

Market Dissonance

David Bowie's 1975 classic "Young Americans" tells the story of a couple who don't know if they really like each other. At one point in the song, Bowie abruptly pauses the upbeat melody and asks "ain't there one damn song that can make me break down and cry?" The moment, often cited as an example of lyrical dissonance, briefly exposes the tension beneath the surface before the song returns to its deceptively light rhythm.

We see a similar form of dissonance in markets today. Market performance over the last three years suggest optimism, but beneath the surface there has been a pause—a moment of reassessment as investors confront uncertainty, valuation, and the durability of recent trends.

The AI Trade and the Pause

By our estimates, whether measured by market capitalization, earnings sensitivity, or capital expenditure alignment, more than 40% of the S&P 500 entered the year with material exposure—direct or indirect—to the theme of artificial intelligence. Since the emergence of ChatGPT in November 2022, that exposure has been the dominant tailwind behind index performance. Looking ahead, the potential public listings of companies such as SpaceX, OpenAI, and Anthropic could further increase the market's sensitivity to this theme.

Since November 2025, however, the tone has shifted. Investors have moved from broad enthusiasm to selective scrutiny. Capital has begun to rotate away from the most crowded beneficiaries, and concentration has eased as other areas of the market have attracted attention. There has been a pause, and with it, a noticeable tension.

In our year-end letter, we argued that passive, capitalization-weighted index exposure would struggle to capture this broadening phase of the market. We suggested that focused styles, factor-based approaches, and active strategies diversified beyond index concentration would be better positioned. We also highlighted dividend stocks as undervalued relative to the broader market. The first quarter bore this out: equal-weighted indices outperformed, and leadership widened at the expense of recent market winners.

Fundamentals Continue, Returns Hesitate

This shift should not be interpreted as a deterioration in the prospects for artificial intelligence. The fundamentals remain compelling. Companies at the center of AI infrastructure continue to report strong growth, rising demand, and expanding opportunity sets. What changed in the first quarter was not earnings power, but investor willingness to continually expand valuation multiples in the face of rising capital intensity, longer investment horizons, and uncertain returns.

In several cases, strong operating results were met with modest or muted share price performance as investors paused to reassess how much capital must be deployed—and how long returns may take to realize. At the margin, liquidity concerns in certain alternative investment vehicles likely contributed to reallocation away from some of the most crowded winners.

When Everything Becomes AI

As flows into the AI complex decelerated—or reversed in some cases—share price movements and valuations increasingly reflected AI narratives well beyond the obvious beneficiaries. When the market determines that a company stands to benefit from AI, capital follows quickly.

Two holdings in our portfolio that benefited from this dynamic in the first quarter were Walmart and General Electric. Walmart’s scale and physical infrastructure position it to deploy AI to improve inventory management, pricing, and logistics efficiency across the largest retail distribution network in the world. General Electric’s re-rating reflects growing recognition that AI-driven optimization—from predictive maintenance to energy efficiency—will accrue to owners of scarce, mission-critical industrial assets.

Conversely, companies perceived as potential “AI losers” experienced sharp drawdowns as anxiety around disruption took hold. In the software and data space, the market rapidly discounted risks well ahead of evidence in earnings, free cash flow, or customer behavior. Several businesses we own that are exposed to data and software saw significant valuation compression, despite improving fundamentals. Anxiety—rather than realized impairment—was clearly at work.

Dislocation Creates Opportunity

Across our portfolio, we continuously reassess whether our companies are accelerating earnings growth, free cash flow generation, and dividend growth. In areas such as software, we see fundamentals improving even as valuations have compressed meaningfully. Dividend growth provides valuable insight into the durability of a business model and management’s confidence in future cash flows.

The market’s increasingly rash judgments—often based on incomplete information or momentary sentiment—have led to notable imbalances. While equal-weighted indices have outperformed, a significant percentage of individual constituents of the S&P500 remain down meaningfully from their highs. Beneath the surface, this has been a market defined by stress rather than uniform strength.

Some investors have responded by rotating from the digital world back into the physical one. This is reflected in what many have described as “HALO” stocks—companies with heavy assets and low obsolescence. These include beneficiaries of capital expenditure, supply chain normalization, robotics, and certain staples and industrial segments. While this rotation is understandable in

periods of uncertainty, it has also led to valuation distortions in certain areas; including those names exposed to a cyclical industrial recovery.

