

## Small Cap Value Equity Q3 2025 Commentary

### Market Review:

The US equity market continued to surge in the 3<sup>rd</sup> quarter, as the Russell 2000 returned 12.4% while the Russell 2000 Value was up 12.6%, marking one of the best quarterly performances for small-cap value stocks in recent years. Investor sentiment was buoyed by a more accommodative Federal Reserve and growing optimism that the early stages of a rate-cutting cycle would particularly benefit smaller, domestically oriented businesses. Generally positive economic data, greater clarity on tariff policy, and an interest rate cut from the Federal Reserve were the primary drivers of the rally.

On the July 4<sup>th</sup> holiday, President Trump signed the comprehensive budget package, the One Big Beautiful Bill Act, into law. The bill made permanent many of the 2017 tax cut provisions, imposed major spending reductions for Medicaid and other social programs, and included substantial increases in the Defense budget. Importantly, the bill included provisions that significantly reduced taxes on capital expenditures, including 100% bonus depreciation for capital assets in the year they are placed in service and immediate expensing for domestic R&D. President Trump's so-called reciprocal tariffs took effect on August 7<sup>th</sup>, establishing broad baseline tariffs of 10% and ranging as high as 50% for individual nations. Tariff levels were reduced for some key trading partners from earlier proposed rates, including the European Union which was revised down to 15% from an earlier 20%. Trump also assessed a 100% tariff on semiconductor and pharmaceutical imports, with exemptions for technology and pharmaceutical firms that invest in US manufacturing.

Despite the tariff upheaval, the US economy appears to be holding steady, as 2<sup>nd</sup> quarter GDP grew at 3.8%.<sup>1</sup> Furthermore, the US unemployment rate remains at a relatively low 4.3%. However, signs of stress are beginning to appear in the labor market, as US payrolls declined by 32,000 in September, below consensus expectations of a 45,000 gain. The weakening employment picture opened the door for the Federal Reserve to cut interest rates by a quarter percentage point, while signaling two more possible cuts by the end of the year. Inflation is complicating the Fed's decision; core PCE, the Fed's preferred measure of inflation, ticked up to a 2.9% annual rate in August, still above their long-term target of 2%.<sup>2</sup>

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<sup>1</sup> Source: <https://www.bea.gov/data/gdp/gross-domestic-product>

<sup>2</sup> Source: <https://fred.stlouisfed.org/series/PCEPILFE>

## Performance Analysis:

The Small Cap Value Equity strategy composite returned 14.4% (gross of fees) and 14.2% (net of fees) for the third quarter of 2025. The Russell 2000 Value and the Russell 2000 returned 12.6% and 12.4%, respectively, in the quarter.

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

| September 30, 2025       | QTD  | YTD  | 1 Yr | 3 Yr | 5 Yr | 10 Yr | Since Inception* |
|--------------------------|------|------|------|------|------|-------|------------------|
| Small Cap Value (gross)  | 14.4 | 6.0  | 0.2  | 10.1 | 16.5 | 9.2   | 11.3             |
| Small Cap Value (net)    | 14.2 | 5.6  | -0.4 | 9.5  | 15.8 | 8.5   | 10.5             |
| Russell 2000 Value Index | 12.6 | 9.0  | 7.9  | 13.6 | 14.6 | 9.2   | 9.8              |
| Russell 2000 Index       | 12.4 | 10.4 | 10.8 | 15.2 | 11.6 | 9.8   | 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.*

