



## Investments Committee Report 21-09

Date: November 22, 2021

To: Investments Committee

From: Staff

Subject: Search Process for DCP Actively Managed Mandates:  
- International Small-Cap Equity (Stage 2)

Investments Committee
Raymond Ciranna <i>Chairperson</i>
Joshua Geller
Neil Guglielmo

### **Recommendation:**

That the Investments Committee (Committee) develop Stage 2 finalist recommendations for the International Small-Cap Equity mandate.

### **Discussion:**

#### **A. Background**

The Board and the Committee have taken a number of actions with respect to procurements and search processes for Deferred Compensation Plan (DCP) investment managers. Following is a summary of actions to date regarding these ongoing searches:

- On **June 18, 2019**, the Board directed staff to draft revisions to the DCP Core Menu Investment Management Services and Stable Value Fund (SVF) Management Services RFPs to include an evaluation process aligning with the Board's established mutual fund search process. The Board also asked staff to work with the City Attorney's Office and Office of Contract Compliance to identify all non-applicable provisions of the City's general contracting requirements for the investment of DCP funds.
- On **July 16, 2019**, the Board approved staff's proposed process to administer parallel mutual fund and institutional product procurement searches for all DCP investment mandates.
- On **January 14, 2020**, the Committee reviewed and approved staff's proposed revised RFPs.
- On **February 18, 2020**, the Board approved and authorized the release of RFPs for (i) DCP Investment Management Services and (ii) SVF Investment Management Services.
- On **August 17, 2020**, the DCP Core Menu RFP was released; responses were due October 1, 2020. Along approximately the same time frame the DCP investment consultant, Mercer Investments (Mercer), executed the parallel mutual fund search process.
- On **February 16, 2021**, following Committee review on October 30, 2020, and prior Board consideration at its meetings on December 15, 2020, and January 19, 2021, the Board selected Galliard Capital Management to complete its SVF procurement process.

- On **May 18, 2021**, the Board selected Vanguard to provide passive management services for the passively managed components of the DCP Bond, DCP Large-Cap Stock, DCP Mid-Cap Stock, and DCP Small-Cap Stock investment options, following prior consideration at its meeting on April 20, 2021.
- On **June 23, 2021**, the Committee approved a proposal from staff and Mercer for the methodology to be used for reviewing candidates for the actively managed mandates. The process provides that following evaluation of all RFP respondents and mutual fund candidates on RFP evaluation categories, as part of its Stage 1 review Mercer will provide recommendations regarding removing from the candidate list those funds not meeting certain key criteria outlined in Section 5.1, Evaluation Process and Review Criteria, of the RFP and which would otherwise be the basis for ranking candidates in any event.
- On **July 22, 2021**, the Committee approved a refined number of candidate strategies for the Mid-Cap Value Equity, International Small-Cap Equity, International Emerging Markets Equity, and International Developed Markets Equity investment mandates. Consideration of the Core Plus Bond, Mid-Cap Growth Equity, Small-Cap Value Equity, and Small-Cap Growth Equity mandates was deferred.
- On **August 23, 2021**, the Committee approved a refined number of candidate strategies for the DCP Core Plus Bond, Mid-Cap Growth Equity, Small-Cap Value Equity, and Small-Cap Growth Equity investment mandates.
- On **September 17, 2021**, the Committee approved Stage 3 finalists for the International Small-Cap Equity, International Emerging Markets Equity, and International Developed Markets Equity investment mandates.
- On **September 29, 2021**, the Committee approved Stage 3 finalists for the Mid-Cap Active Value Equity and Mid-Cap Active Growth Equity mandates.
- On **October 20, 2021**, the Committee approved Stage 3 finalists for the Small-Cap Active Value Equity and Small-Cap Active Growth Equity mandates; and deferred Stage 3 consideration of the International mandates due to a change in status for one of the prior finalists for the International Small-Cap mandate.
- On **October 28, 2021**, the Committee developed final recommendations to the Board for selection of the Mid-Cap Active Value Equity and Mid-Cap Active Growth Equity mandates. The Committee deferred action on the International Small-Cap fund mandate pending additional information from the consultant; and advanced finalists for Stage 3 review of the Active Bond mandate.

## **B. Committee Action and Timeline**

At the Committee meeting Mercer will review:

- International Small-Cap fund mandate – Stage 2 reconsideration (**Attachment A**)

The following table provides a timeline for Committee review of the remaining mandates and tentative subsequent consideration by the full Board:

Topic	Investments Committee Meeting Date	Board Meeting Date for Considering Investment Committee Recommendations
Stage 2 – International	September 17, 2021 (completed)	N/A
Stage 2 – Mid-Cap	September 29, 2021 (completed)	N/A
Stage 2 – Small-Cap Stage 3 – International	October 20, 2021 completed Small-Cap (completed)	N/A
Stage 2 – Bond Stage 2 – International (Small-Cap) Stage 3 – Mid-Cap	October 28, 2021 (completed)	November 16, 2021 (Mid-Cap) (completed)
Stage 2 - International (Small-Cap)	November 22, 2021	N/A
Stage 3 – Small-Cap Stage 3 – Bond Stage 3 - International	December 1, 2021	December 21, 2021 (Small-Cap; Bond; International)



Submitted by:

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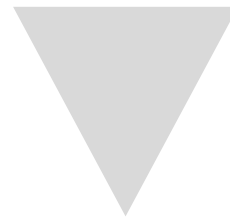
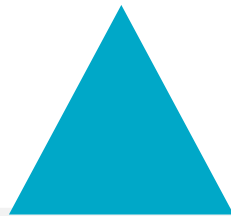
Steven Montagna, Chief Personnel Analyst

# City of Los Angeles

## Deferred Compensation Plan

International Equity Small Cap  
Search – Stage 2 (updated)

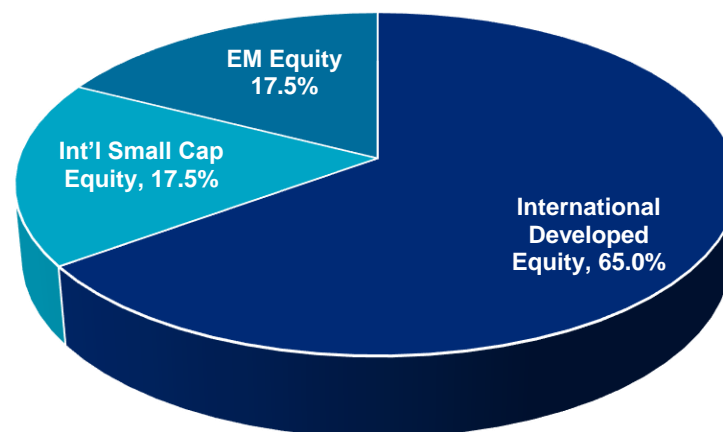
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# DCP INTERNATIONAL STOCK FUND BACKGROUND

- The DCP International Stock Fund portfolio construction was approved in August 2010, and periodically, its allocation has been reviewed in the years since.
- The intent of the construction was to allocate “sleeves” of the Fund to equity specialists in each of its three international equity categories (Developed Large Cap, Small Cap, and EM).
- The Fund is expected to be relatively consistent with the broad market from a geographic and market capitalization perspective (i.e., it is designed to be all-cap or ACWI ex-US IMI-oriented) .
- Notably, while the dedicated EM allocation (17.5%) is less than the broad market, it was expected that the other two sleeves of the Fund would contribute EM exposure, and this has been the case in practice.

**DCP International Stock Fund  
Allocation**



# DCP INTERNATIONAL STOCK FUND EM EQUITY EXPOSURE IN PRACTICE

- Based on June 30, 2021 allocations of the underlying managers, EM equity exposure was approximately 27%.
- This is slightly below the emerging market's total market capitalization relative to the broad non-US equity market's total capitalization as noted below.

Equity Allocation as 6/30/2021	Manager	Portfolio Allocation	EM Exposure	Contribution to EM
Intl Developed LC	MFS	65.0%	7.0%	4.6%
International Small Cap	Brandes	17.5%	28.8%	5.0%
Emerging Markets	DFA	17.5%	100.0%	17.5%
Total DCP International Stock Fund EM equity exposure				27.1%
MSCI ACWI ex-US IMI Index EM equity exposure*				30.4%

\*Note: Data source is MSCI; 9/30/2021 EM equity weight was 28.9% of total non-US equity exposure

# DCP INTERNATIONAL STOCK FUND EM EQUITY PROSPECTIVE EXPOSURE

- For the purposes of projecting acceptable emerging markets equity exposure for prospective candidates, we provide the following table which indicates EM equity tolerance bands for the various portfolio sleeves.
- As it pertains to International Small Cap Equity, we believe a reasonable range would be anywhere from 0-30% of total EM equity exposure within this category.

	Portfolio Allocation	Low-end expected EM exposure	High-end of expected EM exposure	Range of EM contribution
Intl Developed LC finalists	65.0%	5%	15%	3.3% - 9.8%
International SC finalists	17.5%	0%	30%	0.0% to 5.3%
EM equity finalists	17.5%	100%	100%	17.5%
Total DCP International Stock Fund expected EM equity exposure				20.8% - 32.5%
MSCI ACWI ex-US IMI Index EM equity exposure as of 9/30/2021*				28.9%

\*Note: Data source is MSCI

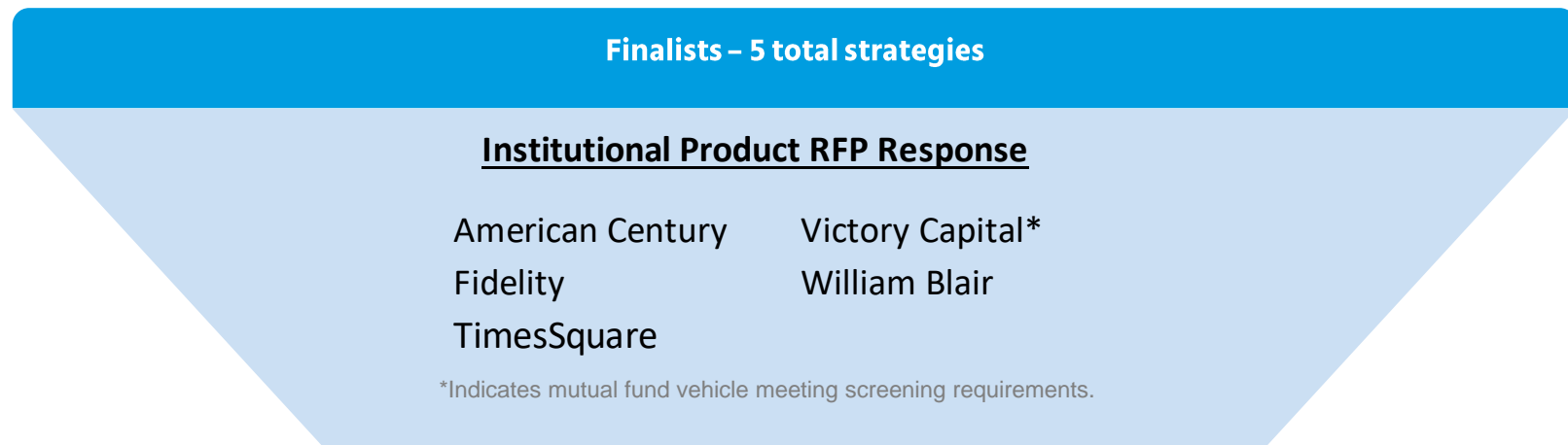
# DCP INTERNATIONAL STOCK FUND BACKGROUND – STAGE 1

- Institutional RFP respondents were evaluated against the minimum qualifications, with 12 of the 13 evaluated in stage 1.
- Mutual fund screening of the International Small Cap Universe:
  - Removed funds that didn't meet the desired characteristics of the mandate (similar to the MSCI EAFE Small Cap or similar index such as MSCI ACWI ex-US).
    - High exposure to mid cap holdings.
    - Significant style tilts as defined by the benchmark.
  - From the trimmed universe of 58 International Small Cap mutual fund strategies, further screening occurred eliminating:
    - Products that were unavailable.
    - Track records shorter than 5-years.
    - Assets under management between \$1 billion - \$20 billion (per the minimum qualifications outlined in the RFP).
    - Sharpe Ratios and Information Ratios above the universe median.
    - Strong correlations with the stated benchmark.
    - Investment expenses (net of revenue sharing) of 1.15% or below.
  - This left 12 mutual fund strategies for Stage 1 review, 4 of which were from firms which coincidentally submitted an RFP proposal for an institutional product.



# BACKGROUND

- The result of the Committee reviewing the Stage 1 report resulted in 7 candidates emerging as finalists. Subsequently, 2 strategies were eliminated (Acadian – due to strategy closing and Kayne Anderson Rudnick – due to assets falling below the minimum requirements).
- Thus 5 candidates are reviewed throughout this document as well as the incumbent manager Brandes Investment Partners (Brandes) which did not pass the Stage 1 evaluation, due to not meeting the minimum qualification of strategy assets greater than \$1 billion, which is included for reference.
- Kayne’s announcement of a strategy change resulting in lower assets was recently announced, and this report has been updated to reflect its removal from the process and to provide additional information (e.g., holdings-based style analysis) on the remaining candidates.



# STAGE 2 CANDIDATES

- 5 finalist candidates (all RFP respondents) are presented in this document:
  - American Century Investment Management
  - William Blair
  - Fidelity Institutional Asset Management (FIAM)
  - TimesSquare Capital Management
  - Victory Capital Management\*
  - Brandes Investment Partners (*incumbent, added for comparative purposes*)

## Notes:

- All performance is net of fees, unless otherwise noted
- Portfolio characteristics are as of 3/31/21 and performance exhibits are as 6/30/21, unless otherwise noted
- Mandate size is approximately \$134.2 million as of June 30, 2021

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\* Eligible mutual fund also available

# SUMMARY EVALUATION MATRIX

	Manager			Strategy		Performance			Fees
	Business Management	Team Depth	Personnel Stability	AUM	Portfolio Construction fits Mandate	Long-Term Performance (7-Year)	Performance Consistency (7-Year)	Information Ratio (7-Year)	Attractiveness of Fees
ACIM	✓	✓	=	✗	✗	✓	✓	✓	✗
Blair	✓	✓	✗	✓	✗	✓	=	✓	=
FIAM	✓	✓	=	✓	✓	✓	✓	✓	✓
TSCM	✓	✓	=	✓	✓	✓	✓	✓	✗
Victory (Trivalent)	✓	✓	=	✓	✓	✓	✓	✓	✓

# SUMMARY EVALUATION

- **Firm strength** – All candidates have well run businesses with substantial levels of overall assets under management and internal resources to support the DCP.
- **Strategy team depth and stability** – While all candidates possess strong depth in terms of team resources devoted to the respective strategies, stability of team personnel for William Blair was lesser than the other candidates.
- **Strategy Assets Under Management (AUM)** – All strategies have sufficient assets under management such that the DCP would not represent a disproportionate percentage of strategy assets, though ACIM is notably smaller than peers.
- **Mandate fit** – Given that screening incorporates a component of trailing performance evaluation, several candidates that screened favorably through Stage 1 exhibit a substantial style bias (most commonly a growth tilt). Ultimately, it is desirable for the strategy to reside close to “core” from a style perspective and within range of benchmark market cap. This dimension of evaluation serves to counterbalance gravitating to top performing strategies over recent years since we expect growth and value styles to rotate over time. Further analysis of holdings and returns based style analysis show FIAM, Victory Trivalent and TimesSquare (pages 26-30 and 40-41) all display less style bias over trailing periods.
- **Performance** – Generally all candidates have strong performance, though ACIM, and FIAM (up/down market characteristics) display highly competitive performance characteristics.
- **Fees** – All fee proposals represent substantial savings to the DCP. FIAM and Victory Trivalent are most attractive.

