

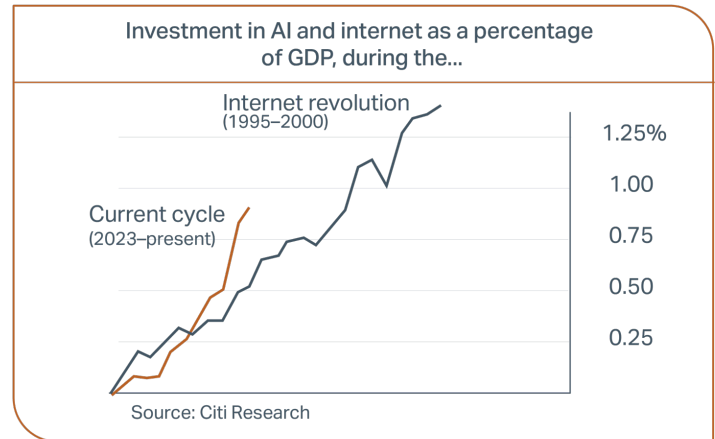
# 4Q2025 Investor Letter

## SIX CHARTS FOR 2026

As we begin 2026, we wanted to take a different approach in conveying our thoughts for the year ahead. As a fundamental manager, you won't find us making exact predictions about the economy or markets. The future, in our view, is unknowable. Instead, our focus is on identifying fundamental fact patterns that support the foundational outcomes we seek to deliver to our clients.

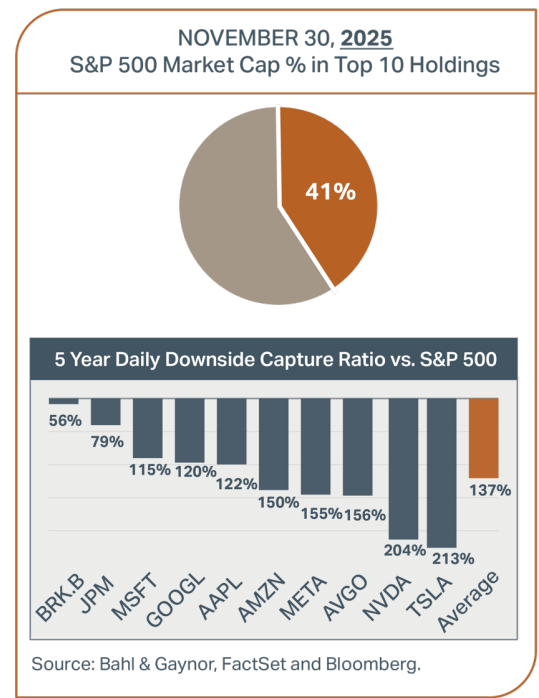
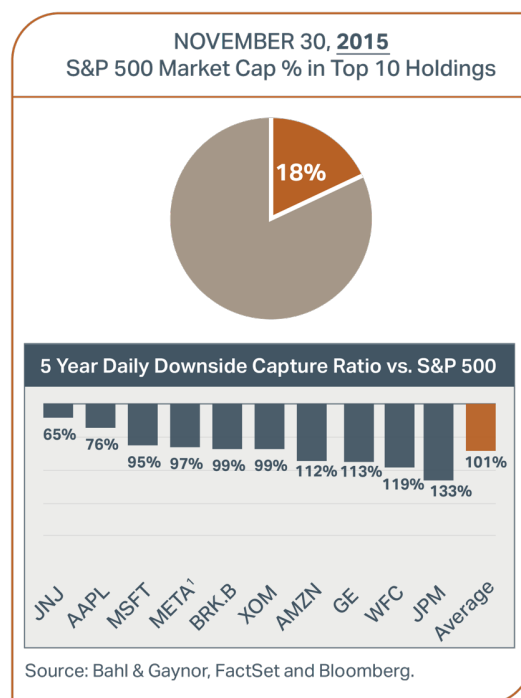
### \* Chart 1: The AI Infrastructure Buildout

