Harper Capital Management:

Global Markets- October 2023 Outlook:

In July we wrote the following:

Since the publication of our last Investment Letter, the US market is about 3% higher and the EAFE and EM indices are slightly lower. We continue to see potential headwinds for the global economy and for equity markets. Sub-prime auto loan delinquencies are rising, and the student loan repayment holiday will end soon. The Labor market remains strong, but unemployment rates tend to be low at the start of economic downturns.

We expect core inflation and interest rates to stay at higher levels than during the pre-COVID period. Rates staying higher for longer will be a headwind for the global economy. We remain cautious in terms of risk.

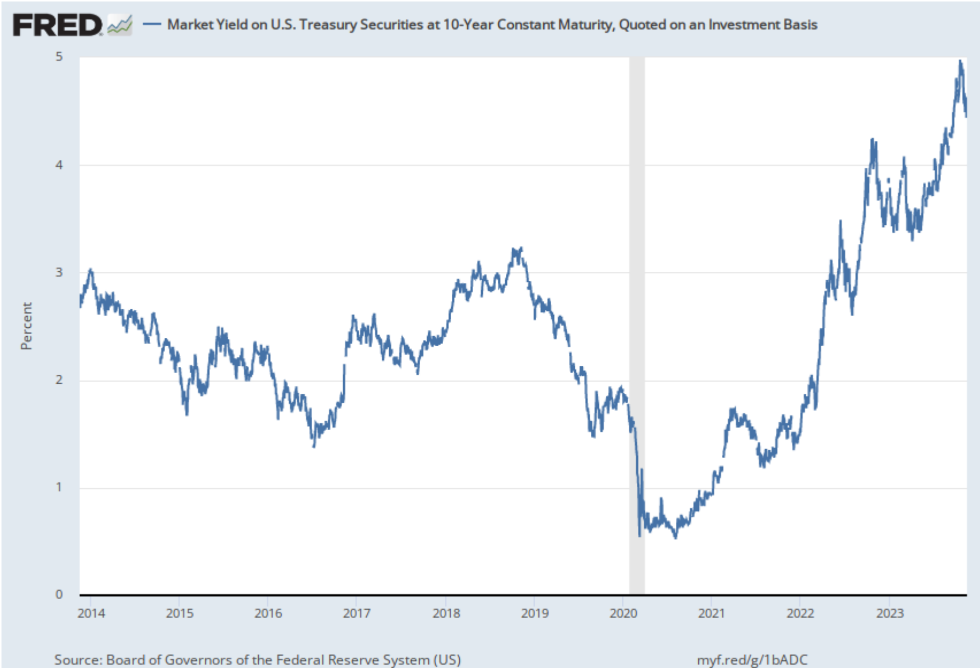
Equity markets performed well through the end pf July, then went through a sharp correction through October end, and rallied back in November. Through the end of October 2023, MSCI ACWI Index was +6.75%, EAFE Index +2.74% and the MSCI EM Index -2.14%. Among major developed markets, Italy (+16.20%), Denmark (+15.94%- Novo Nordisk), Spain (+9.68%) and the United States (+9.49%) have performed well on a YTD basis, whereas Asian developed markets Hong Kong (-21.89%), Singapore (-14.61%) and New Zealand (-14.93%) have been among the laggards. Among emerging markets, Emerging European markets Greece (+30.25%), Hungary (+26.19%) and Poland (+22.51%) were strong performers on a YTD basis, and Thailand (-18.48%) and China (-13.13%) were laggards.

Bonds remain weak for a second year in a row as yields are elevated. The longer duration ETF TLT[1] is now -5.96% on a YTD basis (November 22nd, 2023) and the aggregate bond ETF AGG[2] is at +1.03% (November 22nd, 2023). The 10-year Treasury yield which peaked at close to 5% in mid-October has retreated about 50bps.

[1] https://www.ishares.com/us/products/239454/ishares-20-year-treasury-bond-etf

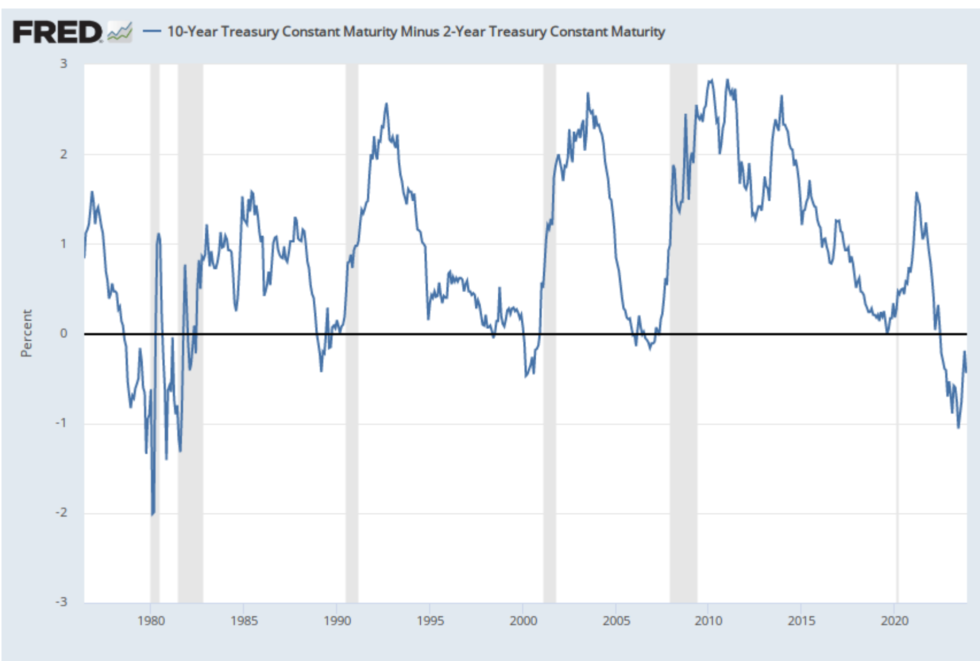
[2] https://www.ishares.com/us/products/239458/ishares-core-total-us-bond-market-etf

10-year Treasury yield:

