

# QUARTERLY COMMENTARY

SMALL CAP GROWTH

December 2022

## FOURTH QUARTER 2022

We're glad 2022 is over! Our benchmark, the Russell 2000 Growth index, fell 26.4% for the year. The Bridge City Small Cap Growth Composite (Composite) outperformed by 625 bps, but still logged a painful 20.1% decline net of fees for 2022.

The fourth quarter offered a reprieve from earlier declines as market participants conjectured that inflation may be moderating and the Fed softened its aggressive tightening campaign. Meanwhile, the threat of a war-induced energy crisis in Europe was less than feared and China moved toward reopening. The Composite returned 8.4% net of fees in Q4, outperforming the 4.1% return for the benchmark.

Our goal is to outperform our benchmark through stock selection and in Q4 stock selection contributed all of the excess return with nine of the eleven industry groups beating the benchmark. Selections in Health Care, Industrials and Technology were the largest contributors to relative performance and together these sectors comprise nearly 60% of the index. Our modest underweighting in Energy, which was the best performing sector in the benchmark, was a minor detractor despite a positive stock selection impact. A list of top contributors and detractors can be found in the table on page three.

Long-time readers may note that 2022 ended the Composite's 12-year record of consecutive calendar years with positive returns. While we are disappointed with a negative absolute return for 2022, our primary focus remains long-term outperformance and we maintained our advantage in another down-market calendar year. Over the last 13 years, the Benchmark has suffered four down calendar years. We believe strong down-market protection leads to greater total returns over time. As the Performance Table on page two indicates, the Composite's relative performance surpassed the Benchmark for all periods shown.

## Market Outlook

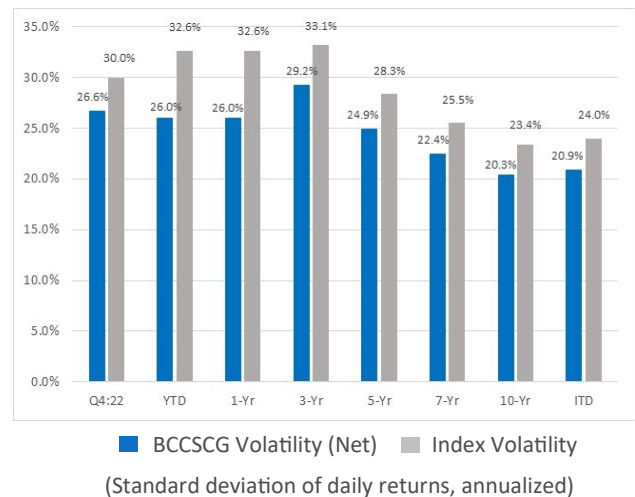
We expect continued pressure on corporate profitability as we enter 2023, with uneven demand for goods and services. Pricing actions continue to take hold but may negatively impact volumes. Revenue growth is likely to be muted as we lap these actions, though comparisons will ease over the year. Inflationary pressures have declined for many raw

## 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.

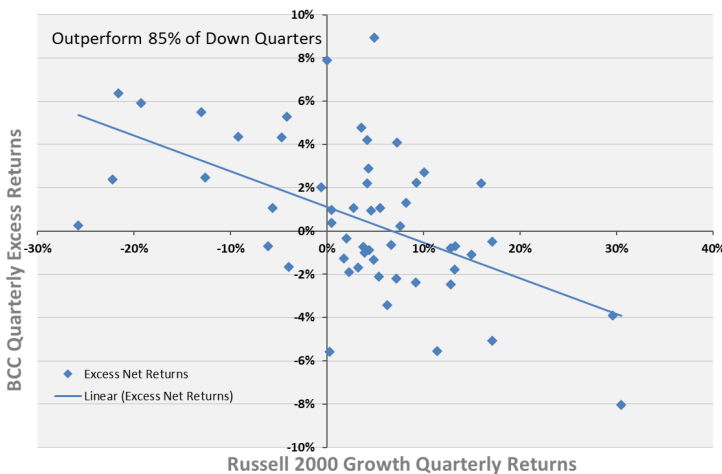
Additional information about BCC and its Small Cap Growth investment strategy is available at [www.bridgecitycap.com](http://www.bridgecitycap.com) or by contacting Client Service at [info@bridgecitycap.com](mailto:info@bridgecitycap.com).

