EAGLE GLOBAL ADVISORS

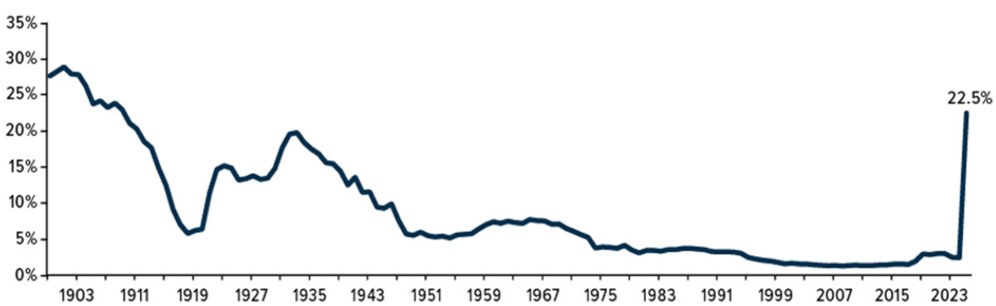
Eagle International Equity

International Outshines a Fading U.S. Market

Equity market volatility rose as a new administration in Washington brought new challenges and opportunities for equity markets worldwide. While the S&P 500 fell 4.27% in the first quarter and as the "Magnificent 7" took a pause in leading equity markets, international stocks caught a bid with the MSCI EAFE benchmark rising +6.86%, led by Europe. The strong first quarter performance by international equities fully reversed the 10.5% underperformance they posted vs. U.S. equities in the fourth quarter of last year. Fears of additional tariffs and a fiscal retrenchment in the U.S. have led to fears of future stagflation in the world's largest economy.

U.S. markets became jittery as it appeared President Trump would go ahead with his promised tariff hike agenda, as he stated during the campaign trail. Markets in the U.S. had risen strongly in 2024 and had little valuation support to defend against the uncertainty as to what these tariffs could mean to the U.S. economy, inflation, and consumer behavior. Trading at much lower valuations, international markets were seen as a less volatile option to ride out the storm of unpredictable announcements in Washington. President Trump instituted new tariffs of 25% on Canada, 25% on Mexico, and 10% on China, on top of already existing 10% tariffs on China. Roughly 40% of all U.S. imports come from these three countries. Moreover, in the first couple of days in April, President Trump launched "Liberation Day" where he announced reciprocal counter tariffs on many countries on top of 10% across-the-board tariffs on all countries. The chart shows the latest estimates of these latest tariffs from a historical standpoint, by some estimates reaching the highest levels overall since 1909.

AVERAGE EFFECTIVE TARIFF RATE IN THE U.S. AT HIGHEST LEVEL SINCE 1909



Source: Budget Lab at Yale, U.S. Global Investors

This is all highly fluid and likely to change, but one thing is certain, President Trump was elected to shake up the world trade order, on which he believes the U.S. has been mistreated and is materially changing the status quo. The consensus view is that Trump's pro-America policies will lead to protectionism and higher tariffs while lowering the regulatory burden on businesses, leading to potential lower growth in the near-term and higher growth potential in the long-term. The effects of tariffs are highly debated, but the consensus is that higher tariffs will lead to higher inflation. Thus, the Federal Reserve's recent pause in the cutting cycle and inclination to keep interest rates higher for longer.

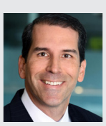
ABOUT US

- Located in Houston, TX
- Founded in 1996
- $2.6B in AUM*
- 23 employees including 10 investment professionals

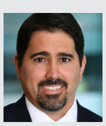
INVESTMENT HIGHLIGHTS

- Focus on companies with global scale
- Industry leaders that possess sustainable competitive advantages
- Optimal combination of proprietary quantitative tools and fundamental research
- Sustainable Growth-oriented businesses trading at attractive valuations (SGARP)
- Allocations driven primarily by stock selection—45 to 60 high conviction holdings
- Flexibility to under/over-weight countries and sectors
- Benchmark sensitive—R^2 over 90%
- Low turnover—15% to 30% annually
- Long track record of competitive returns since inception

