EDGEMOOR
INVESTMENT ADVISORS

Edgemoor's Quarterly Report

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Preamble: April Update

The sharp selloff in global stock markets in the early trading days of April has roiled investors and sent most major indices into or near bear market territory (defined as a fall of 20% or more from a recent high). The cause was sweeping new tariffs announced by the U.S. on nearly every nation at levels which far exceeded market expectations. A partial rebound has since recouped some of the losses, but uncertainties over the tariffs remain.

This policy shock threatens to undermine a U.S. economy which, up until now, has shown remarkable resilience. Just last week, the Department of Labor announced that the U.S. added 228,000 new jobs in March, far exceeding the 140,000 that were expected. In addition, corporate earnings are still growing, consumer spending is still positive, and household balance sheets are still in pretty good shape.

But investor concerns are real. A prolonged tariff war could slow economic growth, raise unemployment, and re-ignite inflation. We obviously don't know how things will play out in the short term, but we remain committed to our long-term investment strategy of constructing broadly diversified portfolios of stocks and income securities we consider high-quality and that can weather periods of volatility. We also stand firm in our belief that good investments should not be sold at depressed prices.

What follows is our analysis of the first quarter of 2025 that ended on 3/31/2025.

Q1 2025: Uncertainty Takes Hold

Uncertainties about economic policies around trade and tariffs sent markets reeling in the first quarter of 2025, resulting in declines in both the S&P 500 and Nasdaq Composite indices. It also reversed a string of five consecutive quarters of gains and two consecutive years of 25%+ returns for the broad stock market.

During the first quarter, the S&P 500 Index posted a negative total return of 4.3% while the Nasdaq fell 10.5%, putting the latter in correction territory. The S&P 500 also notched a correction in mid-March when it fell 10% from its record high in February, only to recover somewhat at quarter end.

The bond market provided some relief to investors, as the Bloomberg Barclays Aggregate Bond Index returned a positive 2.8% for the quarter, as investors flocked to the safe haven of bonds, pushing up prices and tamping down yields. The 10-year Treasury yield, a key barometer of the bond market, ended the quarter at 4.2%, down from 4.6% in December. (Bond prices move in the opposite direction of interest rates or yields).

The Market Rotates

In the first quarter, investors rotated out of growth-oriented, technology stocks that had dominated market returns for the last two years, favoring instead more defensive, dividend-paying stalwarts like utilities and consumer staples. It was the worst quarterly performance for tech stocks since 2020.

The sectors that had been left behind in the tech runup of 2023-2024, such as energy, healthcare, consumer staples, and utilities, were the top performers in Q1 of 2025. Overall, of the eleven sectors that make up the S&P 500, seven were up on the year, two were essentially flat, and only two – information technology and consumer discretionary – were negative.

One key take-away from this year's market so far is that diversification works. Well-diversified portfolios, like the ones we construct for our Edgemoor clients - with exposure spread across industry sectors, market capitalizations, geographies, and asset classes - provide important ballast and protection for long-term investors.

The U.S. Economy: Cracks Emerging but also Evidence of Resilience

In the words of one economist, the U.S. economy seems to be on two tracks: one, an uncertain track plagued by lingering "policy fog" and lower consumer and business confidence; the other is one of remarkable resilience, with sustained economic and earnings growth, at least for now.

On the positive side, corporate earnings are still growing, consumer spending is still positive, and unemployment remains historically low. Household balance sheets are healthy, and consumer debt remains under control. Likewise, corporate balance sheets remain strong as most companies avoided over-leveraging themselves even during the most recent expansionary period. Finally, the U.S. economy is 70% service-based, making it less susceptible to tariffs.

However, a sustained trade war could lead to higher prices and lower economic growth and is already causing some businesses and consumers to pull back on spending and investing. Growth forecasts for 2025 have been revised downward and are predicting a considerable slowdown from the 2.4% GDP growth rate in the final quarter of 2024.

Recession Fears Are Rising

The slowdown of the U.S. economy is raising fears of an economic recession or potentially stagflation, which is the combination of stagnant growth and higher inflation. Since the President's tariff announcement on April 2nd, many Wall Street strategists have increased the probability of the United States entering a recession this year.

