Nicola U.S. Equity Income Fund
Quarterly Report | Q2 2025

Overview

The Nicola U.S. Equity Income Fund seeks to deliver a differentiated approach to U.S. equity investing by targeting high-quality companies with strong free cash flow, sustainable profitability, and compelling valuations. Through a research-intensive, bottom-up process, the Fund consists of a concentrated, all-cap portfolio that looks distinct from traditional benchmarks. With the strategic use of options to enhance income and manage entry points, the Fund aims to provide a combination of long-term capital growth and stable income in one of the world's most dynamic markets.

Highlights

Disciplined, long-term quality approach – A bottom-up process independently assesses quality, risk, and return potential, focusing on companies with sustainable competitive advantages.

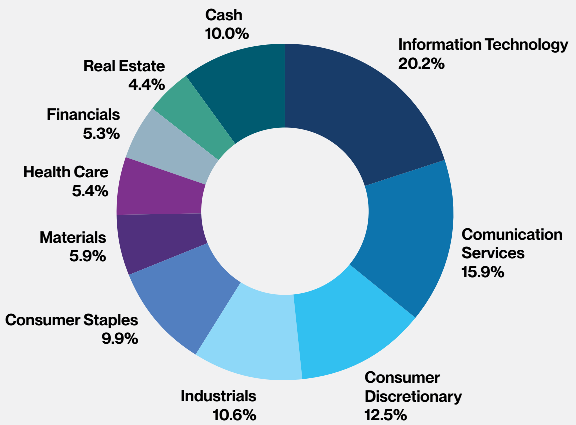
Strategic diversification – Access an "all cap" U.S. equity strategy that invests across diverse sectors, with concentrated positions based on compelling risk-reward assessment.

Bottom-up research-intensive process – The Fund uses a proprietary scoring of quality attributes made up of sustainable competitive advantages, financial metrics, and management strength; consideration of risk attributes related to regulation, geopolitical, macroeconomic, and obsolescence; and financial modelling to derive margin of safety.

Strategic use of options – The Fund may utilize call and put writing strategies to generate additional income and/or potentially acquire holdings at more desirable prices, provided the compensation is deemed sufficient.

Benchmark differentiation – Gain exposure to a portfolio that actively differs from benchmarks like the S&P 500, offering the potential offering the potential for differentiated performance through unique holdings and flexible allocations.

HOLDINGS BY SECTOR
as of June 30, 2025



Equity Characteristics

Forward Price-to-Earnings (P/E)	**26.0x**
Net Debt-to-Forward EBITDA	**0.8x**
Return on Equity	**28.0%**
# of Holdings	**34**
Dividend Yield [1]	**1.1%**

Returns as of June 30, 2025

	CAD	USD
YTD	1.8%	7.4%
1 month	2.4%	3.2%
3 month	5.3%	11.2%
6 month	1.8%	7.4%
1 year	16.4%	16.9%
3 year	19.4%	17.2%
5 year	15.9%	15.8%
10 year	13.8%	12.8%
Since inception*	14.4%	12.4%

November 7, 2014

Calendar Year Returns

	CAD	USD
2024	24.9%	14.9%
2023	17.5%	20.3%
2022	-2.4%	-8.6%
2021	24.7%	25.3%
2020	18.5%	20.8%
2019	24.3%	30.7%
2018	2.2%	-5.9%
2017	16.7%	24.6%
2016	5.3%	8.5%
2015	19.2%	-0.1%

Performance

For Q2, USEIF returned +11.2%. Top contributors to the Fund included:

1. **Broadcom:** Solid Q2 earnings (with AI revenues up almost +50% YoY) with management providing a positive outlook. The broader semiconductor sector was strong contributing almost 40% of S&P500 returns for the quarter, as hyperscaler customers appear to continue doubling down on AI investments.
2. **Microsoft:** Strong Q3 earnings beat consensus across the board including at Azure (driven by continued cloud transitions) and an accelerating contribution from AI (+16%, versus +13% the previous quarter). Profitability measures were also encouraging with signs of positive operating leverage and capital expenditures expected to grow at a slower pace in fiscal 2026.
3. **Netflix:** The market rewarded the company's perceived status as a technology "safe haven" and largely looked through the noise around speculated Trump tariffs on foreign-made films. Solid execution continued as the company reported Q1 results which beat consensus operating margins, reiterated guidance, indicated advertising was on-track to roll out internationally in the coming months, and bought back more shares than expected.

