TRIBUTARY CAPITAL MANAGEMENT

SMALL CAP EQUITY MARKET COMMENTARY

Portfolio Managers: Mark Wynegar & Michael Johnson

Third Quarter 2026

	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years
Tributary Capital Management (Gross of Fees)	-5.2%	22.4%	21.4%	14.1%	9.0%	9.9%
Tributary Capital Management (Net of Fees)	-5.4%	21.7%	20.4%	13.2%	8.1%	9.0%
Russell 2000 Index	-7.2%	13.7%	16.2%	17.7%	6.3%	9.8%
Russell 2000 Value Index	-4.9%	17.0%	20.8%	17.9%	7.8%	9.4%

Portfolio Review

Small-cap stocks faced headwinds during the third quarter, as rising interest rates and persistent inflation concerns weighed on investor sentiment. The Russell 2000 declined 7.2%, compared with a 2.3% gain for the S&P 500, which was supported in part by strong performance from several of the Magnificent 7 stocks, including Microsoft, Nvidia and Apple.

Against this weaker small-cap backdrop, our strategy demonstrated relative resilience. The Tributary Small Cap Equity Strategy declined 5.2% during the quarter, outperforming the Russell 2000 Index (-7.2%) but modestly trailed the Russell 2000 Value (-4.9%). Building on strong results in the first two quarters of this year, our strategy's year-to-date return of 22.4% exceeded both benchmarks, the Russell 2000 (13.7%) and the Russell 2000 Value (17.0%).

Every Russell 2000 economic sector posted negative returns this quarter except for energy, which gained 6% as the sector benefited from higher oil prices. The weakest return in the Russell 2000 was from industrials, down 15%. Cyclically oriented industries were impacted the most, while service-oriented industries fared better. Technology was the second-worst sector return, down 12%, with weakness in the semiconductor, communication equipment and electronic equipment industries. Much of this weakness was from AI and datacenter-exposed companies giving back gains from earlier in the year. Software, down 4% in the quarter, was a relative winner in technology, along with IT services which was up 7%. Consumer discretionary was the third-worst sector with a -10% return, consistent with economic growth concerns related to inflation and higher interest rates.

The quarter was characterized by higher-quality factor leadership, and value stocks outperformed growth. Both dynamics favor our investment philosophy. Tributary's analysis indicates that companies with lower valuations, smaller market capitalizations, lower betas and higher dividend yields led the market. Companies with positive earnings expectations over the next 12 months were down 7% in the quarter compared to a -10% return for companies with negative forward earnings expectations. The Russell 2000 Value Index lost considerably less in the quarter, returning -4.9% compared to -9.4% for the Russell 2000 Growth Index.

Relative to the Russell 2000, industrials and healthcare were the top two sector contributors to the strategy's relative outperformance of the Russell 2000, with information technology, real estate, materials, consumer staples, utilities and communication services also contributing positively. Our -7% industrial sector return was much better than the benchmark's -15%. Within industrials, the combination of an overweight position and better stock performance in the professional services industry was the primary driver of outperformance in the sector. In healthcare, our +13% return compared favorably to the -1% return for the benchmark. Our holdings in the providers and services industry were +12% compared to -7% in the benchmark, and our holdings in the equipment and supplies industry were +26% versus +10% in the benchmark. Integer Holdings was a notable contributor in the quarter as the company received a buyout offer from Kohlberg Kravis Roberts & Company at the beginning of August. CONMED also performed well as it was reportedly exploring a sale of the company amid takeover interest from private equity firms, according to Bloomberg Law.

Energy and consumer discretionary were the strategy's most significant sources of underperformance relative to the Russell 2000 Index. Financials also detracted from our relative performance but only slightly. Although the energy sector detracted from relative performance, our stock selection was strong; our sector returns nearly doubled the benchmark's. The drag was driven entirely by our underweight position. Northern Oil & Gas, our oil-focused holding, rose 29% on the back of rising oil prices, more than offsetting the weakness in Gulfport Energy, our natural gas-exposed holding, which declined 11% as natural gas prices slumped from the beginning of the quarter through mid-August. In consumer discretionary, our sector return of -13% lagged the -10% benchmark sector return. In general, inflation concerns from rising energy prices and higher interest rates provided a poor backdrop for consumer companies. In our strategy, Boot Barn was negatively impacted by lower same-store sales, Acushnet lowered its guidance slightly for the second half of the year, and Patrick Industries continued to be slowed by a weak recreational vehicle market.

Portfolio Changes

During the quarter three new positions were added to the portfolio and one was eliminated.

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First Business Financial Services is a business-only bank with no retail branches, $4.3 billion in assets and operates primarily across Wisconsin and Kansas City. Its exclusive commercial focus has driven consistent core deposit growth through competitive pricing and strong treasury management, while attracting private wealth relationships from its commercial client base. An interest rate-neutral balance sheet limits interest rate risk, and a focus on top-quartile borrowers has delivered better-than-peer credit performance.

