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L2 MIDCAP SELECT STRATEGY

Portfolio Manager Commentary as of June 30, 2026

Q2 2026 STRATEGY PERFORMANCE:

The Russell Midcap ETF and S&P500 Midcap ETF gained 13.76% and 14.45% for the quarter, respectively, while the L2 Midcap Select Strategy rose 7.51%[1] net. The gap traces to specific individual holdings lagging, rather than to any sector or size positioning. This was a quarter where the strategy suffered from a collection of “paper cuts” primarily from the stocks in the strategy that appear, in this speculative quarter, to be boring. These stocks simply could not compete with the fantastic sounding but dubious narratives that have dominated headlines around AI and SpaceX this quarter.

Chewy was the largest detractor, after falling 27%, and it was joined by Royal Gold, Ensign Group, The New York Times, and Pilgrim’s Pride, with energy and related holdings such as CNX Resources, Valaris, TechnipFMC, AECOM, and Blackbaud compounding the drag. These moves reflected market rotation away from smaller, differentiated names rather than any deterioration in the underlying businesses.

The strategy’s differentiated positioning also produced its winners, but not enough to offset the drag. Industrials led the way — AAON, Watts Water, Comfort Systems, and Applied Industrial Technologies — alongside strong contributions from Commvault, Vornado, Chemed, and Interactive Brokers. The breadth and quality of those gains underscore that the process continues to identify winners; this quarter they were simply overwhelmed by the number of holdings caught in the rotation.

Despite the weak quarter, since inception the L2 Midcap Select Strategy has still nearly doubled the returns of both benchmarks and we believe the prospects of our differentiated, evidence-based process remain intact for future outperformance.

MARKET OVERVIEW: QUICK SUMMARY

Across all of the asset classes our products span, returns in Q2 2026 would be more than welcome for an entire year. Overall, The Large Cap Core ETF was up 15.08%, and Large Cap Value ETF returned 13.81%, boosted by Micron Technologies (MU) and Intel (INTC), who each rose over 200% in the quarter alone. The Large Cap Growth ETF returned 16.58%, and Midcap ETF rose 13.76%.[2] The Information Technology sector was responsible for a big portion of these results with impressive returns. Large Cap Growth has a massive weight in Tech (~51.7%) even without MU (which was moved to the Growth index at the end of June). Energy was the worst-performing sector this quarter.

Last quarter, Energy delivered the highest returns while many Tech stocks suffered. This quarter, the Info Tech sector’s large returns suggest investors expect AI demand, particularly for semiconductor and memory chips, to keep growing. Will that thesis have greater staying power? We can’t say for sure. What we do believe is that these extreme booms and busts within sectors are based primarily on sentiment rather than empirical facts. While

1 Returns represent the L2 US Midcap Select Composite Strategy

2 As defined by the Russell Large Value ETF “IWD”, the Russell Midcap ETF “IWR”, the Russell 1000 Core ETF “IWB”, and the Russell 1000 Large Growth ETF “IWF”.

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this may, at times, cause our strategies to suffer, noisy speculative price action is one of the best features of the market for long-term, evidence-based investors like L2.

Aside from the big moves in Tech and Energy, the Industrial sector significantly outperformed the broader market in Q2, largely due to spending on AI-related infrastructure and aerospace and defense. Health Care and Financials also did well this quarter, the former driven by biotech stocks and M&A activity by Big Pharma, and the latter to large banks benefitting from trading and M&A. In contrast, Utilities and Consumer Staples eked out meager but positive returns.

We are seeing a change in the narrative around the AI buildout. Previously, the best performers were hyperscalers (Microsoft, Alphabet, Amazon, and Meta) and Nvidia, racing to supply AI "compute", i.e., data centers with AI servers filled with chips. Some now believe compute capacity will become a commodity, with chips and the companies that make them (Micron, Intel, and the big three outside the U.S., SK Hynix, Samsung, and Taiwan Semiconductor) creating more value. Explosive demand has triggered a massive memory chip shortage (called "RAM-ageddon" by some), building and equipping a leading-edge chip fabrication plant ("fab") from scratch takes at least three to five years, and manufacturers are diverting production from consumer products to the AI market. As noted above, Micron returned 240% in Q2; of the hyperscalers, only Alphabet generated a positive return. Once again, we emphasize our prior point on Energy and Tech: the rotation from the presumed AI winners being hyperscalers last quarter to the presumed winners being chip stocks this quarter, is largely speculative. In our view these are low information trades that are disconnecting the pricing function from fundamental reality. Long term, this should help investors in our strategy.

