Future Outlook

The Small Cap Core Strategy outperformed the Russell 2000 in the first quarter of 2025. Performance was driven by both strong stock selection and favorable sector allocation. Within this strategy, we emphasize bottom-up fundamental research rather than making top-down macroeconomic bets. While much of the market discourse today is centered on tariffs and U.S. fiscal policy, our focus remains on identifying and holding high-quality companies with growing sales and strong or improving returns on capital. That said, we remain mindful of macroeconomic dynamics which has influenced sector preferences, as detailed below.

Sector Highlights

Financials were the top-performing sector in the portfolio for the quarter. The outperformance was entirely a function of stock selection, with our holdings up approximately 11% versus a 4% decline in the benchmark holdings. We took a more defensive posture in this sector, favoring high-quality compounders with durable earnings profiles. Our top performer was Palomar Holdings, Inc. (PLMR), and we initiated a position in Bowhead Specialty Holdings (BOW)—both of which operate in the E&S (excess and surplus) insurance space. These companies exhibit defensive characteristics but also possess compelling long-term growth opportunities and generate attractive returns on capital. We believe they are well-positioned to perform across both risk-on and risk-off market environments.

Our largest weighting in the portfolio remains StoneX Group (SNEX), a more defensive financial services firm. As a capital markets operator, SNEX stands to benefit from increased volatility. Looking ahead, should market conditions deteriorate and valuations compress further, we may look to add exposure to traditional banks when the risk/reward becomes more favorable.

Consumer Staples were the weakest-performing sector in the quarter, primarily due to stock-specific underperformance. The largest detractor was Limoneira Company (LMNR), which is discussed in more detail below. Despite this short-term drag, we continue to view Consumer Staples as an attractive sector for its defensive characteristics, and we believe there are still opportunities to invest in companies with solid and sustainable returns on capital.

Top Contributors & Detractors

Palomar Holdings, Inc. (PLMR) was our top performer in the first quarter. PLMR is a specialty insurance company focused on underserved property catastrophe insurance markets in the United States, with a particular emphasis on earthquake coverage. Palomar's business strategy involves underwriting and analytical expertise, allowing them to concentrate on markets with limited competition. Their key product categories include earthquake, inland marine & other property, casualty, fronting, and crop.

In February, Palomar reported strong fourth-quarter 2024 results that beat expectations, with significant growth in gross written premiums. The company also issued robust full-year 2025 guidance for adjusted net income, indicating continued positive momentum. Additionally, Palomar successfully closed its acquisition of First Indemnity of America (FIA) in early 2025, expanding into the surety market, which was seen as a positive development for diversification and growth. The anticipation of strong growth in key areas like earthquake and crop insurance for 2025 likely contributed to a favorable stock performance in the first quarter of 2025.

Limoneira Company (LMNR) was our top detractor and underperformed in the first quarter of 2025, primarily due to the conclusion of its strategic review during this period, opting to focus on internal growth initiatives rather than pursuing external alternatives. This decision, while aimed at long-term value creation, may have contributed to short-term investor uncertainty, impacting stock performance. In short, our thesis remains that the company's assets currently trade at less than half of their true private market value. This is supported by the fact that management's strategy to increase cash flows and returns on capital is sound, focusing on:

- Converting lemon acreage to avocados which are 5 times more profitable per acre
- Monetizing land and water rights
- Optimizing existing lemon acreage to improve cash flow stability and lessen market volatility.

Strategy Additions

Warby Parker Inc. (WRBY) is a multichannel direct-to-consumer lifestyle brand that specializes in selling affordable eyewear, including prescription eyeglasses, sunglasses, and contact lenses, as well as providing eye exams and vision tests directly to consumers through its retail stores and e-commerce platform. We believe WRBY is an attractive investment because of its consistent market share gains, strong revenue growth, and EBITDA expansion relative to its peer group. The company has potential for long-term growth given the size of the US eyewear market at around $66 billion. WRBY currently only holds a 1% market share, and we believe its ability to capture share is high. We see WRBY growing in the mid-teens and expanding its return on invested capital to greater than 20% in the future. Furthermore, WRBY's recent partnership with Target is seen as a material store expansion opportunity. We believe WRBY can grow store count further than analysts currently estimate.

