

**LUTHER KING CAPITAL MANAGEMENT**  
**LKCM SMALL CAP CORE COMPOSITE**  
**Second Quarter, 2023 Update**



<b>Performance **</b>	<b>2nd QTR 2023</b>	<b>YTD 2023</b>	<b>One Year</b>	<b>3 Years Annualized</b>	<b>5 Years Annualized</b>	<b>10 Years Annualized</b>	<b>Since Inception Annualized*</b>
LKCM Small Cap Core Composite (gross)	5.78%	13.69%	18.10%	13.62%	8.18%	9.21%	11.00%
LKCM Small Cap Core Composite (net)	5.51%	13.12%	16.93%	12.49%	7.11%	8.13%	9.89%
Russell 2000 Index	5.21%	8.09%	12.31%	10.82%	4.21%	8.26%	8.65%

The Russell 2000 Index, an index composed of small cap, public companies, increased by 5.2% during Q2 2023. Volatility retreated in the quarter. During the first two months, the benchmark price declined ~3%, but reversed course in June increasing ~8% after positive securities returns expanded from being principally driven by mega cap securities. We continue to expect a dynamic year ahead with analysis focusing on the impact of restrictive monetary policy on economic activity and financial performance.

Key domestic economic themes remain largely unchanged. Households have healthy balance sheets. The self-sustaining cycle of employment, income, and spending currently supports economic growth. A recent spate of stronger economic readings has allayed recession fears, resulting in an uptick in investor sentiment and positive equity market returns. The Federal Reserve has delivered an appropriate amount of monetary tightening via higher interest rates to trigger disinflation. However, there appears to be debate among members of the Federal Open Market Committee as to the economic impact of past interest rates hikes. This debate raises the important question of whether the economy will feel the brunt of monetary tightness or more tightening is required to bring inflation to the Federal Reserve's target of 2.0%.

The central bank is reluctant to declare victory too early in its battle with inflation. However, following ten consecutive interest rate hikes the Federal Reserve chose to leave its benchmark interest rate unchanged at the recent June meeting. The central bank is likely heartened by the continued disinflationary trend in price indexes. The greatest concern for the FOMC is likely the trajectory of wages. If inflation were to stall around the current 4.1% level, it would likely be the result of the very tight labor market continuing to place upward pressure on worker pay. As a result, employment data is being viewed with heightened interest by investors. One strong employment reading in early July sent the yield on the 10-Year Treasury back above 4.0% as bond investors anticipated the resumption of rate hikes at the July FOMC meeting.

Ironically, the economy may be its most vulnerable at the moment investors believe the Federal Reserve has engineered a "soft landing," defeating inflation while avoiding a recession. As aggregate demand declines, contributing to lower inflation, the risk of an overshoot rises. Thus, falling demand could eventually lead to rising unemployment. Recessions are notoriously difficult to forecast. A key reason that recessions are difficult to predict is significant economic imbalances elicit non-linear behavior.

The economy continues to exhibit signs of moderation in the wake of the pandemic stimulus boom. Inflation is methodically retreating, and the odds of a soft landing appear to be rising, but this call may be premature. The outstanding policy question is how much more monetary tightening remains in our future. To answer this question, the central bank will likely need to reasonably estimate the impact of actions already taken to tighten monetary policy. Success for the Federal Reserve would be that the current economic expansion continues with inflation returning to their target of 2.0%. This period could join 1964, 1984, and 1993 as the few examples of times during which the central bank tightened monetary policy without sparking a recession.

During 2Q23, the two best performing sectors were Health Care and Industrials, while Financials and Communication Services were the worst performing sectors. Most sectors experienced *positive* returns during the quarter in a continually challenging environment, and only Financials and Communication Services had negative returns for the quarter.

