

**LUTHER KING CAPITAL MANAGEMENT**  
**LKCM SMALL CAP CORE COMPOSITE**  
**Second Quarter, 2019 Update**



<b><u>Performance **</u></b>	<b><u>2nd QTR 2019</u></b>	<b><u>YTD 2019</u></b>	<b><u>1 Year</u></b>	<b><u>3 Year Annualized</u></b>	<b><u>10 Year Annualized</u></b>	<b><u>Since Inception Annualized*</u></b>
LKCM Small Cap Core Composite (gross)	4.09%	19.77%	2.57%	13.54%	13.69%	11.22%
LKCM Small Cap Core Composite (net)	3.92%	19.34%	1.84%	12.74%	12.84%	10.40%
Russell 2000 Index	2.10%	16.98%	(3.31%)	12.30%	13.45%	9.06%

Small companies, as measured by the Russell 2000, gained 2.1% in 2Q19. This is a continuation from the 1Q19 gains and has the benchmark up roughly 17% in 1H19. The quarter was choppy. The market has been consolidating its early year recovery gains and has been moving sideways since February. After a positive month in April, the benchmark saw an almost 8% pullback, mostly in May, before rallying in June. Expectations that the Federal Reserve will lower the Fed Funds rate in 3Q19 was the biggest factor in June's rebound.

The U.S economy continues its slow growth in 2Q19. While the Index of Leading Indicators is still positive compared to a year ago, housing and auto sales, two key areas of consumer spending, have weakened. Trade and tariff concerns in 2Q19, following the Government shutdown in 1Q19, have resulted in decelerating growth. In addition, the yield curve has inverted causing many to be increasingly concerned about a potential recession. The employment picture, wage gains, consumer confidence and the stock market all project a more positive outlook. Profit growth is expected to continue but at a slower pace than last year. We expect the Fed to lower the Fed Funds rate in 2H19 and for the economic expansion to continue.

Companies continue to use their profits and cash flow to buy back stock, increase dividends, and remain active in mergers and acquisitions, all which are supportive of the market. We continue to be positive on the markets and, although valuations are a little above normal, the market should continue to follow earnings higher.

During 2Q19, the best performing sectors in the benchmark were the Industrials, Financials and Utilities sectors. Six of the eleven sectors declined during the quarter with the Energy sector being the worst performing sector. Growth stocks continued to outperform Value stocks. Leadership was driven by companies with the largest market caps, higher ROE, lowest financial leverage, lower beta and those that paid dividends. For 1H19, all sectors have generated positive returns led by the Technology, Industrials and Healthcare sectors. Leadership characteristics for 1H19 are similar to 2Q19. As a high quality, Growth tilting investment strategy, this has been a rewarding market environment for us.

The LKCM Small Cap Core Composite outperformed during 2Q19 and 1H19. For the quarter, our strategy added relative performance from both our stock selection and our sector allocation decisions. Our biggest contribution came from stock selection in the Consumer Discretionary and Financials sector. The Financials sector benefitted from one of our investments being acquired at a premium. Our overweight in the market leading Industrials sectors was additive to our sector allocation decisions. Stock selection in the Technology sector was the only notable relative detractor during the period. Overall, we benefited from our high quality focus and the strategy's growth tilt. For 1H19, we benefited from both our stock selection and our sector allocation decisions. Our biggest contribution came from the stock selection in the Consumer Discretionary and Financials sector. Our overweight in the Technology and Industrials sectors was additive to our sector allocation decisions. Stock selection in the Technology and Energy sectors was the only notable relative detractors during the period. During 2Q19, three of our multi-year holdings "graduated" out of our strategy as their market caps exceeded our upper limit which brings the total "graduates" for the year to seven. We also had two investments acquired year to date. The strategy remains positioned for continued economic growth (overweight Technology, Industrials and Healthcare) and is underweight the interest rate sensitive sectors (Financials, Utilities and Real Estate).

Our investment strategy is to maximize our internal, research-intensive process and to identify competitively advantaged companies that generate strong financial returns with good reinvestment opportunities and purchase these stocks at attractive prices. We believe this strategy of investing in higher quality, competitively advantaged companies with viable strategies to increase the value of their businesses will continue to be beneficial for our investors. Our goal is to generate superior returns over time relative to our benchmark by consistently executing our strategy and to minimize the risk (volatility) of the portfolio with a focus on achieving long term capital appreciation.

\* 10/1/94 – 6/30/19

\*\* This presentation is supplemental to the attached full disclosure presentation. Past performance is not indicative of future results.

