

SUSTAINABLE VALUE STRATEGY

Q3 2026 Quarterly Commentary

By Adam J. Peck, CFA

Strategy Overview

The Sustainable Value Strategy trailed its benchmark, the Russell 2500 Value Index, in the third quarter. Negative stock selection drove relative underperformance, whereas sector allocation offered a modest offset. Drag was concentrated in previous outperformers, specifically businesses leveraging artificial intelligence infrastructure development, which pulled back in tandem as market sentiment cooled. Health Care was a key area of strength.

Our primary detractor was **Veeco Instruments (VECO)**, a manufacturer of processing equipment critical for advanced semiconductor fabrication. After more than doubling from April through June, Veeco's share price surrendered nearly all of its gains by September, even as its core operational outlook strengthened. In our view, these drastic market fluctuations far exceeded any shifts in business fundamentals, and we discuss Veeco in more detail below.

Market Trends

Two main forces shaped the quarter. The first was a sharp reversal in the momentum trade tied to AI build-outs. After a remarkable first half of the year, stocks tied to semiconductors, data center construction, and electrical infrastructure fell together, largely regardless of what the underlying companies reported. Several of our portfolio holdings beat estimates and raised guidance during the quarter and still finished lower. The second was energy. Disruption in the Middle East kept oil prices elevated, and Energy was the strongest sector in the benchmark. Higher fuel costs and persistently high interest rates weighed on the sectors investors usually treat as shelter from volatility: Utilities, REITs, and Consumer Staples. Conventional defensive positioning offered little protection.

The one place fundamentals clearly reasserted themselves was Health Care. After a long stretch of neglect, investors rotated back toward profitable,

growing medical technology companies, and our holdings there were rewarded.

Sector Highlights

Information Technology was the largest drag on relative performance, almost entirely through stock selection. Veeco, **Adeia (ADEA)**, **Plexus (PLXS)**, and **NetScout Systems (NTCT)** all declined, and our overweight to the sector compounded it. We aim to add alpha through stock selection and rarely, if ever, make large intentional sector bets. The Russell reconstitution left us roughly seven percentage points overweight Information Technology as we entered the quarter, right as the AI trade peaked. We were two percent underweight going into the reconstitution at the tail end of June, creating a nine percent swing in a day.

As a reminder, many of the AI names became so large (Sandisk, for example, exceeded \$250 billion in market cap at 9/30)¹ that they graduated up and out of the Russell 2500 Value Index in a single day. We did not cut our sector weight in a single day, and that gap has driven much of the year-to-date underperformance. We methodically reduced our positions in Technology over the quarter to end at a modest overweight.

Energy was the second-largest detractor. The sector led the benchmark, but our holdings, which lean toward natural gas and midstream, finished lower. We did not have enough exposure to the best-performing parts of Energy, refining and oil-levered E&P companies. Industrials, our largest sector weight, detracted through selection as the data center-exposed names gave back earlier gains.

Health Care was the standout, contributing through both our overweight and strong stock selection. Materials and Consumer Discretionary also added modestly.

¹Factset.

Top Contributors

Haemonetics (HAE), which describes itself as the global leader in plasma collection technology, was the top contributor during the quarter, returning 40%. Haemonetics has required patience, given that the stock has been more volatile than the business. During the quarter, Haemonetics's second-quarter earnings report confirmed its position as the leading supplier of plasma collection technology,² despite the loss of its largest customer, CSL, which ended the relationship a full four years after giving notice. Just as important, Haemonetics's interventional technologies business had a solid quarter. This clean report with a clearer path to sustained growth, combined with a rotation back into med tech stocks, propelled Haemonetics higher. Shortly after the earnings release, Haemonetics announced that CSL would return as a customer.³ We believe CSL's return will drive revenue and earnings growth above current expectations and act as a tailwind for the stock.

Methanex (MEOH) gained more than 25%, though the path was not smooth. Second-quarter results missed estimates and shipments to China fell. Late in the quarter, Methanex reported meaningfully higher methanol pricing in Asia and China, easing concerns about Chinese demand.

InterDigital (IDCC), **Stevanato Group (STVN)**, and **Exelixis (EXEL)** rounded out our top contributors.