However, the current tariff situation is fluid, and recessions are impossible to predict with any certainty. In late 2022, 100% of Bloomberg economists predicted a recession in 2023 that never materialized. The good news is that the current tariff scare comes at a time when the balance sheets and liquidity of both households and businesses are remarkably healthy. Ultimately, it will be the breadth, depth, and length of the tariffs that will determine the long-term impact on the U.S. economy.

Portfolio Implications and Actions

In the near term, we expect elevated volatility in global stock markets to continue given ongoing uncertainties.

However, we also remain committed to our strategy of constructing long-term, broadly diversified portfolios of high-quality stocks and income securities that can weather periods of market volatility and continue to grow their revenues, earnings, and dividend payouts. And as stated earlier, we stand firm in our belief that good investments should not be sold at depressed prices.

Looking forward, we anticipate new opportunities will emerge in certain securities as they become more reasonably valued. We have already been favoring dividend-paying securities, international stocks, and short-term Treasury bills yielding 4%+.

In some select cases, we may take the opportunity to sell tax losses and then repurchase those securities at a later date. But overall, we will be staying the course through this period of turbulence and monitoring portfolios closely.

Outlook

Our outlook for the near term is guarded, as we believe the negative trend for stocks may continue until there is more clarity on tariffs and their longer-term impact on the economy and markets. The silver lining of a "self-inflicted policy shock" – as many have termed this turbulence – is that it can be easily reversed.

It is also important to remember that equity market pullbacks are a normal occurrence and market corrections of 10% or more typically happen once or twice a year, on average. In addition, the overall valuation of the market has come down to approximately 20x forward earnings, from 22x a year ago, improving the prospects for finding new, attractive investment opportunities.

Finally, as one analyst pointed out, "No economy is better built, better prepared, or better positioned to weather today's market gales than the U.S." We would agree.

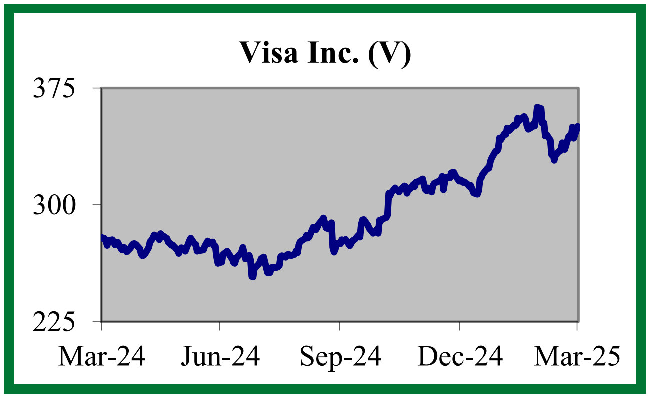
Edgemoor's Approach

Even though markets can be volatile quarter-to-quarter and year-to-year, we emphasize to our clients the importance of sticking to a long-term investment plan focused on their specific goals and objectives. We believe our patient, disciplined approach to individual security selection offers our clients strong long-term return potential in a cost effective and tax efficient manner. We appreciate your confidence in our time-tested investment philosophy.

Analysis of Selected Securities

The following are analyses of three selected securities we are currently buying for client accounts:

Visa Inc. (V)



Source for chart and financials: FactSet. Past performance is not indicative of future results. Please see disclosures on page 8.

Price (03/31/2025)	$350.46	Forward P/E	29.1
Market Cap ($B)	$ 684.7	Price/Book	18.3
Dividend Yield	0.7 %	Price/Sales	18.9
Return on Equity	39.6%	Debt/Equity	59.9

Visa operates the world's largest electronic payments network, connecting consumers, businesses, banks, and governments in nearly every type of financial transaction around the globe. Its core products include credit, debit, and prepaid cards, and related business services. The company also operates one of the world's largest ATM networks, Visa/PLUS, offering cash access in local currencies in more than 200 countries worldwide.

