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## Quarterly Snapshot

### Performance

The Strategy declined 0.52% (net of fees) and the Russell 3000 Index declined 3.96%.

### Key Drivers

Both stock selection and an overweight to industrials as well as our underweight to information technology were the primary drivers of outperformance during the quarter while financials were the largest relative negative.

### Summary

The conflict in the Middle East is creating elevated near-term uncertainty, and we continue to evaluate the war's broad economic impacts. We continue to find attractive opportunities among large-cap, high-quality, cash-generative, more defensive businesses.

## Market and portfolio review

Broad US equity markets declined during the quarter, with the Russell 3000 falling 3.96%, while performance across the cap spectrum was mixed. Small- and mid-cap stocks held up relatively better, with the Russell 2000 and Russell Midcap returning 0.89% and 1.29%, respectively, while large caps lagged meaningfully (-4.18%). Despite a sharp selloff in March, smaller capitalization stocks have maintained their relative outperformance year to date.

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, while ongoing debate around AI's long-term implications — particularly disruption risks — continued to influence market leadership.

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 (+9.5%). Financials (-9.0%), information technology (-9.1%) and consumer discretionary (-9.1%) were nearly tied as the worst-performing sectors in the quarter.

Although our overall underweight to the information technology sector was a positive during the quarter, much of our technology exposure is concentrated in higher-quality software companies with recurring-like revenue, including Salesforce and Adobe. 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.

Given the macro backdrop of geopolitical conflict and higher oil prices, several of the strongest contributors in the portfolio were tied to oil and gas or defense-oriented. These areas, along with a couple of small- to mid-cap-sized industrial holdings, drove the majority of relative outperformance during the quarter. However, the underperformance of the software businesses noted above as well as two of our larger financials holdings (Capital One and AIG), resulted in a slightly negative overall return for the quarter.

Over the past several quarters, we have increasingly found opportunities among more fundamentally stable, higher-quality, cash-generative large-cap businesses, and that continued to be the case during Q1 with the addition of Kimberly-Clark and Aon. We still have slightly below 40% of the portfolio in small- to mid-cap sized businesses (\$20B market cap and lower), a handful of which are in the top 10 holdings, but on the margin our incremental opportunities have tended to be in the large-cap, stable, high-quality bucket where valuations remain quite attractive.

### 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.

- Exploration and production company **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.
- Natural gas exploration and production company **Antero Resources** benefited from a broad Q1 rally across US exploration and production companies, driven by a sharp rise in oil prices as heightened geopolitical tensions in the Middle East tightened the supply outlook.

### Key detractors

- 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.
- Shares of **Salesforce** declined amid concerns around generative AI competition, with revenue and profit growth trending below expectations. Despite a more prolonged slowdown than initially anticipated, growth appears poised to reaccelerate in 2026, and if management's longer-term guidance proves accurate, revenue growth and profitability should trend higher over time.
- 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 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.
- **Aon**, one of the largest insurance brokers with leading positions in health benefits and investment consulting, was added to the portfolio as concerns that AI could disrupt insurance distribution weighed on valuations. We believe those concerns are overstated, as commercial insurance brokerage remains complex and highly customized, while the industry's structure supports high barriers to entry and switching costs, low capital requirements and an attractive growth profile.
- We initiated a position in **Equitable Holdings** after it announced an all-stock merger with Corebridge Financial, which will create a leading US life and retirement platform, combining complementary distribution channels and product strengths across annuities and retirement solutions. We believe the combined company will be better positioned to deliver more consistent earnings and long-term growth through a broader set of capabilities in retirement and wealth management. Shares were under pressure most of the quarter and sold off even further on the announcement, creating an attractive entry point.

### Eliminated positions

- Shares of cloud-based software provider **SS&C Technologies**, packaging company **International Paper Company** and **Huntington Ingalls Industries**, the US Navy's largest shipbuilder, were sold to allocate funds to more attractive opportunities.

Period and Annualized Total Returns (%)	Since Inception (30 Jun 2000)	20Y	15Y	10Y	5Y	3Y	1Y	YTD	1Q26
Gross of Fees	11.55	10.71	12.86	13.83	10.78	17.09	17.96	-0.32	-0.32
Net of Fees	10.60	9.79	11.93	12.91	9.89	16.15	17.02	-0.52	-0.52
Russell 3000 Index	8.06	10.26	12.81	13.72	10.87	17.86	18.09	-3.96	-3.96
Russell 3000 Value Index	8.11	8.03	10.33	10.52	9.19	14.26	16.37	2.23	2.23

Calendar Year Returns (%)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Gross of Fees	-0.58	12.70	45.86	12.59	-0.47	10.84	21.26	-11.19	31.91	15.64	34.48	-16.47	31.65	14.05	14.55
Net of Fees	-1.42	11.74	44.62	11.63	-1.32	9.90	20.23	-11.93	30.86	14.72	33.41	-17.14	30.60	13.14	13.64
Russell 3000 Index	1.03	16.42	33.55	12.56	0.48	12.74	21.13	-5.24	31.02	20.89	25.66	-19.21	25.96	23.81	17.15
Russell 3000 Value Index	-0.10	17.55	32.69	12.70	-4.13	18.40	13.19	-8.58	26.26	2.87	25.37	-7.98	11.66	13.98	15.71

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