THE CASE FOR INTERNATIONAL EQUITIES

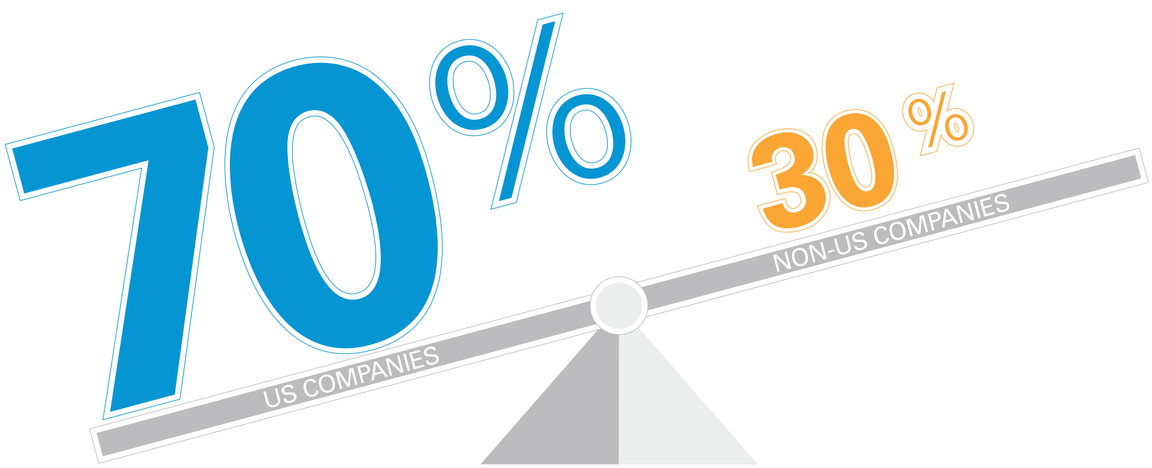
Most US investors today hold the majority of their equities in domestic companies—but why? These investors may be missing out on enormous potential benefits for their portfolios. As we explain, international equities can provide potential outperformance, diversification, and alpha opportunities for skilled active managers. They include some of the most well-known brands and successful companies in the world. Over the long term, an allocation to international equities can be an essential component to an investment plan, especially in a world of low interest rates and returns.

Lazard
ASSET MANAGEMENT

Are You Biased?

When it comes to investing, people often prefer to stay close to home. This reflects a "home bias"—the tendency for investors to overweight their investment portfolios to their own country relative to global benchmarks. In the United States, investors typically hold most of their assets in US securities, despite extensive opportunities abroad. In fact, 70% of the equity assets owned by US investors today are US stocks.

"Home Bias": US Investors Hold 70% of Their Equities in US Companies



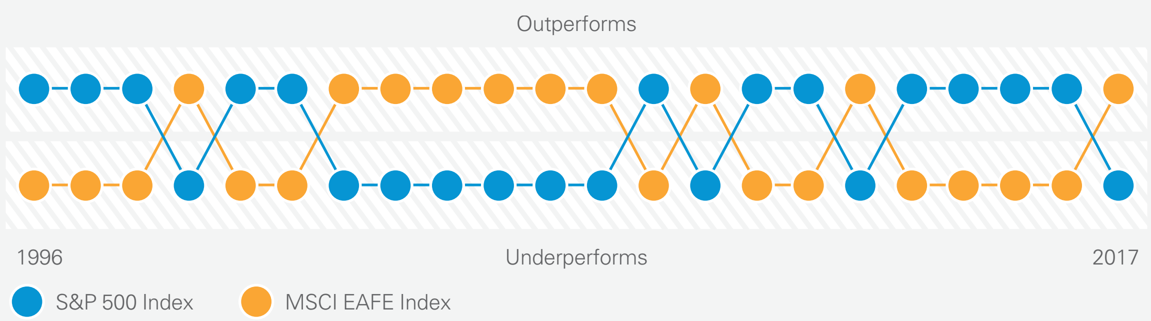
As of 31 December 2017
Source: Strategic Insight Simfund

Market Leadership Alternates: No Bull Market Lasts Forever

The current US bull market is the second-longest in history. This performance has benefited investors in US equities, but trends change, and bull markets historically have alternated among regions. Over the past two decades, both developed and emerging markets have outperformed US large cap equities for extended periods. Investors who exclusively held US stocks would have missed the outperformance of non-US equities—developing and emerging—from 2002–2007 as well as in 2009, 2012, and 2017.

