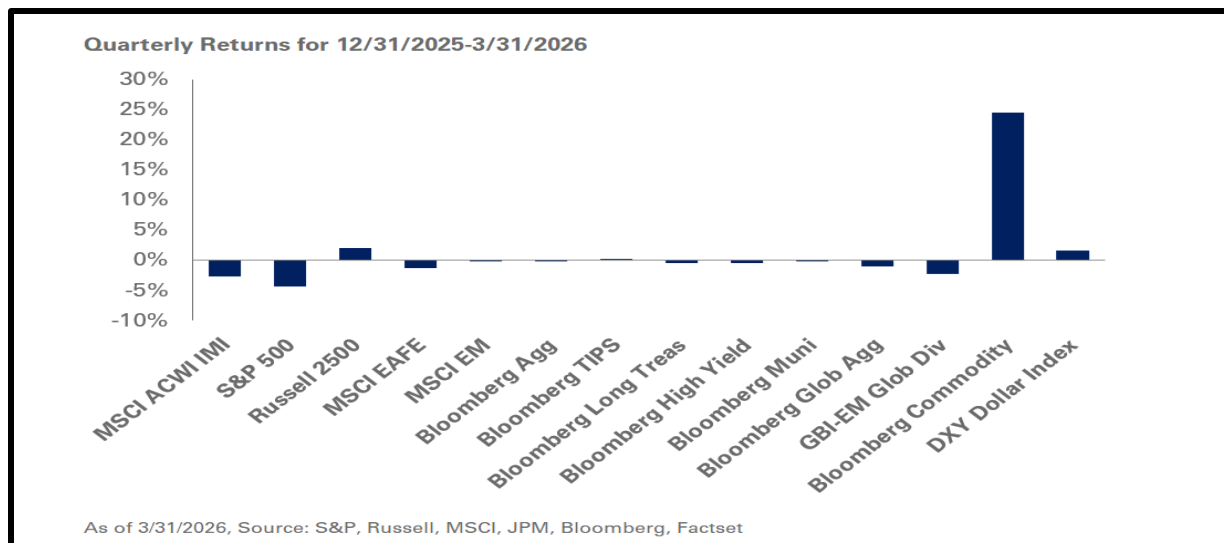




Source: Hedgeye

After a relentless multi-year push higher, stocks pulled back in the first quarter, with the tech-heavy Nasdaq index even reaching correction territory (down more than 10% from its peak). Though we are still in the early innings of the development and rollout of artificial intelligence, soaring capital expenditure forecasts for the mega-cap tech players have called into question the timing and magnitude of the returns that leading tech companies will ultimately realize on their investments. For context, the so-called Magnificent Seven are now expected to invest roughly \$675 billion in 2026, slightly more than the GDP of Argentina. These forecasts have weighed on the “Mag 7” in recent months, and all seven stocks have underperformed the S&P 500 year-to-date. And in the final weeks of the quarter, the war in Iran (and the resulting surge in oil prices) added further pressure on the broader equity market.

U.S. stocks, as measured by the S&P 500 Index, declined 4.3% in the first quarter, including dividends. A slight uptick in the strength of the U.S. dollar further pressured international returns for U.S. investors. Gold has largely served its purpose as a store of value through recent volatility, up 8%, though even gold retreated from its highs in response to the turmoil in the Middle East. The S&P 500 Index currently trades at 20x forward earnings estimates, still above its long-term average, though down from its loftiest levels.



A less certain world

There's a Wall Street maxim that "the market hates uncertainty," and it certainly feels as though we're living in a far less certain world than even a few weeks ago: war in the Middle East, concerns over artificial intelligence-driven layoffs, soaring gas prices and corresponding inflation fears, higher mortgage rates, and four-hour security lines at the airport. None of these items bode well for the consumer, and the University of Michigan Index of Consumer Sentiment slumped 6% sequentially in March.

Investor sentiment isn't much better, with U.S. stocks, major international markets, government bonds, and Bitcoin all down year-to-date. As mentioned earlier, even gold has retreated from its highs in recent weeks. No wonder investors are flocking to prediction markets in search of returns.

