The Copeland Review

Fourth Quarter 2025

"We believe that stocks with sustainable dividend growth consistently outperform the market with less risk."

Welcome to the Upside Down

"Friends don't lie." - Eleven, *Stranger Things*

In Netflix's cultural phenomenon *Stranger Things*, the characters discover a parallel dimension called the Upside Down – a dark mirror world where normal rules don't apply and danger lurks around every corner. As 2026 dawns, investors confront their own Upside Down: a risky market environment where unprofitable companies are dramatically outperforming profitable ones, businesses without sales command multi-billion-dollar valuations, and concentration within the S&P 500 Index remains unusually high.

Indeed, speculation trumps fundamentals across the market cap spectrum. Artificial intelligence hype, quantum computing excitement, and biotech "lottery tickets" have all captured investor imaginations, while many businesses generating strong cash flows and growing dividends languish at historically attractive valuations.

Like the residents of Hawkins, Indiana learning to navigate both the normal world and the Upside Down, successful investors must recognize which dimension they inhabit. While speculation dominated headlines in 2025, and momentum drove short-term returns, companies with sustainable earnings and dividend growth were broadly unrewarded by the market, despite operating in the "right-side-up" world – generating profits and returning capital to shareholders. The question as we enter 2026 is, "Which world will win in the end?"

In this edition of the Review, we highlight why investors should beware of the "Upside Down":

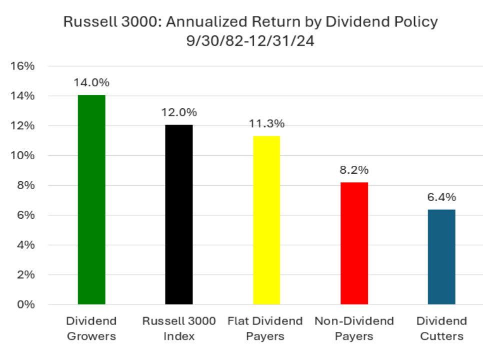
1. Speculation is at an extreme, whether it's reflected in market concentration, specific thematic excitement, or "pure potential" as described in last quarter's review.
2. Many investments in these speculative areas look increasingly unlikely to generate attractive returns relative to the capital needed to support them.
3. Alternatively, the set up for broader market leadership looks encouraging for the first time in several years.

The Lights Flicker: Existing in the Upside Down of Speculative Markets

Unlike the initial discovery of the "Upside Down" – which stunned the characters in *Stranger Things* – experienced investors shouldn't be quite so shocked by the current environment. There are certainly prior examples of low-quality, speculative stock outperformance, including during the dotcom bubble and, more recently, during the latter part of 2020, as described in "(Let's Not) Party Like It's 1999". Nevertheless, given the long-term outperformance of "quality," it can be jarring when market performance increasingly disconnects from business fundamentals (Charts 1 and 1a).

One might assume that the high returning outliers noted below, like quantum or biotech stocks, account for only a small portion of the index and therefore wouldn't influence the total return of the benchmark significantly.

Chart 1. High-quality names (as represented by Dividend Growth stocks) have outperformed the benchmark and low-quality names (as represented by non-dividend payers and cutters) over time



Source: Ned Davis Research You cannot invest directly in an Index. For information on the Index shown above as well as other important information, please refer to the Disclosures section.

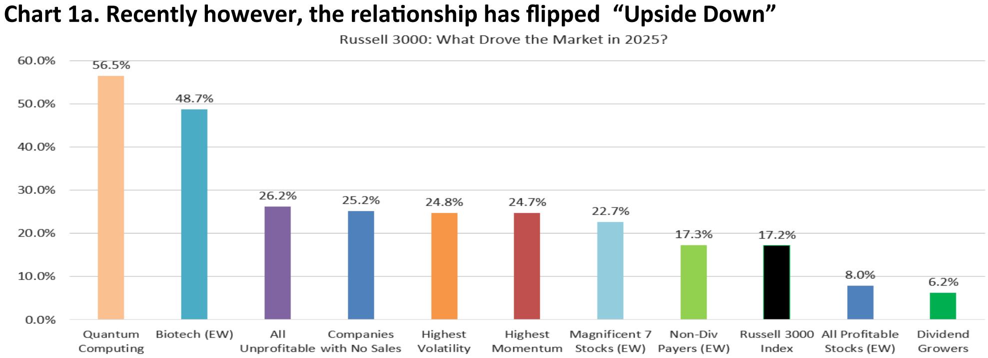
Yet the composition of the Russell 2000 index reveals some troubling dynamics. More than five years ago, in "Great Expectations", we observed that the percentage of unprofitable companies in the Russell 2000 index was approaching 35%, a level previously seen only in the Dotcom bubble and after the Global Financial Crisis. Today, that number has exploded to 46%.[1] At the same time, companies without revenues – which consistently accounted for less than 1% of the total market cap of the Russell 2500 for decades – have climbed aggressively in recent years and now account for 2.5% of the index value.

