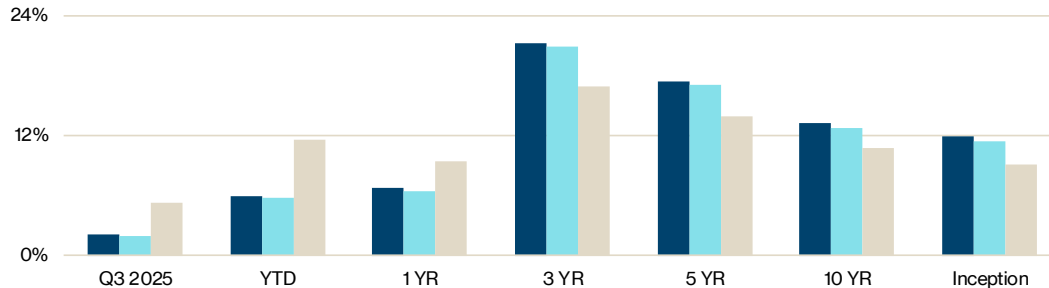




# Market & Portfolio Commentary

## Large Cap Value Select

### Q3 2025



	Q3 2025	YTD	1 YR	3 YR	5 YR	10 YR	Inception
LCVS Composite - Gross	2.09%	6.00%	6.75%	21.21%	17.39%	13.27%	11.94%
LCVS Composite - Net	2.02%	5.84%	6.52%	20.96%	17.15%	12.84%	11.49%
Russell 1000 Value	5.33%	11.65%	9.44%	16.96%	13.88%	10.72%	9.10%
Out / Underperformance - Gross	-3.24%	-5.65%	-2.69%	+4.25%	+3.51%	+2.55%	+2.84%
Out / Underperformance - Net	-3.31%	-5.81%	-2.92%	+4.00%	+3.27%	+2.12%	+2.39%

**Past performance is no guarantee of future results. There is a risk that invested capital may be lost.** Performance is shown gross and net of fees as of September 30, 2025. Inception date: November 1, 2014. Index data source: London Stock Exchange Group PLC and its group undertakings (collectively, the "LSE Group"), © LSE Group. Please see appendix for additional performance, representative portfolio, and holdings disclosures.

## MARKET HIGHLIGHTS

- AI enthusiasm and the Fed's decision pushed the market higher in Q3 despite lingering inflation.
- Large cap growth continued to outpace large cap value stocks by a wide margin; small cap stocks led.**
- Within the Russell 1000 Value index, **Communication Services (+11.74%)** and **Utilities (+8.34%)** posted the highest total returns, while **Consumer Staples (-1.96%)** and **Real Estate (+4.22%)** posted the lowest.

## PORTFOLIO HIGHLIGHTS

- For Q3, the Large Cap Value Select (LCVS) composite returned **+2.09% (+2.02% net)** versus **+5.33%** for the Russell 1000 Value benchmark. Year-to-date, the composite returned **+6.00% (+5.84% net)** versus **+11.65%** for the benchmark.
- The sectors with the highest contribution to relative return (total effect) in Q3 were **Materials (+141 bps)** and **Utilities (+30 bps)**.
- The holdings with the highest contribution to active return were **CRH PLC (CRH)** and **Talen Energy Corp. (TLN)**.
- The sectors with the lowest contribution to relative return (total effect) in Q3 were **Consumer Discretionary (-158 bps)** and **Industrials (-103 bps)**.
- The holdings with the lowest contribution to active return were **Fidelity National Information Services Inc. (FIS)** and **BJ's Wholesale Club Holdings Inc. (BJ)**.

## OUTLOOK

- While supportive fiscal and monetary policies and seasonal factors could fuel equity markets into the end of the year, elevated valuations temper our optimism.**



# Market & Portfolio Commentary

## Large Cap Value Select

### Q3 2025

#### MARKET REVIEW

##### *AI enthusiasm and the Fed's decision pushed the market higher in Q3*

The U.S. stock market remained resilient throughout Q3 2025, continuing its steady advance from the tariff-induced lows experienced in early Q2. **Ongoing AI-related spending announcements fueled optimism** for suppliers across the Information Technology and Utilities sectors. The Federal Reserve's July **decision to cut interest rates** for the first time in 2025 **bolstered confidence in the broader economy** and provided additional tailwinds for equity markets. The Atlanta Fed's GDPNow, a timely estimate of GDP growth in Q3, was positive throughout the period and as of quarter-end pointed to a very healthy **+3.8% growth rate in the period**. Perhaps most notably, the prevailing bullish sentiment proved so entrenched that **markets showed little concern over the prospects of a federal government shutdown** in early October.

