

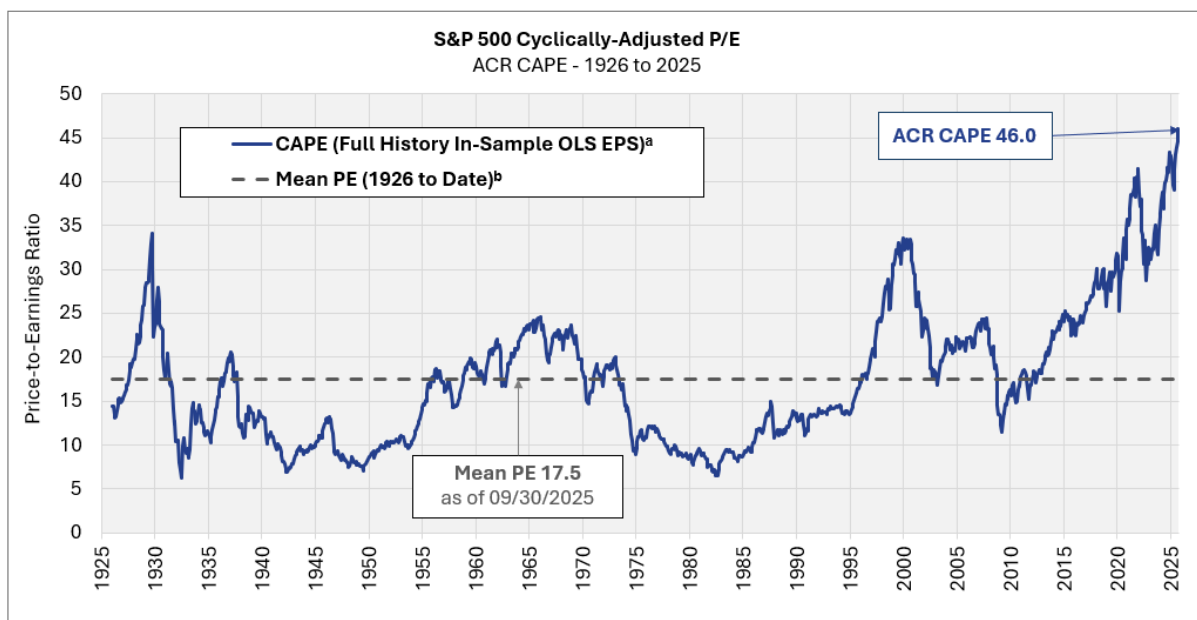
Focusing on What Matters

90% of the people who buy stocks don't think of them the right way. They think about the market as something they hope will go up. And if it's down they feel worse. I feel better. And I hope it goes down when I buy, because I'll buy more.

- Warren Buffett interview with Charlie Rose April 14, 2022

The typical ACR client is different from the 90% of investors who don't think about investing the right way. Yet today's investment reporting standards, which we and everyone else abide by, support precisely the reactions Warren describes. In this quarter's commentary, we will discuss how the current system is flawed and initial ideas for fixing it. Before exploring this topic, we provide our regular market update.

Markets soared in the third quarter with equity multiples reaching all-time highs and credit spreads nearing all-time lows. Risk control took a back seat to continued AI investment and enthusiasm.



