Fishing in Bigger Ponds

February 22, 2021

Company-specific factors, including what we call “sustainable value creation,” are increasingly more important than country-specific factors, and companies that deliver strong sustainable value creation are increasingly found outside the United States.

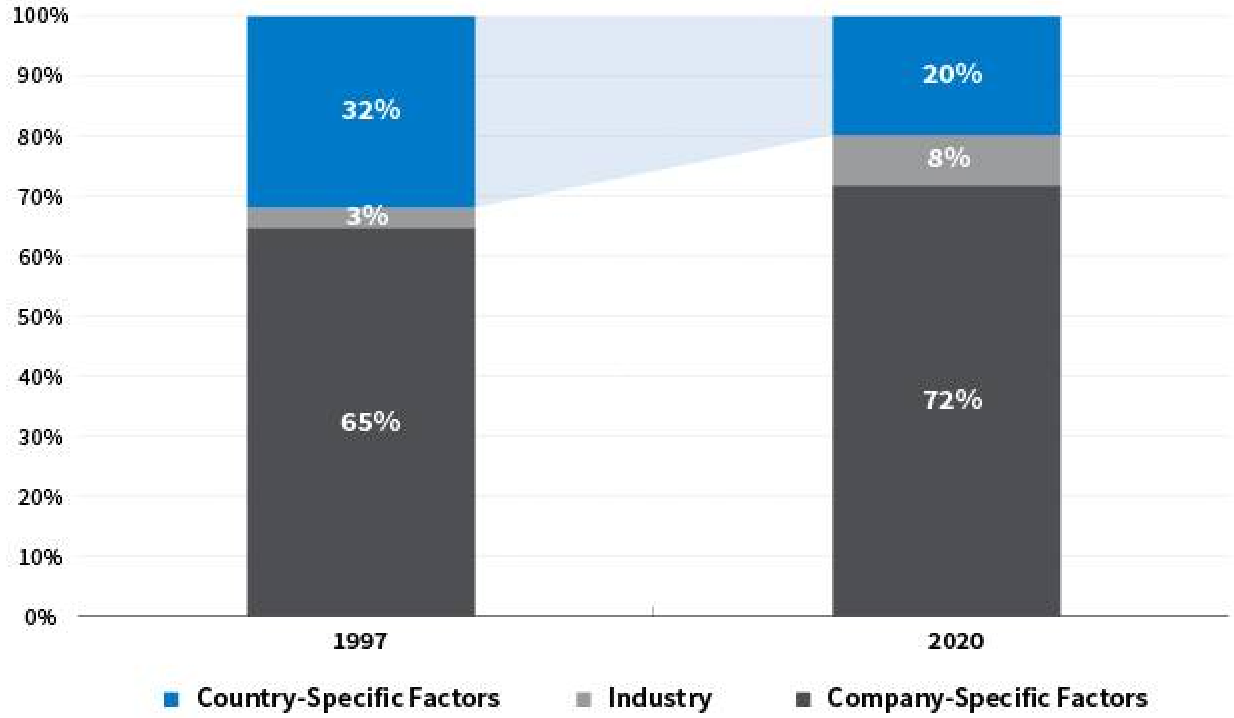
Quality Drives Returns

While the United States should continue to provide opportunities for high-quality growth-stock investing, the universe of high-quality growth stocks outside the United States is large and growing, and this is important because quality—specifically, what we call sustainable value creation—is a far more significant contributor to equity returns than other factors, such as geography.

Our analysis indicates that while country-specific factors have historically had a nearly 30% impact on investment returns, the importance of country-specified factors on investment returns has declined over time, and company-specific factors have emerged as the dominant component of investment returns. The chart below illustrates.

Effect of Country-Specific Factors on Investment Returns Has Declined

While country-specific factors have historically had more than a 30% impact on investment returns, their importance to investment returns has declined over time. At the same time, company-specific factors have become more important.



Source: William Blair as of 9/30/20. **Past performance is not indicative of future returns.** Universe is the MSCI ACWI IMI. Data is from the baraGEMLT risk model and shows group-level volatility smoothed using a two-year moving average.

