

Small Cap Observations

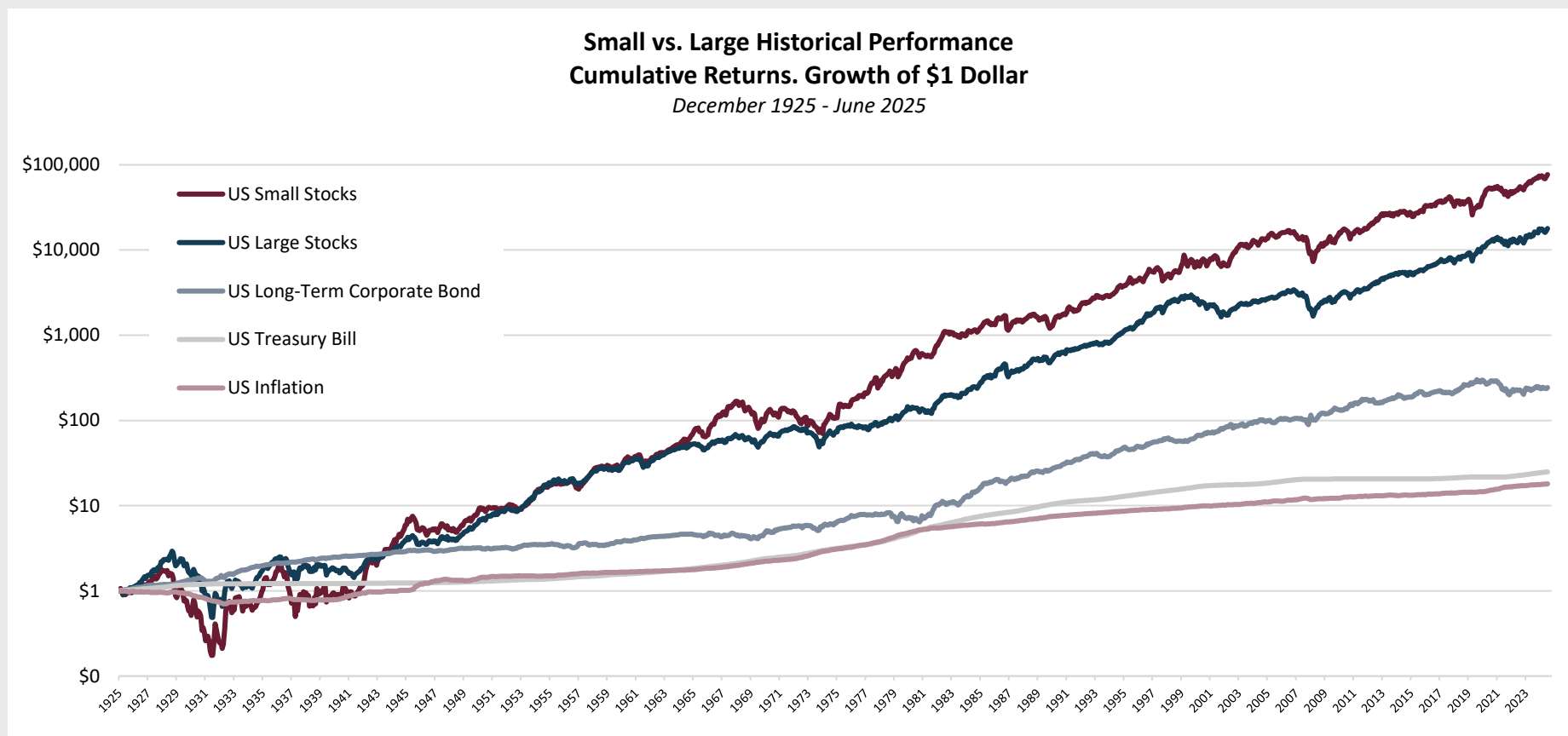
June 30, 2025



The Long-Term Case for Investing in Small Caps

As of June 30, 2025

Historically, Small Capitalization stocks have outperformed Large Capitalization stocks.



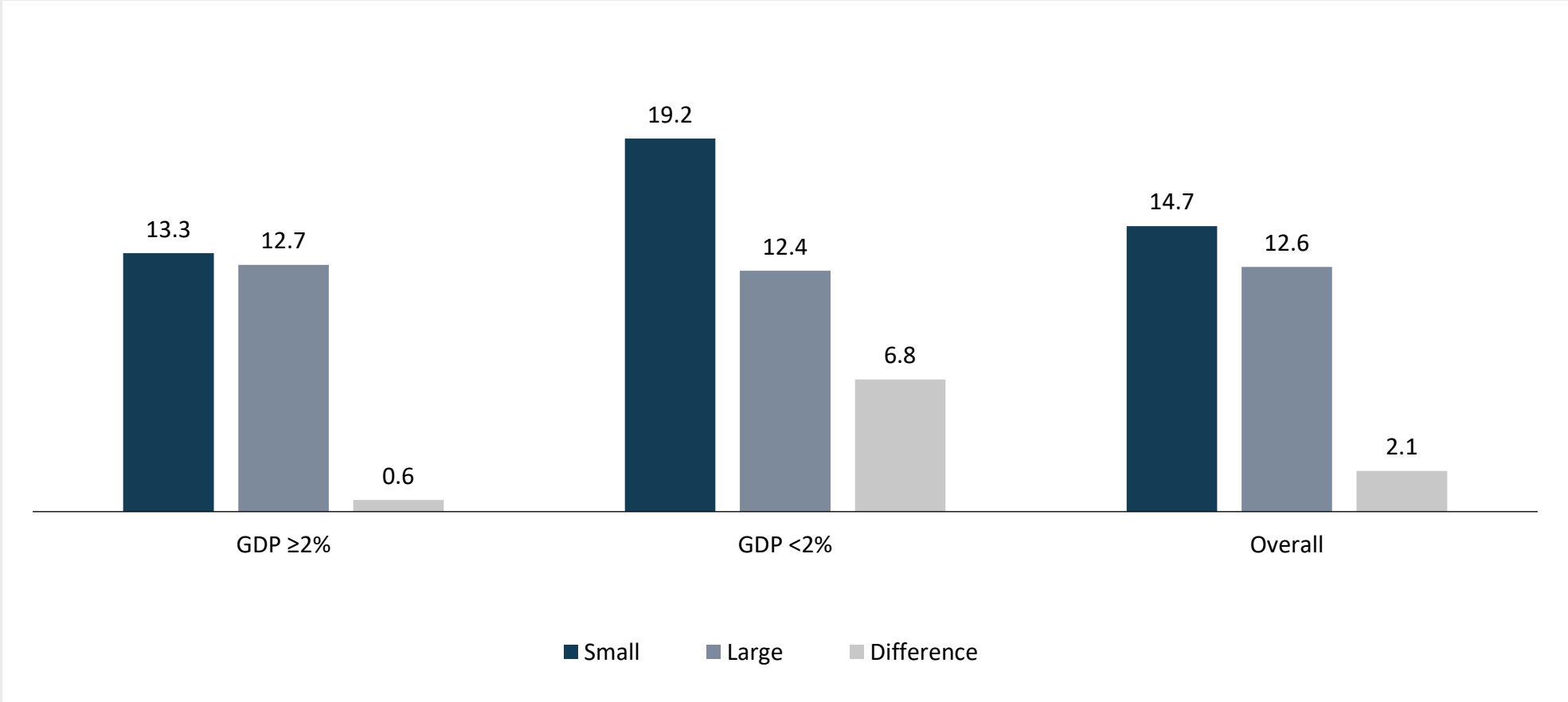


Behavior of Small Caps in Various Macroeconomic Environments



Small Caps in Various GDP Environments

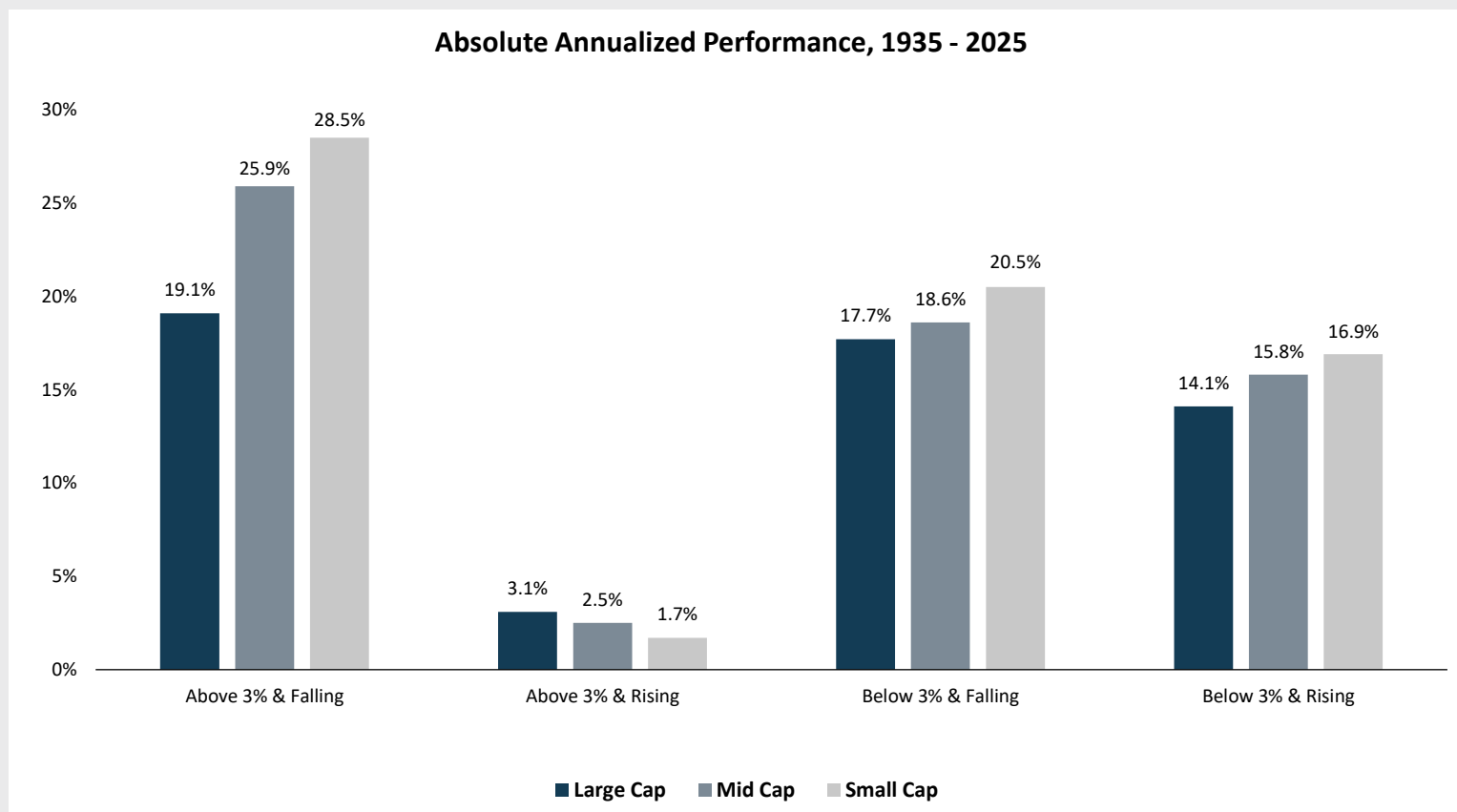
1925 - 2025





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 Factor Performance During Stages of the Economic Cycle



Small Cap Factor Performance Across Cycles

As of June 30, 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 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 | 22% | 10% | 3% | 5% | 2% | 7% | 6% | 7% | 3% |
| | Hit Rate | 89% | 56% | 67% | 67% | 56% | 56% | 78% | 78% | 56% |
| Mid Cycle | Median | 9% | -4% | 9% | 5% | 13% | 7% | -1% | -7% | 1% |
| | Hit Rate | 56% | 33% | 89% | 78% | 78% | 78% | 44% | 11% | 56% |
| Late Cycle | Median | 13% | 19% | 2% | 7% | -19% | 13% | 2% | 8% | 17% |
| | Hit Rate | 89% | 100% | 56% | 100% | 11% | 100% | 89% | 78% | 100% |
| Recession | Median | 2% | 6% | 3% | 5% | -11% | 12% | 0% | 4% | 10% |
| | Hit Rate | 67% | 67% | 67% | 78% | 22% | 78% | 44% | 78% | 67% |

