



EMERALD GROWTH OPPORTUNITIES



"2025 - It Still Pays to be Different - Emerald Portfolios Benefit from Earnings and Sales Growth Driven Stock Returns"

EMERALD GROWTH OPPORTUNITIES All Cap Growth portfolios experienced strong absolute and relative performance vs. the Russell 3000 Growth benchmark on both a quarterly and year-to-date basis, as strong stock selection in most sectors drove Index beating returns. Identifying and owning some of the market's most innovative and best sales and earnings growth companies contributed to our above benchmark returns despite headwinds from heightened volatility, valuation compression, and renewed dominance of mega-cap growth stocks within the Russell 3000 Growth Index. During the quarter, portfolios continued to benefit from an overweight to small-cap, idiosyncratic growth companies and an underweight to several of the benchmark's largest Index constituents.

From an economic perspective, markets focused much of the quarter on Fed rate cuts that occurred in October and December, and the prospects of a new Fed chair. Equity markets largely shrugged off the prolonged Federal government shutdown – the longest in history – although the falloff from delayed economic data – particularly employment – will be felt well into the first quarter of 2026. Payroll growth rebounded towards the end of the quarter, although persistent fears of weak employment and sticky inflation continued to capture investor

KEY POINTS:

- ***The Emerald Growth Opportunities All Cap strategy bested the Russell 3000 Growth Index return for the quarter, driven by a relatively concentrated set of positive contributors that offset a broader group of detractors.***
- ***Outperformance was most evident among select healthcare, and industrial/infrastructure-related holdings, where improving fundamentals, clinical progress, or idiosyncratic growth catalysts were recognized by the market.***
- ***Portfolios remain overweight materials, energy, financials, healthcare, industrials, telecom and utilities and underweight consumer discretionary and staples, real estate and technology.***



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attention. On the positive side, GDP growth for the 3rd quarter was extremely strong at 4.3% and productivity continued to surge ahead at above trend rates.

The fourth quarter of 2025 marked a notable shift in market dynamics, as equity performance became increasingly concentrated in a narrow group of mega-cap growth stocks. While the Russell 3000 Growth Index posted a modestly positive return, breadth deteriorated meaningfully, and performance dispersion widened across both sectors and market capitalizations. Within this environment, factor exposures were far less explanatory of returns than company-specific fundamentals - **normally a good environment for Emerald**, reinforcing the importance of Emerald’s expertise in disciplined security selection and underwriting of long-term earnings power.

For the quarter, large caps led, followed by small caps, while mid caps lagged. Interestingly, it was the same for the year with large caps leading, although micro-cap stocks outperformed materially for both the quarter and the year. In the Russell 3000 Growth Index, Healthcare was by far the best performing sector during the quarter while most other sectors had negative or marginally positive returns. As noted, larger names with high ROE and lower beta outperformed, although as noted above it was all about idiosyncratic return drivers, as most factors models did not predict stock price movements.

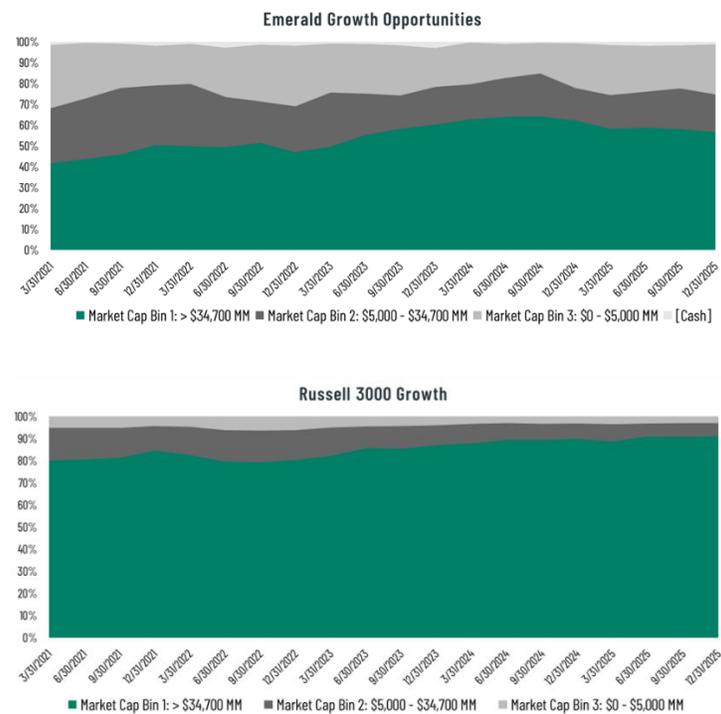
PORTFOLIO REVIEW

The Emerald Growth Opportunities All Cap strategy bested the Russell 3000 Growth Index return for the quarter, driven by a relatively concentrated set of positive contributors that offset a broader group of detractors. Performance reflected the portfolio’s bottom-up construction, where individual company outcomes – rather than sector or factor tilts – dominated results.

