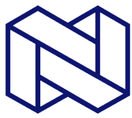

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INVESTMENTS

Active Insights Podcast – "We approach each investment with a degree of due diligence as if we were to buy these companies outright with our own capital."

Diane Merritt:

Welcome to North Square Investments Active Insights podcast. North Square Investments is dedicated to bringing differentiated active investment strategies to financial advisors and investors through our multi-boutique asset management platform.

Today, Mark Goodwin, Chief Executive Officer of North Square Investments, will discuss international equities and building high-conviction equity portfolios with John Hock, Chief Investment Officer with Altrinsic Global Advisors. Altrinsic is a partner firm in the North Square platform, and subadvisor to North Square Altrinsic International Equity Fund.

Mark and John, we look forward to your discussion.

Mark Goodwin:

Thanks. As you mentioned, at North Square, we seek out best-in-class active managers for our platform, and our partners at Altrinsic have a history of success with their fundamental approach to equity investing across global markets.

John, Altrinsic has managed equity portfolios for over 20 years with a consistent investment approach that is research-intensive with a focus on stock selection. What characteristics are most important to you as you evaluate a stock to ultimately become a position in your equity portfolio?

John Hock:

Mark, well, we approach each investment with a degree of due diligence as if we were to buy these companies outright with our own capital. So this essentially boils down to evaluating two things. First, the quality of the business and then secondly, the price paid or the valuation.

So the key characteristics that go into evaluating quality include many things, but you can boil them down to measures of financial productivity or what one might call return on equity or return on invested capital. Then you probe into the durability of the fundamental or strategic inputs into these measures. Think of the moats around the business, the competitive advantages, the management quality of their capital allocation. So those all feed into the quality of the business.

And then secondly, the second factor is valuation and a multitude of valuation measures. We've been in an environment in recent years where valuation doesn't seem to have mattered given all the liquidity and stimulus and falling interest rates, but that always changes and it appears to have been changing recently. So that plays an important role in the "margin of safety" as well. So we look to buy companies at

meaningful discounts to their underlying worth or their intrinsic value with great consideration to those range of outcomes, the upside if we’re right and the downside if we're wrong.

Mark Goodwin:

Thanks, John. The U.S. Federal Reserve has begun easing interest rates as the U.S. economy has slowed. Globally, economic growth has some challenges. We also have significant geopolitical tensions in Europe, the Middle East, and Asia. What is the current position of the various international economies given some of these challenges?

John Hock:

Mark, we don't claim to have any particular macro crystal economic ball, and we don't think anybody does. However, we have found a few observations that might be helpful to the audience. First is that the greatest company-specific investment opportunities typically occur when the macro environment or the headlines on the newspaper actually there's greater uncertainty. Certainly better opportunities than when there's complacency or universal optimism around the headlines. So with that in mind, I'd share a few observations where we think conditions aren't properly reflected in the markets and in the media.

First in Japan. Tremendous opportunity with the increased focus on shareholder value that you see each day or each week. Certainly you're seeing the increase in activists in Japan and private equity in Japan, and this overall improvement and focus on returns on equity is a very meaningful, significant change. You're seeing overall improvements in capital allocation, but from a very low base.

But broadly speaking, in Japan, in terms of central bank policy, they're actually at the opposite end of the continuum as we are in the U.S. having gone through decades of deflation. But in Japan, what you have is a situation where company stocks are cheap, the currency is cheap, Yen is quite undervalued relative to its normal purchasing power parity, and the macro environment is evolving.

Europe, the macro environment's much more murky and the policy situation's a bit different than the US. Most of our investments domiciled there have global businesses in nature. They just happen to have their headquarters there for possibly tax purposes or for other reasons. But we have increasingly added into certain domestic companies which have been getting beaten up in light of the macro uncertainty.

So a couple things to bear in mind too that the media is not properly capturing in Europe. Here in the U.S., we've had this big boom in consumption and the consumer stimulus was massive in the United States. Then the U.S. consumer dipped into savings. But now savings have been largely depleted and actually you've seen just today --Target the stock get pummeled—is this has worked its way through the system. Europe's a bit different. They didn't have the same enormous stimulus, so they're not having to deal with the same hangover that we are beginning to in the U.S. relating to that stimulus. And there the European savers have much more savings. They've not depleted their savings. So just a little bit different.

