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CAPITAL BOSTON

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**Powered by Fundamental Research**

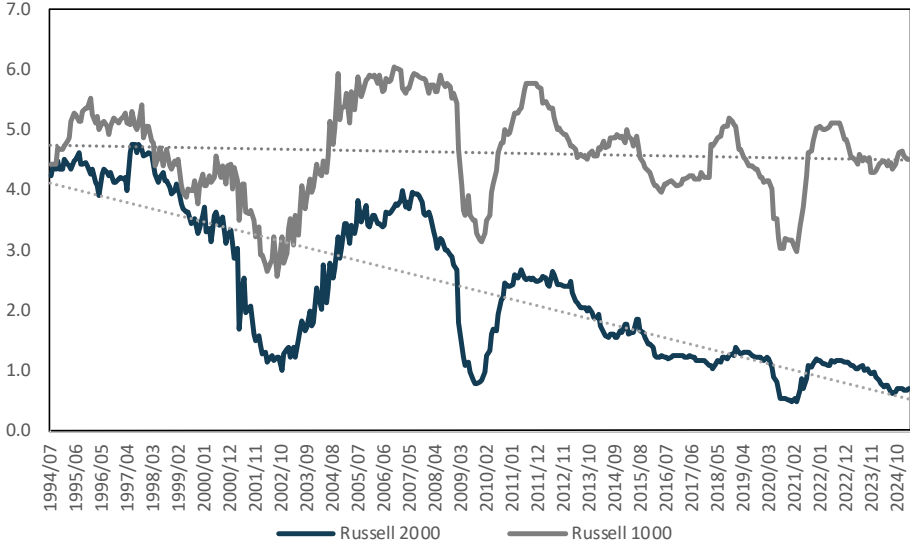




# Quality of the Index Has Eroded

As of March 31, 2025

Median ROA Has Declined



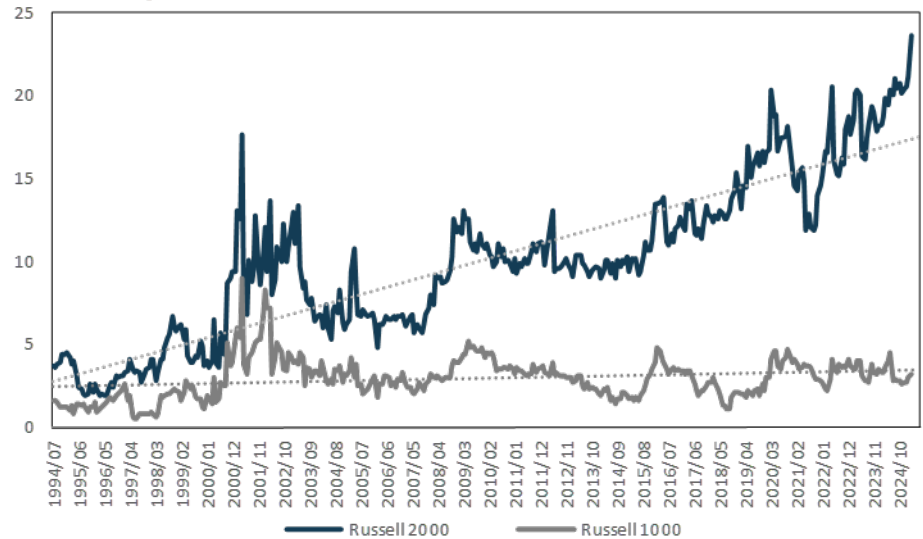
Percentage of Stocks in Index with Positive Earnings Have Declined



