

# Q1 2024 Bailard International Equity Strategy

## Quarterly Recap and Outlook

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### Executive Summary as of March 31, 2024<sup>1,2</sup>

The global economic environment changed dramatically in the first quarter as bond yields, which had marched down in the 4th quarter on the belief that central bank pivots were fast approaching, reversed course. Prospects for mid-year reductions in short-term interest rates remain high for Europe and the UK, but persistent strength in the U.S. labor market has pushed prospects for a shift there closer to the end of 2024. Still, non-U.S. equities found purchase in solid earnings even as they faced headwinds from a strong dollar due to the evolving central bank dynamics and heightened geopolitical risks. As noted below, we see a range of foreign stocks that can flourish in the current environment and remain excited for the potential of stocks both in developed and emerging markets to compete well against U.S. peers.

### Market Commentary<sup>1,2</sup>

Continued moderate inflation and resilient (though not booming) economic growth provided a stable economic backdrop, in which many companies grew and produced solid returns for investors. In contrast to the fourth quarter of 2023, expectations for monetary loosening diminished significantly—most major central banks now expect half as many cuts in 2024 compared to expectations three months ago—and consequently, longer-term interest rates rose slightly. But higher discount rates were more than offset during the quarter by optimism around earnings, which were up 7.2% on a trailing 12-month basis compared with a year ago.

The resulting quarter's return was 5.78% for the MSCI EAFE Index, outpacing the MSCI All-Country World ex USA Index's 4.69% rise and the MSCI Emerging Markets Index's 2.37% gain (all indices in USD terms, net dividends). The latter continued to be dragged down by China, which did little to

resolve poor consumer and investor sentiment, and fell 2.19%. US indices continued to lead, with its technology and tech-adjacent companies in particular showing robust growth and increasing expectations.

### Composite Commentary<sup>2,3</sup>

The Bailard EAFE Plus Composite's 8.07% net of fee quarter return was well ahead of the MSCI EAFE Index developed market benchmark return of 5.78%. EAFE Technology stocks once again led all sector indexes, up 14.37% for the quarter. Cyclical sectors such as Consumer Discretionary (up 11.02%), Financials (up 8.74%), and Industrials (up 8.00%) were also leaders, besting defensives such as Utilities (down 4.63%) and Consumer Staples (down 3.07%). The Composite's sector positioning was generally correct—particularly in overweighting Technology and Consumer Discretionary.

<sup>1</sup> Unless otherwise indicated, developed and emerging market returns and comments are based on the respective MSCI EAFE or Emerging Markets indices (U.S. dollar terms on a total return basis, reinvesting dividends after the deduction of withholding taxes). <sup>2</sup> Regional, country and sector returns and comments cited in the composite commentary section are based on their respective MSCI regional and country indices (U.S. dollar terms on a total return basis, reinvesting dividends after the deduction of withholding taxes). Any references to specific securities are included solely as general market commentary and were selected based on criteria unrelated to Bailard's portfolio recommendations or the past performance of any security held in any Bailard account or fund. <sup>3</sup> The Bailard International Equity and Emerging Markets Equity Strategies are implemented across three separate composites. The Composite performance commentary reflects the EAFE Plus Composite, which represented 21.3% of total strategy assets as of March 31, 2024. **Past performance is no indication of future results.** All investments involve the risk of loss. Please see page 3 for additional performance data and page 4 for important disclosures.

Tech's leadership made it difficult for generic value factors to perform well—though our more nuanced expressions of the valuation thematic mostly blunted the damage. Generic quality also struggled, but our expressions added value; the factor/thematic leader for the quarter was momentum, where by contrast nuance was not helpful: return leaders from 2023 generally continued their strength. Momentum's outsized strength made for a favorable environment with good overall factor performance.

Country leadership in the quarter had a wide variety of individual drivers: Denmark (+15.1%) was dominated by Novo Nordisk's continued strength (the name up 24%), while the Netherlands (+15.5%) benefited from significant weight in Tech—ASML (up 28%), in particular. Ireland (+15.5%) and Italy (+13.7%) were led by their banks, along with building materials/packaging (Ireland) and automakers (Italy—both mass-market Stellantis and luxury Ferrari up more than 20%). Hong Kong (-11.7%) was again a laggard among developed markets, along with Portugal (-17.9%) and Norway (-7.0%). Among emerging markets, Taiwan (+12.4%) was a large and notable outperformer, as well as Colombia (+14.2%), Peru (+15.8%), and Turkey (+14.6%); South Africa (-6.8%) and Brazil (-7.4%) were notable underperformers along with China (-2.2%). The Strategy generally did well in overweighting the aforementioned developed market performers, as well as Taiwan (overweight against MSCI EAFE), though it also had small exposures (overweight against MSCI EAFE, though underweight MSCI ACWI ex USA) to China and Brazil. The substantial underweight to Switzerland (-1.3%) was also beneficial, as its Staples and Health Care names did not participate in the quarter's rally.

