Executive Summary

Performance in the 3rd quarter was behind the OE's benchmark and ahead of the S&P 500. Momentum continued to take many previous well-performing stocks higher and easing economic fears led to a small-cap rally. Investors believe tariff fears are overdone and the OBBA bill is going to help keep the US economy stable in the near-term. At the same time, enthusiasm that AI will be truly transformative in the near future is rampant. One could make a reasonable argument the stock market is becoming a victim of its own success as investors' desire for large short-term returns is dwarfing any fears about the riskiness of investments. The OE was forced to trim many positions in the strategy during the 3rd quarter as the stock prices rose to levels that completely changed the risk vs. reward narrative that was apparent when opening the positions. The strategy is patiently looking to reinvest cash.

The Opportunistic Equity Strategy returned 9.2% in the third quarter of 2025, behind its benchmark and ahead of the S&P 500. OE stocks for the most part have performed well in 2025 but investing is a forward-looking exercise and the path ahead for strong stock returns looks very murky. For a while now, some prominent investors have indicated the stock market is broken. I agree. The percentage of a stock's trading volume made up by fundamental investors continues to shrink. Active investors have lost a lot of share to passive investing and other styles. Hedge funds have been in the mix for some time and while many still utilize traditional valuation techniques, they are increasingly incorporating technical and momentum factors to adjust to the style of the market. Retail trading volume is estimated to be double what it was pre-Covid and that investor crowd does not favor traditional valuation techniques.

As of 9/30/2025	QTD	YTD	1 Yr	3 Yr	5 Yr	Since Inception
OE	9.2%	28.1%	25.4%	23.8%	23.6%	18.5%
Benchmark	10.9%	14.0%	10.7%	16.0%	13.6%	8.5%
SPX	8.1%	14.8%	17.6%	24.9%	16.4%	15.1%

Inception: 1/1/2020

Traditional valuation techniques such as Discounted Cash Flow Analysis are not subjective approaches. They are the cornerstone of modern financial analysis. If those using these techniques don't manage enough money to meaningfully influence trading volume, there is a problem in the markets. The price then becomes based on many of the more speculative factors that are more widely regarded by investors who control more money. Buying power matters. That is why we are seeing some stocks soar to extreme levels.

Bubble talk is rampant, and many are making comparisons to the late 90's. Valuations are certainly stretched but market strategists are forecasting pretty strong earnings growth for next year. If that earnings growth does come to fruition it needs to be discounted, because tech companies with extremely aggressive capex plans should have superior earnings growth in the near term. Free cash flow growth (that backs out stock comp) is just as important as earnings growth and growth is not strong here. Investors now have to make an educated guess whether free cash flow will return in a meaningful way several years from now. Fundamental investors

are probably a little more skeptical the return on invested capital will be as large as companies say but they aren't the needle mover today. The promise of growth in outgoing years from many tech companies seems to be all that is needed for stocks to soar to quite high levels as the investor base with buying power is impressed.

There is excessive optimism towards AI, but the OE does not have an extremely pessimistic view on AI. There are names held in the strategy that are AI companies. But the strategy is not going to invest in companies that promise riches way into the future but need to spend aggressively now. There is too much uncertainty, and it is not clear at this point that competition won't limit profit growth. The current large language models are impressive and will help with productivity but unless the models can get to the point where they can replace many workers, the economics don't work. There are too many models that are similar and revenue from being a productivity tool just won't be that large with many competitors in the space.

Once again, there was a wide variance of returns in the strategy this quarter. Daqo surged 85% as optimism over China's anti-involution campaign takes hold. Solar is a needed energy source to meet the gigawatts of AI data center demand that is out there. Still, the process of removing excess capacity could be messy and slow so the strategy is now cautious on Daqo.