Earnings remain a bright spot

Although sentiment headwinds are likely to persist, we remain focused on underlying fundamentals, which remain strong. The job market is a perfect example: high-profile tech layoffs dominate the headlines, but jobless claims have been remarkably stable in recent weeks. There's a widespread belief that AI-driven efficiencies will drive jobless claims higher over the medium-term, though that remains to be seen.

Corporate earnings tell a similar story: more than 75% of the S&P 500 delivered upside in the fourth quarter of 2025 (and reported in the first quarter). Technology and communication services companies led the way, beating expectations by roughly 7% on average (though it's worth noting that those earnings beats were not always rewarded against a backdrop of high expectations and increasingly conservative guidance). Collectively, S&P 500 earnings jumped almost 14% in the quarter, driven primarily by healthy revenue growth of 9%. In fact, consensus expectations for 2026 have never been higher (up 3% over the past three months and up 4% over the past year), now implying 17% earnings growth year-over-year. The recent market selloff is understandable given war in the Middle East, but the underlying fundamentals that have driven the market higher over the past three years remain largely intact.

Another bright spot from recent turbulence has been an improvement in market breadth. After years of dominance by technology and communication services, other sectors have taken over market leadership: notably energy (+41% year-to-date – due to Middle East complications), but also utilities (+8%), materials (+8%), and consumer staples (+7%).

Taken together, the mix of rising earnings and a market pullback have taken some of the pressure off valuation. The S&P 500 now trades at 17 times 2027 consensus earnings forecasts, still expensive relative to history but no longer in clear bubble territory.

AI – The Investment Story of 2026?

If, by the end of the year, the war won't be considered the investment story of 2026, what will be? While impossible to know for sure, we think a good candidate continues to be AI. Both the effects of the massive amounts of spending and the disruption from the technology itself should have a material effect on a variety of asset classes.

Between the five main AI “hyperscalers,” almost \$700 billion of spending has been announced just for 2026. In aggregate, it is the largest amount of annual capital spending on record (though it is unclear what the Pyramids would cost on an inflation-adjusted basis).

Of course, the natural question to ask is whether there will be an adequate return to justify the gargantuan outlay. We won't know that answer for several years, but for 2026, regardless of whether the spending ultimately earns a good return, its outlay will have big effects not just in the equity markets but in fixed income and in the alternative asset space as well.

We believe the most direct winners will likely be the companies that sell “picks and shovels” to the data centers under construction. These companies make semiconductors, computers, electricity generation, and pipelines for natural gas. They also include construction companies, and of course the investment bankers and lawyers who arrange the financing. It's not an exaggeration to call the AI spending plans a massive stimulus package and this time taxpayers aren't funding it.

But there will likely be losers too. Software companies are perhaps the most obvious sector under a cloud, but the dislocation has spread beyond software firms. Most companies whose main role is to digest massive amounts of information, process it and then deliver it to customers in a valuable format will feel the effects of AI. These might include travel booking companies that aggregate hotels and airline flights; management consultants who analyze a lot of businesses to offer advice to clients; or insurance brokers that analyze risk. AI is terrific at gathering massive amounts of information and tailoring it to its customers' needs, so if that's your business model, you need to have a proprietary skill beyond just data gathering. If you don't, your temporary lucrative business will be subject to price competition, ruining your margins even if you manage to survive.

We believe we will be assessing the effects of AI on your investments long after the war in Iran has ended, and we are spending much of our time on that assignment. While energy was predictably the best performing sector, more surprising to us was that five other sectors were positive for the quarter as well. It was mostly technology and communication stocks that dragged the index down, both because of material negative performance and because together they make up such a large portion of the Index (43%). We view this downturn in those two usually expensive sectors as a potential opportunity. As mentioned above, we think the AI spending juggernaut should remain intact and investors focusing on the negative war headlines may have overly discounted solid companies with strong growth potential. The combination of unique data and the

addition of AI overlays to that data have led us to make two new investments during the quarter, discussed below.

