

Small Cap Value Opportunities

Marketing communication | As of 31 Dec 2025

- **During the fourth quarter, the Small Cap Value Opportunities strategy generated positive returns, but underperformed its benchmark, the Russell 2000 Value Index.**
- **Value stocks notably outpaced their growth counterparts during the quarter, driven largely by investor sentiment that growth valuations had become overextended.**
- **The long U.S. government shutdown disrupted economic data releases, heightened market volatility, and obscured labor market trends, challenging investors' decision making during the quarter.**

Market review

Global equities capped a stellar year with healthy fourth-quarter gains, led by non-U.S. developed markets, with emerging markets (EM) performing nearly as well. Both topped the S&P 500 Index by double digits in 2025, the first calendar year that's happened since 2006. Despite rich valuations and concerns about narrow market leadership by a small group of mega cap technology names tied to artificial intelligence (AI), the S&P 500 Index posted its eighth consecutive positive month on hopes for continued U.S. Federal Reserve easing and strong corporate earnings. Monetary policy worldwide continued to diverge as central banks sought to nurture economic growth while remaining alert to a possible resurgence of inflation.

With two 25 basis points (bps) rate reductions from the Fed in November and December, following one in September, the target federal funds rate ended 2025 in a range of 3.50%-3.75%. Despite the easier policy, rhetoric accompanying the final decision of the year leaned hawkish, and the Fed's heavily scrutinized "dot plot" projected just one 25 bps cut in 2026 — which would put the rate at about 3.4% by year-end. Chair Jerome Powell, whose tenure as Fed chair ends in May, described the prevailing monetary backdrop as "very challenging," adding that the central bank will continue to "wait and see how the economy evolves." Across the Atlantic, the Bank of England (BoE) also trimmed rates by 25 bps in December, to 3.75%. The BoE struck a cautious tone regarding further cuts, however, warning that future decisions would be a "closer call," even as data pointed to cooling inflation, softer economic growth and a weakening U.K. labor market. Meanwhile, the more hawkish BoJ increased its benchmark interest rate to 0.75% in December as Japanese core inflation stayed above its 2% target for the 44th consecutive month. And though borrowing costs in Japan are at a 30-year high, they remain far below those in other major economies, reflecting the BoJ's decades-long use of near-zero rates to battle deflation.



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The quarter started on a strong note for U.S. equities. Investors accentuated the positive in October, focusing on advancements in AI and strong third-quarter corporate earnings, rather than on the U.S. government shutdown, elevated valuations and the relative lack of market breadth as the biggest gains remained concentrated in high-flying tech shares.

But risk appetite receded in early November as markets downgraded the odds of a near-term Fed rate cut given sticky inflation and as worries of corporate overspending on AI mounted. By month-end, however, U.S. stocks had erased their losses, supported by continued healthy earnings and renewed confidence in the prospect of Fed easing as the U.S. labor market softened.

In December, the S&P 500's performance was a study in contrasts: the index both hit its 38th record high of the year and suffered a downturn between Christmas and New Year's Eve, missing out on a hoped-for "Santa Claus" rally and barely eking out a +0.1% return for the month. For the fourth quarter as a whole, the S&P 500 gained +2.7%, lifting its 2025 total return to 17.9%.

Based on MSCI benchmark indexes in U.S. dollar terms, non-U.S. developed equity markets were the fourth quarter's star performers, edging their EM counterparts, 4.9% to 4.7% (Figure 3). For the 12 months ended 31 December, non-U.S. developed and EM shares bested the S&P 500 by more than 10 percentage points apiece — the first calendar year that's happened since 2006.

Within non-U.S. developed markets, the MSCI Euro Index (+5.2%) benefited from healthy gains for European banks and insurers, while Japan's Nikkei 225 Index (+5.7%) got a lift from technology stocks.

Tech also drove the +27.3% surge of South Korea's equity market (representing 13% of the MSCI EM index by market capitalization). At the other end of the EM performance spectrum were Chinese stocks (-7.4%, 28% of the EM Index), which struggled amid falling business optimism, stagnant manufacturing activity and sluggish domestic demand.

