

Value Equity Q3 2025 Commentary

Market Review:

The US equity market continued to surge in the 3rd quarter, as the S&P 500 returned 8.1% while the Russell 1000 Value was up 5.3%. The S&P 500 recorded 23 all-time highs in the quarter, extending the rally off the “Liberation Day” tariff-induced lows recorded in April. Generally positive economic data, greater clarity on tariff policy, and an interest rate cut from the Federal Reserve were the primary drivers of the rally.

On the July 4th holiday, President Trump signed the comprehensive budget package, the One Big Beautiful Bill Act, into law. The bill made permanent many of the 2017 tax cut provisions, imposed major spending reductions for Medicaid and other social programs, and included substantial increases in the Defense budget. Importantly, the bill included provisions that significantly reduced taxes on capital expenditures, including 100% bonus depreciation for capital assets in the year they are placed in service and immediate expensing for domestic R&D. President Trump’s so-called reciprocal tariffs took effect on August 7th, establishing broad baseline tariffs of 10% and ranging as high as 50% for individual nations. Tariff levels were reduced for some key trading partners from earlier proposed rates, including the European Union which was revised down to 15% from an earlier 20%. Trump also assessed a 100% tariff on semiconductor and pharmaceutical imports, with exemptions for technology and pharmaceutical firms that invest in US manufacturing.

Despite the tariff upheaval, the US economy appears to be holding steady, as 2nd quarter GDP grew at 3.8%.¹ Furthermore, the US unemployment rate remains at a relatively low 4.3%. However, signs of stress are beginning to appear in the labor market, as US payrolls declined by 32,000 in September, below consensus expectations of a 45,000 gain. The weakening employment picture opened the door for the Federal Reserve to cut interest rates by a quarter percentage point, while signaling two more possible cuts by the end of the year. Inflation is complicating the Fed’s decision; core PCE, the Fed’s preferred measure of inflation, ticked up to a 2.9% annual rate in August, still above their long-term target of 2%.²

Growth sectors outperformed in the quarter, while defensive, higher yielding sectors lagged. Information Technology (+13.2%) was the best performer, as bellwether technology companies reported strong earnings growth but sizeable increases in capital expenditures as AI data center spend continues to accelerate. Communication Services (+12.0%) was the 2nd best performer, with Media & Entertainment companies outperforming while Telecom stocks lagged. Consumer Staples (-2.4%) was the only sector posting a negative return, with several consumer packaged goods firms reporting rising production costs from tariffs on imports along with sluggish consumer demand. Real Estate (+2.6%) was the 2nd worst performer, although some prominent commercial REITs gained on the prospect of lower interest rates.

¹ Source: <https://www.bea.gov/data/gdp/gross-domestic-product>

² Source: <https://fred.stlouisfed.org/series/PCEPILFE>

Performance Analysis:

The Value Equity strategy composite returned 6.9% (gross of fees) and 6.8% (net of fees) for the third quarter of 2025. The Russell 1000 Value and S&P 500 returned 5.3% and 8.1%, respectively, in the quarter. Year-to-date, the Value strategy returned 13.0% (gross), outperforming the Russell 1000 Value (+11.7%) and the S&P 500 (+14.8%).

Figure 1: Value Equity Returns vs. Benchmark

September 30, 2025	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Value Equity (gross)	6.9	16.4	13.0	17.0	12.7	11.1
Value Equity (net)	6.8	15.9	12.4	16.3	12.1	10.5
Russell 1000 Value Index	5.3	11.7	9.4	17.0	13.9	10.7
S&P 500 Index	8.1	14.8	17.6	24.9	16.5	15.3

Performance for periods greater than 1 year is annualized. Past performance is no guarantee of future results.

Value of portfolio will fluctuate based on underlying securities. Current performance may be higher or lower than stated returns.

Fees will vary based on size of account. Please see ending page for complete performance disclosures.

AI-related Technology and Communication Services stocks drove the market higher, with cyclical sectors such as Industrials and Financials also contributing. Optimism was fueled not only by the ongoing AI narrative but also by expectations of Fed rate cuts and their supportive impact on economic growth, which in turn boosted small-cap performance (Russell 2000 +12.3% in Q3). The rally has been marked by heightened speculation, evidenced by sharp increases in options activity. Goldman Sachs' speculative trading indicator³ – based on the trading value of penny stocks, unprofitable companies and stocks with Enterprise Value (EV)/Sales > 10x – reached a four-year high, placing it in the 88% percentile of observations over the past 35 years.

From a factor perspective, high beta and momentum were the strongest performers in the third quarter, with Quintile 1 returns as follows:

- **High Beta** was the standout factor, posting Quintile 1 returns of +18.5% for the quarter, in the 92nd percentile of historical returns. At quarter-end, the high beta crowding level was in the 99th percentile over the past three decades.
- **Momentum** delivered strong results, with Quintile 1 returns of +13.6% in the quarter. At quarter-end, the momentum crowding level was in the 97th percentile over the past three decades.
- **Low Volatility** was the weakest factor, with Quintile 1 returns of only +1.3% for the quarter. At quarter-end, the low volatility crowding level was in the 29th percentile over the past three decades.

Market breadth remained narrow, with the capitalization-weighted S&P 500 outperforming the equal-weighted S&P 500 by 360 basis points, as leadership from several of the Magnificent 7 stocks persisted. Year-to-date, only 37% of stocks have outperformed the S&P 500 – better than the 29% average in 2023-2024. The Russell 1000 Growth (RLG) gained 10.5% for the quarter, outperforming the 5.3% return in the Russell 1000 Value (RLV). Year-to-date, RLG has advanced 17.2%, compared with 11.7% for the RLV.

The extremely bullish sentiment toward Growth stocks – fueled by their strong outperformance in recent years – may face increasing headwinds from slowing earnings and cash flow growth as they ramp up capital expenditures and face growing competition from new entrants. Coupled with historically wide valuation gaps relative to Value stocks, these dynamics could serve as catalysts for a rotation into the latter.

