

2024 Annual International Equity Review

JANUARY 2025

Julie Anne: Hello, everyone, and welcome to the Dodge & Cox 2024 International Equity Review. I'm Julie Anne Wickes, a Vice President responsible for Investment Communications, and have been with Dodge & Cox for 18 years. It's my pleasure to introduce Ray Mertens. Ray is a Senior Vice President and a 21-year veteran of our firm. He serves on the Investment Committees for our International and Global Equity Strategies. Thanks for joining, Ray.

Ray: Hi Julie Anne. Happy to be here.

Julie Anne: Over the next 20 minutes, we'll provide an update on our international equity strategy while covering three main topics. First, the international equity market backdrop; second, the International Stock Fund's performance in 2024; and third, where we've been finding opportunities. Ray, before we dive into the agenda, are there any key messages that you would like to share with the audience?

Ray: Yes, Julie Anne. Thank you. I hope the audience leaves our discussion today with three key messages. First, international stocks are incredibly inexpensive versus U.S. equities. We really believe this is a great time to be an international investor. Second, while there are a lot of macroeconomic and geopolitical uncertainties, we continue to focus on uncovering attractive investment opportunities through our fundamental, bottom-up approach. And then third, we really continue to be enthusiastic about the Fund's portfolio. It's trading at a discount to the broader markets, and it's highly diversified by sector, geography, as well as investment thesis.

Julie Anne: Thanks, I look forward to discussing these topics in more detail. Turning to slide five, can you summarize what happened in international equity markets during 2024?

Ray: After performing strongly in the first nine months of 2024, international markets declined in the fourth quarter. Nevertheless, most developed and emerging markets still posted positive returns for the full year. I'd like to call out China. It was the strongest region outside of the United States in 2024 and that's despite this ongoing macroeconomic and geopolitical backdrop.

Julie Anne: Why did international markets pull back in Q4?

Ray: Well, while President Trump's election in November led to investor excitement in the United States, it actually led to a lot of concerns in international markets, primarily around tariffs and trade policies. This led to a stronger [U.S.] dollar, which weighed on all international

regions in the fourth quarter, as you can see in the upper left-hand quadrant of our chart. Then, if you look towards sectors, those also all went into negative territories as the U.S. dollar drove weakness sector wide. U.S. markets had another blockbuster year. The S&P is up 25% in 2024. Given international's underperformance, once again, this led to further increases in that valuation gap between the U.S. and international equities. We show this in the lower left-hand quadrant. Finally, U.S. growth stocks led equities globally, while currency really did impact international returns.

Julie Anne: As shown on slide six, international stocks are trading at trough levels relative to U.S. stocks.

Ray: That's right. The S&P [500] is nearly at the 94th percentile of how expensive it has been versus the last 20-year history, while international markets are trading in line with their long-term averages. So, what that means on a relative basis is that international markets are now trading in the first percentile, as cheap as they have been in the last 20 years [versus the S&P 500]. This discount really cuts across almost every sector. Moreover, many sectors are trading well below their 20-year averages as well. So, international markets are quite cheap on many different metrics. I also would like to add, I think this is because when investors look over the last decade, it's no secret that U.S. markets have trounced international markets. What a lot of investors may not realize is that the biggest driver of that outperformance of U.S. stocks versus international stocks was really two factors. Multiples really went up in the United States while they stayed flat in international markets, and the U.S. dollar was incredibly strong over the last decade. Those two factors led to 80% of that outperformance between the S&P [500] and international markets, which means [earnings] growth and dividends were not nearly as different as those final stock prices would lead you to believe. We think that's another reason why international markets offer an [attractive] opportunity for diversification relative to holding U.S. stocks alone.

Julie Anne: Thanks, Ray. Let's now turn to the Fund's performance results on page seven. The headline message for 2024 was that the International Stock Fund posted a positive absolute return for the year and paced the MSCI EAFE, but underperformed the MSCI ACWI ex USA.¹ Looking at the Fund's longer-term results, it outperformed both the MSCI ACWI ex USA and [MSCI] EAFE for the 3-, 5-, and 20-year periods. Ray, let's drill down on the Fund's relative performance in 2024, which is shown on page eight. Can you discuss the Fund's attribution versus the [MSCI] ACWI ex USA in more detail?

