

## *Investment Committee Agenda*

### REGULAR MEETING

**TUESDAY, SEPTEMBER 11, 2018**

**TIME: 10:30 A.M. OR IMMEDIATELY  
FOLLOWING ADJOURNMENT  
OF REGULAR BOARD MEETING**

### MEETING LOCATION:

LACERS Ken Spiker Boardroom  
202 West First Street, Suite 500  
Los Angeles, CA 90012-4401

Chair: Sung Won Sohn

Committee Members: Elizabeth Lee  
Nilza R. Serrano

Manager-Secretary: Neil M. Guglielmo

Executive Assistant: Ani Ghoukassian

Legal Counselor: City Attorney's Office  
Retirement Benefits Division

Sign Language Interpreters, Communication Access Real-Time Transcription, Assistive Listening Devices, or other auxiliary aids and/or services may be provided upon request. To ensure availability, you are advised to make your request at least 72 hours prior to the meeting you wish to attend. Due to difficulties in securing Sign Language Interpreters, five or more business days' notice is strongly recommended. For additional information, please contact: Board of Administration Office at (213) 473-7169.

- I. PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION
- II. [APPROVAL OF MINUTES FOR THE INVESTMENT COMMITTEE MEETING OF AUGUST 14, 2018 AND POSSIBLE COMMITTEE ACTION](#)
- III. CHIEF INVESTMENT OFFICER VERBAL REPORT
- IV. [PRESENTATION BY LAZARD ASSET MANAGEMENT, LLC REGARDING THE MANAGEMENT OF AN ACTIVE NON-U.S. EQUITIES DEVELOPED MARKETS CORE PORTFOLIO](#)
- V. [PRESENTATION BY MFS INSTITUTIONAL ADVISORS, INC. REGARDING THE MANAGEMENT OF AN ACTIVE NON-U.S. EQUITIES DEVELOPED MARKETS GROWTH PORTFOLIO](#)
- VI. [PRESENTATION BY BARROW, HANLEY, MEWHINNEY & STRAUSS, LLC REGARDING THE MANAGEMENT OF AN ACTIVE NON-U.S. EQUITIES DEVELOPED MARKETS VALUE PORTFOLIO](#)

VII. [INVESTMENT MANAGER CONTRACT WITH AJO, LP REGARDING THE MANAGEMENT OF AN ACTIVE LARGE CAP VALUE EQUITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION](#)

VIII. OTHER BUSINESS

IX. NEXT MEETING: The next Regular Meeting of the Investment Committee is scheduled for Tuesday, October 9, 2018, in the LACERS Ken Spiker Boardroom, 202 West First Street, Suite 500, Los Angeles, CA 90012-4401.

X. ADJOURNMENT



***Board of Administration Agenda***

**SPECIAL MEETING**

**TUESDAY, SEPTEMBER 11, 2018**

**TIME: 10:30 A.M. OR IMMEDIATELY FOLLOWING ADJOURNMENT OF REGULAR BOARD MEETING**

**MEETING LOCATION:**

LACERS Ken Spiker Boardroom  
202 West First Street, Suite 500  
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President:	Cynthia M. Ruiz
Vice President:	Elizabeth L. Greenwood
Commissioners:	Elizabeth Lee Sandra Lee Nilza R. Serrano Sung Won Sohn Michael R. Wilkinson
Manager-Secretary:	Neil M. Guglielmo
Executive Assistant:	Ani Ghoukassian
Legal Counsel:	City Attorney's Office Retirement Benefits Division

