LYRICAL
ASSET MANAGEMENT

# International Strategy Update: Assessing Tariff Risk and Resilience

We're pleased to report that our International portfolio delivered a strong return of 9.0% in the first quarter. This performance outpaced the MSCI EAFE index by 210 bps and beat the MSCI EAFE Equal Weighted index by 280 bps. While we trailed our value style benchmark by 260 bps, we are encouraged by the absolute return and the meaningful outperformance versus broad and equal-weighted international benchmarks.

The broader market story this quarter was the remarkable strength of markets outside the U.S. While the S&P 500 declined 4.3%, the MSCI EAFE index rose 6.9%, an 11.2 percentage point difference and the widest quarterly spread between the two since Q2 of 2002, nearly 23 years ago.

Non-U.S. markets have been shunned and with reason, given the dominating performance of the S&P 500 over the past 15 years. But in the wake of investors passing over stocks outside the U.S., we've found plenty of opportunities. Heading into this year, we had 14 high-quality businesses trading for less than 10x forward earnings and the overall portfolio traded at a P/E of just 10.4x. In the first quarter, we benefited from this extreme valuation potential, and we believe there is substantially more remaining.

Traditionally, our investment commentary is focused on explaining the reported quarter's developments and not what's transpired in the first week or two of the subsequent quarter. However, given the market environment that followed President Trump's tariff announcement on April 2nd, we're going to walk through how our portfolio is situated. In short, we believe we're well positioned – both for potential tariff impacts and economic weakness.

## THE NON-U.S. OPPORTUNITY

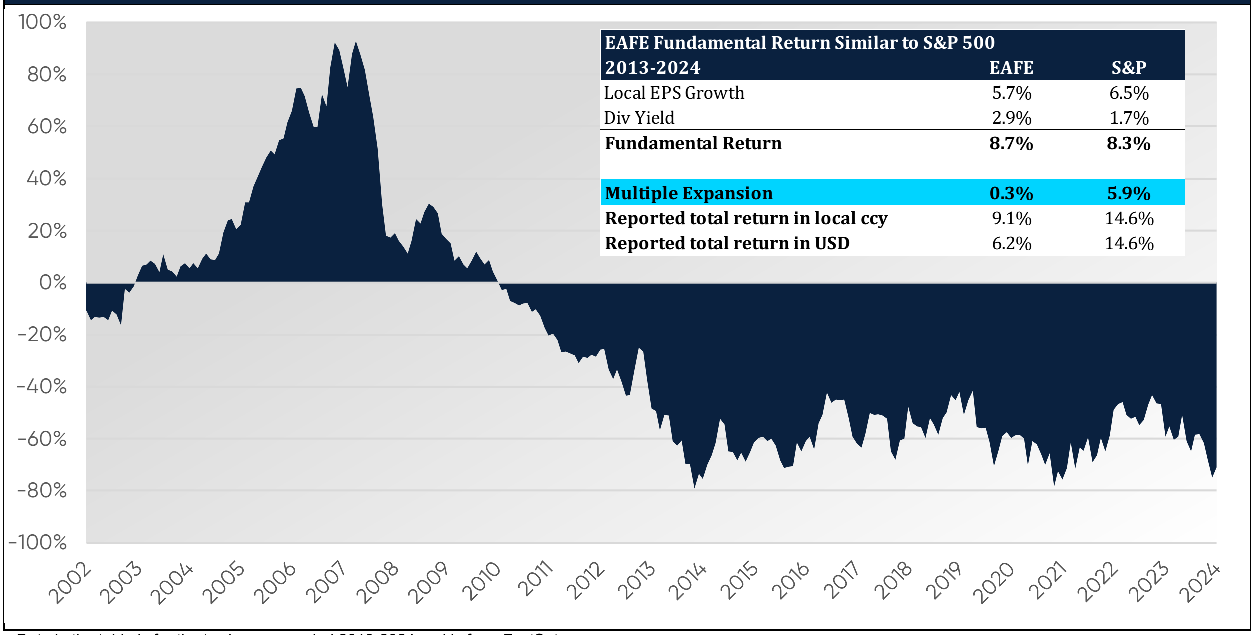
Before we dive deeper into how we are positioned for tariffs and economic sensitivity, let's take a closer look at the opportunity ahead.

