

Global Small Cap Equity Fund

OBJECTIVES AND PROCESS

- Seeks long-term capital appreciation
- Invests at least two-thirds of its assets in equity securities of small-capitalisation companies located worldwide
- Invests in no fewer than three countries and may invest more than 25% in any one country
- Seeks to identify companies that are well managed and have flexible balance sheets, sustainable cash flows and undervalued relative to their intrinsic value
- Uses a negative screen to exclude securities issued by companies based on their exposure to ESG risks
- Invests principally in equity securities of global small-capitalisation companies (within the MSCI World Small Cap Index market-cap range at the time of purchase) but can invest up to 10% in emerging markets (companies that operate from countries in the MSCI Emerging Markets Index)
- May use futures/derivatives for hedging or efficient portfolio management purposes

KEY RISKS

Market risk: securities may decline in value due to factors affecting securities markets generally, and equity securities generally have greater price volatility than debt securities. **Global investment risk:** securities of certain jurisdictions may experience more rapid and extreme changes in value and may be affected by uncertainties such as international political developments, currency fluctuations and other developments in the laws and regulations of countries in which an investment may be made. **Smaller-company securities risk:** securities of companies with smaller market capitalisations tend to be more volatile and less liquid than securities of larger companies. **ESG risk:** applying an ESG screen for security selection may result in lost opportunity in a security or industry resulting in possible underperformance relative to peers, ESG screens are dependent on third party data and errors in the data may result in the incorrect inclusion or exclusion of a security.

Calendar-year performance (%)

Past performance is not indicative of future results.

	2023	2022	2021
Class I (USD) (20 Feb 2020)*	14.81	-23.03	21.93
MSCI World Small Cap Index (Net) ¹	15.76	-18.75	15.75

Performance (%)

	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since incep.
Class I (USD) (20 Feb 2020)*	2.50	1.48	1.48	11.61	-1.05	—	—	5.08
MSCI World Small Cap Index (Net) ¹	3.89	4.39	4.39	15.87	1.27	—	—	6.89

Past performance is not indicative of future results. Performance calculations are net of all applicable fees and are calculated on a NAV-to-NAV basis (with income re-invested). Performance shown is for class and currency indicated and returns may increase/decrease as a result of currency fluctuations. *Share class inception date

Market commentary

The Fund underperformed the benchmark, the MSCI World Small Cap Index (Net), for the month of March. Global small-cap stocks produced a low single-digit positive return. Equity markets advanced with lowered expectations for rate cuts as economic data remained robust, despite central banks following diverging paths, and in the face of on-going geopolitical risks and elections around the globe.

The Fund underperformed its index for the month driven by a combination of stock selection and allocation, including some stylistic headwinds with momentum and leverage ranking as the strongest performing Barra risk factors. Despite the recent underperformance, we believe that the characteristics of our businesses—strong competitive advantages, sustainable free cash flow generation, and highly flexible balance sheets—will allow our companies to successfully navigate the current macro uncertainty over the long term.

Stock selection in the consumer staples sector contributed the most to relative performance. Within consumer staples, Viscofan, S.A., is based in Spain and is the global leader in the artificial meat casings market. The company has consistently seen strong demand for global casings and has done a nice job ramping up capacity to effectively service customers while generating operating leverage. Furthermore, the company has maintained a strong balance sheet while generating solid free cash flow which has provided significant financial flexibility and runway for capital deployment. During the month, Viscofan's shares rallied after the company reported fourth quarter earnings and initial 2024 guidance which were both better than feared. 2023 was a challenging year for the company given macro headwinds and destocking trends but free cash flow is well positioned to inflect higher given once again solid operating leverage and slowing capital investments. We believe Viscofan is well positioned to reaccelerate shareholder value and we continue to see attractive reward/risk valuation at current levels. Also, within consumer staples, Primo Water Corp. contributed to performance. Primo Water Corp. is a manufacturer and distributor of water. The company is a pure-play water solutions provider, following a multi-year transition. Management recently reported strong quarterly results, particularly robust margins, and introduced full-year guidance that was better than expected. Margins and organic growth have improved for several quarters and this led to a positive stock reaction. We expect investor confidence to continue as the company is poised for continued top-line strength, margin improvement, and better free cash flow conversion under the leadership of its new CEO.

Investors should note that, relative to the expectations of the Autorité des Marchés Financiers, this fund presents disproportionate communication on the consideration of non-financial criteria in its investment policy.



