

Market Commentary

Nothing good lasts forever, and the incredible winning streak that domestic equities were enjoying came to an abrupt end during the first quarter of 2025. Truth be told, stocks began souring in the final month of last year after a brief spell of post-election euphoria. At first, expectations for fewer regulations and pro-business policies were largely embraced by the market. But then questions regarding the outlook for economic growth—along with the uncertainty surrounding President Trump’s commitment to install and enforce a wide range of tariffs—were more than enough to undermine investor sentiment. After two consecutive years of 20%-plus returns for the broad market (as measured by the S&P 500® Index), investors were content to take some profits and reduce exposure to equities. As a result, the S&P 500® Index finished the first quarter deep in the red, shedding approximately 4.3%. This made it the worst-performing quarter since mid-2022.

It’s no surprise that volatility jumped during the first quarter. Again, uncertainty seems to be the theme of the moment. Are tariffs a mere negotiating ploy given the steep trade imbalance that the U.S. has with most other countries? Are they simply a means to level the playing field, encourage the repatriation of supply chains, and boost domestic manufacturing? Or will this type of intervention slow global trade, put the brakes on GDP, and act as a headwind for corporate profits? Nobody knows for certain.

And then, of course, there is the question of inflation and interest rates. Tariffs are, in effect, a form of taxation, and the additional costs are unlikely to be absorbed entirely by companies. To the extent possible, higher costs will be passed on to consumers, and the ripple effects could be significant in terms of inflation. The Federal Reserve has already signaled intentions to slow-roll future interest rate cuts, and if future CPI readings suggest the re-emergence of inflation, the Fed may be inclined to take an even less accommodative path with regard to monetary policy.

Our particular area of focus—domestic value-oriented equities—was not immune from the volatility and declining investor sentiment. But on a relative basis, the value style box shined. The Russell 3000® Value Index managed to end the quarter with a 1.6% gain, which was a significant outperformance compared to the 10% decline in the Russell 3000® Growth Index. The typical higher valuations carried by many growth stocks, which often tend to be traded on optimism and future earnings potential, may not be the best place to allocate in a risk-off environment. This is punctuated by the uncertain economic backdrop and interest rate outlook. By comparison, the setup for value-oriented strategies that embrace businesses with attractive cash flows and strong balance sheets appears more favorable, in our opinion.

Within the universe of value strategies, it’s notable that large-cap value stocks represented by the Russell 1000® Value Index clocked in with a respectable 2.1% gain during the first quarter. But as you travel further down the cap spectrum, the results worsened for value stocks. The Russell Midcap® Value Index declined 2.1% for the quarter, while small-cap value stocks represented by the Russell 2000® Value Index declined 7.7% during the same period. Again, this is not surprising, as risk-averse investors tend to gravitate to more stable large-caps when times get bumpy.

Although we acknowledge that most investors dislike volatility, it’s important to reiterate that it’s an aspect to be embraced by patient, long-term investors. In this new era of elevated volatility where stock prices and fundamentals often dislocate, we continue to believe that actively managed, value-oriented strategies are well positioned going forward. Our team will continue to search for companies with a combination of improving ROIC (return on invested capital) and stock prices trading at what we perceive as a deep discount to intrinsic value. We believe that allocating to these types of businesses is a means to generate attractive risk-adjusted returns over longer time periods, and this continues to be our focus as we forge deeper into 2025 and navigate the uncertainties ahead. Ironically, it actually becomes easier to find compelling opportunities during times of tumult.

Performance Review

For the three months ended March 31, 2025, the RS Large Cap Value strategy underperformed its benchmark Russell 1000® Value Index (the “Index”) and returned 1.57% (net) versus a return of -2.14% for the Index.

In the first quarter, strong performance from stock selection in Consumer Discretionary and Utilities aided relative performance, while stock selection in Materials and Information Technology detracted.

