

# **INTERNATIONAL GROWTH EQUITY SEARCH**

**MASS. WATER RESOURCE'S AUTHORITY  
RETIREMENT SYSTEM**



**August, 2020**

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BOSTON | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | PORTLAND | SAN FRANCISCO

# SUMMARY OF INTERNATIONAL GROWTH SEARCH

- **Target fund strategy:**
  - International Growth Equity
  
- **Advertised requirements for the search:**
  1. Candidates must have familiarity with and agree to comply (in writing) with Massachusetts G.L. Chapter 32 and Chapter 176 of the Acts of 2011. Additionally, candidates must have familiarity and agree to comply with the reporting and investment guidelines administered by PERAC.
  2. Candidates must read and agree to the attached side letter pertaining to mandatory contractual language, based on the guidelines above.
  3. Candidates must be registered with the SEC or Massachusetts Secretary of State
  4. Candidates must have at least \$500 million in assets in the fund that is being suggested
  5. Fund must have a track record of at least five years, and
  6. Fund must have exposure to emerging markets
  
- **Responses were due by June 19, 2020 at 4:00 PM EST**
  - A total of 28 managers responded
  - The Board selected Ballie Gifford, JO Hambro and Schrodgers as finalists



# FIRM AND PRODUCT SUMMARY

Firm/Product	Firm/Team Comments	Investment Style/Strategy	Portfolio Positioning	Rating/Comments
<b>International Equity</b>				
Baillie Gifford - EAFE Plus Alpha	Founded in 1908 in Edinburgh, Scotland; long term growth investors; everyone is an analyst; team shares over 60 different graduate degrees ranging from historians to lawyers and doctors.	Concentrated, bottom-up, all-cap high quality growth, low turnover strategy.	Maximum position size of 6% and will invest in emerging markets.	Highly Advantageous  Good performance, EM exposure is unconstrained
J O Hambro - JOHCM INS	Christopher Lees and Nudgem Richyal manage the portfolio. They are based in the Singapore office. The team draws stock ideas from J O Hambro's other investment teams, in addition to conducting their own research.	All-cap, bottom-up and top down, concentrated core approach with growth tilt.	Benchmark agnostic, equally-weighted portfolio with ability to hold 20% cash and up to 25% emerging market exposure.	Advantageous  Good performance, core approach
Schroders - Intl Alpha	Large firm with resources on the ground across the globe	Concentrated bottom up stocks selection approach. Exposed to three key themes, demographics, climate change, and integration of the emerging economies	All cap benchmark agnostic manager.	Highly Advantageous  Good performance, existing MWRA manager, lowest fee



# FIRM COMPARISON SUMMARY

Firm Name	Location	Year Firm Founded	Total Assets Under Mgmt (\$MM)	% Employee Owned	% Parent Owned	Parent Company Name	% Publicly Held	% Other Ownership
<b>International Equity</b>								
Baillie Gifford & Co Limited	Edinburgh, Scotland	1908	245,265	100	0	NA	0	0
J O Hambro Capital Management Limited	London, England	1993	28,813	0	100	Pendal Group Limited	0	0
Schroder Investment Management Ltd	London, England	1804	583,377	3	0	NA	49	48

# PRODUCT COMPARISON

Firm/Product	Vehicle Proposed	Liquidity In	Liquidity Out	Client Fee for \$30.00 mm	Reported Fee (bps)
Baillie Gifford - EAFE Plus Alpha	Mutual Fund	Daily	Daily	180,000.00	60
J O Hambro - JOHCM INS	Commingled Fund	Daily	Daily	225,000.00	75
Schroders - Intl Alpha	Commingled Fund	Daily	Daily	165,000.00	55



# EQUITY PRODUCT COMPARISON

Firm/Product	Primary Equity Capitalization	Current Number of Holdings	Typical Holdings	Wgt'd. Avg. Mkt. Cap (\$MM)	Median Mkt. Cap (\$MM)	Annual Turnover (%)	Max Cash Position (%)	Typical Cash (%)
<b>International Equity</b>								
Baillie Gifford - EAFE Plus Alpha	All Cap	56	55	113,503	28,777	6	10	1
J O Hambro - JOHCM INS	All Cap	35	40	39,896	21,374	NA*	10	10
Schroders - Intl Alpha	Large Cap	48	60	103,846	34,438	38	5	2

