

3Q24 NCG PERFORMANCE COMMENTARY

Market Review

In the third quarter of 2024, equity markets were positive and small cap stocks outperformed large cap stocks. Small cap stocks were particularly strong in July as it became more apparent the Fed would start the much-anticipated rate cutting cycle at the September Fed meeting. Overall economic data continues to be mostly solid, and inflation continues to decline and is now approaching the Fed's target level of 2%. Meanwhile, the monthly jobs' reports softened in the middle part of the year and the unemployment rate ticked up. The combination of these datapoints led the Fed to initiate a 50bp rate cut in September as well as set expectations for continued cuts going forward. Given the market strength in 3Q and YTD 2024 and the improving breadth across small caps and the equal weighted large cap indexes, it appears investors believe the Fed has engineered a soft landing or no landing and that the US economy will avoid recession.

Third quarter performance notwithstanding, large caps have significantly outperformed for the better part of the last decade. Through 3Q 2024, the Russell 1000 Growth Index has delivered a 10-year annualized return of 16.52% vs the Russell 2000 Growth and Microcap Growth Indexes at 8.94% and 5.42%, respectively. Since the inception of our small cap and large cap track records over 25 years ago, the Russell 1000 Growth Index has delivered an annualized return of 8.48% vs the Russell 2000 Growth of 7.06%, and that includes the massive outperformance of large caps the last 10 years. With the Fed rate cut in September and combined with attractive valuations and an improving earnings outlook, we believe we could be at an inflection point where small caps start to improve on an absolute basis and outperform large caps on a relative basis.

- There have been periods in the past when small caps outperform large caps for long periods of time. *See Exhibit 1.*
- The valuation of the small cap sector relative to large caps is in the 11th percentile historically (zero being the least expensive relatively and 100 being the most expensive). *See Exhibit 2.*
- Earnings growth is expected to improve for the remainder of 2024 and 2025. *See Exhibit 3.*
- Small caps have generally outperformed large caps following the first Fed rate cut and for a sustained period afterward. *See Exhibit 4.*

Much of this performance delta over the last decade relates to healthy business fundamentals of large cap companies, which we think can be sustained. But we also believe there is opportunity building for our smaller cap strategies.

Portfolio Review

Our investment philosophy emphasizes direct research and adhering to a strong sell discipline. We strive to own companies that we believe can grow revenue and profits at strong rates in any economic and market environment. We feel we have the opportunity, if we pick the right stocks, to perform better than the index in all market environments. However, we do not outperform in every quarter or every year, and in the third quarter, we underperformed in all strategies (net of fees). In these environments, we believe our team must remain committed to our philosophy and process. Our strategies have been tested over multiple decades and many different market and macro environments, and our team has been together through most of that time. Sticking with our discipline amidst periods of short-term underperformance has helped us outperform over the long-term in all strategies. Please see the performance table below for details.

For the quarter, our large cap strategy outperformed in financials, underperformed in industrials, health care, and consumer, and was inline in technology. In small cap and smid cap, we outperformed in technology and energy and underperformed in health care, industrials, financials, basic materials, and consumer. Our micro cap strategy outperformed in technology, consumer, and basic materials and underperformed in industrials and health care.

