

3Q2025 Investor Letter

BALANCING MARKET CATALYSTS WITH RISKS

Markets have climbed further since our 2Q2025 note. In that communication, we shared that the rebound appeared largely sentiment driven. Lately, market gains have been bolstered by several key catalysts which we highlight below. We also include how we position our strategies to deliver reliable client outcomes amid these catalysts and their risks.

✦ Capex Spending on Artificial Intelligence (AI):

All anybody can talk about these days is AI, and understandably so. In our AI Infrastructure Buildout podcast episode (search “The Dividend Corner” in your favorite app), we discussed how over 80% of incremental S&P 500 capex growth since 2022 is related to AI infrastructure. Beneficiaries of this trend are exhibiting strong returns and are often the largest positions in indexes and client portfolios alike.

We are tremendously excited and enthusiastic about AI technology. This development extends the digital paradigm shift that began with cloud. However, our excitement is matched by cautiousness regarding the theme’s volatility from an investment standpoint.

Historically speaking, transformational capex buildouts like fiber optic networks or railroads result in overcapacity. The market understands this risk but is having difficulty judging timing, an impossible task, in our view. Rather than guess, we choose to manage strategy risk instead. As market risks build, we respond by carefully and continuously underwriting our downside capture profile to maintain competitiveness, particularly for strategy holdings with strong leverage to AI.

✦ Relative Calm Regarding Trade Policy:

Diminishing news flow on trade, or investor numbness to it, has left the market less responsive to the subject. However, effective tariff rates between the U.S. and its partners are rising, while the legal authority to impose them remains in question.

These are not risks we can control precisely. But the favorable downside capture ratios our strategies delivered when trade uncertainty was peaking earlier this year suggest strategy fundamentals were viewed as resilient through the episode. In the absence of policy stability, we will continue to seek companies that act as a ballast in challenging markets.

Though the fact pattern just reviewed has given the market traction, high valuations and concentration persist, increasing potential susceptibility to growth disruptions. We believe our strategies are positioned to complement this market backdrop. As an active manager, we can cast a wide net and structure our portfolios differently than market consensus – a precondition for potential alpha generation. Volatility this year has added to our opportunity set, allowing us to introduce new holdings at low prices. We believe this may pay off through strengthened strategy fundamentals as we navigate the balance of market catalysts and risks ahead.

✦ Resumption of Policy Rate Cuts:

The rate cut cycle resumed in September with investors expecting a handful of additional cuts in the next 18-24 months. The Fed has telegraphed these cuts as policy re-calibration, meaning they are undertaken in the absence of deeply concerning economic weakness. But the handful of future cuts anticipated are more aligned with a recessionary path than a benign one. If a recession materializes, risk assets may be challenged from current valuation levels. If growth firms, markets may still be disappointed by less easing and the reappearance of upside inflation risk.

Falling rates are generally good for risk assets with duration (like equities), and we suspect our strategies may also benefit. However, we don’t invest for rate policy. Rather, we invest for a variety of rate environments – rising, falling, flat, volatile, or calm – because these episodes will all likely occur during a market cycle. Our task is to be a reliable component of client portfolios by owning quality businesses that are well managed and resilient through a rate cycle.

✦ Fiscal Policy:

The ultimate impact of the One Big Beautiful Bill Act (OBBA) will likely not be felt until 2026 and beyond, but incentives for capital investment are expected to buoy corporate earnings and consumer spending could be aided by larger tax refunds.

We heard a lot about the investment priorities of our strategy holdings related to this legislation in the last quarterly earnings cycle. This has reinforced the fundamentals of our positioning and leaves us confident in the dividend growth and downside protection profile we aim to offer.

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A CHALLENGED SMALL/MID-CAP (SMID) OPPORTUNITY SET?

Our conviction remains that smid companies are an overlooked opportunity. Many investors seem to take a high-risk/high-return approach to this space, but we believe in the merits of a risk-managed approach via our dividend growth process.

