PORTFOLIO CHANGES APRIL 2025

Special Large Cap Value Equity

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Portfolio changes and managers' rationale

NEW POSITIONS

TICKER	SECURITY NAME	SECTOR
RKT	Rocket Companies Inc.	Financials
DHR	Danaher Corp.	Health care
JNJ	Johnson & Johnson	Health care
ETN	Eaton Corp. plc	Industrials

SOLD POSITIONS

TICKER	SECURITY NAME	SECTOR
KDP	Keurig Dr Pepper Inc.	Consumer staples
HUM	Humana Inc.	Health care
MRK	Merck & Co., Inc.	Health care
WM	Waste Management, Inc.	Industrials

Sold positions

Keurig Dr Pepper Inc. (KDP)

A leading beverage company in North America | Leadership positions in soft drinks, specialty coffee, tea, water, and juice drinks | Sells the #1 single-serve coffee brewing system in the U.S. and Canada

SALE RATIONALE

- We exited KDP following a period of strong results and rotated to other names with a more attractive reward/risk profile.
- Shares performed well, as management reported stronger-than-expected fourth quarter results and guided to better-than-expected results for 2025.
- KDP has continued to benefit from strong growth in its U.S. refreshment beverages segment.
- KDP has a strong free cash flow profile and has continued to deploy capital for mergers and acquisitions (M&A), most recently the acquisition of Ghost bolstering its energy portfolio, as well as meaningfully returning cash to shareholders through a combination of dividends and share repurchases.

Humana Inc. (HUM)

One of the largest private health insurers in the U.S.	Specializes in government-sponsored programs, with nearly all its medical membership stemming from Medicare, Medicaid, and the military's Tricare program	Provides other health care services, including primary-care services, at-home services, and pharmacy benefit management

SALE RATIONALE

- Following a couple of quarters of poor results, due to both regulatory and idiosyncratic issues, we exited HUM to allocate capital to companies with more favorable reward/risk profiles.
- Costs in the health care industry have remained high, due to overall inflation and changes to regulatory requirements, and as a result, margins for HUM and peers in the Medicare Advantage (MA) space are under pressure.
- Industry wide, it may take time to resolve higher costs and increase margins, with the added dependence on the Centers for Medicare and Medicaid Services to improve reimbursement rates that more accurately reflect inflationary pressures.
- HUM has also suffered from a company-specific loss of STAR ratings, which guide government reimbursement rates for specific MA plans, pushing HUM's earnings recovery further out.

Merck & Co., Inc. (MRK)

Global pharmaceutical company with diverse set of cash streams	Strong positions in cancer drugs, vaccine development, and animal health	Possess the financial flexibility to navigate pending patent headwinds and extend the cash stream runway

SALE RATIONALE

- Patent cliff concerns have become the dominant theme weighing on shares.
- Despite a strong track record of capital allocation contributing to a growing cash stream, the bar for deployment to backfill cash flow losses due to patent expirations became too high.
- Transformative M&A became the only realistic option to quell patent concerns, increasing risk.
- Execution issues, as well as communication with investors, around China vaccine dynamics damaged management credibility.

Waste Management, Inc. (WM)

Largest U.S. integrated provider of traditional solid waste services	Serves residential, commercial, industrial, and medical end markets, enhanced by the recent acquisition of Stericycle	Leader in sustainability initiatives, such as recycling, renewable natural gas, and fleet electrification

SALE RATIONALE

- WM had impressive performance over our holding period, particularly year to date, due to strong 2024 results and 2025 guidance.
- We rotated to other industrial names with more attractive reward/risk profiles, as WM benefited from a risk-off market rotation in the past month due to tariff and economic uncertainty.
- Waste companies exhibit strong cash flows through the economic cycle, bolstered by consistent pricing power and strong competitive positioning, which provide a level of stability and resiliency in difficult macroeconomic times.
- With the recent acquisition of Stericycle, the company's financial flexibility has declined, even as the asset looks to add diversification and accretive new revenue streams.

