



# CALDWELL TRUST COMPANY

PERSONAL • TRADITIONAL • INDEPENDENT

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## INVESTMENT LETTER

Reducing Exposure to China Further

### *Special Anniversary Edition!*

Lee and Suzanne Thacker Celebrate  
25<sup>th</sup> Anniversary at Caldwell Trust Company

BUILDING WEALTH | PRESERVING LEGACY



**J. Chris McGee, CFA, CAIA**  
Chief Investment Officer

Late last year we wrote about the impact of Chinese government crackdowns on myriad Chinese companies and industries in our piece entitled **The Chinese Regulatory Crackdown and Emerging Markets Investing**. The piece outlined the price decline in top Chinese companies that resulted from actions by the communist authorities related to national security, technology, and social issues.

We also pointed out the Variable Interest Entity (VIE) structure many Chinese companies utilize in listing their shares on foreign exchanges (such as exchanges in the U.S.) that negate any rights of foreign investors. Additionally, we pointed out the persistent disclosure violations by Chinese entities and the lack of enforcement of disclosure requirements by the Securities and Exchange Commission (SEC).



**Gail Neujahr, CFA®**  
Vice President & Portfolio  
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These conditions had negative implications for Chinese stocks listed abroad and Emerging Market returns in 2021, which have exposure of between 30% and 40% to Chinese companies. This occurred in a year when most major equity indices globally turned in exceptional returns. Chinese stocks with foreign listings declined in excess of 20% last year; the Emerging Markets Index fell just under 3%. For perspective, Developed International Stocks advanced over 15% and the S&P 500 advanced north of 25%.

At the time we published the earlier piece we decided to reduce our exposure to China primarily by investing in Emerging Markets via an Exchange Traded Fund (ETF) that contains no investments in Chinese companies. We continued to hold a few legacy ETFs, chiefly iShares MSCI Emerging Markets ETF (symbol EEM) and Vanguard FTSE Emerging Markets ETF (symbol VWO), that have exposure to China primarily through foreign listings. For all of 2021 EEM declined by 3.72% and VWO advanced just 0.96%. The Emerging Markets ETFs without exposure to Chinese markets, iShares MSCI Emerging Markets ex China (symbol EMXC), returned 8.67%.

We hold few American Depositary Receipts (ADRs) directly in accounts, such as Tencent and JD.com, so our exposure is limited via this channel.

A January 4th *Wall Street Journal* front-page article, **China's Domestic Stocks Surge; Clampdown Hits Shares Abroad**, provided additional insight into the matter. The article points out that a tremendous amount of capital formation and fund flows are being made into Chinese companies listed domestically on the mainland, specifically A shares, which trade on the Shanghai and Shenzhen exchanges. These shares have historically been unavailable to foreign investors, but restrictions have been gradually relaxed and foreigners are able to invest indirectly through a program called Stock Connect via the Hong Kong exchange.

Consequently, foreign investors are rotating out of shares listed abroad such as ADRs. The article claims that domestic Chinese stocks (i.e., the A shares) rose in value by 20% last year. The two legacy ETFs we mentioned above—EEM and VWO—have attempted to increase their A share holdings in Chinese companies, but those holdings are not meaningful, and the funds continue to hold predominantly Chinese stocks with foreign listings.

The article also states that the crackdown by communist authorities coincidentally and disproportionately hit those industries and Chinese companies with foreign listings. In any event, clearly China is moving away from foreign capital markets and towards domestic financing. Our view is that this move only further increases the risk of investing in China.

A recent interview appearing in Barron's, **A Bear in a China Shop Takes Stock** (December 13, 2021, edition, page 36) only solidified our view. It is an interview with Carson Black, founder and chief investment officer of Muddy Waters. Black has spent his career researching domestically listed shares (A Shares) of Chinese stocks. The article outlines Black's experience researching and investing in Chinese entities. His experience uncovered rampant accounting irregularities, lack of disclosure, stock manipulation, government manipulation of capital markets, and rampant puffery around company revenues and profits.

