2025 U.S. Review

2025 was a good year for Lyrical with our CS composite generating a 17.9% net return, matching the S&P 500 and significantly outperforming the S&P 500 Value by 470 bps. Keeping pace with the S&P 500 was difficult this year. The index is capitalization-weighted, and its returns were inflated by outsized contributions from a small number of very large growth stocks. Those mega cap stocks skewed the index return so much that 70% of S&P 500 constituents underperformed, and the S&P 500 Equal Weight index returned only 11.4%, 6.5 percentage points less than the S&P 500 and Lyrical.

In large part due to the AI trade, the cap-weighted S&P 500 has now outperformed the equal weight version by a record amount over the last three years. And while it has been most extreme over that period, the cycle of cap weighted outperformance has had a longer history dating back to March 2015. Cumulatively, the outperformance has become substantial. Over nearly 11 years, the S&P 500 has returned 300%, 109 percentage points ahead of the 191% return of the S&P 500 Equal Weight.

Importantly, this excess return of the S&P 500 was not driven by faster earnings growth, but rather due to a soaring valuation multiple. This leaves the S&P 500 index very expensive by historical standards, and at a lofty 32% premium relative to the equal weight index at year end.

Unless the future growth of the cap-weighted index significantly outpaces the equal weight index, we would expect the S&P 500 valuation to fall back in line with the equal weight index and its own history, unwinding the thousands of basis points of outperformance it has generated over the last few years. It is easy to forget that the equal weight index has been the better performer historically, and that to date, every time mega caps have outperformed, they eventually went on to underperform, losing all their outperformance and then some. If that happens, we believe it would be a very favorable environment for our value investing approach.

Even without S&P 500 valuation reversion, we are confident in our ability to perform given the growth and valuation characteristics of our portfolio. Our current portfolio has a history of 10.6% EPS growth, four percentage points faster than the 6.6% growth of the S&P 500. Yet, despite that faster growth, our portfolio also has an attractive valuation of only 12.5x forward earnings at year end, while the slower growing S&P 500 valuation is 78% higher at 22.2x.

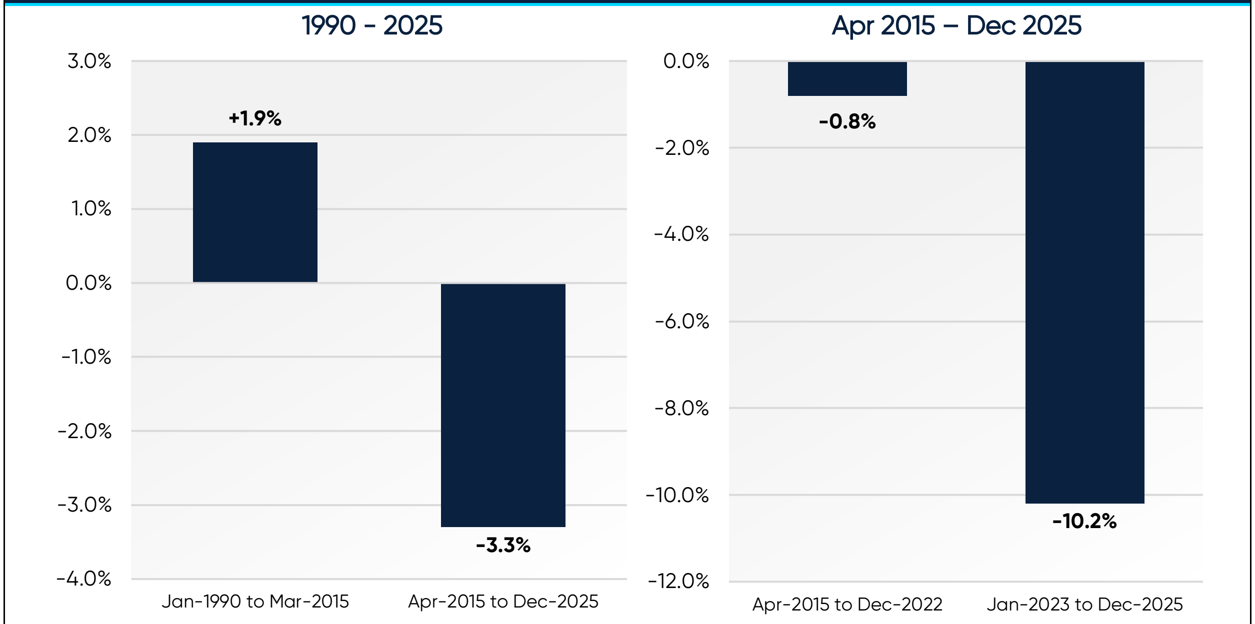
If our companies continue to grow as fast or faster than the S&P 500, the wide valuation discount should justifiably narrow, delivering outperformance. That is the Lyrical formula for success.

