THE BIG Picture

Q2 2024

Summer '24

- President's Perspective
- Stock Spotlight: Gentex
- Estate Planning 101

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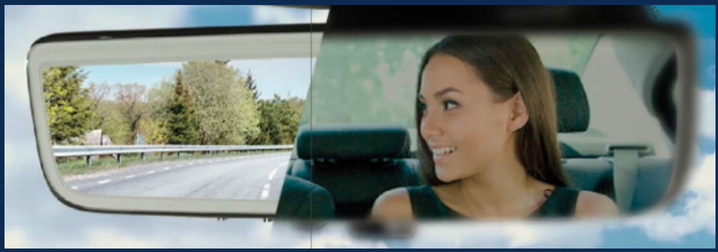
President's Perspective



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BRIAN KRAWEZ, CFA®
President, Investment Committee Chairman

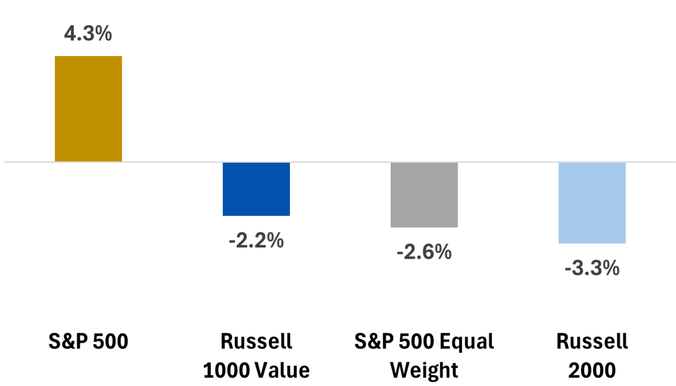
To Our Valued Clients:

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair…" - Charles Dickens

Though Dickens was referring to the French Revolution, his words aptly describe this year's stock market. So far, the S&P 500 is up 15.3%, yet the average stock in the index has risen only 4.1%. Technology stocks, particularly the "Mag 7," account for more than 60% of the S&P's return this year.

In the second quarter, this dichotomy continued. While the S&P 500, bolstered by mega-cap stocks, rose 4.3%, and the Nasdaq leaped 8.5%, the broader market told a different story. The Energy, Industrials, Financials, Health Care, Materials, and Real Estate sectors all declined. Similarly, the average stock in the S&P 500, the Russell 1000 Value Index, as well as the Russell 2000 (ie. Small-cap stocks) fell by 2-3% during the quarter. In short, for a handful of stocks, last quarter was the best of times, but for most, it wasn't so great.

Q2 2024 Index Performance



Source: Bloomberg, Scharf Investments. June 2024

AI, AI, AI

While the wisdom of AI will increase productivity over the longer term, investors may be foolishly paying for these earnings long before they materialize. From numbers supplied by FactSet, as well as guidance from Nvidia, Advanced Micro Devices and Broadcom, analysts estimate that over $200 billion in capital expenditures have already been spent on generative AI. Most of this $200 billion has already been recognized as revenue which has greatly enhanced growth for some companies. Meanwhile, since most of this investment has been capitalized, the expenses have yet to be recognized. This situation is akin to a temporary free lunch for the technology sector.

Despite the substantial investment, cumulative revenues from AI-related services have only reached $3 billion so far. Analysts estimate that at least $600 billion in revenue is needed to justify these investments. While AI is an impressive technology, data from Sequoia Capital shows that key metrics for ChatGPT, such as retention, still lag behind other platforms like Instagram, YouTube, and TikTok.

Meanwhile, AI hype is being well rewarded in the stock market as evidenced by the dramatic outperformance of the market capitalization weighted S&P 500 versus the average stock in the S&P.

As a result, the S&P 500 currently commands a higher valuation compared to both the S&P equal weight and Russell 1000 Value indexes despite similar 2025 earnings growth estimates. We believe this discrepancy presents a notable opportunity for investors who are willing to look beyond the popular mega-cap stocks.

Two of our recent purchases, Gentex and Aon, represent examples of the opportunities we believe many investors are overlooking. Both stocks have median high P/E ratios that are approximately 35% higher than the current valuations despite comparable 2025 growth expectations and better historical earnings growth than the indexes.

