

## **Market Review: Navigating The Odyssey**

**"Professional investors are terrified of being wrong on their own. As a result, they pay ruthless attention to what others are doing, creating herding and momentum that drives prices far above or below fair value" ~Jeremy Grantham**

Following the September FOMC meeting, Federal Reserve Chair Jerome Powell highlighted a monetary policy dilemma defined by "two-sided risks" and the absence of a "risk-free path."<sup>1</sup> Like a modern-day Odysseus, he outlined a "Scylla and Charybdis" dynamic for policymakers. Entering the fourth quarter, as Powell explained during the post-meeting press conference, they must carefully navigate competing threats: the whirlpool of a softening labor market against persistently high inflation, while any monetary policy move is fraught with risks. We outline this predicament below.

The third quarter presented a complex mosaic of economic signals, making it difficult to discern a clear trajectory. Growth has palpably moderated; GDP expansion slowed to an annual pace of approximately +1.6% in the first half of the year, a notable deceleration from the +2.5% growth witnessed in 2024<sup>2</sup>. This cooling largely stems from a slowdown in household income growth and consumer spending, the traditional engines of the U.S. economy. The most perplexing development has been in the labor market. There has been a "marked slowing in both the supply of and demand for workers," an unusual dynamic that Powell describes as a "curious kind of balance."<sup>1</sup> Payroll job growth plummeted to an average of just +29k/month over the summer, a sharp decline from the +168k/month pace in 2024. While the unemployment rate remains low at 4.3% as of August<sup>3</sup> (due to the government shutdown, no data has been released for September), this drastic slowdown in hiring has substantially increased the downside risks to employment. It is as if the labor market is moving in slow motion, raising concerns that the economy is flirting with "stall speed," a dangerous threshold where weak momentum can become self-reinforcing.

On the opposite shore lies the persistent challenge of inflation. After significant progress from its post-pandemic peaks, inflation has recently ticked up. The Fed's preferred gauge, the core PCE price index, rose +2.9% year over year through August<sup>4</sup>. This resurgence is primarily attributed to higher tariffs, which are remaking the global trading system and pushing up prices for goods, while service industry prices have turned higher in sectors affected by the new immigration policy. The central question for the Fed is whether these price increases will be a transient, one-time shock or kindling for a more lasting inflation problem, a risk Powell has vowed to manage carefully<sup>1</sup>.

We believe this economic duality has placed the Fed in a bind worthy of a classical tragedy. Its dual mandate, to foster maximum employment and stable prices, is being pulled in opposite directions, creating a policy trilemma. If the Fed maintains a restrictive policy stance for too long to crush inflation definitively, it risks unnecessarily weakening a labor market that is already showing clear signs of softening. This policy could tip the economy into a recession. Conversely, if the Fed eases policy too aggressively to support employment, it could inadvertently leave the inflation job unfinished. This might unmoor inflationary expectations, requiring a painful and economically damaging policy reversal later to restore price stability. Acknowledging these rising downside risks to employment, the Fed has attempted a third policy path, which is to adjust its course cautiously and incrementally. At its September meeting, it lowered the target range for the federal funds rate by 25 bps, described as an "insurance cut," and viewed this revised policy stance as still "modestly restrictive."<sup>1</sup> This measured step reflects its attempt to navigate the narrow channel between these two hazards without making a decisive turn toward either.

The U.S. economy's voyage through the third quarter of 2025 is one of acute uncertainty. The headwinds of slowing growth and a cooling labor market are blowing against the crosscurrents of tariff-driven inflation. In this environment, Chair Powell's "no risk-free path" is more than just a turn of phrase; it is the central reality of the economic outlook. The Fed's strategy appears to be one of cautious, data-dependent navigation, making modest course corrections rather than dramatic shifts. The success of this approach is not guaranteed, and the economy's ultimate destination—a soft landing, a recession, or a renewed bout of high inflation—remains hidden in the fog of the fourth quarter of 2025 and 2026.

