# Q3 2025 Quarterly Commentary

By Adam J. Peck, CFA

## Strategy Overview / Performance Summary

The Sustainable Value Strategy underperformed its benchmark, the Russell 2500 Value Index, in the third quarter of 2025. Year-to-date, the strategy has also underperformed. The quarter's underperformance was primarily attributed to stock selection, partially offset by a modest positive contribution from sector allocation.

Low-quality factors continued to lead the market—particularly high volatility, small size, and low price—none of which align with our quality-focused investment philosophy. We remain confident that high-quality companies outperform over the long term. Historically, low-quality stocks tend to outperform for the first six to twelve months following a bear market bottom. With the six-month mark now behind us, history suggests this advantage should begin to fade, supporting our disciplined approach.

Several holdings tied to artificial intelligence drove strong individual returns this year. We've pursued a "picks and shovels" strategy, focusing on semiconductor equipment, fiber optics, and electricity infrastructure rather than speculative AI names. We recognize that AI-related capital expenditures—particularly in data centers—have become increasingly frothy, but we believe this buildout still has one to two years to run. We plan to maintain our 10–15% allocation to these areas as long as valuations and fundamentals remain compelling. (For more on our AI outlook, please see our Small Cap Macro letter.)

## Sector Highlights

Stock selection primarily drove the quarter's performance in Q3. Information Technology emerged as our strongest performing sector, contributing significantly to relative returns, driven by exceptional performance from holdings Ciena, InterDigital, and Veeco Instruments. Real Estate added to performance, while Consumer Discretionary also contributed positively.

On the negative side, Health Care was the weakest sector. This was largely driven by Haemonetics and Lantheus Holdings, both of which faced company-specific headwinds. Health Care remained a volatile sector amid political uncertainty around healthcare coverage. Financials detracted from returns due to weakness in regional banking holdings and specialty insurance providers. Consumer Staples also subtracted from returns.

Despite the challenging quarter, we remain confident in our sector positioning. The strength in Information Technology reflects our thesis around companies benefiting from secular technology trends, including semiconductor equipment providers and intellectual property licensing businesses. We continue to see opportunities across our holdings to benefit from improving fundamentals as we head into 2026.

## Top Contributors & Detractors

### Top Contributor

**Ciena Corporation (CIEN)** was our top performer during the quarter. Ciena is a leading provider of network infrastructure equipment serving telecommunications and data center markets. The company benefited from accelerating demand for high-capacity networking equipment driven by artificial intelligence (AI) infrastructure buildouts. The company's innovation leadership in optical networking solutions helps its customers address rapidly increasing bandwidth demands driven by cloud and AI capex growth. AI deployment has enabled market share gains and positions the company for accelerated growth in the coming years. CIEN's superior competitive position is now being recognized by the market.

### Top Detractor

**Haemonetics Corporation (HAE)** was our largest detractor. Haemonetics provides blood management solutions and medical devices for blood and plasma collection. HAE traditionally served the plasma collection market, but has been diversifying into selling devices used in hospital procedures. The Hospital segment, which has been the new growth engine of the company, experienced a slight decline in sales during the quarter due to a competitor using price to take market share. This is what we believe caused the stock to sell off. Our checks indicate that doctors are moving back to HAE's products given their superiority. Additionally, the Plasma business is expected to begin growing again in 2026. We added to our position.

## Strategy Additions & Sales

### New Positions

We initiated four new positions during the quarter, reflecting our conviction in several compelling investment opportunities across multiple sectors:

**Valmont Industries, Inc. (VMI)** We initiated a position in this infrastructure and agriculture equipment manufacturer. Valmont produces utility structures, irrigation systems, and steel poles serving telecommunications and energy transmission markets.

The agriculture segment is 25% of sales and primarily produces pivot irrigation systems. When you are flying west across the country and see grids of green circles amidst the landscape, the odds are good that VMI is behind many of those systems keeping crops well fed. The company is focused on innovation and data collection to enhance water efficiency for its customers. The agriculture sector has been volatile the last several years due to several factors, but we feel it is nearing a bottom and has the potential to return to healthier levels.

Importantly, the infrastructure segment, which is a majority of sales, includes growth areas such as Transmission and Distribution, Substation as well as Lighting and Transmission. The company is well-positioned to benefit from grid modernization investments. Their backlog is near record levels and they are in the sweet spot of the emerging secular trend for the infrastructure and utility sector.

VMI has stated they can grow revenue an additional $500–$700M and generate $7–$12 in EPS upside over the next 3–4 years. We think this might be conservative given demand and increasing backlog. Additionally, the value proposition on VMI is attractive given their visibility and how they trade relative to their peers.

**Stifel Financial (SF)** is a diversified financial services firm that operates through its Global Wealth Management and Institutional businesses, offering advisory, brokerage, investment banking, and banking solutions to a broad client base. With over 2,300 financial advisors and a strong mid-market investment banking franchise, the firm has built a balanced platform that generates growth across cycles.

Stifel is well positioned for sustained growth, with its second quarter delivering record revenues and core earnings, both ahead of expectations. The firm continues to demonstrate momentum in advisor recruiting, adding its largest class in a decade. This should drive accelerating net new asset growth as wealth management expands toward $1 trillion in client assets over time.

Institutional performance is also improving, through its boutique investment bank and broker-dealer, KBW, which specializes in the financial services sector. Deregulation and lower interest should be tailwinds for bank M&A to take hold. KBW's leadership in bank M&A positions it to benefit as capital markets activity improves. Management has reaffirmed 2025 guidance, underpinned by operating leverage, it has a healthy balance sheet, and robust buyback capacity, giving confidence in the durability of earnings growth. Trading at only ~12x 2026 EPS estimates—below peers—SF offers attractive valuation relative to its earnings trajectory, with multiple catalysts in wealth and banking to support further upside.

