Quarterly Commentary

MainStay Epoch Global Choice ADR

As of March 31, 2023

In long term, asset-light business models seek to excel. These models exemplify the substitution of technology for labor and physical assets. So long as revenues are flat or rising, returns on invested capital (ROIC) will potentially rise and will likely appear in the value of the underlying equity.

Portfolio managed by:

Market Review

Stocks experienced volatility in the quarter with strong gains in January, then falling sharply in February, and rising again in March to end the quarter up 7.7% for the MSCI World Index. From a sector perspective, the weakest results for the quarter came from energy, healthcare, and financials while the information technology, communication services and consumer discretionary sectors delivered strong gains. A handful of large cap stocks delivered attractive returns during the quarter and disproportionately contributed to the performance of the index given their market cap weights and respective performance. Companies such as Apple, Amazon, Meta, Microsoft, Nvidia, and Tesla were all up north of +20% in Q1 of 2023. The equal-weighted index returns were considerably lower given the small number of companies that contributed to performance.

Despite the modest reduction in inflation, the Federal Reserve indicated that a policy pivot is unlikely to occur in 2023 baring an existential event. Inflation continued to ease in the euro zone, Purchasing Managers Index (PMI) indicators rose, and measures of consumer confidence increased modestly.

The European Commission published its Winter 2023 Economic Forecast and indicated that the E.U. economy is likely to avoid a recession. The International Monetary Fund upgraded its economic outlook modestly, citing moderating inflation, declining energy prices, and the incremental positive effects from China's reopening. The employment numbers remain very strong despite the impact of rising interest rates orchestrated by the central banks to tame inflation.

Portfolio Review

The Epoch Global Choice ADR portfolio outperformed the MSCI World Index. The outperformance was primarily driven by stock selection, specifically in the information technology sector. The sector allocation effect was a small positive contributor primarily driven by our overweight to communication services.

From a country perspective, stock selection within France, Germany, Netherlands, United Kingdom, and Japan all contributed to results which were partially offset by weaker relative results within the United States. The currency impact was slightly negative during the quarter.

The top five contributors to total returns came from STMicroelectronics, Salesforce, Universal Display, and Microsoft from the information technology sector as well as Deutsche Telekom from the communication services sector.

STMicroelectronics (STM) was the largest positive contributor to the information technology sector and total returns. STM is a global semiconductor company that designs and manufactures semiconductor products used in applications such as automotive, computer, telecommunications, consumer electronics, and industrial

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automation and control. STM delivered better-than-expected revenue, profit and guidance. Manufacturing efficiencies and improved pricing have increased operating profit margins for STM. The business has exposure to high-growth segments where secular trends are driving increases in semiconductor content, such as automotive electrification, industrial digitization and connectivity, electrification and smart power, and the proliferation of the "internet of things" in various industries.

Microsoft delivered very strong performance in Q1. Microsoft provides software support, services, and devices to consumers and enterprises through its Windows operating systems and productivity solutions. The company has shifted its enterprise initiatives to the cloud with a SaaS subscription model and remains well positioned for the ongoing shift of tech spending to the cloud. The company continues to drive growth in both sales and free cash flow, while making significant strategic investments for future growth, including Chat GPT and search. Microsoft is set to benefit in the future from the recently announced cost cutting initiatives and headcount reductions. The 2nd Quarter of Fiscal Year 2023 reported results for Microsoft indicated quarterly revenues of $53 billion with gross profit margins of 66.8% and operating margins of 38.7%. Microsoft returned $9.7 billion to shareholders in the form of share repurchases and dividends in the second quarter of fiscal year 2023.

After a very challenging 2022, Salesforce delivered a strong quarter of performance, up over 50%. We expect Salesforce's key markets to continue growing, as more enterprises embrace the cloud and move to a SaaS model. Salesforce should continue gaining share as they add modules to their core products, and more tightly integrate workflows via Slack. As the company digests and optimizes the various acquisitions, we expect margins and cash flow should resume their upward trend. Salesforce recently delivered solid Q4 results with sales up 14% year over year, despite Foreign Exchange (F/X) headwinds and an elongated sales cycle. Management provided softer sales guidance due to macro headwinds offset by the positive news that the Board authorized a $20 billion share repurchase program (up from $10 million previously announced in September of 2022) along with an optimization of staffing levels to help improve profit margins in the future. The current focus is on driving efficiencies, integrating the recent acquisitions, and improving operating profit margins.

