

# QUARTERLY COMMENTARY

## SMALL CAP GROWTH

June 2022

### SECOND QUARTER 2022

#### Small Cap Growth Composite Performance

The sell-off in the equity markets that began late last year continued through Q2 as the Fed aggressively countered inflationary pressures with monetary tightening and talk of recession grew louder. Our benchmark, the Russell 2000 Growth Index, fell 19.3%, bringing its year-to-date decline to 29.5%. Similarly, other major equity indices logged poor results. Bridge City's portfolio was not immune, and the Small Cap Growth Composite (Composite) contracted 13.3% in Q2 and 22.1% year to date net of fees. Our investment strategy continued to perform very well on a relative basis, beating the benchmark by 5.9% and 7.3%, net of fees, for Q2 and the year to date, respectively.

In Q2, our strategy outperformed in all sectors except Energy and Telecom, driven primarily by stock selection. Technology and Health Care were the most significant contributors, accounting for nearly 60% of the portfolio's outperformance for the period, followed by smaller relative contributions from Financials, Industrials, and Consumer Discretionary. While we continued to experience a modest tailwind from avoidance of unprofitable names, this was not the primary driver of the Composite's strong relative performance in the quarter as the high-quality companies we own in the portfolio did most of the heavy lifting. The portfolio's underexposure to Energy was again a small headwind and led to modest underperformance in the sector. A list of top contributors and detractors for Q2 2022 can be found in the table at the top of page three.

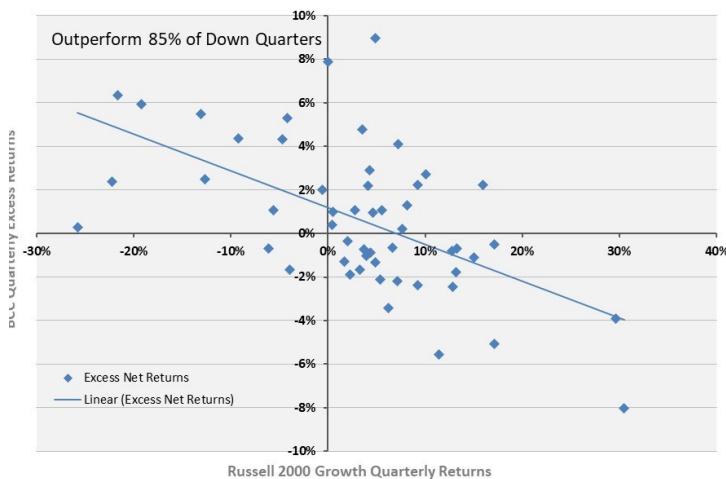
While negative absolute returns in any period are disappointing, we believe that strong down-market protection in the short term contributes to better absolute returns and outperformance over the long run. As the performance table on page 2 indicates, Bridge City has done a remarkable job of generating excess returns over the time periods shown. As we kick-off our 14th year, we are proud of the enviable long-term track record that has been an outcome of our consistent investment discipline.

#### Market Outlook

Over the balance of 2022, we expect further moderation in corporate profitability growth. Supply chain constraints have eased somewhat as companies built inventory and adapted their operations,