# MANAGER OVERVIEW

Candidate	Manager Background	Strategy Description & Process
<b>American Century Investment Management</b>	<p>American Century Investments (ACIM) is an independent, privately controlled company that has managed investments since 1958. In addition to U.S. offices in Kansas City, California, New York, and LA (Avantis), the firm maintains a global presence with offices in London, Hong Kong and Sydney. The institutional investment strategies are managed by teams dedicated to a disciplined investment process focused on independent research.</p>	<p>ACIM applies a growth-oriented, earnings momentum approach. The firm's fundamental, bottom-up research process focuses on inflection points in a company's fundamentals. The American Century Non-U.S. Small Cap philosophy is centered on the belief that accelerating growth in earnings and revenues, rather than the absolute level of growth, is more highly correlated to stock price performance. ACIM takes advantage of both the normal price appreciation that results from a company's earnings growth and the market's re-rating of a company's price-to-earnings multiple as the earnings acceleration becomes visible. The goal is to construct a portfolio of stocks that are experiencing accelerating growth that can be sustainable over time.</p>
<b>William Blair</b>	<p>William Blair is 100% active-employee-owned with broad-based ownership Investment teams that are solely focused on active management and employ a disciplined, analytical research process. William Blair is based in Chicago with resources in New York, London, Zurich, Sydney, Stockholm, The Hague, Singapore and dedicated coverage for Canada.</p>	<p>Blair follows a bottom-up, fundamentally-based process. The team focuses on companies that have demonstrated consistent returns on capital with high and consistent rates of growth, are highly profitable, have conservative finances, and are well-managed. Blair describes the approach as high quality growth, falling in-between GARP and aggressive growth with an emphasis on companies with high returns on capital and low leverage. William Blair's quality growth philosophy is based on the belief that the market is inefficient with respect to distinguishing between an average growth company and a quality growth company.</p>
<b>Fidelity Institutional Asset Management (FIAM)</b>	<p>Fidelity Institutional Asset Management (FIAM) leverages Fidelity's broad and deep institutional investment management capabilities, including FIAM Equity, and Fidelity's Fixed Income, High Income and Global Asset Allocation divisions. The investment management units of FIAM, FIAM LLC and Fidelity Institutional Asset Management Trust Company, and the other entities that make up FIAM, are wholly owned, indirect subsidiaries of FMR LLC, commonly known as Fidelity Investments. The firm offers clearly defined, traditional long-only, equity, fixed income, and asset allocation disciplines, as well as customized solutions to meet specific client objectives. Fidelity was founded in 1946 by Edward Johnson 2<sup>nd</sup>, the grandfather of the current Chairman, Abigail P. Johnson. Privately held for over 70 years, Fidelity maintains its independence to focus on the long-term growth and success of its customers.</p>	<p>Fidelity believes that small cap markets are not fully efficient and that stock-specific pricing anomalies exist. The fundamental stock analysts apply a fundamental, bottom-up process using various valuation methods to find mispriced stocks. The small cap strategy is a core approach without a persistent style bias, although growth and quality biases emerge at times. The Select International Small Cap philosophy is based on the premise that international small-cap is an inefficient, under-covered asset class which presents frequent opportunities to purchase individual equities at a significant discount to their long-term fundamental fair value. The firm believes that fundamental, bottom-up, forward-looking, stock-specific research is the highest-conviction approach to exploiting these inefficiencies.</p>

# MANAGER OVERVIEW

Candidate	Manager Background	Strategy Description & Process
<b>TimesSquare Capital Management</b>	<p>TimesSquare (TSCM) is a fundamental research-oriented equity investment management firm specializing in growth equity strategies for institutional investors. Senior team members have a long tenure managing equity portfolios for institutional investors, with the firm's investment process tracing its roots back to 1984. TimesSquare is a significantly employee-owned organization. The firm believes that this broad equity participation aligns the interests of clients and associates, and promotes retention of key professionals. TimesSquare is an independent affiliate of Affiliated Managers Group, Inc. (AMG), an asset management company.</p>	<p>TimesSquare believes that price discrepancies exist in the non-US small cap markets due to investors' misunderstanding of a company's longer-term drivers of growth with their focus instead placed on a company's shorter-term earnings prospects. The firm believes its fundamental research skills, which put particular emphasis on assessing the quality of a company's management and business model, and valuation analysis, are keys to outperforming the benchmark. TimesSquare believes that fundamental equity growth research skills, which place a particular emphasis on the assessment of management quality, an in-depth understanding of business models, and valuation discrepancies, enable them to build a diversified portfolio of international small cap stocks that is designed to generate positive risk-adjusted relative returns</p>
<b>Victory Capital Management (Trivalent)</b>	<p>Victory Capital Management Inc. (Victory Capital) is a U.S. SEC-registered diversified global asset management firm. Through predecessor firms, Victory Capital was organized in 1894 and began managing tax-exempt assets in 1912. Victory Capital was wholly owned by KeyCorp until 2013, when the employees of Victory Capital partnered with Crestview Partners to acquire all of KeyCorp's interest. Since then, Victory Capital has made several acquisitions since becoming independent in 2013, including Munder Capital Management in 2014. The International Equity team came together originally at Standish, Ayer and Wood. Standish was acquired by Mellon in 2001, and in 2003, Mellon moved the team under its investment manager, The Boston Company Asset Management (TBCAM). In 2007, the team moved again to Munder Capital. Following Victory Capital's acquisition of Munder in 2014, the International Equity team was re-branded under the name Trivalent Investments.</p>	<p>Trivalent believes the markets have a tendency to underestimate improving business momentum. In capturing this anomaly, the team focuses its fundamental research on companies with demonstrably improving business momentum relative to their peers as determined by the team's proprietary quantitative model. Key metrics include upward earnings revisions, improving business momentum and attractive valuation characteristics. Accordingly, the portfolio is expected to display value and momentum characteristics.</p>

# MERCER RATINGS SCALE

## A

Strategies assessed as having “**above average**” prospects of outperformance

## B+

Strategies assessed as having “**above average**” prospects of outperformance, but with some reservations.

## B

Strategies assessed as having “**average**” prospects of outperformance

## C

Strategies assessed as having “**below average**” prospects of outperformance

## R

The **R rating** is applied in two situations:

1. Mercer has carried out some research, but has not completed its full investment strategy research process
2. Mercer has in the past carried out its full investment strategy research process on the strategy, but we are no longer maintaining full research coverage

## N

**No rating**, strategies not currently rated by Mercer

## W

**Watch**: where there is some uncertainty about a rating that we do not expect to be resolved soon, but consider it unlikely that it will lead to a rating change

## T

**Tracking error**: potential for high tracking error or high volatility

## P

**Provisional rating**: where there is uncertainty about a rating that we expect to resolve quickly

Please see the Guide to Mercer’s Investment Strategy Ratings <https://www.mercer.com/content/dam/mercer/attachments/private/nurture-cycle/gl-2020-wealth-guide-to-mercers-investment-strategy-research-ratings-mercer.pdf>

# MERCER RESEARCH ASSESSMENT

While not part of the evaluation process, Mercer research ratings and evaluations are provided, where available, for additional context.

MERCER EVALUATION SUMMARY					
	Manager Rating	Idea Generation	Portfolio Construction	Implementation	Business Management
American Century Investment Management (ACIM)	B+ (T)	■■■□	■■■□	■■■□	■■■□
William Blair	B+ (T)	■■■□	■■■□	■■■□	■■■□
Fidelity Institutional Asset Management (FIAM)	B+	■■■□	■■■□	■■■□	■■□□
TimesSquare Capital Management (TSCM)	A (T)	■■■■	■■■□	■■□□	■■■□
Victory Capital Management (Trivalent)	R	N/A	N/A	N/A	N/A
Brandes Investment Partners (incumbent)	B+ (T)	■■■□	■■■□	■■■□	■■■■

## Mercer's Rating Scale

<b>A</b>	Above average prospects of outperformance	<b>C</b>	Below average prospects of outperformance
<b>B+</b>	Above average prospects of outperformance but which are qualified by: 1) There are other strategies in which we have a greater conviction of outperformance and/or 2) Mercer requires more evidence to support its assessment	<b>R</b>	1) Early stage research 2) Research no longer maintained
<b>B</b>	Average prospects of outperformance	<b>N</b>	Not rated



# MERCER RESEARCH COMMENTARY

Candidate	Mercer Rating	Research Commentary
<b>American Century Investment Management</b>	<b>B+ (T)</b>	ACIM applies a bottom-up, fundamental growth-oriented approach geared towards identifying companies experiencing earnings acceleration. It operates with a clear investment thesis and makes disciplined use of its screens to effectively direct the team of three portfolio managers and eight global analysts to candidates that best fit the investment philosophy. The discipline with which the analysts conduct research and portfolio managers execute the strategy are strengths. Trevor Gurwich and Frederico Laffan demonstrate a strong understanding of the portfolio positioning and have the qualitative insights and quantitative tools to assist in managing the portfolio. Laffan is newer to the co-portfolio manager role, and Pratik Patel joined the team in early 2018. As such, there is still an element of uncertainty as to how the working relationship between the three portfolio managers will develop.
<b>William Blair</b>	<b>B+ (T)</b>	Blair's strengths include a disciplined investment process, a consistent emphasis on higher quality growth names, and a cohesive investment team. Blair fosters a collaborative environment in which to vet investments, and the team's experience provides it with the insight to find growth opportunities before they are fully realized by others in the market. Fennel and Flynn work closely with the analysts and other portfolio managers, allowing them to benefit from the broader group and leverage the insights this experienced and tenured team provides. Flynn and have only worked together on International Small Cap Growth since 2017 after a series of portfolio manager changes following George Greig and subsequently Jeff Urbina's retirements. The level of change at the helm of this strategy since 2014 has held us back from a higher rating. Nieman was added as portfolio manager in July 2021 with the announcement of Flynn's pending retirement within the next 18 to 24 months.
<b>Fidelity Institutional Asset Management (FIAM)</b>	<b>B+</b>	The team's edge comes from the institutional small cap team's active engagement with Fidelity's extensive research resources. The Fidelity analysts offer breadth of coverage and clearly identify the best investment opportunities through a well-established stock ranking system. We credit the small cap team with the ability to discern the best ideas for inclusion in the portfolio among the many highly rated stocks, and we like their ability to support their investment choices. Fidelity is a complex firm subject to frequent reorganizations and the potential for changes in the supporting analyst team.

# MERCER RESEARCH COMMENTARY

Candidate	Mercer Rating	Research Commentary
<b>TimesSquare Capital Management</b>	<b>A (T)</b>	<p>Portfolio manager Magnus Larsson is an experienced and skilled non-US small cap investor who demonstrates discipline and patience in capturing the inefficiencies among the quality companies he seeks. Larsson is supported by a strong, although small, but equally experienced team of analysts. Additional strengths include the team's discipline and drive to identify quality, sustainable growth companies in which to invest for the long term. Overall, we believe this strategy has an above average likelihood of outperforming the benchmark over a market cycle.</p>
<b>Victory Capital Management (Trivalent)</b>	<b>R</b>	<p>Mercer does not formally rate the strategy. The International Small Cap strategy is led by Dan LeVan (joined the firm/industry in 2007/1994) along with co-PM John Evers (2007/1991). All investment professionals have sector-specific research responsibilities. The team ranks the universe using a five-factor model, broadly grouped into two categories: business momentum and valuation. The former is the most important factor the team considers when purchasing a stock. It assigns a "score" from which the team ranks relative attractiveness on a sector/peer-relative basis, and identifies which securities warrant additional review for purchase or sale. Trivalent conducts fundamental research on stocks that pass the screens. The portfolio typically holds between 190 and 230 stocks. A stock is sold when its earnings outlook declines; the valuation becomes less attractive relative to other opportunities; finance the purchase of stocks with better risk/return profiles; or, maintain the portfolio construction guidelines. Annual turnover ranges between 60% and 80%. Trivalent does not hedge the currency exposures.</p>

# STRATEGY OVERVIEW

## Quantitative Scorecard

Funds	Performance Characteristics (over 5 Years ending June-21)	% of time out-performing (all/up/ down markets over 5 Years ending June-21)	Portfolio Characteristics (AUM as of 6/30/21)
<b>American Century - Non-U.S. Small Cap</b>	Ret (%p.a.): 15.1 (2) Tracking error (%pa): 7.6 (11) Information ratio: 0.4 (0) Return/SD: 0.6 (5)	All markets: 65% Up markets: 79% Down markets: 33%	AUM (\$B): 1.9 Inception year: 2001 Market cap (\$MM): 4,402 No. of stocks held: 125 Avg. turnover(%):150
<b>William Blair - International Growth: Small Cap</b>	Ret (%p.a.): 13.8 (4) Tracking error (%pa): 7.0 (13) Information ratio: 0.3 (3) Return/SD: 0.6 (7)	All markets: 45% Up markets: 57% Down markets: 17%	AUM (\$B): 3.3 Inception year: 2004 Market cap (\$MM): 4,913 No. of stocks held: 106 Avg. turnover(%): 100
<b>FIAM - Select International Small Cap</b>	Ret (%p.a.): 12.6 (7) Tracking error (%pa): 2.3 (94) Information ratio: 0.3 (3) Return/SD: 0.6 (6)	All markets: 50% Up markets: 57% Down markets: 33%	AUM (\$B): 2.7 Inception year: 1995 Market cap (\$MM): 3,337 No. of stocks held: 196 Avg. turnover(%): 45
<b>TimesSquare - International Small Cap</b>	Ret (%p.a.): 10.7 (45) Tracking error (%pa): 5.3 (27) Information ratio: -0.2 (47) Return/SD: 0.4 (68)	All markets: 55% Up markets: 79% Down markets: 0%	AUM (\$B): 3.5 Inception year: 2012 Market cap (\$MM): 4,168 No. of stocks held: 79 Avg. turnover(%):40
<b>Victory - Trivalent International Small-Cap Equity</b>	Ret (%p.a.): 13.1 (6) Tracking error (%pa): 4.2 (59) Information ratio: 0.3 (3) Return/SD: 0.6 (7)	All markets: 55% Up markets: 57% Down markets: 50%	AUM (\$B): 5.3 Inception year: 2007 Market cap (\$MM): 4,797 No. of stocks held: 216 Avg. turnover(%): 75
<b>Brandes - International Small Cap Equity (incumbent)</b>	Ret (%p.a.): 5.8 (100) Tracking error (%pa): 9.1 (8) Information ratio: -0.7 (62) Return/SD: 0.3 (92)	All markets: 25% Up markets: 21% Down markets: 33%	AUM (\$B): 0.9 Inception year: 1995 Market cap (\$MM): 2,318 No. of stocks held: 77 Avg. turnover(%): 24

# FACTS AND FIGURES

# CANDIDATE SUMMARY

Firm	Candidate Characteristics (AUM as of 6/30/2021)					
	Headquarters	Firm Ownership	Firm AUM (billions)	Strategy AUM (billions)	Strategy Inception Year	# of PMs / # of Analysts
<b>ACIM</b>	Kansas City, MO	Nomura Holdings Inc. 39% Stowers family and Stowers Institute 44% Current Employees and Other 17%	\$235.1	\$1.9	2001	3 / 7
<b>Blair</b>	Chicago, IL	Employee owned 100%	\$74.0	\$3.3	2004	3 / 16
<b>FIAM</b>	Smithfield, RI	Officers and Senior Employees of Fidelity 51% Johnson Family 49%	\$295.8*	\$2.7	1995	2 / 148
<b>TSCM</b>	New York, NY	Affiliated Managers Group, Inc. 60% TimesSquare CM employees 40%	\$16.1	\$3.5	2012	1 / 4
<b>Victory (Trivalent)</b>	San Antonio, Texas	Crestview Partners, L.P. and Others 44% Victory Employees 23% Public 21% Reverence Capital Partners 12%	\$161.9	\$5.3	2007	4 / 2
<b>Brandes (incumbent)</b>	San Diego, CA	Senior Professionals of the Firm 100%	\$23.7	\$0.9	1995	4 / 25

**Key observation:**

- All of the managers are established firms with reasonable levels of strategy assets (neither too large nor too small).

# STRATEGY ASSETS

Firm	As of December 31, 2020			From December 31, 2017 to December 31, 2020			
	Strategy assets (\$MM)	Number of clients	Largest Account Size (\$MM)	Accounts Gained (#)	Accounts Gained (\$MM)	Accounts lost (#)	Accounts lost (\$MM)
ACIM	1,971	11	410	3	124	0	0
Blair	3,113	12	466	0	0	2	361
FIAM	2,568	52	293	7	36	20	2,044
TSCM	2,856	11	1,293	0	0	7	393
Victory (Trivalent)	4,492	10	756	5	632	0	0
Brandes (incumbent)	752	11	473	5	397	45	1,903

**Key observations:**

- Trivalent and ACIM have tended to have the most positive new client growth in recent years.
- Meanwhile, FIAM and TSCM have seen more client departures.

# PERSONNEL

Firm	As of December 31, 2020		Investment professional strategy turnover from December 31, 2017 to December 31, 2020	
	Total investment professionals	Investment professionals in strategy	Additions	Departures
ACIM	195	10	1	1
Blair	144	19	2	6
FIAM	622	150	47	48
TSCM	46	5	0	0
Victory (Trivalent)	224	6	0	0
Brandes (incumbent)	35	29	3	8

## **Key observations:**

- Staffing appears reasonable at all firms, though Blair shows the most net departures over the past 3 calendar years.
- FIAM, given its size and analyst driven strategy, typically will have higher personnel turnover as noted here.

# SELECTED PORTFOLIO GUIDELINES

Firm	Minimum market cap (\$MM)	Maximum market cap (\$MM)	Number of stocks typically held	Average cash position over last 5 years (%)	Average portfolio turnover over last 5 years(%)	Use of currency hedging	Percent limit on hedging (%)	Maximum allocation to emerging markets (%)
ACIM	0	2,000	134	1	150	No Hedging	0	30
Blair	100	5,000	107	3	100	Occasional Hedging	50	35
FIAM	100	5,000	150-200	2	45	No Hedging	0	0
TSCM	0	5,000	75	1	40	No Hedging	0	15
Victory (Trivalent)	100	5,000	220	1	75	No Hedging	0	0
Brandes (incumbent)	250	2,500	60-85	9	24	No Hedging	0	30

## Key observations:

- FIAM and Trivalent run more diversified strategies



# SELECTED PORTFOLIO GUIDELINES

	# of Holdings	% in Top 10 Holdings	Market Cap (\$M)	Dividend Yield	Price / Earnings	Price / Book
ACIM	125	14.49	4,402	1.1	29.13	3.32
Blair	106	18.61	4,913	0.89	46.38	6.8
FIAM	196	11.08	3,337	1.84	21.13	1.78
TSCM	79	25.07	4,168	1.53	24.67	3.54
Victory (Trivalent)	216	11.07	4,797	1.96	15.51	1.88
Brandes (incumbent)	77	29.04	2,318	2.32	13.73	0.69
<b>MS EAFE SC Index</b>	2,312	2.52	3,274	1.98	21.04	1.63

## **Key observations:**

- Victory and Fidelity are the most diversified, with the highest number of holdings and less concentration in the top 10.
- FIAM tends to be in line with the benchmark average market cap, while Blair and Trivalent move up cap.
- Blair's P/E and P/B are very high, indicating a notable growth orientation.

