

# Global Strategy Commentary 1Q22

## Portfolio Characteristics

Price-to-Value	high-50s%
# of Holdings	20
% of Cash	5.7%
Portfolio Yield	1.4%

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	Annualized Total Return					Since Inception (%)
	1Q (%)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	
Global Strategy (Gross)	-4.95	-7.72	5.98	5.99	7.84	6.48
Global Strategy (Net)	-5.08	-8.17	5.41	5.43	7.26	5.76
MSCI World	-5.15	10.12	14.98	12.42	10.88	5.99
MSCI World Value	-0.65	10.57	9.78	7.88	8.43	5.33

\*Since inception 9/30/2000

The Global Strategy declined 5.08% in the first quarter, roughly in line with the MSCI World's 5.15% decline. In a volatile quarter for markets across the globe, our companies made solid progress across the board, but we saw one of the largest disconnects between price and value per share performance that we have seen for our portfolio in a long time. Our investments in US natural gas companies CNX Resources and Williams were among our strongest performers, as demand for domestic natural gas increased and energy prices skyrocketed due to Russia's invasion of Ukraine. However, the portfolio saw a continuation of China/Hong Kong exposure weighing on absolute and relative returns, as four unrelated events combined to compound the extreme volatility in March: the Russia-Ukraine War, a COVID resurgence in China, Chinese ADR delisting fears and rising inflation fears and ensuing tighter monetary conditions in the US. This quarter, the portfolio's European holdings also took a toll on performance, as European equities were indiscriminately sold amid fears over Russia's invasion of Ukraine. We have no direct exposure to Russia/Ukraine and very minimal

look through (low single-digits from a value perspective), as these regions have never qualified due to governance and rule of law concerns. The steep stock price declines are completely disconnected from the underlying values of our companies, which have not warranted a corresponding significant decline. We wrote more extensively on our views on the expected impact of the ongoing conflict [here](#).

We encourage you to watch our [video](#) with Portfolio Managers Ross Glotzbach, Staley Cates and International Strategy Portfolio Managers Ken Siazon and Josh Shores for a more detailed review of the quarter.

## Contribution to Return

### 1Q Top Five

Company Name	Total Return (%)	Contribution to Return (%)
CNX Resources	51	2.47
Williams	22	0.69
Fairfax Financial	13	0.53
CK Hutchison	14	0.52
Discovery	9	0.23

### 1Q Bottom Five

Company Name	Total Return (%)	Contribution to Return (%)
Prosus	-35	-1.70
IAC	-23	-1.23
EXOR	-14	-1.14
Melco International	-24	-1.04
Glanbia	-17	-0.77

## Performance Commentary

- **CNX Resources:** CNX appreciated as energy prices increased dramatically, and the critical nature of natural gas infrastructure and its ability to support Europe in limiting its dependence on Russia as an energy source was broadly recognized. CNX saw the benefits of its extensive share buyback program over the last year+ with free cash flow (FCF) nearing \$3 per share. CNX increased the diversity and depth of experience of its board and executive management team in the quarter with the addition of Robert Agbede as a board director, Ravi Srivastava as President of New Technologies, and Hayley Scott as Chief Risk Officer.
- **Williams:** Williams similarly benefitted from the positive natural gas tailwinds in the quarter. We exited our position on the back of strong performance.

