Cramer Rosenthal McGlynn

Second Quarter 2024 Newsletter

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Cramer Rosenthal McGlynn, LLC is an established value equity manager with a focus on the U.S. small and mid-cap space. We believe our track record, spanning over 50 years, is a testament to our success in serving clients and providing strong risk-adjusted investment performance. Clients benefit from a consistent approach and application of a central philosophy and process, implemented by a team with diverse experience in identifying change, neglect, and the intrinsic value of businesses. In the investment world, as in life, change often unlocks hidden potential. Yet most investors sit on the sidelines while a transformation is underway, waiting to see evidence of positive results. This wait-and-see attitude is fertile ground for an investment manager structured to capitalize on change through intensive research. Cramer Rosenthal McGlynn, LLC is a firm that strives to recognize potential and seize opportunity. As of the most recent quarter-end, we manage over $2 billion for institutions and individuals, and we have followed a time-tested investment philosophy since 1973.

Why Invest in CRM

Specialist. CRM has been investing in the small/mid cap value space with the same time-tested philosophy and process since 1973.

Alignment. CRM's current generation of employees bought 100% of the company in 2019, signaling our long-term commitment to the firm and our clients. This alignment allows for retention of key talent.

Eclectic. CRM's history, connections, and process lead us to find companies that are under-followed or misunderstood by other investors.

Access. The experience and reputation of CRM and its research team allows for constructive interaction with company management. We have been able to identify and affect positive change with our portfolio holdings.

ESG. CRM integrates ESG analysis into our investment process. CRM consistently engages with our portfolio holdings on material ESG matters.

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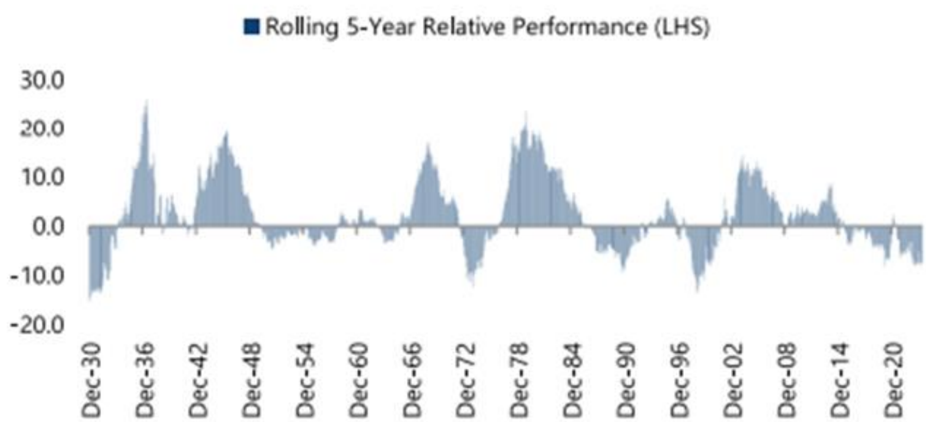
Signatory of: PRI Principles for Responsible Investment

