

# QUARTERLY COMMENTARY

SMALL CAP GROWTH

September

## THIRD QUARTER 2022

### Small Cap Growth Composite Performance

The September quarter was a challenging period for our investment process in terms of absolute and relative results. While most major equity indices continued to retreat in Q3, our benchmark, the Russell 2000 Growth Index, ran up sharply through mid-August before reversing to end the quarter up slightly, 0.2%. The BCC Small Cap Growth Composite (Composite) declined 5.3% net of fees in Q3. Year to date the Composite is down 26.3% net of fees, however it remains 300 basis points ahead of the benchmark.

The Bridge City Small Cap Growth product generally performs well in volatile, down markets, but that was not the case in the second half of the third quarter. The Health Care, Consumer Discretionary, Industrials and Technology sectors comprise over 70% of the portfolio and the Composite underperformed in all four, largely due to near-term challenges in specific holdings where long-term conviction remains. We added to several of these positions during the quarter. Given that we invest in high quality names, our relative performance was also made more difficult as low-quality or unprofitable companies outperformed in Q3, though this headwind was not uniform across sectors. For example, the Biotech industry performed well and was one of the largest detractors from relative performance. Conversely, low quality Software & Computer services names underperformed the benchmark and were a modest tailwind to relative performance for the period. Please see the top contributors and detractors table on page three.

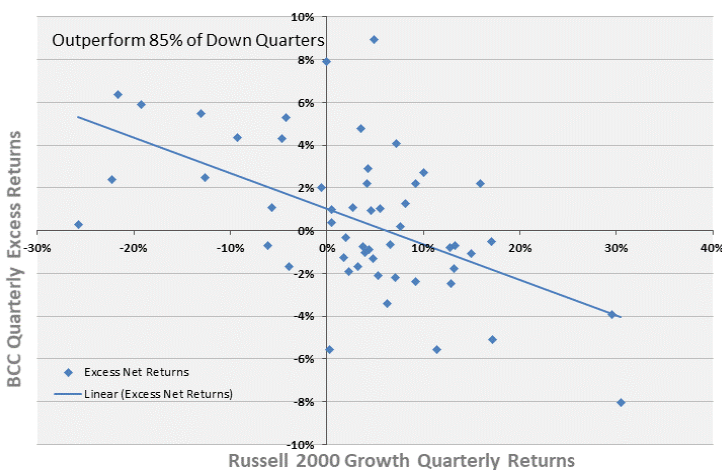
Despite the challenges in the quarter, our primary focus remains long-term outperformance and our track record is strong. We believe we are well positioned for the future and we expect our investment process will continue to create value over time.

### Market Outlook

We noted that companies that reported earnings results or gave updates later in the quarter generally provided less favorable commentary as economic conditions deteriorated over the summer. We expect additional pressure on U.S. corporate profitability growth over the coming months as higher interest rates, a stronger U.S. dollar, continued inflation and uncertainty crimp demand and pressure margins. While the flow of goods has improved somewhat and pricing actions aimed at offsetting rising costs have started

### STRONG DOWN MARKET PROTECTION

Quarterly BCC Excess Net Return Vs. Index Return

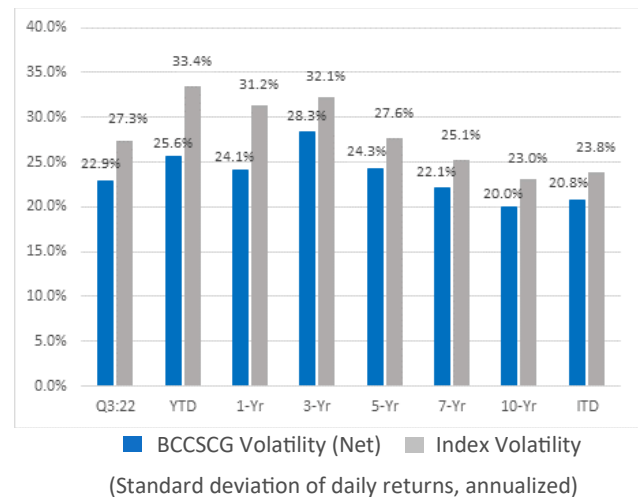


### BRIDGE CITY CAPITAL OVERVIEW

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



to take hold, many companies that built inventories to mitigate supply chain constraints have been met with softening demand as consumers and businesses shift and scale back spending. For some companies, the dramatic reversal in the balance of supply and demand resulted in excess inventory, making it more challenging to push additional price increases to offset the higher cost of these goods. Despite signs of slowing economic growth and moderating prices for a variety of commodities, the Fed appears unwavering in its aims to tame inflation through tighter monetary policy, which will continue to drive both borrowing costs and hurdle rates for new investments higher. The war in Ukraine continues, prolonging inflationary pressures in Europe, while tensions are rising in China, North Korea, and the Middle East. The stronger U.S. dollar and ensuing liquidity crisis in the U.K. are additional headwinds.

