



PORTFOLIO UPDATE AND MARKET OUTLOOK

May 31, 2024

**“Ch-ch-ch-changes
Turn and face the strange
Ch-ch-changes”**

– Changes by David Bowie



Given the impending annual Russell rebalance (and that I am on vacation) I asked our lead risk analyst, Mike Wayton, to write this month’s Catalyst. Mike details the expected changes to the benchmarks along with a helpful overview of how Russell determines them.

The official preliminary rebalanced membership lists were released after the close on Friday, May 24th and go into effect at the close on the fourth Friday of June. This year, that date aligns with the last day of the quarter, Friday June 28th. Russell will publish updated lists a couple of times prior to the rebalance date with minor adjustments.

As a refresher, Russell utilizes a rules-based approach. Indexes are split size wise by market cap. The largest 1,000 companies make up the Russell 1000, the next 2,000 are in the Russell 2000. Russell Midcap is the smallest 800 of the Russell 1000, while the Russell 2500 is the Russell 2000 plus the 500 smallest in the Russell 1000. *(continued on page 2)*

Preliminary Performance (%) Representative Accounts

	MTD			QTD			YTD		
	Gross	Net	vs. Benchmark*	Gross	Net	vs. Benchmark*	Gross	Net	vs. Benchmark*
Small Cap Value	3.65	3.65	-1.03	-2.28	-2.36	-0.28	3.18	2.84	+2.33
Small/Mid Cap Value	4.28	4.28	+0.06	-1.45	-1.52	+0.89	7.23	6.93	+3.64
Mid Cap Value	4.44	4.44	+0.85	-0.36	-0.42	+1.48	10.02	9.72	+3.77
Micro Cap Value	4.80	4.80	-0.18	-1.60	-1.68	+1.39	1.96	1.62	+1.44

Source: SEI

Past performance does not guarantee future results. Representative accounts are those of the Integrity Small Cap Value Equity Strategy, Integrity Small/Mid Cap Value Equity Strategy, Integrity Mid Cap Value Equity Strategy, Integrity Micro Cap Value Equity Strategy. Performance is preliminary and subject to change. Benchmark comparison is versus gross performance.

Market Returns (%)

	MTD	QTD	YTD
S&P 500® Index	4.96	0.67	11.30
Nasdaq 100® Index	6.39	1.68	10.54
Russell 2000® Growth Index	5.36	-2.76	4.62
Russell 2000® Value Index	4.68	-1.99	0.85

Past performance does not guarantee future results. Indices represent different segments of the market and are not correlated to the strategies above, with the exception of the Russell 2000® Value Index, which is the benchmark for Integrity Small Cap Value Equity.

Russell Microcap is the smallest 1,000 in the Russell 2000 plus the 1,000 next smallest companies. Growth/Value membership is determined using one value metric (book to price) and two growth metrics (IBES medium term (2 year) forecast growth and five-year historical sales per share growth). Companies scoring highest on the value metric fall into the value index and those scoring highest on the growth measures are in the growth index. There are some additional nuances and complexities, but we are keeping it high level here.

Across our value indices, the Industrials sector is decreasing in weight, the market capitalizations are declining, betas are going down a little bit, and the new indexes are cheaper on most valuation metrics. While early projections had the weight to non-earners falling, the final results are mixed. Relative to the other indexes, the Russell Midcap Value Index saw more change this year than our other benchmarks. Usually, the opposite occurs. Intuitively, this makes sense given the divergence in small and large benchmarks over the last year, something we have noted in prior writeups. More details on our specific benchmark are as follows:

Russell 2000 Value: Industrials (-1.9%), Utilities (+1.2%), and Energy (-1.0%) are the most notable sector changes. On the Industry level, Oil Gas & Consumable Fuels (-1.7%) is the only industry with a change greater than 1%. Also of note, the Biotechnology Industry weight is decreasing by 0.6%. The weight to non-earners increased slightly, rising 0.6%. The largest market cap is \$8.2 Billion (Nextacker, Inc., NXT).

