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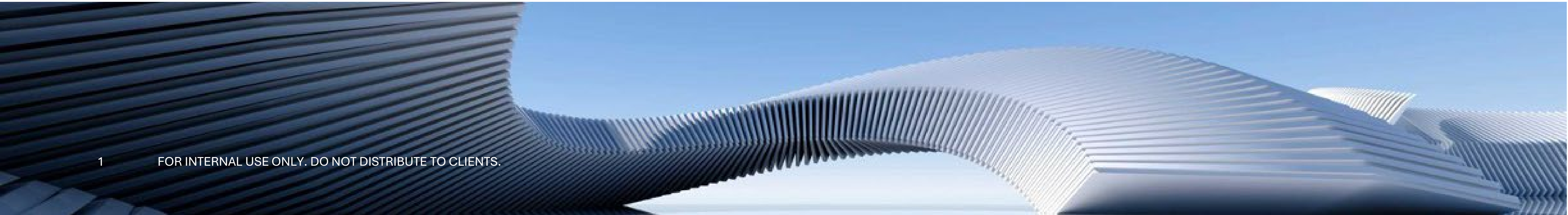
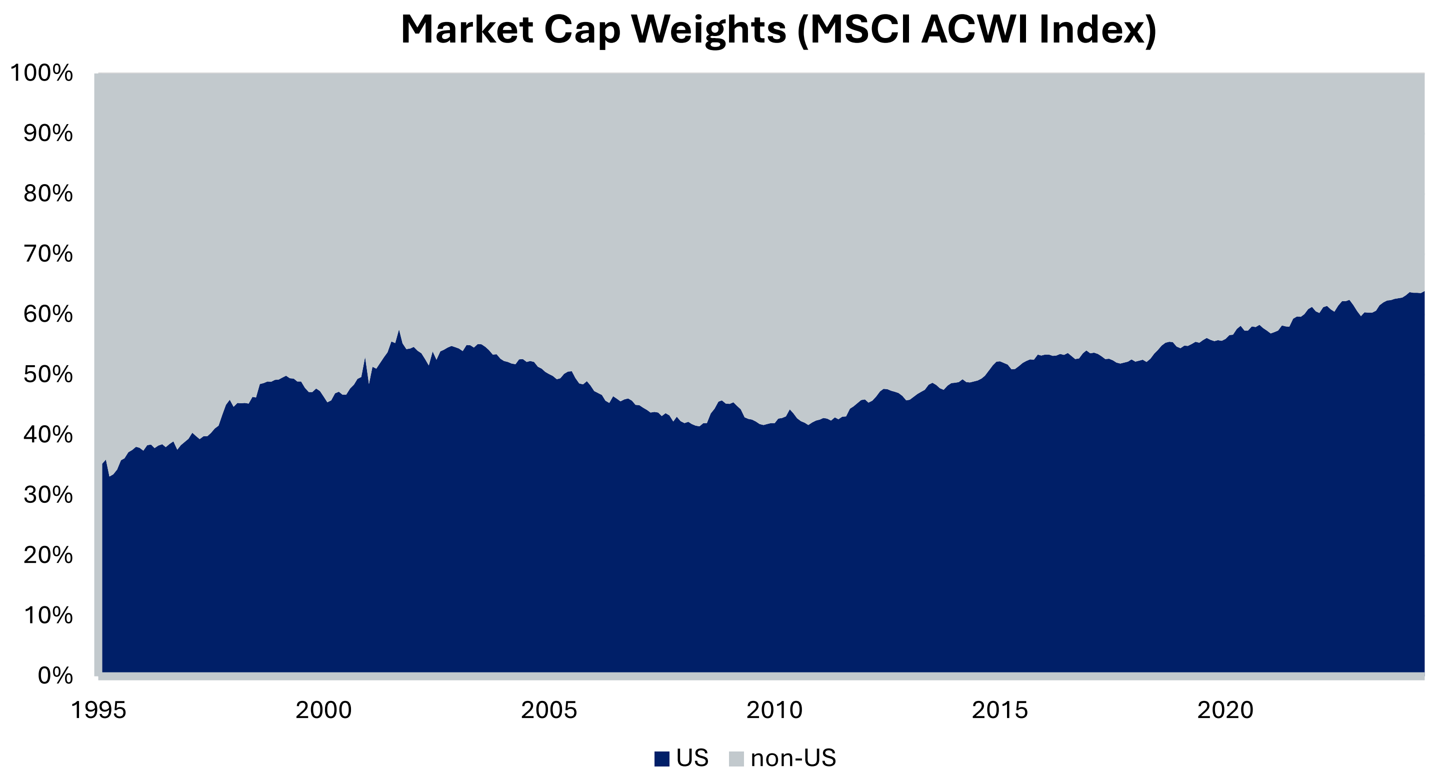
International Diversification for US Investors



