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THE CASE FOR SMID CAP

An Asset Class for the New Business Cycle

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The lockdowns and flash recession which followed the beginning of the COVID-19 pandemic precipitated a reset of the global economy and initiated a new business cycle. Recent stock market weakness, however, is a cyclical correction in a secular bull market, and we believe the U.S. remains early in the recovery phase of this new cycle.

A rebounding economy and the pull-back in all equity indices mark an opportune time for investors to consider increasing their allocation to quality small and medium capitalization stocks. Small/Medium ("SMID") cap stocks tend to outperform during periods of rising economic activity relative to large cap stocks. This return differential may be especially pronounced in upcoming quarters due to the over-extension of large company valuations that have resulted from a prolonged period of financial repression where interest rates were kept below the rate of inflation by the Federal Reserve.

THE SMID CAP ASSET CLASS

At Palisade, we generally consider companies represented by the Russell 2500™ Index as those constitutive of the SMID cap equity asset class. As of March 31, 2022, these constituents range in size from a market cap of less than $100 million to just under $40 billion, with a weighted average market cap of $7.9 billion and a median market cap of $1.5 billion.

By broadening the universe of investment candidates beyond small caps, the SMID cap asset class combines the strong growth potential of smaller companies with the stability and proven track record of mid-sized firms. For active managers such as Palisade, expanding the opportunity set creates greater potential for adding value through careful stock selection.

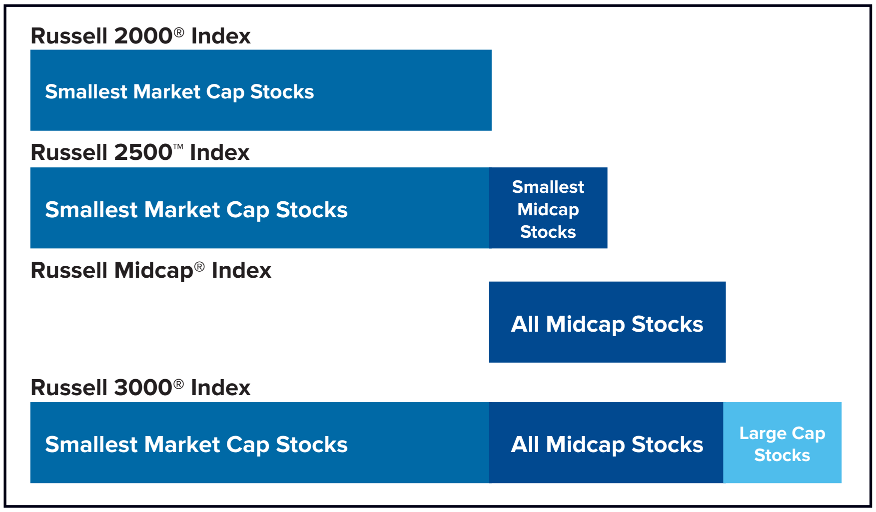


EXHIBIT 1

INDEX COMPOSITION

QUALITY, PROFITABILITY, AND LIQUIDITY

Smaller companies are often lean, niche-oriented, and flexible enterprises with the ability to respond quickly to changing business conditions, evolving competitive threats, and rising regulatory hurdles. We believe selecting higher quality companies from this group improves the growth potential of a SMID cap portfolio. Mid cap companies, by contrast, tend to be of more consistent quality with higher profitability metrics. Quality mid cap stocks can lower a portfolio's volatility while still providing growth in a strengthening economy with rising interest rates and inflation.

From a risk-reward point of view, the SMID benchmark, the Russell 2500™ Index, has historically had a slight edge over the Russell 2000® Index small cap benchmark, with a lower standard deviation and higher returns over the past 25 years. Furthermore, the SMID Index has had stronger returns than the S&P 500® Index while exhibiting comparable standard deviation. Specifically, the Russell 2500™ has returned 10.2% (annualized) with a standard deviation of 18.8 versus the Russell 2000® return of 8.9% (annualized) with a standard deviation of 20.2 and the S&P 500® return of 9.4% and a standard deviation of 15.3.[1] The addition of mid cap stocks that are stronger, more profitable, and more resilient to economic dislocations has had a positive risk-reward impact on the index. The SMID cap Russell 2500™ Index offers lower volatility than the small cap only Russell 2000® Index and, as Exhibit 2 below shows, higher returns than both the Russell 2000® Index and the S&P 500®.

