



The Active Investor: Exploring International Equities



Brian Foerster, CFA
Managing Director, Product Management



Matthias Knerr
Senior Managing Director, Portfolio Manager

In this podcast, Lord Abbett Portfolio Manager Matthias Knerr discusses the factors behind the recent strength in international equities, and how his team approaches investing in the asset class.

BRIAN FOERSTER: After a long period of stagnant performance, international stocks have been delivering strong returns since 2023. What's driving that growth and what are some of the big themes unfolding in the years ahead? This is Brian Foerster. And welcome to *The Active Investor* podcast. And we're excited to have Matthias Knerr with us today, the lead portfolio manager for Lord Abbett's international equity strategy. Welcome, Matthias.

MATTHIAS KNERR: Hi, Brian, thanks for having me.

FOERSTER: Yeah, great to have you. So, there's a lot to unpack with what's happening in the international markets today. If you think about the last three calendar years, '23, '24, and so far in '25, the ACWI [MSCI All Countries World Index] is up about 50%. And that's certainly a new experience I think for international equity investors, something you're probably pretty happy about. So, a lot to unpack. But I thought before we do that, maybe we could just talk a little bit about your career journey, how you got into investing and particularly around international equities.

KNERR: Sure. Thanks, Brian. I started investing coming out of school. I studied finance and international business. That was in the mid '90s. It was actually a pretty exciting time for international equity investing. Companies really didn't have IR [investor relations functions] at that point.

There was government deregulation going on. There were privatizations. Corporate reform was a big deal. There were a number of IPOs, particularly in Europe. So, it was pretty exciting. And it was something that I think caught my eye and really got me excited to get involved in. And obviously I have a background. My family's German. I speak German. I studied in Germany. So, there was a natural inclination towards that. But I think the work itself was super exciting. And that's really what drew me to it.

FOERSTER: So, as I mentioned, the past three years have been pretty strong for international markets. That certainly wasn't the case in the last decade, especially coming after the GFC [global financial crisis of 2008–09] and the banking crisis. We had the overhang of debt in Europe. And there were fits and starts.

You could have a good year and then a bad year. And there was always this thought that international equities are about to start to outperform again. And then they didn't. So, what do you think is different in the past few years that didn't materialize in the last decade?

KNERR: I think there's two things going on at the same time. In the more recent term this year, maybe next year, I think performance has been very much earnings driven as it often is. 2025 is seeing double digit earnings growth after a flattish year in 2024.

And I think that is one of the reasons why things did so well this year. 2026 actually looks pretty good as well. We see high single digit to low double-digit earnings growth again, so likely a good set-up for next year as well. In terms of the other element, I think there's a longer-term thing also going on which is structural and may be more important for people to finally realize the potential of these cheap valuations that have always been there but haven't always translated into performance.

And what I'm talking about is: I think the standard world view of international equities often was these are global cyclicals, basically. The economy gets better. International equities outperform. The economy weakens. International equities struggle.

And you follow the business cycle. And why is that? They're very much export-driven economies, fewer domestic demand drivers, dependent on U.S. and China. And that has led to this cyclical performance. But I think what happened with Liberation Day [the April 2 U.S. tariff announcement] really has changed things meaningfully.

Why is that? I think the relationship that U.S. now has with the rest of the world, I wouldn't say is broken, but it is questioned. There's a trust issue. And Europe in particular, but quietly other countries as well, feel like they need to take greater control of their future, more self-reliance.

They need to invest in their own capabilities in order to drive their own growth. And I think that is going to be something that drives higher longer-term structural growth. It'll be less cyclical. That's going to be something that if you think about it in terms of how



investors think about valuation, higher P/E multiple-type structural growth versus the cyclical low P/E that Europe and the rest of the world has been.

And I think the prime example of that right now is Germany which has already announced a significant spending plan for infrastructure and for defense. Estimates are that this is going to add anywhere between 0.5% to 1% of GDP growth over the next several years, three to five years.

That doesn't sound like a lot necessarily. Actually, when your economy's struggling to grow 2%, adding a half to 1% is pretty meaningful. This is going to compound. I think others are going to see the success. And it's going to lead to more governments considering this combination of both fiscal and monetary stimulus. And actually, the new prime minister in Japan is already leaning in that direction. So that I think it really does create maybe a very new narrative for that relating to finally happen over the interim.

