As at June 2023

NCM

Core Global/Core International Equity Strategies

NCM Monthly Commentary for June 2023

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Second Quarter 2023 Review:

After generating strong gains during the first quarter, global equity markets continued their upward climb during the second quarter. On a total return basis, the S&P 500 was +8.7%, the STOXX Europe 600 index returned +2.7 %, and the Nikkei 225 index was +18.5%. The Nasdaq was particularly strong with the index generating a total return of +13.1% during the second quarter. For the first six months of the year, the Technology-heavy Nasdaq index soared by more than 32%, which marks the best first half for the Nasdaq since 1983 when it rose by 37%. The strong gains in the Nasdaq have largely been driven by the excitement surrounding artificial intelligence (AI) and the potential productivity gains that AI could generate for the global economy.

Despite the strong year to date gains in 2023, a great deal of pessimism remains in the market. Several commentators continue to warn about a forthcoming recession. Most of these commentators are particularly concerned about the potential for a recession in the United States given elevated inflation, aggressive monetary tightening, and the fallout from the collapse of several regional banks. Despite these concerns, the U.S. economy has demonstrated remarkable resilience and consumers continue to spend.

In terms of the U.S. economy, first quarter GDP surprised to the upside. The U.S. economy grew at a +2.0% annualized pace in the first quarter, according to a final revision that was recently published. The +2.0% figure was above the previous estimate of +1.3% and ahead of consensus at +1.4%. The upward revisions in consumer spending and inventories boosted the revised GDP figure. The positive revision to first quarter GDP is somewhat contradictory to the view that the U.S. economy is headed for a recession.

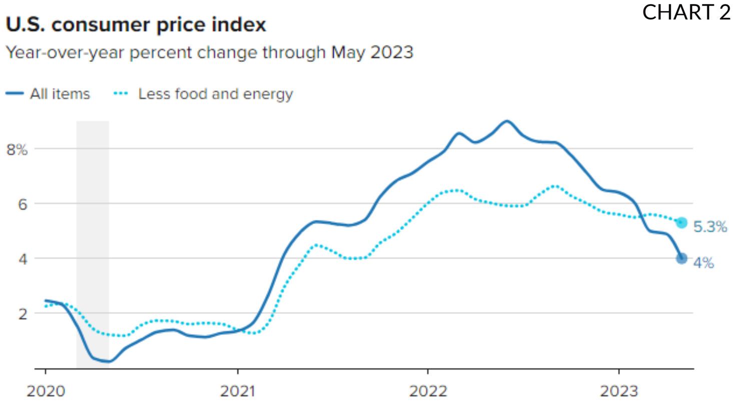
Speaking of the economy, it appears that one of the largest sectors of the U.S. economy might be turning the corner. U.S. housing was one of the hardest hit sectors in 2022, but recent data suggests that we could be on the cusp of a rebound. During the month of May, sales of new U.S. single-family homes surged to the highest level in nearly 1.5 years, benefiting from a lack of previously owned homes that are available for sale. New home sales jumped 12.2% to a seasonally adjusted annual rate of 763,000 in May. This marks the highest level since February 2022 according to the Commerce Department. As seen in Chart 1 below, sales of new homes in the US rose for a third consecutive month.

CHART 1

A potential rebound in the U.S. housing is significant given that the housing sector is one of the largest and most important sectors of the U.S. economy. It has been estimated that housing directly contributes 15-18% to Gross Domestic Product in the US. This occurs through two mechanisms including residential investment and consumption spending on housing services. When housing is on an upward trajectory, it can provide additional growth for the economy through the wealth effect. When home prices are rising it creates an increase in wealth for homeowners. When this occurs, homeowners are generally more confident about spending and borrowing, which can create a significant increase in consumer spending for the overall economy.

When it comes to inflation, recent data shows that it continues to move in the right direction as measured by the consumer price index (CPI). According to recently published data from the U.S. Labor Department, the inflation rate for the month of May cooled to its lowest annual rate in more than two years. As seen in Chart 2 on the next page, the U.S. Consumer Price index fell to 4% during the month of May. This is a significant decline from April when the CPI was 4.9%.