# SECTOR DISTRIBUTION

Firm	Energy (%)	Materials (%)	Industrials (%)	Cons Disc (%)	Cons Staples (%)	Health Care (%)	Financials (%)	Real Estate (%)	Info Tech (%)	Comm Services (%)	Utilities (%)
ACIM	1.1	7.5	28.4	19.7	4.2	5.0	6.7	1.5	18.4	5.1	2.3
Blair	1.0	0.0	29.2	14.6	3.5	14.5	4.8	2.4	22.0	3.1	2.5
FIAM	1.0	10.3	21.5	15.6	4.7	6.9	9.9	8.7	12.8	5.4	1.3
TSCM	0.0	3.5	25.6	5.9	5.8	8.4	17.1	2.4	16.3	9.8	2.5
Victory (Trivalent)	2.2	9.4	21.3	13.2	4.5	8.8	9.3	8.4	12.6	5.2	2.7
Brandes (incumbent)	3.3	3.9	19.4	10.2	18.7	6.6	16.8	7.3	3.8	6.2	1.4
MS EAFE SC Index	1.7	9.2	23.6	13.5	5.7	6.7	10.9	11.3	9.9	4.5	2.8

## Key observations:

- All strategies appear well diversified from a sector concentration standpoint.
- FIAM tends to maintain highly benchmark aware positioning, while TSCM and Blair show some notable sector bets.

# COUNTRY ALLOCATION

Firm	UK (%)	Europe ex UK (Developed) (%)	Japan (%)	Pacific ex Japan (Developed) (%)	North America (%)	Emerging Markets (%)	Other Developed Markets (%)	Cash (%)
ACIM	12.8	29.9	18.3	5.2	0.0	18.9	14.9	0.0
Blair	11.9	37.5	15.7	2.9	0.0	24.1	5.1	2.8
FIAM	14.9	40.9	20.6	8.9	0.0	4.7	8.3	1.7
TSCM	14.2	39.2	25.1	9.6	0.0	10.1	1.9	0.0
Victory (Trivalent)	14.0	39.3	19.6	10.4	0.0	6.0	9.9	0.8
Brandes (incumbent)	16.9	23.0	17.3	4.9	0.0	28.8	7.9	1.2
MS EAFE SC Index	17.5	37.7	28.0	16.8	0.0	0.0	0.0	0.0

## Key observations:

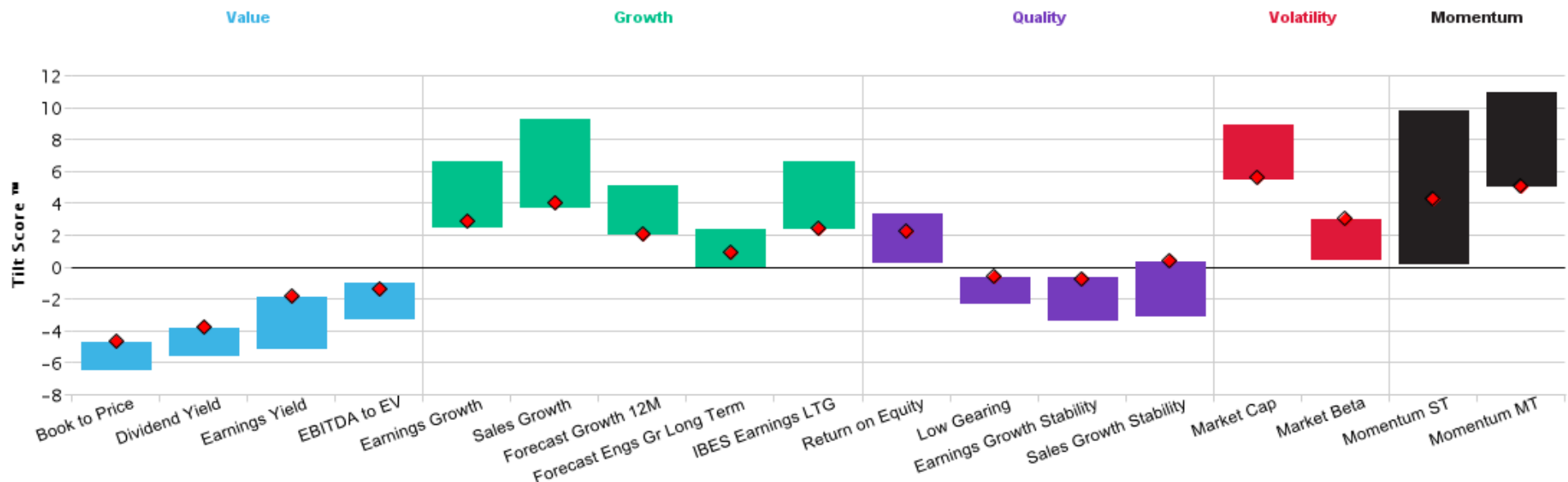
- EM exposure is a key differentiator for some strategies, with Blair, and ACIM all holding large EM positions.

Data as of 3/31/2021 except benchmark which is 6/30/2021

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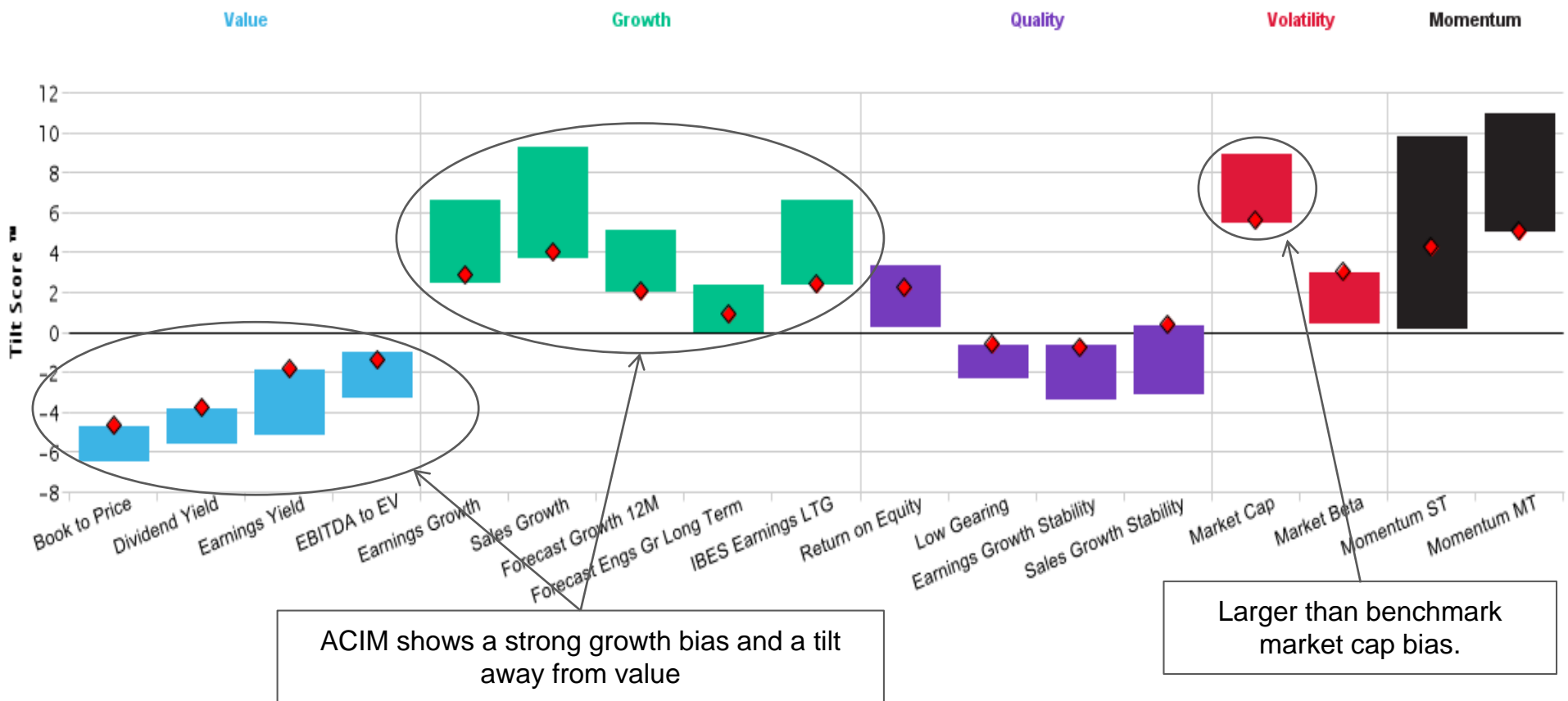
# FACTOR (STYLE SKYLINE) BACKGROUND

- Throughout the following analysis, we review holdings-based style factor exposures, demonstrating the degree of exposure to major factor groups and underlying facets within each group.
- Positive tilts to value, growth, quality, momentum, etc. are values above zero. Greater magnitude indicates a stronger tilt.
- An illustration of a Style Skyline is below. The below strategy shows a growth approach with minimal value characteristics, low exposure to quality, and a larger cap bias than the benchmark.
- Having positive orientation to both value and growth factors indicates a greater exposure to a core style.
- The red dot shows the most recent time period while the boxes show the dispersion of factor exposures over the trailing period.



# INTERNATIONAL SMALL CAP STYLE SKYLINE (HOLDINGS-BASED) AMERICAN CENTURY

Range of historical factor exposures September 2019 to June 2021

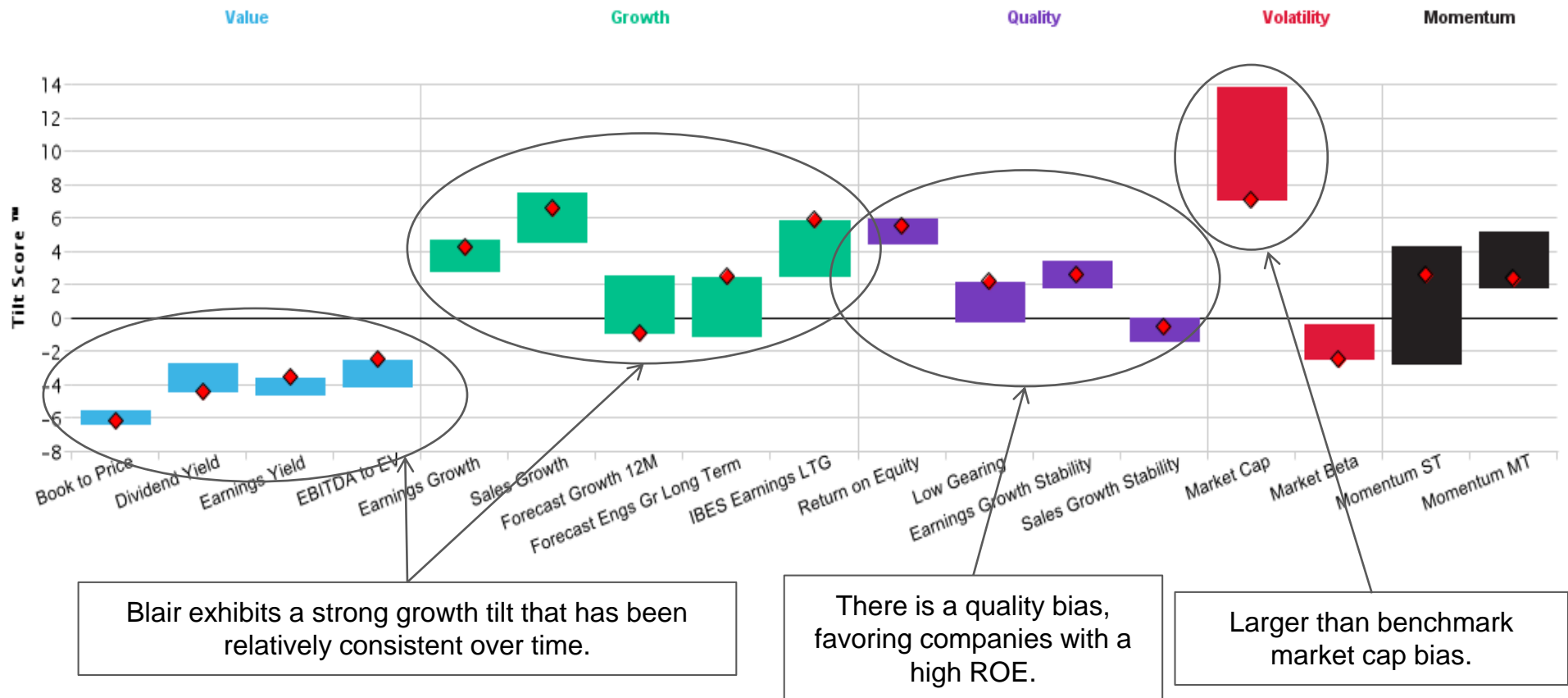


Notes: red dots (•) in each factor bar chart indicate most recent value as of 6/30/2021; benchmark is MSCI EAFE Small Cap Index

# INTERNATIONAL SMALL CAP STYLE SKYLINE (HOLDINGS-BASED)

## WILLIAM BLAIR

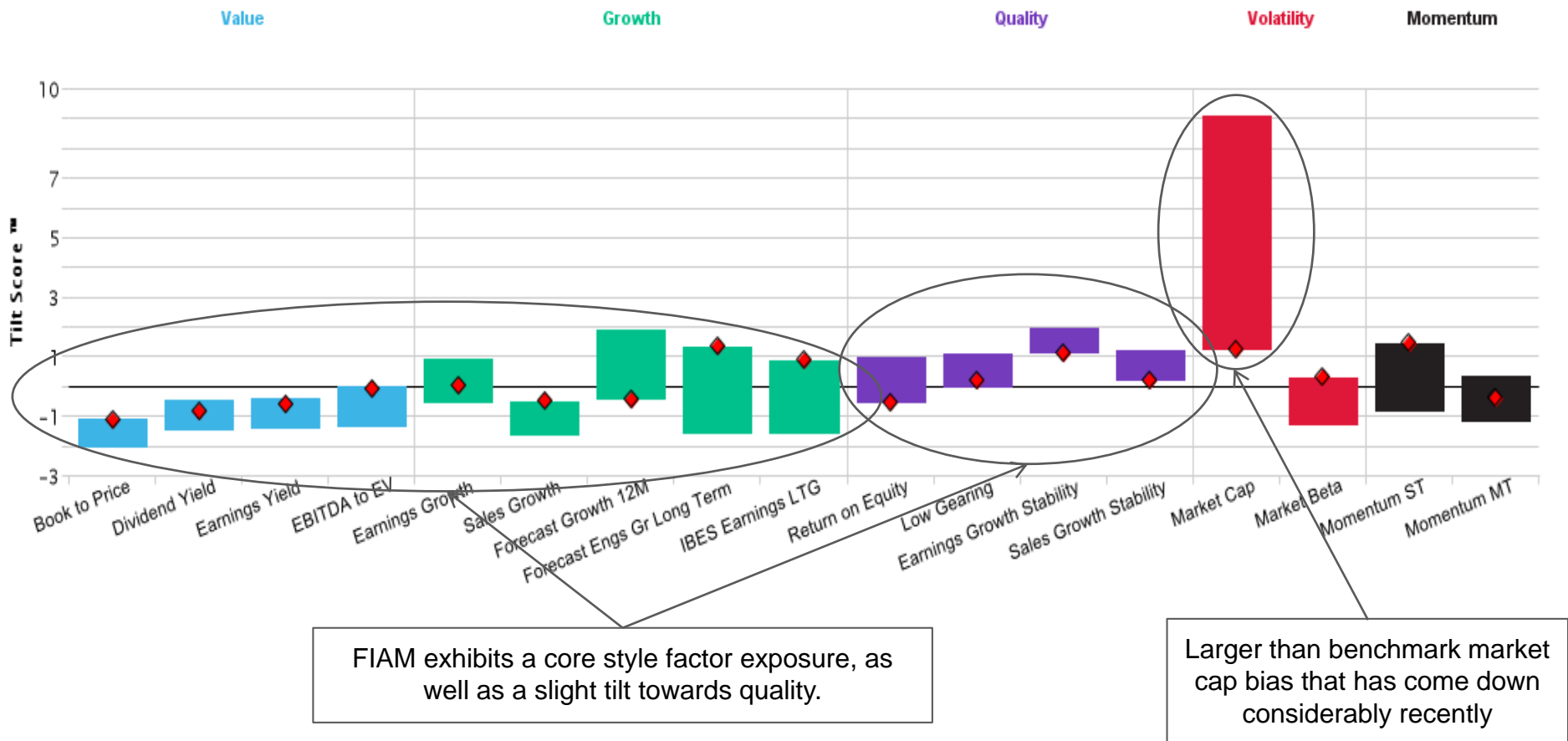
Range of historical factor exposures September 2019 to June 2021



