



QEP Investment Team

The Case for International Investing

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Schroder Investment Management North America Inc.

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Corporate snapshot

Investment management is our primary business and our goals are aligned with those of our clients – the creation of **long-term value** to assist them in meeting their future financial requirements.

We oversee \$662.6bn on behalf of institutional and retail investors, financial institutions and high-net-worth clients from around the world, invested across **equities, fixed income, multi-asset, private assets** and **alternatives**.



Rated 'Excellent' by
Fitch Ratings¹

Pensions & Investments

Best place to work²



Source: Schroders, as of June 30, 2020. ¹Fitch Ratings, as of August 6, 2019. ²Pensions & Investments, as of December 12, 2019. ³Assets under management comprise assets managed or advised on behalf of clients. ⁴Employee data includes permanent and temporary staff.

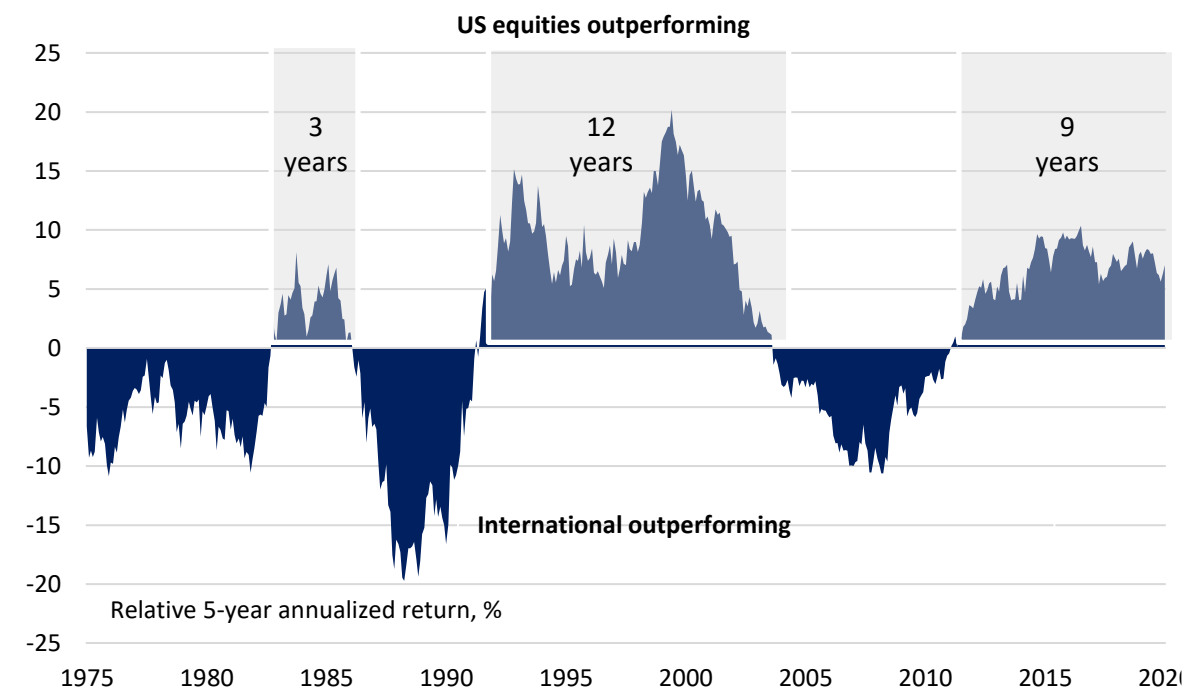
The case for international equities

Potential tailwinds for outperformance strengthening

- **Diversification:** Unhedged exposure providing diversification benefits through access to a much broader set of economic and market themes
- **Growth:** Exposure to faster growing markets
- **Valuation:** Valuations are far more supportive outside of the US
- **Currency:** USD strength has likely plateaued marginalizing the strong tailwind for US equities
- **Market breadth:** Non-US equity market is far broader and less efficient creating greater opportunities for active managers

