

# Atherean

## Asset Management

July 24, 2025

Dear Atherean Asset Management clients:

Enclosed is your portfolio performance report, a summary of your investment objectives and target asset allocation as per our records, and an investment advisory fee statement for the third quarter of 2025. It is important that you review your investment objectives and target asset allocation and let us know if any of it is incorrect or if there are any changes to your financial profile or liquidity needs. For a full report of the holdings in your accounts we encourage you to refer to your statements and reports generated by the custodian.

### **Market and Economic Environment**

While most of the macro-economic headlines over the past few months have been related to tariffs, and while tariffs are, all else being equal, economically restrictive for the U.S., fiscal and monetary policy both remain loose and stimulative. As far as fiscal policy goes the recent spending bill has not resulted in any significant changes to net aggregate federal spending, and on the monetary policy side fed policy rates remain accommodative as they are below what we believe to be the true rate of long-term economic growth. Readings from the economy remain healthy as real GDP growth for the second quarter of 2025 is estimated at 2.4% as of the writing of this letter<sup>1</sup>.

While the S&P 500 has moved on to new highs since the tariff-induced volatility several months ago, U.S. small cap stock indices remain down for the year. Year-to-date the large-cap S&P 500 index is up 6.2%, the mid-cap S&P 400 index is up 0.2%, the small-cap S&P 600 index is down 4.5%, and the Europe, Australasia and Far East index ("EAFE") is up 20.0%<sup>2</sup>. As we stated in last quarter's update the strong performance of non-U.S. equity markets this year emphasizes the importance of global equity market diversification.

### **Portfolio Management**

With U.S. equity markets erratic this year in their almost daily reaction to macro-economic news, we took advantage of the volatility to invest in two new companies: Ulta Beauty Inc. (NASDAQ: ULTA) and Altria Group Inc (NYSE: MO)<sup>3</sup>. Altria is a mature business in the cigarette, cigar and smokeless tobacco industry with operating margins of about fifty percent. While the cigarette market in the United States is in decline, the smokeless tobacco market is experiencing growth, and as such the company has been able to hold revenues relatively steady over the past several years. We believe the company's stock to be reasonably priced with a free cash flow yield of just under ten percent and a dividend yield of almost seven percent, and the company has what we believe to be conservative capital allocation as it returns effectively all of its free cash flow to shareholders via stock buybacks and dividends. Ulta Beauty has a strong brand presence in the U.S., holding about a twenty percent market share in the cosmetics and fragrance industry. The company remains in a growth phase, and as such invests about a third of its operating cash flow into new store openings while returning the remainder of operating cash flow to shareholders in the form of stock buybacks. While the company had a free cash flow yield of only six percent when we took the purchased the stock, we believe that the company can effectively grow free cash flow per

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<sup>1</sup> Source: Federal Reserve Bank of Atlanta, Center for Quantitative Economic Research

<sup>2</sup> All return figures are year-to-date total return (including dividends) figures as of 6/30/2025

<sup>3</sup> The securities which we discuss in this letter are not necessarily allocated to all of our client accounts. Whether or not we choose to allocate a particular security to your account will depend on your risk tolerance, investment objectives, tax situation and objectives, and liquidity needs. Please also refer to the disclosures at the end of this letter.

share through a combination of a high incremental return on capital for new store openings and share count reduction from stock repurchases.

### Operational Updates

A reminder that if you have account(s) that are custodied at Altruist we no longer include performance reports for these accounts in our quarterly updates as you are able to view detailed performance history of your account(s) on the Altruist portal. If you would like to move your account(s) from Altruist to Schwab please reach out to us as we would be glad to provide you with the account transfer forms, which in most cases can be executed electronically within a few minutes.

We appreciate the trust you have given us to manage a significant portion of your wealth. As always, we are available to discuss your investment portfolio, discuss your financial plan, or address any other questions or concerns which you may have. Please feel free to reach out via phone or email if you would like to speak with us.

Sincerely,



Atherean Asset Management LLC

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### Disclosures:

*This information is not an attempt to render investment advice nor is it an offer or sale of any security, investment product, or investment advice. Descriptions of past equity and fixed income index performance are shown for illustrative purposes only and should not be used to infer future performance. Past performance is not a guarantee of future results.*

*Statements in this document are made as of the date of this document unless stated otherwise, and there is no implication that the information contained herein is correct as of any time subsequent to such date.*

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