PORTFOLIO MANAGEMENT



John F. Gualy, CFA
Senior Partner,
Portfolio Manager
33 Years of Experience



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**AUM data is inclusive of both discretionary and non-discretionary client assets.*

If tariffs were not enough to rattle equity markets, a new AI model from China also contributed to the volatile first quarter. Chinese AI company DeepSeek announced January 27th that its model displayed significant efficiency beyond anyone's expectations at a fraction of the price of Western models. This led to a substantial sell-off in global, but especially U.S., AI-related companies as investors began to question the large sums of money being spent on AI investments in the U.S. This was another headwind for the Magnificent 7, as several of these are leading the charge in AI investment. This more extensive exposure of AI in the U.S. equity benchmarks also contributed to the outperformance of international markets during the quarter.

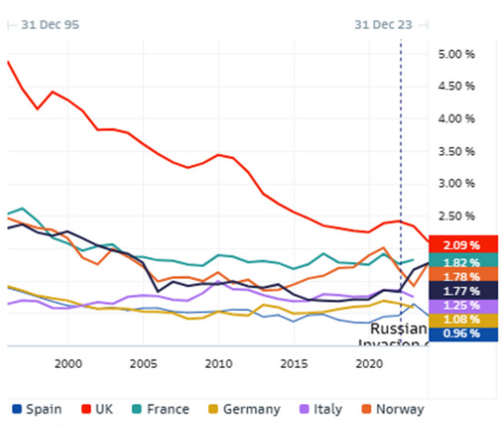
But perhaps nothing was more impactful than the performance difference between European and U.S. stocks during the quarter than the game-changing shift in fiscal thinking coming out of the euro area, particularly in Germany.

GERMANY AND EUROPE'S "WHATEVER IT TAKES" 2.0 MOMENT

European equity markets started seeing some interest after improved manufacturing PMIs in the first couple of months of the year. German elections in February provided another coalition government, this time led by Friedrich Merz's CDU centrist party. That said, the right-wing AfD party, which focused on out-of-control immigration in Germany, gained significant seats in the new parliament.

During the quarter, the Europeans became nervous with the Trump administration's overtures towards Russia and strained relations with Ukrainian President Zelensky. President Trump ran on a platform of peace through strength and vowed to work hard on bringing the Ukraine War to an end quickly. Trump has been complaining to European countries for years, and NATO countries in particular, that they are not spending enough on defense and they are relying too heavily on the U.S. to oversee their security. There has been some increase in defense budgets since Trump's first term, but not enough to satisfy his desire that NATO countries spend at least 3% of GDP on defense.

What % of GDP do Western Europeans contribute to their defense budgets?

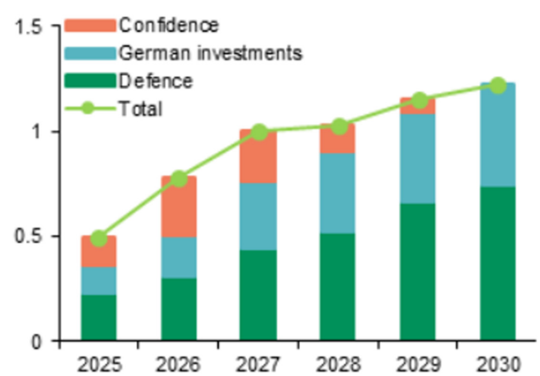


Source: Goldman Sachs

Vice President JD Vance's speech at the Munich Security Conference also provided another eye-opening exercise for European leaders. Mr. Vance suggested that Europe's greatest security threats came from within, rather than from their common enemy, Russia, or even China, as many would have thought. This, on top of the White House meeting with President Zelensky that appeared to get out of control with the Ukrainian delegation being sent home, was a watershed moment for Europe. EU leaders now understand that Trump is serious in his assertion that Europe needs to invest more in its security and that Europe cannot rely on the United States to source its defense budget.

