# Logan High Quality Balanced

HQ

CONSISTENT RETURNS WITH LESS RISK

Q1 | 2024

## LOGAN HIGH QUALITY BALANCED PORTFOLIOS Q1 | 2024 REVIEW[1]

### MARKET ENVIRONMENT

**Equity**

At the end of 2023 we saw market expectations pricing in a whopping six quarter-point interest rate cuts by the Federal Reserve for 2024. Since then, we've seen markets rapidly adjust to a potential higher-for-longer reality, as fewer than three quarter-point interest rate cuts are now priced in by the market. At the same time, we've seen U.S. equity markets rise at a healthy pace, with the Russell 1000 Value up 8% and the Russell 1000 Growth up over 11%. The Logan High Quality Balanced (HQB) team entered 2024 with much the same focus as we had during 2023. The macroeconomic and geopolitical environment continues to be a source of both concern and, importantly, distraction for investors. Despite the noise in the world, the U.S. consumer and economy are proving to be very resilient.

**Fixed Income**

The ultimate commitment to the Federal Reserve cutting rates this year was the big takeaway from the most recent meeting on March 20. Treasury yields rallied 15-20 basis points in the belly of the curve in the days that followed. Of equal importance, we do not see a unified view across the membership of the Fed. The number of cuts over the coming years vary amongst the group of Fed members and the medium term dots show the Fed Funds rate to be a quarter point higher compared to the December dot plot. This incremental dot plot increase means members feel the fed funds rate is not as far above neutral as previously thought.

Fed Chair Powell struck a mildly dovish tone and noted policymakers would be sensitive to any unexpected deterioration in the labor market.

### PORTFOLIO REVIEW

**Equity**

The performance in the growth component of Logan HQB was once again very solid, and leadership came from names with management teams that can invest, lead in terms of using technology, and benefit from the segments of the economy that are doing well. The U.S. economy has several significant tailwinds that we expect to continue to help the Growth portfolios. First, the U.S. housing market is significantly underbuilt, and the millennials are aging up into their household formation years. Years of low interest rates have allowed older generations to lock in very low-cost mortgages, which is reducing their willingness to sell. New housing - admittedly smaller homes - will need to be built to fill the gap which will be very supportive of the economy. We saw several of our housing related stocks deliver solid results during the quarter, and home sales recovered more quickly than expected at the end of the first quarter.

One of the lessons of the past few years is the importance of infrastructure and supply chains. Businesses and

[1]LOGAN HQB results discussed herein should be read in conjunction with the attached performance and disclosures

governments are now much more aware of where key components are made, and of the challenges of relying on global competitors for supplies. Several relatively new names to the Growth portfolios are infrastructure related companies that surfaced in our earnings leadership work, and they have contributed nicely to the returns during the first quarter of 2024.

The value component continues to provide an excellent complement to the growth stocks held in the Logan HQB strategy. Broadly speaking, value stocks performed well but failed to keep pace with the stellar performance of growth stocks. The Value team continues to believe that the best path forward is to prudently stay the course by avoiding temptation to speculate for short-term gains, and to bias strongly toward higher-quality, free-cash-flow-generative companies with solid balance sheets such as those that reside in the Logan HQB portfolio.

**Fixed Income**

Treasuries

Yields increased during the first quarter as stronger than expected growth and inflation data altered the investors' expectations for the Fed's actions from 7 rate cuts in 2024, to a Fed aligned 3 rate cuts. This 'higher for longer' message is vastly different from expectations at the start of the year.

Corporates

We are seeing two differing perspectives in this sector regarding the tightest spread seen in two years (source: FactSet):

Investors are no longer concerned about a major recession while borrowing costs are high. Falling inflation rates are expected to prompt central banks to cut interest rates in the months ahead. Rating agencies are seeing improved debt ratios (source: Bloomberg). The tight spreads observed look more reasonable in this light.

