Lincoln Capital Equity Commentary
Issue #87 – March 2025

March Changes:

Tax-Deferred

New Additions	Complete Sales	Partial Sales	Additional Buys	% Of Account Traded
MDT				2.0%
	SDHC			1.0%
		UNH		1.7%
			AVGO	0.9%

Taxable

New Additions	Complete Sales	Partial Sales	Additional Buys	% Of Account Traded
MDT				2.1%
	QCOM			2.2%
	SDHC			0.9%
		UNH		1.7%
			AVGO	0.7%

Summary of Market Activity

U.S. equities struggled in March, with the S&P 500 falling 5.6% for the month. Only energy and utilities sectors posted gains, while consumer discretionary, information technology, and communication services were the primary laggards.

Portfolio Highlights: Key Contributors and Detractors

Top contributors to Lincoln Capital's relative performance included Cencora (+9.7%), UnitedHealth Group (+10.8%), and the absence of Nvidia (-13.2%) in client portfolios. On the flip side, Marvell Technology (-32.9%) and Amazon (-10.4%) detracted most from performance. As noted last month, Marvell's decline came amid business-specific developments that we have previously addressed.

Rocket Companies: A Transformational Month

One company worth highlighting this month is Rocket Companies (RKT), which announced two major acquisitions within 30 days—one of which could be transformational for the business. The first was the $1.75 billion purchase of Redfin (RDFN) on March 10. While relatively modest compared to Rocket's >$30 billion market cap at the time, the logic is clear: Rocket has historically been skewed toward refinancing, and Redfin strengthens its purchase mortgage pipeline. Rocket already operates Rocket Homes, a home search portal that offers significant closing credits when buyers use a Rocket Homes agent and Rocket Mortgage—some credits are worth several thousands of dollars, even approaching $10,000. Rocket's presentation suggests that for an average home sale ($430,000), total transaction costs—title premiums, agent fees, and mortgage profits—amount to $40,000. The company aims to cut this figure in half, passing savings on to clients.

The second—and more impactful—deal came on March 31, with the $9.4 billion acquisition of Mr. Cooper, the nation's largest mortgage servicer. This deal adds $736 billion in servicing volume to Rocket's existing $526 billion, which when combined with sub-servicing arrangements, will result in a combined servicing portfolio of over $2.2 trillion—now making Rocket the servicer of 1 in every 6 U.S. mortgages.

The strategic rationale here centers on Rocket's industry-leading recapture rate of 83%, meaning it retains most clients when loans are paid off / refinanced. Mr. Cooper's rate, while lower (50%+), is still strong, and Rocket sees this as a cost-effective way to expand its customer base. Given that 21% of the combined servicing portfolio (about $266 billion) has mortgage rates above 6%, these loans are ripe for refinancing—providing an opportunity for high-margin revenue.

A Long-Term Vision for Customer Lifecycle

Beyond near-term synergies, Rocket's strategy appears focused on building longer, more integrated client relationships—from home search and purchase to financing, servicing, refinancing, and beyond. One notable comment from CEO Varun Krishna captured our attention:

Looking ahead, we envision mortgage brokers having access to servicing capabilities for their own clients in a future where their name appears in the mortgage statement, keeping the client relationship where it belongs with the broker. – Varun Krishna, RKT CEO

If Rocket offers white-labeled servicing capabilities to third-party brokers—and shares in servicing revenue—it could significantly improve recapture rates and attract more wholesale business.

Capturing a Bigger Share of a Massive Market

Rocket still has room to grow. In 2024, the U.S. real estate market likely generated, per Lincoln Capital estimates:

- **$50 billion** in gain-on-sale margins
- **$100 billion** in real estate commissions
- **$35 billion** in servicing fees

By contrast, Rocket's pro-forma trailing twelve-month revenue is just $8.4 billion, leaving ample room for market share gains.

Both acquisitions are stock-based, and the Mr. Cooper deal will be immediately accretive. While it would likely be cheaper with debt financing, it's unclear whether RKT could have financed the deal entirely with debt. An added benefit of using stock is the increase in public float, improving liquidity and accessibility for a wider investor base (currently just $1.8 billion is traded, due to founder Dan Gilbert's large ownership).

Governance and Capital Returns

In connection with the Redfin acquisition, Rocket also announced a simplified corporate structure, and Dan Gilbert will relinquish his 10 to 1 voting power, an encouraging step toward improved governance. While Gilbert remains the majority owner, this change lays the groundwork for greater long-term accountability.

And lastly, along with the Redfin deal, RKT paid shareholders an $0.80 dividend on April 3, a welcome bonus to cap off an eventful and transformative month!

All figures sourced from Bloomberg. Please note that due to rounding differences, certain data presented may not sum to 100%.

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Additional information, including management fees and expenses, is provided on our Form ADV Part 2 available upon request or at the SEC's Investment Adviser Public Disclosure website. https://adviserinfo.sec.gov/

