April 6, 2025

Dear Sustainable Equity Strategy Clients and Friends:

The 1st quarter of 2025 was characterized by greater than usual volatility in the equity markets as the new administration began to impose new country- and sector-specific tariffs and teased a bigger announcement of more to come. The 2nd quarter opened with a steep selloff as the administration announced tariffs that were not simply reciprocal, as most investors expected, but punitive. Widely rejected by economists and business leaders alike, they were based on dubious math and lacked a sound grounding in economic theory or history.

The administration's formula was to divide the U.S. trade deficit with a specific country by the total imports from that country, then halve the result – which generated "reciprocal" tariffs ranging from 11 – 50% on top of a 10% universal baseline tariff. Here is an example: Saint Pierre and Miquelon is self-governing protectorate of France located in the northwest Atlantic Ocean near the Canadian province of Labrador. You are forgiven if you have not heard of the protectorate — it has a population of 5,822 intrepid souls. In July of last year (the only month in the past two years the islands exported anything at all to the US), the territory shipped America $3.4 million worth of halibut and other seafood, while importing almost nothing. By the administration's logic, it was hit with the maximum 50% due to its extreme trade surplus.

Another example: in 2024 Americans purchased a larger than typical amount of physical gold from Switzerland, pushing up that country's trade surplus with the United States. That earned Switzerland a tariff of 32% on all exports. The President said his tariffs are intended to boost domestic production. But diamond deposits are relatively rare in the US and we have no active commercial diamond mines. Nevertheless, Botswana's surplus with the US in diamond exports earned it a 38% tariff rate. Multiplying these results by the number of countries in the world imparts a sense the enormity of the effects on global trade.

While the administration indicated a possible intent to renegotiate trade terms with virtually every U.S. trading partner — a daunting task that would normally take years — some countries, including China, have already announced retaliatory tariffs. Many of our most significant trading partners, including Canada, the EU, Japan and Australia are considering countermeasures, while also reaching out to negotiate.[1] In the two days following the President's April 2 announcement, the S&P 500 fell 10.5%,[2] losing about $5 trillion in market capitalization.[3] J.P. Morgan said it now sees a 60% chance of the global economy entering a recession by year end.[4]

President Trump has often expressed admiration for the policies of the 19th century administration of President William McKinley. In his second inaugural address he said "President McKinley made our country very rich through tariffs and through talent." McKinley was still a Congressman when he introduced the "McKinley tariff" in 1890, which imposed an average 50% tariff after surviving 450 amendments and a close House vote (a consensus building process that might have served President Trump well). The tariff nonetheless led to a consumer backlash and contributed to Republicans losing both chambers of Congress and the Presidency by 1892. The Panic of 1893 and a severe depression came next, driven primarily by railroad bankruptcies, a run on falling gold reserves and rising foreign competition for American wheat and cotton farmers. McKinley rose to the Presidency in 1896 in part on his protectionist bona fides. He again worked through Congress to enact an even higher tariff — the Dingley Tariff of 1897 — but moved over time toward a more flexible approach of negotiated reciprocal tariff reductions.

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Broad and indiscriminate tariffs such as those announced by the administration have resulted in unpredictable and sometimes disastrous economic consequences.[5] The 50-year trend of globalization ushered in by President Richard Nixon's rejection of the Gold Standard and his recognition of China, has made the world's economy both much wealthier and far more complex. During McKinley's presidency merchandise trade stood at about 5% of US GDP, while today it represents about 19%.[6] Modern goods like medicines, automobiles, jets and semiconductors have far-flung, hard to unwind, supply chains. The highly profitable US services industry runs close to a $300 billion trade surplus with the rest of the world -- including such important components of the US economy as banking, insurance, technology, software and intellectual property services.[7] While Trump's trade policy targets trade in goods, countries seeking to retaliate could target our service industry.

We had already made several adjustments to the Sustainable Equity Strategy's (SES) portfolio last year to reduce exposure to the likelihood of rising trade friction. Currently we are conducting a company-by-company analysis of the potential impact of the new tariff regime should it not be reversed. Unfortunately, information remains scarce, and we don't know at this stage how each of United States' major trading partners will respond. The most likely impacts on our portfolio companies are the second and third order effects of tariffs and mounting conflict over trade. In the face of uncertainty, businesses are likely to delay or shelve planned investments. Higher prices for goods will dampen demand from both consumers and companies. Survival instincts may breed cautious behavior, potentially resulting in slower or negative growth while inflation may be given new life — a prescription for stagflation.

