

Manager's Commentary

Aman Budhwar, CFA

Highlights

- **Jabil Inc. (JBL)** and **Fluor Corporation (FLR)** were top contributors while Euronet Worldwide Inc. (EFT) was top detractor to performance in the month of June.
- Initiated a new position in **Deckers Outdoor Corporation (DECK)**

The S&P MidCap 400 Index posted total returns of 3.6% for the month of June 2025, underperforming its large cap peer, the S&P 500 Index, by 151bps. On a year-to-date basis, the MidCap Index, with total returns of 0.2%, has lagged the S&P 500 Index by 600bps, creating an attractive investment opportunity in the mid cap space, with a forward price to earnings multiple of 16.3x, a 6.2x turn discount to its larger cap peer. The operating cash flow yield for the MidCap index is also attractive at 5% vs 3% for the large cap index.

With the first six months of the year behind us, the S&P MidCap 400 Total Return Index has done precious little with total returns, barely managing to stay positive. But this does not tell the story of the two halves: the index hit its high for the year on January 21, 2025, the day after inauguration of the new Administration and with talk of reciprocal tariffs dominating news headlines over the following months, the market took a dive losing over 20% to hit a low on April 8, a few days after the Liberation Day tariffs were announced. Since then, the market has recovered as tariffs for most countries were paused for 90 days and expectations built that bilateral deals would emerge reducing the net impact. The tariff pause has been extended to August 1 and a deal with Vietnam for 20% baseline tariffs was reached.

We have built a sector-agnostic portfolio of 27 businesses that we believe are well positioned to weather the challenges posed by the uncertain tariff environment¹. These are a mix of businesses that have relatively lower potential to be

S&P Mid-Cap 400 Index by Sector	Weight % (June 30, 2025)		Q2 2025 Total Return
	Index	PUSMF	
Industrials	22.8%	21.4%	13.3%
Financials	18.3%	21.6%	4.6%
Consumer Discretionary	13.2%	7.8%	7.2%
Information Technology	11.7%	19.4%	15.6%
Health Care	8.6%	11.2%	0.5%
Real Estate	6.8%	0	-2.1%
Materials	5.4%	4.6%	4.3%
Consumer Staples	5.4%	8.4%	7.5%
Energy	3.7%	3.1%	-1.9%
Utilities	2.9%	0	-0.1%
Communication Services	1.2%	0	3.3%

Source: Bloomberg

impacted by tariffs and have sustainable competitive advantages that give them the ability to largely pass along the impact to their suppliers and/or customers.

¹ Source: Pender

Notable portfolio developments

- **Genpact Limited (G)**, one of our portfolio holdings, held its 2025 investor day in June. Management unveiled their Genpact Next strategy focused on becoming an AI-first, data-led company, leveraging its intimate knowledge of client business processes to establish itself as a global leader in Advanced Technology Solutions². The key takeaway in our view was how entrenched Genpact is in its customer processes which should drive new contract wins and contract renewal and/or expansion with existing customers. In deals signed through May 31, 2025 with clients rotating to their agentic solutions from full-time equivalent pricing, they have seen 3% revenue growth, net of productivity commitments and a 300-bps gross margin improvement. For 2025, management is confident of coming in at the high end of the previous 2-5% revenue growth guidance as they are trending at/above the high end of Q2 revenue expectations. Medium-term (the next two years) targets call for at least +7% annual revenue growth driven by +4-5% core business service growth and 15%+ from advanced tech solutions. Also, management expects +25 bps per annum operating income margin expansion and double-digit earnings per share (EPS) growth through 2027. Capital allocation priorities include returning 50% of free cash flow to shareholders through share repurchases / dividends with flexibility for strategic investments and M&A to accelerate time to market by advancing data and AI capabilities.
- **Jabil** was a top contributor during the month. Results for the quarter ended May 31 were better than expected on the back of growth across key end markets such as cloud, data center infrastructure and capital equipment. Artificial Intelligence related revenue is expected to increase 50% YoY to \$8.5 billion for the fiscal year ending August 2025. Jabil is opening a new site in South Eastern America to fulfil demand at an investment of \$500 million over several years. Jabil sees a path to 6% core operating profit margins (vs 5.4% expected for fiscal year 2025) with 20bps improvement from better capacity utilization (vs 75% today), 20 bps from expense leverage as they continue to grow while holding corporate costs relatively flat and 20bps from improvement in business mix³.
- **Fluor** was also a top performer in the month as shares continue to stage a rebound on the back of President Trump's recent executive order to revitalize the US nuclear energy sector⁴. 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 \$4.7 billion or almost 80% of Fluor's enterprise value⁵.
- **Euronet** was the biggest detractor during the month as shares came under pressure on reports of impact on travel demand and cross border remittances from recent policies of

² [Genpact Investor Day Presentation](#)

³ [Jabil Posts Third Quarter Results](#)

⁴ [WNN - Trump sets out aim to quadruple US nuclear capacity – May 24 2025](#)

⁵ [Fluor Investor Presentation – May 2025](#)

the US Administration. However, following conversations with management, we remain constructive on the stock and recent data points suggests travel from US to European destinations remains strong⁶.

New position

- We initiated a position in Deckers, a high return on capital business with strong balance sheet and cash flow generation. While FY2025 (March year end) was an unusually strong year with historically high gross margins that are unlikely to be repeated, we believe the stock has overreacted to some near-term challenges (down around 50% YTD) - higher freight costs, promotional activity on discontinued brands, slowdown in Direct-to-Consumer sales due to new product introductions that have led consumers to buy instore and slower new consumer acquisition due to uncertain macro factors. Deckers imports most of its footwear from Southeast Asia, primarily Vietnam, and we recently got news of a deal with Vietnam that will see the reinstatement of tariffs from the previously scheduled 46% to 20% (vs 10% baseline tariff during the tariff pause) on goods coming directly into the US and a 40% tariff on any Transshipments. For FY26, we believe Deckers can mitigate the impact of short-term headwinds through share buybacks and some projected topline growth. On a medium to long term basis, we believe both its largest brands, UGG and HOKA, have strong brand recognition and a large Total Addressable Market to expand into. The stock is currently trading at 17.0x FY26 projected EPS, in line with its last 10-year average (well below the last 3-years) and we see upside as the company continues to compound earnings and uses cash flow to buy back stock⁷.

Outlook

Since the inauguration of the new administration, Markets have been reacting to news on tariffs with an intensity that has declined as time has passed. Some participants have coined the term TACO or Trump Always Chickens Out in response to market gyrations. The pause in tariffs was recently extended to August 1st and, as a result, news on tariffs is expected to continue to command the interest of markets until some certainty emerges. This uncertainty was also reflected in minutes released recently from the June 17-18 Fed Meeting that showed a growing divide over how policy should proceed from here. Most participants assessed the need for some reduction in the target range for the federal funds rate this year, but how far the cuts should go is a matter of debate.

We are cognizant of the macro environment and include potential impacts into our bottom-up company valuation framework. As always, we prefer companies with pricing power and sustainable competitive advantages that protects margins in what is expected to be a rising cost environment. Several of our portfolio companies are in fact likely to benefit as their customers look to source materials locally, and in a few other cases, are known to offer value for money / brand recognition that consumers are increasingly gravitating towards in the current environment.

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⁶ [Euronet First Quarter 2025 Financial Results](#)
/ [Deckers Company Overview](#)

