

# SYCAMORE SMALL CAP VALUE EQUITY QUARTERLY COMMENTARY



A VICTORY CAPITAL® INVESTMENT FRANCHISE

As of September 30, 2025

## EXECUTIVE SUMMARY

Sycamore Capital's Small Cap Value investment team employs a disciplined, bottom-up, fundamental process to invest in what we believe are better businesses that trade at a discount to the team's estimate of intrinsic value and possess fundamental drivers that may narrow the valuation gap. By investing in businesses that exhibit these attributes, we seek to minimize downside risk without sacrificing the upside potential.

- The Sycamore Small Cap Value Equity strategy underperformed the Russell 2000® Value Index during the third quarter of 2025.
- During the quarter, stock selection and sector allocation both detracted from relative return, with stock selection having a larger impact on relative underperformance for the period. Sector weighting is a by-product of the bottom-up stock selection process and not a result of top-down tactical decisions.

## MARKET RECAP

### Risk-On!

The U.S. equity market continued its upward trajectory during the third quarter as a combination of tailwinds supported the risk-on narrative. The S&P 500® Index and the Nasdaq Composite hit multiple record highs. Even the beleaguered small-cap asset class participated in the beta-induced rally. The Russell 2000® Index had its best quarter since 4Q23 and hit fresh all-time highs in September.

AI remained the dominant market theme, with several high-profile deals announced between the key players. The spending spree has been unprecedented on so many levels, and segments of the economy linked to this pervasive theme have continued to benefit. However, some pushback began to emerge as the quarter progressed, which centered on the question of monetization. The intricate relationships between key players were also under the microscope, with particular focus on the "circularity" around funding in the AI ecosystem. This conjured up memories of "vendor financing" during the dot-com era.

The decision by the Federal Reserve (the "Fed") to cut rates also helped fuel some of the risk-on sentiment. Some questioned the Fed's decision to cut rates absent any meaningful weakness in the labor market and the overall economy. Nevertheless, the Fed delivered the cut that the market was cheering for. By quarter end, it was unclear whether the Fed will cut once or twice during the remainder of the year. Another tailwind for risk markets was the better-than-expected corporate earnings season with expectations

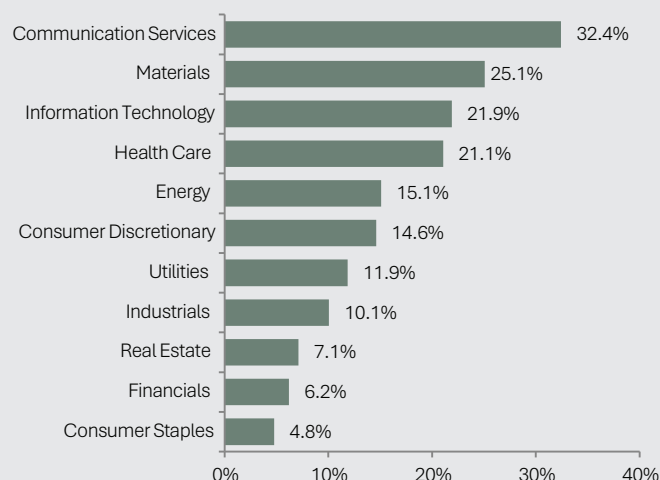
that 3Q earnings could also surprise to the upside. While some companies alluded to tariff headwinds, most were able to offset some of the impact through mitigation measures. Consumer spending also remained resilient, as evidenced by positive retail sales growth and strong summer travel demand.

Heading into the final quarter of the year, there does not appear to be a major market theme potent enough to dramatically alter the current narrative. The AI spending frenzy is likely to continue unabated. With FOMO a pervasive force in the market, we believe risk-on sentiment is likely to prevail. Fundamental investors will have to live to fight another day in this momentum-driven and beta-induced market.

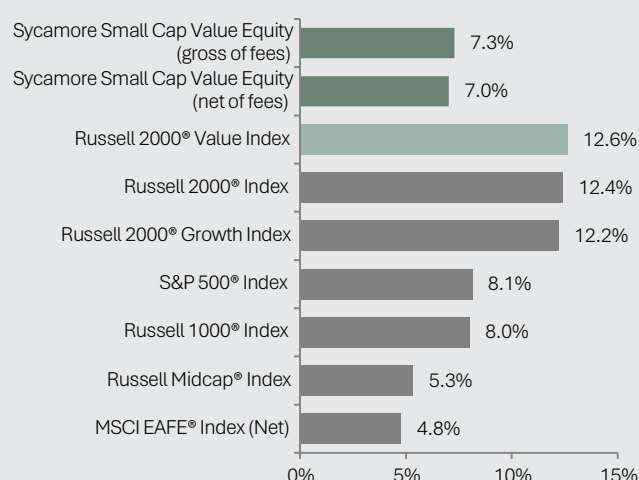
## PERFORMANCE BY SIZE AND STYLE

Small-cap equities outpaced both large- and mid-cap equities during the third quarter of 2025. Small-cap equities, as measured by the Russell 2000® Index, returned 12.39% during the quarter. Large-cap equities, as measured by the S&P 500® Index and the Russell 1000® Index, returned 8.12% and 7.99%, respectively, while mid-cap stocks, as measured by the Russell Midcap® Index, returned 5.33%. Broken down by style, growth outpaced value within the large-cap size segment, while value outpaced growth within the small- and mid-cap segments. Specifically, for small-caps, the Russell 2000® Value Index returned 12.60%, outpacing its growth counterpart, which returned 12.19%.

### Russell 2000® Value Index Sector Returns – 3Q 2025



### Strategy and Market Performance – 3Q 2025



Past performance does not guarantee future results. See the final page for standardized performance. Source: Zephyr & FactSet.

## Performance Attribution Relative to the Russell 2000® Value Index – 3Q 2025

Positive Contributors	Negative Contributors
Stock Selection & Overweight in Information Technology	Stock Selection in Materials; <i>partially offset by overweight</i>
Underweight in Real Estate	Stock Selection & Underweight in Health Care
	Stock Selection in Industrials
	Stock Selection in Consumer Discretionary
	Stock Selection in Financials
	Stock Selection in Consumer Staples
	Underweight & Stock Selection in Communication Services
	Cash Position

Source: FactSet.

## PORTFOLIO ATTRIBUTION – THIRD QUARTER

The Sycamore Small Cap Value Equity strategy underperformed the Russell 2000® Value Index (the “Index”) in the third quarter of 2025.

During the quarter, stock selection and sector allocation both detracted from relative return, with stock selection having a larger impact on relative underperformance for the period. Index returns were positive across each of the 11 major economic sectors and varied widely, with only six sectors outpacing the broader Russell 2000® Value Index. Communication Services was the top-performing sector, returning 32.42%. By contrast, Consumer Staples was the worst-performing sector for the quarter, posting a return of 4.77%.

Specifically, for the portfolio, stock selection in Materials, Health Care, Consumer Discretionary, Financials, Industrials, Consumer Staples and Communication Services detracted from relative performance for the quarter. However, an overweight in Materials partially offset the unfavorable impact of selection in the sector. An underweight in Health Care and Communication Services (the top-performing sector) also detracted from relative return. Additionally, the portfolio's cash position during the quarter was a drag on performance. Conversely, stock selection in Information Technology contributed to relative performance for the quarter. An underweight in Real Estate, as well as an overweight in Information Technology, also contributed to relative performance.

