

- The Scharf Quality Value Strategy was essentially flat (net of fees) for the month-ending period.
- Mega-cap IT stocks continued their stratospheric rise in global markets concentrations. The top 10 stocks in the S&P 500 now represent 37% of the Index, approximately 10% higher than the tech bubble. Year-to-date, the S&P 500 is up 15.3% vs. 5.1% for the equal-weight version.
- The resultant historically high P/E spread between growth and value stocks is providing relative opportunity for us and we bought two new stocks in June—Aon and Gentex.

MARKET REVIEW

IT stocks propelled the Russell 1000 Growth Index to a 6.74% return in June, outperforming the Russell 1000 Value Index (-0.94%) by nearly 8%. Year-to-date, Growth has returned 20.7% vs. 6.6% for Value. Over the trailing 10 years, Growth has delivered an astounding annualized return of 16.3% vs. 8.2% for Value. While tech-related profits have been supportive of the outperformance, valuations have outpaced earnings growth. At 30x, the Russell 1000 Growth Index forward P/E now trades nearly 50% higher than its 25-year average (21x). Meanwhile, interest rates are appreciably higher today than their post Global Financial Crisis average, and consensus estimates have tech and non-tech earnings growth narrowing. Like the IT sector (30x P/E), consensus forward earnings growth for Financials (15x P/E), Industrials (20x P/E), and Health Care (19x P/E) are each forecast to be in the teen percentages.

PORTFOLIO REVIEW

For the month, the Strategy returned -0.09% (net of fees), beating the Russell 1000 Value Index and trailing the S&P 500 Index, which returned -0.94% and 3.59%, respectively.

At the sector level, the leaders were stock selection in Information Technology, and underexposure to lagging Energy and Consumer Staples. The leading laggards were stock selection in Financials, underexposure to leading Information Technology, and stock selection in Health Care.

At the stock level, the top attribution contributors were Oracle, Microsoft, McKesson, Booking Holdings, and

Novartis. The largest detractors were Centene, Brookfield Corp., Markel, Visa, and not owning Broadcom.

We added Aon (AON)—one of the world's largest insurance brokers and employee benefits advisory businesses. The company has a defensive sales mix as the company benefits from high retention rates associated with custom insurance policy complexity for its enterprise customers. We model double-digit earnings growth. At an estimated 16.3x 2025 P/E, AON is attractive relative to its growth potential and offers a compelling Favorability Ratio, or upside return vs. downside price targets. AON's 5-year median high P/E is 24.6x. There is Wall Street consternation over the recent acquisition of NFP, however, Aon has a long history of successful integrations.

We also added Gentex (GNTX), a leading specialty auto parts engineering company with a 90% global market share in auto-dimming/digital display mirrors. The company has a strong pipeline of adjacent products. While earnings growth is somewhat cyclical, the company has materially less volatility than a typical auto parts stock due to its strong balance sheet, high margins, and consistent market share take. Gentex is currently trading at 13.9x 2025 earnings vs. an historical median high 28x P/E. This suggests a very strong 10-to-1 Favorability Ratio.

OUTLOOK

Risks: Valuations remain especially rich in Information Technology as the sector is now more than 32% of the S&P 500 and trades at 30x P/E, more than 50% above its 20-year average. The sector grew revenues just 2% in 2023.

All data as of June 30, 2024.

Past performance is not indicative of future results. The securities identified and described do not represent all of the securities purchased, sold, or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable.

AI development is not increasing aggregate IT spend in the short term, so actual profitable consumer and corporate adoption would better come sooner than later to justify sector valuations. Meanwhile, economic growth is slowing and yet market volatility as measured by the VIX hit a 5-year low in June. Strong mega-cap momentum at the index level is masking heightened individual stock volatility.

Opportunities: P/E dispersion, on par with levels last seen during the 2000 tech bubble, presents a compelling investment opportunity for value stocks and non-mega cap names. Meanwhile, quality value (low EPS volatility) should mitigate the risk of traditional value stocks' (e.g., Energy, Financials, Materials) high operating leverage should the global economy slow.

Annualized Rates of Return (%) as of June 30, 2024	YTD	1-Year	3-Years	5-Years	10-Years	Inception
Scharf Quality Value (Gross)	4.5%	13.8%	6.9%	11.7%	9.9%	13.8%
Scharf Quality Value (Net)	4.1%	12.7%	5.9%	10.6%	8.9%	12.4%
Russell 1000 Value Index	6.6%	13.0%	5.5%	9.0%	8.2%	9.7%
S&P 500 Index	15.3%	24.5%	10.0%	15.0%	12.8%	10.9%

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Scharf Quality Value (Net) represents a 1% Scharf management fee. Scharf Quality Value (Max Net) is the Scharf Quality Value (Gross) reduced by the highest wrap fee of 3% applied annually. Additional information regarding relationships and services can also be found in the Firm's Form ADV Part 2A.

Value investing generally seeks stocks that may be sound investments but are temporarily out of favor in the marketplace and is subject to the risk that the valuations never improve or that the returns will trail other styles of investing or the overall stock markets. The SMA investment strategy discussed may not be suitable or appropriate for all investors depending on their specific investment objectives and financial situation and potential investors should consult with their own financial professional before determining whether to invest in the strategy.

As of July 1, 2023, the Scharf Sustainable Value Composite was renamed to the Scharf Quality Value Composite.