Mind Flayer Madness

In *Stranger Things*, the Mind Flayer infects, or "flays," its victims, controlling them to pursue destructive goals. In an October 2025 missive, Lisa Shalett, Morgan Stanley's Chief Investment Officer, highlighted the structural concern, noting that – with so many Russell 2000 companies generating losses, "The cost of capital for small-cap companies is significantly above their return on assets".[2] In plain English, these businesses are destroying value by spending more to raise money than they earn on their investments.

To be fair, one of the great strengths of the American economy is the depth of capital available to support the development of exciting companies through their investment phases, often to the long-term benefit of consumers and businesses. Yet, for every one of those rare companies that become household names, there are dozens that struggle to survive, or worse yet, collapse

Chart 1a. Recently however, the relationship has flipped "Upside Down"



Source: FactSet, CCM. You cannot invest directly in an Index. For information on the Index shown above as well as other important information, please refer to the Disclosures section.

completely. Characters infected by the Mind Flayer increasingly lose touch with the right-side up world, forgetting friends and events, instead viewing everything from the vantage point of the hivemind. Equity investors seem to be suffering from a case of "hive-mindedness" today, as they once again forget about risk in pursuit of outsized and likely unsustainable returns. Table 1 serves as a stark reminder of this fact. Of the top 25 performing names in the Russell 2500 index over the six-month period ending with the meme-stock craze in January 2021, only one has continued to appreciate. By contrast, five are bankrupt and the remaining 18 have fallen 82% on average!

Remember too, these disastrous results did not materialize during a crushing bear market or a brutal recession. As these names were in freefall, the S&P 500 index rose 84% and the Russell 2500 rallied 29%. Translation: Speculative excesses can unwind even while the market and the economy are performing well!

Further, while the performance gap between profitable and unprofitable companies is uniquely the purview of small and SMID cap companies, there are certainly speculative excesses among large caps, too. In particular, as we talked about in "Red Light, Green Light" and again in "Pied Piper", expectations for data center capex have spiked in order to support an anticipated boom in AI applications. Still, these projects are not without risk. Competition is intense and early feedback is mixed at best.[3] A technological breakthrough or shift in the competitive environment could easily disrupt the timing and magnitude of any expected cash flow stream. Should that happen, returns on today's capital expenditures would fall precipitously.

Take Oracle's (Ticker: ORCL) spending plans as a proxy. Over the last year, the company's projected capital spending for fiscal 2026-2028 has more than tripled (Chart 2a), leading the free cash flow outlook – once assumed to be extremely healthy – to fall well into negative territory (Chart 2b). To support this, Oracle has taken on significant debt and is expected to increase its leverage further in the coming years, as its dependence on one customer, OpenAI, grows. Maybe this investment will ultimately be rewarded, but even a little bit of bad news could cause the excitement to unwind.

During the dotcom bubble, Cisco was similarly loved, rallying to an all-time peak in early 2000 on the belief that its networking products would be critical to the build out of the internet. Since then, the promise of the internet has certainly lived up to the hype, Cisco's sales have more than tripled, and its proforma earnings in fiscal 2025 were nearly five times those in fiscal 2000.[4] Regardless, the stock slipped almost 90% from its bubble peak to its post-blow up low, taking more than 25 years before finally breaking out to a new high again in 2025!

Broadening out: Eleven Can't Do it Alone, and Neither Can NVIDIA

Expectations for broader market leadership have disappointed investors repeatedly, with the S&P 500 Index outpacing the Russell 2500 Index for nine consecutive years. One key factor driving the consistent outperformance of large caps during this period has been the similarly consistent strength of mega-cap technology stocks. In fact, during this period, the State Street Technology Select SPDR ETF (Ticker: XLK) was the top performing sector ETF five times.[4]

The stocks generating the strongest returns, particularly in recent years, were the first to experience capacity constraints as AI took off. In 2021, NVIDIA, for example, was tiny versus tech behemoths like Apple, Microsoft, and Alphabet, or even smaller players like Meta or Tesla. When AI entered the public consciousness though, customers clamored for NVIDIA's GPUs (graphics processing units) which were quickly in short supply. Not surprisingly, sales and profits rose swiftly, and NVIDIA's stock followed leaving the top tech blue chips in the dust, even as they continued to rally.

