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Quarterly Snapshot

Performance

The Strategy declined 2.39% (net of fees) compared to an increase of 2.10% for the Russell 1000 Value Index.

Key Drivers

Stock selection in information technology, financials and health care were the largest detractors from relative performance, while our underweight to utilities also detracted. Stock selection in industrials and consumer discretionary, along with our underweight to communication services, were the most notable contributors to relative performance.

Summary

The war in Iran is creating near-term uncertainty in markets. Our energy positioning – mostly oil-sensitive exploration and production companies with higher beta to the commodity price – is intentional and was beneficial in Q1. We continue to evaluate the war's broad economic impacts and are adjusting our estimates of intrinsic business value as necessary.

Market and portfolio review

Equity market volatility picked up in Q1 due in large part to the ongoing war in Iran. While the broad market fell in Q1, the Russell 1000 Value Index increased 2.10%. Unsurprisingly, energy (+38%) was by far the best-performing sector, with oil prices rising sharply as global supplies have been impacted by the closure of the Strait of Hormuz. Materials (+11%) and utilities (+9%) also saw strong outperformance in Q1, while financials (-8%) and consumer discretionary (-4%) were the two worst-performing sectors.

Similar to recent quarters, the portfolio's technology exposure – both what we own and what we do not own – was the most notable detractor from relative performance. A wide range of technology companies in the Russell 1000 Value Index are benefitting from the hundreds of billions of dollars being spent on AI-related capital spending, with stocks such as Micron (+18%), Sandisk (+168%) and others increasing materially in Q1. We have little exposure to this theme, which continues to hurt relative performance. Where we do have technology exposure tends to be higher-quality businesses with recurring-like revenue, including software companies Salesforce, Adobe, Wix.com and a newly added position, Microsoft. These companies have come under pressure amid concerns that AI will negatively impact their businesses. While we are monitoring this risk closely, we believe the moats around these businesses are stronger than current valuations imply and that the market is discounting an overly dire scenario.

While the dynamics impacting our results within technology have persisted, we started to see some broadening out of the market in Q1. We have been finding more attractive opportunities in defensive areas of the market, along with cyclicals that aren't benefitting from AI. Some of these holdings, including Regal Rexnord, Colgate-Palmolive, Deere and Waste Management, were strong contributors in Q1. However, our contributors were not enough to offset the impact of our technology exposure, along with weakness in some of our larger holdings, including Abbott Laboratories, Capital One Financial and American International Group.

Key contributors

- Exploration and production companies **ConocoPhillips** and **Diamondback Energy** saw shares rise as the sharp rise in oil prices drove a broad rally across US-based oil producers. As geopolitical tensions in the Middle East tightened the supply outlook, investors increasingly rewarded US producers for their leverage to higher commodity prices, potential for outsized cash generation and capacity for strong capital returns.
- Semiconductor and processor producer **Texas Instruments** saw shares rise after issuing Q1 guidance that exceeded market expectations and indicated a recovery in demand following a protracted industry downturn.

Key detractors

- Shares of diversified health care company **Abbott Laboratories** declined following Q4 results and forward guidance that were below expectations, largely due to headwinds in its nutrition business.
- Consumer finance company **Capital One** underperformed during the quarter following its announced acquisition of Brex, an AI-native commercial fintech platform. While the market generally viewed the deal's strategic and financial merits favorably over the long term, shares were pressured by near-term concerns, including higher planned marketing spend to capture credit opportunities and rising uncertainty around future credit costs amid macro volatility.
- Digital design and marketing software company **Adobe** underperformed in Q1, driven primarily by AI disruption concerns, slightly lower-than-expected revenue growth and a CEO transition. Despite these headwinds, its core fundamentals remain solid, with strong margins, cash generation and client retention. We continue to view Adobe's platform as well positioned in an AI-enabled workflow ecosystem, though realization may take time. Additionally, we believe the current valuation appears to reflect elevated pessimism.

New positions

- We initiated a position in global software provider **Microsoft** as near-term concerns around Azure's cloud computing growth and capacity constraints weighed on sentiment, giving us the opportunity to purchase the shares at a very attractive valuation. We believe these factors, along with the company's evolving relationship with OpenAI, have temporarily obscured long-term competitive advantages and growth potential.
- We added global consumer staples leader **Kimberly-Clark** to the portfolio following its announced acquisition of Kenvue and subsequent share price decline. Over the long term, we view this as an opportunity to own a high-quality core business alongside a portfolio of strong but under-managed consumer health brands where Kimberly-Clark's operating discipline can drive meaningful cost synergies and improve growth.
- Following its March 2020 spin-off from United Technologies, residential and commercial HVAC provider **Carrier Global** is now a focused, high-quality business that we believe is in an excellent position to continue to gain market share and improve margins long term. However, a cyclical downturn in residential markets has weighed on near-term results, creating an opportunity to initiate a position at a significant discount to our estimate of intrinsic value.

Eliminated positions

- We eliminated our position in packaging company **International Paper Company**, as the company's fundamentals have fallen short of our expectations in the time we have owned it, and we decided to use the proceeds for more attractive opportunities.

Period and Annualized Total Returns (%)	Since Inception (30 Jun 2001)	20Y	15Y	10Y	5Y	3Y	1Y	YTD	1Q26
Gross of Fees	9.52	9.09	10.85	10.49	5.89	10.42	2.34	-2.24	-2.24
Net of Fees	8.78	8.38	10.16	9.82	5.26	9.76	1.72	-2.39	-2.39
Russell 1000 Value Index	7.93	8.12	10.47	10.58	9.43	14.31	15.87	2.10	2.10
Russell 1000 Index	9.12	10.46	13.09	13.97	11.34	18.14	17.74	-4.18	-4.18

Calendar Year Returns (%)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Gross of Fees	3.60	13.35	37.79	11.58	-0.17	15.27	21.10	-8.81	32.96	9.99	26.50	-12.83	14.37	12.74	6.19
Net of Fees	2.87	12.61	36.89	10.86	-0.82	14.57	20.37	-9.36	32.16	9.33	25.74	-13.35	13.68	12.06	5.55
Russell 1000 Value Index	0.39	17.51	32.53	13.45	-3.83	17.34	13.66	-8.27	26.54	2.80	25.16	-7.54	11.46	14.37	15.91
Russell 1000 Index	1.50	16.42	33.11	13.24	0.92	12.05	21.69	-4.78	31.43	20.96	26.45	-19.13	26.53	24.51	17.37

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