SMALL CAP GROWTH

2Q 2026 COMMENTARY

MARKET OVERVIEW

The prospect of an end in hostilities with Iran and lower oil prices, along with the continuation of the AI capital spending/investment boom powering earnings growth, provided the fuel to drive a very strong 25.71% 2Q 2026 Russell 2000 Growth Index (R2G) return. This was the R2G's best performance since 4Q 2020's 29.61% return and the fifth best quarterly performance since the start of the Index in 1993.

The quarter also witnessed a long-awaited surge in smaller capitalization stocks, with the R2G markedly outperforming large-cap peers as the Russell 1000 Growth produced a 16.74% return.

Importantly, exceptionally strong earnings momentum has provided the underpinning for the ongoing rally. Bloomberg estimates small cap's (Russell 2000) 1Q 2026 year-over-year earnings growth was 25.4%, representing the second consecutive quarter of double-digit increases, while the current 2Q estimate calls for 33.3% growth. Part of this growth is propelled by the AI/data center buildout spending.

Accordingly, Information Technology was the only sector to show significant outperformance during the quarter. Its 46.76% return was nearly double the R2G's return, with exceptional strength among companies in the Semiconductor and Semiconductor Equipment industry group (97.67%). In fact, eleven semiconductor industry constituents had returns greater than 100%, with two logging greater than 200% performance for the quarter. Real Estate and Industrials barely edged out the Index with returns of 25.91% and 25.78%, respectively. All other sectors underperformed, with 1Q's best performer, Energy, recording 2Q's worst sector performance of -2.40%, the only negative performing sector.

PERFORMANCE

	2Q 2026	1 YEAR	5 YEARS	10 YEARS
Small Cap Growth (Gross)	22.56%	45.62%	11.69%	15.70%
Small Cap Growth (Net)	22.34	44.62	10.93	15.00
Russell 2000 Growth Index	25.71	38.74	5.57	11.97

Returns greater than 1 year are annualized.

PORTFOLIO REVIEW

The Small Cap Growth strategy delivered a robust 22.56% gross return (22.34% net of fees) though trailed the R2G's exceptional 25.71% performance.

Stock selection in the Health Care sector was the largest detractor, costing 251 bps with a sector return of 12.91% vs. 25.53% for the benchmark sector. The lag is largely explained by the underperformance of TransMedics (TMDX, -33.19%) and Ensign (ENSG, -20.41%). Our commentary on these stocks is in the "Bottom Contributors" section.

The largest area of relative outperformance came from allocation as the nearly 7% overweight to Information Technology added 125 bps to the relative return. As noted, Information Technology materially outperformed with a benchmark sector return of 46.76%. The underweight to the Materials sector also contributed 74 bps as the benchmark sector significantly underperformed with a return of just 1.43%. Recall that the portfolio's sector allocations are a by-product of our bottom-up stock selection process and reflect where the team has identified the best risk/return opportunities.

TOP CONTRIBUTORS

Onto Innovation, Inc. (ONTO), a manufacturer of specialized metrology tools used to detect defects, monitor standards, and optimize yields across every stage of the chip fabrication process, delivered a strong 1Q performance driven by robust AI compute demand. Revenue grew nearly 10% sequentially to $292 million, beating original company guidance, while earnings per share rose 13% quarter-over-quarter to $1.42. This structural momentum spanned both front-end advanced nodes and advanced packaging segments, with successful new product launches and operational efficiencies successfully offsetting rising costs to expand corporate margins.

DigitalOcean Holdings, Inc. (DOCN), a cloud infrastructure platform business focused on small developers, AI startups and small to medium-sized businesses, reported strong 1Q financial results. Management noted acceleration in the business with revenue up 22%, including its million dollars plus customers growing 179% and overall, AI customer backlog increasing 221%. In total, the results beat every financial target set by the company. With momentum in the business accelerating, we continue to view DOCN as a core AI-focused holding.

Dycom Industries, Inc. (DY), a specialty contractor focused on digital infrastructure and telecom, reported another strong quarter with revenue growth of 56.1% (24.7% organic) and earnings growth of 84.9%, both ahead of expectations and accelerating relative to the previous quarter. Guidance was once again raised, while backlog increased 24.8% sequentially, highlighting the current strong demand environment. Dycom is firing on all cylinders with its core Communications segment seeing fiber-to-the-home build momentum, while its Building Systems segment is highlighted by management as being in the early innings of growth.

BOTTOM CONTRIBUTORS

Ensign Group, Inc. (ENSG), a skilled nursing provider, delivered a solid quarter with revenue growth of 18.4% and earnings growth of 21.7%, slightly ahead of expectations. However, in early June, ENSG was the subject of a short-seller report claiming understaffing. The company told analysts the claim is based on insufficient data, while we believe the strategy of acquiring underperforming facilities also has an impact. In response, ENSG has increased its share repurchase authorization. With demographic tailwinds and improving occupancy, along with an unrivaled balance sheet, we continue to see ENSG as well positioned for further growth.