FOERSTER: Great. So, Matthias, one question I'm sure you must always get is: What regions are you favoring? I know as part of your investment process, you talk about the importance of bottom-up investing. But how much of a role does where you invest and how you tilt to different regions, what role does that play?

KNERR: So first and foremost, we are stock pickers. So as a team we're very much focused on the individual companies we invest in. The sector allocations and the regional exposures are very much a function of those individual companies and our assessment of the risk and reward there.

Of course, we do pay attention to macroeconomic factors. The world is a volatile place. There's a lot of things going on. And we debate them, but we try to incorporate them within the individual investment case. Because that way we feel it's much more repeatable and contained within the individual company and the forecast that we have for them.

FOERSTER: Makes sense. So, let's talk a little bit more about the companies you look for. I know you and I have talked a lot about this idea of competitive advantages. In fact, that's a common theme across our international franchises, thinking about sustainable competitive advantages. What are some of the attributes that you look for when you think about that concept?

KNERR: So, when we're looking at companies, we're thinking about competitive advantages, how sustainable are they? Does this company earn a significant positive spread over their cost of capital? And can they compound it over time? And we do this stock by stock.

I think many of our peers are thinking about metrics all the time. They're saying this is a high ROCE [return on capital employed], this is a high profit margin. In many ways, those are just outputs. And they're missing the point. We need to spend our time understanding what is unique about this business.

What is allowing it to earn these higher returns? We start with the structure of the industry. First and foremost, that is going to be one of the single most important drivers or enablers of a company to earn high returns. Having fewer competitors in a large market which they dominate.

They may have some sort of significant advantage in terms of their brand or their scale which is going to further enable that. We're looking for bargaining power in relationships. We're looking for companies that have higher pricing power. And the combination of all that is really what rolls up into the competitive advantage in business.

FOERSTER: So, what are some examples as you think about these competitive advantages?

KNERR: The types of advantages we're talking about, we bucket them into three groups, the first one being a consumer advantage. Some examples of that might be your brand or your intellectual property. Producer advantages, these are things like scale, economies of scope, control over scarce resources, process complexity. And then the third, and in many ways a newer area, is network advantages. And this has really become more prevalent through technology, any ecommerce businesses where this is really a winner-take-most scenario.

FOERSTER: Any particular companies that fit those?

KNERR: Yeah, I think there's a lot of exciting businesses outside of the U.S. despite the view that maybe this is just a global cyclical. I think on the usual company level, there's some great brands. There are some great leading franchises.

In the case of something where there's a high cost of failure, which we consider part of the consumer advantage, there's a company, Safran, in France. Safran, they're the world leader in terms of aero engines. So they have a joint venture with GE which probably most people know about GE aircraft engines.

But CFM [International] is the joint venture [between GE and] Safran. And this is a consolidated industry which has two or three players depending on the aircraft you're on. You have high capital intensity. You have safety requirements, certifications. So, the last thing you want is to have an engine problem when you're on a plane.

FOERSTER: Yes.

KNERR: You have to be around for a very long time. Because these are big pieces of equipment that last 20, 30, 40 years. So, you have to be there to honor the warranty that's put on that original engine. So that limits the number of players that are going to be out there.

They earn very high returns as a result because of the aftermarket and the spares [spare parts]. So that's I think a great example of the high cost of failure that we look at. Other names, Taiwan Semiconductor [TSMC] is always one of our classic names of a company that has very high barriers to entry, competitive advantages.

Why? This is a global [semiconductor] foundry, largest in the world. They have dominant market share at each production node. In fact, as things get more advanced, their market share increases, which is tremendous and not something you see very often. And why is that? They spend more on R&D [research and development] than the rest of the industry combined.

That allows them to push the cutting edge forward. That gives them the advantage of being there first. And that gives them higher market share. They earn more free cash flow because of that pricing power, which they plow back into capex [capital expenditures] and into



R&D. And that's the flywheel that keeps TSMC going and outgrowing everybody else.

FOERSTER: Right.

KNERR: Lastly, I would say maybe it's something that's less expected. Control over scarce resources is often something that gives you pricing power. Cement and aggregates, not your sexiest business, actually is a quite good business. Why? They earn a medium spread over the cost of capital because they are able to control pricing of their goods on a local basis.

