

# What's Going on Across the Pond: Developments in International Investing

**Andrew DeVizio**  
Investment Specialist

# Why invest internationally?



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**It's scary out there. What if...**

- China invades Taiwan?
- North Korea escalates a nuclear crisis?
- The ground war extends beyond Ukraine?
- The European energy crisis worsens?
- China nationalizes its industries?
- Hyperinflation continues to plague Argentina?

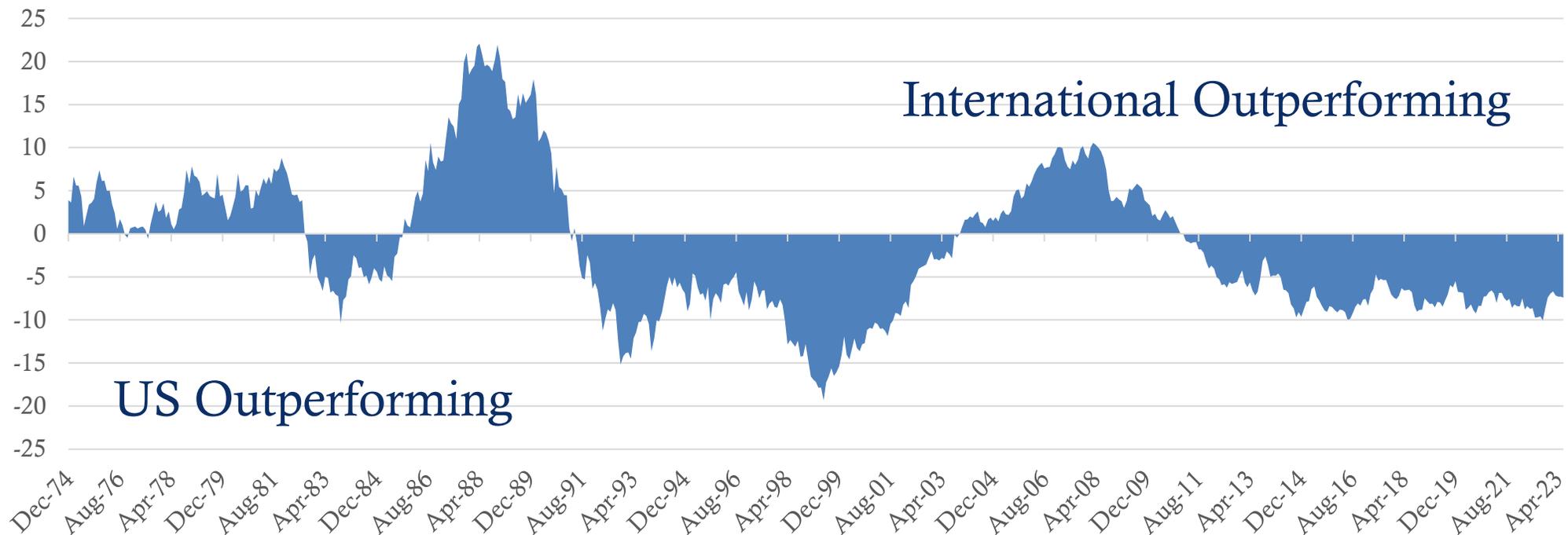
# Why invest internationally?

## Long-term strategic reasons

1. US and international stocks trade cycles of leadership over time
2. The US is disproportionately represented in global indices
3. International offers differentiated exposures vs. the US

