

Portfolio Manager



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Senior Portfolio Manager

Top Contributors as of September 30, 2021

Company Name	Avg. Weight (%)	Contribution to Return (%)
ICON Plc	2.42	0.53
TFI International Inc.	2.47	0.39
Ajinomoto Co., Inc. Unsponsored ADR	2.33	0.28

Top Detractors as of September 30, 2021

Company Name	Avg. Weight (%)	Contribution to Return (%)
Rio Tinto plc Sponsored ADR	1.91	-0.25
Deutsche Post AG Sponsored ADR	2.80	-0.19
POSCO Sponsored ADR	1.47	-0.18

Source: Factset. For illustrative purposes only. Past performance does not guarantee future results. The holdings identified do not represent all of the securities purchased, sold or recommended for advisory clients. In the chart above, "weight" is the average percentage weight of the holding during the period, and "contribution" is the contribution to overall performance during the period. To obtain the calculation methodology and a list showing every holding's contribution to the overall composite during the period, contact: PortfolioAnalytics@ccmg.com.

Transitioning, Not Transitory

Market Review

While last quarter's commentary dissected inflation's transitory and permanent components (while stressing the significance of permanent labor cost gains derived from labor supply shortages), this quarter, we focus on monetary policy action potentially TRANSITIONING from a TRANSITORY regime of excess liquidity.

For the better part of 50 years from 1960-2009, the Fed Fund's Rate (FF), or the inter-bank collateralized lending rate, primarily sat above the yearly inflation rate as depicted by the annual change in Personal Consumption Expenditures Deflator (PCE). The Fed's primary monetary policy tool was nearly always above the inflation rate (FF>PCE) such that the real interest rate was permanently positive except for those periods of recession induced extreme expansionary monetary easing. Policy, however, has reversed dramatically since the 2008-2009 Great Financial Crisis. For the last 13 years, FF has rested below the PCE, creating a negative real interest rate to stimulate borrowing and lending to drive inflation to the magical (and arbitrary) 2.00% Fed objective. With negative real rates at a record -4.2% (0.1%-4.3%), something must give.

It's Called Duration

I have often described equity market performance as growth-focused or value-driven or risk-on. Often, this description over-simplifies equity market performance attribution. For the 10-year period ending 2020, for instance, we and other market analysts describe that period as a large-cap growth market because the Russell Large Cap Growth Index outperformed value or Russell 2000 small-caps by 7% and 6%, respectively.

While it is true that growth outperformed value during this period, not all the excess return can be attributed to the revenue or earnings growth differences of each index's subcomponents. I believe some portion (maybe a third) can be attributed to the timing of the expected cash flows and how assets with different average time-weighted cash flows respond to changes in interest rates.

In bond parlance, the measure of time of weighted average cash flow is called duration. Again, to slothfully oversimplify, value stocks like Utilities and cyclicals tend to have a larger portion of their weighted average cash flows (think earnings and dividends) in the near future while growth stocks with higher P/E ratios have a greater portion of their expected future cash flows into the far future.

As inflation and interest rates have largely declined since 2008, companies with a greater portion of their expected future cash flows into the far future (high duration stocks) have outperformed. It's math. Per the "transitioning" paragraph above, we must be mindful that math works both ways and if Fed policy becomes more restrictive, short duration stocks should become relatively more attractive.

*Past performance is not indicative of future results.
This is not a recommendation to buy or sell a particular security. Please see attached disclosures.*



Third Quarter Performance Highlights

- The Navigator® International Equity/ADR strategy delivered annualized gains of 11.91% gross (8.62% net) vs. the gains of 7.48% for the MSCI All Country World ex-USA Index over ten years ending September 30, 2021.
- For the third quarter of 2021, the strategy had a gain of 1.31% gross (0.55% net) versus the -2.99% loss in the MSCI All Country World ex-USA Index.
- Year to date, the strategy has gained 15.74% gross (13.17% net) vs. 5.90% gains for the MSCI All Country World ex-USA Index.
- Our positioning in Consumer Discretionary and Healthcare helped relative performance while positioning in Materials and Energy acted as a drag.
- Our holdings such as Icon PLC and TFI International helped performance in the quarter as positions in Rio Tinto and Deutsche Post hurt performance.

Positioning and Outlook

Value, small-caps, and international equity declined in the third quarter as an increase in COVID (primarily the Delta variant) cases suppressed economic growth, earnings expectations and prolonged supply and labor shortages. During the quarter, we have attempted to balance our growth and value exposure while reducing portfolio risk and tracking error.

Importantly, our Navigator® ADR Strategy had little or no exposure to China during the quarter as we anticipated business momentum to decelerate. As the quarter unfolded, slower economic conditions were met with increased regulation such that their broad stock market measures declined approximately 5%. Although Chinese equities have had both poor short-term and long-term performance, the size of the economy and its 9% representation in the MSCI All Country – US index, compel us to closely monitor changes in anticipated economic growth and the regulatory environment.

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Foreign securities are more volatile, harder to price and less liquid than U.S. securities. They are subject to different accounting and regulatory standards and political and economic risks. These risks are enhanced in emerging market countries

The MSCI All Country World is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world.

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 26 Emerging Markets (EM) countries*. With 2,206 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

The volatility (beta) of a client's portfolio may be greater or less than its respective benchmark. It is not possible to invest in these indices.

Index returns include the reinvestment of income and dividends. The returns for these unmanaged indexes do not include any transaction costs, management fees or other costs. It is not possible to make an investment directly in any index.

The Russell Large Cap Growth Index is a subset of the broader Russell 1000 Index that seeks investment results (before fees and expenses) that correspond to the total return (which includes capital appreciation and income) of the Russell Top 200® Growth Index ("index").

The Russell 2000 Index measures the performance of the 2000 smallest U.S. companies based on total market capitalization in the Russell 3000, which represents approximately 11% of Russell 3000 total market capitalization.

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