



# EMERALD MID CAP GROWTH



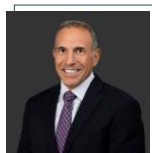
## "Portfolios Benefit from Being in the Right Sectors and Stocks"

**EMERALD MID CAP GROWTH PORTFOLIOS** generated positive quarterly absolute and relative outperformance vs. the Russell Mid Cap Growth benchmark driven by favorable allocation, selection and interaction effects. This means portfolios benefited from over/underweighting the better/worse performing sectors, and in general, selected the better performing stocks at beneficial weights in those sectors. Portfolios experienced outperformance in Energy, Healthcare, Industrial and Telecommunications and modest detraction in Materials and Financials. Performance was primarily driven by strong returns in January and February, with the strategy also outperforming in March, highlighting our ability to source returns from a diverse set of firms with company specific business outcomes.

From an economic perspective, GDP estimates for the 1<sup>st</sup> quarter weakened as the quarter progressed, as did nonfarm payroll employment. ISM manufacturing and non-manufacturing indicators stayed reasonably strong, as did industrial production, retail sales and consumer confidence. Inflation readings started to heat up as the quarter progressed on the heels of rising energy and goods prices, although shelter costs continued moderating. Treasury yields rose sharply in

### KEY POINTS:

- ***The Emerald Mid-Cap Growth strategy bested the Russell Mid-Cap Growth Index return for the quarter - driven by an overweight to the energy and telecommunications sectors and positive stock selection in healthcare and industrials.***
- ***Portfolios also benefited from being meaningfully underweight the consumer but lagged the benchmark in materials and real estate.***
- ***Portfolios remain overweight energy, health care, industrials and telecommunications. We remain underweight the consumer given the various pressures that impact that sector and continue to be meaningfully underweight technology.***



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March given fears about future inflation, while loan growth stayed strong with no signs of a credit crunch emerging – although private credit remains a source of concern.

The first quarter was really a tale of two different periods, with positive returns in January and February driven by positive earnings results, particularly for small caps and cyclicals, while March saw equity markets pull back materially due to the Iran conflict and fears of its impact on the economy and inflation. Within the Russell Mid Cap Growth Index from a sector perspective, energy, materials and industrials were the stars, while consumer discretionary, financials and technology were the worst performing sectors.

Small caps beat large and mid-caps significantly. Value outperformed growth and within mid-cap growth, equities with high ROEs, dividends and prices outperformed during the quarter. Conversely, high P/E, higher sales growth equities underperformed.

## PORTFOLIO REVIEW

The Emerald Mid-Cap Growth strategy bested the Russell Mid-Cap Growth Index return for the quarter – driven by an overweight to the energy and telecommunications sectors and positive stock selection in healthcare and industrials. Portfolios also benefited from being meaningfully underweight the consumer but lagged the benchmark in materials and real estate.

Portfolios maintained a modest quarterly growth advantage vs. the benchmark with a projected 3-5-year EPS weighted average growth rate of 15.18% vs. 15.07% for the Index (FactSet). In terms of valuation, portfolios trade at or near the benchmark on most valuation metrics including forward Price/Earnings, Price/Book, and Price/Sales (FactSet figures). Portfolios remain overweight energy, health care, industrials and telecommunications. We remain underweight the consumer given the various pressures that impact that sector and continue to be meaningfully underweight technology given our identification of companies in other sectors with better earnings growth rates, valuations and idiosyncratic growth

drivers and our decision to overweight the picks and shovels names associated with AI (power, connectivity, cooling, infrastructure) and underweight the areas that could be potentially disintermediated by AI – particularly software.

## MARKET OUTLOOK

Looking Writing a market outlook is never easy, but this outlook is harder than most. The war changes how we look at everything from growth to inflation to rates and earnings. So much depends on the duration of the conflict and the damage to supply chains and commodity related infrastructure. Will oil and other commodity prices reset gradually back to their pre-conflict levels, or will supply of critical commodities remain constrained for an extended period? When looking at futures curves and pricing of both physical and financial markets, it seems evident that market participants think the commodity flows will normalize over the next several months. We certainly hope that is the case. Assuming the present cease fire sticks and the Strait of Hormuz opens in a reasonably orderly fashion – with or without Iranian “tolls” – the U.S. economy should continue to grow at trend pace and corporate earnings – particularly for all things AI-related – should remain strong. The current blockade scenario increases risks to the economic expansion, as would any ground invasion by U.S. troops.

We hate it when macro, exogenous factors drive so many economic and profit assumptions, but that is the reality of the increasingly stressed geopolitical climate we live in. Add to that major changes coming to the leadership of the Fed and upcoming party control altering mid-term elections and you have a potentially volatile set-up for equity markets for the remainder of the year. We have been frankly surprised by some of the recent resilience in employment (jobless claims), retail sales, consumer spending, margins and profits. Inflation data, while elevated due to energy, is staying relatively benign, as are all-important inflation expectations. Putting it all together, this leads us to be cautiously optimistic about markets – again assuming the war is not protracted.



As has been the case for two decades Emerald’s portfolio construction discipline is built on a bottom-up process identifying mid-cap stocks – where possible – that have independent growth drivers, expanding TAMs, strong management teams and technological moats, among other qualities. Our portfolio construction discipline also directs us to take more concentrated positions in these businesses with idiosyncratic, research-substantiated growth drivers – and conviction to size them meaningfully different than the benchmark, which we believe is a structurally superior approach in our quest to generate positive returns through volatile market environments like now.

Even with our bottom-up portfolio construction process, portfolios do have some bias towards areas that we think will benefit from macro-economic turbulence (defense, energy), capitalize from the present massive AI capex super-cycle (industrials, energy, telecommunications) or are relatively immune from the current macroeconomic and geopolitical headwinds (healthcare). We also continue to underweight the consumer as we have for many quarters, given our concerns about continued consumer spending strength, lack of earnings growth in the sector and energy price driven inflation. As evidence of taxed consumers, just this past week the University of Michigan survey of consumers reported its lowest ever sentiment reading. In technology we have continued to overweight semiconductors and underweight software which has been a beneficial allocation strategy for several quarters; however, we may be looking to start to reverse this trade given the valuation disparities.

The principles underlying the Emerald Mid-Cap Growth portfolio: fundamental research, benchmark awareness without benchmark dependence, and a focus on generating returns that are different than the broader market, have guided the strategy since inception, and we remain confident in their durability across a range of market environments.

**Portfolio Characteristics Vs. Benchmark as of 03/31/2026**

| Characteristic                                     | Emerald Mid Cap Growth | Russell Mid Cap Growth* |
|--|------------------------|-------------------------|
| Est. 3-5 Year EPS Growth Rate**                    | 15.2%                  | 15.1%                   |
| P/E Ratio (using FY1)***                           | 23.9x                  | 22.5x                   |
| R <sup>2</sup> vs. Russell Mid Cap Growth (1 Year) | 0.83                   | 1.00                    |
| Price/Book Value***                                | 6.0x                   | 8.7x                    |
| Median Market Cap (By No. of Stocks)               | \$23,874 mm            | \$12,661 mm             |
| Weighted Average Market Cap                        | \$35,021 mm            | \$36,563 mm             |
| Turnover (Trailing 12 mos.)                        | 38%                    | --                      |

\*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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