S&P 500 PERFORMANCE: CAPITALIZATION VS. EQUAL WEIGHT

Historically, the equal weight S&P 500 has outperformed the cap-weighted S&P 500 over time. As we show below in the graph on the left, from the inception of the S&P 500 Equal Weight in 1990 through March 2015, a period of about 25 years, the equal weight index outperformed the S&P 500 by 1.9 percent per annum.

However, as shown in the graph on the right, over the last ~11 years since then, it is the cap weighted index that has outperformed by an average of 3.3 percent per annum, and this has lowered the historical outperformance of the S&P 500 Equal Weight to just 0.3 percent per annum over the full 36-year history.

S&P 500 EW Relative to S&P 500: Annualized Relative Return



Source: FactSet

Within the last 11 years of cap weight outperformance, there are clearly two distinct periods, which are also shown above in the graph on the right. For the first 8 years, the cap-weighted index mildly outperformed by 80 basis points per year. But over the last three years the cap-weighted index outperformance has been massive at more than 1,000 basis points per year. In fact, this three-year period is even more extreme than the tech bubble era and the most extreme we have seen in the entire history of the equal weight index.

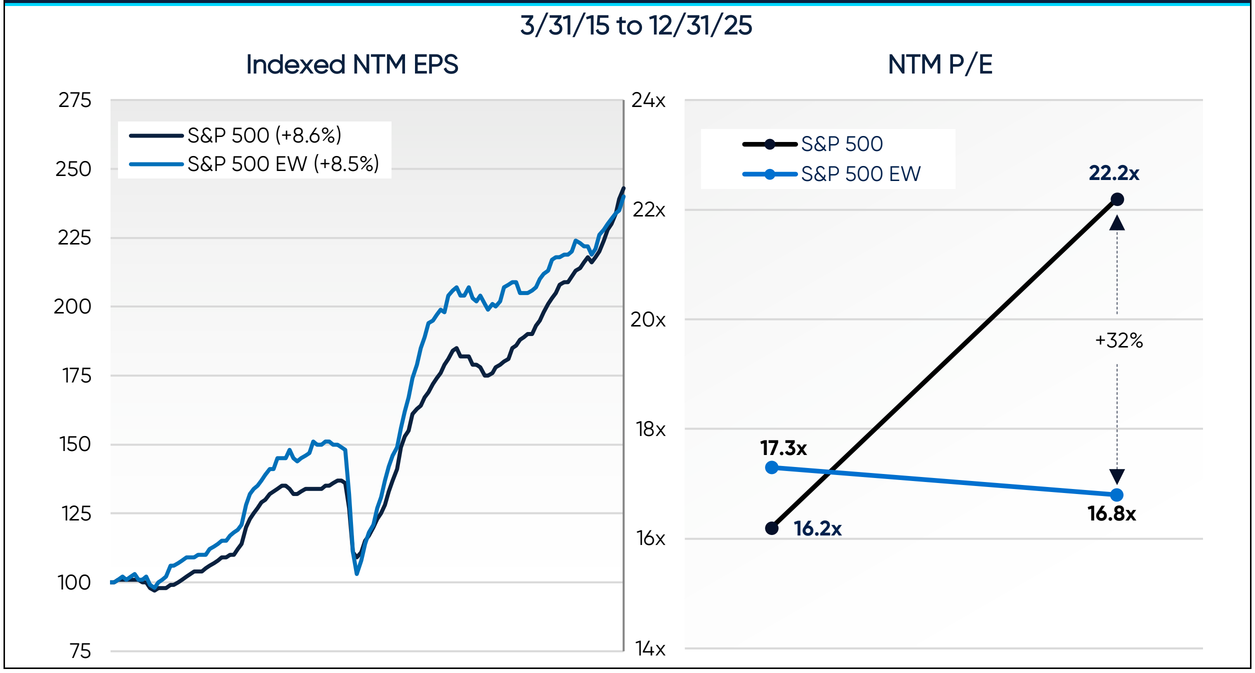
IS IT SUSTAINABLE?