### Strategy

Bridge City remains steadfast in its strategy to invest in high quality growth stocks. We believe companies with strong management and balance sheets, proven track-records of generating cash and growing revenue and earnings, are best positioned to withstand challenging economic conditions and will outperform over time.

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

<sup>1</sup>Source: Telemet/Orión.

**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**

	Q3:2022	YTD	1-YR	3-YR (ANNUALIZED)	5-YR (ANNUALIZED)	7-YR (ANNUALIZED)	10-YR (ANNUALIZED)	INCEPTION (ANNUALIZED)
Bridge City Capital SCG Gross	-5.27%	-26.05%	-20.10%	4.71%	7.71%	10.56%	11.99%	14.48%
Bridge City Capital SCG Net	-5.33%	-26.27%	-20.45%	4.25%	7.25%	10.08%	11.45%	13.85%
Russell 2000® Growth	0.24%	-29.28%	-29.27%	2.94%	3.60%	7.12%	8.81%	11.06%
Excess Gross	-5.51%	3.23%	9.17%	1.77%	4.11%	3.44%	3.18%	3.42%
Excess Net	-5.57%	3.01%	8.82%	1.31%	3.65%	2.96%	2.64%	2.79%

**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	5.35	2.05	4.45	4.36	4.44	4.82
Beta	0.81	0.80	0.82	0.82	0.81	0.83
Tracking Error	9.95	9.01	7.84	7.24	6.70	6.21
Sharpe Ratio	-0.96	0.19	0.32	0.52	0.67	0.81
Sharpe Ratio Benchmark <sup>2</sup>	-1.37	0.26	0.25	NA	0.52	NA
Information Ratio	0.92	0.20	0.52	0.48	0.47	0.55
Upside Market Capture	108.37	79.11	90.41	90.35	90.00	90.69
Downside Market Capture	85.14	83.15	83.69	82.29	80.52	80.33

<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.  
All data as of September 30, 2022. See [Important Disclosure](#) information on page 3.

**PORTFOLIO STATISTICS**

Top 10 Holdings	SCG Rep Acct
Ensign Group, Inc. (ENSG)	2.9%
EMCOR Group, Inc. (EME)	2.4%
Ameresco, Inc. (AMRC)	2.2%
Methode Electronics Inc. (MEI)	2.1%
Medpace Holdings Inc. (MEDP)	2.1%
Comfort Systems USA Inc. (FIX)	2.1%
Rogers Corporation (ROG)	2.0%
LeMaitre Vascular Inc. (LMAT)	2.0%
Tetra Tech Inc. (TTEK)	2.0%
Onto Innovation Inc. (ONTO)	1.7%

*Represents largest positions based on % of total portfolio value.*

ICB Industry Weights	SCG Rep Acct	Index <sup>2</sup>
Basic Materials	4.7%	4.0%
Consumer Discretionary	11.1%	11.9%
Consumer Staples	5.2%	3.8%
Energy	5.6%	7.8%
Financials	6.2%	6.0%
Health Care	22.0%	24.5%
Industrials	18.6%	18.9%
Real Estate	2.4%	2.1%
Technology	18.5%	16.3%
Telecommunications	1.8%	2.3%
Utilities	0.7%	2.4%

*BCC weights exclude cash of 3.2%*

Portfolio Characteristics	SCG Rep Acct	Index
Equity Positions	92	1,121
Weighted Average Market Cap	\$3.2B	\$3.0B
P/E Ex-Neg Earnings	18.6	16.1
Price/Book Value	2.6	3.9
Average Yield	1.04%	0.75%
Annual Turnover (dollars)	16.6%	-
Annual Turnover (names)	12.9%	-

## TOP CONTRIBUTORS IN Q3 2022

	AVERAGE WEIGHT <sup>1</sup>	CONTRIBUTION <sup>2</sup>
Ameresco Inc	1.79	0.64
Comfort Systems USA Inc.	1.86	0.29
iRobot, Inc.	0.21	0.28
Ensign Group, Inc.	2.80	0.25
EMCOR Group, Inc.	2.16	0.25

## TOP DETRACTORS IN Q3 2022

	AVERAGE WEIGHT <sup>1</sup>	CONTRIBUTION <sup>2</sup>
Semtech Corp.	1.36	-0.75
Coherent Corp.	1.46	-0.52
U.S. Physical Therapy, Inc.	1.43	-0.51
MillerKnoll, Inc.	0.70	-0.43
Medifast Inc.	0.81	-0.42

<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 September 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

### 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.

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### 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](mailto:info@bridgecitycap.com).

