Harper Capital Management:

Global Markets- January 2024 Outlook:

Equity markets finished the year with a strong rally in both November and December and have had a good start to 2024. For the calendar year 2023, MSCI ACWI Index was +22.20%, EAFE Index +18.24% and the MSCI EM Index +9.83%. Among major developed markets, Italy (+37.1%), Denmark (+31.25%), Spain (+31.94%) and the United States (+26.49%) performed well last year, whereas Hong Kong (-14.77%), and Finland (-5.59%) were the only developed markets with negative returns for the year. Among emerging markets, Emerging European markets Hungary (+50.89%), Greece (+49.45%) and Poland (+48.60%) did well in 2023, and Thailand (-10.49%) and China (-11.20%) were laggards. Through the end of January 2024, the MSCI ACWI was +0.53%, EAFE index +0.54% and EM Index -4.68%. All three indices have done well (+3-5%) in February.

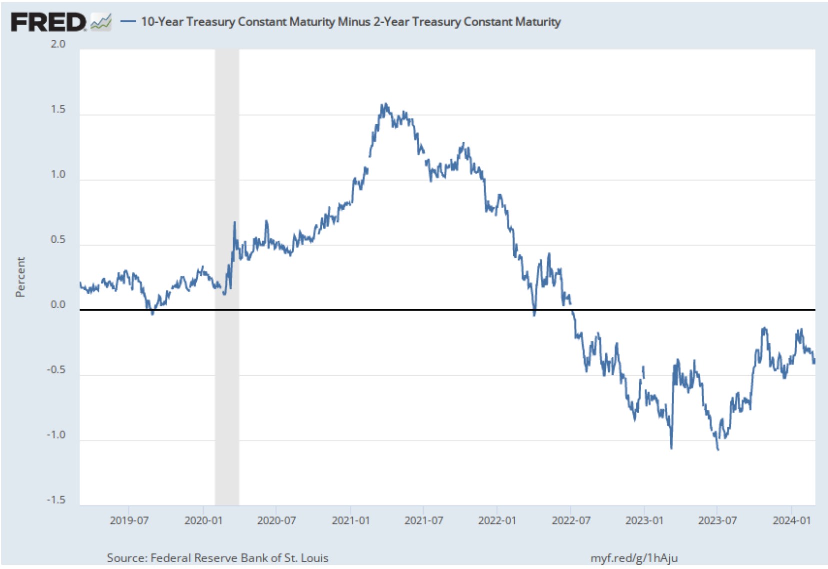
Bonds also bounced back over the last two months of 2023 as yields came down. The longer duration ETF TLT[1] finished the year with a total return of +2.96% and the aggregate bond ETF AGG[2] had a total return of +5.58%. The 10-year Treasury yielded about 3.93% at the start of 2024, but the yield has since risen to about 4.31%[3]. 2024 YTD return on TLT is -5.66% and on the AGG -1.97%. (yield and returns as of 2/27/2024)

10-year Treasury yield:

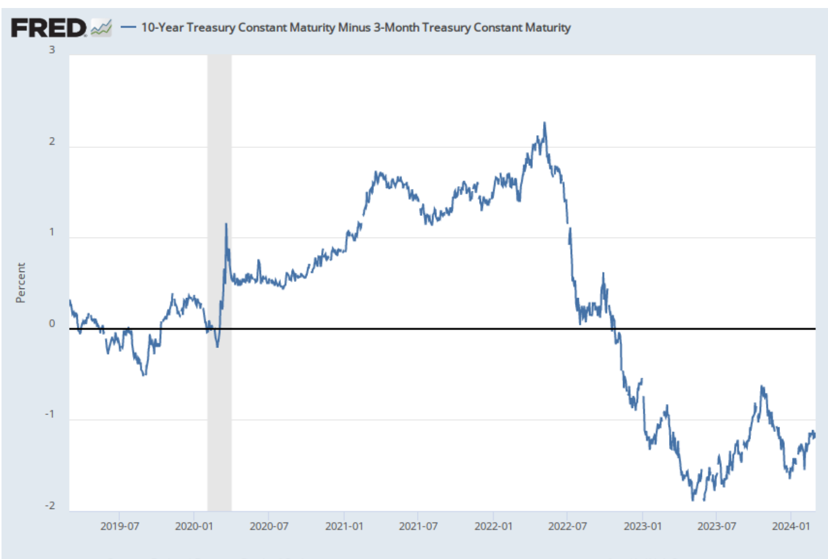
[1]https://www.ishares.com/us/products/239454/ishares-20-year-treasury-bond-etf
[2]https://www.ishares.com/us/products/239458/ishares-core-total-us-bond-market-etf
[3]https://fred.stlouisfed.org/series/DGS10

The 10-year-2-year (-37bps) and the 10-year-3-month (-118bps) yield spread remain inverted, with a slight reduction in the former and an increase in the latter in terms of inversion.

10-year- 2-year yield spread:



10-year- 3-month yield spread:

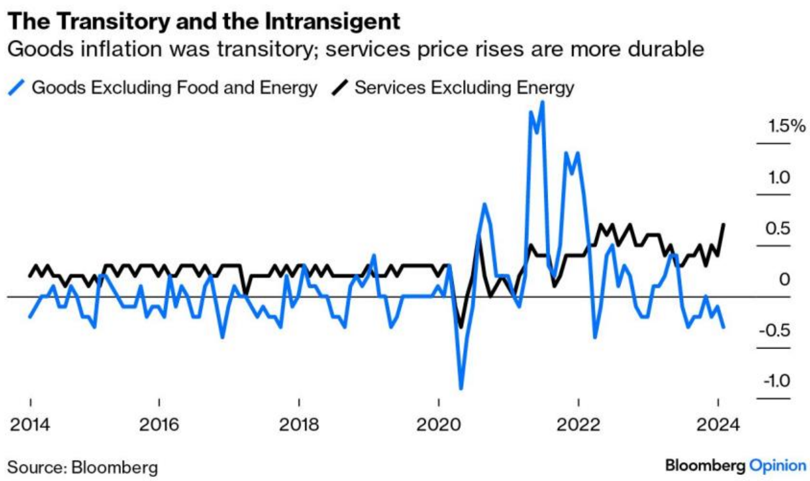


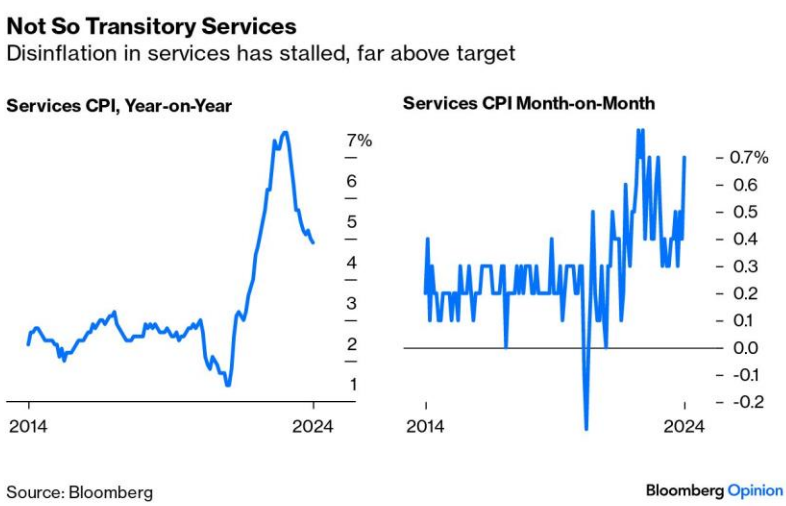
Global markets have been driven by the following factors over the last three months:

- Reduction in headline inflation
- Expectations of interest rate cuts

- Resiliency of the US economy and the potential for AI driven growth for the technology sector

Recent inflation data has been mixed, with progress on year-on-year (YoY) headline inflation, but with the core, super-core, and the month-on-month (MoM) data showing stickiness. January CPI data showed a decrease in the YoY inflation to 3.1% from 3.4%. On a MoM basis, inflation was higher at 0.3% (3.6% annualized) Vs a revised 0.2% (2.4% annualized). Goods inflation continues to ease, but Services inflation remains high[4].

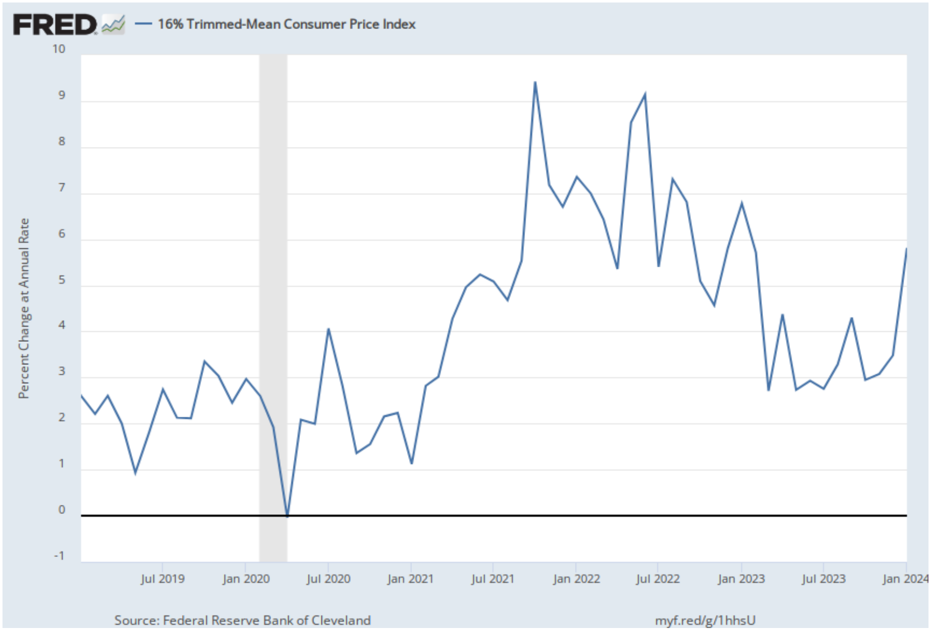




The Federal Reserve Bank of Cleveland's 16% trimmed mean CPI has also increased since October 2023, with the January 2024 annualized reading at 5.8%

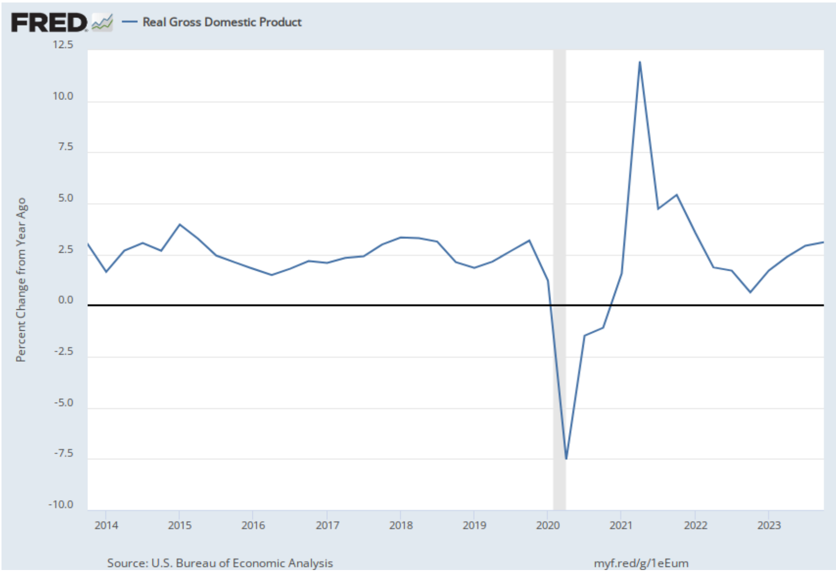
[4]Bloomberg Opinion, John Authers

and the YoY change above 4%. This metric excludes eight percent of the highest and lowest component readings.

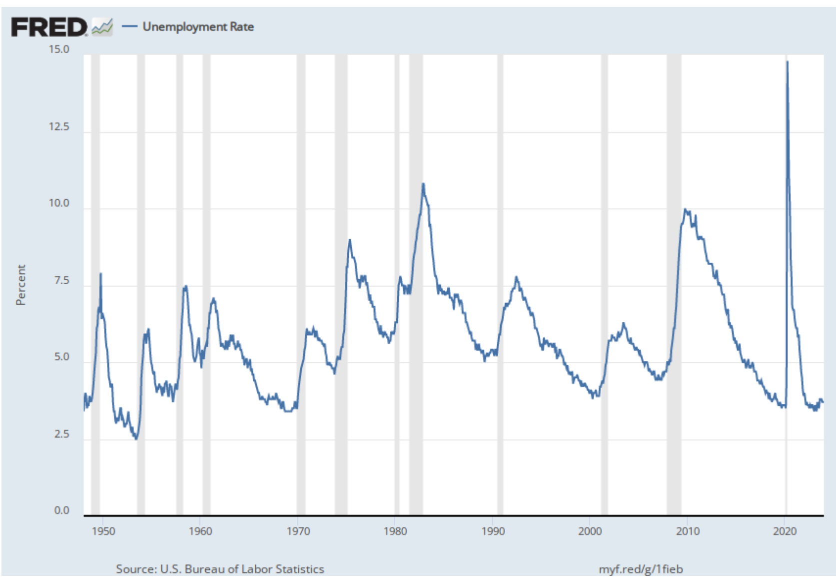


With Federal Funds rate at 5.25-5.50%, CPI at 3.1% and the last reported (December) Personal Consumption Expenditure (PCE- Fed's favored inflation gauge) at 2.6%, market expectations are that real interest rates are higher than needed and rate cuts are imminent. Changing expectations of the magnitude of rate cuts in 2024 and 2025 have been a key driver of markets.

