

LARGE CAP FUNDAMENTAL VALUE

MARKET COMMENTARY

The S&P 500 Index returned +10.9% in the second quarter of 2025 in one of the more volatile quarters in recent memory. Following the so-called “liberation day” tariff announcement on April 2nd, the index cratered more than -12% over four trading days. The market bottomed on April 8th. The S&P 500 was down -15% for the year at that point, before returning nearly +25% over the next ~11 weeks to finish the quarter at an all-time high. This was the fastest recovery from a -15% drawdown ever recorded in the history of the S&P 500¹. This serves as a reminder that patience is not just a preference in successful investing, it is a requirement. Since 1930, the S&P 500's price return is more than +23,000%. Excluding the 10 best days every decade, its return would be about +70%².

The primary reason for the recovery seems to be that the market believes tariffs will be less draconian than they appeared originally. Equities rallied when the Administration showed an openness to negotiate down and/or delay the implementation of tariffs. Corporate earnings also helped boost the recovery, with nearly 80% of S&P 500 companies beating consensus expectations, by an average margin of nearly 13%.

The market's performance leadership was quite concentrated in the quarter. The S&P 500's 8 largest contributors³ were up an average of +33% and sourced 75% of the market's return. The index would have returned closer to +3% in the quarter excluding these 8. Momentum strategies/factors performed well in the quarter. The Russell 1000 Growth Index significantly outperformed the Russell 1000 Value Index in the quarter (+18% vs. +4%), unsurprising considering these stocks comprise nearly half the growth index and just 5% of the value index. Both indices are now up +6% year-to-date, though growth's path has been more volatile.

The S&P 500 information technology and communication services sectors outperformed other sectors significantly in the quarter, returning +24% and +18%, respectively. Earnings were solid, tariff expectations were tempered, and AI enthusiasm/euphoria resurfaced. Energy and healthcare significantly underperformed, declining -9% and -7%, respectively. WTI crude prices declined -9% in the quarter. Crude prices spiked for a brief period intra-quarter amid the Iran-Israel conflict but retreated following a ceasefire. The decline in healthcare was broad but disproportionately driven by health insurers. Several stocks sold off following lowered (or removed) guidance due to policy/regulatory uncertainty, particularly with respect to Medicare and Medicaid.

Despite the portfolio's underperformance in the quarter, nearly 90% of its holdings exceeded consensus earnings expectations. The portfolio's price-to-earnings ratio is slightly below its long-term average, using either consensus earnings or our own estimate of normal earnings. We are not, however, “reaching” for value. We are willing to pay higher multiples for quality businesses that are well capitalized and well managed. Our largest holding is F5 Inc., which trades at 16x normal earnings and is not a prototypical value stock. Its fair value multiple is much higher, in our view, because the company grows faster than GDP, has a very sticky customer base, a net cash balance sheet, and is managed in a reasonably shareholder-friendly manner.

Meanwhile, passive alternatives trade at valuation multiples above their historical averages. The value index trades at a meaningful premium to its own historical average, while the growth index trades near an all-time high. We believe this reflects a valuation dichotomy that will benefit active investors focused on long-term fundamentals and valuation. We cannot predict with confidence when this benefit will occur. We are confident that it will occur, however, and that patience will again be rewarded.

ATTRIBUTION ANALYSIS – 2Q25

The Large Cap Fundamental Value portfolio underperformed the Russell 1000 Value Index in the second quarter of 2025 (gross and net of management fees). Industrials and energy were the largest detractors in the quarter. Industrials was the second best performing sector for the index (technology was best), so the underweight position hurt. Stock selection was also negative, largely because we had little exposure to some of the strongest performing industries within industrials, like electrical equipment and aerospace & defense. Energy was the second worst performing sector for the index (healthcare was worst), so the overweight position hurt. WTI crude prices fell about 9% in the quarter, which hurt our exposure to both E&Ps as well as oilfield service companies. Positive stock selection in financials helped relative performance in the quarter. Banks performed well, so our overweight position helped. Positive stock selection in financial services was also meaningfully positive. Positive stock selection in healthcare also helped performance, as the portfolio's positions held up considerably better than the index's healthcare stocks.

