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Quarterly Snapshot

Performance

The Strategy returned 3.41% (net of fees) and the Russell 2000 Index returned 0.89%.

Key Drivers

Stock selection in health care as well as our underweight to information technology were the largest relative positives, while our underweight to energy served as a modest relative headwind.

Summary

Heightened volatility as well as uncertainty remained front and center throughout the quarter, exacerbated by the ongoing conflict in Iran and resulting increase in global oil prices. We remain focused on resilient businesses well suited to navigate ongoing uncertainty and continue to take advantage of the opportunities that market volatility presents.

Market and portfolio review

Small caps entered 2026 continuing their strong performance from late 2025 but pulled back in March as geopolitical tensions escalated and the US and Israel took action in Iran. Despite the drawdown and increased volatility in March, the Russell 2000 still finished the quarter up 0.89%, well ahead of the 4.18% decline in the Russell 1000.

From a sector perspective, energy was far and away the best-performing sector, advancing 38% in Q1 as oil prices rose sharply due to supply concerns following the closure of the Strait of Hormuz. Materials followed in a distant second (+5.9%), while information technology (-4.9%) was the worst performing sector as ongoing concerns around artificial intelligence (AI)-related disruption – particularly within software – weighed on performance. Consumer discretionary was the second weakest sector (-4.7%) as investors became increasingly concerned about the potential impact of higher oil prices and inflationary pressures on the consumer.

Given the macro backdrop of increasing geopolitical conflict, military action and higher oil prices, it is perhaps unsurprising that the strongest contributors in the portfolio tended to be tied to oil and gas or aerospace and defense. Conversely, the second-order impacts of higher oil prices – including the potential pressure on consumers, rising freight and input costs, and the potential for higher interest rates – contributed to weakness across several of the portfolio's largest detractors.

We noted last quarter that we expect news flow and volatility to remain elevated, and the past few months have certainly reinforced that view. We continue to have meaningful exposure

in businesses tied to national security and infrastructure rebuild – both of which are seeing accelerated demand as geopolitical conflict is creating a need to rebuild damaged infrastructure and replenish depleted defense stockpiles.

At the same time, we have increasingly found some of the most compelling opportunities in more stable, basic-needs-type businesses. These may appear more defensive in nature, but in our view are offering quite compelling returns that stack up well compared to any industry. It is merely a tangential benefit that in a world full of uncertainty they tend to offer a narrower range of outcomes. Specifically, we have been leaning into businesses that address essential human needs such as health care, food and shelter. While not immune to volatility, their end markets tend to be less discretionary, and their value proposition is more durable.

Key contributors

- Exploration and production company **Magnolia Oil & Gas** saw shares rise as the sharp increase in oil prices drove a broad rally across US-based oil producers. As geopolitical tensions in the Middle East tightened the supply outlook, investors increasingly rewarded US producers for their leverage to higher commodity prices, potential for outsized cash generation and capacity for strong capital returns.
- Shares of aerospace and defense manufacturer **Ducommun** rose as its missile franchise, representing roughly 25% of its defense revenue, is directly benefiting from the Pentagon's spending acceleration. Additionally, the company's expansion into engineered products creates pricing power and margin

expansion that traditional manufacturers cannot replicate, allowing the company to grow end markets while expanding profitability in a rising defense spending environment.

- **Oil-Dri**, a leading provider of branded and private label cat litter as well as other sorbent materials, outperformed as management has continued to successfully execute a multi-year transformation toward premiumization and operational excellence. This transformation, which has prioritized operational flexibility, shifts to higher-margin products and onshoring of packaging to insulate from tariffs, has created defensible moats for the company that are hard for competitors to replicate.

Key detractors

- **Red Rock Resorts'** fundamentals remained solid, though the stock faced pressure in Q1 as investors linked gaming demand to discretionary spending trends. Concerns around rising fuel prices, particularly following geopolitical tensions, weighed on sentiment given the perceived impact on consumer budgets. However, the company's increasingly diversified customer base has historically shown resilience to these pressures.
- **Proficient Auto Logistics** is one of the largest auto transport companies in the US and has played a leading role in consolidating the industry, bringing together several non-union carriers nationwide. The company has broad geographic coverage and meaningful contracts with multiple auto manufacturers. Rising oil prices and macroeconomic uncertainty have recently pressured auto sales and weighed on performance, but we continue to believe the company is well-positioned to outperform over the long-term, supported by its cost advantage, strong balance sheet and high-quality management team.
- Shares of snack manufacturer **Utz Brands** declined after issuing Q1 guidance that was below expectations, although we believe this guidance is obscuring underlying operational progress. More broadly, the category remains pressured given the adoption of GLP-1 medications, disruption to SNAP benefits and increasing competition in the space, while higher oil prices are adding pressure through freight costs and weaker consumer sentiment.

New positions

- **LSI Industries** is a leading North American provider of commercial and industrial lighting and custom display solutions. Under CEO Jim Clark, who joined in November 2018, the company has shifted away from commoditized, off-the-shelf products toward higher-value, more differentiated solutions. We are attracted to the company's resilient business model, strong cash generation, growing mix of stickier service-driven revenue and disciplined management team, which has driven consistent organic growth, product innovation and strategic acquisitions.
- **Knowles Corp.** is a global manufacturer of specialty electronic components serving medical, defense and industrial markets. Recent strategic initiatives have reshaped the portfolio toward higher-margin, mission-critical end markets with more durable demand drivers. We believe the current valuation does not fully reflect the improved business mix and long-term growth potential, so we initiated a position during the quarter.

Eliminated positions

- Software provider **Progress Software** is facing increased uncertainty due to disruption from AI, so we exited our position in favor of more attractive opportunities.
- We exited our position in **First Advantage**, a leader in the background check space, to pursue other opportunities with less macro exposure and AI-disruption concerns.
- Shares of food manufacturer **Marzetti**, carbon black producer **Orion** and enterprise software support company **Rimini Street** were sold to fund more attractive opportunities.

Period and Annualized Total Returns (%)	Since Inception (31 Dec 2000)	20Y	15Y	10Y	5Y	3Y	1Y	YTD	1Q26
Gross of Fees	11.23	8.47	9.66	10.16	10.60	16.05	32.01	3.64	3.64
Net of Fees	10.15	7.42	8.62	9.15	9.61	15.01	30.82	3.41	3.41
Russell 2000 Index	8.16	7.54	8.98	9.88	3.77	13.05	25.72	0.89	0.89
Russell 2000 Value Index	8.73	6.98	8.62	9.61	5.79	13.80	28.09	4.96	4.96

Calendar Year Returns (%)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Gross of Fees	-5.90	14.32	41.64	5.99	-2.44	15.61	12.05	-14.03	22.92	0.77	34.17	-13.90	24.47	14.32	12.95
Net of Fees	-6.84	13.18	40.22	4.93	-3.42	14.45	10.93	-14.85	21.82	-0.14	32.97	-14.67	23.35	13.29	11.93
Russell 2000 Index	-4.18	16.35	38.82	4.89	-4.41	21.31	14.65	-11.01	25.52	19.96	14.82	-20.44	16.93	11.54	12.81
Russell 2000 Value Index	-5.50	18.05	34.52	4.22	-7.47	31.74	7.84	-12.86	22.39	4.63	28.27	-14.48	14.65	8.05	12.59

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