At best, investing in international securities is difficult due to political risk, different accounting standards, lack of transparency, and governance standards. International investing came into vogue over three decades ago and was justified by academicians and the "Street" based on the benefits offered in the portfolio construction process. As we have written previously, these benefits have eroded over time. Increasingly, international investing has offered high correlation with domestic equities (a bad thing), greater volatility, and lower returns. These realities are why Caldwell Trust Company has a preference to invest domestically (aka a "home bias"). The additional problems inherent in investing in China make any risk assessment nearly impossible. Our objective in managing portfolios for clients is to maximize their risk-adjusted returns.

We will move out of our legacy ETF holdings with exposure to China. This will leave us with exposure to China primarily through U.S. equities that do business in China. Below is a list published by Barron's in a November 15, 2021, article entitled **U.S. Companies Face New Risks in a Changing China. What That Means for the Stocks**. The list contains 20 companies in the S&P 500 with the greatest sales exposure to China:

Wynn Resorts 70% (70% of Wynn Resort's sales are in China), Las Vegas Sands 63%, Qualcomm 60%, Texas Instruments 55%, IPG Photonics 42%, Western Digital 40%, NXP Semiconductors 39%, Qorvo 34%, Broadcom 33%, Corning 33%, Applied Materials 32%, LAM Research 31%, Amphenol 30%, Xilinx 29%, Intel 26%, KLA 25%, Analog Devices 24%, AMD 24%, MGM Resorts 24%, and Nvidia 23%.

Note that these 20 domestic stocks cluster around the gaming and semiconductor industries. None of the gaming stocks noted above (Wynn Resorts, Las Vegas Sands, and MGM Resorts) are on our approved list. However, several of the semiconductor stocks listed above (including Nvidia, Qualcomm, and AMD) are on our approved list. Further, many S&P multinationals not listed above have significant operations in China including Apple, Nike, and Starbucks. Looking at the S&P 500 in aggregate, it is estimated that about 5% of revenues are generated in China. Exact amounts of revenues and profits derived from China are difficult to assess with certainty as companies report sources of revenues and profits differently. We will continue to monitor our exposure.





## *Lee and Suzanne Thacker Celebrate 25<sup>th</sup> Anniversary at Caldwell Trust Company*

**H. Lee Thacker Jr., CFP, senior executive vice president, corporate secretary and trust officer, and wife Suzanne Thacker, compliance coordinator, celebrate 25-Year anniversary at Caldwell Trust Company**

Lee earned an economics degree from Duke University, a certificate from the Louisiana State University School of Banking of the South, and designation as a Certified Financial Planner (CFP).

Lee began working in financial industries in 1958, holding responsible positions in North Carolina, South Carolina, Florida, and Georgia. Like company founders Roland G. Caldwell and his son Kelly, Lee too became discouraged by constant bank mergers and acquisitions. Like them, he started his own financial services firm, which prospered. He sold his share to his partner and, just as the Caldwell father and son, Lee charted a path in financial planning and investing. "I decided to become a Certified Financial Planner," Lee said. "I became very interested in estate planning and investments."



The relationship between the Thackers and the Caldwells was a product of geography, mutual interests and coincidence. The semi-retired Thacker recalled happy memories of Florida and decided to return. They settled in Venice in early 1996—coincidentally, just down the street from Caldwell Trust Company's first office.

As they looked for a firm to oversee their investment needs, they discovered a newspaper article, "The House That Roland Built," about Roland Caldwell and his nearby company. They headed down the street and met with Roland Caldwell.

The Thackers were so impressed that they immediately became clients. The positive feelings were mutual. Roland invited Lee to "hang out," to see what his company was doing. "One thing led to another and soon I was working pretty much full-time," Lee says. "I had visited as a potential client and signed on as an employee as of January 1, 1997. I've never regretted it for a moment." Suzanne was still working for an Atlanta financial software developer but soon she too became a consultant, designing the company's first website. She joined Caldwell a few months after Lee, working as the company's compliance coordinator.

