

2024 Annual Global Equity Review

JANUARY 2025

Chad: Happy New Year! Thank you for joining us for the 2024 Review of the Dodge & Cox Global Stock Fund. My name is Chad Musolf, and I'm a Client Portfolio Manager here at Dodge & Cox. With me is Lily Beischer, who's a member of the [Global Equity Investment] Committee for the Global Stock Fund. We plan on spending the next 20 minutes or so on three agenda items. The first is a review of global equity markets, followed by an update on the Fund's performance and attribution. Then finally, an overview of our current positioning and where we've been finding opportunities. But first, Lily, I'd greatly appreciate it if you could highlight the key messages that you and the rest of the Investment Committee want our listeners to walk away with.

Lily: Hi Chad, thank you for that introduction and let me also extend a warm welcome to our listeners today. We have a few key takeaways that I hope will be fairly self evident to our audience. The first is that the market saw a second very strong year of performance in 2024, but that was due to a small number of stocks called the Magnificent Seven. That's a group that has gotten even more expensive and now are an even more outsized percent of the benchmark. Meanwhile, we would note that elsewhere in the market, valuations are much more reasonable, so we're finding plenty of opportunities in less expensive parts of the market, while we remain underweight the more expensive parts. Now, please note that we do own many holdings that benefit from artificial intelligence (AI) tailwinds, including several of the Magnificent Seven, but again, we are underweight the area overall. Third, we know from experience that this faith in continued high valuations, benign competition, and excess profits can take time to unwind. Excesses in the market often take time to play out, but markets like these should play to our strengths as a long-term, value-oriented, active manager. Lastly, while we always encourage our investors to stay disciplined on valuation and focused on that longer-term time horizon. This is especially true at a time of excess and excitement around a few names and leadership in the market.

Chad: Yeah, that's a great reminder, Lily, of our investment philosophy and how we think about investing in general. Really, thank you for sharing those key takeaways. We'll touch on each of those in greater detail in a bit. For now, why don't we start with our first agenda item for today. That's a review of global equity markets, especially those developments that are most relevant for our portfolio.

Lily: Yes, Chad, of course. Let's turn to the first slide to discuss the overall market backdrop. You can see here in the upper-left chart, the [MSCI] ACWI [Index] posted a second year in a row of very strong

performance, up 17% in 2024 after a 22% rise already in 2023. This was driven largely by the U.S. market, which was up 25% after increasing 26% already the year before. Now in contrast, the international part of the market was up only 6% last year. Now, within international, individual country markets saw quite a wide range of performance. I'll just call out here, China, which is an area of overweight in the Fund.¹ China did see a notable return of 19%. But the big story was the Magnificent Seven, which drove almost half of the [MSCI] ACWI's returns last year. Now, if we turn to look at returns by sector on this upper-right chart, you can see the strongest sectors were also those that housed the Magnificent Seven. In addition, Financials also outperformed. Then in contrast, Health Care and Materials were the two sectors that saw the biggest declines. Now, something we don't have on this page but is an equally important and related market dynamic is growth [stocks] greatly outperforming value [stocks] last year for a second year in a row. So, [the MSCI ACWI] Growth [Index] was up 24% in 2024 after an already eye-popping 33% rise in 2023. In contrast, [the MSCI ACWI] Value [Index] returned a more modest 11% and 12% in the last two years.

Chad: That's a helpful market overview, Lily, and thanks for covering that sector performance too, especially given the Fund's overweight to Financials and Health Care and its underweight to the Magnificent Seven. It really dovetails into Fund performance, which I'd like to cover next. Turning the page, you can see the Global Stock Fund's performance in the blue-shaded row.² The MSCI ACWI and the ACWI Value are also shown as benchmarks. For 2024, the Global Stock Fund had positive returns for the year, up 5%. Given our value orientation and the other headwinds Lily just covered, we did underperform the [MSCI] ACWI for the quarter and for the year. Additionally, after the two years of back-to-back outperformance for growth [stocks] that Lily also mentioned, our longer-term outperformance has gapped back in. We're now keeping pace with the [MSCI] ACWI since inception and outperforming that core benchmark only on the three-year number. For those of you who benchmark us against the [MSCI] ACWI Value, you'll see the Global Stock Fund underperformed for the fourth quarter and for calendar-year 2024, but it is ahead of the [MSCI ACWI] Value Index over all the longer-term time periods that we show on this page. With that summary, Lily, maybe we turn it over to you to provide additional detail on the specific drivers of the Fund's relative performance. Could you speak to the attribution for the year?

