



# IRONWOOD

INVESTMENT MANAGEMENT®, LLC

## SMALL CAP CORE STRATEGY PROFILE — As of 12/31/2024

Composite Performance	QTD	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception (1/01/1999)
Gross of Fees:	-2.28%	16.42%	16.42%	4.06%	11.01%	10.91%	11.52%
Net of Fees:	-2.52%	15.28%	15.28%	3.04%	9.91%	9.81%	10.42%
Russell 2000	0.33%	11.54%	11.54%	1.24%	7.40%	7.82%	8.05%

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 12/31/2024

iShares Trust - iShares Russell 2000 ETF	9.56%
Freshpet, Inc.	6.59%
MYR Group Inc.	3.59%
Pegasystems Inc.	3.50%
Impinj, Inc.	2.89%
SPS Commerce, Inc.	2.88%
Williams-Sonoma, Inc.	2.79%
Cytokinetics, Incorporated	2.61%
Dycom Industries, Inc.	2.60%
UFP Industries, Inc.	2.29%
<b>Total Weight in Top Ten</b>	<b>39.30%</b>

### MARKET CAPITALIZATION

As of 12/31/2024

Over \$5 Billion	52.39%
\$4 Billion - \$5 Billion	5.83%
\$3 Billion - \$4 Billion	4.03%
\$1.5 Billion - \$3 Billion	13.91%
\$500 Million - \$1.5 Bln	12.80%
Under \$500 Million	4.28%
Cash	6.76%

### PORTFOLIO CHARACTERISTICS

As of 12/31/2024

Price/Book Value	3.17x
TEV/EBITDA	12.17x
TEV/Total Revenues	2.94x
Price/Normalized EPS	32.01x

### SECTOR ALLOCATION

As of 12/31/2024

	Fund	Russell*
Consumer Discretionary	10.17%	9.87%
Consumer Staples	9.25%	2.85%
Energy	1.67%	5.14%
Health Care	8.33%	16.16%
Financial Services	16.88%	18.66%
Industrials	20.62%	17.94%
Information Technology	23.51%	13.83%
Materials	2.28%	4.33%
Utilities	0.00%	2.54%
Real Estate	0.00%	5.97%
Communication Services	0.54%	2.71%
Cash	6.76%	0.00%

\*Russell 2000 Index iShares

## SMALL CAP CORE STRATEGY COMMENTARY

Small cap stocks had a very good year in 2024. The Russell 2000 (R2), an index of 2000 small US companies, returned 11.54% for the year. The Ironwood Small Cap Core strategy (SCC) returned 16.42% gross, outperforming the index by 488 bps. These results placed the Ironwood SCC in the top performers of Small Cap funds in the Nasdaq eVestment US Small Cap Core Equity universe earlier in the year.<sup>1</sup>

The fourth quarter of 2024 was marked by heightened volatility. The R2 rallied by 10.97% in the month of November putting it up 21.58% for the year only to give most of the gain back in December when the index declined by 8.26%. It closed the quarter up 0.33%. The Ironwood SCC strategy rose by 9.77% gross in November and was up 24.75% gross for the year through that same time period. The strategy declined 6.67% gross in December, closing the quarter down 2.28% gross and trailing the R2 by 261 bps.

Despite the large monthly swings, the past two years have been rewarding ones for small cap investors. The R2 returned 16.93% in 2023 and is up 30.4% for the two-year stacked period. The Ironwood SCC strategy returned 35.63% gross in 2024 and is up 57.9% gross over the same two-year time frame, outpacing the R2 by 2750bps. The Ironwood SCC strategy was ranked #1 in the eVestment Database of Small Cap Core US Equity managers for 2023 and was the #1 ranked strategy for the trailing 12-month period ending 9/30/2024.