US and international markets have moved in cycles

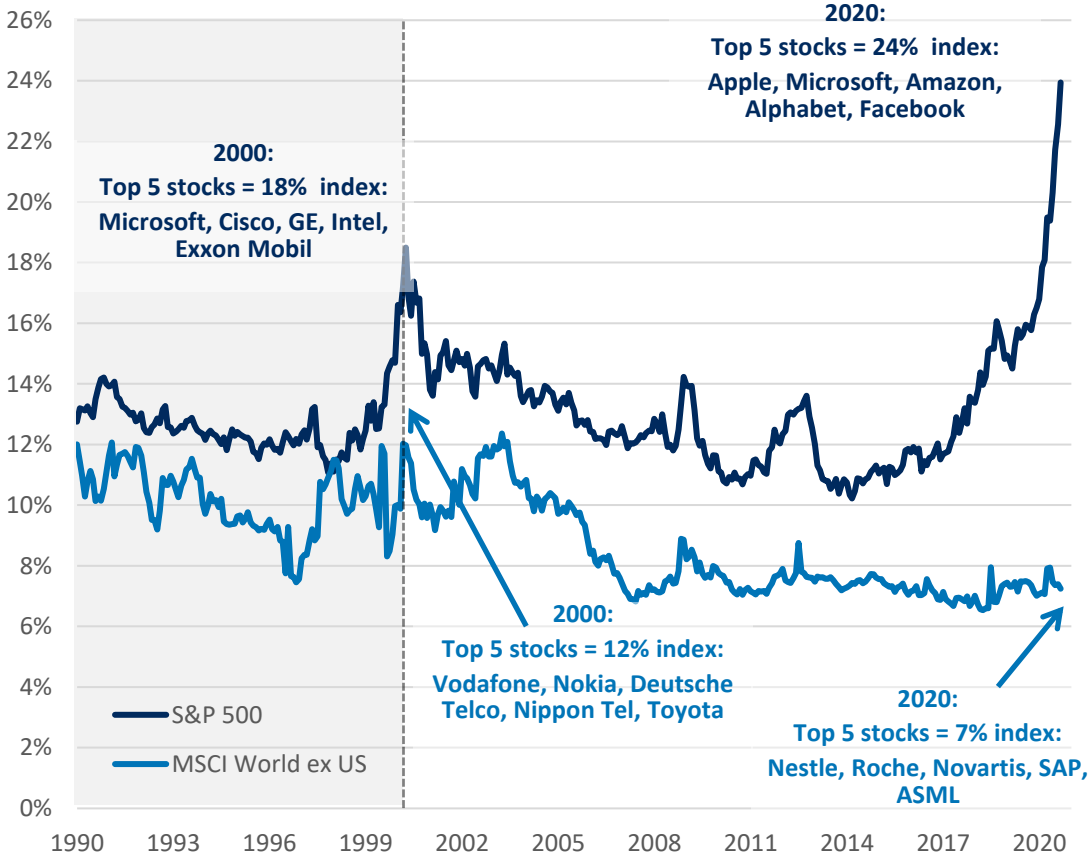
US equities have outperformed international equities over the past 9 years, suggesting the cycle may be close to turning. The average performance cycle for US equities versus international equities has historically lasted 7.2 years.



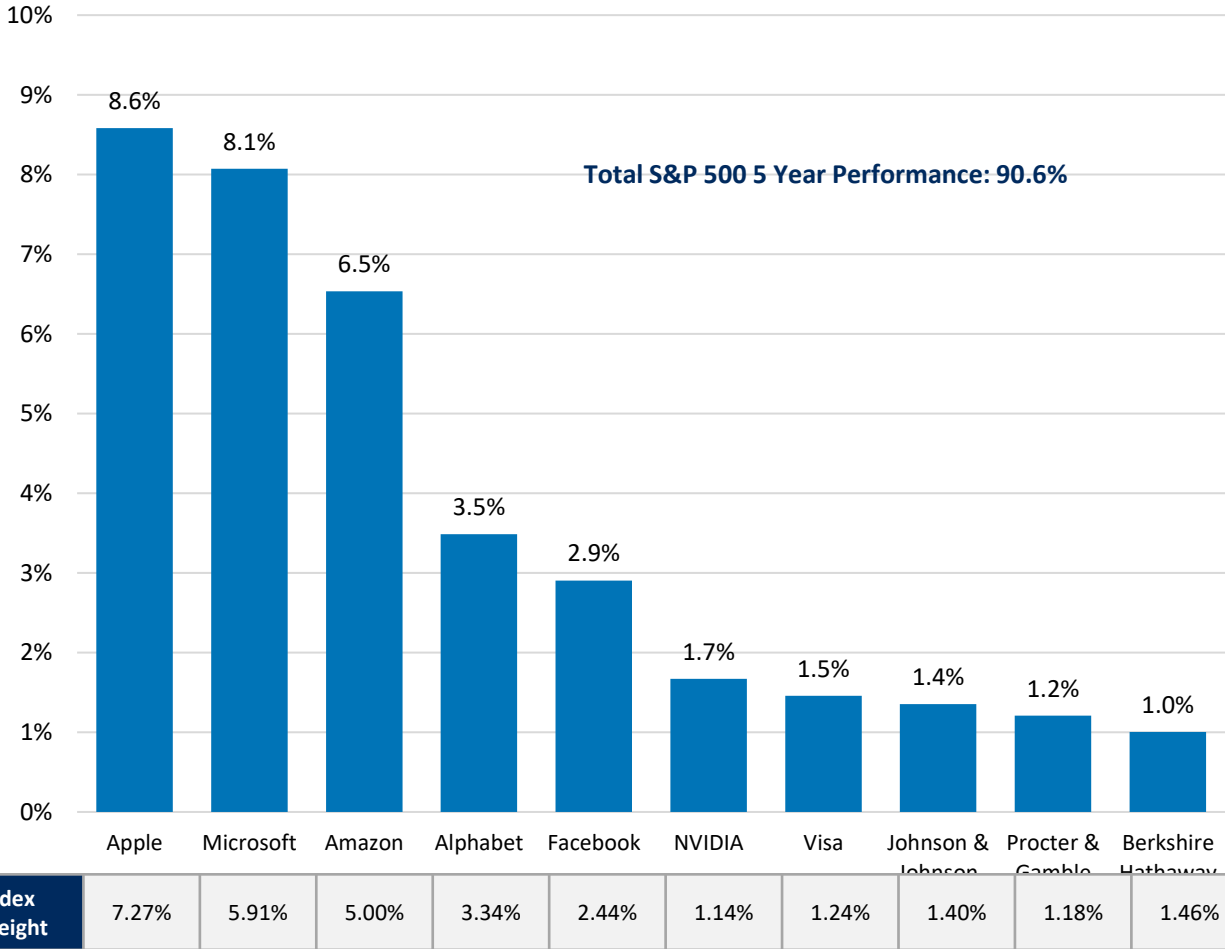
Source: US Equity is represented by S&P 500 Index. International Equity is represented by MSCI World ex USA Index. The chart shows the values of the S&P 500 Index's returns minus the MSCI World ex USA Index's returns. When the line is above 0, domestic stocks outperformed international stocks. When it is below 0, international stocks outperformed domestic stocks. Past performance is not a guarantee of future results. The performance shown above is index performance and is not representative of any investment's performance. Indices are unmanaged and not available for direct investment. For illustrative purposes only. Data Sources: Morningstar as of January 31, 2020. Diversification cannot ensure profit or protect against loss of principal.

