GW&K INVESTMENT MANAGEMENT

INVESTMENT REVIEW
3Q 2023

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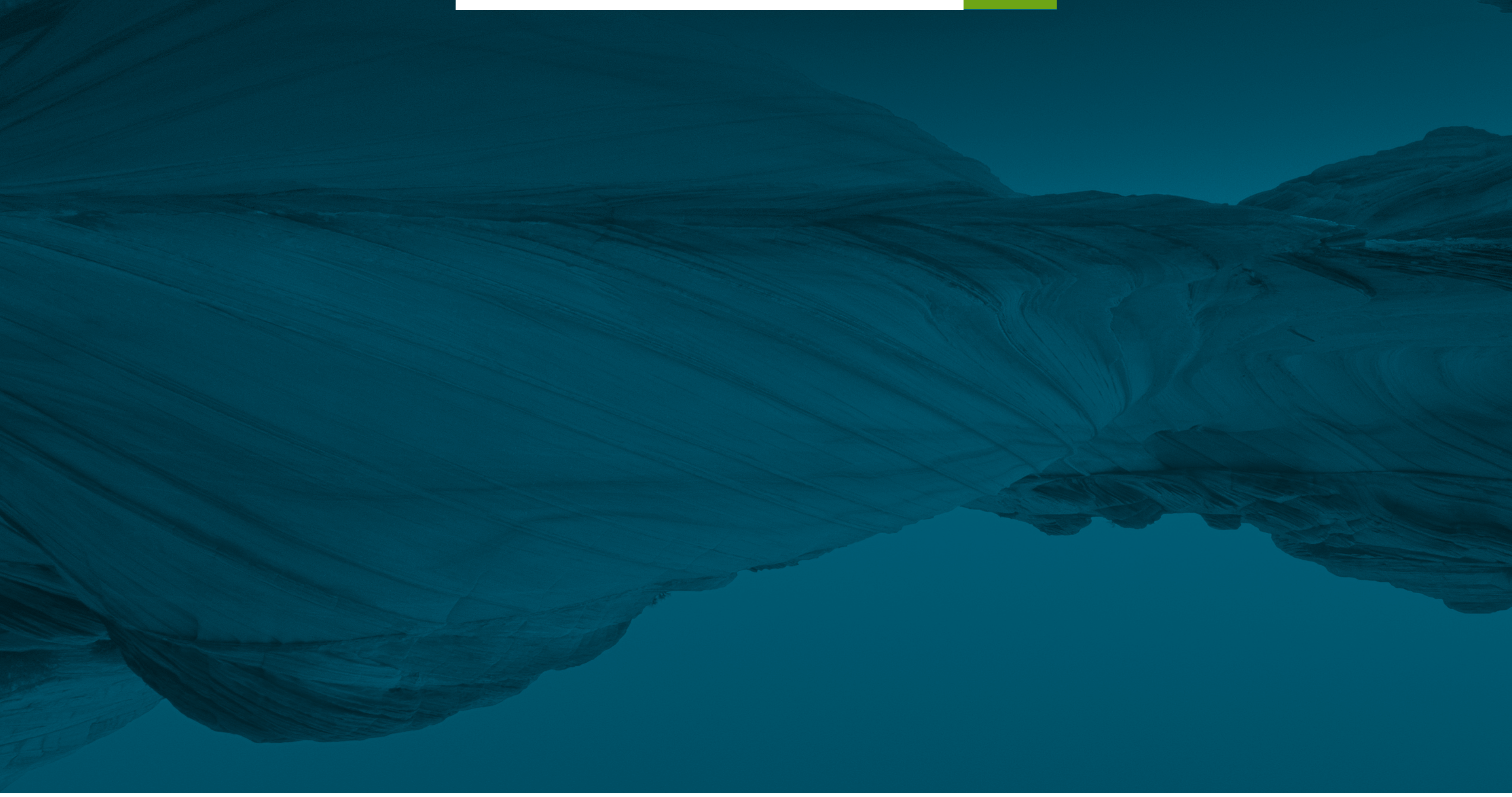
TABLE OF CONTENTS



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ECONOMIC COMMENTARY

BY HAROLD G. KOTLER, CFA
Founder-Chairman, Chief Investment Officer

In many ways, the world is still trying to find its footing amid the aftershocks of Covid. With the crisis ushering in everything from economic shutdowns to consumption explosions, from fiscal profligacy to monetary restraint, is it any wonder our social norms have struggled to keep up with all the change?

The good news is that we've gone through this process numerous times over the years, recalibrating the world's economic systems in the face of geopolitical upheaval. The most glaring example, of course, was the sequence introduced by World War II, when we had an explosion of production and economic activity to meet the war effort, followed by a post-war recession, followed in turn by the lackluster years of the 1950s. President Eisenhower governed through those final eight years of healing, warning us to be careful of interventionism and the subtle pressures of the military establishment. This policy changed dramatically when a youthful, energetic, articulate new President followed Eisenhower into office.

