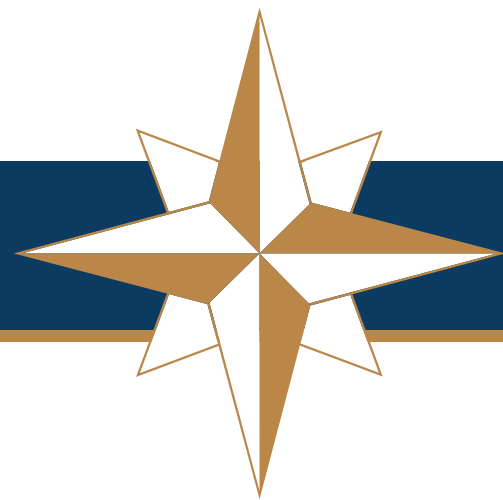


Catalyst

Portfolio Update and Market Outlook



As of August 31, 2025

**All the same, we take our chances
Laughed at by time
Tricked by circumstances
Plus la Change**

**Plus c'est la mem chose
The more that things change
The more they stay the same
– Rush Circumstances**

Finance class will tell you the price of anything is the sum of its discounted cashflows. Pretty simple. That same class will tell you that the stock market is a real-time discounting mechanism making future estimates of these cashflows. Or as Morgan Housel says, “every market valuation is a number from today multiplied by a story about tomorrow.” This is where the opportunities and threats evolve in investing.

We’ve advocated for small value for a while and acknowledge we’ve been early—and recognize our bias as value investors. Still, large caps look crowded, and there are emerging signs of fundamental weakness in some market leaders.

According to Jared Dillan (Why Small Caps, Why Now, 8/29/25), large growth has led the market in eight of the last nine years, while small value has ranked worst in five and second-worst in another. This year, small caps are on track for

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Performance (%) as of August 31, 2025

Representative Accounts	MTD			QTD			YTD		
	Gross	Net	vs Benchmark	Gross	Net	vs Benchmark	Gross	Net	vs Benchmark
Small Cap Value	8.70	8.61	0.23	11.07	10.88	0.68	3.80	3.11	-3.10
Small/Mid Cap Value	6.77	6.68	1.52	9.03	8.84	1.95	7.32	6.61	-0.86
Mid Cap Value	3.66	3.59	0.66	6.05	5.91	1.21	9.35	8.77	1.23
Micro Cap Value	9.82	9.73	0.76	9.88	9.70	-0.81	11.13	10.39	2.13

Source: SEI. **Past performance does not guarantee future results.** Representative accounts are those of the Integrity Small Cap Value Equity Strategy, Integrity Small/Mid Cap Value Equity Strategy, Integrity Mid Cap Value Equity Strategy, Integrity Micro Cap Value Equity Strategy. Benchmark comparison is versus gross performance.

Market Returns (%) as of August 31, 2025

	MTD	QTD	YTD
S&P 500® Index	2.03	4.32	10.79
Nasdaq 100® Index	0.92	3.36	11.98
Russell 2000® Growth Index	5.92	7.72	7.20
Russell 2000® Value Index	8.47	10.39	6.90



Past performance does not guarantee future results. Indices are shown to represent different market segments. Except for the Russell 2000® Value Index, the benchmark for Integrity Small Cap Value Equity, they are not the strategies’ benchmarks.*

Composite Performance (%) as of June 30, 2025

	1 Year		5 Year		10 Year	
	Gross	Net	Gross	Net	Gross	Net
Small Cap Value	-1.97	-2.95	16.09	14.93	7.50	6.43
Small/Mid Cap Value	4.15	3.11	16.78	15.62	9.01	7.92
Mid Cap Value	8.77	7.85	16.29	15.30	9.72	8.82
Micro Cap Value	13.65	12.52	18.35	17.17	8.87	7.79

Past performance does not guarantee future results. Returns for periods greater than one year are annualized. Returns reflect the reinvestment of dividends and other earnings and are expressed in U.S. dollars. Gross-of-fees returns are presented before management and custodial fees but after any transaction costs. Net-of-fees returns reflect net-of-model fees and are calculated in the same manner as gross-of-fee returns using the Time Weighted Rate of Return method. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm’s fees are available on request and may be found on Part 2A of its Form ADV.

a record \$80 billion of outflows, while large caps are seeing their second-best inflows ever at \$419 billion. These flows and performance trends suggests investors are heavily overweight large stocks and abandoning diversification. While that has worked for the past decade, we believe mean reversion still applies, and this time is not different.

