



# IRONWOOD

INVESTMENT MANAGEMENT®, LLC

## SMALL CAP CORE STRATEGY PROFILE — As of 6/30/2024

Composite Performance	QTD	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception (1/01/1999)
Gross of Fees:	-3.57%	12.37%	26.22%	2.98%	13.43%	10.16%	11.61%
Net of Fees:	-3.81%	11.82%	24.97%	1.96%	12.30%	9.07%	10.50%
Russell 2000	-3.28%	1.73%	10.06%	-2.58%	6.94%	7.00%	7.83%

Please see footnotes to performance on the last page.

### OVERVIEW

The Ironwood Small Cap Core strategy is designed to serve a strategic, long-term role in investment portfolios. The strategy invests in listed equity securities of U.S.-based companies and is diversified across 60-80 positions with a single position limit of 10%. We hold positions to mitigate risk and portfolio volatility as well as capture positive return potential through any market environment or economic cycle. Our areas of expertise are stock-level analysis and selection, opportunistic exploitation of stock price inefficiencies and the ability to patiently compound capital over a long-term time horizon. Through fundamental research we seek to identify high-quality companies with the potential to create significant shareholder value before they are recognized by the broader market.

### INVESTMENT PHILOSOPHY

The Ironwood Small Cap Core strategy combines our passion for identifying high-quality companies with our research and investment discipline practiced over decades to capitalize on the opportunities created by behavioral-based market actions, which are particularly pronounced in the small cap market. Volatility is a phenomenon we observe and exploit, it is not our definition of risk. As long-term investors, we focus on finding what we refer to as high Ironwood-quality companies that have the attributes that will enable them to adapt to challenges and seize opportunities that will undoubtedly arise over our holding periods. We believe effective management teams proactively manage ESG issues and we integrate this into our assessment of quality companies and management teams. We believe a core strategy should be a strategic allocation of long-term investments and therefore manage a portfolio built stock-by-stock that has diversified exposure to earnings growth, is not predicated on a particular 'style' being in favor and has the latitude to let our best performing holdings drive portfolio return. We aim to 'stack the deck' of excess returns through our rigorous focus on buying at irrationally low valuations, and then preserving the full potential of our investments by remaining patient, engaged investors with a long-term mindset.

## SMALL CAP CORE STRATEGY CHARACTERISTICS

### STRATEGY HIGHLIGHTS

**Investment Universe:** Russell 2000 Small Cap Index

#### Investment Approach

- Seeks high “Ironwood-Quality” companies through bottom-up research process.
- ‘Growth’ and ‘Value’ are basic tool sets, not philosophies, used to analyze stocks.
- Diversified exposure of 60-80 positions across 8 economic sectors.
- Exploits downside share pricing overreactions to buy stocks for long-term holds.

#### Ironwood ESG Company Characteristics

**E:** Thoughtful management of resource use, waste reductions and product/service impacts.

**S:** Good HR, supply-chain and community relations practices; healthy products and services.

**G:** Alignment of management and board structure and practices with shareholders and with consideration of all stakeholders.

### TOP TEN EQUITY HOLDINGS

As of 6/30/2024

iShares Trust - iShares Russell 2000 ETF	9.12%
Freshpet, Inc.	5.98%
Super Micro Computer, Inc.	5.34%
Perficient, Inc.	3.43%
MYR Group Inc.	3.40%
Impinj, Inc.	3.24%
Cytokinetics, Incorporated	3.12%
SPS Commerce, Inc.	3.05%
Dycom Industries, Inc.	2.62%
Pegasystems Inc.	2.36%
<b>Total Weight in Top Ten</b>	<b>41.66%</b>

### MARKET CAPITALIZATION

As of 6/30/2024

Over \$5 Billion	46.36%
\$4 Billion - \$5 Billion	10.44%
\$3 Billion - \$4 Billion	5.61%
\$1.5 Billion - \$3 Billion	15.63%
\$500 Million - \$1.5 Bln	10.39%
Under \$500 Million	6.09%
Cash	5.47%

### PORTFOLIO CHARACTERISTICS

As of 6/30/2024

Price/Book Value	3.44x
TEV/EBITDA	13.32x
TEV/Total Revenues	2.33x
Price/Normalized EPS	32.11x