SASB INSIDE

Market Commentary

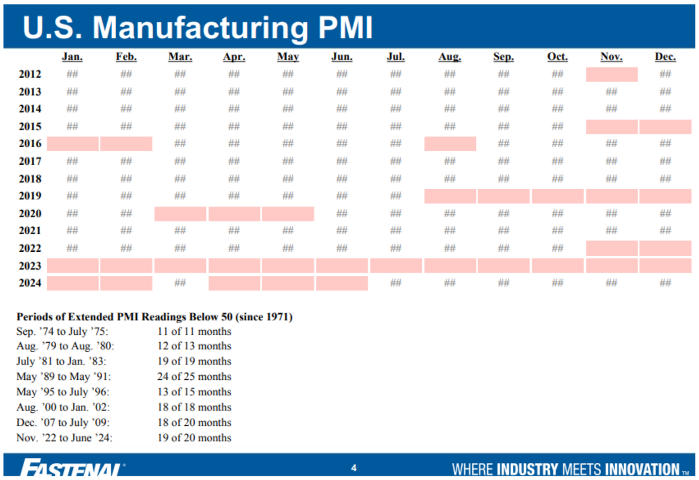
“It’s always darkest before the dawn” is a phrase written in 1650 by English theologian and historian Thomas Fuller and in one translation means “things always seem the worst before they improve.” This phrase best describes the market performance and sentiment for small and mid-cap value stocks relative to large cap stocks this quarter and the last few years. Down cap stocks declined this quarter as investors placed more weight on the recent slower economic growth reports than the retreat in inflation. This caused the market to gravitate toward large cap stocks again. The incredibly narrow leadership of the market this year is highlighted by the Magnificent Seven stocks accounting for two-thirds of the performance of the S&P 500 Index return in 2024 through June 30th. The chasm in performance between small and large has reached decade highs. As Jefferies quantified it, “we have to go back to 1973 to see a larger gap between” the performance of small cap and large cap stocks. As you can imagine, we have been proclaiming this anomaly to all that will listen but the catalyst to crystallize an inflection had not presented itself until post quarter end. A delay in publishing this quarterly commentary has allowed us the time to witness important economic data releases and political changes that may be the catalyst we have been discussing for some time to trigger the market towards the eventual rotation in leadership back to down cap value strategies. Some will ask, is this rally in July the “Trump Trade” or an actual small and mid-cap rotation? We would answer, “does it really matter?” We believe we will likely end up with the same answer – small and mid-cap value stock outperformance going forward.

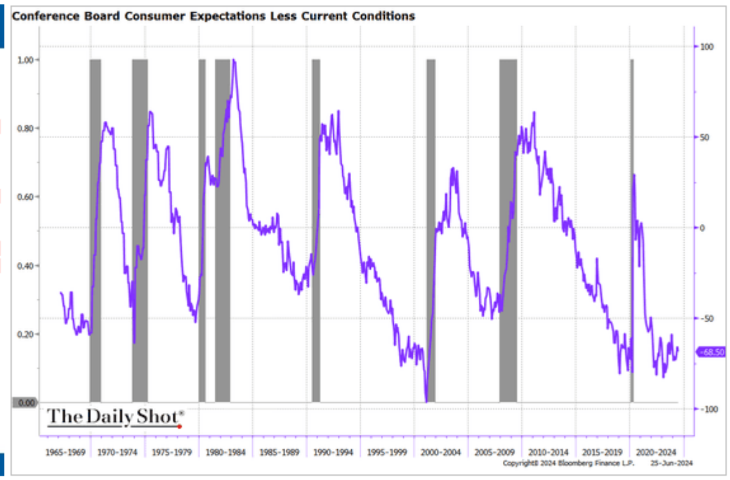
The rolling 5-year performance of Small vs. Large is in the 6th percentile



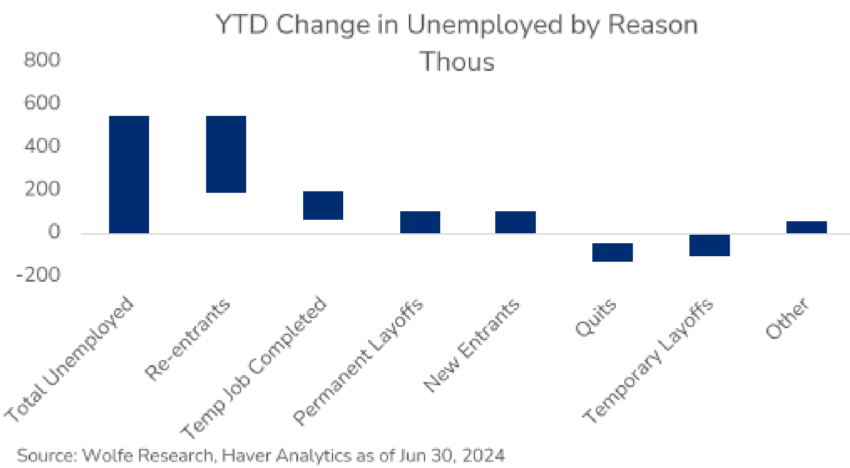
Source: Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business; Jefferies

