

## Market Commentary

Who flipped the switch? The start of the second quarter looked bleak, with a steady drumbeat of dismal news for equities investors. The tariff-induced sell-off accelerated in early April, and there was much talk of inflation and recession. But almost just as quickly, markets bounced back smartly. The S&P 500® Index,<sup>1</sup> a popular proxy for the overall domestic stock market, logged new all-time highs and delivered an impressive return of 10.9% for the second quarter. The catalyst for the abrupt shift in sentiment was, not surprisingly, tariff related. Shortly after the “Liberation Day” tariff announcement that roiled markets, there was a perceived softening in the administration’s trade policy stance that seemed to fuel an abrupt change in sentiment.

With the realization (at least for the moment) that tariffs would be less draconian than previously feared, many of the old market leaders—but not all—were back in vogue. Information Technology stocks, which were being eschewed early in the year due in part to high valuation concerns, once again led the market upward. Communication Services and Industrials also drove the market higher during the second quarter, while some of the more traditional value-oriented sectors—such as Energy, Health Care, Real Estate and Basic Materials—lagged the broader market.

Our particular area of focus—domestic value-oriented equities—also participated in the second-quarter rally and has experienced far less volatility than the wild swings seen in growth-oriented stocks this year. The Russell 3000® Value Index, our proxy for the value universe, ended the quarter with a solid quarterly gain of 3.8%, albeit lagging the 17.6% gain for the Russell 3000® Growth Index. In terms of market capitalizations, small-cap and mid-cap value stocks, as represented by the Russell 2000® Value Index and the Russell Midcap® Value Index, increased 5.0% and 5.4%, respectively. Meanwhile, large-cap value stocks, as represented by the Russell 1000® Value Index, increased 3.8% during the same period.

With regard to style boxes, large-cap growth stocks were the clear winners during the second quarter. It seems that when risk was off, the higher valuation large-cap growth stocks were punished (along with more speculative smaller growth), only to see investors pile back in, looking for “bargains,” when sentiment turned positive. This may seem a tad simplistic, but this type of pendulum action has been a recent reality for the fast-money crowd. Yet underneath these headlines, it’s important to remember there are countless individual businesses that move independently of the generic market action. Moreover, the earnings potential of many companies, as well as their relative value on a risk-reward basis, is often overlooked. In our view, this type of environment should reward prudent fundamental stock analysis.

## Looking Ahead

The second quarter market may have favored the growth style, and Technology and Communication Services sectors in particular, but does this mean we are back to the days when the Magnificent Seven roar higher to the exclusion of all other attractive businesses? We don’t think so. In fact, there is much we don’t know at present. For example, will trade policy continue in the best-case

scenario, as many growth stocks are acting, or will the administration change course again? We think investors should be prepared for additional bouts of volatility. There are also questions regarding monetary policy. More recent statements by the Federal Reserve suggest some willingness to lower rates later this year, but again that’s subject to change. It’s always data-dependent, as the Fed likes to say. And, unfortunately, the geopolitical hotspots around the globe remain in place.

All this suggests to us that the best path forward is taking an unemotional, long-term view. Managing portfolios with an eye toward downside protection is never a bad idea, in our opinion, and it doesn’t preclude finding intriguing businesses at attractive valuations. We continue to believe that actively managed, value-oriented approaches should be well positioned going forward. And in this uncertain environment, we think that companies with sound balance sheets should be favored. Our team will continue to search for companies with a combination of improving ROIC (return on invested capital) and stock prices trading at what we perceive as a discount to intrinsic value. We believe this gives us the best opportunity to generate attractive risk-adjusted returns over longer time periods in all environments, not just when sentiment is improving.

## Performance Review

For the three months ended June 30, 2025, the RS Large Cap Value strategy marginally underperformed its benchmark Russell 1000® Value Index (the “Index”) and returned 3.55% net versus a return of 3.79% for the Index.