Notes: red dots (•) in each factor bar chart indicate most recent value as of 6/30/2021; benchmark is MSCI EAFE Small Cap Index

# INTERNATIONAL SMALL CAP STYLE SKYLINE (HOLDINGS-BASED) FIAM

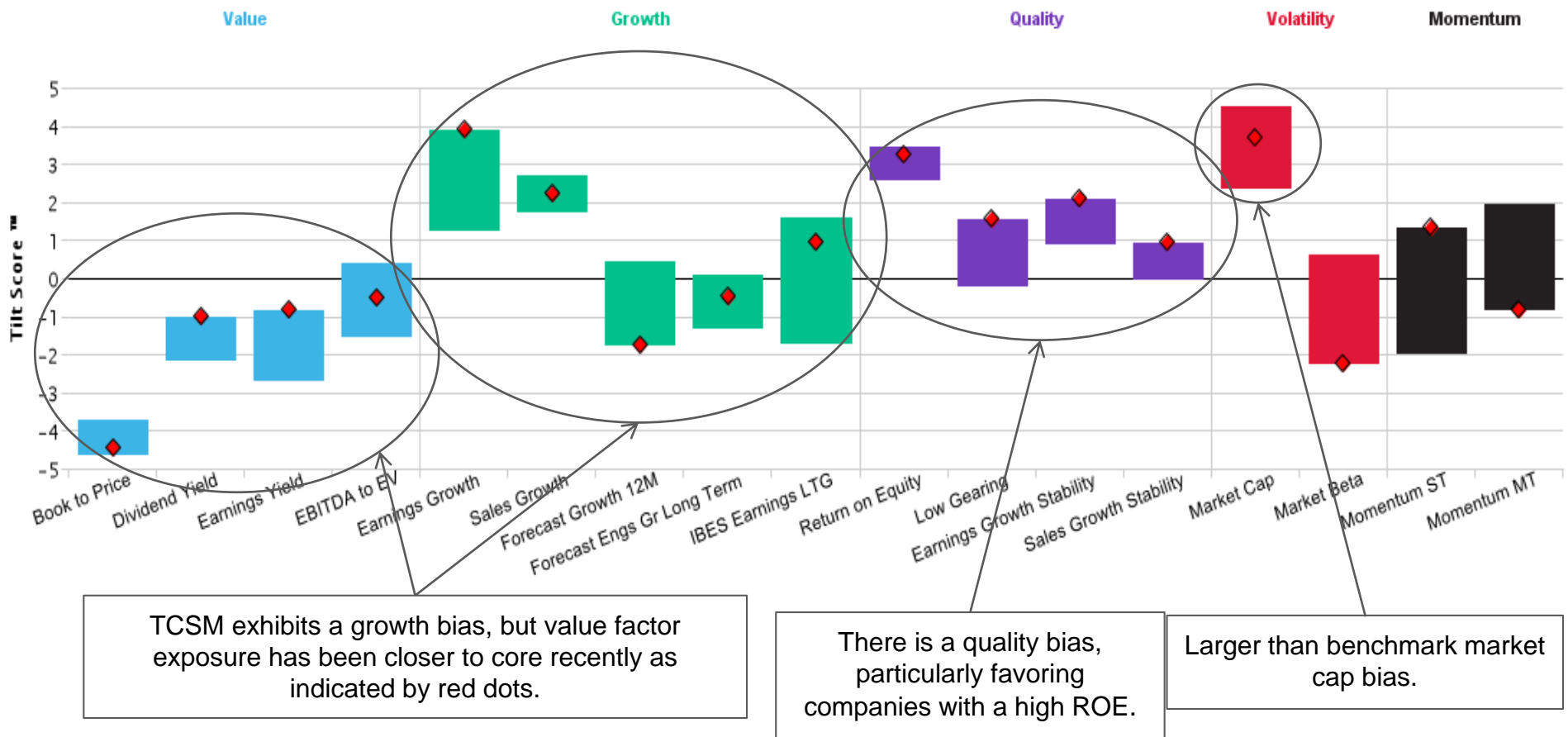
Range of historical factor exposures September 2019 to June 2021



Notes: red dots (•) in each factor bar chart indicate most recent value as of 6/30/2021; benchmark is MSCI EAFE Small Cap Index

# INTERNATIONAL SMALL CAP STYLE SKYLINE (HOLDINGS-BASED) TIMESQUARE (TCSM)

Range of historical factor exposures September 2019 to June 2021

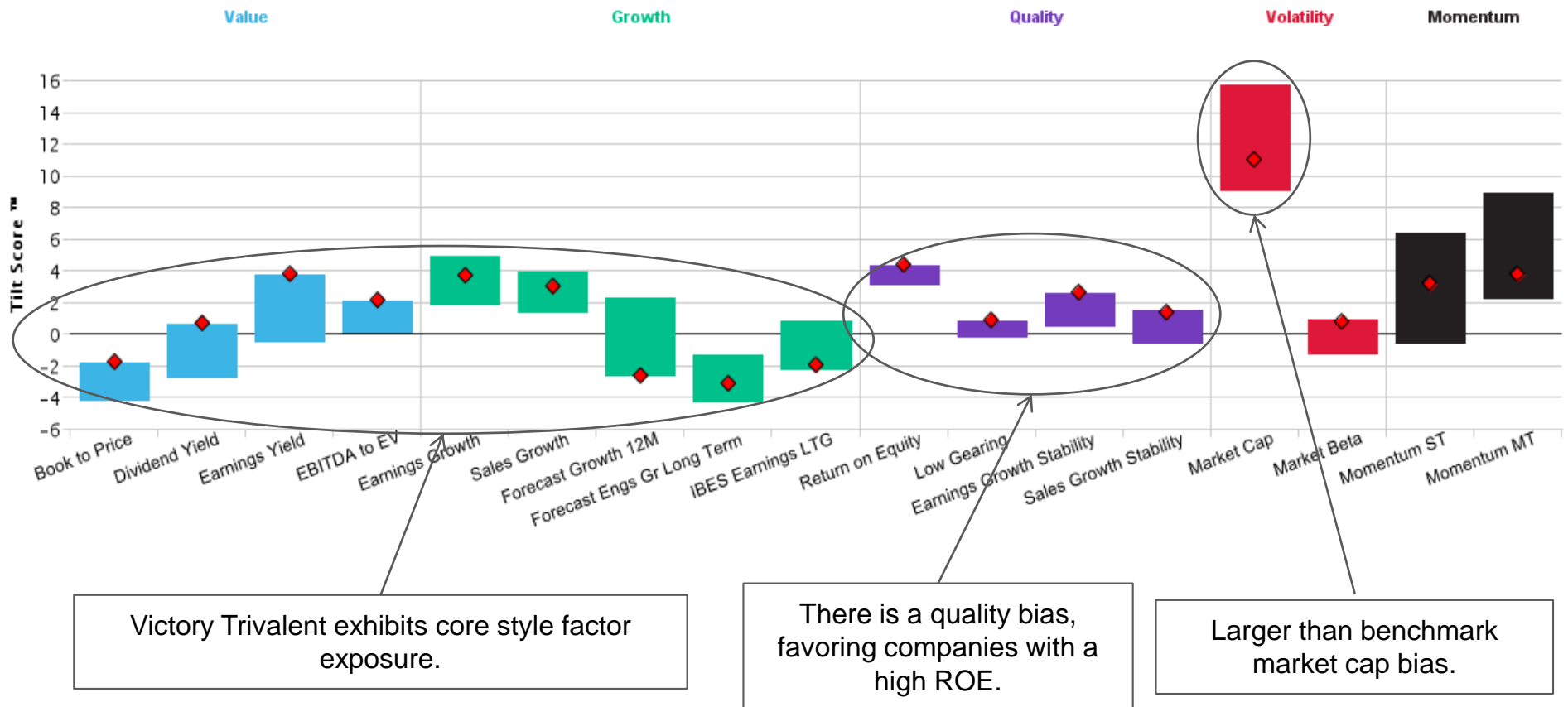


Notes: red dots (•) in each factor bar chart indicate most recent value as of 6/30/2021; benchmark is MSCI EAFE Small Cap Index



# INTERNATIONAL SMALL CAP STYLE SKYLINE (HOLDINGS-BASED) VICTORY TRIVALENT

Range of historical factor exposures September 2019 to June 2021



Notes: red dots (•) in each factor bar chart indicate most recent value as of 6/30/2021; benchmark is MSCI EAFE Small Cap Index

# VEHICLES & FEES

Manager	Vehicle	Fund Name	Expense Ratio (Revenue Sharing)	Estimated Expense (Based of 6/30/21 Assets of \$134.2 M)	Estimated \$ Difference vs Incumbent
ACIM	CIT	Non-US Small Cap	0.95%	1,274,893	(281,819)
Blair	CIT	International Growth Small Cap	0.89% <sup>1</sup>	1,261,473	(295,238)
FIAM	CIT	Select International Small Cap	0.85% <sup>2</sup>	1,140,694	(416,018)
TSCM	CIT	International Small Cap	0.95%	1,274,893	(281,819)
Victory (Trivalent)	CIT	Trivalent International Small-Cap Equity	0.75%	1,006,495	(550,217)
Brandes (incumbent)	Mutual Fund	International Small Cap Equity	1.16% (0.15%)	1,556,712	--

## Key observations:

- All strategies present fee savings to the Plan.
- Victory has the lowest fee amongst the candidates; meanwhile ACIM, William Blair and TimesSquare are on the higher end.
- Fidelity is in the middle of the group.

<sup>1</sup> Includes current operating expenses of 0.05%

<sup>2</sup> Includes operating expenses capped at 0.10%

# PERFORMANCE DETAILS

# PERFORMANCE CHARACTERISTICS

Performance characteristics vs. MSCI EAFE Small Cap (Net) in \$US (after fees) over 5 yrs ending June-21  
Comparison with the Mutual Fund World ex US/EAFE Equity Small Cap universe (Percentile Ranking) (quarterly calculations)

	Return (%pa)	Std Deviation (%pa)	Tracking Error (%pa)	Information Ratio	Sharpe Ratio	Alpha (%pa)	Up Markets Capture (%)	Down Markets Capture (%)	Beta
ACIM	15.08	24.79	7.64	0.40	0.56	1.88	136.61	111.18	1.11
Blair	13.84	24.30	6.97	0.26	0.52	0.88	125.41	110.13	1.09
FIAM	12.64	21.30	2.26	0.27	0.54	0.63	104.01	99.92	0.99
TSCM	10.73	24.38	5.29	-0.25	0.39	-2.16	118.64	121.85	1.12
Victory (Trivalent)	13.12	22.87	4.22	0.26	0.52	0.58	111.08	103.17	1.05
Brandes (incumbent)	5.54	20.71	9.16	-0.71	0.21	-4.48	63.14	101.62	0.88
MS EAFE SC	12.03	21.37	N/A	N/A	0.51	N/A	N/A	N/A	N/A

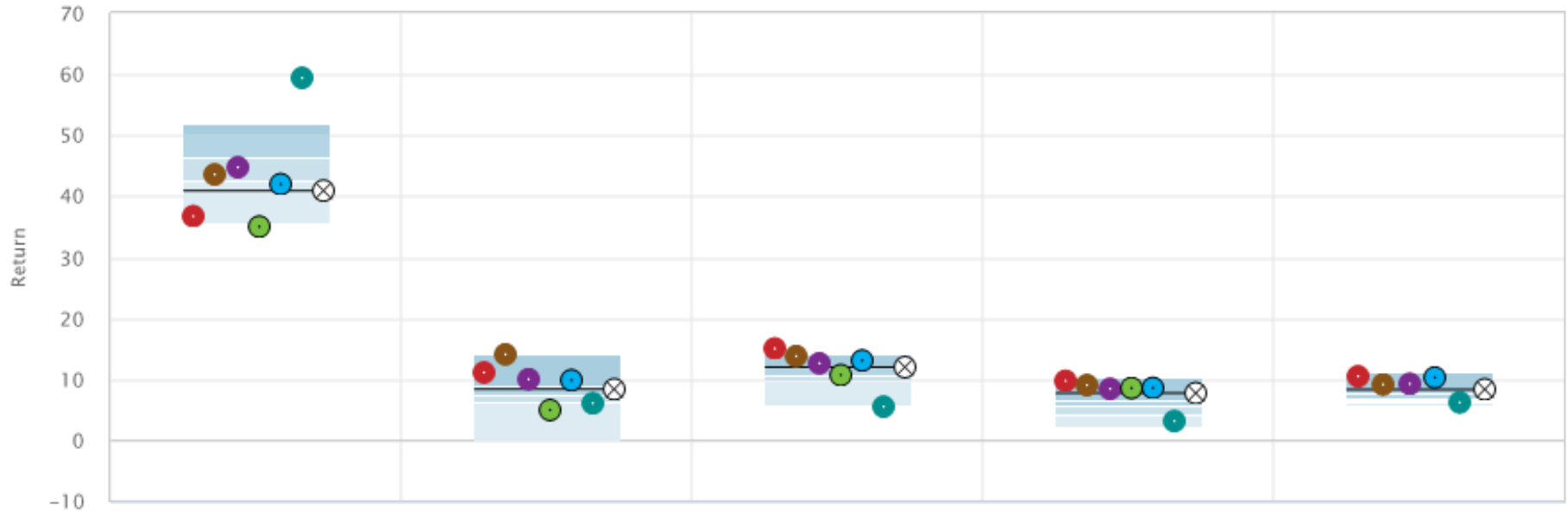
1st Quartile 2nd Quartile 3rd Quartile 4th Quartile

## Key observations:

- FIAM's tends to minimize volatility relative to the benchmark, performing well from an up/down market perspective.
- All others candidates delivered meaningful up market participation, with a downside capture greater than the benchmark.

# ANNUALIZED PERFORMANCE

Return in \$US (after fees) over 1 yr, 3 yrs, 5 yrs, 7 yrs, 10 yrs ending June-21  
 Comparison with the Mutual Fund World ex US/EAFE Equity Small Cap universe (Percentile Ranking)

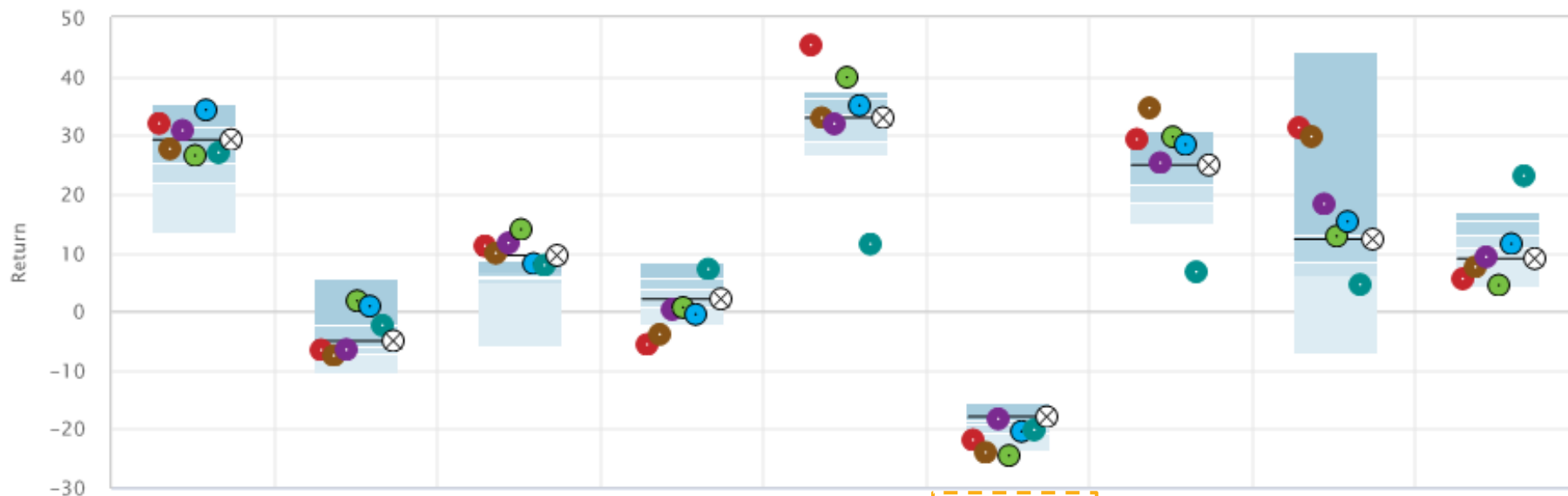


	1 yr (%)	3 yrs (%pa)	5 yrs (%pa)	7 yrs (%pa)	10 yrs (%pa)
● ACIM	36.8 (90)	11.1 (10)	15.1 (2)	9.8 (6)	10.5 (6)
● Blair	43.6 (72)	14.1 (5)	13.8 (5)	9.1 (7)	9.2 (11)
● FIAM	44.8 (57)	10.0 (13)	12.6 (8)	8.5 (9)	9.3 (11)
● TSCM	35.1 (97)	5.0 (84)	10.7 (45)	8.6 (8)	-
● Victory	42.0 (76)	9.9 (14)	13.1 (7)	8.6 (8)	10.3 (7)
● Brandes (incb)	59.5 (0)	6.1 (76)	5.5 (95)	3.2 (88)	6.2 (68)
⊗ MSEAFESCN	41.0 (79)	8.4 (31)	12.0 (14)	7.8 (10)	8.4 (14)
5th Percentile	51.8	13.9	13.8	10.2	10.9
Upper Quartile	50.3	8.7	11.9	6.3	7.5
Median	46.3	7.2	10.5	5.5	6.5
Lower Quartile	42.5	6.2	9.6	4.1	6.1
95th Percentile	35.6	-0.3	5.5	2.0	5.7
Number	15	13	12	9	8

- Generally all candidates delivered excellent performance over trailing periods.

