

## Fundamental International Equity –3Q22 Review and Outlook

After a strong rally in the month of July, risk assets continued to drift lower in the third quarter due to stubbornly high US inflation readings and hawkish language from the US Federal Reserve. International equities performed especially poorly, with the MSCI ACWI ex US Index declining -9.9% and the MSCI Emerging Market Index falling -11.5%, while the S&P 500 Index fell just -4.9% owing to the strength of the US dollar.

Our international equity strategy meaningfully outperformed the ACWI ex US Index in the third quarter. Favorable style positioning, currency allocation, country allocation and good stock selection all contributed to our outperformance. Our style positioning benefitted from our overweight exposure to small and mid-cap companies, which are more likely to achieve strong earnings growth. Our currency allocation benefitted from our underweight exposure to several Asian currencies which weakened in the quarter, most notably the Australian Dollar and the Korean Won. Our underweight to China, which reflects concerns about poor corporate governance and an uncertain regulatory environment, was a key factor in our positive contribution from country allocation as the Chinese market declined by -22% in the period. Stock selection benefitted primarily from the strong performance of several holdings in Europe.

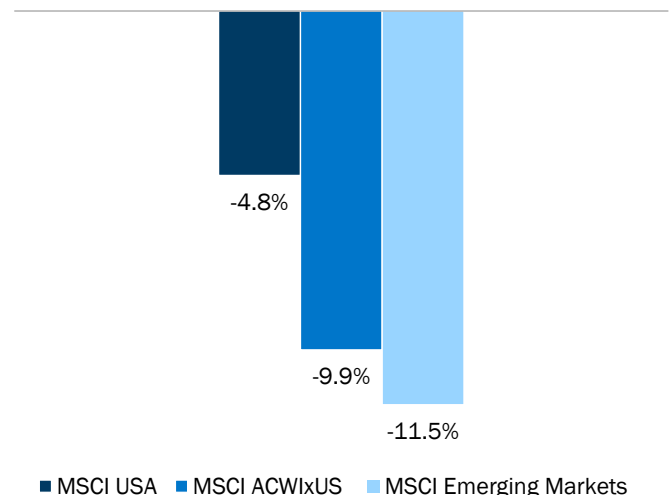
### Market Observations

Year to date through September 30, the ACWI ex US Index has fallen more than -26% as investors have worried about the impact that the Russian invasion of Ukraine, the slowdown of the Chinese property market, and rising interest rates will have on global economic growth and corporate profits. As a result, international equities are now trading at 11.6x next twelve months' earnings estimates, more than one full standard deviation below their 10-year average of 13.7x. (see Figure 2 on next page).

In addition, their discount to US equities, which are currently trading at 15.4x next twelve months' earnings estimates, has

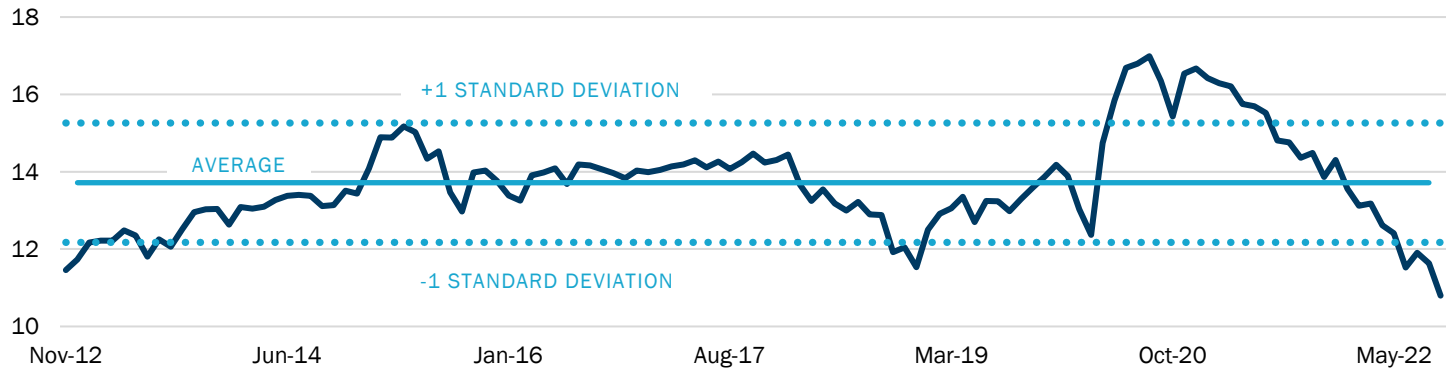
widened to 25% from a 10-year average of 21%. While we acknowledge that the near term economic growth outlook remains challenging, we believe that current valuations present investors with an attractive opportunity to increase their allocations to international equities. Moreover, we

