

Manager's Commentary

Aman Budhwar, CFA

Highlights

- Molina Healthcare, Inc. (MOH) and Antero Resources Corporation (AR) were top contributors while DigitalBridge Group, Inc. (DBRG) was a top detractor to performance.
- Initiated new position in Mercury General Corporation (MCY) and The Cooper Companies, Inc. (COO).

The S&P MidCap 400 Index posted total returns of -5.47% for the month of March 2025, outperforming its large cap peer S&P 500 Index by 16 bps. The more domestic focused MidCap companies are expected to be less impacted by tariffs. However, they will not come away unscathed as the resulting softening in the US economy and higher inflation will impact growth and earnings outlook for these companies as well.

As a recap, on February 1, 2025 the US imposed 10% tariffs on imports from China. After a one month negotiated delay, on March 4, 25% tariffs were introduced on imports from Canada and Mexico with the exception of Canadian energy imports that were subject to 10% duties and import duties on China were increased to 20%. On March 6, tariffs were delayed on goods compliant with the United States-Mexico-Canada Agreement (USMCA) for a month and on April 2, the White House announced these exemptions will remain in place indefinitely. On March 12, 25% tariffs on all steel and aluminum imports were introduced.

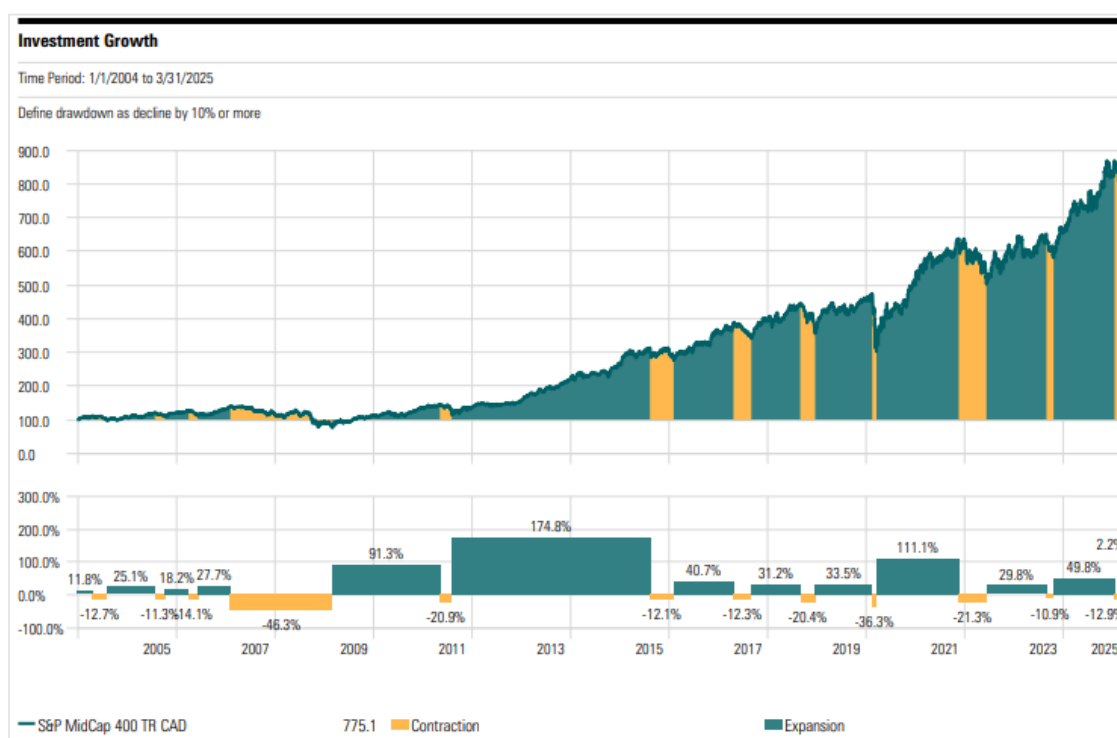
On April 2, reciprocal tariffs were introduced on "Liberation Day" with a baseline import tariff of 10% and country specific tariffs that were due to go into effect on April 9, but which have been commuted for 90 days with the exception of China.

Considering the uncertainty surrounding the Trump administration's trade policy, US manufacturing activity fell into contraction in March reflecting renewed concerns about cost pressures and demand. The Institute for Supply Management's purchasing managers' index of manufacturing activity fell from 50.3 in February to 49.0 in March. That was weaker than the 49.5 from a consensus of economists polled by The Wall Street Journal.

In a survey of economists conducted from March 21-26, Bloomberg reported that the chance of a recession had gone up to 30% from 25% in the prior survey according to 43 respondents.

We have maintained a higher-than-normal cash balance in the Fund and have also taken a more defensive stance in the portfolio. We expect to get more clarity around the outcome of trade negotiations and their impact on the economy over the coming weeks and we will deploy capital as opportunities arise.