### Strategy Review<sup>4</sup>

Our global volatility measure remained below average, which—along with generally steady liquidity—led our country model to emphasize momentum slightly more than valuation or improvements in risk metrics. Top-ranked developed markets at quarter's end were Denmark, Japan, Italy, the Netherlands, Sweden, Israel, Austria, and Norway. The most significant changes to country positioning during the quarter were trims to the UK and

### COUNTRY RANKINGS AT QUARTER END

The environment as of March 31, 2024 favored countries with strong value and momentum characteristics.

#### HIGHEST RANKED

Argentina	Italy
Colombia	Japan
Denmark	Netherlands
Egypt	Pakistan
Greece	Poland
Hungary	Turkey

#### LOWEST RANKED

Belgium	New Zealand
Czech Rep.	Portugal
Finland	S. Africa
Hong Kong	Singapore
Mexico	Thailand
Morocco	UK

Source: *Baird, Inc.*

Germany from neutral to below EAFE weight, offset by buys in France (overweight at quarter end) and Sweden (neutral at quarter end). Sector positioning remained similar to last quarter: most overweight Information Technology (+3%), Industrials (+1.6%) and Consumer Discretionary (+1.6%), and most underweight Health Care (-3.6%) and Real Estate (-1.8%). Deeper fundamental work on the Automotives industry led to more selectivity among names and a reduction in its active weight, realizing gains in this generally strong area over the quarter.

### Investment Outlook

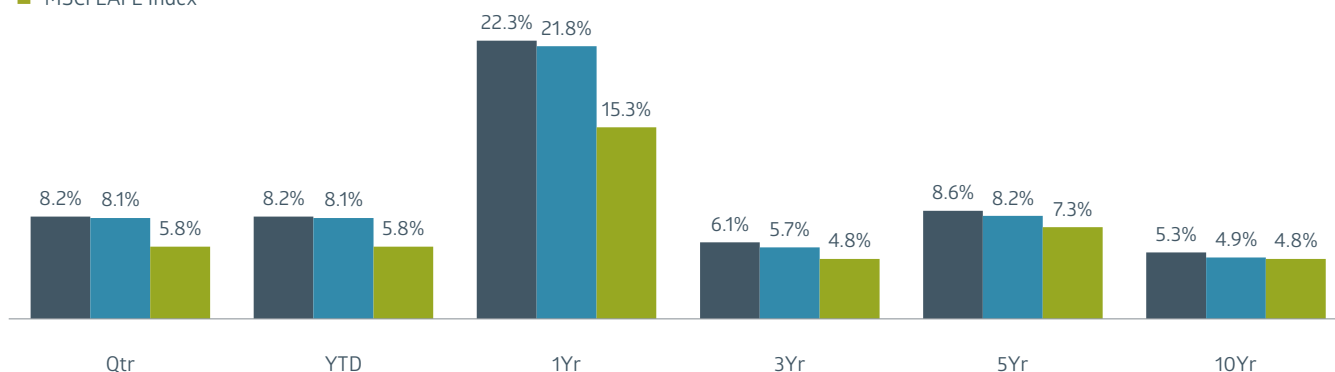
The first quarter gave equity investors plenty to cheer about—demonstrating how stocks may maintain strong fundamentals and rally even as monetary policy remains tight and interest rates rise. In our view, non-US stocks illustrated three archetypes with disparate drivers of performance: rapid growers with unique products/positioning (most notably ASML, TSMC, and Novo Nordisk, but also incorporating a variety of Industrials and Utilities), value stocks where low expectations and resilient financial performance lead to repricing (e.g., Banks and Automakers), and laggards where sentiment is poor for political or other structural reasons (e.g. much of China/HK). We remain optimistic in the portfolio's balance of growth and value opportunities, and aim to avoid the laggards as much as possible. Rapid growth drivers (e.g. artificial intelligence demand, drug breakthroughs) are well represented in the US market as well, but we are more confident that non-US stocks still incorporate lower expectations, which may warrant revaluation should economic resilience continue.