The second quarter witnessed a movement of investor preference towards weighting economic growth (albeit weaker growth) over slowing inflationary reports. This fueled the debate over whether a potential rate cut would be a negative or positive for the market, i.e. is the Federal Reserve cutting rates to address an economic slowdown or just to normalize rate policy. This concern was exacerbated by worries the Federal Reserve Open Market Committee (FOMC) may make a policy error and not cut interest rates fast enough due to lingering concerns about services inflation remaining sticky while economic indicators were pointing towards a slowdown. One event that exemplified this was the May Consumer Price Index (CPI), which was reported on the final day of the June FOMC meeting. The May CPI was below expectations and was broadly endorsed by the market. However, this report did not sway Fed members, as they still reduced their outlook to one rate cut from three for 2024 in their Summary of Economic Projects (SEP). A troubling event since many market participants were witnessing multiple data points indicating a slower economic outlook for 2024 and weaker consumer confidence (see charts below).



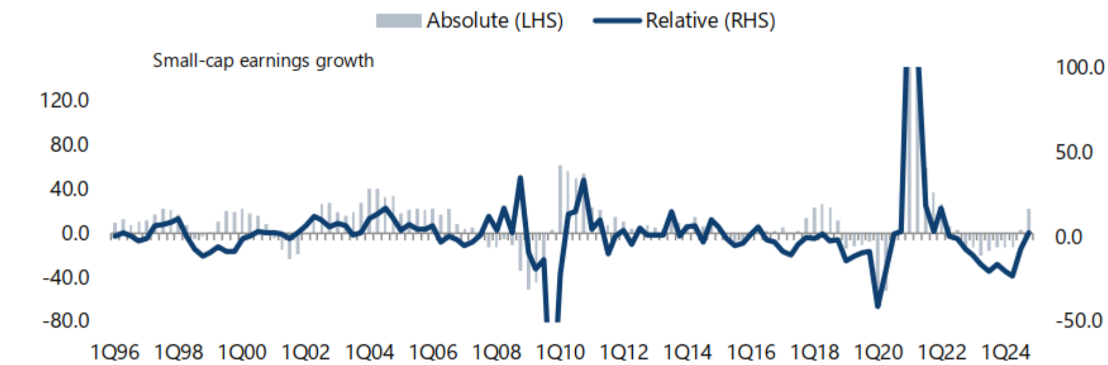


Since the June FOMC meeting, the market has enjoyed confirmatory economic data pointing to a lessening of inflationary pressures. The June CPI released in the second week of July reinforced the May report that inflation was slowing towards the Fed's target of 2%. In addition, the June employment report showed the labor market coming back into better balance. Yes, there have been concerns raised that the more than 50 basis points increase in the unemployment rate from its recent nadir typically signals a recession; however, we draw solace from the fact that the rise in unemployment rate has mainly been related to re-entrants into the labor market along with new entrants (see chart below), not meaningful layoffs. This supports the notion of a slowing pace of growth, not a hard stop. As a result of these cooling economic reports, the futures market is now pricing in 2-3 rate cuts by year-end 2024. As we have previously pointed out, an easing cycle has historically been highly beneficial to small and mid-cap stocks given their shorter duration liability structure and higher leverage profile compared to large cap companies.



