Logan Concentrated Value

LCV

A BOTTOM UP APPROACH

Q3 | 2020

LOGAN VALUE PORTFOLIOS: LOGAN CONCENTRATED VALUE (LCV) Q3 | 2020 REVIEW[1]

MARKET ENVIRONMENT

In a world where interest rates are hovering near zero or below, one would naturally assume that financially strong, relatively high dividend yielding stocks would be the place to be, right? Wrong! Though in our opinion that is likely to be the case at some point in the not too distant future, it was not the case in the third quarter or the nine months ended September 30, 2020. Not only have value strategies dramatically underperformed growth strategies this year, within the value universe dividend strategies have been the severest outliers to the downside. That dynamic is clear from looking at the year-to-date results from the following Standard and Poor's indexes (*see attached footnotes): S&P 500 Growth index +20.6%, S&P 500 index +5.6%, S&P 500 Value index -11.5%, S&P 500 Low Volatility High Dividend Index -25.1%, and S&P 500 High Dividend index -27.9%. The last two indexes are rather convincing illustrations of the strong headwinds dividend oriented portfolios like LCV have faced this year.

The third quarter was much like the quarters that immediately preceded it in that growth outperformed value and that only a handful of stocks accounted for the bulk of the returns. Indeed, Ned Davis Research commented that the top five stocks by market capitalization accounted for almost 25% of the S&P 500 at one point during the quarter, the highest percentage since 1972. Moreover, on an equal weighted basis, the return for the S&P 500 for the year through September 30th was negative -4.7% versus the +5.6% return for the capitalization weighted S&P 500.

What was somewhat different about the quarter was that the ping pong match between growth and value intensified. For instance, as of mid-September, Bespoke Investment Management noted that there have been eight days in 2020 when growth stocks (as measured by the Russell 1000 Growth index) outperformed value stocks (as measured by the Russell 1000 Value index) by 200 basis points or more. Conversely, there have also been eight days in 2020 when value stocks have outperformed growth stocks by 200 basis points or more. Those are highly unusual numbers, given that in 2018 and 2019 there was only one day in each year when value outperformed growth by 200 basis points (i.e., two percentage points) or more, and prior to that neither index had outperformed the other by 200 basis points on any single day since 2009. Bespoke noted that the prior period most resembling the current period was the late 1990's and early 2000's when the number of dramatic divergences increased substantially and presaged a shift from growth outperformance to value outperformance for a number of years. Whether that is an indicator of what is to come remains to be seen, but the case for value continues to build.

To that point, The Bank Credit Analyst ("BCA") recently wrote a report building that case rather succinctly. They pointed out that value stocks have outperformed growth stocks for the last century.

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

However, the outperformance of growth stocks over the last decade has left the spread between growth stock valuations and value stock valuations at the widest levels in history, especially with the explosion of growth stock P/E's during the last few years. That in and of itself does not portend a shift, but BCA's thesis is that as Covid eventually comes under control over the next several quarters, economic growth will accelerate which will have a number of notable impacts. First, value generally does better when economic growth is accelerating as earnings visibility for value stocks becomes clearer. Growth stocks generally, they argue, have overestimated earnings estimates imbedded within their valuations. As alternatives (i.e., value stocks) become available at more reasonable valuation levels, investors gravitate back towards value.

Moreover, the "Covid trade" will look increasingly less compelling if and when a vaccine becomes available and life returns to "normal" (e.g., technology purchases to accommodate virtual commercial and consumer habits will abate somewhat as demand has been pulled forward, and they also point out that brick and mortar retail stores have already started to regain momentum as the economy has started to re-open). Furthermore, two sectors that have weighed heavily on the value indexes, financials and energy, are likely to see a much more favorable environment going forward. Specifically, as a result of the Federal Reserve's recent recalibration of wanting to let inflation run above their 2% target before changing their interest rate policy, BCA expects the yield curve to eventually steepen (i.e., longer rates increasingly higher than short rates, the latter of which the Fed are holding down). If that does happen, bank stocks could perform much better going forward. In addition, BCA expects energy prices to be noticeably higher over the next year than is currently the case as the cutback in supply more than offsets the pullback in demand. That gap between supply and demand is likely to widen even more as economic growth improves. As inventories are worked off, they expect oil prices to firm.

