the ithaka group

Concentrated Growth Equity Managers

ITHAKA EAFE STRATEGY

FIRM OVERVIEW
- Founded in 2008
- Based in Bethesda, MD
- Concentrated growth investors
- 100% employee-owned
- ~$1.1B AUM

STRATEGY OVERVIEW
- Seeking high-quality companies with durable growth
- Bottom-up, fundamental focus
- Concentrated, low-turnover portfolio
- Maximum of 30 large-cap and mid-cap holdings

FUND OVERVIEW
- Inception date: December 1, 2017
- Benchmark: MSCI EAFE NR
- 4 member investment team

OBJECTIVE
- Long-term growth of capital

PORTFOLIO MANAGERS
- Andy Colyer, CFA
- Scott O'Gorman, CFA

SUMMARY

The Ithaka EAFE Strategy ("IES") declined 26.5% in 2Q22, trailing the MSCI EAFE by 12.0 ppts. Turnover for the trailing twelve months was 35%.

COMMENT

When a strategy lags its benchmark for three quarters in a row—the last two by significant margins—clients can be forgiven for wondering what's going on. We thought it would be useful to give some background on the strategy to show that, while the results are disappointing, they're explainable given the goal of the strategy and current market conditions. We think we can also show why we continue to be confident in the strategy over the long-term.

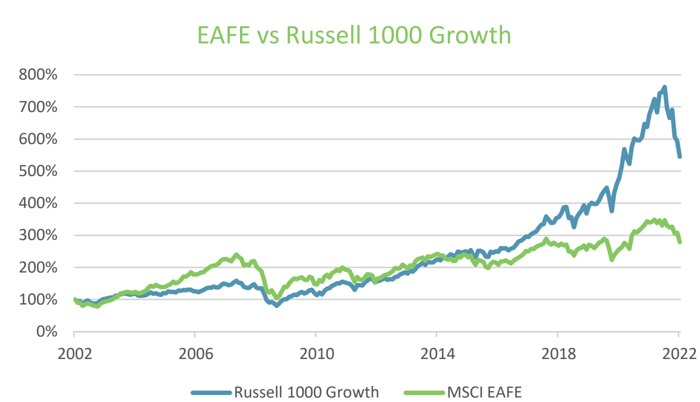
A little over five years ago we began to seriously contemplate adding an international strategy. We began our research on the effort by trying to understand the then-current market for ex-US growth strategies to see if we could add value to the space. We determined three things.

First, the ex-US space lends itself to stock picking. The vast majority of ex-US funds—both growth and value—benchmark against one of two indices: the MSCI EAFE or the MSCI ACWX. The EAFE (Europe, Australasia, Far East) includes stocks that represent ~85% of the market capitalization from 21 developed countries excluding the US and Canada. The ACWX (All-Country, World Index, excluding the US) adds Canada and 24 emerging markets countries. Despite an 8% weighting in Canada and another ~30% of emerging markets, the ACWX trades very similarly to the EAFE over time. Over the last twenty years the EAFE and the ACWX have averaged a return of about 5% annually.

Second, there were not many funds significantly outperforming the EAFE or the ACWX. In fact, many were underperforming. Many returned the index plus a percentage point or two. And many were holding a significant number of companies that had underperformed over many years. This was a surprise to an investment team that had competed for years against the Russell 1000 Growth Index. In our minds, a portfolio manager needs to have the expectation that every holding has a good chance of outperforming the benchmark over time. But not too much time.

Third and finally, there are many outstanding growth companies outside of the United States. Most are not household names such as Amazon.com, Alphabet (formerly Google), or Apple. But many are the best in their industries and can, and do, compete with the best in the United States. Interestingly, we found that many of these exceptional companies are not widely held by international funds.

