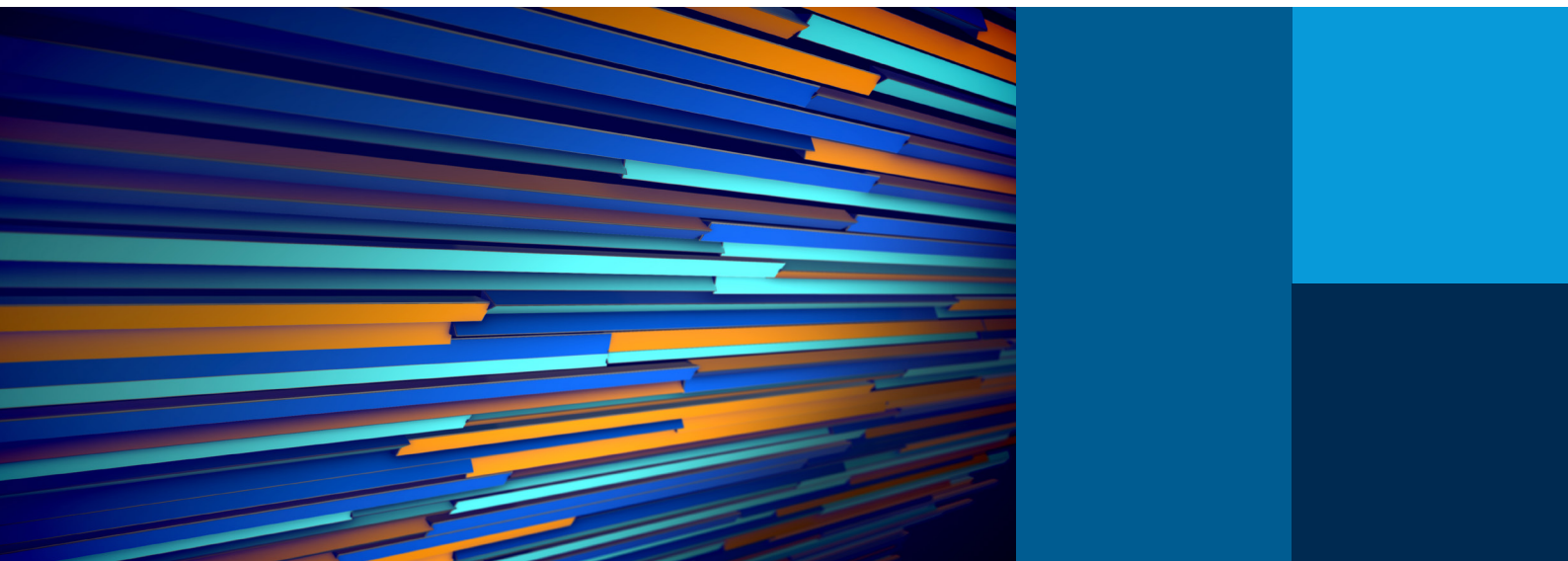


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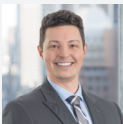
Active Management Is Suited to Uncertain Times



EMERGING MARKETS EQUITY TEAM | May 2025



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Active investment strategies are making a comeback amid rising market volatility, higher rates and greater dispersion—signaling a paradigm shift. While passive investment strategies have flourished post-global financial crisis (GFC), that momentum appears to be fading as we enter a new era characterized by higher costs of capital, restrictive trade policies and geopolitical uncertainty. Investors who once relied on passive strategies for broad market gains may now require a more agile approach to navigate heightened volatility and capitalize on asymmetric opportunities.

For the first three months of 2025, 60% of U.S. large-cap managers outperformed the S&P 500®, consistent with previous episodes of market volatility. The economic and political uncertainties driving this volatility are likely to stay, with no quick fix in sight.