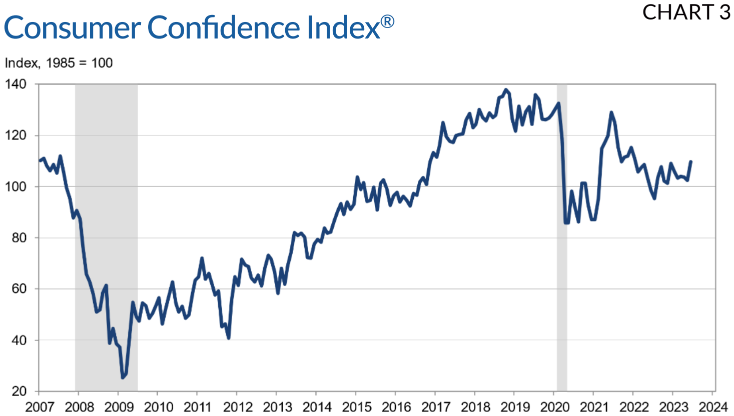
CHART 2



Note: Shaded area indicates recession.
Chart: Gabriel Cortes/CNBC. Source: U.S. Bureau of Labor Statistics
Data as of June 13, 2023

Steady growth in the economy and a decline in the rate of inflation might help to explain the recent improvement seen in consumer confidence surveys conducted by the Confidence Board. As seen in Chart 3 below, U.S. consumer confidence has been inflecting higher with the Consumer Confidence Index® rising to 109.7, up from 102.5 in May.

CHART 3



Note: Shaded area indicates recession. Sources: The Conference Board; NBER

Portfolio Review

During the quarter, we added several new positions. In NCM Core Global, we initiated new holdings in Applied Materials, Deckers Outdoor, Novo Nordisk, RELX, and YUM! Brands. In NCM Core International, we established new positions in ASML, Hoya, Sony, and YUM China. A business description for each of these new holdings can be found in the Appendix herein.

Outlook for 2023

In terms of our outlook, we continue to have a glass half full view. The global economy continues to grow at a modest pace, inflation has been moderating in both the U.S. and Europe, and consumer confidence has recently improved in the US. After a significant period of pronounced weakness, the U.S. housing market appears to be rebounding which should have positive implications for the economy both directly and indirectly via the wealth effect. Furthermore, corporate earnings during the first quarter proved to be more resilient than what the market was expecting. Taking all of this together, we remain cautiously optimistic as the second half of the year gets underway.

APPENDIX

NCM Core Global additions:

Applied Materials is a leading supplier of advanced equipment, tools, inventory, and related maintenance services to logic (leading and trailing edge CPUs, GPUs, and microprocessors), memory (DRAM and NAND), and analog (sensors and power related) semiconductor companies. It is one of a handful of companies that the semiconductor industry relies on to enable next generation technologies. We believe there are several catalysts supporting our investment in Applied Materials. First, the entire semiconductor industry is growing due to key trends such as digitization, automation, and artificial intelligence. Second, and more specifically, Applied Materials will benefit from increased demand for semiconductors as generative AI applications become more prevalent. Third, geopolitical tensions surrounding China and Taiwan have resulted in Western countries building new semiconductor supply chains, which will require new equipment and ongoing maintenance from Applied Materials.

Deckers Outdoor Corporation is a footwear company with 5 brands; UGG, HOKA, Teva, Sanuk, and Koolaburra. The key growth driver for the company remains the HOKA brand, which represents approximately 40% of revenue and grew 40% last fiscal year. The company continues to believe that HOKA revenues will expand by 20%+ over the mid-term due to ongoing market share gains in the specialty running segment while expanding its products into new points of distribution. The UGG brand comprises approximately 50% of revenue. After a period of solid growth through Covid, the UGG brand faced difficulty in 2022 due to supply chain issues. A change in management at UGG should help the brand return to mid single-digit growth as they expand the product offering. Difficulty with supply chains and high inflation compressed gross margins which should rebound as these pressures ease. We believe the outlook for Deckers is compelling given the long runway of growth that we see for the Hoka brand.

Novo Nordisk is the leading diabetes & obesity pharmaceutical company in the world. This therapeutic area enjoys stable growth given the high incidence of the disease and the dominant positions of the top two players. Novo Nordisk maintains this leadership position through constant innovation. Its Ozempic drug is the most prescribed GLP-1 product, and it only requires a once weekly injection with superior hypoglycemic control compared to insulin, which is often injected multiple times daily. It is approved for type 2 diabetes but used off-label for weight loss. Novo Nordisk has moreover won FDA approval for a higher dose, injectable version of Ozempic specifically for use in obesity under the brand name Wegovy, which should support further adoption for this indication. Wegovy in clinical studies has shown the ability to help patients achieve weight loss of 15%. Such obesity therapies are still in the early days of adoption and are estimated to be a $50 billion opportunity or higher. The Company also has numerous other candidates in its pipeline across various therapeutic areas that will help sustain growth in the long term.

RELX is a global provider of information-based analytics and decision tools for professional and business customers. The company sells its products to a wide range of industries including healthcare, insurance, and the legal profession. The company also sells a suite of products that are used to prevent fraud and to enhance cybersecurity. The company leverages deep customer understanding, combining leading content and data sets with powerful global technology platforms, to build sophisticated analytics and decision tools that deliver enhanced value to our customers. These products are generally sold through dedicated sales forces direct to customers and are priced on a subscription or transactional basis, often under multi-year contracts. The company's products often account for less than 1% of their customer's total cost base but can have a significant and positive impact on the economics of the remaining 99% of their customer's cost base. We believe that RELX is well positioned to capitalise on the development of generative AI technology given its large proprietary data sets, long record of investing in technology, its strong brands, and its deep relationships with customers and their workflows.

