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## Quarterly Snapshot

### Performance

The Strategy declined 2.47% (net of fees) and the Russell 2500 Index increased 2.04%.

### Key Drivers

Stock selection within health care and industrials were the largest relative detractors.

### Summary

We remain somewhat cautious given the elevated level of uncertainty in markets and ongoing conflict in the Middle East – particularly the duration of higher oil prices and any lasting impacts they may have. 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 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 their relative outperformance year to date, with the Russell 2000 up 0.89% versus a 4.18% decline for the Russell 1000. The small-mid segment was the strongest, with the Russell 2500 returning 2.04% for the quarter.

From a sector perspective, energy was far and away the best-performing sector in Q1, advancing 39% in the quarter as oil prices rose sharply due to supply concerns following the closure of the Strait of Hormuz; consumer staples followed in a distant second (+6.7%). Financials was the weakest sector (-6.1%), pressured by macro and interest rate uncertainty as well as fear about potential AI-disruption impacting financial and consulting services. Consumer discretionary (-5.3%) also lagged, as investors grew increasingly cautious on the consumer amid rising energy costs and potential inflationary pressures.

Our relative underperformance in the quarter stemmed from three primary areas: AI-related stocks (both what we own and don't own), consumer and housing-related concerns, and health care stock selection.

Many companies within the Russell 2500 Index are benefitting from substantial dollars being spent on AI-related capital spending, with several stocks including SanDisk (+168%), Lumentum Holdings (+91%) and Comfort Systems (+48%), increased materially in Q1 (notably, this dynamic is more impactful in the Russell 2500 Value Index). While we do have exposure to this theme through holdings such as Ciena, as well as select industrial businesses, we remain underweight this area, which served as a relative headwind. On the flipside, several of our software and software-related professional services holdings came under pressure due to concerns around AI-driven disruption. In several cases, we believe these fears are overstated and have used the volatility to add to or initiate positions, while selectively trimming or exiting others.

While our energy holdings benefitted from the disruptions in the Middle East, other areas of the portfolio were impacted by 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. These dynamics contributed to weakness among several of our larger detractors.

We have continued to lean into higher-quality businesses and believe the portfolio has become incrementally more defensive. The uptick in volatility and swaths of businesses coming under pressure as concerns roiled various industries throughout the quarter created some unique opportunities to initiate positions in high-quality, durable franchises that fell into our market cap universe. This was another quarter of elevated activity, where we leveraged our long-term perspective to act opportunistically. While we remain somewhat cautious given the elevated level of uncertainty, we continue to believe the portfolio is well-positioned to protect 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.
- **Huntington Ingalls Industries**, the US Navy's largest shipbuilder, outperformed as geopolitical tensions rose in Q1 and President Trump signaled support for a \$1.5 trillion defense budget in 2027. Although the discount to our estimate of intrinsic value has narrowed, we still view the company as one of the best-positioned defense companies to support the Department of Defense's Pacific preparedness needs, supporting strong demand for at least the next five years. Additionally, as recent labor issues ease, we also expect margins to improve over time.

## Key detractors

- Shares of mortgage provider **Rocket Companies** fell after interest rates increased in Q1, further delaying a rebound in mortgage originations.
- **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.
- **ICON**, a clinical research organization (CRO) that provides outsourced consulting and development services to the health care industry, continues to face weak end markets and a slower-than-expected recovery in biotech and pharma

demand. The market is also increasingly focused on the potential for AI to pressure CRO bookings. Over the long term, however, we believe AI is more likely to be a net positive, giving scaled CROs with global reach and resources time to adapt and benefit.

## New positions

- **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.
- 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.
- **LPL Financial**, a wealth management firm, is expected to return to best-in-class organic growth following the completion of its Commonwealth acquisition. A renewed focus on efficiency and operating leverage should further support improvement in its valuation over time.
- 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.
- We initiated a position in **Willis Towers Watson** as revenue growth is recovering following disruption from the failed Aon merger and the sale of Willis Re. As growth returns, margin expansion driven by cost savings and improving free cash flow generation should support long-term growth potential.

- **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.
- **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.
- We received shares of **Pinnacle Financial Partners** in exchange for our Synovus Financial shares at the close of this merger of equals. Over time, we believe the combined franchise can deliver above-peer growth, supported by its broader footprint and greater scale. While the stock currently reflects a discount for execution risk, we believe management has been thoughtful in avoiding many of the pitfalls that have challenged other mergers of equals.
- 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.
- We exited our positions in oil exploration and production companies **Civitas Resources** and **SM Energy** following SM's acquisition of Civitas earlier this year, as we did not view the strategic rationale for the merger as compelling.
- We exited our position in **First Advantage**, a leader in the background check space, to pursue other opportunities with less macro exposure and AI-disruption concerns.
- Software provider **Progress Software** is facing increased uncertainty due to disruption from AI, so we exited our position in favor of more attractive opportunities.
- We exited our position in financial services company **Stifel** as the stock reached our estimate of intrinsic value.
- Shares of personal care and home fragrance retailer **Bath & Body Works**, medical technology company **Boston Scientific**, used car retailer **CarMax**, diversified holding company **Loews**, food manufacturer **Marzetti**, over-the-counter pharmaceutical manufacturer **Perrigo** and chemicals producer and building supplier **Westlake** were sold to allocate funds to more attractive opportunities.

Period and Annualized Total Returns (%)	Since Inception (31 Dec 2005)	20Y	15Y	10Y	5Y	3Y	1Y	YTD	1Q26
Gross of Fees	9.09	8.88	9.54	8.42	5.67	8.45	11.39	-2.26	-2.26
Net of Fees	8.09	7.89	8.55	7.47	4.77	7.53	10.44	-2.47	-2.47
Russell 2500 Index	8.96	8.51	9.91	10.58	5.48	13.25	23.45	2.04	2.04
Russell 2500 Value Index	8.25	7.82	9.36	9.87	7.64	14.46	25.43	4.77	4.77

Calendar Year Returns (%)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Gross of Fees	-2.96	16.93	43.32	8.42	2.45	19.30	9.63	-11.71	28.84	2.29	32.34	-12.80	12.45	9.24	9.47
Net of Fees	-3.88	15.82	41.96	7.39	1.47	18.17	8.59	-12.51	27.75	1.42	31.22	-13.54	11.50	8.31	8.54
Russell 2500 Index	-2.51	17.88	36.80	7.07	-2.90	17.59	16.81	-10.00	27.77	19.99	18.18	-18.37	17.42	12.00	11.91
Russell 2500 Value Index	-3.36	19.21	33.32	7.11	-5.49	25.20	10.36	-12.36	23.56	4.88	27.78	-13.08	15.98	10.98	12.73

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