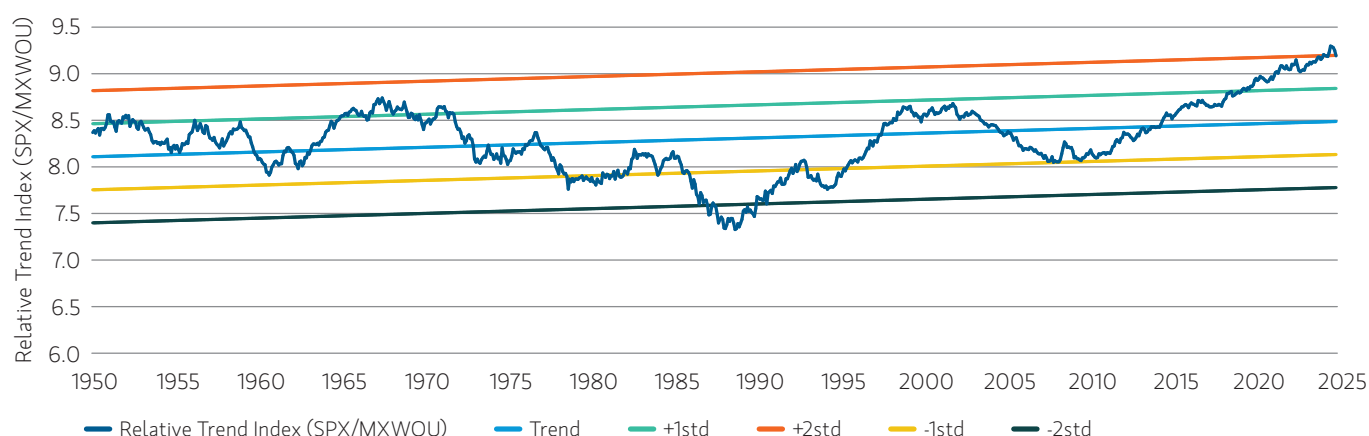
The rise of passive investing, which seeks to mirror the performance of indexes rather than beat them, reached a milestone at the end of 2023, when for the first time U.S. passive mutual funds and exchange-traded funds (ETFs) attracted more assets than active funds. Passive funds increased their market share to 53% at the end of 2024. That momentum was helped by low interest rates, quantitative easing and economic expansion following the 2008 crisis, which enabled U.S. stocks to outperform the rest of the world by the widest margin since 1950 (*Display 1*).

DISPLAY 1

U.S. Stock Valuations are at a 75-Year High vs the Rest of the World

Relative total return index (U.S. vs Global ex-U.S.)

