NORTHSTAR ASSET MANAGEMENT

Third Quarter 2025

October 30, 2025

Reflections

It's been a challenging year and a true test of the importance of our values and our approach to investing in the stock market. Every day brings new assaults on our democracy, our rights, and our humanity with a callousness that exposes a single-minded failure to care about anything other than power and control. There is a parallel phenomenon in the stock market—a single-minded focus on the promise of profits despite the damage that will be done along the way.

We have not participated in the wild run up of the stock market this year. We wish it were a protest move on our part, and maybe in some ways it is. The quality companies we invest in have been ignored for the most part, despite their positive earnings, in favor of stocks that benefit from the AI boom and the aggressive stance of the United States on the world stage.

At NorthStar we try to anticipate harm and the future needs of all of us in selecting investment opportunities. We care about the lives of workers around the world, question the behavior of corporations, and look to invest in companies that we believe are solving problems. We screen out investments in weapons, fossil fuels, and in countries with a history of human rights violations. We do not want to profit from companies that are directly contributing to death and destruction. While our approach has allowed us years of what we feel is outperformance, we have always struggled in markets that are driven by momentum. In today's markets, nuclear energy, fossil fuel, and the focus on the *future earnings* of AI companies appear to be thriving. Domestic terrorism and hostility are in; peace and justice are out.

Our approach to equity research is based on thinking about the long-term impact of companies in your portfolio around the world. While we don't believe that any company's behavior is entirely fantastic, we work to determine what companies we can live with, where can we engage to improve them, what companies are profitable now and are likely to remain profitable into the future, and what companies are providing services that are helpful or necessary. Our thinking includes technological changes and challenges, political influence, and the general concerns that arise in corporate governance and strategy.

Below, we delve deeper into economic and market conditions and discuss how we are responding to this moment.

Update on Economic Outlook and NorthStar's Strategy

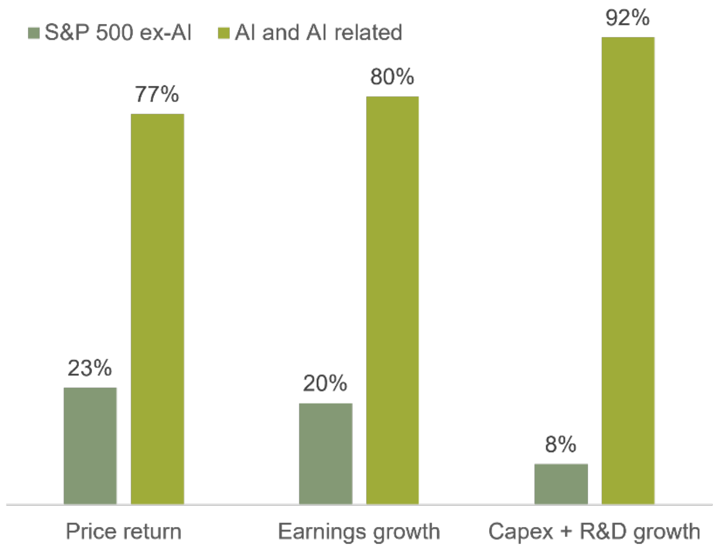
Q3, 2025: All Aboard the Trump and AI Train

The rally in the global stock markets continues. Optimism about artificial intelligence has prevailed over fear and uncertainty related to politicization of the Federal Reserve Board and potential manipulation of macroeconomic data, the October shutdown of the US government and implications for the economy (and the well-being of the public), and the impact of drastic reductions in Medicaid and social programs. Even the government's novel strategy of taking direct equity stakes in corporations has failed to temper bullish sentiment. Recent data on U.S. construction spending suggests that artificial intelligence is currently the single most important driver of the U.S. economy—and potentially the global economy—while investments in housing, non-residential sectors excluding data centers, and traditional industrial activity have remained lackluster since 2022.