Investment in AI infrastructure is massive, projected to reach trillions of dollars over the next several years, and is approaching the scale of investment seen during the Internet revolution. One way of interpreting this chart is to assume we are half-way through the buildout. We cannot know with certainty how this cycle will evolve. What we focus on in our underwriting as fundamental investors is demand that is the connection between capital deployed and the incremental returns on that invested capital. As we have highlighted in past notes, we are meaningfully exposed to the AI infrastructure buildout, but we are also keenly focused on managing the risk profile of these investments in order to deliver on our differentiated risk mandate to our investors.



### \* Chart 2: The Need for Risk Management

In past notes, we have consistently communicated our exposure to secular trends (like AI), but in a risk-managed way. What do we mean by this? The charts to the right show that the market has become more concentrated – the top 10 companies represent a larger portion of total S&P 500 market cap. These top 10 companies are also more volatile to the downside today versus a decade ago. Finally, many of these companies occupy the same sector, or have meaningfully interconnected business models. Though none of this is inherently bad, it does

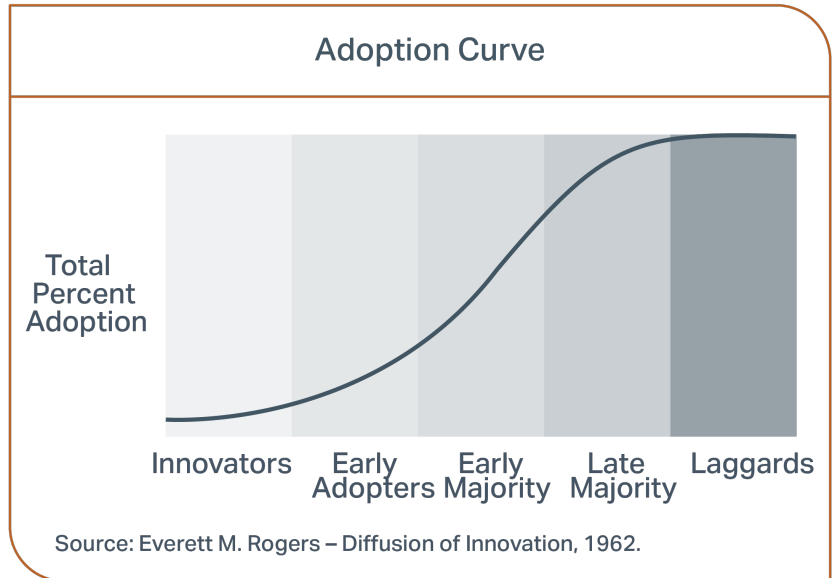


create a need for risk management to match exposure with desired client outcomes, in our view. Concentration and volatility can be a powerful tool for certain investors, like those who are in the accumulation phase of their investment cycle, or those who have a higher tolerance or appetite for risk. But we believe most investors are risk averse (owing to human nature's tendency to panic) and the risk of negative compounding amid regular cash needs is a destructive adversary to long-term financial sustainability. Looking different than the market's construction, especially now, can precipitate meaningfully different risk and return outcomes. This is valuable when it harmonizes with investor goals.

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✦ **Chart 3: The Technology Adoption Curve**

