

Overview

The Bloomberg U.S. 2000 Total Return Index declined 7.80% in 3Q26, reversing part of its strong second-quarter advance while remaining up 13.43% year-to-date through September 30. Large caps outperformed smaller companies during the quarter, with the Bloomberg 500 Total Return Index gaining 2.32%. Higher interest rates created a more challenging financing backdrop: the 10-year Treasury yield rose approximately 82 basis points to 5.28%, and the federal funds target range ended the quarter at 3.75%–4.00%, 25 basis points above June-end. University of Michigan Consumer Sentiment declined to 48.1 in September, down from 51.7 in August, reflecting continued household caution.

In credit markets, the Bloomberg U.S. Corporate High Yield Index returned -1.82% in 3Q26. Option-adjusted spreads widened approximately 42 basis points to 3.11%, while yield-to-worst increased approximately 119 basis points to 8.35%. The higher cost of capital reinforces the importance of debt maturities, liquidity, and cash generation in evaluating smaller companies. CBOE VIX was little changed, ending at 16.34 compared with 16.45 at June-end, but the ICE BofA MOVE Index rose from 71.96 to 110.45, indicating increased bond-market volatility.

Small to Mid Cap Equity

The Penn Small to Mid Cap strategy returned -12.07% in 3Q26, underperforming its benchmark, the Bloomberg U.S. 2500, by 5.36 percentage points. Year-to-date through September 30, the strategy returned +7.28%; benchmark-relative YTD performance remains pending reconciliation. Sector allocation was positive, with the largest contributions in Communication Services, Industrials, and Consumer Staples more than offsetting detracting sectors in Consumer Discretionary, Health Care, and Information Technology. Stock selection detracted from quarterly relative performance.

The largest contributing stocks during the quarter included: 1) ZETA, Marketing Software, Zeta's AI marketing engine Athena is seeing strong traction not baked into street estimates. ZETA put up a clean beat and raise as investors look for reputable high growth SW names; 2) SEI, Energy Services, Improving outlook for its BTM power solutions. Scope of work with customers continues to increase; 3) APA, Energy, Commodity prices recovered after selloff in June. Continues to exceed cost reduction expectations.

The largest stock detractors included: 1) ACMR, Semi cap equipment, Valuation detracted in the midst of SOXX momentum selloff. Nothing changed in the long-term fundamental picture for ACMR; 2) OUST, LiDAR producer, Valuation detracted during the July beta/momentum selloff.

Nothing changed in the long-term fundamental picture for OUST; 3) LGN, An E&C contractor focused building HVAC, heating, piping and other electric and mechanical services., Valuation multiples across the sector compressed on fears of delayed data center spending due to state moratoriums and AI related cyber security concerns.

Smaller Company Equity

The Penn Smaller Company strategy returned -11.79% in 3Q26, underperforming its benchmark, the Bloomberg U.S. 2000 Total Return Index, by 3.99 percentage points. Year-to-date through September 30, the strategy returned +15.56%, outperforming the benchmark by 2.13 percentage points. Both stock and sector allocation were positive, with the largest sector contributions in Energy, Industrials, and Communication Services more than offsetting detracting sectors in Health Care, Consumer Discretionary, and Financials.

The largest contributing stocks during the quarter included: 1) ZETA, Marketing Software, Zeta's AI marketing engine Athena is seeing strong traction not baked into street estimates. ZETA put up a clean beat and raise as investors look for reputable high growth software companies.; 2) SENS, Medtech CGM, Reported Q2 beat and raise as its new in-house dedicated sales force and partnership/co-promotion with insulin pump manufacturer Sequel drove outperformance.; 3) AEHR, Semi test equipment, AEHR's fiscal 4Q26 and FY27 guide were strong with revenue set to double in FY27 and demand outpacing supply for their burn-in test equipment across hyperscalers and logic chip companies.

The largest stock detractors included: 1) OUST, LiDAR producer, Valuation detracted during the July beta/momentum selloff. Nothing changed in the long-term fundamental picture for OUST.; 2) WOLF, SiC semi producer, Valuation detracted in the midst of SOXX momentum selloff. Nothing changed in the long-term fundamental picture for WOLF.; 3) ACMR, Semi cap equipment, Valuation detracted in the midst of SOXX momentum selloff. Nothing changed in the long-term fundamental picture for ACMR.

Small Cap Equity

The Penn Small Cap strategy returned -11.17% in 3Q26, underperforming its benchmark, the Bloomberg U.S. 2000 Total Return Index, by 3.37 percentage points. Year-to-date through September 30, the strategy returned +13.58%, underperforming the benchmark by 1.25 percentage points. Sector allocation was positive with largest contribution in Energy, Communication Services, Consumer Staples more than offsetting detracting sectors in Healthcare, Consumer Discretionary, and Financials.