FIGURE 1: 3Q22 INDEX RETURNS



It is not possible to invest directly in an index. Please see disclosures at the end of this document related to comparisons to an index and index descriptions. **Past performance is not indicative of future results.**  
Source: Bloomberg

FIGURE 2: MSCI ACWIXUS - NTM PE



As of September 30, 2022

NTM PE - Next Twelve Months' Price to Earnings

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**Past performance is not indicative of future results.**

Source: FactSet

foresee catalysts which could help international equities move higher, including

- Lower than expected US inflation readings and/or a slowdown in US GDP growth, leading to anticipation of a pivot in the Federal Reserve's rate policy,
- A gradual easing of China's COVID lockdowns which have depressed economic growth there and exacerbated global supply chain challenges, and
- Government intervention aimed at restoring confidence in the Chinese property market.

We are less optimistic on the chances of a resolution to the war in Ukraine, but we believe that any de-escalation of the conflict would be beneficial for inflation expectations, and have positive implications for global interest rate policy, economic growth, and asset prices.

### Portfolio Positioning

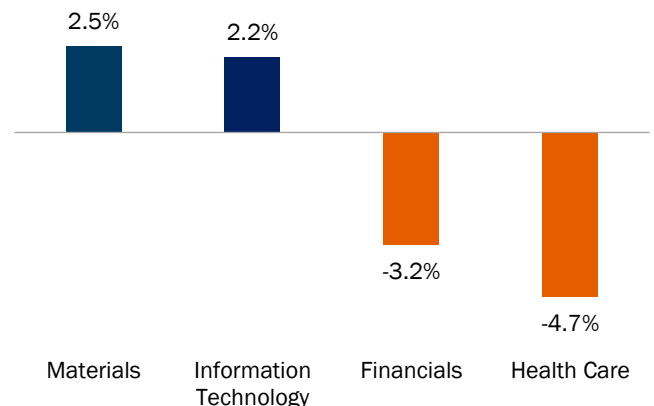
During the quarter, we increased our exposure to the Materials and Technology sectors and lowered our exposure to the Healthcare and Financials sectors.

The increase in our exposure to the Materials sector was driven by adding to our existing positions in two high quality European companies, one a leading industrial gas player helping companies reduce the carbon footprint of their manufacturing activities, and the other a leading provider of cultures and enzymes to food manufacturers worldwide. Our higher weight in the Technology sector was driven by increasing our exposure

to a leading provider of digital payment solutions, and by initiating a new position in a German company which develops software for architectural, construction and engineering firms. Companies in the construction industry have been among the slowest adopters of technology and still rely on manual processes and spreadsheets to run their operations, but regulations aimed at improving building quality and reducing waste are benefitting software adoption.

Our lower exposure to the Healthcare and Financials sectors was driven by exiting the stocks of three companies where our views of management changed for the worse. We sold the

FIGURE 3: BIGGEST SECTOR WEIGHT CHANGES | 3Q22



Source: FactSet

Fundamental International Equity All Country Representative Account. See Representative Account disclosure at the end of this document.

stock of a Brazilian health insurance provider after it was acquired by a company with weaker corporate governance and an inferior management team to its own. We also exited our position in a Japanese provider of medical data after several acquisitions which seemed outside of the company's core competency. Within the Financials sector, we exited our position in an Asian focused life insurance company after it named a candidate from outside the firm to be its new CEO. While we typically view a change in CEO as a potential risk to management execution, it does not usually lead us to exit a position entirely. That said, this company recently lost 11 of the 14 directors on its board, the head of the Asia region, and 4 country heads as well. Given the high turnover at the senior