In total, the 3.3% annualized outperformance of the cap weight index over these last 11 years compounds to 109 percentage points! The question going forward is whether cap weighted outperformance is sustainable. As we analyze the drivers of outperformance over the last 11 years, our conclusion is that it is not.

Earnings for both indices have been almost identical. In the left-hand graph below, we show the growth in forward earnings of the S&P 500 and S&P 500 Equal Weight over the 11-year period that the cap weight index has been outperforming. Both indices grew at essentially the same rate, such that over these 11 years, the cap weight earnings are only 1.6% higher than the Equal Weight earnings, an annualized difference of about 10 basis points per year. Thus, fundamental earnings growth did not explain the huge performance difference.

Nearly all the outperformance was driven by the valuation of the S&P 500 becoming historically expensive. In the right-hand graph below, we show the change in valuation for the two indices. Eleven years ago, the two indices had similar multiples. In fact, the equal weight index multiple was one point higher at 17.3x compared to 16.2x for the cap-weighted index. At the end of 2025, the multiple comparison was quite different. Despite essentially the same historical growth over the past 11 years, the cap-weighted index multiple is now 32% higher. That is a massive premium to pay for something that has not historically offered materially better growth.

Performance Drivers: S&P 500 vs S&P 500 Equal Weighted



Source: FactSet

Compared to the equal weight index, and its own history, the S&P 500 multiple simply looks too high. Unless the future growth of the cap-weighted index significantly outpaces the equal weight index, we would expect the valuation multiple to fall back in line with the equal weight index and its own history, unwinding the thousands of basis points of outperformance it has generated over the last few years.

HOW DID WE KEEP UP?

At Lyrical, we have not owned any of the mega cap growth stocks that have disproportionately driven the S&P 500 returns, yet we still were able to match the S&P 500 performance and significantly outperform the S&P 500 Equal Weight and S&P 500 Value indices.

While we have not owned any of the expensive AI-related mega-cap growth stocks, our top four contributors in 2025 were attractively valued companies that benefitted from the expected spending on AI technology. These stocks, shown in the table below, included NRG Energy (an independent power producer), Johnson Controls (a provider of HVAC products and services), FLEX (a contract manufacturer and leading provider of critical equipment to hyperscalers), and United Rentals (the world's largest construction equipment rental company).

Company	Net Performance	Net Contribution	1/1/2025 NTM P/E	Discount to S&P 500
NRG Energy (NRG)	+78.9%	+4.0%	11.3x	-48%
Johnson Controls (JCI)	+54.0%	+2.5%	19.2x	-12%
Flex (FLEX)	+57.4%	+2.2%	14.3x	-34%
United Rentals (URI)	+36.1%	+2.2%	15.1x	-31%
S&P 500	+17.9%	-	21.8x	-

Source: FactSet

These stocks entered 2025 at an average discount to the S&P 500 of over 30% and some are still undervalued heading into 2026. Despite its 79% net return, NRG Energy is still attractively valued at just 13.7x forward earnings when we normalize depreciation expense and add the accretion from the company's LS Power acquisition. Flex is also still attractive after a net return of 57%. Flex finished the year with a forward P/E of 17.5x, a 21% discount to the S&P 500 despite its much higher growth.

Closer to fair value is Johnson Controls, which ended the year with a forward P/E of 22.8x adjusting for non-cash amortization. Lastly, United Rentals reached our estimate of fair value in September after a 36% increase year-to-date, and we sold it from the portfolio.

NOT ALL EARNINGS GROWTH WAS REWARDED

While our AI-related value stocks provided a boost to 2025 returns, severe multiple compression in a large portion of the portfolio kept us from having an even better year.