(continued)

As of 6/30/25, net of fee composite and Russell 1000 Value performance for 1-, 5-, and 10-year period: 10.28%, 17.79%, 9.97% and 13.70%, 13.93%, 9.19%, respectively. Net performance results are presented after management fees and all trading expenses but before custodial fees; the composite includes all Large Cap Fundamental Value discretionary accounts. Additional disclosures provided in Endnotes.

¹Source: Strategas, Dow Jones Market Data

²Source: BofA US Equity & Quant Strategy, Bloomberg

³In order of contribution: Nvidia, Microsoft, Broadcom, Meta, Amazon, Alphabet, Netflix, Tesla

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LARGEST INDIVIDUAL CONTRIBUTORS – 2Q25

UnitedHealth Group (UNH) is the largest health insurer, with the #1 share in commercial health insurance and Medicare Advantage. It has small share but still significant exposure to Medicaid. Until very recently, UNH traded at a material premium to its peers, reflecting its status as a premium growth stock with momentum. However, recent negative headlines, combined with the first earnings miss in 10 years, resulted in a >50% selloff in the company's shares, providing an opportunity to enter the name at a very compelling valuation. We believe recent events are not material to the earnings power and growth potential of UNH. At 10x normal earnings, UNH is priced at a significant discount to the market. However, being the largest player in a business with scale advantages, and the ability to invest at high returns, we believe UNH continues to be a compelling business.

Citigroup (C) is one of the largest US banks by total assets. Investment in its IT, compliance and risk capabilities have pressured margins and returns over recent years, obscuring the banks strong core franchise. With these investments now largely complete we expect Citi's expense to decline and its margins and returns to be more consistent with peers. Citigroup performed well in the quarter on improved profitability and positive operating leverage. We think that C is very undervalued on our normal expectations and would still be attractive even if they do not fully achieve their goals.

F5 Inc. (FFIV) sells application networking and security software and data center appliances, where it has 50%+ market share in traditional ADCs (application delivery controllers) along with various multicloud networking and application security products. Demand for F5's products grows faster than GDP, products are critical to the functioning of applications resulting in highly sticky customer relationships, and ~75% of annual revenue is recurring. F5 posted another good quarterly earnings report and raised revenue and EPS guidance for the full year. We continue to believe the company is misunderstood and gets incorrectly classified as a legacy IT hardware vendor, resulting in an attractive valuation. Strong free cash flow generation and a net cash balance sheet provide downside protection. Capital allocation has improved significantly in recent years and management has committed to returning at least 50% of FCF to shareholders.

LARGEST INDIVIDUAL DETRACTORS – 2Q25

APA Corp. (APA) is an independent E&P operating offshore in Midland and Delaware basins in the Permian and onshore Egypt. The company has lucrative financial contracts that allow it to generate significant FCF from differentials in natural gas prices. Investing in this company provides exposure to an energy market that was underearning versus normal levels of profitability and is currently generating significant FCF in what could be a perennially undersupplied market. Stock performance continued to be pressured throughout the quarter, driven by worries surrounding OPEC+ barrels returning to the market, coupled with slowing demand. We believe that APA is misunderstood as investors are focusing on relatively shorter resource life in the Permian without factoring reinvestment opportunities in Suriname, Egypt, and potentially Alaska.

NOV Inc. (NOV) is a leading diversified provider of oilfield capital equipment, consumables and services. The downturn in energy prices has reduced oilfield activity below sustainable levels, hurting NOV's sales and profitability. As activity rebounds, the majority of NOV's product lines should experience increases in volumes and pricing, while longer-term, the earnings power of Rig Aftermarket business should also improve given a large installed base. A newbuild rig cycle – whether onshore or offshore – would provide upside to our normal estimates.

