

Anthony Philipp
Portfolio Manager

Chris Welch, CFA
Portfolio Manager

Kristen Sheffield, CFA, CIPM
Client Portfolio Manager

Quarterly Snapshot

Summary

The Strategy returned 8.03% (net of fees) and the Russell Midcap Index returned 13.83%.

Performance

Health care holdings were the largest positive contributor during the quarter, while stock selection and an underweight to information technology remained the primary relative headwinds as Artificial Intelligence (AI)-related beneficiaries continued to dominate market leadership.

Key Drivers

We have continued to emphasize higher-quality businesses and believe the portfolio is well positioned to navigate an environment of elevated valuations and uncertainty surrounding the long-term sustainability of current market leadership.

Market and portfolio review

Equity markets posted strong returns during the second quarter, with robust corporate earnings and a resilient domestic economy supporting investor sentiment. While performance broadened beyond the largest capitalization companies, leadership continued to be driven by businesses tied to AI infrastructure investment. Toward quarter-end, however, investors appeared to become somewhat more discerning regarding the long-term sustainability of the extraordinary AI capital spending cycle.

Technology (+54%) was once again the strongest-performing sector, fueled by continued strength in semiconductors, memory and networking businesses benefiting directly from AI-related investment. Industrials (+16%) came in a distant second largely driven by companies with exposure to data center buildouts. Meanwhile, declining oil prices following easing concerns around the Strait of Hormuz caused energy to lag (-7%) after its strong performance in the prior quarter.

Relative performance continued to be shaped by AI from both a direct and indirect perspective. First, a relatively small group of businesses tied to AI infrastructure spending generated a disproportionate share of benchmark returns. While we participated through holdings including optical networking equipment provider Ciena and select industrials with data center exposure such as Regal Rexnord and Wesco International, we maintained limited exposure to many of the highest-valued semiconductor and memory companies that led the market. We believe current valuations for several of these businesses imply an extended period of elevated demand that leaves little room for disappointment.

Second, several software and services-related businesses continued to experience pressure as investors reassessed the potential impact of AI on their long-term competitive positions. Rather than treating every company the same, we continue to evaluate each business individually. Where we believe AI meaningfully changes long-term competitive dynamics, we have exited positions, such as Wix.com and SS&C Technologies. Conversely, where we believe concerns have become overly pessimistic relative to durable competitive advantages, we have selectively added to existing holdings or initiated new positions.

Health care represented an important source of strength during the quarter, with strong contributions from holdings across managed care, diagnostics and life sciences. We continue to believe the sector offers an attractive combination of valuation and long-term demand drivers, supported by favorable demographic trends, despite several years of relative underperformance.

Our positioning continues to emphasize higher-quality businesses, and many of our incremental opportunities have been in areas where valuations remain attractive despite stable long-term fundamentals. We also continued to upgrade portfolio quality by selectively reducing positions that have benefited significantly from AI-related enthusiasm and reallocated capital toward businesses offering more attractive long-term risk/reward characteristics.

While we remain somewhat cautious given elevated valuations and the concentration of market leadership, we believe the portfolio is well positioned to navigate a more challenging environment. We remain focused on owning durable businesses that we believe can both protect capital during periods of market stress and compound value over the long term.

Key contributors

- Health care services and insurance company **Humana** is a new holding in 2Q26 and the second-largest Medicare Advantage insurer in the US. Shares outperformed in 2Q26 after the company delivered strong 1Q26 results and the announcement of better-than-expected Medicare rate increases in early April, which will be helpful for the industry in closing the gap between pricing and cost trends.
- Shares of electrical product manufacturer **Regal Rexnord** rose in 2Q26 after reporting solid results on strong data center demand. Merger synergies and operational improvement initiatives drove better-than-expected organic growth and margin expansion, and we believe the market has yet to fully reflect the benefits of these efforts.
- Biotechnology company **Illumina** is the leading producer of next-generation sequencing systems, which are used to sequence DNA for research and are increasingly important in cancer diagnosis and treatment. Shares rose during the quarter after better-than-expected clinical growth, while competitor Roche's comparable product launch appeared underwhelming.

Key detractors

- **Huntington Ingalls Industries**, the largest shipbuilder for the US Navy, underperformed following mixed 1Q26 results. Strong revenue growth was offset by margin pressure from execution challenges and legacy pre-COVID contracts, while the broader defense sector weakened amid delays to US defense funding legislation and improving geopolitical tensions.
- **Wix.com** designs website software and provides "business in a box" back-end functionality to small businesses. The company's core business has experienced slowing growth due to AI-driven vibe coding, and after reporting underwhelming 1Q26 results, the company announced a reduction in force and reduced revenue growth guidance for 2026. Given the fundamental headwinds the company is facing, we exited our position to deploy capital to more attractive opportunities.
- Shares of **Zoetis**, an animal health company, underperformed after the company reported flat organic revenue growth and lowered full-year guidance amid softer US companion-animal demand, fewer veterinary visits and a more competitive market.

These results heightened concerns that slowing growth in the legacy portfolio could create a near-term earnings gap before newer pipeline products contribute more meaningfully.

New positions

- **Equifax**, a provider of mortgage, employment and other data, manages proprietary datasets that are costly and difficult to replicate. Given that its data is critical to customers' workflows yet represents a small portion of their overall costs and it operates in a consolidated industry, the company has historically benefited from strong pricing power and consistent growth.
- Water testing and treatment provider **Veralto** was spun out of Danaher in late 2023. We initiated a position as we believe the market has underappreciated the company's resilient business model, strong profitability and disciplined capital allocation amid the current chase for revenue growth in data center-related industries.
- **Verisk Analytics**, the leading provider of data and analytics to the insurance industry, benefits from a market position with limited competition. We initiated a position as its services represent a small portion of customers' overall costs but are deeply embedded in their workflows and critical to their operations, supporting consistent revenue growth, strong margins and sustained pricing power.
- We initiated a position in managed care provider **Centene** as we believe managed care margins now have a realistic path to recovery over the next few years as reimbursement rates catch up with underlying cost trends across the insured population.

Eliminated positions

- Shares of website design software provider **Wix.com** were sold as the company's core business has experienced slowing growth due to AI-driven vibe coding. Given the fundamental headwinds the company is facing, we exited our position to deploy capital to more attractive opportunities.
- We exited our position in optical networking equipment company **Ciena** as shares rose amid optimism around demand for optical equipment in AI data center buildouts.
- Global life sciences provider **Avantor**, diversified provider of tech-enabled services and software to the financial services industry **SS&C Technologies** and regional commercial bank **Webster Financial** were sold to allocate funds to more attractive opportunities.

Period and Annualized Total Returns (%)	Since Inception (31 Dec 2013)	10Y	5Y	3Y	1Y	YTD	2Q26
Gross of Fees	8.88	9.47	7.47	13.17	15.46	6.22	8.22
Net of Fees	8.08	8.69	6.72	12.38	14.65	5.85	8.03
Russell Midcap Index	10.84	12.00	8.50	16.51	21.63	15.30	13.83
Russell Midcap Value Index	9.93	10.63	9.48	16.51	26.62	17.58	13.40

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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