



## Investment Team

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Portfolio Co-Manager

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Portfolio Co-Manager

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Portfolio Co-Manager

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## Characteristics

Total Net Assets  
(millions): \$493.06

Number of holdings: 48

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## Top 10 Holdings

Microsoft  
JPMorganChase  
Broadcom  
Goldman Sachs  
RTX  
PNC Financial  
Procter & Gamble  
Duke Energy  
McDonald's  
Coca-Cola

## Market Overview

The equity market ended 2025 on a positive note. The S&P 500 Index returned 2.7% in the fourth quarter, finishing the year up 17.9%, just shy of a third consecutive 20%+ annual gain. This outcome seemed unlikely early in the year amid several potential disruptions, including the emergence of new competitive artificial intelligence (AI) models from China and heightened uncertainty following the rollout of a new U.S. tariff regime. Ultimately, strong AI-related investment, the resumption of U.S. Federal Reserve (Fed) interest rate cuts, and a more pragmatic tone from the Trump administration on trade negotiations allowed equities to push to new highs.

As in the prior two years, the communication services and technology sectors led performance, with a narrow set of mega-cap technology, media, and telecommunications stocks contributing to approximately half of the S&P 500's return. Still, market breadth improved meaningfully relative to 2023 and 2024. All 11 sectors posted positive returns, and the S&P 500® Equal Weight Index rose 11.4%. While this lagged the cap-weighted index by 650 basis points (bps), the gap narrowed considerably from the 12% to 13% differentials of the prior two years. Notably, the top-performing equity factor in 2025 was positive 3-month earnings per share (EPS) revisions, which outpaced momentum, size, and growth. We view this as evidence that fundamentals still matter.

From a return-driver standpoint, earnings growth was the clear engine of the market's advance in 2025. Forward S&P 500 earnings are projected to rise 16% in 2026 over 2025. Dividends contributed roughly 1.5% to the total return, while valuation remained largely unchanged, with the index ending the year

at approximately 22 times next 12-month earnings.

## Portfolio Review

### Top securities

AstraZeneca reported third-quarter financial results that surpassed analyst expectations and reaffirmed its outlook for operating margin improvements in 2026. The company also announced a constructive drug pricing agreement with the Trump administration, and presented impressive clinical trial results for a new drug to treat hypertension, which the company expects to have on the market by mid-2026.

Lam Research shares benefitted from improving sentiment regarding the importance of its products within the semiconductor capital spending market. Following disappointments from semiconductor peers, Lam Research confirmed growth projections for next year, supported by bookings data. As a leading provider of equipment tied to memory requirements for AI, we believe Lam Research could have a long and healthy path to growth moving forward.

Goldman Sachs Group's shares contributed to the fourth-quarter performance due to positive financial results, coupled with increased optimism regarding capital markets activity heading into 2026. Goldman Sachs maintains one of the strongest global merger and acquisition (M&A) advisory and trading, with increased activity in M&A, initial public offerings, and debt issuance activity directly boosting its financial performance.

RTX's positive performance was a result of a strong third quarter earnings report that demonstrated improved revenue

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## Portfolio Review (continued)

Top Holdings	Average Weight (%)	Contribution to return (%)
AstraZeneca	2.14	0.38
Lam Research	1.41	0.36
Goldman Sachs	3.21	0.34
RTX	3.15	0.30
Analog Devices	2.15	0.24

As of Dec. 31, 2025. The information provided above should not be construed as a recommendation to buy, sell, or hold any particular security. The data are shown for informational purposes only and are not indicative of future portfolio characteristics or returns. Portfolio holdings are not stagnant and may change over time without prior notice. Past performance does not guarantee future results. Please note that the holdings identified do not represent all of the securities purchased, sold, or recommended for the fund.

and earnings growth. Key end markets such as commercial aerospace and global defense are poised to continue to push excess growth for the company over the next several years. As such, we remain positive on RTX.