##### *Labor market concerns prompted interest rate cuts even as inflation remained stubbornly high*

However, it **was not optimism that prompted the Fed to cut rates** and potentially reignite inflationary pressure. The **condition of the U.S. labor market was more tenuous than appreciated** as the Bureau of Labor Statistics revealed that **911,000** fewer jobs were created than previously reported from Q2 2024 to Q1 2025 – **the largest downward revision on record** – and job growth slowed dramatically. At the same time, **inflation accelerated to +2.9% in August** and appears set to remain stubbornly elevated in the near term.

##### *Growth continued to outpace value stocks by a wide margin*

While growth stocks did not match the extraordinary outperformance of Q2, they continued to outpace value stocks by a wide margin in Q3. The Russell 1000 Growth advanced **+10.51%** versus the **+5.33%** return for its value peer. Small cap stocks led the market higher, as the small cap Russell 2000 advanced **+12.39%** versus the **+7.99%** return for the large cap Russell 1000.


Within the Russell 1000 Value index, **Communication Services (+11.74%)** and **Utilities (+8.34%)** delivered the highest total returns in Q3, while **Consumer Staples (-1.96%)** and **Real Estate (+4.22%)** delivered the lowest.

##### *Value was a tailwind in Q3*

We focus on key factors we believe tend to primarily influence the relative performance of the Large Cap Value Select (LCVS) strategy over time, including overweights to **quality (through ROE)** and **value (through EBITDA to EV)**. In Q3, the portfolio's **overweight to value stocks was a tailwind** while the portfolio's uncharacteristic underweight to quality stocks was a headwind.

LCVS vs R1V Style Mine Performance

Factor	Q3		
	Factor Active Wgt (Top Half)	Relative Return (Top Half)	Asset Allocation (Overall)
EBITDA to EV	9.25	0.74	0.85
Return on Equity	-6.12	0.52	-0.19

 **Past performance is no guarantee of future results. There is a risk that invested capital may be lost.** Data is provided by Style Analytics Inc. Index data source: London Stock Exchange Group PLC and its group undertakings (collectively, the "LSE Group"), © LSE Group. Please see appendix for additional disclosures.



## PORTFOLIO REVIEW

For Q3, the Large Cap Value Select (LCVS) composite returned **+2.09%** (**+2.02%** net) versus **+5.33%** for the Russell 1000 Value benchmark. Year-to-date, the composite returned **+6.00%** (**+5.84%** net) versus **+11.65%** for the benchmark.

For Q3, the key drivers of relative performance included the following:

- **Negative stock selection (-273 bps)**, primarily driven by **Consumer Discretionary (-181 bps)** and **Industrials (-111 bps)**, partially offset by positive stock selection in **Materials (+142 bps)** and **Utilities (+38 bps)**.
- **Negative sector allocation (-44 bps)**, driven by the lack of exposure to **Communication Services (-49 bps)**, partially offset by overweight position in **Consumer Discretionary (+23 bps)**.
- **High conviction holdings (1.0-2.0 rating)** performed the best across the conviction buckets but underperformed the benchmark, returning **+3.41%** versus **+5.33%** for the Russell 1000 Value.

### Q3 2025

	LCVS		
	Avg Wgt	Total Return	Contrib Return
Conviction			
<b>High: 1.0-2.0</b>	55.10	3.41	1.67
<b>Above Average: 2.5</b>	34.53	1.95	0.75
<b>Average / Low: 3.0-5.0</b>	7.20	-3.95	-0.30
Cash	3.18	1.41	0.04
<b>Total</b>	<b>100.00</b>	<b>2.16</b>	<b>2.16</b>
LCVS Composite - Gross		2.09	
LCVS Composite - Net		2.02	
Russell 1000 Value Index		5.33	

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### Q3 2025

### YTD

	LCVS			Russell 1000 Value			Attribution Analysis			
	Avg Wgt	Total Return	Contrib Return	Avg Wgt	Total Return	Contrib Return	Allocat Effect	Select Effect	Total Effect	Total Effect
GICS Direct Sector										
<b>Materials</b>	10.83	19.85	1.92	4.21	5.69	0.24	-0.01	1.42	<b>1.41</b>	0.91
<b>Utilities</b>	1.22	44.88	0.47	4.47	8.34	0.37	-0.08	0.38	0.30	<b>1.14</b>
<b>Information Technology</b>	--	--	--	10.18	4.93	0.48	0.05	--	0.05	-0.26
<b>Energy</b>	--	--	--	5.94	6.32	0.36	-0.06	--	-0.06	0.12
<b>Health Care</b>	11.71	4.62	0.55	11.60	5.52	0.64	-0.00	-0.12	-0.12	<b>-1.07</b>
<b>Real Estate</b>	3.67	-4.62	-0.18	4.20	4.22	0.18	0.01	-0.34	-0.33	-0.21
<b>Consumer Staples</b>	7.66	-7.39	-0.59	7.93	-1.96	-0.14	0.01	-0.42	-0.41	<b>3.21</b>
<b>Communication Services</b>	--	--	--	7.77	11.74	0.89	-0.49	--	-0.49	-0.92
<b>Financials</b>	28.52	2.48	0.66	22.63	4.78	1.08	-0.00	-0.72	-0.72	<b>-2.80</b>
<b>Industrials</b>	16.90	-1.41	-0.13	13.20	5.26	0.69	0.08	-1.11	<b>-1.03</b>	<b>-1.20</b>
<b>Consumer Discretionary</b>	16.32	-3.51	-0.57	7.87	6.65	0.53	0.23	-1.81	<b>-1.58</b>	<b>-4.20</b>
Cash	3.18	1.41	0.04	--	--	--	-0.18	--	-0.18	-0.19
Unassigned	--	--	--	--	--	--	--	--	--	-0.00
<b>Total</b>	<b>100.00</b>	<b>2.16</b>	<b>2.16</b>	<b>100.00</b>	<b>5.33</b>	<b>5.33</b>	<b>-0.44</b>	<b>-2.73</b>	<b>-3.17</b>	<b>-5.49</b>
Gross Composite / Index		2.09			5.33					
Net Composite		2.02								

