

# High Excess Capital Yield and Sustainable Dividends

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## Strategy overview

Actively managed large cap value strategy that relies on fundamental research to capture the benefits of high excess capital yield and sustainable dividends.

### Key takeaways

- Equity markets advanced in 4Q25, buoyed by moderating inflation and robust earnings. Technology remained dominant, fueled by accelerating artificial intelligence (AI) adoption, while industrials benefited from strong capital expenditure trends, although energy softened after early strength. Broader market participation persisted, with small caps and cyclicals contributing.
- For the quarter ended December 31, 2025, the SMA outperformed the Russell 1000 Value Index (the Index) on a gross-of-fees basis due to favorable stock selection. Stock selection within the financials, materials, and information technology sectors contributed the most to performance. Conversely, the utilities, industrials, and health care sectors detracted from performance.
- Looking ahead, investors face geopolitical risks and policy uncertainty. Market leadership is widening beyond mega-cap growth, supported by AI-driven innovation and sustained corporate capital expenditure. Opportunities are emerging in defensives and rate-sensitive sectors, reinforcing the need for nimble positioning amid evolving macro conditions.

## Market review

**U.S. equity markets closed 4Q25 on a positive note, driven by moderating inflation and robust earnings.** The S&P 500 Index advanced 2.66%, and the technology-heavy Nasdaq Composite gained 2.57%. The healthcare and communications services sectors led, while real estate and utilities sectors lagged. Large cap stocks beat small cap stocks, and value outperformed growth stocks.

**The U.S. Federal Reserve supported markets in 4Q25 with two 25 basis point rate cuts.** At its December meeting, the Fed signaled a balanced tone and improved growth and inflation outlook. At the same time, artificial intelligence (AI) remained a dominant theme, with strong headlines around innovation and elevated capital investment by major technology firms. Increased spending on AI infrastructure and adoption trends reinforced optimism about its role as a key driver of future growth.

## Portfolio review

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**At the individual stock level our overweight positions in Alcoa Corp. (AA), Dollar Tree, Inc. (DLTR), and Synchrony Financial (SYF) contributed to performance the most.**

Overweight to Alcoa Corp. (AA) contributed to performance, driven by higher alumina and aluminum prices and supported by robust demand from automotive, aerospace, and renewable energy sectors.

An overweight position in Dollar Tree, Inc. (DLTR) contributed to performance following strong 3Q25 results, driven by robust seasonal demand, improved pricing, lower freight costs, and a favorable sales mix. Management also raised guidance, reinforcing the positive outlook.

An overweight position in Synchrony Financial (SYF) contributed to performance as credit continued to trend, with Amazon Pay Later and Walmart One Pay performing slightly better than expected, and losses are controlled.

**Our overweight positions in Leonardo DRS, Inc. (DRS), AT&T Inc. (T), and BXP Inc. (BXP) were the biggest individual detractors.**

An overweight position in Leonardo DRS, Inc. (DRS) detracted from performance. While the company reported better than expected revenue and slightly better earnings before interest, tax, depreciation and amortization (EBITDA), shares came under pressure due to heightened volatility across the defense sector and policy uncertainty around U.S defense spending which outweighed the positive fundamental factors.

An overweight position in AT&T Inc. (T) detracted from performance. The company reported mixed 3Q25 results, with strong EBITDA and free cash flow but softer revenues due to competitive pressures and concerns over wireless and broadband average revenue per user (ARPU) weighed on the stock.

An overweight position in BXP Inc. (BXP) detracted from

performance. Although the company reported better than expected 3Q25 revenue and raised fiscal year guidance, concerns over occupancy trends and policy uncertainty weighed on the stock, offsetting the positive fundamental factors.

## Outlook

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**The U.S. economy enters 2026 with a foundation of resilience.** We expect moderate growth supported by consumer spending and productivity gains, helped by lower rates. The Fed's recent rate cut reflects heightened concern over labor market softening and confidence that tariff-driven inflation pressures will fade.

**While the outlook suggests a soft landing with moderate growth and gradual disinflation,** caution is warranted as geopolitical risks and policy uncertainty persist. In addition, broadening of the narrow market leadership beyond mega-cap growth, underpinned by AI innovation and corporate investment should support market growth.

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