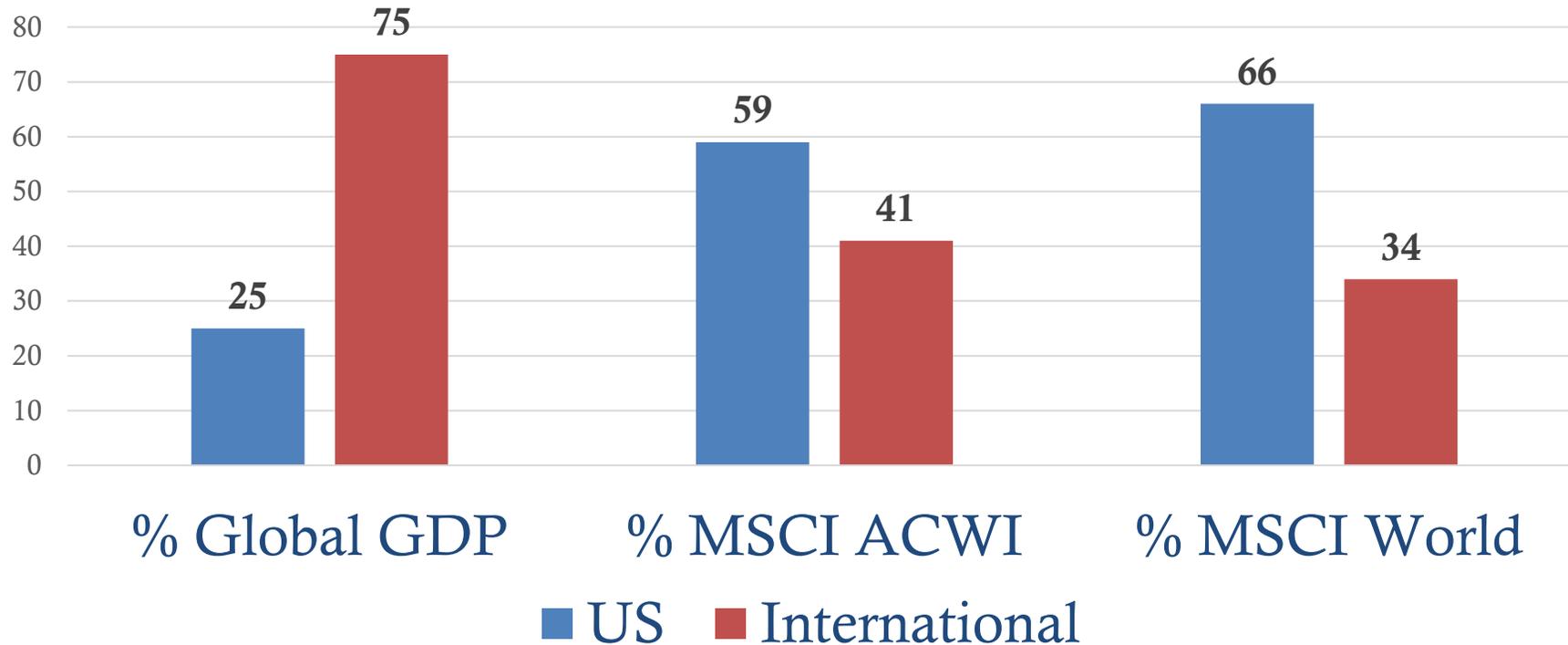
# US and Intl. trade leadership

## US Equity vs International Equity: 5-Year Monthly Rolling Returns (%)



# The US is over-represented

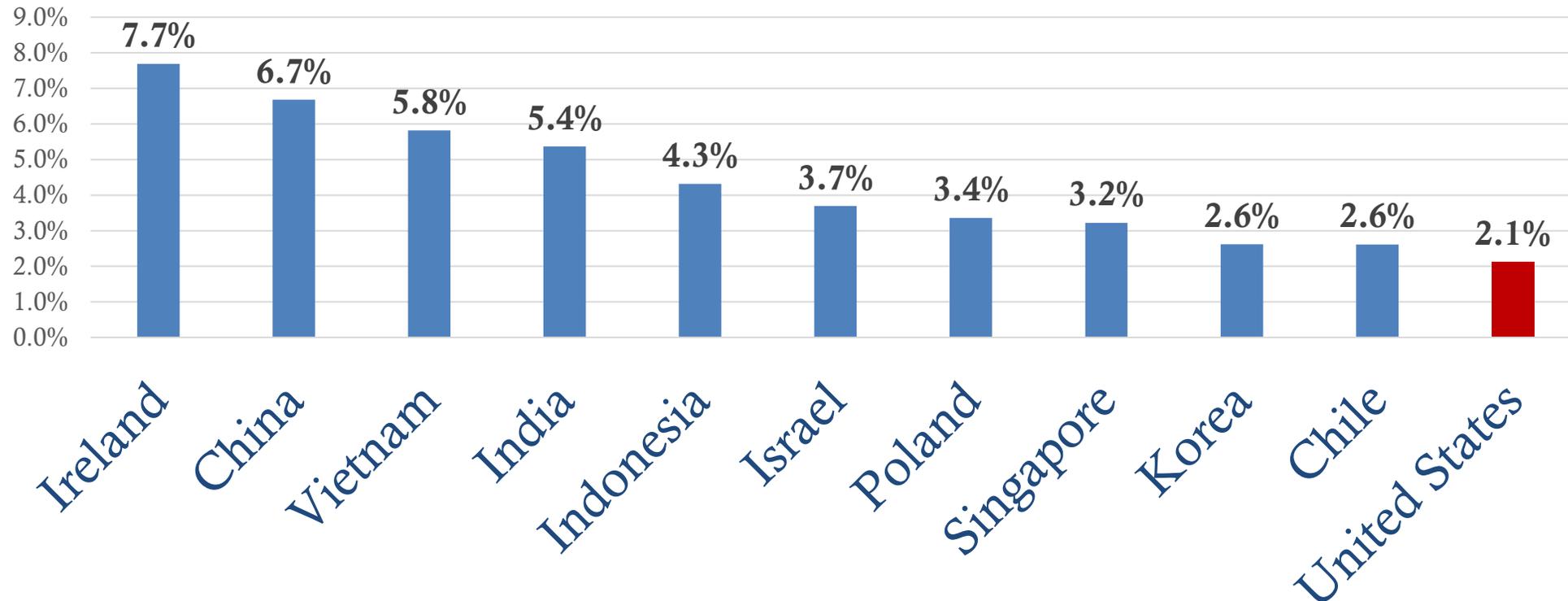
## US % of Global GDP vs. Equity Index Composition



Source: Bloomberg, MSCI indices. As of 12-31-2022, the latest full-year data available. "GDP refers to Gross Domestic Product, a total monetary or market value of all the finished goods and services produced within a country/region's borders over a specific timeframe.

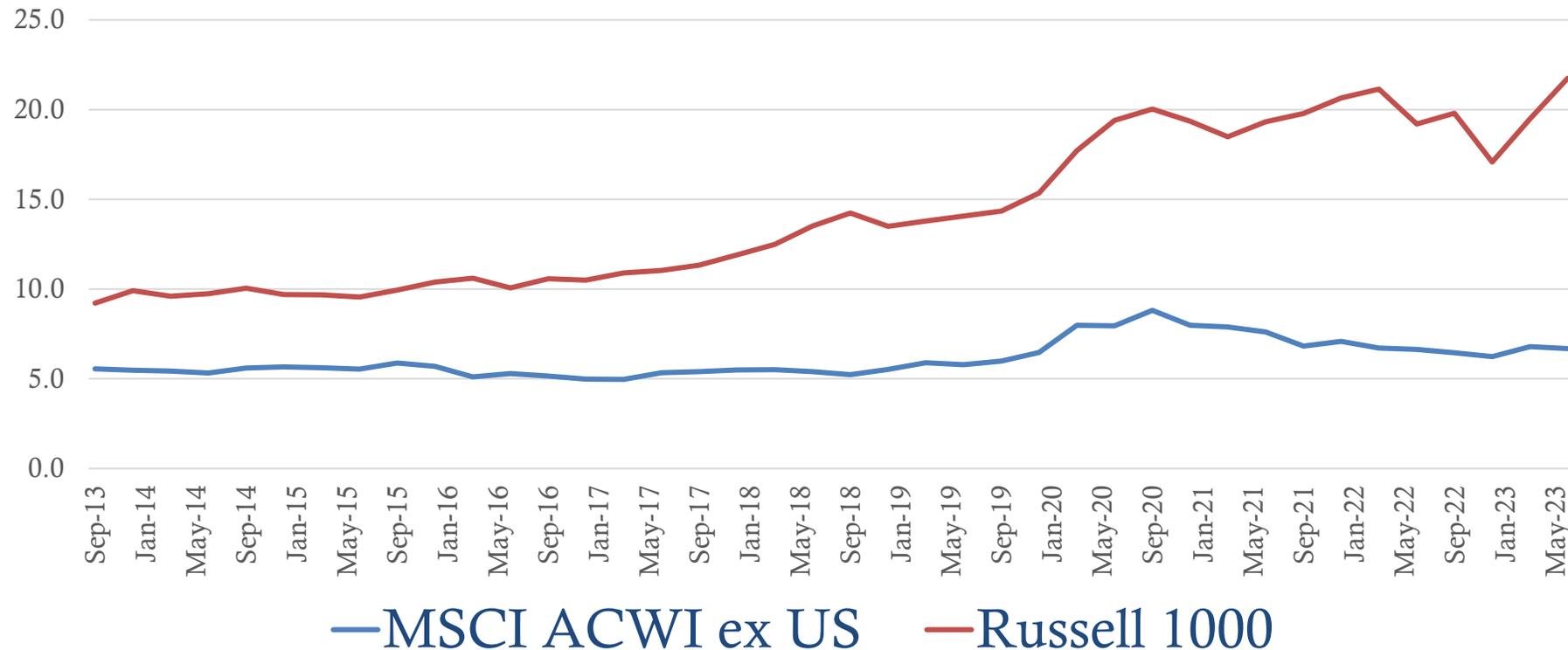
# GDP growth higher in Intl.

