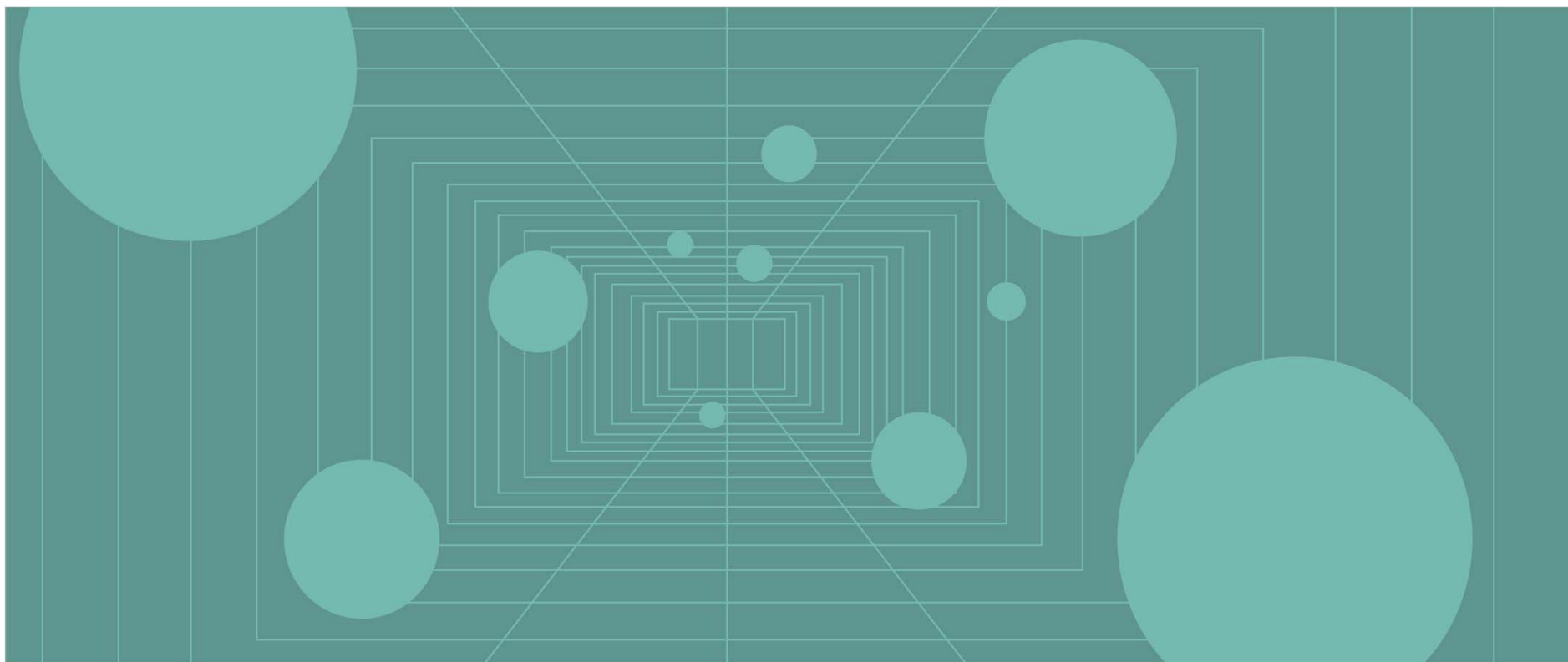


# GLOBAL EX US EQUITY MANAGER PERFORMANCE

ANALYSIS OF 2019 AND PERFORMANCE SINCE 2000



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## Summary Observations

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- In 2019, 63% of active global ex US managers outperformed the MSCI EAFE Index gross of fees, with the median manager outperforming by 183 basis points (bps). Since 2000, the median manager has now underperformed the index in just three calendar years.
- After adding a fee proxy of 70 bps, 58% of managers outperformed the benchmark in 2019. The majority of managers have outperformed the fee-adjusted index in more than half of the calendar years dating back to 2000, posting better performance in 12 of those 20 years.
- By style, the median growth manager in the global ex US region bested value and diverse strategies. All three strategies outperformed their respective style benchmarks for the year, although value bested its benchmark by the widest margin. Looking longer term, the median value manager has outperformed the value index in nine of the last 11 years dating back to the global financial crisis (GFC). Prior to that, value had bested growth in seven of nine years from 2000 to 2008.
- On a median basis, managers were significantly overweight the IT sector, which was far and away the best-performing sector in 2019. Conversely, managers held sizable underweight positions in two underperforming sectors: consumer staples and real estate. Energy lagged all other sectors and trailed the index by more than 14 percentage points, but managers did not significantly differentiate from the market weight.

