

Small Cap Observations

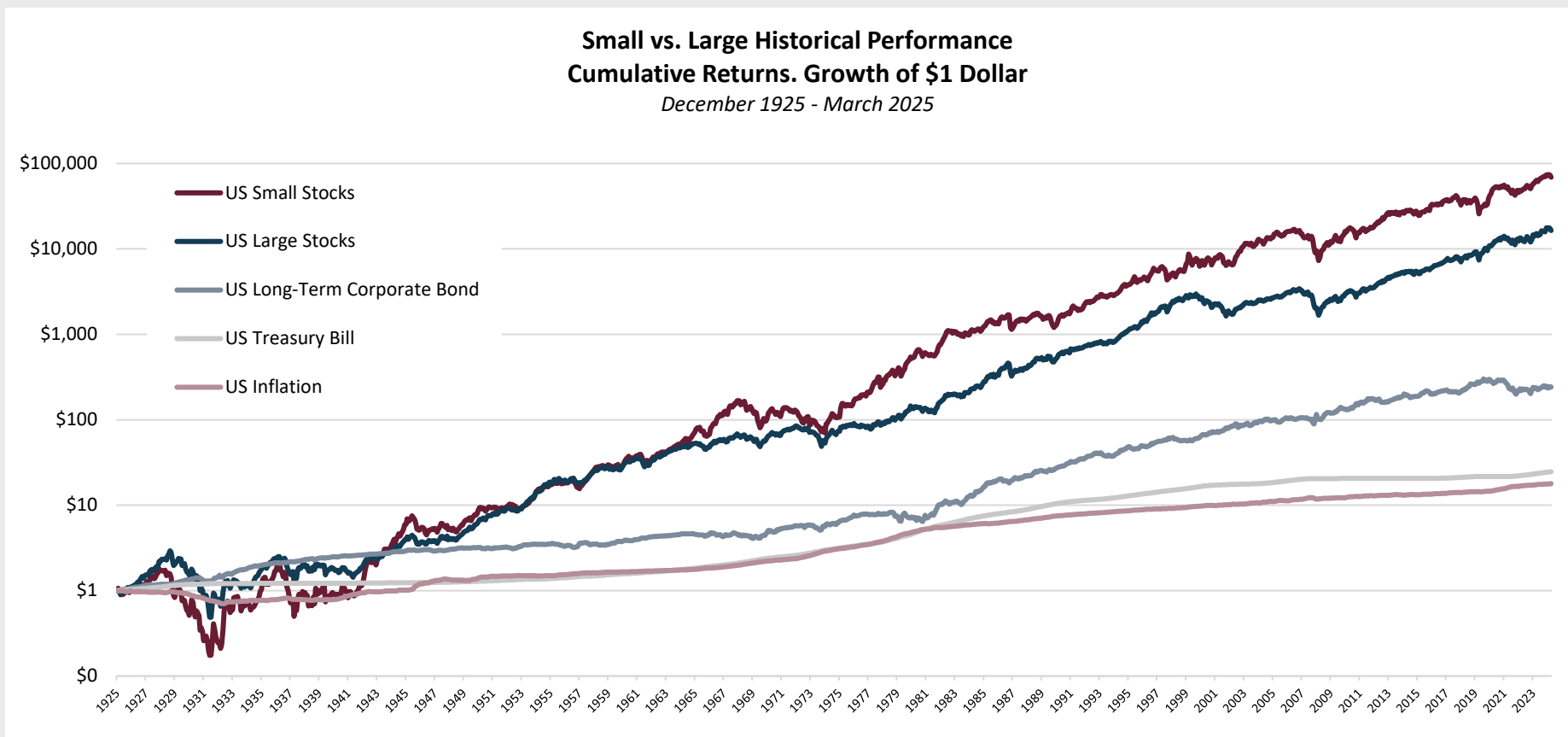
March 31, 2025



The Long-Term Case for Investing in Small Caps

As of March 31, 2025

Historically, Small Capitalization stocks have outperformed Large Capitalization stocks.



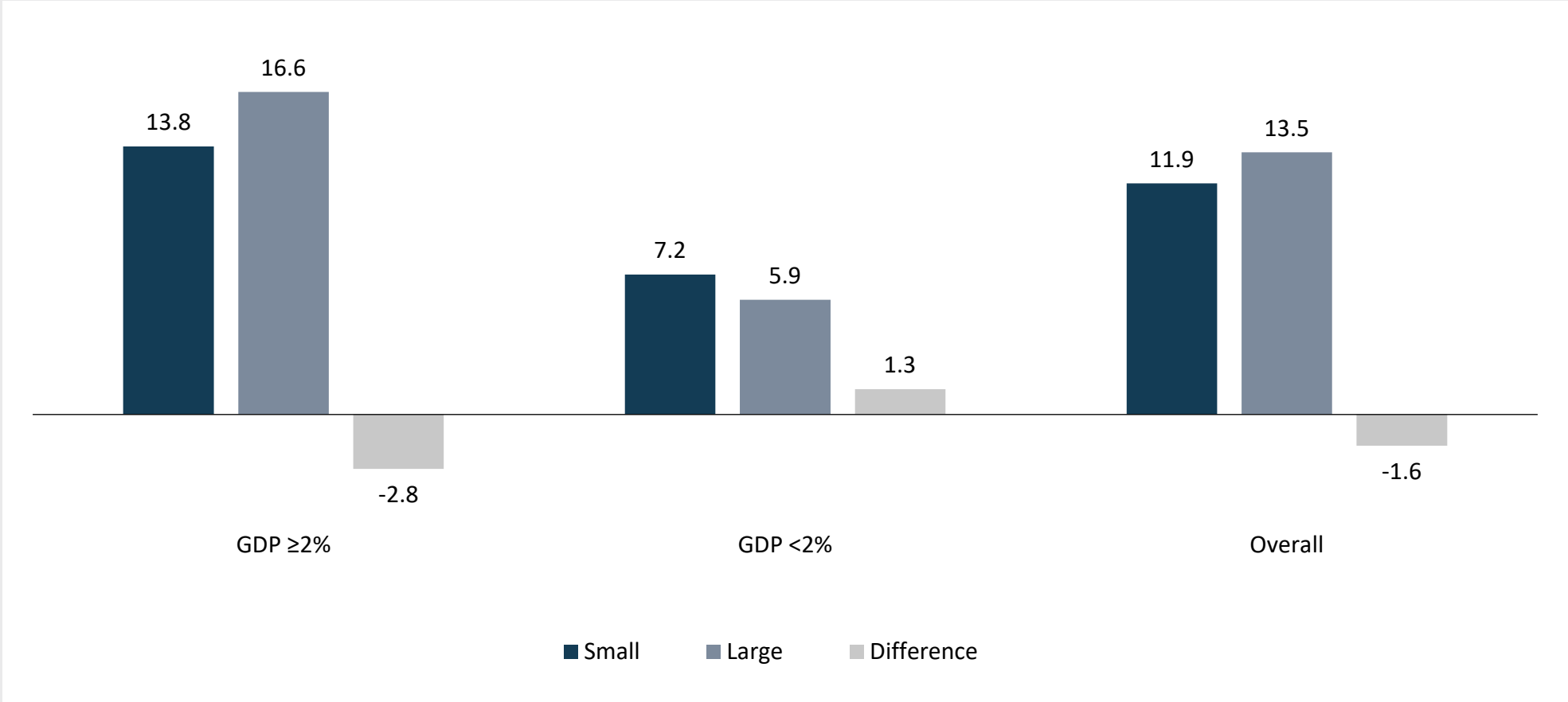


Behavior of Small Caps in Various Macroeconomic Environments



Small Caps in Various GDP Environments

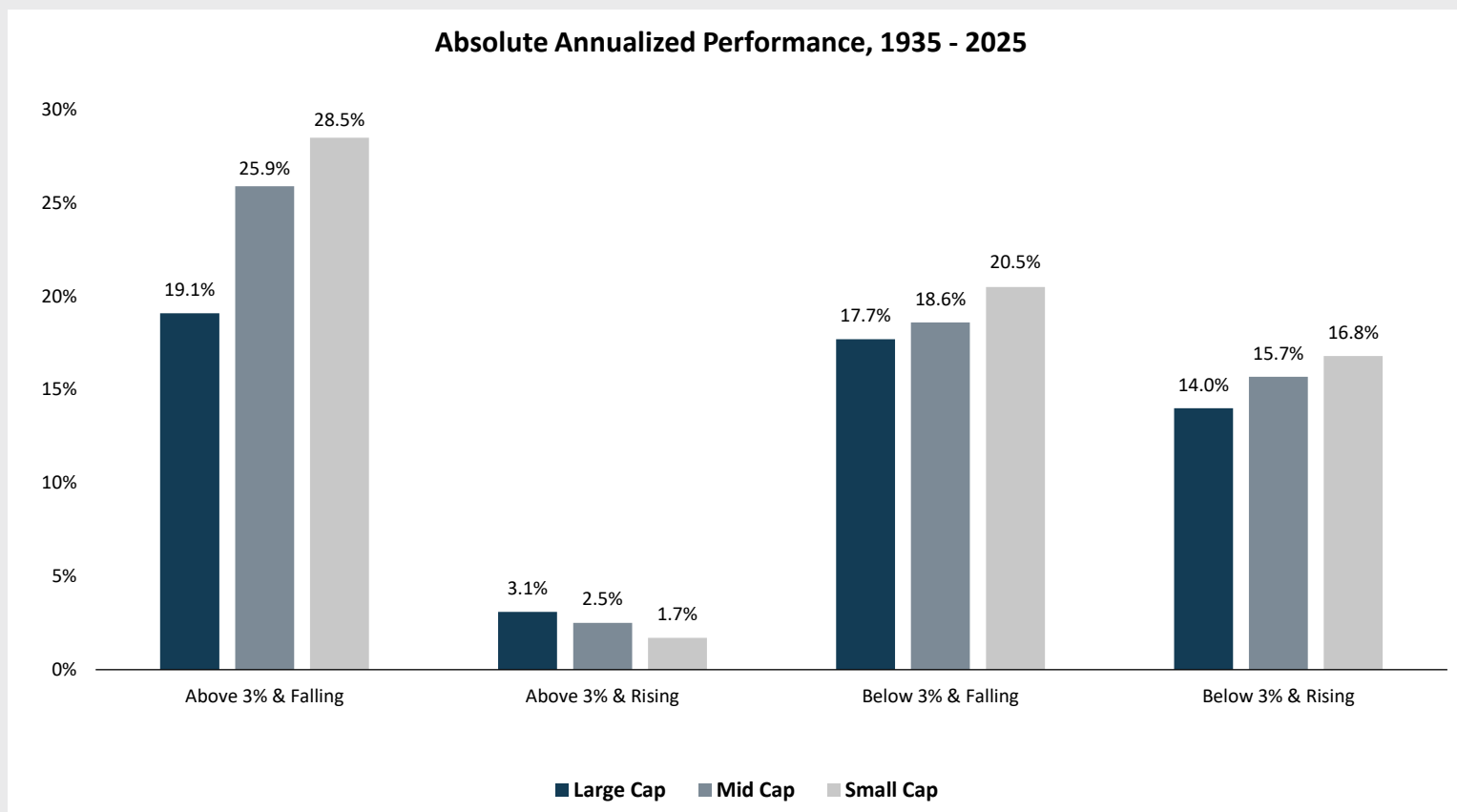
1925 - 2024





Historical Analysis of Small Caps in Differing Inflationary Environments

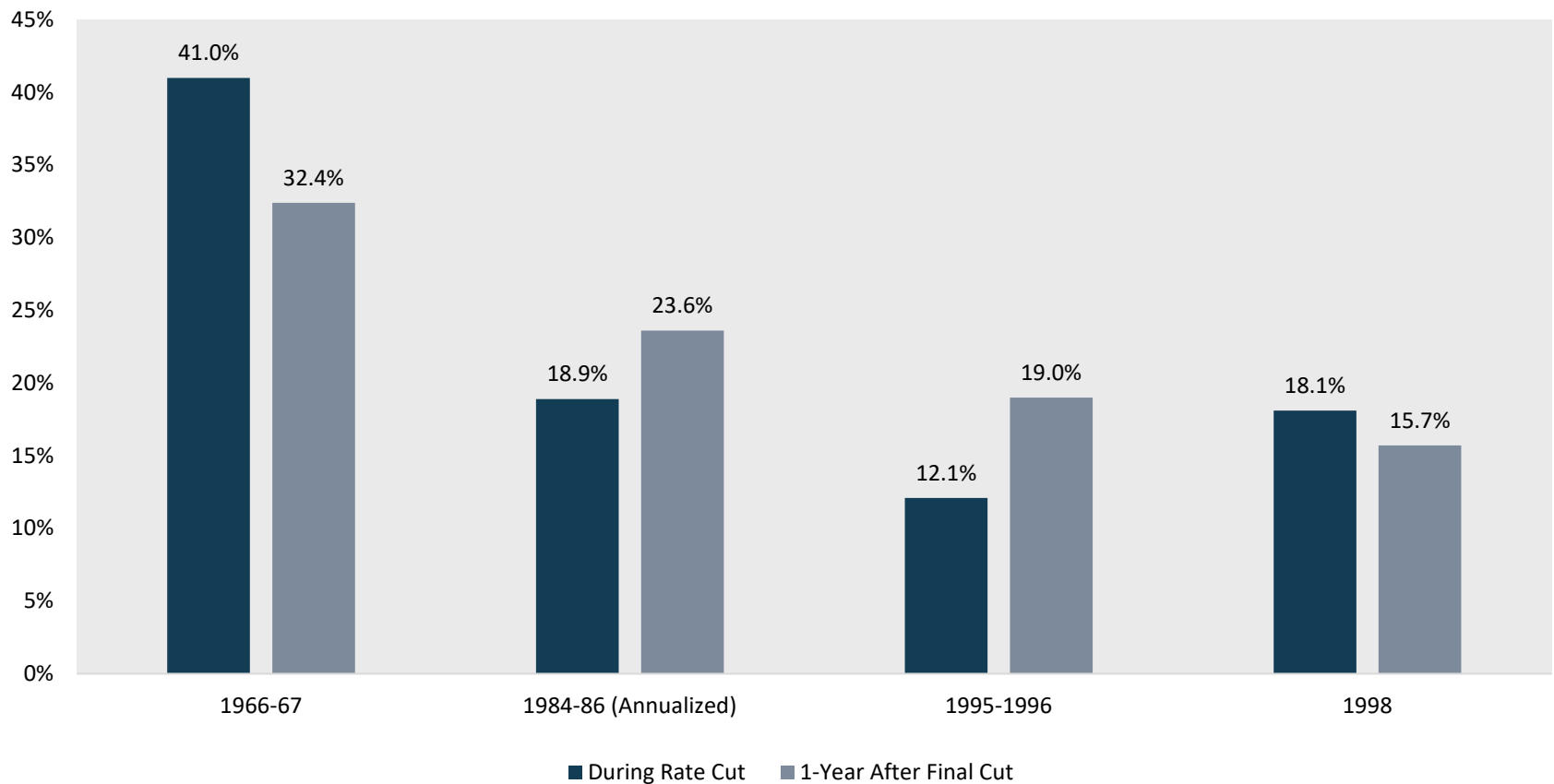
High and falling inflation has historically been a sweet spot for small cap investors.
If inflation continues to drift below 3% in 2025, that should be good for small caps.





