

Whiteford, Taylor & Preston L.L.P.  
Memorandum

TO: Howard County Police and Fire Employees Retirement Plan  
Howard County Retirement Plan  
File No.: 088793/00162

FROM: Paul W. Madden 

DATE: October 25, 2017

RE: International Growth Equity Manager Review

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On October 20, 2017, a conference call was held to initiate the International Growth Equity Manager Review. The call began at 1:30 and lasted until 2:30. On the call were the following Subcommittee members: Angela Price, Jeff Bronow, Janssen Evelyn and Jason Luckenbaugh. There were no absences. Also on the call were Paul Madden, Terry Reider, Scott Southern, Steven Punta and Eric Ralph. Members of the Subcommittee indicated that they have not been contacted by either Fidelity, the Plans' current International Equity Growth Manager, or any of the managers under consideration.

Eric reviewed with the Subcommittee the historical value premium for International Equity Managers over 40+ years, as well as the recent value premium.

Over the last 40+ years there has been a significant value premium for international developed markets. In addition, the higher historical return has not come with increased volatility. More recently, the value premium is still prevalent but is no longer achieved at a lower volatility than growth. As a consequence, Summit Strategies will recommend a significant value allocation in the International Equity arena.

Eric reviewed the performance of Fidelity International Growth Strategy. Eric noted a high level of turnover among portfolio managers and other personnel. In addition, Fidelity has struggled to add significant value over fees. Eric indicated that the expectation should be 100 basis points net of fees. Fidelity has provided about half of this. In addition, Fidelity has experienced consistent outflows in assets from nearly \$20 billion in 2006 to \$6.3 billion in 2017.

Next, Eric compared the performance of four other managers, American Century, Baillie Gifford, Gryphon and Walter Scott. After reviewing the performance data, including risk and fees, the Subcommittee decided to interview Baillie Gifford, Gryphon and Walter Scott. The Subcommittee believed that American Century was too close in style and performance to Fidelity.

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**TO:** Howard County Police and Fire Employees Retirement Plan  
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File No.: 088793/00162

**FROM:** Paul W. Madden 

**DATE:** November 29, 2017

**RE:** International Growth Equity Manager Review

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On November 21, 2017, the Investment Subcommittee consisting of Jason Luckenbaugh, Chair; Jeff Bronow, Janssen Evelyn and Angela Price met to interview International Growth Equity Managers selected during the October 20 conference call. Also in attendance were Eric Ralph and Trevor Howard of Summit Strategies and Paul Madden of Whiteford, Taylor & Preston. The meeting began at 12:00 p.m. Eric Ralph reviewed the process used by Summit Strategies to select International Growth Equity Managers in Summit's top tier. After reviewing the growth and value exposure in the international portfolio, the Subcommittee recommended keeping the 50% growth and 50% value split going forward. Eric noted that the Master Trust's current International Growth Equity portfolio is \$65 million. Eric also noted that all of the finalists, Baillie Gifford, Gryphon and Walter Scott have excellent track records, concentrated portfolios and low turnover.

Baillie Gifford, located in Edinburgh, Scotland, made the first presentation. Ryan Fitzpatrick, Iain Campbell and Eoin Anderson represented Baillie Gifford. Baillie Gifford is 100% owned by its employees. The representatives indicated that Baillie Gifford is a long-term investor that relies on its in-house research for stock selection. Most of the portfolio managers are trained in-house and have 86 professional staff members doing long-only international equity.

The next presentation was by Gryphon, a Toronto-based investment manager. Representing Gryphon were Peter Hanley and Trevor Graham. Gryphon is 70% employee-owned. They have an investment team of seven professionals and spend most of their time watching the companies they own and companies they are thinking about acquiring.

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The third presentation was from Walter Scott, located in Edinburgh, Scotland. Francis Semple represented Walter Scott. Walter Scott is 100% owned by Bank of New York Mellon and has \$65 billion assets under management and a staff of 125. Walter

Scott's investment team of 41 are all located in Edinburgh. They also have a bias toward home grown analysts and managers and have a two-year research apprenticeship. Investment Management Committee members average 17 years with the firm and 20 years in the industry. Walter Scott is similar to the prior managers and they are long-term investors with a bottom-up, fundamental research driven approach to investing. Their portfolio generally consists of 40 to 60 stocks and they have very low turnover.

After interviewing the managers, the Subcommittee unanimously concluded that the Master Trust should replace Fidelity with one of the managers we interviewed. All three of the managers' has stronger performance than Fidelity.

The Subcommittee discussed each of the presentations. Although the three managers have excellent track records and similar approaches, members of the Subcommittee were less comfortable with Gryphon because their investment team consisted of only seven members. While both Baillie Gifford and Walter Scott were considered excellent options for International Growth Equity Manager, members of the Subcommittee noted that Baillie Gifford was employee-owned and has lower fees than Walter Scott. Eric Ralph noted that Baillie Gifford was a better diversifier versus Mondrian. After discussion, members of the Subcommittee unanimously recommended the selection of Baillie Gifford as the Master Trust's International Growth Equity Manager.

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