3Q 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 under-performed the Morningstar Large Cap Value by 48 basis points and under-performed the S&P 500 Value by 87 basis points. The 1-year net of fee return on the composite was 27.9%; the 5-year net of fee return on the composite was 13.5%; and the 10-year net of fee return on the composite was 9.2%.

Do markets really climb a wall of worry? The answer is "yes" when bad events or economic concerns appear to already be discounted in valuations. We don't believe this is happening in today's market environment, and we've been presented with past environments where markets do seem to climb that worry-wall. The problem is that walls are not easy to climb, eventually gravity takes hold and well, you get the picture. Instead of worrying, and we believe there are many things to take into account today (high valuations, war, inflation, interest rates, election results, Chinese economy) markets seem to be most focused on whether or not the U.S. will manage a soft landing and whether or not declining interest rates will expand the narrow rally some investors can't get enough of, which seems short-sighted at best.

If the markets were climbing a wall of worry, it would seem easier to predict that this won't last much longer, that eventually an escalated theater of war in the Middle East and in Europe will threaten supply chains and degrade economic progress, that eventually China's problems spread to its neighboring partners or that a new U.S. president may enact policies that cause an economic disruption. Any number of these items might cause investors to rightfully question whether or not the market can continue on its current pace of expansion. Yet outside a few rocky days here and there, it hasn't even seemed to register that these risks are escalating and the markets are not yet pricing them in. And while we can talk all we want about these risks which haven't yet manifested in some sort of market event, we believe, and are acting accordingly, that they will eventually begin to be priced in. Eventually the collective "focus" on the short-term effect of declining interest rates will give way to broader risks that exist beyond the next couple of months.

While one can never be certain how the market will behave in the short run, we believe we have been building a portfolio to help protect our client's capital by purchasing companies with decent growth potential at low relative prices while satisfying our client's socially responsible desires. It is our belief that majority of the risk that exists in the market today are with the narrow set of companies that have been driving the indices to new highs. We believe the companies with valuations that do not seem to discount any negative economic environment or market drawdown are most at risk. That we tend to build our

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portfolios in this manner, regardless of the economic or market environment we are in speaks to our investment philosophy and process and tends to produce very desirable risk and return characteristics over full market cycles. It is one of the reasons why two of the sectors in the Socially*Responsible* strategy with the highest weights are in health care and financials, two sectors that contain a number of companies with good growth potential at very low valuations.

Stocks in the financial sector often trade at low valuations, yet many of the companies in the Socially*Responsible* portfolio have fundamentals as good if not better than many highly valued stocks in the S&P 500. For comparison sake, take some of our top holdings by weight in the financial sector: AIG, Corebridge, and American Express and compare them to some of the top IT holdings (a perceived "high growth sector") in the S&P 500: Apple, Microsoft, and NVIDIA. Both sets of companies have similar earnings growth expectations at an average of 18% EPS growth over the next three years for our holdings in the financial sector, and an average of 20% for the holdings in the S&P 500 IT sector (only 14% when you exclude NVIDIA). The main difference is that we are only paying an average of 12 times next year's earnings for the companies in our financial sector versus an average multiple of 32 times next year's earnings for the IT stocks. Similarly, the top three holdings in the health care sector of the Socially*Responsible* strategy, Royal Philips, Medtronic and Merck, trade at an average of 15 times next year's earnings and at some point during our ownership have traded as low as 11 times on average. Should the market turn and earnings multiples compress, we believe it would hurt the stocks with the highest valuations the most, especially when those high valuations don't come with much higher growth potential. One can also ask "what if those high growth expectations don't materialize?" Well, which group do you think would decline the most?

For the quarter, our sector positioning detracted from returns, while stock selection mostly offset it. Stocks in energy, materials and consumer staples contributed most to returns, while our underweight position in utilities and holdings in cash detracted most from returns. In energy, Texas Pacific Land Corporation, a land holding company that receives royalties from companies operating on its land was one of the top performers in the sector in the quarter after underperforming for the first half of the year. In consumer staples a relatively new holding, Kenvue, outperformed in the quarter after reporting strength in a few brands that were underperforming shortly after the company was spun out of Johnson & Johnson. Management's commitment to spending on the portfolio of high-value brands is admirable and the early results are paying off. Kenvue is one of the least expensive stocks in the consumer staples sector, despite having brands and products that should continue to do well in the event of recession. Its fundamentals are as good if not better than many in the sector yet is selling at a fraction of what some of its larger and more well-known competitors are selling for.

During the quarter we initiated a position in two companies: Clarivate and WEC Energy Group and eliminated holdings in two companies: Charles Schwab and Paramount. Clarivate makes its second appearance in the strategy in the sense that it used to be a division of Thomson Reuters and provides information services to mostly industrial companies through its proprietary database in Academia, Intellectual Property rights, Government and Healthcare. Due to a high level of debt taken on a few years ago by its recently replaced prior management, Clarivate is trading at a wide discount to peers, yet with tremendous free cash flow conversion and high returns on capital we believe the discount will close over time. With interest rates now declining, Clarivate's interest burden will naturally decline. Furthermore, as new management uses its copious levels of free cash to reduce the overall level of debt and heavily discounted shares, we believe the benefit of these actions will accrue to equity holders such as ourselves.

WEC Energy Group is also not new to this strategy although it has been some time since the Socially*Responsible* strategy has held any utility company. As stated many times before, we had not been attracted to utilities due to a combination of poor fundamental and valuation attraction. Time has a way of ameliorating some issues and over the past number of years as utilities have underperformed, valuations have come back to a more reasonable level. Additionally, utility companies around the nation are seeing increases in allowed ROE's as regulatory bodies recognize the need for utilities to build out the power grid due to a rise in demand from growing data centers and electric vehicles. The increase in consumption growth changes our long-held thesis on utilities as we believe they should now be able to grow their earnings above low single-digit rates since valuations have declined. In addition, should the U.S. enter into a recession, it is our belief that utilities can now outperform as fundamentals and valuations are more in balance.

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Both Charles Schwab and Paramount were successful investments, yet, similar to utilities, our investment thesis on the companies have changed and we have found it prudent to eliminate our holdings in these companies. Paramount's governance which we felt was improving for some time following Sumner Redstone's passing has proven to be a liability and actions are being taken on the companies' behalf that enrich an owner at the cost of shareholders. It was our belief that the owners and shareholders' interests were aligned but we have been proven wrong in this case as corporate governance has proved to be dreadful. Still, as mentioned, it was a successful investment and we have found more appropriate and better places to put our clients' capital in companies like Clarivate and WEC Energy.

As we look forward we continue to be cautious in the management of the Socially*Responsible* strategy as we believe the level of unpriced risk in the market continues to build. Over the course of the year we have initiated eight new companies to the strategy in an attempt to ensure it will continue to produce attractive returns at a risk profile our clients desire and we will continue our disciplined search and approach with these goals in mind.