### SECTOR ALLOCATION

As of 6/30/2024

	Fund	Russell*
Consumer Discretionary	10.27%	10.46%
Consumer Staples	8.36%	3.52%
Energy	1.78%	7.49%
Health Care	9.92%	15.17%
Financial Services	15.24%	15.99%
Industrials	18.57%	17.15%
Information Technology	27.58%	15.30%
Materials	2.41%	4.52%
Utilities	0.00%	2.59%
Real Estate	0.00%	5.61%
Communication Services	0.40%	2.21%
Cash	5.47%	0.00%

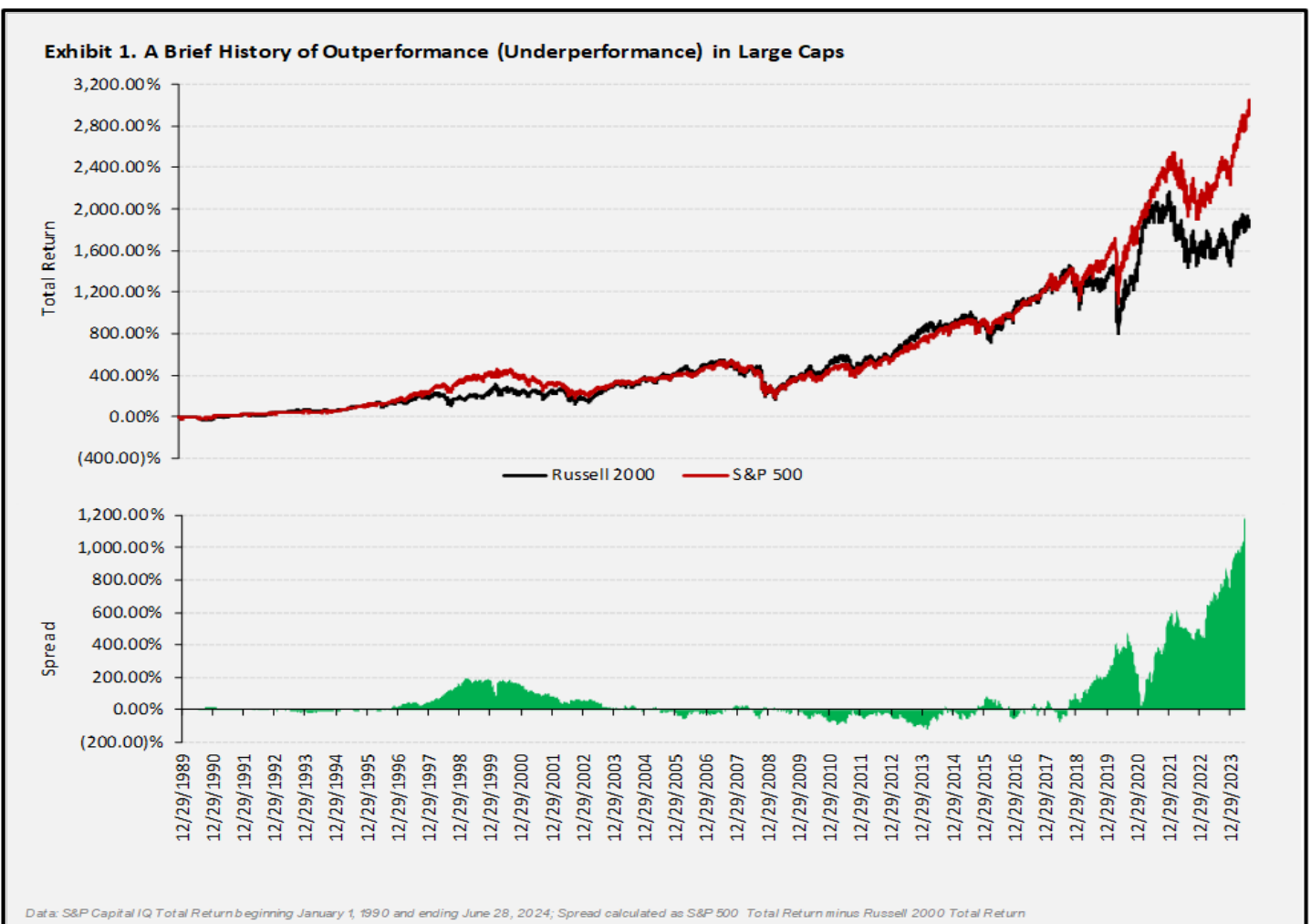
\*Russell 2000 Index iShares

## SMALL CAP CORE STRATEGY COMMENTARY

The second quarter (Q2) of 2024 was a rough one for small cap stocks. The return for the Russell 2000 (R2) was a negative 3.28%. This stands in sharp contrast to the performance of the S&P 500 which returned a positive 4.28%. The performance of the R2 relative to the S&P 500 in Q2 2024, a negative 756 basis points, was the worst since Q2 1973 (51 years ago), and the sixth worst relative quarter on record. The Ironwood Small Cap Core strategy (SCC) returned a negative 3.57% in the quarter, slightly below the return of the R2. The SCC strategy maintained its lead over the R2 for the year to date. It is up 12.37% versus 1.73% for the R2 an outperformance of 1064 basis points (bps).