Now, the macro environment is one where growth should be slower in Europe, but the embedded expectations are much slower. And as you think through how this geopolitical landscape evolves, you could almost envision a scenario where if you finally do get some peace in the Ukraine and the gas were to flow from Russia again into Germany. Because remember Germany, a big economy, the largest in

Europe, but Germany's been suffering because of one, they became overly dependent upon exports to Asia, China specifically, and notably dependent upon cheap gas from Russia, which doesn't exist anymore.

So I'd say that I'd characterize the European situation as one of the gloom is a bit excessive considering the facts and there's room for some positive surprises there at the economic level. But aside from the economic, the company-specific opportunity is very compelling.

And then thirdly and lastly in the emerging markets, we just see... I guess as we hear around the world from macroeconomic environment and from a company-specific environment, we like what we're seeing in Latin America, South Korea, and then China, which is capturing a lot of headlines. We have made two investments in China, which we think have very significant upside considering the associated risks with them.

Mark Goodwin:

That's great perspective, John. With regard to equity markets, the US has outperformed for several years, more recently as a result of a narrow group of stocks. Has this situation created disparities in valuations between the U.S. and various international equity markets?

John Hock:

Yes, very much so. But to be fair, the international markets have historically been cheaper than the U.S., partially for reasons of sectoral composition, meaning in the U.S. you have much more technology companies that tend to trade at higher multiples versus say Europe, where you might have more banks or financials or other types of businesses. However, if you pierce through that and sector adjust multiples, the valuation in Europe is at a level that's not been seen since the global financial crisis. So the discount of European companies on average to their U.S. peers is the greatest since the global financial crisis. Amplified in certain sectors more so than others, but it's perhaps not surprising given this embedded environment of U.S. exceptionalism that's manifesting itself in really those narrow group of stocks that you alluded to, Mark.

Mark Goodwin:

Thanks, John. Can you also discuss your general outlook for international equity markets for the rest of 2024 as well as the longer-term view? And also comment as to whether you've made any changes to your investment strategy or positioning following the US presidential election.

John Hock:

Right. So 2024, we're pretty much to the ends of it, so I don't have much to add on 2024, and we try not to make market views. However, share a couple thoughts. One is a lot of, particularly in the U.S. and much less so internationally, but generally globally, a lot of future growth has been pulled forward because of these stimulus measures and low rates. So a lot of future economic growth, earnings growth. I think stock market appreciation has already been experienced because of this. So it's pretty consistent for probably expected degree of digestion or maybe. And many areas like some of the more popular, crowded, expensive areas, companies' earnings have to catch up to their valuations. So slight digression, Mark,

much of what you've seen this year in markets around the world has been a function of multiples expanding, P/E[1] multiples expanding rather than the earnings growth driving those investments.

So point one is that a bunch of growth and market performance has already pulled forward, but given the embedded expectations, very low expectations for earnings and outlooks in international versus very high expectations in the US. It seems the proposition as we see it is much more compelling internationally versus the US. Then if you look across asset classes and across even private markets, the opportunity in public markets seems much more compelling than what you see in private markets considering the quality of assets on offer and the price you have to pay to acquire those assets and the growth and yield that you can get from them as well.

Mark Goodwin:

And with respect to the presidential election, the pending potential tariffs, does that give you pause and as you consider certain sectors or regions for investing?

John Hock:

Well, a lot's got to be ironed out there. But the short answer is it depends. And any industry that is perceived to have been exposed to that has been beaten up pretty harshly in the last week or two and even leading up to the election. But when you think of tariffs, it really depends upon the magnitude of it and the details. 10% tariff, not that big a deal. 60% tariff, very big deal. So what are the implications? It could be in many different areas, but specifically it affects the terms of trade. So there's been a lot of analysis done that shows, say a 10% tariff, broad-based and in a certain country would typically lead to that other country maybe experiencing maybe a 5, 6% erosion of the value of their currency versus the U.S. dollar.

So the point is things adjust and what we don't know is we impose tariffs, what are they going to do to us? They're not going to stand still. If they do, maybe they just get a currency adjustment or they might embark on other measures. But think of it as really perhaps tariffs escalate and if others pursue them around the world, the likely result is a slowdown in activity or slowdown in volume or slowdown in economic growth coupled with higher rates or higher inflation than might otherwise be the case.

And that's the other thing that I should have mentioned earlier Mark, is right now a lot of people are talking about the Fed and central bank policies and that's important, but the more important interest rate that people should be focused on are the two, five and 10-year rates because that's really where companies cost of capital is derived from, those longer-term rates. And those are influenced by other measures that contribute to the overall level of inflation. But that's a whole other can of worms. We can try to unpack if you want or we can save that for another time.

