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Quarterly Snapshot

Performance

The Strategy declined 2.02% (net of fees) and the Russell Midcap Index increased 1.29%.

Key Drivers

Stock selection within health care and underweight to energy were the largest relative detractors. Industrials were the top absolute and relative contributor to performance.

Summary

We remain somewhat cautious given elevated uncertainty in markets and ongoing conflict in the Middle East – particularly the duration of higher oil prices and the potential for broader economic impacts. Our incremental portfolio positioning has focused on higher-quality businesses.

Market and portfolio review

The quarter was characterized by increased volatility driven by a combination of geopolitical developments and evolving expectations around artificial intelligence (AI). Escalating tensions in the Middle East and the associated rise in oil prices added to macro uncertainty and shifting interest rate expectations, while ongoing debate around AI's long-term implications – particularly disruption risks – continued to influence market leadership.

Performance across the cap spectrum was mixed. Despite a sharp selloff in March, smaller-cap stocks maintained relative outperformance year to date with the Russell 2000 up 0.89% versus a 4.18% decline for the Russell 1000, while mid caps led overall, with the Russell Midcap returning 1.29% in Q1.

From a sector perspective, energy was far and away the best-performing sector, advancing 38% as oil prices rose sharply due to supply concerns following the closure of the Strait of Hormuz; materials followed in a distant second (+11.2%) and utilities (+9%) in third. Communication services (-11%) was the weakest-performing sector in Q1. Financials followed (-10%), pressured by macro and interest rate uncertainty as well as concerns around potential AI-driven disruption impacting financial and consulting services. Health care (-7%) and consumer discretionary (-6.3%) also lagged, as investor sentiment weakened amid rising costs and a more uncertain consumer outlook.

The ongoing digestion of the long-term impacts of AI-related dynamics continued to be a strong theme in the quarter, and we saw both headwinds and tailwinds for the portfolio. While our top two contributors during the quarter are both beneficiaries of

the ongoing AI buildout, there are several stocks within the index that we do not own and have performed quite well, including SanDisk (+168%), Corning (+56%) and Western Digital (+57%). Overall, the portfolio is underweight the cohort of businesses viewed as strong AI-beneficiaries, which has served as a relative headwind. In addition, several businesses that we do own – largely software and software-related professional services holdings – have been under significant pressure due to concerns around AI-driven disruption.

Given the macro backdrop of geopolitical conflict and higher oil prices, several of the strongest contributors within the portfolio were tied to oil and gas, materials as well as aerospace and defense. Conversely, second-order effects of higher oil prices – particularly pressure on consumers and the potential for higher interest rates, which continue to cloud the housing outlook – contributed to weakness among several of our larger detractors.

The largest relative headwind for the portfolio came outside of the two main macro-level themes we've seen in the broader market so far this year and was instead driven by our stock selection within health care. The sector remains out of favor, with sentiment weighed down by cost pressures, reimbursement dynamics, policy uncertainty and some company-specific challenges. Despite this, we continue to view health care as an attractive area given relatively low valuations and maintain meaningful exposure. We remain selective in what we own – often preferring businesses tied to procedure volumes rather than relying on heavy research and development or innovation spend.

Our positioning continues to emphasize higher-quality businesses, and we believe the portfolio has become incrementally more defensive. This was another quarter of elevated activity, where we leveraged our long-term perspective to act opportunistically. While we remain cautious given the elevated level of uncertainty, we believe the portfolio is well positioned to navigate a more challenging environment and protect capital in a down market.

