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EMERALD DIVERSIFIED SMALL CAP GROWTH

STRONG START TO YEAR LED BY LARGE CAPS

THE RUSSELL 2000 GAINED +5.18% in the first quarter of 2024, building on the momentum that started in the fourth quarter of 2023. Although the Russell 2000 did trail the Russell 1000 (+10.30%) and the Russell Midcap (+8.60%) for the first quarter in aggregate, it was noteworthy that the Russell 2000 outperformed the Russell 1000 in both February and March. Growth as a style similarly led, with the Russell 1000 Growth (+11.41%), Russell Midcap Growth (+9.50%), and Russell 2000 Growth (+7.58%) each outpacing their respective value peer.

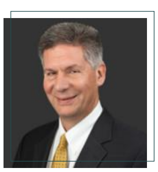
Within the Russell 2000 Growth, the broadening of performance was less apparent with only three of the eleven economic sectors outperforming the index overall. Amongst these three sectors, the technology sector posted the strongest return, gaining +17.76%, followed by the industrial and energy sectors which gained +9.62% and +8.43%, respectively. The technology sector was a beneficiary of the sizeable relative outperformance of Super Micro Computer (avg. weight 2.65%, ending weight 3.84%) and MicroStrategy (avg. weight 0.91%, ending weight 1.89%). These two positions in both the Russell 2000 and Russell 2000 Growth represent the indices' largest single-stock weights ever

KEY POINTS:

- ***The Emerald Small Cap Diversified Growth portfolio lagged the Russell 2000 Growth Index for the first quarter resulting from challenging stock selection, and the negative contribution from allocation and interaction effect.***

- ***At the sector level, underperformance within the healthcare, consumer discretionary and industrials sectors, more than offset stock selection driven relative outperformance within the financials, consumer staples and technology sectors.***

- ***As we enter the second quarter of 2024, the portfolio currently holds the largest active exposures in the financials, healthcare, and consumer staples sectors.***



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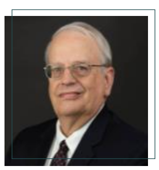

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and the largest combined weight of any two stocks, going back to 1986, according to an April 3, 2024 report from Furey Research Partners. Notably, if Super Micro Computer and MicroStrategy had been excluded from the benchmark, the Russell 2000 Growth, would have returned a more modest +3.9%, according to the same report.

Not surprisingly, given the size and contribution to return from these two positions, when the performance of the Russell 2000 Growth is decomposed by market capitalization, it was the largest market capitalization quintile that drove the performance of the index. More specifically, according to a March 31, 2024 report from Steve DeSanctis, Equity Strategist at Jefferies, the largest size quintile outperformed the index by more than 409 basis points, while all other size segments underperformed, with quintiles 2, 3, 4 and 5 underperforming by (-252 bps), (-720 bps), (-944 bps) and (-571 bps), respectively.

Also notable, according to the same report from Steve DeSanctis of Jefferies cited above, was the relative outperformance of the highest return on equity quintile (+834 basis points), which was the opposite of what was witnessed during the fourth quarter. Further, when viewing performance by sales growth, the tails drove the best performance with the fastest growers in the top quintile and the non-revenue generating companies outperforming by +1,256 bps and +1,627 bps, respectively. Interestingly, when viewing performance by P/E quintile the tails underperformed with the lowest P/E in quintile 1 (-284 bps) and non-earnings companies (-584 bps) lagging, while the companies falling in quintile 2 (+678 bps) and quintile 4 (+419 bps) materially outperformed. Each of these datapoints, from the contribution to return from the two largest holdings, the concentration of returns among three economic sectors, and top quintile of the market capitalization spectrum all highlight the number of undercurrents within the Russell 2000 Growth benchmark that collectively created a more challenging backdrop than the headline Russell 2000 Growth index return of +7.58% would imply.

PORTFOLIO REVIEW

The Emerald Diversified Small Cap Growth portfolio lagged the Russell 2000 Growth Index for the first quarter resulting from challenging stock selection, and the negative contribution from allocation and interaction effect. At the sector level, underperformance within the healthcare, consumer discretionary and industrials sectors, more than offset stock selection driven relative outperformance within the financials, consumer staples and technology sectors.

The healthcare sector was the portfolio's largest detractor to return for the quarter as challenging stock selection and interaction effect within the biotechnology and medical equipment industries weighed on relative performance.

Stock selection also weighed on relative performance within the consumer discretionary sector. At the industry level performance was most challenged within the restaurant and casinos and gambling industries. While Emerald's holdings within the sector lagged the benchmark, there were no fundamental shortcomings within the portfolio.

