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TRIVARIATE RESEARCH

SEPTEMBER 2025: US EQUITY KEY POINTS

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OUTLINE

Part 1: Earnings and Margins

Part 2: Risk Management

Part 3: Frameworks

Part 4: Sector and Industry Ideas

Part 5: Available Alpha

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PART 1: EARNINGS AND MARGINS

- Why are we skewing toward the Bull case?: The top 50 companies are relatively immune to higher inflation, a dynamic that was made crystal clear post-COVID. They account for nearly 50% of the gross profit dollars of the S&P500. Moreover, lower input costs like commodities and oil, tame logistics expenses, and a weakening dollar might all help the earnings outlook for the second half of 2025. AI productivity and revenue synergies likely help 2026 and 2027 earnings. We don't see the market performing poorly with double-digit EPS growth and a Fed that is still directionally accommodative. We think the S&P500 gets to 7000 by the end of 2026, if not sooner.
- The bear case is a back-up in bond yields or a material slowdown in the US consumer. These are possible, but not likely unless policies materially change.
- Valuation is not particularly effective for picking stocks, as mean-reversion may not work for several years.
- Long-term, we think the S&P500 can get to 10000 by 2030, with 10% per year EPS growth and a low 20s price-to-forward earnings ratio justified by higher gross margins.

AI PRODUCTIVITY IS COMING BY 2027

We see AI helping in both revenue growth and cost reductions in the coming two years.

Revenue growth:

- Personalization: Sales cycles will include custom recommendations and higher conversions, something we all see everyday on our devices but will happen more broadly at the larger-scale corporate level.
- Innovation: Generative AI will create new services, features, maybe even new product lines more rapidly. The companies using AI productively will gain share of spending from the overall spending pie.
- Sales: AI CRM tools optimize and prioritize leads.

Cost efficiencies:

- Automation: We are all deploying AI as much as possible to automate repetitive work: Obviously, this includes data entry and HR onboarding, but also healthcare intake information, legal review, customer service, predicting employee behavior, etc.
- Optimization: Closing the time gap between production and consumption to optimize inventory, factory productivity and downtime.
- Software development: Coding assistants will decrease time to market and coding costs.
- Labor support: AI can help researchers, marketers, and designers be more productive without retraining costs by evaluating / observing real-time and creating efficiencies. This increases revenue per employee.

Those who have and are investing will benefit from first-mover success – better products, lower per unit costs, share gain, etc.

GROSS MARGIN EXPANDERS ARE COMPOUNDERS

The initial investments were 2.5 years ago. Nvidia's initial upward sales revision was in May of 2023. By 2026 and 2027 the impact of AI investments is going to widen the performance gaps between those who have been investing and those who haven't, driving higher inter-sector dispersion and probably sparking M&A activity as firms that have lagged seek to gain exposure. The initial euphoria around the Red Sweep in the Fall of 2024 becomes more of a fundamental reality in 2026 and 2027, and our incremental bullishness embeds that broader-based AI implementation is imminent.

Sector examples:

Financials: There are SO many ways efficiencies can be gained by Banks, Insurance, and Investment Management. With millions of customers and employees, the industry will continue to get better at predicting customer and employee behavior and driving out costs while more effectively cross-selling. New products, better trading and portfolio construction, and improved security are happening already.

Healthcare: We are very bullish on task automation (no more clipboards at the Dr's office), AI-assisted diagnostics, and ultimately even drug discovery.

Industrials: AI-led quality control, robotics coordination (Amazon recently said they have more robots than humans in certain facilities), and supply chain automation increase revenue and reduce costs.

Bottom-up consensus EPS estimates are higher today for 2025 and 2026 than they were a few months ago – that is HIGHLY unusual when there is a slowing Consumer and tariffs – a sign that companies are focused on margins. Compounders – those companies with consistent gross margin expansion win (See Slide 13).

Source: Trivariate Research

CAN THE S&P500 GET TO 10000 BY 2030?

Below we show a range of price-to-forward earnings multiples (from 15x to 25x) on the y-axis and a range of per year earnings growth assumptions (from 5% to 15%) from now through 2031 on the x-axis. The cells that populate the table are the year-end 2030 S&P500 price, depending on the earnings growth and valuation assumptions. The black cells show assumptions that justify the S&P500 around 10000 by 2030. For instance, paying 23x a market that grows 9% per year, or 20x a market that grows 12% per year would both yield a 10000 S&P500 by the end of the decade. We don't think it is unreasonable that with the benefits of AI productivity in front of us, that paying 22x a market that grows earnings at 10% could happen!

	Current Bottom-Up Estimates Are $263 for 2025, We Assume $260 For This Analysis Annualized EPS Growth Assumptions										
Multiple on 2031EPS	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%
15x	5126	5426	5740	6070	6415	6776	7154	7550	7963	8396	8847
16x	5468	5788	6123	6474	6843	7228	7631	8053	8494	8955	9437
17x	5809	6149	6506	6879	7270	7680	8108	8557	9025	9515	10027
18x	6151	6511	6888	7284	7698	8131	8585	9060	9556	10075	10617
19x	6493	6873	7271	7688	8126	8583	9062	9563	10087	10635	11207
20x	6834	7234	7654	8093	8553	9035	9539	10066	10618	11194	11797
21x	7176	7596	8036	8498	8981	9487	10016	10570	11149	11754	12386
22x	7518	7958	8419	8902	9409	9938	10493	11073	11680	12314	12976
23x	7860	8320	8802	9307	9836	10390	10970	11576	12211	12874	13566
24x	8201	8681	9184	9712	10264	10842	11447	12080	12742	13433	14156
25x	8543	9043	9567	10116	10692	11294	11924	12583	13272	13993	14746

Source: Trivariate Research

5 OF THE 11 SECTORS HAVE DECLINING YOY EARNINGS IN Q3

Current bottom-up earnings expectations are for 9.5% growth in 2025, and 13.6% in 2026. The 2025 earnings expectations for 2025 were 7.4% two months ago, so the biggest companies are driving upward revisions for the entire S&P500. Analysts are forecasting Energy and Consumer Staples stocks will have declining year-over-year earnings in 2025. The highest 2025 bottom-up earnings expectations are in Technology, Communication Services, and Healthcare.

Bottom-Up Analyst Earnings Growth Expectations
August 29th, 2025

Sector	2024	1Q25	2Q25E	3Q25E	4Q25E	2025E	2026E
S&P 500	9.5%	12.6%	11.5%	7.2%	7.2%	9.5%	13.6%
S&P ex-Financials	8.3%	14.4%	11.2%	6.6%	7.7%	9.8%	14.0%
Consumer Discretionary	14.9%	7.4%	4.1%	(2.4%)	(1.8%)	1.4%	12.9%
Consumer Staples	3.0%	(6.3%)	(0.5%)	(2.7%)	4.7%	(1.2%)	8.0%
Energy	(23.8%)	(18.9%)	(20.1%)	(5.5%)	0.1%	(11.9%)	18.3%
Financials	15.0%	5.0%	12.8%	10.1%	5.2%	8.2%	11.9%
Health Care	1.9%	41.8%	6.7%	(1.4%)	3.8%	10.9%	9.5%
Industrials	(0.5%)	8.9%	1.2%	14.6%	0.3%	5.8%	17.6%
Info Tech	23.0%	18.8%	23.1%	20.3%	17.0%	19.6%	20.0%
Materials	(11.8%)	(3.5%)	(1.9%)	10.8%	14.3%	4.4%	16.4%
Communication Services	21.5%	27.6%	46.2%	4.9%	7.2%	19.5%	7.7%
Utilities	20.3%	6.6%	(1.0%)	(2.0%)	11.0%	3.2%	10.5%
Real Estate	3.1%	5.1%	3.1%	2.5%	3.3%	3.5%	6.9%

Source: Trivariate Research

WHAT IS THE LATEST ON TARIFFS?

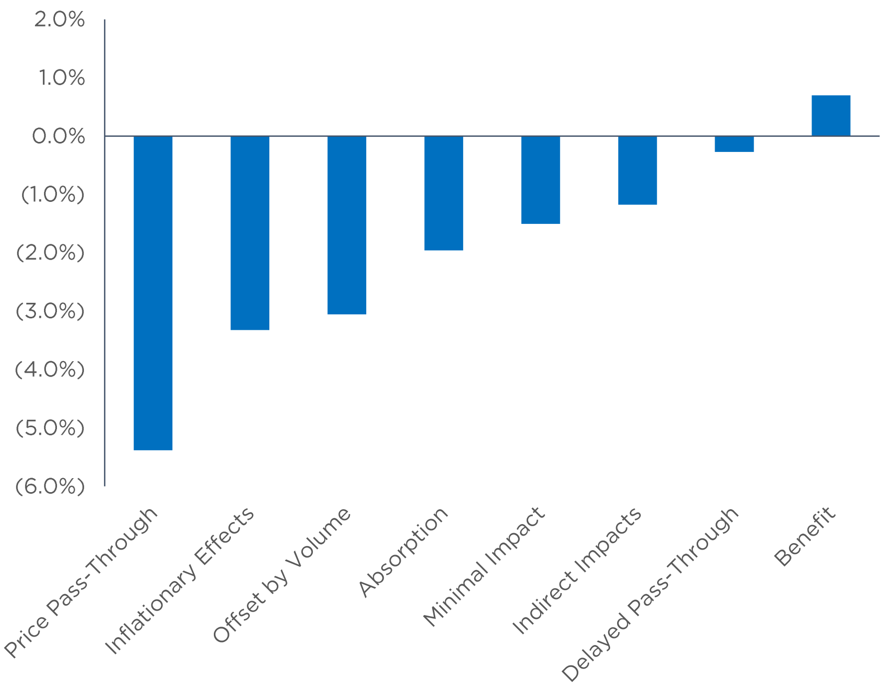
We searched every earnings call transcript, bucketed the key tariff / pricing-related categories. Pricing, capital spending, labor, inventory, supply chain, and China are all among the key areas that impact margins (left). We also evaluated the stock performance of those mentioning certain issues -those saying tariffs benefited them, unsurprisingly performed best (right). Those who commented on pricing pass through or inflationary effects have lagged on a relative basis. Overall, we have not (yet) seen a dramatic impact from tariffs on US corporate profitability. We assess that by looking at several factors, including gross margins.

Topics Discussed by T500 Stocks When They Mentioned Tariff In 2025
As of End-August, 2025

Topic	Subtopic	Company Count	Top 5 Tickers
Pricing	Pass-on Pricing	142	AMZN, TSLA, WMT, HD, BAC
	Price Increase	19	NVDA, AAPL, WMT, LLY, JNJ
CapEx	CapEx Decision/Delay	83	JPM, BAC, ABT, ISRG, VZ
	U.S. Manufacturing Investment	79	AAPL, LLY, JNJ, ABBV, GE
Labor	Layoffs and Labor Costs	10	CB, GM, VRSK, CAH, HPE
	Hiring/U.S. Workforce	11	LIN, HWM, CHTR, GLW, NI
	Automation	7	TEL, RMD, JBL, PNR
Inventory	Lead Time & Pre-Buying	103	MSFT, NVDA, AAPL, AMZN, WMT
	Distorted Backlog/Order Patterns	53	NVDA, WMT, JPM, ABBV, CSCO
Supply Chain	Disruption & Diversification	220	NVDA, AAPL, TSLA, WMT, JPM
	Shortage	11	JNJ, NEE, BMY, GWW, SRE
Country	China	190	NVDA, AAPL, AMZN, TSLA, WMT

Source: Trivariate Research

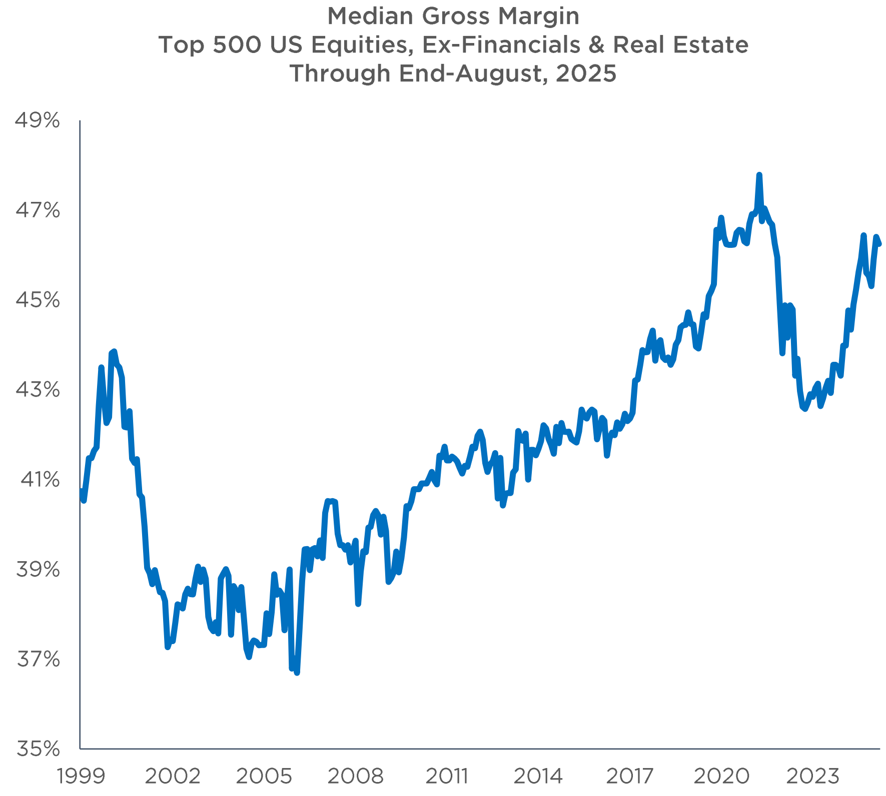
Tariff Topics: Impact on Pricing
Average Industry-relative Return Since Latest Earnings
Through End-August, 2025



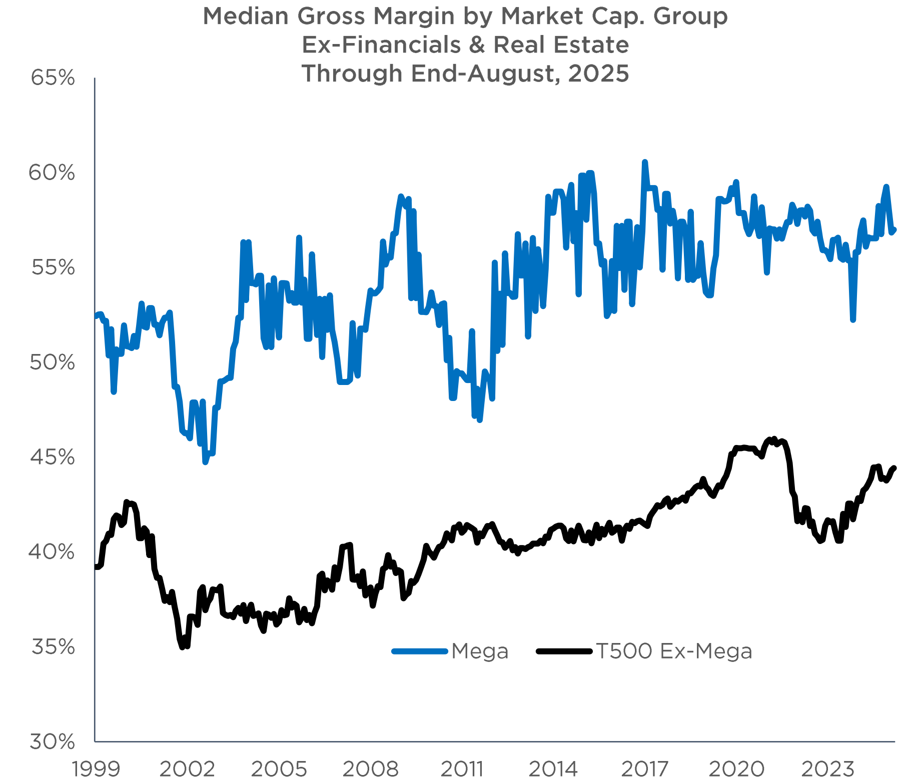
Source: Trivariate Research

THE MEDIAN STOCK'S GROSS MARGINS ARE 46.2% AT END OF AUGUST

Gross margins for the median stock sharply declined beginning in September of 2021, as inflation grew (left), though the absolute level clearly bottomed in 2023. Margins rose until February of this year for the median stock, declined over 100bps from March to May, but ticked up again in June and July before roughly leveling in August. The median mega-cap company's margins (57.0%) are higher than earlier in the year, and much higher than the rest of the market ex-mega cap (44.4%). The rest of the non-mega companies have potentially more margin pressure with tariffs (right) but nonetheless ticked up in August. Lower commodities, less wage pressure, and a weakening dollar may have been helping, but there is concern about immigration-fueled labor shortages in select sub-industries and the tariff-impact on certain products hurting margins.



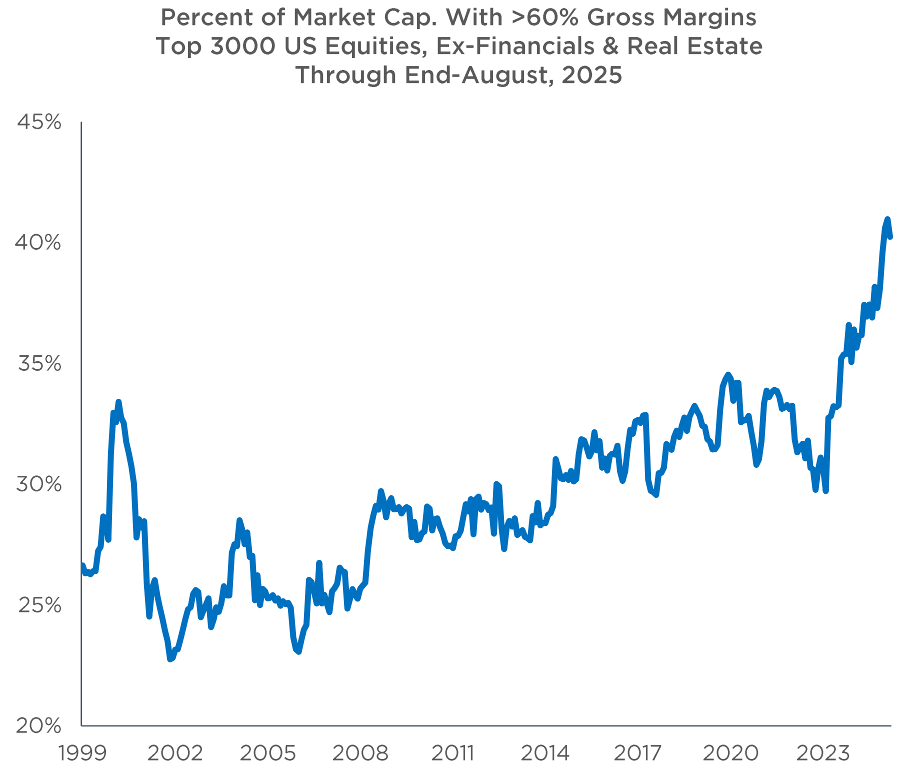
Source: Trivariate Research



Source: Trivariate Research

40.2% OF THE MARKET CAP HAS ABOVE 60% MARGINS

Among the top 3000 US equities, 40.2% of the total market capitalization has above 60% gross margins, the highest ever (left). That is a major reason why the US stock market is more expensive now than it was during much of its history and why multiples are likely to oscillate at higher levels in the future than in the past. <u>If you are referencing Schiller PE, or CAPE to inform your analysis, you are forecasting that gross margins will revert to long-term averages. In fact, the top 50 US equities (excluding financials) are now 50% of the total gross profit dollars of the S&P500 (right). The relative size of the largest companies is the same, they are just far more profitable than they were in the past.</u>

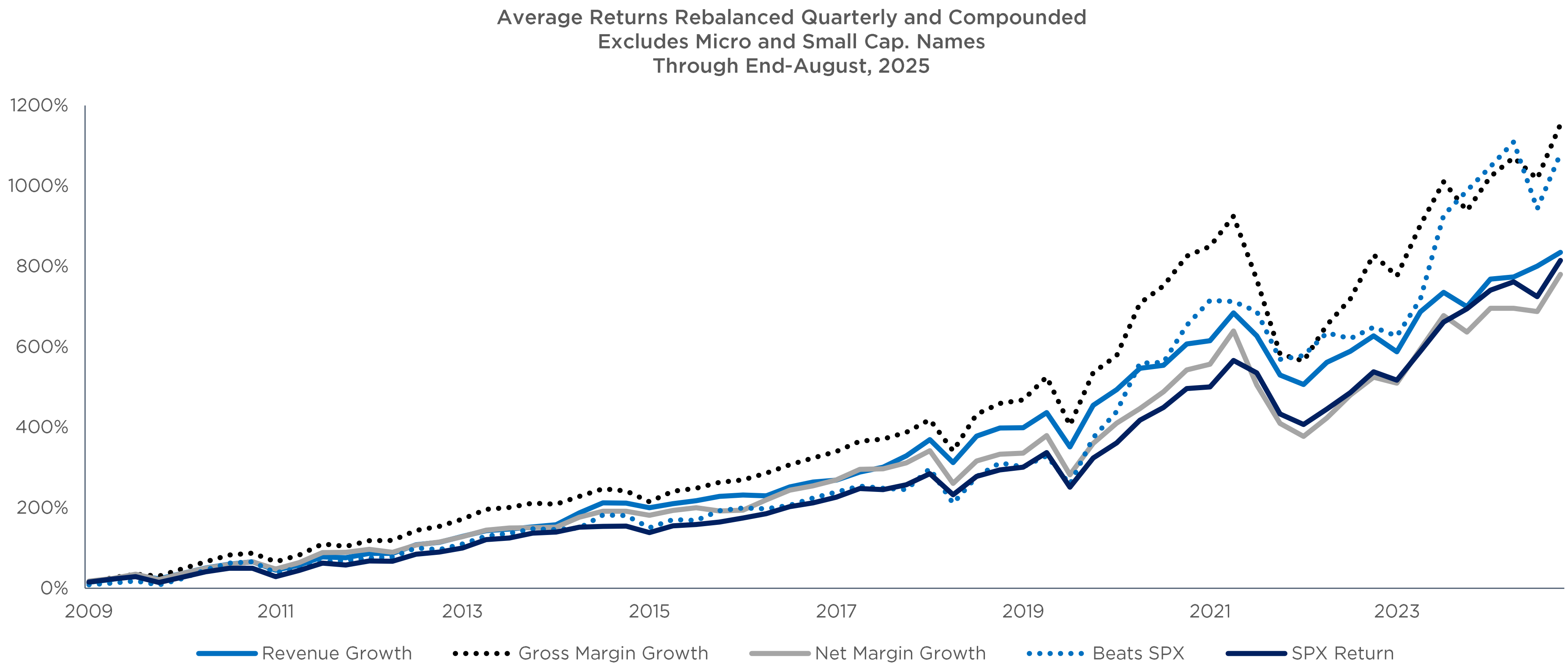


Source: Trivariate Research

Source: Trivariate Research

COMPOUNDERS HAVE CONSISTENT GROSS MARGIN EXPANSION

Of the four signals we studied, (prior relative stock performance, revenue growth, gross margin expansion, and net margin expansion) buying stocks in the top 10% of consistent previous gross margin expansion resulted in the best subsequent stock performance. Stocks that consistently beat the S&P500 (i.e., in the top quintile of price momentum the previous quarter) also performed well, but much of this was generated since COVID. Net margin growth was the weakest of the metrics we analyzed.