Large cap performance has been overwhelmingly driven by the “Magnificent Seven”—Apple, Microsoft, Alphabet (Google), Amazon, Meta, Nvidia, and Tesla. More recently, returns have become even more concentrated among the so-called ‘hyperscalers’: Alphabet, Amazon, Meta, and Microsoft, which are pouring resources into artificial intelligence (AI). AI is touted as a generational shift, and perhaps these stocks deserve premium valuations based on future expectations. Notably, AI-related companies account for 70% of the S&P 500’s return this year, while the other 493 stocks in the index now trade at a premium to their own history. The key question is whether AI can transform the prospects of the rest of the index, or if those stocks are simply being pulled higher by passive flows into large cap benchmarks. Only time will tell.

Recent data on the hyperscalers—Alphabet, Amazon, Meta, and Microsoft—raises concerns about their future trajectory. According to Empirical Research Partners (The Hyperscalers: Making the Jump to Hyperspace), these firms have massively ramped up capital spending, projecting a 45% CapEx increase this year versus the 20% initially forecast. This aggressive AI investment has come at a cost: free cash flow margins for the group dropped from 22.6% in 2023 to just 17% by Q2

2025. Valuations are, in theory, the discounted sum of future cashflows, so sustained pressure on FCF could eventually prompt a re-rating. If so, capital might shift to smaller stocks with stronger fundamentals and cheaper valuations.

Maintaining diversification in the face of such relative performance differences has been difficult and unrewarding. Investors should keep in mind the rapidity that market sentiment can shift. We experienced this in 2000 when the tech bubble burst. While the hot stocks on the Nasdaq 100 fell 36.8% that year, the lowly valued, much forgotten Russell 2000 Value index increased 22.8%. Over the next three years (12/31/1999 – 12/31/2003), the Nasdaq 100 went on to decline by 60% while the Russell 2000 Value increased 81%. Will it be different this time?

Attribution

U.S. equity markets extended their win streak in August. Performance continued to be fueled by easing trade tensions, stronger than expected corporate earnings, and hopes for an upcoming Federal Reserve interest rate cut. The Russell 2000 Value Index (up 8.5%) outpaced the tech heavy Nasdaq (+0.9%) and the S&P 500 (+2.0%) . For the month on a benchmark basis, small value and mid value outperformed their growth counterparts, small/mid value and small/mid growth were even, and micro cap value underperformed micro cap growth. All four of our strategies outperformed their respective benchmarks for the month.

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All investments carry a certain degree of risk including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class. Interested parties are strongly encouraged to seek advice from qualified tax and financial experts regarding the best options for your circumstances.

Each representative account serves as the model against which all accounts in each respective strategy are managed. The representative accounts are actual portfolios and the information provided, including performance, will vary for other accounts. The representative accounts are being used solely as tools to help demonstrate how performance can be attributed to the investment policies applied in the management of each strategy.

*The Integrity Small-Cap Value Equity Strategy is benchmarked to the Russell 2000® Value Index. The Integrity Small/Mid-Cap Value Equity Strategy is benchmarked to the Russell 2500™ Value Index. The Integrity Mid-Cap Value Equity Strategy is benchmarked to the Russell Midcap® Value Index. The Integrity Micro-Cap Value Equity Strategy is benchmarked to the Russell Microcap® Value Index.

Index returns reflect the reinvestment of dividends and other income but do not reflect advisory fees or any other expenses. Indexes are unmanaged and one cannot invest directly in an index.

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