

QUARTERLY MANAGER COMMENTARY

International Small Cap Strategy

March 31, 2025

MARKET ENVIRONMENT

International equities finished higher during the quarter with 9 of 11 GICS sectors posting positive returns. By sector, financials and industrials contributed the most to market returns, while information technology and consumer discretionary were the sole detractors. By country, Germany and the U.K. were the standout contributors to market performance, while Denmark and Australia detracted.

PORTFOLIO PERFORMANCE

The portfolio's return was 8.15% (net) for the reporting period. This compares to the MSCI World ex USA Small Cap Index that returned 3.40% for the same period.

Top contributors:

- ISS was a contributor during the quarter. The Denmark-headquartered diversified support services company's stock price rose after it posted solid fiscal-year 2024 earnings, which were broadly in line with consensus expectations. Better-than-expected topline growth was primarily a result of favorable pricing trends and elevated project work. In addition, management announced a DKK 2.5 billion buyback program that is expected to be completed in 2025, which we view as significantly value positive and surpassed market expectations. We appreciate management's focus on profitable growth and believe there is a significant runway for continued growth and modest margin expansion.
- Loomis was a contributor during the quarter. The Sweden-headquartered cash infrastructure services company's stock price rose after it

Performance highlights

Contributors

- ISS
- Loomis
- LANXESS

Detractors

- Travis Perkins
- Sarana Menara Nusantara
- Dometic Group

delivered strong fiscal-year 2024 results. The results were driven by growth and margins that outperformed expectations. Geographically, performance was broadly positive with Europe being the standout market, demonstrating that performance improvement initiatives are delivering in the region. We appreciate management's strategic, returns-focused approach, and believe that the company is well-positioned to capitalize on further European market recovery along with continued strength in its U.S. business.

- Lanxess was a contributor during the quarter. The Germany-headquartered diversified chemicals company's stock price rose throughout the quarter as the company issued a positive profit warning ahead of its official earnings release, signaling that fourth-quarter and fiscal-year 2024 earnings before interest, tax, depreciation and amortization (EBITDA) would significantly exceed market expectations, driven by customer pre-buying in the U.S. Free cash flow development also exceeded expectations.

Past performance is no guarantee of future results. The investment return and principal value of this portfolio and any particular holdings may fluctuate. Portfolio holdings are subject to change without notice.

However, while its fiscal-year 2024 results were solid, Lanxess' 2025 guidance was underwhelming, projecting lower-than-expected EBITDA due to a weak demand outlook. In our view, demand should normalize over the medium-term, and we think the company is well-positioned to capitalize on a broader chemical recovery and benefits from German stimulus measures. We appreciate Lanxess' efforts to deleverage its balance sheet and believe profitability should increase significantly as utilization recovers.

Top detractors:

- Travis Perkins was a detractor during the quarter. The U.K.-based builder merchant stock price declined after it was announced that recently appointed CEO, Pete Redfern stepped down with immediate effect due to ill health. We were disappointed with the news as we believe Pete was implementing positive change as Travis attempts to improve its operational performance. While the company searches for a new CEO, the company will be managed by Geoff Drabble, (Chairman) who we hold in high regard (former CEO of Ashtead). Although Pete's departure likely prolongs and also increases risks that could detriment a successful turnaround, we continue to be comfortable maintaining our position as Travis could see a material uplift in earnings from either a normalizing of the demand market in the U.K. or successful implementation of self-help measures.
- Sarana Menara Nusantara (TOWR) was a detractor during the quarter. The Indonesian-headquartered integrated telecommunication services company's stock price declined along with other Indonesian stocks. The telco sector has been impacted by the merger announcement of XL and Smartfren, but we believe the headwinds to TOWR's business are much more moderate than the share price move. In our view, Sarana Menara Nusantara has a strong outlook for increasing incremental returns and

can further grow its annuity stream through long-term contracts. We believe that the company has a long runway for future growth.

- Dometic Group was a detractor during the quarter. The Sweden-headquartered supplier of products to the mobile and outdoor living industry declined despite having delivered fiscal-year 2024 results with revenue, earnings before interest, tax, and amortization, and free cash flow meeting our expectations. However, the stock price has been impacted by concerns around demand for the RV and Marine industries, tariffs, and a slow recovery in service and aftermarket revenues. We appreciate management's desire and ability to drive operational and strategic improvement, which will be key to navigating a challenging environment and unlocking further value.

PORTFOLIO POSITIONING

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

- Ermenegildo Zegna is a global luxury fashion house and the world's largest luxury menswear specialist. Over the past decade, the company has enhanced the value of its portfolio by expanding into multiple brands while maintaining its world-class quality and creative designs. The company's core brand, Zegna, offers exposure to the highest category of luxury goods while brands Thom Browne and Tom Ford operate in a more fashion-forward luxury segment. Recently, slowing demand in China has weighed on results, particularly at Thom Browne. Despite these results, we appreciate management's actions to establish Zegna as an absolute luxury brand and address the issues at Thom Browne. In our view, there is healthy brand momentum for Zegna and results for Thom Browne have troughed. Additionally, we believe Tom Ford offers significant upside optionality that can be unlocked by a new creative director and

management team. The current valuation does not reflect the long-term growth and normalized earnings profile of the company, providing the opportunity to purchase shares at a discounted valuation to publicly traded peers.

- Gerresheimer AG is the world's largest manufacturer of pharmaceutical packaging and delivery systems. The company is in the midst of a transition from being a volume-oriented supplier to a value-driven co-innovation partner with its pharmaceutical clients, a shift that we expect to drive faster growth, higher profitability and better returns over time. It is currently launching multiple new factories for its high value business that we anticipate will support results in the mid-term. In addition, Gerresheimer is now reviewing its Moulded Glass business, with a potential disposal of this unit increasing the quality of the portfolio and narrowing the perception gap to its higher valued peers. Vial destocking post-COVID has caused near-term uncertainty in the market and provided the opportunity to purchase shares in the company at a discounted valuation to publicly traded peers and comparable private market transactions.
- IONOS is a leading European internet service company that specializes in web presence and cloud computing solutions. IONOS commands leading market share positions in its core markets across Europe and offers a critical service to small businesses by providing a digital storefront, legitimacy and a platform to engage customers. In our view, this is an attractive industry with a sticky customer base that should benefit from structural growth tailwinds through continued digitization, AI adoption and pricing power. IONOS is further poised to begin harvesting investments made in cloud offerings that have temporarily depressed earnings and cash flow. Despite the company's attractive fundamental outlook, we were able to purchase shares in IONOS at a discounted valuation relative to

publicly traded peers and private market valuations.

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

- Auction Technology Group
- DS Smith
- SoftwareONE Holding
- Sulzer

OUTLOOK

We have argued that for too long of a period the weight of money invested globally was heavily skewed to a handful of U.S. growth names. Despite this, we've remained focused on using our bottom-up, fundamental analysis to inform portfolio construction. Even after this quarter's strong outperformance of value over growth, we believe a large valuation imbalance is still present and will be the fuel for better long-term performance for value equities.

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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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