Top Detractors

Veeco was our largest detractor. The stock fell alongside nearly everything leveraged to AI spending after its extraordinary first half. It remains up roughly 80% year-to-date.⁴ Veeco's equipment is central to adding semiconductor capacity, and we believe that opportunity has a long runway.

We trimmed the position methodically throughout the year. We started trimming in the spring as the stock began its ascent and accelerated the sales in June after the stock almost tripled from late February. By June we had trimmed the initial position size by about 60%. From its June peak to the September lows the stock fell by half. In September we cut the position

size again as part of a broader reduction in semiconductor exposure to bring down our overweight. We will look to add back, but for now are comfortable with a partial position.

Adeia (ADEA), which licenses intellectual property across media and semiconductors, fell roughly 22% after a strong first half. We had already trimmed it in July, alongside **Plexus (PLXS)** and **Everus Construction Group (ECG)**, as we began reducing our AI-related exposure. In hindsight, we did not reduce it enough.

Everus is the clearest example of the quarter's disconnect. The company beat estimates, raised guidance, and closed an acquisition that adds off-site modular construction for data centers. The stock fell sharply anyway. Our concern was less with Everus's outlook and more with its valuation and the growth expectations already built into it. Data center construction is increasingly financed with debt in opaque structures, and if that financing tightens, contractors will feel it first. We sold the remaining position in September and used the proceeds to purchase **KBR (KBR)**.

Valmont Industries (VMI) and **AZZ (AZZ)** also detracted. Both Valmont's and AZZ's results remain solid; their decline reflected multiple compression across electrical infrastructure names rather than a change in fundamentals.

Portfolio Changes

New Positions

We initiated a position in **Lineage (LINE)**, which describes itself as the world's largest operator of temperature-controlled warehouses.⁵ Cold storage has been working through an inventory overhang, and leading indicators suggest that the cycle is turning. Among cold storage REITs, we view Lineage as the higher-quality business, with more automation and a more modern facility base. Since our purchase, the company beat estimates, raised full-year guidance, and reported higher physical occupancy. An executive bought roughly \$1 million of stock in the open market.⁶ The share price has not yet followed, and the stock trades at a significant discount to net asset value

²Haemonetics Corporation, "Haemonetics Receives FDA Clearance for NexSys PCS Plasma Collection System with Persona PLUS Technology," February 23, 2026.).

³Haemonetics Corporation, Form 8-K, August 18, 2026, Item 7.01.

⁴Factset.

⁵Lineage, Inc., "Reports Second-Quarter 2026 Financial Results," August 5, 2026.

⁶Robb A. LeMasters, SEC Form 4, filed August 10, 2026.

(NAV) and looks attractive on price to funds from operations (FFO).

We also initiated a position in **Birkenstock (BIRK)**. Within footwear, we preferred Birkenstock to faster-growing peers for its higher margins and lower fashion risk. A brand with roots in 1774 has some experience outlasting trends. Retailers have consistently cited the brand's strength since our purchase, even as the stock came under pressure with the broader consumer sector. We discuss Birkenstock in more detail below.

In September we initiated a position in **Matador Resources (MTDR)**, an oil and gas producer in the Delaware Basin with a meaningful midstream business. Our internal estimates, subject to change, implied a free cash flow yield in the double digits, with the midstream assets offering additional optionality. With oil prices elevated, it gives the portfolio exposure to an environment that has otherwise worked against us.

KBR, which replaced Everus, plans to separate its government services business from its technology segment in early January. The technology business licenses proprietary process technologies, earns superior margins, and signed another licensing agreement in Saudi Arabia late in the quarter. Roughly a third of KBR's revenue is tied to sustainability.⁷ Our sum-of-the-parts work suggests the market is not giving full credit for the pieces, and the stock was emerging from a long downtrend when we bought it.

In the final days of the quarter we initiated a position in **ICON (ICLR)**, a leading global contract research organization. ICON runs human clinical trials for drug developers, from study design through commercialization. The shares traded well below their ten-year average valuation, and we have been impressed by how effectively management is putting AI to work in trial operations.

