

## QUARTERLY LETTER

Our first quarter letter was written right on the heels of so-called “Liberation Day.” We highlighted the elevated level of uncertainty in the marketplace caused by tariff turmoil. Despite the related weakness in consumer sentiment, we cautioned investors *against* becoming too defensive or making knee-jerk changes to their established long-term investment plans.

Fast forward just 90 days and the stock market has experienced a sharp recovery – this is based, in part, on an easing level of uncertainty with tariff negotiations progressing. Additionally, the U.S. economy continues to be in a strong position, spending on the development and adoption of artificial intelligence (AI) is booming, and corporate earnings are growing.

While volatility and market corrections will certainly lie ahead, it appears that the market is set to experience a lower level of uncertainty than contemplated earlier this year. Two key variables, inflation and corporate profit margins, have been feared to be negatively impacted by tariffs. But as outlined below, the data for each is yet to show such effects.

## Consumer Price Index (CPI)

CPI measures prices paid by consumers for a market basket of goods and services (i.e., the rate of inflation). Consumers want predictable prices and the Federal Reserve works to accommodate that by targeting a moderate and stable inflation rate of 2 percent.

Exhibit 1 below depicts how the “Core” (which excludes the index’s more volatile food and energy components) CPI has been relatively well contained for the past 25 years. It only spiked in the aftermath of the COVID pandemic where stimulus was abundant and supply chains were abnormally disrupted.

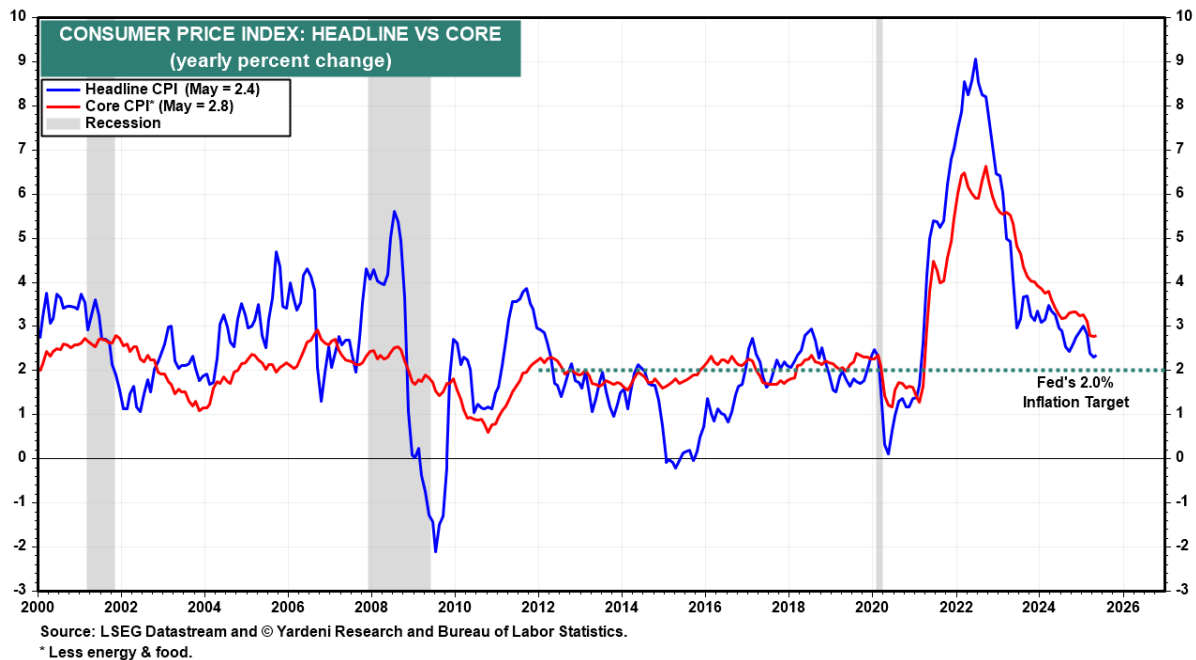
For the past two years, inflation has been reverting toward the Fed’s long-term target. Recent tariff turmoil has threatened to break this progress, but these fears of inflationary pressure have yet to materially show up in the macro data. This is partly owed to a potentially permanent postponement of drastically elevated tariff levels initially proposed.

