

Active Insights Podcast – “At the end of the day, it's really our ideas and the people behind those ideas that drive the portfolios, but it's the technology that really enables those ideas.”

Diane Merritt:

Welcome to North Square Investments Active Insights podcast. North Square Investments is dedicated to bringing differentiated active investment strategies to financial advisors and investors through our multi-boutique asset management platform.

Today, Mark Goodwin, Chief Executive Officer of North Square Investments, will discuss Algert Global's quantitative approach to fundamental equity investing with Ryan LaFond, Co-Chief Investment Officer. Algert Global is a partner firm in the North Square platform and sub-advisor to North Square Dynamic Small Cap Fund, ticker ORSIX.

Mark and Ryan, we look forward to your discussion.

Mark Goodwin:

Thanks, Diane. As you mentioned, at North Square, we seek out best-in-class active managers for our platform, and our partners at Algert Global have a differentiated approach to equity investing.

Ryan, first, welcome.

Ryan LaFond:

Thank you. Good to talk with you again.

Mark Goodwin:

Ryan, your investment approach at Algert Global is systematic and data-driven with a focus on stock selection. Can you first start by talking about how you use proprietary technology to narrow the investment universe and ultimately select the stocks for the portfolio? Maybe doing a bit of a deeper dive into how you utilize machine learning and AI within the investment process and maybe give a view on how those tools might evolve in the future.

Ryan LaFond:

Yes, sure. Lots of things to hit on there. But what I'd first say is, we use a lot of machine learning to build and combine our signals, a lot of LLMs (Large Language Models) and AI tools. But maybe even before we dive in there is the first to kind of take a little bit of a step back. And when we think about how we think about the world, you know, we really think about the world and that there's kind of two sources of mispricing. The first being more structural mispricings, which are driven more by supply and demand

imbalances between different groups of investors. In the second group, they're being more of like the behavioral mispricings. These are really driven by investors' kind of misprocessing of information really about the firm. Now, to exploit those types of mispricings, we draw on a variety of tools and technologies. To give you a couple of examples, we use a lot of machine learning to build models to understand really, which retail investors we think are kind of smart and we should follow, and which retail investors we might want to fade. In terms of maybe some of those LLMs, we use a lot of LLMs to do things like extract different features from text, such as measures really of management quality, which essentially comes down to basically are the managers actually answering the questions that they've been asked. And when you think of all the different kind of tools and techniques and data, really, what kind of comes out of that is a few hundred different insights, which in lots of ways might seem like a lot. But really what we're looking for is to find good firms with good business models, currently favored by some of those investors that our machine learning models view as smart, firms that really kind of have a history of doing much better than competitors, have kind of sufficient really financial flexibility to really continue their businesses. They have these track records of innovation. Lots of times that's coming out from some of the LLMs and business tools we're using there. And really are mispriced right now because of the things like excessive selling by really passive investors. And what's great about the technology tools that we've built is that we can take all of these factors, look at them across thousands of different stocks, continuously update those factors as new information arrives, and really combined it into a portfolio. But while we use lots of technology and different techniques that are much more common now than they were when we started using them, ultimately at the end of the day, it's really our ideas and kind of the people behind those ideas that drive the portfolios, but it's the technology that really enables those ideas.

Mark Goodwin:

That's a great summary. As you're constructing the portfolio, how do you balance your return goals with an eye towards risk management?

Ryan LaFond:

Risk, everything now is kind of front and center in portfolios in the world. But really, when we look at our portfolios, everything starts with that relative return forecast that's built using those proprietary models. What we also have, starting from a risk perspective is one of the key inputs there. Really, what starts off with our risk models, we start off with our kind of risk model, customize it with a lot of different features to come up with an individual risk forecast for each security. And what that risk model is really meant to do is to really allow us to maximize the portfolio's exposures to things that our model has a view on, while minimizing the exposures to things that we really don't have a view on. So, if we look at the current market conditions, what does that mean? It means using that risk model and a lot of those customized exposures to make sure that the market, our portfolio is relatively neutral to some of the events like the Iran war. We want to make sure that the model doesn't really, or the portfolio doesn't have a big exposure to firms that are going to be hurt by a protracted war, a big exposure really to firms that might be hurt if things are settled relatively quickly. And the way that we do that is essentially through that risk model. and some tailored exposures around firms' businesses and kind of exposure to things like oil and other things. The other piece of the process that's quite important is cost. On the cost side, we've built our own proprietary cost model so we can measure basically how much it's going to cost us to get into a portfolio, how much it's going to cost us to get out of a position in the

portfolio, and take all of that into account through our optimization process there. The key thing with all of it. It's the same kind of technology and techniques that we've been using for multiple years and just continuing to adapt with all kinds of tools that are out there.

Mark Goodwin:

Thanks, Ryan. Shifting to macro for a minute. In 2025, we saw a shift in US trade policy and a desire to redirect supply chains. In the first quarter of 2026, the Iran conflict has resulted in market volatility and higher oil prices. How have these challenges impacted the small cap segment of the equity market?