- I. PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION
- II. APPROVAL OF MINUTES FOR THE INVESTMENT COMMITTEE MEETING OF AUGUST 14, 2018 AND POSSIBLE COMMITTEE ACTION
- III. CHIEF INVESTMENT OFFICER VERBAL REPORT
- IV. PRESENTATION BY LAZARD ASSET MANAGEMENT, LLC REGARDING THE MANAGEMENT OF AN ACTIVE NON-U.S. EQUITIES DEVELOPED MARKETS CORE PORTFOLIO
- V. PRESENTATION BY MFS INSTITUTIONAL ADVISORS, INC. REGARDING THE MANAGEMENT OF AN ACTIVE NON-U.S. EQUITIES DEVELOPED MARKETS GROWTH PORTFOLIO
- VI. PRESENTATION BY BARROW, HANLEY, MEWHINNEY & STRAUSS, LLC REGARDING THE MANAGEMENT OF AN ACTIVE NON-U.S. EQUITIES DEVELOPED MARKETS VALUE PORTFOLIO

- VII. INVESTMENT MANAGER CONTRACT WITH AJO, LP REGARDING THE MANAGEMENT OF AN ACTIVE LARGE CAP VALUE EQUITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION
- VIII. OTHER BUSINESS
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- X. ADJOURNMENT

MINUTES OF THE REGULAR MEETING  
**INVESTMENT COMMITTEE**  
BOARD OF ADMINISTRATION  
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

LACERS Boardroom  
202 West First Street, Suite 500  
Los Angeles, California

August 14, 2018

**Agenda of: Sept. 11, 2018**

**Item No: II**

2:15 p.m.

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PRESENT:	Chair:	Sung Won Sohn
	Committee Member:	Elizabeth Lee Nilza R. Serrano
	Manager-Secretary:	Neil M. Guglielmo
	Executive Assistant:	Ani Ghoukassian
	Legal Counselor:	James Napier

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*The Items in the Minutes are numbered to correspond with the Agenda.*

I

PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION – Chair Sohn asked if any persons wished to speak on matters within the Committee's jurisdiction, to which there was no response and no public comment cards received.

II

APPROVAL OF MINUTES FOR THE INVESTMENT COMMITTEE MEETING OF JULY 10, 2018 AND POSSIBLE COMMITTEE ACTION – A Motion to approve the minutes of July 10, 2018 was moved by Committee Member Serrano, seconded by Committee Member Elizabeth Lee, and adopted by the following vote: Ayes, Committee Members Elizabeth Lee, Serrano, and Chair Sohn –3; Nays, None.

III

CHIEF INVESTMENT OFFICER VERBAL REPORT – Rod June, Chief Investment Officer, shared the 12-month Investment Committee Calendar with the Investment Committee.

IV

INVESTMENT MANAGER CONTRACT WITH LM CAPITAL GROUP, LLC REGARDING THE MANAGEMENT OF AN ACTIVE DOMESTIC FIXED INCOME PORTFOLIO AND POSSIBLE COMMITTEE ACTION – Approval was moved by Committee Member Serrano, seconded by

Committee Member Elizabeth Lee, and adopted by the following vote: Ayes, Committee Members Elizabeth Lee, Serrano, and Chair Sohn –3; Nays, None.

V

RECEIVE AND FILE – ANNUAL REPORT ON LACERS EMERGING INVESTMENT MANAGER PROGRAM – Rod June, Chief Investment Officer and Ron Aubert, Investment Officer I, presented this item to the Committee. The report was received by the Committee and filed.

VI

OTHER BUSINESS – There was no other business.

VII

NEXT MEETING – The next Regular Meeting of the Investment Committee is scheduled for Tuesday, September 11, 2018, in the LACERS Ken Spiker Boardroom, 202 West First Street, Suite 500, Los Angeles, CA 90012-4401.

VIII

ADJOURNMENT – There being no further business before the Committee, Chairperson Sohn adjourned the Meeting at 2:33 p.m.