Historically, double digit drawdowns have proven to be good entry points as outsized returns follow. According to a study done by Goldman Sachs, since 1980 buying the S&P 500 after a 10% drop has delivered gains in six months 86% of the time, outside of a recession.



Source: Morningstar

Notable Portfolio Developments

Molina Healthcare was a top contributor during the month. Molina is a leading pure-play government sponsored managed care franchise providing services under the Medicaid and Medicare programs as well as through state insurance marketplaces. As a low-cost service provider we believe that it has a very attractive business model with payments received from the government based on an actuarially sound per-member-per-month rate. The company reported 15% EPS CAGR over the last five years and has guided for EPS growth in the range of 13% to 15% over the period 2024-27. About 50% of the targeted growth from strategic initiatives and M&A over the next three years is already in flight through either acquisitions or contract wins that have closed¹. The stock came under pressure early in the year on talk of healthcare program cuts but has since recovered as the street has come around to the view that cuts to programs impacting a large section of the population is untenable.

Antero Resources was also a positive contributor. It is an independent natural gas and liquids company operating in the Appalachian Basin with the largest low-cost inventory (20+ years of sub \$2.75/Mcf inventory) amongst its peers. US natural gas demand is projected to grow by almost 30 Bcf/d by 2030 driven by growth in LNG exports (+19.6 Bcf/d), gas-fired electricity generation (+6.8 Bcf/d) and Mexico exports (+2.1 Bcf/d) on the 2024 base of 102.2 Bcf/d. With 75% of its natural gas production delivered to LNG markets, AR is well positioned to capture premium pricing (NYMEX+)².

Digitalbridge Group was a detractor during the month. It is a leading global alternative asset manager dedicated to investing in digital infrastructure including cell towers, data centers, fiber, small cells and edge infrastructure. They raised \$9 billion in new fee-paying capital in 2024, exceeding their \$7 billion target and guided fee related earnings to grow by 10-20% in 2025 and 20% CAGR to 2028³.

¹ [MOH Investor Day Presentation](#)

² [AR Investor Presentation](#)

³ [DBRG Earnings Presentation Q4 2024 – Feb 2025](#)

However, the market seems to have taken a dim view of the fund-raising environment given the ongoing drawdown and volatility in public markets.

Fluor Corporation (FLR) hosted its investor day on April 2, where management introduced its “grow and execute” strategy for the next three years with a focus on organic growth in target markets, continued financial discipline, pursuit of fair and balanced contract terms and high-performance culture of project delivery. Management provided EBITDA growth guidance of 10-15% CAGR to 2027 driven by \$90-\$100 billion in new award wins focused on the life sciences, semiconductors and data centers markets amongst others. They are committed to returning cash to shareholders with over 50% of operating cash flow expected to be directed towards equity holders⁴.

Dollar Tree, Inc. (DLTR) entered into a definite agreement to sell Family Dollar Store to private equity for a little over \$1 billion. We see this as a good deal as it will allow management to focus on the Dollar Tree banner and realize the full potential of the multi-price point initiative launched last year. Proceeds from the sale will help strengthen the balance sheet and will also be used to buy back shares at what we believe to be attractive prices. At a time of heightened economic uncertainty, DLTR offers value to consumers across the income spectrum and is guiding 3% to 5% same store sales growth in the next 12 months, the highest in the last four quarters⁵. However, there is heightened uncertainty as merchandise imports account for approximately 40% of total retail value purchases, and most imports are sourced from China which would be subject to tariffs.

New Positions

We initiated a position in **Cooper Companies**, a leading global medical device company with operations in two growing markets: CooperVision, a leader in the contact lens industry and CooperSurgical in women's healthcare and fertility. The global soft contact lens market is estimated at \$11 billion of which CooperVision has a 26% market share⁶. The industry has high barriers to entry due to stringent regulations, highly specialized manufacturing and technical know-how. We believe it is a durable business with growing population of wearers, recession resistant with limited reimbursement risk. Similarly, the surgical business has favorable characteristics with high single digit compounded growth and competitive advantage sustained through product innovation.

We also initiated a position in **Mercury General**, the leading independent agency writer of automobile and home insurance in California with a presence in a few other states. After a period of less than stellar returns made worse by heightened inflation in 2022-23 which saw several private players leave the market, the market has turned the corner following several rounds of rate increases approved by the California Department of Insurance. Wildfires in early 2025 will impact earnings but are unlikely to be a significant capital event as the losses in Q1 are expected to be recovered through underlying earnings through the rest of the year, leaving book value relatively stable to end the year⁷.

Outlook

We remain cautious on the market and have maintained a higher than usual cash balance as we look for attractive long-term opportunities 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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⁴ [FLR Strategy Update Presentation](#)

⁵ [DLTR Annual Report](#)

⁶ [COO - Investor Presentation – March 2025](#)

⁷ [MCY 2024 Annual Report](#)