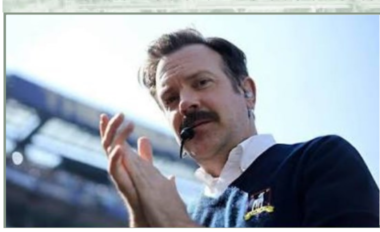
The Copeland Review

Second Quarter 2026

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



The Most Beautiful Game

"I think that you might be so sure about what you want that you might not be leaving any room to figure out what you need."

- Ted Lasso, Apple TV+

This summer, the FIFA World Cup kicked off with global tourists flooding into North America to watch teams representing 48 countries compete to be world champions. Before the first match was played, pundits released confident outlooks on how each team would perform. Brackets were filled with precision and conviction, choosing exactly who would win which game. In hindsight, almost all were wrong.

As the tournament unfolded, it reminded us that in sport – much like markets – surprises and outside intervention often supersede even the most confident predictions.

As we look at the equity markets, we see similarly confident forecasts. "Winners" and "losers" occupy clear positions in Mr. Market's bracket. AI-related stocks hit all-time highs in the quarter while an ever-broadening cohort has been left behind, notably including high quality companies. Speculative fervor encouraged crowding at extremes. Meanwhile, the rules of the game keep changing: newly sworn in Federal Reserve Chair, Kevin Warsh, stripped forward guidance;[1] the US-Iran conflict cycled through ceasefires and strikes while being declared "almost over" at least a half-dozen times; and AI is simultaneously touted as a lifeline and existential threat to the job market. Much like initial World Cup brackets, highly specific future macro predictions are almost certainly wrong.

In this edition of the Copeland Review, we address three points:

- The state of the markets: Why the scoreboard doesn't tell the whole story.
- What is driving AI enthusiasm and what threatens it: Be prepared for upsets.
- How we build portfolios that are prepared for any backdrop: Don't be caught offside.

The State of the Markets: Why the Scoreboard Doesn't Tell the Whole Story, Distortions in Benchmark Concentration

Strikers score more than half of all World Cup goals, but no coach fields a team with only strikers. Yet, that is effectively what passive investors own today. The 10 largest stocks in the S&P 500 Index compose roughly 40% of the Index, and eight of those are tightly linked to the AI trade.[2] Additionally, semiconductor companies now account for nearly one-fifth of the S&P 500 Index (Chart 1). The Index has effectively become a levered bet on the pace and profitability of AI adoption. When the game is going well, that concentration looks brilliant. When momentum shifts, there is no defense on which to fall back.

Chart 1. Semiconductors—Percent of S&P 500 Weight is at All-Time Highs

Source: Bloomberg, S&P Global, as compiled by Citadel Securities[5], GMI, as of June 15, 2026. Figures are for illustrative purposes only. Holdings or sectors referenced are examples only and may or may not currently be held in Copeland strategies. Nothing herein should be interpreted as a recommendation to buy or sell any security.

The distortions extend well beyond the S&P 500 Index. Down market, the Russell 2500 Index has experienced the most dramatic benchmark-level anomalies in recent memory. Three stocks alone contributed close to five percentage points to the Index's year-to-date 23% return through June 30 despite carrying large cap-like market capitalizations of $337B, $86B, and $69B at quarter-end. Those, and numerous others, were clearly not indicative of the exposure intended by investors allocating to a small/mid cap index.[3,4]