³ Goldman Sachs, “US Macroscope: Speculative trading activity adds fuel to narrow-breadth short squeeze”, 07/24/2025.

Positioning across retail, institutional, and systematic trading strategies remains heavily skewed towards Growth and, more recently, high-beta stocks, which were trading in the 92nd percentile on a rolling 3-month basis at quarter-end. The broadening of profit growth from lower interest rates and greater policy certainty (tariffs) serve as tailwinds for Value and several interest-rate sensitive dividend sectors. In addition, a more durable shift toward Value stocks could be driven by factors such as a market or economic downturn, weaker-than-expected AI monetization or a broad market valuation contraction. The Market Outlook section of the commentary provides further details on these points.

Portfolio Changes:

Purchases / Adds

UnitedHealth Group (UNH) was purchased in the Value strategy during the quarter. UNH is the largest diversified managed care organization in the United States, operating a leading health insurer (UnitedHealthcare) and a powerful healthcare services platform (Optum). Its vertically integrated model enables UnitedHealth to combine insurance, pharmacy benefit management, data analytics, and provider services, allowing it to better coordinate care, manage medical cost trends, and capture synergies across its businesses. This scale and diversification provide UnitedHealth with a durable cost-advantage and network-effects moat anchored in local scale, switching costs in Optum Rx, and Optum Insight's leading position in data and technology solutions. Under former CEO Andrew Witty, the company pursued aggressive expansion into new lines of business without fully accounting for the associated risks and acquired numerous companies that were not successfully integrated. In addition, its ambitious membership growth strategy drove higher-than-expected utilization, leading to higher medical costs and a sharp decline in earnings. The company is undergoing a multi-year turnaround under new leadership, pairing cultural reform with operational discipline. Management, led by returning CEO Stephen Hemsley, has reset expectations by guiding to at least \$16 in adjusted EPS for 2025, providing a new baseline from which earnings growth is expected to resume in 2026. Hemsley is widely regarded as a strong strategic leader and operator who has emphasized restoring the performance culture and discipline that characterized the company during his tenure. Strategic actions include repricing for higher medical trend, exiting plans serving over 600K Medicare Advantage members, narrowing networks, and taking a more conservative approach to ACA participation. Optum Health has reduced its 2025 new patient growth target by more than half to 300K to focus on mature markets and expects to deliver nearly \$1 billion of cost reductions in 2026.

Longer-term, UnitedHealth has multiple levers for growth. Medicare Advantage penetration continues to expand, and we believe UnitedHealth is well positioned to benefit given its national scale and leading Stars performance, with management recently indicating about 78% of MA members are in 4+ star plans – a key driver of bonus payments. Optum Health's value-based care margins are expected to remain near breakeven in 2026 as the final year of V28 phase-in is absorbed, then advance toward management's 6–8% long-term target as newer cohorts mature. Optum Insight and Optum Rx provide additional recurring, fee-based revenue streams that diversify earnings and help dampen volatility. Management's cost reduction initiatives, repricing actions, and benefit re-designs are expected to close the gap between cost trends and premium growth, restoring margin credibility and putting the company on track toward mid-to-high single-digit earnings growth from 2026 onward.

UnitedHealth trades at an attractive valuation of ~16x 2027 earnings with a 2.6% dividend yield and a three-year annual dividend growth rate of approximately 12%. In addition, senior management has recently engaged in open market purchases of stock, a vote of confidence in the turnaround of the company. With a clean earnings base, improved operating discipline, and multiple levers for growth and margin recovery, we view UnitedHealth as a high-quality compounder with the potential for accelerating EPS growth and multiple expansion over the next several years as its turnaround and sector recovery unfold.

Becton Dickinson (BDX) was purchased in the Value strategy. BDX is a global medical technology company engaged in the development, manufacture and sale of a broad range of medical supplies, devices, laboratory equipment and diagnostic products used by hospitals, medical offices, physicians, clinical laboratories, and the pharmaceutical industry. Its BD Medical (50% of 2024 sales) segment focuses on devices for medication delivery, including syringes, needles, infusion pumps, pre-filled syringes and related pharmaceutical services. BD is the world's largest manufacturer of syringes, with over 80% market share in US hospital syringes. Its BD Life Sciences (26%) segment provides products and services for disease detection and research, with offerings including diagnostic systems, flow cytometry instruments, and reagents used in laboratories for disease identification and monitoring. Its BD Interventional (24%) segment offers surgical and interventional devices, such as catheters and vascular access tools.

BDX has historically been a consistent mid-single-digit top-line growth company given its leadership in medical device categories that are essential to hospitals and medical offices, including syringes, pre-filled syringes, infusion pumps, and other products. However, the company has faced a number of short-term headwinds in recent years: exiting the Covid pandemic in 2022-2023 and the associated inventory destocking dynamics, a slowdown in China's demand for medical supplies, and more recently the Trump Administration's cuts to NIH funding and the negative impact on demand for research instruments and supplies. Consequently, BDX now trades at its lowest P/E multiple in over a decade, at 12.0x versus a 10-year average of approximately 19x.

While BDX has faced short-term headwinds, we believe there have been no long-term impairments to the company or its business model and, as an essential supplier of medical devices to hospitals, it should return to consistent MSD top-line growth over time. Opportunities exist across the portfolio for management to accelerate growth via new product launches. Upcoming launches include a next-generation Alaris infusion system (used for the delivery of IV fluids, medications, etc.) and a next generation Pyxis medication and supply management system. Management also expects double-digit topline growth from its leading Purewick catheter system, along with continued robust growth in pre-filled syringes which have benefited from the growth in popularity of GLP-1 weight loss drugs. Furthermore, in February of 2025, BDX announced its intention to separate, through a sale or spin-off, its Biosciences and Diagnostic Solutions businesses within its BD Life Sciences segment. We believe a separation of this business will result in a stronger business mix and allow BDX to de-lever the balance sheet and repurchase shares. This shift in business mix to higher growth segments, along with BDX's position as a top-tier supplier with significant scale advantages over smaller competitors, should also result in operating margin expansion over time.