## 10-Yr Annualized Real GDP Growth (%)



# Intl. is more diversified

Weight (%) in Top 5 Index  
Constituents



# Intl. is more diversified

## MSCI ACWI ex US Top 10

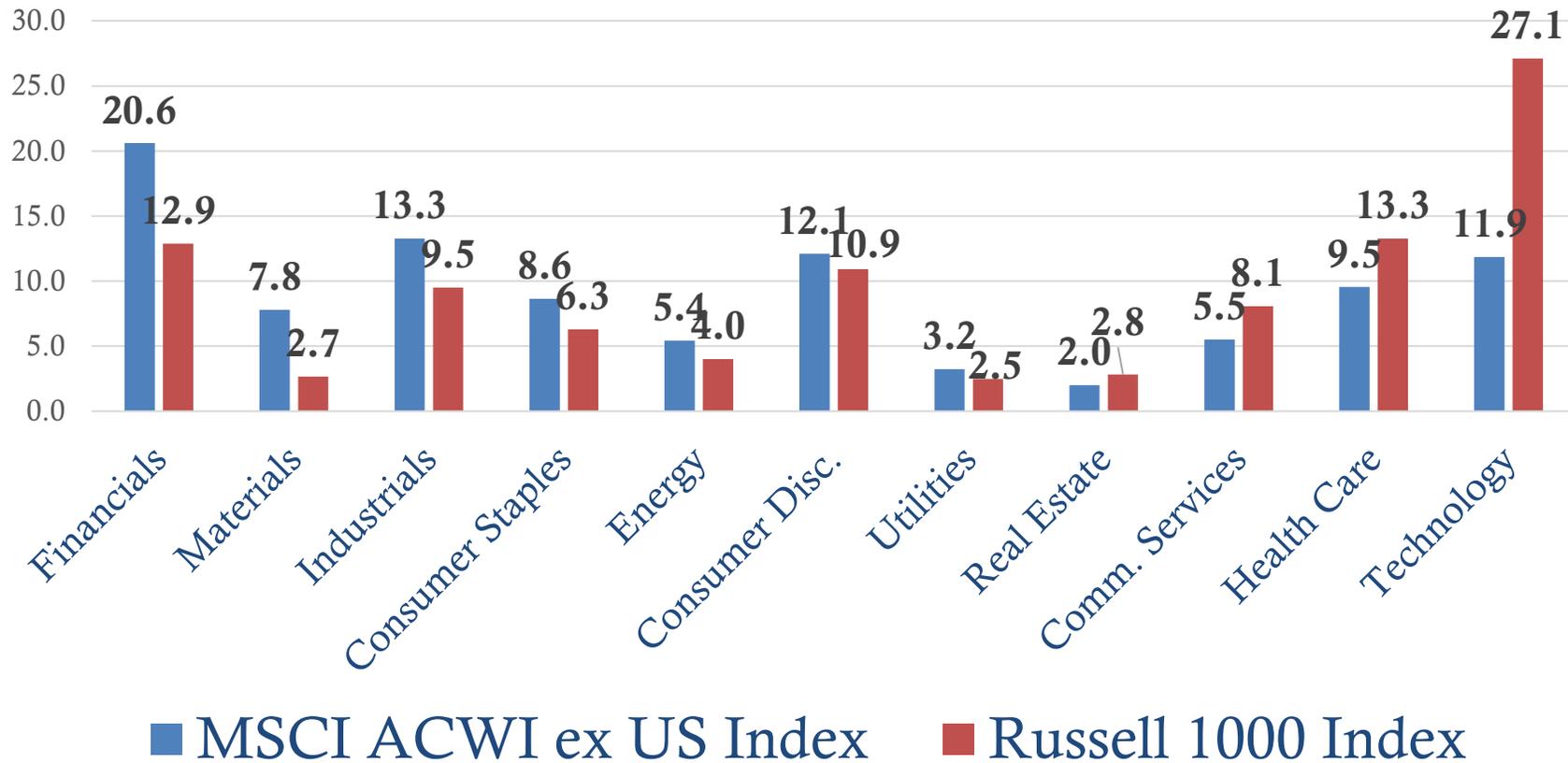
Company	Weight (%)
TAIWAN SEMICONDUCTOR	1.8
NESTLE	1.4
ASML	1.2
TENCENT HOLDINGS LTD	1.1
NOVO NORDISK A/S-B	1.1
SAMSUNG ELECTRONICS CO LTD	1.0
LVMH	1.0
ASTRAZENECA PLC	0.9
ROCHE HOLDING AG	0.9
NOVARTIS AG	0.9
<b>Total Top 10 %</b>	<b>11.2</b>

## Russell 1000 Top 10

Company	Weight (%)
APPLE INC	7.0
MICROSOFT CORP	6.2
AMAZON.COM INC	2.9
NVIDIA CORP	2.4
TESLA INC	1.8
ALPHABET INC	3.2
META PLATFORMS INC	1.5
BERKSHIRE HATHAWAY	1.5
UNITEDHEALTH GROUP	1.1
EXXON MOBIL CORP	1.1
<b>Total Top 10 %</b>	<b>28.7</b>

# Intl. is more diversified

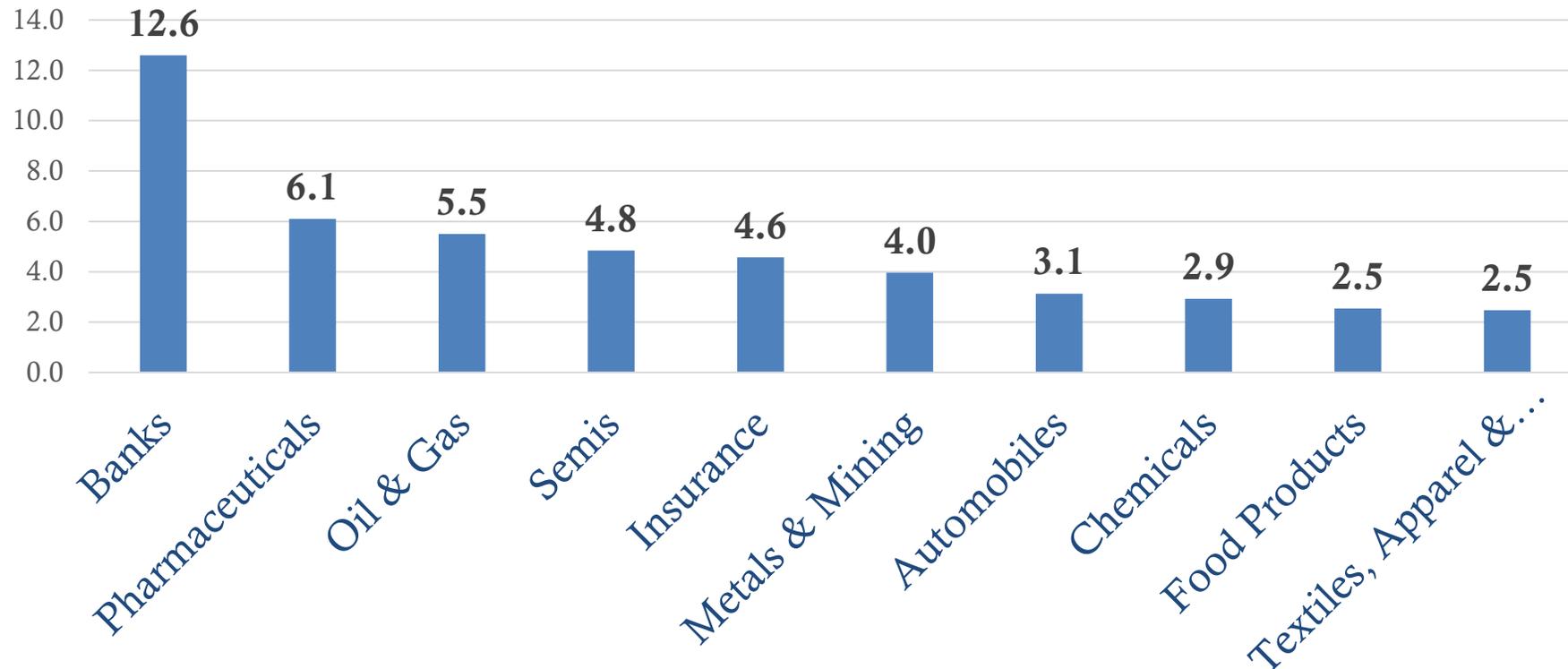
## Sector Weights (%)



Source: Bloomberg. Russell 1000 Index is a proxy for the US equity market; MSCI ACWI ex US is a proxy for international. GICS sector classifications used in the above chart. As of 6-30-2023.

