



## SociallyResponsible Value Portfolio Review

*During the recently ended quarter, net of fees, the SociallyResponsible Value composite under-performed the Morningstar Large Cap Value by 561 basis points and under-performed the S&P 500 Value by 421 basis points. The 1-year return on the composite was 5.6% (gross of fee) 4.8% (net of fee); the 5-year return on the composite was 10.8% (gross of fee) 10.0% (net of fee); and the 10-year return on the composite was 10.2% (gross of fee) 9.4% (net of fee).*

The rally in the second quarter of 2026 was followed by another increase in both the broad market and the value benchmarks in the third quarter. While a number of high-flying Artificial Intelligence stocks reversed some of the massive gains of the second quarter, the stock market's narrow advance mostly continued in the third. For the Russell 1000 Value, a "Value" benchmark, almost all of its positive return is explained by its top two holdings: Microsoft and Apple. These two stocks contributed roughly 2.2% of the benchmark's approximate 2.6% return, and adding Amazon and Meta would account for nearly 2.7% of positive return for the quarter. This means that the benchmark's return would have been negative if not for these mega-cap growth stocks masquerading in the value benchmark. It should also be noted that these four companies combined represent close to 20% of the benchmark.

One benefit of having managed a value strategy for 37 years is that we recognize that, in markets like these, keeping pace can mean taking on avoidable risk. While it may be difficult to "stomach" the relative gap in gains during ebullient markets like this, we nonetheless have the experience and discipline to know that eventually the risks will be priced in. Our clients and shareholders expect us to manage the risk-reward equation carefully, purchasing sound companies at attractive valuations, not to take on unpriced risk by chasing returns of overvalued stocks simply because of benchmark inclusion. Patience is a virtue to which we subscribe, however long or uncomfortable the wait may appear to be.

Looking at the portfolio from a sector-level perspective, the majority of the relative underperformance was due to holdings in the information technology sector, which was the largest contributor to returns for the benchmark and, as previously mentioned, explains all, if not more, of the positive return for the entire benchmark in the quarter. While returns were more subdued than in the second quarter, the average stock in the IT sector still returned nearly 13% this quarter. Annualizing this return would result in a nearly 60% return for the year in the IT sector, much lower than the annualized rate of return for the second quarter, but still an eye-popping number no matter how you look at it. Not owning Apple and Microsoft accounts for most, if not all the relative underperformance, but holdings in Coherent and IBM contributed to the relative underperformance as well. Coherent declined roughly 27% in the quarter yet is still up 56% for the year. IBM underperformed the market when it announced that clients are prioritizing budgets towards supply-constrained hardware and away from its mainframes. While the market would normally view this as a temporary effect, the concern is somewhat justified as software in general is perceived to be threatened by AI. We lowered the position earlier in the year when IBM benefitted from advancements in its quantum computing business and the market seemed to be pricing in more immediate benefits than we thought were likely. We continue to hold our position in IBM as now the risk/reward equation appears to be more balanced.

From a stock-level perspective, Kontoor Brands and Texas Pacific Land Corporation detracted the most from relative returns in the quarter. We have owned Kontoor for a long period of time and expect to own it for the foreseeable future as this well-

FOR YOUR INTENDED USE ONLY. PLEASE DO NOT REDISTRIBUTE OR REPRODUCE.

run, capital-light company continues to grow its earning power and the valuation remains attractive. The company is not well followed and has a smaller market capitalization than many in the large-cap space which often contributes to higher price volatility despite its steady cash flows. Earlier in the year, Kontoor announced the sale of its Lee brand jeans, not too long after it acquired Helly Hansen which aids in the transition towards a higher growth company. Authentic Brands Group agreed to acquire Lee jeans for \$750M, which could increase up to \$1B should the brand perform well according to the details of the sale contract. We believe this is more than a fair price, which Kontoor will use to retire shares and offset the dilution from the loss of Lee and will create a smaller company with higher growth potential while still maintaining the desirable cash flow characteristics we desire. We will continue to use the volatility to add to our position.

Relative outperformance in the quarter came from Becton Dickinson, NetApp, CME Group, and AT&T. Becton, CME, and AT&T are all top holdings in the *SociallyResponsible* strategy for varied reasons. All three companies are leaders in their respective industries with high barriers to entry, leading market share and sound fundamentals and combined with attractive valuations such that they warrant their ranking in the portfolio. NetApp stands apart from the group as it has been a beneficiary of a number of unique circumstances related to the AI-related data center build-out. As a hardware storage company with a great software stack to complement it, NetApp is a natural fit for AI inferencing which requires massive increases in storage capabilities. The first wave of the build-out benefitted mostly the inexpensive and relatively easy to install legacy disk-drive manufacturers like Seagate and Western Digital. However, as more demand is being put on newer AI models to inference at higher rates with higher utilization, storage and software specialization companies' products are increasingly being employed. This, combined with hardware shortages, has led to unprecedented demand for NetApp's offerings, which has helped nearly double the price of its shares this year. While we appreciate NetApp's strong management team, margin profile and leading market share, much of what NetApp is experiencing this year in terms of demand is, to us, likely to be a temporary effect. As such, while we have maintained and even added to our holdings in Becton, CME, and AT&T, we have trimmed our holdings in NetApp.

During the quarter we initiated positions in Pool Corporation and Avery Dennison while eliminating our holding in Graphic Packaging. Pool Corporation is the nation's largest wholesale distributor of swimming pool and related backyard products and one of the only national wholesale distributors focused on the swimming pool industry. It has strong returns on capital and leading market share, yet its shares have declined over the past number of years as housing starts and related pool builds have declined. That, combined with a cyclical trough subsequent to the surge in backyard activities in the Covid years has caused a decline in both its fundamentals and its valuation. However, nearly 65% of its revenues are related to maintenance which tend to be recurring in nature and slightly over 20% of its revenues are related to remodeling, renovations and upgrades which suggest that less than 15% of its revenues are exposed to new pool construction. With a strong recurring revenue base and leading market position, we believe that the market is putting a higher likelihood on a continuation of declining fundamentals than what is actually warranted, thus providing us with an opportunity to own an industry-leading company at a discount. Additionally, due to the mostly recurring nature of its revenues we do not think that a turnaround in new-builds is necessary to support an increase in the shares of Pool Corp.

Similar to Pool Corp and many other *SociallyResponsible's* holdings, Avery Dennison is a leader in its industry, with high returns on capital and attractive growth prospects that we don't believe are fully priced in. Due to recent levels of high inflation and associated cost increases, Avery's fundamentals have been more volatile than usual over the last several years. However, over the long run, the industries it participates in have proven to grow faster than GDP while Avery continues to increase earnings with scale. These positive attributes, combined with a relatively attractive valuation, made the decision to eliminate Graphic Packaging an easy one. In comparison, Avery has a better balance sheet, industry rank, returns on capital and capital allocation capabilities than Graphic Packaging, and we consider this swap as a continuation of our ability to increase the quality and profile of companies in the *SociallyResponsible* strategy.

We continue to find opportunities in the market to add to the quality and valuation attractiveness of the *SociallyResponsible*

strategy during these narrowly focused markets. As previously mentioned, having managed a value strategy for nearly four decades we refuse to take on unnecessary and unpriced risk. While the markets and benchmarks keep pressing on in this narrow fashion, our experience and disciplined investing process will continue to both find new opportunities and attempt to avoid pitfalls. Patience will continue to be a virtue to which we subscribe, however long it may take.

---

*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 and does not reflect the deduction of fees. The analysis and opinion expressed in this report are subject to change without notice. Any investment characteristics of individual 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.*