

## Small Cap Value Equity Q1 2026 Commentary

### Market Review:

U.S. equity markets experienced a volatile start to 2026, with performance largely shaped by geopolitical developments, shifting macro conditions, and increased market dispersion. The Russell 2000 was up 0.9% for the quarter, outperforming large-cap indices, reflecting a notable rotation toward smaller-cap equities. Small-cap value outperformed growth, with the Russell 2000 Value advancing 5.0% compared to a -2.8% decline for its growth counterpart.

The year began with the capture of Venezuelan President Nicolás Maduro, leading to questions surrounding regime change and the future of the country's vast oil reserves. Then, in late January and February, the US military began a large-scale military buildup in the Middle East. After failed negotiations with Iranian officials, the US and Israel launched air and missile strikes on Iran. Now over a month into the Iran war, President Trump has said the conflict will soon end, but uncertainty remains over how and when that could occur. The war's impact on global financial markets has largely come from the closure of the Strait of Hormuz, a passage for approximately 20% of global oil supply. Closure of the critical passageway caused a spike in oil prices, having a major impact on global transportation, manufacturing, and other sectors.

On the political front in the US, the Supreme Court struck down President Trump's tariffs, holding that the International Emergency Economic Powers Act (IEEPA) does not authorize the President to impose tariffs without Congressional approval. Trump immediately responded with 10% global tariffs under a different statute, Section 122 of the Trade Act of 1974. The 10% tariff took effect on February 24<sup>th</sup> and is limited to 150 days unless Congress extends it. President Trump named former Fed Board Governor Kevin Warsh as his nominee for the next Chair of the Federal Reserve, to replace Jerome Powell when his term expires.

Investor concerns escalated regarding AI and the disintermediation of software companies and several other industries. Software stocks sharply declined, as investors worried that rapid advances in AI tools could fundamentally disrupt traditional software business models, rendering software tools obsolete or dramatically compressing margins. Concerns quickly spread to the potential disintermediation of other industries, with some doomsday scenarios pointing to dramatic job losses for white-collar workers.

## Performance Analysis:

The Small Cap Value Equity strategy composite returned -1.8% (gross of fees) and -2.0% (net of fees) for the first quarter of 2026. The Russell 2000 Value returned 5.0% for the quarter and the broader Russell 2000 Index gained 0.9%, reflecting continued relative strength in small-cap equities versus large-cap benchmarks.

**Figure 1: Small Cap Value Equity Returns vs. Benchmark**

March 31, 2026	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception*
Small Cap Value (gross)	-1.8	-1.8	8.5	4.7	3.3	8.0	10.9
Small Cap Value (net)	-2.0	-2.0	7.9	4.1	2.7	7.3	10.0
Russell 2000 Value Index	5.0	5.0	28.1	13.8	5.8	9.6	9.9
Russell 2000 Index	0.9	0.9	25.7	13.1	3.8	9.9	9.3

*\*June 1992. Performance for periods greater than 1 year is annualized. Past performance is no guarantee of future results. Value of portfolio will fluctuate based on underlying securities. Current performance may be higher or lower than stated returns. Please see ending page for complete performance disclosures.*

Performance during the quarter was shaped by a more challenging macroeconomic environment and increased market dispersion, particularly following the broad-based selloff in March. Rising interest rates, widening credit spreads, and geopolitical tensions, including the conflict in the Middle East, contributed to higher volatility and a more risk-averse environment. These conditions disproportionately impacted economically sensitive and rate-sensitive areas of the market, including housing-related equities, real estate, and regional banks, where our portfolio maintains exposure based on long-term recovery potential. While our investment theses in these areas remain intact, the anticipated improvement in fundamentals has been slower to materialize, weighing on near-term performance.