Small Cap Forward Returns Have Been Strong After the Final Rate Cut

Small Cap Returns During and After Non-Recessionary Rate Cuts
1954 - 2024





Small Cap Factor Performance During Stages of the Economic Cycle



Small Cap Factor Performance Across Cycles

As of March 31, 2025

High-Quality stocks have led both the Russell 2000 Index and Low-Quality peers in 100% late cycle regimes and 67% of recessionary regimes since 1990 while High-Risk and High-Growth stocks have generally underperformed.

Small cap factor group performance during phases of the economic cycle (Jan. 1990-Present)

Hit rate = % of periods in which style outperformed the equal-weighted Russell 2000 Index.

Quintile 1 vs. Index

		Valuation	Quality	Liquidity	Growth	Risk	Momentum	Leverage	Cash Deployment	Size
Early Cycle	Median	13%	2%	-1%	2%	1%	-2%	-2%	2%	-1%
	Hit Rate	89%	56%	44%	67%	56%	44%	44%	78%	33%
Mid Cycle	Median	7%	2%	2%	4%	7%	3%	1%	-5%	-4%
	Hit Rate	67%	78%	67%	78%	78%	78%	89%	22%	44%
Late Cycle	Median	0%	7%	0%	0%	-10%	0%	1%	6%	3%
	Hit Rate	44%	100%	56%	56%	11%	78%	67%	78%	89%
Recession	Median	2%	3%	1%	0%	-5%	0%	-2%	1%	3%
	Hit Rate	56%	67%	56%	44%	44%	56%	44%	56%	67%



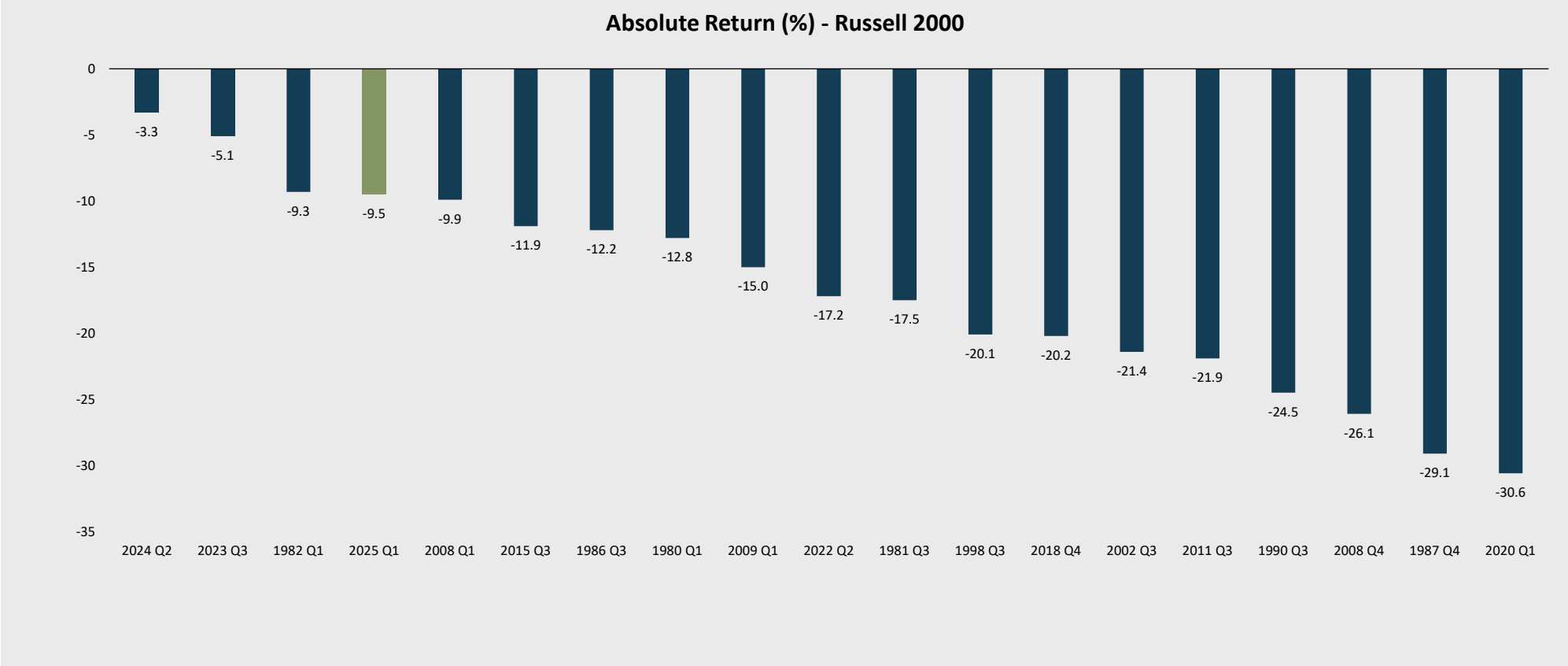
Recent History and Internal Analysis



Performance was Challenging during 1Q 2025

As of March 31, 2025

1Q25 was among the worst 10% of all Russell 2000 quarters going back to 1979.

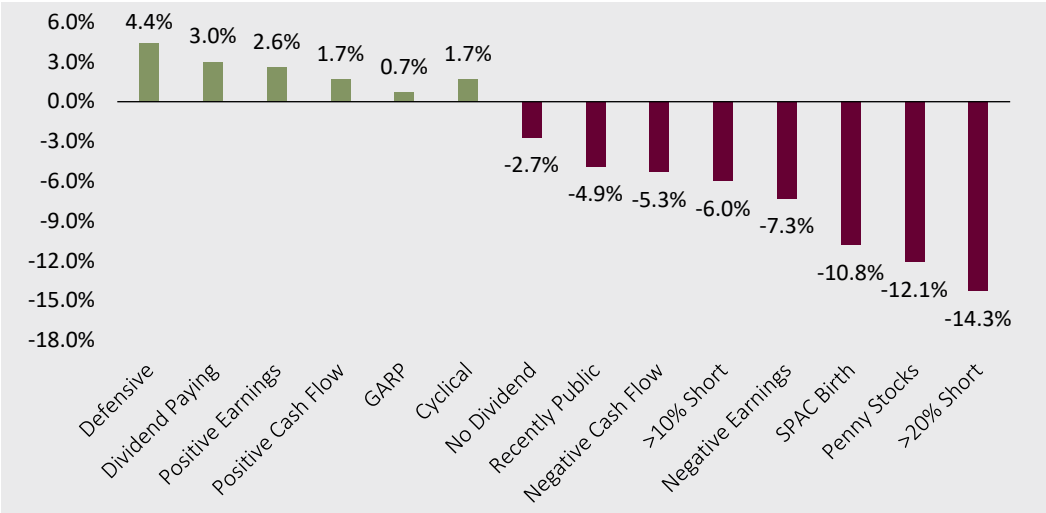




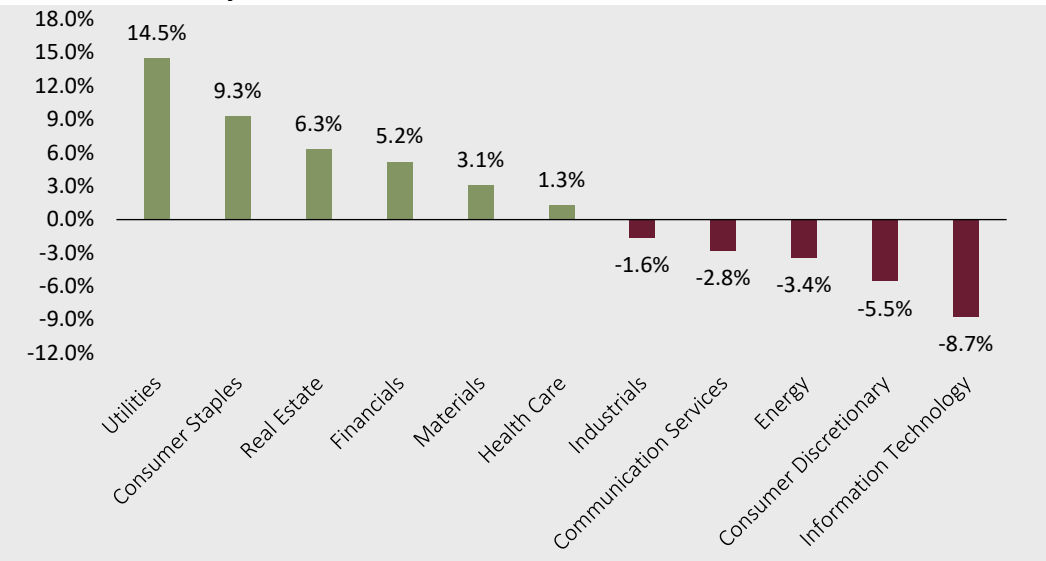
Quality, Defensive and Profitable Companies Drove Returns

