Strategic Global Advisors®

Global Equity Research
Which Investment Strategy Would You Choose?

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Introduction

What if you have only the following historical excess return information in Figure 1 below from two international small cap equity strategies? Which one would you choose?

Figure 1

International Small Cap Equity Managers
Excess Returns vs. MSCI World ex-USA Small Cap Index

	12-Month Excess Returns								Standard Deviation of 12-Month Excess Returns
	2011	2012	2013	2014	2015	2016	2017	2018	
Strategy A	2.23%	10.17%	8.07%	5.47%	2.38%	3.59%	3.73%	2.40%	2.95%
Strategy B	10.72%	2.68%	11.62%	1.92%	6.49%	-1.92%	7.50%	-3.50%	5.57%

Source: SGA
Based on gross of fees performance. Please see important disclosures at the end of this letter.

Analysis

Most people would likely choose Strategy A, which appeared to outperform the benchmark in every single year. But as the old saying goes, looks can be deceiving! As it turns out, Strategy A and Strategy B are the same strategy with the exact same monthly returns. What was not specifically labeled in Figure 1 is that Strategy A's 12-month trailing returns are shown for years ending in March while Strategy B's 12-month returns end in December. Both Strategy A and Strategy B are in fact the SGA International Small Cap Equity strategy.

Bill Miller, former portfolio manager of the Legg Mason Value Trust, famously beat the S&P 500 for 15 calendar years in a row before his streak ended in 2006. Near the end of that streak, he routinely pointed out that it was "an accident of the calendar"[i] and that the streak would have ended much earlier if the year-end date was any other month other than December.

In investment management, individual calendar year returns and excess returns ending in December are routinely presented in marketing material and when comparing managers to demonstrate historical track records. However, there is nothing magical about December and many investors evaluate rolling 12-, 24-, or 36-month periods ending each calendar month. The typical presentations rarely present 12-month trailing returns ending in any month other than December in a table or graphical format.

With that in mind, we calculated trailing 12-month excess returns ending in each calendar month of the year for the SGA International Small Cap Equity strategy against the benchmark (the MSCI World ex-USA Small Cap Index) since the strategy's inception on April 1, 2010 through the end of 2018. We found that the strategy outperformed the benchmark in every 12-month trailing period ending February through June, but there was at least one trailing 12-month period ending in the months ending July through January where the strategy underperformed.

Figure 2 below is mostly a repeat of Figure 1, but specifically labeled as the SGA International Small Cap Equity strategy. It shows 12-month excess returns ending in March (the first month where a 12-month period is available) and December, which is typically shown in SGA marketing material. The column on the far right takes the standard deviation of the eight 12-month periods. While these two rows of data don't cover the exact period (since the March ending data includes 9 months in 2010 and the December ending data has 9 months in 2018), the standard deviation of the eight 12-month periods are different. Even though both rows of data are coming from the same return series (with the exception of the first and last 9 months), the choice of ending month for the 12-month periods makes a difference.

Figure 2

SGA International Small Cap Equity
Analysis of Excess Returns Vs. MSCI World ex-USA Small Cap Index
12-month Periods Ending March and December

	12-Month Excess Returns								Standard Deviation of 12-Month Excess Returns
	2011	2012	2013	2014	2015	2016	2017	2018	
12-Month Periods Ending March	2.23%	10.17%	8.07%	5.47%	2.38%	3.59%	3.73%	2.40%	2.95%
12-Month Periods Ending December	10.72%	2.68%	11.62%	1.92%	6.49%	-1.92%	7.50%	-3.50%	5.57%

Source: SGA
Please see important disclosures following this letter. Based on Gross of Fees Returns. Past performance is not indicative of future results.

To be complete, Figure 3 below shows the same information from Figure 2 for 12-month periods ending every month of the year, with calendar quarter ends highlighted for easier reading. Note that the 12-month returns ending December had the highest standard deviation. As stated earlier, we also see that the strategy outperformed the benchmark in every 12-month trailing period ending February through June.