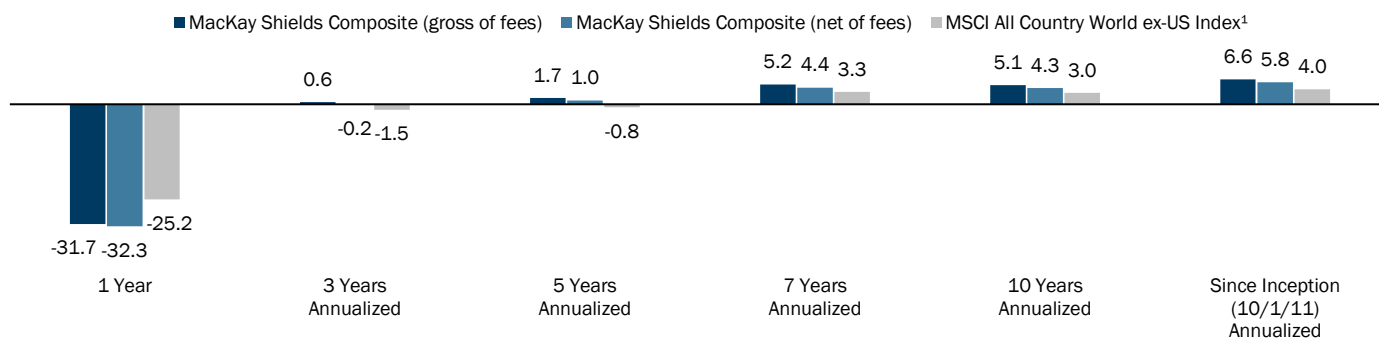
level and a management vacuum until the new CEO joins the firm next year, we chose to sell the name outright.

Our concentrated and differentiated portfolio typically consists of 40-50 names and has an active share exceeding 90%. These characteristics are a natural result of our investment approach, which focuses on identifying well managed and competitively advantaged companies likely to experience above-average earnings growth backed by long term secular trends. Although we are currently in a very challenging period for equities, we continue to believe in this process and believe it will generate superior returns, regardless of our environment.

**Fundamental International Equity All Country Composite Disclosures | Period Ending September 30, 2022**

Period	MacKay Shields Composite Gross Returns (%)	MacKay Shields Composite Net Returns (%)	MSCI All Country World ex-US Index <sup>1</sup> Returns (%)	Composite 3-Yr St Dev (%)	Benchmark <sup>1</sup> 3-Yr St Dev (%)	No. of Accts.	Composite Assets (\$Mil)	Firm Assets* (\$Mil)	Internal Dispersion (%)
022 (Thru 9/30)	-33.0	-33.4	-26.5	20.6	18.2	≤5	387	126,047	N/A
2021	12.9	12.1	7.8	16.5	16.8	≤5	578	163,646	0.0
2020	21.5	20.6	10.7	18.2	17.9	≤5	642	153,995	0.0
2019	26.0	25.1	21.5	12.5	11.3	≤5	553	131,978	0.0
2018	-11.4	-12.0	-14.2	13.1	11.4	≤5	519	107,467	0.0
2017	34.2	33.2	27.2	11.4	11.9	≤5	1,169	16,238	0.5
2016	-4.1	-4.8	4.5	11.9	12.5	≤5	997	13,980	0.4
2015	5.9	5.1	-5.7	10.6	12.1	≤5	1,054	16,719	0.8
2014	-1.3	-2.1	-3.9	12.1	12.8	≤5	1,004	16,183	1.0
2013	17.5	16.6	15.3	N/A	N/A	≤5	961	15,249	0.1
2012	19.9	19.0	16.8	N/A	N/A	≤5	739	10,589	0.0

**Fundamental International Equity All Country Composite Disclosures | Period Ending September 30, 2022**



1. MSCI ACWI ex-US Index

**Past performance is not indicative of future results.** Please see Fundamental International Equity All Country Composite Disclosures and Additional Disclosures which are included in this presentation.