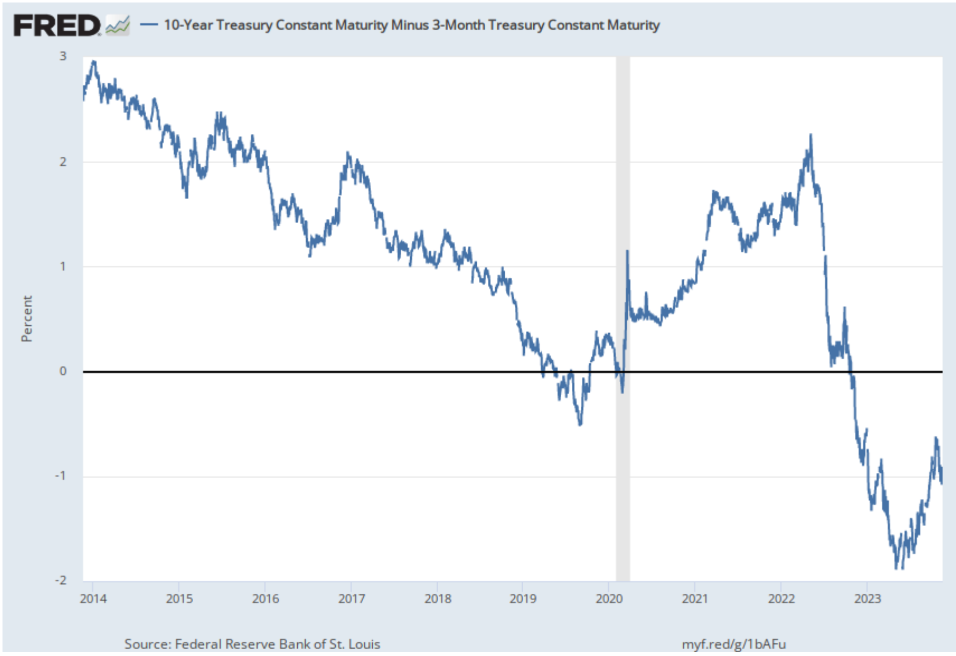


The 10-year-2-year (-44bps) and the 10-year-3-month (-106bps) yield spread remain inverted, but to a lesser degree than in early June.

10-year- 2-year yield spread:



10-year- 3-month yield spread:

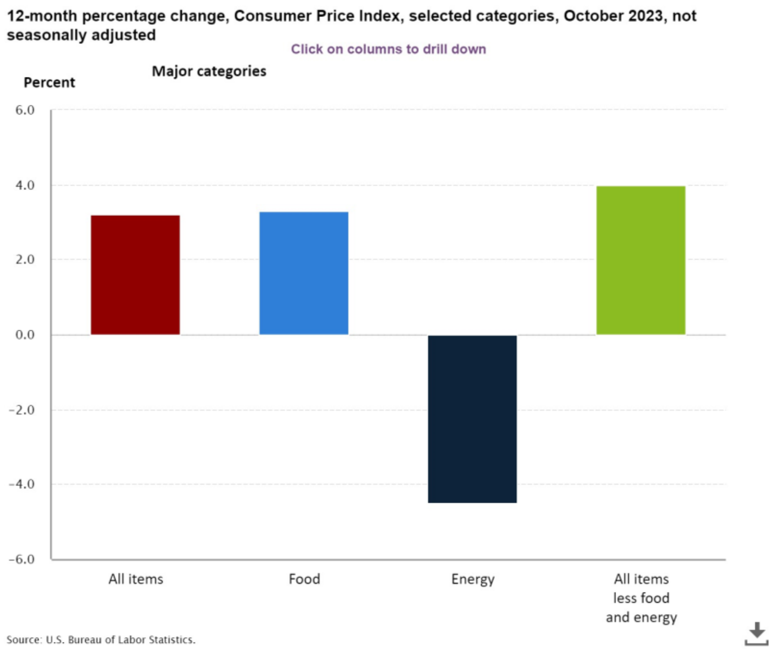


Global markets have been driven by the following factors over the last three months:

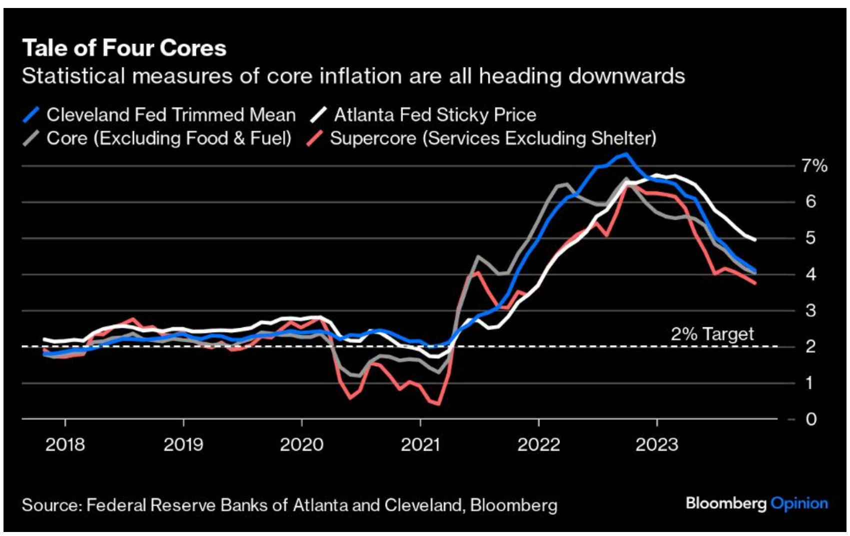
- Inflation and Inflation Expectations
- Interest Rates and Interest Rate Expectations
- Economic Health

The October consumer price inflation data showed the month-month change in the price level at zero and the year-year change at 3.2%. Core inflation (ex-food and energy) rose 0.2% from the prior month and 4.0% over one year.

Consumer Price Index Components:



Consumer Price Index Core Trend:



The less volatile measures of inflation are also declining, but they remain higher than the Fed’s target.

Wage inflation remains elevated despite recent declines.

