

Market Comments:

The third quarter of 2025 delivered a strong performance across both fixed-income and equity markets, reflecting a confluence of favorable macroeconomic and corporate fundamentals. Easing inflationary pressures, broadening earnings momentum, and the Federal Reserve's first rate cut since December 2024 provided an environment supportive of risk assets. Equities and corporate credit posted solid gains, while government bonds benefited from modest declines in yields. Investor sentiment was further buoyed by elevated expectations for artificial intelligence (AI) driven growth and continued corporate profitability across multiple sectors.

Equity Markets

U.S. equities extended their year-to-date gains in the third quarter. The S&P 500 rose approximately 8.1% during the quarter, bringing its 2025 gain to nearly 15%, with 23 new all-time closing highs recorded. Leadership remained concentrated in technology and AI-linked sectors, though late-quarter momentum also lifted small and mid-cap stocks, signaling broadening market participation. Growth-oriented equities continued to outperform value, although cyclicals and industrials narrowed the performance gap as lower interest rate expectations increased valuation metrics.

Despite the headline numbers, market performance remains concentrated. Ten S&P 500 constituents accounted for nearly two-thirds of the index's year-to-date gains, with just five stocks driving roughly 50% of the total advance. Approximately 40% of S&P 500 members remain in negative territory, highlighting divergence between headline indices and broader market participation. The equal-weighted S&P 500—a more representative measure of aggregate stock performance—gained only 9.7% for the year, underscoring the concentration risk inherent in market-cap-weighted indices.

Across market capitalizations and style segments, all categories posted gains. Small-cap value and large-cap growth led performance, reflecting a blend of cyclical reacceleration benefiting smaller, value-oriented companies and a continued secular bid for technology and AI exposure driving large-growth returns.

Fixed-Income Markets

The Bloomberg U.S. Aggregate Bond Index advanced roughly 2.0% in the third quarter, supported by modest declines in Treasury yields and narrowing corporate spreads. The Fed's September 17th twenty-five basis point rate cut lowered the federal funds target range to 4.00–4.25%, increased demand for high-quality duration, reinforcing investor confidence in the fixed-income market. Credit spreads compressed modestly across sectors but remain near historically tight levels, reflecting investor appetite for corporate credit in a stable macro environment.

4Q 2025 Outlook

We enter the final quarter of 2025 with one of the most favorable market backdrops in recent years. Leading economic indicators point to a reacceleration in growth, while softening labor data reinforces the case for additional Fed easing—assuming policymakers look past the potential for tariff-induced inflationary pressures. This combination has historically been ideal for risk assets, creating a scenario of lower rates alongside rising equity prices. Supporting factors include relatively low energy prices, tight credit spreads, improving earnings breadth, and record corporate profit margins—all of which are likely to continue providing tailwinds for U.S. equities over the next twelve months.

Trade & Tariff Developments

A federal appeals court ruled that most of President Trump's global tariffs were imposed beyond his legal authority. While the court found the emergency law used to justify the tariffs was misapplied, it allowed the levies to remain temporarily while litigation continues. President Trump petitioned the Supreme Court to overturn these rulings, asserting that the legal uncertainty surrounding tariffs has negatively impacted financial markets and could pose broader economic risks. From an investor perspective, the ongoing tariff litigation introduces policy uncertainty but is unlikely to derail the broader market

M&A Update

M&A activity in North America remained exceptionally robust, with \$850 billion in announced deal value—the strongest quarterly total since 3Q 2021. Mega-deals (transactions above \$10 billion) numbered 16, with an additional 16 deals exceeding \$5 billion. Year-to-date North American M&A volume reached \$2.0 trillion, surpassing the comparable period for the previous two years.

Private equity activity continues to drive momentum. Sponsor-backed transactions over \$1 billion are tracking at their second-highest level on record, with both sponsor acquisitions from corporates and sponsor exits reaching historic highs. Financial sponsors announced approximately \$300 billion in deals in Q3, the largest quarterly volume since 2Q 2022, reflecting ample liquidity and investor confidence.

Globally, M&A volume has reached \$3.4 trillion year-to-date, up 32% from 2024, representing the most active period since 2021. North America and EMEA posted their strongest quarterly activity in four years, while cross-border deals reached the second-highest level in five years, underpinned by strategic consolidation opportunities and improving regulatory clarity. The quarter's robust activity highlights a favorable environment for merger arbitrage well into 2026.