Additions

We added to the **Knight-Swift Transportation (KNX)** position after a solid earnings beat paired with conservative guidance. We believe trucking is early in a cyclical recovery, even if the stocks have yet to respond to improving results. We raised the **ICF**

International (ICFI) position as federal spending stabilized and comparisons eased. We added to **Antero Midstream (AM)** following strong volume growth. We also raised the **Jack Henry & Associates (JKHY)** position after the shares fell on longer-term guidance that came in below Street expectations; the company continues to win market share from larger competitors, and we viewed the pullback as an opportunity.

Reductions and Sales

We completed our exit from **BJ's Wholesale Club (BJ)** and used the proceeds to fund the Birkenstock position. We sold **Dick's Sporting Goods (DKS)** in early August as weakness in athletic footwear spread through the channel. That was before the stock posted its largest one-day drop after reporting second-quarter earnings later in the month. It is a company we still like, but the athletic cycle is very weak, and we prefer to sit on the sidelines until fundamentals improve.

After Canadian tariff headlines hit **Century Aluminum (CENX)** in August, we sold the majority of that position; our view of the business has not changed, but the trade risk was one we had not underwritten. We could not get comfortable with where the trade war would go, and will continue to monitor the company when trade clarity emerges.

We trimmed **Quest Diagnostics (DGX)** after changes to Medicare laboratory pricing raised the risk of reimbursement pressure next year, and reduced **Sprouts Farmers Market (SFM)** to a partial position on concerns about decelerating comparable sales (driven partly by a cyclospora outbreak)⁸, and an increasingly competitive pricing environment. We trimmed Plexus three times during the quarter as margins reached peak levels and as part of the reduction in semiconductor exposure noted above, and trimmed Methanex, as well as Adeia and Veeco as discussed earlier.

Holding Deep Dive: Birkenstock

Birkenstock, a company older than the United States, is best known for sandals built on a contoured cork-latex footbed that is designed to mold to the wearer's foot over time. The company is vertically integrated and manufactures the majority of its products in

⁷KBR, "Highlights Safety, Sustainability and Solutions in 2025 Sustainability and Corporate Responsibility Report, July 9, 2026.

⁸Sprouts' July 29, 2026 Q2 earnings call.

Europe, which gives it close control over quality and supply. It is broadening its assortment beyond sandals into clogs and closed-toe styles intended for year-round wear.

Birkenstock operates under a supply-constrained model, allowing demand to consistently outstrip availability. This scarcity model has supported strong sales velocity and full-price sell-through above 90% across channels. Birkenstock's gross and operating margins are above those of most global footwear peers, and net sales have grown at roughly a 20% compound annual rate over the past six years.⁹

Management's long-term algorithm calls for low- to mid-teens revenue growth, with approximately 10% from controlled unit growth and the balance from price and mix. About 75% of the product assortment consists of core styles that carry over from season to season, reducing fashion and inventory risk. Management reports that the average U.S. customer owns more than three pairs, and the brand holds under 1% of a roughly \$390 billion global footwear market.¹⁰

Shares have declined alongside the broader retail group amid macro concerns such as elevated gas prices and a more cost-conscious consumer. Other risks include higher US tariffs, a large insider overhang, and a change in consumer fashion tastes. In the low \$30s, Birkenstock trades at approximately 12x forward P/E, even as consensus expects EPS to grow roughly 25% in fiscal 2027. The company has repurchased roughly 10% of its shares this fiscal year. With adjusted EBITDA margins above 30%, mid-teens revenue growth, and ROIC above 20%,¹¹ we believe the current valuation reflects a more pessimistic outlook than the fundamentals support.

Birkenstock's footbed uses natural materials including cork, natural latex, and jute, with leather and wool felt used in uppers and linings. The company sources cork from punching scrap left over from wine stopper production, reusing a byproduct rather than harvesting virgin material. Cork is also regarded as a renewable material; it is harvested from the bark of