**Past performance is no guarantee of future results. There is a risk that invested capital may be lost.** Performance is shown gross and net of fees. Attribution is shown gross of fees and does not reflect the deduction of all fees and expenses that a client has paid or would have paid. Refer to the composite gross and net performance to understand the overall effect of fees. Except for the composite performance, information is based on a representative portfolio within the strategy. Index data source: London Stock Exchange Group PLC and its group undertakings (collectively, the "LSE Group"), © LSE Group. All representative portfolio information is supplemental to the composite presentation. Please see appendix for additional disclosures.

### What worked...

The holding with the highest contribution to active return in the portfolio during Q3 was **CRH PLC (CRH)**, a prominent supplier of aggregates-based construction materials, building products, and contracting services in the U.S. and Europe. With a track record spanning more than five decades, **the company has consistently delivered impressive mid-teens returns to its shareholders**, leveraging what we consider to be a superior business model and exceptional operational execution. CRH's aggregate quarries often function as **de facto local monopolies**, granting the company **substantial pricing power** in its markets. Over time, the company's management has **skillfully pursued a strategy of industry consolidation**, resulting in increased scale, enhanced operational efficiencies, and improved profit margins. This approach has not only strengthened CRH's market position but also contributed to its sustained financial success and shareholder value creation.



During the quarter, CRH delivered robust results **underpinned by resilient end markets and effective pricing execution**, particularly in U.S. aggregates, which drove organic revenue growth and outpaced peer volume trends amid a softer overall construction environment. The company further bolstered its growth profile with the strategic acquisition of Eco Material Technologies, expanding its low-carbon cementitious offerings and positioning it at the vanguard of sustainable building solutions, while management highlighted enduring **tailwinds from infrastructure spending, including less than 40% of IIJA funds deployed to date** and strong backlogs signaling momentum into the second half. These factors, combined with ambitious 2030 targets for revenue and margin expansion, fueled investor enthusiasm and propelled the shares higher. Given this continued execution against our thesis and attractive valuation, we maintained our position in CRH.

Another top contributor during the quarter was **Talen Energy Corp. (TLN)**, a leading independent power producer operating a 10.7 GW portfolio of nuclear (48%), natural gas (41%), and coal (11%) assets across the PJM and WECC regions. The Susquehanna nuclear facility—**its flagship asset—benefits from a production tax credit that sets a floor under cash flows, while capturing upside from rising power prices driven by accelerating data center demand**. Soaring grid pressures from AI-driven technologies and electrification trends position TLN's reliable, carbon-free nuclear generation for premium pricing, exemplified by its expanded 24/7 nuclear power purchase agreement (PPA) with Amazon. Strategic monetization of gas assets and the Cumulus datacenter campus further enhance **TLN's ability to capture value in a structurally undersupplied power market**.

Q3 2025 Top Contributors

Symbol	Company	Total Return	PCAR
CRH	CRH PLC	30.81	1.64
TLN	Talen Energy Corp.	44.88	0.43
WTW	Willis Towers Watson PLC	13.03	0.42

During the quarter, Talen benefited from **robust capacity auction results in PJM**, which cleared at elevated levels to signal the urgent need for additional supply amid accelerating demand from AI data centers and electrification. **Management capitalized on this momentum by acquiring two modern gas-fired plants that bolster its portfolio in high-growth regions**, while expanding its landmark agreement with Amazon to deliver nearly double the nuclear power capacity on a front-of-the-meter basis, resolving prior regulatory hurdles and locking in long-term visibility. These catalysts, coupled with **the company's opportunistic share repurchases well below current valuations**, drove shares higher as investors recognized Talen's adept positioning in a structurally tightening power market. We previously trimmed our position well below the target weight but continue to hold a small position to seek to benefit from the ongoing supply-demand imbalance.