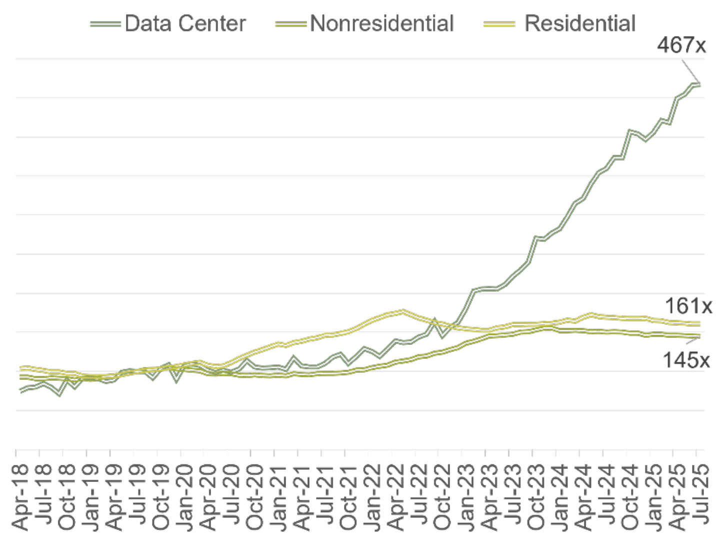
Source: Bloomberg 10/8/2025; Graphic generated using Gemini 10/8/2025

It is an AI economy, and we are all just living in it…

Contributions since November 2022



US construction spending normalized and seasonally adjusted rate



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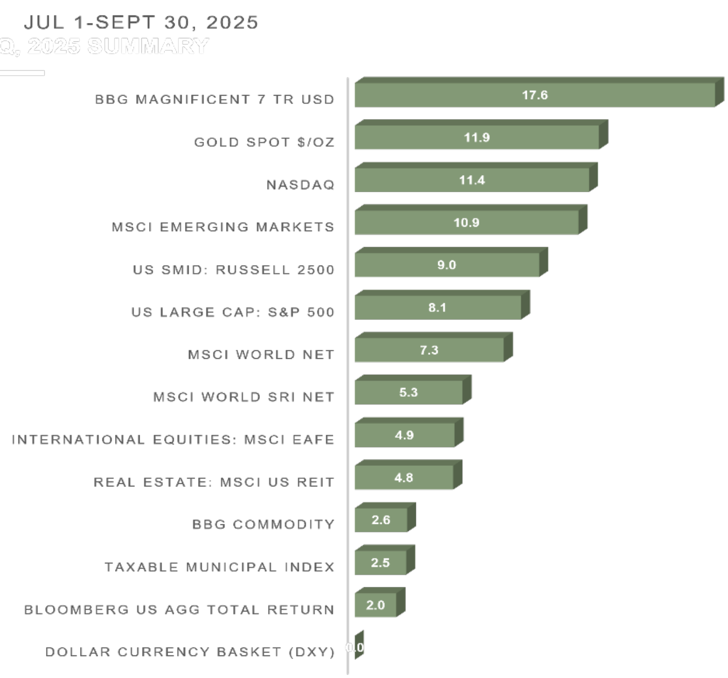
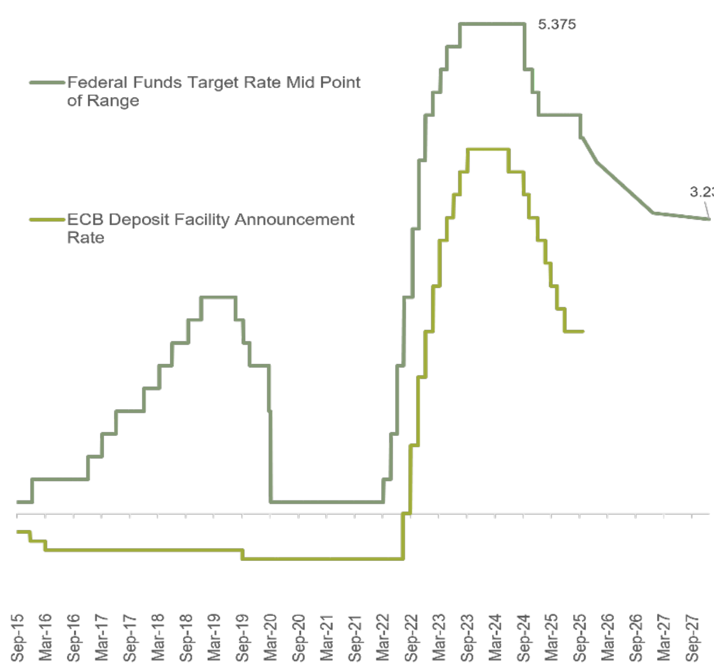
Right: Bloomberg