\*Not Provided

# EQUITY SECTOR ALLOCATIONS

Firm/Product	Consumer Discretionary (%)	Consumer Staples (%)	Energy (%)	Financials (%)	Health Care (%)	Industrials (%)	Info. Tech. (%)	Materials (%)	Real Estate (%)	Comm. Serv. (%)	Utilities (%)	Other (%)
<b>International Equity</b>												
Baillie Gifford - EAFE Plus Alpha	41.5	2.9	0.0	9.2	11.2	5.9	12.0	3.9	0.0	13.5	0.0	0.0
J O Hambro - JOHCM INS	8.1	12.4	0.0	13.8	20.6	11.1	19.4	5.4	0.0	6.1	3.2	0.0
Schroders - Intl Alpha	20.8	6.7	0.0	12.3	14.4	15.7	15.8	3.0	2.1	5.2	4.1	0.0



Characteristics as of March 31, 2020

# PERFORMANCE

NEPC, LLC

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# TRAILING PERIOD RETURNS - (NET OF FEES)

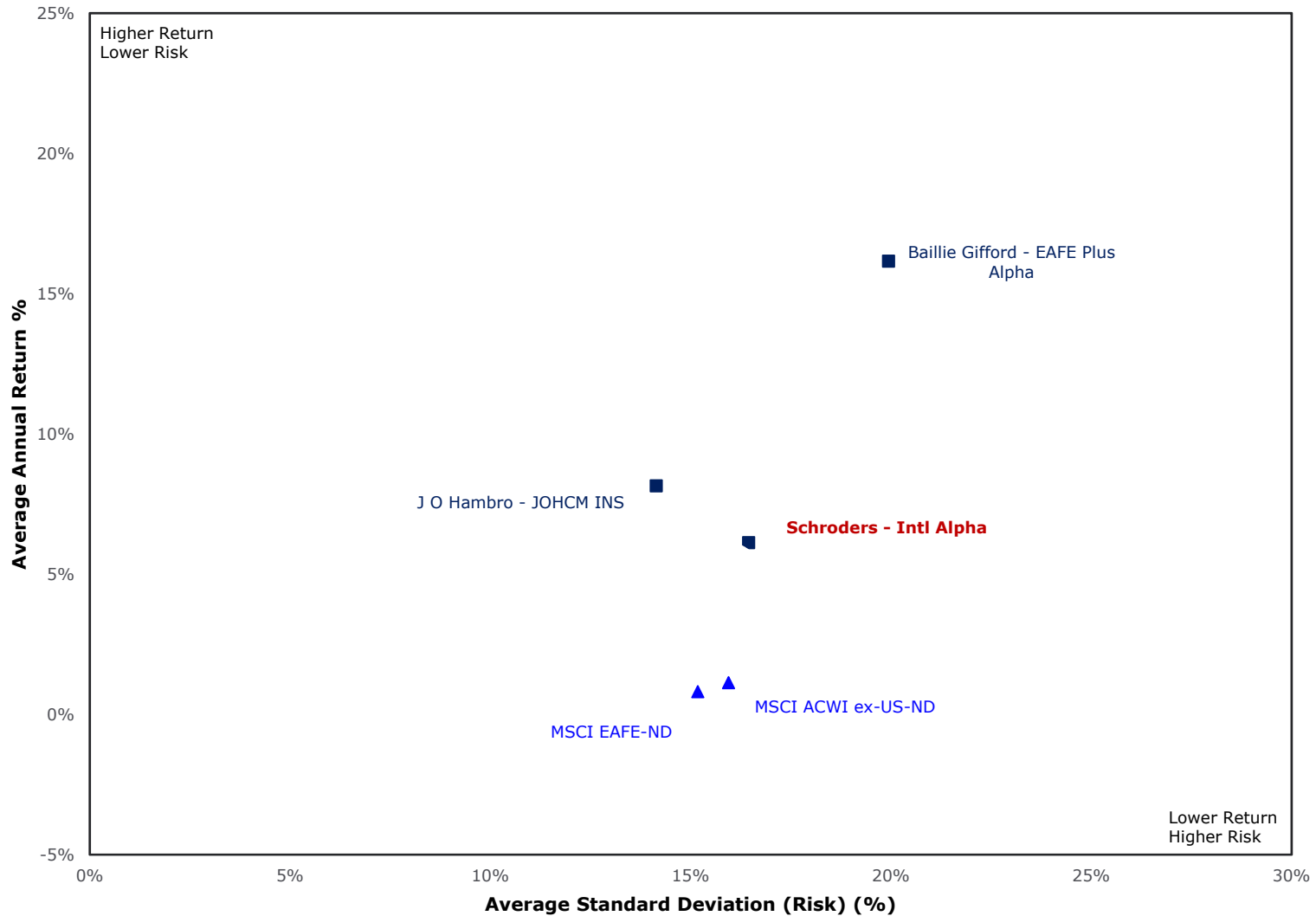
	Benchmark	Qtr	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
<b>International Equity</b>								
<b>Baillie Gifford - EAFE Plus Alpha</b>	1	36.6%	17.8%	30.5%	16.2%	12.5%	12.3%	11.8%
<b>J O Hambro - JOHCM INS</b>	2	23.5%	4.5%	8.1%	8.1%	5.8%	9.2%	11.0%
<b>Schroders - Intl Alpha</b>	2	21.6%	-3.6%	5.6%	6.1%	5.5%	6.4%	7.5%
<b>Actual Return</b>								
<b>1 MSCI ACWI ex-US-ND</b>		16.1%	-11.0%	-4.8%	1.1%	2.3%	3.7%	5.0%
<b>2 MSCI EAFE-ND</b>		14.9%	-11.3%	-5.1%	0.8%	2.1%	3.9%	5.7%

