

**LUTHER KING CAPITAL MANAGEMENT**  
**LKCM SMALL CAP CORE COMPOSITE**  
**Fourth Quarter, 2020 Update**



<b>Performance **</b>	<b>4<sup>th</sup> QTR 2020</b>	<b>YTD 2020</b>	<b>3 Year Annualized</b>	<b>5 Year Annualized</b>	<b>10 Year Annualized</b>	<b>Since Inception Annualized*</b>
LKCM Small Cap Core Composite (gross)	32.05%	35.85%	16.88%	15.73%	11.88%	11.98%
LKCM Small Cap Core Composite (net)	31.81%	34.86%	16.06%	14.90%	11.06%	11.16%
Russell 2000 Index	31.37%	19.96%	10.25%	13.26%	11.20%	9.57%

Small companies, as measured by the Russell 2000, gained 31.4% in 4Q20. This was the best quarter on record for this benchmark and resulted in approximately 20% gain for the year. The key to this quarter's market surge was the positive news on potential vaccines to treat the COVID-19 virus and hopes that we'll be able to begin to control and contain this worldwide pandemic. While we celebrate the market gains, we must also realize 2020 was a year of hardship and loss for many and that cannot be understated. This pandemic has definitely left its mark as we had the best quarter and the worst quarter (1Q20) on record in the same year. Most indicators related to the US economy point to continued improvement although many began to pause in 4Q20 as Covid-19 cases increased. To offset this, we received another round of stimulus from the Federal Government in December to help bridge the gap until the vaccinations can take hold. Aggressive monetary and fiscal policy are important supports to the market and both appear to be here for a while. We continue to watch the Index of Leading Indicators, which posted another quarter of sequential gains. As always, the market discounts the future and while we most likely won't see a straight-line recovery, we do expect the economy to continue to expand and grow in 2021.

All sectors posted positive returns during 4Q20 in the benchmark's record setting quarter. Energy was by far the biggest winner followed by the Technology and Financials sectors. Expectations of the economy reopening in '21 was especially positive for the Energy sector. Despite the big 4Q bounce however, it was still the worst performing sector for the year. (For reference, Energy is the smallest sector in the benchmark). The defensive/interest rate dependent sectors, Utilities and Real Estate, were the laggards. In big surges by the benchmark, it's not uncommon to have the more speculative companies lead the way and that's what happened. Characteristics of the companies that outperformed were smaller market caps, low stock prices, lower return on equity, unprofitable, and higher beta. For the first time in a long time, Value stocks outperformed Growth stocks as they clearly benefited the most from the cyclical, reopening trade. On a year-to-date basis, the best performing sectors were the Health Care and Technology sectors. The other negative sectors along with Energy were the interest rate dependent sectors: Financials, Utilities and Real Estate. Year-to-date, the characteristics of the best performing companies were higher quality, larger market cap, higher prices, lower financial leverage, positive sales growth, and non-dividend payers. Growth stocks significantly outperformed Value stocks in 2020 but with Value stocks outperforming in 4Q, we are closely watching for a potential change in leadership.

The LKCM Small Cap Equity Composite had a great absolute performance quarter that capped off a successful year in 2020. Our 4Q performance was a positive surprise as our higher quality investment strategy has historically had a harder time keeping up in surging markets. During the quarter, we benefitted from both stock selection and sector allocation decisions. The biggest relative contributor was our stock selection in the Consumer Discretionary sector. Our Financials stocks were the only significant drag relative to the benchmark. On a year-to-date basis, our stock selection and sector allocations decisions were both additive to our benchmark leading results. Stock selection relative to the benchmark was especially positive in the Technology, Financials, Consumer Discretionary, Industrials and Consumer Staples sectors. Being overweight the market leading Health Care sector and being underweight the underperforming Utilities and Real Estate sectors was additive to our results. Stock selection in the Materials sector was the only notable drag to our relative performance. For the year, we had six portfolio companies graduate out of our strategy based on market cap and one of our holdings was acquired. We benefited from our high-quality focused investment strategy and our continued Growth stock tilt. That said, we have continued to add to our Value stock positions as we anticipate the cyclical reopening trade to be a source of outperformance in '21. We believe we are well positioned for the upcoming year and are actively managing the strategy to position us for continued outperformance.