On a more micro level, we believe the building blocks are being set for the rotation to small and mid-cap value stocks. One such area is the earnings potential for down cap stocks. We see an improving earnings outlook for small to mid-cap companies as we progress through 2024. Down cap companies' earnings were more negatively impacted by the inflationary pressures and rise in interest rates versus larger cap companies in 2023. As such, small and mid-cap value companies should have the strongest earnings recovery as we advance through 2024 and 2025. We see the best earnings leverage from certain sub-sectors that have endured recession-like environments in recent years such as transports, title/housing related companies, merger and acquisition advisory firms, real estate brokerage, and auto insurers to name just a few. These groups should enjoy a cyclical, and in some cases a secular, rebound in their earnings outlook over the next few years, which we believe is not fully appreciated by the market.

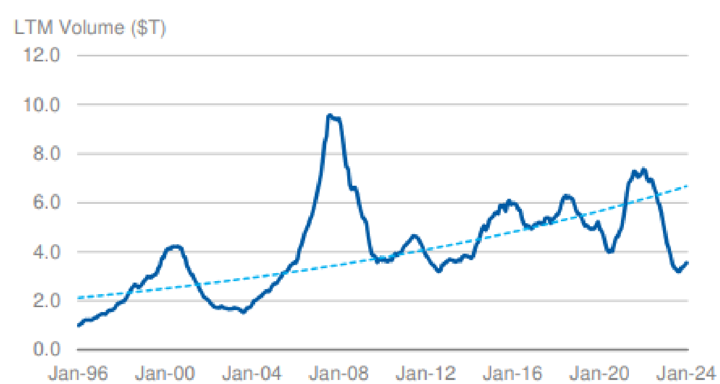
The narrowing of earnings growth between small & large helps performance…



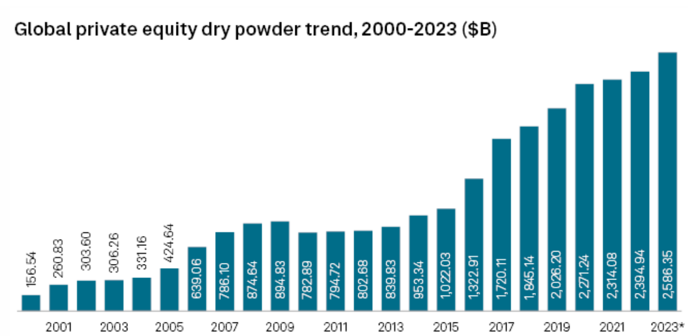
Source: FactSet; Standard & Poor's; Jefferies

Another area that should support the valuation of small and mid-cap stocks is a recovery in merger and acquisition (M&A) activity. Despite the slower than expected pick-up in activity this year, we remain constructive on a rebound. As we have witnessed in the past, M&A activity typically has a 2-to-3-year downcycle and 5-to-7 year upcycle. We have yet to experience a resurgence in sponsor-led transactions, which tend to be more focused on small and mid-cap companies due to the uncertain outlook for Fed interest rate policy earlier this year. We believe that uncertainty is beginning to fade, and pipelines are building for a more robust finish to the year. As indicated below, global M&A volumes are significantly below trend and are set for a cyclical and secular rebound. We view the approximately $2.5 trillion of dry powder private equity has today along with the excess capital on strategic buyers' balance sheet as highly constructive for an acceleration in deal activity. We also believe limited partners will continue to pressure sponsors to generate realizations and distributions to recycle capital for future fund raising. Lastly, we expect the historically large discount small and mid-cap stocks are trading relative to large cap stocks will spur elevated consolidation until that spread narrows.

Global M&A volumes are significantly below trend.
We expect a cyclical and secular rebound.



Source: Dealogic, Morgan Stanley Research; Note: Exhibit shows trailing LTM volume of global announced M&A, excluding withdrawn transactions.



