



# Quarterly Commentary

*And all that is now  
And all that is gone  
And all that's to come  
And everything under the sun is in tune  
But the sun is eclipsed by the moon*

– Pink Floyd

We had to have an “eclipse” reference this month. It was either Pink Floyd or Bonnie Tyler (“Total Eclipse of the Heart”). Classic rock won out.

Anticipation of Federal Reserve interest rate policy seems to eclipse everything else in the market. The first quarter of 2024 witnessed a reversal of some of the rate-cut euphoria of Q4 2023. The Q4 2023 expectations for significant rate reductions weighed on Q4 portfolio performance. The portfolios benefitted in Q1 from some lessening of those expectations.

We are not sure when or by how much the Federal Reserve will cut interest rates. Furthermore, while not the most likely, we don't completely discount the possibility of zero cuts this year or further increases down the road. We were happy to hear Federal Reserve Chairman Powell state something we have been harping on for some time. Interest rates are not going back to pre-pandemic levels. The post-2008 interest rate environment was unique, not normal. Powell does not think it is likely that we would return to long-run rates that are in the 2% range. He also doesn't see long-term rates around the world returning to levels at or below zero.

Money-losing, long-duration equities have been a big beneficiary of ultra-low interest rates. We've written in the past about the high concentration of these companies in our value benchmarks and our significant underexposure to them. These stocks react favorably to rate reduction expectations. We continue to look for companies that meet our investment criteria and respond favorably to lower rates. We have found some investments, but not enough to completely offset our underexposure.

The upcoming Russell rebalance holds a sliver of good news. Some of the value indexes will likely see the weight of non-earners slightly decrease. Our lead risk analyst, Mike Wayton, projects that non-earners would decrease by approximately 1.6 percentage points in the Russell 2000® Value Index, by almost 1% in the Russell Midcap® Value Index benchmark, and remain roughly the same in the Russell 2500™ Value Index. The exposure will still be significant, but we will take any relief we can find.

Mike also estimates the rebalanced benchmarks will have slightly lower betas, smaller growth rates, and lower valuations. In short, they will be more value-like. The Russell rebalance is scheduled for Friday, June 28. The first official, preliminary index membership lists are expected to be released on Friday, May 24. We will have more certainty around these characteristics as well as sector weights at that time.

Here in Cleveland, we are within the path of totality of the April 8, 2024 eclipse. The last time this happened was 1806. The next occurrence will be 2444. That's about as rare as seeing near-zero to negative interest rates. We don't know if it will be 400 years before zero rates happen again, but we don't think it will be soon. As we have stated before, we believe “normal” rates could provide the catalyst to reverse the significant underperformance of small-caps vs. large-caps and value vs. growth. Time will tell. In the meantime, we will continue to apply our flexible value strategy, searching for undervalued stocks with a catalyst, keeping a close eye on the risk in our portfolios, and striving for consistent, long-term performance for our clients.

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Energy and health care were the top performing sectors in the benchmark. Communication services was the worst performing sector within the benchmark. Small cap value underperformed small cap growth.

The Integrity Small Cap Value Fund (A shares without sales charge) outperformed its benchmark, the Russell 2000® Value Index for the quarter. Positive security selection resulted in outperformance led by financials, consumer discretionary, communication services, and industrials. Stock selection in energy hurt performance. Sector weights were positive. Our underweight to financials and overweights to materials and industrials helped. Fading optimism for significant rate relief by the Federal Reserve provided some tailwind to performance. A larger market cap was a positive style attribute.

Solid stock selection in insurance companies lifted financials. Our average insurance holding outperformed the index. Kemper Corp. (KMPR) and Primerica, Inc. (PRI), up 28% and 23% respectively, were our top performers. Our underweight to banks yielded 43 basis points of outperformance. This helped offset some of our banks such as Pacific Premier Bancorp, Inc. (PPBI) and Veritex Holdings, Inc. (VBTX) that underperformed after a strong rally and reduced expectations for near-term interest rate cuts. Valley National Bancorp (VLY) suffered from headline risk related to New York Community Bank's (NYCB) troubles with commercial real estate. We exited the position.

