2Q 2026
Socially*Responsible* Value Portfolio Review

During the recently ended quarter, net of fees, the SociallyResponsible Value composite out-performed the Morningstar Large Cap Value by 174 basis points and under-performed the S&P 500 Value by 126 basis points. The 1-year net of fee return on the composite was 13.79%; the 5-year net of fee return on the composite was 9.8%; and the 10-year net of fee return on the composite was 11.0%.

After the broad market decline in the first quarter, stocks rallied with a vengeance throughout the second. The S&P 500 climbed nearly 15% as the Nasdaq increased by roughly 25%. While returns of this magnitude are clearly remarkable, the likelihood that this should continue is, in our opinion, small. For now, however, with certain global conflicts apparently in the rear-view mirror for many investors, the Artificial Intelligence (A.I.) trade is in focus and seemingly everything A.I. related seems to push the indices to extremes. For example, in the quarter SanDisk, Micron, Intel, and Marvell all returned over 200%! As a result, the combined weight of these four companies went from roughly 2.5% to over 7% in the Russell 1000 Value, adding to the problem of narrow market leadership we have often discussed over the last several years. Changes such as these should draw a careful eye to investors' portfolios as it appears increasingly difficult for passive investors to have a truly diversified portfolio. As active value managers, our goal is to manage risk thoughtfully, which means that in periods of very robust returns such as we're seeing we may not keep up with the overall market, which was the case in the second quarter. We are pleased with returns of approximately 7% in the quarter, despite not holding many of the stocks responsible for the benchmark's returns.

The majority of the Socially*Responsible's* relative underperformance came from the IT sector. Despite the strategy's average returns in the IT sector of nearly 50%, it still didn't keep up with the benchmark returns of over 85%. In fact, the Socially*Responsible* strategy's holdings in NXP Semiconductors, NetApp, Cisco, Coherent, and Intel all returned greater than 40% with previously mentioned Intel returning over 200%. We don't expect returns like this to continue and we trimmed many of these positions on strength. Holdings in the financial, health care, and communication sectors account for most of the remainder of the relative underperformance. In health care, being overweight a generally weak performing sector did not help returns, nor did the lack of ownership in some of the more volatile health insurance companies, which outperformed in the sector.

In financials, holdings in Cboe Global Markets and CME Group, both exchange operators, are under pressure from the perception that unregulated or less regulated entities may be able to take market share from their products. During the quarter, the Commodity Futures Trading Commission (CFTC), approved a bitcoin perpetual futures contract that allows companies like Kalshi to offer perpetual futures bitcoin contracts in the U.S. for the first time. Furthermore, statements from companies like Kalshi point toward ambitions to offer perpetual futures in a number of other markets and asset classes that could potentially erode the market share of traditional exchanges like CME and Cboe. The market was quick to shoot first and ask questions later for the legacy exchanges, and while the threat to their market share is real, we believe a number of questions have yet to be answered that will inform investors how big the threat could be and what type of competitive response could be had. The biggest questions for us are first and foremost, which asset classes will companies like Kalshi be able to offer perpetual futures on, and how will they be regulated? Depending on whether the products are regulated like futures or like swaps, then the threats to the traditional exchanges are likely to differ. As the CME takes the CFTC to court, all of this is unknown at the moment but worth keeping a watchful eye on. We continue to hold our positions in the CME and Cboe.

As we've noted in the past, benchmarks have recently continued to add Mag7 or growth companies to value indices. The most recent changes at the end of the second quarter were to add even more. In the communications sector, Meta and Alphabet represented nearly 5% of the sector's overall 8% weight in the Russell 1000 Value benchmark and helped drive the benchmark returns positive, in what was a more difficult environment for traditional telecom companies, like holdings AT&T and Verizon. Both companies were top contributors in the first quarter but were affected by perceptions that competition may increase in the not-so-distant future as Comcast announced plans to spin-off its media business and to attempt to be more competitive against the telecom companies which have been taking its market share, while reports that SpaceX is considering a Starlink-branded mobile service raised concerns that it too could compete for market share. While market share gains may slow with more focused competition, both AT&T and Verizon offer premium dividend yields, modest valuations and sound business leaders which make these companies attractive from a total return perspective. Increased competition already seems priced in, yet we are a long way from fundamental changes to their business. If anything, with increased competition seemingly discounted, there could be upside to the shares should the threat not materialize.

Offsetting some of the relative underperformance in the quarter were holdings in the industrial, utilities, and energy sectors. In the industrial sector, holdings in nVent Electric and Cummins helped propel sector returns to over 22% in the quarter. nVent alone increased over 40% in the period while Cummins returned over 30%. Both companies participate in the A.I. data center build out and have seen their stock prices climb as a result. We have slowly been reducing exposure to these companies, however, as their valuations appear to no longer discount an adverse environment for their end-markets. In the utility sector, WEC Energy Group, the strategy's lone utility holding, generated positive returns, in what was a negative return environment for the benchmark's utilities.

As the price of oil moved lower throughout the quarter and speculation about the overseas conflicts grew quieter, energy companies underperformed. Energy was the worst sector in most benchmarks, yet holdings in the Socially*Responsible* strategy declined much less than the benchmark's holdings, helping offset the overall relative underperformance. In particular, Kinder Morgan, declined less than 4%, outperforming the benchmark's sector returns of down nearly 11%. Kinder Morgan's regulated business compares more like that of a utility, with the majority of its revenues generated from long-term contracts to companies like utilities. It is therefore no surprise that the company's shares would hold up better in an overall sector decline. As natural gas infrastructure continues to be developed with growing power generation needs, Kinder Morgan should be well positioned for years to come.

During the quarter we eliminated holdings in Avantor and Corebridge and initiated a position in Automatic Data Processing Inc (ADP). We exited Corebridge after it announced a merger with Equitable holdings. Both Corebridge and Equitable sell insurance and annuities, with a strong emphasis on the latter. We were familiar with Corebridge as it IPO'ed from long-term holding American International Group and liked its strong balance sheet relative to most annuity sellers. Corebridge had also steered clear of problems that persistently vexed annuity writers—variable annuities with guarantees. Selling mostly fixed annuities, a product that is much easier to match with assets and with no minimum guarantee problems like variable annuities, Corebride was a relatively safe and incredibly undervalued annuity writer at the time of its IPO. As things stand, however, since Equitable is one of the largest variable annuity writers, we made the decision to exit the remaining position prior to the merger. We don't see anything immediately distressing yet had already reduced our holdings after shares increased to our valuation targets and used the opportunity to redeploy proceeds elsewhere.

We initiated a position in Automatic Data Processing as its shares are depressed from perceived threats to its business model by A.I. It is our opinion that employers are highly unlikely to replace their human capital management systems using A.I. and that we are getting a market leader with very high returns on capital for a fraction of what we believe it is worth.

As we continue to evaluate opportunities like ADP, we remain cautious on the overall market as returns like those in the second quarter are not likely to be sustainable. The positive from any market fall out will undoubtedly be more opportunities for value investors like ourselves.

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