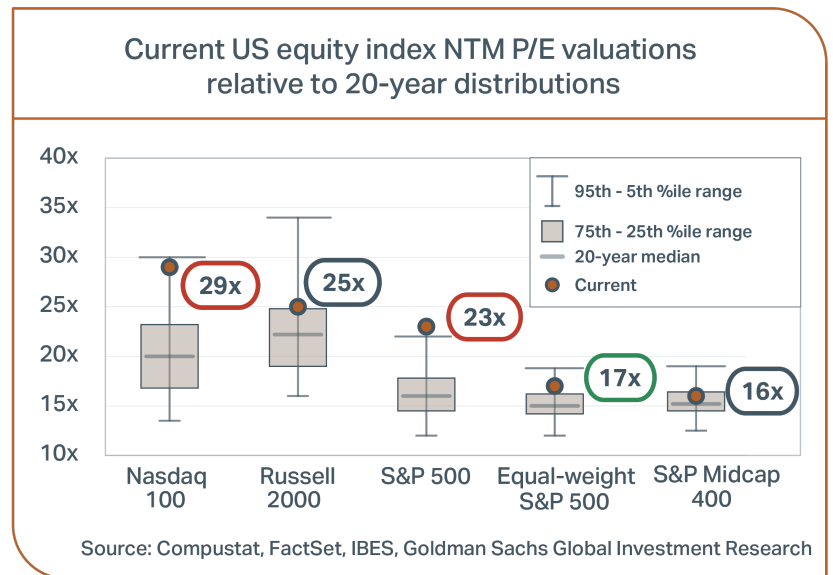
The technology adoption curves tend to be “S-shaped.” The left-hand side of the curve is upward-sloping at an increasing rate, and the right-hand side is still upward-sloping, but at a decreasing rate. The Innovators, Early Adopters, and Early Majority bear some resemblance to the first chart we showed regarding the current AI infrastructure buildout compared to the Internet revolution. At some point along the curve, the rate of change shifts from increasing to decreasing. Unfortunately, this point is difficult to gauge in advance, but it is meaningful because it can cause investors to re-evaluate the growth profile of a secular technology trend. We highlight this because the market is concentrated around the AI trend, exposure to this trend is volatile, and we have no way of



precisely gauging when the trend will reach its inevitable inflection point and slow. There is a chance the consensus will predict this correctly, and the investment cycle will transition smoothly to a new normal growth rate. But history suggests this happens about as often as a volatile transition occurs. We mention all this because we believe strongly that individual investors have unique needs that do not conform to the market consensus. So why would their investment exposure do the same? Managing a portfolio risk profile to individual investor needs is a more constructive path to achieving long-term goals, in our view. Humans are known for their ability to extrapolate linear trends quite well, but the adoption of technology, as we have seen, tends to follow a non-linear path.

✦ **Chart 4: Valuation Across Equity Markets**

Many year-end prognostications will likely point to stocks being expensive. This is a generalization, and while true for some parts of the equity market, it is not a uniformly applicable observation. The chart to the right shows the forward 12-month price-to-earnings (P/E) ratio of various indexes and valuation ranges observed over the last 20 years. The NASDAQ and S&P 500 indexes are at the top of their range because of market concentration. These indexes are technology-heavy and retain major exposure to the greatest winners in the AI infrastructure buildout to date. The equal-weighted S&P 500 contains the same companies as its size-weighted counterpart, but we see that it, the mid-cap S&P 400, and the small-cap Russell 2000 possess valuations much closer to their 20-year median than the



extreme tails. This suggests the average large company and many small and mid-size (smid) companies have undemanding valuations, particularly relative to the largest companies today. We mentioned earlier that investors may not benefit from having consensus (market) exposure, particularly with respect to risk profile. Looking different than the market can potentially deliver a different risk profile, perhaps more aligned to an investor’s actual needs. We observe our active large cap and smid strategies possess similarly unassuming valuations as the equal-weighted and smid indexes pictured above. Because of this, and our intense focus on fundamental underwriting, we believe our strategies are positioned to deliver differentiated return potential and risk profile.