Bottom contributors to the Fund included:

1. **UnitedHealth Group:** Management reported Q1 results that fell short of consensus expectations and lowered guidance meaningfully. As negative news headlines and regulatory investigations continued to swirl, the CEO stepped down and the company suspended guidance entirely citing higher-than-expected medical expenses.
2. **LVMH:** The company reported poor Q1 results with organic revenue growth missing consensus estimates driven by weakness in its flagship Fashion & Leather Goods division as consumer spend remained soft particularly in China.
3. **Equifax:** We exited our position in Equifax, which was negatively impacted (along with the broader market) by Trump's announcement of tariffs on Liberation Day, to transition into higher-quality names.

Assets under management was US$622.2M as of the end of June.

New Investments and Divestments

USEIF initiated long positions in the following companies:

- **United Rentals:** The leader in the equipment rental industry benefits from high switching costs (rental costs represent a very low percentage of budgets, yet account for an outsized impact within construction and industrial projects) and an attractive Enterprise tier of customers. There is sufficient white space to grow, and we have confidence in management's track record in execution and M&A. The stock had pared gains due to macroeconomic concerns, which created an attractive entry point opportunity for a highly cyclical name.
- **Waste Connections:** The third largest waste management company in North America operates a vast network of collection and disposal sites, focusing exclusively on non-hazardous waste in secondary and less competitive markets. Differentiated through a higher residential mix, bigger focus on core waste and M&A discipline, we view their earnings quality as the highest within the waste management subsector.
- **TJX:** Off-price retailers offer a unique "treasure hunt" value proposition to customers by selling merchandise at prices generally 20%-60% below full-price retailers' prices, and TJX is the leading operator. We believe the valuation premium versus peers is justified given TJX's higher-quality business underpinned by scale advantages (TJX is the "first call" for vendors, translating into product availability and attractive volume discounts), a best-in-class buying team and supply chain infrastructure, and a unique international presence offering additional avenues for growth and unique product sourcing.
- **Hermes:** Hermes is a French luxury house renowned for its unrivaled brand power, exceptional craftsmanship, and fully integrated supply chain. With the company largely catering to the ultra-high net worth client base, revenues should benefit from low sensitivity to macroeconomic trends and longer-term growth in spending power.
- **Coca-Cola:** Coca-Cola is fundamentally a marketing-driven beverage company, and while about 70% of its volumes are carbonated soft drinks, the company is diversifying to become a "total beverage company" as demand shifts toward healthier and functional options. Coca-Cola also stands out among global beverage peers for its geographic reach with approximately 70% of earnings derived from outside North America. We believe the company offers decent returns within a low-risk business model with less sensitivity to reductions in broader consumer spending.

The new positions were partly funded through the divestments of Lamb Weston, WESCO, Equifax, UnitedHealth Group, Ross Stores, and Lululemon.

Our Thoughts On:

The U.S. Market

U.S. market activity during Q2 of 2025 amounted to one of the most dramatic “V-shaped” recoveries in recent memory. Stocks plunged in early April as Trump announced the planned imposition of tariffs on major trading partners on Liberation Day, but the White House eventually paused most duties. Moreover, Q1 corporate earnings were strong (largely beating consensus expectations) and the labor market appears balanced.

However, we believe caution is warranted considering tariffs remain a highly fluid situation, as a broader August 1st implementation deadline and more targeted tariff decisions (copper, pharmaceuticals, semiconductors) loom. Conflict in the Middle East also threatens geopolitical instability and spikes in inflation. Meanwhile, the Fed maintains its “wait-and-see” approach.