While year-to-date performance has bucked the trend, international stocks have been massive underperformers over the past decade. Even though historical underperformance has caused many investors to reduce their non-U.S. exposure, we see it as a massive opportunity. The reason we are optimistic is because international markets underperformance has been driven by valuation, not fundamentals. U.S. companies have not been growing faster; they've been getting more expensive. This creates an enormous opportunity to own international stocks with similar fundamentals to the U.S., at a much cheaper price.

The total return of an investment can be broken down into two components: the return from fundamentals and the return from valuation. The fundamental return comes from a company growing its earnings and paying out some of those earnings in dividends. As you can see in the top right of the table below, over the past decade the international market has delivered a fundamental return of 8.7% per year, which is better than the 8.3% for the S&P 500.

If the companies outside the U.S. have been slightly better fundamentally than their U.S. counterparts, how can we explain this huge outperformance of U.S. stocks? As shown in the blue highlight below, the U.S. outperformance has been driven by companies getting more expensive. Over this period, S&P 500 multiple expansion has added nearly 600 bps per year to performance, while the MSCI EAFE multiple has been about flat. And, on top of that, foreign currency has been a headwind for U.S. based investors allocating overseas, contributing an additional 300+ bps headwind to returns.

## U.S. Outperformance Drive by Multiple Expansion, Not Fundamentals




| EAFE Fundamental Return Similar to S&P 500 2013-2024 | EAFE | S&P |
|---|---|---|
| Local EPS Growth | 5.7% | 6.5% |
| Div Yield | 2.9% | 1.7% |
| **Fundamental Return** | **8.7%** | **8.3%** |
| | | |
| **Multiple Expansion** | **0.3%** | **5.9%** |
| **Reported total return in local ccy** | 9.1% | 14.6% |
| **Reported total return in USD** | 6.2% | 14.6% |

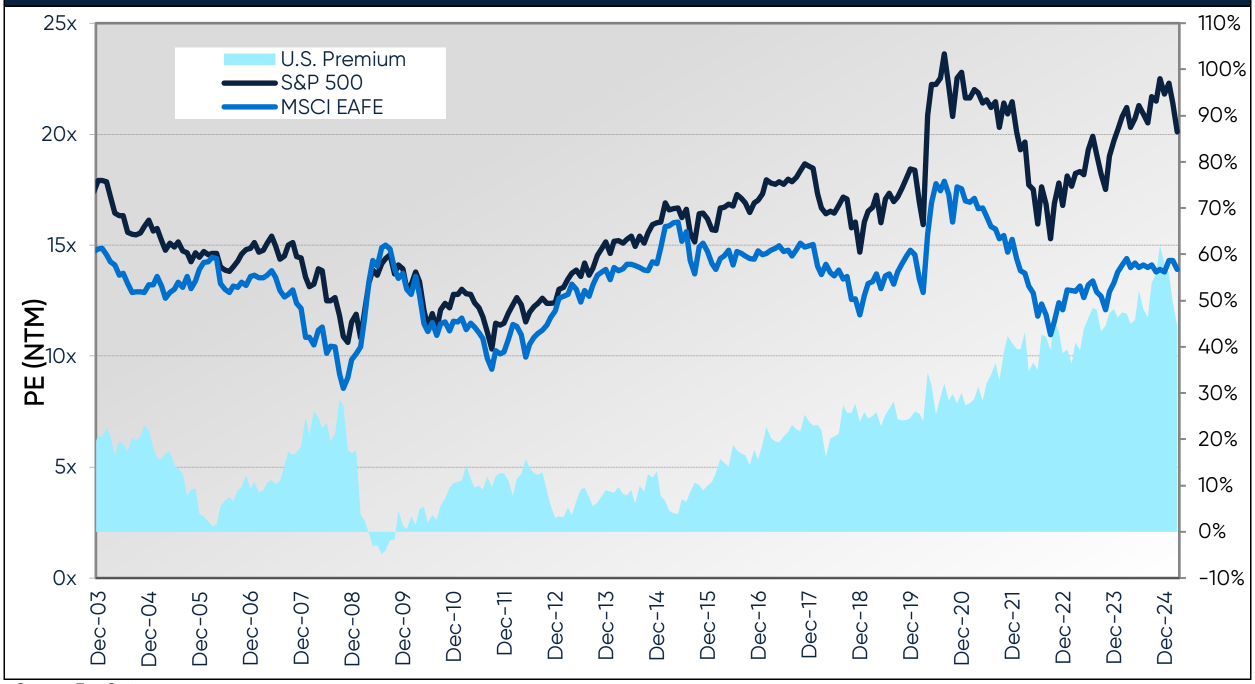
Data in the table is for the twelve-year period 2013-2024 and is from FactSet