Past performance does not predict future results

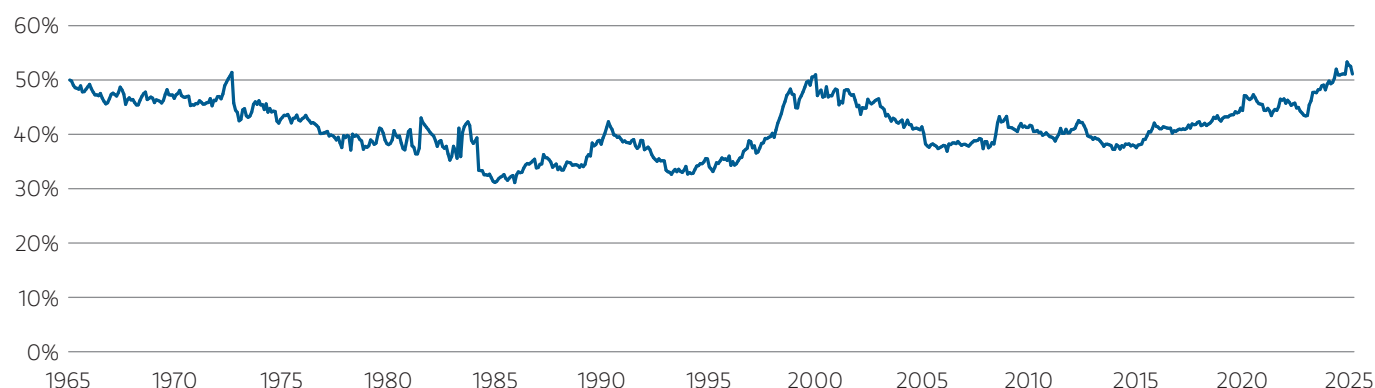


Source: Bloomberg. As of April 4, 2025. The MSCI World ex USA Index (MXWOU) captures large and mid cap representation across 22 of 23 Developed Markets DM countries (excluding the United States). The S&P 500® (SPX) Index measures the performance of the large cap segment of the U.S. equities market. The indexes do not include any expenses, fees or sales charges, which would lower performance. It is not possible to invest directly in an index. Standard deviation (std) measures how widely individual performance returns, within a performance series, are dispersed from the average or mean value.

DISPLAY 2

S&P 500® Concentration Benefits the Top 10%

Weight of the top decile of stocks in the S&P 500® over time



Source: FactSet, Compustat. As of March 31, 2025. The S&P 500® (SPX) Index measures the performance of the large cap segment of the U.S. equities market. The indexes do not include any expenses, fees or sales charges, which would lower performance. It is not possible to invest directly in an index.

But as passive funds attracted more assets post-GFC, market concentration increased. Today, the U.S. stock market is dominated by a handful of tech giants. Just ten stocks made up 36% of the U.S. market at the end of 2024, the highest level in 40 years. In fact, the top decile of S&P 500® stock account for over 50% of the total weight of the index (*Display 2*).

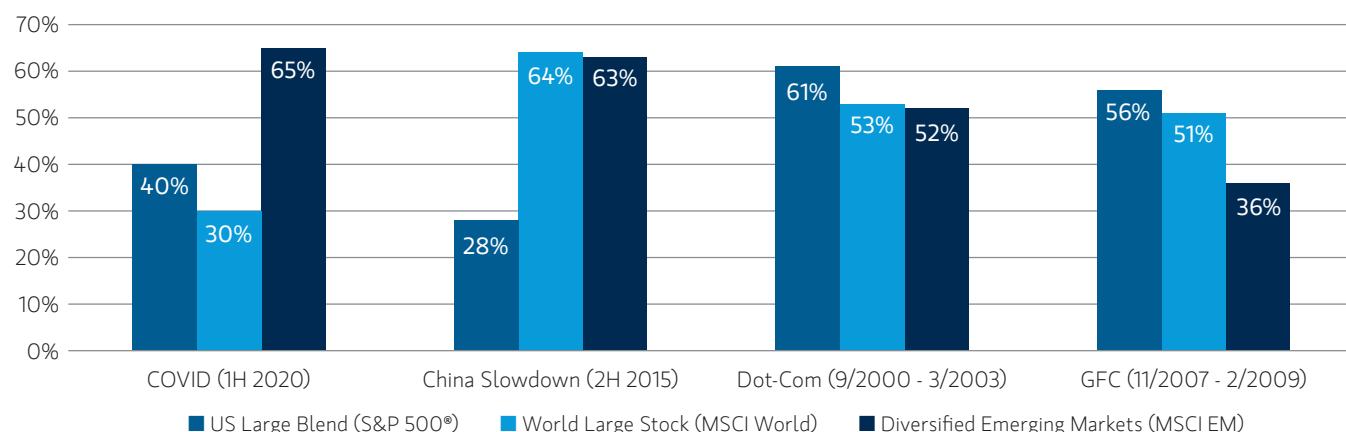
Investors who only invest in index funds and other passive strategies can face a tougher road as market conditions

change. Markets are cyclical, and we are moving from a period of low volatility to a period in which volatility is likely to be structurally higher. Many active managers in the U.S. underperformed in bull markets, but their ability to manage downside risk is typically a key advantage during market retreats. Actively managed strategies generally fare better during corrections, as highlighted during the dotcom crash and the GFC (*Display 3*).