A seismic shift occurred, with incoming German Prime Minister Friedrich Merz announcing a "Whatever it Takes" push to rearm Germany. Before the less favorable incoming parliament, the Germans announced and quickly passed a massive shift to their fiscal rules with constitutional changes allowing Germany to spend outside their budgetary constraints. Germany announced an investment of €500 billion in infrastructure over the next 10-12 years to retool Germany after years of significant underinvestment in its frail infrastructure. In addition, parliament passed a new law allowing the government to accelerate new defense spending outside of the normal budget process and the fiscal rules. The new defense spending could amount to €50-100 billion of new spending per year over the coming decade, with possible significant frontloading. This equates to 2-3% of GDP of additional spending from Germany alone. Since Germany accounts for one quarter of the EU's GDP, this is a major structural shift into looser fiscal policy for the region.

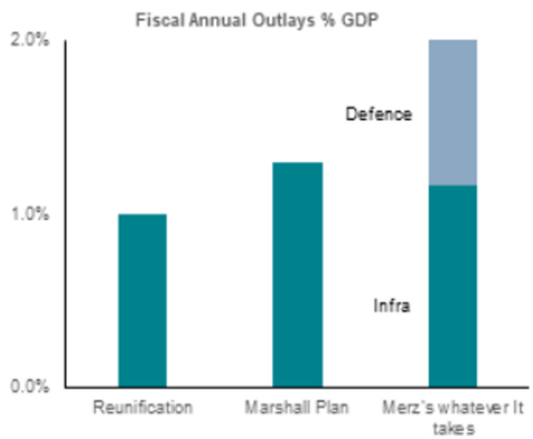
Germany: Impact on GDP Level (%)



Source: BNP Paribas Exane estimates, Bundesbank

BNP Paribas analysts project that the new spending could add more than 1% of GDP per year to Germany's GDP growth as it takes time to implement the latest spending and agree on the framework. In addition, BNP estimates that the fiscal boost to Germany is the equivalent of the Reunification spend, and Marshall Plan spend combined. This is a complete U-turn for Germany, seen as the "Beacon of Frugality" as the WSJ called them, turning away from its fiscal restraint to now full steam ahead with increasing fiscal deficit spending and using its balance sheet to fund the rearmament of Germany and Europe.

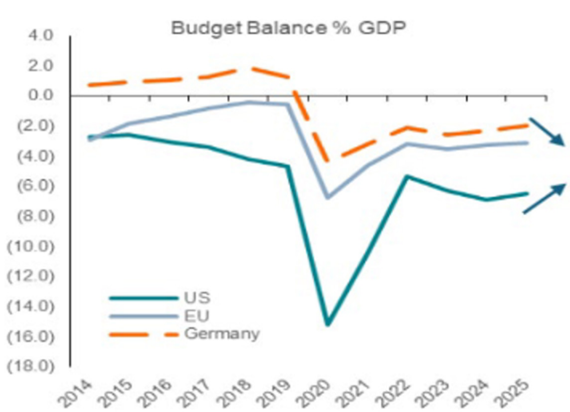
German Fiscal Boost Equivalent to Reunification Spend + Marshall Plan Combined



Source: BNP Paribas

The European Union has also conceded that it will need to incentivize its member countries to invest more in defense. While defense spending will be a sovereign decision from each country, the EU has begun discussing creating a new funding mechanism as a lending facility to EU countries as they go down this road. Most other EU countries do not have the fiscal capacity that Germany does to accelerate defense spending. Still, the EU is also discussing lowering the fiscal rule thresholds to allow countries more fiscal deficit spending related to defense spending. The U.S. and Europe now find themselves on contrasting paths, with the U.S. wanting to reduce its fiscal deficits through its work with the Department of Government Efficiency (DOGE) while Europe launches on increasing fiscal spending.

