

# International Equity ADR

QUARTERLY UPDATE AS OF SEPTEMBER 30, 2019



## Investment Objective

Long-term total return  $\geq$  MSCI EAFE index plus 200 bps

## Volatility Objective

Target volatility  $\leq$  MSCI EAFE

## Strategy Highlights

River Road's International Equity ADR (iADR) Strategy seeks to provide long-term capital appreciation by investing primarily in non-U.S. companies trading as ADRs or otherwise traded in the United States.

The Strategy seeks to invest in high quality companies with improving fundamentals, trading at attractive valuations. Typical investment criteria include a minimum market capitalization of \$3 B and average daily liquidity of \$5 MM (including both ADR and local market liquidity).

The stock selection process is complemented by a risk averse approach that employs balanced diversification and a structured sell discipline.

## Portfolio Manager



**Wenjun (William) Yang, CFA**

17 years of experience;  
managed Portfolio since inception

Shanghai Jiao Tong University, BS  
Shanghai Institute of Foreign Trade, MS  
Texas Christian University, MBA

## Performance Summary



	Q3 2019	YTD	1 YR	3 YR	5 YR	Inception
<b>iADR Composite - Gross</b>	<b>-1.68%</b>	<b>16.81%</b>	<b>4.01%</b>	<b>7.95%</b>	<b>5.41%</b>	<b>4.23%</b>
<b>iADR Composite - Net</b>	<b>-1.81%</b>	<b>16.34%</b>	<b>3.44%</b>	<b>7.32%</b>	<b>4.69%</b>	<b>3.47%</b>
<b>iShares MSCI EAFE ETF</b>	<b>-1.05%</b>	<b>13.07%</b>	<b>-1.09%</b>	<b>6.76%</b>	<b>3.54%</b>	<b>2.85%</b>
Out / Underperformance	-0.63%	+3.74%	+5.10%	+1.19%	+1.87%	+1.38%
<b>iADR Composite Beta</b>					<b>0.91</b>	<b>0.92</b>
<b>iADR Composite Anlzd Std Dev</b>					<b>11.54</b>	<b>11.38</b>
<b>iShares MSCI EAFE ETF Anlzd Std Dev</b>					<b>12.16</b>	<b>11.89</b>

	2018	2017	2016	2015	2014
<b>iADR Composite - Gross</b>	<b>-12.44%</b>	<b>26.48%</b>	<b>-0.85%</b>	<b>3.21%</b>	<b>-4.13%</b>
<b>iADR Composite - Net</b>	<b>-12.92%</b>	<b>25.69%</b>	<b>-1.57%</b>	<b>2.32%</b>	<b>-5.11%</b>
<b>iShares MSCI EAFE ETF</b>	<b>-13.56%</b>	<b>25.34%</b>	<b>1.30%</b>	<b>-0.57%</b>	<b>-4.72%</b>
Out / Underperformance	+1.12%	+1.14%	-2.15%	+3.78%	+0.59%

Performance is shown gross and net of fees. iShares MSCI EAFE ETF performance presented gross of management fees and net of withholding taxes as more fully described in the disclosure information. Inception date: January 1, 2014. Out/underperformance compares the gross Composite and ETF. Source: River Road Asset Management LLC, FactSet Research Systems Inc., and Morningstar/Shares Funds. Past performance is no guarantee of future results. Beta and standard deviation are supplemental to the Composite presentation. Please see reverse side for important disclosure information.

## Portfolio Review

**Declining European growth expectations, the U.S.-China trade dispute, uncertainties over Brexit, and violent protests in Hong Kong weighed on international stocks in Q3**, with the MSCI EAFE and Emerging Markets indices returning **-1.00%** and **-4.11%**, respectively, versus **+1.70%** for the S&P 500 index.

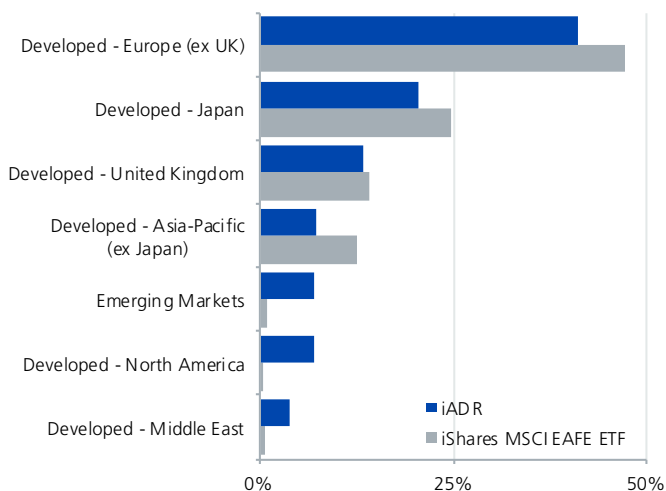
Contribution to relative return was negative across all regions in Q3. The **United Kingdom** had the lowest contribution to relative return while **Developed Middle East** had the highest. From a sector perspective, **Materials** delivered the highest contribution to relative return while **Communication Services** delivered the lowest.