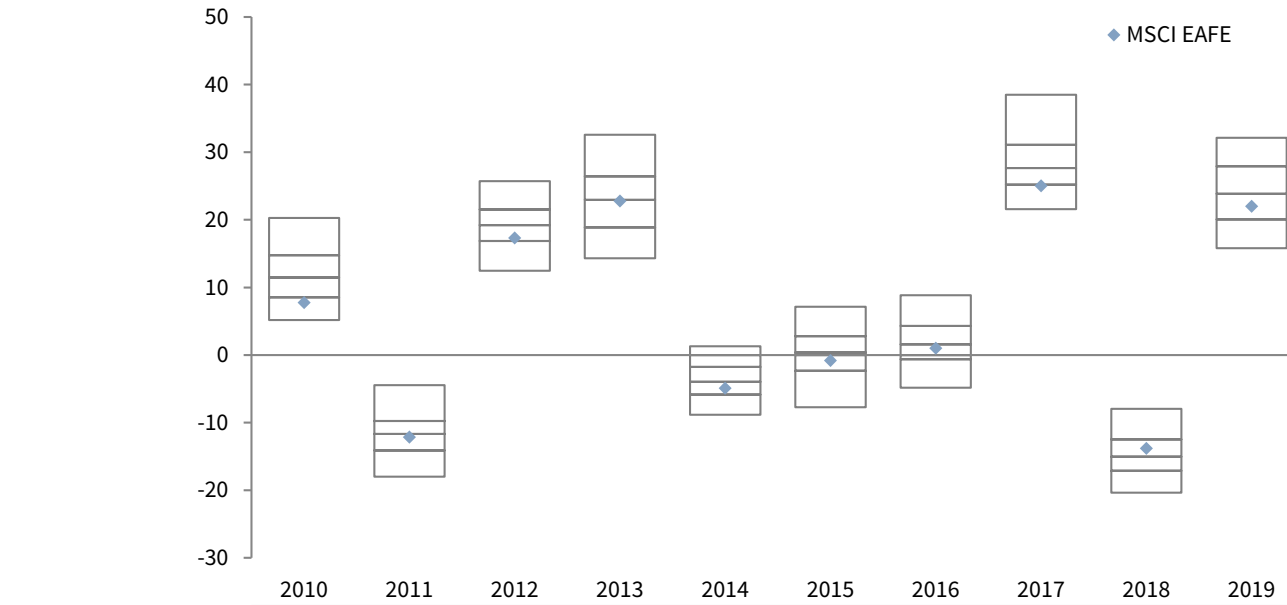
## Summary Observations (continued)

- On a median basis, managers were underweight five of the six countries to which the MSCI EAFE Index has a weight greater than 5%. The largest underweight was to Japan, which underperformed MSCI EAFE in USD terms. Global ex US equity managers tend to make numerous off-benchmark country bets. In 2019, there were six different countries in the MSCI EAFE index where at least 40% of managers had allocations: Canada, China, India, South Korea, Taiwan, and the United States. The performance of these countries in USD terms was mixed; however, the three most heavily weighted off-benchmark bets—China, Canada, and United States—all outperformed the MSCI EAFE Index.
- High dispersion in stock returns is often thought to mean more managers will outperform. In fact, the relationship is extremely weak. Rather, stock dispersion is more likely to increase the dispersion of managers' excess returns—greater stock dispersion gives managers more of an opportunity to separate from the pack, but this can be to the upside or the downside. Since the GFC, stock return dispersion has been quite low; 2019 remained near the lowest observations in the past decade.
- Persistence in manager outperformance is rare, yet global ex US managers in the top-performing initial quintile showed better-than-expected consistency, as more than half of the top-performing managers from 2010 to 2014 remained in the top quintile in the 2015–19 period. This stands in contrast to prior ten-year windows, when top performers during the initial five-year period tended to rotate to bottom quintiles in the subsequent five-year periods.

## 63% of managers outperformed the index in 2019

### GLOBAL EX US EQUITY MANAGER ANNUAL RETURNS BY QUANTILES

2010-19 • Percent (%)