Data compiled Dec. 1, 2023.
* Year to date through Dec. 1, 2023.
Analysis includes aggregate dry powder of global private equity funds with vintage year between 2000 and 2023.
Dry powder data is supplemented by Preqin.
Source: S&P Global Market Intelligence.
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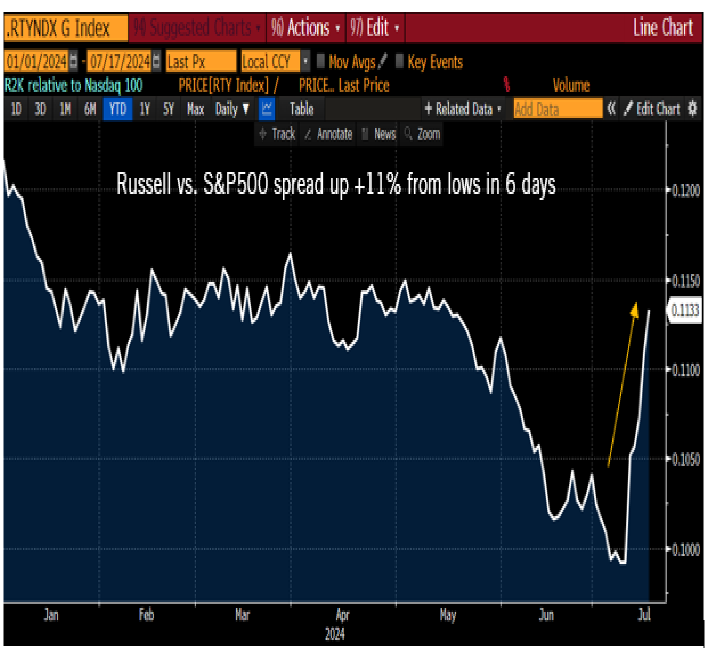
Despite these more positive macro and micro drivers, we continue to be mindful of the tail risks here in the U.S. and across the globe in constructing our portfolios. As we have witnessed, the historical recession indicators (inverted yield curve, shrinking money supply, weak ISM Index readings, rising unemployment rate, etc.) have been flashing, but we believe other factors continue to mitigate these signals. That being said, we want to remain vigilant and need to continuously challenge our forecasts. As we have seen, it's been nearly two years since the inversion of the 2-year and 10-year treasury curve. The money supply (M2) turned negative at the end of 2022 but thankfully has recently turned positive. As we pointed out earlier, the ISM Index has been in contraction territory (below 50) for 19 of the past 20 months without a recession. Recently, the “Sahm rule” was triggered when the three-month moving average unemployment rate rose more than 50 basis points from its nadir this cycle. These are all important indicators that we need to be attentive and continuously monitor. Outside the U.S., we continue to scrutinize the impact of the conflict in the Middle East and the Russia/Ukraine war. The market has generally viewed these events to be contained, but more countries could be pulled into these conflicts at a moment’s notice.

Another area of uncertainty that potentially appears to be coming into better focus today is the U.S. Congressional and Presidential elections. Given recent events, the market appears to be pricing in a higher probability of a Republican sweep. We do remind readers that we still have four months until election day and those odds can change quickly, as the events over the past month have proved. Either way, certainty following the election will be positive for small and mid-cap stocks. As Goldman Sachs points out, the Russell 2000 Index tends to outperform the Russell 1000 Index during the three months following the election by a median of 4.7% (70% hit rate) based on the past ten presidential election cycles.

Over our 50-year history, we have invested through various market environments that have been led by various areas of the market. As we have witnessed in the past, market leadership tends to change with inflections in economic, geopolitical, and/or monetary policies. Today, we believe we are on the precipice of such a market inflection. We have endured one of the most bifurcated markets in our history, which now has small cap stocks trading at their biggest discount to large cap stocks in decades. Not only are down cap stocks trading at historic discounts, but as we pointed out earlier, we believe micro and macro factors will be supportive of their fundamentals, which should allow them to close that valuation gap over the next few years. After resetting expectations during 2023, we believe small and mid-cap stocks are well positioned for a recovery in earnings over the next couple of years. We are highly constructive on the benefits the Infrastructure Investment and Jobs Act (IIJA), the CHIPS and Science Act, and the Inflation Reduction Act (IRA) will have on small and mid-cap value stocks and the “picks and shovels” companies, which tend to be more domestically oriented. In addition, a potential Republican sweep or at least control of Congress should be a tailwind to small and mid-cap stocks. Lastly, a recovery in M&A activity, particularly sponsor-led transactions, would be another positive multi-year catalyst for the group. As we have done in the past, we continue to focus on stocks with pricing power, healthy balance sheets and areas of self-help, which are under-earning, that generate alpha in various interest rate and inflationary environments.