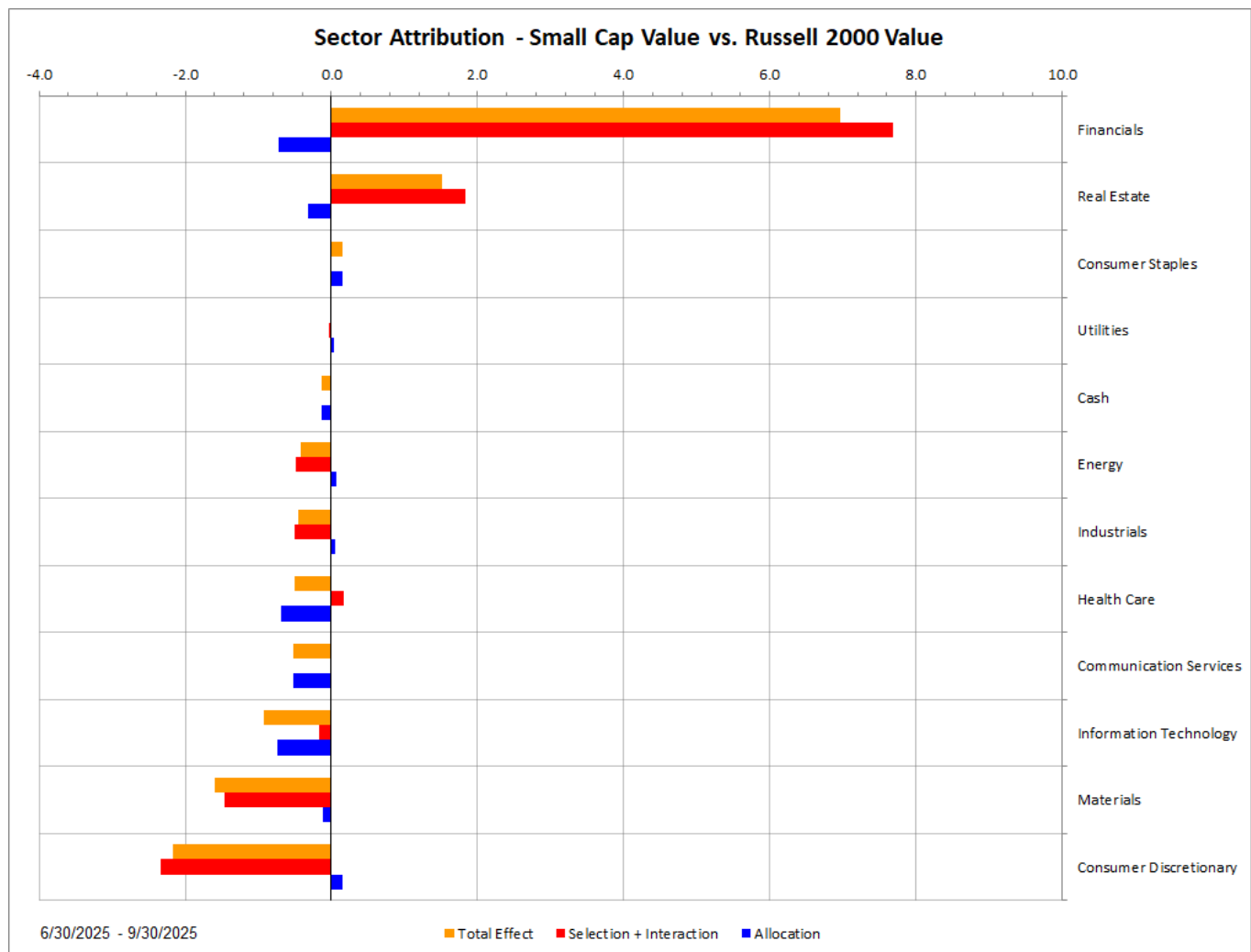
Small-cap equities delivered an exceptional quarter, with the Russell 2000 gaining 12.4% and the Russell 2000 Value advancing 12.6%, outpacing the large-cap Russell 1000's 5.3% gain. The rally was fueled by a combination of Fed rate cuts, broad-based economic resilience, and renewed investor appetite for risk. Following the "Liberation Day" tariff announcement in early April, optimism surrounding an easing policy backdrop, stronger credit conditions, and moderating inflation expectations propelled smaller-cap companies higher. Notably, micro-cap stocks (Russell Microcap Index) surged 17.0%, highlighting the resurgence in risk-taking and early-cycle participation across the market spectrum.

AI-related enthusiasm remained a major tailwind for the broader market, but within the small-cap space, performance broadened meaningfully beyond technology. Communication Services and Materials were significant contributors, reflecting improving capital expenditure trends, M&A activity, and optimism about domestic manufacturing. Energy and Healthcare also participated, supported by improving pricing power and modest supply-chain normalization.

From a factor standpoint, the quarter favored high-beta and momentum-oriented small-cap stocks, consistent with risk-on behavior. High-beta names, often unprofitable and the most rate-sensitive and cyclically exposed, benefited from easing monetary policy and strong investor flows into economically sensitive segments. Momentum also performed well, driven by the persistence of small-cap earnings revisions and ongoing rotation into early-cycle beneficiaries. Conversely, low-volatility strategies lagged, as defensive sectors such as Consumer Staples were the weakest contributors.