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

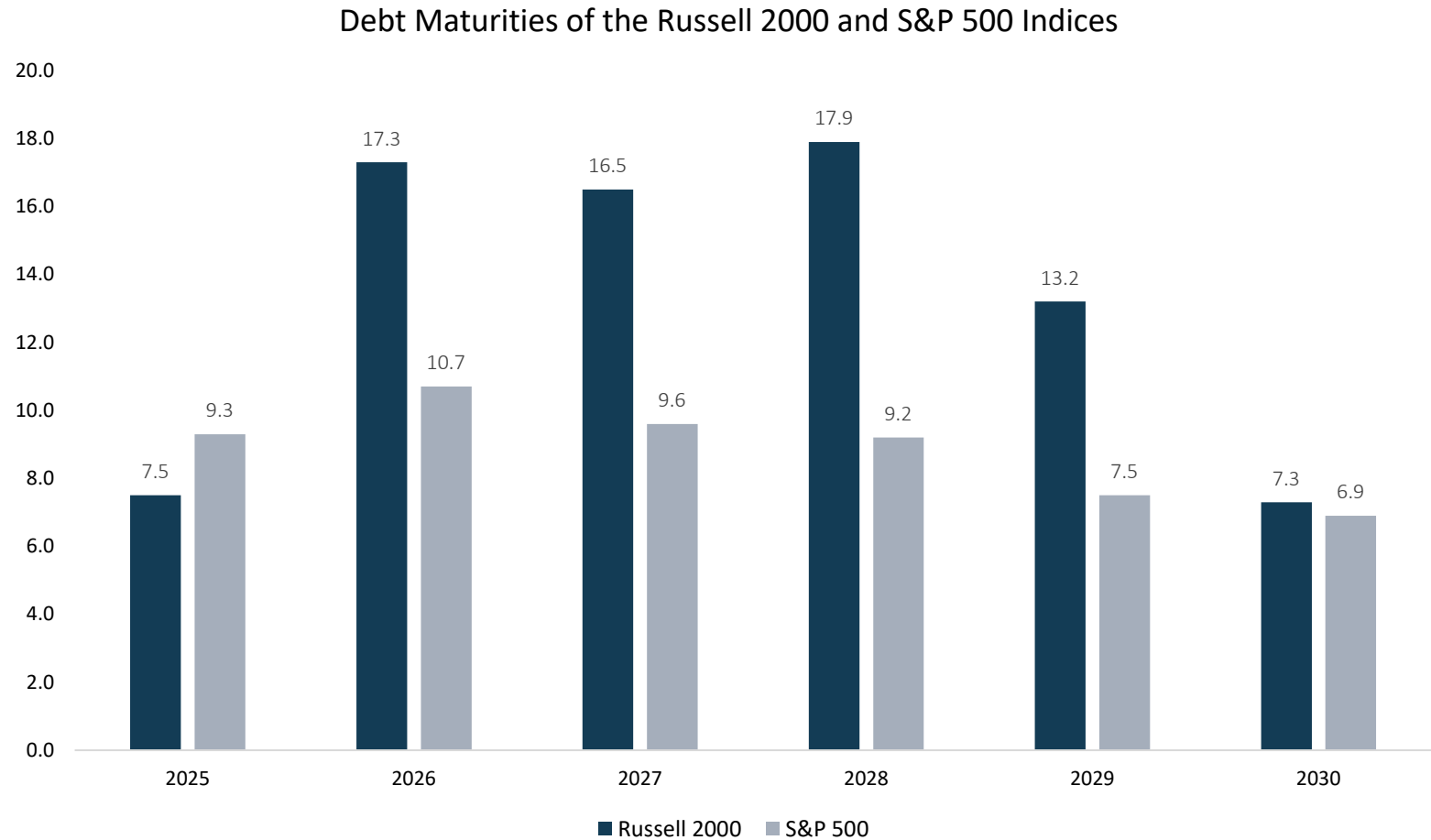


Source: Aristotle Boston analysis with data from Bloomberg and Russell Investments. Data from 7/1994 to 3/2025. Annualized Excess Returns above are average annualized excess returns.



# The Case for Active SC Management: Refinancing Risk

**Small cap stocks have a relatively larger share of debt coming due in the next 5 years.**  
As interest rates have increased since much of this debt was issued, refinancing will be more expensive and difficult for non- or low-earning stocks.





# Disclosure Notes

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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 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 volatility (beta) of the portfolios may be greater or less than the benchmarks. It is not possible to invest directly in these indices.

The Altman Z-Score is a financial model that predicts the likelihood of a company going bankrupt within two years. It uses a combination of five key financial ratios to calculate a single score. The formula takes into account profitability, leverage, liquidity, solvency, and activity ratios. An Altman Z-score close to 0 suggests a company might be headed for bankruptcy, while a score closer to 3 suggests a company is in solid financial positioning.

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