# CALENDAR YEAR PERFORMANCE

Return in \$US (after fees) over last 9 calendar years ending June-21  
Comparison with the Mutual Fund World ex US/EAFE Equity Small Cap universe (Percentile Ranking)

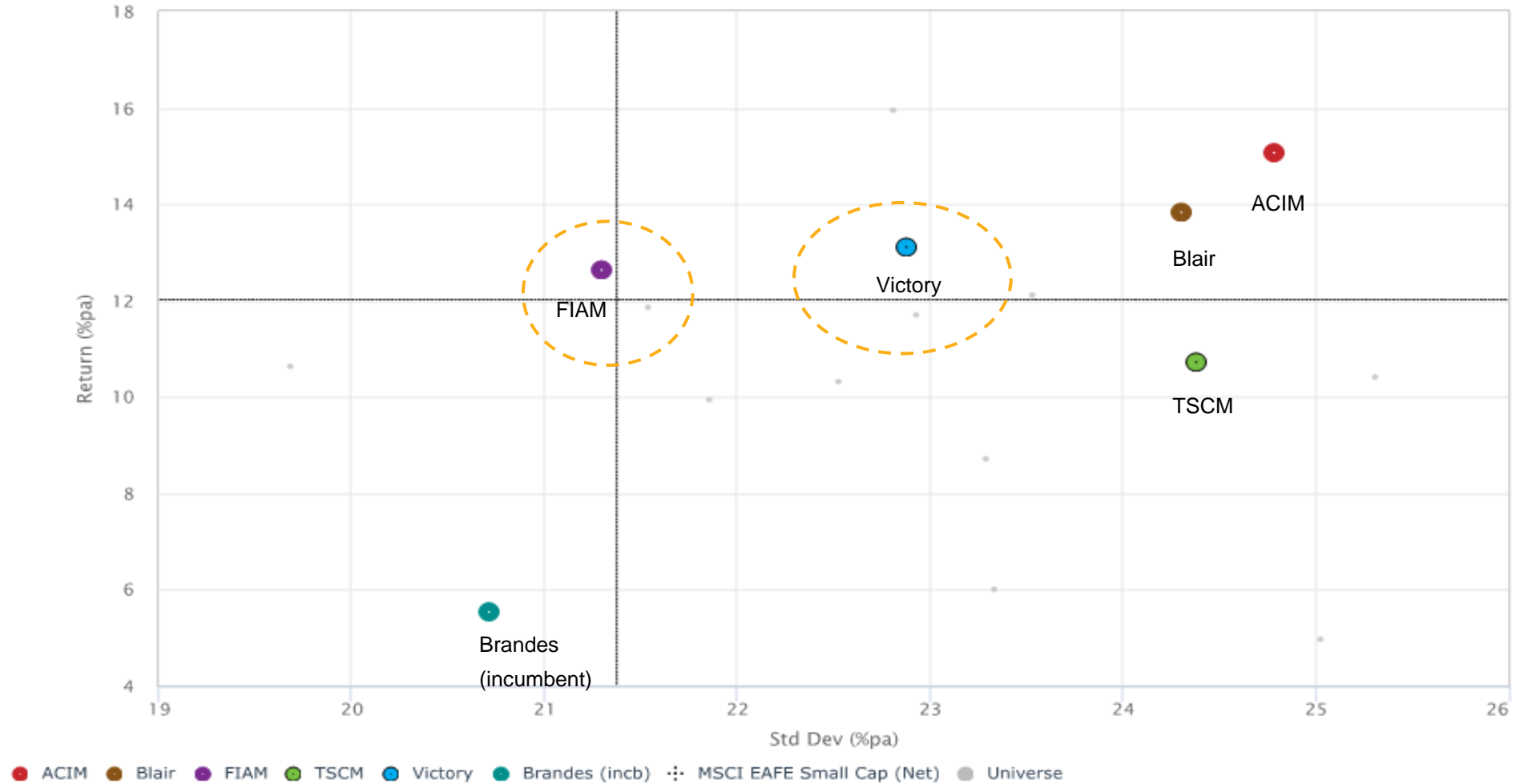


	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	6 mths to 6/2021 (%)
● ACIM	32.1 (18)	-6.5 (60)	11.2 (0)	-5.6 (100)	45.4 (0)	-21.8 (80)	29.4 (8)	31.4 (12)	5.6 (92)
● Blair	27.7 (33)	-7.5 (75)	10.0 (0)	-3.9 (100)	33.0 (54)	-24.0 (98)	34.7 (0)	29.8 (12)	7.6 (89)
● FIAM	30.9 (26)	-6.5 (59)	11.7 (0)	0.4 (76)	32.0 (60)	-18.2 (18)	25.4 (27)	18.3 (19)	9.3 (87)
● TSCM	26.6 (36)	1.9 (15)	14.0 (0)	0.7 (75)	39.9 (0)	-24.5 (100)	29.8 (7)	12.9 (26)	4.5 (94)
● Victory	34.4 (7)	0.9 (17)	8.2 (6)	-0.4 (83)	35.1 (30)	-20.4 (62)	28.5 (10)	15.3 (21)	11.6 (66)
● Brandes (incb)	27.1 (35)	-2.3 (25)	7.9 (7)	7.3 (11)	11.5 (100)	-20.1 (59)	6.8 (100)	4.6 (78)	23.1 (0)
⊗ MSEAFESCN	29.3 (30)	-4.9 (37)	9.6 (0)	2.2 (69)	33.0 (54)	-17.9 (15)	25.0 (29)	12.3 (30)	9.0 (87)
5th Percentile	35.1	5.3	8.3	8.1	37.4	-15.8	30.4	44.1	16.7
Upper Quartile	31.3	-2.5	6.6	5.5	36.2	-18.7	25.6	13.0	15.4
Median	25.2	-6.1	5.7	3.6	33.4	-19.3	21.5	8.4	12.9
Lower Quartile	21.8	-7.4	4.8	0.7	28.8	-20.8	18.5	6.0	10.8
95th Percentile	13.4	-10.6	-6.1	-2.2	26.6	-23.8	14.8	-7.2	4.3
Number	9	9	9	10	13	13	14	14	15

- During the 2018 drawdown, FIAM protected better than the other managers

# RISK / RETURN – 5-YEAR PERIOD (6/30/21)

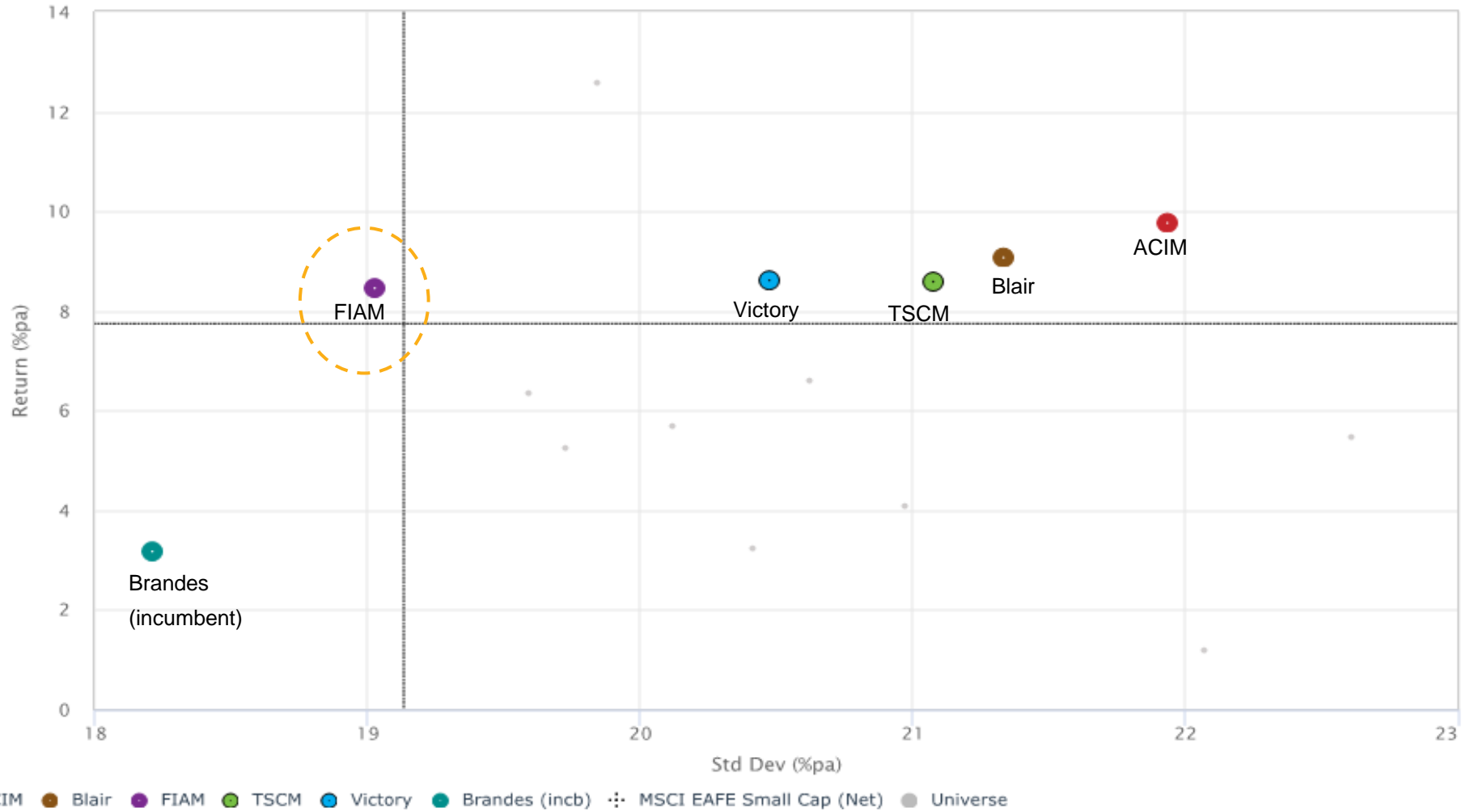
Return and Std Deviation in \$US (after fees) over 5 yrs ending June-21  
Comparison with the Mutual Fund World ex US/EAFE Equity Small Cap universe (quarterly calculations)



- From a risk/return perspective, FIAM stands out and Victory Trivalent appears relatively efficient.

# RISK / RETURN – 7-YEAR PERIOD (6/30/21)

Return and Std Deviation in \$US (after fees) over 7 yrs ending June-21  
Comparison with the Mutual Fund World ex US/EAFE Equity Small Cap universe (quarterly calculations)

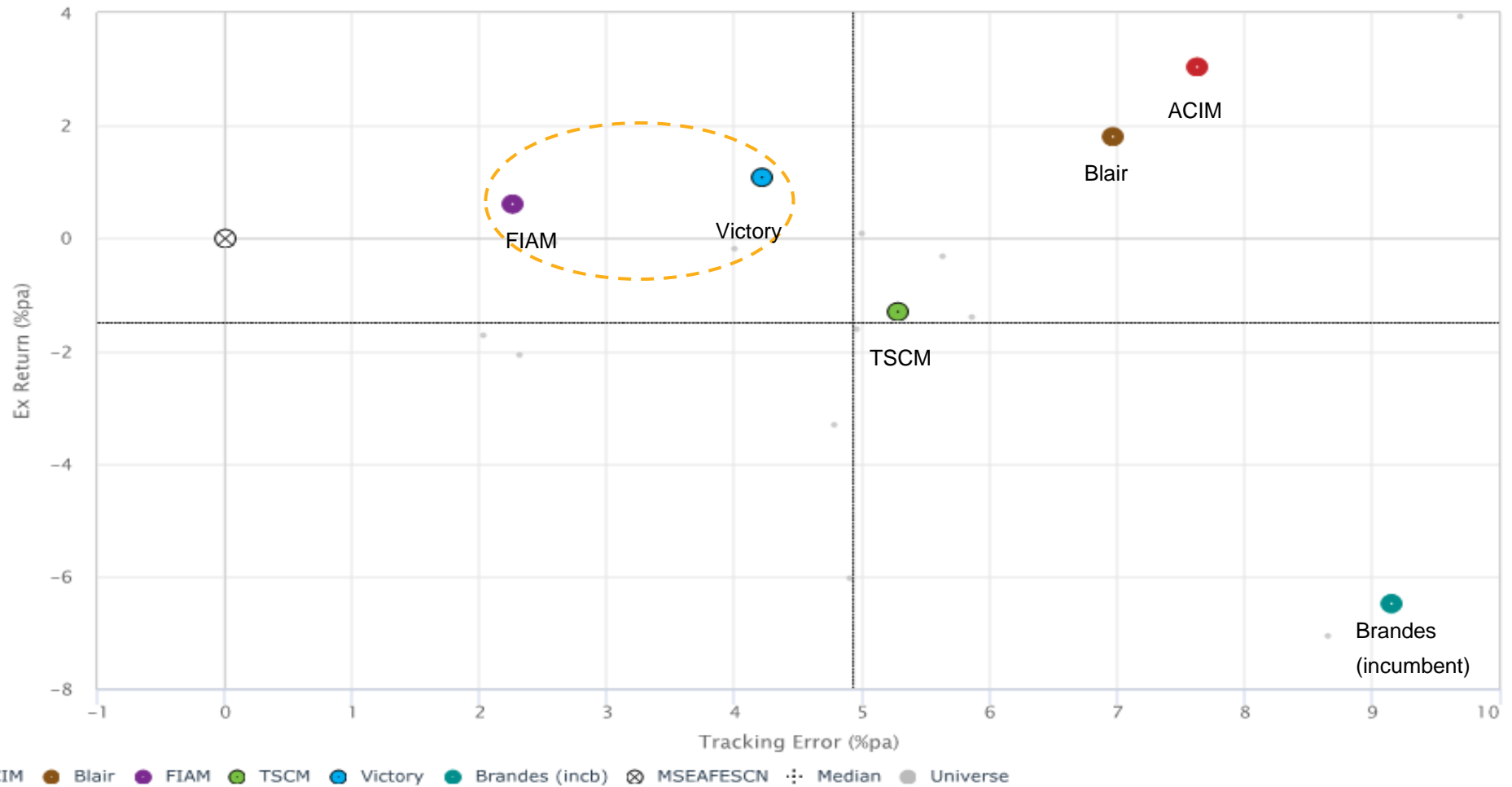


- FIAM stands out from the other managers over the trailing 7-year period.



# TRACKING ERROR / EXCESS RETURN (5-YR)

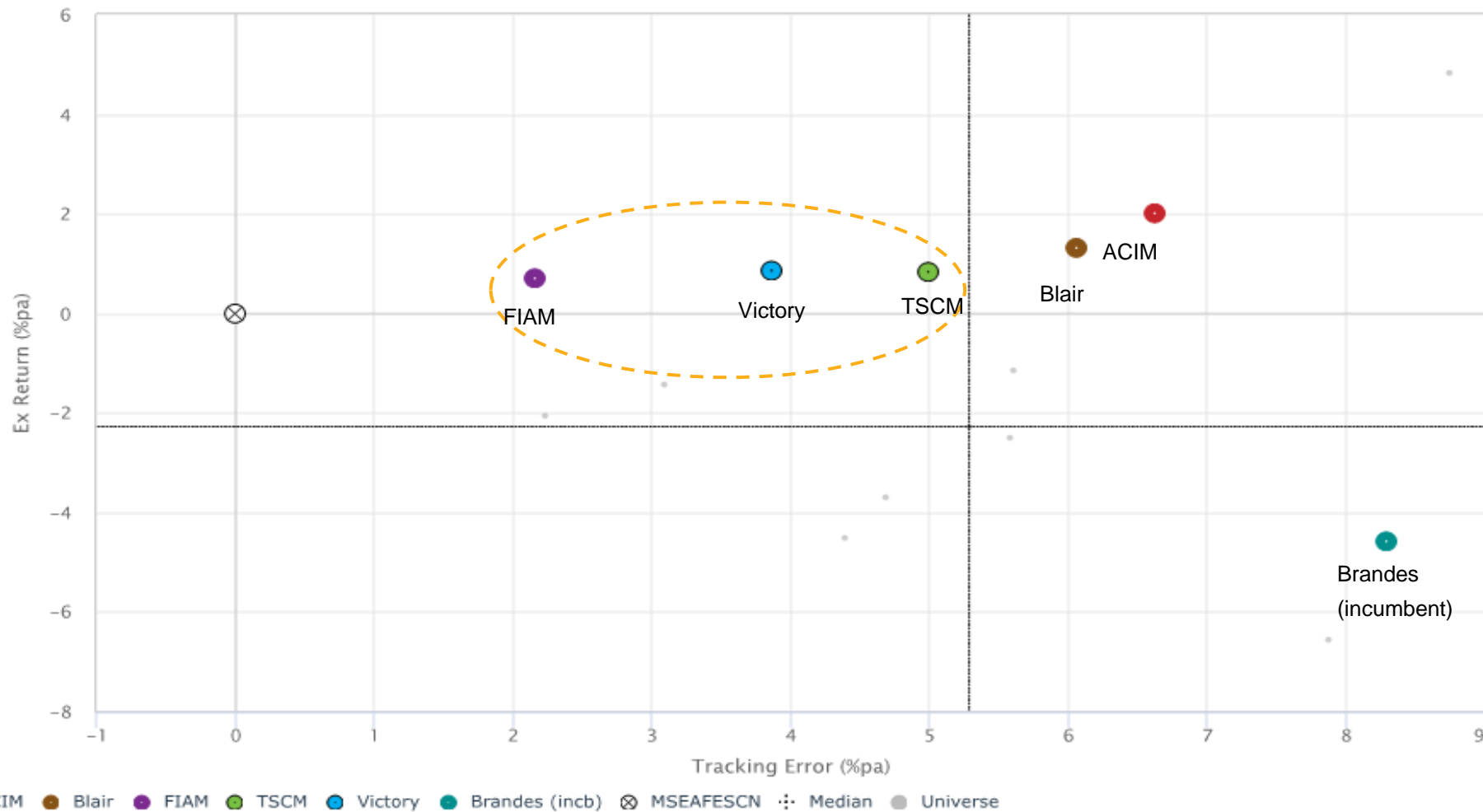
Excess Return and Tracking Error vs. MSCI EAFE Small Cap (Net) in \$US (after fees) over 5 yrs ending June-21  
Comparison with the Mutual Fund World ex US/EAFE Equity Small Cap universe (quarterly calculations)



- From an excess return and tracking error perspective, FIAM and Victory are notable.

