4Q 2025
Value*Plus* Portfolio Review

During the recently ended quarter, net of fees, the ValuePlus composite under-performed the Morningstar Large Cap Value by 362 basis points and under-performed the S&P 500 Value by 268 basis points. The 1-year net of fee return on the composite was 11.4%; the 5-year net of fee return on the composite was 12.5%; and the 10-year net of fee return on the composite was 11.1%.

Value*Plus* returned approximately 11.4% for the year *(net of fees)*, surpassing the strategy's net compounded annual return since its inception in 1989.^ After a rocky start to the year primarily due to tariff fears, many asset classes rebounded strongly with risk assets generally performing towards the upper end while more defensive areas lagged as expected in such a risk-taking setting.

The "narrow market" as we call it—commonly referred to as the broad market—increased approximately 17.8% for the year while the "truly broad market" increased a more mundane 11.4%.

What is this "narrow market" we talk about, you ask? And isn't the S&P 500 the broad market?

To eliminate any possible confusion and for illustrative purposes only, what we define above as the "narrow market" is in fact the S&P 500. In contrast, what we define as the "truly broad market" is the same benchmark, the only difference being that it is equally-weighted. That is the only difference. It turns out that what is commonly referred to as the broad market is anything but given that the largest ten companies out of 500 make up over 40% of the index. Through the lens of an equally-weighted broad market, and despite this growth focused environment, Value*Plus* generally matched the "truly broad market" in the year just ended, a noteworthy accomplishment.

The relevance to Value*Plus* of such a gap is altogether different than it might seem. Due to the fact that the average stock increased only modestly in the year just ended, relative valuation gaps have increased. Even better, many stocks lagged significantly or declined in price during the year. Non-fundamentally driven markets have historically presented us with investment opportunities and they are doing so again currently.

Exhibit A. From a sector level perspective, the weight in communications in the Russell 1000 Value nearly doubled year over year. Benchmark reconstitution has in part resulted in Value*Plus* starting from an overweight position at the beginning of 2025 to being underweight by its end. Yet AT&T and Verizon, the two largest voice and data providers in the United States, both declined in index standing to the point where their combined weight is less than a sixth of the overall sector. It strikes us as somewhat illogical that these two companies which are necessary to all of our nation's communications would now barely factor in this benchmark. Are the vast and exponentially growing AI data requirements not going to increase the value of such telecommunications networks? We believe so. In stark contrast to our primary benchmark's mechanical rationale, Value*Plus* currently finds both AT&T and Verizon to offer a combination of valuation and fundamental attraction. To put in perspective, at current price levels, Verizon shares provide us with nearly 7% in dividend income. Over the next year, we believe the company could modestly improve earnings on a normal basis. The combination of these would result in an attractive total return without making any heroic assumptions, for which we are currently paying under ten times earnings. We are happy to allocate resources to Verizon at a time when its relevance is under-estimated.

Verizon is but one example of our expanding opportunity set due to non-fundamental factors. Hershey's, Nike, Diageo, and Becton Dickinson are all examples of recent additions (or increases in the case of Hershey's) whose relative underperformance has resulted in us initiating positions. While we do not ignore that these companies are currently experiencing profit shortfalls, their stocks have also under-performed due to the crowding out effect of the narrow market. Fundamentally speaking, Hershey's costs ballooned over the last couple of years due to increasing cocoa prices and volume challenges, Nike is attempting to correct distribution and product disappointments created by prior management, Diageo is facing volume challenges due to the post-Covid demand hangover, and Becton Dickinson has the misfortune of being included in the healthcare sector.

Exhibit B. In a similar vein of non-fundamental factors driving opportunities for Value*Plus*, the healthcare weight in the Russell 1000 Value declined by 15% year-over year, from roughly 14% to 12%. The decline in benchmark representation is in stark contrast to healthcare's importance in our economy. Increasing prices and ageing demographics provide inescapably growing utilization and demand. Healthcare spending represents approximately 18% of our economy with the likelihood of it increasing over the next few years. Yet those realities are not sufficient to prevent the crowding out effect of healthcare in today's concentrated markets. Given these circumstances, it should strike no one as surprising that we are thoughtfully adding to our healthcare exposure. Becton Dickinson offers a similar example to that of Verizon in that it delivers a combination of valuation and fundamental attraction. As a separate point, and not dissimilar to the telecommunications example, benchmarks have altered our relative exposure. At the beginning of 2025 our overall healthcare weight was generally in line with that of the Russell 1000 Value. As we write this letter today, Value*Plus* has become overweight as a result of the benchmark mechanically reducing exposure while we fundamentally add to ours.

