SMALL CAP STRATEGY

Q3 2026 Quarterly Commentary

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Strategy Overview / Performance Summary

During the third quarter of 2026, the Small Cap strategy slightly underperformed its benchmark, the Russell 2000 Index, in a period in which small-cap stocks broadly declined. The strategy remains ahead of its benchmark for the year to date.

The modest shortfall was driven by sector allocation rather than stock selection. Our overweight positions in Industrials and Information Technology, two of the weaker areas of the benchmark, along with our underweight to Health Care, which held up better than the broader index, weighed on relative results. Stock selection, by contrast, was positive in aggregate: strong selection in Health Care, Information Technology, Utilities, and Consumer Discretionary slightly more than offset weaker results in Energy, Financials, Materials, and Consumer Staples.

Market Context

The third quarter was defined by a narrowing market. Large-cap indices pushed to new highs as flows concentrated in a handful of the largest companies, while beneath the surface most stocks traded below their longer-term trend lines and small-caps declined. Geopolitics again set the tone for commodities. Renewed conflict in the Middle East disrupted shipping through the Strait of Hormuz, and a mid-September attack on a major Saudi pipeline sent crude sharply higher before flows on the pipeline normalized by quarter-end. Energy equities, particularly exploration, production, and services companies, nonetheless failed to keep pace with the underlying commodity, as investors discounted the durability of supply-driven price strength.

Inflation kept the rate outlook unsettled. Increasingly, we view it as a supply problem: diesel, aluminum, milk, beef, and chicken all cost more. Late in the quarter, markets were pricing a meaningful chance that the Fed's next move would be a hike. Rate-sensitive groups lagged, including utilities and REITs, which trade as bond proxies, and banks, whose net interest margins were pinched by higher funding costs. Meanwhile, the artificial intelligence trade that powered markets in the first half rolled over in September. Semiconductor stocks and companies tied to data centers fell with it. Investors moved back toward profitable health care companies, one of the few parts of the market that held its uptrend all quarter.

Sector Highlights

Health Care was the strategy's strongest sector by a wide margin. While we were underweight the sector relative to the benchmark, our holdings beat in a quarter when benchmark health care stocks were modestly negative due to the selloff in biotech, which we do not own. **AtriCure (ATRC)** and **Merit Medical Systems (MMSI)** were leaders as investors returned to profitable, growing medical technology companies. Information Technology also added to relative results through stock selection; although our overweight to a weak sector detracted, our technology holdings declined less than those in the benchmark, helped by gains in **InterDigital (IDCC)** and **Red Violet (RDVT)**. Additionally, relative performance benefited from an underweight positioning in Consumer Discretionary, strength in **Grand Canyon Education (LOPE)**, and an overweight in Utilities, where our holdings held steady while benchmark utilities declined.

Energy was the largest drag, entirely a function of stock selection: our energy holdings declined even as benchmark energy stocks rose, as **Kodiak Gas Services (KGS)** and **CNX Resources (CNX)** fell despite elevated commodity prices, partially offset by a gain in **Oceaneering International (OII)**. Financials detracted primarily through selection, with **Coastal Financial (CCB)** and **StoneX Group (SNEX)** both falling sharply.

Top Contributors

AtriCure (ATRC) was our top contributor, with shares roughly doubling during the quarter. The company has continued to deliver on its strategic objectives: growing its core cardiac ablation franchise, expanding the addressable market for ablation, and

building its newer pain management business, all while free cash flow has improved every quarter since we first purchased shares in early 2025. Despite this steady execution, the stock had languished alongside medical technology peers for much of the past year, weighed down by worries over new competitive entrants in left atrial appendage management. When the market rotated back toward profitable, growing med tech companies this quarter, AtriCure's fundamentals were rewarded, a move amplified by its pending addition to the S&P SmallCap 600. We trimmed the position on this strength as it grew to more than 5% of the portfolio, but we continue to view the business as solid and the stock as attractively valued relative to larger peers.

Red Violet (RDVT) was one of our top contributors in the third quarter, with shares gaining roughly 24% after the company reported a record second quarter in August. Revenue grew 23% to $26.7 million, while adjusted EBITDA rose 48% and margins expanded seven percentage points to a record 42%, a clear demonstration of the operating leverage built into its identity intelligence platform. Growth was broad-based: four of its five verticals reached all-time highs, and the company added a record 447 customers to its IDI platform. Its FOREWARN product, already contracted with 660 REALTOR® associations at a 100% renewal rate, expanded into home healthcare, a market of roughly four million home health aides. Management also pointed to a rapidly growing enterprise pipeline.