Mark Goodwin:

No, that's great perspective, John. Are there particular sectors of the equity market or regions of the world where you are finding the best opportunities for investors on a medium to longer-term horizon?

John Hock:

So regionally, we have a very healthy pipeline in the major corridors of the world, in Europe, Japan, and then perhaps more at a faster pace in some of the developing markets, most specifically in Latin America. And then South Korea would be another source of opportunity where there's a lot of reform, a lot of restructuring taking place and very attractive valuation.

So regionally, pretty broad-based. And Mark even in the major markets, including the US, if you pierce beneath those large market cap constituents that populate the major indices, beneath that there's a lot of value. The excesses are pretty confined to certain areas and that's why in many regions like equal-weighted indices are much more attractively value-compelling than the broad standard indices.

Sectorially, the sector where we find the most compelling company-specific opportunities are in the financials. We have about 36% of the North Square International Equity portfolio in financial companies, generally, you can bucket our positions in pretty heavily concentrated ones in areas of non-life insurance, think global businesses in that space, areas of insurance brokerage. We've recently been adding into European banks for the first time in a very long time, but we have a good position in a Japanese bank, Sumitomo Mitsui Trust, and then a cluster of emerging market banks, primarily in South Korea, a little bit in India, and then in South America. And then positions in a number of sectors as well. But for the sake of brevity, I'd probably highlight those points.

Mark Goodwin:

John, as we mentioned earlier, you sub-advised the North Square Alternative International Equity Fund, ticker NSIVX. What is the current positioning for the NSIVX portfolio beyond what you just shared, perhaps from a sector allocation or regional tilts? Anything else you'd like to add there?

John Hock:

Yeah, just to give you some more specific numbers. Total exposure in Europe ex-UK is about 46%, in Japan 14%, UK 11%, and then the faster-growing developing markets, around 15%. So pretty diversified by a regional perspective. I mentioned financials around 36%, but within that are really companies that we would be happy to buy outright with our own capital if we could. We have approximately 66 investments. Important statistics for your audience would be the overall risk. The embedded risk in the portfolio as measured by say, Beta[2] is a byproduct of the characteristics of the companies is around in the low 70s, so way below market risk.

The underlying drivers of our investments generally have little to do with the broad economy, so there's a lot of idiosyncratic drivers behind them. And the risk to us in a relative standpoint would be as if you were to see profound narrow leadership in some of the more highly priced go-go growthy, crowded areas, which is possible, but we don't think it's likely. Even in that case, we think we should be able to do well absolute.

But we like the fact, Mark, that our positioning is very different than the benchmarks, it's very company-specific, and it's in companies that we think have drivers that are unique to them and of levers that the talented management teams can execute on to boost the returns on equity per share, improve the quality of the business, and get the re-rating in the stocks. And if the stocks don't get re-rated, you're going to

see more and more M&A (merger and acquisition) activity and consolidation in these areas, given the quality of businesses, the cash flow they generated, and the quality balance sheets.

Mark Goodwin:

As you're constructing the portfolio, how do you balance your return goals with a consideration for risk management, either in the sense of position sizing or limits on sector exposure or anything else you'd like to add?

John Hock:

Yes. Through a mosaic lens at the company-specific level, with each company we focus on determining the core intrinsic value with great consideration to the bull and bear scenario. If we're wrong, what is the pain? That's an exercise that a lot of investors don't put enough attention into. Secondly, the balance sheet and capital structure, very important consideration.

More relevant to your question, at the portfolio level, we have guidelines around the sectoral and regional level specifically. We won't be less than .5 or 15 percentage points greater than an overall industry exposure. So that seeks to reduce the risk that unintended sectoral exposures don't overwhelm what we're trying to accomplish at the company-specific level. And then on top of that, there's a multitude of other internal and third-party risk tools that seek to identify unintended risk factors.

But that's the goal, Mark, is to compound value, deliver a better client experience than someone could get by buying an index, and really value that “margin of safety” in companies so that when tough times come, the experience is materially better than what you get in the broad market.

Mark Goodwin:

Thank you, John. US investors are typically under-invested in international securities. How do you see an actively managed, high-conviction international equity strategy like NSIVX being best positioned in the diversified[3] portfolio of an investor, and what are the key benefits?

John Hock:

So I guess the three key points there, Mark. One is that, as you said, it should be part of an overall program. Nobody should have all their eggs in one basket, including just the international basket, despite the conviction that we have. Secondly is diversification benefits. Very timely and amplified given where we are considering where the extent to which overseas assets and overseas currencies are versus the US. If any of your customers, your partners vacation in Japan or Europe or Latin America in last years, this is very much on display.