Wage Growth:

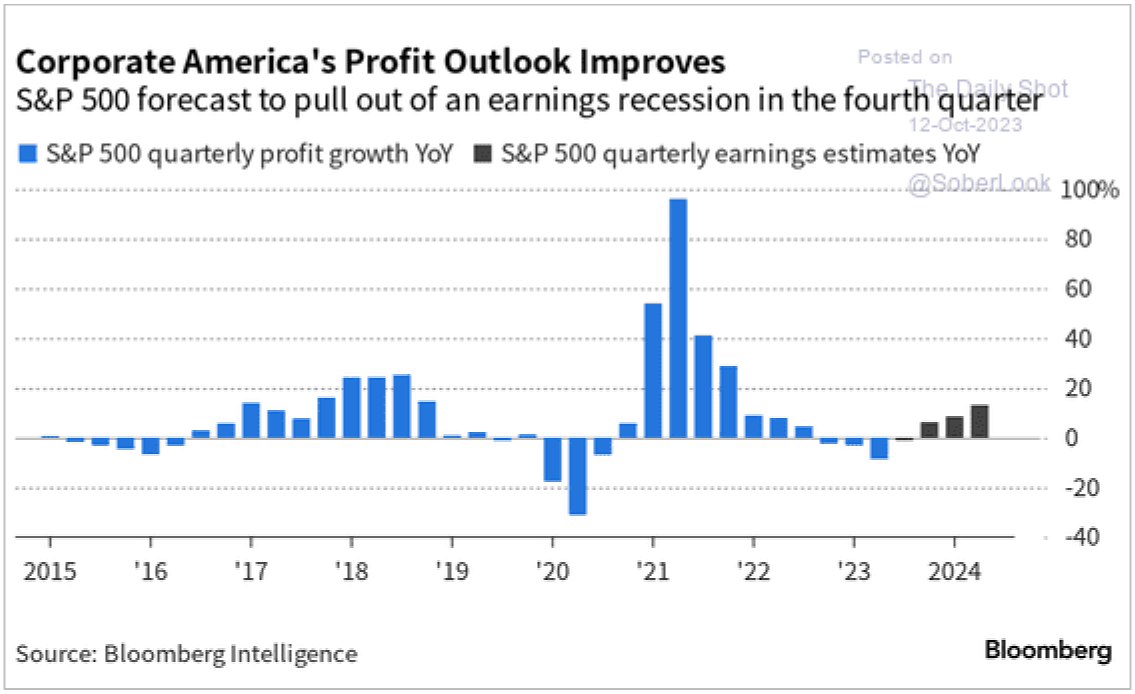
Economic data continues to be mixed- Q3 GDP growth was 4.9% and unemployment remains low at 3.9%[3] (October 2023). However, the unemployment rate is up 0.5% since the recent lows in April 2023.

Unemployment Trend:

[3]https://www.bls.gov/news.release/pdf/empsit.pdf

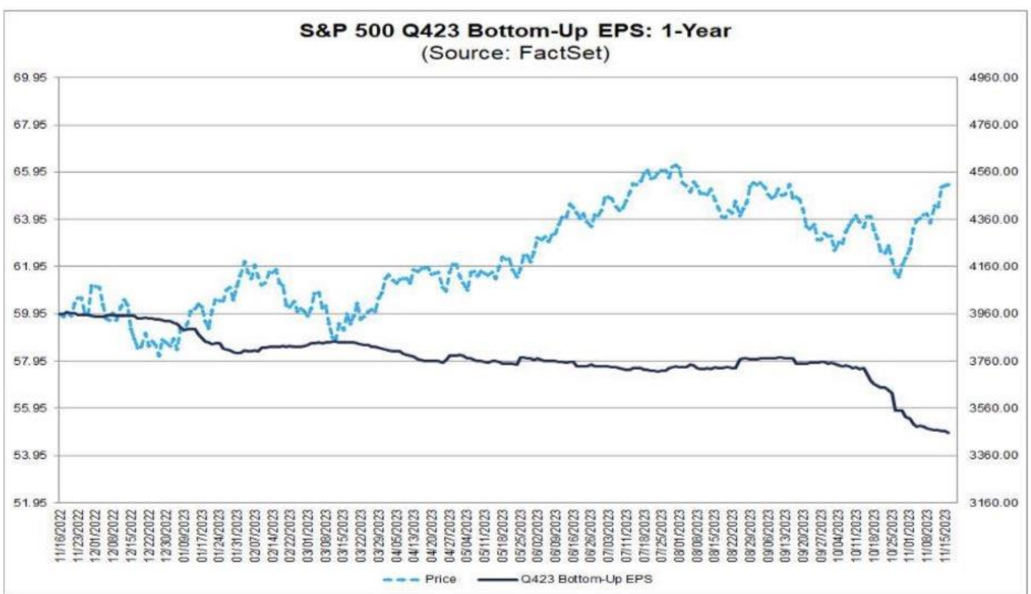
Earnings recession may be ending based on analyst projections.

Corporate profits are projected to improve:



However, Q4 2023 earnings estimates have been revised down steadily for several months.

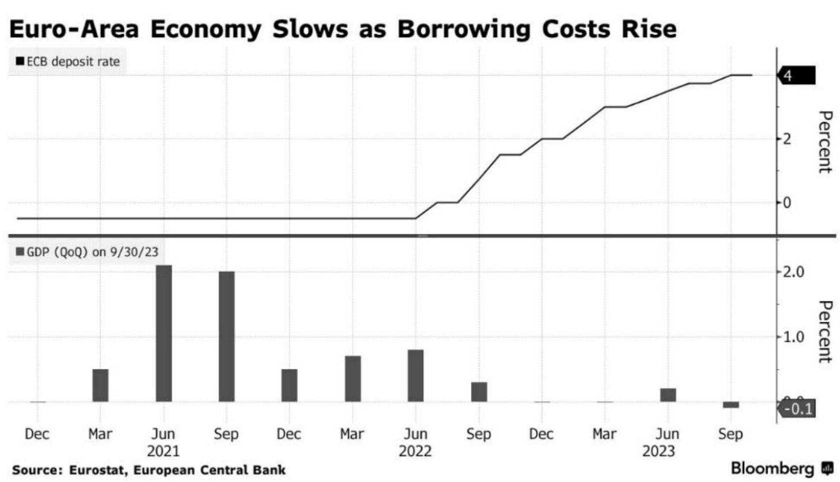
2023 Earnings have been revised down through the year:



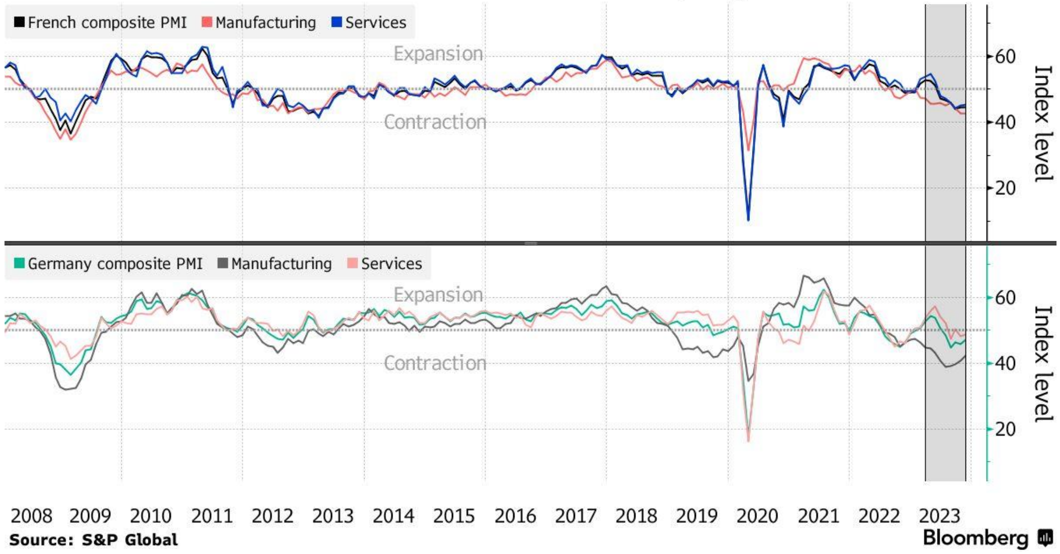
Europe:

The European Union (EU) is an economic and political union of twenty-seven countries, with a population of about 450 million and a combined GDP of about $16.6 Trillion. Integration of countries across the continent was seen as a way to avoid future wars after the disasters of the first half of the twentieth century. Following the end of the Cold War, the project continued with most countries of the Eastern bloc looking for support from the more prosperous western neighbors to reform and grow their economies. By most measures, the European Union has been a long-term success- peace has endured and prosperity has spread. However, in recent years, there is growing resentment in many countries to what is seen as a supra-national body of bureaucrats in Brussels (headquarters of European Union) interfering in matters of national importance. Thus, we have seen the 2016 Brexit vote in the United Kingdom, the rise in popularity of the anti-EU National Rally party of Marine Le Pen in France and now the plurality achieved by Geert Wilders' Party of Freedom in the Netherlands. The Russia-Ukraine war has highlighted both the strengths and weaknesses of the EU. There is a greater awareness among the member nations of the threat to peace and the risks of disunity, and even the nationalist political parties like the National Rally in France, Giorgio Meloni's Brothers of Italy and the Law and Justice party in Poland have become strong supporters of Ukraine. However, despite its large economy, Europe remains dependent on the United States militarily. The greatest failure of the EU in our view has been the inability to articulate a political vision that could unify people of different nationalities. Weak economic growth, increase in unemployment and the failure to integrate new immigrants from Africa and the Middle East have increased support for nationalist political parties that blame the EU for the problems. It is likely that the EU remains closer to a confederation rather than a federation of states.

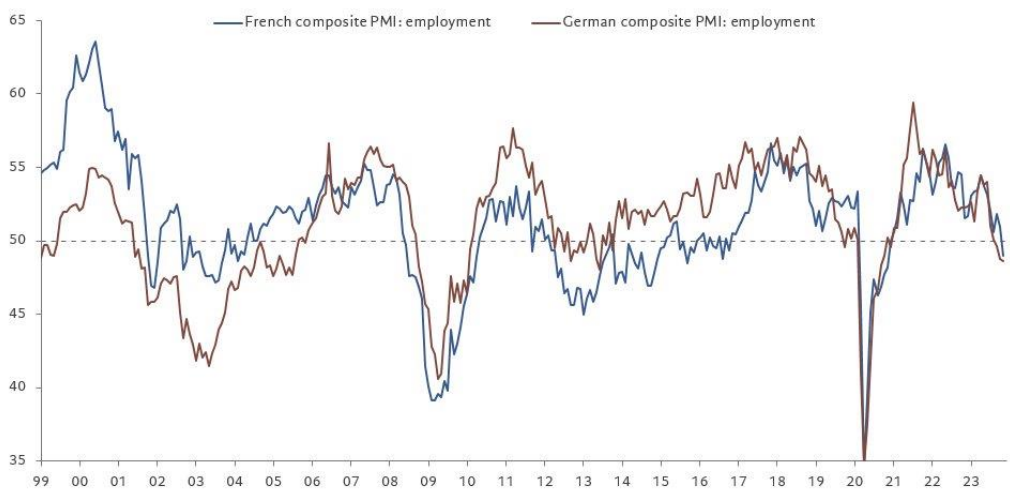
The weakness in the European economy that we highlighted in our last Investment letter remains.



German and French Economies Are Slumping



Employment trends are weakening:



Europe continues to lag USA:

China:

In recent years there has been discussion of the risks that China's shadow banking system posed to its weakening economy. Shadow banking is the term used for Trust companies that manage investments for higher income people and they have typically promised higher returns to their investors by lending to sectors which had historically seen rapid growth like real estate. China's shadow banking system is estimated to be about $2.9 trillion[4] and it is mostly unregulated. One such entity, Zhongzhi Enterprises Group recently warned that it was essentially insolvent with liabilities about 2.3x of assets. This is not an isolated problem and reflects the fact that the rise in real estate prices over the last several decades created inflated assets and fictitious wealth. As these disappear, balance sheets are negatively impacted, dampening the potential for economic growth. There is political pressure on the banks to lend to the troubled property sector to prevent a further downturn in property prices. According to Chinese financial journal Caixin "the downward spiral in China's ailing property sector shows no sign of abating despite the government's rollout of a seemingly endless series of supportive but as yet ineffective measures, with the crisis stretching for over three years[5]". The better approach in our view is to let market forces set clearing prices and determine which sectors will bear the financial losses.

