NEWSLETTER

Q3 2025

A New Chapter Begins in Early 2026

As previously shared, we will officially become Focus Partners Wealth in early 2026. This unification reflects our commitment to delivering a more powerful client-centric experience—unlocking deeper expertise, broader capabilities, and greater bench strength—all while preserving the boutique feel and personalized attention you've come to value.

As part of this evolution, the newsletter you're receiving today will be the final edition in its current format. While we'll take a brief pause in January to prepare, we're excited to introduce a refreshed approach to how we stay in touch. Starting **Wednesday, February 4, 2026**, you'll begin receiving two refreshed monthly emails from **focuspartnerswealth@email.focuspartners.com** designed to keep you informed and connected.

1. **Focused Insights**
   Our monthly newsletter features timely market outlooks, wealth management strategies, expanded services, economic updates, advanced planning insights, and more.

2. **Monthly Events and Webinars Email**
   A curated roundup of upcoming investment-focused webinars, lifestyle resources, and events tailored to support you and those close to you.

You'll also continue to receive ongoing commentary around our strategies — now with a fresh look and feel that aligns with our new brand.

We understand that change can bring questions. Please know that while the format and branding may look different, our commitment to delivering thoughtful, relevant content remains unchanged.

If you have any questions, we're here for you.

> "I've got thick skin and an elastic heart
> But your blade it might be too sharp
> I'm like a rubber band until you pull too hard
> I may snap and I move fast
> But you won't see me fall apart"
>
> **- *Elastic Heart*, Sia**

A Man, A Plan, A Canal: Panama!

In addition to providing the inspiration for an excellent palindrome, the construction of the Panama Canal was one of the most consequential infrastructure projects in human history. The idea for a canal connecting the Atlantic and Pacific Oceans through Central America has existed for almost as long as Europeans knew there was a Central America. Yet more than 350 years would pass between Spanish conquistador Francisco Nunez de Balboa noting in his journal that the Isthmus of Panama would be fine spot for a canal and the first serious attempt at constructing one.

In the mid-1870s, French diplomat and entrepreneur Ferdinand de Lesseps became the driving force behind this first attempt to carve a path through Panama. With a stellar reputation based largely on the massive profits he generated for investors from leading the construction of the Suez Canal connecting the Mediterranean and Red Seas, de Lesseps and his partners were able to quickly determine a route, acquire a concession from Colombia to build a canal along that route, and, most importantly, raise a significant amount of capital from investors.

Yet, despite the obvious economic benefits, ample political will, the advent of steam engines to move and power heavy equipment, and investors eager to provide capital to fund the project, the French contingent failed to account for one tiny complication: the mosquito.

The Panamanian jungle was a far more difficult terrain to build in than the flat, Egyptian desert, but this could have been overcome. The greater challenge was the catastrophic death rate of the workers from yellow fever, malaria, and other tropical diseases. At the time it was unknown that such bloodborne diseases were spread by mosquitoes, thus all attempts to stop the spread of these diseases proved ineffective. All told, some 22,000 workers died from disease and accidents in the eight years of the French attempt.

With the project running hopelessly behind schedule, de Lesseps drew on his surplus of charisma to keep the funds flowing from French investors. However, an inability to retain workers, or keep a sufficient number of them alive, ultimately doomed the project, and the money eventually ran out in 1889. The de Lesseps venture reportedly spent about $10 billion in today's dollars and the project's bankruptcy wiped out hundreds of thousands of small investors.

Eventually, the United States would take over the project and, benefiting from the discovery that mosquitoes were the source of spread for various tropical diseases, completed the canal in 1914, 33 years after the French first put shovels into the ground.[1]

In the end, the Panama Canal was completed along the same route as originally planned, the economic benefits to maritime trade were as immense as expected, and the original canal remains in use to this day. Yet, the Panama Canal saga serves as a potent reminder that large infrastructure projects can often be delayed by unforeseen obstacles and the economic benefits, even if correctly predicted, may not arrive on the timetable investors require to produce a satisfactory return on their investment.

ChatGPT, Can You Think of a Palindrome Related to AI?

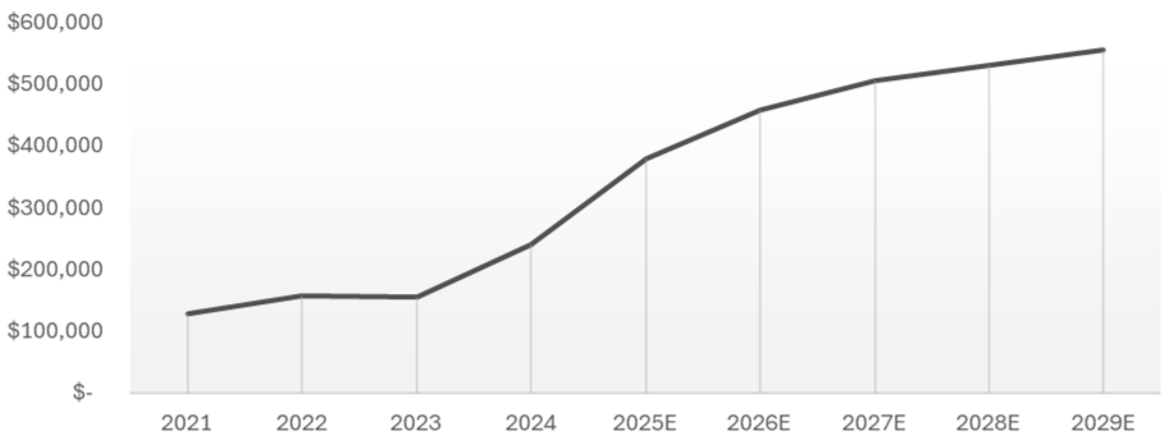
The estimated $25 billion expenditure (in today's dollars) to construct the Panama Canal seems positively quaint in comparison to the sums currently projected to be spent on data centers and infrastructure to meet the compute demands of AI. Morgan Stanley estimates that $2.9 trillion will be spent just on data centers in the next three years.[2] This doesn't include the additional investments in electricity generation and transmission or local infrastructure to bring these data centers online. The five largest public cloud companies, Amazon, Microsoft, Alphabet, Meta Platforms, and Oracle, have increased capital expenditures from about $160 billion per year before investment in AI became a priority to an expected $400 billion this year; the amount is expected to continue to grow past half a trillion dollars in subsequent years.

---

[1] Despite much-improved ability to combat mosquito-borne illnesses, another 5,000 or so workers still died during the American effort from disease and accidents. If you ever find yourself asking, "Why is it so hard to build things these days?", a significant reason is that the death of thousands of workers in major construction projects is no longer considered an acceptable cost of doing business.

[2] Ren, Shuli. Bloomberg. "AI Data Centers Give Private Credit Its Mojo Back". October 2, 2025.