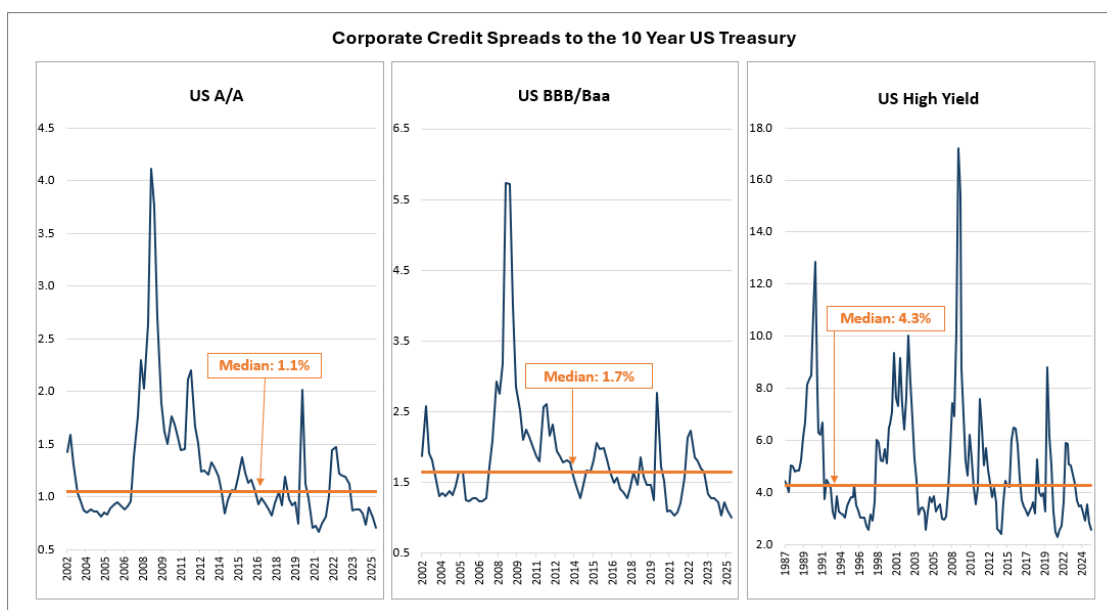
a) ACR CAPE based on Real S&P 500 Price Per Share (PPS) divided by Ordinary Least-Squares Regression (OLS) trendline of S&P 500 Real Earnings Per Share (EPS) from 1926 to September 30, 2025.

b) Arithmetic mean.

Sources: S&P Dow Jones Indices; Robert Shiller; BLS- CPI Data; ACR Alpine Capital Research.

Please see page 8 for important disclosures.

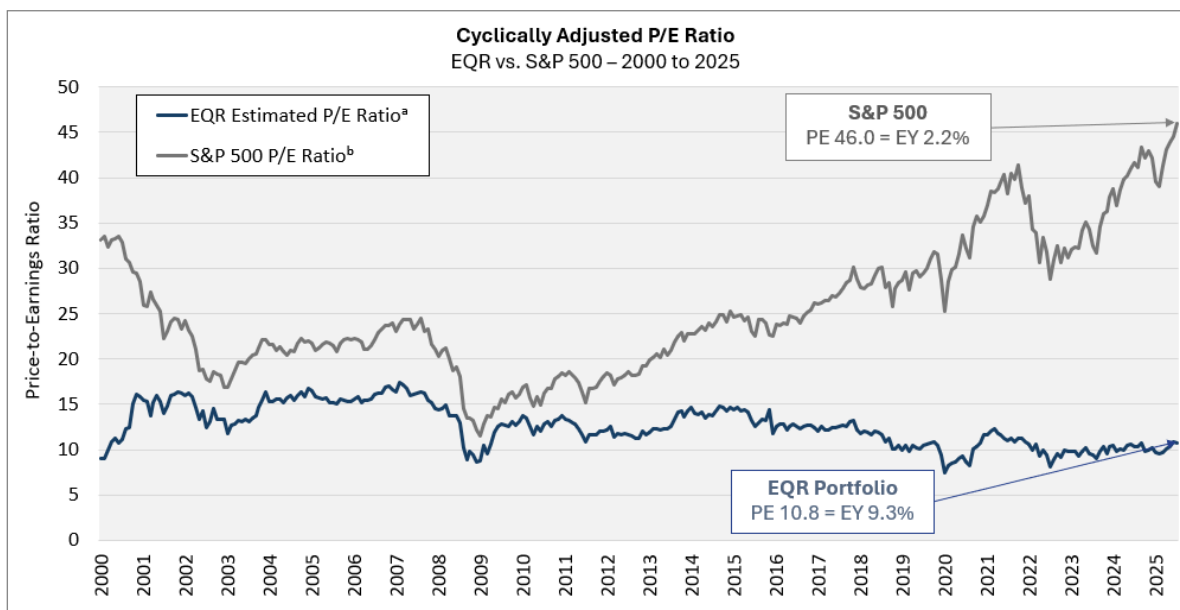
190 Carondelet Plaza, Suite 1300 | St. Louis, MO 63105
t 314.932.7600 | f 314.932.1111 | 877.849.7733 | acr-invest.com