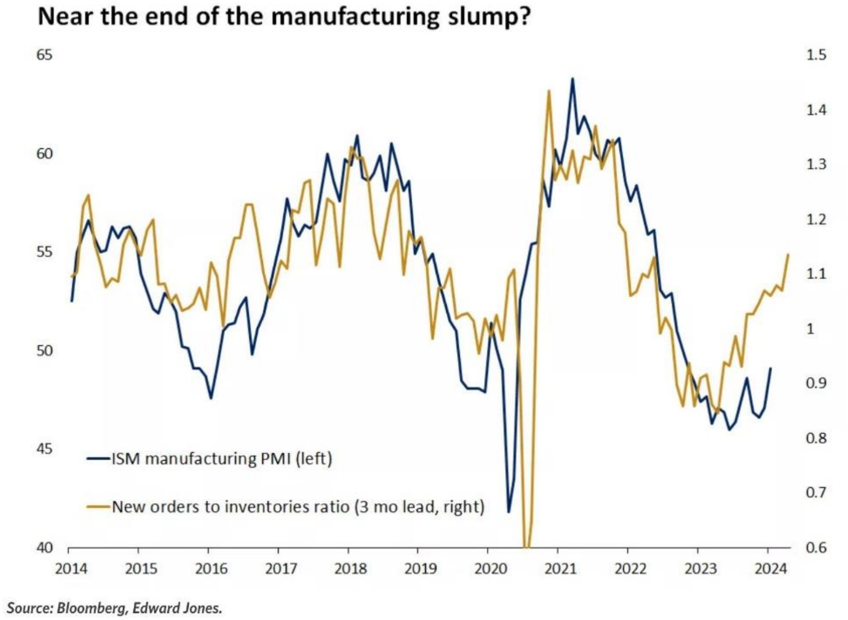
The US economy remains broadly healthy in the short-term with GDP growth at or above the trend over the last ten years.



Unemployment remains low.



Manufacturing activity and foreign investment in the United States are picking up.

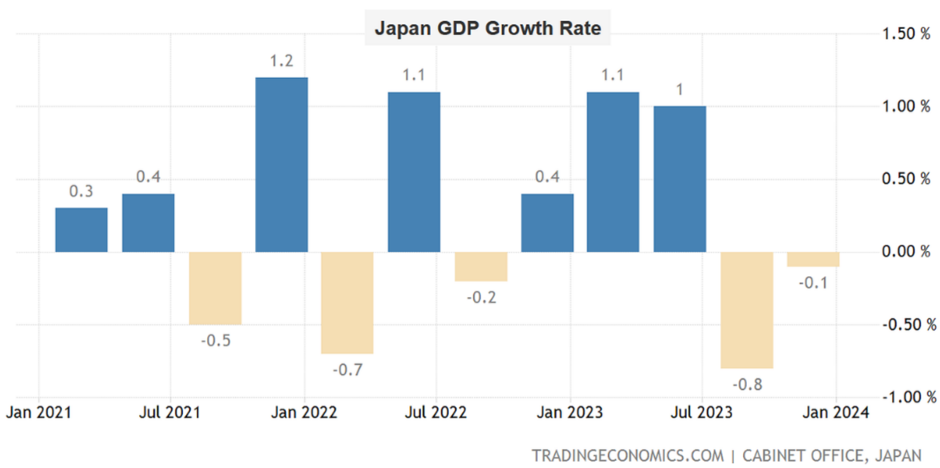


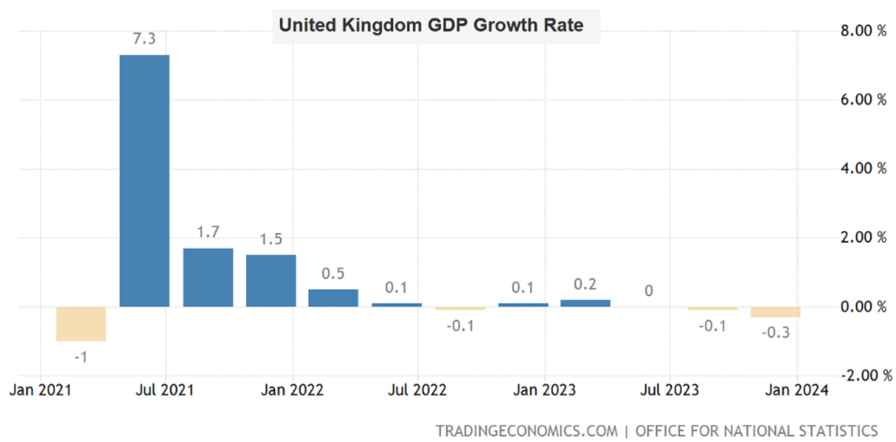
The potential for generative AI to transform our economy has been an important factor in the significant outperformance of a narrow part of the equity markets. Large Cap technology with its ability to deploy significant capital to build new infrastructure has been a significant outperformer. Semiconductor stocks like Nvidia, AMD and ASML have all been rewarded for significant revenue boost (Nvidia) and the potential for further growth over the next 3-5 years. Lisa Su, CEO of AMD recently said "We actually view AI as the single most transformational technology over the last 50 years. Maybe the only thing that has been close has been the introduction of the Internet."