Lily: Yes. Let's move on to the next page to look at attribution by sector. I'll focus here first on the detractors. Given our underperformance,

Returns represent past performance and do not guarantee future results. Investment return and share price will fluctuate with market conditions, and investors may have a gain or loss when shares are sold. Fund performance changes over time and currently may be significantly lower than stated above. Performance is updated and published monthly. Current month-end performance can be obtained at dodgeandcox.com or call 800-621-3973.

at the very bottom of the chart, you'll see that Health Care was the top detractor. As we mentioned in the first slide, Health Care was the second-worst performing sector of the market, so our overweight there as well as stock selection hurt performance. Two of the larger detractors were CVS Health and Bayer.³ Another key detractor was our underweight and stock selection in Information Technology. Not owning one stock—NVIDIA—was really the single biggest factor here. NVIDIA made up almost 90% of our relative underperformance in IT (Information Technology). Then, in Financials, many of our Financials holdings contributed to performance. For example, Barclays, BNY Mellon, Fiserv, and Fidelity National were notable contributors, but two of our Financials in Brazil were weak. That plus a Hong Kong-based insurance company led to Financials overall detracting from relative performance, but Financials did help our absolute performance for the year. Switching our focus now to the contributors, you can see at the top of the chart Industrials added to relative performance. Stock selection, and in particular holdings in Johnson Controls [International] and Raytheon, contributed to returns.

Chad: Lily, given that we've been talking about our sector overweights and underweights a few times already, why don't we turn now to the next slide and look at our portfolio positioning at the end of the year? On the top of this page, as you can see, we show the Fund's sector weights in brown and the Index's weights in blue. Going from left to right, you'll see our larger sector positions followed by our smaller sector positions. Financials continues to be the largest sector in the portfolio. It also remains an overweight area for the Fund versus the [MSCI] ACWI. As Lily just mentioned, you can see our overweight to Health Care there on the left. It's the second-largest sector weight in the portfolio, and then towards the middle of this chart that underweight to IT. For both Health Care and Information Technology, our relative weights are quite significant. Our exposure to Health Care is more than double the weight of the [MSCI] ACWI, and for IT, we're only about a fifth of the weight of the benchmark.

Lily: Yes, Chad. That is true. Let me highlight that double Health Care and underweight IT is for valuation reasons. Earnings in the Tech sector today trade at a 27 times forward P/E (price-to-earnings) and that's versus a 20-year average of more like 18 times. IT trades at 50% more expensive today than its long-term 20-year average. In contrast, the Health Care sector trades at a 17 times forward P/E or about a 40% discount to IT. Now, if you look at this chart again, but focus on the ACWI Value Index, you can also see that the Fund is not nearly as underweight IT because IT is a lot smaller in the ACWI Value Index, and even Health Care is a little bigger in that [ACWI] Value Index. So, our differences by sector to the Index diminish, not surprisingly, versus the [ACWI] Value Index. They're just particularly pronounced today relative to that core benchmark given that huge premium in tech valuations.