Ryan LaFond:

And maybe we'll start off with talking about the Iran war because it's kind of front and center. First off, it's on a relative scale. The US and other small and US small cap firms are better off than many of the non-US firms. But the reality is oil prices and inflation, they're really not good for anyone. You know, I think as everyone's kind of noted, the key difference here is really the duration of the conflict. The longer it goes, the worse the outcome is really for everyone. When we think about really more specifically to our portfolios, and we really entered the year with a pretty high allocation to some of our quality or really safety insights based on the views coming out of our models that the world was more fragile than what kind of the all-time highs in equity indices that we really started 2026 were indicating, were really reflecting there. And in that sense, while we didn't forecast the Iran war, we've definitely benefited in terms of our position on that. If we step back a little bit to your question, the other part of the question about tariffs on it, I would say, well, the tariff and trade policies have definitely impacted firms. Almost what's been more interesting in the small cap space has been really the retail investor's response to these policies. Retail investors have been a driving force with the rise of kind of the zero-commission trading and all the apps. We've seen retail investors become a larger and larger portion of the investment base. Now, at the same time, what these investors really have been rewarded for or have learned effectively over the past number of years is basically to be dip buyers. Whether it be Fed policies, the various kind of inclinations of the tariff rules and kind of adjustments to that, the retail investors have been really rewarded for and have just an incredible appetite for dip buying. And really what we've seen in the kind of response to the tariff announcements last year was this incredible amount of retail dip buy up to the point now where retail investors are between 20 and kind of 40% of the overall volume in the small cap space. And that was a kind of all-time high last year. They're not going anywhere. And what's interesting about those retail investors is that they do look at different things and they trade differently than the other investors. And this has really opened up a lot of new opportunities and new sources of risk. On the opportunity side, from an alpha perspective, there's lots of things that we can do in our models to better capture alpha opportunities driven by some of the retail inefficiencies. On the risk management side, it becomes important to be able to measure that and that's really kind of knowing who you're betting against in your portfolio. But I would say, while trade has been a big deal for the underlying firms, it's really been how the retail investors have responded. That's been an even bigger implication for small cap equity pricing dynamics.

Mark Goodwin:

Thanks, Ryan. Do you view these periods of volatility as creating opportunities for you to identify either underappreciated companies or sectors?

Ryan LaFond:

Anytime you get lots of volatility, yes, it's a good time typically to be a stock picker. I would say what's a little bit different this time around is the opportunities are maybe like a little bit different than what you might be thinking about from in the past. And really what we've seen over the past couple of years is that we've been very much in more what I would call flow rather than fundamental driven markets. And to give you a more concrete example of that, if you asked me like 10 years ago about what would be the one piece of information I'd love to know, I would have told you something about the firm's long-term earnings. But really, when we think of over the last few years, it's not that fundamentals aren't really important. It's much more that flows are more and more important than ever before. And so, when you ask me now, what's really important about what's going to happen in the next couple of weeks, a couple of months, it's flows. And the opportunities we're seeing right now, they're much more about how risk appetite is translating into investor flows and how those flows are driving this pricing. And in that sense, I would say it's a great time to be picking stocks within the small cap space, but the opportunities are maybe just different than what you might be thinking about from the past.

Mark Goodwin:

Very interesting. The Iran conflict makes the near term uncertain, almost day by day. But can you discuss your longer-term outlook for equity markets and particularly small caps?

Ryan LaFond:

I mean, we could go down the list of kinds of worries from wars, emerging credit issues, increased uncertainty about kind of interest rates and inflation outlooks. That's definitely a lot to worry about. Really, I think what's most interesting about the small cap space is just the wide variety and dispersion in the quality of firms in that space. Everything from firms with no sales, no profits, no even products on the horizon, to some very stable and profitable firms that are essentially just targeting kind of smaller or regional markets. And this is really what I think it makes the kind of small cap from a stock picker's perspective a great place to play. From an opportunity perspective, really a lot of these changes in risk appetite that we've seen have led to some pretty large mispricings within some of the more fad-driven areas of the small cap space. And so, in terms of, I would say, outlook for small cap as a whole, from kind of a beta perspective, there's definitely a lot to worry about it. But being more of a stock picker there with our models, a lot of the opportunity in that space is kind of wider than we've seen in a long time, just because you've got this combination of recent flow-driven, fad-driven kind of mispricings. And going into an environment that is probably more difficult and more kind of beneficial to some of those higher quality firms that exist there, which just means the opportunity for us is greater.

Mark Goodwin:

That's a great outlook. As we mentioned earlier, you and your team sub-advise the North Square Dynamic Small Cap Fund, ticker ORSIX. As markets shifted over the past 12 to 18 months, how did the fund's investment portfolio change?

