TRAN CAPITAL MANAGEMENT

Multi-Cap Growth Equity | First Quarter 2022

Dear Clients,

We hope you and your family are well. The first quarter of 2022 experienced many unexpected challenges. Russia's brutal invasion of Ukraine, persistent inflation, rising commodity and energy prices, and a sharp, hawkish revision in Federal Reserve monetary policy expectations all led to higher volatility and lower returns. Both equity and fixed income markets ended negative for the quarter, including the following benchmarks:

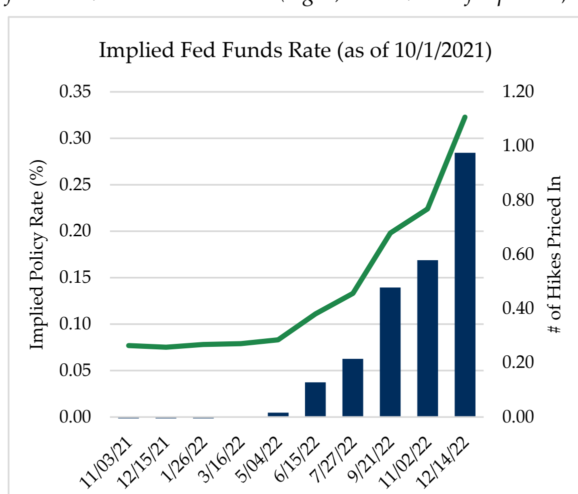
Index	Return (Q1 2022)
S&P 500	-4.60%
NASDAQ Composite	-8.94%
Russell 2000	-7.53%
Bloomberg U.S. Aggregate Bond Index	-5.93%
Bloomberg U.S. Corporate Bond Index	-7.69%
iShares 20+ Year Treasury Bond ETF	-10.63%

Source: Bloomberg

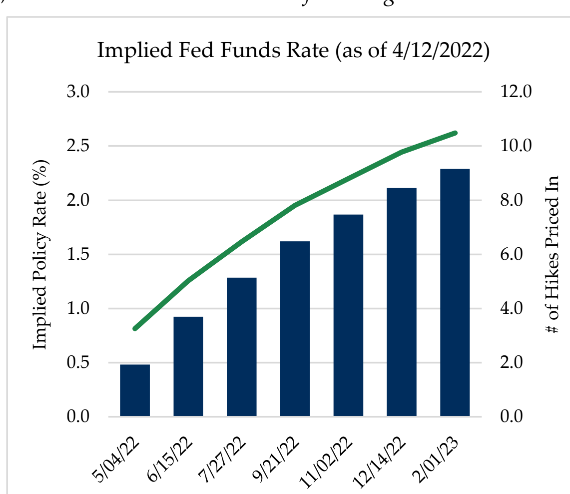
In this environment, our Multi-Cap strategy returned (-10.9 %), net of fees. While our first quarter return was disappointing, we believe that high-quality companies with robust earnings growth will lead to stock price appreciation over the long run. We also would like to highlight that we do not own the whole stock market; instead, we own a concentrated portfolio of companies that should continue to grow at an attractive rate despite lingering macro concerns.

There has been no shortage of things to worry about since the start of the year. Among the most dramatic was the sharp shift in the market's expectation for the pacing and magnitude of Fed Funds Rate increases. As recently as fourth quarter 2021, the market expected the Federal Reserve to hike benchmark rates just once in all of 2022. Fast forward to today and market is pricing in eight additional rate hikes through the end of 2022, including double hikes in May and June. As economic conditions change, market expectations can adjust very quickly.

U.S. Fed Fund Futures Implied Policy Rate (October 2021 vs. April 2022): *The market's expectations for the Fed Funds Rate at yearend 2022 increased from 0.3% in October 2021 (right) to 2.4% as of April 12, 2022 (left), or an incremental 8 rate hikes following the 1st hike in March*[i]

