

**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)	-3.4%	-3.4%	2.4%	6.0%	15.9%	10.4%
Tributary Capital Management (Net of Fees)	-3.6%	-3.6%	1.7%	5.3%	15.1%	9.7%
S&P 500 Index	-4.3%	-4.3%	8.3%	9.1%	18.6%	12.5%

## MARKET REVIEW

Equity returns stumbled out of the gate this year as the S&P 500 Index finished the first quarter in negative territory, posting its worst quarterly return since the third quarter of 2022. This lackluster performance was largely driven by mounting concerns around the AI theme, international trade and economic growth as market momentum unwound and investors entered a risk-off mode. The AI secular theme sputtered as the seemingly impenetrable Magnificent 7 began to reveal chinks in its armor with the emergence of DeepSeek, a Chinese-based AI model exhibiting comparable performance for a fraction of the cost, casting doubt on the technology's significant capital requirements. 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.

The Tributary Large Cap Equity Strategy generated a total return of -3.4% in the first quarter compared to the S&P 500's total return of -4.3%. Broadening market performance aided the strategy's relative performance as the S&P 500 Equal Weight Index outperformed the official index by nearly 400 basis points, stemming from the Magnificent 7 in aggregate posting a -14% return<sup>1</sup>. This dynamic supported a rotation into more value-oriented pockets of the market such as the financials and healthcare sectors, driving the Russell 1000 Value to meaningfully outperform the Russell 1000 Growth for the quarter (+2% vs. -10%).

Within the S&P 500, high dividend yielding stocks and stocks with lower valuation multiples generally outperformed the low-to-no dividend payers and high multiple stocks, further supporting the market's preference for value in the quarter. The worst performing sectors in the S&P 500 were consumer discretionary (-14%), technology (-13%) and communication services (-6%). Each of the detracting sectors suffered due to their exposure to mega cap stocks, while potential tariffs posed further challenges for the consumer discretionary sector, particularly impacting the apparel industry. The index's best performing sectors included energy (+10%), healthcare (+7%) and consumer staples (+5%). Despite volatile oil prices, ceasefire negotiations between Ukraine and Russia supported the energy sector's performance. Consumer staples and healthcare benefitted from the flight to safety as the sectors can act as safe havens during periods of market uncertainty.

The Tributary Large Cap Strategy's outperformance versus the S&P 500 was led by the consumer discretionary (-4% vs. -14%) and information technology (-11% vs. -13%) sector exposures. Within consumer discretionary, the lack of exposure to Tesla (-36%) and apparel stocks

was a boon for performance, while holding a position in O'Reilly Automotive (+21%) further bolstered the sector's relative returns. A key driver of information technology's outperformance in the quarter was the strategy's relative underweight to prominent megacap tech companies, most of which have been benefiting from the thematic AI trade in recent years.

Underperforming sectors included industrials (-12% vs. -0%) and communication services (-10% vs. -6%). Our industrials' underperformance was driven by positions in data center and power infrastructure construction companies, which were derailed by the AI momentum unwind, and staffing services company, Robert Half, which continues to be pressured by a tepid staffing environment. Weakness within communication services can be attributed partially to our existing holdings as well as due to a lack of exposure to telecom companies which generally performed better in the quarter.

Exiting the first quarter, the top 10 holdings within the S&P 500 accounted for 35% of the total index's market cap<sup>1</sup>, breeding a dynamic in which overall market returns are driven by a handful of companies. While market concentration likely remains a topic of intrigue, a broadening market similar to what was experienced in the first quarter, with investors looking beyond the tech giants to generate attractive returns, presents a more favorable environment for active equity managers.

## PORTFOLIO CHANGES

We added four new holdings to the strategy during the first quarter. *ICON plc* is a contract research organization which helps pharma and biotech clients run clinical trials more effectively and efficiently. Approximately half of company revenues come from large biopharma companies while ~10% come from emerging biopharma companies (which are more heavily reliant on raising capital). The stock had pulled back significantly since last summer as clients began to cut costs and tighten their drug development spending amidst higher capital costs. These are short-term headwinds, in our view, and the stock's valuation looks compelling when assuming an eventual recovery in drug development spending.

*Amgen* is a biotech company whose stock has been somewhat de-risked, in our opinion, following a Phase 2 update for its anti-obesity drug which resulted in the stock pulling back. This pullback presented a more compelling risk-reward dynamic relative to other healthcare holdings.