In the decades that followed, we navigated the events of Vietnam and 9/11, which also challenged our nation's confidence and policies. Political choices and economic realities evolved side by side as we entered wars on foreign soil, expending national treasure and human life. Whether these military engagements had any long-term success is for historians to debate, but the domestic resources necessary to engage in these wars had a profound effect on our economy.

The common thread through all these adversities was the need for business to adapt to the new world order. The beauty of capitalism is that it cannot look in the rearview mirror and bemoan what happened. It must look forward and take advantage of the new environment. This is where we're at in today's cycle, bringing us to the forefront of renewal, creativity, and implementation. Whether it be artificial intelligence, bio-medical technology, or the fast-moving shift in energy sources, companies must adapt to the new norm. It will be a slow process. The drive to be less dependent on Chinese factories, to develop competing facilities in Mexico, India, and Vietnam, or to bring production back to the US is very complicated. The old "just-in-time delivery" reduction of inventory has become a victim of the new world economic model.

"The beauty of capitalism is that it cannot look in the rearview mirror and bemoan what happened. It must look forward and take advantage of the new environment."

The geopolitical backdrop, particularly the war in Ukraine and the tensions between China and the US, promises to muddy the water for businesses, making opportunities more difficult to identify and decisions harder to implement. Given this new reality, it is rational to sit on the sidelines, collect 5% interest on money market funds and wait for these issues to be resolved. Nevertheless, as we reflect on the ground-shaking events alluded to above, knowing that society always finds its way back should provide us hope. Behavioral changes move

Continued on next page

slowly, with many fits and starts. Economies are not so different from people, able to move on only after a period of mourning, anger, and frustration.

This time will be no different. The extremes of the pandemic have passed. The medical industry has come to our rescue. Once again, we face the world expecting setbacks, a natural part of the healing process. I believe we will muddle through the next few years, and I see the 2028 election cycle as a new beginning, like Kennedy succeeding Eisenhower. It will take youth, faith, and the ability to articulate the future to move forward as a country in a united way. Until then, the fracturing that now exists will continue to be an anchor on realizing the full power of the US system.

So, as we live through the next few years and wait for calmer waters, we still need to invest in the future. Short-term interest rates will be peaking in the next few quarters as inflation continues to slow. Following first a stabilization and then a reduction of those short rates, a decline of long-term rates will soon follow. We can quibble about the exact timing, but for the economy to have any semblance of health, long-term rates must decline, and they will.

Those who find comfort in money market funds will miss either the next bull market in stocks or the opportunity to lock in the attractive rates of longer-term bonds. A bell doesn't ring to signal when you should commit to long-term assets. Remember that short-term interest rates are short term and only short term. That is not investing, it is sitting around waiting to invest, better known as market timing. While I always encourage portfolio diversification as a key to success, I want to add a new discipline —patience —which will also be a critical component of this next investment period.

As we wind through this current period of enormous change, rise above the problems-of-the-day and believe that our country will find new ways to grow and flourish. It's not obvious how it will happen this time around, but a patient approach, a healthy perspective, and a diversified portfolio will harness the positive energy of this ever evolving and growing world economy. Stay well.

Harold G. Kotler, CFA
Founder-Chairman, Chief Investment Officer

GW&K NEWS

COMMUNITY ENGAGEMENT

Engaging in the communities where we live and work is a vital part of who we are. We partner with several organizations in their missions to create a more equitable world, and this includes organizing opportunities for our employees.

So far this year, GW&K employees have donated over 350 hours of their time helping numerous charitable organizations:

- **Cradles to Crayons** — fights children's clothing insecurity
- **Community Servings** — provides scratch-made, medically tailored meals to chronically and critically ill individuals and their families
- **Special Day** — provides Boston Public School children with special needs a day of sports, games, activities, and community building
- **Revision Urban Farm** — grows produce to provide affordable, nutritious, and culturally appropriate food to its residents and extended community
- **The Greater Boston Food Bank** — strives to end hunger in Eastern Massachusetts
- **Women's Lunch Place** — creates fresh, healthy meals for women experiencing poverty and homelessness

Additionally, we have joined **Out in Finance**, an organization that unites individuals across the financial services industry to drive LGBTQ+ inclusion and equality.

Partnerships focused on enhancing and sustaining a diverse, equitable, and inclusive culture, including firm-sponsored volunteering events and charitable gift matching, are an important part of our firm and culture.

Learn more on our website: www.gwkinvest.com/our-firm/diversity-equity-and-inclusion

352 | HOURS VOLUNTEERING

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THIRD QUARTER 2023

ECONOMY

- The economy has defied expectations for a second half contraction, with the Atlanta Fed estimating Q3 GDP growth of 4.9%, following 2.1% for Q2.
- Despite rate hikes, the economy's resilience can be attributed to stronger-than-expected consumer spending, housing, and trade, along with ongoing solid job gains.
- The core PCE price index showed some welcome moderation at a 2.2% annualized pace over the three months through August. But the yearly rate remained elevated at 3.9%, well above the Fed's 2% inflation target.
- Many economists have abandoned or pushed out recession forecasts as growth remains positive for now. However, slower growth looks likely ahead due to higher interest rates and rising oil prices.

