THB MID CAP STRATEGY
QUARTERLY COMMENTARY

THB Asset Management®

As of September 30, 2024

Executive Summary

The THB Mid Cap Strategy (the "Strategy") seeks long-term capital appreciation over full market cycles by investing in a concentrated group of companies within the Russell Midcap® Index that THB believes are undervalued, display lower volatility, and have strong operating metrics. The Strategy holds exactly 30 securities from the 800 securities within the Russell Midcap® Index and has a high active share. THB believes that the mid-cap universe is relatively inefficient and that a focused portfolio of high-quality securities in the space can offer strong risk-adjusted returns. THB Mid Cap Strategy outperformed the benchmark by 1.80% in the third quarter and was behind by 2.11% in the trailing one-year period (net of fees).

Market Review

Equities delivered solid performance during the quarter as investors gained more confidence that the U.S. economy would experience a soft or no landing scenario. Moderating (but still strong) labor markets, cooling inflation, solid economic growth, and lower interest rates supported the notion that a hard economic landing was a low-probability event. The Russell 2000® and Russell Midcap® indices led the markets, delivering returns of 9.3% and 9.2%, respectively, while the S&P 500® Index posted a 5.9% gain. The shift to accommodative monetary policy began in September with the Federal Reserve cutting interest rates by 50 basis points. The federal funds rate had been held at the same level for over a year before this pivot began. This policy shift follows a period containing a series of eleven rate hikes aimed at combating the post-pandemic inflation surge.

July Surprise

A few months earlier than the proverbial "October Surprise," President Biden announced he was ending his presidential campaign. The announcement on July 21 ended weeks of speculation about his future plans.

Initially deemed misinformation, speculation regarding his health, mental acuity, and ability to finish the race and serve an additional four years in office appeared to have some elements of truth. Rumors and press leaks about this topic grew louder post his poor debate performance in June, and more leading Democratic figures directly or indirectly questioned the viability of President Biden's campaign. The pressure to exit the race intensified, and Vice President Harris is now the presidential nominee with Timothy Walz named as her vice-presidential running mate.

Post the surprise shift at the top of the ticket, Vice President Harris and former President Trump appear closely matched in both polls and betting odds. There are only slight variances between the two candidates. Vice President Harris experienced a typical bump in polling post her candidacy announcement but that has settled back down to the current virtual tie.

Neither candidate is likely to have their party control the Senate and House, implying that a significant portion of their policies (which need congressional approval) have little chance of being implemented. The equity markets' fairly muted response to the Biden-Harris shift illustrates this point. There is minimal chance the most radical agenda items from either candidate (Trump or Harris) could pass Congress.

Relief Rallies

Every U.S. presidential election cycle brings concerns about future policies, direction for the country, and other assorted issues. Beyond these concerns, the reality is that not much (on a day-to-day basis) changes for U.S. citizens. As pre-election angst gives way to reality, people tend to move on and so do the equity markets.

Over the past 50 years, presidential inauguration years have been incredibly positive for mid-cap equities. Average annualized returns over this period have been +18.9%, with only one negative absolute return.

Inauguration Year	Mid-Cap Return
12/30/1977	3.9%
12/31/1981	4.1%
12/31/1985	31.3%
12/29/1989	24.8%
12/31/1993	16.2%
12/31/1997	23.3%
12/31/2001	-2.8%
12/30/2005	11.0%
12/31/2009	41.6%
12/31/2013	39.0%
12/29/2017	19.9%
12/31/2021	14.2%
Average	**18.9%**

Cuts Across the Globe

During the quarter, global central banks began a series of policy changes aimed at easing their previously restrictive stances.

These shifts are fostering positive sentiment as it appears the Federal Reserve, the European Central Bank, the PBOC (People's Bank of China), and others are aligning with a more accommodative policy approach to improve global growth prospects.

The Federal Open Market Committee (FOMC) started by lowering the federal funds rate by 50 basis points on September 18. The consensus leading up to the decision was split between a quarter-point and a half-point reduction, reflecting opinions that some level of reduction was needed.

The larger-than-anticipated rate cut highlighted the Fed's commitment to addressing fears of a hard landing and higher levels of unemployment. Fed Chair Jerome Powell stated, "You can take today's decision as a sign of our commitment not to get behind (the curve) … If the labor market were to weaken or inflation were to fall more quickly than expected, we are prepared to respond."