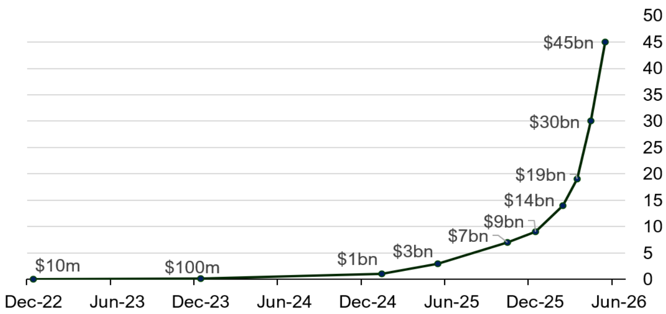
Zoom out further and the picture grows more acute. Among the top 25 performing stocks in the Russell 2500 Index year-to-date through June 30, the average return was 300%. Remarkably, over the prior year 14 of those 25 companies had no earnings, 14 had negative free cash flow, and four had no revenue at all. This type of pure speculation mirrors the extreme environment last observed in early 2000… just before the dot-com bubble burst.

What Is Driving AI Enthusiasm and What Threatens It: Be Prepared for Upsets

AI is an extraordinary invention. So were the electric vehicle, the internet, the radio, and the railroad. Each triggered genuine excitement, legitimate productivity gains, and subsequent investor losses as prices ran well ahead of adoption curves. The question for investors is not, "Is AI an extraordinary invention?" but rather, "At what price, and with what risk, am I gaining exposure?"

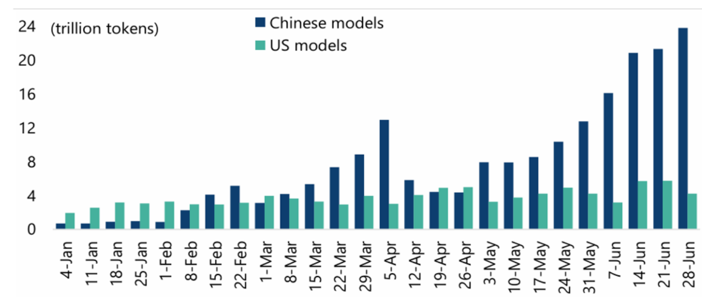
Before the World Cup tournament began, reasonable bettors might have predicted

Chart 2. Anthropic's Annualized Recurring Revenue



Source: CCM, The Economist. As of 6/18/2026.

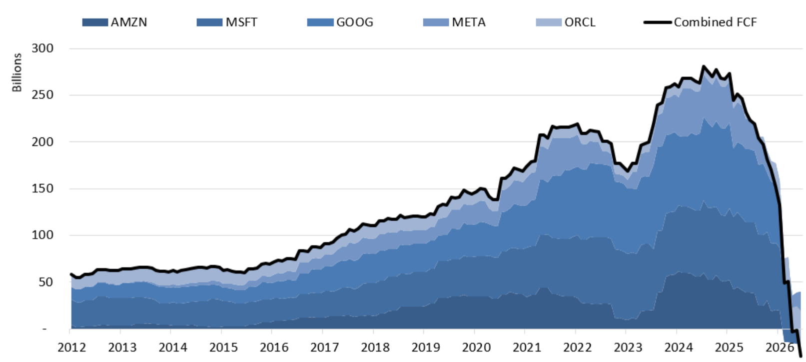
Chart 3. Weekly Usage of Top Nine AI Models across OpenRouter



Source: OpenRouter. Jefferies, Asia Maxima – AI Crescendo,

Brazil would make it out of the group stage ahead of Norway, or Congo would lose to Ronaldo's Portuguese team, and no country's President would call FIFA organizers to insist on a red card being overturned. However, each of these high probability assumptions proved false. If your AI exposure is composed of speculative stocks with limited cash flow, less tested competitive advantages, and in some cases zero revenue, how many concurrent bets need to prove successful for out-performance to sustain over the long term?

Chart 4. Hyperscaler Free Cash Flow—Consensus Next-Twelve-Month Estimates



Source: Factset, CCM.