Macro forces: Even with oil prices coming down, the clear consensus is that Federal Reserve will not be able cut interest rates any time soon, despite pressure on the new Fed chair Warsh to do so. Virtually every inflation measure has been moving in the wrong direction, including services inflation which is not affected by energy or food prices. The memory chip shortage that is pushing their prices sky-high is affecting consumer electronics and auto manufacturers, with Apple announcing unprecedented price hikes for Mac computers and iPads. Similarly, 30-year mortgage rates ran back up to around 6.50%[3] despite the housing market remaining stuck. This suggests the bond market is also concerned about long-term inflation. On a positive note, gasoline prices are falling, boosting consumer sentiment at the end of June[4] helping long-term inflation expectations decline.[5]

The market has, for the moment, recovered from the oil shock caused by the closure of the Strait of Hormuz. We are not macro forecasters here at L2, but we are wary about how quickly the market consensus has shifted to a perpetual oil glut. The releases from strategic reserves have collapsed the global inventory buffer – typically 70 days – to a mere 50 days. The Strategic Petroleum Reserve and the Cushing Hub are also at precariously low levels.[6] The disconnect between the physical and financial markets in energy suggests we should expect significant dispersion in the returns of the individual stocks that comprise broad market indices.[7] This indicates the potential for further sentiment-based dislocations. As discussed above, markets like this are terrific for folks like L2 who find high-quality companies at reasonable prices. The large swings across sectors discussed above reinforces our commitment to our models. We don't chase trends; we make adjustments when our models detect persistent signals that point to opportunities.

3 https://www.freddiemac.com/pmms
4 https://www.sca.isr.umich.edu
5 https://fred.stlouisfed.org/series/T5YIFR
6 Running on Empty: The Hidden Oil Crisis, Jim Puplava
7 https://www.troweprice.com/institutional/de/en/insights/articles/2026/q2/concentration-makes-way-for-dispersion.html

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Below we show some fundamentals of the stocks in your Midcap Strategy (top row) vs. the benchmark S&P400 ETF & Russell Midcap ETF (second row & third row). In our view, this is pretty simple. The application of our evidence derived, rules based, active management process has assembled a portfolio of stocks that combine higher quality characteristics with high levels of growth, yet trade at equal to cheaper valuations than the benchmarks. We would note that the portfolio's beta is sitting right at a "0.8" while the benchmarks we compete with are 30% - 40% higher. Our more defensive positioning left our Midcap Strategy empirically designed to underperform a quarter characterized by speculative excess driving our benchmarks to over 71% annualized returns.

	FCF/EV*	P/S	P/E	Fwd P/E	ROE	Total Yield	3 Yr Sales Grth	36m Beta
MidCap Strategy	4%	1.6x	16.6x	16.5x	33%	5%	34%	0.82
S&P400 ETF	3%	1.7x	26.6x	17.6x	15%	3%	29%	1.13
Russell MidCap ETF	3%	1.8x	28.9x	18.2x	15%	3%	39%	1.10

Source: L2 Asset Management, LLC; Data from 6/30/2026; *ex financials

CONTRIBUTORS & DETRACTORS:

AAON Inc. (AAON) made a strong contribution to the Midcap strategy in the second quarter, with the stock delivering an impressive 53% return. The rapid growth of data centers makes news almost daily, and often not in a good way.[8] These massive buildings consume huge amounts of electricity and water, the latter because they need to cool down the heat generated by the servers they house. This represents a significant growth opportunity for AAON, not only because of its expertise in cooling but because the company focuses heavily on sustainable technologies [9,10]

AAON had a solid first quarter with record sales, 37% earnings growth, and a backlog that more than doubled versus a year ago, the sixth consecutive quarter of record backlogs. In AAON's most recent earnings call, the CEO noted that while improving profit margins remains central to the company's long-term value creation strategy, in the near term the company is prioritizing growth, market share, and customer deliveries. Earnings growth was strong, reflecting AAON's exceptional growth trajectory, with non-GAAP adjusted EBITDA increasing 44% from the prior year. As internal capacity, utilization, and productivity increase, the company plans to reduce reliance on outsourcing, which will improve margins.[11]

AAON is trading at what look to be uncomfortably high valuation multiples, especially when compared to its much larger peers. While this may raise eyebrows, a closer look shows it reflects an outlook for a significant jump in sales and earnings over the next few quarters. We think AAON has compelling growth opportunity and differentiators that will allow it to punch above its weight in capturing data center business and believe the stock can keep delivering as we move through the second half of the year.