Quality smid exposure has witnessed a recent performance headwind. This does not reflect fundamental deterioration, but instead a flow-related matter, in our view:

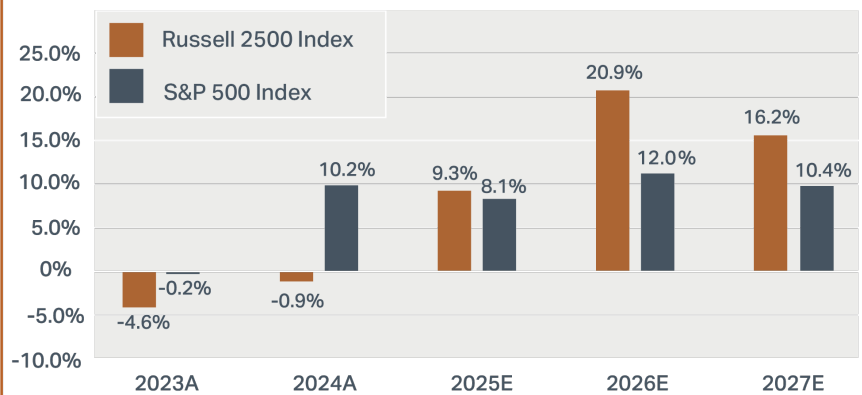
- ✦ Trade uncertainty has redirected capital outside of the U.S., lifting international risk assets. We believe investors may be liquidating domestic smid exposure to fund international allocations, wishing to preserve AI-exposed domestic large cap holdings. This has presented a headwind to the quality asset pool reflected in our smid strategies.
- ✦ Smid indexes are heavily weighted to unprofitable companies and therefore growth and momentum factors. These factors have massively outperformed quality and low volatility factors that reflect our approach in 3Q2025, likely in anticipation of interest rate cuts and firming growth expectations supplied by fiscal policy. Funds that have been allocated to the smid space, we believe, are chasing these lower quality, growth, and momentum dynamics.

Quality smid and international exposure can serve as important risk management tools for investors, but we believe both should be funded from domestic large-cap allocations to meaningfully impact ex-post portfolio risk. Momentum and growth factors are already well represented in large cap exposure, so quality and low volatility active smid exposure can provide further risk diversification.

Important fundamental tailwinds remain visible for the space and they include:

- ✦ Earnings growth is expected to outpace domestic large cap over the next few years (pictured right).
- ✦ Smid core and value valuations are more in-line with their 20-year average P/E ratios than all other style boxes.
- ✦ A historical observation that, since 2005, unprofitable companies have only outperformed in two intense risk-on years (2009 and 2020). In all other years, profitable companies have outperformed unprofitable ones.

Small/Mid vs. Large Cap Index Earnings Growth
(YoY % Growth)



Source: Bloomberg, 2025. Earnings estimates as of 9/30/2025. Bahl & Gaynor does not represent the information is accurate or complete and it should not be relied on as such. Bahl & Gaynor assumes no liability for the interpretation or use of this report. For illustration purposes only. Projections are based on current market conditions and subject to change.

We remain committed to managing risk across our smid portfolios according to our mandate. Risk-on performance flourishes will come and go, but we believe our risk-managed approach will support durable value to long-term investors. We encourage our clients to stay the course with risk-aware exposure and invite others considering smid exposure to ponder the merits of a quality, fundamental approach.

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DIVIDEND GROWTH REVIEW

We often state that the dividend growth profile of our strategies is the best benchmark for fundamental performance. To us, it indicates the compounding so vital to successful equity investment is at work within each company, and that this compounding is clearly articulated in a growing cash return to company owners. Thus, portfolio income growth is the primary objective of all strategies we manage.

We are excited about new strategy holdings we have introduced amid trade policy-related volatility. These additions, we believe, will complement existing holdings and enable our strategies to continue compounding their income streams on an inflation-adjusted basis – a valuable client outcome. Some examples of initiations and their recent dividend announcements are listed to the right:

THE IMPORTANCE OF DOWNSIDE PROTECTION POTENTIAL

The downside protection our strategies offered during the 2Q2025 drawdown is another valuable client outcome, in our view. Though positive market catalysts have since overwhelmed market risks, this is only the current state of things. It's impossible to tell when risks might again overpower positive catalysts. Therefore, downside protection potential remains a perennial secondary objective of our strategies. The daily downside capture ratios our strategies have delivered this year through 3Q2025 are listed to the right:

Like dividend growth, we view downside capture ratios as another important fundamental signal. The metric does involve estimation by accounting for stock price movement relative to the market. But when this signal is combined with dividend growth, it is a powerful input to the continuous risk/reward underwriting we perform across our strategies.

From a client outcome perspective, a differentiated downside capture profile can indicate the consistency of compounding. The chart to the right conveys that, despite the excitement of the technology-dominated NASDAQ Composite since its founding in 1971, utility companies have kept remarkable pace. The tortoise remains quietly competitive.