FED ACTION

- The FOMC left interest rates unchanged in September, but signaled the possibility of another rate hike before year end as it battles inflation.
- The Fed surprised markets by removing projections for significant rate cuts in 2024-2025 keeping them higher from prior projections.
- Contrasting with many economists' expectations of a more significant slowdown, the Fed also offered a rosy economic outlook, revising up its GDP growth forecasts and projecting only a minor uptick in unemployment.
- Market participants have begun to factor in a "higher-for-longer" interest rate path, especially regarding the post-2025 period. However, federal funds futures markets still project at least two quarter-point rate cuts in 2024 with a year-end funds rate of 4.7%.

BOND MARKETS

- Fixed income markets posted a significant loss in Q3 that more than offset the gains achieved in the first half of the year. The hawkish Fed narrative took center stage, driven by a resilient economy, surging oil prices, and inflation that persisted well above the Fed's target.
- Treasuries responded with a relentless move higher in rates, with 2- and 10-year maturities hitting their highest levels since 2007. The market also endured a downgrade of US government debt, which highlighted persistent fiscal deficits and the need for increased Treasury supply.
- Corporates continued to reflect a more stable economic outlook. Strong fundamentals and positive technicals kept spreads essentially unchanged and well below their longer-term averages.
- Municipal bonds underperformed Treasuries, ultimately succumbing to the combined weight of negative sentiment and rich valuations.

INDEX PERFORMANCE 9/30/23

	QUARTER	YEAR TO DATE
Bloomberg 10-Year Municipal Bond Index	-3.65%	-1.57%
Bloomberg Aggregate Bond Index	-3.23%	-1.21%
Bloomberg High Yield Index	0.46%	5.86%
Dow Jones Industrial Average	-2.10%	2.73%
S&P 500 Index	-3.27%	13.07%
Russell 2000 Index	-5.13%	2.54%
MSCI EAFE Index	-4.11%	7.08%
MSCI World Small Cap ex USA Index	-3.48%	1.83%
MSCI World Index	-3.46%	11.10%
MSCI Emerging Markets Index	-2.93%	1.82%

DOMESTIC EQUITY MARKETS

- US equity markets finished Q3 lower as the Fed signaled interest rates would stay "higher for longer" amidst a still resilient economy and moderating, but above target, inflation readings.
- Large cap stocks, as measured by the S&P 500, fell -3.3% and outpaced small and mid-cap stocks (Russell 2000 declined -5.1%).
- Within the large cap market, Energy was the best performing sector gaining 12.2% as oil prices rose. Interest-rate sensitive groups such as Utilities, Real Estate, Consumer Staples, and Information Technology produced the weakest returns. In small caps, Health Care registered a -15.1% decline and lagged all other sectors.
- Value outpaced Growth in the quarter, though Growth leads year to date. Investors also demonstrated a preference for high-quality factors.

GLOBAL EQUITY MARKETS

- Non-US developed markets (DM) ended Q3 mostly lower on renewed growth concerns amid higher energy prices. The MSCI World ex USA Index fell -4.1%, while the MSCI World Small Cap ex USA Index declined -3.5%.
- Currency was a substantial headwind, particularly in Japan where the yen further depreciated versus the US dollar.
- Emerging markets (EM) also came under pressure, though outperformed DM, with the MSCI Emerging Markets Index dropping -2.9%. Key detractors included technology-heavy Taiwan and South Korea.
- DM and EM Energy rallied with oil prices, while DM and EM Information Technology, DM Utilities, and EM Communication Services were notable underperformers.

INVESTMENT STRATEGIES

MUNICIPAL BOND

We combine a rigorous, research intensive, credit selection process with active management. Our goal is to take advantage of market inefficiencies and find opportunities across the yield curve to protect and grow principal and income.

TAXABLE BOND

Our multi-sector approach takes advantage of the relative valuation among distinct bond sectors and the increased opportunities to generate income and capital appreciation. We build diversified yield advantaged portfolios that generate steady, incremental income and provide downside risk protection.

DOMESTIC EQUITY

We develop a deep understanding of the companies in which we invest through disciplined and intensive fundamental research. Our focus is on finding well-managed, quality companies, which are resilient.

GLOBAL EQUITY

We take advantage of market inefficiencies to find quality growth companies that may be undervalued, underappreciated, or under-researched. Our rigorous, bottom-up process focuses on a company's upside potential and downside risk.

MUNICIPAL BOND STRATEGIES

The municipal market was a full participant in the global bond rout that unfolded over the third quarter. Broad fixed income losses piled up each month, but accelerated after the September FOMC meeting, where Fed policymakers signaled a determination to hold interest rates higher for longer. Investors were taken off guard by the hawkish messaging, given the trajectory toward lower inflation and reduced froth in the labor markets, particularly over the last three months. But as Jay Powell pointed out in his post-meeting press conference, the recent jump in Treasury yields was less about inflation and more about real yields rising in response to stronger-than-expected economic data. The Fed Chair listed a number of plausible explanations for the economy's surprising resilience (lagged effects of tightening, higher neutral rate, more durable consumer and business balance sheets), but emphasized the need to guard against overheated growth, lest it threaten the headway made to date in restoring price stability and full employment. The markets shared his caution, as the yield on the 10-year Treasury note climbed 73 basis points over the quarter, closing September at 4.57%, its highest level since 2007.