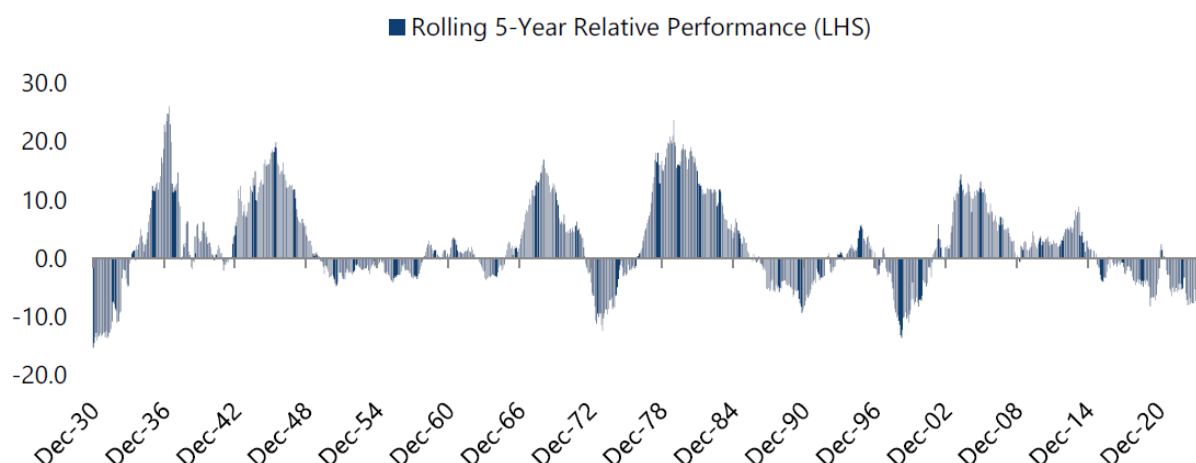
Market Outlook

We believe the future direction of the market will depend on the path of the economy and the direction of earnings estimates. With the first Fed rate cut in the rearview mirror, the Fed continues to lean toward a more accommodative position but is expected to closely monitor the economic data to inform future decisions. After a strong September jobs report, the expectation around the magnitude of expected rate cuts was pared back for the November and December Fed meetings. The presidential election is also being closely watched by investors. Given polls indicate a close race, we believe the market could experience some volatility leading up to and shortly after November 5th. However, in our experience, moving past election outcomes allows the market to refocus on the path of the economy and the direction of earnings estimates. As of now, investors are expecting strong earnings growth in 2025 for small, mid and large cap companies. See Exhibit 3.

Our experienced and stable team has worked through many of these environments over the past 25 years, and we believe we can lean on our experience of bottom-up stock picking to navigate this market as well. As always, we will stay focused on our core investment philosophy. We believe a portfolio of high-quality growth companies, selected using our original research, and combined with a strong sell discipline will lead to compounding of portfolio value and market outperformance over time. We believe our since inception investment results continue to support this approach.

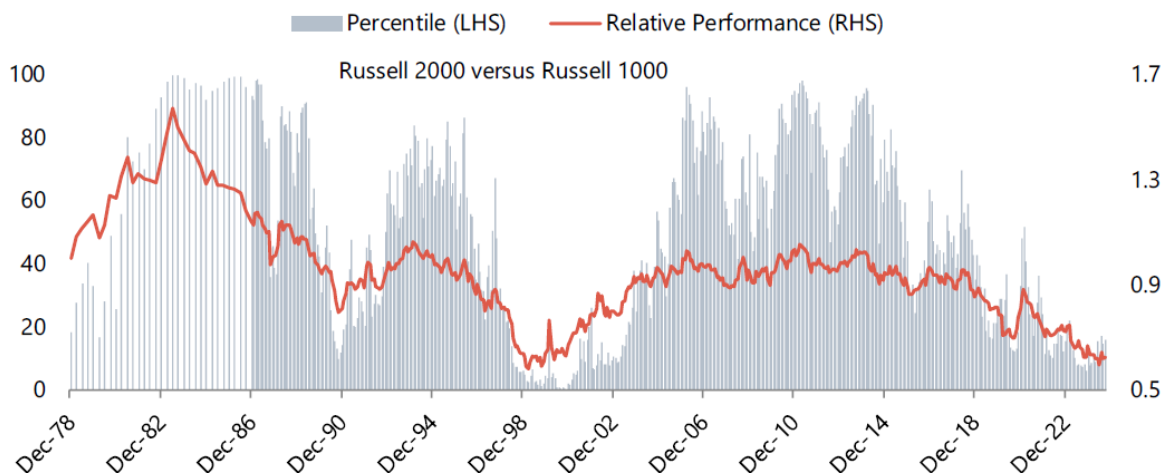
Next Century Growth Investors	Latest 1	Latest 3	Latest 5	Latest 10	Inception [^]		
Compound annual returns as of 09/30/2024	3Q24	YTD	Year	Year	Year	Year	To Date
Large Cap Growth Composite (%) (net of fees)	0.67	20.36	37.49	9.84	19.62	16.44	10.90
Russell 1000® Growth Index (%)	3.18	24.54	42.19	12.02	19.74	16.52	8.48
Small Cap Growth Composite (%) (net of fees)	3.96	9.91	15.13	(1.83)	17.37	14.43	10.68
Russell 2000® Growth Index (%)	8.41	13.22	27.65	(0.35)	8.81	8.94	7.06
Micro Cap Growth Composite (%) (net of fees)	3.32	9.25	19.68	(5.29)	19.86	19.45	16.81
Russell Microcap® Growth Index (%)	8.56	9.28	26.37	(8.31)	6.86	5.42	7.78
Smicro Cap Growth (%) (net of fees)	4.45	10.59	16.89	(2.47)	17.84	16.14	16.10
Russell 2000® Growth Index (%)	8.41	13.22	27.65	(0.35)	8.81	8.94	10.52
SMID Cap Growth Composite (%) (net of fees)	3.74	10.94	16.32	(1.65)	17.28	13.14	7.37
Russell 2500™ Growth Index (%)	6.98	11.19	25.20	(0.74)	9.74	9.98	6.38

Exhibit 1. Rolling 5-year Relative Performance of Russell 2000 vs Russell 1000⁺



Source: Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business; Jefferies

Exhibit 2. Relative Valuation and Relative Performance of Russell 2000 vs Russell 1000⁺



