

International Equity Investing Pros & Cons

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American Association of Individual Investors

Austin and San Antonio Presentation

October 2020



CANDOR ASSET ADVISORS

What we will cover today

- Background on international equity investing
- The arguments against international equity investing
- The arguments for international equity investing
- International equity investing options

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Investing	Financial Planning
International Investing (October 2020)	Retirement Planning (April 2019)
Fourth Quarter 2020 Investment Environment (October 2020)	Disability Considerations (October 2018)
The Stock Market Today & Challenges and Opportunities (December 2019)	Real Estate (May 2018)
Enhanced Index Investing (December 2017)	Healthcare & Long Term Care (September 2017)
Passive versus Active Investing (June 2017)	

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Background on international equity investing

Background:

Global stock market classifications

MSCI Weights today:
 US 58%, Developed
 Markets Excluding
 US 33% Emerging
 Markets 9%

FTSE Weights today:
 US 56%, Developed
 Markets Excluding
 US 35%, Emerging
 Markets 9%

MSCI ACWI & FRONTIER MARKETS INDEX									
MSCI ACWI INDEX					MSCI EMERGING & FRONTIER MARKETS INDEX				
MSCI WORLD INDEX			MSCI EMERGING MARKETS INDEX			MSCI FRONTIER MARKETS INDEX			
DEVELOPED MARKETS			EMERGING MARKETS			FRONTIER MARKETS			
Americas	Europe & Middle East	Pacific	Americas	Europe, Middle East & Africa	Asia	Europe & CIS	Africa	Middle East	Asia
Canada United States	Austria Belgium Denmark Finland France Germany Ireland Israel Italy Netherlands Norway Portugal Spain Sweden Switzerland United Kingdom	Australia Hong Kong Japan New Zealand Singapore	Argentina Brazil Chile Colombia Mexico Peru	Czech Republic Egypt Greece Hungary Poland Qatar Russia Saudi Arabia South Africa Turkey United Arab Emirates	China India Indonesia Korea Malaysia Pakistan Philippines Taiwan Thailand	Croatia Estonia Lithuania Kazakhstan Romania Serbia Slovenia	Kenya Mauritius Morocco Nigeria Tunisia WAEMU ²	Bahrain Jordan Kuwait Lebanon Oman	Bangladesh Sri Lanka Vietnam
MSCI STANDALONE MARKET INDEXES ¹									
						Americas	Europe & CIS	Africa	Middle East
						Jamaica Panama Trinidad & Tobago	Bosnia Herzegovina Bulgaria Malta Iceland Ukraine	Botswana Zimbabwe	Palestine

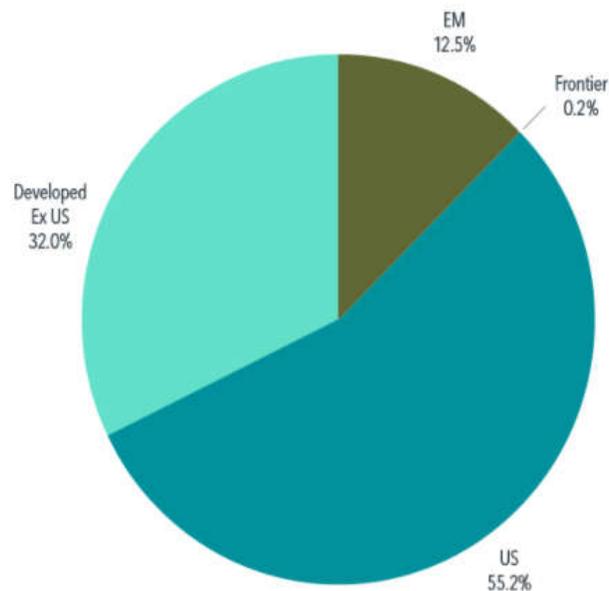
¹ The MSCI Standalone Market Indexes are not included in the MSCI Emerging Markets Index or MSCI Frontier Markets Index. However, these indexes use either the Emerging Markets or the Frontier Markets methodological criteria concerning size and liquidity.

Source: *msci.com*,
morningstar.com

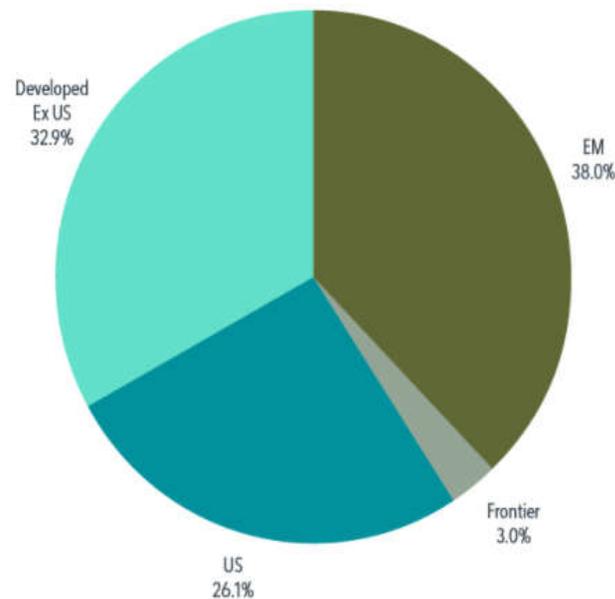
Background:

At the end of 2019, the US represented 55% of global market capitalization and 26% of Global GDP

Panel A: Share of Free-Float Adjusted Market Capitalization



Panel B: Share of Gross Domestic Product



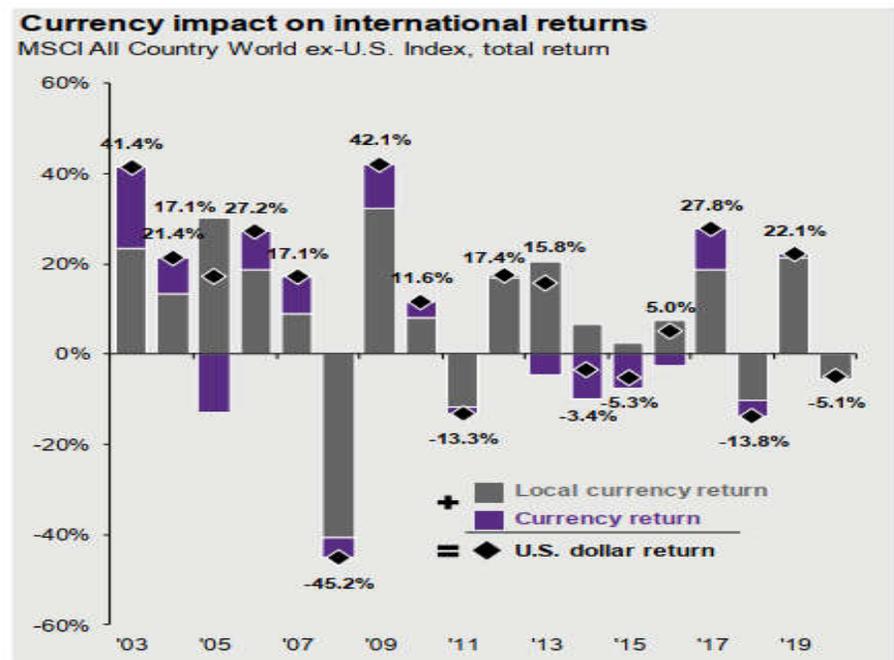
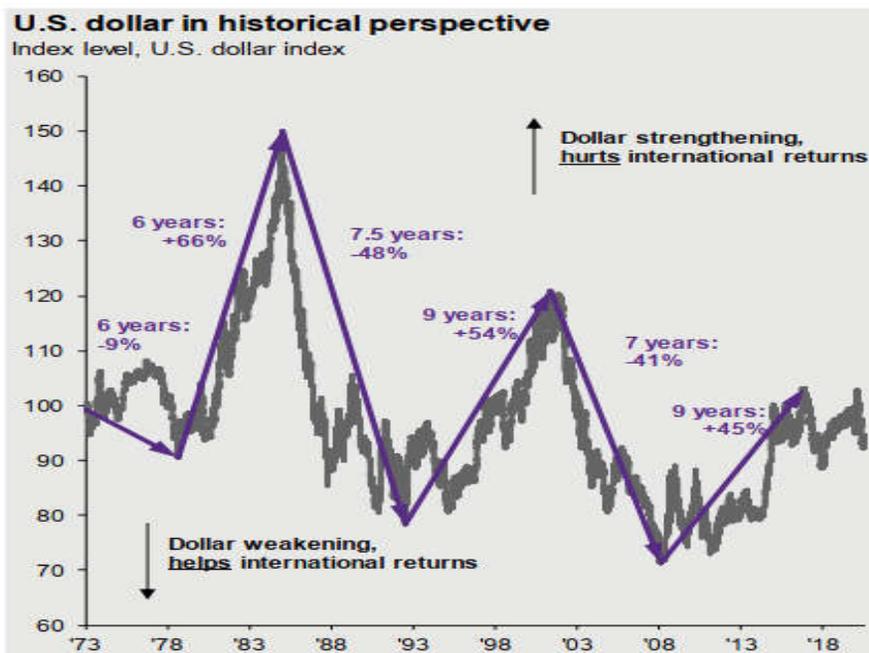
Source: “Ins and Outs of Emerging Markets Investing: Market Behavior and Evolution”.
Dimensional Funds.
8/31/20

Based on MSCI geographic classification methodology

The data is expressed in U.S. dollars. Stock market capitalization is calculated by multiplying the price per share by the number of outstanding shares and then summing all of the equities traded in a country or region. Estimates are not guaranteed.

Background:

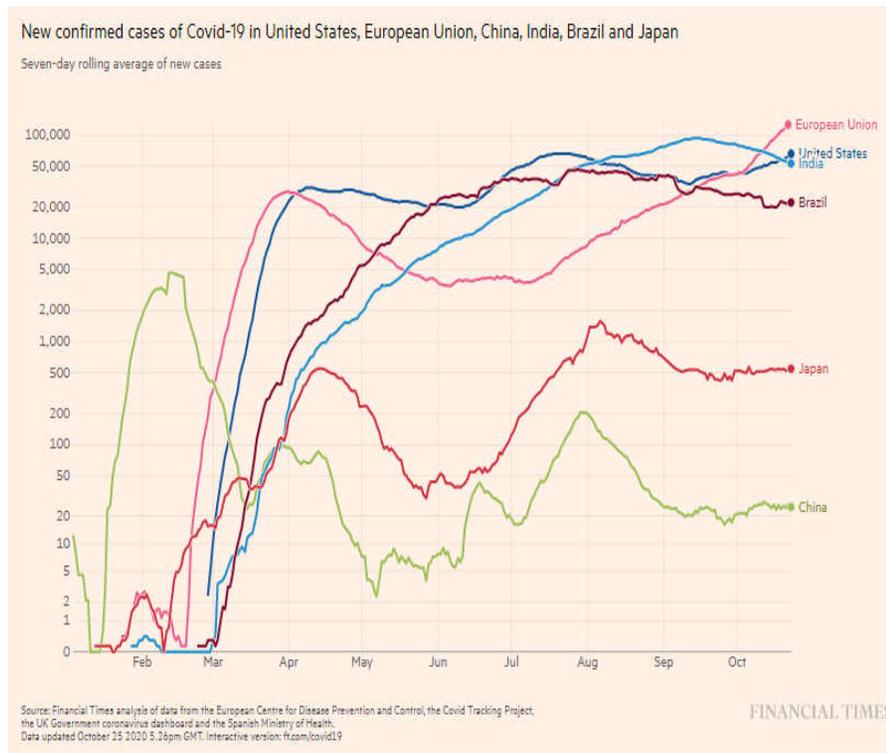
The US dollar has served as a foreign stock return headwind for most of the time since 2008



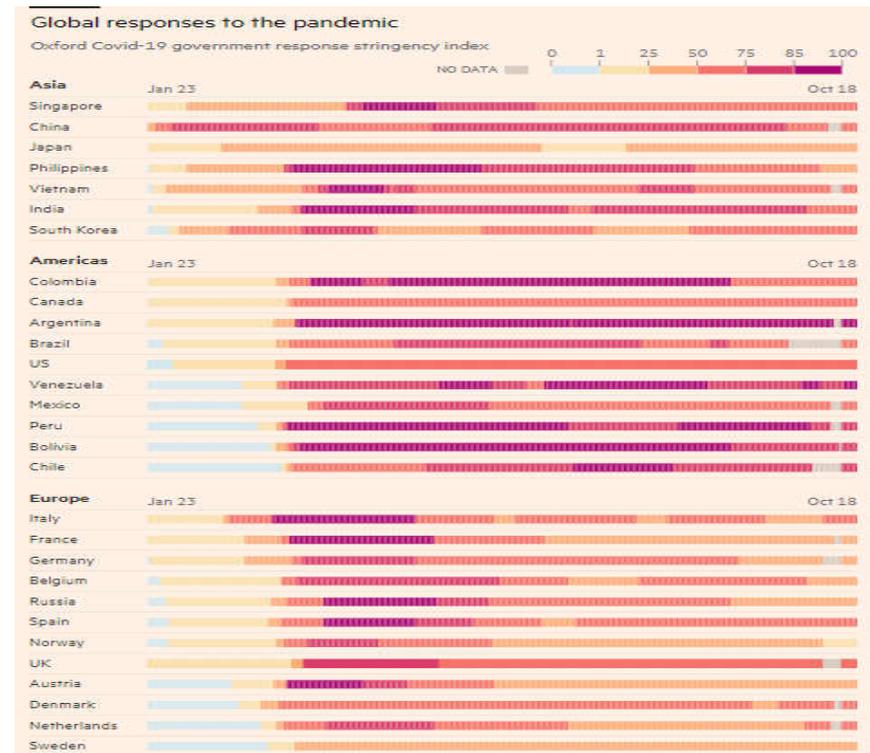
Source: FactSet, J.P. Morgan Asset Management; (Left) Federal Reserve, ICE; (Right) MSCI. Currencies in the U.S. Dollar Index are: British pound, Canadian dollar, euro, Japanese yen, Swedish krona and Swiss franc. Data for the U.S. Dollar Index are back-tested and filled in from March 9, 1973 and January 17, 1986 using the Federal Reserve's nominal trade-weighted broad currency index. Past performance is not a reliable indicator of current and future results. *Guide to the Markets – U.S.* Data are as of September 30, 2020.

Background:

COVID-19 grew rapidly in the first quarter of 2020. There are signs of a second wave in the US and Europe.