## Portfolio Attribution:

**Figure 2: Attribution Effects – Small Cap Value Equity vs. Russell 2000 Value 6/30/2025-9/30/2025**



Source: SCCM/Bloomberg, 9/30/2025.

Our strong stock selection within **Financials** made the sector the largest contributor to relative performance for the quarter. High-conviction positions such as LoanDepot (+141.7%), LendingTree (+74.6%), and PennyMac Financial Services (+24.7%) led gains, supported by improving mortgage activity, stronger credit quality, and renewed investor optimism around housing-related financials. Additional strength came from regional banks including Ameris Bancopr, SouthState Bank and Enterprise Financial Services, which delivered steady loan growth and solid profitability amid easing rate expectations.

Our strong stock selection within **Real Estate** made the sector a meaningful contributor to relative performance for the quarter. Positions such as Douglas Elliman (+23.3%) and Newmark Group (+53.8%) led gains, supported by improved transaction activity, resilient leasing fundamentals, and continued investor confidence in well-capitalized property service firms. Highwoods Properties (+4.1%) also added modestly, benefiting from stable occupancy and disciplined expense management. The sector's positive results reflected a selective focus on companies with strong balance sheets and exposure to segments of commercial real estate demonstrating early signs of recovery.

Our allocation and hence our zero holdings in the *Consumer Staples* sector also added to relative performance.

*Consumer Discretionary* was the largest detractor from attribution, with the portfolio underperforming because of stock selection. Under Armour (-25.6%) and Crocs (-17.5%) weighed most heavily on results, as ongoing margin pressure, heightened promotional activity, and weaker-than-expected demand led to disappointing quarterly performance. Marriott Vacations Worldwide (-5.5%) also detracted, reflecting slower bookings and continued softness in leisure travel spending.

*Materials* detracted from attribution during the quarter and lagged primarily due to weak stock selection, as several holdings underperformed the broader rebound in cyclical and commodity-linked materials. Ecovyst (-7.9%) and Huntsman (-18.1%) weighed on results, reflecting softer industrial demand, margin pressure from lower pricing, and cautious restocking trends in key end markets. Quaker Houghton (-6.4%) and Avient (-7.4%) also detracted, as both companies reported stable fundamentals but failed to keep pace with the strong rally among metals and mining peers. Despite near-term weakness, these holdings remain positioned to benefit from structural tailwinds in manufacturing and materials innovation as demand normalizes into 2026.

## Portfolio Changes:

### *Purchases*

**Avient Corp (AVNT)** is a global provider of specialized polymer materials, colorants, composites, and additives serving key end markets such as packaging, healthcare, defense, and industrial manufacturing. The company has successfully transitioned from a commodity materials business to a higher-margin specialty formulator through strategic acquisitions and divestitures, focusing on sustainability and advanced material innovation. Execution remains strong, supported by cost discipline, productivity initiatives, and an increasing mix of recurring and value-added revenue streams. Exposure to resilient sectors like healthcare and defense provides stability, while demand recovery in packaging and industrial applications offers cyclical upside. Management continues to drive mix improvement, margin expansion, and deleveraging through operational excellence and targeted capital allocation. Avient is also investing in next-generation materials aligned with long-term trends in electrification, lightweighting, and circular manufacturing. With a stronger balance sheet, expanding free cash flow, and a structurally improved earnings profile, we believe Avient is well positioned to compound value and outperform traditional chemical peers over the coming cycle.

**Quaker Houghton (KWR)** is a global leader in industrial process fluids, lubricants, and specialty chemicals serving the metalworking, steel, automotive, aerospace, and general manufacturing industries. The company provides mission-critical products that improve process efficiency, extend equipment life, and support sustainability initiatives across diverse industrial supply chains. Quaker Houghton has built a resilient business model characterized by high customer retention, strong pricing power, and disciplined execution through economic cycles. Its management team continues to navigate raw material volatility effectively while expanding margins through operational efficiencies and innovation-driven product differentiation. The company's exposure to industrial production, infrastructure investment, and reshoring trends should position it to benefit from a sustained recovery in global manufacturing. Continued penetration in international markets, particularly in emerging economies, alongside prudent capital allocation and ongoing sustainability initiatives, supports durable earnings growth and attractive long-term compounding potential. With a strong balance sheet, solid free cash flow generation, and expanding

strategic partnerships, Quaker Houghton represents a high-quality franchise in a position to outperform through the next phase of the cycle.

