International All Cap

4th Quarter 2020

Market Review and Positioning

Back in February-March, when a modern-day pandemic forced the whole world into a state of synchronized shut-down we all feared the worst. However, 10-11 months on, it is safe to say that so far the reality has thankfully not matched the hype. Yes, the unemployment rates in most of the developed economies are still in the mid-to-high single digits, but they are not in the teens or the twenties that many predicted earlier this year. Global economies were able to stave off a massive collapse in demand and persistent record unemployment thanks to actions taken by governments around the world. They quickly enacted aggressive fiscal stimulus measures, and central banks equally aggressively injected record amounts of liquidity into the system. By summer, the situation with the epidemic had begun to look as if it was well under control in much of the world. However, with the advent of cold weather in the northern hemisphere we are seeing a resurgence in new cases in many countries, straining healthcare systems and delaying plans by companies to reopen and by governments to ease up on stimulus measures. Stay-at-home orders have been re-imposed in many countries and new stimulus measures introduced. Against this backdrop, news that at least two vaccines have been approved after the quickest vaccine-development process in history with more to follow has brought widespread relief. From this there is cause for optimism that we may emerge from this particular tunnel sooner rather than later.

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However as always, financial markets tend to look ahead; so it should come as no surprise that markets have powered ahead even in the face of bad news. A happy (or at least less unhappy) ending to the long-running Brexit saga has settled nerves across the pond and around the world, as has the un-declared truce that has prevailed for some time in the area of US-China relations. Nevertheless, global markets remain slaves to news flow and volatility remains somewhat elevated, though it did steadily decline as 2020 progressed.

Beginning in September, and continuing into Q4, Value saw a big resurgence around the world, with a level of outperformance over Growth we have not seen in a while. This has continued into early 2021, though it remains to be seen for how much longer. Overall, US markets continue to outpace international markets; but within the latter, Emerging Market Value significantly outperformed not only its developed market counterpart, but also Growth more generally.

The MSCI All Countries World Index ex- USA Index posted a +17.08% return in Q4 and +11.13% for 2020 as a whole. Small caps outpaced large caps in international markets as well, though not by much. Emerging Market Value returned +23.08% in Q4 outpacing most other international indices as noted previously. However, for the year as a whole, Value was a big laggard. The MSCI EAFE Index (the best proxy for developed international markets) was up +16.09% in Q4, while its Value counterpart grew +19.26%.

The portfolio was up +13.32% (gross) and +13.05% (net) in Q4, while its benchmark (MSCI All Countries World Index ex-US) rose +17.01%. For 2020 as a whole, the portfolio was up +22.04% (gross) and +20.84% (net), vs. +10.65% for the benchmark, for a value-add of +11.39% (gross basis) and +10.19% (net basis).

Both sector allocation and stock selection detracted in Q4, though both were significant contributors to value-add in 2020 as a whole (with stock selection being particularly strong). The portfolio was overweight in Technology, Consumer Discretionary, Industrials, Healthcare, and Real Estate sectors (the last-named only marginally) and underweight all the others. Healthcare was the worst performing sector within the benchmark, which was no help. At the other end of the spectrum, Financials and Technology were the two best performing sectors (tied) within the benchmark, so having Financials as our biggest underweight in the portfolio hurt as well. Understandably, in a strong quarter such as Q4, cash – though it was well within our normal range – was a -38 bps headwind.

In terms of regional exposures, the portfolio was materially overweight Developed Europe (France, Ireland, and Germany in particular), Canada, China, and India; marginally overweight the UK and Latin America; and underweight Japan, Asia (ex-India and China), Australasia, Africa/Middle East, and Emerging Europe. All told, regional allocation detracted marginally in the quarter.

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

Though Brexit is now very much in the rear-view mirror, there are a few issues on the horizon with the potential to roil global financial markets in 2021. Topping the list is obviously the virus itself. For instance, will governments around the world succeed in bringing infection rates back under control again, allowing large swathes of their economies to reopen safely with fewer disruptions in the future? When will governments succeed in vaccinating a large enough percentage of their populations to confer herd immunity? How will the efficacy of these vaccines hold up in the face of rapid mutation by the virus (e.g. the UK and S. African strains)? Will mortality rates (which thankfully have not kept pace with the growth in infection rates) start going up again? We do not know the answers to any of these questions. The main risk for investors is that markets in general are expensive to varying degrees and expectations are high. For instance, markets seem to be discounting a fairly smooth roll-out of the vaccines leading to a return to normal by summer 2021. In view of the elevated valuations, any setbacks and/or delays have the potential to drive markets lower, though given the disparity in valuations between the US and International markets one has to assume that the former may be more at risk should expectations prove to have been too optimistic. There are other risks as well – US-China relations under the Biden Administration, for one; and inflation risk, for another. Also of concern to investors: are governments and central banks likely to continue to support their economies going forward, and if so, for how long and to what extent?

While the odds are yet small that the current economic malaise ushers in a 21st Century version of the Great Depression, the question is whether, having snapped back part of the way the global economy would essentially flatline from here on out, or not. Well, count us among the optimists, but we think not. Oil and gas prices continue to be supportive, which is a positive for European and Asian economies that are net oil importers, and there is every indication that governments and central banks are ready to act. Nevertheless, given all these uncertainties we believe there is a possibility that market volatility would remain at elevated levels for the next several months.