In the second quarter, strong performance from stock selection in Health Care and Communication Services aided relative performance, while stock selection in Consumer Discretionary and Industrials detracted.

## Investment Strategy

The RS Value Team seeks to invest in good companies, led by strong management teams, that are attractively valued. Our decision to invest in any company starts with business analysis and an understanding of the company’s unit-level economics. Our work on unit-level economics helps us determine the quality and key drivers of the business. We are ROIC-focused investors and seek to invest in companies that we believe have the potential to create shareholder value due to an improvement in the returns of the existing assets or through attractive reinvestment opportunities. We are long-term investors who use our investment time horizon as a competitive advantage and are attracted to out-of-favor and/or misunderstood companies in the market.

The next step in our process is to assess the management team. Our evaluation of a company’s management team is critical to our investment decision. We regularly meet with management to gauge how they think about their business: Are they focused on (and compensated for) growing earnings at any cost, or do they understand ROIC and how value is created? Additionally, we perform detailed historical analyses of management’s capital decisions—looking at acquisitions, asset sales, and measures of capital stewardship. This analysis provides us with the conviction

to invest with strong management teams that we expect will be able to navigate through short-term market volatility and appear to be poised to deliver long-term shareholder value.

The final step in our analysis is valuation. To the RS Value Team, value investing is buying a business at a discount to what we believe it is actually worth. We determine what a company is worth by assessing a company's current share price versus its expected cash flow streams or long-term net asset value based upon the management team's plan for value creation. ROIC is the lens through which we analyze that value creation. Our research has shown that, over time, stock price performance has a strong correlation to improving ROIC as opposed to traditional valuation measurements like price to earnings (P/E). We seek to invest in companies that we believe can create shareholder value due to an improvement in the returns of the company's existing assets or through attractive reinvestment opportunities. We pay close attention to a company's financial strength, scrutinizing financial statements, and we run various financial models to understand our downside risk. This quantitative analysis gives us confidence in our investment thesis and helps us determine at what stock price we are comfortable investing.

### Select Position Review

Below, we review two businesses in an effort to use tangible examples to highlight our investment process.

**CACI International (CACI)** provides information technology products and services, predominantly to the United States federal government. In its last fiscal year, the company received 74% of its revenues from the U.S. Department of Defense while another 21% of its revenues came from federal civilian institutions, including various intelligence agencies. The company currently benefits from bipartisan support for defense and security initiatives and is an important part of many mission-critical efforts. The share price has performed well recently as concerns over government efficiency efforts and possible funding cuts appear to have been overblown with respect to the capabilities and services CACI provides. We believe CACI should continue to create value for our shareholders as it executes on its customers' existing programs while benefiting from a growing set of future opportunities.

**Corpay (CPAY)**, a business-to-business (B2B) cross-border and truck-fleet payments processor, declined 4.9% during the quarter; this was due, we believe, to investor concern that tariffs will reduce

cross-border transactions and trucking volumes. The founder & CEO, who owns \$800M in stock (thus aligning our incentives), took advantage of reduced valuations by announcing two acquisitions. We held our position because the CEO has a successful track record of acquiring under-earning assets and improving their ROIC.

### Outlook

The new administration's pursuit of an "economic renaissance" focuses on revitalizing American manufacturing and on tax cuts and deregulation. However, escalating trade deficits and a shift toward more protectionist policies have introduced significant uncertainty, overshadowing these goals. The potential long-term effects of these policies remain unclear, impacting global currencies as well as equity and fixed income markets. Uncertainty surrounding the passage of the federal budget bill further complicates the economic outlook, as its approval and provisions could influence fiscal stimulus and market dynamics. The Federal Reserve is likely to delay action until protectionist policies and the budget bill's outcome provide more clarity, but it remains prepared to provide liquidity if needed.

Housing market pressures persist due to higher interest rates and affordability challenges, though a decade-long housing shortage should prevent severe price declines. Lower-income consumers face strain from inflation, yet most Americans' balance sheets and consumer credit quality remain robust. Uncertainty around protectionist policies and the budget bill clouds predictions about inflation and interest rates, as their combined effects could either intensify or moderate price pressures.