Figure 1: Historical and Projected US Hyperscaler Capital Expenditures ($ millions)



Source: Consensus Wall Street estimates via Bloomberg.

The justification for this unprecedented level of investment was summarized by Sam Altman, the founder and CEO of OpenAI, in a blog[3] post earlier this year:

> "Here are three observations about the economics of AI:
>
> 1. The intelligence of an AI model roughly equals the log of the resources used to train and run it.
> 2. The cost to use a given level of AI falls about 10x every 12 months, and lower prices lead to much more use.
> 3. The socioeconomic value of linearly increasing intelligence is super-exponential in nature.
>
> If these three observations continue to hold true, the impacts on society will be significant."

In layman's terms, he posits that the more capital companies throw at AI, the better and more efficient on a per unit basis it will become, which will encourage adoption and transform the way humanity works and plays. It is hard to argue with that logic, but a keen observer may have noticed the "if" in the last quoted sentence. We'll come back to that.

For the time being, the market has enthusiastically embraced this potential. Using the iShares AI Innovation and Tech Active ETF as a proxy for the difficult-to-define universe of "AI stocks", this basket has gained 26% year-to-date vs. 15% for the overall market, in which many of the same stocks are outsized contributors to that return. In the third quarter alone, "AI stocks" gained 18% vs. 8% for the overall market.

---

[3] https://blog.samaltman.com/three-observations.

The recent outperformance of all things AI-related combined with lofty valuations assigned to many of these companies has effectively converted the broader US stock market into a wager on whether AI will live up to the hype. At quarter-end, the Information Technology sector made up 35% of the total large cap market weight, which is higher than the weight of this sector at the height of the late-90s Dot-Com Bubble. Subtract a few companies in that sector not exposed to AI and add in Tech/AI-adjacent companies from other sectors, including Amazon, Meta, Alphabet, Tesla, and others, and you can quickly get to well over 40% of the overall US market trading in some fashion on AI-related sentiment.

This phenomenon is not solely limited to US markets either. The much-maligned emerging markets[4], which have trailed US market returns by 10% per year for the decade prior to 2025, have had a banner year with a 28% year-to-date return, well ahead of the 15% return of the domestic market. However, here too, the top five contributors to this return are all AI-related stocks, including semiconductor manufacturer Taiwan Semiconductor, Chinese Internet and cloud giants Tencent and Alibaba, and Korean memory manufacturers Samsung and SK Hynix. These five companies now comprise 26% of the Emerging Markets index, which contains nearly 1,200 stocks.

Returning to Sam Altman's "if" statement, there is ongoing fervent debate over whether all of this investment will be worth it. Per the Wall Street Journal, quoting consultancy Bain & Co., "the wave of AI infrastructure spending will require $2 trillion in annual AI revenue by 2030. By comparison, that is more than the combined 2024 revenue of Amazon, Apple, Alphabet, Microsoft, Meta, and Nvidia, and more than five times the size of the entire global subscription software market."

Furthermore, even if AI does live up to the most bullish expectations, there are many "mosquitoes" that could possibly derail the timing or path linearity of AI's economic success. These include difficulties in continuing to improve advanced chips on the necessary time scale and building the required electricity generation and transmission infrastructure needed to power data centers. OpenAI's plans alone would require the equivalent of 17 nuclear power plants to be built in the next three years. Something as simple as a farmer refusing to allow a transmission line to cross her property could delay bringing a data center online for years.

Despite these potential obstacles, as of this writing, OpenAI alone has made multi-year commitments to various suppliers and cloud hosting vendors totaling over $1 trillion. This is an astonishing sum relative to the company's current annualized revenue run-rate of $13 billion. However, OpenAI's ability to raise capital to fund its ambitions in spite of a lack of

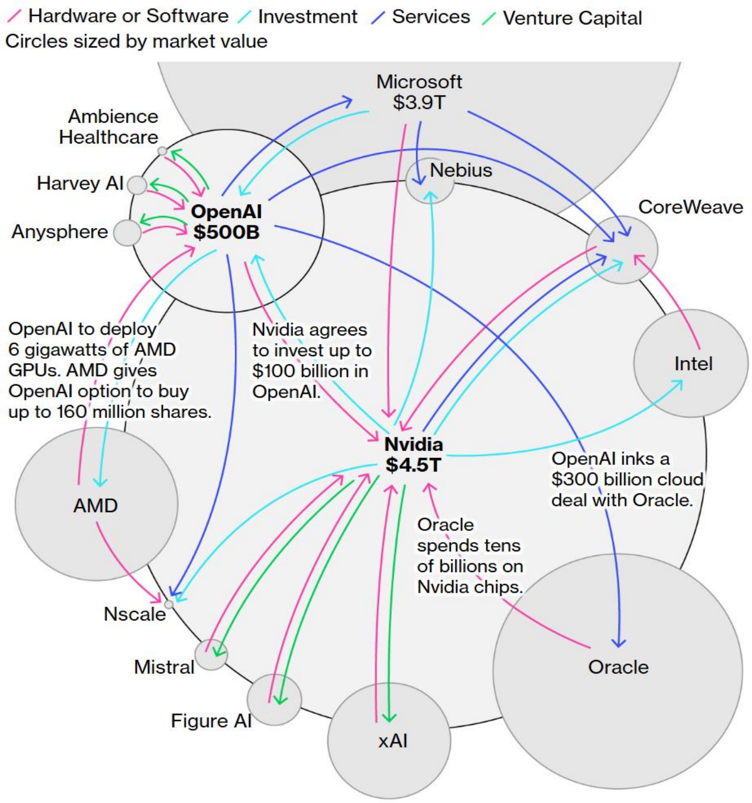
[4] "Emerging Markets" stocks are represented by the MSCI Emerging Markets Index.

operating cash flow, and the willingness of investors and creditors to provide that capital, is also evidence of the confidence in the world-changing potential of AI possessed by both OpenAI and its various funding partners.

If that seems like circular logic, that's because it is. This same circularity is present in the mechanisms being used to fund the AI infrastructure buildout. For example, in late September, Nvidia announced it would be making a $100 billion investment into OpenAI. Earlier in September, Oracle had announced a $320 billion increase in remaining performance obligation (software-speak for future revenue commitments) that was later learned to be primarily from a single customer: OpenAI. Putting the pieces together, Nvidia is investing in OpenAI, who is committing to pay Oracle for compute, who is purchasing GPUs from Nvidia in order to provide this compute capacity to OpenAI. And the valuations of all three companies have soared following these announcements.

The below chart recently published by Bloomberg[5] does an excellent job showing the interrelated nature of many AI-related businesses.