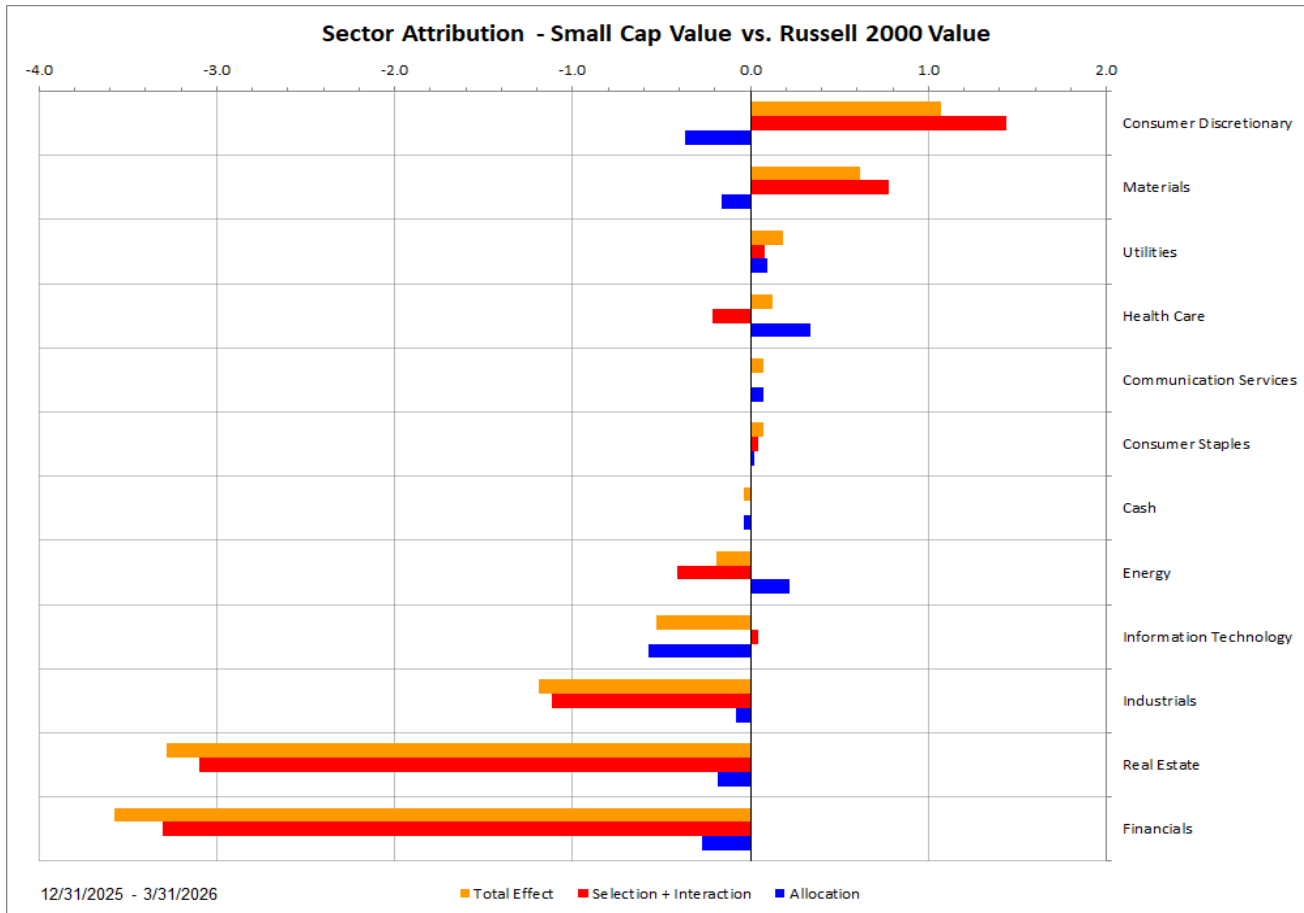
In addition, the market environment during the quarter continued to favor more cyclical and lower-quality segments of the small-cap universe. Strength in Energy, driven by higher oil prices, along with gains in Industrials and Materials, contributed meaningfully to index performance. In contrast, our emphasis on higher-quality businesses with durable earnings and strong balance sheets created a relative headwind, as more speculative and highly levered companies outperformed in certain periods, particularly earlier in the quarter.