Deutsche Telekom (DT) remains one of our top holdings in the portfolio with the largest active weight. We view DT as both a U.S. growth story (through the company's strategic 50% plus ownership stake of T-Mobile USA) and as an inexpensive way to participate in Europe's communication services industry. Deutsche Telekom is one of Europe's largest telecom service businesses, providing investors with a well-covered and growing dividend.

The bottom five detractors to returns for the period were Chevron Corporation and Devon Energy from the energy sector, Centene and Moderna from the health care sector, and Bank of America.

We view Chevron as a high-quality major energy company with good assets, a great management team, and a rock-solid balance sheet. Chevron reported Q4 sales of $56.5 billion and the company repurchased $3.75 billion of shares plus paid $2.7 billion in dividends, which works out to an annualized 7.6% shareholder return yield. The board approved a new buyback authorization of $75 billion (~20% of market cap), which does has not have a timetable associated with it but is expected to be in the range of $5-15 billion per year. The balance sheet is strong at about 0.1x of leverage.

Devon Energy was a new addition to the portfolio, and we continued to build our position throughout the quarter taking advantage of the price weakness. Devan engages in the exploration, development, and production of oil and natural gas properties. It operates in the Delaware Basin, Eagle Ford, STACK, and Powder River Basin. In our view, Devon offers differentiated asset and financial performance potential and is well positioned to perform given its prescriptive return of capital program. Qualitatively, the stock offers peer-leading leverage to the Delaware Basin with 400,000 + net acres with perhaps the best pound-for-pound acreage in the basin. We expect its market leading return of capital program (50% of excess free cash flow (FCF) and $2.0 billion repurchase program) to likely drive performance. Over recent years, Devon repositioned its asset portfolio to focus on high-returning, oil-growth properties with an emphasis on running the business for total shareholder returns. It completed its merger of equals with WPX Energy in January 2021, which has translated into the new Devon generating robust free cash flow and additional diversification. Devon was one of the first Exploration & production (E&P) companies to introduce a variable dividend framework that provides an attractive mechanism for investors to see a more “real-time” benefit to oil prices and robust cash flows. Devon has a breakeven point in the low-$30s/barrel West Texas Intermediate (WTI), underpinned by its Permian and Delaware assets. Management plans to return to shareholders a base dividend plus variable dividends, as well as opportunistic share-repurchases. Recent insider (CEO and CFO) stock purchases suggest the attractiveness of the current price.

Within the health care sector, the performance of Centene declined during the period and we sold our position thereby reducing our exposure to health care. Centene is primarily a U.S. health insurer serving lower income Americans enrolled in government programs including Medicaid, the Affordable Care Act (ACA) marketplace, and Medicare Advantage to over 25+ million Americans and the business generates over $127 billion of annual premium revenue. However, the changing competitive environment and government actions suggest our initial expectations were too optimistic, so we eliminated our position in Centene during the quarter.

Stock selection within consumer staples and materials were driven by Coca-Cola Europacific Partners and Linde, respectively as both positively contributed to their sector results in the quarter.

We began building a new position in Arista Networks which is the leading supplier of cloud networking solutions. Arista Networks (ANET) is a leading branded provider of switches to U.S. hyperscalers and is well-positioned to capitalize on the ongoing growth in data, the digital transformation driving workloads from on-premises to public and hybrid-cloud, and the growing demand for higher bandwidth, faster speeds, and lower latency. Arista Networks is the most levered to growth in cloud spending and also has a dominant position in data center switches. In our view, ANET’s technology is differentiated from competitors as its hardware runs the proprietary, programmable networking operating system “EOS”, which is a strategic advantage because it allows for easier automation, network visibility, and implementation; and ANET uses the latest merchant silicon architectures allowing it to be faster to market with new solutions. Arista posted attractive results for fiscal 2022 with 48.6% revenue growth with 40% + operating margins with a pristine balance sheet. Arista expects 25% growth in CY23, and 10%+ growth persisting through CY25. Arista has category-leading growth, and we view this as a solid entry point. Meta Platforms, Inc (Meta) was added during the quarter and contributed to