While continuing as a trust officer at Caldwell, Lee advanced over the next quarter-century to become senior executive vice president, corporate secretary, and a member of the boards of directors of Caldwell Trust Company and its parent, Trust Companies of America, all while serving on the executive, trust and security committees. In 2018, when the company reorganized into four business segments, he also took on management of all corporate matters.

When Lee and Suzanne joined Caldwell, the company had 10 employees, a tiny office, and \$100 million in assets under management. During his time as a key part of the management team, the company grew exponentially to 33 employees, impressive office buildings in two cities, and \$1.4 billion in assets under management.

### A GIVING HEART

In addition to holding responsible positions with Caldwell for over two decades, Lee still finds time to help organizations he admires. Among them was Venice (Little) Theatre, where he began a two-year term as board president in 2007. He views Venice Theatre as "a major part of the community's identity," one that allowed more than 90,000 people each year to experience the special power of the arts."

### SERVICE TO THE BOYS & GIRLS CLUBS OF AMERICA

Lee's service to the Boys & Girls Clubs of America is legendary. His reason? "The Clubs save lives," he said. "The most meaningful impact I can make is by helping a child realize their own greatness."

Since 1969 Lee devoted untold hours, dispensed priceless amounts of wisdom and, with Suzanne, made generous financial contributions to chapters of the Boys & Girls Clubs of America in three states, beginning in Columbia, S.C., where he was on the board for 12 years and also became president. A career move took him to Orlando, where he served on a B&G board from 1986-1989 and was chosen as "Board Member of the Year." In Atlanta, he served on a B&G board from 1990-1994, again being named "Board Member of the Year."

When the Thackers moved to Venice in 1996, they immediately became involved with the Boys & Girls Clubs of Sarasota County (now the Boys & Girls Clubs of Sarasota and DeSoto Counties), with its two clubs. With guidance from Lee and other board members, the organization now operates six freestanding clubs and four schools, serving over 3,000 kids every year. Lee served on the board since 1996, was president (1999-2000) and always headed committees. He helped make the Lee Wetherington Club a reality and was instrumental in developing the Robert & Joan Lee Club, "my proudest accomplishment," he said.

Professionally, Lee reached the top levels of management and influence during his chosen ongoing career at Caldwell Trust Company, where he continues to forge strong friendships and earns genuine respect from colleagues and clients alike.







## *Lee and Suzanne Thacker Celebrate 25<sup>th</sup> Anniversary at Caldwell Trust Company*

### **Suzanne Thacker: software, soft voice, strong results**



In some ways, Suzanne's career path was almost a straight line from college to her position as compliance coordinator for Caldwell. She got a job right out of high school and worked her way through the University of South Carolina. "I walked back and forth between classes and my job," she said. She graduated *cum laude* as a Phi Beta Kappa—one of the first in her family to finish college. "I was going to be an English teacher but things didn't work out that way and I'm glad they didn't," she said. Instead she began working at a bank and completed its management training program. While there, she started the bank's first documentation department and a writing career began. She subsequently managed the documentation department of an insurance software developer. When Lee took a job in Orlando, her technical writing career continued with a banking software developer there.

Another job opportunity took the couple to Atlanta, where she was both a technical writer and an online help developer for a credit union software firm. "All along the way, I was gaining skills I would eventually put to use for Caldwell," she said.

"Kelly Caldwell realized that I had a substantial technical background and that I knew my way around a computer. He hired me as an independent contractor to develop the company's first website, then brought me on board as a Caldwell employee in late 1997." At the time, Kelly and a close associate were tied down with compliance requirements. "They were doing all of the filings themselves with the SEC and State of Florida, many of them involving software. They realized that with some training I could do all that to free them up including the filings and financials for mutual funds advised by a Caldwell affiliate."



Suzanne and Lee share many interests. Aside from their involvement with the Boys & Girls Clubs, Lee supports another of her loves. "I really enjoy cooking," she said. "Lee is my *sous chef*." He surprised her with a trip to France and a cooking school in Provence. "It's one of our most treasured memories," she said.

They also treasure their relationship with Caldwell. "We've watched Caldwell serve its clients over the years and we know that if we ever need anything, Caldwell will be there for us too," she said. "It's a good feeling."



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