What Is the Right Weight to International Stocks?

Market cycles and valuation changes can lead to a broad range of historical allocations for capitalization weighted global stock benchmarks. The chart on the right plots the capitalization weighted proportions of the MSCI All-Country World Index (ACWI) in US stocks versus stocks abroad. This figure has a very wide range – as little as 35% in US stocks in the 1990s to over 60% as of 2024. Matching the market capitalization weights is likely not the right approach:

1. The weights vary too broadly
2. It likely overweights international relative to what is optimal
3. It does not consider the diversification benefits to a US based investor



Source: Bloomberg. Chart measures the proportion of the total market capitalization of the MSCI All Country World Index (ACWI) allocated to U.S. stocks versus non U.S. stocks on a monthly basis. The proportions add up to 100%.

Overdiversifying Can Be Riskier Than Not Diversifying at All

Investing abroad can be risky. An investor holding international investments may bear risks tied to currencies that are more prominent in foreign stocks. The sector mix in many foreign markets is more cyclical than in the US, which can lead to higher volatility over time in foreign stock benchmarks.

International stock markets are not perfectly correlated to the US, giving a moderate allocation to international stocks the chance to reduce risk in a portfolio. We have found that a 70/30 mix of US to International Stocks has been the optimal mix for reducing volatility in a US investor's portfolio in data going back to the 1970s.

Source: Bloomberg. Chart measures the volatility of a portfolio with a mix of US stocks (as measured by the S&P 500 index) and International Stocks (as measured by the MSCI ACWI ex USA index) based on their historical monthly returns at varying blends plotted on the x-axis. The x-axis measures the percentage weight to international stocks in the blend.

International Companies Represent Nearly 75% of the Investable Universe

Despite a current weight in global benchmarks below 40%, internationally domiciled companies outnumber U.S. domiciled companies by over 3,000.

Many of these companies are situated in countries with lower debt, favorable demographics, and other economic tailwinds. These markets are less efficient and less followed. In our view, these characteristics increase the opportunity to extract alpha without compromising on diversification.

Market	Index Weight	Countries	Companies
United States	62.6%	1	2,368 (26%)
Developed Ex-US	28.3%	22	3,212 (36%)
Emerging Markets	9.1%	24	3,424 (38%)

Source: Market composition data refers to the MSCI All-Country World Investable Market Index; Data through 5/31/24

Sector Composition in Developed Markets Has Changed

- Some of the divergence in performance between the US and developed markets may have been driven by sector differences at the end of the Global Financial crisis.
- Developed foreign markets in 2010 had more prominent allocations to lower growth, lower profit margin industries such as Communication Services.
- They also had high weights to cyclical, extractive sectors – Energy and Materials sectors were more prominent in developed foreign markets in 2010 than they are today.
- The market has evolved. Higher profit margin, higher growth sectors like Information Technology and Health Care have become more prominent components of developed markets as measured by the MSCI EAFE index.

