

## Q4 2023 - Global Value Quarterly Update

[Music]

Hello again, my name is Ben Silver, and over the next few minutes, I'll just take you through what happened in the quarter, uh, on our Global Focus Value strategy.

It was an interesting year. Uh, the year started off with a lot of concerns about, uh, the economy from central banks around the world, uh, tightening and trying to stymie inflation, which, um, maybe indirectly or directly led to a banking crisis at the end of March. But, but markets really, uh, were strong for the year and rallied significantly, uh, in the fourth quarter on signs of, uh, easing inflation. Uh, markets were up pretty much double digits around the world, uh, except for China, which declined on economic and, uh, real estate fears.

US tech stocks were particularly strong as, uh, continued optimism on artificial intelligence and, uh, GLP-1 drugs, uh, really took over. Our product, uh, slightly underperformed the broad market in the quarter as well as for the year, uh, but outperformed the value indices as well, uh, slightly in the quarter and, and handily, uh, for the year.

The three best-performing stocks, uh, for the quarter were Capital One, PVH, and Michelin Group.

Capital One is one of the largest, uh, credit card issuers in the US. Uh, you know the former campaign, "What's in your wallet?"—that's Capital One. I think they moved it to, to "Frankly One Good Thing." Not my cup of tea, but, uh, I think the campaign is fairly effective. Uh, so Capital One's quarter was very strong. Credit costs were easing, and they produced a close to 20% return, uh, on their tangible capital.

PVH, which is the owner of the Tommy Hilfiger and Calvin Klein brands—these are brands that are very strong internationally, less so domestically. One of the issues with the company has always been their domestic business, which was reliant on, uh, international tourists. Because of the strong dollar and other things, uh, international tourism is still down fairly significantly from pre-COVID levels, and they've had to restructure that US business to be more relevant to the US consumer. They did that pretty well—they produced a double-digit operating margin in that business, uh, in the past quarter, so the stock was very strong. They also announced the sale of their Heritage business and are going to be using those proceeds, uh, for stock repurchases.

Michelin Group, the manufacturer of tires for, uh, automobiles and specialty vehicles, was quite strong in the quarter. On the auto side, they've been really focused on high-value-added tires—tires that go on larger diameter rims—which is really where the market, uh, has been going. This is a less competitive part of the market, and they've done a really nice job of passing through raw material pricing, maintaining their pricing, and expanding their margins in that part of the business. Uh, they also announced a restructuring recently of three German plants, uh, comprising, I think, around 1,500 people, and, uh, that should help to continue their margin expansion as well.

On the detracting side, the three largest detractors were Alibaba, Charter Communications, and Sanofi.

Alibaba has really backtracked from the restructuring that they announced. Uh, they pulled, uh, or suspended, uh, two IPOs of their divisions, and the market reacted quite negatively to that. On the positive side, they are continuing to invest in their e-commerce business, which is really the main growth profit driver of the company. They also announced a dividend and stock buyback plan. Uh, we do think that on the e-commerce side, this is still a big value to the vendors that are making more money on their platform. We still believe in that, and we think the stock is, therefore, continuing to be undervalued.

Charter Communications has really suffered from, uh, competition in the fixed wireless space. T-Mobile and Verizon have added a million subs using their cell phone networks. But ultimately, it doesn't really make sense, uh, for a cell phone carrier to be offering a fixed wireless offering in most of the territories that they cover, because it's just too expensive. So we do think there's a natural asymptote to this line, and we've modeled that into our numbers, and the stock remains attractive in line with what we thought.

Sanofi really took down their guidance and increased their research and development spend for the year and for the coming years on their Phase 3 trials. Uh, this is in response to the Inflation Reduction Act and some of the limits that the government is going to be placing on very high-priced, successful drugs in the future. Uh, we do think that this does impact our normal earnings slightly, but the reaction in the stock has really been overblown given the impact that we think this will take, and we've added to the stock on weakness.

We initiated a position in Baxter Inc, uh, one of the largest manufacturers of medical equipment and supplies in the United States, and they report in, in four different, uh, segments. Um, the first one is, uh, Medical Products. Uh, Medical Products is their, their largest segment. This is where their infusion pumps, as well as IV fluids, uh, reside. They

have a 70% share, so a real dominant share, uh, in the marketplace. Uh, the next segment is Healthcare Systems. This was, uh, mostly the Hillrom acquisition that they made recently. Uh, Hillrom is the manufacturer of hospital beds and other, uh, equipment that goes into the hospital rooms, um, and that's a significant division in, in their business as well. Then they have Pharma, which produces, um, mostly generics for anesthesia, anesthesia. Uh, and then their Renal Systems, which is, uh, dialysis systems mostly for home use.

Uh, there's been a litany of problems, uh, with this company, uh, and they've had to absorb costs of over a billion. So, uh, inflation has really hurt them, uh, in the, um, uh, in the, uh, Medical Products business. They've had logistical problems in the, uh, hospital bed business, uh, and then on the, uh, Renal Care side, uh, they've, uh, again, it's the GLP-1 drugs that people are questioning, uh, the future of those businesses if, if everybody's taking these drugs. And then overarching, there's just been, uh, in terms of the, the medical, uh, world, there's just been a, a reduction of procedures that has not gone back to where we were pre-COVID. Uh, so when we, when we look at these issues, uh, we do think that they're, uh, uh, mostly temporary. On the inflation side, although they've not been able to pass through these costs, it's because they have these large contracts with what's called group purchasing organizations that extend several years. But as soon as these contracts, uh, come up or roll over, we, we're highly confident they'll be able to push through these costs as it's pretty critical to, to the functioning of a hospital. Uh, we do think that, uh, the logistics is, is being worked on as well as, uh, there's new, uh, cost containment plans, uh, uh, in the, in the businesses. Uh, and then lastly, we think the overreaction on the renal side of the business to the GLP-1 has just been excessive. Uh, the stock is down over 50% in the last couple of years, and, uh, we think it's a very cheap, uh, uh, company.

We also initiated a position in Rexel, one of the largest distributors of low-voltage electrical equipment, and this company has, has been on a journey in terms of scaling up. Uh, they've really moved away from being a commodity, uh, type of business. And, uh, 90% of their products and 75% of their revenues are not really commodity products anymore and continue to gain price, uh, even in an environment with, uh, lower inflation. Uh, the rest of their business, the cable business, is more subject to commodity pricing pressures, uh, and the like. But again, the majority is not. Uh, we don't think that the company has really been given credit for this and is still looked at as more of a commodity cable business and is now trading at a, you know, a trough multiple on, uh, on trough earnings. So we think this, uh, company that we've owned in other portfolios for a number of years now is a great addition into the, uh, into the global portfolio.

Other actions, uh, in the quarter, we, uh, exited the GE position and, uh, trimmed Kato and Wabtec, and then, uh, added to, um, uh, COLI, uh, as well as Daimler Truck. Um, well, thank you again for listening, and, uh, hope you had a Happy New Year, and I look forward to seeing you in another quarter. All the best.