Analog Devices pushed toward new all-time highs after solid earnings gave investors' confidence that the analog cycle is now beyond its bottom. We believe the cycle is on track for an early recovery in 2026.

### Bottom securities

Oracle gave up some of its gains after a big run to start the year over concerns about choppiness in AI spending and valuation pushbacks.

Eaton's shares pulled back in August following strong performance through July. Like many companies in the industrials complex, Eaton's results did not exceed very high investor expectations. Moving into 2026, we anticipate accelerated growth for the company that is tied to strong trends in data center, aerospace, and defense markets.

Microsoft delivered weak quarterly performance, driven by industry-wide concerns over a slowdown in software seat licenses, a key worry among investors.

T-Mobile lagged amid uncertainty surrounding the strategic direction of one of its largest competitors. A new CEO at the competing company appears to have a more aggressive posture, which could pressure net subscription additions for T-Mobile. However, in historical times of elevated switching behavior, T-Mobile has tended to gain market share due to its

Bottom Holdings	Average Weight (%)	Contribution to return (%)
Oracle	1.55	-0.56
Eaton	2.90	-0.46
Microsoft	5.31	-0.34
T-Mobile	1.95	-0.33
Home Depot	1.95	-0.32

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well-established value proposition.

Home Depot traded lower after reporting weaker-than-expected same-store sales for the prior quarter. While weather-related events boosted results in the prior quarter, the additional demand management anticipated failed to materialize. On a positive note, recent acquisitions continue to perform well and appear likely to be a tailwind as the business environment improves.

## Outlook

With the S&P 500 up 86% for the past three years, it is reasonable to question the runway for further gains. However, as we enter 2026, we see more tangible tailwinds than headwinds and believe another year of positive equity returns is achievable.

Earnings remain the core pillar. Bloomberg projects S&P 500 EPS growth of 16% in 2026, up from 15% in 2025 – with 7 of 11 sectors expected to deliver double-digit gains. AI investment remains robust and has the potential to broaden its impact across industries. Meanwhile, although tariffs remain a drag on year-over-year comparisons, companies have now had nine months since Liberation Day to redesign supply chains, adjust pricing, or mitigate cost pressures. The tariff anniversary mid-year could further ease the growth impact. The macroeconomic backdrop remains constructive. Inflation continues to slow, the labor market is cooling without collapsing, and corporate profitability remains resilient. If the Fed maintains its data-driven stance, monetary policy could be expected to gradually become more accommodative.

According to Bloomberg, futures contracts currently imply two 25-bp cuts in 2026, which we view as a conservative starting point. Consumer strength remains a swing factor. A K-shaped pattern persists, with lower-income households pressured by the cumulative impact of inflation and softer wage growth. High-income consumers – supported by wealth effects from rising asset prices – continue to spend consistently, and we do not see evidence this trend will change. Additionally, fiscal policies in the One Big Beautiful Bill Act should provide incremental stimulus beginning in early 2026.

Frothy equity valuations are often cited as a risk to the current bull market. At 22x forward earnings, the S&P 500 trades within one multiple of its 25-year high. However, the market sustained this multiple throughout 2025, and accelerating earnings growth may further justify it. The S&P 500 Equal

Weight Index trades at a more modest 17.5x, suggesting the “average” stock is far less stretched and has the potential for broader market participation. The AI super-cycle continues to provide powerful support, yet it carries risks. Investor willingness to underwrite aggressive AI spending has cooled somewhat, and the debate over whether we are in an AI bubble has increased. We expect AI-related stock volatility to persist in 2026, but as long as forward revenue and earnings estimates continue to rise, the multi-year AI investment cycle should remain intact. Policy remains a wildcard. With the unconventional administration, sudden shifts in tone or direction are possible. That said, mid-term election years often bring a degree of policy restraint, which could reduce headline risk. Monetary policy uncertainty is another factor, particularly if inflation re-accelerates. A new Fed chair is expected mid-year, and this may also shape the policy path.