Top Return Performance (%)[1]



Source: Bloomberg 10/8/2025

Central Bank Interest Rates (%)[2]

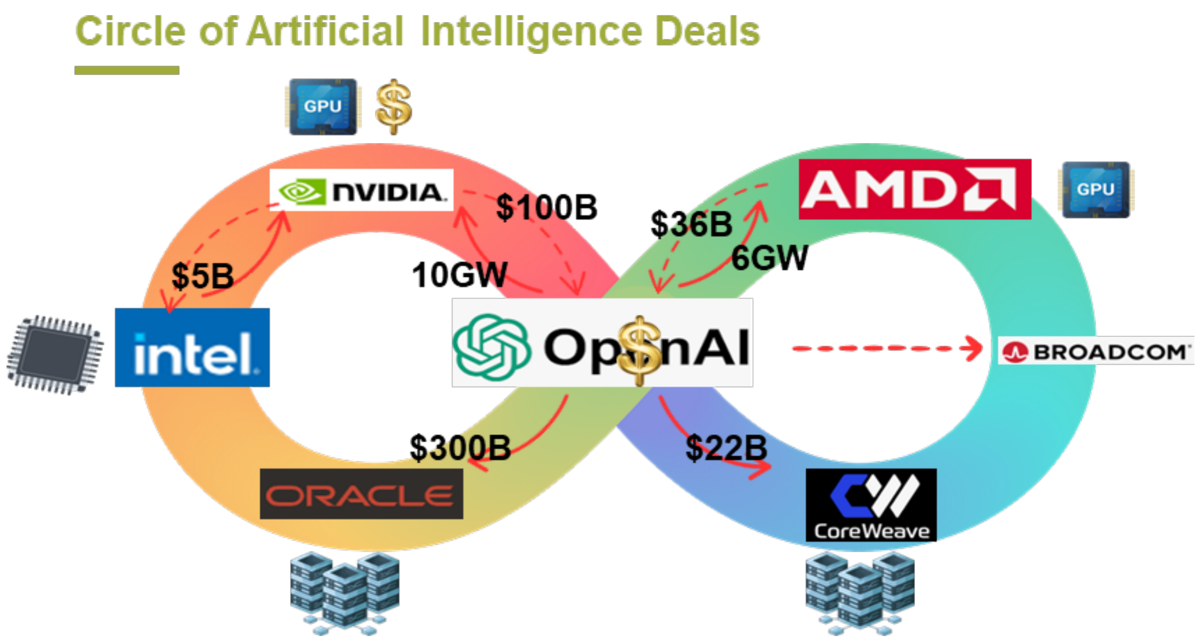


[1] Indices are presented herein for illustrative and comparative purposes only. Such indices may not be available for direct investment, may be unmanaged, assume reinvestment of income, do not reflect the impact of any trading commissions and costs, management fees, or performance fees, and have limitations when used for comparison or other purposes because they, among other things, may have different strategies, volatility, credit, or other material characteristics. In considering performance results discussed here, prospective clients should note that equity portions of individually managed accounts may differ from the results shown here because of client-specific restrictions, client circumstances, client legacy positions, different fee and expense structures, actual trading, tax considerations, and other reasons.

The Aritifical Intelligence Economy: Gold Rush or Sugar Rush?

We have written extensively about the transformational potential of the artificial intelligence technologies powered by large language models. However, there is growing concern about the worldwide resurgence in power generation from natural gas and nuclear sources—both required to support the surge in computing demand, which is highly energy and water intensive. Despite the market's enthusiasm, it remains difficult to determine whether current sentiment represents peak euphoria for artificial intelligence or how long the infatuation with AI will persist, although we are beginning to see signs that give us cause for concern.

