# Logan International Dividend ADR



INVESTMENTS WITH AN INTERNATIONAL FOCUS

Q3 | 2021

## LOGAN INTERNATIONAL DIVIDEND ADR PORTFOLIO Q3 | 2021 REVIEW[1]

### MARKET ENVIRONMENT

For the first eight months of the year, international equities looked like a steadily rising escalator, though in September that ride reversed course a bit and developed market stocks ended modestly lower in US dollar terms for the quarter. A number of competing factors contributed to the stagnant quarterly results, as solid company earnings and accommodative fiscal and monetary policy, especially in Europe, were offset by continued Covid-19 developments, supply chain bottlenecks, and financial challenges in China, among other factors. For the quarter, international equities, as defined by the strategy's primary benchmark, the FTSE Developed ex USA index , declined 1.2% and are now up 8.8% year-to-date. Logan International, in turn, enjoyed another good quarter of relative performance, declining 0.3% for the quarter and advancing 12.6% year-to-date.

One of the reasons we find little use in trying to predict the stock market is that it's unpredictable. Much of the chatter regarding September's (quick and minor) pullback involved issues that were known and discussed for many of the preceding months. The laundry list is indeed lengthy and includes, among other things: the rising risk of inflation being something less than transitory, central banks beginning to remove the punchbowl, and the financial impact of China Evergrande's $300 billion of public debt outstanding, which appears to be on shaky ground. In addition, three countries in which Logan International has investments completed elections in September (Canada, Germany, Japan), creating further uncertainty.

While currency movements were modest in the quarter as the US dollar appreciated slightly against most major currencies, oil and gas prices moved sharply higher. Brent crude prices, for example, rose 8.2%, according to Bloomberg, and this follows a 21% move higher in the second quarter. As we stated last quarter, oil companies have sharply reduced capital expenditures, and this will weigh on supply at a time when demand is recovering nicely from the pandemic. While short term price movements are unpredictable, integrated oil companies can generate solid cash flows even if crude oil were to decline towards $65 per barrel, providing solid dividend coverage and also allowing for additional capital return by way of share buybacks. We would also note that coal, carbon and European gas prices hit record highs in the third quarter, suggesting we may have an energy crunch on our hands. If such prices remain elevated, economic targets for 2022 will be challenged.

As for the political developments late in the third quarter, we view the likely election results favorably. In Germany, in particular, Angela Merkel leaves office after sixteen years in power, the longest-tenured western leader. With no clear winner, a coalition government will be formed in the next several weeks. However, the initial results

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

suggest meaningful traction for the centrist candidates, as both parties at the extreme end of the spectrum fared poorly versus expectations. Japan's Prime Minister Yoshihide Suga is scheduled to leave office after just one year. The newly elected Prime Minister, Fumio Kishida, is expected to initiate a hefty fiscal stimulus package, supports a strong US-Japan alliance, and could initiate a more business-friendly environment. Suga, for example, had been very aggressive in pressuring telecom providers to lower wireless rates for Japanese consumers.

While global economic growth is expected to slow somewhat from the rapid pace seen to date this year, this does necessarily imply impending doom. Perhaps the biggest driver of incremental economic activity these days would seem to be Covid and the delta variant. To that end, according to data from the NY Times, 65% of Americans are now at least partially vaccinated. However, those rates are higher in most developed economies, including Japan at 70%, the UK at 73%, France at 75%, and Singapore at 82%. If it appears Covid is being dealt with effectively and cases are moderating, we believe economic activity will reflect such progress. Furthermore, we believe that would keep the wind at the back of the rotation into value-oriented stocks witnessed towards the end of the third quarter.

## PORTFOLIO REVIEW

While quarterly results were steady across the board, the sectors in which Logan International has investments that contributed most to relative performance were the communication services, energy, and consumer discretionary sectors. The sectors detracting the most from relative performance include health care, consumer staples, and materials.

In terms of the portfolio's communications stocks, the aforementioned Japanese telecoms responded favorably to Prime Minister Suga's decision to not seek re-election. The portfolio's lone telecom holding in Canada also aided performance, as shares moved higher following good second quarter earnings and a healthy dose of new mobile phone subscribers. The portfolio's energy stocks finished the quarter strongly, benefitting from both higher oil and gas prices, as well as some company specific actions. Logan International's integrated oil and gas companies continue to manage their businesses in a shareholder-friendly manner, delivering steady dividend payments in addition to share buybacks and debt reduction. In the consumer discretionary sector, all three portfolio holdings reside in the automobile industry. The portfolio continues to benefit from strong performance from a Japanese tire manufacturer, which was a solid performer in both the quarter and year-to-date timeframe.