### US Equity Markets in Q4'24: Small Caps Struggle in the Quarter

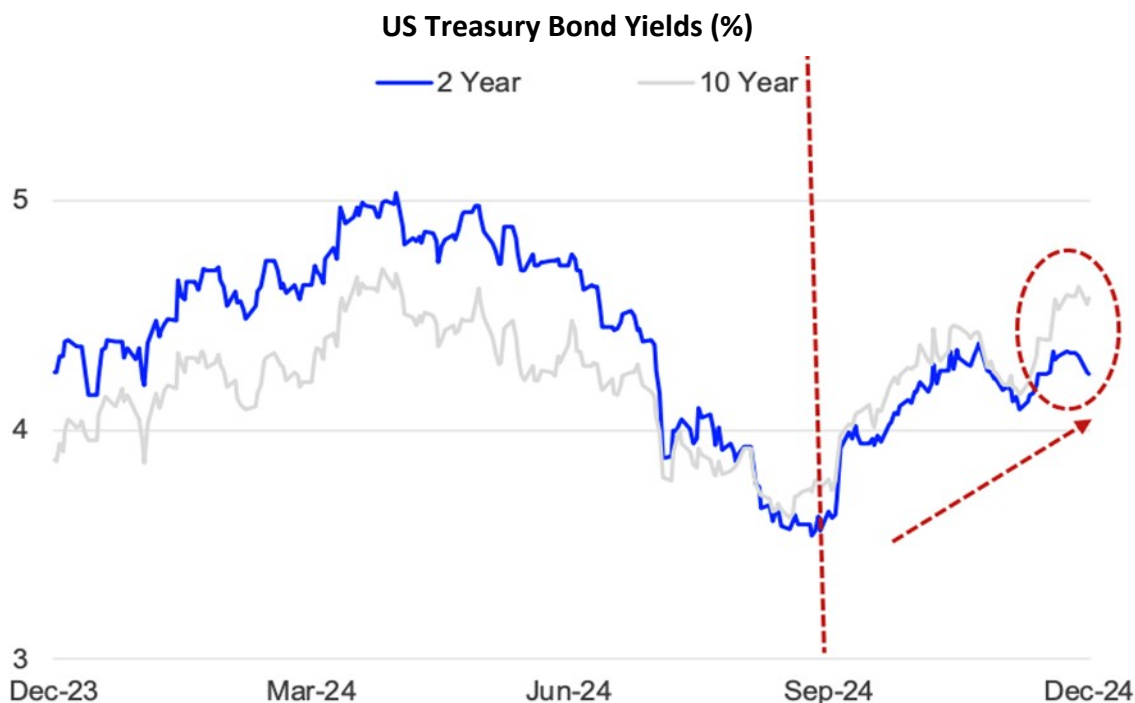


Source: FTSE Russell and LSEG. All data through December 31, 2024.

<sup>1</sup> Full year 2024 data from Nasdaq eVestment is not yet available at the time of this letter.

## SMALL CAP CORE STRATEGY COMMENTARY

We wrote in previous letters about the historical outperformance of small cap stocks in an environment of declining interest rates (see our Fall 2024 letter) so we won't go into great detail here, but the recent behavior of small cap stocks is consistent with this historical correlation. The R2 rally in November is partially attributed to reports of moderating inflation and the Federal Reserve's actions in lowering the discount rate. However, the election and the prospect of new policies proposed by the Trump administration changed investors outlook for inflation. As a result, longer term interest rates rose and small cap stock sold off in December. It is too soon to know what impact the new administration's policies will have longer term but the economy in general appears to be healthy and providing fundamental support to small cap companies.



Source: FTSE Russell and LSEG. All data through December 31, 2024.

Corporate earnings for the R2 are reflective of the strength in the broader economy and are expected to increase by 36% in 2025. The good news about the small cap sell-off in December is that it has made the valuation of small companies more attractive. The forward p/e of the R2 is near its historical average of about 18x's. Should companies achieve the expected earnings, then small cap stocks could have another good year of investment returns.

