NICOLA WEALTH
PUBLIC ASSETS

# Nicola U.S. Equity Income Fund
# Quarterly Report | Q3 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.

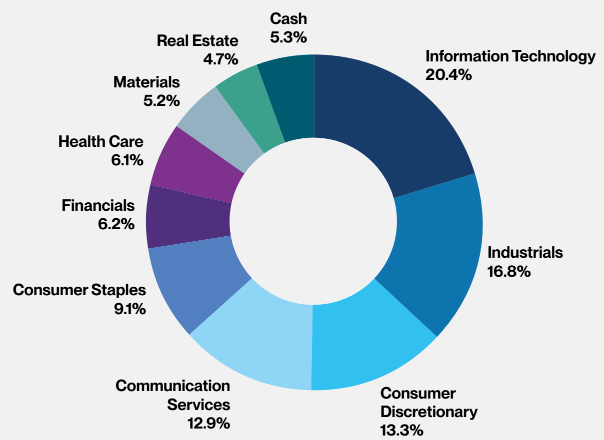
**Strategic diversification** – Access an "all cap" U.S. equity strategy that invests across diverse sectors, with concentrated positions based on compelling risk-reward assessment.

**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 for differentiated performance through unique holdings and flexible allocations.

### HOLDINGS BY SECTOR
### as of September 30, 2025




### Equity Characteristics

| | |
|---|---|
| Forward Price-to-Earnings (P/E) | 25.8x |
| Net Debt-to-Forward EBITDA | 1.0x |
| Return on Equity | 29.3% |
| # of Holdings | 32 |
| Dividend Yield [1] | 1.2% |

**Returns as of September 30, 2025**

| | CAD | USD |
|---|---|---|
| YTD | **7.1%** | **10.7%** |
| 1 month | **2.7%** | **1.4%** |
| 3 month | **5.2%** | **3.0%** |
| 6 month | **10.8%** | **14.5%** |
| 1 year | **16.0%** | **12.7%** |
| 3 year | **20.2%** | **19.6%** |
| 5 year | **15.5%** | **14.5%** |
| 10 year | **14.5%** | **14.1%** |
| Since inception* | **14.5%** | **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 Q3, USEIF returned +3%. Top contributors to the Fund included:

1. **Alphabet Inc.:** A federal judge published his proposed remedies on the Google Search antitrust case which appeared better-than-feared, with Alphabet avoiding having to divest Chrome and retaining its ability to pay for distribution (albeit being limited to non-exclusive one-year deals).
2. **Broadcom Inc.:** Broadcom benefited from broader AI-driven tailwinds and announced Q3/25 results and guidance that were stronger than expected. Notably, management announced OpenAI as a new customer with $10B of revenue kicking in next year.
3. **Idexx Laboratories Inc.:** IDEXX released notable Q2/25 results and raised financial guidance, driven by better-than-expected commercial performance and placements of its cancer screening machine.

Bottom contributors to the Fund included:

1. **Intuitive Surgical Inc.:** The stock sold off as investors feared a weakening in various international markets, margin pressure from tariffs, and heightened competition.
2. **ServiceNOW Inc.:** Despite the company reporting positive Q2/25 results, the stock was pressured by a broader rotation out of software (particularly names perceived to be threatened by AI) into semiconductors, as well as federal government contract headwinds.
3. **Deere & Co.:** Deere reported Q3/25 earnings which beat estimates, albeit driven by non-core factors (financing operations and lower taxes). Management also lowered financial guidance reflecting incremental pricing pressure and tariff impacts. The stock was also impacted by broader macroeconomic and geopolitical fears as farmers face a potential loss of Chinese buyers.

Assets under management was US$607.6M as of the end of September.

# New Investments and Divestments

USEIF initiated long positions in the following companies: :

- **MSA Safety Inc.:** The leading player within personal protective equipment with sustainable competitive moats (branding and product quality) with additional upside opportunity should megaproject or digitization (connected worker) initiatives materialize. We believe MSA brings various attractive characteristics to our portfolio (high-quality with low risk, a lower valuation multiple, and status as a smaller-cap lightly-covered name in an underappreciated subsector).
- **Watsco Inc.:** The largest distributor of HVAC (heating, ventilation, and air conditioning) products in the Americas, Watsco has demonstrated outsized market share gains driven by its scale (both at a national and local level), technology initiatives, and unique M&A playbook and employee incentivization programs. Watsco brings a defensive tilt to our portfolio, given the acyclical nature of HVAC demand and its tendencies to benefit from regulatory reform.
- **Synopsys Inc.:** Synopsys is a leader in supplying EDA (electronic design automation) and IP (intellectual property) products engineers use to design, build, and test integrated circuits (ICs). Having had Synopsys on our watchlist for over a year, we initiated our position following the announcement of poor Q3/25 results with the stock dropping approximately 35%. We believe fears on China are overblown and EDA will continue serving a mission-critical role in the development of semiconductors globally. Synopsys provides exposure to a potentially higher-growth, picks-and-shovels type business within our portfolio.
- **Copart Inc.:** Copart is the dominant salvage auto auction operator in the US, with its sustainable competitive advantages underpinned by strategic land ownership (driving cost control, responsiveness, and scalability) and strong network effects around its global buyer network which should enable diversification and expansion efforts. Copart adds another defensive element to our Industrials mix, as salvage volumes have historically remained resilient even in economic downturns.

