



Litman Gregory Special Webinar Series: International Equity Markets

Featuring Fabio Paolini and Benjamin Beneche of Pictet Asset Management

Speakers on Today's Webinar



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Litman Gregory's Approach to Valuing Equity Asset Classes

- History is a useful guide: learn from it
- Most often fundamentals—long term cash flows, valuations—normalize
 - The duration of this normalization process can vary and impact IRRs though
- Be aware of structural shifts and/or regime changes because they may mean:
 - History is less relevant, i.e., mean reversion thinking can be dangerous
 - Range of outcomes widen
- At the same time, most calls for structural shifts end up being noise. Markets weather crises and resume “normal” path due to known and unknown factors because:
 - Market participants, including governments, corporations, and households act and adjust to a new environment and interact in ways that cannot always be anticipated or quantified
- Time is your friend: Long-Term Horizon is critical
- Be humble. Be patient. Be disciplined.
- Go where the weight of the evidence points.
- Respect the wide range of outcomes.

LG views on key equity regions

U.S. stocks

Valuations and expected returns have improved given the sharp sell-off, but the U.S. market is still overvalued at current levels.

Europe stocks

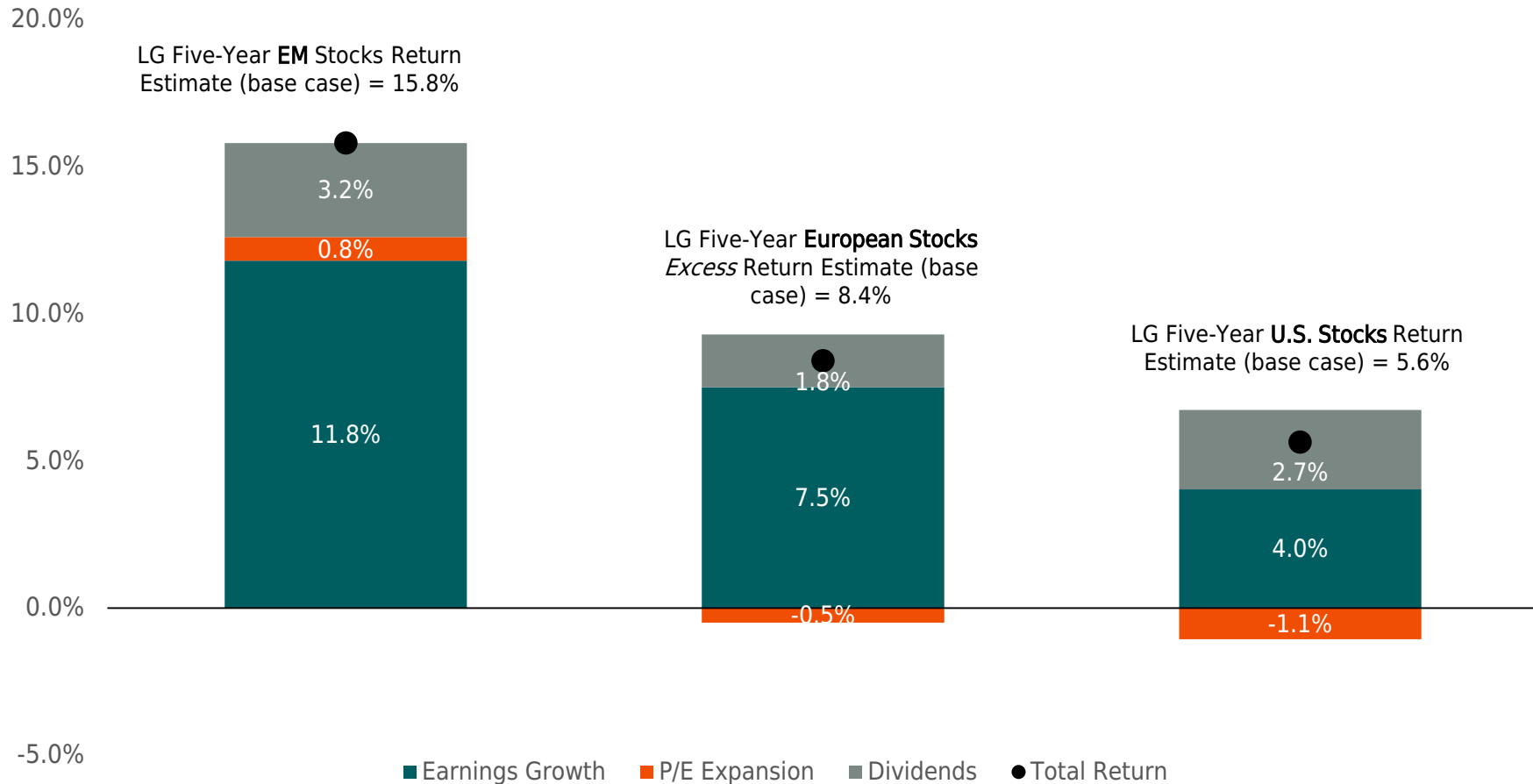
Return potential is attractive versus the U.S. and similar to EM over the medium term. However, the structural issues related to the eurozone and Brexit lower our conviction.

Emerging Markets

Valuations in relation to our estimate of EM normalized earnings power are very attractive, both in absolute terms and relative to U.S. stocks. In the short term Covid-19 poses relatively greater downside risk in EM stocks.

