

**PORTFOLIO MANAGER: NICHOLAS NEVOLE**

**FIRST QUARTER 2025**

	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years
Tributary Capital Management (Gross of Fees)	0.5%	0.5%	2.1%	4.6%	12.4%	9.1%
Tributary Capital Management (Net of Fees)	0.3%	0.3%	1.5%	4.0%	11.7%	8.4%
Russell 1000 Value Index	2.1%	2.1%	7.2%	6.6%	16.2%	8.8%

### PORTFOLIO REVIEW

Equity markets stumbled out of the gate this year as lackluster performance was largely driven by mounting concerns around the AI theme, international trade and economic growth. The new administration's stringent trade posturing and promise of sweeping tariffs dampened GDP growth expectations, consumer sentiment and increased inflation expectations, thus intensifying the risk-off momentum. Investors rotated from tech stocks toward more defensive areas of the market which benefited value- and dividend-oriented indexes.

The Russell 1000 Value Index was +2% compared to the Russell 1000 Growth Index -10%. Differing sector mixes drove the majority of the return differential. Energy (+9%) was the top performing sector for the Russell 1000 Value despite oil prices finishing relatively flat for the quarter. However, the price of oil was gaining momentum near the end of the quarter due to geopolitical dynamics and tariff discussions. Communication services (+7%) performed well as investors flocked to defensive telecommunication stocks. Healthcare and utilities (+6%) also performed well due to the defensive nature of these companies and their cash flows. Conversely, the weakest performing sectors came from areas of the market that have lower business visibility under the shifting macro backdrop. Information technology (-6%) was particularly impacted by semiconductor and electronics stocks. Consumer discretionary (-5%) and industrials (-3%) also lagged. From a broader market perspective, larger market cap stocks and those with higher dividend yields outperformed those with smaller market caps and low or no dividend yields.

The Tributary Equity Income Strategy generated a total return of +0.5% versus the Russell 1000 Value index +2.1%. On a relative basis, the strategy's weakest performing sectors included financials (-2% vs. +3%), information technology (-9% vs. -6%) and industrials (-7% vs. -3%). The strategy's capital markets exposure, particularly our large position in BlackRock (-7%) weighed on relative performance, as did our lack of exposure to Berkshire Hathaway (+17%) which is a large weight in the benchmark index. Our tech underperformance was primarily driven by our overweight exposure to semiconductors. It was also negatively impacted by an IT services holding which has government contracting exposure. While this is a relatively small portion of the overall company, concerns surrounding government contracting cuts had an outsized impact on the stock. Within industrials, we have exposure to Robert Half and Eaton, two companies that underperformed for reasons

described later in this commentary.

Positive contributors to the strategy's relative performance included healthcare (+11% vs. +6%), consumer discretionary (+1% vs. -5%) and energy (+11% vs. +9%). Our healthcare outperformance was driven by strong returns within our healthcare equipment and biotech exposures. Consumer discretionary outperformance was aided by our exposure to Starbucks, driven by investor optimism of a company turnaround led by the former Chipotle CEO. As for energy, our outperformance was primarily driven by our overweight position in Chevron (+17%).

At the end of March, the strategy's dividend yield was 2.7% versus the S&P 500's 1.3% and the Russell 1000 Value's 2.1%. The Equity Income Strategy targets a dividend yield that is roughly 100 basis points above the S&P 500's yield.

### PORTFOLIO CHANGES

We added two new holdings to the strategy and eliminated one holding in the first quarter.

*Broadcom* is a leading semiconductor company that specializes in the manufacturing of networking and custom silicon chips (e.g. Google's TPUs). The company employs a multi-pronged strategy to benefit from the AI theme as it provides critical infrastructure enabling general compute, manufactures custom silicon for specialized workloads and offers a suite of software solutions to support AI applications. Due to its comprehensive AI strategy, the firm is set to gain as AI clusters increase in size and complexity.