Bessent Wants to Reduce the Deficit, whilst Merz Wants to Increase

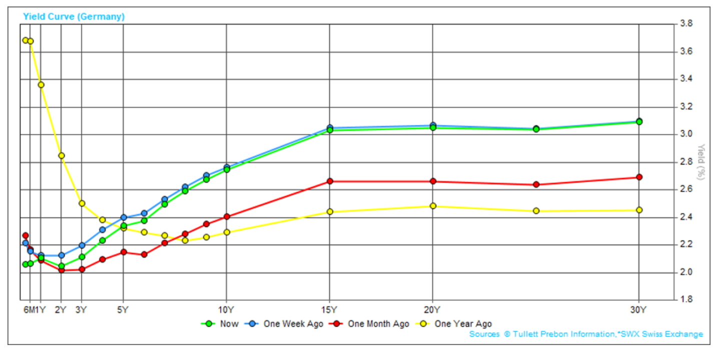


Source: BNP Paribas

European markets rallied following these announcements as it became clear that Europe's economy has been held back by a lack of investment, and these investments should trickle down to higher economic growth. The European Central Bank continued to cut rates in the quarter and specified that, data-dependent, the cutting cycle is not over. ECB President Lagarde acknowledged the additional fiscal spending that could lead to higher inflation but noted that this inflationary pressure would not be overnight.

Bond markets also reacted with the German 10-year yield spiking to levels not seen in some time. The German yield curve steepened with other European country yields, which also spiked on the prospects for higher inflation and higher GDP growth. The red line in the chart labeled "one month ago" was just days prior to the Merz "Whatever it Takes" announcement, and you can see a large shift upward in yields to the green line at the end of the quarter across all maturities, with the yield curve steepening as well. While we concede this will not be an overnight adjustment, this is also a game changer for European equity markets, as going forward they will have a significant fiscal support mechanism that may boost corporate earnings for those companies directly and indirectly involved in this rearmament and infrastructure build.

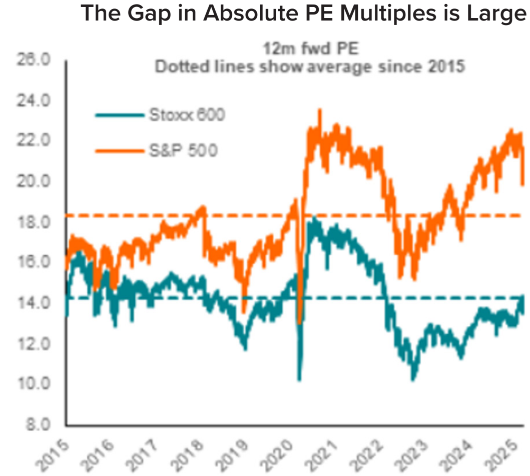
German Yield Curve



Source: FactSet

The sharp rise in German and European yields boosted the euro and led to some U.S. Dollar weakness with the USD depreciating by about 4% in the quarter as measured by the DXY index. Near-term EPS estimates for European companies may face pressures from the higher euro exchange rate, but the longer-term opportunity created from this major shift in policy may provide a boost to valuations in Europe that have been left behind by their U.S. counterparts. With this recent rally year-to-date, European valuations have bounced back to near their 10-year average but are still well below U.S. market valuations.

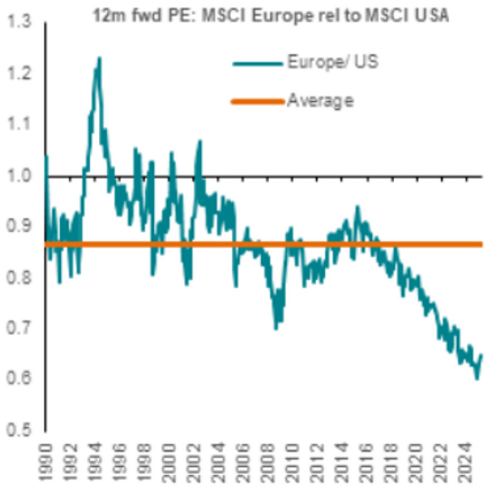
The Gap in Absolute PE Multiples is Large