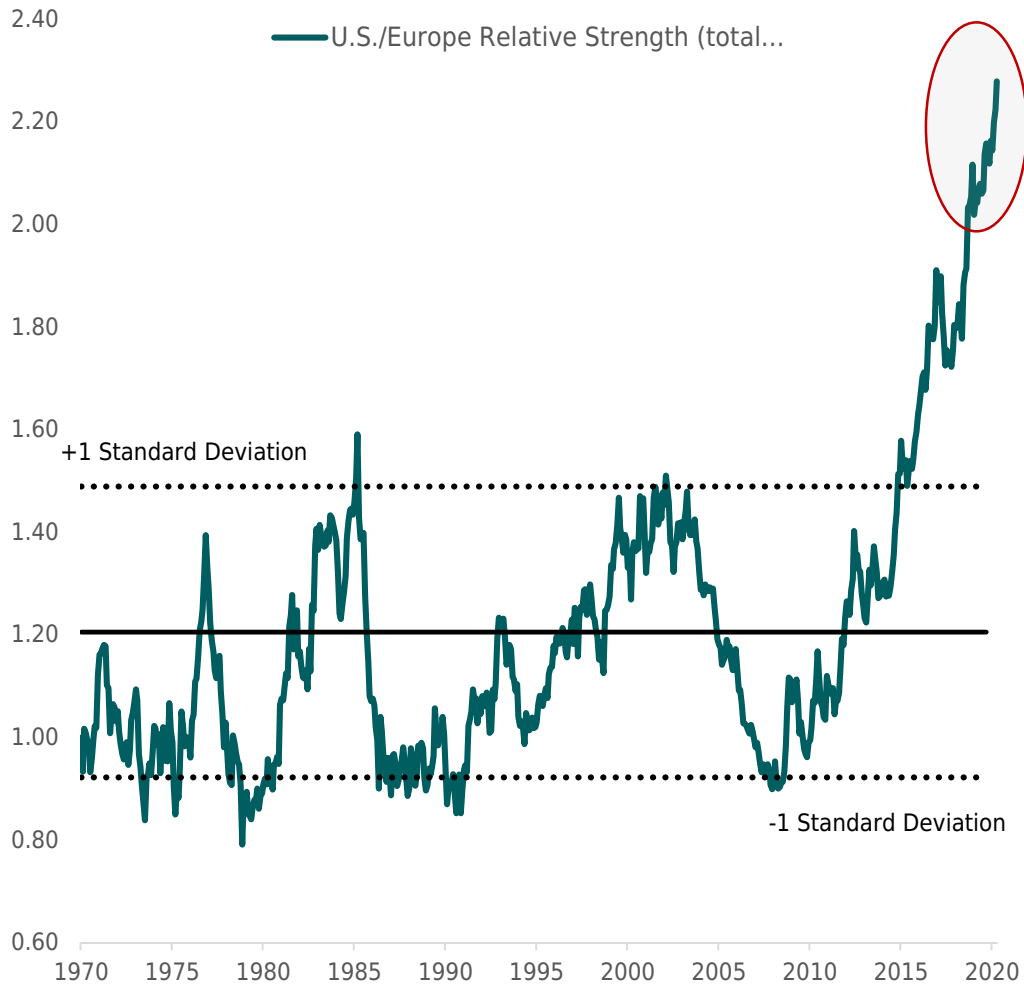
European and Emerging-Market Stocks Remain More Attractive Relative to U.S. Stocks

Base-Case Economic Scenario: Five-Year Annualized Return Estimates for U.S., European, and Emerging-Market Stocks



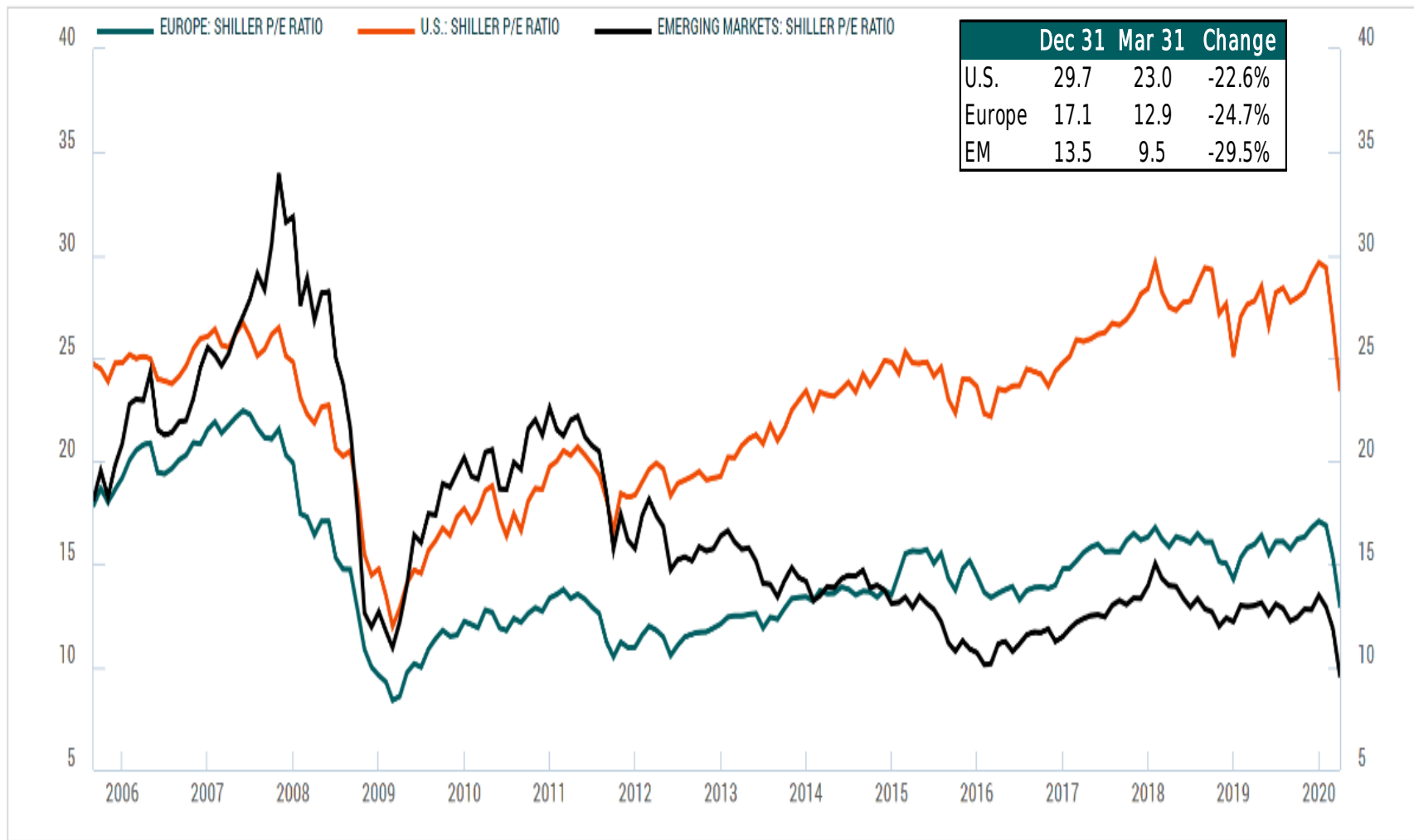
Source: Litman Gregory. Data as of 3/31/2020.