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 – 12/31/20

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

# LKCM SMALL CAP CORE COMPOSITE

December 31, 2020

**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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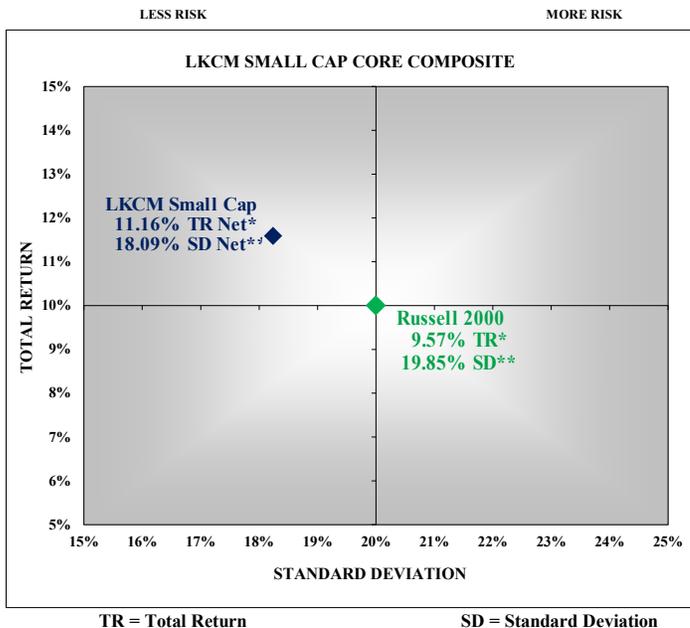
TEN LARGEST HOLDINGS 12/31/20*	
MAGNITE INC	3.5 %
UPWORK INC	2.1 %
STAAR SURGICAL	2.1 %
NEOGENOMICS INC	2.0 %
FRESHPET	1.9 %
R1 RCM INC	1.9 %
R1 RCM INC	1.6 %
PALOMAR HOLDINGS INC	1.6 %
BUILDERS FIRSTSOURCE INC	1.5 %
NATERA INC	1.4 %
	19.6 %

PORTFOLIO RESULTS	
(Benchmark - Russell 2000) (Since Inception)	
	<u>Net</u>
ALPHA	2.70%
BETA	0.86
R <sup>2</sup>	89%
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UP CAPTURE	96%
DOWN CAPTURE	86%

PORTFOLIO CHARACTERISTICS	
RETURN ON EQUITY (Median)	6.2%
LONG TERM DEBT TO TOTAL CAPITAL	27%
P/E FWD 4 Quarters (ex Neg-earnings)	39x
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WTD AVG. MARKET CAPITALIZATION	\$3,996 Million
TOTAL SMALL-CAP EQUITY COMPOSITE ASSETS	\$ 244 Million
#HOLDINGS	94
PORTFOLIO TURNOVER*	48%
ACTIVE SHARE	92%

\*The largest ten holdings are at 12/31/20 and may not reflect current holdings.

\*Turnover rate is based on a representative portfolio for a rolling one year period ending 12/31/20



ATTRIBUTION (4Q 2020)				
	Avg. Portfolio Weight	Portfolio Contribution	Avg. Benchmark Weight	Benchmark Contribution
HEALTH CARE	22.6%	6.3	21.0%	6.4
FINANCIALS	12.3%	3.2	15.5%	5.3
INDUSTRIALS	18.1%	6.3	15.2%	4.9
INFORMATION TECHNOLOGY	19.5%	6.5	13.6%	5.0
CONSUMER DISCRETIONARY	12.8%	6.1	13.4%	3.6
REAL ESTATE	4.2%	1.0	6.4%	1.5
MATERIALS	3.6%	0.9	4.2%	1.6
CONSUMER STAPLES	3.4%	1.4	3.3%	0.8
UTILITIES	0.0%	0.0	3.2%	0.7
COMMUNICATION SERVICES	1.6%	0.4	2.3%	0.7
ENERGY	0.2%	0.0	2.0%	0.9
CASH & EQUIVALENTS	1.6%	0.0	0.0%	0.0
<b>TOTAL PORTFOLIO</b>	<b>100.0%</b>	<b>32.0%</b>	<b>100.0%</b>	<b>31.4%</b>