Figure 2: How Nvidia and OpenAI Fuel the AI Money Machine



Source: Bloomberg News Reporting

[5] https://www.bloomberg.com/news/features/2025-10-07/openai-s-nvidia-amd-deals-boost-1-trillion-ai-boom-with-circular-deals.

So You're Saying This is a Bubble?

None of this is to say this is a bubble. Some ingredients of a bubble are certainly present: unbridled enthusiasm for an emerging business model, rapidly appreciating stock prices, and creative funding arrangements that involve significant use of debt. But it is unclear if expectations have outstripped the yet-to-be-revealed reality of AI. Betting against human ingenuity has historically been a losing proposition in the long run and Altman's vision of exponentially improving AI models delivered at decreasing unit costs and providing massive economic benefits to society could very well come to pass. Some of the smartest and most successful business leaders in the world are planning to spend trillions of dollars based on that vision of the future. And even if it is a bubble, the primary lesson of the late-1990s is that an asset bubble can continue to inflate long beyond the point where traditional fundamental analysis can justify underlying asset prices.

Nevertheless, one does not need to have a view on the ultimate economic return on the current and forthcoming investment in AI infrastructure to hold that risk is increasing and the valuations of AI-related companies have become far more demanding than they were just five months ago.

One must also acknowledge that the S&P 500 cannot currently be considered a broadly diversified investment. The concentration and return contribution of AI-related stocks has morphed the index into something akin to an actively managed AI fund.

When advising our clients, our preferred stance is always one of cautious optimism. That stance remains unchanged, although the current environment perhaps warrants placing a thumb on the cautious side of the scale.

That said, in all environments, there is no cause for drastic action when it comes to one's comprehensive financial plan. The whole point of having a plan is to incorporate an asset allocation that takes into account one's ability and willingness to accept risk over a long time horizon. Here risk is expressed as the inevitable tendency for financial markets to oscillate between exuberance and despair. To combat the psychological urge to take action in response to volatility, populating that asset allocation with a diverse mix of investments that are prudently managed and appropriately balance risk and reward is the best way to avoid overreactive blunders that can permanently impair capital. With that framework in place, whether or not AI lives up to current market-implied expectations, just stick to the plan and all should be well.

Market & Performance Summary

In the third quarter of 2025, the Kovitz Core Equity strategy returned 2.7%, while the U.S. equity market, as represented by the S&P 500®, returned 8.1%.

Comparisons to Equity benchmarks are shown below.

KIG Equity Composite vs. Selected Benchmarks

	Average Annual Total Returns							Cumulative
Benchmark	**YTD**	**1 Yr**	**3 Yr**	**5 Yr**	**10 Yr**	**20 Yr**	**SI (1/1/1997)**	**Since Inception**
Kovitz Core Equity, Net	8.2%	11.2%	20.1%	14.3%	11.7%	8.9%	10.7%	1,741%
S&P 500	14.8%	17.6%	24.9%	16.5%	15.3%	11.0%	9.9%	1,422%
Russell 1000 Value	11.7%	9.4%	17.0%	13.9%	10.7%	8.2%	8.7%	1,006%
Small Cap Equity	10.4%	10.8%	15.2%	11.6%	9.8%	8.1%	8.3%	886%
International Developed	25.1%	15.0%	21.7%	11.2%	8.2%	5.5%	5.5%	369%
International Emerging	27.5%	17.3%	18.2%	7.0%	8.0%	6.1%	6.1%	446%
Gold	44.8%	44.1%	31.3%	14.4%	12.2%	10.1%	8.0%	804%
Commodities	4.6%	10.2%	9.0%	18.8%	6.8%	1.2%	3.8%	194%

Source: Bloomberg Finance, L.P

Equity markets continued to march higher in Q3 building on the significant rally that began after the administration partially reversed course on the "Liberation Day" tariffs. Momentum was the top performing factor in Q3 as stocks that led the rally from the April bottom tended to continue outperforming the rest of the market.[1] Relatedly, sentiment around the AI theme remains buoyant with Information Technology accounting for over 50% of the S&P500's return.[2] Apart from Information Technology, Communications Services and Consumer Discretionary were amongst the top-performing sectors, while Consumer Staples, Real Estate, and Materials were the bottom-performing.[3] In summary, we would characterize this as a very "risk-on" market.

On a year-to-date basis, Core Equity's performance is lagging the benchmark, largely as a result of the dynamics that drove the market in Q3. The largest drags to performance have been the portfolio's relative underweight position in the top-performing Information

[1] Per Bloomberg factor analysis, in Q3, an equal-weighted portfolio of the highest quintile of momentum stocks returned 12.8%.
[2] Per Bloomberg attribution data for the SPDR S&P500 ETF, Information Technology contributed 4.4% of the S&P500's 8.1% return in Q3.
[3] Per Bloomberg sector data for S&P500 GICS sectors, in Q3, Information Technology returned 13.2%, Communications Services returned 12.0%, and Consumer Discretionary returned 9.6%. Consumer Staples declined -2.4%, Real Estate returned 2.6%, and Materials returned 3.1%.

Technology sector and declines in some of our Consumer and Health Care holdings.[4] As discussed further in the Outlook section, the momentum factor seems to be the dominating force driving markets, a dynamic which has weighed on our relative returns.

With the exception of a couple of our software holdings, our investments in the Information Technology sector have performed well. Oracle, Arista Networks, Advanced Micro Devices, Analog Devices, and Microsoft have all contributed positively to performance and have outperformed the broader Information Technology sector's return. This has been offset by our lower relative weighting for the sector. As a reminder, Core Equity's sector weights are a function of our bottoms-up approach to portfolio construction that seeks to identify opportunities with the best combination of risk and reward; they are not constructed relative to index sector weights.

The primary detractor within Consumer Discretionary this year has been CarMax, which has declined by 45% year-to-date.[5] The company has been mired in a difficult environment for used car sales as price inflation and the significant increase in interest rates over the last few years has weighed on affordability. Reflecting on the company's performance over the last decade, we continue to think the company has significant scale advantages in reconditioning of vehicles and logistics, while also conceding that historical informational and sourcing advantages have likely weakened with greater online price transparency. In hindsight, we could have been more aggressive when we trimmed the position near its highs at the end of last year. However, we think the recent stock price move is overdone and would expect CarMax to deliver material earnings growth as the used car sales environment improves.

In Health Care, we discussed in our commentary last quarter how broader industry pressures and sentiment were negatively impacting our investments in Becton Dickinson and Thermo Fisher Scientific. We communicated that we felt the stock moves were primarily sentiment-driven and that we added to the positions as a result. We are pleased that both positions were positive contributors to relative performance in Q3.[6] Bigger picture, with AI commanding so much attention from market participants, we have found several interesting investment opportunities in the Health Care sector that we discuss in greater detail in the Portfolio Activity section.

