Q3 2024 - Global Value Quarterly Update

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Hello, my name is Ben Silver. I'm one of three portfolio managers on our Global strategies, and over the next few minutes, I'm going to take you through what happened in the quarter.

Global equity markets rallied in the quarter, with non-US equities outperforming US equities and value outperforming growth. Bond proxy sectors like utilities and real estate benefited a lot from the announced rate cuts by central banks, leading to the expectations of falling yields. Deeply depressed Chinese stocks really took off after the government announcement of increased fiscal and monetary stimulus.

In our portfolios, all sectors contributed except for energy, with financials and healthcare leading the way. Overall, we outperformed the MSCI ACWI index and trailed the value index modestly. All of our Chinese stocks moved up dramatically, and Alibaba was no exception, moving up 50% on the announcement of stimulus packages by the government, as well as improvement in their core e-commerce operations.

Edison International also benefited from central bank action, as did all utilities. On top of that, they recovered 60% of their wildfire losses from their 2017 wildfires, which really portends increased recovery of losses on the $10 billion of wildfire losses that they've sustained. **Humana International**, which declined dramatically last quarter on missing growth expectations and their Hillrom business, their hospital bed business, recovered very nicely this quarter on that same business—recovering sales, posting strong sales, and showing the market the benefits of having that integrated into the rest of their business.

In addition, they also announced the divestiture of the renal care business, which simplifies the story as well as shores up the balance sheet. The top detractors in the quarter were Dollar General, **NOV**, and **Humana**.

Dollar General is the largest discounter in the United States, selling 80% consumables and catering to a low-end demographic with convenience, as 75% of the US population lives within five miles of a store, and value, as they like to keep their prices within 3% of Walmart. The company's response to the increased inflation over the last few years has been cost-cutting, mostly of labor in their stores, as well as introducing self-checkout. These actions resulted in higher levels of shrink or theft, as well as higher employee turnover, which led to reduced operating margins. We think these issues are temporary and fixable, and therefore we believe that the historical operating margins of the business should be restored and that the stock is very attractive on those metrics.

NOV also declined on lower oil prices despite strong operational improvement, and **Humana** as well as competitors declined on increased pressure in the Medicare Advantage business. Subsequent to the quarter, **Humana** announced a reduction in star rating, which will impact margins in 2026. The company has some cost as well as plan design initiatives to help offset this, and the industry is rapidly moving towards larger scale players, which should benefit **Humana**. The company has some cost and plan design levers to help offset some of the pricing and revenue declines of 2026, and as the industry is moving towards the larger scale players, this should benefit **Humana**.

In addition to Dollar General, we also initiated a position in **Reckitt Benckiser** in the quarter. **Reckitt Benckiser** is a UK-based consumer staples company and a leader in hygiene, health, and nutrition, with sales that are two-thirds to developed markets and one-third to developing markets, and great brands such as Lysol, Dettol, Mucinex, and **Enfamil**. Normalization of the hygiene segment has led to declines in their top line and has really necessitated significant restructuring as well as investment in the brands that the company has made over the last several years. In addition, more recently, the company as well as Abbott has lost significant court cases regarding baby formula to premature babies with NEC. We think that the worst-case scenario is now in the stocks in terms of these losses from these legal cases, and we actually don't think that the worst-case scenario is going to transpire. We see the current valuation of **Reckitt** as a really great opportunity to invest in a great set of staples businesses, with strong brands, BRS, self-help, and a very strong balance sheet.

In addition to the two new stocks that we added in the quarter, we also added to our positions in Magna, **NOV**, and **COLI (China Overseas Land and Investment)** on weakness, and then sold **Hon Hai**, as well as trimmed Edison, Tesco, and SS&C on valuation to supply the funds. Our portfolio exposure continues to broaden across many different sectors and industries and is focused on those businesses with company-specific issues that we think will lead to improvement. The portfolio itself is attractive on an absolute basis and very attractive in comparison to the rest of the market.

Thank you again for spending these few minutes with me. Hope to see you next quarter.

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