- **Fairfax Financial:** Canadian insurance and investments conglomerate Fairfax contributed after announcing strong underwriting growth, equity portfolio appreciation, gains from underlying digital insurance business Digit and value-accretive share buybacks. The investment portfolio should continue to benefit from rising interest rates. Fairfax released its 2021 ESG report, highlighting improvements in climate change risk assessment framework and sustainable underwriting initiatives, an area where we have been engaged with management.
- **CK Hutchison:** Hong Kong-based conglomerate CK Hutchison was a positive contributor after reporting a solid full-year result for 2021, with overall revenue up 10% year-over-year (YOY) and EBITDA (earnings before interest, taxes, depreciation and amortization) up 15% YOY. The port division had the strongest recovery, with profits already above pre-COVID levels, and the positive momentum is holding up in 2022. The retail business bounced back from a low base in 2020, with stores in Western Europe outperforming those in China. In March, CK Hutchison finally obtained conditional approval for the UK tower sale to Cellnex, the largest and last tranche of six tower asset disposal deals first announced in 2020. On completion, the UK telecom tower disposal will bring in €3.7 billion, representing around 15% of the current market cap of CK Hutchison. Management has indicated that a portion of the proceeds will be used for share buyback, which is an excellent, value accretive use of proceeds at the current 7x earnings, 5% dividend yield of CK Hutchison.
- **Prosus:** Tencent, which accounts for 85% of Prosus's appraisal, faced pressures from weak macro and regulatory headwinds in the quarter. High base effects and proactive initiatives to reduce minors' game play temporarily slowed down Tencent's domestic game growth, despite its international game business growing strongly. The regulatory stop on the after-school tutoring sector and reduced ads inventory impacted Tencent's ads businesses. Tencent made solid progress with new initiatives, increasing viewership, user time spent in video accounts and strong user growth in SaaS. Geopolitical risk and rising interest rates have impacted Prosus's global e-commerce portfolio net asset value (NAV). Higher interest rates and tighter liquidity conditions negatively impacted food delivery company Delivery Hero. The company remains confident that its balance sheet can support

incremental investments at much better valuations today while maintaining an investment grade rating. Prosus has exposure to Russia through its investment in Avito, which accounts for a low single-digit percentage of NAV but a more meaningful 20% of reported FCF (although far less on a look-through basis when including Tencent). We reduced our appraisal by low-single digits to reflect the impact. The NAV discount has widened to record highs despite a sizable \$10 billion buyback in the last 12 months. Bob van Dijk (CEO) and Basil Sgourdos (CFO) personally bought shares, highlighting their confidence in the business.

- **IAC:** The conglomerate discount on this digital holding company grew wider in the quarter amidst a period of broad uncertainty and continued technology stock declines. Unlike most of its tech peers, IAC began the year already uniquely discounted and today trades at less than half of our appraisal value and less than 10x estimated FCF per share power. Underlying holding Angi (previously Angie's List) reported a disappointing quarter. Angi represents only 25% of value but swings the market perception and stock price since it is also publicly traded. The market is not yet giving credit to the Dotdash Meredith deal creating a digital publishing leader, given the lack of near-term reporting clarity since the deal just closed and 2022 is a transition year. Additionally, IAC's underlying holdings in carsharing company Turo and casino and online gaming company MGM remain not properly recognized by the market. CEO Joey Levin and Chairman Barry Diller have a history of creating value-accretive catalysts to close the price-to-value gap.
- **EXOR:** EXOR was punished in the quarter primarily due to its European domicile in the face of top-down fears for the region with Russia's invasion of Ukraine. The conglomerate discount subsequently grew wider, as we tend to see during periods of global uncertainty. The company has negligible exposure to the region, and our appraisal value has not been impacted by these events. EXOR paid a one-off proactive exit tax settlement with the Italian Tax Authorities due to a retroactive application of current Italian tax law to the company's redomicile to the Netherlands in 2016. While painful in the short-term, the effective management of the settlement fully closes the matter going forward. The \$9+ billion sale of EXOR's reinsurer PartnerRe to strategic player Covea is still expected to close in the

coming months, with the sizeable check enhancing EXOR’s investment firepower in what we consider a more attractive opportunity in Europe.

- **Melco International:** Melco International was a top detractor in the face of renewed COVID lockdowns in Guangdong Province and Shenzhen. Melco held up relatively well operationally among its peer group, reporting stronger than expected fourth-quarter results, thanks to its solid mass operations and tight cost controls. Melco CEO Lawrence Ho shared a cautious outlook on the near-term re-opening prospects given ongoing COVID resurgence in China and its zero-COVID policy. While the timing of travel resumption remains unclear, we remain confident that the long-term demand outlook for Macau and gaming is solid. We believe Macau will be a big beneficiary of Chinese outbound tourism and will benefit further from China's government development of the Greater Bay Area.

## Portfolio Activity

### Summary of Trade Activity in 1Q

New Purchases	Full Exits
Glanbia	GREE
	Williams

We purchased a new position in Irish-listed global nutrition and supplements business Glanbia. We exited the portfolio’s small positions in GREE and Williams. Our cash is 5.7%, and our on-deck list is growing longer amid market volatility. New investments have a high hurdle to qualify given our conviction in our current holdings and the steep discount of the portfolio, which trades at a high-50s% price-to-value multiple.

