

PORTFOLIO MANAGERS: MARK WYNEGAR & MICHAEL JOHNSON
FIRST QUARTER 2025

	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years
Tributary Capital Management (Gross of Fees)	-8.3%	-8.3%	-2.6%	3.9%	16.0%	8.2%
Tributary Capital Management (Net of Fees)	-8.5%	-8.5%	-3.3%	3.1%	15.0%	7.4%
Russell 2000 Index	-9.5%	-9.5%	-4.0%	0.5%	13.3%	6.3%
Russell 2000 Value Index	-7.7%	-7.7%	-3.1%	0.1%	15.3%	6.1%

MARKET REVIEW

Small-cap stocks, as measured by the Russell 2000 Index, declined 9.5% in the first quarter. The Tributary Small Cap Equity Strategy outperformed the Russell 2000 but lagged the Russell 2000 Value.

Small caps rose in January, recovering part of December's 8% decline, as markets reacted positively to expectations that Trump-era policies—such as tax cuts and deregulation—would benefit the economy. However, by late January, trade policy began to dominate the narrative.

President Trump promoted tariffs as a tool to address perceived unfair trade practices, including high foreign tariffs, value-added taxes, currency manipulation and wage suppression. He also viewed tariffs as a means to rebuild U.S. manufacturing and curb illegal immigration and drug trafficking across the northern and southern borders.

Major U.S. trading partners—China, Canada, Mexico, the European Union, among others—were all singled out for having unfavorable trade policies. Tariffs ranging from 10% to 25% were proposed, along with the concept of reciprocal tariffs. Unsurprisingly, affected countries pushed back, threatening retaliatory measures.

From its intra-quarter high on January 21 to its low on March 13, the Russell 2000 declined nearly 14% as tariff concerns weighed on markets. The pressure has continued into April, when President Trump unveiled his reciprocal tariff program in a Rose Garden press conference on April 2—an announcement that proved more punitive than markets had anticipated. In the ensuing days, the market dropped precipitously as investors assessed the potential ramifications.

The early April move pushed the Russell 2000 into bear market territory, down over 25% from its November 25, 2024 peak. Investor concerns center on the potential fallout from a trade war, including slower economic growth, lower earnings, rising inflation and the risk of recession. Market volatility is likely to persist as ongoing, and sometimes conflicting, news from the U.S. and its trading partners regarding the trade issue continues to drive sentiment.

In the first quarter, the Russell 2000 Value Index outperformed its Growth counterpart, posting a return of -7.7% versus -11.1%. It was a defensive, risk-off quarter within the small-cap segment, with higher-quality factors driving performance. Companies with larger market capitalizations, higher return on equity (ROE) or assets (ROA), lower beta and higher dividend yields performed better. Firms with negative expected earnings over the next twelve months declined by 16%, compared to an 8% decline for those with positive earnings.

Utilities was the only sector within the Russell 2000 Index to post a positive return for the quarter, gaining 5%. Consumer staples ended the quarter flat. All other sectors declined, led by information technology (-18%), consumer discretionary (-15%), communication services (-13%), energy (-13%), industrials (-11%), healthcare (-8%), materials (-7%), financials (-4%) and real estate (-3%).

On an relative basis, the Tributary Small Cap Equity Strategy's top-performing sectors relative to the Russell 2000 during the quarter were industrials and consumer discretionary. In industrials, ESCO Technologies (+20%) delivered strong results driven by outperformance in its Aerospace & Defense segment. ExlService Holdings (+6%) reported solid quarterly earnings and issued positive forward guidance. Within consumer discretionary, Ollie's Bargain Outlet Holdings (+6%) posted strong same-store sales and provided an upbeat full-year outlook. Patrick Industries (+2%) recorded a modest gain, supported by continued strength in its manufactured housing segment.

The two sectors that most underperformed relative to the Russell 2000 Index during the quarter were healthcare and energy. In healthcare, Addus HomeCare (-21%) declined on concerns over potential Medicaid funding cuts that could affect its personal care business. Enovis (-13%) underperformed slightly due to a goodwill write-down and the announced retirement of its CEO and Chairman. In the energy sector, Vital Energy (-31%) lowered its initial 2025 production guidance due to operational delays that are expected to impact first-quarter output, as well as disappointing oil well results in its Midland acreage. SM Energy (-22%) missed oil production estimates and guided for lower production next quarter due to takeaway constraints in Utah. Additionally, both Vital and SM Energy reported earnings during a period of declining WTI crude prices (January 15 to March 10), which likely weighed on investor sentiment across the sector.