Portfolio positioning also influenced relative results. Our limited exposure to areas of the market where valuations remain elevated or business quality is less predictable, such as portions of small-cap technology and biotechnology, detracted from relative performance in select periods. While these segments can contribute to short-term index returns, they often exhibit higher volatility and less consistent earnings profiles, which fall outside our disciplined investment approach.

Overall, the first quarter reflected a more complex and less favorable environment for quality-oriented, fundamentally driven strategies. Despite these near-term headwinds, we remain focused on owning businesses with strong balance sheets, sustainable earnings power, and attractive valuations, which we believe should position the portfolio well as market conditions normalize and fundamentals reassert themselves.

**Portfolio Attribution:**

**Figure 2: Attribution Effects –Small Cap Value Equity vs. Russell 2000 Value 12/31/2025-3/31/2026**



Source: SCCM/Bloomberg, 3/31/2026.

Our strong stock selection more than offset unfavorable allocation, making **Consumer Discretionary** the largest contributor to relative performance for the quarter. Performance was driven by Under Armour (45.2%), Marriott Vacations (14.2%), and Crocs Inc (13.3%), reflecting strength in branded apparel and leisure demand.

Our strong stock selection, despite a modest allocation headwind, drove **Materials** to be a meaningful contributor to relative performance. Gains were led by Huntsman Corp (34.1%) and Avient Corp (17.1%), supported by improving chemical demand and margin recovery.

Both stock selection and allocation contributed positively to relative performance in **Utilities**. Portland General Electric (11.1%) was the primary driver, benefiting from stable demand and constructive rate dynamics.

Weak stock selection combined with unfavorable allocation made **Financials** the largest detractor from relative performance. The decline was driven by Pennymac Financial Services (-33.5%), LoanDepot (-31.4%), and LendingTree Inc (-19.2%), reflecting pressure in mortgage origination and financing activity amid higher rates.

Poor stock selection and negative allocation effects resulted in **Real Estate** detracting significantly from relative performance. Losses were led by Douglas Elliman (-30.8%), Highwoods Properties (-15.3%), and Newmark Group (-13.4%), as commercial and general real estate activity remained subdued and financing conditions tightened.

## **Portfolio Changes:**

### *Purchases*

**Barrett Business Services Inc. (BBSI)** provides outsourced human resources, payroll, and professional employer organization (PEO) services to small and mid-sized businesses. The company operates a differentiated, decentralized model that emphasizes local client relationships and disciplined underwriting, which has historically resulted in strong client retention and attractive margins. BBSI generates consistent cash flow and maintains a conservative balance sheet, providing flexibility across economic cycles. As labor markets stabilize and small business formation and employment trends improve, we expect the company to benefit from operating leverage and continued expansion in its core markets.

**Belden Inc. (BDC)** is a global provider of networking, connectivity, and industrial automation solutions serving mission-critical applications across industrial, enterprise, and infrastructure end markets. The company has been actively transforming its portfolio toward higher-growth, higher-margin businesses through divestitures and targeted reinvestment. This shift, combined with ongoing cost optimization efforts, has driven meaningful improvements in profitability and returns on capital. We believe Belden is well positioned to benefit from secular tailwinds including industrial automation, data infrastructure investment, and increased demand for reliable connectivity, supporting continued earnings growth and margin expansion.

**Fortune Brands Innovations (FBIN)** is a leading provider of home and security products, with a portfolio of well-established brands across plumbing, outdoor living, and security solutions. The company benefits from favorable long-term demand drivers tied to repair and remodel activity, new construction, and increasing consumer investment in the home. FBIN operates an asset-light model with strong margins, consistent free cash flow generation, and disciplined capital allocation. Following its recent strategic repositioning, the company is more focused and better aligned with its highest-return categories. We believe normalization in housing activity, combined with pricing power and operational efficiency initiatives, should drive margin expansion and earnings growth over time.