Another positive contributor was **Willis Towers Watson PLC (WTW)**, a leading global insurance brokerage, consulting, risk management, and benefits outsourcing firm. Its position as the third-largest player in the insurance brokerage industry, commanding 25-45% market share across key regions, **drives stable, recurring revenue through high client retention rates** (92% in brokerage, 95%+ in consulting) and **a capital-light model that generates strong free cash flow**. The Health, Wealth & Career segment (57% of revenue) leverages growing demand for human capital solutions, particularly in health benefits, while the Risk & Broking segment (43%) capitalizes on its global network and deep industry expertise to navigate complex risk environments. We believe WTW's diversified business mix and operational efficiency position it to deliver consistent growth and margin expansion over the long term.

During the quarter, WTW posted **steady organic growth across its core segments**, with Risk & Broking delivering another quarter of high single-digit expansion driven by **new business wins, robust client retention, and the continued success of its specialty strategy**, even as softening property rates posed moderate headwinds. The Health, Wealth & Career unit showed sequential acceleration, bolstered by a strengthening pipeline and persistent healthcare inflation fueling demand for benefits solutions, while overall margins expanded meaningfully thanks to operational efficiencies and a recurring revenue model that proved resilient. Management's reaffirmation of mid-single-digit growth and margin gains for the year, coupled with a reloaded share repurchase program, underscored disciplined capital allocation and confidence in the strategy. **This execution relative to peers reinforced our conviction that WTW should not trade at a meaningful discount to peers**, and we maintained our position in WTW.

#### *What didn't work...*

The holding with the lowest contribution to active return in the portfolio during Q3 was **Fidelity National Information Services Inc. (FIS)**, a leading provider of mission-critical core processing and payments software to banks and financial institutions worldwide. FIS's Banking Solutions segment dominates the above \$10 B in assets bank segment with deeply integrated platforms that power daily operations for more than 3,000 banks, **delivering near-99% retention rates thanks to immense switching costs and long-term exclusive contracts**. The recently announced **deal to acquire Global Payments' Issuer Solutions business is transformative**, bolstering FIS's scale in high-margin, recurring credit processing while the divestiture of its remaining Worldpay stake sheds a non-core merchant acquiring unit, sharpening focus on sticky, predictable revenue streams. This repositioning enhances cross-selling opportunities across its vast client base, including 95% of the world's top banks.



Despite delivering in-line results with accelerating organic growth in its core Banking Solutions segment – **bolstered by strong new wins, high retention, and the benefits of bank consolidation** – the stock faced headwinds from **temporary softness in Capital Markets revenues**, driven by reduced loan syndication activity amid macroeconomic uncertainty following key events earlier in the year. Management highlighted a quick rebound in that business during July and raised full-year guidance across key metrics, including double-digit adjusted EPS growth, yet investor skepticism lingered over flat margins in 1H25, weaker free cash flow conversion from elevated tax payments, and a Q3 outlook that implied some deceleration in Banking momentum. While these dynamics contributed to the underperformance, **the underlying execution of our thesis remains intact, prompting us to hold our position as visibility into deal synergies and recurring revenue strength builds.**

Another bottom contributor during the quarter was **BJ's Wholesale Club Holdings Inc. (BJ)**, a warehouse club operator with 250 locations across 21 U.S. states, serving more than 7.5 million members with a value-driven assortment of groceries, general merchandise, and fuel. **For 25 consecutive years, BJ's has delivered membership fee income growth, a testament to its sticky, recession-resilient model, with these fees now comprising ~50% of EBITDA – providing a high-margin, predictable cash flow stream.** Private label penetration has climbed to 26% (targeting 30%), boosting margins and member savings, while CEO Bob Eddy's push to **accelerate new club openings from a historical 1-2 to 10-12 annually is unlocking scale and market share gain opportunities.** We believe this potent combination of **membership durability, margin expansion, and unit growth positions BJ's as a compounding machine**, with its value proposition poised to gain wallet share in a potential economic slowdown.

**Q3 2025 Bottom Contributors**

Symbol	Company	Total Return	PCAR
FIS	Fidelity National Information Services Inc.	-18.51	-1.09
BJ	BJ's Wholesale Club Holdings Inc.	-13.56	-1.06
CSL	Carlisle Companies Inc.	-11.79	-0.60

During the quarter, BJ's reported results that beat expectations on earnings and EBITDA but fell short on revenues, primarily due to softer-than-anticipated comparable sales amid unseasonably wet weather early on and a more cautious consumer pulling back on discretionary general merchandise spending. **While traffic and market share continued to grow for the 14th straight quarter**, with strength in groceries, perishables, and digital channels, the macro environment – marked by tariff-related inflation and economic uncertainty – prompted members across income levels to seek deeper value, echoing similar trends at peers like Costco and Walmart. Management noted resilience in lower-income cohorts, who are responding well to enhanced private label and convenience offerings, but flagged potential 2H volatility from sourcing adjustments and inventory caution in tariff-exposed categories. **Despite these headwinds, we added to the position, viewing the dip as a temporary setback in an otherwise accelerating growth story.**

