

4TH Quarter Review & Commentary

The Convergence Small Cap Opportunities Strategy finished almost even with its benchmark in the fourth quarter of 2025. The strategy delivered a 2.40% total return net of fees compared to the return of the Bloomberg 2000 Index benchmark which was up 2.41%. Over longer time periods, the strategy has continued to deliver strong results. Over the trailing 1-, 3-, and 5-year periods the strategy returned 17.36%, 22.73%, and 17.02% respectively. The Bloomberg 2000 returned 11.06%, 13.34% and 6.65% over these same periods. We attribute this strong performance to our systematic process and data-driven approach to active management.

The following table summarizes the performance of the Convergence Small Cap Opportunities strategy since its inception.

Strategy	1-Year	3-Year	5-Year	Since Inception
Convergence Small Cap Opp	17.36%	22.73%	17.02%	20.65%
Bloomberg US 2000	11.06%	13.34%	6.65%	13.46%

As of 12/31/2025

The Current Market Environment & Small Cap Performance

The stock market was very friendly to investors in the past year, and we expect economic conditions to remain favorable in the near term. Investors have carried their high expectations into the new year, looking toward continued high margins, above-average earnings growth and somewhat lower interest rates resulting from lower inflation.

Last quarter we talked about how interest in smaller capitalization stocks increased. Specifically, we mentioned that the prospect of lower future U.S. interest rates is supportive of small caps since these companies tend to borrow at interest rates that reset more frequently. We noted that smaller cap stocks have lower valuations than their large cap peers. And we said that the fundamentals seem to be improving in the small cap space. We commented then, and still believe today, that these factors could be very supportive of a continuation of the current rally in small cap stocks.

While these are all good conditions for stock investors, and excluding the possibility of unexpected economic shocks, we sense a change is coming in market leadership that should help small caps. Our “signal” work supports this expectation. From a strictly model perspective, we have seen our short-term signals begin to have the same preferences as our long-term signals. We interpret this as a developing sign of a transition in market leadership.

We develop signals to guide decisions on which stocks to buy in the portfolio. These signals measure the

characteristics the market is rewarding in each industry group. The signals have started to move away from a narrow group of factors dominated by sales growth and momentum. The strength of other signals, including even traditional value, has broadened the market’s leadership as we see it.

An example of this has been our Capital Discipline signal, which has seen a shift in the past few months. Companies with high rates of capital expenditure did well in 2025, but this is not the case historically. As you may recall, the strong cash flows of the mega cap, technology-focused “Magnificent 7” are the source of funds for their recently expanded capital spending plans for expanding their AI product offerings. The market seemed to take it for granted that their spending would earn a sufficient return, but there may be more room for disagreement going forward. Our signal helps us understand how much disagreement there might be in the market.

We are seeing continued evidence of the market broadening out and rewarding more than just mega cap tech, including value names, healthcare stocks and other smaller capitalization beneficiaries of AI. For these stocks outside of technology, any future efficiency gains resulting from the deployment of AI tools should increase cash flows and growth expectations. This may not make them Magnificent, but this could make them much more interesting opportunities for stock market investors. If this shift from the Mag-7 to other areas of the stock market continues, along with the aforementioned reasons for increased small cap interest, we would expect future small cap performance to benefit nicely.

As we said last quarter, we believe the long period of small-cap underperformance may have reached a turning point. We continue to observe signs of increased market breadth, and this could support a small-cap rally. Our investment approach at Convergence seeks to systematically identify undervalued stocks with strong growth prospects. We believe our systematic, persistent, and patient approach is key for long-term success in small caps.

Performance Details

As mentioned, during the fourth quarter of 2025, the Convergence Small Cap Opportunities strategy delivered a 2.40% total return, nearly equal to its benchmark. Over the trailing year, the strategy returned 17.36%, while the Bloomberg 2000 benchmark returned 11.06%.

For the fourth quarter, the industry groups that contributed the most to the strategy’s relative performance were Media, Semiconductors, Materials, and Telecommunications. Conversely, the groups that

detracted the most were Pharmaceuticals & Biotech, Health Care, Consumer Discretionary, and Energy.

The top three contributing stocks for the quarter were Bloom Energy, E.W. Scripps, and Egain Communications. Please note that as of quarter end, we had exited our position in all three stocks. Over the quarter, each had realized strong increases in stock price and weakening signal values. Our models showed that these names, with their new lofty stock prices, were not as attractive as other names within their respective industry groups. The three largest detracting stocks were Power Solutions, Porch Group, and Domo Inc.

As our long-term investors know, all the work we do on stock selection is relative and within each industry group. We work very hard to find companies that score well in our small cap growth model. Specifically, we look for names with strong historical growth of sales and cashflow and improving forecasts for earnings growth. These characteristics, along with solid balance sheet fundamentals, are exactly what we seek within the Convergence Small Cap Opportunities Strategy.

For the trailing twelve months, our top contributing industry groups to relative performance were Financial Services, Capital Goods, and Semiconductors. Conversely, the three industry groups that detracted the most were Consumer Discretionary, Health Care, and Software. During the same 12-month period, our top three contributing stocks were Bloom Energy, Sezzle Inc., and Credo Technology. Our worst-performing stocks were Victoria's Secret, Organogenesis, and Genesco Inc.

Disclosures:

Data as of December 31, 2025

Past performance is not indicative of future results. Investing involves risks, including the potential loss of investment principal. Dividends represent past performance. Return performance includes the reinvestment of dividends. There is no assurance they will continue to be paid in the future. Holdings are subject to change and should not be considered a recommendation to buy or sell any security.

The results portrayed relate to the adviser's clients invested in the portfolio that meet the criteria for inclusion in composite performance. Strategy returns are presented after actual standard management fees and all trading expenses. The inception date is 06/01/2020 and period ended 12/31/2025.

Returns have been compared to benchmark indexes. The Bloomberg US 2000 Total Return Index is a float market-cap-weighted benchmark of the lower 2,000 stocks in capitalization of the Bloomberg US 3000 Index (B3000). Bloomberg US 1000 Total Return Index is a float market-cap-weighted benchmark of the 1000 most highly capitalized US companies. The S&P 600 SmallCap Index is a market-value weighted index provided by Standard & Poor's. It is comprised of 600 stocks chosen for market capitalization (size) and industry group representation. Certain investability, liquidity and financial viability criteria are also applied to stock for inclusion in this index. . Individuals cannot invest directly in any index and index returns do not reflect fees and expenses. Comparison of the Composite to this benchmark is for illustrative purposes only and the volatility of the benchmark may be materially different from the volatility of the Composite due to varying degrees of diversification and / or other factors. Positive P/E Ratio refers to the weighted average ratio of share price to earnings per share for stocks with positive reported earnings. FCF Yield is the ratio of free cash flow per share divided by price per share. Internal Growth is a measure of the return on equity for a stock multiplied by the proportion of current earnings paid out as dividends by each stock. This communication is limited to the dissemination of general information pertaining to Convergence Investment Partners, LLC's (Convergence) services and general economic market conditions. The information contained herein is not intended to be personal legal or investment advice or a solicitation to buy or sell any security or engage in a particular investment strategy.

Source of market data: Wilshire Analytics and Bloomberg LLC

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