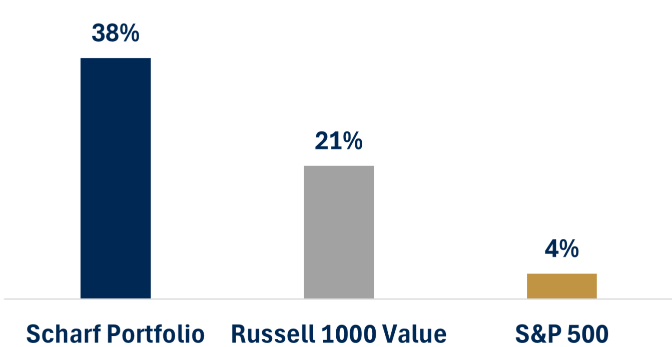
This is true for the rest of our portfolio as well. Twenty stocks in our portfolio have more than 30% upside to their median high over the past 10 years with weighted average upside for the entire portfolio of 38%. This compares to 4% and 21% for the S&P and Russell 1000 Value, respectively. Similarly, the weighted average 10-year earnings growth for our portfolio is 11% compared to 7% and 4% for the S&P and Russell 1000 Value, respectively.

The Case for Value Stocks

Herb Stein famously said, "If something cannot go on forever, it will stop." In a typical year, the average stock in the S&P 500 outperforms the index by approximately 0.3%. However, over the past 18 months the average stock in the S&P 500 has underperformed the mega cap heavy S&P by a staggering 26%! Given the large disparity in valuations despite comparable earnings growth as previously shown, this trend is likely to reverse at some point.

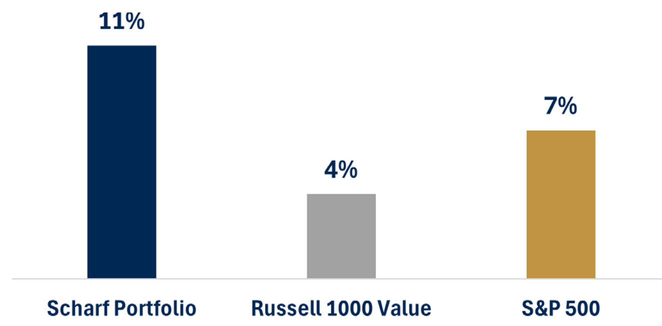
Since 2008, the median P/E spread between the Russell 1000 Growth Index and the Russell 1000 Value Index has been around 35%. Today, this spread is around 90%, a level last seen during the dot-com era. The subsequent bursting of the bubble led to a prolonged period of outperformance for quality value stocks. In fact, at today's levels, the price earnings multiple of the Russell 1000 Value Index would need to rise roughly 60% just to return to the historic spread according to data from Factset and Bloomberg.

Upside to 10-year Median High P/E



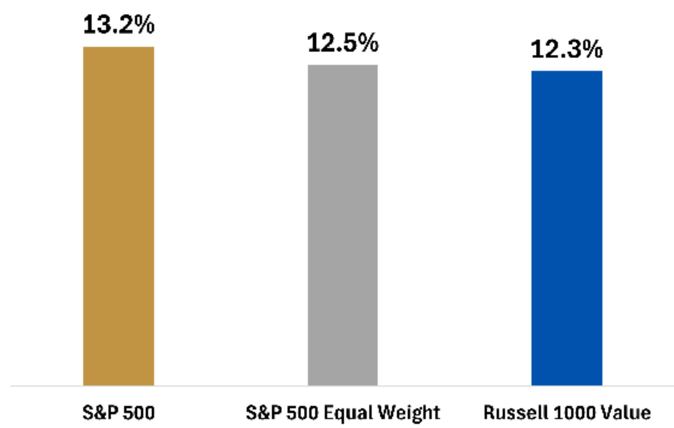
Source: Capital IQ, Scharf Investments. June 2024

10 Year EPS Growth



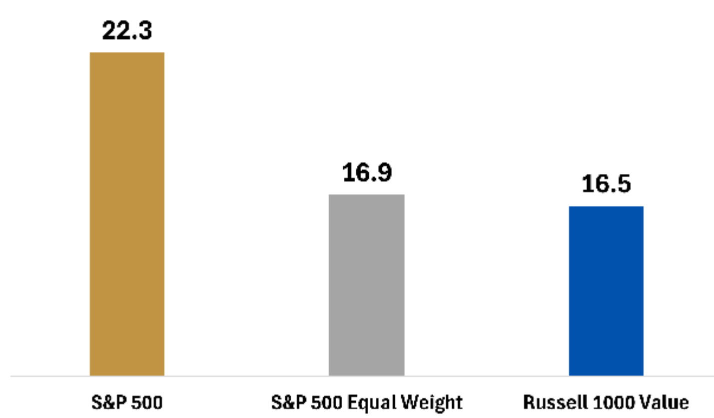
Source: Capital IQ, Scharf Investments. June 2024

2025 Projected Earnings Growth



Source: Bloomberg, Scharf Investments. June 2024

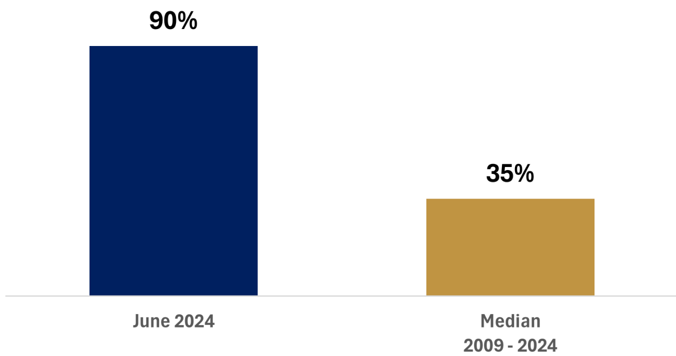
2024 Price to Earnings



Source: Bloomberg, Scharf Investments. June 2024

In normal interest rate environments value stocks have historically outperformed growth stocks.

