

"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 CS McKee SMID Core Strategy rose +3.65% in Q2 2025 but underperformed the Russell 2500 Index by -4.94%, as the benchmark advanced +8.59%. While absolute returns rebounded, our behavioral and valuation-driven discipline lagged in a market heavily skewed toward momentum and index concentration. Our 1-year performance came in at 7.09%.

### Macro Backdrop:

The macro environment in Q2 saw inflation data cool modestly, fueling hopes for rate cuts, though the Federal Reserve remained cautious. A resurgence in AI enthusiasm, alongside strong flows into large- and mid-cap growth names, drove narrow market leadership. Meanwhile, tariffs and geopolitical tensions added to bifurcation between speculative growth and fundamentally anchored cyclicals.

Performance attribution revealed sharp style headwinds and select positioning drags, offset by strength in core convictions

### Key Contributors to Relative Performance:

- Financials (+0.97%): Strong stock selection within consumer finance and asset managers powered performance.
- Industrials (+2.47% absolute): our thesis around infrastructure tailwinds, construction strength, and cash-generative industrial execution proved to be a strong contributor.
- Energy (+0.16%): Exposure to shippers supported returns.

### Primary Detractors from Relative Performance:

- Information Technology (-1.25%): Our underweight and stock selection in application software and platform detracted sharply as speculative tech rallied.
- Consumer Staples (-0.99%): Overweight in beverages and food products lagged, dragging on results.
- Health Care (-1.81%): Weakness was broad-based, particularly in several holdings.
- Consumer Discretionary (-1.13%): Apparel exposure and homebuilding names underperformed despite resilient demand.

Commentary continued on the back

Top Five Contributors	Relative Effect on Return (%)	Top Five Detractors	Relative Effect on Return (%)
EMCOR Group, Inc.	0.81	Zimmer Biomet Holdings, Inc.	-0.67
Fluor Corporation	0.76	DNOW Inc.	-0.63
Synchrony Financial	0.43	Molson Coors Beverage Co. CI B	-0.61
Virtu Financial, Inc. Class A	0.28	Jazz Pharmaceuticals Public Ltd.	-0.60
Terex Corporation	0.28	Uniti Group Inc.	-0.53

	<u>3 Months</u>	<u>YTD</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
SMID Cap Core Composite Gross	3.65	-1.65	7.09	-	-	-
SMID Cap Core Composite Net	3.55	-1.89	6.51	-	-	-
Russell 2500	8.59	0.44	9.91	-	-	-

## Commentary Continued

### Positioning & Outlook

This was a quarter where the “index favorites” ran, and our fundamental, valuation-aware strategy underperformed the growth-fueled rally. But dispersion remains elevated, and the SMID universe continues to offer pricing inefficiencies. We believe our edge — avoiding thematic excess, leaning into overlooked earnings power, and emphasizing quality adjusted valuation is well-suited to capitalize as markets normalize.

We remain committed to identifying companies that combine mispriced durability coupled with investing in quality companies.

## Disclosures

CS McKee is an independent registered investment adviser specializing in institutional and retail investment management. Registration does not imply a certain level of skill or training. On April 25, 2025, CS McKee acquired the assets of Foundry Partners LLC. Historical Foundry performance has been retained for all Foundry strategies that were adopted by CS McKee. A list of composite descriptions and broad distribution pooled funds are available upon request.

Effective with the acquisition of Foundry Partners LLC, CS McKee created the CS McKee SMID Core Composite, which includes the prior performance history of Foundry's SMID Core strategy and CS McKee's performance from the acquisition date forward. The legacy Foundry composites continue to be managed in a similar manner by the same portfolio managers, with no accounts excluded from the composites shown. Accordingly, the performance presented includes historical/predecessor performance.

The securities or positions shown or discussed do not represent a complete listing of portfolio holdings. Actual holdings will vary based on account size, client-imposed restrictions, cash flows, and other factors. There is no assurance that any securities discussed remain in the portfolio or that securities sold have not been repurchased. It should not be assumed that past decisions were or will be profitable. A complete list of holdings is available upon request.

Performance attribution characteristics along with the Sectors and Holdings listed are taken from a representative or model account and may not mirror performance of your account.

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.

Performance is presented in U.S. dollars and reflects total returns. “Gross” returns are shown before deduction of investment management fees, while “Net” returns are after deduction of such fees. For illustrative purposes, a \$100 million account paying a 0.50% annual management fee, with a 10% gross return compounded over 10 years, would yield a 9.5% net return. Fees are detailed in Part 2A of CS McKee's Form ADV. Past performance does not guarantee future results. Investing involves risk, including the potential loss of principal.

Information shown is as of the date indicated. All data, including top holdings and characteristics, is subject to change without notice. Holdings shown are for illustrative purposes only and are not a recommendation to buy or sell any security. Holdings and characteristics may differ between client accounts managed under the same strategy. CS McKee does not guarantee the accuracy of third-party data.

Benchmark returns are shown for comparison and reflect reinvested dividends. Benchmarks are unmanaged, not investable, and do not incur fees or expenses. Strategy differences—such as risk, holdings, or asset mix—may materially affect results. Benchmark data is from sources believed reliable, but accuracy is not guaranteed.

CS McKee claims compliance with the Global Investment Performance Standards (GIPS®). Composite characteristics, including the number of accounts, assets under management, and dispersion measures, are provided in the GIPS® Composite Report. Please refer to the report for additional important information or to view a list of composite descriptions by visiting: <https://csmckee.com/gips/>

### Portfolio Management Team:

**Mark Roach, CFA**  
Director  
Small & Micro Cap Equities  
Industry Start: 1995

**Mario Tufano, CFA**  
Senior Portfolio Manager  
Small Cap Equities  
Industry Start: 2002

**Eric J. Holmes, CFA**  
Director  
Micro & Small Cap Equities  
Industry Start: 1994

**Craig P. Nedbalski, CFA**  
Senior Portfolio Manager  
Micro Cap Equities  
Industry Start: 1995

**Michael K. Barr, CFA**  
Senior Portfolio Manager  
Micro Cap Equities  
Industry Start: 1987