International Micro Cap Strategy

Representative Commentary — 2Q22

Performance	2Q22	1YR	Since Inception (1/1/2021)
International Micro Cap Composite (Gross)	-17.04%	-31.86%	-15.70%
International Micro Cap Composite (Net)	-17.29%	-32.66%	-16.68%
MSCI AC World Ex USA Small Cap (Net) Index	-17.55%	-22.45%	-8.86%

Please see the important performance and other related disclosures at the end of this Commentary, which are an integral part of this quarterly Commentary Newsletter.

In the second quarter, the "I"s had it: Interest rates and Inflation commanded the attention of the global markets. Central banks accelerated the pace of their quantitative tightening measures, though inflation stubbornly refused to slacken. The heighted levels of interest rates and inflation punished the equity markets with double-digit negative returns for the quarter, with the U.S. hit the hardest at -17%, developed non-U.S. at -15%, and emerging markets "only" down -11%.

The U.S. Federal Reserve increased rates twice during the quarter, including the largest single increase (75 basis points) since 1994. The subsequent statement indicated that the current range of 1.50% to 1.75% may be double that by the year's end. The European Central Bank noted it will raise rates from 0% by 25 basis points at its July meeting and again in September—its first increase since 2011. The Bank of England raised its rates for the fifth consecutive time, albeit at a slower pace of 25 basis points, though indicated that its tempo may increase. Many other banks followed suit including even the Swiss National Bank, though its first increase since 2007 lifted rates from -0.75% to -0.25%. Japan was the lone holdout among the major money centers to maintain its accommodative monetary policies though markets punished that stance with a sharp depreciation in the yen which broke 20-year lows.

While commodity and energy prices eased late in the quarter, they remained at elevated levels compared with earlier in the year. Global supply chains remained stretched, demand was subdued, and business optimism waned so that were it not for a rebound in China after recent COVID lockdowns were eased, growth in global business activities would have slowed for a third straight month.

The mixture of high inflation and rising interest rates fueled concerns for a coming recession. In addition to weighing on business optimism, that combination—though especially inflation—pushed down consumer sentiment. One result was the continued relative outperformance of value stocks over growth and relatively better returns when moving up the size continuum from microcaps to megacaps. The safer havens were in the Utilities, Energy, and Consumer Staple sectors whereas the Information Technology, Real Estate, and Communication Services were shunned.

Portfolio Performance Attribution

Amidst this environment, the International Micro Cap Portfolio outperformed the MSCI AC World ex USA Small Cap benchmark during the second quarter of 2022, where relative strength in Asia/Pacific ex Japan and Europe was slightly offset by weakness from the Emerging Markets and Japan.

Regional Performance: Europe

Relative outperformance in Europe was attributed to strong stock selection, where our names in Communication Services and Industrials provided relative downside protection. For the quarter, the United Kingdom, Italy, and France outperformed, while our names in Germany and Sweden saw relative weakness.

Within the United Kingdom, **Craneware plc** is a leader in automated revenue integration solutions which improve the financial performance of US healthcare organizations. During the quarter the company announced the unveiling of its Trisus Chargemaster application – a cloud-based solution built to meet the needs of healthcare organizations of all sizes to manage both hospital and physician charges and fee schedules line items in one application. Shares were up 2%. **Volution Group plc** is one of the largest suppliers of ventilation and recovery systems in the country and amongst the largest five in Europe. The company manufactures integrated extractor fans and other ventilation products, primarily for the residential market. Shares were down -26% during the quarter on concerns of a challenging operating environment within the U.K. construction industry. However, Volution Group reported encouraging fiscal third quarter results. Management cited strong order books and guided fiscal 2022 earnings above consensus.

Relative underperformance came from our names in nearby Germany. **Friedrich Vorwerk Group SE** is a turnkey solutions provider that specializes in three distinct areas: natural gas, electric grids and hydrogen. They offer solutions for pipelines and underground cables as well as plant engineering and construction, which are an essential part of the future for energy in Europe. The company reported better-than-expected fiscal first quarter results, where year-over-year revenues grew 11%. However, operating profits fell below estimates due to the simultaneous kick-off of several major projects, causing higher than expected one-time costs. Despite the fact that shares were down -36% for the quarter, we remain confident in management's ability to capitalize on Europe's unprecedented investment in sustainable energy. Better results came from **Fabasoft AG** a leading software company, with an emphasis on the digital control of documents and electronic document management. Their main growth driver, Mindbreeze, is a leading provider in the enterprise search and knowledge management space. We decided to exit the position as the Mindbreeze investment case appeared to weaken with companies reluctant to start such projects in a more fragile environment. Shares were up 4% when we sold the name.