Source: BNP Paribas Exane estimates

Eagle International Equity

...And on a Relative PE Basis the Gap is Still Wide



Source: BNP Paribas Exane estimates

INTERNATIONAL MARKET HIGHLIGHTS

International caught a bid and outperformed U.S. equity markets for the first quarter of 2025. Germany's "Whatever it Takes" moment lit a fuse into European sleeper stocks after a disappointing period of sub-par performance. Higher quality companies and growthier names were left behind as cyclical value and deep value, as well as companies aligned with European defense exposures, rallied to outperform. This led MSCI EAFE Value (+11.6%) to outperform EAFE Growth (+2.1%) materially. Eagle portfolios struggled as our higher quality and growthier tilt underperformed the cyclical value rally. While corporate governance in Japan remains a positive theme for that market, it was left behind this quarter as all focus was on the major structural shift in Europe. With two major structural shifts in the two leading regions of the MSCI EAFE Index, we expect renewed interest in international diversification.

Although international equity markets rose for the quarter, there is still some nervousness around upcoming tariffs and evidence of a deceleration of the soft data in the U.S. economy. Various analysts have increased their caution for the U.S. economy and have cut GDP growth for the world's largest economy for 2025 due to tariff uncertainty. Chinese equities also rallied in the quarter, especially the left behind tech giants there, as renewed AI optimism and the latest support for the Chinese tech companies from President Xi led to significant flows back into Chinese stocks.

MSCI EAFE large caps slightly outperformed mid-caps for the quarter. Value took a significant lead over Growth to begin 2025. The best performing MSCI EAFE markets for the quarter were Spain, Norway, and Italy, while the worst were Denmark, New Zealand, and Australia. The best performing MSCI EAFE sectors for the quarter were Energy, Financials, and Utilities while the worst performing were Technology, Consumer Discretionary, and Real Estate.

QUARTERLY PORTFOLIO ANALYSIS

Outperformers: Eagle portfolios benefitted from good sector allocation in Financials as an overweight to that outperforming sector helped the portfolio. From a stock selection standpoint, the Consumer Discretionary sector stood out as the best, followed by positive attribution in Communication Services and Materials. An underweight to Australia and overweight to Germany and China, as well as good stock selection in Italy, helped the portfolio for the quarter. Strong contributors to performance included Chinese e-commerce and cloud leader Alibaba Group (Consumer Discretionary-China), Italian bank Unicredit (Financials-Italy), and German exchange group Deutsche Borse (Financials-Germany).

Disappointments: Eagle portfolios struggled in the quarter as higher quality and growthier stocks underperformed as deep and cyclical value rallied on hopes of improving European economic conditions from the fiscal impulse. The overweight to underperforming Information Technology and Consumer Discretionary sectors held back performance. Moreover, this quarter, stock selection in Industrials, Health Care, and Information Technology proved more difficult. Negative attributors this quarter included HR technology company Recruit Holdings (Industrials-Japan), leading obesity and insulin pharma company Novo Nordisk (Health Care-Denmark), and semiconductor company Taiwan Semi (Information Technology-Taiwan).

PURCHASES/ADDITIONS IN THE QUARTER

ABB LTD (ABBNY): SECTOR: Industrials, COUNTRY: Switzerland. ABB is a global leader in electrification products and solutions, motion, and process automation. The company's products and services are critical to the efficient and secure delivery of electricity. ABB products and solutions also enable automation within the transportation, infrastructure, and discrete and process industries. We believe ABB is well-positioned to benefit from global megatrends requiring significant investment in electricity infrastructure and power delivery. These megatrends include the Energy Transition driven by increasing sources of renewable power generation and the technology-driven increase in power demand associated with datacenter buildouts, Artificial Intelligence, and the CHIPS Act. In addition to the Energy Transition, we expect ABB to benefit from further demand for automated building and infrastructure products and services, as reshoring in the U.S. and urbanization in emerging markets drive large investments in industry. ABB's exposure to the aforementioned drivers should allow the company to continue to deliver above-GDP growth coupled with attractive returns on capital.