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[4]https://www.cnn.com/2023/11/23/business/zhongzhi-enterprise-group-china-insolvent-hnk-intl/index.html

[5]https://twitter.com/michaelxpettis/status/1726444749299552301

India:

The IMF’s world economic outlook projections released in October show India will remain the fastest growing major economy in 2023 and 2024.

Latest World Economic Outlook Growth Projections

(Real GDP, annual percent change)	2022	PROJECTIONS 2023	2024
World Output	3.5	3.0	2.9
Advanced Economies	2.6	1.5	1.4
United States	2.1	2.1	1.5
Euro Area	3.3	0.7	1.2
Germany	1.8	-0.5	0.9
France	2.5	1.0	1.3
Italy	3.7	0.7	0.7
Spain	5.8	2.5	1.7
Japan	1.0	2.0	1.0
United Kingdom	4.1	0.5	0.6
Canada	3.4	1.3	1.6
Other Advanced Economies	2.6	1.8	2.2
Emerging Market and Developing Economies	4.1	4.0	4.0
Emerging and Developing Asia	4.5	5.2	4.8
China	3.0	5.0	4.2
India	7.2	6.3	6.3
Emerging and Developing Europe	0.8	2.4	2.2
Russia	–2.1	2.2	1.1
Latin America and the Caribbean	4.1	2.3	2.3
Brazil	2.9	3.1	1.5
Mexico	3.9	3.2	2.1
Middle East and Central Asia	5.6	2.0	3.4
Morocco	1.3	2.4	3.6
Saudi Arabia	8.7	0.8	4.0
Sub-Saharan Africa	4.0	3.3	4.0
Nigeria	3.3	2.9	3.1
South Africa	1.9	0.9	1.8
Memorandum			
Emerging Market and Middle-Income Economies	4.0	4.0	3.9
Low-Income Developing Countries	5.2	4.0	5.1

Source: IMF, *World Economic Outlook*, October 2023

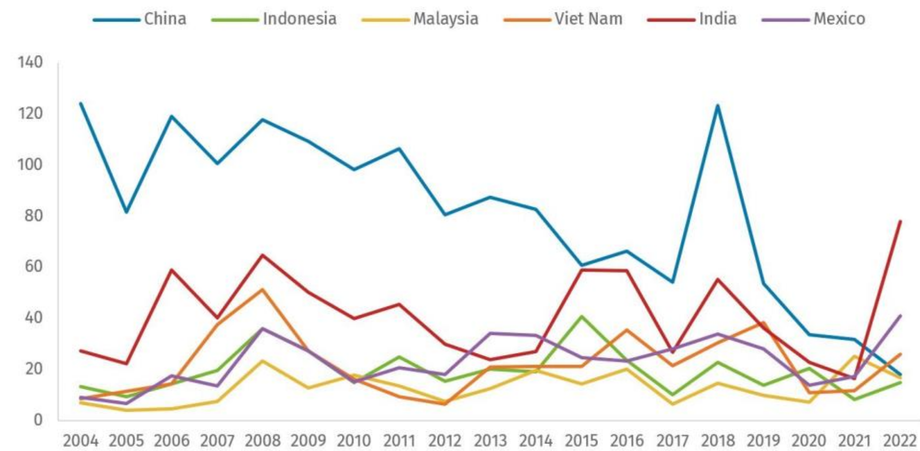
Note: For India, data and forecasts are presented on a fiscal year basis, with FY 2022/2023 (starting in April 2022) shown in the 2022 column. India's growth projections are 6.5 percent in 2023 and 5.7 percent in 2024 based on calendar year. For Italy, data and forecasts reflect information available through September 21, 2023. For the United Kingdom, data and forecasts do not incorporate the significant statistical revisions released on September 29, 2023.

INTERNATIONAL MONETARY FUND IMF.org

FDI and FDI announcements continue to increase. JP Morgan will include India's local bonds in the Emerging Markets Government Bond Index starting June 28, 2024, with 1% incremental weight for ten months to result in a 10% weighting.

FDI moving away from China:

FIGURE 2
Value of announced greenfield FDI projects, by destination, 2003–2022
USD billions



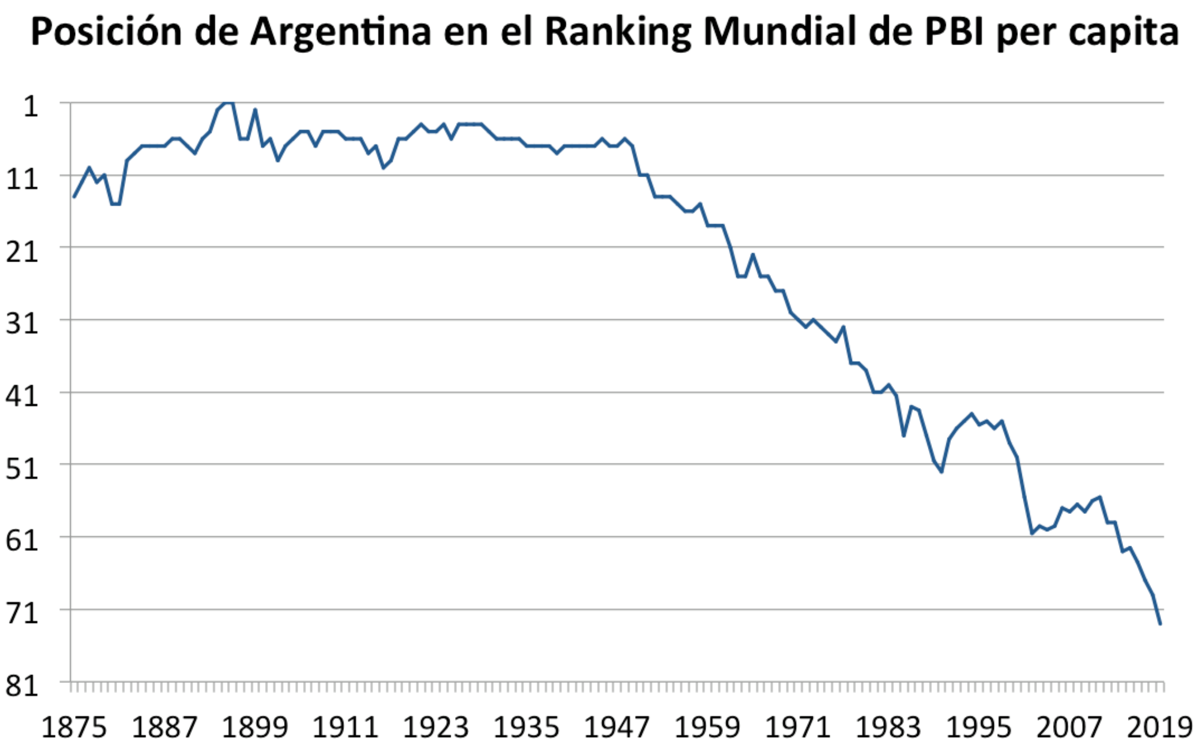
Source: UNCTAD world investment report 2023, based on data from FDIMarkets.