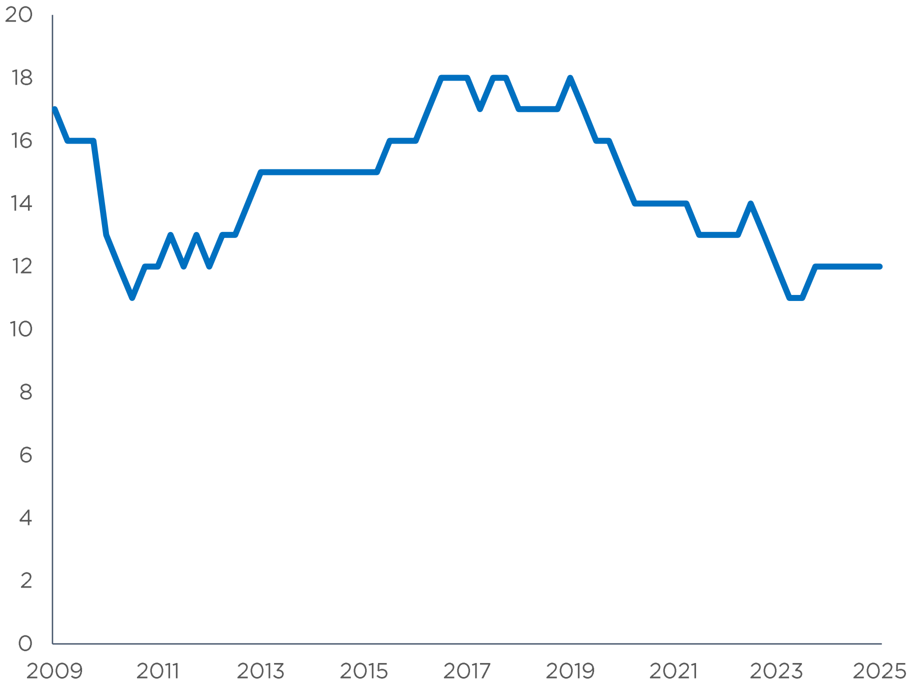


Source: Trivariate Research

SEVERAL COMPANIES HAVE EXPANDED MARGINS FOR 12Q STRAIGHT

Of the 383 companies with at least 2 consecutive quarters of gross margin growth this last quarter (on a year-over-year basis), 39 companies (top decile) had quarterly year-over-year gross margin expansion for at least 12 straight quarters.

Gross Margin Growth Compounders
Min. Number of Consecutive Quarters of Growth
Through End-August, 2025



Source: Trivariate Research

Number of Companies with >=12 Quarters of GM Expansion
Excluding Small and Micro Caps, Financials, & Biotech.
Through End-August, 2025

Source: Trivariate Research

COMPOUNDING STOCK IDEAS

Below are the suggested gross margin expansion “compounders”.

Gross Margin Growth Compounders
Forecasted to Grow Their Gross Margin
End-August, 2025

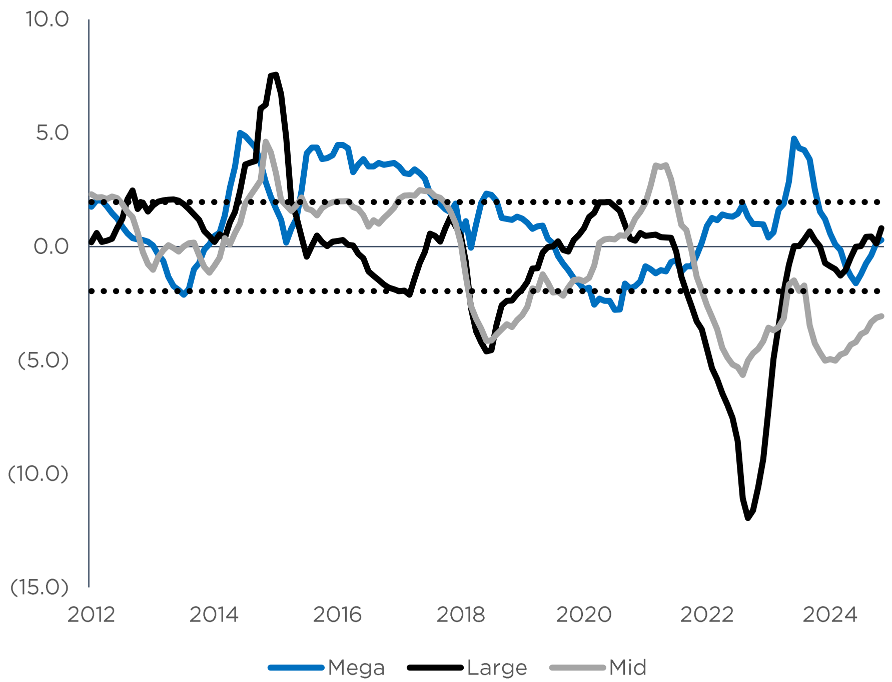
Ticker	Company	Industry	Market Cap. (US$ Bil.)
AMZN	Amazon.com, Inc.	Broadline Retail	2,329.12
T	AT&T Inc.	Diversified Telecommunication Services	208.24
ETN	Eaton Corporation plc	Electrical Equipment	139.69
APH	Amphenol Corporation	Electronic Equipment, Instruments & Components	119.45
TDG	TransDigm Group Incorporated	Aerospace & Defense	85.41
ABNB	Airbnb, Inc.	Hotels, Restaurants & Leisure	81.68
CPNG	Coupang, Inc.	Broadline Retail	54.40
EA	Electronic Arts Inc.	Entertainment	40.13
HUBS	HubSpot, Inc.	Software	29.36
EXPE	Expedia Group, Inc.	Hotels, Restaurants & Leisure	21.44
NTNX	Nutanix, Inc.	Software	20.49
CSL	Carlisle Companies Incorporated	Building Products	16.11
ACM	AECOM	Construction & Engineering	14.90
FTI	TechnipFMC plc	Energy Equipment & Services	14.44
APG	APi Group Corporation	Construction & Engineering	14.13
CRS	Carpenter Technology Corporation	Metals & Mining	13.76
AMH	American Homes 4 Rent	Residential REITs	13.35
ATI	ATI Inc.	Aerospace & Defense	12.18
KD	Kyndryl Holdings, Inc.	IT Services	9.71
RRX	Regal Rexnord Corporation	Electrical Equipment	9.62
HSIC	Henry Schein, Inc.	Health Care Providers & Services	8.89

Source: Trivariate Research

VALUATION IS STRONGLY RELATED TO GROSS MARGIN LEVEL

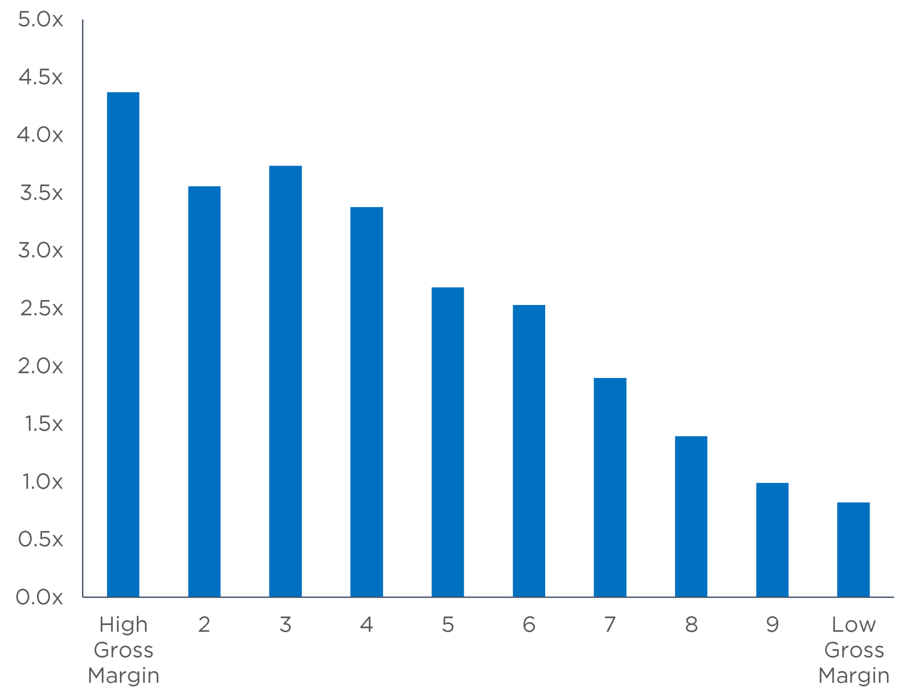
The higher the CPI, the worse it is for margins for most stocks, except mega caps (left) where it appears lower CPI hurt margins. The previous cycle did also have decades-high nominal GDP, so we likely won't see as much demand-fueled impact on pricing as we saw post-COVID. At present, it is confusing what tariffs are even legal, and how long they can be implemented. Even if there is a meaningful chance that CPI rises in the second half of 2025 due to tariff implementation, there is some evidence the mega-cap companies can perform well. We found that there is a strong relationship between gross margins and EV-to-forecasted sales (right). Valuation will go lower only if margins go lower.

T-Statistics of Median 12m Fwd. Gross Margin vs. YoY Change of CPI Through End-August, 2025



Source: Trivariate Research

Median EV-to-Forecast Sales by Gross Margin Decile Top 3000 US Equities with Revenue >$100m Through End-August, 2025



Source: Trivariate Research

VALUATION DOESN'T WORK TO PICK STOCKS

AI Revenue Beneficiaries – Get Multiple Expansion

AI Productivity Beneficiaries – Get Multiple Expansion

Impregnable to AI –Get Multiple Expansion

Potentially Disrupted by AI – Get Multiple Contraction

If you use mean-reverting valuation to pick stocks, you are selling stocks that benefit or are impregnable to AI and buying stocks that are potentially disrupted. Valuation might not work now because:

- Quant Money Is Run Valuation Neutral
- Retail Investors' Insensitivity and Stock Splits Indicate Low Price "Works"
- Valuation Has not Worked for Sustained Periods for the Past 15 Years

PART 2: RISK MANAGEMENT

- We have spent meaningful time in the last year analyzing portfolio construction and studying the optimal way to build a portfolio.
  - Beta: The beta of the portfolio really matters when the S&P500 is up less than 10% in a year, because the alpha destruction from high-beta stocks is substantial.
  - Less than 1: Over time, the optimal portfolio beta, whether under max-Sharpe ratio or minimum volatility is less than 1.
  - Growth: For growth portfolio managers, owning stocks with extreme betas (top and bottom decile) results in better performance than owning stocks with average beta, even though the overall portfolio beta should be less than 1. This is not the case for value or small cap portfolios.
- We have identified nearly 20 custom baskets for growth areas. AI Semiconductors and Power / Utilities are two such baskets. Importantly though, most of the growth themes today are not particularly diversifying. In fact, there have been times where stocks like Nvidia (in Semiconductors) and GE Vernova (Power) were highly correlated, including recently. Right now, AI Semiconductors and Electrification Industrials have among the highest correlation (0.85) of any of our thematic baskets. We would highly recommend portfolio and risk managers monitor the rolling correlation of returns between these growth-themed baskets.

BETAS MATTER WHEN THE MARKET IS UP LESS THAN 12%

The long-term betas for the mid-point of each decile (meaning the 5th, 15th, 25th percentiles and so on) are shown on the left. Five percent of stocks have a beta less than 0.28, and the median stock in the lowest beta decile has 10.9% of annualized alpha. On the contrary, only 5% of stocks have a beta higher than 1.93 historically, and the highest beta decile realizes an annual NEGATIVE alpha of 630bps (left). Assuming these historical betas by decile hold constant, we simulated the expected return (market assumption*beta + alpha) for various S&P500 return scenarios (right). Once the market's returns are above 12%, the higher beta is enough to offset its alpha destruction.

Performance Statistics of Beta Deciles
1999 Through End-April, 2025

Beta Decile	Annualized Alpha	Hit Rate	Median Beta
1	10.9%	67.4%	0.28
2	6.4%	61.9%	0.56
3	4.6%	59.3%	0.70
4	3.6%	56.0%	0.81
5	3.3%	55.3%	0.91
6	3.4%	53.8%	1.03
7	1.7%	49.8%	1.15
8	(0.6%)	44.7%	1.30
9	(2.5%)	42.9%	1.51
10	(6.3%)	42.5%	1.93

Source: Trivariate Research

Implied Annual Return Under Different Assumptions
As of End-April, 2025

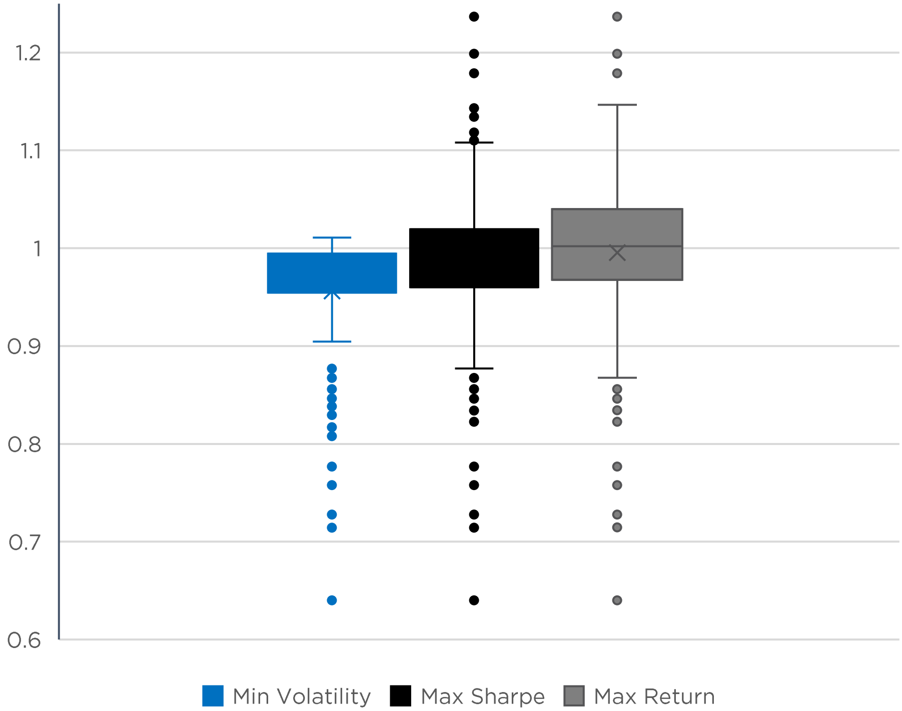
Move	D1	D2	D3	D4	D5	D6	D7	D8	D9	D10
(30%)	2.5%	(10.4%)	(16.4%)	(20.6%)	(24.1%)	(27.5%)	(32.8%)	(39.6%)	(47.8%)	(64.2%)
(25%)	3.9%	(7.6%)	(12.9%)	(16.6%)	(19.5%)	(22.4%)	(27.1%)	(33.1%)	(40.2%)	(54.5%)
(20%)	5.3%	(4.8%)	(9.4%)	(12.6%)	(15.0%)	(17.2%)	(21.3%)	(26.6%)	(32.7%)	(44.9%)
(15%)	6.7%	(2.0%)	(5.9%)	(8.5%)	(10.4%)	(12.1%)	(15.6%)	(20.1%)	(25.1%)	(35.3%)
(10%)	8.1%	0.8%	(2.4%)	(4.5%)	(5.8%)	(6.9%)	(9.8%)	(13.6%)	(17.6%)	(25.6%)
(5%)	9.5%	3.6%	1.1%	(0.5%)	(1.3%)	(1.8%)	(4.1%)	(7.1%)	(10.1%)	(16.0%)
0%	10.9%	6.4%	4.6%	3.6%	3.3%	3.4%	1.7%	(0.6%)	(2.5%)	(6.3%)
5%	12.3%	9.2%	8.1%	7.6%	7.8%	8.5%	7.4%	5.9%	5.0%	3.3%
6%	12.6%	9.7%	8.8%	8.4%	8.7%	9.5%	8.6%	7.2%	6.5%	5.3%
8%	13.2%	10.8%	10.2%	10.0%	10.6%	11.6%	10.9%	9.8%	9.5%	9.1%
10%	13.7%	12.0%	11.6%	11.6%	12.4%	13.7%	13.2%	12.4%	12.6%	13.0%
12%	14.3%	13.1%	13.0%	13.3%	14.2%	15.7%	15.5%	15.0%	15.6%	16.9%
14%	14.9%	14.2%	14.4%	14.9%	16.0%	17.8%	17.8%	17.6%	18.6%	20.7%
15%	15.1%	14.7%	15.1%	15.7%	17.0%	18.8%	19.0%	18.9%	20.1%	22.6%
20%	16.6%	17.5%	18.6%	19.7%	21.5%	24.0%	24.7%	25.4%	27.6%	32.3%
25%	18.0%	20.3%	22.1%	23.7%	26.1%	29.1%	30.5%	31.9%	35.2%	41.9%
30%	19.4%	23.1%	25.5%	27.8%	30.6%	34.3%	36.2%	38.4%	42.7%	51.6%

Source: Trivariate Research

BETA <1 AND EXTREME BETAS ARE BEST FOR GROWTH

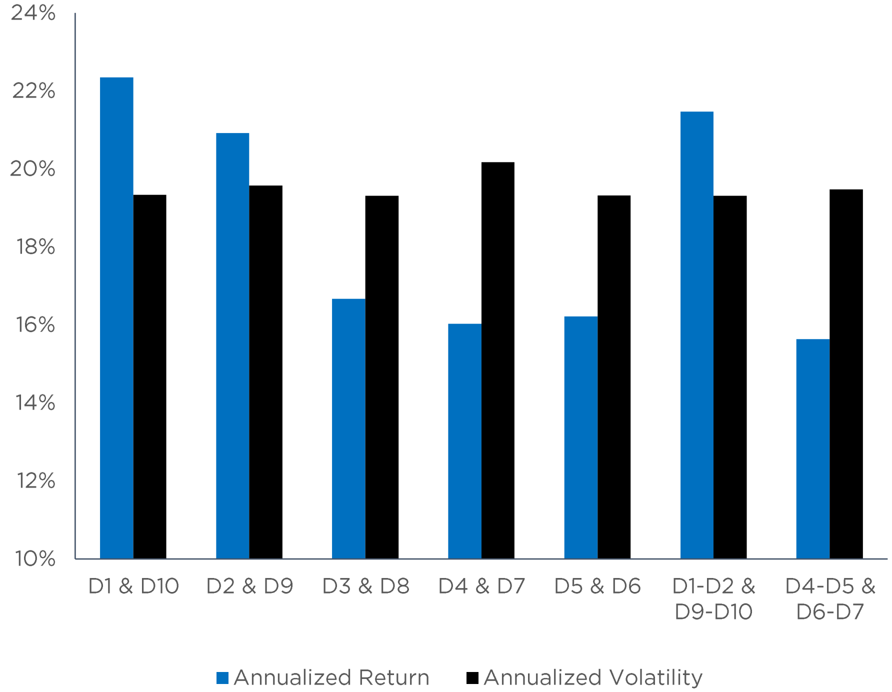
We chose to focus on three different portfolios to show a range of outcomes for portfolio performance based on beta at the portfolio level. Firstly, the lowest volatility portfolio (or Min Volatility) in blue on the left, secondly the maximum Sharpe ratio portfolio in black, and lastly the maximum return portfolio in gray. The optimal portfolio betas over the last 20 years have oscillated between 0.65 and 1.25, with lower volatility for the Min Vol. and Max Sharpe portfolios than the Max Return approach, where the current optimal beta is high vs. history. In most cases, a portfolio beta less than 1 is optimal. **On the right, we show the distribution of the betas for a growth portfolio, randomly sampling from each beta decile. Performance where stocks are only selected from the top and bottom decile of beta is superior to sampling from the middle, even when forcing the overall portfolio beta to be slightly less than 1.**

Optimal Portfolio Beta
2005 Through End-December, 2024



Source: Trivariate Research

Top 500 Growth Stocks
Portfolio Performance Since 2019
Through End-February, 2025

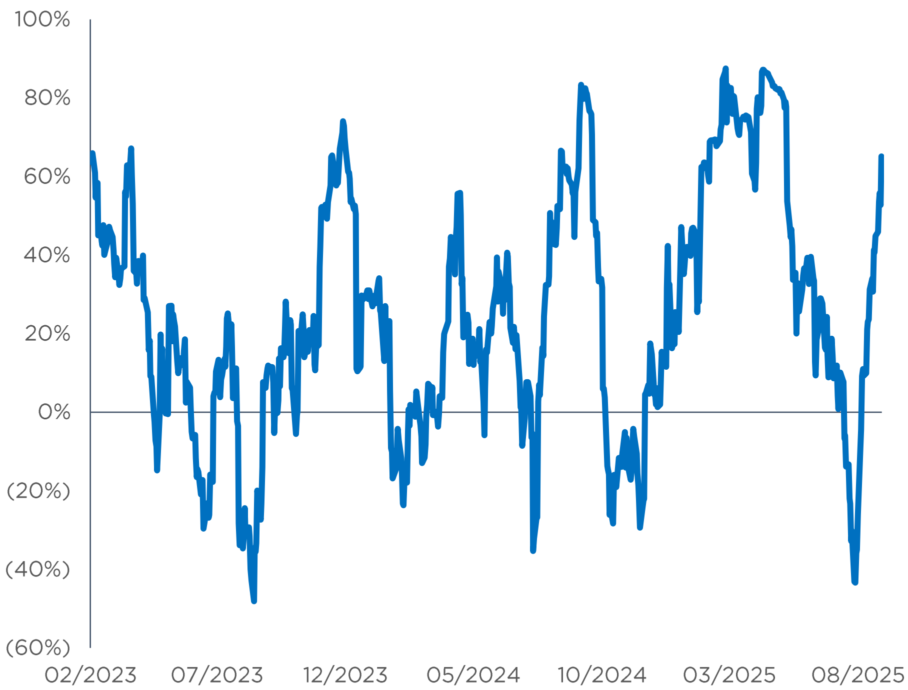


Source: Trivariate Research

AI SEMIS AND POWER ARE AMONG THE HIGHLY CORRELATED THEMES

We have identified nearly 20 custom baskets for growth areas. AI Semiconductors and Power / Utilities are two such baskets. Importantly though, most of the growth themes today are not particularly diversifying. In fact, there have been times where stocks like Nvidia (in Semiconductors) and GE Vernova (Power) were highly correlated, including in August (left). The 126-day correlation of returns between each of six major growth baskets is shown on the right. Right now, AI Semiconductors and Electrification Industrials have the highest correlation (0.85), and AI Semis and Healthcare Services have the lowest. <u>We would highly recommend portfolio and risk managers monitor the rolling correlation of returns between these growth-themed baskets.</u>

AI Semi vs. Utilities / Power
21-Day Rolling Correlation of Returns
Through End-August, 2025



Source: Trivariate Research

Six Growth Theme Baskets: 126-Day Correlation of Returns
As of End-August, 2025

	AI Semi	AI Software	Utilities / Power	Healthcare Services	Housing	Electrification Industrials
AI Semi	100.0%	82.2%	62.5%	49.9%	71.6%	84.7%
AI Software	82.2%	100.0%	62.6%	57.5%	77.2%	84.5%
Utilities / Power	62.5%	62.6%	100.0%	56.5%	64.4%	69.4%
Healthcare Services	49.9%	57.5%	56.5%	100.0%	54.4%	58.3%
Housing	71.6%	77.2%	64.4%	54.4%	100.0%	78.7%
Electrification Industrials	84.7%	84.5%	69.4%	58.3%	78.7%	100.0%

Source: Trivariate Research

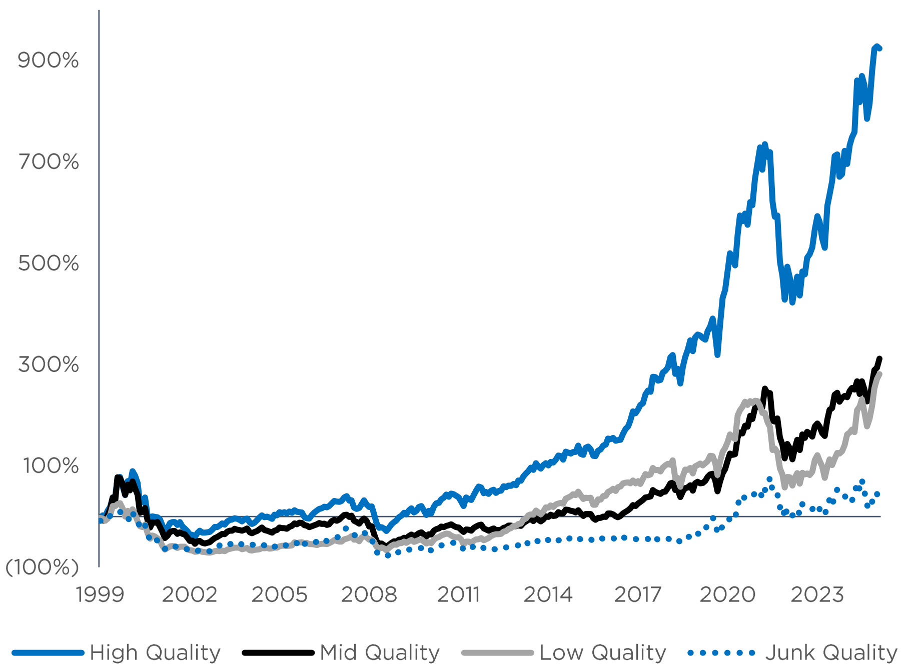
PART 3: FRAMEWORKS

- <u>Among growth stocks, high-quality is best.</u>
- Mega- / large-cap high quality growth is at all-time highs, but SMID cap high-quality growth is not yet back at highs.
- <u>High-quality growth stocks in the bottom-half of beta (lower beta) strongly outperform high-quality growth stocks in the top-half of beta (high beta).</u>
- Revisions to forward estimates have not cumulatively worked for stock selection over the last 25 years, but they have worked reasonably well over the last five years.
- <u>Using valuation to pick growth stocks makes more sense than using valuation to pick value stocks.</u>
- <u>Earnings revisions have worked well for security selection in Consumer Discretionary and Industrials, revisions to gross margins have been effective for picking stocks in Semiconductors. Long and short ideas are shown on Slides 28-30.</u>

AMONG GROWTH STOCKS, HIGH-QUALITY IS BEST

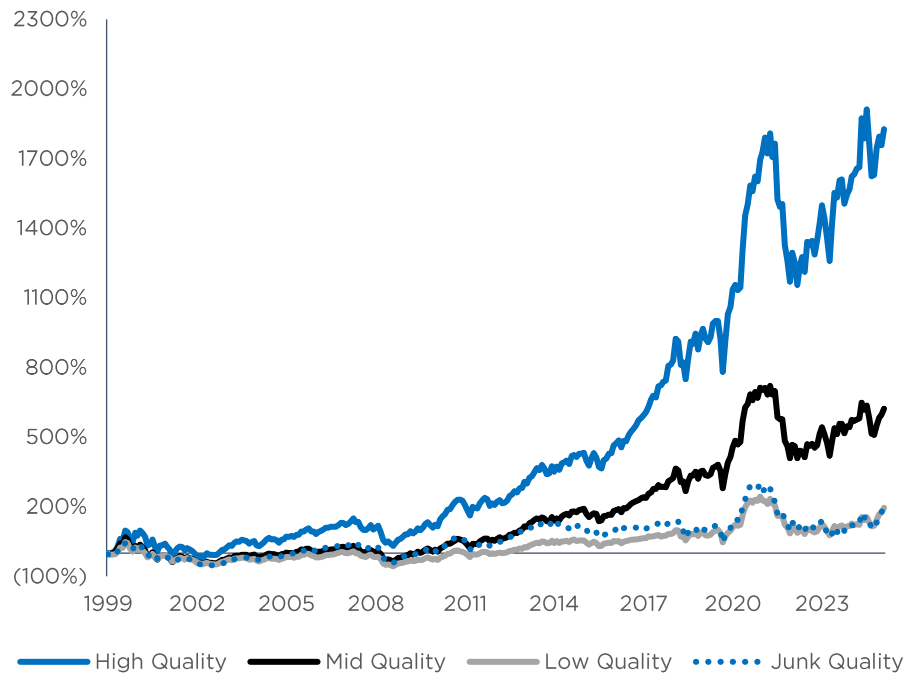
While there was a significant drawdown in mega-/ large-cap quality Growth stocks from 2021 through 2022, the highest quality quartile has performed the best over the long-term. In fact, despite the junk rally since April, absolute performance has been strong this year. Clearly, avoiding the lowest quality quartile has been prudent among mega-/ large-cap quality stocks (left). The same is true for SMID-cap quality Growth (right). Interestingly though, high-quality mega-/ large cap. stocks are at all-time highs, but that is not yet true for SMID caps.

