Butler Family Foundation Investment Committee

Conference Call

February 23, 2021 at 3:00 p.m. CT

I. Welcome

II. Approval of Minutes

III. Year in Review

IV. Portfolio and Performance Update
   A. Portfolio Summary Statement
   B. Overall Foundation Performance
   C. Individual Manager Performance
   D. Summary of Fees and Managers

V. Update on Current/Potential Investments
   A. Mondrian Performance

VI. Other Business

Attachments:

a. Minutes of August 19th Investment Committee
b. Year in Review – Charts & Articles
c Wells Fargo Portfolio Summary Statement
d. Historical Portfolio Performance
e. Individual Manager Performance
f. Summary of Fees and Managers
g. Morningstar report on Mondrian

Call-in Number: 800-261-3225 (Access Code 5243817049)

MINUTES OF THE AUGUST 19, 2020
INVESTMENT COMMITTEE MEETING
OF THE
PATRICK AND AIMEE BUTLER FAMILY FOUNDATION

The Investment Committee meeting of the Patrick and Aimee Butler Family Foundation was held on Wednesday, August 19, 2020, at 10:00 a.m. Central Time via conference call.

The meeting was called to order by Patrick O'Brien, Chair of the Investment Committee. John K. Butler acted as recording Secretary of the meeting.

Upon call of the Secretary, the following Committee members were present: Peter Butler, Ronald Kaliebe and Patrick O'Brien. Also present was John Butler.

The Chair began by welcoming Ron Kaliebe to the Committee. Mr. Kaliebe gave a brief overview of his experience and how he hopes to contribute to the Committee and the Butler Family Foundation.

The Chair called for consideration of the minutes of the February 19, 2020 meeting of the Investment Committee. Upon motion duly made, seconded and unanimously carried, the minutes of the February 19, 2020 Investment Committee meeting were approved, ratified and confirmed.

The Chair called on Mr. John Butler, Chief Investment Officer, to review the current holdings of the portfolio and summarize any major changes since December 31, 2019. Mr. Butler began by reviewing the Wells Fargo (Principal) Summary Statement. Mr. Butler then reviewed Individual Manager performance and asset allocations. Usually the Committee reviews the Butler Foundation's overall performance versus its peers at the August meeting; however, the data for the peer group is not yet available. Mr. Butler remains comfortable with his estimated returns for the peer group of 16% (1% higher than previously estimated), which compares to a 16.9% return for the Butler Family Foundation in 2019.

The Committee next reviewed the Investment Policy Statement. The current statement was adopted by the Board of Trustees on October 12, 2018, and the Investment Committee Charter notes that it will be reviewed by the Committee each year at the August meeting. Mr. Butler commented that the only potential change would be to decrease the allocation to Domestic Equities and increase the allocation to International Equities. This better reflects the actual weightings of both the Foundation and the MSCI All Country World Index. After review and discussion, the Committee agreed with this change and voted to recommend that the Board decrease the Domestic Equity allocation to 40% and increase the International Equity allocation to 25%. This recommendation will be voted on by the Board at the Fall Board meeting.

Mr. Butler then provided the Committee with an update on some of the Foundation investments. He began by looking at the Foundation's real estate exposure, an area of interest given the pressure on retail and office space. Currently the Foundation has two real estate investments (excluding the Gateway Partership) and the total exposure is less than 3% of total assets. While modest, Mr. Butler is reluctant to increase exposure given the continuing challenges this area may face in coming years. Mr. Butler also commented on the Foundation's investment in the Wastewater Opportunity Fund. Last August Mr. Butler updated the Committee on the status of the Fund following the resignation of the lead manager. In the past month there have been several other resignations and Mr. Butler recently discussed the situation with management on a conference call. While this turnover in staff is a concern, it will have a larger impact on any future investments in new funds rather than this particular Fund as it is now fully invested. The Fund expects to begin selling investments beginning later this year and initial indications are that some investments may be sold for valuations above current forecasts.

Next Mr. Butler discussed the idea of a tentative CIO back-up plan should anything unexpected happen to him. His recommendation is that in this situation the Committee and Board should open discussions with MFO Management Company. MFO manages a number of foundations for members of the Mott family, the largest having over $200 million in assets. MFO offers a high level of service, has done a perfectly good job in terms of performance and would be able to step into the CIO role very quickly and easily.

The next Committee meeting will be in February, 2021. The meeting will be scheduled in January and materials for the meeting will be sent one week prior to the meeting.

The meeting adjourned at 11:00 a.m. Central Time.

John K. Butler

John K. Butler, Secretary

ATTEST:

Patrick O'Brien, Committee Chair

The New York Times https://nyti.ms/37tx1OX

STRATEGIES

Clueless About 2020, Wall Street Forecasters Are at It Again for 2021

Despite a horrendous record in forecasting, Wall Street is making bullish predictions for the stock market next year. Ignore them but invest anyway, our columnist says.

By Jeff Sommer

Dec. 18, 2020

If you want to know where the stock market will end up one year from now, I'm sorry — I can't help with that.

Neither can Wall Street stock market strategists.

The difference is that I don't try to forecast the stock market's movements.

Predicting the future is beyond my competence. And it's not just me. The overwhelming evidence from decades of academic research is that nobody can reliably and accurately forecast what the stock market will do. Short-term forecasts — including predictions of where the market will be one year from now — are a fool's game.

