Non-U.S. Equities – Validating Portfolio Benefits

February 2019

OVERVIEW

- **Investing in global equities requires a holistic view of the shrinking world in which we live**
- **The U.S. has recently outperformed in terms of both economic growth and market performance**
- **As relationships cycle through time, successful implementation requires consistent engagement abroad**

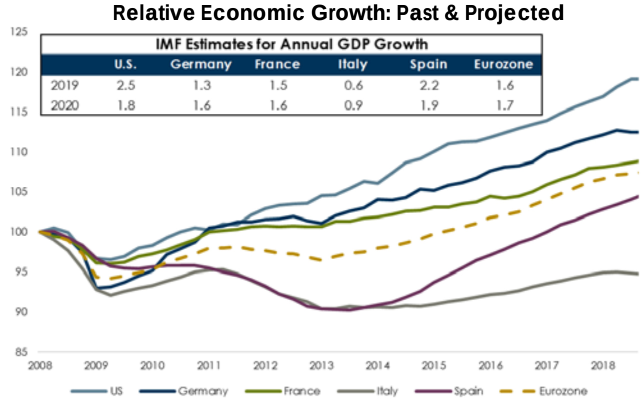
Background

As of December 31, 2018, the market capitalization of U.S. stocks represented 54% of the broad MSCI All Country World Index (ACWI). While investors in every part of the world tend to exhibit a notable "home country bias" within their equity portfolios, there are roughly 10,500 public companies (about 3x the U.S. count) based outside of our borders that offer access to differentiated drivers of return, including: economic growth, corporate profits & dividends, varied interest rate & credit cycles, and a basket of currency exposures. Europe is the largest regional constituent within the MSCI EAFE Index, the most frequently referenced benchmark for Non-U.S. developed country equities.

Economic Growth & Fundamentals

Subsequent to the global financial crisis, the Eurozone had to face several additional episodes of turmoil. This has caused overall economic growth, as measured by the cumulative change in Real GDP, to trail that of the U.S. over the past decade. Despite the varied political concerns making headlines and weighing on sentiment across the 19-country bloc, recent data and projections suggest that the differential favoring the U.S. will soon begin to moderate. Manufacturing orders are perhaps an area to watch with a critical eye given the recent downturn in export demand from China. That said, employment and wage growth, along with stable corporate balance sheets and favorable bank lending, support ongoing domestic demand growth.

Relative Economic Growth: Past & Projected



Source: Bloomberg, IMF (January 2019), ACG Research

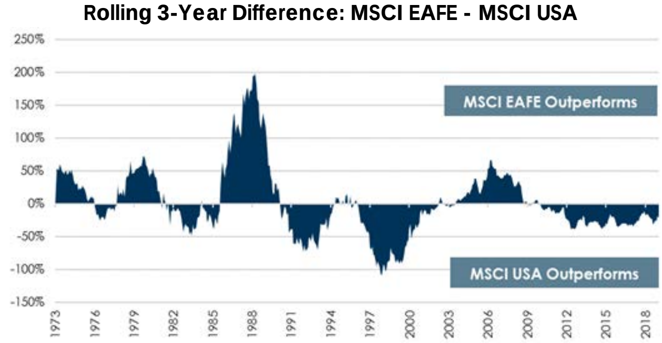
Policy Remains Very Accommodative

Having purchased ~$3 trillion of bonds since June 2014, the European Central Bank (ECB) formally ended its aggressive quantitative easing program at the end of last year. That said, President Mario Draghi has recently made comments suggesting that the prospects for further monetary policy "normalization" in the region are on hold indefinitely given intensified risks due to global trade disputes and financial market volatility. Uncertainties around near-term Brexit negotiations with the United Kingdom, and persistent geopolitical issues in France and Italy that represent a potential threat to EU cohesion longer-term, may also limit the ECB's willingness to remove policy accommodation. Ultimately, until both realized inflation and market-based inflation expectations for the region approach the targeted 2% level, policy rates will likely remain in negative territory.

