Market Insights:

Quality Growth Without Overpaying In An AI-Driven Market



SRH FUNDS

March 23, 2026

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Key Takeaways

- The SRH Funds US Quality GARP ETF (SRHQ) follows a disciplined, rules-based approach, tracking an index developed and maintained by SRH Advisors rather than relying on active investment decisions.
- The methodology systematically identifies companies with sustainable growth and reasonable valuations.
- In a market increasingly shaped by AI-driven enthusiasm and elevated expectations in certain areas, this consistent framework is designed to identify opportunities across sectors and market capitalizations while abstaining from making short-term market calls.
- The result is a transparent, repeatable strategy focused on long-term quality growth with a clear emphasis on valuation discipline.

How the Strategy Works

The SRH Funds US Quality GARP ETF (SRHQ) seeks to track an index developed and maintained by SRH Advisors (SRH) using a rules-based methodology. The index applies a formula-driven approach intended to identify companies that exhibit quality growth characteristics based on defined growth and valuation metrics.

SRH does not actively select investments or make discretionary sector allocations. Instead, the index evaluates companies using predefined criteria aligned with SRH's investment philosophy, with an emphasis on sustainable growth and valuation considerations. The fund passively tracks this index.

This distinction is important: portfolio exposures are not driven by short-term views on specific themes, including AI, but are the result of applying this rules-based methodology across the broader market.

Applying the Philosophy in Today's Market

In recent years, market leadership has been influenced by mega-cap technology and, more recently, companies tied to the rapid adoption of artificial intelligence. While AI has the potential to reshape industries and improve productivity over time, areas experiencing strong investor interest may also reflect elevated expectations in current valuations.

When expectations are elevated, the range of potential outcomes can become asymmetric. Valuations that incorporate optimistic assumptions may leave less room for upside if those expectations are met and may introduce downside risk if results fall short. Within SRHQ's index's methodology, valuation metrics are a key component, and companies with elevated valuation multiples relative to their fundamentals may be less likely to meet the index's criteria.

The methodology is not designed to favor or avoid any particular sector or theme, including AI. Instead, it is applied consistently across the investment universe, including companies benefiting from AI-related developments, selecting those that meet its defined criteria.

This approach often leads to the inclusion of companies in areas of the market where expectations are more moderate. For example, mid-cap companies can represent a balance between growth potential and operational maturity. Many have more established business models and access to capital than smaller peers, while still offering potential for expansion relative to large-cap companies, although they may be more sensitive to economic cycles and exhibit greater volatility than similar large cap companies. Companies in this segment may be included when they meet the methodology's criteria.

Certain sectors may also be more affected by market expectations than others. Industries tied more directly to the physical economy, such as trucking or homebuilding, provide additional examples. The trucking industry has recently experienced what is commonly viewed as a cyclical downturn, with the 2025 American Trucking Associations (ATA) Trends Report noting declines in both revenue and tonnage.[1] Periods like this can coincide with more moderate valuations, even as long-term demand drivers remain in place.

Homebuilding presents a similar case. The U.S. continues to face a housing shortage, with the U.S. Chamber of Commerce citing a deficit of approximately 4.7 million homes.[2] While the sector is cyclical, underlying demand is often cited as a long-term driver for the industry.

Importantly, technology and software companies, including those associated with AI adoption, remain eligible for inclusion in SRHQ's index when they meet the same criteria. SRHQ's index does not specifically invest in any one sector, rather its emphasis is on consistently applying the methodology rather than making thematic or tactical allocations.

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[1] Associations, *American Trucking Trends 2025* (Washington, D.C.: American Trucking Associations, 2025).

[2] U.S. Chamber of Commerce, "The State of Housing in America," published March 17, 2025, updated March 3, 2026

A Long-Term, Rules-Based Approach

Market outcomes over shorter time horizons are inherently uncertain, particularly in environments where themes such as AI can influence sentiment and positioning. The index is not constructed based on short-term forecasts, but on a rules-based methodology applied consistently over time.

By emphasizing companies with sustainable business models and defined growth characteristics, SRHQ's index seeks to provide exposure to equity markets while incorporating these important valuation considerations.

In a market influenced by AI-driven expectations, growth opportunities remain—but how portfolios are constructed can influence long-term outcomes, particularly when discipline and valuation remain central to the process.

