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Rachlin Energy Transition & Infrastructure (ETI) Portfolio

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Performance Highlights

The Rachlin Energy Transition & Infrastructure (ETI) Portfolio (Portfolio) posted a negative return in the fourth quarter of 2025, underperforming its benchmark, the Alerian MLP Index (AMZ).

Market Context

Several macroeconomic themes dominated equity markets in 2025. "Liberation Day" on April 2 introduced President Trump's tariff agenda, which initially caused an abrupt decline in stock prices before markets recovered within weeks. Fears that tariffs would trigger inflation and supply shortages soon dissipated, and equity markets marched upward through the remainder of 2025.

Energy markets also experienced significant news events and volatility. On the same day the tariffs were announced, members of OPEC and OPEC+ outlined plans to begin increasing oil production. The eight OPEC+ nations added a combined 2.89 million barrels of oil per day since April 2025, weighing on oil prices, which declined from $71.72 a barrel at the start of 2025 to $57.42 on December 31, a drop of approximately 20%.[1]

Natural gas prices were also volatile throughout 2025. After rising above $4.00 in January, spot prices fell below $3.00 in April, only to rally in late fall, reaching $5.50 in early December and ending the year at around $4.00.[2] Weakening oil prices and seesawing natural gas prices distracted investors from the favorable multiyear secular tailwinds that we believe will propel energy businesses for years to come.

Soon after President Trump's return to office, the pause on new LNG export facilities was lifted. Despite the stoppage, LNG exports were set to increase by two-thirds over the next five years. With the end of the Biden-era permitting pause, additional LNG facilities are now planned to be built over the next five years. Projections forecast U.S. LNG exports to double by 2030 and increase by another one-third by 2035. The U.S. currently produces around 108 billion cubic feet (bcf) of natural gas per day in total. By 2035, LNG exports may reach as high as 40 bcf per day, which would represent just under 40% of current domestic production.

We believe, the coming boom in the construction of artificial intelligence (AI) data centers will create additional demand for U.S. natural gas. Hyperscale AI data centers have a voracious appetite for power. We believe all sources of energy will be needed to meet AI's consumption of power. Although there has been renewed attention given to small modular nuclear reactors and continued gains in solar and wind, we believe that natural gas stands to be the greatest beneficiary. Projections suggest that natural gas could meet 70% of these data centers' power needs. Today, natural gas is the largest energy source for utilities, representing approximately 40% of all electricity generated in the U.S.

States such as California and New York, which had been reluctant to rely more heavily on natural gas for power generation and home heating, have reversed course. New York is close to finalizing approvals for a new natural gas pipeline to provide much-needed relief from rising utility bills. And California's Governor Newsom has become more open and less adversarial toward traditional energy sources, including natural gas and oil.

Over the next decade, we believe demand for natural gas is set to surge, driven by the ramp-up in LNG exports, rising usage from data centers, and additional needs from utilities across the U.S. This growth in demand will require continued investment in our nation's energy infrastructure. In our view, we are entering a golden age for energy and especially for natural gas.

1 WTI Crude Oil spot price

2 NYMEX Henry Hub Natural Gas spot price

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Portfolio Review

In the fourth quarter of 2025, the Portfolio underperformed its benchmark, driven largely by weakness in liquefaction-related names as the market grew increasingly concerned about a potential oversupply in the back half of the decade. We are not especially worried about these oversupply fears, as we believe long-term demand growth for natural gas and LNG infrastructure remains supported by structural trends in global power generation and industrial usage. Oil-oriented companies performed better in the period; however, we do not see compelling long-term demand growth drivers for oil and refined products and therefore remain cautious about increasing exposure to that segment purely on recent performance.

For full year 2025, returns were behind the benchmark but more in-line vs. the shortfall experienced in the final quarter. Like the fourth quarter, oil-focused names outperformed, and our meaningful underweight position in that part of the market was a headwind to relative results. Some of the benchmark's strength also reflected the impact of small-cap constituents being reweighted within a limited index structure that imposes hard limits on large-cap names. Offsetting these factors to a degree, our natural gas-oriented holdings delivered stronger performance, supported by clear lines of sight to growing electricity demand and data center development—trends we expect to persist over the coming years.

It should be no surprise that our portfolio weightings heavily favor companies that produce, transport, process, and store natural gas as well as natural gas liquids. We believe that to fully capitalize on today's opportunities, companies must have significant operational scale, strong balance sheets, and a formidable geographic asset footprint. In our opinion, these attributes not only help fortify businesses during challenging periods but also position them to win and secure additional opportunities, creating more competitively advantaged enterprises. Recent acquisitions and projects announced by our largest holdings clearly illustrate how the strong continue to get stronger in today's energy markets.

Outlook

This past year is another example of the sustainability of midstream businesses' cash flows and their healthy, growing dividend payments, which have provided investors with insulation from swings in oil and gas prices. In recent years we are pleased to see that this is being complimented with opportunistic share repurchases. Midstream energy once again outperformed its E&P brethren. Looking ahead, we believe it is difficult to predict the direction of both oil and gas prices particularly in the short term. However, we remain steadfast in our confidence that leading midstream energy companies will continue to generate solid earnings, increasingly attractive cash flows, and durable, rising dividends.

The substantial growth forecast for demand in both natural gas and natural gas liquids provides ample opportunities for the strongest and best-positioned industry players. Although midstream energy infrastructure may not be the "en vogue" sector, we believe it offers more consistency—and especially solid, durable, and growing dividend and cash flow yields—than most, if not all, other sectors.

Information as of December 31, 2025.

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Small- and mid-capitalization stocks are more vulnerable to financial risks and other risks than stocks of larger companies. They also trade less frequently and in lower volume than larger company stocks, so their market prices tend to be more volatile. Large-cap stocks are subject to all the risks of stock market investing, including the risk that they may lose value.

Due to investment in a limited number of sector, industry, or sub-sector of the market, the Portfolio's performance will be especially sensitive to developments that significantly affect those sectors, industries, or subsectors. An individual sector, industry, or sub-sector of the market may be more volatile, and may perform differently, than the broader market. The industries that constitute a sector may all react in the same way to economic, political or regulatory events.

Master Limited Partnerships (MLPs) are limited partnerships that are publicly traded and which have the tax benefits of a limited partnership and the liquidity of a publicly traded company. As an income producing investment, MLPs could be affected by increases in interest rates and inflation. The total market capitalization of the MLP universe is approximately $500 billion (Sources: Bloomberg and Alerian). Investors should consider relative exposure and liquidity in this asset class before making an investment.

The Alerian MLP Index is a composite of the 50 most prominent energy master limited partnerships calculated by Standard & Poor's using a float-adjusted market capitalization methodology. The index is disseminated by the New York Stock Exchange real-time on a price return basis (NYSE: AMZ). The corresponding total return index is calculated and disseminated daily through ticker AMZX.

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