New positions

Rocket Companies Inc. (RKT)

Disrupter in the stagnant mortgage servicing, refi, and origination markets	Top brand consolidating mortgage service and origination share	Management team has artificial intelligence (AI) innovation acumen to drive disruption

DURABLE ASSET BASE

A

- RKT has a four-layer ecosystem that combines to drive growth and efficiency at scale: brand, technology, unparalleled client experience, and powerful platform.
- RKT’s technology stack allows for a one-stop shop of home search, home financing, title and closing, and loan servicing. A unique at-scale offering that should disrupt industry market share.
- We believe the recently announced acquisitions of both Redfin and Mr. Cooper Group give RKT top-funnel scale and servicing prowess to aid its flywheel of growth and efficiency.

FLEXIBLE BALANCE SHEET

B

- With <1x net debt/earnings before interest, taxes, depreciation, and amortization (EBITDA) at April month-end, RKT has ample liquidity for acquisitions in the space that should accelerate its consolidation of share and scale.
- As the mortgage origination cycle normalizes, RKT’s optimal capital structure should expand and drive further balance sheet flexibility along the way.

STRONG AND SUSTAINABLE FREE CASH FLOW

C

- The addition of Mr. Cooper Group's servicing portfolio adds a large stable cash flow stream to an otherwise cyclical refinance and origination business, improving the quality of cash flows.
- It has a capital-light business model, with less than 1% in capital expenditures as a percent of sales historically.

MARKET’S FOCUS

- A higher-for-longer interest rate environment is preventing origination volumes from normalizing.

WHAT WE SEE

- Growing market share, driven by RKT’s unique and expanding technology stack, is leading to a winning formula that is not reliant on a certain interest rate outcome to flourish.
- Management’s use of its balance sheet should continue to expand an existing technological advantage and thus accelerate market share, revenue growth, and free cash flow.

Danaher Corp. (DHR)

Provides tools, consumables, and services across a range of health care end markets	Broad, diversified portfolio with leading market positions	Disciplined management team focused on adding long-term value through capital deployment

DURABLE ASSET BASE

A

- DHR is a market leader in bioprocessing that is essentially an oligopoly, with strong pricing power, high barriers to entry, and high switching costs, tied to the commercial production of biologic drugs that is specified into FDA approval.
- The company is an essential partner in customers' workflow providing high-end instrumentation and corresponding consumables developed through significant investment in innovation and resources that we feel many would-be players are simply lacking.
- Its expansive installed base has a proven history of fast, accurate diagnoses that play a crucial role in making treatment decisions and form a foundation for continued growth through consumable penetration.

FLEXIBLE BALANCE SHEET

B

- DHR’s balance sheet is in excellent shape following the outsized cash generation through the pandemic and a spinoff in 2023.
- The company has an investment-grade credit rating with very manageable bond maturities over the next two years.
- Management is optimizing the balance sheet through capital deployment, including the initiation of a stock buyback in 2024 whereby DHR repurchased approximately $7 billion worth of shares.

STRONG AND SUSTAINABLE FREE CASH FLOW

C

- High recurring revenues are approximately 80% of the mix.
- Structural growth drivers are not tied to economic cycles.
- Strong financial performance converts to free cash flow at a high level, growing its cash stream.

MARKET’S FOCUS

- China exposure and National Institutes of Health (NIH) funding are posing risk to 2026 revenue growth and earnings-per-share consensus.

WHAT WE SEE

- Its structurally advantaged asset base should win through the cycle, underpinned by a growing cash stream that can be deployed by a capable management team.

Johnson & Johnson (JNJ)

Develops, manufactures, distributes, and sells pharmaceuticals and medical devices	One of the top health care sector companies	Management team is a proven, prudent capital allocator

DURABLE ASSET BASE

A

- JNJ is a leader in global pharmaceuticals with a broad portfolio covering immunology, neuroscience, infectious disease, cardiovascular, oncology, and pulmonary hypertension.
- The company offers leading global medtech franchises across cardiovascular, orthopedics, surgery, and
vision care.
- JNJ has overall pricing power due to impressive franchises.
- It boasts a robust research and development (R&D) pipeline with $14 billion spent annually on innovation, augmented by M&A.

