



Investment Team

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Characteristics

Total Net Assets
(billions): \$3.21

Number of holdings: 118

Top 10 Holdings

ATI
First Horizon
Viper Energy
Citizens Financial Group
Agree Realty
WEC Energy Group
Huntington Bancshares
Atmos Energy
CenterPoint Energy
Eversgy

Market Overview

Major U.S. equity indices provided solid positive fourth-quarter returns. The Russell Midcap® Index return lagged, though gains were nominally positive. U.S. equity returns were bolstered by strong corporate earnings revisions and lower short-term interest rates. Despite the long-lasting government shutdown, market volatility remained calm as investors looked past the shutdown and focused on an optimistic 2026 consensus outlook. Sector return dispersion was high for the Russell Midcap Index, led by healthcare, materials, and information technology. Communication services, real estate, and utilities lagged as investors favored higher beta or more cyclical stocks.

The macroeconomic environment was relatively constructive, as gross domestic product (GDP) estimates rose above the third-quarter outlook. The U.S. Federal Reserve (Fed) twice cut rates by 25 basis points because of labor market concerns. Unemployment remains low, with a November reading of 4.6%, though it is trending higher. The employment picture was widely described as “no hire, no fire,” as employers held on to their staff but were reluctant to hire more help. Finally, inflation remained higher than Fed officials desire, but long-term inflation expectations remained well-anchored and recent inflation readings are encouraging. Rising unemployment combined with high but declining inflation expectations likely have paused the Fed on cutting rates, positioning the central bank to be data-dependent on lowering rates.

Portfolio Review

Top securities

ATI is a specialty materials company that makes high-performance metals and alloys. The company recently exited its commoditized metals busi-

ness and increased its exposure to higher-margin nickel and titanium alloys. Sales to the aerospace industry now account for more than two-thirds of total revenue, up from less than half just four years ago. An increasing aerospace production outlook, new business awards from a major airplane manufacturer, improved execution, and a focus on more value-added engine and airframe parts has boosted investor interest. An opportunity in nuclear energy also is emerging. We believe ATI should trade more in line with other aerospace parts suppliers as the company proves it can produce more consistent revenue growth at higher margins.

Ciena designs and manufactures advanced optical and packet-optical networking hardware, including transport systems and pluggable transceivers. The stock's strong performance was driven primarily by the strength in cloud providers' demand as Ciena's high-speed optical networking solutions are critical components of high-performance computing capacity buildouts. Hyperscalers led the trend while emerging customer groups such as smaller AI-focused cloud data center operators grew rapidly. Additionally, a recovery in telecommunications network investment continues and is expected to extend into next year.

MongoDB is a database management company that builds and supports a NoSQL (non-relational database) document-based solution. It is simple for developers to learn and use, while still providing the capabilities needed to meet complex requirements at any scale. MongoDB performed well due to a growth acceleration in Atlas, its high-margin cloud-management solution. The acceleration was driven by strong new customer additions and traction upmarket. In addition, investors recognize MongoDB as an artificial intelligence (AI) beneficiary because it handles unstructured data effectively and integrates with a vector search function that is critical to AI use cases.

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Portfolio Review (continued)

Top Securities	Average Weight (%)	Contribution to Return (%)
ATI	1.73	0.59
Ciena	0.94	0.46
MongoDB	1.29	0.41
Clearwater Analytics	1.03	0.33
Teradyne	1.01	0.33

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Clearwater Analytics develops cloud-native software that supports investment accounting operations. The company received a buyout offer from a private equity firm, which is expected to close by mid-2026. The offer included a “go shop” clause that allows the company to seek a better offer through late January. We believe the offer undervalues Clearwater, though extremely negative application software sentiment may keep a better offer from emerging.

Teradyne supplies automated test equipment for semiconductors, electronics systems, and wireless devices. It also designs and develops robotic products for manufacturing and warehouse task automations. The company benefits from increasing semiconductor test complexity for AI accelerator, networking, and memory chips. Positive earnings results and an optimistic AI narrative helped push the stock higher. We remain optimistic for Teradyne’s AI-driven opportunities, including potential market share gains with graphics processing unit (GPU) and application-specific integrated circuit (ASIC) semiconductor designs.

Bottom securities

Coupang is a South Korean e-commerce leader, often called the “Amazon of Korea,” that provides online retail, food delivery, video streaming, and financial payment services. In November 2025, Coupang disclosed a large cybersecurity breach affecting tens of millions of customer records. South Korean authorities raided Coupang’s headquarters, and the CEO of its Korean subsidiary resigned over the incident. This triggered regulatory risk, potential fines, and reputational concerns, which hurt the stock, though it was later discovered that the breach impacted fewer customers

Bottom Securities	Average Weight (%)	Contribution to Return (%)
Coupang	1.21	-0.37
The Mosaic Company	0.86	-0.33
Encompass Health	1.33	-0.24
CoreWeave	0.26	-0.24
United Rentals	1.28	-0.22

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than originally reported. We expect Coupang to recover fully from the breach.

