

Zacks Midcap Core Index (ZAXMC) Commentary

Q3 Commentary as of 9/30/2025

The Zacks Mid Cap Core Index (ZAXMC Index) advanced 3.26% for the quarter ending September 31, underperforming the benchmark S&P Midcap 400 Index, which advanced 5.50%. The most significant contribution to the underperformance was the bias toward valued larger-cap stocks and the security selection effect. Since its inception in 2007, the index has advanced an average of 10.28% annually compared to 9.22% for the S&P Midcap 400 Index. Performance dispersion was driven primarily by the August rally, when mid-cap growth sectors—particularly technology and communication services—extended gains on improving inflation data and expectations for a 2026 Fed easing cycle.

ZAXMC's defensive bias, expressed through its systematic exposure to higher-quality and income-oriented constituents, limited participation in the late-quarter risk-on move.

U.S. Stock Market Overview

The U.S. equity market posted strong broad based gains in Q3 2025. The S&P 500 advanced +8.23%, while the Russell 2000 surged +11.3%, marking one of the strongest quarterly advances since 2021. Mid cap stocks benefited from improving sentiment around inflation and resilient corporate earnings. Large cap growth led early in the quarter, but breadth expanded as small and mid caps outperformed in September. Energy rallied alongside oil prices, while Financials, Consumer Discretionary, and Technology sectors drove overall returns. Conversely, Real Estate and Health Care lagged. Macro data signaled soft landing potential: GDP growth 3.8%, steady employment 4.3%, and moderating inflation supported risk appetite. In this environment, ZAXMC's diversified, rules based structure provided steady participation but trailed high beta peers.

Zacks Mid-Cap Core Characteristics¹

as of 9/30/2025

	ZAXMC Index	S&P Midcap 400 Index	Difference
Dividend Yield ²	2.03	2.07	-0.03
Price to Earnings Ratio (P/E)	19.11	19.99	-0.89
Price to Cash Flow Ratio (P/CF)	13.79	12.13	1.66
Price to Book Ratio (P/B)	2.50	2.62	-0.11
Total Debt to Common Equity	891.69	101.21	-9.52
Current Ratio	1.35	1.49	-0.14
BEST Div Yld	2.12	1.71	0.41
Return on Common Equity	11.51	11.35	0.17

Source: Bloomberg

Zacks Midcap Core Index Strategy Review

The Zacks Midcap Core strategy uses a proprietary multi-factor selection model. The selection screen eliminates companies with inflated growth estimates, avoiding unsustainable, highly volatile stock. The valuation factors add a safety net to make sure the portfolio doesn't include extremely expensive stock and tilts the index towards value stocks. Finally, short-interest ratio is used as a market sentiment indicator.

Highlights of Zacks Midcap Core Index³

ZAXMC is a rules-based, diversified index capturing the performance of U.S. mid-cap equities with balanced exposure across styles and sectors. Constituent weights are determined through a systematic screening process emphasizing:

- Fundamental quality – profitability, earnings consistency, and balance-sheet strength.
- Valuation discipline – attractive relative multiples vs. peers.
- Liquidity and tradability – ensuring efficient ETF replication.

Zacks Mid-Cap Core Sector Attribution Analysis

as of 9/30/2025

Component	Contribution (bps)
Allocation Effect	+65
Selection Effect	-183
Total Excess Return	-116

ZAXMC's underperformance in Q3 was thus selection-driven, while allocation decisions added modest value.

Stock-Level Highlights

- Top Contributors: FUTU Holdings (+38 bps), Las Vegas Sands (+26 bps), Willis Towers Watson (+22 bps), Credicorp (+17 bps), Xylem (+15 bps).
- Top Detractors: SBA Communications (-29 bps), Comfort Systems USA (-28 bps), CDW Corp (-28 bps), Brown & Brown (-26 bps), Blue Owl Capital (-22 bps).
- Selection headwinds were concentrated in rate-sensitive and high-multiple names, while consumer cyclicals provided offsetting gains.