NVIDIA continues to innovate and demand for its products remains robust. It's no surprise though that many formidable competitors, including Alphabet and Broadcom, have emerged attempting to capture a share of the profits and alleviate this bottleneck in the market. Therefore, while capacity remains tight today it seems likely to improve gradually in the coming months.

Capacity shortages stretch beyond GPUs though. First, the market struggled to find sufficient equipment to handle data center cooling needs. More recently, memory availability presented a challenge. In each case, stocks linked to these themes rallied sharply as profit expectations rose with demand outstripping supply.

Now shortages extend beyond technical inputs to the infrastructure required to support the AI build out. Fulfilling these shortages should broaden earnings and returns beyond chips and memory into areas which have been largely left behind, ranging from power and cement to financing.

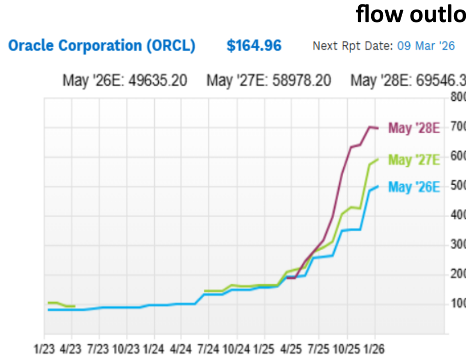
Concurrently, several advantages that large

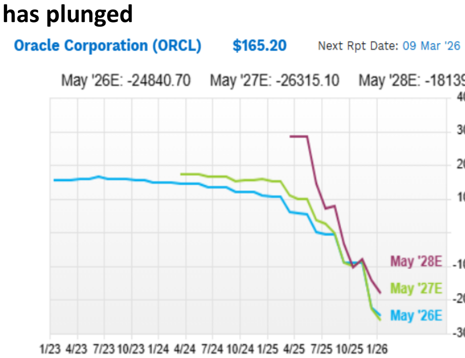
Table 1. What happened to the highfliers of early 2021?

Symbol	Company	Total Return 6 months ending January	Return from January 2021 to December 2025
GME	GameStop Corp. Class A	7,904.90	-75.3
FCEL	FuelCell Energy, Inc.	802.6	-98.8
SPWRQ	SunPower Corporation	746.5	BANKRUPT
PACB	Pacific Biosciences of California, Inc.	740.3	-94.2
PLUG	Plug Power Inc.	671.3	-96.9
SICPQ	Silvergate Capital Corp. Class A	544.5	-99.7
SAVA	Cassava Sciences, Inc.	493.4	-90.0
MCRB	Seres Therapeutics Inc	483.5	-96.9
MGNI	Magnite, Inc.	476.9	-53.1
SRRK	Scholar Rock Holding Corp.	466	-26.2
EXPRQ	Express, Inc.	450.5	BANKRUPT
GRTSQ	Gritstone Oncology, Inc.	432.4	BANKRUPT
DDD	3D Systems Corporation	431.2	-95.0
EXPI	eXp World Holdings, Inc.	424.3	-81.4
GRWG	GrowGeneration Corp.	406.9	-96.5
MSTR	MicroStrategy Incorporated	402.9	146.1
BEAM	Beam Therapeutics, Inc.	369	-71.3
APPS	Digital Turbine, Inc.	356.9	-91.3
LXRX	Lexicon Pharmaceuticals, Inc.	354.6	-85.5
EVLO	Evelo Biosciences, Inc.	353.5	BANKRUPT
FLGT	Fulgent Genetics, Inc.	330.6	-76.2
APPN	Appian Corporation Class A	324.7	-83.8
CLNE	Clean Energy Fuels Corp.	314.2	-79.5
GOGO	Gogo Inc.	313.6	-65.2
DMTKQ	DermTech, Inc.	311.9	BANKRUPT

Source: CCM, FactSet. Table 1 represents the top 25 performing stocks in the Russell 2500 Index during the six-month period ending January 2021. Performance data reflects price returns from the January 2021 peak through December 31, 2025. Stocks highlighted in blue were projected to be profitable in 2021. "Bankrupt" indicates companies that filed for bankruptcy protection or ceased operations. This analysis is for illustrative purposes only to demonstrate the risks of speculative investing and does not represent the performance of any Copeland strategy. Individual stock performance will vary, and past performance does not guarantee future results.