<sup>1</sup>"Transcript of Chair Powell's Press Conference", September 17, 2025. <sup>2</sup>Gross Domestic Product, 2nd Quarter 2025 (Third Estimate), GDP by Industry, Corporate Profits (Revised), and Annual Update", Bureau of Economic Analysis, September 25, 2025. <sup>3</sup>Current Employment Statistics - CES (National)", U.S. Bureau of Labor Statistics, September 5, 2025. <sup>4</sup>"Personal Consumption Expenditures Price Index, Excluding Food and Energy", Bureau of Economic Analysis, September 26, 2025.

### Russell Index Returns—As of September 30, 2025

|                           | Quarter | Year to Date | 1 Year | 3 Years | 5 Years | 10 Years |
|---------------------------|---------|--------------|--------|---------|---------|----------|
| Russell 2000 Index        | 12.4    | 10.4         | 10.8   | 15.2    | 11.6    | 9.8      |
| Russell 2000 Value Index  | 12.6    | 9.0          | 7.9    | 13.6    | 14.6    | 9.2      |
| Russell 2000 Growth Index | 12.2    | 11.7         | 13.6   | 16.7    | 8.4     | 9.9      |
| Russell 2500 Index        | 9.0     | 9.5          | 10.2   | 15.7    | 12.1    | 10.5     |
| Russell 2500 Value Index  | 8.2     | 9.3          | 9.0    | 15.4    | 15.0    | 9.7      |
| Russell 2500 Growth Index | 10.7    | 10.0         | 12.6   | 16.0    | 7.8     | 10.9     |
|                           |         |              |        |         |         |          |
| Russell Mid Cap Index     | 5.3     | 10.4         | 11.1   | 17.7    | 12.7    | 11.4     |
| Russell 1000 Index        | 8.0     | 14.6         | 17.8   | 24.6    | 16.0    | 15.0     |

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

### **Small- and Mid-Cap Market Review**

The recovery after the tariff-induced selloff that started on April 9<sup>th</sup>, gained further momentum in the third quarter. From the bottom on April 8<sup>th</sup>, the Russell 2000 Index is up 39.3% through the end of the third quarter. The 3-year and 5-year returns (annualized) for the Russell 2000 Value Index finally look respectable at 13.6% and 14.6%, respectively. The rotation that many investors have been hoping for may have finally arrived. Let's see if this rotation toward smaller caps is sustained over the next few quarters.

Across the market cap spectrum, as measured by Russell, all Indices posted positive returns during the third quarter. The Small Cap Index outperformed both the broad market and the Large Cap Index with the Russell 2000 up 12.4%, the S&P 500 up 8.1%, and the Russell 1000 up 8.0%. However, despite this quarter's outperformance, small caps continue to trail the larger caps year to date. For example, the Russell 2000 Index was up 10.4% year to date through September 30, 2025, while the Russell 1000 Index was up 14.6%. In a reversal from prior quarters, value outperformed growth in both small and mid caps. The Russell 2000 Value Index was narrowly ahead of the Russell 2000 Growth Index by 0.4% for the quarter. Similarly, the Russell 2500 Value Index outperformed its growth counterpart by 2.6%. For the year to date period ended September 30<sup>th</sup>, the Russell 2000 Value Index continued to lag its growth counterpart (+9.0% versus +11.7%), while the Russell 2500 Value similarly lagged the 2500 Growth, but to a lesser degree (+9.3% versus +10.0%).

Performance across the major sectors in the Small Cap Indices were relatively homogenous during the quarter, with only the Consumer Staples sector in the Russell 2500 Core and Value Indices diverging to deliver negative returns (declining between -3.3% to -3.9%). Technology, Health Care, and Energy were among the best-performing major sectors, returning between +14.5% to +21.9%, +13.3% to +21.2%, and +9.7 to +16.0%, respectively. The Consumer Staples sector generated the lowest returns during the period ( -3.9% to +4.8%).