Growth Universe
Mega / Large Cap. Performance by Quality Quartile
Through End-August, 2025



Source: Trivariate Research

Growth Universe
SMID Cap. Performance by Quality Quartile
Through End-August, 2025

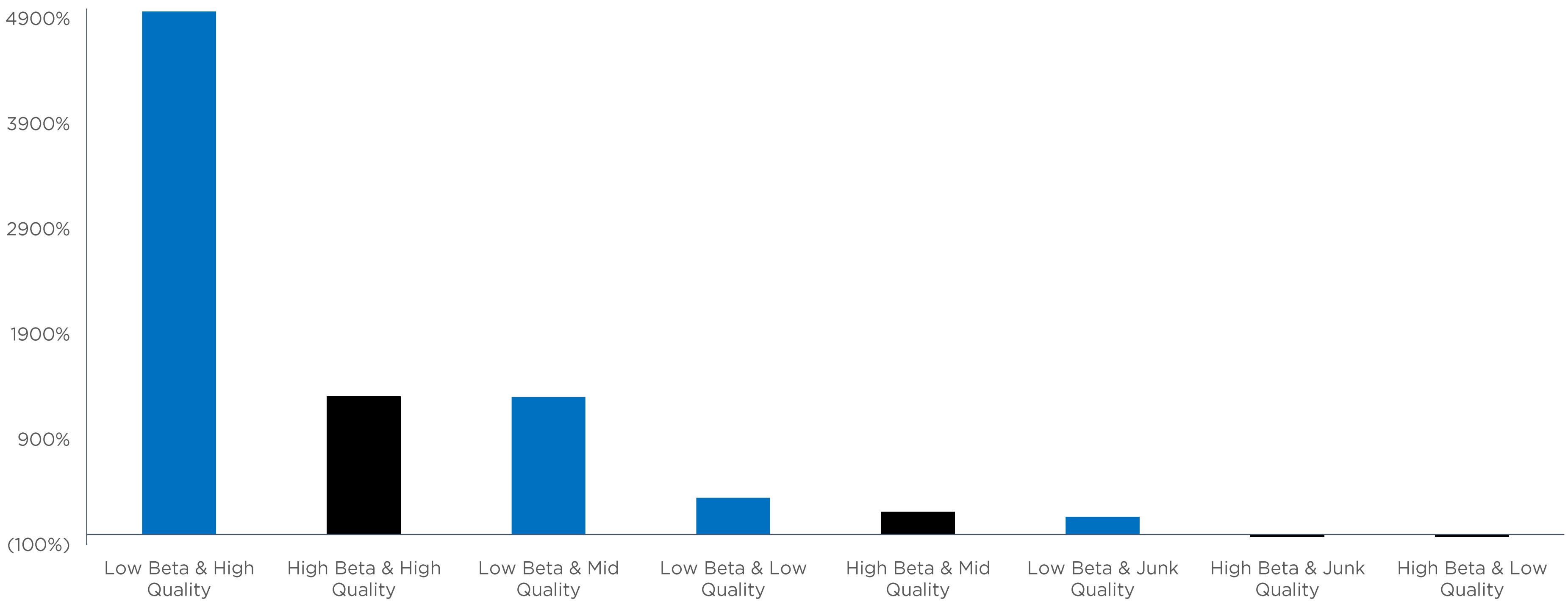


Source: Trivariate Research

AVOIDING HIGH BETA GROWTH STOCKS IS KEY

We defined "growth beta" as beta vs. the Nasdaq – NOT the S&P500 to make it more relevant for Growth investors. High growth-beta Growth stocks in the bottom half of quality are down in absolute terms over the last 24 years! By far the best performing bucket are low growth-beta Growth stocks that are high quality – up over 4900% during that timeframe. If Growth managers are going to own high growth-beta Growth stocks, skewing to the highest quality quartile is crucial (black bar 2nd from left below).

Performance of Growth Stocks by Growth Beta and Substance
Through End-August, 2025



Source: Trivariate Research

REVISIONS TO FORWARD ESTIMATES HAVE NOT WORKED OVER 25 YRS

We analyzed free cash flow, earnings, gross margin, and sales revisions from sell-side estimates to see if there was any predictive power in these metrics. We looked at many combinations but ultimately focused on the one-month change in the one-year forward estimates, meaning have there been recent changes to the one-year forward outlook. The top part of the table below shows that over the last 25 years, the top vs. bottom quintile spreads have had low or negative Sharpe ratios, meaning that buying companies where estimates came down was on average not much worse than buying companies where estimates just got better. Revisions didn't matter. But, looking at the bottom of the table for the last five years, revision efficacy for free cash flow and earnings has worked far better.

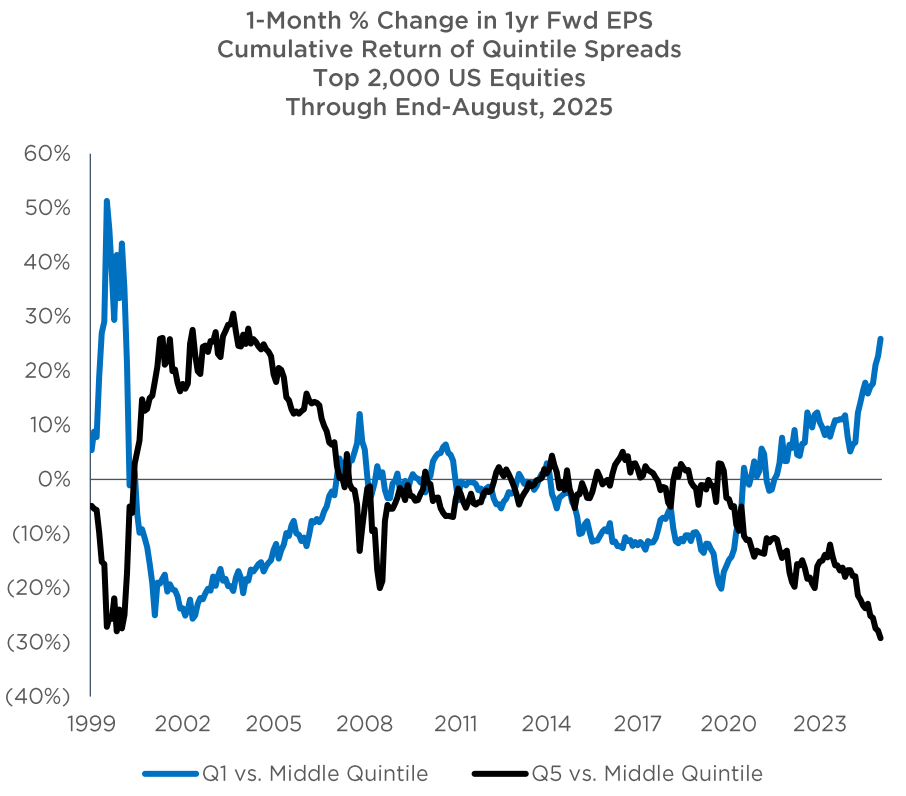
Q1 vs. Q5 Spread Performance of 1-Month % Change in Select 1-Year Forward Estimates
Top 2,000 US Equities
Last 25 Years vs. Last 5 Years, As of End-August, 2025

Performance Timeframe	Signal	Sharpe Ratio	Annualized Mean Return	Annualized Std. Dev of Returns	Hit Rate	Asymmetry	Number of Months
Last 25 Years	Free Cash Flow	0.16	1.0%	7%	57%	0.8x	176
	EPS	0.09	0.9%	10%	56%	0.9x	313
	Gross Margin	0.04	0.2%	5%	55%	0.8x	176
	Revenue	(0.37)	(4.2%)	11%	54%	0.6x	306
Last 5 Years	Free Cash Flow	0.96	6.1%	6%	58%	1.5x	60
	EPS	0.82	5.9%	7%	63%	1.1x	60
	Gross Margin	0.14	0.9%	7%	50%	1.1x	60
	Revenue	0.10	0.9%	9%	58%	0.8x	60

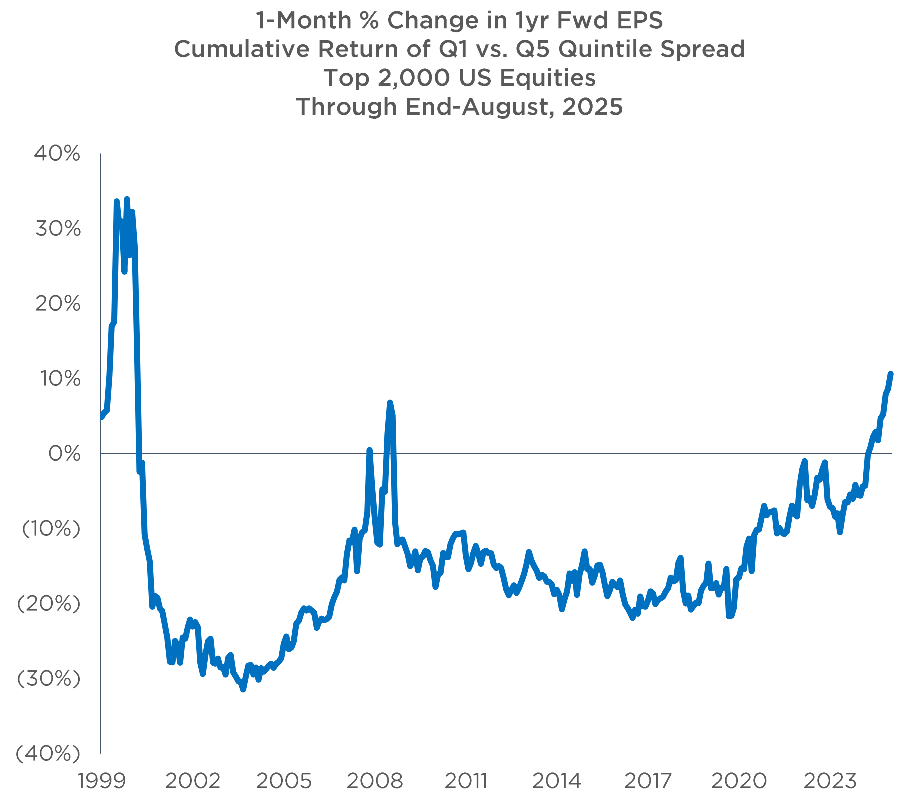
Source: Trivariate Research

BUT EPS REVISIONS HAVE WORKED OVER THE LAST FIVE YEARS

We show the performance of the top quintile (biggest upward revisions) and the bottom quintile (biggest downward revisions) on a month-over-month basis to the one-year forward outlook compared to the middle quintile (left). The blue line shows that the biggest upward revisions have worked, and the biggest downward have failed since COVID. Given the catalyst for most monthly changes to earnings estimates is the actual company report, this implies waiting until a company beats to buy it, or misses to sell it, has in aggregate been an effective strategy for the last five years. The Q1-Q5 spread (right), shows that cumulative performance over 25 years is now positive.



Source: Trivariate Research

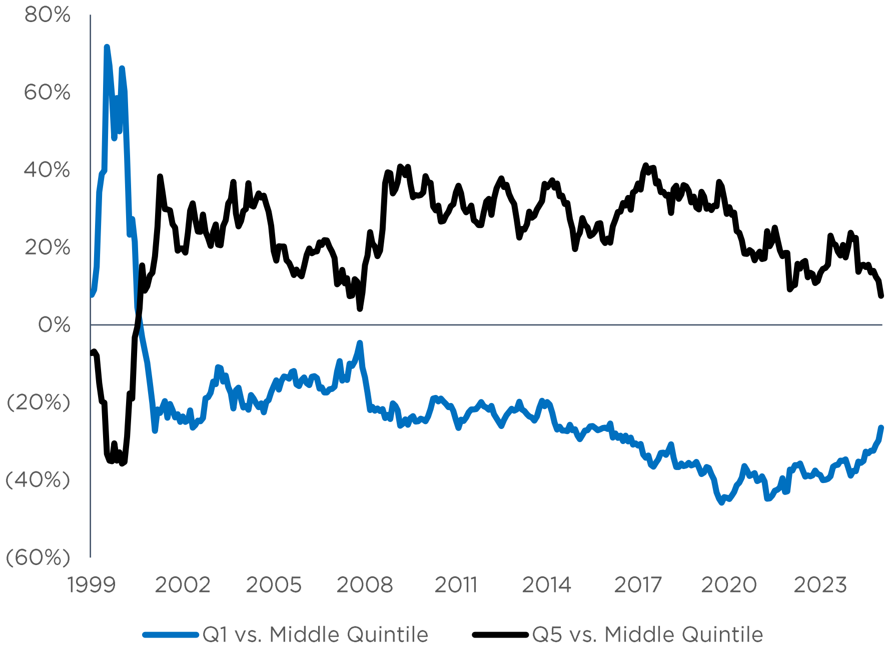


Source: Trivariate Research

HISTORICALLY, REVISIONS WORKED BETTER IN VALUE THAN GROWTH

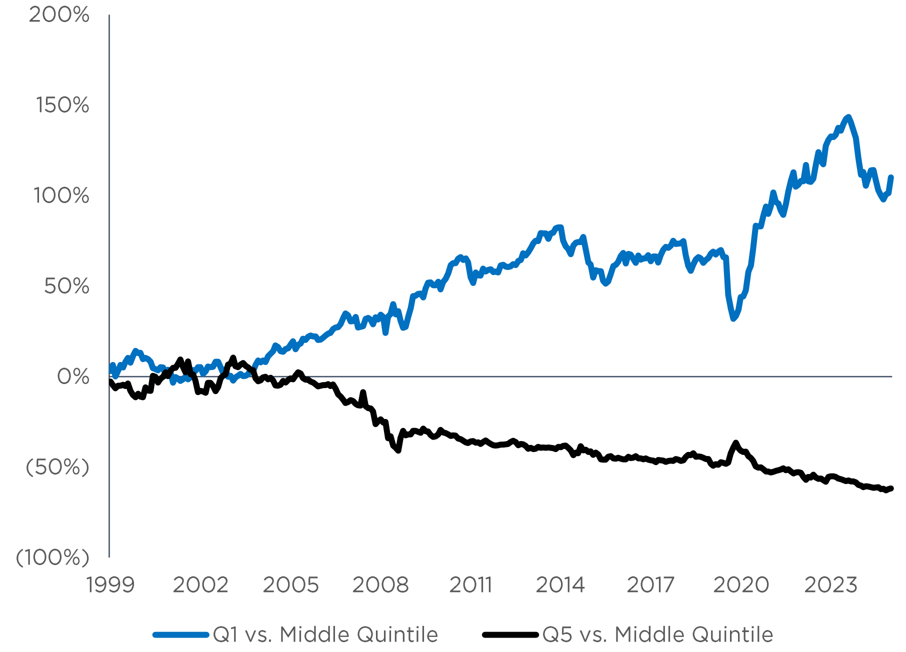
While still cumulatively negative over the last 25 years, the top quintile of EPS revisions have started to work among growth stocks (left), and those with downward revisions, which had cumulatively strongly outperformed those with upward revisions, have started to fail. Interestingly, among value stocks, those with downward revisions consistently underperform, meaning betting on mean revision in the fundamentals has not been prudent (right). Recently, value stocks with upward revisions have failed, meaning perhaps there has not been a serial correlation of a "carry through" in good news.

1-Month % Change in 1yr Fwd EPS
Cumulative Return of Quintile Spreads
Growth Universe
Through End-August, 2025



Source: Trivariate Research

1-Month % Change in 1yr Fwd EPS
Cumulative Return of Quintile Spreads
Value Universe
Through End-August, 2025

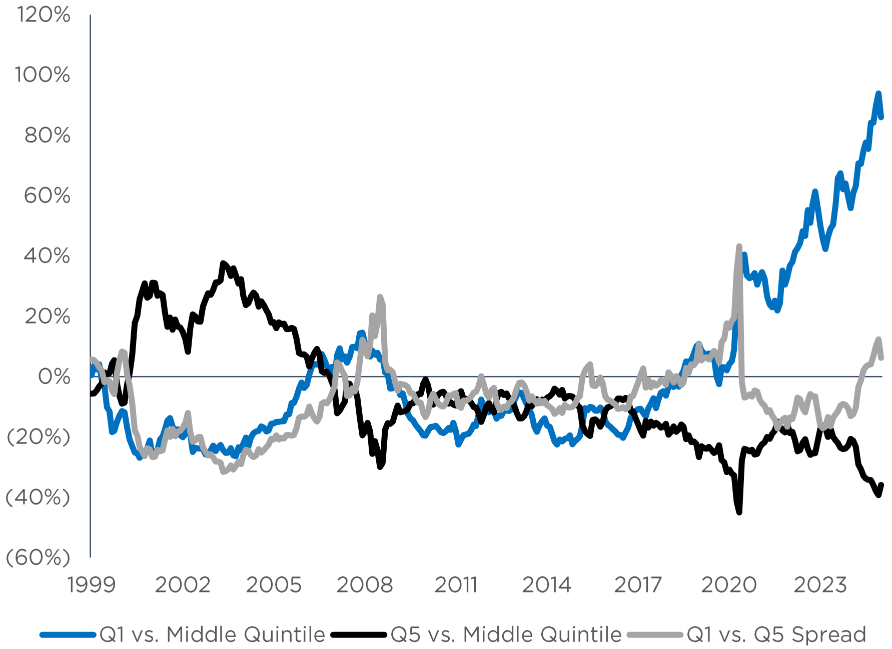


Source: Trivariate Research

REVISIONS HAVE WORKED WELL IN DISCRETIONARY AND INDUSTRIALS

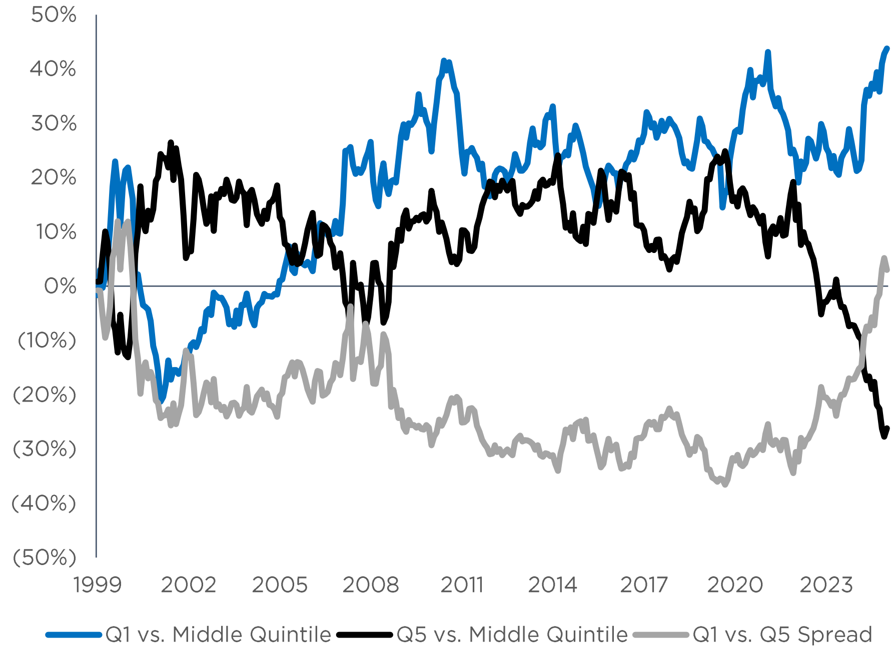
At the sector level, buying Consumer Discretionary stocks where EPS has risen (ostensibly that just beat) has been a great strategy over the last five years (left). Avoiding (shorting) Industrials with downward revisions has also worked quite well over the last few years. In fact, a revisions-based strategy in Industrials has largely been effective since COVID.