Chart 2a. (left), Chart 2b. (right): Oracle's projected capex has boomed, while its free cash flow outlook has plunged





Source: FactSet.

companies have enjoyed relative to their smaller peers appear to be waning. For example, large companies have had easier access to capital as they are often less reliant on debt which became considerably more expensive after interest rates began rising in 2022. Similarly, large companies generally have more sophisticated supply chains than their smaller peers, leaving them better equipped to deal with the tariff increases announced last spring. These, and other factors, led the next 12 month earnings estimate growth for the S&P 600 Small Cap Index to significantly trail the S&P 500 Index revisions from the end of 2022 through May 2025.[4]

Today though, the market finally looks primed for broader leadership. The Federal Reserve has cut interest rates 175 basis points from their cycle high, pushing corporate and consumer borrowing costs – which drive activities ranging from M&A to home sales – lower by a similar amount.[5,6] Mortgage purchase applications, though still far below their 2021 peak, show early evidence of improvement as they've bounced off the bottom in recent months.[7]

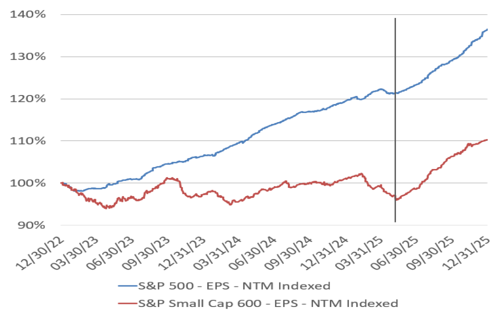
At the same time, the One Big Beautiful Bill Act – signed in July 2025 – introduces or expands numerous provisions that will reduce the tax burdens on low/middle-income consumers (e.g. eliminating tax on tips and overtime), as well as high-income earners (e.g. raising the state and local tax deduction cap from $10,000 to $40,000).[8] This type of fiscal support has historically translated into stronger consumer spending, and could drive a broad increase in corporate profitability as well.[9]

Meanwhile, both retail and commercial bank lending standards, which constricted significantly as interest rates rose, have loosened over the past seven quarters.[10] As a result, Commercial & Industrial loans – which have been close to flat for more than three years – are not only less expensive, but increasingly accessible, too.

Finally, oil prices, which rose aggressively from the lows of COVID through the end of 2022, have been falling for most of the last three years, and are now down more than 20%, or $15 per barrel, from the end of 2024.[4] Lower oil prices provide the same type of relief as would a tax cut. For perspective, given that the US consumes approximately 20M barrels of oil per day, this decline equates to an annualized savings of greater than $120B for consumers – more than ten times the expected impact of the tips deduction![11,12]

Collectively, these factors pushed forward earnings estimates for the S&P 600 Small Cap Index up nearly 15% through the end of the year, besting the 9% revision experienced by S&P 500 Index earnings (Chart 3).

Chart 3. Small cap earnings estimate revisions are now outpacing Large caps



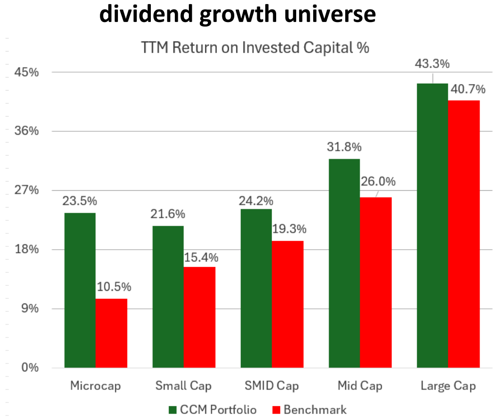
Source: CCM, FactSet. You cannot invest directly in an Index. For information on the Index shown above as well as other important information, please refer to the Disclosures section.

Should smaller cap companies sustain this superior profit trajectory, it seems likely the market will once again reward them for that profit growth. After all, over the last three years, the S&P 500 Index climbed with its earnings outlook – generating a total return of 86% – while the S&P 600 Index rose less than half that amount with much of the benefit accruing to unprofitable companies. This performance gap is the widest disparity in favor of large caps for any three-year period since the dotcom bubble and has engendered a similarly wide valuation gap, with the small cap and mid cap indices now trading at a 25-30% price-to-earnings discount compared to the large cap index.