AMADEUS IT GROUP (AMADY): SECTOR: Consumer Discretionary, COUNTRY: Spain. We added to Amadeus IT Group, a dominant player in the global distribution systems (GDS) market with 50% share and continues to gain share from competitors (Sabre and Travelport). It is also the leading provider of outsourced passenger-related IT solutions for airlines. Concerns around disintermediation in distribution are abating as Amadeus launched its own NDC platform and is winning back volumes. Amadeus reported generating a "teens" proportion of their volumes through NDC now. We see this as significant given the Americas Reporting Council reported that in the U.S., NDC volumes made up 19% of volumes in Q3 24. Amadeus is now contracted to carry 60 airlines' NDC content, and while many of these seem to be maintaining their direct connect relationships, it shows that GDSs are also relevant in delivering NDC. NDC also requires a major overhaul of the airline's back-end IT systems, which creates an upgrade opportunity for Amadeus Air IT. We believe valuation is attractive at 19.6x 2026E P/E and 4.7% FCF yield given a 9% CAGR Rev growth over the next 3 years.

CAPGEMINI (CGEMY): SECTOR: Information Technology, COUNTRY: France. We added to CapGemini, a global leader in consulting, technology services and digital transformation across North America, Europe, and Asia. It is one of the best positioned to benefit from high demand in areas such as Data, AI, cloud, and analytics. CapGemini is also a beneficiary from GenAI, thanks to their large-scale and high-quality services, and is a strategic partner on key business transformation deals. We believe CapGemini's recovery will be helped by better GDP growth in Europe as governments increase the defense budget, which would support revenue growth given the 63% exposure to Europe and a higher manufacturing exposure (27% of sales). Mid-term, we believe CapGemini's growth is supported by client demand for technology and an accelerated mix shift to higher value-added revenue, which is driving improved growth and margin outlook. The shares are trading at 11x P/E on 2026 earnings, below the 10-year average of 16x and 9% Free Cash Flow Yield.

GENMAB (GMAB): SECTOR: Health Care, COUNTRY: Denmark. Genmab is an anti-body technology company with a primary focus on oncological drugs. Genmab's largest drug is Darzalex, a drug they developed but is distributed by Johnson & Johnson. We expect revenues from Darzalex to increase by more than 40% from 2024 to 2028. The lengthy period before loss of exclusivity (2029 in the U.S. and 2031 in Europe) gives Genmab a large window for additional drug development. Furthermore, Genmab has multiple other growth drugs, including Epkinly and Tivdak, which should set Genmab up well post-2029. Genmab has a strong track record of developing drugs, and the company has reached a scale that will allow it to distribute drugs without sole reliance on partners. The company has completed a good deal of the necessary investment to take this next step, and we believe Genmab is approaching a time when it can better participate in the economics of its developed drugs.

L'OREAL CO (LRLCY): SECTOR: Consumer Staples, COUNTRY: France. We added to our position in L'Oreal as we believe the derating of the stock versus its own history and peers over the last few months appears to have leveled out. There is some evidence that some of the recent negative trends have bottomed, and the company could begin to experience better comps in the second half of 2025. L'Oreal remains a market leader in the structurally growing beauty market, allowing the company to continue to generate high and growing margins compared to global peers. Expectations for L'Oreal and the industry have been rebased lower, and we believe the company has a better chance of exceeding lowered expectations over the next couple of years due to its leading brands and solid execution.

NATWEST GROUP (NWG): SECTOR: Financials, COUNTRY: United Kingdom. We bought NatWest Group PLC, a major retail and commercial bank in the United Kingdom based in London, serving over 19 million customers. NatWest has shown its ability to return capital to shareholders based on improved operating performance and a successful restructuring effort, with the government expected to reduce its 4% stake to 0% by mid-2025. As one of the five high street banks in the consolidated U.K. market, we believe NatWest enjoys cost advantages in the form of a sizable retail deposit base, establishing a low-cost and sticky funding source. Revenue growth of 6% CAGR for the next 3 years is driven by NIM (Net Interest Margin) expansion, given the low funding cost from the large sticky retail deposit mix and favorable mortgage spreads, as well as the improvement in volumes. They also benefit from the structural rolling off from hedges and solid fee growth momentum. Asset quality remains very benign and cost control is on track, which should help them achieve a RoTE (Return on Tangible Equity) of 16%-17% (above the 15% 2027 targets) over the medium-term. Valuation is attractive as the shares trade at 1.1x P/TNAV and 7x 2026 PE with a capital position of >13%, and a dividend yield of 7% (a 50% stated dividend payout) supplemented with buybacks annually.

