

## Overview

The Bloomberg U.S. 2000 Total Return Index gained 1.70% in 1Q26, continuing its momentum with its fourth positive return quarter in a row despite a highly volatile quarter. Small caps outperformed large caps, as the Bloomberg 500 declined 4.67% driven by Mega Cap Tech declining 11.5%. Microcaps declined 1.73%. Within small cap, Energy, Materials, and Utilities were the strongest sectors, with Energy posting a 29% gain as oil prices soared with the war in the Middle East affecting energy supply. The weaker sectors were Communication Services, Consumer Discretionary, and Technology which suffered fears of proliferation of AI and consumer weakness exacerbated by higher oil prices. Credit markets were softer as the Bloomberg U.S. Corporate High Yield Index fell 0.50%, yield-to-worst rose 87 bps to 7.40%, option-adjusted spreads widened 51 bps to 317 bps, and the 10-year Treasury yield rose 15 bps to 4.32%. An additional dynamic affecting credit is fear of a system credit risk posed by private credit/direct lending/BDCs which have meaningful exposure to software and are facing large redemption requests primarily in the private wealth channel. The Fed's target range remained unchanged at 3.50% to 3.75%. Risk appetite was volatile with the VIX rising from 15.0 to 25.3 and the MOVE Index increasing from 64.0 to 96.1. The University of Michigan consumer sentiment survey was little changed at 53.3.

## Small to Mid Cap Equity

The Penn SMid Cap strategy returned -0.68% during 1Q26, underperforming its benchmark, the Bloomberg U.S. 2500 Total Return Index, by 2.75%. The top contributing sectors to performance were Industrials, Materials, and Energy, while the top detracting sectors were Consumer Discretionary, Health Care, and Information Technology. Largest contributing positions in the quarter included 1) Lumentum, an optical equipment producer, which beat and raised its long-term guidance framework across its scale-up and scale-out optical portfolio, 2) Modine Manufacturing, an industrial manufacturer of cooling and heat transfer systems, which benefited from strong data center-led demand and a re-rating following the divestiture of its auto-focused assets, and 3) Chemours, a TiO<sub>2</sub> and refrigerant focused chemical company, which benefited from recovering TiO<sub>2</sub> pricing and continued strong refrigerant demand. Largest detracting positions included 1) Alphatec Holdings, a spine focused medtech company, which gave conservative 2026 guidance after expectations elevated following a very strong 3Q report, 2) Agilysys, a hospitality software company, which was caught in the software selloff despite solid underlying growth, and 3) Expand Energy, an oil and gas company, which detracted after the CEO was

fired and oil companies outperformed natural gas companies.

## Smaller Company Equity

The Penn Smaller Companies strategy returned 1.30% during 1Q26, underperforming its benchmark, the Bloomberg U.S. 2000 Total Return Index, by 0.40%. The top contributing sectors to performance were Energy, Financials, and Materials, while the top detracting sectors were Health Care, Consumer Discretionary, and Real Estate. Largest contributing positions in the quarter included 1) Applied Optoelectronics, an optical equipment producer, which raised its FY27 guidance based on strong orders from hyperscale customers supporting the AI infrastructure buildout, 2) Chemours, a TiO<sub>2</sub> and refrigerant focused chemical company, which benefited from a nascent recovery in TiO<sub>2</sub> pricing and continued strong refrigerant demand, and 3) Mirum Pharmaceuticals, a commercial biopharma company focused on liver diseases, which continued to execute well, beat in 4Q, gave strong 2026 guidance, and added a complementary late-stage Hepatitis D asset through the Bluejay acquisition. Largest detracting positions included 1) Alphatec Holdings, a spine focused medtech company, which gave conservative 2026 guidance after strong prior results had raised expectations, 2) The RealReal, an online luxury goods marketplace, which was pressured by concern over its consumer backdrop, and 3) Genius Sports, a sports data supplier, which detracted after making a large acquisition that changed management's strategy.

## Small Cap Equity

The Penn Small Cap strategy returned 2.79% during 1Q26, outperforming its benchmark, the Bloomberg U.S. 2000 Total Return Index, by 1.09%. The top contributing sectors to performance were Materials, Energy, and Industrials, while the top detracting sectors were Consumer Discretionary, Health Care, and Communication Services. Largest contributing positions in the quarter included 1) Applied Optoelectronics, an optical equipment producer, which raised its FY27 guidance based on strong orders from several hyperscale customers for optical equipment supporting the AI infrastructure buildout, 2) Chemours, a TiO<sub>2</sub> and refrigerant focused chemical company, which benefited from a nascent recovery in TiO<sub>2</sub> prices and continued strong refrigerant demand that improved expectations for earnings recovery, and 3) Modine Manufacturing, an industrial manufacturer of cooling and heat transfer systems, which benefited from strong data center-led demand and a multiple re-rating following the divestiture of its auto-focused assets. Largest detracting positions included 1) Alphatec Holdings, a spine focused medtech company, which gave conservative 2026 guidance after a strong prior quarter had elevated

expectations, 2) The RealReal, an online luxury goods marketplace, which was pressured by concern over a deteriorating macro backdrop for its customer base, and 3) Agilysys, a hospitality software company, which was caught in the AI-fueled software selloff despite solid growth and an in-line earnings report.

