

Market Review

"Micro is what we do, macro is what we put up with".-Charlie Munger

Walking into 2026 feels a bit like stepping onto a stage with two very different scripts. In one, the spotlight shines on an economy that has weathered every storm thrown at it since 2020, a resilience story worthy of a chart-topping anthem. In the other, the set is darker, the tempo slower, hinting at cracks beneath the surface that cannot be ignored. The truth of the year ahead likely lives somewhere in the dissonance between these two tunes.

On paper, the foundational beats remain surprisingly strong. The Federal Reserve expects U.S. real GDP growth to rise 1.7% in 2025¹, and the unemployment rate, while ticking up to 4.4% in December (from 4% in January), remains at a historically low level². This strength is fueled by a consumer who, despite vocal frustrations, continues to spend, and by corporate earnings that have remained solid. Major institutions project this momentum to continue, albeit at a moderate pace. The Federal Reserve's median forecast sees 2026 real GDP growth at 2.3%¹, while Goldman Sachs Research is even more optimistic, forecasting 2.6% growth driven by tax cuts and easier financial conditions.³

Yet, a closer listen reveals a more complex harmony, one where a "K-shaped" divergence is the dominant theme.⁴ The economic experience is split. Spending growth from upper-income households is accelerating, buoyed by stock market gains and tax policies like a higher SALT deduction cap. Meanwhile, lower- and middle-income cohorts are straining under the weight of depleted savings, tighter credit, and a relentless focus on finding value. This observation is not just anecdotal; retailers from Walmart to dollar stores report an influx of higher-income shoppers trading down.⁵ The result is a strange dichotomy: booming luxury and essential discount sectors, with the middle getting squeezed. While the economy can grow as a 'K' for some time, because higher-income spending accounts for the bulk of consumption, the imbalanced economy remains vulnerable to any shock that could upset this fragile equilibrium.

This fragmentation makes the policy conductor's job incredibly difficult. The Fed is trying to tune an orchestra where the brass (inflation) and the strings (employment) are slightly out of sync. Core inflation, while down from its peak, remains stubbornly above the 2% target with what some observers term "stagflation lite"—slower growth paired with sticky inflation, particularly in services.⁶ With unemployment low but worsening—the economy has, on average, only generated 49k jobs per month in 2025 through December—the FOMC's path forward requires "finely tuned judgments,"⁷ made "meeting by meeting, based on the totality of the incoming data"⁸ policymakers have already cut rates significantly, with three 25 bp rate cuts in 2025, but further easing could rekindle price pressures. At the same time, holding firm may allow the labor market to deteriorate further.

The fiscal backdrop adds an additional layer of dissonance. The government is on track for a near \$2 trillion deficit in fiscal year 2026, having already borrowed \$439 billion in the first two months alone.⁹ While tariff revenues provide a temporary boost, the structural drivers (rising mandatory spending on programs like Social Security and Medicare, coupled with trillion dollar annual interest costs) are unsustainable.⁹ This massive debt overhang limits the runway for expansive fiscal stimulus and hangs over every long-term economic forecast.

So, what is the 2026 crescendo? It probably won't be a single, clear note. It will be the sound of an economy powered by a wealthy minority while others navigate a softening labor market and rising prices. It will be the hum of policymakers walking a tightrope between cooling inflation and supporting growth. The most likely outcome is not a dramatic boom or bust, but a year of moderate, uneven growth full of crosscurrents. Success in 2026 will not be found in betting on one simple story, but in understanding the nuanced and divergent rhythms driving different sections of the economy. The final symphony is still being written, and its melody will depend on which voices rise above the rest.

¹ "FOMC Summary of Economic Projections, December 2025", Federal Reserve Bank of St. Louis ("The FRED Blog"), December 15, 2025.

² "Employment Situation Summary", Bureau of Labor Statistics, January 9, 2026. ³ "The Global Economy Is Forecast to Post 'Sturdy' Growth of 2.8% in 2026", Goldman Sachs, December 19, 2025. ⁴ "Consumer spending powers the US economy. A K-shaped economy will further test this dynamic in 2026", Brooke DiPalma, January 1, 2026. ⁵ Barron's, "The Affordability Crisis Is Hitting Wealthy Americans Now, Walmart, Dollar Store Earnings Show", Evie Liu, December 4, 2025. ⁶ Washington Post, "Welcome to the era of stagflation-lite", Heather Long, September 25, 2025. ⁷ "Fed's Barkin says future rate changes should be fine-tuned based on incoming data", Reuters, Howard Schneider and Michael S. Derby, January 6, 2026. ⁸ Transcript of Chair Powell's Press Conference, December 10, 2025. ⁹ Tax Foundation, "The Unsustainable US Debt Course and Impacts of Potential Tax Changes", William McBride, Erica York, Alex Durante, Garrett Watson, January 14, 2026.

Russell Index Returns—As of December 31, 2025

	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years
Russell 2000 Index	2.2	12.8	12.8	13.7	6.1	9.6
Russell 2000 Value Index	3.3	12.6	12.6	11.7	8.9	9.3
Russell 2000 Growth Index	1.2	13.0	13.0	15.6	3.2	9.6
Russell 2500 Index	2.2	11.9	11.9	13.8	7.3	10.4
Russell 2500 Value Index	3.2	12.7	12.7	13.2	10.0	9.7
Russell 2500 Growth Index	0.3	10.3	10.3	14.3	3.0	10.6
<hr/>						
Russell Mid Cap Index	0.2	10.6	10.6	14.4	8.7	11.0
Russell 1000 Index	2.4	17.4	17.4	22.7	13.6	14.6

Sources: Russell Investments. Full definitions of the Indexes may be found in the Disclosures and Composite Notes sections.

