

# LUTHER KING CAPITAL MANAGEMENT

## LKCM SMALL CAP CORE COMPOSITE

Third Quarter, 2024 Update



<u>Performance</u> **	<u>3rd QTR 2024</u>	<u>YTD 2024</u>	<u>One Year</u>	<u>3 Years Annualized</u>	<u>5 Years Annualized</u>	<u>10 Years Annualized</u>	<u>Since Inception Annualized*</u>
LKCM Small Cap Core Composite (gross)	5.36%	9.91%	23.32%	2.17%	12.59%	10.13%	11.17%
LKCM Small Cap Core Composite (net)	5.09%	9.09%	22.09%	1.16%	11.47%	9.03%	10.06%
Russell 2000® Index	9.27%	11.17%	26.76%	1.84%	9.39%	8.78%	8.94%

The Russell 2000® Index, an index composed of small cap, public companies, increased by 9.27% during 3Q 2024. The price returns during the quarter were volatile. The index prices moved materially higher in July, reaching highs for the quarter on July 16<sup>th</sup>. The index sold off aggressively during the latter part of July and early part of August, reaching a low very close to the levels at the start of the quarter. The rest of the quarter was marked by similar volatility through much of the remaining quarter – with higher lows during each drawdown period. At quarter end, the index was only 1.5% below the July 16<sup>th</sup> high during the quarter. We predominately invest in profitable companies with modest levels of debt and elevated return profiles. Our bias towards quality fundamentals narrows our investable universe in the benchmark, as 38% of companies are unprofitable in the Russell 2000®. Financials, Real Estate, and Communication Services were the best performing sectors during the quarter.

The economy appears late cycle in many respects. High yield credit spreads have retracted to cyclically low levels, implying elevated risks are not being compensated at current price levels in credit markets. Despite these low spreads, bank lending standards are tighter than at any time outside of recession. Operating margins for the large cap universe are achieving record highs, though tough to see the catalyst – elevated costs or lower revenue – to bring these down. We continue to view the consumer as fragile. While savings rates were recently and miraculously revised dramatically upwards, data also supports the stress in more vulnerable consumers in our economy, which are the majority of the population but a smaller portion of consumption in GDP. The inflection of both credit card debt and delinquency rates higher belies the strength in the aggregate consumer. The wealthier consumer has benefited from the strong wealth effect, as equity values have reinflated. It's difficult to see if real wages for the more fragile consumer catch up before any potential weakness spills into other income and wealth cohorts. Employment will hold a key role in determining this path. Unemployment remains cyclically very low, although it has moved from its nadir set in early-2023. We will be watching carefully to make sure that labor market malaise doesn't develop and create greater challenges for the U.S. consumption.

Earnings for the small cap universe, as measured by Russell 2000® constituents, continue to look towards an inflection during the second half of 2024. The current environment continues to hold optimism, but the earnings recovery has not seen the momentum expected from initial estimates. The revision trend has lowered expectations of earnings growth in both 2024 and 2025 for the small cap universe. Earnings expectations for the universe have now flipped to negative year-over-year growth for 2024, while estimates for 2025 have been reduced approximately 25% since the initial estimates set in mid-2022. The second quarter showed positive annual growth, but current expectations are for this positivity not to carry into the third quarter. The growth potential has *increased* for 2025, as the revisions to 2024 have been more severe. With the earnings expectations coming down and prices for the index moving up, the price action for the index was driven predominantly by multiple expansion.

The LKCM Small Cap Core composite returned 5.09% net of fees for the quarter ended September 30, 2024, as compared to the 9.27% for the Russell 2000® Index, its benchmark. Though we reduced our weight in cash during the quarter, cash remained elevated, providing the largest allocation drag on portfolio performance, which was a reversal from the benefit during the prior quarter. Our underweight in Real Estate was the next greatest detractor to relative performance. The two best contributors to relative performance due to sector allocation resulted from greater exposure to Communication Services and Financials. The strongest contribution to relative performance resulting from the securities in portfolio sectors came from Industrials and Energy, while the weakest attribution from security selection for the quarter was in Health Care and Financials.