In France, **Ipsos SA** is a multinational market research and consulting firm. Unlike its larger peers, the company derives a significant portion of their revenue through custom research, a more value-add service. The group held their investor day where management laid out their 2025 targets of accelerated organic sales growth through investments in human capital and research automation. Shares outperformed the benchmark and were down -6%. **Chargeurs SA**, is an industrial conglomerate that is a global leader in protective plastic films for fragile surfaces, garment interlinings, high-end combed wool, and museum project management consulting. Despite the increasingly complex economic backdrop, the company reported solid fiscal first quarter results where sales came in well above expectations. To illustrate, much of their sales beat came from their protective films segment, where pass-through pricing mechanisms enabled the transfer of surging polyethylene prices to clients. While company fundamentals remain strong, we trimmed our position on near term supply chain concerns and uncertainties around construction and consumer end-markets. Shares were down -29%.

In nearby Sweden, rising interest rates and geopolitical uncertainties with Russia caused another quarter of selling pressure across the board. For example, shares of **Inwido AB**, a leading window and door manufacturer in the Nordics saw its shares fall -29%. While the company reporting strong quarterly results, investors were wary of weakening consumer demand due to continuing inflation and higher interest rates. We trimmed our position. Relatively better results came from **Karnov Group**, the Nordic market leader in information systems for the judicial market. During the quarter, the company reported strong quarterly results and noted encouraging synergies from their 2021 acquisitions of Thomson Reuters in Spain as well as Wolters Kluwer in Spain and France. Moreover, an institutional brokerage firm initiated a favorable research report – noting the developed geographic monopoly and strong free cash flow growth potential. Shares dropped by only -7% during the quarter.

Regional Performance: Japan

The portfolio experienced some difficulties in Japan, as it was our weakest region during the quarter. Disappointing results came from **MedPeer, Inc**, which provides a community site exclusively for physicians to link up with pharmaceutical companies and is a first mover in Japan's online healthcare space. While the company maintained its fiscal 2022 guidance, second quarter profits declined due to a continued shortfall of doctor participants at its webinars. Given the overhang of earnings risk in the second half of 2022, we decided to exit our position and deploy funds into other opportunities. Shares were down -50% when we sold, making it our largest detractor for the quarter. Better results came from, **Shoei Co**, the world's largest manufacturer of premium motorcycle helmets, where its sales network extends to over 50 countries and has top share in virtually all markets for premium helmets. The company reported better than expected operating results, due to strong helmet sales in Japan, Europe, and North America. While production capacity may be an issue in the near term, the company is increasing personnel and offering training to improve production skills, which could potentially exceed annual helmet volume targets if supply chain disruptions abate. Shares were up 3%. **Fuso Chemical** is the top manufacturer of ultra-high-purity colloidal silica (99.9999% purity) with a global market share of more than 80%. Colloidal silica is the key raw material in the final polishing slurry for silicon wafers, a consumable that improves lithography and lower surface defects in wafers. The company reported solid fiscal year 2022 results, beating estimates across the board. However, management noted an element of rush demand for ultrapure colloidal silica in order to get ahead of rising prices from raw material inflation. As a result, shares fell -30% for the quarter, as growth is expected to slow for the electronic materials segment.

Regional Performance: Asia/Pacific Ex-Japan, Americas and Middle East

Asia Pacific Ex-Japan was our strongest region during the quarter. Hong Kong noodle restaurant chain **Tam Jai International** remained resilient amid challenging times. Despite negative impacts from the latest COVID wave in Hong Kong, the company reported solid results and improving operating profit margin. The group's restaurant expansion also remains on track. Shares of Tam Jai moved up 7% during the quarter.

Within Australia, **APM Human Services** is a leading human services provider with a focus on disability and employment. The company is well-placed to benefit from the rise in government spending on unemployment, disability, and aged care along with increased demand for vocational training and mental health support services. In June, the company announced a refinancing of its debt facilities to provide additional flexibility for its bolt-on acquisition strategy. As shares were strong earlier in the year, subsequent profit taking pressured the stock down -18% for the quarter. Relatively better results came from **IPH Ltd.**, Australia's largest intellectual property management services provider. While rising costs and volatile currency swings have troubled some companies, IPH is able to pass on pricing, along with benefiting from a rising dollar since they remain unhedged. Moreover, industry filing volumes remain healthy despite the volatile macro backdrop. Shares were down -6% and we added to the position.