### **Risk Considerations:**

International investing presents specific risks, such as currency fluctuations, differences in financial accounting standards as well as potential political and economic instability.

Because the fund normally will hold a focused portfolio of stocks of fewer companies than many other diversified funds, the increase or decrease of the value of a single stock may have a greater impact on the fund’s net asset value and total return.

As with all equity investing, there is the risk that an unexpected change in the market or within the company itself may have an adverse effect on its stock. The biggest risk of equity investing is that returns can fluctuate and investors can lose money.

There are risks associated with dividend investing, including that dividend-issuing companies may choose not to pay a dividend, may not have the ability to pay, or the dividend may be less than what is anticipated. Dividend issuing companies are subject to interest rate risk and high dividends can sometimes signal that a company is in distress.

Growth companies are expected to increase their earnings at a certain rate. When these expectations are not met, investors may punish the stocks excessively, even if earnings showed an absolute increase. Growth company stocks also typically lack the dividend yield that can cushion stock prices in market downturns. The companies engaged in the technology industry are subject to fierce competition and their products and services may be subject to rapid obsolescence. The values of these companies tend to fluctuate sharply.

Investments in mid-cap and small-cap companies generally involve greater risks than investing in larger capitalization companies. Mid-cap companies often have narrower commercial markets, more limited managerial and financial resources, and more volatile trading than larger, more established companies.

Real Estate Investment Trusts (REITS) may be affected by economic conditions including credit risk, interest rate risk and other factors that affect property values, rents or occupancies of real estate.

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### **Definitions**

Artificial intelligence (AI) - technology that enables computers and machines to simulate human learning, comprehension, problem solving, decision making, creativity and autonomy.

Basis points (bps) – Measurements used in discussions of interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%.

Headwind – An event or market force that hinders the prospects for

performance in an individual investment or group of investments.

K-shaped economy – a situation where, following an economic downturn, different parts of the economy recover at different rates, creating a divergence like the letter “K.”

Macroeconomic - the branch of economics that focuses on seeking to understand the interactions between the markets, businesses, governments, and consumers that make up an entire economy.

Multiple, price multiple, earnings multiple – A measure of a company’s value based on the ratio of its current share price to its earnings per share. This ratio is known as the price-to-earnings ratio, or P/E.

Next-12-months prices/earnings ratio (NTM P/E) – A version of the ratio of price-to-earnings that uses forecasted earnings for the P/E calculation.

One Big Beautiful Bill Act – An act passed and signed into law in July 2025 that raised the U.S. debt ceiling by \$5 trillion, made permanent tax cuts created by the Tax Cuts and Jobs Act of 2017, and changed a wide range of other aspects of federal tax policy, making changes to health insurance legislation, phasing out or reducing credits for clean energy production or use, and removing tax benefits for illegal immigrants.

Tailwind – An event or market force that exerts a positive influence on an investment’s performance. The opposite of a tailwind is a headwind, which contributes to an investment’s underperformance.

Total return – When measuring performance, total return is the actual rate of return of an investment or a pool of investments over a given period of time. Total return includes interest, capital gains, dividends, and distributions realized over the specified period. Total return accounts for two categories of return: income including interest paid by fixed-income investments,

distributions, or dividends and capital appreciation, representing the change in the market price of an asset.

Valuation – The current or projected worth of an investment. Absolute valuations reflect the absolute value of an investment considered singly, and relative valuations consider the value of an investment against comparable investments.

## Indices

S&P 500 Index - measures change in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested. The S&P 500 represents approximately 80% of the investable U.S. equity market.

S&P 500® Equal Weight Index - includes the same constituents as the capitalization-weighted S&P 500 Index, but each company in the S&P 500 EWI is allocated a fixed weight.

Indices are unmanaged, and one cannot invest directly in an index.

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