Quarterly Commentary

Q2 – 2025

July 3, 2025

Dear Client,

Amidst a backdrop of great uncertainty on multiple fronts, most notably concerns over fallout from "Liberation Day" and the eruption of war in the Middle East, the U.S. stock market surged to double-digit gains across all major indices during the past quarter. Following two strong years for the broad market, this was not an oversold bounce off depressed levels, but rather a reflection of optimism that the economic outlook and equity valuations were relatively attractive.

The quarter began with a panic selloff in reaction to the triple-digit tariffs threatened on President Trump's "Liberation Day." Fed concerns over the effects of tariffs on inflation and interest rates seemed to ease the Draconian rhetoric and the market began to view any inflationary impact as transitory. Most importantly, while inflation remains above the long-term target of 2%, it has not spiked as feared. The economy has slowed over anticipated protectionism policies, though it remains resilient and a protracted recession is unlikely under current conditions.

Forecasting is extremely difficult. Some orders have been pulled forward to get ahead of rising costs, and companies have reduced capital investment and labor hiring while trimming estimates for 2025. Surveys suggest most companies plan to pass increased costs on to their customers. Consumers have strong balance sheets and sentiment is improving given the rise in the stock market, though housing remains unaffordable and the employment and wage outlook is cloudy. There is a lot of macro uncertainty at a time when stocks are trading about 25X earnings.

Republican leadership has pushed through the "Big Beautiful Bill," which is controversial with its significant cuts to healthcare services for lower-income Medicaid recipients and its expected $3.4 trillion increase in the Federal deficit. Tax cuts are generally stimulating, as is a reduction in government regulation, but these actions under Presidents from both parties over the past six decades have just as often failed to provide the desired boost and are not predictive measures. In our view, the market needs the Fed to change its mildly restrictive rate policy and for earnings growth to continue to sustain valuations and maintain strong stock performance. While it seemed prudent for the Fed to wait for a resolution on tariffs, economic and inflation data have softened sentiment, and current expectations are for three rate cuts this year beginning in September.

Technology has again been at the forefront, with great excitement over the transformative effects of AI as seen by the sold-out Nvidia Blackwell chip and strong results from Microsoft's Azure division (which grew 35% quarter-over-quarter, exceeding the 29% street estimates). We feel the market needs to broaden its participation, with 27.1% of the S&P 500 in its five largest constituents and 37.8% in the top 10. All but Berkshire and J.P. Morgan are in AI-dominant fields.

Oak Ridge Large-Cap portfolios underperformed the 17.8% return of the Russell 1000 Growth benchmark for the quarter while still doing well for the year. Nearly the entire underperformance was attributed to our Healthcare holdings and the lack of exposure to the largest EV car company, which remains down over 20% for the year due to controversy stirred by its CEO. The principal detractors in Healthcare were from long-term positions in a leading pharmaceutical company that had soared due to their leading GLP-1 drug and robust pipeline, but has experienced profit taking with the resurgence of Tech and Comm Service Mega-Caps. Another detractor was a large managed care company that has faced numerous fractures in their once entrenched position in the industry. We believe the drug company is poised for future upside revisions due to further advances in weight loss and new drugs for Alzheimer's and cancer. The managed care provider was sold due to ongoing pressure in an uncertain macro environment. The EV car company remains nearly 3% of the index and at some point will likely be added as a new position at a lower weight to minimize our exposed underweight.

Technology and Comm Services sharply reversed course from their first quarter correction, and we were pleased to have outperformed with our stock selection offsetting slightly less exposure to the Mega-Cap names. With nearly 63% of the Russell 1000 Growth benchmark now comprised of Tech and Comm Services, we believe it is imperative to get this right. While it is prudent to participate in Mega-Cap holdings, our alpha was driven by stock selection in a number of Mid-Cap stocks that have emerged as major participants in innovative new areas. Other positive contributions came from Industrials, where our exposure was less cyclical and focused on innovation, as well as an underweight to the weak areas of Staples and Materials.

The first half of 2025 was about massive policy changes and the disruption, risks, and opportunities they created. A lot will unfold in the second half and market performance will depend on how business and consumers respond, as well as whether the Fed follows through with anticipated rate cuts. There is general optimism for economic growth in 2026, though it is unlikely to be evenly experienced by sector and demographic. Geopolitical risk is heightened, and while the Israel-Iran conflict seems to have settled with the region less exposed to terror attacks, for now, there remains ongoing aggressive behavior from Russia toward Ukraine and potential sparks in many other areas.

AI will likely continue to create transformative new opportunities at an unprecedented pace. We are excited about our role in providing participation in exceptional growth companies and believe our 35 years of experience in risk management is as important as ever to avoid the inherent pitfalls. Thank you for your continued confidence.

Sincerely,

David M. Klaskin,
CEO and Chief Investment Officer

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Republican leadership has pushed through the "Big Beautiful Bill," which is controversial with its significant cuts to healthcare services for lower-income Medicaid recipients and its expected $3.4 trillion increase in the Federal deficit. Tax cuts are generally stimulating, as is a reduction in government regulation, but these actions under Presidents from both parties over the past six decades have just as often failed to provide the desired boost and are not predictive measures. In our view, the market needs the Fed to change its mildly restrictive rate policy and for earnings growth to continue to sustain valuations and maintain strong stock performance. While it seemed prudent for the Fed to wait for a resolution on tariffs, economic and inflation data have softened sentiment, and current expectations are for three rate cuts this year beginning in September.