Market Concentration – Weight of top 5 stocks

US and World ex US – Top 5 stocks as % of the total index



S&P 500 – 5 year Contribution from top 10 stocks

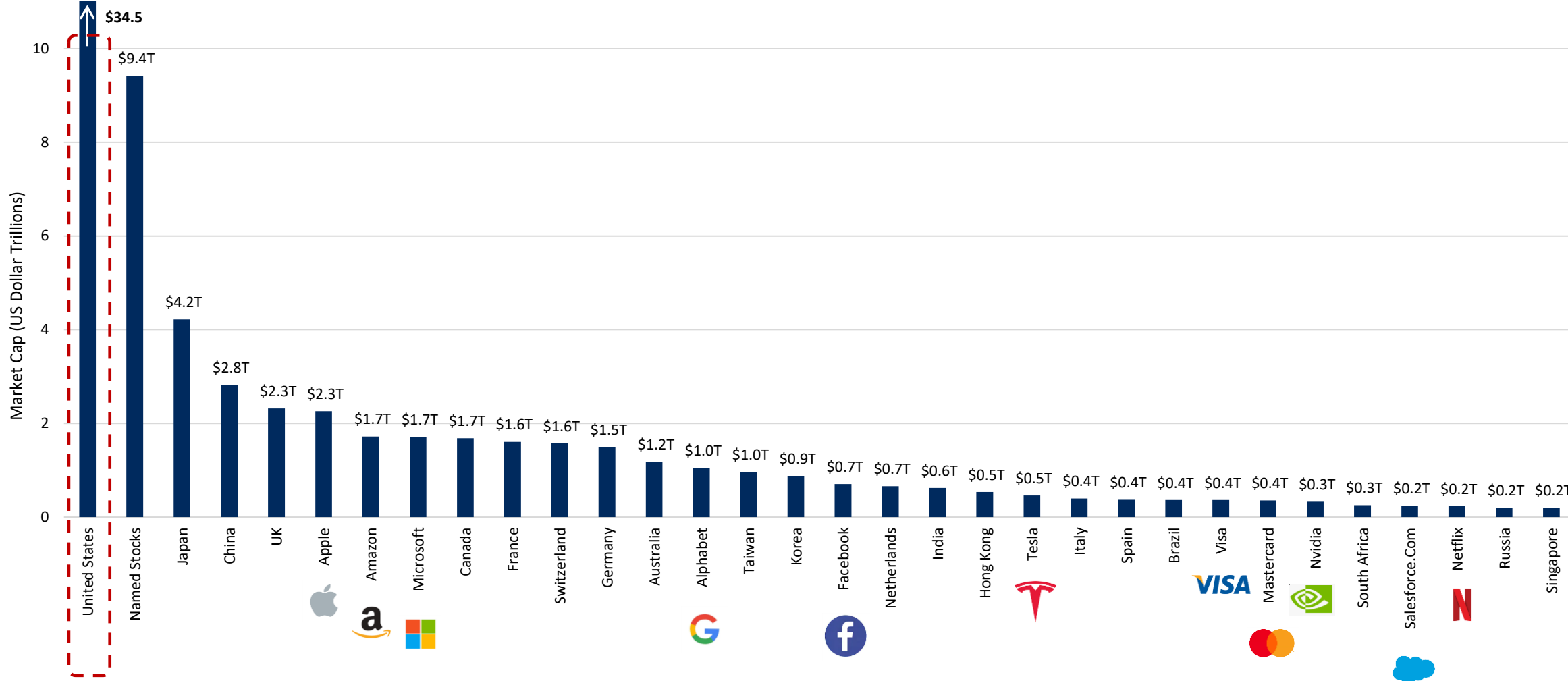


Index weight	7.27%	5.91%	5.00%	3.34%	2.44%	1.14%	1.24%	1.40%	1.18%	1.46%
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Source: Schroders, Standard & Poors, MSCI as at August 2020. Stocks with more than one line have been aggregated e.g. Alphabet. Stock names represent largest stocks as at March 2000, and as at August 2020. MSCI World ex US data has been calculated based on MSCI World constituents, with all US stocks carved out. Once these stocks were carved out, the remaining portfolio was reweighted to 100%, and then the top 5 stocks were summed. Stocks shown for illustrative purposes and should not be viewed a recommendation to buy or sell. Top 10 stocks from S&P 500 as at August 31, 2020.