### STRONG DOWN MARKET PROTECTION

Quarterly BCC Excess Net Return Vs. Index Return

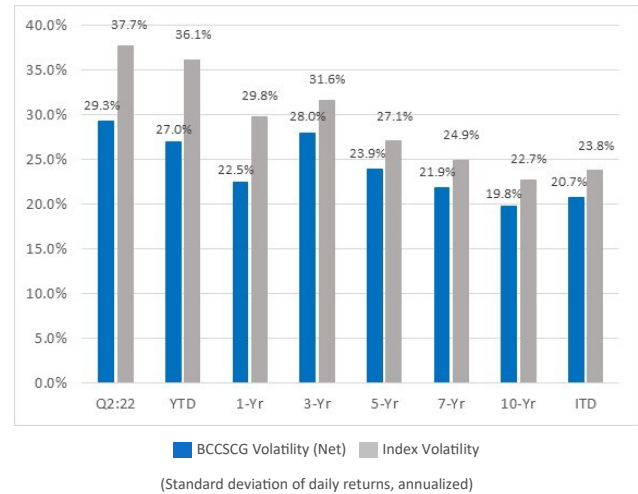


### BRIDGE CITY CAPITAL OVERVIEW

Bridge City Capital, LLC (BCC) focuses on small cap growth companies with proven track records, strong financial characteristics and above average growth prospects at attractive valuations, using our disciplined, repeatable investment process that scores companies on Quality, Growth & Profitability, Financial Strength and Valuation. Our five-member investment team, consisting of Alex Woodward, Steve Brink, Jim Bradshaw, Sara Hasan and Brant DeMuth, has nearly 150 years of combined investment experience.

Additional information about BCC and its Small Cap Growth investment strategy is available at [www.bridgecitycap.com](http://www.bridgecitycap.com) or by contacting Client Service at [info@bridgecitycap.com](mailto:info@bridgecitycap.com).

### CONSISTENTLY LESS THAN INDEX VOLATILITY



but inflationary pressures from labor, energy, food, transportation, and other costs have outpaced companies' ability to increase pricing and this is resulting in gross margin pressure. The Fed accelerated its tightening campaign in Q2 and the yield curve shifted higher before inverting, signaling expectations for lower economic growth in future periods and intensifying fears of a recession. The U.S. consumer's resilience has wavered in the face of higher prices, shifting preferences, fading stimulus and higher interest rates. Late in the quarter, some commodity prices began to weaken from their recent highs which may provide some relief for companies and consumers should this hold steady over the back-half of the year.

#### Strategy

Investing in companies with tested management teams and proven track records that are growing revenues and earnings over time, while generating and using cash in shareholder-friendly ways, remains our approach. We will continue to pursue a strategy of investing in high quality small cap growth stocks, as defined by our rigorous investment process. We believe investing in these types of companies will help us continue to outperform over the long run.

See [Important Disclosure](#) information on page 3.

<sup>1</sup>Source: Telemet/Orion.

**SMALL CAP GROWTH COMPOSITE— 10-YEAR CALENDAR YEAR PERFORMANCE**

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Bridge City Capital SCG Gross	21.18%	20.92%	25.02%	1.32%	16.38%	17.74%	7.33%	7.59%	41.51%	11.74%
Bridge City Capital SCG Net	20.62%	20.39%	24.53%	0.85%	15.97%	17.19%	6.73%	6.97%	40.70%	11.04%
Russell 2000® Growth	2.83%	34.63%	28.48%	-9.31%	22.17%	11.32%	-1.38%	5.60%	43.30%	14.59%
Excess Gross	18.35%	-13.71%	-3.46%	10.63%	-5.79%	6.42%	8.71%	1.99%	-1.79%	-2.85%
Excess Net	17.79%	-14.24%	-3.95%	10.16%	-6.20%	5.87%	8.11%	1.37%	-2.60%	-3.55%

**SMALL CAP GROWTH COMPOSITE—RELATIVE PERFORMANCE**

	Q2:2022	YTD	1-YR	3-YR (ANNUALIZED)	5-YR (ANNUALIZED)	7-YR (ANNUALIZED)	10-YR (ANNUALIZED)	INCEPTION (ANNUALIZED)
Bridge City Capital SCG Gross	-13.22%	-21.94%	-19.44%	7.05%	9.51%	10.20%	13.01%	15.26%
Bridge City Capital SCG Net	-13.33%	-22.13%	-19.82%	6.56%	9.03%	9.71%	12.47%	14.62%
Russell 2000® Growth	-19.25%	-29.45%	-33.43%	1.40%	4.80%	4.96%	9.30%	11.27%
Excess Gross	6.03%	7.51%	13.99%	5.65%	4.71%	5.24%	3.71%	3.99%
Excess Net	5.92%	7.32%	13.61%	5.16%	4.23%	4.75%	3.17%	3.35%