The top contributor in Q3 was **London Stock Exchange Group plc Sponsored ADR (LNSTY)**, a major global data provider and securities exchange. LNSTY reported solid Q2 results driven by **rising demand for its data services and cost control efforts**. The company also announced an agreement to acquire Refinitiv, a global financial data and infrastructure provider, for \$27 B during its August earnings call. We believed the proposed acquisition could further strengthen LNSTY's competitive advantage with data services and could be EPS accretive for 2019, but we were concerned about **significantly higher balance sheet leverage and possible antitrust issues**.

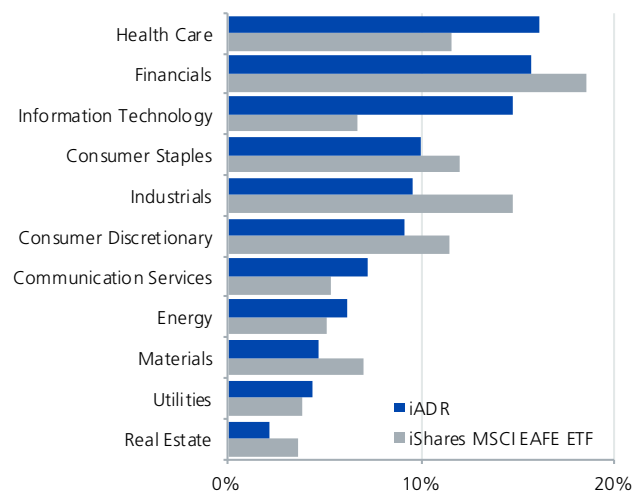
The Portfolio's bottom contributor during the quarter was **SAP SE Sponsored ADR (SAP)**, the world's largest enterprise resource planning (ERP) software provider. SAP shares moved sharply lower when the company announced **Q2 results below expectations** with reported operating profit down -21% primarily due to **lower software licensing revenue and increased acquisition-related costs**. The decline in software license sales (-5%) was largely driven by **delayed customer purchasing decisions, particularly in Asian markets as global trade concerns weighed on sentiment**. Despite this setback, SAP saw a net positive impact to its pipeline, indicating revenue was delayed but not lost.

We believe **heightened geopolitical risks are likely to continue to weigh on investor sentiment and returns, but attractive valuations and accommodative monetary policies should dampen downside risks**.

## Region Weightings



## Sector Weightings



## Characteristics

	iADR	iShares MSCI EAFE ETF
Number of Holdings	49	925
ROE (5 YR Avg)	12.5	11.7
EV / EBITDA	9.6	10.0
LT Growth Forecast	7.8	7.0
Dividend Yield <sup>1</sup>	2.50	3.37
Wtd Avg Mkt Cap (B)	\$78.40	\$63.89
Wtd Med Mkt Cap (B)	\$46.18	\$37.35
Cash	4.7%	
Annualized Standard Deviation <sup>2</sup>	11.54	12.16
Jensen Alpha <sup>2</sup>	2.10	
Beta <sup>2</sup>	0.91	
Turnover <sup>3</sup>	39.51%	

Region and sector breakdowns reflect percent of equity. Underlying country classifications determined by applying Bloomberg's Country of Risk Methodology; regions determined by River Road; stocks not classified by this methodology are not presented. Sector classifications provided from GICS; stocks not classified by this methodology are not presented. <sup>1</sup>Gross of fees; indicated yield does not anticipate special dividends. <sup>2</sup>Risk characteristics based on trailing 60 month gross of fee composite performance. <sup>3</sup>Average calendar year turnover since inception (January 1, 2014). <sup>4</sup>Melco Resorts and Entertainment Ltd. Shs Sponsored American Deposit Receipt Repr 3 Shs. Source: River Road Asset Management LLC, Bloomberg LP, FactSet Research Systems Inc., Morningstar/iShares Funds, and MSCI Inc.

Portfolio contribution calculated for the Q3 2019 period. For the purpose of assessing top and bottom contributors, the contribution of child securities is aggregated with that of the parent for corporate actions that occurred during the most recent calendar quarter. The holdings identified do not represent all of the securities purchased, sold, or recommended. To receive information regarding the methodology for calculating the top/bottom contributors or a list showing every holding's contribution to the overall Composite and/or representative portfolio performance contact RRAMCompliance@riverroadam.com. Past performance is no guarantee of future results.

**Representative Portfolios:** Performance data based on the Composite, all other data presented is based on a representative portfolio. If no single representative portfolio is available to represent the Strategy since inception, different representative portfolios and/or the composite are used for different periods to create a continuous representative portfolio. The representative portfolio is selected by the firm as a representative account that is deemed to best represent this management style using a pre-defined, objective set of criteria. All representative portfolio data is shown as supplemental information to the Composite presentation. Each client portfolio is individually managed and may vary from the information shown for the representative portfolio.