When market valuations are stretched and macroeconomic headwinds gather, investors often instinctively consider defensive portfolio moves. But what does "defense" truly mean? Is it cash and cash-like equivalents, value stocks, countercyclical stocks, or high dividend-yielding stocks? The answer depends on who you ask. For USEIF, our defense is rooted in owning a portfolio of financially stable companies at reasonable valuations.

High-quality investing is the cornerstone of resilience. We believe a company's inherent quality is the primary determinant of its ability to withstand negative geopolitical, macroeconomic and market events, providing potential downside protection. Specifically, we seek businesses with sustainable competitive advantages, strong management teams, pristine balance sheets, and attractive profitability metrics at reasonable prices. These traits can enable operational consistency and stability, regardless of the broader economic backdrop; examples of names we've added to the portfolio with these traits include Waste Connections, TJX Companies, Hermes, and Coca-Cola. The short-term is unpredictable, but our long-term investment horizon affords our portfolio companies a higher likelihood to "ride out" any negative exogenous shocks to their operations.

Unlike many market participants who must remain fully invested and seek "defensive" sectors while paying a premium for that perceived safety, we have the luxury of patience. We can build up cash when quality names are expensive while waiting for opportunities to buy at more reasonable levels. In today's high-valuation market, we've increased cash holdings and tactically written Put options on select high-quality names to gain exposure at lower prices when higher market volatility presents appealing premiums and downside protection. We also caution against viewing high-dividend stocks as a universal defensive play, as it can provide a false sense of security: a dividend's quality and sustainability are ultimately a function of the company's fundamental health and performance.

We firmly adhere to our core investment philosophy and process of "Quality at a Reasonable Price", regardless of market cycles. We believe that high-quality investments will outperform over time. Currently, USEIF's portfolio is overweight in relatively acyclical sectors like communication services and consumer staples, while underweighting higher-growth, more macro-sensitive sectors such as technology, financials, and energy due to either valuation and/or quality concerns.

Our Fund

Our investment philosophy and process is unchanged, and in our view the style of Quality at a Reasonable Price should lead to attractive risk-adjusted returns over time. Investment selection is largely based on a bottom-up process that employs a scorecard approach, which assesses a company’s quality rating among five key attributes: sustainable competitive advantages, capital allocation track record, balance sheet health, consistency of profits and cash flow, and attractiveness of return on equity and return on invested capital.

Top 10 Holdings as of June 30, 2025

Holdings	Weight	Description
Microsoft Corporation	5.9%	Global technology leader offering a comprehensive suite of software, cloud services, and devices for business and personal use.
Broadcom Inc.	5.3%	Global semiconductor and infrastructure software provider with leadership in data center, networking, and broadband markets.
Meta Platforms Inc. – Class A	4.7%	Provider of digital social platforms including Facebook, Instagram, and WhatsApp, with a focus on advertising and virtual reality technologies.
Amazon.com Inc	4.1%	Global e-commerce and cloud computing giant with additional operations in digital media, logistics, and artificial intelligence.
Visa Inc. – Class A	4.1%	Global leader in digital payments, enabling secure and seamless transactions for consumers, businesses, and governments worldwide.
Walmart Inc.	3.8%	The world's largest retailer by revenue, operating a global network of discount department stores and e-commerce platforms.
L'Oréal S.A.	3.7%	World's largest beauty company, offering cosmetics, skincare, and personal care products across a portfolio of global brands.
ServiceNow Inc.	3.6%	Cloud-based platform provider enabling digital workflow automation and enterprise service management solutions.
Deere & Company	3.6%	Leading manufacturer of agricultural, construction, and forestry equipment with strong global brand recognition through John Deere.
Union Pacific Corp	3.5%	Major U.S. railroad operator providing freight transportation services across a vast network linking the West Coast and Midwest.
Total	**42.0%**	

[1] *Dividend Yield represents the weighted average yield of the fund's underlying equity holdings. It is calculated as the weighted average of the forward estimated 12-month dividends divided by the most recent closing price.*