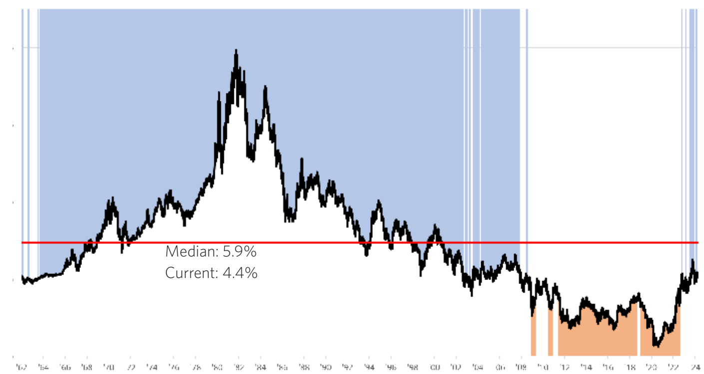
Growth Stock Valuation Multiple Premium



Source: Bloomberg, Scharf Investments. June 2024

Nominal US 10-Year Treasury Yield

(1969-present)



Source: FRED, June 2024

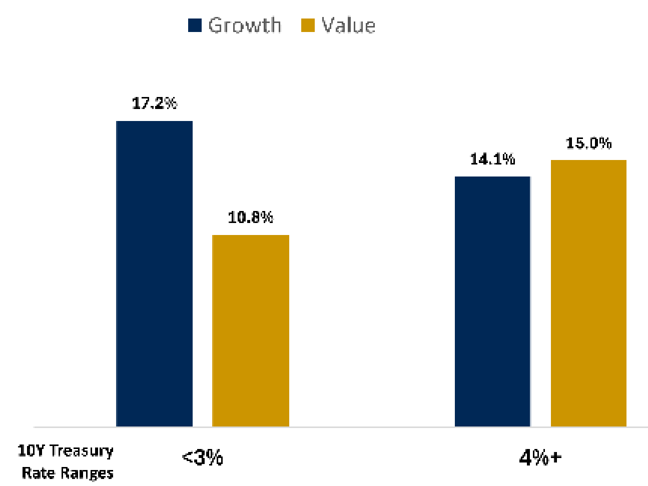
Many investors today consider interest rates to be "high" due to the unusually low rates of the past 15 years. However, the current 10-year Treasury yield of around 4.4% is still low compared to its historical average of 5.9% since 1960.

In normal interest rate environments value stocks have historically outperformed growth stocks. Needless to say, the Fed's interest rate policies over the past 15 years have been anything but normal. The chart above on the right uses blue to indicate periods when the 10-year Treasury yield was above 4% and orange when it was below 3%. Notably, there are no orange periods before 2009, as these periods were largely a result of the Fed's policies to artificially keep interest rates near zero.

The second chart shows that growth stocks tend to outperform when rates are below 3%. As a result, the Fed's interest rate suppression policies contributed to the recent outperformance of growth stocks which conditioned many investors to believe growth stocks always outperform.

High levels of inflation over the past few years, combined with expectations for continued large government budget deficits, may have changed the game. There are many reasons to believe the Fed may no longer have the ability to pursue zero interest rate policies. While predicting interest rates is a fool's errand, history leads us to believe that interest rates will be much higher on average over the next 15 years than they have been over the previous 15. Investors should adjust their expectations accordingly.

Value vs Growth in different interest rate environments
Annualized total return by 10-year Treasury rates ranges, 1979-present



Source: Bloomberg, Scharf Investments. June 2024

Staying the Course

Our strategy remains focused on identifying undervalued opportunities with predictable earnings.

We believe the valuation disparity between growth and value stocks presents a compelling case for the patient investor as it will eventually reverse.

Over the past 40 years, we have seen recessions, credit crisis, wars, stock bubbles, pandemics, etc. During this time we have utilized the same process and are not about to change our strategy despite the current market environment which is rewarding momentum and speculation.