In the following sections, we discuss our approach to managing the current market environment and key drivers of portfolio return in greater detail.

---

[4] Kovitz calculations using Bloomberg attribution data for the Core Equity portfolio and the SPDR S&P500 ETF Trust.
[5] As of 9/30/25.
[6] Kovitz calculations using Bloomberg attribution data for the Core Equity portfolio and the SPDR S&P500 ETF Trust.

Outlook

This past quarter belonged to the trend followers and headline makers. An illustrative example was Tesla stock (TSLA) returning +40% in the quarter despite earnings estimates for next year declining as the quarter progressed.[7] Raymond James analysts covering automotive electrical components noted that "TSLA continues to lose share in every region."[8]

Figure 1: TSLA Share Price 6/30/2025 to 9/30/2025

Source: Bloomberg

Perhaps it was Elon Musk's $1 billion reported stock purchase in mid-September, his board-approved new pay package that could max out at $900 billion if Tesla stock reaches $8.5 trillion in market value, and some Wall Street analyst bullishness after the reported stock purchase.[9]

Our sense is that momentum investing carried the market higher in 2025. Momentum investing, as defined by its discoverers, is a strategy "which buys stocks that have performed well in the past and sell (sic) stocks that have performed poorly in the past [to] generate positive returns over 3- to 12-month holding periods."[10] In fact, Bloomberg's analytics module shows that high-momentum stocks gapped ahead of high-quality stocks in

---

[7] TSLA's 2026 estimated earnings were $2.79 per share to start the quarter and just $2.45 to end it per Bloomberg estimated EPS.

[8] Fairbanks, Melissa and Munoz, Maruicio. *RJ Express: JBL – Additional Notes Following Management Call*. September 25, 2025.

[9] Berkowitz, Bram. *The Motley Fool*. "Elon Musk Just Bought $1 Billion of Tesla Stock, Which is Up 90% Since Lows Made in April. Is Now the Time for Investors to Go All In?" September 20, 2025. *"We are becoming more bullish," William Blair analyst Jed Dorsheimer wrote in a recent research note. "This purchase is Musk's first buy since 2020. To us, this sends a strong signal of confidence in the most important part of Tesla's future business, robotaxi."*

[10] Jegadeeh, Narasimhan and Titman, Sheridan. *The Journal of Finance Vol. XLVIII, No. 1.* "Returns to Buying Winners and Selling Lowers: Implications for Stock Market Efficiency." March 1993.

September, resulting in significant outperformance for the quarter and working against the Kovitz Core Equity portfolio.

Figure 2: Bloomberg's "Factors to Watch"

Source: Bloomberg

The Kovitz Core Equity portfolio has been more tilted, not to momentum stocks, but to high-quality stocks. Our team's recent Outlooks have discussed that many of our new purchases over the past year have been in stocks that would be considered "high-quality" per the definition used in Bloomberg Factors. Quantitative characteristics of "high-quality" companies typically include above average and consistent profit margins, high returns on capital, and low debt ratios. Positions initiated in 2025 that exemplify these characteristics include Microsoft (Q1), Adobe (Q1), Waters (Q3), and Alcon (Q3). Additionally, third-party risk analytics confirm for us that the portfolio's exposure to high-quality stocks has increased. This seems prudent to us at a time when stock markets at large are setting new highs and trading at or near record valuation multiples; corporate bond spreads are near 18 and 27-year lows for investment-grade and high-yield credits, respectively;[11] momentum investing is raging; tariffs are increasing costs to consumers and businesses; business uncertainty is high; and the Federal Reserve is cutting interest rates to address a slowing labor market and economy.[12] In short, amidst high prices and higher uncertainty, it seems most prudent to orient the portfolio towards ownership of businesses that should be able to do well in any kind of weather.

---

[11] The Credit Market Is Humming—and That Has Wall Street On Edge - WSJ.

[12] *CBS News.* "Federal Reserve FOMC Meeting Today: Rate Cut in September 2025 and Powell's Impact." October 9, 2025. https://www.cbsnews.com/news/federal-reserve-fomc-meeting-today-rate-cut-september-2025-powell-impact/

We continue to predicate our strategy on the philosophy that earnings growth drives stock prices over the long-term, that investing in strong businesses at good prices is the right recipe, and that a disciplined, valuation-centric adherence to these sound investing principles wins the race. This past quarter, we felt like the veteran marathoner who is pacing the race strategically, aligned with a training plan that strives for the top, yet who watches a pack of energetic, new runners burst forward in an early segment of the race, feeding on each other's momentum. Yet, we have no doubts about our paced strategy, and in fact, the opportunities we found to recharge the portfolio with additional purchases and sales in the third quarter give us confidence that our pace is a sustainable and satisfactory one.

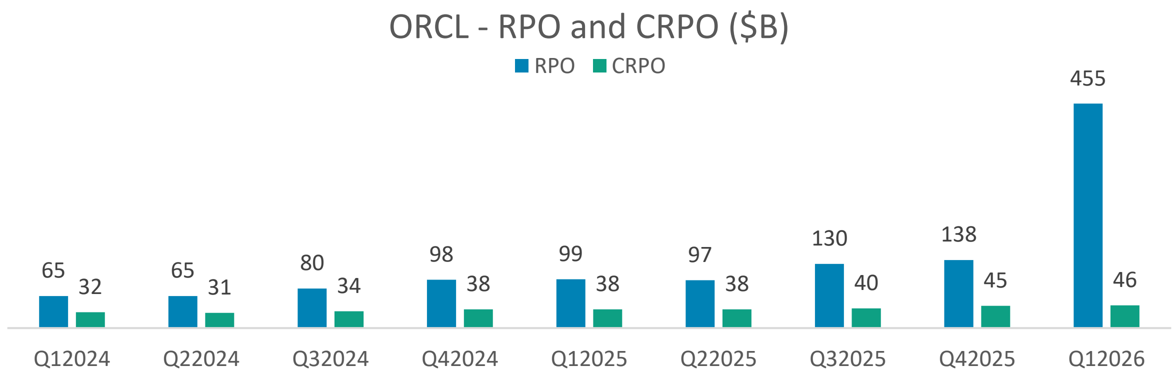
Portfolio Positioning

Over the past year, we've been active in our holdings that we assess to be related to artificial intelligence products, frequently trimming or selling when sentiment rapidly carries holdings toward or ahead of our best intrinsic value estimates. As with all stocks, we've also found opportunities to add to them when they fall, as we did in the first half of 2025 in names like AMD, Analog Devices, Arista Networks, and Microsoft, which has been noted in prior letters. This past quarter, activity fell a little heavier on the selling side of the equation, the most significant of those being Oracle.