The new positions were partly funded through the divestments of Casey's General Stores Inc., United Rentals Inc., KLA Corp., and Electronic Arts Inc..

# Our Thoughts On:

## The U.S. Market

Positive U.S. markets during Q3 of 2025 were driven by AI tailwinds and the Federal Reserve cutting interest rates, with Information Technology and Communication Services the highest returning sectors during the quarter. Sizable capital expenditures on AI infrastructure continued, primarily benefiting semiconductor and cloud service providers. Market enthusiasm was punctuated with a flurry of partnerships announced between OpenAI (widely perceived as the leading AI player) and various companies including Oracle, NVIDIA and AMD.

With regards to AI, we have come across and digested a fair number of viewpoints on the sustainability of these trends. One of the more popular observations in favor of the current landscape is that the companies of today with meaningful roles in the AI race are better strategically and financially positioned compared to their counterparts during the dot-com bubble in the late 1990s. We largely agree, and we also acknowledge the significant impacts AI can have on our society (although we do question the timeline and extent to which value creation will accrue to these companies).

We believe at this juncture, a degree of caution is warranted with sentiment and valuations appearing overexuberant. We can point to examples both within the realm of AI (such as the "circular" nature of the OpenAI deals involving certain partners giving up meaningful equity in order to secure future revenue streams, the use of leverage and special purpose vehicles (SPVs) by some parties to fund spending, or the speculative spending concurrently happening "underneath the surface" in the private markets) or external to AI (such as the rising popularity of leveraged single-stock ETFs or the return of "meme" stocks) which give us discomfort.

Rather than diving headfirst into thematic trends, we prefer to limit our exposure to meaningful yet reasonable weights while investing in the tools and supplies powering the AI arms race; as the saying goes: "when everyone digs for gold, sell shovels". Our portfolio is positioned across several layers of the AI stack: (i) on the infrastructure side, we hold semiconductor names like NVIDIA, Broadcom, and Synopsys, all critical enablers of AI compute; (ii) within the distribution layer, we own hyperscalers including Meta, Google, Microsoft, and Amazon, who are building data centers and deploying AI services at scale; and (iii) within the application layer, we hold ServiceNow, Adobe, and Gartner, companies we believe are well-positioned to benefit from enterprise AI adoption.

This conservative approach seems prudent to us, especially considering the geopolitical landscape remains highly fluid given headline tariff risks while the economic backdrop is mixed particularly with the labor market appearing to soften, consumer confidence eroding (especially at the lower-income portion), and inflation a persistent concern. We've built exposure to companies across the AI stack that we believe can weather volatility and continue to create value, even if the AI bubble were to burst. We are not trying to predict when the bubble will burst, but rather preparing for the day, if it ultimately becomes one.

We firmly adhere to our core investment philosophy and process of "Quality at a Reasonable Price" to achieve our goal of capital preservation and maximizing long-term compounding. We believe that high-quality investments will outperform over time. Currently, Nicola USEIF's portfolio is overweight relatively acyclical sectors like communication services and consumer staples, while underweight in 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 September 30, 2025

| Holdings | Weight | Description |
|---|---|---|
| Microsoft Corporation | 5.7% | Global technology leader offering a comprehensive suite of software, cloud services, and devices for business and personal use. |
| Meta Platforms Inc. – Class A | 5.0% | Provider of digital social platforms including Facebook, Instagram, and WhatsApp, with a focus on advertising and virtual reality technologies. |
| Union Pacific Corp | 4.4% | Major U.S. railroad operator providing freight transportation services across a vast network linking the West Coast and Midwest. |
| Amazon.com Inc | 4.3% | Global e-commerce and cloud computing giant with additional operations in digital media, logistics, and artificial intelligence. |
| ServiceNow Inc. | 4.2% | Cloud-based platform provider enabling digital workflow automation and enterprise service management solutions. |
| Intuitive Surgical Inc | 4.2% | Innovator in robotic-assisted, minimally invasive surgery systems, including the market-leading da Vinci platform. |
| Visa Inc. – Class A | 4.0% | Global leader in digital payments, enabling secure and seamless transactions for consumers, businesses, and governments worldwide. |
| Nvidia Corp | 3.9% | Designer of graphics processing units (GPUs) and AI computing platforms powering gaming, data centers, and autonomous vehicles. |
| L'Oréal S.A. | 3.8% | World's largest beauty company, offering cosmetics, skincare, and personal care products across a portfolio of global brands. |
| AT&T Inc | 3.7% | Telecom and media conglomerate offering wireless, broadband, and video services across the U.S. and Latin America. |
| **Total** | **42.9%** | |

*[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.*