Despite this, greed trumps fear for credit investors preferring to look not at spread, but all-in yields, which are high compared to history because of still high underlying "risk-free" rates. Excess demand will continue to push spreads tighter as recession fears recede, monetary easing hopes rise, and net issuance falls short of demand.

We still see uncertainty for the remainder of the year as the election inches closer, wars continue (and possibly expand), and the timing of the cuts is unclear. Even so, continued investor demand, a large maturity walls in the near term, and M&A funding needs will fuel additional primary growth through the rest of 2024 (source: Bloomberg).

Municipals

The sector has outperformed Treasuries for the first quarter (source: Bloomberg) as supply has not kept up with maturities and calls. In the months ahead, muni yields may rise relative to Treasuries, as issuance increases and investors often sell municipal bonds to fund tax payments. We anticipate this will be short-lived as supply and demand come into better balance. With the threat of tax rates increasing in the future, investors will get a reminder of the benefits of holding an instrument that produces tax-exempt income.

Oil

U.S. energy prices have stayed relatively subdued the last six months despite two ongoing foreign wars in oil-producing regions. The path of WTI crude oil could be a new concern, however, after breaking above $80 the last two weeks of the period for the first time since early November. Gasoline prices have climbed steadily upward this year since reaching as low as $3.07/gallon in mid-January. Limited refinery capacity and lower inventories are contributing factors. Prices at the pump are front and center for consumer inflation expectations. Gas futures are at their highest since August 2023 (source: Bloomberg).

## PORTFLIO OUTLOOK

**Equity**
As we look forward to the remainder of 2024, we expect the existing trends of a slower economy, a need to invest to be competitive, and higher costs to drive equity returns. We continue to focus on the operating skills and results of our holdings while being aware of - but not overly focused on - the geopolitical and macroeconomic noise of the moment. We would not be surprised to see increased productivity and a strong labor market result in a Fed decision to maintain rates at current levels for longer than originally expected. The political environment in the U.S. is certainly a unique one, but history indicates that presidential election years tend to be constructive for the markets. Our team sees significant opportunity for those companies that are actively engaged in the economy, willing and able to invest, and able to be responsive to rapid change.

**Fixed Income**
Achieving the Fed's target inflation level will be difficult in the coming months. Core goods inflation stopped dropping months ago. Core services inflation has stalled at 4%. Inflation in January & February of the current year has been surprisingly high (maybe attributable to seasonality?). The Fed appears to hold a weaker stance on the slowing economy at the moment. By the time the May 1st meeting comes into view, our reading on the strength of the economy will be clearer.

From an economic perspective, the tragedy at the Port of Baltimore is a reminder of the multitude of factors constraining supply and boosting costs. The port is the largest in the country for handling cars and light trucks. In addition, warehousing for companies such as Amazon, FedEx, and Home Depot rely on the port. The disruption to shipping and land freight will take months to resolve and is a reminder of the fragility of our supply chain. A final thought, East Coast port unions are heading into labor talks this year. Goods inflation may be perking up?

Thank you for your continued confidence and investment in the Logan HQB portfolio. As always, please call or email if you have any questions.

*This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Actual results, performance, or achievements may differ materially from those expressed or implied. Information is based on data gathered from what we believe are reliable sources. It is not guaranteed as to accuracy, does not purport to be complete and is not intended to be used as a primary basis for investment decisions. It should also not be construed as advice meeting the particular investment needs of any investor.* ***Past performance does not guarantee future results.***

*Indices are unmanaged and investors cannot invest directly in an index. Unless otherwise noted, performance of indices does not account for any fees, commissions or other expenses that would be incurred. Returns do not include reinvested dividends.*

*The Russell 1000 Value Index measures the performance of the large-cap value segment of the US equity universe. It includes those Russell 1000 companies with relatively lower price-to-book ratios and lower sales per share historical growth (5 years). The Russell 1000 Value Index is constructed to provide a barometer for the large-cap value segment. The index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.*