The LKCM Small Cap Core composite outperformed the benchmark in 2Q23. The composite returned 5.5% net of fees versus the return in the Russell 2000 of 5.2% during the same period. The securities selection continued to benefit from a tilt towards quality growth during a quarter when growth, as measured by the Russell 2000 Growth Index, exceeded value, as measured by the Russell 2000 Value Index, by nearly 400 basis points. The greatest positive contributors to absolute performance in the portfolio were securities in the Industrials and Health Care sectors, while Consumer Discretionary and Real Estate were the greatest negative contributors. Relative to the benchmark, securities selection and active sector weights both contributed to the outperformance. Health Care and Communication Services enjoyed the most *positive* attribution from securities selection, while Information Technology and Consumer Discretionary had the greatest *negative* attribution from securities selection during the quarter. The strategy remained underweight Financials, which had the greatest *positive* effect this quarter. The greatest *negative* allocation effect on attribution came from the Health Care sector, which remained underweight relative to our benchmark. Overall, allocation effect was positive for the current quarter across all sectors.

Our investment strategy is to maximize our internal, research-intensive process and to identify competitively advantaged companies that generate strong financial returns with attractive reinvestment opportunities. We strive to purchase these stocks at attractive prices. We believe these companies increase the value of their businesses which will lead to long-term equity returns for our investors. Our goal is to generate superior returns through market cycles relative to our benchmark by consistently executing on our investment strategy and minimizing the risk (volatility) of the portfolio in pursuit of long-term, capital appreciation.

\* 10/1/94 – 06/30/23

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

# LKCM SMALL CAP CORE COMPOSITE

June 30, 2023

**CO-MANAGERS:** MASON D. KING, CFA  
J. LUTHER KING, JR., CFA  
MARK L. JOHNSON, 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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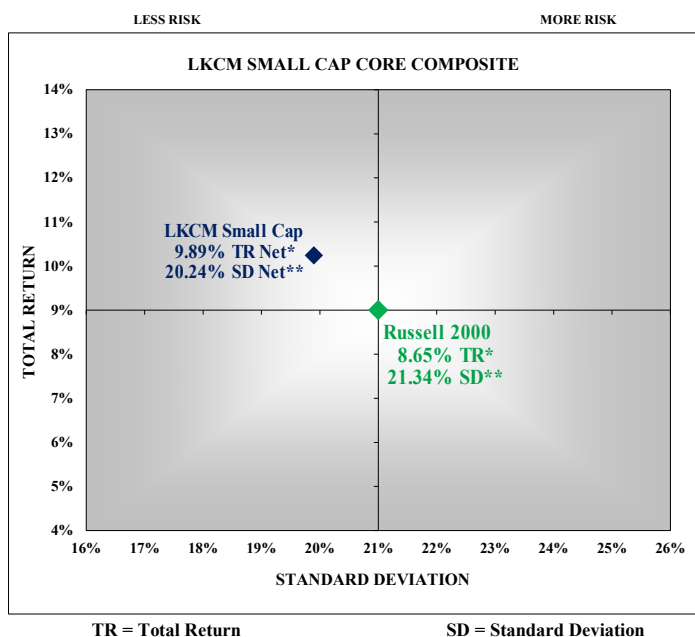
TEN LARGEST HOLDINGS 06/30/23*	
CELSIUS HOLDINGS INC	2.2 %
ECOVYST INC	2.0 %
GOOSEHEAD INSURANCE INC	1.9 %
KIRBY CORPORATION	1.8 %
MAGNITE INC	1.8 %
R1 RCM INC NEW	1.8 %
WEATHERFORD INTERNATIONAL PL	1.8 %
HOME BANCSHARES INC	1.7 %
ALTAIR ENGINEERING INC - A	1.7 %
BELLRING BRANDS INC	1.7 %
	18.3 %

\*The largest ten holdings are at 06/30/23 and may not reflect current holdings.