Throughout the year, fundamentals were strong across our portfolio. Apart from Centene, and to a much lesser degree Arrow and LKQ, every other portfolio company increased EPS in 2025. As we would expect, most of our stocks with good fundamentals had good stock performance. As we show in the top row of the table below, 15 of our current companies, accounting for almost 60% of the portfolio weight, experienced an average of 22% growth in forward earnings, compounded by 18% multiple expansion, leading to an average return of 42%. These winners were still attractively valued at year-end with an average P/E of just 13.6x, a 39% discount to the 22.2x P/E of the S&P 500.

	Count	CS Weight	Avg YTD Total Return	Avg YTD NTM EPS Δ	Avg YTD NTM P/E Δ	End NTM P/E
P/E Expansion	15	58.6%	+41.6%	+21.9%	+18.0%	13.6x
P/E Compression	13	34.3%	-7.7%	+10.1%	-16.5%	10.5x

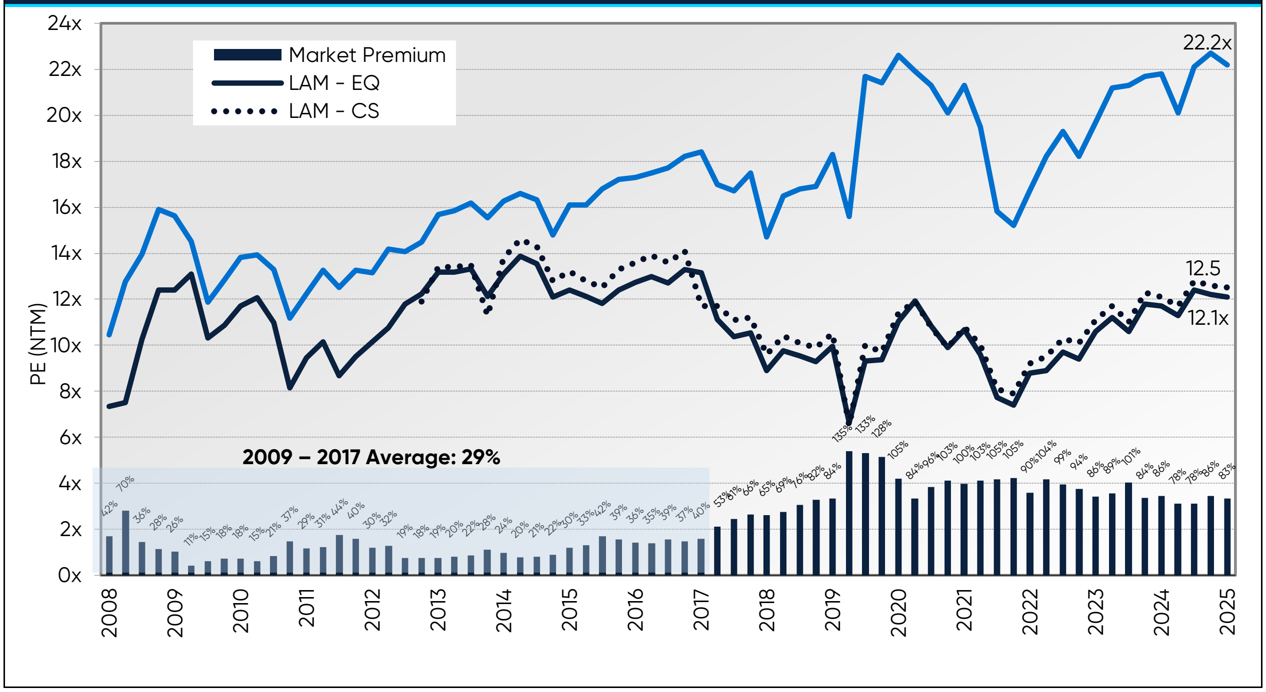
Excludes: CNC, ICLR & LKQ
Source: Lyrical analysis

Those stocks propelled our returns and are the reason why we had a good 2025. But the year could have been even better if we did not suffer from multiple compression in most of the remaining portfolio. As we show in the bottom row of the table, we had 13 other stocks accounting for 34% of portfolio weight that increased forward earnings by 10% on average in 2025. Yet, despite increasing earnings, those stocks declined due to an average of 17% multiple compression. These companies ended the year at a valuation of just 10.5x, a 53% discount to the S&P 500. If those stocks had just maintained their cheap multiples instead of getting cheaper, that would have contributed over 500 basis points to our returns. Given their fundamentals and now even lower valuation, we believe they could be a major contributor to performance in 2026 and beyond.