# TRACKING ERROR / EXCESS RETURN (7-YR)

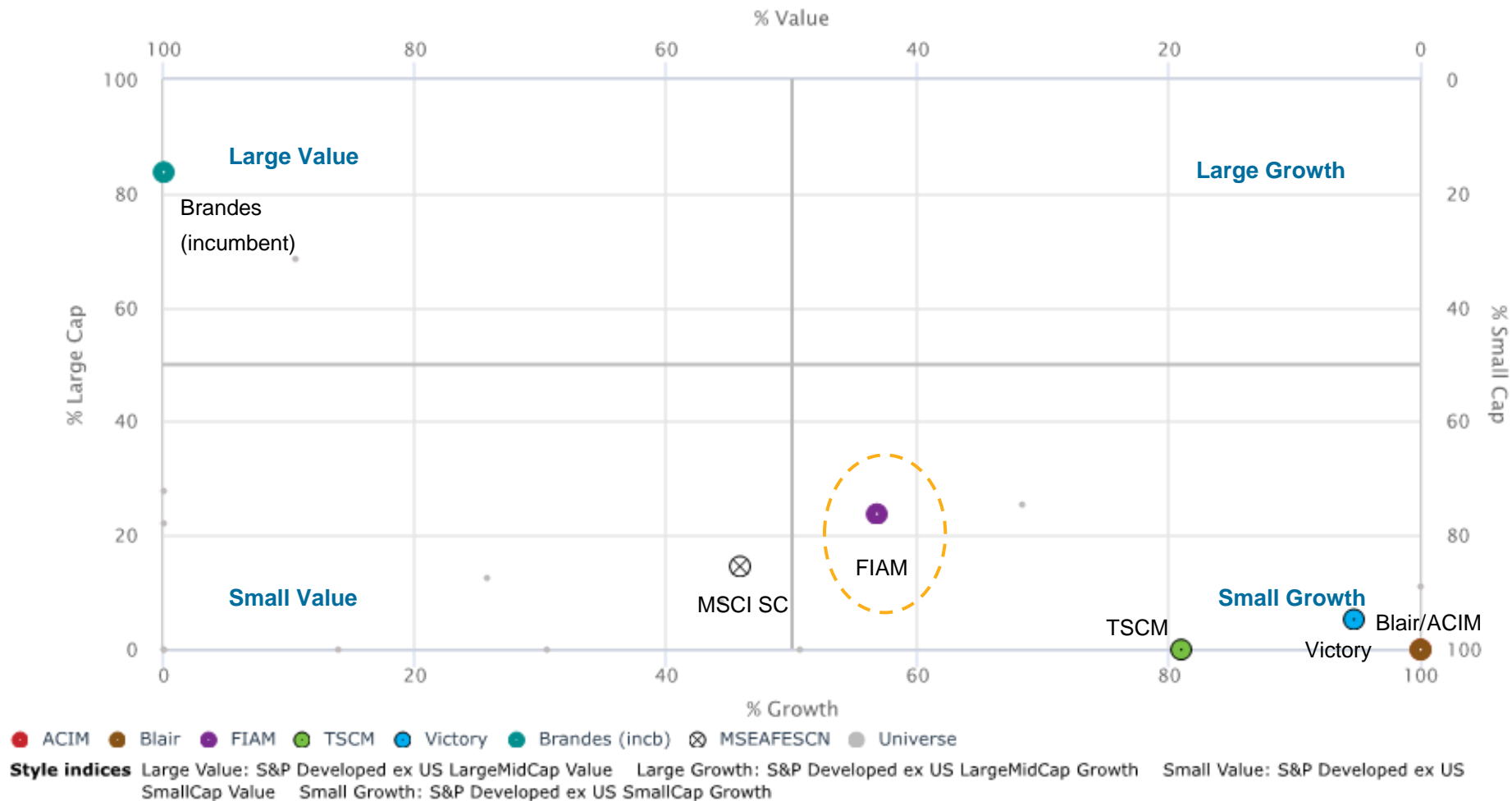
Excess Return and Tracking Error vs. MSCI EAFE Small Cap (Net) in \$US (after fees) over 7 yrs ending June-21  
Comparison with the Mutual Fund World ex US/EAFE Equity Small Cap universe (quarterly calculations)



- FIAM, Victory and TSCM exhibited less tracking error than the universe median (left of the median crosshairs) and greater excess return than the median (above the median crosshairs).
- Meanwhile Blair and ACIM had higher excess returns and tracking error than the universe median.

# RETURNS-BASED STYLE ANALYSIS (5-YR)

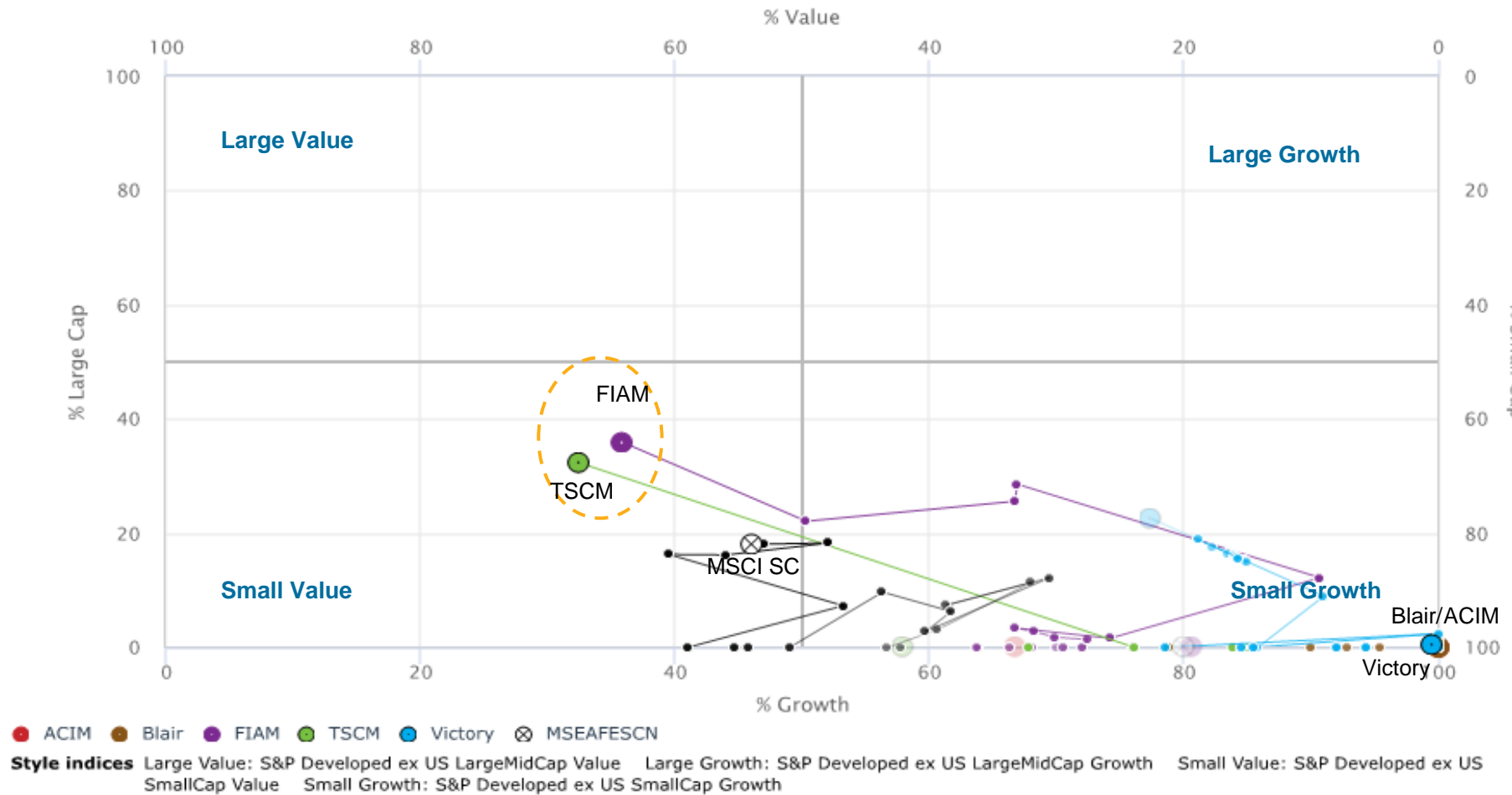
Returns based style analysis in \$US (after fees) over 5 yrs ending June-21  
 Comparison with the Mutual Fund World ex US/EAFE Equity Small Cap universe (quarterly calculations)



- FIAM has a core orientation while William Blair, ACIM (overlaid by Blair), TimesSquare and Victory exhibit a strong growth orientation.

# RETURNS-BASED STYLE ANALYSIS (ROLLING 3-YR PERFORMANCE OVER 5-YRS)

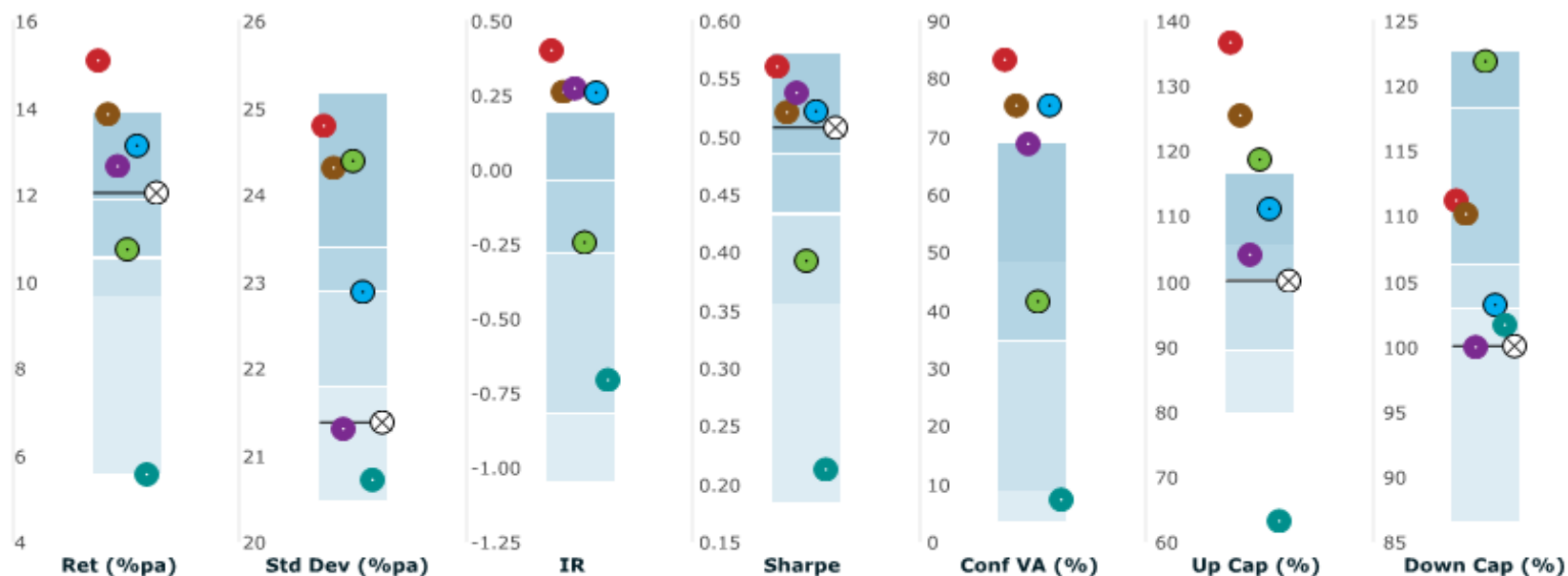
Rolling 3 yr Returns based style analysis in \$US (after fees) over 5 yrs ending June-21 (quarterly calculations)



- FIAM and TimesSquare have shown more diversity in the portfolios rolling 3-year performance orientation over 5 years, while William Blair, ACIM (overlaid by Blair).

# RISK STATISTICS – 5 YEAR (6/30/2021)

Performance characteristics vs. MSCI EAFE Small Cap (Net) in \$US (after fees) over 5 yrs ending June-21  
Comparison with the Mutual Fund World ex US/EAFE Equity Small Cap universe (Percentile Ranking) (quarterly calculations)



	Ret (%pa)	Std Dev (%pa)	IR	Sharpe	Conf VA (%)	Up Cap (%)	Down Cap (%)
● ACIM	15.1(2)	24.8(11)	0.4(0)	0.6(6)	83.2(0)	136.6(0)	111.2(41)
● Blair	13.8(5)	24.3(13)	0.3(3)	0.5(8)	75.3(2)	125.4(0)	110.1(43)
● FIAM	12.6(8)	21.3(87)	0.3(3)	0.5(7)	68.7(5)	104.0(27)	99.9(83)
● TSCM	10.7(45)	24.4(13)	-0.2(46)	0.4(66)	41.5(45)	118.6(0)	121.9(6)
● Victory	13.1(7)	22.9(50)	0.3(3)	0.5(8)	75.3(2)	111.1(19)	103.2(74)
● Brandes (incb)	5.5(95)	20.7(94)	-0.7(65)	0.2(91)	7.2(85)	63.1(100)	101.6(81)
⊗ MSEAFESCN	12.0(14)	21.4(86)	-	0.5(10)	-	100.0(50)	100.0(83)
5th Percentile	13.8	25.2	0.2	0.6	68.7	116.5	122.6
Upper Quartile	11.9	23.4	-0.0	0.5	48.3	105.6	118.2
Median	10.5	22.9	-0.3	0.4	34.6	100.1	106.3
Lower Quartile	9.6	21.8	-0.8	0.4	8.7	89.2	102.9
95th Percentile	5.5	20.5	-1.0	0.2	3.5	79.7	86.5
Number	12	12	12	12	12	12	12

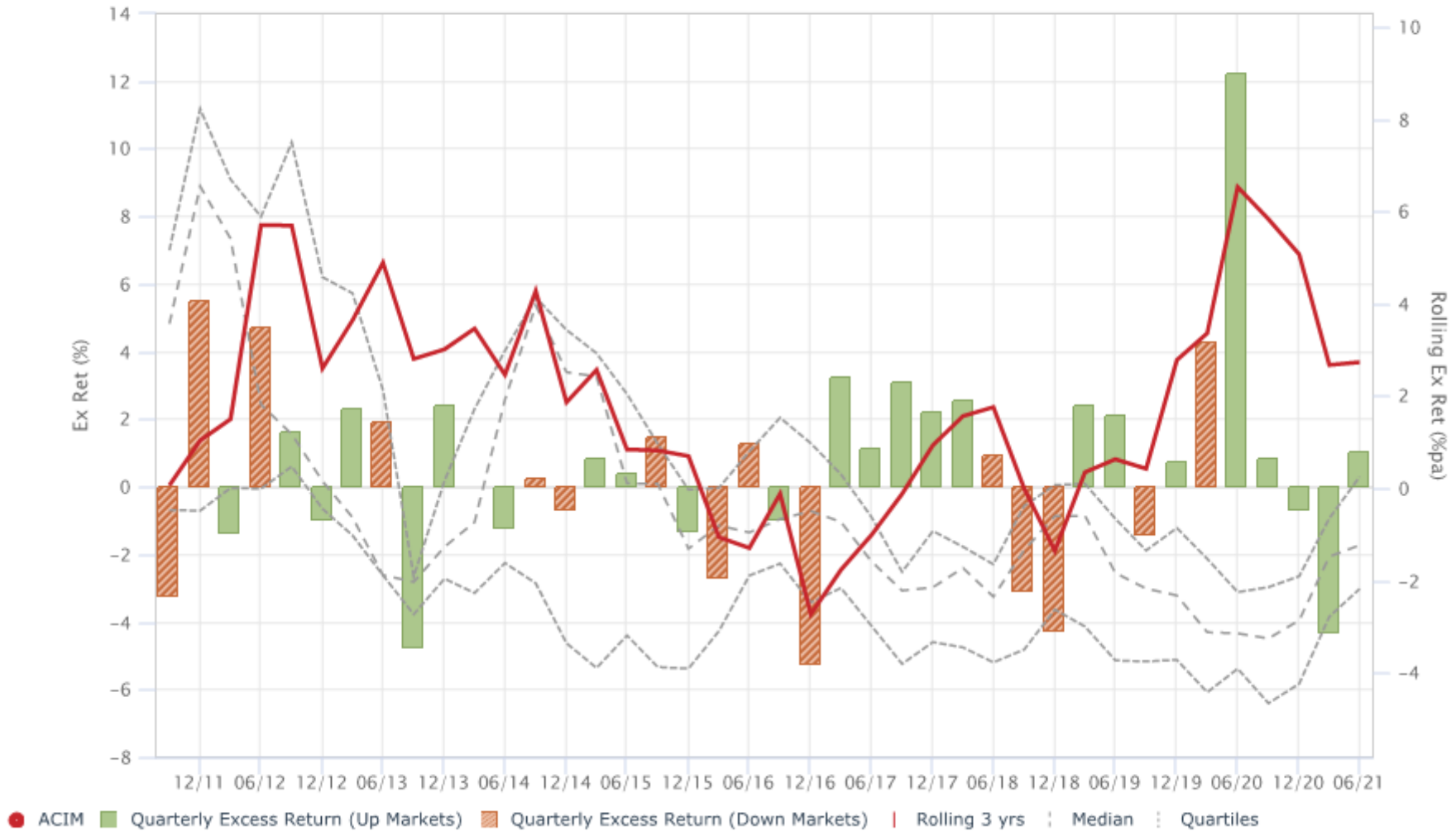
- FIAM displays a more risk measured approach; Meanwhile, ACIM drove higher upside at the cost of greater down market capture.