PORTFOLIO RESULTS	
(Benchmark - Russell 2000) (Since Inception)	
	Net
ALPHA	2.03%
BETA	0.90
R <sup>2</sup>	89%
UP CAPTURE	
	96%
DOWN CAPTURE	
	88%

PORTFOLIO CHARACTERISTICS	
RETURN ON EQUITY (Median)	13.7%
LONG TERM DEBT TO TOTAL CAPITAL	38%
P/E FWD 4 Quarters (ex Neg-earnings)	18x
WTD AVG. MARKET CAPITALIZATION	
	\$4,302 Million
TOTAL SMALL-CAP EQUITY COMPOSITE ASSETS	
	\$ 240 Million
#HOLDINGS	74
PORTFOLIO TURNOVER*	24%
ACTIVE SHARE	95%

\*Turnover rate is based on a representative portfolio for a rolling one year period ending 06/30/23/23



\*Total Net Return Since Inception (10/01/94 to 06/30/23) Annualized

\*\*Standard deviation and performance characteristics reporting period (10/01/94 to 06/30/23)

ATTRIBUTION (2Q 2023)				
	Avg. Portfolio Weight	Portfolio Contribution	Avg. Benchmark Weight	Benchmark Contribution
HEALTH CARE	10.2%	1.9	17.3%	1.9
INDUSTRIALS	22.1%	1.9	16.9%	1.7
FINANCIALS	11.5%	1.1	15.5%	-0.2
INFORMATION TECHNOLOGY	12.8%	0.4	12.2%	1.1
CONSUMER DISCRETIONARY	13.1%	-1.5	11.2%	0.3
ENERGY	8.1%	0.4	6.4%	0.3
REAL ESTATE	1.7%	0.0	6.2%	0.2
MATERIALS	5.3%	0.3	4.5%	0.0
CONSUMER STAPLES	6.5%	0.7	3.8%	0.1
UTILITIES	0.0%	0.0	3.3%	-0.1
COMMUNICATION SERVICES	3.0%	0.6	2.7%	0.0
CASH & EQUIVALENTS	5.9%	0.1	0.0%	0.0
TOTAL PORTFOLIO	100.0%	5.8%	100.0%	5.2%