Municipal bonds underperformed Treasuries, ultimately succumbing to the combined weight of negative sentiment and rich valuations. Early in the quarter, municipal bonds appeared set to enjoy one of their typically strong summers, driven by the technical tailwinds of low issuance and heavy rollover demand. In fact, in July, mutual fund flows turned positive for just the second time in the prior 18 months. But that momentum wouldn't last. By mid-August, stretched valuations had made the market vulnerable to any signs of weakness. When Treasury yields continued to march higher, there was little cushion to absorb the hit to prices. By the time the September FOMC sparked another leg down in the broader market, municipal bond investors had endured enough. The bid side of the street evaporated amid an uptick in supply and the tax-exempt curve gapped higher. Ten-year AAA yields jumped 89 basis points over the quarter, reaching levels not seen since 2009. The rise in rates resurrected long-dormant risks that will need to be managed. Those who haven't had to understand extension risk or de minimis-adjusted yield calculations will be at a disadvantage. With risks, however, come opportunities, and this summer's correction promises to be no different.

The third quarter was a tale of two completely different trading environments. July saw a continuation of the first half of the year where light issuance and heavy demand made sourcing bonds extremely difficult. Sellers were reluctant to part with paper, knowing it would be nearly impossible to find suitable replacements. But as the quarter progressed, the combination of rising rates and a pickup in issuance began to negatively influence sentiment. By September, with yields gapping higher in double-digit increments on a daily basis, the market was in full selloff mode and opportunities to find value became readily available. New issues had to price cheaply to account for the increased volatility and the secondary market followed suit. Purchase yields often topped 4%, something we haven't seen in a while. As we enter the fourth quarter, we will continue to look for ways to exploit the ever-changing yields in a trading environment that just got a whole lot more interesting.

The outlook for the municipal bond market has improved considerably. The steep inversion in the front half of the curve has become much less severe and relative value ratios begin the new quarter at their cheapest levels of the year. Nominal yields have pushed to decade-plus highs, creating attractive entry points all along the curve. Fundamental credit quality remains solid, with states budgeting for only modest revenue reductions after two years of record collections. States have a proven track record of managing through economic slowdowns and this time around will have the added benefit of sitting on the largest pile of cash reserves ever. October's history of market volatility may create additional opportunities, especially as investors attempt to handicap the reaction function of a data-dependent Fed. While most view a higher rate environment as something to avoid or protect against, the bigger danger, even under current circumstances, is reinvestment risk. Elevated yields should be embraced and locked in, because you never know when they will be gone.

17 MUNICIPAL INVESTMENT PROFESSIONALS

22 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

Nancy G. Angell, CFA	Partner, Co-Director of Fixed Income
John B. Fox, CFA	Partner, Co-Director of Fixed Income
Brian T. Moreland, CFA	Partner, Portfolio Manager
Martin R. Tourigny, CFA	Partner, Portfolio Manager
Kara M. South, CFA	Principal, Portfolio Manager

GW&K MUNICIPAL BOND STRATEGIES

SHORT-TERM MUNICIPAL BOND

2–8 YEAR ACTIVE MUNICIPAL BOND

2–8 YEAR ACTIVE MUNICIPAL BOND ESG

MUNICIPAL BOND

MUNICIPAL BOND ESG

MUNICIPAL ENHANCED YIELD

"While most view a higher rate environment as something to avoid or protect against, the bigger danger, even under current circumstances, is reinvestment risk. Elevated yields should be embraced and locked in, because you never know when they will be gone."

TAXABLE BOND STRATEGIES

The fixed income market posted a significant loss in the third quarter that more than offset the gains achieved in the first half of the year. The higher-for-longer Fed narrative increasingly took center stage, driven by a surprisingly resilient economy, surging oil prices, and inflation that persisted well above the Fed's 2% target. While there were subtle signs that the labor market and consumer credit metrics might be softening, the unemployment rate remained near cycle lows and the consumer continued to spend robustly. The undeniably strong cadence of the economy left economists upgrading their third-quarter GDP growth estimates and recharging optimism for a soft landing. Fed officials held rates steady at the September FOMC meeting, but thwarted hopes for a pivot by signaling the possibility of one more hike this year and projecting less easing in 2024/2025.

In addition to the Fed's more aggressive outlook, a repricing of recession risk and the potential feed-through to inflation from surging oil prices, the market also endured an unexpected downgrade of US government debt. The negative rating action focused attention on the longer-term implications of persistent fiscal deficits and the need for increased Treasury supply, especially in longer-maturity bonds. The Treasury market responded to this toxic combination with a relentless move higher in rates across the yield curve, with 2-year and 10-year maturities hitting their highest levels since 2007. Ten-year real yields pushed through 2% for the first time since 2009, reflecting tighter financial conditions and stronger economic growth. At the same time, breakeven inflation expectations were relatively contained, echoing the market's confidence the Fed will achieve its inflation target. While still inverted, the 2s-10s curve experienced a significant bear steepening, narrowing its negative slope by approximately half.