OUR VALUATION SPREAD REMAINS WIDE

We continue to believe our portfolio is well positioned. In the graph below, we show our U.S. portfolio valuation relative to our historical portfolio P/E ratios, represented by the solid and dotted dark blue lines.

Historical P/E Ratios and Valuation Spread



Source: FactSet

Our CS composite P/E stands at 12.5x. The S&P 500 P/E, which is represented by the bright blue line, is up to 22.2x, and stands 36% above its average since our inception, 32% above the S&P 500 Equal Weight, and 83% higher than our current EQ portfolio. That is significantly above the spread we observed during the first decade of our firm, when it averaged ~30%.

OUR UNCOMMON COMBINATION

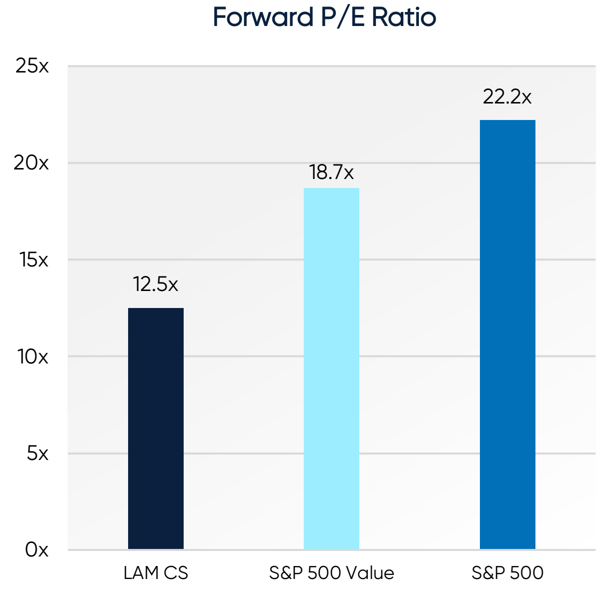
Not only is our portfolio significantly cheaper than the S&P 500 (shown again below in the bar chart on the left), but our portfolio also has a faster growth profile, as shown in the line graph on the right.

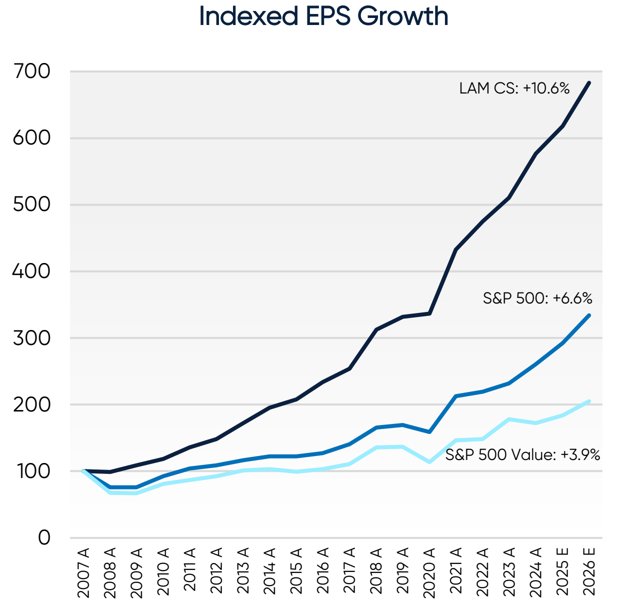
The lines at the top show the EPS growth history of our current CS and EQ composites, while the lines below them show the EPS growth of the S&P 500 and S&P 500 Value.

Dating back to 2007, the S&P 500 has had an annualized EPS growth history of 6.6%. Our current portfolio has a much better history of 10.6% EPS growth, four percentage points faster than the S&P 500.