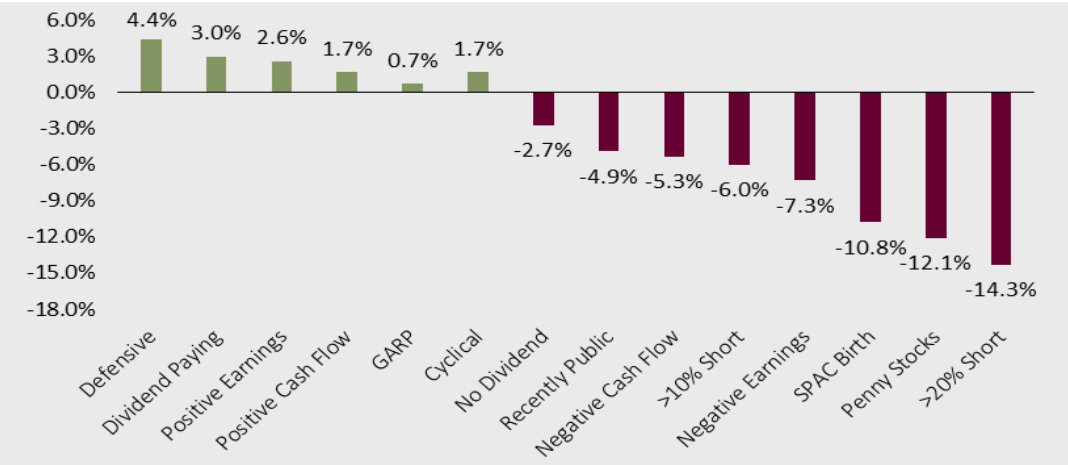


Recent History and Internal Analysis

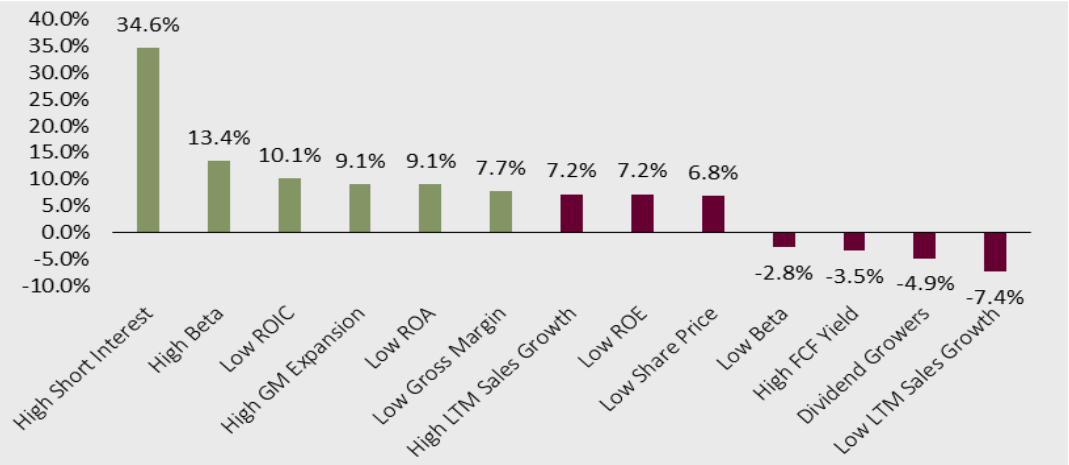


Change in Leading Factors

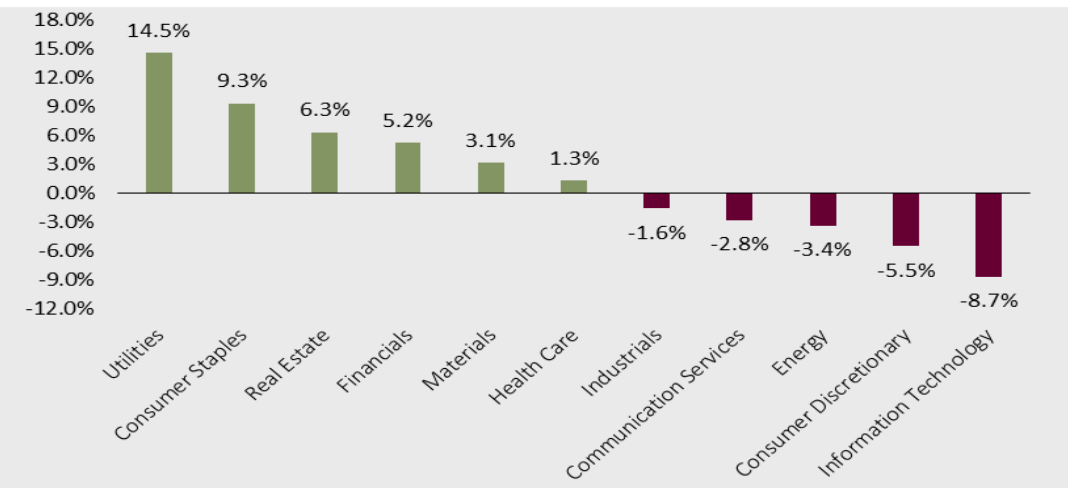
Quality groups led in 1Q25



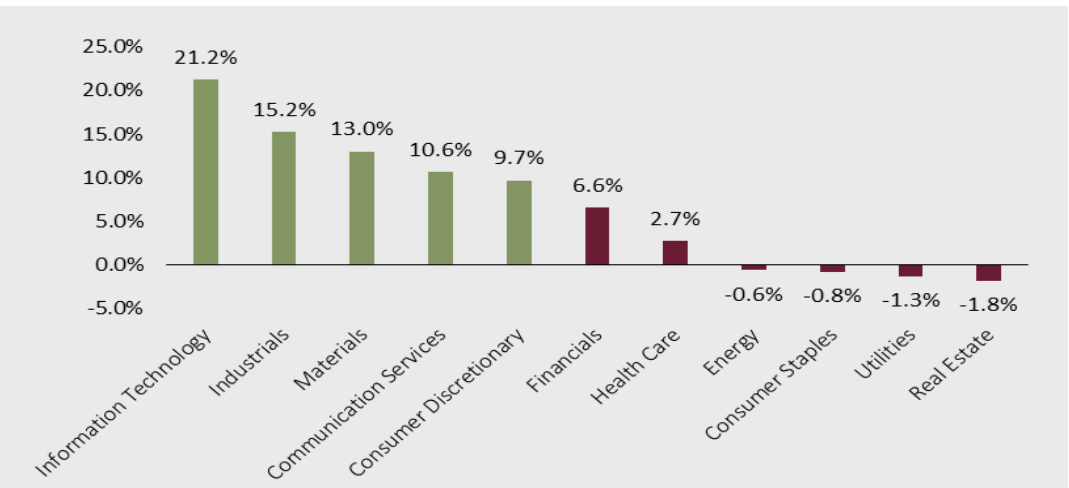
Low quality groups led in 2Q25



Defensive over Cyclical Sectors in 1Q25



Cyclical over Defensive Sectors in 2Q25

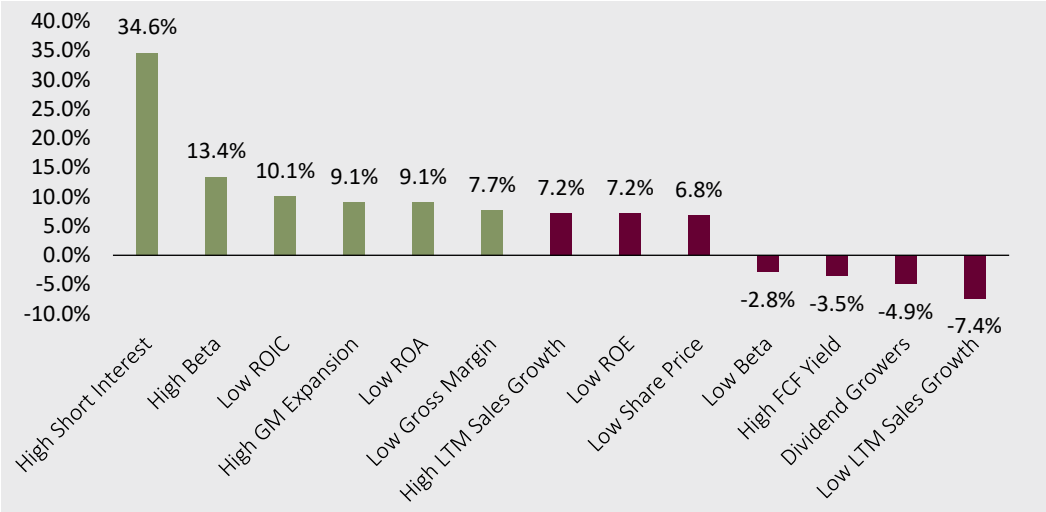




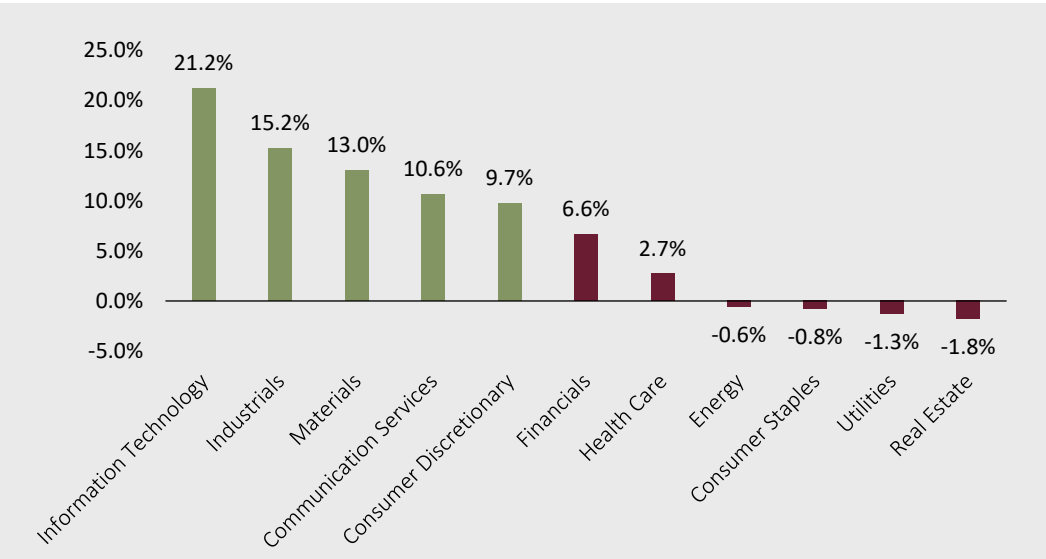
Low-Quality, Cyclical and Unprofitable Stocks Drove Returns