# LKCM SMALL CAP CORE COMPOSITE

June 30, 2019

**CO-MANAGERS:** STEVEN R. PURVIS, CFA  
J. LUTHER KING, JR., CFA

**INCEPTION:** October 1, 1994

**INVESTMENT STRATEGY:** Provide superior performance with lower volatility relative to our benchmark with a focus on achieving long-term capital appreciation through long-term investment in competitively-advantaged small-cap companies.

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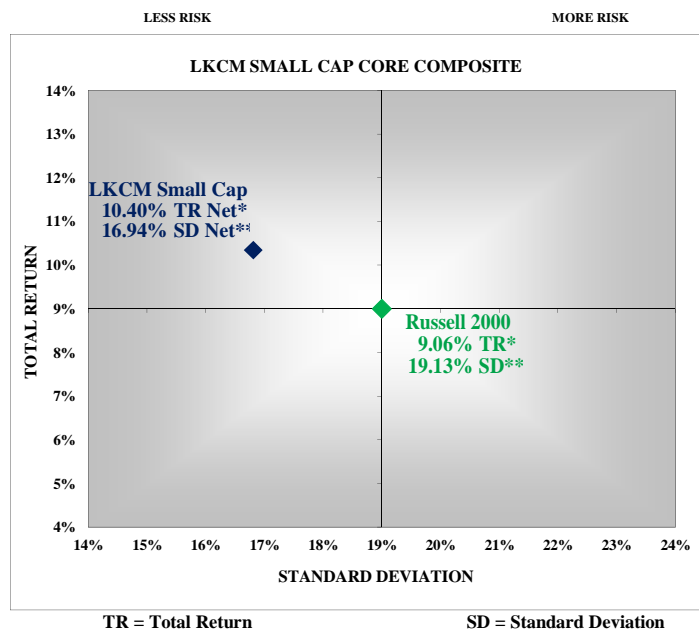
TEN LARGEST HOLDINGS 06/30/19*	
MERCURY SYSTEMS INC	2.0 %
OMNICELL	1.9 %
OLLIES BARGAIN OUTLET HOLDINGS	1.8 %
STAAR SURGICAL	1.6 %
LIVERAMP HOLDINGS INC	1.6 %
WINGSTOP INC	1.6 %
CADENCE BANCORP	1.6 %
CORNERSTONE ONDEMAND	1.5 %
KIRBY CORPORATION	1.5 %
CHARLES RIVER LABS INTL	1.5 %
	16.5 %

PORTFOLIO RESULTS	
(Benchmark - Russell 2000) (Since Inception)	
	<u>Net</u>
ALPHA	2.62%
BETA	0.83
R <sup>2</sup>	89%
-----	
UP CAPTURE	94%
DOWN CAPTURE	83%

PORTFOLIO CHARACTERISTICS	
RETURN ON EQUITY (Median)	10%
LONG TERM DEBT TO TOTAL CAPITAL	28%
P/E FWD 4 Quarters (ex Neg-earnings)	22x
-----	
WTD AVG. MARKET CAPITALIZATION	\$2900 Million
TOTAL SMALL-CAP EQUITY COMPOSITE ASSETS	\$ 228 Million
#HOLDINGS	94
PORTFOLIO TURNOVER*	37%
ACTIVE SHARE	93%

\*The largest ten holdings are at 06/30/2019 and may not reflect current holdings.

\*Turnover rate is based on a representative portfolio for a rolling one year period ending 6/30/2019



ATTRIBUTION (2Q 2019)				
	Avg. Portfolio Weight	Portfolio Contribution	Avg. Benchmark Weight	Benchmark Contribution
FINANCIALS	11.3%	1.3	18.0%	0.9
HEALTH CARE	16.6%	-0.1	15.8%	0.3
INDUSTRIALS	19.4%	2.8	14.9%	1.1
INFORMATION TECHNOLOGY	24.7%	1.3	13.8%	0.8
CONSUMER DISCRETIONARY	9.3%	0.3	12.2%	0.2
REAL ESTATE	4.5%	-0.1	7.2%	0.0
ENERGY	3.2%	-0.2	4.3%	-0.4
MATERIALS	2.3%	0.2	3.9%	0.0
UTILITIES	0.0%	0.0	3.6%	0.0
COMMUNICATION SERVICES	4.1%	-0.1	3.4%	0.0
CONSUMER STAPLES	0.0%	0.0	2.8%	-0.1
CASH & EQUIVALENTS	4.6%	0.0	0.0%	0.0
<b>TOTAL PORTFOLIO</b>	<b>100.0%</b>	<b>5.4</b>	<b>100.0%</b>	<b>3.0</b>

\*Source: Thomson Reuters (Refinitiv).

