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
- ~$910M 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

PORTFOLIO 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

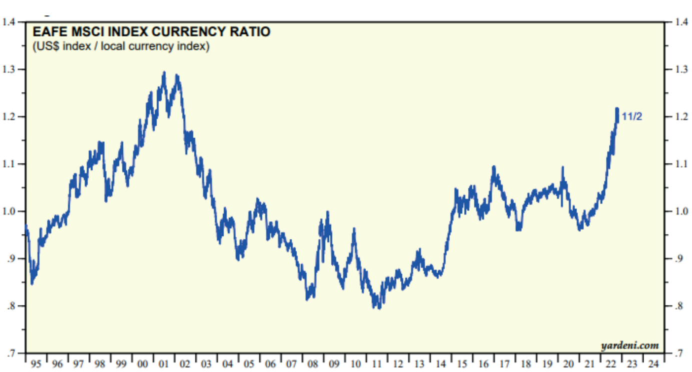
SUMMARY

The Ithaka EAFE Strategy ("IES") declined 10.6% in 3Q22, trailing the MSCI EAFE NR (the net return MSCI EAFE index, or "EAFE") by 1.2 ppts. Turnover for the trailing twelve months was 24%.

COMMENT

A cost of investment diversification outside of one's home currency is incremental volatility from foreign exchange ("FX") markets. As the exchange rates between an investor's home currency and the currencies in which a portfolio is denominated fluctuate, so too does the value of the overall portfolio. Over time fluctuations between currencies of developed countries have generally evened out. But outsized currency fluctuations do happen periodically, and this is one of those times.

For US-based investors, the strong US dollar over the past ten years, but more acutely over the past 18 months, has put pressure on returns of ex-US portfolios (ie, portfolios with holdings based outside the United States). Aggressive rate increases over the last 18 months from the Federal Reserve have pushed the US dollar to generationally high levels, as illustrated in the chart below, from economist Ed Yardeni:



Source: MSCI.

Over the trailing year ended September 30, 2022, the impact of FX has cost the US dollar-denominated MSCI EAFE ~15% relative to its performance in local currency. The impact has been similar for the IES. We expect that, as inflation ebbs and the Federal Reserve can stop rate increases, currency will move from headwind to tailwind for US investors. A further relative tailwind versus the US indices may also come from the valuation differential, where the EAFE is roughly 85% of its historical valuation relative to the S&P 500.

What we don't expect is for the FX and valuation tailwinds to push the international indices, namely the EAFE and the MSCI All-Cap World Index ex-US ("ACWX"), to outperform the US-based growth-oriented indices, namely the S&P 500 and the Russell 1000 Growth ("R1KG"), over a multi-year period to anywhere near the magnitude seen in the 1980s and 2000s. We don't have contributing conditions in place such as the property and stock market bubble in 1980s Japan that drove the EAFE to outperform the S&P 500 by over 250% cumulatively between 1985 and 1988. Or the drive for privatization and liberalization of developing markets—neatly packaged as the "BRICs" by Goldman's Jim O'Neill—and related commodity "supercycle", that indirectly and directly contributed to EAFE outperformance of almost 100% cumulatively in the mid-2000s. Further, the international indices are meaningfully under-weighted high quality growth companies relative to their US peers. Ex-US investing particularly favors stock pickers over indexers, formal or effective.

In the previous quarterly commentary we showed that movements in Ithaka EAFE Strategy can be explained largely by movements in the growth-oriented Russell 1000 Growth Index adjusted for the impact of currency translation. Adjusted for changes in the value of the US dollar, the Russell 1000 Growth Index explains almost 90% of the quarterly movements in the IES. Removing the impact of the top 10 holdings in the Russell 1000 Growth, which have an outsized impact on that index since they represent almost 45% of an index with over 500 holdings, and the explanatory power is even stronger, at ~92%. This relationship held up in 3Q22 as well. We show this in the chart below from the perspective of a US investor.