In the Middle East region, **Rada Electronic Industries Ltd**. is an Israeli defense company focused on radars and defense electronics. The company operates in the niche market of small radars that serve areas such as Active Protection System (APS) and critical infrastructure protection. Rada's unique positioning as an Israeli company with a prominent U.S. subsidiary provides an outlet into the U.S. defense market and exports globally. Earnings missed due to delays in congressional resolutions passed and shares corrected -34% as a result.

Within the Americas region, we initiated a position in **Ag Growth International,** a Canadian manufacturer of agricultural equipment. The company's strategy places it in the center of the global food infrastructure buildout, which has become increasingly critical given the growing global population, increased grain demand, shifting geopolitical uncertainties and supply chain disruptions from Covid-19 and the Russia/Ukraine war. Shares are up 1% since we purchased the name.

Regional Performance: Emerging Markets

Within the Emerging Markets, the portfolio experienced slight underperformance during the quarter. Strength in Indonesia and Mexico was offset by weakness in Korea and Brazil.

Our names in Korea put a blemish on second quarter performance, as the country suffered an extensive market selloff. For example, shares of **K Car Co., Ltd**., a platform service for used cars, fell -42% despite reporting solid first quarter operating results. The share price seemed to have been pressured by the slide in Carvana, an online used car platform in the U.S., notably over concerns of lower profitability. However, this short-term move seems to have been contained as K Car reported in-line first quarter results. Though acquisition costs for cars had increased, that was offset by with strong growth and solid market share gains.

Flying over to Brazil, **Afya Limited** is the largest medical education company in the country. The company reported strong first quarter revenues that beat analyst estimates. Further, the company announced the acquisition of Glic, a diabetes care and management app for physicians and patients. While investors remain wary of Afya's ability execute recent acquisitions, we believe this digital healthcare services ecosystem has the potential to double their total addressable market if done properly. Shares were down -31% during the quarter. **Locaweb Servicos de Internet** is one of Brazil's leading web hosting platforms with a growing e-commerce and software-as-a-service platform. The stock sold off by -49% after Locaweb reported mixed results during the quarter.

Better results came out of Indonesia, which held our largest contributor for the quarter, **PT AKR Corporindo**, with shares up by 11%. The company engages in the trading and distribution of chemical and petroleum products. In addition to its fuel distribution business, the company benefits from land and development-related revenues that are tied to domestic development of alumina and nickel smelters to support growing industries like EVs. The company reported strong first quarter results, where core fuel trading and chemical distribution segments saw strong gross profit growth, thanks to rising spot prices. Moreover, management raised their fiscal 2022 earnings guidance, citing improved outlook on volume due to Indonesia's increased mining output and better margins on the back of strong pricing. Another strong contributor was **PT Link Net**, a leading high speed broadband provider in Indonesia. Link Net has one of Indonesia's most comprehensive internet and content offerings. During the quarter the company added 57,000 home pass additions – totaling 2.9 million homes passed. Management expects an improvement in the operating environment as Covid-19 cases subside and the economy begins to recover. As a result, management sees a reduction in churn and an acceleration of subscriber growth over the coming quarters. Shares were up 5%.

Conclusion

Looking into the summer and beyond, it remains to be seen if policy makers can engineer the proverbial "soft landing" that combats the global inflationary environment without triggering a recession. That may be possible, though its runway has been narrowing. Companies have been very tempered with their projections, though there have been few corresponding reductions to their consensus earnings estimates. So, while we see pockets of opportunities with lower prices, we recognize that further dips are possible. These concerns form some of the backdrop for our discussions with company management teams. That factors into our bottom-up evaluations as we seek a balance of positions that can weather oncoming waves along with those poised to gain when the winds change. As always, we are available for any questions you might have as we endeavor to protect the assets you have entrusted with us.

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Benchmark returns are not covered by the report of independent verifiers.

This composite generally invests in MSCI World stocks with market capitalizations below $7.5 billion at time of purchase. Portfolios will hold approximately 110 securities. The process is fundamental research driven. Composite inclusion threshold $500,000. Fee basis is 90 points. The composite creation date is January 1, 2018.