The Mosaic Company is a global producer of phosphate and potash fertilizers. In the fourth quarter, Mosaic’s stock lagged because broader fertilizer demand softened, sales volumes were weaker than expected, and input costs, including sulfur, climbed higher. Production and operational challenges in the phosphate segment and fears of fertilizer affordability also weighed on investor confidence. We believe fertilizer market challenges are well reflected at current prices. Improving phosphate production from Mosaic, tight global phosphate inventories (due in part to lowered exports from China), and better spring fertilizer applications in the United States could help bolster the stock.

Encompass Health operates in-patient rehabilitation facilities (IRFs), specialty hospitals focused on patients requiring high degrees of care. Encompass shares lagged as capital rotated into more aggressive industries within healthcare, and because management commentary was viewed as setting a conservative bar for 2026. Management has a history of keeping expectations in check, so we think the company will likely clear this initial outlook. Encompass is the only company to be meaningfully expanding IRF beds at a time when demand is healthy, so we believe Encompass could be positioned to continue to compound value over time.

CoreWeave is a specialized AI cloud computing platform that provides GPU-powered infrastructure for training and running large-scale artificial intelligence models. The stock lagged largely due to elevated financing concerns. CoreWeave’s business is

capital-intensive, and the customer concentration risk is high. Though we do not expect material financial or customer concentration risks to impact near-term fundamentals we grew uncomfortable with debt levels that are likely to rise as CoreWeave expands.

United Rentals, the largest equipment rental company in North America, offers construction, industrial, and specialty equipment rentals. The company reported a disappointing quarter that was impacted by weaker construction markets. Profitability felt pressure as fleet equipment was repositioned for large-scale projects. We believe construction market conditions could improve in 2026, driven by reshoring and manufacturing projects due in part to incentives in the One Big Beautiful Bill Act, support from data center construction, and power generation. As activity picks up, margins also should improve. We also believe the stock appears attractive at current prices.

Outlook

We believe midcap equities have the potential to trade higher in the first half of 2026, supported by broader, more cyclical market participation, though we nervously admit this is the consensus view. U.S. market index earnings are expected to rise double-digits in 2026, though price-to-earnings multiples are above historic averages. The market is pricing in little economic or geopolitical risk, so if surprises occur, we would expect a swift negative, but temporary, market reaction.

Bulls point to fiscal stimulus as an important pillar for continued strong equity performance. We see the fiscal situation as more nuanced. Above-average tax refunds from the One Big Beautiful Bill Act will occur in the first quarter and lower income tax withholding may provide a more sustainable consumer spending boost throughout the year. The boost from changes to the tax code, however, will likely be partially offset by higher tariff-induced goods prices and reduced healthcare insurance subsidies. Overall, the setup supports a continuation of what some call the K-shaped economy, meaning those with higher incomes and significant personal assets stand to do well while those with lower incomes and fewer assets may struggle. If the U.S. Supreme Court rules against the tariffs authorized under the International Emergency Economic Powers Act (IEEPA), or if the Trump administration gains support for so-called tariff refunds, those in the bottom half of the “K” may do better than expected.

We expect cyclical stocks could perform well as equity performance broadens beyond a narrow set of AI infrastructure companies. Monetary policy, as usual, will influence equity returns. The market is currently pricing in two to three more 25-basis point cuts in 2026. We believe that’s a reasonable view, though the more important

factor for equities will be long-term interest rates. We expect the 10-year U.S. Treasury yield to stay in a relatively tight range around 4%. If the Fed continues to cut the federal funds rate and the economy remains on solid footing, the yield curve may steepen. This could support the banking sector and boost lending, potentially leading to broader equity upside. In addition to lower short-term rates, the Fed supports capital markets with “reserve management purchases,” which may have a similar positive impact on market prices as previous quantitative easing efforts. Overall, we see the case for market broadening, supported by fiscal and monetary policy, and we have identified several securities that we expect could participate.

Beyond the macroeconomic view, we see several attractive themes. We have maintained exposure to AI infrastructure holdings as we anticipate leading-edge large language models will continue to scale, pushing capital expenditures higher than the consensus view. There’s clearly an arms race among hyperscalers and perhaps even sovereign nations to win in AI. Today AI infrastructure is a better understood opportunity, so excess returns likely will require a deeper understanding of where future supply/demand imbalances lie and an ability to identify companies that can help solve those imbalances. We are students of history and understand capital cycles do not last forever, but we see more room to run for the AI infrastructure theme.