SaaSocalypse

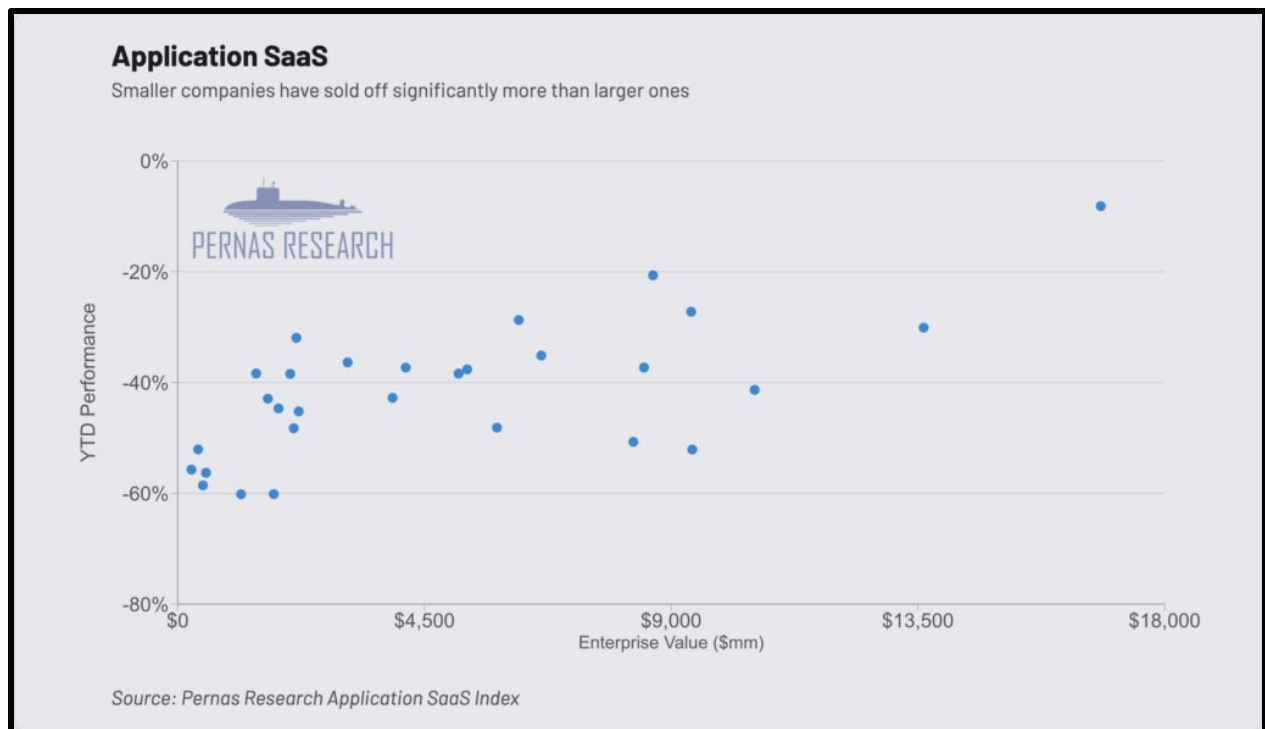
The more structural story of the quarter, and one that we believe can create opportunities for outsized returns, has been dubbed the “SaaSocalypse.” Markets are no longer worried that AI is overhyped; they are worried it is moving too fast, to the point where it structurally undermines the economics of SaaS (software-as-a-service).

The shift began in January, when SaaS broadly sold off as agentic coding tools tied to Anthropic’s Claude started to proliferate. Investors began to price in a world where the marginal cost of producing software compresses toward zero. If code is abundant, the logic follows that application-layer software becomes commoditized. As is often the case, however, sharp selloffs tend to begin from elevated starting points. SaaS entered the year trading at over 10x EV/Sales and, after the initial leg down, settled closer to ~7x. That reset alone did not make the space compelling.

The second leg lower, beginning in February, was more consequential. As agentic capabilities improved, the drawdown accelerated. The application SaaS cohort we track (names such as Adobe, Salesforce, and ServiceNow) is now down ~38% YTD on a median basis. At this point, we can say with conviction that pockets of the sector are screening cheap.