MYR Group is a specialty electrical contractor operating across the U.S. and Canada, serving utilities, data centers, renewable energy and transportation projects. The company owns one of the largest specialized electrical equipment fleets in the industry. A healthy balance sheet provides flexibility for investment, acquisitions and buybacks, while surging electricity demand from AI, data center buildout and an aging grid supports a compelling multi-year growth outlook.

UFP Technologies is a contract design and manufacturing partner to the world's leading medical device companies, producing single-use components and sterile packaging for minimally invasive surgery, wound care, infection prevention and orthopedic applications. The company has been growing much faster than the global outsourcing market and prudent capital allocation has helped produce healthy cash flow margins and returns on invested capital. A senior leadership team averaging over 30 years of combined tenure provides rare continuity and deep industry expertise.

During the quarter, we exited our position in *Enovis*, a manufacturer of artificial joints, surgical implant tools and orthopedic braces. We initiated the position expecting low-teens reconstruction revenue growth. Despite continued market share gains, organic implant growth decelerated from the low teens to high single digits, falling short of our expectations. This limited the company's ability to expand margins, while heightened competition pressured its ambulatory surgical center business. We ultimately exited the position after management acquired a robotics company with no near-term revenue or earnings prospects.

Top Contributors

Integer Holdings Corporation, a medical device contract manufacturer, reported second quarter 2026 results above Street expectations. In addition, private equity firm KKR announced its intention to acquire Integer at $127 per share, representing an enterprise value of $5.8 billion and an implied next twelve months price-to-earnings multiple of 18.9x.

Qualys, a cybersecurity software company, benefited from a broad recovery in software stocks as momentum in the artificial intelligence trade moderated during the quarter. Additionally, Qualys reported a strong quarter in early August, exceeding expectations across sales, margins, earnings per share, billings and deferred revenue.

ExlService, an operations management and analytics company, reported sales and earnings per share above analyst expectations and raised full-year guidance, supported by solid results and strong forward visibility. Concerns over AI-driven displacement have moderated, and the company recently strengthened its AI capabilities through a strategic acquisition.

Northern Oil & Gas, a non-operated oil and gas exploration and production company, benefited from a rise in oil prices as stalled U.S.-Iran negotiations and continued tanker disruptions in the Strait of Hormuz pressured global supply. The company also reported stronger-than-expected well activity and capital expenditures, pointing to solid near-term production growth.

CONMED, a manufacturer of orthopedic and general surgery medical devices, is reportedly exploring a sale of the company amid takeover interest from private equity firms, according to Bloomberg Law. Investors also reacted favorably to mixed second quarter 2026 results, which included solid quarterly performance but a slight reduction to full-year organic growth guidance.

Top Detractors

Power Integrations, a designer of high-voltage power conversion semiconductors, was pressured by fading investor optimism around the artificial intelligence trade, which weighed broadly on semiconductor stocks. In-line guidance alongside softer expected consumer sales quarter-over-quarter presented additional headwinds for the stock.

ESCO Technologies, a highly engineered products manufacturer serving aerospace, defense and utility end markets, reported solid results across all three segments and raised fiscal year 2026 guidance again. Orders were satisfactory, though results can be uneven quarter to quarter and were measured against a difficult prior-year comparison. Defense stocks have underperformed since spring following an early-year rally driven by anticipated escalation in Middle Eastern conflict.

Enpro, a provider of highly engineered industrial sealing solutions and semiconductor manufacturing services, reported results well ahead of expectations. Semiconductor-related sales are rebounding strongly, but margins disappointed due to heavy growth investment spending. Shares gave back a bit of their robust first half 2026 rally, but the company's outlook remains very attractive.

Benchmark Electronics, an electronic manufacturing services (EMS) provider, posted a strong quarter and raised full-year guidance expectations, but stock performance was held back by broader sector weakness as investor enthusiasm around the artificial intelligence trade cooled across EMS providers.

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Advanced Energy Industries, a provider of precision power conversion technologies, posted a strong quarter, raised full-year guidance and offered encouraging initial fiscal year 2027 growth commentary; however, the stock faced headwinds as investor sentiment around the artificial intelligence trade softened, particularly for companies with significant data center exposure.

Market Observations

During the third quarter, both large- and small-cap companies reported strong earnings growth, with most companies exceeding consensus estimates. Positive forward guidance further lifted earnings growth expectations for the year. While we appreciate these strong fundamentals, we remain vigilant in scanning for potential risks ahead.

Three themes warrant particular focus: the combination of higher oil prices and rising interest rates, consumer stability and the potential for a pullback in AI and datacenter spending.

Oil prices have risen $20 per barrel since the start of the Iran war, touching nearly every corner of the economy. Prices could drop quickly if an agreement to reopen the Strait of Hormuz is reached as briefly occurred in June. Until then, consumer spending power will continue to be eroded by higher gas prices. Less visible but equally significant is diesel, up 70% since mid-February. Diesel is critical to land and sea transportation, agriculture and construction making it a hidden cost driver across nearly all goods and services. Unlike gas prices, diesel may not fall as sharply if the Strait of Hormuz is reopened due to damaged refining infrastructure in the Middle East and Russia. Notably, refiners have been capitalizing on the situation, as refinery margins have expanded significantly.

