

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



<u>Performance</u> **	<b>4th 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)	12.20%	23.42%	23.42%	3.76%	13.44%	8.03%	11.11%
LKCM Small Cap Core Composite (net)	11.92%	22.19%	22.19%	2.72%	12.31%	6.95%	10.00%
Russell 2000 Index	14.03%	16.93%	16.93%	2.22%	9.97%	7.16%	8.79%

The Russell 2000 Index, an index composed of small cap, public companies, increased by 14.0% during Q4 2023. The strong performance belies the volatility of the price action during the quarter. As the index extended the 11% drawdown during the last two months of the third quarter, the index fell an additional 8% before putting in new bear market low in late October. At that point, the index was down 33% from its record high in late 2021. Alternatively, the index exploded off this nadir to post a 26% rally to posting a new high on December 27<sup>th</sup>, the highest price level since the dawn of this cycle’s bear market in early 2022. During this yearend rally, low-quality factor leadership emerged, which had been absent during brief rebounds in 2022 and early 2023, providing some pundits to conclude that we have exited the period of maximum pain and valuation discounts for smaller companies. The overbought conditions could provide some pause.

As the quarter progressed, the sentiment for the economic outlook shifted much more positively. Consumer sentiment trended higher throughout the year, mirroring the declines in rates of core inflation towards less punitive levels. Rising wages eclipsed rates of inflation, enabling real disposable income to turn positive during the first three quarters of 2023. Consequently, retail sales and personal consumption trended higher throughout the year after coming under some pressure during the first quarter. Additionally, business sentiment, as reflected in the Purchasing Managers’ Index (PMI), showed some modest improvement from lows earlier in the year. Unfortunately, they remain weak – and weakened into the yearend. The Manufacturing PMI still remains in contractionary territory, though the Services PMI remains barely in expansionary territory. The supportive consumer and stabilizing PMIs drove better prospects for a “soft landing” and probability of a recession was revised lower.

As these indexes arrested their precipitous declines from 2022, the outlook for inflation supported a Federal Reserve pivot in 2024. Rises in annual Core Personal Consumption Expenditures (PCE) Price Index decelerated from 4.9% to 3.2% during 2023. Approximately 85% of this deceleration occurred during the second half of the year. Rates on 10-year Treasury notes fell 120bps from mid-October to late December. High yield spreads also compressed to low levels after shedding 33bps in November and December. These spreads now range 130-135bps versus 120-130bps in 2006 – prior to the Great Financial Crisis (GFC). The combination of lower inflation, lower Treasury yields, and lower high yield spreads supported a rotation into more economically sensitive small cap companies on lower projected discount rates.

Historically, strong market price moves – like the one during the fourth quarter – can be supportive of continued price appreciation, but the rapid adjustment raises some concern that current price levels may not fully discount persistent downside risks. Consensus forecasts are Federal Reserve policy rates will be cut sooner and more aggressively than the current central bank’s guidance. Geopolitical tension continues to rise. Disrupted supply chains or further strides towards deglobalization could stymie the rapid deceleration of goods’ prices. These are important offsets to stickier service prices. Household excess savings, benefited by unprecedented, COVID-related transfer payments, have been whittled down presenting a potentially more vulnerable consumer. Consumer balance sheets remain strong, as Household Debt to Disposable Income remains at 2019 levels near 100% and 35% lower than peaks reached prior to the GFC. While credit card delinquencies have risen and the trend raises some concerns, the level doesn’t reflect recessionary stress. Absent reaccelerating inflation or deteriorating employment, the consumer appears to be positioned to weather any minor headwinds pretty well.

During 2023, the three best performing sectors were Industrials, Consumer Discretionary, and Information Technology, while Utilities, Health Care, and Communication Services were the worst performing sectors in the benchmark. Most sectors experienced *positive* returns during the year in a volatile environment, and Utilities was the only sector to post negative price returns.