Given the essential nature of BDX's medical products to hospitals and healthcare providers, BDX has historically been defensive in recessions and slowing economic environments. BDX saw a large uptick in sales and EPS during the brief 2020 recession due to increased demand for medical supplies during Covid. During the 2008 financial crisis and recession, BDX increased EPS 28% from 2007 to 2008 and another 12% from 2008 to 2009. Shares of BDX were purchased at a P/E of 12.0x with a 2.5% dividend yield.

Mercedes-Benz Group (MBGYY) was purchased in the Value strategy during the third quarter. Mercedes-Benz is one of the world's largest premium automakers, designing and manufacturing luxury cars and vans while offering financing, leasing, fleet management and mobility services through Mercedes-Benz Mobility. Formerly known as the Daimler Group, the company spun off Daimler Trucks in 2021, concentrating its operations around the Mercedes-Benz luxury brand and focusing on positioning the brand for an all-electric future. The current strategy aims to position the brand higher up the luxury scale by: (1) reducing the company's product offering in the entry luxury category (A-Class, B-Class), (2) strengthening its position in the core luxury category (C-Class, E-Class, EQE, EQE SUV) and (3) expanding the product line-up in the top-end luxury category (S-Class, G-Class, EQS, EQS SUV, Mercedes-AMG, Mercedes-Maybach). In doing so, management is repositioning the company for

structurally higher profitability via a combination of an absolute reduction of fixed costs and a significant improvement in pricing discipline. While the long-term direction toward electrification is intact, the interim milestones have been recalibrated to reflect market conditions, with the former ambition of 50% BEV by 2025 and all-electric by 2030 giving way to a plan that envisions up to roughly 50% electrified (BEV plus PHEV) sales by 2030. To achieve these operational and financial targets, the company is simplifying its manufacturing platforms, investing strategically in internal and external software development capabilities and expanding its presence in the direct-to-consumer channel across key European markets. With a strong balance sheet and a historically healthy track record of credit quality in its financing book, we believe that the company's payout policy allows for steadily rising dividends over the long term, complemented by opportunistic share buyback programs, including the latest announcement for €5 billion of share repurchases, that will reinforce its capital allocation strategy. We believe that the company's focus on prioritizing prices over volumes, sizable order backlog and robust luxury demand will sustain the company's operating margins through a range of macroeconomic scenarios. Shares of the company are valued at 7.8 times forward earnings and offer a 5.5% dividend yield.

NextEra Energy (NEE) was purchased in the Value Equity strategy. NextEra is a Florida-based regulated utility (70% of revenue) and renewables company (30% of revenue). The company's rate-regulated utility is located in regions with strong economic and population growth with a supportive regulator that has approved above-average ROE levels and strong rate base growth. Its portfolio of solar and wind assets has seen considerable growth through long-term contracted assets and the drive toward clean energy generation. Despite the roll-back of federal renewable subsidiaries, the cost of solar and wind generation has fallen substantially and the company is capitalizing on the rapid growth of generation and transmission demand. The valuation of the stock is currently at the Utilities' sector average at 19x forward earnings with a 2.8% dividend yield.

Sales / Trims

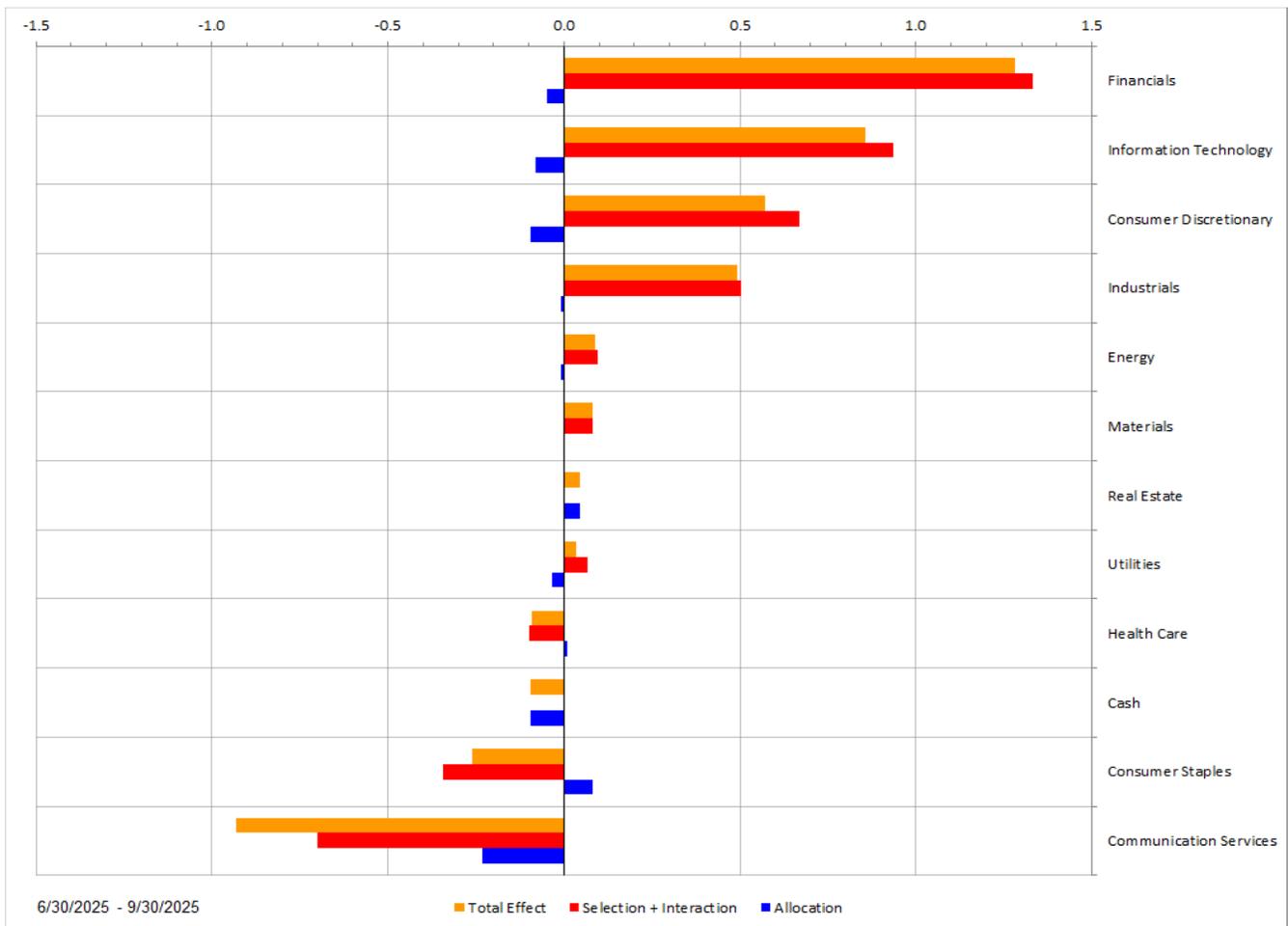
Kenvue (KVUE) was sold from the strategy during the quarter. The company, a global consumer health business spun off from Johnson & Johnson in 2023, has seen volume trends stabilize following significant investment in its R&D and marketing across its health and beauty brands. However, it continues to face multiple challenges, including pressures on US consumer spending, a prolonged winter season that likely delayed allergy and sun care season, and persistent headwinds from China destocking and distribution issues. Additionally, growing competition from challenger brands and shrinking shelf space have eroded market share, while categories including cold/flu and allergy remain subject to volatile inventory trends. At 19x 2025 EPS, the stock's valuation is less compelling than when it was initially added to the portfolio in 2023.