Oracle was a great holding for Core Equity, having tripled in price at the time of our exit compared with our original purchase in January 2024.[13] To be sure, the service contracts signed for the company's Oracle Cloud Infrastructure (OCI) business have been more significant than almost anyone imagined 18 months ago. Figure 3, borrowed from a Bernstein report on Oracle, shows the increase in the remaining performance obligation ("RPO" = not-yet-recognized revenue from signed customer contracts), and the significant step-up it saw in this past quarter.

[13] From 1/2/2024 to 9/10/2025, ORCL stock logged a +215.5% price change and a 222% total return, per Bloomberg.

Figure 3: Oracle's Remaining Performance Obligation (RPO) increased $317B QoQ last quarter while cRPO only increase ~$1B as these are large datacenter contracts



Source: Bernstein.[14] Company reports, Bernstein Analysis

Yet, 95% of the $317B increase in "RPO"[15] (blue bars) was attributable to just one company, which dramatically increases the risk profile of Oracle's backlog. Moreover, we believe that the company responsible for the RPO increase is today earning revenue equal to less than 25% of the implied annual contract amount. With Oracle's stock price appreciating 36% on the day the RPO increase was announced, we assessed that the stock market was ascribing a high probability to Oracle's ability to realize revenue from this significant contract. Accordingly, we decided to exit the position and redistribute the proceeds.

This in no way is an expression of an opinion that Generative AI will somehow "not work" or that it is not exciting or transformative. It is an acknowledgement that life is very rarely linear; that human emotions tend to ebb and flow with wide amplitude; and that business plans tend to come to fruition in messier fashion than spreadsheets suggest. We think Oracle is great. We also think its stock became riskier during 3Q 2025.

We are optimistic about the new stocks we bought these past few months. With the Health Care sector having materially lagged the overall market year-to-date, we found ourselves attracted to some of the names on offer.

[14] Moerdler, Mark; Valligi, Firoz; Tang, Shelly. Bernstein: *Oracle: Implications of updated OCI guidance ($144B in FY30) over the next 5 to 10 years*. 26 September 2025.
[15] RPO = Remaining Performance Obligation; CRPO = Current Remaining Performance Obligation.

Figure 4: YTD S&P500 Sector Total Returns to 9/30/2025

GICS Sectors	Return
S&P 500 Index	**14.81%**
1) S&P 500 Communication Services	24.51%
2) S&P 500 Information Technology Index	22.31%
3) S&P 500 Industrials Index	18.25%
4) S&P 500 Utilities Index	17.69%
5) S&P 500 Financials Index	12.70%
6) S&P 500 Materials Index	9.32%
7) S&P 500 Energy Index	7.04%
8) S&P 500 Real Estate Index	6.19%
9) S&P 500 Consumer Discretionary Index	5.30%
10) S&P 500 Consumer Staple Index	3.89%
11) S&P 500 Health Care Index	2.61%

Source: Bloomberg

Our weighting in Health Care doubled as a result of the quarter's actions with three new purchases in the sector. We also augmented our exposure to the insurance brokerage business with the purchase of Ryan Specialty.

Reflecting on the new names added to the portfolio – Waters Corp, Alcon, Cooper Companies, and Ryan Specialty Holdings – all traded down at least 20% from a higher price over the course of 2025, we consider all world-class businesses, and we think that the reasons the stocks traded down reflect transitory concerns (see the following section on portfolio activity for more details). All have resilient demand profiles in industries that have fared well through prior economic cycles. We believe the addition of these names at the prices they traded at in the quarter improves the portfolio's risk-return proposition looking forward.

We're not pleased to have posted a quarter where the returns from our holdings lagged our benchmark by so noticeable a degree. Returning to our marathon analogy, we recognize that this period is but a leg in a longer endeavor. Regarding the elements that we control - stock prices that have the potential for appreciation from valuation multiple expansion, the pacing of companies' sales and earnings growth, and the permutations through which those holdings are organized into an investment portfolio – we were pleased with the quarter. Our activities continue to feel more right than not given the decision points we were presented with. We were pleased to have sold Oracle after such a strong return and with a higher risk profile by virtue of its embedded expectations, and we are pleased with the new names added to the portfolio. We look forward to discussing the outcomes of these decisions in future letters.

We thank you for your trust and confidence, and we remain highly invested alongside you.

Key Contributors to Portfolio Return

The portfolio's top three contributors to its return during the quarter were Alphabet (GOOG/L), Arista Networks (ANET), and Oracle (ORCL).

Alphabet (GOOG/L):

Alphabet continues to grow its digital advertising revenues across Search and YouTube at a double-digit clip. Its cloud infrastructure business accelerated in the most recent quarter with ramping demand for the company's AI services, while also achieving record profitability. Lastly, the remedies handed down by the Judge in the Search antitrust trial were largely better than feared and do not mandate drastic changes to Google's business.

Arista Networks (ANET):

Arista significantly increased its revenue growth expectations to 25% for 2025 driven by strong momentum with its large cloud customers and in its enterprise campus business. On top of the higher revenue forecast, management also raised its guidance for operating margins by 350 bps. We expect Arista to continue playing an integral role in networking in the AI infrastructure buildout and increasingly, for the networking needs of enterprise campuses, too.

Oracle (ORCL):

Oracle shares appreciated sharply following the company's fiscal first quarter earnings report. The company's contracted backlog, which primarily reflects its cloud infrastructure business, grew substantially from $138B at the end of last quarter to $455B in the most recent quarter. As discussed in the Portfolio Activity section, much of this increase was related to one customer, which led to our decision to exit the position.

Key Detractors to Portfolio Return

The top three detractors to return during the quarter were Fiserv (FI), Carmax (KMX), and Philip Morris (PM).

Fiserv (FI):

Fiserv stock continued to languish in the quarter. Last quarter we wrote that Fiserv stock declined after reporting that volume growth decelerated in the company's Clover payment services product line. There has been some transitory noise in year-over-year comparisons, a CEO succession, and U.S. payments volume growth has moderated from a mid-teens growth rate to high-single digits in 2025, although this is still at a healthy level and above digital payments industry averages. Fiserv stock is trading like it won't grow, and we think that is completely incorrect. For reference, 2025 will mark the company's 40th consecutive year of double-digit EPS growth. Consensus earnings estimates for 2025 and 2026 have also remained stable throughout 2025. We continue to see an advantaged company. Since 2019, Fiserv has bought back $22 billion of stock, a material proportion of its current $70 billion market capitalization, and we believe they will continue to aggressively buy back stock at current prices. We added to the stock on the price decline and are optimistic about its risk-return profile.