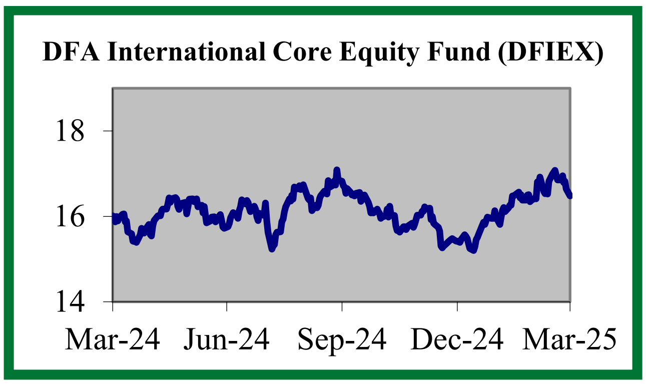
Visa is the #1 card network worldwide and processes roughly twice as many transactions as its closest competitor, Mastercard. Visa's customers include nearly 14,500 financial institutions that issue Visa-branded products that are accepted at more than 150 million merchant locations worldwide. During fiscal 2024, an average of 829 million transaction per day were processed using Visa-branded products.

Much of Visa's growth over the years has been propelled by the increasing use of digital payments over cash transactions. More than 80% of the world's retail transactions are still conducted with cash or checks, leaving a long runway for growth as more payments shift to digital form. In addition, the company is increasingly capturing new sources of payments and money movement between individuals, governments, and businesses, which in turn drives revenue growth. Visa is also deepening its client partnerships through value-added services that go beyond just processing payments, delivering services such as fraud mitigation, data analytics, and managing card benefits and loyalty programs, among others.

Visa's asset-light business model results in high operating margins and high levels of free cash flow, along with modest debt. As of December 31, 2024, the company had $17.5 billion of cash and $20.6 billion in total debt. Visa's strong balance sheet results in a high AA- debt rating from Standard and Poor's. In addition, management has proven to be shareholder-friendly having increased their dividend by 18% annually over the past 10 years, while also buying back more than $89 billion of stock over that time frame.

Visa stock trades at a premium to the market at 29.1 times forward estimated earnings, however, we believe that premium is justified by the company's dominant market position, strong brand equity, high returns on capital, and significant growth prospects. Visa shares have also outperformed the S&P 500 Index on a 1, 3, 10 and 15-year basis.

DFA International Core Equity Fund (DFIEX)



Source for chart and financials: FactSet. Past performance is not indicative of future results. Please see disclosures on page 8.

Price (03/31/2025)	$16.48	Price/Book	1.5
AUM ($B)	$ 32.0	Price/Sales	1.0
Dividend Yield	3.0%	Expense Ratio	0.24%

DFA International Core Equity Fund (DFIEX) offers broad exposure to international equities in foreign developed markets, such as Europe and Asia, in a low-cost, tax-efficient manner. The fund uses a distinct approach to portfolio construction that emphasizes value, profitability, and size of the companies in its target universe, factors which empirical data shows to have historically resulted in higher expected returns. As a result, the fund tends to favor companies with lower valuations, smaller market capitalizations, and higher dividend yields than market-weighted funds.

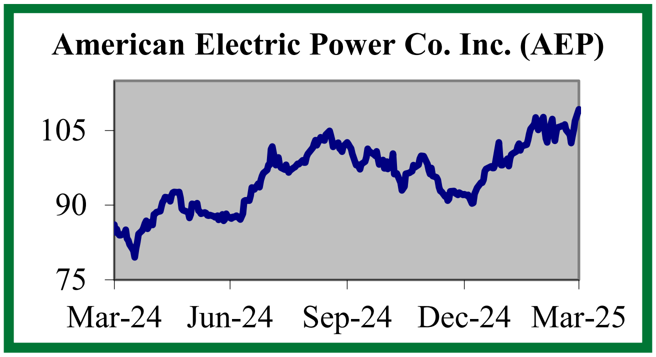
The fund is broadly diversified with approximately 5,000 positions, mostly spread across Europe (44% of total portfolio), and Asia-Pacific (33%), and Canada (11%). DFIEX has exceptionally low turnover at just 12% of holdings traded during the year, which reduces transaction costs and keeps its net expense ratio at just 0.23%, a very low figure for an actively managed fund.