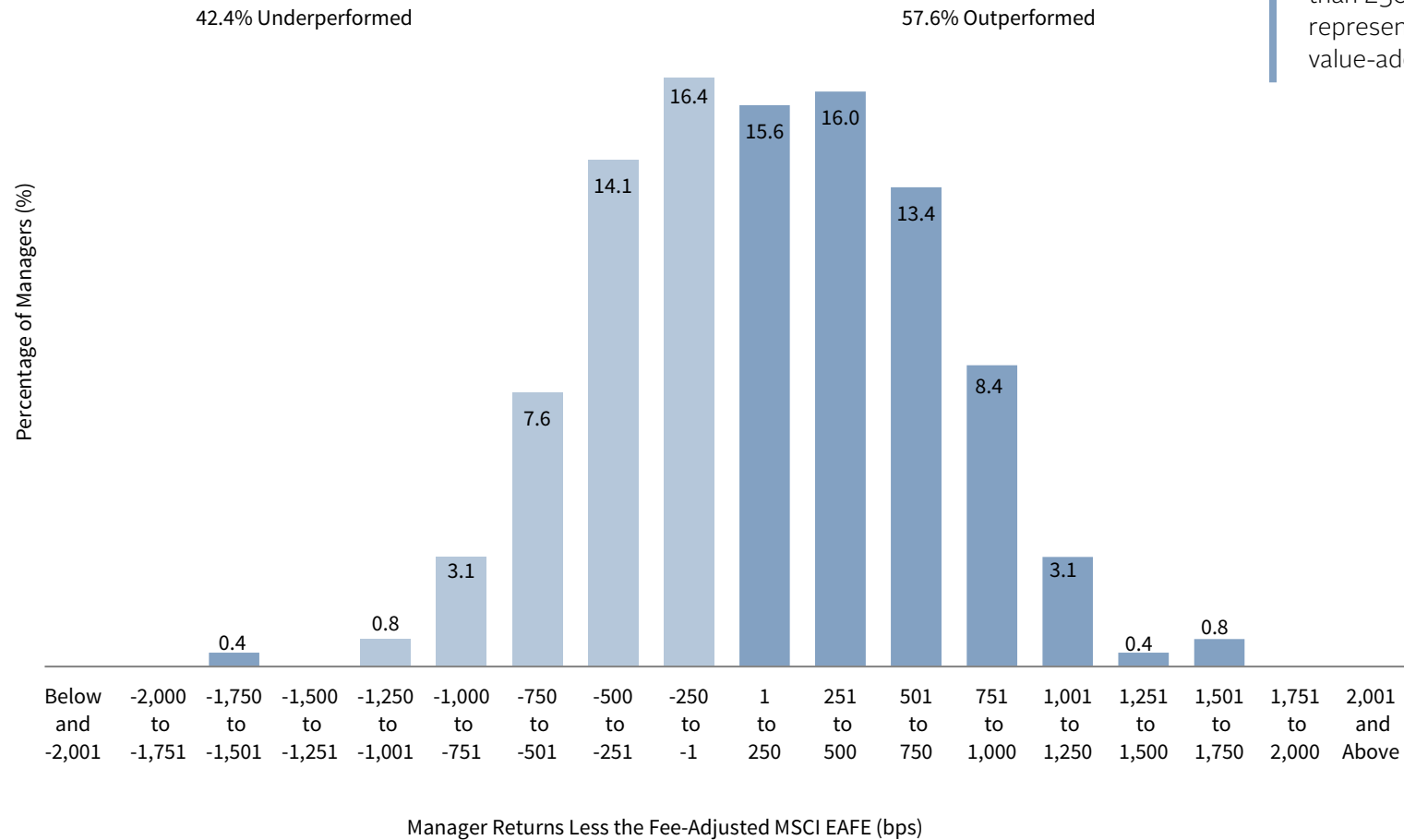
The median manager outperformed the index by 183 bps in 2019, a marked reversal from the underperformance seen in 2018.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
5th Percentile	20.3	-4.4	25.7	32.6	1.3	7.2	8.9	38.5	-8.0	32.1
25th Percentile	14.8	-9.8	21.5	26.4	-1.8	2.8	4.3	31.1	-12.5	27.9
Median	11.5	-11.7	19.2	22.9	-4.0	0.4	1.6	27.7	-15.0	23.8
75th Percentile	8.6	-14.1	16.9	18.9	-5.8	-2.3	-0.6	25.2	-17.1	20.1
95th Percentile	5.2	-18.0	12.5	14.3	-8.8	-7.7	-4.8	21.6	-20.4	15.8
MSCI EAFE	7.8	-12.1	17.3	22.8	-4.9	-0.8	1.0	25.0	-13.8	22.0
# of Managers	291	296	293	296	297	303	297	291	285	262
% Outperforming	80.4	56.1	68.9	51.0	63.3	63.7	55.6	75.9	38.2	63.0
% Underperforming	19.6	43.9	31.1	49.0	36.7	36.3	44.4	24.1	61.8	37.0