# CALENDAR YEAR RETURNS - (NET OF FEES)

	Bench mark	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>International Equity</b>											
<b>Baillie Gifford - EAFE Plus Alpha</b>	1	36.7%	-16.7%	45.6%	1.5%	-3.4%	-6.3%	28.6%	17.5%	-11.3%	17.4%
<b>J O Hambro - JOHCM INS</b>	2	19.4%	-8.0%	23.3%	5.5%	-3.7%	5.9%	39.4%	15.5%	-15.8%	28.7%
<b>Schroders - Intl Alpha</b>	2	26.7%	-13.3%	30.4%	-1.0%	0.2%	-4.5%	22.2%	18.7%	-16.3%	15.6%
<b>Actual Index Return</b>											
<b>1 MSCI ACWI ex-US-ND</b>		21.5%	-14.2%	27.2%	4.5%	-5.7%	-3.9%	15.3%	16.8%	-13.7%	11.2%
<b>2 MSCI EAFE-ND</b>		22.0%	-13.8%	25.0%	1.0%	-0.8%	-4.9%	22.8%	17.3%	-12.1%	7.8%



# 3 YEAR TOTAL RISK/RETURNS COMPARISON - (NET OF FEES)

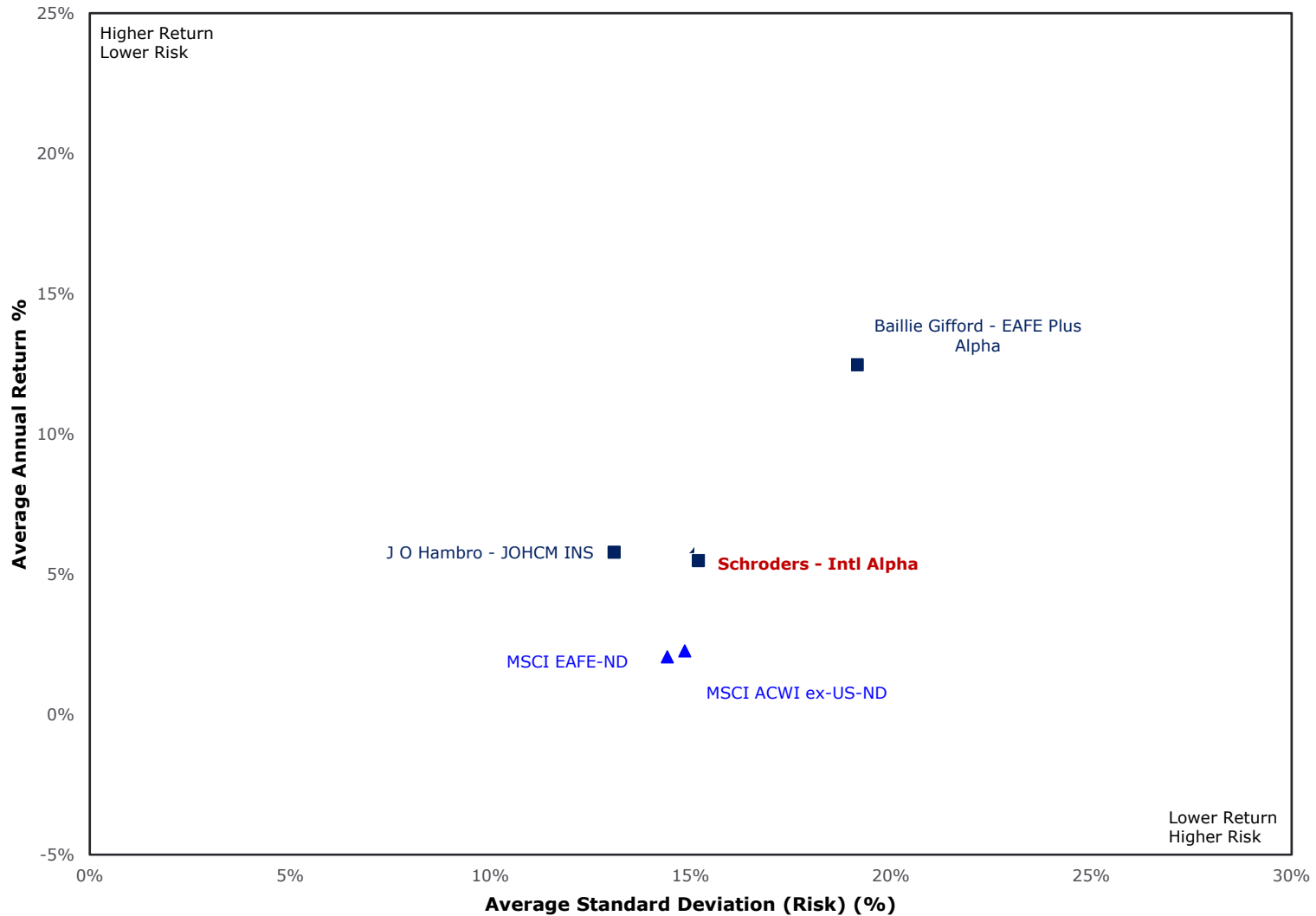


Past performance is no guarantee of future results

Performance as of June 30, 2020



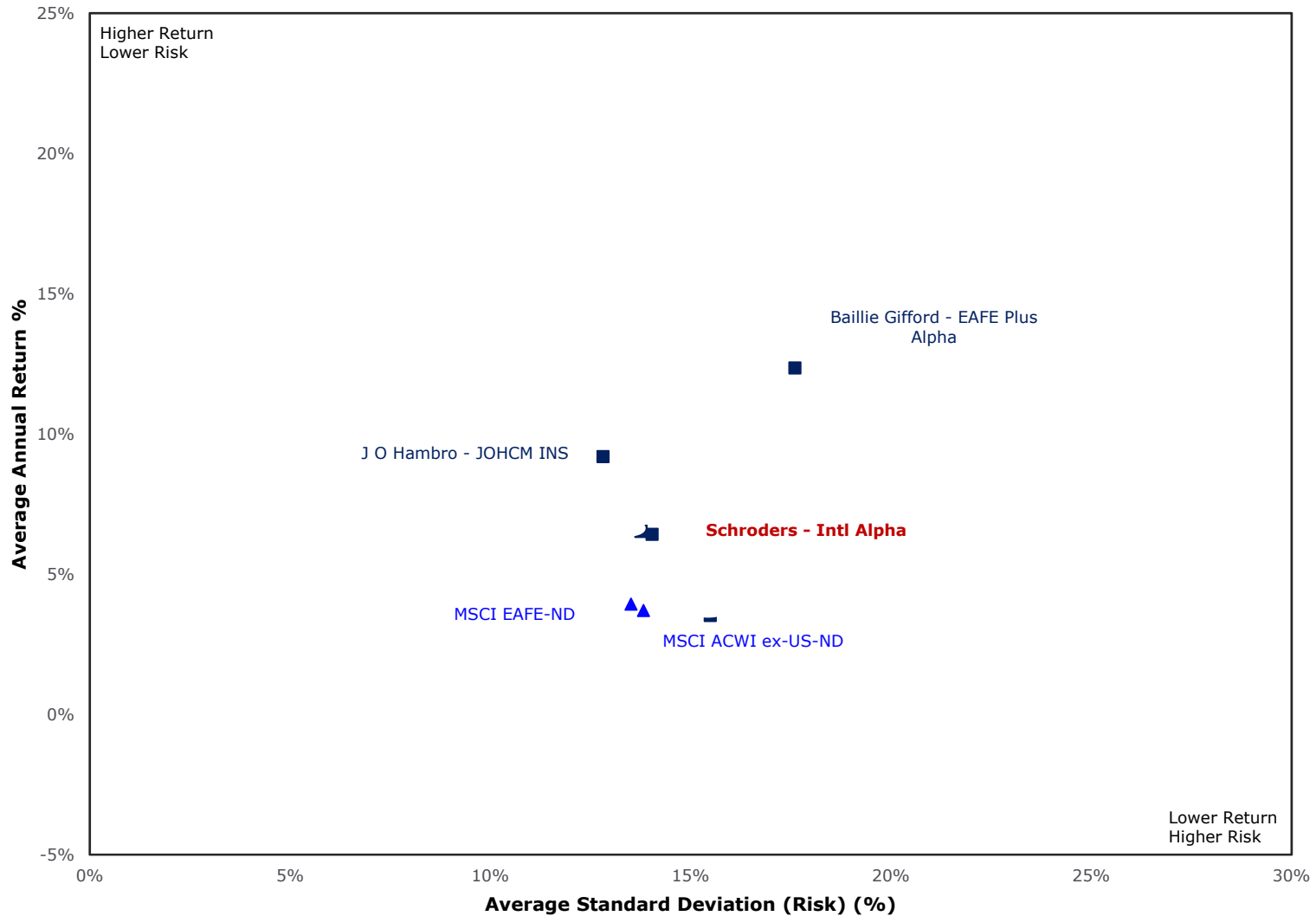
# 5 YEAR TOTAL RISK/RETURNS COMPARISON - (NET OF FEES)