### **Performance Impact**

During the third quarter, both our strategies posted strong absolute returns but lagged their respective benchmarks. Active managers within small and SMID cap value, core, and growth styles had a difficult quarter as momentum, lower-cap, and lower-quality companies outperformed. According to Jefferies, the relative underperformance the last six months for small cap value active managers is the 5<sup>th</sup> worst in history, with 2008 being the worst. ("JEF SMID-Cap Mgr Scorecard—Been the Worst of Times For Active Managers", Jefferies Research Services, LLC, October 1, 2025.) Our Small Cap Value strategy returned 7.5% gross (7.2% net) and our SMID Cap Value strategy returned 5.1% gross (4.8% net). On a relative basis, our Small and SMID Cap Value strategies underperformed our benchmarks (the Russell 2000 Value Index and the Russell 2500 Value Index, respectively) for the quarter by 5.1% in Small Cap and 3.1% in SMID. For the trailing one-year period, our Small Cap strategy outperformed the Russell 2000 Value Index by 1.9%, while the SMID strategy underperformed the Russell 2500 Value Index by 1.5%.

In reviewing our Small Cap Value portfolio's third quarter attribution, the underperformance was spread across sectors as we underperformed in 9 of the 11 sectors and stock selection drove a majority of the underperformance. More specifically, security selection in Energy, Consumer Discretionary, Financials, and Consumer Staples hindered performance. Comstock Resources, Inc. was the primary detractor in Energy, while Dave & Buster's Entertainment, Inc. and Six Flags Entertainment Corp. subtracted the most value in Consumer Discretionary. In Financials, Shift4 Payments, Inc. was the weakest performer. The company's stock faced headwinds in the third quarter amid a combination of sector-specific and broader economic pressures. The primary catalyst for this downturn was a contraction in consumer

discretionary spending, which directly impacted the company's core clientele in the restaurant and hospitality sectors, leading to a pullback in their payment processing volumes. In addition, we believe that investors are somewhat skeptical regarding the company's recent, major international acquisitions, such as Global Blue. While these acquisitions hold long-term potential for revenue synergies, they introduce immediate integration risks and have prompted analysts to temper near-term financial estimates. This period of weak performance was further aggravated by the company's second quarter earnings report, which had slightly missed EPS expectations. Shift4 Payment's underlying technology platform is robust, and if management can successfully assimilate its new assets, this period should be a temporary consolidation before its next leg of solid growth. BellRing Brands, Inc. was the primary detractor in Consumer Staples. Conversely, our stock selection in Real Estate benefited performance in our Small Cap strategy with Cushman & Wakefield plc adding value to the sector.

In our SMID Cap portfolio, the relative underperformance was also nearly all stock selection. More specifically, security selection in Technology, Energy, Industrials, and Materials. Twilio Inc. detracted value from the Technology sector, while EQT Corp. and Cactus, Inc. subtracted value from Energy. EQT posted inline to slightly better than expected operating results for the quarter, however, the decline in natural gas prices contributed to the company's stock price weakness during the quarter. Meanwhile, Cactus posted results that were slightly weaker than expectations due to tariffs and lower drilling activity. Kirby Corp. was the primary detractor in the Industrials sector, and in the Materials sector Silgan Holdings Inc. lagged the sector during the period. Meanwhile, on the positive side, stock selection in the Real Estate sector partially enhanced value with Jones Lang LaSalle Inc. adding value.

In our observation, this was a quarter where momentum stocks along with earnings beats were rewarded handsomely while misses in earnings or guidance were harshly penalized. In the former category, AI beneficiaries Lumentum Holdings Inc., Semtech Corp., and Coherent Corp. were winners along with Victoria's Secret & Co., Elanco Animal Health Inc., and RadNet, Inc. In the latter category, Dave and Buster's, BellRing, and Six Flags missed earnings and/or lowered guidance, and the stock prices were severely punished.

(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**

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 due to tariffs—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. On the other hand, if the economy holds up and inflation remains in the 2-3% range, we could witness an earnings recovery in small/SMID caps like 2021.

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 GLP-1 headlines. Health Care has also been impacted by the Medicaid cuts. We believe that Health Care could be a defensive hedge and there are attractive opportunities within these two sectors.