Sempra (SRE) was sold from the strategy during the quarter. Sempra is an electric and gas utility company with businesses in California and Texas. The company has benefitted from load growth in Texas, driven by the AI data center buildout and by a growing population in the state. However, the company's California utility received a negative rate case decision, with both the electric and gas utilities in South California receiving lower rates than they had requested. The challenges in the California utility market outweigh the positives of the Texas utility market. Sempra's 20x P/E multiple provides a less compelling valuation than the 16x P/E multiple it had when the stock was purchased in 2024.

The positions **Oracle (ORCL)**, **JPMorgan Chase (JPM)** and **Morgan Stanley (MS)** were trimmed in the quarter.

Portfolio Attribution:

Figure 2: Attribution Effects –Value Equity vs. Russell 1000 Value 6/30/2025-9/30/2025



Source: SCCM/Bloomberg, 9/30/2025.

Our strong stock selection within **Financials** made the sector the largest contributor to relative performance for the quarter. Citigroup’s (+20.0%) restructuring and turnaround plan has exceeded expectations so far, and management said on their 2Q earnings call that certain priorities are now largely complete. The increased efficiency is leading to improved returns, with ROTCE rising 150 bps y/y to 8.7%. The stock has re-rated higher, now trading above 1.0x tangible book value, an important inflection point for investor sentiment. Morgan Stanley (+13.6%) reported record Capital Markets revenue in the second quarter, driven by equity capital markets activity and equities trading volumes. The company’s Wealth Management division reported 14% y/y revenue growth, as fund flows grew 7% and market share was strong. Management was able to control expenses well despite the strong revenue growth, as a 70.7% efficiency ratio was 130 bps below consensus estimates. The big banks, including Bank of America (+9.6%) and JPMorgan Chase (+9.3%), passed the Federal Reserve’s annual stress tests this summer and subsequently raised their dividends. The group should benefit from interest rate cuts that spur economic activity, loan growth, and M&A activity.

Our strong stock selection within **Information Technology** benefited relative performance. Oracle (+28.9%) outperformed following the announcement of a massive cloud services contract valued at \$30 billion annually, nearly triple the size of Oracle’s current \$10.3 billion cloud infrastructure business. The deal, expected to begin generating revenue in fiscal 2028, offers good visibility into future growth and

validates Oracle's aggressive cloud strategy. The anticipated spend on data center buildouts in the US, along with the associated growth in memory chip demand, also lifted Micron shares 35.9% in the third quarter. Applied Materials (+12.2%) reported better-than-expected fiscal third-quarter results, driven by strength in foundry, logic, and services, even as China demand moderated. While management guided to an 8% sequential revenue decline reflecting normalization in China and timing of leading-edge orders, the outlook remained constructive, with execution and profitability ahead of expectations. The company continues to benefit from structural growth in AI-related semiconductor capital spending, supported by leadership in gate-all-around, advanced DRAM, and packaging technologies, which together provide solid earnings visibility and long-term growth potential.

Our strong stock selection within the **Consumer Discretionary** sector benefitted relative performance. BorgWarner (+31.8%) delivered impressive second quarter results that exceeded expectations and led management to raise full-year guidance. The company announced new turbocharger and high-voltage coolant heater programs in Europe and North America, including its first hybrid platform award, and expanded its electrification footprint in China with contracts for its electric cross-differential system and dual inverter. BorgWarner also raised its quarterly dividend by 55%, reflecting confidence in cash generation and shareholder returns. Continued momentum in electrification and disciplined execution supported the stock's robust performance. Lowe's (+13.9%) also reported strong second quarter earnings, with comparable sales up 1.1%, its strongest result since 2022, driven by growth in both Pro and DIY segments. Gross margins expanded roughly 40 basis points, aided by improved product mix and cost control, while July comps rose 4.7%. The company also announced the \$8.8 billion acquisition of Foundation Building Materials, broadening its Pro customer base and advancing its Total Home strategy. Solid execution, margin improvement, and portfolio expansion supported positive investor sentiment.