None of this is to say that growth stocks would be expected to crash, but it does lay out a potential path for value to perform much better on a relative basis than has been the case over the last number of years. The aforementioned ping pong match between growth and value indexes on a daily basis this year can usually be traced to news and sentiment on any given day regarding dealing with the Covid crisis (i.e., good news on the Covid front favors value, and bad news favors growth). Should a second wave hit this fall and winter, all equity markets will likely take a step backward, looking more like this past spring than a new beginning. But if a more permanent solution to dealing with the pandemic is presented, it will no doubt have a dramatic impact on the investment environment as the "re-open" trade takes hold, to say nothing of the quality of life generally.

PORTFOLIO REVIEW

Even though it did not translate into stronger performance, there was not too much to complain about on the earnings front with the exception of one or two stocks in the portfolio. Overall the sectors in which the portfolio was invested that negatively affected relative performance most during the second quarter were energy, communication services and technology. The sectors at other end of the relative performance spectrum were consumer staples, industrials and financials.

Energy stocks in the portfolio did not perform well, even though oil prices actually edged higher during the quarter. Specifically, according to data from Bloomberg, oil prices edged up about +1% in the third quarter while energy stocks in the Russell 1000 Value index were down 19.5%, on average. Energy stocks in the portfolio were down somewhat less than the index average. As mentioned above, there is a case to be made for higher energy prices going forward, especially if and when a Covid vaccine becomes generally available. That case includes the fact that, according to data from Cornerstone Analytics, on a year-over-year basis through the end of August, global demand for oil declined by about 7 million barrels per day. However, world oil production declined by almost 10 million barrels per day.

Though inventories are still being worked off, if the production/demand imbalance continues along its current path, it would seem there would be upward pressure on oil prices over time. However, getting to that point may not be a steady path since oil prices are reacting to the erratic news about Covid much like stock prices are.

Technology stocks in the value index behaved much differently than technology stocks in the growth index, with the value index sector down -.5%, on average, whereas the growth index sector was up +15.0%, on average. The networking stock in the portfolio hurt LCV's relative performance because even though that company announced earnings that compared well with analyst's estimates, management presented an outlook that was below expectations. While it might take some time to repair the damage, the company has a pristine balance sheet and an attractive dividend yield to tide investors over as they wait.

All three consumer staples stocks in the portfolio performed well, with all reporting better than expected earnings. Moreover, they all indicated that their outlooks continue to improve despite a difficult economic environment.

The industrial company owned in the portfolio performed well, as earnings beat expectations despite the Company's exposure to the aerospace industry.

Management is effectively addressing the cost side of the equation as it deals with Covid related demand side issues. We have always been impressed with the company's management, and they are again showing their mettle.

In our last quarterly letter we spent some time reviewing financial stocks and how they were affected by regulatory issues and Fed stress tests. Generally, the financial stocks in the portfolio performed better in the third quarter as investors grappled with the benefits of what might be a peak in loan loss reserves against the prospects of continued net interest margin pressure. It was interesting to hear one bank executive on their second quarter earnings call in July say that they had assumed in their financial modeling for the stress tests that unemployment would come down to 9% by yearend 2020. By the end of August, that number had already declined to 8.5%. As Yogi Berra might say, predictions are hard to make - especially when they're about the future.

PORTFOLIO OUTLOOK

We began this letter pointing out the dramatic underperformance generally of relatively high dividend yielding stocks (both in the U.S. and worldwide), and LCV was not immune. Nevertheless, having managed the LCV portfolio for twenty-five years, we have learned that patience is required to reap the benefits of the strategy. Though there are clearly differences, to us the current period has the tone and feel of the late 1990's when growth stocks (and especially internet stocks during that period) went wild while more conservative stocks lagged far behind. We would note that the end of that story was that those more conservative stocks eventually came back very strongly in subsequent years. Is that the situation we are in now? It's hard to know, but what we do believe is that adhering to our discipline and to our investing principles has served us well over time.