At the other end of the spectrum, health care stocks detracted the most from relative performance. Weakness was widespread, as all five portfolio holdings traded lower in the quarter, weighed down by either poor quarterly results or outlooks that failed to meet expectations. In addition, US political rhetoric continues to heat up, including the potential for drug price controls. As Covid-19 testing wanes, any health care company with a sizable diagnostics business will see the 2021 tailwind slowly abate. In consumer staples, the major overhang was higher input costs for consumer products and food products. The cost hikes are partially driven by supply chain disruptions, and it's not clear when these challenges will be resolved. Finally, materials detracted from performance due to weakness from a Swiss-based construction materials holding. The cement maker's shares were weighed down by legacy issues in Syria related to potential misconduct fines. The issues date back to 2015 and were widely known to some degree.

From a geographic perspective, it is worth noting that the portfolio has no holdings domiciled in emerging markets. This was very beneficial in the third quarter, as China's financial challenges weighed on the region, as did the potential for higher interest rates (emerging markets debt is frequently issued in US dollars). In terms of where Logan International has investments, holdings in France and the United Kingdom contributed most to relative performance, whereas Swiss and Japanese holdings were the largest detractors.

Third quarter trading activity was minimal, as the portfolio added one new name, purchasing shares of a French-based advertising company. The Company has adapted nicely to the digital age, responding to client demand for data management and digital media. Consistent with the Logan International investment philosophy, the company has a clean balance sheet, attractive valuation at 11x 2022 EPS estimates and offered a 3.7% dividend yield at time of purchase. Their capital allocation is also favorable, as management has no intention of pursuing large acquisitions and could potentially initiate a share repurchase program in the near future. We also trimmed shares of a Swiss industrial company that had performed well and added to our positions in a German materials company and a Swiss reinsurer.

## PORTFOLIO OUTLOOK

As we look ahead to year-end, we see no shortage of both favorable catalysts to drive international stocks higher, as well as risks to jeopardize what has been a healthy year for stock prices. What will win out? Will it be earnings momentum and a continued economic recovery, or will higher energy costs, rising interest rates, and global supply chain disruptions push international stocks lower? We do not know. What we do expect, however, is that the valuation of stocks in the portfolio leaves a margin of safety in the event the market faces turbulence from any of those issues or others that arise. This is not to imply any sort of a guaranty since anything can happen, as 2020 illustrated. However, Logan International's history would indicate that conservative valuations can provide meaningful downside protection.

We take comfort in the portfolio's current valuation levels, which offer an attractive dividend yield of 3.9% and a P/E on the next twelve months estimated earnings of 13.3x. Moreover, based on information from Factset, the companies in the portfolio are collectively projected to grow earnings per share 9% next year.

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

*Investing internationally carries additional risks such as differences in financial reporting, currency exchange risk, as well as economic and political risk unique to the specific country. This may result in greater share price volatility. Shares, when sold, may be worth more or less than their original cost.*

*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 FTSE Developed All Cap ex US Index is a market-capitalization weighted index representing the performance of large, mid and small cap companies in Developed markets excluding the USA. The index is derived from the FTSE Global Equity Index Series (GEIS), which captures 98% of the world's investable market capitalization.*

*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.*

LID

| COUNTRY | QUARTER RETURN IN US | 1 YEAR RETURN IN US DOLLARS |
|---|---|---|
| AUSTRALIA | -3.0% | 31.7% |
| CANADA | -2.5% | 33.9% |
| FRANCE | -2.0% | 34.3% |
| GERMANY | -4.3% | 16.5% |
| ITALY | -1.1% | 33.4% |
| JAPAN | 4.6% | 22.1% |
| NETHERLANDS | 3.4% | 46.0% |
| SWITZERLAND | -3.3% | 14.5% |
| SINGAPORE | 0.0% | 30.0% |
| UNITED KINGDOM | -0.3% | 31.2% |

Source: MSCI

| TEN LARGEST PORTFOLIO HOLDINGS | % OF PORTFOLIO |
|---|---|
| Royal Dutch Shell Plc Class B | 3.4% |
| Siemens AG | 3.3% |
| TotalEnergies SE | 3.0% |
| Toyota Motor Corp. | 2.9% |
| Roche Holding Ltd | 2.8% |
| BASF SE | 2.7% |
| Sanofi | 2.6% |
| Astellas Pharma Inc. | 2.6% |
| Novartis AG | 2.6% |
| ING Groep NV | 2.6% |

| LONG-TERM TRACK RECORD | TOTAL RETURN NET OF FEES | TOTAL RETURN GROSS OF FEES | FTSE DEVELOPED X US |
|---|---|---|---|
| QTD | -0.4% | -0.3% | -1.2% |
| YTD | 12.3% | 12.6% | 8.8% |
| 1 Year | 27.7% | 28.2% | 27.3% |
| 3 Year | 5.4% | 5.8% | 8.7% |
| 5 Year | 6.3% | 6.7% | 9.7% |
| 10 Year | 7.8% | 5.3% | 8.6% |
| Since Inception† | 3.7% | 4.0% | 4.3% |

Annualized Returns (as of 9/30/2021). Time period greater than YTD is annualized.
†Inception of (12/31/2006)
Reference performance disclosure

## LOGAN AUM+AUA

| | |
|---|---|
| Strategy AUM | $77M |
| Strategy AUA | $84M |
| Firm AUA | $1,651M |
| Firm AUM | $2,451M |
| Total Firm AUM+AUA | $4,102M |

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.

