

Conestoga SMid Cap Investors CCSMX

A fine strategy with a fine pedigree.

Morningstar's Take CCSMX

Overall Morningstar Rating™	★★★		
510 US Fund Mid-Cap Growth (31 Aug 2024)	3 Yr 510 funds	5 Yr 477 funds	10 Yr 379 funds
Morningstar Rating™	3★	2★	4★

Morningstar Medalist Rating™	🥉 Bronze
Analyst-Driven %	100.00
Data Coverage %	100.00

Morningstar Pillars

Process (5 Sep 2024)	● Above Average
People (5 Sep 2024)	● Above Average
Parent (11 Sep 2024)	● Above Average
Performance (5 Sep 2024)	
Price (5 Sep 2024)	

5 Sep 2024 | by Tony Thomas

Conestoga SMid Cap, which includes a mutual fund and separately managed accounts, builds on Conestoga's strengths in a promising way for long-term investors.

Conestoga excels at small-cap stock investing. Its flagship mutual fund, Conestoga Small Cap, has a standout record over nearly 22 years. In 2014, the firm launched this small- and mid-cap offering to build upon that strategy's success. It taps the small-cap product's veteran managers, Robert Mitchell and Joseph Monahan, and pairs them with another strong contributor in Derek Johnston, who co-leads the firm's mid-cap strategy. They're part of a nine-person investment team that pragmatically adapts the firm's approach to equity strategies ranging from micro-cap to mid-cap.

Here, as on Conestoga Small Cap, the team targets — and regularly finds — profitable, growing, and competitively strong companies. Many were or still are holdings in the small-cap portfolio. That direct

tie to its successful sibling is mainly a help and a slight hindrance. Conestoga Small Cap is closed to many new investors, so there's a limit on how much this \$1.7 billion strategy can take in. By Conestoga's estimate, it's got another \$800 million of room — and in 2024 so far, it's seen an uptick in interest.

Given its market-cap window, the strategy is a relatively odd fit in the mid-growth Morningstar Category. The best way to judge its performance and portfolio is against the smid-cap Russell 2500 Growth Index. Against that benchmark — and peers that measure themselves against it — this strategy has done fairly well. Its preference for conservatively run businesses means the strategy should mostly keep up when markets advance but fare a bit better than comparable offerings in market declines. Those same traits have spurred much of Conestoga Small Cap's success over time.

This strategy's heritage and decent success in its own right make it a fine option, especially for long-term investors who want a portfolio of small-cap stocks tempered with proven mid-cap holdings.

Process ● Above Average | Tony Thomas | 5 Sep 2024

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

The strategy adapts the proven process used on Conestoga Small Cap to include larger companies. Clear parameters guide the team's search. By mandate, it must keep 80% of assets in firms whose market caps fall within the Russell 2500 Index's range at purchase. The managers like profitable, competitive, and rising companies that can grow earnings at a 12%-15% clip over the next three to five years and generate returns on equity greater than 15%. (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 firms with modest debt loads, typically those with debt/capital ratios under

40%. Significant insider ownership helps. Overall, the team's goal is to pick stocks that are likely to double (via total return) over the next four to six years.

The managers invest with conviction and patience. They typically keep the number of holdings within a narrow range (45-55), and they tend to hang on to their picks for at least a few years. While the portfolio is fairly well diversified, the managers may have up to 3 times the Russell 2500 Growth Index's weighting in any given sector, with an absolute cap at 40%, and they may skip certain segments entirely. They often invest fully by keeping little cash.


Because it mixes small- and mid-cap stocks, this strategy stands out in its mid-growth category. In June 2024, for example, 56% of the mutual fund's assets sat in small caps, more than double the category average, and it had no large-cap holdings. These traits make the Russell 2500 Growth Index, which consists of small- and mid-size companies, a better match when assessing this strategy's performance and portfolio.

The portfolio usually scores well on key measures of quality. In June 2024, its average return on invested capital (a profitability metric) was a healthy 9.8%; one month later, the reconstituted Russell 2500 Growth Index posted a negative 1.5%. The managers' aversion to debt-laden companies continued to show in a relatively modest average debt/capital ratio: 29% versus the index's 37%. The strategy has always looked good on that account.

The Conestoga team is patient. The mutual fund's 18% average annual turnover rate in the five years through 2023 (including just 9% in the final year) was well below the 48% category median. Nearly 77% of assets in June 2024 were in stocks held for five years or longer.

Occasionally, the portfolio includes non-US companies. For instance, two longtime Canadian

holdings had grown into top-five positions by June 2024: real estate services firm FirstService Corp and logistics tech provider The Descartes Systems Group.


People  Above Average | Tony Thomas | 5 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 in 2001 and co-leads its successful flagship strategy Conestoga Small Cap. This smid-cap strategy is his other main charge. Fittingly, his co-leader here is Derek Johnston, who also plays a key role on the firm's mid-cap product. Joe Monahan, Mitchell's collaborator on Conestoga Small Cap, provides additional managerial support.

As CIO, Mitchell's positive influence reaches further. He has built a nine-person investment team that interacts extensively and seamlessly. It consists of five portfolio managers (including the three named here), three analysts, and a trader. They're clearly on the same page philosophically, but Mitchell allows some healthy autonomy and diversity of opinion. Small subsets of the group oversee each of Conestoga's four 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. The team has grown gradually to meet its needs, and only two members have left. Both were well-planned retirements.

The managers have multiple stakes in this strategy's success. They have decent amounts in the mutual fund. Each also owns a portion of the firm.

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 | 5 Sep 2024

Understood properly, this strategy is doing just fine.

As a smid-cap equity offering, the strategy doesn't stack up well against many peers in its mid-growth category, let alone the Russell Midcap Growth Index category benchmark. A better yardstick is the Russell 2500 Growth Index. That said, from the mutual fund's January 2014 inception through August 2024, the investor share class gained 9.4% annualized, beating the Russell 2500 Growth Index's 9.0%. (It lagged the Russell Midcap Growth Index's 10.8%, however, mostly owing to relatively better performance by larger-cap companies, especially in recent years.) The managers' conservative investment style gravitates toward profitable, lightly indebted businesses, which should keep returns relatively tame (as measured by standard deviation) and help in downturns, especially versus smid-cap competition. That's mainly why the fund topped more than two thirds of the mutual funds and ETFs that benchmark to the Russell 2500 Growth Index over that roughly 10-year period.

While the strategy looked middling versus its category in the 12 months through August 2024, it again outpaced most of its smid-cap-focused peers. It did well with two key holdings shared with Conestoga Small Cap: roadbuilder Construction Partners and Casella Waste Systems. Such success hints at the consistency and potency of the Conestoga team's approach.

Price | Tony Thomas | 5 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 Bronze.

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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.

Morningstar Medalist Rating™

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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						
	CONESTOGA SMID CAP FUND	QTD	YTD	1-Yr	3-Yr	5-Yr	7-Yr
CCSGX– Institutional Class	13.01%	11.68%	26.26%	0.46%	9.33%	11.36%	12.05%
Russell 2500® Growth Index	6.99%	11.20%	25.20%	-0.75%	9.75%	9.43%	9.94%

Gross expense ratio: 1.08%, Net expense ratio: 0.85%; Conestoga Capital Advisors, LLC (the Adviser) has contractually agreed to limit the Fund's Institutional Class net annual operating expenses to 0.85% 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 SMid 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 or call 1-800-320-7790.

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The Russell 2500 Growth Index measures the performance of the small to mid-cap growth segment of the US equity universe. The Russell 2500 Growth Index measures the performance of those Russell 2500 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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