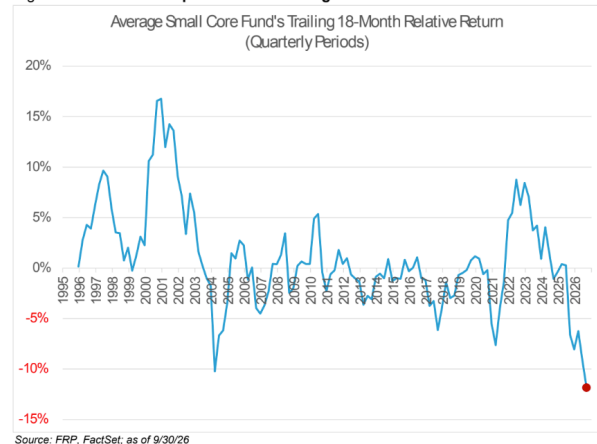
cork oak trees without harming them, allowing the bark to regrow after harvest and enhance the trees' carbon sequestration. Over half of the latex sourced by the company is Forest Stewardship Council certified, with plans for full certification in the future.¹² Products are designed for durability, and the company applies quality assurance protocols across its value chain.

The stock has been under pressure, but the company's operating model and brand momentum reinforce our conviction in Birkenstock's durable earnings power.

Outlook

We have underperformed over the past 18 months, as have many of our peers: according to Furey Research, the average small-cap core, growth, and value fund each trailed its Russell 2000 style benchmark over that period, with value funds lagging the most.¹³ Furey also finds that the average small-cap core fund's trailing 18-month relative return is at its weakest level in data going back to 1995. In that data, the two prior periods that came closest to this level were each followed by a recovery to positive relative returns.¹⁴

Fig 54. Worst 18-month period for the average small core fund



History does not always repeat, but we find the setup encouraging. Predicting the future is never easy, and it's even harder with the midterms and the Iran War in the headlines. Small caps have, on average, done well in the months following midterm elections since

⁹BIRK Earnings call Q3 2026

¹⁰January 28, 2026 Capital Markets Day presentation.

¹¹Company filings (10K, 10Q, 8K)

¹²<https://www.birkenstock.com/us/education/our-commitment/>

¹³Furey Research Partners, *3Q26 Quarter-End Letter*, Insights Vol. #3898 (Aditya S. Karande, CFA), October 6, 2026, Fig. 50 (average

small-cap fund return relative to its Russell 2000 style index, past 18 months annualized). Source data: FRP, FactSet; as of 9/30/26.

¹⁴Furey Research Partners, *3Q26 Quarter-End Letter*, Insights Vol. #3898 (Aditya S. Karande, CFA), October 6, 2026, Fig. 54 (average small-cap core fund's trailing 18-month return relative to the Russell 2000, quarterly periods, beginning 1995). Prior troughs nearest the current level occurred around 2004 and 2021. Source data: FRP, FactSet; as of 9/30/26.

1982, though the effect has faded in recent cycles.¹⁵ We also like the odds of the war ending in 2027. We believe owning high-quality, growing businesses at attractive valuations remains a sensible strategy.

As always, thank you for your trust and confidence.

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

¹⁵Furey Research Partners, *3Q26 Quarter-End Letter*, Insights Vol. #3898 (Aditya S. Karande, CFA), October 6, 2026, p. 1 and Figs. 11–12 (average Russell 2000 price path after midterm elections since 1982; Russell 2000 return over the 180 trading days after

each midterm, 1982–2022). Source data: FRP, FactSet; as of 9/30/26.

Sustainable Value Strategy Largest Contributors and Detractors – Q3 2026

5 Best: Absolute Contribution

Ticker	Company	Avg. Weight	Contribution
HAE	Haemonetics Corporation	4.25%	1.29%
MEOH	Methanex Corporation	1.85%	0.50%
IDCC	InterDigital, Inc.	3.28%	0.42%
STVN	Stevanato Group SpA	3.24%	0.42%
EXEL	Exelixis, Inc.	3.22%	0.22%
5 Best Total		15.84%	2.85%

5 Worst: Absolute Contribution

Ticker	Company	Avg. Weight	Contribution
VECO	Veeco Instruments Inc.	2.14%	-1.09%
ADEA	Adeia Inc.	2.95%	-0.85%
ECG	Everus Construction Group, Inc.	1.42%	-0.80%
VMI	Valmont Industries, Inc.	2.71%	-0.60%
AZZ	AZZ Inc.	3.87%	-0.51%
5 Worst Total		13.09%	-3.85%

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