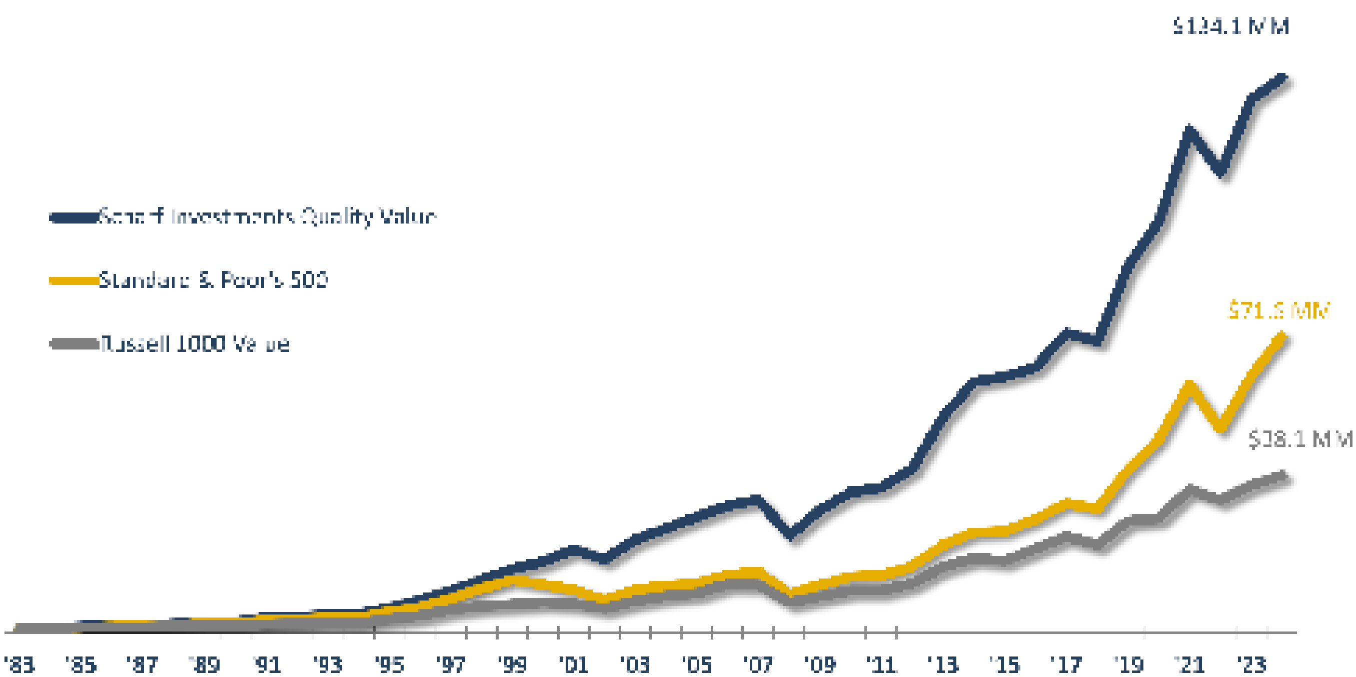
History has shown that investors would be wise to stay the course as prudent investors have been well rewarded. In fact, an investor that had the foresight to invest a million dollars with Scharf Investments at the end of 1983 would have $134,182,673 today, for a compounded return of over 13,000%.

We are proud of the “mountain chart” shown below and believe it demonstrates the power of our simple yet effective approach to investing. We thank you for the confidence and trust you have placed in us, and we welcome your questions.

Best regards,

Brian Krawez

Scharf Quality Value: Growth of a $1,000,000 Investment
12/31/1983 - 6/30/2024 (Net of Fees)



Sources: Bloomberg, Scharf Investments, as of 06/30/2024.
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.
Past performance is no guarantee of future results, and different periods and market conditions may result in significantly different outcomes. Performance for 1989 through 1996 includes all fee-paying, fully discretionary equity accounts open for the entire calendar year. The performance for each year beginning with 1997 includes all fee-paying, fully discretionary equity accounts from their first full quarter under management through their last full quarter under management. Performance for all years reflects the reinvestment of dividends and other earnings, along with the deduction of trading commissions and other costs including management fees. No guarantee can be made that the composite performance is the statistically accurate presentation representing performance of any specific account, as specific account performance depends on investment timing, account specific guidelines, and other factors that vary from account to account. Results were generated using an investment philosophy and methodology similar to that described herein and that Scharf Investments, LLC expects to ontinue to use, but future investments will be made under different economic conditions and in different securities. Further, the results do not reflect performance in all different economic cycles. It should not be assumed that investors will experience returns, if any, comparable to those shown above. The Standard & Poor’s 500 Index contains 500 industrial, transportation, utility and financial companies regarded as generally representative of the large capitalization U.S. stock market. The comparison of performance to the market index shown is inappropriate because the index is more diversified than the portfolios generating such performance and represents only unmanaged results. Due to these differences, potential investors are cautioned that no market index is directly comparable to the performance shown above.