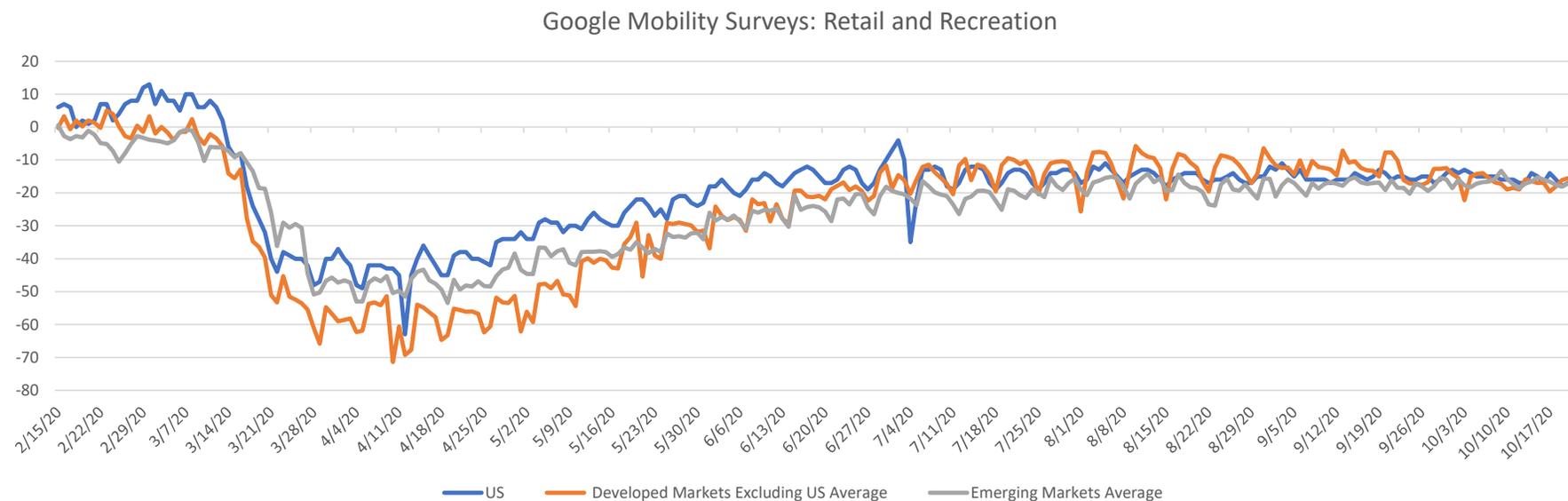
Government shutdown responses picked up in the first quarter and have generally eased since then



Source: "Coronavirus Tracker and Lockdowns Compared". *Financial Times*. October 25, 2020.

Background:

Google Mobility Reports highlight retail and recreation activity has been relatively flat since July



Mobility trend for restaurants, cafes, shopping centers, theme parks, museums, libraries and movie theaters. Number represents percentage drop in economic activity since survey baseline of 1/3/20-2/6/20.

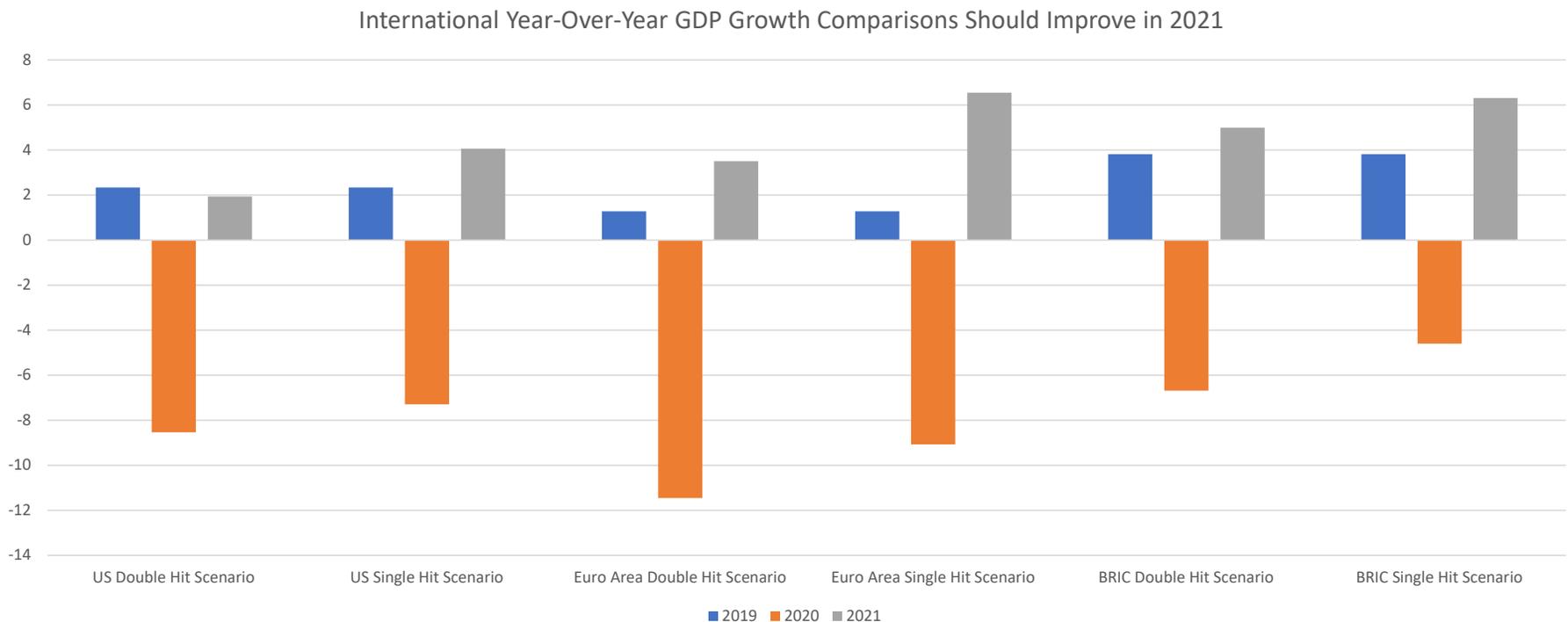
Developed Markets Excluding US Average: Australia, Canada, France, Germany, Japan, Switzerland, and UK

Emerging Markets Average: Brazil, India, Russia, South Africa, South Korea, Taiwan, and Thailand

Source: <https://www.google.com/covid19/mobility/>. Google. 10/26/20

Background:

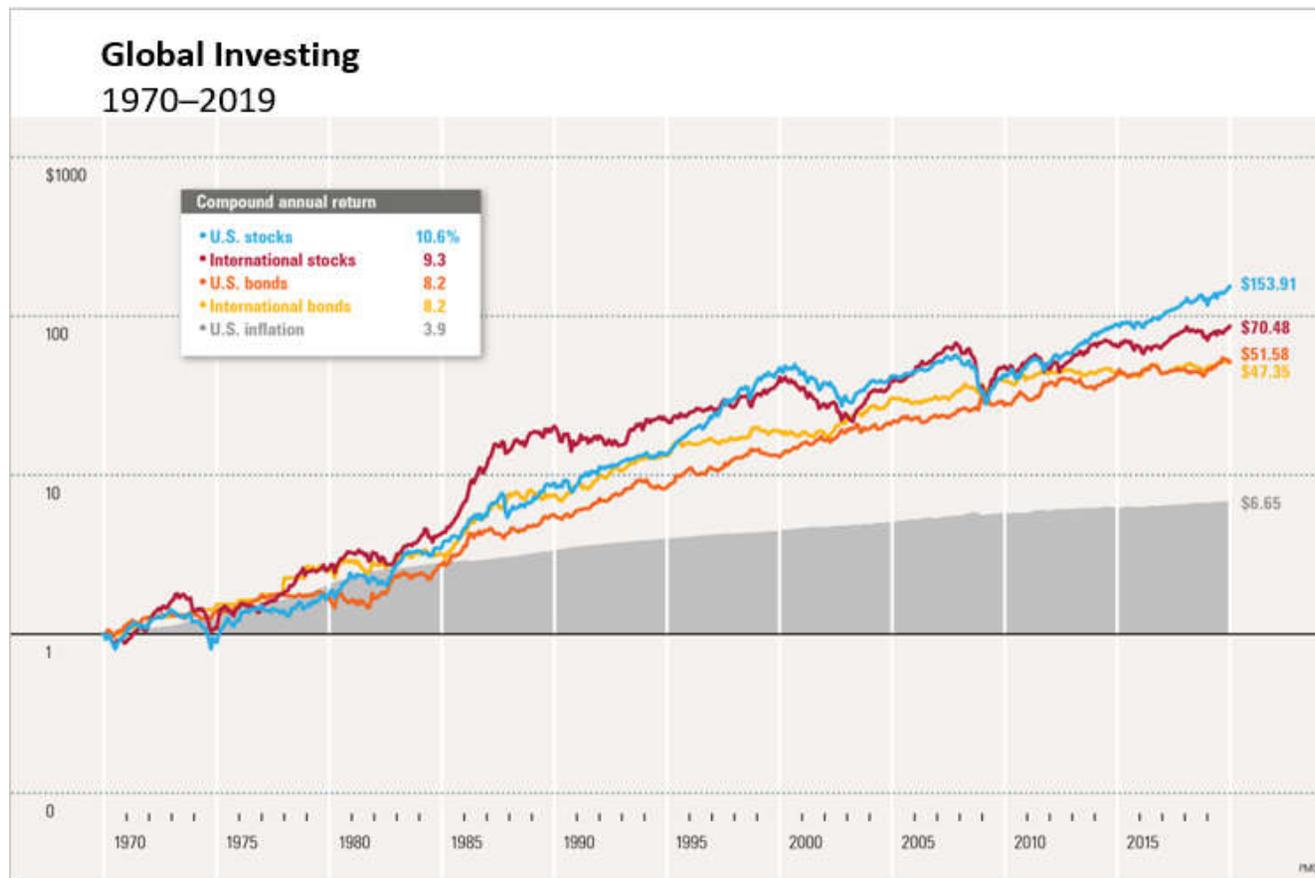
OECD's forecasts point to stronger international GDP growth in the single and double economic hit scenarios in 2021



Source: "Economic Outlook". *Organization of Economic Development*. September 2020

Background:

US vs. international stock returns are similar over time



Source: “Global Investing.” *Morningstar*. 2020

Note: U.S. stocks are represented by the Ibbotson® Large Company Stock Index. International stocks are represented by the Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE®) Index. International bonds are represented by International Monetary Fund (IMF) International Financial Statistics (equally weighted portfolio of long-term government bonds and cash equivalents) from January 1970–December 1978, the Citigroup Non-U.S. 5+ Year Government Bond index from January 1979–December 1984, and the Citigroup Non-U.S. 5+ Year World Government Bond Index thereafter. U.S. government bonds are represented by the 20-year U.S. government bond and U.S. inflation by the Consumer Price Index. An investment cannot be made directly in an index.

Background:

Since the late 1980s the US and emerging markets have generated similar returns while international developed market returns have lagged



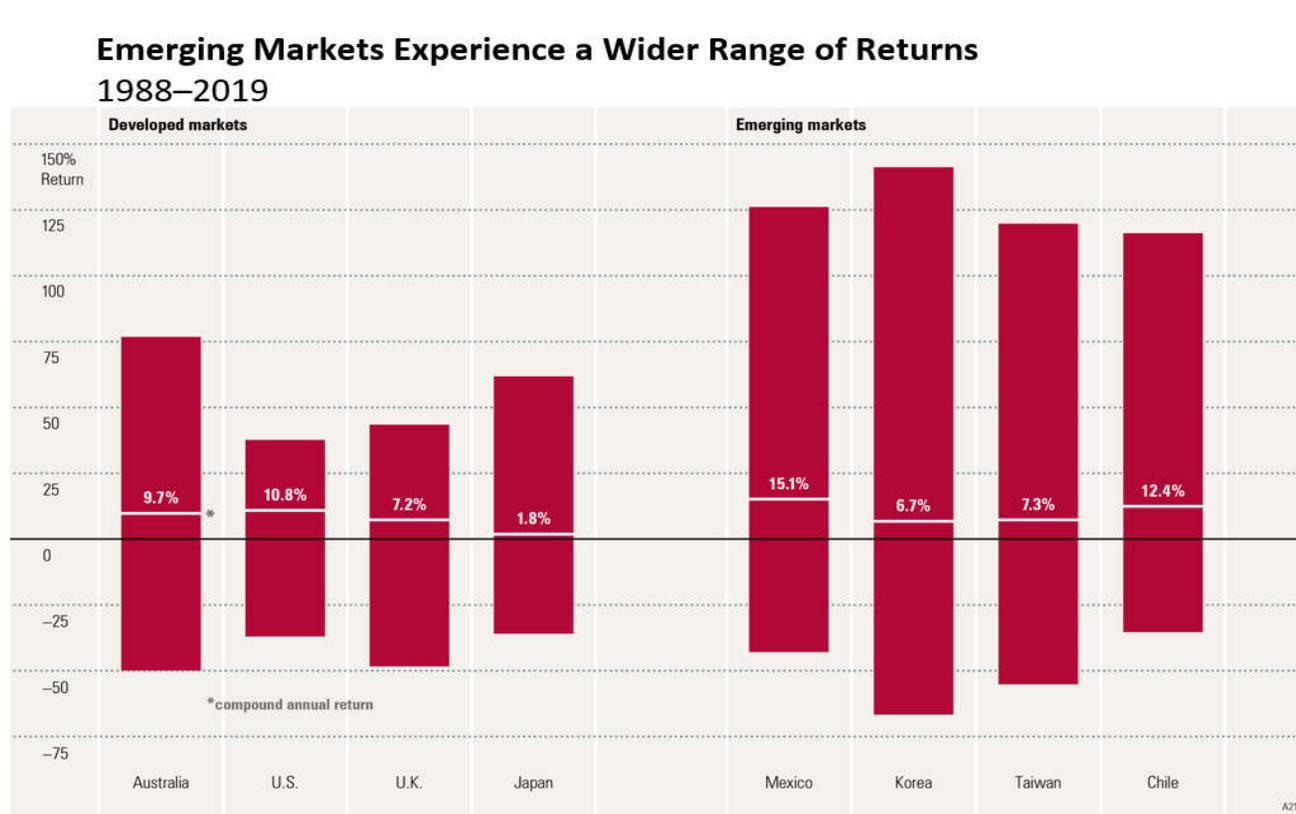
Source: Ycharts.com

Past performance is no guarantee of future performance. An investment cannot be made directly in an index.