## Adjusted for fees, the percentage of outperformers in 2019 was 57.6%

### MANAGER RETURNS RELATIVE TO THE FEE-ADJUSTED MSCI EAFE INDEX

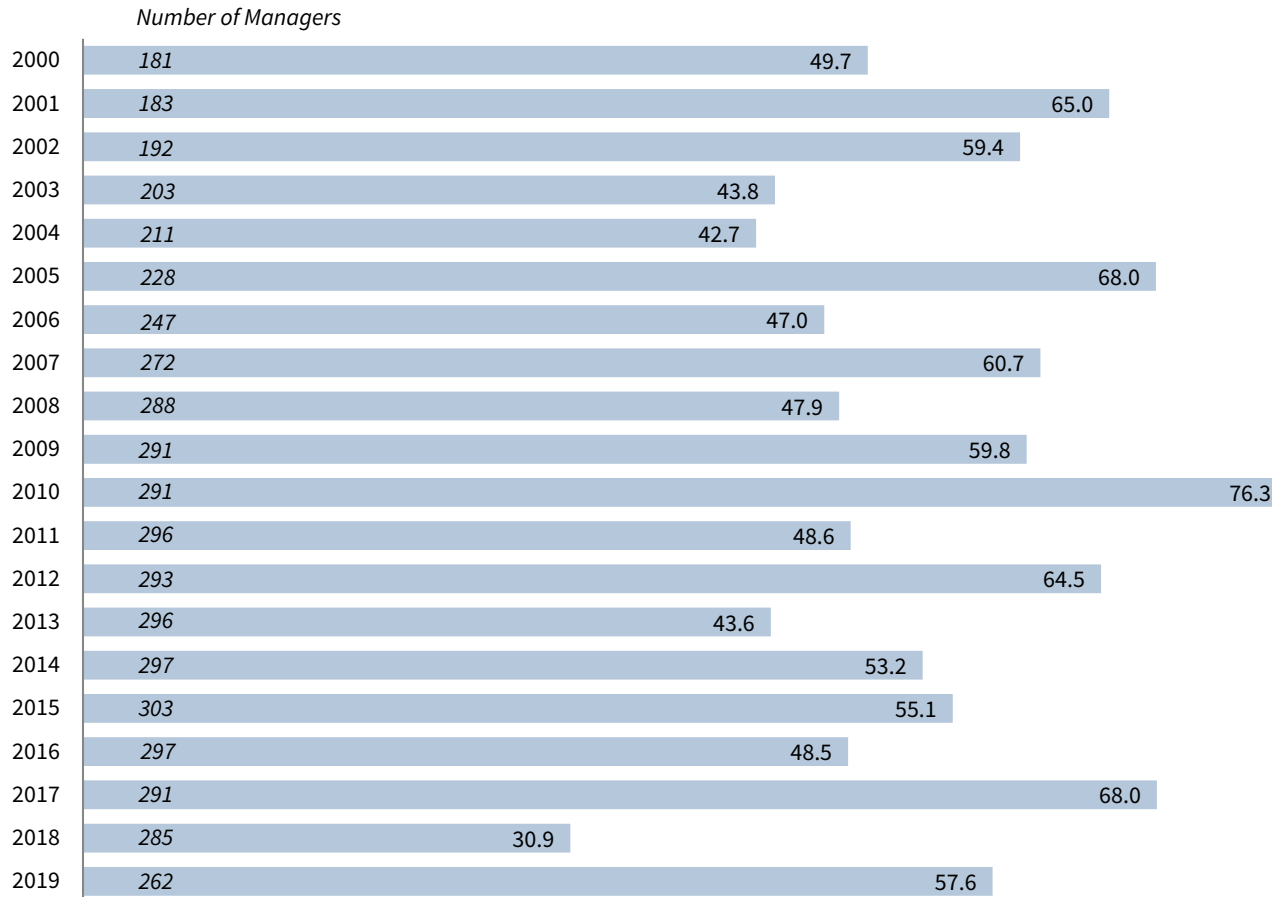
Calendar Year 2019 • n = 262



Of 110 managers, 42% bested the fee-adjusted index by more than 250 bps in 2019, representing significant value-add.