Small- and Mid-Cap Market Review

Across the market cap spectrum, as measured by Russell, nearly all Indexes posted positive returns during the fourth quarter. The one exception was the Russell Mid Cap Growth Index—posting a return of -3.7%. The Small Cap Index slightly underperformed both the broad market and the Large Cap Index with the Russell 2000 up 2.2%, the S&P 500 up 2.7%, and the Russell 1000 up 2.4%. Year to date, and in a continuance from last quarter, small caps trailed large caps. For example, the Russell 2000 Index was up 12.8% year to date through December 31, 2025, while the Russell 1000 Index was up 17.4%. During the fourth quarter, value extended its lead over growth in both small and mid caps, and, in a reversal from the prior quarter, value led in large caps as well. The Russell 2000 Value Index was ahead of the Russell 2000 Growth Index by 2.0% for the quarter. Similarly, the Russell 2500 Value Index outperformed its growth counterpart by 2.8%. For the year to date period ended December 31st, the Russell 2000 Value Index continued to slightly lag its growth counterpart (+12.6% versus +13.0%), while the Russell 2500 Value outperformed the 2500 Growth (+12.7% versus +10.3%).

From a sector perspective, results were mixed during the quarter. Across the Small Cap Indexes the Health Care sector was the top performer, returning between +14.6% and +19.9%. Meanwhile, on the negative end of the spectrum, Consumer Staples was among the top laggards with returns declining between -4.0% to -7.4%. One major sector that produced diverging returns was Technology with the Russell 2000 and 2000 Value Indexes returning -4.6% and the Russell 2500 and 2500 Value returning between +1.1% and +9.2%.

For the year, the results across all small cap sectors were primarily positive. Health Care was the best-performing sector in the Russell 2000 Value Index, up 24.7% while Technology followed returning 21.9%. Within the Russell 2500 Value Index, Technology returned 30.9% and Health Care was up 19.8%. Conversely, in both Indexes, Consumer Staples was the sole sector generating negative returns for the year. Both the Russell 2000 and 2500 Value Indexes returned between -6.0% and -9.5%.

Performance Impact

Our Small and SMID Cap Value strategies experienced an uncommon performance divergence in the final quarter of 2025. Our fourth quarter performance was negative in our Small Cap Value strategy on an absolute and relative basis—posting -0.4% gross of fees (-0.6% net of fees) versus 3.3% for the Russell 2000 Value Index. Conversely, in our SMID Cap Value strategy we generated positive absolute and relative performance, returning 3.7% gross of fees (3.4% net of fees) versus 3.2% for the Russell 2500 Value Index. For 2025, our Small Cap Value strategy delivered positive absolute and negative relative returns, posting 6.9% gross (5.7% net) versus 12.6% for the Russell 2000 Value Index. Similarly, our SMID Cap Value strategy delivered positive absolute returns, posting 11.9% gross (10.8% net) while underperforming the Russell 2500 Value Index by 0.8%.

In reviewing our Small Cap portfolio's attribution, the shortfall was primarily stock-selection related as we were behind the Index in 6 of the 11 sectors. Most of this underperformance was due to the Health Care and Consumer Staples sectors with Acadia Healthcare Company, Inc. and e.l.f. Beauty, Inc. detracting the most value. Conversely, our security selection in the traditionally cyclical Industrials sector partially offset our strategy's underperformance during the period. ATI, Inc. and Kirby Corp. were the top contributors within this sector.

In our SMID Cap portfolio, the relative outperformance was nearly all stock selection with our strategy leading in 7 of the 11 sectors. More specifically, security selection in Industrials, Consumer Discretionary, and Technology. ATI and Kirby added value in the Industrials sector, while Victoria's Secret & Co. contributed to performance in Consumer Discretionary. Within Technology, Coherent Corp. added the most value during the period. Meanwhile, on the negative side, and similar to our Small Cap strategy, stock selection in the Health Care and Consumer Staples sectors partially hindered performance with Acadia Healthcare and e.l.f. Beauty subtracting value.

(All companies not specifically discussed above are discussed below in the Small and SMID Cap Value top and bottom five contributors sections.)

Portfolio Strategy and Key Exposures

If the economy holds up and inflation remains in the 2-3% range, we could witness a stronger earnings recovery in small/SMID caps after four years. Therefore, the rotation that we have been witnessing the last few months, could have a lot further to go. We will reiterate what we have said for the past year, within small/SMID caps, there are several high-quality stocks that we believe continue to remain cheap. We believe this is an unusual set up because historically deep value stocks are deservedly cheap: more cyclical, highly leveraged, and generally low-quality businesses. If the economy weakens from here—with consumers pulling back and businesses reticent to invest, and inflation does not moderate—then the rates might not have much to decline. In that scenario we believe high-quality stocks within the small/SMID cap universe should do relatively well. The credit spreads have remained in check and are still below historical levels.

