

# Select Strategy

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## Quarterly Snapshot

### Performance

The Strategy declined 2.35% (net of fees) while the Russell 3000 Index increased 1.41%.

### Key Drivers

Stock selection in information technology was the largest relative positive during the quarter, while industrials were the primary relative detractor.

### Summary

Equity market performance was mixed during the quarter, with larger cap stocks holding up better than small and mid caps as rising interest rates and energy prices weighed on economically sensitive areas of the market. Strong performance from several holdings in information technology and health care was more than offset by a handful of holdings under pressure largely from exposure to mortgage activity and the consumer.

## Market and portfolio review

US equity market performance was mixed during the third quarter, with larger cap stocks holding up better than smaller companies. The Russell 3000 advanced 1.41%, while small and mid cap indices declined. September was particularly challenging as the Federal Reserve delivered its first rate hike in three years and Treasury yields moved sharply higher. At the same time, the ongoing conflict with Iran pushed oil and fuel prices higher, increasing concerns about the potential impact on consumers and broader economic activity.

From a sector perspective, performance was mixed. Energy benefited from higher oil prices; health care and information technology also posted positive returns. Conversely, several cyclical and rate-sensitive sectors came under pressure as investors considered the potential effects of higher borrowing costs, inflation and energy prices. Technology remained an important source of market leadership, although performance became more differentiated across the sector.

In the portfolio, information technology was the largest source of relative strength, driven by strong stock selection. Health care also had several top contributors in the quarter driven by both company-specific execution and improving industry fundamentals.

On the other hand, industrials were the largest relative headwind, driven by a combination of company-specific developments and broader macroeconomic pressures. Several holdings faced

challenges related to higher input costs, margin pressure and slower-than-expected operating improvements. While we believe some of these pressures may prove temporary, we continue to evaluate the potential for more lasting changes to the competitive positioning and long-term economics of these businesses.

Elsewhere, higher interest rates and energy prices weighed on several holdings exposed to consumer spending, housing and mortgage activity. These concerns affected businesses across multiple sectors as investors reassessed the potential impact of higher borrowing costs and fuel prices on demand. Given the Select portfolio's concentrated nature, weakness across a relatively small number of holdings had a meaningful impact on overall results.

We made significant changes to the portfolio during the quarter, reflecting our ongoing assessment of where we are finding the most attractive long-term opportunities. We increased exposure to large-scale cloud infrastructure providers and businesses with proprietary data assets, including credit bureaus, while reducing exposure to traditional software and several consumer-oriented holdings. In health care, our overall exposure remained relatively stable, but we reallocated capital among businesses where we see differing opportunities and risks. We also initiated a new energy investment.

While we remain somewhat cautious given elevated broad-market valuations and macroeconomic uncertainty, recent volatility has created opportunities to improve the portfolio's prospective risk/reward profile. We will continue to emphasize disciplined capital allocation and invest where we believe the long-term return potential adequately compensates us for the risks being assumed.

### Key contributors

- Shares of **Microsoft** rose after the company reported strong Azure results that included a growth reacceleration in quarterly results and guidance. Microsoft remains very well positioned to implement AI into its current offerings while also adding enormous AI computing capacity to lease to customers on attractive economic terms.
- Customer relationship management software provider **Salesforce** outperformed on strong 2027 guidance, creating a solid set-up for reaccelerating revenue growth. Additionally, revenue for the company's generative AI offering is growing, and the company's headless initiatives stand to further accelerate revenue growth.
- Shares of diversified health care company **Abbott Laboratories** outperformed following better-than-expected second-quarter results, improving trends in its nutrition and diagnostics business, and higher full-year earnings guidance.