## CONSISTENTLY LESS THAN INDEX VOLATILITY



## STRONG DOWN MARKET PROTECTION

Quarterly BCC Excess Net Return Vs. Index Return



materials and the outlook for labor and freight availability has improved. For companies with international exposure, these benefits may be at least partially offset by F/X, which has become a sizeable headwind, despite the U.S. dollar's retreat from recent highs. The Fed has softened its hawkish tone and while there is uncertainty over the magnitude of economic slowing and the pace of transition to recovery, we have noted an uptick in opportunistic repositioning of capital allocation of late. With the continuing war in Ukraine and tensions that remain in other regions, geopolitical risks remain high – stability, or lack thereof, will likely be a key determinant for the market trajectory in the year ahead and elevated volatility may persist.

## Strategy

Our focus remains unchanged, and we will stay disciplined in our approach to investing in high quality companies, as defined by our investment process. We are confident that companies with strong management, proven track-records of growing revenue and earnings, generating healthy returns and free cash flows, and using cash in shareholder friendly ways, will outperform in the long run. Investing in these types of companies has helped us achieve the solid long-term results we have generated thus far and will continue to help us outperform over time.

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

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

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

|                               | 2022    | 2021   | 2020    | 2019   | 2018   | 2017   | 2016   | 2015   | 2014  | 2013   |
|-------------------------------|---------|--------|---------|--------|--------|--------|--------|--------|-------|--------|
| Bridge City Capital SCG Gross | -19.77% | 21.18% | 20.92%  | 25.02% | 1.32%  | 16.38% | 17.74% | 7.33%  | 7.59% | 41.51% |
| Bridge City Capital SCG Net   | -20.11% | 20.62% | 20.39%  | 24.53% | 0.85%  | 15.97% | 17.19% | 6.73%  | 6.97% | 40.70% |
| Russell 2000® Growth          | -26.36% | 2.83%  | 34.63%  | 28.48% | -9.31% | 22.17% | 11.32% | -1.38% | 5.60% | 43.30% |
| Excess Gross                  | 6.59%   | 18.35% | -13.71% | -3.46% | 10.63% | -5.79% | 6.42%  | 8.71%  | 1.99% | -1.79% |
| Excess Net                    | 6.25%   | 17.79% | -14.24% | -3.95% | 10.16% | -6.20% | 5.87%  | 8.11%  | 1.37% | -2.60% |

**SMALL CAP GROWTH COMPOSITE—RELATIVE PERFORMANCE**

|                               | Q4:2022 | YTD     | 1-YR    | 3-YR<br>(ANNUALIZED) | 5-YR<br>(ANNUALIZED) | 7-YR<br>(ANNUALIZED) | 10-YR<br>(ANNUALIZED) | INCEPTION<br>(ANNUALIZED) |
|-------------------------------|---------|---------|---------|----------------------|----------------------|----------------------|-----------------------|---------------------------|
| Bridge City Capital SCG Gross | 8.50%   | -19.77% | -19.77% | 5.54%                | 8.29%                | 10.73%               | 12.80%                | 14.88%                    |
| Bridge City Capital SCG Net   | 8.35%   | -20.11% | -20.11% | 5.07%                | 7.81%                | 10.25%               | 12.27%                | 14.25%                    |
| Russell 2000® Growth          | 4.13%   | -26.36% | -26.36% | 0.65%                | 3.51%                | 7.09%                | 9.20%                 | 11.18%                    |
| Excess Gross                  | 4.37%   | 6.59%   | 6.59%   | 4.89%                | 4.78%                | 3.64%                | 3.60%                 | 3.70%                     |
| Excess Net                    | 4.22%   | 6.25%   | 6.25%   | 4.42%                | 4.30%                | 3.16%                | 3.07%                 | 3.07%                     |

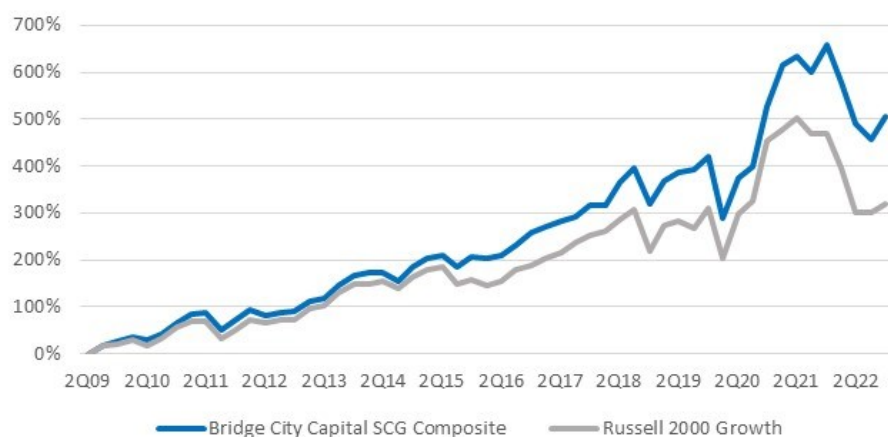
**BRIDGE CITY CAPITAL SMALL CAP GROWTH**

