NewBridge Large Cap Growth Equity Quarterly Commentary SMA

NEWBRIDGE ASSET MANAGEMENT
A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of June 30, 2021

Executive Summary

- The portfolio posted a positive return and outperformed its benchmark, the Russell 1000® Growth Index, in the second quarter.
- The portfolio's Technology, Financials, Consumer Discretionary, and Communication Services sector holdings were the primary contributors to the positive relative return.
- Earnings season was generally favorable for the portfolio's companies.
- The second quarter's market environment was more favorable for large-cap secular growth stocks than the first quarter, as the 10-year U.S. Treasury yield fell to 1.45% on June 30 from 1.70% on March 30.
- As always, our focus is on company fundamentals. We will continue to manage the portfolio by investing in companies with market leadership, solid financial bases, responsible management teams, and sustainable revenue and earnings growth.

Market Review

The portfolio posted a positive return and outperformed its benchmark in the second quarter.

As in past months, investors contemplated whether the near-term rise in inflation is temporary–i.e., caused by a short-term disequilibrium of supply and demand–or something more enduring. In our view, components like higher wages are likely to stay elevated, while the rising input costs like freight and some raw materials are likely to ebb over time. This dynamic may become more evident in the ensuing months. While the Federal Reserve (the "Fed") sounded a bit more hawkish in its June meeting commentary and press conference, it did not make any changes to its current rate policy or its asset-purchase plan. The more hawkish view emanated primarily from the Fed's new dot plot that suggested an additional 25 bps rate hike in 2023, versus just one from the last meeting. Following the Fed's June meeting, the long end of the yield curve fell, while the short end increased, consistent with expectations. Additionally, there is an underlying expectation of a tapering of asset purchases, which may come to light later this summer. Perhaps investors have prepared themselves for such an inevitable event. Furthermore, the Fed recognized the improvement in economic conditions but remains mindful of risks associated with variants of COVID-19, inflationary pressure, employment trends, and other factors, which may have signaled to investors that they're "on it" and not "behind the curve."

Investor anxiety centering around inflation–and perhaps more importantly, a rapid rise in interest rates–wreaked havoc on growth stocks during the first quarter. While we were disappointed with the portfolio's performance during the first quarter, we remained optimistic that the underlying fundamental strength of the portfolio's secular growth companies could be recognized in the coming months, as investors gained greater comfort that inflation and interest rates would not rise to more deleterious levels. We believed that equity style participation could expand in such an environment, as economic growth could lift all boats. In this case, large-cap growth stocks could represent a "catch-up" trade, much as small-caps and value had done since September 2020.

Encouragingly for our strategy, the market reversed course in the second quarter to favor large-cap growth over large-cap value, as evidenced by the performance of the Russell 1000® Growth Index versus that of the Russell 1000® Value Index (up 11.93% and 5.21%, respectively). Still, with fresh economic data, in the last three months the market was subject to the seemingly perpetual short-term waxing and waning of equity style classes vying for ascendancy In April, for example, growth outperformed value, but value outpaced growth in May. However, we started to see growth outperform after the 10-year Treasury yield peaked for the month at 1.70% on May 12. As the yield continued to move lower, growth stocks climbed through the end of May and went on to decisively outperform in June.

From a fundamental perspective, earnings season during the quarter had been generally favorable, with many companies posting financial results above sell-side analyst expectations and company management guidance. That positive trend continued in June, with a couple of our portfolio's companies reporting excellent results. However, in April and May we observed that within our portfolio (and beyond), strong results did not necessarily translate into positive stock action for large-cap growth stocks. We did not view the trend as alarming or as a signal of a market top. While this action was disappointing, we believed that fundamentals for the portfolio, market, and economy remained on solid footing. Importantly, with lower interest rates, investors once again bought fundamentally sound, secular growth companies–like those in the portfolio. Though it is uncertain what equity style classes will show leadership in the coming months, we remain heartened by the portfolio's performance from mid-May and the underlying financial results and growth prospects of its components. With the second quarter in the books, we look forward to the next earnings season and the second half of the year.