US mega-cap leaders – Larger than all markets outside the US

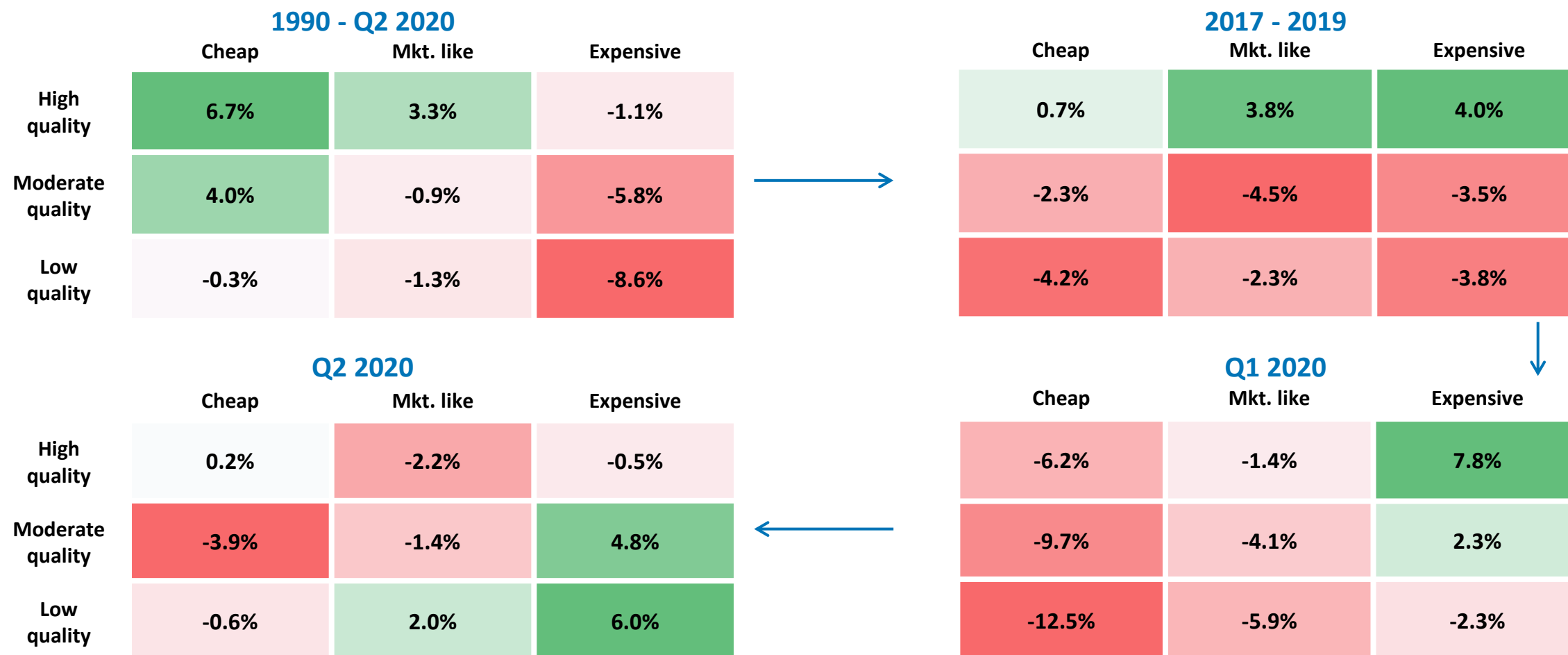
Aggregate Market Cap by Country



Source: Schroders, MSCI, Datastream. Market Cap for each country is represented by their MSCI Investable Market as at August 31, 2020. 'Named stocks' is a sum of all other stocks highlighted by logos. Stocks shown for illustrative purposes and should not be viewed a recommendation to buy or sell. Logos shown are the property of their respective entity and do not indicate any endorsement by, or with, Schroders.

International – value and quality performance

Short term returns have been unusual (expensive stocks have dominated)



Source: Schroders QEP. Data from Jan 1990 to June 2020. Each month all stocks in QEP's international mega to mid-cap universe are ranked using QEP's value rank and quality rank. Terciles of the value rank are used to classify stocks as cheap, market like or expensive, while terciles of the quality rank are used to classify stocks as high, moderate or low quality. Market capitalization-weighted portfolios are rebalanced monthly and US\$ returns are calculated with transaction costs taken into account. A maximum stock weight of 3% is applied within each portfolio. Annualized excess returns are then calculated against a market capitalization-weighted universe. Performance shown is past performance, which is no guarantee of future results.