Quality Investing: Long-Term Resilience and Performance

We are, at root, quality investors. Our assessment of a company's ability to anticipate and respond to durable trends, such as the long-term reordering of global trade or accelerating climate change, can be a powerful clue to a company's quality, including the durability of its business model and the vision and execution skills of its management team. Our commitment to owning quality companies manifests in numerous portfolio metrics that may offer some reassurance in this time of elevated volatility. See one-pager attached to the end of this letter comparing statistics for our portfolio to reference indexes, including the S&P 500 and the MSCI World:

- The SES has a higher **Return on Invested Capital (ROIC)**. ROIC is a typical measure of a company's pricing power and the capacity of the management team to make productive use of capital.
- The **Net Leverage** of the SES portfolio is favorably lower. A stronger balance sheet can endow a company with the flexibility to control its own destiny in times of potential economic stress, while also enabling it to seize opportunities to outflank less well-positioned competitors.
- Our companies invest a higher **share of sales in Research & Development**, reflecting our selection for innovation-centric companies. Companies with abundant opportunities to invest capital in their own business at a higher average ROIC have a better chance to compound investor capital over long periods.
- Companies in the SES portfolio have over the last five years (2020-2024) delivered more than double the average **Earnings Per Share growth** of our reference indexes; and according to our internal projections, we expect this trend to continue. Over time, equity returns tend toward earnings growth plus dividends, and we believe meticulous selectivity should result in outperformance, on average, through good times and bad.

The Sustainable Equity Strategy returned -3.89% gross / -4.47% net of fees through the 1st quarter of 2025 vs. -4.27% for the S&P 500 and -1.79% for the MSCI World. More relevantly, given our long-term horizon, our annualized return over the 8.25 years since inception is 14.93% gross / 13.84% net vs. 11.08% for the

MSCI World and 13.73% for the S&P 500. (Past performance is no guarantee of future results.). Please see one-pager attached to the end of this letter for more performance details.

We believe the quality characteristics of SES companies may make them more resilient, though certainly not immune from the impact of tariffs. As noted earlier, our evaluation and quantification of the net impact of tariffs on each company are ongoing, but here are some preliminary observations:

- **Airbus** does final assembly of its increasingly energy efficient aircraft for US customers within the US, however the company manages a complex supply chain with 8,000 direct and 18,000 indirect suppliers located globally. Each of these sourced components could have a different tariff rate depending on the country of origin. As a result, Airbus could lose some domestic pricing battles with Boeing, which sources 80% of its commercial spend and over 90% of its defense spend from US suppliers.[8] However, only 20% of Airbus' revenues are derived from sales in the US. It is just as likely that Boeing will lose international sales to Airbus as other countries retaliate or customers perceive the US as a less reliable trading partner. This reinforces the value of maintaining our exposure to non-US holdings as part of a diversified portfolio as policy uncertainty reverberates across the global economy.

- **Amazon** could be hurt by reduced consumer demand due to higher prices on imported (and domestic) goods, though relative to many retailers it is less exposed to the risks of holding unsold inventory since third-party merchants make up ~60% of its e-commerce revenue. Those merchants have begun tacking on incremental checkout fees related to tariffs, enabling Amazon to capture incremental profit as a toll collector on merchandise that does move. Meanwhile the profitability of its immense cloud services business might be impaired by the higher cost of data center components sourced abroad. On the other hand, tariffs may enable Amazon to consolidate greater market share against foreign e-commerce suppliers such the Chinese-based Temu and Shein that are now facing prohibitive tariffs, including on previously duty-free orders under $800 that had positioned them as Amazon disruptors. Meanwhile the productivity and automation gains offered by Amazon's cloud-based AI offerings to commercial and industrial customers may prove even more valuable if the tariffs ignite inflation in labor and input costs.

- **Uber** should be unaffected by the direct costs of tariffs because it sources nearly all revenue from ride share and delivery services locally, whether the consumer is in New York or Rome. However, if tariffs induce a global recession, discretionary ride volumes could fall, and more potential riders could opt for mass transit instead of Uber. On the positive side, if the cost of both imported and domestic vehicles rise due to the 25% tariff on automobiles and auto parts, consumers may accelerate their shift away from car ownership toward ride-hailing services like Uber. Higher vehicle prices could enable Uber to increase its fares and margins. This would also fit our environmental thesis, which is that the sharing economy helps reduce over-production (and related emissions) of the world's fleet of underutilized passenger cars.