Performance results calculated by Refinitiv may differ significantly from those calculated by LKCM due to differences in methodology for transaction pricing and accounting for capital transactions.

\*Total Net Return Since Inception (10/01/94 to 06/30/19) Annualized

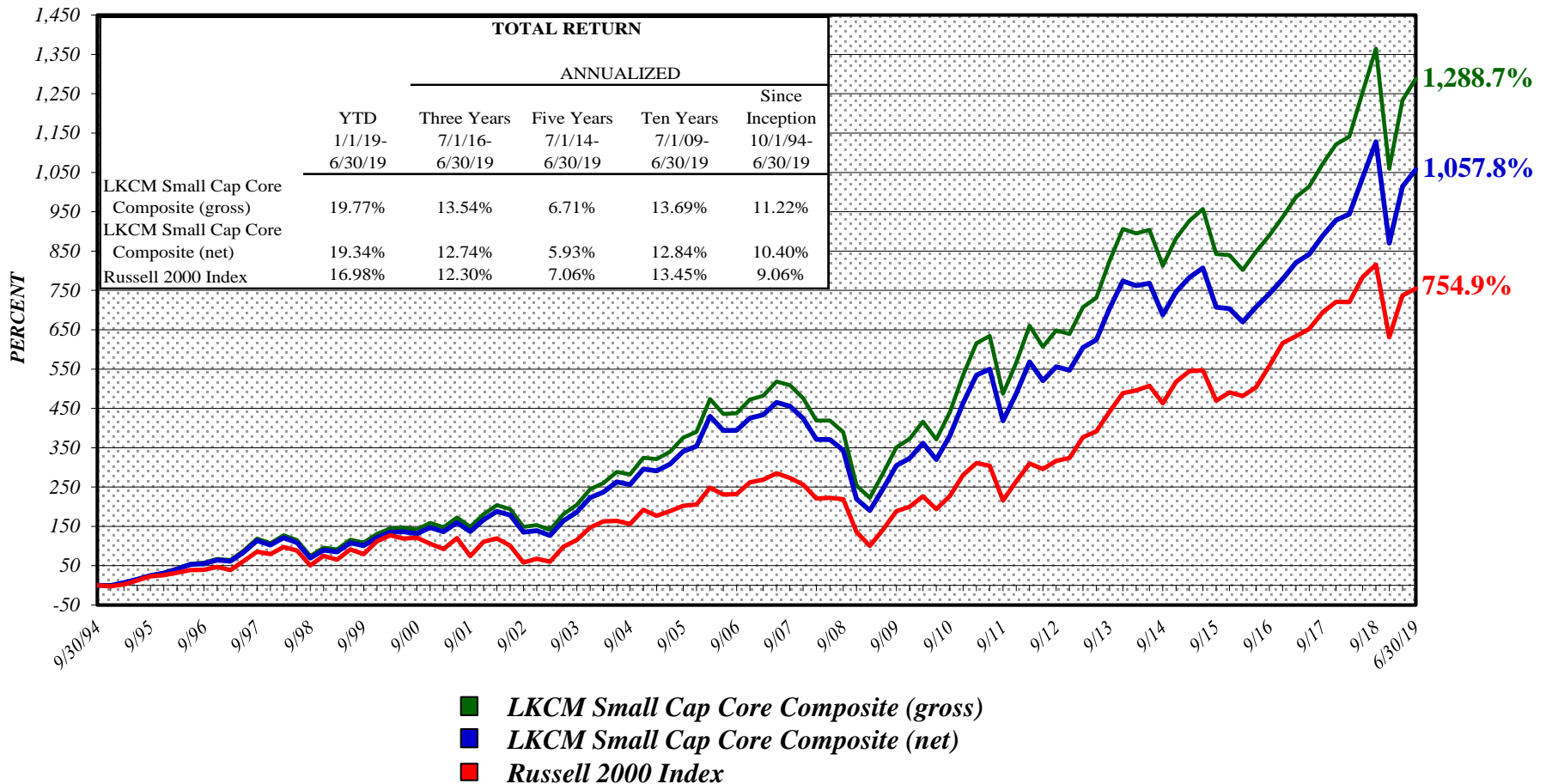
\*\*Standard deviation and performance characteristics reporting period (10/01/94 to 06/30/19)

