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EMERALD GROWTH OPPORTUNITIES

"Navigating Through a Bifurcated, Concentrated Market"

EMERALD GROWTH OPPORTUNITIES PORTFOLIOS gave back a modest amount of our 1st half 2026 outperformance vs. the Russell 3000 Growth benchmark as portfolios lagged the benchmark return for the third quarter. Selected energy and industrial names that had been 1st half 2026 winners saw their share prices meaningfully depreciate, in most cases despite fundamental strength in their respective businesses - significantly depressing valuation multiples. Higher for longer interest rates, a Fed rate hike, inflation fears, geopolitical strife, and dramatically increasing oil and product pricing all served to promote a "Risk-off" environment for equities – particularly small caps and cyclicals - areas of overweight for Emerald Growth Opportunities portfolios.

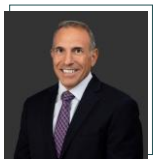
The US economy showed continued strength during the quarter, with Real GDP hanging around the 2.5% level and ISM Manufacturing and Non-Manufacturing readings staying close to YTD high levels. Corporate profit indicators likewise continued to trend upwards while the Civilian Unemployment rate stayed at "Full employment" levels. Inflation readings continued to register materially higher than the Fed's 2% target, with September's PCE coming in at 3.4% and core PCE reading at slightly over 3.0%. The 10-year Treasury moved 69 basis points higher

KEY POINTS:

- ***The Emerald Growth Opportunities portfolios underperformed the Russell 3000 Growth benchmark during the quarter with names within the industrials and energy sectors being the largest detractors from quarterly performance.***

- ***Our overweight to selected AI related themes such as infrastructure, cooling and power, as well as defense-related companies detracted from performance as both industries saw steep draw-downs reversing robust performance earlier in the year.***

- ***Portfolios are overweight healthcare, energy, financials and industrials and underweight consumer discretionary and staples, and technology.***



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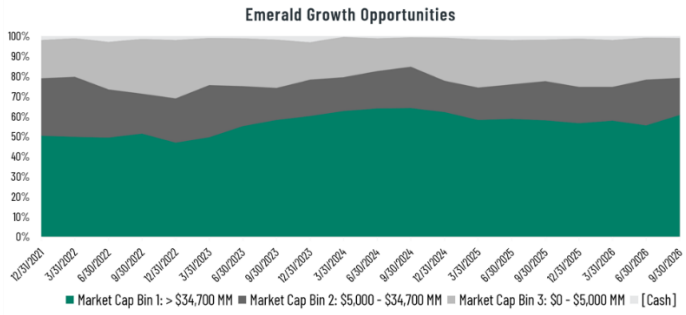
during the quarter, ending at 5.29%. High-yield debt spreads stayed near multi-year lows, but the spread on CCC debt did widen materially towards quarter-end.

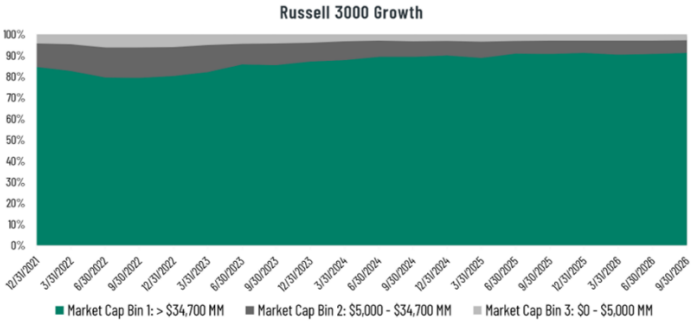
Value stocks outperformed growth during the quarter on the back of the strong economy. Large stocks outperformed mid, with small caps materially underperforming. In fact, Q3 2026 was the third worst quarter in history for the Russell 2000 vs. the Russell 1000 Index. Within the large cap growth universe, lower P/E, lower leverage, and Beta names outperformed, as did higher ROE and sales growth names. The market became more concentrated during the quarter with the market cap of the top-5 largest stocks ending at 6x greater than the entire small cap index.

PORTFOLIO REVIEW

As noted above, Emerald Growth Opportunities portfolios underperformed the Russell 3000 Growth benchmark during the quarter with names within the industrials and energy sectors being the largest detractors from quarterly performance. Our overweight to selected AI related themes such as infrastructure, cooling and power, as well as defense-related companies detracted from performance as both industries saw steep draw-downs reversing robust performance earlier in the year. On the positive side, portfolios outperformed in consumer discretionary, technology and healthcare.