Elevance Health Inc. (ELV) is a large health insurer. The company's shares have been under pressure due to concerns around Medicaid utilization trends and Medicare Advantage margins. We believe that these headwinds will be temporary. ELV is priced at a discount to the market; however, it is a compelling business, growing faster than GDP while still returning most of its cash to shareholders.

The specific investments shown are for informational purposes only and represent the top contributors and detractors for the relevant performance time period. The selection criteria used to determine the top contributors and detractors remains the same across performance measurement periods; additional disclosures provided in Endnotes. **Past performance is no guarantee of future results.**

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Endnotes:

All investments contain risk and may lose value. This commentary is for general information only and should not be relied on for investment advice or recommendation of any particular security, strategy, or investment product.

Portfolio characteristics and attribution are based on a representative Large Cap Fundamental Value portfolio. Attribution is an analysis of the portfolio's gross of fee returns relative to the index, is calculated using daily holdings information and does not reflect management fees and other transaction costs and expenses; interaction effect is combined with stock selection. Returns can differ from certain client portfolio(s) due to data differences, cash flows, trading, and other activity.

Specific securities identified are the three largest contributors (or detractors) to the portfolio's performance, relative to the index. Other securities may have been the best and worst performers on an absolute basis. There is no assurance that the securities discussed will remain in the portfolio or that securities sold have not been repurchased. The securities discussed do not represent the entire portfolio, may only represent a small portion of the portfolio and should not assume the securities discussed were or will be profitable or that recommendations made in the future will be profitable or will equal the performance of the securities discussed. H&W's opinions regarding these securities are subject to change at any time, for any reason, without notice. Certain client portfolio(s) may or may not hold the securities discussed due to each account's guideline restrictions and other relevant considerations.

The value discipline used in managing accounts in the Large Cap Fundamental Value strategy may prevent or limit investment in major stocks in the Russell 1000 Value and returns may not be correlated to the index. Composite performance is available at www.hwcm.com, located on the strategy's Performance tab along with important disclosures included in the strategy's [GIPS Report](#); quarterly characteristics and portfolio holdings are located on the Portfolio and Literature tabs. For a list showing every holding's contribution to the overall account's performance and portfolio activity for a given time period, contact H&W at Hotchkisandwiley@hwcm.com. Portfolio information is subject to the firm's portfolio holdings disclosure policy.

The Russell 1000® Value Index measures the performance of those Russell 1000® companies with lower price-to-book ratios and lower forecasted growth values. The Russell 1000® Growth Index measures the performance of those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values. The S&P 500® Index is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. Any indices and other financial benchmarks shown are provided for illustrative purposes only, are unmanaged, reflect reinvestment of income and dividends and do not reflect the impact of advisory fees. It is not possible to invest directly in an index.

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Equity securities may have greater risks and price volatility than U.S. Treasuries and bonds, where the price of these securities may decline due to various company, industry and market factors. Investing in foreign as well as emerging markets involves additional risk such as greater volatility, political, economic, and currency risks and differences in accounting methods. Investment risk disclosures for the firm's strategies are described in Part 2A of Form ADV of H&W.

A value-oriented investment approach involves the risk that value stocks may remain undervalued or may not appreciate in value as anticipated. Value stocks can perform differently from the market as a whole or from other types of stocks and may be out of favor with investors and underperform growth stocks for varying periods of time.

Information contained in this material may represent or be based on forward-looking statements. Due to various risks and uncertainties, actual events/results or performance of the strategy may differ materially from those reflected or contemplated in such forward-looking statements. Information based on forecasts, proprietary or third-party estimates cannot be guaranteed and are subject to change. Information obtained from independent sources is considered reliable, but H&W cannot guarantee its accuracy or completeness.

Portfolio managers' opinions and data included in this commentary are as of June 30, 2025. Any discussion or view of a security, an asset class/segment, industry/sector and/or investment type are not investment recommendations, should not be assumed to be profitable, and are subject to change without notice. **Past performance is no guarantee of future results.**