We believe the time is favorable to start or increase an international equity allocation, as international valuations are still low relative to the United States and, in our view, can represent an opportunity for skilled investors who are looking ahead.

Market Leadership Has Alternated between US and International Developed Equities



The performance quoted represents past performance. Past performance is not a reliable indicator of future results. This information is provided for illustrative purposes only and does not represent any product or strategy managed by Lazard. It is not possible to invest directly in an index.

Source: MSCI, Standard & Poor's

Strength in Diversity

Investors who shun international equities may also miss out on the chance to diversify their returns across other developed and emerging markets. Market leadership among individual countries has shifted regularly. The United States has led returns in three of the past seven years—the only times in the past two decades that the United States has occupied the top spot. The lead developed markets equity performers over the past decade have included countries from all over the world: Canada, Germany, Japan, and Australia.

Market Leadership Is Rarely Held by One Country for Long

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Hong Kong 41.20										Hong Kong 36.17
Germany 35.21		Australia 76.43								Netherlands 32.20
Canada 29.57		Hong Kong 60.15			Germany 30.90					France 28.75
Australia 28.34		Canada 56.18			Hong Kong 28.27					Germany 27.70
Spain 23.95		Spain 43.48	Hong Kong 23.23		Australia 22.07					Japan 23.99
France 13.24	Japan -29.21	UK 43.30	Canada 20.45		France 21.29				Canada 24.56	Switzerland 22.51
UK 8.36	Switzerland -30.49	France 31.83	Japan 15.44		Switzerland 20.35			Japan 9.57	Australia 11.45	UK 22.30
US 5.44	**US -37.57**	**US 26.25**	**US 14.77**	**US 1.36**	**US 15.33**	**US 31.79**	**US 12.69**	**US 0.69**	**US 10.89**	**US 21.19**
Switzerland 5.29	Spain -40.60	Switzerland 25.31	Australia 14.52	UK -2.56	UK 15.25	Germany 31.37	Hong Kong 5.07	Switzerland 0.44	France 4.88	Australia 19.93
Japan -4.23	France -43.27	Germany 25.15	Switzerland 11.79	Switzerland -6.77	Canada 9.09	Spain 31.32	Canada 1.50	France -0.11	Netherlands 4.82	Canada 16.07
	Canada -45.51	Japan 6.25	UK 8.76	Australia -10.95	Japan 8.18	Japan 27.16	Switzerland -0.09	Hong Kong -0.54	Germany 2.75	
	Germany -45.87		Germany 8.44	Spain -12.28	Spain 3.00	Switzerland 26.61	Australia -3.41	Germany -1.89	Japan 2.38	
	UK -48.34		France -4.11	Canada -12.71		France 26.33	Japan -4.02	UK -7.56	Hong Kong 2.27	
	Australia -50.67		Spain -21.95	Japan -14.33		UK 20.67	Spain -4.65	Australia -9.95	UK -0.10	
	Hong Kong -51.21			Hong Kong -16.02		Hong Kong 11.09	UK -5.39	Spain -15.64	Switzerland -4.87	
				France -16.87		Canada 5.63	France -9.92	Canada -24.16		
				Germany -18.08		Australia 4.16	Germany -10.36			

MSCI's Country Indices measure the performance of individual developed country stock markets. For comparison purposes, over a 20-year time period, Lazard has chosen to feature the 10 largest, in terms of float-adjusted market cap, developed markets country indices that compose the MSCI World Index as of 31 December 2017. All returns in US dollars.