Corporate credit continued to reflect a benign economic outlook. Strong fundamentals and positive technicals kept spreads essentially unchanged on the quarter and well below their longer-term averages. The stability in spreads was a triumph against a sharp pickup in new issuance, as companies rushed to get ahead of the final stages of the Fed's rate-hiking campaign and begin chipping away at the rapidly approaching wall of maturities. The outsized issuance garnered robust investor demand, with higher all-in yields seen as a significant cushion to forward returns. Mortgage-backed securities spreads widened marginally against heightened rate volatility, a steepening yield curve, and a weak technical backdrop amid lower bank and money-manager demand.

We witnessed a mind-numbing period where the market's expectations for multiple interest rate cuts this year were in complete opposition to the Fed's well telegraphed guidance for rate hikes. But now that there is little doubt persistently high inflation is the Fed's predominant concern, the market has begun to reflect a greater acceptance of restrictive policy going forward. The higher-for-longer message drove 10-year yields to within striking distance of 5% and the bond market toward a potential third straight annual loss.

15 TAXABLE INVESTMENT PROFESSIONALS

20 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

Mary F. Kane, CFA	Partner, Portfolio Manager
Stephen J. Repoff, CFA	Principal, Portfolio Manager
Nancy G. Angell, CFA	Partner, Co-Director of Fixed Income
John B. Fox, CFA	Partner, Co-Director of Fixed Income

GW&K TAXABLE BOND STRATEGIES

SHORT-TERM TAXABLE BOND
INTERMEDIATE TAXABLE BOND
CORE BOND
CORE BOND ESG
ENHANCED CORE BOND
ENHANCED CORE BOND ESG
TOTAL RETURN BOND
CORPORATE BOND OPPORTUNITIES
SHORT-TERM FOCUSED HIGH INCOME

> *"The torrid rise in rates to multi-year highs makes the value proposition for bonds more compelling. These higher levels of yields can provide a significant cushion should rates continue to rise and are often a good indicator of forward returns."*

It is uncertain whether this higher level of yields represents the new normal or a rate move gone too far. While the economy continues to exhibit surprising strength, formidable headwinds lie ahead, including tighter credit conditions, dwindling excess consumer savings, slowing global growth, and rising energy prices. These economic challenges could shift the narrative from an economy that is impervious to rapid rate hikes to one that is susceptible to below-trend growth next year.

The torrid rise in rates to multi-year highs makes the value proposition for bonds more compelling. These higher levels of yields can provide a significant cushion should rates continue to rise and are often a good indicator of forward returns. We continue to favor higher quality intermediate-duration bonds. Locking in these maturities diminishes reinvestment risk while still offering the potential for significant price appreciation when the Fed finally signals a pivot. We remain underweight the long end of the yield curve, which is most vulnerable to losses in this higher-for-longer regime.

DOMESTIC EQUITY STRATEGIES

13 EQUITY INVESTMENT PROFESSIONALS

24 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

Daniel L. Miller, CFA	Partner, Director of Equities
Joseph C. Craigen, CFA	Partner, Portfolio Manager
Jeffrey W. Thibault, CFA	Partner, Portfolio Manager
Jeffrey O. Whitney, CFA	Partner, Portfolio Manager
Aaron C. Clark, CFA	Principal, Portfolio Manager

GW&K DOMESTIC EQUITY STRATEGIES

EQUITY DIVIDEND PLUS
DIVERSIFIED EQUITY
SMALL/MID CAP CORE
SMALL/MID CAP GROWTH
SMALL CAP VALUE
SMALL CAP CORE
SMALL CAP GROWTH

> *"Resilience was the word for this quarter, and perhaps will continue to be for at least the near term...How this interplay between a stronger economy and higher interest rates plays out is difficult to predict."*

Domestic equities started the quarter with solid positive returns as the market embraced the soft-landing scenario, inflation was coming down, and the Fed was thought to be at the end of its upward rate cycle. Yet, as the quarter progressed the market faded as the economy's strength and stubborn inflationary readings, especially driven by higher oil prices, pushed up long-term interest rates, while the Fed's policy statement clearly shifted toward the higher-for-longer scenario. Interest rates climbed to levels not seen in well over a decade.

The S&P 500 Index lost -3.3% for the quarter, however, it still maintained a respectable gain of 13.1% for the year to date. Energy was the only sector to advance meaningfully in the quarter, gaining 12.2%. While the mega-cap names posted mixed performance in the quarter, those in the Communication Services sector provided a bit of a cushion to large cap stocks. A rather eclectic mix of sectors including Utilities, Real Estate, Consumer Staples, and Information Technology lagged during the quarter, with mid-high single digit percentage losses. The Russell 2000 Index of small cap stocks trailed large caps with a decline of -5.1%. Small caps have now given up most of the year's gains to register a modest 2.5% return for the year-to-date period. As with large caps, Energy was the only sector to post a substantial quarterly gain, rising 18.6%. The Health Care sector declined by -15.1% for the quarter on broad sector weakness. Utilities and Information Technology also lagged among small caps.