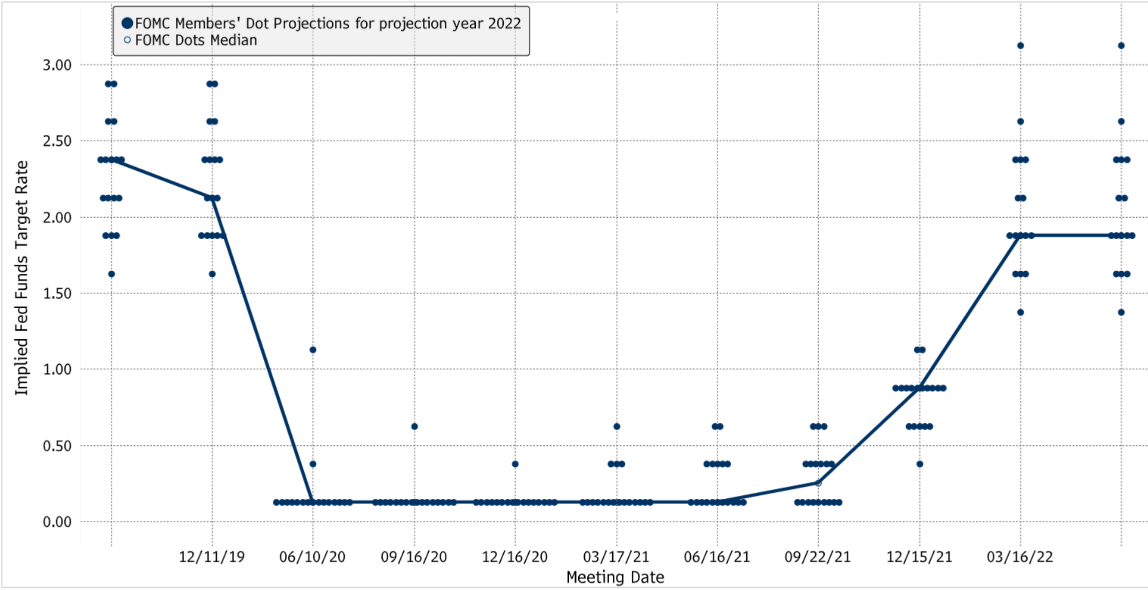


Source: Bloomberg



Source: Bloomberg

Federal Open Market Committee (FOMC) Member Dot Plot Projections for Yearend 2022: *The median Fed Funds Rate projection shifted from no hikes in 2022 at the September 2021 meeting to 3 hikes at the December 2022 meeting*[ii]

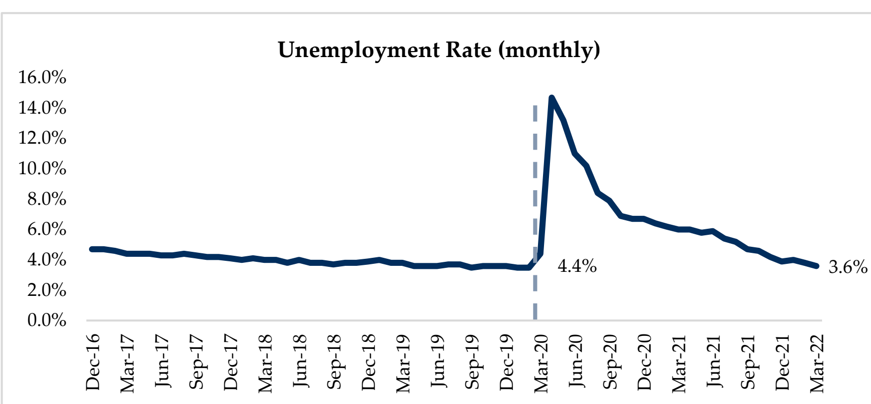


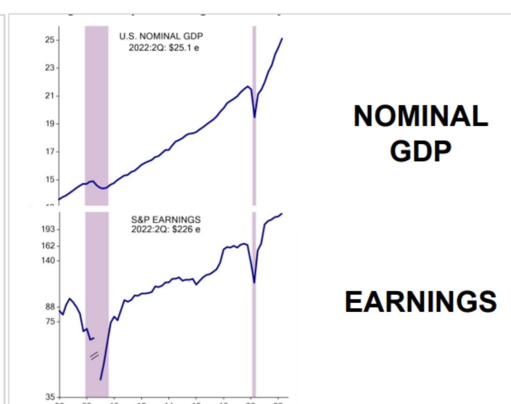
Source: Bloomberg

Not surprisingly, this environment has led to negative investor sentiment. *But could this swing in expectations be an over-reaction? Could the initial interest rate increases, coupled with potentially peaking inflation trends be enough to moderate inflation?* Only time will tell.