As of March 31, 2025

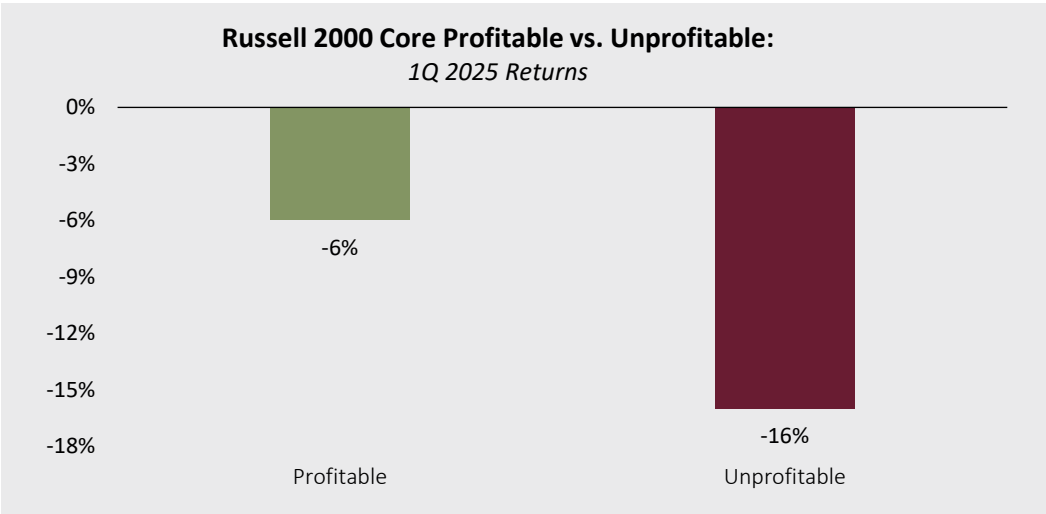
Quality groups led in 1Q25



Defensive over Cyclical Sectors in 1Q25



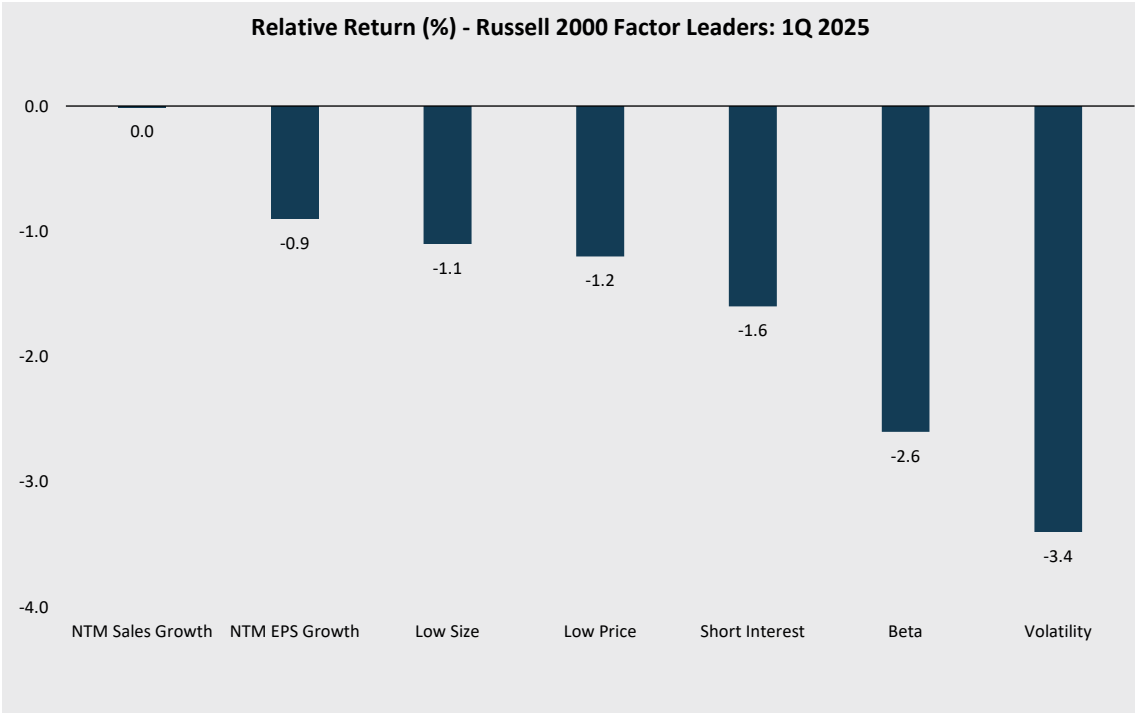
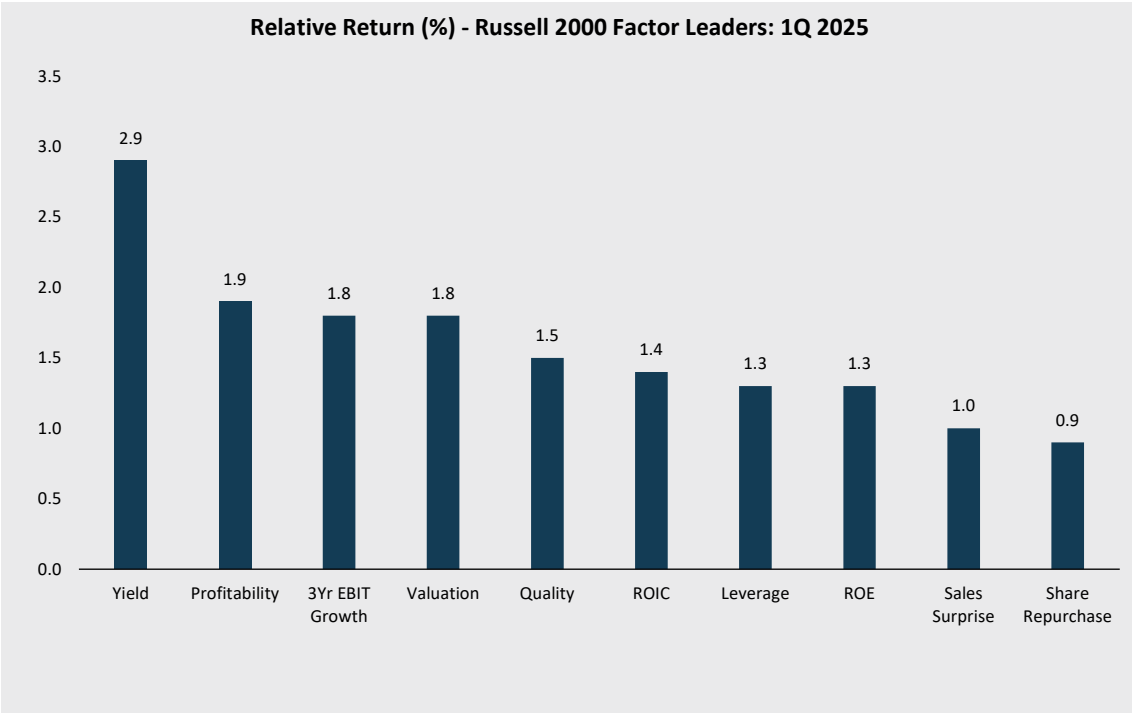
Profitable companies outperformed unprofitable during 1Q





Quality Factors Led the Way in the First Quarter

As of March 31, 2025





Russell 2000 Payoffs in Recent Periods

As of March 31, 2025

Russell 2000 Index, 1/1/2025 to 3/31/2025

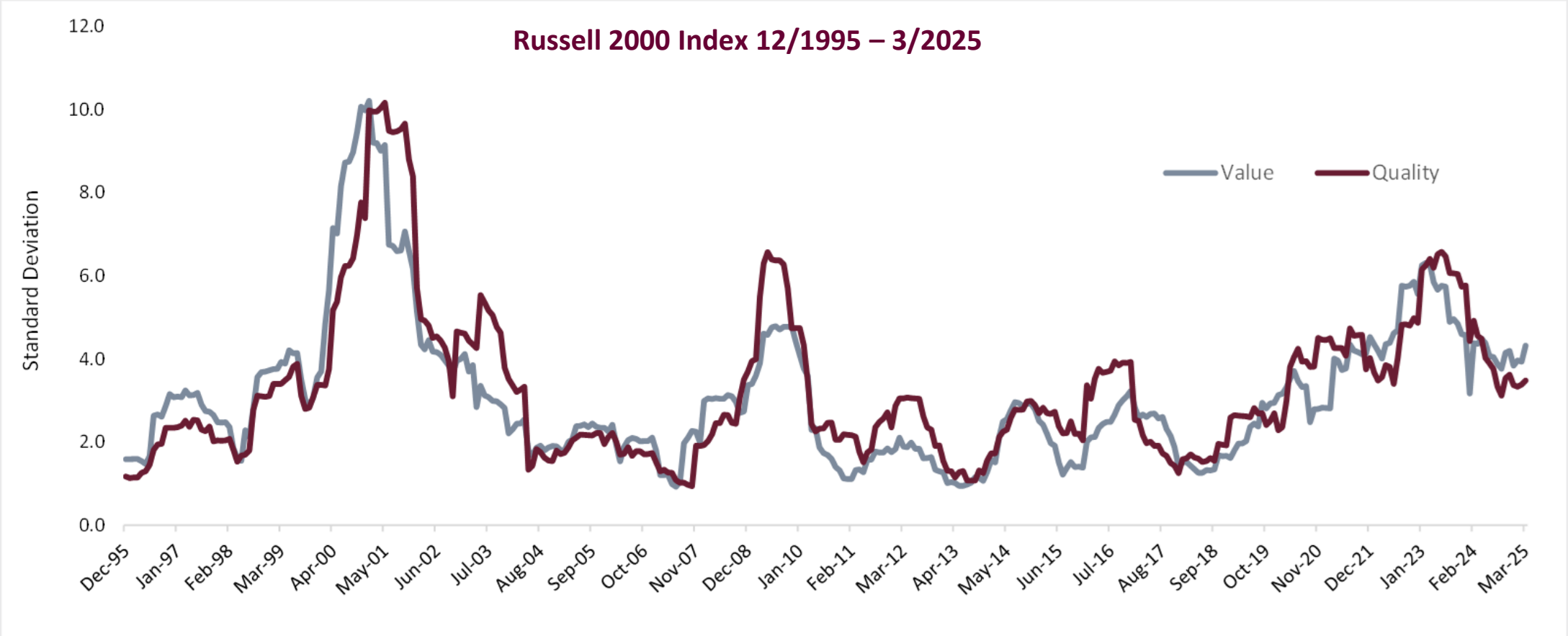
Composites	Long Term Average*	Monthly Payoffs 2025			YTD 2025
		Jan	Feb	Mar	
Value	13.20	4.51	1.47	8.01	13.99
Quality**	11.94	2.34	2.13	5.47	9.93
Margin	8.30	2.73	3.71	7.37	13.81
Accruals	5.91	0.79	-1.48	-3.13	-3.81
Capital Usage	8.90	1.40	1.26	7.04	9.71
LowVariability	3.29	-0.60	0.66	2.33	2.39
LowLeverage	0.09	-3.77	-2.07	1.99	-3.85
LowVolatility	5.45	1.77	6.69	10.06	18.52

*Long Term Average is 1/1995 – 3/2025, annualized. Based on Russell 2000 Index.
**Quality is composed of Margin, Accruals, and Capital Usage Composites.
Source: Aristotle Boston analysis with data from Bloomberg and Russell Investments. Year to date data is computed monthly.



Factor Volatility

As of March 31, 2025

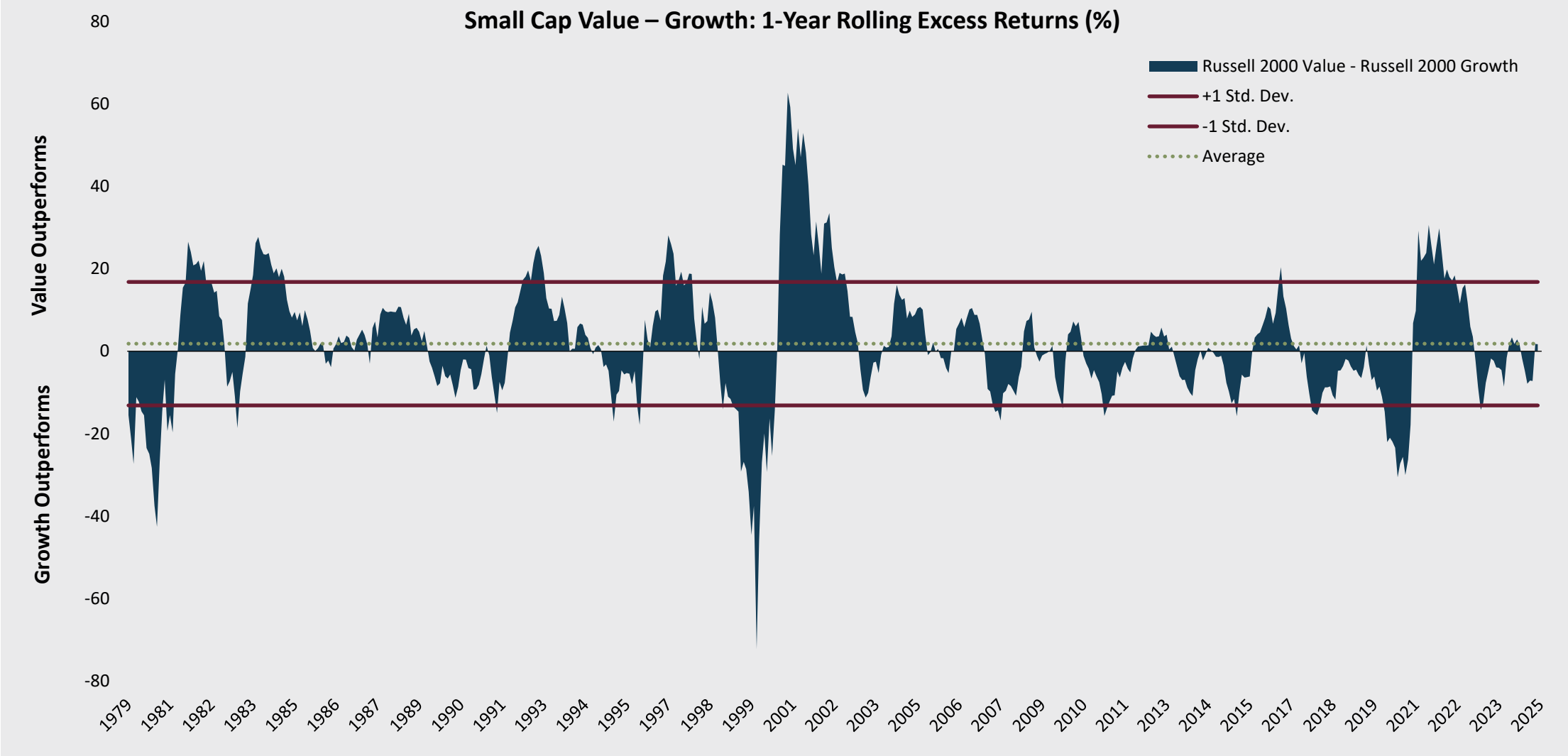


Sources: Aristotle Capital Boston analysis, Bloomberg. Data, in the Russell 2000 Index. Volatility is standard deviation of rolling 12-month Q1-Q5 factor payoffs. Q1 – Q5 = Quintile 1 minus Quintile 5. Please see important disclosures at the end of this document.



