Small Cap Growth Strategy

Focusing on High-quality Companies with Sustainable Growth Trends

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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

- Equity markets rebounded in the second quarter after April's post-Liberation Day volatility, ending above the February peak. Growth outperformed value, driven by strength in technology and communication services, while energy and health care lagged. Easing inflation, selective rate cuts, and increased demand for safe-haven assets highlighted cross-asset dynamics.
- As we enter the second half, investors face ongoing geopolitical risks and shifting monetary policy. Expanding leadership beyond mega-cap stocks is creating new opportunities, especially in defensive sectors. We remain focused on refining strategies to align with evolving conditions amid persistent uncertainty and inflationary pressures.
- For the quarter ended June 30, 2025, the Strategy underperformed the Russell 2000 Growth Index (the Index) on a both gross- and net-of-fees basis, due to stock selection. Negative stock selection in the industrials, health care and consumer discretionary sectors were the leading detractors from performance. An overall positive allocation effect, coupled with positive stock selection in the consumer staples sector were the largest contributors.

Portfolio review

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Top individual detractors to performance included Champion Homes, Inc., Saia, Inc. and ACI Worldwide, Inc.

Champion Homes, Inc. (SKY), a manufacturer and seller of manufactured housing, was the top detractor for the quarter, after being one of our best performers the prior quarter. Manufactured housing fundamentals remain slow with expected acceleration in order rates for both residential and community being pushed out from late 2025 into 2026. Although the demand delay is frustrating, we continue to hold the stock given the company's strong returns profile coupled with reset expectations.

Saia, Inc. (SAIA), a national transportation company focused on less-than-truckload (LTL) services, was a negative contributor to performance. Following SAIA's strategic terminal expansion resulting from the bankruptcy of Yellow, industry demand slowed during the first quarter. We believe SAIA is well positioned for future market share growth but have adjusted our position size to reflect the short-term economic challenges the company faces.

ACI Worldwide, Inc. (ACIW), an electronic payments provider, underperformed for the quarter. Following the announcement of a new CFO in early June and an in line prior quarter, ACIW stock was down for much of the quarter. Positively, ACI announced the redemption of U.S. $400 million in senior notes, which will lower their net interest expense going forward and benefit future earnings. We are encouraged by the long-term fundamentals of the company and continue to hold our current position.

Top individual positive contributors included e.l.f. Beauty, Inc., Lumentum Holdings, Inc. and Kratos Defense & Security Solutions, Inc.

e.l.f. Beauty, Inc. (ELF), a specialty cosmetics and skin care company, was the top contributor to performance for the quarter. ELF continues to take market share from legacy cosmetic companies via their online and partnership distribution strategy and the recent accretive acquisition of rhode skin is expected to drive market share gains. Although we are mindful of the high expectations, we continue to hold our position.

Lumentum Holdings, Inc. (LITE), a provider of optical and photonic products utilized in cloud, networking and industrial applications, saw its stock price nearly double off the April lows as the company positively pre-announced in early June. LITE's Cloud Light data center unit saw 50% growth during the quarter and although LITE is not NVIDIAs exclusive supplier, they are currently the only "approved" supplier. We continue to hold the stock and believe LITE is well positioned for continued growth.

Kratos Defense & Security Solutions, Inc. (KTOS), a supplier of mission critical services and products and unmanned systems focused on United States national security priorities, was a positive contributor for the quarter. With a positive government spending backdrop and recent program rewards, KTOS is positioned well for future growth. A successful capital raise of $575 million during the quarter will be used to advance growth initiatives. We trimmed the stock during the quarter but are maintaining our current weighting in the stock.

Current strategy and outlook

With macros dominating investor sentiment, the pending tariff deadline of July 9 looming and the uncertain timing of future rate cuts relative to an overall healthy economic backdrop, stocks remained volatile during the quarter. Despite these macro headwinds, we have not been without individual stock challenges. We continue to focus on individual company fundamental factors and seek to identify companies that can grow 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 and have tightened up our relative sector weights to our benchmark given market uncertainty. As always, we are mindful of valuation in the context of stocks meeting their growth expectations. This environment has allowed us to make quality portfolio upgrades, and we are seeing opportunities in sectors and industries that have not been attractive in recent memory. As an example, we have found opportunities in the consumer staples sector in e.l.f. Beauty, mentioned above, Celsius Holdings, Inc. and Vita Coco Co., all contributors this past quarter.

As a sidenote, there are unprecedented dynamics within our Russell 2000 Growth benchmark that we have not seen in the last 25 years of managing small cap growth assets. Higher beta names (Hims & Hers, RocketLab, IonQ and Credo Technologies) are continuing to have more meaningful weights in the benchmark. Many of these companies don't align with our quality bias. This year in particular, these stocks have been strong performers, thus impacting our relative performance. This is something we are aware of and are discussing frequently as it relates to managing a portfolio relative to a benchmark yet being mindful of risk.

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. 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.

We recognize as a bottom-up fundamentally driven strategy this has been a difficult environment for our process and returns are not always linear. Rest assured that we remain disciplined in our approach and continue to follow the philosophy and process we have implemented successfully for over 25 years.

The principal risks are generally those attributable to investing in stocks and related derivative instruments. Holdings are subject to market, issuer and other risks, and their values may fluctuate. Market risk is the risk that securities or other instruments may decline in value due to factors affecting the securities markets or particular industries. Issuer risk is the risk that the value of a security or instrument may decline for reasons specific to the issuer, such as changes in its financial condition. More particularly, the strategy invests in smaller companies which may be more susceptible to price swings than larger companies because they have fewer resources and more limited products, and many are dependent on a few key managers.Index returns do not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot invest directly in an index.** Effective January 1, 2022, Voya Investment Management acquired the investment advisory business and certain other assets of Tygh Capital Management (TCM). As such, AUM, performance, and characteristics prior to 12/31/21 pre-date the acquisition and are reflective of the strategy as managed by TCM.Please see attached GIPS Compliance Schedule of Composite Performance. The strategy employs a quantitative model to execute the strategy. Data imprecision, software or other technology malfunctions, programming inaccuracies and similar circumstances may impair the performance of these systems, which may negatively affect performance. Furthermore, there can be no assurance that the quantitative models used in managing the strategy will perform as anticipated or enable the strategy to achieve its objective.

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.

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