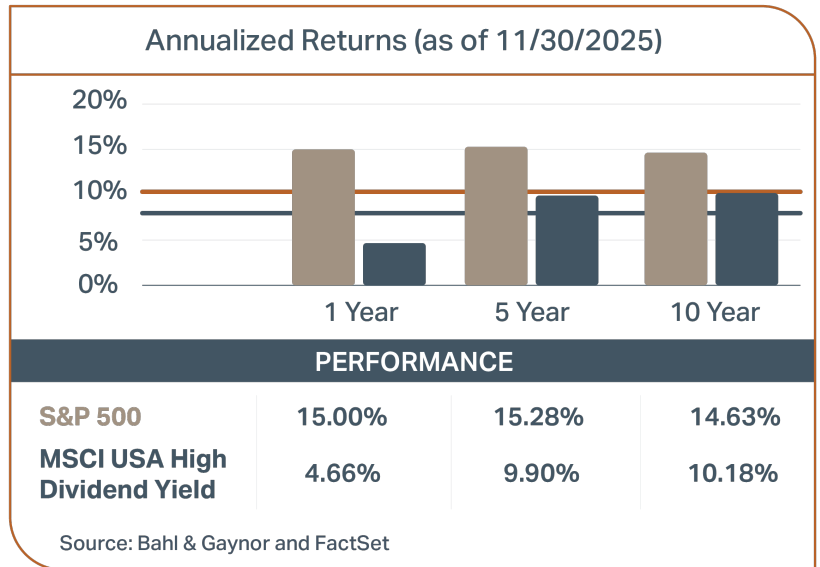
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★ **Chart 5: Recent Returns vs. Long-term Return Observations**

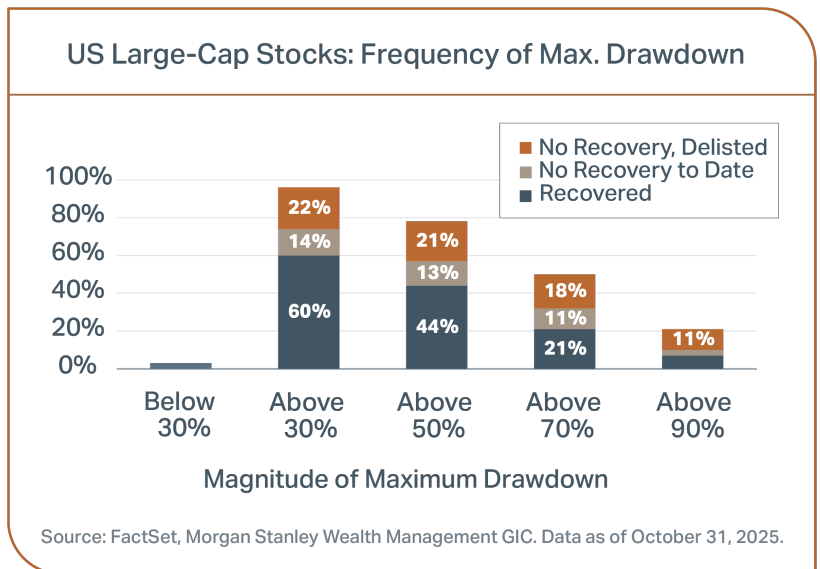
At Bahl & Gaynor, we believe in the value of studying market history. The chart and table to the right illustrates the trailing 1, 5, and 10-year returns of the S&P 500 and the MSCI USA High Dividend Yield Index, a proxy for the dividend investing style. The orange line shows the 100-year average return of the total equity market, as measured by Ken French data, and the blue line shows the 25-year average using the same data. In the world of statistics, risk asset returns are said to be mean reverting, meaning they return to the average over time. In many cases, the return stream does not merely return to the average, it moves towards and then below the average, spending a similar amount of time in below-average as

above-average territory. We don't share this to instill a bearish view. We are equity investors and indeed ours is an optimistic asset class. Being realistic is important, however; especially when striving to reach long-term investment goals. We do know that S&P 500 returns have been excellent for many years. We don't know when this will change, but we suspect it may align with an eventual transition of the AI narrative to a more pedestrian pace. Though dividend investing has also enjoyed attractive returns in the past, we don't view them as out of line relative to history. Any such re-rating of the AI narrative will impact most risk assets, but dividend stocks may be spared relative to the cap-weighted S&P 500 owing to more average trailing returns.