1-Month % Change in 1yr Fwd EPS
Cumulative Return of Quintile Spreads
Consumer Discretionary GICS Sector
Through End-August, 2025



Source: Trivariate Research

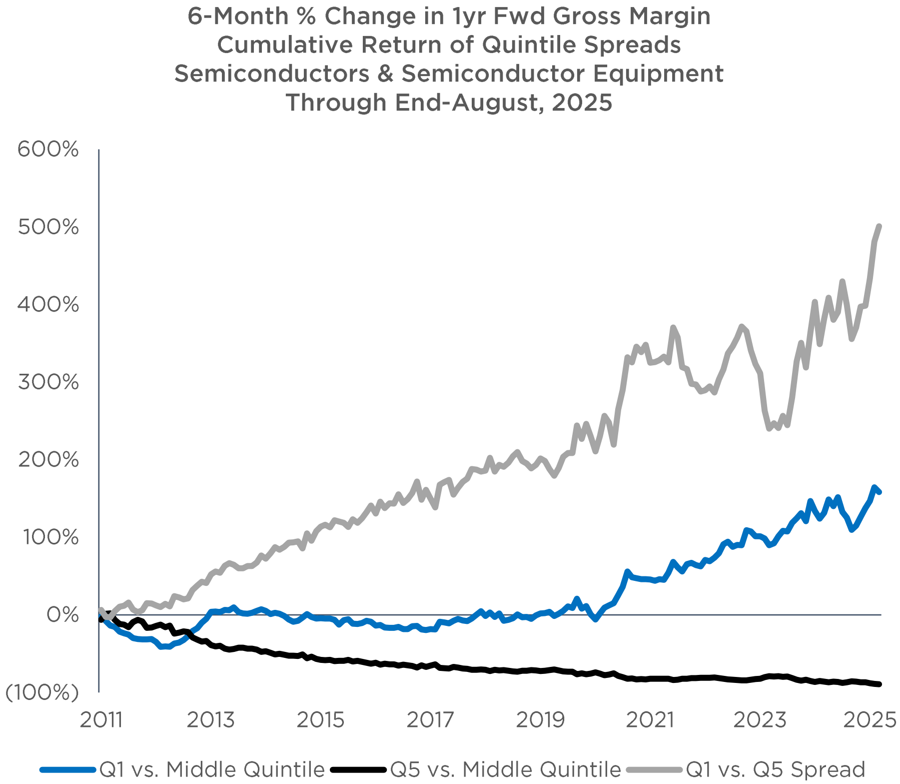
1-Month % Change in 1yr Fwd EPS
Cumulative Return of Quintile Spreads
Industrials GICS Sector
Through End-August, 2025



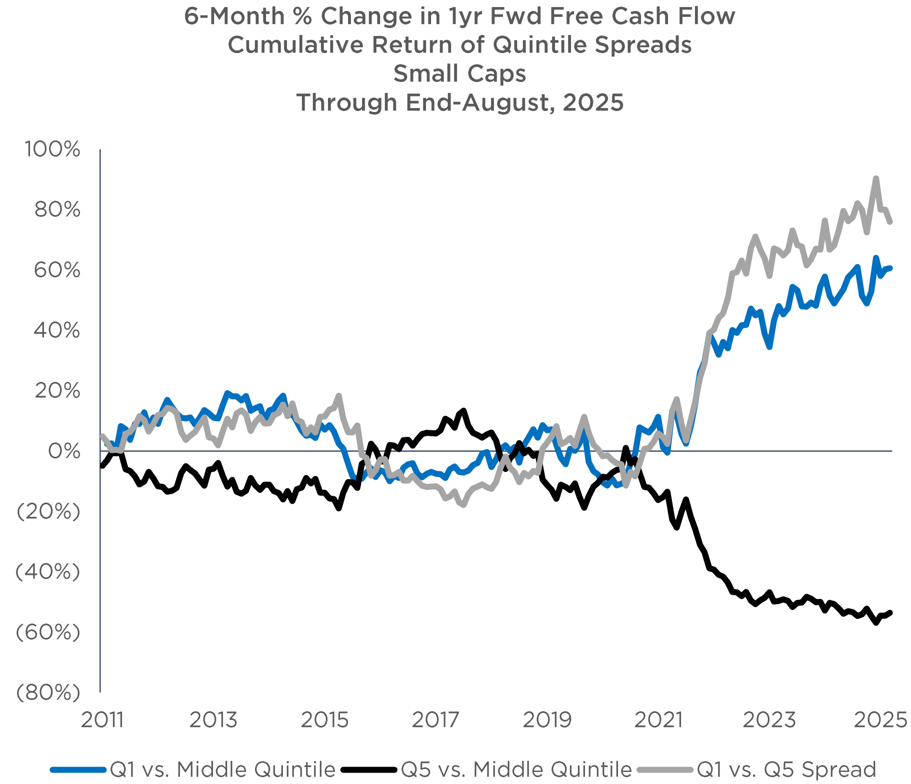
Source: Trivariate Research

REVISIONS TO GROSS MARGINS WORKS IN SEMICONDUCTORS

We analyzed the change in revisions to one-year forward gross margins, and while we didn't find broad-based efficacy, we did find that this was a helpful way to segment winners from losers among Semiconductors (left). We have long-espoused that buying Semiconductors with gross margin expansion works, and we were not surprised to show that 6-month changes to one-year forward gross margins estimates were highly effective at identifying winners from losers. In fact, note the SHARPLY bigger y-axis on the Semiconductors charts. Avoiding Semiconductors with downward gross margin revisions has been a consistently good idea. Six-month estimate revisions on free cash flow has worked in the small cap. universe since COVID (right).



Source: Trivariate Research



Source: Trivariate Research

LONG AND SHORT IDEAS BASED ON EPS AND FCF REVISIONS

Based on this one-month revision factor to changes in one-year forward earnings and free cash flow, we would expect the stocks on the left, to strongly outperform the stocks on the right.

Long Screen, Ex-Discretionary & Industrials
Stocks in Top Quintile of 1-Month % Chg. in Fwd EPS & Fwd FCF
As of End-August, 2025

Ticker	Company	Market Cap. ($Bn.)
ALAB	Astera Labs, Inc.	30.29
MDB	MongoDB, Inc.	25.68
CELH	Celsius Holdings, Inc.	16.22
DINO	HF Sinclair Corporation	9.52
JAZZ	Jazz Pharmaceuticals plc	7.75
HL	Hecla Mining Company	5.63
WK	Workiva Inc.	4.61
OS	OneStream, Inc.	3.87
AMBA	Ambarella, Inc.	3.50
BRZE	Braze, Inc.	3.08

Source: Trivariate Research

Short Screen, Ex-Discretionary & Industrials
Stocks in Bottom Quintile of 1-Month % Chg. in Fwd EPS & Fwd FCF
As of End-August, 2025

Ticker	Company	Market Cap. ($Bn.)
AAPL	Apple Inc.	3445.05
PG	The Procter & Gamble Company	367.55
WMB	The Williams Companies, Inc.	70.68
APD	Air Products and Chemicals, Inc.	65.46
TEL	TE Connectivity plc	61.02
GIS	General Mills, Inc.	26.38
CASY	Casey's General Stores, Inc.	18.39
CAG	Conagra Brands, Inc.	9.16
LW	Lamb Weston Holdings, Inc.	8.02
EVCM	EverCommerce Inc.	2.09

Source: Trivariate Research

CONSUMER DISCRETIONARY LONG / SHORT IDEAS

Given how well the revisions factor has been working in the Consumer Discretionary sector, we recommend the following long (left) and short (right) ideas. DASH and FLUT are among those we expect to outperform NKE and SBUX.

Consumer Discretionary Long Screen
Stocks in Top Quintile of 1-Month % Change in Fwd EPS
As of End-August, 2025

Ticker	Company	Market Cap. ($Bn.)
DASH	DoorDash, Inc.	104.77
FLUT	Flutter Entertainment plc	53.99
DKNG	DraftKings Inc.	23.82
AS	Amer Sports, Inc.	21.81
BURL	Burlington Stores, Inc.	18.10
RL	Ralph Lauren Corporation	17.99
DUOL	Duolingo, Inc.	13.65
W	Wayfair Inc.	9.67
BROS	Dutch Bros Inc.	9.12
FIVE	Five Below, Inc.	8.00

Source: Trivariate Research

Consumer Discretionary Short Screen
Stocks in Bottom Quintile of 1-Month % Change in Fwd EPS
As of End-August, 2025

Ticker	Company	Market Cap. ($Bn.)
NKE	NIKE, Inc.	114.27
SBUX	Starbucks Corporation	100.25
AZO	AutoZone, Inc.	70.24
DHI	D.R. Horton, Inc.	50.53
DRI	Darden Restaurants, Inc.	24.13
DECK	Deckers Outdoor Corporation	17.75
TOL	Toll Brothers, Inc.	13.40
ARMK	Aramark	10.28
GAP	The Gap, Inc.	8.17
CAVA	CAVA Group, Inc.	7.83
LNW	Light & Wonder, Inc.	7.76

Source: Trivariate Research

INDUSTRIALS LONG / SHORT IDEAS

Given how well the revisions factor has been working in the Industrials sector, we recommend the following long (left) and short (right) ideas. GEV, AXON, and LMT are among those we expect to outperform DE, ADP, and CAT. Obviously, there is a bit of an AI-factor bet on with these names in the short-term.

Industrials Long Screen
Stocks in Top Quintile of 1-Month % Change in Fwd EPS
As of End-August, 2025

Ticker	Company	Market Cap. ($Bn.)
GEV	GE Vernova Inc.	166.87
LMT	Lockheed Martin Corporation	106.37
AXON	Axon Enterprise, Inc.	58.67
GRAB	Grab Holdings Limited	20.34
LUV	Southwest Airlines Co.	17.28
NVT	nVent Electric plc	14.55
MTZ	MasTec, Inc.	14.10
BE	Bloom Energy Corporation	12.39
KTOS	Kratos Defense & Security Solutions, Inc.	11.11
SPXC	SPX Technologies, Inc.	9.25

Source: Trivariate Research

Industrials Short Screen
Stocks in Bottom Quintile of 1-Month % Change in Fwd EPS
As of End-August, 2025

Ticker	Company	Market Cap. ($Bn.)
CAT	Caterpillar Inc.	196.31
DE	Deere & Company	129.39
ADP	Automatic Data Processing, Inc.	123.16
PH	Parker-Hannifin Corporation	96.20
CTAS	Cintas Corporation	84.64
TDG	TransDigm Group Incorporated	78.83
EMR	Emerson Electric Co.	74.29
JCI	Johnson Controls International plc	69.95
FDX	FedEx Corporation	54.52
PAYX	Paychex, Inc.	50.15
GWW	W.W. Grainger, Inc.	48.48
CPRT	Copart, Inc.	47.20

Source: Trivariate Research

PART 4: SECTOR AND INDUSTRY IDEAS

- Today, the top three sectors account for 58.2% of the market cap., of the S&P500, the highest levels since 2001. These are Technology, Financials, and Communication Services. At the same time, the smallest four sectors – REITs, Utilities, Materials, and Energy – are at just 8.8% of the S&P 500, the lowest level in 25 years.
- Today 72% of the mega-cap. universe is growth, vs. less than 5% that is value.
- Biggest Overweight recommendations: Healthcare and Financials, followed by Technology and Utilities. Half of our recommended portfolio is in Technology (32%) and Financials (18%).
- Biggest Underweight recommendations: Consumer Discretionary and Real Estate, followed by Communication Services, and Consumer Staples.
- **We are recommending near a market-weight in Industrials, Energy, and Utilities.**
- **We prefer Semiconductors over Software in the long-term, due to less risk of technological obsolescence.**
- **We offer 5 different ideas in Technology that are low correlation to Semiconductors to offer some diversification in Technology, which has been very challenging for portfolio managers year-to-date (Slides 37-41), including low beta, what worked last time, positive growth with low correlation to Semiconductors, consistent dividend growth, and predictable earnings.**

THE CONCENTRATION OF SECTOR EXPOSURE IS VERY HIGH

We looked at the percentage of S&P500 returns that comes from the largest three sectors over time. Today, the top three account for 58.2% of the market cap., near the highest levels since 2001. These are Technology, Financials, and Communication Services (left). At the same time, the smallest four sectors – REITs, Utilities, Materials, and Energy – are at just 8.8% of the S&P 500, the lowest level in 25 years (right). What does that mean? **The performance of the market is more about Technology and Financials and Comm. Services than other sectors. The headline level of the market might not move as much as some of the moves in the underlying sectors.**

Largest Three Sectors
Market Cap. Share of S&P500
Through End-August, 2025

Source: Trivariate Research

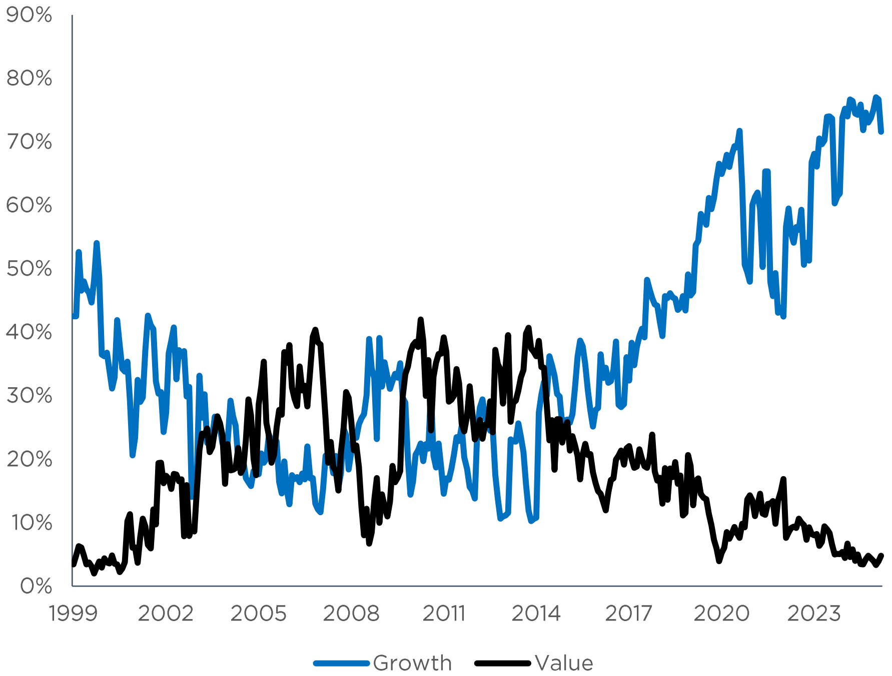
Smallest Four Sectors
Market Cap. Share of S&P500
Through End-August, 2025

Source: Trivariate Research

ONLY 4.7% OF THE MEGA CAP UNIVERSE IS VALUE

We define the mega-cap universe as the top 50 stocks by market capitalization. We have a proprietary style model that labels stocks as growth, value, or a middle ground we call "neither" based on several factors at the end of each month. Below, we show the percentage of mega-cap market cap. that falls into the growth or value categories. From 2003 to around 2014 the percentage of market cap. among the top 50 stocks was roughly equally split between growth, value and "neither." Today, 72% of the mega-cap. universe is growth, and 4.7% is value (left). In practice, this means it's nearly impossible to be a mega-cap. value investor. Among mega-/large-cap. growth stocks, Technology is 56.5% of the mega-/large-cap. Growth universe (right).

Percentage of Mega-Cap Universe Total Market Cap. That is Growth or Value
Through End-August, 2025



Source: Trivariate Research

Percentage of Mega-/Large-Cap Growth Universe Total Market Cap. By Sector
End-August, 2025

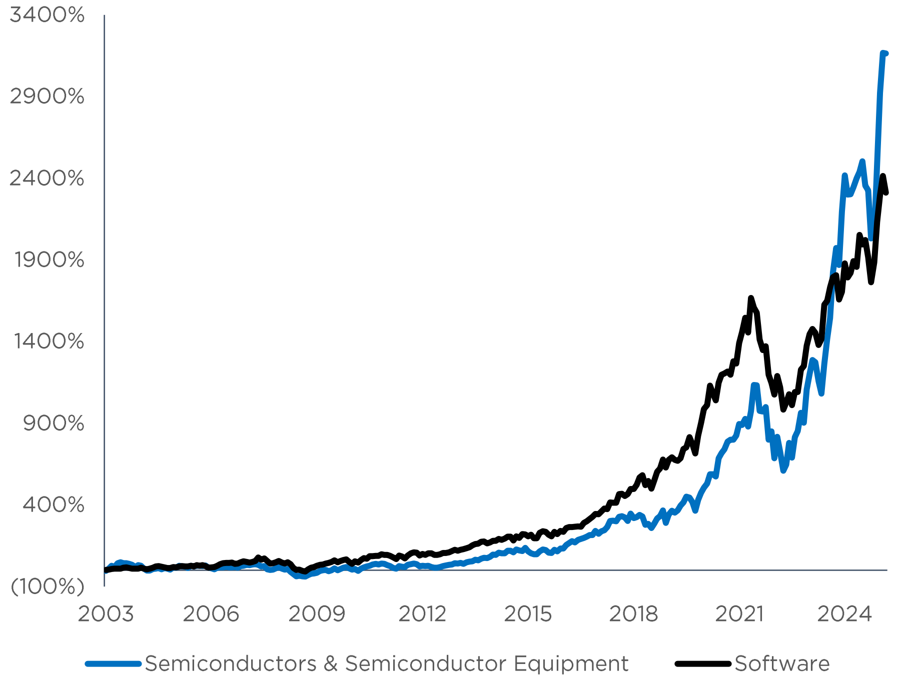
Sector	% of Market Cap.
Information Technology	56.5%
Communication Services	19.2%
Consumer Discretionary	13.7%
Financials	5.6%
Health Care	2.6%
Consumer Staples	1.6%
Industrials	0.8%

Source: Trivariate Research

THE MEDIAN SOFTWARE COMPANY HAS GROWN FASTER THAN SEMIS

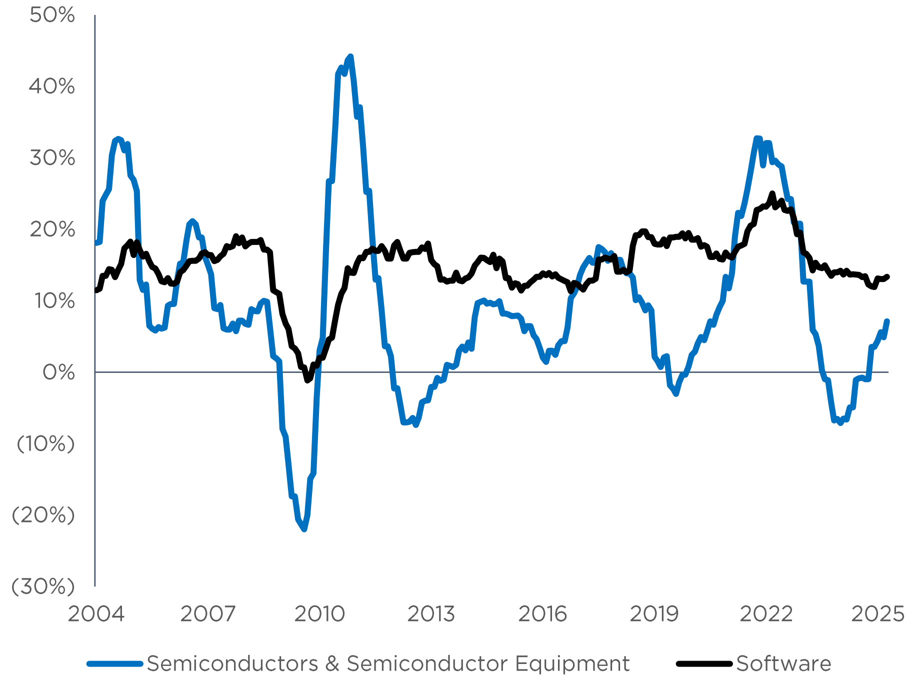
On a cap-weighted basis, Semiconductors have sharply outperformed Software over the last 3 years, making the cumulative total also better (left). Revenue growth has been steadier for the median Software company during that same period (right).

Cap. Weight Cumulative Returns
Software vs. Semis.
Through End-August, 2025



Source: Trivariate Research

Median Revenue Growth
Software vs. Semis.
Through End-August, 2025

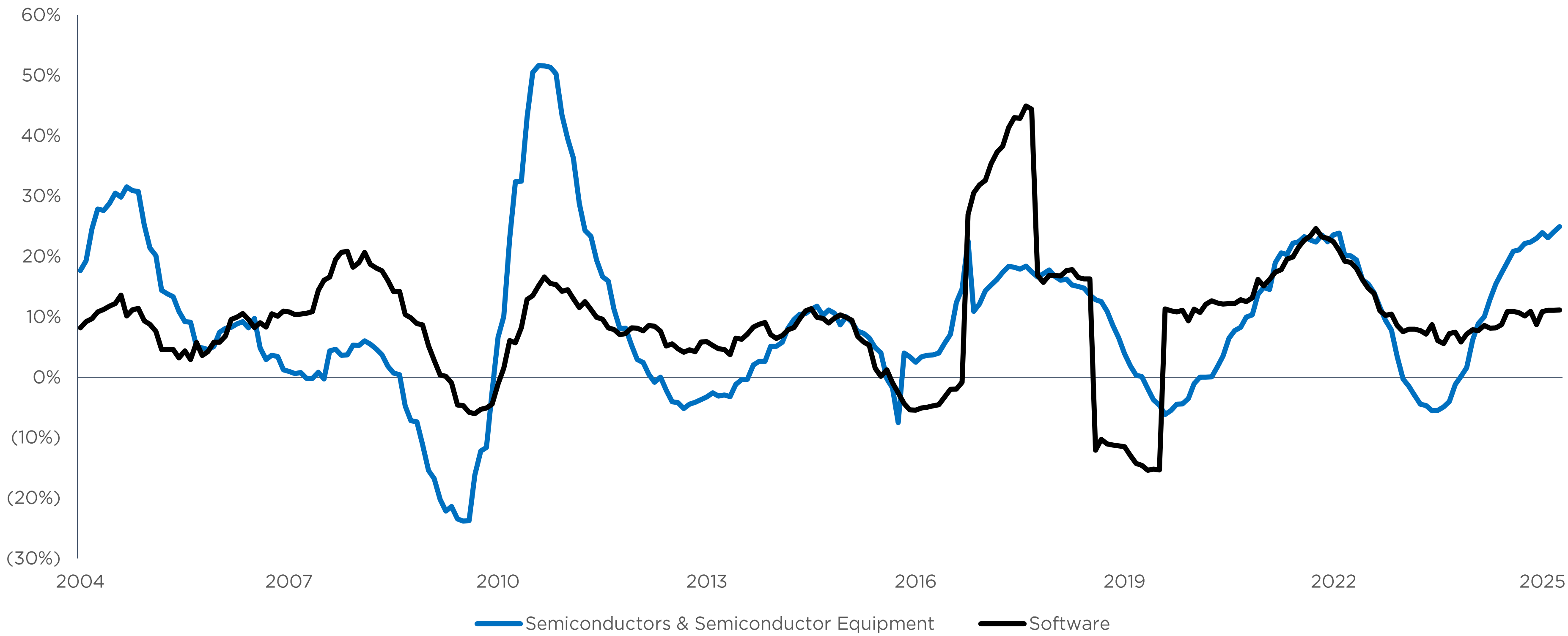


Source: Trivariate Research

BUT, ON A TOTAL REVENUE DOLLAR BASIS, SEMIS GROW FASTER

But on a total revenue dollar basis, the Semiconductor industry is growing faster than the Software industry. We think this makes sense and likely lasts for some time.

Growth in Total Revenue Dollars
Software vs. Semis.
Through End-August, 2025



Source: Trivariate Research

MANY OF TECH. STOCKS IN GROWTH AREAS ARE HIGHLY CORRELATED

One of the major challenges for Technology investors has been that many of the stocks with revenue exposure to the higher growth themes are very correlated to each other. Below we show the trailing 126-day (six months) correlation of returns of each of the nine baskets of stocks we have identified in our Technology Research. For instance, our AI Governance basket is 0.97 correlated with our Agentic AI basket. Post-Quantum Cryptography and Ambient Invisible Intelligence have the lowest average correlation to the other Technology baskets but they are still high in absolute terms!

126-Day Correlation of Returns
As of End-August, 2025

	Agentic AI	AI Governance	Disinformation Security	Post-quantum Cryptography	Ambient Invisible Intelligence	Energy-efficient Computing	Hybrid Computing	Spatial Computing
Agentic AI	100.0%	97.2%	93.8%	79.6%	78.8%	90.1%	94.4%	90.7%
AI Governance	97.2%	100.0%	94.9%	77.2%	76.0%	84.9%	90.5%	85.9%
Disinformation Security	93.8%	94.9%	100.0%	76.6%	72.2%	82.0%	88.1%	83.3%
Post-quantum Cryptography	79.6%	77.2%	76.6%	100.0%	68.3%	74.0%	80.4%	77.5%
Ambient Invisible Intelligence	78.8%	76.0%	72.2%	68.3%	100.0%	80.1%	79.6%	81.3%
Energy-efficient Computing	90.1%	84.9%	82.0%	74.0%	80.1%	100.0%	94.9%	94.4%
Hybrid Computing	94.4%	90.5%	88.1%	80.4%	79.6%	94.9%	100.0%	94.8%
Spatial Computing	90.7%	85.9%	83.3%	77.5%	81.3%	94.4%	94.8%	100.0%

Source: Trivariate Research

IDEA #1: WHAT WORKED LAST TIME IN A SELL-OFF?