GABE HOUSTON, CFA®
Sr. Research Analyst

Gentex Corp. ("GNTX") designs and manufactures various products that use its proprietary electrochromic ("EC") technology, with the most prominent example being automatic-dimming vehicle mirrors. Gentex's EC technology consists of a chemical compound and coating stack among other elements. Sandwiched between two glass panels, the EC fluid is clear in normal environments, but can darken when exposed to an electrical charge (automatically or on demand). Gentex has long-established, strong relationships with virtually every leading vehicle manufacturer, and the company has a monopoly position in auto-dimming mirrors with approximately 90% share of the market globally. GNTX also sells dimming airplane windows and commercial fire protection products.

Auto-dimming mirrors continue to gain penetration on new vehicles globally as manufacturers and consumers increasingly prefer them over standard base mirrors. This demand dynamic has allowed Gentex to grow much faster than underlying auto production. For example, global vehicle production in Gentex's key markets decreased by -5% cumulatively from 2017 to 2023, but during this time Gentex grew its revenue by nearly 30%.

While classified as an auto parts manufacturer, Gentex is at its core an engineering-driven innovative technology company. This focus on innovation has allowed Gentex to roll out a number of successful product launches over the last few decades. Perhaps the most prominent recent example is the Full Display Mirror ("FDM"), which seamlessly and instantly switches from an auto-dimming rearview mirror to a more expansive digital display. FDM shipments have grown at approximately +50% annually since 2019.

In addition to the FDM, Gentex has many promising new products rolling out over the next few years. We believe that these have the potential to drive meaningful incremental sales in the current environment, but also in the likelihood that vehicles transition to fully autonomous in the future. Some examples include dimmable sun-roofs and windows, dimmable visor systems, and in-cabin-monitoring technologies.

We previously owned GNTX in our portfolio from 2014 to 2019. We've known Gentex's management team, led by CEO Steve Downing, for a decade and hold them in very high regard. This is a quality company with a long history of impressive growth, including a +14% compounded EPS growth rate over the last 30 years. Earnings growth is somewhat cyclical, but GNTX has materially less volatility than a typical auto parts stock. Key reasons for this include Gentex having no debt on its balance sheet, profit margins nearly double those of peers, and the company's ability to outgrow the market. Value Line gives GNTX an EPS Predictability rating of 75.

GNTX is currently trading at around 13.8x 2025 earnings, with a median high P/E ratio of approximately 28x. This suggests a very strong 10-to-1 favorability ratio. We don't necessarily expect GNTX to trade all the way back up to 28x due to uncertainty surrounding the likely transition from mirrors to cameras/visual systems over the long-term. However, we believe that the current P/E is an attractive entry-point for a high quality company with excellent management.

MONEY CONVERSATIONS

DEBBIE ROBINSON
Sr. Director of Wealth Management

Charitable Planning Essentials

On May 29th, Brian Krawez, Debbie Robinson and James Carpenter – VP Charitable Planning Consultant at Fidelity Charitable, hosted a webinar highlighting Charitable Planning Essentials. Charitable Giving is an excellent way to give back and support causes important to you. It is also important to strategically align your generosity with your financial goals.

Discussed were key elements of charitable planning that can maximize both your impact on these causes and the benefits you receive in return.

Charitable Tax Incentives:

Decrease Income Tax

- Cash:
    - 60% to donor-advised funds
    - 30% to private foundations
- Long-Term appreciated property:
    - 30% to public charities or private operating foundations
    - 20% to private foundations

*Generally, deductions exceeding these limits can be carried forward for up to five additional years.

Capital Gains Tax (Short and Long-Term)

Capital gains tax may be eliminated when appreciated assets are contributed rather than liquidated and sold.

Decrease Estate Tax

Federal estate tax exemption raised to $13.61 million.

- The Federal Estate tax exemption of $13.61 million is set to sunset after the year 2025 and will likely be cut in half.
- Highest taxable rate is 40% (2024)
- Charitable gifts made during your lifetime remove the assets (and any related future appreciation) from your estate.

Charitable Planning Tools: Giving Vehicles

Giving While Living:

- Donor-Advised Funds
- Private Foundations

Giving and Generating Income

- Charitable Remainder Trusts (CRTs)
- Charitable Lead Trusts (CLTs)
- Gift Annuities

Charitable Giving Best Practices & Strategies

- Scharf can help you with the selection of appreciated securities and lots for which to donate to maximize your tax savings.

- Ramp up tax savings with Bunching.

  - Donation bunching is a tax strategy that consolidates your donations for multiple years into a single year to maximize your itemized deduction for the year you make your donations.

- Offset a high-income year.

- Reduce tax cost of a Roth conversion.

We recently held a Charitable Planning Essentials webinar, please use the QR code link below to watch the replay if you were unable to attend. Please reach out to us if you would like to learn more about how a donor advised fund can help you achieve your charitable goals while reducing your taxes.