Portfolios maintained our meaningful overweight to small and mid-cap companies relative to the mega-cap dominated Russell 3000 Growth benchmark, expressing our conviction that a concentrated portfolio of companies with differentiated growth drivers can generate alpha if we get their earnings trajectory correct. As we have noted in past commentaries, we build portfolios to be benchmark aware, rather than benchmark adherent. The following market cap-weighted charts highlight Emerald's 5-year portfolio weights vs. the Russell 3000 Growth benchmark, showcasing the active nature of Emerald's portfolio construction methodology and just how different our portfolio is vs. the benchmark.





Emerald portfolios are built from the bottom-up, but we try to include names that in the aggregate, possess earnings growth above the benchmark. This quarter the 3-5-year EPS weighted average portfolio growth rate of 28.03% was in-line with the 28.88% benchmark weighted average growth rate, while our average 3-5-year EPS growth rate of 23.44% screens higher than the benchmark's 16.18%. This is due to two main factors: first, many of our small and mid-cap names do not have robust outyear analyst growth estimates (and thus we believe our EPS growth rates are understated); and second, a couple of the benchmark's largest names have extremely high 3-5-year earnings estimates which skew the Index's weighted average. We believe that when considering these two factors portfolio holdings will grow earnings at or above the benchmark average in the years to come. Importantly, portfolios trade slightly above the benchmark's forward P/E valuation estimates and below the benchmark on most other valuation metrics including Price/Book, Price/Sales and Price/Cashflow – a set-up we continue to like and expect to exploit.

Portfolios are overweight healthcare, energy, financials and industrials and underweight consumer discretionary and staples, and technology. It is important to note that while

portfolios have a roughly 48.5% weighting in technology, the benchmark now has a 66% technology weighting!

MARKET OUTLOOK

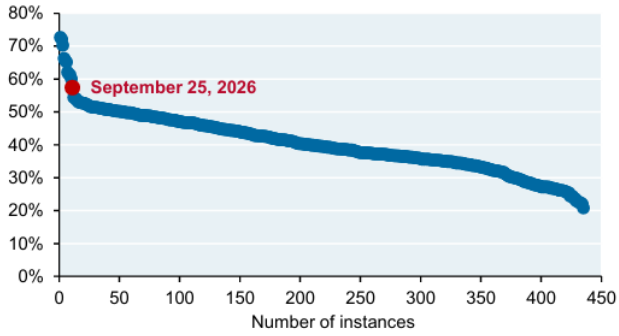
We must admit that we are not surprised that portfolios underperformed in Q3 after the furious market rally and the material outperformance of our all-cap growth portfolios in the 1st half of 2026. Markets and certainly our own names were due to take a breather. We are encouraged that portfolios held up as well as they did given our cyclical/small/mid cap bias. So, it's a testament to positive stock selection in the quarter that underperformance was generally contained to just the industrial and energy sectors.

Rarely in our careers have we seen a market so concentrated and bifurcated between momentum "Winners" and momentum "Losers," with investors paying very little regard to company fundamentals and intrinsic values. The following charts from JP Morgan's Michael Cembelest highlight the extreme concentration and narrowness of recent markets with only approximately 30% of S&P companies outperforming the index on a trailing three-year basis, coupled with the reliance of the market on just a few Mega-cap names accounting for the majority of returns. During the quarter, over 55% of stocks were more than 20% below all-time highs while the S&P 500 was within 1% of its all-time high.

Share of S&P 500 companies outperforming the index on a 3 year trailing basis, Percent

Source: Bloomberg, JPMAM, September 30, 2026

% of stocks more than 20% below all-time highs when the S&P 500 was within 1% of its all-time high, 1990-2026



Source: FactSet, JPMAM, October 1, 2026

The quarter saw huge bifurcation and dispersion in returns in portfolio holdings – particularly as noted above between small and large cap names - and the emergence of very positive macro-driven correlations within industries such as AI infrastructure, energy and defense technology. The good news is we believe this "Winners" vs. "Losers" momentum-based buying and selling which has led to extreme concentration and valuation disparity will dissipate as we move thru Q4 - beyond tax loss selling and the mid-term elections. We think rates and inflation should start to stabilize as we move past peak political drama and oil prices, and particularly product prices should start to recede. Earnings - the "Mother's milk" of markets – should begin to reassert their importance as a key driver of market performance vs. more macro driven rate/inflation/oil fears.

