

QUARTERLY MANAGER COMMENTARY  
**International 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 0.20% (net) for the reporting period. This compares to the MSCI World ex USA Index that returned 5.59% 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
- Intesa Sanpaolo
- Mercedes-Benz Group

**Detractors**

- Bayer
- Prudential
- Continental

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.

- Intesa Sanpaolo was a contributor during the quarter. The Italy-headquartered financials firm reported very strong full-year 2023 results, in our view, with both net income and tangible book value per share metrics increasing during the year. Specifically, we are impressed with the substantial increase in net interest income (NII) during 2023 and the fourth quarter. Further, management guided toward a higher NII in 2024. We spoke with CEO Carlo Messina and

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CFO Stefano Del Punta following the release of results, which reinforced our confidence in management and the resiliency of the business model.

- Mercedes-Benz Group was a contributor during the quarter. The Germany-headquartered consumer discretionary company's stock price rose following solid fourth-quarter results in Europe, which significantly outperformed our expectations in both Germany as well as the rest of the continent. We spoke with CEO Ola Kallenius about electric vehicles (EV). While the EV market is developing more slowly than the company anticipated, Kallenius believes Mercedes is well placed to thrive in such an environment. We continue to think that Mercedes-Benz Group offers attractive upside.

Top detractors:

- 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.

- Prudential was a detractor during the quarter, likely driven by continued China macroeconomic concerns. The U.K.-headquartered financials firm reported full-year 2023 results that were better than consensus expectations. The results confirmed our thesis that sales of life and health insurance have started to recover toward pre-Covid-19 lockdown conditions. Importantly, new business profit was up 43%, aided by a strong recovery in Hong Kong on the back of the border reopening in early February 2023. Management believes there is further scope for new business margin improvement. We plan on speaking with management in the coming weeks.
- Continental was a detractor during the quarter. The Germany-headquartered consumer discretionary company's stock price fell following the release of mixed full-year 2023 results, in our view, as revenue came in low across the board but margins and free cash flow are still developing in line with expectations. The market reacted unfavorably to CFO Katja Garcia Vila's announcement that she will not be seeking another term on the executive board. We continue to believe that Continental is on an accelerating pace of positive progress and that it remains an attractive holding.

## PORTFOLIO POSITIONING

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

- Brambles is the world's largest provider of pooled pallets, crates and containers. The company's pallet-pooling model delivers an attractive value proposition to its customers

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by enabling standardization and seamlessly connecting supply chain participants to ensure the efficient flow of goods across the world. Much of the market still uses non-pooled pallets, providing long-term growth opportunities for the pooling model. As the market share leader, Brambles benefits from economies of scale, which has provided cost advantages and led to attractive returns on capital. In addition, we like that digital initiatives at Brambles are starting to yield results in the form of lower pallet loss rates, lower capital costs, lower operating expense, and, therefore, better returns. Since we sold our position in Brambles in 2022, its share price has lagged the market despite fundamental performance exceeding our estimates. This has provided us the opportunity to reestablish our position at a discount to our estimate of intrinsic value.

- Smurfit Kappa is Europe's leading containerboard and corrugated box producer. The company's share price has been under pressure due to a unique downturn in industry volumes caused by supply chain reverberations from the Covid-19 pandemic, which we believe is beginning to unwind. Additionally, in September 2023, Smurfit Kappa announced an agreement to acquire WestRock, the second largest producer in North America. WestRock has historically underperformed its competitors, and we believe the company's asset base stands to benefit from strategic investments and operational improvements under Smurfit Kappa's experienced management team. As a part of the acquisition, Smurfit Kappa plans to list the combined entity in the U.S., which offers upside optionality as U.S. producers have historically traded a premium to European peers. The improving

industry outlook and the opportunity to drive improvements at WestRock provided the opportunity to purchase shares at a discount to our estimate of intrinsic value of the anticipated combined company.

- Smith & Nephew is a global medical device manufacturer operating in attractive end markets. The company currently generates the majority of its earnings through its sports medicine and advanced wound management businesses, which command strong market share positions and offer favorable growth prospects. The company's orthopedics business has historically underperformed its peers, but we are pleased by the decisive actions taken by new CEO Deepak Nath, which we expect will improve growth, margins and return on invested capital for the orthopedics segment. We believe the company is in the early stages of its margin improvement journey and an upgrade of the product portfolio in recent years will drive sustainably higher revenue growth than in the past. We were able to purchase Smith & Nephew shares at a discount to our estimate of intrinsic value despite the company's improving fundamental outlook.

We did not eliminate any positions 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

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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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The MSCI World ex USA Index (Net) is a free float-adjusted, market capitalization-weighted index that is designed to measure international developed market equity performance, excluding the U.S. The index covers approximately 85% 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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