Outperformance was most evident among select healthcare, and industrial/infrastructure-related holdings, where improving fundamentals, clinical progress, or idiosyncratic growth catalysts were recognized by the market. In contrast,

several higher-beta growth holdings and selected large-cap positions detracted from returns as investor risk tolerance declined and leadership narrowed.

As has been the case historically, the portfolio maintained a meaningful overweight to smaller-capitalization companies relative to the Russell 3000 Growth Index. While this positioning contributed to near-term tracking error, it remains a deliberate expression of our belief that long-term alpha generation is best achieved through exposure to differentiated growth companies earlier in their earnings and valuation maturation cycles. It's one thing to be different than the benchmark by overweighting innovative small cap growth companies, it's another to generate positive stock selection among those stocks: in Emerald’s case, Growth Opportunities portfolios held 6 of the 10 best performing small cap growth names in 2025 (FactSet). The following market cap weighted charts show Emerald’s 5-year portfolio weights by market cap vs. the Russell 3000 Growth benchmark highlighting the active nature of Emerald equity allocation process:



As has been the case for many years, portfolios maintained their quarterly growth and valuation advantage vs. the Russell



3000 Growth Index with a projected 3-5-year EPS weighted average growth rate of 17.20% vs. 15.22% for the benchmark (FactSet). As has also been the case for several years, portfolios trade at or below the benchmark on most valuation metrics including current and expected Price/Earnings, Price/Cashflow, Price/Book and Price/Sales (FactSet figures). As we have written repeatedly, we like this positioning for the long run, as we are believers that earnings growth over time drives stock prices. Portfolios remain overweight materials, energy, financials, healthcare, industrials, telecom and utilities and underweight consumer discretionary and staples, real estate and technology. While we are meaningfully underweight technology, we feel our beta from small cap technology holdings as well as tech related holdings in industrials, telecom and energy more than compensate for our technology underweight. We added selectively to industrials, technology, and healthcare names during the quarter and reduced our energy weighting.

MARKET OUTLOOK

The 4th quarter and the full year 2025 were clearly exceptional periods for true fundamental, early innovation identifying growth managers like Emerald and for the market overall. Investments in all things artificial intelligence related, defense technology, quantum computing, energy and many other areas of innovation drove strong market returns. After an exceptional year of returns for both the market and our portfolios, like all investors, we ask ourselves, "Can this continue?" At this early stage in the calendar year our first reaction is a resounding yes!

While some folks may express concerns about valuations, the durability of spending from the "K-shaped" economy, volatility in front of the U.S. mid-term elections, geopolitical risks, or an inevitable slowdown in AI driven capex spend, we continue to think there is more fuel in the tank for the economy to remain in significant productivity, capex driven expansionary mode. An expansion that will drive double digit earnings growth in 2026, even higher and growth for some of the more innovative companies included in our portfolios.

There are many factors that buttress our robust 2026 economic and earnings expectations. Following are some of the factors that frame our positioning:

- Continued Fed Cuts – At this stage we see an additional 2 Fed rate cuts in 2026 that will bring the Fed Funds rate down to slightly above 3% - certainly a neutral to slightly dovish rate that will benefit risk assets.
- GDP growth – NY Fed President Williams, who has in our minds been the most influential Fed seer, recently endorsed a bullish outlook of GDP growth at 2.5 to 2.75 percent with no change to unemployment.
- Productivity – one of the unsung heroes of this recovery – has been higher than expected, soaring at a 4.9% annualized rate in the 3rd quarter after an upwardly revised 4.1% advance in the second quarter, according to data from the Bureau of Labor Statistics. These productivity trends benefit the economy and earnings. In addition, Unit labor costs – what businesses pay employees to produce one unit of output – dropped 1.9%, following a decrease in the prior quarter.
- Steeper Yield Curve – The shape of the yield curve has steepened markedly which is normally bullish for risk assets.
- High Yield Spreads – Spreads have tightened to well below average, again normally a precursor of risk on and asset appreciation.
- Weaker Dollar – The U.S. Dollar has depreciated relative to other foreign currencies benefiting U.S. exporters.
- Inflation – While inflation has been on the sticky side, it seems to have plateaued at a level that is palatable for most consumers and businesses and that should not hinder economic growth or stymie the Fed from further rate cutting.
- Valuations – Absolute valuations are expensive, but not at extremes given the expected economic, productivity and earnings growth, especially for small caps where valuations are close to historic lows vs. large caps.