Background:

Emerging markets are more volatile

Intl. developed markets are slightly more volatile than the US

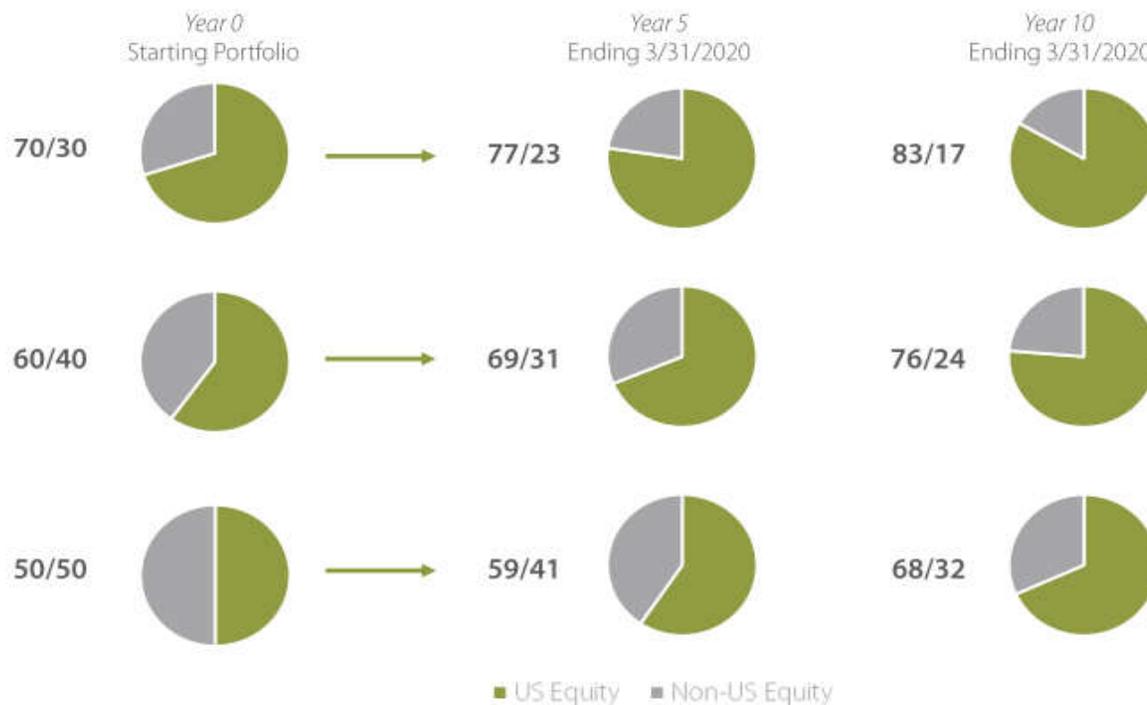


Source: “Global Investing.” *Morningstar*. 2020

Note: United States equities are represented by the Ibbotson Large-Stock® index, which is an unmanaged group of securities and considered to be representative of the U.S. stock market in general. Equities for the other countries are represented by their respective Morgan Stanley Capital International country indexes in USD. An investment cannot be made directly in an index. Keep in mind that the countries illustrated do not represent investment advice. The developed countries illustrated are a common range of investment options. Emerging-market countries were chosen based on availability of historical data; those with the longest stream of data were selected.

Background:

If you haven't rebalanced since 2010 the US has become a much larger % of your equity portfolio



Source: "The Case for Artisan International Value Fund". *Artisan Partners*. August 2020

Past performance is not a guarantee or predictor of future performance. Stocks are not guaranteed and have been more volatile than other asset classes.

Past performance does not guarantee and is not a reliable indicator of future results. Source: Artisan Partners/Bloomberg/MSCI/S&P. As of June 30, 2020. Methodology: Portfolios are not rebalanced and grow at the annualized 5 and 10 year total return figures achieved by their respective indices ending June 30, 2020. US: S&P 500; Non-US: MSCI EAFE.

Background:

A number of investment firms are expecting international equity returns will surpass US returns over the long run

Contributor	Blackrock*	Northern Trust	Research Affiliates*	Vanguard	AQR	GMO*
Forecast Period	10 Years	5 Years	10 Years	10 Years	5-10 Years	7 Years
Publication Date	Jun-20	Aug-20	Oct-20	Jun-20	Mar-20	Sep-20
Returns Quoted	Nominal	Nominal	Nominal	Nominal	Real	Real
US Equities	5.9%	4.7%	2.6%	6.5%	4.0%	-5.5%
International Equities	7.0%			9.5%		-0.7%
International Developed Equities		4.8%	7.2%		4.7%	
Emerging Market Equities	7.3%	5.4%	9.2%		5.1%	0.0%
International - US	1.1%			3.0%		4.8%
Intl Developed Returns- US Returns		0.1%	4.6%		0.7%	
EM Returns - US Returns	1.4%	0.7%	6.6%		1.1%	5.5%
* Based on blending 85% of large cap and 15% of small cap forecasts						
Source: Contributor websites						

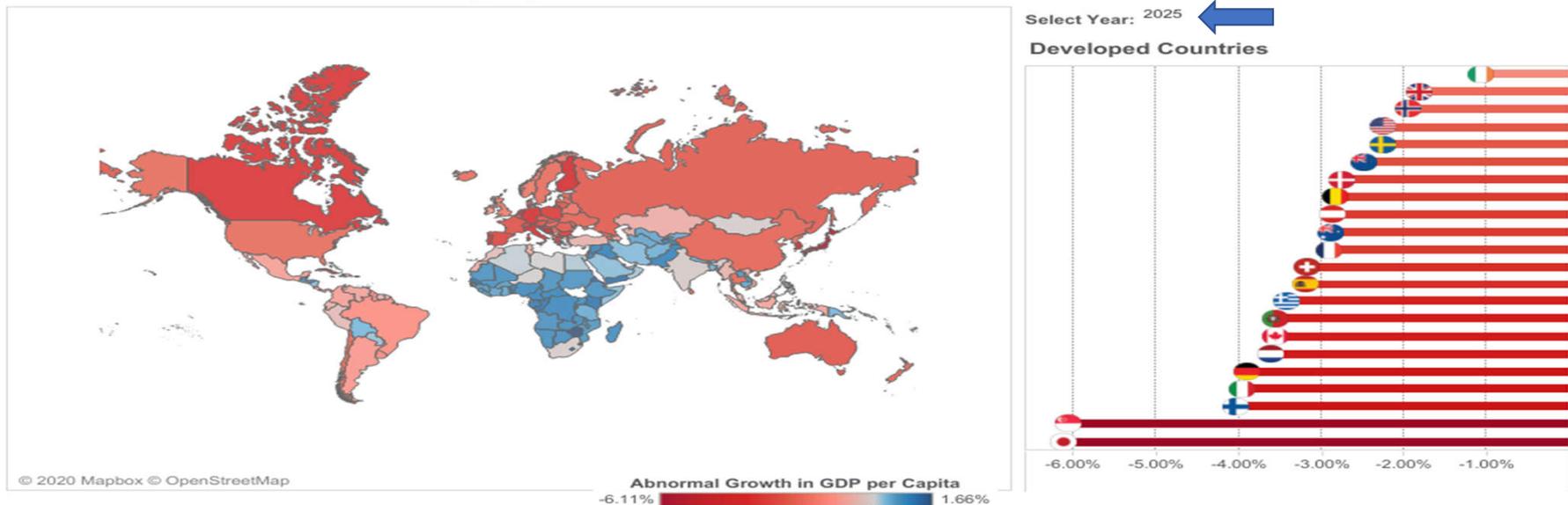
Past performance is not a guarantee or predictor of future performance. Stocks are not guaranteed and have been more volatile than other asset classes.

The arguments against international equity investing

The Con Case:

The US continues to face a smaller demographic GDP growth drag than most other developed countries

How Demographics Affect GDP Growth Around the World



© 2020 Mapbox © OpenStreetMap

Source: Research Affiliates, LLC, based on data from the United Nations, Penn World Table and Global Financial Data.



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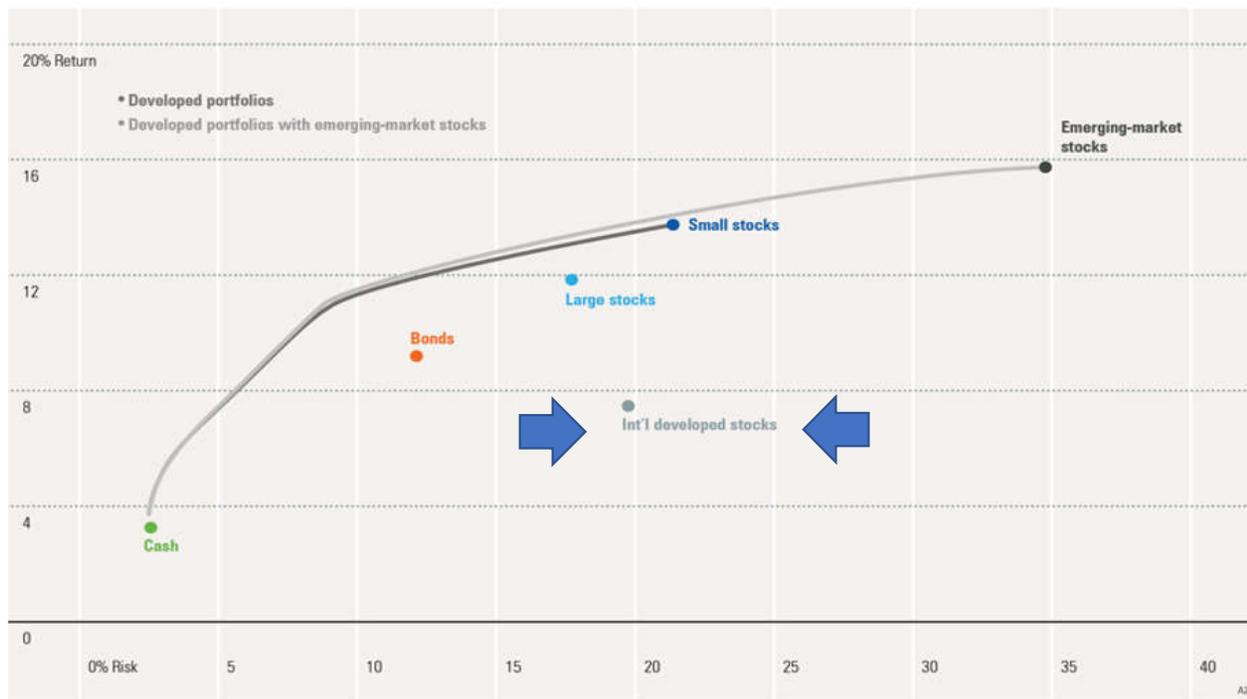
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Source: "Demographics, GDP Growth & Capital Markets." *Research Affiliates*. 2015

The Con Case:

International developed markets have been an inefficient reward/risk investment for long time

Efficient market frontier 1988-2015



Source: "Global Investing." Morningstar. 2016

Large stocks are represented by the Ibbotson® Large Company Stock Index. Small stocks are represented by the Ibbotson® Small Company Stock Index. Bonds are represented by the 20-year U.S. government bond. Cash is represented by the U.S. 30 day T-bill. International developed stocks are represented by the Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE®) Index, while emerging markets are represented by the Morgan Stanley Capital International Emerging Markets Index. All values are expressed in U.S. dollars. An investment cannot be made directly in an index. Risk and return are measured by annual standard deviation and arithmetic average annual return, respectively. Standard deviation measures the fluctuation of returns around the arithmetic average return of the investment. The higher the standard deviation, the greater the variability (and thus risk) of the investment returns. The data assumes reinvestment of all income and does not account for taxes or transaction costs.

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar. All Rights Reserved.

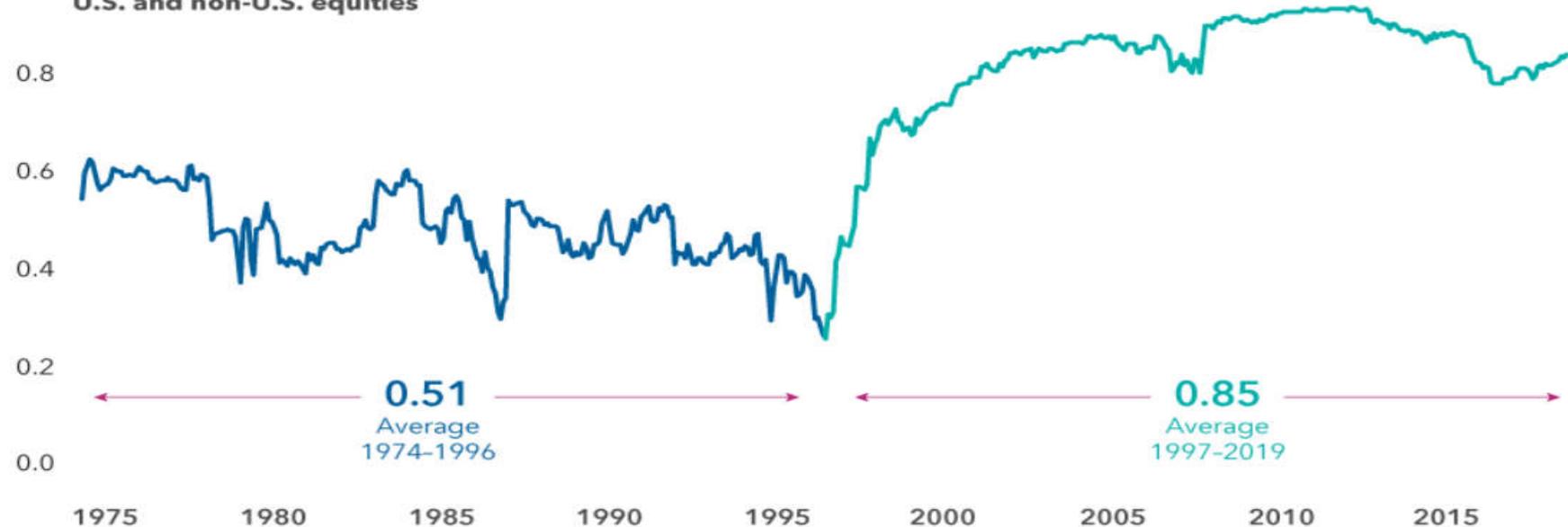


The Con Case:

International investing no longer provides as much diversification

Higher correlations have reduced geographic diversification benefits

1.0 Rolling five-year correlation between
U.S. and non-U.S. equities



Sources: Capital Group, MSCI, Standard & Poor's. S&P 500 Index and MSCI World ex USA Index used to represent U.S. and non-U.S. equities, respectively. Includes all five-year rolling periods ending between 12/31/74 and 8/31/19.

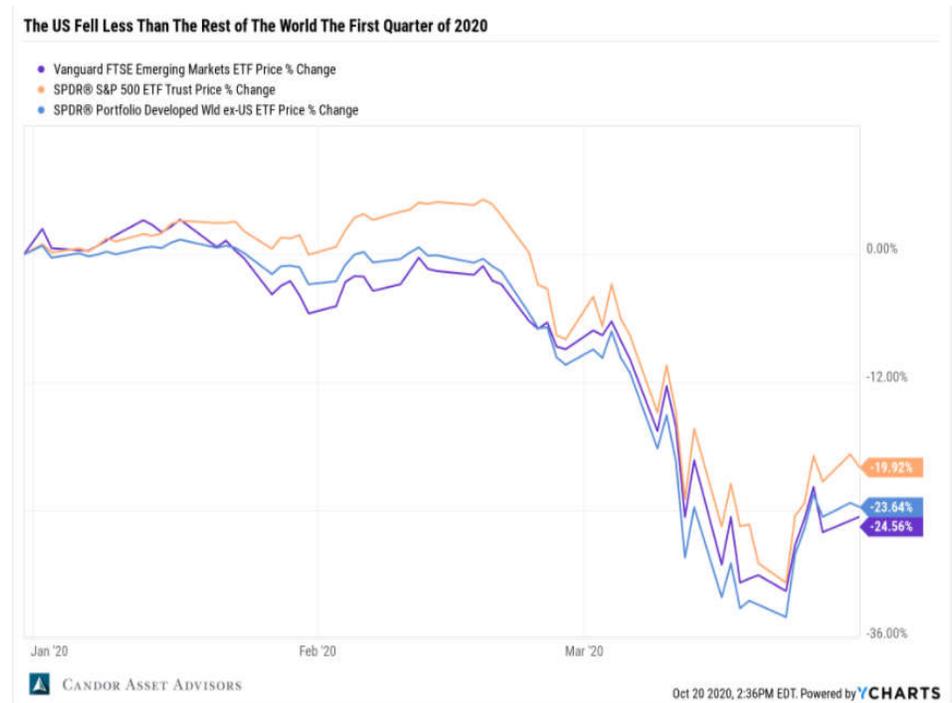
Source: "International investing in 2020: Your comprehensive guide". *Capital Group*. 10/23/19

Past performance is no guarantee of future results. This is for illustrative purposes and not indicative of any investments. An investment cannot be made directly in an index.