S&P 500 Actual PE Multiples

Largest stocks in index appear overvalued

Median valuation, profitability, performance and growth metrics for S&P500 constituent size groups

S&P 500 Group	Market Cap (Bn)	Performance 2020 Year To Sep 8th	Forward ROCE	Forward Sales Growth	FY2 Price to Earnings
Top 10	\$503	16.3%	25.1%	8.9%	25.1x
11-50	\$188	5.9%	17.5%	3.8%	20.0
51-100	\$83	3.2%	15.9%	4.3%	19.8
101-150	\$52	-1.8%	15.1%	4.1%	18.3
151-200	\$32	2.2%	12.6%	5.1%	19.6
201-250	\$26	-0.7%	14.1%	4.1%	17.3
251-300	\$21	-0.5%	12.9%	4.5%	19.4
301-350	\$15	-2.9%	13.3%	3.1%	17.4
351-400	\$12	-11.7%	10.4%	3.2%	18.0
400+	\$7	-25.1%	9.0%	2.7%	12.4

Source: Schroders, August 31, 2020. We report several measures for S & P 500 index constituents. We group constituents into categories based on their market cap. All metrics are calculated using market cap weights. The Actual Forward Price to Earnings uses two years forward IBES smart estimates. Forward Sales Growth uses two years forward IBES Smart Estimate measures of sales growth. Forward ROCE is QEP's proprietary Return on Capital Employed Measure. Perf Ytd is the year to date return in USD to September 8th 2020. Past performance is no guarantee of future results. There is no guarantee that any forecasts or estimates will be realized.

Expected Sales Growth – International

Expensive stocks do have higher expected growth but does it justify the premium?

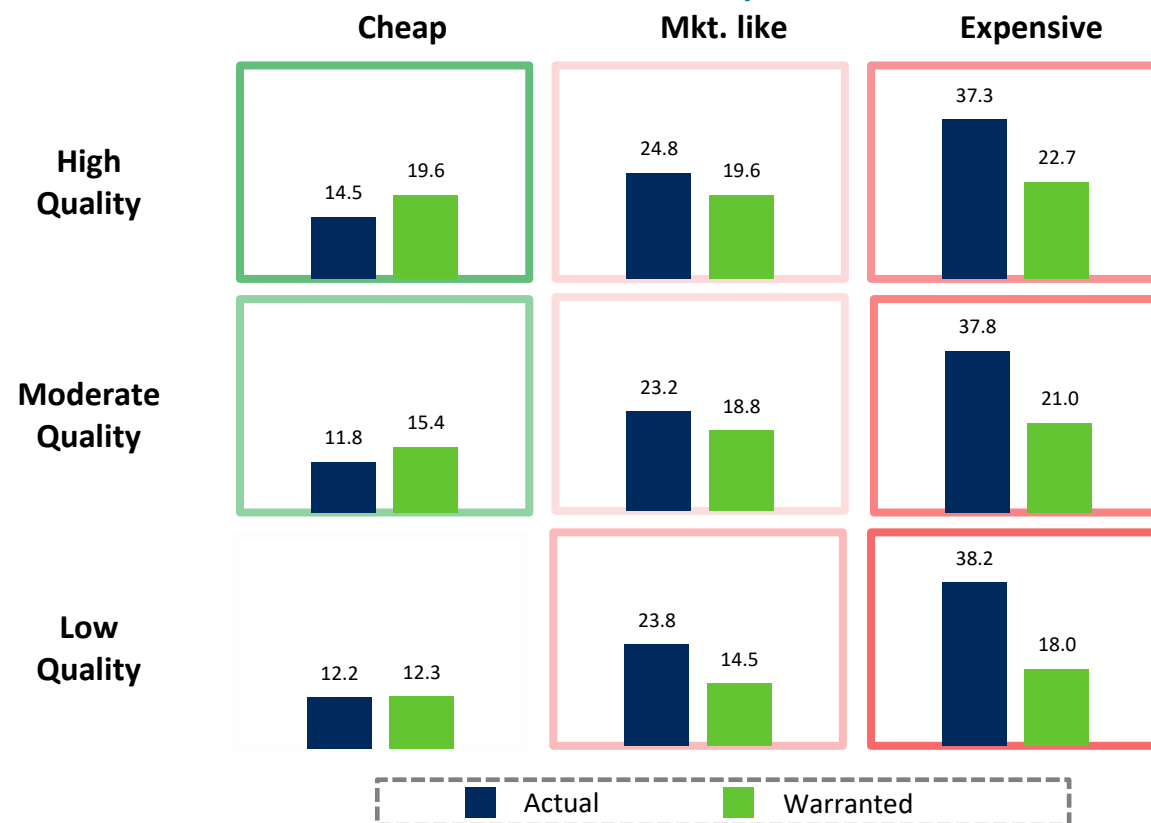
Long-run forward 3Y sales growth (p.a.)

	Cheap	Mkt. like	Expensive
High quality	-0.7%	1.2%	5.5%
Moderate quality	-0.8%	1.7%	8.8%
Low quality	-1.8%	1.5%	6.2%

Current (Q2 2020) forward 3Y sales growth (p.a.)