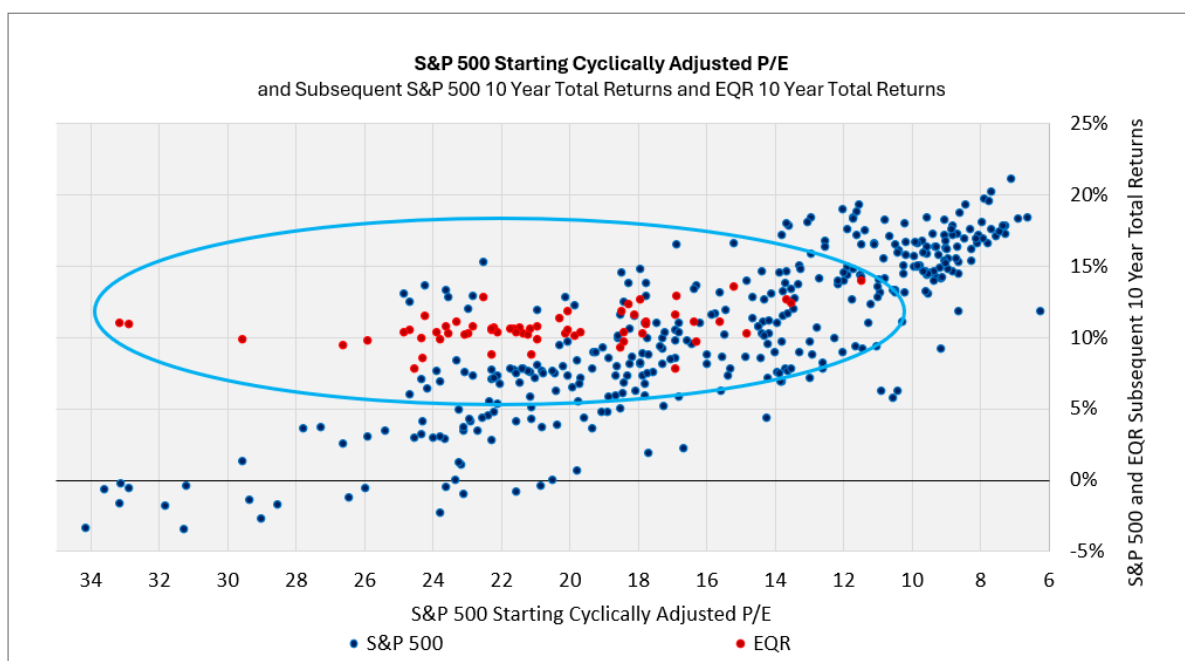
a) Source: Bloomberg
b) Indices: CSI A Index, CSI BBB Index, CSI BARC Index
c) Frequency: Quarterly

Equity prices have been rising faster than underlying profits for many years. The current 17-year secular bull market cyclically adjusted P/E quadrupled from 11.5x in March of 2009 to 46.0x today. This is comparable to the previous 18-year secular bull market, when the cyclically adjusted P/E quintupled from 6.5x in July 1982 to 33.5x in April 2000. The current long-term bull may have many years left. Yet the bigger they are, the further they tend to fall.