Past performance is no guarantee of future results

Performance as of June 30, 2020

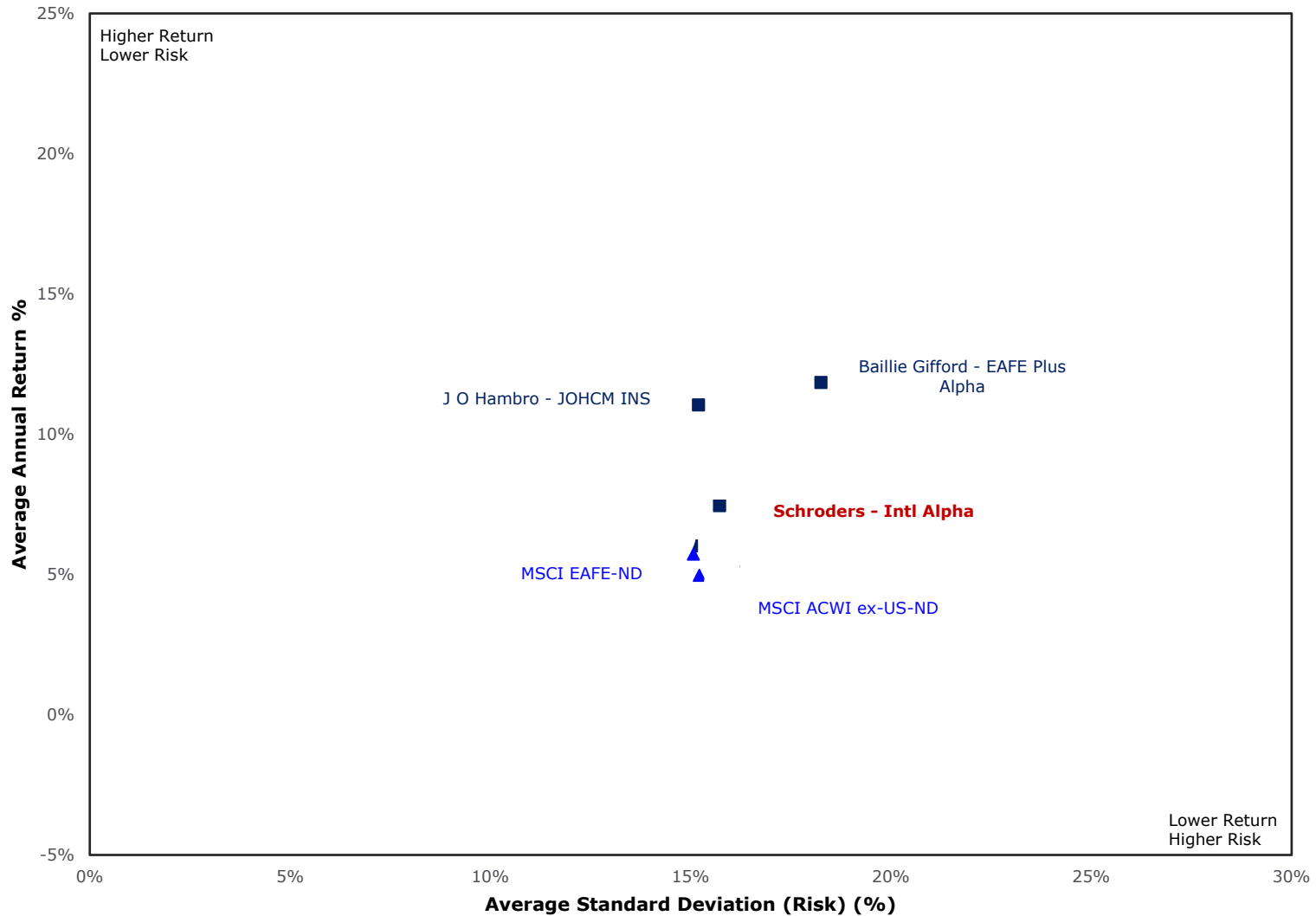
# 7 YEAR TOTAL RISK/RETURNS COMPARISON - (NET OF FEES)