The poor relative performance of small cap stocks reflects the same dynamics of the broader market. A relatively small number of large cap tech stocks have come to dominate the S&P 500 and NASDAQ indices and their strength has powered the indices higher while the rest of the index constituents are essentially flat. The largest 10 companies in the S&P 500 now comprise about 33% of the overall index. The market cap of Apple Inc (AAPL), for instance, has grown to \$3.7 trillion dollars which is more than the combined market cap of the 2000 companies in the Russell 2000 index.

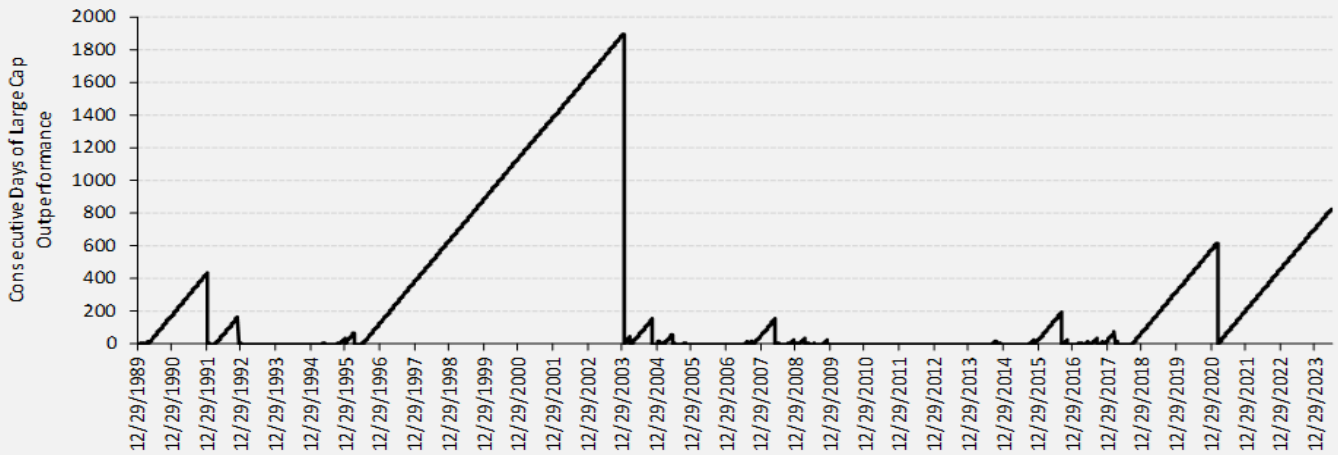
Historically the relative performance of large companies versus small companies has run in distinct cycles as depicted in Exhibit 1.



Large cap stocks outperformed small in the period from 1996 through 2003 by a considerable margin but then underperformed for most of the next fifteen years. Large cap stocks caught fire again in 2018 and have bested small caps for the past five years. When the cycle will change back in favor of small cap stocks is impossible to predict but history suggests that whenever performance disparities become extreme the market pendulum swings back in the opposite direction as can be seen in Exhibit 2.