Top Detractors

Kodiak Gas Services (KGS) was our largest detractor in Q3, with shares down more than 25%, though they remain up roughly 40% year to date. We trimmed the position in early May based on position size, performance, and valuation. The main driver of the decline was the market's view of Kodiak's data center exposure. Behind-the-meter (BTM) AI power names sold off in mid-August as investors questioned hyperscaler power commitments. Kodiak's new power segment (405 MW today, 2 GW targeted by 2030, about 1.8 GW secured) was put in that basket, even though power was only about 8% of Q2 revenue.

Management raised 2026 adjusted EBITDA guidance to $830–860 million. Our thesis on the core gas compression business has not changed; if anything, it has strengthened. Compression is critical infrastructure for the natural gas build-out, supporting pipelines, LNG exports, and the in-basin gas-fired generation that feeds the electrical grid. All 2026 deliveries and half of 2027 are contracted, with equipment secured through 2029. Because the contracts are fee-based and long-dated (7–10 years), earnings are largely insulated from commodity prices.

PDF Solutions (PDFS) also weighed on results, declining nearly 30%. Its August results were largely in line, as the company continued to grow in line with its 20% annual growth target. PDFS gained traction embedding its software in the majority of manufacturing equipment, including at its largest customer, Intel. The shares sold off in sympathy with semiconductor stocks generally. We remain comfortable with PDF Solutions as our primary semiconductor holding in the strategy. It provides necessary process management for the complex semiconductor manufacturing industry. We had trimmed the position in July as part of a broader effort to reduce our technology exposure.

Portfolio Changes

New Positions

IRadimed (IRMD): We initiated a position in IRadimed at the start of the quarter, replacing **Talkspace (TALK)** after it was acquired. We view the company as the leader in MRI-compatible medical devices; it makes the non-magnetic IV infusion pumps and patient monitors that hospitals need to safely care for patients inside the MRI suite.

We believe the company is entering the most significant product cycle in its history. Its next-generation 3870 pump, launched in early 2026, is now replacing an installed base of more than 6,400 aging pump channels, at a pace management expects to reach about 1,000 channels a year. Management says early demand is exceeding its expectations: more than 70% of new orders are for a four-pump "quad stack" configuration that doubles the number of pump channels per site; quad systems sell for more than $110,000 with a 20%-plus price lift per pump, and order lead times are stretching toward four to six months.

That ramp shows up in the outlook. Management expects production to more than double in the third quarter, to over 300 units. Third-quarter revenue is guided to $23.0–24.5 million, up from $20.5 million

in the second quarter. Full-year guidance stands at $91–96 million in revenue and $2.09–2.24 in non-GAAP EPS. Management also expects gross margins, temporarily pressured by start-up costs, to return to and surpass historical highs by the fourth quarter. There is more here than the replacement cycle. Recurring disposables revenue grew more than 14% last quarter, and domestic monitor bookings hit a record. Management's projections also leave out greenfield sales to new customers. Each of these could add upside. The stock fell roughly 10% during the third quarter amid the transition, which we view as an attractive entry point ahead of the revenue and margin inflection.

Prestige Consumer Healthcare (PBH): We initiated a position in Prestige Consumer Healthcare, which owns a portfolio of niche over-the-counter health brands, including Dramamine, Clear Eyes, Breathe Right, and Chloraseptic. We view the company as a self-help story. A new management team has a plan in place to restore supply in its eye care franchise, recently acquired brands are growing faster than the core portfolio, and the company raised its free cash flow guidance.

The business generates high margins and strong free cash flow, and while leverage is elevated following acquisitions, Prestige has a long track record of paying debt down quickly. Our work on consumer trade-down risk showed that many of its brands are occasional-use products where buyers favor a trusted name. With the shares near 10 times earnings, their lowest valuation in a decade, we believe the risk-reward is attractive.

Alliance Laundry Holdings (ALH): We initiated a position in Alliance Laundry in August, funded through a one-for-one swap out of **Worthington Enterprises (WOR)**. We discuss Alliance Laundry in more detail below.

Position Exits

Talkspace (TALK): We sold Talkspace at the start of the quarter as the company was bought out by another healthcare company, using the proceeds to fund our new position in IRadimed.

Modine Manufacturing (MOD): We exited Modine in early July, first trimming the position and then selling the remainder. While Modine is a high-quality company, we were looking to reduce our exposure to the AI trade. Modine moved in line with many of our technology names, so we decided to sell the stock and shift into another industrial name.