Growth and value styles registered near-identical losses in the quarter among large caps, while value stocks were comfortably ahead of growth among small caps. Year to date, growth remains well ahead of value.

Resilience was the word for this quarter, and perhaps will continue to be for at least the near term. Despite aggressive Fed efforts to slow the economy, things remain, well, resilient. GDP continues to show decent growth, while estimates have been steadily revised upward. Corporate earnings also remain strong. Capital spending has been bolstered by funds from the Inflation Reduction Act. Consumer confidence, while slowing, also remains favorable. Housing prices remain surprisingly strong, despite the rise in mortgage rates. The labor market is perhaps the biggest surprise, as the unemployment rate remains below 4%, initial jobless claims remain low, and wages continue to increase.

And yet, the market remains pressured. It should be no surprise that the Fed's narrative has changed to one of higher-for-longer rates, as inflation, while slowing, remains uncomfortably above the Fed's 2% target level. This environment has proven ripe for higher interest rates, making returns on fixed income investments a legitimate alternative to equities. We are far from the TINA ("there is no alternative") environment of prior years.

How this interplay between a stronger economy and higher interest rates plays out is difficult to predict. Perhaps economic resilience is sustained, and we are in for higher rates for the foreseeable future. This may not be the worst environment for stocks as earnings would likely be strong, and could offset pressure on stock multiples that higher rates might cause. Or perhaps higher rates will pressure companies and consumers, with their typical lags, starting us down the path to recession that the Fed wants and our current inverted yield curve has successfully predicted in many recessions past.

As implied above, we are once more taking up our earnings expectations, projecting 2023 S&P 500 earnings of $215. When combined with the quarter's decline in equities, the market P/E has fallen to 20 times earnings, for an earnings yield of 5.0%. Still, with the rise in 10-year Treasury yields to 4.6%, the ratio of equity to fixed income yields has dropped to under 1.1 times. This ratio is low by historical standards, showing the improved relative attractiveness of bonds relative to stocks. Nonetheless, there remain sizable pockets of value in the stock market, as large cap P/E ratios are skewed higher by the handful of mega-cap names that sell at much higher valuation levels.

Our investment focus remains unchanged regardless of how this economic cycle plays out. We continue to seek out companies with quality attributes such as strong management teams, leading market positions and strong financial characteristics that tend to do best in a competitive world when the outlook is anything but clear.

GLOBAL EQUITY STRATEGIES

The second half of 2023 kicked off with widespread gains across global small cap markets. Softer inflation readings, a more dovish tone from the European Central Bank, and surprisingly good US economic data were key catalysts in the strong performance of North America and Europe. Along with falling inflation, a strong labor market, and increased consumer confidence, better than expected business activity raised hopes for a US soft landing. The rally was brief, however, as global markets began to decline in August on hawkish Fed commentary, fading consumer and business sentiment in Europe, rising energy prices, and continued concerns around China. Japan was the sole bright spot due to strong earnings and better than expected GDP growth. However, macro concerns continued to build in September, bond rates marched higher, and Japan finally weakened on growing expectations for BOJ policy changes driven by a rapidly weakening yen.

Regional returns ended lower with Europe (-5.7%) weakest, led by the Nordics. Only Portugal ended the quarter higher. North America (-3.2%) and Asia (-1.3%) also ended lower. Once again, the strength in the US dollar (USD) offset some better local returns. During the quarter foreign exchange (FX) hurt returns for USD investors by about 2.7%. Most sectors were lower with the large exception of Energy (+14.2%) and very modest gains in the defensive Consumer Staples (+0.1%), and more cyclical Financials (+0.4%).

The third quarter tends to be a time of travel for our investment team where we re-underwrite our investment cases and look for interesting new ideas. Given the recent weakness in the market we thought it might be interesting to discuss some broad ideas we currently find attractive and that the market seems to be mispricing.

The Covid years of 2020–2022 made comparative analysis very difficult. Year-to-year numbers varied significantly, and it was unclear for much of this period if many of the unusual demand trends unleashed by the pandemic were sustainable and how far we, as analysts, should extrapolate cost increases. There is a group of companies which saw a boom in demand during Covid and are now seeing revenue headwinds. However, we have found some that are actually delivering higher margins as sales come down. A good portion of this is due to improved product 'mix,' such as lower sales of hardware, but more value-added services, while others are purely related to delayed price increases and improving costs.

We remain bullish on Japan with the weak currency providing a well-known cost advantage for companies competing overseas. What is less well known is that Japanese wages are incredibly competitive even without the FX benefit. Given language barriers, Japanese wages are set based on local rather than global markets. We are exposed to several companies which benefit from this trend and expect the gap to actually increase as labor action (such as the United Auto Workers strike) drives up the cost of labor in other developed markets.