Sector	**12/31/2010 Weight**	**6/30/2024 Weight**
Communication Services	6.93%	4.06%
Consumer Discretionary	9.30%	11.40%
Consumer Staples	9.67%	8.44%
Energy	7.66%	4.11%
Financials	20.20%	19.89%
Health Care	8.40%	13.40%
Industrials	13.27%	16.82%
Information Technology	3.99%	9.49%
Materials	10.94%	6.71%
Real Estate	2.82%	2.01%
Utilities	5.03%	3.13%
Other	1.79%	0.54%

Source: Bloomberg. The table presents the percentage by market cap in the MSCI EAFE Index allocated to a given sector as of 12/31/2010 and 6/30/2024

The Past Decade - An Uncommon Period of US Outperformance

Starting in 2010 returns for non-US stocks as compared to stocks in the US have exhibited a very different pattern than their longer-term history. Firstly, there has been less dispersion in the returns of US stocks versus those abroad – the two have had returns that are closer together on average. Secondly, US stocks have generally outperformed stocks abroad except for a handful of brief periods. This is out of character with the longer record since the 1970s, when US and foreign stocks alternated leadership frequently.

Source: Bloomberg. The chart measure the difference in trailing twelve month total returns for the MSCI USA index versus the MSCI World Index for the period 1/1/2000 to 4/30/2024. Positive numbers mean that the MSCI USA index has outperformed for the preceding twelve months. Negative numbers mean that the MSCI World Index has outperformed for the preceding twelve months.

Lost Decades Can Happen, and the US Has Not Always Been a Top Performer

In our view, international diversification is one of the strongest defenses against a lost decade in a single stock market. Over decade long time periods, stocks in other developed market regions like Europe and the Pacific Rim can post markedly different rates of return versus stocks in the US. This can be particularly impactful when stocks in the US fall behind.

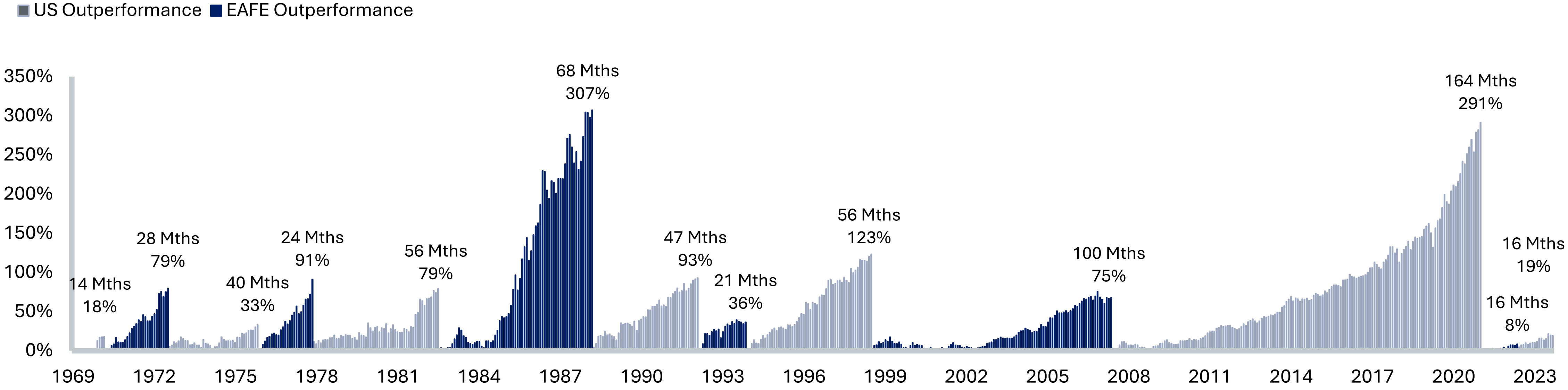
1970s		1980s		1990s		2000s		2010s		2020s	
Region	**Return**	**Region**	**Return**	**Region**	**Return**	**Region**	**Return**	**Region**	**Return**	**Region**	**Return**
Pacific	14.83%	Pacific	26.41%	USA	19.01%	Europe	2.44%	USA	13.55%	USA	14.47%
Europe	8.57%	Europe	18.49%	Europe	14.50%	Pacific	-0.27%	Pacific	6.56%	Europe	8.18%
USA	4.61%	USA	17.13%	Pacific	0.52%	USA	-1.29%	Europe	5.80%	Pacific	5.69%
Average	**9.34%**	**Average**	**20.68%**	**Average**	**11.34%**	**Average**	**0.29%**	**Average**	**8.64%**	**Average**	**9.45%**

Source: Bloomberg. Returns for regions represent total returns in US dollars for reference regional indices. Returns for USA are represented by the MSCI USA index. Returns for Pacific are represented by the MSCI Pacific Index. Returns for Europe are represented by the MSCI Europe Index.