PORTFOLIO CHANGES

During the quarter two new holdings were added to the strategy. *Walker & Dunlop* is a commercial real estate (CRE) service provider focused on multifamily agency lending, debt brokerage, property sales, loan servicing and real estate management. The company stands to benefit from a lower rate environment and is well positioned to benefit from a recovery in the CRE market. The management team has not been idle waiting for a recovery as they have diversified the company's revenue streams and is positioning the company to grow by moving into new markets and leveraging their brand. *UTZ Brands* is the third largest manufacturer of salty snacks in the U.S and one of the few pure plays in the category. The company has a long history of gaining shelf space at retailers due

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in part to their customers' brand loyalty. This allows the company to grow their presence outside of the grocery store channel as well as geographically. Management is focused on reducing leverage to allow for future bolt-on acquisitions and increasing operational efficiencies through automation, product rationalization and an increased focus on power brands. These initiatives are expected to boost sales growth, expand margins through cost savings and scale and lower interest expense, which should lead to higher cash flow and earnings growth.

One position was eliminated from the strategy during the quarter. *South State Bank* was sold due to its increase in market capitalization. We have owned a position in the southeast bank since late 2018. Over our holding period the bank was well managed and maintained a strong core deposit base, which helped it weather turmoil in the banking industry. It also continued being a conservative underwriter and delivering returns on tangible common equity that exceeded its peer group. These attributes drove the increase in valuation and led to the holding outperforming the Russell 2000 and peers.

TOP CONTRIBUTORS

ESCO Technologies, a provider of highly engineered products and solutions, reported better-than-expected overall results with particular strength in its Aerospace and Defense business. Navy and utility end markets continue to have tailwinds that underpin raised fiscal year 2025 guidance.

Baldwin Insurance Group, an insurance brokerage firm, recovered a portion of the stock's pullback in the prior quarter following the disclosure of a cash flow headwind related to a homeowners insurance line. Its more recent quarterly results were roughly in line with expectations, and the stock has further benefited from investors perceiving the insurance brokerage industry favorably amidst recent economic uncertainties.

Ollie's Bargain Outlet Holdings, an extreme value retailer with locations in the Eastern half of the U.S., beat on same-store sales and management issued favorable commentary on the outlook for same store sales growth for the full year, in part due a direct competitor filing for Chapter 11.

NETSTREIT, a REIT focused on triple-net lease retail properties, has shown progress in reducing key tenant concentrations that had been weighing on the stock. The stock has also benefited from the company's above average business visibility and steady cash flow streams amidst recent economic uncertainties.

ExlService, an operations management and analytics company, posted strong sales growth, solid margin improvement and a steady level of new client wins. Encouraging guidance projects strong performance for the year ahead, as the company has become a leader in outsourced digital and AI based solutions for its clients.

TOP DETRACTORS

Cohu, a supplier of semiconductor test, inspection and metrology systems, continues to experience weakness in

the industrial and automotive end markets, with inventory levels remaining elevated. During their February earnings call, management noted that it may take up to two more quarters before customers begin to recover. Ongoing discussions around tariffs—particularly those impacting the automotive sector—likely contributed to the uncertainty during the quarter. In late February, the company announced a restructuring plan aimed at consolidating manufacturing operations in lower-cost regions and reducing headcount.

Boot Barn, a retailer of western apparel and work wear, under-performed due to the company's exposure to tariffs on merchandise imported by the company from China and Mexico.

Moelis & Company, an investment banking advisory firm, reported solid fourth quarter results and positive sentiment heading into 2025. However, tariff uncertainty and economic growth concerns are leading to an abrupt shift in M&A sentiment which could stymie business momentum.

ICF International, Inc., a technology services company with governmental and commercial clients, saw its shares buffeted by uncertainties surrounding federal government cost cuts. Management conservatively guided expectations for 2025, but investors may have little confidence in ICF's framework given how early we are in the restructuring of federal agencies.

Diodes Incorporated, a semiconductor company, performed in line with the S&P 600 semiconductor industry group. The semiconductor sector overall faced a challenging quarter, driven by elevated inventory levels across key markets including industrial, automotive and consumer electronics. Additionally, concerns over potential tariffs and escalating geopolitical risks related to Taiwan and China may have further weighed on industry sentiment.

PORTFOLIO OUTLOOK

Since the beginning of the year, the U.S. economy and equity markets have navigated a complex landscape of challenges and opportunities, influenced by domestic policies, international trade tensions and monetary policy decisions. Tariffs have emerged as a key economic and foreign policy tool, with the U.S. imposing new trade barriers to address geopolitical and economic concerns. While these tariffs will likely directly affect industries such as manufacturing, agriculture and technology, large segments of the economy—including services, healthcare and financial sectors—remain relatively insulated from their direct impact.

Concerns about a potential recession have intensified, largely due to the unpredictable nature of global trade policies and their broader effects on business investment and consumer confidence. Equity markets have reflected these concerns with increased volatility. It seems that small-cap stocks have been bracing for an economic slowdown for the past few years given their lower valuations. If a recession were to materialize, it might be viewed by some as overdue, as it has been almost 16 years

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since the end of the last lengthy recession (excluding the three-month long COVID recession) and six months since the 10- and 2-year treasury yield curve was last inverted.