On the other hand, those names the market has decided are AI losers have been hit hard as investors' anxiety in the face of the unknown has played out. A primary driver of this quarter's volatility was a sharp year-to-date selloff in the software and information services sectors. This was fueled by a growing "bear case" suggesting that generative AI models, such as Claude, have strengthened the "build" argument for enterprises, potentially lowering the cost of software development and data collection thereby eroding traditional moats. In our portfolio, a number of names were hurt by this, including Intuit, Microsoft, Moody's, Verisk and MSCI. This group saw their stock prices drop an average 19% during the quarter despite reporting an average 20% EPS growth on 12% revenue growth in their latest quarterly results. It is obvious that anxiety is at play. Each of the companies provided tangible evidence how AI is helping reinforce their competitive advantages, not destroying it. Some examples include:

- In January alone, Intuit's AI agents categorized 237 million transactions, representing over half of all transactions for the month and saving small business customers an average of 12 to 14 hours per month. Their business tax agents helped uncover an average of over \$1,000 in incremental tax deductions for businesses.
- At Microsoft, GitHub Copilot now has 4.7 million paid subscribers, up 75% year-over-year, while Microsoft 365 Copilot paid seats grew to 15 million (up over 160% year-over-year) and Daily Active Users (DAU) increased 10x. Microsoft's AI business is now larger than several of its major legacy franchises.
- By integrating AI, Moody's has reduced the time required for complex due diligence tasks by up to 60% for some clients. Its AI powered Research Assistant (MRA) has seen rapid adoption, with over 350 enterprise clients already subscribing to the service.
- Verisk's customers are using new AI-powered tools such as XactAI for automatic photo tagging and Xact Gen for generative-based estimate creation, streamlining insurance claims process for carriers, contractors, and adjusters.
- At MSCI, AI is being used extensively to ingest and normalize large volumes of unstructured data and has led to a 30%-plus improvement in the cost per data point collected in certain segments. Management noted AI is dramatically lowering the barriers for clients to consume and use its proprietary intellectual property and data.

Growth That Defends, Dividends That Grow

In this environment, flows into “HALO” stocks and into higher-yielding, mature dividend stocks have been notable. These businesses are often perceived as insulated from technological disruption, but lower dividend growth typically signals lower long-term total return potential. At times like this, when narratives shift quickly from one uncertainty to the next, markets tend to favor perceived safety over potential growth.

When we compare our portfolio holdings with more mature, high-yielding companies, the difference is growth—earnings growth, cash-flow growth, and dividend growth. There is certainly a role for high-yield strategies in portfolios, but history suggests that high dividend growth more often delivers higher earnings, stronger total returns, and superior yield on cost over time.

Philosophically, our approach to growth is conservative. This posture was not fully rewarded during the speculative, concentrated growth phase that followed late 2022. However, we believe this same discipline positions us well as clarity improves, fears dissipate, and investors seek diversified and durable sources of growth. Companies with strong balance sheets, consistent business models, and the ability to compound dividends are, in our view, better positioned to outperform traditional growth strategies in uncertain environments.

We also believe our strategy pairs well with higher-yield approaches, which may continue to have moments of strength but are less likely to sustain leadership as conditions normalize.

Portfolio Positioning and Looking Ahead

Exiting the last quarterly reporting season, our 22 holdings delivered an average 14.2% revenue growth leading to 23.4% average EPS growth (medians of 12.2% and 17.6%, respectively). This compared the S&P 500's 9.4% revenue growth and 13.9% EPS growth. The portfolio's dividend growth was 14.6% over the last twelve months, compared to 5.5% for the S&P 500 Index. The fundamentals of our holdings are clearly strong, and we expect that to continue. Multiples have compressed, significantly in some instances, providing opportunity.

We are particularly excited about newer additions to the portfolio—businesses we believe can deliver persistent high dividend growth supported by clear structural drivers, disciplined capital allocation, and resilient demand. These characteristics continue to define our opportunity set and our investment process.

Targa Resources (TRGP) is a leading provider of midstream energy infrastructure in North America. TRGP is extremely well positioned to benefit from growing production in the Permian basin with its integrated wellhead to water infrastructure exposed to the best-in-class acreage and underpinned by relationships with the largest producers in it. Approximately, 90% of TRGP's operating margin is fee-

based, providing stable cash flows regardless of oil/gas prices. We believe the growing production will support 20%+ dividend growth over the next couple of years.