## Active global ex US manager outperformance is cyclical

**PERCENTAGE OF GLOBAL EX US EQUITY MANAGERS OUTPERFORMING THE FEE-ADJUSTED MSCI EAFE INDEX**  
2000–19 • Percent (%)

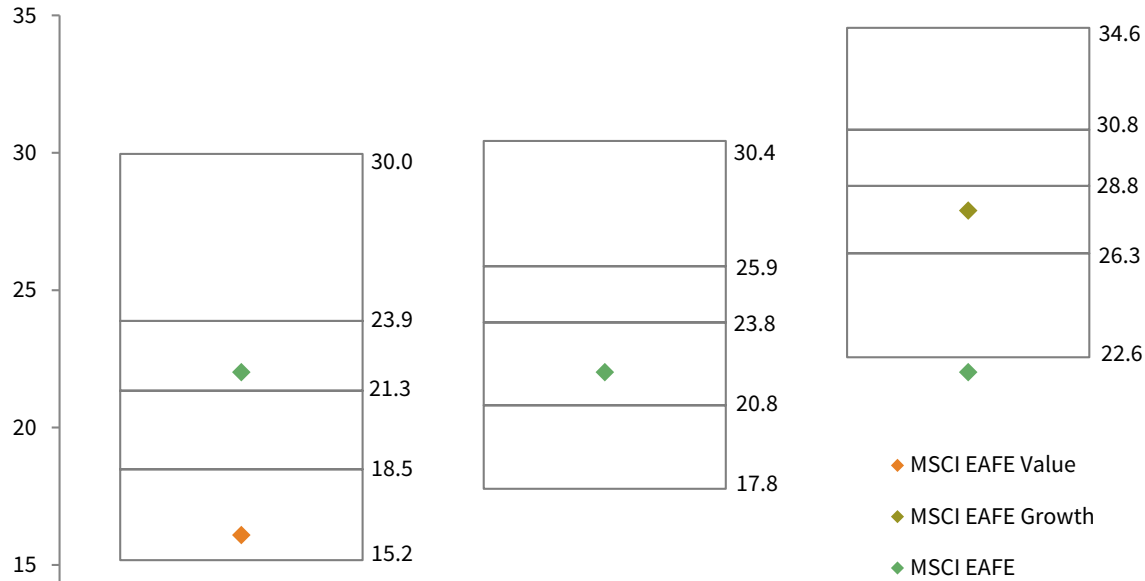


Since 2000, the majority of managers have outperformed the index slightly more than half the time, posting better performance in 11 of 20 years. Managers bounced back in 2019 after a difficult 2018, when the percentage of global ex US managers outperforming the index was at a 20-year low.

# The median growth manager fared better than other styles in 2019

## GLOBAL EX US EQUITY MANAGER UNIVERSE RETURN QUARTILES BY INVESTMENT PHILOSOPHY

Calendar Year 2019 • Percent (%)



The growth outperformance was a continuation of the trend seen in 2018. All three strategies bested their respective benchmarks.

	Value	Diverse	Growth
High	32.6	32.1	39.4
Manager Median	21.3	23.8	28.8
Low	7.0	16.8	16.7
Index*	16.1	22.0	27.9
Number of Managers	88	46	66



\* Index represents: MSCI EAFE Value Index for Value; MSCI EAFE Index for Diverse; and MSCI EAFE Growth Index for Growth.

Sources: Cambridge Associates LLC, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Cambridge Associates LLC's (CA) manager universe statistics are derived from CA's proprietary Investment Manager Database. Managers that do not report in US dollars, exclude cash reserves from reported total returns, or have less than \$50 million in product assets are excluded. Performance is generally reported gross of investment management fees. Only managers with performance available for the entire period measured are included.

## Investment styles go in and out of favor over time

### THE CYCLICAL NATURE OF GLOBAL EX US EQUITY INVESTMENT PHILOSOPHIES

2000–19 • Percent (%)

#### Annual Total Returns

Year	Median Growth Mgr		Median Value Mgr		Global ex US Stocks (MSCI EAFE)
	Median	<i>n</i>	Median	<i>n</i>	
2000	-16.3	74	<b>-5.9</b>	53	-14.2
2001	-21.9	76	<b>-12.7</b>	50	-21.4
2002	-16.4	78	<b>-10.0</b>	56	-15.9
2003	34.6	76	<b>41.6</b>	66	38.6
2004	17.9	76	<b>22.7</b>	73	20.2
2005	<b>17.3</b>	79	14.4	81	13.5
2006	24.3	80	<b>28.3</b>	93	26.3
2007	<b>17.6</b>	83	9.9	97	11.2
2008	-45.0	92	<b>-41.6</b>	98	-43.4
2009	<b>35.8</b>	87	34.7	101	31.8
2010	<b>12.1</b>	84	10.6	101	7.8
2011	<b>-11.2</b>	84	-11.6	103	-12.1
2012	<b>19.7</b>	80	18.6	103	17.3
2013	20.3	80	<b>23.2</b>	106	22.8
2014	<b>-3.4</b>	79	-4.6	107	-4.9
2015	<b>1.3</b>	83	-0.8	105	-0.8
2016	-0.3	80	<b>3.4</b>	100	1.0
2017	<b>31.1</b>	76	26.2	98	25.0
2018	-14.2	73	-15.4	96	<b>-13.8</b>
2019	<b>28.8</b>	66	21.3	88	22.0

#### Average Annual Compound Returns: Periods Ended December 31, 2019

Trailing 15-Yr	<b>6.9</b>	31	5.8	47	4.8
Trailing 10-Yr	<b>7.5</b>	46	6.3	69	5.5
Trailing 5-Yr	<b>7.7</b>	59	5.8	81	5.7
Trailing 3-Yr	<b>13.2</b>	64	9.1	85	9.6

Growth has edged value over short- and long-term lookback periods, and outperformed in eight of 11 years dating back to the GFC. Styles can experience cyclical shifts; value outperformed growth in seven of nine years from 2000 to 2008.



