

Overview

The Bloomberg U.S. 2000 Total Return Index increased 11.84% in 3Q25, building on the momentum gained in 2Q and approaching levels last seen in 4Q24. Investors reacted positively to the Federal Reserve's first rate cut since 2024 and optimism about AI-driven productivity gains in corporate America. Economic data showed surprisingly strong GDP growth in Q2 at an annualized rate of 3.8%. Still, labor market signals softened, with upward revisions to unemployment and the first monthly job losses since 2020, prompting the Fed to focus more on growth and employment support. Geopolitically, President Trump signed the wide-reaching "One Big Beautiful Bill Act" in July, keeping tariffs and fiscal policy in the headlines, while global risks and a US government shutdown caused occasional market volatility. In credit markets, the Bloomberg US High Yield Index rose 2.5%, with spreads tightening by 23 basis points and yields falling by 36 basis points, reflecting renewed risk appetite amid falling Treasury yields and expectations of further policy easing. The current option-adjusted spread on the HY index is near levels seen in Summer 2021, the mid-2000s, and the late 90s. Small-cap stocks (+11.84%) outperformed large caps (+8.13%), with micro-cap stocks (+18.41%) outperforming both. Within small caps, the strongest sectors were Communications, Materials, and Healthcare, while Consumer Staples, Real Estate, and Financials lagged. Staples was the only sector to decline during the quarter as margins continue to be under pressure from inflation and tariff policies, while consumer spending remains weaker.

Small to Mid Cap Equity

The Penn Small-to-Mid Cap strategy returned 8.08% (gross) during 3Q25, underperforming its benchmark, the Bloomberg U.S. 2500 Total Return Index, by 1.10%. The top contributing sectors to performance were Real Estate, Communication Services, and Utilities, while the top detracting sectors were Consumer Discretionary, Industrials, and Energy. The largest contributing positions in the quarter included 1) Newmark Group, a real estate services company that delivered solid results across the brokerage business and we see as on track to exceed profitability targets in capital markets and leasing; 2) Lumentum Holdings, an optical component supplier, which reported strong quarterly results and raised guidance based on the AI infrastructure buildout; and 3) Rambus, a semiconductor memory chip producer, which benefited from tailwinds in both the traditional and AI memory markets, with their companion chips for memory modules and next-generation chipsets ramping into 2026. The largest position detractors included 1) Kyndryl Holdings, an IT

services provider that slightly missed sales estimates, causing concerns of a larger slowdown; 2) Golden Entertainment, a casino operator, which suffered from weak demand in the Las Vegas market; and 3) eToro, an e-broker, which posted weaker-than-expected earnings after an exciting IPO and faced competitive headwinds from Robinhood launching competing offerings.

Smaller Company Equity

The Penn Smaller Company strategy returned 13.02% in 3Q25, surpassing its benchmark, the Bloomberg U.S. 2000 Total Return Index, by 1.18%. The leading sectors contributing to performance were Health Care, Real Estate, and Information Technology, while the sectors that detracted most were Consumer Discretionary, Industrials, and Communication Services. The biggest contributors in the quarter included 1) Newmark Group, a real estate services firm, which delivered strong results across its brokerage operations and we believe is on track to surpass profitability targets in capital markets and leasing, 2) Gilat Satellite Networks, a satellite communications equipment provider, which secured several deals that boost their backlog in the commercial and defense segments for satellite terminals and network monitoring software, and 3) Whitefiber Inc, an AI infrastructure hosting company, which rebounded from a post-IPO decline as sentiment improved around its unique data center facilities and pipeline, driven by sophisticated inference customers. Major detractors from the position included 1) Golden Entertainment, a casino operator, which faced weak demand in Las Vegas, 2) Brightview Holdings, a landscape services provider to commercial and government clients, which experienced a tough quarter due to customer work deferments related to tariffs and economic uncertainty, and 3) Portillo's, a restaurant operator, posted lower-than-expected earnings because its new market expansion did not develop as planned.

Small Cap Equity

The Penn Small Cap strategy returned 11.95% during 3Q25, outperforming its benchmark, the Bloomberg U.S. 2000 Total Return Index, by 0.10%. The leading sectors contributing to performance were Real Estate, Health Care, and Financials, while the main sectors detracting were Consumer Discretionary, Industrials, and Communication Services. Top contributing positions this quarter included 1) Newmark Group, a real estate services company that posted solid results across its brokerage operations and we believe it is on track to surpass profitability targets in capital markets and leasing, 2) Lumentum Holdings, an optical component supplier that reported strong quarterly results and raised guidance due to the AI infrastructure buildout, and 3) Coeur

Mining, a silver and gold producer benefiting from rising commodity prices, which led to stronger earnings. The largest detractors included 1) Kyndryl Holdings, an IT services provider that slightly missed sales estimates, raising concerns about a potential slowdown, 2) Golden Entertainment, a casino operator affected by weak demand in the Las Vegas market, and 3) Gulfport Energy, a natural gas exploration and production company experiencing ongoing production impacts from midstream constraints that began in the second quarter and lowered full-year output.