Scan here to view the Charitable Planning Essentials Webinar Recording

Estate Planning 101

Estate planning is a crucial process that ensures your assets are managed and distributed according to your wishes during your lifetime and after your death. Whether you're just starting or revisiting your existing plan, understanding its components, benefits, and tools is essential for comprehensive financial preparedness. Scharf works with multiple estate planning attorneys, and we are happy to help you with identifying one that can work with you.

Components of Estate Planning

1. Will

- A will outlines how your assets will be distributed upon your death.
- It appoints guardians for minor children and an executor to oversee the distribution process.

2. Trusts

- Trusts provide flexibility in managing assets during your lifetime and after death.
- They can minimize estate taxes, avoid probate, and provide for specific needs of beneficiaries.

3. Advanced Healthcare Directive

Also known as a living will or healthcare proxy, this document lets your physician, family, and friends know your health care preferences, including the types of special treatment you want or don't want at the end of your life. You also help reduce confusion or disagreement about the choices you would want people to make on your behalf.

4. Financial Power of Attorney

This grants someone you trust the authority to handle financial decisions on your behalf if you're unable to do so.

Benefits of Estate Planning

Control and Clarity: Ensure your assets are distributed as per your wishes, avoiding potential disputes among heirs.

Minimize Taxes and Costs: Strategic planning can minimize estate taxes, probate costs, and administrative expenses. At Scharf we can structure your portfolio for: Tax efficient strategies, Offsetting gains, and Rebalancing to ensure your investments align with your risk tolerance and timeline.

Protect Loved Ones: Provide for your family's financial security, including minor children and dependents.

Plan for Incapacity: Ensure your healthcare and financial decisions are managed by someone you trust if you become incapacitated.

Estate Planning Tools and Taxes to Consider

- Unlimited Marital Deduction and Portability: Spouses can transfer unlimited assets to each other without incurring estate or gift taxes, and unused estate tax exemption can be transferred to the surviving spouse.
- Unlimited Charitable Deduction.
- Annual Gift Tax Exclusion: You can gift up to a certain amount per recipient each year ($18,000 as of 2024) without triggering gift taxes.
- Lifetime Gift Tax Exclusion and Sunset Provisions: The lifetime gift tax exclusion allows you to gift a substantial amount over your lifetime ($13.61 million as of 2024, likely to be reduced by half in 2026).
- Gift Taxes and Estate Taxes: Understand how gifts during your lifetime and your estate's value at death may trigger gift and estate taxes, and plan accordingly.

“Estate planning is not just for the wealthy—it’s a vital tool for anyone who wants to ensure their assets are managed and distributed according to their wishes. At Scharf, we are happy to help you navigate the estate planning journey.

Where Do We Go From Here?

1. Review your estate plan – if your documents haven’t been reviewed in the last 5 years, schedule a meeting with your Wealth Advisor and Estate Attorney.

2. Review your balance sheet – if you’re over 60 and worth more than $10,000,000, consider making lifetime gifts.

3. Discuss with your advisors and family what your plan is and establish expectations for how your assets will be administered and who will benefit.

4. Discuss with your family any inheritance you will receive – what they give you may increase your estate tax liability!

Estate planning is not just for the wealthy—it’s a vital tool for anyone who wants to ensure their assets are managed and distributed according to their wishes. At Scharf, we are happy to help you navigate the estate planning journey.

Please reach out to your Wealth Advisor to discuss certain strategies and how we can help you and your family.