Yum! Brands is a quick service restaurant (QSR) operator that owns the KFC, Taco Bell, Pizza Hut, and Habit Burger brands. The company has approximately 54,000 restaurants globally with the expectation that this will increase to over 100,000 locations over the long term. The QSR industry and Yum! Brands have been relatively resilient over the years as they offer consumers value pricing relative to other options and tend to be fairly stable during economic slowdowns. Yum! Brands operates a franchise model with 98% of their restaurants franchised. The KFC brand is the largest and continues to provide solid growth as they expand their footprint outside the United States. Taco Bell restaurant openings have been focused in North America but management expects to increase international growth going forward. Pizza Hut has been more challenged but new management is expected to reinvigorate sales with signs that a turnaround is gaining traction. Inflation and Covid dented operating margins but post 2023 we should start to see some of these issues subside and we expect to see margin expansion as inflation eases.

NCM Core International additions:

ASML is the leading semiconductor lithography company in the world with a practical monopoly in the field based on its consistent innovation in the past 40 years. Its competitive gap vs the #2 & #3 players started widening materially 2 decades ago when the Company introduced the first immersion lithography tool. Today, ASML is the only company with Extreme Ultraviolet (EUV) capability needed for the most advanced semiconductor chips. ASML is a key enabler of improving semiconductor performance needed to support rising global demand for compute power, automation, electrification, and connectivity. The Company expects growth to 2030 to be driven by 1) leading-edge nodes driven by compute, artificial intelligence, autonomous, and 2) mature nodes driven by autos and industrials. Additional demand will come from major industrialized countries establishing domestic semiconductor capacity given rising geopolitical tensions. We believe that ASML is very well positioned for the long term given its widening technological advantage which has allowed the company to enjoy strong growth, high operating margins, and robust free cash flow generation.

Hoya is an optical technology company in Japan with market leading positions in healthcare and information technology applications. On the healthcare side, the Company is the global #2 in eyeglass lenses, #1 in domestic specialty retailer of contact lenses, and a global top 3 player in endoscopes & intraocular lenses. Growth in this area is driven by aging population, the middle class, rising incidence of myopia & adoption of laparoscopic surgery. On the information technology side, Hoya is the dominant global #1 manufacturer of semiconductor mask blanks, global #1 in flat panel display masks, and global #1 player in glass substrates for high end hard disk drives. Growth in this segment is driven by rising semi content in consumer, industrial & automotive applications, leading edge semi development including EUV, cloud demand, OLED displays and rising vision/camera adoption. We believe that Hoya is very well positioned given its strong track record of product innovation which has allowed to company to generate strong growth, attractive margins, and robust free cash flow generation.

Sony Group is based in Japan and is a diversified entertainment and technology company with operations spanning 5 divisions; Game & Network Services (GNS); Image & Sensing Solutions (ISS); Music; Pictures; and Entertainment, Technology & Services. The company has leading market positions in attractive end markets with secular growth. Their Game & Network Services division revolves around the PlayStation 5 console which had difficulty meeting shipment targets due to supply chain issues. As these have abated and the continued release of 1st party software titles, margins should expand driving higher profitability. The Image & Sensing Solutions division benefits from an increase in high-end cameras for mobile phones, where they hold #1 market share, and they are looking to expand aggressively into automobiles. The music business has a strong recurring revenue type model and Sony is the #2 player globally across recorded and published music. They are also working to integrate their media assets and leverage their intellectual property from games to Pictures/TV which should help drive incremental profit. We are excited about the long-term prospects for the company given its strong market positions in attractive growth areas combined with a solid balance sheet.

Yum China owns a master franchise agreement with Yum! Brands to exclusively open their restaurant concepts (KFC, Pizza Hut, Taco Bell) in China (excluding Hong Kong). YUM China pays a 3% royalty to YUM! Brands based on sales. YUM China currently operates approximately 13,000 restaurants in over 1,800 cities in China which mostly include the Yum! Brands concepts. The company owns 86% of its restaurants and targets 1,100-1,300 new restaurant openings annually over the mid-term and will accomplish this by increasing store density in higher-tier cities and penetrating into lower-tier cities. Management was swift to pivot to delivery during Covid and also focused on opening smaller store locations with faster paybacks, with a payback of less than 2 years for a KFC and 2 to 3 years for a Pizza Hut location. As Chinese consumers increasingly dine-in and travel, the company will see a benefit to their sales and margins should also recover with a lower delivery mix. We are encouraged by the long-term prospects of the company given the attractive economics of the business as well as a long runway of growth with management highlighting a path to having 20,000 restaurants over the medium term.

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