Small cap performance vs S&P 500 Index year to date



Source: Bloomberg and Mizuho Americas

Small cap performance vs S&P 500 Index since 2000

Source: Bloomberg and Mizuho Americas

Strategy Inception: January 1998
Assets in Strategy[1]: $608 Million
As of June 30, 2024

Portfolio Management Team

Kevin Chin
26 Years at CRM
39 Years of Financial Experience

Rob Maina
19 Years at CRM
31 Years of Financial Experience

Composite Characteristics

	Composite	RMidV	RMid
Wtd Avg Mkt Cap (m)	$19,788	$22,845	$23,980
Wtd Median Mkt Cap (m)	$12,781	$19,834	$21,218
P/E FY2	16.1x	14.0x	15.5x
Price/Book	2.4x	2.2x	2.7x
Dividend Yield	2.2%	2.0%	1.7%
Number of Holdings	43	713	811
Active Share[3]	94%		

Top Ten Holdings	% of Composite
Fidelity National Information Services, Inc.	3.7
Vontier Corporation	3.5
ChampionX Corporation	2.9
Burlington Stores, Inc.	2.9
NiSource, Inc.	2.9
Terreno Realty Corporation	2.8
Woodward, Inc.	2.8
Martin Marietta Materials, Inc.	2.8
Canadian Pacific Kansas City, Ltd.	2.8
Ashland, Inc.	2.7
Total	**29.8%**

Sector Allocation

	Composite	RMidV	RMid
Communication Services	--	3.2	3.5
Consumer Discretionary	7.9	9.4	10.9
Consumer Staples	--	6.2	5.3
Energy	6.4	5.9	5.5
Financials	16.2	16.4	15.4
Health Care	3.6	9.1	10.5
Industrials	21.9	16.9	17.0
Information Technology	15.5	9.1	13.0
Materials	15.4	7.5	6.0
Real Estate	7.8	9.8	7.7
Utilities	5.5	6.6	5.3

Mid Cap Value

Portfolio Commentary[1]

In the second quarter of 2024, the CRM Mid Cap Value strategy underperformed the Russell Mid Cap Value benchmark by 123 basis points on a net of fees basis, -4.63% versus -3.40%[2]. From a sector perspective, the largest headwind to relative performance this quarter was our stock selection within the Information Technology and Real Estate sectors along with our overweight to the Materials sector. Conversely, our stock selection within the Consumer Discretionary and Health Care sectors, along with our underweight to the Consumer Staples sector, were the largest contributors to relative performance this quarter. Based on our bottom-up stock selection, the portfolio is overweight the Materials, Information Technology, and Industrials sectors versus the Russell Mid Cap Value benchmark. Conversely, the portfolio is currently underweight in the Consumer Staples, Health Care, Communications Services, and Real Estate sectors versus the benchmark.

Top contributors this quarter were SharkNinja, Inc., Woodward, Inc., and Stericycle, Inc. SharkNinja, Inc. (SN), a product design and technology company, outperformed as the company reported better than expected 1Q24 results with momentum continuing into 2Q24. We continue to believe the company has a superior product innovation and marketing engine, which has allowed it to gain share as well as expand into new categories and markets. Woodward, Inc. (WWD), a leading manufacturer of energy control systems for aircraft and industrial engines, continues to show strong execution in margin and earnings growth under the new management team led by Charles Blankenship. The production issues at Boeing and Airbus are lengthening the commercial aerospace cycle and leading to increased high-margin aftermarket sales as older planes are being flown for longer. Stericycle, Inc. (SRCL) is an industrial services company that focuses on the collection and regulated disposal of medical waste, as well as the secure collection and disposal of paper from a variety of customers. The company was a contributor to performance this quarter as Waste Management, Inc. announced its intention to acquire the company for cash by the end of this calendar year.

