Executive Summary

The third quarter of 2025 saw continued rallies in asset markets with the S&P 500 hitting an all-time high. The Federal Reserve resumed easing monetary policy with a 25-basis point cut in September, catalyzing continued equity gains. The U.S. Administration continues to pursue a significant realignment of global trade with shifting priorities and deadlines. Economic growth has been resilient but is slowing with weakness building in the labor market. Uncertainty has been the one constant in 2025 which has driven elevated levels of volatility though the quarter saw some respite from dramatic moves earlier in the year. The leadership of the equity market is made up of a small group of large capitalization stocks with the best growth characteristics, most of whom are involved with the emergence of Artificial Intelligence. That cohort of stocks is over-represented in Momentum strategies which have been on a tear that ranks as one of the strongest runs in seven decades. The rest of the market has produced much more muted returns as global economic and political relationships are being 'reset' with potentially significant ramifications for geopolitical influence and economic growth. As markets have vacillated between positive and negative interpretations of these changes, businesses and consumers have slowed spending to allow time for the impact of these changes to be better understood. After the close of the quarter, the U.S. Federal Government shut down due to conflicting spending priorities and an unwillingness of politicians to compromise on key demands. Investor confidence is fragile, and the outlook is uncertain with uncomfortably wide potential outcomes. For the third quarter, performance was strong with the S&P 500 Index up 8.1%. The Waterfront Equity Composite rose 5.9%.

During the third quarter, markets continued their rally with the S&P 500 hitting all-time highs and credit spreads narrowing to their tightest levels in nearly 30 years. The Federal Reserve resumed easing monetary policy with a 25-basis point cut in September, catalyzing continued equity gains and spread compression. That performance belies slowing economic growth and a weakening labor market which was punctuated by a record-breaking negative revision to domestic payrolls late in the quarter. The softening labor market is denting consumer confidence though headline consumer spending accelerated in the third quarter, driven by a strong back-to-school season for retailers. Beneath the surface, there is a clear divergence between the high-end consumers and those in the low- to middle-income bracket. The impact of slowing wage growth after several years of heightened inflation rates is surfacing in the form of elevated credit losses at auto retailer CarMax; the bankruptcy of sub-prime auto lender Tricolor Holdings; and the bankruptcy of auto parts supplier First Brands Group during the quarter. In addition, post a strong back-to-school season, credit card spending has noticeably slowed in September which is creating some anxiety for retailers who pre-bought inventory more aggressively this summer in advance of the tariff implementations. However, these concerning datapoints have been overwhelmed by announcements of massive investments in technology infrastructure to enable Artificial Intelligence. Companies are clamoring to acquire compute capacity and best-in-class processing in order to productize AI in their businesses. The recent OB^3 (One Big Beautiful Bill) further stimulated activity by incentivizing domestic capital investment along with growing political pressure to prioritize domestic production. September also boasted a record for U.S. Investment-grade primary bond issuance driven by strong investor demand and falling borrowing costs. While a more protectionist trade policy is expected to be a headwind to economic growth over the near-term, fiscal stimulus and monetary accommodation through lower short-term interest rates are at least partial offsets. To further complicate matters, post the quarter, the U.S. government has shut down as politicians argue over spending priorities. Once the government re-opens, employment statistics will be a focal point as an indicator of corporate confidence and driver of consumer spending. I also continue to watch the housing market as historically, every broad-based improvement in the U.S. economy occurred in tandem with an improvement in housing. While the current backdrop isn't encouraging with inventory growing and price declines becoming more prevalent, a reduction in interest rates would go a long way toward improving the affordability of housing and contribute to an improvement in consumer confidence. In part due to a growing appreciation of that possibility, equity markets rallied with the S&P 500 up 8.1%. In summary, the overall market environment was supportive, but uncertainty is elevated, leading to a fragile confidence that conditions will improve as the year progresses.

	Q3 2025 Total Return
Waterfront Equity Composite (net)	**5.9%**
S&P 500 Index	**8.1%**
Morningstar Large Blend category (median return)	**6.9%**

The Waterfront Equity strategy advanced 5.9% in the third quarter, underperforming the strategy's benchmark (the S&P 500 Index) as well as peers in the Morningstar Large Blend category. Strong stock selection in the Communication Services and Health Care sectors headlined performance with significant appreciation in several long-held positions. The strategy was underweight a cohort of expensive momentum stocks that drove performance of the S&P 500 and resulted in underperformance. During the quarter, I increased exposure to the Health Care and Technology sectors as dislocations in profitable companies created opportunities. I reduced exposure to the Materials, Utilities and Consumer Staples sectors due in several cases to deteriorating business fundamentals and for others, stock appreciation that exceeded my intrinsic value estimate.