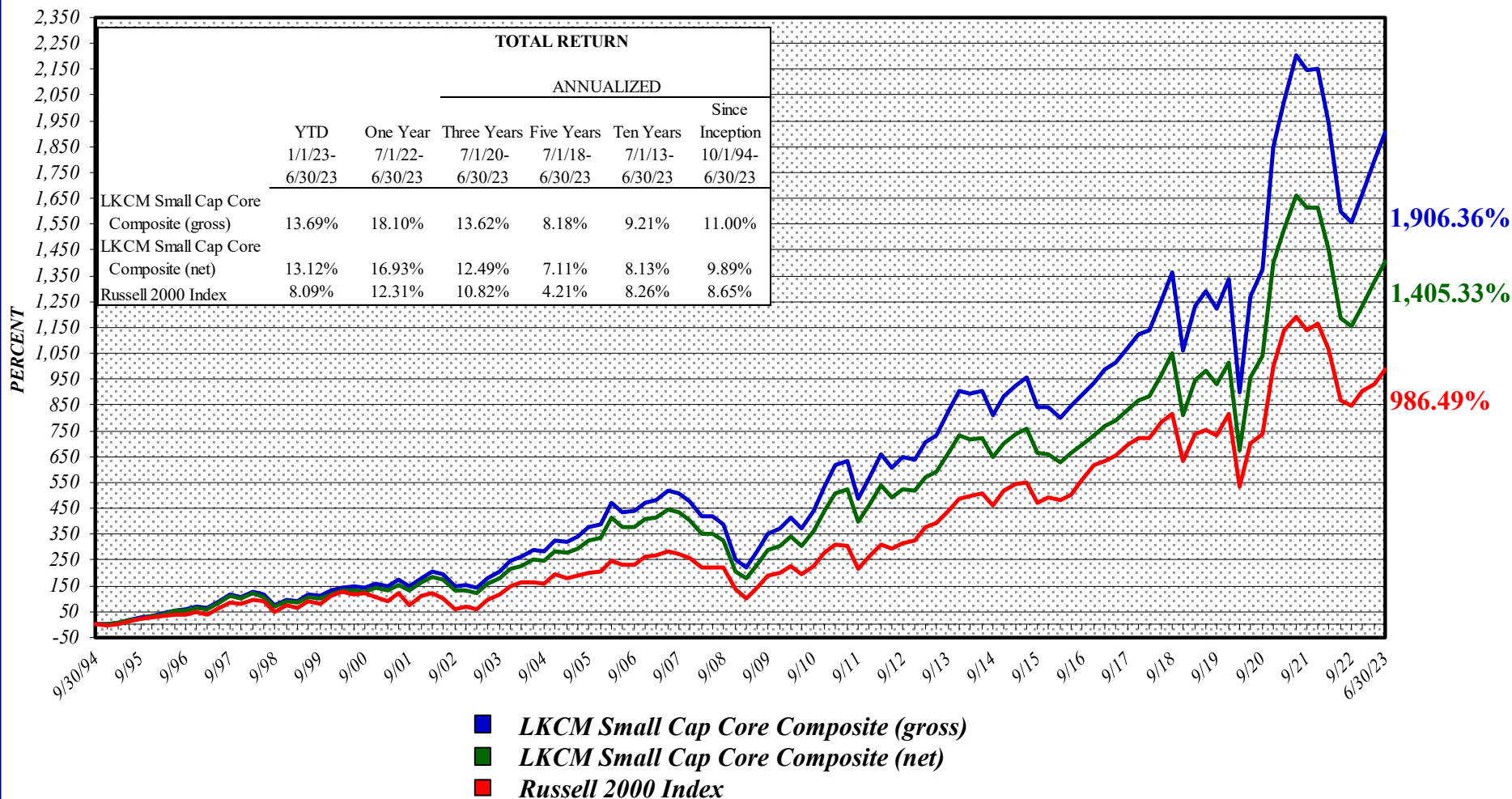
Source: Thomson Reuters (Refinitiv). Performance results calculated byRefinitiv may differ significantly from those calculated by LKCM due to differences in methodology for transaction pricing and accounting for capital transactions.

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

Sources: LKCM Small Cap Core Composite, Zephyr Informa Financial Intelligence, Thomson Reuters (Refinitiv)

# ***LKCM Small Cap Core Composite***

## ***Cumulative Returns Since Inception (10/1/94 – 06/30/23)***



*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 JUNE 30, 2023**

				Small Cap Core Comp	3-Year Annualized Gross Standard Deviation			Small Cap Core		
		Total Return		Russell	Annual		Russell	Number	Composite	Total
		Gross	Net	2000	Standard	Small Cap	2000	of	Assets	Firm
Year		of Fees	of Fees	Index	Deviation	Core Comp	Index	Accounts	(millions)	Assets (billions)
2023	(1/1 - 6/30)	13.69 %	13.12 %	8.09 %	NA %	NA %	NA %	6	240	25.3
2022		-21.55	-22.32	-20.44	0.2	27.43	26.02	5	201	23.6
2021		15.36	14.21	14.82	0.1	25.15	23.35	5	264	27.0
2020		35.85	34.50	19.96	0.3	27.11	25.27	6	244	21.6
2019		23.81	22.58	25.52	0.7	16.64	15.71	8	220	18.2
2018		-5.05	-6.00	-11.01	NA	16.01	15.79	7	193	14.5
2017		17.83	16.66	14.65	0.3	13.45	13.91	5	259	15.3
2016		10.32	9.22	21.31	0.2	15.20	15.76	10	421	13.1
2015		-4.39	-5.34	-4.41	0.4	14.30	13.96	24	1,029	13.1
2014		-2.36	-3.33	4.89	0.4	13.68	13.12	39	1,925	15.0
2013		36.09	34.74	38.82	0.4	16.25	16.45	41	2,379	14.7