Simmering Inflation

The Fed's overall measures of inflation are trending down, but some drivers of inflation will continue and possibly be amplified by secular forces within the global economy. The green energy transition, geopolitical risks (wars, energy supply), accommodative central banks, and deglobalization will remain a backdrop for the foreseeable future. Any one (or more) of these elements could flare up, leading to more volatile inflation readings. The linear and stable inflation environment of the past decade will likely not repeat. More frequent monetary policy shifts driven by less stable inflation readings are likely to impact the economy and markets.

Electricity Costs

The price of electricity in the United States highlights how secular forces within the U.S. economy are driving up a central element of most consumers' budgets. What historically was a predictable cost for households has experienced sharp increases over the past few years.

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Electricity Cost per Kilowatt-Hour, U.S. City Average

Source: Federal Reserve Bank of St. Louis

Utility bills are rising for a variety of reasons, including higher input (fossil fuel) prices, green energy investments, increasing demand (EVs, data centers), and electric grid expansion/upgrades. The once-stable electric bill is now at the intersection of fossil fuel price volatility, population migration, green energy transition, and technological revolution (AI, data centers).

Green energy transition initiatives are taking place just as demand for electricity is increasing. Simultaneously navigating these two trends is putting pressure on rates and reliability.

Public commissions oversee regulated utilities. Regulators (usually political appointees) decide how much utilities are allowed to charge in an effort to allow the company to earn a fair return while also protecting consumers.

Recently, utilities have raised rates for a host of reasons, piling on increased costs to already stretched consumer budgets. Con Edison in New York hiked rates in January by 4% to implement grid upgrades for offshore wind and neighborhood electrification investments. In Texas, CenterPoint increased rates in September from 3.87 to 5.35 cents per kilowatt hour, increasing utility bills by $57.90 per month on average, to cover infrastructure investment costs. In Connecticut, Eversource increased electricity bills substantially in mid-2024 through state-mandated public benefits surcharges that now account for approximately 28% of the total bill on average. These charges are related to covering a $265 million shortfall due to non-paying accounts during the COVID-19 pandemic and paying back $605 million to Eversource for requiring it to purchase power from the Millstone nuclear power plant at elevated rates. The overpayment to Millstone was deemed necessary (by regulators) to reduce the state's usage of fossil fuel (natural gas).

In September 2024, Constellation Energy announced plans to restart the Three Mile Island nuclear power plant to sell the power to Microsoft (Microsoft needs the electricity for AI data centers). Three Mile Island is the site of the worst nuclear accident in U.S. history, which caused one of its reactors to be permanently closed after the 1979 incident. Microsoft (market capitalization of ~$3 trillion and ~$75 billion in cash on the balance sheet) is also having the plant owner, Constellation Energy, pursue a $1.6 billion federal, taxpayer-backed loan needed to fund the restart. If approved, much of the risk of reopening Three Mile Island would be shifted to taxpayers and not Microsoft and/or Constellation Energy. Debates have already begun regarding this situation and will surely intensify as various factions weigh the merits of reopening the plant and, more importantly, who should pay for this project.

Solutions to the challenges facing the electrical grid and power generation needs are being developed in real time, which provides investment opportunities within our small and mid-size investment universes.

EMCOR Group, Inc.

A strategy holding which is benefiting from the trends within the electrical and technology industries is EMCOR Group. They are a leading provider of mechanical and electrical construction services, energy infrastructure, and business maintenance to a wide range of customers. Among their specializations are heating and cooling, ventilation, building control systems, and fire protection. They serve sectors such as data centers, high-tech manufacturing, healthcare, and commercial buildings. There are numerous catalysts behind EMCOR's success. First, the company's revenue is being fueled by the rising spend on new data centers. The growing momentum behind artificial intelligence is leading to a higher need for energy-efficient infrastructure to house large-scale buildings that require advanced cooling systems. As a result of funding from the CHIPS and Science Act and the Inflation Reduction Act, combined with uncertain trade relations with China, many companies are reshoring their manufacturing to the U.S. This reshoring is providing more opportunities for EMCOR, such as large projects in semiconductor fabrication and electric vehicle factories which require their specialized engineering processes. Competition in logistics is also leading to demand for more automated distribution facilities. As a leader in the buildout of the e-commerce supply chain, the company is seeing many new prospects arise, specifically in fire protection. Overall, EMCOR has positioned itself to capitalize on many high-growth areas that are providing it with a growing number of projects. Lastly, the company is very dedicated to increasing shareholder value, having reduced outstanding shares by about 18% in the last five years.