U.S. fixed income markets posted modest gains during the quarter, with the Bloomberg U.S. Aggregate Bond Index returning 1.1%. The yield curve steepened significantly as the Federal Reserve executed 25 basis point rate cuts in both October and December, totaling 75 basis points of easing for the year. This drove shorter-term yields lower while the

10-year Treasury yield edged up slightly from 4.11% to 4.18%, widening the 2-year to 10-year spread to approximately 69 basis points by year-end. The uptick in longer-dated yields reflected investor concerns about fiscal deficits and potential inflation from tariffs, even as a softening labor market supported the Fed's accommodative stance. High starting yields, particularly at shorter maturities, provided favorable income tailwinds where rallies were most pronounced.

Portfolio review

The **Nuveen Small Cap Value Opportunities** portfolio underperformed the Russell 2000 Value benchmark on both a gross and net of fees basis during the fourth quarter, a period in which the index posted an overall return of +3.3%. The quarter's progression was marked by modest growth in October of approximately 0.3%, followed by a stronger November advance of 2.8%, before concluding with a 0.2% gain in December. This quarterly performance contributed to the index's full-year return of +12.5%. Small cap performance trailed large caps but showed signs of improving breadth, as smaller companies began to participate more in the equity rally after lagging earlier in the cycle. Microcaps were notably stronger, with the Russell Microcap Index advancing more than 6% and outpacing traditional small caps by one of the widest quarterly spreads since the benchmark's inception. Health care emerged as the quarter's standout performer by a significant margin, delivering a robust return of +19.8%. Additional outperformers included materials (+10.1%), communication services (+9.1%), energy (+4.3%), and financials (+3.5%). Conversely, several sectors lagged during the period, with technology (-4.6%) and consumer staples (-4.0%) experiencing the steepest declines, followed by consumer discretionary (-1.6%), utilities (-0.3%), and real estate (-0.2%). Industrials eked out a modest gain of +0.6%. The portfolio's underperformance was driven primarily by stock selection, with the most significant challenges concentrated in the health care and financials sectors. This weakness was partially offset by strong performance from our holdings in industrials and technology. Leading contributors during the fourth quarter included **Vicor**, **Castle Biosciences**, and **Flowserve**, while **LENZ Therapeutics**, **Arlo Technologies**, and **Certara** emerged as the primary detractors.

Contributors

Vicor's stock price surged during the fourth quarter of 2025, propelled by robust third-quarter financial results announced in late October. Revenue increased 18.5% year-over-year, gross margins expanded, and net income far

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exceeded expectations. Escalating demand for the company's high-density power systems from AI data centers and electric vehicles, coupled with significant IP licensing agreements and a substantial backlog, fueled investor optimism.

Castle Biosciences saw its shares rise in the fourth quarter of 2025 following strong third-quarter results and significant test volume growth across its dermatology and gastroenterology portfolios. Key drivers included rising dermatologic test volumes and substantial growth in TistueCypher Barrett's Esophagus tests, both supported by expanded clinical evidence and strong commercial execution. The company's raised 2025 revenue guidance following second-quarter beats reinforced investor confidence in its molecular diagnostics leadership.

Shares of **Flowserve** climbed in the fourth quarter of 2025 following standout third-quarter earnings released in late October, which beat analyst expectations. Power generation bookings surged 23%, led by nuclear projects, while aftermarket bookings also rose, enhancing margins. The strategic divestiture of asbestos liabilities freed capital for growth investments. Management's raised full-year 2025 EPS guidance, combined with cost-saving initiatives, sustained the rally despite modest sales growth forecasts.

Detractors

LENZ Therapeutics' stock plunged more than 25% in the fourth quarter of 2025 following reports of a retinal tear adverse event linked to its lead product, VIZZ eye drops for presbyopia. The incident, disclosed in mid-December, raised significant investor safety concerns and triggered heavy selling that erased substantial market value. Despite the company's strong cash position, the adverse event overshadowed third-quarter results and may dampen its planned commercial launch in the first quarter of 2026. In response to these developments, we exited our position during the quarter.

Arlo shares declined in the fourth quarter of 2025 despite third-quarter earnings beats and record subscription growth. Investors focused on product revenue dropping 21% year-over-year due to industry-wide average selling price (ASP) declines, heavy promotions on end-of-life inventory, and tariff impacts totaling \$5 million. These factors pressured product segment gross margins, even as annual recurring revenue increased substantially. Broader concerns over supply chain disruptions, competitive pressures, and macroeconomic headwinds further curbed enthusiasm for the security camera maker.