### Key detractors

- **Cimpress**, a leading provider of customizable printed marketing materials, underperformed after reporting mixed results, including weaker-than-expected margins, indicating that margin pressure could persist through the remainder of the year. While much of the compression reflects temporary factors, including manufacturing start-up costs, higher energy prices and tariffs, increased competition may also be contributing.
- Gaming development and management company **Red Rock Resorts** underperformed amid construction-related disruptions and inflationary concerns tied to elevated oil prices. Despite these near-term pressures, we continue to view the long-term opportunity as attractive, particularly at current valuations.
- Shares of electrical product manufacturer **Regal Rexnord** underperformed after reporting mixed results and lowering full-year margin guidance, primarily due to higher inflation and slower realization of planned cost savings. While disappointing, we believe these inflationary pressures are temporary and can be offset over time through price increases. Additionally, the company's shift from cost cutting toward growth could prove beneficial given strong demand for industrial automation.

### New positions

- We initiated a position in software and technology provider **Microsoft** given the strength and customer value proposition of its existing products and services, along with its compelling opportunity to create value through investments in AI. We believe the scale and duration of these opportunities should support long-term revenue and operating profit growth.
- We initiated a position in **Waystar Holding**, a leading health care technology company that helps providers manage billing, insurance claims and payments. We believe the company's broad product offering, extensive network, strong customer retention and opportunities to expand relationships with existing customers position it for attractive long-term growth as providers increasingly automate labor-intensive revenue cycle processes.
- Credit reporting, risk analytics and identity solutions provider **TransUnion** was added to the portfolio when shares declined amid AI disruption concerns. We believe the market is underappreciating the value of the company's proprietary data assets and long-term growth opportunities across emerging verticals and international markets, improving cash generation and strong competitive position.
- Managed care provider **Centene** was added to the portfolio as we believe margins have a credible path to recovery over the next several years as Medicare reimbursement rates catch up with underlying cost trends across its covered population.
- We initiated a position in building materials supplier **Martin Marietta** following weakness in construction sentiment across residential, nonresidential and infrastructure markets, as well as concerns surrounding a sizable acquisition that increased leverage. Despite these near-term pressures, we remain confident in the long-term durability of the business and viewed the weakness as an attractive entry point.
- **Amazon**, a leading e-commerce and cloud computing company, was added to the portfolio given accelerating revenue growth and strong margins in Amazon Web Services, alongside consistent growth and improving profitability in its commerce business. We believe these combined growth prospects are underappreciated in the company's current share price.
- We initiated a position in **Transocean**, a leading offshore drilling contractor, as constrained industry supply and rising demand create a favorable backdrop for offshore drilling. We believe the company is well-positioned to benefit as energy companies seek to replenish reserves and countries prioritize domestically controlled oil supplies. The company's pending merger with Valaris further strengthens its position and improves its balance sheet.

- **Humana**, one of the largest Medicare Advantage managed care companies, was added to the portfolio as we believe margins have a clear path to recovery following several years of higher-than-expected medical costs. This recovery should support above-normal earnings growth over the coming years.
- We initiated a position in **Equifax**, a leading credit bureau and provider of data analytics, given the company's proprietary, difficult-to-replicate data assets, particularly its employment and income database, The Work Number. We believe these assets create significant barriers to entry, strong pricing power and attractive long-term growth opportunities beyond traditional credit reporting.

### Eliminated positions

Shares of the following companies were sold to allocate funds to more attractive opportunities.

- Adobe
- Colgate-Palmolive
- Molina Healthcare
- CarMax
- Builders FirstSource

| Period and Annualized Total Returns (%) | Since Inception<br>(30 Jun 2000) | 20Y   | 15Y   | 10Y   | 5Y    | 3Y    | 1Y    | YTD   | 3Q26  |
|-----------------------------------------|----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Gross of Fees                           | 11.44                            | 10.82 | 14.28 | 13.41 | 9.76  | 16.65 | 7.43  | 2.69  | -2.15 |
| Net of Fees                             | 10.50                            | 9.90  | 13.34 | 12.49 | 8.88  | 15.71 | 6.57  | 2.07  | -2.35 |
| Russell 3000 Index                      | 8.55                             | 10.99 | 15.27 | 14.73 | 12.64 | 22.26 | 15.13 | 12.42 | 1.41  |
| Russell 3000 Value Index                | 8.58                             | 8.54  | 12.88 | 11.31 | 11.68 | 19.97 | 23.73 | 19.22 | 2.31  |

| 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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