**BRIDGE CITY CAPITAL SMALL CAP GROWTH**

- Long-only, U.S. equity small cap growth manager
- Benchmark: Russell 2000® Growth Index
- Fully invested
- Diversified 65-100 stock portfolio
- Target sector neutral, +/- the greater of 20% of the weight of the defined sectors of the Russell 2000 Growth Index, or +/- 3 absolute percentage points from the defined sector weights within the index

**SMALL CAP GROWTH RISK & EFFICIENCY MEASURES<sup>1</sup>**

	1-YEAR	3-YEAR	5-YEAR	7-YEAR	10-YEAR	SINCE INCEPTION
Annualized Alpha	8.56	5.60	5.24	5.84	5.12	5.45
Beta	0.74	0.78	0.81	0.80	0.80	0.82
Tracking Error	8.49	8.80	7.69	7.20	6.54	6.11
Sharpe Ratio	-1.25	0.32	0.43	0.53	0.77	0.87
Sharpe Ratio Benchmark <sup>2</sup>	-2.12	0.20	0.30	NA	0.56	NA
Information Ratio	1.65	0.64	0.61	0.73	0.57	0.65
Upside Market Capture	111.64	79.43	91.01	89.87	89.44	90.70
Downside Market Capture	71.58	72.94	81.19	76.97	77.12	78.01

<sup>1</sup>Source: eVestment Alliance. Risk & Risk Free Index: Russell 2000 Growth, Citigroup 3-Month T-Bill, Data frequency: monthly, SCG-Gross of Fees. <sup>2</sup>Source for Sharpe Ratio Index: FTSE Russell 2000 Growth Index factsheet.

**CUMULATIVE NET PERFORMANCE VS. RUSSELL 2000® GROWTH INDEX**


<sup>2</sup>iShares Russell 2000 Growth ETF proxy for Russell 2000 Growth Index. <sup>3</sup> All data as of June 30, 2022. See [Important Disclosure](#) information on page 3.

**PORTFOLIO STATISTICS**

Top 10 Holdings	SCG Rep Acct	
Ensign Group, Inc. (ENSG)	2.7%	
Rogers Corporation (ROG)	2.1%	
EMCOR Group, Inc. (EME)	2.0%	
Methode Electronics Inc. (MEI)	2.0%	
Tetra Tech Inc. (TTEK)	2.0%	
Medpace Holdings Inc. (MEDP)	1.9%	
Onto Innovation Inc. (ONTO)	1.8%	
Natus Medical Inc. (NTUS)	1.8%	
A10 Networks Inc. (ATEN)	1.7%	
US Physical Therapy (USPH)	1.7%	
<i>Represents largest positions based on % of total portfolio value.</i>		
ICB Industry Weights	SCG Rep Acct	Index <sup>2</sup>
Basic Materials	4.2%	4.0%
Consumer Discretionary	12.9%	11.6%
Consumer Staples	5.4%	4.3%
Energy	4.6%	7.3%
Financials	5.8%	5.9%
Health Care	23.7%	22.1%
Industrials	17.0%	19.0%
Real Estate	2.5%	2.8%
Technology	19.7%	18.1%
Telecommunications	1.8%	2.5%
Utilities	0.7%	2.4%
<i>BCC weights exclude cash of 1.7%</i>		
Portfolio Characteristics	SCG Rep Acct	Index
Equity Positions	92	1,136
Weighted Average Market Cap	\$2.9B	\$2.9B
P/E Ex-Neg Earnings	18.0	16.9
Average Price/Book Value	2.9	3.9
Average Yield	0.97%	0.74%
Annual Turnover (dollars)	16.2%	-
Annual Turnover (names)	11.8%	-