CarMax (KMX):

CarMax shares declined by 33% in Q3 after the company reported a decline in same-store-sales growth and a significant miss to earnings expectations. This followed a quarter in which CarMax reported very strong same-store-sales growth of 8% on the back of fears of tariffs driving up prices. This pulled forward demand dissipated quickly as the administration's tariff policy reversed, and consumers turned cautious amidst increased economic uncertainty. In addition to lower-than-expected sales growth, the company reported a decline in financing income driven by an increased loan loss reserve related to underperformance of loans extended in 2022/23 when borrowers were paying high prices right before there was significant depreciation in used car values. This issue was thought to be behind the company, but surprisingly resurfaced in its Q3 results. While our assessment of CarMax's competitive position and management team has soured with recent execution missteps, we find the move in shares to be overdone. Scale advantages in reconditioning of vehicles and logistics remain and used vehicle volumes continue to run significantly below long-term averages, which should enable better results when the environment improves.

Philip Morris (PM):

Philip Morris reported a modest miss in Zyn shipment volumes in the U.S. in its most recently reported results and indicated that volumes grew 32% through the first eight weeks of its fiscal Q3 relative to the 41% growth reported in Q2. Management indicated that it would be stepping up promotional efforts to ensure pricing was more competitive with other nicotine pouches, which we expect to drive improved volume growth over the coming quarters and years. We continue to think that Zyn, with over 70% share of nicotine pouches in the U.S., and IQOS, the company's leading heated tobacco product, represent strong growth opportunities for the business and are burgeoning, multi-billion consumer brands in the smoke-free category. Bigger picture, over 40% of the company's revenues are now from smoke-free products, and this is headed to 50%; IQOS has overtaken Marlboro in terms of brand size, Zyn is one of today's fastest-growing consumer brands at scale, and Philip Morris has a multi-year lead over competitors in product development, obtaining regulatory approvals, and branding success.

Portfolio Activity

Initiated: Alcon, Cooper Companies, Ryan Specialty Holdings, Waters Corporation

Alcon (ALC):

Spun off from Novartis in 2019, Alcon has a rich, 75-year history as a global leader in ocular health. The company commands supermajority market shares in optical surgical equipment and implantable premium intraocular lenses (IOLs) and is one of four companies that dominates the contact lens and over-the-counter vision care market. Alcon's end markets are characterized by strong secular tailwinds, including an aging and wealthier population, increasing rates of myopia (nearsightedness) globally, and advances in technology and comfort that increase adoption of premium IOLs and daily/weekly contact lenses. We further expect Alcon to leverage its scale, where the company spends double its nearest competitor on R&D annually, to continue to introduce innovative new products and compete effectively against peers. Unusually low growth in cataract procedure volumes, paired with a slower-than-expected launch of its new surgical equipment platform led to a decline in shares following the company's second quarter earnings report. This myopic focus on near-term results allowed us to initiate a position in what we believe to be an excellent business at its lowest absolute and relative valuation since Alcon became an independent company.

Cooper Companies (COO):

Our investment in Cooper Companies builds our exposure to the vision care industry alongside our investment in Alcon. Like Alcon, Cooper is a leading manufacturer of contact lenses, an industry characterized by an oligopolistic structure with strong barriers to entry. The company has achieved consistent market share gains over the last 15+ years aided by its unique ability to offer both private label and branded contacts to large retailers. Alongside its contact lens business, Cooper also operates a smaller women's health business focused on fertility and surgical products. Cooper is emerging from a multi-year investment cycle that was needed to create additional manufacturing capacity for the ongoing shift to disposable daily contact lenses. With that investment now largely behind the company, we expect cash flow generation to improve significantly in the coming years, enabling the company to reduce leverage and return capital to shareholders. Recent share price weakness driven by what we deem to be transitory issues in the contact lens business created an attractive opportunity to initiate a position with shares trading at just 15.5x EPS vs its historical average 24x.

Ryan Specialty Holdings (RYAN):

Ryan is a broker of specialty insurance, which is a fast-growing segment of the property & casualty insurance market. As property catastrophes have intensified, jury verdicts have become larger, and new risks like cyber risks have emerged, the need for more customized risk underwriting has accelerated. Ryan has been outgrowing the insurance brokerage industry at large and has grown revenue organically at a double-digit rate for 14 consecutive years. The company was founded in 2010 by Pat Ryan at age 72, two years after he retired as Aon's founder, Chairman, and CEO. Last year, at age 87, Ryan turned day-to-day management over to a hand-picked successor team. We think the management team is an A-rated group, and they are currently guiding the company through a high-growth phase with 2024 being the company's biggest year yet for acquisitions. The stock sold off over 20% when the company incrementally cut its 2025 organic revenue guidance (from +11-13% to +9-11%) based on a down-cycle in the property insurance market. As is frequently the case, we're willing to look through the transitory softness to establish a position in an excellent company. We think that the complexity and magnitude of insurable risks will continue to grow, and that Ryan can be a very good long-term holding.

Waters Corporation (WAT):

Waters is a leading manufacturer of analytical instruments, along with associated consumables and software, used to separate and identify chemical compounds, for customers in the biotech/pharma, materials, and food science end markets. With instruments primarily used in more stable late-stage manufacturing and quality assurance / quality control in biopharma end markets, a majority of revenues derived from recurring service and consumables, and a strong management team five years into a transformation plan that reinvigorated product innovation and optimized the entire organization, Waters has displayed above-market growth and rising profitability in a difficult environment. The company has below-average exposure to academic and government end markets that have been plagued by cuts to NIH and other sources of federal funding, which enabled the stock to hold up relatively well this year compared to peers. However, the shares fell nearly 20% since Waters announced it was acquiring Becton-Dickinson's (BD's) Biosciences and Diagnostics business in mid-July. As owners of Becton-Dickinson, we believe the assets acquired by Waters are underappreciated in their own right and are a good strategic fit with Waters' existing business. Additionally, we find management's plan to generate cost efficiencies and reinvigorate the sales motion using the same playbook successfully employed at Waters for the last five years to be highly credible. The structure of Waters' acquisition of the BD assets will result in client portfolios receiving shares in Waters equivalent to roughly a 1% weight when the merger is completed in early 2026. We believed it was an advantageous time to increase that exposure by initiating a position in what we think is a very good business at a suddenly average price.

Exited: Oracle, PPG

Oracle (ORCL):

We initiated a position in Oracle in early 2024 on the premise that the company was building a differentiated cloud offering relative to incumbent hyperscalers Amazon, Google, and Microsoft. After many years of low-single-digit revenue growth, Oracle's business started to accelerate in 2024 driven by a significant ramp in its cloud infrastructure business. With the larger incumbent cloud providers remaining capacity constrained, Oracle has been successful in attracting business from large AI customers looking to train increasingly powerful models. The result has been a dramatic increase in the company's contracted backlog to $455 billion from $138 billion in the prior quarter and $99 billion a year ago, which is expected to lead to nearly 15x growth in cloud infrastructure revenues from $10 billion in FY25 to $144 billion in FY29. While we have been impressed with management's ability to capture new cloud business, we are wary of the significant customer concentration in Oracle's backlog. Nearly all of $317 billion increase in backlog in the most recent quarter was from a single customer – OpenAI. With shares reflecting nearly all the upside from OpenAI and little of the risk that comes with tying their fortune to a customer reliant on external funding and extremely aggressive revenue growth assumptions, we elected to exit the position.