	Annualized Returns		
	Total Return		Russell 2000 Index
	Gross of Fees	Net of Fees	
1 year ending 06/30/23	18.10 %	16.93 %	12.31 %
5 years ending 06/30/23	8.18	7.11	4.21
10 years ending 06/30/23	9.21	8.13	8.26

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

- Compliance Statement, Verification, and Trademark Information:** Luther King Capital Management (LKCM) is an independent registered investment adviser under the Investment Advisers Act of 1940 and is defined as an independent investment management firm. 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, 2022. 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, 2022. 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.
- 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 \$0.8 billion and \$7 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. In accordance with the SEC Marketing Rule that went into effect November 4, 2022, net of fee returns are calculated by reducing the gross returns by the maximum fee charged to any account in the composite for the respective period. The percent of composite assets that paid zero commissions was 1.00% as of 12/31/22. The current management fee schedule for this composite is as follows: 1.00% on the first \$5,000,000; 0.75% on the next \$5,000,000; 0.50% over \$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 LKCM Small Cap Equity 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 model 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, 2023**

	<b>Total Return</b>		<b>Equity Return</b>		<b>Russell</b>
	<b>Gross of Fees</b>	<b>Net of Fees</b>	<b>Gross of Fees</b>	<b>Net of Fees</b>	<b>2000 Index</b>
Annualized Returns Ending 06/30/23					
<b>1 Year</b>	<b>18.10 %</b>	<b>16.93 %</b>	<b>19.77 %</b>	<b>18.58 %</b>	<b>12.31 %</b>
2 Years	(6.64)	(7.57)	(6.68)	(7.61)	(8.34)
3 Years	13.62	12.49	14.05	12.92	10.82
4 Years	9.64	8.55	10.08	8.99	6.18
<b>5 Years</b>	<b>8.18</b>	<b>7.11</b>	<b>8.65</b>	<b>7.57</b>	<b>4.21</b>
6 Years	10.30	9.20	10.82	9.71	6.32
7 Years	11.29	10.19	11.85	10.73	8.76
8 Years	8.35	7.27	8.84	7.76	6.69
9 Years	8.00	6.93	8.48	7.41	6.67
<b>10 Years</b>	<b>9.21</b>	<b>8.13</b>	<b>9.73</b>	<b>8.64</b>	<b>8.26</b>
11 Years	9.95	8.86	10.49	9.39	9.62
12 Years	8.74	7.66	9.21	8.12	8.59
13 Years	11.79	10.68	12.41	11.29	10.58
14 Years	12.52	11.40	13.17	12.05	11.32
<b>15 Years</b>	<b>9.43</b>	<b>8.35</b>	<b>9.87</b>	<b>8.78</b>	<b>8.43</b>
16 Years	7.63	6.56	7.97	6.90	6.70
17 Years	8.08	7.00	8.43	7.35	7.25
18 Years	8.80	7.72	9.17	8.09	7.64
19 Years	9.02	7.94	9.43	8.34	7.73
<b>20 Years</b>	<b>10.33</b>	<b>9.24</b>	<b>10.82</b>	<b>9.72</b>	<b>8.89</b>
21 Years	9.58	8.49	10.00	8.90	8.36
22 Years	9.50	8.41	9.90	8.81	7.53
23 Years	9.55	8.46	10.00	8.91	7.22
24 Years	9.73	8.64	10.25	9.16	7.50
<b>25 Years</b>	<b>9.35</b>	<b>8.26</b>	<b>9.71</b>	<b>8.62</b>	<b>7.26</b>
26 Years	9.52	8.43	9.90	8.80	7.60
27 Years	9.95	8.86	10.34	9.25	7.91
28 Years	10.73	9.62	11.26	10.15	8.44
28 3/4 Years	11.00	9.89	11.57	10.46	8.65

\*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. Equity returns are supplemental information to this composite. In accordance with the SEC Marketing Rule that went into effect November 4, 2022, net of fee are calculated by reducing the gross returns by the maximum fee charged to any account in the composite for the respective period. 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.

**$R^2$**  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.