

# Conestoga Small Cap Investors CCASX

Rest easy with this one.

## Morningstar's Take CCASX

<b>Overall Morningstar Rating™</b>	★★★★		
547 US Fund Small Growth (31 Aug 2024)			
	3 Yr	5 Yr	10 Yr
	547 funds	518 funds	399 funds
Morningstar Rating™	3★	3★	4★

<b>Morningstar Medalist Rating™</b>	🥈 Silver
Analyst-Driven %	100.00
Data Coverage %	100.00

<b>Morningstar Pillars</b>	
Process (3 Sep 2024)	● Above Average
People (3 Sep 2024)	● Above Average
Parent (11 Sep 2024)	● Above Average
Performance (3 Sep 2024)	
Price (3 Sep 2024)	

3 Sep 2024 | by Tony Thomas

Conestoga Small Cap, which includes a mutual fund and separate accounts, has a team that's working in its wheelhouse. The strategy is closed to most new investors.

The strategy's roots run deep. It began in separate accounts in the late 1990s before launching as a mutual fund in October 2002. Veteran manager Robert Mitchell has been a constant presence. As CIO, he has built a team and suite of offerings to complement this flagship strategy. He's got a seasoned co-lead manager here in Joseph Monahan, and together they tap three other portfolio managers and three analysts for ideas and insights. The entire Conestoga investment team serves a range of equity strategies, from tiny micro-cap stocks to mid-caps, and their overlap is mutually reinforcing.

Each strategy uses a clearly delineated process inspired by the one used here. They target growing, profitable firms. Companies need not produce

current net income; rather, they should at least generate earnings before interest, taxes, and other costs, which shows that their main products or services are viable. Mitchell and his colleagues steer clear of heavily indebted companies and toward those with decent executive ownership. Ideally, the stocks of such firms should be capable of doubling in value over the next three to five years, and the Conestoga team regularly shows it's willing to wait for such gains.

This approach has worked well for long-term investors. Because it tends to invest in solid, steadily growing businesses, the strategy should post fair returns in bull markets but stand out in rocky ones when its stocks should hold up a bit better given their strengths. The coronavirus pandemic and its aftereffects challenged this view — since 2020, the strategy has tended to rally harder but struggle a bit more in selloffs — but that's not due to the team taking its eyes off the ball. Instead, it has generally stuck with good companies it knows well (like SPS Commerce, owned here since 2013 and which has since become a big winner), traded moderately, and acknowledged and addressed the occasional mistakes. That's an approach worth getting behind.

**Process** ● Above Average | Tony Thomas | 3 Sep 2024

A straightforward, well-executed approach earns an Above Average Process rating.

Clear parameters guide the managers' search for small-cap stocks. They like profitable firms with strong competitive positions and growth characteristics, including the ability to grow earnings and returns on equity at a 15% clip over the next three to five years. (They often measure profitability by adjusted EBITDA rather than net income to better gauge the health of a company's main business activities.) They also prefer companies with modest debt loads, typically those with debt/capital ratios under 40%. Significant insider ownership of 10% or more helps. Overall,

the team's goal is to pick stocks likely to double (via total return) over the next three to five years.

The managers invest with conviction and patience. Their total holdings usually fall within a narrow range (45-55), and they tend to hang on to their picks for at least a few years. By mandate, they must keep 80% of assets in firms whose market caps fall within the Russell 2000 Index's range at purchase, though they're willing to hold healthy companies into mid-cap territory. While the portfolio is fairly well diversified, the managers may have up to 3 times the Russell 2000 Growth Index's weighting in any one sector (with an absolute cap of 40% of assets) and may skip certain segments entirely. They also stay fully invested, often keeping little cash.

This portfolio consistently delivers on its managers' growth and profitability expectations. In the trailing 10 years through June 2024, the mutual fund's holdings have shown net positive historical earnings growth every month except February 2022 and topped the Russell 2000 Growth Index category benchmark most of the time. The portfolio's average return on invested capital (another measure of profitability) often well exceeds the index's, while the team's aversion to debt-ridden companies also typically stands out in a relatively modest debt/capital ratio.

Sector weightings may veer widely from the index. Industrials has been the portfolio's largest sector weighting since late 2021; at 35% in June, it was well above the index's 18% allocation. Technology is also a favorite hunting ground. Conversely, stakes in consumer cyclicals or financials are often light to nonexistent.

The team is patient and willing to hold its best picks as they grow. The mutual fund portfolio's average annual turnover rate in the five years through 2023 was just 21%, far less than the small-growth Morningstar Category median of 54%. Indeed, long-term holdings are staples here: 56% of June's

assets were in stocks owned for five years or longer, including basic materials firm Simpson Manufacturing, first bought here in 2004 and one of 28 holdings shared with Conestoga SMid Cap.