SELLS/TRIMS IN THE QUARTER

MAGNA INTERNATIONAL (MGA): SECTOR: Consumer Discretionary, COUNTRY: Canada. The auto industry has dealt with many issues over the past few years, including a chip shortage, labor strikes, soft demand, inflation, higher interest rates, and tariffs. During that time, low-cost Chinese cars experienced remarkable growth as China quickly became a viable competitor outside their country, with a 3% global market share expected to rise to 13% by 2030. China's gain has been Europe's pain as its production still remains under pre-pandemic levels. This lower production from European OEM customers has hurt Magna's sales and profitability due to their above-average exposure compared to their peers in the region. Additionally, Magna has limited sales to faster-growing Chinese domestic OEMs, so they have been unable to offset the decline. Although we believe Magna's valuation has discounted for this negative development, we believe this structural issue will only worsen as China continues to take global share. We felt it was best to exit our position and redeploy into something with more promising fundamentals.

NEBIUS GROUP (NBIS): SECTOR: Information Technology, COUNTRY: Netherlands. Nebius is an AI-centric public cloud platform, launched in late 2023 and specifically crafted to serve AI models and intensive AI workload. We reduced our position in NEBIUS due to DeepSeek's R1, a China-made Learning Language Model (LLM) which can achieve top performance at a fraction of the cost and without using advanced GPU's such as Blackwell chip from Nvidia. This news creates uncertainty for revenue growth and weaker-than-expected demand for its full-stack infrastructure for AI, which is built with the most advanced and expensive GPUs. Given this uncertainty and its premium valuation, we decided to trim the position.

NICE LTD (NICE): SECTOR: Information Technology, COUNTRY: Israel. NICE is a global enterprise software provider that enables organizations to improve customer experience, drive business performance, ensure compliance, and fight financial crime. We sold NICE due to weaker-than-expected cloud revenue growth as competition has increased, the potential negative impact from GenAI, and the CEO transition in Q1 25 could create near-term disruption. The long-term growth rate trajectory is uncertain given that GenAI can automate tasks and could replace existing agents. It also attracted new entrants such as CRM, NOW, HUBS, and the hyperscalers (AMZN, MSFT, GOOGL), making it a more competitive industry. We are less confident in NICE's ability to hit the implied cloud revenue guidance and we do not see a catalyst for multiple expansion.

NIPPON TELEGRAPH & TELEPHONE (NTTYY): SECTOR: Communication Services, COUNTRY: Japan. We sold our position in NTT to redeploy to more attractive opportunities. The stock lacks clear catalysts as there is low confidence in their buyback strategy, while growth for the company and the telecom sector in Japan is under pressure. The mobile industry remains hyper-competitive in Japan, with increasing sales promotions, resulting in lower and disappointing operating profits for that division. While regional telecom has performed better, overall earnings have disappointed, and future improvements are less clear.

SONY GROUP CORPORATION): SECTOR: Consumer Discretionary, COUNTRY: Japan. We trimmed our position in Sony after the stock reached the higher end of its valuation range. Sony's growth story has shifted from a twin engine (Gaming and Imaging & Sensing Solutions) to a single engine driven by Gaming. Imaging & Sensing Solutions' profitability and growth largely depend on the outperformance of iPhones. Although Sony still has room to outperform with a new gaming growth cycle, we decided it was not prudent to maintain the previous large weight in the portfolio.

DISCLOSURES

The indices shown are for informational purposes only and are not reflective of any investment. They are unmanaged and shown for illustrative purposes only. The volatility of the indices are likely materially different than the strategy depicted. Eagle Global's International Equity ADR strategy includes buying and selling various international equity companies. Holdings will vary from period to period and international equity companies can have a material impact on the performance.

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