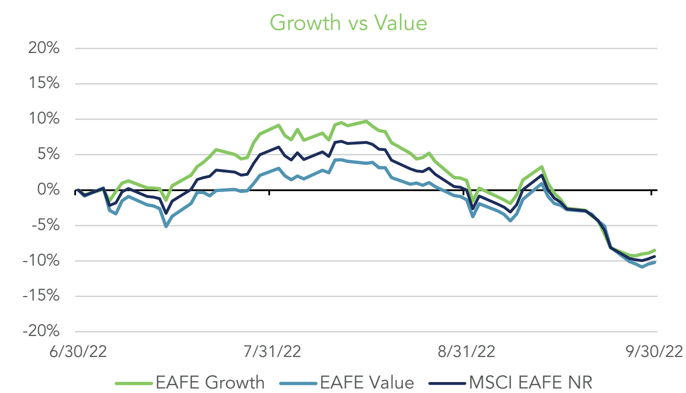
QTR (%)	R1KG[1]	FX[2]	R1KG + FX	R1KG - Top 10 + FX	IES
1Q22	(9.0)	(2.2)	(11.2)	(17.0)	(17.1)
2Q22	(20.9)	(6.7)	(27.6)	(26.6)	(26.3)
3Q22	(3.6)	(5.8)	(9.4)	(9.8)	(10.6)

[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.

Despite all of the FX-induced volatility, there continues to be one constant: the Ithaka EAFE Strategy is invested in high quality growth assets with fundamentals that we believe will perform well over time.

DEVELOPED INTERNATIONAL MARKETS

After another tumultuous quarter, the MSCI EAFE finished 3Q22 down 9.4%. As with 2Q22, 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 8%, and communication services, 14%. Even the value portion of the index was not a safe haven, as the power of the strong dollar impacted the entire index. Foreign currency translation had a -5.8% impact on the EAFE.



IES 3Q22 PERFORMANCE

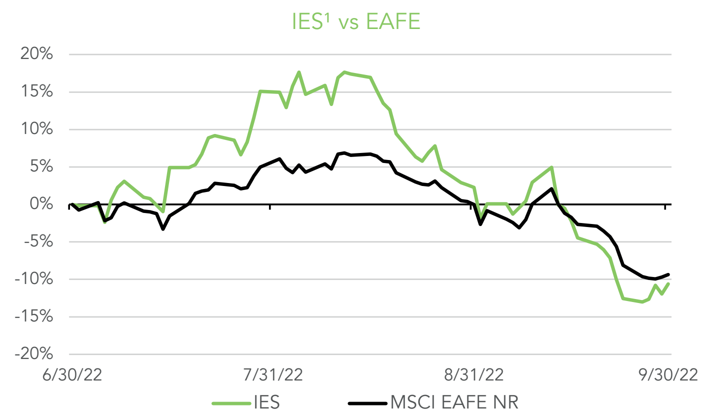
The Ithaka EAFE Strategy lost 10.6% for the quarter, underperforming the MSCI EAFE by 1.2 ppts and the MSCI EAFE Growth by 2.1 ppts.

PERFORMANCE (%)	3Q22	1 Year	3 Year	ITD[1]
Ithaka EAFE Strategy (Net)	(10.6)	(46.6)	(0.3)	3.7
MSCI EAFE NR	(9.4)	(25.1)	(1.8)	(1.4)
MSCI EAFE Growth NR	(8.5)	(30.3)	(1.5)	-

[1] ITD = Inception (12/1/17)-to-date, annualized.

Inflation and the corresponding reaction of central banks continued to drive markets during the quarter. Hopeful markets charged ahead beginning mid-July on comments from US Federal Reserve Chairman Jerome Powell that while the "labor market is extremely tight and inflation much too high" the pace of increases may now slow down. After a higher than expected CPI number in August, Powell commented that the central bank would need to keep monetary policy tight "for some time." Bond yields then continued their march upward, and equities resumed their decline for the remainder of the quarter.

We have no idea what the coming quarter or year have in store for the economy and market. We position the portfolio for the next five years, not the next quarter or year. But we are at least heartened by the strategy's performance as the market turned up in July. The IES appears poised to do well when the market does finally turn back up as inflationary pressures recede.



[1] Represents cumulative daily performance for the Ithaka EAFE Strategy Composite (IES).

With few exceptions, which we consider temporary, our companies continue to perform well fundamentally. All but one holding—an investment firm with significant exposure to venture capital—continue to experience year-over-year revenue growth, the median of which was 28% for the most recent quarter. All of the companies held in the IES have strong balance sheets, and can weather the storm.