**People** ● Above Average | Tony Thomas | 3 Sep 2024

Conestoga's experienced, well-crafted, and steady investment team earns an Above Average People rating.

Robert Mitchell is key to the team's continuity and culture. The 29-year industry veteran co-founded Conestoga with William Martindale in 2001. He and seasoned colleague Joe Monahan co-lead this strategy. Monahan is a relevant contributor here because he also co-leads Conestoga's micro-cap product, which often generates ideas for this portfolio.

As CIO, Mitchell's positive influence reaches farther. He has built a nine-person investment team that interacts extensively and seamlessly. It consists of five portfolio managers (including Mitchell and Monahan), three analysts, and a trader. They're clearly on the same page philosophically, but Mitchell allows a healthy degree of autonomy and diversity of opinion. Small subsets of the group oversee Conestoga's three other equity strategies, which range from micro-cap to mid-cap and share similar approaches as well as many holdings. Those common grounds keep workloads manageable. That said, the team has grown gradually to support the expansion of Conestoga's offerings, and only two members have left. Both were well-planned retirements.

The managers have multiple stakes in this strategy's success. They invest decent amounts in the mutual fund, and each owns a portion of the firm, of which this strategy is its flagship offering.

**Parent** ● Above Average | Tony Thomas | 11 Sep 2024

Conestoga Capital Advisors is a small, well-run, and stable organization. It earns an Above Average Parent rating.

Founded in 2001 in Wayne, Pennsylvania, Conestoga has grown steadily around its core strengths. Its flagship mutual fund, Conestoga Small Cap, launched in 2002. The firm has since

branched out into micro-, smid-, and mid-cap equity products. Not everything has succeeded. The first mid-cap foray ended in 2014 as the team realized its main strengths at the time were in small-cap equities, but adding resources since then has enabled a return to the space—though as of mid-2024, the mid- and micro-cap strategies held only a fraction of the firm's \$7.9 billion in total assets under management.

Yet, Conestoga is well positioned for its future. CIO Bob Mitchell, the employee-owned firm's largest shareholder, has cultivated a strong investment culture. The firm planned carefully for its few departures. All four of its equity strategies use variations of a proven approach focused on steadily growing, profitable, low-debt companies. Conestoga subsidizes its smaller strategies' growth with generous fee waivers on the mutual funds—and keeping those products going gives the investment team more opportunities to develop its members' research acumen and portfolio management skills. These traits are likely to make Conestoga a reliable smaller-cap equity manager for years to come.

**Performance** | Tony Thomas | 3 Sep 2024

This strategy typically offers an attractive risk/reward tradeoff.

From its October 2002 inception through August 2024, the mutual fund's investor share class returned a solid 11.4% annualized, besting the Russell 2000 Growth Index's 10.3% and the typical small-growth Morningstar Category peer's 9.6%. With its emphasis on steadily growing, mostly profitable companies, the strategy usually doesn't race ahead in rallies or fall farther in selloffs. That tameness should help the strategy grind out competitive results for patient investors.

The coronavirus pandemic affected the strategy in unusual ways, though. It did quite well amid a market rally in 2021 thanks in part to boosted sales at holdings such as recreational vehicle outfitter Fox Factory Holding and SiteOne Landscape Supply, but corrections in both stocks (and others) resulted in a mediocre 2022 as the broader market sold off.

After a solid 2023, the strategy looked weak in 2024 through August. Like many in its cohort, it suffered

from not owning relatively large index constituents Super Micro Computer and MicroStrategy in the year's first half (they're no longer in the index), but it also saw share-price declines in holdings such as Italian medical supplier Stevanato and software firm Pros Holdings. Roadbuilder Construction Partners was a bright spot in the period, gaining more than 50%.

**Price** | Tony Thomas | 3 Sep 2024

It's critical to evaluate expenses, as they come directly out of returns. Based on our assessment of the fund's People, Process, and Parent Pillars in the context of these expenses, we think this share class will be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Medalist Rating of Silver.

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### Data Coverage %

The Data Coverage % data point is a summary metric describing the level of data completeness used to generate the overall rating. If the pillar is assigned directly or indirectly by analysts, the pillar has complete data availability, as no model was used to estimate the pillar score. If the pillar is assigned directly by algorithm, Morningstar counts the number of data points feeding both the positive and negative models and counts whether the vehicle has strategy-specific data available. A simple percentage is calculated per pillar. The overall data coverage % is then scaled by pillar weights.

### Analyst-Driven %

The Analyst-Driven % data point displays the weighted percentage of a vehicle's pillar ratings assigned directly or indirectly by analysts. For example, if the People and Parent ratings are assigned directly or indirectly by analysts but the Process rating is assigned algorithmically, the Analyst-Driven % for an actively managed vehicle would disclose that 55% of the pillar weight was assigned by analysts and the Analyst-Driven % for a passively managed vehicle would disclose that 20% of the pillar weight was assigned by analysts.