## Managers' different sector allocations can affect relative performance

### GLOBAL EX US EQUITY MANAGERS' MEDIAN SECTOR ALLOCATIONS VERSUS INDEX WEIGHT

Percent (%) • *n*=232

	Manager Median vs Index (bps)		12/31/2018 Index Weight (%)	CY 2019 Index Returns	Net Allocation Effect (+/-)
	Underweight vs Index	Overweight vs Index			
Cons Disc	-67		11.2	25.5	-
Cons Staples	-208		11.6	19.4	+
Energy		22	5.9	8.2	-
Financials	-41		19.5	18.5	+
Healthcare	-12		11.2	31.4	-
Industrials	-50		14.3	26.8	-
IT		226	6.0	38.1	+
Materials	-60		7.4	23.4	-
Real Estate	-217		3.7	15.4	+
Comm Svcs *		110	5.6	13.2	-
Utilities	-162		3.8	20.0	+
			MSCI EAFE	22.7	

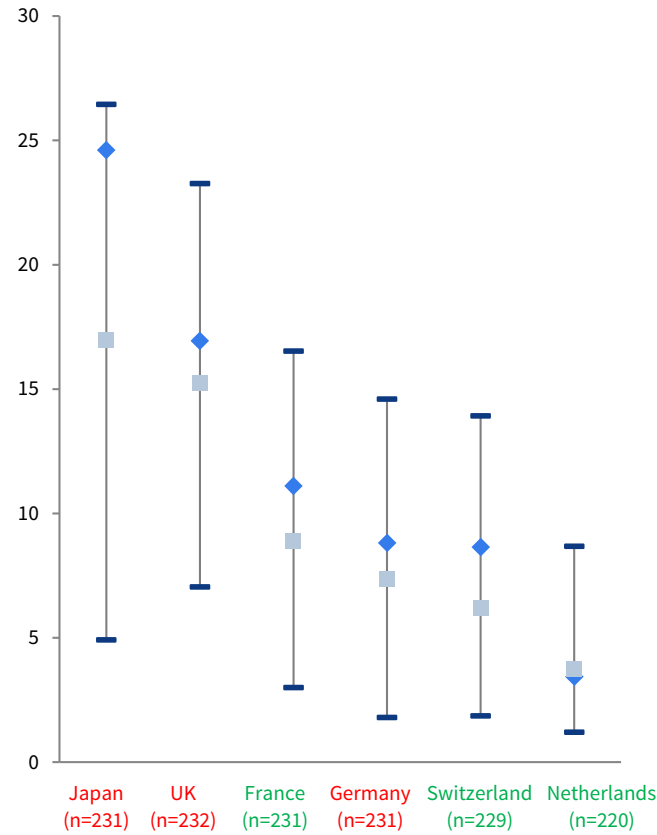
On a median basis, managers were significantly overweight the strong-performing IT sector in 2019. Managers held sizable underweight positions in the two underperforming sectors: consumer staples and real estate.

# Off-benchmark country bets can significantly affect relative performance

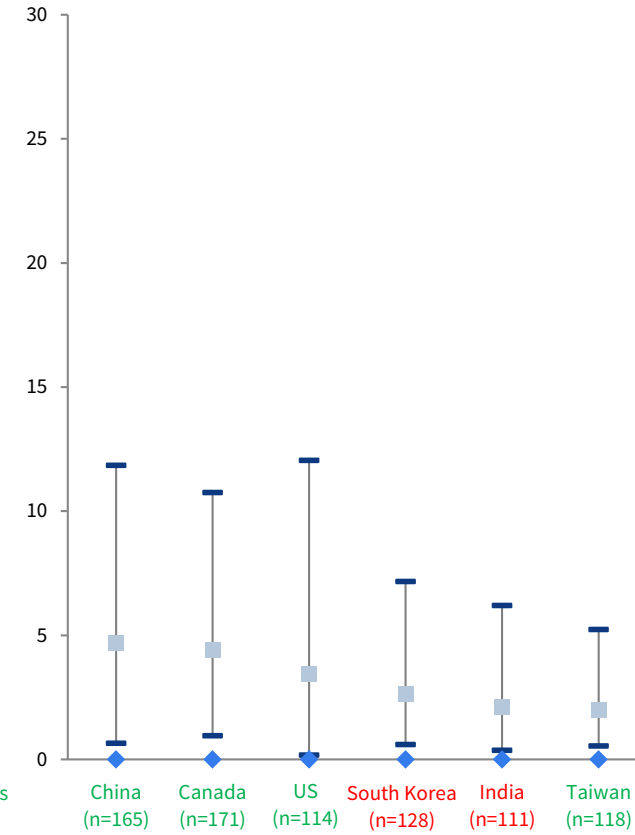
## GLOBAL EX US EQUITY MANAGERS' COUNTRY ALLOCATIONS VS THE MSCI EAFE INDEX

n=233

Manager Allocations to Six MSCI EAFE Countries with > 5% Weight



Off-Benchmark Countries Where >40% Managers Have Allocations



— 95th Percentile    ◆ EAFE Index    ■ Median    — 5th Percentile

A majority of managers had allocations to six countries not in the MSCI EAFE Index; among these, the highest off-benchmark median allocation was to China, which bested the index in 2019.

