

Overview

The Smaller Company and Small Cap index, the Bloomberg U.S. 2000 Total Return Index, increased 7.84% in 2Q25, rebounding off the 1Q decline to reach -3% year to date. The SMID Cap index, the Bloomberg U.S. 2500 Total Return Index, increased 7.74% in 2Q25, rebounding off the 1Q decline to reach -0.3% year to date. The quarter started and ended with a bang. To start, President Trump's Liberation Day announcement of tariffs to be levied around the globe sent markets spiraling on fears of a higher inflation and a recession – Bloomberg 2000 Small Cap declined 15%, Bloomberg US High Yield credit spreads widened 96bps to 4.48% while the 10-year US Treasury rallied as investors sought safer assets. As the tariff headlines softened and deadlines were extended, investor confidence returned. Small-cap stocks rallied 23% off their lows in April to finish up 7.8% in the quarter. High-yield bond spreads tightened 164 basis points from 4.48% at the peak to 2.84% by quarter-end, down 64 basis points on the quarter. To close out the 2nd quarter, Israel executed a military strike on Iran's nuclear facilities and took out many of their top scientists and military leaders, sending oil prices skyward for fear of a broader Middle East conflict. The US also entered the conflict, aiding Israel in bombing key nuclear sites, but called for peace in the Middle East. Despite the turmoil, broad market performance remained solid. Large-cap stocks (+11.6%) beat small-cap stocks (+7.8%), but micro-cap stocks (+13.1%) outperformed both. Industrials, Technology, and Communications sectors led the way, bouncing back from some of the weakest 1Q returns, while Real Estate and Energy posted negative performance.

Small to Mid Cap Equity

The Penn Small-to-Mid Cap strategy returned 13.99% gross of fees during 2Q 2025, notably outperforming its benchmark, the Bloomberg U.S. 2000 Total Return Index, by 6.09%. The top contributors to performance were Information Technology, Consumer Staples, and Financials sectors. Within Information Technology, a data center and telecom equipment provider that was already boasting strong growth accelerated even faster than expected. Within Consumer Staples, a technology-forward direct-to-consumer seller of beauty products gained market share, driven by the consumer shift towards online purchasing of higher-quality products, and the negative impact of tariffs proved to be much better than feared. Within Financials, a Puerto Rico-based bank produced a large quarterly earnings beat while repurchasing a substantial amount of stock. The top detractors to performance were the Industrials and Energy sectors. Within Industrials, a freight broker was disproportionately affected by tariff angst,

given its exposure to trucking, followed by a conservative outlook for 2Q25. Within Energy, an oilfield services provider was negatively impacted by the decline in oil prices and a weaker near-term outlook for hydraulic fracking.

Smaller Company Equity

The Penn Smaller Company strategy returned 11.81% gross of fees during 2Q 2025, outperforming its benchmark, the Bloomberg U.S. 2000 Total Return Index, by 3.88%. The top contributors to performance were Information Technology, Consumer Staples, and Communication Services sectors. Within Information Technology, a 3D sensor and software company signed several new deals and gained approval from the DoD for their lidar sensors and software package. Within Consumer Staples, a technology-forward direct-to-consumer seller of beauty products gained market share, driven by the consumer shift towards online purchasing of higher-quality products, and the negative impact of tariffs proved to be much less severe than feared. Within Communication Services, an AdTech company announced numerous account wins, while the leading competitor, Google, lost an Antitrust case that could have benefited the company materially. The top detractors to performance were Energy, Financials, and Industrials. Within Energy, an oilfield services and equipment company, fell due to a weak demand outlook, as crude prices had dropped, and concerns arose that geopolitical and government uncertainty would change or delay customer spending. Within Financials, an alternative asset management business lagged, giving up relative gains earlier in the year following a slight earnings miss and a lackluster guide for private markets management fees. Within Industrials, a distributor of energy products declined due to a weak demand outlook, as crude prices had fallen and concerns that geopolitical and government uncertainty would change or delay customer spending. Additionally, they announced an acquisition toward the end of June that the market did not agree with.

Small Cap Equity

The Penn Small Cap strategy returned 13.50% gross of fees during 2Q 2025, outperforming its benchmark, the Bloomberg U.S. 2000 Total Return Index, by a significant margin. The top contributors to performance were Information Technology, Consumer Staples, and Real Estate sectors. Within Information Technology, a 3D sensor and software company signed several new deals and gained approval from the DoD for their lidar sensors and software package. Within Consumer Staples, a technology-forward direct-to-consumer seller of beauty products gained market share, driven by the consumer shift towards online purchasing of higher-quality products. The negative impact of

tariffs proved to be much less severe than feared. Within Real Estate, Retail Net Lease REIT continued to execute their portfolio diversification away from theaters, raised dividends, and recapitalized the balance sheet. The top detractors to performance were the Industrials, Energy, and Consumer Discretionary sectors. Within Industrials, a distributor of energy products declined due to a weak demand outlook, as crude prices had fallen and concerns about geopolitical and government uncertainty led to fears that customer spending would be changed or delayed. Additionally, they announced an acquisition toward the end of June that the market did not agree with. Within Energy, an offshore drilling contractor also fell due to the decline in crude oil prices. Within Consumer Discretionary, attractions and hospitality underperformed compared to the broader travel and leisure industry, driven by investor fears that rising trade and geopolitical tensions would dampen demand.