Another poor performer was **Carlisle Companies Inc. (CSL)**, a manufacturer of roofing, insulation, and waterproofing products for commercial and industrial buildings. We believe **commercial roof replacement and building envelope (insulation, waterproofing) demand is a relatively resilient business with secular environmental and aging building stock tailwinds.** Management estimates up to 40% of commercial roofs will need to be replaced over the next five plus years. Management has skillfully allocated its consistent and growing FCFs to accretive M&A in a post-COVID-19 world (i.e., Henry acquisition), share buybacks (shares outstanding down -23% over the last six years), and growing the dividend (47-year track record of growing the dividend, +15.8% five-year CAGR with a +10% hike in Q3 2025).

During the quarter, Carlisle faced persistent headwinds from high interest rates and economic uncertainty, which slowed new construction activity and delayed project decisions across both commercial and residential markets, offsetting the resilience of its core re-roofing business. Softer demand in residential end markets and weather disruptions further pressured volumes in the Weatherproofing Technologies segment, leading to flat revenues and margin compression despite pricing stability and cost-saving initiatives. Management tempered its outlook for 2025, citing these temporary delays amid strong long-term drivers, contributed to the stock's underperformance. **While the company opportunistically repurchased shares amid stock price weakness and maintains, we believe, a pristine balance sheet at 1.4x net leverage and a share repurchase authorization for ~20% of the shares outstanding**, we maintained our position, awaiting a wider discount to rebuild our position to its target weight.

### **Portfolio positioning...**

As of September 30, the portfolio held **27** positions, in line with Q2. During Q3, the largest sector increase was **+630 bps** within Consumer Staples, while the largest decrease was **-452 bps** within Industrials. We established **3** new positions and eliminated **3** positions.

**Q3 2025**

Established	Eliminated
Kroger Co.	Elevance Health Inc.
Lithia Motors Inc.	LKQ Corp.
Progressive Corp.	lululemon athletica Inc.





During Q3, we established new positions in (convictions at the time of purchase are in parenthesis): **Kroger Co. (KR, 3.0 conviction)**, which is discussed below as the largest new position, **Lithia Motors Inc. (LAD, 2.5)**, and **Progressive Corp. (PGR, 1.5)**.

**Lithia Motors Inc. (LAD)** is one of the largest new and used automotive dealers in North America. CEO Byran DeBoer, from the founding family, perfectly describes LAD's business model as *"a national footprint with local autonomy, integrated digital tools, high margin adjacencies that scale earnings across the ownership lifecycle while also being the preferred acquirer of business in the industry."* Finance & Insurance (F&I) and Parts & Services (P&S) generate roughly 60% of profits, **providing resiliency against the more cyclical vehicle sales** LAD's proven acquisition strategy **boasts a 95% success rate with over 25% returns** and provides the company with **ample room for future growth with only 2% market share of new vehicle sales and less than 1% of used vehicle sales**. We have owned LAD in other strategies since June 2022. We purchased LAD in this concentrated portfolio after the company shifted its capital allocation from acquisitions, which have gotten more expensive, to buybacks as the **CEO believes "the relative value of our own shares supports a more aggressive buyback strategy."** Shares trade at 7.0x EV/EBITDA and we believe get no credit for a hidden asset in Driveway, a direct-to-consumer platform similar to Carvana Co. (CI A) (CVNA), which has a current \$78 B market cap.

We repurchased **Progressive Corp. (PGR)**, a two-time former LCVS holding. PGR is a leading U.S. property and casualty insurer with a 15% market share as the second-largest auto insurer. **PGR has increased its personal auto market share by 8 points over the past 15 years, including a record 1.5-point gain in 2024, while achieving a 14% premium CAGR – twice the industry average.** This growth has been driven by telematics innovations like Snapshot and a high-retention, bundled homeowners and personal auto customer segment known as the Robinsons, which has expanded PGR's addressable market. Despite market fears of normalizing auto margins, we believe **PGR's structural moat sustains superior underwriting profitability** (80% of its >20% five-year ROE compared to just 20% for peers) with an August 2025 combined ratio of 83.1% (1,280 bps below its 96% target) and 13% year-over-year policy growth. Its shareholder focus includes buybacks (-8% shares 2010-2012), a variable dividend (\$2.25-\$4.50 annually), and tech investments, supported by a **robust A-rated balance sheet and cycle-resilient earnings, we believe offering asymmetric risk/reward at current valuations.**

We eliminated **Elevance Health Inc. (ELV)** due to several industry challenges, such as Medicaid redeterminations, regulatory pressures, rising costs, and uncertainty from healthcare reform discussions, **which clouded the outlook and our ability to value the company.** We exited the position with a negative PCAR of -197 bps.