Because U.S. stocks have appreciated much more than international stocks despite similar fundamentals, the valuation spread between the two markets expanded to an extreme level. The figure below shows the P/E multiple for the S&P 500 in the black line and the EAFE in the blue line. The bars at the bottom show the spread, or how much more expensive the S&P 500 is relative to the EAFE.

As of quarter-end, the EAFE is trading for less than 14x earnings, in-line with its long-term average. On the other hand, the S&P 500 looks expensive, trading 25% above its long-term average multiple. The bars at the bottom show that the S&P 500 is about 45% more expensive today than the EAFE, the widest premium we've seen dating back to 2003. This comes despite fundamentals for the EAFE being equally attractive.

To be clear, we are not making a macro call on current events here. We are simply showing that non-U.S. stocks have historically been about as good fundamentally as U.S. stocks. As always, the future is uncertain, but we think having exposure across U.S. and non-U.S. markets makes sense today given the wide discrepancy in valuation with a similar quality of fundamentals.

**Despite Similar Fundamentals, EAFE Trades at a Wide Discount to US**




Source: FactSet

## TARIFF EXPOSURE

Our focus on quality and analyzability has positioned us well to manage tariffs. First, only 20% of our portfolio company revenues are derived from within the U.S. Second, we focus on higher ROIC, capital-light businesses, so we tend to have limited exposure to companies that are manufacturing and shipping goods across borders. Third, because we invest in companies with flexible and resilient cost structures, those facing tariff-related pressures are typically able to navigate rising costs more effectively. In the table below, we bucket all 30 companies in our International portfolio by our assessment of their sensitivity to tariffs.

As shown on the far left, we believe that 15 companies out of our 30-stock portfolio will have no direct tariff impact. This category represents nearly 44% of the portfolio. Moving to the right, about 46% of the portfolio has a low exposure to tariffs. Finally, on the right we place about 9% of the portfolio, or three stocks, in the category of higher impact.

Within the no-impact stocks, we have two main groups. First, we have service companies like Euronext and Julius Baer. Second, we have companies with no cross-border activity, like Elis and Air Water. Each group makes up about half of the stocks in this category.

| No Impact | Low Impact | Higher Impact |
|---|---|---|
| Open Text | Konecranes | Linamar |
| Parkland | Rexel | Suncor Energy |
| Euronext | Johnson Controls International | Renesas Electronics |
| Bollore SE | Ashtead Group | |
| Elis | D'Ieteren Group | |
| Ayvens | Sony Group | |
| Teleperformance | Nintendo | |
| Julius Baer | Samsung Electronics | |
| Babcock International Group | Amcor | |
| Vistry Group | CK Hutchison Holdings | |
| Evolution | Brenntag | |
| Kyudenko | Fresenius SE & Co | |
| Air Water | | |
| AerCap Holdings | | |
| SPIE | | |
| 44.1% | 45.9% | 8.9% |

46% of our portfolio is in companies that we believe will see a small impact from tariffs. In this category, we have middleman like Rexel, which is an electrical distributor that has operations in the U.S. As a distributor, Rexel simply passes along higher costs to end customers. The impact overall to Rexel should be minimal, and it very well may be a positive impact. We also have companies in this group that have a small portion of their input costs exposed to tariffs. For example, Johnson Controls imports some of their HVAC related equipment into the U.S..

Finally, about 9% of the portfolio is more exposed to tariffs. Linamar is a Canadian auto supplier. While its OEM customers are responsible for tariff costs should they arise, the company would be impacted by a U.S. auto slowdown. That said, the company's manufacturing operation is highly flexible and adaptable, which has helped the company compound EPS at a 15% rate for the past 15 years. The stock trades at about 5x EPS.