Our stock selection within the **Communication Services** sector was the largest detractor from relative performance. Comcast (-11.2%) management noted that competitive pressure in broadband from fiber and fixed wireless access remained intense, while promotional offers such as five-year price locks and free mobile lines weighed on near-term ARPU and segment margins. Despite these headwinds, management reaffirmed its long-term strategy, highlighting wireless expansion, enterprise growth, and Peacock's scaling sports lineup as key drivers to improve performance over time. Disney (-7.7%) reported third quarter results that modestly missed expectations in Entertainment and came in below forecasts for streaming growth. Direct-to-Consumer revenue increased 6% but was held back by softer advertising and limited subscriber gains in the U.S. Disney+ base. Management raised full-year EPS guidance to \$5.85, signaling confidence in ongoing cost discipline and earnings recovery. Experiences continued to perform well, with domestic parks revenue up 10% and record attendance at Walt Disney World, underscoring the resilience of Disney's brand strength and diversified portfolio.

Our stock selection within the **Consumer Staples** sector detracted from relative performance. Kenvue (-21.7%) came under pressure after the U.S. administration, in coordination with Health and Human Services Secretary Robert F. Kennedy Jr., issued a public warning advising pregnant women to avoid acetaminophen (the active ingredient in Tylenol), citing potential developmental risks. Kenvue strongly rejected these claims, emphasizing decades of research showing no credible evidence of such a connection, a position supported by the American College of Obstetricians and Gynecologists. A 2023 federal court ruling dismissed related multidistrict litigation due to insufficient scientific evidence. While headlines created near-term volatility, the absence of credible scientific risk and prior legal resolution meaningfully reduce long-term financial exposure. The stock trades at 15.5x 2025 earnings with a 5.2% dividend yield, offering attractive value. Mondelez International (-6.6%) declined after cocoa futures rose amid renewed concerns about crop yields in West Africa driven by dry weather conditions. Cocoa remains a key input cost for Mondelez, one that the company is working to de-risk by expanding its supply base beyond Africa to Southeast Asia.

Our stock selection within the *Health Care* sector detracted from relative performance. Cigna (-12.4%) reported third quarter results that modestly exceeded expectations but reflected continued elevated medical cost trends and softer commercial membership. The company's medical loss ratio of 83.2% was consistent with broader utilization pressures across managed care, though management reaffirmed full-year guidance and highlighted strong performance in Evernorth's specialty and care services, including biosimilars and new client growth. Cigna remains comparatively insulated from Medicare and Medicaid headwinds relative to peers, supported by the scale and stability of its pharmacy benefit management and commercial network. Bristol Myers Squibb (-1.3%) reported results that beat expectations across both its Growth and Legacy portfolios but lowered EPS guidance due to one-time R&D charges and persistent loss-of-exclusivity pressures. Management is focused on stabilizing near-term performance through portfolio realignment, cost discipline, and pipeline advancement. Growth products such as Opdivo, Reblozyl, and Camzyos continue to gain traction, and an expanding late-stage pipeline in oncology and immunology supports a path to re-accelerating earnings as major patent expiries subside later in the decade.

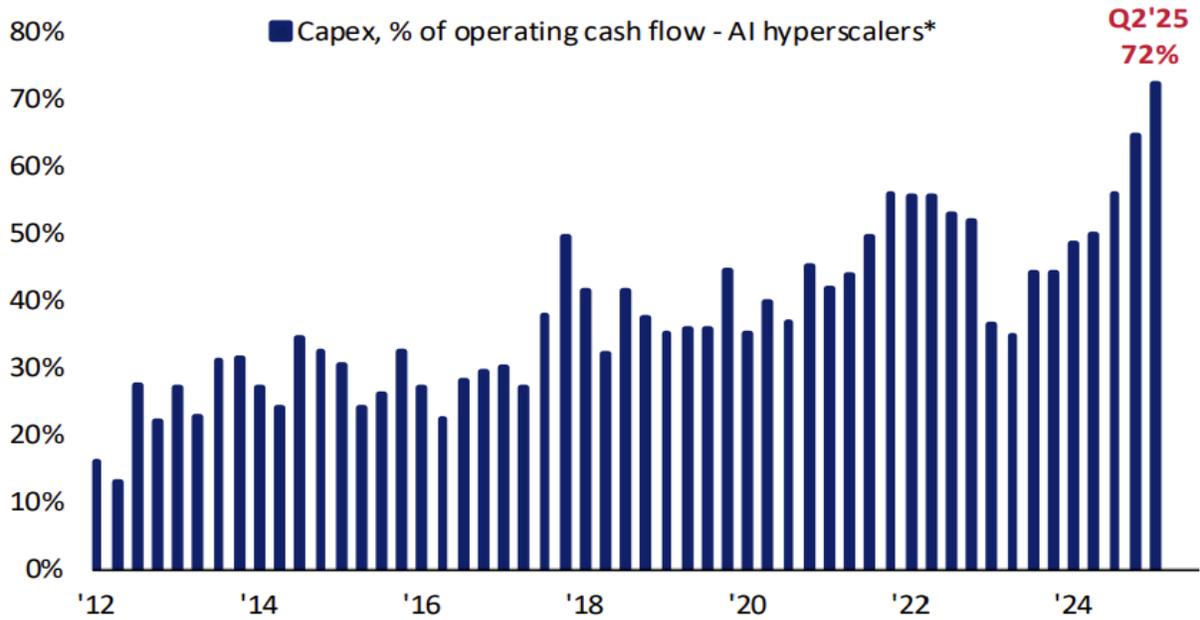
Market Outlook:

The economic outlook improved over the third quarter as policy-related uncertainty, which had weighed on sentiment, eased further. Companies and markets grew more comfortable digesting tariffs, while multiple trade negotiations moved forward. The resumption of the Fed's easing cycle has lifted optimism that economic growth could rebound from muted levels, even as ISM and PMI figures have remained relatively flat for the past two years. However, with credit spreads at multi-year lows, there is little risk priced into the market. Meanwhile, private credit has ballooned to nearly \$2T, and investors are beginning to see a rise in payment-in-kind distributions and outright defaults. From a sentiment perspective, the II Bull/Bear survey sits in the top decile of readings over the past decade, underscoring elevated market enthusiasm. The US stock market has become an increasingly important driver of consumption and sentiment, with the wealth effect from rising equities reinforcing confidence and spending – creating, for now, a self-reinforcing feedback loop.

