Quarterly Commentary

MainStay Epoch Global Choice ADR

As of June 30, 2024

Rather than position for any one macroeconomic outcome, we prefer a balanced approach, focusing on owning a diversified portfolio of quality companies that consistently earn excess returns and generate, sustain, and grow free cash flow over time.

Portfolio managed by:

EPOCH

Market Review

After a strong first quarter, major equity markets around the world delivered mixed results in the second quarter. In the U.S., the S&P 500 and Nasdaq indices touched all-time highs, but performance was concentrated in a narrow set of large cap technology companies, reigniting concerns over market breadth. Inflation continued to moderate at a slow pace, leading the Federal Reserve (Fed) to update its forecast to only one rate cut in 2024. Despite this hawkish repricing of rate cut expectations, the soft-landing narrative remained intact. Corporate earnings were resilient at the headline level. But there was a bifurcation here too, with the Magnificent 7 delivering strong double-digit growth while the rest of the S&P 500 saw a small contraction in quarterly earnings year-on-year.

Outside the U.S., most major markets declined including France, Germany, and Japan. In Europe, the European Central Bank (ECB) commenced its cutting cycle, with a 25-basis point reduction in June. This was overshadowed by the results of the European Parliamentary elections, where a strong showing by France's extreme right parties led President Macron to call for snap elections in the country. The resulting instability and uncertainty led France to be the worst performing developed equity market during the quarter. Trade tensions between Europe and China ratcheted up, with Chinese electric vehicles becoming subject to additional import duties. The U.K. was a relative bright spot, delivering positive returns despite its own snap elections that resulted in a landslide victory for the Labour Party on July 4th. Investors viewed Labour's platform as generally pro-business and pro-investment. The economic backdrop continues to improve, and expectations are for the Bank of England to begin cutting rates this summer.

Japan declined modestly during the quarter. Despite positive developments at the corporate level, the story in Japan remained the free fall in its currency. The Japanese Yen broke the 160 level, its weakest value in over 30 years, leading to speculation the Bank of Japan would intervene to stabilize the currency.

In the bond markets, U.S. Treasuries were weaker across the curve, with yields rising on the back of expectations for fewer rate cuts this year. The U.S. dollar strengthened slightly against a basket of currencies while oil prices declined modestly. Gold rose, posting its third consecutive quarterly gain.

Portfolio Performance

	Pure Gross Return	MSCI World Index	Net Return*
QTR	2.75	2.63	2.00
1 Year	19.52	20.19	16.04
3 Years	3.35	6.86	0.34
5 Years	8.05	11.78	4.90
10 Years	7.87	9.16	4.73
Since Inception[1] (05/31/2010)	10.32	10.79	7.10

ADR = American Depository Recepit

Past performance is no guarantee of future results, which will vary.

1. Inception date is May 31, 2010. Performance for the most recent quarter is preliminary and subject to change.

* Maximum program fee or highest advisory fee of 3% per annum (25 basis points per month).

Portfolio Review

The Epoch Global Choice ADR portfolio performed in-line with the MSCI World Index in the second quarter of 2024. Stock selection was slightly positive, led by the healthcare sector, while the sector allocation was neutral. Stock selection in the communication services and consumer discretionary sectors was also positive, and was partially offset by stock selection in the information technology sector.

At the individual security level, our top positive contributors in the quarter were Alphabet, Broadcom, and AstraZeneca.

Alphabet appreciated on a strong first quarter earnings report, highlighted by revenue acceleration across all products while maintaining tight cost control and instituting a modest dividend. The company is the world leader in digital advertising, monetizing several products with more than one billion monthly active users. Alphabet continues to invest in Artificial Intelligence (AI) initiatives and data centers. We expect Alphabet to be a leader in AI given its financial resources, intellectual capital, massive proprietary datasets, and the powerful network effects inherent to its products and services. Broadcom also delivered a strong fiscal second quarter earnings report and raised revenue and profit expectations for the full year. The company generated a record $3 billion of revenue from AI products in the quarter and is well positioned to capitalize on demand for customized chips that are optimized for AI applications. The company's acquisition of VMware, completed in November of last year, is beginning to add value as demand for infrastructure software used in cloud applications is accelerating.

AstraZeneca benefitted from a steady stream of positive news flow during the quarter. The company reported first quarter results that beat analyst expectations and reiterated full year guidance calling for double-digit revenue and earnings growth. The company received several new drug approvals and disclosed positive clinical trial results for drugs in development. AstraZeneca also unveiled new medium-term financial targets that, if achieved, would place its fundamental performance in terms of revenue and profit growth in the top tier of global pharmaceutical companies. We believe these targets are achievable based on the company's existing portfolio of medicines in oncology, biopharma, and rare diseases coupled with one of the largest and broadest late-stage drug pipelines in the industry.

