

QUARTERLY MANAGER COMMENTARY
Global Strategy

March 31, 2024

MARKET ENVIRONMENT

Major global equity markets showed strength throughout the first quarter of 2024. The U.S. and Europe were aided by excitement surrounding artificial intelligence, encouraging economic data and investor expectations for rate cuts from central banks this calendar year. During the quarter, U.S. equity markets reached new highs and Japanese equities continued to rise, surpassing a record high from 34 years ago. While equities in China had been pressured throughout 2023, the first quarter of 2024 showed a recovery. In March, the U.S. Federal Reserve, Bank of England, European Central Bank and Bank of Japan all held meetings. While the U.S., U.K. and Europe chose to leave interest rates unchanged while they continue to monitor evolving economic data, the Bank of Japan enacted its first rate hike since 2007 and exited negative interest rate territory.

PORTFOLIO PERFORMANCE

The portfolio's return was 4.57% (net) for the reporting period. This compares to the MSCI World Index that returned 8.88% for the same period.

Top contributors:

- Daimler Truck Holding was a top contributor during the quarter. In March, the German truck and bus manufacturer released strong fourth-quarter results, accompanied by 2024 margin guidance that significantly exceeded consensus expectations. The expected margin resilience is in spite of a weaker global truck market and is a result of management's decisive actions to improve pricing, drive higher service penetration

Performance highlights

Contributors

- Daimler Truck Holding
- Fiserv
- Kroger

Detractors

- Charter Communications Cl A
- Bayer
- Worldline

and increase the flexibility of the cost base. This is most evident in the Mercedes-Benz segment, primarily serving the European and Latin American markets, which increased its adjusted EBIT margin from sub-1% in 2019 to over 10% last year. We are impressed by management's execution following the 2021 spin-off from the former Daimler Group and believe the company is positioned to earn structurally higher through-cycle margins than in the past. We met with CEO Martin Daum following the release and continue to see an attractive upside for this investment.

- Fiserv was a top contributor during the quarter. The U.S.-headquartered company is a leader in merchant acquiring, issuer processing services, and core banking software. During the time we have held the stock, Fiserv, under the leadership of CEO Frank Bisignano, has delivered peer-leading organic growth, meaningful margin expansion, and mid-teens earnings-per-share growth. We believe the company can deliver similarly impressive results over the medium

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term, yet today the shares still trade at a meaningful discount to the S&P 500 Index. We believe that Fiserv is performing well and remains an attractive investment.

- Kroger was a contributor during the quarter. The U.S.-headquartered consumer staples company's stock price rose following the release of fourth-quarter results that were modestly ahead of consensus expectations and favorable guidance for 2024. While the metrics do not appear particularly strong, the environment is still normalizing after exceptionally strong performance during Covid-19. Notably, Kroger reiterated its intention to fight the FTC's lawsuit to block the Albertsons deal. We continue to believe in the long-term prospects of Kroger.

Top detractors:

- Charter Communications was a top detractor during the quarter. In February, the U.S.-headquartered communication services company's stock price fell when the company reported that broadband subscribers declined 0.2% sequentially. We anticipate that broadband subscriber growth will remain challenging in the near term due to a heightened competitive environment and the likely wind-down of a government subsidy program. However, we expect these competitive forces will abate over the medium term and that Charter's broadband subscriber base will return to normal growth. In the meantime, the company continues to grow earnings, invest in high-return capital projects and repurchase stock. We maintain our belief in the long-term prospects of Charter Communications.
- Bayer was a top detractor during the quarter. In January, the German-headquartered health care company had a larger than average

adverse jury verdict in its long-running RoundUp litigation. We continue to believe that these headline verdicts will be reduced substantially on appeal and note that Bayer has since won two cases in a row. Then, in March, the company held its long-awaited capital markets day. The event contained limited material strategy updates as Bayer is no longer pre-communicating its litigation strategy, is erring conservatively by not issuing mid-term targets, and is deferring a break-up until its balance sheet is in better shape. This didn't bring the quick wins some investors had hoped for, but we support the strategy and appreciate management's sharp focus on improving profitability and cash generation while starting to cut away at the company's bureaucracy. The full-year 2023 results and 2024 guidance were both in line with our expectations.

- Worldline was a detractor during the quarter. In February, the French payments firm's stock price fell following the release of its fourth-quarter results. Despite the negative share price reaction, we believe that Worldline's results were generally in line with consensus expectations. Overall, we think there were two negatives from the results. First, Worldline took a EUR 1.15 billion impairment on its merchant business, which we believe relates to Ingenico. Second, guidance was cut significantly from third-quarter results with management citing a weakening macro and a desire to set up guidance they could more easily beat as reasoning. Although we think that we could see some near-term weakness over the next few quarters, we continue to believe in the long-term prospects of Worldline.

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PORTFOLIO POSITIONING

We initiated the following position(s) during the period:

- Deere & Company is a leading manufacturer of agricultural equipment with dominant market share positions in North America and Brazil. Despite its brand strength, technological capabilities and distribution advantages, the company's stock price has recently come under pressure due to investor fears of a trough in the current agriculture business cycle. Longer term, world population and food demand are expected to increase annually with land and labor devoted to agriculture set to decline each year. As a technological leader, we believe Deere is well-positioned to benefit from this dynamic as farms will need to become more productive. We also like that the company's management team has a strong track record of growing the business organically through cycles, continuously improving returns on invested capital and returning capital to shareholders. We were able to purchase shares in the company at a discount to our estimate of intrinsic value and to other high-quality industrials.
- Reckitt Benckiser Group is a global consumer products company with leading brands in consumer health, infant nutrition, home care, and hygiene. We like that more than half of the company's sales are generated from consumer health products, which is a category with meaningful barriers to entry, high margins and attractive growth. Additionally, we believe improved execution, particularly in sales and supply chain management, along with investments in growth-reacceleration, provide potential for future margin expansion. Lastly, we appreciate Reckitt Benckiser's

results-oriented culture and management team that have historically led to significant value creation for its shareholders. Trading meaningfully off its highs, we were recently able to purchase shares at a significant discount to our estimate of intrinsic value.

We eliminated HCA Healthcare and Recruit Holdings from the portfolio during the period.

OUTLOOK

While we keep a watchful eye on the macroeconomic environment, we remain focused on our bottom-up, fundamental analysis at the company level when constructing portfolios. We invest in businesses priced at substantial discounts to our estimate of intrinsic value, that we believe will grow per share value over time, and have management teams that think and act like owners. Our analysts are generalists who remain industry agnostic and focused on finding value, regardless of what is in favor at any given moment. We believe this positions our portfolios for sustainable, long-term success.

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