In Technology, there are more attractive opportunities within small and SMID caps versus large caps where we believe the valuations are stretched. Hardware and semis/semi-caps are benefiting from the AI-related datacenter buildouts and smaller companies in these sectors are at much more attractive valuations versus their larger-cap peers. Financials have done well and with less onerous regulations, benign credit conditions, and excess capital positioning; the sector seems well positioned. In 2025, large-cap Financials did much better than the small/mid-cap Financials. We could see more consolidation within SMID banks as an additional return driver. Industrial companies have attractive fundamentals with reshoring opportunities but are not cheap from a valuation perspective. Tariffs and supply chain disruptions could pressure multiples for Industrials. A few of the Consumer Discretionary goods' stocks and retailers have recently recovered with evidence that consumers are not pulling back spending in a major way, except for the lower income demographic. However, many consumer companies are still trading at nearly depressed valuations due to fears of a macro slowdown.

Health Care and Consumer Staples—both defensive sectors—have been out of favor for the last two years. Both sectors have been negatively impacted by macro factors like higher yields (being bond proxies) along with the coverage issues and reimbursement pressures in Health Care and inflation impact on the demand for Consumer Staples. We believe that Health Care could be a defensive hedge and there are attractive opportunities within these two sectors. While paying attractive dividends, we consider Energy stocks to be downright cheap on an absolute basis due to concerns about lower crude prices in the near to medium term.

Small Cap Value Equity Performance—Through December 31, 2025

	Quarter	YTD	1 Year	3 Years	5 Years	Inception to Date
Sapience SCV Equity Composite (Gross)	-0.4	6.9	6.9	10.1	8.8	7.5
Sapience SCV Equity Composite (Net)	-0.6	5.7	5.7	9.0	7.7	6.4
Russell 2000 Value Index	3.3	12.6	12.6	11.7	8.9	8.4
Russell 2000 Index	2.2	12.8	12.8	13.7	6.1	9.1

Sources: Advent Geneva, Russell Investments.

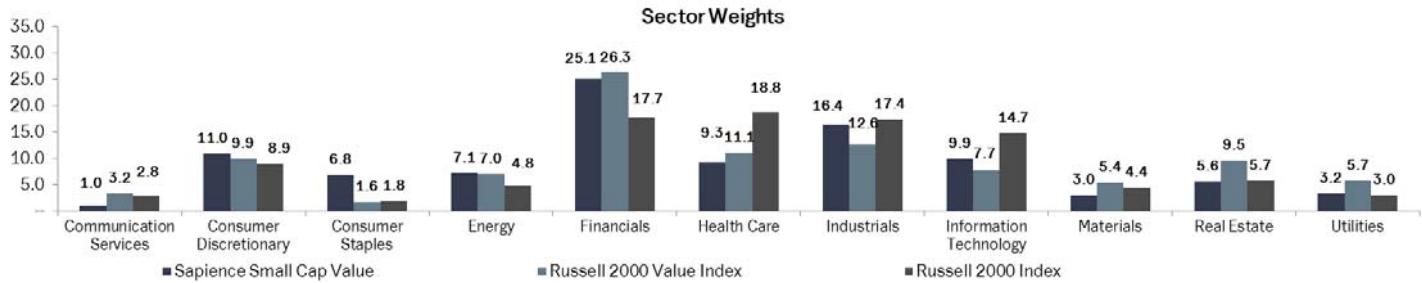
Inception Date: October 1, 2016

NOTE: The complete GIPS Report and additional disclosures can be found at the end of the document.

Small Cap Value Equity Characteristics and Sector Weights—As of December 31, 2025

	Sapience Small Cap Value
Largest 10 Positions – Total Weight	22.4%
Active Share ² (relative to the Russell 2000 Value Index)	95.3%
Tracking Error ³	7.2
Number of Buys ⁴	3
Numbers of Sells ⁴	5

² and ³ Please see disclosures for calculation ⁴ Number of buys and sells during the quarter



Sources: Russell Investments, LSEG

Small Cap Value Equity

Detailed below is our discussion of overall top and bottom contributors during the fourth quarter.

Top and Bottom Contributors Fourth Quarter 2025

Top Five Contributors	Bottom Five Contributors
Company Name	Company Name
Victoria's Secret & Co.	e.l.f. Beauty, Inc.
Lumentum Holdings Inc.	Acadia Healthcare Company, Inc.
ATI, Inc.	Six Flags Entertainment Corp.
FormFactor, Inc.	BellRing Brands, Inc.
Kirby Corp.	Varonis Systems, Inc.

Victoria's Secret & Co.

The company delivered strong results across the board for its third quarter both on revenues and earnings due to improved margins and lower level of promotions. Victoria's Secret & Co.'s turnaround gained momentum as the company witnessed strength at both Victoria's Secret and the Pink brands. The company raised its annual revenue and EPS guidance after the large beat for the quarter.

Lumentum Holdings Inc.

Lumentum Holdings, Inc. is a leading manufacturer of optical and photonic products that are used in cloud, artificial intelligence, telecom, and industrial end-markets. The company's stock price outperformed in the fourth quarter as Lumentum once again delivered better than expected results and increased guidance due to strong momentum in its datacom chips and modules businesses. Lumentum's management team raised their fiscal 2026 second quarter guidance for metrics across the board and now expects to reach the quarterly revenue target of \$600 million in the current quarter, which was two quarters ahead of expectations.

ATI, Inc.

ATI, Inc.'s stock price outperformed as the company delivered EPS that was ahead of estimates due to stronger sales and margins in the AA&S segment and raised its annual EPS guidance to \$3.18 from \$2.98 at the midpoint. The company repurchased 2 million shares during the third quarter following repurchasing 4.4 million shares in the first half of 2025.