India is in a unique position in the global economy- large and increasing working age population, a reform-minded government that has made significant structural changes that will be beneficial for the next decade, infrastructure that is improving dramatically and a global strategic environment in which the country is becoming an important player. The Indian equity markets have been resilient this year with modest performance from large-cap companies and significant outperformance by small and mid-cap companies: 3.8% Vs 23%. On a long-term basis, MSCI India has been the best performer in the Emerging Market universe on both a 5 and 10-year basis. We have discussed our positive long-term outlook on India before and we remain convinced that this is one of the best long-term structural investment opportunities for investors. The most significant risk for investors would be a change in government after the elections in 2024. The alternative(s) to the current political ruling party is an amalgam of what are essentially family businesses that seek political power to enrich themselves (corruption) and promote family political and business interests. At this point, we do not anticipate the current government losing power in next year's elections.

Outlook:

The recent presidential elections in Argentina were won by self-professed libertarian candidate Javier Milei by a large margin of about 10%. Milei is a colorful figure with pet dogs named Milton (Friedman, economist UChicago), Robert & Lucas (Robert Lucas, economist UChicago) and Murray (Murray Rothbard, economist, and founder of the Mises Institute). Milei has promised to protect private property, personal freedom and avoid tax increases. It is possible that despite a resounding electoral victory, the president-elect will be stymied by the opposition and powerful unions from reforming the Argentinian economy. We have seen this during the term of Mauricio Macri (President 2015-2019) who implemented many much-needed reforms but was unable to curb spending sufficiently and bring down inflation expectations. The Argentinian narrative over the last century has been about decline of a wealthy country to one with high levels of poverty.

Argentina's per capita income- global ranking:



Fuente:Elaboración propia en base a datos de The Maddison Project (2018) y IMF WEO October 2019.

In our view the failure was driven by the lack of institutional development, erosion of checks and balances and the adoption of statist economic policies that encouraged rent-seeking rather than productive economic activity. There is a lesson here for long-term investors to be very cautious when investing in countries where the rule of law, institutional framework and checks and balances are all weak. In the case of Argentina, Milei has the support of Macri's center-right party and at least in the short to medium term a strong electoral mandate. Mercadolibre founder Marcos Galperin tweeted "Libres" (free) [6] when the election results were known- we hope he is right and wish Argentina and its people well.

The conflict in the Middle East highlights the rapidly increasing strategic challenges that will be headwinds for the global political economy. We think that the new axis of authoritarian regimes are looking to stretch American resources to a point where

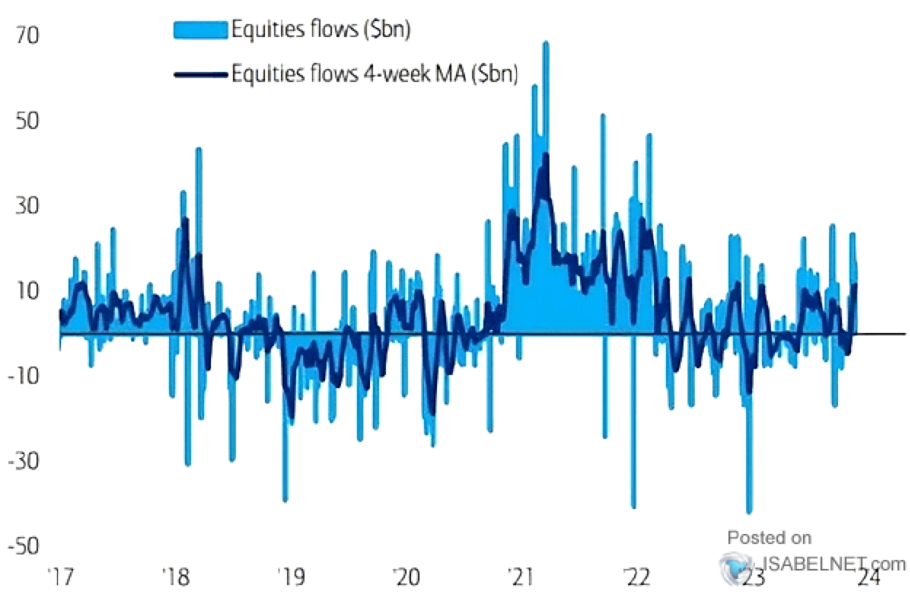
[6] https://twitter.com/marcos_galperin/status/1726373596044349819

we may be ineffective in one or multiple theaters. This axis has brought together countries like China, Russia, Iran, and North Korea with a goal that America's lack of support will force other countries to accept regional dominance of Russia and China in Eastern Europe and the Indo-Pacific. These changing dynamics will impact economies and markets in many ways. Many countries are implementing industrial policies to support local manufacturing. While these are supportive of creating local employment, there is also the underlying theme of having access to manufacturing capability in times of conflict. We think China's industrial policy which has emphasized scale at the expense of profitability has evolved under President Xi to seeking supply chain dominance which would impose significant costs on its adversaries in the event of war. This process of re-globalization probably means inflation becomes cyclical and does not stay consistently in the 1-2% range as it did during the 2000-2020 period.