As we look forward, there are still a number of issues staring investors in the face. Obviously, the pandemic remains an overhang, though hopefully one or more of the vaccines now in testing will prove effective. Also front and center is the Presidential election. More often than not, markets react favorably simply by having the election being put behind them. However, it may take longer for that to happen this year if a winner is not known for some time until after November 3rd. And then there's China, Russia, Iran, domestic civil unrest, etc. . . Stated differently, there are always unknowns. Our best advice remains the same, adopt an investment strategy that makes sense and adhere to it in a disciplined way.

Searching out strong balance sheets, strong cash flows, and relatively high dividend yields has always made sense to us as a way to approach investing, and though that approach is currently out of style, it has not been rendered obsolete.

In our view, investing in companies whose stocks offer good value and pay investors well to wait for that value to be realized will eventually see more rewarding days. At September 30, 2020, the LCV portfolio sold at a modest 15.3X P/E on 2021 earnings and had an average dividend yield of 5.0%. In uncertain times, those valuation levels seem to us like a good place to hang part of an investor's overall portfolio.

Thank you for your continued confidence and investment in LCV. As always, please call or email us 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 do 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 those Russell 1000® companies with lower price-to-book ratios and lower forecasted growth values.

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. The Russell 1000 Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment.

S&P 500 Index – the index is composed of 500 large capitalization U.S. equities covering 80% of available market capitalization. Required factors for inclusion in the index include market capitalization, public float, financial viability and liquidity. Weighting of the individual stocks are based on float-0adjusted market cap weights.

S&P 500 Growth Index – growth stocks within the S&P 500 defined based on three factors: sales growth, the ratio of earnings change to price, and momentum. S&P Style Indices divide the complete market capitalization of each parent index into growth and value segments. Constituents are drawn from the S&P 500.

S&P 500 Value Index – value stocks within the S&P 500 defined based on three factors: the ratios of book value, earnings, and sales to price. S&P Style Indices divide the complete market capitalization of each parent index into growth and value segments. Constituents are drawn from the S&P 500.

S&P 500 Equal Weight Index – equal weight version of the S&P 500 Index. The index includes the same constituents as the cap weighted S&P 500, but each company is allocated a fixed weight – or .2% of the index.

S&P 500 Low Volatility High Dividend Index – measures the performance of the 50 least volatile high dividend yielding stocks in the S&P 500.

S&P 500 High Dividend Index – measures the performance of the 80 highest dividend yielding stocks in the S&P 500 weighted equally.

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. The Russell 1000 Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment.

The Russell 1000 Value Index measures the performance of those Russell 1000® companies with lower price-to-book ratios and lower forecasted growth values. The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment.

FIVE LARGEST PORTFOLIO HOLDINGS	% OF PORTFOLIO
Philip Morris International Inc.	10.5%
AT&T Inc.	9.5%
Chevron Corporation	7.7%
JPMorgan Chase & Co.	7.5%
U.S. Bancorp	7.2%

LONG-TERM TRACK RECORD	TOTAL RETURN NET OF FEES	TOTAL RETURN GROSS OF FEES	RUSSELL 1000 VALUE
QTD	-0.8%	-0.6%	5.6%
YTD	-23.5%	-23.1%	-11.6%
1 Yr	-18.4%	-17.7%	-5.0%
3 Yrs	-4.7%	-3.9%	2.6%
5 Yrs	4.7%	5.5%	7.7%
10 Yrs	7.5%	8.4%	10.0%
20 Yrs	5.4%	6.2%	6.2%
Since Inception†	7.3%	8.1%	8.2%

Annualized Returns (as of 9/30/2020). Time period greater than YTD is annualized.
†Inception of (12/31/1995)
Reference performance disclosure

LOGAN AUM+AUA

Strategy AUM	$187M
Strategy AUA	$92M
Firm AUA	$1,211M
Firm AUM	$2,086M
Total Firm AUM+AUA	$3,297M

Numbers are subject to rounding differences
AUA has a one month data lag

Past performance does not guarantee future results. The holding identified do not represent all of the securities purchased, sold or recommended for advisory clients. The views expressed are those of Logan Capital. Any securities, sectors or industries discussed should not be perceived as investment recommendations; any security discussed may no longer be held in an account's portfolio. It should not assumed that investment in any of the securities, sectors or industries listed were or will prove to be profitable. Sector or industry weights of any specific account can vary based on investment restrictions applicable to that account. The securities discussed do not represent an account's entire portfolio and in aggregate may only represent a small percentage of an account's portfolio holdings.