# Intl: more cyclicals, less tech

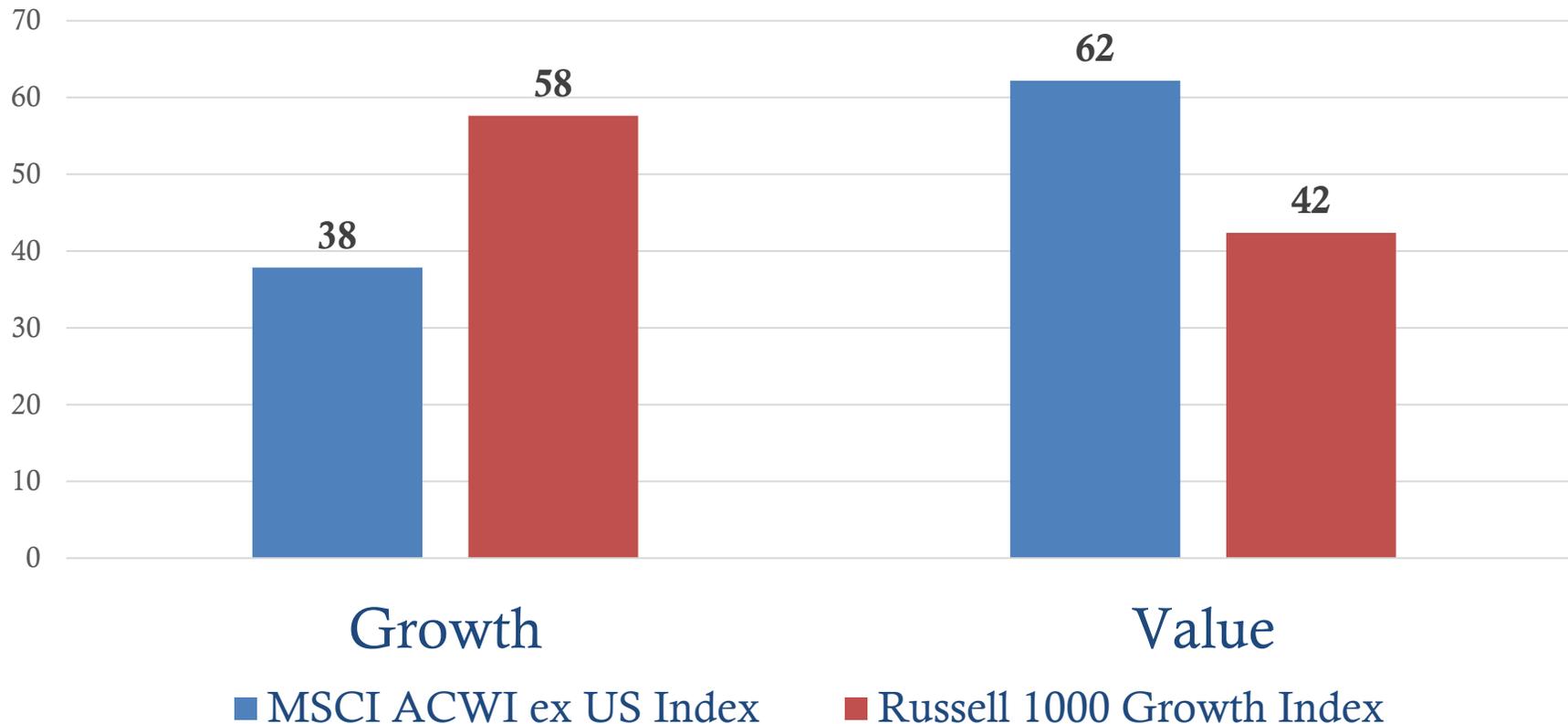
## MSCI ACWI ex US: Top 10 Industries %



Source: Bloomberg. GICS sector classifications used in the above chart. As of 6-30-2023.

# Intl: more “value”, less “growth”

## Growth/Value Exposure (%)



Source: Polen Capital, Bloomberg. Groupings are not a perfect representation of the “Growth” and “Value” factors but, for illustrative purposes, attempt to group by GICS sectors that have traditionally delivered higher growth (“Growth”), and lower growth (“Value”). As of 6-30-2023.

# Unique opportunities in Intl.

## Luxury goods

- Luxury brands almost entirely based outside the US

## Strong economic growth

- Banking is attractive with good growth, under-banked populations and positive yield curve

## Semiconductor supply chain

- The outlook for the semiconductor industry is very positive with more investment needed

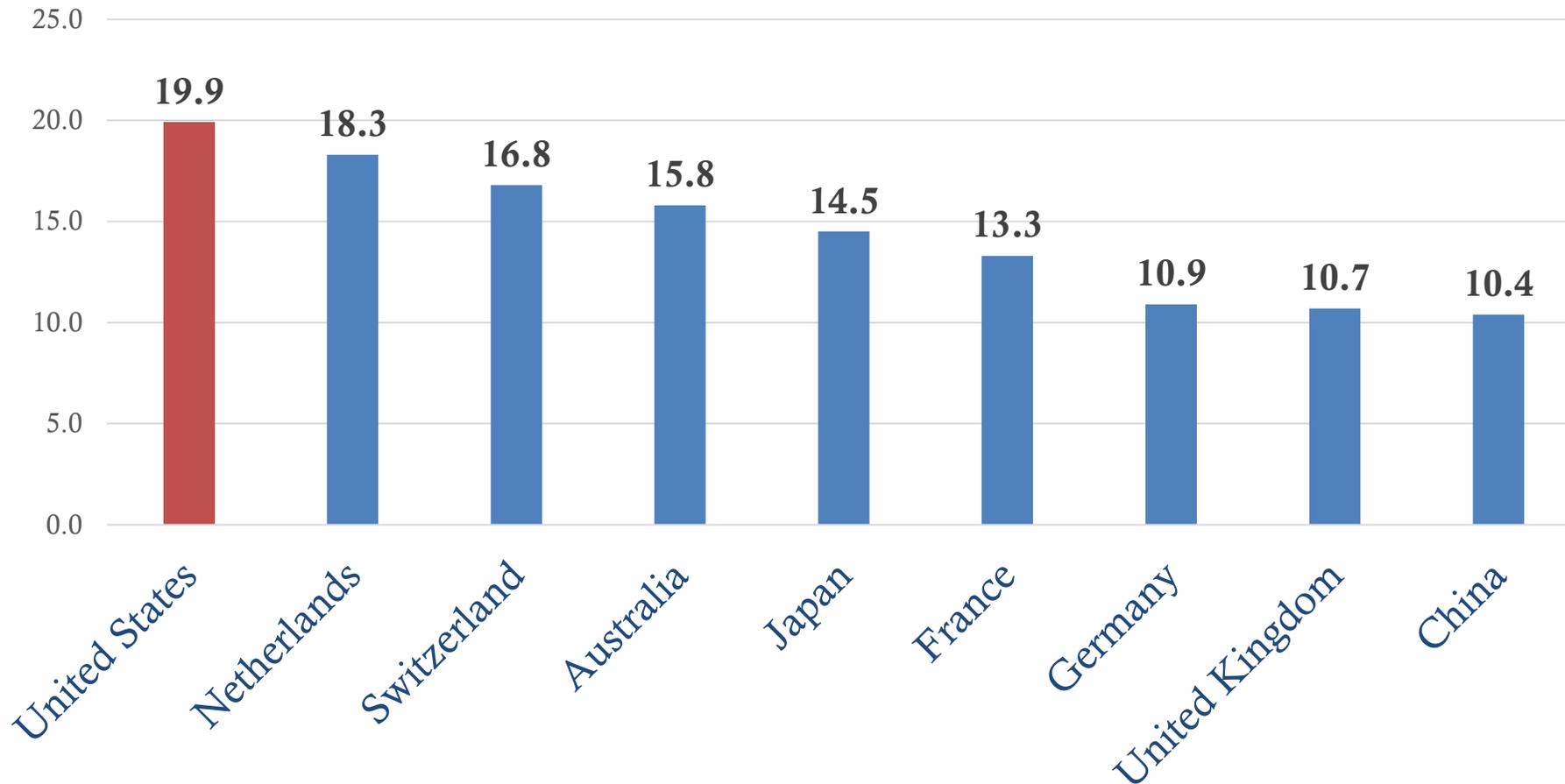
# Why invest internationally?