So, aggregates, rocks, they're heavy. They're hard to move. It's expensive to move them. So, you can't really cost effectively move them more than 25 miles. As a result of that, there's a handful of players in the world that do this. They're consolidating the market into very local levels, not really competing against each other, creating local monopolies which gives them pricing power to raise prices.

And it's a highly fragmented industry because many of these businesses are family owned. And over time as families transition and the next generation really doesn't want to run the quarry anymore, because these are actually pretty wealthy families, they end up selling on to someone like CRH or Heidelberg Materials or Holcim, three companies that we invest in. Independently they are consolidating their regions of the country and of Europe in order to slowly consolidate and raise pricing.

FOERSTER: Okay. So, you're bullish on chips and rocks.

KNERR: Chips and rocks.

FOERSTER: Let's talk about areas that you would say maybe investors should look to avoid today. Because obviously to be a great investor you have to know what to be buying, but also what to avoid. So, any areas that your team thinks of as "lighten up" or even "stay away"?

KNERR: Generally speaking, what we do is we kind of do our process in reverse. We're trying to stay away from fragile businesses that might break when the economy weakens. So they may have low return on capital. They may have low margins. They may have high capital intensity and low margins, a terrible combination.

They may have weak balance sheets which are fine when the economy's doing well. But when things go the other way, they quickly fall apart. I think the big controversy right now for investors is generative AI, both on the upside, but on the downside as well.

We're not sure what's going to happen when there's rapid adoption of AI and which businesses aren't going to do well. And so, we're spending our time trying to understand or trying to assess where we think things may be at risk. So, it typically feels like it is going to be businesses that are relying kind of on structured data, repeatable processes.

Obviously if you have very bloated cost base in terms of labor intensity, that's also going to be an issue. So [in terms of areas at risk by of structured data and repeatable processes] software and coding might be an area. Areas of design, business services, tax, legal, data businesses, old media, these are all areas where we're trying to avoid at this point, at least re-kick the tires on any exposures we have there. Because I think AI is going to quickly eat their lunch.

FOERSTER: Yeah, it seems to be repetitive all through history. Great disruption creates big winners. But it also has this creative destruction as well. The internet putting out of business brick and mortar. Now you're starting to see this with AI. There are going to be winners and losers.

KNERR: For us, because we're measuring the "moat" around a business, I think this has been an interesting reminder that the advantages that investors often think are very long lasting can be significantly disrupted. And this is an example of that. I think in many cases people would have seen software as one of the best businesses in the world. And it has been actually for the last 25 years. That may not be the case going forward. And so, I think that it really upends a lot of business models.

FOERSTER: Right. All right, let's finish with a more upbeat question. And that's just around what you think are the biggest themes. I know you're certainly a bottom-up investor. And you arrive at these themes from that perspective. But how are you thinking about themes within the portfolio? And what are you seeing for the next few years?

KNERR: I think I foreshadowed a bit with the chips and the rocks. So, we are pretty positive on AI and the potential that it's going to have. Infrastructure is another big area of the market. The power grid, we think there's going to be a lot of investment.

And then lastly, I would say defense is the fourth market area. All four of those themes, shall we say, I think, are multi-trillion-dollar investment cycles over the next 10 years. So, we're scouring the globe looking for companies that are going to have a unique advantage, allow them to capitalize on that.

FOERSTER: For investors wanting to learn more about Lord Abbett's views on the markets, please visit the Insight section of Lord Abbett.com. We have a number of papers on international equities that touch on a lot of what we discussed here today. And if you have any comments on today's episode or ideas for future episodes, email Podcasts@LordAbbett.com. We welcome your thoughts and would love to hear from you. So we'll leave it there. Thanks for joining us today, Matthias. Maybe we'll have you back in a few months and see how things are progressing.

KNERR: Great. Thanks, Brian. This was fun.

FOERSTER: Great. Thanks, Matthias. This has been Brian Foerster with *The Active Investor* podcast. Thank you for listening.



GLOSSARY OF TERMS USED IN THIS BROADCAST

Cost of capital is the minimum rate of return or profit a company must earn before generating value.

Gross margin is the percentage of a company's revenue that's retained after direct expenses such as labor and materials have been subtracted.

Intrinsic value represents the price at which investors believe the security should be trading, based on company fundamentals.