Equity markets have rallied this month following Federal Reserve Chairman Powell's press conference on November 1st. Markets expect that we have seen the end of rate increases this cycle and that with inflation continuing to decrease, we will see interest rate reductions in 2024. The economic data on the health of the economy appears to be mixed, but the current market expectations are we may be able to avoid a recession.

Chart 3: Biggest 2-week inflow to equity funds since Feb'22

Flows to equities: weekly vs 4-week MA ($bn)



Source: BofA Global Investment Strategy, EPFR

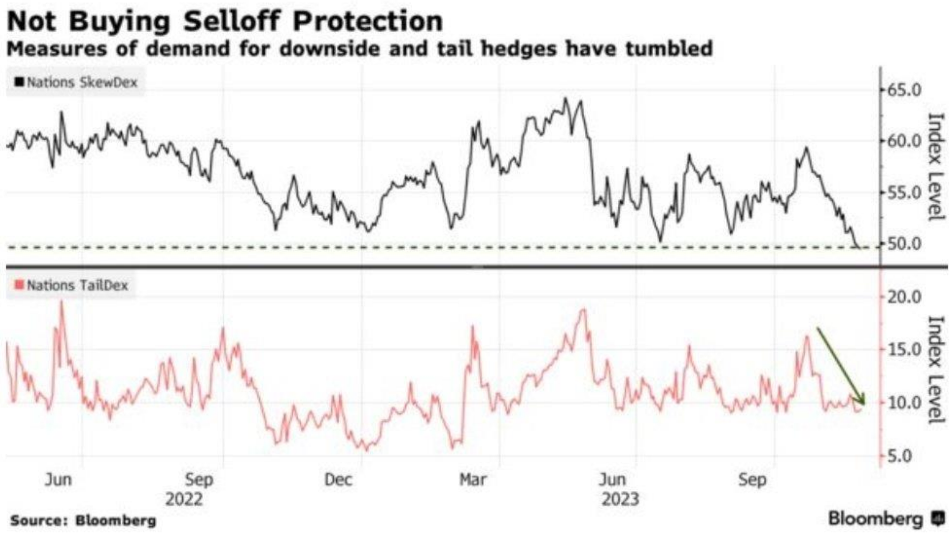
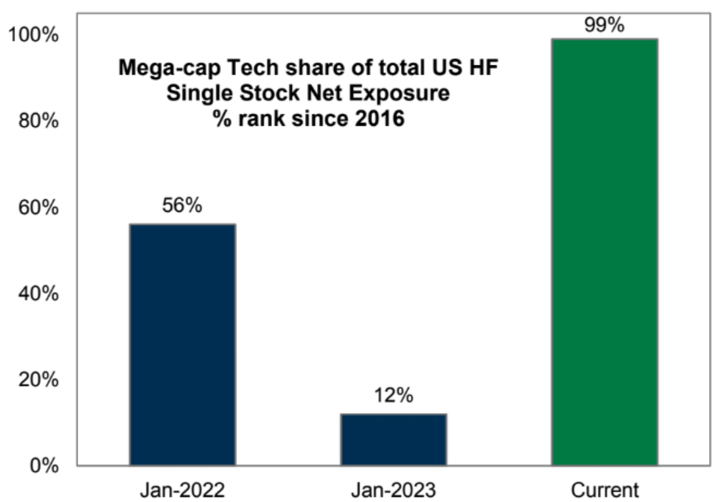


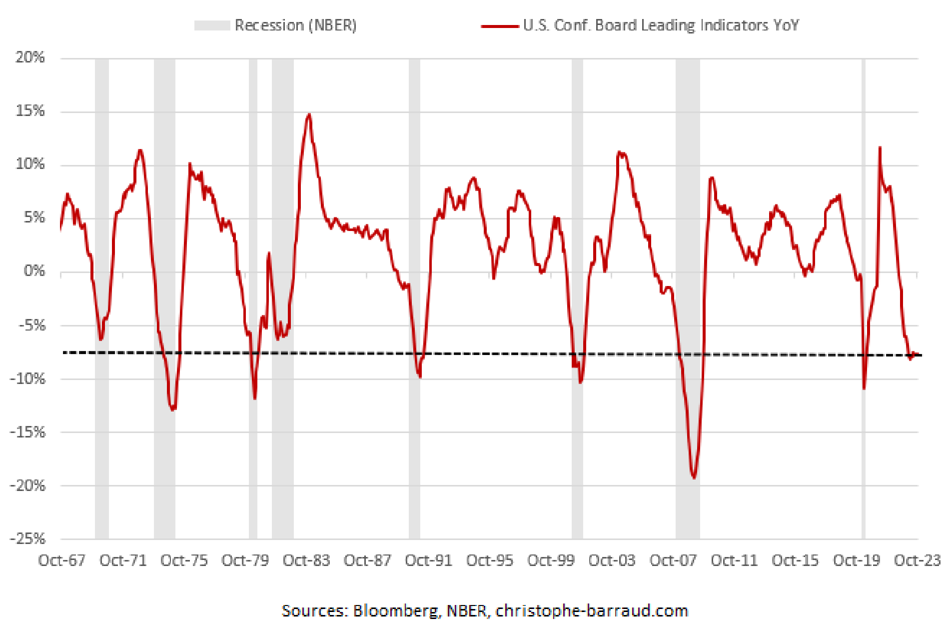
Exhibit 32: Hedge fund positioning in mega-cap tech is now back at record highs