U.S. Outperformance of European Stocks Is at a Historic Level



- The U.S. has outperformed Europe substantially over the past several years.
- European stocks are cheaper and offer more upside from improving global economic growth.
- Current Fed monetary policy may lead to a weaker dollar which would boost foreign stock market returns for U.S. dollar-based investors.

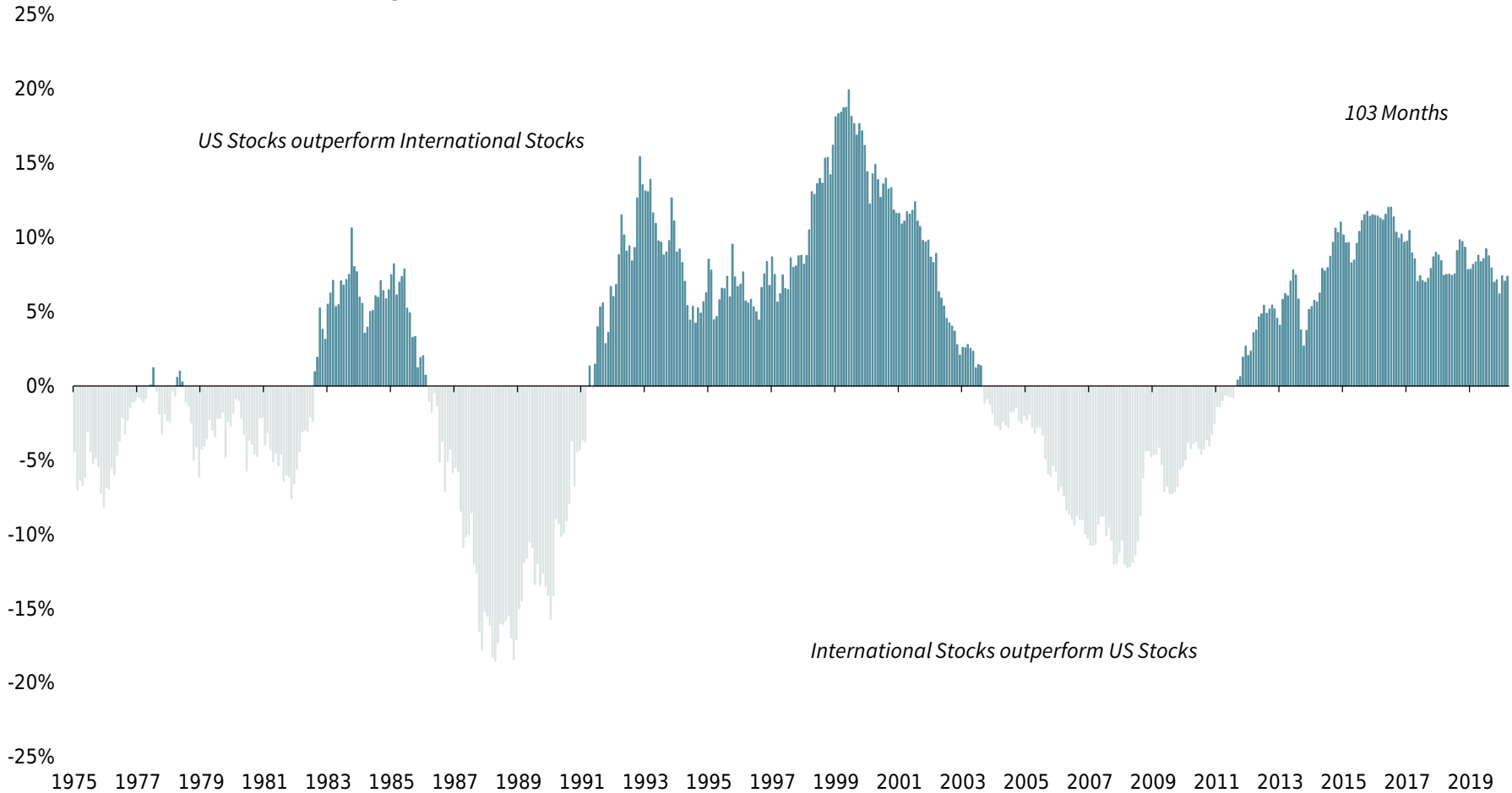
Foreign Stocks Continue to Trade at Significant Discounts to U.S. Stocks



Source: BCA Research. Data as of 3/31/2020.

