



# April 2026, CIO Portfolio Commentary

## Portfolio Positioning Amid AI Driven Markets

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A clear trend has been evident in the market in recent times – the powerful performance of stocks experiencing strong operating momentum on the back of the AI boom, at the expense of “solid but relatively boring” sectors such as Health Care and Financials. This divergence in performance became even more extreme during April, with the valuation multiples of the momentum sectors continuing to move even higher and the multiples of the steady compounders continuing to de-rate.

Pella’s stock selection approach has always been focused on high-quality companies with long-dated compounding capacity. Pella also remains committed to its “price for sustainable growth” valuation framework. In the late stages of such a hot, momentum-oriented market, this has made it difficult for our portfolio to keep pace with the index and that was evident in our relative underperformance during April.

Therefore, we believe it is important to explain (1) what is going on beneath the surface of this late-stage bull market and (2) why we believe that our relatively prudent portfolio positioning is the optimal way for us to be investing your capital right now.

The best way to see what is going on under the surface is to differentiate between the fundamental performance of the companies themselves (which should drive long-term value creation) and the flow-driven changes in the valuation multiples of the stocks (which drives short-term price performance). The recent reporting season gives a clear illustration of this. (refer to Table 1 - Company Resilience and Market Reaction)

Pella had 32 companies reporting quarterly results during April (representing around 80% of the total portfolio). Of these 32 companies, 17 reported a beat and only 4 reported a miss. The other 11 reported results

roughly in line with consensus expectations. 15 of the 32 companies provide explicit forward guidance. Of those 15 companies, 8 raised their guidance with only 1 reducing guidance.
















The share price reaction on the day of these results was net positive for Pella's reporting stocks, with 18 of them rising on the day (average +5.2%) and 14 falling (average -3.6%), for an overall average reaction of +1.3%. However, despite so many of the portfolio companies delivering better than expected results, a significant number of them were unable to hang on to their day-one gains, with two-thirds declining over the remainder of the month (against the backdrop of a rising market). This reflects the pronounced "risk-on" rotation, with investors continuing to reallocate capital away from steadier quality-oriented stocks and into hotter areas of the market.


















Importantly, we view this as a dislocation in market pricing (which we almost always see in late-stage bull markets), rather than a change in underlying business fundamentals and value-creation trends. For example, across our Health Care holdings (which have suffered the most from valuation derating), fundamentals remain strong:

- Resilient fundamentals: Our portfolio companies remain highly profitable, high-quality businesses with durable structural growth drivers.
- Highly attractive valuations: In many cases, these businesses are now trading at the most attractive levels seen in many years.
- The "Patience Tax": Markets are currently rewarding momentum and near-term excitement, while discounting businesses whose value creation compounds over longer periods.

Therefore, we remain very confident in the portfolio's longer-term positioning. Market cycles often result in periods where the gap between price and intrinsic value widens materially (in both directions). We see the current divergence between AI related exuberance and the neglect of high-quality Health Care businesses as a textbook example. By maintaining exposure to Health Care and other high-quality compounders that are currently being overlooked in favour of the AI rally, we believe the portfolio is very well positioned to benefit when market focus ultimately shifts its focus back towards earnings durability and free cash flow generation.

Table 1 - Company Resilience and Market Reaction

Company	Beat/Miss	Guidance	Initial Reaction	Post Reaction
	In line	N/A	3%	-4%
	Beat	Reiterated	8%	-3%
	Beat	N/A	9%	-15%
	Beat	Raised	-4%	-1%
	Beat	Raised	-3%	9%
	Beat	N/A	4%	-8%
	In line	N/A	0%	-8%
	Beat	Raised	7%	7%
	Beat	Raised	7%	-5%
	In line	N/A	0%	-2%
	Miss	N/A	-5%	-2%
	In line	Reduced	9%	-11%
	Miss	N/A	-3%	1%
	Beat	Raised	6%	-1%
	Beat	Reiterated	9%	-8%

	Miss	Reiterated	-9%	0%
	Beat	Reiterated	0%	-2%
	Beat	Reiterated	13%	2%
	Mixed	N/A	7%	2%
	Mixed	N/A	-2%	-1%
	Mixed	Raised	-3%	0%
	Beat	Reiterated	3%	-1%
	In line	N/A	1%	0%
	Beat	N/A	-4%	0%
	Beat	N/A	0%	0%
	Beat	N/A	4%	0%
	Beat	N/A	3%	0%
	Beat	Raised	-4%	0%
	Mixed	N/A	-1%	0%
	In line	Raised	-7%	0%
	Miss	N/A	-4%	0%
	In line	N/A	1%	0%

Source Bloomberg and Pella Funds Management

## Pella Funds Management

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