Q2 2026 Quarterly Commentary

By Adam J. Peck, CFA

Performance Summary

Small-cap stocks achieved their best first-half performance since 1991. During the second quarter, the Russell 2500 Value Index rose 17%, driven primarily by the technology sector, which surged 75%.

The Sustainable Value Strategy underperformed its benchmark in the second quarter. The shortfall came almost entirely from stock selection rather than sector positioning, and was concentrated where the market ran hardest.

Intellectual honesty requires us to address the primary driver of Russell 2500 Value performance in 2026 that was absent from our portfolio: SanDisk (SNDK). Spun off from Western Digital in February 2025, this NAND flash memory company appreciated approximately 720% year-to-date and roughly 4,000% over the trailing twelve months. At its peak, SanDisk comprised nearly 5% of the Russell 2500 Value Index and accounted for an estimated 6% of the index's year-to-date 2026 return. All driven by a single stock.

The fundamental story is real. AI data centers require enormous quantities of high-performance NAND flash storage.

We did not own SanDisk. Memory semiconductors remain a cyclical commodity business. NAND pricing is dictated by supply and demand at the industry level rather than individual competitive advantages, effectively rendering producers price-takers rather than price-makers. Historically, these companies have earned poor returns on invested capital across the cycle, punctuated by concentrated bursts of enormous profitability when supply is tight. SanDisk in 2026 is in the tight-supply period.

SanDisk also exceeded our market capitalization threshold, starting the year above $40 billion — well outside our investable range. By the time it was reconstituted out of the Russell 2500 Value Index at the end of the quarter, its market cap had surged past $250 billion. We believe it is more important to maintain discipline regarding our mandate than to compromise our investment framework simply to avoid the discomfort of short-term underperformance.

Market Context

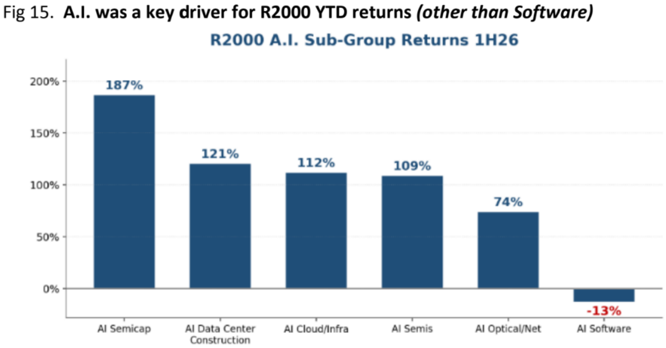
Sector Highlights

Technology finished the quarter as our largest overweight position at over 17% of the portfolio, compared to 10% for the benchmark. However, this shift was largely driven by the Russell index reconstitution, which occurred just days before the quarter ended. The benchmark's technology weight dropped from 19.8% on Friday June 26th to 10.2% on Tuesday June 30th, abruptly shifting our 17% allocation from a slight underweight to our largest overweight position.

The quarter was defined by the technology sector, driven primarily by artificial intelligence. While our technology holdings posted strong absolute gains, led by Veeco Instruments (VECO), they trailed the benchmark's technology cohort surge of 75%, as our higher quality holdings could not match the broader rally. Despite this, our technology names remained our best performers, contributing close to half of our total return. Being right on the sector and still losing ground within it is an unusual combination. That was the quarter.

The quarter felt slightly reminiscent of late 1999 when any company affiliated with .com, even if just in its name, had phenomenal returns. The same exuberance was true for AI exposed names in the quarter.

Fig 15. **A.I. was a key driver for R2000 YTD returns *(other than Software)***



Source: Furey Research Partners

Top Contributor

Veeco Instruments (VECO) was our largest contributor for the quarter.

As a supplier of laser annealing and ion beam deposition equipment, the company is integral to manufacturing advanced semiconductors, including the high bandwidth memory essential for AI data centers. Orders and results came in well ahead of expectations as memory makers raced to add capacity, causing the stock to more than double in three months. Consistent with our discipline, we trimmed the position repeatedly throughout the quarter as the position size grew. Veeco remains a holding at an appropriate, defensible, weight.

Top Detractor

Methanex (MEOH) was the largest detractor during the quarter.