U.S. and International Equity Market Leadership Moves in Cycles

Rolling Five-Year Return Differential: U.S. Stocks - International Stocks



Capturing Opportunities in International Equities

April 2019



Agenda

What we will cover today

Our investment approach

International market perspective

Opportunities and threats today



Our investment approach

Our approach

Long-term, 'business ownership'
mind-set

Focus on return on capital

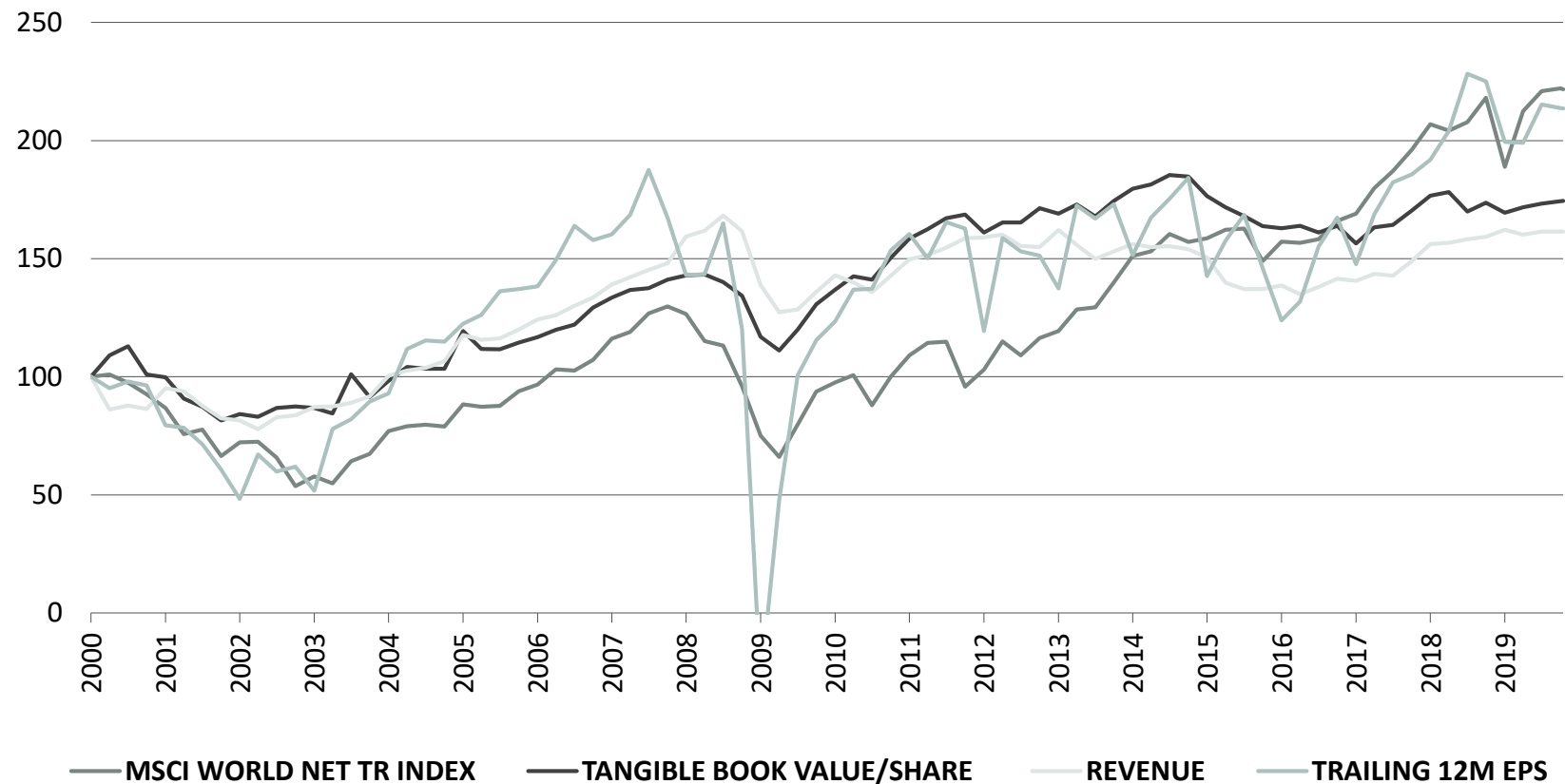
Normalised free cash-flow

Absolute value reference point



Equities are driven more by bottom-up influences

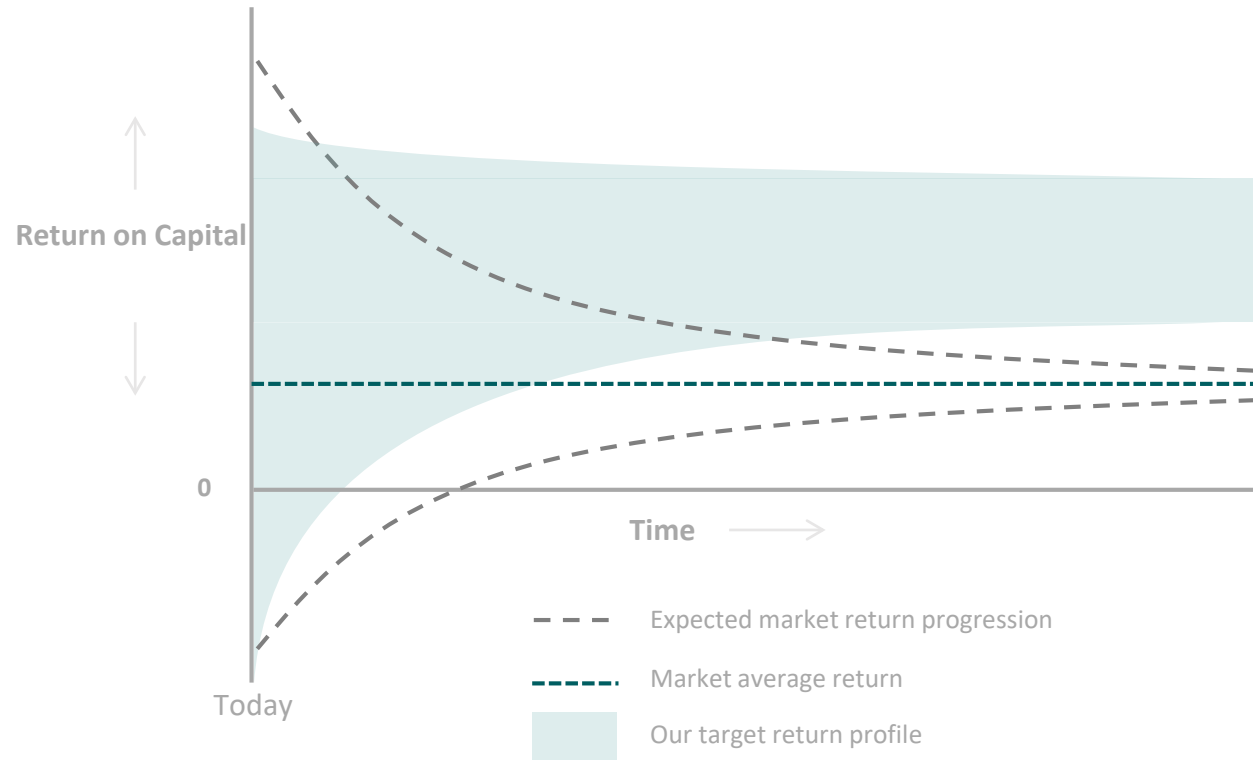
MSCI World Index return vs corporate performance metrics