Walmart (WMT) is a leading global retailer with demonstrated resilience against inflationary pressures and changing consumer behaviors. The company is successfully transitioning from a traditional brick and mortar retailer to a technology-driven omnichannel business. WMT is also seeing structural margin expansion due to rapid growth in capital light, high margin revenue streams like advertising and membership income. We believe some of these margin benefits will be reinvested back in WMT's core value proposition – everyday low prices – driving more traffic, data and advertising and creating a flywheel that supports sustainable high dividend growth going forward.

Verisk (VRSK) is a leading data and analytics provider serving the insurance market in rating, underwriting, claims, catastrophe, weather risk, and many other fields. Originally founded as a nonprofit Insurance Services Office (ISO) – an association of insurance companies to gather statistical data and other information from insurers and report to regulators – we believe VRSK has a proprietary dataset competitors cannot replicate. Following a year where fewer severe weather events led to less demand for some of VRSK's key products, and a significant derating in the stock, we believe it represents a compelling opportunity going forward. Our double-digit dividend growth expectation is supported by a conservative payout ratio and a resilient business model characterized by a high portion of recurring, high margin subscription revenues.

We switched from Carrier Global (CARR) to **Trane Technologies (TT)**. We continue to like the HVAC space due structural growth drivers such as: global warming, increasing adoption in emerging and other economies, data centre demand, US reshoring and nearshoring, and the consistently growing, high margin service revenue streams. TT is more heavily weighted to commercial demand vs. residential compared to CARR, which has resulted in a more robust backlog and better operating performance over the last year. Recently, comments by Nvidia's CEO regarding liquid cooling of next generation chips raised concerns about the long-term positioning of more traditional HVAC products within the data center space. We believe these concerns are overblown particularly over the next 2-3 years and took the opportunity to upgrade our dividend growth expectations in an industry with many tailwinds.

The additions were funded by the sales of UnitedHealth, Domino's Pizza, Carrier and Old Dominion Freight Line, which all faced lower dividend growth predictions.

As we sit here in April, our portfolio reflects exposure to the full set of forces shaping the market: AI winners that paused, AI stocks we don't think should be perceived as losers, and asset-heavy businesses that rallied. Across the portfolio, we see strong and durable earnings trajectories and, for the majority of our holdings, more attractive valuations than we did entering the year.

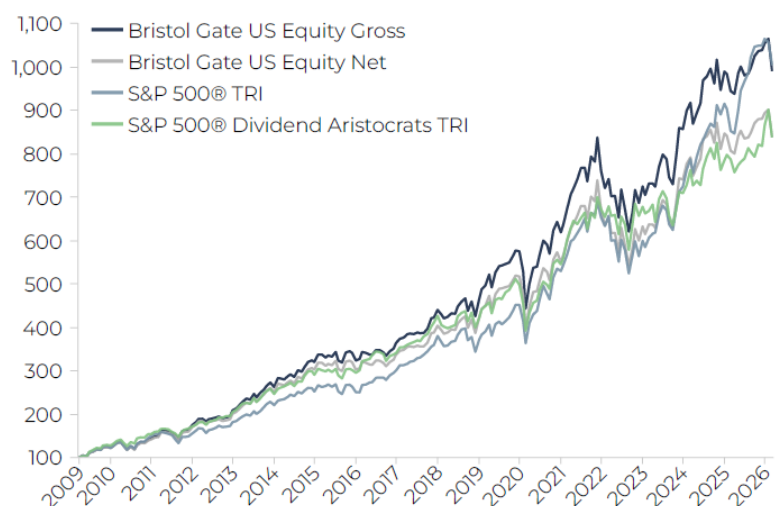
Periods of dissonance seldom resolve quietly. They resolve through differentiation. Like Bowie's momentary pause, the tension matters. We believe the pause we've witnessed this quarter has created opportunity—tightening prices, widening dispersion, and setting the stage for disciplined growth to reassert itself.

PORTFOLIO CHARACTERISTICS

	Portfolio		S&P 500® TRI
	Gross	Net	Gross
Number of Securities	22	22	503
Dividend Yield	1.0%	1.0%	1.3%
TTM Dividend Growth	14.6%	14.6%	5.5%
P/E	30.0	30.0	28.5
Forward P/E	24.0	24.0	19.4
Standard Deviation	14.8%	14.8%	14.2%
Sharpe Ratio	0.88	0.80	0.92
Sortino Ratio	1.49	1.34	1.54
Information Ratio	0.00	(0.19)	-
Up Capture	97.1%	94.6%	100%
Down Capture	93.8%	96.2%	100%
Tracking Error	5.23	5.23	-
Portfolio Alpha	0.39	(0.61)	-
Portfolio Beta	0.97	0.97	-
Active Share	86.9%	86.9%	-

GROWTH OF \$100,000 [USD]

As at March 31, 2026



The table shown above is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the Strategy or returns on investment in the Strategy.