From a responsible business perspective, Warby Parker is a certified B Corp, with the objective of providing access to products and services that promote vision and eye health while positively impacting the communities in which it operates. A notable initiative is its "Buy a Pair, Give a Pair" program, which has distributed millions of pairs of glasses to people in need for every pair purchased.

Since it is topical, tariffs do impact WRBY's business. Roughly 20% of WRBY's cost of goods sold come from China. However, management has stated that they have flexibility in moving the supply chain, and we believe WRBY has pricing power to offset some of the tariffs if they are applied more broadly outside of China.

Our interest in Bowhead Specialty Holdings (BOW) stems from its strategic positioning in the attractive specialty insurance market, particularly within the Excess and Surplus (E&S) space. Their business model balances a "craft" approach for complex, individual risks with the newly launched "flow" business, Baleen, which targets smaller, hard-to-place risks using a tech-enabled platform. Critically, Bowhead leverages its strategic partnership with American Family (AmFam), utilizing AmFam's "A" rating, to help grow.

The investment thesis here is compelling: BOW can capitalize on the favorable pricing environment in E&S and strong growth prospects in the specialty insurance market, leveraging their underwriting expertise without the burden of significant exposure to adverse development from older soft-market years due to their relatively recent inception. We anticipate that this focus will drive rapid and profitable premium growth, leading to material increases in both earnings per share (EPS) and book value per share. While it's important to note their reliance on net investment income due to currently lower underwriting margins, the potential for margin expansion as the business scales, coupled with the ramp-up of the innovative Baleen platform, makes BOW an interesting opportunity for sustained growth and potentially above-average valuation multiples.

Position Adjustments

We trimmed several positions in the quarter as they grew in size: Iridium Communications (IRDM) and Interdigital (IDCC). We also exited a number of positions entirely: Onto Innovation (ONTO), Brc Inc. (BRCC), and PJT Partners (PJT).

Future Outlook

Following the presidential election, small-caps initially began to outperform large-caps, but this trend reversed at the start of 2025. Despite a challenging start to the year across equity markets, our emphasis on higher-quality companies enabled us to maintain outperformance relative to our benchmark. As of this writing—shortly after "liberation day"—the announced tariffs appear materially more severe than anticipated, reinforcing a risk-off sentiment across markets. We are clearly in a bear market, with limited areas of refuge, and believe it is prudent to maintain a defensive stance while preserving dry powder for future opportunities.

The challenge of writing a quarterly letter in this environment is underscored by how quickly conditions can shift—our investment thesis could evolve significantly within weeks, if not days based on tariff announcements. Nevertheless, elevated uncertainty not only affects investors but also hampers corporate capital expenditure decisions, making a slowdown more likely unless events change significantly.

On a more constructive note, volatility can present opportunities to acquire high-quality businesses at discounted valuations. As 2025 progresses, we believe small-caps may be well-positioned to benefit from domestic economic resilience and lower exposure to global risks. Our strategy remains grounded in identifying undervalued small-cap businesses with durable operating models capable of navigating a dynamic macroeconomic landscape. We specifically focus on companies that are growing their sales and have improving returns on invested capital. This has been a recipe for finding compounders over time.

Thank you for your trust and confidence and please reach out with any questions.

Nathan Fredrick, CFA

(Disclosures and chart showing strategy largest contributors and detractors on next page).

Small Cap Strategy

Largest Contributors and Detractors – Q1 2025

5 Best - Absolute Contribution			
Ticker	Company	Average Weight	Contribution
PLMR	Palomar Holdings, Inc	3.51%	90 bps
SNEX	StoneX Group Inc.	5.39%	65 bps
ONTO	Onto Innovation, Inc	0.64%	47 bps
BOW	Bowhead Specialty Holdings Inc	0.42%	32 bps
IDCC	InterDigital, Inc	4.58%	29 bps
	5 Best Total	**14.54%**	**263 bps**

5 Worst - Absolute Contribution			
Ticker	Company	Average Weight	Contribution
LMNR	Limoneira Company	4.47%	-137 bps
UEC	Uranium Company	3.65%	-104 bps
VSTS	Vestis Corp	2.72%	-103 bps
STKL	SunOpta Inc	1.64%	-102 bps
MOD	Modine Manufacturing Comp	2.79%	-99 bps
	5 Worst Total	**15.27%**	**-545 bps**

Disclosures:

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