PPG (PPG):

We owned shares in PPG for roughly two years with an expectation that the new CEO would refocus the company on its technology-advantaged products, shed underperforming assets, and reinvigorate organic growth. We were pleased with the CEO's strategic decisions since taking the helm including focusing resources on higher growth businesses like Aerospace and Mexico architectural coatings, divesting the US architectural business, and increasing share repurchases. However, we have come to appreciate that management's ability to impact PPG's organic growth trajectory is limited relative to the broader macroeconomic forces that influence each of PPG's end markets. With opportunities surfacing to invest in companies in greater control of their destiny, we elected to reallocate capital into other positions.

Quarterly Market & Performance

The third quarter of 2025 delivered outsized gains for bond investors as markets responded to the Federal Reserve's decision to restart its easing phase at their September meeting and growing conviction that additional cuts could follow. Much of the quarter's bond rally actually came before the September meeting, as markets priced in the same economic concerns the Fed later acknowledged. By quarter-end, yields had moved lower across the curve, delivering strong gains for bondholders. The Bloomberg U.S. Aggregate Bond Index returned 2.0% for the quarter, bringing year-to-date performance to 6.1%. The index yield closed at 4.4%, still appealing compared with much of the last decade.[1]

At the September FOMC meeting, the committee cut the federal funds rate by a quarter of a percent to 4.25%, marking the first reduction since late 2024. While widely anticipated, the cut marked a meaningful pivot. Chair Jerome Powell framed the decision as a "risk-management" move – a precaution against downside risks rather than the start of a full shift toward aggressive easing.

Powell emphasized that balancing the Fed's dual mandate is particularly challenging at this stage of the cycle, stating, "There is no risk-free path." Inflation remains above the 2% target, but labor market data have softened. As he explained, "While the unemployment rate remains low, it has edged up, job gains have slowed, and downside risks to employment have risen." Markets interpreted this as confirmation that the Fed may now weigh labor conditions as heavily as inflation when setting policy.

The updated dot plot showed a year-end 2025 projection of 3.75%, implying two additional cuts from current levels. Yet the dispersion of views was striking: one participant penciled in a hike, while another projected as much as 125 basis points of easing over just two meetings. The final vote passed 11–1, highlighting consensus on the September cut but ongoing divergence about the road ahead.

[1] Bloomberg US Aggregate Bond Index. Yield measured as yield-to-worst.

Illiquidity Premiums: A Pocket of Value

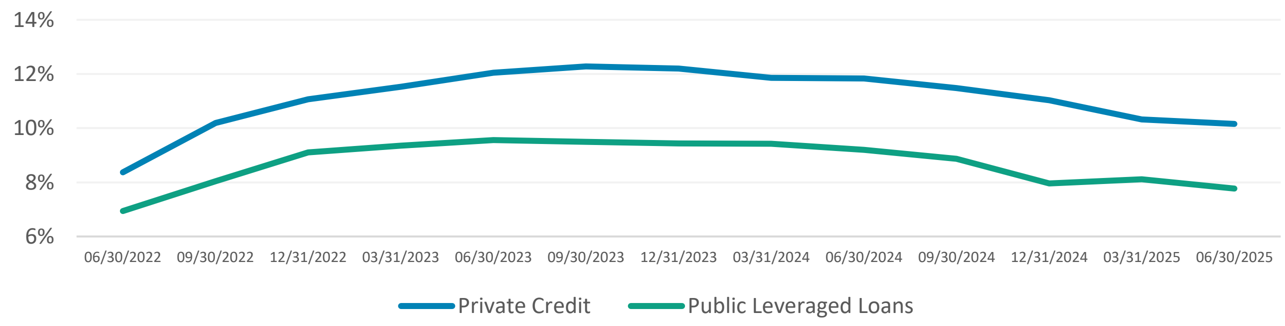
Bond investing is always about trade-offs: to earn returns, investors must accept some form of risk. In fixed income, the two primary risks are duration (sensitivity to interest rates) and credit (the possibility of default).

Today, compensation for both types of risk is slim. The yield curve remains unusually flat – 10-year Treasury bonds yield less than half a percent more than 1-year Treasuries – offering little reward for taking on additional interest-rate risk. On the credit side, the excess returns investors earn for owning corporate bonds have narrowed to about 0.7%, down from roughly 1.7% at the end of 2022.[2] In other words, investors are being asked to take traditional risks without being paid much extra for doing so. This pattern isn't unique to bonds. Across most asset classes, the premiums investors earn for taking risk have steadily compressed.

One pocket of value that remains is the illiquidity premium – the additional yield earned for holding assets that cannot easily be traded daily. While small illiquidity premiums exist in public markets, such as those available on smaller municipal or corporate issues, the most compelling opportunities are in private credit. These loans, often made by investment firms to businesses and other borrowers that can't or choose not to access public bond markets, offer higher yields in exchange for reduced liquidity and less frequent trading.

For example, private corporate loan yields have consistently exceeded those of their broadly syndicated counterparts, and that spread has held steady even as other premiums narrowed. According to the Cliffwater Direct Lending Index, the spread in direct loans is in line with its three-year average since the Fed began raising rates.

Figure 1: Corporate Loan Yields: Private vs Public



Source: Cliffwater Direct Lending Index Yield-to-Maturity (3 Yr Takeout Yield), Morningstar LSTA US Leveraged Loan 100 Index (Wtd Average Yield).

---

[2] Bloomberg US Agg Corporate Average Option-Adjusted Spread.

There is, of course, no such thing as a free lunch. Illiquidity is a real trade-off, but it can also vary relative to the needs of specific investors. Some investors truly need daily access to capital, while others can set aside a portion of their portfolio for years at a time. For the latter group, using that advantage thoughtfully can meaningfully enhance long-term outcomes. At current yields, the illiquidity premium in private credit would compound to roughly a 50% higher total return over a decade.[3]

We remain defensively positioned given how compressed traditional risk premiums are. But today's interest rate environment still allows for attractive absolute returns in high-quality bonds. Investors can earn meaningful income without reaching into lower-rated areas that do not adequately compensate for risk. For those able to tolerate reduced liquidity, we continue to advocate selectively for private credit as a way to improve returns without relying on duration or credit risk alone.