Outperformance Comes in Cycles, and the Recent Cycle Was Uncommonly Long

The chart below plots over 50 years of index returns, measuring the cumulative outperformance of US stocks over International stocks or International stocks over the US. International markets may be primed to have their time in the sun, owing to lower valuations, the potential for a currency repricing, and a higher quality mix of sectors versus their past.

MSCI US and MSCI EAFE Relative Performance *US Dollar, Total Return, Cumulative Outperformance*

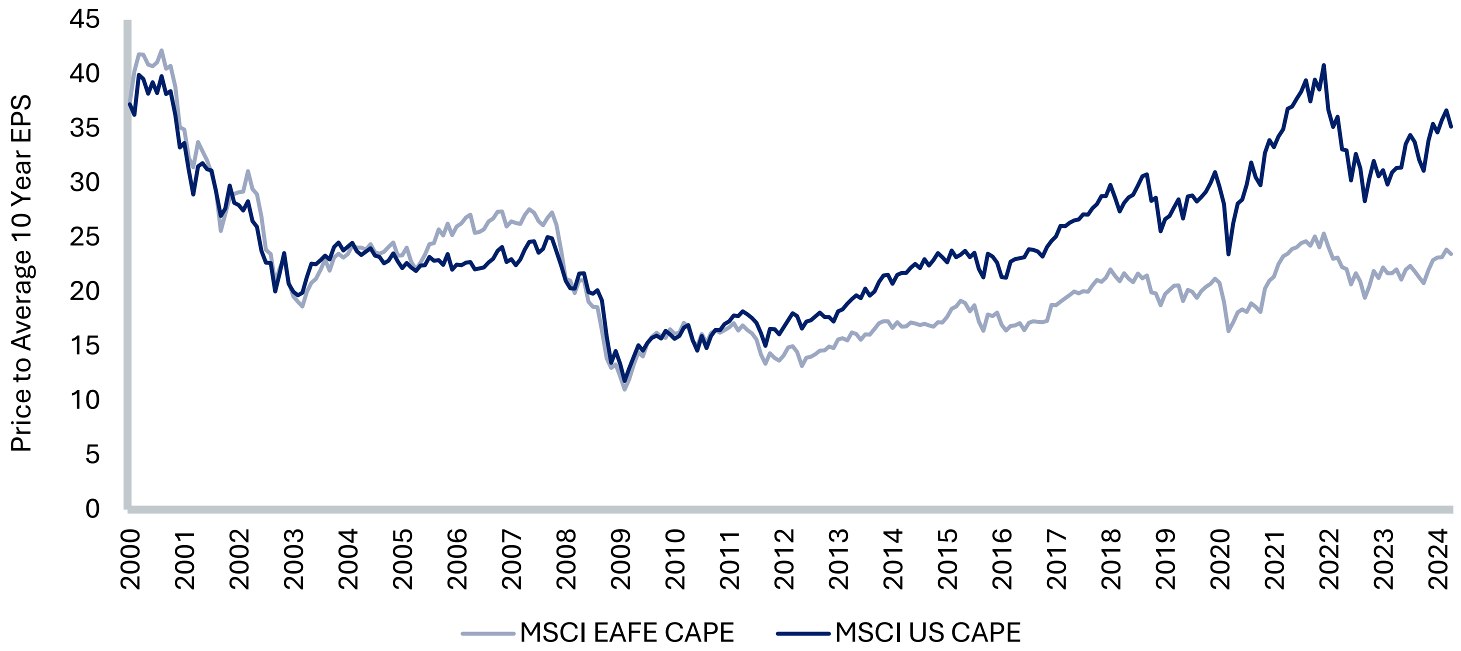


Source: Bloomberg. The chart measures the cumulative difference in total returns between the MSCI USA index and the MSCI EAFE index between regime changes. Regime changes are defined when a new peak in cumulative performance is not reached over a twelve month period.