Equity prices in our flagship EQR strategy have *not* risen faster than underlying profits. The top chart on the next page shows how the EQR cyclically adjusted P/E declined as the S&P 500 cyclically adjusted P/E soared. We believe this matters since cyclically adjusted P/E ratios are highly correlated with future 10-year equity returns. The bottom chart on the next page shows this relationship. The x-axis plots the beginning cyclically adjusted P/E for the S&P 500 and the y-axis shows the subsequent 10-year return for the S&P 500 (blue dots) and EQR (red dots). While the EQR initial cyclically adjusted P/E is not shown on this same chart (a three-dimensional representation would be required), the top chart reveals how much lower the EQR cyclically adjusted P/E is when compared to the S&P 500. EQR's lower P/E correlates with EQR's higher 10-year returns while the S&P 500 higher P/E correlates with far lower returns.



a) For March 31, 2003 to present, the EQR Estimated Price-to-Earnings Ratio is the portfolio-weighted PE ratio with EPS based on ACR's normalized estimated cash earnings for holdings in ACR's Equity Quality Return Strategy. Prior to March 2003 ACR did not record monthly normalized earnings estimates. As a result, the EQR PE for March 31, 2000 through February, 28 2003 utilizes trailing-twelve-month (T12M) CapIQ estimated normalized earnings. For normalized earnings figures not available in CapIQ, the Compustat database and Bloomberg were utilized. b) ACR CAPE based on Real S&P 500 Price Per Share (PPS) divided by Ordinary Least-Squares Regression (OLS) trendline of S&P 500 Real Earnings Per Share (EPS) from 1926 to September 30, 2025. Sources: S&P Dow Jones Indices; Robert Shiller; BLS- CPI Data; ACR Alpine Capital Research.



S&P 500 Starting Cyclically Adjusted P/E is based on Real S&P 500 Price Per Share (PPS) divided by Ordinary Least-Squares Regression (OLS) trendline of S&P 500 Real Earnings Per Share (EPS) from 1926 to September 30, 2025. Each blue data point represents the forward S&P 500 Subsequent 10 Year Total Returns. Each red data point represents the forward EQR Gross Subsequent 10-year total return. Data points in the chart are displayed quarterly. Sources: S&P Dow Jones Indices; Robert Shiller; BLS- CPI Data; ACR Alpine Capital Research.

A discussion of the fundamental drivers of investment return – the price paid for corporate earnings and their growth – is an excellent example of what we mean by focusing on what matters. Unfortunately, industry investment reports fixate on a single figure – total return. Total return for equities consists of dividends plus the change in market value. The volatility inherent in market prices assures that total return distorts not only short-term results, but both long-term returns and their economic determinants. To see how long-term returns are whipsawed by short run total return volatility, we review 10-year total returns before and after the last ten bear markets. The before and after returns are markedly different – driven largely by market volatility.

S&P 500 Bear Market Periods				Trailing 10 Year Annualized Total Returns	
<u>Start</u>	<u>End</u>	<u>Months</u>	<u>Bear Market Decline</u>	<u>T10 Before Bear Market</u>	<u>T10 Including Bear Market</u>
Jan-22	Oct-22	9.4	-24.5%	16.4%	11.8%
Feb-20	Mar-20	1.1	-33.8%	14.1%	8.9%
Oct-07	Mar-09	17.1	-55.2%	6.6%	-4.4%
Mar-00	Oct-02	31.5	-47.4%	19.1%	8.9%
Aug-87	Dec-87	4.1	-32.8%	18.9%	14.2%
Nov-80	Aug-82	21.3	-20.2%	9.6%	3.8%
Jan-73	Oct-74	21.3	-44.6%	9.9%	0.3%
Nov-68	May-70	18.2	-32.6%	11.0%	5.6%
Dec-61	Jun-62	6.1	-25.0%	16.5%	12.3%
May-46	Jun-49	37.6	-17.2%	8.8%	7.4%

Calculated on a total return basis including price appreciation and dividend return. Source: Bloomberg

The post-bear market return is so much lower that sometimes the pre-bear market return disappears! Why does this happen? Market fluctuations are a manifestation of investor behavior. The great irony is that total return focuses investors on Ben Graham's Mr. Market, the erratic business partner who personifies the market. Mr. Market is a volatile character who vacillates between euphoria over new technologies to depression when economic conditions turn for the worse. Instead of performance reports that emphasize corporate earnings—the primary driver of equity returns—investors are inundated each month, quarter, and year with the emotional swings of Mr. Market.