Source: Pictet AM, Bloomberg. As at 02.01.2020



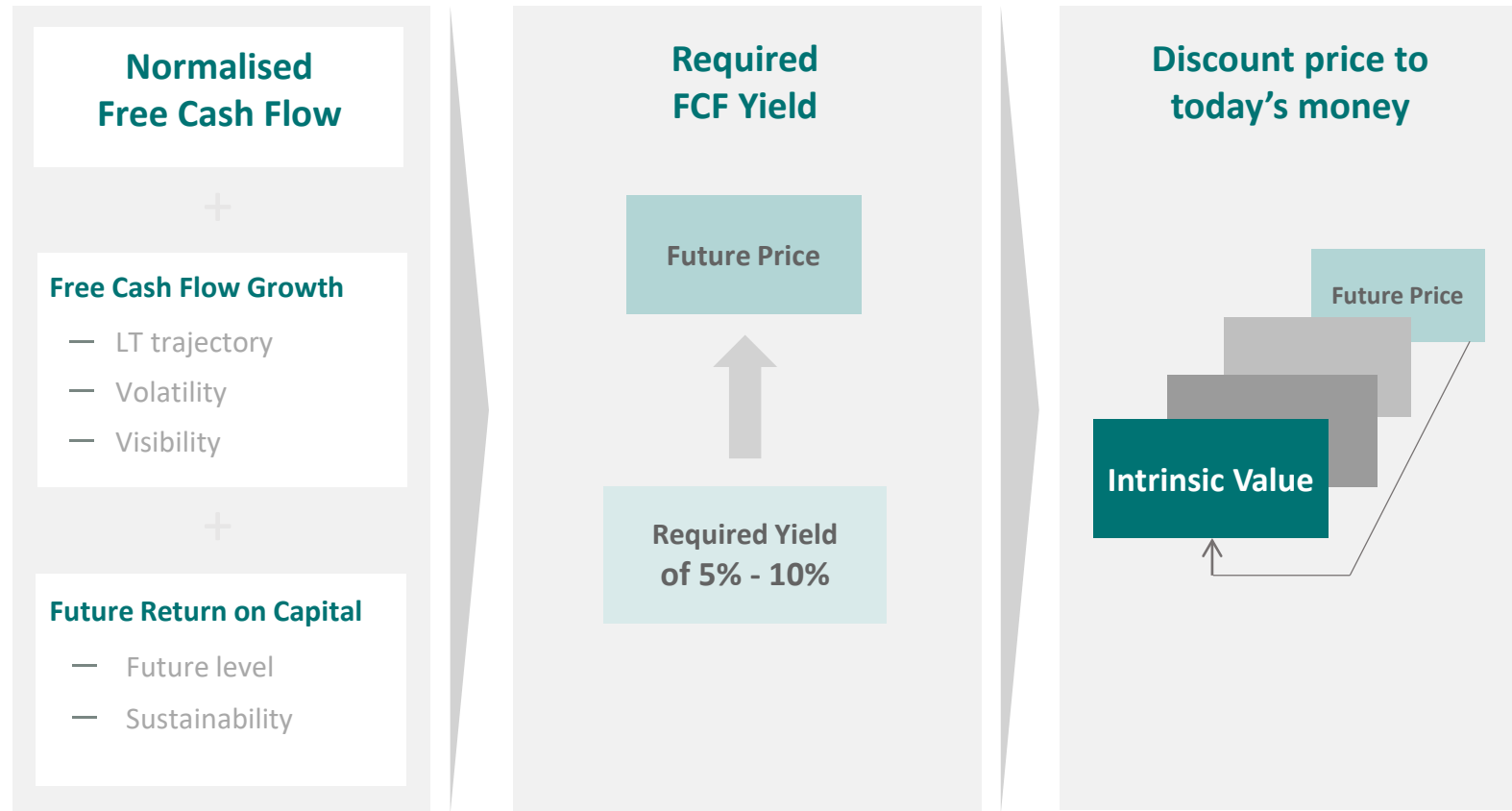
What we look for in companies



Source: Pictet Asset Management



How we arrive at 'Intrinsic value'





