# LOGAN VALUE PORTFOLIOS: LOGAN VALUE (LV) Q2 | 2022 REVIEW[1]

## MARKET ENVIRONMENT

In a quarter where most broad market indexes declined by double digits and in a year in which the S&P 500 registered its largest first half decline in over fifty years, Logan Value (LV) once again showed itself to be a resilient portfolio that tends to weather difficult markets well. Very much like the first quarter of 2022, LV noticeably outperformed both its benchmark (the Russell 1000 Value index) and the S&P 500 index. Though the LV composite registered a gross negative second quarter return of -7.3%, that compared very favorably to the Russell 1000 Value index decline of -12.2% and the S&P 500 decline of -16.1%. Moreover, for the first six months of 2022, the LV composite declined -4.8% compared to sizable declines of -12.9% and -20.0% for the Russell 1000 Value and the S&P 500, respectively.

After a decade long period where growth stocks noticeably outperformed value stocks, that dynamic began shifting in late 2020 after the first Covid vaccine was announced. So far in 2022 the advantage of value versus growth has been dramatic, with the Russell 1000 Value index return 1,500 basis points (i.e., 15 percentage points) ahead of the Russell 1000 Growth index return for the first six months of 2022. The Wall Street Journal indicated this was the largest discrepancy in favor of value since 2001.

Within the value universe, Morningstar noted that investing strategies emphasizing stocks with healthy balance sheets and relatively high dividend yields were the best performers this year. Since those characteristics of financial quality and attractive dividend yield are the building blocks of the LV portfolio, LV's strong relative performance is not surprising.

We have always maintained that LV generally holds up better in turbulent markets (generally but not always) because of its emphasis on relatively high dividend yields and robust financial strength, and 2022 has certainly been turbulent. The list of obstacles confronting equity investors is long and seemingly growing. Clearly the war in Ukraine has had a number of financial impacts (to say nothing of the human cost), including adding pressure to energy prices. Moreover, a persistently high inflationary environment, and an increasingly hawkish Federal Reserve that is playing catch up with inflation and is being forced to commit to an aggressive interest rate raising campaign (along with ending its quantitative easing program which effectively tightens financial conditions further) adds additional fuel to the fire.

The result of those and other cross currents has been an evolving concern that recessionary pressures are building, which is reflected in an increasingly volatile stock market. Perhaps nowhere was that pressure more evident than in mid-June when in five out of seven sequential days more than 90% of the stocks in the S&P 500 declined. According to The King Report, since 1928 there have been zero other instances of that happening.

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

Whether the Fed can engineer a "soft landing" is an open question. Given they're not particularly impressive forecasting track record (e.g., "inflation is transitory", stating that a 50 basis point increase in the Federal Funds rate was the only thing being considered shortly before raising it 75 basis points, etc.), many investors and economists are now anticipating a recession in the not too distant future. We do not know the answer or put much faith in anyone who claims they do. What we do know is that the level of risk has been elevated and we believe that calls for continued vigilance when investing. Stated differently, in times like these, having a margin of safety is more prudent than ever. As noted above, we believe LV provides such a margin and is the reason that the portfolio tends to hold up relatively well when the waters get rough. There are clearly no guaranties, but our track record does give us some comfort.

## PORTFOLIO REVIEW

LV's material out-performance in the second quarter was a portfolio-wide effort, as all but two sectors contributed positively to relative performance. Furthermore, the two sectors detracting collectively compose less than 3% of the portfolio and detracted just 28 basis points from performance. It is worth noting that every sector in the benchmark Russell 1000 Value index registered a negative return for the second quarter. Sectors aiding relative performance the most were consumer staples, communication services and information technology. Sectors slightly detracting from performance included consumer discretionary and utilities, while materials was also a bottom performer but contributed positively to relative performance.

Consumer staples generally were not strong performers in the second quarter as investors became increasingly concerned about their ability to pass through rising input costs. However, the portfolio's two tobacco stocks traded higher in the quarter and were able to offset returns of other staples held in the portfolio. The larger of the two tobacco holdings continues to generate earnings above expectations and continues to make progress on its portfolio of reduced risk products. Moreover, management announced an acquisition during the quarter that will expand the U.S. distribution of its reduced risk products and allow synergistic benefits of marketing the target's products overseas.

