

## Q4 2025 Quarterly Commentary

By Nathan Fredrick, CFA

### Strategy Overview / Performance Summary

The Micro Opportunities Strategy underperformed for the quarter and for the year compared to its benchmark. While absolute returns were positive, we had trouble keeping up with the benchmark's exceptional returns. The fourth quarter and full year for the Micro Opportunities strategy were challenging, reflecting both stock-specific underperformance and sector positioning that lagged market leadership. We did not have sufficient exposure to the more speculative areas that drove performance, including certain AI-adjacent themes and the biotech rally that emerged in the second half of the year.

Our investment discipline remains centered on higher-quality businesses that are profitable or approaching profitability and that we believe can generate attractive and improving returns on invested capital over a full cycle. Many of the strongest-performing stocks in 2025—particularly within biotech, crypto-related businesses, select AI narratives, and quantum computing—did not meet our quality thresholds, as fundamentals often lagged the enthusiasm embedded in share prices.

Similar to prior periods, we navigated an environment marked by elevated macro uncertainty. Global trade and tariff negotiations remained fluid throughout the year, while investor focus increasingly shifted toward the bullish narrative surrounding artificial intelligence and its perceived transformative impact. In this setting, market leadership was driven by lower-quality factors, including high short interest, low near-term sales growth, low absolute share prices, and negative free cash flow—characteristics that, according to Furey Research Partners, dominated factor performance within the Micro-Cap Index and run counter to our investment philosophy.

While we remain long-term believers in AI and acknowledge that large, well-capitalized platforms are positioned to benefit, we continue to view many smaller companies tied to these themes as facing greater operational and financial risk than current valuations suggest.

Looking ahead, we believe these lower-quality rallies are unlikely to persist. Encouragingly, we are identifying a growing number of micro-cap companies with improving

sales and earnings trajectories heading into 2026, including several that appear to be reaching inflection points in growth and capital efficiency. As fundamentals begin to reassert themselves as the primary driver of returns, we believe higher-quality businesses should regain leadership. At the same time, the experience of 2025 reinforces the importance of disciplined risk management and sector awareness, and we remain committed to a flexible, bottom-up approach that emphasizes quality while positioning the portfolio to take advantage of future market dislocations.

### Sector Highlights

**Information Technology:** Our top performing sector for the quarter was Information Technology. This was driven by both stock selection and allocation. Our underweight to the sector helped us avoid a drawdown in the benchmark returns for Information Technology. We like certain subsectors of Information Technology that are tied to semiconductors and could see the portfolio adding names here.

**Health Care:** Our top-underperforming sector for the quarter was Health Care. Even though our top holding in the portfolio IRadimed Corporation (IRMD) returned over 35% for the quarter, we could not keep up with the relentless biotech rally that resulted in the Health Care sector increasing roughly 31% in the fourth quarter. It is difficult for us to allocate to this sector as many of the companies are large risk large reward binary investments, which is outside of our area of expertise.

**Materials:** For the year, our top performing sector was Materials, driven by our investments in the nuclear energy space. Centrus Energy Corp. (LEU) was our big winner and we have since sold it in the fourth quarter as we believed the valuation reflected much of the good news in the market. We still hold our position in Uranium Royalty Corp (UROY) as a way to play the rising uranium prices that we believe are coming this year.

The top underperformer for the year was again **Health Care** and for the same reasons we mentioned above.

### Top Contributors & Detractors

#### Top Contributors

**IRadimed Corporation (IRMD)** was our top contributor for both the quarter and the full year. The MRI-compatible medical device company rallied nearly 38% in the fourth quarter and gained approximately 80% for the year.

IRMD won FDA approval for its MRI-compatible 3870 IV infusion pump in July 2025, as expected. The company estimates that it will be able to generate \$50 million of 3870 revenue during 2026, in addition to its strong monitor revenue, with more growth to come in 2027. The company's accelerating revenue growth and profitability should enable the stock to continue to perform well in 2026 and beyond. IRadimed remains our largest position and a good example of accelerating growth with high returns on invested capital.

### Top Detractors

**American Vanguard Corp. (AVD)**, a developer and marketer of agricultural products, underperformed during the quarter despite clear evidence of operational improvement. Since the appointment of a new CEO, management has executed on a turnaround plan that has meaningfully strengthened the business, though the stock price has moved in the opposite direction—an example of the inefficiencies often present in micro-cap equities. Inventory levels have been materially reduced and are now more manageable, declining approximately 20% year over year, while gross margins expanded sharply to 29% from 15%. Adjusted EBITDA improved to \$8 million from \$2 million in the prior year, reflecting better execution, cost discipline, and pricing. While we remain cognizant of the risks inherent in the agricultural end markets, we believe AVD is clearly on a path toward a significantly stronger and more durable operating profile than the market currently reflects.