DISPLAY 3

Active Strategies Gaining Over During Select Major Drawdowns

Percentage of active managers outperforming during dotcom crash and GFC

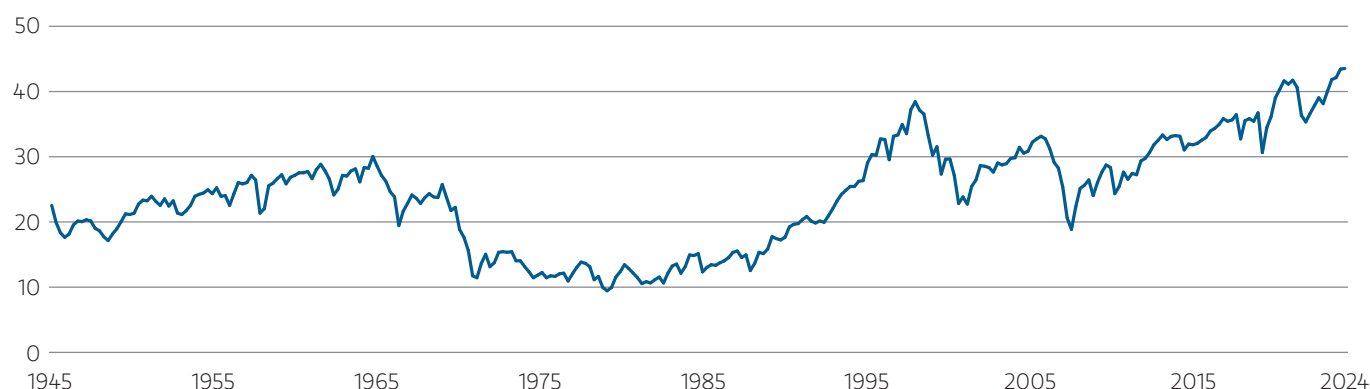


Source: Morningstar, Morgan Stanley. The S&P 500® Index measures the performance of the large cap segment of the U.S. equities market. The MSCI World Index captures large and mid cap representation across 23 Developed Markets DM. The MSCI Emerging Market Index is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance of emerging markets. The indexes do not include any expenses, fees or sales charges, which would lower performance. It is not possible to invest directly in an index.

DISPLAY 4

U.S. Households Have a Significant Allocation to Stocks

Share of U.S. equities as a percentage of financial assets



Source: Board of Governors of Federal Reserve System. As of October 1, 2024.

Heavy index concentration becomes especially risky in a market downturn, when the largest firms falter and the broader index feels the impact. With U.S. households' equity holding at an all-time high (*Display 4*), the market's resilience to shocks is weaker than ever.

Historical parallels can be drawn to the dot-com bubble, a period of market exuberance driven by the internet and its untapped potential. Back in 2000, the percent capitalization of the top ten stocks in the S&P 500® peaked at 25% of the index before the bubble burst. While tech stocks collapsed, active managers offered significant alpha, outperforming across market segments (*Display 3*).

While the recent rally in artificial intelligence investing benefited passive strategies, we believe current market choppiness mirrors the late 1990s' internet bubble and volatility-driven price swings. In this environment, active

managers have the potential to capitalize on inefficiencies and mispriced assets, while passive funds remain tethered to broader market fluctuations.

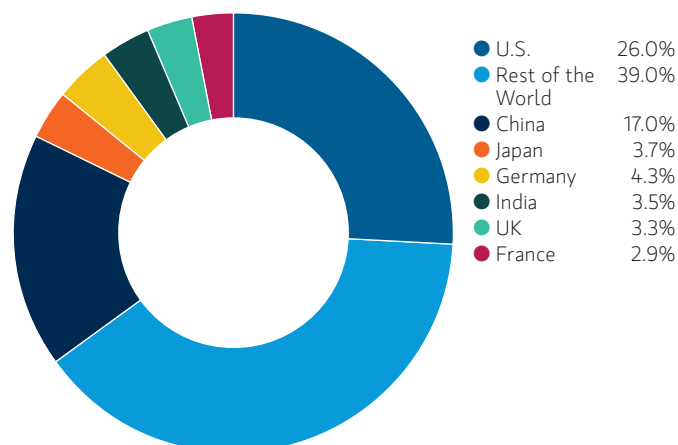
End of U.S. Dominance?