## TOP CONTRIBUTORS – THIRD QUARTER

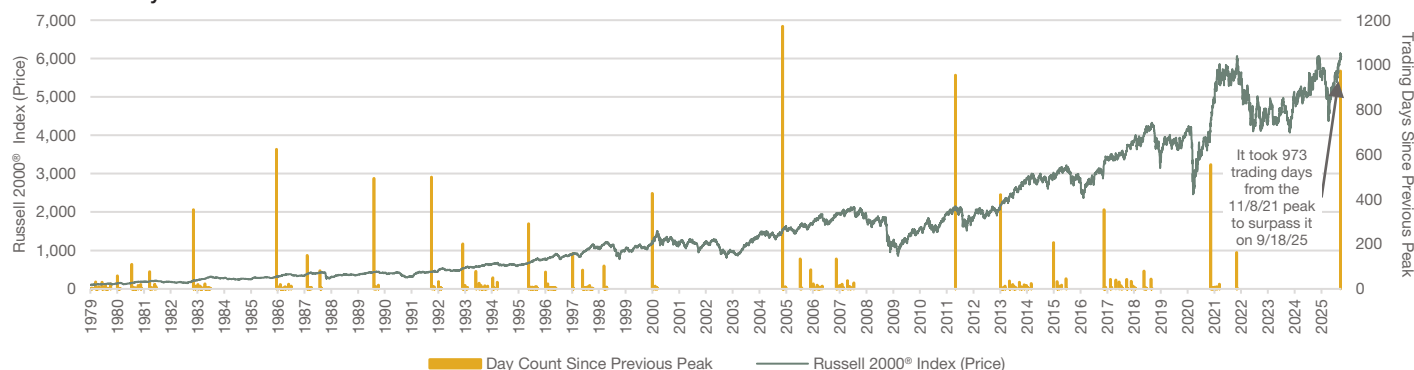
Three of the top contributors in the quarter benefited from their association with the broader AI theme. **Sandisk Corp. (SNDK)** recently spun out from Western Digital Corp. (WDC). SNDK became the only U.S.-listed pureplay NAND maker. The other key competitor is Kioxia in Japan. SNDK got caught up in the AI hype, and its share price reacted positively. It is important to highlight that share price appreciation was a function of a read-through from favorable industry data. Industry reports began to emerge highlighting supply shortages in the coming years, driven by strong demand for AI servers. Supply has tightened over the past few years, setting NAND up for strong demand and pricing amid constrained supply. We trimmed the position given the outsized move. **Tower Semiconductor Ltd. (TSEM)** also got caught up in the AI hype. TSEM produces Silicon Photonics chips that are used in optical transceivers, which connect data center servers via optics rather than copper Ethernet. TSEM works with all the top non-China optical transceiver module manufacturers. Many of its peers had exited the Silicon Photonics channel, leaving TSEM as a key supplier. Strong demand for optical networking, coupled with limited suppliers, has benefited TSEM. We trimmed the position following the strong performance. **NCR Atleos Corp. (NATL)**, which produces self-service banking (ATMs) and Networks (ATM network) assets, was another top contributor. Since its spin-off, the company has reinvented itself to partner with key financial institutions and retail clients. The company's core growth engine, ATM as a Service (ATMaaS), posted a robust growth rate of 32% YoY and management is anticipating achieving 40% in 2H25. The ATMaaS offering is a full suite of products including hardware, software, cash management and transaction processing supported by the largest ATM fleet globally. Management has also prioritized deleveraging, as evidenced by reduced net leverage to 3.1x from 3.8x, with a target of 2.5x. Our thesis

for NATL remains unchanged. **Mercury Systems, Inc. (MRCY)** is a leading technology provider that provides mission-critical components, modules and subsystems mainly to defense prime contractors. MRCY reported better-than-expected results in 2Q25 due to operational improvements and good execution. Demand remains strong, with current bookings at \$1.4 billion—the highest level ever. MRCY could be a beneficiary of the Golden Dome build-out given the company's leverage to antiballistic systems; however, timing remains unclear. We have reduced our weight following strong relative performance. Our thesis for MRCY remains unchanged at this time. **Everus Construction Group, Inc. (ECG)**, a commercial and utilities construction company, rounded out the list of top contributors. The company reported a solid 2Q25 earnings report driven by strong data center construction demand. Year-over-year backlog grew 24% on the back of strong data center demand. We believe ECG should continue to benefit from the build-out of data centers as well as other large construction projects. Shares were trimmed on relative valuation.

## TOP DETRACTORS – THIRD QUARTER

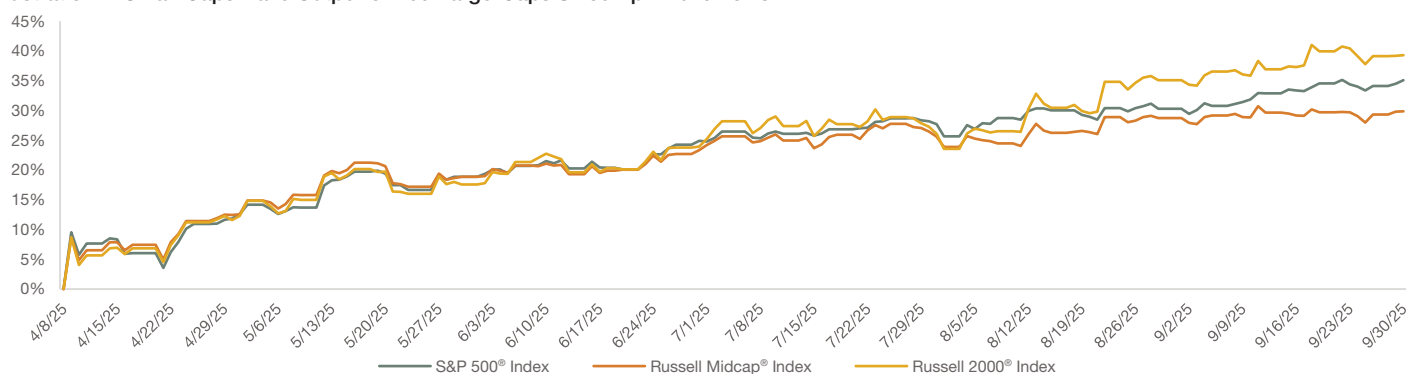
**Haemonetics Corp. (HAE)**, a medical technology company specializing in plasma, blood, and hospital-based automation systems, was the top detractor for the quarter. Shares declined as operational issues in the Interventional Technologies business (about 20% of sales) surfaced, driving weakness in the Hospital segment and reducing visibility into sales and earnings improvements. Confidence in management's diversification strategy was under scrutiny after \$1 billion of acquisitions over the last few years have failed to pay off. The thesis for HAE is under review. **Interparfums, Inc. (IPAR)**, a global manufacturer and marketer of fragrance products, was negatively impacted by uneven demand in Europe and retailer destocking in the U.S., which resulted in a top-line miss during the second quarter. Furthermore, IPAR is facing tariffs on the finished products and components it ships into the U.S. The company is addressing this challenge through supply chain modifications and selective pricing action. Despite these factors, IPAR reiterated its FY25 guidance. While management is historically viewed as providing conservative expectations for investors, the company noted lower visibility in this challenging environment. IPAR remains a disciplined operator with new launches and brand license additions that position it to benefit once macro and trade headwinds ease. As we do with all holdings, the thesis for IPAR is under review. **Silgan Holdings, Inc. (SLGN)**, a manufacturer of packaging solutions for consumer goods products, was another detractor. SLGN reported 2Q25 earnings that missed consensus estimates. The earnings shortfall was driven by: 1) unfavorable weather which impacted the Beverage segment; and 2) customer bankruptcy (Del Monte Foods). We believe that the reaction to the 2Q print was overdone and we view the 2Q earnings hiccup as transitory. Our thesis for SLGN remains unchanged at this time. Shares of **WillScot Holdings Corp. (WSC)**, a leading provider of modular space and portable storage rentals, were under pressure during the quarter. WSC is a recent addition to the portfolio. We initiated a position in the company following a period of significant underperformance as deterioration in non-residential construction markets negatively impacted rental volumes. While the company has continued to see disappointing

Illustration 1: Days Since Previous Peak for the Russell 2000® Index



Source: FactSet. As of September 30, 2025. Index price return is indexed to 100 on January 1, 1978. Data compiled and analyzed by Sycamore Capital.

Illustration 2: Small-Caps Have Outperformed Large-Caps Since April 2025 Lows



Source: FactSet. As of September 30, 2025. Cumulative performance begins on April 9, 2025. Data compiled and analyzed by Sycamore Capital.

results this year, it could see green shoots in a lower interest rate environment, which we believe should set the stock up well given negative sentiment and historical trough valuation. **Bowhead Specialty Holdings, Inc. (BOW)**, a specialty Property and Casualty (P&C) insurer, rounded out the list of top detractors. The company reported a strong 2Q25 with positive forward comments; however, decelerating pricing trends for the industry weighed on the peer group. Despite near-term underperformance, BOW remains well-capitalized, with disciplined execution and differentiated premium growth. We trimmed the position on strong relative outperformance earlier and view the recent pullback as an opportunity.

## MARKET OVERVIEW

### Headwinds Mount With No End in Sight

The third quarter was a continuation of the risk-on sentiment that has gripped the market since the April lows. The AI trade continued unabated. MEME stocks are back in vogue. Retail participation is at all-time highs. Trade baskets are ubiquitous—allowing market participants to trade any theme they fancy. Market concentration remains elevated, with a handful of themes (and associated stocks) driving the narrative. FOMO is pervasive, and missing out is not an option. Simply put, the market is more emotionally charged and less fundamentally driven. That's the landscape that investors have had to navigate, and the results for active managers have not been favorable. The pervasiveness of the themes (e.g., AI, crypto, quantum computing, gold, etc.) dominating the market have created stiff headwinds for fundamental managers that have been difficult to overcome. The current market backdrop has become a story of the "haves" and "have nots." Either a company is exposed to the prevailing market themes, or it is not. Price action has generally reflected this dynamic by rewarding companies that are exposed and neglecting ones that are not.

