KERUSSO CAPITAL MANAGEMENT
US LARGE CAP VALUE
FIRST QUARTER 2026 REVIEW

Legendary New York Yankees catcher, Yogi Berra, said, “It’s déjà vu all over again”.

In the first quarter of last year, due to geopolitical issues, the market was quite tumultuous.

Chaos and calamity can create opportunity although the opportunity can be less obvious in the midst of the chaos and calamity.

We believe that the first quarter has created some opportunities in the market and we were thankful to generate a positive return which, while trailing our benchmark, outperformed the core and growth indices by a fairly wide margin.

Our overweight to Energy was not anticipatory of the war on Iran; but, because of our positioning on the basis of fundamentals and valuation, we happened to be in the right place at a global wrong time.

Our investment process has a contrarian element associated with it that can cause our portfolio to perform differently from the market.

As a result, we have had to be comfortable with being uncomfortable.

But, our times of being uncomfortable in relationship to the prevailing sentiment in the market has typically been the backdrop for periods of outperformance.

So, lagging is not a great concern for us. All strategies lag from time to time.

Of great concern for us is making sure that we maintain our discipline and do not fall prey to the temptation to change just because things are not currently going our way.

We have maintained our discipline for over two decades and we have been rewarded with top decile performance over that time period.

We are focused on pursuing competitive, risk-adjusted returns relative to our benchmark and peers as we still believe that our investment approach represents a distinct and disciplined strategy designed to seek long-term, risk-adjusted returns.

First Quarter Review
For the quarter, 7 out of 11 sectors outperformed the respective sector and/or the overall benchmark, the Russell 1000 Value*. Sector allocation was positive while stock selection was

negative. The negative stock selection overwhelmed the positive sector allocation resulting in underperformance for the quarter.

Performance for the Russell 1000 Value was fairly balanced with six sectors outperforming – Energy, Materials, Utilities, Consumer Staples, Industrials, and Technology. Much of this performance was a response to the war in Iran as commodities rose along with defensive areas in a barbell outcome.

For the quarter, our portfolio was predominantly overweight Financials, Energy, Materials, and Consumer Discretionary. The most significant underweights were Real Estate, Industrials, Technology, Utilities, and Communication Services. The portfolio was market weight Health Care and Consumer Staples.

In our Yogi Berra moment, two of the three sectors with the highest contribution for the quarter this year were the same as last year, Health Care and Energy, coupled with a different third sector this year, Consumer Discretionary. In Health Care, 5 out of 6 stocks outperformed the respective sector or the overall benchmark, the Russell 1000 Value, as economic concerns led to a focus on the defensive qualities associated with Health Care stocks became more prevalent, dividends in particular. In Energy, 4 out of 4 stocks outperformed as the price of oil in the first quarter rose almost 50% due to the war in Iran. In Consumer Discretionary, 4 out of 6 stocks outperformed as our more value-oriented holdings held up compared to other more economically sensitive stocks in the sector.

Again, in our Yogi Berra moment, tow of the three sectors with the lowest level of contribution were the same as last year, Technology and Financials, coupled with a different third sector this year, Utilities. In Technology, all 5 stocks underperformed the respective sector or the overall benchmark, the Russell 1000 Value, as chip companies related to Artificial Intelligence (AI) were deemed more favorable and disruptive of the business models of several of our holdings. In Financials, 12 out of 14 stocks underperformed as the market correlated expected negative consumer sentiment as a harbinger for weaker fundamentals that have yet to be manifested. In Utilities, our sole holding, Vistra, underperformed as the more traditional, lower beta Utilities were more favorable in a clearly risk-off environment in the first quarter.

The stocks with the greatest positive contribution were CF Industries (+68.77%), Devon Energy (+38.09%), Cheniere Energy (+46.35%), SLB (+34.66%), and EOG Resources (+39.01%). These stocks represent holdings from the Materials and Energy sectors. Collectively, these stocks benefited from the change of fundamentals and sentiments related to the war in Iran and the impact on oil and commodity prices. 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 American Express (-18.06%), Oracle (-24.33%), Synchrony Financial (-18.15%), Corebridge Financial (-20.10%), and Qualcomm (-24.22%). These stocks represent holdings from the Financial and Technology sectors. In contrast to the defensive orientation of the market, each one of these stocks represents areas of growth and potential credit or market risk that has received heightened scrutiny during this moment of market disruption as well as potentially being impacted by the issues surrounding AI. Each stock is still a portfolio holding as we continue to view them as *Value Creating Opportunities*.

During the quarter, three securities were sold – Apollo in Financials, Cummins in Industrials and Ross Stores in Consumer Discretionary. Three new securities were purchased – Adobe in Technology, Charter Communications and Comcast in Communication Services.

Overall purchases and sells resulted in the decrease in the Financial, Industrial, and Consumer Discretionary sectors coupled with increases in the Materials, Health Care, Communication Services 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.

Second Quarter Outlook
The war in Iran will end.

When? Who knows?

The impact of the war will depend on the length of the war and the terms and conditions by which it ends.

Inflation at the commodity level has injected a level of risk and consideration that did not exist prior to the initiation of the war.

Projections, market not ours, had been that interest rates would be cut this year, perhaps a few times.

Now, projections, again market not ours, is that the Federal Reserve may prudently hold pat if not more conservatively look to increase interest rates if inflation proves to be more persistent than projected.

Musical chairs has once again become a part of the current administration's leadership.

Said another way, we are in uncertain times.

Frankly, we are always in uncertain times. It just takes certain moments and events to remind us.

So, as Yogi Berra said, "It's déjà vu all over again".

As such, we will continue to seek out the opportunities in the market where fundamentals and valuation are in our and our clients' favor, even if we happen to be at odds with prevailing market sentiment.

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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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