## SMALL CAP CORE STRATEGY COMMENTARY

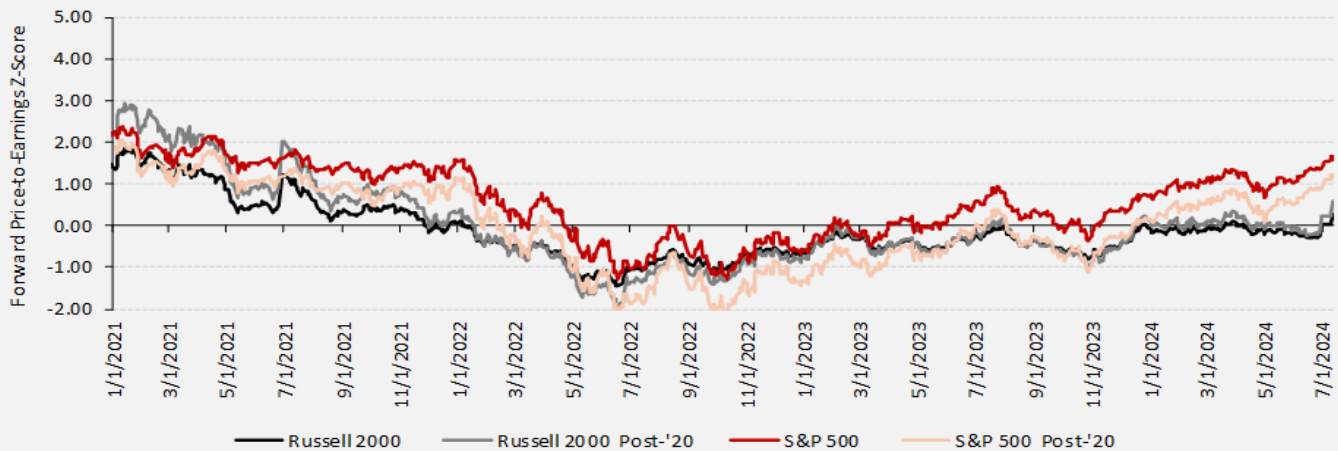
**Exhibit 2. Second Largest Streak of Large Cap Outperformance**



Data: S&P Capital IQ Total Return beginning January 1, 1990 and ending June 28, 2024, Consecutive Days of Positive S&P 500-Russell 2000 Spread

The weakness in small cap stocks stands in contrast to corporate earnings which are expected to have grown in the second quarter by nearly 18% year-over-year for the R2 versus earnings for the S&P 500 which are estimated to have grown by only 9.7%. The combination of higher earnings and lower stock prices has reduced the valuation of the R2. The P/E ratio of the R2 is trading near its average of recent years while the P/E ratio for the S&P 500 has risen to about 1.5 standard deviation above average as depicted in Exhibit 3.

**Exhibit 3. Large Cap Valuations are Continuing to Get Stretched**



Data: S&P Capital IQ Forward P/E beginning July 15, 2014 and ending July 12, 2024. "Post-'20" z-scores are calculated using 1/1/2021 as the beginning date.

Small cap stocks are less highly valued than large cap stocks.

The discussion of large cap stocks versus small is important in explaining portfolio performance. But focusing too much attention on the big picture risks losing sight of the trees for the forest. The small cap universe is large and diverse and there is ample opportunity to pick stocks that do very well despite market headwinds. So far this year the R2 is up modestly. But if you look at the individual holdings in the Ironwood SCC portfolio there are a number of companies whose stocks have more than doubled. While market forces have a large impact on investment returns in the short-term the performance of individual companies drives returns over longer time periods. The following discussion of portfolio attribution illustrates this trend.

## SMALL CAP CORE STRATEGY COMMENTARY

### Top Five Performance Contributors (return figures are for the 2nd quarter)

**Perficient, Inc. (PRFT)** was up 32.87% in the quarter and contributed 86 bps of return. PRFT provides digital consultancy services and solutions in the United States and internationally. PRFT announced that they agreed to be acquired by an affiliate of BPEA Private Equity Fund VIII.

**Impinj, Inc. (PI)** was up 22.09% in the quarter and contributed 67 bps of return. PI provides RFID (radio frequency identity) systems and tags used to track the location of items. The tagging systems are being adopted by very large companies in industries such as package delivery, air travel, and retail stores. PI stated on the first quarter earnings conference call that inventory levels had improved, and that sales growth should accelerate.

**Freshpet, Inc. (FRPT)** was up 11.68% in the quarter and contributed 63 bps of return. FRPT is the market leader in the fresh healthy pet food category. The company recently opened a new food processing facility that expands capacity and improves operating efficiency.

