

Manager's Commentary

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Highlights

- Positive contributors to the Fund included Jabil Inc. (NYSE: JBL) and Antero Resources Corporation (NYSE: AR).
- Detractors to performance this month included Fluor Corporation (NYSE: FLR) and M/I Homes, Inc. (NYSE: MHO).
- The Fund initiated a new position in Verisign Inc. (NYSE: VRSN).

In a sign of things to come, the weeks since the US elections have been volatile in the equity markets, with stocks reacting to almost every headline about the priorities of the incoming administration. In addition to appointments to key posts, news around import tariffs and deportation of undocumented immigrants has been getting a lot of attention due to their potential detrimental impact on the economy and inflation.

As investors, we try to use short-term volatility to our advantage by focusing on the medium to long term, identifying key trends and picking stocks that are likely to benefit over the next 3-5 years. We are of the view that US productivity growth will continue to outperform other developed economies, supporting GDP growth.

Notable Portfolio Developments

- Jabil Inc., a leading global provider of outsourced manufacturing services, reported better than expected results for the quarter ended November 2024 and increased its guidance for the fiscal year ending in August 2025. While they are seeing some weakness in the renewable energy and EV markets, this is offset by strong Artificial Intelligence (AI) related demand in the cloud, data center and capital equipment markets, with this business expected to grow 30% YoY to account for almost a quarter of revenue in FY2025. Jabil maintained its guidance for free cash flow generation of \$1.2 billion for the fiscal year (7% FCF yield) of which \$1 billion is expected to be used for share buybacks. Over the last two years, Jabil has already reduced its diluted share count by 17.4%. Jabil has over 100 manufacturing sites strategically located around the world including 29 sites in the US which, combined with its designation as a US-domiciled manufacturing service provider, is a competitive advantage in the current geopolitical environment.¹
- Antero Resources, a low-cost pure play Appalachian E&P company, benefitted from the recovery in natural gas prices during the month (64% of its production is gas, the balance is liquid natural gas and oil. Natural gas prices (Henry Hub) increased by 14% during the month to end at \$3.63/MMBtu helped by colder than expected temperatures and the commencement of the second wave of LNG export terminals (Venture Global's Plaquemines plant and Cheniere Energy's Corpus Christi stage 3 in December 2024, with Exxon's Golden Pass project expected in late 2025). Helped by growing exports and gas fired power generation, US natural gas demand is expected to grow by 30 Bcf/d by 2030 (5% CAGR on

¹ https://s27.q4cdn.com/276975351/files/doc_financials/2025/q1/JBL-USQ_Transcript_2024-12-18.pdf

current consumption of around 90 Bcf/d) that will require higher prices to incentivize production to bridge the supply shortfall.²

- Fluor Corporation provides engineering, procurement and construction; operation and maintenance; asset integrity and project management services worldwide. The stock has come under pressure after reporting underwhelming Q3/2024 results in early November due to the cancellation / delay in recognizing revenue on certain projects. However, we believe the bidding environment remains positive and project work in data centers, pharmaceuticals, nuclear / environmental, and mining amongst others will be key drivers for growth in the next few years. Management has derisked the business by doubling the share of reimbursable contracts in backlog from 40% in 2020 to 80% in 2024. We expect profit margins to improve reflecting higher margin work in the backlog won over the last few years.
- M/I Homes is one of the nation's leading home builders and also offers financial and title services to home buyers. It has a diversified geographic footprint across 17 markets in 10 states. The increase in mortgage rates to almost 7% to end 2024, from a recent low of 6.15% in September, impacted sentiment toward the home builders. However, we believe MHO can continue to execute at a high level driven by its premier community locations and dominant positions in markets exposed to the "Rust Belt Renaissance" where home prices are still a relative bargain. Delivering one of the highest gross margins in the industry helped it earn a 20% ROE in the trailing 12 months ended in September 2024. With its positive balance sheet, we believe MHO is well placed to benefit from a potential revival in housing demand.

New Position

We initiated a position in Verisign during the month. VRSN is a global provider of critical internet infrastructure and the leader in domain name registry services enabling navigation for many of the world's most recognized domain names. In November, the Internet Corporation for Assigned Names and Numbers (ICANN) renewed its .COM Registry Agreement for another six-year period, removing a near term overhang on the stock. VRSN has a high return on capital (180% average last three years) and uses its substantial free cash flow for buybacks retiring 16% of its shares outstanding over the last five years.

Post our initiation, Verisign got a renewed vote of confidence from its largest shareholder, Berkshire Hathaway, as they purchased approximately 234,000 VRSN shares for \$45.4 million. Berkshire Hathaway has a 13% stake in VRSN valued at around \$2.6 billion. We see VRSN as a quality business available at discounted valuation due to what we believe is a short-term slowdown in domain name registrations that should stabilize in the near term.

Outlook

We have a diversified portfolio that we believe is well positioned to benefit from secular trends. We believe innovation including Artificial Intelligence offers US corporations the opportunity to drive best in class productivity growth that shall continue to pay dividends for years to come.

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