Past performance is no guarantee of future results

Performance as of June 30, 2020

# 10 YEAR TOTAL RISK/RETURNS COMPARISON - (NET OF FEES)



Past performance is no guarantee of future results

Performance as of June 30, 2020

# APPENDIX

NEPC, LLC

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# SEMI FINALISTS

Firm/Product	Firm/Team Comments	Investment Style/Strategy	Portfolio Positioning	Rating/Comments
<b>International Equity</b>				
Allianz - International Growth	The strategy consists of portfolio managers who conduct their own research for their investments, analyzing company financials as well as proprietary and external research.	Fundamental, diversified portfolio of non-U.S. stocks exhibiting long-term growth and quality characteristics.	Approximately 50 holdings across 20 countries. Currently around 15% of the portfolio is in emerging markets	Advantageous Good performance, limited strategy assets
Artisan - Non-U.S. Growth	Employee owned multi investment boutique firm. The International growth team is based in San Francisco.	GARP strategy. Will identify secular growth themes and then look to exploit those themes through bottom up research.	All cap portfolio that will typically hold around 60 - 100 names. The manager can go up to 35% in emerging markets.	Highly Advantageous Consistent track record, higher fees
Axiom - IntEqComp	Employee owned and research team has the advantage of working together in one location. All portfolio managers at Axiom are equity partners and have an average of 25 years' experience	Growth fundamental, bottom-up stock selection.	The International Equity strategy concentrates its investments in non-US developed markets, but may also invest in companies located in emerging markets. Hold between 50-80 stocks	Advantageous Good performance
Baillie Gifford - EAFE Plus Alpha	Founded in 1908 in Edinburgh, Scotland; long term growth investors; everyone is an analyst; team shares over 60 different graduate degrees ranging from historians to lawyers and doctors.	Concentrated, bottom-up, all-cap high quality growth, low turnover strategy.	Maximum position size of 6% and will invest in emerging markets.	Highly Advantageous Good performance, EM exposure is unconstrained
Federated - International Growth	The firm has 2 portfolio managers who take on dual analyst and PM responsibilities averaging 20 years of experience. The firm additionally has 3 dedicated analysts averaging 12 years of experience on the strategy	Large Cap Growth Top-Down combined approach. The strategy's alpha is the result of positive country allocation effects when value is dominant. Conversely, when growth stocks outperform, security selection is the primary driver of the strategy's returns.	Approximately 80 stocks with 29% in Emerging Markets with a maximum limit of 35% on emerging market stocks.	Advantageous Good performance, limited assets, large public ownership of firm
Fiera - International Equity	The strategy has 2 portfolio managers with an average of 20 years experience supported by 7 analysts with an average of 12 years experience.	The investment style is GARP and has a concentrated quality characteristics with low turnover	Approximately 40 holdings in 12 different countries with a maximum allowable allocation of 20% to emerging markets.	Advantageous Consistent track record



