

Why High-Quality Small Caps? Why Now?

Three converging trends suggest a more favorable environment for quality*

- 1. We believe quality has rarely been this far out of favor** – Relative valuations for high-quality small caps remain near historical lows, and prior periods of similarly depressed valuations have historically been followed by stronger relative performance. While history does not guarantee what comes next, we think today's starting point warrants a closer look.
- 2. The market environment is changing** – Market leadership is broadening, and as the cost of capital rises, companies with strong balance sheets and internally generated cash flow may be less dependent on external financing to fund their growth. In environments like this, investors tend to gravitate towards businesses with strong fundamentals.
- 3. The transition to mid-cycle may favor quality** – The economic cycle appears to be moving beyond the early-cycle phase that has historically favored more speculative, higher-beta businesses. As the cycle matures, we believe fundamentals such as profitability, free cash flow, balance sheet strength, and returns on invested capital may become increasingly important.

A High-Quality Approach to Small Cap Growth

For more than two decades, Conestoga has focused on many of these same characteristics. We seek durable growth businesses with consistent earnings and sales growth, strong profitability and returns on capital, and conservative balance sheets.

The chart below shows where Conestoga Small Cap Growth ranks within the eVestment U.S. Small Cap Growth Equity universe across five quality characteristics. A higher position represents a stronger relative ranking within the peer universe.

The Conestoga Small Cap Fund is Open Again

After an eight-year closure, the Conestoga Small Cap Fund (Institutional Class: CCALX; Investors Class: CCASX) is once again open to new investors—providing access to our high-quality approach at a time when we believe the opportunity for quality may be particularly compelling.

Learn more about the Conestoga Small Cap Fund → www.conestogacapital.com/strategies/small-cap-fund

Conestoga Small Cap Quality Characteristics



Source: eVestment. The chart presents the percentile rankings of the Conestoga Small Cap Composite relative to U.S. Small Cap Growth Equity universe, as of June 30, 2026. Rankings are based on eVestment's quarterly methodology; the universe consisted of 173 strategies. A lower percentile indicates a stronger relative ranking, with 0% representing the highest relative ranking and 100% representing the lowest relative ranking. Rankings may change over time and are not indicative of future performance. The characteristics shown are not intended to predict investment results and may not reflect the effect of fees, expenses, cash holdings, or other portfolio implementation factors.

*Quality is a subjective investment assessment used by Conestoga and may include profitability, earnings and revenue durability, cash generation, balance sheet strength, competitive position, and management's capital allocation discipline. These characteristics are not measured consistently across companies or advisers, and companies identified as high-quality may underperform.

Disclosures

Past performance does not guarantee future results. Historical relationships shown may not persist, and actual client results may differ materially.

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An investor should consider investment objectives, risks, charges, and expenses carefully before investing. Download a [prospectus](#) at www.conestogafunds.com, which contains this information or call toll free 1-800-494-2755. Read the prospectus carefully before investing or sending money.

Mutual Fund Investing involves risk, principal loss is possible. Investment in the Fund is subject to investment risks, including, without limitation, equity risk, market risk, management risk, small company risk, mid cap stock risk, foreign investment risk, currency risk, large redemption risk. Funds that invest in small and mid cap stocks are often more volatile than large cap stocks. Smaller companies generally face higher risks due to their limited product lines, markets and financial resources. For more information about the Fund, including the Fund's objectives, charges, expenses and risks (including more information about the risks listed above), please read the prospectus.

Quality stocks and small-cap growth stocks can underperform other styles or the broader market. Higher-quality companies are not guaranteed to outperform, and valuation relationships can remain dislocated for extended periods.

Investment Definitions: High-Quality: Conestoga defines high-quality as investing in companies with strong returns on capital, durable earnings growth, sturdy balance sheets, and meaningful management ownership. **Earnings Growth** is the percentage increase in a company's net income or earnings per share (EPS) over a specific time period. **Beta** is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. **Return on Invested Capital** (also known as Return on Capital) measures the profitability of a company as measured by its operating income in relation to the total capital invested in the company. **Free Cash Flow** (FCF) is the cash a company generates from its core operations after paying for its daily operations and long-term asset investments.

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