Top detractors to performance this quarter were Regal Rexnord Corporation, Vontier Corporation, and Clarivate Plc. Regal Rexnord Corporation (RRX), an industrial powertrain solutions provider, underperformed this quarter on concerns over slowing short-cycle industrial indicators and continued weakness in residential HVAC, despite many self-help levers to achieve their targets. After a very strong 2023 and 1Q24, Vontier Corporation (VNT) underperformed on in-line but flat guidance for the second quarter due mainly to the timing of project rollouts. We remain positive on the long-term trends of consolidation and technology upgrades for their retail fueling/convenience store market and Vontier's portfolio shift to a higher margin, more recurring revenue (software) model. Despite reporting in-line first quarter results and reaffirming the full year outlook, shares of science and healthcare information services company Clarivate Plc (CLVT) underperformed for the quarter due in part to the conversion of its convertible preferred shares to common shares in early June. We continue to expect the shares to trade higher in the second half of the year as the company delivers on its plan.

Our largest new position this quarter was Elanco Animal Health Incorporated. **Elanco Animal Health Incorporated (ELAN)** is a producer of over-the-counter pharmaceuticals and vaccines in the production and companion animal health marketplace globally. Elanco was a new purchase this quarter, as we believe the company is approaching the mid-single-digit animal health market growth rate versus its prior two year declines experienced in 2022 and 2023. Our investment case is based on an improving mix towards growth in higher margin animal health products, a differentiated new product pipeline, and meaningful cost reductions. We believe Elanco's EBITDA margins have the potential to improve by greater than 500 basis points from current levels, particularly if the company gains meaningful market share in the atopic dermatitis market from a new product. Recent shareholder activism has led to two recent board seat additions for individuals having a strong animal health industry background, a key positive during Elanco's new product pipeline initiatives to drive growth and profitability. Lastly, the company recently announced it will be selling its non-core Aqua portfolio for ~$1.1Bn of net proceeds. This divestiture will move net leverage towards a 3x leverage profile by the end of calendar year 2025 with free cash flow generation, which will be a full year ahead of prior estimates. Elanco trades at a 30-50% valuation discount to the relevant peer group with an earnings and free cash flow profile that could approach $1+ over time coming from operating leverage and deleveraging the balance sheet.

Second Quarter 2024[4]

TOP CONTRIBUTORS	TOP DETRACTORS
SharkNinja, Inc.	Regal Rexnord Corporation
Woodward, Inc.	Vontier Corporation
Stericycle, Inc.	Clarivate Plc

Year to Date 2024[4]

TOP CONTRIBUTORS	TOP DETRACTORS
SharkNinja, Inc.	Clarivate Plc
Fidelity National Information Services, Inc.	QuidelOrtho Corporation
Woodward, Inc.	Teledyne Technologies, Inc.

PRELIMINARY PERFORMANCE

Through June 30, 2024

	Gross	Net	RMidV	RMid
QTD	-4.52%	-4.63%	-3.40%	-3.35%
YTD	4.94	4.62	4.54	4.96
1-Yr	11.47	10.72	11.98	12.88
3-Yr	3.99	3.25	3.65	2.37
5-Yr	9.54	8.75	8.50	9.46
10-Yr	9.70	8.90	7.60	9.04

Past performance is not a guarantee of future results. There is no guarantee our investment performance will achieve the performance metrics shown in this analysis.

