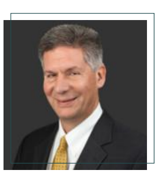
EMERALD DIVERSIFIED SMALL CAP GROWTH

SMALL CAP RISING

THE RUSSELL 2000 SURGED TO A NEW ALL-TIME HIGH in the third quarter, gaining +12.39% and outpacing both the Russell 1000 (+7.99%) and the Russell MidCap Index (+5.32%). Since the April 8, 2025 market bottom the Russell 2000 Index has gained more than 39% and is leading the market's recovery. The persistent strength in the artificial intelligence (AI) secular investment story, the broadening of AI adjacent themes beyond technology (power, cooling, construction, etc.), the Federal Reserve's resumption of rate cuts, the passing of the One Big Beautiful Bill, and a return to earnings growth for the Russell 2000, have collectively contributed to small caps improving relative performance. That said, the large capitalization Russell 1000 Index continues to hold its own gaining +7.99% in the quarter, led by the ongoing strength in the tech-heavy Russell 1000 Growth (+10.51%). An interesting outlier to all this market enthusiasm was the Russell MidCap Index (+5.33%), which uncharacteristically underperformed both the Russell 1000 (+7.99%) and the Russell 2000 (+12.39%). The underperformance was driven by the Growth component, with the Russell MidCap Growth (+2.78%) significantly lagging both the Russell 1000 Growth (+10.51%) and the Russell 2000 Growth (+12.19%).

KEY POINTS:

- ***Our emphasis on fundamental bottom-up stock selection and our long-term commitment and adherence to our small capitalization and growth mandates was a tailwind to performance for the Emerald Diversified Small Cap Growth portfolio for the quarter.***
- ***Stock selection was at the core of strong outperformance relative to the Russell 2000 Growth benchmark, with Emerald holding seven of the top ten contributors to the Russell 2000 Growth Index return for the quarter.***
- ***At the sector level, relative outperformance within the technology, industrials, telecommunications and healthcare sectors more than offset relative underperformance within the basic materials sector.***
- ***As we enter the fourth quarter of 2025 the portfolio currently holds the largest active exposures in the technology, financial, and telecommunications sectors.***



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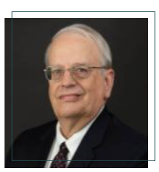

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The style impact to the Russell 2000 was much less pronounced with the Russell 2000 Growth (+12.19%) modestly lagging the Russell 2000 Value (+12.60%). Within the Russell 2000 Growth, the basic materials (+36.73%), telecommunications (+24.20%), and industrials (+18.67%) sectors led, while the utilities (-1.15%), financials (+0.09%), consumer staples (+0.25%) sectors lagged. At the constituent level, there were wide variations in performance by factor. According to an October 1, 2025 report from Steve DeSanctis, Equity Strategist at Jefferies, relative outperformance was concentrated in the highest beta (+1,095 bps), lowest ROE (+1,190 bps) and the highest P/E (+363 bps) and nonearners (+1,075 bps). Performance has been more bifurcated by sales growth, according to the same report, with relative strength in the fastest growers (+478 bps), non-revenue (+719 bps), and the slowest growers (+876 bps).

Market capitalization was also a significant source of variation as all the relative outperformance was concentrated in the less than $1 billion market capitalization cohort within the benchmark. Specifically, the $500 million to $1 billion market capitalization cohort has outperformed the Index overall by approximately 571 bps, while the <$500 million cohort of companies has outperformed by 439 bps. In comparison, the >$1 billion market capitalization companies as a cohort lagged by 46 bps. This is particularly noteworthy when one considers that as of June 30, 2025 the weighted average market cap of small cap growth managers in the Lipper Universe, averaged ~$8.3 billion according to a September 30, 2025 report from Steve DeSanctis at Jefferies. This is nearly 2x as large as the weighted average market cap for the Russell 2000 Index. For reference, Emerald's weighted average market cap was approximately $4.9 billion as of June 30, 2025 and approximately $6.5 billion as of September 30, 2025, according to Factset.

Further, not only has the market cap of our peers been consistently creeping higher, more than 50% of their respective portfolio holdings fall outside of the benchmark according to the same report. The decision to be "up cap" for these managers has been further complicated by the significant relative underperformance of the Russell MidCap Growth Index, highlighted above. Being caught betwixt and between from a market capitalization perspective combined with the sizeable variation in the factor performance highlighted above has created quite a quandary for our small capitalization active management peers. As a group, Small Capitalization Growth Managers, according to data compiled by Steve Desantis of Jefferies in an October 2, 2025 report, have underperformed the benchmark by ~460 bps for the quarter, and approximately ~840 bps since the April 8th low, making this the worst six-month period of underperformance ever.