Swings in Style Between Growth and Value Remain Volatile

As of March 31, 2025

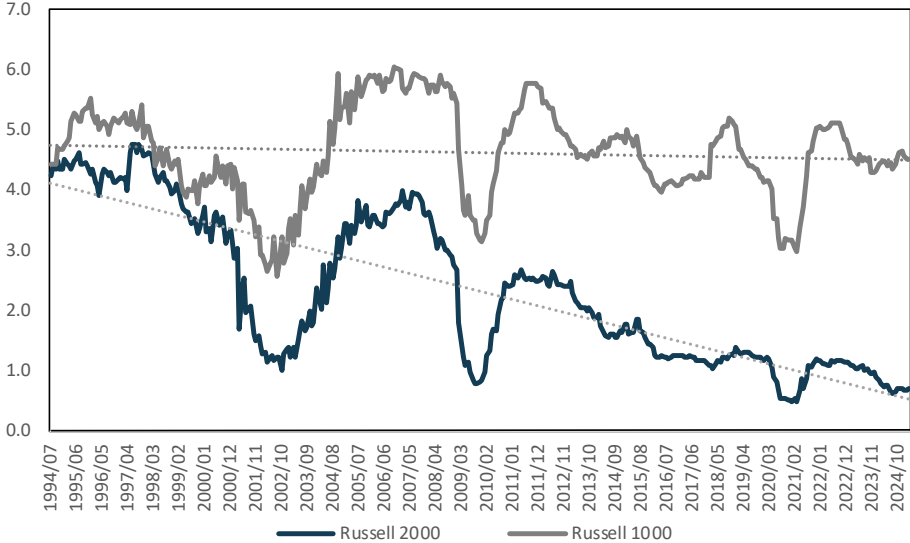




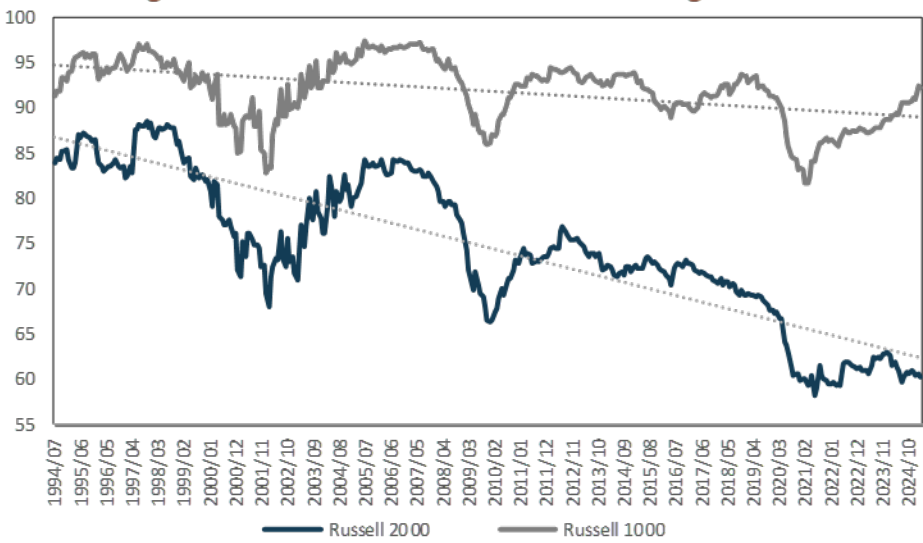
Quality of the Index Has Eroded

As of March 31, 2025

Median ROA Has Declined



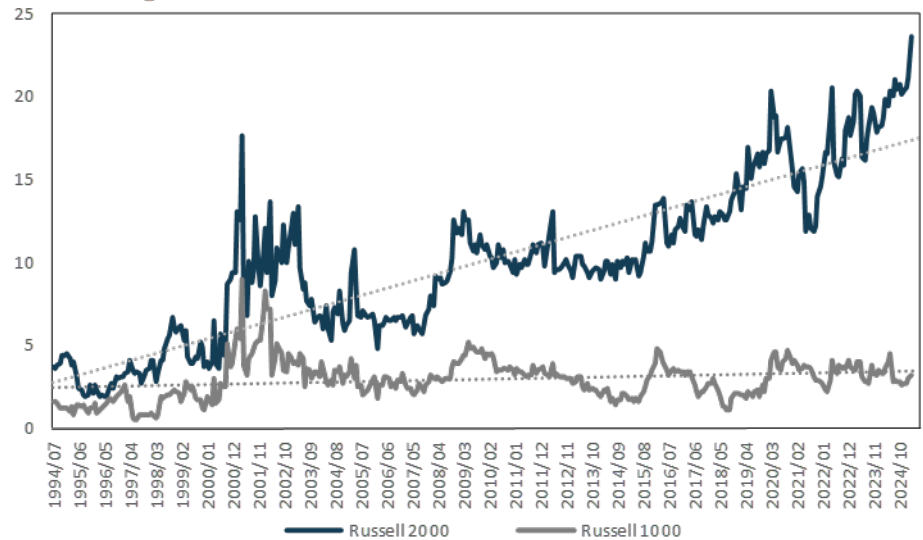
Percentage of Stocks in Index with Positive Earnings Have Declined



Stocks With Negative Net Income Underperform
Stocks With Positive Net Income on Average

	Annualized Excess Returns	
	Russell 2000	Russell 1000
Positive Net Income	2.33	0.26
Negative Net Income	-5.68	-2.59

Percentage of Stocks in Index with Altman-Z Below 0.5 Has Increased



Source: Aristotle Boston analysis with data from Bloomberg and Russell Investments. Data from 7/1994 to 3/2025.



Why Small Caps Now?

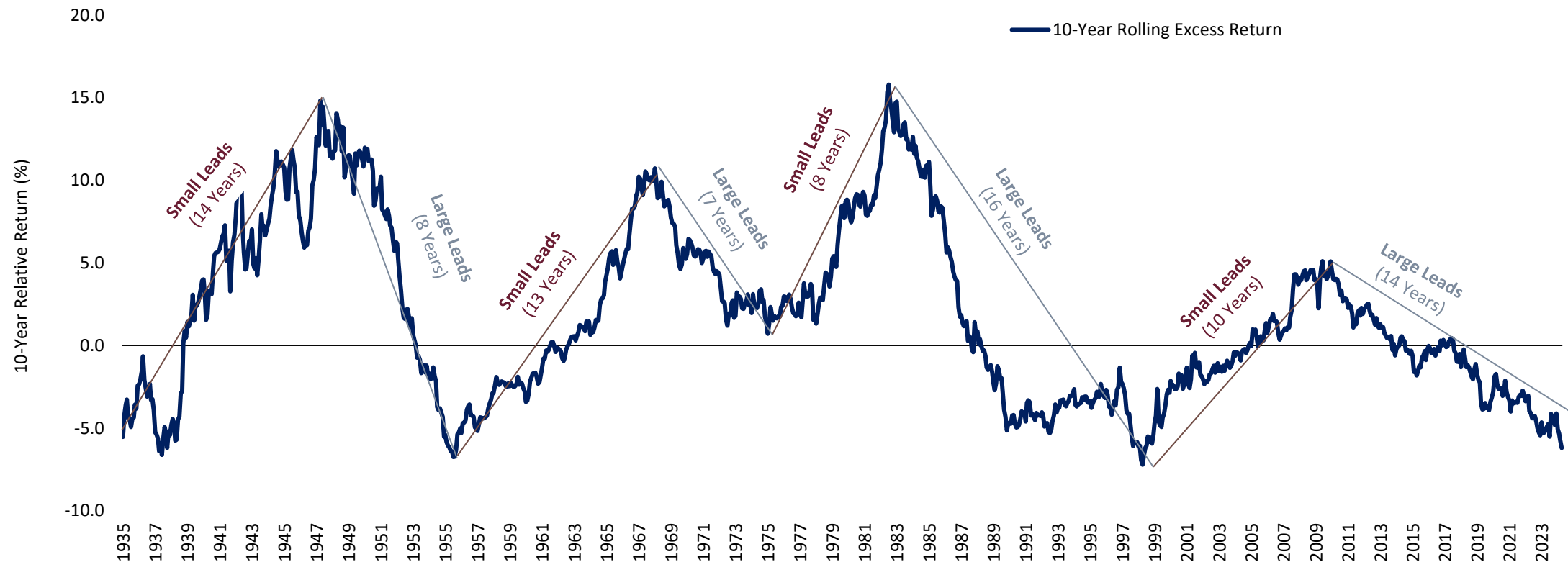


Small vs. Large Potential Reversion to Historical Norms

As of March 31, 2025

We believe the latest large-cap cycle is growing old as large caps have outperformed small caps for the better half of the last decade plus. A reversion to the mean positions' small caps well relative to large caps moving forward.

Rolling 10-Year Excess Return US Small Cap Stocks vs. US Large Cap Stocks 1935- March 31, 2025

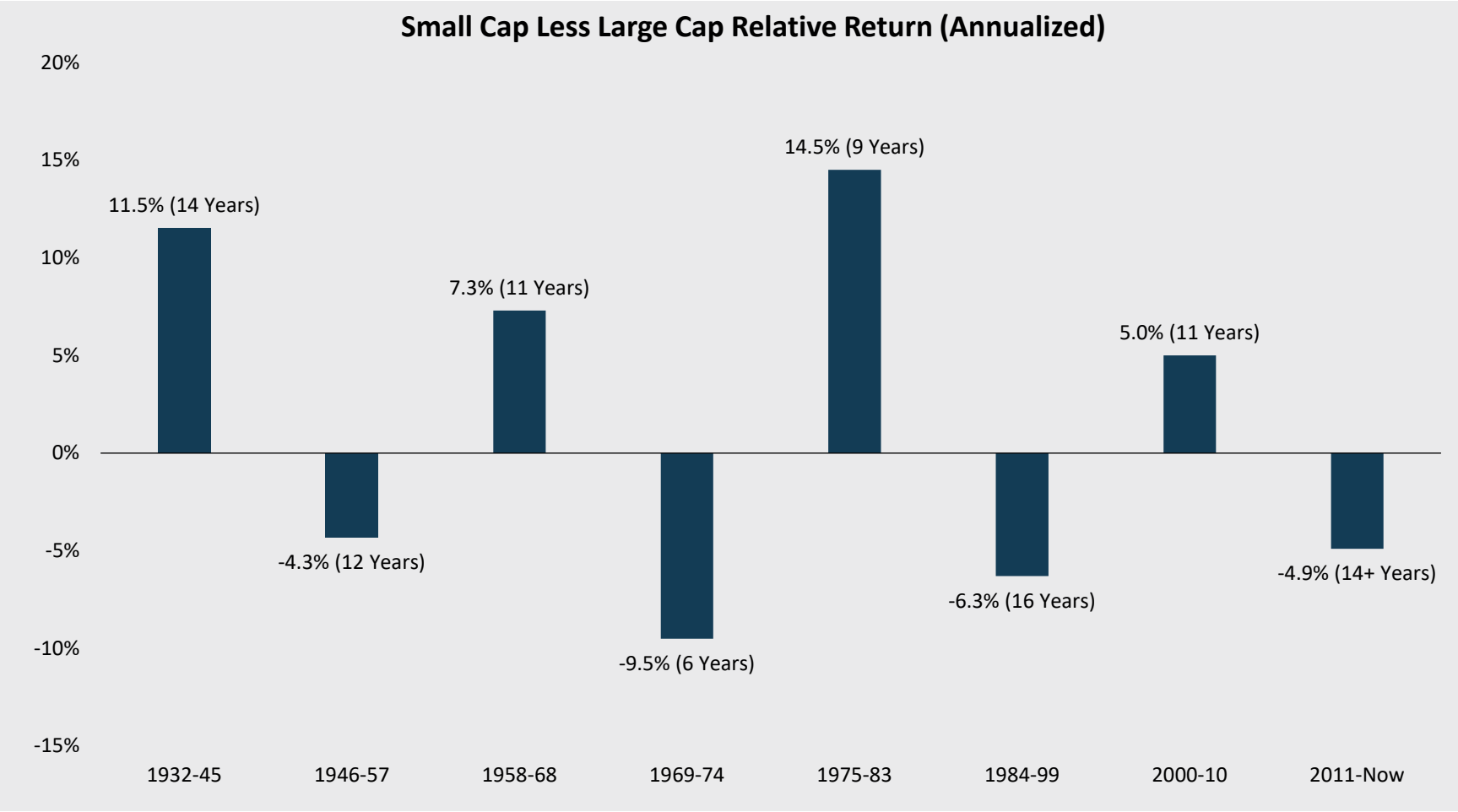


Source: eVestment. The 10-Year Rolling Excess Return represents the annualized return of the Russell 2000 Index over the trailing 10-year period minus the annualized return of the Russell 1000 Index over the same period. Rolling periods are calculated monthly based on trailing 10-year return data for these indices from 1979 to March 2025. Historical returns prior to 1979 represent the Ibbotson SBBI US Small Cap Stocks and the Ibbotson SBBI US Large Cap Stocks indices. Cycles are defined by peak to trough inflection points in 10-year rolling excess returns. Length in years are rounded to nearest whole number.