Model-Layer Revenue Explosion vs. Open-Source Growth

It has been widely reported that Anthropic' s revenue has accelerated parabolically, moving from $1B of annual recurring revenue (ARR) at the beginning of 2025 to $14B in the beginning of 2026 and $45B in May of 2026; adding $15 billion of ARR in May alone (Chart 2).[6] This marks the fastest revenue ramp of any company in history. There is clearly exceptional demand for the latest models from leading AI labs. However, risks are emerging as companies scrutinize employee AI spend, at the same time as the labs see their cost structures ballooning, and low-cost, open-source models gain traction. Alex Karp, the CEO of Palantir, argues that governments and enterprises "want to know they own the means of production."[7] Consequently, some spending is already being diverted from major large language models (LLM) towards open-source providers like Nvidia's Nemotron, Alibaba's Qwen, DeepSeek, and others (Chart 3).[8]

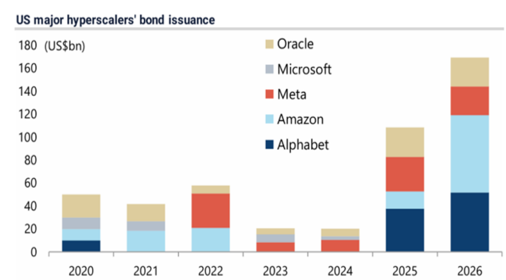
Hyperscaler Capex vs. Capital Market Dependence

At the infrastructure layer, we have seen an unquestionable ramp in expected capex, with large companies building out infra-structure at all costs to meet anticipated demand. To paraphrase Mark Zuckerberg's comments at Meta's annual shareholder meeting, he is willing to risk massive overbuilding because Meta can rent its datacenter capacity to someone else if it goes wrong.[9] If you are betting on both the pace and magnitude of the buildout, you now have an additional question, where do they get the money?

Over the last two decades, leading tech companies from Oracle to Microsoft to Alphabet steadily compounded free cash flow (FCF) and built huge net cash positions despite returning vast amounts to shareholders. Incredibly though, over the last year and a half, many have chewed through their long-held "rainy day funds" and are now tapping debt and equity markets to support an unprecedented infrastructure build out (Chart 4).

This represents a potentially huge turning point for investors. Until now, these companies did not need to worry if a modest investment didn't pan out – reasonable risks were worth taking given that their cash balances otherwise earned little in the way of returns. From here, scrutiny on spending

Chart 5. US Major Hyperscalers' Bond Issuance—1st Half 2026



Source: Bloomberg, Jefferies, Asia Maxima – AI Crescendo, July 6 2026.

is likely to be much greater when these companies must convince investors that the return on future projects will outpace the cost of capital.

At the same time, the competition for capital is intensifying with Alphabet, SpaceX, and SK Hynix tapping the US equity markets for a cumulative $180B ahead of future IPOs from Anthropic and OpenAI.[10] To accelerate spending, hyperscalers must effectively navigate multiple competitive fronts: AI model performance, procurement of input materials, and now financing.

Expanding Market Caps vs. Retail Crowding

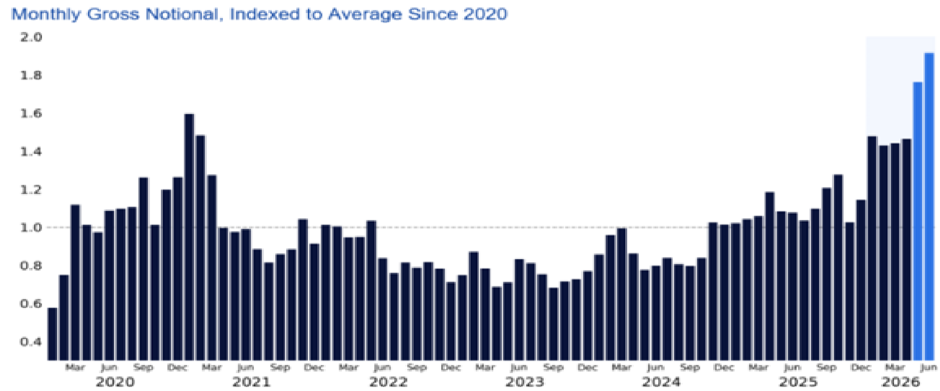
The improved visibility of a multi-year technology change has led to aggressive moves across many companies in the supply chain. In addition to the large IPOs mentioned above, earnings expectations for memory companies have increased 15-fold as they exploit supply chain bottlenecks by raising prices sharply.[3] So far shares have been supported mostly by passive strategies and retail investors, with retail participation in the markets surpassing the previous all-time highs during the meme-craze in 2020/2021 (Chart 6). As with the other trends we ask not, "Is it real?", but rather, "Should participants wager their portfolios on it?"