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 are benefiting from the AI-related datacenter buildouts. Financials have done well and with less onerous regulations, benign credit conditions, and excess capital positioning, the sector seems well positioned. 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.

Consumer Discretionary stocks have recently recovered a little bit 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. We believe tariffs could further hurt the demand and margins at retailers and consumer goods companies. 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 September 30, 2025

|                                       | Quarter | YTD  | 1 Year | 3 Years | 5 Years | Inception to Date |
|---------------------------------------|---------|------|--------|---------|---------|-------------------|
| Sapience SCV Equity Composite (Gross) | 7.5     | 7.3  | 9.8    | 13.3    | 16.5    | 7.8               |
| Sapience SCV Equity Composite (Net)   | 7.2     | 6.4  | 8.6    | 12.1    | 15.2    | 6.6               |
| Russell 2000 Value Index              | 12.6    | 9.0  | 7.9    | 13.6    | 14.6    | 8.2               |
| Russell 2000 Index                    | 12.4    | 10.4 | 10.8   | 15.2    | 11.6    | 9.1               |

Sources: Advent Geneva, Russell Investments.

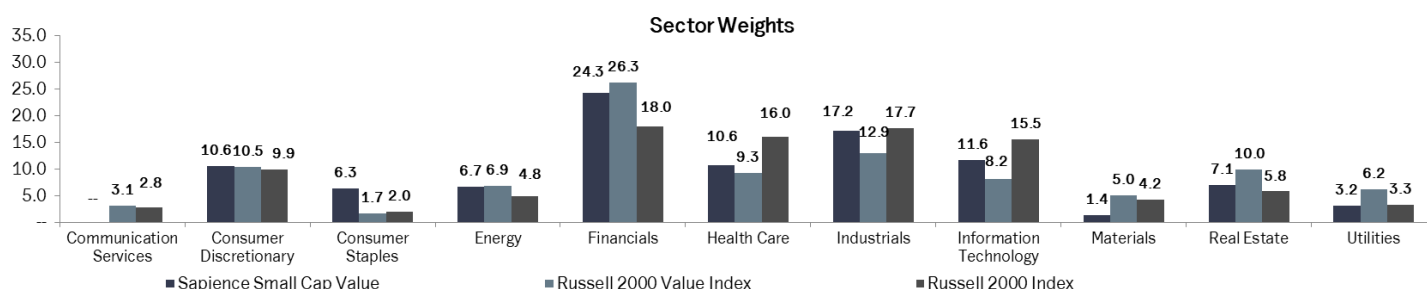
Inception Date: October 1, 2016

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 September 30, 2025

|                                                                      | Sapience Small Cap Value |
|----------------------------------------------------------------------|--------------------------|
| Largest 10 Positions – Total Weight                                  | 21.5%                    |
| Active Share <sup>2</sup> (relative to the Russell 2000 Value Index) | 95.3%                    |
| Tracking Error <sup>3</sup>                                          | 6.6                      |
| Number of Buys <sup>4</sup>                                          | 2                        |
| Numbers of Sells <sup>4</sup>                                        | 1                        |

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



Sources: Russell Investments, FactSet

## Small Cap Value Equity

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

### Top and Bottom Contributors Third Quarter 2025

| Top Five Contributors     | Bottom Five Contributors            |
|---------------------------|-------------------------------------|
| <b>Company Name</b>       | <b>Company Name</b>                 |
| Lumentum Holdings Inc.    | Dave & Buster's Entertainment, Inc. |
| Victoria's Secret & Co.   | BellRing Brands, Inc.               |
| Semtech Corp.             | Six Flags Entertainment Corp.       |
| Elanco Animal Health Inc. | Kirby Corp.                         |
| Cushman & Wakefield plc   | Comstock Resources, Inc.            |

### ***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 third quarter as Lumentum once again delivered better than expected results and increased guidance due to strong momentum in the datacom chips and modules businesses. Management raised their fiscal 2026 first quarter guidance for metrics across the board and now expects to reach the quarterly revenue target of \$600 million in the June 2026 quarter or earlier, which would be ahead of expectations.