While this could easily have some recency biases, our first approach is to just look at stocks that performed best during the sharp sell-off earlier this year. To the extent that a tariff-related growth scare re-emerges later this summer, it is likely a similar playbook will unfold. Only three technology stocks realized positive returns during the drawdown earlier (see below), but Clear Secure (YOU), Marqeta (MQ), and Verisign (VRSN) performed best. Volatility of this basket on recent EPS results was very high.

Best Performing Tech Stock During S&P500 Correction
February 18th, 2025 to April 8th, 2025

Ticker	Company	Sub-Industry	Market Cap. (US $Bil.)	Returns During Correction
YOU	Clear Secure, Inc.	Application Software	2.73	8.0%
MQ	Marqeta, Inc.	Transaction & Payment Processing Services	2.67	4.6%
VRSN	VeriSign, Inc.	Internet Services & Infrastructure	25.11	2.7%
JKHY	Jack Henry & Associates, Inc.	Transaction & Payment Processing Services	12.37	(1.5%)
QBTS	D-Wave Quantum Inc.	Application Software	5.43	(2.4%)
MMS	Maximus, Inc.	Data Processing & Outsourced Services	4.16	(3.4%)
APPF	AppFolio, Inc.	Application Software	9.59	(4.2%)
CNXC	Concentrix Corporation	Data Processing & Outsourced Services	3.28	(5.0%)
OKTA	Okta, Inc.	Internet Services & Infrastructure	17.12	(5.1%)
ITRI	Itron, Inc.	Electronic Equipment & Instruments	5.69	(5.1%)
EVTC	EVERTEC, Inc.	Transaction & Payment Processing Services	2.31	(5.8%)
CHKP	Check Point Software Technologies Ltd.	Systems Software	19.99	(6.3%)
FICO	Fair Isaac Corporation	Application Software	34.49	(6.8%)
PAYX	Paychex, Inc.	Human Resource & Employment Services	51.99	(7.0%)

Source: Trivariate Research

IDEA #2: POSITIVE ∝ YTD, LOW CORR. TO SEMIS, GOOD FUNDAMENTALS

Two of the big challenges for investors over the past 18 months has been how correlated the returns of the growth themes are and how much the Semiconductor industry seems to be influencing total returns. Most portfolio managers are attracted to the high and increasing growth potential of "compute" and therefore own various parts of the "AI chain." Hence, we thought attractive defense could include stocks with positive alpha year-to-date, low correlation to Semiconductors, positive forecasted revenue growth, and forecasted gross margin expansion. These stocks include International Business Machines (IBM), Applovin (APP), Snowflake (SNOW), and Broadridge (BR) are among the largest market cap. ideas.

Stocks with Positive Alpha YTD, Low Correlation to Semis, and Forecasted Revenue Growth & Margin Expansion
As of End-August, 2025

Ticker	Company	Sub-Industry	Market Cap. (US $Bil.)	Correlation to Semis	YTD Alpha	Next Report Date
IBM	International Business Machines Corporation	IT Consulting & Other Services	226.82	44.2%	4.1%	10/22/2025
APP	AppLovin Corporation	Application Software	161.88	49.6%	28.7%	11/06/2025
SNOW	Snowflake Inc.	Internet Services & Infrastructure	79.63	50.0%	37.1%	11/20/2025
BR	Broadridge Financial Solutions, Inc.	Data Processing & Outsourced Services	29.94	39.3%	3.9%	11/05/2025
MDB	MongoDB, Inc.	Internet Services & Infrastructure	25.68	41.9%	20.5%	12/09/2025
GWRE	Guidewire Software, Inc.	Application Software	18.27	42.5%	17.1%	09/04/2025
OKTA	Okta, Inc.	Internet Services & Infrastructure	16.35	43.2%	4.8%	12/03/2025
APPF	AppFolio, Inc.	Application Software	9.94	31.3%	3.6%	10/24/2025

Source: Trivariate Research

IDEA #3: CONSISTENT DIVIDEND GROWTH

We think companies with consistent dividend growth are likely to provide strong defense if there's a growth scare. Specifically, our past work shows that companies that have grown their dividend over the last five years and that are indicated to have continued dividend growth, as well as at least 7% forecasted sales growth and 10% forecasted earnings growth outperform. This helps us avoid the "value traps." Below we show stocks like Broadcom (AVGO), MasterCard (MA), and Intuit (INTU), among others, that meet these criteria. Notably, this screen does not include valuation, as often stocks that experience multiple contraction prior to corrections perform the worst during the corrections.

Stocks with Consistent Dividend Growth and High Forecasted Sales & Earnings Growth
As of End-August, 2025

Ticker	Company	Sub-Industry	Market Cap. (US $Bil.)	Next Report Date
AVGO	Broadcom Inc.	Semiconductors	1,398.77	09/04/2025
MA	Mastercard Incorporated	Transaction & Payment Processing Services	538.15	10/31/2025
INTU	Intuit Inc.	Application Software	186.06	11/21/2025
TXN	Texas Instruments Incorporated	Semiconductors	184.08	10/22/2025
ADI	Analog Devices, Inc.	Semiconductors	123.63	11/26/2025
MSI	Motorola Solutions, Inc.	Communications Equipment	78.71	11/07/2025
TEL	TE Connectivity plc	Electronic Manufacturing Services	61.02	10/30/2025
ROP	Roper Technologies, Inc.	Application Software	56.64	10/23/2025
PAYX	Paychex, Inc.	Human Resource & Employment Services	50.15	10/01/2025
BSY	Bentley Systems, Incorporated	Application Software	17.5	11/07/2025
CGNX	Cognex Corporation	Electronic Equipment & Instruments	7.38	10/30/2025

Source: Trivariate Research

IDEA #4: PREDICTABLE EARNINGS

When the market pulls back, stocks that have more predictable earnings estimates often relatively outperform. We use “narrow estimate dispersion” as a proxy for this, as these are businesses where an economic slowdown does not typically create significant P&L volatility. These “easy to predict” businesses that are forecasted to grow earnings and are relatively cheap on price-to-forward earnings vs. their own histories (in the cheapest half) also have low standard deviations of analyst earnings estimates. These stocks include Salesforce.com (CRM), Adobe (ADBE), Fortinet (FTNT), and Dell (DELL) among others but are now perceived to be Technology losers. If an investor has an opposing fundamental view, this list is interesting.

Stocks with Narrow Estimate Dispersion, Forecasted EPS Growth, and Cheap on Price-to-Forward Earnings vs. History
As of End-August, 2025

Ticker	Company	Sub-Industry	Market Cap. (US $Bil.)	Next Report Date
CRM	Salesforce, Inc.	Application Software	244.98	09/03/2025
ADBE	Adobe Inc.	Application Software	151.31	09/11/2025
DELL	Dell Technologies Inc.	Technology Hardware, Storage & Peripherals	82.62	11/25/2025
FTNT	Fortinet, Inc.	Systems Software	60.36	11/07/2025
CTSH	Cognizant Technology Solutions Corporation	IT Consulting & Other Services	35.29	10/30/2025
ZM	Zoom Communications Inc.	Application Software	24.37	11/25/2025
SSNC	SS&C Technologies Holdings, Inc.	Data Processing & Outsourced Services	21.65	10/24/2025
FFIV	F5, Inc.	Communications Equipment	17.99	10/28/2025
PCTY	Paylocity Holding Corporation	Human Resource & Employment Services	9.89	10/30/2025
OLED	Universal Display Corporation	Semiconductors	6.59	10/30/2025
WEX	WEX Inc.	Transaction & Payment Processing Services	5.87	10/24/2025
ITRI	Itron, Inc.	Electronic Equipment & Instruments	5.62	10/31/2025

Source: Trivariate Research

IDEA #5: LOW BETA

An obvious way to protect a portfolio in a market correction is to buy low-beta stocks. Below are stocks that are low-beta (bottom tertile), are forecasted to grow earnings, and are cheap on price-to-forward earnings vs. their histories (bottom half). These are defensive, low-beta companies, with some earnings growth at a reasonable price. Names include Accenture (ACN), Paychex (PAYX), and GoDaddy (GDDY), among others.

Stocks with Low Beta, Forecasted EPS Growth, and Cheap on Price-to-Forward Earnings vs. History
As of End-August, 2025

Ticker	Company	Sub-Industry	Market Cap. (US $Bil.)	Beta	Next Report Date
ACN	Accenture plc	IT Consulting & Other Services	162.75	81.6%	09/25/2025
PAYX	Paychex, Inc.	Human Resource & Employment Services	50.15	65.0%	10/01/2025
GDDY	GoDaddy Inc.	Internet Services & Infrastructure	20.53	81.3%	10/30/2025
BSY	Bentley Systems, Incorporated	Application Software	17.5	78.7%	11/07/2025
JKHY	Jack Henry & Associates, Inc.	Transaction & Payment Processing Services	11.9	42.4%	11/05/2025
APPF	AppFolio, Inc.	Application Software	9.94	81.9%	10/24/2025
DOX	Amdocs Limited	IT Consulting & Other Services	9.41	62.8%	11/12/2025
G	Genpact Limited	Data Processing & Outsourced Services	7.9	68.7%	11/07/2025
CCCS	CCC Intelligent Solutions Holdings Inc.	Application Software	6.45	75.7%	10/28/2025
BOX	Box, Inc.	Application Software	4.73	51.0%	12/03/2025

Source: Trivariate Research

TRIVARIATE SECTOR RECOMMENDATIONS

We are recommending 50% of an S&P500 benchmarked portfolio is in Financials and Technology. Our biggest overweight recommendations are Healthcare and Financials. We added 1% to Comm. Services and lowered Materials 1% most recently.

Trivariate Sector Recommendations as of August 29th, 2025

Sector	Total S&P 500 Market Cap. (US$ Trillion.)	Current S&P 500 Weight	Trivariate Recommended Weight	Trivariate-Relative Weight	Trivariate Recommendation	Comments
Healthcare	**5.16**	**8.5%**	13%	4.5%	Overweight	We think Healthcare has above average estimate achievability, many companies that could benefit from AI-fueled productivity, and likely participates if M&A picks up
Financials	**8.42**	**13.9%**	18%	4.1%	Overweight	We think the Alternative Asset Managers can be good offense, the Large Banks a combination of offense and defense, and the Insurers good defense
Information Technology	**18.67**	**30.7%**	32%	1.3%	Equal-Weight	AI beneficiaries come from AI investors
Utilities	**1.29**	**2.1%**	3%	0.9%	Equal-Weight	Some idiosyncratic investments are sensible, but we prefer to own Semis over Software for the long-term
Materials	**1.05**	**1.7%**	2%	0.3%	Equal-Weight	If the economy improves, some Metals & Mining have material upside
Industrials	**4.76**	**7.8%**	8%	0.2%	Equal-Weight	We like Aerospace and Defense and businesses with pricing power, but tariffs, China, and the recent run make them less compelling. We don't like that ETN trades more like AI Semi than NVDA
Energy	**1.71**	**2.8%**	2%	(0.8%)	Equal-Weight	Oil is tough to forecast, and it's hard to see a sustained period of multiple expansion
Consumer Staples	**3.32**	**5.5%**	4%	(1.5%)	Equal-Weight	There is substantial bifurcation of fortunes here, and pricing power is starting to be a challenge
Communication Services	**8.93**	**14.7%**	13%	(1.7%)	Equal-Weight	Cautious on businesses that are heavily indebted and need ARPU growth
Real Estate	**1.13**	**1.9%**	0%	(1.9%)	Underweight	Pockets of success, but likely a very low recovery to CRE
Consumer Discretionary	**6.33**	**10.4%**	5%	(5.4%)	Underweight	The consumer appears to be slowing, and many face structural challenges

Source: Trivariate Research

PART 5: AVAILABLE ALPHA

Where should a CIO allocate resources for alpha opportunity? The alpha environment was generally worse over the last three months on the metrics we assessed:

Valuation dispersion was higher: We analyzed the dispersion of price-to-forward earnings (cross-sectional standard deviation) for each industry. All but four industry groups saw higher valuation dispersion, indicating some increasing opportunity. Energy, Real Estate Management and Materials saw the most widening dispersion vs. the previous three months.

Median pairwise correlations were higher: Over the last quarter, pairwise correlations (PWC) rose in every industry. PWC rose the most in Transportation and Semiconductors.

Company-specific risk (CSR) was largely lower: The median stock's company-specific risk (CSR) is near long-term averages, having fallen recently. We can still explain about 46% of the average stock's returns from our simple seven-factor model. In the last three months CSR declined in all but five of the 25 Industry Groups. CSR is low vs. history in Banks, Transportation, and Tech. Hardware.

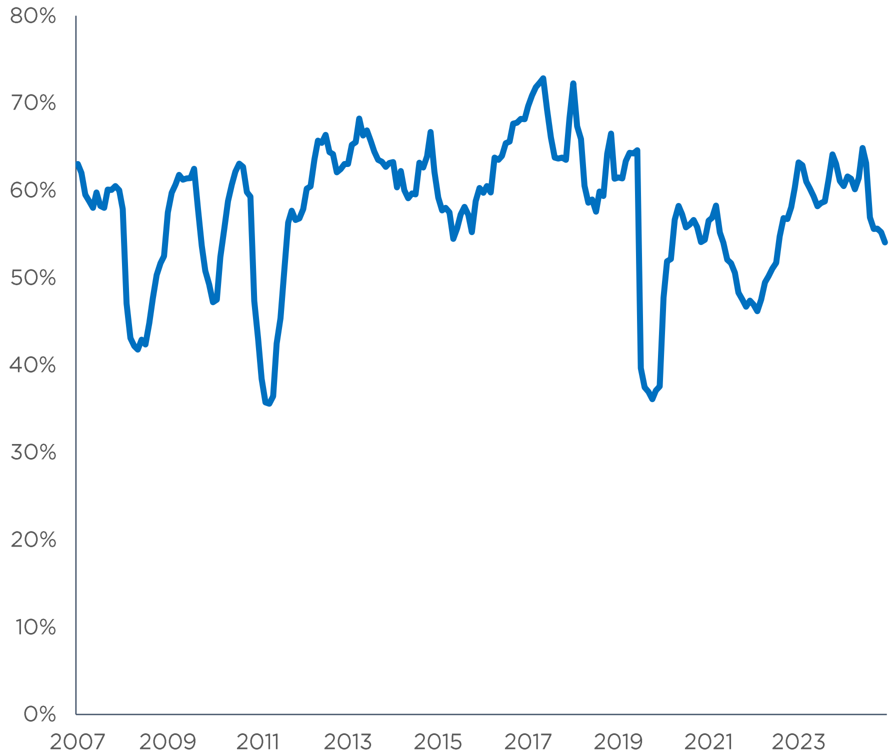
The areas of focus have moved around meaningfully this year. Real Estate Management, Telco. Services and Pharma, Biotech & Life Sciences are worth incremental analyst focus. Chief Risk Officers and Portfolio Managers should spend time on REITs, Financial Services, Transportation, and Banks, as they are the most "macro." Fundamental analysts should spend time in areas they can add value. This means that if you are a good stock picker, have done fundamental work, and have a differentiated view on one of these stocks, and you are ultimately right, you will separate your performance from the index MORE if you have large over / underweight positions on these names relative to their index weights. See Slides 52 and 53 for ideas.

We analyzed stocks with litigation risk, and noticed Securities and Antitrust suits are worth attention.

INVESTING HAS GOTTEN MORE MACRO OF LATE

Where should a CIO allocate resources for alpha opportunity? The median stock's company-specific risk (CSR) is near long-term averages (left), having fallen recently. We can still explain about 54% of the average stock's returns from our simple seven-factor model. In the last three months, CSR declined in all but five of the 25 Industry Groups (right). CSR is low vs. history in Banks, Transportation, and Tech. Hardware.

Top 3000 US Equities
Median Company-Specific Risk
Through End-August, 2025



Source: Trivariate Research

Company-Specific Risk
3-Month Change and Level by Industry Group
As of End-August, 2025

Industry Group	Change in CSR	Level of CSR	CSR % Rank vs. History
Consumer Staples Distribution & Retail	2.9	70.7	62.8
Utilities	1.4	51.9	33.0
Insurance	1.3	57.7	69.3
Pharmaceuticals, Biotechnology & Life Sciences	1.2	67.8	34.4
Consumer Discretionary Distribution & Retail	0.3	59.0	34.4
Food, Beverage & Tobacco	(0.3)	67.8	46.5
Consumer Services	(0.4)	58.7	34.0
Real Estate Management & Development	(0.5)	55.7	62.1
Telecommunication Services	(0.6)	69.8	54.0
Software & Services	(0.8)	53.2	24.2
Equity Real Estate Investment Trusts (REITs)	(1.0)	46.5	25.2
Capital Goods	(1.0)	47.7	30.7
Energy	(1.4)	48.3	26.0
Technology Hardware & Equipment	(1.6)	49.2	17.2
Media & Entertainment	(1.9)	61.7	40.2
Financial Services	(1.9)	46.0	18.6
Health Care Equipment & Services	(2.2)	64.7	35.3
Semiconductors & Semiconductor Equipment	(2.3)	46.9	22.8
Commercial & Professional Services	(2.4)	57.3	43.3
Automobiles & Components	(2.5)	50.9	29.3
Banks	(2.9)	31.1	9.8
Materials	(3.0)	51.1	36.3
Household & Personal Products	(4.3)	61.2	19.5
Consumer Durables & Apparel	(7.5)	46.2	17.7
Transportation	(8.4)	48.9	13.5

Source: Trivariate Research

CORRELATIONS HIGHER IN ALL 25 INDUSTRIES, DISPERSION MIXED

Over the last quarter, pairwise correlations (PWC) rose in every industry (left). PWC rose the most in Transportation and Semiconductors. We analyzed the dispersion of price-to-forward earnings (cross-sectional standard deviation) for each industry (right). All but four industry groups saw higher valuation dispersion, indicating some increasing opportunity. Energy, Real Estate Management and Materials saw the most widening dispersion vs. the previous three months.

Pairwise Correlation
3-Month Change and Level by Industry Group
As of End-August, 2025

Industry Group	Change in Median Pairwise Correlation	Level of Median Pairwise Correlation	PWC % Rank vs. History
Transportation	24.9	48.4	93.4
Semis & Semi. Equipment	21.7	65.2	95.3
Consumer Durables & Apparel	21.3	53.2	93.5
Technology Hardware & Equipment	20.4	54.9	98.8
Software & Services	15.5	46.0	92.8
Consumer Discretionary Dist. & Retail	15.3	43.1	89.3
Consumer Services	15.1	40.3	88.4
Media & Entertainment	14.7	34.6	78.5
Capital Goods	14.2	47.8	88.3
Energy	14.2	53.9	90.4
Automobiles & Components	13.7	46.4	87.6
Financial Services	13.0	48.4	89.4
Materials	12.3	40.9	82.6
Household & Personal Products	10.2	31.6	86.2
Pharma, Biotech & Life Sciences	10.0	32.8	87.5
Commercial & Professional Services	9.9	35.2	81.8
Equity Real Estate Investment Trusts	8.3	56.3	80.3
Real Estate Management & Dev.	7.6	39.4	68.5
Health Care Equipment & Services	7.4	25.7	73.0
Insurance	6.8	46.7	89.3
Food, Beverage & Tobacco	6.4	27.6	82.1
Telecommunication Services	5.3	24.2	71.6
Utilities	4.7	43.9	41.8
Consumer Staples Distribution & Retail	3.7	24.6	59.1
Banks	3.0	74.5	97.9

Source: Trivariate Research

Cross-Sectional Dispersion in Price-to-Forward Earnings
Level and 3m Change in 3-Month Average
As of End-August, 2025

Industry Group	Change of PEF Dispersion	Level of PEF Dispersion
Energy	2.8x	14.5x
Real Estate Management & Development	2.7x	21.0x
Materials	2.5x	14.2x
Media & Entertainment	2.4x	18.9x
Capital Goods	2.2x	15.4x
Technology Hardware & Equipment	2.2x	15.2x
Semiconductors & Semiconductor Equipment	2.2x	19.6x
Utilities	2.1x	8.8x
Financial Services	2.0x	12.0x
Consumer Durables & Apparel	2.0x	12.9x
Household & Personal Products	1.6x	9.8x
Transportation	1.5x	15.8x
Consumer Services	1.4x	16.1x
Food, Beverage & Tobacco	1.3x	11.6x
Telecommunication Services	0.9x	14.2x
Software & Services	0.6x	21.6x
Health Care Equipment & Services	0.5x	19.5x
Banks	0.5x	5.9x
Consumer Discretionary Distribution & Retail	0.5x	15.6x
Automobiles & Components	0.5x	13.6x
Pharmaceuticals, Biotechnology & Life Sciences	0.3x	16.5x
Commercial & Professional Services	(0.1x)	12.8x
Insurance	(0.4x)	10.0x
Consumer Staples Distribution & Retail	(1.3x)	10.1x
Equity Real Estate Investment Trusts (REITs)	(2.2x)	15.0x

Source: Trivariate Research

IN WHICH INDUSTRIES SHOULD CIOS DEPLOY RESOURCES?

The areas of focus have moved around meaningfully this year. Real Estate Management, Telco. Services and Pharma, Biotech & Life Sciences are worth incremental analyst focus. Chief Risk Officers and Portfolio Managers should spend time on REITs, Financial Services, Transportation, and Banks, as they are the most "macro."