- **Coupang** could be hurt by a tariff-induced slowing of growth or recession in South Korea, whose economy is heavily dependent on export of cars, consumer electronics (and so-far-exempted semiconductors and pharmaceuticals). On the other hand, Coupang's diversified product mix includes 35% consumer staples, which it sells at competitive prices and delivers with fast and eco-efficient logistics, which should help it weather a wider economic downturn. A slowing economy could also hamper local competitors that are already facing liquidity pressures, giving Coupang an opportunity to further accelerate its impressive market share gains. **Mercado Libre**'s largest market, Brazil is facing only a 10% tariff on sales to the U.S., reducing the potential economic pain that could otherwise dampen consumer demand on its rapidly growing platform. Mexico, its second largest market, is exempt from tariffs for all goods covered by the United States-Mexico-Canada Agreement (USMCA), setting it up for relative insulation from the tariff shock.

Final Thoughts

Comparative advantage, an economic principle articulated in 1817 by David Ricardo, posits that countries should produce what they can make at the lowest opportunity cost and trade for the rest.[9] While this ideal state of economic affairs generates *trade deficits* for countries that buy more goods overseas than they produce domestically, it creates wealth for consumers and businesses when supported by strong economic fundamentals. Allocating economic activity based on comparative advantage has been the most efficient system ever deployed to create wealth and raise living standards. As the U.S. economy has relied less on domestic manufacturing, resources have been directed toward higher value services such as technology, medicine, education, financial services and the creation of intellectual property. Our trade deficit is inverse to our capital surplus, which reflects overseas investment in the dynamic US economy, widely envied as the most innovative in the world. Capital flows into the U.S., seeking investment in high-tech industries and safe assets like U.S. Treasuries, have strengthened the trade-weighted dollar, further challenging the competitiveness of U.S.-manufactured goods abroad. Tariffs are a means to address these imbalances and, in the view of the Trump administration, a cost-free way to raise revenue to reduce our national debt and associated interest expense, which now exceeds spending on national defense.

Laudable as these goals are, the costs of tariffs – measured in higher prices (and fewer choices) for consumers, less innovation and weakened international alliances – are higher than the administration suggests. In the short run, consumers will pay more for goods from coffee to cars as companies struggle to absorb higher input costs. Shielded from competition, companies will innovate less with predictable declines in product quality. Policy uncertainty will cause corporate leaders to scale back capital investment and job creation, increasing the likelihood of a recession. Predictable reductions in efficiency and productivity will cause higher costs and greater waste, some of which will have deleterious impacts on environmental quality. Such conditions will impact the quality and standard of living. Longer term, the administration's penchant for deal-making strengthens the hand of politicians at the expense of the free market and erodes the previous bipartisan consensus for private sector-led trade and rules-based economic policy. America's adversaries are likely to benefit from the perception that the U.S. is a less reliable economic and strategic partner.

In Douglass Winthrop's September 2022 note to clients, *A Case for Owning Quality Stocks*, written as inflation was rattling financial markets, we urged clients to resist the temptation to sell stocks. Quoting from that note: "the timeless tension between greed and fear amplifies swings in market prices in the short run and causes investors to misallocate capital… Tempting as it may be to time these unhappy periods by selling stocks in hopes of buying back after the storm has passed, that exercise is futile and potentially costly. No one — not Warren Buffett or the investment strategists opining on financial news networks — can reliably time the market." Stay invested, we urged our clients, especially when panic reigns. Today, as then, the immediate outlook for stocks is unknowable. We do not discount the threat posed to markets and economic growth by tariffs and the transactional way they are being implemented; economic prospects have darkened, and markets will be volatile. An even steeper decline in stock prices looms if Congress or business leaders fail to moderate the worst aspects of the tariff program. However, our confidence in the intrinsic value of our portfolio companies is unchanged. **Waste Management** will continue to pick up the trash and recycle what it can. Farmers will still turn to **John Deere** to make their farms more productive with reduced inputs and land intensity. As the planet continues to heat up, more people will turn to **Trane** and **Carrier** for efficient solutions to their discomfort and risks to their safety. Americans will keep relying on **Chipotle** for healthy ingredients in value-priced burritos, including a scoop of guacamole made from tariff-exempted Mexican avocadoes. We believe that common stocks, augmented by short term, investment grade bonds where appropriate, should remain the core of long-term investment portfolios — whether for individuals, family offices, endowments or other institutional clients.