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The Morningstar Medalist Rating is the summary expression of Morningstar's forward-looking analysis of

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### Morningstar Rating™

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### Bonds

Bonds are subject to interest rate risk. As the prevailing level of bond interest rates rise, the value of bonds already held in a portfolio declines. Portfolios that hold bonds are subject to declines and increases in value due to general changes in interest rates. Portfolios that invest in lower-rated debt securities (i.e., "junk bonds") involve additional risks because of the lower credit quality of the securities in the portfolio. The investor should be aware of the possible higher level of volatility, and increased risk of default. Tax-free municipal bond funds may be subject to state and local taxation and the Alternative Minimum Tax.

### Equities

Equities are typically subject to greater fluctuations in market value than other asset classes due to factors such as a company's business performance, investor perceptions, stock market trends and general economic conditions. Stocks of small or mid-sized companies involve additional risks; such companies may have a higher risk of failure, are not as well established as larger blue-chip companies, and have historically experienced a greater degree of market volatility than the overall market average.

### International/Emerging Markets Securities Risk

Investing in international securities involves special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

### Liquidity Risk

Trading may be halted due to market conditions, impacting an investor's ability to sell a security.

### Market Price Risk

The market price of securities traded on the secondary

market is subject to the forces of supply and demand and thus independent of the NAV. This can result in the market price trading at a premium or discount to the NAV, which will affect an investor's value.

### Market Risk

The market prices of securities can fluctuate as a result of several factors, such as security-specific factors or general investor sentiment. Therefore, investors should be aware of the prospect of market fluctuations and the impact it may have on the market price.

### Non-Diversified Strategies

Portfolios that invest a significant percentage of assets in a single issuer involve additional risks, including share price fluctuations, because of the increased concentration of investments.

### Sector Strategies

Portfolios that invest exclusively in one sector or industry involve additional risks. The lack of industry diversification subjects the investor to increased industry-specific risks.

Total Returns % (As of 9/30/2024)	Average Annualized Total Returns						
	QTD	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Since Inception 10/1/2002
<b>CONESTOGA SMALL CAP FUND</b>							
CCASX– Investors Class	9.70%	7.12%	18.94%	-0.49%	8.40%	12.00%	11.34%
Russell 2000® Growth Index	8.41%	13.22%	27.66%	-0.35%	8.82%	8.95%	10.36%

Gross expense ratio: 1.46%, Net expense ratio: 1.10%; Conestoga Capital Advisors, LLC (the Adviser) has contractually agreed to limit the Fund's Investor Class net annual operating expenses to 1.10% of the Fund's average daily net assets until at least January 31, 2025, subject to termination at any time at the option of the Fund. There is no guarantee that the agreement to limit the Fund's annual operating expense will be renewed or extended.

*Performance is based upon closing NAV calculation on listed dates and represents past performance. Past performance does not guarantee future results and current performance may be lower or higher than the performance quoted. Performance data includes reinvestment of dividends. Investment returns and principal value of an investment in Conestoga Small Cap Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. For the Fund's daily NAV, list of additional holdings, total return as of the most recent month-end and a copy of the Fund's prospectus, please visit [www.conestogacapital.com](http://www.conestogacapital.com) or call 1-800-320-7790.*

The Top Ten Holdings in the Conestoga Small Cap Fund as of September 30, 2024 are as follows: 1. Descartes Systems Group, Inc. (4.61%); 2. Exponent, Inc. (4.43%); 3. Casella Waste Systems, Inc. (4.26%); 4. Simpson Manufacturing Co., Inc (4.00%); 5. AAON, Inc. (3.82%); 6. Altair Engineering, Inc. (3.55%); 7. FirstService Corp. (3.46%); 8. SPS Commerce, Inc. (3.41%); 9. Novanta, Inc. (3.35%); 10. Construction Partners, Inc. (3.27%). Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell securities. Current and future portfolio holdings are subject to risk.

Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell securities. Current and future portfolio holdings are subject to risk.

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The Russell 2000® Growth Index measures the performance of the small cap growth segment of the US equity universe. The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. An individual cannot invest directly in an index.

The **debt-to-capital ratio (D/C ratio)** measures the financial leverage of a company by comparing its total liabilities to total capital. In other words, the debt-to-capital ratio formula measures the proportion of debt that a business uses to fund its ongoing operations as compared with capital.

**Earnings before interest, taxes, depreciation, and amortization (EBITDA)** is a widely used measure of core corporate profitability. By stripping out the non-cash depreciation and amortization expense as well as taxes and debt costs dependent on the capital structure, EBITDA attempts to represent cash profit generated by the company's operations.

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