Price-to-Earnings (P/E) Ratio: Stock analysts calculate a forward price-to-earnings [P/E] ratio by dividing a stock's current price by estimated future earnings per share. Some forward P/Es are calculated based on estimated earnings for the next four quarters, while others use actual earnings from the past two quarters with estimated earnings for the next two. A forward P/E may help you evaluate the current price of a stock in relation to what you can reasonably expect to happen in the near future. In contrast, a trailing P/E ratio is based exclusively on past performance for a defined period.

Return on capital employed (ROCE) is a financial ratio that measures a company's profitability and the efficiency with which it uses all of its capital to generate earnings. It is calculated by dividing earnings before interest and taxes (EBIT) by capital employed, which is the total capital used in the business, including both debt and equity. A higher ROCE indicates that a company is more effective at converting capital into profits. Value chain refers to the various business activities and processes involved in creating a product or performing a service.

The **MSCI ACWI (All Countries World Index)** captures large and mid cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. With 2,511 constituents as of December 1, 2025, the index covers approximately 85% of the global investable equity opportunity set.

Indexes are unmanaged, do not reflect the deduction of fees and expenses, and are not available for direct investment.

Important Information

References to specific companies in this broadcast are for illustrative purposes only and do not represent an opinion as to their investment merits. Of the companies mentioned, as of October 31, 2025, the Lord Abbett International Equity fund held positions in Taiwan Semiconductor Manufacturing Company Ltd. (5.0% of the Fund's assets under management), Holcim AG (1.6%), Heidelberg Materials AG (1.4%), CRH PLC (1.1%), and Safran SA (0.8%).

References to equity index performance are as of November 25, 2025, and are based on Bloomberg data.

The information contained herein is provided by Lord, Abbett & Co. LLC ("Lord Abbett"). Lord Abbett is a registered investment adviser under the U.S. Investment Advisers Act of 1940 (the "Advisers Act"), as amended, and is subject to the Advisers Act rules and regulations adopted by the U.S. Securities and Exchange Commission ("SEC"). Registration with the SEC does not imply a particular ability or training. Lord Abbett is a global asset manager with headquarters in Jersey City, New Jersey.

Certain information provided in the broadcast has been obtained from third party sources and such information has not been independently verified by Lord Abbett. No representation, warranty, or undertaking, expressed or implied, is given to the accuracy or completeness of such information by Lord Abbett or any other person. While such sources are believed to be reliable, Lord Abbett does not assume any responsibility for the accuracy or completeness of such information. Lord Abbett does not undertake any obligation to update the information contained herein as of any future date.

Certain information contained in the broadcast constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events, results or actual performance may differ materially from those reflected or contemplated in such forward-looking statements. Nothing contained in the broadcast may be relied upon as a guarantee, promise, assurance or a representation as to the future.

Market forecasts and projections are based on current market conditions and are subject to change without notice. Projections should not be considered a guarantee.

Past performance is not a reliable indicator or guarantee of future results. All investments involve risk, including the loss of capital. Investments are not guaranteed by Lord Abbett, its affiliates, or any governmental agency.

The views and opinions expressed by the Lord Abbett speaker are those of the speaker as of the date of the broadcast, and do not necessarily represent the views of the firm as a whole. Any such views are subject to change at any time based upon market or other conditions and Lord Abbett disclaims any responsibility to update such views. References to specific asset classes and financial markets are for illustrative purposes only. This material is not intended to be relied upon as a forecast, research or investment advice. Neither Lord Abbett nor the Lord Abbett speaker can be responsible for any direct or incidental loss incurred by applying any of the information offered.

The information in this broadcast does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation in any jurisdiction. This presentation has not been reviewed or approved by any regulatory authority in any jurisdiction.

None of the information provided should be regarded as a suggestion to engage in or refrain from any investment-related course of action as neither Lord Abbett nor its affiliates are undertaking to provide impartial investment advice, act as an impartial adviser, or give advice in a fiduciary capacity.

Mentions of specific companies are for reference purposes only and are not meant to describe the investment merits of, or potential or actual portfolio changes related to, securities of those companies.

Unless otherwise noted, all discussions are based on U.S. markets and U.S. monetary and fiscal policies.

This recording may not be reproduced in whole or in part or any form without the permission of Lord Abbett. Lord Abbett mutual funds are distributed by Lord Abbett Distributor LLC, member FINRA.

Copyright © 2025 by Lord, Abbett & Co. LLC. All rights reserved.