Thank you, as always, for entrusting us with your capital, and please be in touch if you'd like to set up a call.

Sincere regards,

The Douglass Winthrop Team

Please see endnotes and important disclosures below, as well as a one-page attachment below with performance and other statistics.

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1 https://www.reuters.com/markets/trump-tariffs-draw-global-promises-counter-measures-2025-04-03/
2 Bloomberg
3 https://www.reuters.com/markets/global-markets-wrapup-1-2025-04-04/
4 https://www.reuters.com/markets/jpmorgan-lifts-global-recession-odds-60-us-tariffs-stoke-fears-2025-04-04/
5 https://www.nber.org/system/files/working_papers/w28616/w28616.pdf
6 https://www.piie.com/blogs/realtime-economics/2025/historic-significance-trumps-tariff-actions & https://data.worldbank.org/indicator/TG.VAL.TOTL.GD.ZS
7 https://www.bea.gov/data/intl-trade-investment/international-services-expanded
8 Boeing CFO Brian West cited this figure at a Bank of America Global Industrials Conference on March 19, 2025. However this varies by aircraft: Boeing reportedly sources 60% of the 787 components from non-US suppliers. See: https://airlive.net/news/2025/04/04/as-60-of-the-boeing-787-components-come-from-abroad-we-estimate-the-price-increase-due-to-new-tariffs/
9 https://www.britannica.com/money/comparative-advantage

Douglass Winthrop

DWA Sustainable Equity Strategy

April 2025

Performance (as of 3/31/2025)[1]

Annualized Returns	DWA Sustainable Equity (Gross)	DWA Sustainable Equity (Net)	MSCI SRI TR USD	S&P 500 TR	MSCI World TR USD
1 Yr	-0.20%	-1.40%	1.66%	8.25%	7.07%
3 Yr	4.63%	3.63%	4.81%	9.06%	7.58%
5 Yr	16.14%	15.07%	14.51%	18.59%	16.13%
Since Inception	14.93%	13.84%	11.38%	13.73%	11.08%

Past performance is no guarantee of future results.

5-Year Historical (2020-2024)

	DWA Sustainable Equity	S&P 500	MSCI World
Calendar Year End (Avg)			
Return on Invested Capital	15%	10%	7%
Net Leverage	1.0x	1.4x	1.7x
R&D % of Sales	6%	4%	4%
Annualized			
EPS Growth	19%	9%	7%

Overview of Sustainable Equity Strategy

Corebeliefs:

- Fundamental equity research should encompass material environmental risks and opportunities
- Sustainability performance will help distinguish companies that succeed over the long-term
- Environmental risks and opportunities are not yet fully priced by the markets, creating an opportunity for long-term outperformance through application of DWA's domain expertise

All holdings are selected based on six criteria:

- Enduring competitive advantages: switching costs, network effects, IP, long-term contracts
- Financial strength / pristine balance sheet: high free cash flow generation, sensible leverage
- Shareholder-oriented management: insider ownership, comp. based on long-term performance
- Opportunities to compound through reinvestment: R&D, new product introduction, new markets
- Attractive valuations relative to our assessment of intrinsic value: margin of safety
- Strategic performance with respect to environmental risks and opportunities, enabling both financial success and favorable impact on the world

Our differentiated and repeatable process enables us to identify high-quality companiesthat:

- Demonstrate environmental performance that materially reinforces core economic drivers such as our first five criteria above (E-Advantaged) or
- Derive a substantial / growing proportion of revenues from products and services that address intensifying environmental challenges related to energy, food, water, ecological integrity or the physical, regulatory and transition risks & opportunities presented by climate change (*E-Solution Providers*)

Proprietary DWA tools include:

- *DWA E-Map:* 9 strategic roadmaps of our investable universe: addressable market, profitability across value chain, leaders/disruptors, changing axes of competition, regulatory progression
- DWA E-Assess: Structured 90-point assessment integrating sustainability factors to core economic thesis

Illustrative Holdings vs. DWA E-Map

Sustainable Transport:	% of Assets as of 3/31/2025
Canadian National Railway	2.4
Uber	3.8
Renewables, Storage & Grid:	
Constellation Energy	1.9
Schneider Electric	3.7
Food, Fisheries & Sustainable Ag:	
Deere	2.9
Chipotle	2.1
Smart Buildings & Cities:	
Trane Technologies	3.4
Carrier	2.0
Water Quality and Efficiency:	
Core & Main	1.5
Thermo Fisher	3.5
Environmentally Related Human Health:	
Danaher	3.2
L'Oreal	2.9
Sustainable Finance:	
Brookfield Asset Management	3.8
Aon	4.0
Sustainable Data:	
ASML	2.9
Taiwan Semiconductor	3.4