## Outlook

The generally positive sentiment and low volatility ending 2025 fueled by declining rates, relatively stable macro, and exciting AI investments flipped dramatically in 1Q as AI advancements wreaked havoc on the software sector which quickly cascaded into alternative asset managers. The war in the Middle East brings geopolitical uncertainty and rising oil prices that could challenge markets further. With inflation stubbornly elevated and the consumer softer, the prospect of persistently higher fuel prices from disrupted/destroyed energy infrastructure could weigh more heavily on the market and consumer and shift policy makers interest rate strategy. For now, the consumer may be able to weather the storm if the reportedly higher tax refund season from the One Big Beautiful Bill is enough to offset fuel costs. The path forward may hinge on the durability of the consumer, inflation, monetary policy, and resolving geological issues. While the massive AI infrastructure investments thus far have propelled certain parts of the market and hurt others, the longer-term economic value case still is questioned by many. Business investment is expected to persist as clarity on tax, trade, and interest rate policy solidifies, further supported by constructive capital market conditions as seen in the higher activity in M&A including a number of very large deals, strategic investments, and IPO volumes, while tight credit spreads continue to enable favorable refinancing and issuance opportunities even after the recent widening.

Despite heightened uncertainty at current, economic growth and corporate confidence remain solid and credit markets still are favorable. These conditions have historically been tailwinds for Penn's equity strategies. Our companies generally benefit from deleveraging and the ability to refinance debt at what we see as favorable rates. Smaller companies have a larger portion of floating rate debt, meaning falling rates can be a tailwind to earnings. M&A activity has also been prevalent within our portfolios as a deleveraged company tends to be an attractive acquisition candidate. Despite the recent outperformance of smaller companies, valuations of profitable, smaller companies still appear attractive relative to large cap, trading near historical relative lows. After two years of negative earnings growth during an aggressive interest rate hiking cycle, earnings growth turned positive in 2025 and is expected to accelerate in 2026. We continue to believe

smaller stocks represent a compelling long-term risk/reward and will continue to use our fully integrated credit and equity research process to identify attractively valued companies that are improving their capital structures for the benefit of shareholders.

<b>Penn Capital Products</b> Net Performance (%) – as of Mar 31, 2026	QTD	YTD	1 YR	3 YR	5 YR	10 YR	Since Inc.	Inc. Date
<b>Small to Mid Cap Equity</b>	-0.79	-0.79	21.09	9.25	2.88	9.18	9.10	Dec-02
<i>Bloomberg 2500 Index</i>	2.08	2.04	22.28	13.05	5.27	10.42	11.14	
<b>Small Cap Equity</b>	2.65	2.65	28.37	12.54	5.60	11.48	11.87	Dec-93
<i>Bloomberg 2000 Index</i>	1.70	1.70	25.63	12.85	4.27	10.26	10.28	
<b>Smaller Company Equity</b>	0.96	0.96	27.36	13.68	7.13	18.03	16.01	Dec-11
<i>Bloomberg 2000 Index</i>	1.70	1.70	25.63	12.85	4.27	10.26	11.02	
<b>Micro Cap Equity</b>	-3.93	-3.93	12.06	0.27	-5.54	6.20	7.14	Aug-06
<i>Bloomberg Microcap Index</i>	-1.73	-1.73	32.97	9.43	-3.03	8.74	7.08	
<b>Defensive Short Duration High Income</b>	0.13	0.13	6.70	7.09	4.74	4.34	4.01	Jan-13
<i>ICE BofA 1-3 Year BB US Cash Pay High Yield Index TR</i>	0.19	0.19	5.93	6.85	4.36	4.78	4.40	
<b>Defensive High Yield</b>	-0.55	-0.55	6.79	7.71	3.87	4.99	6.32	Dec-93
<i>ICE BofA BB-B US Non-Distressed High Yield Index TR USD</i>	-0.40	-0.40	7.31	7.90	3.99	5.55	-	
<b>Opportunistic High Yield</b>	-0.77	-0.77	7.15	8.25	3.74	5.83	6.80	Dec-93
<i>ICE BofA US HY Constrained Index</i>	-0.55	-0.55	6.90	8.50	4.19	6.04	-	

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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.

**Past performance is not indicative of future results.** Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Penn Capital) or any non-investment related content, referred to directly or indirectly contained within this commentary be suitable for your portfolio or individual situation or prove successful. Comparisons to indices are inherently unreliable indicators of future performance. The strategies used to generate the performance vary from those used to generate the returns depicted in the benchmarks. Penn Capital makes no representation as to the methodology used to generate the benchmark returns. Portfolio holdings are subject to change and may or may not be held by one or more Penn Capital portfolios from time to time. Please note that comparing the performance to a different index might have materially different results than those shown. The Bloomberg Micro Cap Index is a float market cap weighted benchmark of those securities in the Bloomberg Aggregate Equity Index with a market capitalization ranking of lower than 2,500. The Bloomberg US 2000 Index is a float market-cap-weighted benchmark of the lower 2000 in capitalization of the Bloomberg US 3000 Index. The Bloomberg US 2000 Value Index is screened from the Bloomberg US 2000 Index (B2000) and is constructed based on a linear combination of risk factors. The four factors are 1) Earnings Yield, 2) Valuation, 3) Dividend Yield, and 4) Growth. The factors are equally weighted when forming a composite signal where Growth is considered to be a negative indicator and thus flipped to be a negative. The Indices are market-capitalization-weighted. The current price is used to calculate the price-based ratios. The Bloomberg US 2500 Index is a float market-cap-weighted benchmark of the lower 2500 in capitalization of the Bloomberg US 3000 Index. Investors cannot directly invest in an index.

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