Euphoria around AI investments has propelled markets higher, with the rebound in the Magnificent 7 pushing the group's valuation back to record highs and market concentration to extreme levels. Speculative trading activity is at multi-year highs while flows into the Technology sector have reaccelerated to record levels. AI-focused ETFs – now numbering more than 20 – are channeling additional funds into the same group of companies. The trillions of dollars being invested into agentic AI will eventually need to be monetized. Capital expenditures among the top five hyperscalers – Meta, Google, Amazon, Microsoft and Oracle – have surged in recent years as these companies race to establish leadership in generative AI. This aggressive spending has driven the hyperscale capex-to-cash flow ratio to 72% in the second quarter of 2025 (Figure 3), leading to a significant slowdown in both free cash flow and earnings growth, and raising questions about the sustainability of their historically superior growth profiles. Additionally, without a clear short-term path to monetize AI investments, many players in the ecosystem must turn to capital markets to fund their initiatives.

At the same time, the increasingly circular nature of capex spending highlights how interconnected these companies have become. Chipmakers like Nvidia are financing customers such as OpenAI, which in turn fuels demand from cloud providers like Oracle to purchase additional Nvidia chips for their data centers – reinforcing a self-perpetuating cycle of investment. Nvidia's vendor financing model has extended to other customers, including CoreWeave, whose business model is largely built on purchasing Nvidia GPUs and renting them out.

Figure 3: Hyperscale Capex/Cash Flow



Source: BofA/ML, The Flow Show, 09/11/2025. *MSFT, GOOG, META, AMZN, ORCL

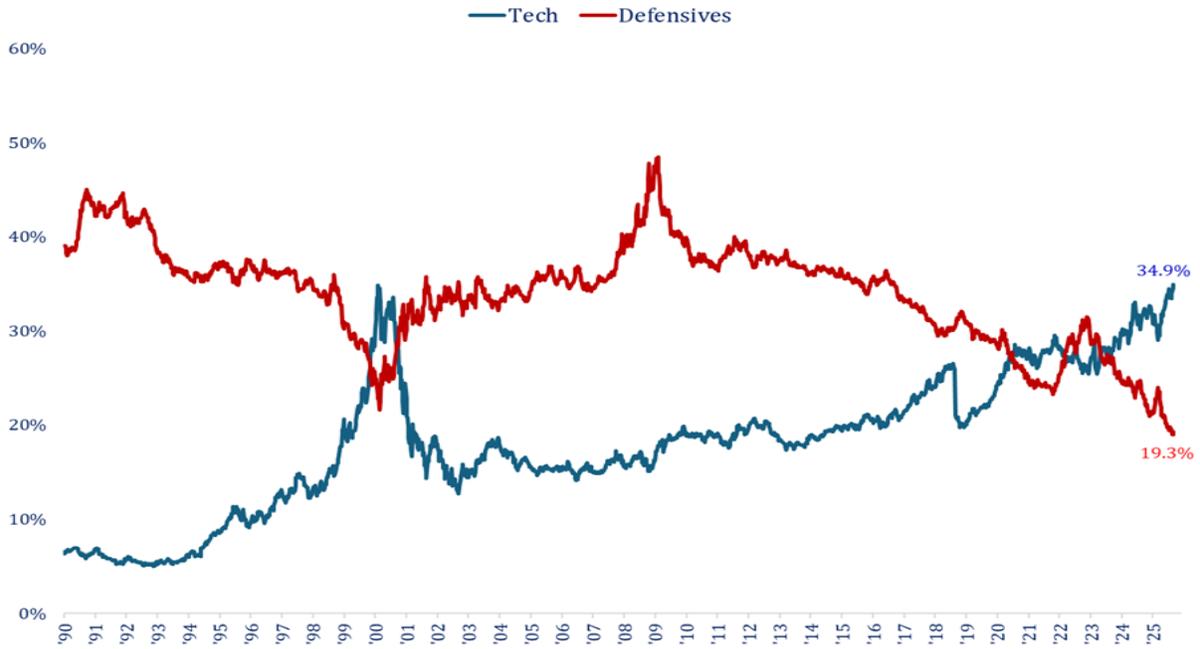
The rally in the Magnificent 7 has pushed market concentration to new extremes, with the top 10 stocks in the S&P 500 now comprising a record-high 39% of the index (Figure 4) – a level not seen in over five decades – and well above their share of S&P 500 earnings. The combined weight of the Technology and Communication Services sectors has climbed to nearly 50% of the S&P 500, an all-time high. In contrast, the combined weights of Defensives sectors (Consumer Staples, Healthcare, Utilities, and REITS) have fallen to just 19%, a multi-decade low and less than half their weight in 2009 (Figure 5). This rotation has been driven largely by sector ETF flows, which have heavily favored Technology and, more recently, Cyclical such as Financials and Industrials, at the expense of Defensives including Staples, Utilities, Real Estate, and Healthcare. Investor interest in dividend and defensive value strategies is now near record lows, creating a compelling buying opportunity.

Figure 4: Top 10 Largest S&P 500 Weights



Source: Goldman Sachs Investment Research, 09/30/2025.