**Limoneira (LMNR)** was our top underperformer in 2025 as near-term results failed to reflect the value of long-cycle investments the company has been making for several years, testing investor patience despite a sound strategic foundation. As a 132-year-old California agribusiness and the largest avocado grower in the United States, Limoneira has methodically expanded its avocado acreage, planting roughly 1,500 acres, with approximately 700 acres still progressing toward full production—a process that inherently takes four to five years and cannot be accelerated.

Short-term earnings pressure, combined with the company's restructuring away from lemons to focus on avocados and the conclusion of a strategic review after bids failed to reflect intrinsic value, weighed on sentiment. However, this long-duration capital allocation increasingly looks well-timed given that the U.S. imports roughly 90% of its avocados from Mexico, where cartel-related disruptions, USDA inspection suspensions, and tariff uncertainty have highlighted supply chain

fragility. As Limoneira's Southern California orchards approach peak production—maturing during periods when Mexican supply is seasonally constrained—we believe the disconnect between near-term stock performance and long-term asset value underscores exactly the type of patient, hard-to-replicate opportunity we seek to own through difficult periods.

### Strategy Additions & Sales

#### New Positions

During the 4th quarter we purchased **Natural Gas Services Inc (NGS)**, an energy services company located in Texas, primarily in the Permian region. NGS rents and maintains natural gas compression units used in oil and gas transportation, production and processing facilities. NGS is a unique energy play because they are largely price and commodity agnostic as their focus is on volumes rather than being reliant on the economics of a given commodity. A large percent of their revenue is under long term contracts.

Additionally, NGS is in the process of optimizing their portfolio to large horsepower (greater than 1,000HP) while reducing their exposure to small and medium horsepower, about 25% of current revenue. Importantly, NGS has access to large horsepower compressors which is a vital asset in a very tight market. A larger horsepower fleet will be better utilized and have a better margin profile. We are optimistic about volume growth, the optimization of their portfolio evolution and how this could better allow them to compete with the larger players.

#### Position Exits

**National CineMedia, Inc. (NCMI)** was held on the thesis that a normalization in box office attendance would drive a recovery in cinema advertising volumes, operating leverage, and free cash flow following the company's restructuring. We exited the position as fourth-quarter box office trends proved materially weaker than expected, limiting advertiser demand and delaying the anticipated rebound in national and local ad spend. Similar to theater operators, market speculation around increased vertical integration—such as Netflix reportedly exploring the acquisition of Warner Bros.—introduced a longer-term structural overhang by raising concerns around theatrical relevance and marketing budgets tied to cinemas. While NCMI remains the dominant cinema advertising platform with improved balance sheet flexibility post-bankruptcy, these factors reduced our

confidence in the timing and durability of earnings recovery.

As noted in Sector Highlights, we exited **Centrus Energy Corp. (LEU)** as the company became too large for Microcap and valuation was full.

### Company Deep Dive: Douglas Dynamics (PLOW)

Douglas Dynamics (PLOW) is a leading North American manufacturer of commercial snow and ice control equipment and work truck solutions, serving municipal, commercial, and contractor end markets through a portfolio of well-established brands such as FISHER®, WESTERN®, SnowEx®, Henderson®, and Dejana. The company operates through two segments: Work Truck Attachments, which is highly levered to winter snowfall patterns, and Work Truck Solutions, which provides truck upfitting, municipal solutions, and more diversified, less weather-dependent revenue streams. This combination gives PLOW a unique cyclical profile, with meaningful upside during normalized winters and increasing stability as the Solutions business scales and diversification initiatives take hold.

From an investment standpoint, PLOW offers asymmetric exposure to a normalization in winter weather after several consecutive years of below-average snowfall that suppressed equipment usage and extended replacement cycles. Data from the current 2025–2026 season indicate one of the harshest winters in six to seven years across key Northeast and Midwest markets, PLOW's most important regions, with snowfall and number of snow days both running well above recent averages (NOAA). Increased snow events drive higher wear-and-tear regardless of inches per storm, which historically accelerates parts demand and stimulates equipment replacement in subsequent seasons. Importantly, dealer inventory levels remain relatively lean following cautious ordering during the snow drought, setting up a favorable replacement cycle as demand returns.

Financially, the business is already inflecting. Management delivered improving margins through operational efficiency and pricing discipline despite a still-challenging weather backdrop, and guidance implies continued improvement in fiscal 2025 and likely 2026. Adjusted EBITDA margins in the Attachments segment are expected to expand meaningfully with a return to more normal snowfall, while the Solutions segment continues to deliver strong incremental margins driven by throughput and efficiency initiatives. On recent earnings calls, management emphasized that significant

incremental margins exist in the Attachments business once snowfall normalizes, and that the groundwork laid over the past two years positions the company to unlock earnings power quickly as volumes recover.