Certara's stock fell sharply late in the quarter after third-quarter earnings revealed slowing Tier 1 services bookings and narrowed full-year revenue guidance, signaling biosimulation demand weakness. Though revenue rose 10% and the company beat EPS expectations, management's comments about a "mixed operating environment," combined with the stock's elevated valuation, prompted a selloff among investors.

Portfolio positioning

As we enter the new year, we examine the evolving policy landscape shaping market conditions. Several key issues from 2025 persist into 2026, including a more lenient regulatory structure, the potential for new Federal Reserve leadership, and an active foreign policy stance promoting AI advancement and energy independence.

Our portfolio exposure to financials and energy sectors remained largely unchanged during this period. In healthcare, following a challenging medical funding environment and intensified budget scrutiny, we believe spending patterns are stabilizing. We initiated positions in Certara and LivaNova to capitalize on this normalization. Conversely, we eliminated our position in LENZ Therapeutics as the vision enhancement drop producer faces a more challenging product launch environment.

Within industrials and technology, we trimmed holdings in Vicor and ViaSat following meaningful appreciation in data center and AI-associated stocks. We increased exposure to companies positioned to benefit from infrastructure buildout, initiating positions in Cardinal Infrastructure and Douglas Dynamics based on prospects for normalized municipal spending on snow removal equipment and truck attachments. However, slower employment trends and reduced business service uptake prompted us to eliminate positions in Barrett Business Services and TrueBlue Inc.

The bifurcated consumer environment persists, with lower-income segments facing continued challenges while spending remains selective across all tiers. We eliminated our position in Perdoceo Education due to enrollment concerns and exited Driven Brands as pressure mounts on auto repair spending. We initiated a position in Gigacloud Technology, attracted by compelling valuation and its reduced exposure to tariff impacts.

In real estate, we initiated a position in Americold Realty on the strength of portfolio realignment prospects and

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improved management discipline. We eliminated Plymouth Industrial following its acquisition.

Outlook

Headlines carry mixed messages as the year begins, and the political divide appears wider than ever. Yet markets enter the year near record highs, seemingly overlooking tensions both foreign and domestic, including strife between Washington insiders and heads of state.

With risk spreads approaching the lows last seen during the COVID-19 pandemic in 2020 and market breadth widening, we see significant potential for small-cap stocks to gain recognition. These companies are well-positioned to benefit from sustained GDP growth, manageable inflation, and reasonable employment levels. Improvements in corporate profitability, sustained pricing power, and enhanced

productivity—coupled with disciplined capital allocation—are evident across companies both small and large, with increasing capital directed toward technology initiatives.

Your small-cap value portfolio continues actively seeking dislocated companies, emerging catalysts, and compelling valuations. In our engagements with analysts and management teams, we observe rapid adoption of AI capabilities and heightened awareness of challenges posed by shifting and potentially shrinking profit pools. We aim to harness these opportunities for the portfolio and appreciate your trust in our process and the opportunity to manage your capital.

For more information contact: 800.752.8700 or visit nuveen.com

Minimum investment is \$100,000.

Important information on risk

All investments carry a certain degree of risk, including possible loss of principal, and there is no assurance that an investment will provide positive performance over any period of time. Equity investments are subject to market risk or the risk that stocks will decline in response to such factors as adverse company news or industry developments or a general economic decline. Value style investing presents the risk that the holdings or securities may never reach their full market value because the market fails to recognize what the portfolio management team considers the true business value or because the portfolio management team has misjudged those values. In addition, value style investing may fall out of favor and underperform growth or other style investing during given periods. Investments in smaller companies are subject to greater volatility than those of larger companies. This strategy may invest in American Depositary Receipts (ADRs). ADRs do not eliminate the currency and economic risks for the underlying shares in another country. The strategy's potential investment in non-U.S. stocks presents risks such as political risk, exchange rate risk and inflationary risk, which included the risks of economic change, social unrest, changes in government relations, and differing accounting standards.

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Glossary

The **Russell 2000® Index** measures the performance of the small cap segment of the U.S. equity universe which includes approximately 2000 of the largest securities based on a contribution of their market cap and current index measurement. The **Russell 2000® Value Index** measures the performance of those Russell 2000® companies with lower price-to-book ratios and lower forecasted growth values. The **S&P 500® Index** is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. **It is not possible to invest directly in an index.** Clients should consult their financial professionals regarding unknown financial terms and concepts.

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