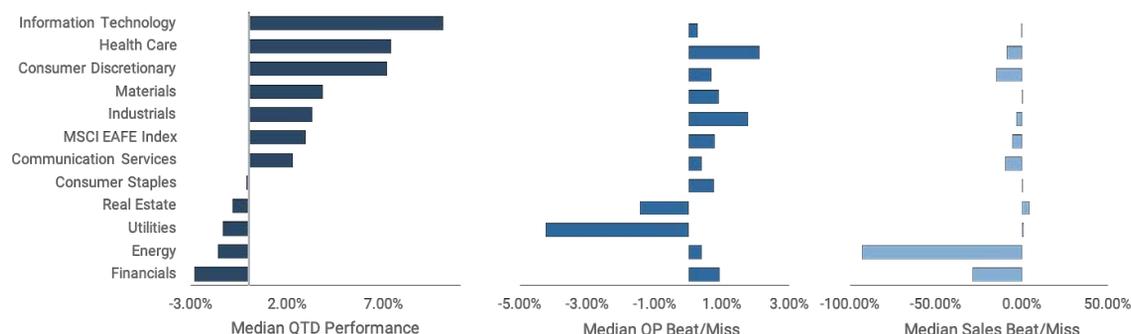


# Mid-Quarter Earnings Delta Analysis

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 May 15, 2020, when a majority of companies (67%) within the MSCI EAFE Index have published their financial reports for the previous quarter. The analysis comprises the 409 companies in the index that had reported both sales and operating profits (OP) results and for which there existed consensus estimates for both metrics.

## MSCI EAFE QTD Performance vs. Earnings/Sales Deltas

As of May 15, 2020



**Source:** Bloomberg Professional. Past performance does not guarantee future results. Investors cannot invest directly in an index.

In aggregate, the median stock performance was +2.96%, with a median sales surprise of +0.78%, and a median operating profit surprise of -5.80%.

Technology, Health Care, Consumer Discretionary, Materials, and Industrials posted median stock performances above the aggregate. Of these five sectors, three posted median operating profit surprises above the aggregate (Technology, Materials, Industrials).

Communication Services, Consumer Staples, Real Estate, Utilities, Energy, and Financials posted median stock performances below the aggregate. Of these six sectors, three posted median operating profit surprises below the aggregate (Communication Services, Energy, Financials).

These results indicate that earnings surprises have not been a significant driver of stock price performance in the quarter-to-date. Likely due to the impact of coronavirus, stocks seem to have been driven by a broad sector rotation into sectors with more resilient stock narratives.

Past performance does not guarantee future results. Investors cannot invest directly in an index.

INSTITUTIONAL INVESTOR USE ONLY

500 108<sup>th</sup> Avenue NE, Suite 960 | Bellevue, WA 98004 | blackcranecap.com

A PACIFIC CURRENT GROUP AFFILIATED COMPANY | WWW.PACCURRENT.COM

# Mid-Quarter Earnings Delta Analysis

## 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.

## Important Disclosures

These results do not represent actual, theoretical, or simulated returns of any Blackcrane Capital, LLC product or strategy. The data in this presentation is an analysis of equity index-based share prices during certain periods of time, and does not represent an investment or trading strategy. No representation is being made that any account will, or is likely to, achieve profits or losses similar to those being shown. This analysis was developed with the benefit of hindsight, which may allow the security selection methodology to be adjusted until past returns are maximized. Equity returns and alpha generation may differ significantly from the data presented here based on the time period and macroeconomic conditions of the analysis, and results in future periods may also differ significantly. The calculations of security returns and positive alpha generation use assumptions that are impossible to replicate in an investment strategy, such as perfect foreknowledge of earnings results. An actual investment strategy implemented during the periods of this analysis would have relied on the decision making and forecasting of the investment advisor, which may have resulted in significantly different returns than those presented here. The returns of any investment strategy will also be reduced by the impact of advisory fees, trading costs, liquidity impact, taxes, and other expenses not included in this analysis.

This material is for informational purposes only and should not be construed as an offer or solicitation to sell or buy any securities or for the acquisition or the subscription of shares in any fund or separately managed account. Any person in possession of this presentation should inform themselves with regard to the legal, fiscal, regulatory and foreign currency requirements for an investment in the fund according to the law of their home country, place of residence or current abode and seek expert, professional advice.

The information and opinions that are contained in this presentation have been compiled or arrived at by sources that are believed to be reliable and in good faith. However, the accuracy and completeness of this information is not expressly or implicitly guaranteed by this representation. Opinions contained in this presentation constitute judgment at the publish date of Blackcrane Capital, LLC (“Blackcrane”) and are subject to change without notice. This material is published for the assistance of recipients, but is not to be relied upon as authoritative and is not to be substituted for the exercise of one’s own judgment.

The information regarding Blackcrane Capital is presented by NLCG Distributors, LLC, an entity deemed by the US securities laws to be under common control with Blackcrane Capital.

**Past performance does not guarantee future results. Performance shown is short-term performance, and long-term performance for the index could vary from what is shown.** Returns and calculations are unaudited, and may not be representative of past or future performance of an investment. The value of an investment can both increase and decrease and investors face the risk of significant loss. This information should not be construed as research or investment advice. No representation or warranty is made, whether expressly or implied, by Blackcrane, its directors or employees, as to the accuracy or completeness of the information provided. This information is neither an offer to sell nor a solicitation of any offer to buy an interest in any fund or other investment vehicle sponsored or managed by Blackcrane. Any decision to invest in a Blackcrane fund should be made only on the basis of consideration of all of the offering documents in respect of such a fund. These offering documents contain important information concerning risk factors and other material aspects of such a fund and must be read carefully before a decision to invest is made.

Any account or fund advised by Blackcrane involves significant risks and is suitable only for those persons who can bear the economic risk of the complete loss of their investment. There can be no assurance that any account or fund will achieve its investment objectives. Please see Part II of Blackcrane’s Form ADV for more detail on risks, advisory fees, and other expense associated with the management of an investment advisory account.

INSTITUTIONAL INVESTOR USE ONLY  
NLS 765 Exp. 09-30-20