The Con Case:

Emerging market bear markets are usually greater than US and international developed bear markets

Global Markets Downturns and Recoveries 1988-2017					
	# of Downturns	Greatest Decline	Average Decline	Average Decline Duration in Months	Average Recovery in Months
Emerging Markets					
Asia	4	-73.0%	-49.0%	22	64
Europe	5	-75.0%	-53.0%	15	27
Latin America	7	-61.0%	-37.0%	5	19
Developed Markets					
International	3	-56.0%	-45.0%	21	34
US	5	-57.0%	-37.0%	23	66



Source: Left “Global Investing” Morningstar. 2019. Right Ycharts.com

Past performance is no guarantee of future results. This is for illustrative purposes and not indicative of any investments. An investment cannot be made directly in an index. Calculations do not include the 2007-2009 downturn for all regions. Diversification does not eliminate the risk of experiencing investment losses

The Con Case:

US stocks have stronger fundamental characteristics and deserve a premium valuation

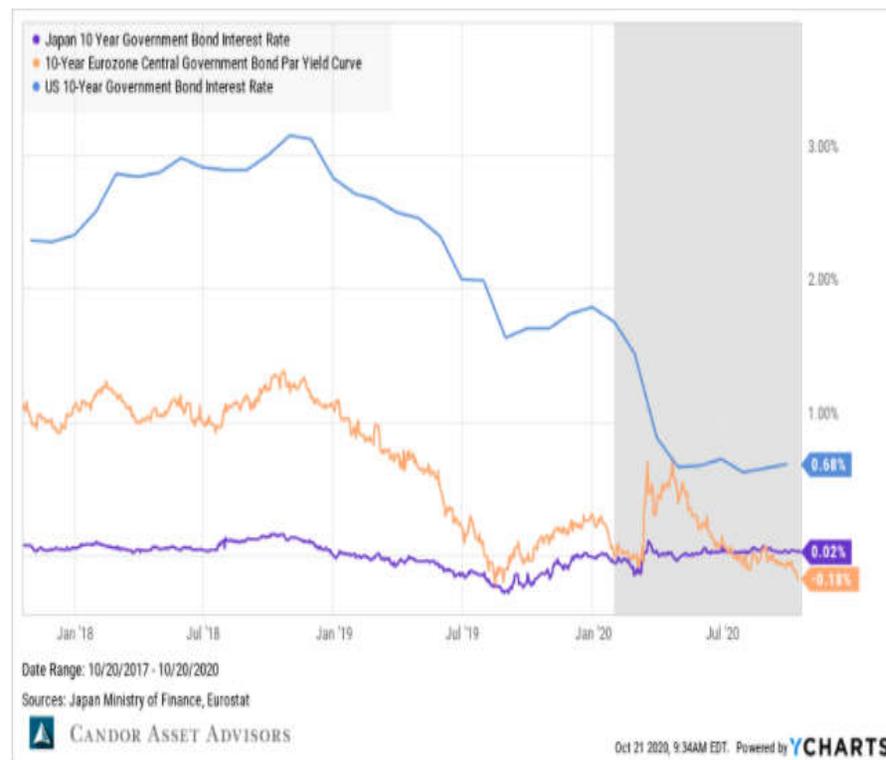
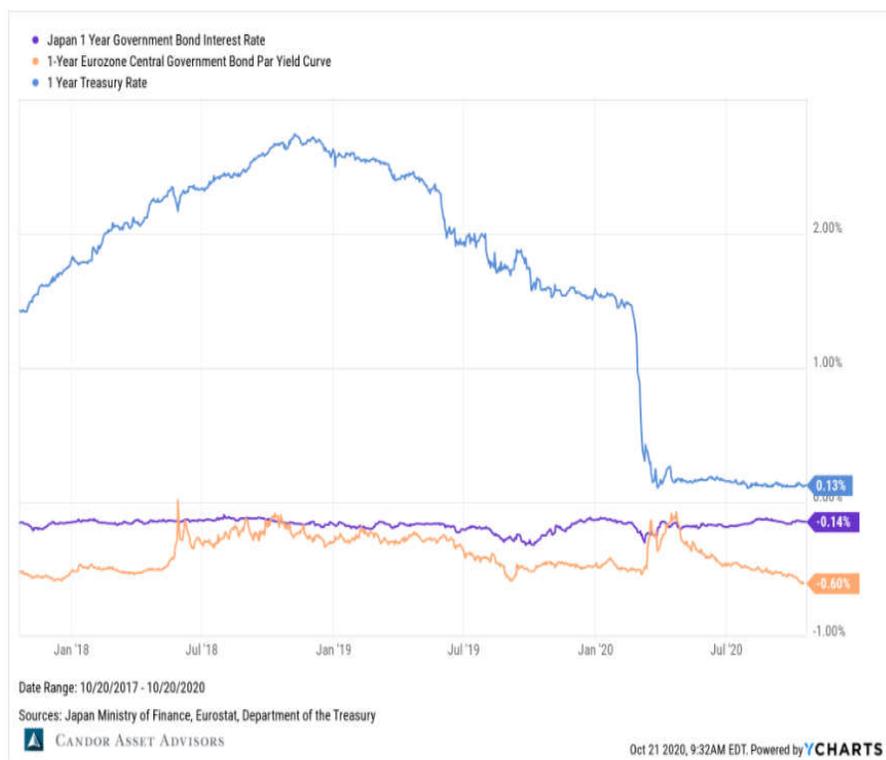
ETF Ticker	Vanguard US Total Stock Market	Vanguard FTSE Developed Markets	Vanguard Emerging Markets	Morningstar Universe Price/Fair Value			Notes
	<VTI>	<VEA>	<VWO>	2007- Current			
				Current	Low	High	
Moat Breakdown							
Wide Moat	44.8%	20.4%	15.7%	0.98	0.69	1.08	US has the strongest franchises
Narrow Moat	33.7%	25.4%	16.3%	1.08	0.72	1.14	US has the most narrow moat franchises that are relatively expensive
No Moat	8.7%	20.5%	12.6%	0.98	0.69	1.08	Developed Ex US has the greatest % of no moat companies
Not Rated	12.7%	33.8%	55.4%	1.07	0.74	1.15	EM has the most uncovered stocks
Financial Characteristics							
Financial Health	B+	B	C+				US has the strongest franchises
Profitability	B-	C	C				US has the strongest franchises
Growth	B-	C+	B				EM has greatest growth prospects, Developed Ex US lags
ROIC	12.1%	8.4%	11.6%				Developed Ex US lags on ROIC
Free Cash Flow Yield Ex Financials	28.1%	21.3%	27.3%				
Debt/Capital	45.1%	35.2%	25.5%				US stocks are the most levered, EM stocks are the least levered

Source: *Morningstar.com*, Data as of 10/21/20

The arguments for international equity investing

The Pro Case:

The spread between US and international yields has narrowed and this should result in less demand for the US dollar everything else constant



Source: Ycharts.com

The Pro Case:

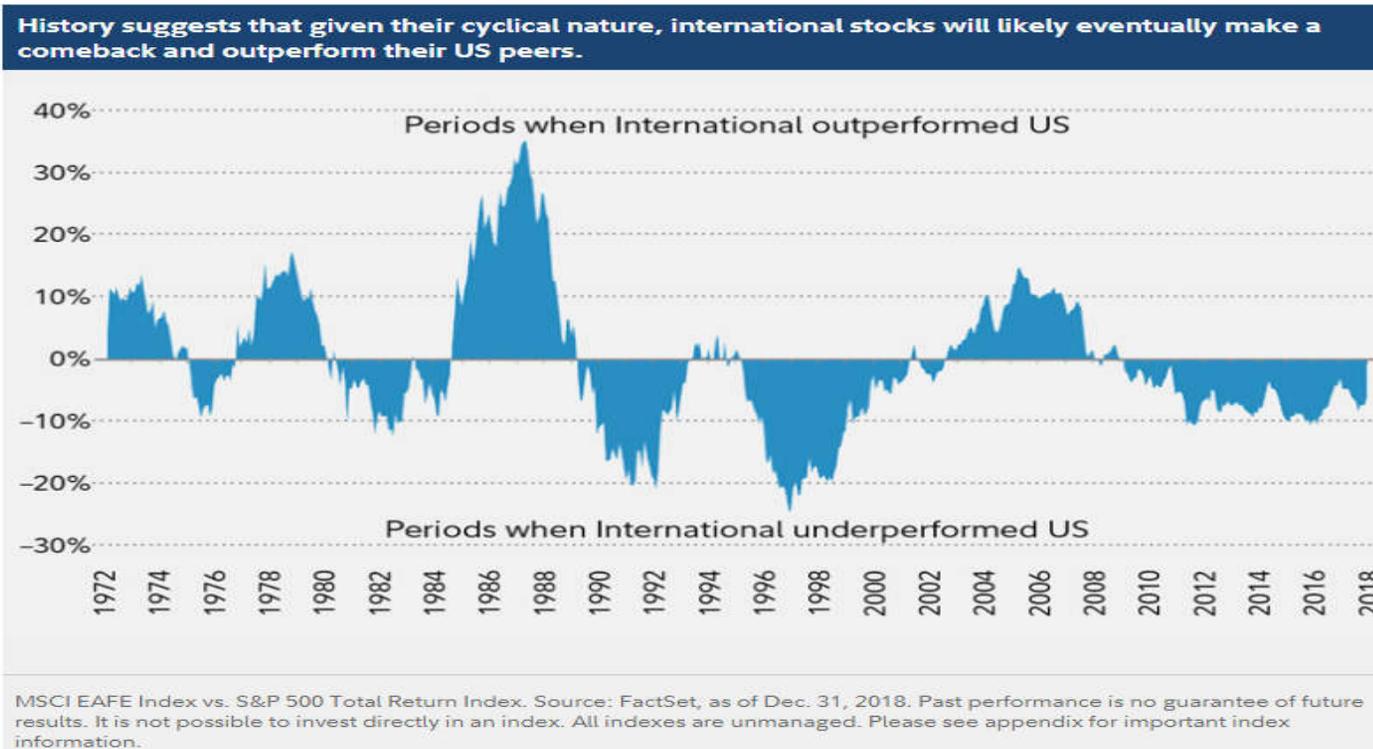
International economic growth and government debt to GDP comparisons appear more favorable over time. All else equal, the data supports a weaker US dollar and international stocks outperforming.

Country or Economic Development	Indicator	Units	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E
United States	Gross domestic product, constant prices	Percent change	3.0	2.2	-4.3	3.1	2.9	2.3	1.9	1.8
Advanced economies (G7 and Includes US)	Gross domestic product, constant prices	Percent change	2.2	1.7	-5.8	3.9	2.9	2.2	1.9	1.7
Emerging market and developing economies	Gross domestic product, constant prices	Percent change	4.5	3.7	-3.3	6.0	5.1	4.9	4.8	4.7
United States	Inflation, average consumer prices	Percent change	2.4	1.8	1.5	2.8	2.1	2.1	2.2	2.2
Advanced economies (G7 and Includes US)	Inflation, average consumer prices	Percent change	2.0	1.4	0.8	1.6	1.6	1.7	1.8	1.9
Emerging market and developing economies	Inflation, average consumer prices	Percent change	4.9	5.1	5.0	4.7	4.3	4.2	4.1	4.0
United States	General government net debt	Percent of GDP	83.2	84.1	106.8	107.3	109.5	110.2	111.4	113.8
Advanced economies (G7 and Includes US)	General government net debt	Percent of GDP	75.6	76.1	95.3	95.6	96.5	96.7	96.8	97.4

Source: “World Economic Outlook”. *International Monetary Fund*. October 2020

The Pro Case:

Leadership rotates between international developed stocks and US stocks and the US has outperformed for a long time

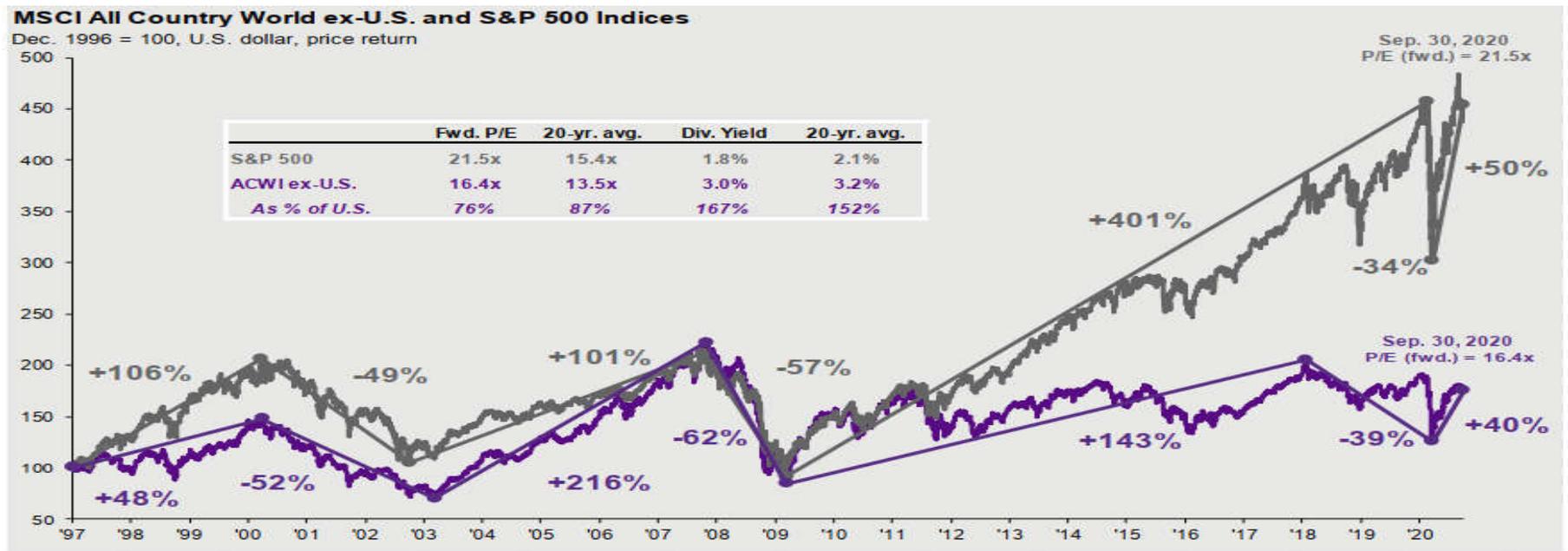


Source: "The myths of international investing." *Fidelity*. 11/8/2019

Data from Morningstar Inc. Rolling 12-month return. A value greater than 0 shows domestic stocks outperformed international stocks, while a value less than 0 shows international stocks outperformed domestic stocks. Domestic stocks as measured by the S&P 500 Total Return Index; foreign stocks as measured by the MSCI EAFE Index. All indexes are unmanaged and include reinvestment of interest and/or dividends. Investors cannot invest directly in an index.