# Logan Capital Management, Inc.
# Performance Disclosure Results
# International Dividend ADR Composite
# December 31, 2006 through September 30, 2021

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| Year | Total Return Net of Fees | Total Return Gross of Fees | FTSE Developed x US | Number of Accounts | Composite Dispersion Gross of Fees | Composite 3-Yr Gross Std Dev | FTSE Developed x US 3-Yr Gross Std Dev | Composite 3-Yr Gross Sharpe Ratio | Assets in Composite ($millions) | % of Firm Assets | Firm Assets ($millions) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| YTD 2021 | 12.3% | 12.6% | 8.8% | 15 | N.M. | 17.2% | 18.2% | 0.3 | $36 | 1.5% | $2,451 |
| 2020 | -3.3% | -3.1% | 10.3% | 11 | N.M. | 17.6% | 18.2% | 0.0 | $3 | 0.2% | $2,240 |
| 2019 | 21.0% | 21.4% | 22.0% | 14 | 0.1% | 10.8% | 10.8% | 0.6 | $27 | 1.3% | $2,050 |
| 2018 | -13.6% | -13.2% | -13.8% | 11 | 0.4% | 10.5% | 11.3% | 0.2 | $22 | 1.6% | $1,431 |
| 2017 | 20.2% | 20.6% | 25.0% | 16 | 0.4% | 9.7% | 11.9% | 0.8 | $7 | 0.4% | $1,590 |
| 2016 | 5.1% | 5.5% | 1.0% | 16 | 0.3% | 10.8% | 12.5% | 0.0 | $23 | 1.7% | $1,401 |
| 2015 | -1.4% | -1.0% | -0.8% | 17 | 0.2% | 11.3% | 12.5% | 0.5 | $19 | 1.4% | $1,398 |
| 2014 | -2.7% | -2.5% | -4.9% | 14 | 0.2% | 11.7% | 13.0% | 1.0 | $18 | 1.0% | $1,816 |
| 2013 | 20.1% | 20.4% | 22.8% | 11 | 0.4% | 14.0% | 16.3% | 0.9 | $14 | 0.7% | $2,061 |
| 2012 | 19.3% | 19.6% | 17.3% | 9 | 0.6% | 17.8% | 19.4% | 0.3 | $10 | 0.5% | $1,932 |

## Annualized Returns (September 30, 2021)

YTD is not annualized

| Year | Total Return Net of Fees | Total Return Gross of Fees | FTSE Developed x US |
|---|---|---|---|
| YTD | 12.3% | 12.6% | 8.8% |
| 1 Year | 27.7% | 28.2% | 27.3% |
| 3 Year | 5.4% | 5.8% | 8.7% |
| 5 Year | 6.3% | 6.7% | 9.7% |
| 10 Year | 7.8% | 5.3% | 8.6% |
| Since Inception† | 3.7% | 4.0% | 4.3% |

†Inception 12/31/2006

N.M. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

Logan International Dividend ADR Composite contains fully discretionary large cap international equity accounts, measured against the FTSE Developed x US benchmark. You cannot invest directly in an index. The FTSE Developed ex US Index is part of a range of indexes designed to help US investors benchmark their international investments. The index comprises Large (85%) and Mid (15%) cap stocks providing coverage of Developed markets (24 countries) excluding the US. The index is derived from the FTSE Global Equity Index Series (GEIS), which covers 98% of the world's investable market capitalization. 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 35-45 large and established international, dividend-paying companies that are primarily located in developed countries and have American Depository Receipts ("ADR's"). Portfolios are diversified across seven to eleven sectors and at least ten countries. Up to 15% of the portfolio may be invested in non-EAFE countries. Turnover is typically under 35% annually. Only accounts paying commission fees are included. There is 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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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, net of all withholding tax and includes 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.

The investment management fee schedule for non-wrap accounts is as follows: 75 basis points on the first $10 million, 65 basis points on the next $15 million, 60 basis points on the next $25 million and 50 basis points on the next $50 million. Fees for accounts with over $100 million in assets are negotiable. Minimum fee is $37,500. Actual investment advisory fees incurred by clients may vary.

The Logan International Dividend ADR Composite was created November 30, 2013. On 03/31/20, the benchmark for the Logan International Dividend ADR Composite was reviewed and replaced to provide greater transparency and accuracy into the holdings. As a result, the composite benchmark was changed from the MSCI EAFE Index (which excludes all of North America) to the FTSE Developed x US benchmark.