*Sales*

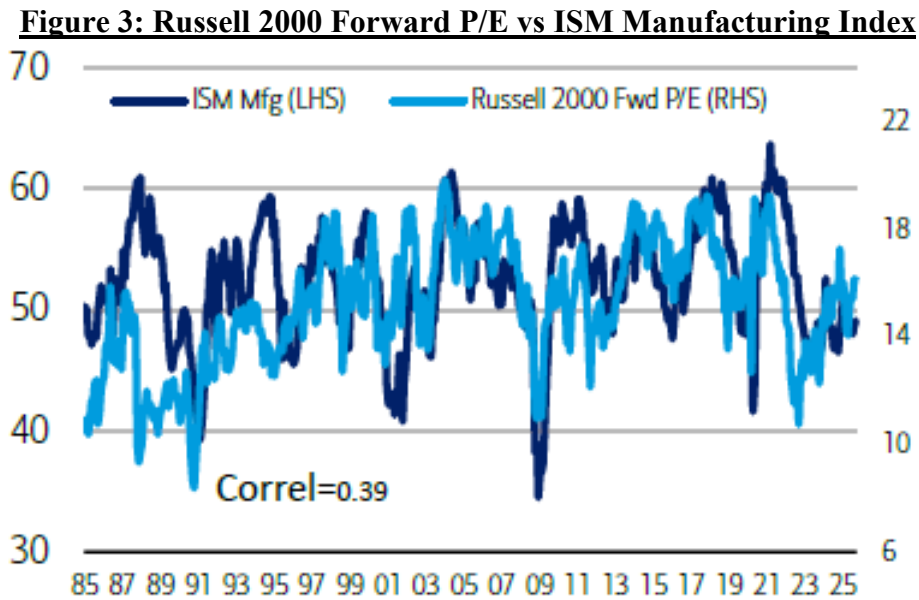
**Ecovyst Inc. (ECVT)** was sold during the quarter as end-market demand across catalysts and silicas softened, leading to reduced pricing power and lower utilization rates. Slower-than-anticipated recovery in industrial activity and limited operating leverage tempered confidence in earnings growth.

**Sitio Royalties Corp. (STR)** was sold during the quarter due to declining production volumes and weaker commodity price realizations. The company’s limited reinvestment flexibility and diminishing cash flow momentum constrained upside potential within the energy royalty space.

**Unisys Corp. (UIS)** was sold during the quarter following weaker-than-expected revenue trends and persistent execution challenges in key digital transformation contracts. Margin expansion has stalled amid higher cost pressures and delayed project ramp-ups, reducing near-term visibility and risk-adjusted return potential.

**Market Outlook:**

The economic outlook improved meaningfully over the third quarter as policy-related uncertainty eased and the Federal Reserve began a well-telegraphed rate-cutting cycle. Lower interest rates, moderating inflation, and resilient consumer spending have lifted sentiment, while markets have grown more confident in the potential for a soft landing. Businesses have largely adjusted to tariff policies, and trade negotiations have progressed toward greater clarity. Although ISM and PMI data continue to indicate uneven growth, looser financial conditions and strong labor market resilience have supported risk-taking across asset classes (Figure 3). Credit spreads remain near multi-year lows, signaling confidence in the economic backdrop, even as the expansion of private credit and isolated credit stress points warrant ongoing caution.