Our top detractors in the second quarter were Airbus, Salesforce, and Visa. Before addressing the performance of our holdings, it is worth noting that for the second consecutive quarter the single biggest detractor from relative performance came from a position not owned, NVIDIA. For the 1H of 2024, the omission of the stock has detracted over 300 basis points from relative performance. As part of our active risk management focus, we established a position in NVIDIA late in the quarter.

Airbus declined after the company lowered guidance for 2024 and pushed out the timeline for ramping up production of its best selling A320 narrowbody aircraft. Both items stem from supply chain issues, particularly with engine manufacturers who are having trouble keeping up with demand. While disappointing, we view these issues as temporary in nature and having an immaterial impact on our investment thesis. The company continues to benefit from missteps at its crisis-riddled competitor, Boeing, where the issues are more problematic (quality, safety, reliability). Airbus set the industry record for new aircraft orders in 2023 and now boasts a decade-long backlog of orders, creating tremendous visibility for investors. The company is well-positioned to capitalize on the secular growth in global travel over the next decade.

Salesforce posted quarterly results that were solid, but marginally below investor expectations. Management guided for revenue growth to slow by a few points for the remainder of the year, due to a lengthening sales cycle. Importantly, free cash flow growth remains firmly in double-digit territory. We viewed the share price reaction as overblown and added to the position.

Visa delivered double-digit revenue and profit growth for the quarter, which it expects to do for the entire year. However during the quarter, a federal judge rejected a landmark $30 billion anti-trust settlement involving Visa, Mastercard, and merchants. This litigation will remain an overhang but does not materially impact our view of the company long-term. Through its market leadership and strong brand recognition, Visa is extremely well-positioned to capture additional consumer spending dollars at high incremental margins as electronic and digital payments continue to gain market share.

We initiated positions in J.P.Morgan and Union Pacific, which we believe upgrade the portfolio in terms of business quality and multi-year compounding potential. These positions are also long-term holdings within our Shareholder Yield and Quality Capital Reinvestment franchises, respectively. Additionally, we established a relative under-weight position in NVIDIA to reduce the significant active risk within the portfolio.

J.P.Morgan is a global financial services firm with over $4tn in assets. It operates four business segments including consumer & community banking, capital markets, commercial banking, and asset & wealth management. J.P.Morgan competes in an increasingly concentrated industry with high barriers to entry created by charters to collect deposits and onerous regulatory and compliance costs. Competitive advantages include its fortress balance sheet, high market share across its diverse range of businesses, best-in-class efficiency, and high capacity to invest in technology and products to support clients. Led by CEO Jamie Dimon, management has an excellent record of creating value for clients and owners by balancing reinvestment with cash distributions and maintaining ample excess capital to support a range of economic conditions and regulatory outcomes. J.P.Morgan is reasonably valued reflecting the superior quality of its franchise. We believe it should continue to deliver industry-leading returns and growth in tangible book value per share through economic cycles driven by continued market share gains, operating leverage, and share buybacks. Its high capital level and management's operating prowess should provide downside participation.

Union Pacific is a Class 1 railroad connecting 23 states in the western two-thirds of the U.S. It serves many fast-growing population centers, operates from all major West Coast and Gulf Coast ports to Eastern gateways, connects with Canada's rail system and, uniquely, serves all six major Mexico gateways. The company generates excess returns and robust free cash flow due to its duopolistic industry structure, high barriers to entry, and competitive advantages. Its rail network, built over 160+ years, is critical to the

U.S. economy and nearly impossible to replicate. Its long length of haul provides a cost advantage versus trucks and other railroads, and its fuel efficiency is superior to trucks. Industry veteran and CEO Jim Vena is focused on leading the industry in safety, service, and operational excellence, which should drive greater cash generation and long-term value creation. We believe UNP shares are undervalued as soft freight volumes, inflationary pressures, and weather disruptions have weighed on both earnings power and investor sentiment. Recovering volumes aided by service improvements, catch-up pricing, and cost efficiencies could drive an acceleration to high single digit free cash flow growth and a potential upward valuation multiple re-rating over the next few years.

We exited the following positions to fund new and increase existing holdings with more compelling risk-return profiles: Arista Networks, Bank of America, Deere & Company, and Pernod Ricard.

Specific to Arista Networks, a holding we had been consistently trimming, as the stock price appreciated towards our upside case even as a new competitive threat to its Ethernet networking solutions from Nvidia's Spectrum-X platform emerged. We added to preferred AI-exposed holdings, including Broadcom and Applied Materials.

