



# ICON

## ADR BASICS

### What is an ADR?

An American Depositary Receipt (ADR) is a negotiable certificate issued by a U.S. bank that represents a specified number of shares in a foreign company and is traded on the New York Stock Exchange (NYSE), the American Stock Exchange, or NASDAQ.

ADRs represent domestic ownership of shares in a foreign corporation. Foreign companies issue ADRs primarily to enlarge their investor base, enhance local market trading, and raise new capital.

### When did ADRs originate?

JP Morgan introduced ADRs to the financial markets in 1927 as a result of the complexities involved in buying shares in foreign countries and the difficulties associated with trading at different prices and currency values.

### How do ADRs work?

- Individuals may buy shares in a foreign company and realize any dividends and capital gains in U.S. dollars. ADRs reduce administration costs and avoid foreign taxes on each transaction (no custody fees).
- ADRs settle according to U.S. rules.
- ADRs allow foreign companies to tap into North American equities markets.

### What are the risks of ADRs?

ADRs do not eliminate the currency and economic risks for the underlying shares in another country. For example, ADR returns of a Japanese company will still fluctuate by the yen/dollar exchange rate. Nor do ADRs eliminate the affects of the political market, or other risks associated with international investing.

### Who regulates ADRs?

ADRs are regulated by the Securities and Exchange Commission (SEC).

### What standards do ADRs have to meet to be traded on a U.S. exchange?

Level I ADRs are a convenient way for foreign companies to gain exposure in American markets. Level I ADRs can be traded only on the OTC market and have minimal reporting requirements.

Levels II and III sponsored ADRs require SEC registration and adherence to applicable requirements for U.S. GAAP accounting standards. Level II ADRs are exchange-listed but do not involve raising new capital. Level III ADRs typically generate the most U.S. investor interest because capital is being raised.

### Are ADRs liquid?

Most ADRs traded on the NYSE are generally liquid. However, some over-the-counter-listed ADRs of smaller companies might not have enough trading volume on a given day to buy without paying a significant premium to the bid price or sell without paying offering shares at a big discount.

In summary, ADR liquidity mimics traditional U.S. equities. ADRs of larger companies are quite liquid, and ADRs of smaller, less proven companies are less liquid.

### Do ADRs behave like domestic or international stocks?

ADRs are denominated in U.S. dollars, with the underlying security held by a U.S. financial institution overseas. Depository banks custody the securities in the country of origin and convert all dividends and other payments into U.S. dollars. ADRs are set up to behave more like their international counterparts. ADR shares float on supply and demand, just like a regular stock.



## How does ICON apply its investment methodology to select ADRs?

To invest in ADRs, ICON implements the same methodology as it applies to industry and stock selection in all products. The investment team evaluates value-to-price ratios and relative strength based on industries while also observing country- and company-level metrics along with quality ratings.

ICON looks to local company issues for the value-to-price, relative strength, and quality metrics, not the ADR. For example, if ICON was considering the ADR for a Japanese auto manufacturer, ICON would run valuation and relative strength measurements based on the auto stock traded in Japan. From that analysis, if ICON decided to invest in the company, we would purchase the ADR traded on the NYSE for the transaction.

Sources: ICON Advisers, Inc., “Why Do Companies List Shares Abroad?” by G. Andrew Karolyi, [investopedia.com](http://investopedia.com), [seekingalpha.com](http://seekingalpha.com)

*Investments in international securities may entail unique risks, including political, market, regulatory and currency risks. Financial statements of foreign companies are governed by different accounting, auditing, and financial standards than U.S. companies and may be less transparent and uniform than in the United States. Many corporate governance standards, which help ensure the integrity of public information in the United States, do not exist in foreign countries. In general, there is less governmental supervision of foreign stock exchanges and securities brokers and issuers.*

*An investment concentrated in sectors, industries, and countries may involve greater risk and volatility than a more diversified investment.*

*ICON's value-based investing model is an analytical, quantitative approach to investing that employs various factors, including projected earnings growth estimates, in an effort to determine whether securities are over- or underpriced relative to ICON's estimates of their intrinsic value. ICON's value approach involves forward-looking statements and assumptions based on judgments and projections that are not guarantees of future results. Value investing involves risks and uncertainties and does not guarantee better performance or lower costs than other investment methodologies.*

*ICON's value-to-price ratio is a ratio of the intrinsic value, as calculated using ICON's proprietary valuation methodology, of a broad range of domestic and international securities within ICON's system as compared to the current market price of those securities. To analyze intrinsic value, the ICON valuation methodology relies on the integrity of publicly released financial statements.*

*ICON's “relative strength” estimate reflects ICON's calculation of how an individual stock has performed compared to the broad stock market over a six-month period.*

*If you would like to receive, at no charge, the most recent copy of ICON's disclosure document, Form ADV Part II, please send your request in writing to: Attention: Compliance, ICON Advisers<sup>SM</sup>, 5299 DTC Boulevard, 12th Floor, Greenwood Village, CO 80111.*

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