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Q2 2026 High Quality Dividend Commentary

SUMMARY

- Markets were up strongly, reversing Q1 losses, with the S&P 500 Index up ~15 percent on a combination of strong earnings, artificial intelligence (AI) optimism, and lower oil prices, as the Iran-related risk abated.
- In a volatile market influenced by an Information Technology (IT) sector investing trend, Breckinridge's rules-based security selection process delivered positive risk-adjusted performance in the near term, as it pursues its long-term objectives.

The following commentary is a summary performance update for the Breckinridge High Quality Dividend (HQD) and Sustainable High Quality Dividend (SHQD) Strategies, which offers timely insights into Breckinridge's repeatable rules-based process focused on delivering consistent dividend growth and long-term capital appreciation, as equity market cycles turn.

The Breckinridge HQD and SHQD Strategies employ a rules-based security selection process grounded in the firm's core belief in quality investing. As such, its disciplined investing process seeks out companies with strong balance sheets and the potential for increased dividends over time. Stocks are selected by emphasizing factors that reflect these traits, including high return on equity (ROE), a long track record of growing dividends, dividend yield, low payout ratios and proprietary investment grade (IG) credit ratings, as determined by Breckinridge's team of specialist corporate credit analysts.

Breckinridge's HQD Strategy outperformed the Bloomberg U.S. Large Cap Index (B500, the Index) by ~3.4 percent during Q2 2026 and by ~8.3 percent year-to-date (YTD) through 6/30/26, on a net basis (See Figure 1). SHQD outperformed the Index by ~1.6 percent and ~6.1 percent (net) for the same periods, respectively.

FIGURE 1: HQD & SHQD PERFORMANCE AS OF JUNE 30, 2026

	QTD	YTD	1-Year	Since Inception*
High Quality Dividend				
Gross	18.97%	18.53%	31.59%	21.26%
Net	18.90%	18.38%	31.23%	20.86%
B500	15.61%	10.20%	22.09%	23.71%
Sustainable High Quality Dividend				
Gross	17.17%	16.34%	28.76%	13.59%
Net	17.10%	16.20%	28.41%	13.22%
B500	15.61%	10.20%	22.09%	14.24%

*HQD incepted on 10/1/22 and SHQD incepted on 4/1/22.

Net results include a maximum advisory fee of 25 basis points ("bps") after October 1, 2025 and 35 bps before that date. Previously, net returns subtracted an annual max fee of 35 bps, pro-rated for partial years, from compounded gross returns. Strategy results include reinvested earnings but exclude brokerage or trading costs. Past performance is not indicative of future results, and there can be no assurance that any investment strategy will achieve its investment objective or avoid losses. All investments involve risk, including the possible loss of principal. GIPS reports are available here.

Attribution

During the quarter, portfolio outperformance came entirely from security selection. Sector allocation underperformed due to a significant underweight to the IT sector, which continued to outperform the market. Despite this underweight, it was the IT names in our strategy that have meaningfully contributed to the Strategy's outperformance. On the negative side, performance of consumer names like Costco and Pepsi lagged their sector while exposure to defense company Lockheed Martin also underperformed (See Figure 2).

FIGURE 2: SECOND QUARTER TOP & BOTTOM PERFORMANCE CONTRIBUTORS

HQD Top/Bottom Contributors 2Q26			
Top 10	**Average % Weight**	**Contribution to Return (%)**	**Total Return (%)**
APPLIED MATERIALS INC.	3.55	3.18	111.80
LAM RESEARCH CORP.	3.81	3.02	102.95
KLA CORP.	2.48	2.09	105.18
CATERPILLAR INC.	3.88	1.72	50.60
UNITEDHEALTH GROUP INC.	3.39	1.52	54.47
ELI LILLY & CO.	4.08	1.22	30.63
GENERAL ELECTRIC	3.35	1.03	31.70
TEXAS INSTRUMENTS INC.	2.40	1.03	54.31
AMPHENOL CORP-CL A	1.77	0.66	39.77
APPLE INC.	4.16	0.59	14.12
Bottom 10	**Average % Weight**	**Contribution to Return (%)**	**Total Return (%)**
ACCENTURE PLC-CL A	1.05	-0.46	-36.69
PEPSICO INC.	1.99	-0.26	-11.90
LOCKHEED MARTIN CORP.	1.28	-0.23	-15.14
ABBOTT LABORATORIES	1.65	-0.23	-11.07
COSTCO WHOLESALE CORP.	3.71	-0.22	-5.98
ZOETIS INC.	0.42	-0.22	-38.95
CONOCOPHILLIPS	0.69	-0.17	-20.67
COMCAST CORP-CLASS A	0.95	-0.16	-13.48
NIKE INC -CL B	0.52	-0.15	-21.59
DEVON ENERGY CORP.	0.60	-0.12	-17.28