SCHARF INVESTMENTS

40TH ANNIVERSARY

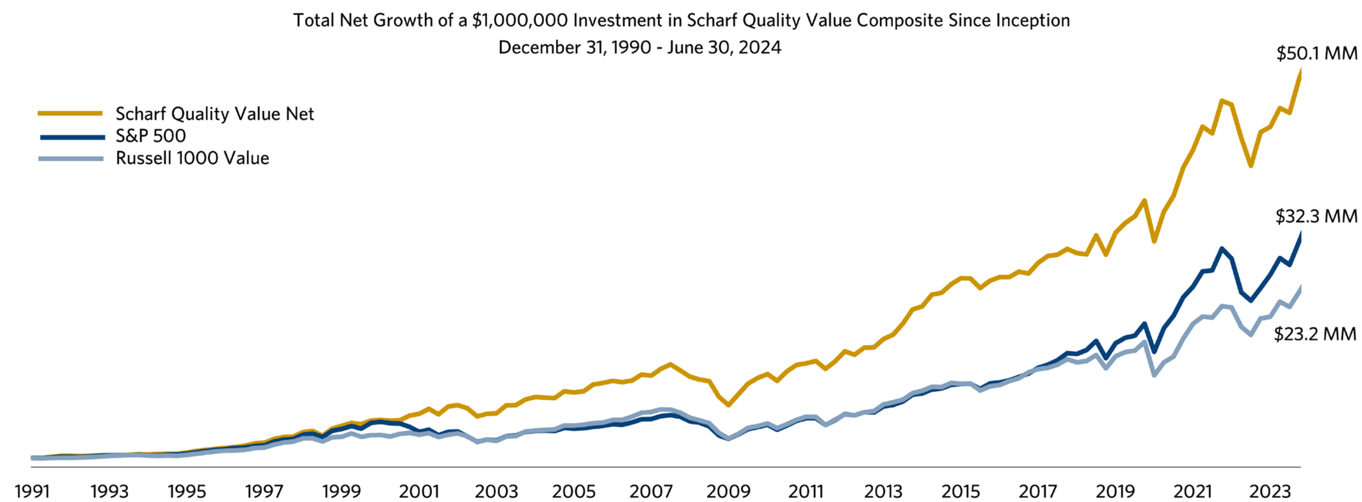
Strategy Overviews

as of June 30 2024

Scharf Quality Value (Equity)

The Scharf Quality Value Strategy seeks to invest in high quality, enduring franchises priced at substantial discounts to fair value. The team seeks to identify companies with low valuations combined with consistent and sustainable earnings, cash flow and/or book value. The goal is to provide capital appreciation over the course of an entire market cycle while losing notably less than relevant benchmarks in falling markets.

For the second quarter of 2024, Scharf Quality Value (Equity) account returned -2.08% (net). As short-term market and economic activity can be volatile, we encourage investors to take a long-term view. That said, we are pleased with the long-term performance of the Strategy. Since December 31, 1990, the Strategy returned 12.4% (net of fees) annualized compared with 9.65% for the Russell 1000 Value Index and 10.93% for the S&P 500. In other words, $1 million invested in the Strategy on December 31, 1990, grew to $50.1 million as of June 30, 2024, compared to $32.3 million and $23.2 million for the same $1 million invested in the S&P 500 and Russell 1000 Value, respectively.

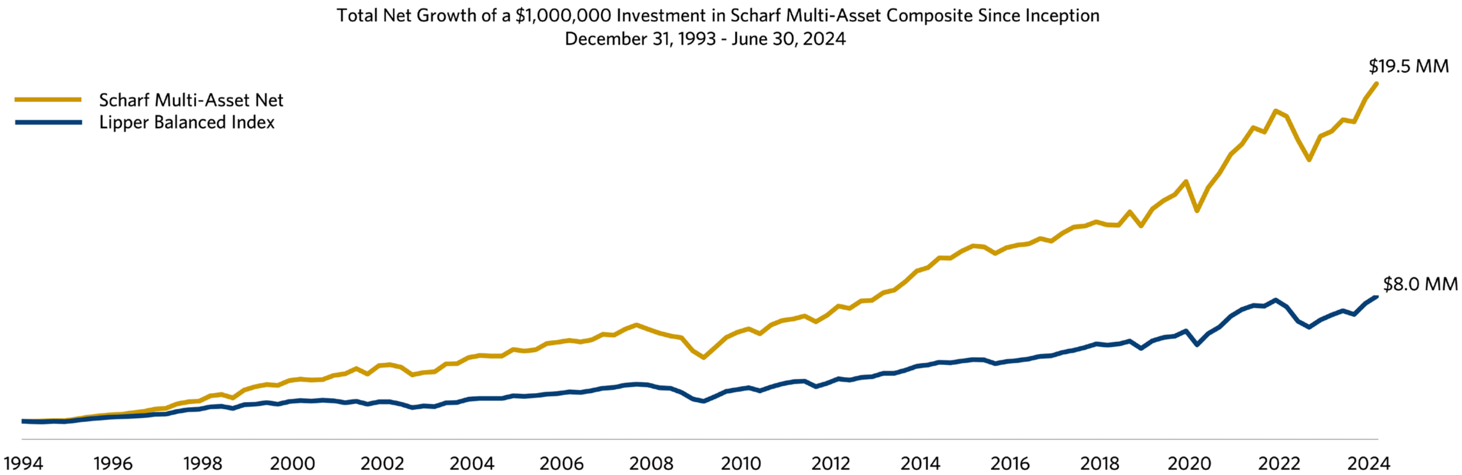


Source: Bloomberg, Scharf Investments. Data as of June 30, 2024.

Scharf Multi-Asset Opportunity (Balanced)

The Scharf Multi-Asset portfolio seeks to combine the appreciation potential of equities with the capital preservation and income generation qualities of fixed income and alternative investments. In the equity allocation, the team maintains a strict focus on valuation, margin of safety and sustainable earnings growth, but maintains investment flexibility towards market capitalization and domicile. On the non-equity allocation, the team emphasizes credit quality and capital preservation. We seek to deliver a compelling risk-adjusted absolute return.

