

U.S. equities rebounded in the second quarter of 2025, reversing course from a sluggish start to the year. The Russell 2000 gained 8.5%, with growth stocks outpacing value. Easing macro pressures and renewed interest in cyclical areas helped drive the shift, with small-cap stocks benefiting from improved sentiment and a more favorable outlook for rate-sensitive sectors. Even with a strong quarter, small caps still trail their large cap peers year-to-date, with the Russell 2000 down 1.8% through June 30 compared to a 6.1% gain for the Russell 1000.

Leadership within small-caps was uneven, but we see encouraging signs for the asset class. A potential shift in Federal Reserve policy, alongside historically wide valuation discounts relative to large caps, has created an attractive backdrop selective investors. M&A activity remains another key theme, with many high-quality small companies trading at levels that could draw interest from strategic buyers.

Periods of muted performance and low investor expectations have often set the stage for long-term opportunity in small caps. Many companies in our universe are emerging from multi-year earnings headwinds, just as the broader market begins to look further down the economic runway. In this environment, we believe the real risk lies in being underexposed during key turning points.

Our team remains focused on identifying companies with strong balance sheets, durable growth drivers, and management teams that can execute through uncertainty. While volatility is inherent in small-caps, history shows that being consistently invested, rather than trying to time short-term moves, as often the difference between capturing potential upside or missing it altogether.

Strategy Performance

The Shaker Small Cap Growth Strategy rose 9.4% during the quarter, modestly trailing its benchmark. Strong stock selection in technology, consumer staples, and consumer discretionary sectors contributed meaningfully to returns, and our positioning in consumer-related areas outperformed on a relative basis. Additionally, our lack of exposure to the real estate sector provided a small tailwind. While results in other sectors lagged the benchmark, we remain confident in the long-term prospects of the companies we own and continue to focus on high-conviction ideas supported by strong fundamentals.

	2Q 2025	1 Year	3 Years	5 Years	10 Years
Shaker Small Cap Growth (gross)	9.7%	5.6%	11.6%	13.3%	12.5%
Shaker Small Cap Growth (net)	9.4%	4.6%	10.5%	12.2%	11.4%
US Small Cap Growth Index	12.0%	9.7%	12.4%	7.4%	7.1%

DISCLAIMER: Information contained is as of 06/30/2025. Returns in the current year are preliminary. Gross returns are net of expenses. Net returns are net of expenses and a 0.25% quarterly (1% annual) management fee for the corresponding period. The US dollar is the currency used to express performance. The benchmark is a US Small Cap Growth index. At times, the iShares Russell 2000 Growth ETF is used as a proxy. The strategy is more concentrated than the benchmark. The strategy's overall return is a composite of clients' separately managed account returns. Some clients' investment returns were more or less than the overall strategy return. Not all our client's returns surpassed the benchmark. It is not intended as investment advice or recommendation, nor is it an offer to sell or a solicitation of an offer to buy any interest in any fund or product. An investment in any of our strategies is speculative and involves a high degree of risk, including potential loss of principal. There is no guarantee that the investment objective will be achieved, or that the investment strategies will be profitable. Investments in smaller companies may be riskier, less liquid, more volatile and more vulnerable to economic, market and industry changes than investments in larger, more established companies. Past performance is not indicative of future results. The information herein has been obtained from public sources and we do not guarantee its accuracy. This document is confidential and for the sole use of the intended original recipient. The specific securities identified in this report do not represent all of the securities purchased, sold or recommended for clients. It should not be assumed that investments in the securities identified and discussed will be profitable in the future. Holdings / sector weightings in any strategy are subject to change and should not be considered investment advice or a recommendation to buy or sell a particular security. Actual holdings may vary by client. A list of the stocks selected for any of our strategies during the trailing twelve months is available upon request.

Top Contributors

Argan Inc. (AGX) – Engineering and construction firm focused on power plants and industrial facilities. AGX's stock rose as infrastructure and data center power demand boosted contract activity and backlog growth.

Axos Financial Inc. (AX) – Tech-enabled bank offering consumer and business banking, lending and investment services. AX gained on continued revenue and earnings momentum ahead of anticipated strong Q2 results.

Comfort Systems USA Inc. (FIX) – Provider of HVAC, electrical, and mechanical contracting services for commercial and industrial buildings, FIX beat earnings driven by record backlog, margin expansion, and accelerating data center buildout demand.

Sportradar Group (SRAD) – SRAD is a sports data and analytics company serving media, betting operators, and leagues globally.

Duolingo Inc (DUOL) – Language-learning platform, DUOL offers gamified lessons via its top-rated mobile app. Shares climbed on strong user growth, improved margins, and expanding AI-driven product efficiencies.

Top Detractors

Halozyme Therapeutics (HALO) – Another top contributor in the 1Q, HALO is a biotech firm known for its drug delivery platform and partnerships with large pharma.

Corcept Therapeutics (CORT) – A top contributor in the 1Q, and remains outperforming the benchmark for the year, CORT is a biotech focused on therapies that modulate the effects of cortisol.

ServisFirst Bancshares (SFBS) – Commercial-focused regional bank, SFBS struggled with weaker than expected revenue and realized losses in the securities portfolio.

Merit Medical Systems (MMSI) – Medical device maker, MMSI is focused on cardiology, radiology, and endoscopy procedures. Despite stable fundamentals, shares slipped as the company lowered FY EPS guidance and margins remained under pressure.

Omniceil Inc (OMCL) – Provider of automated pharmacy and medication management systems, OMCL shares declined following margin pressure and reduced full-year guidance, driven by tariffs and supply chain uncertainty.

Changes to the Portfolio

The gap between our portfolio winners and laggards has been especially wide over this past year. As our research team continues to identify the best opportunities, and as time reveals which holdings are not meeting our expectations, portfolio turnover has increased. This quarter we exited 14 positions and added 14 new ones, a higher-than-usual level of activity for our strategy.

Notably, five of the new additions came from the technology sector, a sector we have struggled to find companies that offer reasonable valuations, sustained growth, and solid profitability. A new name added was CACI International, a provider of technology and intelligence solutions to U.S. defense and government agencies. CACI's position in mission-critical national security programs, combined with a strong contract backlog, made the company a compelling addition to our portfolios.

We also initiated on three new positions in the utilities sector. While our exposure has historically been limited in this sector, recent market dynamics presented what we believe are attractive, defensive growth opportunities in select names. Our allocation remains small but intentional.

On the sell side, we exited positions across nearly every sector. One longer-term holding we fully liquidated was Globant (GLOB), a digital consultancy and IT services firm. While the company has been a strong contributor over time, we saw a slowdown in demand trends and reassessed our forward expectations accordingly.

We also trimmed positions in several top-performing stocks; Comfort Systems (FIX), Sprouts Farmers Market (SFM), Argan (AGX), and Duolingo (DUOL)—not due to changes in conviction, but based on position size and valuation discipline.

This quarter's activity reflects the ongoing evolution of our portfolio and our commitment to staying nimble, investing in what we believe are the most compelling opportunities while maintaining the discipline to adjust when the outlook changes.