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Sung Won Sohn

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Neil M. Guglielmo  
Manager-Secretary

# LAZARD

ASSET MANAGEMENT

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## Los Angeles City Employees' Retirement System Lazard International Strategic Equity

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September 11, 2018

**Michael Powers**

*Managing Director, Portfolio Manager/Analyst*

**Tom Franzese**

*Director*



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# Table of Contents

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I. Firm Overview, Investment Process, Philosophy and Objectives

II. Market and Portfolio Review

III. Outlook

IV. Summary

V. Appendices

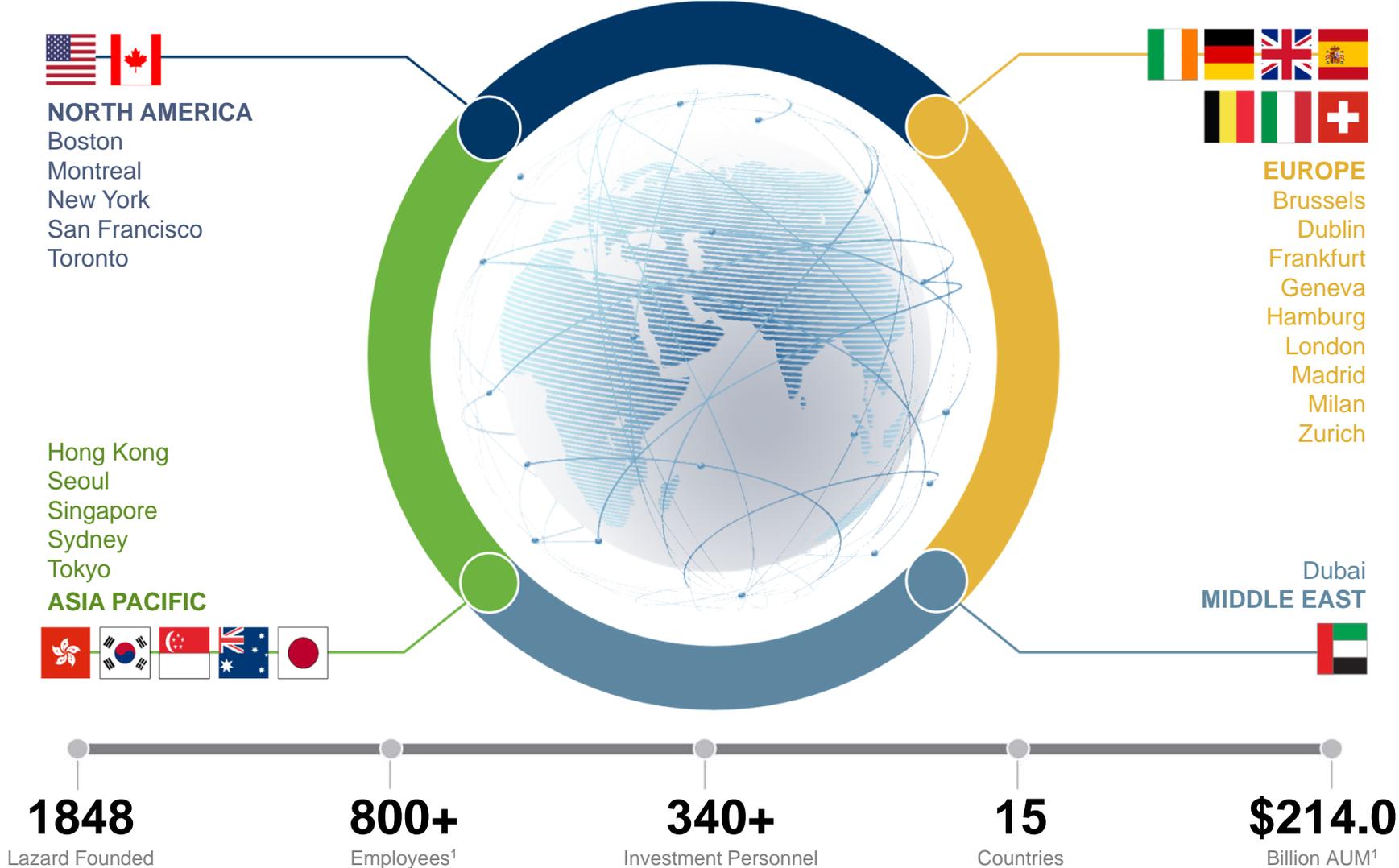
- Workforce Composition, Diversity and Initiatives
- Biographies
- Performance Disclosures