And then thirdly, if you listen to the media, you'd almost get the sense that all you should own are U.S. growth stocks or private markets. They've been very popular and very crowded. But if you consider the quality of underlying assets on offer in the public markets, the valuations that exist in public markets versus those where transactions are in private markets and the liquidity, I mean, the liquidity that you can get in U.S. and international companies right now, we see the opportunity in international markets as compelling as we've seen in our entire careers. So a lot of scope for value-add to come from not just us, but I think other active investors in international. So I chalk it up to really just being part of overall program

diversification benefits than just the raw upside considering the downside risk that exist in international companies and the associated currencies.

Mark Goodwin:

John, thank you for joining me today. This has been a great discussion.

John Hock:

Thank you, Mark.

Diane Merritt:

Thank you for tuning in to our North Square Active Insights podcast.

For more information on North Square Investments, our partners and investment solutions, please visit our website at www.northsquareinvest.com. Nothing contained in this communication constitutes tax, legal, or investment advice. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation. This podcast contains certain statements that may include forward-looking statements. Although Altrinsic Global Advisors believes that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks, and uncertainties, and these expectations may prove to be incorrect. Actual events could differ materially from those anticipated in these forward-looking statements. As a result of a variety of factors, you should not place undue reliance on these forward-looking statements. This podcast reflects Altrinsic's views and opinions as of the date herein, which are subject to change without notice at any time based on market and other conditions. We disclaim any responsibility to update these views. These views should not be relied on as investment advice or an indication of trading intention.

Principal Risks of Investing, Altrinsic International Equity Fund: Risk is inherent in all investing including an investment in the Fund. An investment in the Fund involves certain principal risks, including, among others: Equity Risk, Large-Cap Company Risk, Market Risk, Foreign Investment Risk, Emerging Market Risk, Currency Risk, and Management and Strategy Risk. Summary descriptions of these and other principal risks of investing in the Fund are set forth in the Fund's prospectus. Before you decide whether to invest in the Fund, carefully consider these risks associated with investing in the Fund, which may cause investors to lose money. There can be no assurance that the Fund will achieve its investment objective. An investment in the Fund is not a deposit of the bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Please see the Fund's prospectus for additional risk disclosures.

[1]**Price-to-Earnings (P/E) Ratio:** The price-to-earnings (P/E) ratio measures a company's share price relative to its earnings per share (EPS). Often called the price or earnings multiple, the P/E ratio helps assess the relative value of a company's stock. The P/E ratio is used for comparing a company's valuation against its historical performance, against other firms within its industry, or the overall market.

[2]Market risk can be measured by **Beta**. Beta is a measure of the volatility, or systematic risk, of a security or portfolio when compared to the market as a whole. A beta of 1 implies that you can expect the

movement of a manager's return series to match that of the benchmark used to measure beta. This statement means that Altrinsic Global Advisors have demonstrated below market Beta, or lower exposure to market risk than the MSCI EAFE Index, an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the US and Canada.

[3]Diversification does not guarantee profit or protect against a loss in a declining market.

North Square Altrinsic International Equity Fund Sector and Region Weights as of September 30, 2024

SECTOR WEIGHTS (%)

	Altrinsic International	MSCI EAFE
Financials	34.37%	20.86%
Consumer Staples	15.83%	8.76%
Consumer Discretionary	11.01%	10.58%
Health Care	10.17%	13.32%
Industrials	8.36%	17.79%
Information Technology	4.76%	8.21%
Cash	3.83%	0.00%
Materials	3.79%	6.74%
Communication Services	3.11%	4.64%
Energy	3.04%	3.60%
Real Estate	1.75%	2.08%
Utilities	0.00%	3.40%

REGION WEIGHTS (%)

	Altrinsic International	MSCI EAFE
Europe Ex-UK	46.06%	51.43%
Other	19.45%	3.55%
Japan	13.49%	22.34%
UK	11.21%	14.75%
Americas	5.96%	0.00%
Austr/NZ	0.00%	7.93%

The Portfolio is actively managed and current holdings and characteristics may be different. The holdings listed should not be considered recommendations to buy or sell any particular security listed. The holdings identified do not represent all of the securities purchased or sold. Actual portfolio investments may vary when actually invested. A complete list of holdings is available upon request.

Before investing you should carefully consider the Fund's investment objectives, risks, charges and expenses. This and other information is in the prospectus, a copy of which may be obtained by calling 855-551-5521. Please read the prospectus carefully before you invest. Distributed by Compass Distributors, LLC.

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