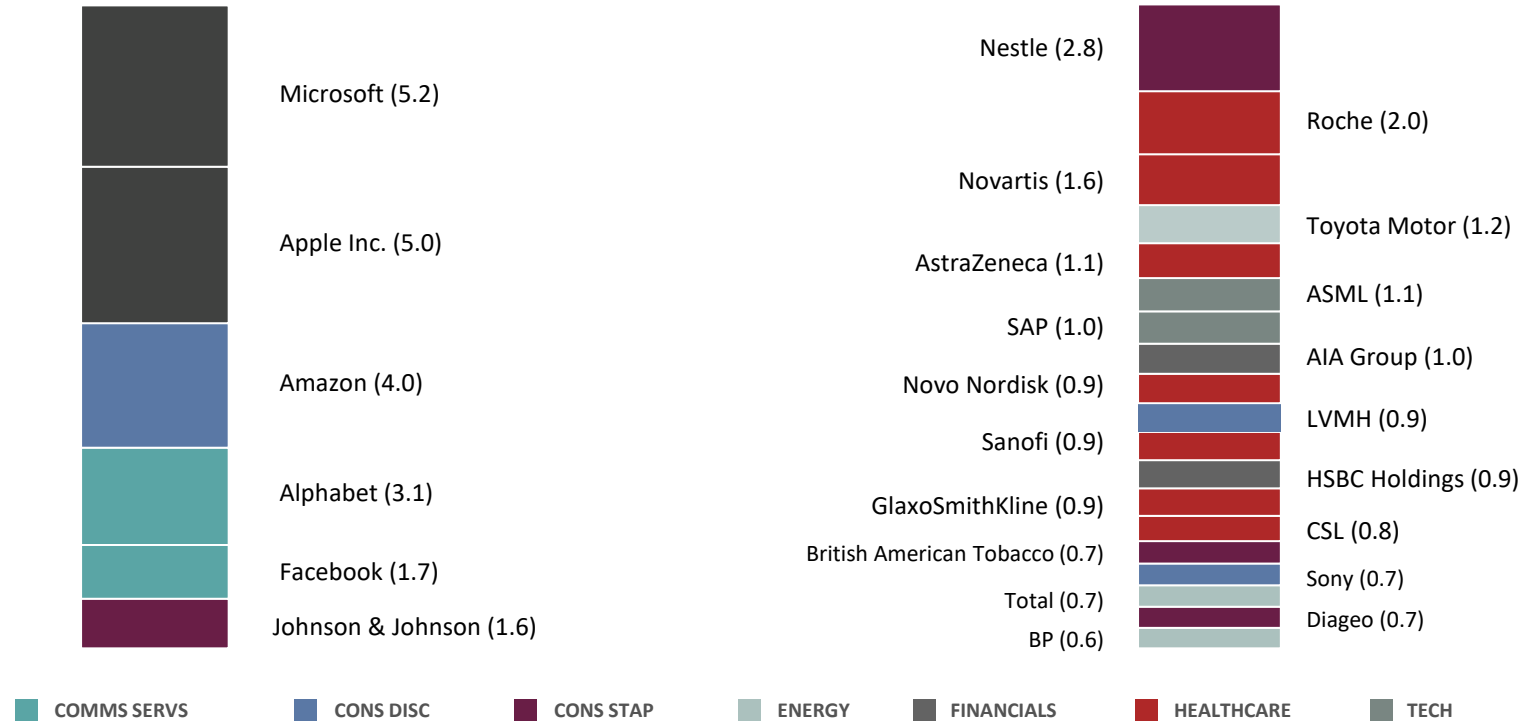
International market perspective



Breadth of international market opportunity

Just 6 companies comprise 20% of the US market
EAFE Index it's 19

... while in MSCI

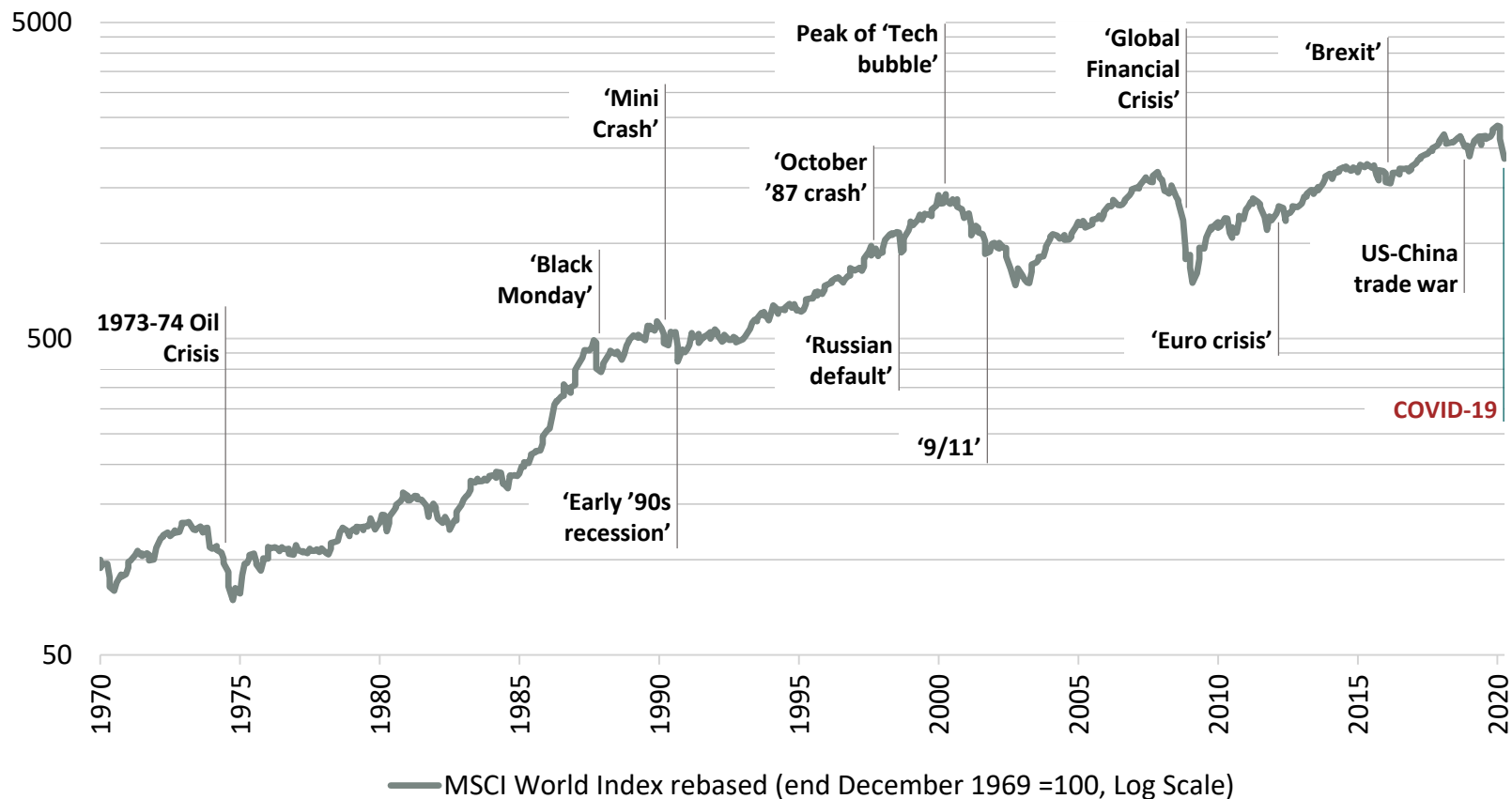


Source: Factset, Pictet Asset Management. As at 17th April 2020. Data in parentheses is respectively company percentage of MSCI US Index and MSCI EAFE Index. The companies listed comprise 20.6% of MSCI US Index and 20.4% of the MSCI EAFE Index respectively.