Coastal Financial (CCB): We exited Coastal Financial in July. Our thesis rested on its role as a banking partner to fintech companies and the operating leverage those partnerships were expected to deliver this year. Instead, investment in those relationships has weighed on profitability, the company's recently hired CFO departed, and an easing regulatory environment is encouraging some fintech partners to pursue their own bank charters, a potential long-term headwind. With the stock lagging other banks and the accumulating news pointing to a more difficult path than we originally expected, we chose to move on.

Midera Food Processing (MFP): We sold the shares of Midera Food Processing that we received in **Middleby's (MIDD)** July spin-off. We sold the small position after the newly issued shares rose.

Worthington Enterprises (WOR): We sold Worthington to fund the Alliance Laundry purchase. The company's quarterly results had been inconsistent and its guidance underwhelming. We prefer Alliance's steadier, more recurring revenue model.

Notable Holdings / Themes

Alliance Laundry Holdings (ALH) is a global leader in commercial laundry equipment and the only pure-play manufacturer in the industry. Founded in 1908 in Ripon, Wisconsin, where it still manufactures most of its North American product, the company sells under the Speed Queen, UniMac, Huebsch, Primus, and IPSO brands. In its commercial end markets it is roughly twice the size of its next competitor and ranks first in North America, Latin America, and Asia Pacific (excluding China). Revenue is spread across three end markets:

- **Vended (~42%):** laundromats and multi-housing laundry rooms, where machines run three to five cycles a day.
- **Commercial In-Home (~30%):** commercial-grade Speed Queen machines sold to households.
- **On-Premise (~28%):** hotels, healthcare, fire stations, and athletics, where machines run 10 to 12 cycles a day.

An installed base of roughly eight million units across about 150 countries means more than 70% of unit sales come from replacement demand, and a network of about 600 distributors (94% of North American partners have been with the company for over a decade) makes that demand highly repeatable. The results show the quality of the franchise. In 2025, revenue grew 13% to $1.71 billion and adjusted EBITDA grew 14% to $436 million, a record 25.5% margin. In the second quarter of 2026, adjusted EBITDA rose 12% with margins above 28%, and management raised full-year EBITDA growth guidance to 8–10%.

The key to the thesis is that Alliance is not an appliance company, and investors who treat it like one miss the point. Residential laundry makers such as Whirlpool and LG compete on price and feature checklists. Their machines are built largely from plastic to hit retail price points, which locks them into thin margins, constant promotion, and the housing cycle.

Alliance designs for the commercial operator, whose economics depend on uptime. The purchase price is only a fraction of a machine's total cost of ownership, so durability, energy and water efficiency, and serviceability matter far more than price. The company assumes a 10-year average useful life and a 7–13 year replacement cycle across its products, but some large-chassis machines last 20 to 25 years. That commercial DNA now carries into the home. Consumers frustrated with short-lived residential machines are paying a premium for Speed Queen; Consumer Reports ranked Speed Queen the most reliable appliance brand in all six years the designation was awarded. (One member of our team even bought one this year after growing frustrated with the durability of a competitor's machine.) Pricing power follows reliability. Price drove slightly more than half of second-quarter revenue growth and fully offset tariffs. When new entrants came in at roughly 15% lower prices, they did not dent Alliance's growth.

We saw the difference firsthand when we traveled to Alliance's headquarters in Ripon, Wisconsin. Touring the roughly 1.6 million square feet of manufacturing space, we watched machines built and put through an ISO 17025-certified testing lab, part of a network of about 800 test bays the company runs across its global sites. The most telling part of the visit was a side-by-side teardown against competing products. Where competitors leaned on plastic components and lighter construction to hit a price, Alliance's machines were built around steel and commercial-grade parts engineered to run for decades. That is the same philosophy behind Speed Queen's introduction of stainless-steel wash tubs back in 1938. The craftsmanship was obvious, and it explains why operators replace an Alliance machine with another Alliance machine. In a category where competitors win on price and live on thin margins, Alliance wins on longevity and total cost of ownership, and it earns margins that reflect it.

At the September 30 price of $21.30, ALH trades at roughly 11.5 times our 2026 adjusted EBITDA estimate of about $475 million, the midpoint of management's guidance, and about 16.5 times our 2026 adjusted EPS estimate of $1.29. That is a meaningful discount to the high-quality HVAC and building-products peers we view as its closest comparables, which trade in the high teens to more than 20 times 2027 EBITDA. We think that discount is unwarranted for a business with this margin profile, replacement-driven visibility, and pricing power. Meanwhile, the fundamentals keep improving. Debt has been cut by $825 million over the past year, net leverage has fallen to 2.4 times, and management targets 2.0 times by year-end, which should open the door to dividends or buybacks.