Based on this work, we determined that we could create a value-added international strategy that competes with the EAFE, with holdings largely from EAFE countries (we add Canada and Luxembourg) but aims for returns closer to those of the Russell 1000 Growth. There is good reason to want to do this. Over the last 20 years, the Russell 1000 Growth has significantly outperformed the MSCI EAFE, delivering compounded returns of 10.1% vs 5.2% for the EAFE. This makes a tremendous difference over 20 years:



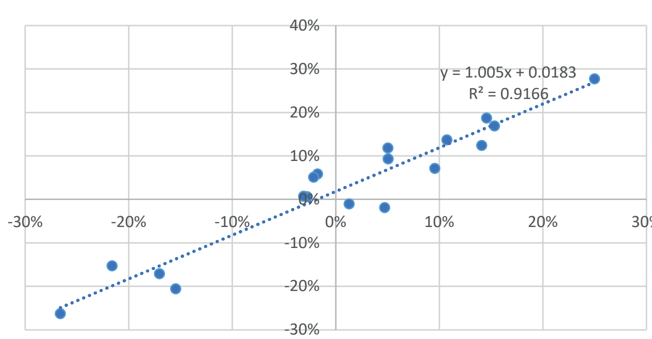
Because of the way that innovation and growth are reflected in the Russell 1000 Growth, we suspect this outperformance versus the MSCI EAFE will continue over the long-term.

While there were a few strategies doing this when we began, and there are a few more that have started since, there is little overlap between the funds. Because it's fairly easy to get a significant active weight in just about every holding in MSCI EAFE, and there are only a few standout growth companies among the top 20 names in the index, there is considerable freedom in constructing a portfolio. This differs from the experience of US large-cap growth funds, which find it challenging to not own just about every name in the top 10 holdings of the Russell 1000 Growth (Apple, Microsoft, Amazon, Tesla, Alphabet, UnitedHealth, Nvidia, Visa, Mastercard, and AbbVie), which together comprise 47% of the index. Accordingly, unlike with the US large-cap growth space, institutions can own multiple international growth funds with little overlap.

So on 12/1/17 we initiated the Ithaka EAFE Strategy, with the goal of delivering Russell 1000 Growth caliber performance with holdings from developed markets outside the US. This could let investors diversify away from concentrated US positions, mitigating some US risk, while not forgoing the performance available with US securities.

We've been largely successful, generally for the better, but clearly for the worse this year. The performance of the Ithaka EAFE Strategy is highly correlated to the Russell 1000 Growth, adjusted for changes in foreign exchange. The movement in the FX-adjusted Russell 1000 Growth explains ~89% of the movement in the Ithaka EAFE Strategy (i.e., in statistics terms, the regression of the performances of the IES against the FX-adjusted Russell 1000 Growth Index has an R^2 of ~0.89). Because the top 10 holdings of the Russell 1000 Growth have an exceptionally large weighting (47% as of 6/30/22), they have a disproportionate impact on the quarter-to-quarter movement of the index. Taking the index less these top ten doesn't lose much performance over time, but does smooth the performance. The correlation of the Ithaka EAFE Strategy to the FX-adjusted Russell 1000 Growth less the top 10 stocks is 0.92:

IES vs (R1KG - Top 10 + FX)



Quarter-to-quarter the performances, while generally close, don't always match exactly. But they pretty much did the last two quarters:

QTR (%)	R1KG[1]	FX[2]	R1KG + FX	R1KG - Top 10 + FX	IES
1Q22	(9.0)	(2.2)	(11.2)	(17.0)	(17.1)
2Q22	(20.9)	(6.7)	(27.6)	(26.6)	(26.3)