The Pro Case:

The S&P has significantly outperformed since 2009 so some mean reversion may be in order, international offers relative value



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
Forward price to earnings ratio is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on price movement only, and do not include the reinvestment of dividends. Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by FactSet Market Aggregates. Past performance is not a reliable indicator of current and future results.
Guide to the Markets - U.S. Data are as of September 30, 2020.

J.P.Morgan
Asset Management

Source: "Guide to The Markets: U.S., 4Q 20, As of September 30, 2020". JP Morgan Asset Management

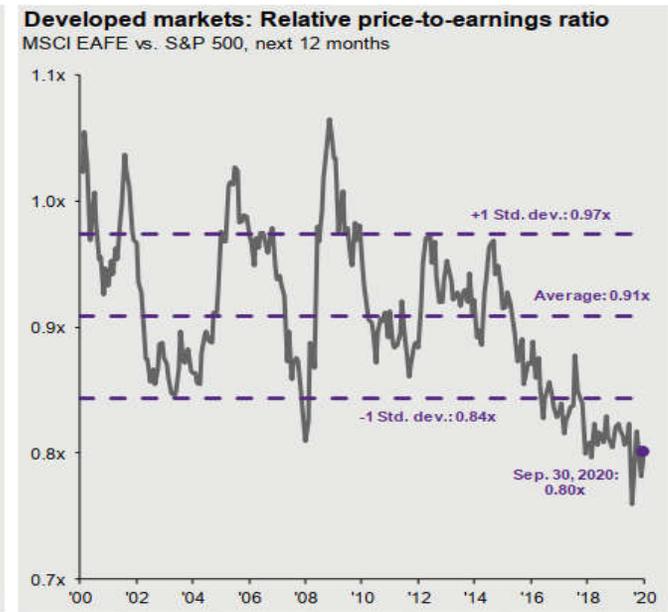
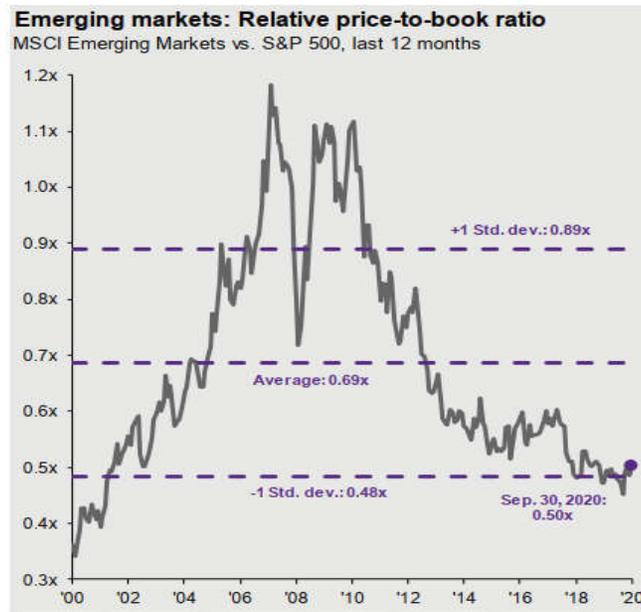
The Pro Case: International offers relative value

<u>Country & Economic Regions</u>	<u>CAPE</u>	<u>P/E</u>	<u>P/CF</u>	<u>P/BV</u>	<u>P/Sales</u>	<u>Dividend Yield</u>
United States	30.6	29.3	15.9	3.9	2.5	1.60%
Developed Europe	16.6	29.9	9.6	1.7	1.1	2.60%
Developed Asia-Pacific		23.7	9.7	1.3	1.0	2.50%
Emerging Markets	15.5	18.2	8.3	1.6	1.2	2.90%

Top table: Data as of
9/30/20

Source: *StarCapital*.
<https://www.starcapital.de/en/research/stock-market-valuation/>

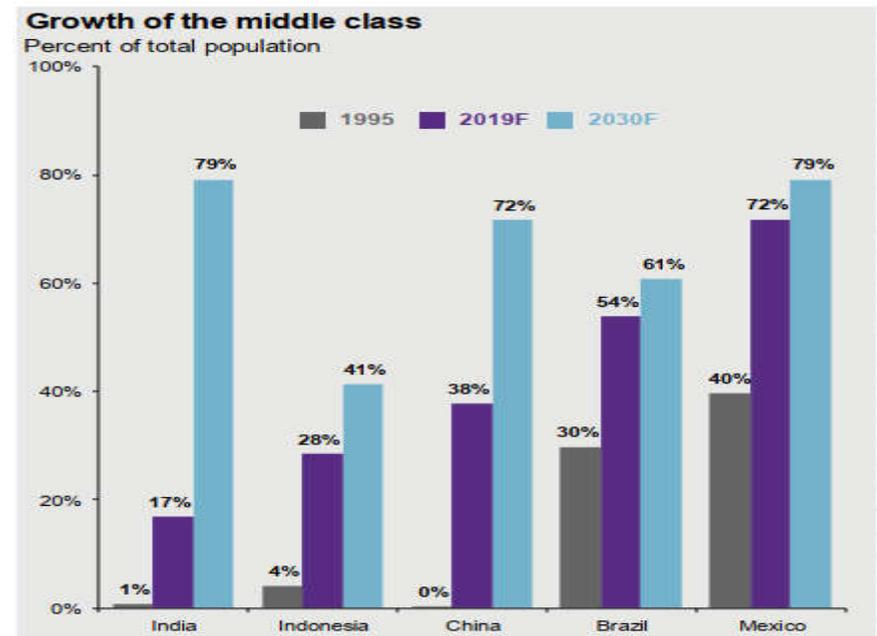
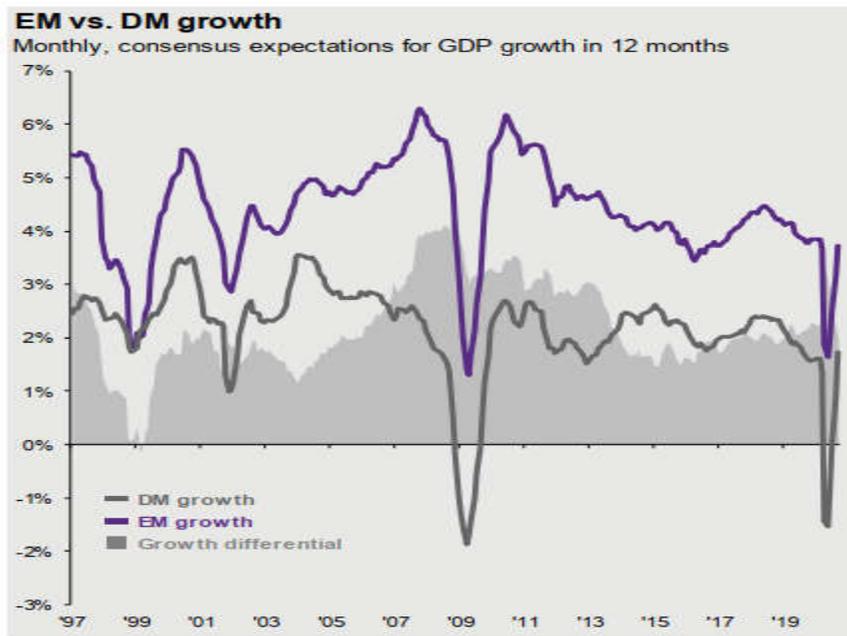
Source: "Guide to The
Markets: U.S., 4Q 20, As
of September 30, 2020".
*JP Morgan Asset
Management*



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of September 30, 2020.

The Pro Case:

Emerging markets continue to benefit from faster economic growth and a growing middle class



Source: J.P. Morgan Asset Management; (Left) Consensus Economics; (Right) Brookings Institute. "Growth differential" is consensus estimates for EM growth in the next 12 months minus consensus estimates for DM growth in the next 12 months, provided by Consensus Economics. Middle class is defined as \$3,600-\$36,000 annual per capita income in purchasing power parity terms. Historical and forecast figures come from the Brookings Development, Aid and Governance Indicators. *Guide to the Markets – U.S.* Data are as of September 30, 2020.

Source: "Guide to The Markets: U.S., 4Q 20, As of September 30, 2020". *JP Morgan Asset Management*

The Pro Case:

Sector weights vary drastically by geography and international passive funds have greater exposure to under valued sectors

ETF	Vanguard US Total Stock Market	Vanguard FTSE Developed Markets	Vanguard Emerging Markets	Morningstar Universe Price/Fair Value			Notes
Ticker	<VTI>	<VEA>	<VWO>	2007- Current			
				Current	Low	High	
Sectors							
Basic Materials	2.4%	8.3%	7.4%	1.02	0.63	1.28	US has the lowest weighting in basic materials
Consumer Cyclical	12.2%	10.2%	17.7%	1.10	0.66	1.18	EM has the greatest presence in consumer cyclicals
Financial Services	12.5%	15.8%	18.0%	0.95	0.62	1.12	EM has the greatest presence in financials that have relative value
Real Estate	3.6%	3.7%	3.6%	1.01	0.63	1.38	
Communication Services	10.2%	6.0%	12.9%	1.01	0.67	1.13	
Energy	1.9%	3.6%	5.6%	0.53	0.38	1.28	EM has the greatest presence in energy that represent the cheapest sector
Industrials	9.1%	15.4%	5.6%	1.06	0.60	1.18	Developed Ex US stands out in it's industrial weight
Technology	23.9%	11.1%	15.4%	1.18	0.62	1.24	US has the highest weighting in this relatively expensive sector
Consumer Defensive	6.8%	10.1%	6.6%	1.08	0.69	1.09	Developed Ex US has the highest weight in this relatively expensive sector
Healthcare	14.7%	12.3%	4.8%	1.03	0.65	1.13	EM is significantly underweight healthcare vs. the rest of the world
Utilities	<u>2.8%</u>	<u>3.6%</u>	<u>2.6%</u>	<u>1.06</u>	<u>0.66</u>	<u>1.23</u>	
Total				1.05	0.64	1.12	

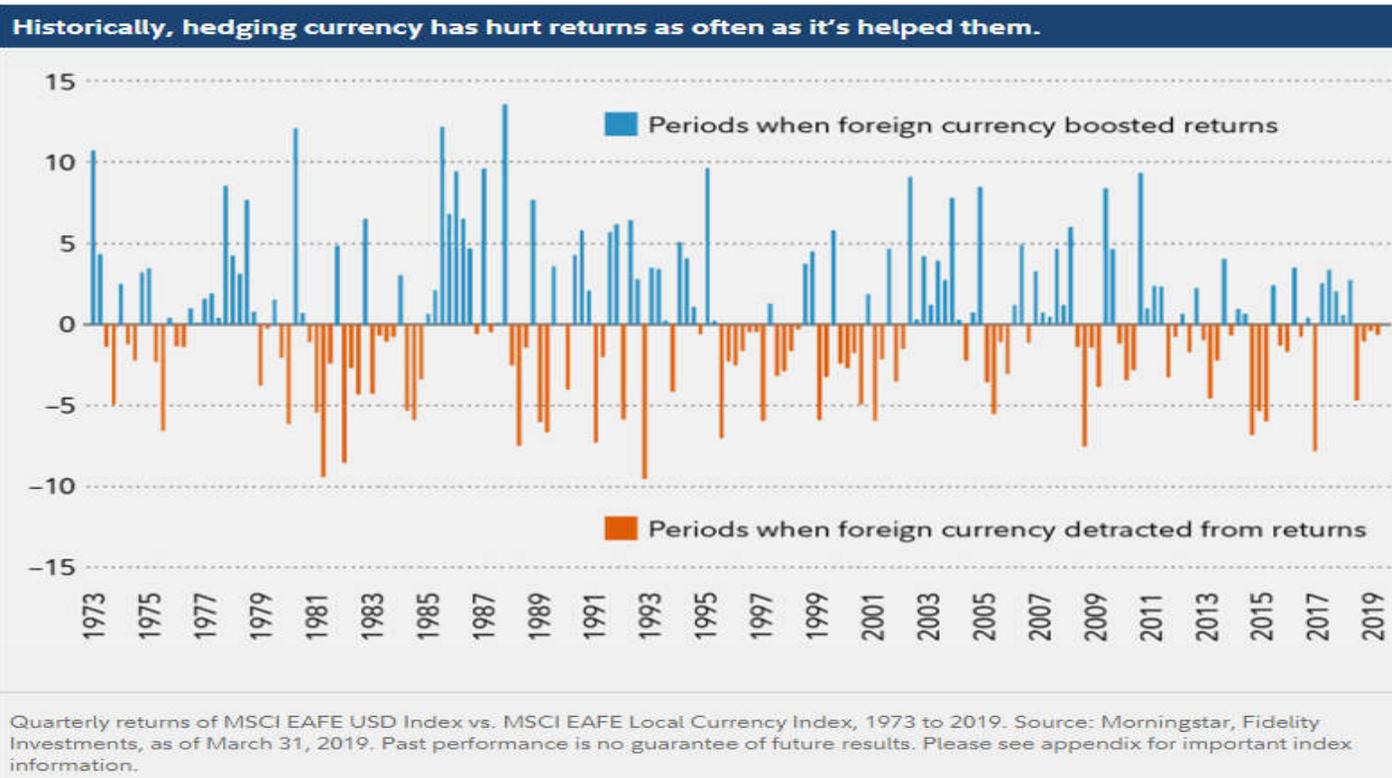
Source: *Morningstar.com*, Data as of 10/20/20

International equity investing options

International Equity Investing Options:

Does it pay to hedge your foreign stock currency exposure?