3Q2025 Initiations

Company	Strategy	1-Year Dividend Growth
Apollo Global Management (APO)	Income Growth	10.3%
Philip Morris (PM)	Income Growth	8.9%
Taiwan Semiconductor ADR (TSM) [†]	Income Growth	25.0%
Targa Resources (TRGP)	Income Growth	33.3%
Oshkosh (OSK)	smig®	10.9%
Ferrari (RACE) [†]	Dividend	22.2%
Victory Capital Holdings (VCTR)	Dividend	19.5%
Reinsurance Group of America (RGA)	Small Cap Dividend	4.5%

Source: Bahl & Gaynor, Bloomberg, FactSet, and company annual reports. The 1-year dividend growth statistic is included for informational purposes and represents past performance. The respective portfolio did not necessarily hold the security for the 1-year period. Therefore, the portfolio has not necessarily experienced all these dividend increases even though the security had the stated dividend increase over that period

[†]Dividend increase percentage is derived using the dividend per share rate of the underlying security in its base currency.

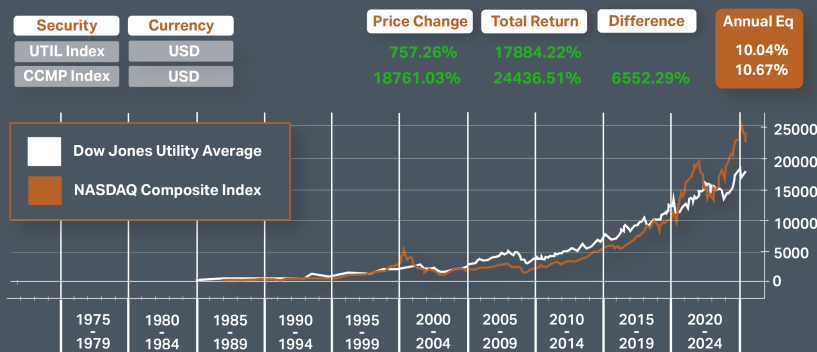
Income Growth Family

Dividend Family

	Income Growth	smig®	Dividend	Small Cap Dividend
YTD Daily Downside Capture Ratio (Gross) ¹	60.0%	71.2%	78.4%	74.9%

Source: Bahl & Gaynor and FactSet. Downside capture metrics are provided for informational purposes only and do not represent actual client account returns. When performance is presented to retail investors, Bahl & Gaynor presents net-of-fees results with required accompanying disclosures. Methodologies and calculation details are available upon request.

Dow Jones Utilities Index vs Nasdaq Composite Index (Feb. 1971 - May 2025)



Source: Bloomberg Finance L.P. For Index descriptors, see "Index Descriptions" at end of document

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ALPHA GENERATION CONTEXT

Alpha generation is the third objective of our strategies. We seek to add excess risk-adjusted return relative to an unmanaged index as an active manager. But this is our third objective because it is the most tied to other peoples' fleeting opinions. Therefore, it is the most *unreliable* gauge of our effectiveness as a manager, particularly in the near term.

Because we expect strategy performance to diverge from benchmarks during risk-on market moves, we look to the fundamentals of portfolio companies to judge strategy progress against objectives. We are pleased with the outcomes we have achieved through our income growth and downside protection objectives.

Although the market is not rewarding fundamental performance with stronger price appreciation, it is not an indictment of our philosophy or process. Rather, this relative performance signal carries great utility because it likely indicates risk is building in other parts of the market, not within our strategies.