### *Sales*

**Cross Inc. (CROX)** While the company continues to execute well operationally, the valuation became less compelling relative to other opportunities within the portfolio and its HeyDude brand continues to experience growth issues.

**Great Lakes Dredge & Dock Corp. (GLDD)** was sold following the announcement of its acquisition, as the share price converged toward the offer value. With limited remaining upside relative to the transaction price, we elected to redeploy capital into opportunities with more attractive risk-adjusted return profiles.

**Under Armour (UA)** was sold due to ongoing concerns around brand positioning, inconsistent execution, and limited visibility into a sustained recovery in margins and earnings.

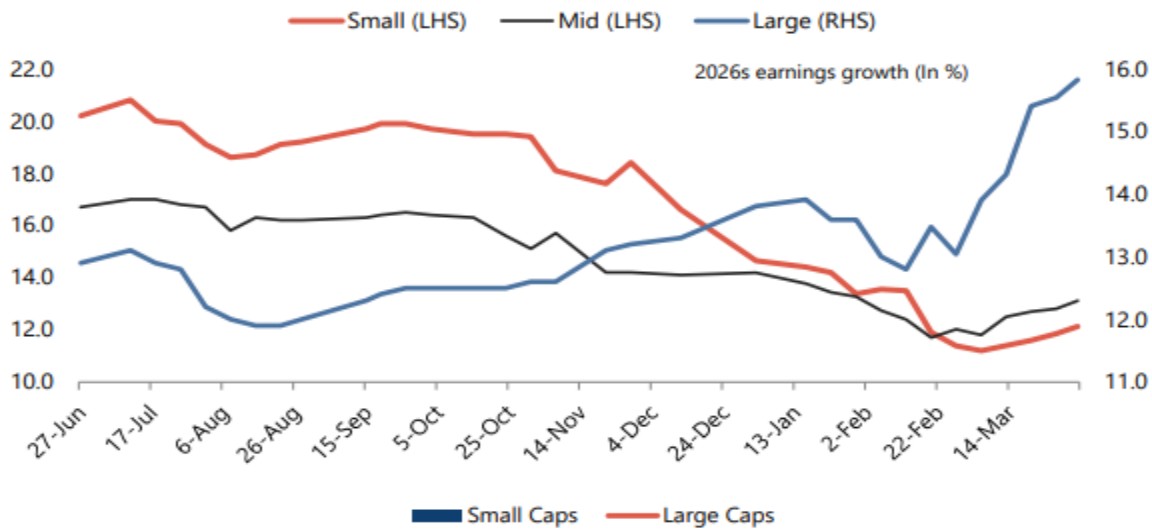
## Market Outlook:

Following a volatile start to 2026, the outlook for small-cap equities remains constructive, though near-term uncertainty has increased. Geopolitical tensions, including the conflict in the Middle East, along with ongoing trade frictions and elevated interest rates, have contributed to a more complex macroeconomic environment. These factors have pressured sentiment and increased market volatility, particularly in economically sensitive areas. However, while these dynamics may persist in the near term, we believe they are cyclical rather than structural in nature.

Interest rates remain a key variable for small-cap performance. The persistence of inflationary pressures, driven in part by higher energy prices and tariffs, has limited the Federal Reserve's ability to ease policy as quickly as previously expected. As a result, borrowing costs remain elevated, which continues to weigh on rate-sensitive sectors such as housing, real estate, and regional banks. Over time, as inflation moderates and geopolitical pressures stabilize, we would expect a more favorable rate environment to emerge, which should support a recovery in these areas and improve overall market breadth.

Earnings remain central to our outlook. While near-term revisions have been mixed, particularly in cyclical sectors, we continue to expect a meaningful improvement in earnings growth over the course of 2026. Small-cap companies are positioned to benefit from operating leverage as demand stabilizes and cost pressures ease (Figure 3). In addition, sectors such as Financials, Industrials, Materials, and Energy are expected to contribute meaningfully to earnings growth, supported by improving economic activity and continued investment in infrastructure and domestic production.