Magnolia Oil & Gas Corp. (MGY), an oil and gas exploration and production company, reported strong first-quarter financial results, driven by higher-than-expected oil volumes from its core South Texas operations in the Eagle Ford Shale and Austin Chalk formations. During the quarter, MGY closed strategic bolt-on acquisitions in the Karnes and Giddings areas and reiterated its full-year total production growth guidance of approximately 5%. However, despite these operational highlights, the stock faced headwinds as oil prices retraced from an April high of $113 to end the quarter at $70.

TransMedics Group, Inc. (TMDX), a medical devices company focused on organ transplant, reported a disappointing quarter that missed consensus expectations on both revenue and earnings growth. However, part of the slowdown was related to industry growth, as management noted they continue to take market share. Additionally, costs are elevated in the near term as the company ramps up clinical trials for both its Heart and Lung segments, as well as invests in its next generation technology and a new Kidney device. While that may weigh on near-term earnings growth, it sets up the next year to be catalyst rich with the potential for accelerating revenue and earnings growth, thus we remain positive.

PORTFOLIO POSITIONING

The R2G's reconstitution took place at the end of June and resulted in more significant sector changes than in recent years. Sectors seeing material decreases were Industrials (from 24.0% to 17.1%) and Information Technology (from 22.0% to 20.1%), while Health Care saw a notable increase (from 24.2% to 28.6%), particularly among unprofitable biotechnology companies (from 8.9% to 12.5%). These shifts reflect the rapid graduation of AI-adjacent small caps into mid and large-cap territory. Adding further significance to this year's event, 2026 marks the beginning of semi-annual reconstitution for the Russell Indices, with a second rebalance scheduled for December. As noted, the portfolio's sector allocations remain a byproduct of bottom-up stock selection, favoring companies with consistent profitability, tangible earnings growth and solid balance sheets.

Industrials (30.2%), Information Technology (29.1%) and Health Care (19.6%) remained the largest portfolio allocations at quarter's end. The Information Technology sector increased nearly four percentage points due to the combination of exceptional returns and a new position in Plexus (PLXS), somewhat offset by the sale of PTC Corp. (PTC) and the 5% rule trims of DigitalOcean and Onto Innovation. Additionally, 5% rule trims of both MasTec (MTZ) and Dycom took place due to strong performance in the quarter which reduced the overall weight in Industrials at quarter end. Consumer Discretionary (5.4%) saw its allocation decline from 8.6% last quarter due to the sale of Stride (LRN) and Pool Corp. (POOL), while Financials (5.3%) increased in weight with the addition to the Skyward Specialty Insurance Group (SKWD) holding. Lastly, Consumer Staples (3.1%) saw a slight increase with an addition to the Primo Brands (PRMB) holding, somewhat offset by the sale of the small position in Vital Farms (VITL).

TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

2Q 2026 TOP CONTRIBUTORS	WEIGHT	RETURN (GROSS)	IMPACT (GROSS)
Onto Innovation, Inc.	5.21%	84.55%	349 bps
DigitalOcean Holdings, Inc.	4.45	83.06	277
Dycom Industries, Inc.	5.04	49.22	213
Rambus, Inc.	4.25	54.30	184
MasTec, Inc.	5.52	29.32	159

2Q 2026 BOTTOM CONTRIBUTORS	WEIGHT	RETURN (GROSS)	IMPACT (GROSS)
Ensign Group, Inc.	2.72%	-20.41%	-69 bps
Magnolia Oil & Gas Corp.	2.23	-18.51	-49
TransMedics Group, Inc.	0.84	-33.19	-30
ExlService Holdings, Inc.	1.85	-15.07	-27
Ollie's Bargain Outlet Holdings, Inc.	1.38	-16.47	-24

IMPORTANT DISCLOSURES:

Past performance is not indicative of future results. All investments involve risk, including possible loss of principal. There is no guarantee investment objectives will be met. Gross returns are presented before deducting management fees (and custodian fees) and include the reinvestment of all income. Net returns are presented after the deduction of a model fee based on the highest fee paid then in effect for the period shown and include the reinvestment of all income. The current assumed model fee is 0.68% annually. Performance returns are calculated using a time-weighted formula with appropriate adjustments for cash flows, and include all dividends and interest, accrued income, and realized and unrealized gains or losses. Indexes are unmanaged and do not incur fees or expenses. It is not possible to invest directly in an index. The portfolio characteristics are based on a composite. Other portfolios may differ. Portfolio sector weights reflect a composite and are subject to change without notice. It should not be assumed that an investment in the sectors listed were, or will be, profitable. Portfolio holdings reflect a composite and are subject to change. Other accounts within the strategy may have different holdings. Portfolio holdings should not be considered a recommendation to buy, hold or sell securities. Current and future portfolio holdings are subject to risk.

Extracted Performance and Portfolio/Investment Characteristics shown do not reflect the deduction of all fees and expenses that a client or investor has paid or would have paid. Please see full composite performance on page 2 to understand the overall effect of fees.

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