# SEMI FINALISTS

Firm/Product	Firm/Team Comments	Investment Style/Strategy	Portfolio Positioning	Rating
<b>International Equity</b>				
GQG - International Equity	The product has 3 portfolio managers with an average of 16 years experience and 10 analysts with an average of 15 years experience	GARP fundamental bottom up strategy. Strategy has a limited track record.	Concentrated Large Cap portfolio which no maximum allocation to emerging markets however current allocation is at 13.9% and the total portfolio has 43 holdings across 15 countries.	Advantageous Good performance, Newer firm and fund
Gryphon International - EAFE Equities	Small boutique firm based in Toronto. They are 70% employee-owned. The 30% not owned by employees is owned by Gryphon Investment Council , a privately employee owned investment manager specializing in Canadian equities and Canadian bonds . They are a client and original founder along with Alex Becks and Larry McManus of Gryphon International.	Bottom-up stock selection driven. Portfolio tends to be conservatively positioned.	Portfolio is typically overweight the small and mid cap segment of the market. Relatively low use of emerging markets, but will look for developed countries to generate growth from the emerging markets.	Advantageous Track record struggles, strategy asset outflows
Hardman Johnston - International	Small CT based boutique investment manager.	High quality large cap growth at a reasonable price.	Focus on quality business with strong EPS growth and good relative valuations. Can invest up to 20% in emerging markets, but historically have had low exposure to emerging markets. Strategy has the ability to hedge currency.	Highly Advantageous Good performance, concentrated approach, Higher fees
J O Hambro - JOHCM INS	Christopher Lees and Nudgem Richyal manage the portfolio. They are based in the Singapore office. The team draws stock ideas from J O Hambro's other investment teams, in addition to conducting their own research.	All-cap, bottom-up and top down, concentrated core approach.	Benchmark agnostic, equally-weighted portfolio with ability to hold 20% cash and up to 25% emerging market exposure.	Advantageous Good performance, core approach



# SEMI FINALISTS

Firm/Product	Firm/Team Comments	Investment Style/Strategy	Portfolio Positioning	Rating
<b>International Equity</b>				
Jennison - International Equity Opportunities	2 portfolio managers with an average of 30 years experience supported by 15 analysts with an average of 21 years experience.	Growth, bottom up concentrated all-cap strategy that is country agnostic.	High active share currently concentrated in 36 stocks across 14 countries. No maximum limit on emerging markets and currently has 7% of the portfolio in emerging market stocks.	Advantageous  Good performance, concentrated portfolio
MacKay Shields - Fundamental International Equity All Country	3 portfolio managers with an average of 21 years portfolio experience supported by 2 analysts with an average of 12 years experience.	GARP strategy that is fundamental bottom up with a quality component.	Portfolio is concentrated in 41 stocks across 18 countries with 11% invested in emerging markets (maximum allowable 25% EM). The active share and portfolio turnover are high.	Advantageous  Consistent performance, relatively concentrated
Neuberger Berman - International Equity	Senior professionals and portfolio managers collectively are the owners of the firm based in New York.	This is an all cap product that utilizes quality at a reasonable price focusing on earnings per share growth.	The strategy will hold roughly 90 names and has a maximum exposure to emerging markets of 20%.	Advantageous  Consistent performance, higher fees, highest stock portfolio
Polen - International Growth	6 portfolio managers with an average of 16 years experience and 4 analysts with an average of 12 years experience.	Growth/quality large cap strategy taking a bottom up fundamental approach.	Portfolio is highly concentrated in 23 stocks and has a low annual turnover.	Advantageous  Shortest track record, limited assets, MWRA current exposure to Large Cap Growth
Baird – Chautauqua Capital International	Boutique firm strategically based in Boulder, Colorado, and supported by Baird.	All hands on deck approach where the team’s work drives decisions. Low turnover, highly concentrated, conviction-weighted, and quality growth oriented.	The portfolio offers favorable upside capture and will have 25 and 40 positions with a watch list of 20-25 names. Emerging markets exposure ranges between 15-30%.	Highly Advantageous  Good performance, limited assets, higher fee
Schroders - Intl Alpha	Large firm with resources on the ground across the globe	Concentrated bottom up stocks selection approach. Exposed to three key themes, demographics, climate change, and integration of the emerging economies	All cap benchmark agnostic manager.	Highly Advantageous  Good performance, existing MWRA manager, lowest fee