Methanex sold off late in the quarter because the Iran/Hormuz-linked risk premium that drove methanol's spring rally unwound once the ceasefire took hold. We believed the Middle East conflict would disrupt natural gas feedstock and shipping through the Strait of Hormuz for an extended period. Once the peace agreement removed that geopolitical premium, methanol prices gave back much of the gain.

The decline was compounded by an idiosyncratic operational setback: Methanex announced the indefinite idling of its 860,000-tonne Titan methanol plant in Trinidad and Tobago, following the inability to secure a new natural gas contract ahead of the current agreement's expiration in the third quarter of 2026. However, this was not included in EBITDA estimates for the year.

While we initiated a partial position and continue to evaluate its long-term merit, we remain attracted to its strong free cash flow margin and double-digit free cash flow yield. Despite expectations for cash flow to decline in 2027 versus 2026, we still think the company is undervalued based on normalized methanol pricing.

Portfolio Changes

BUYS

Stevanato Group (STVN)

Founded in 1949 and headquartered in Piombino Dese, Italy, Stevanato is a leading global provider of drug containment and delivery solutions (think glass vials and syringes) to the pharmaceutical, biotechnology, and life sciences industries. The company remains family controlled, with Franco Stevanato serving as CEO and Board Chair and the family owning 78% of the stock, aligning its interests with ours.

After monitoring the company for several years, our recent discussions with management reinforced our confidence in the franchise's durability.

Stevanato has evolved from a regional glass manufacturer into a vertically integrated, mission critical supplier serving customers in more than 70 countries. Regulatory qualification of its manufacturing processes creates significant switching costs. STVN made a strategic shift to focus its new capacity on High-Value Solutions (HVS), which include premium products such as Nexa® high-performance prefilled syringes and EZ-fill® vials and cartridges designed for biologics and sensitive drug formulations. These intentional moves have enabled an inflection in revenue growth, margin expansion, and free cash flow generation.

The stock sold off after the launch of oral GLP-1 drugs, which some believe will end the need for injectable formats. We disagree and believe that an expanding GLP-1 market with varied use cases should sustain injectable demand. Indeed, 25% of drugs approved in 2025 were biologics which will require injectable devices. The overreaction gave us an opportunity to buy at 12.5x expected fiscal 2026 EBITDA versus the company's historic 20x and its closest comparable, West Pharmaceutical (WST), at 22x to 25x.

NetScout Systems (NTCT)

NetScout provides service assurance and cybersecurity solutions built on its pioneering deep packet inspection technology, used by many Fortune 500 companies to protect digital business services against disruption. Its patented Adaptive Service Intelligence platform helps customers find and resolve network performance issues and defend against denial of service attacks, which botnet operators now launch by the hundreds of thousands weekly against governments, NGOs, and enterprises.

As a result, customers can quickly resolve issues that cause business disruptions, downtime, poor service quality or compromised security, thereby driving compelling returns on their investments in their network and broader information technology (IT) initiatives. The rise of AI driven threats, cloud migration, and 5G buildouts all expand NetScout's opportunity.

We paid roughly 2x revenue to enterprise value and 13x earnings, which we view as an attractive entry point for a software business that we believe is poised for better growth.

Knight-Swift (KNX)

We added Knight Swift last quarter on the strength of two structural catalysts converging with a cyclical trough. The *Montgomery v. Caribe Transport* Supreme Court ruling in May established broker liability for negligent carrier selection, and permanently raised the bar for shippers and brokers using marginal, non-vetted carriers, favoring scale players like Knight-Swift with clean safety records over small fleets that have driven overcapacity. This structural tailwind landed on top of a freight cycle that has been in a rate/volume trough for roughly three years, with truckload spot and contract rates depressed since the post-pandemic capacity glut. The combination gave us a cyclical trough entry point (buying depressed through-cycle earnings power) layered with a durable, tort-driven demand shift toward larger carriers.

SALES

Charles River Laboratories (CRL)

We sold Charles River Laboratories to fund our buy of Stevanato Group. While the company is making progress on portfolio optimization, we remain cautious about the long term impact of the FDA's New Approach Methodologies on the company's animal testing business in preclinical drug discovery.