The portfolio is exposed primarily to the following secular themes - China internet, cloud computing, emerging market consumer, and industrial automation. Since we have a favorable view of the emerging market consumer and Chinese internet sectors, the fund is overweight India and China. Also, as noted previously, we are also significantly overweight Developed Europe – especially companies that are global in nature but domiciled in Europe, or those with businesses that are largely defensive in nature (e.g. Staples and Healthcare). We are also meaningfully overweight Consumer Discretionary, Industrials, and Technology. However, it is important to remember that all these under-weights and over-weights in the portfolio are a reflection of where we are finding the most attractive opportunities based on our long-standing investment process which combines bottom-up fundamental analysis with a top-down thematic overlay.

Overall, our approach – which has always been to invest in companies and industries that have a sustainable trajectory of secular revenue and earnings growth ahead of them – has stayed intact, and will remain so going forward.

International All Cap

LEADING CONTRIBUTORS

STOCK	AVERAGE WEIGHT	CONTRIB. TO PERFORMANCE
HDFC Bank Limited ADR	3.44	1.32
SAFRAN SA Unsponsored ADR	3.46	1.20
Sony Corporation ADR	3.74	1.13
Taiwan Semiconductor Manufacturing	3.28	1.04
Aptiv PLC	2.56	0.93
LVMH Moet Hennessy Louis Vuitton SE	3.22	0.90
Sociedad Quimica Y Minera De Chile	2.04	0.90
Infineon Technologies AG	2.77	0.89
WuXi Biologics (Cayman) ADR	1.38	0.73
ASML Holding NV ADR	2.31	0.68

LEADING DETRACTORS

STOCK	AVERAGE WEIGHT	CONTRIB. TO PERFORMANCE
Alibaba Group Holding Ltd. ADR	4.53	-1.02
Kingspan Group Plc Unsponsored ADR	2.74	-0.51
DouYu International Holdings Ltd. ADR	0.54	-0.26
WNS (Holdings) Limited Sponsored ADR	0.98	-0.22
TeamViewer AG Unsponsored ADR	0.45	-0.19
Astrazeneca PLC Sponsored ADR	1.68	-0.15
Dassault Systemes SA Sponsored ADR	1.70	-0.13
Swedbank AB Sponsored ADR Class A	0.27	-0.06
Canada Goose Holdings, Inc.	0.74	-0.04
Trip.com Group Ltd. Sponsored ADR	0.28	-0.04

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.

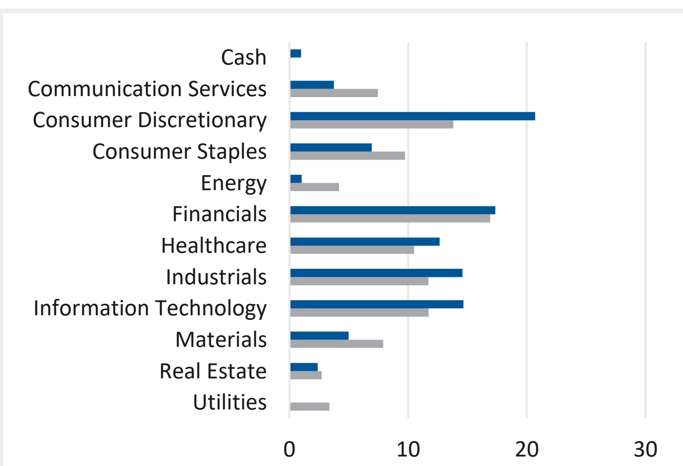
Positive Impacts

- Stock selection Healthcare.

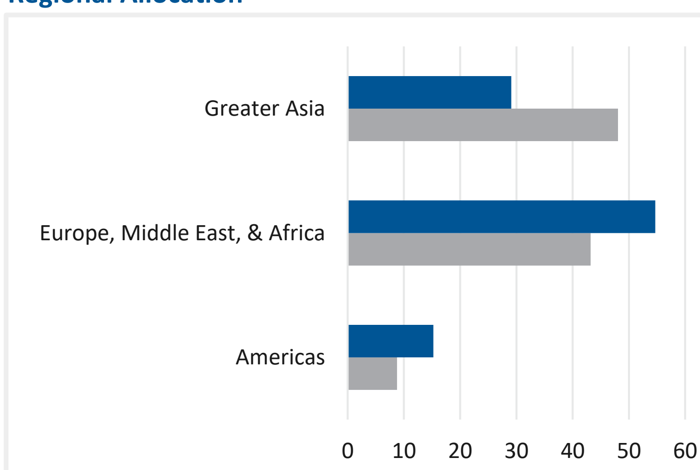
Negative Impacts

- Stock selection in Industrials.

Sector Allocation



Regional Allocation



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MSCI ACWI ex-US

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Composite Description: The International All Cap 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 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 to any officer to subscribe or purchase any investment nor shall it or the fact of its distribution form the basis of, or be relied on in connection with, any contract.