Developed Markets:

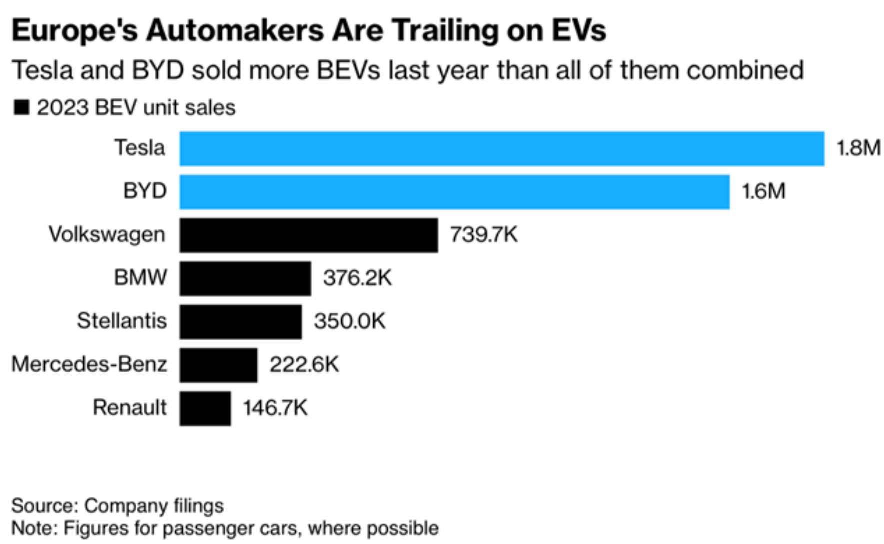
The Japanese Nikkei and the German DAX are at all-time highs, and the UK and Canada are near all-time high.

This is despite the continuing poor economic performance of most non-US developed countries. Japan and the UK are in a recession, and Germany is expected to enter a recession in the first quarter of 2024.





We have discussed the poor economic performance of the Eurozone relative to the United States in previous Investment Letters. The regulatory burdens on the economy perhaps play a role in the lower degree of innovation and productivity growth. Germany which has historically had a strong global presence in the auto industry, has fallen behind the United States and China in electrical car (EV) manufacturing.



In local currency terms, Japanese stocks were one of the best performers among developed countries in 2023. The depreciation of the Yen reduced returns, but nevertheless, USD returns both last year and so far in 2024 have been strong. Japanese companies which have about $5.2 Trillion in cash on their balance sheets[5] have been buying back shares as part of a measure supported by the Tokyo Stock Exchange to improve capital efficiency particularly among companies that trade at prices below book value. There is also the potential that Japanese households that have very low exposure to equity markets (10% Vs 39% for US and 40% in Japan

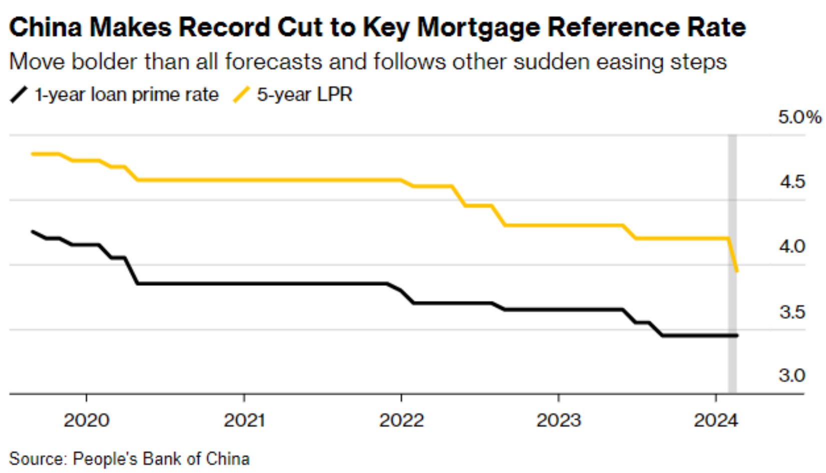
[5]Verdad Weekly Research

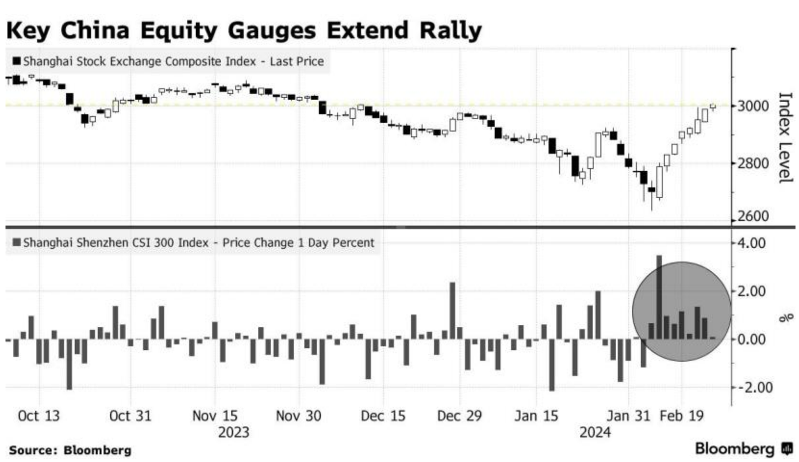
pre-1980s) may increase their risk appetite. Japan has the third highest per-capita household wealth among G20 countries.

Emerging Countries:

The MSCI EM Index has underperformed both the MSCI USA and MSCI EAFE indices over one, three, five and ten years. Given the diverse group of countries, with differing drivers of economic growth, regulatory regimes, and strategic positioning, treating the entire developing world as part of one asset class may be a stretch. China's large weight in the index and its weak performance over the long-term have been a key factor in the weak performance of this asset class. Among the larger developing world economies, only Taiwan and India have done well on a longer-term basis.

After a weak performance in 2023 and a poor January 2024, the Chinese equity markets have rallied this month. The government has imposed restrictions on short selling and compelled institutions from selling equities during market opening and closing periods. Monetary easing measures have also been supportive of markets.





While such measures can be supportive of markets in the short-term, we have not seen any significant economic reforms to shift the country's unproductive, capital-intensive growth to a more sustainable consumer-led growth.

India is projected to be the fastest growing major economy both in 2024 and 2025.

World Economic Outlook Growth Projections

(Real GDP, annual percent change)	ESTIMATE 2023	PROJECTIONS 2024	2025
World Output	3.1	3.1	3.2
Advanced Economies	1.6	1.5	1.8
United States	2.5	2.1	1.7
Euro Area	0.5	0.9	1.7
Germany	-0.3	0.5	1.6
France	0.8	1.0	1.7
Italy	0.7	0.7	1.1
Spain	2.4	1.5	2.1
Japan	1.9	0.9	0.8
United Kingdom	0.5	0.6	1.6
Canada	1.1	1.4	2.3
Other Advanced Economies	1.7	2.1	2.5
Emerging Market and Developing Economies	4.1	4.1	4.2
Emerging and Developing Asia	5.4	5.2	4.8
China	5.2	4.6	4.1
India	6.7	6.5	6.5
Emerging and Developing Europe	2.7	2.8	2.5
Russia	3.0	2.6	1.1
Latin America and the Caribbean	2.5	1.9	2.5
Brazil	3.1	1.7	1.9
Mexico	3.4	2.7	1.5
Middle East and Central Asia	2.0	2.9	4.2
Saudi Arabia	-1.1	2.7	5.5
Sub-Saharan Africa	3.3	3.8	4.1
Nigeria	2.8	3.0	3.1
South Africa	0.6	1.0	1.3
Memorandum			
Emerging Market and Middle-Income Economies	4.2	4.0	4.0
Low-Income Developing Countries	4.0	5.0	5.6

Source: IMF, *World Economic Outlook Update*, January 2024

Note: For India, data and forecasts are presented on a fiscal year basis, with FY 2023/2024 (starting in April 2023) shown in the 2023 column. India's growth projections are 5.7 percent in 2024 and 6.8 percent in 2025 based on calendar year.

