QUARTERLY MANAGER COMMENTARY

International Small Cap 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.

Performance highlights

Contributors

- DS Smith
- Konecranes
- Megacable Holdings

Detractors

- St. James's Place
- Grifols Cl B ADR
- Nexi

PORTFOLIO PERFORMANCE

The portfolio's return was 0.65% (net) for the reporting period. This compares to the MSCI World ex USA Small Cap Index that returned 2.58% for the same period.

Top contributors:

- DS Smith was a contributor during the quarter. The U.K.-headquartered materials company's stock price rose in February following the interest it received from Mondi, a U.K.-based multinational packaging and paper group, regarding a takeover. DS Smith's stock price rose again in March as a result of an announcement that it was in discussions to be acquired by International Paper, the U.S. rival pulp and paper company, which created the possibility of a bidding war. We appreciate that DS Smith has two potential bidders and will continue to monitor the situation until a formal offer is made, which is currently expected to be in April.
- Konecranes was a top contributor during the quarter. In February, the Finnish industrials company reported a strong set of fourth-quarter results. Organic revenue growth came in above our expectations, mainly driven by the service and port solutions segments. Service sales increased by 11% in local currencies, driven by strength in both spare parts and field service. We like that Konecranes' service business is delivering higher growth that is largely recurring in nature and of much higher quality than the growth in the equipment manufacturing divisions. This is a key component of our investment thesis. In addition, port solutions grew revenue by over 38% in local currencies in the fourth quarter as the business delivered on high order

intake from prior periods while comparable EBITA margins increased. Also of note, port solutions entered 2024 with an order book higher than the previous year. Lastly, Konecranes reported 2024 guidance largely in line with our expectations. We continue to believe this investment offers an attractive upside.

- Megacable Holdings was a contributor during the quarter. In January, we spoke with investor relations member Esau Gallegos at the Mexico-headquartered telecommunications company. In our view, the competitive environment has modestly improved for Megacable versus two years ago. We appreciate the progress that it has made in expanding its network and believe that it will be able to increase revenues and earnings over the next few years. In February, the company reported fourth-quarter results which included growth of unique subscribers compared to both the third quarter of 2023 and the fourth quarter of 2022. We continue to think that Megacable Holdings offers attractive upside.

Top detractors:

- St. James's Place was a top detractor during the quarter. In January, the U.K.-based wealth manager reported net inflows for 2023 that were £4.6 billion lower than in 2022. The disappointing update came on the heels of the company's announcement of a large overhaul of its fee structure. In February, the company reported full-year 2023 results. Underlying cash results fell below our expectations primarily due to the margin from new business and other revenues and expenses. The big miss, in our view, was the large provision charge that St. James's Place took to account for potential client reimbursements. There were increasing complaints from clients that the company was charging them without actually dispensing any advice. St. James's Place conducted an internal investigation, which cited service gaps that existed before the company implemented Salesforce in 2021. The provision charge covers the appointment of an investigative assessment, the anticipated cost of refunding service fees, the administration costs to operate the refund program, and an interest expense to compensate for the time value of money. We met with management following the release of results and continue to believe in the long-term prospects of St. James's Place.
- Grifols was a detractor during the quarter. The Spanish biotechnology company's stock price fell following a short report issued by a short-oriented research firm claiming that Grifols is "uninvestable" and its equity is "likely worthless." Following the Gotham short seller attack, Spain's regulator, CNMV, initiated an investigation into Grifols's accounting. CNMC found no new material negative findings. As such, we believe the CNMV report neutralized the bulk of the Gotham short thesis. During the quarter, Grifols reported bumpy fourth-quarter results, in our view. Results for 2023 were in line with expectations and Grifols saw improving underlying fundamentals. We believe that the stock declined due to KPMG's inability to finish the full-year 2023 results audit in time for Grifols's pulled forward date. In addition, the company negatively surprised the market on free cash flow expectations for 2024 following CFO Alfredo Arroyo's announcement where he provided a poor explanation of the headwinds on a call. However, we continue to believe in the long-term prospects of Grifols.

- Nexi was a detractor during the quarter. The Italian financial company's stock price fell following the release of full-year 2023 results, which were in line with our expectations and 2024 guidance, which was subdued, driven by a weak macro environment. We spoke with CEO Paolo Bertoluzzo following the release of results regarding the company's merchant growth outlook. We modestly lowered our estimate of intrinsic value, but continue to believe in the long-term prospects of Nexi.

PORTFOLIO POSITIONING

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

- TIS, Inc. is one of Japan's largest IT Services companies. It's a company we are familiar with and have previously owned as a firm, but sold as the stock price reached our estimate of intrinsic value. More recently, the stock has underperformed as growth next year is likely to slow due to the completion of several large scale projects, making for a difficult comparison base. However, excluding these large projects, business fundamentals remain robust as IT spending in Japan continues to very strong. In our view, Japan lags behind most developed nations in terms of digitizing its economy. This fact, combined with the country's shortage of IT engineering talent, should bode well for Japanese IT spending in the future. In addition to long term structural demand for IT services, we like that TIS is led by a strong management team with a good track record of creating shareholder value through smart capital allocation decisions.
- Fielmann is one of the largest optical companies in the world. It provides eyewear, contact lenses, hearing aids and primary eyecare services, which are structurally growing products characterized by steady demand and significant barriers from online disruption. Industry headwinds related to higher costs and weak consumer confidence have weighed on the stock price, but we are comfortable with Fielmann's defensive positioning and pricing actions to offset inflation. The company's margins have declined in recent years due to investments in internal initiatives that are nearly completed, which should provide the opportunity for improved cost control and profitability going forward. We believe the company's fundamental performance is nearing an inflection point and were able to purchase shares at a discount to our estimate of intrinsic value.

We eliminated Applus Services and Vitesco Technologies Group during the period.

OUTLOOK

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

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The MSCI World ex USA Small Cap Index (Net) is designed to measure performance of small-cap stocks across 22 of 23 Developed Markets (excluding the United States). The index covers approximately 14% of the free float-adjusted market capitalization in each country. This benchmark calculates reinvested dividends net of withholding taxes. This index is unmanaged and investors cannot invest directly in this index.

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