



KERUSSO CAPITAL MANAGEMENT US LARGE CAP VALUE THIRD QUARTER 2025 REVIEW

After April, the month of Liberation Day, our portfolio outperformed for four consecutive months on it's way to a fifth when the prospect and realization of the government shutdown disrupted the streak.

One of the things that we pride ourselves on is fundamental analysis, valuation discipline, and patience to wait for the market to agree with us.

Since 2002, this has been how we have managed this strategy without fail, without fear, without fulfilling the premise and promise of how we manage money for our clients.

After two consecutive quarters of underperformance, our approach paid off for our clients.

The key is, if we had underperformed again, we would have continued to execute on the same process as we absolutely believe that our approach is how money should be managed – taking advantage of overly negative psychology regarding the valuation of companies in comparison to their true fundamentals – which, over reasonable time periods, has led to outperformance.

Second Quarter Review

For the quarter, 5 out of 11 sectors outperformed the respective sector and/or the overall benchmark, the Russell 1000 Value*. The resulting outperformance was solely generated by stock selection as our sector allocation was negative.

Performance for the Russell 1000 Value was balanced with six sectors outperforming – Communication Services, Utilities, Consumer Discretionary, Energy, Materials, and Health Care.

The benchmark had a balance of defensiveness and cyclicity with the absence of contribution of Technology suggesting that the market may be rotating from the darling over the last few years.

Also, the performance could be suggestive of a gradual shift away from Growth dominance as the pendulum appears to be possibly swinging back towards undervalued companies that may not have great but at least good fundamentals that have not been properly appreciated by the market.

Our portfolio was more stratified and concentrated in our sector exposure with an overweight in just two sectors – Consumer Discretionary and Financials. The most significant underweights were Real Estate, Communication Services, Utilities, Health Care and Technology. Our portfolio was market weight Materials, Industrials, Consumer Staples, and Energy.



The three sectors with the highest contribution for the quarter were Technology, Consumer Discretionary, and Industrials. In Technology, 4 out of 4 stocks outperformed the respective sector and/or overall benchmark, the Russell 1000 Value*. A continued emphasis on Artificial Intelligence in Technology has borne fruit in terms of performance as the backbone companies are getting additional investments that appear to fortify the investment in this area. In Consumer Discretionary, 6 out of 6 stocks outperformed as the consumer has continued to show strength while being supported by the Federal Reserve cutting interest rates by 25 basis points providing additional potential stimulus. In Industrials, 5 out of 9 stocks outperformed with as the aforementioned Federal Reserve move coupled with solid fundamentals created a confident environment for investing in this sector.

The three sectors with the lowest level of contribution were Financials, Communication Services, and Utilities. In Financials, 11 out of 15 stocks underperformed the respective sector and/or the overall benchmark, the Russell 1000 Value. Our portfolio positioning in this sector is absent banks or diversified financials. These two areas were more highly prized in reaction to the Federal Reserve cutting interest rates while also having less downside in the face of a government shutdown. Our holdings have more upside, in our opinion; but, our holdings also have a sensitivity to economic activity that is higher than the banks and diversified financials. As such, our holdings had a more negative reaction. In Communication Services, 2 out of 4 stocks underperformed as the collective response to more interest rate cuts was muted with two of our holdings, META Platforms and Verizon. In Utilities, our sole holding, Vistra, underperformed as more traditional utilities were prized in a perceived move towards a rate cutting environment although our assessment is that the valuations, in general, within the sector are more than full.

The stocks with the greatest positive contribution were Oracle (+28.91%), United Rentals (+26.96%), Apple (+24.25%), Carlyle Group (+22.66%) and William Sonoma (+20.10%). These stocks represent holdings from the Technology, Industrial, Financial and Consumer Discretionary sectors. Oracle continues to show a transition towards Artificial Intelligence that is proving quite profitable. United Rentals has been able to continue to demonstrate solid growth as a domestic company. Apple has shown promise with a new iPhone coming to market as well as sustained growth in other areas. Carlyle has been helped by lower interest rates giving hope for higher valuation on alternative investments. Williams Sonoma should also be a beneficiary of lower interest rates as a help to consumers. Each stock is still a portfolio holding as we continue to view them as *Value Creating Opportunities*.

The stocks with the greatest negative contribution were LPL Financial (-11.20%), Corebridge Financial (-9.03%), Ameriprise Financial (-7.67%), Apollo Global Management (-5.72%), and Visa (-3.68%). All of these stocks are holdings from the Financial sector. Market sensitivity to interest rates and a potentially weakening market and consumer led to collective declines. Each stock is still a portfolio holding as we continue to view them as *Value Creating Opportunities*.



During the quarter, all holdings in United Parcel Service, Automatic Data Processing, ConocoPhillips, Marathon Petroleum, and Blackstone were sold. New positions were purchased in META Platforms and Vistra.

Overall purchases and sells resulted in an increase in the Consumer Discretionary, Consumer Staples, Utility, Communication Services, and Health Care sectors offset by decreases in the Energy, Industrial, Financial, and Technology sectors. Any other changes occurred on the basis of capital appreciation and depreciation of individual securities.

All was related to our quest of seeking out *Value Creating Opportunities* for our clients.

Fourth Quarter Outlook

As I am typing out these words, we are into the second day of the Federal Government shutdown.

Ascribing no blame, sometimes dysfunction is also how our government functions.

As an investor in the market, the headline news can be distracting if you do not have discipline and focus.

At Kerusso, we have discipline and focus.

For now, both have paid off well for us in the performance of the most recent quarter. And, because of a pullback in some of our holdings based on the shutdown, we are optimistic that a recoup is in order, not that the market owes us anything but the reality is that these holdings were already undervalued from our perspective; hence, a pullback makes them more attractive rather than less.

We also believe that the rotation that appears to be underway in a broadening out of market participation with less emphasis on TMT – Technology, Media, and Telecom – will prove beneficial to our approach as we consider all eleven sectors for investment, not a focused few.

Fourth quarters are typically good quarters for the market. Barring an extensive shutdown which hampers the economy, we have confidence that this fourth quarter could also generate a positive return.

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*The Russell 1000 is composed of approximately 1,000 large and mid-cap US equities that exhibit value characteristics. It is an unmanaged index and includes dividends, and distributions but does not reflect advisory fees, brokerage commissions, withholding taxes or other expenses of investing. Investors cannot invest directly in an index.

The specific investments shown are for informational purposes only and represent only the top contributors and detractors for the relevant performance time period. The selection criteria used to determine the top contributors and detractors remains the same across performance measurement periods.

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