Sustainability is built into the product. A machine designed to run 20 to 25 years means fewer units manufactured and discarded over a customer's ownership. Efficiency is the core of Alliance's value proposition:

- **Energy and water:** many of its washers are ENERGY STAR certified, its equipment delivers roughly 20% energy savings and lower water use, and its UniMac ProCapture system captures about 98% of dryer-generated lint.
- **Operations:** the company has implemented ISO 14001 environmental and ISO 45001 safety management systems and reduces its recordable injury rate each year. Solar panels at its Thailand plant cut energy use by 1.2 gigawatt-hours in their first year.
- **Community:** it supports engineering education in schools and orphanages in Thailand.

Outlook

Heading into the fourth quarter, uncertainty is higher than at any point this year. In our last letter, we described a market that had moved past the initial energy shock, with a ceasefire and memorandum of understanding restoring a risk-on tone and leaving us less bearish on the consumer. That calm proved short-lived. Renewed disruptions in the Middle East, including a mid-September attack on a major Saudi pipeline, sent oil back above $100 per barrel, and the inflationary pressure that followed has reshaped the rate outlook. Long-term interest rates have moved significantly higher, and a Federal Reserve that entered the year with a dovish bias has turned decidedly hawkish, with markets now pricing in the possibility of rate hikes.

Sentiment toward artificial intelligence has shifted as well. The AI trade that led markets for much of the year has met more aggressive pushback, and sentiment has turned more bearish, even as the underlying fundamentals of many of these businesses remain solid. Some of our technology holdings reported solid results during the quarter, only to see their shares sell off. We continue to believe the picks-and-shovels businesses we own have durable demand behind them, and we view the gap between fundamentals and stock prices as a sentiment problem rather than a business problem.

From a sector standpoint, conviction is difficult to come by, as the areas that would typically offer shelter are not acting defensively:

- **Utilities** have moved lower as rising rates weigh on their appeal as bond proxies, even though their underlying fundamentals have not deteriorated.
- **Consumer staples**, which we had been adding to as a defensive way to maintain consumer exposure, are seeing margins pinched by inflation in key inputs while retailers push back on price increases.
- **Insurance companies**, after taking significant rate increases over the last several years, are now operating in a softer pricing environment.
- **Consumer discretionary**, where we saw attractive entry points last quarter, has turned more bearish as higher oil prices and rising rates squeeze household budgets.

Health care is the exception. As we anticipated in our last letter, a broader rotation into the sector has taken hold, and it was one of the few areas of the market that held its uptrend through the quarter. More importantly, we see good visibility into the businesses we own there, many of which are supported by multi-year product cycles, replacement demand, and recurring revenue that are largely insulated from swings in oil prices and interest rates.

The bottom line is that in an environment like this one, our job is not to predict the next move in oil or the next decision from the Fed. It is to find high-quality businesses that have sold off and now trade at attractive valuations. We look for companies with clear visibility into their business, where we can confidently underwrite earnings several years out. We believe those companies can hold up through a difficult stretch and be well positioned when it ends.

Our new positions this quarter reflect that approach: Alliance Laundry came under pressure from a private equity secondary offering despite its replacement-driven business model, Prestige Consumer Healthcare is trading near its lowest valuation in a decade, and IRadimed is entering a multi-year replacement cycle for its next-generation pump.

Taken together, we would characterize our stance as cautious but opportunistic. Periods of elevated uncertainty rarely feel comfortable, but they are often when the market offers the best prices for the businesses we most want to own, and we intend to take advantage of them.

Closing Remarks

The third quarter rewarded patience in some corners of the portfolio and tested it in others. We remain focused on our process of owning high-quality, reasonably valued businesses. As always, we are grateful 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).

Small Cap Strategy
Largest Contributors and Detractors – Q3 2026

5 Best - Absolute Contribution

Ticker	Company	Avg. Weight	Contribution
ATRC	AtriCure, Inc.	3.88%	2.48%
RDVT	Red Violet, Inc.	2.59%	0.54%
MMSI	Merit Medical Systems, Inc.	2.71%	0.52%
IDCC	InterDigital, Inc.	3.45%	0.45%
STVN	Stevanato Group SpA	3.32%	0.39%
	5 Best Total	**15.95%**	**4.38%**

5 Worst - Absolute Contribution

Ticker	Company	Avg. Weight	Contribution
KGS	Kodiak Gas Services, Inc.	3.40%	-1.17%
PDFS	PDF Solutions, Inc.	2.53%	-1.03%
CCB	Coastal Financial Corporation	0.61%	-0.89%
LWAY	Lifeway Foods, Inc.	2.41%	-0.78%
ADEA	Adeia Inc.	2.68%	-0.77%
	5 Worst Total	**11.63%**	**-4.64%**

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