FormFactor, Inc.

The company designs and manufactures advanced semiconductor wafer probe cards. FormFactor, Inc. delivered strong results that were ahead of expectations and raised guidance as high bandwidth memory (HBM) was the primary growth driver.

Kirby Corp.

Kirby Corp. continues to benefit from a shortage of barges that is driving a multi-year improvement in pricing for barge services. With both spot and term contract prices up double digits, the company has been able to renegotiate improved rates that are driving margin expansion. The company's stock price outperformed in the fourth quarter as its third quarter results were slightly better than expected and inland barge activity picked up in the fourth quarter.

e.l.f. Beauty, Inc.

e.l.f. Beauty, Inc. is a multi-brand innovative and disruptive beauty company offering products at accessible price points. After outperforming meaningfully in the second and third quarters, the company's stock price gave up the gains as e.l.f. January 14, 2026

Beauty's fiscal year 2026 second quarter sales and the second half of fiscal year 2026 sales guidance of +2-5% were below expectations. The fiscal second quarter U.S. sales were impacted by a shipment delay related to the price increase while international sales comparison was impacted by lapping a major launch last year in Germany. Demand remains stable and the company is growing at rates much higher than the category.

Acadia Healthcare Company, Inc.

The company's stock price underperformed during the fourth quarter as Acadia Healthcare Company, Inc. reduced guidance twice during the quarter. First, it reduced annual EBITDA guidance by \$32.5 million, or 5%, with the third quarter results as patient growth was softer than expected and also due to reimbursement pressures. Then in early December, the company reduced annual guidance by an additional \$49 million, or 7%, related to the higher professional and general liability (PLGL) expense.

Six Flags Entertainment Corp.

Six Flags Entertainment Corp.'s stock price underperformed in the fourth quarter as the company reported third quarter results that were slightly below expectations and the annual guidance was reduced by approximately 10%. The stock will remain in the penalty box until the new CEO can provide credible medium-term targets including the synergies from the Cedar Fair and Six Flags merger. There are a couple of activist shareholders who are pushing for the management/board to close a few underperforming parks and sell some of the real estate assets to pay down debt. We believe that the current equity valuation is depressed and there is tremendous value in these assets, but it will take time for the value realization.

BellRing Brands, Inc.

BellRing Brands, Inc. is a leading nutrition company that sells Premier protein, Dymatize, and Power Bar brands through club, food, and ecommerce channels. The company's stock price underperformed in the fourth quarter even though BellRing reported results that were modestly ahead of expectations with sales growing +16.5% as the company provided +4-7.5% sales growth guidance for fiscal year 2026 with EBITDA declining by 5-12% due to inflation, tariffs, and higher promotional activity. BellRing lowered its long-term sales growth target to 7-9% from 10-12%. While there are new entrants, protein ready to drink (RTD) shakes category seems to have strong demand trends with Premier brand in the lead. Therefore, we believe that the selloff in shares presents an attractive opportunity for this growing franchise.

Varonis Systems, Inc.

The company is a data security software provider with 75% of its revenue coming from the U.S. After outperforming since April, Varonis Systems, Inc.'s stock price underperformed meaningfully in the fourth quarter as the company missed its third quarter net new ARR by \$7.5 million and reduced the annual ARR guidance by \$17 million (-2.5%) due to weakness in the federal business and, more importantly, due to lower conversion rates in the on-prem business. We should gain more clarity on the on-prem conversion rates when the company provides guidance for 2026 on its fourth quarter earnings call.

SMID Cap Value Equity Performance—Through December 31, 2025

	Quarter	YTD	1 Year	3 Years	5 Years	Inception to Date
Sapience SMID Cap Value Equity Composite (Gross)	3.7	11.9	11.9	9.5	8.4	6.6
Sapience SMID Cap Value Equity Composite (Net)	3.4	10.8	10.8	8.4	7.3	5.5
Russell 2500 Value Index	3.2	12.7	12.7	13.2	10.0	8.9
Russell 2500 Index	2.2	11.9	11.9	13.7	7.3	10.1

Sources: Advent Geneva, Russell Investments.

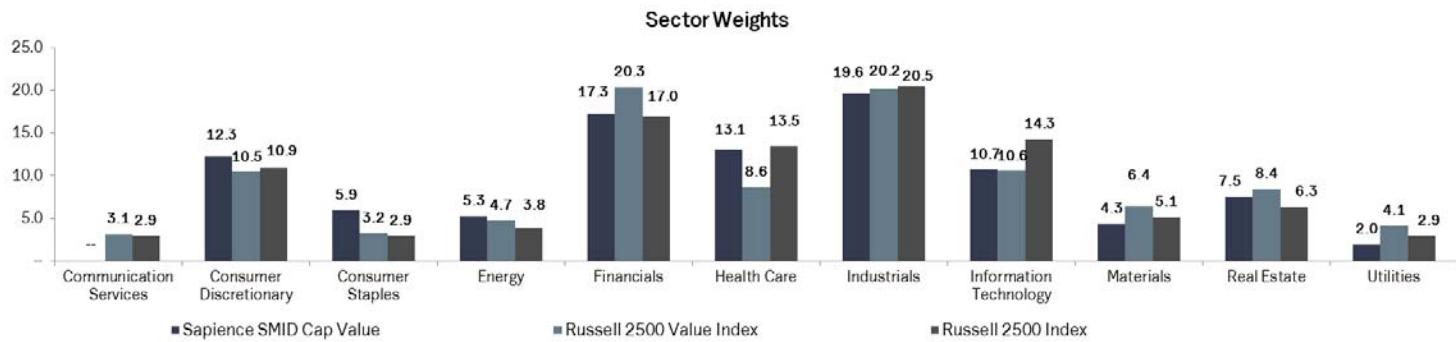
Inception Date: October 1, 2016

NOTE: The complete GIPS Report and additional disclosures can be found at the end of the document.