TOP CONTRIBUTORS

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. Continuing supply chain pressures have given WiseTech pricing power, which, combined with continued strong roll-out of its platform across the industry, allowed the company to pre-release a strong final quarter to its 2022 fiscal year and guide to a strong fiscal 2023.

LVMH. LVMH is a French luxury goods conglomerate that manages many well-known and prestigious brands across the retail spectrum, including Louis Vuitton, Fendi, Moët & Chandon, and Sephora. The strength of the various brands in LVMH's portfolio provides a high barrier to entry and allows for pricing power and related high margins. Strong first half results, which included comparable sales growth of 19%, showed that the luxury industry continues to be resilient despite a challenging overall economy. The strong results came despite weakness in China from ongoing COVID-related lockdowns.

BayCurrent Consulting. BayCurrent Consulting is a Tokyo-based consulting firm that focuses on digital transformation. Japan has a large pool of cash-rich corporations that lag their global peers in digital modernization. Continued strong recruiting of recent graduates and more experienced consultants, along with an increase in revenue per consultant, led to revenue and operating profit growth of greater than 30% year-over-year. BayCurrent is well-positioned to help facilitate Japan's digital transformation over the coming years.

TOP DETRACTORS

Crayon Group. Crayon Group is a global IT consultant based in Oslo. Its flagship software asset management offering helps customers reduce software expenditure, delivering a return of up to 30x for every dollar spent. Crayon's other area of growth has been in digital transformation, from helping clients migrate their IT infrastructure to the cloud to helping clients with strategies in artificial intelligence, big data, and cybersecurity. In late 2021 Crayon closed its acquisition of Australia-based Rhipe, another Microsoft distributor and consultancy, which is focused on cloud solutions. The Rhipe acquisition doubled Crayon's presence in the Asia-Pacific ("APAC") region. EBITDA (Earnings before interest, taxes, depreciation, and amortization) margins in the APAC region dropped 14 percentage points as the company works to integrate the two companies. We expect margins to recover once the integration is complete.

Eurofins Scientific. Luxembourg-based Eurofins Scientific is a global leader in lab testing for food, drug, clinical diagnostics, and other markets. Though its core business has grown steadily over the years, Covid provided a surge in demand for Eurofins' testing services. Second quarter core (ie, without COVID revenues) organic growth of ~4% was less than the company's long-term guidance of 6.5%. Lockdowns in China as well as the war in Ukraine were headwinds. Additionally, margins came in slightly lighter than expected, as the company has not yet fully passed on cost inflation to customers.

Straumann Holding. Straumann is a global leader in aesthetic dentistry, with leading positions in dental implant systems and other preventive and corrective dentistry applications. The company reported a strong 1H22, with organic revenue growth of ~21%, which comped against a 1H21 period that reported 63% organic revenue growth. We view this as an impressive quarter given the weak macro backdrop. Soft guidance for the second half of the year combined with news that the CFO is leaving for another opportunity (to be CFO of a private equity-owned packaging technology company) put pressure on the shares. Straumann continues to take share in the fast-growing clear aligner market as well as expand further in implants. We continue to like its long-term prospects.

TRANSACTIONS

There were no transactions during the quarter.

Risk Disclosure

Past performance is not indicative of future results. The performance shown is for the Ithaka EAFE Strategy Composite. All fully discretionary taxable and non-taxable accounts are added to the composite following the first quarter in which their ending market values equal or exceed $0.1 million. Results of individual accounts may vary from the composite depending on account size, timing of transactions and market conditions prevailing at the time of the transaction. The gross-of-fee performance does not reflect the payment of management fees and other expenses that are incurred in the management of an account. The net-of-fee performance includes the payment of such fees and expenses and may include fee estimates for clients who pay in arrears. Gross-of-fee performance and net-of-fee performance both include the reinvestment of all distributions, dividends and other income.

The performance shown is compared to the MSCI EAFE NR Index. The MSCI EAFE NR Index measures the performance of the large- and mid-cap equities from 21 developed market countries not including the United States. This broad-based securities index is unmanaged and is not subject to fees and expenses typically associated with managed accounts. Individuals cannot invest directly in an index.

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