Cyclical Performance & Relative Valuations

International markets do not outperform in all periods, as no such free lunch exists in financial markets. Rather, the MSCI EAFE Index has consistently rotated leadership with large cap U.S. stocks, as represented by the MSCI USA Index, over the past 50 years. However, in the post-crisis decade of recovery, U.S. equities have outperformed Non-U.S. developed counterparts by roughly 175% on a cumulative basis. This extended streak of domestic dominance has flipped the since-inception return advantage previously enjoyed by the international benchmark, from +0.5% per year to -0.5% per year. As returns do not happen in a vacuum, valuations have adjusted accordingly. It's notable that on a forward P/E basis, the MSCI EAFE Index is trading at nearly its deepest discount to U.S. stocks in 20 years.

Rolling 3-Year Difference: MSCI EAFE - MSCI USA



Source: FactSet, ACG Research

ACG's Position

It's not surprising that investors are increasingly questioning the value of maintaining their Non-U.S. exposures. That said, we would warn investors of the behavioral trap commonly referred to as the recency bias. As asset classes and regions periodically trade leadership, often with little predictable regularity or specific catalysts, it's not rational to believe that trends of underperformance will always persist. At a time when pessimism is high and expectations are low, Non-U.S. stocks trade at low double-digit multiples with relatively attractive yields. It's darkest before the light, and it's precisely times like these when the case for portfolio inclusion alongside U.S. holdings make the most sense.

General Notes and Disclaimers

The views expressed herein are those of Asset Consulting Group (ACG). They are subject to change at any time. These views do not necessarily reflect the opinions of any other firm.

This report was prepared by ACG for you at your request. Although the information presented herein has been obtained from and is based upon sources ACG believes to be reliable, no representation or warranty, express or implied, is made as to the accuracy or completeness of that information. Accordingly, ACG does not itself endorse or guarantee, and does not itself assume liability whatsoever for, the accuracy or reliability of any third party data or the financial information contained herein.

Certain information herein constitutes forward-looking statements, which can be identified by the use of terms such as “may”, “will”, “expect”, “anticipate”, “project”, “estimate”, or any variations thereof. As a result of various uncertainties and actual events, including those discussed herein, actual results or performance of a particular investment strategy may differ materially from those reflected or contemplated in such forward-looking statements. As a result, you should not rely on such forward-looking statements in making investment decisions. ACG has no duty to update or amend such forward-looking statements.

The information presented herein is for informational purposes only and is not intended as an offer to sell or the solicitation of an offer to purchase a security.

Please be aware that there are inherent limitations to all financial models, including Monte Carlo Simulations. Monte Carlo Simulations are a tool used to analyze a range of possible outcomes and assist in making educated asset allocation decisions. Monte Carlo Simulations cannot predict the future or eliminate investment risk. The output of the Monte Carlo Simulation is based on ACG’s capital market assumptions that are derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions. Capital market assumptions based on other models or different estimates may yield different results. ACG expressly disclaims any responsibility for (i) the accuracy of the simulated probability distributions or the assumptions used in deriving the probability distributions, (ii) any errors or omissions in computing or disseminating the probability distributions and (iii) and any reliance on or uses to which the probability distributions are put.

The projections or other information generated by ACG regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. Judgments and approximations are a necessary and integral part of constructing projected returns. Any estimate of what could have been an investment strategy’s performance is likely to differ from what the strategy would actually have yielded had it been in existence during the relevant period. The source and use of data and the arithmetic operations used for calculating projected returns may be incorrect, inappropriate, flawed or otherwise deficient.

Past performance is not indicative of future results. Given the inherent volatility of the securities markets, you should not assume that your investments will experience returns comparable to those shown in the analysis contained in this report. For example, market and economic conditions may change in the future producing materially different results than those shown included in the analysis contained in this report. Any comparison to an index is for comparative purposes only. An investment cannot be made directly into an index. Indices are unmanaged and do not reflect the deduction of advisory fees.

This report is distributed with the understanding that it is not rendering accounting, legal or tax advice. Please consult your legal or tax advisor concerning such matters. No assurance can be given that the investment objectives described herein will be achieved and investment results may vary substantially on a quarterly, annual or other periodic basis. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information.

© 2019 Asset Consulting Group. All Rights Reserved. Asset Consulting Group is the sole owner of all rights, title, and interest to the materials, methodologies, techniques, and processes set forth herein, including any and all intellectual property rights. No part of this document may be reproduced, stored, or transmitted by any means without the express written consent of Asset Consulting Group.