The LKCM Small Cap Core composite returned 22.19% net of fees for the year ended December 31, 2023, as compared to the 16.93% for the Russell 2000® Index, the Fund’s benchmark. The Fund’s relative performance benefited from sector allocation decisions, particularly being underweight Utilities sector and being overweight Industrials sector relative to the benchmark. The two sector allocations that detracted from relative performance were Materials and Energy, both of which were overweight. Stock selection decisions in the Consumer Staples, Energy, and Industrials were the largest contributors to positive security selection, which were partially offset by security selection decisions in Communication Services, Information Technology, and Consumer Discretionary – the only three portfolio sectors underperforming the benchmark sectors during 2023. Overall, both sector allocation and security selection contributed positively to performance of the portfolio relative to the benchmark in 2023. Our positive quality bias and growth tilt benefited during the first three quarters, while giving back a little during the frenetic, lower-quality, value rally in the fourth quarter. We continue to target companies with solid fundamentals and attractive entry points for long term capital returns.

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 – 12/31/23

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

# LKCM SMALL CAP CORE COMPOSITE

December 31, 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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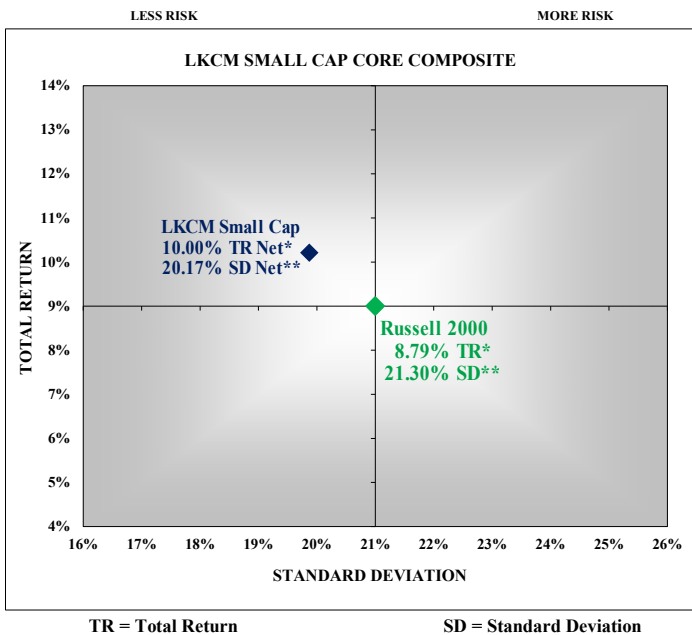
TEN LARGEST HOLDINGS 12/31/23*	
BELLRING BRANDS INC	2.3 %
WEATHERFORD INTERNATIONAL PL	2.3 %
NUTANIX INC	2.3 %
GOOSEHEAD INSURANCE INC	2.1 %
ESAB CORPORATION	1.9 %
AVIDXCHANGE HOLDINGS INC	1.8 %
CSW INDUSTRIALS	1.8 %
MEDPACE HOLDINGS INC	1.8 %
KIRBY CORPORATION	1.8 %
ALAMO GROUP INC	1.8 %
	19.8 %

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

PORTFOLIO CHARACTERISTICS	
RETURN ON EQUITY (Median)	10%
LONG TERM DEBT TO TOTAL CAPITAL	32%
P/E FWD 4 Quarters (ex Neg-earnings)	18x
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WTD AVG. MARKET CAPITALIZATION	\$4,763 Million
TOTAL SMALL-CAP EQUITY COMPOSITE ASSETS	\$ 266 Million
#HOLDINGS	77
PORTFOLIO TURNOVER*	28%
ACTIVE SHARE	94%

\*The largest ten holdings are at 12/31/23 and may not reflect current holdings.

\*Turnover rate is based on a representative portfolio for a rolling one year period ending 12/31/23



ATTRIBUTION (4Q 2023)				
	Avg. Portfolio Weight	Portfolio Contribution	Avg. Benchmark Weight	Benchmark Contribution
INDUSTRIALS	24.2%	2.9	17.2%	2.3
FINANCIALS	13.8%	2.8	16.8%	3.6
HEALTH CARE	9.4%	0.2	14.6%	2.4
INFORMATION TECHNOLOGY	13.0%	2.4	13.4%	1.9
CONSUMER DISCRETIONARY	10.4%	1.8	10.8%	1.9
ENERGY	9.8%	-0.3	7.8%	-0.6
REAL ESTATE	1.0%	0.1	6.2%	1.0
MATERIALS	5.1%	0.8	4.5%	0.6
CONSUMER STAPLES	4.1%	1.0	3.5%	0.5
UTILITIES	0.0%	0.0	2.9%	0.2
COMMUNICATION SERVICES	2.3%	0.4	2.4%	0.2
CASH & EQUIVALENTS	6.8%	0.1	0.0%	0.0
TOTAL PORTFOLIO	100.0%	12.2%	100.0%	14.0%