How We Build Portfolios That Are Prepared For Any Backdrop: Don't Be Caught Offside

Many times in the World Cup, fans watched their team take possession, flawlessly move the ball up the field, and close in for a goal only to have the whistle blown on an offside call. Overextending a strong position forfeits hard-won progress. The investing equivalent is the assumption that macro shocks arrive with sufficient warning that investors can reposition before the damage is done. They rarely do.

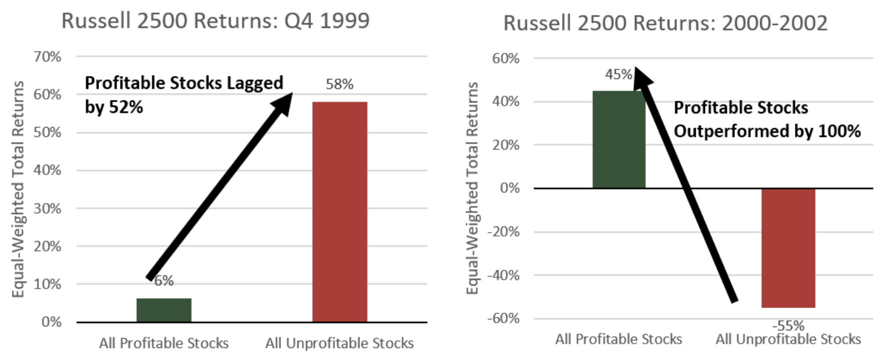
The answer is not an elusive effort to make better predictions. The answer is to build a portfolio that can navigate the market through a variety of backdrops. As we outlined, there are real drivers and real threats to investing alongside the AI theme. At Copeland we follow cash flow and dividends. Therefore, as with all portfolio exposures, we are taking a measured approach in this space, neither ignoring, nor myopically focusing on, any single trend. We hold all our investments to the standard of having real profits, along with growing dividends. As the AI value chain has broadened it has turned into real cash flow for companies with proven operating models. We see benefits across our portfolios including areas like energy infrastructure, industrial components (wiring, HVAC), investment banking, and semiconductors. Yes, while our investment philosophy may result in missing out on some speculative stocks, we believe we are more likely to capture lasting economic value from the shifting economy in a way that doesn't overextend exposure. Thus, there is no need to risk being caught offside.

Chart 6. Retail Cash—May and June Trading is record Breaking



Source: Citadel Securities[5], GMI, as of 6/15/2026. Figures are for illustrative purposes only.

Chart 7.



Source: FactSet and Copeland Capital Management. Historical performance is shown to illustrate market behavior and risk; past performance is not a guarantee of future results.

Protecting capital is one of the most underappreciated contributors to long-term compounding. A portfolio that declines 50% requires a 100% gain just to return to break even. As we highlighted in "Let's Go to Vegas" in Q2 2025, The NASDAQ-100 Index fell 78% from 2000 to 2002; an investor who entered at the pre-crash highs of early 2000 waited 14 years to recovery his or her original investment. The dot-com period is instructive not because AI resembles it in every respect, but because it illustrates what happens when prices disconnect from fundamentals for long enough — and then reconnect, often violently. Despite the decimation experienced across much of the market in the early 2000's, it is often forgotten that reasonably valued companies that generate profits can still drive positive returns, even during historically turbulent periods as represented by dividend growers in 2000-2002 (Chart 7).