"Friends Don't Lie."

Importantly, despite the earnings headwinds that small caps have faced and the challenging performance backdrop for high quality companies including dividend growers, Copeland's portfolios continue to be populated with companies driving superior capital returns relative to their respective benchmarks across the market cap spectrum (Chart 4). If market

Chart 4. Copeland continues to find highly profitable companies across the dividend growth universe



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leadership widens as we suspect, these attributes are likely to be strongly rewarded.

In *Stranger Things*, the character Eleven lives by the simple rule that, "Friends don't lie" – a mantra that helps guide her and her friends through many of the show's darkest moments. In investing, dividend actions serve a similar function: they don't lie about business quality, management confidence, or company prospects.

At Copeland, our core investment philosophy rests on following dividend actions to ferret out the truth. Unlike GAAP earnings – which can be manipulated – or cash flows without the governor of a dividend – which can be wasted – dividends provide useful guardrails that ensure management stays on the optimal path for shareholders. Dividend increases represent forward-looking commitments that signal confidence in future cash flows, business durability, and competitive positioning. Maintaining consistent dividend growth requires disciplined capital allocation, protecting shareholders from empire-building and poor investments.

Quality investors' discipline was tested in 2025, just as it was in 2020 and 1999, and likely will be again at some point in the future. Over full market cycles though, a quality-oriented approach, like Copeland's dividend growth philosophy, has consistently delivered superior risk-adjusted returns versus the market. Therefore, while we can't say whether the market will remain "upside down" for 2026, we feel confident that investors who ignore short-term noise and focus on cash-generative businesses with an emphasis on returning capital to shareholders, will come out ahead of the benchmarks and more speculative approaches over time. For in the "right-side-up world," companies that generate cash flows and dividends – not press releases and dreams of distant profitability – are the best friends investors can find.

December 2025

1 https://6meridian.com/2025/10/how-unprofitable-stocks-are-driving-the-markets-surge
2 *https://finance.yahoo.com/news/40-russell-2000-companies-unprofitable-114646238.html*
3 *https://fortune.com/2025/08/18/mit-report-95-percent-generative-ai-pilots-at-companies-failing-cfo/*
4 *FactSet*
5 *https://fred.stlouisfed.org/series/BAMLC0A4CBBBEY*
6 *https://fred.stlouisfed.org/series/MORTGAGE30US*
7 *https://tradingeconomics.com/united-states/mba-purchase-index*
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Currency - Unless otherwise specified or disclosed, the currency used for data in the report is US Dollar (USD).

Certain charts herein contain publicly available data, but the data has been formatted by Copeland to allow for ease of reading.

The Indexes mentioned are unmanaged, are not available for investment, and do not incur expenses. With respect to the comparison of the Copeland strategies to their comparative benchmarks, the number of holdings and volatility of an unmanaged Index is different from that of an actively managed portfolio of Dividend Growth stocks. The **S&P 500® Index** is a market-capitalization-weighted Index of the stocks of 500 leading companies in major industries of the U.S. economy. The **Russell 2500™ Index** measures the performance of the small to midcap segment of the US equity universe, commonly referred to as "smid" cap. The Russell 2500 Index is a subset of the Russell 3000® Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. The **Russell 2000® Index** measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index® is a subset of the Russell 3000® Index representing approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The **Russell 3000® Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. The index is market-capitalization weighted and includes all large-cap, mid-cap, and small-cap U.S. equities. The **S&P 600 Small Cap Index®** measures the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable.

Definitions

Basis Point: One hundredth of one percentage point (0.01%). Used to describe changes in interest rates or other percentages. For example, 100 basis points equals 1%.

Capex (Capital Expenditures): Money a company spends to acquire, upgrade, or maintain physical assets such as property, buildings, technology, or equipment. It represents investments in long-term operational capacity.

Dividend Growth Rate: The annualized percentage rate of growth that a particular stock's dividend undergoes over a period of time.

Free Cash Flow: Free cash flow is the cash a company generates after accounting for cash outflows to support operations and maintain its capital assets. It is an important measure of financial health.

NTM: Next twelve months.

P/E Ratio: The Price-to-Earnings Ratio of a stock is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share.

Return on Assets (ROA): A measure of how efficiently a company uses its assets to generate profit, calculated as net income divided by total assets.

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