

# BNYM Walter Scott International Stock ADR Strategy

SEPARATELY MANAGED ACCOUNTS | MANAGER COMMENTARY | Q2 2025

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## MARKET REVIEW

It was a volatile start to the quarter for international markets, triggered by the announcement of US reciprocal tariffs. However, the subsequent postponement of these levies led to a strong rebound, as investors interpreted the move as a negotiating tactic. Despite this optimism, elevated tariff levels and ongoing uncertainty have begun to impact economic indicators.

“Despite slower consumer spending and a challenging manufacturing backdrop, the outlook for growth looks subdued, but not desperate.”

In Europe, the European Commission downgraded its 2025 growth forecast from 1.3% to 0.9%. Nonetheless, investor sentiment remained positive, supported by hopes of avoiding tariffs, potential European Central Bank rate cuts, and Germany’s pivot toward fiscal stimulus. Rising defense budgets also attracted investor interest.

In Japan, the economic narrative is one of rising wages but also higher inflation, which has limited real wage growth and is constraining consumer spending to some extent. Despite a negative gross domestic product (GDP) print in the first quarter, consumption remained resilient. The Bank of Japan’s Tankan survey showed some strength among large manufacturers, although the auto sector remained weak.

From a market perspective, information technology stocks led the way, particularly those with exposure to artificial intelligence (AI). Industrial stocks also performed well, supported by defense-related demand and signs of economic stabilization. In contrast, consumer-facing sectors, especially luxury goods, were more subdued.

## PERFORMANCE REVIEW

The information technology sector enjoyed a positive quarter, and the strategy’s technology stocks contributed the most in both absolute and relative terms. The leveraging of AI has helped fuel growth momentum in these businesses.

This relative gain was offset within the industrials and health care sectors. Industrials stocks trailed their index peers. The sector’s index return was largely driven by the strong aerospace & defense and electrical equipment industries and the strategy’s holdings did not keep pace. Healthcare stocks endured a lackluster quarter and the strategy’s greater exposure to the sector was a key detractor in relative terms.

## TOP CONTRIBUTORS

The top contributors to relative performance include **Taiwan Semiconductor, ASM International, ASML, Ferrari, and L’Oréal.**

## TOP DETRACTORS

The top detractors from relative performance include **LVMH, MisumiGroup, Coloplast, Sysmex, and TotalEnergies.**

## MARKET OUTLOOK

With the trade deal clock ticking, investors will likely be focused on the next steps of the tariff saga. So far, markets have reflected a relatively sanguine view of economic prospects, and a belief that not-too-disruptive agreements founded on economic pragmatism will prevail. At the moment, despite slower consumer spending and a challenging manufacturing backdrop, the outlook for growth looks subdued, but not desperate. A ratcheting up of tariffs could change that dynamic, testing the 'muddling through' narrative. Monetary policy should continue to be benign, and the Bank of Japan is likely to tone down its normalization of interest rates policy in the face of economic fragility. There has been little sign of bond market vigilantism over the extent of budget deficits, but we anticipate higher yields await countries whose fiscal exuberance may eventually spook investors. Middle East tensions and war in Ukraine have barely dented market sentiment but remain a potential source of equity market volatility.

We remain optimistic regarding the long-term prospects for the holdings in our portfolio. We feel many of the world's leading businesses are well versed in navigating their way through economic and political cycles. They may experience share price and earnings volatility, but over time their fundamental strengths come to the fore. Our conviction is based on the rigor of our process, testing and debating the validity of investment theses, but we are also seeking out new opportunities.

| Top 10 Holdings (6/30/25)*  |       |
|---|-------|
| Taiwan Semiconductor ADR  | 4.38% |
| Air Liquide ADR   | 4.11% |
| ASML  | 3.57% |
| Hermès International ADR  | 3.43% |
| Compass Group ADR   | 3.36% |
| Ferrari   | 3.28% |
| SAP ADR   | 3.17% |
| L'Oréal ADR   | 3.12% |
| Inditex ADR   | 2.93% |
| Amadeus IT Group ADR  | 2.77% |
| <p>*Source: Walter Scott. Top 10 equity weights are based on a representative model account, exclusive of cash. Individual accounts may vary. There is no assurance that the securities will remain in the portfolio or that other securities have not been purchased.</p> <p>The SMA Strategy is provided on both a discretionary and non-discretionary basis.</p> |       |

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## RISKS

**Diversification** cannot assure a profit or protect against loss. **Equities** are subject to market, market sector, market liquidity, issuer, and investment style risks, to varying degrees. **Small and midsized company** stocks tend to be more volatile and less liquid than larger company stocks as these companies are less established and have more volatile earnings histories. Investing in **foreign denominated and/or domiciled securities** involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries.

## Definitions

**NAV** is Net Asset Value. **YTD** is Year to Date. **FDIC** is Federal Deposit Insurance Corp.

**Artificial intelligence (AI)** refers to computer systems that can perform tasks typically requiring human intelligence, such as visual perception, speech recognition, decision-making, and language translation. **Gross domestic product (GDP)** is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

## Index Definition

The **MSCI EAFE Index (Europe, Australasia, Far East)** is a free float-adjusted, market capitalization-weighted index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. Reflects reinvestment of net dividends and, where applicable, capital gain distributions. Investors cannot invest directly in any index.

American Depositary Receipts (ADRs) are certificates evidencing ownership of shares of a foreign-based issuer held in trust by a bank or similar financial institution. ADRs are alternatives to the purchase of the underlying securities in their original markets and currencies. ADRs are subject to many of the same risks as the foreign securities to which they relate.

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