Also in this category, Suncor is a large Canadian oil sands business. At this point, Canadian oil has been exempted from any tariffs, but we have still placed Suncor in our "higher impact" category, to be conservative. However, even if tariffs do come through on Canadian oil, Suncor is relatively well-insulated because the company owns its own refining operation and downstream assets in Canada, allowing for 60% of its total volumes to be consumed domestically in Canada. In addition, oil is a global market, and a tariff between two countries could affect the price of oil globally. So, it's not a certain negative.

The last stock in the "higher impact" category is one we recently purchased, as we believe the turmoil surrounding tariffs created a buying opportunity. Renesas is a best-in-class semiconductor company with a history of compounding EPS at a 14% rate for the past 15 years, trading today for only about 10x EPS. We think tariff concerns around this stock are overblown. Only half of Renesas' revenues come from vehicles, and most of that business is sales to European and Japanese OEMs. Between U.S. OEMs and foreign imports into the U.S., we estimate less than 15% of total Renesas revenues are exposed to U.S.-related automotive tariffs. Furthermore, with its strong IP, we believe that Renesas will be able to price for increased costs over the long term.

## RECESSION FEAR

We believe we are well positioned to handle any tariff outcome, but there is still the concern that tariffs will lead to a recession. Because we focus on resilient companies, we believe we are also strongly positioned for a downturn scenario. In the table below, we bucket our portfolio companies once again, this time into groups based on our view of their economic sensitivity.

On the left, 21% of our portfolio has not been very sensitive to the global economy, tending to grow even in challenging environments. For example, in the Global Financial Crisis these companies grew EPS by a median of 67%, even as the EAFE saw a 37% EPS decline.

Moving to the right, 22% of our portfolio is sensitive to changes in global GDP, but their earnings should decline less than the market in a downturn. During the GFC and COVID, EPS of the median stock in this group declined less than that of the EAFE by 6 percentage points and 10 percentage points, respectively.

Next, we have 37% of the portfolio companies where we model earnings declining similarly to the market in a downturn. We actually may be overly conservative in this regard as the median EPS decline for this group was lower than the EAFE during the GFC and EPS was flat during COVID.

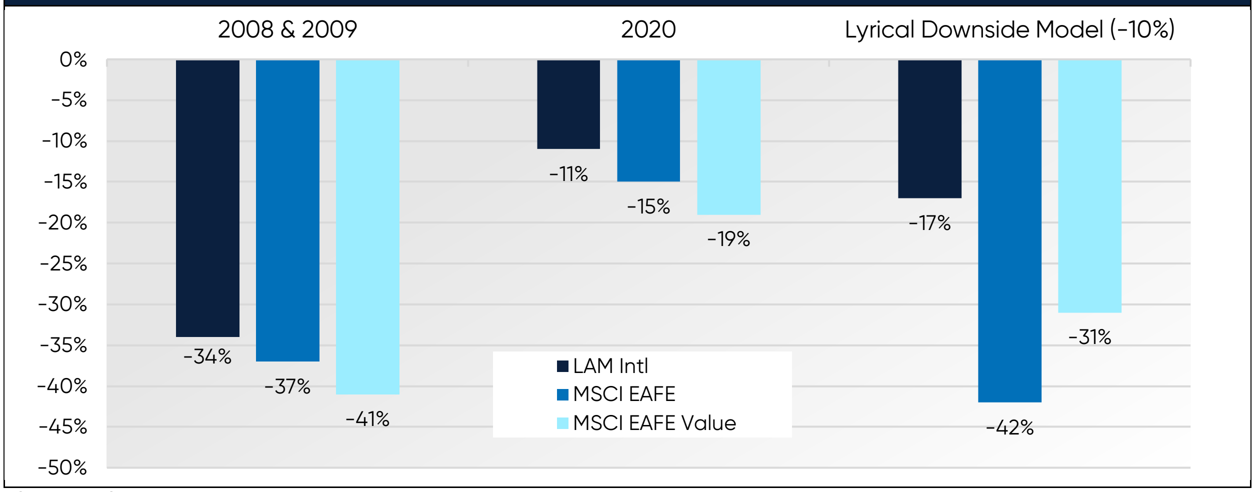
Finally, as you can see in the right column, only about 18% of our portfolio is in stocks with higher economic sensitivity. Earnings for this group fell 77% and 22%, respectively, in the past two recessions. Given how defensive the rest of the portfolio is, you may wonder why we own these companies at all? That is because the headline EPS declines for these companies tell a misleading story. Each company in this group has a structural resiliency to its cashflows that allows it to manage through a downturn and play offense coming out the other side.