We eliminated **LKQ Corp. (LKQ)** after realizing that **several headwinds, initially believed to be temporary, would likely persist beyond our investment time horizon.** These challenges included higher deductible insurance plans, delayed repairs, and low used car prices. **Our mistake with LKQ was underestimating the negative impact on vehicle repair volumes from higher deductible insurance plans and not exiting the position after LKQ announced the Uni-Select deal – an acquisition we did not favor at the time.** We exited the position with a negative PCAR of -368 bps.

We eliminated **lululemon athletica Inc. (LULU)** in Q3. We initially viewed the company as a secular compounder with temporary challenges from rising competition. We expected category expansion and robust growth in Men's and International segments to offset these challenges. **However, competition intensified, gross margin deteriorated, category growth slowed, and the Men's and International segments decelerated.** We exited the position with a modest negative PCAR of -35 bps as we trimmed the position near its assessed value in 2024 and did not meaningfully add to the position as it declined because parts of our thesis weakened.

GICS Sector	6/30/2025		9/30/2025			
	LCVS	R1V	LCVS	Change from 6/30	R1V	Over / Under
Financials	25.8%	22.7%	29.9%	4.1%	22.6%	-0.1%
Industrials	19.6%	13.1%	15.1%	-4.5%	13.1%	-0.0%
Cons Disc	18.6%	7.6%	14.9%	-3.7%	7.7%	0.1%
Health Care	14.0%	11.7%	11.9%	-2.0%	11.7%	0.0%
Materials	9.6%	4.1%	11.3%	1.7%	4.2%	0.0%
Cons Staples	4.4%	8.1%	10.7%	6.3%	7.6%	-0.6%
Real Estate	3.8%	4.2%	3.5%	-0.3%	4.2%	-0.0%
Utilities	1.5%	4.4%	1.3%	-0.1%	4.5%	0.1%
Comm Svcs	-	7.6%	-	-	8.1%	0.5%
Energy	-	5.9%	-	-	5.9%	0.1%
Info Tech	-	10.6%	-	-	10.5%	-0.1%
Cash	2.7%	-	1.3%	-1.4%	-	1.3%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-</b>	<b>100.0%</b>	<b>-</b>

Information is based on a representative portfolio within the strategy. Sector classifications are defined by GICS. Stocks without a reported sector are not presented.

GICS Sector	9/30/2025				
	LCVS	# of Holdings	Avg Pos Size	Wtd Avg % of AV	Wtd Avg Conviction
Real Estate	3.5%	1	3.5%	73.9%	2.5
Cons Disc	14.9%	5	3.0%	79.6%	2.5
Cons Staples	10.7%	3	3.6%	83.9%	1.9
Industrials	15.1%	5	3.0%	84.3%	2.4
Financials	29.9%	7	4.3%	84.3%	1.9
Health Care	11.9%	3	4.0%	85.7%	2.3
Materials	11.3%	2	5.6%	92.2%	1.7
Utilities	1.3%	1	1.3%	102.7%	2.5
Comm Svcs	-	-	-	-	-
Energy	-	-	-	-	-
Info Tech	-	-	-	-	-
Cash	1.3%	-	-	-	-
<b>Total</b>	<b>100.0%</b>	<b>27</b>	<b>84.5%</b>	<b>2.1</b>	

Information is based on a representative portfolio within the strategy. Sector classifications are defined by GICS. Stocks without a reported sector are not presented.



### New purchase...

The largest new position added during the quarter was the following:

- **Kroger Co. (KR)**

Kroger is the largest traditional grocer in the United States, operating 2,731 supermarkets under banners like Kroger, Ralphs, Fred Meyer, and Harris Teeter, with 2,273 featuring pharmacies and 1,702 offering fuel centers. It provides Pickup services at 2,412 locations and home delivery to nearly all households, owning approximately 50% of its stores and running 33 food production plants. **Private label products constitute about 22% of total sales and are growing as a share of the mix** due to increasing consumer preference for value, while digital sales account for about 9%. Founded in 1883 and headquartered in Cincinnati, Ohio, Kroger is led by Chairman and Interim CEO Rod Sargent, 69, a former Kroger executive who spent a decade with the company early in his career; he joined the Kroger board in 2006 and became lead director in 2017. Sargent works alongside new CFO David Kennerley, who brings extensive experience from PepsiCo, including a recent role as CFO for Europe.

**Kroger's strength lies in its scale and operational efficiency**, commanding about 10% of the \$1.4 T grocery market – double Albertsons' size – and **leading market share in 90% of its major metros. This scale supports in-house manufacturing of 43% of grocery private label brands that enhances margins.** Kroger Precision Marketing (KPM), a high-margin ad platform with 70-80% margins and +20% annual growth, leverages customer loyalty data from 95% of sales to generate significant alternative profit EBIT (now ~29% of operating income), strengthening partnerships with consumer packaged goods companies and diversifying revenue streams.