River Road Asset Management, LLC ("RRAM") is a registered investment adviser formed in April 2005 and is majority owned by Affiliated Managers Group, Inc. Registration of an investment adviser does not imply a certain level of skill or training. This presentation may be presented by an employee of Affiliated Managers Group, Inc., AMG Funds, or another AMG entity, which are affiliates of RRAM. RRAM claims compliance with the Global Investment Performance Standards (GIPS®). The firm maintains a complete list and description of Composites and a presentation that complies with the requirements of the GIPS® standards, which is available upon request by contacting RRAMCompliance@riverroadam.com.

The International Equity ADR Composite contains fully discretionary accounts that seek capital appreciation by investing primarily in non-U.S. companies that trade at a discount to valuation. For this Composite, RRAM defines non-U.S. companies as ADRs and other non-U.S. companies traded in the United States on an exchange, OTC, pink sheets or otherwise. The official benchmark for the Composite is the MSCI EAFE Gross Index. The MSCI EAFE Gross Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia, and the Far East, excluding the U.S. and Canada. The Index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries. Gross total return indexes reinvest as much as possible of a company's dividend distributions. The reinvested amount is equal to the total dividend amount distributed to persons residing in the country of the dividend-paying company. Gross total return indexes do not, however, include any tax credits. Composite performance may differ materially from the index as the investment universe for the composite and the index are different. All other indices are shown for additional information only. The U.S. Dollar is the currency used to express performance. Throughout the presentation Composite performance is presented gross of investment management fees, after the deduction of trading costs and includes the reinvestment of income. Starting October 1, 2016, composite performance is presented gross of foreign withholding taxes on dividends, interest income, and capital gains. Prior to October 1, 2016, composite performance is presented gross and net of foreign withholding taxes on dividends, interest income, and capital gains, depending on the treatment by the custodian. Net of fee performance is calculated using actual management fees. For periods including non-fee paying accounts, net was calculated for those accounts by applying the highest fee schedule effective at that time.

As of September 30, 2019, returns for the MSCI EAFE Gross are as follows for the month, QTD, YTD, 1 year, 3 year, 5 year, and Inception to Date periods: 2.92%, -1.00%, 13.35%, -0.82%, 7.01%, 3.77%, and 3.09%.

The Composite was created October 1, 2016. Performance presented prior to October 1, 2016 occurred while the portfolio manager was affiliated with prior firms and the portfolio manager was the only individual primarily responsible for selecting the securities to buy and sell. A review of this track record for compliance with portability requirements of the GIPS® standards was conducted by ACA Performance Services, LLC.

**ETF Benchmark Proxy:** The iShares MSCI EAFE ETF is shown as a benchmark proxy. This ETF is presented on a gross of management fee basis. FactSet Research Systems Inc. adds back in ETF expenses by applying the net expense ratios per annual reports (actual fees charged) in order to calculate the gross of fee number. Current expense ratios are used in the absence of historical. This ETF is also presented net of foreign withholding taxes on dividends, interest income, and capital gains. The iADR Composite performance is gross of foreign withholding taxes, which makes performance higher than if it were net of foreign withholding taxes.

The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in our portfolio at the time you receive this report or that securities sold have not been repurchased. Characteristics and sector weightings of our portfolio are shown and may not be indicative of this strategy's current or future investments. It should not be assumed that any of the holdings discussed herein were or will be profitable or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. This information is shown as supplemental information only and complements the full disclosure presentation.

Sector, Industry Group, Industry, or Sub-industry group levels are determined at the beginning of each quarter according to the Global Industry Classification Standard ("GICS"), developed and exclusively owned by MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P"), unless otherwise stated that they have been reclassified or classified by RRAM. Reclassifications/classifications by RRAM are not supported by S&P or MSCI. All GICS data is provided "As Is" with no warranties. RRAM may classify securities that are not automatically classified by MSCI and S&P.

Most company share-related characteristics exclude outliers. Outlier exclusion methods include interquartile and inverse interquartile; the universe for determining outliers is the MSCI ACWI. For more information, please contact RRAM.

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## Portfolio Contribution

Top Contributors		Avg Wgt	Contrib
LNSTY	London Stock Exchange Group plc Sponsored ADR	0.52%	+0.34%
SKHSY	Sekisui House Ltd. Sponsored ADR	1.35%	+0.25%
DWAHY	Daiwa House Industry Co. Ltd. Un-sponsored ADR	1.92%	+0.24%
SHECY	Shin-Etsu Chemical Co. Ltd. Un-sponsored ADR	1.41%	+0.20%
HOCPY	HOYA Corp. Sponsored ADR	2.42%	+0.17%
Bottom Contributors			
SAP	SAP SE Sponsored ADR	2.93%	-0.44%
AAGIY	AIA Group Ltd. Sponsored ADR	2.60%	-0.34%
SFTBY	SoftBank Group Corp. Un-sponsored ADR	1.73%	-0.34%
PUK	Prudential plc Sponsored ADR	1.60%	-0.30%
MLCO	Melco Resorts and Entertainment Ltd. Sponsored ADR <sup>4</sup>	2.30%	-0.23%