The largest holding by position size in the communications sector began to harvest the fruits of its reorganization whereby it spun off its entertainment assets to shareholders. The remaining telecom company is a more focused business that is valued at a modest P/E ratio and a very attractive dividend yield. With the company generating large amounts of cash flow, we believe the dividend is secure and will grow over time. As the debt level is reduced we expect management will also begin buying back stock at some point, too.

Information technology fared well in the second quarter, as the transformation efforts from the portfolio's largest technology company by portfolio weight continue to take shape. The Company's earnings and revenues both exceeded analysts' expectations last quarter. With increasing signs that the business transformation management is undertaking is taking hold, investors seem to be "sticking their toes in the water" just a bit more than they have been. Management notes that demand remains very strong, and raised revenue guidance during the last earnings call. This is still a "show me" story, but with a 4.7% dividend yield at the end of the quarter and a P/E of only 13.9x on estimated analysts' consensus earnings as reported by Factset, we remain willing to wait for the story to be told.

The portfolio's lone utility stock traded modestly lower in the quarter, as first quarter earnings missed expectations. However, revenues were ahead of estimates, and, more importantly, management confirmed its five-year outlook for 5-7% annual earnings per share growth. We view the position as a nice portfolio diversifier along with an attractive dividend yield of 3.7%.

In the consumer discretionary sector, the portfolio's lone retail stock reported poor quarterly earnings and lowered guidance for the remainder of the year. The discount retailer has suffered from higher costs and been forced to reduce prices due to an inventory overhang. Nevertheless, the company is still targeting mid-single-digit revenue growth in the long term. Following the sharp selloff, shares now offer a dividend yield in excess of 3%.

Within materials, the portfolio's chemical's company traded sharply lower in the quarter due to a plethora of challenges in the global economy. Focused on a wide variety of materials and chemicals, the company had to manage significantly higher input costs, global economic weakness, and challenges from the Covid lockdown in China. Quarterly financial results were solid, but a tempered outlook for the second half weighed on the share price.

## PORTFOLIO OUTLOOK

Despite continuing crosscurrents that pressured equities in the second quarter, LV performed very well on a relative basis, and that has been the case for the entire year to date as well. Indeed, the portfolio's ability to generally hold up well in difficult market environments has been characteristic over the years.

With the Federal Reserve committed to subduing inflation, a string of interest rate hikes would appear to be on the table which generally portends choppy waters for equities. Mixing in a slowing economy and high energy prices makes the near term outlook even more cloudy than usual and implies continued volatility. As we have said many times, our best advice is to stay the course, and dedicate part of a portfolio strategy to quality stocks with strong cash flows that have relatively high dividend yields. That is essentially the nature of the LV portfolio, which at June 30th had a dividend yield of 3.3% and a P/E ratio on next twelve month's estimated earnings of 13.6x.

Thank you for your continued confidence and investment in LV. 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 does not account for any fees, commissions or other expenses that would be incurred. Returns do not include reinvested dividends.*

*The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is a market value weighted index with each stock's weight in the index proportionate to its market value.*

*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.*

## TEN LARGEST PORTFOLIO HOLDINGS

| TEN LARGEST PORTFOLIO HOLDINGS | % OF PORTFOLIO |
|---|---|
| AbbVie, Inc. | 3.8% |
| Shell PLC | 3.6% |
| Amgen Inc. | 3.5% |
| Philip Morris International Inc. | 3.4% |
| Merck & Co., Inc. | 3.1% |
| Pfizer Inc. | 3.0% |
| Chevron Corporation | 3.0% |
| Coca-Cola Company | 3.0% |
| MetLife, Inc. | 2.9% |
| AT&T Inc. | 2.9% |