## Short-term tactical reasons

1. Relative valuations vs. the US are attractive
2. US dollar strength was a headwind, but is becoming a tailwind
3. US/international leadership tends to shift at bear market inflection points

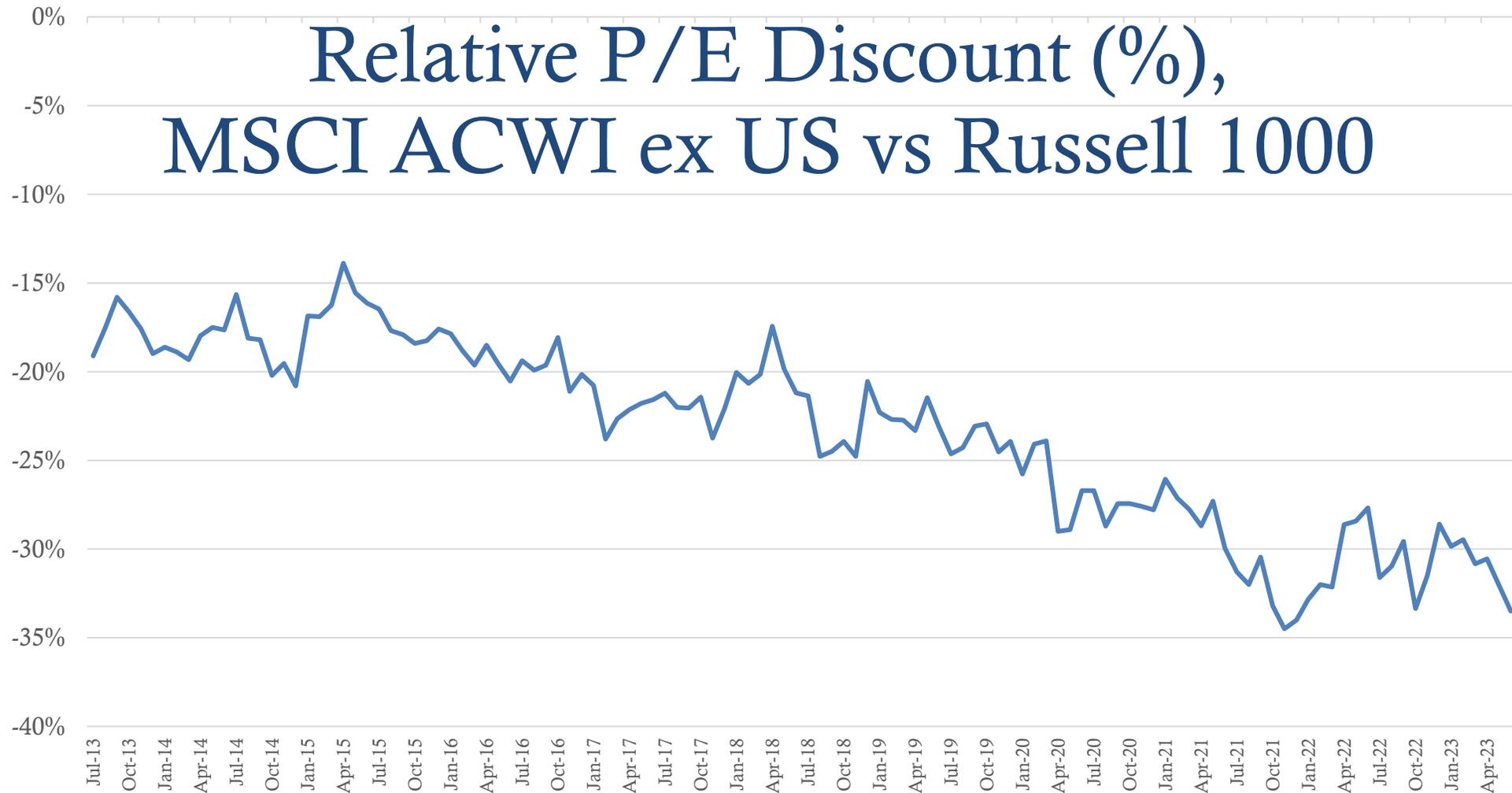
# Better valuations outside the US

Fwd. 12-Mo Est. P/E Ratio (x)



Source: Bloomberg consensus estimates for Fwd. 12-Mo P/E ratio; MSCI ACWI for selected countries with material exposure in the index. Fwd 12 Mo P/E ratio is a measure of share price divided by expected earnings estimates over the next year, as measured by a consensus of Bloomberg sell side analysts. As of 7-31-2023.

# Better valuations outside the US



Source: Bloomberg consensus estimates for Fwd. 12-Mo P/E. Shows P/E ratio for MSCI ACWI ex US (international) relative to the Russell 1000 (USA). Fwd 12 Mo P/E ratio is a measure of share price divided by expected earnings estimates over the next year, as measured by a consensus of Bloomberg sell side analysts Past decade as of 6-30-2023.

# Dollar strength has rolled over



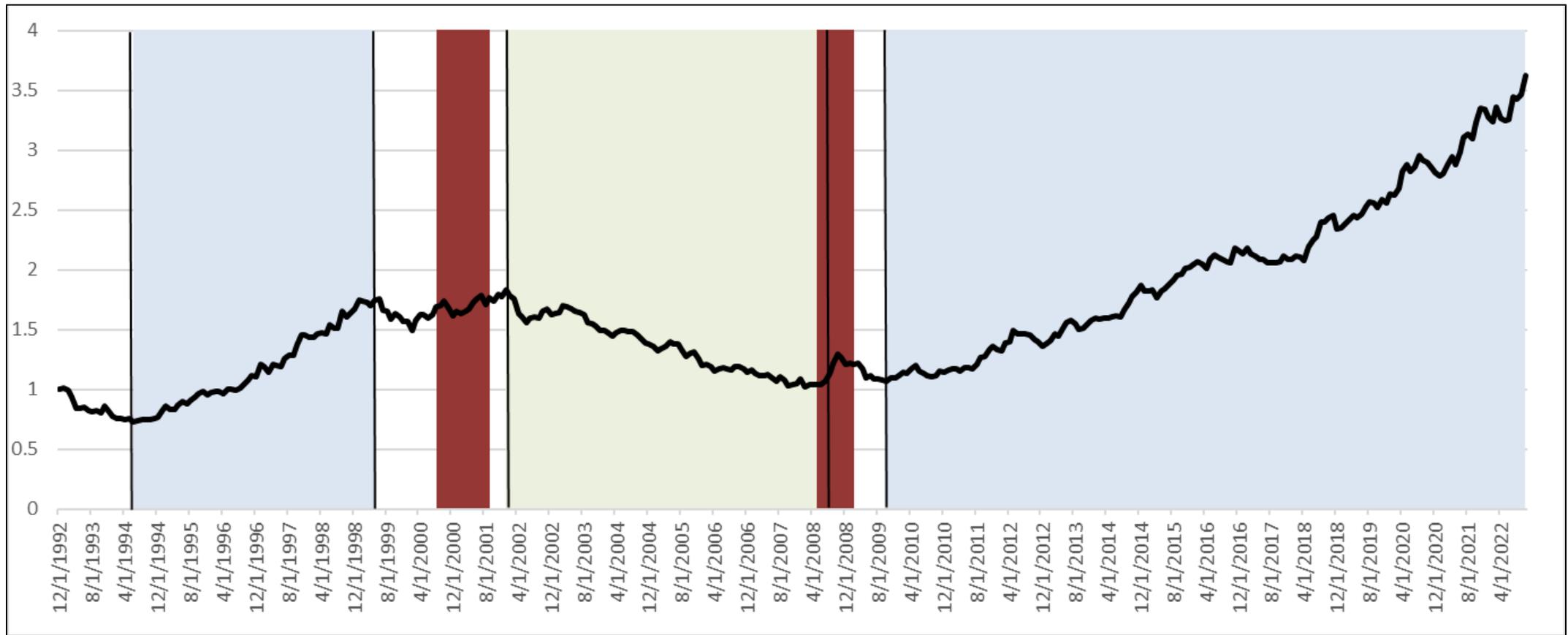
Source: Bloomberg. US Dollar Spot Index shown; measures US dollar against a basket of 6 influential currencies. As of 6-30-2023.

