International ADR

1st Quarter 2020

Market Review and Positioning

2019 already feels so long ago. Last year, what worried the market were issues such as the US-China trade deal, Brexit, and the risk of policy mistakes by central bankers worldwide. When news of a brand-new killer-virus emerged from Wuhan in China in December, no one really paid much attention. Fast forward just three months, and no one can talk of anything else. Who could have imagined a world in which whole countries and continents would be shut down, brakes applied to most economic activity, face masks would be de rigueur over much of the world, and global economies and markets would be at risk of complete collapse? Yet, there is also evidence at this time that people and political parties are beginning to come together to do what needs to be done. The divisive rhetoric of the past few years is noticeably less prevalent, and there is a growing sense that we are all in this together. That is a clear positive. Central banks have slashed interest rates to near-zero and flooded the market with surplus liquidity, and sizable fiscal stimulus measures have been rushed through national legislatures at record pace. Yes, the public health crisis is unlike any we have seen in living memory and the mortality rates are still climbing, but resources are being mobilized to contain the situation; and barring nasty surprises, there is reason to feel cautiously optimistic that the economic deep-freeze would not extend into the summer, as we had originally feared.

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During Q1 there was a general trend away from risk and towards areas of perceived safety, such as US assets, and within the equity asset class towards larger cap equities more broadly. Thus, S&P 500 gave up "only" -19.6% of its value in the quarter, vs. -22.7% for MSCI EAFE (which is a proxy for developed market ex-US equities). Emerging Markets as represented by the MSCI Emerging Markets Index were down -23.6% during the same period, and the broad-based MSCI All Countries World ex-US index declined by more or less a similar amount (-23.3%). The US dollar appreciated against most currencies.

The International ADR portfolio outperformed its benchmark (MSCI ACWI ex-US) by +367 basis points on a gross basis in Q1 (-19.69% vs. -23.36%) and by +345 basis points on a net basis (-19.91% vs. -23.36%).

Both sector allocation and stock selection were strong positives in Q1. In terms of sector allocation, we were overweight Consumer Discretionary, Industrials, Technology, Healthcare, and Consumer Staples (in that order); and underweight all the rest. Given that benchmark performance was driven by three out of these five sectors – namely, Healthcare, Technology, and Consumer Staples (as well as Utilities, and Communication Services) – that worked out quite nicely in the end, with all but four sectors contributing positively.

Stock selection was also strong across most sectors, but most notably within Consumer Discretionary, Communication Services, Real Estate, and Technology. Cash (which was 4.7% of the portfolio, near the higher end of our normal range) was a +94 basis point tailwind.

In terms of regional exposures, we were overweight Canada, Developed Europe, and Emerging Asia (albeit marginally), and underweight Japan, Developed Asia, and Australasia. Within EM Asia we were overweight India and China; and though these two countries generated mixed results (with China outperforming and India underperforming), the region was a positive contributor to performance overall. Since benchmark performance in Q1 was driven largely by Asia (developed and emerging), and to a lesser extent by Developed Europe, and since both these regions combined account for more than 50% of benchmark weight, our overall regional stance was amply rewarded.

Within the context of this discussion it is important to remember that sector allocation and regional allocation are typically a function of our secular thematic and bottom-up investment process (which essentially points us towards where the opportunity set is most attractive), rather than the result of any top-down decision-making on our part. Thus, being overweight Developed Europe does not necessarily mean that we are positive on the economic and political landscape in Europe. Instead, it just means that we found the opportunity set that is available to us there quite compelling. Indeed, most of our European holdings are not predominantly Europe-focused at all. They are multinational corporations which just happen to be nominally headquartered in Europe, but with significant operations in Emerging economies and other areas around the globe. AstraZeneca, LVMH, Unilever, Safran etc. are all examples.

Outlook

This is a new and unique experience in the lives of most of us – a near-complete synchronous shutdown of the global economy. There are pockets of hyper-activity – grocery stores, essential consumer staples, medical and surgical supplies, cleaning and sanitizing materials, and certain areas of healthcare, just to name a few – but it is inevitable that global economic indicators over the next couple of quarters at least would look very ugly. However, the good news is that the virus-suppression measures initiated by governments around the world are beginning to have an impact – infection curves are beginning to flatten in many countries and/or regions, and certain countries are either beginning to reopen their economies (e.g. China) or are considering doing so soon (e.g. Austria). The chances of this near-paralysis of global economies extending into the summer are already beginning to look somewhat remote. The question is, how long would it take for re-opened economies to return to pre-COVID levels? Will economic activity take off “like a rocket ship” (in the words of President Trump), or would they take many months to ramp up? The history of the Spanish flu epidemic of 1918-1919 suggests the former, but on the other hand, the global economy did not just shut down completely back then. Much will depend on the eventual length of the current shutdown and how much clarity there is around how governments around the world are planning to reopen their shuttered economies and handle future resurgences of the epidemic (as, for example, later this fall). There are also questions swirling around the future of the EU – a region already beset by very low growth even before this epidemic, but which is now having to also deal with a growing north-south divide in the wake of the joint response (or the lack thereof) to the public health catastrophe unfolding in Italy.

There are also positives. Valuations once again look attractive, and central banks have been quick to ease interest rates and pump more liquidity into the system. Oil and gas prices are at historic lows, which should benefit the oil-consuming economies of Asia and Europe.

International ADR

Overall, our approach – which has always been to invest in companies and industries that have a sustained trajectory of secular revenue and earnings growth ahead of them – has stayed intact, and will remain so going forward. However, as growth investors, we tend to be less exposed to cyclical sectors relative to the benchmark. Consequently, if the benchmark were to be led higher upon the resumption of economic growth by cyclical industries and sectors, then there is a risk that the strategy may underperform in relative terms, at least in the short term.