SMID Cap Value Equity Characteristics and Sector Weights—As of December 31, 2025

	Sapience SMID Cap Value
Largest 10 Positions – Total Weight	24.8%
Active Share ² (relative to the Russell 2500 Value Index)	92.4%
Tracking Error ³	4.2
Number of Buys ⁴	3
Number of Sells ⁴	2

² and ³ Please see disclosures for calculation ⁴ Number of buys and sells during the quarter



Sources: Russell Investments, LSEG.

SMID Cap Value Equity

Detailed below is our discussion of overall top and bottom contributors during the fourth quarter. Victoria's Secret & Co., ATI, Inc., Kirby Corp., e.l.f. Beauty, Inc., Acadia Healthcare Company, Inc., and BellRing Brands, Inc. are also owned in our Small Cap Value strategy, and these companies were discussed in the Small Cap Value Equity commentary section above.

Top and Bottom Contributors Fourth Quarter 2025

Top Five Contributors		Bottom Five Contributors	
Company Name	Company Name	Company Name	Company Name
Coherent Corp.	e.l.f. Beauty, Inc.	Acadia Healthcare Company, Inc.	
Victoria's Secret & Co.	BellRing Brands, Inc.	Papa John's International, Inc.	
ATI, Inc.	Encompass Health Corp.		
Twilio Inc.			
Kirby Corp.			

Coherent Corp.

Coherent Corp. is a leading manufacturer of optoelectronic components and engineered materials. The company also manufactures semiconductor lasers and optics for industrial lasers and datacenter connectivity. Coherent's stock price outperformed in the quarter after reporting strong results and issuing guidance for the December quarter that exceeded expectations. The company's management team anticipates strong AI-driven growth in the market for 800Gbps, 1.6T, and next generation transceivers during the next few years.

Twilio Inc.

Twilio Inc.'s stock price outperformed in the quarter as the company posted revenues and earnings that were ahead of expectations. Voice revenue, aided by the AI-eco system, accelerated to mid-teens growth rate. The full-year revenue guidance was raised to 11.4% from 10.5% and free cash flow guidance raised to \$925 million from \$887.5 million.

Papa John's International, Inc.

The company's stock price underperformed during the quarter as shares had appreciated on the rumors that Papa John's International, Inc. was close to being acquired by a PE firm and subsequently in the quarter the stock price declined on rumors that the PE firm had backed away from the acquisition. The company reported below expectation third quarter results with U.S. sales comps at -2.7%; however, its International comps were ahead of expectations (+7%). Demand trends remain challenging in the pizza category, but management has undertaken initiatives to improve traffic and profitability.

Encompass Health Corp.

Encompass Health Corp. is a leading rehabilitative health care services provider through its freestanding inpatient rehab facilities (IRFs). The company's stock price underperformed in the quarter despite the company delivering in-line to better than expected third quarter results and modestly increased guidance for the year. Volumes were solid against a difficult comparison from the prior year and margins were strong. The guidance for expansion of the de novo facilities and bed additions to existing facilities was ahead of expectations.

Outlook: Bubbles and Anti-Bubbles?

"If stocks are attractive and you don't buy, you don't just look like an idiot, you are an idiot." -Jeremy Grantham

Picture this: you walk into an auction where the entire crowd is frantically bidding on a handful of famous, glittering masterpieces. Meanwhile, in a quiet corner, dozens of lesser-known but genuinely impressive works by talented artists are being ignored, their prices stagnating. This scene, in essence, is the story of today's equity market, a story of extreme concentration and a widening gulf between the glamorous "Magnificent Seven" ("Mag 7") and the overlooked universe of small-cap stocks. Amidst heated debates about a burgeoning potential market bubble (to which Howard Marks recently contributed a thoughtful memo titled, "Is It a Bubble?"), a compelling case is emerging that this neglected, anti-bubble corner, particularly small-cap value stocks, is poised for a powerful resurgence. This potential stems not from speculative frenzy, but from a rare convergence of historic valuation discounts, rising structural tailwinds, shifting macroeconomic forces, and enduring market cycles. At present, high-quality small/SMID cap value stocks in the U.S. offer returns that look attractive, regardless of whether AI is in a bubble. By owning these stocks, it could save investors a lot of downside if we are in a bubble without substantially sacrificing future returns if markets turn out to be fairly valued.

The core of the argument is a valuation gap that has reached historic extremes. While mega-cap tech stocks have commanded premium prices, small caps have been left behind. The small cap Russell 2000 Index currently trades near a 40% valuation discount to the large cap Russell 1000 Index—a historically wide gap.¹ This disparity is even more pronounced within the value segment, where the spread between value and growth stock valuations is at its widest point in post-WW II data, echoing previous eras like the "Nifty Fifty" mania and the dot-com bubble. When valuations diverge this dramatically from long-term norms, history suggests a powerful reversion to the mean often follows.