During the second quarter of 2024, Scharf Multi-Asset (Balanced) Strategy returned -0.89% (net). We believe a balanced portfolio can provide investors with peace of mind during adverse market conditions and is ideal for clients near or in retirement. As short-term market and economic activity can be volatile, we encourage investors to take a long-term view. That said, our balanced accounts have delivered favorable results over the long term. Since December 31, 1993, we are delighted to report that balanced account returns centered on 10.23% (net of fees) annualized compared with 7.06% for the Lipper Balanced Index. In other words, a $1 million investment in a balanced account on December 31, 1993, grew to $19.5 million as of June 30, 2024, compared to only $8.0 million for the same $1 million invested in the Lipper Balanced Index, respectively.



Source: Bloomberg, Scharf Investments. Data as of June 30, 2024.

SCHARF INVESTMENTS
40TH ANNIVERSARY

At Scharf investments we are proud to have utilized the same process for more than 40 years.

Committed to Making a Difference

Hope Services

Scharf Investments proudly sponsored Hope Services' 6th annual "In Concert With Hope" fundraiser on Friday, June 14 at the Mountain Winery in Saratoga. Scharf Investments President Brian Krawez, CFA, Debbie McCarroll, and a number of Scharf clients enjoyed a beautiful evening and were treated to the music of Grammy award-winning Kool & The Gang, as well as jazz saxophonist Mindi Abair.

The event raised well over $790,000, which will fund programs for more than 3,800 individuals of all ages with developmental disabilities and co-occurring mental health needs throughout the Bay Area. Scharf Investments is a long-time supporter of Hope Services. To learn more and see how you can help achieve their mission, visit www.hopeservices.org.

Music in the Park Series, Los Gatos

Scharf Investments is proud to sponsor the Music in the Park Series in Los Gatos. This beloved summer tradition features six concerts, showcasing a wide array of musical talent in the heart of our community. This is an opportunity for the community to enjoy a fun mix of musical genres in a family-friendly atmosphere. Join us for evenings filled with captivating performances and the joy of music shared under the open sky every Sunday starting July 21 – Aug 25. For details on the concert series and the lineup, please look at our Events Calendar on page 13, or visit the Los Gatos town website at www.losgatosca.gov/350/Music-in-the-Park

PACE: Pacific Autism Center of Education

Scharf Investments is proud to support PACE: Pacific Autism Center of Education. PACE is an organization focused enhancing the lives of people impacted by autism, through innovation, exceptional education, and compassionate care.

On June 28, members of Scharf investment attended PACE graduation at their new school in Sunnyvale. It was an amazing facility for the students. This year PACE graduated a large class (for them) of 8 students and as usual it was heartwarming to see them all get their diploma while dressed in their cap and gown! For more information and to support this organization visit, https://www.pacificautism.org.

EVENTS CALENDAR

We hope to see you at the many community events taking place this Summer. Please visit scharfinvestments.com to learn more.

Every Sunday, July 21 - Aug 25

Music in the Park

Civic Center Lawn, Los Gatos, CA
5:00pm PT-7:00pm PT

Concert Schedule:

Jul 21: Alex Lucero

Jul 28: Sam Chase Band

Aug 4: Country Cougars

Aug 11: Bootjuice

Aug 18: Aki Kumar Blues Band

Aug 25: You Should Be Dancin' (*Bee Gee's Experience*)

Thursday, August 1

Young Investors Workshop Webinar

Online
2:00pm PT-3:00pm PT

This summer, we will be hosting a Young Investor workshop online and at our Los Gatos office. We are looking forward to helping you help your children become financially savvy. The time to invest in their future is now.
Email services@scharfinvestments.com to participate in learning.

Wednesday, August 28 - Sunday, September 1

The Tour Championship

East Lake Golf Club, Atlanta, GA
Grounds open at 8:00am ET

Friday, September 27

PACE (Pacific Autism Center of Education) Golf Tournament

Cinnabar Hills Golf Course, San Jose, CA
12:30pm PT

Focused on Your Goals. Invested in Your Success.

Helping you meet your financial needs and working to achieve your long-term goals is our passion. When you choose Scharf Investments, you gain a partner committed to providing individualized financial planning, strategic investment management, and superior service with a client centric focus. Building a relationship with you is our privilege and our responsibility. We are keenly aware that our efforts on your behalf have real-life consequences, and we constantly strive to add value across all aspects of our relationships.

Committed to Community.

We value your continued trust in our services. Scharf is eager to serve more individuals who could benefit from our expertise and ask that you consider referring us to friends, family, or colleagues. Your satisfaction as our client is paramount and we are committed to delivering exceptional service to you and anyone you refer. Growing our business allows us to help more individuals achieve their financial goals.

SCHARF INVESTMENTS

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