Yet Wall Street is at it again. Strategists are issuing boatloads of forecasts that purport to reveal precisely where the market will be at the end of the 2021.

These prognosticators are smart people and often have interesting things to say about what has already occurred in the markets and the economy. But as far as predicting the future goes, Wall Street's record is remarkable for its ineptitude.

I can't fault anyone for failing to have known in advance exactly how painful and strange 2020 would turn out to be. I didn't see it either (and if you know of a way of redoing this entire year, please count me in).

But I don't make forecasts. Wall Street does and it proved, without a shadow of a doubt, that it had no idea of where things were heading.

Consider a few details of the track record of stock market forecasters over the last year, as compiled by Bloomberg.

In December 2019, the median consensus on Wall Street was that the S&P 500 would rise 2.7 percent in the 2020 calendar year. At the moment, that target is too low: On Friday, the market was up almost 15 percent for the year. That's a forecasting error of more than 12 percentage points — much greater than the estimate of the market's increase for the entire year.

How bad of a forecast is that? It's as if you were told that it would snow 2.7 inches just before a blizzard dumped 15 inches on your town.

That would have been bad enough, but when the stock market plummeted in February and March, forecasters wouldn't leave bad enough alone. In April, the Bloomberg survey showed, forecasters predicted that the S&P 500 wouldn't rise at all for this calendar year: They said the market would fall about 11 percent. But the market had begun climbing on March 23, the day the Fed intervened to stem panic. The strategists failed to register the change in direction. If you had invested, based on their predictions, you would have missed a great bull market.

Whoops. On Friday, that "corrected" consensus forecast was off by a whopping 26 percentage points.

It would be unfair to highlight the forecasts for this bizarre year if the record in the past had been impressive, but that just isn't the case.

Such wildly incorrect predictions have been the norm since 2000, I found, after reviewing the median annual stock predictions made by Wall Street analysts each December. Paul Hickey, a co-founder of Bespoke Investment Group, updated data that he compiled last year.

The numbers show that since 2000, the median Wall Street analyst forecast that the S&P 500 would rise 9.5 percent a year, on average. In reality, the annual increase averaged 6 percent a year.

That 3.5 percentage point gap, or spread, is considerable in itself, but a closer look shows that it vastly understates how terrible the invariably bullish forecasts were.

Each December, since 2000, the median forecast never called for a stock market decline over the course of the following calendar year. But the market did fall in six separate years in that period, or about 29 percent of the time. (That's roughly in line with the long-term stock market average: Vanguard has found that from 1926 through 2019, the stock market fell in 27 percent of calendar years.)

In 2018, for example, the market fell 6.9 percent, though the forecasters said it would rise 7.5 percent, a spread of 14.4 percentage points. In 2002, the forecast called for an increase of 12.5 percent, but stocks fell 23.3 percent, a spread of almost 36 percentage points.

All told, when gaps like that are taken into account, the median Wall Street forecast from 2000 through 2020 missed its target by an average 12.9 percentage points — which was more than double the actual average annual performance of the stock market.

Year after year, these forecasts are about as accurate as those of a weatherman who always calls for balmy sunshine in a city where it rains or snows about 30 percent of the time. Some forecasts!

Mr. Hickey put it politely: "The fact that the average spread between analysts' forecasts and the actual performance of the market in that year is over 12 percentage points, I think, is pretty damning, in and of itself." When the strategists are so off target, he added, "What good is the target in the first place?"

I'd say these targets are worthless, and would avoid stock market bets based on "expert" appraisals of where the market is heading day-to-day or even year-to-year.

That may sound grim, yet I, too, remain essentially bullish about the stock market over the long run. Because the market has risen far more frequently than it has fallen, for many decades, I think it is reasonable, if risky, to make long-term bets that it will rise in the future. Underlying that assessment is the assumption that, despite the kinds of tragedies and setbacks we've seen this year, the world economy will keep growing and public companies will make profits that will flow into investors' hands.

That is why I have continued to put money into stocks — as well as bonds — during this time of pandemic, economic dislocation, and social and political struggle. I'm investing, as always, in a well-diversified, low-cost portfolio made up mainly of index funds that reflect the performance of the global financial marketplace.

