Socially*Responsible* Value Portfolio Review

During the recently ended quarter, net of fees, the SociallyResponsible Value composite under-performed the Morningstar Large Cap Value by 142 basis points and out-performed the S&P 500 Value by 91 basis points. The 1-year net of fee return on the composite was 9.4%; the 5-year net of fee return on the composite was 9.7%; and the 10-year net of fee return on the composite was 10.7%.

The one thing that remains clear in this environment is that increased levels of volatility will likely persist. As mentioned in the commentary, volatility is likely to permeate across inflation, the economy, politics and is likely to greatly affect financial markets as well. The S&P 500's roughly 4% decline in the first quarter is reflective of this volatility and, in our opinion, it could very well continue throughout the year. The Socially*Responsible* strategy outperformed the broad market during this volatility but it was not without it in some individual positions. Some of which are good, others not as much. The cumulative effect led to positive returns in an overall down market.

Holdings in the communication services, consumer discretionary, financial, and energy sectors contributed to the positive returns and were somewhat offset by holdings in information technology, health care, industrials and materials sectors. The strongest absolute contributors for both the value benchmark and the Socially*Responsible* sectors came from the energy sector. We have felt it to be a prudent decision to maintain some exposure to energy despite contrasting views among investors. The energy sector contribution to GDP is approximately 8% per year on average and in our opinion having no representation of such a large contribution to the economy unnecessarily narrows diversification opportunities. Carefully curated companies can provide a great benefit to the strategy without owning some of the more egregious environmental offenders. Companies like Texas Pacific Land Corporation, which is a real estate holding company that leases its property to a number of different companies, most of which are in the energy sector, but not all. In fact, Texas Pacific was the top performing company in the strategy but not for reasons that one might expect for a company represented in the energy sector. Most of its approximate 65% return in the first quarter came before the increases in the price of oil as investors recognized that Texas Pacific is opening up its land for data centers collocated near energy sources with both energy and water rights, ideal for the current boom in the building out of data centers. One of the companies that has already announced a deal with Texas Pacific is Bolt, co-founded by Eric Schmidt, former CEO and chairman of Google, which shows the promise and desirability of operating data centers on land with abundant energy and water resources.

In the communication sector, AT&T, a new holding for the quarter, and Verizon helped generate positive returns despite negative benchmark contribution. Both companies languished last year as the Artificial Intelligence frenzy left these "boring" companies behind, yet what investors don't realize is that without these companies, the A.I. boom has no legs to stand on. It is the primary business function of these communication companies to spend billions of dollars building out the networks that enable A.I. to reach the masses. Without the network, there is no A.I. boom and we feel that investors are underestimating the value of the carrier's network. Verizon, which was initiated in the quarter, has a dividend yield in excess of 5% and is well covered by its earnings—a stable ballast for these volatile markets. Furthermore, its new CEO Dan Schulman announced plans to streamline the company by cutting costs and is going after lost market share from failed policies by its prior management. The market has already rewarded Verizon for some of these new initiatives and our position is therefore relatively small. Should Verizon experience a pull-back in the price of its shares we are likely to continue to build our position. Both AT&T and

Verizon contributed positively to returns in the quarter and we believe they are likely to continue to provide stability for the strategy in this volatile market.

Offsetting some of the positive contributions from the energy and communication services sectors were holdings in the IT sector. Adobe fell prey to the declines in the software industry as advances by A.I., particularly with Anthropic, spooked investors. One-by-one the different industries in software declined rapidly in the quarter with each new announcement. Our attraction to Adobe, however, is built upon its large user base of enterprise companies who use its software. We are often presented with opportunities to purchase entrenched companies with strong moats when investors fear competition will take away its advantage, yet investors often fail to recognize how difficult it is to replace entrenched enterprise IT. The market wrongly thought Apple OS would replace Windows in the enterprise and in the late 2000s Microsoft was selling at a massive discount. We view this as a similar opportunity, we do not believe A.I. can replace how ubiquitous the .pdf is in the enterprise, nor it's editing and compliance tools (which use A.I. already) for content generation. With these "irrational" fears about rapid decline in software companies' competitiveness we were able to purchase Adobe at a greater than 60% discount to its most recent peak. IBM was a victim of this "shoot first and ask questions later" mentality about A.I. competition in the quarter and it declined approximately 17% in the quarter. As with Adobe, we do not believe the market is behaving rationally about the ability of A.I. to displace entrenched enterprise IT companies and we are therefore maintaining our positions in these companies.

In the health care sector, our holdings in Avantor and Solventum were mostly responsible for the relative underperformance. Solventum, recently spun out of 3M, continues to transition into a stand-alone company. It recently completed the divestiture of its purification and filtration business which allowed it to pay down nearly 1/3 of its debt, while it temporarily carries higher costs (ERP, SKU rationalization) associated with its separation. The mixed results pressured the price of its shares in the quarter but we believe these to be temporary in nature and maintain our holdings in Solventum. Some of the weakness from Solventum and Avantor were offset by our holdings in Royal Philips, which we sold out of in the quarter. We have owned Royal Philips for a number of different holding periods over the years, each one of them were successful investments. In this latest iteration of our holdings the price of its shares nearly tripled from the initiation price and we exited the stock on strength, locking in an approximate 18% gain on the quarter.

With the proceeds from the exit of Royal Philips we initiated a position in Verizon and U.S. Bancorp and purchased shares in the Hershey Company, 3M, and Union Pacific. With the normalization of the yield curve in the bond market, banks in the U.S. are going to have one less headwind than they have previously whereby they pay out on the short-end of the curve and lend on the long-end. With a somewhat inverted yield curve, the spread they make on their lending and borrowing had compressed leading to earnings declines. Now that the curve is normalizing, banks can once again make more money on the spread, thus making them more attractive to own. U.S. Bancorp is one such bank, whose price had been depressed from complications with integrating an acquisition and spread compression. However, U.S. Bancorp has an excellent track record of conservative underwriting and we believe it can perform well during this market volatility. The Hershey Company's shares had been depressed due to an increase in the input costs for chocolate (cocoa and cocoa butter), yet similar to most agricultural cycles, an increase in price incentivizes farmer's to plant, leading to a decrease in price. Cocoa prices are now trading at 1/3 the price when we initiated the company, profitability for Hershey will commensurately follow.

One often overlooked effect of financial market volatility is the opportunity for value investors like us to continue to purchase undervalued companies. We will continue doing so, as we always have, should market volatility continue. Building a portfolio of companies that have been neglected by the market is, in our opinion, a great opportunity for investors in the Socially*Responsible* strategy.

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.*