Advancers / Decliners	2025 3Q Return
Daqo New Energy	85.0%
Alibaba	57.6%
Macy's Inc.	55.6%
Baidu Inc.	53.6%
Intel Corporation	49.8%
Nokia Oyj	<6.0%>
Cigna Group	<12.4%>
Arkema	<14.3%>
Evonik Industries AG	<16.2%>
Xperi Inc.	<18.1%>

Alibaba soared this quarter as optimism grew about Alibaba's AI prospects. Alibaba showed impressive results with its latest Large Language Model and the model is now regarded as one of the best ones out there. The strategy trimmed Alibaba as the stock moved to a level that changed the risk vs. reward.

Macy's continues to execute well in a difficult environment. The market became more upbeat about Macy's prospects as it has been executing well. However, there still is plenty of skepticism about the business model of department stores. There is still more upside if Macy's can prove the skeptics wrong.

Baidu's stock rose because of optimism over AI. Baidu has a strong position in autonomous driving and if its current AI initiatives can help Baidu sustain its lead here, there is a good chance of stock price upside in years ahead.

Intel had a wild quarter. The government and others taking stakes sent the stock soaring. The Nvidia stake seemed to be the most liked by the stock market. The OE didn't have a large position in Intel and exited in the low 30's. That was too soon but the thought process is if Intel is able to solve its foundry issues, it will be a slower process than the markets are anticipating. They are now in full-scale production on 18A so there is progress. If the market sours on Intel soon because its turnaround is taking longer than expected, the OE might reestablish a position.

Nokia is struggling to establish meaningful business in data centers and that is holding back the stock. Its Infinera acquisition is meant to address the data center market but it is too soon to have a fully aligned product roadmap. Ciena is being viewed as the data center fiber optics winner. Nokia, despite having an excellent router product, has also struggled to make any inroads into data center switching. Nokia is a very capable tech company. Future products will lead to better growth than has occurred.

Cigna's stock was caught in the downdraft of many health care companies, including the insurance companies. Cigna has held up better than many insurance companies in 2025. It doesn't have as much exposure to some of the areas that are getting hit with shocks; whether that be current medical cost trends or possible policy changes. Cigna is a reasonably priced stock so the OE will hold it but it is a difficult environment for insurance companies. They are being viewed as one of the problems leading to high health care costs. They are but others in health care are just as responsible. Insurance companies have low margins; there isn't a lot of excess profit there.

Arkema continues to struggle. It has been a tough year for the chemicals industry. Overcapacity in China combined with weak global demand is leading to difficult conditions. Arkema will see an ebitda drop this year but due to specialty components in its portfolio it should be able to maintain a core level of profitability in a very difficult environment. If the environment improves, there is a lot of earnings upside to this company and others. It was recently added to. The risk vs reward is good.

Evonik, just like Arkema, is a European chemical company. The environment is difficult for them. Construction, autos, durable demand, and some of the things that drive chemical demand are weak this year. And there is excess capacity for many chemicals due to overbuilding in China. Evonik has different exposure than Arkema but has similar characteristics. It too is able to maintain a reasonably good base of earnings in a very difficult year and has a lot of leverage to improving conditions.

Xperi sold off on earnings. It cuts its revenue forecast. The OE actually expected a revenue cut. The company has built up excessive unbilled revenue over the past year that was indicative of lower quality revenue booking. At some point, it seemed inevitable revenue would have to be cut and 3Q was the time. There has been some concern over accounting here but that has been outweighed by an asset base that is meaningfully undervalued. Either this management takes steps to unlock it or hopefully an activist will step in and force management to do so.

The OE has built up a decent cash position due to a lot of selling in 3Q. There are some good-looking companies on the watch list, but it is unlikely these companies will hold up in a market-wide selloff. So, the OE is patiently waiting to see if the market can sell off after what has been a furious rally since early April. The economic picture seems a lot more problematic here than is being viewed by many investors. Economic

growth is being held up by investment into AI and spending by the wealthy. It is unbalanced and therefore less stable. Perhaps, some weakness shocks to the growth outlook can change the narrative in this market. Optimism is currently too excessive.

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