Portfolio Review

The portfolio posted a positive return and outperformed the Russell 1000® Growth Index during the quarter. The portfolio enjoyed a significant rebound in its high-growth stocks from mid-May, as Treasury yields fell from peak levels. This action marked a dramatic reversal from the previous quarter. As in the last several months of 2020 and in the first quarter 2021, the portfolio was subjected to the market's dynamic moves between "go-out" stocks vs. "stay-at-home" stocks, as well as cyclical vs. secular or value vs. growth trades. The portfolio's skew to the higher growth reaches of the market was favorable in the second quarter. Equity class rotations will likely continue in the foreseeable future–although it does seem that the lowest quality value/cyclical stocks may have already seen their best days, as higher quality companies appear to have gained more positive attention of late. Equity style rotations are natural to investment cycles, and either provide the portfolio with headwinds or tailwinds. The portfolio benefited from tailwinds in the second quarter, unlike the first. What comes next is admittedly unclear, but we were encouraged by the portfolio's second quarter performance compared to the first quarter. As always, we will continue to focus on the fundamentals of the portfolio's companies and to look for opportunities to improve the portfolio's composition of growth and quality.

The best performing quantitative factors during the quarter were a mix of Quality (Cashflow Consistency, Earnings Quality), Momentum (Momentum–12 Month, Composite Momentum), and Risk (Beta). It was interesting that Growth factors were not among the top five performers during the quarter, given the category's outperfomance. However, when looking at the quarter's underperforming factors, Value made up the majority of the bottom ten and included Sales/Price, EBTIDA/EV, Composite Value, Book/Price, and E/P Trailing. This dynamic marked a reversal from the prior quarter, where Value factors dominated the top spots. Additionally, Inverse of Market Cap, a Risk factor, also underperformed in the second quarter, as small-caps generally underperformed large-caps.

We maintained our high-growth, high-quality mandate throughout the quarter. The portfolio is composed mostly of emerging growth and established growth cycle* companies, along with a smaller allocation to mature growth companies. By contrast, the benchmark Russell 1000® Growth Index has a significant weighting in mature growth and traditional value stocks. During the quarter, two growth cycle categories made up 87% of the portfolio. Established growth, at 49%, was the portfolio's largest growth cycle constituent versus the Russell 1000® Growth Index's allocation of 53%. The portfolio's emerging growth holdings represented 38% of the portfolio, whereas the benchmark had 24%. The mature growth category represented 12% of the portfolio and 15% of the benchmark. The emerging growth category was the portfolio's best performing group, while the mature growth category, while still up for the quarter, was a relative underperformer. These were consistent with the benchmark and not

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surprising given the market backdrop during the quarter, which favored high-growth equities. Additionally, the established growth category outperformed the aggregate portfolio return, like that of the benchmark. The benchmark's traditional value and deep value categories (about 10% of the Index) performed worse than its aggregate return–again, consistent with the market environment during the quarter.

As of June 30, 2021, the portfolio consisted of 32 companies, with the top ten representing approximately 47%. Sector (GICS) weights at quarter-end were: Information Technology (41.4% vs. 44.1% for the Index weight); Consumer Discretionary (18.1% vs. 18.5%); Communication Services (12.9% vs. 12.6%); Health Care (12.4% vs. 9.1%); Industrials (11.0% vs. 6.4%); Financials (2.6% vs. 2.3%); Real Estate (0.0% vs. 1.7%); Energy (0.0% vs. 0.1%); Consumer Staples (0.0% vs. 3.9%); and Materials (0% vs. 1.0%). Active share was 75%.

Return Attribution

The portfolio's companies reported financial results during the second quarter that were encouraging in aggregate. The portfolio posted a positive return and outperformed its benchmark.