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Oak Ridge All-Cap portfolios performed fractionally lower than the 17.6% advance of the Russell 3000 Growth benchmark during the second quarter, due solely to our Healthcare holdings. Our strong first quarter results allowed us to remain slightly ahead of the benchmark for the year (before fees). The principal detractors were long-term positions in a leading pharmaceutical company that had soared due to their leading GLP-1 drug and robust pipeline, but experienced profit taking with the resurgence of Tech and Comm Service Mega-Caps. Another detractor was a large managed care company that has faced numerous fractures in their once entrenched position in the industry. We believe the drug company is poised for future upside revisions due to further advances in weight loss and new drugs for Alzheimer's and cancer, while we sold the managed care provider due to ongoing pressure in an uncertain macro environment.

Technology and Comm Services sharply reversed course from their first quarter correction, and we were pleased to have outperformed during both disparate environments. With 61% of the Russell 3000 Growth benchmark now exposed to Tech and Comm Services, we believe it is imperative to get this right. While it is prudent to participate in the individual Mega-Cap holdings - and their impact is evident as our top eight positive contributors and largest detractor (the only one down) were among this group - our alpha was driven by stock selection in a number of Mid-Cap stocks that have emerged as major participants in innovative new areas. Other positive contributions came from Industrials, where our exposure was less cyclical and focused on innovation, as well as our meaningful underweighting to Consumer stocks which lagged due to economic uncertainty.

The first half of 2025 was about massive policy changes and the disruption, risks, and opportunities they created. A lot will unfold in the second half and market performance will depend on how business and consumers respond, as well as whether the Fed follows through with anticipated rate cuts. There is general optimism for economic growth in 2026, though it is unlikely to be evenly experienced by sector and demographic. Geopolitical risk is heightened, and while the Israel-Iran conflict seems to have settled with the region less exposed to terror attacks, for now, there remains ongoing aggressive behavior from Russia toward Ukraine and potential sparks in many other areas.

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Sincerely,

Robert G. McVicker,
Executive Vice President & Lead Portfolio Manager

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The Russell Midcap Growth Index had a truly eventful second quarter, largely due to its significant concentration leading up to the annual rebalancing. This year, it was the index everyone was talking about. Before the last trading day of the quarter, the top 10 weighted stocks made up a remarkable

24% of the index's total weight and contributed nearly half of its overall returns. This was an unprecedented level of performance concentration. Palantir (PLTR) was a prime example, ending the quarter with an 8% weighting and accounting for over 20% of the index's quarterly returns alone. Given Palantir's stellar performance over the past year, its market capitalization soared to over $300 billion by the end of the quarter. This immense growth ultimately led to its removal from the Russell Midcap Growth Index during the rebalancing on the very last trading day. (As of this writing, Palantir is now among the top ten largest U.S. technology companies by market cap and ranks among the top thirty largest companies in the S&P 500.) The rebalancing, which followed consistent criteria for excluding high-performing stocks that had grown too large for the midcap definition, drastically changed the index's composition. The Technology sector's representation in the index fell by just over 11% after the rebalancing, with a significant portion of that weight shifting into the Consumer Discretionary sector.

The Oak Ridge Mid-Cap portfolios experienced underperformance relative to the Russell Midcap Growth Index's 18.2% advance in Q2 2025. The principal detractor was an energy company given expectations of oversupply, weaker demand, and falling crude oil prices. Due to these factors, the company proactively reduced capital expenditures and lowered production guidance to prioritize free cash flow. This tactical shift, while financially sound, may have dampened its appeal to pure growth investors in a quarter where other growth sectors soared (Tech/AI). We still like the long-term prospects of this multi-year holding. Another detractor was a company with a leading position in premium performance protein drinks and powders. While the company's results were fundamentally good, the forward-looking guidance regarding retailer inventory adjustments and the subsequent projected slowdown in Q3 sales growth spooked investors, leading to a selloff in the shares. We still believe in the company's strong, long-term growth prospects.

Shifting to other segments of the portfolio, the Technology sector experienced a sharp rebound in Q2, reversing its Q1 correction and contributing significantly to returns. In fact, our Technology holdings are well ahead of the benchmark for the first half of 2025. Additionally, our underweight positions in Materials and Real Estate proved beneficial as these sectors generally underperformed in Q2 2025, largely due to interest rate fears, tariff uncertainty, and a broader market rotation away from defensive assets.

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Brian L. King

Senior Vice President and Lead Portfolio Manager

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Oak Ridge Small-Cap portfolios performed mostly in line with the 12.0% advance of the Russell 2000 Growth benchmark during the second quarter, following a very strong first quarter when the index lost over 11%. Healthcare is the largest sector in the benchmark and our top contributing area for both quarters of 2025. Results were led by a successful, but highly promotional, health and wellness company that spiked another 67% on their involvement in adding GLP-1 drugs to their lineup. We continue to trim our position over time to reduce exposure and minimize risk. We have also trimmed our most successful biotech holding, which advanced over 50% after more than doubling in 2024. The company has grown into a Mid-Cap stock due to its promising drugs for lung related disease, a strong pipeline and exciting potential in gene therapy. Outperformance in bio/pharma is not only the result of discovering companies possessing breakthrough treatments, but also minimizing the impact from inevitable disappointments by concentrating on companies with multiple opportunities.

Our technology holdings reversed first quarter losses, with the portfolio’s two top holdings benefiting from relationships with Mega-Cap leaders in AI and advancing 98% and 133%. Technology is the second largest sector in the benchmark and clearly the most volatile. We remain about equal weight to the index given concerns over valuations, but have been pleased with contributions from our semiconductor and software holdings, which have outperformed their peer groups. The only laggards were in IT services and financial software, where there is some perceived vulnerability to AI. Detractors from performance occurred in Industrials – a long-term trucking holding that had been trimmed over time with integration challenges from an acquisition and economic softness; Financials - a service provider for cross border transactions perceived to be affected by heightened migrant policy; and Consumer Staples - competitive concerns in areas of frozen foods and protein shakes.

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