We remain overweight in the semiconductor industry. Data center growth is a significant demand driver, but a recovery in automotive, industrial, defense, and smartphone demand provides additional catalysts. Robotics also is poised to grow rapidly, and we expect some of our semiconductor and industrial companies to see significant demand from robotics in the coming years.

We have limited exposure to companies offering AI applications, but this phase of the AI supercycle is developing slower than expected, as AI-infused software applications, fully autonomous agents, and other products beyond chatbots remain in beta testing. For now, we remain selective with AI application holdings, favoring those supporting the infrastructure layer rather than serving the end user.

Although AI application leadership has developed slowly, we anticipate 2026 very well could be the first year AI becomes a meaningful productivity tool. Enterprises with a large labor pool of knowledge workers, especially those doing repetitive data entry and organization tasks, may experience meaningful productivity gains as AI automates those workflows. Financial institutions, such as banks and insurance companies, that have massive knowledge worker headcount could be early beneficiaries of AI efficiency efforts.

Certain aerospace suppliers have significantly outperformed,

though we remain constructive. The commercial aerospace cyclical recovery is still in the early innings, with original equipment manufacturing build rates at the major manufacturers expected to move materially higher, which should benefit aerospace component suppliers. Meanwhile, record levels of air passenger traffic and a shortage of airplanes could continue to bolster demand for aftermarket parts suppliers as well as for companies that lease planes and engines.

There are several other themes we view attractively:

- We continue to see potential opportunities in domestic infrastructure, especially energy and electricity. Data centers are expected to require massive amounts of electricity, and while the rebirth of domestic industry has been slow to materialize if it picks up it should be another driver of energy and electricity demand growth.
- Consumer companies that are more isolated from tariff impacts, such as those that provide experiences or that provide good consumer value, also remain attractive. We see potential opportunities in retail, restaurants, and entertainment when there's a strong consumer value proposition and significant long-term growth potential.

Risk considerations

Mid-cap and small-cap stocks may temporarily fall out of favor or perform poorly relative to other types of investments. While stocks of mid-cap companies may be slightly less volatile than those of small-cap companies, they still involve substantial risk.

Real Estate Investment Trusts (REITs) may be affected by economic conditions including credit risk, interest rate risk and other factors that affect property values, rents or occupancies of real estate.

Foreign investments present additional risks due to currency fluctuations, economic and political factors, government regulations, differences in accounting standards and other factors.

Investments in emerging markets involve even greater risks.

Groups of stocks, such as value and growth, go in and out of favor, which may cause certain funds to underperform other equity funds.

The Fund may, at times, experience higher-than-average portfolio turnover, which may generate significant taxable gains and increased trading expenses, which, in turn, may lower the Fund's return.

- We like several commodity producers and miners, supported by higher inflation, easy monetary policy, and heightened geopolitical risk. For those supplying natural gas, precious metals or agricultural inputs, we also see favorable supply and demand fundamentals.
- Finally, life sciences is an emerging theme. Funding for biotechnology firms, both venture capital and initial public offerings (IPOs), has improved recently, which should lead to more demand for life science tools and clinical trials. Also, the outlook for pharmaceutical regulation and pricing policy has become more certain, which should unlock more investment in future clinical research and drug manufacturing capabilities.

Beyond broad themes, we also own several holdings that we believe offer attractive company-specific risk-reward characteristics. Our investment process starts by casting a wide net, seeking to identify midcap stocks with underappreciated and positively inflecting fundamentals. In addition, we see opportunity holding on to companies that have done well if we expect good performance to persist. Finally, we want to sell down positions with growing problems, especially if we believe the market has been slow to recognize the challenges. Over the long term, we have found sticking to this process of identifying and sticking with winners, while aggressively cutting losers, has worked best for us.

Investments in the securities of other investment companies, including money market funds and exchange-traded funds ("ETFs") (which may, in turn, invest in equities, bonds, and other financial vehicles), may involve duplication of advisory fees and certain other expenses.

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Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, disease, and regulatory developments.

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Definitions

Application-specific integrated circuits / ASIC – Circuits customized to deliver better performance than industry-standard integrated circuits in specific applications.

Artificial intelligence / AI – A technology that enables computers and machines to simulate human learning, comprehension, problem solving, decision making, creativity and autonomy. An AI supercycle is a sustained period of strong economic growth driven by the development and wider adoption of artificial intelligence.

Basis points / bps – Measurements used in discussions of interest rates and other percentages

in finance. One basis point is equal to 1/100th of 1%, or 0.01%.

Beta – A measure of the volatility or systemic risk of a security, group of securities, or portfolio compared with another security, group of securities, portfolio, or the market as a whole.

Beta testing – The field testing of a new product with real users.

Breadth – The relationship between the median and the mean of a market index. When a few data outliers result in a mean that is substantially larger (or smaller) than the median of the full data set, then the performance of the entire index is being driven by a “narrow” selection of companies. An index supported by “broad” market movements is one where the median is closer to the mean.