Ryan LaFond:

From an industry and size and a risk perspective, very little has changed. And that's really by design. Now, what's changed a lot is the different alpha factors under the hood. We've really increased some of the allocation to our flow-based features, particularly those profiting from some of the kinds of various retail investor activities. Within our quality allocations, we've moved into more of some of what we think of our proprietary or more of our natural language processing-built factors. At the core, the portfolio really continues to favor those kinds of good businesses, currently favored by those smart investors that are experiencing some type of mispricing, more driven by some of these, whether they be passive flows or fad-based flows on that. But from an overall allocation perspective, it continues to be kind of very much the core holding within the industry and the size exposures.

Mark Goodwin:

Thanks for that. What would you say is the current positioning for the ORSIX portfolio? And are there any particular sectors you're finding attractive to put new capital to work?

Ryan LaFond:

Yes, the continued allocation for us to quality, despite some of the underperformance of those types of income stocks in 2025, given what we think is just the overall kind of fragility or continued fragility of these markets, that's balanced out by pretty, I would say, a healthy mix to some of our more contrarian and trending insights. We can think of that as we're really kind of "thread the needle" between this quick rebound from recent risk in the Iran conflict to the potential for this conflict to be more prolonged and leading to some type of broader economic downturn. And so, in lots of ways, our positioning hasn't changed from the beginning of the year, but it's very much trying to "thread" this a little bit, what I would call the "needle" between these two kind of pretty diverse outcomes that could happen.

We're looking to put capital to work right now on this. We're seeing some pretty interesting opportunities and dispersion within our insights and our models within a lot of what I would call some of the more fad-driven areas of the market. And these are really places where like the flows and some of the enthusiasm that investors had really particularly early in 2025, and particularly in the early part of this year, really has driven some pretty large mispricings, in those areas that we think some of these more flow-based features within our models are really good at exploiting.

Mark Goodwin:

Thank you, Ryan. A capstone question, how do you see an actively managed small cap equity strategy like ORSIX being best positioned in the diversified portfolio of an investor?

Ryan LaFond:

I'm probably going to use a couple of overused terms here, but the best way that we think about ORSIX is it's a core kind of all-weather portfolio. Really, you know, we're quantitative stock pickers using modern data science techniques to create diversified portfolios of underappreciated good companies that are experiencing those temporary mispricings that really arise from a combination of those, what we refer to as structural and behavioral features. And while this might sound a little bit like a mouthful, really, we're looking for those good companies, good business models, managers and products that are mispriced. And mispricing might be to the passive flows, excessive retail investors, or maybe just overall institutional investor pessimism. And really by combining all of those within that framework about who's

going to be profitable and things like this about the future, it does give us that kind of core all-weather allocation. And I'd say like, what's really the magic here is that all the information we can bring to make those decisions and continually really evaluate the decisions and update our predictions free of really all of our own cognitive bias on that. And so by design, we try to be an unexciting portfolio and one of those portfolios that's going to provide that diversification that you might not be seeing in, say, like large cap allocations that increasingly are driven by just a small handful of names, but should really outperform kind of independent of market conditions, whether the market is up or whether the market is down, and really end up being that what I would just describe as all-weather core holding.

Mark Goodwin:

Ryan, thank you for joining me today. This has been a great discussion.

Ryan LaFond:

Thank you for having us.

Diane Merritt:

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Definitions of terms used in this podcast:

Machine learning (ML) in investing is the use of artificial intelligence algorithms to analyze massive, complex datasets—for example, news sentiment, social media, and financial reports—to identify patterns, potentially predict market trends, and automate trading decisions.

LLM (Large Language Models) in finance are specialized artificial intelligence (AI) models trained on massive datasets to recognize and generate human-like text, designed to optimize tasks like analyzing financial reports, automating customer service, detecting fraud, and sentiment analysis. Large Language Models enhance efficiency by automating compliance, drafting reports, and extracting insights from complex documents like 10-K filings.

Mispricing in investing is the difference between a security's current market price and what is believed to be its true intrinsic value, representing an asset that is either overvalued or undervalued.

Dip buying is an investment strategy of purchasing assets (stocks, funds, etc.,) after their price has dropped, based on the expectation that the decline is temporary and the price will recover quickly.

A **supply chain** is a coordinated network of organizations, people, activities, and resources involved in moving a product or service from raw materials to the finished product for the end consumer.

Alpha represents the excess return of an investment strategy compared to its benchmark index, after accounting for risk.

Flow in investing typically refers to the movement of cash into or out of financial assets (fund flow), the net cash generated or spent by a company's investment activities (cash flow), or the volume of buy/sell orders (order flow). It measures activity over a specific time period.

Beta is an indicator of the price volatility of a stock or other asset in comparison with the broader market. Beta suggests the level of risk that an investor takes on in buying the stock. The higher the beta number, the higher the risk.

Natural Language Processing (NLP) in investing is an AI (artificial intelligence)-driven technique that parses, interprets, and analyzes vast amounts of unstructured textual data—such as news, earnings transcripts, and social media—to generate actionable investment insights for the investor. It converts qualitative information into structured, quantitative data, allowing investors to gauge sentiment, identify risks, and potentially enable the investor to make faster, data-driven decisions.

Dispersion refers to the range of potential outcomes of investments based on historical volatility or returns.

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