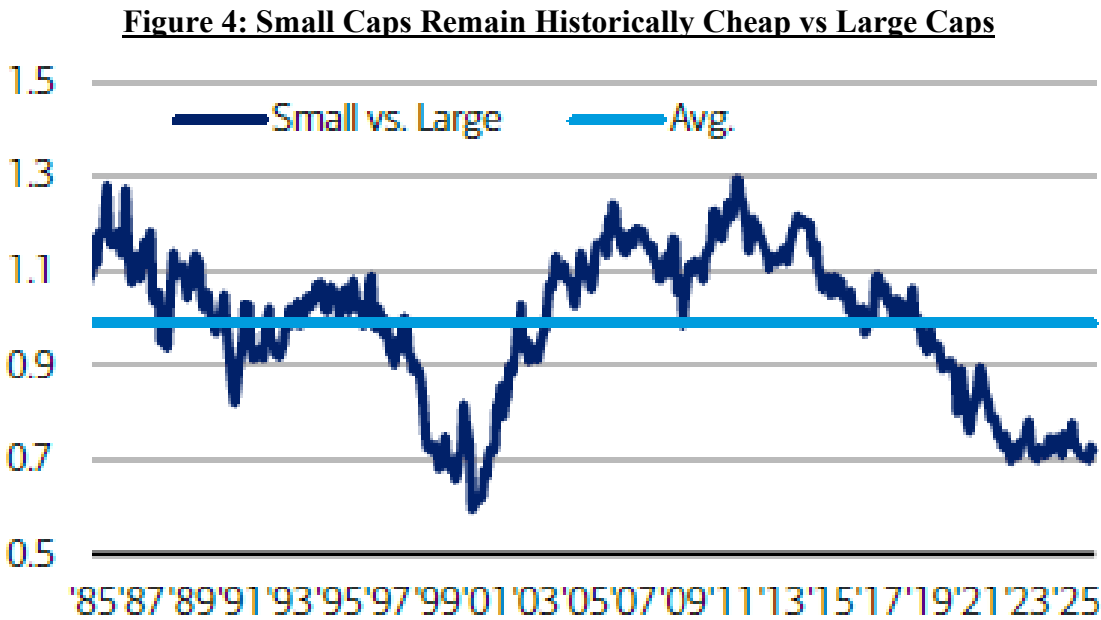


Source: BofA Global Research, 10/03/2025.

After several years of narrow leadership concentrated in mega-cap technology stocks, the third quarter saw a notable broadening of market participation, particularly among smaller companies. The Russell 2000 advanced 12.4% while the Russell 2000 Value gained 12.6%, marking one of the strongest quarters for small-cap equities in recent years. Investors responded favorably to early signs of monetary easing and the prospect of renewed credit availability, which historically benefit rate-sensitive and domestically oriented companies. Small caps entered the quarter trading at multi-decade lows relative to large caps, providing both valuation support and asymmetrical upside as earnings recover. Earnings expectations for 2025 have strengthened, with small-cap profits projected to expand at more than twice the pace of large caps, reflecting operating leverage from a rebound in manufacturing, industrial production, and capital investment (Source: Bank of America).

Cyclical and value-oriented sectors led performance during the quarter, driven by strength in Industrials, Financials, and Materials. Technology and Communication Services continued to benefit from AI-related spending, but performance broadened to include economically sensitive and interest-rate-exposed industries such as regional banks, transportation, and construction materials. The market also exhibited a moderate uptick in speculative activity, consistent with the early stages of a liquidity-driven recovery, though positioning in small-cap value remains light by historical standards. This dynamic suggests the rally could have further room to run as investor flows continue to rotate away from large-cap growth toward undervalued segments of the market.

Valuations across large caps remain elevated, with the top ten S&P 500 stocks now accounting for nearly 40% of the index’s market capitalization – a record high that underscores extreme concentration. In contrast, small-cap equities continue to trade at deep discounts to historical norms and to large-cap peers, offering a compelling entry point as leadership broadens (Figure 4). The gap between growth and value remains near historical extremes, creating favorable conditions for value and dividend-oriented strategies as monetary policy normalizes. At the same time, the continued shift in industrial activity toward domestic production, infrastructure investment, and supply-chain reshoring provides secular support for smaller, more domestically focused companies.



Source: BofA Global Research, 10/03/2025.

Looking ahead, the combination of lower interest rates, improving credit conditions, and gradual economic stabilization should sustain a more balanced market environment. Small-cap equities, having lagged significantly in recent years, now stand to benefit from an inflection in both earnings growth and investor sentiment. While elevated optimism and speculative activity could contribute to short-term volatility, the broader setup favors continued rotation toward value and small caps. Over the medium term, improving breadth, cyclical strength, and attractive relative valuations should provide a supportive backdrop for high-quality, cash-generative small-cap companies as the market transitions into the next phase of the cycle.

The current valuation of our portfolio remains attractive – the strategy's P/E is 11.8x forward earnings versus 13.0 for the Russell 2000 Value (Q3).

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.

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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 **Russell Microcap Index** consists of the smallest 1,000 securities in the small-cap **Russell 2000 Index**, plus the next 1,000 smallest eligible securities based on a combination of their [market capitalization](#) and current index membership weight. The **ISM Manufacturing Index** is a monthly indicator of US economic activity based on a survey of purchasing managers at manufacturing firms nationwide. It is considered to be a key indicator of the state of the U.S. economy. 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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