MID-CAP VALUE

MARKET COMMENTARY

US mid cap stocks roared in the aftermath of the US Presidential elections as investors focused on the benefits of de-regulation, lower US corporate taxes, re-shoring of supply chains to the US, and a general sense that the US economy was set for accelerating growth. Unfortunately, the mood darkened in the first quarter of 2025. The prospect of tariffs and the potential for near-term pain, persistently high inflation, and weakening macroeconomic factors have shifted investor sentiment from optimism to concern about a potential recession. Given this backdrop, the Russell Midcap Index declined -3.4% in the first quarter of 2025. By comparison, the Russell Midcap Value Index declined -2.1% vs. a decline of -7.1% for the Russell Midcap Growth Index.

It is during these periods uncertainty that we see the greatest displacement of stock valuations from the intrinsic values of companies, providing opportunities for value focused investors who have done their homework to generate long term performance. The portfolio trades at 6x our estimate of normal earnings, which is slightly below its historical average. The Russell Midcap Value, Index however, trades at about 16x normal earnings, while the Russell Midcap Growth Index, even after this quarter's correction, trades at 28x normal. The portfolio exhibits a ~11% earnings yield, an attractive valuation, particularly considering the broad market's frothy price multiples. Valuation advantages can often be achieved by assuming outsized risks, but this is not something we are willing to do. Over the past several years, the portfolio's Fundamental Risk Ratings have remained steady in the face of high market multiples. The portfolio's return-on-equity, an imperfect though reasonable yardstick for quality, has also been consistent in the mid-teens. We believe the overall balance of valuation/upside relative to risk is attractive.

Ben Graham referred to the stock market as a voting machine in the short-term and weighing machine in the long-term. Eventually stock prices begin to reflect the underlying businesses' fundamentals. The stock market favorites of recent years are likely to reflect more realistic projections rather than be priced for perfection. Conversely, shunned companies operating in very good though perhaps less captivating businesses, are likely to be better appreciated for their true earnings power. Put another way, fundamentals should drive the market. We believe such an environment, which could already be underway, would be very conducive to our investment approach.

ATTRIBUTION ANALYSIS – 1Q25

The Mid-Cap Value portfolio underperformed the Russell Midcap Value Index in the first quarter of 2025 (gross and net of management fees). Stock selection in energy detracted the most from relative performance in the quarter. Stock selection in consumer discretionary, materials, and communication services also detracted. Conversely, stock selection in healthcare and technology contributed positively to relative performance. Stock selection in financials also worked well.

LARGEST INDIVIDUAL CONTRIBUTORS – 1Q25

American International Group Inc. (AIG) is a leading commercial insurance company, providing property-casualty insurance, life insurance, and risk management products. Over the quarter, shares of AIG rose after the insurer authorized the repurchase of $7.5 bn of common stock and announced an ambitious 2025-2027 growth target for operating earnings per share (EPS). We believe AIG is poised for further improvements in operating performance. AIG has an improving return on equity and good management that is committed to smart allocation of its excess capital, which its current valuation does not fully reflect.

CVS Health Corp. (CVS) is a diversified healthcare company operating as a Pharmacy Benefits Manager (PBM), health insurer, and retail stores and pharmacies. In January, CVS and other health insurers with large Medicare Advantage plans rose after the Centers for Medicare & Medicaid Services published better-than-expected reimbursement rates for 2026. CVS maintained that momentum in February by reporting expected fourth-quarter results. It then reported decent quarterly results. The PBM segment and physical stores were in line with expectations. However, Aetna incurred losses across multiple lines of business, driven by Medicare Advantage and the Exchanges. Despite this, the losses in the health insurance segment were less severe than anticipated, leading to a positive market reaction.

(continued)

As of 3/31/25, net of fee composite and Russell Midcap Value performance for 1-, 5-, and 10-year periods: -6.57%, 26.06%, 5.92%, and 2.27%, 16.70%, 7.62%, respectively. Net performance results are presented after management fees and all trading expenses but before custodial fees; the composite includes all Mid-Cap Value discretionary accounts. Additional disclosures provided in Endnotes.

Past performance is no guarantee of future results.

F5 (FFIV) sells application networking and security software, as well as data center appliances. F5 reported a strong quarter that benefited from an improving IT spending environment, the beginning of a hardware refresh cycle, and better than expected software renewals, expansions and net new customer acquisition. Management raised guidance for FY25 and described the new guide as “prudent” given the strong trends they are seeing on hardware refresh and software growth metrics. F5 has no debt, trades at an attractive valuation, and has so far benefited from an improving gross margin and lower operating expenses.

LARGEST INDIVIDUAL DETRACTORS – 1Q25

Kosmos Energy Ltd. (KOS) is an independent exploration and production company focused offshore. In addition to its existing production, KOS has liquified natural gas (LNG) assets that are set to begin production in 2024 and a platform to acquire and operate additional offshore resources. Shares fell over the quarter after Organization of the Petroleum Exporting Countries (OPEC+) delegates announced that the group would move forward with plans to restart previously halted oil production. We believe these short-term issues are significantly outweighed by the long-term value of the company’s existing production, which the current stock price does not fully reflect.

Fluor Corp. (FLR) is one of the largest contractors in the US. Fluor reported a disappointing 4Q24 with revenue and margins weak as the company deals with unusually low utilization driven by volatility in its businesses. Initial guidance for 2025 revenue and margin were also below consensus estimates driven by weakness at Energy Solutions partly offset by growth at Urban Solutions that is expected to be back-half weighted. Unlike many competitors that specialize in elements of project delivery, most of Fluor’s revenue comes from projects where it provides full Engineering, Procurement, and Construction (EPC) services. Fluor also has significant fabrication capabilities including a joint venture that operates one of the world’s largest fabrication facilities. In addition, Fluor also owns a substantial stake in NuScale (tk: SMR).

Adient PLC (ADNT), domiciled in England (with corporate offices in Plymouth, MI; Milwaukee, WI; Burscheid, Germany; and Shanghai, China), is one the world’s largest supplier of seating systems and a leading components supplier for automotive interiors. Shares fell over the period alongside other names in the auto manufacturing space due to the potential of heightened tariffs on imports from Canada and Mexico. This is specifically problematic for ADNT given their sizeable manufacturing presence in Mexico. However, we believe issues from tariffs will be transient in nature. As such, we continue to believe ADNT is attractively valued for a company successfully right sizing their portfolio, buying back shares, and maintaining their balance sheet.

For informational purposes only, the specific investments shown represent only 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.**

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 Mid-Cap Value portfolio. Attribution is an analysis of the portfolio's return 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 (data source: Bloomberg, Russell).

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 Mid-Cap Value strategy may prevent or limit investment in major stocks in the Russell Midcap 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 color@ hwcm.com. Portfolio information is subject to the firm's portfolio holdings disclosure policy.

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The Russell Midcap® Index, an unmanaged index, measures the performance of the 800 smallest companies in the Russell 1000® Index. The Russell Midcap® Value Index measures the performance of those Russell Midcap® companies with lower price-to-book value ratios and lower forecasted growth values. The Russell Midcap® Growth Index measures the performance of those Russell Midcap® Index companies with higher price-to-book ratios and higher forecasted growth values. 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.

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.

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. Investment risk disclosures for the firm's strategies are described in Part 2A of Form ADV of H&W.

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Portfolio managers' opinions and data included in this commentary are as of March 31, 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.