Small Caps Have Lagged By More Than 4% In The Current Large Cap Cycle

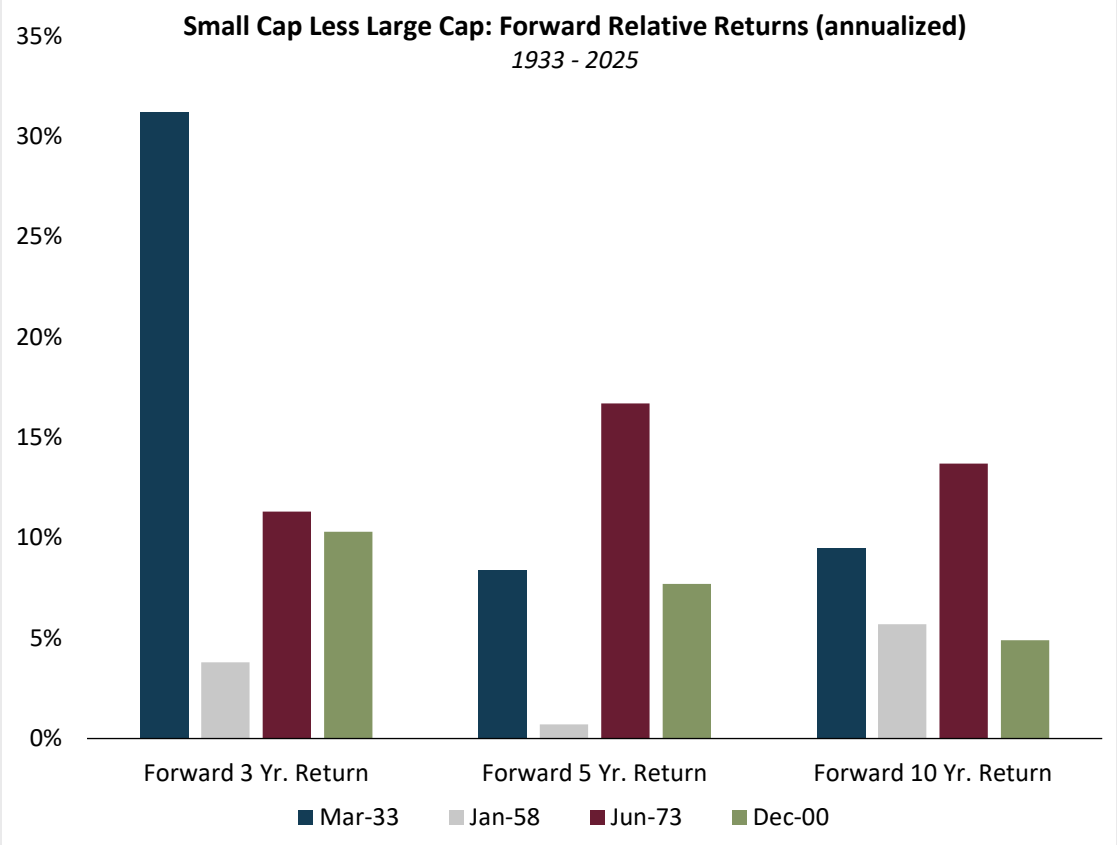
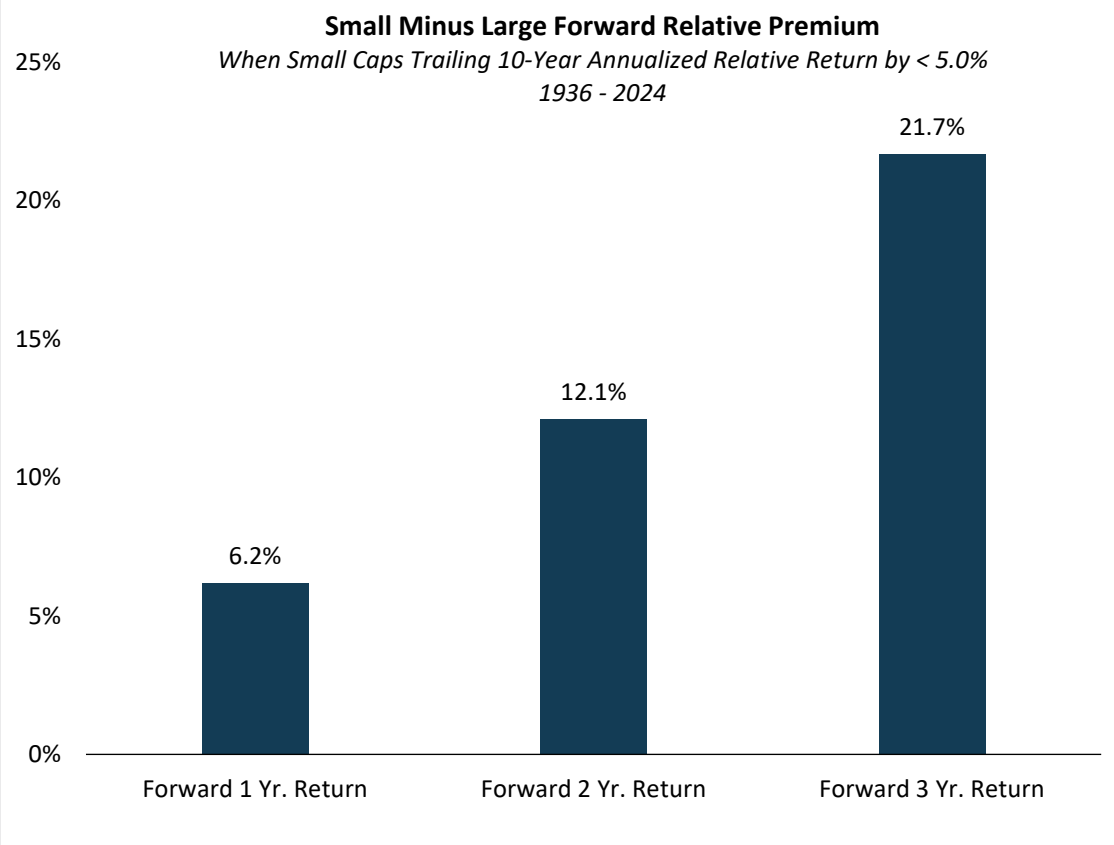
As of March 31, 2025



Sources: Furey Research Partners, FactSet. Based on annualized returns for the Russell 2000 and S&P 500 indices from 1979 to March 2025. Historical returns prior to 1979 represent the Ibbotson SBBI US Small Cap Stocks and the Ibbotson SBBI US Large Cap Stocks indices



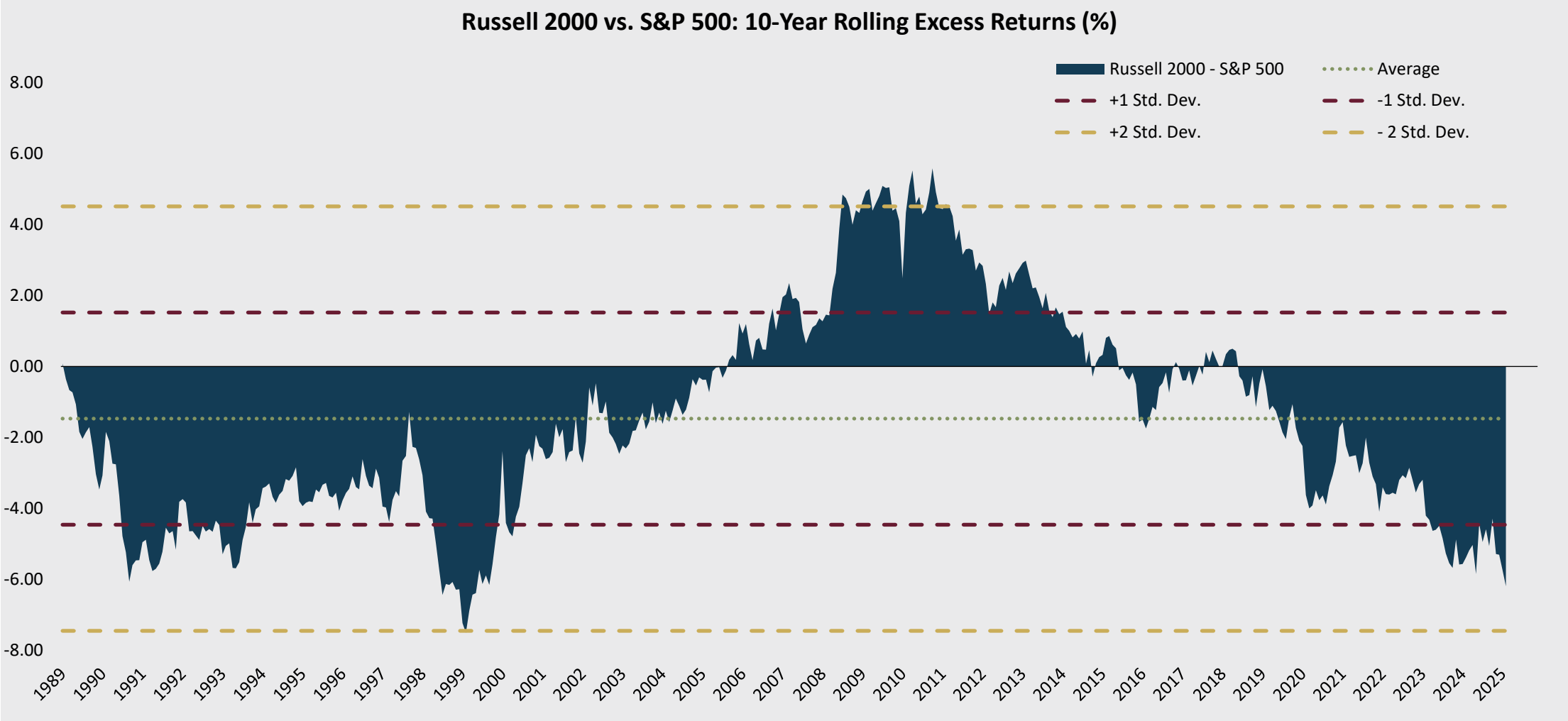
Trailing Performance History Suggests We May Be At An Inflection Point





The Last Time Large Caps Outperformed Small Caps by this Margin was in 1999

As of March 31, 2025

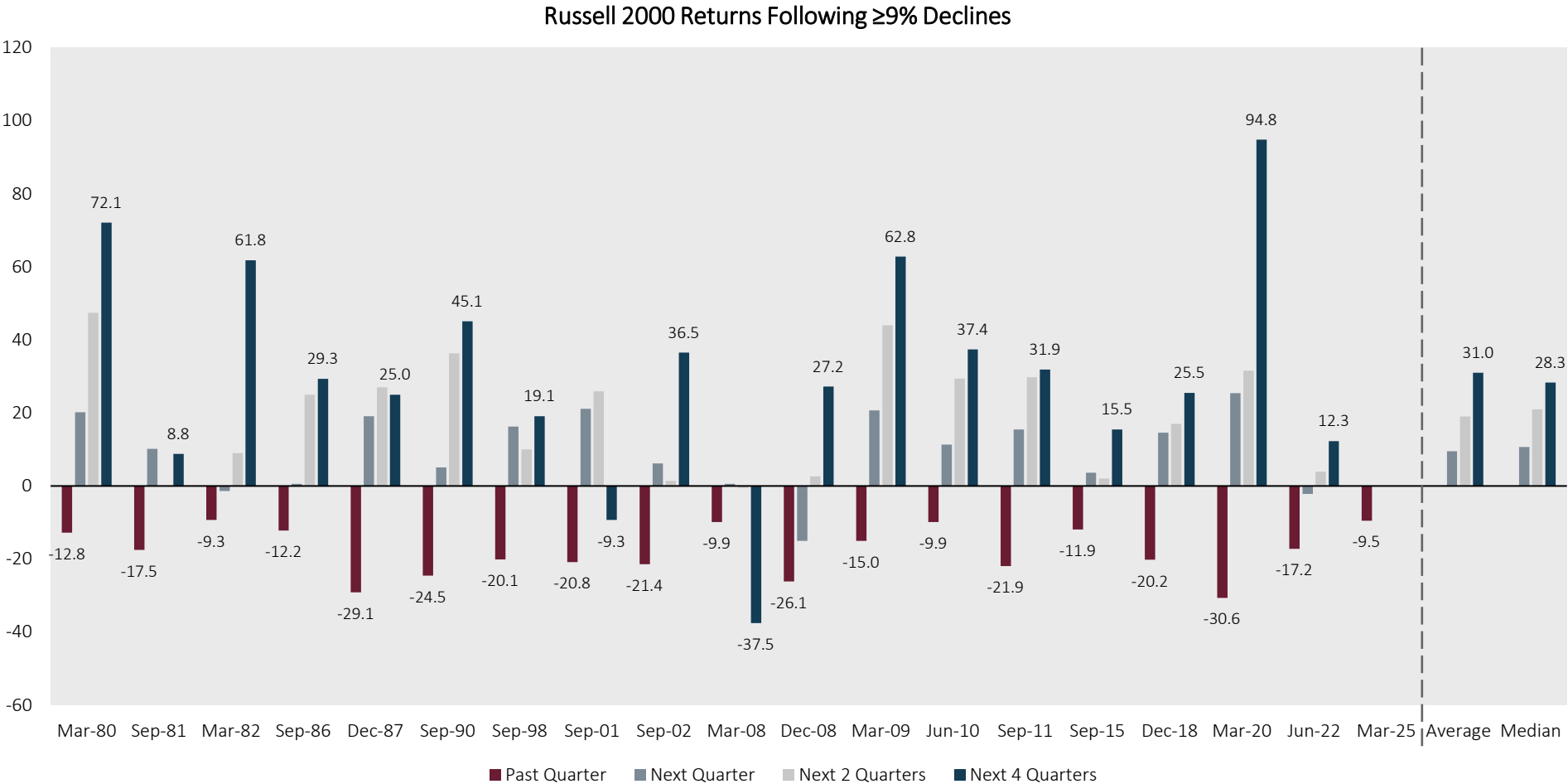


Source: eVestment. The 10-Year Rolling Excess Return represents the annualized return of the Russell 2000 Index over the trailing 10-year period minus the annualized return of the S&P 500 Index over the same period. Rolling periods are calculated monthly based on trailing 10-year return data for these indices from 1979 to March 2025.