An investment cannot be made directly in an index. Indices are unmanaged and have no fees.

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Source: MSCI. Each country's return is represented by its respective MSCI country index. Net dividends reinvested.

Low Expectations

Portfolios that exclude international equity allocations are missing out on potential diversification benefits. Over the past two decades, international equity performance has generated relatively low correlations with US stocks.

International Equities Can Offer Low Correlations to US Stocks

Data from 1990–31 December 2017

All data are gross dividends reinvested; all data in US dollars

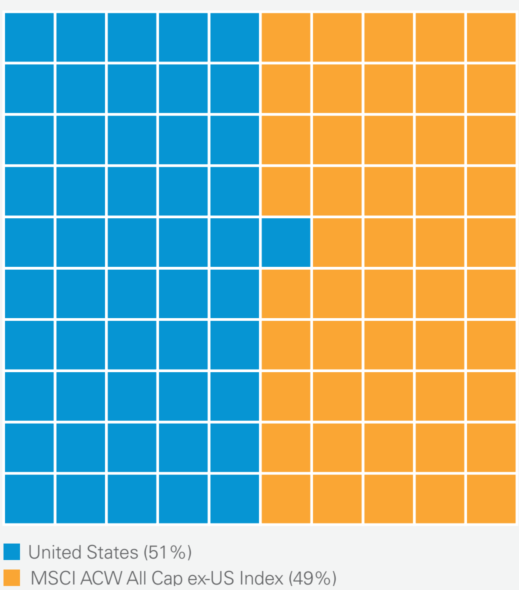
Indices: US Stocks: MSCI USA Index; World: MSCI World Index; World ex-US: MSCI World ex-USA Index; Non US Developed Markets: MSCI EAFE Index; Emerging Markets: MSCI EM Index; Japan: MSCI Japan Index.

Source: MSCI

Abroad(er) Opportunity Set

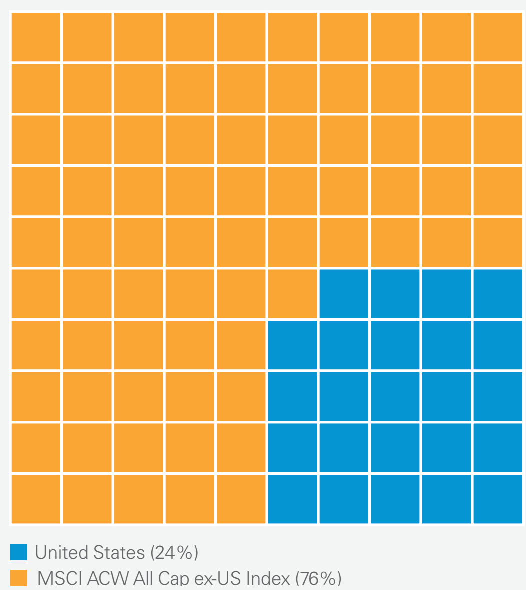
In addition to diversification benefits, international exposure offers a broader opportunity set. More than 14,000 companies are included in the MSCI ACW All Cap Index, while the number of US companies is about 3,500. Through an allocation to international equities, investors can take advantage of a much larger investable universe that includes companies with household brand recognition, such as Anheuser-Busch, BMW, Novartis, and Sony.[1]

International Companies Make Up Almost One-Half of Global Market Cap...



