Logan Concentrated Value

LCV

A BOTTOM UP APPROACH

Q2 | 2021

LOGAN VALUE PORTFOLIOS: LOGAN CONCENTRATED VALUE (LCV) Q2 | 2021 REVIEW[1]

MARKET ENVIRONMENT

As we presciently pointed out in our last quarterly letter, no one can accurately predict with any consistency either the short term direction of the markets in general or the relative behavior of its components, namely growth versus value. LCV had a good quarter and has had a good year so far with the gross composite advancing +4.9% for the second quarter and +16.0% for the first six months of the year.

However, the wind that was at the back of value stocks for much of the time since Covid vaccines were introduced last November shifted direction several times in the second quarter of 2021. Specifically, data provided by Russell showed that the Russell 1000 Growth Index was as much as 450 basis points ahead of the Russell 1000 Value Index for the quarter through mid-April only to fall behind the Russell 1000 Value Index by over 300 basis points by late May/early June. By the end of June, however, the Growth Index was again ahead of the Value Index by over 670 basis points as growth beat value by the most in a single month since 2000 according to Bloomberg. When all was said and done, the Russell 1000 Value Index advanced +5.2% for the second quarter while the Russell 1000 Growth Index rose by +11.9%. However, for the first six months of the year, the Value Index still led the Growth Index, rising +17.0% versus the Growth Index return of +13.0%.

To some extent, it felt like we were going back to the future. Interest rates which had shot up in the first quarter, receded in the second quarter despite some headline inflation readings that Barron's noted were the highest since 1981. The Fed has maintained that inflation remains transitory and will recede as the economy reopens more fully and bottlenecks are resolved. Seemingly operating under that assumption, investors sent ten year Treasury rates down to 1.46% at the end of the quarter from the peak level of 1.70% on April 5th, according to Bloomberg. Moreover, Fed Chairman Powell's comments after the June Fed meeting threw both interest rates and equity markets into a whirlwind of confusion when he indicated the Fed was starting to think about when to pull back from its monthly bond purchases, and the "dot plots" from the Fed governors in that meeting seemed to indicate rate increases might be moved up slightly (though still more than a year away). The result was both an overall market sell-off in the days following the Fed meeting (though markets quickly stabilized), and an even more discernible shift from value to growth.

While there could be numerous plausible explanations for the market's behavior following the Fed's June meeting, a number of market observes surmised that the Fed is starting to get serious about addressing potential inflationary pressures, which might mean a less accommodative monetary policy down the road and a commensurate slowdown in growth even further down the road. There is a lot of surmising in that analysis so we would take it all with a grain of salt. We will let you know what the right answer is in about two years.

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

Having said that, we would convey an analysis recently put forth by Credit Suisse that showed the forward twelve month P/E multiple on the Russell 1000 Growth Index has historically averaged about 5.6 multiple points above that of the Russell 1000 Value Index. At June 30th, the Growth Index was 11.8 points above the Value Index based on estimated 2022 earnings (28.0X vs. 16.2X according to Factset). As believers in reversion to the mean, we suspect the shift back to value from growth may have been interrupted, but is likely not over. We believe eventually we will be right about that, however, we are not sure when.

While inflation and the Fed were front and center on investors' minds, that does not mean other factors were not weighing as well. For example, the Biden administration is proposing meaningful increases in tax rates, both capital gains and corporate rates as well as some marginal individual rates and estate taxes. Which, if any of these become enacted, and which of the administration's $6 trillion spending proposals are enacted is still to be determined (including a bipartisan infrastructure bill that was supposedly agreed to). There are a lot of balls in the air, so rather than trying to guess which balls will land where, we believe it best to simply stick to our strategy and carry on.

PORTFOLIO REVIEW

With the exception of one pharmaceutical company, every other company held in the portfolio reported earnings that exceeded analysts' estimates last quarter. Moreover, nine of the stocks in the portfolio (60%) increased their dividends during the quarter.

Unlike the previous two quarters, the portfolio's stocks in the financial and energy sectors were among the largest detractors from relative performance, though both sectors had overall positive returns for the portfolio. The communication services sector was also a detractor from relative performance as the portfolio's telecom holding announced a transformative spinout which also included an adjustment to the dividend that investors did not take kindly to.

Financials were due for a breather, and the back up in interest rates provided investors with a rationale to put the rally on hold. We would note, however, that near the end of the quarter after the Fed released its report on bank capital, all the banks in the portfolio increased their dividends and maintained or increased their stock buy-back plans. We suspect the increasingly attractive capital allocation plans of the sector in general will provide some support going forward.