Historical Performance Following a Russell 2000 Quarterly Decline of More Than 9%

As of March 31, 2025

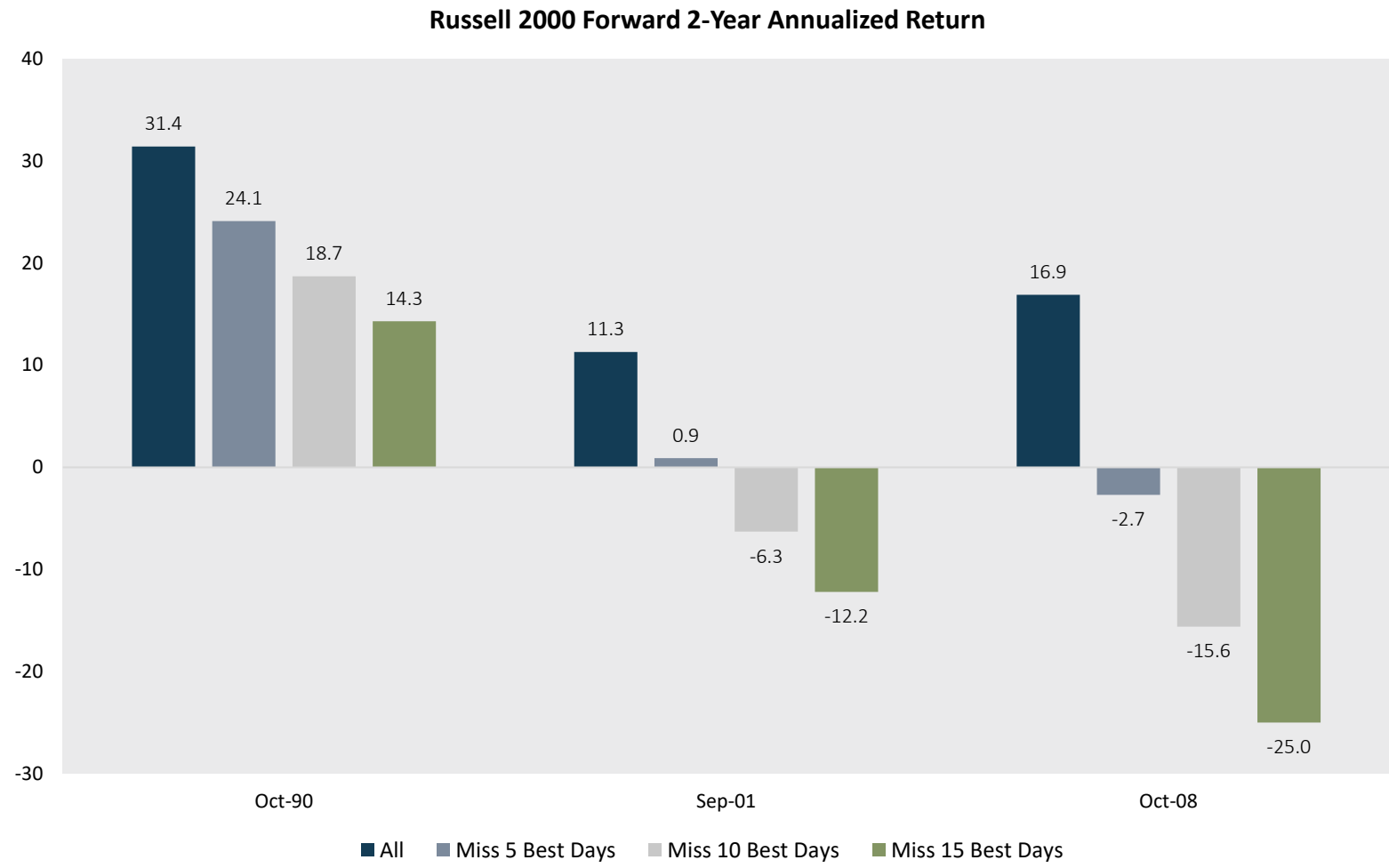


Sources: Furey Research Partners, FactSet. Based on returns for the Russell 2000 index from 1979 to March 2025.



The Key Is to Stay Invested

As of March 31, 2025



Source: Furey Research Partners. Rolling forward two-year returns calculated daily, as of 3/31/2025.

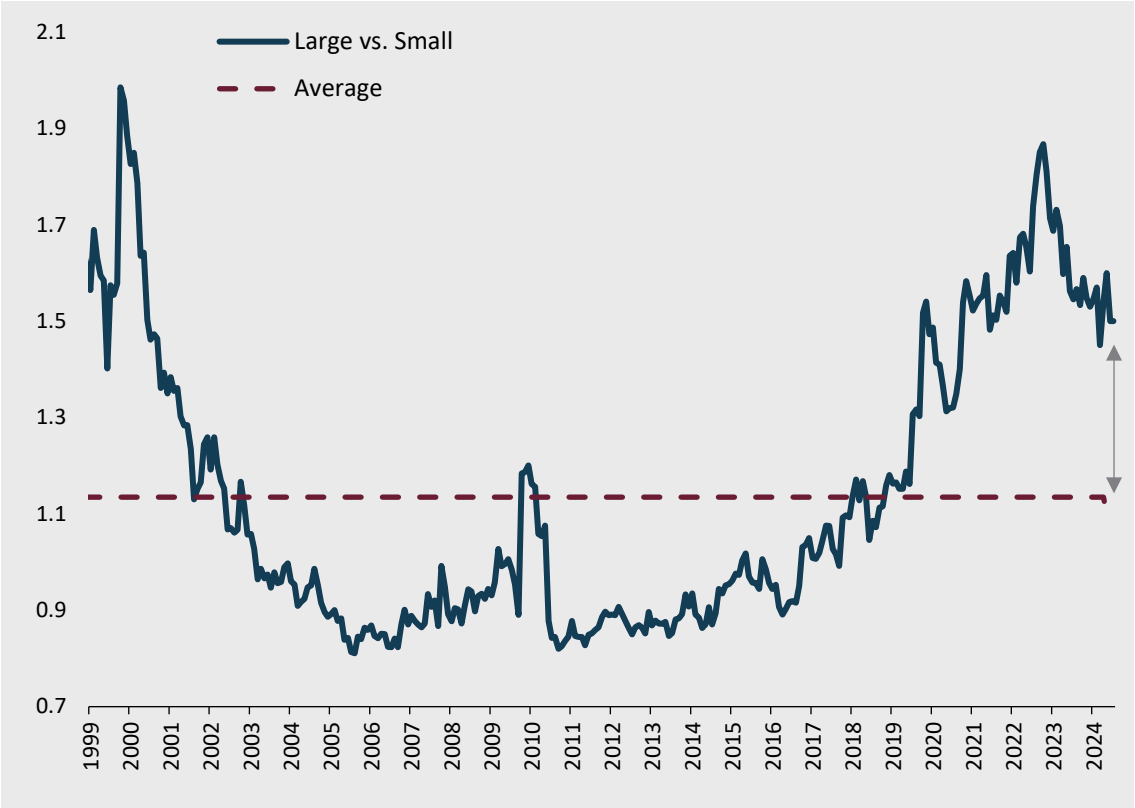


Small Caps and Value are Historically Cheap Relative to Large Caps and Growth

As of March 31, 2025

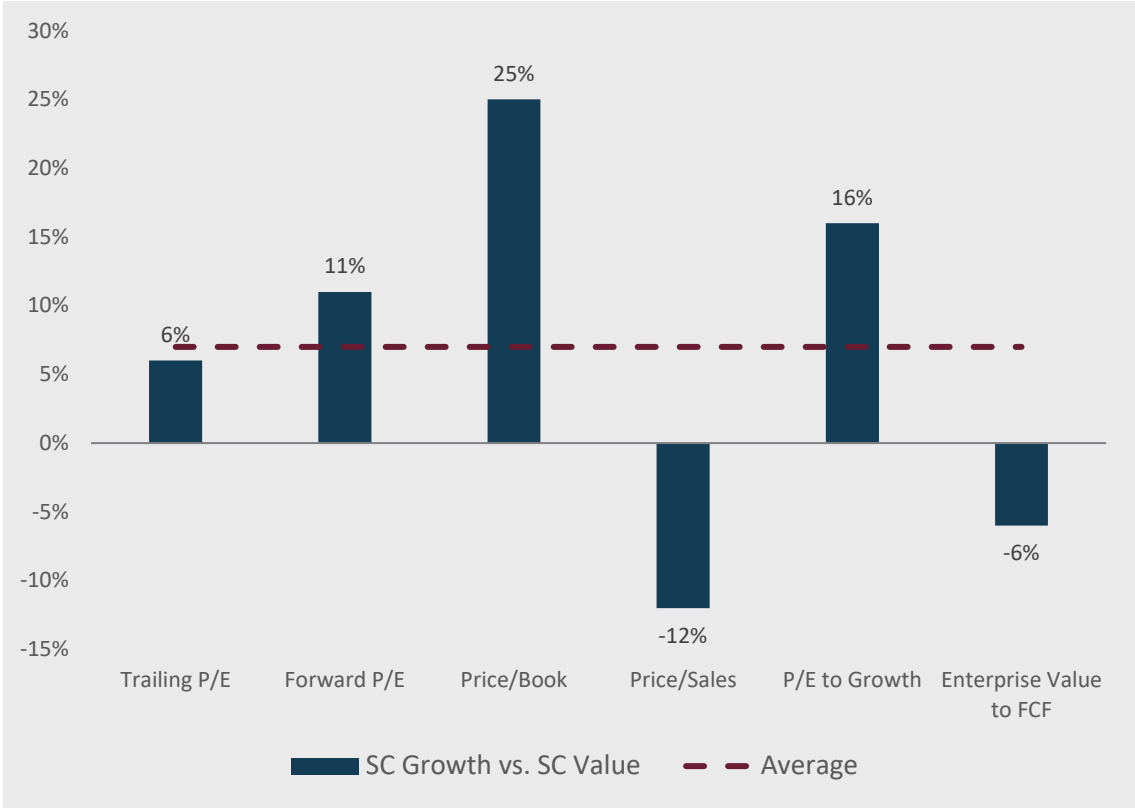
Large caps trade at a premium to small caps not seen since 01'

Relative P/E (LTM) Russell 1000 vs. Russell 2000



Small cap Growth is historically expensive vs Value on four out of six metrics

Relative premium to the historical average multiple for Russell 2000 Growth vs. Russell 2000 Value



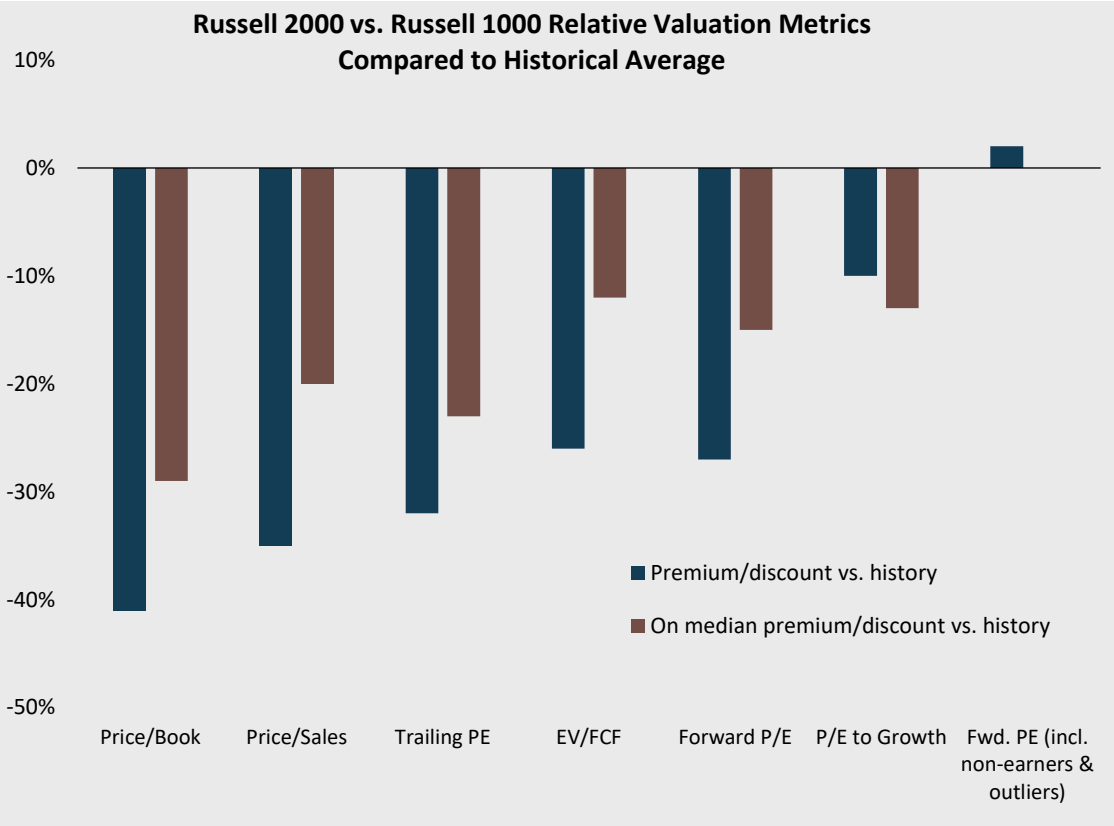


Small-Cap Value and Mid-Cap Value Remain Cheap Relative to History and Style Peers

As of March 31, 2025

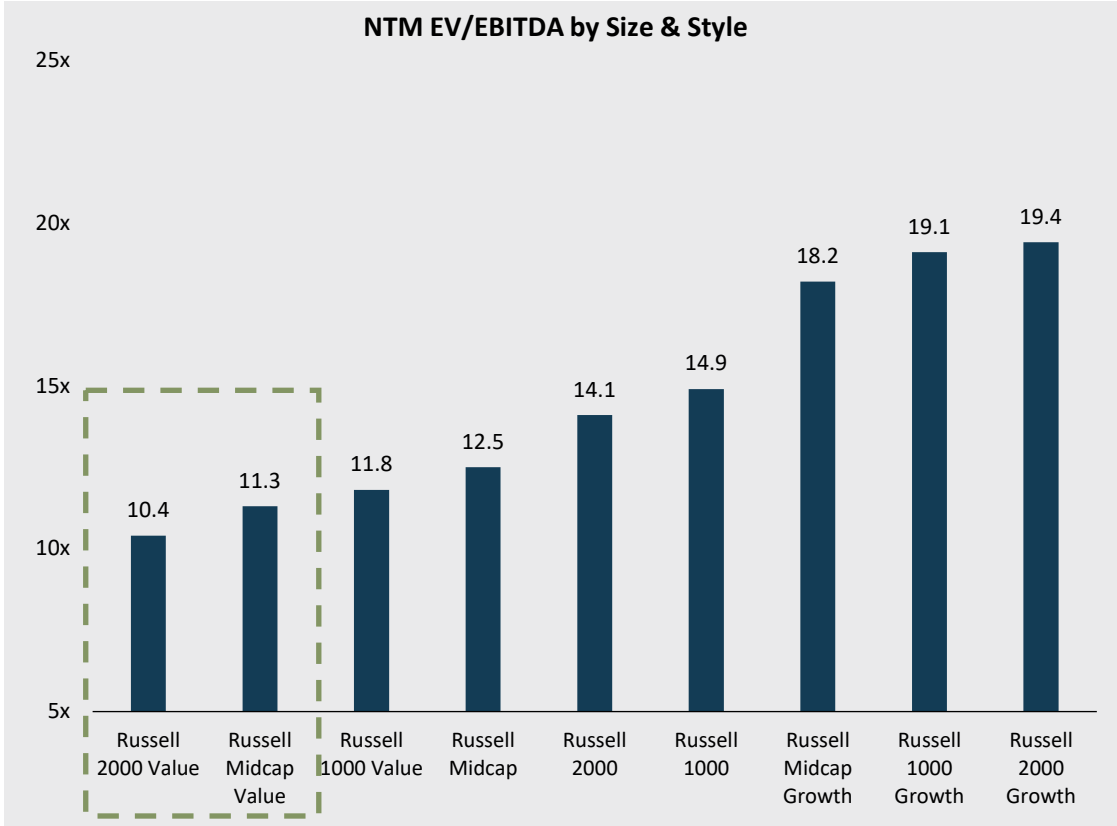
Small vs. large: cheap vs. history on most metrics