As of June 30, 2025

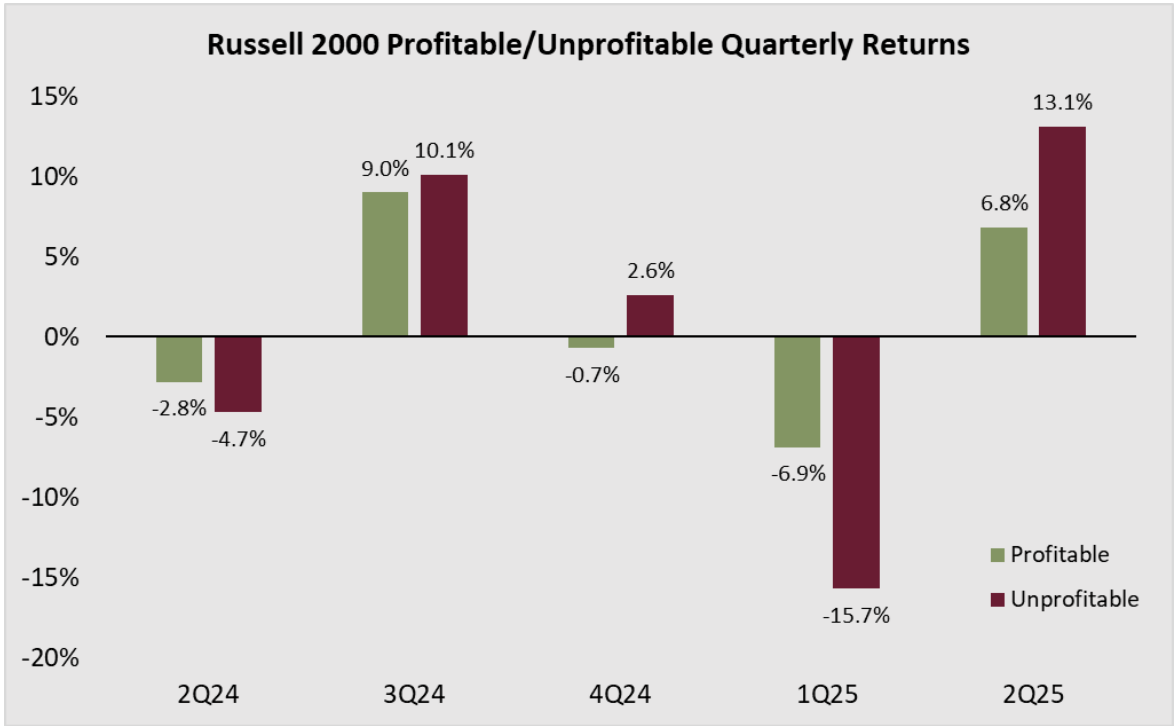
Low quality groups led in 2Q25



Cyclical over Defensive Sectors in 2Q25



Unprofitable companies outperformed profitable during 2Q25

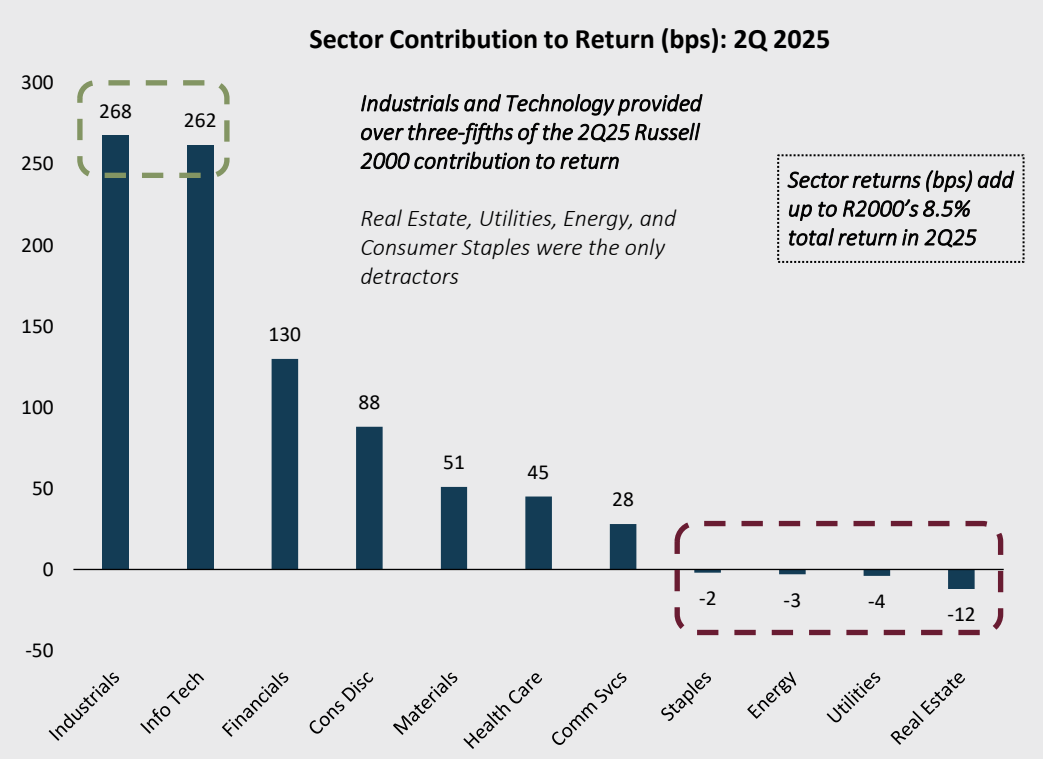




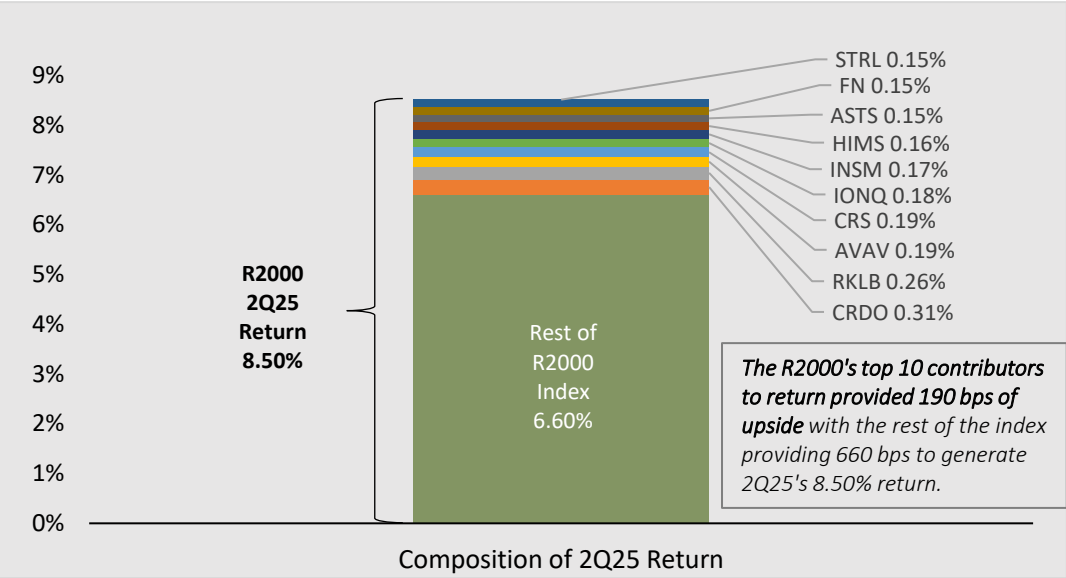
2Q25 Small Cap Return Decomposition

As of June 30, 2025

Industrials and Tech dominated 2Q25 returns in the Russell 2000 Index



2Q25 Russell 2000 Index Contribution to Return





Monthly Russell Payoffs

Russell 2000 Index, 1/1/2025 to 6/30/2025

| Composites | Long Term Average* | Monthly Payoffs 2025 | | | | | | Q2 2025 | YTD 2025 |
|----------------|-----------------------|----------------------|-------|-------|-------|-------|-------|------------|-------------|
| | | Jan | Feb | Mar | Apr | May | Jun | | |
| Value | 13.20 | 4.51 | 1.47 | 8.01 | -6.51 | -4.56 | -1.65 | -12.71 | 1.28 |
| Quality** | 11.94 | 2.34 | 2.13 | 5.47 | -3.97 | -2.40 | -2.82 | -9.19 | 0.74 |
| Margin | 8.30 | 2.73 | 3.71 | 7.37 | -1.11 | -2.77 | -3.46 | -7.34 | 6.47 |
| Accruals | 5.91 | 0.79 | -1.48 | -3.13 | -1.14 | 1.35 | 0.72 | 0.93 | -2.88 |
| Capital Usage | 8.90 | 1.40 | 1.26 | 7.04 | -4.89 | -3.95 | -0.77 | -9.61 | 0.10 |
| LowVariability | 3.29 | -0.60 | 0.66 | 2.33 | -3.65 | -3.89 | -1.18 | -8.71 | -6.32 |
| LowLeverage | 0.09 | -3.77 | -2.07 | 1.99 | 4.83 | -0.81 | 1.63 | 5.65 | 1.80 |
| LowVolatility | 5.45 | 1.77 | 6.69 | 10.06 | -3.90 | -8.83 | -8.91 | -21.64 | -3.11 |

*Long Term Average is 1/1995 – 6/2025, 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.



Russell 2000 Index Reconstitution

Reconstitution resulted in greater Tech and Consumer Discretionary weights, while weight declined in the Industrials sector.

| Russell 2000 Sector | Old Weight | New Weight | Difference | % Change |
|------------------------|------------|------------|------------|----------|
| Communication Services | 2.7 | 2.6 | -0.1 | -3.7% |
| Consumer Discretionary | 9.3 | 10.1 | 0.8 | 8.6% |
| Consumer Staples | 3.0 | 2.3 | -0.7 | -23.3% |
| Energy | 4.7 | 4.9 | 0.2 | 4.3% |
| Financials | 19.5 | 19.4 | -0.1 | -0.5% |
| Health Care | 15.9 | 15.9 | 0.0 | 0.0% |
| Industrials | 18.4 | 17.0 | -1.4 | -7.6% |
| Information Technology | 13.7 | 14.6 | 0.9 | 6.6% |
| Materials | 4.1 | 3.8 | -0.3 | -7.3% |
| Real Estate | 5.9 | 6.2 | 0.3 | 5.1% |
| Utilities | 2.9 | 3.2 | 0.3 | 10.3% |



Russell 2000 Performance by Market Cap Quintile

As of June 30, 2025

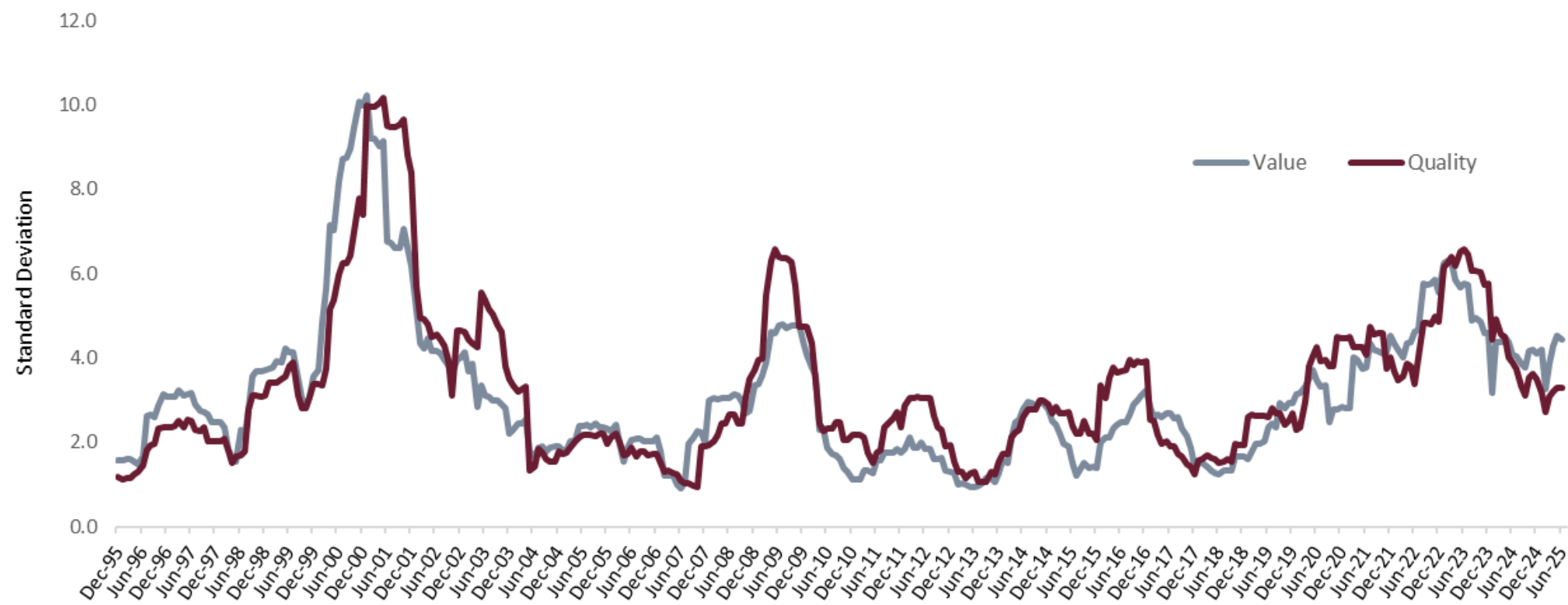
Performance was strongest amongst the smallest 40% of Russell 2000 Index constituents and weakest amongst the second largest quintile of companies.

| Size Quintile | Absolute | Contribution | Relative |
|---------------|----------|--------------|----------|
| (Largest) | 8.77 | 5.29 | 0.27 |
| | 6.46 | 1.42 | -2.04 |
| | 9.33 | 0.98 | 0.83 |
| | 10.55 | 0.53 | 2.05 |
| (Smallest) | 15.75 | 0.28 | 7.25 |



Value and Quality Factor Volatility

Russell 2000 Index 12/1995 – 6/2025



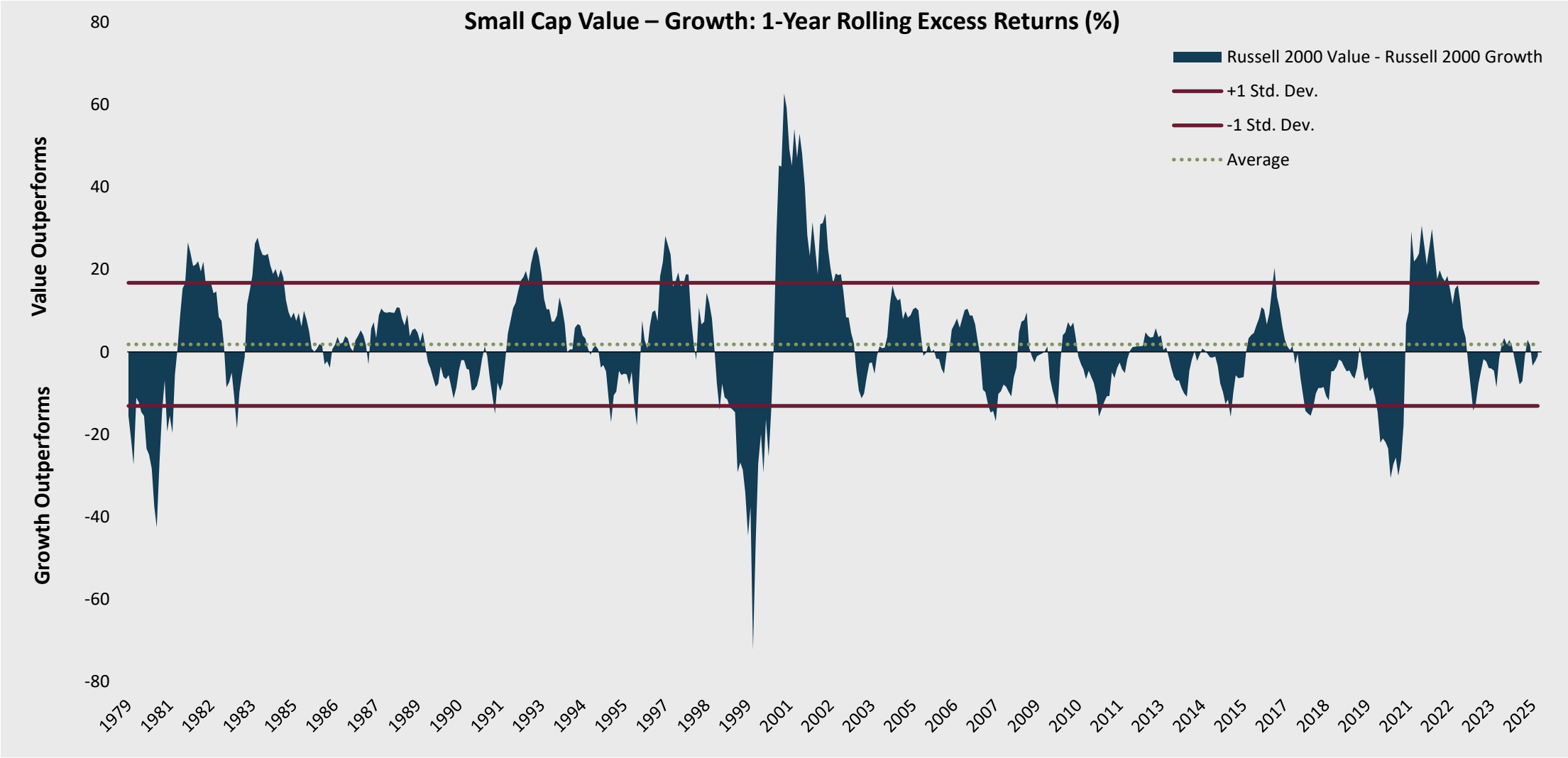
Volatility is standard deviation of rolling 12-month Q1-Q5 factor payoffs