SHQD Top/Bottom Contributors 2Q26			
Top 10	**Average % Weight**	**Contribution to Return (%)**	**Total Return (%)**
APPLIED MATERIALS INC.	3.83	3.42	111.80
LAM RESEARCH CORP.	4.11	3.25	102.95
CISCO SYSTEMS INC.	4.35	1.89	52.19
UNITEDHEALTH GROUP INC.	3.65	1.63	54.47
CATERPILLAR INC.	3.39	1.50	50.60
TEXAS INSTRUMENTS INC.	2.59	1.11	54.31
ELI LILLY & CO.	3.04	0.90	30.63
QUALCOMM INC.	2.10	0.75	44.04
MORGAN STANLEY	2.39	0.62	27.69
GOLDMAN SACHS GROUP	2.87	0.56	20.06
Bottom 10	**Average % Weight**	**Contribution to Return (%)**	**Total Return (%)**
ACCENTURE PLC-CL A	1.13	-0.49	-36.69
CONOCOPHILLIPS	1.43	-0.35	-20.67
CME GROUP INC.	1.10	-0.30	-24.85
PEPSICO INC.	2.15	-0.28	-11.90
LOCKHEED MARTIN CORP.	1.38	-0.25	-15.14
ABBOTT LABORATORIES	1.78	-0.25	-11.07
ZOETIS INC.	0.45	-0.23	-38.95
COMCAST CORP-CLASS A	1.02	-0.17	-13.48
NIKE INC-CL B	0.56	-0.17	-21.59
COSTCO WHOLESALE CORP	2.76	-0.16	-5.98

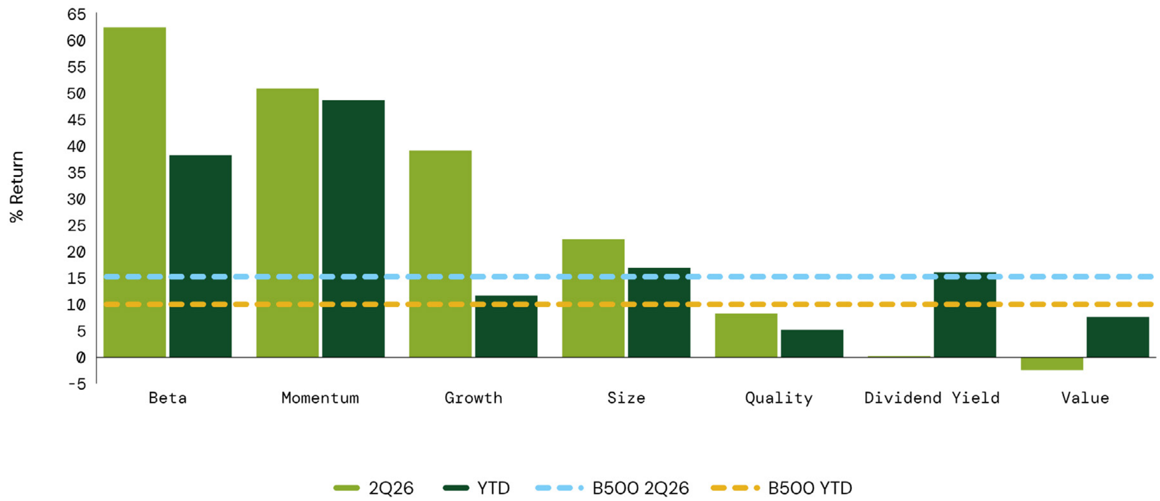
Source: Bloomberg.

The securities identified above represent the ten largest positive and ten largest negative contributors to portfolio return for the period shown and do not represent all securities purchased, sold or recommended for client accounts. The methodology used to identify securities is applied consistently based on each security's contribution to portfolio return during the period. Contribution to return and security-level total returns shown above are presented gross of investment management fees and other expenses and should not be interpreted as the return experienced by an investor. Please refer to the accompanying gross and net performance of the applicable strategy for information regarding the effect of fees and expenses on investment returns. Past performance does not guarantee future results.

Factor Spotlight

Value and Quality underperformed during the quarter, as Momentum and Growth dominated overall market returns (See Figure 3). While the HQD/SHQD model maintains a High Value and High-Quality bias, stock selection was strong, which supported strong returns during the period. Most of the portfolios' IT holdings benefited from continued AI growth, resultant earnings beats, and upward estimate revisions that drove continued stock appreciation in the sector.