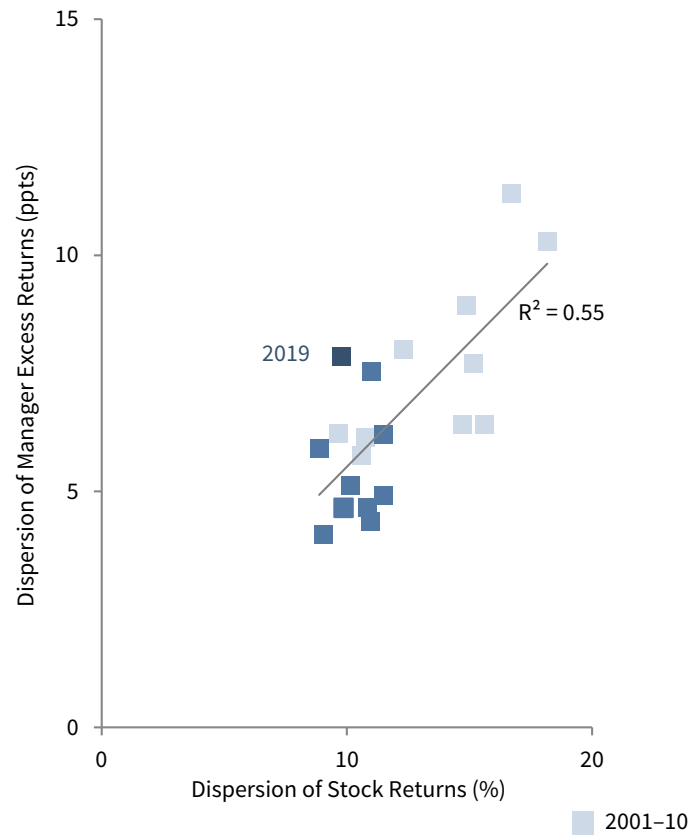
Sources: Cambridge Associates LLC, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties. Notes: A country name in red indicates that the country underperformed the MSCI EAFE Index in 2019, while green country names indicate outperformance. Countries are sorted by median manager allocation. Only includes data for 233 managers that provided geographic allocation as of year-end 2018. Index weights represent year-end geographic allocations of the MSCI EAFE Index. The n provided for each country represents the total number of products exposed to a given country as of year-end 2018, and percentile, median, and average figures are calculated only from products with exposure to the country shown. Cambridge Associates LLC's (CA) manager universe statistics are derived from CA's proprietary Investment Manager Database. Managers that do not report in US dollars, exclude cash reserves from reported total returns, or have less than \$50 million in product assets are excluded.