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 – 09/30/24

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

# LKCM SMALL CAP CORE COMPOSITE

September 30, 2024

**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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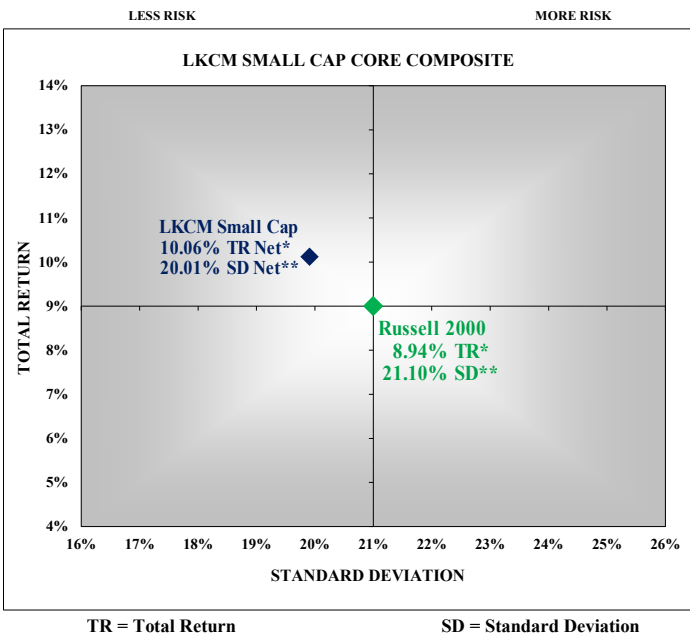
TEN LARGEST HOLDINGS 09/30/24*	
Q2 HOLDINGS INC	4.1 %
CSW INDUSTRIALS	2.7 %
PALOMAR HOLDINGS INC	2.6 %
COLLIERS INTERNATIONAL GROUP	2.6 %
BUILDERS FIRSTSOURCE INC	2.5 %
MURPHY USA INC	2.4 %
TOWER SEMICONDUCTOR LTD	2.4 %
ENSIGN GROUP INC	2.3 %
NATERA INC	2.2 %
AXON ENTERPRISE INC	2.2 %
	26.0 %

PORTFOLIO RESULTS	
(Benchmark - Russell 2000) (Since Inception)	
	<u>Net</u>
ALPHA	1.95%
BETA	0.90
R <sup>2</sup>	89%
-----	
UP CAPTURE	96%
DOWN CAPTURE	88%

PORTFOLIO CHARACTERISTICS	
RETURN ON EQUITY (Median)	12.8%
LONG TERM DEBT TO TOTAL CAPITAL	31%
P/E FWD 4 Quarters (ex Neg-earnings)	20x
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WTD AVG. MARKET CAPITALIZATION	\$5,073 Million
TOTAL SMALL-CAP EQUITY COMPOSITE ASSETS	\$ 314 Million
#HOLDINGS	76
PORTFOLIO TURNOVER*	23%
ACTIVE SHARE	94%

\*The largest ten holdings are at 09/30/24 and may not reflect current holdings.

\*Turnover rate is based on a representative portfolio for a rolling one year period ending 09/30/24



ATTRIBUTION (3Q 2024)				
	Avg. Portfolio Weight	Portfolio Contribution	Avg. Benchmark Weight	Benchmark Contribution
INDUSTRIALS	20.5%	2.3	16.9%	1.4
FINANCIALS	17.6%	1.8	18.1%	2.6
HEALTH CARE	10.7%	-1.1	17.6%	1.7
INFORMATION TECHNOLOGY	12.2%	0.6	12.8%	0.6
CONSUMER DISCRETIONARY	10.6%	0.4	9.9%	0.9
ENERGY	6.5%	-0.1	5.8%	-0.5
REAL ESTATE	1.2%	0.2	6.3%	1.1
MATERIALS	6.4%	0.8	4.5%	0.4
CONSUMER STAPLES	4.9%	0.5	2.8%	0.3
UTILITIES	0.0%	0.0	2.8%	0.3
COMMUNICATION SERVICES	2.7%	0.1	2.6%	0.4
CASH & EQUIVALENTS	6.5%	0.1	0.0%	0.0
<b>TOTAL PORTFOLIO</b>	<b>100.0%</b>	<b>5.4%</b>	<b>100.0%</b>	<b>9.3%</b>