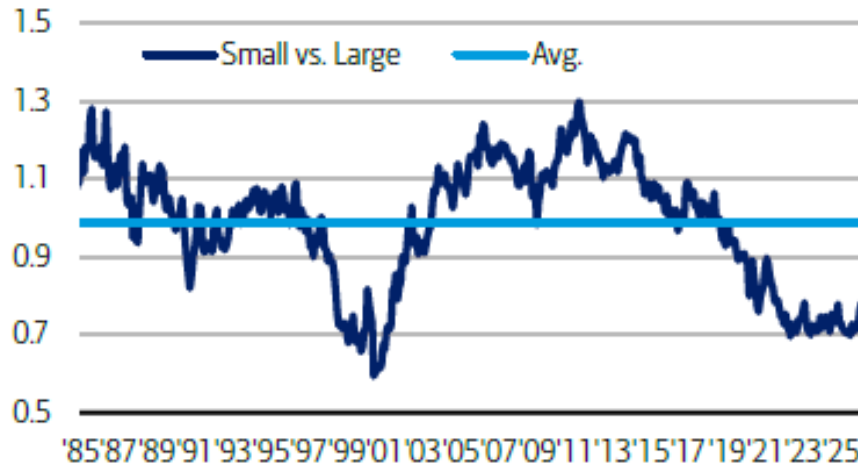
**Figure 3: Small Cap Earnings Growth to Eclipse Large Cap**



Source: Jefferies, 3/07/2026. **Forecasts are estimates and not guarantees.** S&P 600, S&P 400 & S&P 500 y/y quarterly EPS growth 1Q22-4Q26 consensus.

Valuations continue to support the case for small-cap equities. Despite recent outperformance relative to large caps, small-cap stocks remain attractively valued on both an absolute and relative basis (Figure 4). The valuation discount to large-cap equities persists across most measures and remains near the lower end of its historical range. Within small caps, value-oriented stocks continue to trade at a meaningful discount to growth, reinforcing the opportunity set for disciplined, fundamentals-driven investors.

**Figure 4: Small Caps Historically Cheap Vs. Large Caps**



Source: BofA Global Research, 4/06/2026. Russell 2000 Forward P/E, 1985-12/31/2025

We expect volatility to remain elevated as markets navigate geopolitical risks, inflation dynamics, and shifting monetary policy expectations. Periods of market stress may continue to favor more speculative segments of the market in the short term. However, over a full cycle, we believe fundamentals, including earnings growth, balance sheet strength, and cash flow generation, will remain the primary drivers of long-term returns.

In this environment, we remain focused on high-quality businesses with durable competitive advantages, strong balance sheets, and attractive valuations. While our investment approach may lag during periods characterized by speculative market leadership, we believe it is well positioned to benefit as conditions normalize and market leadership broadens.

The current valuation of our portfolio remains attractive – the strategy’s P/E is 10.6x forward earnings versus 15.1x for the Russell 2000 Value (Q1).

Thank you for your continued support. Feel free to reach out to us if you have any questions.

Best Regards,  
Schafer Cullen Capital Management, Inc.

**All charts are for illustrative purposes only, past performance does not guarantee future results and there is no assurance any market trends will continue.**

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The **Russell 2000 Index** is a market-cap weighted index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks. The **Russell 2000 Value Index** is a broadly diversified index predominantly made up of value stocks of small U.S. companies. The **Russell 2000 Growth Index** is a broadly diversified index predominantly made up of growth stocks of small U.S. companies. The **S&P 500 Index** is a market capitalization-weighted index of 500 companies in leading industries of the US economy. The **S&P MidCap 400 Index** is composed of 400 mid-cap stocks from the broad U.S. equity market, representing a spectrum of industries. The **S&P 600 Index** is a market-capitalization-weighted index of small-cap stocks. Comparisons to indices are inherently unreliable indicators of future performance. The strategies used to generate the performance may vary from those used to generate the returns depicted in the indices. An individual cannot invest directly in an index.

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