Investment Strategy

The RS Value Team seeks to invest in good companies, led by strong management teams, that are attractively valued. Our decision to invest in any company starts with business analysis and an understanding of the company’s unit-level economics. Our work on unit-level economics helps us determine the quality and key drivers of the business. We are ROIC-focused investors and seek to invest in companies that we believe have the potential to create shareholder value due to an improvement in the returns of the existing assets or through attractive reinvestment opportunities. We are long-term investors who use our investment time horizon as a competitive advantage and are attracted to out-of-favor and/or misunderstood companies in the market.

The next step in our process is to assess the management team. Our evaluation of a company’s management team is critical to our investment decision. We regularly meet with management to gauge how they think about their business: Are they focused on (and compensated for) growing earnings at any cost, or do they understand ROIC and how value is created? Additionally, we perform detailed historical analyses of management’s capital decisions—looking at acquisitions, asset sales, and measures of capital stewardship. This analysis provides us with the conviction to invest with strong management teams that we expect will be able to navigate through short-term market volatility and appear to be poised to deliver long-term shareholder value.

The final step in our analysis is valuation. To the RS Value Team, value investing is buying a business at a discount to what we believe it is actually worth. We determine what a company is worth by assessing a company’s current share price versus its expected cash flow streams or long-term net asset value based upon the

management team's plan for value creation. ROIC is the lens through which we analyze that value creation. Our research has shown that, over time, stock price performance has a strong correlation to improving ROIC as opposed to traditional valuation measurements like price to earnings (P/E). We seek to invest in companies that we believe can create shareholder value due to an improvement in the returns of the company's existing assets or through attractive reinvestment opportunities. We pay close attention to a company's financial strength, scrutinizing financial statements, and we run various financial models to understand our downside risk. This quantitative analysis gives us confidence in our investment thesis and helps us determine at what stock price we are comfortable investing.

Select Position Review

Below, we review two businesses in an effort to use tangible examples to highlight our investment process.

AbbVie (ABBV) was a strong positive contributor to performance during the first quarter of 2025. The stock benefited from a confluence of company-specific and macro drivers, including robust fourth-quarter results reported in February and renewed investor interest in the pharmaceutical sector broadly. AbbVie's fourth quarter earnings exceeded expectations on both revenue and EPS, driven by continued growth in its immunology and neuroscience franchises, alongside stabilizing trends in Humira sales post loss of patent exclusivity. Importantly, during the first quarter AbbVie announced a large licensing deal with Gubra (a Danish biotech company) which gives AbbVie co-development and co-commercialization rights on their lead clinical-stage obesity drug. While still early in development, the asset provides optionality in one of the most attractive therapeutic areas in biopharma today and underscores management's willingness to reposition the company for long-term growth beyond its core inflammation franchise. On the macro front, pharmaceutical stocks in general rebounded after several years of relative underperformance as investors sought exposure to defensive, high-margin business models trading at modest valuations relative to the broader market. We remain constructive on AbbVie and believe the company is well-positioned to deliver high-single-digit earnings growth through the end of the decade, supported by durable franchises, a promising pipeline, and a healthy balance sheet.

Zebra Technologies (ZBRA), a provider of physical asset tracking software and hardware, declined 26% during the quarter. Our long-term thesis is that manufacturing, retail, distribution, and healthcare companies will invest in automation and tracking technologies to improve efficiency, margins, and customer satisfaction. Long before we purchased the stock, it slumped in 2022 after excessive purchases from online retailers and distribution centers during Covid. We eventually initiated a position in August 2023 after we identified that the Covid purchases had been worked through. The

stock then performed well in 2024 as our thesis played out. However, in early 2025, management provided conservative guidance due to concerns about tariffs and consumer spending. While these political and macro concerns will produce some headwinds, our long-term thesis remains intact, so we continue to hold our position.

Outlook

The beginning of 2025 has been characterized by significant uncertainties. A new administration has assumed office with ambitions for an "economic renaissance." Concurrently, the Federal Reserve faces the complex challenge of balancing rate cuts amidst potential stimulative fiscal measures, while inflation remains above its target. In this environment, the risk of policy missteps by the Fed is elevated. Additionally, systemic shocks remain an ever-present concern. As always, we maintain our focus on quality investments to mitigate downside risks while capturing upside opportunities.