### ***Victoria's Secret & Co.***

The company delivered strong results for its second quarter both on revenues and earnings due to improved margins and lower promotion levels. Victoria's Secret's beauty business delivered its eighth consecutive quarter of growth with

strong performance in body care and fragrances. While the company raised its annual revenue guidance, it maintained its earnings guidance due to higher tariff impact for the remainder of the year.

***Semtech Corp.***

Semtech Corp. manufactures high-performance analog and mixed-signal semiconductors, connectivity modules, and connected services for Internet of Things (IoT). The company posted strong results for the quarter that were ahead of expectations and has solid momentum in bookings. Semtech is benefiting from strategic growth opportunities led by Active Copper Cable (ACC) and Linear Pluggable Optics (LPO) for datacenter AI and LoRa (short for Long Range) adoption as increased functionality expands use to greenfield growth areas such as drones, robotics, and automation.

***Elanco Animal Health Inc.***

The company reported strong results for the quarter, which were well ahead of expectations, and raised the full year guidance with continued momentum in key innovative products and improving profitability. Elanco Animal Health Inc. delivered 11% organic growth in its U.S. Pet Health segment along with decent growth in the international Pet Health and international Farm Animal segment.

***Cushman & Wakefield plc***

Cushman & Wakefield plc outperformed in the third quarter due to the company's report of a broad-based resurgence. Capital Markets emerged as the standout segment, gaining +27% year over year, reflecting improving transaction dynamics, successful talent recruitment (brokers with +200% higher average revenue than 2024 hires), and nascent signs of market share gains despite being in the "early stages" of this expansion. Other major divisions, including Leasing and Services, also demonstrated strong operational performance. Accordingly, adjusted EPS surged +50% year over year to \$0.30/share, marking the fourth consecutive quarter of sustained growth, and management raised its fiscal year 2025 EPS growth guidance to +25-35%. This outlook significantly exceeds street expectations and reflects confidence in sustained operational momentum, market share gains, and continued debt reduction as the company progresses towards its net leverage target of 2-3x.

***Dave & Buster's Entertainment, Inc.***

After outperforming in the second quarter, Dave & Buster's Entertainment, Inc.'s stock price underperformed meaningfully in the third quarter as the company reported same store comps at -3%, which were slightly below estimates, and its earnings missed consensus more meaningfully due to lower margins. In addition, the current quarter started soft and the company remains a "show me" story under the new CEO, Tarun Lal, who joined in July. While the inflection in comps will take longer than initially hoped due to a pullback in spending by lower income consumers, we believe that Dave & Buster's and Main Event are well positioned to capture share from other entertainment concepts. We believe that the company's stock is trading at a depressed valuation.

***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 meaningfully underperformed in the quarter even though BellRing reported results that were modestly ahead of expectations with sales growing +6.2% as the company did not provide out-year guidance (for fiscal year 2026 ending 9/30/26). While there are new entrants, the 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.

***Six Flags Entertainment Corp.***

Six Flags Entertainment Corp.'s stock price underperformed meaningfully in the third quarter as the company reported second quarter results that were below its lowered expectations due to poor weather for the seasonally important summer quarter. However, investors were more concerned by rescission of fiscal year 2027 targets that were provided only recently in May at the analyst day. Related to this development, the CEO, Richard Zimmerman, announced his retirement by the year's end. Mr. Zimmerman, who had been the CEO of Cedar Fair (prior to the merger with Six Flags) for a long time, was generally well regarded in the industry. We believe the company's stock will remain in the penalty box till they find a new CEO who can provide credible medium-term targets, including the synergies from the Cedar Fair and Six Flags merger. In addition, 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.

### ***Kirby Corp.***

Kirby Corp. continues to benefit from a shortage of barges, which 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 underperformed during the period as the second quarter results were inline, but management indicated that third quarter could be tracking towards the lower end of the guidance range due to a pullback in petrochemicals volumes relating to tariffs and macro uncertainty.