We've had numerous conversations with clients over the past several quarters, and many are equally puzzled by the current market backdrop. Top of mind for clients was a combination of topics, including underperformance, the market dynamics causing these stylistic headwinds, and the topic of AI. We will touch on some of these items below.

### Stylistic Headwinds Reflective of the Risk-On Sentiment

There was an abundance of investor confidence heading into 2025. The S&P 500® Index had posted back-to-back years of 20%+ returns, and the outlook for risk assets was promising. Then uncertainty plagued the market shortly after the presidential inauguration as a frenzy of policies out of Washington spooked investors. The subsequent sell-off lasted several weeks but eventually bottomed in early April.

Since then, animal spirits have unleashed an impressive wave of risk-on sentiment that propelled equities higher. The S&P 500® Index and the Nasdaq Composite hit multiple record highs during the third quarter. Even the beleaguered small-cap asset class has participated in the beta-induced rally. The Russell 2000® Index had its best quarter since 4Q23 and hit fresh all-time highs in September. It took the Russell 2000® Index over 970 days to surpass the prior all-time highs it reached in November 2021 (Illustration 1).

In fact, the recent small-cap rally has been so pronounced that the Russell 2000® Index has outperformed the S&P 500® Index since the April lows (Illustration 2), 39.3% versus 35.1%, respectively. As a dedicated small- and mid-cap value manager, small-caps' outperformance is welcomed given that we have had to persevere through a long performance drought versus large-cap equities. However, the recent small-cap rally has been a double-edged sword.

The recent equity melt-up has been concentrated and low quality in nature, which has posed stiff headwinds for active managers. As Illustrations 3 and 4 highlight, the rally off the April lows has been dominated by risk factors. For example, the performance of stocks in the highest Beta quintile (Q1) for the Russell 2000® Value Index meaningfully outperformed (+77.4%) the quintile with the lowest Beta (Q5) stocks (+21.9%). The same conclusion can be observed for other factors such as Volatility, Short Interest and Profitability. Not only was this observed in the small-cap value universe, but also in the mid-cap value universe, as Illustration 4 shows. As a quality-biased fundamental manager, underexposure to some of these Risk factors has resulted in a notable performance drag.

Also exacerbating the recent performance challenges has been the high

**Illustration 3: Performance of Key Factors During Three Market Regimes in the Russell 2000® Value Index**

	Regime 1: Leading to Inauguration Day (1/1 – 1/17)	Regime 2: Post-Inauguration to April Lows (1/21 – 4/8)	Regime 3: Rebound off April Lows (4/9 – 9/30)
Beta Q1 (Highest)	2.5%	-32.3%	77.4%
Beta Q5 (Lowest)	0.3%	-9.7%	21.9%
Earners (Profitable)	2.2%	-18.6%	28.2%
Non-Earners (Loss-Making)	0.0%	-27.7%	62.3%
Short Interest Q1 (Highest)	1.4%	-31.2%	72.6%
Short Interest Q5 (Lowest)	1.0%	-14.0%	17.9%
Volatility Q1 (Highest)	1.7%	-28.2%	125.4%
Volatility Q5 (Lowest)	1.1%	-14.1%	15.3%

Source: FactSet. As of September 30, 2025. Data compiled and analyzed by Sycamore Capital. The market was closed for Inauguration Day in observance of Martin Luther King Jr. Day. As a result, "Regime 2" starts on 1/21/2025 instead of 1/20/2025.

**Illustration 5: Concentration of Top 50 Contributors in the S&P 500® Index Since 1994**

Year	S&P 500® Index Total Return	Top 50 Contributors: Contribution to Total Return	50 Top Contributors: Contrib. to Return as % of Overall Index Return
2025 (YTD)	14.8%	14.1%	95%
2023	26.3%	24.5%	93%
2024	25.0%	22.0%	88%
1998	28.6%	24.2%	85%
2004	10.9%	8.3%	76%
2006	15.8%	11.1%	70%
2016	12.0%	7.9%	66%
2017	21.8%	14.3%	66%
2009	26.5%	17.3%	65%
1996	23.0%	15.0%	65%
2021	28.7%	18.5%	65%
2014	13.7%	8.7%	63%
1997	33.4%	20.5%	62%
2010	15.1%	9.2%	61%
2003	28.7%	17.6%	61%
2012	16.0%	9.7%	61%
2019	31.5%	17.7%	56%
1995	37.6%	20.3%	54%
2013	32.4%	15.5%	48%

Source: FactSet. As of September 30, 2025. Data compiled and analyzed by Sycamore Capital. To normalize data, only years where index total return was greater than 6% were included in the analysis.

**Illustration 7: Concentration of Top 50 Contributors in the Russell Midcap® Value Index Since 1994**

Year	Russell Midcap® Value Index Total Return	Top 50 Contributors: Contribution to Total Return	50 Top Contributors: Contrib. to Return as % of Overall Index Return
2000	19.2%	16.3%	85%
2025 (YTD)	9.5%	7.2%	76%
2005	12.7%	8.2%	65%
2024	13.1%	8.2%	63%
2023	12.7%	7.9%	62%
2014	14.8%	8.5%	57%
2017	13.3%	6.9%	52%
2009	34.2%	16.5%	48%
2006	20.2%	9.7%	48%
2016	20.0%	9.2%	46%
2004	23.9%	10.9%	46%
2012	18.5%	8.3%	45%
1996	20.4%	9.2%	45%
2010	24.8%	10.1%	41%
1995	35.0%	13.4%	38%
1997	34.4%	13.0%	38%
2013	33.5%	12.3%	37%
2021	28.3%	10.2%	36%
2019	27.1%	9.6%	35%
2003	38.1%	13.1%	34%

Source: FactSet. As of September 30, 2025. Data compiled and analyzed by Sycamore Capital. To normalize data, only years where index total return was greater than 6% were included in the analysis.

**Illustration 4: Performance of Key Factors During Three Market Regimes in the Russell Midcap® Value Index**

	Regime 1: Leading to Inauguration Day (1/1 – 1/17)	Regime 2: Post-Inauguration to April Lows (1/21 – 4/8)	Regime 3: Rebound off April Lows (4/9 – 9/30)
Beta Q1 (Highest)	5.7%	-29.4%	62.3%
Beta Q5 (Lowest)	1.0%	-3.2%	10.3%
Earners (Profitable)	3.2%	-16.1%	25.8%
Non-Earners (Loss-Making)	5.2%	-26.4%	50.4%
Short Interest Q1 (Highest)	3.8%	-27.8%	37.1%
Short Interest Q5 (Lowest)	3.0%	-13.6%	25.1%
Volatility Q1 (Highest)	7.7%	-31.1%	61.4%
Volatility Q5 (Lowest)	1.2%	-8.0%	12.0%

Source: FactSet. As of September 30, 2025. Data compiled and analyzed by Sycamore Capital. The market was closed for Inauguration Day in observance of Martin Luther King Jr. Day. As a result, "Regime 2" starts on 1/21/2025 instead of 1/20/2025.

**Illustration 6: Concentration of Top 50 Contributors in the Russell 2000® Value Index Since 1994**

Year	Russell 2000® Value Index Total Return	Top 50 Contributors: Contribution to Total Return	50 Top Contributors: Contrib. to Return as % of Overall Index Return
2025 (YTD)	9.0%	7.7%	86%
2024	8.1%	6.3%	78%
2017	7.8%	5.0%	64%
2000	22.8%	14.0%	61%
2023	14.6%	7.7%	53%
2009	20.6%	10.1%	49%
2001	13.9%	6.7%	48%
2012	18.1%	6.3%	35%
2021	28.3%	9.7%	34%
2019	22.4%	7.3%	33%
1996	21.4%	6.8%	32%
2010	24.5%	7.2%	29%
2004	22.2%	6.4%	29%
2006	23.5%	6.5%	28%
1995	25.7%	7.1%	28%
2016	31.8%	8.6%	27%
1997	31.8%	7.4%	23%
2013	34.5%	8.0%	23%
2003	45.9%	9.8%	21%

Source: FactSet. As of September 30, 2025. Data compiled and analyzed by Sycamore Capital. To normalize data, only years where index total return was greater than 6% were included in the analysis.