Industry Group Ranking of Available Alpha Metrics as of End-August, 2025

Industry Group	CSR Level	CSR 3m Change	PWC Level	PWC 3m Change	Valuation Dispersion Level	Valuation Dispersion 3m Change	% Beating or Lagging >=20%	Mean Rank	The Largest 3 Companies
Real Estate Management & Development	12	8	9	8	2	2	9	7.1	CBRE, CSGP, Z
Telecommunication Services	2	9	1	4	15	15	4	7.1	TMUS, T, VZ
Pharmaceuticals, Biotech & Life Sciences	3	4	6	11	6	21	1	7.4	LLY, JNJ, ABBV
Health Care Equipment & Services	5	17	3	7	4	17	7	8.6	UNH, ABT, ISRG
Media & Entertainment	6	15	7	18	5	4	8	9.0	GOOGL, META, NFLX
Food, Beverage & Tobacco	4	6	4	5	20	14	17	10.0	KO, PM, PEP
Consumer Staples Distribution & Retail	1	1	2	2	21	24	20	10.1	WMT, COST, KR
Consumer Discretionary Distribution & Retail	8	5	12	20	9	19	5	11.1	AMZN, HD, TJX
Consumer Services	9	7	10	19	7	13	13	11.1	MCD, BKNG, DASH
Utilities	14	2	13	3	24	8	23	12.4	NEE, SO, CEG
Software & Services	13	10	14	21	1	16	14	12.7	MSFT, ORCL, PLTR
Materials	15	22	11	13	14	3	12	12.9	LIN, SHW, NEM
Household & Personal Products	7	23	5	12	23	11	10	13.0	PG, CL, KMB
Energy	19	13	21	16	13	1	11	13.4	XOM, CVX, COP
Technology Hardware & Equipment	17	14	22	22	11	6	6	14.0	AAPL, CSCO, ANET
Semiconductors & Semiconductor Equipment	21	18	24	24	3	7	2	14.1	NVDA, AVGO, AMD
Capital Goods	20	12	17	17	10	5	19	14.3	GE, RTX, CAT
Commercial & Professional Services	11	19	8	10	18	22	16	14.9	ADP, WM, CTAS
Insurance	10	3	16	6	22	23	24	14.9	PGR, CB, MMC
Consumer Durables & Apparel	23	24	20	23	17	10	3	17.1	NKE, DHI, GRMN
Automobiles & Components	16	20	15	15	16	20	18	17.1	TSLA, GM, F
Financial Services	24	16	18	14	19	9	21	17.3	BRK.B, V, MA
Transportation	18	25	19	25	8	12	15	17.4	UBER, UNP, UPS
Equity Real Estate Investment Trusts (REITs)	22	11	23	9	12	25	22	17.7	WELL, PLD, AMT
Banks	25	21	25	1	25	18	25	20.0	JPM, BAC, WFC

Source: Trivariate Research

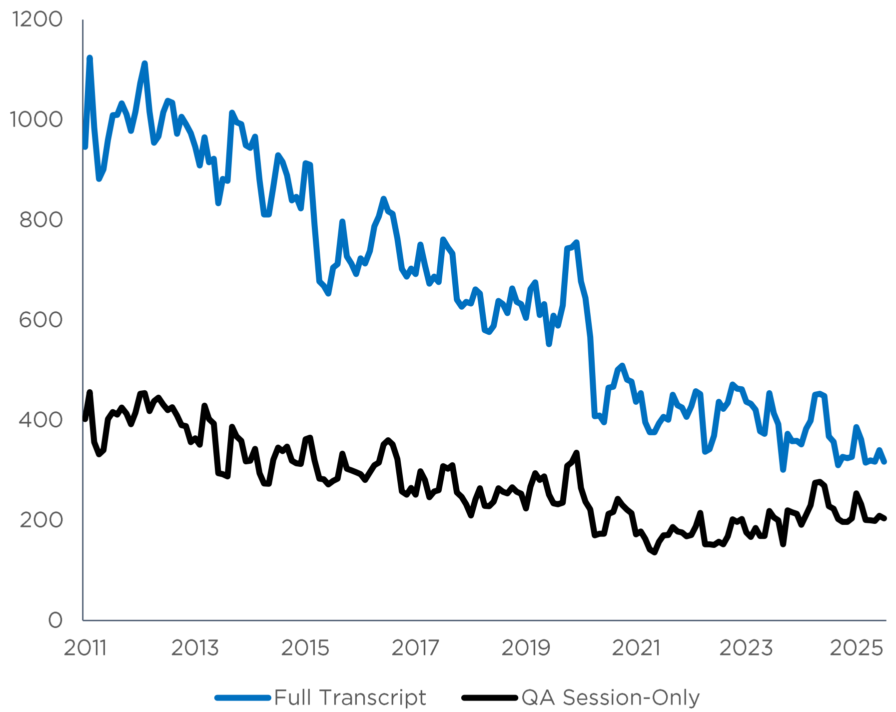
WHERE FUNDAMENTAL ANALYSTS SHOULD SPEND TIME

1. **People**: When There Is a New CEO Or CFO It Is Challenging To Link Prior Experience At Public Companies Of the New C-suite Executives To a Stock.
2. **M&A:** Deals That Are More Than 20% Of Market Cap.
3. **Litigation:** Where Legal Outcomes Have a Big Impact On Valuation
4. **High Idiosyncratic Risk:** Small Cap. Biotech, Or Other Hard-to-predict Outcomes
5. **Unique Businesses:** In Multiple Industries, Require Sum-of-the-parts Valuation
6. **Complex Capital Structure:** Tracking Stocks, Imminent Secondaries, Complicated Ownership
7. **New Entities:** IPOs, Spin-offs, Remain-cos

103 COS WERE ASKED ABOUT LITIGATION OVER THE LAST QUARTER

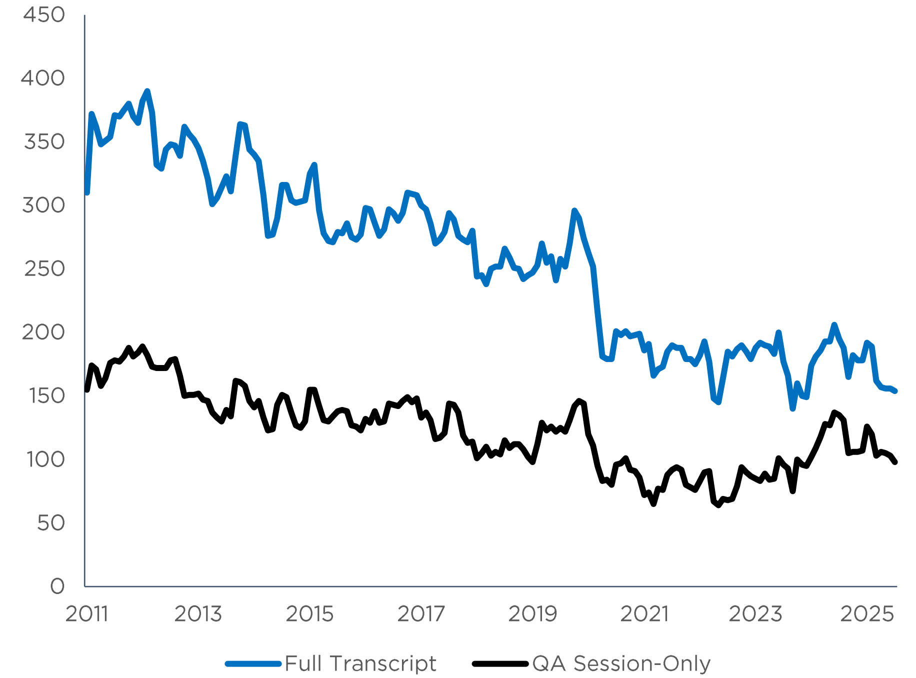
We tracked the number of mentions of litigation-related keywords since 2011 on earnings call transcripts, and in the Q&A portion of the earnings calls only, under the thesis that if analysts ask about the litigation, it likely has a higher probability of introducing volatility into the stock price and the underlying P&L of the company. The overall number of legal terms mentioned in US public companies' earnings calls has consistently come down over time (left) from a peak of over 1000 mentions just after the Financial Crisis to 340 at the end of July. 156 companies had litigation keywords mentioned on their calls in the last quarter. <u>At the end of June 2022 (right) only 64 companies among the top 3000 were asked about litigation-related issues on their earnings calls, but that number has risen to 103 companies at the end of July 2025.</u>

Total Mentions of Litigation-related Keywords Since 2011 Through End-August, 2025



Source: Trivariate Research

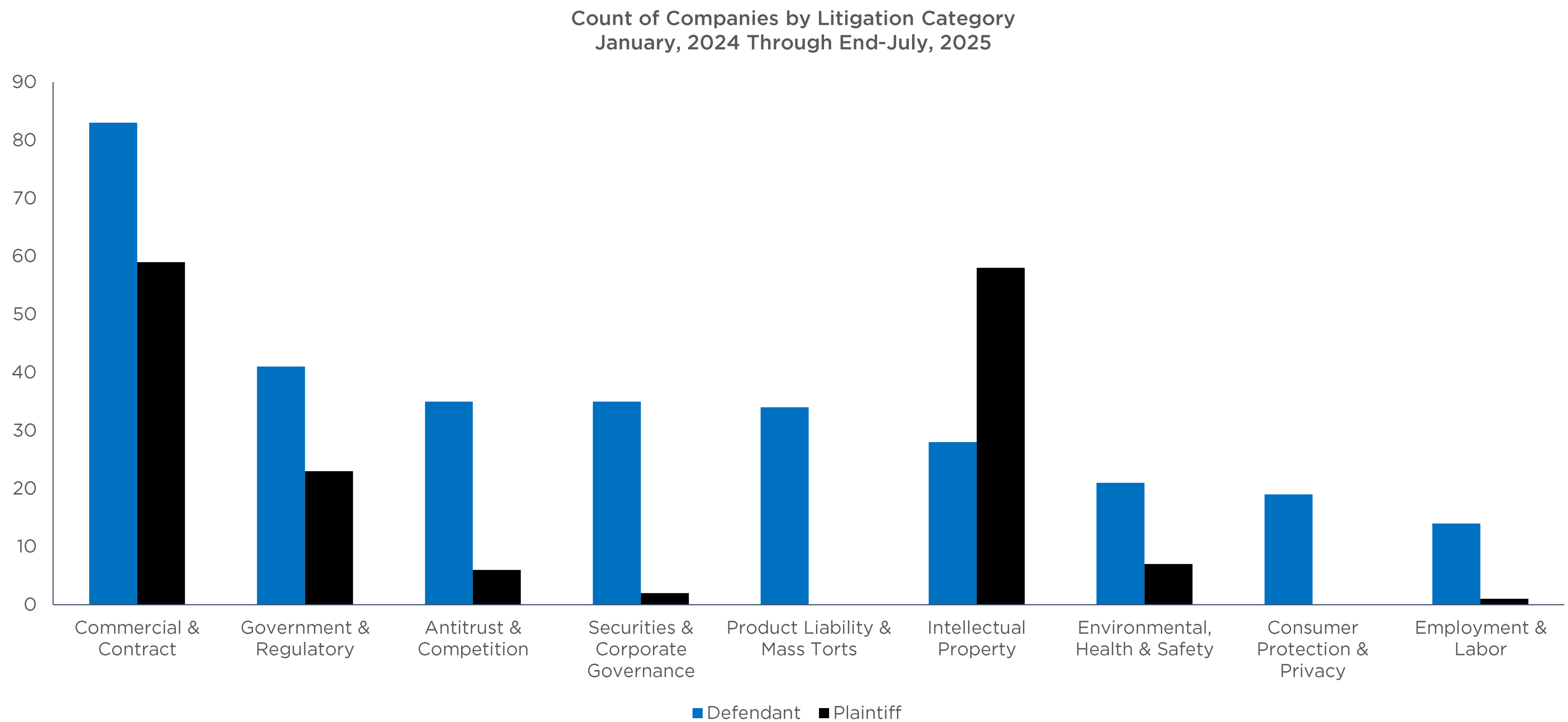
Number of Company that Mentioned Litigation-related Keywords Since 2011 Through End-August, 2025



Source: Trivariate Research

PUBLIC COMPANIES ARE TWICE AS LIKELY TO BE DEFENDANTS

The top 3000 US companies includes more defendants than plaintiffs, except for in IP disputes. Most cases involve the government, non-US companies, private companies, or individuals who are suing public US businesses. Two-thirds of all the legal cases today have the US public company as a defendant. IP is the only category where companies are more likely to be plaintiffs than defendants. It is unlikely a company would be a plaintiff in a Product Liability, Labor, or Securities legal issue, as examples, driving this skew.

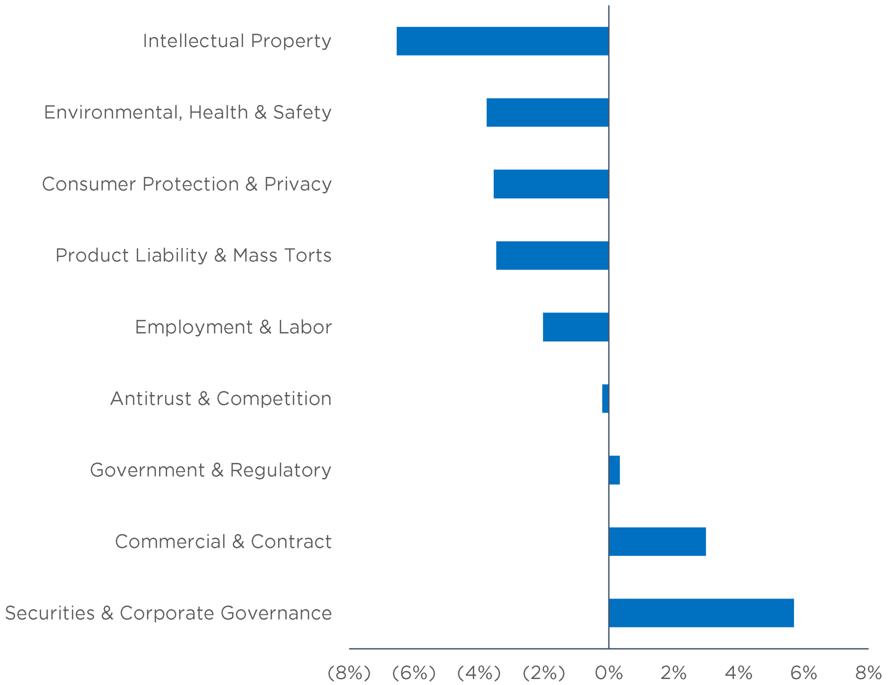


Source: Trivariate Research

PLAINTIFF HAS BEEN BETTER THAN DEFENDANT PERFORMANCE

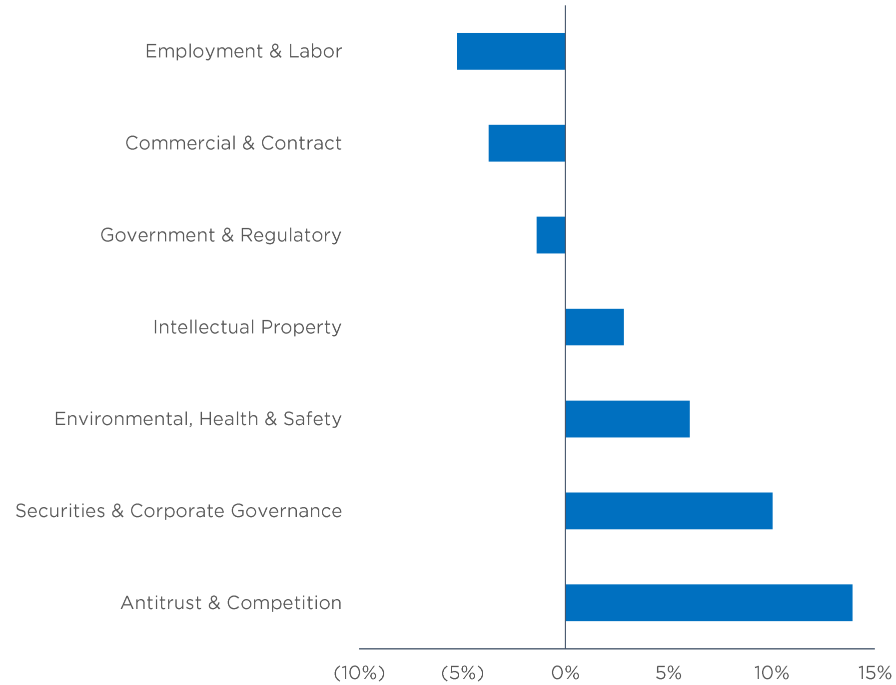
Given the specter of less regulation at least in the first part of the Trump administration, we thought it particularly relevant to analyze these stocks for returns, margins, and valuation differentials. We broke the lawsuits into categories by plaintiff vs. defendant and analyzed the subsequent returns. Overall, relative-to-industry performance has been stronger for companies that are the plaintiff. Companies that are defendants in Securities & Corporate Governance and Commercial & Contract suits have done well over the last quarter, but those in IP have done poorly (left). Plaintiffs in Antitrust & Competition and Securities & Corporate Governance have outperformed (right).

Defendant Company
Average 3-Month Industry-Relative Return by Litigation Category
January, 2024 Through End-July, 2025



Source: Trivariate Research

Plaintiff Company
Average 3-Month Industry-Relative Return by Litigation Category
January, 2024 Through End-July, 2025



Source: Trivariate Research

EXAMPLE DEFENDANTS IN IP LAWSUITS

We wanted to show one group of companies in one legal category. We chose the IP defendants, as there was a rich sample size, and this group of companies on average was the worst performing. Below we show some of the comments from the recent earnings calls. Should you be interested in other categories, please don't hesitate to reach out.

Defendant Companies That Mentioned "Intellectual Property " Litigation Issue in Earnings Calls in 2025
As of End-July, 2025

Ticker	Company	Sector	Market Cap. (US$ Bil.)	Lawsuit Announced	Earnings Date	Description
ANET	Arista Networks Inc	Information Technology	173.01	December 2014	05/06/2025	Cisco Systems, Inc. v. Arista Networks, Inc., $400 Million Settlement reached
ALKS	Alkermes plc	Health Care	4.38	April 2011	02/12/2025	Janssen Pharmaceutica et al. v. Mylan Laboratories Limited et al., In June of 2023 ALKS announced a final arbitration award in its dispute with Janssen, entitling ALKS to some back royalties.
LNTH	Lantheus Holdings, Inc.	Health Care	3.81	January 2024	05/07/2025	Advanced Accelerator Applications USA, Inc. v. Point Biopharma Inc. – There will be a bench trial beginning October 27th, 2025 around a patent infringement.
VAL	Valaris Limited	Energy	3.30	August 2020	07/31/2025	Valaris Limited Patent License Arbitration; In the Q2 filing, VAL announced favorable arbitration $17 MM accrual reversal $7 MM recovery of legal costs
BHC	Bausch Health Companies Inc.	Health Care	2.46	January 2025	04/30/2025	Norwich Pharmaceuticals Inc. v. U.S. FDA, On April 17, 2025, Court granted summary judgment in favor of the FDA, Teva, and Bausch Health, dismissing Norwich's lawsuit.
AVDL	Avadel Pharmaceuticals plc	Health Care	1.24	June 2023	05/07/2025	Jazz Pharmaceuticals Inc. v. Avadel Pharmaceuticals plc. Court upheld the FDA's approval of Avadel's drug, Lumryz, ruling it was clinically superior to a competing drug from Jazz Pharmaceuticals.
ATRO	Astronics Corporation	Industrials	1.10	July 2020	05/06/2025	Lufthansa Technik AG v. Astronics Corporation, Judgement on Feb 21, 2025, requiring ATRO to pay $11.9 Million.
NEO	NeoGenomics, Inc.	Health Care	0.75	July 2023	07/29/2025	Natera, Inc. v. NeoGenomics, Inc. (RaDaR MRD Patent Litigation); On Sep 23, 2024 court entered a permanent injunction against NEO.
NTGR	NETGEAR, Inc.	Information Technology	0.73	April 2023	07/31/2025	NETGEAR, Inc. v. TP-Link Technologies Co., Ltd.; $135 Million Settlement reached
RMNI	Rimini Street, Inc.	Information Technology	0.37	January 2010	07/31/2025	Oracle USA, Inc. v. Rimini Street, Inc.; In July 2025, reached settlement agreement. Rimini agreed to wind down support for Oracle's sofware by July 2028 in return of Oracle's payments

Source: Trivariate Research

STOCKS WHERE FUNDAMENTAL EXPERTS SHOULD FOCUS

Below we show mega / large cap. (left) and small / mid cap. (right) stocks outside of Healthcare that are hard to replicate with a 30-stock basket and have high company-specific risk. This means that if you are a good stock picker, have done fundamental work, and have a differentiated view on one of these stocks, and you are ultimately right, you will separate your performance from the index MORE if you have large over / underweight positions on these names relative to their index weights. WMT, TMUS, IBM, RTX, and VZ are the five largest cap. examples.

Least Replicable Mega / Large Cap. Stocks with High CSR, Ex-Healthcare
End-August, 2025

Ticker	Company	Market Cap. (US$ Bil.)
WMT	Walmart Inc.	773.21
TMUS	T-Mobile US, Inc.	283.59
IBM	International Business Machines Corp.	226.82
RTX	RTX Corporation	212.29
VZ	Verizon Communications Inc.	186.49
MELI	MercadoLibre, Inc.	125.37
LMT	Lockheed Martin Corporation	106.37
SBUX	Starbucks Corporation	100.25
CME	CME Group Inc.	96.04
RBLX	Roblox Corporation	86.37
NU	Nu Holdings Ltd.	71.52
AZO	AutoZone, Inc.	70.24
MNST	Monster Beverage Corporation	60.94
AXON	Axon Enterprise, Inc.	58.67
CMG	Chipotle Mexican Grill, Inc.	56.50
CPNG	Coupang, Inc.	52.10
KR	The Kroger Co.	44.85
TTWO	Take-Two Interactive Software, Inc.	43.03
EA	Electronic Arts Inc.	43.02
EBAY	eBay Inc.	41.41

Source: Trivariate Research

Least Replicable Mid / Small Cap. Stocks with High CSR, Ex-Healthcare
End-August, 2025

Ticker	Company	Market Cap. (US$ Bil.)
TW	Tradeweb Markets Inc.	26.32
GRAB	Grab Holdings Limited	20.34
WMG	Warner Music Group Corp.	17.38
AVAV	AeroVironment, Inc.	12.00
ACI	Albertsons Companies, Inc.	10.89
PPC	Pilgrim's Pride Corporation	10.56
GME	GameStop Corp.	10.02
NXT	Nextracker Inc.	9.95
LW	Lamb Weston Holdings, Inc.	8.02
LRN	Stride, Inc.	7.03
MKTX	MarketAxess Holdings Inc.	6.87
CALM	Cal-Maine Foods, Inc.	5.61
OSCR	Oscar Health, Inc.	4.30
IRDM	Iridium Communications Inc.	2.64
CPRI	Capri Holdings Limited	2.45
GSHD	Goosehead Insurance, Inc	2.13
CCOI	Cogent Communications Holdings, Inc.	1.82
GO	Grocery Outlet Holding Corp.	1.78
AMC	AMC Entertainment Holdings, Inc.	1.44
HLIT	Harmonic Inc.	1.09

Source: Trivariate Research

HEALTHCARE NAMES WHERE FUNDAMENTAL EXPERTS SHOULD FOCUS

Below we show mega / large cap. (left) and small / mid cap. (right) Healthcare stocks that are hard to replicate with a 30-stock basket and have high company-specific risk. <u>This means that if you are a good stock picker, have done fundamental work, and have a differentiated view on one of these stocks, and you are ultimately right, you will separate your performance from the index MORE if you have large over / underweight positions on these names relative to their index weights.</u>

Mega / Large Cap. Healthcare
Least Replicable Stocks with High CSR
End-August, 2025

Ticker	Company	Market Cap. (US$ Bil.)
LLY	Eli Lilly and Company	657.66
UNH	UnitedHealth Group Incorporated	280.64
GILD	Gilead Sciences, Inc.	140.17
CVS	CVS Health Corporation	92.78
CI	The Cigna Group	80.31
ALNY	Alnylam Pharmaceuticals, Inc.	58.53
COR	Cencora, Inc.	56.54
EW	Edwards Lifesciences Corporation	47.75
HUM	Humana Inc.	36.52

Source: Trivariate Research

Mid / Small Cap. Healthcare
Least Replicable Stocks with High CSR
End-August, 2025

Ticker	Company	Market Cap. (US$ Bil.)
INSM	Insmed Incorporated	28.77
DGX	Quest Diagnostics Incorporated	20.31
WST	West Pharmaceutical Services, Inc.	17.76
RPRX	Royalty Pharma plc	15.55
EXAS	Exact Sciences Corporation	8.98
HALO	Halozyme Therapeutics, Inc.	8.56
OPCH	Option Care Health, Inc.	4.65
AKRO	Akero Therapeutics, Inc.	3.74
LNTH	Lantheus Holdings, Inc.	3.73
PTGX	Protagonist Therapeutics, Inc.	3.67
BHC	Bausch Health Companies Inc.	2.74
PINC	Premier, Inc.	2.13
ACHC	Acadia Healthcare Company, Inc.	2.12
PGNY	Progyny, Inc.	2.04
SRPT	Sarepta Therapeutics, Inc.	1.79
SEM	Select Medical Holdings Corporation	1.61
ARDX	Ardelyx, Inc.	1.53
NEOG	Neogen Corporation	1.25
PCRX	Pacira BioSciences, Inc.	1.20
EVH	Evolent Health, Inc.	1.12

Source: Trivariate Research

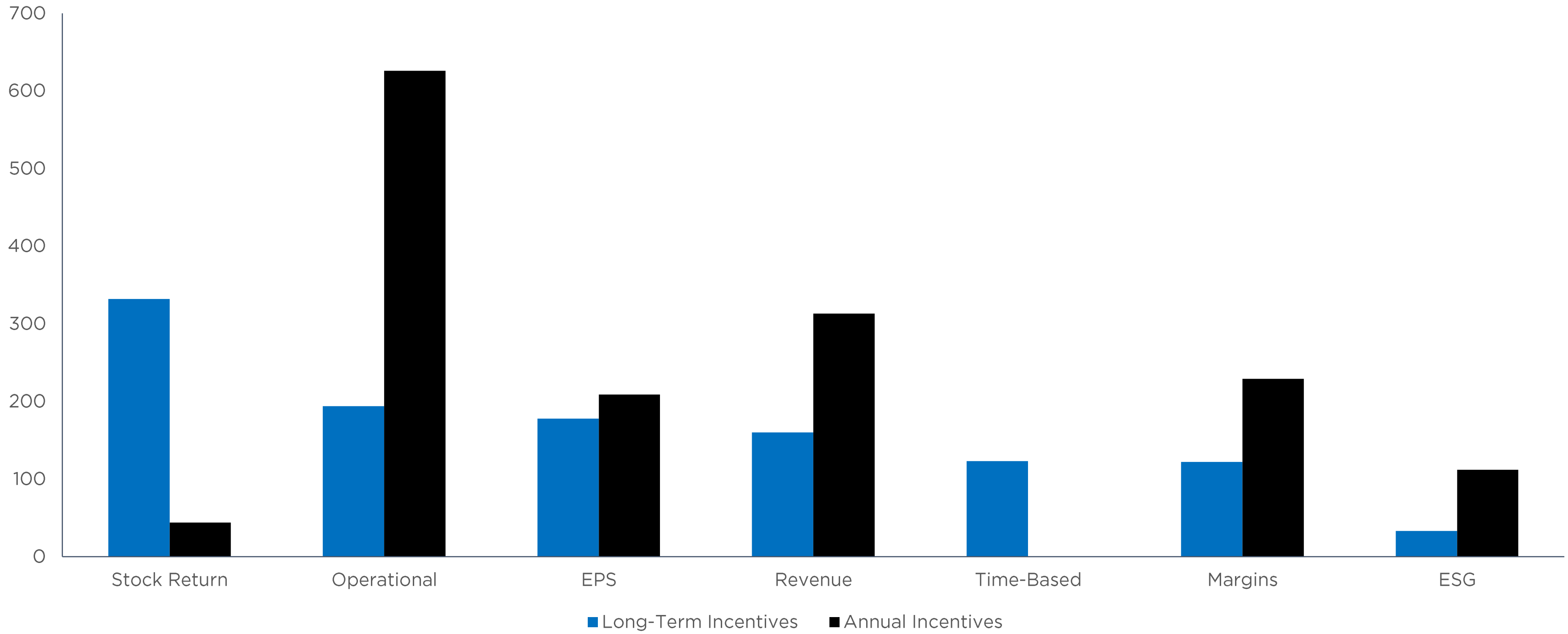
PART 6: MANAGEMENT DECISION-MAKING

- Variable compensation of CEOs: CEOs with simpler compensation structures and lower salaries result in stocks that on average perform better.
- On average, M&A fails for the acquirer, particularly for growth stocks.
- Accelerated share repurchases (ASRs) generally work well, and the average company doing an ASR since COVID has beaten the S&P500 by 1100bps over the subsequent three years. We think more companies should do ASRs immediately.
- There's a concentration of capital spending we have not seen in at least 25 years, with the biggest ten spenders now at 32% of the total capital spending dollars of the top 2000 public US companies. The top ten biggest spenders over the last year in dollars include AMZN, MSFT, GOOGL, and META. These capital intensity figures are for the last four quarters and are poised to go materially higher for several of the biggest companies, a couple of which guided to 11-figure annual capital spending budgets for 2025. A key debate is whether there is a return on this investment – we think the answer is yes, and by 2027, but that these levels of capital intensity are not indefinitely sustainable.
- IPOs: The market is back, with average Day 1 performance of 32% this year. Day 2 and beyond performance peaked in June, but now 7 of the last 9 IPOS have broken the initial price. Profitability, a majority seller, and no-lock up favorably skew the odds of success.