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**TAB**

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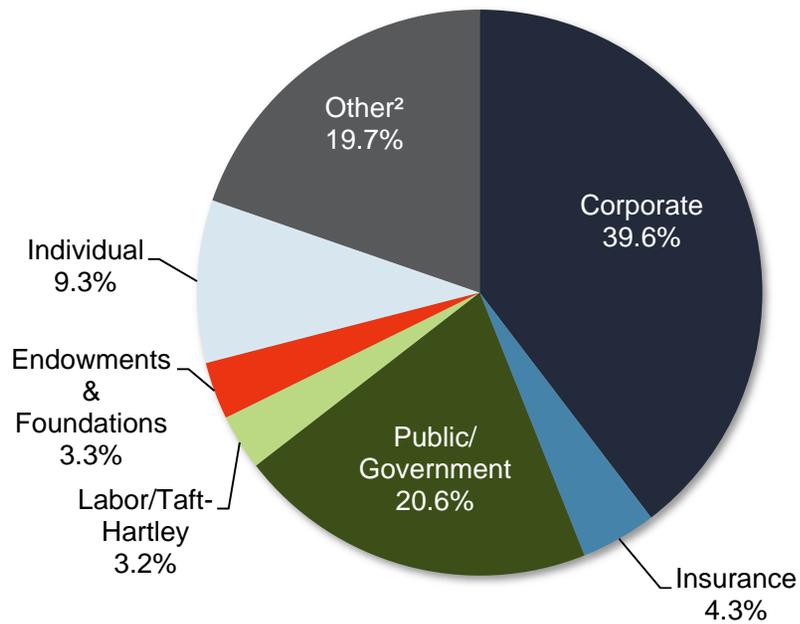
# Lazard Asset Management



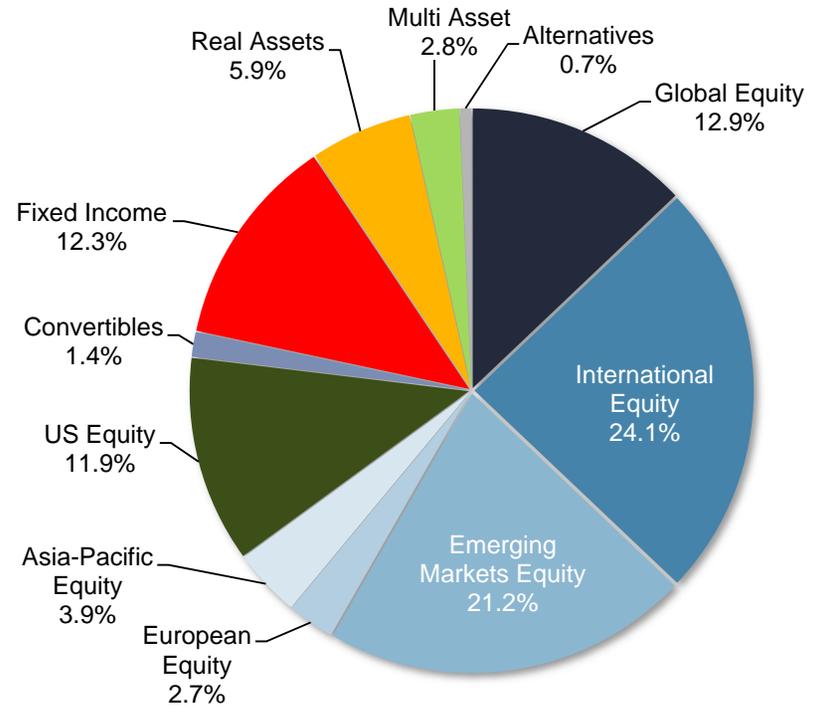
<sup>1</sup> As of 30 June 2018. Includes those of Lazard Asset Management LLC (New York) and its affiliates, but do not include those of Lazard Frères Gestion (Paris) or other asset management businesses of Lazard Ltd.