The largest contributing positions during the quarter included: 1) ZETA, marketing Software, Zeta's AI marketing engine Athena is seeing strong traction not baked into street estimates. ZETA put up a clean beat and raise as investors look for reputable high growth software companies.; 2) KNSA, biotech, Reported Q2 beat and raise confirming rapid and durable commercial growth of its flagship drug therapy ARCALYST in recurrent pericarditis that remains underpenetrated and reported positive phase 2 data from pipeline asset KPL-387 and demonstrated the potential to provide a follow-on growth driver supporting shares. Stock trades at a P/peak Sales of 1.1x when stocks typically trade 2-3x.; 3) PTEN, energy Services, improving outlook for rig and frac spread utilization as well as higher pricing.

The largest position detractors included: 1) GTES, an industrial producer of belts and hydraulics, Gates gave back some of the strong gains of the prior quarter on fears over rates & a weak Ag end market but has since clawed back most of those losses.; 2) OUST, liDAR producer, valuation detracted during the July beta/momentum selloff. Nothing changed in the long-term fundamental picture for OUST.; 3) ACMR, semi cap equipment, Valuation detracted amid the SOXX momentum selloff. Nothing changed in the long-term fundamental picture for ACMR.

Outlook

As equity markets enter the final quarter of 2026, we remain constructive on the fundamental opportunity for small-to-mid caps, supported by improving earnings and continued capital investment. Furey's quarter-end small-cap research highlights sales growth approaching double digits, earnings growth above 20%, and an increasing number of companies generating positive and accelerating results. This improving breadth provides a stronger foundation for a sustained recovery than valuation expansion alone. The quarter's pullback nevertheless underscores that better fundamentals do not necessarily translate immediately into relative outperformance.

AI-related capital spending remains an important demand driver extending beyond the largest technology companies. Goldman Sachs' August research estimated approximately \$1 trillion of global AI-related investment in 2026, supporting opportunities across power, electrical equipment, engineering and construction, and related services. We expect a good portion of this spending to flow to domestic small-to-mid-caps that supply the equipment, infrastructure, and services required for the buildout, translating large technology companies' capital investment into revenue and earnings opportunities across our investment universe. We continue to distinguish companies with visible orders, attractive incremental margins, and strong cash conversion from those whose valuations

depend primarily on thematic enthusiasm.

Despite these crosscurrents, Penn Capital remains focused on attractively valued companies improving their earnings and capital structures. Higher financing costs reinforce the importance of near-term free cash flow, liquidity, and debt-maturity management. An improving M&A environment may provide additional catalysts for our holdings through acquisitions that expand earnings, asset sales that reduce debt, or divestitures that sharpen business focus. We will continue to leverage our integrated equity and credit research process to identify opportunities for deleveraging and disciplined capital allocation that benefit shareholders, while reassessing holdings where execution or the original investment thesis has deteriorated.

Penn Capital Products		QTD	YTD	1 YR	3 YR	5 YR	10 YR	Since Inc.	Inc. Date
Net Performance (%) – as of September 30, 2026									
Small to Mid Cap Equity		-12.07	7.28	6.56	12.70	4.05	8.47	9.26	Dec-02
<i>Bloomberg 2500 Index</i>		-6.71	11.07	13.12	16.26	6.47	10.26	11.29	
Small Cap Equity		-11.17	13.58	12.25	17.13	6.18	11.00	12.02	Dec-93
<i>Bloomberg 2000 Index</i>		-7.80	13.43	16.17	17.49	6.19	10.09	10.49	
Smaller Company Equity		-11.79	15.56	15.89	19.63	7.94	17.36	16.48	Dec-11
<i>Bloomberg 2000 Index</i>		-7.80	13.43	16.17	17.49	6.19	10.09	11.45	
Micro Cap Equity		-7.74	5.35	1.43	7.99	-3.13	5.80	7.45	Aug-06
<i>Bloomberg Microcap Index</i>		-7.80	7.32	8.40	15.45	-0.78	8.04	7.37	
Defensive Short Duration High Income		-0.43	1.64	3.44	6.90	4.71	-	3.87	Jan-13
<i>ICE BofA 1-3 Year BB US Cash Pay High Yield Index TR</i>		-0.15	1.80	3.40	6.59	4.31	4.41	4.42	
Defensive High Yield		-1.60	0.20	1.84	7.66	3.38	4.25	6.25	Dec-93
<i>ICE BofA BB-B US Non-Distressed High Yield Index TR USD</i>		-1.66	0.35	1.97	7.74	3.41	4.78	-	
Opportunistic High Yield		-1.52	0.27	2.13	7.92	3.28	4.90	6.72	Dec-93
<i>ICE BofA US HY Constrained Index</i>		-1.82	0.04	1.39	7.93	3.55	4.93	-	

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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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