<sup>4</sup> Data regarding holdings reflect ownership information as of March 31, 2024 and are not intended to represent any past, present, or future investment recommendations. Holdings are subject to change.

## Bailard EAFE-Plus Composite Statistics<sup>5,6,7</sup>

PERFORMANCE total return (%) for periods ending March 31, 2024

- Composite Gross of Fees
- Composite Net of Fees
- MSCI EAFE Index



### PERFORMANCE STATISTICS: 3-YEAR as of 3/31/24

	EAFE-PLUS COMPOSITE		MSCI EAFE INDEX
	GROSS OF FEE	NET OF FEE	
Standard Deviation	16.6%	16.6%	16.6%
Active Return (Net of Fee) vs.			0.9%
Tracking Error (Net of Fee) vs.			2.2%
Information Ratio (Net of Fee) vs.			0.43

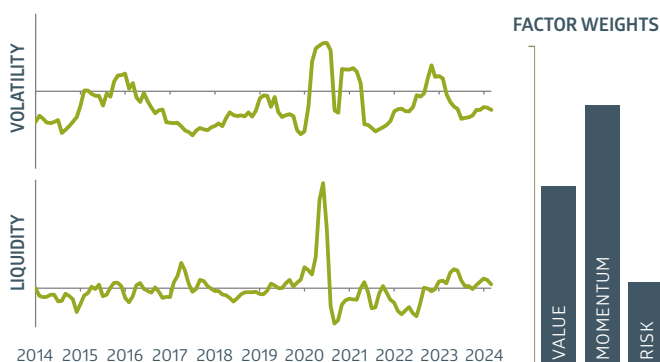
### PERFORMANCE STATISTICS: 5-YEAR as of 3/31/24

	EAFE-PLUS COMPOSITE		MSCI EAFE INDEX
	GROSS OF FEE	NET OF FEE	
Standard Deviation	17.6%	17.6%	17.8%
Active Return (Net of Fee) vs.			0.9%
Tracking Error (Net of Fee) vs.			2.3%
Information Ratio (Net of Fee) vs.			0.39

## Environmental Variables and Style Factors

as of 03/31/24

The charts below represent two variables that influence our assessment of the global investment environment and, in turn, dynamically affect the factor weights that are determinant in country selection.



Sources: MSCI, Federal Reserve, Bailard.

<sup>5</sup> Sources: Bailard, MSCI/Datastream. **Past performance is no indication of future results.** All investments involve the risk of loss. Please see page 4 for important disclosures. <sup>6</sup> Three-, five- and ten-year return statistics are annualized. <sup>7</sup> Performance data shown reflect the EAFE Plus Composite. <sup>8</sup> Data regarding holdings reflect ownership information as of March 31, 2024 and are not intended to represent any past, present or future investment recommendations. Holdings are subject to change.

## Representative Portfolio, Bailard EAFE-Plus International Equity Strategy<sup>8</sup> as of 3/31/24

### PORTFOLIO SUMMARY

# of Holdings	155
# of Developed Markets	16
# of Emerging, Frontier, and Other Markets	7
% Developed Markets	93.6%
% Emerging, Frontier, and Other Markets	5.8%
% Cash and Equivalents	0.6%

### REGIONAL WEIGHTS

Continental Europe	52.5%
Japan	22.7%
United Kingdom	12.5%
Emerging Markets	5.5%
Pacific ex-Japan	4.4%
Other Developed	1.4%
Frontier and Other Markets	0.3%
Cash and Equivalents	0.6%

# Bailard International Equity Strategy

Quarterly Recap & Outlook

## Risks

In addition to the possible loss of investment value due to general market price movements, international investments might suffer losses due to unfavorable exchange rate movements or economic and/or political instability in foreign countries. In some cases, financial statement information might not be readily available or might not be reliable for certain foreign markets. International accounting standards might be different from U.S. accounting standards, and financial data might be subject to misinterpretation. Trading in international markets can be more expensive than trading in domestic markets. Stock markets of certain foreign countries, particularly emerging and frontier markets, may be illiquid, and settlements can be delayed. Emerging and frontier markets have greater risks and can have higher transaction costs than their developed market counterparts. There can be no guarantee that this or any investment strategy will achieve its objective.

