Executive Summary

Performance in the 4th quarter was ahead of the OE's benchmark and ahead of the S&P 500. International stocks outperformed domestic stocks in the 4th quarter and the heavier weighting to international stocks helped. There also were several individual stocks that had very strong returns in the quarter. While 2025 was a good year for returns, the forward-looking return expectation for many stocks is much weaker than at the start of 2025. Therefore, a lot of stock selling occurred in the 4th quarter. Cash is the highest it has ever been. Investors are optimistic that 2026 will be a good growth year for the US economy. We are skeptical.

The Opportunistic Equity Strategy returned 8.0% in the fourth quarter of 2025, ahead of its benchmark and ahead of the S&P 500. OE stocks for the most part performed well in 2025. A lot of cash was raised at the end of 2025 that needs to be recycled into the market. There were a few new positions opened at the end of last year or early this year, but the focus is to establish more. Small cap stocks generally report 4Q earnings a little bit later and the upcoming earnings season is important. The strategy is patiently waiting to see if a market selloff can drag down small cap stocks.

As of 12/31/2025	QTD	YTD	1 year	3 year	5 year	Since Inception
OE	8.0%	38.3%	38.3%	20.9%	17.8%	19.2%
Benchmark	3.8%	18.3%	18.3%	13.7%	8.9%	8.7%
SPX	2.7%	17.9%	17.9%	22.9%	14.5%	15.1%

Inception: 1/1/2020

While consensus is that the economy will do well in early 2026, that consensus seems tenuous. Economic growth was driven by wealthy households in 2025. Spending held up due to a drawdown in savings, not growth in disposable income. Growth from a drawdown in savings can't continue forever. Growth in disposable income can lead to sustained economic growth and the biggest determinant of disposable income growth is the jobs market. The jobs market isn't collapsing but is not strong heading into 2026. Investors have high hopes the stimulus provided by the OBBBA can sustain growth. There is a modest benefit, but it goes away by the end of this year.

At the end of this year provisions of the OBBBA become a headwind for growth. Additionally, investors will get more clarity on the ROI of AI investments as the year plays out. If sentiment turns negative on AI related stocks, that will drag down the economy as well as the stock market. A cooling in AI investment will directly impact the economy through a slowdown in investment but will indirectly impact the economy through a slowdown in spending that often follows stock market drawdowns.

The stock market is priced at a very high level on a historical basis. That makes it more susceptible to shocks. Economic shocks, geopolitical shocks, governing shocks. The risk premium in the stock market is too low.

Canadian Solar had great quarter. Two main things happened. The most important is the solar stocks and particularly those with big battery operations became "AI" plays. In the 4th quarter, investors started to view solar stocks as beneficiaries of the shortage in electricity. Additionally, Canadian Solar took steps to restructure ownership of its US manufacturing assets away from its Chinese subsidiary to its US subsidiary. That is economically beneficial to the holding company.

Nokia's stock had a strong quarter. This was largely due to Nokia becoming an "AI" stock. Belief AI investments will lead to a surge in network investment pushed the stock higher. Nvidia also bought a 3% stake in Nokia. A Nvidia investment generally causes stocks to move higher as it is a strong vote of confidence.

Bayer provided a nice return in the quarter. There is optimism the Monsanto litigation could be drawing to a close. The Supreme Court decided to hear a case that could benefit Bayer. The pharmaceutical unit is executing well, Nubeqa is doing very well in prostate cancer. Even Bayer's Asundexian drug had a little bit of a revival as it had a positive stroke readout. Also, there are some new products on the horizon for the agricultural unit that should lead to growth. It seems the risk-reward is balanced at the moment so the strategy might look to trim Bayer.

Viatris is stabilizing its business. It has moved past its Indore factory closure. The generics business is not quite the drag it once was. There are some growth drivers on the horizon with some positive readouts and likely some more soon. Viatris traded at and still trades at a pretty low multiple to earnings so signs of business stabilization can lead to strong price appreciation.

Macy's continues to execute well in a difficult environment. The market has become more upbeat about Macy's prospects as it has been executing well. However, there still is plenty of skepticism about the business model of department stores. There is still more upside to Macy's if it can prove the skeptics wrong.

Advancers/Decliners	2025 4Q Return
Canadian Solar Inc.	85.0%
Nokia Oyj	35.3%
Bayer AG	30.5%
Viatris Inc.	27.2%
Macy's Inc.	23.8%
Evonik	<9.5%>
Xperi, Inc.	<9.7%>
Amarin Corp.	<14.8%>
Alibaba Group	<18.0%>
Coursera	<37.2%>

Evonik is a European chemical manufacturer. Conditions are very tough for chemical manufacturers. Evonik is a little less exposed to cyclical price swings than others but still has been caught up in the chemical industry slowdown. It seems Evonik's stock price has reached a point where downside is limited and if market conditions improve, the stock has strong upside to it.

Xperi's stock price continues to struggle. Investors are skeptical its TV OS system will generate meaningful revenue. We are skeptical too, but the stock price is so beaten down that it still can provide a strong return even if ad revenue from TiVo OS disappoints.

Amarin is a microcap stock that is prone to volatility and got caught in a downdraft during 4Q. Amarin is an interesting stock because once it sells off to a certain point, the stock essentially reaches its cash value and there is no debt. That provides very good downside protection. It is not a forgone conclusion that sales of its one drug Vascepa/Vazkepa will languish. The drug may provide stable revenue in the US and have a healthy growth rate internationally. It seems investors believe the odds of this are very slim. One gets a cheap option on an upside surprise.

Alibaba's stock price had a correction in the 4th quarter after a very strong 2025. There was some profit taking. It is not certain AI companies in China will be able to make a lot of money off AI in a fiercely competitive environment. There still is some risk Alibaba could end up a part of US government restrictions and that too led to some selling.

Coursera's stock price has struggled. The company is executing okay. It announced a merger with Udemy in the 4th quarter that at first was received well. But since, it has been a slow steady decline in the stock price. The company is currently only slightly profitable so there hasn't been a valuation backstop to stem the stock decline. Pessimism towards online education continues. AI is viewed as a threat. However, Coursera continues to attract a lot of users to its AI courses so AI also is an opportunity. The strategy is holding Coursera. It might add to it at some point. The merger wasn't a bad idea. Pessimism is overdone.

A major focus of the strategy is to redeploy a lot of excess cash that built up in the later part of 2025. Patiently waiting for opportunities to present themselves this year is the approach that will be taken.

Chris Harrington
Portfolio Manager