\*Total Net Return Since Inception (10/01/94 to 12/31/2020) Annualized

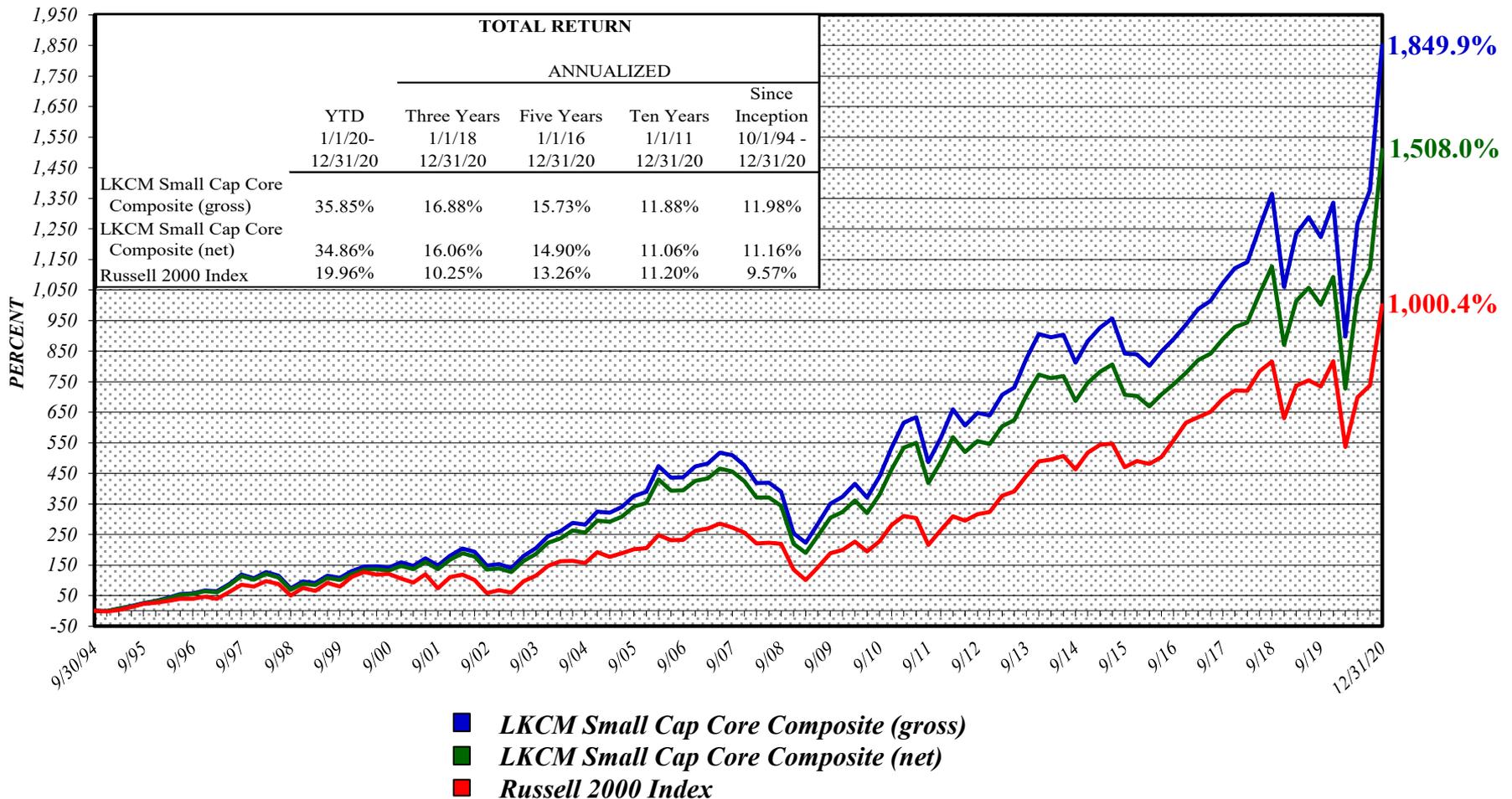
\*\*Standard deviation and performance characteristics reporting period (10/01/94 to 12/31/2020)

*This presentation is supplemental to the attached GIPS Report. 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 – 12/31/20)*



*The performance results should be reviewed along with the attached Luther King Capital Management Small Cap Core Composite GIPS Report. Past performance is not indicative of future results.*