# Weak dollar is good for intl.

- A strong dollar was driven by a flight to safety, and capital flows chasing higher yields in the US.
- This makes the US economy less competitive, encouraging more net imports which ultimately weighs on dollar strength.
- Short term, this means FX will be less (or not at all) a headwind for US investors investing in Intl.
- Long term, this has real economic implications.

# Bear markets inflection points

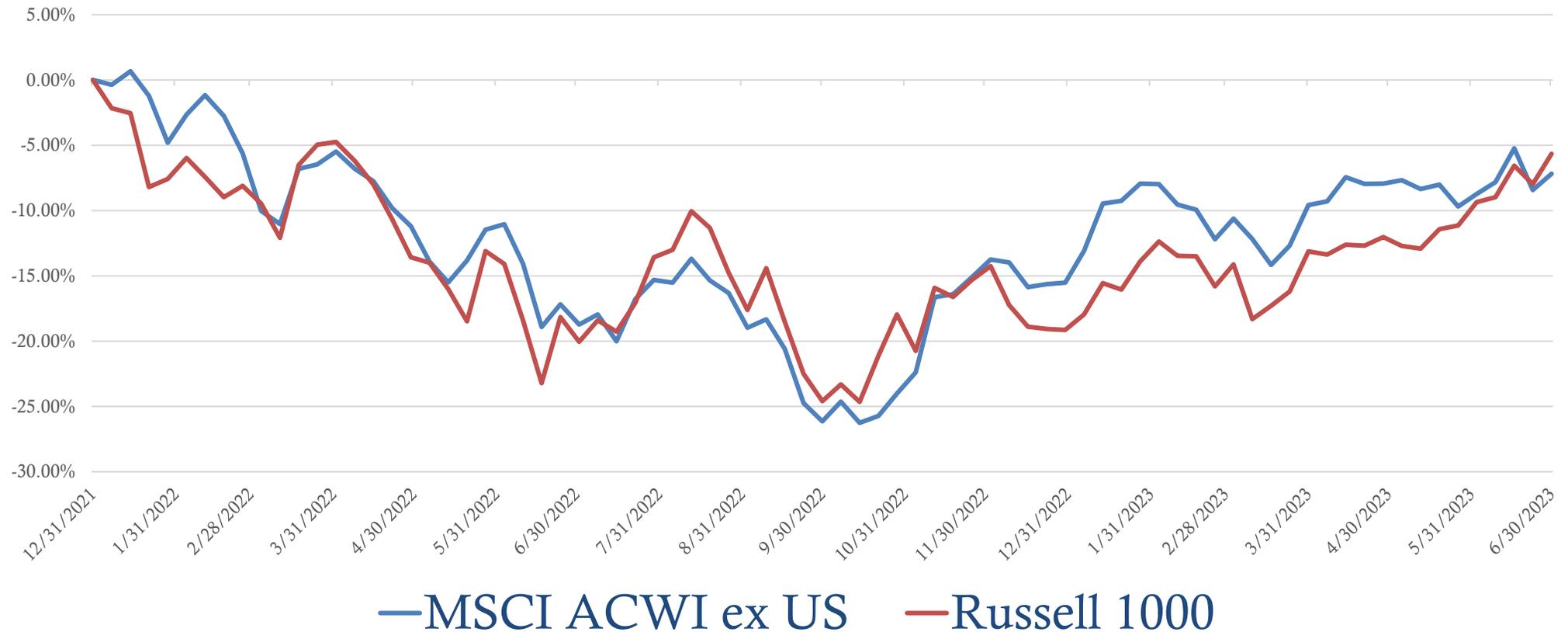
## US vs. Intl. Equity Returns, Indexed to 1.0



Source: Bloomberg, Polen Capital. As of 6-30-2022. Shows relative out/underperformance of US vs. International. Above 1.0 the US is outperforming/below 1.0 Intl. is outperforming. Red shaded regions are TMT bubble and Global Financial Crisis, respectively. See Disclosures page for definitions of these periods as well as what constitutes a bear market. Blue regions are US leadership, green region is international leadership.

# Bear markets inflection points

MSCI ACWI ex US vs. Russell 1000,  
Cumulative Return (2022-present)



Source: Bloomberg. Chart shows 12-31-2021 through 6-30-2023 to capture the recent 2022 bear market and subsequent recovery.

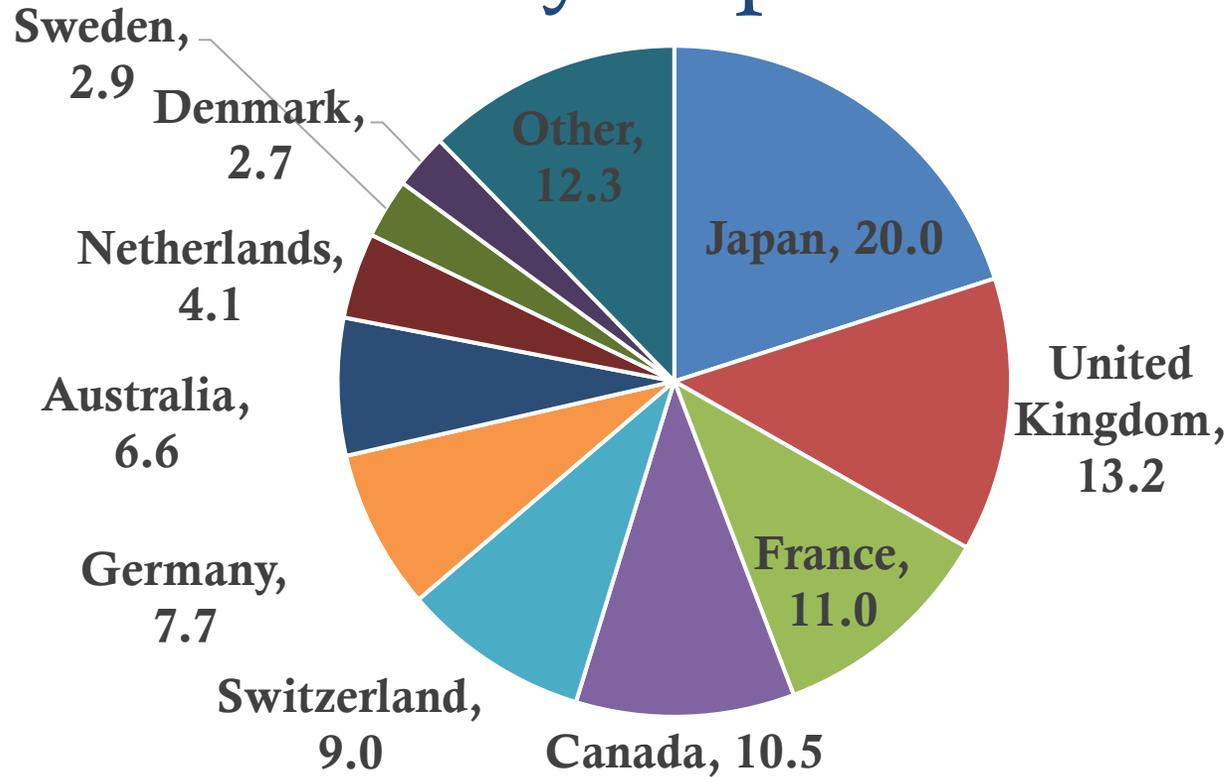
# Ways to gain exposure to Intl.