★ **Chart 6: The Importance of Downside Protection**

The final chart is another way of emphasizing the importance of navigating downside mean reversion. Bahl & Gaynor emphasizes downside protection potential as a key targeted client outcome across the strategies we manage. This is partly a recognition of the behavioral considerations of humans – our tendency to panic. It's also a mathematical consideration – it requires a 50% larger gain to recover from a 60% loss versus a 50% loss – and so forth. Our final chart above takes a wide view of individual company drawdowns over the last 40 years. It illustrates the number of US large cap companies that have experienced a drawdown of more than 30% (nearly all) and whether they recovered to their pre-drawdown levels. Importantly, this data set considers companies that never recovered and were delisted, so it avoids understating the risk of total loss, which statisticians call "survivorship bias" in this case. Indeed, we see that significant drawdowns are likely for most companies, and there is a chance some companies never recover from this event. As with the prior chart, we don't share this to instill bearishness among readers. Rather, we think it's another reason to look at markets and investor needs today and work to synthesize portfolio positioning with desired outcomes. High trailing returns and concentration can indicate high levels of investor optimism. Changes to an optimistic narrative can cause market volatility and drawdowns. Therefore, managing for downside protection potential through diversification and risk budgeting may be more important now (in a time of great optimism) than at any other point in the market cycle.



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## CLOSING THOUGHTS

2025 was another fascinating year, with both expected and unexpected events coming to pass. On balance, it was another year of strong risk asset returns that has moved many investors closer to achieving their long-term goals. We hope the Six Charts for 2026 has given current clients, future clients, and friends of Bahl & Gaynor much to think about as we turn the calendar. We are excited about the many opportunities we continue to uncover across our investable universe and are confident in the value we can provide in supporting meaningful client outcomes like inflation-adjusted income generation, downside protection potential, and through-cycle alpha generation.

## IMPORTANT DISCLOSURES AND DEFINITIONS

<sup>1</sup>Meta Platforms (META), formerly Facebook (FB), IPO'd on May of 2012; META's downside capture ratio is calculated post-IPO through September 30, 2015. Historical daily downside capture is the sum of each respective stock's returns on all S&P 500 down days during the period divided by the sum of S&P 500 returns on all down days. Down days are defined as any trading day the S&P 500 Index posts a negative total return. The above is intended only to illustrate how the S&P 500's top 10 constituents behaved in relation to the broader S&P 500 Index on down days and makes no representation about investment performance.

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The Nasdaq-100 Index is a market-capitalization-weighted index designed to measure the performance of 100 of the largest non-financial companies listed on the Nasdaq Stock Market. The index includes companies across multiple industry groups, with a significant concentration in technology and technology-related sectors. It is not possible to invest directly in an index.

The MSCI US High Dividend Yield Index is designed to reflect the performance of U.S. equities with higher dividend income characteristics relative to the broader U.S. equity market. The index includes companies with sustainable dividend payouts and excludes companies with extremely high dividend yields that may signal increased risk. It is not possible to invest directly in an index.

**Alpha** is a measure of risk-adjusted return expected from a portfolio above the benchmark return at any point in time. **Concentration** refers to the extent to which an investment, portfolio, or index is weighted toward a limited number of securities, issuers, sectors, industries, or asset classes. **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. An **Investment Cycle** refers to the recurring phases of economic and market activity that influence asset prices over time, such as periods of expansion, slowdown, contraction, and recovery. A **Linear Trend** describes a pattern in which a variable changes at a relatively constant rate over time, resulting in a straight-line relationship when plotted on a chart. A **Non-Linear trend** describes a pattern in which a variable changes at an uneven or varying rate over time, resulting in a curved or irregular relationship when plotted on a chart. **S-shaped curve** is a graphical representation of growth or adoption that typically begins slowly, accelerates during a period of rapid change, and then slows as it approaches a more mature or stable phase. **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.