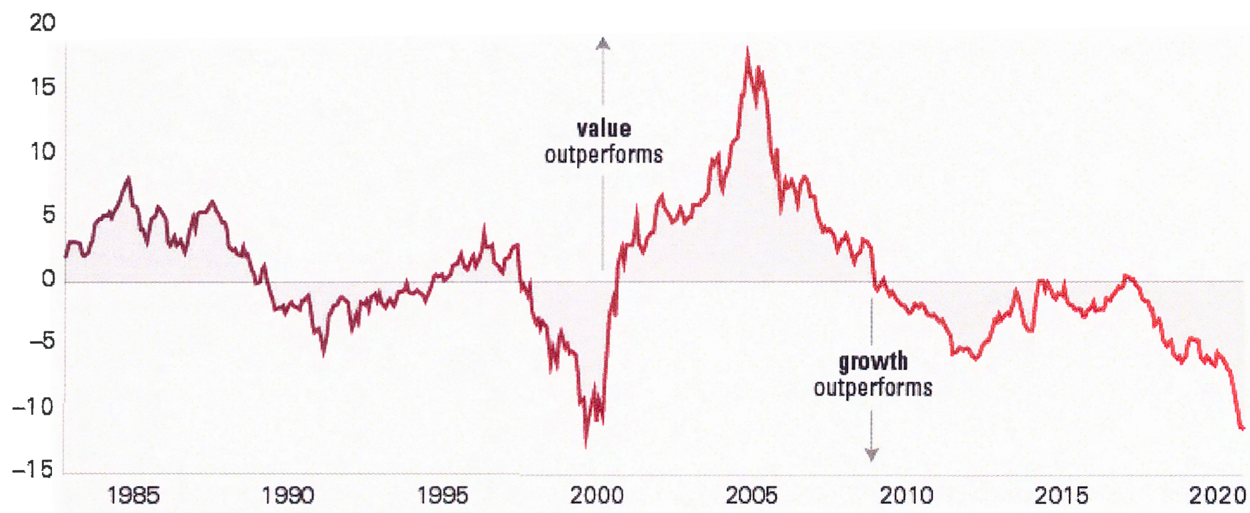
I'm doing so even though I'm troubled by the vertiginous heights the market has reached lately. I'm not comfortable with current valuations but I've given up on timing the market or picking individual sectors or stocks. There will be some bad times with ugly losses ahead, but over the long run, I expect it will be all right.

That's not much of a forecast, but it's the best I can do.

Source: Vanguard, using data from Russell, as of June 30, 2020.

The next chart shows the difference in annualized total returns between the Russell 1000 Value Index and the Russell 1000 Growth Index over rolling five-year periods. Value stocks were dominant for a number of years after the dot-com implosion of 2000 until the 2007–2009 global financial crisis. From 2009, an expanding economy has been the tailwind for growth stocks, creating the longest period that growth has outperformed value.

Difference in annualized total returns over rolling five-year periods

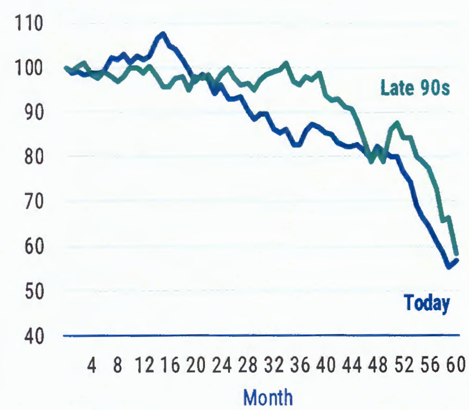


Source: Vanguard, using data from Russell, as of December 31, 1983, through July 31, 2020.

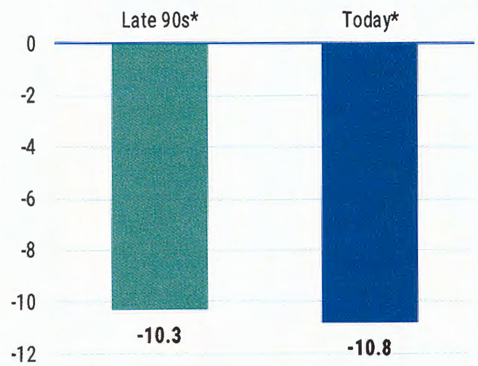
Growth stocks have become even pricier

EXHIBIT 3: U.S. VALUE VS. GROWTH PERFORMANCE IS EERILY SIMILAR TO LATE 90S

5-Year Cumulative R1000 Value vs. R1000 Growth



5-Year Annualized Return R1000 Value vs. R1000 Growth

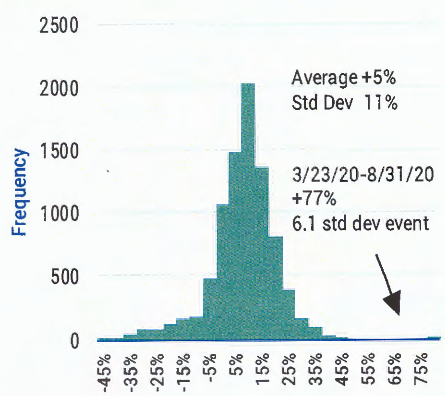


Source: FTSE Russell
*The "Late 90s" reference is to 5 years ending February 2000; the "Today" reference is to 5 years ending September 2020.

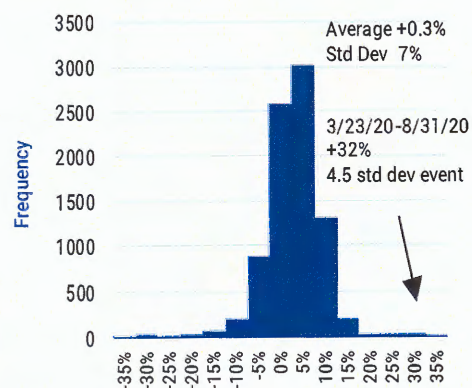
Not painful enough? Enter the Covid-19 Growth rally of 2020, which started on March 23 and continued all summer. From March 23 to August 31 – a 113-day run – Growth was up 77%, beating Value by a soul-crushing 32% cumulatively (a 4.5 sigma event, which officially happens once every 403 years; see Exhibit 4). This outperformance of Growth, importantly, has *not* been justified by the fundamentals, resulting in one of the widest valuation spreads we've ever witnessed. We believe this is a time for leaning *into* Value, not away from it. When mean reversion ultimately occurs, just as it did in the post-1999 period, investors will want to be on the right side of that trade.

