

LARGE CAP FUNDAMENTAL VALUE

MARKET COMMENTARY

The S&P 500 Index returned +8.1% in the third quarter of 2025, closing the period near all-time highs. Technology and communication services led the broad large cap market, small caps outperformed large caps, and gold was up 17%, closing the period at an all time high. It is unusual for this trio to perform well over the same period, though the current economic and political landscapes are also unusual. The consumer discretionary sector was the only other to outperform the broad market, i.e., leadership was again quite narrow. Excluding the Magnificent 7, the S&P 500 would have returned just +3.1% in the quarter. Eight of the eleven S&P 500 GICS sectors lagged the index return, with consumer staples being the only sector to post a negative return. Real estate, materials, and financials were next biggest laggards, though each was modestly positive.

Inflation remains closer to 3% rather than the Fed's stated long-term target of 2%, but it has been relatively steady over the past few quarters. Persistent signs that inflation is not reaccelerating, combined with indications of a softening labor market, prompted the Federal Open Market Committee to cut its Fed Funds target rate by 0.25% to 4.25% (upper bound). The futures market suggests that another 0.25% cut in October is a near certainty, and an additional 0.25% cut in December is probable. The market's increasingly dovish interest rate outlook buoyed equities. Corporate earnings also provided support. More than 80% of S&P 500 companies beat consensus earnings estimates in the latest quarter, by an average magnitude of 12%. The portfolio's company results were slightly better, with 84% reporting positive surprises by an average margin of 14%.

Our view is that the S&P 500 is fully valued, if not overvalued. It trades at 25x next year's consensus estimates, which puts it in the 96th percentile since the early 1990s. It has only been higher during the dot.com bubble of the late 1990s, and for a very brief period in 2020 when consensus earnings cratered due to COVID. This equates to a paltry 4% earnings yield, which is about the same as the yield on the 10-year treasury note. Excluding the Magnificent 7, it trades for slightly under 21x, which would represent the 77th percentile over that same period. Excluding Tesla, whose valuation we find perplexing, we recognize that the investment case for the Magnificent 7 is

more reasonable than it was for the internet stocks of yesteryear. Growth, margins, and returns on equity have been impressive at such a scale. The quality of the businesses and strength of the balance sheets are also good. Corporate governance is mixed depending on the company. For the most part, we believe they are the kinds of businesses we would like to own, just not when there is no margin of safety because they are priced for perfection¹.

Fortunately, some segments of the equity market remain attractive. The portfolio trades at less than 13x consensus earnings and a little more than 9x our estimate of normal earnings. This is in line with the portfolio's own historical average, which is notable considering broad market's elevated valuation. Despite the portfolio's valuation advantage, it exhibits attractive and improving risk characteristics. Our 5 largest stock sales year-to-date had average Fundamental Risk Ratings of 2.4, 2.9, and 2.4 for Balance Sheet, Business Quality, and Governance, respectively². Each of these stocks performed well. Our 5 largest stock purchases had average Fundamental Risk Ratings of 1.4, 1.9, and 2.4, respectively, resulting in a meaningful improvement in the portfolio's balance sheet and quality ratings (no change for governance). Part of this was due to a ~5 percentage point reduction in financials, which have performed well, and where we are now underweight the benchmark for the first time in a while. Simply put, we are optimistic about the risk/return prospects of the portfolio, irrespective of market direction or temperament, particularly compared to richly valued passive alternatives.

ATTRIBUTION ANALYSIS – 3Q25

The Large Cap Fundamental Value portfolio outperformed the Russell 1000 Value Index in the third quarter of 2025 (gross and net of management fees). Positive stock selection accounted for about 85% of the outperformance with sector allocation comprising the balance. Stock selection was most positive in energy, particularly in exploration & production companies. Stock selection was also strong in consumer discretionary. Our modest exposure to the sector is all auto-related and returned +25% in the quarter. The underweight exposure to consumer staples and overweight exposure to technology were modest positive contributors. Stock selection in healthcare, communication services, and consumer staples were slight detractors.

(continued)

As of 9/30/25, net of fee composite and Russell 1000 Value performance for 1-, 5-, and 10-year period: 12.39%, 19.26%, 12.14% and 9.44%, 13.88%, 10.72%, 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.

¹Our lone Magnificent 7 exposure is to Alphabet, which meets these same general criteria but trades at a discount to the broad market.

²Our Fundamental Risk Ratings score each company on these 3 pillars 1 to 5, with 1 being best.

Past performance is no guarantee of future results.