\*Total Net Return Since Inception (10/01/94 to 12/31/23) Annualized  
\*\*Standard deviation and performance characteristics reporting period (10/01/94 to 12/31/23)

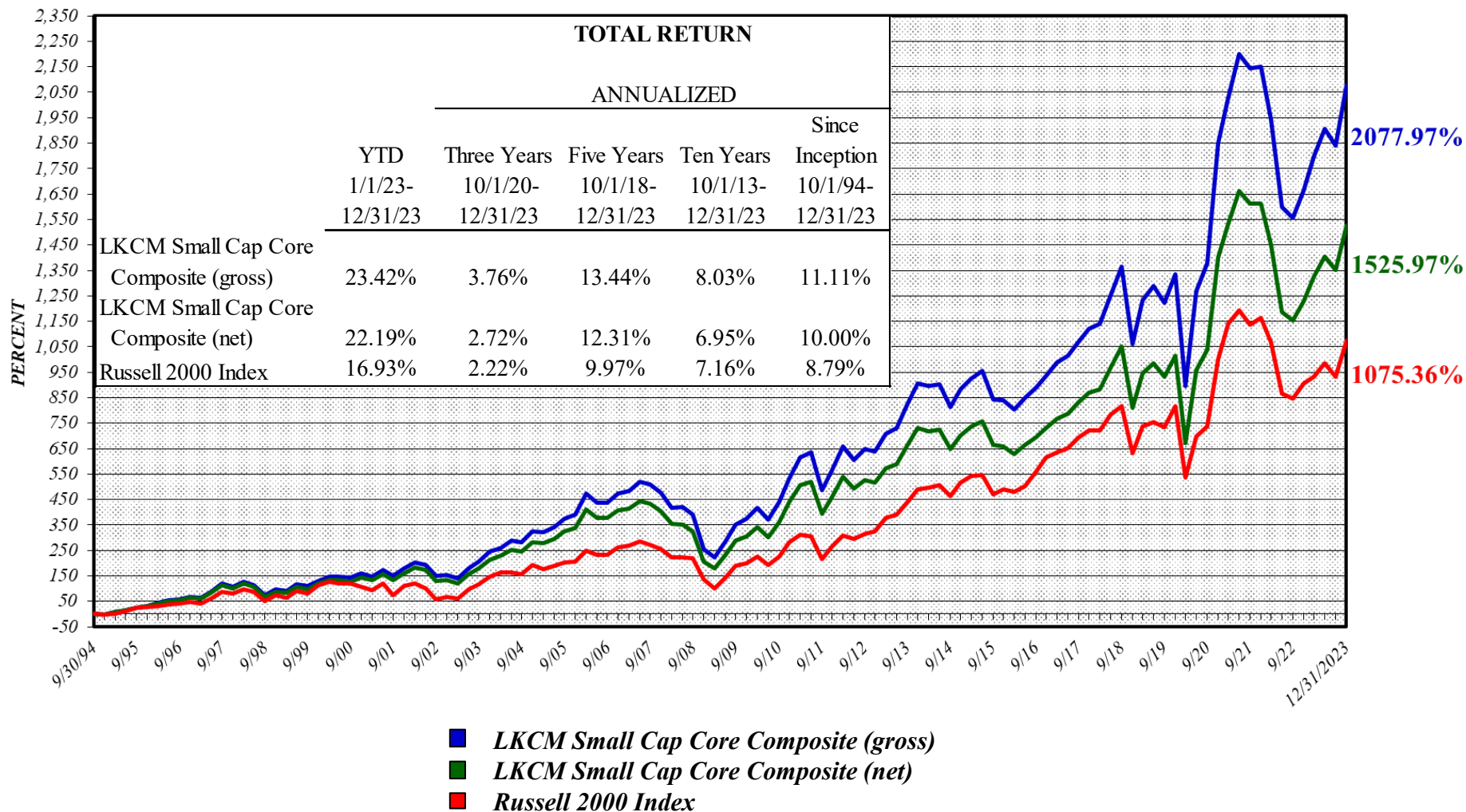
Source: LSEG Data and Analytics. Performance results calculated by Refinitiv may differ significantly from those calculated by LKCM due to differences in methodology for transaction pricing and accounting for capital transactions.