Source: FactSet; FTSE Russell; Jefferies

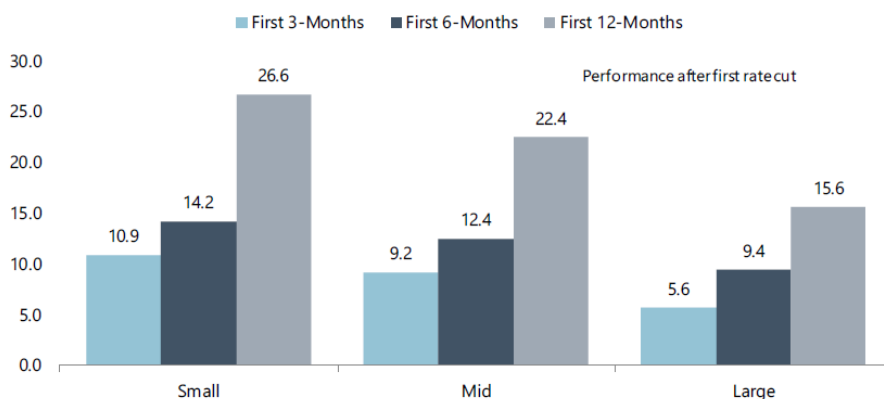
Exhibit 3. 2024 and 2025 Earnings Growth Estimates (as of 9/24/2024)

Quarter/Year	Earnings Growth (%)								
	Small	Mid	Large	Small Caps		Mid Caps		Large Caps	
				Growth	Value	Growth	Value	Growth	Value
1Q24A	-13.4	-0.9	6.9	-10.3	-15.2	5.4	-2.4	23.6	-3.1
2Q24A	-8.9	2.7	13.5	-3.6	-9.6	15.0	0.9	19.5	8.1
3Q24P	-7.4	-0.6	4.2	-2.0	-10.5	7.0	-2.2	12.2	-0.4
4Q24P	12.9	6.7	14.7	7.4	11.9	9.8	6.8	17.5	10.6
2024P	-2.1	-2.0	8.6	-1.0	-1.9	2.0	-3.3	16.2	2.9
2025P	16.8	14.5	13.1	18.3	15.2	19.7	13.5	15.2	13.0

*Small represented by Russell 2000, Mid by Russell Midcap, Large by Russell 1000

Source: FactSet; Standard & Poor's; Jefferies

Exhibit 4. Performance after first Fed interest rate cut⁺



Note: Used Fed Funds from 1954 until 1963, then used the Discount rate from 1963 until 1994 and Fed Funds rate after that.
Source: Federal Reserve Board; Haver Analytics; Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business; Jefferies

⁺Past performance is not an indicator of future performance. The Russell 2000 Index is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell Index. The Russell 1000 Index is a U.S. stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index, which represent about 93% of the total market capitalization of that index. The Russell Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index.



NCG LARGE CAP 3Q24 REVIEW

	QTD	YTD	1 year	3 year	Annualized		Since Inception [^]
					5 year	10 year	
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Russell 1000® Growth Index (%)	3.18	24.54	42.19	12.02	19.74	16.52	8.48

[^]Inception 1/1/1999

3Q Attribution

Contributors	Detractors
<ul style="list-style-type: none"> • Sector outperformance: financials • Top 3 contributors to absolute performance: AAPL, META, NOW 	<ul style="list-style-type: none"> • Sector underperformance: industrials, health care, and consumer • Top 3 detractors to absolute performance: DXCM, GOOGL, CRWD

3Q Portfolio Activity

- In technology, we are underweight, but we maintain significant exposure to the sector as growth fundamentals remain strong in many of the large index positions as well as in many other areas
- In consumer, we are underweight and continue to focus on companies we believe have long-term secular growth opportunities
- In health care, we are overweight as we believe fundamentals remain strong across large pharma, medical devices, and health care services
- Overweight in industrials driven by companies with what we believe have secular growth drivers. This sector underperformed in the 3Q primarily due to two holdings: one that traded down after their earnings report and a subsequent short report, and the other is a leading aerospace company that has faced multiple issues in 2024 but we still believe in the long-term growth of the business
- In the financial sector, we are overweight through 2 insurance holdings and a leading investment bank
- Sold 2 positions to zero in 3Q: 1 due to fundamental concerns and 1 was a successful investment in pharma where we decided to redeploy those assets into companies that we believe have better risk return profiles
- Added 1 new position in 3Q: a leading supplier into the aerospace supply chain

Sector Weights

As of 9/30/2024

	Large Cap Growth	Russell 1000 Growth Index
Technology	54%	60%
Consumer Discretionary	14%	18%
Industrials	14%	7%
Health Care	11%	8%
Financials	6%	3%
Real Estate	1%	1%
Basic Materials	0%	0%
Consumer Staples	0%	2%
Energy	0%	0%
Telecommunications	0%	1%
Utilities	0%	1%
Cash	1%	0%

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Source: FactSet for Attribution and Sectors.