## TOP CONTRIBUTORS IN Q2 2022

	AVERAGE WEIGHT <sup>1</sup>	CONTRIBUTION <sup>2</sup>
Natus Medical Inc.	1.60	0.30
Ollie's Bargain Outlet Holding	0.68	0.19
Photronics Inc.	1.19	0.16
Dorman Products Inc.	1.07	0.15
US Physical Therapy Inc.	1.60	0.14

## TOP DETRACTORS IN Q2 2022

	AVERAGE WEIGHT <sup>1</sup>	CONTRIBUTION <sup>2</sup>
II-VI Inc.	1.89	-0.61
Amedisys Inc.	1.22	-0.59
Ensign Group Inc.	2.80	-0.53
Coherus Biosciences	0.70	-0.42
Axon Enterprise, Inc.	0.99	-0.38

<sup>1</sup>Weights are the average position weight of an SCG rep account during the quarter. Positions identified do not represent all securities held, purchased or sold.

<sup>2</sup>Calculation methodology and a complete list of positions and contributions for the quarter are available upon request. Source: Telemet/Orion. All data as of June 30, 2022.

### ABOUT BRIDGE CITY CAPITAL, LLC

Bridge City Capital, LLC (BCC) is an Oregon Limited Liability Company and a SEC registered investment advisory firm, headquartered in Lake Oswego, Oregon. The firm was formed October 27, 2008 by Alex Woodward and Steve Brink and began managing its small cap growth investment strategy on July 1, 2009. Our five-member investment team consists of Alex Woodward, Steve Brink, Jim Bradshaw, Sara Hasan and Brant DeMuth.

### INVESTMENT PHILOSOPHY AND RESEARCH PROCESS

**Investment Philosophy:** A focus on quality companies with proven track records, strong financial characteristics and above average growth prospects at attractive valuations will lead to strong relative returns over the long run.

**Research Process:** The BCC investment process numerically scores every investment against specific quantitative and qualitative criteria measuring a company's Quality, Financial Strength and Growth and Profitability. We also assign a Valuation score based on an internally developed future earnings projection. Our process scores a company's relative attractiveness against its peers, identifying the highest quality companies at attractive valuations.

### DISCLOSURES

Bridge City Capital, LLC (BCC) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. BCC has been independently verified for the periods January 1, 2009 through December 31, 2021. The verification report is available upon request. 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. Verification does not provide assurance on the accuracy of any specific performance report.

BCC is a SEC registered Investment Adviser, located in Lake Oswego, OR, that invests solely in U.S. equity securities. BCC is an independent investment adviser that is not affiliated with any parent company. Policies for valuing portfolios, calculating performance and preparing compliance presentations are available upon request.

The BCC Small Cap Growth Composite (BCCSCG) includes fully discretionary client accounts invested in small cap growth equity securities with market capitalizations similar to those found within the Russell 2000 Growth Index. The account minimum for this composite is \$1 million. The benchmark for the BCCSCG is the Russell 2000 Growth Index, which is rebalanced annually. BCC maintains a significant cash flow policy of 10%.

Specific holdings, industry sector weightings, investment returns, and other portfolio characteristics will vary. Clients should rely on the quarterly reports provided by BCC for information relating to a specific account. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. The data is current as of date listed, and is subject to change without notice. There is no assurance that any securities discussed herein will remain in the account's portfolio at the time you receive this report or that securities sold have not been repurchased.

**Past performance is not indicative of future results.** Investments in securities involve the risk of loss. All returns greater than one year are annualized. The U.S. Dollar is the currency used to express performance and valuation. Returns are presented gross and net of actual management fees and include the reinvestment of all dividends and other income. Our standard fee schedule as well as additional information about our business, is contained in our Form ADV, Part 2A and available upon request.

Information contained herein was obtained from sources believed to be reliable but accuracy cannot be guaranteed.

For more information regarding Bridge City Capital, LLC, our Small Cap Growth Composite or for a complete GIPS compliance presentation, please contact Client Service at (503) 265-8554, info@bridgecitycap.com.