Modine Manufacturing Company (MOD), Marriott Vacations Worldwide Corp. (VAC), and Gap, Inc. (GPS) were top contributors within consumer discretionary. Modine Manufacturing Co. (MOD) reported another strong quarter and announced an acquisition to further expand its data center exposure for HVAC systems. Marriott Vacations Worldwide Corp. (VAC) rebounded after delivering better-than-feared earnings and guidance. Strength at Old Navy and Gap brands led to better-than-expected results and first quarter guidance at Gap, Inc. (GPS). Victoria's Secret & Company (VSCO) limited performance as the company issued disappointing guidance resulting from intimates category weakness. Not owning Carvana Co. Class A (CVNA), up 66%, also hurt performance.

Communication services helped performance, largely due to Cinemark Holdings, Inc. (CNK). Shares rallied on better-than-expected results as well as commentary that leverage is back to within its target range, increasing the prospects for future capital return.

Positive stock selection in industrials was paced by Core & Main, Inc. Class A (CNM) and BWX Technologies, Inc. (BWXT). Core & Main, Inc. Class A (CNM) benefitted as it beat fourth quarter estimates and provided better-than-expected 2024 guidance on sales and margins. Shares of BWX Technologies, Inc. (BWXT) rallied after a better-than-expected fourth quarter report and optimism following its investor day in February. Vestis Corp. (VSTS) underperformed as the company provided disappointing 2024 guidance after losing a customer contract.

Overall security selection in energy hurt performance. Uranium Energy Corp. (UEC) fell as uranium prices have taken a breather from their historic advance. We still believe nuclear will be crucial to climate goals over the coming years. There were a few bright spots. Permian Resources Corporation Class A (PR) outperformed on the back of a strong fourth quarter and successful synergy realization after they acquired Earthstone Energy (ESTE) in the fourth quarter of 2023. A slight miss on the quarter was overlooked as Atlas Energy Solutions Inc. (AESI), up 33%, made a very attractive acquisition of HiCrush Energy. International Seaways, Inc. (INSW) continues to benefit from rising shipping rates due to the various conflicts and waterway closures happening worldwide.

Tronox Holdings Plc (TROX) was the main highlight in materials. Shares rallied as the company is seeing restocking volumes in its titanium dioxide (TiO<sub>2</sub>) product given strong paint/coatings demand. Orion S.A. (OEC) hurt performance. After a strong fourth quarter rally, the company provided a weaker-than-expected 2024 EBITDA guide, which led to it giving back its gains.

Stock selection in health care aided performance. Select Medical Holdings Corp. (SEM) announced it will spin off its Concentra business segment to unlock its value. Collegium Pharmaceutical, Inc. (COLL) was up 26% as results exceeded estimates.

MKS Instruments, Inc. (MKSI) was the top highlight in technology. Better-than-feared guidance as well as progress on de-leveraging the balance sheet boosted shares. Performance in semiconductors was a source of weakness. Diodes Incorporated (DIOD) lagged going into earnings on inventory and end-market demand concerns. Synaptics Incorporated (SYNA) issued disappointing guidance on weakness in enterprise and automotive end markets.



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**The Russell 2000® Value Index** is a market-capitalization-weighted index that measures the performance of those companies in the Russell 2000® Index with lower price-to-book ratios and lower forecasted growth values.

Fund holdings mentioned in the Quarterly Commentary are as of 3/31/2023 and the percentages shown are based on net assets as of that date. Fund holdings are subject to change and should not be considered purchase recommendations. There is no assurance that the securities mentioned remain in the Fund's portfolio or that securities sold have not been repurchased. The Fund's top ten holdings as of 3/31/2024 were: Permian Resources Corp Cl A (1.4%), SouthState Corp (1.3%), Commercial Metals Co (1.2%), Summit Materials, Inc Class A (1.2%), Matador Resources Co (1.1%), Murphy Oil Corp (1.1%), Chord Energy Corp (1.1%), Glacier Bancorp, Inc (1.1%), UFP Industries, Inc (1.1%), and ATI Inc (1.1%). Top holdings do not reflect cash, money market instruments, or options/futures contracts holdings. The most currently available data regarding portfolio holdings can be found on our website, [www.vcm.com](http://www.vcm.com).

**Contributors and Detractors** Source: FactSet. The contributors and detractors mentioned are presented to illustrate examples of the Fund's investments and may not be representative of the Fund's current or future investments.

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