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INVESTMENT MANAGEMENT

To: North Carolina Supplemental Retirement Board of Trustees

From: Christopher Morris, Co-Chief Investment Officer &
Kristopher Byrd, Portfolio Manager

Date: August 24, 2023

Subject: Discussion / Action: NC 401(k) and NC 457 Plans - Watch List Removal
Recommendation

Recommendation

Mondrian Investment Partners (“Mondrian”) has been managing an international equity strategy for the NC International Fund in the NC 401(k) and NC 457 Plans (“Plans”) since March 2009 and currently manages approximately \$930 million in the strategy for the Plans.

In May 2018, Mondrian was added to the Watch List as a result of performance below the broad non-US index. Mondrian’s investment process, personnel and assets under management have remained stable over time. Performance has improved and remains within expectations for a quality-oriented, value strategy. As of June 2023, this strategy has outperformed the MSCI ACWI ex-US index for the 1 year, 3 year, and 5 year time periods.

For these reasons, Staff and Callan recommend that Mondrian be removed from the watchlist.

Process/Philosophy Overview

Mondrian is a long-term, value oriented manager that utilizes a dividend discount model to generate a real return forecast for each stock that meets its investment criteria based on a screen for value factors. They construct a concentrated, low turnover portfolio that blends top down and bottom up security selection. The strategy typically displays tilts towards companies with higher dividend yields and lower debt on their balance sheets.

Mondrian's value driven investment philosophy is based on the belief that investments need to be evaluated in terms of their fundamental long-term value. In the management of international equity assets, they invest in securities where rigorous dividend discount analysis identifies value in terms of the long-term flow of income.



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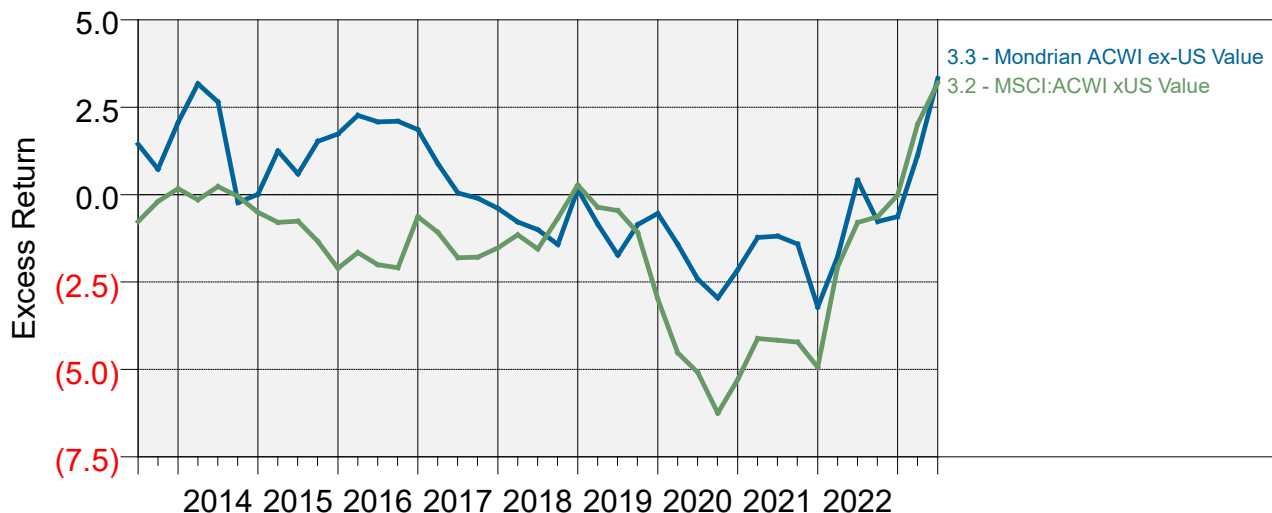
Performance Overview

The strategy has historically offered defensive-value characteristics with an absolute-return performance pattern. It is reasonable to expect the strategy to trail the benchmark in periods where equity returns are historically high and the strategy to do well in relative terms in market sell-offs or periods of extreme volatility. That said, down market performance was challenged during the COVID-related selloff in Q1 of 2020. In that period the more speculative and expensive stocks held their value, while lower priced stocks with better fundamentals sold off more in the downturn.

While Mondrian’s underperformance for 2020 was disappointing, it was expected given their value oriented and defensive style. While the primary benchmark in the Investment Policy Statement remains the MSCI ACWI ex-US, the performance relative to the value-oriented benchmark remains competitive.

Since the underperformance of 2020 this strategy has rebounded, performing in line with the benchmark in 2021 and significantly outperforming in both 2022 and CYTD 2023. As of June 2023, the strategy has outperformed by 0.34% for the 1 year time period, 2.90% annualized for 3 years, and 0.58% annualized for 5 years.

Rolling 12 Quarter Excess Return Relative To MSCI:ACWI xUS
for 10 Years Ended June 30, 2023



Trailing Performance (net of fees, ending 6/30/23):

	QTR	CYTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Mondrian ACWI ex-US Value	3.93	13.10	13.06	10.12	4.10	4.65
MSCI ACWI ex-US Index	2.44	9.47	12.72	7.22	3.52	4.75
Excess Return	1.49	3.63	0.34	2.90	0.58	-0.10



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Organizational Overview

Mondrian Investment Partners was founded in 1990 and is based in London, England. The firm is 100% employee-owned by 90 individuals that own interests in the partnership. No one person has a majority ownership, and the three most senior members own less than one-third of the firm combined.

Firm-wide assets under management stood at \$45.6 billion as of 6/30/23 across a suite of investment strategies including developed and emerging markets, equity and fixed income strategies. Non-US equity strategies represent the majority of assets managed across the firm. The Focused All Countries World ex-US strategy assets are currently around \$1.895 billion. Assets have remained steady and cash flows for the firm/strategy are not a specific concern at this time.

The strategy is run by a team of 59 experienced professionals. Liz Desmond, founding partner and Chief Investment Officer, was appointed Deputy CEO in 2018. Desmond's day-to-day responsibilities have not changed since taking on this expanded role and she continues to manage the International Equity group and portfolios.

While there have been a number of investment professional shifts on the team, all were well telegraphed and resources remain robust. Namely, Hamish Parker, who served as chair on the ESG Steering Committee, retired in the first quarter of 2021. Alex Simcox, senior portfolio manager on the international strategy, assumed Parker's role as chair and as of January 2022 the Head of ESG Investment. In January 2022, Steven Dutaut took on the role of Head of Research - Europe & Asia. Finally, in July 2022 Andrew Porter, Senior Portfolio Manager, retired from the investment management industry and Chris Davis and Zsolt Mester, Portfolio Managers, became members of the International Equity Strategy Committee at that time.