| Not Sensitive | Lower Sensitivity | Similar Sensitivity | Higher Sensitivity |
|---|---|---|---|
| Open Text | Ayvens | Elis | Suncor Energy |
| Euronext | Bollore SE | SPIE | Linamar |
| Evolution | Teleperformance | D'Ieteren Group | Rexel |
| Babcock | Aercap | Nintendo | Vistry Group |
| Amcor | CK Hutchison Holdings | Parkland | Ashtead Group |
| Fresenius SE & Co | Julius Baer | Johnson Controls International | Renesas Electronics |
| | | Kyudenko | |
| | | Air Water | |
| | | Sony Group | |
| | | Konecranes | |
| | | Brenntag | |
| | | Samsung Electronics | |
| 21.5% | 22.3% | 37.2% | 18.1% |

Next, we'll take it one step further and assess the potential change in profits during a recession. We use the analysis in the figure below to help us understand how our portfolio might perform in an economic downturn, compared to the overall market. We show two approaches. First, how our current portfolio holdings performed, fundamentally, in prior recessions. And, second, how we think our current portfolio holdings would perform in the next recession.

The simplest approach is to measure how the companies we own actually performed during the Global Financial Crisis and during COVID. As you can see from the panel farthest to the left, EPS for our portfolio only fell 34% in 2008 and 2009, compared with 37% for the EAFE and 41% for the EAFE Value. In COVID, the businesses we own also performed better, as you can see from the middle panel of this chart.

**EPS Through Recessions and Lyrical Downside Model**




Source: FactSet

While this analysis is a good quick cut, it's not complete. First, not all of the companies we own today existed during the GFC or during COVID, as 9 of the 30 stocks we own were not public in 2008-2009. Second, each recession has different circumstances and outcomes. The GFC was driven by housing imbalances and associated Financial sector damage, while COVID was driven by a health pandemic, causing people to stay at home.

A more thoughtful effort to assess recession sensitivity is to analyze the portfolio on a bottom-up basis. This is the approach we took to create the bar chart on the right side of this table, titled "Lyrical Downside Model." For each company in our portfolio we conduct a downturn analysis. This analysis is not something we did in response to the recent news or because of a macro view we have. It's part of our fundamental research process. It's something we do for every company we invest in, as part of our quality assessment. Because we own businesses for 7-8 years on average, it's statistically likely that we will own the business through an economic downturn. As such, we need businesses that are flexible and that can adapt to changing conditions.

Let's take Ashtead, for example, which is one of the more economically sensitive businesses in the portfolio. In this analysis, we use a baseline 10% sales decline for the overall market, which was the average of the EAFE and S&P 500 revenues drop during the GFC. Because Ashtead is more economically exposed, we estimate that its revenue would decline 20% in that scenario, which is based on how it performed in prior downturns. And then, given operating and financial leverage in the business model, we estimate that EPS would drop 44% in this downside scenario.

While such a drop in EPS sounds alarming, consider that cashflows at Ashtead are countercyclical. In a downturn, when demand softens Ashtead can cancel its orders for new equipment with just 30-45 days' notice, freeing up significant new working capital. In the GFC and during COVID, Ashtead reported record free cash flow increases. As a result of this counter-cyclical benefit, we estimate that cash flow per share would increase 39% in this hypothetical recession, compared with the 44% EPS decline. Rather than being impaired, Ashtead can actually play offense in a downturn, buying up smaller players or repurchasing stock.

In summary, we estimate that a typical recession would reduce the EPS for our companies by about 17%, compared to the 42% for the EAFE and 31% for the EAFE Value composite. On a cashflow basis, we estimate our free cash flow would be even better, declining only about 9%.

## CONCLUSION

While the recent volatility has investors feeling nervous, we cannot help but feel excited by our prospects. We appear to be well positioned to handle the current economic environment, while carrying steeply discounted valuation, and superior growth history.

We are also excited to see the huge opportunity in International stocks beginning to deliver returns. While the S&P 500 was down, the MSCI EAFE index was up, outperforming by over 11-percentage points, and our International Value product outperformed by even more.