\*Total Net Return Since Inception (10/01/94 to 09/30/24) Annualized  
\*\*Standard deviation and performance characteristics reporting period (10/01/94 to 09/30/24)

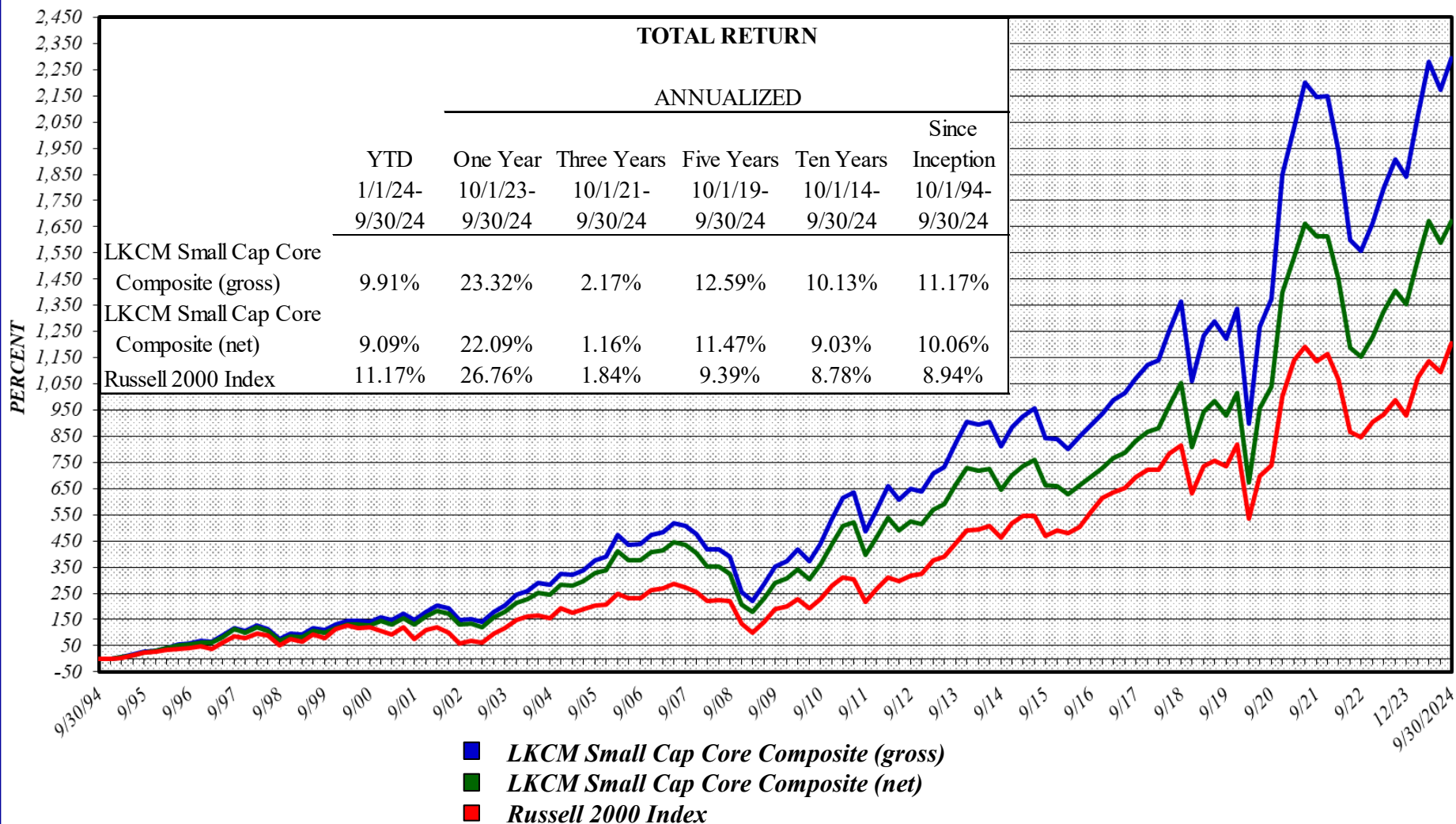
Source: LSEG Data and Analytics. Performance results calculated by Refinitiv may differ significantly from those calculated by LKCM due to differences in methodology for transaction pricing and accounting for capital transactions.