- **International developed (broad)**
  - MSCI World ex-US; MSCI EAFE
- **Emerging markets (EM)**
  - MSCI Emerging Markets; MSCI Frontier Markets
- **International w/ EM**
  - MSCI ACWI ex-US
- **Regional and country focus**
  - MSCI AC Asia; MSCI China

# Ways to gain exposure to Intl.

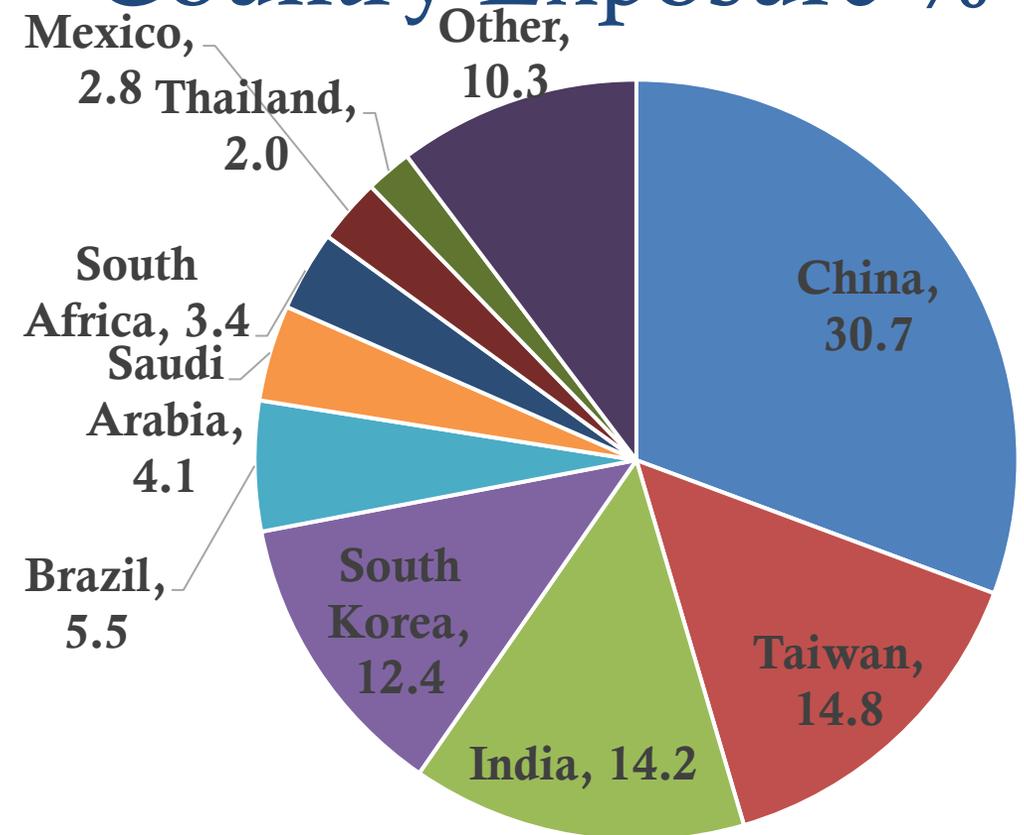
MSCI World ex-US

Country Exposure %



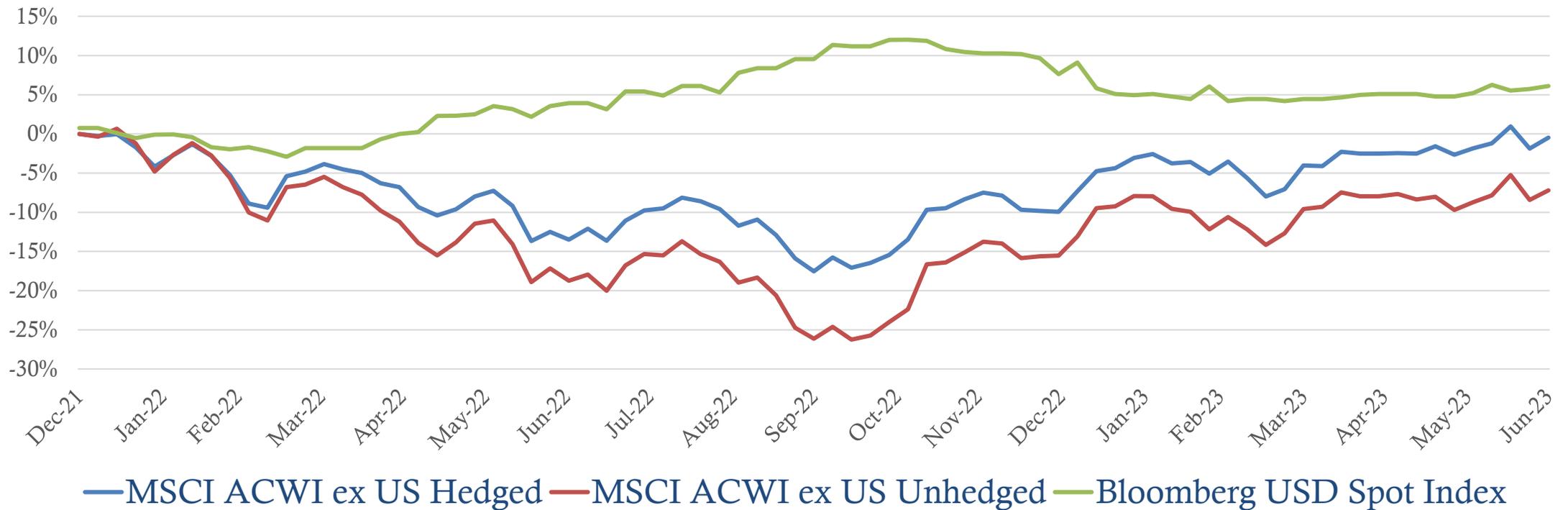
MSCI Emerging Markets

Country Exposure %



# Hedging currency exposure

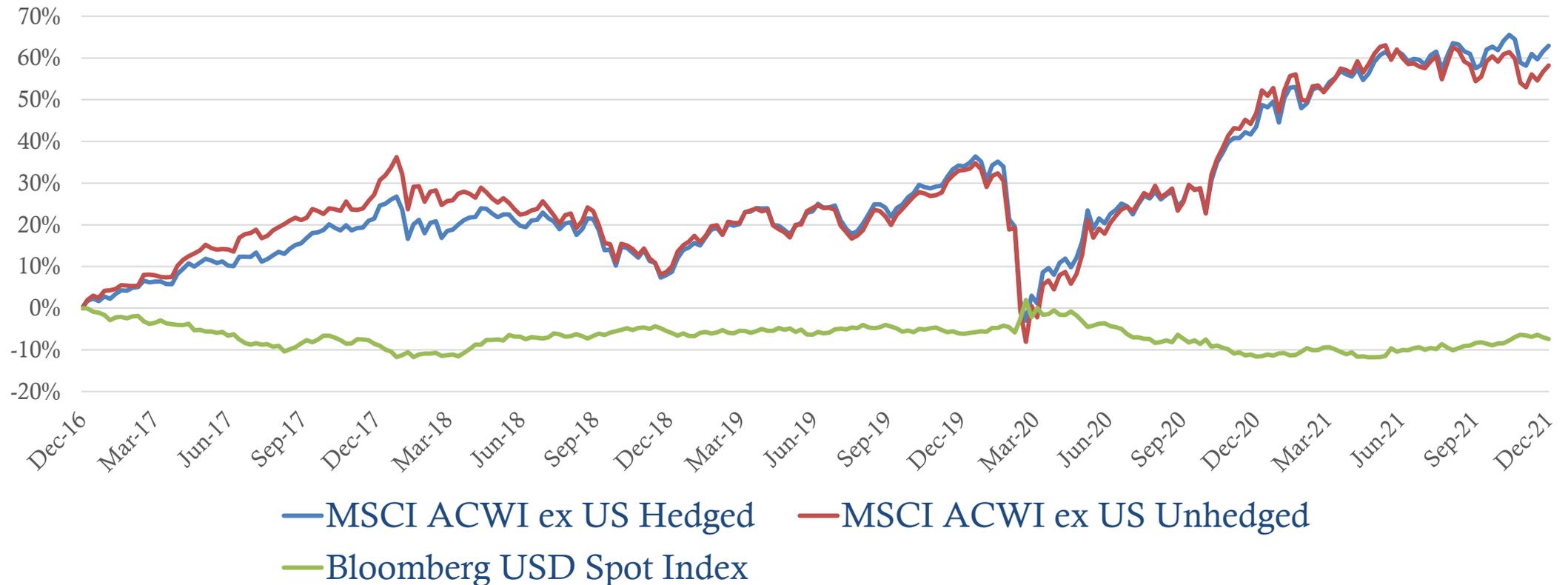
## 2022 - Present MSCI ACWI ex US: Hedged vs. Unhedged Returns



Source: Bloomberg, MSCI. As of 6-30-2023. Currency hedging is an attempt to reduce the effects of currency fluctuations on investment performance using currency forward agreements. The “MSCI ACWI ex US Hedged” is 100% hedged to the US dollar by selling each foreign currency forward at the one-month Forward weight.

# Hedging currency exposure

## 2017-2021 MSCI ACWI ex US: Hedged vs. Unhedged Returns



Source: Bloomberg, MSCI. Shows 5-yrs preceding 2022 (12-31-2016 through 12-31-2021) as a reasonably long timeframe to evaluate the impact of currency.

# Risks in Intl. investing

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- **Currency risk**
- **Regulatory risk**
- **Political/geopolitical risk**
- **Economic/interest rate risk**
- **Liquidity risk**
- **Other (e.g. ADR de-listing)**

# Disclosures

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- This is being provided is for informational purposes only. Opinions and views expressed constitute the judgment of Polen Capital as of the date of this presentation, may involve a number of assumptions and estimates which are not guaranteed, and are subject to change without notice. Although the information and any opinions or views given have been obtained from or based on sources believed to be reliable, no warranty or representation is made as to their correctness, completeness or accuracy. Opinions, estimates, forecasts, and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice, including any forward-looking estimates or statements which are based on certain expectations and assumptions. The views and strategies described may not be suitable for all clients. References to specific securities, asset classes and financial markets are for illustrative purposes only and are not intended to be, and should not be intended to be, and should not be interpreted as, recommendations. This presentation does not identify all the risks (direct or indirect) or other considerations which might be material when entering any financial transaction.
- The volatility and other material characteristics of the indices referenced may be materially different from the performance achieved by an individual investor. In addition, an investor's holdings may be materially different from those within the index. Indices are unmanaged and one cannot invest directly in an index. Please see following page for definitions of specific indices referenced throughout presentation.
- Index Definitions
  - Russell 1000: The Russell 1000 Index is a subset of the Russell 3000 Index that includes approximately 1,000 of the largest companies in the US equity universe. Constructed using a transparent, rules-based methodology, the Russell 1000 Index is designed to provide unbiased representation of the large cap segment of the US equity market.