We elected to sell Bank of America to establish a position in J.P.Morgan. Whereas both companies trade at similar market valuations on selected metrics, we believe J.P.Morgan upgrades the portfolio in terms of business quality and management quality given its stronger balance sheet and superior operational track record. Likewise, we adjusted our industrials exposure by selling Deere & Company and buying Union Pacific. While Deere has a strong competitive position in the highly cyclical agriculture end market, we believe Class 1 railroads as a group have among the strongest economic moats in the industrials sector given the duopolistic structure of their markets and irreplaceable nature of their assets. Lastly, Union Pacific is cross held by other TD Epoch strategies whereas Deere is no longer held; this is an important consideration as our Choice portfolios are intended to express the best ideas of TD Epoch.

Finally, we sold underperformer Pernod Ricard, whose operational turnaround was progressing more slowly than expected given persistent weakness in the U.S. and lingering uncertainty in China.

Outlook

After a strong first-half of the year, we expect more moderate equity returns in the coming quarters, reflecting a mixed macroeconomic and geopolitical backdrop. On the positive side of the ledger, the U.S. economy remains resilient and, despite signs of softening, looks like it will avert a recession. Inflation is slowly trending to the Fed's target, increasing the likelihood of at least one rate cut by year-end. A Fed rate cutting cycle may be supportive of valuation multiples. It could also be a catalyst for moving the record amount of cash out of money market funds into other asset classes, including equities.

On the corporate front, sales and earnings growth is solid, albeit led by large cap technology names that are benefitting from significant investments in and growth of AI applications. Valuation levels are elevated but not egregious, and certainly nowhere near the levels seen during past market bubbles such as the dotcom era. Unlike other investment manias that investors became enamored with, the current enthusiasm around AI is backed by strong business fundamentals for the leading players.

Counter-balancing these positives are several risks that could potentially derail economic growth and corporate earnings. It is still premature to call victory against inflation. Wage growth remains elevated in labor intensive service industries and housing costs are proving sticky. Should inflation reassert itself, it creates the possibility of a significant policy mistake by central banks around the world.

There are also signs of the consumer weakening as the cumulative impact of inflation takes its toll. While current year-on-year inflation may be sub-5% and trending to target, consumers are paying 20%, 30%, or even more for goods and services than they were pre-pandemic.

The unpredictable and erratic behavior of governments and regulators remains a risk. Big tech is squarely in the crosshairs and some of our holdings have already been the target of litigation. We believe these companies have the financial resources, scale, expertise, and experience to adapt their businesses to whatever is thrown at them. And, as we saw this past quarter, elections around the world will continue to inject a degree of uncertainty and volatility into markets.

Outside the U.S., the geopolitical and macroeconomic backdrop is more challenging. As a result, we would emphasize selectivity. While Europe optically looks cheap, its companies have tended to have lower growth and lower returns on capital than the U.S. We are focused on global champions i.e., high quality market leaders domiciled in Europe but whose businesses are global in nature.

Japan is an interesting market now, with the Nikkei 225 Index passing its all-time highs set 34 years ago in 1990. We are seeing a strong corporate reform push, with companies taking action to improve profitability, boost returns on equity, and valuation multiples. Companies have announced record levels of shareholder returns (dividends and buybacks) and are unwinding cross-shareholdings to boost capital efficiency. The Japanese market is becoming more shareholder friendly. Tempering our enthusiasm, Yen weakness has depressed returns of Japanese securities in dollar terms.

Finally, China's sustainable growth rate has declined, driven by deglobalization, trade wars, and unfavorable demographics. We do not have any direct investments in the country.

Rather than position for any one macroeconomic outcome, we prefer a balanced approach, focusing on owning a diversified portfolio of quality companies that consistently earn excess returns and generate, sustain, and grow free cash flow over time. We also want such companies to be run by management teams with a demonstrated ability to thoughtfully allocate capital between value-creating reinvestment and shareholder distributions, and whose economic interests are aligned with those of minority owners. Finally, we seek to buy these companies at reasonable or cheap valuations. We think our investment approach to own companies we believe will compound free cash flow per share at superior rates to the market creates a winning proposition for our clients over time and through market cycles.

Definitions:

The **S&P 500** Index is widely regarded as the standard index for measuring large-cap U.S. stock market performance.

The **Nasdaq-100** Index includes 100 of the largest domestic and international non-financial companies listed on The Nasdaq Stock Market based on market capitalization.

The Morgan Stanley Capital International World Index—the MSCI World Index—is a free float-adjusted market capitalization weighted index that is designed to measure the equity performance of 23 developed markets. An index is unmanaged and investors can not invest directly in an index.

The Nikkei 225 Index is a priceweighted equity index, which consists of 225 stocks in the prime market of the Tokyo Stock Exchange.

Free cash flow (FCF) represents the cash available for the company to repay creditors or pay dividends and interest to investors.

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