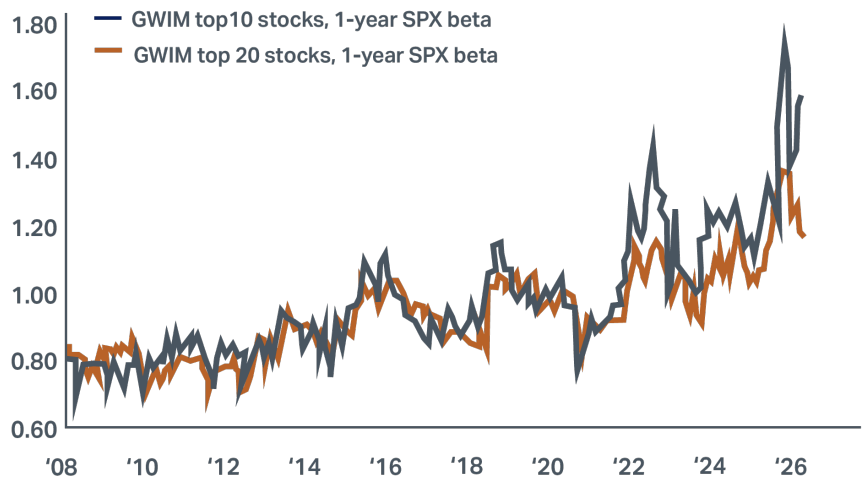
CLOSING THOUGHTS

Members of our Investment Committee are often asked: What worries you most? Our response lately relates to the risk exposure across passive and active portfolios of diverse mandates. Put simply, many investors seem to own the same stuff, in similar proportions, regardless of investment mandate (e.g. growth, value, global, dividends).

The chart to the right highlights this through the beta of the top-10 and top-20 Global Wealth & Investment Management (GWIM) holdings of Bank of America clients. We do not believe this beta profile is unique to Bank of America clients, so we are not singling out this fine institution. Rather, it likely reflects the exposure of many investors today.

Bahl & Gaynor's value proposition is to potentially offer investors a smoother ride to their destination. We believe in the power of compounding, moreover the power of consistent compounding. While certain companies and themes occupy the catbird seat of popular opinion today, valuations indicate that opportunities may exist off the beaten path. As an active manager, we can explore these opportunities and assemble them across our strategies to deliver on our mandate to investors – *to produce growing, inflation-protected income, avoid capital impairment that economic upheaval can bring, and allow compounding to help clients meet their goals.*

Top 10 and Top 20 GWIM Stocks, 1-YR Beta to SPX



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IMPORTANT DISCLOSURES AND DEFINITIONS

¹Historical downside capture is the sum of the strategy's returns on all Index down days (Income Growth and Dividend vs. S&P 500, smig® vs. Russell 2500, and Small Cap Dividend vs. Russell 2000) divided by the sum of Index returns on all respective down days. Down days are defined as any trading day the Index posts a negative total return. The data shown is intended only to illustrate how each strategy has behaved in relation to the respective Index on down days and makes no representation about investment performance. Strategy performance is derived from the internal rate of return (IRR) of a single non-fee paying representative account. It is calculated on a gross of fee basis and does not incorporate the impact of advisory and other fees which will be experienced by investors.

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An issuer of a security may be unwilling or unable to pay income on a security. Common stocks do not assure dividend payments and are paid only when declared by an issuer's board of directors. The amount of any dividend may vary over time.

Investments are subject to market risk, including the potential loss of principal. Diversification does not ensure a profit or protect against a loss in declining markets. Clients should carefully consider their investment objectives, risk tolerance, and financial situation before making any investment decisions.

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Dow Jones Utility Average: The Dow Jones Utility Average Index is a price-weighted average of 15 utility companies that are listed on the New York Stock Exchange and are involved in the production of electrical energy. The average as it is known today began on January 2, 1929 with a base value of 50.

The Nasdaq Composite Index: The NASDAQ Composite Index is a broad-based market-capitalization-weighted index of stocks that includes all domestic and international based common type stocks listed on The NASDAQ Stock Market.

Alpha is a measure of risk-adjusted return expected from a portfolio above the benchmark return at any point in time. **Capital expenditures (Capex)** are the funds used by a company to acquire, upgrade, and maintain physical assets such as property, plants, and equipment (PP&E). **Downside Capture** ratio measures a portfolio's performance in down markets relative to the benchmark. A value of less than 100% indicates that an investment has lost less than its benchmark during periods of negative returns for the benchmark. **Earnings Growth** refers to the annual rate at which a company's net income (or earnings) increases over time. It is typically expressed as a percentage and can be an important indicator of a company's profitability and financial health. Recession is a significant, widespread, and prolonged decline in economic activity. It is typically recognized by a decline in real GDP (gross domestic product) for two consecutive quarters, though formal designations in the U.S. are made by the National Bureau of Economic Research (NBER), which considers a range of indicators. **Volatility** refers to the degree of variation in the price of a security or portfolio over time. It is often used as a measure of risk and is typically expressed as the standard deviation of returns. Large Capitalization Companies, or **large-cap** stocks, are companies with a market capitalization typically of more than \$10 billion. Mid Capitalization Companies, often referred to as **mid-cap** stocks, are companies with a market capitalization typically ranging between \$2 billion to \$10 billion. Small Capitalization Companies, often referred to as **small-cap** stocks, are companies with a market capitalization typically between \$200 million and \$2 billion.