EXHIBIT 4: AN UNPRECEDENTED RUN FOR U.S. GROWTH VS. VALUE THIS SPRING AND SUMMER

113 Market Day Returns to R1000 Growth



113 Market Day Returns to R1000 Growth vs. R1000 Value



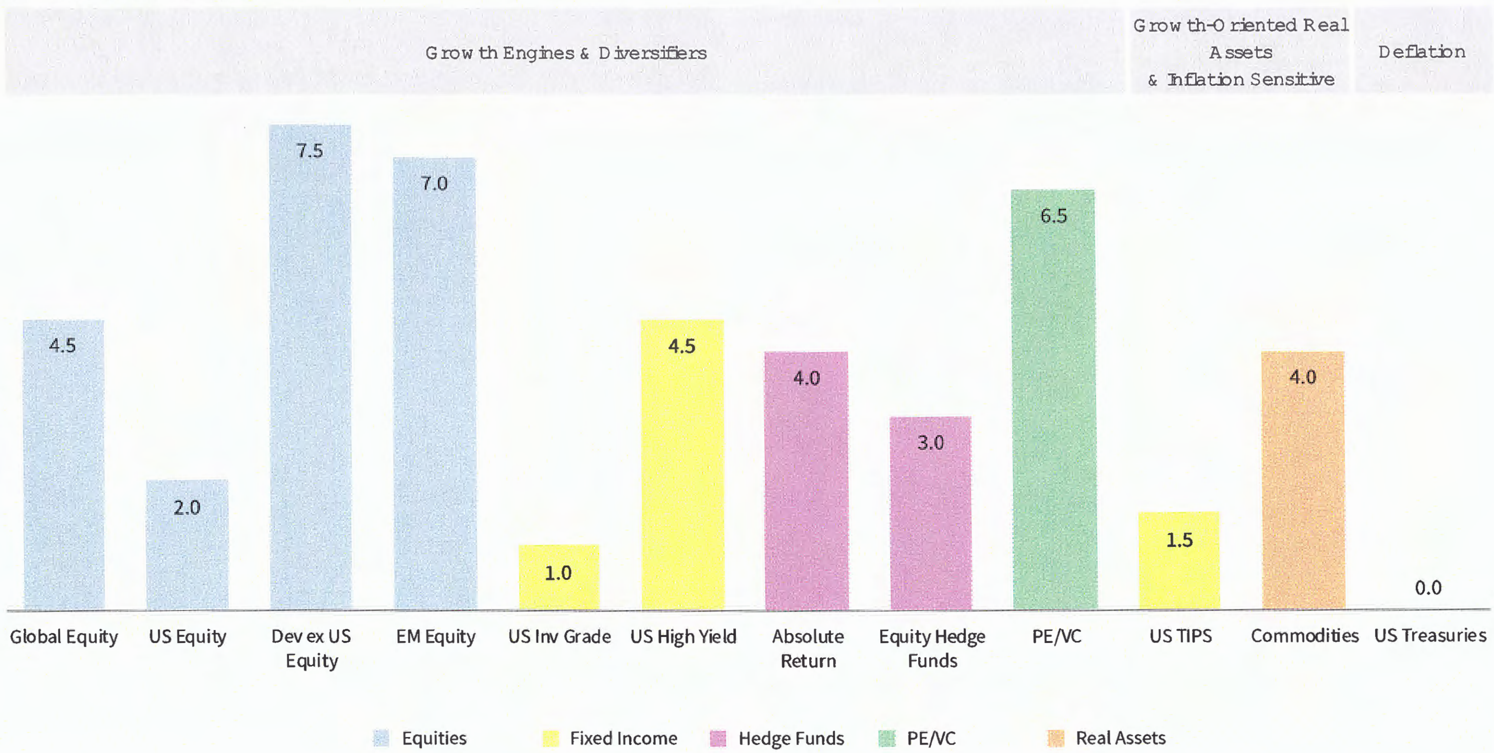
Data is from 9/30/1985 to 3/23/2020 and from 3/23/2020-8/31/2020 | Source: FTSE Russell, GMO

"Return to Normal" Scenario

Expected returns if valuations normalize over ten years

TEN-YEAR NOMINAL RETURN SCENARIOS: "RETURN TO NORMAL"

As of October 31, 2020 • Nominal AACR (%)



Key Assumptions: Inflation: 2.5%; real EPS growth: 2% for US and Dev ex US, 3% for EMs; ending 10-Yr US Treasury yield: 5.0%; ending 10-Yr US TIPS yield: 2.0%; equity valuations: revert to long-term medians

Sources: Bloomberg Index Services Limited, Bloomberg L.P., Cambridge Associates LLC, Global Financial Data, Inc., MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: All projections are in local currency terms and are intended to represent total returns rounded to the nearest half decimal. Projected global equity returns are based on a weighted average of the projections for US, developed ex US, and EM equities using month-end weights for the MSCI All Country World Index. Projected hedge fund returns are intended to reflect market-wide performance as defined by particular HFRI indexes, and not the performance or potential for value-added of a specific program. The return projection for private equity/venture capital is not calculated using the same "bottom up" methodology as the other asset classes; rather, it is calculated as the projected global equity return plus 2%.