*The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and* *higher forecasted growth values.*

*Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. REIT risks include changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and creditworthiness of the issuer.*

*Investments in commodities may have greater volatility than investments in traditional securities, particularly if the instruments involve leverage. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Use of leveraged commodity-linked derivatives creates an opportunity for increased return but, at the same time, creates the possibility for greater loss.*

HQ

| U.S. TREASURY YIELDS | 12/31/2023 | 3/31/2024 | YTD Change |
|---|---|---|---|
| 2 YR | 4.25% | 4.62% | -0.37% |
| 3 YR | 4.01% | 4.41% | -0.40% |
| 5 YR | 3.85% | 4.22% | -0.37% |
| 7 YR | 3.88% | 4.21% | -0.33% |
| 10 YR | 3.88% | 4.20% | -0.32% |
| 20 YR | 4.19% | 4.45% | -0.26% |
| 30 YR | 4.70% | 4.34% | 0.36% |
| | | | |
| 10S MINUS 2S | -37.0bps | -42.0bps | |

Source: FactSet

Logan Capital Management, Inc.
Performance Disclosure Results
High Quality Balanced Non-Taxable Composite
September 30, 2005 through March 31, 2024

HQ

| Year | Total Return Net of Fees | Total Return Pure Gross of Fees | 50% S&P 50% BC Int Govt Credit | Number of Accounts | Composite Dispersion Gross of Fees | Composite 3-Yr Gross Std Dev | 50% S&P 50% BC Int Govt Credit 3-Yr Gross Std Dev | Composite 3-Yr Gross Sharpe Ratio | Assets in Composite ($millions) | % of Firm Assets | Firm Assets ($millions) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| YTD 2024 | 5.0% | 5.7% | 5.1% | 4 | N/A | 10.9% | 12.7% | 0.3 | $8 | 0.3% | $2,679 |
| 2023 | 10.2% | 13.4% | 15.6% | 4 | N.M. | 11.0% | 12.6% | 0.2 | $8 | 0.3% | $2,451 |
| 2022 | -14.8% | -12.2% | -12.7% | 5 | N.M. | 12.1% | 13.2% | 0.3 | $7 | 0.3% | $2,261 |
| 2021 | 11.2% | 14.6% | 12.9% | 5 | 1.6% | 9.3% | 10.0% | 1.5 | $9 | 0.3% | $2,635 |
| 2020 | 8.9% | 12.1% | 13.1% | 8 | 2.2% | 9.6% | 9.4% | 0.9 | $24 | 1.1% | $2,240 |
| 2019 | 14.0% | 17.4% | 18.8% | 9 | 3.7% | 6.1% | 5.9% | 1.5 | $28 | 1.3% | $2,050 |
| 2018 | -2.8% | 0.1% | -1.5% | 8 | 0.7% | 6.5% | 5.2% | 0.9 | $22 | 1.5% | $1,431 |
| 2017 | 11.6% | 14.9% | 11.6% | 7 | 1.2% | 6.9% | 4.8% | 1.1 | $12 | 0.8% | $1,590 |
| 2016 | 3.9% | 7.0% | 7.1% | 11 | 0.6% | 7.5% | 5.2% | 0.8 | $18 | 1.3% | $1,401 |
| 2015 | 0.3% | 3.3% | 1.5% | 10 | 0.2% | 7.1% | 5.3% | 1.4 | $15 | 1.1% | $1,398 |
| 2014 | 4.3% | 7.4% | 8.4% | 6 | 0.3% | 6.6% | 4.7% | 1.8 | $10 | 0.6% | $1,816 |

Annualized Returns (March 31, 2024)
YTD is not annualized

| Year | Total Return Net of Fees | Total Return PureGross of Fees | 50% S&P 50% BC Int Govt Credit |
|---|---|---|---|
| 1 Year | 11.7% | 15.0% | 15.7% |
| 3 Year | 2.6% | 5.6% | 5.4% |
| 5 Year | 4.9% | 8.1% | 8.3% |
| 10 Year | 4.9% | 8.0% | 7.5% |
| Since Inception† | 4.7% | 7.8% | 6.9% |

†Inception 09/30/2005
N.M. - Information is not statistically meaningful due to an insufficient number of portfolios.