Cyber resilience firm **Commvault Systems, Inc. (CVLT)** continues to make a strong contribution to the Midcap Strategy, climbing almost 81% in Q2 2026 after dipping lower in the first quarter. We continue to expect more good things from the company. Commvault offers solutions including backup, restore, and recovery validation

8 https://www.consumerreports.org/data-centers/ai-data-centers-impact-on-electric-bills-water-and-more-a1040338678/
9 https://datacenters.google/operating-sustainably/
10 https://www.aaon.com/
11 https://seekingalpha.com/article/4900356-aaon-inc-aaon-q1-2026-earnings-call-transcript

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services, tools that automate that process to reduce recovery times and complexity, and cyber preparedness, threat detection, and clean recovery features to help organizations respond to ransomware and other cybersecurity incidents.

Commvault's gross margins are enormous – consistently north of 80%. Its SG&A expenses drive profitability, with R&D as a secondary factor. In September 2025, the company issued $900 million in 0% convertible debt and has used a good portion of the proceeds to buy back its common stock. This is a sign of management conviction that profitability today will rise significantly in the future.

Commvault is a growing business that offers critical services for just about every type of business. We think demand for many of the company's solutions is likely to accelerate. Shareholders will likely see more buybacks, supporting the stock. Earlier this year, when the "SaaSpocalypse" indiscriminately hit software stocks hard, Commvault's shares fell and the company was rumored to be of interest to a large private equity firm. The share price has since recovered but we think it has room to move even higher.

Affiliated Managers Group, Inc. (AMG) was a solid contributor to the Midcap Strategy this quarter, with the stock rising roughly 22%. The firm's most recent results helped to generate strong momentum for the stock, attracting attention from more investors. Investment management is not a one-size-fits-all industry (we know a thing or two about this); legions of asset managers around the world offer their services to a wide range of investors. AMG invests in asset management firms. It provides its investee firms with strategic advice, operational support, and capital to help them grow, while preserving their independence. AMG provides infrastructure and operational know-how so that each affiliate, through its own "store", can focus on what it does best.

AMG reported record results for the first quarter of 2026, with adjusted EBITDA growing 39% year-over-year. It's important to note that AMG's growth does not depend on the U.S. stock market moving higher. Its substantial exposure to "liquid alternative" strategies and private market investing, particularly infrastructure and real estate, and rising demand for these types of investments helped to produce record quarterly net inflows. AMG's management expects continued organic growth, showing its confidence in the firm's overall outlook by increasing share repurchases.[12]

AMG is trading at valuation multiples that are low compared to the overall market but roughly similar to those of publicly traded firms that are focused exclusively on asset management. Its cash flow from operations is notably steady, return on equity was close to 22% in Q1 2026, and has been moving higher. Its unique approach and track record as a partner continue to attract high quality entrepreneurial firms, supporting its strategy. We think it's an appealing, diversified way to gain exposure across the industry instead of betting on a single asset manager's success, and believe AMG's stock has room to move higher.

With gold prices declining in Q2, falling from around $4,500 per troy ounce to below $4,000, it is perhaps not surprising that **Royal Gold, Inc. (RGLD)** declined -21% this quarter, detracting from the Midcap strategy. We see this as an overreaction, because even though the company's name suggests its success is tethered to gold prices, Royal Gold also generates royalties from sales of in-demand industrial metals, including copper needed for electrical wiring (think data centers here) and nickel and zinc used in batteries for EVs and industrial-sized back-up power.

As we discussed in a previous write-up, Royal Gold is in the mining industry but does not develop or operate mines. Instead, it acquires ownership rights to the output from various mines. Royal Gold finances mining projects

12 https://seekingalpha.com/article/4897405-affiliated-managers-group-inc-amg-q1-2026-earnings-call-transcript

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in exchange for production streams (roughly two-thirds of its revenues)[13] or royalties. This "asset-lite" business model allows RGLD to benefit from rising metals prices without taking on operating risks, and the company's stock has a very low beta, making it a good diversifier from a portfolio context. As the price has fallen, the stock's valuation multiples have become more appealing, and the company has been pursuing acquisitions to appeal to investors who focus on larger growth stocks. [14,15] We continue to view our position in RGLD as a fairly low-risk and capital efficient way to gain exposure to gold and silver prices.[16]

RGLD's most recent quarterly results were the best ever, setting records for revenue (up 143% year-over-year), operating cash flow, and earnings. The company has only a small amount of long-term debt, generates more than enough cash for its needs and recently raised its dividend. We continue to hold a positive view on the stock, especially at its current valuation.