Chad: Those are insightful points about valuation, Lily, and they also help explain why the indices look so different from one another. Now moving on to the table in the bottom left, you'll see a handful of characteristics for the Fund compared to the indices. There are a couple of things that I want to point out here. First, the Fund holds 93 names. That's compared to the thousands of constituents for the indices. Our holdings have been carefully selected on a bottom-up

basis. The weights and the characteristics listed on this page are more of an outcome of that individual stock-selection process. I want to highlight our value orientation, which you can see from the numbers on this table as well. The Fund's price multiples are lower than [MSCI] ACWI and they're also lower compared to the [MSCI] ACWI Value. Then lastly, the wheel chart on the bottom right shows our diversification by region where you can see our exposure to the United States in dark blue. If you look at the legend, you can see we're underweight the [MSCI] ACWI. The Fund has 48% invested in the United States compared to 67% for [MSCI] ACWI. That 18% underweight is almost entirely a function of our underweight to the Magnificent Seven.

Lily: Yes, Chad, let me also double click on that with an observation about United States versus international valuations because the Magnificent Seven really is a story also about the U.S. market since all seven names are U.S. companies. U.S. valuations today are high. The U.S. market trades currently at a 22 times P/E that represents almost a 40% premium to its 20-year historic average of 16 times. That 22 times P/E also represents almost a 70% premium to international markets, which trade at a much cheaper 13 times. Now even if you exclude the Magnificent Seven, it turns out the U.S. market still trades at a premium to international. In fact, in almost every sector that premium for the United States is observable to its international counterpart.

Chad: Thanks for that insight, Lily. I think it's interesting to hear just how expensive and also extensive that premium is for the United States. I'll wrap up my comments on current portfolio positioning by noting that this page tends to look similar from one quarter to another and even one year to the next. That's because our three- to five-year investment horizon generally leads to gradual portfolio changes over the longer term. Lily, I think that's a good segue to talking about the recent incremental changes that we've made to the portfolio. Would you provide an update on where we've been seeing opportunities and/or otherwise adjusting the portfolio?

Lily: Let's start with our two key areas of overweight: Financials and Health Care. Financials has been one of the best-performing sectors the last three years. In fact, it's been the third best sector since 2021. We've been overweight Financials, and so it's also been a key contributor to our relative performance over that time horizon. As a result, we've been trimming back our overweight. Last year we exited six names and trimmed from a handful of others on performance. Those sales resulted in an 8.5 percentage point reduction in the sector weight, which is now around 24%. We remain overweight Financials versus the [MSCI] ACWI, but we're now modestly underweight versus the [MSCI] ACWI Value.

In contrast, Health Care underperformed in 2024, and that was our largest area of adds. Those trades increased our weight there by almost five percentage points. We initiated a new position in Humana and made material adds to several holdings on weakness, most notably—CVS Health. So, what's the opportunity we see there? As you may know, CVS [Health] and Humana are two of the largest Medicare Advantage health plan providers in the United States. Both of them saw large profit declines last year when utilization rates coming out of COVID turned out higher than expected. Humana also later lost an

important star rating that will take some time to cure, but the stocks pulled back dramatically. This is a business that we have seen reprice over time. Humana also, by the way, can remediate the issues that affected that star rating. Actually, we've already started seeing some evidence of repricing coming back in the first few weeks of this year, which has already led to some rebound in shares for both Humana and CVS. So, we're pretty enthusiastic about prospects for returns here as the fundamentals and sentiment improve.

You asked about the rest of Health Care. Q4 (fourth quarter) did see a pullback across the sector due to concerns about the new administration and general uncertainty around regulation. But we suspect that if that proves to be less impactful than feared and some of that uncertainty clears up, that should benefit the sector overall as well. Finally, let me touch on what we're seeing in IT given our key underweight there. Valuations have gotten increasingly expensive here on excitement around AI. We continue to look for ways to benefit from opportunities in AI and tech more broadly, but we want to do so without underwriting excessive speculation.

Chad: Lily, you already mentioned that we don't own NVIDIA, which has been one of the biggest beneficiaries of AI enthusiasm, but we do have other investments that benefit from growth in AI. I wonder if you could elaborate a bit more on those.