The behavior of individual stocks held by the Ironwood SCC portfolio reflected the heightened volatility of the market. Some of the worst performing stocks in the 4<sup>th</sup> quarter were some of the best performing companies during the year. In Q4, Impinj (PI) declined 32.91%, Zeta Global Holdings fell 39.69% and Super Micro Computer fell 60.22%. Some of the best performing stocks were companies who had struggled in recent periods. MYR Group was up 45.52%, United Natural Foods (UNFI) was up 62.37%, and Pegasystems (PEGA) was up 27.57%. For a more detailed discussion see the sections titled Top 5 and Bottom 5 below.

After a post pandemic lull, merger and acquisition activity picked up in 2024. The Ironwood SCC portfolio had four holdings that were acquired, Immunogen (IMGN), Everbridge (EVBG), Calliditas (CALT), and Perficient (PRFT). In addition, four others have received takeover offers, Manitex (MNTX), Smartsheet (SMRT), TTEC Holdings (TTEC) and Kezar Life Sciences (KZR). The Ironwood SCC portfolio has historically benefited from a high level of M&A activity. About 44% of all sales in the portfolio are due to mergers or acquisition activities. We believe this is proof of the validity of the Ironwood HI IQ approach, that so many of our companies are sought after by acquirers.

## SMALL CAP CORE STRATEGY COMMENTARY

### Top Five Performance Contributors (return figures are for the 4th quarter)

**MYR Group (MYRG)** was up 45.52% in the quarter and contributed 105 bps of 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. The stock rebounded in the quarter from a disappointing earnings report earlier in the year.

**Pegasystems Inc. (PEGA)** was up 27.57% in the quarter and contributed 70 bps of return. PEGA is an enterprise software company that enables businesses to rapidly create applications that allow for increased efficiency and processes of workflow. The company is an early beneficiary of AI (artificial intelligence) and is poised for accelerating growth in revenues and profits.

**Freshpet Inc. (FRPT)** was up 8.29% in the quarter and contributed 59 bps of return. FRPT is the pioneer in the natural/ fresh pet food category providing healthy nutritional food for cats and dogs. The company continues its rapid growth trajectory and is closing in on achieving over \$1 billion dollars in annual revenues

**Williams-Sonoma Inc. (WSM)** was up 20.01% in the quarter and contributed 41 bps of return. WSM operates as an omni-channel specialty retailer of various products for the home. The company reported solid results in a challenging retail environment and issued favorable guidance for the holiday season.

**Beacon Roofing Supply Inc. (BECN)** was up 17.53% in the quarter and contributed 28 bps of return. BECN is a leading national supplier of roofing and related building materials. The company has grown steadily for many years and is a beneficiary of extreme weather events such as the hurricanes that hit the southeast in the fall of 2024.

### Top Five Performance Detractors (return figures are for the 4th quarter)

**Impinj Inc. (PI)** was down 32.91% in the quarter and detracted 127 bps from 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. Impinj reported a strong Q3, handily beating expectations. The stock sold off on profit taking.

**Zeta Global Holdings Corp (ZETA)** was down 39.69% in the quarter and detracted 91bps from 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 was targeted by a short report alleging that the company was using unethical practices to obtain consumer data. The company has refuted the allegations, and the stock has stabilized.

**Super Micro Computer Inc. (SMCI)** was down 26.80% in the quarter and detracted 75 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 stock sold off in reaction to a negative research report published by a hedge fund alleging that the company has poor financial controls. In response the company postponed the reporting of quarterly and fiscal year end results and convened a special committee to investigate the allegations. Fortunately, the Small Cap Core Strategy sold 83% of its shares before the recent decline in the stock.

**Denali Therapeutics (DNLI)** was down 30.04% in the quarter and detracted 40 bps from return. DNLI is a clinical stage biotech company with a focus on neurodegenerative diseases. The company has developed a unique technology that enables large molecule drugs to cross the blood brain barrier. The biotech sector was weak in the 4<sup>th</sup> quarter and Denali's stock suffered as a result of negative investor sentiment.