**Zeta Global Holdings Corp. (ZETA)** was up 61.48% in the quarter and contributed 61 bps to return. ZETA operates an omnichannel data-driven cloud platform that provides enterprises with consumer intelligence and marketing automation software in the United States and internationally. ZETA is benefiting from increased marketing spending by political parties in an election year.

**Calliditas Therapeutics AB (CALT)** was up 85.85% and contributed 60 bps of return. CALT is a commercial-stage bio-pharmaceutical company, focused on identifying, developing, and commercializing novel treatments in orphan indications with an initial focus on renal and hepatic diseases with significant unmet medical needs in the United States, Europe, and Asia. It offers Nefecon (TARPEYO/Kinpeygo), an oral formulation of budesonide to reduce the loss of kidney function in adults with immunoglobulin A nephropathy. CALT agreed to be acquired by the Japanese conglomerate Asahi Kasei.

### Top Five Performance Detractors (return figures are for the 2nd quarter)

**Super Micro Computer (SMCI)** was down 18.88% in the quarter and detracted 184 bps from return. SMCI develops and manufactures high performance server and storage solutions based on modular and open architecture in the US and internationally. The company's business has been booming thanks to demand driven by Artificial Intelligence (AI) and the reshoring of the computer supply chain. The company's stock has had a great run and has been the top performing stock in the Russell 2000. It appears that the business is solid and the stock decline is attributable to profit taking.

**MYR Group Inc (MYRG)** was down 23.22% in the quarter and detracted 105 bps from return. MYRG provides electrical construction services in the United States and Canada. The company continues to benefit from increased spending to modernize the electrical infrastructure. First quarter earnings were below expectations due to delays on contracts awarded during the pandemic.

**Cytokinetics Inc (CYTK)** was down 22.72% in the quarter and detracted 94 bps from return. CYTK is a leader in muscle signaling biology and has reported strong results from a pivotal clinical trial to treat patients with obstructive hypertrophic cardiomyopathy. CYTK raised capital during the quarter through a stock offering that led to some weakness in the stock.

**Gritstone bio Inc (GRTS)** was down 75.96% and detracted 40 bps from return. GRTS is a clinical stage biotechnology company, engaging in developing vaccine-based immunotherapy candidates against cancer and infectious diseases. It announced results from a Phase II clinical trial that did not show as strong a signal of efficacy as was expected.

**BridgeBio Pharma Inc (BBIO)** was down 18.08% in the quarter and detracted 39 bps from return. BBIO continues to make progress in advancing a number of new drug programs and is anticipating FDA approval of Acoramidis, for the treatment of transthyretin amyloid cardiomyopathy later this year. It appears that BBIO stock was impacted by weakness in the biotech sector as we have not seen any public information accounting for the stock's decline.



## SMALL CAP CORE STRATEGY COMMENTARY

### Portfolio Activity

#### Sales:

**Everbridge, Inc (EVBG)** operates as a software company that enables customers to anticipate, mitigate, respond to, and recover from critical events in North America and internationally. The company offers Critical Event Management, a SaaS based platform, which offers various software applications for organizations for safeguarding business operations, people resilience, digital operations, smart security, and public safety. Its enterprise applications include mass notification, safety connection, IT alerting, risk intelligence, public warning, community engagement, crisis management and E911. EVBG agreed to be acquired by Toma Bravo.

#### Partial Sales:

**Super Micro Computer Inc. (SMCI)** develops and manufactures high performance server and storage solutions based on modular and open architecture in the US and internationally. The company's business is booming thanks to demand driven by Artificial Intelligence (AI) and the reshoring of the computing supply chain. We trimmed the position to manage position size.

#### Purchases:

**Evolv Technologies Holdings, Inc. (EVLV)** provides artificial intelligence (AI) based weapons detection systems for security screening designed to detect firearms, improvised explosive devices and tactical knives. Unfortunately, gun violence and attacks on innocent civilians continues to plague our society with attacks on schools, performance venues, places of worship, hospitals, casinos, industrial workplaces and places where people gather. More than 48,000 Americans died from gun injuries in 2022 leading the US surgeon general to declare gun violence a public health crisis. Evolv is dedicated to keeping public spaces safe by utilizing the most advanced threat detection technology. Evolv's systems are in use at many of the largest sport stadiums and arenas in the country. They have an excellent record of moving people through security checkpoints safely and efficiently and have screened more than 1 billion people over the past four years. Evolv's systems are available on a subscription basis, a SAAS like business model, that provides for recurring revenues. EVOL embodies all the attributes we seek in a High IQ (Ironwood Quality) company and we believe the recent decline in the stock price has created an attractive valuation.