## PORTFOLIO MANAGEMENT TEAM

STEVE ALLEY, PRESIDENT  
RIK DURYEA, CFA  
TOM VAN VUREN, CFA



## Exhibit 1: Inflation a Key Variable

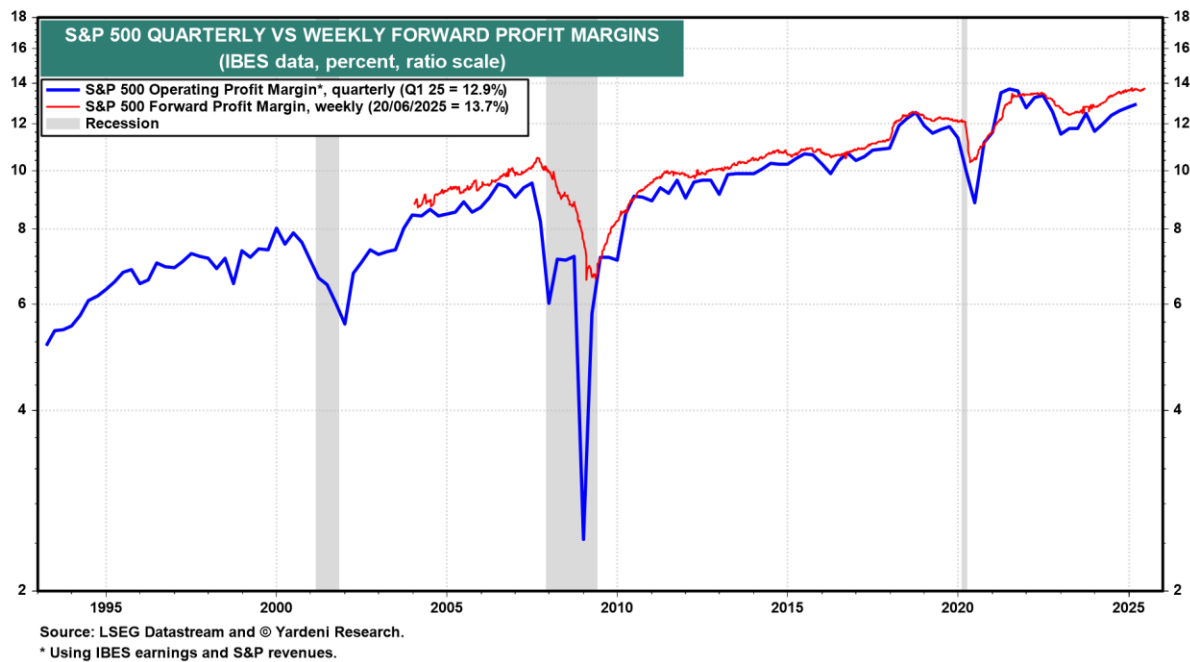


## Corporate Profit Margins

As Exhibit 2 below illustrates, corporate profits as a percentage of revenues (i.e., profit margins) have been drifting higher over the past three decades with only short-term interruptions caused by recessionary periods.

Because tariffs are implemented as a tax on the company that imports goods, it has been feared that corporate profit margins in the U.S. could take a hit. While this impact could still be ahead, it should be noted that many U.S. companies are not big importers and astute management teams will continue to mitigate the impact through adjusting supply chains, passing on price increases, and increasing productivity.

## Exhibit 2: Strong Corporate Profitability



## Quarterly Performance Update

During the second quarter of 2025, the Alley Company Dividend Portfolio underperformed the Russell 1000 Value Index. The strategy modestly outperformed the benchmark year-to-date through the quarter's end.

From an individual holdings perspective, top contributors to and detractors from performance in the portfolio during the second quarter were:

Top Contributors	Top Detractors
Microsoft (MSFT)	AbbVie (ABBV)
JPMorgan Chase & Co. (JPM)	Chevron (CVX)
Philip Morris International Inc (PM)	Kenvue (KVUE)

Top and bottom performing sectors in the Russell 1000 Value Index during the quarter are displayed in the table below. (+) and (-) symbols indicate the Dividend Portfolio being overweight or underweight the sector relative to the benchmark weighting.

Top Performing Sectors	Bottom Performing Sectors
Industrials (-)	Healthcare (-)
Technology (+)	Energy (-)
Financial Services (+)	Real Estate (-)

## Portfolio Changes

During the quarter, Merck (MRK) was sold as multiple factors weigh on its fundamental prospects, including the impending 2028 loss of exclusivity for its top-selling drug, Keytruda, and weakness in its Gardasil line driven by challenges in the Chinese market.

Morgan Stanley (MS) was increased during the quarter based on a strong fundamental outlook for the company.

A position was initiated in AT&T (T). It is one of the leading U.S. wireless carriers and management has positioned the company well as fiber internet service gains in popularity. AT&T presently maintains the largest fiber coverage footprint in the U.S. The company boasts an attractive dividend yield and solid balance sheet.

## Dividend Announcements

Dividend announcements among Alley Company Dividend Portfolio holdings during the calendar year are below:

Q1 2025	
Company	Dividend Change
Arthur J. Gallagher (AJG)	+8%
BlackRock (BLK)	+2%
Chevron (CVX)	+5%
Cisco Systems (CSCO)	+3%
Home Depot (HD)	+2%
JPMorgan Chase (JPM)	+12%
NextEra Energy (NEE)	+10%
Prologis (PLD)	+5%

Q2 2025	
Company	Dividend Change
Apple (AAPL)	+4%
Ameriprise (AMP)	+8%
Paychex (PAYX)	+10%
Procter & Gamble (PG)	+5%
Parker-Hannifin (PH)	+10%
Phillips 66 (PSX)	+4%

## Alley Company Dividend Portfolio

The investment philosophy of the Alley Company Dividend Portfolio focuses on striking the balance between attractive absolute dividend yield and strong dividend growth underpinned by solid company fundamentals of our portfolio holdings. We employ a bottom-up, research-driven process focused on fundamental analysis of our portfolio holdings.

### ALLEY COMPANY

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Alley Company is a boutique investment management firm that is dedicated to operating a discernible and disciplined investment philosophy and generating superior risk-adjusted investment returns. Alley Company was originally founded in 1998 and in 2006 established the Alley Company Dividend Portfolio to capitalize on investment opportunities in quality companies with strong dividend-paying cultures

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