BENCHMARK PERFORMANCE

The Russell Midcap® Index (the "Index") returned +9.21% (USD) in 3Q 2024. Utilities (+19.04%) was the best performing sector in Q3, followed by Real Estate (+16.33%) and Industrials (+11.69%). Energy (-1.69%) was the worst performing sector, followed by Consumer Staples (+3.78%) and Information Technology (+4.53%).

PORTFOLIO PERFORMANCE & POSITIONING

The THB Mid Cap Strategy returned 11.01% in USD (net of fees) in 3Q, outperforming the Index by 180 bps.

The portfolio saw positive contribution from stock selection in Consumer Discretionary (+1.37%), overallocation to Consumer Discretionary (+0.72%), and stock selection in Financials (+0.72%). Negative contribution mainly came from underallocation to Financials (-0.71%), Real Estate (-0.55%), and Utilities (-0.53%).

THB's top five performing stocks (from a contribution standpoint) were D.R. Horton, Inc. (Consumer Discretionary, +1.46%); NVR, Inc. (Consumer Discretionary, +1.31%); Pool Corporation (Consumer Discretionary, +0.73%); Ingredion, Inc. (Consumer Staples, +0.57%); and CACI International Inc. Cl. A (Industrials, +0.56%).

The bottom five performing stocks (from a contribution standpoint) were West Pharmaceutical Services (Health Care, -0.34%); Lincoln Electric Holdings, Inc. (Industrials, -0.23%); Amphenol Corporation Cl. A (Information Technology, -0.22%); Toro Company (Industrials, -0.20%); and Xylem Inc. (Industrials, -0.07%).

The Strategy's companies continue to deploy capital with the goal of increasing shareholder value. They announced three share repurchase authorizations and 12 acquisitions in the third quarter.

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Outlook

The equity markets have recently experienced significant shifts driven by expectations of a Fed policy pivot, easing inflationary pressures, and mixed economic data. With the unemployment rate moderating and other indicators suggesting some economic softness, there has been increased speculation about future potential rate cuts (both size and timing). In recent statements, Fed Chair Jerome Powell has telegraphed that they would move aggressively if any further weakening of the labor markets emerged.

Despite some uncertainty, we remain optimistic about future economic activity and the prospect of lower interest rates. One of our biggest concerns was the possibility of a policy mistake if overly restrictive rates were imposed by the Fed. As we now enter an easing cycle, we believe that threat has largely passed. Financial conditions (as measured by the Chicago Fed National Financial Conditions Index) have continued to trend more accommodative (lower number) throughout the year and now sit at the lowest level in two years. These levels indicate credit is readily available (albeit at a higher rate than five years ago) and there is no systemic stress in the banking system.

Chicago Fed National Financial Conditions Index

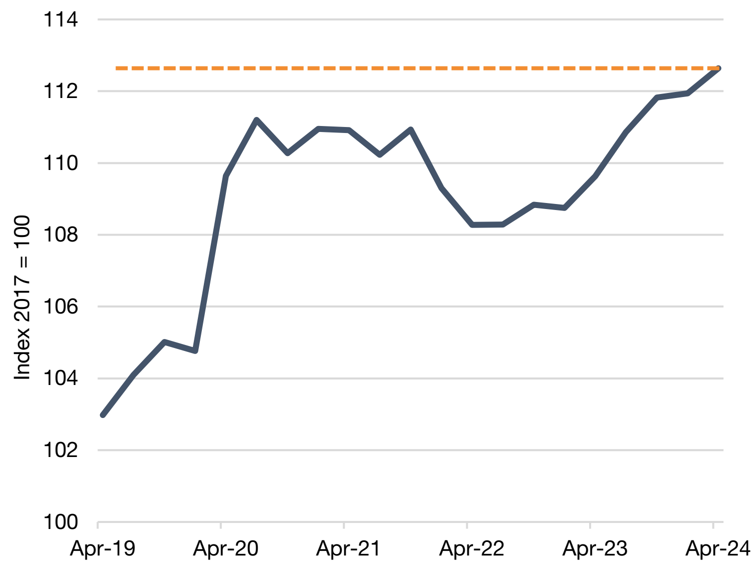
Source: Federal Reserve Bank of Chicago

The Bureau of Economic Analysis (BEA) released several sizable positive revisions to real Gross Domestic Product (GDP), real Gross Domestic Income (GDI), and personal income. These data releases have effectively negated the economic “hard landing” scenario and also highlight rising levels of economic productivity.

An increase in productivity can provide a powerful tailwind to an already strong U.S. economy. It serves to increase overall economic output, dampen rising labor costs, and foster durable economic growth.

