

Small-Mid Cap Core Portfolio Commentary

Market Review

August was a calmer but still choppy month, and beneath modest headline index gains the tug of war between AI-driven leadership and the rest of the market continued. After July's sharp unwind, the higher beta, more speculative corners of the market steadied, and several areas that had been left for dead earlier in the summer, software in particular, rebounded meaningfully.

The story of the month was a partial reversion. Leadership narrowed somewhat back toward companies tied directly to the AI buildout, as capital spending guidance across large technology firms continued to be revised higher rather than lower. Even so, market breadth improved, and investors showed renewed willingness to pay for earnings durability and visible demand outside the AI complex.

Within the Russell 2500 Index, materials and energy were among the strongest areas, aided by firmer commodity prices, while health care and information technology also posted solid gains as second quarter earnings largely came in ahead of expectations. The software and IT services industries were notable standouts as investor sentiment improved and assumptions about where AI-related value will ultimately accrue shifted. Stronger earnings results and growing confidence that AI can enhance productivity and expand the value of existing software workflows helped fuel a meaningful rebound across the group. Real estate, industrials, and consumer discretionary lagged. Higher quality companies with stronger returns on equity and healthier balance sheets generally held up well, though some of the month's best returns came once again from AI-linked names, underscoring that leadership remained tied more to demand visibility and confidence in future earnings power than to speculation alone.

Portfolio Overview

The Small-Mid Cap Core portfolio outperformed the Russell 2500 Index for the month. Stock selection in financials as well as stock selection and an overweight in information technology contributed positively to performance. Stock selection and an underweight in health care and no exposure to energy and materials detracted from performance.

The biggest contributors to performance during the month were ServiceTitan and Interactive Brokers.

- ServiceTitan shares rebounded sharply as sentiment toward software improved, with investors returning to a business reporting revenue growth, expanding margins, and increasing adoption of its AI-enabled platform ahead of its September earnings report.
- Interactive Brokers continued to compound, extending a strong year as record accounts and client equity, elevated trading activity, and industry-leading margins reinforced its position as a low cost technology platform steadily gaining share.

- Other top contributors included Zebra Technologies, Hamilton Lane, and Jack Henry & Associates.

The biggest detractors from performance during the month were UL Solutions and W.R. Berkley.

- UL Solutions declined despite reporting record profitability and better-than-expected earnings, as investors focused on elevated capital spending and the sustainability of margins during the second half of the year.
- W.R. Berkley declined as investors grew more cautious about moderating premium growth and an increasingly competitive property and casualty pricing environment, despite continued strong underwriting, record investment income, and meaningful capital returns.
- Other bottom detractors included Teledyne Technologies, Zurn Elkay, and BJ's Wholesale Club.

Outlook

As we enter September, investors continue to debate where the long-term value created by artificial intelligence will ultimately accrue. While leadership has remained concentrated among a relatively narrow group of AI beneficiaries, improving sentiment toward software and IT services suggests investors are beginning to broaden their view of potential leaders. More broadly, second quarter earnings were encouraging across much of the market, and many of our portfolio holdings continue to execute well even where stock prices have yet to fully reflect that progress. Uncertainty surrounding Federal Reserve policy, interest rates, and economic growth could contribute to continued volatility. While market narratives can shift quickly, we believe fundamentals eventually reassert themselves. In our view, sustained earnings growth, strong returns on capital, and disciplined execution remain the foundation of long-term value creation.

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IMPORTANT DISCLOSURES

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This strategy may not be suitable or appropriate for all investors depending on their specific investment objectives and financial situation. Potential investors should consult with their own financial professional before determining whether to invest in a particular investment or investment strategy.

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Index Definition: The Russell 2500™ Index is a free float-adjusted market capitalization-weighted index of the 2,500 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The index is calculated on a total return basis with dividends reinvested. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.