Holdings and positioning within the industrials sector also pressured relative performance. The industrials sector, as highlighted above, was one of the three best performing sectors within the Russell 2000 Growth index for the quarter. As a result, the combination of the portfolio's average underweight of approximately 420 basis points for the quarter, and positioning at the industry level weighed on relative performance as underweights to the building, climate control, engineering and contracting, and construction industries more than offset outperformance within the commercial vehicle-equipment industry.

Partially offsetting the above-mentioned detractors to performance was relative outperformance within the consumer staples, financials, and technology sectors. The consumer staples sector was one of the top performing sectors in the portfolio during the first quarter driven by stock selection within the food products and soft drinks industries.

The financial services sector also contributed positively to performance driven by both stock selection and interaction effect within the full line insurance and property casualty insurance industries.

Stock selection within the technology sector also contributed positively to performance. At the industry level relative outperformance within the computer hardware, computer services, production technology, and semiconductor industries offset relative underperformance in the software industry.

As we enter the second quarter of 2024, the portfolio currently holds the largest active exposures in the financials, healthcare, and consumer staples sectors. Thoughts on those sectors are highlighted below.

- The healthcare sector represents the portfolio's largest nominal exposure, although the level of active exposure declined from the fourth quarter. At the industry level, the portfolio currently holds the largest active exposure to the medical equipment, pharmaceuticals, and medical services industries, and the largest nominal exposure within the biotechnology industry. We continue to be primarily focused on medical device and diagnostic companies that are profitable or approaching profitability with a strong balance sheet. In therapeutics, the portfolio has exposure to both revenue generating companies as well as high-quality development stage companies.

- Emerald also held an overweight position within the financial sector driven by holdings within the bank, full line insurance, investment services, and property and casualty insurance industries. The hard market in property coverage did not abate in the first quarter of this year, while casualty lines pricing continued to move higher to offset increased claims from 2016-2019.

- The portfolio also exited the first quarter with a modestly overweight position within the consumer staples sector. We remain positive on the fundamental outlook for growth-oriented consumer packaged goods companies. We see mounting evidence that the broad-based cost inflation and supply chain issues that plagued the industry in recent years are abating, which should continue to drive higher levels of profitability. We continue to focus on companies generating industry leading revenue and earnings growth rates driven by disruptive brands, category leadership positions, strong secular growth opportunities, and improving profit margins.

MARKET OUTLOOK

The broadening of market participation throughout the first quarter has been encouraging, and we remain optimistic that the best is yet to come for small capitalization stocks. Inflationary pressures are moderating, the U.S. economy has continued to demonstrate resiliency, and the Federal Reserve stands at the ready to lower rates. Further and most notably, earnings growth for the Russell 2000, after contracting for the last 12 months, is set to inflect positively in the second half of 2024 as small caps are well positioned to benefit from the relative strength of the U.S. economy, supported by domestic consumption, initiatives to onshore critical elements of the supply chain, secular investment in artificial intelligence, and a resurgence in productivity. As visibility to this inflection comes into view and the relative earnings growth gap narrows to large capitalization stocks, we believe the broadening could accelerate given the sizeable valuation disconnect relative to history.

In that regard, small capitalization stocks continue to trade at a discount to their large capitalization peers. The relative valuation of the Russell 2000 to the Russell 1000 remains historically attractive, residing in the 10th percentile, with the index trading at a double-digit discount relative to the long-term average based on trailing P/E, forward P/E, price to book, price to sales, and P/E to growth according to the April 2, 2024 report from Steve DeSanctis of Jefferies.

Therefore, with small capitalization stocks trading at significant discount to large caps from a valuation perspective, corporate earnings growth poised to reaccelerate in the second half of 2024, and the Federal Reserve hiking cycle now in the rearview, we are increasingly optimistic that small capitalization stocks are poised to build on their first quarter gains. No outlook is without risks and in this regard geopolitical risks remain ever-present, with tension in the Middle East continuing to percolate and no end to the war between Russia and Ukraine. The U.S. Presidential Election will come into view as the year progresses and carries with it its own unique set of risks and opportunities. Treasury funding, which contributed to the third quarter 2023 tantrum in interest rates, also adds an element of risk to the outlook as the Government must continue to fund the burgeoning national debt.

Emerald, as always, remains vigilant and focused on utilizing our fundamental bottom-up research process to identify the most attractive growth opportunities within the small capitalization universe.

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