

Manager's Commentary

Aman Budhwar, CFA

Highlights

- Brookfield Business Partners (NYSE: BBU) and Fidelity National Financial, Inc. (NYSE: FNF) were top contributors while Fluor Corporation (NYSE: FLR) was once again a detractor to performance.
- Initiated a new position in Euronet Worldwide, Inc. (NYSE: EFFT) and Monolithic Power Systems, Inc. (NYSE: MPWR).

The S&P MidCap 400 Index posted total returns of -4.35% for the month of February 2025, underperforming its large cap peer S&P 500 Index by 305 bps. The more domestic focused MidCap companies have been impacted by recent soft readings on the economy including uncertainty over jobs (both government and private) combined with a potential return of inflation (via tariffs).

As a sign of the change in sentiment in a few short weeks, the Atlanta Fed's GDPNow estimate released on March 3 now calls for a first-quarter GDP decline of 2.8%. As recently as February 19, GDPNow predicted growth of 2.3%. GDPNow is not the Atlanta Fed's official forecast; instead it is a reading that reflects economic data so far this quarter. The latest decline reflects numbers from the Census Bureau and the Institute for Supply Management that showed a reduction in construction spending and weaker-than-expected US manufacturing activity, respectively. The forecast now calls for first-quarter personal consumption expenditures growth to be flat, from a prior estimate of 1.3% and the estimate for real private fixed investment growth was down to 0.1% from 3.5%.

The CEO of a regional financial services company, one of our portfolio companies, recently stated at an investment conference that there is optimism amongst borrowers which has not yet translated into investment due to government policies, tariffs and geopolitics. He mentioned that, as is typical, Q1 got off to a seasonally slower start but he remains confident in achieving their loan growth target of 4-5% for 2025.

Notable Portfolio Developments

Brookfield Business Partners, 65.9% owned by Brookfield Corporation, is a global business services and industrial company focused on owning and operating high quality providers of essential products and services. Recent progress in raising debt for one of BBUs portfolio companies, Clarios, led to receipt of \$1.2 billion in distribution proceeds which crystalized a 1.5x multiple on its equity investment even while BBU continues to hold its full equity interest in the company. Since going public in 2016, BBU has generated over \$6 billion in proceeds from the sale of over 20 businesses, realizing a 3x multiple of invested capital and an IRR of approximately 30%¹. We believe in the sustainability of the investment returns as most of the returns have come through buying good businesses at reasonable prices, executing an operational improvement plan to increase cash flows and recycling capital to optimize returns.

Fidelity National Financial, one of the US's largest title insurance companies, has a 32% share of the US title insurance market. The US title insurance market is highly concentrated, with the top four players accounting for 80% of net premiums written and another 38 independent companies accounting for the remaining 20%. Most real estate transactions consummated in the US require the

¹ [Brookfield Q4 2024 Letter to Unitholders](#)

use of title insurance by a lending institution before the transaction can be completed. While home sales in 2024 were the lowest since 1995, the addition of 70 million people to the US population over last three decades is bullish for the long-term prospects of the title insurance industry. Also, the recent decrease in mortgage rates has been a tailwind for refinance activity. Through its 85% ownership stake, FNF also controls F&G Annuities and Life, a leading provider of insurance solutions with over \$40 billion in assets under management serving retail annuity and life customers and institutional clients. F&G is tapping into demographic tailwinds for growth by serving the demand for life insurance coverage along with the opportunity to migrate customers from CDs into fixed annuities².

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 or 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 2024³. We expect profit margins to improve reflecting higher margin work in the backlog won over the last few years.

Release of the 2024 Berkshire Hathaway Inc. (BRK) earnings and shareholder letter at the end of February was another opportunity to reflect upon how well the company continues to generate value for its long-term shareholders. Over the last 20 years, Berkshire Hathaway has compounded book value at a CAGR of 11%. **The Markel Group**, a holding within the Fund, is a similar business that includes an underlying insurance operation generating float that is invested into public securities as well as controlling stakes in businesses owned within Markel Ventures. Markel has also compounded book value at a 11% CAGR over the last two decades. Given its much smaller scale (US\$24 billion market cap vs US\$1 trillion for BRK), we believe there is a long runway of growth ahead for Markel. We believe the stock is cheap as it has lagged growth in its intrinsic value over the last five years, a discount that has also been noticed by an activist investor who recently increased their stake and has made strategic recommendations to bridge this discount. While the board is reviewing operations to simplify the corporate structure, optimize capital allocation and enhance disclosures, they also announced a new \$2 billion share buyback program that will be supportive for the stock⁴.

New Positions

We initiated a position in **Euronet Worldwide**, an industry leader in providing secure electronic financial transaction solutions. It operates one of the largest ATM networks in Europe and is the world's largest payment network for prepaid mobile top-up and the second largest global money transfer company. Since its founding 30 years ago, EEFT has compounded adjusted EPS at a 15% CAGR and we expect it to continue to grow adjusted earnings at mid-teens CAGR helped by the ongoing European travel recovery, ATM expansion in new markets like Mexico, increase in Money Transfer agent locations and growing partnerships in Epay (distributes content such as movies,

² [Fidelity National Financial, Inc.](#)

³ [Fluor Corporation - Fluor Reports Third Quarter 2024 Results](#)

⁴ [Markel Group 2024 Shareholder Letter](#)

music, credits and games from leading global brands to consumers through its network of physical and digital retailers / wallet partners)⁵.

We also initiated a position in **Monolithic Power Systems**, a global provider of high performance, semiconductor-based power electronics solutions. Formed in 1997, the company's core strengths of semiconductor design expertise, deep system-level knowledge and innovative proprietary semiconductor process and system integration technologies allow it to provide customers with reliable, compact monolithic solutions that offer highly energy efficient, cost-effective products. MPWR has a diversified business model with a 20-year track record of 20+% revenue CAGR driven by the enterprise data and auto end markets (together around 50% of sales). Its fabless business model allows it to focus its engineering and design resources on proprietary process and packaging technologies, reducing fixed costs and capital expenditure⁶.

Outlook

We remain cautious on the market and have maintained a higher-than-usual cash balance as we look for attractive long-term opportunities in which to deploy capital. We believe in our tried and tested investment framework - the companies we own typically have a strong balance sheet, attractive cash flow profile, proven management team and are in long-term growth industries that allow them to compound earnings over time.

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⁵ [Euronet - Fourth Quarter and Full Year 2024 Financial Results](https://www.penderfund.com/equity/)

⁶ [Monolithic Power Systems - Full Year 2024 and Q4'24 Earnings Commentary](https://www.penderfund.com/equity/)