	Cheap	Mkt. like	Expensive
High quality	-0.9%	0.0%	3.2%
Moderate quality	-1.2%	1.3%	9.4%
Low quality	-2.4%	1.1%	8.6%

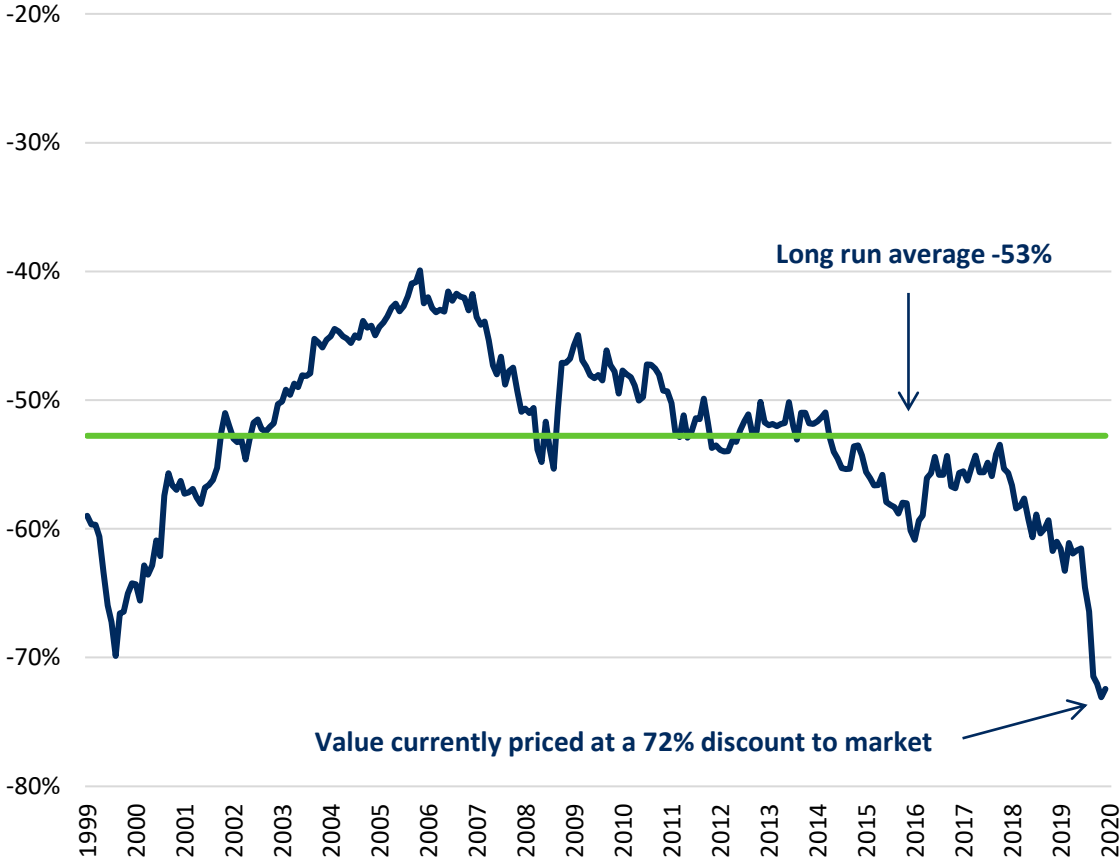
International – Actual and Warranted FY2 P/E's