# Dispersion of stock returns is correlated to dispersion of manager performance

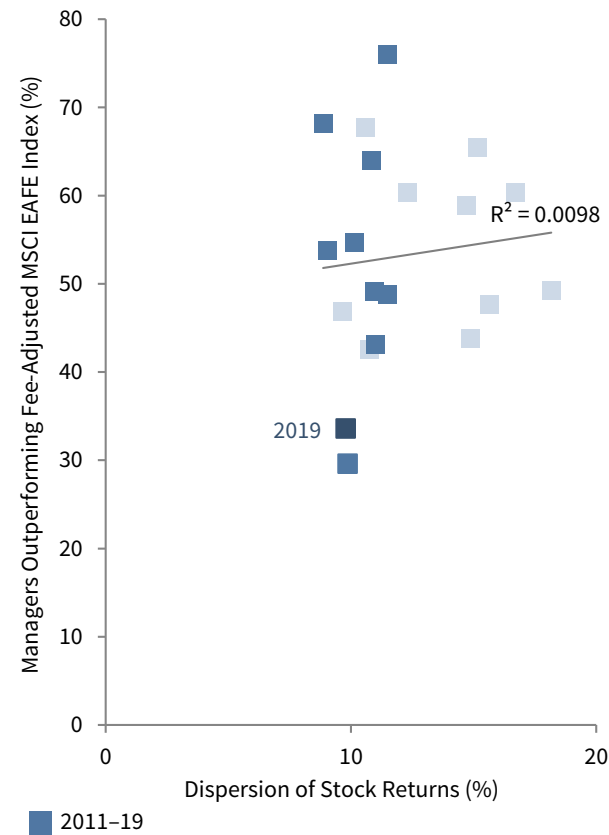
## STOCK DISPERSION DRIVES MANAGER DISPERSION BUT NOT MANAGER PERFORMANCE

2000-19

Dispersion of Stock Returns and Dispersion of Manager Performance



Dispersion of Stock Returns and Managers Outperforming



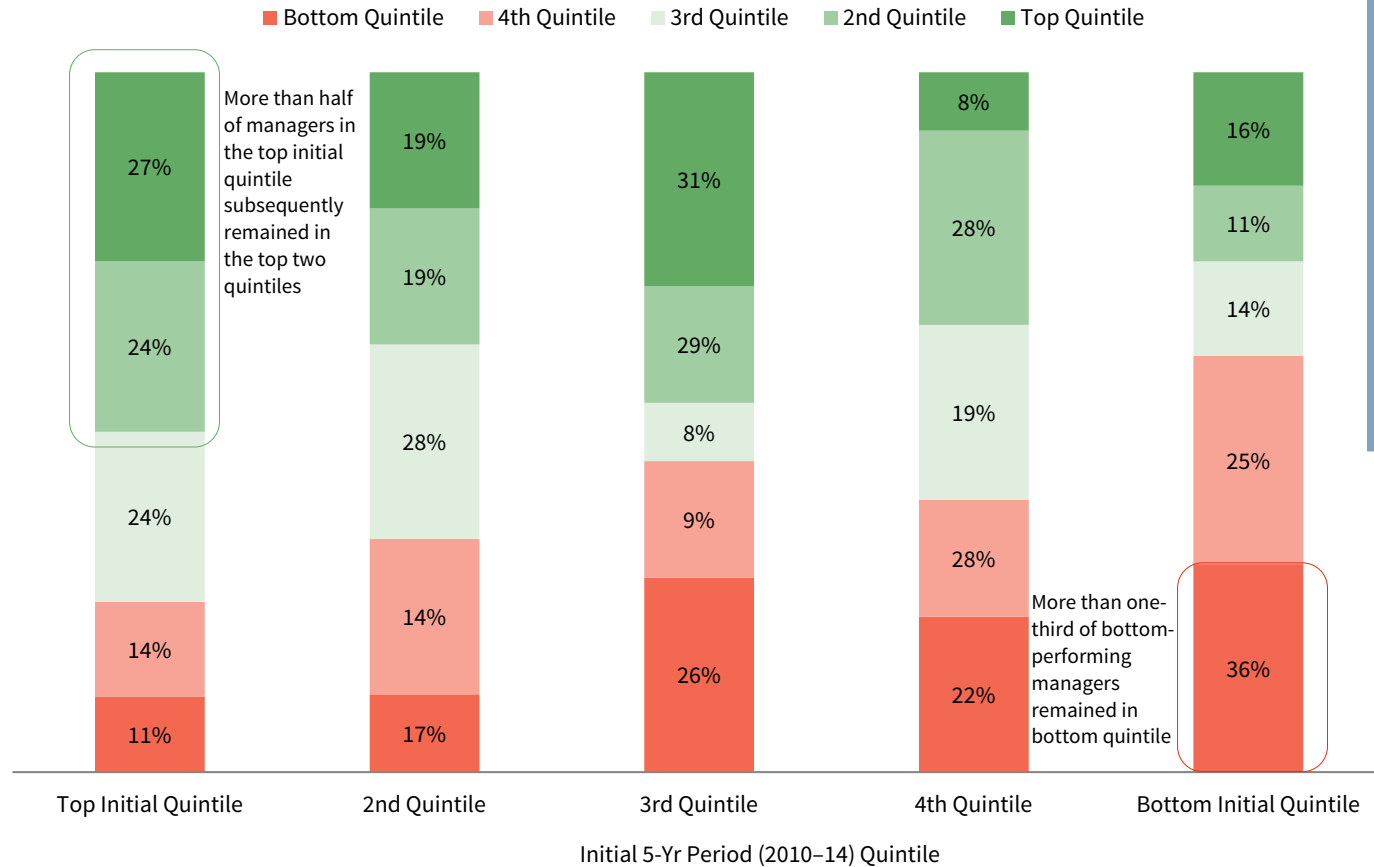
No relationship exists between stock dispersion and percentage of managers outperforming the index.

# Managers typically move between top and bottom quintiles, but recently have shown consistency

## ANALYSIS OF GLOBAL EX US EQUITY MANAGER RETURNS BY QUINTILE OVER FIVE-YEAR PERIODS

2010-19 • n = 182

### Percent of Managers in Subsequent 5-Yr Period (2015-19) Quintile



Global ex US managers in the top-performing initial quintile showed rare consistency, as more than half remained in the top two quintiles during the subsequent five-year period. This stands in contrast to prior ten-year windows, when top performers during the initial five-year period tended to rotate to bottom quintiles in the subsequent five-year periods.



**CAMBRIDGE  
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