THERE ARE SEVEN COMMON METRICS BOARDS USE TO ASSESS CEOS

We classified each of the target variables into one of seven buckets: stock return, operational goals, earnings per share (EPS), revenue, time-based, margins, and ESG. We also broke compensation into long-term, and annual categories. The most common target variables for long-term incentives are stock returns, operational goals, and EPS targets. Operational goals, which contain a wide variety of targets from client satisfaction rates to store openings, are the most common target variable for annual incentives, followed by revenue and margins.

Number of Compensation Target Types
Sample of 604 Companies from Top 1k US Equities
From Latest DEF 14A Filing as of End-July, 2025



Source: Trivariate Research

THE SIMPLER THE COMPENSATION STRUCTURE, THE BETTER

The more target variables that are used to incentivize CEOs, the worse the subsequent stock returns have been. Companies that use only one variable for their annual CEO incentive structure beat their industry group by 2.5% on average and those that use 4 variables lag their industry group by 5.1%. We find that the relationship is monotonic with each additional target variable underperforming. The simpler the CEO compensation structure, the better the stock performance.

Industry-Group Relative Returns Since Last DEF 14A
Descriptive Statistics by Target Timeframe and Number of Targets

Target Timeframe	Number of Target Variables	Number of Companies	Mean	Standard Deviation	Minimum	25th Percentile	Median	75th Percentile	Maximum
Annual Incentives	1	156	2.5%	23.1%	(34.5%)	(11.7%)	(1.0%)	10.2%	139.0%
	2	227	0.7%	27.5%	(51.1%)	(14.7%)	(3.4%)	9.4%	219.6%
	3	154	(3.5%)	19.3%	(38.2%)	(15.1%)	(5.9%)	2.1%	102.6%
	4	37	(5.1%)	15.8%	(45.2%)	(14.5%)	(2.6%)	5.6%	33.0%
Long-Term Incentives	1	188	1.8%	28.6%	(45.4%)	(13.6%)	(2.2%)	8.3%	219.6%
	2	261	(0.3%)	24.5%	(51.1%)	(13.1%)	(4.5%)	6.1%	162.5%
	3	102	(2.2%)	18.8%	(47.2%)	(15.6%)	(3.0%)	7.0%	66.5%

Source: Trivariate Research

TIME-BASED COMPENSATION STRUCTURE BEATS OTHER TARGETS

When analyzing the variables used to evaluate long-term compensation, there is a clear winner with time-based compensation performing best. Incentivizing CEOs over multiple years in and of itself matters more than what the incentives are! This makes sense to us, as giving a CEO a set amount of stock or options a year will reward consistent price appreciation, while other target variables can be "gamified". We are reminded by Goodhart's law, which is the idea that "when a measure becomes a target, it ceases to be a good measure."

Industry-Group Relative Returns Since Last DEF 14A
Descriptive Statistics by Target Variable Type for Long-Term Compensation Incentives
Target Variable is At Least 50% of Long-Term Compensation

Target Variable	Number of Companies	Mean	Standard Deviation	Minimum	25th Percentile	Median	75th Percentile	Maximum
Time	44	4.3%	32.6%	(51.1%)	(9.9%)	1.9%	11.9%	139.0%
EPS	94	0.6%	20.6%	(37.6%)	(12.1%)	(2.7%)	11.4%	88.8%
Stock Return	160	(1.5%)	21.6%	(51.1%)	(14.8%)	(3.8%)	5.8%	139.0%
Revenue	73	(1.8%)	21.2%	(40.0%)	(14.5%)	(4.2%)	7.4%	83.5%
Operational	76	(1.9%)	19.7%	(40.0%)	(13.3%)	(4.9%)	8.0%	96.2%
Margins	44	(2.4%)	13.2%	(32.2%)	(11.9%)	(3.1%)	8.2%	25.7%

Source: Trivariate Research

THE LOWER THE CEO SALARY, THE BETTER THE PERFORMANCE

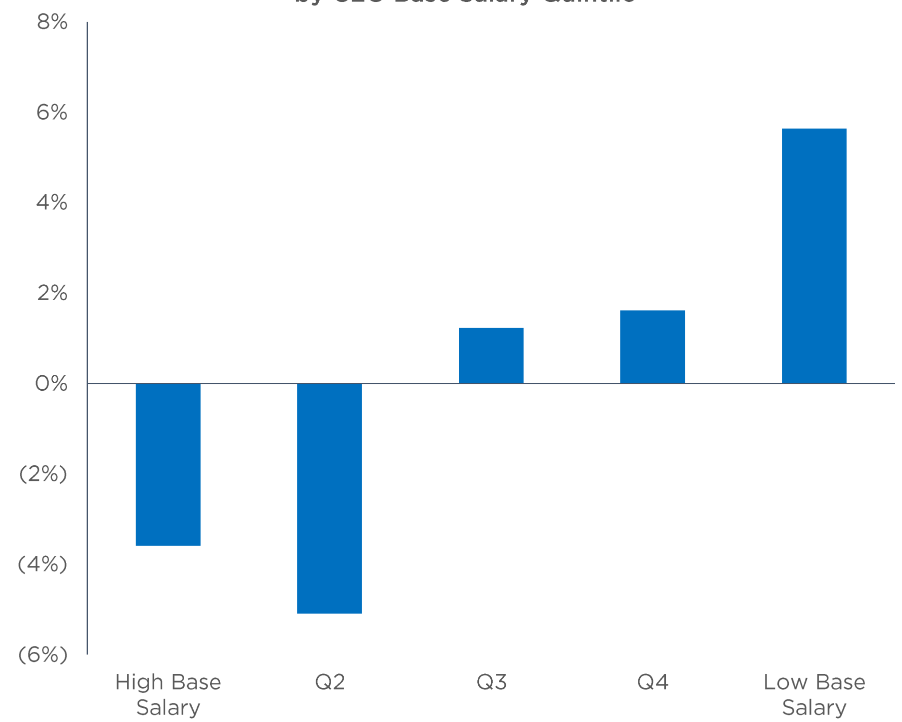
Some CEOs have no salary (left). Only 20% have a salary below $820,000. Only 20% have a salary above $1.43 million. We find that generally the lower the base salary of the CEO, the better the stock performance (right). The highest quintile of CEO base salary (>$1.43M) has underperformed its industry group by 3.6% on average while the lowest quintile of base salary (<$820k) has outperformed its industry group by 5.6%.

CEO Base Salary ($M) Quintile Boundaries
From Latest DEF 14A Filing as of End-July, 2025

Base Salary Quintile	Minimum ($M)	Median ($M)	Maximum ($M)
High Base Salary	$1.43	$1.54	$8.97
Q2	$1.21	$1.30	$1.42
Q3	$1.03	$1.10	$1.20
Q4	$0.82	$0.96	$1.02
Low Base Salary	$0.00	$0.61	$0.82

Source: Trivariate Research

Mean Industry-Group Relative Returns Since Last DEF 14A
by CEO Base Salary Quintile

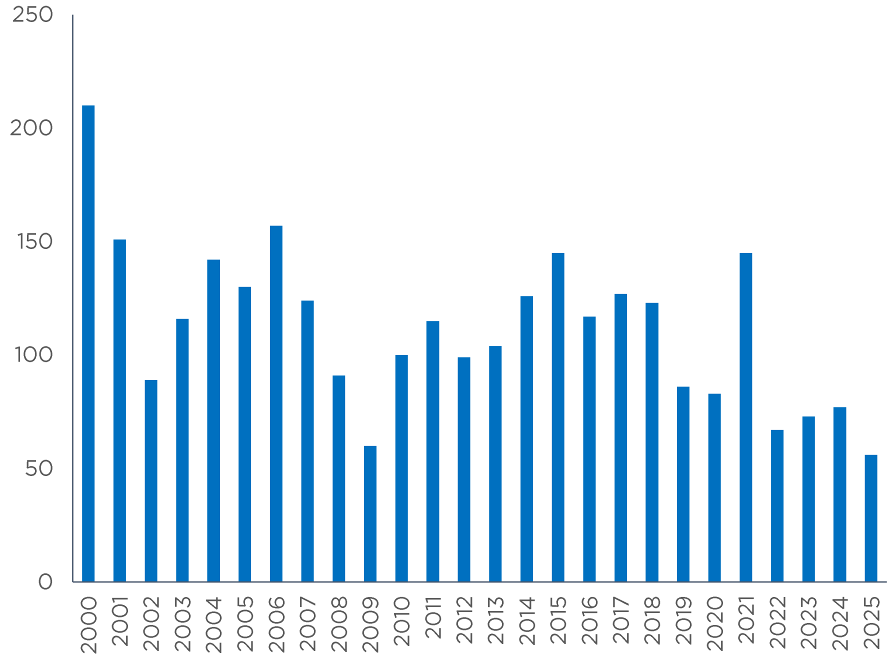


Source: Trivariate Research

M&A MIGHT PICK UP, BUT ACQUIRERS GENERALLY LAG

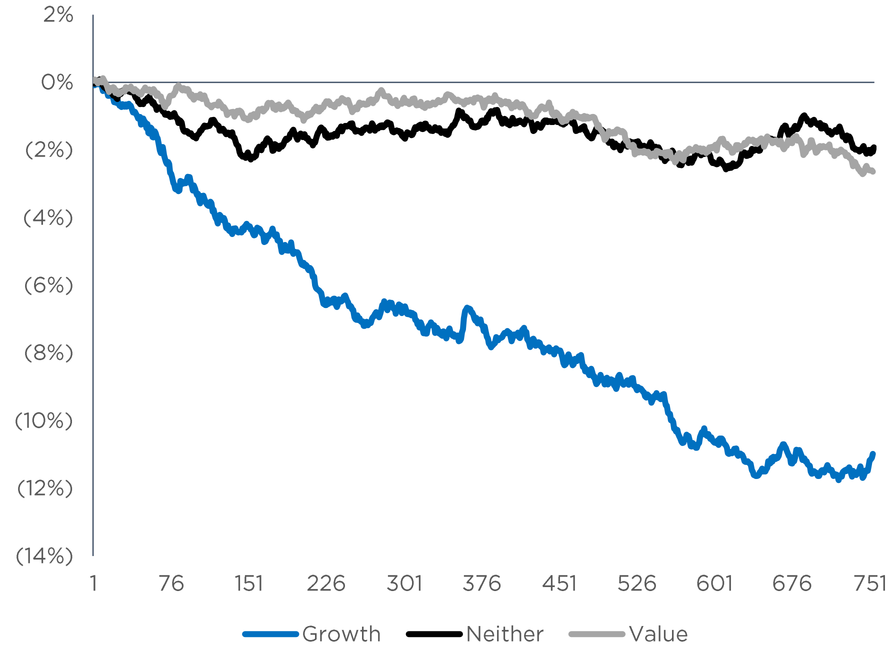
So far, despite excitement around the "Red Sweep," M&A has not picked up meaningfully (left). We suspect companies lagging in their AI investment will be forced to do deals, resulting in a more robust M&A environment in the coming years. In aggregate, doing a deal isn't a good idea. The average acquirer lags its industry group by almost 6% over the subsequent three years following a deal. In fact, the average growth company that does an acquisition lags its industry-group's performance by over 11% over the next three years (right).

Number of Acquisition Offers by Year
Offers from Public US Equities, Top 2000
Transaction Size >10% of Acquirer Market Capitalization
2000 to 2025 YTD



Source: Trivariate Research

Acquirer Returns by Trading Days After Announcement
Compounded Mean Industry Group Relative-Returns
By Style of Acquirer
End-June, 1999 to End-August, 2025

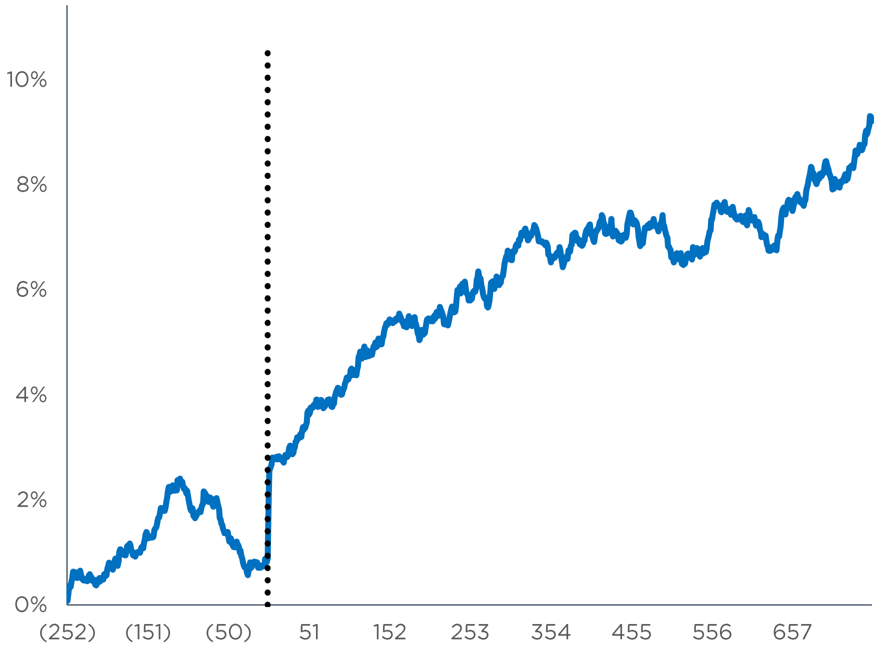


Source: Trivariate Research

ASRS HAVE STRONGLY WORKED SINCE COVID

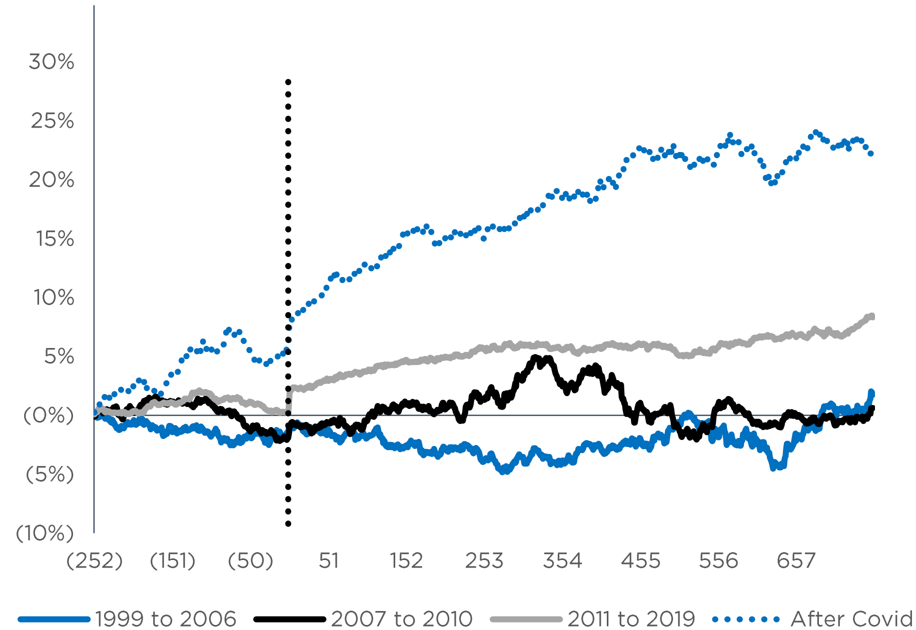
Companies engaging in ASRs often act poorly (about 2% on average) vs. their industry average prior to the ASR announcement then fully catch up on the announcement. Over the subsequent two years, the average company performing an ASR has beaten its industry group returns by 10% (left). Performance was not strong from 1999-2010 (right), as there was more of a perception that ASRs were tied to the variable compensation of the C-suite. **Since COVID however, companies performing ASRs have strongly outperformed their industry groups, by 15% on average after the first year.**

Accelerated Share Repurchase Program
Cumulative of Average Industry Group Relative Returns
Market Days 1yr Before and 3yrs After Announcement
1999 to End-August, 2025



Source: Trivariate Research

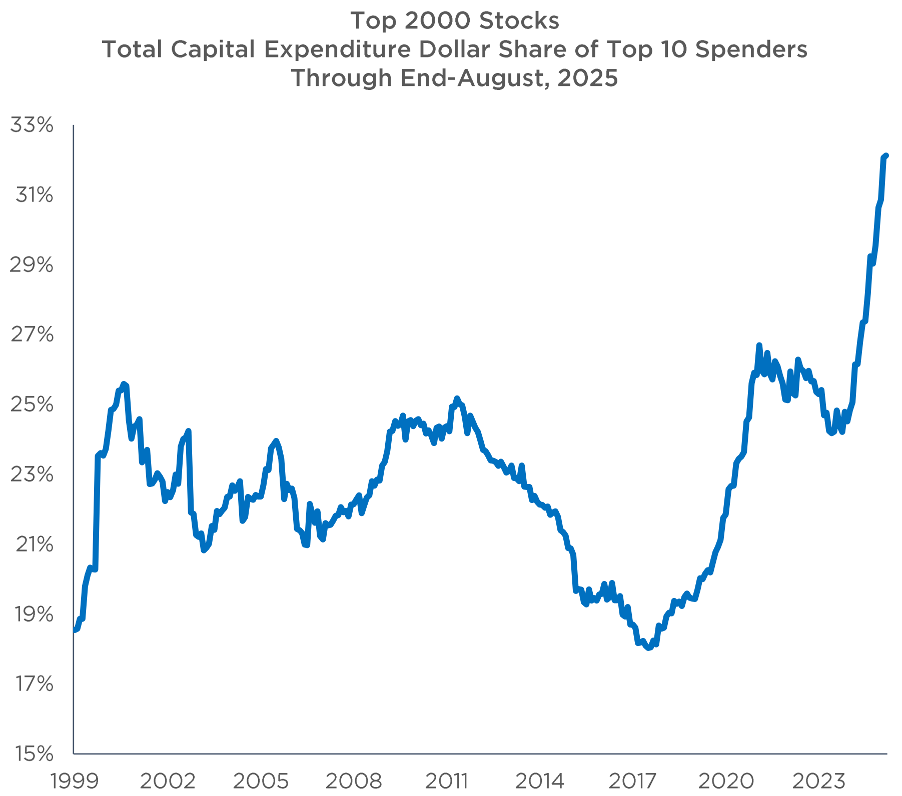
Accelerated Share Repurchase Program
Cumulative of Average Industry Group Relative Returns
Market Days 1yr Before and 3yrs After Announcement
1999 to End-August, 2025



Source: Trivariate Research

THE BIGGEST TEN CO'S ARE 32% OF ALL CAPX!

There's a concentration of capital spending we have only seen once in at least 25 years, with the biggest ten spenders now at 32.1% of the total capital spending dollars of the top 2000 public US companies (left). The top ten biggest spenders over the last year in dollars (right) include AMZN, GOOGL, MSFT, and META. These capital intensity figures are for the last four quarters and are poised to go materially higher for several of the biggest companies, a couple of which guided to 11-figure annual capital spending budgets for 2025. A key debate is whether there is a return on this investment –we think the answer is yes, and soon, but that these levels of capital intensity are not sustainable.



Source: Trivariate Research

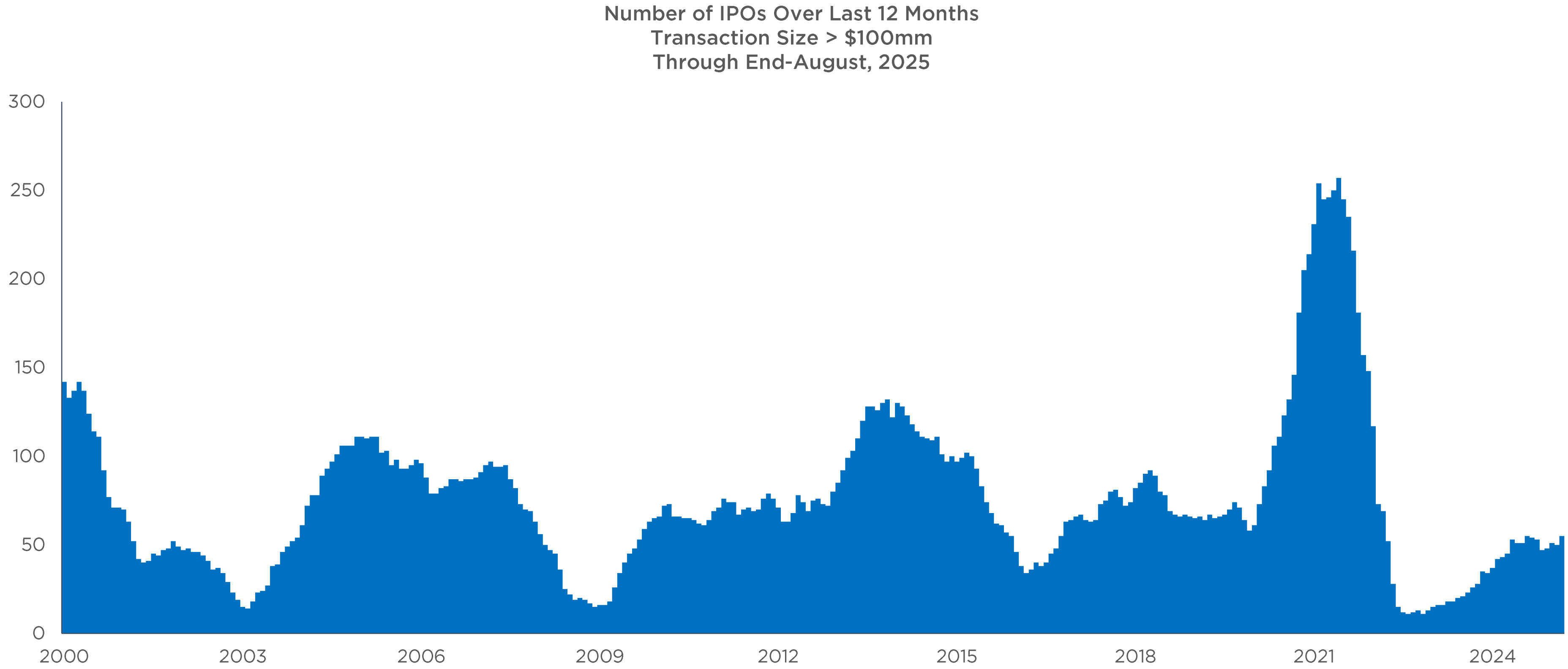
Top 10 Stocks By Annual Capital Expenditure Dollars
As of End-August, 2025

Ticker	Industry Group	Market Cap. ($Bn)	Trailing CapEx ($Bn)	CapEx-to-Sales	% vs. History	2025 CapEx-to-Sales	2025 % vs. History
AMZN	Consumer Disc. Distr. & Retail	2,442.26	107.66	16.1%	99.5%	16.7%	99.5%
GOOGL	Media & Entertainment	2,578.30	66.98	18.0%	96.9%	21.6%	100.0%
MSFT	Software & Services	3,766.31	64.55	22.9%	100.0%	26.6%	100.0%
META	Media & Entertainment	1,855.72	52.16	29.2%	100.0%	35.5%	100.0%
XOM	Energy	487.25	25.18	7.6%	67.1%	8.5%	80.6%
WMT	Con. Staples Dist. & Retail	773.94	24.69	3.6%	71.8%	3.3%	64.9%
NEE	Utilities	148.37	23.72	91.6%	87.7%	83.8%	79.6%
T	Telecom. Services	209.43	21.32	17.2%	83.8%	17.0%	82.4%
ORCL	Software & Services	635.16	21.22	37.0%	100.0%	32.2%	99.4%
INTC	Semis & Semi. Equipment	106.58	21.03	39.6%	90.6%	34.5%	89.2%

Source: Trivariate Research

THE IPO RECOVERY HAS STARTED, BUT HAS A LONG WAY TO GO

The IPO market has started to reignite in 2025, but in terms of the number of transactions the 55 IPOs we have seen in the last 12 months is still below the long-term average of 76 IPOs per 12 months (and a median of 69). The recovery that began a year post the TMT-bubble in 2002 and after the Financials Crisis in 2009 was sharper and well higher than what we have seen so far this cycle, and if relevant implies several more IPOs in the next year.