As of 31 December 2017
Source: FactSet, MSCI

...and About Three-Quarters of Listed Companies



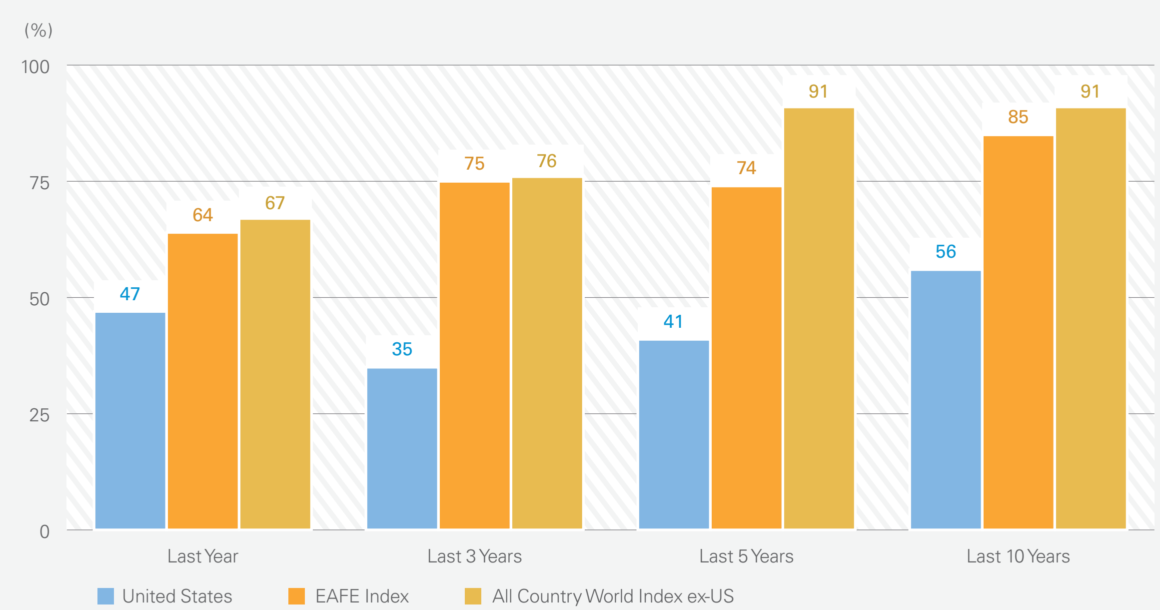
As of 31 December 2017
Source: FactSet, MSCI

Be Active

Active managers have historically been able to generate excess returns outside the United States over those within it. Active managers seek to exploit market inefficiencies and make specific investments with the goal of outperforming an investment benchmark index. For most of the past ten years, international equities managers have outperformed the MSCI EAFE and ACW ex-US indices more than US managers have outperformed the S&P 500 Index. On an annualized basis over the past three, five, and ten years, this pattern has become consistent, with the outperformance significant.

One reason for the difference in performance may be that international markets have less coverage. A lower number of analyst recommendations are made for international companies than US companies, and analysts update their earnings estimates on a less frequent basis. For managers, it appears easier in this environment to find new ideas and develop the unique insights that can generate outperformance.

International Active Managers Have Been Effective
Percentage of Managers Who Beat the Index: US versus EAFE versus ACW ex-US



As of 31 December 2017

S&P 500 Universe = eVestment US Large Cap Equity. 1 Year has 1,126 observations, 3 Year has 1,097 observations, 5 Year has 1,037 observations, 10 year has 869 observations. MSCI EAFE Universe = eVestment EAFE Large Cap Equity. 1 Year has 213 observations, 3 Year has 198 observations, 5 Year has 182 observations, 10 year has 151 observations. MSCI ACWI ex US Universe = eVestment ACWI ex-US Large Cap Equity. 1 Year has 133 observations, 3 Year has 125 observations, 5 Year has 110 observations, 10 year has 80 observations.

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Source: eVestment data as of 13 February 2018

Notes

1 Mention of these securities should not be considered a recommendation or solicitation to purchase or sell the securities. It should not be assumed that any investment in these securities was, or will prove to be, profitable, or that the investment decisions we make in the future will be profitable or equal to the investment performance of securities referenced herein. There is no assurance that any securities referenced herein are currently held in a portfolio or that securities sold have not been repurchased. The securities mentioned may not represent an entire portfolio.

Important Information

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