Labor market dynamics have remained stable, with unemployment holding at historically low levels. However, signs of consumer weakness are becoming more apparent. Retail spending has softened, and consumer confidence has weakened, signaling potential headwinds for economic growth. Consumer spending comprises a significant portion of U.S. GDP, and a sustained decline in confidence and spending could contribute to broader economic slowdowns.

The Federal Reserve has responded to shifting economic conditions by tempering its expectations for GDP growth this year, lowering projections from 2.1% to 1.7%. At the start of the year, many other forecasters projected moderate expansion, but recent economic indicators have prompted downward revisions as well. Persistent inflation and shifting trade policy have complicated monetary policy decisions, leading the Fed to pause its interest rate cuts. Federal Reserve Chairman, Jerome Powell, has indicated that the Fed will not be providing a backstop to the markets, at least not yet. To an extent, investors disagree, and market data indicates that investors are now expecting the Fed to make four 25 basis point rate cuts this year¹. While the market would welcome further reductions, such moves may be less well received if they result from economic deterioration rather than controlled inflation.

Corporate earnings have also adjusted to evolving macroeconomic conditions. Earnings growth estimates for both small- and large-cap stocks have declined since the beginning of the year. As of quarter end, the most current data available indicated small-cap earnings growth was expected to surpass large-cap growth in the second half of the year, a quarter later than previously anticipated. Given the dramatic increase in our nation's use of tariffs and the uncertainty this is causing businesses, CEOs, and investors, these earnings expectations will likely be revised, possibly significantly.

Looking ahead, the interplay between trade policy, monetary policy, and the health of the economy will continue to shape market sentiment. What the tariff landscape looks like six months or a year from now may be the most difficult to predict as countries choose to retaliate or negotiate. This makes gauging the economic implications of the new trade regime even more difficult. Investors will also closely monitor data for changes in inflation, the health of the economy, and the Federal Reserve's interest rate forecast.

While macroeconomic factors can influence market trends, we believe a company's fundamentals and profitability are the true drivers of long-term value. Through ongoing conversations with management teams and careful analysis of company filings, we aim to deepen our understanding of how businesses and industries are impacted by shifts in trade policy and how they can respond to mitigate potential risks. We will use this information to update our investment thesis and our view of each holding over our investment horizon.

At quarter end, our Small Cap Strategy was expected to grow earnings by 16% in 2025 and was valued at 15.2x forward earnings. These are attractive metrics on an absolute basis and even more so relative to the broader small-cap asset class, which was projected to see 10% earnings growth and was valued at 17.5x forward earnings².

Our strategy is also well-positioned relative to the S&P 500, with the potential to deliver superior earnings growth compared to the top-heavy, large-cap index, while valued at a 25% lower valuation (15.2x forward earnings vs. 20.2x, respectively)³. In the short term, fads, fixations or fear may overshadow superior fundamentals and attractive valuations. However, our team has the perspective and patience to know that our investment philosophy and process works over long periods of time and are the basis for our strong long-term performance.

PORTFOLIO MANAGERS: MARK WYNEGAR & MICHAEL JOHNSON**FIRST QUARTER 2025**¹CME FedWatch Tool, 4/8/2025²Jefferies Research, Valuation Handbook, 4/4/2025³FactSet Research, 3/31/2025

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 generally invested in a small capitalization equity strategy. The inception date of the Small Cap Equity Composite is June 30, 1996.

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. The S&P 600 is an index of small-cap stocks that tracks a broad range of small-sized companies that meet specific liquidity and stability requirements. The S&P 500 Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance. The Russell 1000 Index represents the top 1000 companies by market capitalization in the U.S. The companies in the Nasdaq-100 includes 100-plus of the largest domestic and international non-financial companies listed on the Nasdaq Stock Market based on market capitalization. It is not possible to invest directly in the Russell 2000 Index, the Russell 2000 Value Index, the Russell 2000 Growth Index, the S&P 500 Index, the S&P 600 Index, the S&P 500 EWI, the Russell 1000 Index or the Nasdaq 100 Index.

Stocks of small companies are subject to market risk and may be more volatile and less liquid than stocks of large companies. Comments are provided as general market commentary and should not be considered investment advice or predictive of any future market performance.

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, an SEC Registered Investment Adviser, is the combined entity of the prior Tributary (formed Jan. 1, 2005) and First Investment Group (formerly a department of First National Bank of Omaha) which merged in May 2010. Tributary is a wholly owned subsidiary of First National Bank, a wholly owned subsidiary of First National of Nebraska, Inc. and manages mutual funds and equity and balanced portfolios. Tributary Capital Management, LLC ("Tributary") claims compliance with the Global Investment Performance Standards (GIPS®). A fully compliant presentation can be requested by emailing clientservices@tributarycapital.com.

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