From a fundamental perspective, we believe that a combination of healthy consumer savings, strengthening employment trends, growing corporate earnings, and negative investor sentiment may provide a recipe for compelling appreciation over the intermediate-to-long term. More importantly, we are seeing our investments take advantage of the stock market pullback by continuing to invest in their products and services, make acquisitions, and, in many cases, increase their stock buyback programs. We'd like to offer some points for discussion.

The U.S. consumer makes up approximately two-thirds of GDP. U.S. employment trends are strong with over one million new jobs in the first quarter, bringing down the unemployment rate to 3.6% (bottom left).[iii] This is remarkable. U.S. households have accumulated excess savings over $2.6 trillion over the past two years.[iv] Further, corporate profits continue to be healthy. Our portfolio companies are responding to increased costs by raising prices and improving productivity. The bottom right chart from Evercore ISI plots GDP growth against S&P earnings growth.[v] This chart suggests that the market is unlikely to decline significantly if earnings growth continues. We agree with this logic.





Source: Federal Reserve Bank of St. Louis

Source: *Evercore ISI, April 2022*

While we can devote more time discussing various macroeconomic concerns, we think it is critically important to remember that we do not own the whole market. Rather, we invest in a collection of best ideas; companies whose growth prospects will continue despite this period of uncertainty. For instance, **Palo Alto Network's** cyber security solutions are not only critical but may have grown to be even more important in the aftermath of Russia's invasion of Ukraine. Elsewhere, investments in cloud computing continue at a strong pace, benefiting **Microsoft** and **Amazon's** cloud offerings. Lastly, our healthcare services companies, such as **Danaher** and **Catalent**, continue to provide much needed testing, supplies, and vaccines for economic activity to resume following two years of a pandemic.

Portfolio Positioning

While many of these core holdings continue to have attractive outlooks, we are nonetheless always looking for new high-quality companies to improve our portfolio. This is especially true during times of high market volatility. During the quarter, we added **Scotts Miracle-Gro (SMG)** and **Baker Hughes (BKR)**. We have been studying both companies over several years and were comfortable to start our positions during the first quarter.

Scotts Miracle-Gro is the leading consumer lawn and garden products company in North America. Scotts enjoyed a spike in consumer lawn and garden demand during COVID-19 as more consumers engaged in home gardening. When we initially evaluated the company, we liked the fundamental drivers of the business but believed the stock was fully valued. Gardening enjoys strong pricing power and younger homeowners are gardening more frequently than their parent's generation. Over the past year, Scotts' share price declined from a high of $254 per share to roughly $120 per share. At current levels, Scotts is trading at ~13x forward P/E, which we believe is undervalued given a growth profile that suggests 12-15% EPS growth along with attractive returns on capital.

Baker Hughes is a leading global energy services company. We've evaluated Baker Hughes several times in the past but always held off from starting a position because we lacked conviction that there would be an inflection in investments for the exploration and production of oil & gas. We believe that we are witnessing this inflection now due to the underinvestment in oil & gas for the last decade. We believe that energy transition will take decades, and Baker Hughes is positioned well to enable this transition. As a reminder, Baker Hughes was acquired by GE in 2017 and spun out of GE as a newly traded public company in 2019. Today, Baker Hughes offers oilfield services and equipment along with turbomachinery and process solutions. Most notably, Baker Hughes is a key player enabling liquified natural gas (LNG) and enjoys a lion's share of the market for LNG turbomachinery that will play a critical role in helping transition energy reliance to cleaner, less carbon-intensive sources. We believe that we are at the beginning of an energy investment upcycle and that Baker Hughes' revenue growth and profit margins will benefit for many years to come.

To fund these new investments, we trimmed **Southwest Airlines (LUV)** and sold **PayPal (PYPL)**. We initially purchased Southwest under the belief that it would benefit as our country reopens. We believed that pent-up demand for leisure travel coupled with Southwest's low operating cost model would enable the company to enjoy strong earnings growth coming out of the pandemic. While some of our thesis remains intact, our enthusiasm has been tempered as the airline now faces higher jet fuel prices, increasing wage pressure, and a shortage of workers.