*CDW* is a technology distributor, procuring products from OEMs, software publishers, cloud providers and wholesale distributors, adding value by guiding end customers through complex options and implementing optimal solutions. Its comprehensive portfolio spans across discrete hardware and software products to integrated IT solutions and services. The company appears well-positioned to outgrow overall IT spending in the coming years as it focuses on higher-growth segments of software and services, all while maintaining its overall gross margin profile through the cycle.

*Microchip* was eliminated due to a CEO change which raised concerns surrounding the direction of the company, as well as fundamental headwinds which we believed would take an extended amount of time to overcome. We felt that we had alternative investment opportunities within the technology sector which possessed more compelling risk-reward profiles.

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**Chevron** shares outperformed as the energy sector led the market by a wide margin this quarter even though oil prices ended flat for the quarter despite some gyrations. Global tensions and talk of further sanctions and tariffs caused oil shares to advance at the end of the quarter.

**Abbott Laboratories** reported quarterly earnings slightly below consensus expectations, but the all-critical Medical Devices segment, which includes the Diabetes and Cardiovascular portfolios, exhibited strong year-over-year organic growth that was above analyst estimates. New 2025 guidance also exceeded expectations.

**Johnson & Johnson** reported mixed quarterly results, though the downside versus consensus expectations was largely driven by one-time items. Adjusted organic revenue growth was healthy, and full-year guidance was slightly ahead of consensus expectations. In addition, the firm's drug pipeline calendar is very busy this year.

**Amgen** reported quarterly results above consensus expectations. Topline outperformance was driven by the company's more established drugs, and while 2025 guidance was mixed, it appears very achievable. Investors were also encouraged by additional details surrounding expected data release dates for the company's key anti-obesity drug.

**Mondelez** issued favorable guidance for 2025 organic revenue growth, and management indicated that it expects EPS growth to resume in 2026 upon an easing of cocoa cost pressures and mitigation efforts to address the significant increase in cocoa prices that began in early 2023.

**TOP DETRACTORS**

**Robert Half**, a temporary staffing company, continued to suffer weak staffing activity levels and expects that backdrop to continue into early 2025. The Protiviti consulting business is experiencing trend improvement, however.

**Eaton** sold off due to concerns that data center build expectations may be overblown. This comes following strong share outperformance over the last few years. Despite investor concerns, the company reiterated that its seven years data center backlog remains solid.

**Broadcom** stumbled during the quarter despite a positive reaction to the company's earnings due to its prominence in the AI theme. The firm continues to execute on its AI roadmap as evidenced by its growing customer base, but a broader fading of AI enthusiasm among investors pulled shares into the undertow.

**BlackRock** declined during the first quarter over concerns the broad market pullback would continue and result in weaker management fees.

**Target** issued below-consensus 2025 guidance for same-

store sales, margins and EPS, with management stating that tariffs are expected to negatively impact financial results starting in the first quarter.

**PORTFOLIO OUTLOOK**

Since the beginning of the year, the U.S. economy and equity markets have navigated a complex landscape of challenges and opportunities, influenced by domestic policies, international trade tensions, and monetary policy decisions. Tariffs have emerged as a key economic and foreign policy tool, with the U.S. imposing new trade barriers to address geopolitical and economic concerns. While these tariffs will likely directly affect industries such as manufacturing, agriculture and technology, large segments of the economy—including services, healthcare and financial sectors—remain relatively insulated from their direct impact. This does not leave these segments immune from important secondary effects of these changes, however.

Concerns surrounding a potential recession have intensified, largely due to the unpredictable nature of global trade policies and their broader effects on business investment and consumer confidence. Equity markets have reflected these concerns with increased volatility. If a recession were to materialize, it might be viewed by some as overdue, as it has been almost 16 years since the end of the last lengthy recession (excluding the three-month long COVID recession) and six months since the 10- and 2-year Treasury yield curve was last inverted.

Labor market dynamics have remained stable, with unemployment holding at historically low levels. However, signs of consumer weakness are becoming more apparent. Retail spending has softened and consumer confidence has weakened, signaling potential headwinds for economic growth. Consumer spending comprises a significant portion of U.S. GDP, and a sustained decline in confidence and spending could contribute to broader economic slowdowns.