## LONG-TERM TRACK RECORD

| LONG-TERM TRACK RECORD | TOTAL RETURN NET OF FEES | TOTAL RETURN GROSS OF FEES | RUSSELL 1000 VALUE |
|---|---|---|---|
| QTD | -7.5% | -7.3% | -12.2% |
| YTD | -5.4% | -4.9% | -12.9% |
| 1 Year | 1.8% | 2.7% | -6.8% |
| 3 Year | 8.9% | 10.0% | 6.9% |
| 5 Year | 8.4% | 9.5% | 7.2% |
| 10 Year | 9.8% | 10.9% | 10.5% |
| 20 Year | 5.5% | 7.1% | 7.9% |
| Since Inception† | 5.3% | 6.9% | 6.9% |

Annualized Returns (as of 6/30/2022). Time period greater than YTD is annualized.
†Inception of (9/30/2000)
Reference performance disclosure

## LOGAN AUM+AUA

| | |
|---|---|
| Strategy AUM | $33M |
| Firm AUA | $1,497M |
| Firm AUM | $2,055M |
| Total Firm AUM+AUA | $3,551M |

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

Supplemental to a fully compliant GIPS Report.
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
## Value Composite
## September 30, 2000 through June 30, 2022



| 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 2022 | -5.4% | -4.9% | -12.9% | 7 | N/A | 17.9% | 19.5% | 0.5 | $14 | 0.7% | $2,055 |
| 2021 | 24.1% | 25.3% | 25.2% | 7 | 0.4% | 18.0% | 19.3% | 0.9 | $13 | 0.5% | $2,635 |
| 2020 | -0.8% | 0.2% | 2.8% | 4 | N.M. | 18.3% | 19.6% | 0.2 | $8 | 0.3% | $2,240 |
| 2019 | 24.0% | 25.3% | 26.5% | 5 | 0.4% | 11.3% | 11.9% | 0.8 | $10 | 0.5% | $2,050 |
| 2018 | -7.3% | -6.3% | -8.3% | 5 | 0.2% | 10.1% | 10.8% | 0.7 | $4 | 0.3% | $1,431 |
| 2017 | 15.3% | 16.4% | 13.7% | 6 | 0.3% | 10.0% | 10.2% | 1.0 | $8 | 0.5% | $1,590 |
| 2016 | 15.1% | 16.3% | 17.3% | 6 | 0.2% | 10.5% | 10.8% | 0.8 | $6 | 0.5% | $1,401 |
| 2015 | -2.1% | -1.2% | -3.8% | 5 | 0.2% | 10.7% | 10.7% | 1.2 | $4 | 0.0% | $1,398 |
| 2014 | 11.2% | 12.3% | 13.5% | 6 | N.M. | 8.4% | 9.2% | 2.1 | $5 | 0.0% | $1,816 |
| 2013 | 27.6% | 28.9% | 32.5% | 4 | N.M. | 9.8% | 12.7% | 1.8 | $4 | 0.0% | $2,061 |
| 2012 | 12.1% | 13.3% | 17.5% | 5 | N.M. | 12.3% | 15.5% | 1.1 | $3 | 0.2% | $1,932 |

## Annualized Returns (June 30, 2022)

YTD is not annualized

| Year | Total Return Net of Fees | Total Return Gross of Fees | Russell 1000 Value Index |
|---|---|---|---|
| YTD | -5.4% | -4.9% | -12.9% |
| 1 Year | 1.8% | 2.7% | -6.8% |
| 3 Year | 8.9% | 10.0% | 6.9% |
| 5 Year | 8.4% | 9.5% | 7.2% |
| 10 Year | 9.8% | 10.9% | 10.5% |
| Since Inception† | 5.3% | 6.9% | 6.9% |

†Inception 09/30/2000

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

Logan Value 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 35-45 large cap stocks with strong balance sheets and strong cash flows, and which typically have relatively high dividend yields. ADR's may be included in the portfolio (generally less than 10%). Turnover is typically 25 - 50% annually. Only accounts paying commission fees are included. Prior to January 1, 2012, the composite included both wrap and commission accounts. No minimum account size for this composite.

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, 2021. 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 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. 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.

The Logan Value Composite was created October 1, 2000.