Performance Disclosure

LCV

Logan Capital Management, Inc.
Performance Results: Logan Concentrated Value Composite
December 31, 1995 through September 30, 2020

Year	Total Return Net of Fees	Total Return Gross of Fees	Russell 1000 Value Index	Number of Accounts	Composite Dispersion Gross of Fees	Composite 3-Yr Gross Std Dev	Russell 1000 Value Index 3-Yr Gross Std Dev	Composite 3-Yr Gross Sharpe Ratio	Assets in Composite ($millions)	% of Firm Assets	Firm Assets ($millions)
YTD 2020	-23.5%	-23.1%	-11.6%	34	N.M.	17.0%	18.1%	-0.3	$11	0.5%	$2,086
2019	19.3%	20.3%	26.5%	40	0.3%	11.7%	11.9%	0.6	$17	0.8%	$2,050
2018	-8.2%	-7.4%	-8.3%	37	0.2%	11.1%	10.8%	0.6	$13	0.9%	$1,431
2017	13.7%	14.7%	13.7%	40	0.1%	12.1%	10.2%	1.0	$15	0.9%	$1,590
2016	17.9%	19.0%	17.3%	52	0.3%	12.5%	10.8%	0.8	$18	1.3%	$1,401
2015	3.9%	4.7%	-3.8%	52	0.2%	11.9%	10.7%	0.9	$17	1.2%	$1,398
2014	4.9%	5.7%	13.5%	49	0.4%	9.3%	9.2%	1.4	$15	0.8%	$1,816
2013	22.3%	23.3%	32.5%	52	0.3%	9.8%	12.7%	1.8	$18	0.9%	$2,061
2012	8.4%	9.2%	17.5%	47	0.4%	12.6%	15.5%	1.1	$10	0.5%	$1,932
2011	18.7%	19.7%	0.4%	46	0.3%	18.2%	20.7%	0.8	$11	0.6%	$1,873

Annualized Returns (09/30/2020)

Year	Total Return Net of Fees	Total Return Gross of Fees	Russell 1000 Value Index
YTD	-23.5%	-23.1%	-11.6%
1 Yr	-18.4%	-17.7%	-5.0%
3 Yrs	-4.7%	-3.9%	2.6%
5 Yrs	4.7%	5.5%	7.7%
10 Yrs	7.5%	8.4%	10.0%
Since Inception†	7.3%	8.1%	8.2%

†Inception 12/31/95
N.M. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

Performance Disclosure

LCV

Logan Concentrated Value (LCV) Composite contains fully discretionary large cap value equity accounts, measured against the Russell 1000 Value Index. You cannot invest directly in an index. The Russell 1000 Value Index is an unmanaged index that measures the performance of those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth rates. The benchmark selected includes the reinvestment of dividends and income, but does not reflect fees, brokerage commissions, withholding taxes, or other expenses of investing. This benchmark is used for comparative purposes only and generally reflects 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 strategy invests in 10-15 very large cap stocks with strong balance sheets, strong cash flows and relatively high dividend yields. ADR's may be included in the portfolio (generally less than 20%). Turnover is typically 30-50% annually. Only accounts paying commission fees are included. As of September 30, 2014 the minimum account size for the composite is $75,000. Prior to this date there was no minimum account size.

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, 2019. 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.

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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. Gross of fee returns, have, however, been reduced by all actual trading expenses. Net of fee returns are calculated net of actual investment management fees & actual trading expenses. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Additional information regarding the policies for valuing investments, calculating performance, and preparing GIPS Reports are 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 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.

The Logan Concentrated Value (LCV) Commission Composite was created August 1, 2000. Performance presented prior to August 1, 2000 represents that of Berwind Investment Management, L.P. On 09/25/19, Logan Capital hired Managing Director Bill Fitzpatrick, CFA to assist in portfolio management of the Logan Concentrated Value strategy. On 12/31/19, Managing Director Marvin Kline, CFA retired as portfolio manager of the Logan Concentrated Value strategy.