THE MICROCAP Update

September 2025

September Overview

My dad once told me that returns in Microcaps are “lumpy.” I am grateful to report September was a very lumpy month!

The Deupree James Microcap SMA delivered another stellar month, gaining approximately 10% in September, outpacing its benchmark (+4.94%), the S&P 500, Nasdaq, and Russell 2000 for the month, year-to-date, and for the past 12 months.

The Russell 2000 hit a new all-time high in September, which is a very encouraging sign for 2026. In my experience markets that make new all-times highs after a long pause tend to see strong future returns, so I’d add this to my growing list of reasons for investors consider increasing exposure to small caps:

1. Rising M&A Activity: Our portfolio is seeing increased merger and acquisition activity, signaling strong market interest.
2. Dovish Federal Reserve: A more accommodative Fed policy supports small-cap stocks which are generally more reliant on floating rate debt.
3. Attractive Valuations: Small caps are very cheap relative to large caps.
4. Negative Sentiment: Hedge funds have built historically large short positions in small-cap stock futures, and small cap positioning is just in the 21st percentile per Deutsch Bank.
5. Historical Opportunity: Microcaps are at their furthest point below their post-WWII trend since 1945, offering a rare chance for outsized returns.
6. Technical Breakout: The Russell 2000 reached a new all-time high after a long pause.

But you don’t have to take my word for it. Royce Investment Partners has an excellent slide deck on the historic opportunity in small caps. With a proven track record and a market ripe for small-cap opportunities, our strategy is an excellent choice for investors seeking to capitalize on this undervalued asset class.

Top Performers in September

TYGO (+78.57%)

Tigo Energy, Inc. (TYGO) designs and manufactures intelligent power electronics, optimizers, inverters, and energy storage solutions for residential, commercial, and utility-scale solar systems. As energy emerges as a critical bottleneck for power-hungry data centers, particularly with the rise of AI-driven demand, the market is recognizing energy as a compelling investment theme. While we’ve been early investors in this trend through holdings like Eos Energy Enterprises (EOSE), TYGO’s recent developments have made it a standout addition to our portfolio.

In September, TYGO took a major step forward by announcing the introduction of its GO Battery system—a modular, scalable 5kWh-to-30kWh energy storage solution tailored for the Puerto Rican market—at the Energy 2025 tradeshow. This strategic expansion into high-demand regions like Puerto Rico, builds on recent certifications in Europe and a new U.S. manufacturing partnership with EG4 Electronics. These moves enhance domestic production capabilities, leverage the 45X manufacturing tax credit, and position TYGO to capture more of the solar-plus-storage market, significantly boosting its growth pipeline.

While we’ve trimmed our position, we believe significant upside remains if TYGO continues to execute. The stock’s current valuation (forward P/E 15x, compared to solar peers at 20x+) and projected 2025–2026 revenue growth (30–40% annually) suggest it’s still undervalued relative to its potential.

EOSE (+64.93%)

EOS Energy (EOSE) is also involved in the battery storage market, but EOSE is known for grid scale, longer duration, and non-flammable batteries. We’ve been asked by several clients why EOSE moved higher in September despite the lack of news. We’d like to dispel this myth. There are several very important recent developments at EOSE that we highlight.

First, it is important to understand the current battery storage market. According to the EIA the U.S. Battery storage market was about 70-80% short duration in 2023. This meant that EOSE was a niche player. Even if they dominated the long duration segment, they would be limited to a small portion of the total addressable market. The EIA projects US capacity to grow to 100+ GW by 2030, so EOSE had a TAM of 15-20 GWh. The company is ramping toward 2GWh by year end of 2025 and 8 GWh by 2027. It seemed EOSE was well on their way to dominating their 15-20 GWh niche.

However, last May we got our first clue that the market might be changing. The CEO, Joe Mastrangelo, commented on their Q1 earnings call that “the market is increasingly favoring longer-duration solutions to address renewable intermittency."

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Then, in September, we got our first independent verification when Tesla revealed Megapack 3 with a 25% increase in discharge duration. Around that same time Eos announced the launch of DawnOS—its proprietary, AI-enabled battery management system which allowed the Eos battery to compete in shorter durations. Finally, the CEO went on a roadshow in September and twice mentioned that they were competing in the 2-hour short duration.

In summary: We believe the market is pricing in a 5x of the TAM for EOSE. This is all before we see major order announcements or short covering. EOSE has been our top holding for most of 2024 and 2025. My mentors taught me to sell your losers and let your winners run. That's what I've been trying to do with EOSE. We have been trimming again recently, but only because the position has grown beyond our max position size limits.

DRD (+51.10%)

DRDGOLD Limited (DRD) engages in the retreatment of surface gold tailings to extract gold and silver bullion, primarily from historical mine waste in South Africa's Witwatersrand Basin. This low-cost, environmentally-focused operation processes over 5 million tons annually, producing around 180,000 ounces of gold yearly while rehabilitating land. Amid gold's bull run, we initiated our position in DRD in March 2025 following its FY2024 results, betting on rising prices and operational leverage. In September 2025, DRD's stock soared, outpacing the Junior Goldminer's (GDXJ) 22% gain, propelled by sustained gold price strength and analyst upgrades. H.C. Wainwright raised its target to $30.50 from $18.75 on September 23, citing robust FY2025 results (26% revenue growth to ZAR 7.88B, 69% operating profit jump) and an 18-year dividend streak doubled to 40 cents per share. We view this as the onset of a broader re-rating, with their Far West Gold Recoveries expansion targeting 20% production growth by 2027 and a pristine balance sheet (ZAR 1.2B free cash flow) shielding against volatility. Management's tailings innovation aligns with ESG trends, and a doubling of EPS seems doable in 2026. While we've trimmed our position, we remain bullish on DRD's potential in a high-gold environment.

Bottom Performers in September

IMA (-46.43%)

ImageneBio, Inc. (IMA) is a clinical-stage biotechnology company that develops drugs to treat immunological/autoimmune and inflammatory diseases. We think there are reasons to expect a bounce, so we added to our position in September. As value investors, we were drawn to IMA's compelling setup: its ~$95 million cash reserves matched its current market cap, essentially offering the business for free. Also, investor confidence seems high. Analyst estimates are on the rise, and we saw strong insider buying in June 2025. We're monitoring the stock's slide in our ranking system but remain holders

SGC (-18.42%)

Superior Group of Companies, Inc. (SGC) designs, manufactures, and markets uniforms, corporate identity apparel, as well as promotional products and customer experience services. We were attracted to the stock's cheap valuation and strong free cash flow. We didn't see any company specific news in September. We believe the recent weakness may be due to macro factors such as the lagging employment data. We'll watch it but SGC remains well ranked for us. Thankfully we still have a small gain despite the recent weakness.

JFIN (-18.18%)

Jiayin Group Inc. (JFIN), a leading Chinese fintech platform, provides online lending facilitation and consumer finance services, connecting borrowers with institutional funders via its proprietary technology. The company is growing quickly. They reported a surge of 504.6% in loan facilitation in Q2! Again, we didn't see any company specific news in September. We believe the recent weakness may be due to macro factors such as fears around China's regulatory scrutiny on fintech lending. U.S.-China trade tensions probably weighed on sentiment too. We view this as a buying opportunity in an undervalued name, but we'll keep an eye on it and sell if the stock deteriorates much further in our ranking system.

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