Outlook

Market momentum remains strong heading into the final quarter of 2025, underpinned by persistent enthusiasm for AI investments and confirmation of the Federal Reserve's long-delayed 25 basis point rate cut in September. Although the cut was widely expected, its smaller-than-anticipated size reflects policymakers' caution amid a softer macroeconomic environment: inflation remaining high, slowing job growth, and downward revisions to employment gains. Business investment is likely to continue as clarity on tax, trade, and interest rate policies improves. This is reinforced by positive capital market conditions, evidenced by increased activity in M&A, strategic investments, and IPO volumes. Meanwhile, tight credit spreads continue to facilitate favorable refinancing and issuance opportunities. Volatility stays subdued in both stock and bond markets. Still, consumer and investor sentiment indicators have weakened, indicating a more cautious market psyche following robust price gains and rising valuation multiples. With many technical and fundamental indicators stretched, the future will depend on consumer resilience, additional monetary easing, progress in resolving trade and labor market uncertainties, and significant investments in AI that begin to deliver real economic benefits.

Solid economic growth increased corporate confidence, and favorable credit market conditions have historically supported Penn's equity strategies. Our companies typically benefit from deleveraging and the ability to refinance debt at favorable rates. Smaller companies often have a larger share of floating-rate debt, meaning falling rates can boost earnings. M&A activity has also been prevalent within our portfolios, as a deleveraged company tends to be an attractive acquisition target. Despite the recent outperformance of smaller companies, we believe valuations of profitable, smaller firms still seem attractive compared to large caps, trading near relative historical lows. Earnings growth is expected to be positive in the coming years, and LTM growth is projected to turn positive in the second half of 2025, marking the first time

since 4Q22 (before rate hikes). We continue to believe small cap stocks offer a compelling long-term risk/reward, and we will keep using our fully integrated credit and equity research process to identify attractively valued companies that improve their capital structures for shareholders.

Penn Capital Products	QTD	YTD	1 YR	3 YR	5 YR	10 YR	Since Inc.	Inc. Date
Net Performance (%) – as of Sept 30, 2025								
Small to Mid Cap Equity	7.93	14.41	18.17	14.08	9.20	8.73	9.38	Dec-02
<i>Bloomberg 2500 Index</i>	9.18	8.84	9.69	15.74	12.07	10.42	11.21	
Small Cap Equity	11.62	16.21	22.28	16.62	16.46	10.79	12.01	Dec-93
<i>Bloomberg 2000 Index</i>	11.84	8.44	9.85	15.11	12.44	10.12	10.31	
Smaller Company Equity	12.62	14.37	23.16	19.02	20.75	17.29	16.53	Dec-11
<i>Bloomberg 2000 Index</i>	11.84	8.44	9.85	15.11	12.44	10.12	11.12	
Micro Cap Equity	9.39	12.85	15.37	6.46	9.27	7.17	7.78	Aug-06
<i>Bloomberg Microcap Index</i>	18.41	11.60	21.55	9.92	10.14	8.57	7.31	
Defensive Short Duration High Income	1.77	6.10	6.99	8.12	5.23	4.37	4.02	Jan-13
<i>ICE BofA 1-3 Year BB US Cash Pay High Yield Index TR</i>	1.56	5.56	6.35	7.97	4.91	4.83	4.44	
Defensive High Yield	1.98	6.61	6.77	10.26	5.03	4.90	6.39	Dec-93
<i>ICE BofA BB-B US Non-Distressed High Yield Index TR USD</i>	2.31	7.26	7.04	10.26	4.89	5.69	-	
Opportunistic High Yield	2.13	6.61	6.64	10.65	5.42	5.41	6.87	Dec-93
<i>ICE BofA US HY Constrained Index</i>	2.40	7.06	7.23	10.97	5.53	6.06	-	

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Specialists in Capital Structure Investing®

At Penn Capital, we believe that understanding a company's entire capital structure is the best way to identify investment opportunities with the most value. In fact, we've found that managing bond portfolios makes us better equity managers, and vice versa.

Employing a fully integrated credit and equity research process, we focus on non-investment grade companies in the micro to mid-capitalization range, where we can take advantage of inefficient security pricing.

We are a boutique investment management firm based in Philadelphia, PA. We forge our own ideas, we respect hard work, and we are committed to our clients, our staff and our community.

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A copy of Penn Capital's current written disclosure statement discussing our advisory services and fees is available upon request.