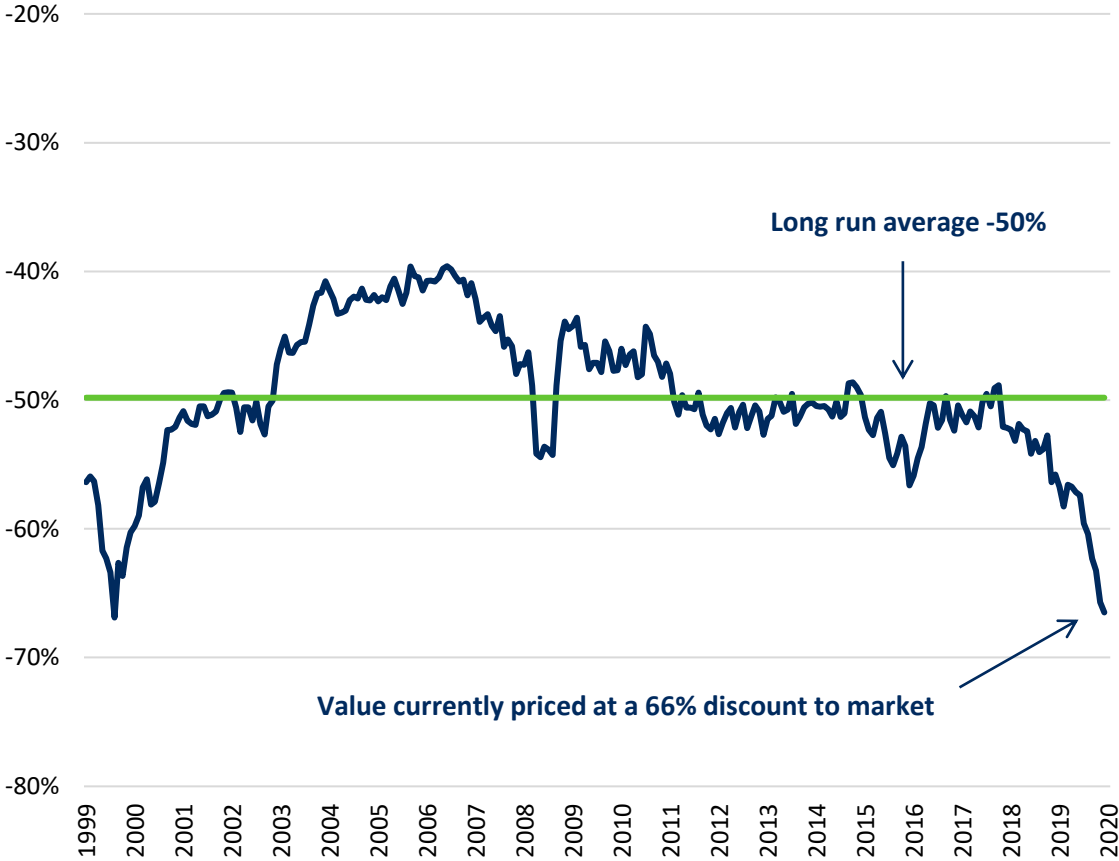
Source: Schroders QEP. LHS: Long-run data is calculated from 2004 to June 2020, while current data is calculated for Q2 2020. Each month all stocks in QEP's international mega to mid-cap universe, excluding financials and resources, are ranked using QEP's global value rank and global quality rank. Terciles of the value rank are used to classify stocks as cheap, market like or expensive, while terciles of the quality rank are used to classify stocks as high, moderate or low quality. The annualized median IBES 3Y forward analyst estimate is shown for each Value-Quality cohort. For the chart, data prior to 2004 is based on 3 year historical sales growth, from 2004 onwards, median 3 year forward sales growth is used. The chart shows the 6 month moving average. There is no guarantee that any forecasts or estimates will be realized. RHS: We report price to earnings for the terciles of QEP's Global Value and Quality ranks. The Warranted Forward Price to Earnings is calculated in the Residual Income Model framework using inputs of Sales Growth, Return on Capital and the Cost of Capital. The Actual Forward Price to Earnings uses two years forward IBES smart estimates. Each month all stocks in QEP's international mega to mid-cap universe, excluding financials and resources, are ranked using QEP's global value and global quality rank. Terciles of the value rank are used to classify stocks as cheap, market like or expensive while terciles of the global quality rank are used to classify stocks as high, moderate or low quality. Past performance is no guarantee of future results. There is no guarantee that any forecasts or estimates will be realized.