The Federal Reserve has responded to shifting economic conditions by tempering its expectations for GDP growth this year, lowering projections from 2.1% to 1.7%. At the start of the year, many other forecasters projected moderate expansion, but recent economic indicators have prompted downward revisions as well. Persistent inflation and shifting trade policy have complicated monetary policy decisions, leading the Fed to pause its interest rate cuts. Federal Reserve Chairman, Jerome Powell, has indicated that the Fed will not be providing a backstop to the markets, at least not yet. To an extent, investors disagree, and market data indicates that investors are now expecting the Fed to make four 25 basis point rate cuts this year<sup>1</sup>. While the market would welcome further reductions, such moves may be less well received if they result from economic deterioration rather than controlled inflation.

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Corporate earnings have also adjusted to evolving macroeconomic conditions. Earnings growth estimates for large-cap value stocks have declined from 10% at the beginning of the year to 7% at the end of the quarter<sup>2</sup>. Given the dramatic increase in our nation's use of tariffs and the uncertainty this is causing businesses, CEOs and investors, these earnings expectations will likely be revised, possibly significantly.

Looking ahead, the interplay between trade policy, monetary policy and the health of the economy will continue to shape market sentiment. What the tariff landscape looks like six months or a year from now may be the most difficult to predict as countries choose to retaliate or negotiate. This makes gauging the economic implications of the new trade regime even more difficult. Investors will also closely monitor data for changes in inflation, the health of the economy and the Federal Reserve's interest rate forecast.

While macroeconomic factors can influence market trends, we believe a company's fundamentals and profitability are the true drivers of long-term value. Through ongoing conversations with management teams and careful analysis of company filings, we aim to deepen our understanding of how businesses and industries are impacted by shifts in trade policy and how they can respond to mitigate potential risks. We will use this information to update our investment thesis and our view of each holding over our investment horizon. Maintaining a diverse portfolio of quality companies trading at reasonable valuations is always important, but especially so in periods of heightened uncertainty.

<sup>1</sup> CME Fedwatch Tool, 4/8/2025

<sup>2</sup> Jefferies Research, Valuation Handbook, 4/4/2025

*Unless otherwise noted, all returns, excluding Tributary Capital Management's strategies, have been obtained from FactSet Research Systems. Sector and security level performance is presented gross of fees without the deduction of fees and expenses. Refer to total portfolio gross and net performance to understand the overall effect of fees.*

*Net-of-fees composite returns are calculated using the highest potential fee the investment advisor will charge investors in the composite. Net performance is reported net of investment advisory fees and transaction costs. Capital gains and dividends are reinvested for performance calculations.*

*The performance numbers shown above are for the Tributary Equity Income Composite and are expressed in U.S. dollars. The composite includes all discretionary accounts with an initial market value of \$500,000 (effective 7/1/20) that are generally invested in the Equity Income Strategy. The inception date of the Equity Income Composite is September 30, 2014.*

*The S&P 500 Index is a basket of 500 stocks that is weighted by market value, and its performance is thought to be representative of the stock market as a whole. The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. The Russell 1000 Growth Index measures the performance of the large cap growth segment of the US equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. It is not possible to invest directly in the S&P 500, the Russell 1000 Index or the Russell 1000 Growth Index.*

*It should not be assumed that an investment in securities identified was or will be profitable or that the investment decisions we make in the future will be profitable or will equal the performance of the securities discussed herein. Holdings are subject to change. The holdings identified do not represent all of the securities purchased, sold or recommended for the portfolio. The holdings listed should not be considered recommendations to purchase or sell a particular security. The "Top Contributors" and "Top Detractors" represented are based on contribution to portfolio return. To obtain the contribution calculation methodology and a complete list of every holding's contribution to the overall portfolio's performance during the quarter, please contact [clientservices@tributarycapital.com](mailto:clientservices@tributarycapital.com).*

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