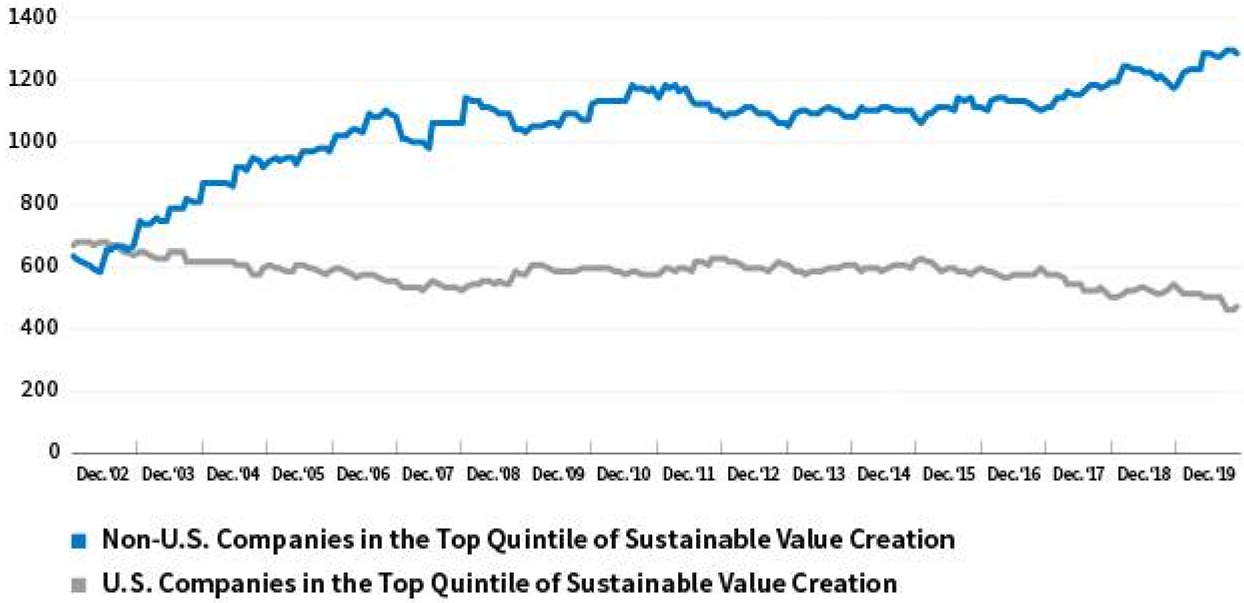
Among those company-specific factors are sustainable value-creation characteristics, such as industry-leading ROIC and sustainable competitive advantages. We believe portfolios constructed with meaningful allocations to companies that exhibit strong, sustainable value-creation characteristics have the potential to generate strong absolute and relative returns as well as superior risk-adjusted performance.

More Opportunities Abroad

Increasingly, these companies can be found outside the United States, as the chart below illustrates. The evolution of professionalization and innovation abroad has led to a material increase in the number of sustainable value creators in both developed and emerging markets.

More Non-U.S. Companies Are in Top Quintile of Sustainable Value Creation

The proportion of non-U.S. companies in the top quintile of sustainable value creation has increased from 50% nearly 20 years ago to nearly 75% today. We believe portfolios constructed with meaningful allocations to companies with sustainable value-creation characteristics have the potential to generate strong risk-adjusted performance.



Source: William Blair, as of 9/30/20. Universe is the MSCI ACWI IMI. Sustainable value creation is a factor within the William Blair quality model, which attempts to put into quantitative terms one of the cornerstones of the firm's investment philosophy: identifying high quality companies. The score combines measurements of sustainable value creation, earnings quality, and financial strength.

For example, we find pharmaceuticals, luxury, and renewables to be industries with high exposure to companies with strong sustainable value creation characteristics.

Interestingly, our analysis shows that the total market capitalization of pharmaceutical companies outside the United States is nearly two times the size that it is inside the United States.

The disparity in luxury and renewables is even more remarkable: the non-U.S. luxury goods universe is seven times the size of the U.S. universe, and the non-U.S. renewable energy universe is six times the size of the U.S. universe.

Opportunity Set in Key Industries Is Larger Outside the United States

The opportunity set for many growth industries is significantly larger outside the United States, as illustrated by aggregate market cap (in millions).

Sources: IDC and William Blair, as of 8/31/20. Non-U.S.stocks are represented by the MSCI ACWI IMI ex-U.S. Index. U.S. stocks are represented by the Russell 3000 Index. Renewables fall with the GICS classification Independent Power Producers and Energy Traders.

In short, we believe investors increase their potential to earn superior risk-adjusted returns by fishing in ponds that are teeming with creators of high sustainable value—and those ponds increasingly include companies outside the United States

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Alaina Anderson, CFA, partner, is a portfolio manager and research analyst on William Blair's Global Equity team.

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