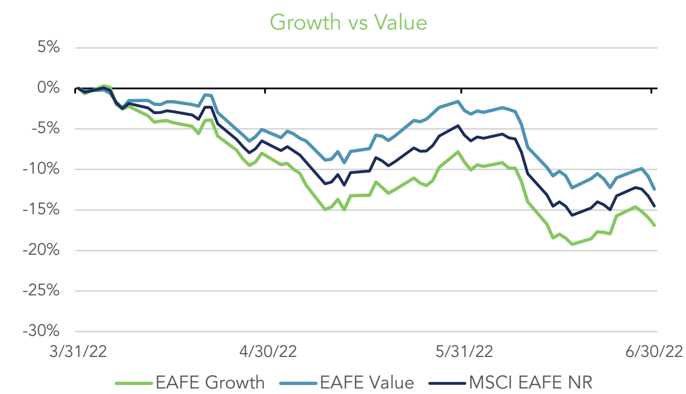
[1] R1KG = Russell 1000 Growth Index.
[2] FX adjustment is the impact of foreign currency translation.
We use the FX impact on the EAFE as a proxy for the impact of FX on the IES

As you can see, exchange rates play a large role in the relative performance of the indices. In the wake of 9/11 and the dot-com crash, the dollar weakened versus major foreign currencies as the Federal Reserve lowered the Federal Funds rate. Investors shed USD-denominated assets in favor of European and Asian assets. US investors in ex-US assets benefited from both the exchange rate impact and the increase in equity valuations from the movement of capital into those markets. This can be seen in the 20 year chart above, for the period from 2002 to 2007, where this was particularly pronounced and the EAFE outperformed the Russell. More recently, this phenomenon has reversed. The USD has strengthened vs major ex-US currencies as the Fed pushes up rates—while the European Central Bank and Bank of Japan held firm for the first half of the year—to quell inflation. This has hurt investors in ex-US assets in the same two ways, but in reverse: a negative FX effect and a negative valuation effect from currency flows toward USD. This will reverse as inflation recedes, and the EAFE, and the IES, will benefit.

With all of the FX-induced volatility here's the one constant: the Ithaka EAFE Strategy is invested in high quality growth assets that will perform well over time.

DEVELOPED INTERNATIONAL MARKETS

After another tumultuous quarter, the MSCI EAFE finished 2Q22 down 14.5%. Every sector declined, with only energy and consumer staples holding up relatively, with single-digit declines. The technology portion of the EAFE was off by 23%. Even the value portion of the index was not a safe haven, as the power of the strong dollar impacted the entire index, as explained in the introductory commentary above. Foreign currency translation had a -6.7% impact on the EAFE.



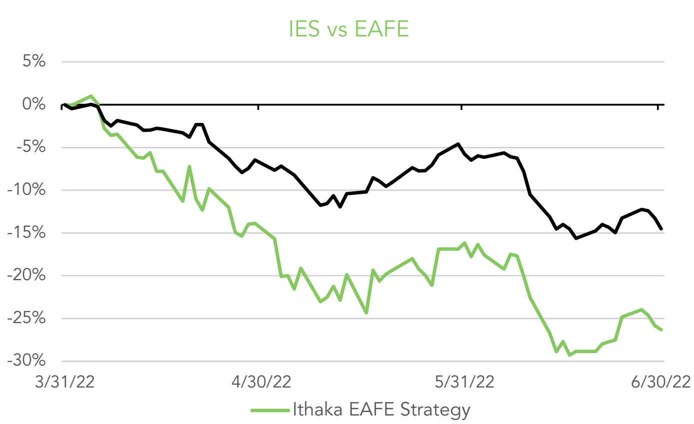
IES 2Q22 PERFORMANCE

The Ithaka EAFE Strategy lost 26.5% for the quarter, underperforming the MSCI EAFE by 12.0 ppts and the MSCI EAFE Growth by 9.6 ppts.

PERFORMANCE (%)	2Q22	1 Year	3 Year	ITD[1]
Ithaka EAFE Strategy (Net)	(26.5)	(37.2)	3.8	6.5
MSCI EAFE NR	(14.5)	(17.8)	1.1	0.7
MSCI EAFE Growth NR	(16.9)	(23.8)	1.3	1.7

[1] ITD = Inception-to-date, annualized.

The risk-off trade put strong pressure on the IES immediately as the quarter began. Strong earnings reports, particularly from technology companies, temporarily halted the decline in May. The bleeding resumed in June, as May inflation numbers came in higher than expected, and fears of a recession grew. By the end of the quarter, every holding had declined by double digits.