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SUMMARY STATEMENT
OF INVESTMENT HOLDINGS
BY SECURITY CATEGORIZATION

PATRICK AND AIMEE BUTLERFAMILY FOUNDATION
CONSOLIDATED ACCOUNT
BASE CURRENCY: USD

AS OF DECEMBER 31,2020

	COST	MARKET VALUE	ACCRUED INCOME	%GAIN (LOSS)	% MKT	ESTIMATED ANNUAL INCOME	CURRENT YIELD
SETTLED CASH	53,931.45	53,931.45	0.00	.0	.1	0.00	.00
RECEIVABLES	147,458.78	147,458.78		.0	.1		
NET CASH	201,390.23	201,390.23		.0	.2		
CASH EQUIVALENTS							
US TREASURY BILLS	174,989.06	174,989.06	3.65	.0	.2	0.00	.00
SHORT TERM FUNDS	8,541,284.71	8,541,284.71	114.57	.0	8.1	856.55	.01
CASH EQUIVALENTS	8,716,273.77	8,716,273.77	118.22	.0	8.2	856.55	.01
FIXED INCOME							
GOVERNMENT AND AGENCIES	4,839,124.42	4,925,794.24	12,694.29	1.8	4.7	146,862.86	2.98
BOND FUNDS	6,246,557.54	5,569,692.43	3,556.10	(10.8)	5.3	316,567.00	5.68
MUNICIPAL BONDS	2,561,070.42	2,673,403.70	23,765.81	4.4	2.5	87,040.05	3.26
CORPORATE BONDS AND NOTES	5,868,328.12	6,149,421.71	63,805.76	4.8	5.8	253,242.62	4.12
ASSET-BACKED SECURITIES	1,378,070.28	1,393,721.50	3,742.14	1.1	1.3	44,905.75	3.22
COLLATERALIZED MTG-BACKED	22,762.04	20,969.06	128.33	(7.9)	.0	1,539.98	7.34
FIXED INCOME	20,915,912.82	20,733,002.64	107,692.43	(.9)	19.6	850,158.26	4.10
PREFERRED STOCK							
PREFERRED STOCK MISC	124,000.00	134,400.00	0.00	8.4	.1	6,095.00	4.53
PREFERRED STOCK	124,000.00	134,400.00	0.00	8.4	.1	6,095.00	4.53
COMMON STOCK							
HEALTH CARE	1,573,346.81	4,547,030.00	16,350.00	189.0	4.3	128,640.00	2.83
FINANCIALS	1,746,566.98	3,545,120.00	9,240.00	103.0	3.4	103,160.00	2.91
CONSUMER STAPLES	1,487,988.50	2,865,940.00	0.00	92.6	2.7	79,378.00	2.77
CONSUMER DISCRETIONARY	280,393.58	2,121,660.00	0.00	656.7	2.0	40,320.00	1.90
MATERIALS	708,900.66	1,325,640.00	1,920.00	87.0	1.3	11,680.00	.88
ENERGY	1,207,142.93	1,323,180.00	3,300.00	9.6	1.3	40,720.00	3.08
INFORMATION TECHNOLOGY	1,385,744.71	4,642,020.00	0.00	235.0	4.4	89,340.00	1.92
INDUSTRIALS	2,283,449.98	5,214,620.00	500.00	128.4	4.9	113,180.00	2.17
TELECOMMUNICATION SERVICE	597,175.30	1,057,500.00	0.00	77.1	1.0	45,180.00	4.27
ADR'S	2,135,298.71	1,777,570.00	6,515.00	(16.8)	1.7	72,810.00	4.10
COMMON STOCK	13,406,008.16	28,420,280.00	37,825.00	112.0	26.9	724,408.00	2.55

WELLS FARGO

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SUMMARY STATEMENT
OF INVESTMENT HOLDINGS
BY SECURITY CATEGORIZATION

PATRICK AND AIMEE BUTLERFAMILY FOUNDATION
CONSOLIDATED ACCOUNT
BASE CURRENCY: USD

25007299

AS OF DECEMBER 31,2020

	COST	MARKET VALUE	ACCRUED INCOME	%GAIN (LOSS)	% MKT	ESTIMATED ANNUAL INCOME	CURRENT YIELD
EQUITY FUNDS							
MUTUAL EQUITY FUNDS	7,239,907.91	9,319,233.11	1,823.13	28.7	8.8	36,841.59	.40
EQUITY FUNDS	7,239,907.91	9,319,233.11	1,823.13	28.7	8.8	36,841.59	.40
MISCELLANEOUS							
OTHER MISCELLANEOUS	360.00	360.00	0.00	.0	.0	0.00	.00
MISCELLANEOUS	360.00	360.00	0.00	.0	.0	0.00	.00
VENTURE/LMTD PART/CLS HLD							
VENTURE CAPITAL	31,227,629.02	38,166,691.00	0.00	22.2	36.1	0.00	.00
VENTURE/LMTD PART/CLS HLD	31,227,629.02	38,166,691.00	0.00	22.2	36.1	0.00	.00
NET ASSETS	81,831,481.91	105,691,630.75	147,458.78	29.2	100.0	1,618,359.40	1.53