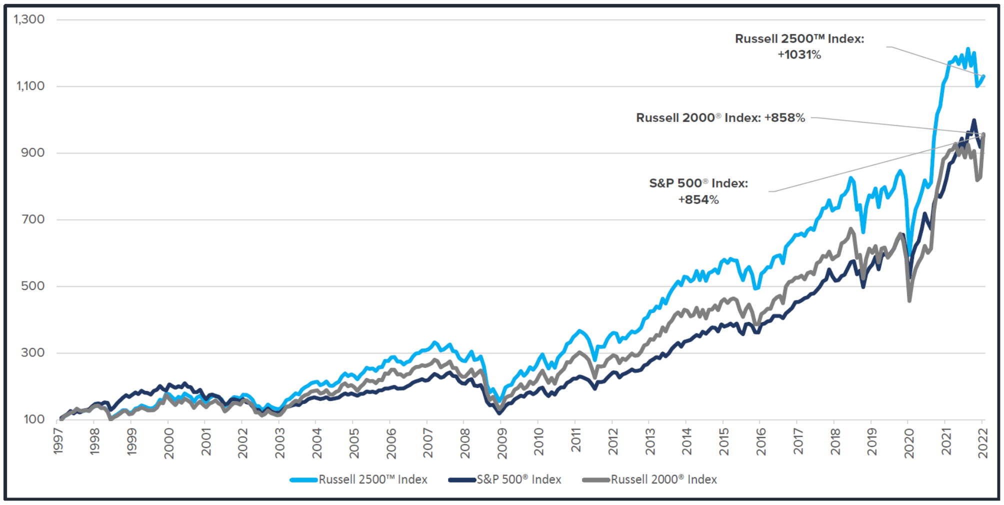


EXHIBIT 2: RUSSELL 2500™ INDEX VS. S&P 500® INDEX CUMULATIVE RETURN (INDEXED TO 100)

SOURCE: FTSE RUSSELL, BLOOMBERG.
APRIL 1, 1997 THROUGH MARCH 31, 22022.

In addition, SMID cap stocks have greater liquidity than small cap stocks alone, making trading more efficient and less expensive. Increased liquidity also allows active managers to act more quickly on opportunities.

ECONOMIC RECOVERY

Mega cap defensive growth Technology and Communication Services companies currently dominate the capital weighted S&P 500®. Fueled by zero or negative interest rates and governmental stimulus into the economy, as well as increased demand for such services during the COVID-19 period, these stocks delivered strong financial performance following the market lows of March 2020.

Now, however, we believe these large caps' high valuations are likely unsustainable as the economy moves toward a mid-cycle recovery phase with rising inflation and tighter monetary policy. As capital naturally flows out of highly valued companies, it will likely gravitate to the parts of the market more attractively valued and correlated to strengthening economic conditions. This bodes well for stronger relative performance of SMID cap stocks.

S&P 500 ® Index Top 10 Companies

1. *Apple, Inc.*
2. *Microsoft Corp.*
3. *Amazon.com, Inc.*
4. *Tesla, Inc.*
5. *Alphabet Inc. Class A*
6. *Alphabet Inc. Class C*
7. *Nvidia Corp.*
8. *Berkshire Hathaway Inc. Class B*
9. *Meta Platforms, Inc. Class A*
10. *Unitedhealth Group Inc.*

As of March 31. 2022.