We believe corporate profits, which rose to a record $4.7 trillion in Q2, should continue to march higher for the rest of the year in part driven by capital spending. As corporate cash flows have climbed to a record high, businesses have been putting that money to work: Nonresidential fixed investment has risen in lockstep with corporate profits and reached a record $4.7 trillion during the quarter. Likewise corporate profit margins which hit 18% in Q2 are well positioned for future strength in coming quarters.

We think these phenomenal earnings growth trends should continue and will benefit many of our portfolio holdings, particularly those in the AI infrastructure, power, connectivity and construction industries that saw their shares pull back

meaningfully in Q3. According to FactSet, earnings growth is poised to accelerate in Q4 to 27-28% for small and mid-caps growth equities and 35% for large cap growth stocks. We are convinced that post mid-term elections, defense tech company shares which also saw powerful pullbacks in price should rebound nicely as investors begin to realize the need to replenish munitions, drones, rockets, lasers and many other critical war fighting components. Defense spending globally excluding the US rose by 9.2% last year, Stockholm International Peace Research Institute (SIPRI) reported. "Given the range of current crises, as well as many states' long-term military spending targets, this growth will probably continue through 2026 and beyond," a SIPRI researcher said (Yardeni Research).

We also believe M&A should pick up in the next few quarters after a lull in Q3, as companies with large cash hoards and/or impending patent cliffs put capital to work acquiring small and mid-cap companies whose valuations have compressed recently, in most cases contradictory to their fundamentals. It is in part for this reason that we remain overweight the health care sector given our proprietary research expertise in that space and the fact that this industry is relatively immune to the current macroeconomic or geopolitical headwinds and possesses many idiosyncratic growth drivers.

We continue to underweight the consumer given our concerns about continued consumer spending strength, and the impact of inflation on the average household pocketbook. We also continue to underweight technology mainly through our underweight of the mega-caps and software as well as semi-caps and semi-cap equipment names given our ability to find numerous small and mid-cap technology names that show up in other sectors such as industrials and energy.

The market's extreme bifurcation between momentum based "Winners" and "Losers," Small caps and large/Mega caps, and cyclical vs. secular names has continued through the early part of Q3 as rates have moved persistently higher and investors have flocked to the safety of Mega-cap names. We are becoming increasingly bullish about the portfolio and believe it will not take much in terms of company-specific catalysts (including strong earnings and guidance), rate or inflation relief or other positive events to propel shares of beaten-up companies in the portfolio meaningfully higher. Over the past four months, we have selectively added to some of the most severely dislocated AI infrastructure, defense, energy, and gaming names given investors extreme indifference and apathy towards these names. Regarding rates, we would agree with strategist Ed Yardeni in positing that while the rate of change in the 10-year has been disconcerting, we really don't have to worry too much until the 10-year rate eclipses the rate of Nominal GDP growth which as of the end of Q2 was 6.1%.

So, where do we find ourselves today? After a strong first half of 2026 Growth Opportunities portfolios gave back some of their gains. The third quarter macro driven "risk-off" environment drove investors to a very narrow, high-capitalization subset of companies which negatively impacted our portfolios, despite our company's strong fundamentals. Unfortunately, here at the start of Q4, the macro factors driving much of the market uncertainty - such as geopolitics, US mid-term elections, and energy-driven inflation fears do not fit neatly into calendar quarters. We contend however that the strong underlying fundamentals of the companies within our portfolios are largely unchanged, and over time, revenue and earnings growth will ultimately drive stock prices and investors will realize this most recent correction was overly severe.

At Emerald we will continue to be guided by the principles underlying the Growth Opportunities portfolio: dedicated fundamental research, benchmark awareness without dependence, and a focus on early identification of companies with strong current and/or forward earnings with return structures with limited correlation to the broader markets. This philosophy has guided us since our inception, and we remain confident in its durability across a range of market environments.

Portfolio Characteristics Vs. Benchmark as of 9/30/2026

Characteristic	Emerald Growth Opportunities	Russell 3000 Gro
Est. 3-5 Year EPS Growth Rate**	28.0%	21.3%
P/E Ratio (using FY1)***	25.9x	20.0x
Price/Book Value***	7.5x	4.7x
Median Market Cap (By No. of Stocks)	$12,494 mm	$2,564 mm
Weighted Average Market Cap	$1,937,652 mm	$1,493,255 mm
Price/Cash Flow***	24.3x	17.8x
Price/Sales***	6.6x	3.3x
Turnover (Trailing 12 mos.)	32%	--

**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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