Logan High Quality Balanced Non Taxable Composite contains fully discretionary balanced accounts, measured against a blended index consisting of 50% Bloomberg Intermediate Government/Credit and 50% S&P 500. You cannot invest directly in an index. The S&P 500 Index seeks to reflect the risk and return of all large cap companies and is also is used as a proxy for all of the total stock market. It tracks the 500 most widely held stocks on the NYSE or NASDAQ and is widely regarded as the best single gauge of large-cap U.S. equities. The Bloomberg Intermediate Government/Credit index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years. The benchmarks selected include the reinvestment of dividends and income, but do not reflect fees, brokerage commissions, withholding taxes, or other expenses of investing. These benchmarks are used for comparative purposes only and generally reflect the risk and investment style of the composite. The Sharpe Ratio is included to help investors understand the return of an investment compared to its risk. The ratio is the average return earned in excess of the risk-free rate (90 Day U.S. TBill) per unit of volatility or total risk.

The composite contains accounts within +/- 20% of a 50% equity and 50% fixed income allocation. In addition, the equity portion contains accounts that are +/-20% of a 50% growth and 50% value allocation and the fixed portion contains taxable positions (ie. corp and gov't bonds). The blended benchmark is calculated daily. Accounts must have $300,000 at inclusion. For exclusion, the account has to drop below the 25% threshold of $225,000. In addition, accounts must have $100,000 of fixed income assets at inclusion. For exclusion, the fixed income assets have to drop below the 25% threshold of $75,000. Includes accounts paying both wrap and commission fees.

Logan Capital Management, Inc. claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Logan Capital Management, Inc. has been independently verified for the periods April 1, 1994 through December 31, 2023. A copy of the verification report(s) is/are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedure for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

Logan Capital Management, Inc. is a privately owned Pennsylvania-based investment adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. Registration as an investment adviser does not imply a certain level of skill or training. The verbal and written communications of an investment adviser provide you with information you need to determine whether to hire or retain the adviser. The firm maintains a complete list and description of composites, which is available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results. The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Some accounts in the composite pay a bundled wrap fee based on a percentage of assets under management. Other than portfolio management, this fee includes brokerage commissions, portfolio monitoring, consulting services, and in some cases, custodial services. As of December 31 for each year noted, the percentage of composite assets charged a wrap fee were (2014 38.7%, 2015 59.5%, 2016 51.2%, 2017 23.2%, 2018 7.2%, 2019 7.0%, 2020 10%, 2021 4.0%, 2022 4.0%, 2023 0%). Pure gross returns for accounts paying a wrap fee are shown as supplemental information as they do not reflect the deduction of any fees or transaction costs. Net returns are calculated by geometrically linking monthly gross returns reduced by the highest wrap fee (3% annually). Gross returns for non-wrap accounts include investment management fees and have been reduced by transaction costs; net returns have been reduced by management fees and transaction costs. Prior to 2020, the annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Equal-weighted dispersion is presented for 2021 and going forward. Additional information regarding the policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

The investment management fee schedule for non-wrap accounts is as follows: 65 basis points on the first $25 million, 55 basis points on the next $25 million, 45 basis points on the next $25 million and 35 basis points on the next $25 million. Fees for accounts with over $100 million in assets are negotiable. Minimum fee is $32,500. Actual investment advisory fees incurred by clients may vary. Wrap fee schedules are provided by independent wrap sponsors and are available upon request from the respective wrap sponsor. Total annual fees charged by wrap sponsors are generally in the range of 2.0% to 3.0% annually.

The Logan High Quality Balanced Non Taxable Composite was created September 30, 2018.