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Figure 3

SGA International Small Cap Equity Analysis of Excess Returns Vs. MSCI World ex-USA Small Cap Index 12-month Periods Ending Every Month of the Year									
	12-Month Excess Returns								Standard Deviation of 12-Month Excess Returns
Ending Month	2011	2012	2013	2014	2015	2016	2017	2018	
January	N/A	9.19%	7.28%	9.37%	0.64%	6.29%	-0.13%	5.81%	3.83%
February	N/A	9.22%	7.99%	8.14%	0.93%	4.77%	3.86%	2.28%	3.20%
March	2.23%	10.17%	8.07%	5.47%	2.38%	3.59%	3.73%	2.40%	2.95%
April	3.99%	11.67%	6.07%	4.05%	3.27%	1.21%	6.97%	2.22%	3.31%
May	3.85%	9.81%	6.14%	4.31%	3.60%	2.61%	4.46%	2.34%	2.40%
June	4.40%	8.98%	7.09%	2.67%	4.65%	1.41%	5.12%	0.02%	2.92%
July	5.99%	8.18%	8.02%	0.37%	7.07%	0.79%	5.14%	-0.95%	3.69%
August	8.72%	6.59%	7.85%	2.28%	4.94%	0.61%	5.49%	-2.31%	3.79%
September	8.99%	5.86%	7.02%	3.41%	6.30%	-0.69%	5.70%	-4.19%	4.39%
October	10.40%	5.41%	9.12%	3.19%	4.84%	0.42%	5.62%	-3.88%	4.58%
November	10.44%	5.29%	9.74%	2.22%	6.07%	-2.06%	8.48%	-4.42%	5.47%
December	10.72%	2.68%	11.62%	1.92%	6.49%	-1.92%	7.50%	-3.50%	5.57%

Source: SGA
Please see the important disclosures for information contained in the Annual Disclosure Presentation. Based on gross of fees returns. Past performance is not indicative of future results.

While it may not be considered best practice to designate the ending month where results look the most pleasing, it is important to analyze the data from multiple vantage points to get a fuller picture of performance. When aggregating monthly data into 12-month periods, there can be patterns in the data that are statistical artifacts but result in 12-month periods ending in certain months that appear less consistent than periods ending in other months.

Conclusion

All of the tables presented above are just one of the many ways to examine and visualize historical investment performance. Furthermore, institutional investors consider a much broader set of quantitative and qualitative information in selecting investment managers. However, the surprising insight from this simple analysis is that when using the same monthly return series, the choice of ending month for presenting 12-month return data can make a big difference in the impression that the data makes. Should months ending March, June, September and December also be shown when analyzing 12-month returns? We believe that analyzing returns from multiple perspectives is highly likely to provide additional insights that are not available when viewing only the periods ending in December.

Which strategy would you choose? From SGA's perspective, either one is a good choice since Strategy A and Strategy B are the same, just seen through a different lens!

STRATEGIC GLOBAL ADVISORS
INTERNATIONAL SMALL CAP EQUITY
ANNUAL DISCLOSURE PRESENTATION

Year End	Total Firm Assets (millions)	Composite Assets USD (millions)	Number of Accounts	Percent of Wrap Accounts	Annual Performance Results Composite Gross**	Composite Net	MSCI World ex-US Small Cap Net	Composite Dispersion	3 Year Annualized Ex-Post Standard Deviation*** Composite Gross	MSCI World ex-US Small Cap Net
2018	3,943	790	8	3%	-21.57%	-22.29%	-18.07%	0.29%	13.66%	12.73%
2017	4,085	579	8	5%	38.54%	36.73%	31.04%	N/A	12.18%	11.69%
2016	3,023	274	4	2%	2.40%	0.88%	4.32%	N/A	12.70%	12.49%
2015	2,548	248	4	2%	11.95%	10.30%	5.46%	N/A	11.60%	11.66%
2014	1,141	67	3	7%	-3.43%	-4.87%	-5.35%	N/A	12.93%	13.53%
2013	715	5	1	100%	37.17%	35.18%	25.55%	N/A	15.17%	16.50%
2012	441	4	1	100%	20.15%	18.39%	17.48%	N/A	N/A	N/A
2011	313	3	1	100%	-5.09%	-6.51%	-15.81%	N/A	N/A	N/A
2010*	153	3	1	100%	18.95%	17.64%	18.12%	N/A	N/A	N/A

N/A – Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

**Performance represents a non-annualized partial period return beginning March 31, 2010.*

***Beginning January 1, 2017, pure gross returns are shown as supplemental information for bundled fee accounts and are stated gross of all fees and transaction costs.*