9 EQUITY INVESTMENT PROFESSIONALS

24 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

Daniel L. Miller, CFA	Partner, Director of Equities
Reid T. Galas, CFA	Partner, Portfolio Manager
Karl M. Kyriss, CFA	Partner, Portfolio Manager

GW&K GLOBAL EQUITY STRATEGIES

GLOBAL SMALL CAP

INTERNATIONAL SMALL CAP

> *"Overall, we continue to see very attractive opportunities in developed markets. Stocks have sold off at higher rates, but this provides the chance to pick up high-quality, growing, and profitable investments at bargain prices."*

In the short-to-medium term we continue to expect very strong capex-related demand in areas such as electric vehicles, batteries, and semiconductors. We remain quite cautious in the longer term, expecting global subsidy competition to result in massive over capacity. However, we have several holdings which benefit from the current capex boom and are well positioned to take share due to their focus on electrification and automation.

Another area where we remain watchful is with companies whose businesses may get caught on the wrong side of a geopolitical event or trade dispute. For example, we have recently seen the discussion about how China has surpassed Japan as the leading auto exporter. While true, it totally misses the point. In the 1980s, Japan realized how vulnerable their auto sector was to trade barriers and so began to produce locally for local demand. Japanese cars sold in the US are likely to be made in one of the NAFTA countries, Chinese demand is satisfied by local production, and countries like Thailand supply demand for the ASEAN countries. We expect that China will quickly re-learn this lesson as well.

Overall, we continue to see very attractive opportunities in developed markets. Stocks have sold off at higher rates, but this provides the chance to pick up high-quality, growing, and profitable investments at bargain prices. For those who can buy using the stronger USD, the value on offer is even more attractive.

EMERGING MARKETS EQUITY STRATEGIES

15 EQUITY INVESTMENT PROFESSIONALS

29 AVERAGE YEARS EXPERIENCE

INVESTMENT TEAM

Daniel L. Miller, CFA	Partner, Director of Equities
Nuno Fernandes, CFA	Partner, Portfolio Manager
Thomas A. Masi, CFA	Partner, Portfolio Manager
Bradley J. Miller, CFA	Partner, Portfolio Manager
Pablo Salas	Partner, Portfolio Manager
William P. Sterling, Ph.D.	Global Strategist

GW&K EMERGING MARKETS EQUITY STRATEGIES

EMERGING MARKETS

EMERGING WEALTH

Emerging market (EM) equities confronted a slew of challenges in the third quarter. From China's unrelenting property market troubles to a powerful US dollar, escalating global bond yields, and a sharp 27% hike in oil prices, the waters were certainly rough. Nevertheless, the MSCI EM Index dipped by just -2.9% during the period, slightly beating the MSCI World Index of developed markets (DM) which slid -3.5%. By September's end, the EM benchmark had climbed a modest 1.8% for the year to date, dwarfed by the 11.1% ascent of its DM counterpart.

The quarter did offer a glimmer of hope: potential stabilization in China's economic landscape and sustained policy backing. Initial enthusiasm over upcoming aid for the ailing property sector propelled China's market to an early 10.8% jump in July. Yet, hopes of sweeping, "Western style" economic boosts faded amidst whispers of hesitation from China's senior leadership. Thankfully, by quarter's end, a series of positive economic reports hinted at budding stability. Despite this, challenges persisted for major property developers and discouraging currency dynamics stifled inbound investments. The quarter saw the MSCI China Index register a modest -1.9% loss.

While EM Asia mirrored the EM benchmark's -2.9% fall, it was a mixed bag across the continent. Modest gains in India and Malaysia were overshadowed by significant tech-driven downturns in South Korea and Taiwan. In contrast, the EM Europe, the Middle East, and Africa (EMEA) fell by a modest -1.7%, boosted by robust gains in Turkey, Egypt, and modest gains in oil behemoths like the UAE and Qatar. Yet, it wasn't all sunshine: heavyweights Saudi Arabia and South Africa both endured roughly -5% losses, with Saudi's oil production cuts potentially diluting the boon of rising oil prices.

EM Latin America, after a sterling first half, lagged, dropping -4.7% for the quarter. The culprit? Rising US rates undermining Latin America's appeal to foreign capital. This reality was reflected in a 3.3% depreciation of MSCI EM Latin American currencies. Brazil, for its part, slashed its central bank policy rate, triggering a 3.6% slide in its currency against the US dollar. Mexico, in a divergent move, maintained its high policy rate, which did prop up its currency, but equities paid the price, dropping -6.5%.

Sector wise, Energy was the quarter's shining star, benefiting from the oil price surge and OPEC+ production curtailments. It stood tall with an impressive 6.3% gain, contrasting starkly with the Information Technology sector, which dropped by -6.2%. Consumer Discretionary emerged as another rare bright spot, buoyed by China's potential economic revival. Conversely, other sectors like Utilities, Materials, and Communication Services lagged. Reflecting the strong performance of the Energy sector, EM Value stocks outpaced Growth stocks in the quarter, amplifying a trend from the first half of 2023 and widening the Value's yearly outperformance to nearly 8%.