communication services performance with double-digit returns. Meta, formerly known as Facebook, is the world's largest online social media network, with more than 2 billion monthly active users. Users engage with each other in different ways, exchanging messages and sharing news events, photos, and videos. The company owns Facebook, Facebook Messenger, Instagram, and WhatsApp. Advertising revenue represents more than 90% of the firm's total revenue. Meta reported better than expected fourth-quarter 2022 results despite currency headwinds, macro uncertainty, and a deceleration in overall digital advertising growth. Meta also appears to have improved ad conversions on its apps while also increasing demand from advertisers and lessening the impact of Apple's software privacy moves. Meta realized an all-time high in engagement across their platforms. All the real-time data shows that Facebook Reels is gaining on Tik Tok which is a major positive for Meta. Most significantly, the company announced a large reduction in its planned operating expenses and reduced capital expenditures, with CEO Zuckerberg declaring 2023 to be "the year of efficiency." They signaled very clearly that this is the beginning of a transition to a leaner organization. The change in strategy this year was well received by shareholders. In addition, the company announced a significant share repurchase plan of $40 billion in addition to the announced layoffs.

We added to the financial sector with the addition of BNP Paribas. The merger of Banque Nationale de Paris and Paribas created BNP Paribas SA (BNPP) in 2000, making it the largest publicly traded bank in France. BNP Paribas has operations in about 74 countries, including all major international financial markets and a leadership position in Europe. BNP Paribas has one of the largest global banking networks. We expect BNPP to generate stable returns and grow organically with further prospects for capital to be returned to shareholders through dividends and share buybacks. Management has proposed a €5bn share buyback in 2023 in addition to the substantial cash dividend currently being paid. BNPP's profitability will likely also benefit from the rising interest rate environment in terms of the expected lift in net interest income (NII) margins. BNP Paribas has been gaining market share in investment banking as many European peers have retrenched. BNP Paribas' capital position has been improved by the rather timely sale of U.S. retail bank, Bank of the West for $16.3 billion, giving it a bumper war chest for investments and potential acquisitions at a time when the bank expects to benefit from rising European Central Bank interest rates. BNP management said that it now expected net income to grow more than 9 per cent annually through to 2025, after its profits rose 7.5% in 2022 to €10.2 billion. BNP Paribas generates a respectable high-single digit ROE, and the current share price represents compelling value in terms of price-to-book value, earnings, cash flow, return on tangible equity, and the dividend yield is north of 7%.

During the quarter, we sold our position in Nike and two companies from the health care sector, namely Centene Corporation and Roche.

Nike's share price had appreciated by approximately 20% over the past 3 months. We chose to take advantage of the recent share price gains and close our position. Nike recently reported fiscal second quarter 2023 net earnings of $1.3 billion or 85 cents a share compared with analyst estimates of 64 cents a share. Revenue was $13.3 billion, up 17% from a year ago and the CFO Matthew Friend said he expects annual revenue to grow in the "low teens" this year. Nike sales in China, its third-largest market by revenue, dropped by 3% compared to last year, as the country contends with lingering pandemic lockdowns and a slowdown in retail spending. Nike's direct sales were up 16% for the

quarter and digital sales were up 25%. The excess inventory issues at Nike seem to be taking longer to work through the sales network thereby impacting profit margins plus the challenges in China could be prolonged given the geopolitical tensions between the U.S.A and China.

We closed our position in Roche to transition to companies with better growth opportunities. Roche reported 4Q 2022 results slightly below expectations mainly due to F/X. In 4Q, sales increased +1% Y/Y to Swiss CHF ~16.2 Bn, in second half of 2022, core operating profit decreased -7%. The operating profit margins were down by -120 bps and it's core EPS decreased by -3% Y/Y in the second half of 2022. In 4Q, Pharma was broadly in-line with expectations while Diagnostics was modestly above expectations by about 3%. Several of Roche's key pharma products performed well in 4Q, with Vabysmo (ophthalmology) a significant outperformer (+40% above consensus) and an important contributor to medium-term growth expectations. Disappointingly, there were no significant pipeline updates and Roche also introduced lower FY23 guidance that calls for a "low-single-digit decline" in group sales growth so we closed the position.