****The 3-year annualized ex-post standard deviation is not shown when there are not 36 monthly performance returns available.*

International Small Cap Equity Composite includes all discretionary, equity only accounts whose primary investment objective is growth, and secondarily yield, and are invested in international small cap securities. The minimum account size for this composite is $100 thousand. From inception through November 30, 2013, the composite was compared to the MSCI EAFE Small Cap Net Index. On December 1, 2013, the comparative benchmark for the composite was changed to the MSCI World Ex-US Small Cap Net Index. This index includes Canadian securities, while the EAFE Small Cap Index does not. The list of eligible countries for the strategy has included Canada since its inception, and the strategy has typically included investments in Canadian securities. Therefore, the MSCI World Ex-US Small Cap Net Index is more closely representative of the strategy, and in fact, the strategy has maintained a lower tracking error versus this index since inception. This change of benchmark was made retroactively to the inception of the composite. The International Small Cap Equity Composite was created March 31, 2010. Prior to December 31, 2016, International Small Cap Equity Composite was known as the International Small Cap Core Equity Composite.

Strategic Global Advisors, LLC (SGA) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. SGA has been independently verified for the periods December 1, 2005 through September 30, 2018.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firmwide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The International Small Cap Equity Composite has been examined for the periods January 1, 2014 through September 30, 2018. The verification and performance examination reports are available upon request.

SGA is an independently registered investment advisor. The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Composite performance is presented net of foreign withholding taxes on dividends, interest income, and capital gains. Withholding taxes may vary according to the investor's domicile. Composite returns represent investors domiciled primarily in the United States. The MSCI World Ex-US Small Cap Net Index uses withholding tax rates applicable to Luxembourg holding companies.

The U.S. dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fees performance was calculated using the highest applicable annual management fee of 0.90% applied monthly effective October 1, 2017. Prior to October 1, 2017, net of fees performance was calculated using the highest applicable annual management fee of 1.50% applied monthly. Some accounts in this composite pay a bundled fee (or wrap fee) based on a percentage of assets under management, which in addition to brokerage commissions, the fee includes portfolio monitoring, consulting services, and in some cases, custodial services. From March 31, 2010 through December 31, 2016, gross and net returns have been reduced by the fees for these services. Beginning January 1, 2017, pure gross returns are shown as supplemental information for bundled fee accounts and are stated gross of all fees and transaction costs.

The annual composite dispersion presented is an asset weighted standard deviation calculated for the accounts in the composite the entire year and is only presented for periods with more than five accounts in for the entire year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

Past performance is not indicative of future results.

Maximum fee is 0.90%; actual investment advisory fees incurred by clients may vary.

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Important Disclosures

This paper is meant for illustrative purposes only. The opinions expressed in this paper are the sole opinions of Strategic Global Advisors, LLC and should not be construed as investment advice.

Excess returns reported by SGA are calculated by subtracting the annualized return of the benchmark from the annualized return of the SGA portfolio.
Past performance is not indicative of future results. Returns are presented gross of fees.

Sources: SGA, FactSet

Systematic or Quantitative Process Risk

There is potential for shortfall in any investment process due to a variety of factors including, but not limited to, data and system imperfections, analyst judgment, and the complex nature of designing and implementing portfolio construction systems and other quantitative models. Such shortfalls in systematic or quantitative processes in particular pose broader risk because they may be more pervasive in nature. Furthermore, the Advisor's SGA's systems may not necessarily perform in a manner in which they have historically performed or were intended to perform. The Advisor recognizes that such shortfalls are inherent to both fundamental and systematic or quantitative processes and believes that combining both approaches improves the opportunity to reduce these shortfalls. However, these efforts may not necessarily result in the identification of profitable investments or the management of risk.

For additional information, please contact Strategic Global Advisors.

References

Bill Miller quote in the *Wall Street Journal* on January 6, 2005: "As for the so-called streak, that's an accident of the calendar. If the year ended on different months it wouldn't be there and at some point those mathematics will hit us. We've been lucky. Well, maybe it's not 100% luck. Maybe 95% luck."

https://www.wsj.com/articles/SB110486010683816540

[i] Wall Street Journal, January 6, 2005