

# Actively Managed Portfolio of High-dividend Yield and Dividend-growth Stocks

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## Strategy overview

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Actively managed large cap value strategy that relies on fundamental research to capture the benefits of high excess capital yield and sustainable dividends.

## Key takeaways

- Equity markets rebounded in the second quarter after April's post-Liberation Day volatility, ending above the February peak. Growth outperformed value, driven by strength in technology and communication services, while energy and health care lagged. Easing inflation, selective rate cuts, and increased demand for safe-haven assets highlighted cross-asset dynamics.
- For the quarter ended June 30, 2025, the SMA underperformed the Index on a gross- and net-of-fees basis due to unfavorable stock selection and a negative allocation effect. Stock selection in the health care, information technology, and consumer staples sectors detracted the most from performance. Conversely, selection within the energy, financials, and consumer discretionary sectors contributed to performance.
- As we enter the second half, investors face ongoing geopolitical risks and shifting monetary policy. Expanding leadership beyond mega-cap stocks is creating new opportunities, especially in defensive sectors. We remain focused on refining strategies to align with evolving conditions amid persistent uncertainty and inflationary pressures.

## Market review

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**In the second quarter of 2025, U.S. equities rebounded significantly, with the S&P 500 increasing by 10.94% and the Nasdaq Composite rising by 17.75%.** The technology and communication services sectors performed the best, while health care and energy sectors lagged, reflecting a mixed but generally positive market environment. Large-cap stocks outperformed small-cap stocks, and growth stocks beat value stocks.

**The technology sector surged in 2Q25, driven by artificial intelligence (AI) growth as hyperscalers increased capital expenditure and improved ways to profit from their AI investments.** Positive earnings from the Magnificent 7 stocks further boosted performance. The communication services sector also saw strong gains, benefiting from AI advancements and robust earnings. Conversely, policy and regulatory uncertainty weighed on the health care sector, affecting managed care and pharma companies. Weak oil prices and global growth concerns hampered energy companies, leading to their underperformance relative to the broader market

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## Portfolio review

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**For the quarter ended June 30, 2025, the SMA underperformed the Index on a gross- and net-of-fees basis due to unfavorable stock selection and a negative allocation effect.** Stock selection in the health care, information technology, and consumer staples sectors detracted the most from performance. Conversely, selection within the energy, financials, and consumer discretionary sectors contributed to performance.

**At the individual stock level, underweight in NVIDIA Corp. (NVDA), our position in UnitedHealth Group Inc. (UNH), and overweight in Kenvue Inc. (KVUE) were among the SMA's largest detractors for the quarter.**

An underweight position in NVIDIA Corp. (NVDA) detracted from performance. The stock rebounded sharply from April lows after delivering a strong 1Q25 revenue, easing concerns about a potential slowdown. Despite ongoing tariff uncertainties, robust artificial intelligence-driven demand continued to support top-line growth.

Our position in UnitedHealth Group Inc. (UNH) detracted from performance. The company reported earnings that came below expectations and faced regulatory scrutiny due to a Department of Justice (DOJ) probe into its Medicare Advantage business.

An overweight position in Kenvue, Inc. (KVUE) detracted from performance this quarter. Shares declined due to softer shipment volumes from retailer destocking and ongoing, as well as tariff-related pressures.

**At the individual stock level, overweight to Broadcom Inc. (AVGO) and Micron Technology, Inc. (MU) and owning a non-benchmark position in Taiwan Semiconductor Manufacturing Co., Ltd. Sponsored ADR (TSM) were among the SMA's largest contributors for the quarter.**

An overweight position in Broadcom Inc. (AVGO) contributed as demand for AI semis remained strong, supported by their projects with major cloud clients.

An overweight position in Micron Technology Inc. (MU) contributed to performance. The stock rose following the Trump administration's announcement of a temporary United States-China tariff cuts. The tariff cuts provided a boost to sentiment, and all the technology sub-sector benefited from the announcement.

Owning a non-benchmark position in Taiwan Semiconductor Manufacture Co., Ltd. Sponsored ADR (TSM) contributed to performance this quarter. The company reported better than expected 1Q25 earnings on continued AI strength. Also, upbeat 2Q25 guidelines guidance with expectations for accelerating AI revenue growth.

## Outlook

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**The U.S. economy demonstrated resilience despite continued inflationary pressures and a potential slowdown.** The U.S. Federal Reserve kept the key borrowing rate between 4.25% and 4.50%, but signaled potential rate cuts by the end of 2025. However, Fed Chair Powell emphasized a data-dependent approach, with markets expecting rates to remain steady in July. The labor market remains stable with strong nonfarm payrolls, and inflation expectations have fallen, boosting consumer sentiment, but the impact of tariffs remains a risk. U.S. assets are attractive, with the U.S. dollar at its lowest since March 22, 2025. Attractive returns on equities and bonds, coupled with a resilient labor market and global economic leadership, continue to inspire investor confidence and market optimism.

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