### ***Comstock Resources, Inc.***

After meaningfully outperforming in the second quarter, Comstock Resources, Inc.'s stock price underperformed in the third quarter as the company posted weaker than expected results and lowered production guidance by 6% for fiscal year 2025 but maintained its capex guidance. The weakness in natural gas prices during the third quarter further hindered the company's stock price.

### **SMID Cap Value Equity Performance—Through September 30, 2025**

|                                                  | Quarter | YTD | 1 Year | 3 Years | 5 Years | Inception to Date |
|--------------------------------------------------|---------|-----|--------|---------|---------|-------------------|
| Sapience SMID Cap Value Equity Composite (Gross) | 5.1     | 7.9 | 7.5    | 11.1    | 13.1    | 6.3               |
| Sapience SMID Cap Value Equity Composite (Net)   | 4.8     | 7.1 | 6.5    | 10.0    | 12.0    | 5.3               |
| Russell 2500 Value Index                         | 8.2     | 9.3 | 9.0    | 15.4    | 15.0    | 8.8               |
| Russell 2500 Index                               | 9.0     | 9.5 | 10.2   | 15.6    | 12.1    | 10.1              |

Sources: Advent Geneva, Russell Investments.

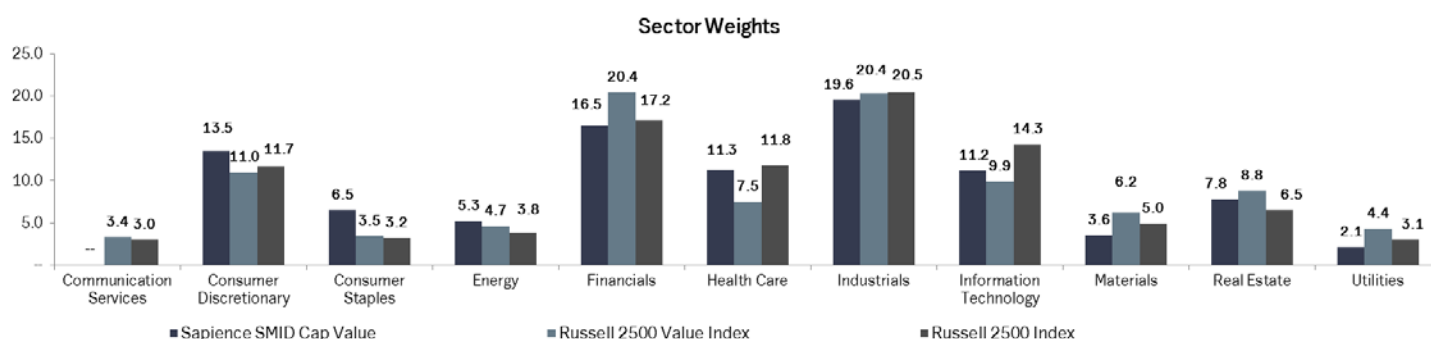
Inception Date: October 1, 2016

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 September 30, 2025**

|                                                                      | Sapience SMID Cap Value |
|----------------------------------------------------------------------|-------------------------|
| Largest 10 Positions – Total Weight                                  | 24.0%                   |
| Active Share <sup>2</sup> (relative to the Russell 2500 Value Index) | 93.6%                   |
| Tracking Error <sup>3</sup>                                          | 5.0                     |
| Number of Buys <sup>4</sup>                                          | 3                       |
| Number of Sells <sup>4</sup>                                         | 6                       |

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



Sources: Russell Investments, FactSet.

