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Quarterly Snapshot

Performance

The Strategy declined 3.83% (net of fees) and the Russell Midcap Index declined 3.00%.

Key Drivers

Our overweight to health care was the largest relative positive during the quarter, while stock selection within industrials and energy and our underweight to information technology were the primary relative headwinds.

Summary

Small and mid cap equities pulled back during the quarter as rising interest rates and elevated energy prices weighed on several economically sensitive areas of the market. We continue to emphasize higher-quality businesses while selectively using recent volatility to add where we believe the long-term risk/reward profile has become more attractive.

Market and portfolio review

Small and mid cap US equities declined during the third quarter, reversing some of their strong performance from the first half of the year and trailing larger cap stocks, which were slightly positive in Q3. The pullback was largely concentrated in September after the Federal Reserve delivered its first rate hike in three years and Treasury yields moved sharply higher. Additionally, the ongoing conflict with Iran pushed oil and fuel prices higher, adding another potential pressure point for consumers and economically sensitive businesses.

From a sector perspective, performance was mixed. Health care (+12%) was the top-performing sector, followed closely by energy (+11%), which benefited from higher oil prices. Information technology (+3%) also posted positive returns. Conversely, several cyclical and rate-sensitive areas came under pressure, with utilities (-14%), industrials (-13%) and consumer discretionary (-10%) among the weakest sectors.

In the portfolio, health care was the largest source of relative strength, driven primarily by our overweight exposure to the sector, with stock selection also contributing positively. We have been increasing our exposure to health care over the past several years and continue to believe it offers an attractive combination of valuation and long-term opportunity. Performance during the quarter reflected a combination of company-specific developments and improving expectations for pharmaceutical research and development spending, which could support demand for life-sciences instruments and diagnostics. We also see the potential for emerging applications of AI to become an incremental demand driver for these businesses over time.

On the other hand, several areas of the portfolio came under pressure as investors considered the potential impact of higher rates, inflation and energy prices. These pressures cut across sectors, affecting housing, mortgage, transportation and consumer-related holdings. In addition to these broader pressures, a few industrial holdings faced company-specific challenges related to elevated input costs and slower-than-expected margin improvement. We have been reducing our consumer-oriented exposure over the past several quarters and have generally preferred businesses where we believe demand and cash flows are less sensitive to changes in the economic environment.

We have continued to lean into higher-quality businesses over the past several quarters, and several of these holdings held up relatively well during recent volatility. While our overall emphasis on quality has not changed, recent weakness has created opportunities to selectively add to more economically sensitive businesses, including companies toward the lower end of our market cap range, where we believe valuations now offer a more attractive long-term risk/reward profile. We remain somewhat cautious given elevated broad-market valuations and macroeconomic uncertainty, but continue to find attractive long-term opportunities, particularly within health care and industrials. We will continue to be patient and allocate capital where we believe the prospective return adequately compensates us for the risks we are taking.

Key contributors

- **Illumina** is a leading provider of next-generation sequencing systems used in genetic research and increasingly in cancer diagnosis and treatment. Shares rose during the quarter on stronger-than-expected clinical growth, while Roche's competitive product launch has been underwhelming, reducing a key risk to our investment thesis.
- Shares of life sciences and diagnostics company **Revvity** rose on growing optimism around a recovery in pharmaceutical research and development spending. Improving instrument demand and backlog provided early signs of a recovery, while enthusiasm around AI as a potential demand driver for life science tools further supported shares.
- Health care software company **Waystar** performed well during the quarter, largely reflecting a broader recovery among application software companies following significant valuation declines earlier in the year.

Key detractors

- **Regal Rexnord**, a manufacturer of electric motors and power management and motion control products, underperformed following mixed results and lower margin guidance amid higher inflation and slower cost savings. We believe these pressures are temporary and can be offset through pricing, while the company's increased focus on growth could benefit from strong industrial automation demand.
- Shares of mortgage provider **Rocket Companies** fell as rising interest rates continue to weigh on the mortgage market, pressuring the company's origination business. However, the acquisition of Mr. Cooper has created a more balanced business model, with mortgage servicing providing a counterbalance given its stronger performance in higher-rate environments.
- Gaming development and management company **Red Rock Resorts** underperformed amid construction-related disruptions and inflationary concerns tied to elevated oil prices. Despite these near-term pressures, we continue to view the long-term opportunity as attractive, particularly at current valuations.

New positions

- We initiated a position in **ESAB**, a leading provider of welding equipment and related products, given the company's ongoing transformation focused on improving its core business and expanding into higher-growth, higher-margin markets. We believe recent stock price weakness reflects temporary headwinds, creating an attractive long-term investment opportunity.

- We initiated a position in **Transocean**, a leading offshore drilling contractor, as constrained industry supply and rising demand create a favorable backdrop for offshore drilling. We believe the company is well positioned to benefit as energy companies seek to replenish reserves and countries prioritize domestically controlled oil supplies, with its pending merger with Valaris further strengthening its position.
- **Generac**, a leading provider of backup power generation equipment, was added to the portfolio given growing demand from data centers and the potential for recovery in its core residential generator business. We believe these growth opportunities are underappreciated, with shares trading at an attractive discount to our estimate of intrinsic value.

Eliminated positions

- We exited our position in **Hartford Insurance Group** as the stock approached our estimate of intrinsic value and concerns grew over potential pressure on interest rates moving forward.
- Shares of landscape equipment provider **Toro** and casino operator **MGM Resorts International** were sold to allocate funds to more attractive opportunities.

Period and Annualized Total Returns (%)	Since Inception (31 Dec 2013)	10Y	5Y	3Y	1Y	YTD	3Q26
Gross of Fees	8.38	8.56	6.38	14.05	6.26	2.34	-3.66
Net of Fees	7.59	7.78	5.63	13.25	5.52	1.80	-3.83
Russell Midcap Index	10.35	11.17	8.04	17.20	12.02	11.84	-3.00
Russell Midcap Value Index	9.56	9.93	9.26	17.50	16.89	15.25	-1.98

Calendar Year Returns (%)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Gross of Fees	8.83	1.61	19.62	11.31	-9.55	26.73	-1.00	32.38	-12.50	10.66	11.39	14.27
Net of Fees	7.96	0.80	18.66	10.46	-10.21	25.84	-1.69	31.45	-13.12	9.88	10.61	13.47
Russell Midcap Index	13.22	-2.44	13.80	18.52	-9.06	30.54	17.10	22.58	-17.32	17.23	15.34	10.60
Russell Midcap Value Index	14.75	-4.78	20.00	13.34	-12.29	27.06	4.96	28.34	-12.03	12.71	13.07	11.05

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