*This presentation is supplemental to the attached full disclosure presentation. Past performance is not indicative of future results.*

Sources: LKCM Small Cap Core Composite, Zephyr Associates, Inc., Thomson Reuters (Refinitiv)

# LKCM Small Cap Core Composite

*Cumulative Returns Since Inception (10/1/94 – 6/30/19)*



*The performance results should be reviewed along with the attached full disclosure presentation. Past performance is not indicative of future results.*

**LUTHER KING CAPITAL MANAGEMENT**  
**SMALL CAP CORE COMPOSITE**  
**FULL DISCLOSURE PRESENTATION AS OF JUNE 30, 2019**

Year	Total Return		Russell 2000 Index	Small Cap Core Comp	3-Year Annualized Gross Standard Deviation		Number of Accounts	Small Cap Core Composite	Total Firm Assets (billions)
	Gross of Fees	Net of Fees		Annual Standard Deviation	Russell	Number		Assets (millions)	
					2000 Index	of Accounts			
2019 (1/1-6/30)	19.77 %	19.34 %	16.98 %	NA %	NA %	NA %	8	228	17.0
2018	-5.05	-5.70	-11.01	NA	16.01	15.79	7	193	14.5
2017	17.83	17.03	14.65	0.3	13.45	13.91	5	259	15.3
2016	10.32	9.45	21.31	0.2	15.20	15.76	10	421	13.1
2015	-4.39	-5.11	-4.41	0.4	14.30	13.96	24	1,029	13.1
2014	-2.36	-3.09	4.89	0.4	13.68	13.12	39	1,925	15.0
2013	36.09	35.09	38.82	0.4	16.25	16.45	41	2,379	14.7
2012	10.92	10.05	16.35	0.3	19.27	20.20	44	1,852	11.4
2011	5.09	4.26	-4.18	0.5	22.12	24.99	41	1,673	8.8
2010	34.17	33.14	26.85	0.5	NA	NA	41	1,632	8.1
2009	33.51	32.44	27.17	1.0	NA	NA	45	1,351	7.0

NA – Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year and/or the period is a partial year and/or the information was not required.

Luther King Capital Management (LKCM) is a registered investment adviser under the Investment Advisers Act of 1940 and is defined as an independent investment management firm. LKCM claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. LKCM has been independently verified for the periods January 1, 1992 through December 31, 2018. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. The Small Cap Core Composite has been examined for the periods October 1, 1994 to December 31, 2018. The verification and performance examination reports are available upon request.

The Small Cap Core Composite contains all fully discretionary taxable and non-taxable, fee-paying small cap accounts under management, including applicable registered investment companies for which LKCM serves as investment adviser or subadviser. Our small-cap strategy seeks to achieve long-term capital appreciation and investment returns that exceed the applicable benchmark while attempting to manage portfolio risk and volatility. Our small-cap strategy seeks to achieve its investment objective through fundamental analysis of individual companies and seeks high quality companies based on various criteria, such as profitability levels, balance sheet quality, competitive advantages, market share positions, ability to generate excess cash flows, meaningful management ownership stakes, reinvestment opportunities, and relative valuation. The strategy typically purchases securities of companies with market capitalizations between \$600 million and \$5 billion at the initial time of purchase. For comparison purposes, the composite is measured against the Russell 2000 Index, which is a market capitalization weighted index that tracks the performance of 2000 small U.S. traded stocks.

January 1, 2003 is the effective creation date of the Small Cap Core Composite. Quarterly performance from October 1, 1994 to June 30, 2019 is available upon request. The annual standard deviation presented is an asset-weighted calculation of performance dispersion for accounts in the composite the entire year. The Small Cap Core Composite included portfolio(s) that paid a bundled fee, which includes all charges for trading costs, portfolio management, custody, and other administrative fees. The year-end percent of composite assets is as follows: 2007, 0.49%; 2008, 0.41%. Gross returns for bundled fee portfolio(s) are presented as supplemental information as they do not reflect the deduction of any trading costs, fees, or expenses. Net returns for bundled fee portfolio(s) reflect the deduction of all charges for trading costs, portfolio management, custody, and other administrative fees.

The current management fee schedule for this composite is as follows: 1% on the first \$5,000,000; .75 of 1% on the next \$5,000,000; .50 of 1% above \$10,000,000; minimum annual fee \$30,000. Fees for registered investment companies for which LKCM serves as adviser or subadviser are calculated and paid quarterly in arrears, at annualized rates up to 0.75% of such fund's average daily net assets. In some instances, LKCM voluntarily waives these fees and/or reimburses the applicable fund in order to maintain a designated expense ratio. LKCM may adjust or otherwise negotiate management fees in its discretion and, therefore, clients may have a different fee schedule. For a complete list of our management fees, please see our Form ADV, Part 2A.

Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Effective January 2010, this composite is to stay over 80% invested in stocks at all times. Effective January 1, 2005, new accounts are added quarterly when the account is at least 75% invested and fully representative of investment style. Prior to January 1, 2005, accounts were added soon after inception on a quarterly basis and/or when considered fully representative of investment style. A complete list and description of the firm's composites is available upon request. Results are presented before taxes, both gross of management fees (which is net of commissions and other transaction costs) and net of actual management fees, and includes the reinvestment of all income. The U.S. dollar is the currency used to express performance. Past performance is not indicative of future results.

**LUTHER KING CAPITAL MANAGEMENT**  
**SMALL CAP CORE COMPOSITE**  
**PERFORMANCE RESULTS\***  
**OCTOBER 1, 1994 – JUNE 30, 2019**

	Total Return		Equities Only	Cash Only	Russell 2000 Index
	Gross of Fees	Net of Fees			
Annualized Returns Ending 06/30/19					
<b>1 Year</b>	<b>2.57 %</b>	<b>1.84 %</b>	<b>3.11 %</b>	<b>1.91 %</b>	<b>(3.31) %</b>
2 Years	11.64	10.87	12.30	1.13	6.62
3 Years	13.54	12.74	14.24	0.76	12.30
4 Years	7.07	6.29	7.61	0.61	7.21
<b>5 Years</b>	<b>6.71</b>	<b>5.93</b>	<b>7.22</b>	<b>0.51</b>	<b>7.06</b>
6 Years	8.93	8.14	9.49	0.45	9.66
7 Years	10.14	9.33	10.72	0.40	11.63
8 Years	8.29	7.49	8.78	0.36	9.82
9 Years	12.76	11.92	13.46	0.34	12.59
<b>10 Years</b>	<b>13.69</b>	<b>12.84</b>	<b>14.44</b>	<b>0.35</b>	<b>13.45</b>
11 Years	9.36	8.53	9.80	0.47	9.26
12 Years	6.98	6.15	7.28	0.78	6.87
13 Years	7.60	6.77	7.92	1.09	7.58
14 Years	8.56	7.73	8.92	1.26	8.06
<b>15 Years</b>	<b>8.86</b>	<b>8.03</b>	<b>9.25</b>	<b>1.28</b>	<b>8.15</b>
16 Years	10.51	9.68	11.01	1.25	9.58
17 Years	9.56	8.75	9.98	1.26	8.88
18 Years	9.47	8.66	9.87	1.33	7.83
19 Years	9.53	8.73	9.99	1.49	7.44
<b>20 Years</b>	<b>9.75</b>	<b>8.95</b>	<b>10.28</b>	<b>1.63</b>	<b>7.77</b>
21 Years	9.29	8.49	9.64	1.76	7.46
22 Years	9.50	8.70	9.86	1.88	7.86
23 Years	10.01	9.20	10.39	2.02	8.21
24 Years	10.91	10.10	11.46	2.16	8.83
24 3/4 Years	11.22	10.40	11.81	2.27	9.06

\* The results shown above should be reviewed along with Luther King Capital Management's full disclosure presentation. If you have not received a copy of the full disclosure presentation, please contact Luther King Capital Management for a copy. Segment returns, equities only and cash only, are supplemental information to this composite. Past performance is not indicative of future results.

## **GLOSSARY OF TERMS**

**Alpha** represents the excess return of the composite over the expected market return.

**Beta** measures the risk or volatility of the composite relative to the market as a whole.

**R<sup>2</sup>** measures the correlation of composite returns to the benchmark.

**Up Capture** measures the percentage of benchmark performance captured by the composite during up quarters.

**Down Capture** measures the percentage of benchmark performance captured by the composite during down quarters.

**Growth** investing is an investment style and investment strategy that is focused on the growth of an investor's capital. Those who follow the growth investing style - growth investors - typically invest in growth stocks or companies whose earnings are expected to grow at an above-average rate compared to its industry or the overall market.

**Value** investing is an investment strategy where stocks are selected that trade for less than their intrinsic values. Value investors actively seek stocks they believe the market has undervalued. Investors who use this strategy believe the market overreacts to good and bad news, resulting in stock price movements that do not correspond with a company's long-term fundamentals, giving an opportunity to profit when the price is deflated.