Automation, AI, and the trickle-down (to small businesses) effect of existing technologies are driving U.S. output per worker to record high levels. The recent pickup in productivity is a welcome change versus the stagnation experienced during the last ten years.

Nonfarm Business Sector:
Labor Productivity (Output per Hour) for All Workers



Source: U.S. Bureau of Labor Statistics

The last time the U.S. experienced solid increases in productivity was the 1990s. During that time, computers hit an inflection point (in both price and power) enabling sizable productivity gains across most industries in the U.S. economy. Secular economic improvements such as productivity can serve as powerful catalysts for both earnings and multiples of small and mid-size stocks.

Top 10 Holdings (%)
as of September 30, 2024

Holding	Rep. Account
D.R. Horton, Inc.	4.69
NVR, Inc.	4.21
Keysight Technologies Inc.	3.99
Houlihan Lokey, Inc. Class A	3.97
Brown & Brown, Inc.	3.96
Ingredion Incorporated	3.82
Westinghouse Air Brake Technologies Corporation	3.81
Pool Corporation	3.80
Carlisle Companies Incorporated	3.76
Chemed Corporation	3.57

Sector Diversification (%)
as of September 30, 2024

Sector	Rep. Account
Communication Services	0.00
Consumer Discretionary	16.03
Consumer Staples	7.05
Energy	0.00
Financials	7.92
Health Care	9.43
Industrials	39.90
Information Technology	11.02
Materials	6.80
Real Estate	0.00
Utilities	0.00
Cash	1.85

Performance
Average Annual Returns (%) as of September 30, 2024

THB Mid Cap Composite	QTD	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception (February 2014)
Gross of Fees	11.15	13.36	27.84	8.43	13.73	12.65	12.70
Net of Fees	11.01	12.94	27.22	7.90	13.22	12.24	12.30
Russell Midcap® Index	9.21	14.63	29.33	5.75	11.30	10.19	10.41

Past performance cannot guarantee future results. Returns for periods greater than one year are annualized. Returns are expressed in U.S. dollars and reflect the reinvestment of dividends and other earnings. Composite and benchmark returns are presented net of non-reclaimable withholding taxes, if any. Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Net-of-fees returns reflect gross performance less investment management fees. Net-of-fees returns are calculated by deducting 1/12 of the highest tier of the standard fee schedule in effect for the period noted (the model fee). The composite model fee for each period is either the highest tier of the current fee schedule or a higher value, whichever is required to ensure the model composite net-of-fee return is lower than or equal to the composite net-of-fee return calculated using actual fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and may be found on Part 2A of its Form ADV.

All investments carry a certain degree of risk including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class. Interested parties are strongly encouraged to seek advice from qualified tax and financial experts regarding the best options for your particular circumstances.

The information in this article is based on data obtained from recognized services and sources and is believed to be reliable. Any opinions, projections or recommendations in this report are subject to change without notice and are not intended as individual investment advice. The securities highlighted, if any, were not intended as individual investment advice. A complete list of all holdings for the previous 12 months, each holding's contribution to the strategy's performance, and the calculation methodology used to determine the holdings' contribution to performance is available on request. Victory Capital Management Inc., and its affiliates, as agents for their clients, and any of its officers or employees, may have a beneficial interest or position in any of the securities mentioned, which may be contrary to any opinion or projection expressed in this report.

Information relating to portfolio holdings is based on the representative account in the composite and may vary for other accounts in the strategy due to asset size, client guidelines and other factors. The representative account is believed to most closely reflect the current portfolio management style.

The THB Mid Cap Composite contains fully discretionary mid-cap equity accounts and for comparison purposes is measured against the Russell Midcap® Index. Effective July 1, 2018, the minimum account size is $75,000. From June 1, 2016, to June 30, 2018, there was no minimum account size. Prior to June 1, 2016, the minimum account size for this composite was $100,000. The objective of the THB Mid Cap Strategy is to capture multi-investment themes across five broad sectors in a risk-averse portfolio. The Strategy implements a disciplined long-term approach, with an average portfolio turnover of 40%. The focus of the Strategy is on mid-capitalization companies in the US market that are under-researched and overlooked.

The Russell Midcap® Index is a market-capitalization-weighted index that measures the performance of the 800 smallest U.S. stocks in the Russell 1000® Index.

Index returns are provided to represent the investment environment during the periods shown. Index performance does not reflect management fees, transaction costs or expenses that would be incurred with an investment. One cannot invest directly in an index. **Past performance does not guarantee future results.**

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Victory Capital claims compliance with the Global Investment Performance Standards (GIPS®).

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