






# Bailard International Equity Strategy

## Highlights

-  Broad developed and emerging market exposure
-  3 aspects integrated into the investment process: quantitative country evaluation, quantitative security evaluation, and qualitative oversight
-  Country awareness underlying all aspects of the process
-  Proprietary country and stock evaluation factors based on behavioral insights and cutting-edge research
-  Seasoned investment team with deep non-US equity expertise and a strong performance track record

## The Opportunity<sup>1</sup>

Countries matter. As the chart on the right shows, a difference of 80% separated the top and bottom performing countries for the 2023 calendar year. An investment process that can identify countries likely to outperform on a relative basis and that appropriately overweights the “winners” and underweights the “losers” can benefit greatly. The majority of stocks in the top performing markets outperformed the MSCI EAFE Index in 2023, while only a minority in the bottom performing countries did. This tendency has been consistent over time.

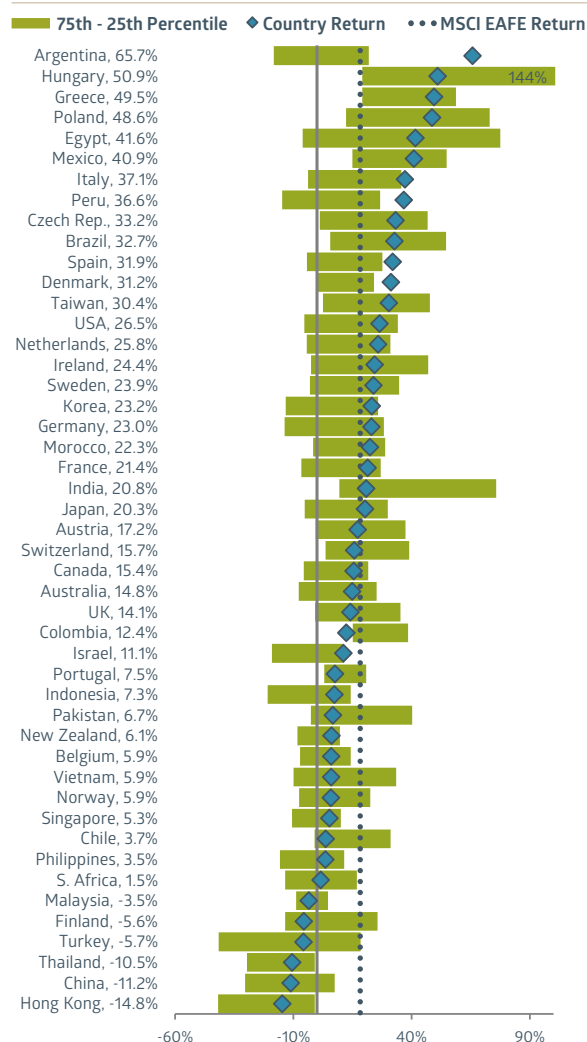
## The Product

Bailard’s investing approach is a disciplined, consistent, and repeatable investment methodology with both quantitative and qualitative elements. We view the world’s countries on a relative basis using a dynamic factor model, and also combine security selection factors to rank individual stocks globally. The portfolio will then be constructed relative to the client’s preferred international equity benchmark, with greatest overweights to the highest ranked stocks within high-ranking markets, and underweights in lower-ranking stocks and markets. Fundamental analysis of countries, industries, and securities overlays the quantitative process to assist with portfolio construction.

## The Philosophy

In addition to our strong conviction that countries matter, we also believe that environmental factors—like global market volatility—can drive the efficacy of distinct investment styles (e.g., value vs. growth). History

## 2023 MSCI COUNTRY INDEX EQUITY RETURNS AND RANGE OF STOCK MARKET PERFORMANCE WITHIN EACH COUNTRY<sup>2,3</sup> as of 12/31/23



**Past performance is no indication of future results.** All investments involve the risk of loss. Please see the last page for important disclosures. <sup>1</sup> The Bailard International Equity and Emerging Markets Equity Strategies are currently implemented across three separate composites. <sup>2</sup> Sources: Bailard, MSCI/DataStream. The MSCI EAFE index is a broad-based measure of developed international stock markets. The MSCI country and MSCI EAFE index returns are presented in U.S. dollar terms on a total return basis, assuming the reinvestment of dividends after the deduction of withholding taxes. These returns are not the past or future performance of any Bailard product, strategy or account. In addition to the normal risks associated with investing, international investments may involve a risk of loss from fluctuations in currency values, differences in generally accepted accounting principles or from economic or political instability in other countries. <sup>3</sup> Truncated axis return as Hungary was an outlier (144%).

has demonstrated that the dogmatic application of any investment style or factor, irrespective of changing market conditions, often leads to long “dry spells” when that style or factor is out of favor. Recognizing this, in selecting our countries, we employ a dynamic style tilt that focuses on “when” and “where” certain investment styles and other selection factors are most likely to be rewarded.