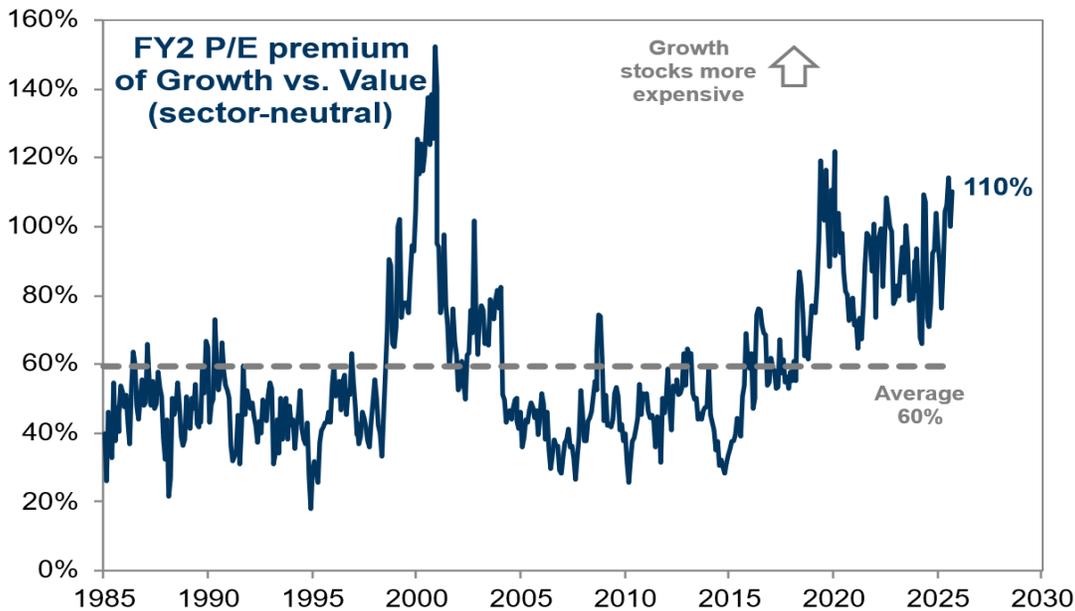
Figure 5: S&P 500 Sector % Weight – Technology vs. Defensive Sectors



Source: Strategas Research, ETF Research, 09/30/2025.

Market valuations have returned to extremely elevated levels, with broad-based valuation metrics now sitting at multi-decade highs. The forward price-to-earnings (P/E) multiple of the capitalization-weighted S&P 500 now stands at nearly 25x 2025 earnings – its second-highest valuation level in over thirty years – marking a significant divergence from the equal-weighted S&P 500, which trades at 19x. Importantly, the valuation gap between Growth and Value stocks has reached historically extreme levels. Growth stocks currently trade at a 110% premium to Value stocks – more than double the long-term historical average of 57% and near the last peak seen during the speculative surge of 2020 (Figure 6).

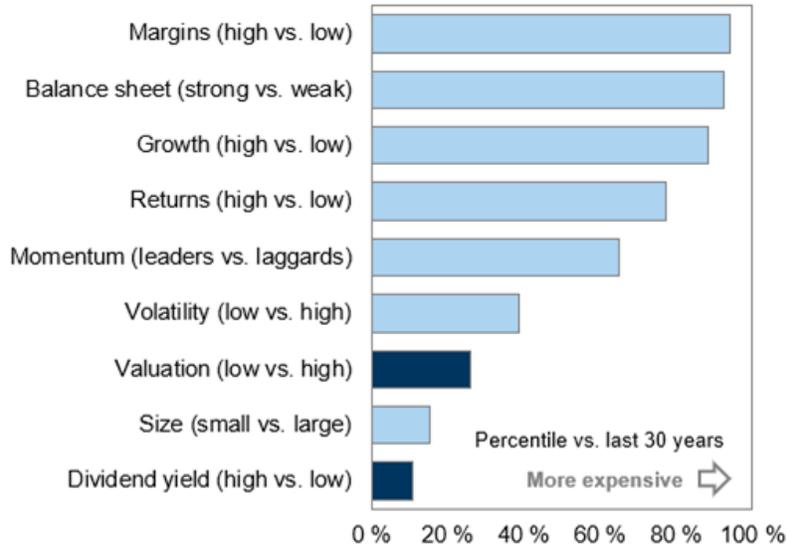
Figure 6: Valuation of Growth vs. Value Stocks



Source: Goldman Sachs Global Investment Research, 09/30/2025.

In terms of equity factors, High Quality (strong margins, balance sheet strength) and Growth are now trading at historical extremes – around the 90% percentile of observations (Figure 7). The market has become increasingly crowded in Quality and Growth, while Value and Dividend Yield continue to trade at relatively cheap valuations compared to their long-term history.

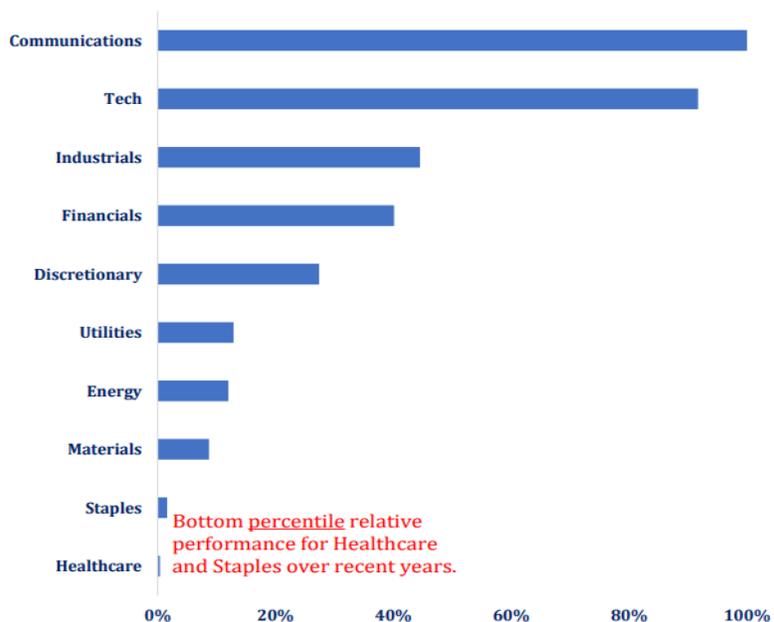
Figure 7: Equity Factor Valuation Percentile Relative to the Past 30 Years



Source: Goldman Sachs Investment Research, 09/30/2025.

