

SociallyResponsible Value Portfolio Review



During the recently ended quarter, net of fees, the SociallyResponsible Value composite under-performed the Morningstar Large Cap Value by 119 basis points and under-performed the S&P 500 Value by 123 basis points. The 1-year net of fee return on the composite was 6.4%; the 5-year net of fee return on the composite was 16.4%; and the 10-year net of fee return on the composite was 10.7%.

The SociallyResponsible strategy mostly kept up with the markets in yet another period of elevated returns in the third quarter of 2025. Much has been written about the administration's push to influence the Fed in lowering interest rates and to no big surprise interest rates and Artificial Intelligence (AI) mostly ruled investor's actions in the quarter. The current administration is going to continue on its path to influence every part of government and non-government that it can, limited only by what the courts will allow. Whether or not interest rates should be lowered is another question altogether. We understand the administration's motives for lowering borrowing costs, which are very similar to its motives to lower the price of oil and weaken the dollar, as they help blunt the impact from tariffs; however, lowering interest rates could have a very large impact on inflation should it aid in economic growth as it adds a layer of uncertainty which doesn't seem priced in. There are many other factors at play that this administration is involved in—like its role in conflicts around the globe, health care, and immigration to name a few—that the investing landscape seems more uncertain now than it was just a short year ago. Similar to what we wrote last quarter, however, our job is to sift through the noise and focus on owning quality companies with responsible profiles at a discount. Companies with leading industry positions, high relative profit margins and valuations less than their peers are the type we seek. With equity markets' seemingly relentless focus on anything AI related, ignoring much of the rest of the market and potential outcomes from the administration's many initiatives, we continue to see opportunities in many overlooked companies.

Kenvue provides a vivid example of the uncertainty this administration presents. With the Department of Health and Human Services' (HHS) announcement linking Tylenol to autism, we can see how the administration can directly influence the price of some stocks as Kenvue, the maker of Tylenol, dropped over 20% following the announcement. That Tylenol represents only ten percent or so of the company's overall profit hasn't seemed to matter. That there have not been any meaningful studies concluding that acetaminophen causes autism has not mattered either. As we're well aware, the market at times of uncertainty tends to shoot first and ask questions later and it seems as though this is the case with Kenvue. As investors, however, we do need to be careful in our assessment of risk. Even though causality is difficult to prove, certain likely correlations probably shouldn't be overlooked. In addition, the government can easily influence outcomes with individual stocks, industries and even sectors. One only has to look back to the financial crisis in 2007/2008 to see how government intervention can play a massive role in financial market outcomes. One potential motive for linking Tylenol specifically (not just acetaminophen) to autism could relate to the dismissal of a lawsuit brought on by associates of the head of HHS against Kenvue in 2023 as appeals begin in October. Asking the administration to make statements that link Tylenol to autism could influence the appeals process which can benefit associates of the HHS. The likelihood of this occurring is small however since court appeals tend to rely on "new information" to award an appeal and nothing new was provided with the public announcement. Yet, we need to be aware of these potential outcomes, one of which is simply brand damage while another could potentially be a higher risk of lawsuits gaining traction against Kenvue. We did not purchase shares after the declines

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even though it seems to us that the market has overreacted temporarily to the announcement. We will continue to evaluate and may adjust the size of the position accordingly.

Holdings in consumer staples, mostly Kenvue, detracted from returns in the quarter despite our low relative weight aiding in returns as the sector was the worst performing sector in our benchmarks. Holdings in the energy and financial sectors also detracted from returns as lower interest rates can affect profitability for certain financial companies while lower commodity prices affected energy companies. In the financial sector, AIG and Corebridge both declined in the quarter as the market began to price in lower investment yields due to declining interest rates. Our investment thesis in both of these companies however does not rely on higher levels of investment income as both companies have very positive fundamental attributes beyond investment income improvement that we believe are not fully priced in. Offsetting some of the negative contribution from AIG and Corebridge was Interactive Broker's 24% increase in the quarter as this small independent broker continues to benefit from customer churn at competitors following large-scale mergers in the discount brokerage industry.

Holdings in the consumer discretionary, industrials and IT sectors mostly offset the negative contribution from consumer staples, energy, and financials. In consumer discretionary, the Genuine Parts Company and Kontoor Brands increased 15% and 21% respectively during the quarter. Kontoor Brands has been a top holding for a number of years as this very well-run company continues to manage its brands well despite what has been a very difficult retail environment. Kontoor, which manufactures and sells Wrangler and Lee branded jeans, made its first acquisition during the quarter, Helly Hansen, since being spun out of V.F. Corporation in 2019. As previous owners of V.F. Corporation, we are familiar with the management team that built what once was a very profitable portfolio of brands. Yet at the time of the spin-off, we thought the high cash flow, steady end markets and low valuation of Kontoor made the choice easy. The fortunes for either company couldn't have been more different since the separation. Since then Kontoor's shares have more than doubled, while V.F. Corporation's shares have declined precipitously. The recent acquisition of Helly Hansen, a global outdoor and workwear company, seems like an excellent strategic and financial fit for Kontoor, as it will be immediately accretive and should help Kontoor expand all its brands internationally. We purchased additional shares of Kontoor in the quarter as its price declined with nearly every retailer reporting difficult conditions amidst a highly uncertain outlook. That its shares declined after announcing an accretive acquisition made no sense to us, enabling us to take advantage of the price weakness and subsequently rewarding us with a nearly 30% increase from our purchase price.

In the industrial sector, holdings in nVent and Cummins increased 35% and 30% respectively during the quarter. nVent continues to benefit from the data center build-out from the AI driven capex boom. While its valuation has increased from when we initiated the position a few years ago, at roughly 25 times next year's earnings it remains reasonable compared to the more namesake AI-related companies. We trimmed our position modestly in the quarter and will likely look to reduce it further should shares continue to climb. In the IT sector, holdings in Corning and Coherent, also AI capex beneficiaries, increased 56% and 21% respectively. We added to Coherent on weakness during the quarter, which was quickly rewarded as shares climbed past \$100/share and we modestly reduced Corning on price strength. We continue to hold modest positions in each company despite the higher relative valuations, yet are likely to be more cautious around our holdings should this AI capex boom slow down.

We also added to shares in Healthcare Realty Trust after management cut the dividend. We had been anticipating a dividend cut as its payout was unsustainable and was constraining the company from making improvements to its properties. Investing in companies at risk of a dividend cut is not the norm for this strategy, however, there are times when we believe that a dividend cut of a certain magnitude is already priced in AND that the cut improves its business prospects going forward. In contrast, a surprise dividend cut often reveals that a company has more problems than the markets anticipated which would likely be met with a swift decline in the price of its shares. We did not believe that would be the case and the shares increased 15% in the quarter after announcing the dividend cut.

The market seems to be focusing solely on the now as anything AI related continues to drive the broad market to new highs despite the growing uncertainty for the U.S. and global economy going forward. We continue to view this with increasing

caution as the market cannot continue to make new highs forever. Thankfully, this “singular” focus on AI related companies has allowed us the opportunity to own attractive companies at even better prices for the SociallyResponsible clients and shareholders. We will continue to do as we always have, taking what comes our way in a disciplined and consistent manner in an effort to provide attractive risk-adjusted returns.

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.