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GENERAL FUND INFORMATION

Portfolio managers: James M. Tringas, CFA^{*}; Oleg Makhorine; Bryant VanCronkhite, CFA^{*}, CPA; Stephen Giggie, CFA^{*}; and Brian Martin, CFA^{*}

Benchmark: MSCI World Small Cap Index (Net)¹

Fund inception: 20 Feb 2020

Management approach: Actively managed

Sustainable Finance Disclosure Regulation: Article 8⁷

On the detracting side, stock selection in the consumer discretionary and materials sectors subtracted value. Within consumer discretionary, Denny's Corp., is the second-largest family dining restaurant chain in the U.S. Shares underperformed despite reporting better than expected sales, with fourth quarter margins missing expectations due to several transitory factors. We continue to see opportunities for the company to begin to better utilize its recent new oven upgrades to drive enhancements in its lunch and dinner menus and drive accelerated growth of the Keke's morning eatery concept. There are currently 56 Keke's Breakfast Café restaurants with over 100 units planned to open under signed development agreements. Denny's continues to generate strong free cash flow and is planning to reduce its share count by mid-to-high single digits annually with optionality from growth of the Keke's brand over time. Denny's reward/risk profile remains favorable at current levels. Another detractor at the relative company level was Spectris plc. Spectris is a U.K.-based test and measurement equipment and solutions provider. Recently, the company announced full-year results that demonstrated improved margins but softer revenue growth due to weaker demand in life sciences. While 2024 results will be skewed towards a stronger second half, the company maintains a healthy net-cash position that could be deployed to complement organic growth or boost shareholder returns in the form of stock repurchases. In the past three years, Spectris has generated roughly £3 billion of cash, paid down £300 million in debt, bought back £500 million of stock, paid out £400 million in dividends, and used another £400 million for bolt on M&A. The company exited last year with £140 million in cash on its balance sheet with another £200 million expected in the coming months due to the sale of one of its businesses. Investors are overly focused on the income statement in the next six months while ignoring a highly attractive and robust balance sheet leading to an attractive valuation using our reward/risk framework.

We expect the global equity markets to continue to be reactionary to inflation and employment data points. Economies have proven to be resilient thus far, but a recession is not entirely out of the realm of possibilities as the impact of higher rates continues to work its way through. The higher cost of capital is narrowing the strategic opportunities available to many companies.

Rising interest rates and increasing wages hurt relative performance of small caps versus mid and large in 2023, as small caps are disproportionately impacted due to a higher percentage of floating rate debt and tend to be more labor intensive. Both of these factors could stabilize or even provide a tailwind to small caps in 2024 if inflation slows and rates decline. Meanwhile, the underperformance of small caps versus large caps has already neared all-time extremes when comparing peak-to-trough returns around recessions leading to attractive valuations. Cash on the sidelines is likely to return to the markets. This money in motion typically leads to increased volatility, creating an opportunity for active managers to outperform.

Central banks around the globe are likely to take divergent paths as regionalized economic and inflation datapoints dictate. This could lead to increased geographical dispersion across equity market returns, benefiting active managers that can exploit opportunities across a wide geographic universe.

Japan has benefited from a rise in inflation without the headwind of higher interest rates that many other countries face. The BOJ has just begun to change its NIRP while many other central banks globally have tightened monetary policy. The prolonged NIRP led to a weakening of the Japanese yen which has benefited inbound tourism and export-based industries. While yen weakness is generally viewed as a positive for the Japanese market, prolonged and volatile foreign exchange moves can have negative consequences as Japan, with limited access to natural resources, is heavily reliant on energy imports. Our exposure within Japan is skewed towards domestic-oriented companies that generate more stable and predictable cash flows versus its export-oriented counterparts which are subject to foreign exchange volatility.

⁷Promotes environmental and social characteristics but does not have a sustainable investment objective.



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Potential stock selection alpha increases as company-specific characteristics and strategic decisions create fundamental distinctions among companies that will have long-lasting impacts. Financial flexibility will be rewarded as companies with well-constructed balance sheets and maturity profiles will be able to play offense with their strategic capital, while others are forced to take defensive measures.

We will continue to execute our process to identify and capitalize on the mispricing of stocks. We believe our strong fundamental analysis, risk management, and active investment process are well suited for taking advantage of new opportunities as the equity market evolves. While macro conditions may worsen, the strong balance sheets and stable cash flows of the companies in our portfolio should support consistent long-term performance. We maintain a favorable outlook for the portfolio over the long term.

Contributors

- Viscofan, S.A.
- Quaniex Building Products Corp.
- Spectrum Brands Holdings, Inc.
- Mayville Engineering Company, Inc.
- Primo Water Corp.
- TAG Immobilien AG
- Cactus, Inc.
- Enpro Inc.
- CTS Eventim AG & Co. KGaA
- Aris Water Solutions, Inc.

Detractors

- Helen of Troy Ltd.
- Spectris plc
- Ziff Davis, Inc.
- Barco N.V.
- Denny's Corp.
- Britvic plc
- Novanta Inc.
- Gerresheimer AG
- Alten S.A.
- Globus Medical, Inc.



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1. The fund uses both the MSCI World Small Cap Index and the MSCI Emerging Markets Index as a reference for selecting investments and the MSCI World Small Cap Index for performance comparison. The investments of the sub-fund may deviate significantly from the components of and their respective weightings in the benchmarks.

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