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India has also made excellent progress in many measures of quality of life for its most indigent. Among the 20% of the poorest households, electricity access has increased from 53% (2016) to 85% (2021) based on a National Family Health Survey of over 600k households[6]. Access to bank accounts increased from 74% to 93%, ownership of mobile phones from 68% to 79% and access to indoor toilets from 12% to 48%. Parliamentary elections are due in a few months and the best possible outcome for the Indian economy and its markets would be another victory for the current dispensation.

We wrote about the election of Javier Milei as President of Argentina in our last letter. In January 2024, Argentina had a budget surplus for the first time since 2012. Milei has used executive power to reduce government spending but faces challenges in parliament to get many of his government's legislations passed. We believe that given the large electoral mandate and the frustration of Argentine citizens with high inflation and weak economic growth, there is a non-trivial probability that the Milei government can improve economic conditions in the country.

Preliminary results from the Indonesian elections suggest that Prabowo Subianto, whose ex-father-in-law was a military officer that served as Indonesian President after taking power in a military coup. Prabowo (if results are confirmed) replaces Joko Widodo (Jokowi), a popular president who had success in improving the fiscal and trade balances and building new infrastructure. Jokowi leaves office with concerns about nepotism, after supporting Prabowo who picked Jokowi's son Gibran as his running mate. Gibran who is thirty-six years old and younger than the constitutional requirement of being over forty, was able to get the constitutional court to waive the age requirement based on a new created criteria that his position as a regional leader overcame the age barrier. Interestingly, the Chief Justice of the court at the time of the decision was Gibran's uncle.

Outlook:

In October 2023 we wrote the following:

We have advocated the use of market drawdowns to build positions over the last two years. The uncertainties in the global political economy suggest we stay the course and remain prudent in terms of risk.

Equity markets suffered a 10-15% drawdown from July to October last year and bottomed out at the end of October. We believed the markets were range bound, but the rally from the October lows surpassed our expectations. We reviewed plausible factors that have supported equity markets over the last few months-reduction in inflation, interest rate cut expectations, the resiliency of the US

[6]https://eacpm.gov.in/wp-content/uploads/2023/03/Democracy-in-Practice-EAC-PM-Working-Paper.pdf

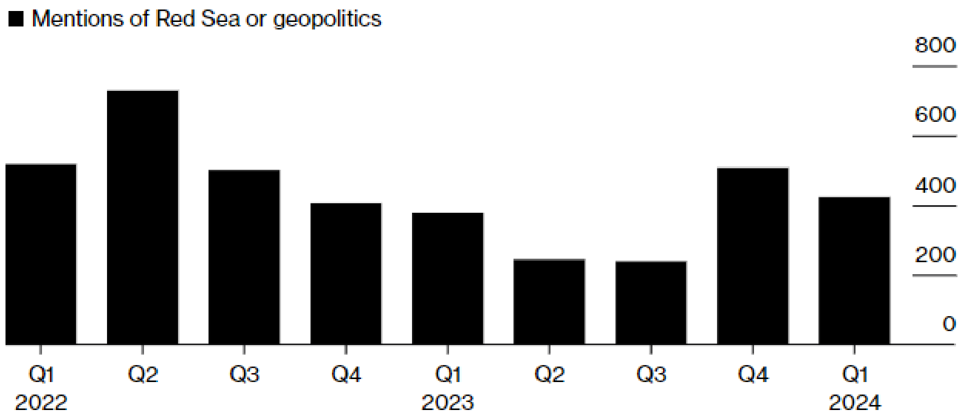
economy and the potential for generative AI. What happens next depends on the impact of a range of things:

- Geopolitical events
- Trajectory of inflation
- Changes in interest rates, economic conditions, and earnings
- Rising interest payments by governments, real estate investors and consumers
- Impact of generative on AI on the economy

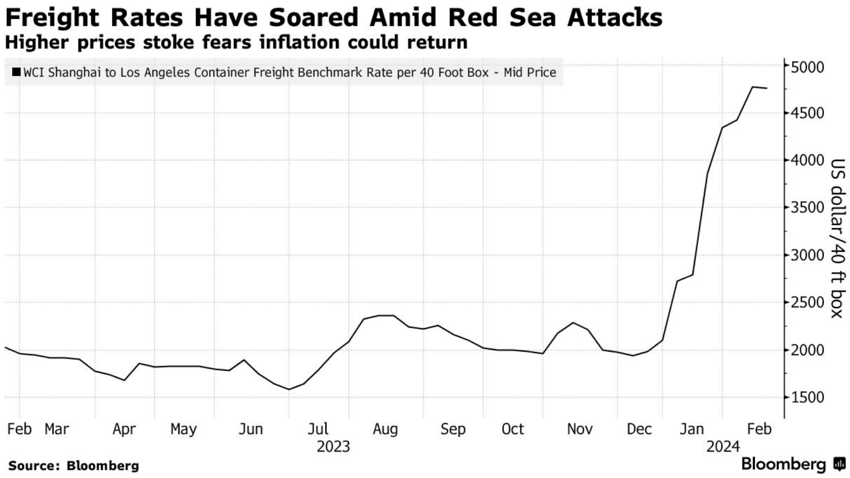
The two decades after the end of the cold war are often referred to as a period of "Pax Americana"- a dominant, but benign superpower that could enforce peace, and a world that focused on economic integration and growth. Over the last decade, both China and Russia have sought to enforce a regional dominance over smaller countries, and this has raised the risk of conflict. The war in Ukraine, the renewal of conflict in the Middle East and the differing interpretations of Taiwan's status are all issues that can escalate with severe consequences for the global political economy.