**Illustration 8: Non-Earners in the Russell 2000® Value Index Leading the Market During the Third Quarter**

Ticker	Name	Total Return	Contrib. to Return	LTM EPS
SATS	EchoStar Corp.	175.7%	0.50	-1.12
OKLO	Oklo Inc.	99.4%	0.32	-0.40
CDE	Coeur Mining, Inc.	111.7%	0.25	0.39
REZI	Resideo Technologies, Inc.	95.7%	0.25	-5.40
HL	Hecla Mining Co.	102.1%	0.22	0.16
RIOT	Riot Platforms, Inc.	68.4%	0.19	-0.46
SSRM	SSR Mining Inc.	91.7%	0.19	0.77
CYTK	Cytokinetics, Inc.	66.3%	0.18	-5.12
CIFR	Cipher Mining Inc.	163.4%	0.16	-0.44
RUN	Sunrun Inc.	111.4%	0.16	-11.62
VSAT	ViaSat, Inc.	100.7%	0.15	-4.62
TTMI	TTM Technologies, Inc.	41.1%	0.13	0.89
BTU	Peabody Energy Corp.	98.4%	0.13	1.02
HUT	Hut 8 Corp.	87.2%	0.12	1.41
UUUU	Energy Fuels Inc.	167.0%	0.12	-0.49
CRSP	CRISPR Therapeutics AG	33.2%	0.11	-5.42
AEO	American Eagle Outfitters, Inc.	80.1%	0.10	1.04
PRM	Perimeter Solutions Inc.	60.8%	0.10	0.42
CWK	Cushman & Wakefield PLC	43.8%	0.10	0.88
LGND	Ligand Pharmaceuticals Inc.	55.8%	0.09	-4.00
CADE	Cadence Bank	18.3%	0.09	2.82
CMC	Commercial Metals Co.	17.1%	0.08	0.31
ENS	EnerSys	32.0%	0.08	8.77
PII	Polaris Inc.	44.7%	0.08	-1.89
HCC	Warrior Met Coal, Inc.	39.0%	0.08	0.77

Source: FactSet. As of September 30, 2025. Data compiled and analyzed by Sycamore Capital.

concentration within the indices. Not only has this been observed in the S&P 500® Index (Illustration 5), but this phenomenon has recently unfolded in the small-cap value and mid-cap value indices as well. As observed in Illustrations 6 and 7, the contribution of the top 50 stocks within these indices is high relative to history dating back to 1994. Not owning certain stocks that made up the top contributors within the indices has also been a performance headwind. The decision not to own some of these stocks varies. For some stocks—especially those linked to the AI trade—valuations are too lofty. For others, the balance sheet is less than ideal. Others, especially within the small-cap universe, do not meet our investment criteria. For example, 12 out of the top 25 contributors to the Russell 2000® Value Index during the third quarter were non-earners (Illustration 8).

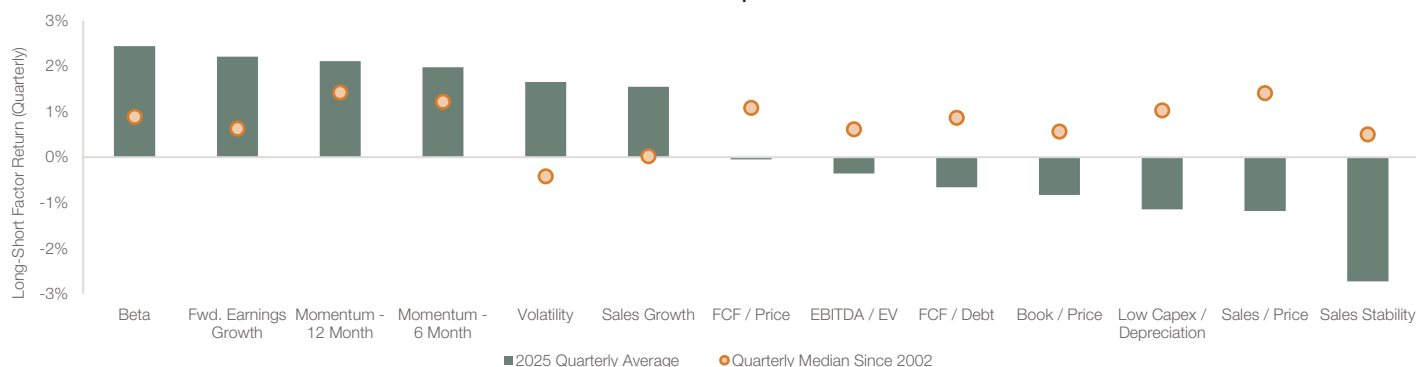
In combination with the risk-on sentiment, Momentum continued to outperform as market participants' preference for “what’s working” remains well cemented. Historically, Momentum regimes have generally faltered after an extended period. This one is getting long in the tooth, but there appears to be no end in sight given that investors continue to crowd into the major

market themes. We did witness a Momentum unwind during the first quarter following the reveal of DeepSeek. However, that was short-lived. Illustrations 9 and 10 show year-to-date factor performance versus their long-term median since 2002 for the Russell Midcap® Value Index and Russell 2000® Value Index. Clearly, Risk and Momentum's year-to-date performance has exceeded the long-term median. Quality and Value factors which have typically outperformed over the long term have lagged year-to-date. Furthermore, Illustration 11 highlights the divergence that has unfolded between momentum and fundamental stability within the broader S&P 500® Index. This is reflective of a market that is less interested in fundamentals and valuation and more focused on broader themes. Being underweight to the Momentum and Beta factors has been penalizing. These observations highlight the challenges facing our bottom-up fundamental process.

### The Fundamental (Value) Manager's Predicament

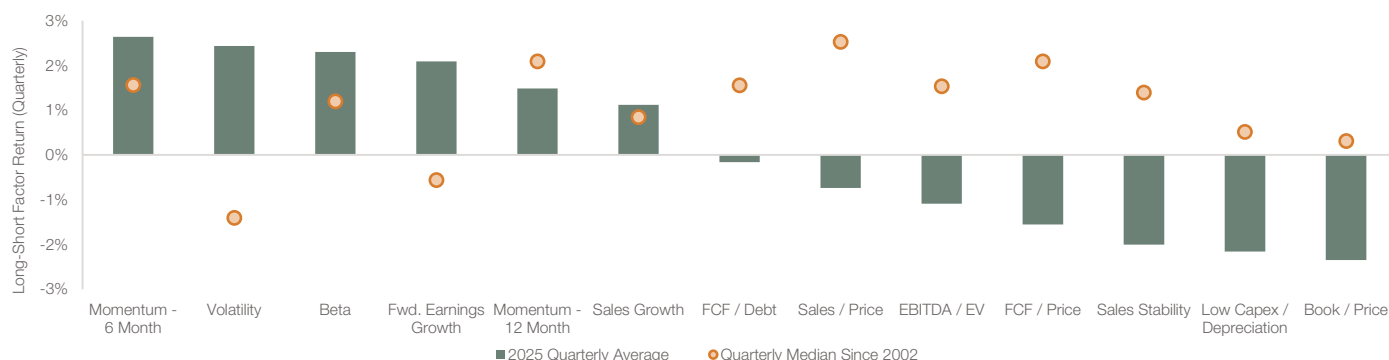
Historically, when Momentum outperforms for an extended period, it generally evolves into a stylistic headwind for valuation-centric fundamental managers. Today, we find ourselves in a predicament. Our bottom-up fundamental

**Illustration 9: 2025 Factor Returns vs. Median Since 2002 in the Russell Midcap® Value Index**



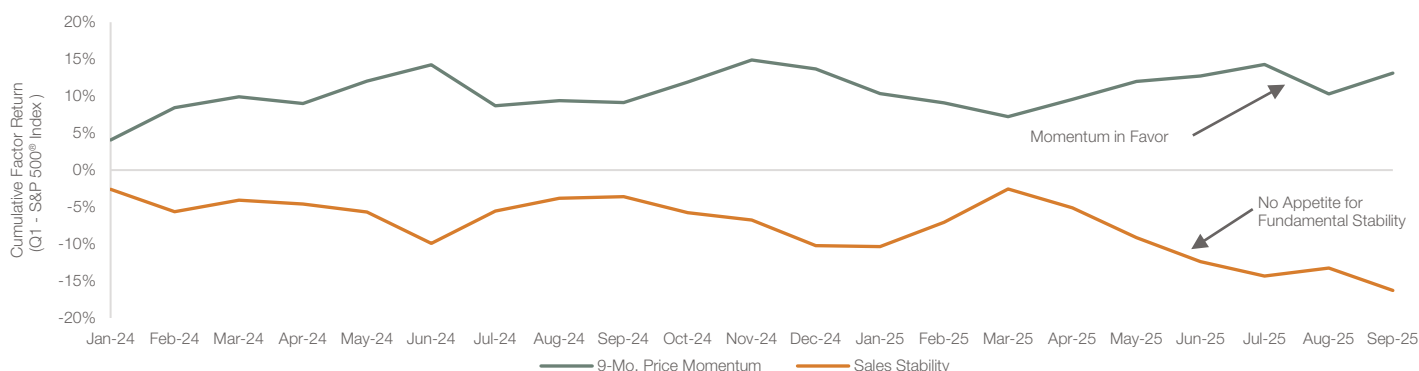
Source: FactSet. As of September 30, 2025. Data compiled and analyzed by Sycamore Capital. Analysis is quintile based, with an equal number of holdings in each quintile. Results represent first quintile performance minus fifth quintile performance.