Our confidence in our ability to outperform is rooted in these two statistics of valuation and growth. If our portfolio's earnings continue to grow as fast or faster than the S&P 500, we should be able to perform as well or slightly better, as long as our relative multiple stays where it is. But if our companies continue to grow as fast or faster than the S&P 500, the wide discount should justifiably narrow, delivering additional outperformance.

Uncommon Combination of Value and Growth





Source: FactSet. See Notes below.

CONCLUSION

2025 was a good year for Lyrical in which we produced strong absolute returns of 17.9% matching the S&P 500 despite not owning Magnificent Seven stocks. Moreover, we outperformed both the S&P 500 Value and S&P 500 Equal Weight by 4.7 and 6.5 percentage points, respectively.

Looking forward, the biggest issue we see in the market is the high valuation of the S&P 500. The S&P 500 has outperformed the equal weight index by over 10 percentage points per year for the last three years, which is a record amount. As a result, the S&P 500 looks very expensive, both relative to its own history, and also relative to the S&P 500 equal weight.

If the S&P 500 valuation reverts back to its historical average and in line with the S&P 500 equal weight, we should benefit as we do not own the mega-cap growth stocks that have inflated the index returns and valuation. However, what ultimately should drive performance of Lyrical portfolios is our uncommon combination of both discounted valuation and faster earnings growth. The value spread between our portfolio and the S&P 500 is historically wide at 78%. This compares to about a 30% spread during the first decade of our firm. This spread persists despite the superior growth history of our stocks. Our companies have an average historical EPS CAGR of over 10.6%, four percentage points faster than the S&P 500 growth of 6.6%.

Fundamentals have not always mattered to the market over the last five years. This was evident again in 2025 when 34% of our portfolio had increasing earnings but decreasing multiples. While fundamentals can be ignored in the short term, we maintain our core belief that earnings fundamentals are all that matter in the long term. If our companies keep compounding earnings, their stock prices should follow. Additionally, if their growth continues to match or outpace the S&P 500, their valuations should expand too, increasing their stock prices even more.

That is the Lyrical way.

THIS IS NOT AN OFFERING OR THE SOLICITATION OF AN OFFER TO INVEST IN THE STRATEGY PRESENTED. ANY SUCH OFFERING CAN ONLY BE MADE FOLLOWING A ONE-ON-ONE PRESENTATION, AND ONLY TO QUALIFIED INVESTORS IN THOSE JURISDICTIONS WHERE PERMITTED BY LAW.

THERE IS NO GUARANTEE THAT THE INVESTMENT OBJECTIVE OF THE STRATEGY WILL BE ACHIEVED. RISKS OF AN INVESTMENT IN THIS STRATEGY INCLUDE, BUT ARE NOT LIMITED TO, THE RISKS OF INVESTING IN EQUITY SECURITIES GENERALLY, AND IN A VALUE INVESTING APPROACH. PLEASE SEE WWW.LYRICALAM.COM/NOTES FOR A DISCUSSION OF CERTAIN MATERIAL RISKS OF AN INVESTMENT IN LYRICAL'S STRATEGIES.

WHERE WE PROVIDE INFORMATION ABOUT PERFORMANCE THAT IS NOT THE ACTUAL PERFORMANCE RESULTS OF OUR INVESTMENT STRATEGIES (SUCH AS WHERE WE SHOW THE HYPOTHETICAL RESULTS UNDER THE CAPTION "SIMPLE MATH," ABOVE), PLEASE NOTE THAT THERE ARE SUBSTANTIAL ADDITIONAL LIMITATIONS INHERENT IN USING SUCH PERFORMANCE INFORMATION. THOSE INCLUDE, BUT ARE NOT LIMITED TO, THAT ACTUAL TRADING AND THE ASSOCIATED EXPENSES DID NOT OCCUR, THAT MARKET CONDITIONS CHANGE OVER TIME, AND THAT NO INVESTOR HAD THE ACTUAL PERFORMANCE PRESENTED.