The information presented for the Composite relates to a composite of CRM client separate accounts. CRM manages each component included in this composite using the same strategy. For information regarding this composite, please reference Important Disclosures, Performance Disclosure on page 14.

[1]As of June 30, 2024 CRM's total Assets Under Advisement ("AUA") were $2.1 Billion. Of the $2.1 Billion AUA, $1.8 Billion were assets managed on a discretionary basis and $254 Million were assets managed on a non-discretionary basis.
[2]Please reference Product Disclosures on page 8 for additional information pertaining to the calculation of fees, composite characteristics, holdings, and sector allocation among other things.
[3]Active Share is a measure of the percentage of the portfolio that differs from its benchmark on an average portfolio weightings basis.
[4]It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities in this commentary/list. Please reference Important Disclosures, Product Disclosure on page 8.

Important Disclosures

Performance Disclosure

Investments are subject to loss in value. Past performance is no guarantee of future results and it should not be assumed that recommendations made in the future will be profitable or will equal the performance shown in this analysis. There is no guarantee our investment performance will achieve the performance metrics shown in this analysis. Our investment theses are subject to change at any time and without notice.

The performance information for each portfolio relates to composites of client accounts with particular investment strategies. Valuations and returns are computed and stated in U.S. Dollars, are dollar-weighted, and reflect the reinvestment of dividends and other earnings. Performance is calculated monthly, and the gross performance results for each portfolio are presented before management fees but after all trading commissions. The net performance results are presented after deducting the applicable asset-weighted management fee.

The performance information includes a comparison to various benchmarks, which are rebalanced annually. The benchmarks used for each portfolio are as follows:

- Mid Cap Value: Russell Midcap Value Index and the Russell Midcap Index

The Mid Cap Value composite consists of all fully discretionary, fee-paying, taxable accounts by CRM managed using the same strategy as the other accounts in the composite.

Product Disclosures

Portfolio Commentary & Contributors/Detractors

The views expressed in this newsletter represent our opinion, which is based upon research and information available to us at time of publication. The views expressed in this newsletter should not be relied upon as fact and are subject to change at any time based upon a change in market conditions, a company's profile, or other factors. It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the securities mentioned.

Upon request, CRM will furnish a list of all securities purchased, sold, or held in any of the portfolios referred to in this newsletter during the twelve month period preceding the date of the list of securities for that portfolio included in this newsletter. The methodology for calculating the top contributors and detractors is based on the contribution to return over the specified time period (i.e. quarterly) within the portfolios. The contribution to return methodology is the product of the average weight and total return (i.e., the contribution to return for a single day is the security weight multiplied by the daily security return). These returns are geometrically linked. The methodology for selecting the initiated positions during the quarter is based on an absolute dollar basis over the specified time period (i.e. quarterly) within the portfolios.

Composite Characteristics

Information pertaining to Composite Characteristics includes weighted average market capitalization, median market capitalization, and other preliminary numbers that have been derived from Refinitiv. As these numbers are preliminary, they are subject to change.

Top Ten Holdings

It should not be assumed that the Top Ten Holdings presented for each portfolio in this newsletter will, in the future, be profitable or will equal any references to performance in this commentary. Upon request, CRM will furnish a list of all securities purchased, sold, or held in any of the portfolios referred to in this newsletter during the twelve month period preceding the date of the list of securities for that portfolio included in this newsletter. Holdings are subject to change at anytime.

Sector Allocation

The Sector Allocation presented for each portfolio in this newsletter may not be representative of the portfolios' current or future investments. The source of the information for all Sector Allocations is Refinitiv, GICS Sectors. Holdings are subject to change at anytime.

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Sustainable and Impact Investing and/or Environmental, Social and Governance (ESG) managers may take into consideration factors beyond traditional financial information to select securities, which could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. Further, ESG strategies may rely on certain values based criteria to eliminate exposures found in similar strategies or broad market benchmarks, which could also result in relative investment performance deviating.