MSCI All Country World ex-US Index. It is not possible to invest directly in an index. Please see Additional Disclosures for important benchmark information, including disclosures related to comparisons to an index.

The Fundamental International Equity All Country Composite includes all discretionary fundamental international equity all country accounts managed with similar objectives for a full month, including those accounts no longer with the firm. This investment process is a bottom-up strategy, incorporating individual company fundamental analysis, industry competitive dynamics, and analysis on secular trends to identify long-term holdings in companies that have the potential for sustainable growth. Gross-of-fees composite performance reflects reinvestment of income and dividends and is a market-weighted average of the time-weighted return, before advisory fees and related expenses, of each account for the period since inception. Net-of-fees composite performance is derived by reducing the monthly gross-of-fees composite returns by .0625%, our highest monthly fee. Policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Performance is expressed in US Dollars. All portfolios in the composite are fee-paying portfolios. There can be no assurance that the rate of return for any account within a composite will be the same as that of the composite presented. Past performance is not indicative of future results.

The composite inception date was 10/1/11 and for the period from inception through 12/31/17 was developed at Cornerstone Capital Management (Cornerstone). Substantially all the investment decision-makers from Cornerstone became employed by MacKay Shields LLC on 1/1/18. The decision-making group and process within Cornerstone continues intact and independent within MacKay Shields. This group and process are responsible for the composite performance, therefore the current composite performance is linked to the prior Cornerstone composite history. The composite creation date at MacKay Shields was 1/1/18.

MacKay Shields LLC, an SEC-registered investment adviser, claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. The firm has been independently verified from January 1, 1988 through December 31, 2021. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. A list including composite descriptions, pooled fund descriptions for limited distribution pooled funds, and broad distribution funds is available upon request. Indices do not incur management fees, transaction costs or other operating expenses. The MSCI ACWI ex-US Index is referred to for comparative purposes only and is not intended to parallel the risk or investment style of the portfolios in the MacKay Shields Composite. The MSCI ACWI ex-US Index range uses withholding tax rates applicable to Luxembourg holding companies. Information regarding the benchmark, including the percentage of the composite invested in countries or regions not included in the benchmark, is available upon request. Indices do not incur management fees, transaction costs or other operating expenses. Investments cannot be made directly into an index. Internal dispersion is calculated using the equal-weighted standard deviation of annual gross returns of those portfolios that were included in the composite for the entire year. The three-year annualized standard deviation measures the variability of the composite gross returns and the index returns over the preceding 36-month period. The standard deviation is not presented for periods prior to 2014 because the composite did not have a three-year track record.

\*Firm assets reflect CCM assets prior to 2018.

#### INDEX DESCRIPTIONS

**MSCI USA INDEX** – The MSCI USA Index is designed to measure the performance of the large and mid cap segments of the US market. With 637 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US.

**MSCI ACWIEXUS INDEX** – The MSCI ACWI ex USA Index is a float-adjusted market capitalization index that is designed to measure the combined equity market performance of large- and mid-cap securities in developed and emerging market countries excluding the United States.

**MSCI EMERGING MARKETS INDEX** – The MSCI Emerging Markets (EM) Index was launched in 1988 including 10 countries with a weight of about 0.9% in the MSCI ACWI Index. Currently, it captures 24 countries across the globe and has a weight of 12% in the MSCI ACWI Index. Constructed according to the MSCI Global Investable Market Indexes (GIMI) Methodology, the MSCI EM Index is designed to dynamically reflect the evolution of the emerging markets opportunity set and to help investors meet global and regional asset allocation needs.

#### FUNDAMENTAL INTERNATIONAL EQUITY ALL COUNTRY REPRESENTATIVE ACCOUNT DISCLOSURE

The representative account utilized for this analysis was selected because it is the largest account in the composite and not for performance reasons. Each client account is individually managed, actual holdings will vary for each client and there is no guarantee that a particular client's account will have the same characteristics. It may not precisely represent every portfolio in the composite. This document is for informational purposes only. Portfolio holdings are subject to change without notice. Provided as supplemental information to the GIPS report in this document.

#### SOURCE INFORMATION

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