

“Attractive stocks possess an elusive combination of three essential criteria: statistical cheapness, undervaluation, and timeliness. Our process is dedicated to identifying stocks that meet all three.”

– Mary Jane Matts

- U.S. equities (as measured by the Russell 3000) returned -4.7% in the first quarter as investors grappled with uncertainty surrounding the economic outlook. Within the broader indices, large caps outperformed small caps, value outpaced growth, and defensives beat cyclicals/dynamics. The best performing style factors were Liquidity, Earnings Yield, and Leverage, while the worst were Beta, Volatility, and Momentum (source: FactSet Global Equity Risk Model MH). Within the Russell 3000 Value, best performing sectors were Energy, Communication Services, Utilities, Health Care, and Consumer Staples, while the worst were Information Technology, Consumer Discretionary, and Industrials. The All Cap Value strategy underperformed the benchmark primarily due to adverse stock selection.
- During the quarter, the largest positive contribution to relative performance came from productive industry exposures, notably within Health Care, Consumer Staples, and Consumer Discretionary sectors. Among style factors, an overexposure to Earnings Yield (low p/e), one of the quarter’s best performing factors, was additive. Stock selection was best within Consumer Discretionary, Materials, and Information Technology. Among the largest individual stock contributors was Shell (SHEL-US, +17.3%) which benefitted from the sector lift as well as the company’s improving cash flow, lower cap ex, and higher shareholder distributions.
- The largest negative contribution in the quarter came from stock selection, concentrated in Industrials and Financials. Within Industrials, Delta Air Lines (DAL, -27.8%) reacted poorly to a material cut in the outlook for first quarter revenue amid macro uncertainty, a drop in government related travel, and a number of aviation incidents. In terms of style exposures, an overweight to Beta during the market’s downdraft hindered returns.
- Nearly 70% of the active risk in the portfolio comes from stock specific risk, with concentrations in Financials, Health Care, and Industrials, with the most significant individual stock contributions from eBay (EBAY), AES (AES), Verizon (VZ), Mosaic (MOS), and Citigroup (C). The remainder of the active risk derives from style and industry deviations from the benchmark. The portfolio is positioned somewhat defensively, with overweights to Utilities, Real Estate, and Energy, and underweights to Industrials, Consumer Discretionary, Information Technology, and Consumer Staples. Among style effects, the weight in small caps is near the 3X max weight vs the Russell 3000 Value, but the impact from that overexposure on active risk is modest. With overexposures to Earnings Yield, Dividend Yield, and Book to Price, the portfolio maintains its positioning with deeper value characteristics than the benchmark.

| <b>Top Five Contributors</b>   | Relative Effect on Return (%) |
|--------------------------------|-------------------------------|
| Shell Plc Sponsored ADR        | 0.37                          |
| Verizon Communications Inc.    | 0.31                          |
| Duke Energy Corporation        | 0.30                          |
| Altria Group, Inc.             | 0.24                          |
| Hartford Insurance Group, Inc. | 0.23                          |

| <b>Top Five Detractors</b> | Relative Effect on Return (%) |
|----------------------------|-------------------------------|
| Delta Air Lines, Inc.      | -0.61                         |
| Synchrony Financial        | -0.33                         |
| Sempra                     | -0.28                         |
| Cummins Inc.               | -0.26                         |
| United Rentals, Inc.       | -0.25                         |

|                               | <u>3 Months</u> | <u>YTD</u> | <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> | <u>10 Years</u> |
|-------------------------------|-----------------|------------|---------------|----------------|----------------|-----------------|
| All Cap Value Composite Gross | 1.07            | 1.07       | 7.82          | 8.19           | 18.43          | 8.92            |
| All Cap Value Composite Net   | 0.95            | 0.95       | 7.17          | 7.58           | 17.78          | 8.34            |
| Russell 3000 Value            | 1.64            | 1.64       | 6.66          | 6.28           | 16.13          | 8.63            |

## Disclosures

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Top Five Contributors and Detractors are calculated using the total effect (within attribution) of the portfolios individual stock attribution sorted from greatest positive to least (or negative) and using the top and bottom five.

The "Gross" returns presented are gross of fees. The results do not reflect the deduction of investment management fees; the client's return will be reduced by the management fees and any other expenses incurred in the management of its account. For example, a US \$100 million account, paying a .50% annual fee, with a given rate of 10% compounded over a 10 year period would result in a net of fee return of 9.5%. Investment advisory fees are described in Part 2A of CS McKee's Form ADV. Net Performance listed is Net of fees. Investing involves the risk of loss and investors should be prepared to bear potential losses. Past performance is not indicative of future results.

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