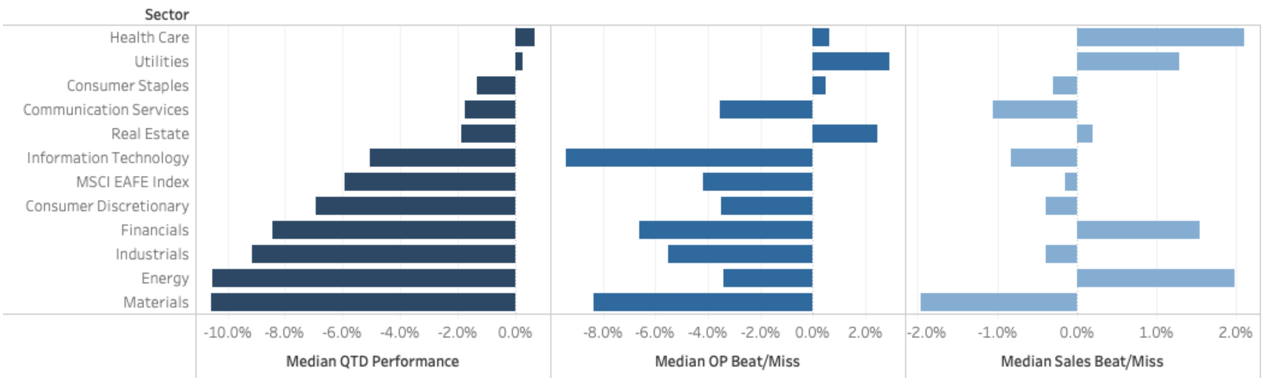
Q3 **2019**

Mid-Quarter Earnings Delta Analysis

Blackcrane Capital's investment philosophy and process focus on a historically proven source of alpha in global equities markets, which may be extracted when an investor can consistently and accurately identify the gaps between perception (Wall Street consensus estimates) and reality (reported results) in a company's quarterly earnings and sales. Here we analyze median earnings (operating profits) and median sales surprises by sector, alongside each sector's median quarter-to-date (QTD) performance. We include QTD data as of August 15, 2019, when a majority of companies (86%) within the MSCI EAFE Index have published their financial reports for the previous quarter. The analysis comprises the 469 companies in the index that had reported both sales and operating profits (OP) results by mid-3Q19 and for which there existed consensus estimates for both metrics.

MSCI EAFE QTD Performance vs. Earnings/Sales Deltas

As of August 15, 2019



Source: Bloomberg Professional. Past performance does not guarantee future results. Investors cannot invest directly in an index.
See important disclosures on the following page.

Stocks generally continued reacting as expected to earnings beats and misses in 3Q19 to date (as of 8/15/19).

In aggregate, the median stock performance was -5.9%, with a median sales surprise of -0.1%, and a median operating profit surprise of -4.2%.

Health Care achieved the best median stock performance of any sector, with its +0.6% median operating profit surprise ahead of the aggregate. Utilities and Consumer Staples also posted better median stock performances than the aggregate, as would be expected given their +2.9% and +0.5% median operating profit surprises.

Of the six sectors which had better median stock performances than the aggregate, five of them also posted superior median operating profit surprises. And of the five sectors which had worse median stock performances than the aggregate, three of them posted worse median operating profit surprises.

As we saw during the Q1 reporting season, the market continues to penalize companies within the index in aggregate, as they report below-consensus operating profits. We are beginning to see some unwinding in sectors such as Energy, which performed better during previous quarters relative to their earnings output. These sectors are now performing worse than the index median. For example, as of August 15, Energy returned -10.5% QTD while reporting an OP miss of only -3.4%, compared to the index's median miss of -4.2%. We expect that this unwinding process will progress in upcoming quarters as well.

Blackcrane CAPITAL

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How We Define Earnings Delta

At Blackcrane, we define the term "earnings delta" as the degree to which any given name (or sector) beats or misses consensus earnings estimates. In our investment process, which targets a 10% forecasted earnings beat for each name in our portfolio, we tend to use operating profits (OP) to measure the deltas; however, in some sectors, such as Financials, we instead focus on divergences between consensus estimates and reported earnings per share.

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