



International ADR Product Information

Description:

The International ADR Strategy is a direct extension of our Price to Intrinsic Value methodology. At the request of a long-standing client, we have created an EAFE oriented ADR only product. As of 12/31/06, we have \$384 million of client assets running in this strategy, which has been in place since 3rd quarter 2005. It is a long ADR only portfolio that contains approximately 75-100 names. The portfolio limits purchase of securities to those with market capitalization of \$1 billion or greater. The strategy follows the same basic disciplines as our other longer standing investment products. Incorporating a strict sell discipline as well as a buy side methodology, we are able to identify securities selling at significant discounts or premiums to their current intrinsic value.

We screen for ADRs that possess a market capitalization of \$1 billion and above, global diversification, extraordinary quality in the balance sheet and income statement, exceptional internal management, and a catalyst that can force recognition by the market of the intrinsic value. Utilizing both quantitative and qualitative detailed fundamental research, we are able to create a portfolio that seeks to replicate these qualities. We tend to hold on average 75-100 positions balanced across multiple countries and industry sectors. We also can allocate up to 15% of the portfolio outside of EAFE countries. We modify the sector weightings against the EAFE index. Our portfolio team maintains an active database of 1000 ADRs that are subjected to this methodology and reviewed regularly for purchase or sale candidates.

Investment Process:

The investment process is constant. It begins with the portfolio team. There are no stars at Todd as all portfolios are created through a strong consensus process. Each product has a team leader who is responsible for leading the specific product; however, all actions are taken through a simple majority vote. **Curt Scott** is the team leader for the International ADR strategy.

Every week, the respective securities in the database are quantitatively reviewed and screened to create a subset of candidates. These candidates are sorted by multiple headings including price to intrinsic value, market capitalization, sector, and quality, among others. The team then evaluates the list of those that meet the criteria for purchase or sale. A weekly research meeting is held for each product at Todd. The team leader, in conjunction with the Director of Research, is responsible for setting the agenda and preparing for weekly meeting. Our basic framework, including format and process for weekly meetings, is standardized for all fundamental investment products.

We begin with a macroeconomic overview of the world economy to evaluate each of the countries represented in the EAFE index. We then evaluate the respective region weightings in the EAFE and modify these weightings by up to plus or minus 10% on an absolute basis. We may also add up to 15% in non-EAFE securities. Assessments are then made regarding the 10 major financial sectors both from a macroeconomic perspective and through our Price to Intrinsic Value process. Utilizing our proprietary Price to Intrinsic Value methodology, we rank each of the sectors based upon the currently available traded ADRs. All ADRs are then run through our proprietary Price to Intrinsic Valuation methodology and screened for market capitalization and favorable price to intrinsic valuation. We take the residual list of approximately 300 and begin to fundamentally evaluate them for inclusion in the portfolio. The final step is to match acceptable candidates to the macroeconomic overview completed at the beginning of the process. Should no suitable candidates be found, due to either poor valuation or lack of ADR availability, we may seek to become a market participant in that particular sector or country by utilizing an ETF where available.



TODD Investment Advisors, Inc.

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We seek to build a portfolio of approximately 75-100 names. The portfolio allows no purchase greater than 2% at inception and 3% at appreciation. The portfolio limits purchase of securities to those with market capitalization of \$1 billion or greater. We also utilize technical analysis for momentum, moving averages, and sell side pressure among other factors to determine the proper entry point for the position. Upon inclusion in the portfolio, we employ a strict sell discipline. Should a position decline by 10% it is automatically put on watch and reevaluated. A determination is made to buy, hold, or sell. Should a position decline by 20%, we employ an automatic sell discipline. The ADR screens are run weekly and the portfolio daily.

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