Kroger is not new to our LCVS portfolio; we exited the position in April 2025 as the stock traded above our assessed value, only to re-enter in September amid a compelling risk/reward setup. Since the exit through September 30, 2025, Kroger has returned -5% versus the Russell 1000 Value's +15%, despite two strong quarters and raised full-year guidance. **The company continues to demonstrate resilience through remarkably consistent execution** – one of just three S&P 500 retailers, alongside O'Reilly Automotive and Costco, to **post positive same-store sales every year since 2000** – and strategic growth, having swiftly pivoted from the blocked Albertsons merger to leverage its strong balance sheet for shareholder value and organic expansion. With the deal's termination in December 2024, **management has redirected resources toward a robust \$7.5 B share repurchase program, including an accelerated \$5 B tranche that will complete in Q4 2025.**

**Management expects to repurchase ~\$2.5 B in the open market before fiscal year end** (which equates to roughly 5% of the current market cap) at a current multiple that enhances shareholder value. Complementing this capital return, Kroger plans to open 30 new stores in 2025 while ramping up development by +30% in 2026, targeting high-growth markets to enhance its footprint and capture rising demand for convenient, value-driven grocery options – bolstered by the sixth straight quarter of positive identical sales growth.

**Shareholder returns have always been a top priority at Kroger, evidenced by a -52% reduction in shares outstanding since 2007 through consistent repurchases.** The company maintains a strong dividend track record, with **19 consecutive years of increases** – including a +9% hike in FY 2025 – at a +13% CAGR since 2006 and a conservative 31% payout ratio that supports ongoing growth while balancing investments in the business.

Financially, Kroger is positioned solidly with **an investment-grade rating and leverage at 1.63x (target 2.3-2.5x), generating \$2.8-3.0 B in annual free cash flow**, attractive relative to its ~\$44 B market cap. This robust balance sheet provides ample capacity to fund store expansions, return capital, and navigate economic pressures without compromising flexibility – even after the aggressive buybacks, as management prioritizes maintaining its investment-grade status.

Risks include competition from **Aldi's 2,300+ stores, Publix's regional push, and Amazon's Whole Foods expansion**, including its August announcement of same-day perishable grocery delivery to more than 1,000 cities. While we view this as an incremental risk in a highly competitive industry – where Amazon has shown interest since acquiring Whole Foods in 2017 – **we believe it poses greater issues for smaller-scale grocers**; Kroger's scale, private label portfolio, loyalty program, and omni-channel offerings position it to compete effectively in an evolving industry. **The ongoing CEO search and new CFO add uncertainty.** While Kroger's defensive profile and growth initiatives make it a strategic fit for our portfolio, **our overall conviction is lowered due to these heightened risks.**

KR is followed by **River Road Associate Equity Research Analyst Kevin Mingus, CFA.**



## OUTLOOK

### *Monetary and fiscal policy are finally aligned to support economic growth*

Monetary and fiscal policy now appear to be properly coordinated to meet on-going economic challenges. The Fed finally broke its dual mandate stalemate, prioritizing employment concerns over inflation as labor market softening became the primary policy driver, with additional rate cuts expected in Q4. On the fiscal side, the *One Big Beautiful Bill Act* delivered net tax and spending reductions, though overall deficits are projected to increase due to non-discretionary spending. Tariff revenues have provided a significant boost, contributing \$31 B monthly to federal coffers, though much of this burden will ultimately fall on American consumers through higher prices. The federal government shutdown adds an additional challenge, particularly if President Trump uses it as an opportunity to cut federal employment, which could exacerbate the labor market concerns already weighing on Federal Reserve policy decisions.

### *CEO confidence rebounded, but only the “wealth effect” seems to be keeping consumers positive*

Confidence levels diverged across different segments of the U.S. population. CEO confidence has rebounded significantly after hitting historic lows in Q2, accompanied by a collapse in near-term recession expectations. However, consumer sentiment tells a more nuanced story. General consumer confidence continues to deteriorate due to persistent labor market concerns and frustration over elevated prices. In contrast, consumers with substantial stock holdings maintain steady confidence levels, highlighting how the wealth effect has created distinct economic experiences for different income groups.

### *External valuations are expensive; value looks attractive relative to growth*

According to Jefferies, at the end of Q3, the Russell 1000 traded at a forward P/E of **24.9x**, a **52%** premium to its long-term average, while the Russell 2000 traded at **21.2x**, a **27%** premium to its long-term average.