Studies are inconclusive



Source: "The myths of international investing."
Fidelity. 11/8/19

International Equity Investing Options:

Studies suggest passive investing is a viable option abroad

Source: S&P

<https://us.spindices.com/spiva/#/reports>

Past performance is not a guarantee or predictor of future performance. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

	% of Active Funds That Underperformed The Passive Benchmark As of 6/30/20		
	1 Year	3 Years	5 Years
United States	63.2%	71.2%	78.0%
Australia	57.1%	75.3%	79.9%
Canada	88.4%	92.2%	97.1%
Europe	49.5%	74.9%	72.6%
Japan	57.6%	64.2%	69.9%
Select Developed Markets Ex-US Average	63.1%	76.7%	79.9%
Brazil	52.9%	68.0%	83.5%
Chile	80.0%	87.5%	97.7%
India	40.0%	84.4%	82.3%
Mexico	70.6%	78.7%	88.4%
South Africa	39.1%	49.5%	54.1%
Select Emerging Markets Average	56.5%	73.6%	81.2%

International Equity Investing Options:

Studies suggest enhanced indexing has added value abroad

Emerging Markets

- Factors that generated outperformance 1989-2019
 - Equity Risk Premium 5.4%
 - Small Cap 1.9%
 - Value 8.1%
 - Profitability -0.1%
 - Investment 3.7%
 - Momentum 9.0%

Developed Markets

- Factors that generated outperformance 1990-2019
 - Equity Risk Premium 5.6%
 - Small Cap 1.1%
 - Value 2.0%
 - Profitability 4.2%
 - Investment 1.2%
 - Momentum 5.7%

Source: http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html

Past performance is not a guarantee or predictor of future performance.

This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

International Equity Investing Options:

Research Affiliates believes value stocks look attractive abroad

	Developed Markets					Emerging Markets						
		Value*	Low Volatility	Quality	Momentum^	Small Cap		Value*	Low Volatility	Quality	Momentum^	Small Cap
Current Valuation vs. Market		0.53	0.74	1.96	1.58	0.77		0.54	0.86	1.49	1.41	0.93
Historic Median Valuation vs. Market	Since 1989	0.70	0.85	1.34	1.20	0.90	Since 2002	0.61	0.92	1.23	1.31	0.81
Premium or Discount		-24%	-13%	46%	32%	-14%		-11%	-7%	21%	8%	15%
Expected Excess Return - Net of Trading Costs		4.95%	-0.36%	-2.25%	-2.05%	0.97%		3.74%	-0.73%	-0.71%	-1.04%	-5.20%
Historic Excess Return Over Market - Net of Trading Costs	Since 1989	2.44%	0.28%	3.17%	0.24%	0.68%	Since 2002	0.78%	-1.05%	0.92%	-0.23%	-0.67%
Historic Excess Return Over Market - Net of Trading Costs	Last 5 Years	-2.90%	-1.94%	5.44%	-0.89%	-3.61%	Last 5 Years	-0.90%	-3.26%	1.64%	-1.95%	-0.56%
Data as of 10/22/20												
* Represents Concentrated Value as defined by Research Affiliates												
^ Represents Standard Momentum as defined by Research Affiliates												

Source: <https://interactive.researchaffiliates.com/>

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This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

International Investing Options:

Multi-factor funds have mixed results versus passive ETFs

Emerging Markets Comparison				
	1 Year	3 Year	5 Year	10 Years
<u>Passive Benchmark</u>				
iShares MSCI Emerging Markets ETF	12.38%	2.15%	7.41%	2.08%
<u>Enhanced Index Funds</u>				
iShares MSCI Emerging Markets Multi-Factor ETF	11.12%	0.70%	NA	NA
Invesco FTSE RAFI Emerging Markets ETF	-8.73%	-2.88%	5.98%	-0.38%
Goldman Sachs ActiveBeta Emerging Markets ETF	8.40%	1.78%	6.85%	NA
DFA Emerging Markets Core Equity	5.60%	0.16%	6.40%	1.97%
Annualized Returns Cited; NA = Not Available				
Date As of 10/20/20				

Developed Markets Excluding United States Comparison				
	1 Year	3 Year	5 Year	10 Years
<u>Passive Benchmark</u>				
iShares MSCI EAFE ETF	0.30%	0.67%	4.23%	4.26%
<u>Enhanced Index Funds</u>				
iShares MSCI Multi-Factor International ETF	-1.73%	-1.61%	3.42%	NA
Goldman Sachs ActiveBeta International Equity ETF	2.18%	1.79%	NA	NA
Hartford Multi-factor Developd Markets (ex US) ETF	-4.59%	-0.70%	4.01%	NA
DFA International Core Equity	0.55%	-0.74%	4.51%	4.52%
Annualized Returns Cited; NA = Not Available				
Date As of 10/20/20				

Source: *Ycharts.com*

Past performance is not a guarantee or predictor of future performance.

International Equity Investing Options:

Things to consider

Passive strategies

Focus on

1. Picking the right index
2. Examining portfolio construction to ensure it makes sense
3. Checking that the tracking error to the index is low
4. Paying attention to expense ratios

Enhanced index strategies

Focus on

1. Factors that persist over the long-run, make sense and are statistically significant
2. Paying attention to expense ratios
 - The additional quantitative work needs to generate excess returns after fees

Recap

Background on international equity investing

- The US represents only 26% of world GDP but 56-58% of the world's stock market
- The US dollar impacts international equity returns
- COVID-19 caused an economic recession and stock bear market
- Leading economic indicators suggest a recovering economy
- International economic growth is expected to surpass the US in 2021
- US and emerging market stock returns are similar over time
- Emerging markets stock returns are more volatile
- Left unmanaged the US has grown by a significant % of a global equity portfolio over the last 10 years

The arguments against international equity investing

- International developed markets continue to face an aging population more than the US
- International developed markets stocks have offered an inefficient reward/risk tradeoff going on thirty years
- International and US stock correlations have increased since 2000
- International and especially emerging markets could decline more in a stock bear market
- Fundamental data suggests US stocks deserve to trade at a premium to the rest of the world

Recap (continued)

The arguments for international equity investing

- The US dollar should weaken as US versus international fixed income yields narrow. A weaker dollar is generally good news for international returns.
- Forecasts call for stronger international economic growth over the next five years
- International versus US relative stock performance is cyclical and the US has outperformed for some time
- International stocks have become relatively inexpensive
- Long term trends are bullish for emerging markets
- International funds often provide greater exposure to attractively priced sectors
- Investment firms are calling for international stock returns to surpass US stock returns

International equity investing options

- Hedging studies are inconclusive
- Passive investing is a viable option
- Enhanced index equity factors persist abroad
- Value stocks may offer more investment promise abroad over the next 3-5 years
- International multi-factor funds haven't stood out against passively managed funds
- Pay attention to the portfolio construction and expenses

Thank You!

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Enhanced Index Investing (December 2017)	Healthcare & Long Term Care (September 2017)
Passive versus Active Investing (June 2017)	

Investment strategy commentaries are provided to clients on a quarterly basis. The commentaries highlight investment performance, portfolio positioning and areas of opportunity. For further information please contact Candor Asset Advisors.

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William E. Hawes, CFA, CFP®
President & Chief Investment Officer

With over 22 years of industry experience, Bill brings a wealth of knowledge in investment management. Prior to earning his MBA, Bill worked in mortgage banking and insurance, and the insights gained provided him with a broader perspective of the financial issues facing clients.

Bill has been a Chartered Financial Analyst since 2000 and is a member of the CFA Society of Austin. Bill also enjoys golf, travel, studying history, watching his favorite sports teams and spending time with family.



Before founding Candor Asset Advisors, LLC, Bill co-created and managed Century Management's Large Cap Absolute Value and Large Cap Value strategies. Bill also analyzed companies in a variety of industries for the firm's all cap value strategy.

Prior to moving back to Texas, Bill served as an equity analyst for Engemann Asset Management in Southern California. He co-managed a mid-cap growth fund and served as a multi-sector analyst for the mid cap and large cap growth team.

After graduate school, Bill served as co-portfolio manager and equity analyst at Franklin Templeton. While there he served as portfolio manager on All Cap, Large Cap Core and Consumer Sector portfolios. Notable institutional clients included CalPers, Mitsui Trust, Norges Bank and Penn Mutual. He also spent considerable time analyzing auto, transportation and consumer stocks.

Bill earned his Master in Business Administration from the University of Southern California. While there he also served on USC's MBA student investment fund.

Between his graduate and undergraduate studies, Bill worked at North American Mortgage Company in California as a management trainee and later as a financial analyst and marketing coordinator. The experience gave him a better understanding of the mortgage and real estate markets which he leverages to this day.

Bill earned his Bachelor of Business Administration from the University of Texas at Austin. While a student, he also served as a special agent for Northwestern Mutual. The experience gave him an understanding of life and disability insurance and the work ethic, tools and temperament needed to grow a financial services practice.



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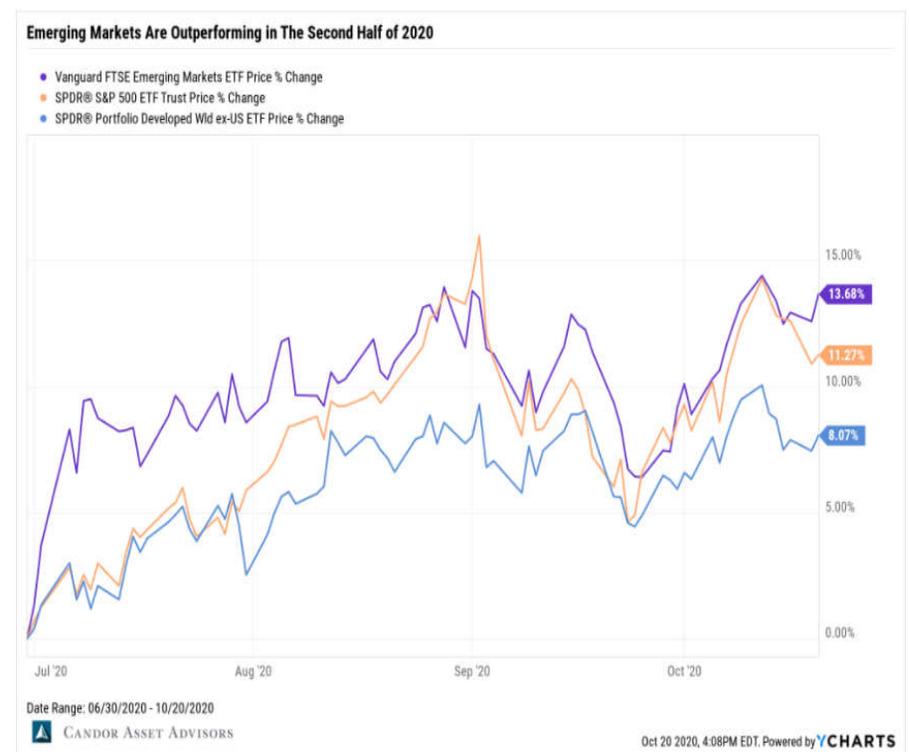
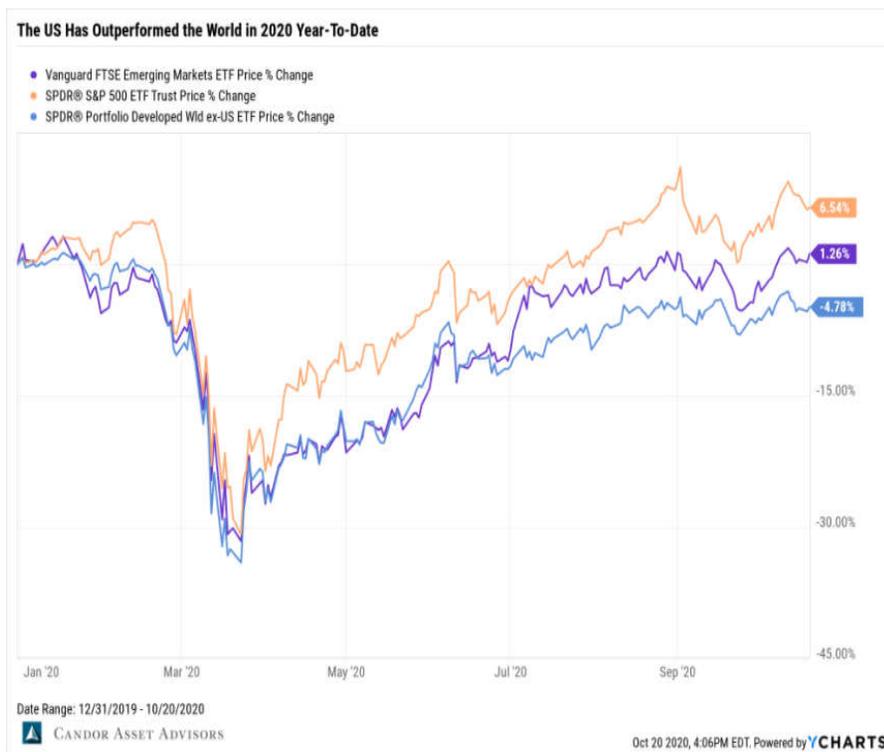
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- Past performance is not a guarantee or predictor of future performance.
- Financial plans are hypothetical in nature and intended to help you in making decisions on your financial future based on information that you have provided and reviewed. Assumptions need to be reviewed regularly.
- Stocks are not guaranteed and have been more volatile than other asset classes. Government bonds and Treasury bills are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest.
- Diversification does not eliminate the risk of experiencing investment losses.
- Candor Asset Advisors does not endorse or support the contents or opinions of third-party providers.
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Appendix

Background:

The global stock markets offer conflicting data points in 2020. Are we at an inflection point or will the US continue to outperform?