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.

Ray: I'm going to start with some of the detractors from relative performance. The first place I'll start is Brazilian Financials—notably Itau [Unibanco] and XP.² These stocks saw meaningful declines, primarily due to macroeconomic concerns as well as higher interest rates in Brazil. Then finally, significant depreciation of the currency. Now, the good news is that these companies actually grew earnings in 2024, and they remain very strong franchises that are well run so we're very excited about the outlook from here. Next would be IT (Information Technology). Our Information Technology holdings had underperformed, and our underweight position in what was a stronger part of the market also was a drag on performance. Finally, I'll call out our overweight position in Health Care, which is a weaker part of the market, as well as a few of our select holdings—such as Bayer—were a drag on performance.

Julie Anne: What was the story with Bayer?

Ray: Well, with Bayer, the company reported weaker-than-expected results for the third quarter, and they also lowered their guidance for their future outlook. This was primarily due to pricing pressure as well as regulatory issues in their crop science division. But they also felt increasing pressure from generic drugs in their pharmaceutical division as well. In addition, Bayer disappointed the market when it announced that it would not pursue a near-term breakup of the company that many market watchers were hoping for. Now, while all this is true and led to underperformance of the stock, it is worth pointing out that this company now trades at under five times [forward] earnings despite having some high-quality franchises.³

Julie Anne: Are there any key contributors that you would like to highlight?

Ray: Yes. First, I'd start with our Consumer Staples holdings. We've had some good stock picking there. I'd call out Imperial Brands in particular. Within Industrials, again, some good strong stock picks there with Johnson Controls International leading the way. In our Consumer Discretionary holdings, we saw very strong performance out of Booking, but also our China Internet holdings, including Prosus, JD.com, and Alibaba. I think these are great examples that good things can happen to very cheap stocks. Finally, I'd call out a couple of other individual strong contributors, such as Barclays as well as Holcim.

Julie Anne: Let's switch gears and discuss the Fund's positioning. On page nine, you can see the Fund's sector positioning on the top half of the page. The bottom-left characteristics table shows the Fund's value orientation and how it trades at a discount to the indices shown, and the pie chart on the bottom right shows the Fund's geographic diversification. Ray, can you discuss the Committee's key portfolio actions in 2024?

Ray: I'd first highlight that we trimmed back the Fund's holdings in Financials and Energy. Now, these were two of the best-performing sectors for the Fund in the 2021 through 2023 time period. It really made sense in 2024 to trim back some of those holdings on strength. Then, we were really excited to redeploy those proceeds into other areas of the market across a broader-based opportunity set. This would span sectors such as Consumer Discretionary as well as

Consumer Staples, but we also found opportunities in Industrials and Information Technology. I'd also like to call out China. Now, this is an area that we added to quite substantially in the first half of the year. Then, opportunistically, we took advantage of trimming back after these stocks saw meaningful outperformance in the third quarter, as the market started to get excited about the announcements coming out of Beijing that the government was ready to support the economy through stimulus. So, I think it's worth highlighting: we really do want to remain nimble given some of the volatility we see in regions such as China, where the long-term opportunities and many of the franchises we hold, we feel very good about, but prices can move very quickly. We've tried to be very nimble and take advantage of those changing opportunities as they present themselves.

Julie Anne: Ray, during the market backdrop, we discussed how increased uncertainty about tariffs and trade policies has weighed on international markets. Has the Committee made any portfolio changes based on these risks?

Ray: We really haven't changed our view much or contemplated many substantial changes since the election. In fact, to us, it's interesting how much markets have reacted to Trump winning the election, given the fact that the odds were very high. It was something that we had anticipated in our range of outcomes as we were putting together our portfolio throughout the year. I'd also like to call out that while the market is really focused on the negative outcomes that can happen from the election of Donald Trump and international markets, they're really not considering the offsets, which could [include], for example, the end of the Ukrainian war. This could really help energy prices in Europe and, as a result, help industrial production there. Or [the election results] could also lead to tariffs being used more as a negotiation tactic that leads to better trade deals versus actually getting implemented. We would like to keep in mind both sides of the ledger when it comes to taking into account macroeconomic events like an election.