It also surprises us somewhat that a large cap value benchmark, the Russell 1000 Value, would add to its technology weight at this point in time, along with Meta and Alphabet which fall under communications and Amazon which falls under consumer discretionary, all the while reducing its interest sensitive exposure such as Utilities and REITs. In fact, all sectors in the Russell 1000 Value declined in weight in order to make room for "Mag 7" exposure. Indeed, the only sectors that increased year-over-year were communications, technology and consumer discretionary. Not surprisingly, during the quarter, the largest source of Value*Plus'* under-performance versus the Russell 1000 Value came precisely from these three sectors.

From a stock specific standpoint, the largest detractors to relative returns included Kontoor Brands, AT&T, Dentsply Sirona and NetApp while the largest contributors included RTX, Citigroup, Cardinal Health and Merck.

We initiated positions in Graphic Packaging and Verizon during the quarter, adding to this year's earlier initiations of Nike, Becton Dickinson, and Diageo. We also added to Hershey's and Healthcare Realty Trust. With the exception of Nike, all recent additions are valued at fractions of the S&P 500. Graphic Packaging is priced below ten times prospective earnings while Becton and Diageo are priced between twelve and thirteen times. Their dividend yields at time of purchase are elevated due to the stock price declines rendering income production two to four times that of the overall market. Following a dividend cut which we anticipated and desired, the current dividend yield on Healthcare Realty Trust remains an attractive 5.7%. As we look out over our investment horizon, we expect all recent additions to grow their earnings power. We are more than pleased at the ability to purchase growing enterprises at incredibly attractive valuations that also provide us with generous income generation.

During the quarter we eliminated positions in Comcast, Molson Coors, and Air Lease following prior exits in Lear, Lowe's, Target, Schwab, and FedEx earlier in the year. Comcast and Coors were eliminated in favor of Verizon and Diageo, the

latter two which we believe demonstrate better risk-return equations; To our disappointment and gratification, disappointment because we held management in high regard and pleasure due to the returns we achieved as owners, Air Lease announced it was getting acquired, thereby eliminating any further upside. Schwab was eliminated as its return since our purchase two years ago far exceeded our expectations.

As we enter a new year, overall market valuations appear stretched. That appearance does not, however, begin to tell the difference between a few richly valued stocks and many others which to us do not appear over-valued and are decidedly out of favor. It is in this latter category that we expend most, if not all, of our efforts. 2026 is already off to a busy year.

^ValuePlus strategy inception October 1, 1989.

Past performance is not indicative of future results. Performance for periods greater than one year is annualized. Returns are calculated using a time-weighted return and include the reinvestment of all income. Gross of fee performance is reduced by any transaction costs. Net of fee performance is further reduced by actual management fees. The securities identified are not a recommendation to buy or sell and do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable. The number of contributors versus detractors are loosely dependent on how the strategy performed versus its benchmark. Depending on how well the strategy did versus its benchmarks, the number of meaningful contributors or detractors will change from quarter to quarter. In general, if the strategy outperformed/underperformed its benchmark significantly, there will likely be a larger/smaller number of contributors than detractors. When only a small number of stocks are responsible for the majority of relative performance versus the benchmark the opposite may be the case. Any discussion of underlying stock specific returns is not to be relied upon as performance to achieve and only discussed as a means to communicate the strategy's performance relative to the market. The analysis and opinion expressed in this report are subject to change without notice. Any investment characteristics of individuals stocks presented are shown on a gross basis and do not reflect the deduction of management fees or other costs that investors have paid or would have paid. The deduction of fees and expenses reduces investment returns and would also affect the investment characteristics presented. The investments shown are provided as representative examples of SKBA's investment process and portfolio holdings. The criteria used to select the presented investments are the top and bottom contributors and the most recently added or removed holdings. Other investments held during the same period may have performed differently, including experiencing losses. Investment characteristics such as valuation metrics, dividend yields, market share, or other attributes are provided for informational purposes only and are not predictive of future performance or investment outcomes.