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, and LSEG Data and Analytics.

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

## ***Cumulative Returns Since Inception (10/1/94 – 12/31/23)***



*The performance results should be reviewed along with the attached GIPS Report.  
 Past performance is not indicative of future results. Time periods over one year are annualized.*

**LUTHER KING CAPITAL MANAGEMENT**  
**SMALL CAP CORE COMPOSITE**  
**GIPS REPORT AS OF DECEMBER 31, 2023**

Year	Total Return		Russell 2000 Index	Small Cap Core Comp	3-Year Annualized Gross Standard Deviation		Number of Accounts	Small Cap Core Composite Assets (millions)	Total Firm Assets (billions)
	Gross of Fees	Net of Fees		Annual Standard Deviation	Small Cap Core Comp	Russell 2000 Index		Small Cap Core Assets (millions)	
2023	23.42 %	22.19 %	16.93 %	0.2 %	20.36 %	21.11 %	6	266	26.3
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

	Annualized Returns		
	Total Return		Russell
	Gross of Fees	Net of Fees	2000 Index
1 year ending 12/31/23	23.42 %	22.19 %	16.93 %
5 years ending 12/31/23	13.44	12.31	9.97
10 years ending 12/31/23	8.03	6.95	7.16

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.

LKCM SMALL CAP CORE COMPOSITE  
GIPS REPORT AS OF DECEMBER 31, 2023

- 1) **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 2.09% as of 12/31/23. 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.
- 2) **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 – DECEMBER 31, 2023**

	Total Return		Equity Return		Russell 2000 Index
	Gross of Fees	Net of Fees	Gross of Fees	Net of Fees	
Annualized Returns Ending 12/31/23					
<b>1 Year</b>	<b>23.42 %</b>	<b>22.19 %</b>	<b>24.87 %</b>	<b>23.62 %</b>	<b>16.93 %</b>
2 Years	(1.60)	(2.58)	(1.42)	(2.40)	(3.55)
3 Years	3.76	2.72	4.05	3.01	2.22
4 Years	10.99	9.88	11.50	10.39	6.40
<b>5 Years</b>	<b>13.44</b>	<b>12.31</b>	<b>14.14</b>	<b>13.01</b>	<b>9.97</b>
6 Years	10.12	9.03	10.68	9.58	6.16
7 Years	11.19	10.09	11.76	10.65	7.33
8 Years	11.08	9.98	11.66	10.55	8.99
9 Years	9.25	8.16	9.78	8.69	7.41
<b>10 Years</b>	<b>8.03</b>	<b>6.95</b>	<b>8.52</b>	<b>7.44</b>	<b>7.16</b>
11 Years	10.32	9.22	10.87	9.77	9.71
12 Years	10.37	9.27	10.94	9.83	10.25
13 Years	9.95	8.86	10.47	9.38	9.06
14 Years	11.53	10.42	12.14	11.02	10.25
<b>15 Years</b>	<b>12.87</b>	<b>11.75</b>	<b>13.54</b>	<b>12.41</b>	<b>11.30</b>
16 Years	8.67	7.59	9.06	7.97	7.75
17 Years	8.18	7.10	8.54	7.46	7.18
18 Years	8.64	7.56	9.01	7.93	7.77
19 Years	8.98	7.90	9.38	8.29	7.60
<b>20 Years</b>	<b>9.66</b>	<b>8.57</b>	<b>10.10</b>	<b>9.00</b>	<b>8.11</b>
21 Years	10.79	9.69	11.31	10.20	9.71
22 Years	9.76	8.66	10.20	9.11	8.12
23 Years	9.70	8.61	10.14	9.05	7.87
24 Years	9.81	8.72	10.27	9.17	7.39
<b>25 Years</b>	<b>10.11</b>	<b>9.02</b>	<b>10.63</b>	<b>9.53</b>	<b>7.91</b>
26 Years	9.47	8.38	9.84	8.75	7.49
27 Years	9.97	8.88	10.37	9.27	8.01
28 Years	10.53	9.43	11.00	9.90	8.30
29 Years	11.23	10.12	11.83	10.72	8.94
29 1/4 Years	11.11	10.00	11.69	10.58	8.79

\*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<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.