PERFORMANCE RESULTS [USD] - Inception: May 15, 2009

Trailing Returns	ANNUALIZED									
	1M	3M	YTD	1YR	3YR	5YR	10YR	15YR	Since Inception	
Bristol Gate US Equity Gross	-7.0%	-4.7%	-4.7%	4.9%	10.6%	8.0%	11.2%	13.4%	14.5%	
Bristol Gate US Equity Net	-7.1%	-4.9%	-4.9%	3.8%	9.5%	6.9%	10.1%	12.3%	13.4%	
S&P 500® Dividend Aristocrats TRI	-7.1%	2.4%	2.4%	6.5%	7.8%	6.8%	10.0%	11.7%	13.4%	
S&P 500® TRI	-5.0%	-4.3%	-4.3%	17.8%	18.3%	12.1%	14.2%	13.3%	14.6%	

Calendar Returns	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Bristol Gate US Equity Gross	5.3%	2.9%	20.3%	0.8%	35.6%	11.4%	30.2%	-18.0%	25.2%	10.2%	9.7%
Bristol Gate US Equity Net	4.3%	1.8%	19.2%	-0.2%	34.3%	10.3%	29.0%	-18.8%	23.9%	9.1%	8.6%
S&P 500® Dividend Aristocrats TRI	0.9%	11.8%	21.7%	-2.7%	28.0%	8.7%	26.0%	-6.2%	8.4%	7.1%	7.3%
S&P 500® TRI	1.4%	12.0%	21.8%	-4.4%	31.5%	18.4%	28.7%	-18.1%	26.3%	25.0%	17.9%

Source: Bristol Gate Capital Partners. There is a risk of loss inherent in any investment; past performance is not indicative of future results. Please see important disclosures at end of document.

Important disclosures

There is a risk of loss inherent in any investment; past performance is not indicative of future results. Prospective and existing investors in Bristol Gate's pooled funds or ETF funds should refer to the fund's offering documents which outline the risk factors associated with a decision to invest. Separately managed account clients should refer to disclosure documents provided which outline risks of investing. Pursuant to SEC regulations, a description of risks associated with Bristol Gate's strategies is also contained in Bristol Gate's Form ADV Part 2A located at www.bristolgate.com/regulatory-documents.

The information contained herein is obtained from multiple sources that are believed to be reliable. However, such information may not have been verified, and may be different from the information included in documents and materials created by a sponsor firm in whose investment program a client participates. Some sponsor firms may require that these Bristol Gate materials are preceded or accompanied by investment profiles or other documents or materials prepared by such sponsor firms, which will be provided upon a client's request. There may be discrepancies between Bristol Gate's performance returns and the returns included in a sponsor firm's profile document (for example, but not limited to, differences in account size/type, portfolio management strategies, the number of securities held, average account size, inclusion of institutional or mutual fund accounts, etc.) For additional information, documents and/or materials, please speak to your Financial Advisor.

US Equity Strategy returns in this report refer to the Bristol Gate US Equity Strategy Composite (the "US Composite"). The US Composite consists of equities of publicly traded, dividend paying US companies. The US Composite is valued in US Dollars and for comparison purposes is measured against the S&P 500 Total Return Index. The US Composite's Investment Advisor, Bristol Gate Capital Partners Inc., defines itself as a portfolio manager, exempt market dealer and investment fund manager (as per its registration in Ontario, its principal regulator in Canada) and is also a Registered Investment Adviser with the U.S. Securities and Exchange Commission (the "SEC"). The Investment Advisor's objective is to select companies with positive dividend growth, and which collectively will generate over the long term a growing income and capital appreciation for investors. The inception date of the US Composite is May 15, 2009. The US Dollar is the currency used to measure performance, which is presented on a gross and net basis and includes the reinvestment of investment income. The US Composite's gross return is gross of withholding tax prior to January 1, 2017 and is net of withholding tax thereafter. Net returns are calculated by reducing the gross returns by the maximum management fee charged by Bristol Gate of 1%, applied monthly. Actual investment advisory fees incurred by clients may vary. There is the opportunity for the use of leverage up to 30% of the net asset value of the underlying investments using a margin account at the prime broker. Thus far no material leverage has been utilized. An investor's actual returns may be reduced by management fees, performance fees, and other operating expenses that may be incurred because of the management of the US Composite. A performance fee may also be charged on some

accounts and funds managed by the firm. Bristol Gate claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. To obtain a GIPS Composite Report, please email us at info@bristolgate.com.