Russell 2000 vs. Russell 1000 relative valuation vs. historical avg. (January 31, 1985 – December 31, 2024)



Small-Cap and Mid-Cap Value remain cheap vs. size & style peers

EV/EBITDA (NTM) by size & style as of March 31, 2025

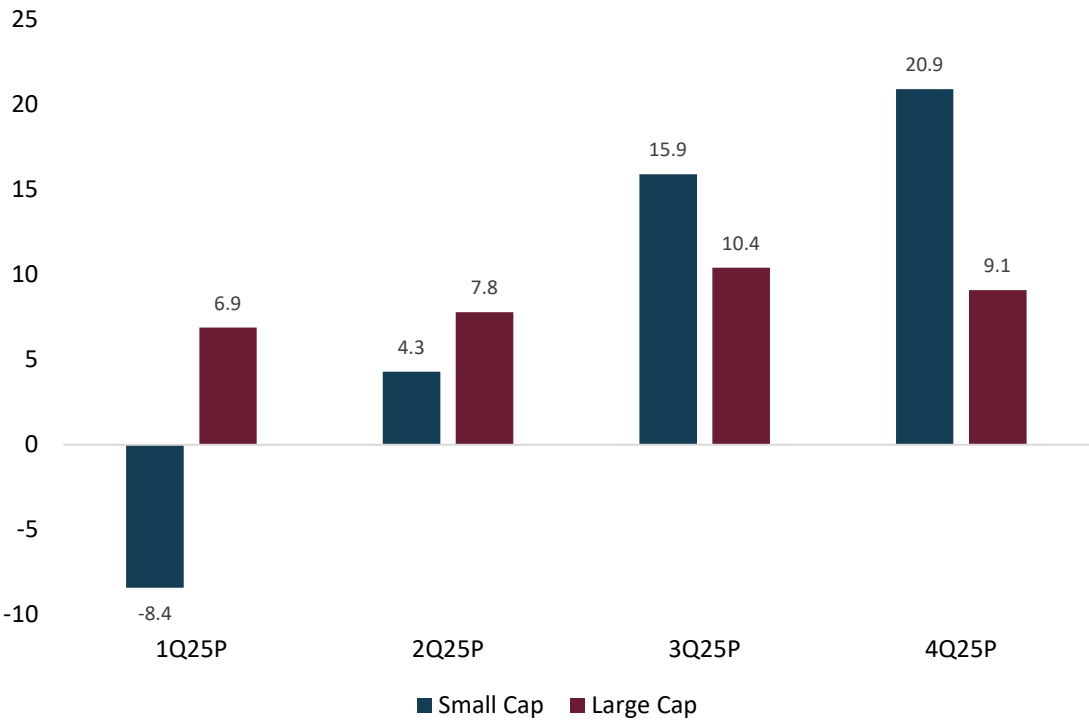




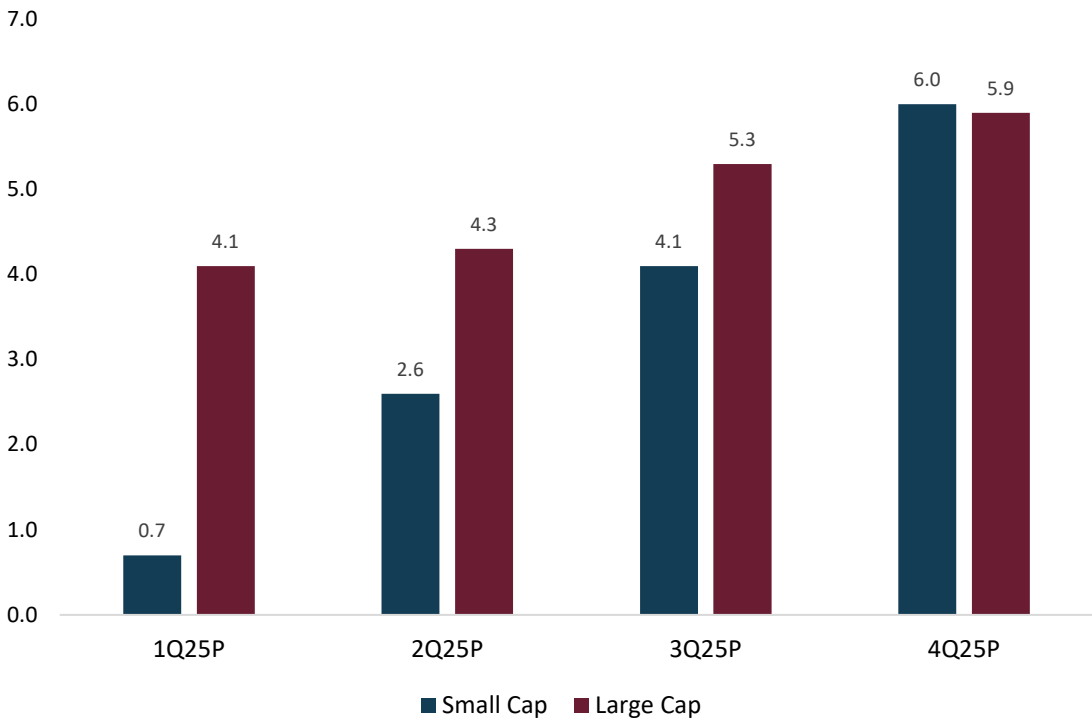
Small Cap Earnings and Sales Projected to Strengthen in 2H25

As of March 31, 2025

Earnings Growth (%)



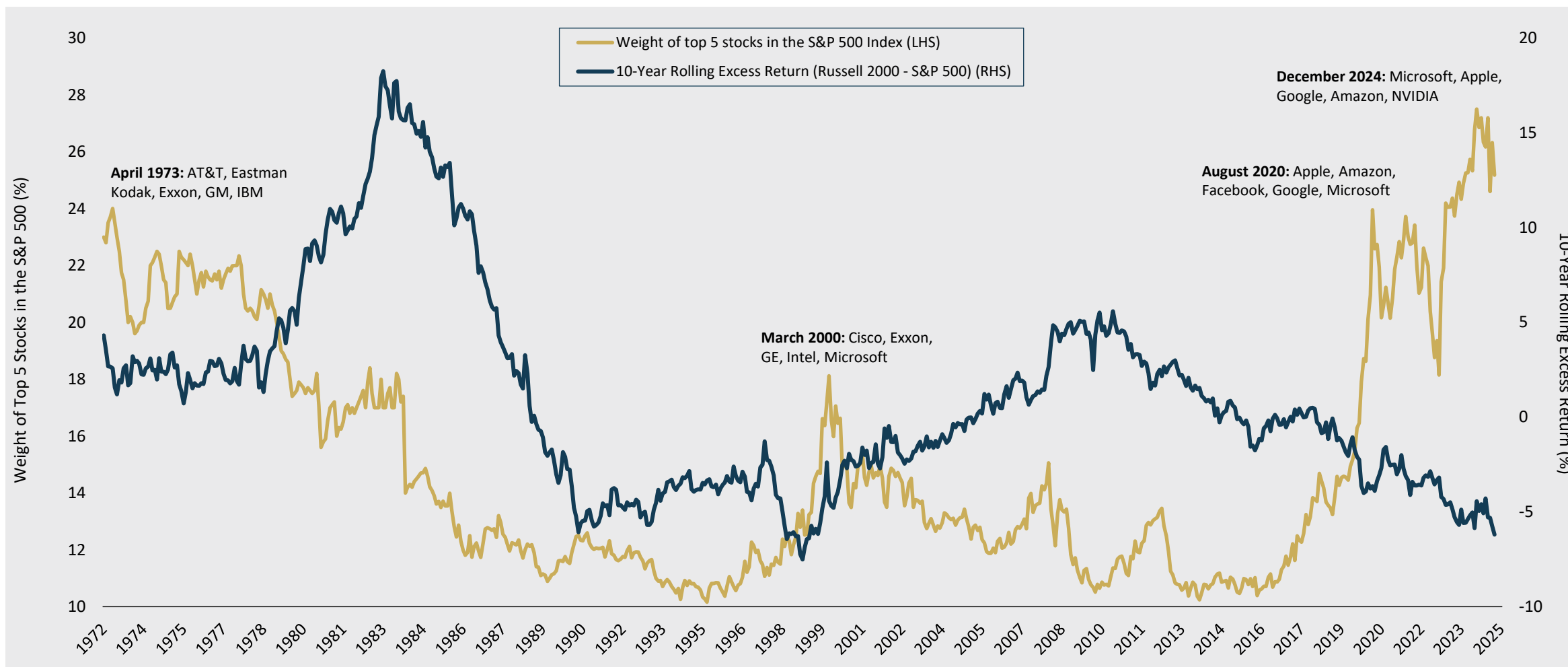
Sales Growth (%)





Large-Cap Cycles Typically Peak at Market Tops Crowded with Mega Caps

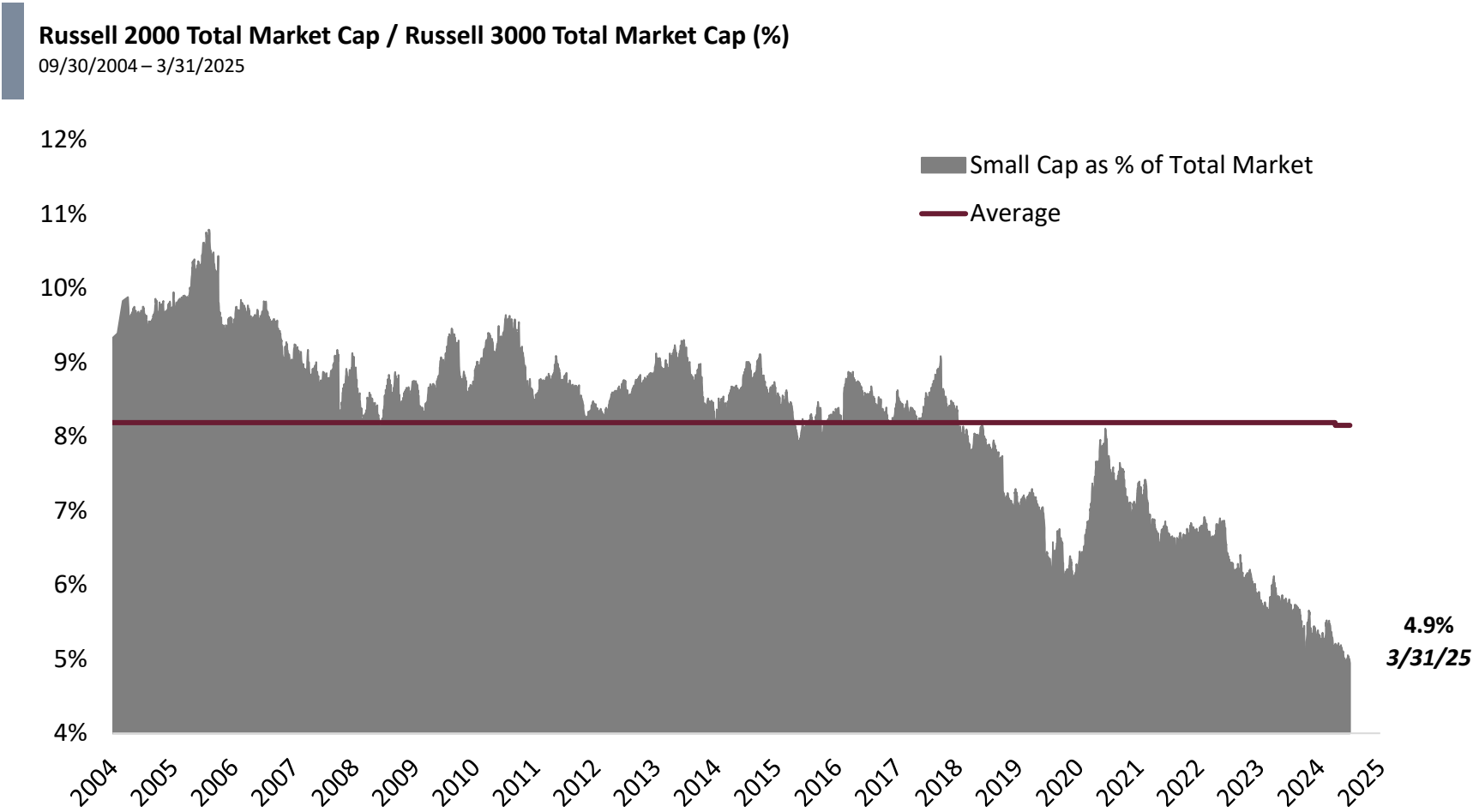
As of March 31, 2025





Small Cap’s Total Market Cap as a % of the Russell 3000 sits at a 20-Year Low

As of March 31, 2025



Source: Bloomberg. The ratio represents the total market capitalization of the Russell 2000 Index as a percentage of the total market capitalization of the Russell 3000 Index.