Important Disclosures:

This material is provided for informational purposes only and should not be considered investment advice, a recommendation, or a solicitation to buy or sell any security. The opinions expressed reflect current market conditions as of the date indicated and are subject to change without notice.

This commentary may contain forward-looking statements regarding market trends or investment opportunities. These statements are based on current expectations and analysis, which may prove to be incorrect. Actual results may differ materially from any projections or expectations expressed herein. Scenario analysis is not a guarantee of future results and is for illustrative purposes only. No representation is made that any scenario or outcome discussed will be realized.

Mid-capitalization Stock Risk: Mid-capitalization stocks may involve greater volatility than investments in large-capitalization companies. Mid-cap companies may have more limited product lines, markets, financial resources, and management depth than larger companies, which can make them more sensitive to changes in economic conditions, competitive pressures, and business cycles. As a result, mid-cap stocks may experience larger price fluctuations and periods of underperformance relative to large-cap stocks.

Industrials Sector Risk: Companies in the industrials sector may be adversely affected by changes in the supply of and demand for products and services, product obsolescence, claims for environmental damage or product liability and changes in general economic conditions, among other factors.

Consumer Discretionary Sector Risk: Companies in the Consumer Discretionary sector are sensitive to economic cycles, interest rates, inflation, consumer confidence, and changes in disposable income, all of which can materially affect demand for non-essential goods and services.
SRHQ's investments are subject to equity market risk, which means that the value of securities held may experience sudden, unpredictable drops in value or long periods of

decline in value due to various factors such as company-specific, sectors, government, and/or general economic and market conditions. Because the Fund invests in the securities included in the Index regardless of their investment merit, the Fund is subject to passive investment risk, which means that the Fund does not attempt to outperform the Index or take defensive positions in declining markets. The Fund is subject to ETF risks, such as, the risk that shares may trade at prices other than NAV when bought or sold in the secondary market. In addition, the Fund is subject to Index calculation methodology risk as it relates to the identification of Quality-, Growth-, and Value-style factors stocks. Although the Index uses a rules-based proprietary index methodology that is designed to identify growth companies with a higher quality profile that trade at a reasonable valuation level relative to the broader market, there is no guarantee that this methodology will be successful or that the past performance of these stocks will continue.

SRHQ employs a “passive management” – or indexing – investment approach and seeks investment results that correspond (before fees and expenses) generally to the performance of its underlying index. The Fund is not “actively” managed. Therefore, it would not necessarily sell or buy a security unless that security is removed from or added to the underlying index, respectively.

Past performance does not guarantee future results. All investments involve risk, including possible loss of principal. Diversification does not ensure a profit or protect against loss in declining markets An investor should consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. To obtain a prospectus containing this and other information, please call 1- 877-524-9155 or at srhfunds.com/document/srhq/prospectus/. Read the prospectus carefully before you invest.

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Definitions:

SRH US Quality GARP Index: The Index is designed to track the performance of the stocks of domestic (U.S.) companies that have moderate and consistent revenue growth but do not trade at excessive valuations. Stocks are screened through value, growth, and quality metrics to determine eligibility in the Index. Indexes are unmanaged and one cannot invest directly in an index. Index performance returns do not reflect any management fees, transaction costs or expenses.

Large-Cap Stocks: Large-cap stocks refer to companies with relatively large market capitalizations. In this piece, large caps are represented by the S&P 500 Index. Large-cap stocks are generally considered to have more established business models but may experience lower growth rates and valuation sensitivity over time.

Mid-Cap Stocks: Mid-cap stocks refer to companies with market capitalizations between those of large-cap and small-cap companies. In this piece, mid-caps are represented by the S&P Mid-cap 400 Index. Mid-cap stocks may offer growth potential but can experience greater volatility and risk than large-cap stocks.

Volatility: A measure of how much an asset's price fluctuates over time.

Mega-Cap Companies: Companies with market capitalizations typically exceeding $200 billion.

Growth Investing: An investment strategy focused on companies expected to grow earnings or revenue faster than the broader market or their industry.

Quality Growth **(**as defined by the Index methodology**):** Quality Growth refers to companies selected by the Index based on a rules-based evaluation of value, growth, and quality metrics, including a focus on moderate and consistent long-term revenue growth. Revenue growth is used within the methodology as one measure that may indicate potential operational growth over time.

Cyclical Industries: Industries whose performance tends to fluctuate with economic cycles.

Valuation Multiples: Financial metrics used to assess a company's value relative to its earnings, sales, or cash flow.