Small Cap Value

Q1 | 2025

"Behavioral biases within participants of the market lead to deviations of stock prices from their fair value, and these discrepancies create opportunities."

- Mark Roach

The Small Cap Value Strategy declined -5.18% in the first quarter of 2025 but outperformed the Russell 2000 Value Index, as the benchmark fell -7.74%. While absolute returns were negative across much of the small-cap complex, our disciplined, valuation-centric approach and sector-level positioning provided meaningful downside protection in a challenging start to the year.

The macro environment in Q1 was defined by stubborn inflation readings and a Fed that resisted rate cuts, despite market hopes in late 2024. Treasury yields moved higher again in March, reinforcing a risk-off tone across rate-sensitive segments of the market. Meanwhile, renewed tariff threats—particularly around Chinese goods, electric vehicles, and semiconductors—reignited volatility and put pressure on global cyclicals and supply chain–exposed names. The small-cap universe, already contending with tight financing conditions, bore the brunt of this shift.

Despite these headwinds, our portfolio held up well, thanks to our focus on normalized profitability, price discipline, and narrative dislocations. Key contributors to relative performance included:

- Health Care: Although the sector posted a negative return, our holdings significantly outperformed the benchmark generating approximately +0.87% in relative attribution. Our focus on capital-light services and diagnostics helped avoid much of the biotech drawdown and reimbursement pressure.
- Industrials: Our stocks fell, but well ahead of the benchmark's -11% return. The result was positive relative contribution, driven by asset-light logistics and infrastructure-linked holdings benefiting from federal spending and reshoring tailwinds.
- Materials and Utilities both delivered +0.74% and +0.79% in relative attribution, respectively. Our overweight in these underappreciated sectors reflects our behavioral tilt toward areas of the market neglected by consensus and narratives that often obscure improving fundamentals.

Commentary continued on the back

Top Five Contributors	Relative Effect on Return (%)
H&E Equipment Services, Inc.	0.81
Alamos Gold Inc.	0.63
Veren Inc.	0.55
UGI Corporation	0.52
Avista Corporation	0.47

Top Five Detractors	Relative Effect on Return (%)
RingCentral, Inc. Class A	-0.41
Daktronics, Inc.	-0.36
Park Hotels & Resorts, Inc.	-0.28
Knowles Corp.	-0.26
Hovnanian Enterprises, Inc. Cl. A	-0.25

	3 Months	YTD	1 Year	3 Years	5 Years	10 Years
Small Cap Value Composite Gross	-5.18	-5.18	-6.59	5.26	18.77	7.51
Small Cap Value Composite Net	-5.36	-5.36	-7.31	4.39	17.89	6.72
Russell 2000 Value	-7.74	-7.74	-3.12	0.05	15.31	6.07

Commentary Continued

While our stock selection in Financials was relatively strong, the broader environment remains difficult for regional banks and specialty lenders. Credit normalization, funding cost pressure, and CRE fears remain a drag, but we remain selective and focused on capital-light compounders. Information Technology was our largest detractor (-19.10%), driven by weak sentiment in smaller-cap applied tech and ongoing investor preference for large-cap AI and platform names.

We continue to believe this is a fertile market for fundamental value. Dispersion remains elevated, the market is gradually shifting away from top-heavy index leadership, and our process — focused on behavioral mispricing, valuation support, and earnings durability is built for this kind of regime. With the potential for rate relief later this year and political volatility likely to rise, small caps could return to favor and Foundry's behavioral, price-sensitive approach is well-positioned to capitalize.

Disclosures

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Top Five Contributors and Detractors are calculated using the total effect (within attribution) of the portfolios individual stock attribution sorted from greatest positive to least (or negative) and using the top and bottom five.

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