Quarterly Highlights and Outlook

- Quarter summary: modest absolute gain, slight relative shortfall due to selection drag.
- Valuation discipline continues to support long-term positioning; risk metrics remain below benchmark volatility.
- Sector allocation remains balanced, with ongoing attention to quality-of-earnings and cash-flow stability factors.
- As monetary conditions evolve, mid-cap fundamentals and earnings revisions suggest above-trend growth potential into 2026.
- ZAXMC's disciplined methodology should benefit if volatility re-prices high-multiple growth names and investors re-focus on profitability and balance-sheet quality.

Zacks Sector Breakdown

as of 9/30/2025

Top Positive Contributors	Attribution (%)	Driver
Consumer Discretionary	+0.70	Benefited from overweight in retail and strong stock picks (Abercrombie & Fitch, Cava Group)
Consumer Staples	+0.65	Defensive exposure to food & beverage names amid rate stability
Financials	+0.48	Selection strength in insurance and banks (Willis Towers Watson, Arch Capital)

Largest Detractors	Attribution (%)	Driver
Real Estate	-0.93	Weakness in cell-tower REITs (SBA Communications) and office exposure
Industrials	-0.63	Stock-specific underperformance (Comfort Systems USA)
Materials	-0.57	Underweight in select metals and chemicals
Information Technology	-0.50	Missed the late-quarter software rally

¹ The ETFs CZA, IJH and IWR are used as a proxy for the ZAXMC Index, S&P Midcap 400 Index, and Russell Midcap Index respectively.

² The quoted values for volatility, standard deviation, VAR and downside risk are for CZA and IJH ETFs and proxy the values for the ZAXMC and S&P Midcap 400 indexes. The quoted dividend yield is the indicated dividend yield for the ZAXMC index.

DISCLOSURE

Past performance is no guarantee of future results. Inherent in any investment is the potential for loss.

This material is being provided for informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. No recommendation or advice is being given as to whether any investment or strategy is suitable for a particular investor. It should not be assumed that any investments in securities, companies, sectors or markets identified and described were or will be profitable. All information is current as of the date of herein and is subject to change without notice. Any views or opinions expressed may not reflect those of the firm as a whole.

S&P 400 Midcap Index: Standard and Poor's Midcap 400 Index is a capitalization-weighted index which measures the performance of the mid-range sector of the U.S. stock market. The index was developed with a base level of 100 as of December 31, 1990. The index does not reflect advisory fees. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. An investor cannot invest directly in an index.

Russell Midcap Index: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index. The index does not reflect advisory fees. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. An investor cannot invest directly in an index.

S&P 500 Index: Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure the performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The index was developed with a base level of 10 for the 1941-43 base period. The

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Russell 2000 Index: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The index was developed with a base value of 135.00 as of December 31, 1986.

Russell 1000 Index: The Russell 1000 Index consists of the largest 1000 companies in the Russell 3000 Index. This index represents the universe of large capitalization stocks from which most active money managers typically select. The index was developed with a base value of 130.00 as of December 31, 1986.

CZA: Invesco Zacks Mid-Cap Core ETF is an exchange-traded fund incorporated in the USA. The Fund seeks investment results that correspond to the performance of the Zacks Mid-Cap Core Index.

iShares Core S&P Mid-Cap ETF(IJH): iShares Core S&P Mid-Cap ETF is an exchange-traded fund incorporated in the USA. The ETF tracks the performance of the S&P MidCap 400 Index. The ETF holds mid-cap U.S. stocks. Its investments are chosen using a representative sampling strategy to track the Index. The ETF weights the holdings using a market capitalization methodology and rebalances quarterly. An exchange-traded fund typically includes embedded expenses that may reduce the fund's net asset value, and therefore directly affect the fund's performance and indirectly affect a Client's portfolio performance or an index benchmark comparison.

IWR: iShares Russell Mid-Cap ETF is an exchange traded fund incorporated in the U.S. The ETF tracks the performance of the Russell Midcap Index.