**Illustration 10: 2025 Factor Returns vs. Median Since 2002 in the Russell 2000® Value Index**



Source: FactSet. As of September 30, 2025. Data compiled and analyzed by Sycamore Capital. Analysis is quintile based, with an equal number of holdings in each quintile. Results represent first quintile performance minus fifth quintile performance.

**Illustration 11: Factor Comparison in the S&P 500® Index – Momentum vs. Fundamental Stability (Sales Stability)**



Source: FactSet. As of September 30, 2025. Data compiled and analyzed by Sycamore Capital. Momentum is calculated using a 9-month lookback. Cumulative factor returns represent first quintile performance minus S&P 500® Index performance.



approach that is centered on the risk/reward merits of individual securities is out of favor. Market participants have been eager to reward companies linked to the key prevailing themes in the market irrespective of fundamentals or valuations. Some of our holdings in the portfolio have benefited from their association with these themes; however, their valuation has forced us to de-risk the positions. In other words, selling Momentum as a result of our valuation-centric approach has adversely impacted relative performance.

Take Fabrinet (FN), for example. FN is a leading global electronic manufacturing services (EMS) company focused on the optical communications market. We first initiated a position in FN in September 2020. The original investment thesis was based on the company's leading market position in the optical networking market. We believed FN was well-positioned to benefit from the increase in demand for bandwidth and infrastructure build-out for 5G networks. Throughout our holding period, FN consistently met or beat expectations. In 2023, the company secured a large project with NVDA for its data center operations. As Illustration 12 highlights, shares have re-rated meaningfully higher and have continued to appreciate even after our sale.

Many of our clients have asked whether we can tweak the process to allow us to hold onto the winners longer. That is a valid question. However, if we chose to hold onto winners longer, how would we define our sell discipline? A key reason for the success we've had in delivering compelling risk-adjusted returns over the long run is centered on a well-defined sell discipline.

Illustration 13 highlights the valuation framework for FN at the time of initiation and at the time of sale. At the time of initiation, FN was trading at a discount to its long-term average on multiple valuation metrics. Given that it is now widely acknowledged that FN is linked to the AI ecosystem, with Nvidia one of its largest clients, shares have re-rated meaningfully higher. Due to the elevated valuation, shares were divested.

In hindsight, an argument can be made that it was a poorly timed sale. Going back to the question of whether we can hold our winners (momentum stocks) longer—if we had held on to stocks like FN in the portfolio, could we even consider ourselves a value manager, given the elevated valuations?

The AI theme has been such a potent force in the market that it's buoying the valuations of exposed companies higher, making it difficult for disciplined value managers to own some of these stocks. Unfortunately, not owning companies with AI exposure has adversely impacted performance. Fundamental value managers are caught between a rock and a hard place. Managers must decide whether to deviate from their process or remain committed and risk sacrificing performance. That's the predicament that fundamental value investors have to grapple with in a market overwhelmed by broad themes.

**Illustration 12: Sycamore Small Cap Value Equity Holding Period for Fabrinet (FN)**



Source: FactSet. As of September 30, 2025. Data compiled and analyzed by Sycamore Capital.

**Illustration 13: Valuation Framework for Fabrinet (FN)**

Valuation	Initiation Sep. 2020	Sale Jan. 2024	5-Yr. Avg. at Time of Sale
P/E FY1	15.2x	24.7x	16.9x
P/E FY2	13.8x	21.1x	15.3x
Price/Book	2.4x	5.1x	3.4x
EV/EBITDA (LTM)	11.4x	20.3x	13.7x

Source: FactSet. As of September 30, 2025. Data compiled and analyzed by Sycamore Capital.

### Bubble Talk...

Another question that has been top of mind for clients is whether we are in a "bubble." It is difficult to call a bubble because you generally don't know if you are in one until it is too late. However, when the market becomes one-dimensional and singularly focused, underlying risks can be underappreciated. The AI theme is so pervasive that it currently dominates every aspect of the market and the economy. Investors are plowing an unprecedented amount of capital into a potentially transformative technology that (as of now) has no proven path to profitability. But that does not seem to matter; the stampede to have a role in the AI ecosystem remains unabated. For the key players, missing out on the technology of the future is not an option. Therefore, a copious amount of capital is being pledged to help build out the infrastructure needed to satisfy the demand. And the web of capital chasing the AI narrative is becoming increasingly intertwined.

We cannot refute the potential benefits of AI and the role it will play in society in the future. However, a lot hinges on AI being able to deliver on its promises. Today, despite the euphoric response to this technology, many questions remain unanswered. For the most part, the market does not seem to be bothered by the unchecked spending bonanza. The lack of concern for the elusive return on investment is puzzling. A level of complacency has settled into the market where many investors are focused only on the upside while few are evaluating what could go wrong with the current narrative.

Let's touch on a couple of interesting thoughts from some of AI's Heads of State. On an episode of the "Access" podcast, Meta CEO Mark Zuckerberg had the following to say:

*"If we end up mispending a couple of hundred billion dollars, I think that that is going to be very unfortunate, obviously. . . . But what I'd say is I actually think the risk is higher on the other side."*

At a recent press conference, OpenAI's Sam Altman alluded to "profitability" not being a top concern for the company's leadership team, saying the following:

*"[Profitability is] . . . not in my top 10 concerns, but we obviously someday have to be very profitable."*

Here's some additional food for thought on sell-side analyst ratings based on FactSet data as of October 11, 2025:

- AMZN: 96% of sell-side analysts have a "Buy" rating with no "Sell" ratings (72 analysts covering)
- GOOG: 82% of sell-side analysts have a "Buy" rating with no "Sell" ratings (74 analysts covering)
- META: 87% of sell-side analysts have a "Buy" rating with one "Sell" rating (71 analysts covering)
- NVDA: 89% of sell-side analysts have a "Buy" rating with one "Sell" rating (66 analysts covering)

It has been our experience that when management teams don't practice capital discipline, they are penalized by the investment community. It is somewhat bewildering how that is being dismissed today.

Where is the healthy dose of skepticism that we would expect from Wall Street analysts? That's the issue; there is essentially none. Groupthink has become an emblematic (and unfortunate) part of this market. Prudent investors should assess the downside risks especially when the consensus is so lopsided. While trying to call a market top is problematic, we will offer some observations below and leave it up to our readers to draw their own conclusions of whether or not we are in a bubble.

### If Comparing to the Dot-Com Era, There's Room to Run

The AI frenzy is often likened to the Tech Bubble of the 1990s; therefore, that period is typically used as a barometer to determine whether the AI-fueled market rally has room to run. As can be observed in Illustration 14, the Nasdaq Composite is following a similar path to the one taken during the 1990s. However, when the MAG-7 stocks are evaluated on their own, they are diverging higher at a quicker pace. Interestingly, the Nasdaq's rise during the 1990s was not a smooth one. In fact, there were eight corrections of 10% or more before the index eventually peaked in 2000 (Illustration 15). In other words, the origin of the dot-com era bubble was not a linear one.

**Illustration 14: Performance of Tech Today vs. 1990s**

Source: FactSet. As of September 30, 2025. Data compiled and analyzed by Sycamore Capital. Cumulative performance for NASDAQ 1990s begins on 12/30/1994. Cumulative performance for NASDAQ 2020s and MAG-7 2020s is 11/1/2022. For this analysis, the Magnificent 7 includes the following tickers: AAPL, AMZN, GOOG, GOOGL, META, MSFT, NVDA, TSLA.

**Illustration 15: 10% Declines in the Nasdaq Composite – Tech Bubble vs. ChatGPT Release**

Source: FactSet. As of September 30, 2025. Data compiled and analyzed by Sycamore Capital. Index levels for the Tech Bubble are from 12/29/95 to 12/31/03. Index levels for Chat GPT Release are from 11/30/22 to 9/30/25. Data shown in illustration represents peak to trough performance for each respective period.

By contrast, during the current AI-fueled melt-up, there have been four such corrections since the launch of ChatGPT in 2022.

Even when comparing Nvidia to Cisco in the 1990s, Nvidia's meteoric rise may not be over. As Illustration 16 highlights, Nvidia was trading at 27.7x price/sales at the end of the third quarter. Cisco peaked at 39.0x price/sales in 2000.

An argument can be made that there is still some upside potential for the latest rally given that valuations have not reached the frothiness of the 1990s. As former Citi CEO Chuck Prince famously said in 2007, "...as long as the music is playing, you've got to get up and dance. We're still dancing." There's an unprecedented spending spree flowing into the AI ecosystem. As long as the spending bonanza continues, another leg up for equities is not out of the question.