After a Long Bull Market, US Stocks Are Expensive by Conventional Measures

In our view, the high returns of US stocks over a long bull market have been driven both by their success in growing profits and by investors' willingness to pay up for those profits. The latter is evident in valuation measures such as the Cyclically Adjusted Price to Earnings Ratio (CAPE). US stocks' meaningful valuation premium may limit their ability to keep earning outsize returns in the future, while foreign stocks' relative discount may leave them primed for better results.

Valuations of US and Other Equity Markets



Source: Bloomberg. The chart plots the Cyclically Adjusted Price to Earnings Ratio (CAPE) for the MSCI US and the MSCI EAFE indices. CAPE divides the current index value by the average of the past ten years inflation adjusted earning per share for each index.

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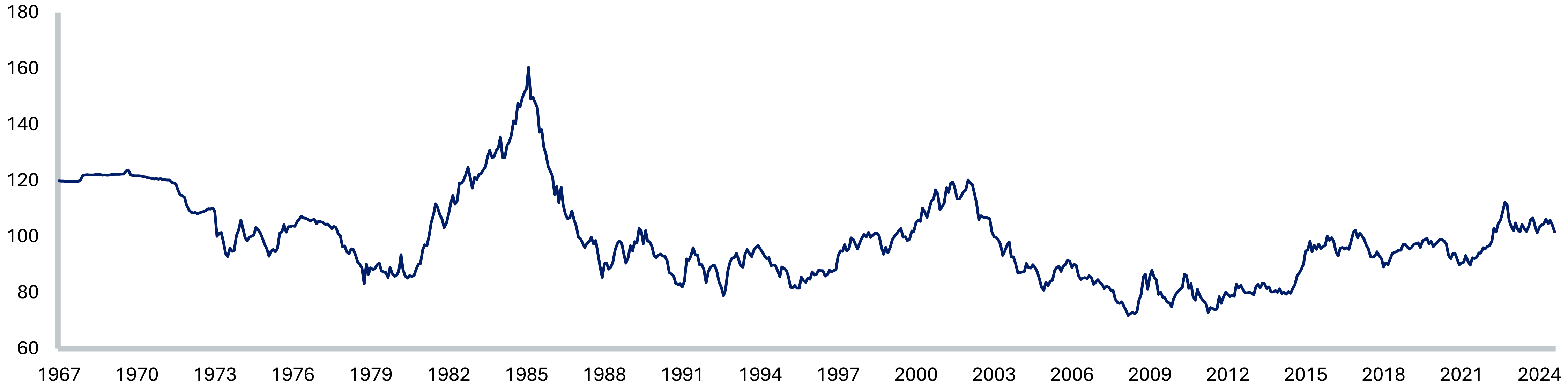
The Dollar's Strength Has Hindered International Markets' Returns for US Investors

The dollar's history shows a range of market environments. Since the Global Financial Crisis the US Dollar has appreciated against our major trading partners. The historical record shows a variety of environments, including times when dollar weakness benefited foreign assets.