Source: 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 June 30, 2025

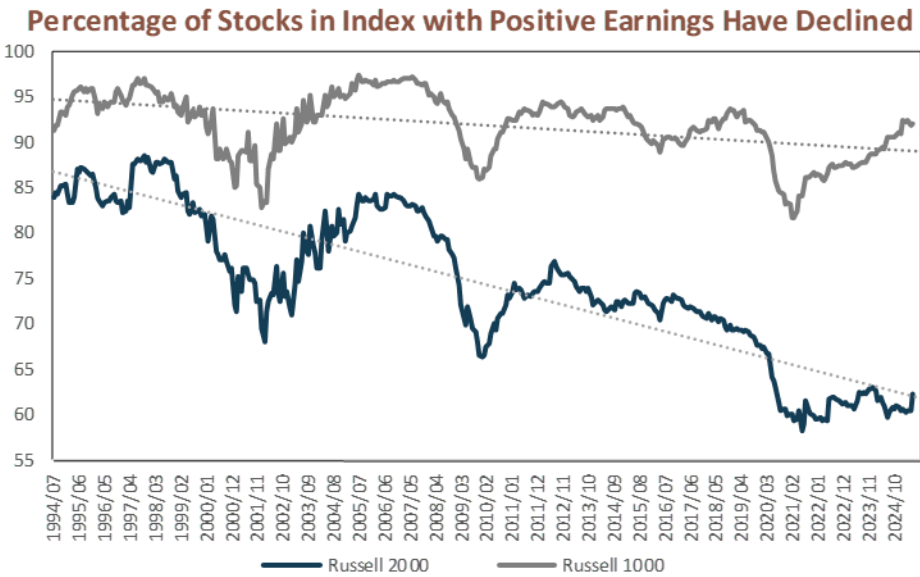
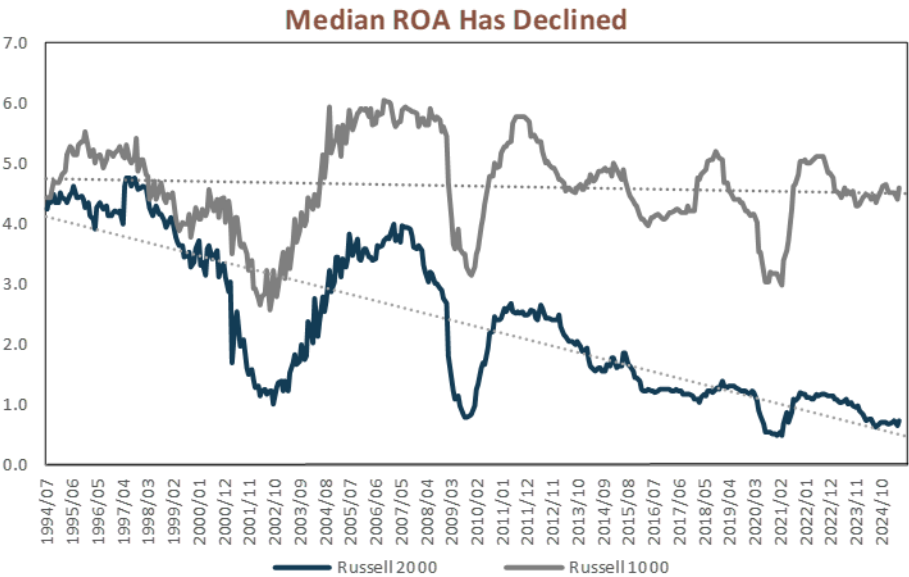


Source: eVestment. The 1-Year Rolling Excess Return represents the annualized return of the Russell 2000 Value Index over the trailing 1-year period minus the annualized return of the Russell 2000 Growth Index over the same period. Rolling periods are calculated monthly based on trailing 1-year return data from 1979 to June 2025.



Quality of Index has Declined

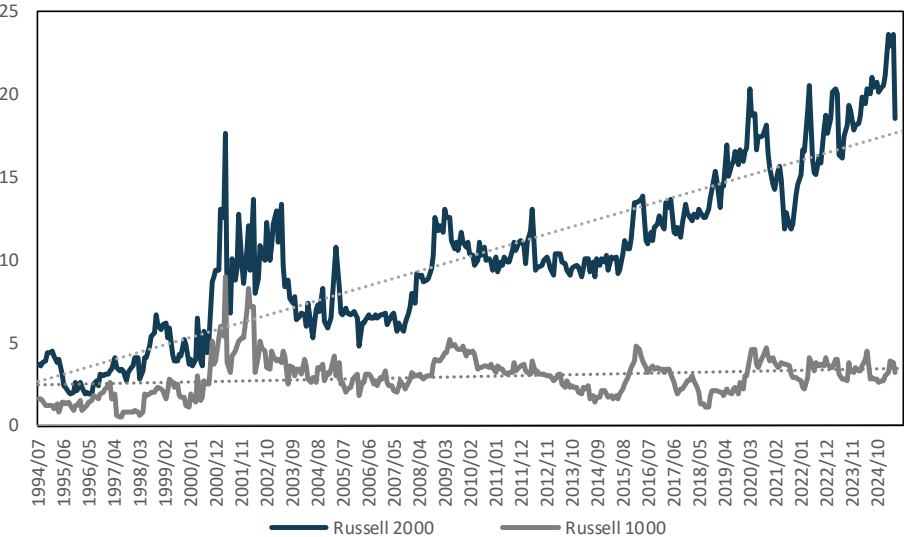
As of June 30, 2025



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

| | Average Annualized Excess Returns | |
|---------------------|-----------------------------------|--------------|
| | Russell 2000 | Russell 1000 |
| Positive Net Income | 2.27 | 0.24 |
| Negative Net Income | -5.56 | -2.41 |

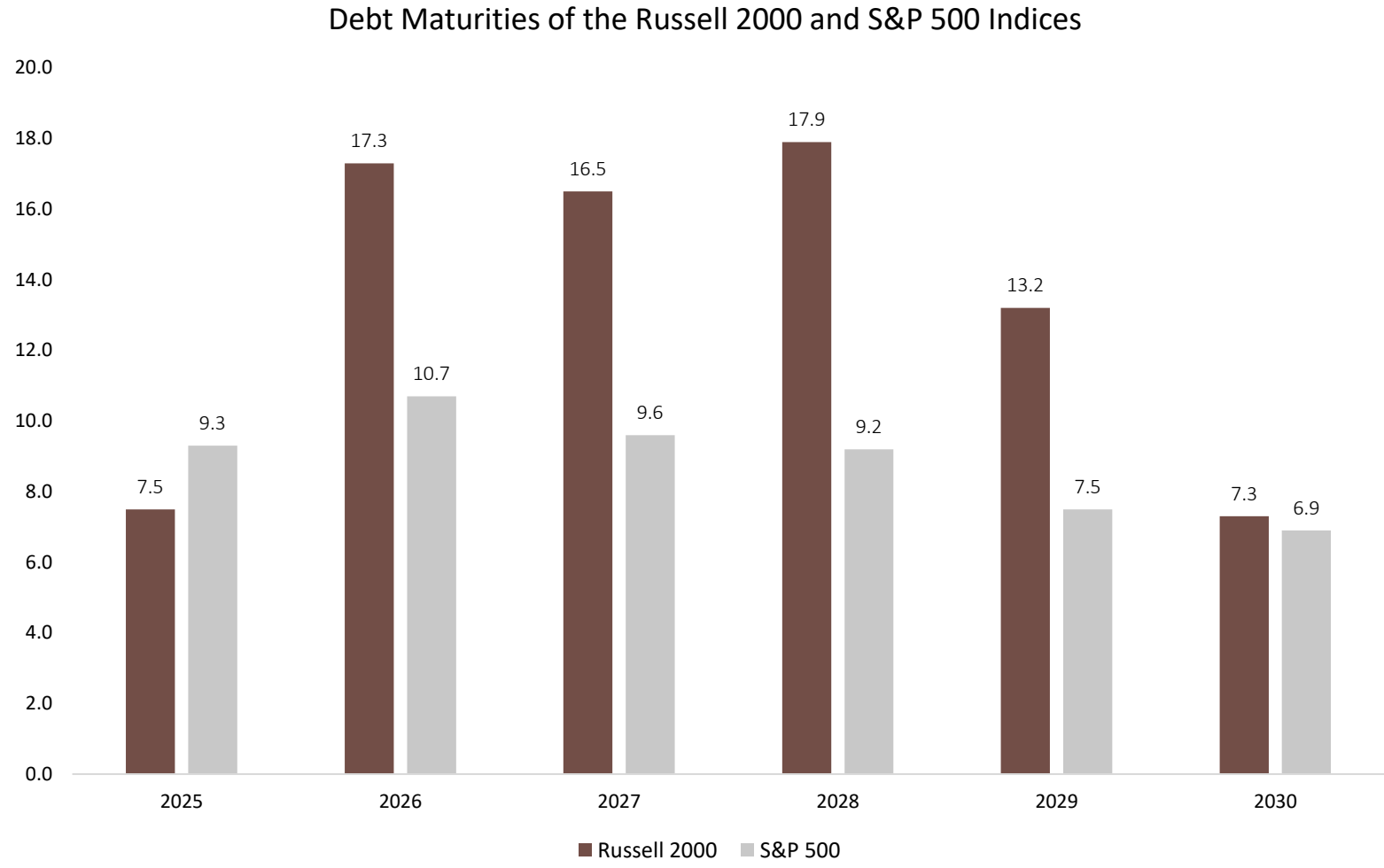
Percentage of Stocks in Index with Altman-Z Below 0.5 Has Increased





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.





Why Small Caps Now?

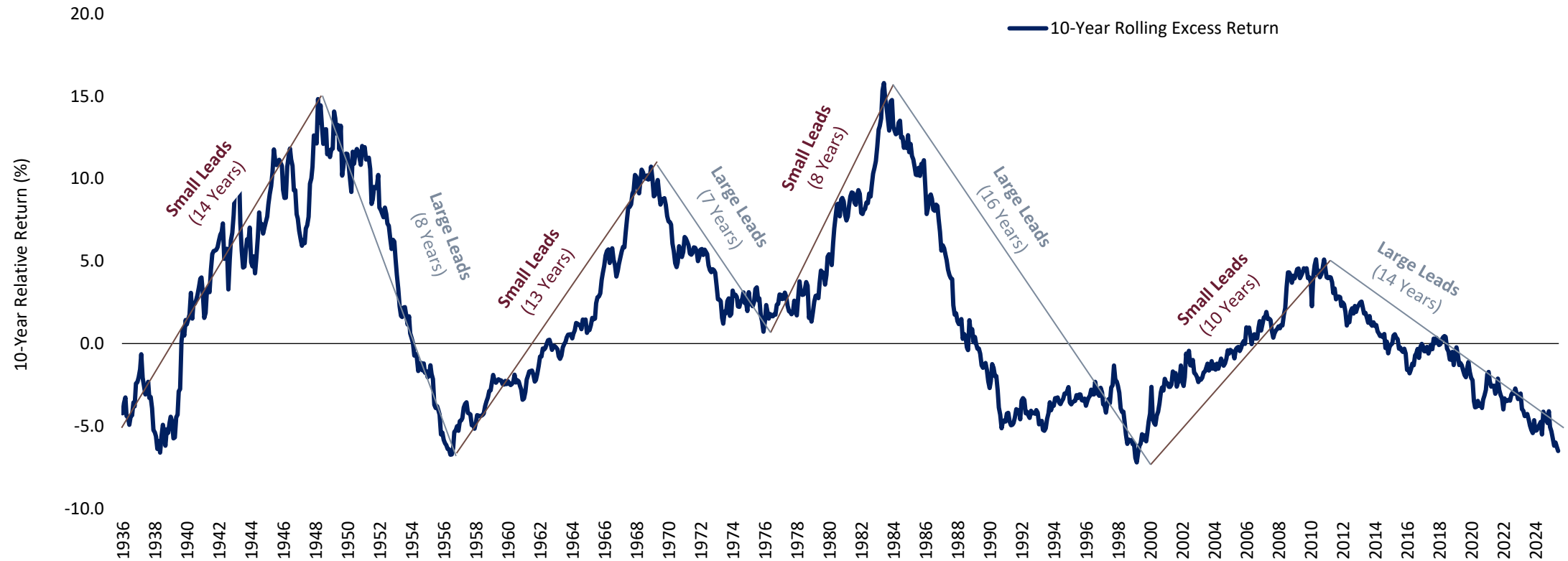


Small vs. Large Potential Reversion to Historical Norms

As of June 30, 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- June 30, 2025