Second, we're doing a lot of work here. We have access to internal and external experts who spend a lot of time studying what's going to happen in Washington and what Beijing is thinking. So we have a lot of knowledge around the table when we're having these discussions and those discussions are robust.

Third, we think it's very important to both take a long-term view and have a lot of humility when you're thinking about the impact of a presidential election or other geopolitical events that may impact stocks. It's best to not only treat them with humility but remind ourselves of what is going on with the fundamentals of the businesses, the quality of the franchises, the strength of the management teams, as well as the balance sheets. Those [factors] are going to drive our portfolio over the long term in our opinion. We're aware, we're paying attention, [and] we have good resources, but we approach the macro with humility and feel very good about the bottom-up view of our portfolio.

Julie Anne: You mentioned earlier that we significantly trimmed the Fund's holdings in Financials on strength, and we also changed the portfolio mix within that sector. Can you provide an example of how the Committee increased the Fund's exposure to higher-quality franchises in 2024?

Ray: Yeah, I'll give you two. First, I'll start with India. In India, we were long-term holders of ICICI Bank. Through a lot of that time period, that was really viewed as a franchise that was facing significant challenges and was viewed as one with a weaker management and a weaker franchise overall versus rivals—such as HDFC Bank. While that was true many years ago, if you look over the last five years, we've seen significant outperformance out of ICICI relative to HDFC as the very negative perception of ICICI became much more positive and the very positive perception of HDFC became much more negative. Now, with HDFC, they're facing some shorter-term challenges from our perspective due to a merger and some management turnover. Nonetheless, what the market had seen in HDFC just a few years ago, we still see today, which is an excellent deposit franchise. One of the best in the world and one facing lots of secular tailwinds, which makes this a very attractive stock for longer-term investors. We're quite excited about that trade-off there.

The second area I would call out is we were adding to secular growth companies within Financials, such as AIA [Group] and Prudential. These are two leading Asian life insurance companies that also have many secular tailwinds that should support their longer-term growth. The market has faced some shorter-term challenges, both within and without management's control, but on a longer-term basis, we feel very good about [their] prospects. We were able to fund those additions to the portfolio with trimming back some of our deeper-value holdings that performed quite well over the last couple years. These are some of the lower-growth franchises that we hold in markets such as Europe, and we thought it made sense to trade into these growth stocks as they pulled back.

Julie Anne: We believe we also upgraded the Fund's Consumer Staples holdings. Can you discuss some of the opportunities you've found in that sector?

Ray: [Consumer] Staples has been an area where we had not found many opportunities for a very long time. Over the last 10–15 years, it has been one of the more meaningful underweights of the Fund until really post-COVID. Post-COVID, we started to see some opportunities. Those opportunities initially came in some of the franchises that have been viewed as towards the lower end of the quality spectrum. These are companies that have had some restructuring issues or even some secular growth challenges. A case in point would be Imperial Brands. This is a company that we had built a position in just right around COVID and then added to quite substantially post-COVID. It has been a very strong performer as they have executed well. Higher-quality stocks, such as Diageo, that's a company where the stock has pulled back meaningfully, and we've seen significant [valuation] multiple compression. Diageo is one of the leading consumer franchises globally. They're a dominant player in the international spirits business. So, that is a company we were able to fund starting a new position in by pulling back some of our holding in Imperial [Brands] based on the

strength we saw there. [This is] a great example of where we've seen multiples start to compress and us being able to capitalize on that opportunity by trading up the quality in terms of strength of franchise and long-term growth prospects.

Julie Anne: Health Care remains an overweight position in the Fund but lagged over the past year. What are your theses for the Fund's Health Care holdings?

Ray: Well, generally speaking, the Fund's various Health Care holdings represent companies going through restructuring efforts that are really starting to bear fruit and we believe are poised to generate good opportunities for us over the next three to five years. But over the last year, and particularly over the last few months, there's been a lot more concern over the regulatory environment, particularly in the United States, across the entire health care spectrum. Now, regulatory risk is real. It's always there within the Health Care sector. But I'd like to point out we've lived through many of these political cycles, and what we have found through our experience is that changes in the Health Care sector tend to be evolutionary rather than revolutionary. These stocks are priced for meaningful downside in our opinion, and we think that presents opportunity. So, we're feeling quite good about many of the Fund's pharma holdings, such as Sanofi, Novartis, and Glaxo, which really focused their franchises on therapeutic classes they have expertise in. They've also divested non-core businesses, such as Consumer Staples or generics, and we think that they trade at discounted valuations that don't reflect these positive changes. We think the same holds true for many of the Fund's [Health Care] Services holdings as well, such as Fresenius and Olympus, which also are going through positive change [in our opinion].

