

Q1 2024 - International Value Quarterly Update

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Hi, I'm John Goetz, one of the portfolio managers on the international products, so I'm going to talk about the companies outside the United States. You know, we call it international. Really, the way most investors think about this, from a US perspective, is all the companies that are available to us in the value space outside of North America. So, I'm going to talk about what's going on from our standpoint this quarter. Well, first of all, I'll say markets around the world kind of had a positive quarter. We didn't have a great quarter, and I'll talk a little bit about that, but what's interesting is I think the world is a little more optimistic. The last couple of sessions of this, we've talked a lot about the crisis in Europe and negativity in Europe. There's a lot of recovery there. In fact, we've been trimming some things that have actually worked in Europe and taking some money off the table there. So that deep cyclical, everything's negative Europe thing is correcting a bit. So, the problems that we're facing today in the world outside the United States are taking on a little different flavor. So, I wanted to talk about a little different flavor, and you can kind of see it even in our portfolio performance. So, let me start with the pain points. The reality is that there's post-COVID pain. Let me just say that clearly: some things did well during COVID. We were looking at a company called Reckitt, which is a really a consumer product company, but they sell Lysol. So, clearly during COVID, sales went up a lot, and as you know, the markets were all very momentum focused. I'll just say everyone in the markets generally is very momentum focused. So, coming off of that high in Lysol is a difficult compare. We always call it, you know, compares are difficult. So, Reckitt has been dealing with that, but then on top of that, they actually just got tangled up in a lawsuit for baby formula. And the claim there in a jury was that formula causes an intestinal disease in premature babies. Now, there are statistical studies that do tell you that if you can use women's milk in your infant, particularly preemies, it's healthier, and you have better health outcomes than if you use infant formula. That's a fact. Whether the causation is the infant formula actually causes this intestinal disorder, that's not proven. But it didn't take, and apparently that wasn't resolved in a favorable way in this lawsuit that awarded \$60 million. So, Reckitt is getting hit both by kind of what I call a post-COVID hangover and this kind of lawsuit that we think has, I'll just say as an investor, maybe dubious merits. But, you know, that'll come out in the wash. The stock's been hit by both of those. That's actually an opportunity. So, what I was saying is, you know, last year I was talking about all these cyclical-based issues based upon the invasion of Ukraine, etc., and now here we have this kind of out-of-the-ballpark COVID hangover combined with some legal issues, and it's really hammered the stock. So, what we see, even though it's a poor performer in the quarter, one of the big detractors, one of the interesting opportunities now that all these problems are embedded in the stock price. So, I just wanted to lay that out as kind of a more unique type of pain point than we were talking about last year.

Outside the US, there's also this AI issue. You know, there are big winners of AI around the world. Most of you know that the Magnificent Seven, United States, are all beneficiaries in the investment world. We don't own them because obviously there's a lot of optimism there, so they're not in our cheapest quintile. But what's interesting is there are also companies deemed to be casualties of AI. So, one of the problems that's developing around the world, not just in the

United States but outside the United States as well, is are you a winner or a loser in this big AI transformation that's creating some share price dislocations that are providing some opportunities for you? But clearly in the quarter, one company that is kind of caught up in this, as well as a post-COVID hangover, is Teleperformance, which is a call center outsourcing company, France-based. But again, they did very well during COVID because a lot of companies had to outsource call centers because they didn't have their employees in the office to even deal with customers. So, they kind of benefited during that period of time, and they're coming off of that. But now people are worried that we're going to replace all call centers with AI. So, their misfortune in the hangover is creating a connection to a Europe loser to AI. So, we're taking advantage of that, and I think that's an interesting underperforming stock in the first quarter but maybe a really interesting valuation. So, I'll just mention that.

Now, what about the positive side? The positive side is some companies that really are logical beneficiaries, like Hon Hai Precision. It happens to be a company that we own that's Taiwan-based but, you know, is now viewed as maybe someone who assembles AI devices that they can make money off. So, that's an opportunity for us to take some money off the table. The other big positive in the quarter was Japan. I mean, I think all of you have probably read last year that Warren Buffett said, you know, Japan has a bunch of undervalued companies, and all of a sudden there's all this money flowing into Japan. Ironically, not just from the United States, Chinese investors investing in Japan because it's undervalued. Well, you know, you've heard us talking about Japan undervaluation for the last 10 years. So, it's just kind of interesting that all of a sudden there's this positivity. We're taking advantage of that positivity. So, one of the big sales in the quarter was Subaru, which was an automotive manufacturer. Not only were they coming out of the pain of COVID, like most auto manufacturers, but they were really hard hit in supply chain during COVID. So, they had rising earnings. So, they have rising earnings, but then you pile on, oh, all these Japanese companies are cheap. So, they have good earnings momentum, and the valuation multiple expansion is coming in. So, we're taking advantage of that. We're completely out of Subaru at this point. So, just to put a point on it, I will say the new problems that are developing aren't the classical economic cycle stuff, but more other controversies. The AI controversy, I think, is going to be ongoing for a long time. So, you're going to hear us talk about that, I think, in the future.

So, in summary, I will say, you know, we have some of these new problems evolving, which are always interesting. We do have the resolution of things like economic cycles in Europe. But there is one other ongoing issue that we talked about, I think, last quarter but is continuing. Everyone in the world is happy with stock markets going up, with one exception: China. China is still really struggling, and valuations are still drifting down, not up. So, I think one of the other things outside the United States we're thinking about in the portfolio is exactly, you know, how much more China do we end up with over time? That's the one other riddle that's ongoing that I want to mention. Thank you for your time.

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