The S&P 500® Total Return Index measures the performance of the broad US equity market, including dividend re-investment, in US dollars. This index is provided for information only and comparisons to the index has limitations. The benchmark is an appropriate standard against which the performance of the strategy can be measured over longer time periods as it represents the primary investment universe from which Bristol Gate selects securities. However, Bristol Gate's portfolio construction process differs materially from that of the benchmark and the securities selected for inclusion in the strategy are not influenced by the composition of the benchmark. For example, the strategy is a concentrated portfolio of approximately equally weighted dividend-paying equity securities, rebalanced quarterly whereas the benchmark is a broad stock index (including both dividend and non-dividend paying equities) that is market capitalization weighted. As such, strategy performance deviations relative to the benchmark may be significant, particularly over shorter time periods. The strategy has concentrated investments in a limited number of companies; as a result, a change in one security's value may have a more significant effect on the strategy's value.

In addition to the US Equity strategy's benchmark described above, the following additional Index data may be presented for information purposes only and comparisons to these Indices has limitations:

S&P 500® Total Return Dividend Aristocrats Index measures the performance of a subset of S&P 500® Index companies that have increased their dividends every year for the last 25 consecutive years. This Index focuses on historical dividend growth, whereas Bristol Gate's US Equity strategy's securities are selected based on future dividend growth.

State Street® SPDR® S&P 500® ETF Trust (SPY US) sourced from Bloomberg has been used as a proxy for the S&P 500® Total Return Index for the purpose of providing some of the non-return-based portfolio statistics and sector weightings in this report. SPY US is an ETF that seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of the S&P 500® Index.

This Report is for information purposes and should not be construed under any circumstances as a public offering of securities in any jurisdiction in which an offer or solicitation is not authorized. Prospective investors in Bristol Gate's pooled funds or ETF funds should rely solely on the fund's offering documents, which outline the risk factors associated with a decision to invest. No representations or warranties of any kind are intended or should be inferred with respect to the economic return or the tax implications of any investment in a Bristol Gate fund.

This piece is presented for illustrative and discussion purposes only. It should not be considered as personal investment advice or an offer or solicitation to buy and/or sell securities and it does not consider unique objectives, constraints, or financial needs of the individual. Under no circumstances does this piece suggest that you should time the market in any way or make investment decisions based on the content. Investors are advised that their investments are not guaranteed, their values change frequently, and past performance may not be repeated. References to specific securities are presented to illustrate the application of our investment philosophy only, do not represent all of the securities purchased, sold or recommended for the portfolio, and it should not be assumed that investments in the securities identified were or will be profitable and should not be considered recommendations by Bristol Gate Capital Partners Inc. A full list of security holdings is available upon request. For more information contact Bristol Gate Capital Partners Inc. directly. The information contained in this piece is the opinion of Bristol Gate Capital Partners Inc. and/or its employees as of the date of the piece and is subject to change without notice. Every effort has been made to ensure accuracy in this piece at the time of publication; however, accuracy cannot be guaranteed. Market conditions may change and Bristol Gate Capital Partners Inc. accepts no responsibility for individual investment decisions arising from the use of or reliance on the information contained herein. We strongly recommend you consult with a financial advisor prior to making any investment decisions. Please refer to the Legal section of Bristol Gate’s website for additional information at bristolgate.com.

A Note About Forward-Looking Statements

This report may contain forward-looking statements including, but not limited to, statements about the Bristol Gate strategies, risks, expected performance and condition. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events and conditions or include words such as “may”, “could”, “would”, “should”, “expect”, “anticipate”, “intend”, “plan”, “believe”, “estimate” and similar forward-looking expressions or negative versions thereof.

These forward-looking statements are subject to various risks, uncertainties and assumptions about the investment strategies, capital markets and economic factors, which could cause actual financial performance and expectations to differ materially from the anticipated performance or other expectations expressed. Economic factors include, but are not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

Readers are cautioned not to place undue reliance on forward-looking statements and consider the above-mentioned factors and other factors carefully before making any investment decisions. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith. Forward-looking statements are not guarantees of future performance, and

actual results could differ materially from those expressed or implied in any forward-looking statements. Bristol Gate Capital Partners Inc. has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise, except as required by securities legislation.