SHAKER investments

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Dear Investor:

The first quarter was positive, albeit mixed for U.S. equity markets. The S&P 500 rose 7.50%, as large cap technology stocks led the way higher with the Nasdaq composite up 17.05% in a reversal of its 2022 underperformance. Underneath the surface, this strong performance was concentrated in "mega cap" stocks as the ten largest companies in the S&P 500 accounted for the majority of the gains for the index. Conversely, small cap stocks underperformed this quarter, rising just 2.74%, with small cap growth stocks rising 6.07%.

In the first half of 2022, equity markets declined roughly 20% across both large and small caps as investors repriced equities in response to higher interest rates and in anticipation of a recession that has yet to occur. Stocks have been flat since the summer of 2022, as markets have moved up and down within a wide range, depending on whether an economic hard-landing or soft-landing scenario is in favor. It has been difficult to find a consistent trend other than those stocks that were down the most in 2022 have generally fared the best in 2023.

The economy has experienced a series of "rolling" sector recessions following the original COVID-19 shutdown. As the economy recovered in 2020, fueled by low interest rates and government stimulus, consumers splurged on housing, furniture, and other goods they could buy online, while fear of the virus severely restrained spending on in-person activity like restaurants and travel. Hotels, airlines and cruise lines suffered large losses. Restaurants and hotels were the first to return to profitability in 2021, airlines did so in 2022, and cruise lines are expected to achieve profitability in 2023. As those areas recover, consumer spending on goods is slowing as consumers shift their consumption mix back to services, and budgets are tighter due to higher inflation. For example, personal computer sales (a mix of business and consumer consumption) were off 29% in Q1 compared to the prior year, and sales of televisions and other consumer electronics are well off their peak sales. On the international front, China's economy is reaccelerating following the end to their zero COVID policy. This will benefit US companies with operations in China. In contrast, Western economies broadly face headwinds due to the impact of rising interest rates. Like the stock market, the economic environment is currently positive, but mixed.

Companies that we own continue to report solid fundamental results with growing earnings and sales. In the most recent quarterly earnings reports (4Q 2022), the Shaker Investments Small Cap Growth Strategy achieved average/median sales growth of 18.3%/16.8% and operating earnings per share (EPS) growth of 31.7%/23.4% (GAAP EPS growth of 45.0%/32.2%). This exceeded the S&P 500 average of 5.3% sales growth and a -4.6% decline in operating EPS. We are confident that the relatively strong results for the strategy will continue. Even in a recession scenario, which has been top of mind for many investors, we expect similar relative outperformance for the fundamental results of our holdings, creating opportunities to gain market share and invest in future growth at the expense of competitors more focused on survival.

The following is a summary of gross composite returns for selected major indexes for the first quarter, and the average returns for the last one-, five-, ten- and fifteen-year time periods:

	3 Months Ending 3/31/23	12 Months Ending 3/31/23	5 Years Ending 3/31/23	10 Years Ending 3/31/23	15 Years Ending 3/31/23
Small Cap Growth Index	6.07%	-10.60%	4.26%	8.49%	8.67%
S&P 500 Index	7.50%	-7.73%	11.19%	12.24%	10.06%
Total Market Index	7.18%	-8.58%	10.45%	11.73%	9.90%

** Past performance is not indicative of future performance. Investment in this strategy carries risks, including the risk of loss. The index performance information in the table is based on public information which we believe to be accurate but have not verified. The benchmark for the Small Cap Growth strategy is the Small Cap Growth Index. Investors cannot invest in an index per se and our strategy is more concentrated than the benchmark. Some clients' investment returns were more or less than the overall strategy return.*

For the first quarter, the most significant contributors to the Shaker Investments Small Cap Growth strategy gross returns are as follows:

Company	First Quarter 2023
Wesco International (WCC)	+0.83%
The Trade Desk (TTD)	+0.73%
Installed Building Products (IBP)	+0.67%
Halozyme Therapeutics (HALO)	-0.62%
Amphastar (AMPH)	+0.47%
Preformed Line Products (PLPC)	+0.45%
Cavco Industries (CVCO)	+0.44%
CoStar Group (CSGP)	-0.41%
Monolithic Power Systems (MPWR)	+0.41%
Medpace Holdings (MEDP)	-0.34%
All other positions in total	+2.07%

Note: Return contributions are preliminary and based on gross returns prior to fees, interest and other expenses. A list of the returns for all positions in the strategy for the last year is available upon request.