FIGURE 3: FACTOR RETURNS FAVORED BETA & MOMENTUM IN THE SECOND QUARTER



Source: Bloomberg.

Factor returns reflect equal weighting of constituents in a long / short framework + the broad market return of the B500 for each period. Constituents are re-balanced monthly. Factor Returns are derived from subtracting the average stock returns of companies included in the 1st quintile from those included in the 5th quintile. Factors are defined as follows; Beta: the sensitivity of excess stock returns vs excess returns of the cap-weighted market portfolio; Momentum: the trailing 12-month returns minus the most recent month; Growth: a composite of trailing and forward growth characteristics including historical 5-year sales growth, historical 5-year earnings growth, consensus estimated growth for 2-year and 3-year forward EPS; Size: log of market capitalization; Quality: a composite of profitability (including Return on Equity, Return on Assets and Profit Margin), leverage and variability (of sales earnings and cash flows); Dividend yield: annual dividends per share divided by price per share; Value: a composite of valuation (book to price, sales to price, cash flow to price) and earnings yield (trailing and forward earnings yield).

Stock Spotlight

In the HQD Strategy's post 6/30 quarterly rebalance, NVIDIA (NVDA) entered the portfolio at a ~4 percent weight. NVDA, which started paying dividends in 2012, thus meeting the model's 10-year minimum eligibility screening criteria, had previously fallen short of the model's de minimis dividend yield standard. It moved to the top of the model's rules-based ranking during Q2, as the company hiked the dividend significantly to $0.25/share from just $0.01/share previously.

NVDA's entry into the HQD strategy results in it now owning three of the MAG 7 stocks, as it joins Apple (AAPL) and Microsoft (MSFT). The SHQD strategy holds only MSFT at this point. Additional companies that entered the HQD strategy include Hartford Insurance, where the internal credit rating was upgraded during the quarter resulting in an increase in ranking from 38 to 15; Intuit—where the dividend yield increased materially, helping it to improve in rank from 44 to 19; and Wells Fargo—which maintained its strong ranking and entered the strategy. Four companies also were divested from the strategy, including Texas Instruments and UnitedHealth—due to price appreciation that reduced the dividend yield; Merck—due to lower earnings that resulted in a higher payout ratio and lower ROE; and Cintas—on weak dividend growth. There were no changes in holdings in the SHQD strategy over the quarter. These are examples of the strategy's rules-based framework in motion (See Figure 4).

FIGURE 4: PORTFOLIO CHANGES IN HQD STRATEGY

				Contribution to Rank Change				
	Company	**New Rank**	**Prior Rank**	**ROE**	**Payout**	**Dividend Growth**	**Rating**	**Dividend Yield**
New Positions	NVIDIA	1	Previously ineligible due to de minimis dividend yield					
	Hartford Insurance	15	38	2%	-3%	4%	76%	22%
	Intuit	19	44	2%	6%	8%	-5%	89%
	Wells Fargo	29	28	Immaterial changes				
Exited Positions	Texas Instruments	96	57	4%	10%	-13%	-2%	-99%
	Merck & Co.	104	30	-41%	-59%	-4%	-1%	4%
	UnitedHealth	99	67	-14%	-1%	-2%	-3%	-81%
	Cintas	95	77	-8%	-8%	-103%	-8%	27%

Source: Bloomberg.

The securities shown represent all positions added to and all positions exited from the Strategy during the period indicated. The presentation is intended to illustrate changes to the Strategy during the period and should not be considered a recommendation to buy or sell any security. Securities identified do not represent all securities purchased, sold or held by the Strategy during the period, and no assumption should be made that investments in the securities identified were or will be profitable. The securities shown were selected solely based on their status as new or exited positions during the period and were not selected based on investment performance. Holdings and portfolio characteristics are subject to change without notice. Past performance does not guarantee future results.

Looking Ahead

While not overly worrisome at current valuation levels, increased volatility due to uncertainty about future returns on the massive AI spend cycle could drive investor sentiment away from IT. Interestingly, upward inflation and rates have not had the same immediate impact on valuations as prior inflation scares (as compared to Q4 2022, for example), which likely means the market currently is discounting this as temporary. There is clearly a battle in the minds of many investors pitting AI efficiency against structural inflation drivers from deglobalization, labor power, and energy volatility.

The HQD and SHQD process discipline helps Breckinridge to look beyond the short-term view that the IT sector's relative performance will drive portfolio performance. As seen this quarter, the Strategy outperformed thanks to solid security selection, even with a healthy underweight to IT during a period in which the sector outperformed. IT positions in the portfolio significantly outperformed the sector and the market.

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