LEADING CONTRIBUTORS

STOCK	AVERAGE WEIGHT	CONTRIB. TO PERFORMANCE
TAL Education Group ADR	2.24	0.13
Tencent Holdings Ltd. ADR	3.57	0.09
Novo Nordisk A/S ADR	2.03	0.05
GDS Holdings Ltd. ADR	0.37	0.03
U.S. Dollar	4.73	0.00
a2 Milk Company Ltd. ADR	1.27	-0.01
Interxion Holding N.V.	2.16	-0.09
Novartis AG Sponsored ADR	1.05	-0.11
ASML Holding NV ADR	1.57	-0.13
Lululemon Athletica Inc	1.22	-0.14

LEADING DETRACTORS

STOCK	AVERAGE WEIGHT	CONTRIB. TO PERFORMANCE
SAFRAN SA ADR	3.25	-1.54
WNS (Holdings) Limited ADR	2.80	-1.26
Copa Holdings, S.A. Class A	1.86	-1.24
HDFC Bank Limited ADR	2.41	-1.18
Brookfield Asset Mgmt. Class A	3.57	-1.08
Capitec Bank Holdings Ltd. ADR	1.33	-0.89
Suncor Energy Inc.	1.43	-0.83
Aptiv PLC	1.50	-0.82
ICICI Bank Limited ADR	1.28	-0.71
adidas AG Sponsored ADR	2.65	-0.65

The holdings identified do not represent all of the securities purchased, sold or recommended. Information on the calculation methodology and a listing of every holding's contribution to the strategy's performance during the period is available upon request.

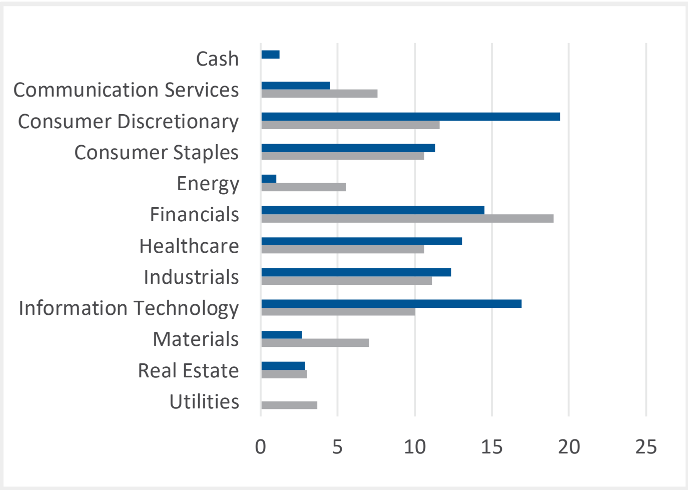
Positive Impacts

- Stock selection in Consumer Discretionary, overweight Cash.

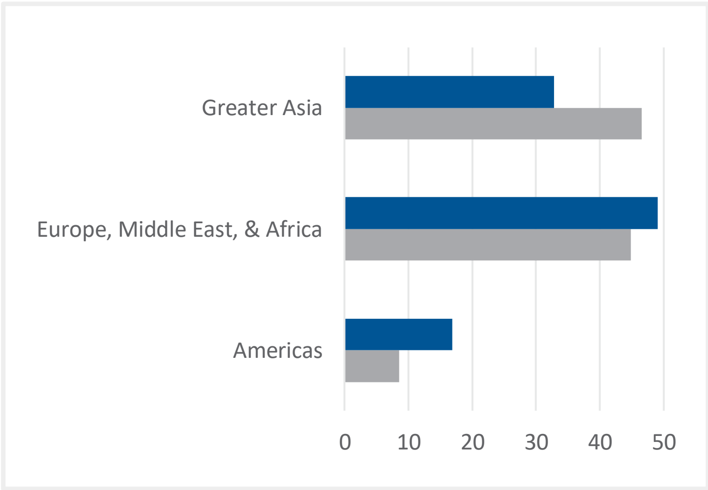
Negative Impacts

- Stock selection in Industrials and Financials, underweight Communication Services

Sector Allocation



Regional Allocation



Fiera International ADR

MSCI ACWI ex-US

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Composite Description: The International All Cap ADR composite formerly named the International Composite was created on October 1, 2011 and includes all portfolios invested in International equities (including ADR’s) with strong earnings and growth characteristics and includes large, mid and small capitalizations whether denominated in foreign currencies or in U.S. dollars. The product is benchmarked against the Morgan Stanley Capital International All Country World Index ex U.S. (“MSCI ACWI ex U.S.”). The MSCI ACWI Ex U.S. is a stock market index made up of approximately 1,859 global stocks. The index includes stocks from across 22 of 23 Developed Markets (DM) countries (excluding the US) and 23 Emerging Markets (EM) countries and covers approximately 85% of the global equity opportunity set outside of the U.S., as defined by MSCI Index results assume the re-investment of all dividends and capital gains. The strategy’s holdings may differ significantly from the securities that comprise the index. The index is not a projection, prediction or guarantee of performance. It is not possible to invest directly in the index. Investors pursuing a strategy similar to an index may experience higher or lower returns and will bear the costs of fees and expenses that will reduce returns. Typically, the International All Cap ADR portfolio is similar in composition to the benchmark and is expected to have similar performance characteristics due to the international exposure. Portfolios are generally comprised of individual stocks and cash equivalents. Portfolios may have dispersions based on the size of the account and timing of deposit and withdrawals of funds or transfers of stocks. Represents portfolios which are commission based.

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