Key contributors

- **Regal Rexnord**, a manufacturer of electrical products for industrial equipment, outperformed in Q1 as the company reported strong orders for a new data center product, which should support solid revenue growth in 2027. Additionally, merger synergies and continuous improvement efforts continue to drive better-than-expected organic growth and margin expansion. While leverage remains somewhat elevated and could leave the company vulnerable to near-term macroeconomic weakness, we continue to view the stock as attractive at current prices.
 - Networking systems company **Ciena** saw shares increase in Q1 amid optimism around hyperscaler business, driven by strong demand for optical equipment due to data center buildouts.
 - **Freeport-McMoRan** is one of the world's largest copper miners, with operations in the US, Chile and Indonesia. Following the tragic accident at its Grasberg mine in Indonesia last year, the stock has recovered as management has demonstrated progress in restoring operations. That recovery, combined with a strong copper price, has supported improved market expectations for free cash flow generation.
- ### Key detractors
- **Humana**, the second-largest Medicare Advantage insurer, has faced industry-wide pressure from rising health care costs and lower government reimbursement rates. Additionally, weaker-than-expected preliminary 2027 Medicare Advantage rates and below-target 2026 guidance have added to near-term uncertainty. Even so, we do not believe the current share price reflects the company's earnings power, and as industry conditions normalize, we believe it can return to target margins over the long term.
 - **SS&C Technologies**, a diversified provider of tech-enabled services and software to the financial services industry, reported strong Q4 results and issued constructive 2026 guidance. Despite strong results and positive forward guidance, the market appears skeptical of the company's positioning as AI reshapes the landscape. We believe SS&C is positioned well long-term, defended by its deep domain expertise, combined software-and-services model and entrenched role in complex, regulated client workflows.
 - Global property and casualty insurer **American International Group (AIG)** declined following a late-2025 rally driven by reports of a potential acquisition by Chubb. The company announced a CEO succession plan in early January, which led investors to believe a transaction was unlikely, removing the deal premium and causing shares to fall.
- ### New positions
- We initiated a position in **Antero Resources**, a natural gas exploration and production company, to gain exposure given our constructive long-term outlook for US natural gas.
 - Shares of health care revenue management software vendor **Waystar** have been pressured amid broader AI concerns across software, and we believe the market is underappreciating the durability of its scaled platform, broad product capabilities and strong customer retention. The company is also well positioned to help providers navigate complex reimbursement processes, reduce denials and improve cash flow over the long term. While we are not dismissing longer-term AI risk, we view the current valuation as an attractive entry point for a high-quality health care software business with a strong competitive position and growth prospects.
 - 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.
 - **Lamar Advertising** is the largest billboard advertising company in the US, benefiting from a constrained supply environment that supports strong pricing power and high margins. The company's focus on smaller markets, ownership of underlying land and high share in local markets contribute to strong profitability. We believe Lamar is well-positioned for steady earnings growth over the long term.
 - 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.

- **Rentokil Initial** is a global pest control company serving residential and commercial customers. Following its acquisition of Terminix in 2022, integration challenges weighed on organic growth, creating an opportunity to invest in a high-quality business with attractive long-term growth prospects and strong economic resilience. Organic growth has improved in recent quarters, suggesting these challenges may be behind the company.
- **MGM Resorts** is the leading omnichannel casino operator in the US, operating over 40% of casinos on the Las Vegas Strip. While macroeconomic concerns persist and Las Vegas demand remains below pre-COVID levels, we believe the current valuation presents an attractive long-term opportunity, and we view the growth potential for the company's online betting platform, BetMGM, and the development of Japan's first integrated casino resort as positives.
- Shares of life sciences supplier and distributor **Avantor** have been pressured by a sustained slowdown in life sciences demand and increased competition in its distribution business. While these dynamics may persist in the near term, we believe they are increasingly reflected in the current valuation.

Eliminated positions

- Regional airline **Alaska Air Group** is in the process of integrating its acquisition of Hawaiian Airlines while expanding its network across the Western US and internationally. Given volatility in oil prices and macroeconomic uncertainty, we chose to reduce exposure to the airline industry and exited the position in favor of more attractive opportunities.
- Shares of used car retailer **CarMax**, chemicals producer and building supplier **Westlake**, home builder **NVR**, and exploration and production company **Coterra Energy** were sold to allocate funds to more attractive opportunities.
- We exited our position in financial services company **Stifel** as the stock reached our estimate of intrinsic value.

Period and Annualized Total Returns (%)	Since Inception (31 Dec 2013)	10Y	5Y	3Y	1Y	YTD	1Q26
Gross of Fees	8.37	8.89	7.06	12.09	13.39	-1.85	-1.85
Net of Fees	7.57	8.11	6.31	11.30	12.60	-2.02	-2.02
Russell Midcap Index	9.90	10.91	7.26	13.33	15.98	1.29	1.29
Russell Midcap Value Index	9.02	9.75	7.94	13.14	17.62	3.68	3.68

Calendar Year Returns (%)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Gross of Fees	8.83	1.61	19.62	11.31	-9.55	26.73	-1.00	32.38	-12.50	10.66	11.39	14.27
Net of Fees	7.96	0.80	18.66	10.46	-10.21	25.84	-1.69	31.45	-13.12	9.88	10.61	13.47
Russell Midcap Index	13.22	-2.44	13.80	18.52	-9.06	30.54	17.10	22.58	-17.32	17.23	15.34	10.60
Russell Midcap Value Index	14.75	-4.78	20.00	13.34	-12.29	27.06	4.96	28.34	-12.03	12.71	13.07	11.05

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