Championships Require More Than a Great Offense

Third Quarter 2026 Investment Commentary

As football season has kicked off across the country, fans and commentators debate which teams have the talent to contend for a championship. The discussion often centers around explosive offenses and star quarterbacks, but a team also needs a defense that can hold up under pressure and special teams that can change the course of the game.

We believe investment portfolios should be constructed in much the same way. The growth allocation in your portfolio is analogous to offense; the liquidity and disinflationary allocations are more defensive, while inflation and non-correlated allocations resemble special teams. The third quarter continued to illustrate how these roles can differ, as geopolitical conflict, inflation pressures, rising bond yields, and the upcoming U.S. midterm elections continue to create a market environment that tests many investors.

As we review the quarter and discuss opportunities ahead, we find it useful to think about portfolios through the lens of offense, defense, and special teams.

The Playing Conditions: Inflation, Iran, Interest Rates, and Elections

The U.S. economy has continued to demonstrate resilience. Corporate earnings are healthy, employment conditions have stayed supportive, and economic growth has continued despite higher interest rates. However, the path forward has become complicated.

Geopolitical developments, including tensions involving Iran and risks to global energy supply routes, have added to the uncertainty. Energy prices are elevated, and investors are evaluating the potential economic implications of instability across the Middle East and Eastern Europe. In part due to the events in Iran, inflation is more persistent than many expected earlier in the year, prompting markets to reassess future interest-rate expectations.

Those concerns have been reflected most clearly in the global bond market. When yields rise, prices of existing bonds generally fall, and longer maturity bonds tend to be more sensitive to those moves. Investors are now demanding additional compensation for inflation risk, growing fiscal deficits, government borrowing, growing interest payment burdens, and geopolitical uncertainty. The yield on the 30-year U.S. Treasury was 4.76% at the beginning of the year and reached 5.64% by the end of the third quarter. This is a meaningful upward shift over a nine-month period.

Finally, as we approach the U.S. midterm elections, added volatility is expected as investors consider possible policy changes. Election outcomes are difficult to forecast, however. While markets frequently experience turbulence leading into elections, the twelve months following midterm elections have historically, but not always, been among the strongest periods of the four-year presidential cycle. We continue to focus on corporate earnings, economic conditions, opportunities and risks, and business fundamentals, rather than positioning portfolios around election predictions.

Offense: Global Equities Move the Ball Down the Field

We view global equities as the portfolio's offensive unit. Equities are intended to help create long-term growth, drive portfolio appreciation, and seek to compound wealth in excess of inflation over time. While

they can experience significant periods of volatility and loss, they have historically been among the most effective asset classes for building purchasing power over the long run.

Despite the difficult geopolitical backdrop, global equities have been resilient throughout much of 2026. Corporate earnings growth remained the primary driver of returns, and market leadership expanded beyond a narrow group of large U.S. technology companies.

An encouraging development has been improving market fundamentals beneath the surface. While stock prices advance, corporate earnings have generally grown even faster. The S&P 500 earnings per share increased by 22.2% on a year-to-date basis. As a result, the market's forward price-to-earnings ratio has declined from 25.6x to 21.5x over the past nine months despite positive equity returns. In other words, companies have been growing into their valuations.

Markets become vulnerable when stock prices rise substantially faster than the earnings that support them. What we have seen this year is quite different. Much of the market's appreciation has been driven by stronger revenues, improving profitability, and solid earnings growth rather than investors paying higher multiples for future profits. While areas of the market still command premium valuations, in our view the overall equity landscape rests on stronger fundamentals today than it did at the start of the year.

Particularly encouraging has been the performance of international and emerging market equities. For much of the last decade, U.S. stocks dominated global returns. Today, we believe many international markets offer an attractive combination of improving earnings growth and materially lower valuation multiples. The earnings per share of international developed market equities increased by 10.5% this year, and they trade at a forward P/E multiple of 14.7. Emerging market equities grew their earnings by 29.6% and trade at a forward P/E multiple of 9.1.

Just as a great offense needs many ways to score, diversified equity portfolios benefit from exposure across geographies, industries, and market capitalizations. While U.S. companies lead in many areas of innovation and profitability, we believe the opportunity set is broadening. International and emerging markets may also contribute to portfolio returns as investors recognize the combination of reasonable valuations, improving earnings, and long-term growth prospects.

Offensive Unit Performance (YTD as of 9/30)

- Global Equities: **+13.0%**
- U.S. Large Cap Equities: **+12.7%**
- U.S. Small Cap Equities: **+13.7%**
- International Developed Markets: **+10.3%**
- Emerging Markets: +**23.4%**

Defense: Income Oriented

Every championship team eventually finds itself protecting a lead late in the game. When that happens, defense matters.

Within portfolios, our defensive unit includes cash, short-term fixed income, intermediate-term fixed income, private credit, and asset-based lending. However, not all fixed income is created equal. Rising interest rates created headwinds for long-duration bonds during the third quarter. As Treasury yields

increased, many longer-maturity bond portfolios experienced negative returns despite their traditional role as defensive allocations. As yields have risen, we believe municipal bonds have become more attractive, particularly for investors in higher tax brackets**.**

Fortunately, today's environment offers alternatives. Short-term bonds, Treasury bills, cash equivalents, and floating-rate credit investments have generated attractive yields while maintaining lower interest-rate sensitivity. In our view, investors continue to be reasonably compensated for maintaining liquidity and preserving flexibility.