# Assets Under Management

## By Client Type



## By Investment Mandate



**Total Firm Assets Under Management<sup>1</sup>: \$214.0 billion**

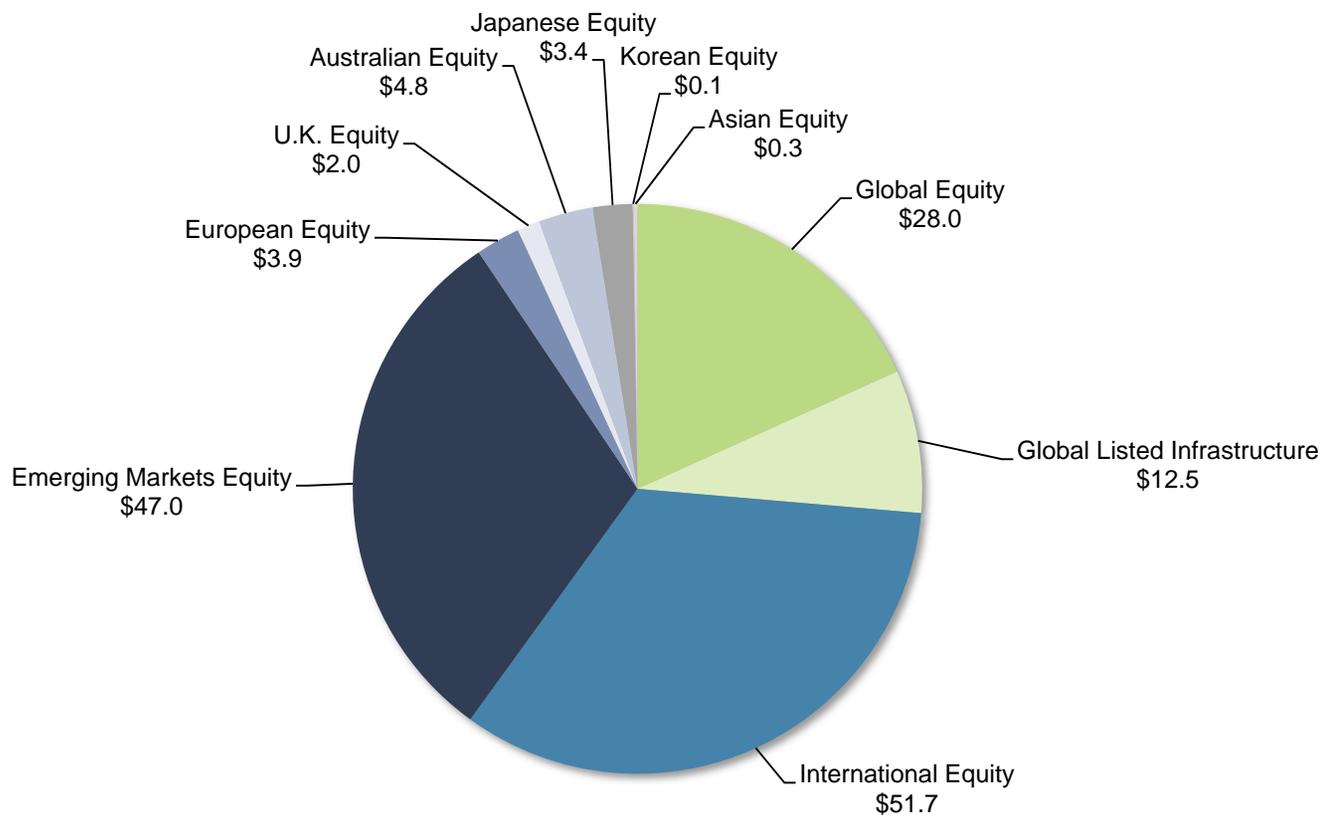
<sup>1</sup> As of 30 June 2018. Assets under management include those of Lazard Asset Management LLC (New York) and its affiliates, but do not include those of Lazard Frères Gestion (Paris) or other asset management businesses of Lazard Ltd.