Even after this quarter's great performance, it appears to be only a small step in unwinding the past 15 years of international stock neglect. We believe the opportunity in International stocks remains extreme, and even more so in International value stocks.

As always, we thank you for your confidence and are available for any questions.

John Mullins and Dan Kaskawits

Co-Portfolio Managers

RISK FACTORS:

General:

We do not attempt to time the markets or focus on weightings relative to any index. Accordingly, client returns are expected, at certain times, to significantly diverge from those of market indices.

Investing in securities involves a risk of loss that investors must be prepared to bear. Because we invest primarily in publicly traded equity securities, Lyrical believes the primary risk of loss is associated with securities selection and broad market movements, and wide and sudden fluctuations in market value can occur.

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Registration with the SEC does not imply a certain level of skill or training.

Disclosed holdings:

Lyrical disclaims any duty to update historical information included herein, including whether we continue to hold positions that are mentioned. In the interest of our clients, reporting as to positions in transition (being purchased or sold) is lagged at our discretion. Generally, securities which have not been purchased for all accounts are not reflected as held and sales of positions which remain in any client accounts similarly are not reflected.

Specific investments described in this document do not represent all investments by Lyrical. You should not assume that investment decisions we include were or will be profitable. Specific investment examples are for illustrative purposes only and not necessarily representative of investments that will be made in the future. A list of all prior investment recommendations is available upon request.

Model or hypothetical performance:

Where we provide information about performance that is not the actual performance results of our investment strategies (such as where we show the results of price-to-earnings quintiles), please note that there are substantial additional limitations inherent in using such performance information. Those include, but are not limited to, that actual trading and the associated expenses did not occur, that market conditions change over time, and that no investor had the actual performance presented.

IMPORTANT NOTES:

Index Information:

Any indexes and other financial benchmarks shown are provided for illustrative purposes only, are unmanaged, reflect reinvestment of income and dividends and do not reflect the impact of advisory fees. Investors cannot invest directly in an index. Comparisons to indexes have limitations because indexes have volatility and other material characteristics that may differ from those of Lyrical's strategies.

The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries.
The MSCI EAFE Value Index captures large and mid cap securities exhibiting overall value style characteristics across Developed Markets countries around the world, excluding the US and Canada. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield.

EPS Through Recessions
These charts depict the historical change of earnings per share of the companies in the LAM International strategy as of March 31, 2025 using current composite shares as of March 31, 2025, and the change in earnings per share of relevant benchmark indexes over the same period. Actual shares of such holdings varied over time. Earnings per share is computed using consensus earnings data per FactSet, which include certain adjustments from reported, GAAP earnings.

Lyrical Downside Model reflects, in the case of the "Lyrical" value, Lyrical's mostly subjective projection of our current portfolio companies' average sensitivity to a hypothetical 10% revenue decline for the MSCI EAFE index. In estimating the revenue sensitivity for each company, Lyrical considers how each company's revenues declined relative to the revenue decline of the MSCI EAFE Index during the two recessionary periods depicted. Lyrical's forecasted sensitives also account for each company's current business mix and maturity, which differ from the two recessionary periods. For companies that did not exist as of January 2008, Lyrical used industry-level official United States statistical data to estimate revenue sensitivity and thereby project revenue decline. Lyrical performed company-specific fundamental analysis to subjectively estimate expense sensitivities, to arrive at each portfolio company's projected EPS decline.

The Lyrical Downside Model values for the MSCI EAFE and MSCI EAFE Value are calculated by applying the cumulative EPS change to revenue change ratio observed in 2008 and 2009 to a 10% assumed revenue decline for each index.

Past performance is not necessarily indicative of future results.

LAM- International results are unaudited and subject to revision, are for a composite of all accounts. Net returns include a 0.75% base fee and show all periods beginning with the first full month in which the advisor managed its first fee-paying account.

| Annualized Returns | 1 Year | 5 Year | 10 Year | ITD (6/1/2019) |
|---|---|---|---|---|
| LAM – Intl, Net | 3.0% | 4.1% | 1307% | 7.6% |
| MSCI EAFE | 5.0% | 6.1% | 11.8% | 7.5% |
| MSCI EAFE Value | 5.4% | 3.7% | 9.6% | 5.4% |