1) **The circular nature of recent AI deals is striking.** OpenAI, a leading private company, is on track to generate $13 billion in full-year revenues while burning through $8.5 billion in cash[2]. It has committed to purchasing $300 billion in data center capacity from Oracle over five years and deploying 10 GW of Nvidia chips. Nvidia, in turn, intends to invest up to $100 billion in OpenAI as each gigawatt is deployed. Meanwhile, AMD—widely considered a distant second to Nvidia in the AI GPU market—recently signed an agreement to supply OpenAI with 6 GW of AMD chips over multiple years. In exchange, OpenAI will receive warrants for up to 160 million shares, amounting to roughly 10% of AMD's shares outstanding[3]. Each announcement has led to notable rises in the stock prices of the companies involved, as the market appears to be giving these firms full credit for the revenues tied to these partnerships. However, it is possible that these companies are engaging in complex and circular financial arrangements to sustain investor optimism and perpetuate the illusion that there is no limit to future AI investments.



2) **Increased reliance on debt**: During the last two years, AI investments were predominantly funded with free cash flows from leading hyperscalers such as Microsoft, Alphabet, Meta, and Amazon. Now, companies are increasingly issuing debt to support ongoing AI expenditures. In September, Oracle raised $18 billion in corporate debt to finance its expanding data center operations. Similarly, CoreWeave, which is not generating net income or positive cash flows, continues to access debt markets to build GPU data centers. According to JP Morgan analysts, companies involved in artificial intelligence now comprise 14% of the high-grade debt market, amounting to $1.2 trillion—making them the largest segment in the investment grade credit market.[4] This could be problematic if there is a shakeup in assumptions about demand and pricing that affects credit quality.

3) **Power and water constraints**: OpenAI's recently announced commitments with AMD and Nvidia will require a total of 16 gigawatts (GW) of computing power—equivalent to eight times the capacity of the Hoover Dam or the combined output of Units 3 and 4 at the U.S.'s largest nuclear plant, Vogtle, in Georgia, which took 15 years to build

[2] https://www.reuters.com/technology/openais-first-half-revenue-rises-16-about-43-billion-information-reports-2025-09-30/
[3] https://www.ft.com/content/4e39d081-ab26-4bc2-9c4c-256d766f28e2
[4] https://www.bloomberg.com/news/articles/2025-10-07/jpmorgan-says-1-2-trillion-debt-tied-to-ai-tops-bank-high-grade

at a cost of $30 billion. Data centers have already contributed $9.4 billion in added costs for the largest U.S. grid operator in the mid-Atlantic region[5], and rising expenses have begun to be reflected in utility bills. These energy demands highlight significant infrastructure and environmental challenges, as the scale of power usage for AI computing dwarfs traditional projects, and the expansion of data centers is placing growing pressure on electricity grids already stretched thin.

In the midst this momentum-driven and highly concentrated market, we want to assure you, our clients, that we remain confident in our approach as described below while also acknowledging the uncertainty and complexity of these times. We believe that building a diversified portfolio focused on high-quality stocks with low debt levels can still deliver sustainable long-term growth and mitigate risk.

Over the mid-to-long term, companies with low financial debt and that make products or sell services we believe are beneficial to human life and that solve or mitigate some of the most pervasive problems of our time are likely to continue thriving. We focus our research on companies providing solutions and products to cope with:

- Ecological Limits: We believe our planet's resources are increasingly under threat from ecological imbalances and decades of extractive growth.
- Aging and changing demographics: The world's population aged 60 and over is growing faster than all younger groups and is expected to reach 1.4 billion by 2030, up from 1 billion in 2020.[6]
- Leveling the playing field: Digital transformation and new business models are enabling small businesses and entrepreneurs to compete with big business.

We aim to own and add stocks that offer competitive returns and diversification while also providing opportunities to create the greatest impact by changing corporate behavior via our shareholder activism work.

As a refresher, our investment strategy for the global equity portfolio involves independent research into each company's growth prospects and financials combined with diligently examining the ethics of management and company behavior. The resulting portfolio, we believe, is more resilient, sustainable, and stable because of our broad-based focus. In addition, we follow our systematic quarterly rebalancing strategy in which we trim individual stocks that we feel are well past their target weights and reallocate to stocks that are under their target levels.