<sup>2</sup> Other represents clients invested in hedge funds, mutual funds, and other investment vehicles for which client type is not reported.

# Assets Under Management

## Global/International Equity

### Lazard Global/International Equity Assets (in US\$ billions)



**Total Global/International Equity Assets:  
\$153.6 billion; 71.8% of Total Firm Assets**

# Representative Clients

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## California Public and Taft Hartley Clients

Los Angeles City Employees' Retirement System  
 Apartment Employees Pension Fund  
 California Public Employees' Retirement System  
 California State Teachers' Retirement System  
 Industrial Carpenters & Precast Industry Pension Fund  
 Los Angeles County Employees' Retirement Association  
 Los Angeles Firemen's Relief Association  
 Motion Picture Industry Pension Plan  
 Sacramento County Employees' Retirement System (SCERS)  
 Screen Actors Guild Producers Pension Plan  
 Southern California Pipe Trades Retirement Fund  
 Southern California UFCW Unions & Food Employers Joint Pension Trust Funds  
 UFCW Northern California Employers Joint Pension Trust

City	State
Los Angeles	CA
San Francisco	CA
Sacramento	CA
Sacramento	CA
San Jose	CA
Pasadena	CA
Los Angeles	CA
Studio City	CA
Sacramento	CA
Burbank	CA
Los Angeles	CA
Cypress	CA
Concord	CA

## Other West Coast Public and Taft Hartley Clients

Alaska Permanent Fund Corporation  
 Alaska Retirement Management Board  
 Anchorage Police & Fire Retirement System  
 Automotive Machinists Pension Fund  
 Carpenters Retirement Trusts of Western Washington  
 Hawaii Laborers Pension and Annuity Funds  
 Hawaii Sheet Metal Workers Pension and Annuity Funds  
 Oregon Laborers - Employers Pension Plan  
 Oregon Public Employees Retirement System  
 Oregon Savings Growth Plan  
 Washington State Investment Board

City	State
Juneau	AK
Juneau	AK
Anchorage	AK
Seattle	WA
Seattle	WA
Honolulu	HI
Honolulu	HI
Portland	OR
Tigard	OR
Tigard	OR
Olympia	WA

# Representative Clients

## Other Public Clients

Alabama Trust Fund  
 Anne Arundel County Retirement and Pension System  
 Arkansas Local Police and Fire Retirement System (LOPFI)  
 Arkansas Public Employees Retirement System  
 Arkansas Teacher Retirement System  
 Birmingham Employees Retirement System  
 Bristol County Employees Retirement System  
 Cambridge Retirement System  
 Chicago Policemen's Annuity and Benefit Fund  
 Chicago Transit Authority Retiree Healthcare Trust  
 City of Baltimore Employees Retirement System  
 City of Birmingham Firefighter's and Police Officer's Supplemental Pension System  
 City of Birmingham Retirement and Relief System  
 City of Boca Raton Police & Firefighters' Retirement System  
 City of Danville Employees Retirement System  
 City of Daytona Beach Police & Firefighters' Pension Fund  
 City of Falls Church  
 City of Farmington Hills Employee Retirement System  
 City of Fort Lauderdale Police & Firefighters' Retirement System  
 City of Lansing Employees Retirement System  
 City of Milford Retirement System  
 City of Naples General, Police and Fire Retirement System  
 City of New Haven Policeman & Firemen's Pension Fund  
 City of Stamford Firemen's Pension Fund  
 City of Sunrise General Employees Retirement Fund  
 City of Warren General Employees' Retirement System  
 City of Waterbury Retirement Fund  
 City of Worcester Retirement System  
 City of Wyandotte Retirement System  
 Delray Beach Police and Fire Pension  
 Detroit Police & Fire Retirement System