Of the 20 companies owned during the quarter, seven report semi-annually, and did not report during the quarter. Those companies that did report generally reported strong quarters. EQT, a private equity firm, was an exception, as discussed below. But even its quarter was not awful, and certainly doesn't change the long-term story. All of the companies held in the IES have strong balance sheets, and can weather the storm.

TOP CONTRIBUTORS

Evolution AB. Evolution is the global leader in video-streamed, live dealer content for branded casinos. We believe that we are in the very early stages of global adoption of this online gaming format, and that Evolution will continue to be at the center of it. Despite a slower season for online casinos, Evolution reported an exceptional quarter, with strong revenue growth and margin expansion. Evolution continues to take share, despite increasing investment from competitors.

WiseTech Global. WiseTech is digitizing the logistics industry, becoming the operating system for logistics and transportation. WiseTech's logistics software helps the various entities in the supply chain communicate and track cargo moving through the supply chain. Additionally, WiseTech's software helps customers understand freight regulations and required tariffs and duties. In so doing, the software ensures clean handoffs throughout the supply chain. Supply chain pressures continue to be a favorable tailwind for WiseTech, as strong freight pricing more than offset some slowing in freight traffic. Customers have been paying for software upgrades to manage the complex shipping environment.

Topicus. Topicus is a roll-up of vertical software companies that was spun off from parent company Constellation Software in 2021. Constellation has been an outstanding investment for us since inception, and we have high regard for its CEO, Mark Leonard. Given that Topicus is applying the acquisition and capital allocation lessons learned from Leonard and Constellation, but in Europe, and given that Constellation continues to own 30% of Topicus, we think that Topicus has a strong future ahead. Topicus's shares were off in line with other risk assets and not because of anything company-specific. Its "contributor" status came from its current relatively low weighting in the portfolio.

TOP DETRACTORS

EQT AB. EQT is a Stockholm-based private equity firm with two main business segments, roughly equal in size: private capital and real assets. Funds in both private capital and real assets have been posting industry-leading returns, generally in the range of 19% to 23%. Industry-leading performance has led to industry-leading AUM growth. This has led to an industry-leading valuation as well. During the quarter the company reported a relatively light period of fundraising, as well as a slowdown in new investments and exits. We expect this to be temporary, and for EQT to use this period opportunistically, both in terms of fund investments and in acquisitions to grow the firm. EQT has shown itself to be a strong asset allocator, and we expect it to emerge from the current period stronger than going in.

Sofina. Sofina is a Belgium-based investment firm run as a family office. Approximately 85% of its assets are invested in private companies, mostly via investments in over 200 funds. We made our investment in 1Q22, timing which turned out to be awful in the short run. Share price performance had already suffered prior to our investment, but there was more downside ahead. Clearly the firm's announced net asset value will fall over coming quarters, and the announced March 31 mark-to-market could have been more conservative. We think much of this coming discount is already reflected in the market value. We continue to like Sofina's long-term prospects. It has access to the top venture capital and private equity firms globally. These firms have traditionally used periods such as the current period opportunistically, making investments at attractive valuations while forcing current portfolio companies to operate more leanly. The industry overall has considerable dry powder, and continues to fundraise. Sofina should benefit, even if there are a few bumpy quarters ahead.

Adyen. Adyen is a payment processor founded in 2006 by an experienced payments team. Where most payment processors have added new software layers on top of old technology, Adyen's founders built its software platform from the ground-up. Adyen has built an innately unified global platform that supports omnichannel commerce with local expertise, offering merchants faster, more reliable transactions. Last quarter we largely purged the portfolio of companies with valuations above 30x forward earnings. While the entire portfolio comprises strong growers, Adyen has been an exceptional grower, and continues to have exceptional prospects. We held on, and it kept falling in the face of a deteriorating consumer market.

TRANSACTIONS

There were no transactions during the quarter.

Risk Disclosure

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