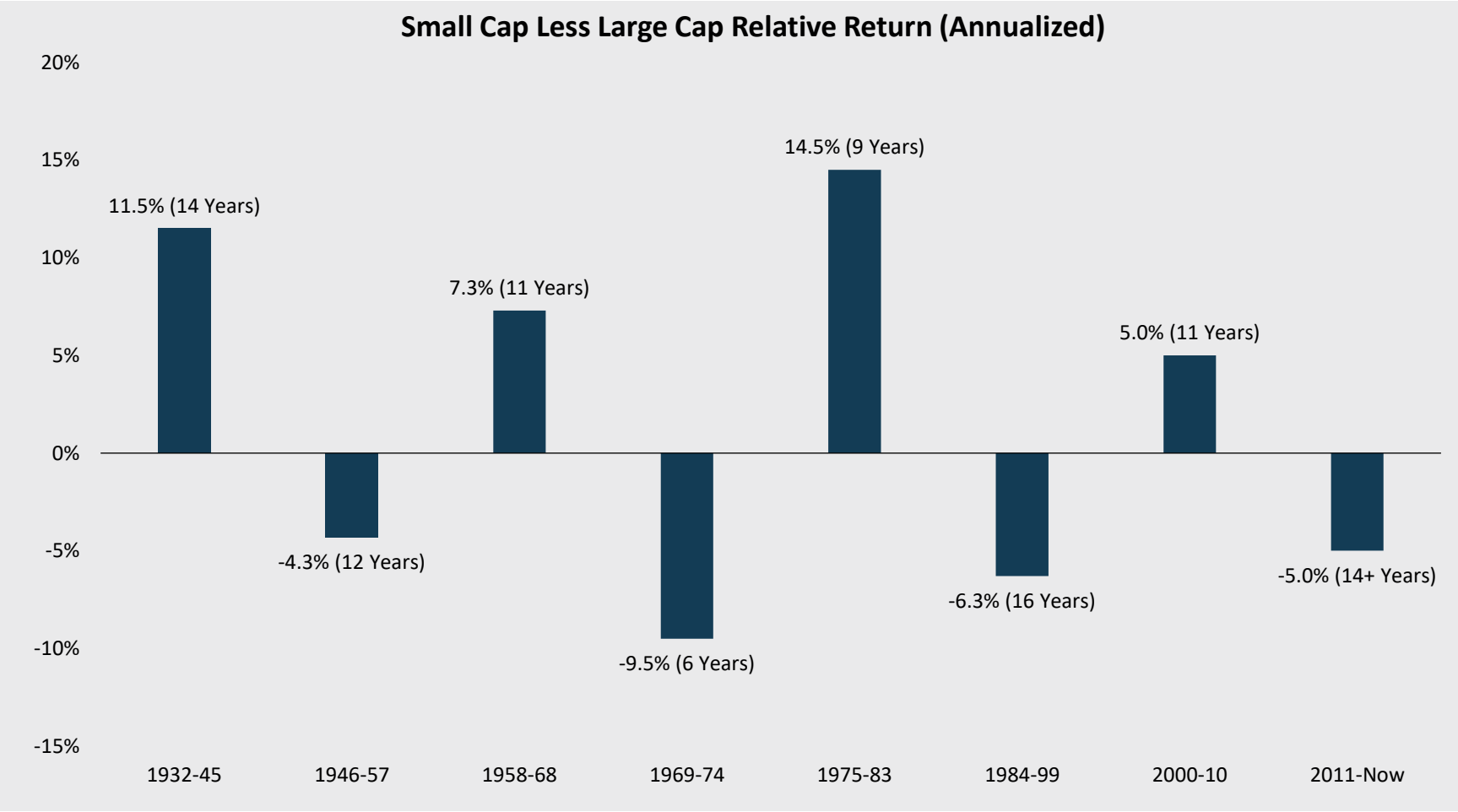


Source: eVestment. The 10-Year Rolling Excess Return represents the annualized return of the Russell 2000 Index over the trailing 10-year period minus the annualized return of the Russell 2000 Index over the same period. Rolling periods are calculated monthly based on trailing 10-year return data for these indices from 1979 to June 2025. Historical returns prior to 1979 represent the Ibbotson S&P US Small Cap Stocks and the Ibbotson S&P 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.



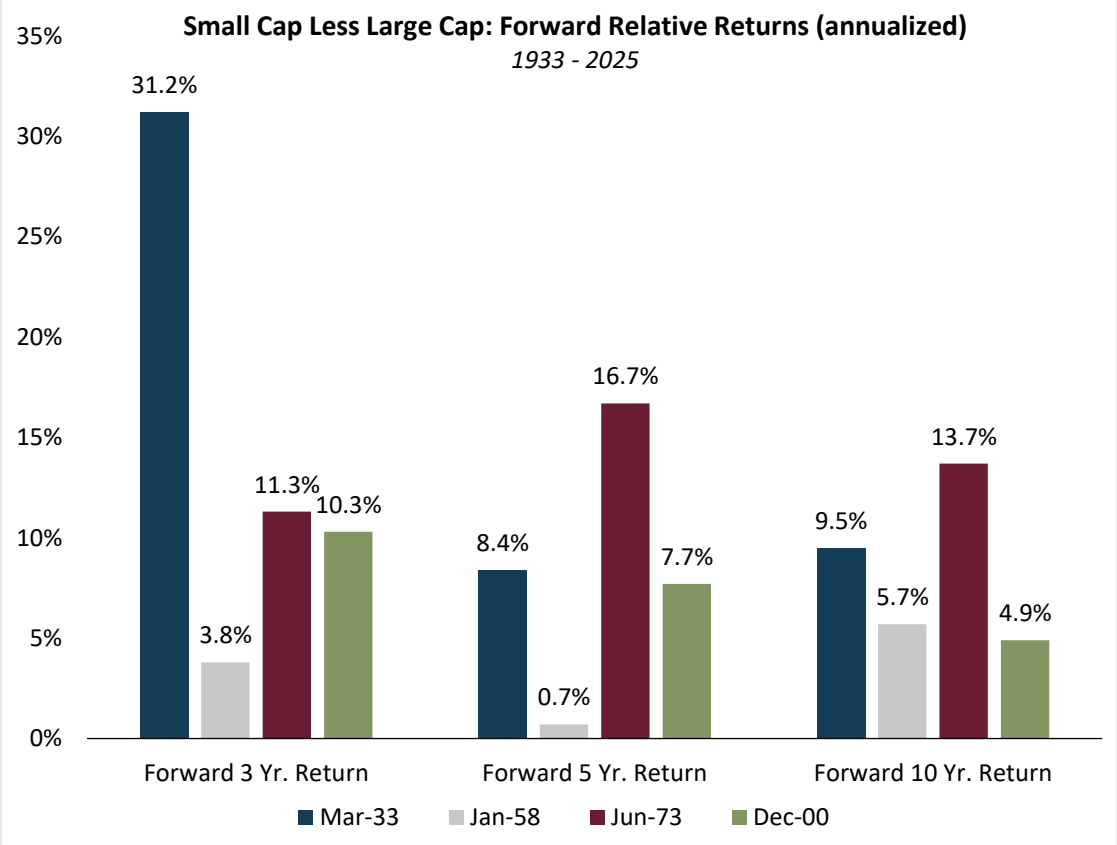
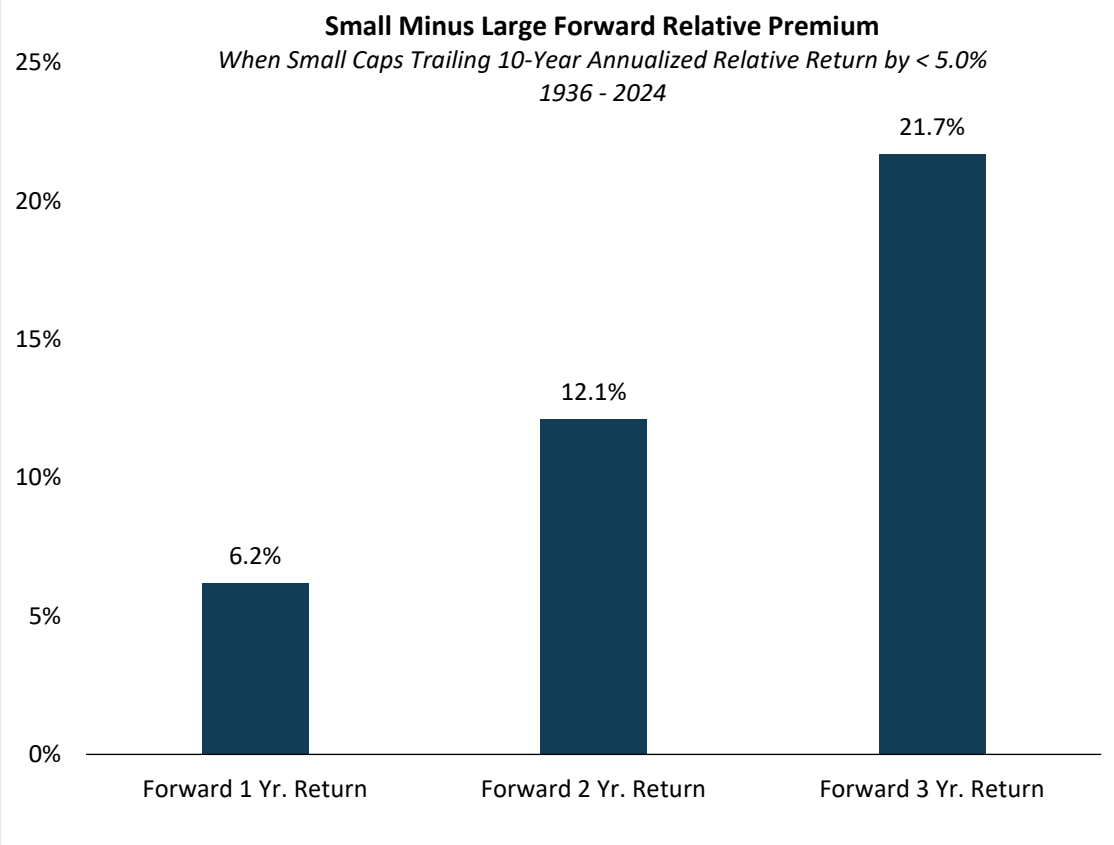
Small Caps Have Lagged By 5% in the Current Large Cap Cycle

As of June 30, 2025





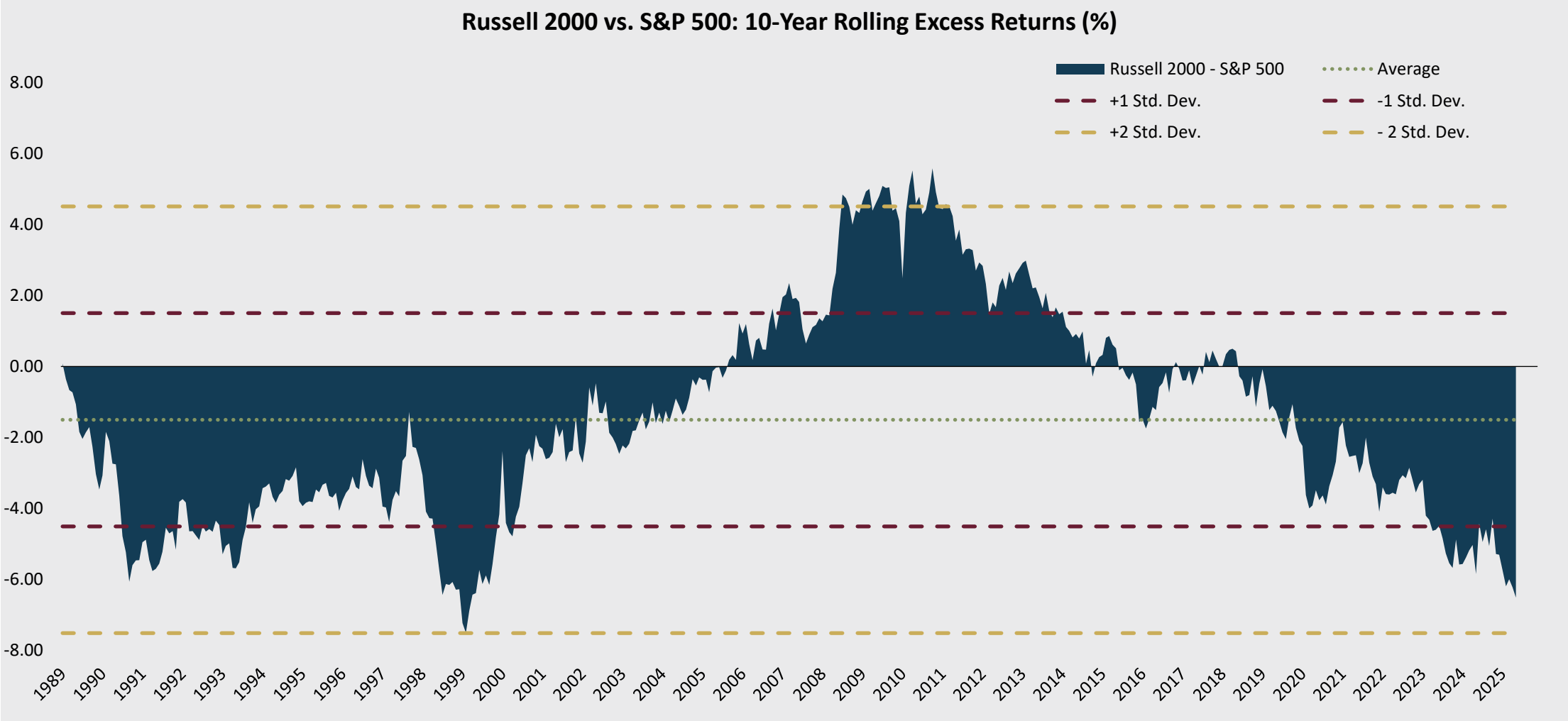
Trailing Performance History Suggests We May Be at an Inflection Point