- 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<br>INCEPTION |
|-------------------------------------|--------|--------|--------|--------|---------|--------------------|
| Annualized Alpha                    | 4.35   | 4.74   | 5.05   | 4.48   | 4.83    | 5.04               |
| Beta                                | 0.87   | 0.83   | 0.83   | 0.83   | 0.82    | 0.83               |
| Tracking Error                      | 8.83   | 8.84   | 7.89   | 7.26   | 6.74    | 6.19               |
| Sharpe Ratio                        | -0.87  | 0.21   | 0.33   | 0.51   | 0.70    | 0.82               |
| Sharpe Ratio Benchmark <sup>2</sup> | -1.11  | 0.17   | 0.24   | NA     | 0.53    | NA                 |
| Information Ratio                   | 0.74   | 0.55   | 0.61   | 0.50   | 0.53    | 0.60               |
| Upside Market Capture               | 104.34 | 89.02  | 92.59  | 92.10  | 91.67   | 91.91              |
| Downside Market Capture             | 90.27  | 83.95  | 84.22  | 83.42  | 80.98   | 80.69              |

<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 December 31, 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)        | 2.9%         |
| Methode Electronics Inc. (MEI) | 2.3%         |
| Medpace Holdings Inc. (MEDP)   | 2.2%         |
| Comfort Systems USA Inc. (FIX) | 2.2%         |
| Tetra Tech Inc. (TTEK)         | 2.1%         |
| A10 Networks Inc. (ATEN)       | 1.9%         |
| Casey's General Stores (CASY)  | 1.7%         |
| Ameresco, Inc. (AMRC)          | 1.7%         |
| Globus Medical, Inc. (GMED)    | 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%         | 4.1%               |
| Consumer Discretionary | 10.8%        | 11.9%              |
| Consumer Staples       | 5.5%         | 4.0%               |
| Energy                 | 7.0%         | 8.6%               |
| Financials             | 5.7%         | 5.7%               |
| Health Care            | 20.9%        | 22.5%              |
| Industrials            | 18.4%        | 19.7%              |
| Real Estate            | 2.3%         | 2.3%               |
| Technology             | 18.5%        | 16.2%              |
| Telecommunications     | 1.6%         | 2.3%               |
| Utilities              | 0.8%         | 2.2%               |

*BCC weights exclude cash of 3.8%*

| Portfolio Characteristics   | SCG Rep Acct | Index  |
|-----------------------------|--------------|--------|
| Equity Positions            | 92           | 1,109  |
| Weighted Average Market Cap | \$3.3B       | \$3.1B |
| P/E Ex-Neg Earnings         | 19.9         | 15.2   |
| Price/Book Value            | 2.6          | 3.8    |
| Average Yield               | 0.97%        | 0.83%  |
| Annual Turnover (dollars)   | 15.9%        | -      |
| Annual Turnover (names)     | 9.7%         | -      |

## TOP CONTRIBUTORS IN Q4 2022

|                                | AVERAGE WEIGHT <sup>1</sup> | CONTRIBUTION <sup>2</sup> |
|--------------------------------|-----------------------------|---------------------------|
| Medpace Holdings, Inc.         | 2.16                        | 0.74                      |
| EMCOR Group, Inc.              | 2.71                        | 0.68                      |
| Ensign Group, Inc.             | 2.79                        | 0.52                      |
| Performance Food Group Company | 1.45                        | 0.45                      |
| A10 Networks Inc.              | 1.97                        | 0.43                      |

## TOP DETRACTORS IN Q4 2022

|                                  | AVERAGE WEIGHT <sup>1</sup> | CONTRIBUTION <sup>2</sup> |
|----------------------------------|-----------------------------|---------------------------|
| Rogers Corp.                     | 1.35                        | -0.98                     |
| Omniceil, Inc.                   | 0.92                        | -0.60                     |
| Ameresco Inc.                    | 1.82                        | -0.30                     |
| First Financial Bankshares, Inc. | 1.27                        | -0.26                     |
| Lumentum Holdings Inc.           | 0.87                        | -0.25                     |

<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 December 31, 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 BCC 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. On January 1, 2022 BCC began managing a microcap investment strategy.

### 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.