CEOs Are Worried About Geopolitics Again

Mentions of Red Sea or geopolitics on earnings calls are on the rise



Source: Bloomberg
NOTE: 1Q 2024 is as of Feb. 15; results are based on post-earnings call transcripts of S&P 500 and Stoxx 600 firms



The market advance since October 2023 has been narrow- technology, particularly large-cap technology led. While sentiment (often a contrarian indicator) on the trajectory of the economy and interest rate trajectory is quite positive, it is not extreme. The market leaders are companies that are cash generative, even if valuations may be stretched and the weight of the large cap tech companies in indices are at a historic high.

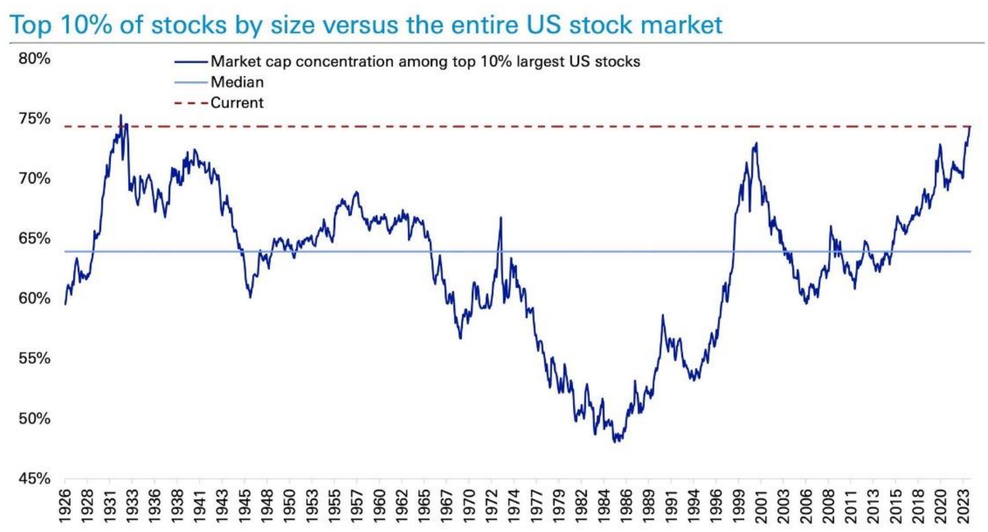
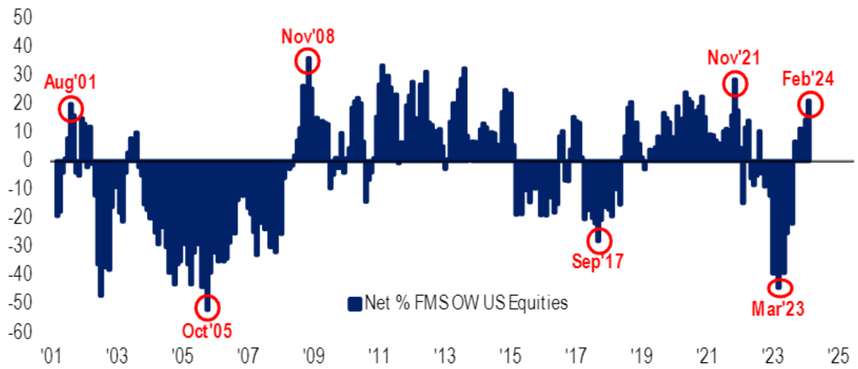
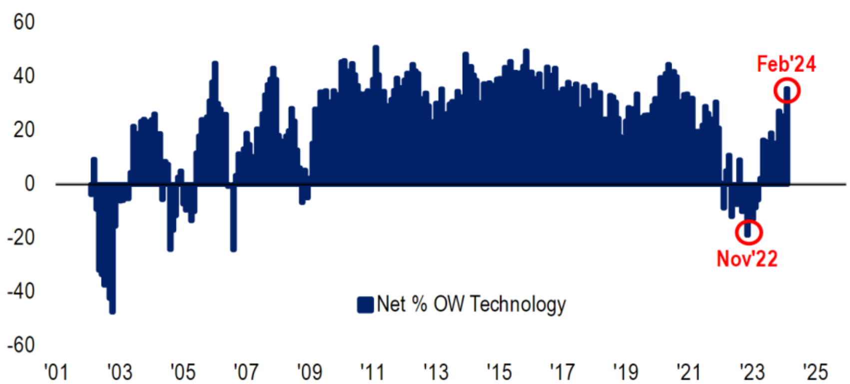


Chart 14: Allocation to US stocks highest since Nov'21
Net % FMS overweight US equities



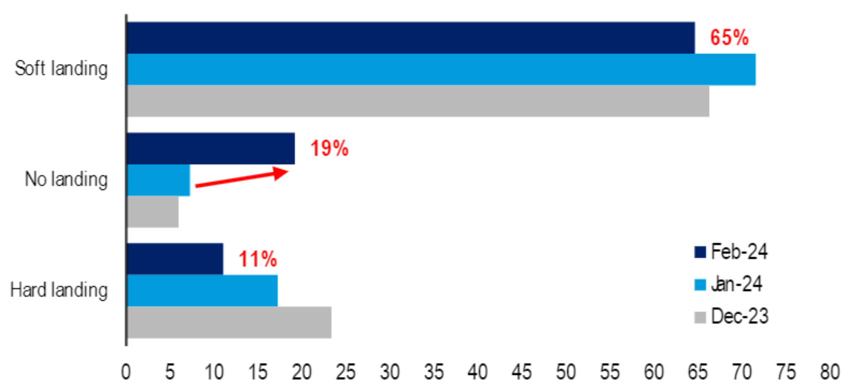
Source: BofA Global Fund Manager Survey

Chart 16: Allocation to tech highest since Aug'20
Net % overweight technology



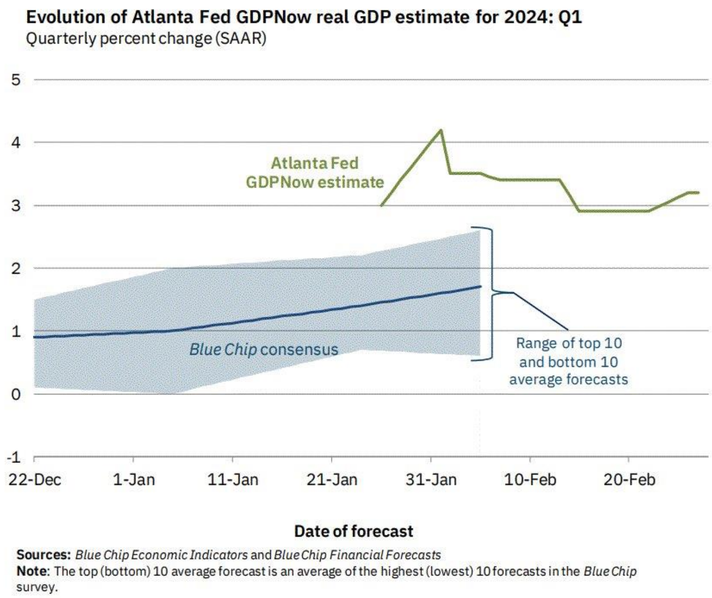
Source: BofA Global Fund Manager Survey

Chart 4: "Soft landing" still the base case, "no landing" probability rising
What is the most likely outcome for the global economy in the next 12 months?