In addition, we believe we must respond to the current situation by expanding diversification of our clients' portfolios. As you will read below, our disciplined approach does not work well in extremely concentrated or momentum driven markets as we have seen over the past year. Therefore, we are recommending the addition of a well-researched SRI ETF (ishares MSCI SRI ETF) to our clients' equity allocation. We consider this a hedge against the perpetuation of the Trump and AI train. While no single product is perfect, our research concludes that this ETF offers an effective balance between achieving broad, diversified market exposure and maintaining strong alignment with your socially responsible values. This adjustment will increase market participation while retaining our core, high-conviction holdings of individual stocks and our commitment to shareholder activism.

Selectivity in adding Fixed Income Exposure

Our base case assumption has included a high probability that longer-term interest rates will remain at current or higher levels as our government and others will need to fund Social Security, Medicare, and defense programs as well as interest on US debt while grappling with challenges related to ecological limits and socio-political upheaval. That hypothesis has been further supported by the recent developments on tariffs, longer term re-shoring of manufacturing back to the US, and the recently approved 2025 budget paving the way for $4.5 trillion in tax cuts. Since the beginning of this year, yields on 10-year bonds have see-sawed from a low of 4.0% to a high of 4.8% in response[7] to economic and inflation data points. We have maintained our discipline of buying bonds only when we believe yields are at attractive levels. In the meantime, we expect more reductions in the short-term (fed funds) rate that is controlled by the Federal Reserve Bank. However, lower short-term rates are unlikely to drive declines in longer term rates.

Where appropriate, we will continue to diversify across duration and add government bonds in the one-to-ten-year maturity range to our clients' portfolios. We believe that bonds in this maturity range offer an optimal combination of flexibility, higher income returns, and stability for the portfolio. We are also researching alternatives to US government debt and will keep you updated.

[5] https://www.bloomberg.com/news/articles/2025-06-03/data-centers-added-9-4-billion-in-costs-on-biggest-u-s-grid
[6] Source: United Nations Department of Economic and Social Affairs, World Population Prospects 2022
[7] Bloomberg

Of course, past performance is not an indicator of future performance, and all investing involves risk!

Shareholder Activism Update

As always, there's a lot to unpack from this past quarter. We're pleased to highlight a few of our most significant engagements.

Microsoft and Israel

There has been meaningful progress in our ongoing efforts to ensure that companies align their operations with their stated human rights commitments. Following our co-filing at Microsoft in July, significant developments have unfolded. In August, *The Guardian* reported that the Israeli military had used Microsoft's products for mass surveillance of Palestinian civilians—storing recordings of millions of daily calls in Gaza and the West Bank on Azure.[1] In our view, this practice represents a clear breach of Microsoft's own terms of service and human rights policies. The combination of this revelation, alongside both internal employee and external investor pressure stemming from our unprecedented co-filing, prompted Microsoft to take the extraordinary step of commissioning a second, urgent independent investigation into the Israeli military's use of its technology.[2] This decision underscores the gravity of the situation and the growing influence of coordinated shareholder advocacy.

Following the second audit, Microsoft confirmed findings consistent with *The Guardian's* reporting and announced in September that it has "ceased and disabled a set of services to a unit within the Israel Ministry of Defense (IMOD)."[3] This represents a major step forward toward greater accountability, though our work continues until all aspects of our co-filing requests are fulfilled. Importantly, there have been no challenges to our shareholder proposal, which means it is expected to proceed to a vote at Microsoft's Annual General Meeting in December. Looking ahead, we plan to refile several shareholder proposals and introduce new issue areas. We'll continue to keep you updated as these proposals progress.

Home Depot and Data Privacy

Regarding other portfolio engagements, we have been in active dialogue with Home Depot concerning its use of Flock Safety, a surveillance technology company whose automated license plate reader (ALPR) cameras are deployed to monitor vehicles for potential fraud and theft. Data collected through these systems can be shared with law enforcement agencies. Although Flock does not have a formal contract with ICE, reports indicate that immigration authorities have sought access to local law enforcement data connected to Flock's network.[4] Home Depot locations in California have also been focal points for ICE activity, given their role as gathering places for day laborers seeking work. These issues raise broader questions around data privacy, surveillance practices, and the potential implications for both customers and employees. We have urged Home Depot to end these contracts and will provide updates should there be any developments.