Reported in USD. Performance figures for less than one year are not annualized. An investment in this strategy is speculative and involves substantial risks, including the possible loss of the entire investment and the potential for economic and market conditions and factors to materially adversely affect the value of the investments. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Performance information presented may include "estimated" figures in circumstances where "final" figures are not yet available. Both gross and net performance reflects the reinvestment of dividends and interest, and the deduction of brokerage or other commissions, and any other expenses that a client would have paid or actually paid, other than custodial fees. For the Small Capitalization Growth Equity Composite IPOs contributed significantly to performance in 1999. Next Century Growth Investors claims compliance with the Global Investment Performance Standards (GIPS®). 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.

^Large Cap Growth Composite Inception 1/1/1999, represent 13.63% firm AUM ^SMID Cap Growth Composite Inception 4/1/2000, represent 1.89% firm AUM
^Small Cap Growth Composite Inception 1/1/1999, represent 40.81% firm AUM ^SMicro Cap Growth Composite Inception 1/1/2013, represent 1.49% firm AUM
^Micro Cap Growth Composite Inception 1/1/2003, represent 33.35% firm AUM

The Russell Microcap® Growth Index measures the performance of the microcap growth segment of the U.S. equity market. It includes Russell Microcap companies that are considered more growth oriented relative to the overall market as defined by Russell's leading style methodology. The Russell Microcap Growth Index is constructed to provide a comprehensive and unbiased barometer for the microcap growth segment of the market. The Index is completely reconstituted annually to ensure larger stocks do not distort performance and characteristics of the microcap opportunity set. The Russell Microcap Growth Index is not an actual investment and does not reflect the deduction of transaction charges and other expenses that your account must bear. Additional information regarding policies for calculating and reporting returns is available upon request.

The NCG Micro Cap Growth Equity Composite contains portfolios investing primarily in the equity securities of smaller U.S. companies that the portfolio manager believes have substantial potential for high long-term growth. The portfolio manager seeks to identify the fastest growing and highest quality companies for investment. Investment results are measured versus the Russell Microcap® Growth Index.

The Next Century Growth Investors Small/Micro Cap Growth Equity Composite contains portfolios investing primarily in the equity securities of smaller companies that the portfolio manager believes have substantial potential for high long-term growth. The portfolio manager seeks to identify the fastest growing and highest quality companies for investment. The strategy invests in both small and microcap companies. Investment results are measured versus the Russell 2000® Growth Index.

The NCG Small Capitalization Growth Equity Composite contains portfolios investing primarily in the equity securities of smaller U.S. companies that the portfolio manager believes have substantial potential for high long-term growth. The portfolio manager seeks to identify the fastest growing and highest quality companies for investment. Investment results are measured versus the Russell 2000® Growth Index.

The Russell 2000® Growth Index measures the performance of the small-cap growth segment of the US equity universe. It includes those Russell 2000® companies with higher price-to-value ratios and higher forecasted growth values. The Russell 2000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the small-cap growth segment. The index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set and that the represented companies continue to reflect growth characteristics. The Russell 2000® Growth Index is not an actual investment and does not reflect the deduction of transaction charges and other expenses that your account must bear.

The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the US equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics. The Russell 1000® Growth Index is not an actual investment and does not reflect the deduction of transaction charges and other expenses that your account must bear.

The NCG Focused Large Capitalization Growth Composite contains portfolios investing primarily in equity securities of U.S. companies that the portfolio manager believes have substantial potential for high long-term growth. The portfolio manager seeks to identify the fastest growing and highest quality companies for investment. The strategy invests in both large and medium companies with an emphasis on large capitalization. Investment results are measured versus the Russell 1000® Growth Index.

The Russell 2500™ Growth Index measures the performance of the small to mid-cap growth segment of the US equity universe. It includes those Russell 2500™ companies with higher growth earning potential as defined by FTSE Russell's leading style methodology. The Russell 2500™ Growth Index is constructed to provide a comprehensive and unbiased barometer of the small to mid-cap growth market. The index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set and that the represented companies continue to reflect growth characteristics.

The NCG Small/Mid Capitalization Equity Composite contains portfolios investing primarily in the equity securities of small and medium-sized U.S. companies that the portfolio manager believes have substantial potential for high long-term growth. The portfolio manager seeks to identify the fastest growing and highest quality companies for investment. Investment results are measured versus the Russell 2500™ Growth Index.

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