SaaS companies are not static, 100-year-old industrial businesses. They are adaptive, engineering-driven organizations that have already navigated multiple platform shifts—from on-premises to cloud, from desktop to mobile, and from monolithic to API-driven architectures. The idea that they will passively accept existential disruption from agents misunderstands how these companies operate. They are actively incorporating agentic layers into their own production processes and products. On April 16th, the CEO of Salesforce Mark Benioff announced Salesforce Headless 360 where their agents will be able to access data and be tasked directly from Slack to do work. We expect more announcements like these in the coming quarters from the broader SaaS complex.

These adjustments are also being seen across smaller SaaS companies, where the selloff has been more pronounced. Dispersion within the cohort has widened meaningfully, and the single factor that best explains performance this year has been size. Smaller players, fairly or unfairly, are being discounted as more vulnerable, as the market assumes they are more exposed to disruption.



There are SaaS companies with structural advantages whether through system-of-record positioning, embedded workflows, or privileged data access that trading at a fraction of the valuation of their counterparts while actively adapting to the same technological shift.

Quarterly Performance

The return for the Hahn Capital Management Mid-Cap Value Composite was **-0.03% gross of fees and -0.28% net of fees in the 1st quarter of 2026**. For the quarter, we underperformed our primary benchmark, the Bloomberg Mid-Cap Total Return Index, by 0.93 percentage points gross of fees and underperformed by 1.18 percentage points net of fees.

For the quarter, sector allocations to Financials, Information Technology and Consumer Discretionary contributed, while those to Real Estate, Energy, Communication Services, Utilities (no position) and Materials (no position) detracted.

The most significant relative performers during the quarter were Emcor Group (EME), Wabtec (WAB), Virtu (VIRT) and Keysight Technologies (KEYS) while the most significant underperformers were Brown Forman (BF/B – since exited), Alexandria Real Estate (ARE) and Euronet Worldwide (EEFT).

Hahn Capital Quarterly Performance Attribution – 1Q 2026

LINKED PERFORMANCE BY SECTORS											
BENCHMARK: Bloomberg Mid-Cap TR Index											
PORTFOLIO: Representative Account											
	PORT	BENCH	DIFF	PORT	BENCH	DIFF	SECTOR	STOCK	ACTIVE	PASSIVE	TOTAL
	Weight	Weight	Weight	Return	Return	Return	SELECT	SELECT	CONTR	CONTR	CONTR
GICS Sector											
Financials	22.62%	13.93%	8.68%	1.70%	-8.64%	10.34%	-0.86%	2.42%	1.56%	0.00%	1.56%
Industrials	21.13%	18.59%	2.54%	2.95%	2.99%	-0.05%	0.05%	-0.04%	0.01%	0.00%	0.01%
Health Care	14.13%	10.44%	3.69%	-5.04%	-6.91%	1.87%	-0.31%	0.30%	-0.01%	0.00%	-0.01%
Real Estate	13.20%	6.29%	6.90%	-15.81%	-3.01%	-12.80%	-0.29%	-1.82%	-2.10%	0.00%	-2.10%
Information Technology	8.19%	13.21%	-5.02%	18.76%	1.84%	16.92%	0.00%	1.00%	1.00%	0.00%	1.00%
Communication Services	7.41%	3.56%	3.85%	-13.89%	-10.35%	-3.54%	-0.35%	-0.26%	-0.62%	0.00%	-0.62%
Energy	3.89%	6.31%	-2.42%	58.85%	38.34%	20.50%	-0.77%	0.67%	-1.10%	0.00%	-1.10%
Consumer Discretionary	2.34%	9.88%	-7.54%	20.52%	-6.36%	26.87%	0.55%	0.60%	1.16%	0.00%	1.16%
Consumer Staples	1.41%	5.81%	-4.40%	0.77%	3.60%	-2.83%	-0.05%	-0.18%	-0.23%	0.00%	-0.23%
Materials	0.00%	5.01%	-5.01%	0.00%	9.60%	-9.60%	-0.42%	0.00%	-0.42%	0.00%	-0.42%
Utilities	0.00%	6.97%	-6.97%	0.00%	8.84%	-8.84%	-0.52%	0.00%	-0.52%	0.00%	-0.52%
Cash	5.68%	0.00%	5.68%	0.91%	0.00%	0.91%	-0.20%	0.00%	-0.20%	0.00%	-0.20%
Total Portfolio - Net of Fees				0.42%	0.89%	-0.47%	-3.16%	2.68%	-0.47%	0.00%	-0.47%

