchased. The Fund's top ten holdings as of 6/30/2024 were: SouthState Corp (1.3%), Murphy Oil Corp (1.3%), Nordstrom, Inc (1.1%), Glacier Bancorp, Inc (1.1%), Diamond Offshore Drilling Inc (1.1%), Portland General Electric Co (1.1%), International Seaways, Inc (1.1%), Civitas Resources, Inc (1.1%), Bread Financial Holdings, Inc (1.1%), and Cinemark Holdings, Inc (1.1%). Top holdings do not reflect cash, money market instruments, or options/futures contracts holdings. The most currently available data regarding portfolio holdings can be found on our website, www.vcm.com.

Contributors and Detractors Source: FactSet. The contributors and detractors mentioned are presented to illustrate examples of the Fund's investments and may not be representative of the Fund's current or future investments.

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