Value vs. Growth: US vs. International

MSCI AC World



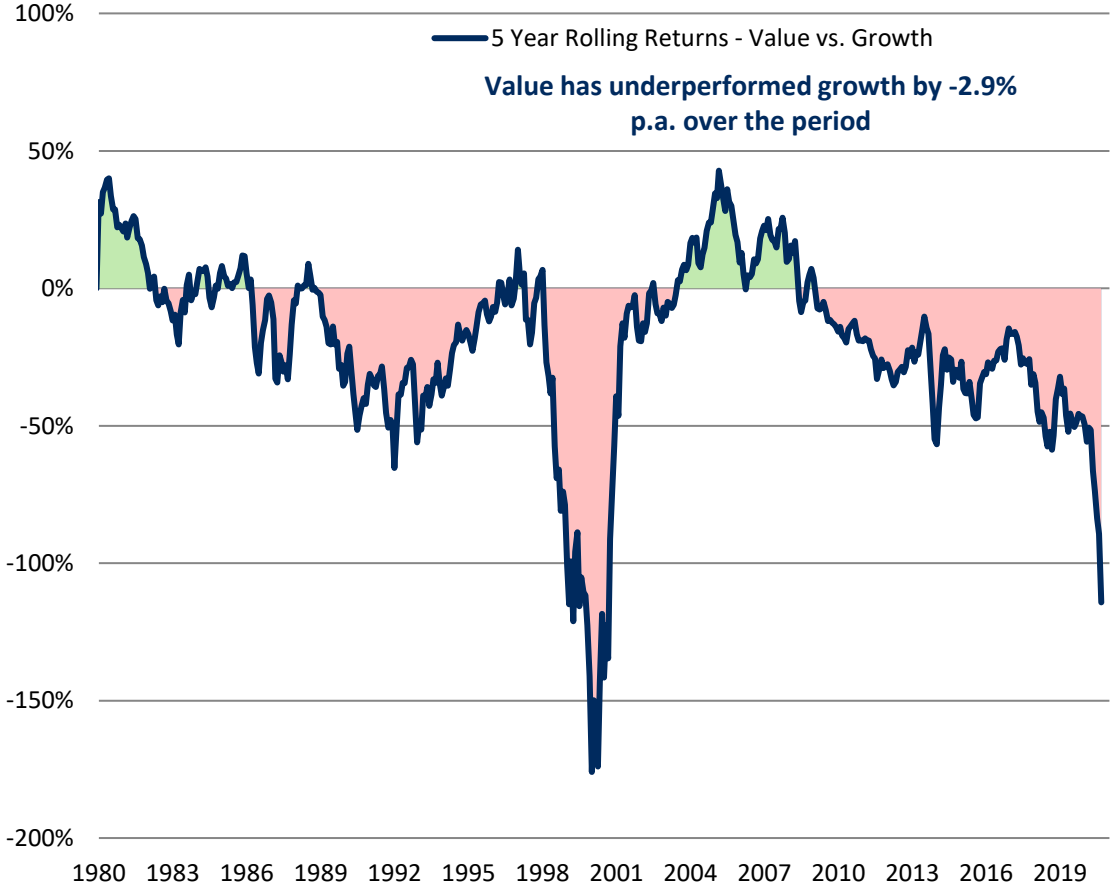
MSCI AC World ex US



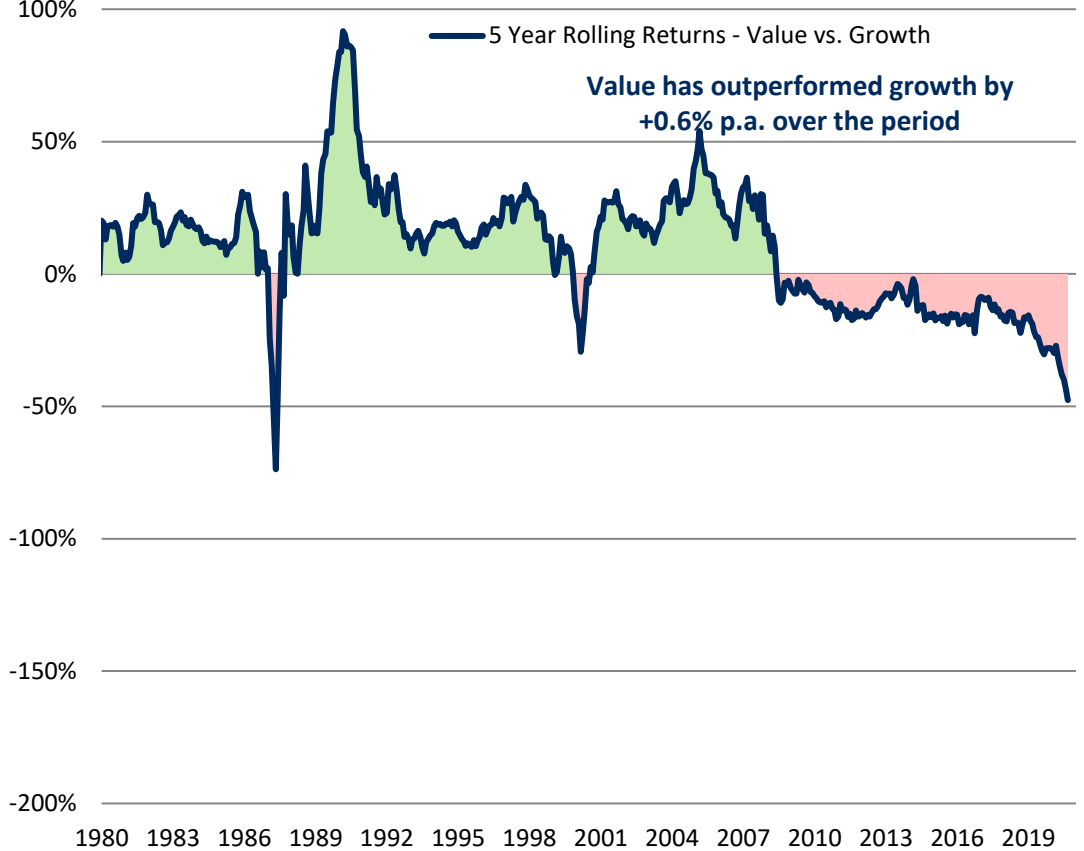
Source: QEP, IBES, data from July 1999 to June 2020. "Market" refers to the cap weighted MSCI ACWI index, and on right hand side with US stocks excluded. Long term average since July 1999. The discount is calculated by using the composite dispersion, which is a weighted average dispersion calculated as $0.125 * \text{IBES STM Earnings To Price dispersion} + 0.125 * \text{IBES NTM Earnings To Price dispersion} + 0.25 * \text{QEP Earnings To Price dispersion} + 0.5 * \text{Book To Price dispersion}$. This is then transformed into the discount. All dispersions are median of top quintile divided by market median (Cheap valuation / market valuation)

Value vs. Growth: US vs. International

Value vs. Growth Rolling Returns – MSCI USA



Value vs. Growth Rolling Returns – MSCI World ex US



Source: Schroders, Refinitiv. LHS: MSCI USA Value (Price Index) vs. MSCI USA Growth (Price Index), 3 year and 5 year rolling returns, shown on monthly basis. RHS: MSCI World ex US Value (Price Index) vs. MSCI World ex US Growth (Price Index), 3 year and 5 year rolling returns, shown on monthly basis. Past performance is no guarantee of future results.

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