COVID-19 in a long-term context

MSCI World Index progression over last 50 years

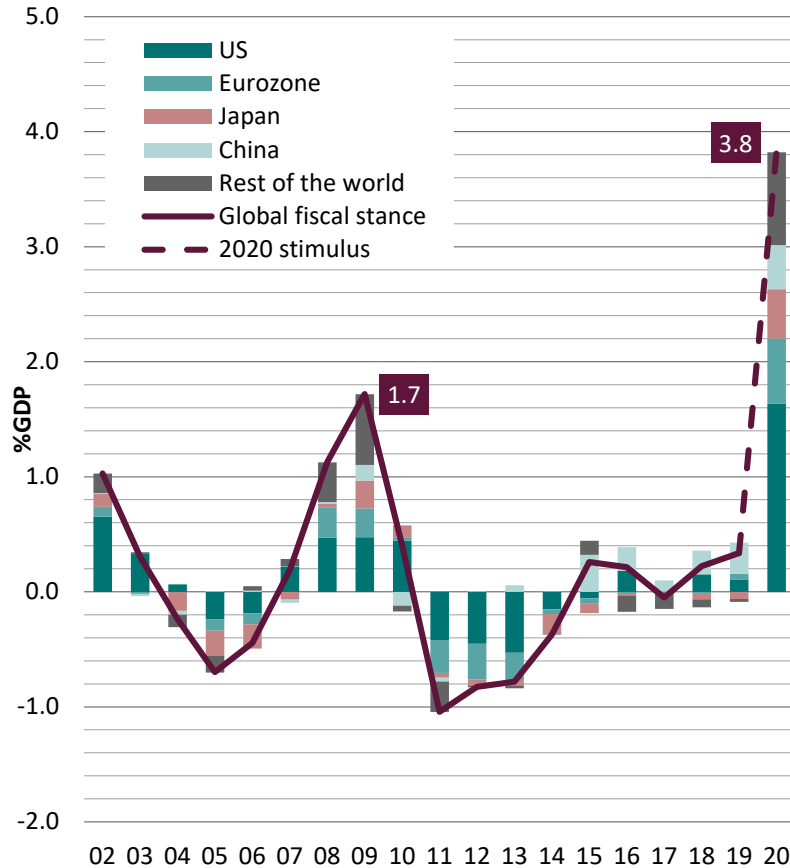


Source: Pictet AM, Bloomberg. As at 31.03.2020



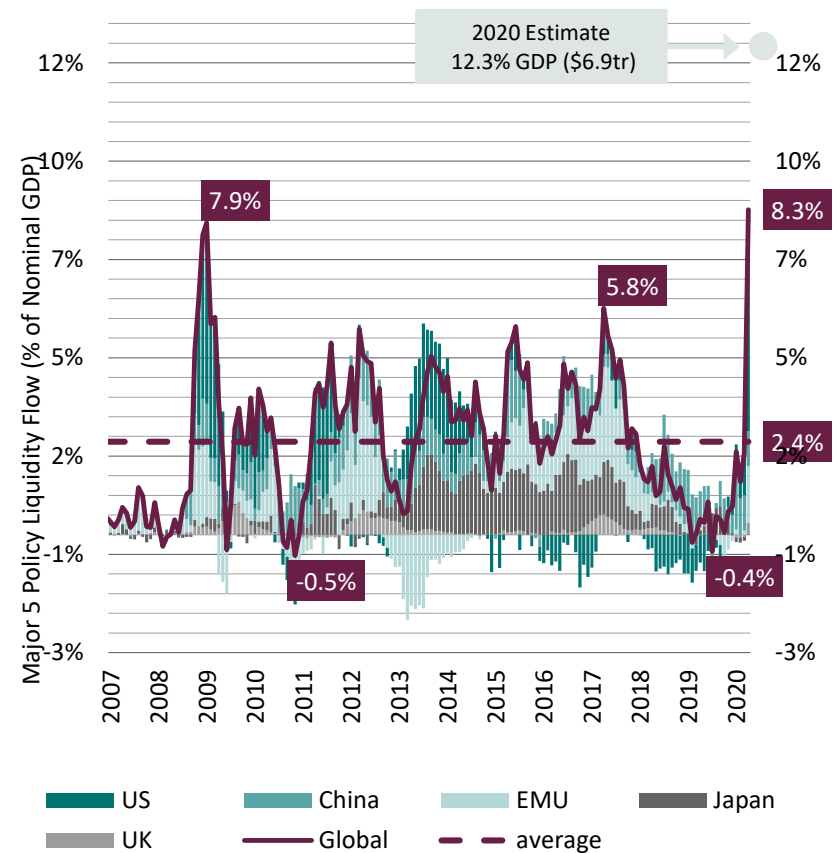
Global Fiscal & monetary responses to COVID-19

World fiscal impulse (% potential GDP)



Source: Pictet Asset Management, CEIC, Datastream

World monetary stimulus – Major 5 (% potential GDP)



Note: Policy Liquidity Flow calculated as central bank net liquidity injection over preceding 6 months, as % of nominal GDP, using current-USD GDP weights (US: 37.9%, China: 24.5%, EMU: 23.6%, Japan: 9.0%, UK: 5.0%)
 Source: Refinitiv Datastream, Pictet Asset Management