## Performance Disclosures

The Bailard International Equity and Emerging Markets Equity Strategies are implemented across three separate composites with a total AUM of \$926.9M as of March 31, 2024. All data and performance presented in this publication reflect the EAFE Plus Composite, previously called the Bailard International Equity Composite (the “Composite”), which consists of all discretionary fee-paying accounts that are invested primarily in non-U.S. securities both in developed and emerging markets. As of March 31, 2024, the Composite consisted of a single mutual fund account with a market value of \$197.5M or 21.3% of the strategies’ assets, which has been managed using a quantitative methodology in an advisory or sub-advisory capacity since 1995. Prior to that time, the account was managed using a different strategy. The Composite’s returns are presented both gross and net of management fees, and assume reinvestment of dividends and other earnings. The returns also reflect transaction costs. Three-year, five-year and ten-year returns are annualized. Composite returns do not reflect a fiduciary fulfillment fee payable to Bailard (where applicable), or custody and other expenses not payable to Bailard which the composite account incurred.

Through June 2009, gross of fee performance was calculated by grossing up the NAV performance by the annual expense ratio. Through March 2006, net of fee performance was calculated by netting down the gross return by a model fee of 0.95% on first USD 250M (applied by reducing monthly returns by 1/12 of 0.95%); 0.90% per annum thereafter. From April 2006 through June 2009, net of fee performance was calculated by netting down the gross return by a model fee of 0.475% on first USD 250M (applied by reducing monthly returns by 1/12 of 0.475%); 0.45% per annum thereafter. This model fee represents the highest management fee for the composite. From July 2009, both gross of fee and net of fee returns are taken directly from Bailard’s portfolio accounting system, and net of fee performance was calculated by netting down the gross return by our actual management fee as of the date paid from each account. The composite’s complete return history and a complete list of Bailard’s composites are available upon request.

Individual account management and construction will vary depending on each client’s investment needs and objectives, including liquidity needs, tax situation, risk tolerance, and investment restrictions. Individual accounts may not have the same management fees, expenses, diversification, distributions, cash flows and currency hedging policies as the Composite account. As a result, an account’s actual performance may differ from the performance presented in this piece due to among other things, timing of investment, contributions and withdrawals, and the client’s restrictions, such as restrictions of

currency hedging. In addition, performance does not reflect the effects of taxation, which can result in lower returns to taxable investors. An investment in this strategy involves risk of loss, and the value of an investment may decrease as well as increase. No representation is made that any account will obtain similar results to those shown here.

**Other Performance Definitions:** Standard deviation is the annualized standard deviation of monthly returns. “Information ratio” is the ratio of added value to tracking error. “Tracking error” is the annualized standard deviation of monthly added value, where added value is [Composite return – benchmark return]. Valuations are computed and performance reported in U.S. dollars.

**Market Indices:** The MSCI EAFE, MSCI Emerging Markets, and MSCI ACWI ex USA indices are free float-adjusted market capitalization indices. The MSCI EAFE Index is designed to measure equity market performance of international developed markets. The MSCI Emerging Markets Index is designed to measure equity market performance of international emerging markets. The MSCI ACWI ex USA Index is designed to measure equity market performance in international developed (excluding the U.S.) and emerging markets. These indices are presented in U.S. dollar terms on a total return basis, reinvesting dividends after the deduction of withholding taxes (if any). The indices are unmanaged and uninvestable and do not reflect any transaction costs.

Unlike the MSCI EAFE Index, the Composite account invests in emerging and frontier markets. Unlike the MSCI Emerging Markets Index, the Composite account invests in developed and frontier markets. Unlike the MSCI ACWI ex USA Index, the Composite account can invest in frontier markets. Unlike all of these indices, the Composite account invests in cash equivalents, depository receipts and exchange-traded funds, and may engage in currency hedging. The Composite often employed different country weights than these indices. The Composite’s country weights, security weights, and security holdings may differ materially from these indices.

**Past performance is no indication of future results.** All investments have the risk of loss.

## Other Disclosures

The information in this publication is based primarily on data available as of March 31, 2024, and has been obtained from sources believed to be reliable, but its accuracy, completeness and interpretation are not guaranteed. In addition, this publication contains the opinions of the authors as of that date and such opinions are subject to change without notice. We do not think this publication should necessarily be relied on as a sole source of information and opinion. This publication is not a recommendation of, or an offer to sell or solicitation of an offer to buy any particular security or investment product. It does not take into account the particular investment objectives, financial situations or needs of individual clients. Bailard cannot provide investment advice in any jurisdiction where it is prohibited from doing so.

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