Substantial fiscal stimulus from prior legislation targeting defense, infrastructure, semiconductors, and energy investment continues to flow through the economy and is expected to peak later in the decade. However, initiatives such as tariffs and government efficiency reforms have introduced near-term uncertainties, while restrictive immigration policies may further tighten labor markets. The housing market faces pressures from higher interest rates and affordability challenges, but a decade-long underinvestment in housing supply should limit declines in home prices. Lower-income consumers are bearing the brunt of inflationary pressures, yet overall consumer balance sheets remain healthy, and credit quality remains strong at the moment.

While these dynamics suggest a cautionary outlook with slowing growth and persistent inflationary pressures, they do not necessarily indicate an imminent recession. Should a recession occur, it may be less severe than recent downturns due to mitigating factors highlighted above. Optimism surrounds the new administration's potential to reduce regulation and foster a favorable environment for mergers and acquisitions.

Following years of low interest rates driving elevated growth stock valuations, we believe value investing is poised for outperformance. Our strategy remains focused on identifying high-quality businesses with strong balance sheets, improving returns on invested capital (ROIC), and share prices that are misaligned with fundamental assessments.

We thank you, as always, for your support.

Sincerely,

RS Value Team

Top Contributors (Representative Account)

As of March 31, 2025

Holding	% Contribution to Return
Cigna Group	0.47
Exelon Corporation	0.45
Cboe Global Markets Inc.	0.41
Exxon Mobil Corporation	0.34
AbbVie, Inc.	0.34

Source: FactSet

Top Detractors (Representative Account)

As of March 31, 2025

Holding	% Contribution to Return
Teva Pharmaceutical Industries	-0.80
Zebra Technologies Corporation	-0.45
Alphabet Inc. Class A	-0.43
Regal Rexnord Corporation	-0.33
Salesforce, Inc.	-0.30

Composite Performance

Average Annual Returns as of March 31, 2025

RS Large Cap Value Composite	First Quarter 2025	1-Year	3-Year	5-Year	10-Year	Since Inception*
Gross of fees	1.69%	9.89%	10.44%	18.54%	10.16%	12.53%
Net of fees	1.57%	9.34%	9.89%	17.94%	9.61%	11.89%
Russell 1000® Value Index	2.14%	7.18%	6.64%	16.15%	8.79%	11.71%

Past performance does not guarantee future results. Performance prior to January 1, 2017 occurred while the portfolio management team was affiliated with a prior firm. Such members of the portfolio management team were responsible for investment decisions at the prior firm and the decision-making process has remained intact. Returns for periods greater than one year are annualized. Returns are expressed in U.S. dollars and reflect the reinvestment of dividends and other earnings. Composite and benchmark returns are presented net of non-reclaimable withholding taxes, if any. Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Net-of-fees returns reflect gross performance less investment management fees. Net-of-fees returns are calculated by deducting 1/12 of the highest tier of the standard fee schedule in effect for the period noted (the model fee). The composite model fee for each period is either the highest tier of the current fee schedule or a higher value, whichever is required to ensure the model composite net-of-fee return is lower than or equal to the composite net-of-fee return calculated using actual fees. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The firm's fees are available on request and may be found on Part 2A of its Form ADV. *05/31/2009.

All investments carry a certain degree of risk, including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class.

Contributors and Detractors Source: FactSet. The top contributors and detractors are presented to illustrate examples of the portfolio's investments and may not be representative of the portfolio's current or future investments.

The information in this article is based on data obtained from recognized services and sources and is believed to be reliable. Any opinions, projections or recommendations in this report are subject to change without notice and are not intended as individual investment advice.

The RS Large Cap Value Strategy primarily invests in a diversified portfolio of large-cap companies.

Information relating to portfolio holdings is based on the representative account in the composite and may vary for other accounts in the strategy due to asset size, client guidelines, and other factors. The representative account is believed to most closely reflect the current portfolio management style.

Advisory services offered by Victory Capital Management Inc.

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