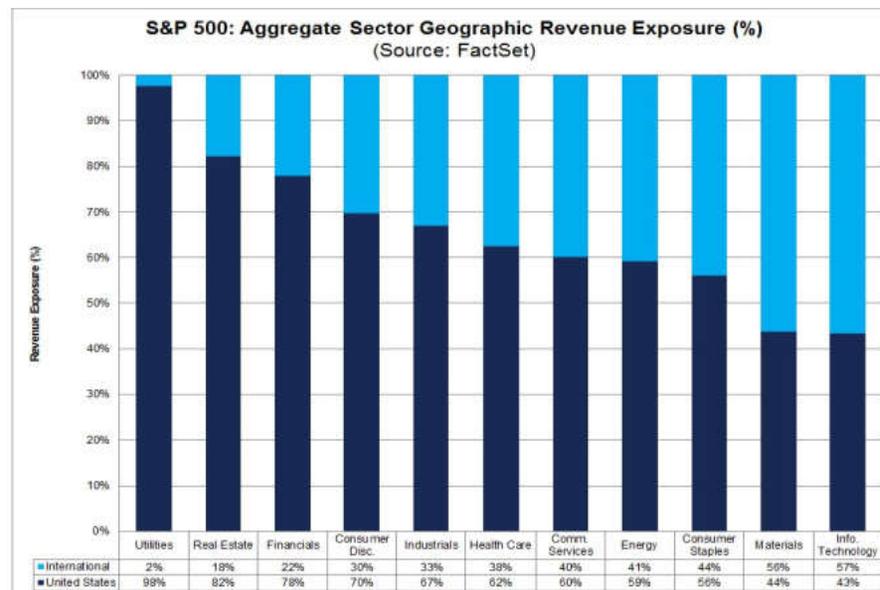
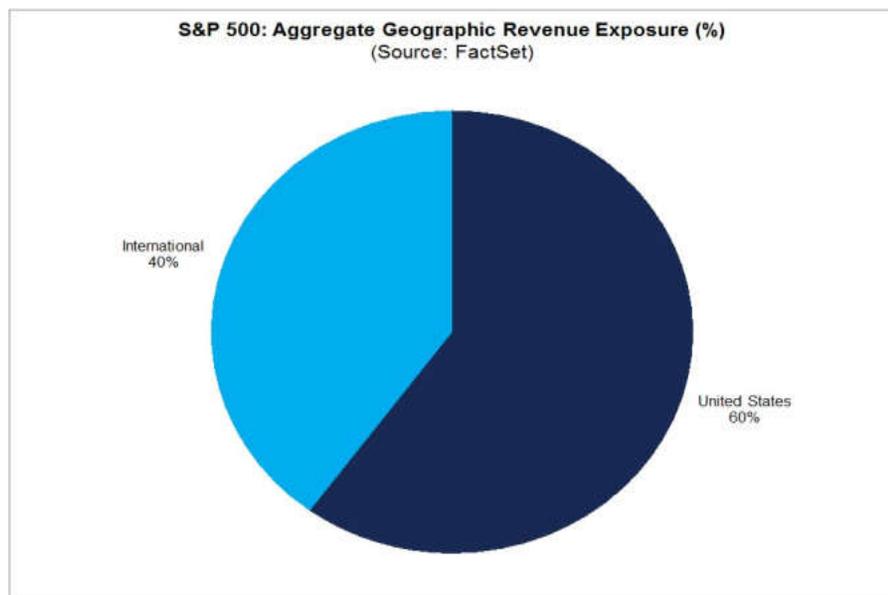


Source: Ycharts.com

Background:

S&P companies have 60% of their sales inside the United States on average

- Technology, Materials and Consumer Staples are the most internationally oriented
- Utilities, Real Estate and Financials are the most domestically oriented

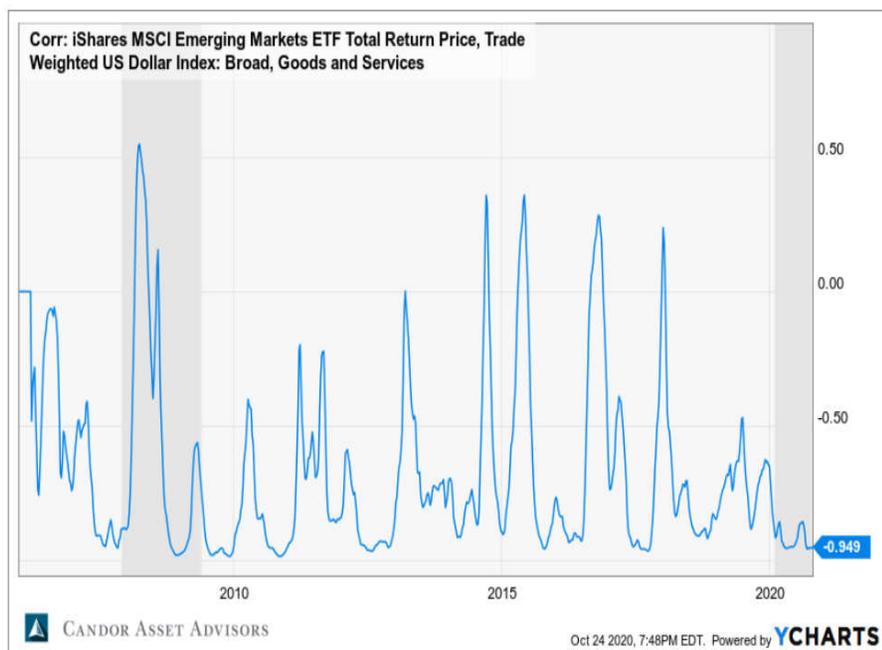


Source: "Earnings Insight." *FactSet*. 10/9/20

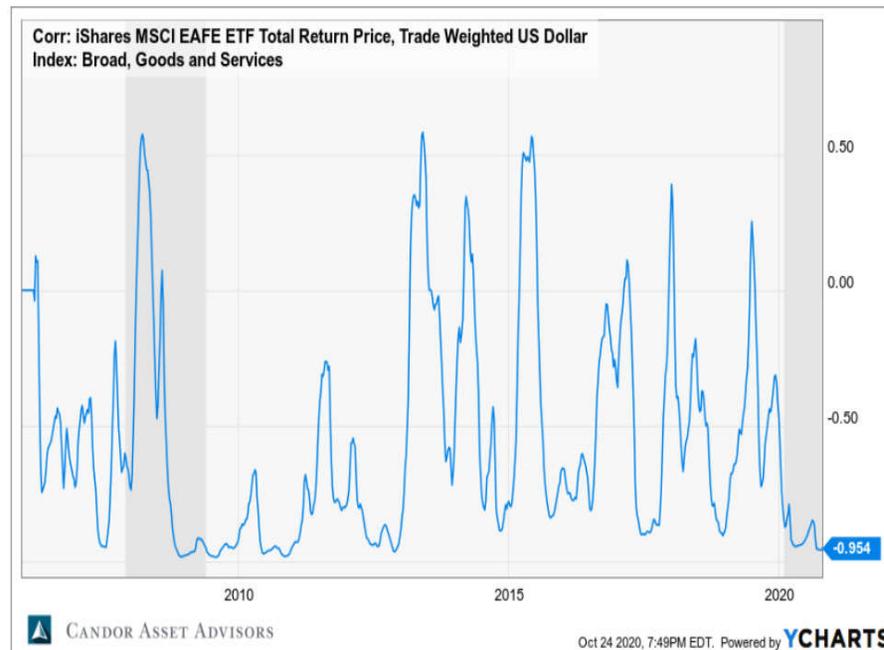
Background:

International stock returns are often negatively correlated to the US dollar

Emerging market stocks



International Developed Markets

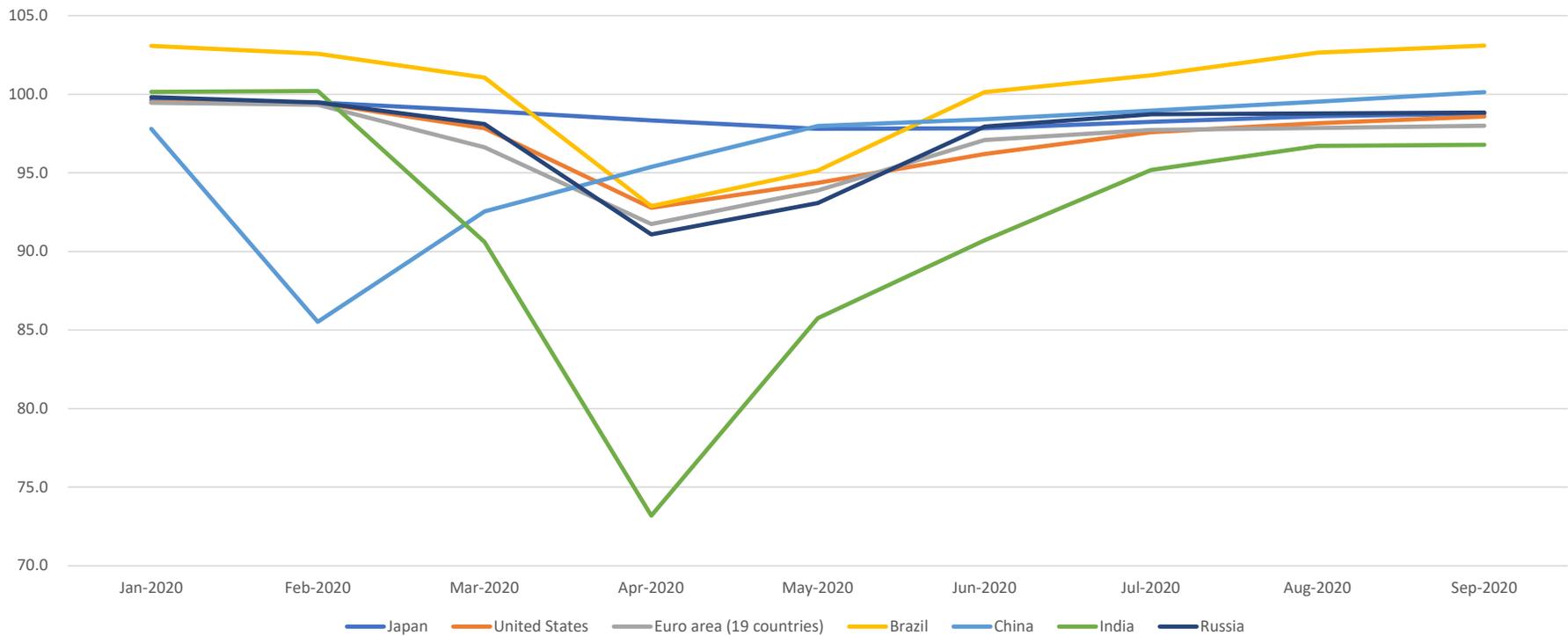


Source: *Ycharts.com*

Past performance is not a guarantee or predictor of future performance. Stocks are not guaranteed and have been more volatile than other asset classes.

Background:

OECD Composite Leading Indicators point to a slowly recovering economy

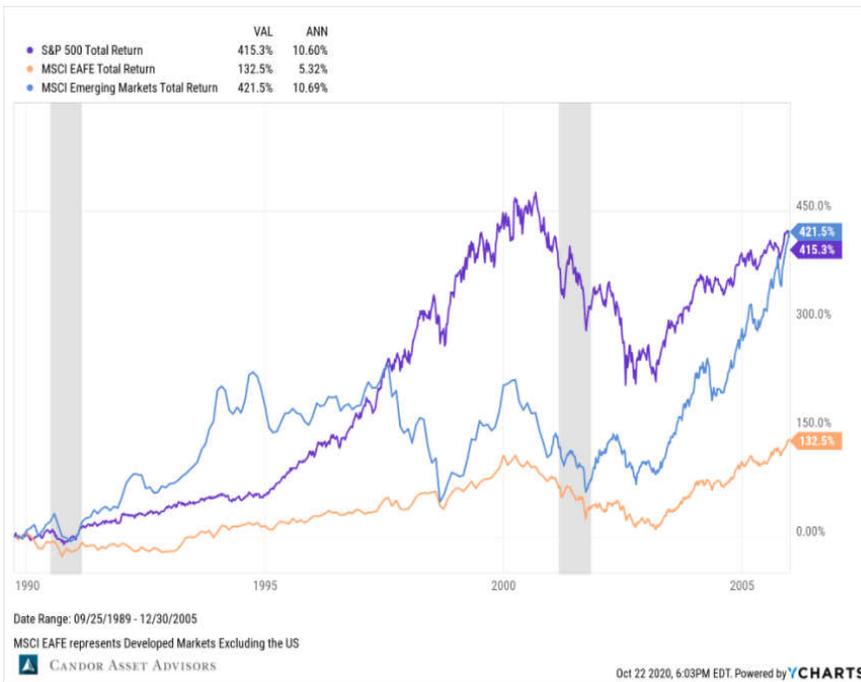


Source: OECD Composite Leading Indicators October 2020. *Organization of Economic Development*

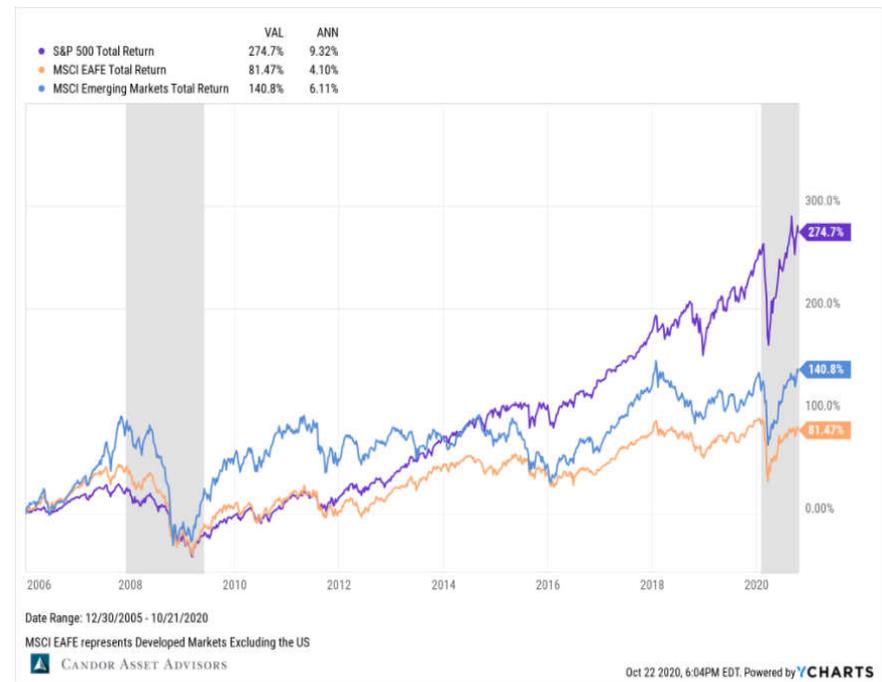
Background:

Since the late 1980s the US and emerging markets have generated similar returns while international developed market returns have lagged

1989-2005: The S&P and Emerging Markets were in a performance horse race and EAFE lagged



2006-Present: The US breaks away

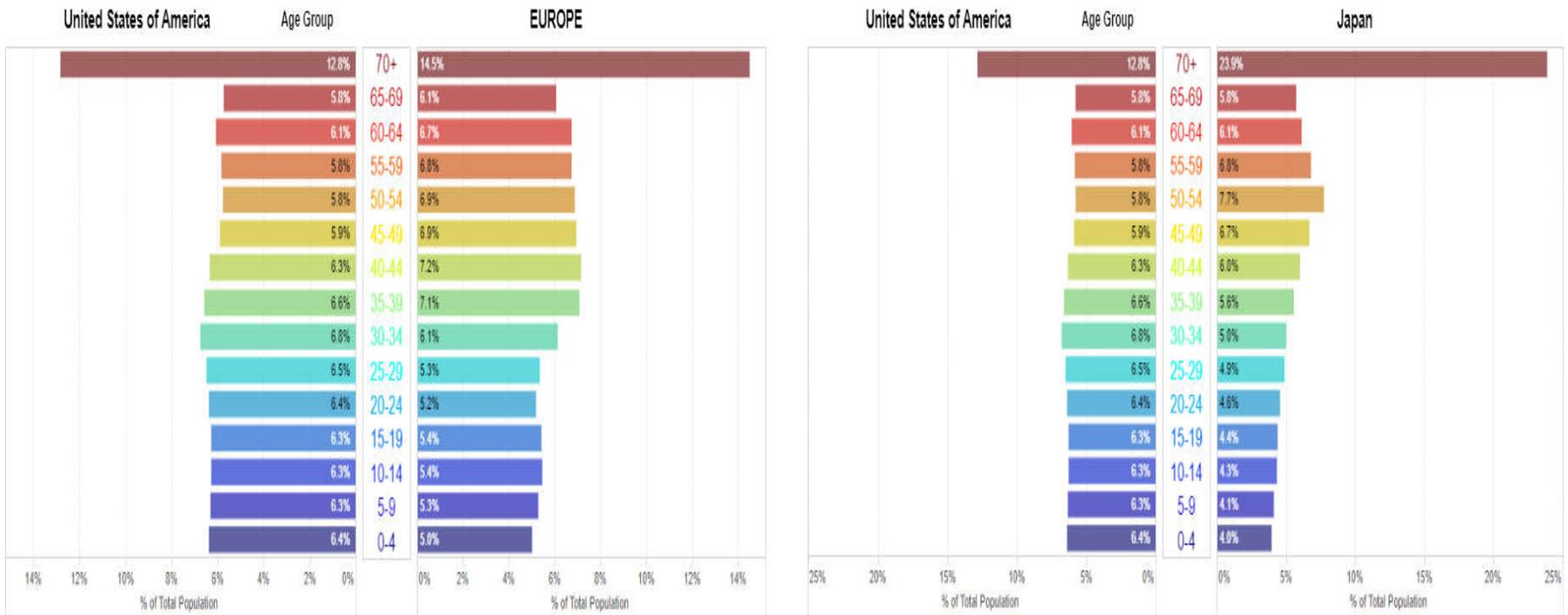


Source: Ycharts.com

Past performance is no guarantee of future performance. An investment cannot be made directly in an index.