## The Strategy

Bailard’s International Equity Strategy is different from many others in that we have a distinct process for choosing countries (in contrast to building up a portfolio from a stock or industry level). We evaluate the world’s countries on a relative basis after assessing their characteristics and the broader market environment.

Our independent security evaluation process is tailored to the unique patterns seen in each market around the world. To assess individual stocks’ global attractiveness, we use proprietary and traditional measures of value, momentum, earnings revisions, and quality for each stock—combining these based on the observed past behavior of each country or region.

We seek to overweight our highest ranked markets and underweight our lowest ranked markets (relative to the client’s preferred index benchmark), with each country represented by high-ranked securities (subject to risk considerations such as sector weights). Qualitative understanding of country events, sector/industry themes, and individual security specifics is also incorporated in determining portfolio weights. We utilize currency hedges when country and currency views significantly diverge.

## Risk Management

As with all of our investment strategies, we seek to maximize rewards through the disciplined management of risk. Our International Equity Strategy employs both quantitative and qualitative measures to manage the active risk of portfolios.

In a typical application, ex-ante tracking error is generally constrained to 4–6% based on our desire to succeed at beating a client’s selected benchmark, while limiting volatility and the probability of losing to the benchmark over a market cycle. We also strive to allocate our risk budget so that risk is balanced across country/currency, sector, style, and security positions. At the security level, it is rare for any single stock to exceed a 2% active weight.

## Bailard International Equity Strategy<sup>3</sup>

### TYPICAL EXPOSURES (measured at time of investment)

Number of Securities	100-200
Maximum Emerging Markets Exposure	Weighting of no more than MSCI ACWI ex USA Index
Maximum Sector Exposure	+/- 10% benchmark, generally +/- 5%
Maximum Security Weighting	+/- 2% of benchmark, typically +/- 1%
Maximum Country Weighting	+/- 10% benchmark, generally +/- 5%
Cash Position	Minimal, generally 0-2%
Currency Hedging	Up to 20% of currency exposure may be hedged back to U.S. dollars

## Portfolio Managers

Bailard’s International Equity Strategy is managed by Eric Leve, CFA and Daniel McKellar, CFA, who have a 26-year average firm tenure and a 16-year average strategy tenure.

Eric Leve, CFA, Executive Vice President and Chief Investment Officer, joined Bailard in 1987. He serves as a co-portfolio manager on the firm’s international equity team. During his more than 30-year investment career, Eric has led strategies ranging from global sovereign debt and broad non-U.S. equity to dedicated emerging markets. In all cases, his interest has been in appreciating the contribution that country selection makes on investment outcomes. His work focuses on the relationships between geopolitics and the investment markets and involves understanding near-term dynamics in markets as well as longer-term themes such as demographics; access to resources; political, economic and financial structure; and industrial composition. Eric has also served as a contributor to *The Wall Street Journal*, *Bloomberg TV*, *InvestmentNews*, *CNBC* and *Bond Week*. Eric received his B.A. in quantitative economics from the University of California, Berkeley, in 1986 and his Chartered Financial Analyst designation in 1997. He is a member of the CFA Institute and the CFA Society of San Francisco.

As co-portfolio manager for the International Equity Strategy, Daniel McKellar, CFA, SVP, International Equities, is primarily focused on quantitative research and model building to augment both country and security selection. Daniel’s career at Bailard began with a summer internship with the Quantitative Group. After he earned his Master’s degree in Financial Mathematics from Stanford University, he joined Bailard full time as a quantitative analyst in 2011. He holds Bachelor’s degrees in Business Administration from Wil-

<sup>3</sup> Source: Bailard, Inc. Portfolio characteristics based on standard portfolio construction. Actual portfolios vary based on individual client account mandates and constraints.

frid Laurier University and in Mathematics from the University of Waterloo with high distinction. Daniel earned his Chartered Financial Analyst designation in 2014 and is a member of the CFA Institute and the CFA Society of San Francisco.

The Strategy's core investment team also includes the expertise of Irene Liando, CFA, Senior International Equity Analyst. In this role, Irene focuses on fundamental equity research and analysis. Prior to Bailard, Irene worked as a buy-side analyst for the Disruption and Asia funds at Evans & Partners in Sydney, Australia.