On the other hand, PayPal is a leading financial technology company with a digital payment solution that saw robust growth over the past few years. Unfortunately, we lost confidence in PayPal's long-term growth trajectory and management's vision over the past few months. Specifically, over a short amount of time, PayPal markedly shifted its focus from user growth to engagement, raising questions over its ability to meet medium-term guidance. We also grew increasingly concerned about competitive checkout options, such as buy-now-pay-later providers, that could slow PayPal's future growth. Further compounding these concerns was the company's consideration of Pintrest as an acquisition. We used the proceeds from PayPal to add to our position in **Block (formerly Square, SQ)** as well as to fund our new positions.

Looking Forward

Rising interest rates may increase the cost of capital for corporations in general, but we believe higher rates are also appropriate as the economy recovers from the COVID-induced shutdown. We've positioned our portfolio to benefit from these rising rates as several of our portfolio companies will earn more interest income with higher rates. By owning a portfolio of growing companies that provide essential services and products in the marketplace with strong competitive moats and fundamentals, we believe that our investments can potentially gain share and outgrow the market, even during these turbulent times. Over time, we believe that market participants will refocus on fundamentals and earnings growth will again be the primary driver of stock price appreciation.

Thank you for your trust and interest in our strategy. If you have any questions, please contact us at (415) 461-3800.

Sincerely,

Quoc K. Tran
Chairman & CIO

Michael Im
Co-Portfolio Manager &
Director of Research

Eric A. Winterhalter
President

Important Disclosures

Performance is provided as supplemental information and is based on the Non-Taxable Multi-Cap Growth Equity Composite. Performance results reflect all income, gains and losses and the reinvestment of interest and other income. All rates of return are reported "NET" of fees. Additional information regarding the policies for calculating and reporting returns is available upon request. A complete listing and description of all TCM composites and performance results is available upon request.

The 1-year, 3-year, 5-year and 10-year net of fees returns of the Non-Taxable Multi-Cap Growth Equity Composite as of March 31, 2022 are 4.62, 17.70, 14.42 and 11.54 respectively. The 1-year, 3-year, 5-year and 10-year returns of the S&P 500® Index as of March 31, 2022 are 15.66, 18.93, 16.00 and 14.64 respectively. 3-year, 5-year and 10-year performance figures are annualized.

The S&P 500® is an unmanaged stock market index and is not available for direct investment. The S&P 500® Index represents the stocks of 500 leading U.S. publicly-traded companies from a broad range of industries. The performance of an unmanaged index reflects no deductions for fees, expenses or taxes which would affect performance of actively managed assets. The volatility of the S&P 500® Index may be greater or less than the volatility of the portfolios in the composite.

All opinions and data included in this commentary are as of March 31, 2022, unless otherwise noted, and are subject to change without notice. The opinions and views expressed herein are of Tran Capital Management, L.P. ("TCM") and are not intended to be seen as fact, a forecast of future events, or a guarantee of future results. The information in this publication has been developed internally and/or obtained from sources believed to be reliable, but the accuracy or completeness of this information cannot be guaranteed. This publication is provided for informational purposes only and not does constitute a solicitation, investment advice or recommendation for any particular investment product or strategy. Economic forecasts and estimated data reflect subjective judgments and assumptions, and unexpected events may occur. Therefore, there can be no assurance that developments will transpire as may be forecasted in this publication. This information should not be used as the sole basis to make any investment decision. No investment strategy can assure a profit or protect against loss. Past performance is not a guarantee or indication of future performance.

The companies profiled should not be considered a recommendation to purchase or sell a particular security, represent only a small percentage of the entire strategy and the securities purchased for advisory clients, and may not remain in the strategy at the time you receive this letter. You should not assume that investments in the securities identified were or will be profitable or that decisions we make in the future will be profitable.

The most recent ADV Part 2 can be found at www.trancapital.com or by calling (415) 461-3800.

---

[i] Bloomberg
[ii] Bloomberg
[iii] Federal Reserve Bank of St. Louis
[iv] Source: Moody's Analytics, January 2022
[v] Evercore ISI, April 2022