DFIEX is managed by Dimensional Fund Advisors (DFA), a global investment firm founded in 1981 that today manages nearly $800 billion for investors worldwide. DFA takes a unique approach to investment management, viewing it as a science by which investment strategies are developed based on large bodies of empirical research and subject to rigorous review and testing. DFA also limits the distribution of its mutual funds such that individual investors can only gain access to them through an approved advisor like Edgemoor.

We began investing in select DFA funds in 2014 to gain broad exposure to international markets where purchasing individual stocks is not always possible. We chose DFA as a manager after a lengthy review of its investment philosophy, procedures, and performance, as well as meetings with its portfolio managers and academic advisors. We like DFA's value orientation, disciplined process, and low cost.

We believe international exposure is an important component of diversified portfolios and currently presents among the most attractive market opportunities for investors. Accordingly, our investment in DFIEX represents a core allocation in our client portfolios.

American Electric Power Co., Inc. (AEP)



Source for chart and financials: FactSet. Past performance is not indicative of future results. Please see disclosures on page 8.

Price (03/31/2025)	$109.27	Forward P/E	18.3
Market Cap ($B)	$ 58.3	Price/Book	2.2
Dividend Yield	3.4%	Price/Sales	2.9
Return on Equity	10.6%		

American Electric Power (AEP) operates one of the nation's largest regulated electric utilities, with a service territory spanning more than 200,000 square miles and including over 225,000 miles of distribution lines. The company generates, transmits, and distributes reliable and affordable power to 5.6 million customers in 11 states, including the fast-growing states of Texas, Tennessee, and Virginia.

AEP's diversified energy portfolio includes coal (constituting 42% of its total capacity), natural gas, renewables & hydro-electric power, and nuclear energy. As a regulated utility, the company enjoys the benefit of service territory monopolies and efficient scale advantages. It also allows the company to charge rates in excess of its cost of capital (as specified by the regulator) and invest in the growth of the business without the threat of competition.

AEP recently announced a $54 billion capital investment plan focused on investments in its regulated business, transmission capacity, and renewable operations over the next five years. The company intends to grow its renewable generation portfolio to approximately 50% of total capacity by 2030 and has committed to achieving net zero emissions by 2050. Other long-term tailwinds for growth include infrastructure-related spending, renewable energy advancements, and rising energy demand related to the increased use of artificial intelligence.

AEP's dividend has grown at a steady pace of nearly 6% annually over the past decade and currently yields an attractive 3.6%. With a payout ratio of only 31% of its funds from operations, we believe AEP can continue growing its dividend in the future.

Source for text and charts: FactSet, Morningstar, S&P/CFRA, Schwab, ValueLine, Black Diamond Performance Reporting, Yahoo Finance, Bank of America, JP Morgan Markets, MarketWatch, WSJ and Argus reports.

Edgemoor Investment Advisors is an independent wealth management firm providing investment and financial planning advice to individuals, retirement plans, trusts, family foundations, and an equity mutual fund. We manage approximately $1.3 billion as of March 31, 2025, for our clients and focus on long-term capital appreciation, preservation of capital, and income generation through disciplined management of value-oriented equity and income portfolios. Please contact us if you would like more information.

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The S&P 500 index is an unmanaged market-capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. The S&P 500 index is discussed for comparative purposes only. The comparisons have limitations because the indexes have volatility, investment, and other characteristics that differ from the investment strategies of Edgemoor. Further, it is not possible to invest directly in the indexes.

The NASDAQ measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite includes over 3,000 companies.

The Barclays U.S. Aggregate Bond Index is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States. The Index is frequently used as a stand-in for measuring the performance of the U.S. bond market. In addition to investment grade corporate debt, the Index tracks government debt, mortgage-backed securities (MBS) and asset-backed securities (ABS) to simulate the universe of investable bonds that meet certain criteria. In order to be included in the Index, bonds must be of investment grade or higher, have an outstanding par value of at least $100 million and have at least one year until maturity.

The MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries*. With 2,308 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

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