Interest rates have also been climbing. In September, the Federal Reserve raised the Fed Funds rate, and as of this writing, investors are pricing in one additional hike this year. Small-cap stocks can face pressure in a rising rate environment due to their higher exposure to floating rate debt, though that exposure is concentrated. According to Furey Research Partners, half of the Russell 2000's debt is held by just 12% of the index by market cap, and over a third of the index is net cash positive. Thus, many small-cap companies are well-positioned to navigate a rate-hiking cycle thanks to strong balance sheets and healthy free cash flow generation.

Together, higher oil prices and rising rates are weighing on consumer sentiment, which has softened throughout the year. Inflation expectations have risen, and wage growth continues to lag inflation, eroding purchasing power. That said, delinquencies on auto loans and credit cards have remained steady, suggesting consumers as a whole are in a middle ground, neither thriving nor deteriorating.

Finally, AI's rapid expansion and the associated datacenter buildout remain top of mind. AI spending is projected to average 3.6% of U.S. GDP annually from 2025 through 2032, according to a Brookings Institute economist. This massive investment has meaningfully benefited many smaller companies in the Russell 2000. However, pushback against datacenter construction has been growing and could slow momentum. Due to the strong performance of our holdings exposed to this theme and the reconstitution-driven reduction in the Russell 2000's technology weight, we have thoughtfully reduced exposure to this theme through the year but maintain a healthy exposure to this powerful trend.

While a careful assessment of potential risks is central to our investment process, we remain optimistic about the near-term outlook for equity markets and small-cap stocks in particular. As of the end of the third quarter, 2026 earnings and sales growth expectations for the Russell 2000 rose to 14.7% and 8.1%, respectively, according to Jefferies Research. Our strategy continues to lead the index, with earnings and sales growth projected at 19.2% and 12.2%, respectively. Furthermore, our strategy is currently valued at 15.3x forward earnings, which is four turns lower than the benchmark's 19.7x valuation. Our stronger projected earnings growth and attractive valuation position the strategy to deliver strong performance going forward.

Looking ahead, we will continue to thoughtfully and proactively manage risk while positioning the strategy for long-term outperformance. We remain committed to our disciplined approach of identifying high-quality businesses that we believe are underappreciated by the broader market.

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Unless otherwise noted, all returns, excluding Tributary Capital Management's strategies, have been obtained from FactSet Research Systems. Sector and security level performance is presented gross of fees without the deduction of fees and expenses. Refer to total portfolio gross and net performance to understand the overall effect of fees.

Net-of-fees composite returns are calculated using the highest potential fee the investment advisor will charge investors in the composite. Net performance is reported net of investment advisory fees and transaction costs. Capital gains and dividends are reinvested for performance calculations.

The performance numbers shown above are for the Tributary Small Cap Equity Composite and are expressed in U.S. dollars. The composite includes all discretionary accounts with an initial market value of $500,000 (effective 7/1/20) that are invested in the Small Cap Equity Strategy. The inception date of the Small Cap Equity Composite is June 30, 1996. Tributary claims compliance with the Global Investment Performance Standards (GIPS®). A fully compliant presentation can be requested by emailing clientservices@tributarycapital.com.

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 Value Index measures the performance of the small-cap value segment by including those companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000 Growth Index is composed of small-capitalization U.S. equities that exhibit growth characteristics. The Standard & Poor's 500 is a basket of 500 stocks that are considered to be widely held. The S&P 500 Index is weighted by market value, and its performance is thought to be representative of the stock market as a whole. It is not possible to invest directly in the Russell 2000 Index, the Russell 2000 Value Index, the Russell 2000 Growth Index, or the S&P 500 Index.

Stocks of small companies are subject to market risk and may be more volatile and less liquid than stocks of large companies.

It should not be assumed that an investment in securities identified was or will be profitable or that the investment decisions we make in the future will be profitable or will equal the performance of the securities discussed herein. Holdings are subject to change. The holdings identified do not represent all of the securities purchased, sold or recommended for the portfolio. The holdings listed should not be considered recommendations to purchase or sell a particular security. The "Top Contributors" and "Top Detractors" represented are based on contribution to portfolio return. To obtain the contribution calculation methodology and a complete list of every holding's contribution to the overall portfolio's performance during the quarter, please contact clientservices@tributarycapital.com.

Tributary is an SEC Registered Investment Adviser and operates as a distinct business unit, separate from its affiliates; Tributary is a wholly owned subsidiary of First National Bank of Omaha ("FNBO"), a wholly owned subsidiary of First National of Nebraska, Inc. Tributary was formed on January 1, 2005, and expanded in May 2010 through the merger with First Investment Group (formerly an investment team within FNBO), and further expanded on April 1, 2026, following FNBO's acquisition of Country Club Bank. Tributary manages equity model portfolios, wrap accounts, separately managed accounts, and mutual funds.

Comments are provided as general market commentary and should not be considered investment advice or predictive of any future market performance.

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