### **SMID Cap Value Equity**

Detailed below is our discussion of overall top and bottom contributors during the third quarter. Victoria's Secret & Co., Elanco Animal Health Inc., Dave & Buster's Entertainment, Inc., BellRing Brands, Inc, and Kirby Corp. 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**  
*Third Quarter 2025*

| Top Five Contributors               | Bottom Five Contributors            |
|-------------------------------------|-------------------------------------|
| Company Name                        | Company Name                        |
| Victoria's Secret & Co.             | BellRing Brands, Inc.               |
| Elanco Animal Health Inc.           | Dave & Buster's Entertainment, Inc. |
| Coherent Corp.                      | Kirby Corp.                         |
| RadNet, Inc.                        | Silgan Holdings Inc.                |
| Norwegian Cruise Line Holdings Ltd. | Twilio Inc.                         |

***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 despite weakness post results as the company did not raise next quarter's guidance after reporting strong results, primarily driven by revenue growth in AI-related datacom transceivers. The company's management team anticipates strong AI-driven growth in the market for 800Gbps, 1.6T, and next generation transceivers during the next five years.

***RadNet, Inc.***

Founded in 1984, RadNet, Inc. is the largest operator of freestanding outpatient diagnostic imaging centers in the U.S. RadNet's stock price outperformed during the third quarter as the company reported results that were ahead of expectations and raised its annual guidance. The company is well positioned to grow over the next 2-3 years due to denovo builds, JVs with hospitals, same store growth from increased demand in imaging services and shift from alternate sites.

***Norwegian Cruise Line Holdings Ltd.***

Norwegian Cruise Line Holdings Ltd.'s stock price outperformed in the third quarter as the company posted results that were modestly ahead of estimates but provided an optimistic commentary on record bookings, which was a reversal from last quarter. The company's shares continue to trade at a discount to its public peers despite posting healthy results this year.

***Silgan Holdings Inc.***

Silgan Holdings Inc. is the leading U.S. manufacturer of metal containers. The company has three segments: Metal Containers, Dispensing and Specialty Closures, and Custom Containers. Silgan's stock price underperformed in the third quarter as the company reported results that were modestly below expectations and lowered earnings guidance for the second half of the year by 4%. The recent bankruptcy by a customer, Del Monte Foods, and destocking by beverage customers are expected to be headwinds in the second half of 2025.

***Twilio Inc.***

Twilio Inc.'s stock price underperformed in the quarter despite the company posting revenues and earnings that were ahead of expectations. Its Communications segment's revenue growth accelerated to 14% (above consensus estimate of 10%) and active base customers grew 10%. The full-year revenue guidance was raised to 10.5% from 8% and free cash flow guidance was raised to \$887.5 million from \$862.5 million. However, investors were disappointed with the 160 bps gross margin miss versus the consensus. The gross margin decline was largely related to a \$6 million increase in carrier fees.

**Outlook**

**"You don't get rewarded for taking risk; you get rewarded for buying cheap assets. And if the assets you bought got pushed up in price simply because they were risky, then you are not going to be rewarded for taking a risk; you are going to be punished for it." ~Jeremy Grantham**

In our view, financial media these days is too focused on whether AI has become a bubble and if so, when is it going to burst. There are a lot of similarities being drawn to the TMT bubble of 2000. Having experience as a value investor through the TMT bubble, we can say that the last leg of the bull market was explosive and timing the top is almost impossible, but most investors think (but don't admit) they will be able to top tick the market, when the time comes.



While the towering presence of mega-cap companies often dominates the financial landscape, significant rejuvenation is unfolding beneath the canopy. The rotation towards smaller caps that began in the second quarter further gained traction in the third quarter. The Russell 2000 Index's rise to an all-time high in the third quarter signifies a largely unrecognized indication of market vitality. We believe that a powerful convergence of accommodative monetary policy, compelling valuations, and robust fundamentals forms a persuasive thesis for allocating capital to quality small-cap stocks. A significant catalyst for the small cap rally has been the restart of the Federal Reserve easing cycle. This policy pivot is consequential for the small-cap universe, which is notably sensitive to financing costs due to a heavier reliance on floating-rate debt compared to its large-cap counterparts. On the other hand, the 39% rally in the Russell 2000 Index from the bottom on April 8<sup>th</sup> (through the end of the third quarter) could be at risk if there is a reversal in the tariff-related truce with major trading partners. Today (October 10<sup>th</sup>), the U.S. equity markets suffered their worst selloff in six months as President Trump abruptly announced an additional 100% tariffs on China along with export controls on critical software beginning November 1<sup>st</sup> in retaliation to China imposing certain restrictions and export controls on rare earths. The threat of a major tariff escalation could revive the fears and volatility we experienced earlier this year.