Portfolio Characteristics (as of 3/31/2025)	DWA Sustainable Equity	S&P 500
# of Equity Holdings	33	503
Top 10 Positions	42.5%	37.3%
Beta (3Yr)	1.16	1.00
Dividend Yield	0.80%	1.25%
3Yr Projected EPS Growth	13.9%	12.54%
Weighted Avg P/E Forward	23.9	23.0
Return on Equity (5Yr)	35.5%	17.57%
Net Debt / EBITDA (TTM)	0.68	1.55

Sector Distribution (as of 3/31/2025)[2]	% of Equity
Discretionary	6.8%
Staples	2.9%
Communications	8.3%
Healthcare	6.6%
Industrials	32.7%
Technology	24.0%
Materials	1.7%
Financials	10.7%
Energy	0.0%
Utilities	1.9%
Real Estate	0.0%

DWA Sustainable Equity Strategy

Douglass Winthrop Advisors, LLC ("DWA") is a registered investment adviser with the United States Securities and Exchange Commission (SEC) in accordance with the Investment Advisers Act of 1940, as amended. Note that registration with the SEC does not imply a certain level of skill or training.

The DWA Sustainable Equity Strategy (the "Strategy") invests primarily in U.S. and developed non-U.S. equity securities, regardless of capitalization, and seeks long-term capital appreciation while aiming to contain the risk of permanent capital loss. It uses a concentrated and low turnover investment approach and seeks to invest in companies the firm believes are high-quality and possess sustainable competitive advantages. The Strategy does not seek to match the market capitalization, geographic, or economic sector exposure of any broad market index.

Reference Index Disclosure: The Strategy is not managed to a benchmark. The benchmarks most commonly chosen by our clients based on the DWA Sustainable Equity Strategy are the MSCI World SRI Index, the S&P 500 Total Return Index, and the MSCI World Index (Total Return, US Dollars). The MSCI World SRI Index is a capitalization weighted index that provides exposure to companies with outstanding Environmental, Social and Governance (ESG) ratings and excludes companies whose products have negative social or environmental impacts. The S&P 500 Total Return Index includes reinvested dividends. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. The MSCI World Index captures large and mid cap representation across 23 Developed Markets (DM) countries. With 1,542 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Index figures do not reflect the deduction of any fees, expenses, or taxes. Investors cannot invest directly in an index. The indices' performance results are intended to illustrate the general trend of the equity market for DWA's investable universe and are not intended as a benchmark for the composite.

Risk Disclosure: Investing involves risk, including the possible loss of principal. There may be market, economic, or other conditions that affect client account performance, or the performance of the referenced market index. The Strategy may invest in small- and medium-capitalization companies. Investments in these companies, especially smaller companies, may carry greater risk than is customarily associated with larger companies. A client account invested in the Strategy will hold fewer securities and have less diversification across industries and sectors than a diversified portfolio, such as a portfolio based on an index. Consequently, a client account and/or the composite performance may diverge significantly from the referenced market index, positively or negatively.

Gross and Net Performance: Gross returns are calculated gross of management fees and net of transaction costs. Net returns are calculated net of management fees. Fees for accounts in a composite may differ from the stated fee schedule for new accounts. Performance is calculated on an asset weighted, time weighted return basis. Valuations and performance are reported in U.S. dollars.

GIPS Documentation: A GIPS compliant presentation is available at douglasswinthrop.com/disclosures. A list of the composite descriptions and/or our DWA GIPS Policies and Procedures can be made available upon contacting our New York office.

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1 Client portfolios in the DWA Sustainable Equity Composite contain all fee-paying, discretionary accounts that have been managed according to the DWA /Sustainable Equity Strategy and have been managed by DWA for at least a full calendar month. The Sustainable Equity Composite is intended to present the performance of portfolios of equity securities selected by the DWA Sustainable Equity Investment Committee. Inception Date 1/1/2017.

2 Data reflects the composite of the DWA Sustainable Equity Strategy. Portfolio characteristics data reflects only the equity holdings of the composite portfolio normalized to 100%, sourced from Bloomberg and Factset and calculated by DWA . Calculations do not include companies which would represent an outlier, e.g., negative earnings for P/E calculation. Details are available upon request.

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