*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 – 9/30/24)***



*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 September 30, 2024**

Year	Total Return		Russell 2000 Index	Small Cap Core Comp Annual Standard Deviation	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			Small Cap Core Comp	Russell 2000 Index			
2024 (1/1 - 9/30)	9.91 %	9.09 %	11.17 %	NA %	NA %	NA %	6	314	29.0
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 2000 Index
	Gross of Fees	Net of Fees	
1 year ending 09/30/24	23.32 %	22.09 %	26.76 %
5 years ending 09/30/24	12.59	11.47	9.39
10 years ending 09/30/24	10.13	9.03	8.78

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, 2023. 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, 2023. 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

LKCM SMALL CAP CORE COMPOSITE  
GIPS REPORT AS OF SEPTEMBER 30, 2024

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 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.
- 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 – SEPTEMBER 30, 2024**

	<u>Total Return</u>		<u>Equity Return</u>		<u>Russell 2000 Index</u>
	<u>Gross of Fees</u>	<u>Net of Fees</u>	<u>Gross of Fees</u>	<u>Net of Fees</u>	
Annualized Returns Ending 09/30/24					
<b>1 Year</b>	<b>23.32 %</b>	<b>22.09 %</b>	<b>24.91 %</b>	<b>23.67 %</b>	<b>26.76 %</b>
2 Years	20.16	18.96	21.50	20.29	17.51
3 Years	2.17	1.16	2.43	1.42	1.84
4 Years	12.84	11.72	13.36	12.24	11.76
<b>5 Years</b>	<b>12.59</b>	<b>11.47</b>	<b>13.16</b>	<b>12.03</b>	<b>9.39</b>
6 Years	8.53	7.45	9.04	7.96	6.10
7 Years	10.74	9.64	11.31	10.20	7.36
8 Years	11.67	10.56	12.27	11.15	8.95
9 Years	10.91	9.81	11.51	10.40	9.66
<b>10 Years</b>	<b>10.13</b>	<b>9.03</b>	<b>10.70</b>	<b>9.60</b>	<b>8.78</b>
11 Years	9.03	7.94	9.55	8.46	8.33
12 Years	10.18	9.08	10.73	9.62	10.00
13 Years	11.41	10.31	12.05	10.93	11.54
14 Years	11.23	10.12	11.81	10.70	10.39
<b>15 Years</b>	<b>11.77</b>	<b>10.66</b>	<b>12.40</b>	<b>11.28</b>	<b>10.59</b>
16 Years	10.42	9.33	10.94	9.83	9.21
17 Years	8.39	7.31	8.76	7.68	7.65
18 Years	8.65	7.57	9.04	7.96	7.90
19 Years	8.87	7.79	9.27	8.18	8.01
<b>20 Years</b>	<b>9.61</b>	<b>8.52</b>	<b>10.05</b>	<b>8.96</b>	<b>8.49</b>
21 Years	10.30	9.21	10.79	9.69	8.95
22 Years	10.83	9.73	11.37	10.27	10.08
23 Years	10.34	9.24	10.88	9.78	9.15
24 Years	10.02	8.93	10.53	9.43	7.68
<b>25 Years</b>	<b>10.25</b>	<b>9.15</b>	<b>10.80</b>	<b>9.70</b>	<b>8.27</b>
26 Years	10.60	9.50	11.20	10.09	8.67
27 Years	9.27	8.18	9.61	8.53	7.49
28 Years	10.20	9.11	10.62	9.52	8.32
29 Years	10.70	9.60	11.20	10.09	8.48
<b>30 Years</b>	<b>11.17</b>	<b>10.06</b>	<b>11.75</b>	<b>10.64</b>	<b>8.94</b>

\*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.