

### QUARTERLY LETTER

Warren Buffett, commonly known as one of the most successful investors of all time, retired as CEO of Berkshire Hathaway at the end of 2025. Since our founding in 1998, Alley Company’s investment philosophy has been influenced by Mr. Buffett in the sense that we endeavor to own high-quality businesses in client portfolios with a long-term time horizon.

Buffett’s viewpoint on *value investing* evolved during his career as he was influenced by his long-time business partner, Charlie Munger. Munger emphasized the merit in shifting focus to high-quality businesses that trade at fair prices rather than low-quality (perhaps troubled) businesses even if they appear to offer attractive prices. Buffett himself summed this up well in Berkshire’s 1989 letter to shareholders when he stated: *“it’s far better to buy a wonderful business at a fair price than a fair company at a wonderful price.”*

Given our focus on dividend paying companies, it is essential to favor high-quality businesses that are durable and have the wherewithal to continue distributing dividends to shareholders, even through economic turbulence and market cycles. Such durable businesses that have attractive future prospects and astute management teams should also possess the potential to *grow* dividend distributions over time.

One of Buffett’s most notable successes was his investment in Coca-Cola, which is a great example of the power of compounding and dividend growth. Buffett highlighted this in Berkshire’s 2010 annual report, when he wrote:

**“Coca-Cola paid us \$88 million in 1995, the year after we finished purchasing the stock. Every year since, Coke has increased its dividend. In 2011, we will almost certainly receive \$376 million from Coke, up \$24 million from last year. Within ten years, I would expect that \$376 million to double. By the end of that period, I wouldn’t be surprised to see our share of Coke’s annual earnings exceed 100% of what we paid for the investment. Time is the friend of the wonderful business.”**

Today, Berkshire now receives approximately \$816 million in dividends from Coca-Cola, which represents a yield of approximately *63 percent* when measured against the original cost basis of \$1.3 billion.

We’ll miss Mr. Buffett being CEO of Berkshire Hathaway, but the wisdom he has put forth during his 7-decade investing career will continue to provide guidance for future generations of investors in the years ahead. No

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doubt, it's an interesting time for Buffett to be retiring given the frenzied buildout of nascent artificial intelligence (AI) capabilities around the world. Throughout his career, Buffett notably avoided much of the technology sector, claiming these businesses weren't in his circle of competence. With that said, Buffett also believed that innovation and productivity are *the secret sauce* of the American economic system.

## Quarterly Performance Update

During the fourth quarter of 2025, the Alley Company Dividend Portfolio underperformed the Russell 1000 Value Index. For the full year 2025, the portfolio also underperformed the index but still produced attractive double-digit total returns on a gross-of-fee basis (see Q4 2025 Fact Sheet).

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

Top Contributors	Top Detractors
Alphabet Inc (GOOGL)	Arthur J. Gallagher (AJG)
Amgen (AMGN)	The Home Depot (HD)
Prologis (PLD)	Paychex (PAYX)

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

Top Performing Sectors	Bottom Performing Sectors
Technology (-)	Real Estate (-)
Communication Services (-)	Utilities (+)
Healthcare (-)	Consumer Staples (+)

## Portfolio Changes

A position was initiated in **Eaton Corporation (ETN)**. The company's steady presence within the American industrial economy dates back to its 1911 founding. Presently, the bulk of Eaton's end-industries served have substantial secular tailwinds that bolster its prospects for years to come, namely, the electrical and aerospace segments. The company's proven operating ability coupled with a consecutive annual dividend payment track record that stretches longer than a century makes for an attractive investment.

**Illinois Tool Works (ITW)** was sold due to mixed fundamentals across its myriad industrial business lines, which results in a tepid outlook for the overall company.

Trims: **AbbVie (ABBV)**

Adds: **CME Group (CME)**

## 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%

Q3 2025	
Company	Dividend Change
Duke Energy Corp (DUK)	+2%
Illinois Tool Works (ITW)	+7%
JPMorgan Chase (JPM)*	+7%
Kenvue (KVUE)	+1%
Morgan Stanley (MS)	+8%
Microsoft (MSFT)	+10%
Philip Morris International (PM)	+9%
US Bancorp (USB)	+4%
Verizon (VZ)	+2%

Q4 2025	
Company	Dividend Change
Abbott Labs (ABT)	+7%
AbbVie (ABBV)	+5%
Amgen (AMGN)	+6%
Capital One (COF)	+33%
Lockheed Martin (LMT)	+5%
Starbucks (SBUX)	+2%
Snap-on (SNA)	+14%
WEC Energy Group (WEC)	+7%

## 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.

\*JPMorgan Chase has increased their dividend twice this year for a total increase of 20% compared to the prior year.

## 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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