PORTFOLIO REVIEW

Conversely for Emerald, our emphasis on fundamental bottom-up stock selection and our long-term commitment and adherence to our small capitalization and growth mandates was a tailwind to performance for the Emerald Diversified Small Cap Growth portfolio for the quarter. Stock selection was at the core of strong outperformance relative to the Russell 2000 Growth benchmark, with Emerald holding seven of the top ten contributors to the Russell 2000 Growth Index return for the quarter. At the sector level, relative outperformance within the technology, industrials, telecommunications and healthcare sectors more than offset relative underperformance within the basic materials sector. Performance within the consumer discretionary, consumer staples, energy, financials, and utilities sectors were generally neutral to performance.

The technology sector was the portfolio's largest positive contributor to return driven by the portfolio's relative overweight position and stock selection within the semiconductor, electronic components, production technology, and software industries. Thematically, those companies positioned to benefit from AI and defense-related capital spending were a tailwind to relative performance.

The industrial sector was also a top contributor to return for the quarter. Stock selection was the largest driver of the portfolio's relative outperformance. This is particularly notable, given the industrial sector represents Emerald's largest relative underweight position, with an average underweight of more than 500 bps for the quarter. At the industry level, holdings within the defense, climate control, and specialty machinery industries were the largest sources of relative outperformance.

Emerald's holdings and positioning within the telecommunications sector and more specifically the telecommunications equipment industry added positively to performance.

The healthcare sector also contributed positively to performance. Stock selection remained the largest driver of outperformance as Emerald's portfolio holdings benefitted from clinical advancement, commercialization success, and merger & acquisition activity within the biotechnology and pharmaceutical industries. The portfolio also benefitted from a combination of innovation, market share gains and higher levels of healthcare utilization within the medical equipment and healthcare services industries.

Partially offsetting the above was relative underperformance within the basic materials sector. The underperformance was a combination of stock selection and allocation effect, as the basic materials sector of the Russell 2000 Growth was the best performing sector for the quarter. Although a small sector, in comparison to the healthcare, technology and industrial sectors, at an average weight of 2.98% for the third quarter, Emerald's relative average underweight of ~200 bps and headwinds to stock selection proved to be insurmountable.

As we enter the fourth quarter of 2025 the portfolio currently holds the largest active exposures in the technology, financial, and telecommunications sectors. Thoughts on those sectors and other notable areas of exposure are highlighted below.

- The technology sector, as of quarter-end, was the portfolio's largest nominal and relative overweight position. The composition of the sector exposure remains diversified with holdings within the semiconductor, software, production technology, electronic components, computer services and consumer digital services industries. Of these, the semiconductor and software industries represent the largest absolute weights. On a relative basis, the portfolio continues to hold the largest overweight position in the semiconductor industry with an emphasis on those companies participating in the growth in AI infrastructure and defense modernization and replenishment. Although mindful of current valuations given the market's rapid advance, we remain optimistic regarding the persistence of secular growth drivers within these end markets. Further, although sentiment surrounding software stocks is being pressured by concerns over the commoditization of point solutions and subscale platforms, we remained focused on those niche opportunities within cybersecurity, infrastructure software as well as broad vertical platforms that are tied to big data.

- Emerald also held an overweight position within the financials sector driven by holdings within the banking, insurance, asset management, and investment services industries. The portfolio has the largest nominal exposure to the banking industry, as we believe that banks are a leveraged play on a steepening yield curve, loan growth has been outpacing our expectations, and M&A activity is accelerating.

- The portfolio also held an overweight position in the telecommunications sector. The exposure is largely concentrated within the telecommunications equipment and telecommunications services industries and is comprised of holdings that are benefitting from the broadening of AI infrastructure related spending as well as niche company specific opportunities.

- The healthcare sector represents the portfolio's second largest nominal exposure, although the portfolio was underweight relative to the benchmark as of quarter-end. At the industry level, the portfolio currently holds the largest active exposures within the pharmaceuticals and medical equipment industries and the largest nominal exposure within the biotechnology industry. For therapeutics, more than 80% of the portfolio's healthcare sector holdings are companies that are generating revenue. Within the medical device and diagnostic companies, we remain focused on the innovators that are driving growth through accelerating utilization and market share gains and that are profitable or approaching profitability with a strong balance sheet. While the healthcare sector in aggregate has continued to trail that of the overall index, gradual alleviation of the policy uncertainty, the Federal Reserve's resumption of rate cuts and attractive valuations are sparking renewed interest. The financing window is open to biotechnology companies that report positive data. M&A activity is also showing signs of improving momentum, with the announced acquisitions of two additional biotechnology companies for more than $3 billion during the quarter. There were twelve new drugs approved in the third quarter, bringing the total for the year to 29. Since 2021, there have been 48 new drugs approved annually on average.