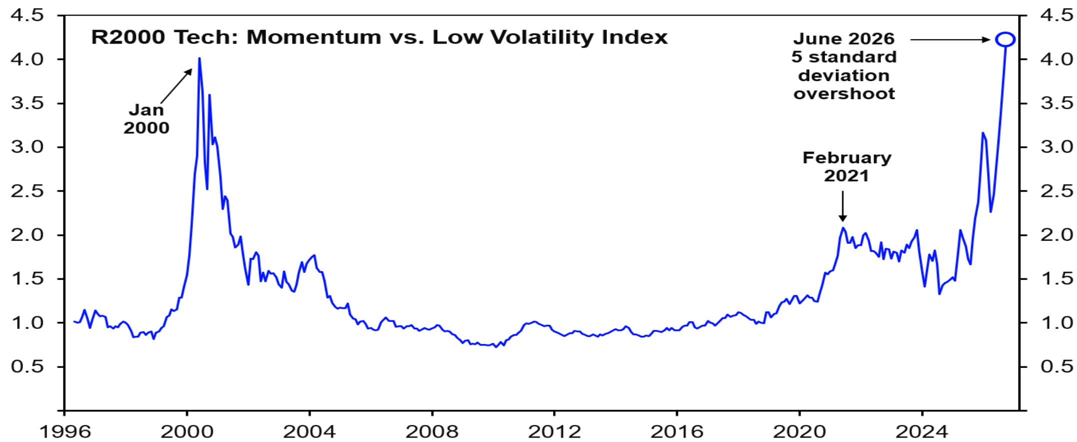
Don't Cut the Goalkeeper

While we have emphasized the evolving trends related to the technology sector across many of our recent Copeland Reviews, this does not reflect the breadth of our work. Many areas of the market have been left behind, areas of the market with a strong pool of companies trading at reasonable prices, with adaptable business models that are likely to benefit from technological progress. While lead scorers often receive applause at the World Cup, having a strong defensive lineup is essential for a team to make it to the finals.

A growing number of quality businesses outside the mega-cap AI complex are trading at valuations that embed significant pessimism. While the market has typically paid a premium for consistent compounding growth, high returns on capital, and low leverage, stocks with these attributes have not kept pace with the momentum surge. Using the Russell 2000 Index as an example, the performance of momentum tech relative to low volatility stocks has hit a five-standard deviations peak, a level surpassed only once before, in January 2000 (Chart 8, next page).

There is an important footnote for active managers and allocators. It can be tempting to look at relative performance versus a benchmark distorted by mega-cap outliers and conclude that quality-oriented managers have lost their edge. Before making that judgment, one should understand the real risk embedded in the index and be prepared to live with the consequences if those outliers mean-revert. Are you willing to play with no goalie?

Chart 8. Russell 2000: Momentum Stocks Go Full Tilt



Source: FactSet, CCM. Index calculated by taking the monthly relative returns of the highest quintile momentum tech stocks compared to the lowest volatility quintile tech stocks.

The Final Whistle

The Ted Lasso quote that opens this Review was not written about investing. But it captures something essential about the current moment. Investors who are certain about what they want – momentum, concentration, the same names that have worked for the past two years – may be foreclosing the possibility of finding what they actually need: resilience, diversification, downside protection, and the compounding power of mitigating drawdowns.

On July 19th, the World cup concluded. While all-stars received their accolades it was the most complete team that won: defending when required, scoring when the opportunity arrived, and surviving the unexpected moments that every tournament inevitably produces. The portfolio that endures through this period of concentrated risk, geopolitical uncertainty, and shifting monetary policy will be built on the same principles.

At Copeland, the process does not change when the environment grows uncertain. Our standards for the companies we own do not change. Our Dividend Growth mandate does not change. There are opportunities across all areas of the market, and we continue to scour the investment universe for the businesses that we believe will continue to compound their cash generation and increase dividend returns to shareholders. For the patient investor focused on what they need rather than what they want, we believe this approach can provide staying power through the long-term.