The portfolio's Technology sector holdings significantly outperformed the Index's brethren. The portfolio's holdings in the sector were led by NVIDIA Corporation (+50%), Shopify, Inc. (+32%), and EPAM Systems, Inc. (+29%). Each had posted strong financial results that were eventually rewarded as Treasury yields abated. The portfolio's more cyclical Technology sector holding, Micron Technology (-4%), was a relative underperformer as higher growth companies generally led the charge during the quarter, a reversal in course from early in the year. MSCI, Inc. (+27%), the portfolio's sole Financials sector stock, more than doubled the return of the benchmark's financials holdings, as it benefited from solid financial results and style tailwinds. The Consumer Discretionary sector was another bright spot in the portfolio as it outperformed the benchmark. Strength in Lululemon Athletica, Inc. (+19%) and NIKE, Inc. (+16%) were the primary drivers of the sector's relative return. Both athletic-related companies were in a tight trading range and had underperformed in the first quarter but broke out positively following excellent quarterly financial results. Airbnb, Inc. (-19%) lagged the sector during the quarter despite posting solid quarterly results and indicating strong forward business momentum. The portfolio's Communication Services sector stocks also outperformed those of the Index. Snap, Inc. (+30%) led the group after the company announced strong financial results and hosted a very well-received Partner Summit, which outlined several new revenue-generating products. The portfolio benefited by not owning stocks within the Consumer Staples and Materials sectors, as those groups underperformed during the quarter. Conversely, the portfolio's lack of holdings within the Real Estate sector slightly detracted from relative performance, as the sector was up during the quarter. Despite strong outperformance from Veeva Systems, Inc. (+19%) and Zoetis, Inc. (+19%), overall the portfolio's Health Care sector investments detracted from the relative return, as Vertex Pharmaceuticals, Inc. (-13%, sold from the portfolio) and TG Therapeutics, Inc. (-20%) fell. Lastly, the portfolio's Industrials sector holdings detracted from relative performance. Weakness in Uber Technologies, Inc. (-8%) was the primary culprit. The stock has been volatile this year, but we believe that once a supply/demand equilibrium related to a lack of drivers in the U.S. is met, the stock will start to act more favorably. The portfolio's Generac Holdings, Inc. (+27%) and Trane Technologies, plc (+12%) outperformed the benchmark's Industrials sector holdings during the quarter. Both stocks are relatively new to the portfolio and have contributed to absolute and relative performance.

We were encouraged with the portfolio's company-specific fundamentals during the second quarter and remain confident that the portfolio's constituents should be able to show strong financial results for the balance of the year.

Portfolio Actions

We made several changes to the portfolio in keeping with our long-term, "bottom-up" investment approach. During the quarter, we sold one position and increased and trimmed several existing positions. We continue to be diligent in our search for investment opportunities and expect to continue our efforts to upgrade the portfolio while maintaining our investment discipline.

Eliminated Position:

Vertex Pharmaceuticals, Inc. (VRTX)–Following disappointing clinical trial results for VRTX's lead pipeline candidate VX-864, we decided to sell our 1.3% position in the company. While the trial results did help confirm the development pathway and advanced the study of alpha-1 antitrypsin deficiency (AATD), VRTX decided to not pursue further development of the compound. Although VRTX remains confident that additional compounds currently under development will eventually be filed and approved for this indication, we believe that time will be needed to complete this development, and this leaves the company without visible growth catalysts to warrant a position in our concentrated growth portfolio. We redeployed VRTX's proceeds to the portfolio's existing positions in Generac and Amazon.

Strategy & Outlook

As outlined above, the second quarter market environment was more favorable for the portfolio than the previous quarter. Last quarter, we wrote that while COVID-19 remains a concern for investors, increasing inflation expectations and the rapid rise in interest rates have had the greatest impact on equity market trends this year; we do not believe this focus has changed. The most aggressive growth reaches of the equity spectrum–high-growth, high-valuation stocks–showed the most underperformance in the first quarter. We continued to own several of these stocks and were steadfast in our confidence in their ability to grow over time; common to all are their rapidly growing disruptive product and services offerings, which we believe warrant a premium. These types of stocks were among the portfolio's best performers in the second quarter. We believe we have appropriately identified the associated risks of owning stocks within this equity style but have also diversified to diminish their inherent risk by adjusting position size and other holdings throughout the year. We maintained our investment discipline, philosophy, and process by focusing on company fundamentals in our search for investment opportunities.