US Dollar Index

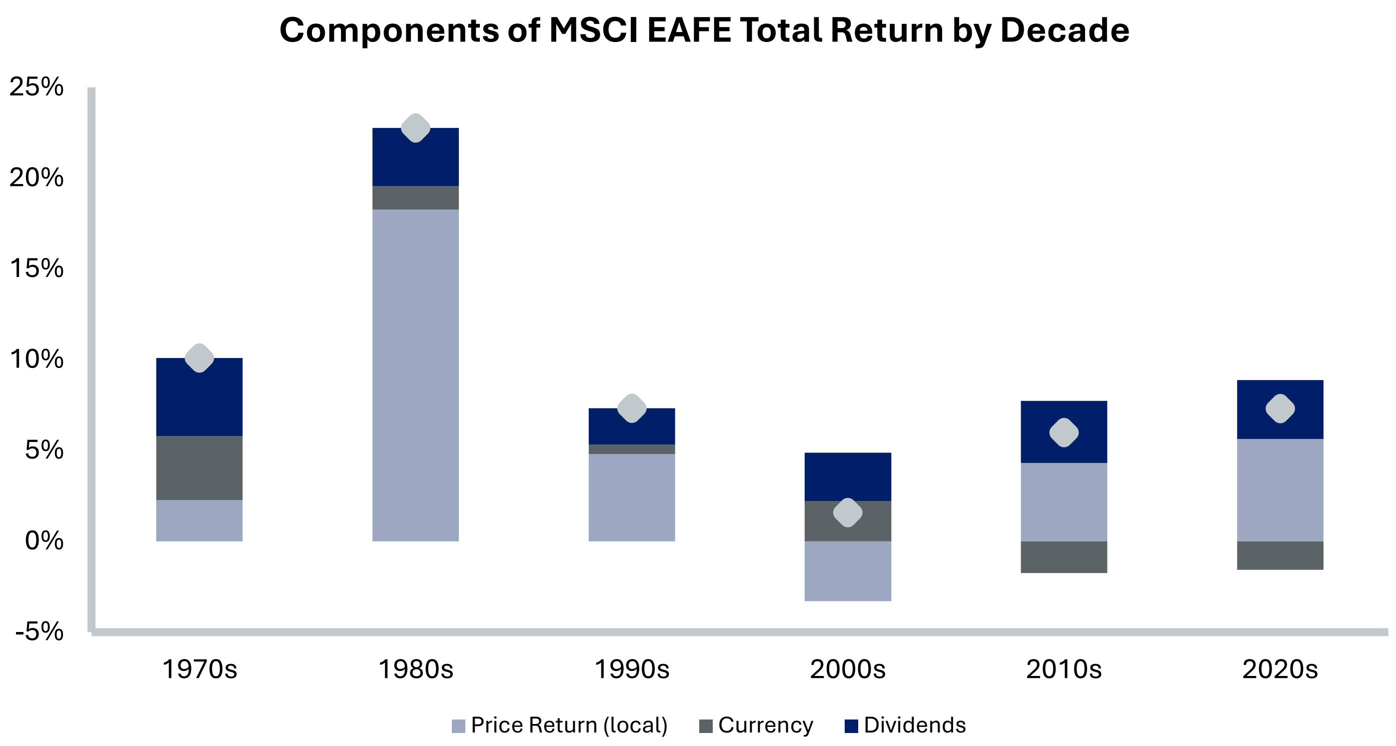


Source: Bloomberg. The chart plots the level of the US Dollar Index (USDX) from 1967 to 2024. The USDX is a measure of the dollar's relative strength versus a basket of foreign currencies. The USDX has been reconstituted over time. Today it represents the dollar versus a basket of the Euro, the Pound, the Canadian Dollar, the Swedish Kroner, and the Swiss Franc.

The Dollar's Strength Has Held Back Foreign Market Returns in the 2010s and 2020s.

A US investor's experience in foreign stocks is the combination of their price returns in their local markets, the impact of reinvested dividends, and the impact of currency movements. Over very long time periods, we expect currency impact to be modest.

Since the Global Financial Crisis, the US Dollar has generally appreciated against other currencies and held back international stock returns. Excluding currency returns, foreign markets have had returns much closer to their historical averages. We expect currency movements may stop being a detractor from international markets' returns in response to factors like 1) falling interest rate differentials 2) a more challenging fiscal situation in the US and 3) the risk of de-dollarization.



Source: Bloomberg. The chart plots the annualized total return of the MSCI EAFE Index by decade and splits it into three component parts – the price return of the index in its local currencies, the currency return when translated into US Dollars, and the return attributable to dividends in the index. Dividend returns are reported gross of withholding taxes.

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Thank You