"From a valuation perspective, EM equities seem enticing…EM growth seems likely to surpass DM in the coming year. Add to this a notable drop in EM inflation and potential for rate cuts and other policy support. Against this backdrop, we are cautiously optimistic about prospects for EM outperformance over DM in the upcoming years."

Though EM Information Technology has gained 12.3% year to date, that increase looks modest next to the 30.4% surge in DM Information Technology. This gap likely reflects handicaps for China's tech giants from US restrictions as they race to develop artificial intelligence. It may also show lingering damage from China's regulatory crackdown on its tech industry in recent years. While the US and allies lead in cutting-edge artificial intelligence now, China remains determined to stay in the race and potentially take the lead down the road. Its tech firms face near-term hurdles but retain formidable long-term potential.

From a valuation perspective, EM equities seem enticing. As of September's close, the cyclically adjusted price-earnings ratio for EM was 10 times, with China even lower at 8.3 times, juxtaposed against the US market's much higher 24 times. While this may reflect rational pessimism regarding China's recent growth challenges and US-China geopolitical risk, EM growth seems likely to surpass DM in the coming year. Add to this a notable drop in EM inflation and potential for rate cuts and other policy support. Against this backdrop, we are cautiously optimistic about prospects for EM outperformance over DM in the upcoming years.

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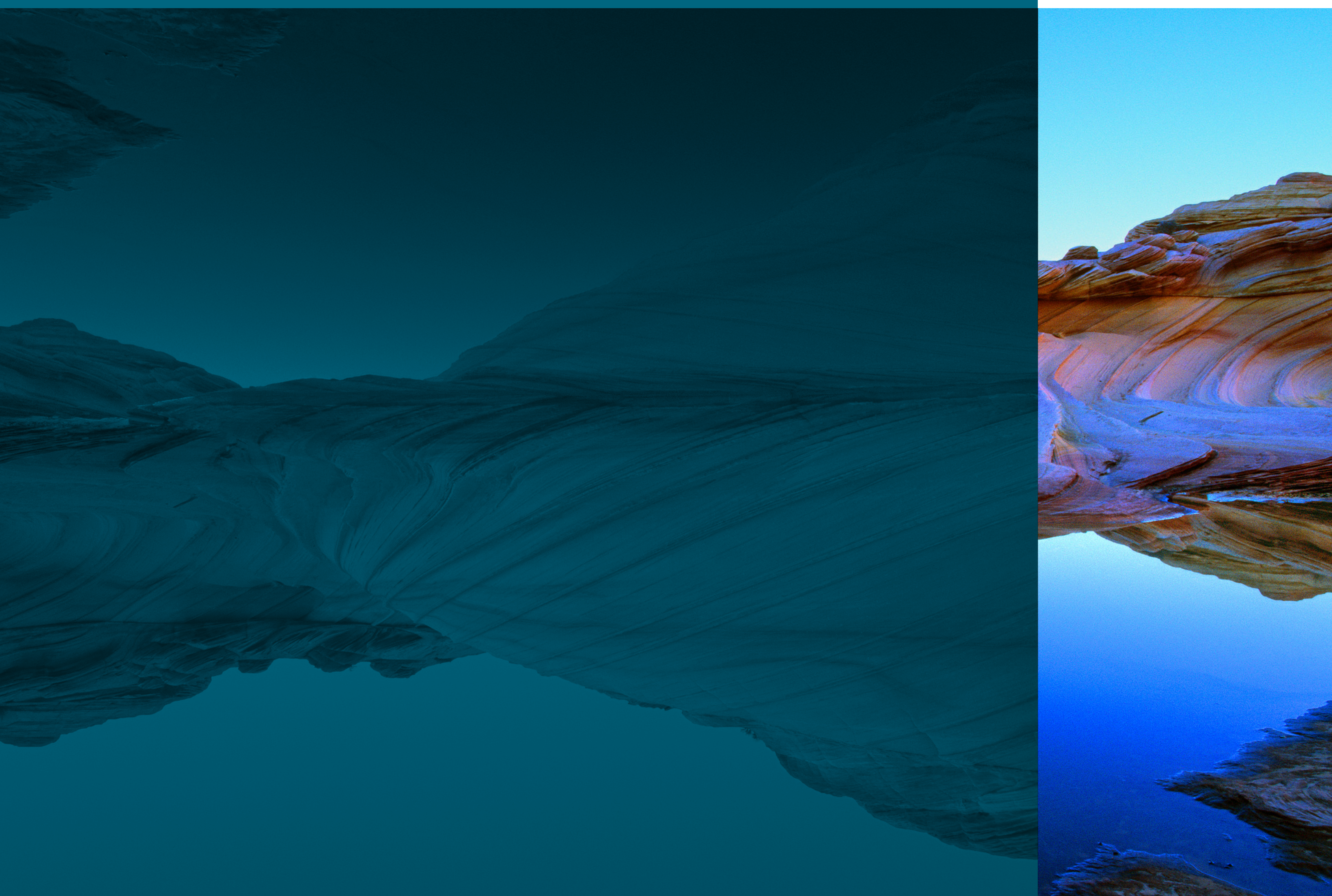

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