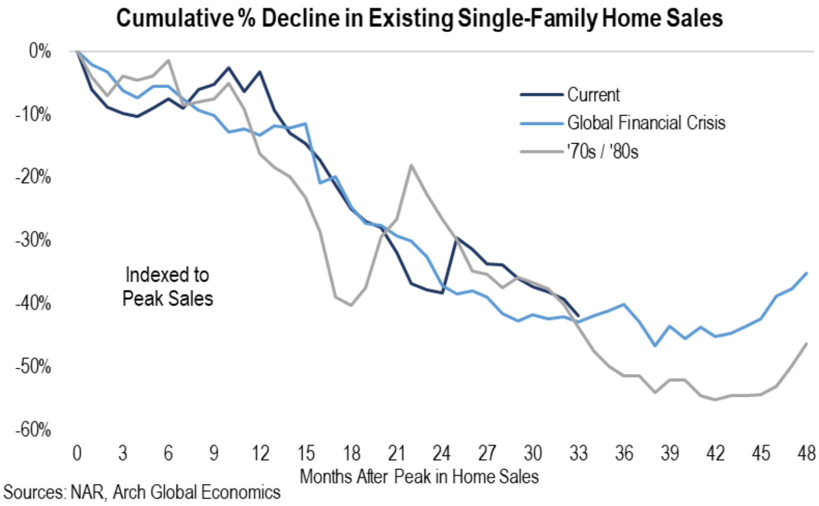


Source: GS Prime Services, Goldman Sachs Global Investment Research

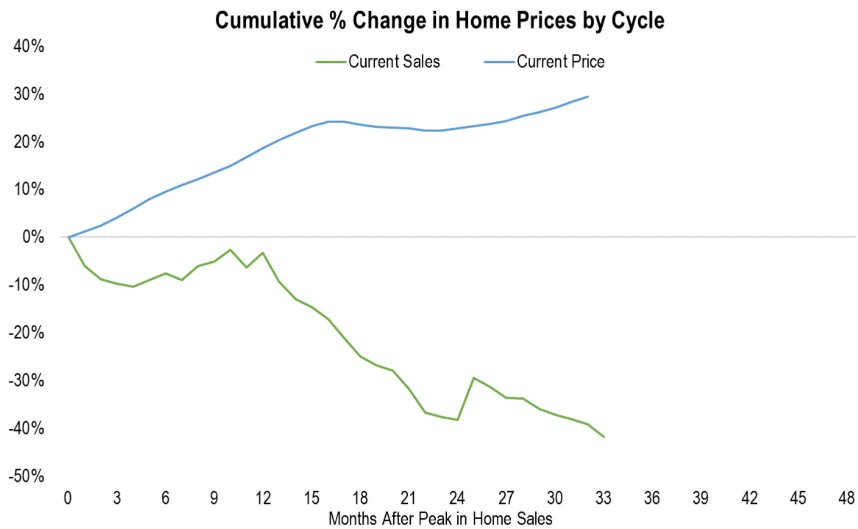
The recent market optimism is countered by certain economic data.

Leading Indicators are weakening:





Sources: NAR, Arch Global Economics



Source: National Association of REALTORS, Freddie Mac, Arch Global Economics

Higher mortgage interest rates have damped existing home sales since homeowners will face significantly higher interest burden if they move to a new home. However, new home sales and home prices have held up.

Our long-only portfolios are generally fully invested with cash below 5%, and we do not employ market timing. The economic views presented here are to present a context to the economic environment that our invested companies face. 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.

Updates on Portfolios (detailed performances since inception can be seen in Appendix I):

2023 YTD PERFORMANCE (10/30/2023)	Portfolio	Benchmark	Morningstar Category Median
INTERNATIONAL VALUE	0.89%	5.08%	3.93%
GLOBAL	3.43%	6.75%	3.50%
EMERGING MARKETS	-2.19%	-2.14%	0.02%

Portfolio changes (06/30/2023 through 09/30/2023):

International Value: No trades

Global Equity: No Trades

Emerging Markets: No Trades

Additional Thoughts:

For 2023, the International Value (-419bps) and Global (-332bps) strategies are behind their respective benchmarks, and the Emerging Markets is line with the benchmark. Given the underperformance this year, we have used our monthly portfolio reviews to check if our investment thesis remains valid on all our holdings. While our portfolio turnover is low, we are not passive investors and will make changes when we recognize deterioration in fundamentals, valuation in excess of intrinsic value or better investment opportunities. Our strategies have added significant value relative to the respective benchmarks and peer groups over time. Longer-term performance metrics:

International Value: +359bps annualized (5 years)

Global Equity: +344bps annualized (ITD, ~3 years)

Emerging Markets: +208bps annualized (5 years)

HARPER CAPITAL MANAGEMENT Performance Update October 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	0.89%	5.08%	3.93%	***YTD 10/31/2023***
ITD	50.37%	37.56%	n/a	***Cumulative (8/1/2016 to 10/31/2023)***
ITD	5.79%	4.50%	n/a	***Annualized (8/1/2016 to 10/31/2023)***
1-year	5.75%	18.11%	15.86%	***Annualized***
3-year	10.33%	10.97%	8.72%	***Annualized***
5-year	6.89%	3.30%	3.76%	***Annualized***

5- year Analytics (as of 09/30/2023)				
Annualized Alpha	3.90			
Information Ratio	0.45			
Upside Capture	86.73%			
Downside Capture	78.94%			
Portfolio Turnover	9.50%			***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	3.43%	6.75%	3.50%	***YTD 10/31/2023***
ITD	41.25%	27.17%	25.45%	***Cumulative (7/1/2020 to 10/31/2023)***
ITD	10.92%	7.48%	7.04%	***Annualized (7/1/2020 to 10/31/2023)***
1-year	3.27%	10.50%	7.94%	***Annualized***
3-year	8.68%	6.68%	6.26%	***Annualized***

ITD Analytics (as of 09/30/2023)				
Annualized Alpha	3.27			
Information Ratio	0.54			
Upside Capture	106.00%			
Downside Capture	93.85%			
Portfolio Turnover	16.92%			***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	(2.19%)	(2.14%)	0.02%	***YTD 10/31/2023***
ITD	55.33%	36.06%	32.28%	***Cumulative (6/1/2016 to 10/31/2023)***
ITD	6.12%	4.24%	3.84%	***Annualized (6/1/2016 to 10/31/2023)***
1-year	3.57%	10.80%	11.15%	***,***
3-year	5.96%	(3.67%)	(2.04%)	***Annualized***
5-year	3.67%	1.59%	2.52%	***Annualized***

5- year Analytics (as of 09/30/2023)				
Annualized Alpha	3.03			
Information Ratio	0.23			
Upside Capture	88.24%			
Downside Capture	84.42%			
Portfolio Turnover	14.41%			***Annualized***