Russell 2500 Value: Industrials (-2.3%) and Health Care (+1.1%) are the most notable sector changes. On the Industry level, Electrical Equipment (-1.3%) and Building Products (-1.2%) are the industries with a change greater than 1%. The weight to non-earners increased slightly, rising 0.4%. The largest market cap is \$22.1 Billion (Carvana Co., CVNA).

Russell Midcap Value: Industrials (-3.4%), Health Care (+3.1%), Consumer Staples (+2.8%), Financials (-1.8%), and Utilities (-1.0%) are the most notable sector changes. On the Industry level, Building Products (-1.5%), Machinery (-1.5%), Life Sciences Tools & Services (+1.4%), Capital Markets (-1.2%), and Food Products (+1.1%) are the industries with a change greater than 1%. The weight to non-earners decreased by 1.1%. The largest market cap is \$58.4 Billion (Coinbase Global, Inc., COIN).

Russell Microcap Value: Health Care (-3.2%), Financials (+2.3%) and Energy (-1.3%) are the most notable sector changes. Similar to the other indices, the Industrials sector weight is decreasing, but to a lesser degree, declining by 0.5%. On the Industry level, Biotechnology (-4.0%) and Banks (+2.7%) are the industries with a change greater than 1%. The weight to non-earners decreased by 1.1%. The largest market cap is \$2.3 Billion (Aspen Aerogels, Inc., ASPN).

Turn and face the strange. As we always do, we will analyze the strange/change, looking for opportunities but also risks, repositioning the portfolios accordingly.

Attribution:

U.S. equities rebounded in May. The S&P 500 (+4.8%) and the tech heavy Nasdaq (+6.9%) gained despite concerns over slowing economic growth, weakening U.S consumer sentiment, and the possibility of stagflation lingering ahead. The Russell 2000 Value Index underperformed its larger market cap peers with a monthly return of +4.7%. Value outperformed growth in our small/mid and mid cap benchmarks for the month of May. Growth beat value in small cap and micro cap. In addition, two of our four strategies outperformed its respective benchmark for the month: small/mid cap value and mid cap value.

Composite Performance (%) as of December 31, 2023

	1 Year		5 Year		10 Year	
	Gross	Net	Gross	Net	Gross	Net
Small Cap Value	18.87%	17.69%	13.78%	12.65%	8.72%	7.64%
Small/Mid Cap Value	15.38%	14.23%	14.06%	12.92%	8.90%	7.81%
Mid Cap Value	13.51%	12.55%	13.49%	12.55%	9.40%	8.50%
Micro Cap Value	16.14%	14.99%	11.99%	10.87%	8.95%	7.86%

Returns for periods greater than one year are annualized. Returns reflect the reinvestment of dividends and other earnings and are expressed in U.S. dollars. Gross-of-fees returns for the representative account are presented before management and custodial fees but after all trading expenses.

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All investments carry a certain degree of risk including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class. Interested parties are strongly encouraged to seek advice from qualified tax and financial experts regarding the best options for your circumstances.

Each representative account serves as the model against which all accounts in each respective strategy are managed. The representative accounts are actual portfolios and the information provided, including performance, will vary for other accounts. The representative accounts are being used solely as tools to help demonstrate how performance can be attributed to the investment policies applied in the management of each strategy.

Net-of fees returns reflect gross performance less investment management fees, which are calculated by deducting 1/12 of the highest tier of the standard fee schedule in effect for the period noted (the model fee). The composite model fee for each period is either the highest tier of the current fee schedule or a higher value, whichever is required to ensure the model composite net-of-fee return is lower than or equal to the composite net-of-fee return calculated using actual fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and may be found in Part 2A of its Form ADV.

*The Integrity Small-Cap Value Equity Strategy is benchmarked to the Russell 2000® Value Index. The Integrity Small/Mid-Cap Value Equity Strategy is benchmarked to the Russell 2500™ Value Index. The Integrity Mid-Cap Value Equity Strategy is benchmarked to the Russell Midcap® Value Index. The Integrity Micro-Cap Value Equity Strategy is benchmarked to the Russell Microcap® Value Index.

Index returns reflect the reinvestment of dividends and other income but do not reflect advisory fees or any other expenses. Indexes are unmanaged and one cannot invest directly in an index.

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