- AI Capex Spend – We see no letup in AI related capex expenditures which have been fueling much of the economic and earnings growth.

There is no question that the market itself, while on a rising trajectory, could experience some above trend volatility as the year progresses driven by geopolitical events, uncertain administrative announcements and actions, and uncertainty around the mid-term elections. We also would not be that surprised by another DeepSeek-like moment that could cause a meaningful pullback in AI related names. We have positioned the portfolio to continue to benefit from some of the dramatic innovations we have seen in the AI related infrastructure names, as well as healthcare, defense technology and other areas with idiosyncratic innovation and growth drivers. We have employed a strategy of pruning winners on parabolic price moves and reinvesting in the same or similar stocks on inevitable valuation/liquidity driven pullbacks. We have employed this strategy on the belief that little has changed with the long-term trend in IRR driven training, inference and reasoning capex spend: spending that we only expect to rocket higher in the next few years. Each day a different hyperscaler talks about investing billions into tens of gigawatts of new energy generation to power new data centers – a trend we doubt will abate and that will be beneficial to all elements of the AI infrastructure trade.

We can't stress enough our belief that the productivity boon we are in the midst of is a game changer for economic and earnings growth. One of our favorite strategists, Ed Yardeni puts it this way:

"Let's assume that productivity growth transitioned from 2.0% to 3.0% in 2025 and will remain at that higher pace for the foreseeable future. That would boost real GDP growth by a full percentage point per year. It would lower unit labor costs inflation by as much. It would boost real wages of workers, more than offsetting the slower pace of employment. So, the real purchasing power of consumers would continue to grow, with less of that growth coming from new workers and more coming from higher real wages. Profit margins would rise, boosting total profits and driving capital spending higher."

Ed notes profit margins reached a record high in Q4 2025 despite tariff and inflation headwinds. We suspect profit margins will stay elevated for the foreseeable future given this massive productivity growth.

We believe that investors need to recognize that now more than ever that they need asset managers possessing the resources and ability to look into the future to identify growth and innovation and not managers who are stuck in the past running backward looking models concentrated on past profitability, cashflow or other metrics. Many of these managers blame the underperformance of stocks possessing "quality" factors for their substandard performance. We believe lack of quality is not the issue – we believe our portfolios are composed of some of the best quality companies in the universe, companies that are growing earnings and revenues at far above market rates. The issue is lack of imagination, research capabilities and platforms to find companies that are truly innovating and are showing leadership in their respective industries.

Emerald has always been about identifying trends early and then finding companies with great management teams that can exploit these trends in the fastest, most profitable ways possible. We have built a team of seasoned portfolio managers and research analysts who are trained in house to identify innovation early and to find companies with management teams built to capitalize on these trends – we call this the "Emerald Advantage." We have been successfully investing using this approach for the past 33 years and we believe we have built a team and infrastructure to sustain this "Emerald Advantage" for many years to come.



Portfolio Characteristics Vs. Benchmark as of 12/31/2025

Characteristic	Emerald Growth Opportunities	Russell 3000 Growth*
Est. 3-5 Year EPS Growth Rate**	17.2%	15.2%
P/E Ratio (using FY1)***	31.3x	30.8x
Price/Book Value***	9.0x	12.5x
Median Market Cap (By No. of Stocks)	\$15,697 mm	\$2,203 mm
Weighted Average Market Cap	\$1,541,037 mm	\$2,017,806 mm
Price/Cash Flow***	23.9x	27.6x
Price/Sales***	5.7x	6.0x
Turnover (Trailing 12 mos.)	49%	--

*Source FTSE Russell - see full disclosure. **The estimated 3-5 year earnings growth rate is calculated utilizing a pre-calculated mean long-term EPS growth rate estimate for portfolio holdings, as available, provided by FactSet and sourced from brokerage estimate submissions to estimate services (FactSet, IBES, First Call, etc.). The estimated 3-5 year earnings growth rate for the portfolio is then calculated utilizing the weighted average of the individual portfolio holding estimated 3-5 year earnings growth rates, adjusted for outliers, which we have defined as greater than 100 and less than 0, or negative. The data reported is as of the report date. Estimated 3-5 year EPS growth rates may not correspond to future returns achieved by the portfolio or any particular security in it and are merely presented to show that the manager's bias is towards those positions that are projected to have a superior EPS growth rate to those of the index as a whole. ***In order to better reflect Emerald's characteristics relative to the Russell Indices, Emerald is now calculating its P/E and Price/Book ratios based on a weighted harmonic average in line with Russell's calculation methodology. Portfolio characteristics are subject to change periodically and may not be representative of current characteristics. Diversification does not assure a profit or protect against loss.

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