**LUTHER KING CAPITAL MANAGEMENT  
SMALL CAP CORE COMPOSITE  
GIPS REPORT AS OF DECEMBER 31, 2020**

Year	Total Return		Russell 2000 Index	Small Cap Core Comp	Gross Standard Deviation		Number of Accounts	Small Cap Core Composite	Total Firm Assets
	Gross of Fees	Net of Fees		Annual Standard Deviation	Small Cap Core Comp	Russell 2000 Index		Assets (millions)	
				%	%	%		(billions)	
2020	35.85 %	34.86 %	19.96 %	0.3 %	27.11 %	25.27 %	6	244	21.6
2019	23.81	22.93	25.52	0.7	16.64	15.71	8	220	18.2
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

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

- 1) **Compliance Statement, Verification, and Trademark Information:** Luther King Capital Management (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, 2019. 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. The Small Cap Core Composite has been examined for the periods October 1, 1994 to December 31, 2019. The verification and performance examination reports are available upon request. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.
- 2) **Composite Description, Benchmark(s), and Risk:** January 1, 2003 is the effective creation date of the Small Cap Core Composite and October 1, 1994 is the inception date of the Small Cap Composite. 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. Material risks related to the investment strategy include, without limitation, those associated with cybersecurity, equity securities, foreign securities, general market and economic conditions and factors, inflation, investment selection, liquidity, investment management, sector weightings, and small cap companies. For detail on each risk, please see our Form ADV, Part 2A.
- 3) **Dispersion and Fees:** The gross annual standard deviation presented is an asset-weighted calculation of performance dispersion for accounts in the composite for the entire year. 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. Management 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. The fund included in this composite has a current management fee schedule of 0.75% and a net expense ratio of 1.00%. 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.

- 4) Additional Information and Availability of Information: Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. Effective January 2010, the portfolios in this composite stay at or 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 list of all composite and limited distribution pooled fund descriptions and/or a list of broad distribution pooled funds 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 – DECEMBER 31, 2020**

	Total Return		Equities Only	Cash Only	Russell 2000 Index
	Gross of Fees	Net of Fees			
Annualized Returns Ending 12/31/20					
<b>1 Year</b>	<b>35.85 %</b>	<b>34.86 %</b>	<b>37.20 %</b>	<b>0.39 %</b>	<b>19.96 %</b>
2 Years	29.69	28.76	31.14	1.21	22.71
3 Years	16.88	16.06	17.73	1.19	10.25
4 Years	17.12	16.30	17.92	0.90	11.33
<b>5 Years</b>	<b>15.73</b>	<b>14.90</b>	<b>16.49</b>	<b>0.74</b>	<b>13.26</b>
6 Years	12.10	11.29	12.77	0.64	10.10
7 Years	9.91	9.11	10.49	0.56	9.34
8 Years	12.89	12.07	13.55	0.51	12.65
9 Years	12.67	11.84	13.33	0.47	13.06
<b>10 Years</b>	<b>11.88</b>	<b>11.06</b>	<b>12.48</b>	<b>0.43</b>	<b>11.20</b>
11 Years	13.75	12.90	14.45	0.42	12.54
12 Years	15.28	14.42	16.04	0.45	13.69
13 Years	9.83	9.00	10.25	0.63	9.06
14 Years	9.15	8.32	9.53	0.94	8.27
<b>15 Years</b>	<b>9.64</b>	<b>8.80</b>	<b>10.03</b>	<b>1.17</b>	<b>8.91</b>
16 Years	9.99	9.16	10.41	1.25	8.64
17 Years	10.73	9.90	11.20	1.23	9.18
18 Years	12.00	11.17	12.57	1.22	11.01
19 Years	10.73	9.91	11.21	1.24	9.08
<b>20 Years</b>	<b>10.63</b>	<b>9.81</b>	<b>11.08</b>	<b>1.37</b>	<b>8.74</b>
21 Years	10.70	9.90	11.18	1.51	8.15
22 Years	11.01	10.20	11.56	1.64	8.71
23 Years	10.23	9.43	10.61	1.75	8.20
24 Years	10.78	9.97	11.18	1.88	8.75
<b>25 Years</b>	<b>11.37</b>	<b>10.55</b>	<b>11.87</b>	<b>2.02</b>	<b>9.05</b>
26 Years	12.12	11.30	12.76	2.16	9.74
26 1/4 Years	11.98	11.16	12.60	2.19	9.57

\* The results shown above should be reviewed along with LKCM Small Cap Core Composite GIPS Report. If you have not received a copy of the GIPS Report, 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.