  - S&P 500: The S&P 500 is a market-capitalization-weighted stock market index that tracks the stock performance of about 500 of some of the largest U.S. public companies. Investors and economists use the S&P 500 as a benchmark for the overall U.S. stock market and the U.S. economy as a whole.
  - MSCI All Country World ("ACWI"): The MSCI ACWI captures large and mid cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries\*.
  - MSCI All Country World ("ACWI") ex United States: The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries.
  - MSCI EAFE: The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada.
  - MSCI World ex-US: The MSCI World ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries- excluding the United States.
  - MSCI Emerging Markets: The MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries.
  - MSCI Frontier Markets: The MSCI Frontier Markets Index captures large and mid cap representation across 28 Frontier Markets (FM) countries (eg Vietnam, Romania, Morocco, etc).
- The information provided in this presentation should not be construed as a recommendation to purchase or sell any particular security.

# Disclosures

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- Definitions of Selected Terms
  - Bear market
    - A bear market is a fundamentally driven market decline of 20% or more from the all time high of a given index. A bear market often coincides with a weakening economy, massive liquidation of securities, and widespread investor fear and pessimism.
  - Tech, Media, and Telecom “TMT” Bubble (also referred to as the Dotcom Bubble, or Tech Bubble)
    - A rapid rise in U.S. technology stock equity valuations fueled by investments in Internet-based companies during the bull market in the late 1990s. Things started to change in 2000, and the bubble burst between 2001 and 2002 with equities entering a bear market.
  - Global Financial Crisis (“GFC”)
    - The period of extreme stress in global financial markets and banking systems between mid 2007 and early 2009.
- Risk Definitions
  - Currency risk
    - Currency risk, commonly referred to as exchange-rate risk, arises from the change in price of one currency in relation to another. Investors or companies that have assets or business operations across national borders are exposed to currency risk that may create unpredictable profits and losses.
  - Regulatory risk
    - Regulatory risk is the risk that a change in regulations or legislation will affect a security, company, or industry.
  - Political risk
    - The risk that investors, firms, organizations, and countries, will lose money or make less money than expected, due to political decisions, conditions, or events occurring in the country or emerging market in which they have invested
  - Geopolitical risk
    - The risks arising out of interactions between countries. These interactions include trade relationships, security partnerships, alliances, multinational climate initiatives, supply chains and territorial disputes.
  - Economic/interest rate risk
    - The potential for adverse changes in economic conditions that can negatively impact businesses, industries, and economies.
  - Liquidity risk
    - The inability to easily exit a position, resulting in less-than-optimal transaction prices