FLEXIBLE BALANCE SHEET

B

- With less than 0.5 times net debt/EBITDA at April month-end, JNJ has substantial liquidity for M&A where it can continue to add innovative medicines in higher-growth areas of medtech.
- The company is one of only two companies in the U.S. with a AAA-rated balance sheet.

STRONG AND SUSTAINABLE FREE CASH FLOW

C

- JNJ has a long history of predictable and stable cash flows, with mid-20s operating margins and cash flow return on invested capital.
- The company has 14 pharmaceutical brands with more than $1 billion in annual sales, providing a broad and diversified portfolio.
- Its large pipeline includes 6 assets with more than $5 billion each in annual sales potential and 12 assets with more than $1 billion in potential annual sales.

MARKET'S FOCUS

- JNJ faces headline risks from talc litigation and short-term impacts from loss of exclusivity with Stelara.

WHAT WE SEE

- JNJ is continuing to use its balance sheet and strong free cash flow to expand its medical device and pharmaceutical portfolio.
- It plans to invest $55 billion in the U.S. through a combination of R&D and to expand its U.S. capacity, including the building of four new manufacturing facilities during the next four years.
- The company's robust pipeline of new products and use of free cash flow to replace Stelara should drive accelerated growth from 2025 through 2030 by 5–7% annually.

Eaton Corp. plc (ETN)

Global leader in power management that enables safer, more efficient and sustainable uses of power

Aligned with global megatrends such as electrification and digitalization

Management has transformed the portfolio to deliver a higher-growth, more profitable business

DURABLE ASSET BASE

A

- ETN operates across multiple sectors serving diverse industries such as data centers, utilities, health care, and transportation. This diversification helps ETN remain resilient through market shifts.
- Its scale advantage and global operations allow ETN to maintain a lower manufacturing cost structure than many competitors.
- Continual investment in R&D enables ETN to offer cutting-edge, differentiated products and solutions, keeping it ahead of technological trends and customer needs.
- Strong brand reputation further strengthens customer loyalty and market position.

FLEXIBLE BALANCE SHEET

B

- With <1.5x net debt/EBITDA, ETN has ample liquidity for synergistic acquisitions that improve its growth profile.
- The company's focus is on disciplined capital allocation, investing in strategic growth areas while maintaining a healthy balance sheet.

STRONG AND SUSTAINABLE FREE CASH FLOW

C

- Consistent revenue growth and margin expansion, combined with a low-capital-intensive business, allow sustainable free cash flow generation.
- The Eaton Business System is fundamental to ETN's success by providing a standardized set of processes that enable it to operate efficiently and allow it to outperform peers on key metrics like inventory and receivables turnover.

MARKET'S FOCUS

- Concerns over data center slowing growth and AI-related capital spending slowdowns provoked by DeepSeek's technology have driven the share price to lag.

WHAT WE SEE

- Despite recent stock volatility and fear over slowing growth, we believe there remains a healthy backdrop for the powerful global trends of electrification, digitalization, energy transition, infrastructure, and reindustrialization spend.
- ETN is continuing to flex its strong balance sheet to create value, particularly prioritizing targeted acquisitions to improve the growth rate and profitability of the business.
- A recent example is the announced acquisition of Fibrebond, which expands ETN's presence in the fast-growing data center market.

OUR OPINION OF THE ABCs OF A "SPECIAL" COMPANY

The Special Global Equity team investment philosophy requires companies to possess all three of our required fundamental characteristics:

- **A:** Durable **ASSET BASE**
- **B:** Flexible **BALANCE SHEET**
- **C:** Strong and sustainable free **CASH FLOW**

When all three attributes required for a security to be considered for inclusion into the portfolio are met, we then execute buy decisions based on a required asymmetric reward/risk valuation profile. The unique investment criteria unveil meaningful stock price appreciation to our intrinsic value price target from the current stock price and provide limited loss of capital in a downside scenario. The typical investment time horizon used to determine the attractiveness of an individual security is three to five years because it allows our investment thesis to be recognized and appreciated by other market participants.

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