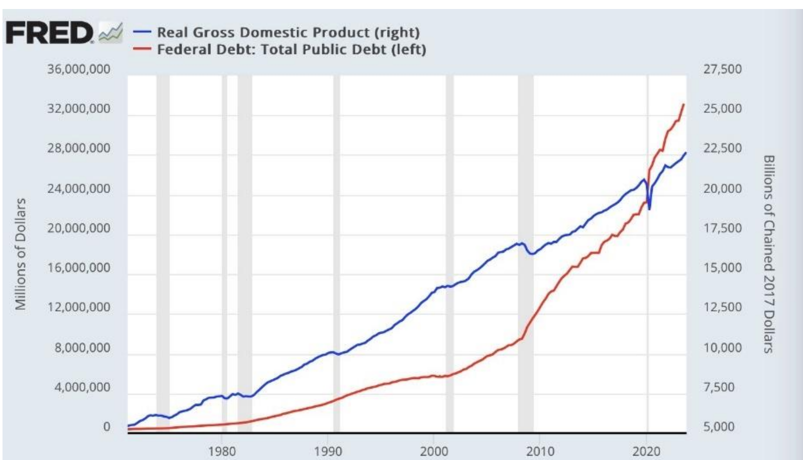
Source: BofA Global Fund Manager Survey

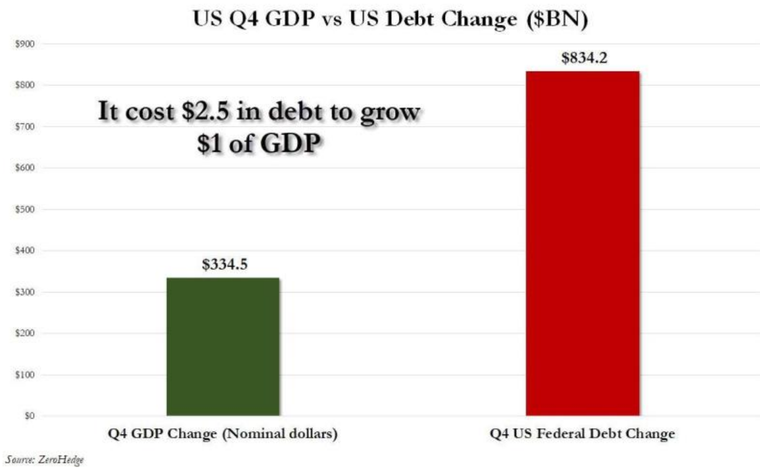
Estimates for Q1 2024 real GDP growth are rising.



The resiliency of the US economy, despite two years of sharp interest rate hikes and a long-standing inverted yield curve, is supportive of the "no-landing" scenario. Plausible reasons why this may be happening include:

- High levels of government expenditure

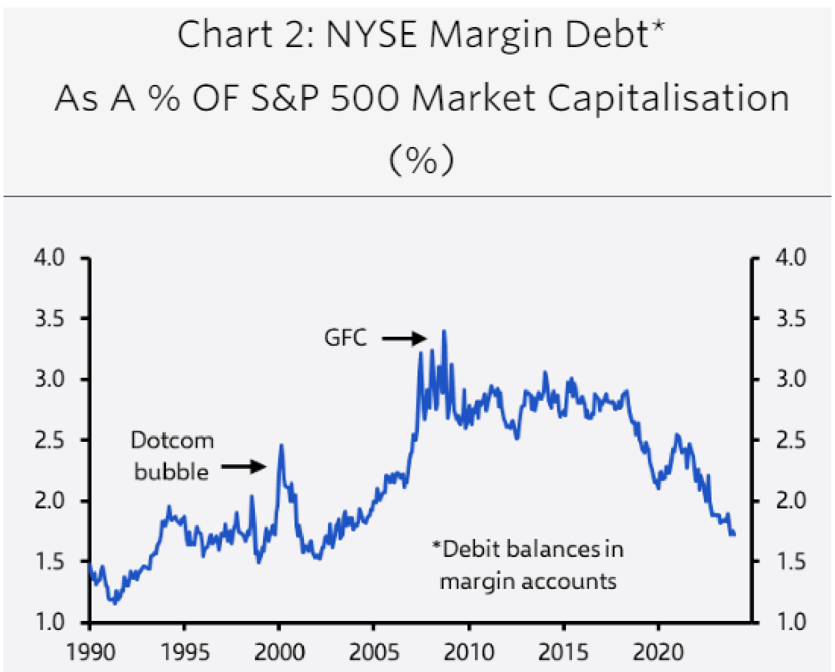




- Sharp rise in immigration[7]

It is estimated that 50% of the growth in the labor market over the last one year has come from foreign-born workers.

Market exuberance exists in certain segments of the market- anything AI related and more recently in the crypto domain, but it is not widespread as yet.



[7]Federal Reserve Bank of San Francisco

2024 is an election year in the United States and we expect the fiscal support to remain and monetary policy to be benign (follow market expectations). It is likely that markets will overestimate the potential for generative AI, but it is unclear if we are already at that stage. Companies like Nvidia, which have grown revenue and profits significantly, are possibly over-earning in the short term. The technology sector is always vulnerable to disruption, and we think that is a key risk to the markets today. A diversified portfolio with exposure to cash generative businesses can mitigate the risk inherent under current conditions.

Updates on Portfolios (detailed performances for full year 2023 and since inception can be seen in Appendix I):

Performance YTD 2024 (2/27):

International Value portfolio is +126bps Vs benchmark and +100bps Vs Morningstar category.

Global Equity portfolio is -180bps Vs benchmark and -89bps Vs Morningstar category.

Emerging Markets portfolio is +248bps Vs benchmark and +178bps Vs Morningstar category.

