4Q 2024
Socially*Responsible* Value Portfolio Review

Past performance is not indicative of future results. Returns are calculated using a time-weighted return and include the reinvestment of all income. Gross of fee performance is reduced by any transaction costs. Net of fee performance is further reduced by actual management fees. The securities identified are not a recommendation to buy or sell and do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable. The number of contributors versus detractors are loosely dependent on how the strategy performed versus its benchmark. Depending on how well the strategy did versus its benchmarks, the number of meaningful contributors or detractors will change from quarter to quarter. In general, if the strategy outperformed/underperformed its benchmark significantly, there will likely be a larger/smaller number of contributors than detractors. When only a small number of stocks are responsible for the majority of relative performance versus the benchmark the opposite may be the case. Any discussion of underlying stock specific returns is not to be relied upon as performance to achieve and only discussed as a means to communicate the strategy's performance relative to the market. During the recently ended quarter, net of fees, the SociallyResponsible Value composite out-performed the Morningstar Large Cap Value by 59 basis points and out-performed the S&P 500 Value by 76 basis points. The 1-year net of fee return on the composite was 14.8%; the 5-year net of fee return on the composite was 11.3%; and the 10-year net of fee return on the composite was 8.7%.

Who would have thought that with all of the turbulence in the markets, interest rates, geo-political concerns, presidential elections, etc. that the markets would post a second straight year of very high returns? Not us! Yet that is what professional investors like ourselves need to be prepared for. Investing is just as much handicapping events with limited information as it is being intimately familiar with the companies we own inside and out. Even though we could not have predicted how the year would end (and rarely do!), our process of purchasing socially responsible companies with strong fundamental characteristics at low relative prices helped propel returns for the quarter and the year above our value benchmarks. While we know for certain the outcome of our process won't always yield these results in any given time period, we feel strongly that by investing for the long-run and keeping our noses to the proverbial grindstone that the desired results will follow.

For the quarter, the Socially*Responsible* Value strategy declined less than its value benchmarks mostly due to strong returns in the energy and materials sectors. Much of the strength in energy was from TPL, a land royalty company based in West Texas. It currently leases its land and resources to energy companies and utilities, but a lot of what has recently driven the price of its shares has little to do with what is being pulled out of the ground and more of what could be sitting on top of that ground in the near future. We all seem to be aware of the massive build-out of data centers that has been occurring for at least ten years, which is accelerating now due to the high level of computational power and energy that AI applications require. Well, what better place to put your data centers than right next to the source? Mind you the source does not have to come out of the ground, it could sit on top of it as well. This also goes to show that how we think of an energy company today could be very different from how they might look in the future. Energy itself can come from a myriad of sources and its best to think of TPL as an asset owner looking to maximize the value of its land (and doing quite well at it) rather than a traditional energy company. A primary goal of any landowner is to realize "highest and best use", as they say in real-estate circles.

In basic materials, the strategy's holdings outperformed the benchmarks by declining much less in what was one of the worst performing sectors for the benchmark. Our holdings on average declined less compared to the benchmark holdings.

FOR YOUR INTENDED USE ONLY. PLEASE DO NOT REDISTRIBUTE OR REPRODUCE.

For more information, please contact:
info@skba.com or call 800.969.7852

FOR YOUR INTENDED USE ONLY. PLEASE DO NOT REDISTRIBUTE OR REPRODUCE.

Packaging Corporation led the group in the period, though Air Products and Chemical Inc. (APD) declined less as well. While still a relatively new position, APD is in the midst of becoming the world's largest green hydrogen producer, an investment with substantial implications for much cleaner sources of energy. Other meaningful contributors to return included Alphabet, Kinder Morgan, and Interactive Brokers.

Detractors for the quarter were mostly due to the strategy's holdings in healthcare. The sector was also one of the benchmark's worst performing in the period and the strategy's holdings declined more than the benchmark's. Regeneron, Royal Philips and a new holding, Dentsply Sirona, all declined more than the benchmark. With the exception of Dentsply Sirona, the other holdings have more than doubled over our holding periods and we have reduced our positions over time. Dentsply Sirona is a new holding we initiated in the quarter and is a result of a 2016 merger between the namesake companies. Since the merger, it has struggled with accounting issues, channel stuffing allegations, interest rate induced sales slowdown, and elevated executive turnover. Yet it still remains the world's largest dental supply company with what we see as very attractive returns on capital and strong demographic tailwinds. It is our belief that a more stable C-suite and a resumption in growth would make this investment opportunity worthwhile. In the meantime, as is often the case with new positions, we were a bit early and the stock declined significantly in the quarter. We used the opportunity to add to our position. Other detractors for the quarter include Clarivate, Aptiv, and Genuine Parts. Both Aptiv and Genuine Parts declined along with the auto industry as pressure from high interest rates has resulted in a global slowdown. Clarivate's decline can also be partially attributed to interest rates as its relatively high amount of debt seems to have spooked investors, yet with high returns on capital and a very stable source of revenues, Clarivate will be able to continue to pay down debt in a timely manner. Furthermore, while it seems as though the market has reacted negatively towards certain companies and sectors as investors digest the news that interest rates are likely to stay higher for longer than anticipated, interest rates are still on the way down. The market appears to be temporarily punishing interest sensitive sectors and companies without recognizing that directionally, these same companies and sectors are likely to benefit from the current interest rate environment rather than be hurt by it.

Another sector likely to benefit from the current interest rate and political environment are financials, and in particular: banks. As short-term interest rates decline while longer-term rates remain elevated, we expect an eventual restoration of a "normal" yield curve. This makes spread businesses like banks more profitable as well as financial companies that rely on more absolute levels of interest rates at the intermediate and long end of the curve like insurance companies. As a result, we initiated a position in Truist Financial in the quarter. Truist is a result of a merger between two banks, SunTrust and BB&T in late 2019 consolidating one of the more lucrative markets in the U.S., the southeast. Yet, the merger couldn't have been formed during a more unfortunate time, right before the 2020 pandemic. The pandemic forced banks to focus on PPP (payment protection) loans, as well as cope with a new way of remote work. Shortly after was the shock to the financial system from higher interest rates at the beginning of 2023, which forced banks to hold more capital as reserves while at the same time deposits moved en masse from regional banks to larger integrated banks like JP Morgan and Wells Fargo. All of which pressured the fundamentals, delaying the benefits of the merger and the price of its shares. In 2024, Truist announced a sale of its insurance brokerage business and a recapitalization of the balance sheet. It sold approximately $30B in short-term assets yielding 2.8% and purchasing securities and holding cash, boosting the yield on the book to 5.2%. As a result of the sale and the recap, Truist is now overcapitalized and can focus on its core banking business where it will not be constrained by capital to grow. In addition to Truist, we also increased our holdings in W.R. Berkley and CME Group.

More portfolio actions in the quarter included exiting our profitable investment in Cardinal Health, lowering Kontoor Brands and TPL. We are lowering or exiting based on valuations that are more in line with fundamentals. Should the market once again become pessimistic on Kontoor or TPL, we are likely to add to our holdings rather than to continue reducing.

With the markets seemingly brushing off the economic cross-currents and uncertainties, we continue to proceed with caution in the Socially*Responsible* strategy. With the almost constant narrowing of benchmarks, however, we are also excited at the prospect of continuing to add to the roster of companies that meet the responsible value objectives of our clients and shareholders.