MARKET OUTLOOK

The equity market recovery off of the April 8th market low continued in earnest throughout the third quarter, with the S&P 500 now up +34.2% as of September 30, 2025. The third quarter advance cements this recovery as one of the top 5 in magnitude since the 1960's according to an October 1, 2025 report from Michael Kantrowitz and the portfolio strategy group at Piper Sandler. What is interesting regarding this analysis is the observation that rallies of this magnitude have typically been associated with the U.S. economy emerging from a recession. Given the resilient domestic economic backdrop, this rebound, not surprisingly, was classified as more of a mid-cycle market recovery. While this may be an accurate depiction of the current state of the S&P 500, we believe the outsized performance of the Russell 2000 (+ 39.3%), from that April 8th low, is reflective of more than a mid-cycle recovery. Small capitalization stocks, after being mired in an earnings recession for the last two years, are at the early stages of a new earnings upcycle.

After more than two years of stagnating revenue growth, declining net margins, and negative year-over-year earnings growth for the Russell 2000, earnings growth inflected positively in the second quarter. Innovation and investment are on the rise, and we believe that both the simultaneous broadening and deepening of multiple secular growth investment opportunities are contributing to this reacceleration. Artificial intelligence investment is crossing the adoption chasm and AI adjacent themes are proliferating with general compute and power infrastructure investments seeing accelerating investment. Reshoring and advanced manufacturing are adding to the demand for power and construction and engineering resources. At the same time, initiatives to modernize the defense industrial base and rebuild depleted stockpiles are expanding globally. Investments in space/aerospace also appear to be gaining steam and we are in the nascent stages of what appears to be the beginning of a more meaningful investment cycle in stablecoin and quantum computing.

The recent passing of the One Big Beautiful Bill is adding fuel to these already smoldering flames. Borrowing costs are falling, high yield spreads are historically narrow, and the secured overnight financing rate (SOFR) is down more than 100 bps year over year. Merger and acquisition activity is accelerating with volume in North America tracking up more than 50% year over year in the third quarter, according to a September 25, 2025 from Betsy Graseck at Morgan Stanley. Deregulation also remains a potential catalyst with initiatives currently underway to ease capital standards for financial institutions and accelerate lending.

The Federal Reserve's recent return to policy accommodation adds incremental support to the market drivers cited above and at the same time provides an additional catalyst for a further improvement in small capitalization relative performance. According to Canaccord Genuity portfolio strategist Martin Roberge, "the relative performance of small caps normally stabilizes after the Fed has cut its policy rate by 50bps and

100bps from peak Fed funds. Sustained outperformance, however, usually begins after 150bps in Fed Cuts". With the September rate cut in the books, the Fed Funds rate is now down 125 bps from the peak. With two more rate cuts currently embedded in the Federal Reserve Open Market Committee's summary of economic projections for the balance of 2025, small capitalization stock performance should begin hitting that inflection point as we enter 2026, if historical precedence holds.

Further, and unlike large caps, small capitalization relative valuations are hovering near cycle lows. According to an October 6 report from Steve DeSanctis of Jefferies, the Russell 2000 is currently trading in the 10th percentile relative to Russell 1000. More specifically, the Russell 2000 continues to trade at a double-digit discount versus the Russell 1000 historical average on the following metrics: trailing P/E, forward P/E, price to book, price to cash flow, and price to sales, presenting a substantial opportunity for that valuation gap to narrow.

We believe all these factors have been contributing to the Russell 2000's strong recovery from the April 8th low, and recent streak of relative outperformance vs. the broader market. While we agree that the pace of change has been breathtaking, the recovery in the Russell 2000 might be just getting started. According to an October 7th report from Furey Research Partners, if we assume the bear market for the Russell 2000 that started on November 25, 2024 ended on April 8, 2025, the Russell 2000 has gained ~39% through September 30, 2025. This falls right in line with the average Russell 2000 forward six-month performance from bear market bottoms since the 1980's. Returns for the forward one-year period from the bear market bottom have historically accelerated, averaging ~60%, with relative outperformance to the S&P 500 averaging approximately 1,900 bps.

Despite our optimism, we are mindful of the evolving risk landscape. The government shutdown is now in week two with limited progress toward resolution, equity valuations have been expanding on expectations for future earnings growth and corollaries to the tech bubble of the late 1990s are being referenced regularly, although some could argue that this persistent fear of a 1999 redux is a positive. Further, the Federal Reserve Open Market Committee reduced the Federal Funds rate in September and outlined in the Summary of Economic Projections a path for future cuts over the balance of 2025 and into 2026. This path is anything but certain and if market expectations diverge and treasury yields move meaningfully higher, this would present a significant risk to the rally in risk assets. Credit risk concerns have also resurfaced in recent weeks with high profile bankruptcy of private company First Brands. While at this point the risk appears isolated, the market is on high alert for any signs of a broadening in credit deterioration. Lastly, the risk of a geopolitical black swan like event remains ever present given the persistence and prevalence of tensions throughout the world.

Emerald as always remains focused on controlling the controllables and utilizing our fundamental bottom-up research process to identify the best growth opportunities within the small capitalization universe.

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