2Q 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 69 basis points and out-performed the S&P 500 Value by 221 basis points. The 1-year net of fee return on the composite was 17.6%; the 5-year net of fee return on the composite was 11.8%; and the 10-year net of fee return on the composite was 8.0%.

The broad market posted positive returns in the second quarter of 2024, extending the gains of the past year and a half after the massive correction in 2022. The largest companies in the index continue to propel gains for the overall index, creating the appearance that all is well in the markets. Yet, as stated in the market commentary, we do not believe this to be the case. When indices set records for concentration of returns, market declines tend to follow, however the timing and magnitude of any such decline would be anyone's guess. What is less obvious during these periods is that a large subset of stocks not driving the markets advances fall out of favor and provides opportunity for active managers to add value to their portfolio. This is certainly observable in the market today with the equal-weighted S&P 500 trading at more than a 5X discount to its market cap-weighted counterpart, which is also the highest level in nearly 15 years. That the S&P 500 posted positive returns and the value indices were negative is also another sign of how out-of-favor many stocks are as compared to the index leaders.

With the focus so narrowly squared on the index leaders, we think the opportunity to add stocks with positive fundamental traits at very good prices continues to increase. We have spoken about this phenomenon over the years and as a result, our actively managed Socially*Responsible* strategy outperformed the value benchmarks. For the second quarter of 2024, outperformance is mostly attributed to stock selection with positive contribution from stocks in the IT, energy, communication and discretionary sectors. As is often the case, stocks that have outperformed strongly in one period tend to lag or even perform poorly in a subsequent period and vice-versa. This was the case in the quarter when two of the first quarter's largest detractors were the second quarter's top contributors. Both Royal Philips and Kontoor Brands bounced back from their declines in the first quarter aiding in the contribution to the strategy's strong performance. We were not surprised in the first quarter when the stocks declined as they were also coming off of a very strong year in 2023, just as we are not surprised at their relative strength in the second quarter. Both stocks exhibit traits we find attractive, high returns on capital, market leading positions and attractive valuations, especially in contrast to the set of stocks leading the market's advances.

Another top performer for the quarter was TPL Holdings, another very much unloved and under-owned company we have added to the strategy in recent years. TPL is a holding company for valuable real estate that receives royalties from companies

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in the energy sector. Once again it exhibits favorable traits that we find attractive: very high returns on capital, attractive cash flow generation, and trades at very reasonable prices. Its recent index inclusion was announced in the quarter, providing a base for more broad ownership helped propel returns well above that of the benchmarks.

Holdings within the IT sector were also responsible for positive contribution to the strategy's returns in the quarter. NetApp, NXP Semiconductors, Coherent and Corning all contributed to strong sector outperformance. None of these stocks have broad index ownership and as a result have traded at levels far below what we would consider fair value at times during the last several years, especially when compared to the IT companies that lead the broad market indices. We trimmed Coherent, NXP and NetApp in the quarter as valuations have increased and prices now fairly reflect the fundamental strength of these individual companies.

The largest detractors in the quarter were from stock selection in consumer staples, the absence of utilities and a few other underperforming stocks most notably Fortrea. In consumer staples, all three holdings declined, most notably is one of our newer holdings: Kenvue. We still believe that the stock is undervalued, being an orphaned stock from Johnson & Johnson it is under-owned yet the underlying brands like Band-Aid, Neutrogena and Tylenol have significant brand recognition, pricing power, and distribution and aren't likely to be displaced any time soon. Through better capital allocation and efficiency, we believe Kenvue's management should be able to breathe new life into these underinvested brands. Another relatively new position, Fortrea, declined quite significantly in the quarter, and we added to our position on weakness. We are being careful, however, as a number of stocks in the health care sector appear to be stuck in an "unloved state" as rhetoric from both the upcoming election and the hype around GLP-1's aren't likely to go away soon. We may consider adding to the position in the near future as we get closer to putting at least one of these issues behind us. Other stocks that detracted from returns are W.R. Berkley and Weyerhaeuser. W.R. Berkley's declines can be attributed to a slight miss in earnings in one of its insurance lines, however, long-term owners and followers of this stock would not likely be so easily fooled into thinking that something is actually wrong with its underwriting discipline. Short-term fluctuations in earnings are fairly typical, especially in the insurance industry and we don't think anything has changed about management's underwriting discipline or lines of business. Rather, we think investors simply used the opportunity to take some profits after its stock increased significantly off its lows mid last year.

As previously mentioned, this environment is as good as any we have seen in a number of years in terms of opportunities in which to invest due to the market's narrow focus on the "big winners". And as a proof statement of that, we added four new companies to the portfolio in the quarter: Intel, Avantor, 3M and Air Products. Intel is not an entirely new holding as we have owned it in the past. What is new, however, is its management team and business strategy. After conceding defeat in the arms race for leading edge semiconductor manufacturing, Intel has pivoted under CEO Pat Gelsinger towards a foundry model where it manufactures semiconductors to client specifications like competitor TSMC. It is taking advantage of government funding to steer investment away from Taiwan and has already signed a contract with Microsoft which propelled its stock towards $50 late 2023 from the mid-$20s. All of those gains were erased when Intel reported that increases in earning power aren't likely to occur for a number of years, providing opportunities for long-term investors like ourselves. Our initial investment is modest and we look forward to the opportunity to add to our position should an improvement in earnings take hold.

As for 3M, we have long felt that it mismanaged its business and as a result suffered from a deteriorating competitive position. Many parallels can be drawn to General Electric, a former Goliath of American business nearly brought down by its own doings. We find 3M is not that dissimilar both in its lengthy downturn and what could be its eventual recovery. As things stand today, the company has the ability to return to some form of its former glory. We are not expecting as much but we are expecting the long competitive deterioration to come to an end. The company has begun to put its environmental liabilities behind it, it has ceased making questionable acquisitions, has divested the majority of its healthcare division and has brought in outside management untainted by the company's legacy. At current prices, we are not paying much for the likelihood that over the next few years 3M will improve margins as capital discipline returns and product liability costs become discounted.

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Lastly, we initiated a position in Air Products, a company we have followed for decades. Our opportunity resulted from the recent aversion to all things alternative-energy related. Air Products has recently been investing in hydrogen production facilities in anticipation of increased demand. This temporary mismatch whereby demand has yet to fully surface has made Wall Street uncomfortable all the while agreements between Air Products and some of its industrial partners are being established. Since the additional facilities have yet to contribute to the company's earning power, we think shares appear less attractive under the naked analytical eye. Under a slightly longer timeframe lens, we believe these additional facilities should contribute meaningfully to the company's overall profit picture. We look forward to adding to our holdings should market volatility provide additional opportunities to purchase these high quality companies at very good prices.

We stand behind our remarks that returns are likely going to be challenged for the strategies and indices with the highest concentrations in the market leaders, once again, the timing of when that will occur is anyone's guess. In the meantime, we're happy to have the opportunity to continue to add to our portfolio of stocks as the market's focus and favor lie elsewhere.

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