Outlook

While some uncertainty remains, trade policy is coming into focus, with tariff rates ultimately expected to settle below the initial announcement made on Liberation Day. The Trump Administration's initial 90-day pause and recent deadline extension signal a less aggressive stance than feared initially and suggest the administration is unwilling to tank the stock and/or job market in pursuit of its trade goals. Importantly, the delays have given corporations time to enact tariff mitigation strategies, such as accelerating receipts, relocating production out of China, extracting concessions from vendors, and quietly raising prices on select goods. Accordingly, companies have been increasingly confident in planning their operating and capital budgets, and we are beginning to see an uptick in acquisition announcements (supported by an active and accommodative high-yield new issue market). The passage of the "Big Beautiful Bill" cements tax policy, and geopolitical risks appear to have receded following limited and successful U.S./Israeli strikes on Iran with little response. Despite persistent jawboning from President Trump, the Fed has held rates steady given the potentially inflationary impact of the new tariff policy. Nonetheless, inflation has continued to ease (despite an increase in tariff revenue), aided in part by the decline in oil prices. The Fed is expected to resume interest rate cuts in the second half of 2025. With trade, tax policy, and geopolitics on more solid ground, small-cap stocks have rebounded sharply (+23% from April lows) while credit spreads and the CBOE Volatility Index have declined significantly. Reflecting greater investor risk appetite, the IPO window has reopened with a flurry of oversubscribed newly public companies performing well. Credit spreads are low, allowing issuers to refinance

and issue debt at comparatively lower borrowing costs. US consumer spending has been resilient and optimistic despite sentiment surveys that suggest otherwise.

As we see it, solid economic growth, increased corporate confidence, and supportive credit market conditions have historically been tailwinds for Penn's equity strategies. Our companies tend to benefit from deleveraging and the ability to refinance their debt at favorable rates. Smaller companies have a larger portion of floating-rate debt, meaning falling rates can be a tailwind. M&A activity has also been prevalent within our portfolios as a deleveraged company tends to be an attractive acquisition candidate. Valuations of profitable small-cap companies appear attractive relative to those of large-cap companies, trading at levels only seen during the Dot-com bubble and the COVID-19 pandemic. We think earnings growth has the potential to be positive in the years ahead, and LTM growth has an opportunity to inflect positive post-2Q earnings results, which would be the first time since 4Q 2022 (pre-rate hiking). We continue to believe that small-cap stocks represent a compelling long-term risk-reward proposition and will continue to utilize our fully integrated credit and equity research process to identify attractively valued companies that are enhancing their capital structures for the benefit of shareholders.

Penn Capital Products	QTD	YTD	1 YR	3 YR	5 YR	10 YR	Since Inc.	Inc. Date
Net Performance (%) – as of June 30, 2025								
Small to Mid Cap Equity	13.85	6.00	13.94	9.42	8.76	5.99	9.12	Dec-02
<i>Bloomberg 2500 Index</i>	7.74	-0.32	9.38	11.23	11.46	8.30	10.91	
Small Cap Equity	13.36	4.11	13.32	11.15	16.09	7.66	11.72	Dec-93
<i>Bloomberg 2000 Index</i>	7.84	-3.04	7.99	9.84	11.15	7.52	10.01	
Smaller Company Equity	11.69	1.55	13.91	12.89	21.86	13.61	15.84	Dec-11
<i>Bloomberg 2000 Index</i>	7.84	-3.04	7.99	9.84	11.15	7.52	10.42	
Micro Cap Equity	10.75	3.17	6.61	0.56	8.42	4.47	7.33	Aug-06
<i>Bloomberg Microcap Index</i>	13.13	-5.75	10.93	2.47	7.96	5.17	6.46	
Defensive Short Duration High Income	2.96	4.25	8.31	7.95	5.41	4.13	3.96	Jan-13
<i>ICE BofA 1-3 Year BB US Cash Pay High Yield Index TR</i>	2.49	3.93	7.81	7.66	5.17	4.54	4.40	
Defensive High Yield	3.61	4.54	9.40	9.45	5.56	4.35	6.37	Dec-93
<i>ICE BofA BB-B US Non-Distressed High Yield Index TR USD</i>	3.62	4.84	9.15	9.20	5.29	5.08	-	
Opportunistic High Yield	3.80	4.39	9.60	9.70	6.15	4.50	6.86	Dec-93
<i>ICE BofA US HY Constrained Index</i>	3.57	4.55	10.24	9.85	6.00	5.28	-	

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

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.

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