The catalyst for this turnaround may be brewing in the macroeconomic environment. If the economy holds up and inflation remains in the 2-3% range, we could witness an earnings recovery in small/SMID caps, not too dissimilar from 2021. The past decade of ultra-low interest rates created a specific set of winners, but the regime is changing. Historically, small-cap stocks have tended to outperform in the one to two years following the start of a Federal Reserve interest rate cutting cycle. As rates moderate from their recent highs, the pressure on smaller companies with more debt could ease, potentially reigniting their growth engines.

This undervaluation exists despite several structural strengths inherent to smaller companies. First, they are more domestically focused, with only about 20% of revenue coming from overseas versus 40% for the S&P 500 companies, which buffers them from global trade and currency squabbles.² They are also prime M&A targets—their annual takeover rate is over 4.3%, more than double the 1.9% rate for large caps, and deals often come with a sweet premium, averaging around 34% for the smallest firms.³ Add in the factor that they fly under the radar, getting coverage from just 5.7 analysts on average compared to 16.4 for large caps, and you have a market inefficiency ripe for exploitation by diligent stock pickers.⁴ After an extended period of small cap underperformance, this combo of home-field advantage, acquisition potential, and information gaps, paired with broader sector diversification, sets the stage for patient investors to capture superior long-term returns as the cycle inevitably reverses.

Of course, the small-cap universe is not without its risks. Concerns about quality are valid; for instance, the proportion of unprofitable companies in the Russell 2000 has risen to around 40%. Additionally, the expansion of private equity has allowed many promising companies to stay private longer, potentially skimming some growth from the public small-cap pool. However, these very challenges highlight the critical importance of active, selective management. By focusing on companies with durable competitive advantages, proven management, and strong balance sheets—and by avoiding the long tail of unprofitable firms—experienced investors can navigate these headwinds. Our selective approach transforms a broad market concern into a stock-picker's opportunity.

In short, the narrative surrounding small caps is shifting from one of temporary obsolescence to one of cyclical opportunity. The extreme valuation disconnect, the ongoing supportive shift in interest rate policy, and the sheer historical length of the current cycle of underperformance all point to a landscape ripe for change. Investing in small caps, and particularly small-cap value, is not a bet on (or against) the continued dominance of a narrow market segment, but a contrarian wager on the rediscovery of broad, fundamental value. It is a recognition that in the cacophony of the crowded, "excessively exuberant" mega-cap auction, the most compelling opportunities are often found by listening carefully in the quiet corners. The cycle has not been broken; it has been stretched out, and the recoil may be powerful.

¹ Financial Content, "The Great Rotation: Why the Russell 2000 is Finally Outpacing the Giants in Late 2025", December 18, 2025. ² LSEG, "How American is your US equity portfolio?", Indrani De and Catherine Yoshimoto, February 15, 2024. ³ Morning Star, "What Happened to the Size Premium?", Larry Swedroe, June 26, 2024. ⁴ Russell Investments, "Are Small Caps Next in Line to Shine?", Jordan McCall, Dan Fletcher, and Jeannette Louh, July 9, 2025.

As the year begins, the market leadership looks markedly different from what investors have come to expect over the last several years. Instead of the Mag 7 dominating the market, small-cap stocks are taking the lead. However, investors remain skeptical of this rotation. In Katie Greifeld's Bloomberg article titled "Small Stocks Are Crushing It. Investors Still Hate Them." written on January 9, 2026, we believe she accurately captured the essence of current investor sentiment towards small caps. Here is an excerpt from the article:

"Thanks, But No Thanks Small-cap stocks are on a tear. Investors couldn't care less. Specifically, the Russell 2000—comprised of 2,000 of the smallest companies in the Russell 3000 universe—has soared by roughly 5% in the early days of 2026. As such, the small-cap benchmark is running circles around the S&P 500 and Nasdaq 100 [at the time of this writing, the Russell 2000 Value Index is +6.8% year to date through January 14, 2025 versus S&P 500 index +1.2% and Nasdaq +0.9%]... You'd have no idea from looking at ETF flows. Small-cap equity funds have seen \$1.2 billion exit this year despite the solid outperformance, Bloomberg Intelligence data show... To be fair, small caps have lagged their larger peers by a big margin over the past decade, so it makes sense that investors might be hesitant to shovel money into another false dawn. But even still, one has to imagine that small-cap stocks could be one of the few areas in the equity market that isn't yet a crowded bet."

In the eyes of Bank of America's Jill Carey Hall, that positioning story is one of several potential catalysts for small caps in 2026. Here's what she told us on Bloomberg Television's The Close: When we look at fund manager positioning for investors who can invest across the cap spectrum—small, mid and large—investors have been very underweight small. Significantly underweight, and significantly underweight relative to history where they really shrunk these holdings in small-caps over the past several years and decades. That's come in tandem with small-caps underperforming over the past decade. Often these cycles run about six years to eight years, so now this decade of underperformance, or slightly more, has been historically long. So for investors with long time horizons, it would suggest that small caps could lead over the next decade."

Disclosures

This is not a recommendation to buy or sell a particular security. The holdings discussed above do not represent all of the securities purchased, sold or recommended for Sapience's clients. You should not assume that this or any of the securities or sectors discussed herein will remain in the portfolio or that investments in such securities were or will be profitable. Past performance is not indicative of future results. Contributors and detractors for each strategy are selected based on the stock's attribution to a Sapience Small Cap Value representative account's return or a Sapience SMID Cap Value representative account's return. The calculation methodology and a list showing the contribution of each holding in the representative account to the representative account's performance during the measurement period are available upon request.