July 2026

1 *Federal Reserve official FOMC statement — https://www.federalreserve.gov/newsevents/pressreleases/monetary20260617a.htm*
2 *S&P Global https://www.spglobal.com/spdji/en/indices/equity/sp-500/#overview*
3 *FactSet*
4 *The three stocks mentioned are SanDisk, Bloom Energy, and Ciena Corp. Combined contribution from these three was 494bps. To the Russell 2500 Index through year-to-date June 30th.*
5 *Citadel https://www.citadelsecurities.com/news-and-insights/global-market-intelligence/july/*
6 *The Economist https://www.economist.com/briefing/2026/06/18/anthropics-astonishing-commercial-success-makes-it-a-target*
7 *CNBC interview on 7/1/2026 https://www.cnbc.com/2026/07/01/palantir-karp-open-ai-anthropic-tokens.html*
8 *OpenRouter. Charting by Jefferies*
9 *Fool.com https://www.fool.com/investing/2026/07/07/did-mark-zuckerberg-just-suggest-that-meta-platfor/*
10 *Yahoo Finance (Alphabet $80B + SpaceX $75B) — https://finance.yahoo.com/markets/stocks/articles/spacex-alphabet-sk-hynix-sending-151400057.html finance.yahoo; SpaceX bond sale detail — https://infrastructurecapital.substack.com/p/spacexs-25-billion-debut-bond-sale infrastructurecapital.substack; SK Hynix IPO $26.5B — https://www.morningstar.com/stocks/sk-hynix-stock-surges-us-ipo*

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The indexes mentioned are unmanaged, are not available for direct investment, and do not incur expenses. Index performance does not reflect the deduction of management fees, trading costs, or other expenses and is shown solely for illustrative comparison purposes. With respect to the comparison of 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 mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap, and is a subset of the Russell 3000® Index. The **Russell 2000® Index** measures the performance of the small-cap segment of the U.S. equity universe and includes approximately 2,000 of the smallest securities in the Russell 3000® Index based on market capitalization and index membership. The **NASDAQ-100** Index is composed of 100 of the largest non-financial companies listed on the NASDAQ Stock Market, primarily within technology, consumer, and healthcare sectors. Comparisons to any index are provided to show the general performance of market segments and are not intended as direct benchmarks for the objectives or risks of any specific investment or Copeland strategy.

Disclosure Section (continued:

Data Sources

Third-party data from sources including the U.S. Energy Information Administration (EIA), AAA, Trading Economics, Citadel Securities Global Market Intelligence, Jefferies, company filings, and other public sources are believed to be reliable but cannot be guaranteed as to accuracy or completeness. Third□party data and analysis, including sellside research reports distributed to Copeland by broker□dealers and other research providers, are believed to be reliable but cannot be guaranteed as to accuracy or completeness.

Definitions

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 and a key input to Copeland's investment process.

Market Capitalization (Market Cap): The total value of a company's outstanding equity, calculated by multiplying the share price by the number of shares outstanding. References to large-cap, small-cap, and small/mid-cap ("smid") companies relate to common market-cap ranges used in the investment industry.

Momentum: The tendency of securities that have exhibited strong relative performance over a recent period to continue to outperform over a subsequent period.

Low Volatility: Securities or strategies characterized by relatively lower price fluctuations compared to the broader market.

Standard Deviation: A statistical measure of the dispersion of returns around an average; in this report it is used to describe the extremity of momentum versus low-volatility performance within the Russell indexes.

NTM: Next twelve months.

P/E Ratio: The price-to-earnings ratio of a stock, measuring the price paid for a share relative to the annual net income or profit earned by the firm per share.

Other financial terms used in this document should be interpreted in accordance with standard industry definitions.

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