#### AI CapEx Is Unprecedented, but Is It Sustainable?

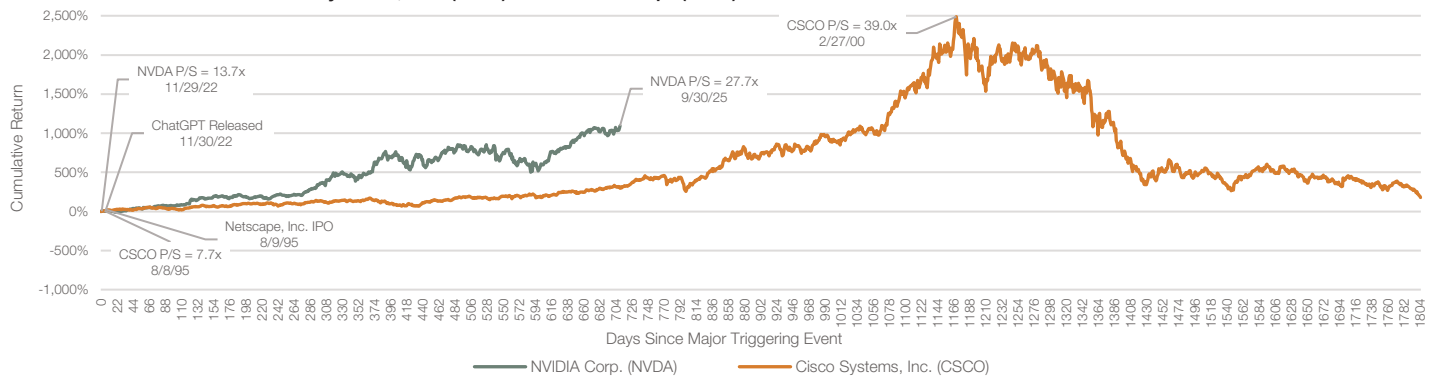
OpenAI, the most valuable start-up in the world, has pledged \$1 trillion in spending to build out the infrastructure needed to support its models. The scale of investment in AI infrastructure is unprecedented and is reminiscent of the dot-

com investment craze in the 1990s. A September 24, 2025 Eye on the Market note from J.P. Morgan highlighted the impact that the AI-exposed stocks have had on the S&P 500® Index. Per the note, AI-exposed stocks have accounted for 75% of the index returns, 80% of earnings growth and 90% of capital spending since the launch of ChatGPT in November 2022. At the end of the third quarter, the MAG-7 CapEx explained approximately 30% of total CapEx for the S&P 500® Index (Illustration 17).

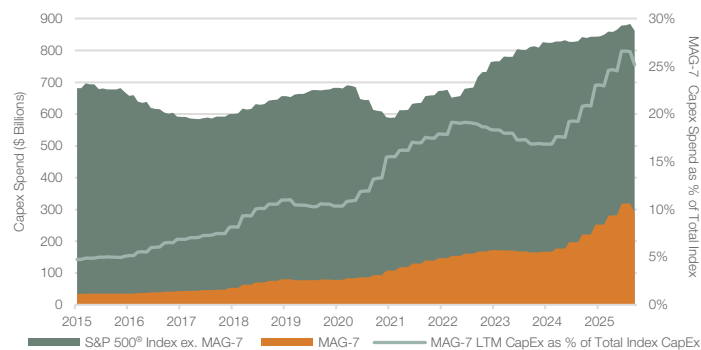
The meaningful jump in year-over-year (YoY) CapEx spend from 2023 to 2025 has helped fuel the rally in AI-exposed stocks (Illustration 18). U.S. hyperscaler CapEx growth jumped by 79% from 2023 to 2024. By some estimates, CapEx growth will peak in 2025 and fall sharply in 2026 and beyond. While CapEx growth will not go to zero, 2026 estimates call for 17% growth while 2027 estimates fall to 7%. The question is whether the market is prepared to digest a decline in the CapEx growth rate given that it's been the central tenet to the market rally.

#### Is the Market Prepared for a Another "Bad" Data Point?

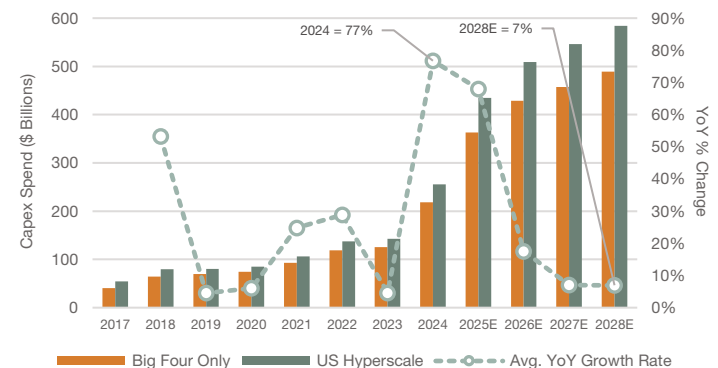
Recall what happened in January when a wrench was thrown into the AI narrative in the form of DeepSeek. As Illustration 19 highlights, stocks linked

**Illustration 16: The Rise of Cisco Systems, Inc. (1995) vs. NVIDIA Corp. (2025)**

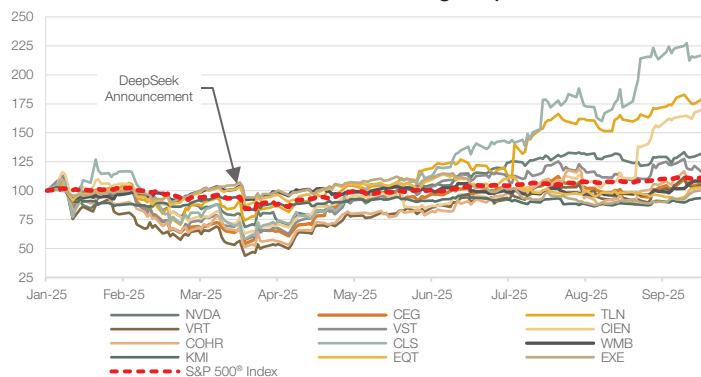
Source: FactSet. As of September 30, 2025. Data compiled and analyzed by Sycamore Capital. Cumulative performance for CSCO begins on August 8, 1995. Cumulative performance for NVDA begins on November 29, 2022.

**Illustration 17: CapEx Spend Breakdown of the S&P 500® Index**

Source: FactSet. As of September 30, 2025. Data compiled and analyzed by Sycamore Capital. For this analysis, the Magnificent 7 includes the following tickers: AAPL, AMZN, GOOG, META, MSFT, NVDA, TSLA. Ticker GOOGL was excluded from the analysis.

**Illustration 18: Hyperscalers vs. Big Four CapEx Spending**

Source: UBS. As of August 31, 2025. Year-over-year growth rate is the average of Hyperscalers and Big Four.

**Illustration 19: AI Stock Performance Following DeepSeek Announcement**

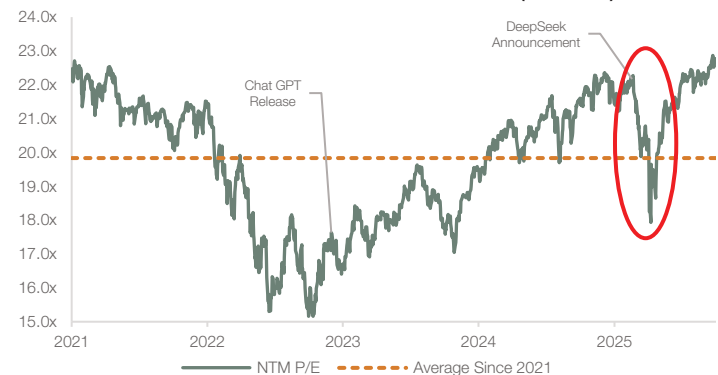
Source: FactSet. As of September 30, 2025. Data compiled and analyzed by Sycamore Capital. Performance is indexed to 100 on January 17, 2025.

to the AI theme rapidly sold off after DeepSeek's reveal. Trillions in market cap was erased from the U.S. equity market in a short time. While the sell-off was short-lived, it highlighted the fragility of the narrative given that few are thinking about what could go wrong. Therefore, when future hyperscaler CapEx growth figures begin to pale in comparison to the past two years, what sort of reaction will we get from the market?

Valuations for AI-exposed stocks are mostly pricing in positive news with little wiggle room for any disappointments. Illustration 20 shows how quickly the S&P 500® Index de-rated following the release of DeepSeek. The question is what sort of response will we get from the market when/if future data points disappoint or AI fails to deliver on its Herculean promise?