Longer-term performance metrics (through 12/31/2023):

International Value: +313bps annualized (5 years)

Global Equity: +372bps annualized (ITD, 3 1/2 years)

Emerging Markets: +240bps annualized (5 years)

Portfolio changes (09/30/2023 through 12/31/2023):

International Value:

- Sold Sandoz which was a stub spin-off from our holding of Novartis (we remain shareholders).
- Sold Takeda Pharmaceutical whose pipeline of new drugs faces some new challenges + we see better investment opportunity in our new add/buy.
- Added to Diageo, the global leader in spirits sales (2x nearest competitor). The company has a great suite of brands in scotch, whiskey, tequila, rum etc. and excellent marketing and distribution. The stock was down over 30% from early 2022 and trades at a very attractive valuation in terms of cash flow and earnings.
- Initiated new position in Christian Dior, which is a holding company for luxury brand retailer LVMH. The stock traded at a discount of over 25% to its listed holding.

Global Equity:

- Sold Intel which has rebounded along with other semiconductor stocks this year. Based on conversations with current and former employees + industry insiders, we were concerned that the company culture has not changed enough despite the efforts of new CEO Pat Gelsinger. We saw better relative long-term opportunities in companies we added to/bought listed below.
- Sold Wells Fargo for two reasons: we see better long-term opportunities in other companies; we have some concerns about potential NPLs in the CRE space.
- Added to Danaher- we continue to see the company overcoming its short-term challenges and returning to long-term growth. The company has a long history of excellent capital allocation and cash flow generation.
- Added to PayPal- the company generates strong cash flow and has a new CEO, Alex Chriss who had great success growing the small business segment of Intuit. The market thinks growth will remain challenging. We think the valuation support and excellent capital allocation provides downside support and the firm's leading position in Ecommerce and its new strategic initiatives can be drivers for a re-rating.
- Initiated a new position in Texas Instruments- the company's stock has lagged its semiconductor peers due to weakness in sales (temporary in our view) and new capex in manufacturing capacity. We think the capacity addition in state-of-the-art analog semiconductor production will help lower

long-term manufacturing costs and improve margins. The company has a long history of being a leader in analog integrated chips (ICs), generating strong cash flow and using the cash flow in the best interests of shareholders.
- Initiated new position in Nintendo- the Japanese gaming hardware and software company is one which we have owned in the International portfolio since its inception. The firm has excellent IP and has shown a greater willingness to monetize it in segments other than gaming. The Super Mario movie and its partnership with Universal on theme parks fit with this new strategy. Additionally, the company's new Switch console is expected to be in the market in early 2025 and has historically been a driver of a step-up in cash flow generation. The firm generates strong cash flow through its product cycles and has excellent return on capital.

Emerging Markets:

- Sold Naspers- no change in the story here, with the value driven by its holding in Prosus and Tencent (through Prosus), but it is unclear how the value may be unlocked. We needed cash for the buys below.
- Added to Diageo, which is the controlling shareholder of United Spirits in India. We do not have local access to the Indian market and have owned Diageo as a proxy for United Spirits. Same reasoning as listed in the International section above.
- Initiated new position in YPF, which is an Argentinian oil and gas company. We have outlined our thesis on potential changes in Argentina under President Milei. We think a market friendly government can be a catalyst for better management of YPF that can unlock value and for its eventual privatization.

Additional Thoughts:

The interview in the link below has an extensive discussion on our investment process, long-term outlook and in-depth review on a few of our portfolio holdings.

https://harpercapital.net/assets/blog/Wall%20Street%20Transcript%20Interview%20January%202024.pdf

Performance Update December 2023

INTERNATIONAL VALUE	Portfolio	MSCI EA	Mornings	Comment
2016	(3.20%)	6.90%	n/a	***Start date 8/1/2016***
2017	24.27%	21.43%	22.08%	
2018	(14.28%)	(14.78%)	(15.50%)	
2019	22.84%	16.09%	17.83%	
2020	7.62%	(2.63%)	0.93%	
2021	14.45%	10.89%	11.40%	
2022	(4.42%)	(5.58%)	(9.12%)	
2023	12.46%	18.95%	17.49%	***YTD 12/31/2023***
ITD	67.61%	55.72%	n/a	***Cumulative (8/1/2016 to 12/31/2023)***
ITD	7.21%	6.15%	n/a	***Annualized (8/1/2016 to 12/31/2023)***
1-year	12.46%	18.95%	17.49%	***Annualized***
3-year	7.15%	7.59%	6.04%	***Annualized***
5-year	10.21%	7.08%	7.40%	***Annualized***

5- year Analytics (as of 12/31/2023)		
Annualized Alpha	4.47	
Information Ratio	0.40	
Upside Capture	86.49%	
Downside Capture	77.88%	
Portfolio Turnover	9.14%	***Annualized***

GLOBAL	Portfolio	MSCI AC	Mornings	Comment
2020	31.80%	23.10%	n/a	***Start date 7/1/2020***
2021	24.03%	18.54%	18.04%	
2022	(16.46%)	(18.36%)	(16.71%)	
2023	19.60%	22.20%	18.19%	***YTD 12/31/2023***
ITD	63.33%	45.58%	43.25%	***Cumulative (7/1/2020 to 12/31/2023)***
ITD	15.05%	11.33%	10.82%	***Annualized (7/1/2020 to 12/31/2023)***
1-year	19.60%	22.20%	18.19%	***Annualized***
3-year	7.41%	5.75%	5.31%	***Annualized***

ITD Analytics (as of 12/31/2023)		
Annualized Alpha	3.42	
Information Ratio	0.58	
Upside Capture	106.53%	
Downside Capture	93.96%	
Portfolio Turnover	16.98%	***Annualized***

EMERGING MARKETS	Portfolio	MSCI EM	Mornings	Comment
2016	2.71%	8.67%	5.42%	***Start date 6/1/2016***
2017	41.92%	37.06%	34.17%	
2018	(11.93%)	(14.58%)	(16.07%)	
2019	19.63%	18.42%	19.26%	
2020	6.70%	18.31%	17.91%	
2021	4.94%	(2.54%)	0.08%	
2022	(7.73%)	(20.09%)	(20.84%)	
2023	8.73%	9.83%	12.35%	***YTD 12/31/2023***
ITD	72.66%	52.70%	48.58%	***Cumulative (6/1/2016 to 12/31/2023)***
ITD	7.47%	5.74%	5.36%	***Annualized (6/1/2016 to 12/31/2023)***
1-year	8.73%	9.83%	12.35%	,
3-year	1.73%	(5.08%)	(3.71%)	***Annualized***
5-year	6.08%	3.68%	4.70%	***Annualized***

5- year Analytics (as of 12/31/2023)		
Annualized Alpha	3.15	
Information Ratio	0.22	
Upside Capture	89.61%	
Downside Capture	84.63%	
Portfolio Turnover	13.85%	***Annualized***