Novo Nordisk and Healthcare Access

As part of our ongoing engagement on healthcare access, we have engaged Novo Nordisk to better understand the rationale for changes to its 340B discounted drug program, given the program's critical role in supporting low income and rural communities. The company explained that the changes were driven by accounting requirements and concerns about potential double discounting by pharmacies and insurers. As a result, Novo Nordisk limited the number of contracting pharmacies it partners with while reiterating its commitment to the 340B program. Novo Nordisk and peers are facing a class action lawsuit alleging the drugmakers conspired to restrict 340B programs around the same time which increased costs for safety net hospitals and clinics serving low-income communities. We will update as the case develops.

Our Water Risks Research and Recognition

This past quarter, our team was invited to share our approach to assessing water risks across our portfolio, along with our engagements with technology companies on AI's significant water consumption. We presented these insights at the FAIRR Initiative's investor roundtable on water related risks and at Ceres' Valuing Water Finance Initiative high tech investor gathering. We also attended Climate Week in New York City, where it was encouraging to see water risk finally receiving the attention it deserves in comparison to previous years. Earlier this year, when we spoke at the ICCR Spring Conference, it felt as though we were among the first to raise the alarm on AI's enormous water footprint,now the conversation has clearly accelerated. Nearly every AI discussion highlighted water as a material business risk. The Carbon Disclosure Project team shared that it is seeing an unprecedented surge in voluntary water disclosures, driven by both investor demand and growing corporate recognition of the operational risks tied to water use.

Shareholder Rights Update

Unfortunately, recent news regarding the shareholder rights process continues to shock and alarm the entire socially responsible investor world. The shareholder rights process that protects the ability to file proposals is actively under attack. Recently, SEC chair Paul Atkins made remarks pointing to the end of the shareholder proposal process stating there is no firm basis for shareholders to submit non-binding proposals. Chair Atkins has also ordered a review of the interpretation of Rule 14a-8[8]. Our corner of the world, including the Shareholder Rights Group, is working to respond to these actions and field attacks. In September, the House Committee on Financial Services held a hearing titled ”Proxy Power and Proposal Abuse: Reforming Rule 14a-8 to Protect Shareholder Value” aimed at criticizing the shareholder rights process and framing it as a process used by activist investors to push social or political agendas over financial returns. We responded to the misleading remarks and distorted interpretations with a letter from the Shareholder Rights Group to the House Committee reiterated that shareholder proposals are mainstream and a market-based tool important to US markets and emphasizing the critical role proposals play in identifying risks before they become crises. We will continue to work with the Shareholder Rights Group to protect the shareholder rights process.

Looking Ahead

Our Activism & Impact Research Analyst, Madison Krieger will lead a panel and working group at ICCR’s fall conference to address how investors can anticipate and respond to diversity backsliding with integrity and impact. Additionally, we are excited for our Director of Impact Research, Whitney Nguyen to continue to share NorthStar’s approach to water risks to safeguard community water supply at the upcoming United Nations Principles for Responsible Investment (PRI) in Person conference in Brazil in November. As we head into the fall, our team is gearing up to file several shareholder proposals as well as continuing open engagements with a number of companies held in your portfolio. Please keep a lookout next month for NorthStar’s latest Social Change & Activism Report, showcasing the impact of our activism work through company engagements, research, publications, collaborations with peers regarding attacks on the shareholder rights process and much more.

[1] https://www.theguardian.com/world/2025/aug/06/microsoft-israeli-military-palestinian-phone-calls-cloud
[2] https://blogs.microsoft.com/on-the-issues/2025/05/15/statement-technology-israel-gaza/
[3] https://blogs.microsoft.com/on-the-issues/2025/09/25/update-on-ongoing-microsoft-review/
[4] https://www.404media.co/ice-taps-into-nationwide-ai-enabled-camera-network-data-shows/

Sincerely,

Julie

Nimrit Kang

Julie N.W. Goodridge
Founder & Chief Executive Officer

Nimrit Kang
Chief Investment Officer

[8] SEC Chair Atkins Speech Could Spell Death Knell for Non-Binding Shareholder Proposals | The Governance Beat

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