City	State
Montgomery	AL
Annapolis	MD
Little Rock	AR
Little Rock	AR
Little Rock	AR
Birmingham	MI
Taunton	MA
Cambridge	MA
Chicago	IL
Chicago	IL
Baltimore	MD
Birmingham	AL
Birmingham	AL
Boca Raton	FL
Danville	VA
Daytona Beach	FL
Falls Church	VA
Farmingtonhills	MI
Fort Lauderdale	FL
Lansing	MI
Milford	CT
Naples	FL
New Haven	CT
Stamford	CT
Sunrise	FL
Warren	MI
Waterbury	CT
Worcester	MA
Wyandotte	MI
Delray Beach	FL
Detroit	MI

It is not known whether the clients listed above approve or disapprove of Lazard or the advisory services provided.  
 The above list generally includes all institutional clients who have not objected to inclusion in a representative client list.  
 Performance-based data were not used to determine which clients to include on the list.

# Representative Clients

## Other Public Clients (continued)

	<b>City</b>	<b>State</b>
Educational Employees of Fairfax County	Fairfax	VA
El Paso City Employees' Pension Fund	El Paso	TX
Employees Retirement System of Texas	Austin	TX
Forest Preserve District Annuity and Benefit Fund of Cook County	Chicago	IL
Hallandale Beach Police and Fire Pension	Hallandale Beach	FL
Highway Patrol Retirement System of Ohio	Columbus	OH
Holyoke Retirement System	Holyoke	MA
Illinois Municipal Retirement Fund	Oak Brook	IL
International Association of Fire Fighters Employee Pension Plan	Washington	DC
Kansas City Board of Public Utilities (BPU)	Kansas City	KS
Kansas Public Employees Retirement System	Topeka	KS
Kentucky State Retirement System	Frankfort	KY
Medford Contributory Retirement System	Medford	MA
Melbourne Firefighters Retirement System	Melbourne	FL
Metropolitan District Pension Fund	Hartford	CT
Metropolitan Government of Nashville & Davidson County	Nashville	TN
Metropolitan Transit Authority (MTA) and Manhattan And Bronx Surface Transit Operating Authority (MaBSTOA) Pension Plan	New York	NY
Midland Firemen's Relief & Retirement Trust	Midland	TX
Mississippi Public Employees Retirement System	Jackson	MS
Monroe County Employees Retirement System	Monroe	MI
Montana Board of Investments	Helena	MT
Nebraska Public Power District	Columbus	NE
New Jersey Division of Investment	Trenton	NJ
New Mexico PERA	Santa Fe	NM
New York Power Authority	White Plains	NY
Norfolk County Retirement System	Canton	MA
North Attleborough Contributory Retirement System	North Attleborough	MA
NYC Detectives Endowment Association Annuity Fund	New York	NY
Oakland County Employees' Retirement System	Pontiac	MI