We live in a dynamic world where economic data, corporate news, and geopolitical shocks can rapidly shift investor sentiment. We will continue to monitor potential risks: inflationary trends and a related rise in interest rates after massive fiscal and monetary response brought on by the pandemic; vaccination rollouts; value of the dollar; international trade relations; geopolitical risks; regulatory risks; fiscal and monetary initiatives; and more. That said, we remain confident that our fundamental research should continue to identify companies positioned for market leadership with solid financial standing, talented and responsible management teams, and sustainable revenue and earnings growth. Such attributes represent attractive company-specific fundamentals, which could become ever more important if liquidity abates and correlations among stocks fall. We are committed to adhering to our investment process and philosophy of finding and buying high-quality, high-growth stocks that will be successful over the longer term. We believe we have upgraded the growth and quality composition of the portfolio over the last several months and believe the portfolio and our investment process and philosophy are well-positioned in the current environment and for the future.

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Top 5 Contributors (% Contribution to Return)	
NVIDIA Corporation	2.30
Alphabet Inc. Class C	1.12
PayPal Holdings Inc	1.05
EPAM Systems, Inc.	1.00
Adobe Inc.	0.87

Top 5 Detractors (% Contribution to Return)	
Airbnb, Inc. Class A Class A	-0.26
Uber Technologies, Inc.	-0.26
Vertex Pharmaceuticals Incorporated	-0.21
TG Therapeutics, Inc.	-0.18
Micron Technology, Inc.	-0.13

Source: FactSet.

Top 10 Holdings (% of Portfolio)	
Amazon.com, Inc.	7.92
NVIDIA Corporation	5.86
PayPal Holdings Inc	5.39
Alphabet Inc. Class C	5.32
Visa Inc. Class A	5.01
Adobe Inc.	4.05
EPAM Systems, Inc.	3.63
ServiceNow, Inc.	3.47
Facebook, Inc. Class A	3.33
Generac Holdings Inc.	3.15

Top 10 holdings are subject to change and may not be representative of the portfolio's current or future investments.

				ANNUALIZED RETURNS			
SMA Composite Performance (%)	QTR	YTD	1-YR	3-YR	5-YR	10-YR	Since Inception
NewBridge Large Cap Growth Equity (gross of fees)	14.34	12.45	39.42	21.78	21.26	15.34	7.67
NewBridge Large Cap Growth Equity (net of fees)	13.52	10.81	35.40	18.23	17.74	11.98	4.53
Russell 1000® Growth Index	11.93	12.99	42.50	25.14	23.66	17.87	7.85

Source: StatPro. Since Inception date of 4/1/99.

The NewBridge SMA Large Cap Growth Equity Composite includes separately managed wrap accounts primarily invested in high-quality companies with growing earnings, strong financial foundations, market-leadership, and superb management teams for long term growth of capital with a minimum equity commitment goal of 80%-90%. The composite creation date is 3Q04. The benchmark of the composite is the Russell 1000 Growth Index.

The Russell 1000® Growth Index is a market-capitalization-weighted index that measures the performance of Russell 1000® Index (which consists of the 1,000 largest companies in the Russell 3000® Index) with higher price-to-book ratios and higher forecasted growth values.

Index returns reflect the reinvestment of dividends and capital gains but do not include advisory fees, transaction costs, or other expenses. One cannot invest directly in an index.

Investing involves risk, including loss of principal. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Technology companies may be adversely affected by economic downturns, short product cycles, aggressive pricing, market competition and government regulation. The value of your investment is also subject to geopolitical risks such as wars, terrorism, environmental disasters, and public health crises; the risk of technology malfunctions or disruptions; and the responses to such events by governments and/or individual companies.

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*Growth Cycles: The management team (NewBridge) calculates a growth and value score for each company and utilizes it to assign companies into five baskets based on Factset data. Growth score components include: long-term forward growth, 1-year forward EPS growth rate, 5-year earnings growth trend, and 5-year sales growth trend. Value score components include: price to book, dividends, and forward price to earnings.

NewBridge Asset Management is a Victory Capital Franchise. Advisory services offered by Victory Capital Management Inc., an SEC-registered investment adviser, 15935 La Cantera Parkway, San Antonio, TX 78256.

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