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

As of June 30, 2025

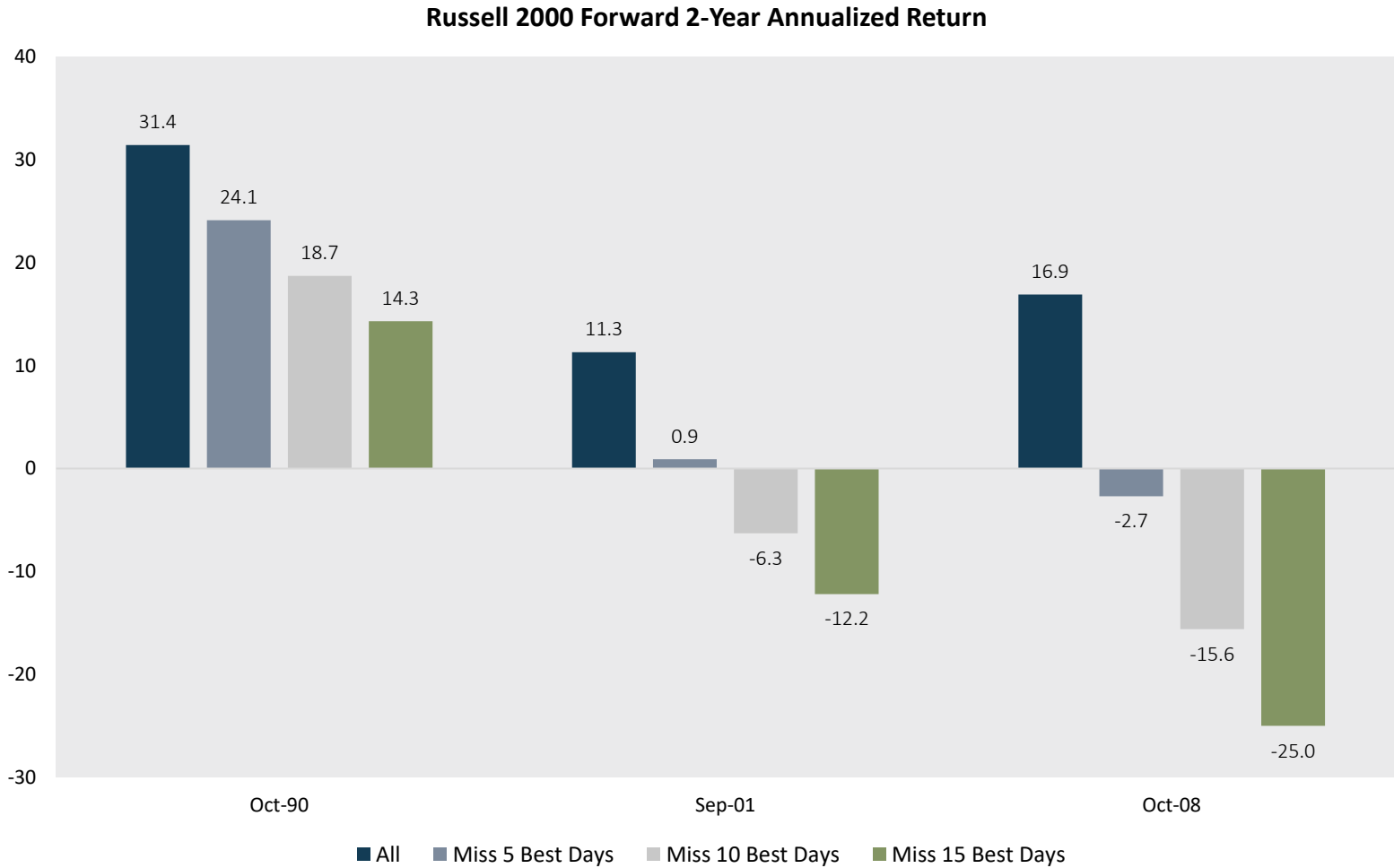


Source: eVestment. The 10-Year Rolling Excess Return represents the annualized return of the Russell 2000 Index over the trailing 10-year period minus the annualized return of the S&P 500 Index over the same period. Rolling periods are calculated monthly based on trailing 10-year return data for these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



The Key is to Stay Invested

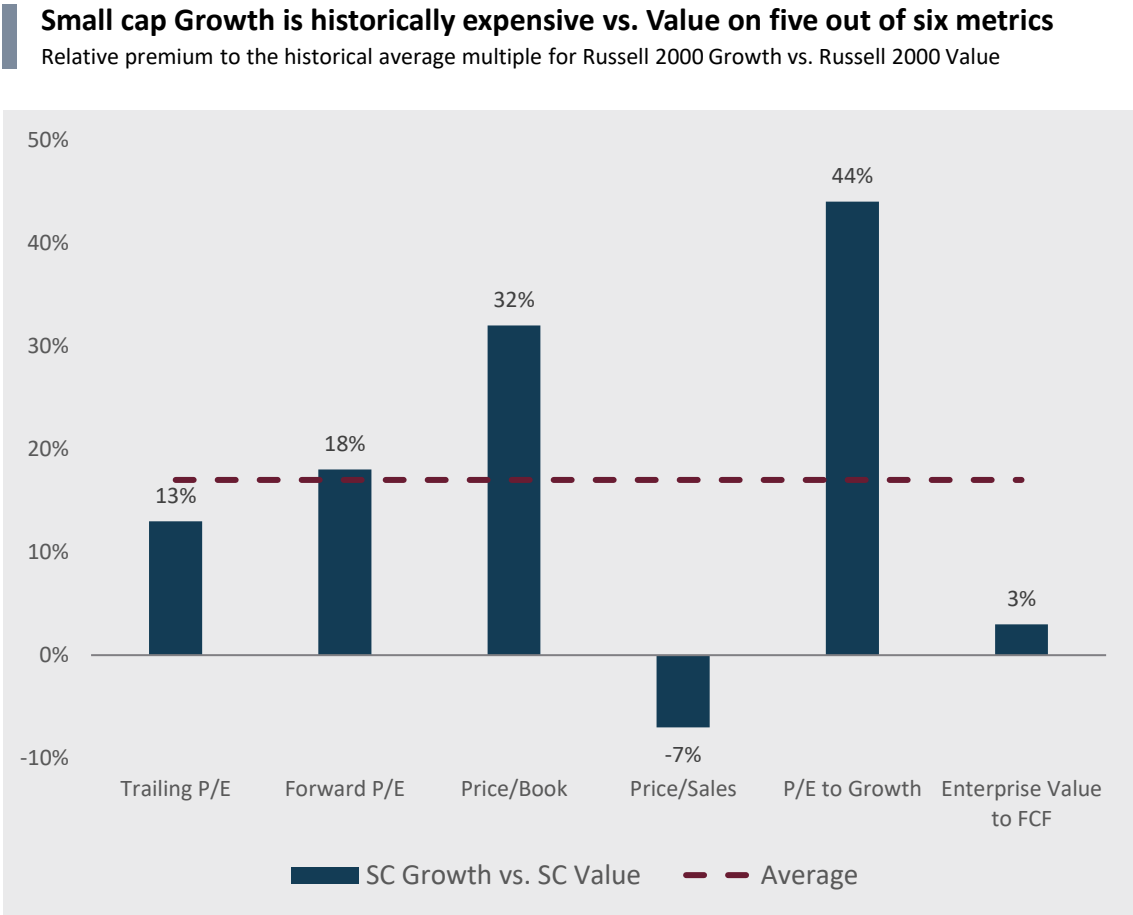
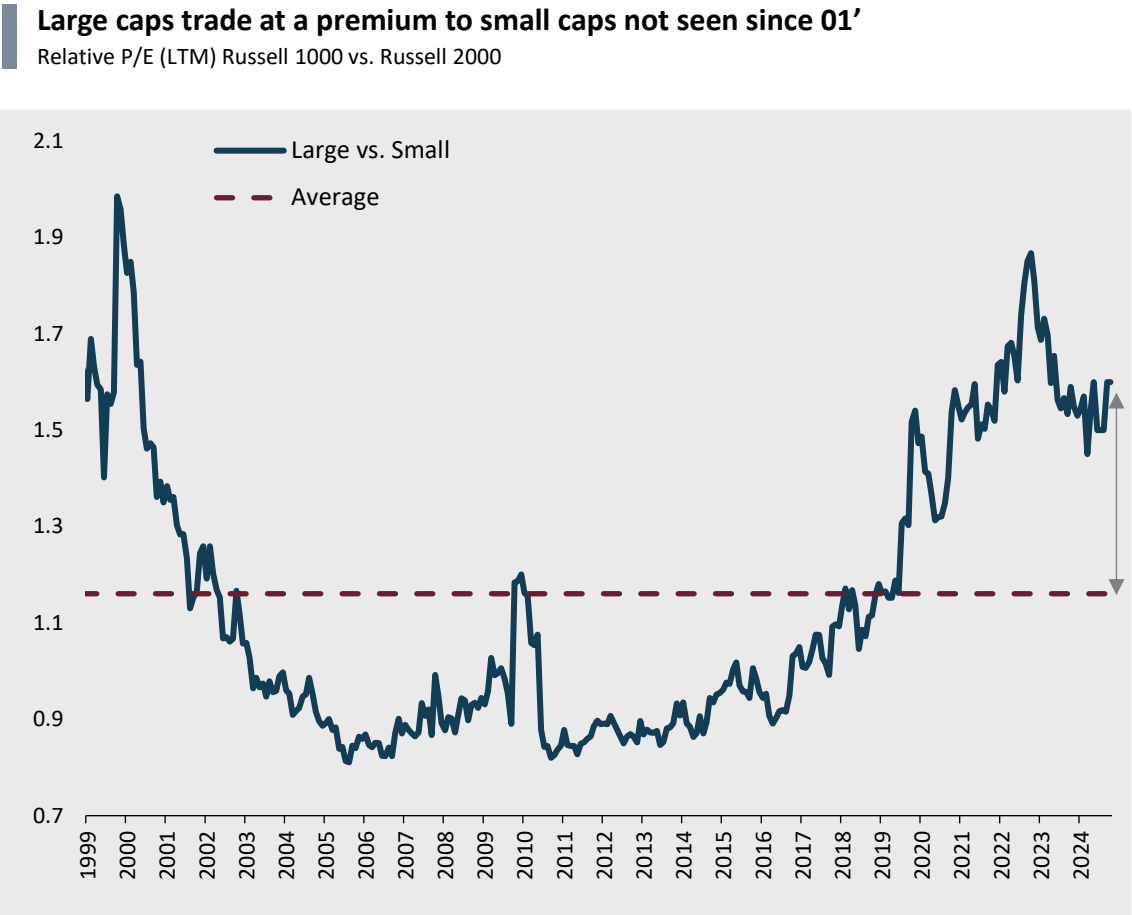
As of June 30, 2025





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

As of June 30, 2025



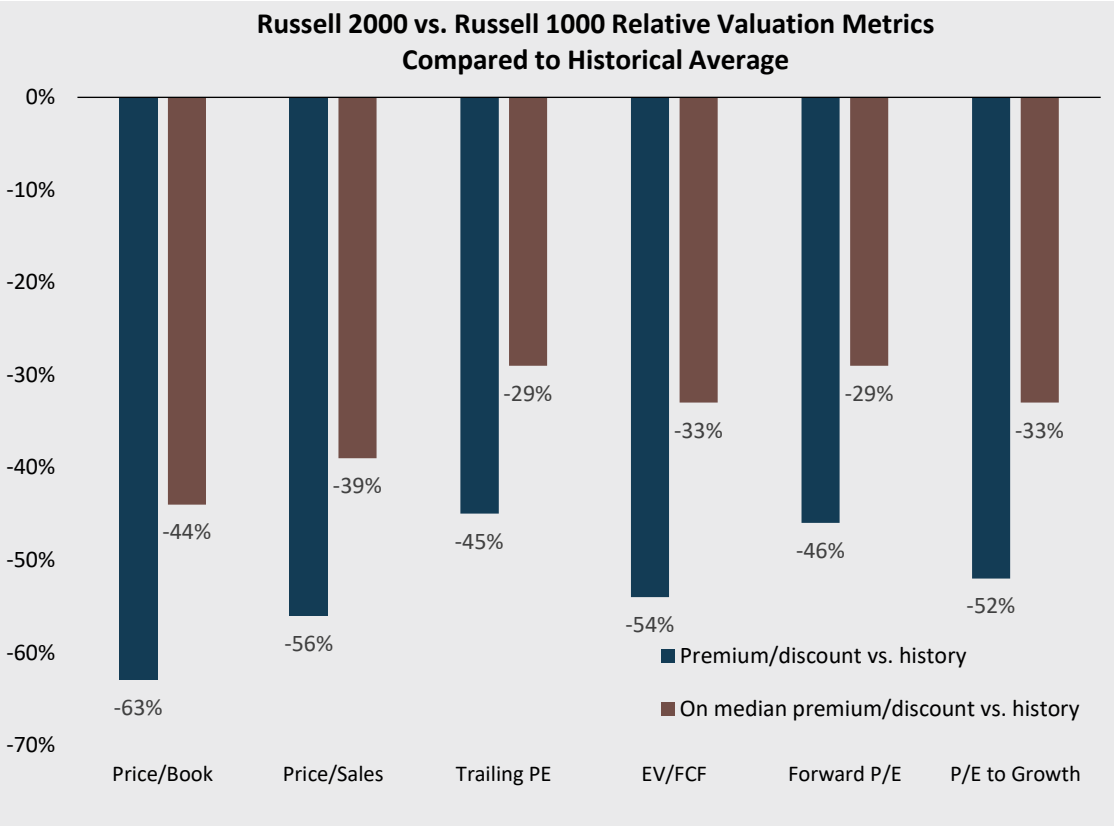


Small-Cap Value and Mid-Cap Value Remain Cheap Relative to History and Style Peers