*Nvidia* is the dominant designer of advanced compute chips (GPUs) which have spurred the market's AI momentum. The company is dedicated to a steady release cadence with new chips nearly doubling the previous model's capabilities and driving significant demand. Increased scrutiny regarding AI's return on investment

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caused the stock to pullback into a territory that reflected a reasonable entry point, providing an opportunity to reduce the relative underweight to the name.

*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.

Three holdings were eliminated during the quarter. *Johnson & Johnson* and *Merck* were eliminated to fund the two healthcare purchases noted above, which we viewed as having more compelling risk-reward dynamics while also wanting to avoid increasing our overall health care exposure within the portfolio. *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.

### TOP CONTRIBUTORS

**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.

**O'Reilly Automotive** outpaced top-line expectations due to accelerating same-store sales growth in both its professional and do-it-yourself segments. As the quarter progressed, O'Reilly benefitted from the broader market risk-off trade given its positioning as a best-in-class operator with consistent earnings growth and a high degree of pricing power to mitigate potential tariff impacts.

**Intercontinental Exchange** posted a solid quarter with a positive revenue inflection in the Mortgage Technology business and a promising outlook. As the Exchanges business continues to benefit from elevated volatility, a sustained recovery in Mortgage Technology would be a catalyst moving forward.

**Visa** outperformed expectations in the quarter driven by an acceleration in payment volume, cross border volume and processed transactions. An increase to full-year guidance due to a sustained healthy spending environment further supported share price performance.

**Roper Technologies** reported fourth quarter results that exceeded consensus estimates as all three of its operating segments meaningfully accelerated organic growth. Furthermore, management provided guidance that outpaced expectations, which appears conservative given its robust deal pipeline and the sizable M&A capacity.

### TOP DETRACTORS

**Alphabet** reported strong quarterly results from the search business which were overshadowed by a deceleration in

Google Cloud revenue and a substantial capex guide, pushing shares lower following the print. Similar to peers, the firm is fully committed to its AI spending, and investors are again becoming wary of the technology's return on investment.

**Apple** shares came under pressure due to market share loss in China and a delayed rollout of the highly vaunted Apple Intelligence technology. The anticipated upgrade super-cycle has yet to come to fruition and investors are eagerly awaiting meaningful updates to Apple Intelligence to reaccelerate iPhone sales.

**Microsoft** reacted unfavorably to its most recent earnings announcement, which included decelerating revenue growth in its cloud business as well as an expectation for higher capital expenditures due to constrained capacity. The broad market underperformance in megacap tech also likely weighed on the stock.

**Amazon** reported a quarter largely in line with investor expectations, but soft guidance and Amazon Web Services stagnation due to capacity constraints weighed on the stock. An anticipated increase in capex this year on the heels of a capital-intensive year has given investors pause on the AI trade.

**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.

### 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

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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>2</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.

Corporate earnings have also adjusted to evolving macroeconomic conditions. Earnings growth estimates for the S&P 500 have declined from 14% at the beginning of the year to 11% at the end of the quarter<sup>3</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 perhaps even more so in periods of heightened uncertainty.

<sup>1</sup> FactSet

<sup>2</sup> CME FedWatch Tool, 4/8/2025

<sup>3</sup> FactSet Research, 3/31/2025

*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 Large Cap Equity Composite and are expressed in U.S. dollars. Due to the merger described below, the creation date of Tributary's Large Cap Equity Composite is Jan 1, 2005. The composite includes all discretionary accounts with an initial market value of \$500,000 that are generally invested in a large capitalization equity strategy. The inception date of the Large Cap Equity Composite is March 31, 1985. The Tributary Large Cap Equity Composite was formerly known as the Tributary Large Cap Value Equity Composite through periods ending March 31, 2019. The Standard & Poor's 500 is a basket of 500 stocks that are considered to be widely held. The S&P 500 index is weighted by market value, and its performance is thought to be representative of the stock market as a whole. The S&P 500® Equal Weight Index (EWI) 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. 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 U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. s today's modern day industrials. It is not possible to invest directly in the S&P 500, S&P 500EWI, Russell 1000 Index, Russell 1000 Value Index or the Russell 1000 Growth Index.*

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