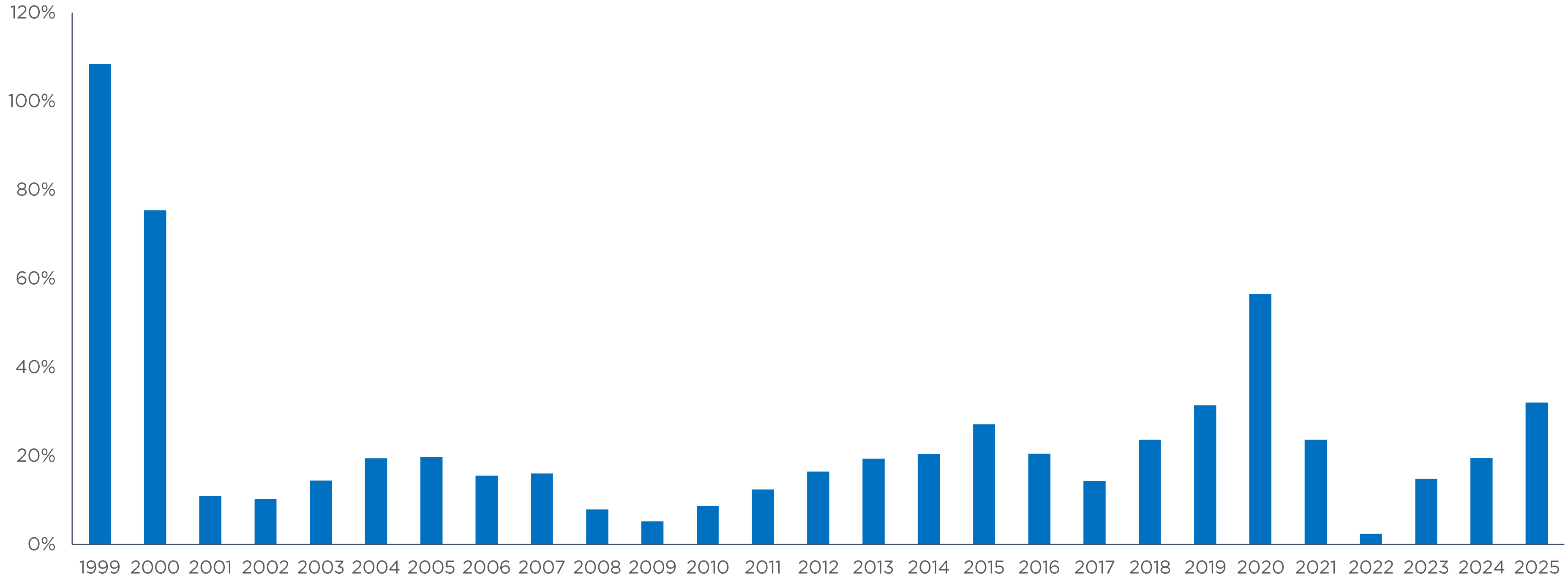


Source: Trivariate Research

THE AVERAGE 2025 IPO HAS OUTPERFORMED BY 32% ON DAY 1

During the TMT bubble of 1999 and 2000, nearly every IPO was a gift, with the first day closing prices averaging a double above the IPO price. Since then, first day upside has averaged less, <u>but the average Day 1 performance of the IPOs this year has been the highest since 2020</u>, with an average performance of 32%.

IPO Price to First Market Closing Price
Mean Return by Year of IPO Date
Through End-August, 2025

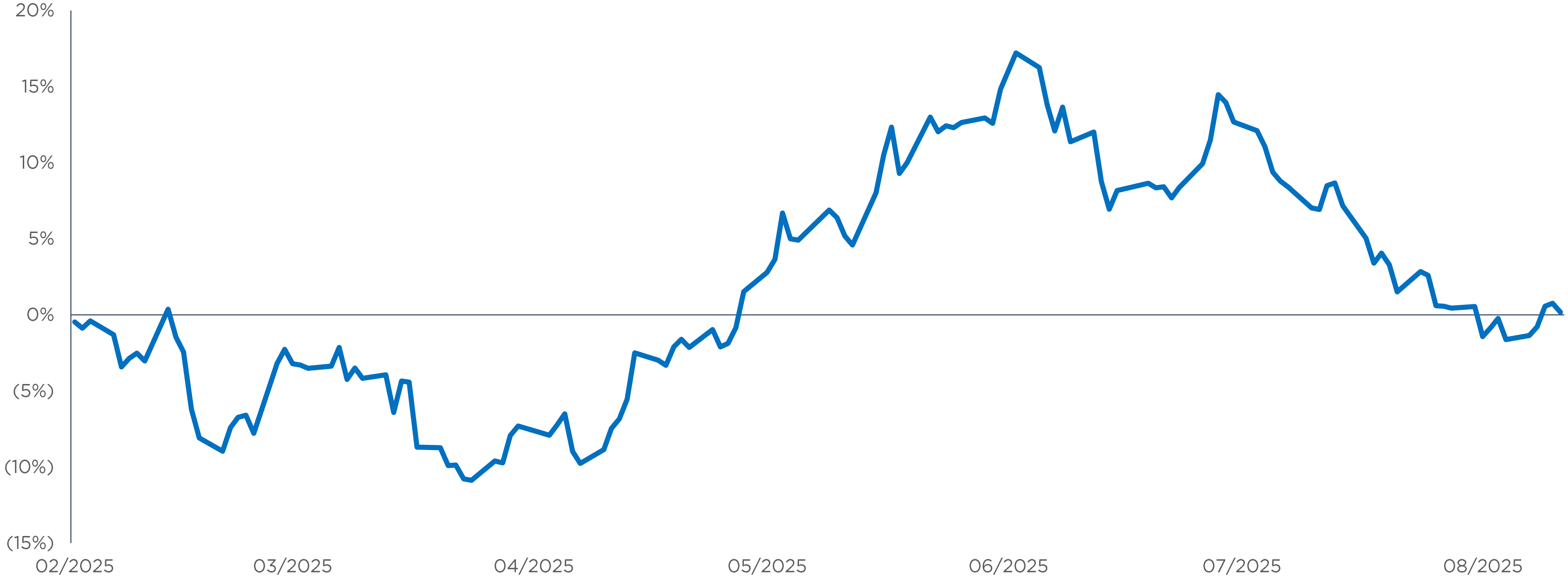


Source: Trivariate Research

POST DAY 1 TRADING WAS STRONG THROUGH END-JUNE, WEAK SINCE

But, that "in-line" performance has been extremely volatile, such that investors should probably add "Day 2 and on" post-IPO trading as one of their "risk-on" proxies. Performance following Day 1 IPO trading was extremely strong from late April to the end of June this year, but has sharply sold off in July and August, making the total cumulative relative-to-industry return on Day 2 and on post-IPO slightly negative this year.

2025 IPOs
Mean Industry Group-Relative Cumulative Return From First Closing Price
Through End-August, 2025

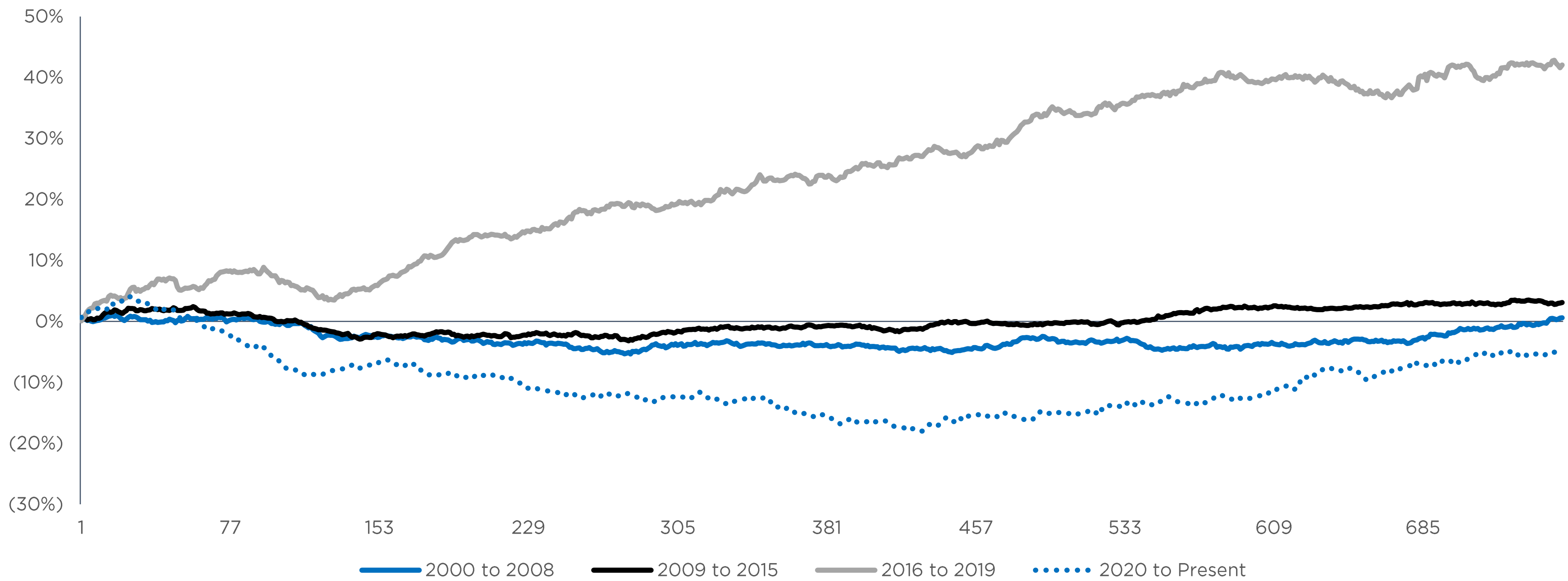


Source: Trivariate Research

IPOS WERE GOOD IN 2016-2019, GENERALLY BAD SINCE

Performance of IPOs has been mixed over the long-term, and relatively poor since 2020. Below we show the cumulative performance of IPOs following the first day of performance over different time frames. Performance was weak post-Financial Crisis, roughly in-line with industry-average performance from 2009-2015 and did well from 2016-2019. Since 2020, however, the average IPO has lagged its industry average by 4% over the subsequent three years following its first closing price.

Compounded Mean Industry Group-Relative Return by Time Period of IPO Date
Market Days After First Closing Price, First 3 Years
Through End-August, 2025

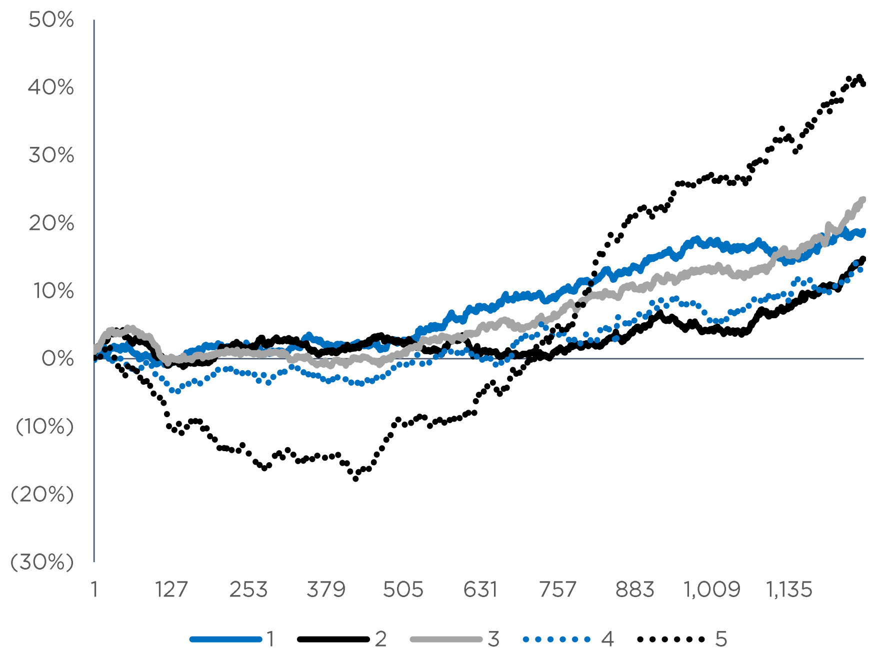


Source: Trivariate Research

AVOID IPOS THAT LOSE MONEY IN THE FIRST YEAR

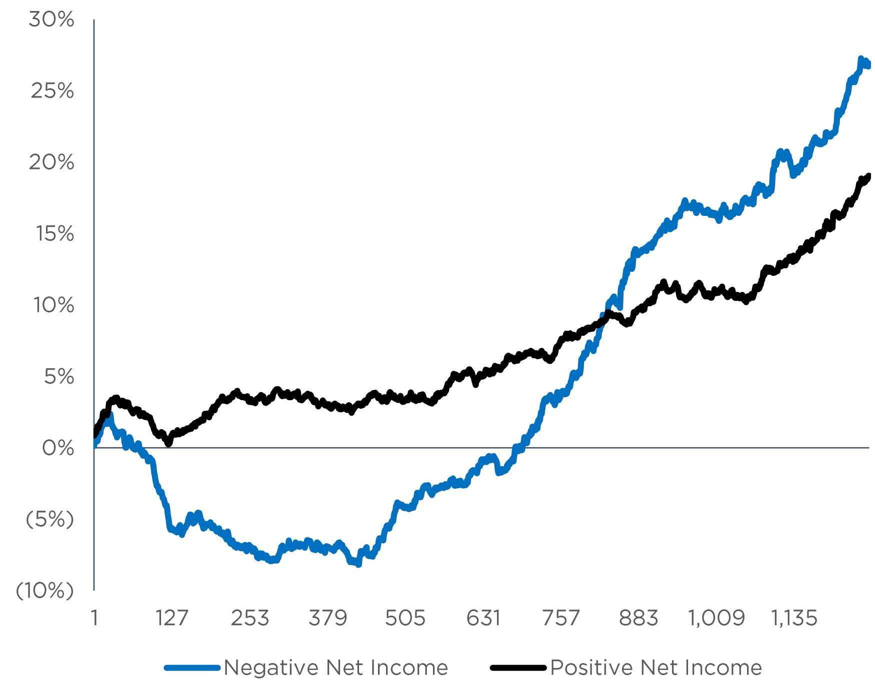
Investors asked if net profitability matters for IPO success. We broke the net margin of IPOs into quintiles and found the lowest quintile of net margins on average sharply underperformed during the first year, but then eventually did best after three years (left). The results show that negative net income companies strongly underperform (by more than 10% on average) over the first 18 months (400 days) of trading, those with positive net income (right). For companies nearing profitability, waiting to go public until generating positive net income may be prudent. Circle (Ticker: CRCL) is losing money in 2025 but expected to make profits next year, as a recent example.

Net Margin (Industry Relative)
Compounded Average Industry Group Relative Returns
by Market Days After IPO
Through End-August, 2025



Source: Trivariate Research

Compounded Average Industry Group Relative Returns
by Market Days After IPO
Through End-August, 2025

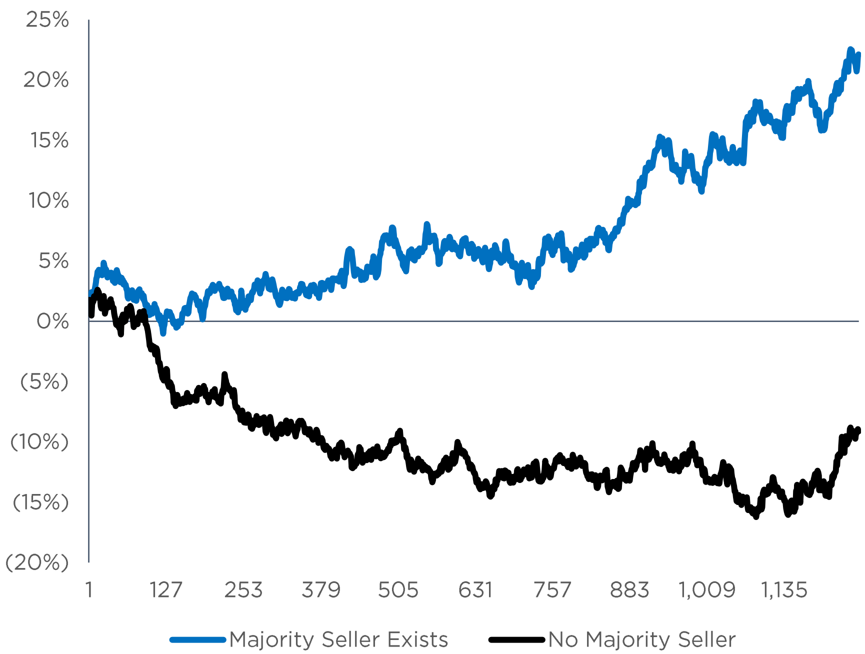


Source: Trivariate Research

HAVING A MAJORITY SELLER AT IPO MATTERS

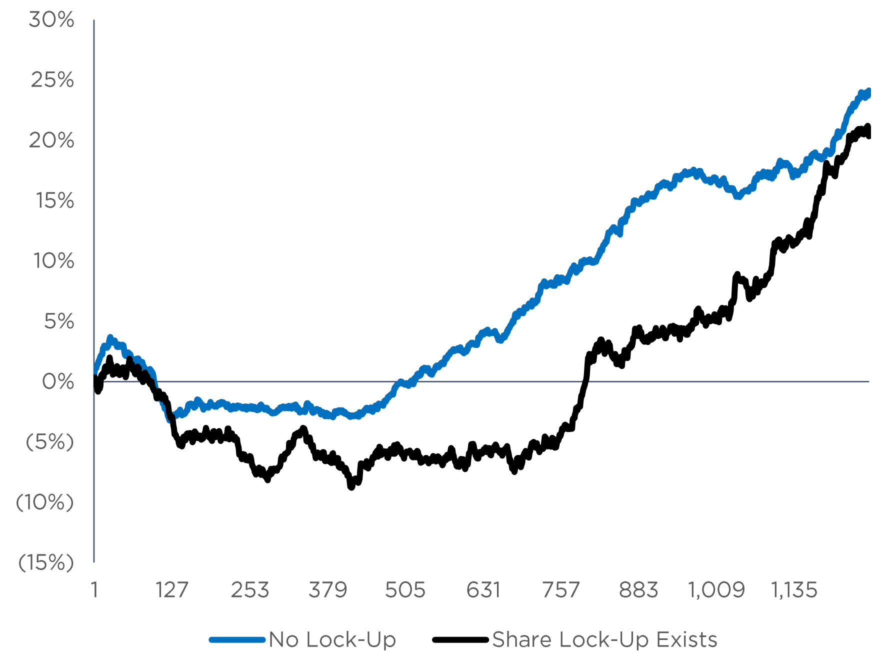
<u>We evaluated the success of IPOs depending on whether they had a majority seller (50% or more of the shares at the time of the IPO) or not.</u> There was a clear difference in performance. IPOs with no majority seller strongly underperform their industry group average (left). Part of the reason many IPOs perform poorly after the first day of trading is that some companies have a large percentage of shares locked up. Investors worry about supply that ultimately comes on line 90 to 180 days after the initial offering. IPOs with a share lock-up typically lag those with no lock up over the first two-to-three years (right).

Majority Ownership Prior to IPO
Compounded Average Industry Group Relative Returns
by Market Days After IPO
Through End-August, 2025



Source: Trivariate Research

% of Shares Outstanding Locked-Up
Compounded Average Industry Group Relative Returns
by Market Days After IPO
Through End-August, 2025



Source: Trivariate Research

7 OF THE LAST 9 IPOS HAVE STRONGLY UNDERPERFORMED

We show the performance of recent IPOs below, and relative-to-industry performance has been quite volatile. Many of the recent IPOs have underperformed. Others performed well in April through June, but have sharply sold-off since, as we mentioned earlier. 7 of the last 9 IPOs are down sharply relative to their industry average since their IPO.

Recent US IPOs with Transaction Size >$100m & Industry Relative Return Since First Market Close

Ticker	Company Name	Sector	IPO Date	Transaction Size (US $Bn.)	Market Cap. (US $Bn.)	Market Days Since IPO	Industry Relative Return
MIAX	Miami International Holdings, Inc.	Financials	8/13/2025	0.35	3.06	3	10.6%
HTFL	HeartFlow, Inc.	Health Care	8/7/2025	0.32	2.69	13	0.1%
WYFI	WhiteFiber, Inc.	Information Technology	8/6/2025	0.16	0.62	16	(0.1%)
FLY	Firefly Aerospace Inc.	Industrials	8/6/2025	0.87	6.77	16	(28.2%)
AVBC	Avidia Bancorp, Inc.	Financials	7/31/2025	0.19	0.31	20	(5.8%)
FIG	Figma, Inc.	Information Technology	7/30/2025	1.22	34.74	21	(41.2%)
MH	McGraw Hill, Inc.	Consumer Discretionary	7/23/2025	0.41	2.90	21	(11.9%)
CARL	Carlsmed, Inc.	Health Care	7/22/2025	0.10	0.36	21	(14.0%)
NIQ	NIQ Global Intelligence plc	Communication Services	7/22/2025	1.05	4.99	27	(7.9%)
JCAP	Jefferson Capital, Inc.	Financials	6/25/2025	0.15	1.14	39	2.0%
SLDE	Slide Insurance Holdings, Inc.	Financials	6/17/2025	0.41	1.68	48	(41.1%)
CAI	Caris Life Sciences, Inc.	Health Care	6/17/2025	0.49	10.75	50	18.2%
CHYM	Chime Financial, Inc.	Financials	6/11/2025	0.86	9.88	54	(35.6%)
VOYG	Voyager Technologies, Inc.	Industrials	6/10/2025	0.38	1.83	53	(50.9%)
ASIC	Ategrity Specialty Insurance	Financials	6/10/2025	0.11	1.08	55	(11.6%)
OMDA	Omada Health, Inc.	Health Care	6/5/2025	0.15	1.36	51	45.4%
CRCL	Circle Internet Group, Inc.	Information Technology	6/4/2025	1.05	30.30	59	52.6%
HNGE	Hinge Health, Inc.	Health Care	5/21/2025	0.44	4.53	68	40.1%
MNTN	MNTN, Inc.	Communication Services	5/21/2025	0.19	1.48	68	(28.7%)
AII	American Integrity Insurance Group	Financials	5/7/2025	0.11	0.38	72	19.9%

Source: Trivariate Research

DISCLOSURES

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