Capital expenditures / capex – Monies used by a company to buy, improve, or maintain physical assets such as real estate, facilities, technology, or equipment, and may include new projects or investments.

Concentration – The extent to which investments in a portfolio, group of portfolios, industry, sector, index, or particular geography or clustered in groups that share specific factors or other characteristics. Concentration risk refers to the hazards posed to individual investments or market stability by excessive concentration of returns or other characteristics in certain areas.

Consensus estimates – Forecasts of a public company’s projected earnings, the results of a particular industry, sector, geography, asset class, or other category, or the expected findings of a macroeconomic report based on the combined estimates of analysts and other market observers that track the stock or data in question.

Cyclical stocks – Stocks with prices influenced by macroeconomic changes in the economy and are known for following the economy as it cycles through expansion, peak, recession, and recovery.

Dispersion – The range of outcomes realized in different areas of a financial market or the potential outcomes of investments based on historical volatility or returns.

Federal funds rate – The target interest rate set by the Federal Open Market Committee of the U.S. Federal Reserve. The target is the Fed’s suggested rate for commercial banks to borrow and lend their excess reserves to each other overnight.

Fiscal policy – The tax collection and spending a government uses to influence its country’s economy. Fiscal stimulus refers to government spending or policy that aims to nurture and fuel private economic activity.

Graphics processing unit / GPU – A type of electronic circuit used in a wide range of applications that include parallel processing, graphics and video display, and artificial intelligence.

Gross domestic product / GDP – The total value

of goods and services provided in an economy during a specified period, often one quarter or one year.

Hyperscalers – The largest cloud computing providers that can provide massive amounts of computing resources and storage at enterprise scale.

Inflection – A sudden change in the direction and rate of change of investor behavior regarding particular securities or areas of the markets. Inflections can lead to either positive or negative change.

International Emergency Economic Powers Act / IEEPA – A U.S. law that provides the president broad authority to regulate a variety of economic transactions following a declaration of national emergency. In 2025, the act was used to impose or raise U.S. tariffs on imports from many countries.

K-shaped economy – A situation where, following an economic downturn, different parts of the economy recover at different rates, creating a divergence like the letter “K.”

Large language models / LLMs – Artificial intelligence algorithms that can recognize, summarize, translate, predict, and generate text, as well as respond to questions in a conversational manner, by massively large sets of data.

Macroeconomic – The branch of economics that focuses on seeking to understand the interactions between the markets, businesses, governments, and consumers that make up an entire economy.

Monetary policy – Decisions made by central banks to raise or lower benchmark interest rates or otherwise tighten or loosen credit to influence an economy’s growth, inflation, or employment levels.

NoSQL – Short for “not only SQL,” a non-relational data base whose capabilities include providing flexibility in data modeling, horizontal scaling, higher processing speeds, and user-friendly features for developers.

One Big Beautiful Bill Act – Signed into law in July 2025, raised the U.S. debt ceiling by \$5 trillion, made permanent tax cuts created by the Tax Cuts and Jobs Act of 2017, changed a wide range of other aspects of federal tax policy, made changes to health insurance legislation, and phased out or reduced credits for clean energy production.

Overweight – A portfolio position in an industry sector or some other category that is greater than the corresponding weight level in a benchmark portfolio.

Price-to-earnings (P/E) – A ratio that measures a company’s current share price relative to its earnings per share. The ratio is used to help assess a company’s value and is sometimes referred to as the price multiple or earnings multiple.

Quantitative easing / QE – A form of unconventional monetary policy in which a central bank purchases longer-term securities from the

open market in order to increase the money supply and encourage lending and investment. Buying these securities adds new money to the economy and also serves to lower interest rates by bidding up fixed-income securities. It also expands the central bank’s balance sheet.

Reserve management purchases / RMPs – Purchases authorized by the Federal Open Market Committee and carried out by the Federal Reserve Bank of New York to maintain an ample level of reserves by buying Treasury bills or, if needed, Treasury securities with remaining maturities of 3 years or less on the secondary market.

Reshoring – Activities aimed at bringing manufacturing and other services back to the United States from overseas operations.

Rotation – The movement of investments from one industry, sector, factor, or asset class to another as market participants react to or try to anticipate the next stage of the economic cycle.

Underweight – A portfolio position in an industry sector or some other category that is less than the corresponding weight level in a benchmark portfolio.

Yield curve – A line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity. Yield curve steepening takes place when the spread between short- and long-term interest rates along the curve gets wider.

Index

Russell Midcap® Index – The Fund’s benchmark. It measures the performance of the mid-cap segment of the U.S. equity universe. The stocks are also members of the Russell 1000 Index.

Investors cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges.

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