Under new CEO Mark Van Genderen, Douglas Dynamics is also executing on a deliberate diversification strategy to reduce reliance on snowfall alone. The company's "Optimize, Expand, and Activate" framework includes internal efficiency initiatives, organic product development, and targeted M&A, highlighted by the acquisition of Venco Venturo, which expands PLOW's presence in complex truck-mounted cranes and hoists. Management has indicated this acquisition should be modestly accretive to earnings and free cash flow in 2026, with additional margin upside from integration and cross-selling opportunities. Taken together, improving weather conditions, low dealer inventory, margin expansion, and a more diversified business mix support a constructive outlook for earnings growth and returns through 2026 and beyond.

### Outlook for 2026 – Microcap Equities

Looking ahead to 2026, we are increasingly constructive on micro-cap equities, particularly high-quality micro-cap businesses with improving fundamentals. Micro-cap performance in 2025 was largely driven by lower-quality, speculative stocks—companies characterized by weak balance sheets, negative free cash flow, and narrative-driven enthusiasm—an environment that has historically been short-lived. We believe 2026 will mark a rotation back toward fundamentals, with quality micro-cap stocks outperforming both lower-quality peers and, in many cases, larger-cap equities as earnings visibility and capital discipline regain importance.

A key tailwind entering 2026 is easing monetary policy. The Federal Reserve's shift toward rate cuts should be especially supportive for micro-cap companies, which tend to be more sensitive to changes in financing conditions and domestic economic momentum. Lower interest rates and a steeper yield curve can meaningfully reduce capital costs, improve liquidity, and support incremental investment, all of which should translate into accelerating earnings growth. Importantly, microcap valuations remain compelling relative to both small-cap and large-cap equities, despite micro-caps' greater leverage to an improving U.S.-centric economy and the potential for outsized earnings growth off smaller bases.

From a portfolio construction perspective, we are focused on micro-cap companies that underperformed in 2025

but are positioned to reach inflection points in 2026 as growth reaccelerates and returns on invested capital improve. We are beginning to see early signs of upward earnings revisions among businesses tied closely to the real economy, particularly within financials, industrials, and select consumer-oriented niches. In financials, smaller banks and specialty lenders stand to benefit from rate cuts and a steeper yield curve, while advisory and capital markets-oriented firms could see improved activity as M&A and capital raising rebound. In healthcare, while we continue to avoid direct biotech exposure, we favor micro-cap MedTech companies and service providers that benefit from improving biotech funding and procedure volumes, offering attractive economics and high incremental ROIC.

We are also selectively leaning into more contrarian opportunities within the micro-cap universe. Consumer discretionary businesses appear positioned to benefit from higher tax refunds, easing tariff pressures from potential Supreme Court developments, and deferred consumer spending that we believe could shift into 2026. Industrials tied to infrastructure investment, reshoring, and domestic manufacturing remain attractive as order activity improves and operating leverage increases. Overall, we believe 2026 presents a significantly more favorable environment for cyclical micro-cap equities than for defensive names, and we are positioning the portfolio accordingly—focused on quality businesses at fundamental inflection points, improving capital efficiency, and value that we believe remains underappreciated by the market.

As always, thank you for your trust and confidence and please reach out with any questions.



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

**Micro Opportunities Strategy**  
**Largest Contributors and Detractors – Q4 2025**

**5 Best - Absolute Contribution**

| Ticker | Company                            | Avg Weight | Return    |
|--------|------------------------------------|------------|-----------|
| IRMD   | IRadimed Corp.                     | 7.28%      | +37.7 bps |
| MAMA   | Mama's Creations, Inc.             | 4.81%      | +28.4 bps |
| MEC    | Mayville Engineering Company, Inc. | 3.89%      | +36.0 bps |
| AVID   | Avidia Bancorp, Inc.               | 4.07%      | +12.5 bps |
| FSBC   | Five Star Bancorp                  | 3.09%      | +11.8 bps |

**5 Worst - Absolute Contribution**

| Ticker | Company                           | Avg Weight | Return    |
|--------|-----------------------------------|------------|-----------|
| AVA    | American Vanguard Corporation     | 2.54%      | -33.4 bps |
| UROY   | Uranium Royalty Corp              | 4.40%      | -17.7 bps |
| PWP    | Perella Weinberg Partners Class A | 3.52%      | -18.5 bps |
| CLMB   | Climb Global Solutions, Inc.      | 2.20%      | -23.6 bps |
| LMNR   | Limoneira Company                 | 3.77%      | -14.0 bps |

**Disclosures:**

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