**Lazard, Inc. (LAZ)** is a leading global independent investment bank and asset manager, with operations in over 25 countries. The firm advises corporations, governments, and institutions on mergers and acquisitions, restructuring, and capital solutions, while also managing assets across equity, fixed income, and alternative strategies. Lazard is entering a period of accelerating momentum, with its second quarter delivering a strong earnings beat on the back of robust advisory fees and stabilizing asset management flows. The advisory business is benefiting from geographic diversification—particularly in Europe—and from newer growth areas like private capital advisory and fundraising, which are taking an increasing share of revenues. At the same time, the asset management segment has shown its first net inflows in five years, supported by healthier fee rates, new product launches such as ETFs, and an improving distribution strategy. Management is also executing on talent expansion, with net new managing director hires tracking at the high end of targets, setting up the firm for sustained long-term growth. Trading at a discount to peers at just ~12x 2026 consensus EPS, Lazard offers a compelling combination of strong cyclical recovery potential, structural diversification, and attractive valuation upside.

**Cinemark Holdings (CNK)** is one of the world's largest and most geographically diverse movie theater operators, with nearly 5,700 screens across the U.S. and Latin America. The company differentiates itself with premium formats like XD and D-BOX (seats that have motion synced to the show), its growing Movie

Club subscription program (think recurring revenue!), and a loyal customer base that drives repeat attendance and higher concession spending.

While Q3 2025 is expected to be soft due to a weaker release slate, momentum is set to rebound strongly in Q4 with a blockbuster lineup including Avatar: Fire and Ash, Zootopia 2, and Wicked: For Good, positioning CNK for a strong box office result. Looking further ahead, 2026 represents a potential return to a pre-pandemic  year with major franchise releases such as Avengers, Spider-Man, Toy Story, and The Hunger Games, which should accelerate industry revenues and reinforce Cinemark's operating leverage. At the same time, the company has proactively addressed warrant-related dilution, providing balance sheet clarity and enhancing shareholder confidence. Trading at a discount to its historical multiples, CNK offers compelling upside as box office growth, premium format adoption, and loyalty engagement converge to drive stronger earnings and free cash flow in the years ahead.

**Position Exits**

We exited three positions during the quarter:

**Darling Ingredients Inc. (DAR)** - We exited this sustainable ingredients producer. While Darling's renewable diesel business, Diamond Green Diesel joint venture, presented an interesting sustainability angle, operational challenges and shifting government policy around renewable fuel incentives led us to exit the position.

**Lantheus Holdings Inc. (LNTH)** - We sold Lantheus amid concerns about increasing competition and pricing pressure in its radiopharmaceutical franchise.

**National CineMedia, Inc. (NCMI)** - We exited our position in this cinema advertising network. While NCMI benefited from the recovery in theater attendance, concerns about the evolving advertising landscape led us to exit. We felt swapping into CNK was smarter with its better recurring revenue model.

**Outlook**

We remain constructive on the positioning of the Sustainable Value Strategy heading into the fourth quarter and 2026. Despite stock-specific headwinds in Q3, we believe our portfolio is well-positioned across sectors benefiting from secular growth trends including technology infrastructure, healthcare innovation, and industrial reshoring.

Our recent portfolio activity reflects a focus on companies with improving business quality, sustainable competitive advantages, and attractive valuations. The additions of companies like Valmont and Cinemark demonstrate our emphasis on businesses undergoing positive transformations or positioned to benefit from long-term structural tailwinds.

We expect future relative performance to be driven primarily by stock selection, as has historically been the case for the strategy. Key factors we are monitoring include the pace of Federal Reserve policy adjustments, trends in corporate capital spending particularly around AI infrastructure, and potential volatility around any political events. The government is still shut down as we pen this letter. The market is assuming this does not last any longer than historical precedents, but this could change if we see no progress towards an agreement.

Despite near-term relative challenges, we maintain confidence in our disciplined process: identifying high-quality companies with strong returns on invested capital trading at reasonable valuations, while integrating responsibility considerations into our fundamental analysis. We believe the small- and mid-cap universe offers compelling opportunities for active managers willing to conduct deep, fundamental research.

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

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*(Disclosures and strategy largest contributors and detractors on next page)*

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## Sustainable Value Strategy

Largest Contributors and Detractors – Q3 2025

5 Best - Absolute Contribution

| Ticker | Company | Average Weight | Contribution |
|---|---|---|---|
| CIEN | Ciena | 4.23% | 280 bps |
| IDCC | Interdigital | 4.12% | 165 bps |
| VECO | Veeco Instruments | 2.83% | 139 bps |
| ECG | Everus Construction Group | 3.80% | 117 bps |
| LOPE | Grand Canyon Education | 4.91% | 84 bps |
| | **Top 5 Total** | **19.89%** | **785 bps** |

5 Worst - Absolute Contribution

| Ticker | Company | Average Weight | Contribution |
|---|---|---|---|
| HAE | Haemonetics | 2.96% | -127 bps |
| LNTH | Lantheus Holdings | 0.96% | -99 bps |
| SKWD | Skyward Specialty Insurance | 2.99% | -67 bps |
| TGLS | Tecnoglass | 3.25% | -46 bps |
| PNFP | Pinnacle Financial Partners | 1.96% | -34 bps |
| | **Top 5 Total** | **12.12%** | **-373 bps** |

*Disclosures:*

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