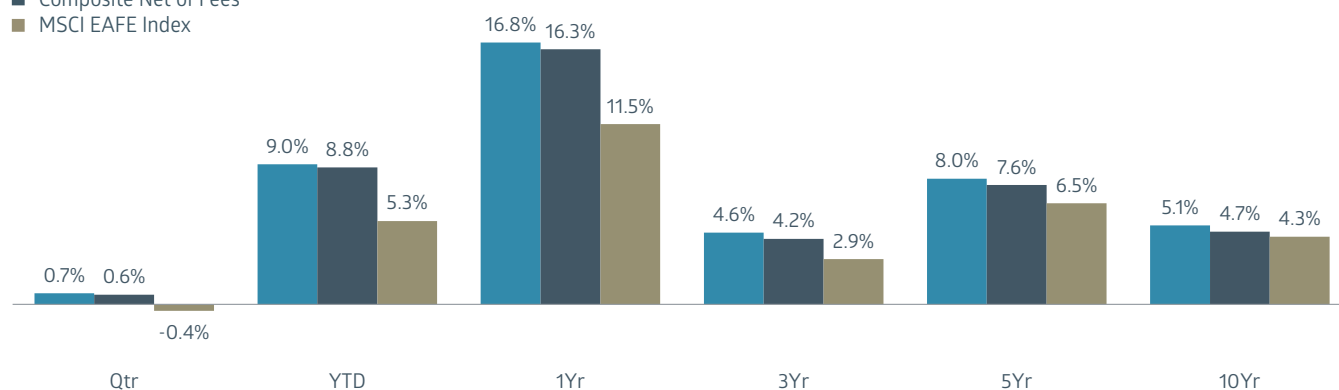
lia. Prior to that, Irene spent eight years as an equity analyst at Schroders in Indonesia and one year as a Trading Associate in Dimensional Fund Advisors in Southern California. Irene holds a Bachelor's degree in Business Administration with an emphasis on Financial Analysis and Valuation from the University of Southern California.

The Strategy also draws upon the talents of Bailard's quantitative analysts, trading desk, and broader research team.

## Bailard EAFE-Plus Composite Performance Statistics<sup>4</sup> for periods ending June 30, 2024

### PERFORMANCE total return

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



### 3-YEAR PERFORMANCE STATISTICS

### 5-YEAR PERFORMANCE STATISTICS

	Composite Gross of Fee	Composite Net of Fee	MSCI EAFE Index	Composite Gross of Fee	Composite Net of Fee	MSCI EAFE Index
Standard Deviation	16.7%	16.7%	16.7%	17.4%	17.4%	17.6%
Active Return (Net of Fee) vs.			1.3%			1.2%
Tracking Error (Net of Fee) vs.			2.2%			2.2%
Information Ratio (Net of Fee) vs.			0.60			0.52

## Representative Portfolio, Bailard International Equity Strategy<sup>5</sup> as of June 30, 2024

### PORTFOLIO SUMMARY

Weighted Average Market Cap	\$116.1bn
Wtd. Avg. P/E Ratio (trailing 12 mo.)	13.6x
# of Holdings	168
# of Developed Markets	16
# of Emerging, Frontier, and Other Markets	7
% Developed Markets	92.5%
% Emerging, Frontier, and Other Markets	6.7%
% Cash and Equivalents	0.8%

### REGIONAL WEIGHTS

Continental Europe	50.6%
Japan	22.5%
United Kingdom	12.7%
Emerging Markets	6.7%
Pacific ex-Japan	5.6%
Other Developed	1.1%
Cash and Equivalents	0.8%

<sup>4</sup> Sources: Bailard, MSCI/Datastream. **Past performance is no indication of future results.** All investments involve the risk of loss. Please see the last page for important disclosures. Three-, five- and ten-year performance statistics are annualized. Composite performance data shown reflect the EAFE Plus Composite. <sup>5</sup> Data regarding holdings reflect ownership information as of June 30, 2024 and are not intended to represent any past, present or future investment recommendations. Holdings are subject to change. Numbers may not add to up 100% due to rounding.

## 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

**Composite Definition:** The Bailard International Equity and Emerging Markets Equity Strategies are implemented across three separate composites with a total AUM of \$938.5M as of June 30, 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 June 20, 2024, the Composite consisted of a single mutual fund account with a market value of \$197.5M or 21.0% 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 portfolio was managed using a different strategy. The Composite’s returns are total returns, presented both gross and net of management fees after transaction costs, and assume reinvestment of dividends and other earnings. 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 manage-

ment 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 result in lower returns to taxable investors. An investment in the international equity strategy involves a risk of loss, and the value of an investment in this strategy may decrease as well as increase. No representation is made that any account will obtain similar results to those shown above.

**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 Europe, Australasia, Far East Index, “MSCI EAFE” index is a free float-adjusted market capitalization index that is designed to measure developed market (ex-US & Canada) equity performance. All MSCI indices are presented U.S. dollar terms on a total return basis, assuming the reinvestment of dividends after the deduction of withholding taxes. The Composite often employed different country weights than the MSCI EAFE index. Unlike that index, the composite account invests in emerging and frontier markets as well as developed markets, can hold cash equivalents and exchange-traded funds, and may engage in currency hedging. All indices are unmanaged, uninvestable and do not reflect any transaction costs.

**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 June 30, 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.

# Bailard

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