We believe there is a better way. The equivalency of company earnings and investor spending is an important reason why. Our experience suggests that what really matters to most investors is how much they can spend (or give away), currently, or beginning on some future date such as retirement. Corporate earnings and earnings growth are, in our view, a more reliable lens through which to understand true investment value and the ability to spend if so desired.

Market value has a purpose. It tells how much a portfolio can be liquidated for *today*. Yet practically no one liquidates their entire net worth and spends it in a day. Worse, as shown in the previous table, market value can change on a dime. Spending, on the other hand, almost always occurs at an annual rate relative to portfolio value, where the annual rate is determined by portfolio income and gains over time. The equivalency is precise: Company earnings consist of dividends and retained earnings, where a dollar of successfully re-invested retained earnings becomes a dollar or more of capital gain. Investor spending consists of dividends and realized capital gains.

While equivalent in theory, two “mechanisms” are required for company earnings to be convertible into spendable dollars in reality: *successfully re-invested retained earnings* at the company level and monetization of *realized* capital gains at the investor level. *ACR’s job is to make sure that both happen.* Taking successful re-investment of retained earnings first, management at a company must understand its duty to properly deploy *our* capital and retained earnings. Surprisingly, there is often a disconnect on this point as many C-suite managers fail to understand or adhere to this all-important duty. Even when they understand and attempt to execute through reinvestment in the current business or via acquisition, business success is never guaranteed. Again, it is our job to make sure we invest in companies that successfully redeploy their retained earnings. Evidence of success is measured in sustainable per share earnings growth. This leads us to the second mechanism.

Sustainable per share earnings growth must be converted into a realizable capital gain. This occurs in two ways. First, we have to pay the right price for the company. If the price multiple is too high at purchase, price could contract relative to future earnings. Second, the market must cooperate with a reasonable multiple on the company’s earnings. While this might seem like a tenuous requirement, our experience has shown that disappointing investments almost always occurred because we got the company wrong, not because the market failed to recognize value with a proper multiple. One last critical caveat on this point. ACR believes that market multiples have been elevated for most of our existence in the past twenty-five years. This is why we are so adamant about paying the right price for the companies we invest in.

The bottom-line is that today’s investment reporting focuses on near-term *market value* volatility when what really matters is *fundamental or investment value* as it accumulates in a measurable pattern over time. ACR has been discussing the “fundamentals” by focusing on corporate earnings and fundamental value for years. Commentaries have highlighted “fundamental performance” such as dividends plus growth in fundamental value and earning power, as well as cyclically adjusted earnings yields (earnings divided by price or E/P). We believe the time has come for fundamental performance and attribution reporting at a more systematic level. ACR is investing in resources to automate easily understandable fundamental reports. Stay tuned for further announcements on this front in the coming year. To summarize why all this matters, we leave you with the following essential ideas for equity investment success.

Five Foundational Ideas for Equity Investment Success

- 1) Look at stocks the right way: focus on company earnings and earnings growth rather than obsessing on market price.
- 2) Company earnings (fundamental value) = your spendable dollars in the form of dividends and realizable capital gains.
- 3) Company earnings can be reasonably estimated; therefore, your spendable dollars can be reasonably estimated.
- 4) Minimize the price paid for future company earnings, and you maximize the value of your spendable dollars.
- 5) Don't cut it close: invest with a margin of safety.