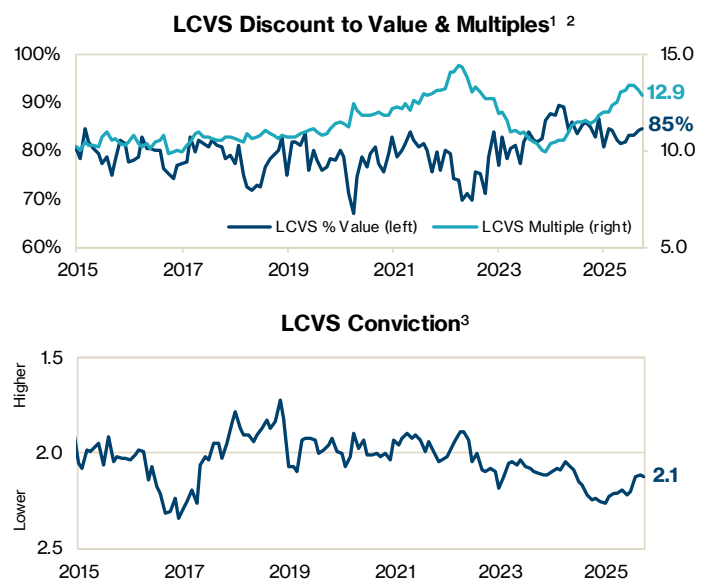
Large cap value stocks are expensive on an absolute basis but look attractive compared to large cap growth stocks. The forward P/E for the Russell 1000 Value trades at **16.5x**, a **23% premium to the index’s long-term average of 13.4x**. However, other valuation metrics suggest the Russell 1000 Value is more expensive compared to historical averages. The price to cash flow ratio for the index is **20.3x** compared to the historical average of **12.0x**, and the price to sales ratio is **2.2x** versus the historical average of **1.3x**. As for the Russell 1000 Growth, it continues to appear significantly overvalued across a variety of valuation methodologies, with valuations ranging from **37%** to **85%** above long-term averages. For instance, the price to cash flow for the Russell 1000 Growth is **23.9x**, which is **+37%** higher than the long-term average.

### *Portfolio discounts narrowed in Q3*

The discount to value for the portfolio’s holdings declined from **83%** at the beginning of the quarter to **85%** at the end of Q3. Although 85% is on the higher end of the strategy’s history, in context of current external elevated valuations, we view this discount as attractive.

Portfolio buying activity in Q3 **focused on new investments and rebuilding several defensive positions, including BRK.B and BJ**, left behind in a market that favored high beta and AI-related stocks. Portfolio selling activity focused on **exiting positions with broken theses and risk/reward trades** to reduce positions to account for lower discounts to assessed values. **We believe our portfolio is well positioned for rate cuts.** Importantly, we believe several of our holdings will benefit from rate cuts by capitalizing on pent-up demand rather than relying on multiple expansion which we believe is already priced into the broader market.

In summary, while supportive fiscal and monetary policies and seasonal factors could fuel equity markets into the end of the year, elevated valuations temper our optimism. We acknowledge valuation can be a poor short-term indicator but also note that Berkshire Hathaway Inc.’s cash as a percent of total assets and the “Buffett Indicator” (U.S. stock market / gross domestic



Charts are shown through September 30, 2025. Information based on a representative portfolio within the strategy. Assessed valuation, multiple, and conviction determinations are made by River Road and are subject to revision. Conviction: 1.0 = highest; 5.0 = lowest. <sup>1</sup>Monthly weighted average price percent of assessed valuation of all portfolio holdings. <sup>2</sup>Monthly weighted average multiple; excludes Financials sector and companies with non-cash flow-based valuations. <sup>3</sup>Monthly weighted average conviction rating.





income) are at historic peaks, last seen during the Great Financial Crisis and dotcom bubbles. **This reinforces our cautious outlook, emphasizing risk management and selective opportunities.**

The primary positive in our current outlook lies in the relative valuation of value stocks compared to growth stocks, which currently appear to be priced for perfection. Unlike the S&P 500, with approximately one-third of its weight in the Information Technology sector, **the LCVS strategy has zero exposure to the Information Technology sector because we cannot find businesses that fit our process AND trade at compelling prices.**

We believe the portfolio reflects a **balanced mix of value, quality, and attractive growth**. According to FactSet, the portfolio trades at **13.1x** EV/EBITDA compared to the Russell 1000 Value's multiple of **13.3x**. The portfolio's five-year average return on equity is **20.4%** versus **17.5%** for the benchmark. Furthermore, the portfolio's expected long-term growth (as measured by published long-term estimates) is healthy at **9.8%** versus the benchmark's **8.9%**. **We believe the strategy is well positioned to navigate a variety of market outcomes.**

***Thank you for investing with River Road!***

- **October 17, 2025**



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**Past performance is no guarantee of future results. There is a risk that invested capital may be lost.**

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The Large Cap Value Select composite was created and inceptioned on November 1, 2014.

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