Given the starting point of high concentration, valuation and allocation, the potential for U.S. underperformance may be higher than investors appreciate. While the U.S. currently accounts for 25% of global GDP, it commands a disproportionate 65% share of global market capitalization (*Display 5*), thanks to its culture of innovation, corporate earnings growth and the strength of the dollar. However, the era of "U.S. exceptionalism" may be losing momentum. History shows that prolonged market dominance rarely persists, and no market has been more dominant than the U.S.

DISPLAY 5

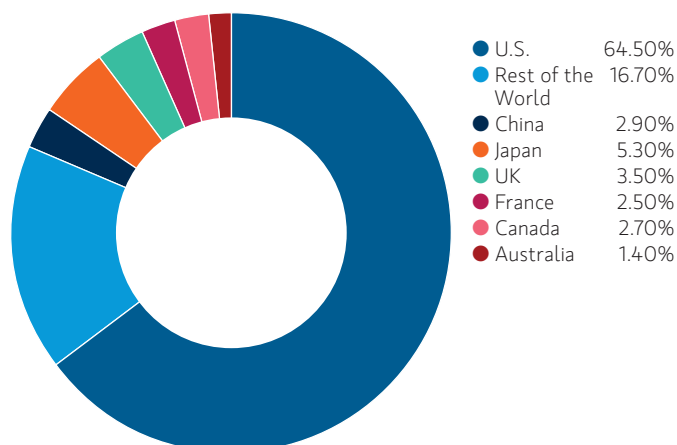
The U.S. Accounts for a Quarter of Global GDP

Share of global capital (%)



U.S. Stocks Constitute Almost Two-Thirds of the MSCI World Index

MSCI World Index country weights (%)



Source: Gavekal Research/Macrobond. As of December 31, 2024.

In international and emerging markets, active strategies hold a distinct advantage over passive strategies, which may explain the lower 29% share of passive assets internationally compared to the 53% share in the U.S. Active strategies benefit from exploiting market inefficiencies and capturing alpha in regions where risks must be managed across multiple dimensions: economic, political and currency related. As a result, active international and emerging market funds have mostly beaten their passive counterparts (*Display 3*).

With U.S. outperformance faltering, more investment in international and emerging markets could favor active strategies given their ability to generate alpha in those domains. Additionally, frontier markets like Argentina and Pakistan have significantly outperformed the U.S. in dollar terms since 2011.

It Pays To Be Active

We believe that the world is moving beyond the era of globalization, easy money and more predictable markets.

Instead, rapid acceleration of restrictive trade policies coupled with surging debt-to-GDP levels across many countries will increase risk factors.

In the U.S., interest expense on the national debt now exceeds both defense and Medicare spending. Geopolitical conflicts in Europe and the Middle East have increased uncertainty, reinforcing the need for a more nuanced investment approach. In this evolving landscape, relying solely on passive strategies may no longer be sufficient.

These risks stand in stark contrast to the long period of low volatility post-GFC, which was highly favorable for passive investment strategies. The tailwinds that led to broad market gains in the past are giving way to volatility, fragmentation and economic divergence.

We believe active strategies are an essential tool to mitigate risk and capitalize on mispriced opportunities that passive strategies cannot. In this new era, we believe active management provides the edge needed to navigate uncertainty.

Risk Considerations

There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by a portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in a portfolio. Please be aware that a portfolio may be subject to certain additional risks. In general, **equities securities'** values also fluctuate in response to activities specific to a company. Investments in **foreign markets** entail special risks such as currency, political, economic, market and liquidity risks. The risks of investing in **emerging market countries** are greater than the risks generally associated with investments in foreign developed countries.

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There is no guarantee that any investment strategy will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market.

A separately managed account may not be appropriate for all investors. Separate accounts managed according to the particular Strategy may include securities that may not necessarily track the performance of a particular index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing. A minimum asset level is required.

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