Conclusion

The third quarter reinforced how quickly sentiment in fixed income markets can shift as the Fed balances its dual mandate. Policy uncertainty remains high, and traditional sources of risk premiums are offering less reward, making selectivity more important than ever.

Our focus continues to be on quality, flexibility, and patience – earning attractive income while maintaining discipline on both credit and duration. For investors able to take a longer view, illiquidity remains one of the few sources of genuine excess return, but across all markets, the key will be staying intentional rather than reaching for yield.

[3] Illustration assumes annual compounding of current yields over ten years. For informational purposes only; not a projection or guarantee of future results.

Kovitz Equity Composite

Year	Gross Return	Net Return	Benchmark Return	Internal Dispersion	Composite 3-Year SD	Benchmark 3-Year SD	# of Portfolios	Composite Assets ($mm)	Firm Assets ($mm)
2015	-5.82%	-6.96%	1.38%	1.31%	11.36%	10.47%	238	287.3	2,703
2016	20.90%	19.49%	11.96%	2.10%	12.85%	10.59%	203	256.2	2,695
2017	17.81%	16.43%	21.83%	1.79%	12.28%	9.92%	219	314.7	3,139
2018	-9.97%	-11.09%	-4.38%	1.44%	12.86%	10.80%	211	265.1	3,674
2019	27.83%	26.32%	31.49%	2.45%	13.99%	11.93%	195	323.9	5,061
2020	16.14%	14.81%	18.40%	2.11%	22.33%	18.53%	184	353.5	5,990
2021	30.15%	28.88%	28.71%	2.03%	21.36%	17.17%	212	474.7	7,465
2022	-21.80%	-22.59%	-18.11%	0.89%	23.60%	20.87%	72	341.8	6,767
2023	28.02%	26.77%	26.29%	1.19%	18.19%	17.29%	56	1,121.4	7,684
2024	21.07%	19.89%	25.01%	0.53%	17.69%	17.15%	50	1,452.1	8,090

Disclosures

Fees: Gross-of-fees composite returns incorporate the effects of all realized and unrealized gains and losses and the receipt, though not necessarily the direct reinvestment, of all dividends and income. Gross-of-fees returns are presented before management fees, but after all trading expenses. From inception through December 31, 2020 and after July 1, 2024, the Beginning Value Method (BVM) method was used to calculate returns. From January 1, 2021 through June 30, 2023, the Average Capital Base (ACB) method is used. Beginning on October 1, 2020, the net-of-fees returns are calculated by deducting model investment management fees, which are defined as the highest, generally applicable fees for the strategy of 1.00% of all composite assets. Prior to that, generally applicable fees were 1.25% for equity assets and 0.50% for cash assets. The firm's current management fee schedule is as follows: 1.25% on assets below $1 million, 1.0% per annum for assets from $1 million to $5 million, 0.85% per annum on assets from $5 million to $10 million, 0.75% per annum for assets from $10 million to $20 million, 0.65% per annum for assets from $20 million to $35 million, 0.55% per annum for assets from $35 million to $50 million, and 0.50% per annum for assets over $50 million. Such fees are negotiable. Where applicable, the total bundled or wrap fee charged to each portfolio is dependent on the end client's financial advisor and wrap sponsor. The composite includes accounts that do not pay trading fees.

Prior to January 1, 2010, the Composite included the performance of assets that had been "carved out" of multiple asset class portfolios. When calculating performance, a hypothetical cash balance for each month was allocated to the carve-out on a pro-rata basis relative to the portion of each portfolio's assets that comprised the carved-out asset class. Beginning January 1, 2010, changes in the GIPS standards caused the Composite to be redefined and all carve-outs to be removed from the Composite. Carve-outs formerly included in the Composite continue to be managed in the same manner as they were before being removed from the Composite.

Definition of The Firm: Kovitz Investment Group Partners, LLC (Kovitz) is an investment adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940 that provides investment management services to individual and institutional clients. From October 1, 2003, to December 31, 2015, the Firm was defined as Kovitz Investment Group, LLC. Effective January 1, 2016, Kovitz Investment Group, LLC underwent an organizational change and all persons responsible for portfolio management became employees of Kovitz. From January 1, 1997, to September 30, 2003, all persons responsible for portfolio management comprised the Kovitz Group, an independent division of Rothschild Investment Corp (Rothschild).

Composite Definition: The Kovitz Equity Composite includes all fee-paying, discretionary portfolios managed to the Kovitz Core Equity strategy. The Kovitz Core Equity strategy utilizes a private owner mentality to purchase equity securities issued by companies with durable competitive advantages and strong balance sheets that are trading at a significant discount to their intrinsic value. The goal of this strategy is to maximize long-term total return. The Composite's inception date is January 1, 1997. The Composite was created on January 1, 2001. Effective January 1, 2000, the Composite no longer included portfolios managed by a manager who made a change in investment style. The persons currently responsible for managing Composite portfolios have been primarily responsible for portfolio management throughout the entire period shown. The minimum portfolio size to be included in the Composite is $250,000 until December 31, 2021. Thereafter, the strategy minimum was raised to $1 million. Portfolios in the Composite may occasionally make use of leverage and/or derivatives, but such use does not have a material effect on Composite performance. The use of derivatives is generally limited to covered call writing, and uncovered option writing is never used.

The benchmark for the Composite is the S&P 500 Index. The S&P 500 Index is composed of 500 leading companies in the United States, covers approximately 75% of the market capitalization of U.S. equities, and serves as a proxy for the total market. The S&P 500 Index returns do not include the effect of transaction costs or fees and assume reinvestment of dividends into the index.

GIPS: Kovitz Investment Group Partners, LLC (Kovitz) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Kovitz has been independently verified for the periods January 1, 1997 through December 31, 2023. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

The firm maintains a complete list and descriptions of composites, limited distribution pooled funds and broad distribution pooled funds, which is available upon request.

Valuations are computed and performance is reported in U.S. dollars. The measure of internal dispersion presented above is an asset-weighted standard deviation. The three-year standard deviation presented above is calculated using monthly net-of-fees returns. The three-year standard deviation is not presented when returns of less than 36 months are available. The risk measures, unless otherwise noted, are calculated gross of fees. A complete listing of composite descriptions and policies for valuing portfolios, calculating performance, and preparing GIPS reports are available on request. The composite includes accounts that do not pay trading fees.

The description of products, services, and performance results of Kovitz contained herein is not an offering or a solicitation of any kind. Past performance is not an indication of future results. Securities investments are subject to risk and may lose value.

Kovitz does not guarantee the timeliness, sequence, accuracy or completeness of information included. The information contained in this material, including, without limitation, forward-looking statements, portfolio construction and parameters, markets and instruments traded, and strategies employed, reflects Kovitz's views as of the date hereof and may be changed in response to Kovitz's perception of changing market conditions, or otherwise, without further notice to you.