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

LAM - CS RESULTS ARE UNAUDITED AND SUBJECT TO REVISION, ARE FOR A COMPOSITE OF ALL ACCOUNTS. NET RETURNS INCLUDE A 0.75% BASE FEE. LAM - EQ RESULTS ARE UNAUDITED AND SUBJECT TO REVISION, ARE FOR A COMPOSITE OF ALL ACCOUNTS, AND SHOW ALL PERIODS BEGINNING WITH THE FIRST FULL MONTH IN WHICH THE ADVISOR MANAGED ITS FIRST FEE-PAYING ACCOUNT. NET RETURNS INCLUDE A 0.75% BASE FEE AND 20% INCENTIVE ALLOCATION ON RETURNS OVER THE S&P 500 VALUE®, SUBJECT TO A HIGH WATER MARK PROVISION.

Annualized Returns	**1 Year**	**5 Year**	**10 Year**	**ITD (8/1/2013)**
LAM – CS, Net	+17.94%	+13.08%	+11.37%	11.13%
S&P 500	+17.87%	+14.42%	+14.82%	13.98%
S&P 500 Value	+13.19%	+12.96%	+11.73%	10.82%
S&P 500 Equal Weight	+11.43%	+10.48%	+11.71%	11.27%

Annualized Returns	**1 Year**	**5 Year**	**10 Year**	**ITD (1/1/2009)**
LAM – EQ, Net	+18.25%	+12.53%	+10.55%	+15.02%
S&P 500	+17.87%	+14.42%	+14.82%	+14.82%
S&P 500 Value	+13.19%	+12.96%	+11.73%	+12.23%
S&P 500 Equal Weight	+11.43%	+10.48%	+11.71%	+14.28%

THE S&P 500® IS WIDELY REGARDED AS THE BEST SINGLE GAUGE OF LARGE-CAP U.S. EQUITIES. THE INDEX THE INDEX INCLUDES 500 LEADING COMPANIES AND COVERS APPROXIMATELY 80% OF AVAILABLE MARKET CAPITALIZATION.

THE S&P 500® VALUE DRAWS CONSTITUENTS FROM THE S&P 500®. S&P MEASURES VALUE USING THREE FACTORS: THE RATIO OF BOOK VALUE, EARNINGS, AND SALES TO PRICE. S&P STYLE INDICES DIVIDE THE COMPLETE MARKET CAPITALIZATION OF EACH PARENT INDEX INTO GROWTH AND VALUE SEGMENTS.

THE S&P 500® EQUAL WEIGHT INDEX IS THE EQUAL-WEIGHT VERSION OF THE WIDELY-USED S&P 500. THE INDEX INCLUDES THE SAME CONSTITUENTS AS THE CAPITALIZATION WEIGHTED S&P 500, BUT EACH COMPANY IN THE S&P 500 EWI IS ALLOCATED A FIXED WEIGHT – OR 0.2% OF THE INDEX TOTAL AT EACH QUARTERLY REBALANCE.

NOTES:

ALL MARKET DATA IS COURTESY OF FACTSET.

INDEXED EPS GROWTH DEPICTS THE HISTORICAL CHANGE IN EARNINGS PER SHARE OF THE COMPANIES IN THE LAM U.S. VALUE EQUITY STRATEGIES USING WEIGHTS IN THE LAM-EQ COMPOSITE AS OF DECEMBER 31, 2025. ACTUAL HOLDINGS, AND THEIR WEIGHTS, VARIED OVER TIME. EARNINGS PER SHARE IS COMPUTED USING CONSENSUS EARNINGS DATA PER FACTSET, WHICH INCLUDE CERTAIN ADJUSTMENTS FROM REPORTED, GAAP EARNINGS. PERIODS MARKED WITH AN "E" INCLUDE ESTIMATED EARNINGS PER SHARE.

THE HISTORICAL PORTFOLIO P/E (NTM) CHART COMPARES THE WEIGHTED AVERAGE NEXT TWELVE MONTHS P/E RATIOS AS OF THE BEGINNING OF EACH QUARTER FOR THE LAM-EQ AND LAM-CS COMPOSITES AND THE S&P 500 INDEX. ACTUAL BEGINNING OF QUARTER LAM-EQ AND LAM-CS COMPOSITE WEIGHTS ARE USED.