TOP 10 PORTFOLIO HOLDINGS

As of 03/31/2026

Company	% of Assets	Sector	Industry
KEYSIGHT TECHNOLOGIES IN	6.5%	Information Technology	Electronic Equipment, Instrume
WABTEC CORP	6.5%	Industrials	Machinery
VIRTU FINANCIAL INC-CLASS A	6.0%	Financials	Capital Markets
CBRE GROUP INC - A	5.7%	Real Estate	Real Estate Management & Devel
OCCIDENTAL PETROLEUM CORP	5.2%	Energy	Oil, Gas & Consumable Fuels
INTERCONTINENTAL EXCHANGE IN	4.4%	Financials	Capital Markets
EMCOR GROUP INC	4.1%	Industrials	Construction & Engineering
SEI INVESTMENTS COMPANY	3.9%	Financials	Capital Markets
LABCORP HOLDINGS INC	3.8%	Health Care	Health Care Providers & Servic
AGILENT TECHNOLOGIES INC	3.7%	Health Care	Life Sciences Tools & Services

HCM COMPOSITE PERFORMANCE HISTORY

% Annualized Returns As of 03/31/2026	1Q 2026	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception 06-30-88
HCM Gross of Fees	-0.03%	3.48%	8.75%	4.01%	7.47%	8.52%	12.73%
HCM Net of Fees	-0.28%	2.46%	7.69%	2.98%	6.42%	7.46%	11.64%
Bloomberg Mid Cap Total Return Index	0.90%	16.07%	12.93%	7.41%	10.92%	11.33%	11.39%

[Link to: HCM Performance Disclosures](#)

PORTFOLIO ACTIVITY

New Positions

Zeta Global Holdings Inc. (ZETA) – The investment case for Zeta Global Holdings (NYSE: ZETA) centers on its transformation into an AI-driven marketing platform, delivering high growth, margin expansion, and a "land-and-expand" strategy that consistently beats market expectations. The company is viewed as a "high-growth SaaS powerhouse" trading at an attractive valuation relative to its growth rate, with analysts indicating potential upside of over 70%.

Here is a summary of the investment case:

Growth and Performance Metrics

- **Rapid Growth & Revenue Beats:** Q1 2026 revenue increased 50% year-over-year to \$396 million, marking 19 consecutive quarters of "beat-and-raise" performance.
- **AI Catalysts (Athena):** The introduction of its AI-powered "Athena" platform has increased agentic interactions, with 60% of platform activity leveraging AI within one week of launch.
- **High-Value Customer Expansion:** "Super-scaled" customers (spending >\$1 million) grew 24% in Q4 2025, with net revenue retention at a record high of 120%.
- **Strong 2026 Outlook:** The company raised its full-year 2026 revenue outlook to a range of \$1.78 billion to \$1.79 billion.

Key Investment Drivers

- **Unique Value Proposition:** Zeta combines first-party data with artificial intelligence. (Zeta Marketing Platform - ZMP) helps brands identify, acquire, and retain customers, placing it as a competitor to larger legacy players.
- **Improving Profitability:** The company is showing meaningful operating leverage, with Adjusted EBITDA margins expanding and a trajectory toward GAAP profitability in 2026.
- **Attractive Valuation:** Despite robust growth, ZETA often trades at a discount to other software peers, with an EV/FY26 revenue of approximately 2.3x, presenting a potential re-rating opportunity.
- **High Free Cash Flow Conversion:** The company is converting a higher percentage of EBITDA into free cash flow, with FCF up 78% YoY in late 2025, signaling increased efficiency.

Telephone & Data Systems, Inc. (TDS) - Following the \$4.3 billion sale of its US Cellular stake, Telephone and Data Systems (TDS) is transforming into a streamlined, fiber infrastructure and broadband company, offering significant upside as it pivots away from legacy wireless. The investment case hinges on valuation expansion, as the market aligns its valuation of TDS's tower

and rapidly scaling fiber assets with private market values, with analysts projecting a fair value of \$52.33 or higher.