Julie Anne: Thanks, Ray. Let's now turn to China. What are your thoughts on China's macro and geopolitical risks, especially tensions with Taiwan and tariffs?

Ray: Well, as you highlight, there are two key risks here, both macro and geopolitical in nature. First, the macroeconomic backdrop in China still remains quite weak, but it's worth looking forward and recognizing that the government has made clear that they do plan to support the economy, as evidenced by the stimulus announcement at the end of September. From a geopolitical standpoint, China-U.S. relations do continue to be strained. Trump's election has also added to the concerns people have as well as some hawkish cabinet appointments. Nonetheless, we think both of these are factored into the pricing in China.

Julie Anne: How have these issues impacted your decision to invest in China?

Ray: I think a lot is factored into the valuation but, nonetheless, we do recognize that the outcomes are uncertain. As a result, while we have exposure here, we remain underweight the Greater China region, despite what we think are many attractive opportunities. With that said, we are holding many high-quality franchises that trade at very reasonable, or in some cases, extremely inexpensive valuations. Franchises such as TSMC (Taiwan Semiconductor Manufacturing Co.), Tencent, and Alibaba. If these companies were located in the United

States or in Europe, they'd be trading at much higher valuations than they do because of their domicile today. Again, we remain cautious, but optimistic about the opportunities that China represents.

Julie Anne: Given the strong U.S. dollar, did the Committee make any changes to the Fund's currency hedges?

Ray: Holding international currencies feels like a good place to be. We are unhedged in most of the Fund's exposure because of valuations. We do have two notable exceptions. On December 31, we continued to hedge both the Chinese renminbi as well as the Taiwanese dollar, because we believe there are some additional geopolitical concerns that have to play out. As a result, it is nice to have that hedge relative to the equities we hold. The total hedge from a notional perspective is about 8% of the Fund, concentrated in those two currencies.

Julie Anne: Thank you, Ray. What closing thoughts would you like to share with the audience?

Ray: First, I really would like to thank our audience for listening today. I'd like to leave everyone with three key takeaways. The first is that

we continue to focus on uncovering attractive opportunities through our fundamental, bottom-up research approach. Second, in 2024, we remained nimble, and we adjusted the Fund's relative weightings based on a change in the opportunity set, of which there were many. Then finally, I would like to remind everyone how enthusiastic we are about the international portfolio. We feel very good about international markets more broadly and the opportunities they represent, but we are especially excited about the Fund's portfolio, which trades at a discount to the broader market and is highly diversified by sector, geography, and investment thesis. As always, we appreciate your investments and interest in the International Stock Fund.

Julie Anne: Thank you, Ray, for sharing your insights with us today. We also want to thank our listeners for your interest in our discussion and wish you a wonderful year ahead. We're grateful for the confidence that you've placed in Dodge & Cox and look forward to speaking with you soon. Thank you.

Dodge & Cox International Stock Fund — Class I SEC Standardized Average Annual Total Returns as of December 31, 2024: 1 Year 3.80%, 5 Years 5.06%, 10 Years 4.37%. Fund and Index standardized performance is available on our [website](#).

International Stock Fund's Ten Largest Positions (as of December 31, 2024): Johnson Controls International PLC (3.4% of the Fund), Holcim AG (3.1%), Sanofi SA (3.0%), BNP Paribas SA (2.9%), UBS Group AG (2.8%), Banco Santander SA (2.7%), Novartis AG (2.6%), Taiwan Semiconductor Manufacturing Co., Ltd. (2.5%), Barclays PLC (2.5%), and GSK PLC (2.4%).

1. All Fund performance results are for the International Stock Fund's Class I shares.
2. The use of specific examples does not imply that they are more or less attractive investments than the Fund's other holdings.
3. Unless otherwise specified, all weightings and characteristics are as of December 31, 2024.

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