Composite and benchmark returns reflect the reinvestment of income. The volatility of the Composite may be different than its respective benchmarks. Composite returns are presented gross and net of actual investment advisory fees. You cannot invest directly in an index, which also does not take into account trading commissions and costs, see below for a description of benchmark indexes. Performance is expressed in U.S. dollars. Gross returns will be reduced by fees and other expenses that may be incurred in the management of the account. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations is available upon request. Dividends are recorded gross of withholding taxes.

This has been prepared for informational purposes only and should not be considered a recommendation to purchase or sell any specific security. The opinions expressed herein are those of Sapience Investments, LLC ("Sapience"), and are subject to change without notice. Past performance is not a guarantee or indicator of future results. This material is not financial advice or an offer to sell any security or product. You should not assume that any of the investment strategies or securities discussed herein were or will remain in an account's portfolio at the time you receive this report. Recommendations for the past 12 months are available upon request. Sapience reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. Investment involves risk of loss.

This document contains projections, forecasts, estimates, beliefs and similar information ("forward looking information"). Forward looking information is subject to inherent uncertainties and qualifications and is based on numerous assumptions, in each case whether or not identified. Further, material presented has been derived from sources considered to be reliable, but the accuracy and completeness cannot be guaranteed.

Sapience is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. Registration does not imply a certain level of skill or training. More information about Sapience, including our investment strategies, fees and objectives can be found in our ADV Part 2, which is available upon request at info@sapienceinv.com. This information is also available on the Investment Adviser Public Disclosure (IAPD) website.

¹ Portfolio Ending Active Share: Measures the degree of active management by a portfolio manager.

$AS_f = |PW_f - BW_f| / 2$ where $AS_f :=$ Portfolio Ending Active Share; $PW_f :=$ Portfolio Ending Weight; and $BW_f :=$ Benchmark

Ending Weight ² Tracking Error: Measures how closely a portfolio follows the index it is benchmarked against. An index fund which closely tracks its benchmark will have a tracking error close to zero, while an actively managed portfolio will have a higher tracking error. Tracking Error is calculated as the root-mean-square of the difference between the portfolio and benchmark returns: $TE = \omega = \sqrt{E[(rp - rb)^2]}$ where $rp - rb$ = the active return (i.e., the difference between the portfolio return and the benchmark return). This formula simplifies to: $TE = \omega = \sqrt{(\sigma_p^2 + \sigma_b^2 - 2\beta\sigma_p\sigma_b)}$ where σ_p^2 = portfolio variance; σ_b^2 = benchmark variance; and β = Historical beta

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 2000 of the smallest securities base. The Russell 2500 Index measures the performance of the small to mid-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower expected growth values. The Russell 2500 Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500 Index companies with lower price-to-book ratios and lower expected growth values. The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 2500 Growth Index is designed to measure the performance of those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index.

Sapience Investments, LLC
Small Cap Value Equity Composite

As of December 31									
Year	Gross Returns (%)	Net Returns (%)	Russell 2000® Value Index (%)	Internal Dispersion (%)	Composite Gross 3Y Std Dev (%)	Index 3Y Std Dev (%)	# of Accounts	Composite Assets (000s)	Firm Assets (000s)
*2016	14.91	14.62	14.07	N/A	N/A	N/A	2	\$223.99	\$349.83
2017	3.06	1.95	7.84	0.19	N/A	N/A	14	\$665.60	\$771.66
2018	-17.33	-18.21	-12.86	0.17	N/A	N/A	14	\$513.31	\$647.68
2019	22.17	20.86	22.39	0.23	18.56	15.90	13	\$610.15	\$773.40
2020	7.11	5.99	4.63	0.20	33.32	26.49	12	\$716.39	\$760.25
2021	28.37	26.99	28.27	0.18	31.83	25.35	11	\$870.84	\$914.19
2022	-10.90	-11.87	-14.48	N/A	32.42	27.66	7	\$487.53	\$523.34
2023	10.50	9.30	14.65	0.25	20.21	22.06	8	\$412.78	\$443.03
2024	13.11	11.95	8.05	N/A	20.98	23.77	5	\$159.39	\$184.69

*Period presented is October 1, 2016 through December 31, 2016.

