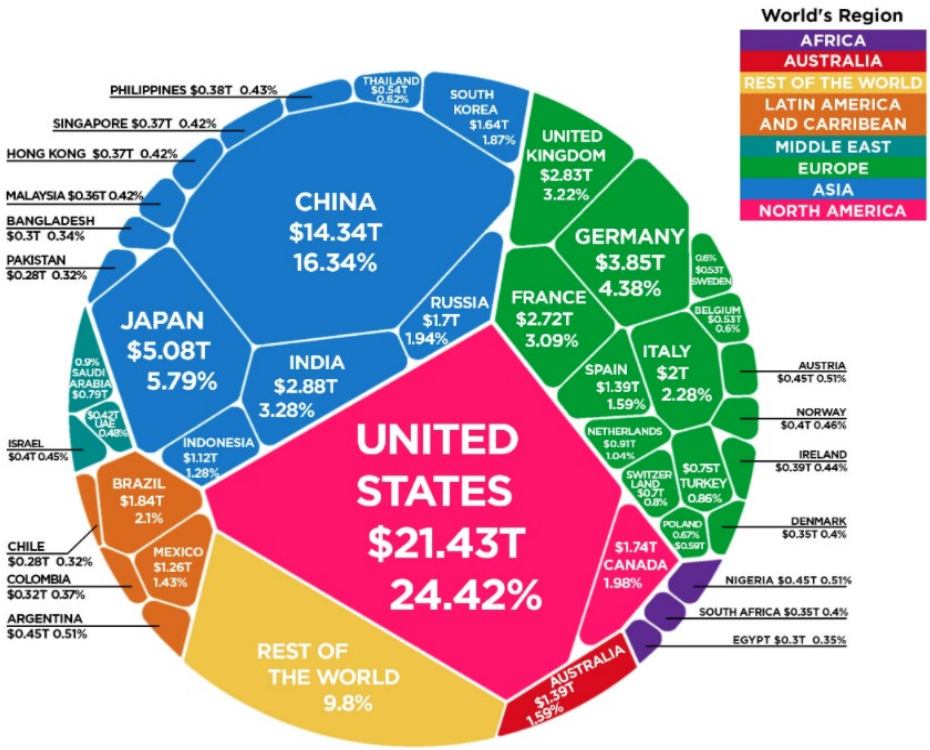
Improving Access to Global Opportunities

The World Economy
Gross Domestic Product (GDP) by Country 2019



Source: howmuch.net

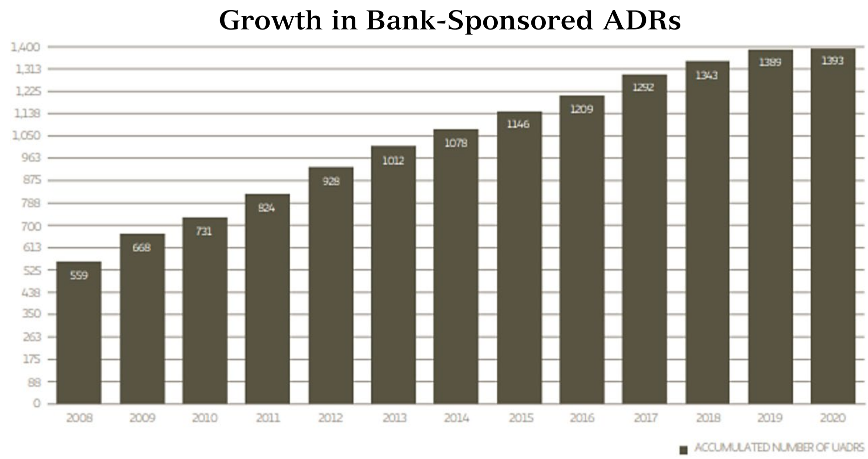
When we ring in the New Year in a few short weeks, it will mark twenty years of implementing our four pillars investment philosophy. While the process remains the same, the opportunity set for new investments has evolved. As the global economy developed, so too have the opportunities to invest in growing regions around the world. According to the World Bank, in the year 2000 the U.S. represented 30.5% of World GDP. As seen in the chart above, that share declined to 24.4% even though GDP in the U.S. doubled over that time period, according to Bloomberg. The U.S. has been a great place to invest, not only because of this growth, but also because of the relative ease and efficiency of investing in this market.

How do investors gain simple and cost-effective access to stocks in these foreign markets as they grow in prominence? One method is through bank-sponsored American depositary receipts (ADRs). Unlike a company-sponsored ADR where the foreign company absorbs the cost of issuing the security, with a bank-sponsored or unsponsored ADR, a bank absorbs the cost. In October 2008, the Securities and Exchange Commission changed its rules enabling banks such as Citibank, Bank of New York/Mellon, Deutsche Bank and J.P. Morgan to create and trade ADRs where they saw demand without a formal application from the company itself. As a result, investors were able to purchase globally-owned household names with multi-billion dollar market capitalizations such as Nestle, Roche, Adidas and Heineken. Over time, investors saw the creation of more bank-sponsored ADRs, as shown in the graphic on the second page. Not only has this category grown in terms of the number of securities, but also across various regions as seen in the following graphic.

Companies with Bank Sponsored ADRs

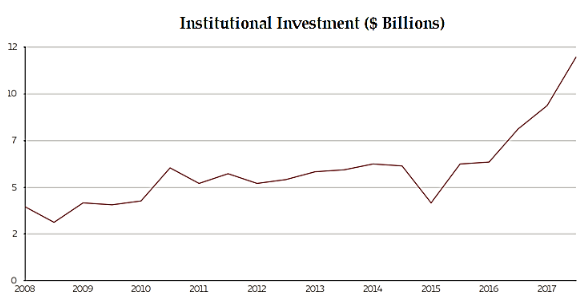
Asia Pacific	702
Continental Europe	605
Central/Eastern Europe	29
Middle East/Africa	53
Latin/South America	4

Source: Oxford Metrica, as of Feb. 2020



Source: Oxford Metrica

Acceptance among institutional investors grew as well, with over 300 firms holding bank-sponsored ADRs, while assets invested in these securities have nearly tripled since 2008, and appears to be accelerating as seen in the following chart.



Source: Oxford Metrica

According to Oxford Metrica, bank-sponsored ADRs were created on behalf of companies in 43 countries and now represent almost half of all ADRs that are traded. Investors benefit from the efficient access to a broader set of promising investment opportunities.

As always, thank you for your interest and trust in managing your investments.

Charles J. Wittmann, CFA®, Executive Director, joined Sterling Capital Management in 2014 and has investment experience since 1995. Chip is an equity portfolio manager. Prior to joining Sterling, he worked for Thompson Siegel & Walmsley as a portfolio manager and (generalist) analyst. Prior to TS&W, he was a founding portfolio manager and analyst with Shockoe Capital, an equity long/short hedge fund. Chip received his B.A. in Economics from Davidson College and his M.B.A. from Duke University's Fuqua School of Business. He holds the Chartered Financial Analyst® designation.