



SEPTEMBER 30, 2026

CAMPBELL NEWMAN

SMALL CAP GROWTH

3Q 2026 COMMENTARY

MARKET OVERVIEW

The backdrop of the last three months has been tumultuous. Investors have been buffeted by negatives such as ongoing hot wars, escalating trade wars, rising global interest rates, energy constraints and higher energy prices, the demise of a ~\$45 billion hedge fund in a matter of weeks, multi-year highs in mortgage rates and the noise/hyperbole associated with midterm elections, while also being warned that AI could end the human race by 2030.

The result was a challenging quarter for small cap stocks, with the Russell 2000 Growth Index (R2G) delivering a return of -9.39%. After two quarters of small-cap leadership, large caps reclaimed their lead in 3Q as performance narrowed to mega-cap names. July was a volatile month with a significant sell-off in AI-related securities, particularly in the Information Technology and Industrial sectors. However, with the estimated combined 2026 spending by Amazon, Alphabet, Microsoft and Meta currently over \$700 billion, almost 3x

the 2024 level, and 2027 estimates around \$1 trillion, another ~40% increase, many large cap AI-related securities bounced back in the second half of the quarter, leaving small caps behind.

Another headwind was the pivot by the Federal Reserve, delivering its first rate hike in over three years, while signaling more to come. Small cap stocks are historically more sensitive to interest rates given a higher reliance on debt funding, particularly floating rate debt. Ultimately, there were few places to hide as all 11 economic sectors recorded negative returns, with Industrials (-18.18% return) the biggest laggard. Real Estate (-15.53%), Materials (-14.97%) and Information Technology (-12.90%) also underperformed. The strongest sectors were Health Care (-2.82%), ironically led by the largely unprofitable Biotechnology industry (43.50%) and Energy (-3.30%), aided by a significant rally in oil prices.



PERFORMANCE

	3Q 2026	1 YEAR	5 YEARS	10 YEARS
Small Cap Growth (Gross)	-17.05%	6.43%	8.50%	13.24%
Small Cap Growth (Net)	-17.18	5.71	7.77	12.56
Russell 2000 Growth Index	-9.39	12.05	4.72	9.90

Returns greater than 1 year are annualized.

PORTFOLIO REVIEW

The Small Cap Growth strategy underperformed in the quarter with a -17.05% gross return (-17.18% net of fees) vs. the R2G's -9.39% performance.

As noted, the benchmark experienced a pronounced rotation in leadership in the quarter: Industrials and Information Technology, the best-performing sectors in the first half of the year, significantly underperformed. Compounding this, the late-June reconstitution of the R2G Index drove greater changes to the benchmark than we've seen over our 12 years managing the strategy. Importantly, a number of AI-adjacent, small-cap leaders that are also portfolio holdings were removed from the Index because they "graduated", reducing the benchmark's Industrials and Information Technology weights by nearly seven and two percentage points, respectively. Together, these factors were a headwind to relative performance. Despite this, we continue to believe the fundamentals of our AI-exposed holdings remain robust.

Given these factors, the Industrial sector was the largest detractor, costing 481 bps, through a combination of being overweight the benchmark's worst performing sector, as well as due to stock selection with a portfolio return of -29.90% vs. -18.18% for the benchmark sector. All companies linked to the AI data center buildout underperformed, led by MasTec (MTZ, -49.06%) and Dycom (DY, -46.78%), both in the Engineering and Construction industry. Other notable detractors were stock selection in Financials (-112 bps relative, -21.85% return vs. -5.96%) and Information Technology (-93 bps, -16.25% vs. -12.90%).

Positive contributions included stock selection in Health Care (116 bps, 4.41% vs. -2.82%) and Real Estate (19 bps, -5.57% vs. -15.53%).

TOP CONTRIBUTORS

Halozyme Therapeutics, Inc. (HALO), a biopharma drug delivery company, reported a clean beat-and-raise, with

revenue and EPS growth of 48% and raised full-year expectations. Royalties hit a record in the quarter, and management now expects sequential growth in the royalty business in 3Q and 4Q. The company has also signed five new collaborations this year, along with additional expansions by existing partners, which should support future growth upon FDA approvals.

Medpace Holdings, Inc. (MEDP), a contract research organization that runs clinical trials for drug companies, reported results above expectations with earnings growth of more than 37%. Management noted that project cancellations remained well controlled this quarter, supporting a record quarter for net bookings, a significant improvement over the past few quarters and an indication of an improving environment. With this momentum behind them, management raised guidance and now expects a ramp in bookings in the second half of the year, which should drive stronger growth in 2027.