Patrick and Aimee Butler Family Foundation - Historical Portfolio Performance

	Butler Family Foundation					Foundation Average					Market Benchmark (65/35)				
	YR	TOTAL	5-YR	10-YR	ITD	YR	TOTAL	5-YR	10-YR	ITD	YR	TOTAL	5-YR	10-YR	ITD
2001	4.9%	18.3%			8.7%	-2.1%	0.9%			0.5%	-5.1%	-6.5%			-3.3%
2002	-1.0%	17.1%			5.3%	-5.7%	-4.8%			-1.6%	-9.9%	-15.8%			-5.5%
2003	16.6%	36.5%			8.1%	12.5%	7.1%			1.7%	19.5%	0.6%			0.2%
2004	11.6%	52.3%	8.8%		8.8%	11.4%	19.3%	3.6%		3.6%	7.9%	8.6%	1.7%		1.7%
2005	4.7%	59.4%	7.2%		8.1%	8.2%	29.1%	4.6%		4.4%	4.0%	12.9%	2.8%		2.1%
2006	12.7%	79.7%	8.7%		8.7%	13.7%	46.8%	7.8%		5.6%	11.7%	26.2%	6.2%		3.4%
2007	6.3%	91.0%	10.3%		8.4%	10.3%	61.9%	11.2%		6.2%	6.2%	34.0%	9.7%		3.7%
2008	-21.2%	50.5%	2.0%		4.6%	-25.9%	19.9%	2.3%		2.0%	-22.1%	4.4%	0.7%		0.5%
2009	16.1%	74.7%	2.8%	5.7%	5.7%	20.5%	44.5%	3.9%	3.8%	3.8%	18.8%	24.0%	2.7%	2.2%	2.2%
2010	11.6%	94.9%	4.1%	5.6%	6.3%	12.5%	62.6%	4.7%	4.7%	4.5%	12.1%	39.0%	4.2%	3.5%	3.0%
2011	1.7%	98.1%	2.0%	5.3%	5.9%	-0.7%	61.5%	1.9%	4.8%	4.1%	4.4%	45.1%	2.8%	4.5%	3.2%
2012	12.6%	123.2%	3.2%	6.7%	6.4%	12.0%	80.8%	2.2%	6.6%	4.7%	12.3%	63.0%	4.0%	6.8%	3.8%
2013	18.6%	164.6%	12.0%	6.8%	7.2%	15.6%	109.1%	11.8%	6.9%	5.4%	20.4%	96.2%	13.5%	6.9%	4.9%
2014	5.0%	177.9%	9.7%	6.2%	7.1%	6.1%	121.8%	8.9%	6.4%	5.5%	11.0%	117.8%	11.9%	7.2%	5.3%
2015	0.7%	179.7%	7.5%	5.8%	6.6%	0.0%	121.8%	6.4%	5.6%	5.1%	0.9%	119.8%	9.6%	6.9%	5.0%
2016	9.5%	206.3%	9.1%	5.5%	6.8%	6.4%	136.0%	7.9%	4.9%	5.2%	8.8%	139.1%	10.5%	6.6%	5.3%
2017	12.0%	243.1%	9.0%	6.0%	7.1%	15.0%	171.4%	8.5%	5.3%	5.7%	15.4%	175.9%	11.1%	7.5%	5.8%
2018	-4.3%	228.3%	4.4%	8.1%	6.5%	-3.5%	161.9%	4.6%	8.1%	5.2%	-2.9%	167.9%	6.4%	9.9%	5.3%
2019	16.9%	283.8%	6.7%	8.2%	7.0%	17.4%	207.5%	6.7%	7.8%	5.8%	23.5%	230.9%	8.7%	10.3%	6.2%
2020	4.1%	299.5%	7.4%	7.4%	6.8%	*11.0%*	*241.3%*	*9.0%*	*7.7%*	6.0%	15.2%	281.2%	11.6%	10.6%	6.6%

All returns are net of fees
Any returns in italic are estimates

Patrick and Aimee Butler Family Foundation - Individual Manager Performance

	Allocation - Dec 31, 2020				Performance Data - Dec 31, 2020			
Asset Class	**Assets**	**Wgt**	**Target**	**Range**	**1 YR**	**5 YR**	**ITD**	**Incep. Date**
Cash	$8.4	8%	5%	0-10%	0.3%	0.9%	1.3%	NA
Fixed Income								
Sit Investment Assoc.	$17.4	16%	15%	10-20%	8.9%	5.3%	4.5%	12/31/2011
Barclays Aggregate					7.5%	4.4%	3.4%	
U.S. Equities	$37.4	35%	40%	35-45%				
Vanguard Small-Cap Index Fund	$9.0	9%			19.1%	NA	11.0%	3/31/2018
Large-Cap Value (Internal)	$28.4	27%			4.2%	10.1%	8.3%	12/31/1999
S&P 500					18.4%	15.4%	7.0%	
International Equities								
Mondrian Investment Group	$29.1	28%	25%	20-30%	0.4%	6.5%	5.7%	6/30/2004
MSCI All-Country World					10.7%	8.9%	5.5%	
Alternative Investments								
Miscellaneous	$13.3	13%	15%	10-20%	-0.3%	2.0%	4.6%	NA
HFRI Composite					-3.4%	-0.5%	2.1%	
Total Foundation	$106	100%	100%		4.1%	7.4%	6.7%	12/31/1999