**iRobot Corporation (IRBT)** designs, builds, and sells robots and home innovation products in the US, and internationally. The company offers floor care products, including Roomba floor vacuuming robots, accessories and consumables. iRobot is a market leader in floor cleaning robots for the home. Sales of home vacuums boomed during the pandemic but have slowed since. Amazon had agreed to acquire the company for \$1.7b but withdrew its offer when European Union regulators objected. The termination of the acquisition has presented IRBT with a number of challenges and the stock has suffered a significant decline. Recently a new CEO has been brought in to turn the company around. The combination of Artificial Intelligence and robotics holds great potential for improvements in productivity. If IRBT is able to harness its many assets to rekindle profitable growth there is considerable upside in the stock.

**iShares Russell 2000 ETF (IWM)** we initiated a position in a R2 index fund as a temporary repository for cash which had risen due to sales in the quarter.

#### Additions to Existing Positions:

**Ameresco, Inc. (AMRC)** is a leading cleantech and renewable energy asset developer, owner, and operator.

**Anika Therapeutics, Inc. (ANIK)** is a joint preservation company that creates and delivers advancements in early intervention orthopedic care in the areas of osteoarthritis pain management, regenerative solutions, sports medicine and bone preserving joint solutions.

**indie Semiconductor, Inc. (INDI)** provides automotive semiconductors and software solutions for advanced driver assistance systems, autonomous vehicles, in-cabin, connected care, and electrification applications.

**Sonos, Inc. (SONO)** is a leader in the premium wireless home audio market with a special focus on home theatre surround sound and recently introduced a line of headphones.

## SMALL CAP CORE STRATEGY PROFILE

### FOOTNOTES TO PERFORMANCE

*Ironwood Investment Management®*, LLC (Ironwood) is an independently managed investment advisory firm providing investment advisory services to institutional clients, mutual funds and high-net-worth clients. The firm is a registered investment adviser with the Securities and Exchange Commission. SEC Registration does not imply a certain level of skill or training. Accounts in the Small Cap Core composite include separately managed, fully discretionary, fee-paying portfolios. Portfolios are invested in undervalued securities, the majority of which will have market capitalizations under \$2.5 billion at cost, including securities with growth and/or value characteristics. Securities are considered undervalued when management believes the current share price does not accurately reflect the long-term economic value of the underlying company. Ironwood Investment Management, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Ironwood Investment Management, LLC has been independently verified for the periods January 1, 1999 through December 31, 2021. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Small Cap Core composite has had a performance examination for the periods July 1, 2002 to December 31, 2021. The verification and performance examination reports are available upon request. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. The creation date of the composite: July 2002. Performance inception date of the composite: January 1, 1999. Prior to July 2002, portfolios were included in the composite when at least 75% of the portfolio was invested in equity securities and when at least 75% of the portfolio was invested according to the investment style of the composite. Subsequent to July, 2002, portfolios are included in the composite after the first full month of being fully invested. Returns are presented gross and net of management fees and include the reinvestment of all income. Net returns are calculated based on the highest fee of 1.00%. Investment management fees are 1.00% on the first \$25 million, 0.90% on the next \$25 million, 0.80% on the next \$50 million, and 0.75% over \$100 million on an annual basis and a client's return will be reduced by these and other related expenses. The actual fee charged to an individual portfolio may vary by size and type of portfolio and may be negotiated. Actual investment advisory fees incurred by clients may vary. The Russell 2000 Index consists of the 2000 smallest stocks in the Russell 3000 Index that represents approximately 8% of the U.S. equity market capitalization. The indices have been reconstituted annually since 1989. Ironwood returns and Index performance reflect reinvested interest income and dividends, in U.S. dollars. A list of composite descriptions and a list of limited distribution pooled fund descriptions are available upon request. Past performance is not indicative of future results. Policies for valuing investments, calculating performance and preparing GIPS Reports are available upon request. Prior to May 2006, the Firm was known as Ironwood Capital Management, LLC.