Energy stocks, on the other hand, had their rally slowed despite energy prices remaining strong. For example, Brent crude prices rose 21% during the quarter and closed at the highest quarterly closing level since 2015 according to Bloomberg. As we have thought for some time, oil demand will likely grow faster than supply as the world's economies recover and as oil production remains muted due to substantially lower capital spending by oil companies and due to the call for lower fossil fuel development by environmental activists. As a result, we have been hearing increasing murmurs of $100 per barrel oil from analysts and oil company investors. Whatever the case may be, even at current oil price levels, oil companies will be generating significant levels of excess cash flow. Based on statements from managements of oil companies in the portfolio, we expect that additional returns of cash to shareholders in the form of buybacks will be forthcoming later this year.

Aiding relative performance the most were the industrial, consumer staples and technology sectors. We suspect the reopening trade will continue to provide a solid backdrop for the industrial sector, as it will also for the portfolio's holdings of technology stocks. Meanwhile, the performance of the portfolio's consumer staples stocks on the whole aided relative performance primarily because of the continued momentum of reduced risk products from the portfolio's lone tobacco holding. The other two consumer staples stocks in the portfolio saw modest stock price movement as investors remain concerned about inflationary cost pressures.

This year the mid-year rebalancing will be done in early July for various reasons. We will be providing an update regarding that rebalancing in our third quarter commentary.

PORTFOLIO OUTLOOK

Though value stocks once again took a back seat to growth stocks in the second quarter, the LCV portfolio performed well, and has had a strong first six months of the year. While we do not know the paths growth and value stocks will take on an absolute or relative basis going forward, we take comfort in the more conservative valuation levels of value stocks generally, and of the value stocks in the portfolio specifically.

The economy continues to perform well, and we suspect the government will continue to spend at unprecedented rates which will support continued economic growth. With the Fed still in a wait and see mode, we would not be surprised to see equity markets maintain an upward bias, though bouts of indigestion are to be expected (and perhaps heavy indigestion at times). Indeed, what, if any, disruption the Covid-19 Delta variant could have is something to keep an eye on.

However, as we have said many times, our economic and market outlooks are not what we base our investment decisions on since those outlooks are speculative at best. Our investment decisions are based on the underlying securities that we evaluate. The resulting portfolio appears to us to have relatively attractive attributes, including a P/E on projected next twelve month's earnings from Factset as of June 30th of 14.9X and a dividend yield of 3.7%. Moreover, based on information from Factset, the companies in the portfolio are collectively projected to grow earnings per share 7% next year.

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.

Rebalancing/Reallocating can entail transaction costs and tax consequences that should be considered when determining a rebalancing/reallocation strategy.

FIVE LARGEST PORTFOLIO HOLDINGS	% OF PORTFOLIO
Philip Morris International Inc.	10.1%
JPMorgan Chase & Co.	8.4%
U.S. Bancorp	8.1%
AT&T Inc.	8.0%
Cisco Systems, Inc.	7.8%

LONG-TERM TRACK RECORD	TOTAL RETURN NET OF FEES	TOTAL RETURN GROSS OF FEES	RUSSELL 1000 VALUE
QTD	4.7%	4.9%	5.2%
YTD	15.6%	16.1%	17.0%
1 Year	33.3%	34.3%	43.7%
3 Year	4.8%	5.7%	12.4%
5 Year	6.2%	7.1%	11.9%
10 Year	8.9%	9.8%	11.6%
20 Year	6.2%	7.0%	7.7%
Since Inception†	8.3%	9.1%	9.3%

Annualized Returns (as of 6/30/2021). Time period greater than YTD is annualized.
†Inception of (12/31/1995)
Reference performance disclosure

LOGAN AUM+AUA

Strategy AUM	$43M
Strategy AUA	$125M
Firm AUA	$1,539M
Firm AUM	$2,461M
Total Firm AUM+AUA	$4,001M

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

Logan Capital Management, Inc.
Performance Results: Concentrated Value Composite
December 31, 1995 through June 30, 2021

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 2021	15.6%	16.1%	17.0%	31	N.M.	19.4%	19.8%	0.2	$13	0.5%	$2,461
2020	-11.1%	-10.4%	2.8%	28	0.1%	19.1%	19.6%	-0.1	$10	0.4%	$2,240
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

Annualized Returns (06/30/2021)

Year	Total Return Net of Fees	Total Return Gross of Fees	Russell 1000 Value Index
YTD	15.6%	16.1%	17.0%
1 Year	33.3%	34.3%	43.7%
3 Year	4.8%	5.7%	12.4%
5 Year	6.2%	7.1%	11.9%
10 Year	8.9%	9.8%	11.6%
Since Inception†	8.3%	9.1%	9.3%

†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

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, 2020. 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.