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Blue Tower Global Value begins 2025 with a strong performance. In the first quarter, despite a general decline in global equity prices, we achieved a 8.49% net return in Q1 (8.80% gross) for our composite. Clients should rely on their account statements for their investment returns as the current Russian sanctions have led to a large dispersion in our composite results. I am also happy to report that the strategy has performed well so far during the extreme volatility of April.

This quarter's strong performance was mostly due to our two stocks in Georgia and our Russian holdings (currently segregated in OFAC escrow accounts). The value of the Russian ruble has rallied strongly this year (rising 36.7% against USD in Q1) on market hopes that the Russia-Ukraine war will finally be coming to a close later this year.

The most impactful economic policy from the second Trump administration so far has been the announcement of the "Liberation Day" tariffs aimed at reducing the US trade deficit. These tariffs used an emergency declaration as part of Executive Order 14257 to establish the tariffs and the rates by country have been rapidly changing. Even if these tariffs were removed tomorrow, the systemic risks they revealed to corporations will lead to permanent changes in global trade patterns.

Tariffs

While Trump campaigned on raising tariffs, the size of the announced tariffs took some by surprise. There are multiple motivations behind the Trump administrations tariff policy, and among them is the supply chain disruptions experienced as a result of the Covid pandemic.

Just-in-time inventory management is a business strategy where companies receive goods only when they are needed in order to minimize storage costs for materials and minimize locking up their capital into stored inventory. In good times, this increases the efficiency of a business and improves returns on equity. However, this increased efficiency carries with it a vulnerability if there is any disruption to supply. The semiconductor shortage of 2020-2023 led to entire factories being idled as nearly complete products were unable to finished due to the absence of comparatively cheap computer chips. Efficiency is not necessarily always the best strategy. In some cases, robustness is more important and just-in-time gives way to just-in-case. Global trade may be more efficient, but countries can decide to sacrifice that efficiency to keep strategic industries domestic. The shortages from Covid, especially of drug products and medical equipment, revealed the dependency of the US on global trade for critical products. This dependency is a huge vulnerability if anything should jeopardize global trade in the future.

Another possible factor in the Trump administration's tariff strategy is the high starting amounts are a negotiating tactic that will allow the Trump administration to walk back to a lower level during negotiations. In this way, the impact of the overall tariffs will not be as significant as they can seem now if they do settle down to a more reasonable average effective level of 10% or lower. Currently, the overall average effective tariff rate for US consumers is estimated to be around a 28% level, the highest since 1901[1].

[1] *State of U.S. tariffs: April 15, 2025*. https://budgetlab.yale.edu/research/state-us-tariffs-april-15-2025.

We will be closely monitoring the tariffs and the impact they could have. The tariff environment is rapidly evolving with almost daily changes and it is important that we don't assume what is currently in place will be permanent. It is very difficult to predict what actions the US government will be taking in the trade disputes and what the responses will be from other governments. I believe that most of the companies in our portfolio have enough of a sustainable business advantage that they will continue to perform well in any tariff environment. We will monitor any new developments and react if it appears that a portfolio company is imperiled.

Small Caps and Global Equities

Small-caps tend to fall faster than the overall market in recessions and economic crises. This time is not any different as the Russell 2000 index of small-cap US stocks have underperformed the S&P 500 and global equity markets. However, small-cap US stocks are positioned to benefit from a reshoring of production to the US. 77% of US small-cap revenue comes from within the United States, making these companies less dependent on foreign trade[2]. These companies are also more likely to have domestic supply chains than large multinational mega-caps. These small-cap companies will be far more resilient in a sustained trade war scenario.

Since 2013, the US stock market has continuously outperformed the World ex-US on a rolling 10-year basis[3]. The US to non-US valuation premium, whether measured by price-to-book, price-to-revenue, or EV-EBIDTA, is now above the historical 95th percentile. As percentage of total global markets, the US achieved the highest ever level in 2024 with a 63% weighting. In short, the US markets are priced for perfection and a sustained trade war leading to an economic crisis could potentially disrupt that.

I believe that Blue Tower's investment strategy is particularly well-suited for the current environment. Historically, the majority of the companies we have invested in have been small or microcap stocks. Additionally, our global mandate will allow us to invest in international opportunities that may present themselves rather than being tied exclusively to US markets. We have diversified exposure to some foreign currencies through our international holdings, so we will be less impacted if this year's decline in the US dollar continues.

Thank you for your continued trust in Blue Tower. Please contact me with any questions you have.

Best regards,

Andrew Oskoui, CFA

Portfolio Manager

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[2] FactSet data

[3] Bartolini, M.J. *How long can the US market outperform the world?* https://www.ssga.com/us/en/intermediary/insights/how-long-can-the-us-market-outperform-the-world.