Nick Tompras

October 2025

EQR Annual Performance ¹ (as of 09/30/25)				
	Gross of Fees ²	Net of 3% Fees ³	Net of 1% Fees ⁴	S&P 500*
2000 (April 3)	42.2%	39.2%	41.2%	-11.1%
2001	25.8%	22.1%	24.6%	-11.9%
2002	-4.5%	-7.4%	-5.5%	-22.1%
2003	18.6%	15.1%	17.4%	28.7%
2004	9.3%	6.1%	8.3%	10.9%
2005	-0.2%	-3.1%	-1.2%	4.9%
2006	17.9%	14.4%	16.7%	15.8%
2007	4.3%	1.2%	3.3%	5.5%
2008	-13.9%	-16.5%	-14.7%	-37.0%
2009	29.1%	25.3%	27.8%	26.5%
2010	20.0%	16.5%	18.8%	15.1%
2011	5.1%	2.0%	4.0%	2.1%
2012	12.3%	9.0%	11.2%	16.0%
2013	25.0%	21.4%	23.8%	32.4%
2014	12.7%	9.4%	11.6%	13.7%
2015	0.9%	-2.1%	-0.1%	1.4%
2016	9.6%	6.4%	8.5%	12.0%
2017	16.6%	13.2%	15.5%	21.8%
2018	-3.3%	-6.2%	-4.3%	-4.4%
2019	15.1%	11.7%	13.9%	31.5%
2020	17.3%	13.9%	16.2%	18.4%
2021	26.3%	22.7%	25.1%	28.7%
2022	-10.9%	-13.6%	-11.8%	-18.1%
2023	24.0%	20.4%	22.8%	26.3%
2024	13.6%	10.3%	12.5%	25.0%
2025 (9/30)	21.5%	18.8%	20.6%	14.8%
Since Inception	12.4%	9.1%	11.2%	8.0%

EQR Trailing Period Returns ¹ (as of 09/30/25)				
	Since Inception	10-Year	5-Year	1-Year
Gross of Fees ²	12.4%	12.8%	18.4%	21.6%
Net of Fees ³	9.1%	9.5%	14.9%	18.0%
Net of 1% Fee ⁴	11.2%	11.7%	17.2%	20.4%
S&P 500*	8.0%	15.3%	16.5%	17.6%

*Benchmark
Inception date: April 3, 2000

¹Total return performance includes unrealized gains, realized gains, dividends, interest, and the reinvestment of all income. Returns greater than one year are annualized.

²Pure gross returns of the EQR Total Accounts composite are gross of all fees and do not reflect the deduction of transaction costs in wrap portfolios. Pure gross returns are supplemental information.

³Net of fees returns are pure gross returns of the EQR Total Accounts composite reduced by the highest wrap fee as required under GIPS; 3% is the highest tier fee under graduated fee schedules for smaller asset levels at some partner firms. Most ACR partners charge significantly less than 3%.

⁴Net of 1% fee returns are pure gross returns of the EQR Total Accounts composite reduced by a 1% fee.

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It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the examples discussed. You should consider any strategy's investment objectives, risks, charges, and expenses carefully before you invest.

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The Equity Quality Return (EQR) Total Accounts Composite consists of equity portfolios managed for non-wrap fee and wrap fee clients according to the Firm's published investment policy. The composite investment policy includes the objective of providing satisfactory absolute and relative results in the long run and preserving capital from permanent loss during periods of economic decline. EQR invests only in publicly traded marketable common stocks. Total Return performance includes unrealized gains, realized gains, dividends, interest, and the re-investment of all income. Pure Gross returns are gross of all fees and do not reflect the deduction of transaction costs in wrap portfolios. Pure Gross returns are supplemental information. Net of ACR Fee returns are Pure Gross returns reduced by 1.0% per annum, which is the standard management fee for the Equity Quality Return strategy. Please refer to our full composite performance presentation with disclosures published under the Strategies section of our website at <https://acr-invest.com/eqr-advised-sma-composite/>

The S&P 500 TR Index is a broad-based stock index that includes dividend reinvestment and has been presented as an indication of domestic stock market performance. It is unmanaged and cannot be purchased by investors. See EQR's full composite presentation at www.acr-invest.com/strategies/eqr-advised-sma-composite