## SMALL CAP CORE STRATEGY COMMENTARY

**Evolent Health Inc. (EVH)** was down 60.22% in the quarter and detracted 48 bps from return. EVH offers specialty care management services in oncology, cardiology, and musculoskeletal markets in the United States. The company provides platforms for health plan administration and value-based business infrastructure. It offers administrative services, such as health plan services, pharmacy benefits management, risk management, analytics and reporting, and leadership and management; and Identifi, a proprietary technology system that aggregates and analyzes data, manages care workflows, and engages patients. In addition, the company provides holistic total cost of care management. The rapidly rising cost of healthcare is a major challenge for the US healthcare system. EVH advanced technology enables healthcare providers to deliver superior care more efficiently and at lower cost. EVH reported disappointing quarterly results, missing estimates due to a pickup in both the prevalence and severity of cancer cases.

### Portfolio Activity

#### Sales:

**Gritstone bio inc. (GRIT)** 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.

**Spirit Airlines (SAVE)** is a national low cost airline based in Florida. We sold in response to the termination of the merger with Jet Blue.

#### Removed from Strategy via Corporate Action:

**Perficient Inc. (PRST)** provides digital consultancy services and solutions in the United States and internationally. PRFT agreed to be acquired by an affiliate of BPEA Private Equity Fund VIII.

#### Purchases:

**Sprout Social Inc. (SPT)** designs, develops, and operates a web-based social media management platform. The company provides cloud software for social messaging, data and workflows in a unified system of record, intelligence, and action. It offers integrated tools, such as social engagement/response; publishing; reporting and analytics; social listening and business intelligence; reputation management; social commerce; employee advocacy; and automation and workflows. In addition, the company provides social customer relationship management tools and automation; and centralized content management and workflows. Social media has become of critical importance to just about every business. Sprout helps companies monitor what is happening in social media and provides resources to help them manage its impact.

**Astronics Corporation (ATRO)** designs and manufactures products for the aerospace, defense, and electronics industries in the United States, the rest of North America, Asia, Europe, South America, and internationally. The company operates in two segments, Aerospace and Test Systems. The Aerospace segment offers lighting and safety systems, electrical power generation systems, distribution and seat motions systems, aircraft structures, avionics products, system certification, and other products. This segment serves airframe manufacturers (OEM) that build aircraft for the commercial, military, and general aviation markets; suppliers to OEMs; and aircraft operators, such as airlines; suppliers to the aircraft operators; and branches of the U.S. Department of Defense. The Test Systems segment designs, develops, manufactures, and maintains automated test systems that support the aerospace and defense, and mass transit industries. It serves OEMs and prime government contractors for electronics and military products.

## SMALL CAP CORE STRATEGY COMMENTARY

**Pagaya Technologies (PGY)** deploys data science and proprietary artificial intelligence-powered technology for financial institutions and investors in the United States and internationally to originate loans and other assets. Its partners include high-growth financial technology companies, banks and financial institutions, auto finance providers, and residential real estate service providers. The stock sold off recently in reaction to a disappointing quarterly earnings report creating an attractive entry point.

### **Additions to Existing Positions:**

**Evolent Health Inc. (EVH)** (see the description above) We used the weakness in the stock price to add to our position.

### **Outlook into 2025:**

As the first quarter of 2025 is in full swing, we at Ironwood continue to be optimistic about the opportunities in small cap stocks. The combination of reasonable valuations (especially relative to large caps), strong projected earnings growth, and a continuing trend of merger and acquisition activity creates a favorable environment for small cap investing. While market volatility will likely persist in 2025, particularly given the changing administration in Washington, our disciplined approach to identifying high-quality companies with strong competitive positions has proven successful, as evidenced by our outperformance over the past two years. The Ironwood Small Cap Core strategy's track record and top rankings in the eVestment database demonstrate the effectiveness of our investment philosophy in generating returns for our clients, and we look forward to continuing to serve you in 2025 and beyond.

## 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.