In the quarter, the Shaker Investments Small Cap Growth strategy underperformed the benchmark by 1.37%. A little more than half of that underperformance was due to the strategy's outsized cash position, which averaged 17% during the quarter. The rest of the underperformance was due to stock selection. The strategy typically keeps no more than 5% in cash but has held a greater percentage of cash the last year due to heightened market volatility. We are working diligently to invest that cash position and return to a more typical cash weighting as appropriate.

Regional Banking Risks

In March, problems with certain banks hit the headlines. Silicon Valley Bank (SIVB), Signature Bank (SBNY) and First Republic Bank (FRC) were the principal culprits, while other regional banks face similar, but less severe problems. The specific problems include:

1) Large underwater "held-to-maturity" securities portfolios that had not been marked down in value as interest rates rose, and
2) Unusually large amounts of uninsured deposits. In SIVB's case, more than 90% of their deposits were above the $250,000 FDIC insured level.

SIVB led the way as investors feared that a forced recognition of losses in their held-to-maturity portfolio could lead to insolvency. As that possibility became more of a focus, depositors began to withdraw their deposits at a rapid pace and the bank failed. SBNY did not have as severe of an unrecognized loss in the securities portfolio, but it also suffered a bank run with massive deposit withdrawals as more than 90% of deposits exceeded the FDIC insurance level. That bank also failed. FRC has also suffered large deposit withdrawals, but for now is being supported by large banks and the Federal Reserve.

In contrast, our largest bank holding, Axos Financial (AX), has a relatively insignificant securities portfolio with no unrecognized losses. Almost 90% of its account deposits are below the $250,000 level guaranteed by FDIC Insurance. Still, the banking turmoil caused AX's share price to decline 28% in a few days, wiping out the price appreciation realized in the first two months of the year. The stock now trades below 8x earnings. Annual earnings growth over the last ten years for AX has averaged 21.9%, and we remain confident in its future.

Of perhaps more importance to all banks has been a surge in withdrawals from bank accounts paying little or no interest to move the funds into money market funds yielding greater than 4%. Banks that are seeing significant movement in deposits will have to either reduce lending or offer higher interest rates on their deposits to compete with money market fund rates. This will reduce profits for those banks, although how much earnings will decline remains uncertain. We have reduced our bank investments and are currently underweight the Financials sector relative to our benchmark.

Investment Outlook

There are several factors impacting the outlook which have made economic and investment outcomes particularly difficult to forecast this year:

1) Historically rapid interest rate hikes and quantitative tightening by the Federal Reserve.
2) The end of COVID-19 stimulus payment programs and debt relief programs by the US government.
3) Consumers spending down excess savings accumulated during the pandemic.
4) The tightening of lending standards by banks.

These factors all act as headwinds to economic growth. The question is whether they are of sufficient magnitude to tip the economy into recession. Although the Federal Reserve may soon stop raising rates, growth will continue to slow due to the lagged impact of their actions to date.

For now, the U.S. economy continues to grow, but the growth is not uniform. Construction of new single-family homes is down significantly in response to higher mortgage rates. Orders for new homes have stabilized and recently increased but remain well below the peak level. New car sales are expected to grow as the auto manufacturers see improved supply chains. Travel, especially to Europe, is booming, while consumer electronic sales are down. Inflation is slowing but remains well above the Federal Reserve's 2% target. The unemployment rate at 3.5% sits at multi-decade lows, but layoff announcements have increased, particularly in technology and financial services. Conflicting data points make it more difficult to predict the near-term future for companies, industries, and the overall economy, and lead to an uncertain outlook.

Our focus remains on identifying individual companies that can grow and do so profitably to drive shareholder returns. In general, our positions tend to be multi-year holdings, and the volatility in their stock prices can be significantly higher than the volatility in their sales and earnings. We remain confident in our buy-and-hold approach to identify and invest in companies that are long-term, secular winners. We believe this focus is a more repeatable, sustainable way to generate long-term returns, and is also a more tax efficient strategy for building wealth.

While we typically target the strategy to be fully invested, we are less than that at this time given the uncertain outlook. Our exposure as of the end of April is 87.5% invested (12.5% in cash and interest-earning money market funds). We recognize that risks to the economy may increase over the next 6-12 months and are prepared to adjust the strategy as we get more clarity on the outlook.

We look forward to updating you in July.

Sincerely,

The Shaker Investment Team

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