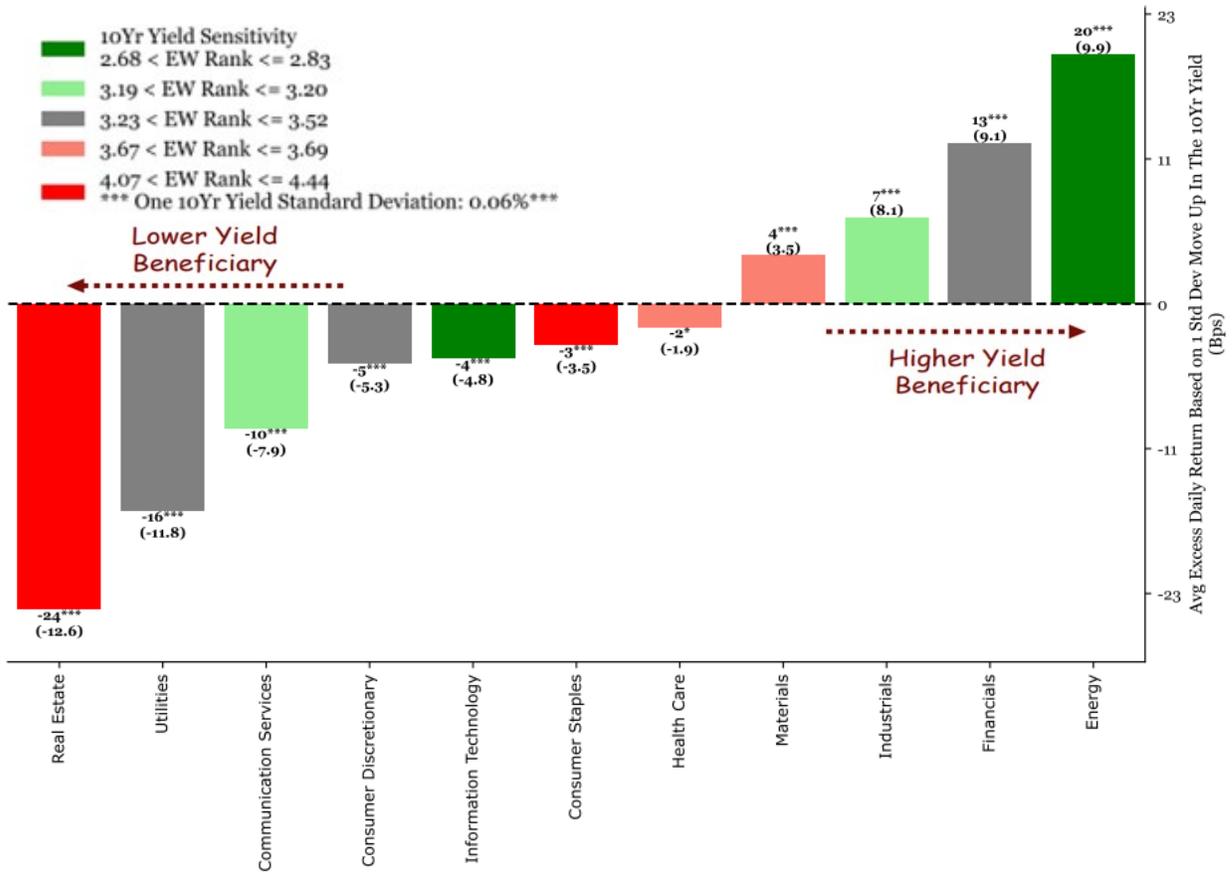
The outperformance of the Communication Services and Technology sectors over the past three years relative to the past 50 years has rarely been better (Figure 8). In contrast, the relative performance of the Staples and Healthcare sectors over the past three years has rarely been worse. The combination of extreme pessimism, underweight positioning and attractive valuations in these lagging sectors creates favorable starting conditions for potential mean reversion – particularly in Healthcare, which has historically outperformed the S&P 500 in 11 of the past 13 midterm election years (next midterm year - 2026).

Figure 8: S&P 500 Sector Relative Performance Percentile



Source: Strategas Research, 10/01/2025. Last 3 years vs. History, data since 1972.

Figure 9: S&P1500 Sector 10-Yr Yield Sensitivity



Source: Renaissance Macro Research, Weekly Survival Guide, 9/09/2025. 1/01/2009-10/06/2025.

As discussed, multiple tailwinds support Value and Dividend stocks ahead. The broadening of profit growth from lower interest rates and greater policy certainty (tariffs) provide a favorable backdrop for Value. Historically, Value and Dividend strategies have delivered strong risk-adjusted returns, and current valuations remain attractive amid light positioning and muted sentiment. As these factors normalize over time, we believe Value and Dividend stocks are well positioned to deliver improved relative performance versus the broader market and Growth stocks.

The current valuation of our portfolio remains attractive – the strategy’s P/E is 14.5x forward earnings versus 21.5x for the Russell 1000 Value and 24.7x for the S&P 500 (Q3).

Thank you for your continued support. Feel free to reach out to us if you have any questions.

Best Regards,

Schafer Cullen Capital Management, Inc.

All charts included are for illustrative purposes only and there is no assurance any trends will continue. Investors cannot invest directly in an index.

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