

Focusing on High-Quality Companies with Sustainable Growth Trends

Strategy overview

Actively managed small cap growth strategy driven by bottom-up fundamental research seeking stocks with superior revenue and earnings potential and sustainable valuations..

Key takeaways

- Equities experienced a broad pullback, with large caps holding up better than small caps, while value stocks outpaced growth. Growth sectors saw notable declines, particularly in technology and retail, while defensive sectors and energy provided stability.
- For the quarter ended March 31, 2025, the Fund slightly outperformed the Russell 2000 Growth Index (the Index) on a net asset value (NAV) basis, due to stock selection. Positive stock selection in the industrials, consumer discretionary and health care sectors added to performance. An overall negative allocation effect, coupled with negative stock selection in the information technology and financials sectors were the largest detractors.
- As we move through the remainder of 2025, investors face a complex landscape shaped by geopolitical tensions, shifting trade policies and evolving monetary dynamics. Despite uncertainties, the broadening of market leadership beyond mega-cap stocks presents new opportunities across industries, particularly in defensive sectors. We aim to remain nimble in response to elevated inflation and interest rates, carefully monitoring strategies to align with changing market dynamics.

Portfolio review

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Top individual positive contributors included H&E Equipment Services, Inc., VSE Corp. and Champion Homes, Inc.

H&E Equipment Services, Inc. (HEES), a construction and industrial equipment sales and rental company, was the top performer for the quarter following two acquisition bids. Ultimately, Herc Holdings, Inc. (HRI) acquired HEES in a combination stock and cash deal. We took the opportunity to lock in profits and sold our position during the quarter.

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VSE Corp. (VSEC), a repair services, parts distribution and supply chain management company focused on land, sea and air transportation assets to public and government segments, outperformed for the quarter. VSEC is benefiting from continuing volume trend increases in the business aviation segment, following two years of declines. Overall volume and margin expansion is expected to continue in 2025, as VSEC positions itself as a market leader in aviation aftermarket services. We trimmed the position during the quarter and continue to hold the name.

Champion Homes, Inc. (SKY), a manufacturer and seller of mobile homes and manufactured housing, was a top contributor for the quarter. Manufactured housing fundamentals continue to improve with order rates expecting to accelerate into the back half of 2025 and beyond in both the retail and community channels. Given the risk of tariffs and the impact on input costs, we are mindful of the large position size. As of quarter end, we are maintaining our current weighting.

Top individual detractors to performance included Globant SA, Tower Semiconductor Ltd. and Agilysys, Inc.

Globant SA (GLOB), a provider of technology services focused on application development, management and maintenance, was the largest detractor of performance for the quarter. Despite the steady growth reported in their 4Q24 results, GLOB's exposure to the slower Latin American IT services spending cycle led to disappointing 2025 guidance. Although we trimmed 30% of our position prior to the guidance, the stock sold off significantly. We believe GLOB is still an attractive business and thus continue to hold a small position given long-term growth.

Tower Semiconductor Ltd. (TSEM), an analog semiconductor company, underperformed for the quarter. Following a positive 4Q24 earnings report, the company's 1Q25 guide was viewed negatively given it was second half weighted. TSEM's integration in artificial intelligence (AI) and mobile should drive continued sales growth and margin expansion going forward. We utilized the volatility in the stock price to add to our position during the quarter.

Agilysys, Inc. (AGYS), a software company focused on payment, reservation and property management to the hospitality industry, was a negative contributor for the quarter. AGYS encountered headwinds during the quarter related to their point of sale (POS) sales and service revenue, as clients deferred spending. With a leading product and a strengthened sales team, we believe AGYS is positioned well and continue to hold the name given our expectation that fundamentals will accelerate in the

second half of 2025.

Current strategy and outlook

Markets rallied in early 2025 following a difficult December 2024. However, this quickly gave way to a slew of economic reports indicating continued inflationary pressures. The unpredictable outcomes of Department of Government Efficiency (DOGE) cuts, crackdowns on immigration and the ever-present threat of tariffs by the new administration left investors rattled. The April tariff announcement has caused significant turmoil given the multitude of potential outcomes and the potential global economic impact. Furthermore, Trump's tariff initiatives are being viewed as inflationary by the market, creating further uncertainty in U.S. Federal Reserve policy direction and timing. We continue to monitor any developments related to policy that could impact our portfolio holdings.

It is during these times, that experience and adhering to a proven discipline is critical. Our team has seen volatile markets before and although there are similarities, each time different factors are relevant. We continue to focus on individual company fundamentals and seek to identify companies that can grow sales, increase revenue, expand margins and produce solid cash flow and earnings, all while seeking sustainable valuations. We remain cognizant of the risk versus reward balance within the portfolio and at the individual company level. This environment has allowed us to make quality portfolio upgrades, and we are seeing opportunities in sectors and industries, such as financials and consumer staples, that have not been attractive in recent memory.

As we have said for several quarters, small cap growth stock valuations are at attractive levels relative to their large cap growth counterparts and continue to trade at a sizable discount on a relative basis (roughly 34% as of 3/31/2025). Although a volatile macro environment could delay small cap stocks' outperformance, prudent and disciplined bottom-up stock selection should produce strong relative and absolute returns over a full market cycle.

Holdings detail

Companies mentioned in this report—percentage of portfolio investments, as of 03/31/25: H&E Equipment Services, Inc. 0.00%, VSE Corp. 1.50%, Champion Homes, Inc. 2.59%, Globant SA 0.76%, Tower Semiconductor Ltd. 1.47% and Agilysys, Inc. 0.80%; 0% indicates that the security is no longer in the Fund. Portfolio holdings are subject to daily change.

Read our [Fund Fact Sheet](#)

The **Russell 2000 Growth Index** is an unmanaged index that measures the performance of smaller U.S. companies with greater-than-average growth orientation. It is a small-cap stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index. Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot invest directly in an index.**

All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. You could lose money on your investment and any of the following risks, among others, could affect investment performance. The following principal risks are presented in alphabetical order which does not imply order of importance or likelihood: Company; Currency; Environmental, Social, and Governance (Equity); Focused Investing; Foreign (Non-U.S.) Investments/ Developing and Emerging Markets; Growth Investing; Health Care Sector (Focused Investing); Investment Model; Liquidity; Market; Market Disruption and Geopolitical; Other Investment Companies; Securities Lending; Small-Capitalization Company; Technology Sector (Focused Investing). Investors should consult the Fund's Prospectus and Statement of Additional Information for a more detailed discussion of the Fund's risks.

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