We believe private credit and asset-based lending strategies continue to offer attractive income opportunities. Many of these investments are supported by underlying collateral, contractual cash flows, and shorter-duration structures that may be less sensitive to rising interest rates. While media coverage on the private credit landscape continues, client investments in private credit have generally continued to retain high distribution yields and low levels of stress and/or defaults.

Defense may not be exciting or make the highlight reel, but it often helps decide which teams stay competitive during difficult stretches. We believe the above positioning may help mitigate portfolios' downside if the equity markets lose steam and interest rates reverse their upward trajectory.

Defensive Unit Performance (YTD as of 9/30)

- Cash Management Strategies: **+2.65%**
- Short-Term Fixed Income: **+0.71%**
- Private Credit Direct Lending: **+4.4%**
- Private Credit Asset-Based Finance (as of 6/30): **+6.4%**

Special Teams: Different Sources of Returns
Special teams can decide a football game with a field goal, a kickoff return, or a momentum-changing play. Our special teams unit is comprised of investments whose returns may differ from those of traditional stocks and bonds. Depending on the portfolio, they can include gold, gold-mining companies, natural resources, energy, and reinsurance strategies. They are intended to provide diversification benefits and may perform differently than traditional stocks and bonds during periods of inflation, geopolitical stress, or market volatility.

This year, natural resource and energy investments have benefited from higher commodity prices, geopolitical tensions, and global energy demand. The expansion of data centers, artificial intelligence infrastructure, and power generation requirements has reinforced our long-term conviction in energy and resource-related investments.

Gold and precious metals are intended to serve as a hedge against uncertainty, although gold declined during the period shown below. Select reinsurance and alternative strategies provided returns that were less dependent on the direction of traditional stock and bond markets.

We believe investors face greater geopolitical risk, fiscal deficits, inflation uncertainty, and frequent market regime changes. In this environment, the investments we think of as special teams can become valuable. You may not need them every year, but when conditions get challenging, they can help influence outcomes.

Special Teams Unit Performance (YTD as of 9/30)

- Gold: **-4.06%**
- Gold Mining Companies: +**2.45%**
- Natural Resources: +**20.5%**
- Energy Investments: **+36.7%**
- Reinsurance Strategies: **+16.6%**

Looking Ahead: A Balanced Team for an Uncertain Season

As we enter the fourth quarter, we are watching geopolitical tensions, inflation, interest rates, and the midterm elections. While these factors may add volatility, they can also create opportunities.

With fixed income, we are finding attractive yields and opportunities in asset-based lending and municipal bonds. With equities, we see value in international and emerging markets where valuation multiples remain lower than many U.S. counterparts. With alternatives, we favor real assets and inflation-sensitive investments that may help portfolios navigate a less predictable economic environment.

While headlines often focus on market indexes reaching new highs, we believe investors should also pay attention to the earnings supporting those prices. Earnings growth has outpaced price appreciation this year, which has reduced earnings multiples. However, even as earnings and profit margins expand, we remain cautious about over-allocating to equities given the circular financing of the AI buildout and the resulting quality of earnings.

Like championship teams, portfolios benefit from balance rather than relying on a single star player. Our investment philosophy brings together an offense focused on growth, a defense designed to provide income, and special teams that add diversification and help capitalize on opportunities when conditions become difficult.

The season is far from over, and we are optimistic that well-diversified portfolios are positioned to compete effectively across a range of market conditions. If you have questions about your portfolio or how the topics discussed in this email relate to your investments, don't hesitate to reach out to your wealth advisor.

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Performance Figures: The returns shown under "Offensive Unit Performance," "Defensive Unit Performance," and "Special Teams Unit Performance" are for the year-to-date period ended September 30, 2026, and reflect the gross-of-fee returns of the following indices: MSCI ACWI (Global Equities), S&P 500 (U.S. Large Cap Equities), Russell 2000 (U.S. Small Cap Equities), MSCI EAFE (International Developed Markets), MSCI EM (Emerging Markets), S&P US Treasury Bill 0-3 Month Index (Cash Management Strategies), ICE U.S. Treasury 1-3 Year Index (Short-Term Fixed Income), LBMA Gold Index (Gold), NYSE ARCA Gold Miners Index (Gold Mining Companies), S&P Global Natural Resources Index (Natural Resources), MSCI World Energy Index (Energy Investments), and the net-of-fee fund reported returns of the Cliffwater Corporate Lending Fund (Private Credit Direct Lending), Bow River Asset-Based Income Fund (Private Credit Asset Based Finance), and Stone Ridge Reinsurance Risk Premium Interval Fund (Reinsurance Strategies). Bow River Asset-Based Income Fund reported as of June 30, 2026. Gross returns do not reflect the deduction of Versant's advisory fees, which would reduce returns. Individual client results will vary. Alternative Investments: Private credit, asset-based lending, and reinsurance investments are generally illiquid, may be

available only to investors who meet certain eligibility requirements, may use leverage, and are subject to risks including credit and default risk, valuation uncertainty, and, in the case of reinsurance, the risk of significant loss from catastrophic events. Distribution yields are not guaranteed and are not the same as total return. Forward-Looking Statements and Sources: This commentary contains opinions and forward-looking statements that reflect Versant's views as of September 30, 2026 and are subject to change without notice. Information obtained from third-party sources is believed to be reliable, but its accuracy is not guaranteed.