Key Investment Highlights (As of May 2026):

- **Post-Sale Transformation:** The divestiture of US cellular (expected to conclude in 2026) eliminates a major drag on cash flow, providing a cleaner, more focused investment thesis centered on fiber expansion.
- **Fiber Expansion Strategy:** TDS Telecom is aggressively expanding fiber networks, aiming for high-penetration rural areas, with over 1.8 million fiber passings, providing a durable, high-margin, long-term revenue stream.
- **Valuation Gap:** We argue that the market continues to undervalue the combined worth of TDS's tower assets (Array Digital) and its expanding broadband infrastructure, presenting a "sum-of-the-parts" opportunity.
- **Capital Allocation & Efficiency:** With a strengthened balance sheet, management is focused on investing in growth (CapEx for fiber) and potential share buybacks, with potential further value unlocked by selling remaining tower assets or converting them into a REIT structure and spinning them off to shareholders.

Positions Increased

There were no positions increased during the quarter.

Positions Reduced

There were no positions reduced during the quarter.

Positions Sold

F&G Corp. (NG) – We sold our position in FNG Corp during the quarter. We received this stock as a spin-off from Fidelity National Financial (FNF) and it represented a small stub position. As we continue to have exposure to F&G through our ownership of FNF (80% owned), we viewed the holding of FNG stock as duplicative and therefore sold.

Brown Forman, Inc. (BF/B) – We sold our position in Brown Forman during the quarter as the hoped for rebound in liquor sales globally did not appear to be evolving as quickly as we had hoped. We maintained a 2% position at inception in the portfolio and the stock modestly underperformed the portfolio during our nearly 2-year holding period. With no near-term prospects for a rebound in Brown Forman's end markets we chose to re-allocate this capital to higher conviction ideas.

Outlook

Economic & Market Outlook

Consensus Wall Street estimates project the S&P 500 to end 2026 between 7,800 and 8,100, representing another year of double-digit gains.

The consensus expects S&P 500 earnings-per-share (EPS) to grow by 12% to 14%, and these estimates have risen steadily through the first quarter as analysts observed the strong momentum in earnings emerging from the most recently reported quarter. The growth expectation is being heavily driven by AI-related capital expenditures, adoption and subsequent corporate productivity gains. AI and AI-related investment theses are dominating both returns and expectations with the balance of the economy growing at a much more modest pace.

Key Market Drivers

- **Earnings & AI:** AI integration is shifting from infrastructure to broad corporate productivity. Cloud computing leaders plan an estimated \$675 billion in AI-related spending.
- **Federal Reserve:** Analysts expect a "shallow easing" path by the Fed to maintain supportive monetary conditions. This may prove too optimistic as inflation and interest rates are headed in the wrong direction. Just recently the benchmark 30-year bond reached near 30-year highs around 5%. This could prove to be a significant headwind to both the economy and the stock market if it proves to be persistent rather than a temporary blip.
- **Market Broadening:** While mega-cap tech stocks still dictate market direction, market leadership is expanding into small- and mid-cap stocks, albeit in a very choppy manner and to a much lesser extent, small and midcap valuations remain at near record lows relative to their large cap peers, and for a record period of time.

Potential Headwinds & Volatility

- **Elevated Valuations:** With the S&P 500 trading at high historic price-to-earning (P/E) multiples, the market is highly sensitive to earnings. The Buffet Indicator of Stock Market Value-to-GDP remains at new record all-time highs. Notably, the Oracle of Omaha has been steadily building cash and lowering stock market exposure over the last several years, a development which should make all investors pause when considering the current valuation levels, especially in large cap companies.
- **Macro Risk:** Uncertainty over tariff negotiations/legality, political rhetoric ahead of midterm elections, and the on-going conflict in the Middle East, all represent risk factors to the current euphoria enveloping the market. We continue to hold an elevated cash level but have been bargain hunting recently in certain areas such as software and special situations.



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Michael Whitfield
Dir. of Research and Co-Portfolio Manager