The risk free rate used for these calculations is the US 3 month T-Bill

# QUARTERLY EXCESS RETURN

## American Century - Non-U.S. Small Cap

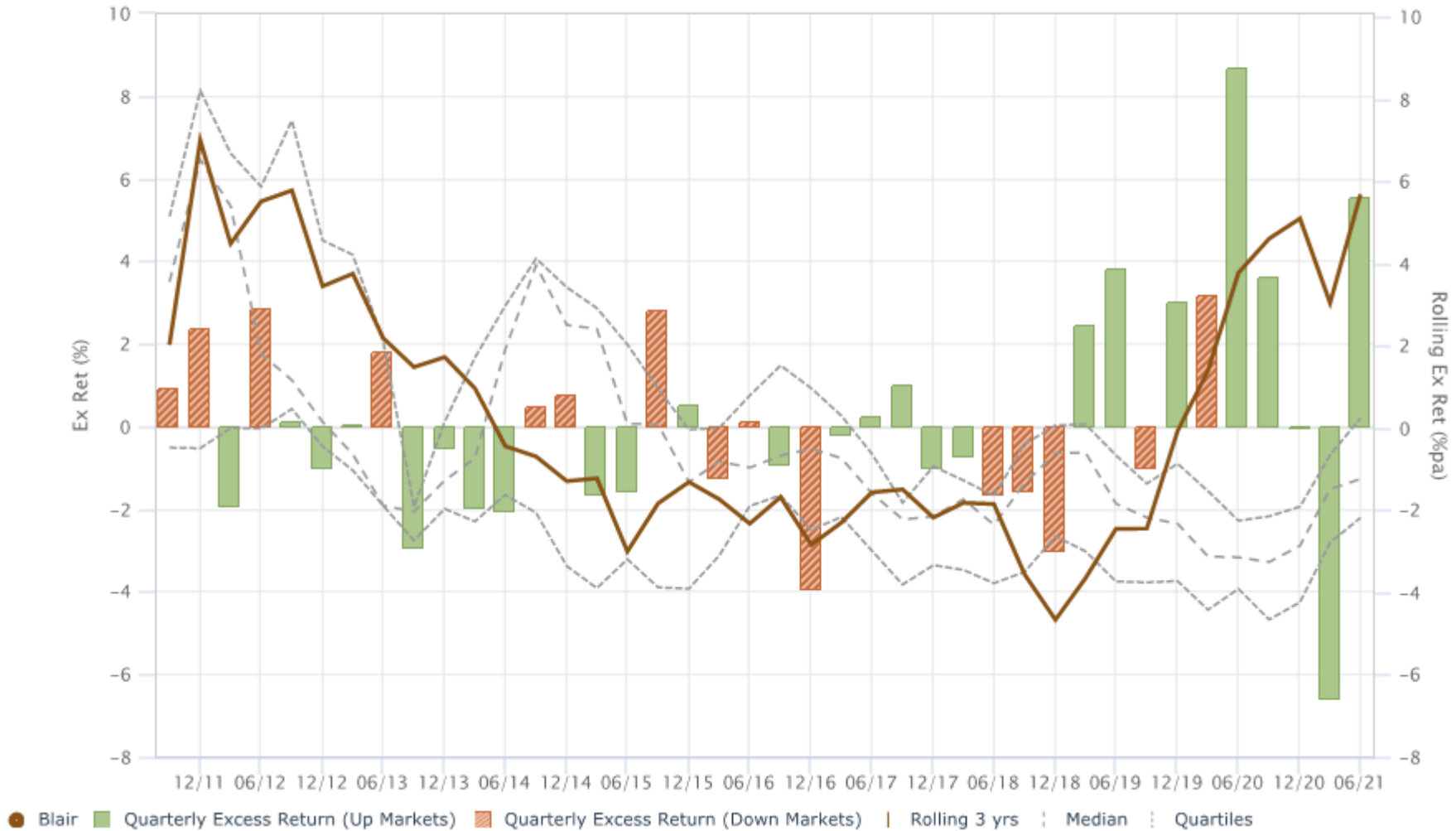
Quarterly Excess Return vs. MSCI EAFE Small Cap (Net) with rolling 3 yr line in \$US (after fees) over 10 yrs ending June-21  
 Comparison with the Mutual Fund World ex US/EAFE Equity Small Cap universe



# QUARTERLY EXCESS RETURN

## William Blair - International Small Cap Growth

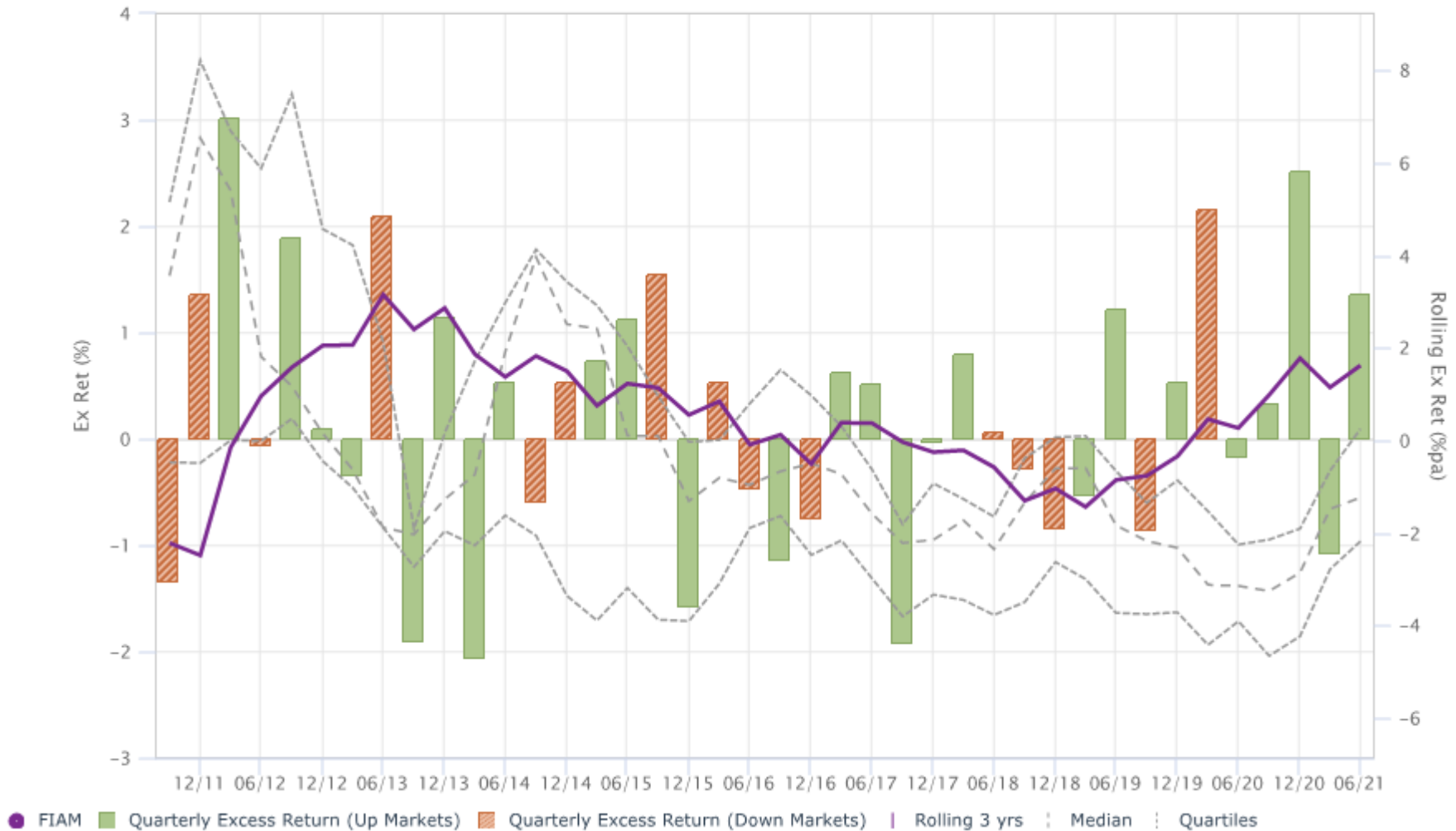
Quarterly Excess Return vs. MSCI EAFE Small Cap (Net) with rolling 3 yr line in \$US (after fees) over 10 yrs ending June-21  
 Comparison with the Mutual Fund World ex US/EAFE Equity Small Cap universe



# QUARTERLY EXCESS RETURN

## FIAM Select International Small Cap Pool

Quarterly Excess Return vs. MSCI EAFE Small Cap (Net) with rolling 3 yr line in \$US (after fees) over 10 yrs ending June-21  
 Comparison with the Mutual Fund World ex US/EAFE Equity Small Cap universe

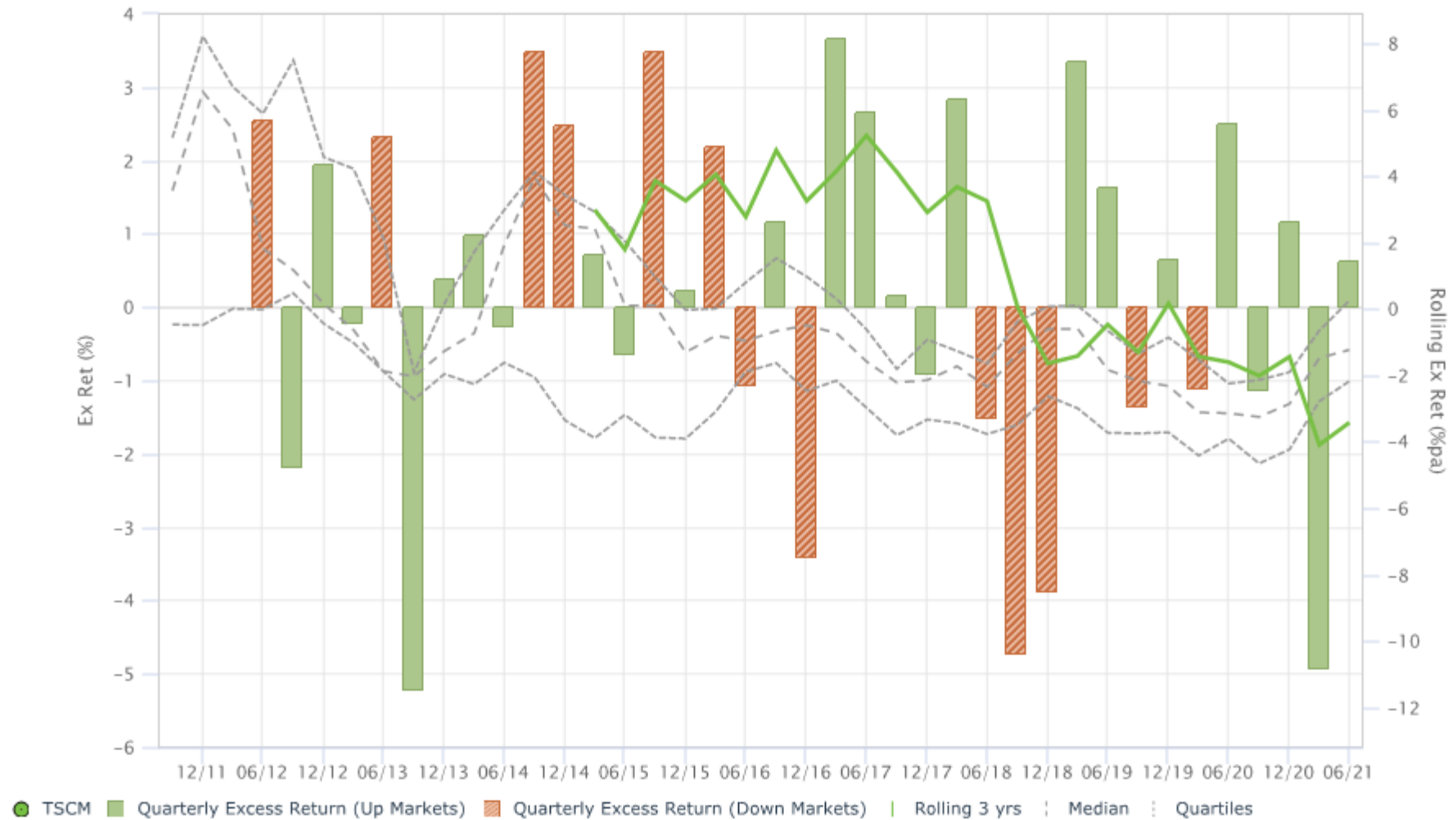




# QUARTERLY EXCESS RETURN

## TimesSquare - International Small Cap

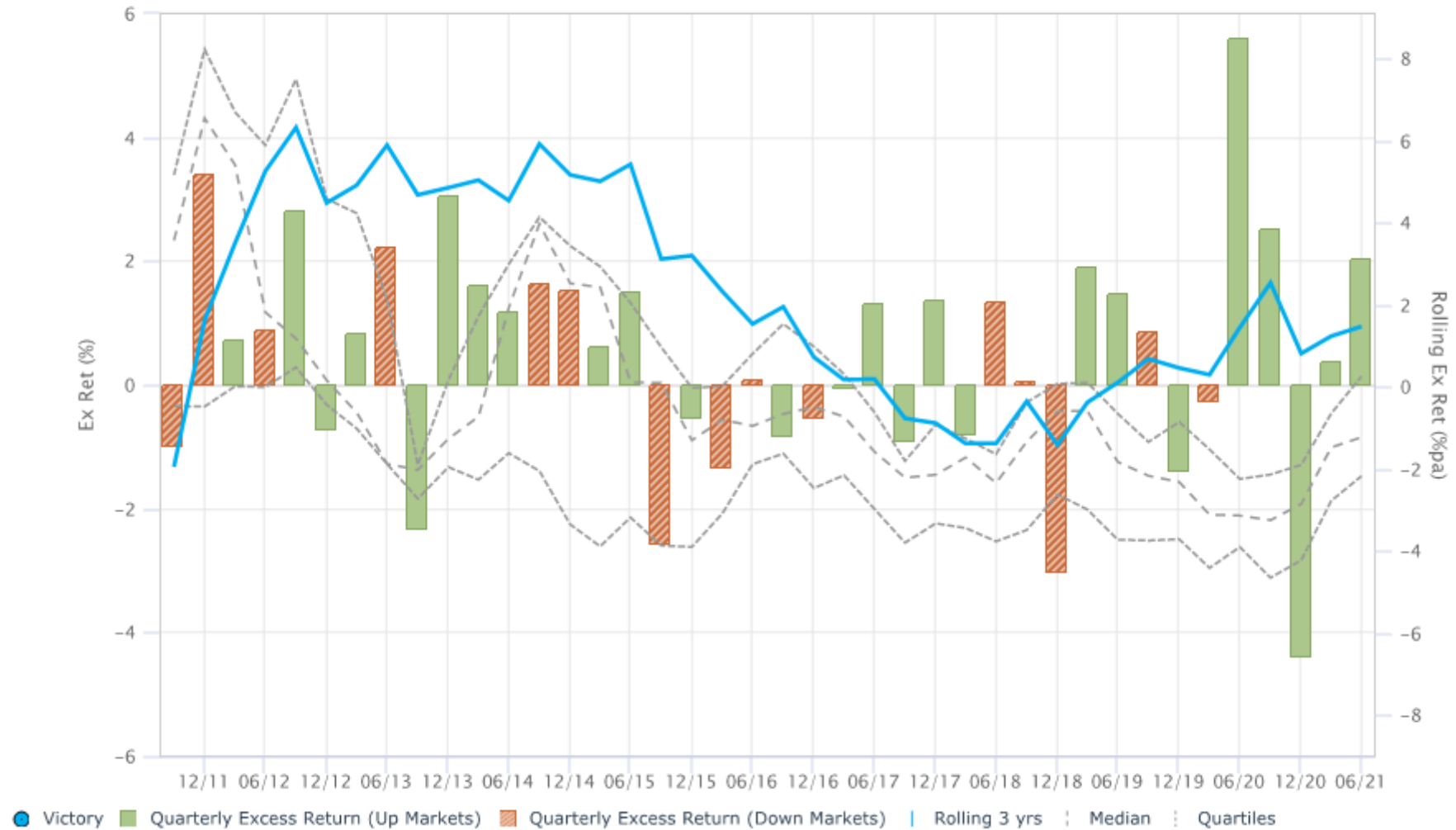
Quarterly Excess Return vs. MSCI EAFE Small Cap (Net) with rolling 3 yr line in \$US (after fees) over 10 yrs ending June-21  
 Comparison with the Mutual Fund World ex US/EAFE Equity Small Cap universe