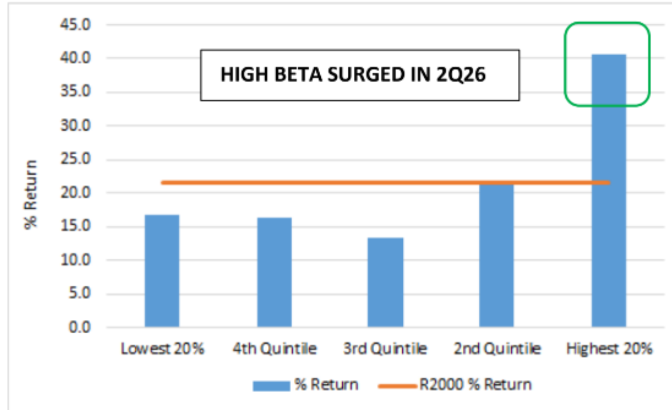
Leggett & Platt (LEG)

We exited Leggett & Platt following the announcement of its acquisition by Somnigroup International in a stock-for-stock deal. Once the deal was announced, LEG traded as a merger-arb spread against SGI stock rather than on its own fundamentals. Continuing to hold it stopped being an investment on the underlying bedding-components business, our management thesis, or valuation discipline and became a bet on deal spread and closing risk, which we decided to not take.

Outlook

Looking ahead to 2026, we entered the year with a constructive view on small-cap equities, supported by improving monetary conditions, attractive relative valuations, and an anticipated rotation back toward higher-quality businesses. The rotation has not started. Last quarter was Beta's best relative quarter within the Russell 2000 in over a decade.

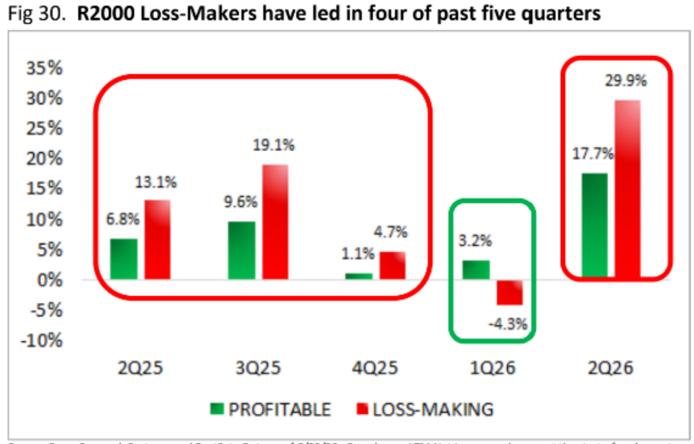
Fig 83. **Highest Beta alone outperformed in 2Q26**



Source: Furey Research Partners and FactSet. Sector-neutral.

Loss-makers significantly outperformed profitable companies by more than 1200 basis points in the quarter. This extends a run in which they've led in four of the past five quarters, outperforming by over 3100 basis points across that time span.

Fig 30. **R2000 Loss-Makers have led in four of past five quarters**



Source: Furey Research Partners and FactSet. Data as of 6/30/26. Based upon LTM Net Income as known at the start of each quarter.

While quality continues to lag in the short term, our commitment to disciplined, quality-focused investing remains unchanged. Historically, quality prevails over the long term, and we believe our portfolio is well-positioned for the eventual normalization of market leadership.

As always, thank you for your trust and confidence and please reach out with any questions.

Adam J. Peck, CFA
Portfolio Manager

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

Sustainable Value Strategy
Largest Contributors and Detractors — Q2 2026

5 Best - Absolute Contribution

Ticker	Company	Avg. Weight	Contribution
VECO	Veeco Instruments Inc.	3.92%	3.43%
PLXS	Plexus Corp.	4.00%	1.61%
ECG	Everus Construction Group, Inc.	3.30%	1.40%
ADEA	Adeia Inc.	3.84%	1.26%
VMI	Valmont Industries, Inc.	2.83%	1.07%

5 Worst - Absolute Contribution

Ticker	Company	Avg. Weight	Contribution
MEOH	Methanex Corporation	2.88%	-0.63%
RRC	Range Resources Corporation	2.79%	-0.59%
LOPE	Grand Canyon Education, Inc.	3.22%	-0.55%
CENX	Century Aluminum Company	2.06%	-0.48%
JKHY	Jack Henry & Associates, Inc.	2.41%	-0.37%

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