1. Sapience Investments, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Sapience Investments, LLC has been independently verified for the periods October 1, 2016 through December 31, 2024. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.
2. Sapience Investments, LLC is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. The firm was established in September 2016.
3. The Small Cap Value Equity Composite (the "Composite") includes all actual, fee-paying and non-fee-paying, fully discretionary institutional accounts with equity positions that are managed with a view toward capital appreciation, through small capitalization companies with durable business models, trading at a discount to our estimate of intrinsic value, and possess value drivers to narrow the valuation gap over a two-to-four-year investment horizon. The composite was created and inceptioned October 2016. The firm's list of composite descriptions is available upon request.
4. Composite and benchmark returns reflect the reinvestment of income. Composite returns are net of transaction costs and are presented gross and net of model investment advisory fees. Net returns are calculated by reducing the quarterly composite returns by 1/4th of 1%, the highest tier of the standard fee schedule. Performance is expressed in U.S. dollars. Additional information regarding policies for valuing investments, calculating performance, and preparing GIPS reports is available upon request. Dividends are recorded net of withholding taxes.
5. Internal dispersion is the equal-weighted standard deviation of the annual gross returns of all accounts included in the composite for the entire year. For years where there are 5 or fewer accounts in the composite for the entire year, dispersion is not presented as it is not a meaningful statistical calculation.
6. The Russell 2000® Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000® Index companies with lower price-to-book ratios and lower expected growth values. It is not possible to invest in these indices. The returns for the Index do not include any transaction costs, management fees or other expenses. The volatility (beta) of the Composite may be greater or less than its respective benchmark.
7. The fee schedule for Adviser's investment advisory services for the Small Cap Value Equity Composite is 1.00% on the first \$25 million, 0.90% on the next \$25 million, 0.85% on the next \$50 million, 0.80% on amounts over \$100 million. Actual investment advisory fees incurred by clients may vary.
8. Effective March 1, 2020, a significant cash flow policy was adopted for the composite. Portfolios are removed from the composite if they have a contribution or withdrawal at 50% or greater of the beginning market value of the portfolio. The portfolio is removed from the composite for the month in which the significant cash flow occurred and the following month.
9. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.
10. Past performance is not indicative of future results. Actual performance results may differ from composite returns, depending on the size of the account, investment guidelines and/or restrictions, inception date and other factors. As with any investment vehicle, there is always the potential for gains as well as the possibility of losses. Registration as an Investment Adviser does not imply any level of skill or training. This material is not financial advice or an offer to sell any product. The portfolio characteristics shown relate to the Small Cap Value Equity Composite. Not every client's account will have these exact characteristics. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Adviser reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed may not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

SMID Cap Value Equity Composite

Year	Gross Returns (%)	Net Returns (%)	Russell 2500™ Value Index (%)	Internal Dispersion (%)	Composite Gross 3Y Std Dev (%)	Index 3Y Std Dev (%)	# of Accounts	Composite Assets (000s)	Firm Assets (000s)
*2016	9.96	9.69	9.34	N/A	N/A	N/A	1	\$22.50	\$349.83
2017	1.31	0.30	10.36	N/A	N/A	N/A	8	\$106.06	\$771.66
2018	-17.44	-18.26	-12.36	0.25	N/A	N/A	10	\$134.36	\$647.68
2019	28.19	26.91	23.56	0.09	17.46	14.43	8	\$163.26	\$773.40
2020	1.98	0.97	4.88	N/A	29.67	25.40	2	\$43.86	\$760.25
2021	25.01	23.77	27.78	N/A	28.04	24.49	2	\$43.06	\$914.19
2022	-8.86	-9.72	-13.08	N/A	28.54	26.84	2	\$33.1	\$523.34
2023	7.49	6.42	15.98	N/A	19.02	20.99	2	\$29.69	\$443.03
2024	9.15	8.06	10.98	N/A	19.73	21.94	2	\$24.76	\$184.69

*Period presented is October 1, 2016 through December 31, 2016.

1. Sapience Investments, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Sapience Investments, LLC has been independently verified for the periods October 1, 2016 through December 31, 2024. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.
2. Sapience Investments, LLC is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. The firm was established in September 2016.
3. The SMID Cap Value Equity Composite (the "Composite") includes all actual, fee-paying and non-fee-paying, fully discretionary institutional accounts with equity positions that are managed with a view toward capital appreciation, through small- to mid-capitalization companies with durable business models, trading at a discount to our estimate of intrinsic value, and possess value drivers to narrow the valuation gap over a three-to five-year investment horizon. The composite was created and inceptioned October 2016. The firm's list of composite descriptions is available upon request.
4. Composite and benchmark returns reflect the reinvestment of income. Composite returns are net of transaction costs and are presented gross and net of model investment advisory fees. Net returns are calculated by reducing the quarterly composite returns by 1/4th of 1%, the highest tier of the standard fee schedule. Performance is expressed in U.S. dollars. Additional information regarding policies for valuing investments, calculating performance, and preparing GIPS reports is available upon request. Dividends are recorded net of withholding taxes.
5. Internal dispersion is the equal-weighted standard deviation of the annual gross returns of all accounts included in the composite for the entire year. For years where there are 5 or fewer accounts in the composite for the entire year, dispersion is not presented as it is not a meaningful statistical calculation.
6. The Russell 2500™ Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500™ Index companies with lower price-to-book ratios and lower expected growth values. It is not possible to invest in these indices. The returns for the Index do not include any transaction costs, management fees or other expenses. The volatility (beta) of the Composite may be greater or less than its respective benchmark.
7. The fee schedule for Adviser's investment advisory services for the SMID Cap Value Equity Composite is 1.00% on the first \$25 million, 0.90% on the next \$25 million, 0.85% on the next \$50 million, 0.80% on amounts over \$100 million. Actual investment advisory fees incurred by clients may vary.
8. Effective March 1, 2020 through June 1, 2021, portfolios were removed from the composite if they had a contribution or withdrawal at 50% or greater of the beginning market value of the portfolio. The portfolio was removed from the composite for the month in which the significant cash flow occurred and the following month.
9. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.
10. Past performance is not indicative of future results. Actual performance results may differ from composite returns, depending on the size of the account, investment guidelines and/or restrictions, inception date and other factors. As with any investment vehicle, there is always the potential for gains as well as the possibility of losses. Registration as an Investment Adviser does not imply any level of skill or training. This material is not financial advice or an offer to sell any product. The portfolio characteristics shown relate to the SMID Cap Value Equity Composite. Not every client's account will have these exact characteristics. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Adviser reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed may not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.