Regulatory Update

Antitrust enforcement patterns have shifted materially since the change in administration. During 3Q 2025, the FTC and DOJ issued only one second request, approving several transactions that might have faced prolonged review under the prior administration. The lone second request concerned Cantaloupe's pending acquisition by 365 Retail, a transaction combining two leading "unattended retail" technology providers. The FTC's continued inquiry suggests at least one area where enforcement remains active—head-to-head consolidation in small, highly concentrated markets—but the broader signal is clear: regulatory momentum now favors expedited approvals and negotiated remedies over litigation.

Notable closed transactions:

UnitedHealth Group / Amedisys

After more than two years of review and multiple divestiture negotiations, UnitedHealth Group (UNH) successfully closed its \$3.3 billion acquisition of Amedisys on August 15, 2025. The transaction drew scrutiny from the Department of Justice (DOJ) and numerous states due to competitive overlaps in home-health and hospice care. A final settlement was reached in August, requiring divestiture of 164 locations across 19 states—the largest outpatient divestiture ever mandated to complete a merger by facility count.

While the scale of the remedy was significant, investors viewed the outcome as a constructive precedent for managed-care consolidation, signaling that large healthcare platforms can still achieve horizontal and vertical integration under the current DOJ, provided they deliver credible competition remedies.

SLB / ChampionX

SLB Ltd completed its \$7.4 billion acquisition of ChampionX Corporation (CHX) on July 17, 2025, concluding a 16-month review process spanning multiple jurisdictions. The deal attracted attention from the U.K. Competition and Markets Authority (CMA) and other regulators due to potential concentration in production chemicals, drilling inputs, and sensor technologies. The companies obtained HSR clearance in February 2025 after the divestiture of CHX's stake in U.S. Synthetic Corporation was announced, and later accepted CMA undertakings that required further divestitures and IP licensing. From an investor standpoint, the outcome underscores regulators' willingness to approve strategic industrial combinations with targeted structural remedies, rather than imposing full-scale prohibitions—supportive of ongoing consolidation themes.

SEPTEMBER 2025 COMMENTARY (CONT'D)

Notable pending transactions:

Union Pacific / Norfolk Southern

The proposed \$85 billion merger between Union Pacific (UNP) and Norfolk Southern (NCS) would create the first coast-to-coast U.S. freight-rail network, spanning 50,000 route miles across 43 states. The deal falls under the Surface Transportation Board (STB), whose 2001 rules require that combinations enhance competition rather than merely preserve it—a high threshold rooted in post-Conrail precedent.

While shippers and labor groups warn of potential rate pressure and service concentration, the Trump Administration's pro-business posture could lead to conditional or even unconditional approval, provided the applicants demonstrate service improvements and commitments to infrastructure investments. Full filing is expected in early 2026 with a potential STB decision in 2027.

Nexstar Media / TEGNA

Nexstar Media Group's proposed \$6.2 billion acquisition of TEGNA represents another major regulatory inflection point. The combined company would control 265 television stations across 44 states, reaching nearly 80% of U.S. households—far exceeding the FCC's 39% national ownership cap. Under current law, the transaction cannot proceed without a legislative or regulatory change, underscoring the heightened scrutiny and structural limits facing media consolidation in the U.S. broadcasting sector.

The FCC and DOJ are reviewing the transaction with particular focus on ownership limits, local-market overlap, and public-interest standards. Given the Republican-led FCC under Chairman Brendan Carr, investors expect a more deregulatory approach that could allow approval through targeted divestitures or cap adjustments. Should the transaction proceed, it would reshape the broadcast landscape and signal renewed regulatory tolerance for scale in traditional media distribution.

It's worth noting that back in February 2022, Standard General entered into a definitive agreement to purchase TEGNA, but the transaction never received FCC approval and was terminated in May 2023.

Investment Focus

The Fund maintains a high level of confidence in its investment strategy, designed to deliver investors low-volatility returns that are uncorrelated with broader fixed-income and equity markets. By prioritizing deals with appealing spreads, regulatory obstacles that can be managed effectively, and shorter expected closing timelines, the Fund strives to provide investors with a favorable risk-reward profile. We want to express our sincere appreciation to our shareholders for their ongoing support.

Risks & Disclosures

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