

Manager's Commentary

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Highlights

- **DigitalBridge Group Inc. (DBRG)** and **Fluor Corporation (FLR)** were top contributors while **Fidelity National Financial Inc. (FNF)** was a top detractor to performance.
- Initiated a new position in **Modine Manufacturing Company (MOD)**

The S&P MidCap 400 Index posted total returns of 5.4% for the month of April 2025, underperforming its large cap peer, the S&P 500 Index, by 89bps. On a year-to-date basis, the Mid Cap Index with total returns of -3.26% has lagged the S&P 500 Index by 432bps creating an attractive investment opportunity in the mid cap space with a forward price to earnings multiple of 16.3x, a 5.8x turn discount to its larger cap peer. The operating cash flow yield for the Mid Cap Index is also attractive at 5% vs 3% for the large cap index.

Inflation data for the month of May allayed market fears that rising input costs due to tariffs would start showing up in monthly inflation data, especially for items like cars and clothing. Inflation rose slightly to 2.4% year-over-year, in line with expectations after April's four-year low. Prices excluding food and energy rose 2.8%, slightly below the anticipated 2.9% increase.

It is hard to predict how management teams will react to rising cost pressures due to tariffs, but in all likelihood we will see some price action from companies in the back half of the year. The muted inflation data so far may be attributed to a combination of weak demand causing companies to shy away from raising prices and / or the buildup of inventory in anticipation of tariff increases that is allowing companies to wait a little longer before raising prices.

We got some insights into this from **Dollar Tree Inc. (DLTR)**, a portfolio company that recently reported earnings for its first quarter ended May 3, 2025¹. While topline growth in the quarter was better than expected and guidance for same store sales for the second quarter was revised to the top end of their full year outlook range of 3% to 5%, management cited a \$70 million tariff impact in their fiscal second quarter which, coupled with other cost pressures, is expected to reduce earnings per share (EPS) by 45% to 50% in the quarter compared to last year.

In the back half of the year, management expects gross, unmitigated tariff impacts of another \$130 million. However, they believe actions taken are likely to reaccelerate earnings growth such that they expect to be on track to reach their full year earnings target. Management cited five levers they expect to use to offset the tariff impact including price, negotiating with suppliers, changing product specifications, moving country of origin and dropping noneconomic items.

We believe Dollar Tree offers tremendous value at a time when consumers are watching their pocketbook closely. The average unit retail price at its stores is only \$1.35 and 85% of items are priced at <\$2. In its most recent quarter, it gained 2.6 million new customers with

¹ [Dollar Tree, Inc. Reports Results for the First Quarter Fiscal 2025 – June 4, 2025](#)

>50% from high income households (household income of >\$100,000) as consumers across the income spectrum search for value.

Notable portfolio developments

- **DigitalBridge** was a top contributor during the month. DigitalBridge is a leading global alternative asset manager dedicated to investing in digital infrastructure including cell towers, data centers, fiber, small cells and edge infrastructure. The stock gained on reports of a takeover bid from private equity. While the takeover bid never formally materialised, the bounce in the stock that has largely been maintained shows the deep discount it is trading at, considering the opportunity it has to grow the business as the AI driven growth in digital infrastructure continues to gather pace. In the quarter ended March 2025, DigitalBridge grew fee earning equity under management to \$37.3 billion, +15% YoY and is on track to hit its yearend target of \$40 billion in assets and 10-15% growth in fee related earnings (+79% YoY in Q12025)².
- After a period of recent underperformance due to macro uncertainty, **Fluor** shares staged a sharp rebound on the back of President Trump's recent executive order to revitalize the US nuclear energy sector³. The order aims to quadruple US nuclear electricity production over 25 years from 100GW to 400GW, including 10 new reactors by 2030, by accelerating licensing and regulatory reforms, strengthening the nuclear fuel supply chain and workforce development and industry support. This is particularly positive for NuScale Power Corporation (SMR), majority owned by Fluor, that is the first and only company thus far to have received design approval from the US Nuclear Regulatory Commission (NRC) for its small modular reactor. NuScale's stock has doubled over the past month and Fluor's ownership stake (126.4 million shares) is now worth \$4.5 billion or almost 80% of Fluor's enterprise value. Fluor management has been in negotiations to monetize its stake in NuScale Power which we believe will unlock substantial value for Fluor shareholders and will be a catalyst for the stock. Fluor already has over \$2 billion in cash on its balance sheet and recently doubled its 2025 share repurchase target to \$600 million as it plans to return over 50% of operating cash flow to shareholders over its four-year planning cycle⁴.
- **Fidelity National Financial** was the biggest detractor during the month as it came under pressure due to underwhelming earnings for the first quarter. FNF is a leading provider of title insurance and transaction services to the real estate and mortgage industries and owns an approximately 82% stake in F&G Annuities and Life Inc (FG), a leading provider of insurance solutions. Most of the weakness in the quarter was in F&G Annuities, due to what are expected to be short-term cyclical issues such as the pullback in sales of fixed rate annuities in response to changing market conditions and growth investments by one of F&G's distribution companies⁵. Longer term, we see structurally favorable tailwinds for its retail fixed annuity products as US consumers are holding nearly \$3 trillion in money market fund assets, some of which will find their way into fixed annuities once money market rates start to decline.

² [DigitalBridge Earning Presentation 1Q 2025, May 1, 2025](#)

³ [World Nuclear News – May 24, 2025 - Trump sets out aim to quadruple US nuclear capacity](#)

⁴ [Fluor Investor Presentation, May 2025](#)

⁵ [F&G Investor Update – Spring 2025](#)



New position

We initiated a position in **Modine Manufacturing**, a provider of thermal management systems addressing its customers' most challenging heating, cooling and ventilation needs. It has increased its exposure to high growth data center cooling and commercial indoor air quality business (together 27% of revenue) through both organic and inorganic growth over the last few years. Over the last few years we believe the management team under CEO Neil Brinker has demonstrated good execution aligned with shareholder value creation and prudent capital allocation by, for example, non-core divestitures, opportunistic buybacks, redeploying capital into faster growing / more profitable product lines like data center cooling and indoor air quality. As a former Danaher executive, Neil has instituted the 80/20 operating discipline (80% of outcomes from 20% of inputs) that has already helped improve margins and drive growth at Modine. They are looking to divest some non-core commodity type businesses to further sharpen their focus on differentiated products where they can command a premium⁶.

Outlook

We remain cautious on the market as we look for more clarity around tariff policy 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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⁶ [Modine Investor Presentation](#)