TOP CONTRIBUTORS	AVG. WEIGHT	RETURN	CONTRIB-UTION
Alphabet Inc. (GOOGL)	4.9%	38.1%	0.69%
Jazz Pharmaceuticals plc (JAZZ)	2.0%	24.2%	0.35%
AbbVie Inc. (ABBV)	2.2%	21.4%	0.29%
Estee Lauder Co. (EL)	1.9%	9.5%	0.22%
Hershey Co. (HSY)	1.3%	13.6%	0.21%

The quarter's top contributors to performance were sourced from several sectors. **Alphabet** posted strong performance as the Antitrust investigation into Google's search engine contracting and market share resulted in less punitive remedies than feared. In addition, the company's Large Language Model (LLM) called Gemini has recently become the most popular iPhone app driven by its Nano Banana image-editing feature with downloads, queries and weekly active users challenging ChatGPT's dominance. **Jazz Pharmaceuticals** has spent several years diversifying its revenues away from its category-leading sleep disorder drugs to new therapy areas including Cancer and Neurology. In particular, there is growing optimism for a HER2-targeted bispecific antibody initially targeting bilary tract cancers with potential expansion to esophageal and breast cancers. **AbbVie** posted another strong quarter of performance as recently introduced Immunology drugs continued to drive strong revenue growth for the company. As the headwind from generics for its blockbuster Humira franchise fade, the underlying growth rate of its core business and expanding pipeline of new drugs inspires optimism in a sustainable revenue growth profile through the end of this decade. **Estee Lauder** is a well-known global personal care brand with strong market shares in makeup and skincare. Weak consumer demand in China and growing competitive threats particularly for younger consumers with less disposable income drove a dramatic decline in the stock. The company has changed management and is reinvesting aggressively to position its brands to benefit from a recovery in Asian demand as well as to increase relevancy to a younger demographic. **Hershey** stock has been inversely correlated with the price of cacao beans which have quadrupled over the last two years because of poor growing conditions and plant disease. The recently implemented tariffs also impacted the price of imported cocoa, exacerbating concerns for consumer demand. However, cacao bean prices have begun to moderate, and chocolate companies are

adjusting pack sizes to reduce price inflation and maintain consumer engagement in a discretionary category. I expect margins to improve in the years ahead and demand to fully recover.

TOP DETRACTORS	AVG. WEIGHT	RETURN	CONTRIB-UTION
Microchip Technology (MCHP)	1.9%	<8.1%>	<0.38%>
Netflix Inc. (NFLX)	2.0%	<10.5%>	<0.35%>
Cisco Systems Inc. (CSCO)	2.3%	<0.8%>	<0.27%>
Verisign Inc. (VRSN)	1.6%	<2.9%>	<0.26%>
PayPal Holdings Inc. (PYPL)	2.0%	<9.8%>	<0.26%>

The quarter's top detractors to performance were sourced from the Technology and Communication Services sectors with several retreating after strong gains to start the year. **Netflix** (up 50.2% through June 30, 2025), **Cisco** (up 18.8%) and **Verisign** (up 39.9%) pulled back from all-time highs reached earlier in the year. Early in the quarter, I trimmed both NFLX and VRSN as each reached valuations that embedded a lot of enthusiasm. I continue to believe all three of these companies will generate strong earnings growth and recover from their modest pullbacks. **Microchip Technology** is exposed to cyclical end markets that have also been impacted by uneven trade flows resulting from the pandemic and the recent tariff policies. Its microcontrollers are ubiquitous in consumer, manufacturing and industrial products which have faced sluggish organic growth and significant inventory swings. Its customers are working down excess inventory, and the company is shipping below demand in order to bring the market into better balance which will result in more stable revenue growth and improved operating margins. **PayPal Holdings** operates in a competitive marketspace and investors are concerned about the trajectory of margins going forward due to rapid growth in a lower-margin segment of the business. I believe the two-sided network PayPal operates is an underappreciated competitive advantage that will result in strong market share and profitability over time.

Looking forward, global economic growth is slowing, and the exogenous shock of a trade war continues to cast a shadow over global macroeconomic growth. However, the Fed's accommodative stance has compressed volatility benefiting both stocks and bonds. While inflation rates have been cooling, the tariffs (implemented and announced) will result in an approximately 150bps rise in Personal Consumption Expenditures, which is the Federal Reserve's preferred measure of inflation. That estimate is tenuous given the ongoing trade negotiations; the decline in energy prices; moderation in calculated rents; and the likely softening in demand for goods and services. As companies report earnings over the coming weeks, results for the third quarter are likely to impress with investors focusing on the outlook for the rest of this year. Given the starting point of valuations, a fair amount of optimism seems embedded, leaving little room for disappointment.

My focus is unchanged. Across economic cycles and irrespective of market moods, I seek to maintain an emphasis on finding high quality, growing companies, whose securities are trading at a reasonable valuation with visible catalysts to drive relative performance over the long term. This approach has served investors well over time, and my confidence in it has not waned.

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