#### CapEx and FCF Deterioration

Funding this CapEx cycle is costly, and that is beginning to show up in the

**Illustration 20: S&P 500® Index Valuations Since 2021 (NTM P/E)**

Source: FactSet. As of September 30, 2025. Data compiled and analyzed by Sycamore Capital.

numbers. Aside from Nvidia, the FCF growth profile of the other MAG-7 stocks has deteriorated (Illustration 21). After all, the defining feature of "big tech" companies has been their unmatched free cash flow generation. As the hyperscalers jockey for a seat at the table in the AI arms race, their business models are being transformed from "asset light" to capital-intensive ones.

In a recent research note, Empirical Research Partners made an interesting observation relating to CapEx worth sharing. Based on their findings, since the 1950s, stocks in the highest quintile of YoY CapEx growth have underperformed the market thereafter (Illustration 22). So far, the hyperscalers have bucked that trend during this cycle. We suspect that this is partly due to the significant FCF profile of these megacap tech companies. Hence, the spending spree can continue longer than in prior CapEx cycles before there's any possible impact on their share price.

Regardless, history is littered with examples of how overzealous CapEx



Illustration 21: MAG-7 (Ex. NVDA) Year-Over-Year FCF Growth

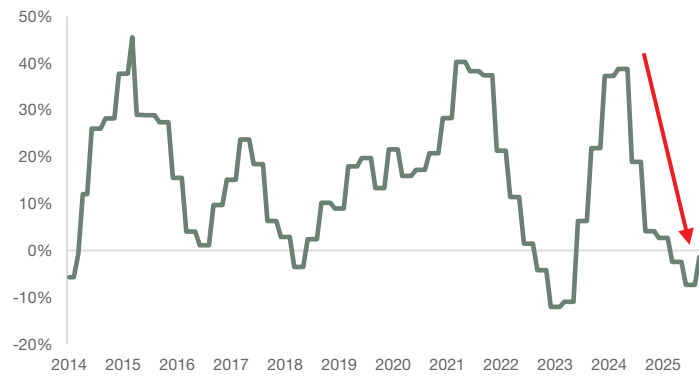
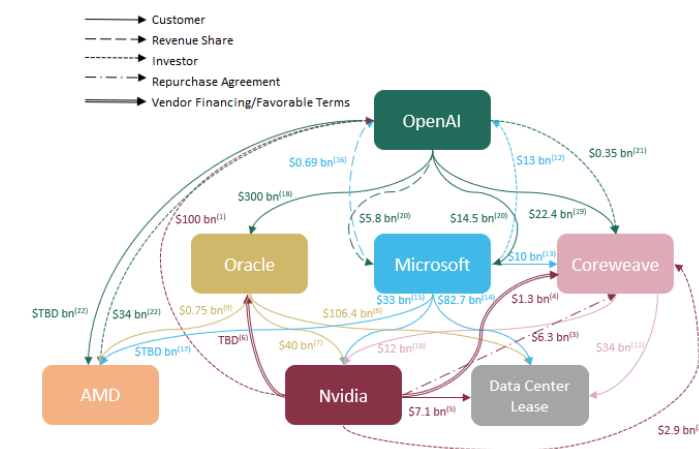


Illustration 23: AI Ecosystem Capital Flows



spending booms can end badly. Whether it was the railroads in the late-1880s, the British Bicycle bubble in the 1890s, or the telecom and internet bubble in the 1990s, too much funding chasing a new innovation can result in a glut and misallocation of capital. AI profitability remains elusive, but that has not deterred massive investment. It remains to be seen whether this CapEx cycle will prove to be different from prior ones when too much capacity was brought online too fast and demand failed to keep up with the frantic pace of spending.

#### An Incestuous Affair

The intertwined relationship between some of the key players in the AI ecosystem has emerged recently, with some observers sounding the alarm bell that these arrangements eerily resemble “vendor financing” that was prevalent during the Tech Bubble. It seems that not a day goes by without some headlines describing how suppliers are funding customers, revenue is shared between customer and vendor, and off-balance-sheet partnerships are being forged. In a recent client note, Morgan Stanley provided a descriptive (but hard to follow) diagram of the convoluted nature of this dynamic (Illustration 23).

These close-knit arrangements put investors in a dilemma. It becomes increasingly more difficult to evaluate the underlying opportunities and risks as these arrangements become more complex, as they are concentrated among a few players and lack transparency. This could (if it has not already) result in information asymmetry, which puts investors at a disadvantage. Essentially, it forces investors to take management at their word. As bottom-up fundamental investors, we spend a considerable amount of time evaluating management teams. Over the years, it's become evident that not all management teams have a favorable track record of being good stewards of capital. Without adequate disclosures, a system of checks and

Illustration 22: Year-Over-Year Capital Spending Growth of Large-Cap Stocks

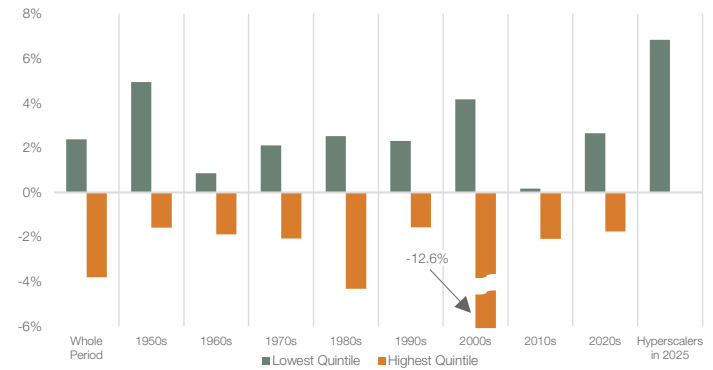
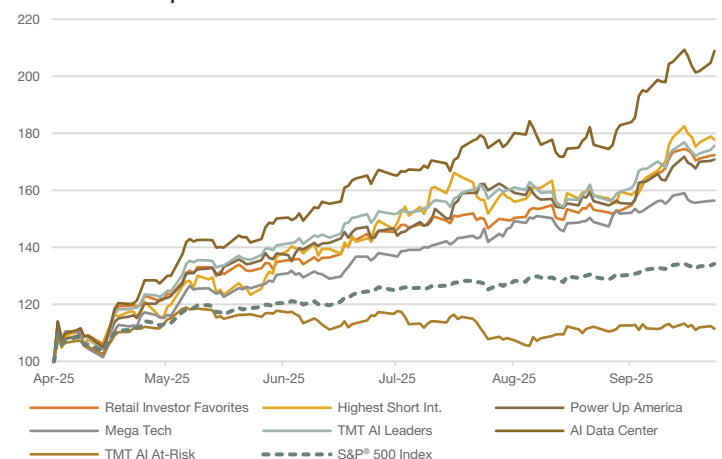


Illustration 24: Performance of S&amp;P 500® Index vs. Goldman Thematic Baskets Since April 2025 Tariff Pause



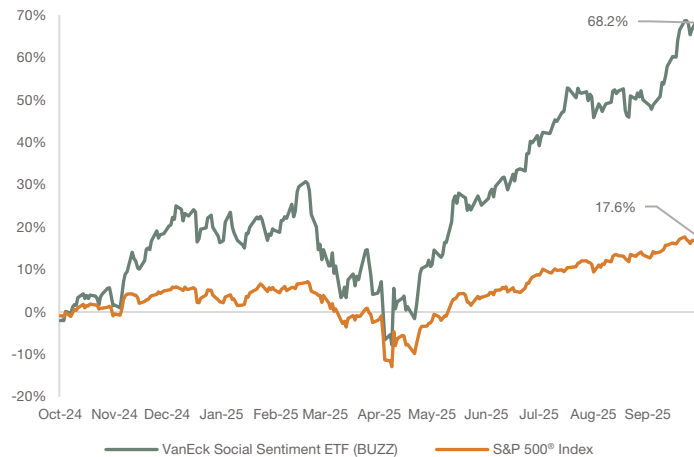
balances becomes elusive and identifying risks becomes very challenging.

#### Complacency Reminiscent of 2021

The latest price action across U.S. equities is reminiscent of what we observed during the COVID pandemic. We detect a similar type of complacency—an attitude that the market will just continue to appreciate. Human psychology makes it very difficult to sit on the sidelines while animal spirits are on display. FOMO and trend-following are ubiquitous. If there's any doubt, one only needs to look at the parabolic moves in some of the popular trading vehicles to grasp the current market environment. For example, just look at the performance divergence between some of the popular baskets and the S&P 500® Index (Illustration 24). Or perhaps the performance divergence between the S&P 500® Index and a popular ETF that tracks high-growth companies with positive social media sentiment (Illustration 25).