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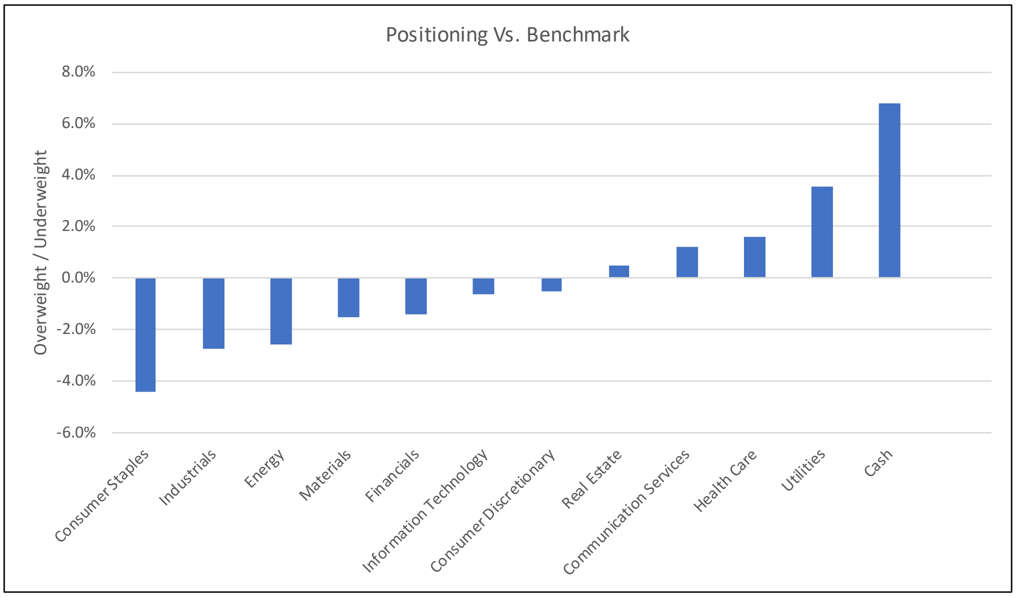
LINCOLN CAPITAL

Tax-Exempt Models

Sector Weights Relative to the S&P 500:



	Portfolio	S&P 500
Dividend Yield	1.3%	1.6%
Company Market Cap (Billion)	1,066	908
P/E - Forecast 12-Month	21	20

Portfolio Holdings (03/31/2025)

Name	Weight	Forward P/E	Sector
Fidelity Enhanced Large Cap Co	11.5%		
Goldman Sachs ActiveBeta U.S.	8.6%		
Microsoft Corp	8.6%	26.1	Information Technology
Apple Inc	7.4%	28.7	Information Technology
Amazon.com Inc	6.5%	25.7	Consumer Discretionary
iShares 0-3 Month Treasury Bon	6.0%		
iShares MSCI USA Quality Facto	5.2%		
Cencora Inc	4.7%	17.2	Health Care
Charles Schwab Corp/The	4.5%	17.2	Financials
Alphabet Inc	4.0%	16.6	Communication Services
Vanguard US Momentum Factor ET	3.9%		
T-Mobile US Inc	3.7%	23.6	Communication Services
DTE Energy Co	3.0%	18.7	Utilities
General Electric Co	3.0%	35.6	Industrials
UnitedHealth Group Inc	2.9%	17.1	Health Care
Broadcom Inc	2.8%	23.2	Information Technology
NiSource Inc	2.6%	21.1	Utilities
Marvell Technology Inc	2.4%	20.7	Information Technology
Mid-America Apartment Communit	2.2%	39.3	Real Estate
Mastercard Inc	2.2%	33.1	Financials
Medtronic PLC	2.0%	15.4	Health Care
Rocket Cos Inc	1.8%	23.1	Financials
USD Currency	0.7%		
Total	100.0%		

(Source Bloomberg)

Taxable Models

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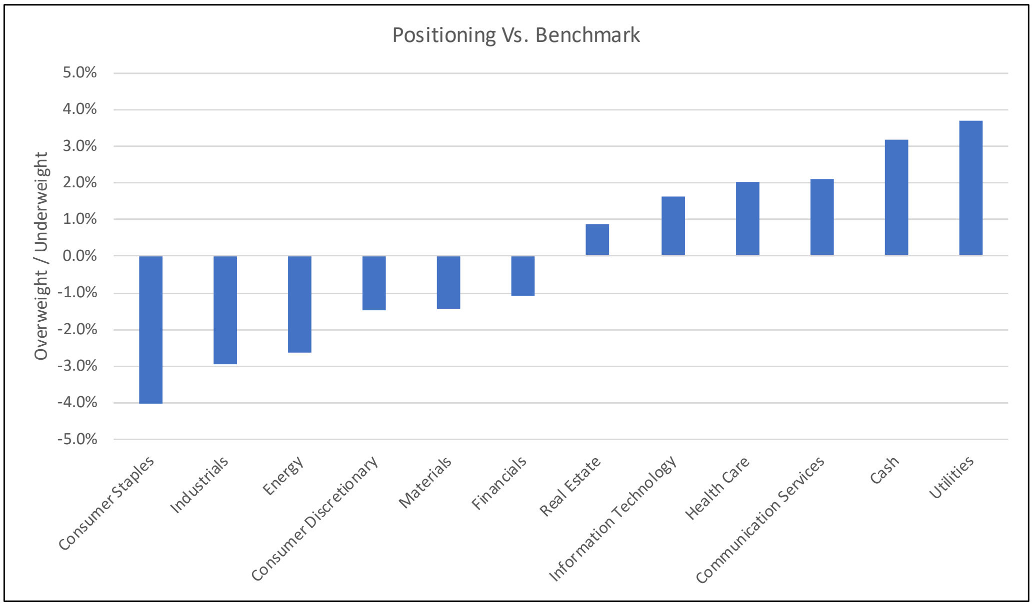

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Amazon.com Inc	5.5%	25.7	Consumer Discretionary
Cencora Inc	5.1%	17.2	Health Care
Vanguard US Momentum Factor ET	4.9%		
Charles Schwab Corp/The	4.5%	17.2	Financials
DTE Energy Co	3.0%	18.7	Utilities
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