## Outlook

In a challenging period of stock price volatility and global uncertainty – amid fears of a potential world war, ongoing COVID concerns, Chinese regulatory challenges, rising interest rates/growing inflation and the potential for a recession – we were nevertheless pleased with the solid progress made and appraisal stability seen across our portfolio holdings. We believe our companies in Asia and Europe are well

positioned to navigate the challenges facing each region today. We own companies that have pricing power that can price through cost increases and grow their profitability as a result. Our companies come from a position of financial strength with aligned, proven management teams that can take proactive steps to manage through challenging market environments.

*See the following for important disclosures.*

Southeastern Asset Management can be found in our ADV Part 2, available at [www.southeasternasset.com](http://www.southeasternasset.com). Statements regarding securities are not recommendations to buy or sell the securities discussed. The statements and opinions expressed are those of the author and are as of the date of this report. Holdings identified do not represent all of the securities purchased, sold, or recommended for advisory clients. Current and future holdings are subject to risk and past performance does not guarantee future results. Strategy information is based on a sample account at March 31, 2022. Portfolio makeup and performance will vary on many factors, including client guidelines and market conditions.

P/V (“price-to-value”) is a calculation that compares the prices of the stocks in a portfolio to Southeastern’s appraisal of their intrinsic values. The ratio represents a single data point about a strategy and should not be construed as something more. P/V does not guarantee future results, and we caution investors not to give this calculation undue weight.

“Margin of Safety” is a reference to the difference between a stock’s market price and Southeastern’s calculated appraisal value. It is not a guarantee of investment performance or returns.

**SOUTHEASTERN ASSET MANAGEMENT, INC.**  
**INSTITUTIONAL GLOBAL EQUITY**  
**COMPOSITE GIPS REPORT**

Year End	Total Firm Assets (USD) (millions)	Composite Assets (USD) (millions)	Number of Accounts	MSCI World (with net dividends)	Annual Performance Results Composite		Composite Dispersion	Composite 3-Yr Annualized EX-Post Standard Deviation	Benchmark 3-Yr Annualized EX-Post Standard Deviation
					Gross	Net			
2021	10,816	775	6	21.8%	10.1%	9.6%	1.1%	23.4%	17.1%
2020	10,270	2,062	7	15.9%	6.3%	5.7%	0.6%	24.2%	18.3%
2019	12,481	2,394	14	27.7%	20.6%	19.9%	0.7%	15.2%	11.1%
2018	13,881	2,475	17	-8.7%	-15.1%	-15.5%	0.6%	14.7%	10.4%
2017	18,203	3,149	17	22.4%	27.7%	27.0%	5.2%	15.1%	10.2%
2016	19,302	3,873	20	7.5%	16.3%	15.8%	3.0%	15.4%	10.9%
2015	20,315	4,822	31	-0.9%	-9.2%	-9.6%	2.0%	13.7%	10.8%
2014	30,542	6,779	33	4.9%	-1.6%	-2.3%	1.2%	13.5%	10.2%
2013	34,914	9,680	45	26.7%	34.3%	33.4%	1.6%	17.9%	13.5%
2012	31,752	8,898	53	15.8%	15.5%	14.8%	2.1%	20.1%	16.7%

**Institutional Global Equity Composite** - Portfolios included in this composite normally contain 18-22 securities, which are generally a subset of those held in U.S. and non-U.S. portfolios. The subset reflects the companies with the most attractive qualifications at the time an account has cash. Country and industry weightings and market cap size are a by-product of bottom-up investment decisions. Cash is a by-product of a lack of investment opportunities that meet Southeastern's criteria. The benchmark used for comparison is the MSCI World Index with net dividends.

Southeastern Asset Management, Inc. claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Southeastern Asset Management, Inc. has been independently verified for the periods January 1, 2001 through December 31, 2021. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Institutional Global



Equity Composite has had a performance examination for the periods January 1, 2001 through December 31, 2021. The verification and performance examination reports are available upon request.

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The investment management fee schedule for accounts with a market value less than \$100 million is 1.0% on the first \$50 million and 0.875% on the next \$50 million. The fee schedule for accounts with a market value exceeding \$100 million is 0.75% on all assets. Actual investment advisory fees incurred by clients may vary.

The Institutional Global Equity Composite was created on July 1, 2011. The inception date for this composite is September 30, 2000.