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LARGEST INDIVIDUAL CONTRIBUTORS – 3Q25

APA Corp. (APA) is an independent Exploration and Production company operating offshore in Midland and Delaware basins in the Permian and onshore Egypt. Stock performance improved in Q3 following a positive earnings report. We continue to 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. APA has lucrative financial contracts that allow it to generate significant free cash flow from differentials in natural gas prices between the Permian (Waha), the Houston Ship Channel, Henry Hub and for global liquefied natural gas.

Warner Bros. Discovery (WBD) is one of the largest TV networks and production companies in the world. WBD's Discovery and Turner networks form one of the largest US TV businesses by hours viewed with ~20% audience share. A combination of better earnings and potential takeover bid by Paramount Skydance helped boost the WBD shares during the quarter. While there are potential synergies created by the Paramount deal, we will continue to review WBD carefully for any regulatory or structural challenges.

Cummins, Inc. (CMI) manufactures diesel, natural gas, electric and hydrogen propulsion systems, and related components for on- and off-road, marine, and adjacent applications used in transportation, energy, mining, and related industries. CMI shares rose in the quarter following strong Q2 earnings. We like Cummins' conservatively levered balance sheet, its growing and lucrative JV arrangements, and its commitment to returning cash to shareholders.

LARGEST INDIVIDUAL DETRACTORS – 3Q25

WPP PLC (WPP LN) is one of the world's largest ad agency holding companies. WPP shares came under pressure on lower-than-expected revenue growth. WPP delivered disappointing Q2 earnings results that weighed on the Company's shares. WPP introduced a new CEO during the quarter who brings a wealth of experience in digital transformation and artificial intelligence that are seen as key assets for the Company's turnaround plans. Trading at a low multiple of consensus earnings with a good balance sheet, we believe the Company can deliver near mid-teens returns from the combination of capital return and capital-free organic growth.

Comcast's (CMCSA) cable business is one of the largest wireline telecom service providers in the US. Comcast also owns the NBCU media conglomerate and Sky European Pay TV business. The Company's shares fell during the quarter on concerns of slowing growth in its broadband business. We expect wireless growth and modest Broadband pricing to drive net income growth that turns into strong earnings per share growth after capital return. Therefore, we believe that Comcast's price does not fully reflect the telecom business's growth from broadband pricing and share gain in the wireless market.

Elevance Health, Inc. (ELV US) 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 superior 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. The representative portfolio is used for informational purposes only, does not predict future portfolio characteristics, and may differ from other portfolios in the strategy due to asset size, client guidelines, and other variables. H&W selected the representative portfolio based on non-performance criteria. The portfolio reflects the management style of the strategy, is part of the strategy's composite, and has the longest continuous duration under the Adviser's discretion. Selection of the representative portfolio considers one or more of the following factors, such as the portfolio's investment guidelines/restrictions, cash flow activity, or continuous duration under the Adviser's discretion. The largest stock purchases represent the largest net purchases of a security (total purchases minus total sales) and largest stock sales represent the largest net sales of a security (total sales minus total purchases). The representative portfolio did not utilize a third-party cash management process and calculations include both target and cash (contributions/withdrawals) trades.

Attribution is an analysis of a portfolio's gross of fee returns (without the deduction of fees and expenses) relative to the Index. Bloomberg calculates returns using daily holdings information. Returns calculated using this buy-and-hold methodology can differ from actual client portfolio returns due to data differences, cash flows, trading, and other activity (report is generated at a point in time and will not include any adjustments thereafter). Sector performance only covers the subset of investments specific to that sector. Analysis for different time periods and/or market environments can result in significantly different results.

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 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.

Russell Investment Group is the source and owner of the Russell Index data contained herein (and all trademarks related thereto), which may not be redistributed. The information herein is not approved by Russell. H&W and Russell sectors are based on the Global Industry Classification Standard (GICS) by MSCI and S&P.

The Magnificent Seven represents Meta, Alphabet, Tesla, Nvidia, Apple, Amazon, and Microsoft; Global Industry Classification Standard (GICS) is a system for categorizing every public company by economic sector and industry group; Federal Open Market Committee directs open market operations in the United States and is made up of 12 members; Free Cash Flow is the amount of cash that a company has left after accounting for spending on operations and capital asset maintenance; Earnings Per Share is the portion of a company's profit allocated to each outstanding share of common stock, serving as a profitability indicator; and Liquefied Natural Gas is natural gas that has been cooled to liquid form for ease and safety of non-pressurized storage or transport.

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. 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. Principal Risks Disclosure for the firm's strategies are described in Part 2A of Form ADV of H&W (www.hwcm.com/wp-content/uploads/2025/07/HW-Principal-Risks-Disclosure-July-2025.pdf).

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. Data source: H&W, Russell, Bloomberg.

Portfolio managers' opinions and data included in this commentary are as of September 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.