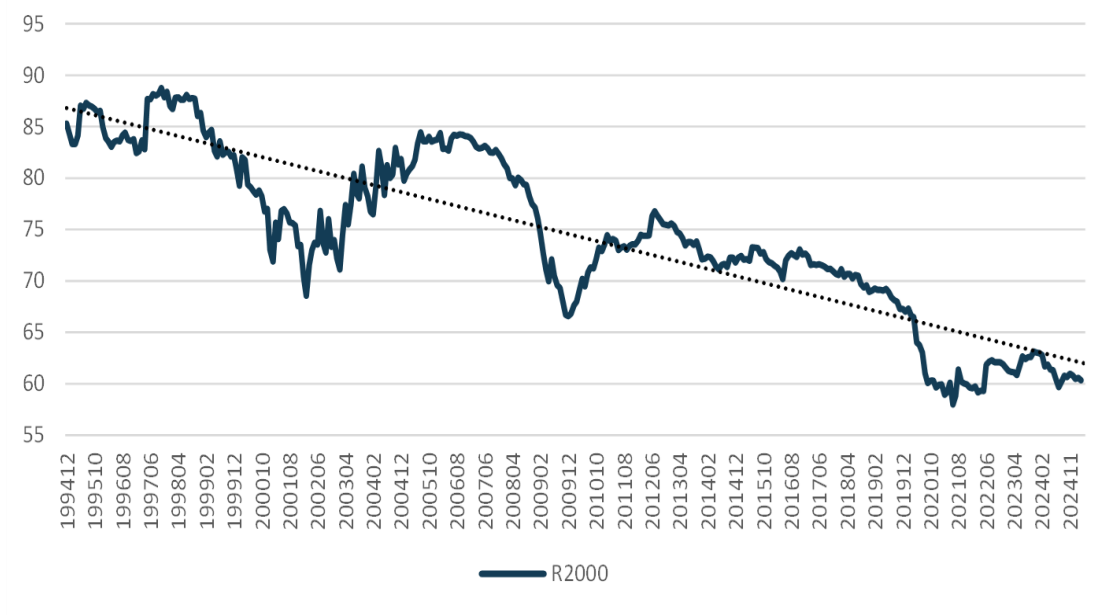


Elevated Levels of Volatility and Non-Earners + Late Cycle Downturn Environments Favor Active Management

As of March 31, 2025

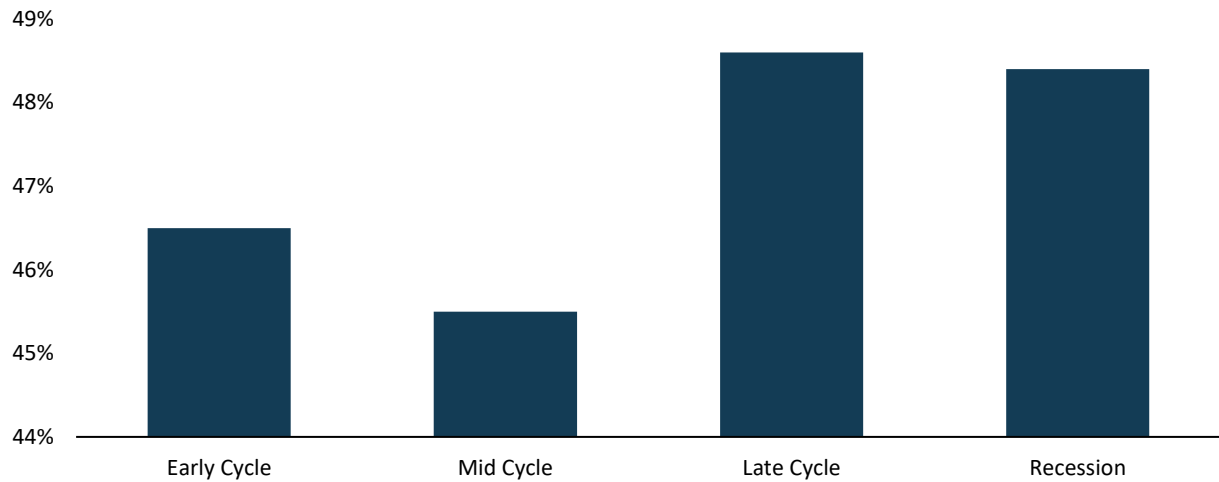
Quality of Index Measured by Percent of Stocks with Positive Net Income Russell 2000 Index

December 31 1994 – March 31, 2025



Late Cycle and Downturn phases offer the highest probability of selecting outperforming stocks

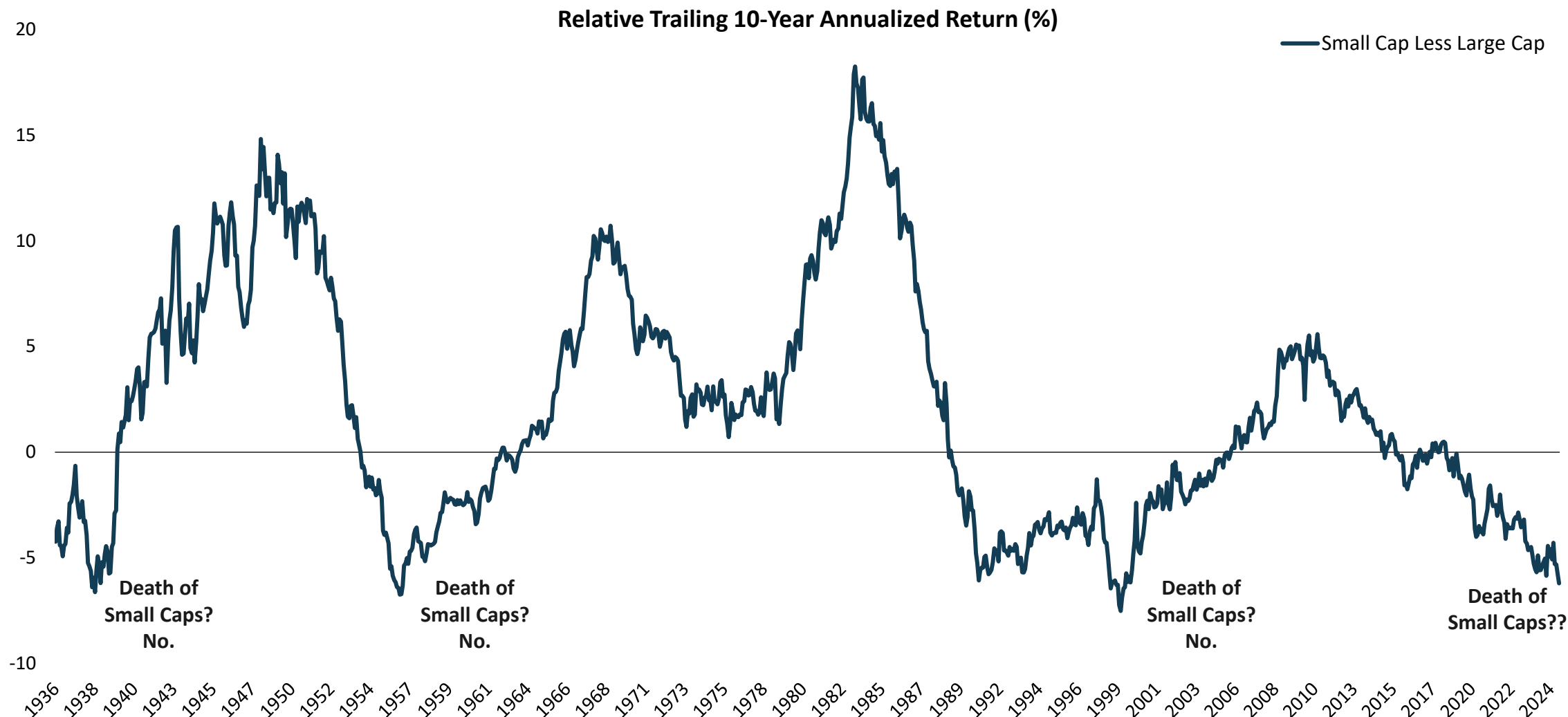
% of Russell 2000 stocks outperforming the index during economic phases (1990 – December 31, 2024)





History Doesn't Repeat But It Often Rhymes

As of March 31, 2025





Disclosure Notes

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All investments carry a certain degree of risk, including the possible loss of principal. Investments are also subject to political, market, currency and regulatory risks or economic developments. International investments involve special risks that may in particular cause a loss in principal, including currency fluctuation, lower liquidity, different accounting methods and economic and political systems, and higher transaction costs. These risks typically are greater in emerging markets. Securities of small- and medium-sized companies tend to have a shorter history of operations, be more volatile and less liquid. Value stocks can perform differently from the market as a whole and other types of stocks. The material is provided for informational and/or educational purposes only and is not intended to be and should not be construed as investment, legal or tax advice and/or a legal opinion. Investors should consult their financial and tax adviser before making investments. The opinions referenced are as of the date of publication, may be modified due to changes in the market or economic conditions, and may not necessarily come to pass. Information and data presented has been developed internally and/or obtained from sources believed to be reliable. Aristotle Boston does not guarantee the accuracy, adequacy or completeness of such information.

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Differing historical time periods are selected throughout the presentation as we believe specific periods provide the most informative historical analog for the concepts presented.

The Russell 2000® Index measures the performance of the small cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 Growth® Index measures the performance of the small cap companies located in the United States that also exhibit a growth probability. The Russell 2000 Value® Index measures the performance of the small cap companies located in the United States that also exhibit a value probability. The Russell Midcap Index is a market capitalization-weighted index comprised of 800 publicly traded U.S. companies with market caps of between \$2 and \$10 billion. The 800 companies in the Russell Midcap Index are the 800 smallest of the 1,000 companies that comprise Russell 1000 Index. The Russell Midcap Growth® Index measures the performance of the mid cap companies located in the United States that also exhibit a growth probability. The Russell Midcap Value® Index measures the performance of the mid cap companies located in the United States that also exhibit a value probability. The Russell 1000 Index is a subset of the Russell 3000® Index. It includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 Growth® Index measures the performance of the large cap companies located in the United States that also exhibit a growth probability. The Russell 1000 Value® Index measures the performance of the large cap companies located in the United States that also exhibit a value probability. The S&P 500® Index is the Standard & Poor's Composite Index of 500 stocks and is a widely recognized, unmanaged index of common stock prices. The S&P SmallCap 600® seeks to measure the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. The CRSP U.S. Large Cap Index measures the performance of U.S. companies that comprise the top 85% of investable market capitalization and are traded on NYSE, NYSE Market, NASDAQ or ARCA. The CRSP U.S. Mid Cap Index measures the performance of U.S. companies that fall in the top 70-85% of investable market capitalization. It includes securities traded on NYSE, NYSE Market, NASDAQ, or ARCA. The CRSP U.S. Small Cap Index measures the performance of U.S. companies that fall in the bottom 2-15% of investable market capitalization. It includes securities traded on NYSE, NYSE Market, NASDAQ, or ARCA. The volatility (beta) of the portfolios may be greater or less than the benchmarks. It is not possible to invest directly in these indices.

BofA factor groupings on slide 9 – the universe and the factors are rebalanced monthly using month-end data on slide. FactSet is used as the source of all data. A factor's return is calculated as the equal-weighted total return of the top quintile of stocks within the universe by that factor for Quintile 1. Factor data is also compared to the total return of the equal-weighted Russell 2000 as the benchmark return. Performance results do not reflect actual transactions and no assurances can be given about future performance. Valuation factors included in calculation include Book/Price, EBITDA/EV, Free Cash Flow Yield, Earnings/Price, Sales/Price and Sales/EV. Quality factors included in the calculation include: Return on Equity, Return on Assets, Cash Flow return on Invested Capital, Free Cash Flow Return on Assets, and Earnings/Non-earnings. Liquidity factors included in the calculation include: 3-month average daily volume, 1-month trading volume and market capitalization. Growth factors included in the calculation include: Sales Growth Trailing 5 Year, EPS Growth Trailing 5 Year, Year over year change in Trailing EPA, Operating Margin, EPS Estimate Revision and Operating Margin Expansion. Risk factors included in the calculation include: 5 Year Beta, Price Volatility, EPS Estimate Dispersion and 5 Year EPS Variability. Momentum factors included in the calculation included: various moving average ratios and price changes over various durations. Leverage factors included in the calculation included: Net Debt/Equity, Net Debt/Market Cap, and Net Debt/EBITA. Cash Deployment Factors included in the calculation included: Dividend Growth, Dividend Payers/Non-payers, Dividend Yield and Share Repurchases. BofA stages of the economic cycle (Early, Mid, Late, Recession) on are determined using a combination of the following macroeconomic or top-down variables: Earnings Revision Ratio, ISM PMI, Inflation, GDP Forecast, Leading Economic Indicators Index, US Capacity Utilization, 10-year US Treasury Bond Yield and the High Yield Corporate Bond Credit Spread.

Factor Composite Definitions on slides 11-15: Value Composite consists of Earnings/Price, Free Cash Flow/Price, Sales/Price, Book/Price. Quality Composite consists of Margin, Accrual and Capital Usage sub-composites Margin sub-composite consists of Net Profit Margin, Operating Margin, Gross Margin, Return on Assets. Accruals sub-composite consists of Total Accruals, Short Term Accruals, and Cash Flow Accruals. Capital Usage sub-composite consists of Share Buybacks, Capital Expenditures, and Retained Earnings/Total Assets. Low Variability Composite consists of variability in Net Income, Cash Flow and Sales. Low Volatility Composite consists of Beta and Price Volatility.

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