After an exceptionally strong performance in Q1 2026, shares in **Valaris, Limited (VAL)** tumbled roughly 26% in Q2 2026. While the stock has been a strong contributor to the Midcap strategy in the past, it was a detractor this quarter, and going forward its share price will be tethered to the stock of the company that will close its acquisition of Valaris later this year.

As the world's largest offshore drilling company, Valaris benefitted from conflict in Iran that strangled oil shipments through the Strait of Hormuz and pushed oil prices significantly higher, but that was not the reason for the stock's big move in the first quarter. On February 9, 2026, Valaris announced it had agreed to be acquired by Switzerland-based Transocean (RIG), the world's largest offshore drilling contractor, with the acquisition expected to close in the second half of this year. When the acquisition closes, Transocean shareholders will own approximately 53% of the combined entity, with Valaris shareholders owning 47%.

Before this announcement Valaris was a strong performer for the Midcap strategy but as its stock price is now largely dictated by movement's in another company's stock, we recently decided to exit the position. From time to time the companies we identify as good investment opportunities are also seen as good acquisition candidates, as was clearly the case here.

Pilgrim's Pride Corporation (PPC) declined roughly 26% this quarter. That loss pushed the stock to a level not seen since December 2023, hurting the Midcap strategy's performance. While this decline is certainly disappointing, we believe the market is focusing on temporary factors rather than PPC's future. We continue to see upside potential for the stock.

As the second-largest chicken producer in the U.S., Pilgrim's Pride is well known to consumers who buy chicken and pork products in grocery stores, and to restaurants, school cafeterias, and other entities that serve food. Pilgrim's Pride's sales benefit when consumers choose chicken, and to a lesser extent pork, whether they are eating at home or dining out. Certain headwinds challenged PPC over the past quarter. The closure of the Strait of Hormuz raised the cost of chicken feed globally, as chemical fertilizer is made from urea, a byproduct of natural gas, while higher oil and gas prices it made transportation costs spike. Therefore, PPC's costs rose, hurting profitability. This should improve as fertilizer and energy costs come down, and if they do not, we expect the company to be able to raise prices.

13 https://seekingalpha.com/filing/30291211#RGLD-20250930_HTM_ia36cc5ad98584a589dce04caeb24f704_118
14 https://seekingalpha.com/comparison/new/MCUyQ3JnbGQlMkNwYWFzJTJDYWdpJTJDaG15JTJDZm52JTJDd3Bt
15 https://seekingalpha.com/article/4810497-royal-gold-inc-rgld-q2-2025-earnings-call-transcript
16 Ibid.

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On a positive note, PPC's Prepared Foods grew strongly, with retail volumes at a quarterly high. As rising food costs push consumers to look for low-cost ways to feed their families, chicken is an obvious choice. The company's balance sheet is stable, and with the stock trading at attractive valuation multiples we think PPC represents an opportunity for investors.

CONCLUSION:

While frustrated with the quarter's relative results, we are not discouraged, as the shortfall reflects a market rotation away from smaller, differentiated names rather than any deterioration in the businesses we own. We continue to follow the data, which tells us that the current market backdrop — characterized by historically high concentration coupled with bloated valuations — will create substantial tailwinds for our evidence-based, process-driven investment methods. This is particularly true of our Value, Midcap, and Dividend & Income strategies, where the widening gap between the market's expensive favorites and the businesses we own represents significant pent-up excess return we believe is only a matter of time to realize.

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INDEX DEFINITIONS

Russell Midcap ETF (IWR): iShares Russell Mid-Cap ETF is an exchange-traded fund incorporated in the USA. The Fund seeks investment results that correspond to the performance of the Russell Midcap Index. The Index is a capitalization-weighted index consisting of the 800 smallest companies in the Russell 1000 Index. This ETF replicates the Index using an optimized strategy.

S&P MidCap 400 ETF (SPMD): SPDR Portfolio S&P 400 Mid Cap seeks to provide investment results that, before fees and expenses, correspond generally to the total return performance of the S&P MidCap 400 Index.