Outlook

The five largest sector exposures are information technology at approximately 28%, industrials at approximately 15%, health care at 13%, financials at approximately 12%, and communication services at around 9%. These sectors represent we believe the growth paths for the world's economy. That said, in the short-term central bank policy suggests moderating valuation measures for these sectors taking into consideration sales growth, margins, earnings and multiples. The market is too optimistic in regard to the Fed's ability to alter or pivot from its tightening policy this year, based on our view that once inflation becomes embedded in wage expectations, it is extremely difficult to offset its effects on the general price levels of an economy. Thus, we do not believe the Fed will ease its policy rate any time soon.
In our view the health care sector provides several key attributes that benefit investors:
• Health care earnings tended to be more resilient during economic downturns.
• Secular growth is driven by an aging population and favorable demographics.
• Innovation will likely continue to drive growth with effective Research & Development.
• Innovation and growth are ever present in health care thereby potentially helping to improve profit margins.
We believe innovation is at the heart of these key sectors and forms the basis for what we believe is the portfolio of the future. Technology will continue to move deeper into our lives and intelligent software will provide expanded services for businesses, individuals, and medical solutions. The technology, communication, and science sectors will be in our view the investment winners for a long time to come and we continue to have an overweight in these sectors. In the short run, however, because the cash flow streams anticipated for these faster growing segments of the economy are characterized as having longer duration measures than other industries, they are impacted more negatively from increases in interest rates. When central bank policies normalize, we expect probably around mid-year or during the third quarter, interest in and support for these sectors should visibly return and valuations should improve.

Longer term, asset-light business models seek to excel. These models exemplify the

substitution of technology for labor and physical assets. So long as revenues are flat or rising, returns on invested capital (ROIC) will potentially rise and will likely appear in the value of the underlying equity. These asset-light models can be found in every industry, but they are particularly present in the technology, science, and communication sectors where we have confidence and have positioned the portfolio accordingly.

Definitions:

ROIC: Return on invested capital is the amount of money a company makes that is above the average cost it pays for its debt and equity capital.

Earning per share (EPS): Earnings per share (EPS) is a figure describing a public company's profit per outstanding share of stock. It is the ratio of company's net income to the number of its shares outstanding.

Purchasing Managers Index (PMI) : The Purchasing Managers Index is an indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. A PMI of more than 50 represents expansion of the manufacturing sector, compared to the previous month. A reading under 5 represents a contraction, while a reading at 50 indicates no change.

Equal-Weighted Index: Equal-weighted index is a stock market index, comprised of a group of publicly traded companies that invests an equal amount of money in the stock of each company that makes up the index.

International Monetary Fund (IMF): The International Monetary Fund (IMF) works to achieve sustainable growth and prosperity for all of its member countries. It does so by supporting economic policies that promote financial stability and monetary cooperation, which are essential to increase productivity, job creation, and economic well-being. The IMF is governed by and accountable to its member countries.

West Texas Intermediate (WTI): West Texas Intermediate (WTI) crude oil is a specific grade of crude oil and one of the main three benchmarks in oil pricing, along with Brent and Dubai Crude

About risk- The principal risk of investing in value stocks is that the price of the security may not approach its anticipated value. Investing in smaller companies involves special risks, including higher volatility and lower liquidity. Investing in mid-cap stocks may carry more risk than investing in stocks of larger, more well-established companies. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks. These risks may be greater for emerging markets.

Past performance is not indicative of future results. The securities discussed are not intended to be, and are not, an indication to buy, sell, or hold. Rather, the securities are mentioned to give insight into the largest contributors to performance and the largest detractors from performance so that clients and prospective clients can more readily obtain an understanding of the risk characteristics of the portfolio and the portfolio management process followed by Epoch.

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.

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

Please keep in mind that there is no assurance that investment objectives will be met, as the underlying investment options are subject to market risk and fluctuate in value.

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