# QUARTERLY EXCESS RETURN

## Victory Trivalent Intl Small-Cap Eq

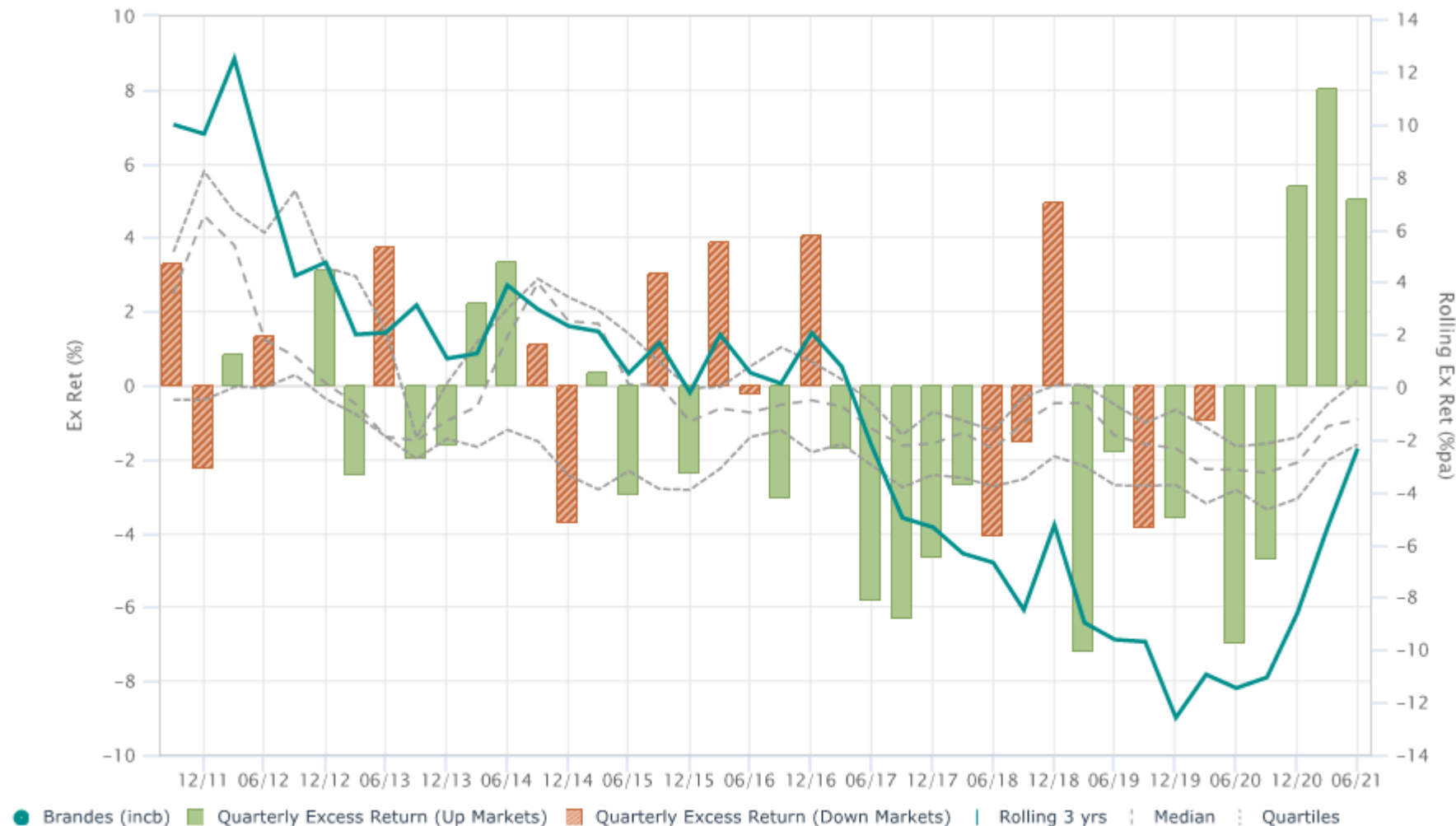
Quarterly Excess Return vs. MSCI EAFE Small Cap (Net) with rolling 3 yr line in \$US (after fees) over 10 yrs ending June-21  
 Comparison with the Mutual Fund World ex US/EAFE Equity Small Cap universe



# QUARTERLY EXCESS RETURN

## Brandes International Small Cap Equity A (incumbent)

Quarterly Excess Return vs. MSCI EAFE Small Cap (Net) with rolling 3 yr line in \$US (after fees) over 10 yrs ending June-21  
 Comparison with the Mutual Fund World ex US/EAFE Equity Small Cap universe



# ROLLING 3-YEAR PERFORMANCE RANKINGS

## Rolling 3 yr performance characteristics vs. MSCI EAFE Small Cap (Net) in \$US (after fees) over 5 yrs ending June-21

Comparison with the Mutual Fund World ex US/EAFE Equity Small Cap universe (quarterly calculations)

Name	1st Quartile		2nd Quartile		3rd Quartile		4th Quartile		Average Percentile Rank	Outperform	
	No.	%	No.	%	No.	%	No.	%		No.	%
<b>Mutual Fund World ex US/EAFE Equity Small Cap Universe - MSCI EAFE Small Cap (Net) Index</b>											
<b>Products</b>											
ACIM	15	75.0	2	10.0	2	10.0	1	5.0	19	14	70
Blair	8	40.0	2	10.0	4	20.0	6	30.0	42	6	30
FIAM	14	70.0	3	15.0	3	15.0	0	0.0	23	9	45
TSCM	16	80.0	0	0.0	2	10.0	2	10.0	23	10	50
Victory (Trivalent)	15	75.0	4	20.0	1	5.0	0	0.0	20	13	65
Brandes (incb)	2	10.0	1	5.0	1	5.0	16	80.0	85	3	15
<b>Benchmark</b>											
MSCI EAFE SC (Net)	14	70.0	6	30.0	0	0.0	0	0.0	19	20	0

- On a rolling 3-year basis, most managers performed in the top quartile of the universe on average over the trailing 5 years, with the exception of William Blair.

The benchmark result for Number Outperform represents the total number of observations in the period.

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# QUARTERLY UP / DOWN MARKET ANALYSIS

Performance characteristics vs. MSCI EAFE Small Cap (Net) in \$US (after fees) over 5 yrs ending June-21

Comparison with the Mutual Fund World ex US/EAFE Equity Small Cap universe (quarterly calculations)

Name	Up Markets			Down Markets			All Markets				
	Outperform		Excess (Av) (%pq)	Outperform		Excess (Av) (%pq)	Outperform		Excess (Av) (%pq)	Outperform (Av) (%pq)	Underperform (Av) (%pq)
	No.	%		No.	%		No.	%			
<b>Mutual Fund World ex US/EAFE Equity Small Cap Universe - MSCI EAFE Small Cap (Net) Index</b>											
<b>Products</b>											
American Century - Non-U.S. Small Cap	11	79	1.8	2	33	-1.5	13	65	0.8	2.8	-2.9
William Blair - International Small Cap Growth	8	57	1.3	1	17	-1.3	9	45	0.5	3.5	-1.9
FIAM Select International Small Cap Pool	8	57	0.2	2	33	-0.1	10	50	0.1	1.0	-0.8
TimesSquare - International Small Cap	11	79	1.0	0	0	-2.7	11	55	-0.1	1.9	-2.6
Victory Trivalent Intl Small-Cap Eq	8	57	0.6	3	50	-0.3	11	55	0.3	1.7	-1.4
Brandes International Small Cap Equity A (incumbent)	3	21	-2.1	2	33	-0.2	5	25	-1.6	5.5	-3.9
MSCI EAFE Small Cap (Net)	14	0	0.0	6	0	0.0	20	0	0.0	na	na
<b>Group Statistics</b>											
Upper Quartile	7	50	0.2	3	46	-0.2	10	49	0.0	2.2	-1.4
Median	7	46	-0.1	2	33	-0.4	9	43	-0.3	1.6	-1.9
Lower Quartile	6	43	-0.6	1	17	-1.4	8	40	-0.5	1.2	-2.4
Number	14	14	14	14	14	14	14	14	14	14	14

- ACIM outperformed during all markets 65% of the time. TSCM and Victory outperformed 55% of the time, with Victory delivery higher average excess performance.

The benchmark results represent the total number of up markets, down markets and observations in the period.

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# CORRELATION

Correlation of Returns in \$US (after fees) over 5 yrs ending June-21 (quarterly calculations)

	ACIM	Blair	FIAM	TSCM	Victory	Brandes (incb)	MSEAFESCN
ACIM		0.98	0.96	0.97	0.97	0.79	0.96
Blair			0.97	0.97	0.97	0.82	0.96
FIAM				0.99	0.98	0.91	0.99
TSCM					0.97	0.85	0.98
Victory (Trivalent)						0.86	0.98
Brandes (incb)							0.91
MSEAFESCN							

Notes:

Correlation is shown in the right hand side of the table.

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# APPENDIX

# PORTFOLIO CONSTRUCTION

## DESIRED FACTOR EXPOSURES



### VALUE

Bias towards cheap stocks on a measure of value such as Price to Book or Price to Earnings.

Return enhancing due to (a) behavioral over-extrapolation of earnings growth, (b) “distress” risk premium, and (c) the rebalancing effect.



### SIZE

Bias towards companies with a smaller market capitalization.

Return enhancing due to (a) small company illiquidity and credit risk premia and (b) the rebalancing effect of selling stocks which have risen in price.



### MOMENTUM

Bias towards stocks which have recently performed well.

Return enhancing due to behavioral factors of (a) under-reaction to company news, (b) over-reaction to recent stock price performance, and (c) herding.



### LOW VOLATILITY

Bias towards stocks with historically low absolute variability of returns.

Risk-adjusted return enhancement due to (a) lottery effect whereby high volatility stocks are systematically over-priced, (b) leverage aversion, (c) tracking error constraints causing systematic over-pricing of high volatility stocks (as not owning these disproportionately increases tracking error).



### QUALITY

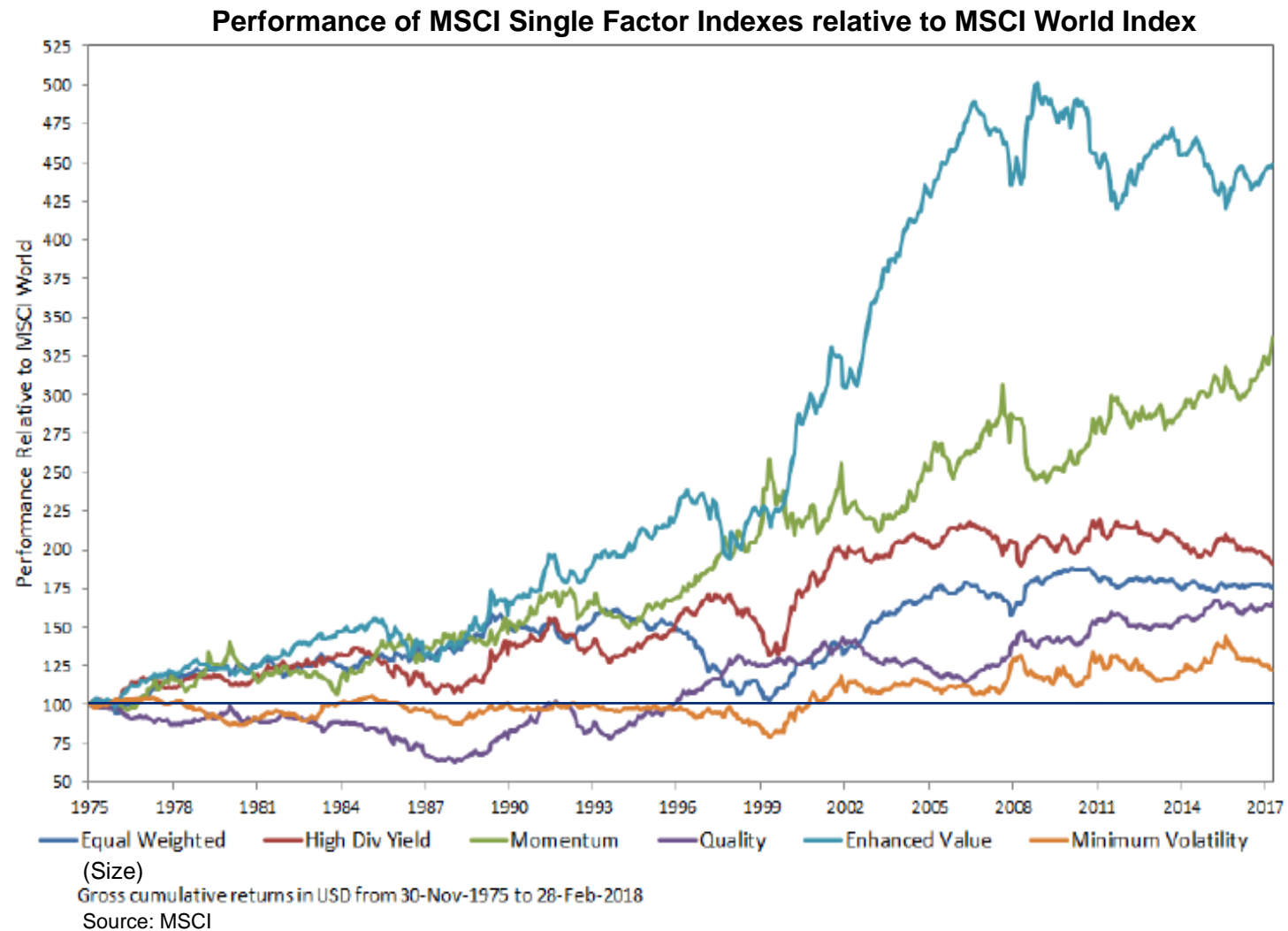
Bias toward stocks with strong measure of profitability, such as Return on Equity.

Return enhancing due to behavioral under-estimation of the long-term sustainability of high quality businesses.



# BENEFITS OF FACTOR INVESTING

- Long-term exposure to different factors has been a driver of excess returns relative to the broad market over very long periods of time as displayed below (lines above 100 indicate cumulative excess performance relative to the market).



# PERFORMANCE NOTES

- **American century** : Composite performance net of 0.95% fee.
- **William Blair** : Net of 0.89% performance provided by manager.
- **Fidelity** : Net performance provided by the manager.
- **Victory** : Composite performance net of 0.75% fee.
- **TimesSquare** : Composite performance net of 0.95% fee.
- **Brandes** : Incumbent, mutual fund vehicle (used A shares ticker: BISAX due to shorter performance history of the I shares: BISMX)

# MINIMUM QUALIFICATIONS

- The minimum qualifications outlined in section 2.2 of the RFP for the International Equity Small Cap mandate are included below:
  - Investment style consistent with international (ex-US) small-cap equity investment style and categorized in Mercer GIMD or other commercially available database as an international (ex-US) small-cap equity strategy
  - Stated benchmark of the strategy will be representative of the style (MSCI EAFE Small-Cap Index or comparable), and strategy will have high correlation with the benchmark (similar to median of peer group or higher)
  - Strategy track record of 5 years or longer
  - Risk-adjusted net performance (as measured by Sharpe ratio and/or Information Ratio) better than median over trailing 5-year period ending most recent quarter
  - Minimum assets under management in strategy of \$1 billion
  - Maximum assets under management in strategy of \$20 billion
  - Investment expense, after all rebates, equal to or less than 1.15%

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