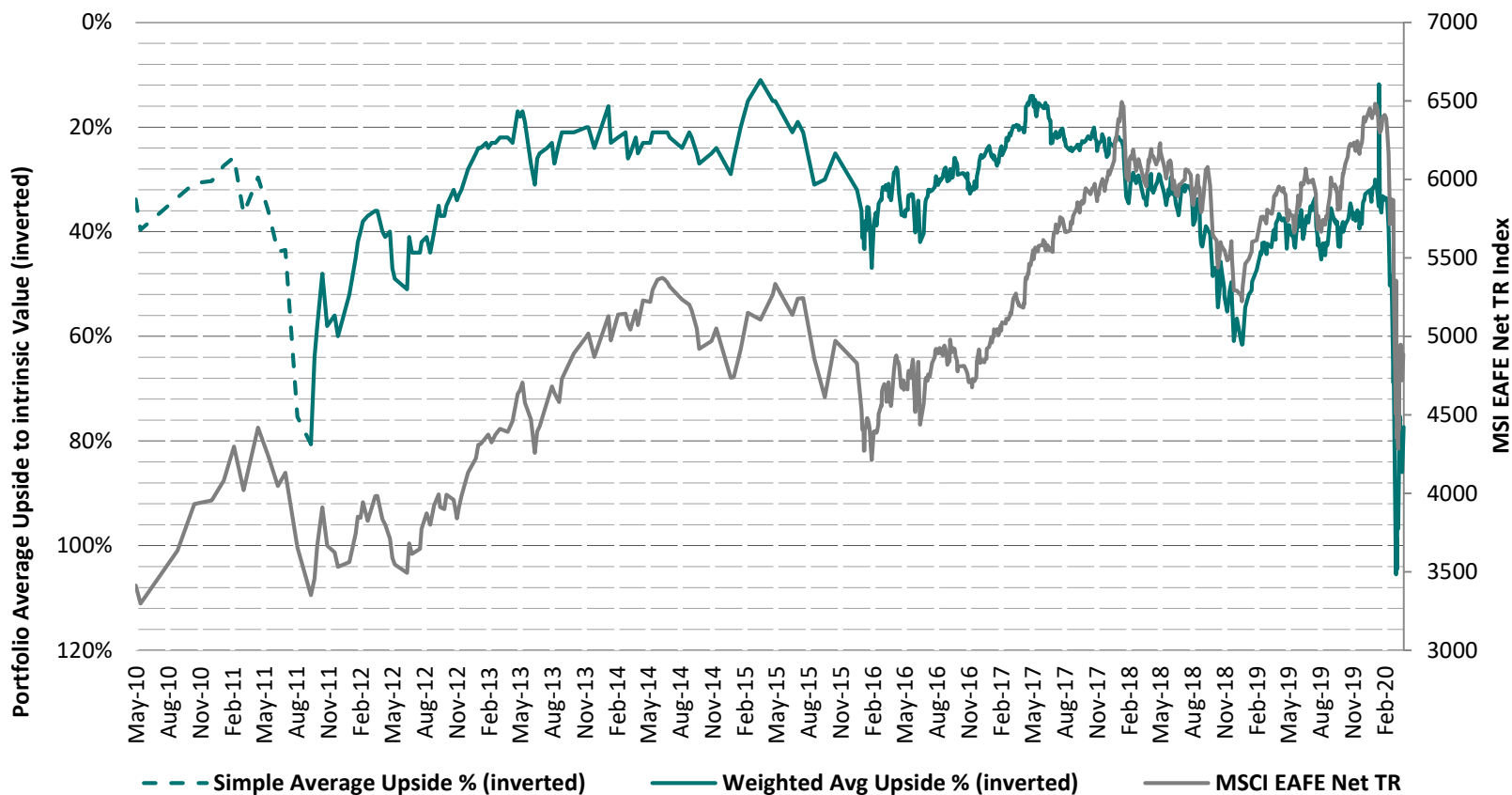


Opportunities & threats



Portfolio Valuation - Upside history

Average Upside to Portfolio Intrinsic Value versus EAFE Index Level



Source: Pictet AM, Bloomberg. As at 06.04.2020



Where are we seeing value today?

- Looking beyond the current demand shock, our base case is that activity ‘normalises’ by end 2021 – We could be wrong but significant margin of safety
- We see businesses with very strong competitive advantages and high returns which are in industries challenged by COVID-19
- We are not willing to compromise on balance sheet strength as can create path dependency



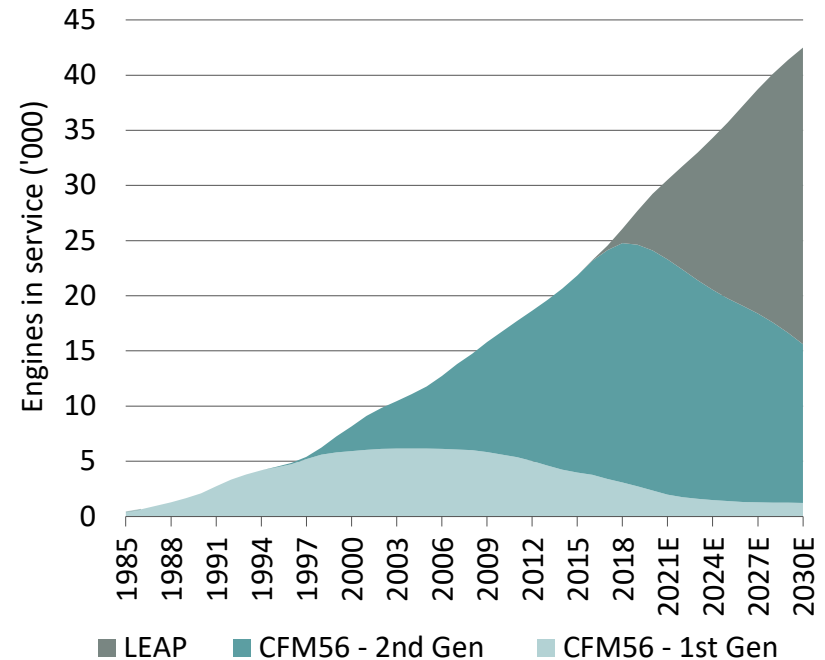
Investment case pillars

- 75% share of global narrow body jet engine market
- High barriers to entry
- Significant growth in addressable market
- Highly visible future cash generation due to long order book and long-term maintenance contracts

The opportunity

- Mix improvement driven by aftermarket
- Transition to new ‘Leap’ generation of engines
- Successful integration of Zodiac acquisition

Engine installed base



Source: Safran / Pictet Asset Management Research estimates. As at September 30th 2019.

Securities are not representative of all securities bought, sold or held during the preceding twelve-month period.



Trip.com – online travel agent (China)

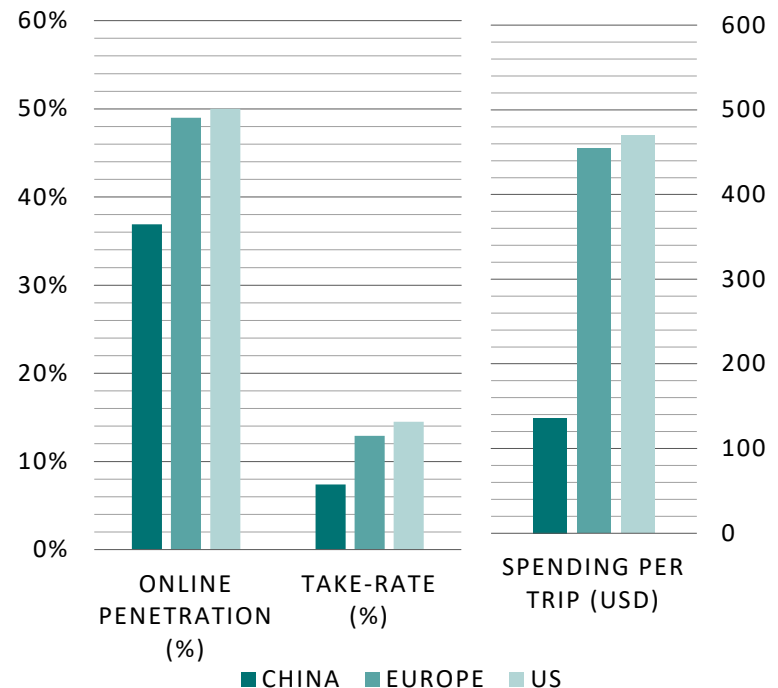
Investment case pillars

- 60% market share in Chinese Online Travel Agency
- Strong user engagement (over 80% direct to app)
- Long-runway for growth in volumes and pricing driven by secular drivers: online shift, disposable income growth and potential take-rate expansion

The opportunity

- Hong Kong unrest in Q4 2019 and COVID-19 in Q1 2020 caused significant demand shock
- Trip.com deepening moat through counter cyclical investment in channel partners and bolt-on acquisitions
- USD 8 billion of cash at hand could support 2+ years of current losses

Key China travel metrics versus Europe and US



Sources: Online Penetration – iResearch / Analysys / Trustdata; Take-Rate – Combines data from Trip.com (for China) and Expedia International/Booking.com for RoW / Pictet Asst Management Research; Spend per Trip – GS Erwin forecasts / Euromonitor.

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For more information

PICTET ASSET MANAGEMENT
assetmanagement.pictet

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Q&A

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