The Con Case:

The US will continue to have a younger population than Europe and Japan by 2025



Source: "Demographics, GDP Growth & Capital Markets." *Research Affiliates*. 2015

The Con Case:

International stocks are highly correlated with US stocks. If you want to protect against a stock bear market consider other asset classes.

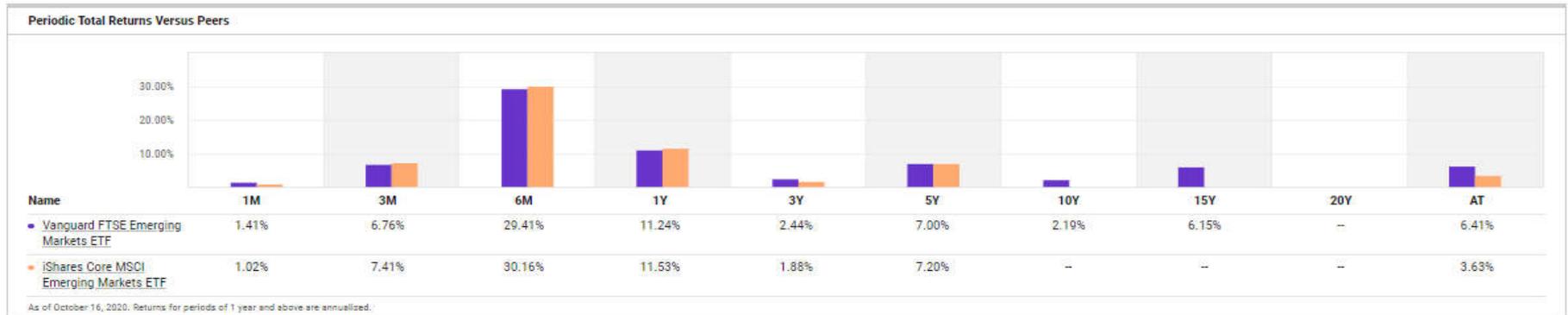
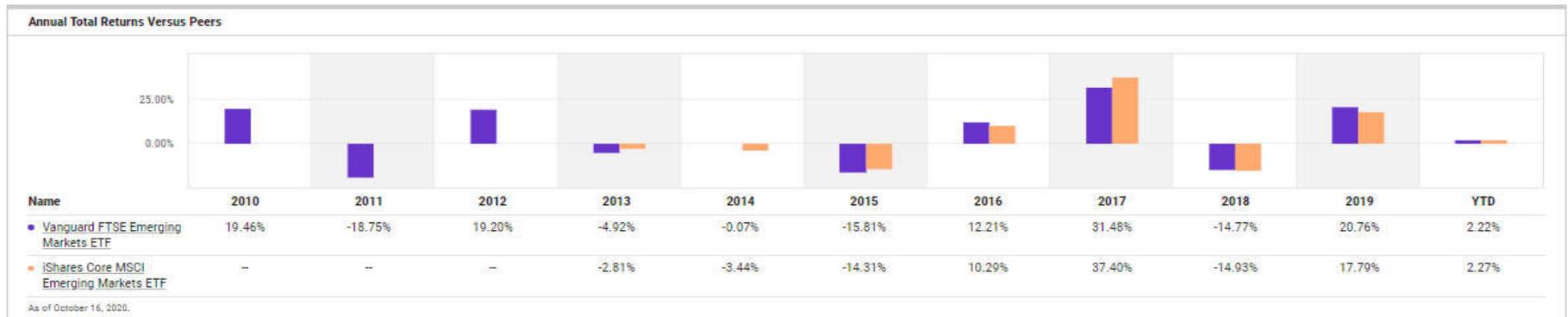
	U.S. Large Cap	EAFE	EME	Bonds	Corp. HY	Munis	Currency	EMD	Cmdty.	REITs	Hedge funds	Private equity	Gold	Ann. Volatility
U.S. Large Cap	1.00	0.89	0.80	-0.20	0.85	0.02	-0.36	0.66	0.63	0.74	0.91	0.83	-0.03	15%
EAFE		1.00	0.91	-0.22	0.84	0.01	-0.52	0.72	0.64	0.61	0.91	0.91	0.09	15%
EME			1.00	-0.10	0.83	0.09	-0.64	0.81	0.68	0.54	0.82	0.82	0.31	18%
Bonds				1.00	0.00	0.82	-0.07	0.31	-0.10	0.13	-0.22	-0.37	0.68	3%
Corp. HY					1.00	0.19	-0.44	0.86	0.77	0.73	0.85	0.77	0.18	8%
Munis						1.00	-0.15	0.51	0.06	0.38	-0.01	-0.08	0.57	4%
Currencies							1.00	-0.55	-0.52	-0.13	-0.31	-0.55	-0.49	6%
EMD								1.00	0.65	0.65	0.67	0.61	0.50	7%
Commodities									1.00	0.43	0.67	0.66	0.32	16%
REITs										1.00	0.63	0.55	0.03	16%
Hedge funds											1.00	0.85	0.00	6%
Private equity												1.00	-0.07	7%
Gold													1.00	15%

Source: Barclays Inc., Bloomberg, Cambridge Associates, Credit Suisse/Tremont, FactSet, Federal Reserve, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
 Indices used – Large Cap: S&P 500 Index; Currencies: Federal Reserve Trade-Weighted Dollar; EAFE: MSCI EAFE; EME: MSCI Emerging Markets; Bonds: Bloomberg Barclays Aggregate; Corp HY: Bloomberg Barclays Corporate High Yield; EMD: Bloomberg Barclays Emerging Market; Cmdty.: Bloomberg Commodity Index; REIT: NAREIT All equity Index; Hedge funds: CS/Tremont Hedge Fund Index; Private equity: Cambridge Associates Global Buyout & Growth Index; Gold: Gold continuous contract (\$/oz). Private equity data are reported on a one- to two-quarter lag. All correlation coefficients and annualized volatility are calculated based on quarterly total return data for period 9/30/10 to 9/30/20, except for Private equity, which is based on the period from 3/31/10 to 3/31/20. This chart is for illustrative purposes only.
 Guide to the Markets – U.S. Data are as of September 30, 2020.



Source: “Guide to The Markets: U.S., 4Q 20, As of September 30, 2020”. JP Morgan Asset Management

International Investing Options: Emerging Markets Passive Benchmarks FTSE vs MSCI Performance Comparison



Source: ycharts.com

International Investing Options:

Developed Markets Excluding US Passive Benchmarks

FTSE vs MSCI Performance Comparison



Source: ycharts.com

International Investment Options:

Background data on the two largest emerging market ETFs

Vanguard Emerging Markets ETF <VWO>- Larger China and Taiwan weightings, Higher cash flow and historical earnings growth

Exposure	Sector	Region	Country	vs. Category
Country			Fund %	
China			44.64	
Taiwan			15.98	
India			10.40	
Brazil			5.15	
South Africa			3.80	
Russia			2.56	
Thailand			2.46	
Malaysia			2.33	
Mexico			1.92	
Indonesia			1.40	

Style Measures

Measures Market Cap

Value & Growth Measures	Fund	Cat. Average	Index
Price/Earnings	15.40	17.85	15.76
Price/Book	1.52	1.94	1.47
Price/Sales	1.23	1.58	1.16
Price/Cash Flow	5.41	6.14	5.63
Dividend Yield %	3.36	2.78	3.16
Long-Term Earnings %	10.09	11.30	7.73
Historical Earnings %	5.10	5.16	4.98
Sales Growth %	6.40	8.73	8.17
Cash-Flow Growth %	6.05	7.73	2.91
Book-Value Growth %	7.00	10.24	8.42

As of Sep 30, 2020 | Category: Diversified Emerging Mkts | Index: MSCI EM NR USD | Data is based on the long position of the equity holdings.

iShares Core MSCI Emerging Markets ETF <IEMG>- South Korea exposure, Higher long-term earnings growth estimates

Exposure	Sector	Region	Country	vs. Category
Country			Fund %	
China			38.96	
Taiwan			13.74	
South Korea			12.78	
India			8.68	
Brazil			4.82	
South Africa			3.39	
Russia			2.56	
Thailand			1.91	
Malaysia			1.82	
Mexico			1.69	

Style Measures

Measures Market Cap

Value & Growth Measures	Fund	Cat. Average	Index
Price/Earnings	15.47	17.85	15.76
Price/Book	1.44	1.94	1.47
Price/Sales	1.12	1.58	1.16
Price/Cash Flow	5.35	6.14	5.63
Dividend Yield %	3.17	2.78	3.16
Long-Term Earnings %	12.72	11.30	7.73
Historical Earnings %	2.11	5.16	4.98
Sales Growth %	5.92	8.73	8.17
Cash-Flow Growth %	3.58	7.73	2.91
Book-Value Growth %	7.29	10.24	8.42

Fund as of Oct 14, 2020 | Category: Diversified Emerging Mkts as of Sep 30, 2020 | Index: MSCI EM NR USD as of Sep 30, 2020 | Data is based on the long position of the equity holdings.

Source: Morningstar.com

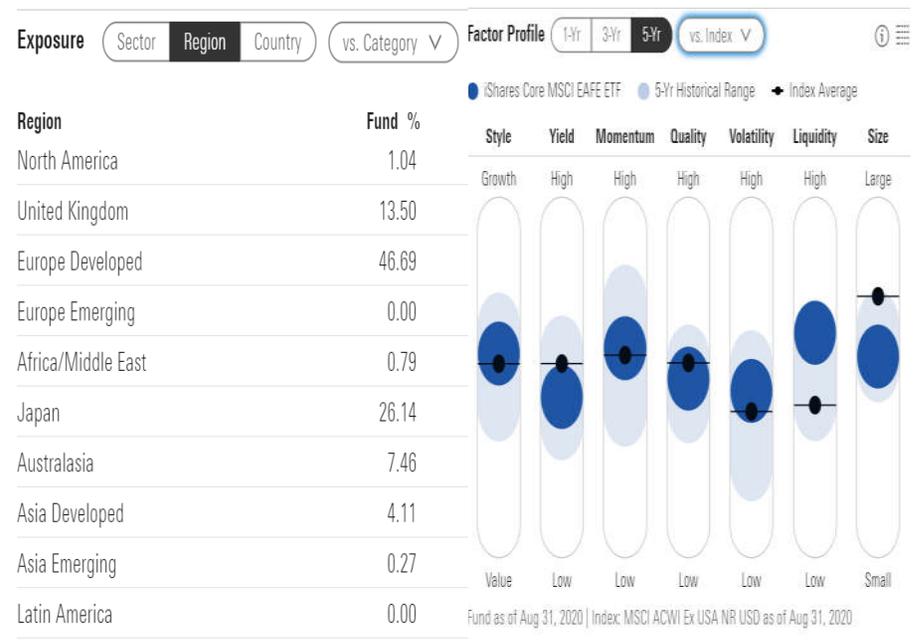
International Investment Options:

Background data on the two largest developed ex-US ETFs

Vanguard FTSE Developed Markets ETF <VEA>- Provides Canada & South Korea exposure and less style volatility



iShares Core MSCI EAFE ETF <IEFA> - Provides more European Developed exposure and more style volatility



Source: Morningstar.com

International Investment Options: U.S. Enhanced Index Factor Research

Well-known systematic factors based on academic research							
Factor	Captures excess returns from	Rationale	Source & Time Period	Average Annual Excess Return			
				Since Inception	50 Years	20 Years	10 Years
Value	Stocks that have low prices relative to their fundamental value	Value stocks are under appreciated by investors. Investors want to say they are invested in the current era's growth stories and over estimate the durability of growth.	Ken Fama price/book value 1926 to Present, price/earnings and price/cash flow 1951 to Present	2.6%, 4.9%, 3.6%	2.0%, 3.0%, 2.3%	-0.7%, 2.4%, .8%	-8.5%, -4.7%, -7.4%
Size/Small Cap	Smaller firms by market capitalization relative to their larger counterparts	Smaller firms are under followed relative to larger firms. Smaller firms have greater bankruptcy risk.	Ken Fama small cap vs large cap 1926 to Present	1.7%	0.5%	2.5%	-4.6%
Dividend yield	Stocks that have higher dividend yields	Investors consistently under appreciate how much dividends contribute to total returns	Ken Fama dividend yields 1927 to Present	1.6%	1.8%	2.8%	-1.5%
Quality	Stocks that earn high investment returns, enjoy low capital intensity, low earnings accruals	Higher quality firms possess competitive advantages/moats that enable these firms to outperform	Ken Fama ROE, investment level, working capital accruals 1963 to Present	3.8%, 3.1%, 3.3%	4.1%, 3.6%, 2.8%	6.6%, 3.3%, 1.6%	5.3%, -1.3%, 4.6%
Momentum	Stocks that enjoy positive relative returns	Investors under estimate the persistence of superior performance	Ken Fama large and small company 2-12 month stock returns 1927 to Present	6.6%	6.6%	1.2%	3.3%
Low Volatility	Stocks that have lower volatility, beta and/or idiosyncratic risk	Investors overpay for more volatile stocks in the pursuit of higher investment returns	Ken Fama stock return variance 1963 to Present	4.2%	4.8%	6.4%	4.9%

Source: Ken Fama US data library through May 2020 and top 30% vs bottom 30% of universe where cited

Source: *Fama & French*

Past performance does not guarantee future results. US average annual excess were achieved cited; Average annual excess return measures smart beta factors vs the broader market or the opposite factor (e.g., value vs growth, small cap vs large cap, high dividend yield vs low dividend yield, high vs low quality, positive vs negative momentum, low vs high volatility. Assumes reinvestment of income and no transaction costs or taxes. This data is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.