# SEMI FINALISTS

Firm/Product	Firm/Team Comments	Investment Style/Strategy	Portfolio Positioning	Other Comments
<b>International Equity</b>				
Thornburg - International Equity	2 portfolio managers with an average of 18 years experience with a further 32 analysts averaging 15 years of experience	Growth bottom up all cap strategy.	Relatively concentrated portfolio with approximately 24% of the portfolio currently in emerging markets with no maximum limits.	Advantageous  Consistent performance, concentrated portfolio, Retail assets in strategy
Walter Scott - International	Investment boutique wholly owned by BNY/Mellon.	Bottom-up stock selection with very low turnover.	Extremely benchmark agnostic. At times the portfolio may be positioned more like a value portfolio.	Highly Advantageous  Good performance, low turnover approach
William Blair - Intl Leaders	William Blair is a large global investment management firm based in Chicago, Illinois. The firm is 100% active-employee-owned with broad-based ownership. There are over 175 partners in the firm and over 50 partners from the investment team.	Strategy focuses on bottom up growth driven stock selection.	The International Leaders strategy is a high conviction portfolio of 40-70 stocks diversified across market cap, region, industry, and corporate lifecycle. Leaders companies are believed to demonstrate consistent value creation, competitive dominance, and sustainability of critical inputs.	Advantageous  Good performance, prior MWRA manager





# MANAGERS EXCLUDED AFTER FIRST ROUND

Firm	Vehicle's	Fees	Fund AUM (MM)	Style	Approach	Comments
American Century Investments – Non US Concentrated Growth	Separate Account	First \$25mm 75 bps Next \$25mm 65 bps Next \$50mm 60 bps Over \$100mm 55 bps	\$596.3	Growth	Fundamental	<ul style="list-style-type: none"> <li>Not Advantageous</li> <li>Most assets in separate account</li> </ul>
Blackcrane Capital, LLC	Separate Account	First \$25 m at 0.80% Next \$25m at 0.75% Next \$50m at 0.70% Next \$100m at 0.65% Over 200m at 0.60%	\$573.0	Core	Fundamental	<ul style="list-style-type: none"> <li>Strategy is managed using a core style</li> <li>Not Advantageous</li> </ul>
CCL Financial Group/NS Partners Ltd	Separate Account	First \$50 m at 0.80% after \$50m at 0.70%	\$433.3	Growth	Fundamental	<ul style="list-style-type: none"> <li>Not Advantageous</li> </ul>
ClearBridge Investments, LLC	Separate Account	First \$25m at 68 bps Next \$25m at 64 bps	\$3,458.8	Growth	Fundamental	<ul style="list-style-type: none"> <li>Firm recently acquired through the Franklin Templeton/Legg Mason merger</li> <li>Not Advantageous</li> </ul>
Driehaus International Small Cap Growth	Separate Account/CIT	First \$50m at 0.9% Over \$50m at 0.8%	\$849.8	Growth	Blend of top down and bottom up	<ul style="list-style-type: none"> <li>Strategy has a small cap focus</li> <li>Not Advantageous</li> </ul>
Franklin Resources, Inc.	Separate Account/Mutual Fund	First \$25 million at: 0.70% Next \$25 million at: 0.55% Next \$50 million at: 0.50% Balance Remaining at: 0.40%/ 88 bps (Mutual Fund)	\$1,980.4/ 1,564.6	Growth	Fundamental	<ul style="list-style-type: none"> <li>Firm is in the process of acquiring Legg Mason</li> <li>Not Advantageous</li> </ul>
Henry James International Management	Separate Account	75 bps on first \$1 mm 70 bps on next \$4 mm 65 bps on balance	\$409.5	Core	Blend of top down and bottom up	<ul style="list-style-type: none"> <li>Core and S/Mid cap focus</li> <li>Not Advantageous</li> </ul>
John Hancock Investments	Mutual Fund	99 bps	\$7,702.7	Growth	Fundamental	<ul style="list-style-type: none"> <li>Manager did not confirm adherence to side letter in response</li> <li>Not Advantageous</li> </ul>
Wells Fargo Asset Management	Commingled	72 bps	\$2,052.8	Core	Quantitative	<ul style="list-style-type: none"> <li>Core investment style</li> <li>Not Advantageous</li> </ul>



# DISCLAIMER

- **This report contains summary information regarding the investment management approaches described herein but is not a complete description of the investment objectives, policies or portfolio management and research that supports these approaches. This analysis does not constitute a recommendation to implement any of the aforementioned approaches.**
- **Past performance is no guarantee of future results.**
- **Information on market indices was provided by sources external to NEPC, and other data used to prepare this report was obtained directly from the investment manager(s). While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.**
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