We anticipate a potentially more inflationary and higher interest rate environment than the past decade. Our quality-focused investment approach aims to balance downside protection with upside potential. We remain optimistic about reduced regulation and a favorable M&A environment under the new administration, continuing to target high-quality businesses with improving returns on invested capital (ROIC), strong balance sheets and robust cash flows, where share prices diverge from fundamentals.

We thank you, as always, for your support.

Sincerely,

RS Value Team

**Top Contributors (Representative Account – Gross of Fees)**

As of June 30, 2025

| Holding                            | % Contribution to Return |
|------------------------------------|--------------------------|
| Fairfax Financial Holdings Limited | 0.73                     |
| Citigroup Inc.                     | 0.69                     |
| CACI International Inc. Class A    | 0.59                     |
| Eaton Corp. Plc                    | 0.50                     |
| Amphenol Corporation Class A       | 0.46                     |

Source: FactSet.

**Top Detractors (Representative Account – Gross of Fees)**

As of June 30, 2025

| Holding                          | % Contribution to Return |
|----------------------------------|--------------------------|
| UnitedHealth Group Incorporated  | -0.57                    |
| LKQ Corporation                  | -0.35                    |
| Exxon Mobil Corporation          | -0.34                    |
| Sensata Technologies Holding plc | -0.27                    |
| Everest Group, Ltd.              | -0.22                    |

**Composite Performance**

Average Annual Returns as of June 30, 2025

| RS Large Cap Value Composite | Second Quarter 2025 | YTD   | 1-Year | 3-Year | 5-Year | 10-Year | Since Inception* |
|------------------------------|---------------------|-------|--------|--------|--------|---------|------------------|
| Gross of fees                | 3.68%               | 5.44% | 12.72% | 14.88% | 16.65% | 10.43%  | 12.57%           |
| Net of fees                  | 3.55%               | 5.18% | 12.16% | 14.31% | 16.07% | 9.88%   | 11.94%           |
| Russell 1000® Value Index    | 3.79%               | 6.00% | 13.70% | 12.76% | 13.93% | 9.19%   | 11.77%           |

**Past performance does not guarantee future results.** Performance prior to January 1, 2017, occurred while the portfolio management team was affiliated with a prior firm. Such members of the portfolio management team were responsible for investment decisions at the prior firm, and the decision-making process has remained intact. Returns for periods greater than one year are annualized. Returns are expressed in U.S. dollars and reflect the reinvestment of dividends and other earnings. Composite and benchmark returns are presented net of non-reclaimable withholding taxes, if any. Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Net-of-fees returns reflect gross performance less investment management fees. Net-of-fees returns are calculated by deducting 1/12 of the highest tier of the standard fee schedule in effect for the period noted (the model fee). The composite model fee for each period is either the highest tier of the current fee schedule or a higher value, whichever is required to ensure the model composite net-of-fee return is lower than or equal to the composite net-of-fee return calculated using actual fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and may be found on Part 2A of its Form ADV. \*05/31/2009.

**All investments carry a certain degree of risk, including the possible loss of principal,** and an investment should be made with an understanding of the risks involved with owning a particular security or asset class.

Contributors and Detractors Source: FactSet. The top contributors and detractors are presented to illustrate examples of the portfolio's investments and may not be representative of the portfolio's current or future investments.

The information in this article is based on data obtained from recognized services and sources and is believed to be reliable. Any opinions, projections or recommendations in this report are subject to change without notice and are not intended as individual investment advice.

The RS Large Cap Value Strategy primarily invests in a diversified portfolio of large-cap companies.

Information relating to portfolio holdings is based on the representative account in the composite and may vary for other accounts in the strategy due to asset size, client guidelines, and other factors. The representative account is believed to most closely reflect the current portfolio management style.

Advisory services offered by Victory Capital Management Inc.

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