As of June 30, 2025

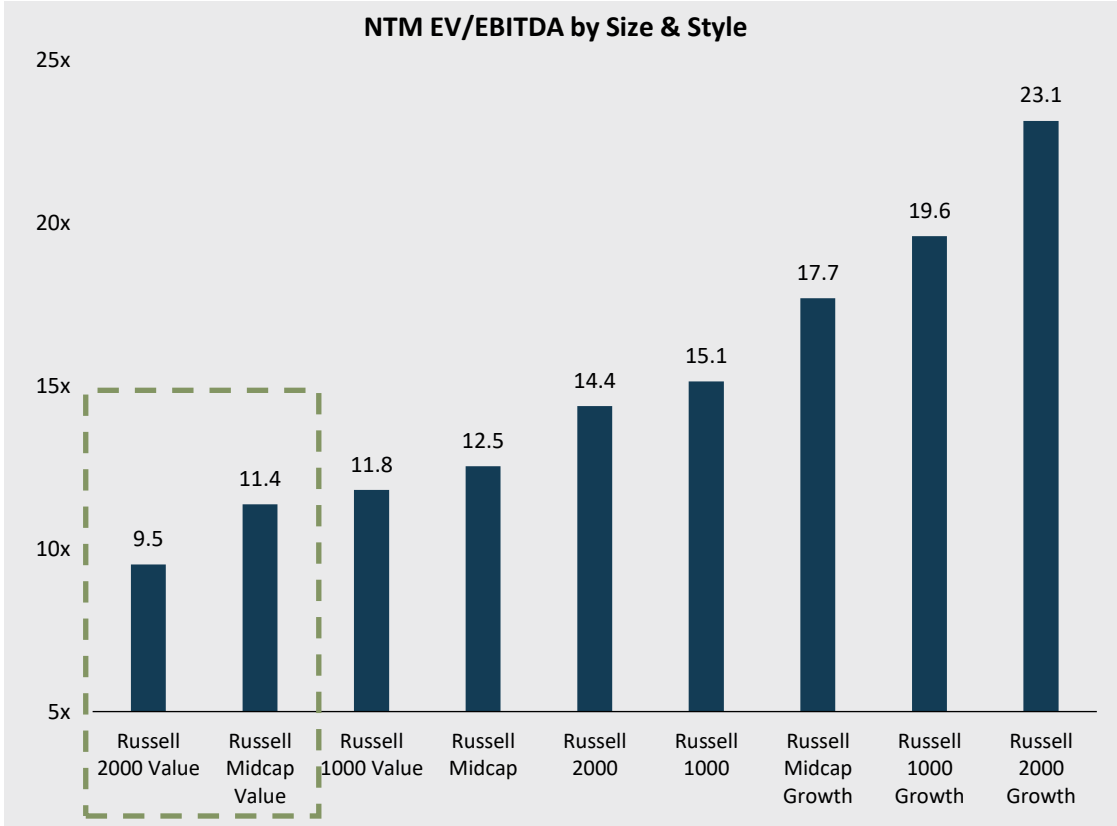
Small vs. large: cheap vs. history across metrics

Russell 2000 vs. Russell 1000 relative valuation vs. historical avg. (January 31, 1985 – June 30, 2025)



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

EV/EBITDA (NTM) by size & style as of June 30, 2025



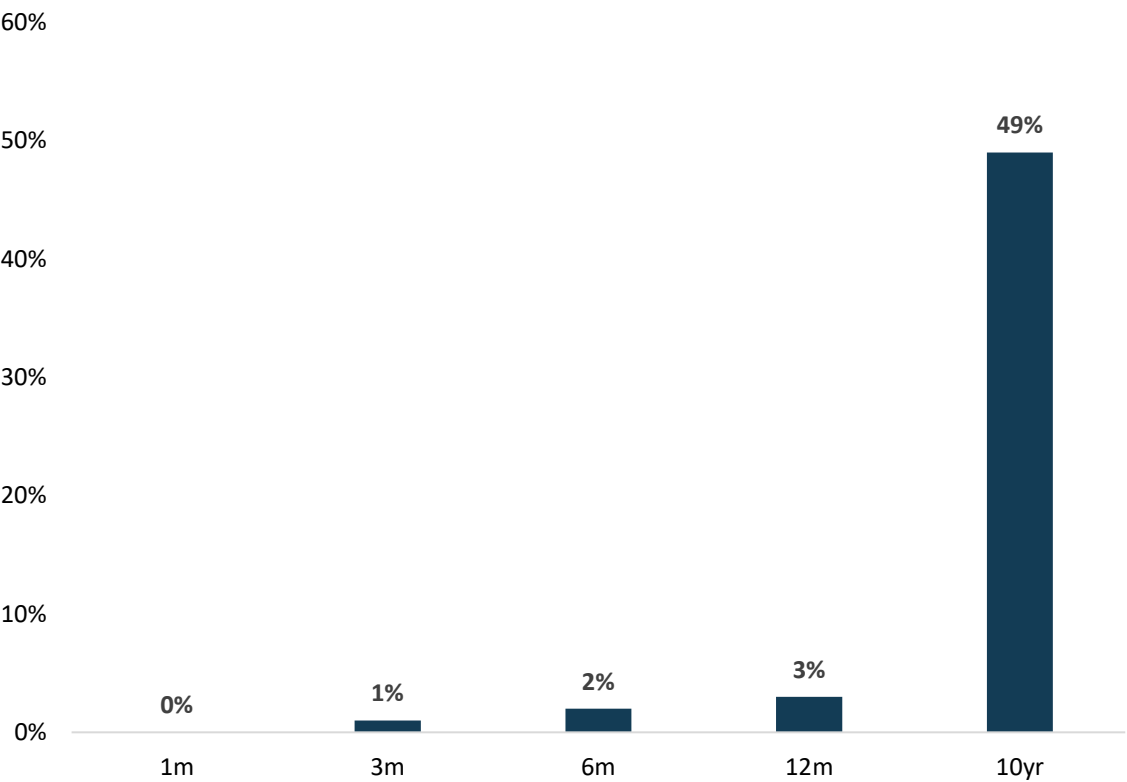


Valuation Impact over Short and Long Time Periods

As of May 31, 2025

Valuations have the highest explanatory power over long-term (ten-year) returns

R² of relative forward P/E vs subsequent return spread over various time horizons (since 1985): Russell 2000 vs Russell 1000, as of 5/31/2025



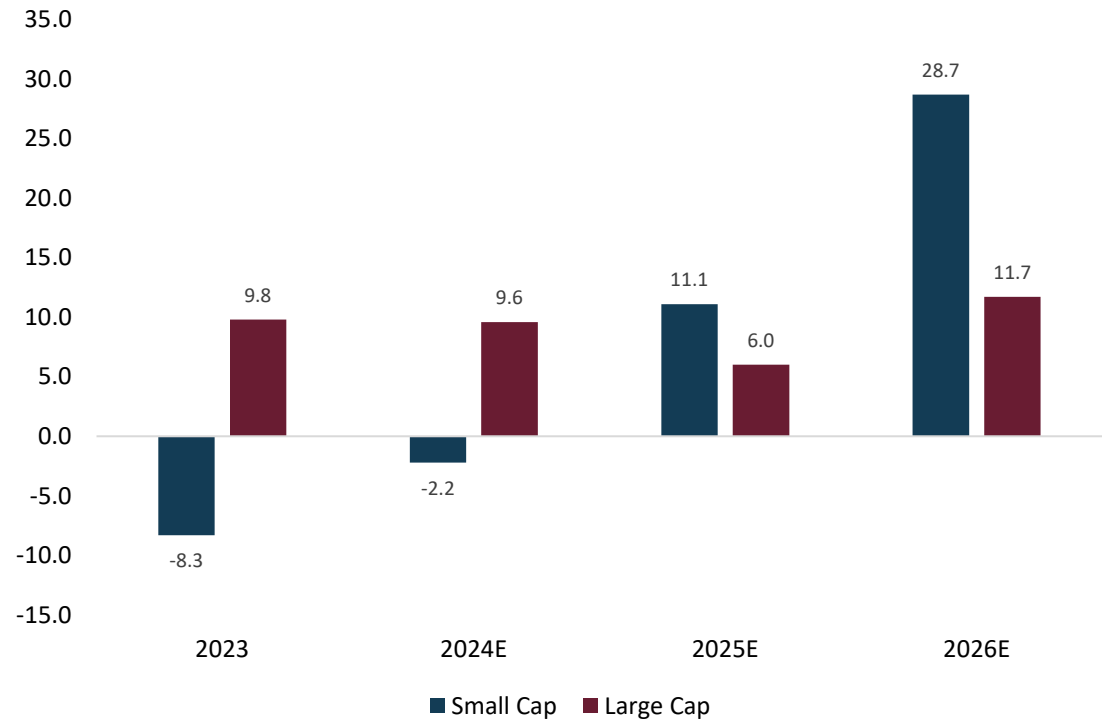
Note: Represents the relationship between the relative forward PE for the Russell 2000 vs the Russell 1000 (since 1985) and subsequent rolling returns differential.
Source: BofA US Equity & Quant Strategy; FactSet as of 5/31/2025.



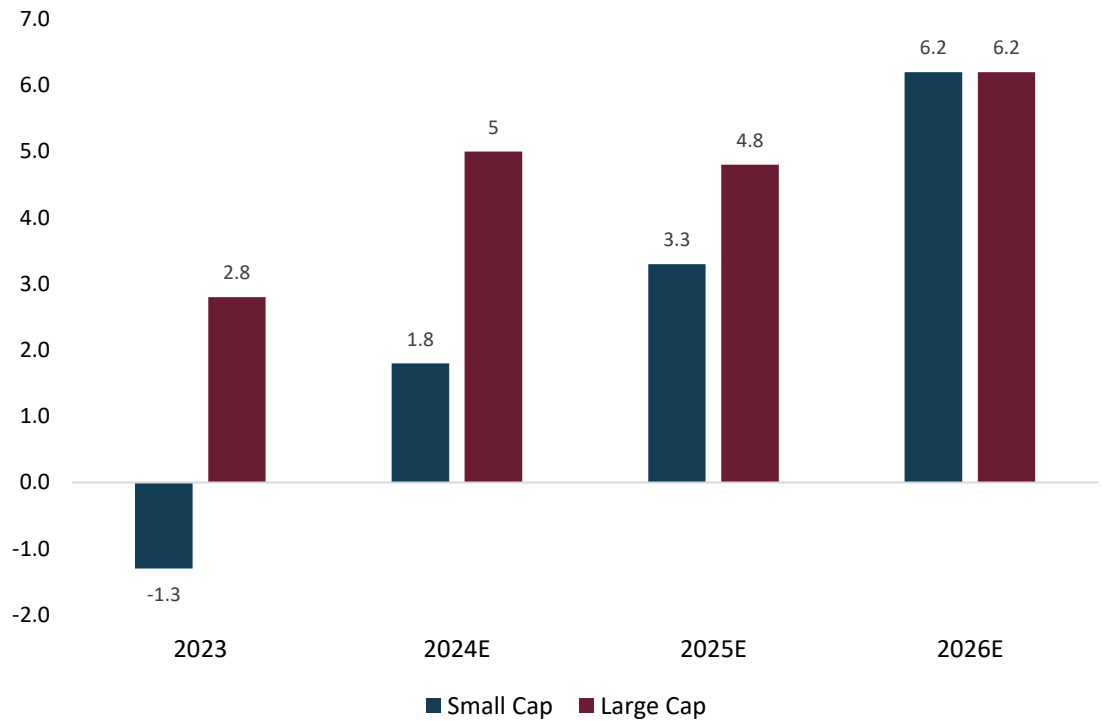
Small Cap Earnings and Sales Growth Expectations

As of June 30, 2025

Earnings Growth (%)