Notes:

Mondarian fund was changed from International Equity Fund to All Countries World in January 2012
Performance for Alternative Investments is an estimate due to manager changes and time lags

Patrick & Aimee Butler Family Foundation

Summary of Fees, Managers and Custodians - December 31, 2020

Asset Class	SMA or Fund	Custodian	Manager	Assets	Fee	Est. Costs
Cash						
Stock Account	SMA	Wells Fargo	Internal	$2.0	0	$0
Misc. Account	SMA	Wells Fargo	Internal	$6.4	0	$0
Fixed Income						
Sit Investment	SMA	Wells Fargo	Sit Investment	$17.4	32	$56
Equities						
Domestic - Large Value	SMA	Wells Fargo	Internal	$28.4	0	$0
Domestic - Small Cap	Fund	JP Morgan	Vanguard	$9.0	5	$5
International	Fund	JP Morgan	Mondrian	$29.1	67	$195
Alternatives						
Debt Partnerships	Fund	Wells/US Bank	Northstar	$4.2	200	$84
Global Fixed Income	Fund	BNY Mellon	Templeton	$4.3	110	$47
Infrastructure Part.	Fund	Real Asset - NA	Morgan Stanley	$1.2	200	$24
Global Real Estate	Fund	Real Asset - NA	Morgan Stanley	$1.2	200	$24
Wasterwater Opp.	Fund	Real Asset - NA	Equilibrium Cap.	$2.3	200	$46
Gateway Partnership (KBP)	Fund	Real Asset - NA	Moran & Cos.	$0.1	100	$1
				$106		
Estimated Investment Fees (Direct & Imbedded)						$481
Custodial Costs						$42
Internal Investment Costs						$85
Estimated Total Investment Costs						$608
Percent of Assets						57 bp
Average for Foundations						90-120 bp

Notes:

SMA is seperately managed account
All SMA custodied at Wells Fargo
Fees are stated in basis points (1/100 of 1%)

Mondrian International Value Equity MPIEX

Devoted to value, despite the headwinds.

Morningstar's Take MPIEX

Morningstar Rating	★★★★
Morningstar Analyst Rating	Silver

Morningstar Pillars

Process	Above Average
Performance	—
People	Above Average
Parent	Above Average
Price	—

Role In Portfolio
Core

Fund Performance

Year	Total Return (%)	+/- Category
YTD	-7.65	-3.57
2019	17.97	0.17
2018	-11.74	3.70
2017	21.42	-0.65
2016	4.02	0.68

Data through 11-30-20

11-27-20 | by Gregg Wolper

Mondrian International Equity's value-based strategy has run into headwinds in 2020's growth-friendly climate, but its experienced team, sound approach, and otherwise solid record earns a Morningstar Analyst Rating of Silver.

Founded in the early 1990s, Mondrian--a London-based boutique--still relies on the patient, dividend-focused value strategy that its founders created the firm to run. Long tenures abound here. Lead manager Elizabeth Desmond has been with Mondrian since the beginning, and one comanager, Nigel Bliss, joined the firm in 1995. The other, Zsolt Mester--who stepped up to this role after a rare manager departure in 2019--has been on Mondrian's international team since 2014.

The managers combine in-depth research of individual companies with top-down evaluations of country factors, including currency strength or weakness (although they rarely actively hedge currencies). The team's long-term focus shows in the fund's annual turnover rate, which is consistently lower than 30%. By emphasizing companies that are healthy and well-positioned enough to consistently pay decent dividends, the managers aim to build a portfolio that can withstand market turmoil better than peers and indexes. This approach has delivered on that aim. The fund lost less than the foreign large-value Morningstar Category average in the fourth quarter of 2018 and the bear market of early 2020.

The strategy isn't bulletproof, however. Although it beat value metrics in the early-2020 market swoon, it lost 36.9%, 3 percentage points worse than the core MSCI EAFE Index, the fund's main benchmark. And it lags the category average by a substantial margin for the year to date through October 2020, indicating it has struggled to keep up in the rebound. That's not unusual; this cautious fund can trail in strong rallies. This year, holdings in some financials and energy added in late 2019 have held it back. The managers said they were very cheap and should benefit from economic trends, and they've held on. That patience has paid off in the past and makes this fund a sound value-oriented choice.

Process Pillar Above Average | Gregg Wolper 11/27/2020

This fund uses an income-focused value strategy, an approach first instituted by Clive Gillmore and David Tilles when they founded Mondrian Investment Partners in the early 1990s. It earns an Above Average Process rating. The managers and analysts establish values for companies based on a dividend discount model and have a long time horizon. Unlike most other international funds, this one states candidly that a large amount of its analysis--40% by its estimate--is devoted to top-down factors. The teams do not rank countries and currencies based on political or macroeconomic forecasting; rather, they base their judgments on inflation, interest rates, and currency levels applied to the top names in the countries' indexes. The other 60% of the analysis relies on fundamental research into individual companies, leading to an approved list of about 80 stocks.