Clients often ask about the root cause of this phenomenon. It's hard to pinpoint one thing. Some of it can be chalked up to the rise in retail investor participation. Take for example some interesting data from the Morgan Stanley Quantitative and Derivative Strategies team. In the month of September alone, retail investors bought over \$100 billion of U.S. equities based on public data, which represented the largest one-month buying spree on record. Retail investor buying is on pace to hit \$800 billion by year-end. Close to 30% of daily intraday trading volume is now explained by retail investors, which is the percentage reached in 2021 during the “meme” stock craze. As Illustration 26 highlights, U.S. households' exposure to equities reached an all-time high this year.

We also suspect that the absence of a boom-bust cycle (e.g., Tech Bubble and GFC), which typically resets the narrative, is partly to blame. Market participants have become conditioned to anticipate accommodative policies

**Illustration 25: Cumulative 1-Year Performance of S&P 500® Index vs. VanEck Social Sentiment ETF**

Source: FactSet. As of September 30, 2025. Data compiled and analyzed by Sycamore Capital. Performance begins on October 1, 2024.

at any signs of economic weakness. If expectations are that regulators will jump to the rescue, then what is there to lose? The Fed's capitulation and the AI-induced spending binge have reignited the animal spirits driving the latest risk-on sentiment.

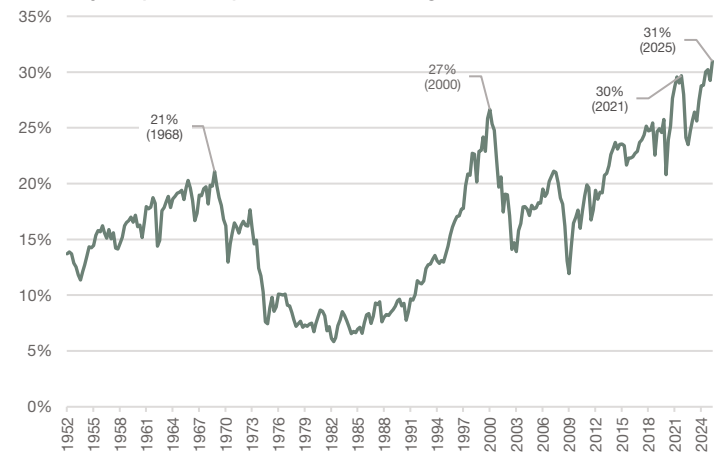
### CONCLUDING REMARKS

The past two years have been a very challenging period for our team. After much self-reflection, we've realized that a mosaic of factors has driven the recent underperformance. Some of those have been self-inflicted wounds. We are addressing those that are generally under our control. Other factors are out of our control and are a result of market forces at play that have called into question whether a bottom-up fundamental value investment approach is viable anymore. A market that is one-dimensional and singularly focused is at odds with our investment approach, which is centered on building a diversified portfolio and being contrarian. Managers today have to decide whether to stick to their time-tested process or choose to bend the rules in an effort to limit the performance drag. We believe that overhauling our process in order to offset some of the market headwinds is a dangerous proposition. We are not certain when the market will broaden out or when market participants will pay attention to valuations. We suspect that as long as the AI-linked CapEx spending spree goes unchecked, it's tough to imagine this trend reversing. If there is a silver lining for us, it's that "trees don't grow to the sky." The band between the "haves" and "have nots" is going to get stretched to a point where something must break.

Going back to the question of whether we are in a bubble. Each cycle is different; however, they often rhyme. In conclusion, we thought that we would turn to a 2017 memo authored by Howard Marks to clients. In the memo, Mr. Marks lists several attributes that he believes form the foundation of a bull market, boom or bubble. Mr. Marks titled this section of his memo "The Seeds for a Boom."

Again, we'll leave it to our readers to determine whether the current market narrative is captured by any of Mr. Marks' observations:

- **A benign environment** – good results lull investors into complacency, as they get used to having their positive expectations rewarded.

**Illustration 26: Household & Nonprofit Organizations – Directly & Indirectly Corporate Equities as a Percentage of Total Assets**

Source: Federal Reserve Economic Data (FRED). As of June 30, 2025. Data compiled and analyzed by Sycamore Capital.

Gains in the recent past encourage the heated pursuit of further gains in the future (rather than suggest that past gains might have borrowed from future gains).

- **A grain of truth** – the story supporting a boom isn't created out of whole cloth; it generally coalesces around something real. The seed usually isn't imaginary, just eventually overblown.
- **Early success** – the gains enjoyed by the "wise man in the beginning" – the first to seize upon the grain of truth – tends to attract "the fool in the end" who jumps in too late.
- **More money than ideas** – when capital is in oversupply, it is inevitable that risk aversion dries up, gullibility expands, and investment standards are relaxed.
- **Willing suspension of disbelief** – the quest for gain overcomes prudence and deference to history. Everyone concludes "this time it's different." No story is too good to be true.
- **Rejection of valuation norms** – all we hear is, "the asset is so great: there's no price too high." Buying into a fad regardless of price is the absolute hallmark of a bubble.
- **The pursuit of the new** – old timers fare worst in a boom, with the gains going disproportionately to those who are untrammelled by knowledge of the past and thus able to buy into an entirely new future.
- **The virtuous circle** – no one can see any end to the potential of the underlying truth or how high it can push the prices of related assets. It's broadly accepted that trees can grow to the sky: "It can only go up. Nothing can stop it." Certainly no one can picture things taking a turn for the worse.
- **Fear of missing out** – when all the above becomes widespread, optimism prevails and no one can imagine a glitch. That causes most people to conclude that the greatest potential error lies in failing to participate in the current market darling.

*On behalf of the Sycamore Capital team, we thank our clients for their long-term partnership and support.  
We are grateful for the trust you have placed in our Team to manage your assets.*

**Top Contributors (%)**

Sandisk Corp.	1.3
Tower Semiconductor Ltd.	0.7
NCR Atleos Corp.	0.4
Mercury Systems, Inc.	0.4
Everus Construction Group, Inc.	0.3

Source: FactSet. The percent displayed is the contribution to return (gross-of-fees).

**Top Detractors (%)**

Haemonetics Corp.	-0.3
Interparfums, Inc.	-0.3
Silgan Holdings, Inc.	-0.2
WillScot Holdings Corp.	-0.2
Bowhead Specialty Holdings, Inc.	-0.2

**ANNUALIZED RETURNS**

Investment Performance (%)	QTR	YTD	1-YR	3-YR	5-YR	7-YR	10-YR	Since Inception*
Sycamore Small Cap Value Equity (gross of fees)	7.29	1.65	2.53	11.04	13.30	7.67	10.75	11.70
Sycamore Small Cap Value Equity (net of fees)	7.02	0.89	1.51	9.94	12.17	6.60	9.65	10.59
Russell 2000® Value Index	12.60	9.04	7.89	13.56	14.59	6.40	9.23	—

Source: Zephyr. Returns greater than one year are annualized and reflect the reinvestment of dividends and other earnings.

\*Since inception start date: 01/01/1993.

**Past performance does not guarantee of future results.**

Composite and benchmark returns are presented net of non-reclaimable withholding taxes, if any. Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Net-of-fees returns are calculated by deducting 1/12 of the highest tier of the standard fee schedule in effect for the period noted (the model fee). The composite model fee for each period is either the highest tier of the current fee schedule or a higher value, whichever is required to ensure the model composite net-of-fee return is lower than or equity to the composite net-of-fee return calculated using actual fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and may be found on Part 2A of its Form ADV.

The Sycamore Small Cap Value Equity Composite includes all accounts, except wrap fee paying accounts, primarily invested in stocks of small/emerging companies with market capitalizations of less than \$2 billion. The product generally has a minimum equity commitment of 90% and the composite inception date is January 1993. The composite creation date is 1Q93.

The benchmark of the composite is the Russell 2000® Value Index. The Russell 2000® Value Index measures the performance of those Russell 2000® companies with lower price/book ratios and lower forecasted growth values. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 8% of the total market capitalization of the Russell 3000® Index.

All investments carry a certain degree of risk including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class.

The information in this article is based on data obtained from recognized services and sources and is believed to be reliable. Any opinions, projections or recommendations in this report are subject to change without notice and are not intended as individual investment advice. The securities highlighted, if any, were not intended as individual investment advice. This information should not be relied upon as research or investment advice regarding any security in particular.

Index returns are provided to represent the investment environment during the periods shown. Index performance does not reflect management fees, transaction costs or expenses that would be incurred with an investment.

One cannot invest directly in an index.

\*A basis point is one-hundredth of a percentage point (0.01%) and is abbreviated as "bp" (singular) or "bps" (plural).

Contributors and Detractors Source: FactSet. The top contributors and detractors are presented to illustrate examples of the portfolio's investments and may not be representative of the portfolio's current or future investments. The percent displayed is contribution to return. Holdings are as of quarter end and may change at any time.

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