Semtech Corp. (SMTC), a supplier of high-performance analog and mixed-signal semiconductors, reported strong 2Q results, extending its streak to 10 consecutive quarters of sales growth. Revenue of \$342 million grew 33% year-over-year, while EPS of \$0.71 grew 73%, clear evidence of operating leverage, with earnings compounding to more than twice the rate of sales. The quarter reinforces our view that SMTC is a direct beneficiary of one of the most significant data center infrastructure buildouts in history.

BOTTOM CONTRIBUTORS

Dycom Industries, Inc. (DY), a specialty contractor focused on digital infrastructure and telecom, reported another strong quarter with revenue and earnings growth of over 45%. However, with expectations elevated following recent exceptional growth, shares underperformed after the company lowered organic growth guidance for its communications segment due to some customer delays. Importantly, backlog continued to grow on an impressive quarter of bookings, with management also expecting the delayed business to deliver in 2027.



MasTec, Inc. (MTZ), a diversified infrastructure specialty contractor, also delivered a strong quarter with revenue growth of 23% and earnings growth over 48%, but its shares similarly declined given high expectations and lowered guidance for its communications segment. However, management also noted execution challenges, while at the same time closing on the largest acquisition in its history at the end of the quarter, which further raises near-term execution risk. MTZ was sold from the portfolio during the quarter.

Modine Manufacturing Co. (MOD), a leading thermal solutions company, reported F1Q results with revenue growth of 28% and earnings growth of 44%, once again led by its data center segment, which delivered revenue growth of 90%. However, segment margins were weighed down by higher expenses related to capacity expansions and inefficiencies stemming from supply-chain constraints. Management said it is taking decisive action to resolve the supply-chain bottlenecks, while noting demand was robust with its third consecutive quarter of record order intake.

PORTFOLIO POSITIONING

While there was a significant rebalance in the R2G Index, the portfolio's strategy remains consistent, with sector

allocations a byproduct of bottom-up stock selection, favoring companies with consistent profitability, tangible earnings growth and solid balance sheets. Information Technology (26.3%), Industrials (24.9%) and Health Care (24.6%) remained the largest portfolio allocations at quarter's end. The Health Care sector weight increased over five percentage points due to both outperformance, as well as two new positions in Amneal Pharmaceuticals (AMRX) and Concentra Group (CON), somewhat offset by the elimination of Catalyst Pharmaceuticals (CPRX) as it was acquired. The Industrials weight declined over five percentage points due to a combination of underperformance and net sales in the sector. MasTec was sold and Curtiss-Wright (CW) was trimmed while a position was initiated in MYR Group (MYRG) and the positions in ExlService (EXLS) and AAON, Inc. (AAON) were increased. The weight in the Information Technology sector declined nearly three percentage points following the sale of DigitalOcean (DOCN) and Clear Secure (YOU), offset by a new position in Commvault Systems (CVLT) and an increase in the Advanced Energy Industries (AEIS) position. Lastly, new positions were initiated in hotel operator Ryman Hospitality (RHP) within the Real Estate sector and digital payment platform Sezzle (SEZL) within the Financials sector, while existing holdings in Sprouts Farmers Market (SFM) and Lithia Motors (LAD) were increased.

TOP AND BOTTOM ABSOLUTE CONTRIBUTORS

3Q 2026 TOP CONTRIBUTORS

	WEIGHT	RETURN (GROSS)	IMPACT (GROSS)
Halozyne Therapeutics, Inc.	2.98%	41.05%	90 bps
Medpace Holdings, Inc.	4.58	17.86	65
Semtech Corp.	2.56	10.19	46
Corcept Therapeutics, Inc.	1.57	32.52	38
ExlService Holdings, Inc.	2.62	32.95	36

3Q 2026 BOTTOM CONTRIBUTORS

	WEIGHT	RETURN (GROSS)	IMPACT (GROSS)
Dycom Industries, Inc.	3.87%	-46.78%	-227 bps
MasTec, Inc.	2.26	-49.06	-173
Modine Manufacturing Co.	4.26	-29.89	-143
Alignment Healthcare, Inc.	1.35	-65.73	-134
DigitalOcean Holdings, Inc.	1.27	-28.97	-98

**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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