The equity market is undergoing a broadening beyond a narrow cohort of AI-fueled technology behemoths. This shift is due to the appeal of value and small-cap stocks, which had long been neglected. The first graph illustrates that small-cap valuations are at the lowest level versus the S&P 500 since 2008. The Index's forward-price to sales ratio is at a 58% discount to the S&P 500. Within small caps, value stocks are at a further extreme discount to their growth peers. The second graph shows that the Russell 2000 Value Index trades at a 72% discount to the Russell 2000 Growth on a book value basis and a 52% discount on a price to sales basis.

Graph 1: Small-Cap Valuations vs. S&P 500



Source: "US Small-Cap Equities 4Q Outlook," Bloomberg Intelligence, October 9, 2025.

Graph 2: Russell 2000 Value vs. Russell 2000 Growth on Book Value and P/S basis



Sources: Russell Investments, Bloomberg.



This unfolding opportunity is further illustrated by its stark contrast with troubles quietly unfolding in the private equity (PE) arena. Bain & Company reports that PE has faced significant headwinds this year, with global fundraising falling, exit activity plummeting by 38% this year, and the exit backlog of sponsor-owned companies reaching a multi-decade high due to elevated economic uncertainty and the relatively high cost of capital. The median time to exit has stretched to nearly six years, and returns have compressed with the average 3-year IRR of North American PE funds dropping from +18% in 2021 to +11.3% in 2024, according to data compiled by Pitchbook. In this opaque and illiquid environment, investing in PE is akin to anchoring in a stormy harbor. In contrast, the public small-cap market offers the transparency and daily liquidity of a sunlit bay, allowing investors to participate in emerging growth without being locked into protracted, uncertain timelines.

The most compelling component of the thesis, however, may be the relative earnings potential of small caps. Their status as younger, agile enterprises provide a springboard for rapid percentage growth that is unattainable for corporate behemoths. Since small-cap companies derive almost 97% of their revenue domestically, they are highly sensitive to U.S. economic trends and will suffer a smaller adverse impact from global trade issues. In addition, smaller domestic companies should be bigger beneficiaries of the current administration's reshoring initiatives. Consensus analyst estimates based on FactSet forecast 2025 EPS growth for the Russell 2000 at +21% and +34% in 2026, significantly exceeding the corresponding +9% and +13-14% projected for the S&P 500. This operational leverage reflects the inherent growth capacity within the small-cap sector, positioning them to translate economic tailwinds into outsized gains for investors.

In short, the prevailing financial climate presents a potent mix for public small-cap equities: The accommodative pivot from the Fed, glaring valuation disparities, a broadening market, a flight from private equity's opacity, and exceptional earnings potential collectively create a compelling investment case.

## Disclosures

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

$AS_t = |PW_t - BW_t| / 2$  where  $AS_t$  := Portfolio Ending Active Share;  $PW_t$  := Portfolio Ending Weight; and  $BW_t$  := Benchmark

Ending Weight <sup>2</sup> 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:  $TE = \omega = \sqrt{E[(r_p - r_b)^2]}$  where  $r_p - r_b$  = the active return (i.e., the difference between the portfolio return and the benchmark return). This formula simplifies to:  $TE = \omega = \sqrt{\sigma_p^2 + \sigma_b^2 - 2\beta\sigma_b^2}$  where  $\sigma_p^2$  = portfolio variance;  $\sigma_b^2$  = benchmark variance; and  $\beta$  = 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.

- 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.
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- 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 inception October 2016. The firm's list of composite descriptions is available upon request.
- 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.
- 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.
- 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.
- 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.
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## 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.

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- 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.
- 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.
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