THE CURRENT ENVIRONMENT

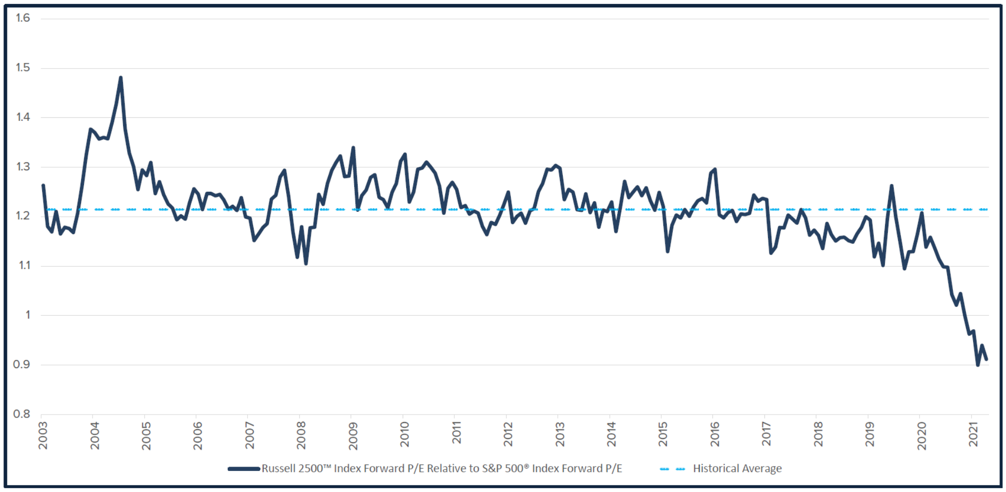
In our view, the current political and economic environment supports an allocation to SMID cap stocks. Emergency measures by the Federal Reserve are no longer needed, and Chairperson Powell has laid out a plan to allow interest rates to rise. The Federal Reserve announced a 25 bps increase in the Federal Funds Rate at the March 16, 2022 Federal Open Market Committee meeting and declared its intention to implement continued hikes throughout the year to combat inflation.

[1] Source: FactSet Research Systems, Inc. March 31, 1997 through March 31, 2022.

Stocks with higher valuations, such as the mega cap growth companies, tend to underperform in a cyclical recovery when rates are rising and inflationary pressures are increasing. But, many SMID cap stocks are now attractively valued (especially as compared to large cap stocks) and trading at a discount to their long-term average price-to-earnings ("P/E") multiple and growth rates despite the improving outlook for their businesses. Exhibit 3 below demonstrates how the Russell 2500™ is attractively valued relative to the S&P 500® using a forward price-to-earnings multiple. As a result, we believe this may be an excellent time to have an active strategy with exposure to high quality small- and mid-cap companies.

EXHIBIT 3:
SMID CAP FORWARD P/E RELATIVE TO LARGE CAP FORWARD P/E

SOURCE: BLOOMBERG.
DECEMBER 31, 2003 THROUGH MARCH 31, 2022.



PALISADE CAPITAL MANAGEMENT'S SMID CAP APPROACH

Palisade is an active manager rooted in fundamental research. We carefully seek stocks with the potential for steady and consistent long-term growth, utilizing a research-intensive disciplined investment process that focuses on quality and profitability. We believe the SMID cap asset class provides enhanced exposure to companies that exhibit the characteristics of smaller stocks by including a subset of the stocks found in the Russell Midcap® Index, which can potentially smooth some of the price volatility sometimes experienced by smaller companies.

Palisade's Key Takeaways

- *We are still in the early stages of the post-COVID-19 new business cycle.*
- *Quality SMID companies are uniquely well positioned to take advantage of the current U.S. and global economic environment.*
- *Valuations for SMID cap companies are now favorable relative to those of larger cap firms, particularly the S&P 500® leading companies in the Technology and Communication Services sectors.*
- *Palisade's active SMID cap strategy focuses on fundamentals and strives to identify high-quality, profitable companies well-positioned for long-term success.*

Important Information:

Past performance is no guarantee of future results.

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The S&P 500® Index is an unmanaged index that is widely recognized as an indicator of general market performance, based on the market capitalizations of 500 large companies having common stocks listed on the NYSE or NASDAQ. The S&P 500® Index does not have a defined investment objective, nor does it charge fees and expenses.

The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. It consists of approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

The Russell 2500™ Index measures the performance of the small- to mid-cap segment of the U.S. equity universe. It consists of approximately 2,500 of the smallest securities based on a combination of their market cap and current index membership.

The Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000® Index. The Russell 1000® Index is a compilation of the largest 1,000 publicly traded U.S. companies.

The Russell 3000® Index is a market capitalization weighted equity index maintained by FTSE Russell that seeks to be a benchmark of the entire U.S. stock market. More specifically, this index encompasses approximately 3,000 of the largest U.S. traded stocks.