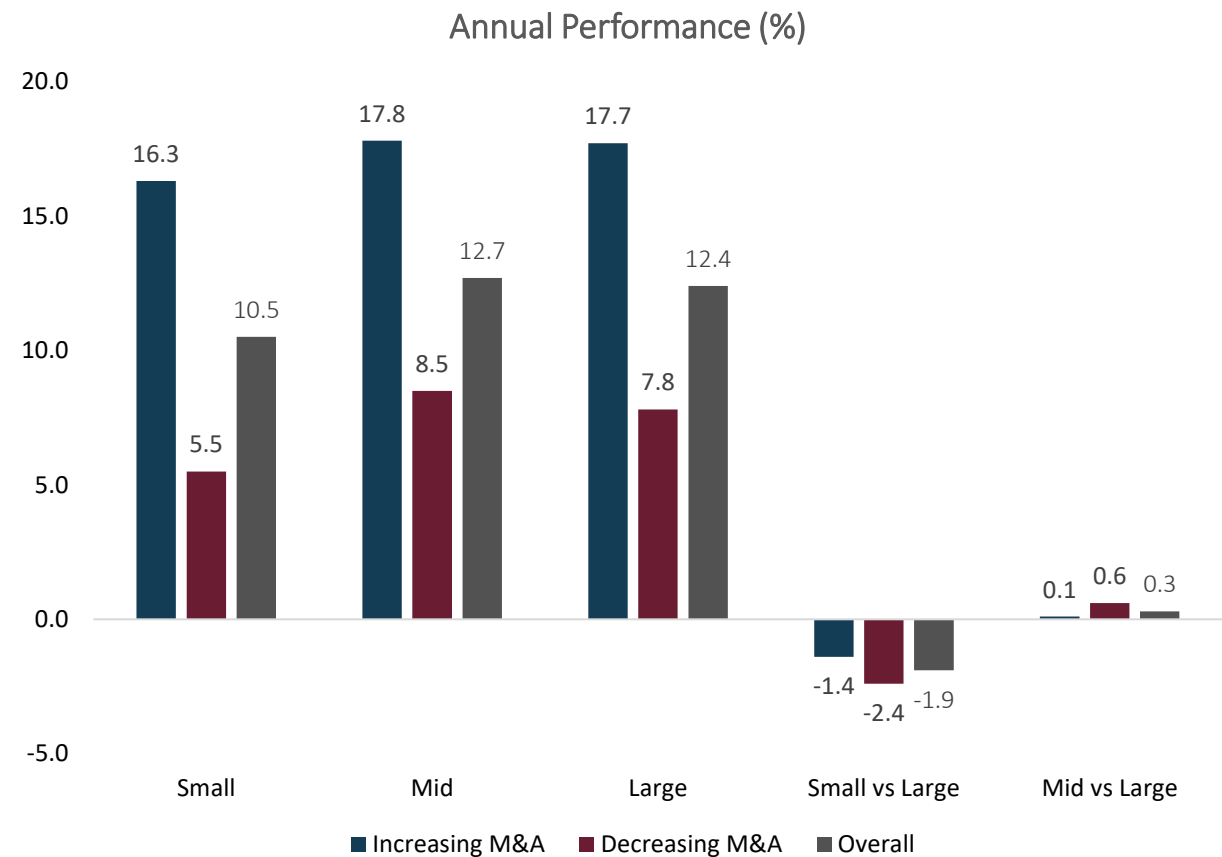
Sales Growth (%)





Solid M&A Activity Down Cap Helps Small Cap's Performance

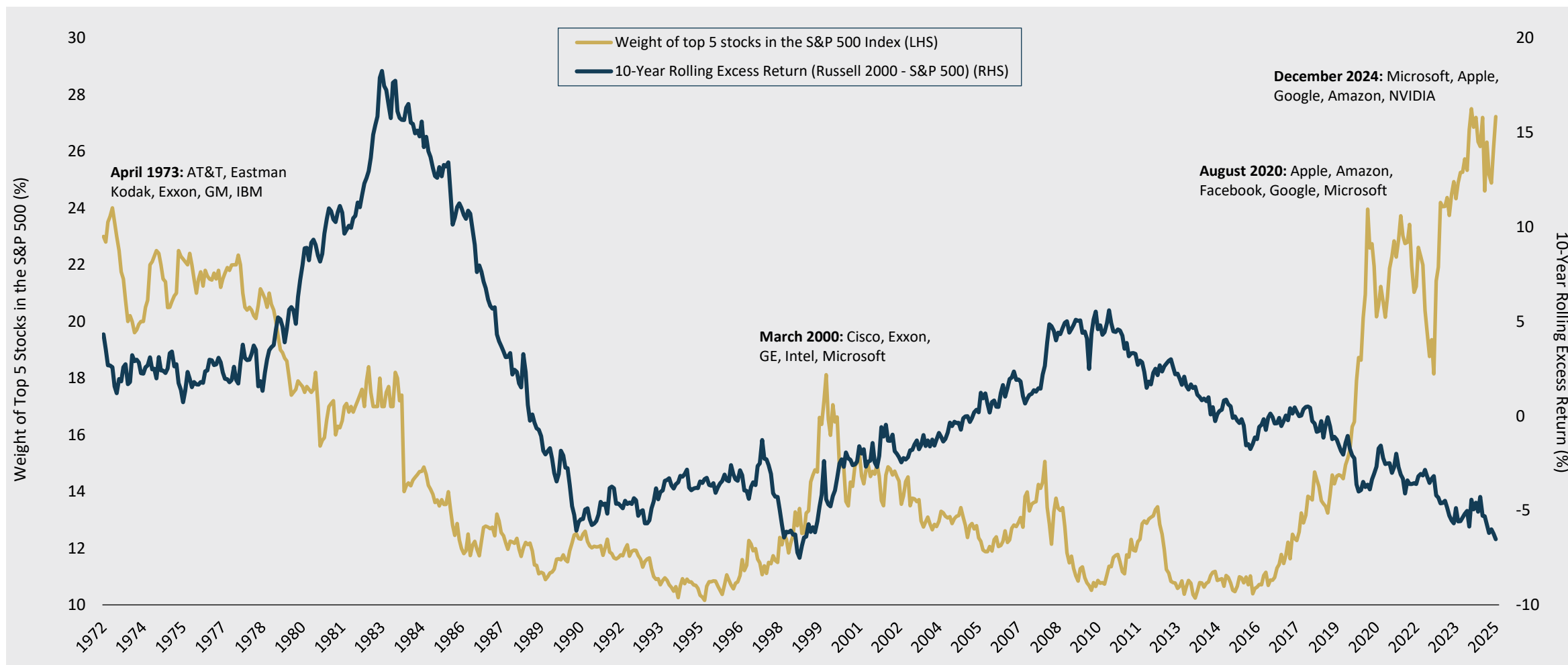
As of June 30, 2025





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

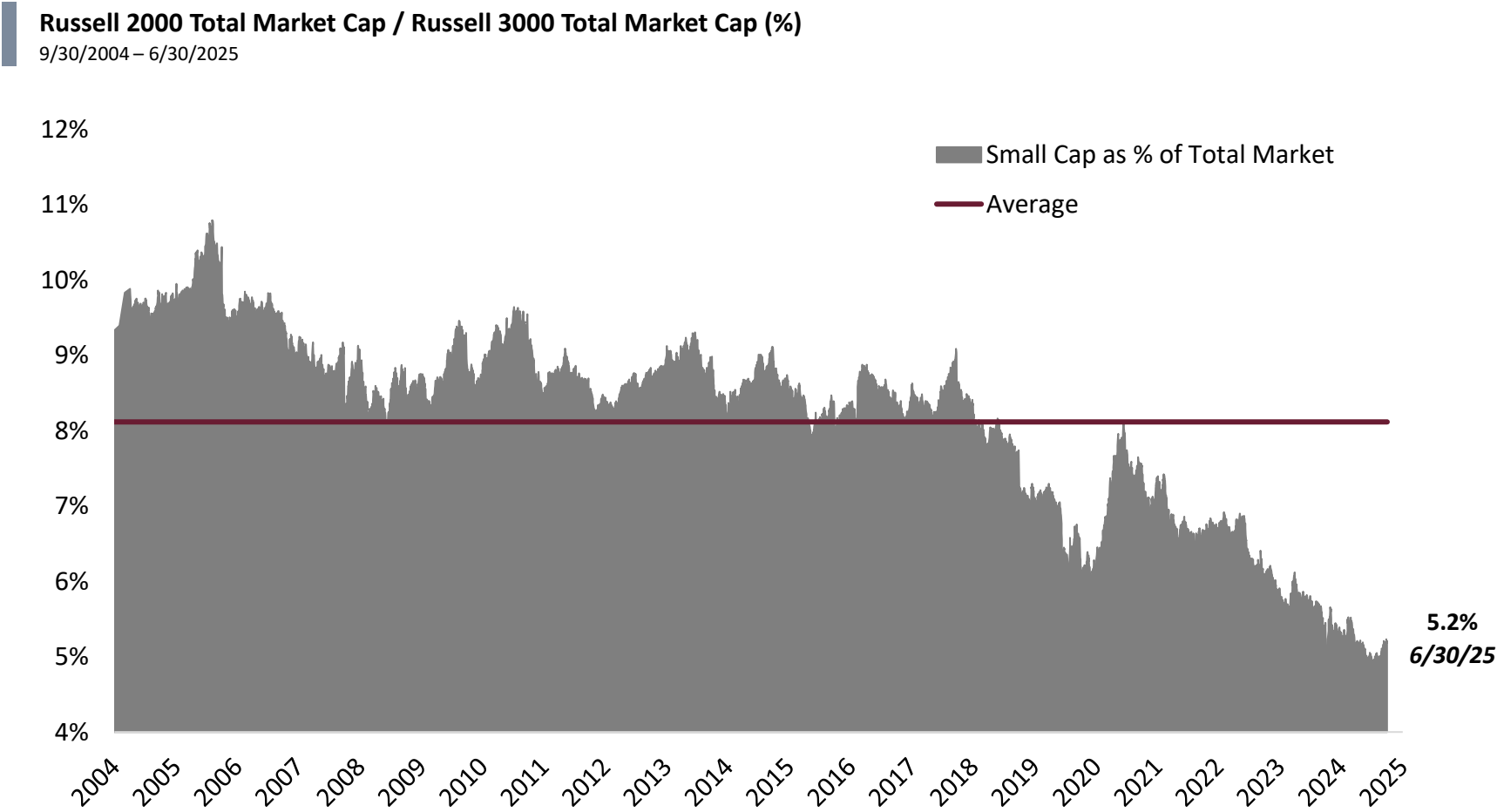
As of June 30, 2025





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

As of June 30, 2025

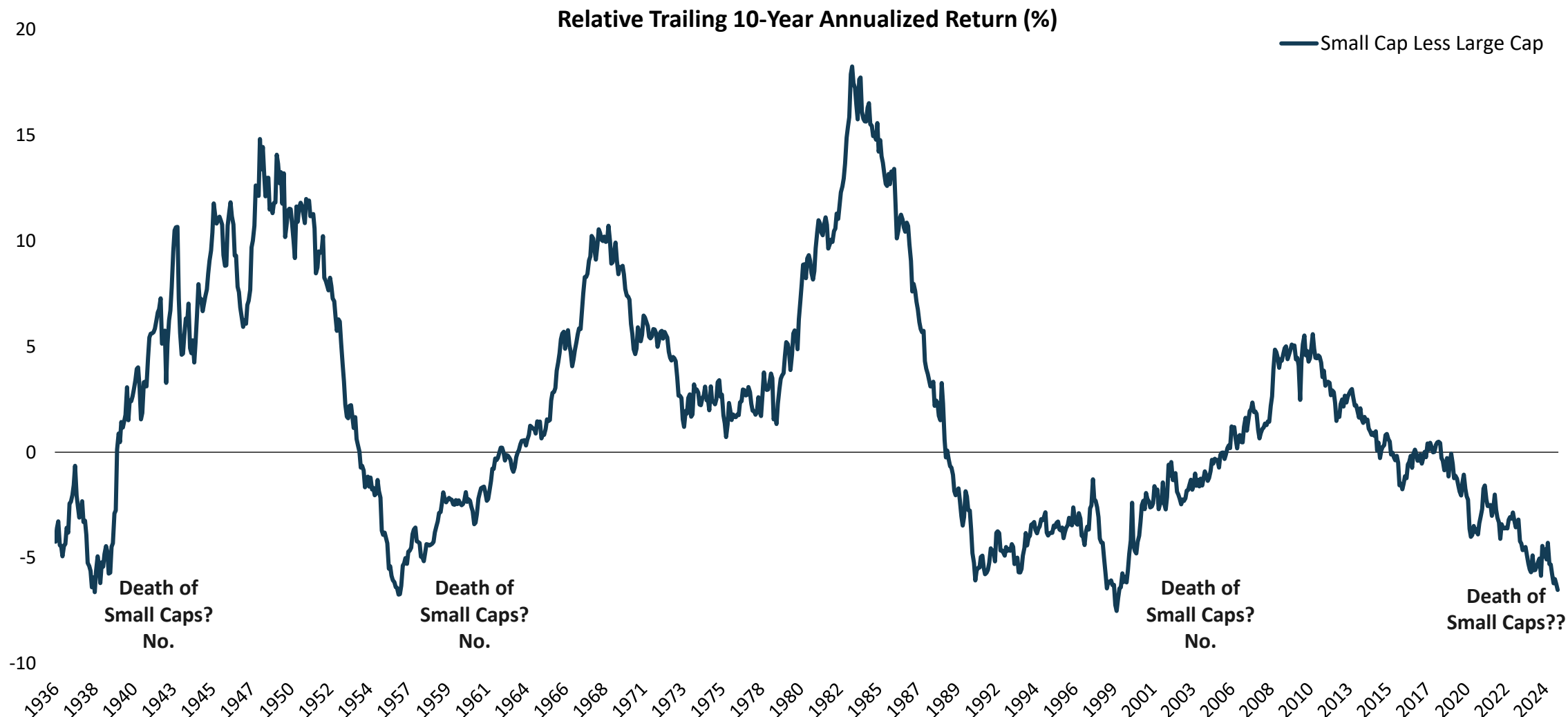


Source: Bloomberg. The ratio represents the total market capitalization of the Russell 2000 Index as a percentage of the total market capitalization of the Russell 3000 Index.



History Doesn't Repeat But It Often Rhymes

As of June 30, 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.

Past performance is not indicative of future results. The information provided in this report should not be considered financial advice or a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will be profitable, or that the investment recommendations or decisions Aristotle Boston makes in the future will be profitable or equal the performance of the securities discussed herein. There is no assurance that any securities, sectors or industries discussed herein will be included in or excluded from an account's portfolio. Recommendations made in the last 12 months are available upon request.

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 7 – 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 slide 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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