Lily: Sure, Chad. So, I would categorize our AI investments into four main areas. So first are the Cloud hyperscalers: that's Amazon, Google, and Microsoft, which we own. They, of course, operate cloud services, but they're also building their own foundational AI models. Then we also own Meta. Now they have also built what is now amazingly a top open-source, large language model that they're leveraging across their multiple properties. Of the Magnificent Seven, we do own four of the seven, but as you might imagine, we started those positions at very attractive entry points, and we continue to own the ones where expectations appear much more reasonable. We've also trimmed as valuations have gone up. Then a third area we have exposure is through semiconductors. TSMC (Taiwan Manufacturing Semiconductor Co.) is one such holding. TSMC is the only semiconductor manufacturer capable of producing the most advanced chips today, and that includes chips for AI applications.

It's an area that requires not only a lot of capital, but also a lot of specialized expertise, as their competitors have discovered. Intel and Samsung [Electronics] have not been able to make the inroads into TSMC's more advanced nodes as they'd hoped, and that's despite throwing a lot of money, time, and talent into trying. We thought TSMC looked very attractive at a low double-digit valuation given their growth prospects and moats⁴, and started a position in 2023. That's grown to roughly about a 1.5% position. Then in Semis (Semiconductors), we also own Coherent, which develops an AI transceiver, and that's benefiting from growth in AI demand. Finally, the last fourth key area of AI exposure is through our investments in Chinese internet players. Those companies are also developing foundational models and also operate cloud businesses. I just want to emphasize that these investments in AI to us seem more attractive because these companies all have existing very profitable businesses outside of AI and valuations there are generally more reasonable.

Chad: I think it's helpful to know, especially in an area where we're underweight like IT, that we still have meaningful exposure to some of the underlying themes in that space. I really appreciate your comments on the changes that we've made in the other areas of the portfolio as well. I think it's a helpful reminder that we're actively making adjustments in response to changing valuations. We've covered all the agenda items for today. Lily, any closing remarks that you'd like to make?

Lily: Sure, Chad. The recent market has been really driven by a handful of U.S. mega caps and excitement about all things AI. The Fund has exposure here, but we're underweight. We think that high expectations combined with high margins and high valuations might prove to be a tougher proposition to sustain than the market appreciates. Now, we also recognize that such belief systems and profits can take time to play out, but that's also why we like that we have the ability to be patient, persistent, and long-term oriented, especially in a market where there's not a lot of skepticism built in. We can and do remain underweight the more expensive parts of the market, but we are finding plenty of opportunities in the less expensive parts. Our portfolio, as a result, screens very well on valuation overall, and by the way, is also well diversified. Finally, to encourage our investors again, to focus similarly on low (reasonable) expectations, lower valuations, and the long term as well.

Chad: Yeah, thanks for that, Lily. To our listeners, we hope you found this discussion helpful and interesting. More importantly, we're extremely grateful for your continued confidence in Dodge & Cox and the Global Stock Fund. We look forward to future discussions. Thanks so much.

Dodge & Cox Global Stock Fund — Class I SEC Standardized Average Annual Total Returns as of December 31, 2024: 1 Year 5.10%, 5 Years 8.80%, 10 Years 7.99%. Fund and Index standardized performance is available on our [website](#).

Global Stock Fund's Ten Largest Positions (as of December 31, 2024): The Charles Schwab Corp. (3.1% of the Fund), Alphabet, Inc. (2.9%), Sanofi SA (2.6%), Charter Communications, Inc. (2.6%), Fiserv, Inc. (2.5%), GSK PLC (2.4%), HDFC Bank, Ltd. (2.2%), RTX Corp. (2.1%), Johnson Controls International PLC (2.0%), and FedEx Corp. (1.9%).

1. Unless otherwise specified, all weightings and characteristics are as of December 31, 2024.
2. All Fund performance results are for the Global Stock Fund's Class I shares.
3. The use of specific examples does not imply that they are more or less attractive investments than the Fund's other holdings.
4. An economic moat refers to a company's ability to maintain competitive advantages to protect its long-term profits and market share from competitors.

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