When deciding on proper valuations, they tend to rely more on price/cash flow than price/earnings or price/book value, saying the former is more consistent and reliable. Top holdings typically get a bit over 3% of assets. They use currency hedging on rare occasions when they--working with Mondrian's fixed-income/currency team--see the value of a currency lies more than 2 standard deviations outside its usual range as measured by purchasing power parity. Turnover rates are low, consistently 20%-30% per year.

With a fairly low turnover rate, this portfolio doesn't undergo dramatic changes. As usual, the metrics from its September 2020 portfolio land squarely in the upper part of the large-value portion of the Morningstar Style Box. That befits its profile as an income-oriented value fund that typically focuses on big companies. It's looking particularly value-oriented in the current portfolio, owing the managers' decision to invest in cyclicals in late 2019 and then to stick with them, for the most part, as they became even more out of favor in 2020. For example, the fund's price/earnings ratio was 5 percentage points below that of its benchmark MSCI EAFE Index, and its dividend yield, at 3.9%, easily topped the index's 2.7%. For individual stocks, the managers spread their bets around in one sense: Top holdings get roughly equal percentages of assets rather than one or two dominating, and none gets more than 4% of assets. But the fund is rather concentrated in another sense; it has just 51 stocks. Befitting its tendency to favor out-of-favor areas, the fund is heavily overweight in the United Kingdom, where continuing doubts over the direction of the Brexit process and other matters have pushed valuations down. Conversely, the portfolio is underweight in the consumer defensive sector; it has been for a while, as the managers consider that area overpriced in general.

Performance Pillar | Gregg Wolper 11/27/2020
A subpar 2020 has dented this fund's long-term record, but it still has a solid showing against value-oriented benchmarks.

The fund's defensive traits have helped it navigate troubled waters better than most. For example, in the early-2020 bear market, it trailed the core MSCI EAFE Index--not surprising given the vast disparity in performance between value and growth--but it slightly outperformed the category average and the MSCI EAFE Value Index even though its portfolio had a deeper value tilt than either. It outperformed by even wider margins during 2018's rough fourth quarter. The trouble in 2020, relatively speaking, came when the fund couldn't keep up with the strong rebound led forcefully by growth stocks.

This adds context to the fund's long-term record, which looks less impressive than it did a year ago. The long term is relevant because lead manager Elizabeth Desmond has been a manager on this fund since 1999 and many other team members are also long-tenured. Over the trailing 15-year period through Oct. 31, 2020, the fund--which has consistently landed in the large-value portion of the style box--has topped the MSCI EAFE Value Index by a percentage point and the foreign large-value category average by 57 basis points annualized. However, it lags the core MSCI EAFE Index--the fund's chosen benchmark--by nearly 1 percentage point. The results are similar for the 10-year period.

People Pillar ◉ Above Average | Gregg Wolper 11/27/2020
The experience and record of this management and analyst team earn it an Above Average People rating. Lead manager Elizabeth Desmond has been at Mondrian since the early 1990s and has been a named manager on this fund since 1999. In January 2005 she was named joint CIO for developed markets and in January 2008 became sole CIO for all international equities, and head of the international strategy committee. Desmond works with two other named managers on this fund: Nigel Bliss, who has been with Mondrian since 1995 and was listed as a manager on this fund in November 2014, and Zsolt Mester, who was listed on the fund in March 2019 and has been on the team since 2014. Melissa Platt, who was named a manager on this fund in February 2012, left Mondrian in 2019 to return to her native New Zealand. The managers also serve as analysts, with their own areas of specialty. The managers usually all have to agree on portfolio decisions, but if there is disagreement, Desmond has the final call. Including these managers, there are 18 members of the international/global-equity group, most of whom have been at Mondrian for at least a decade. Before Platt, the only departures from this team over the past 10 years were one analyst who left the investment field in mid-2017 and another who shifted to a business role at Mondrian in 2014. All of Mondrian's investment personnel are based in London.

Parent Pillar ◉ Above Average | Gregg Wolper 01/17/2020
Mondrian Investment Partners, a London-based boutique that focuses mainly on institutional accounts, earns an Above Average Parent rating. It was founded in the early 1990s by investors dedicated to the value strategy they had developed, and who did not want to expand into other areas then popular in the market, as they felt their employers were pressuring them to do. The co-founders are still leading the firm. One of them, Clive Gillmore, is CEO. He plans to stay in that position five more years at a minimum (and to become chairman after that), and deputy CEO/ international-equity CIO Liz Desmond

plans to stay at least five years. It's admirable that Gillmore and colleagues already have established a sound and detailed succession plan for the time that it would be necessary. With specific individuals in mind, Gillmore says the successor would very likely come from the firm's investment side. The firm has approximately USD 55 billion under management. Manager and analyst retention is strong, helped by a policy of spreading equity ownership widely throughout the firm; about half of employees are partners. One vulnerability for the firm is its relative lack of asset-class diversification: More than 90% of its assets are in equity accounts, including international developed markets (nearly half of firm assets), global markets, and emerging-markets portfolios; less than 10% of assets are in fixed-income vehicles.

Price Pillar | Gregg Wolper 11/27/2020
It's critical to evaluate expenses, as they come directly out of returns. The share class on this report levies a fee that ranks in its Morningstar category's second-cheapest quintile. Based on our assessment of the fund's People, Process and Parent pillars in the context of these fees, we think this share class will be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Analyst Rating of Silver.