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# Representative Clients

## Other Public Clients (continued)

	<b>City</b>	<b>State</b>
Oakland County VEBA	Pontiac	MI
Oklahoma City Employees Retirement System	Oklahoma City	OK
Omaha Civilian Employees' Retirement System	Omaha	NE
Omaha Police and Fire Pension Plan	Omaha	NE
Philadelphia Gas Works Pension Plan	Philadelphia	PA
Pompano Beach Police & Firefighters Retirement System	Pompano Beach	FL
Public Employees' Retirement System of Ohio	Columbus	OH
Public School and Education Employee Retirement Systems of Missouri (PSRS/PEERS)	Jefferson City	MO
Public School Teachers' Pension and Retirement Fund of Chicago	Chicago	IL
San Antonio Fire & Police Pension Fund	San Antonio	TX
Sarasota Fire and Police Retirement System	Sarasota	FL
Shelby County Retirement System	Memphis	TN
Somerville Contributory Retirement System	Somerville	MA
St. Louis Police Retirement System	St. Louis	MO
St. Louis Teachers Retirement System	St. Louis	MO
State of Connecticut Retirement Plans and Trust Funds	Hartford	CT
State of Delaware Treasury	Dover	DE
State of Michigan Legislative Retirement	Lansing	MI
State of Michigan Retirement System	Lansing	MI
State Teachers Retirement System of Ohio	Columbus	OH
State-Boston Retirement System	Boston	MA
Teachers Retirement System of Texas	Austin	TX
Teachers Retirement System of the City of New York	New York	NY
Texas Municipal Retirement System	Austin	TX
Texas Treasury Safekeeping Trust Company	Austin	TX
The County Employees and Officers Annuity Benefit Fund of Cook County	Chicago	IL
Wayne County Employees Retirement System	Detroit	MI
Westfield Contributory Retirement System	Westfield	MA

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# Lazard Equity Investment Resources

## Sector Expertise

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### Consumer

Aaron Binsted  
Christopher Blake  
Thomas Boyle  
Rohit Chopra  
Elizabeth Chung  
Nathan Cockrell  
Myla Cruz  
Marina Erskine-Leacock  
Jay Levy  
Jerry Liu  
Jake (Jaeyub) Myung  
Dennis Neveling  
Rob Osborn  
William Parry  
Sookyum (Celine) Woo  
Shuichi Yoshimura

### Financials

David Alcaly  
Nigel Barrett  
Dmitri Batsev  
Daniel Breslin  
Adrian Cheung  
Elias Chrysostomou  
Gautam Garg  
Philipp Hofflin  
Jay Leupp  
Mark Lien  
Jonathan Morris  
Stephen Russell  
Guillaume Samama  
Rahwa Senay  
Monika Shrestha  
Ronald Temple

### Power

Georg Benes  
Bertrand Cliquet  
James Donald  
Alistair Godrich  
Peter Hunsberger  
Eugene Krishnan  
Matthew Landy  
Neil Millar  
Jacob (Ryan) Mims  
John Mulquiney  
Warryn Robertson  
Anthony Rohrlach  
Ben Wulfsohn

### Health Care

Thurl Abrahams  
Jelena Boskovic  
Rhett Brown  
John Mariano  
Henry (Ross) Seiden  
Nicholas Sordoni

### Technology, Media, Telecom

Giles Edwards  
Donald Floyd  
Jenny Hardy  
Robert Horton  
Alex Ingham  
Ario Kishida  
Edward Lund  
Bret Miller  
Takayuki Natsume  
Paul Rogers  
Christopher Whitney  
Tim Zhao

### Industrials

Matthew Bills  
Jimmie Bork  
Antoine Champenier  
Michael DeBernardis  
Lada Emelianova  
Peter Gillespie  
Kevin Matthews  
Erik McKee  
Keith Mori  
Andrei Morosanu  
Kevin O'Hare  
David Pizzimenti  
Daniel Rozier  
Victoire Spahn  
Jason Tin  
Philippe Tison

# Lazard International Equity Platform Management

		Joined Lazard	Years in Industry
	<b>Michael Bennett</b> Managing Director, Portfolio Manager/Analyst	1992	31
	<b>James Donald, CFA</b> Managing Director, Portfolio Manager/Analyst	1996	34
	<b>Giles Edwards, CFA, CIMA</b> Senior Vice President, Portfolio Manager/Analyst	2008	14
	<b>Michael G. Fry</b> Managing Director, Portfolio Manager/Analyst	2005	36
	<b>Robin O. Jones</b> Managing Director, Portfolio Manager/Analyst	2002	15

		Joined Lazard	Years in Industry
	<b>Mark Little</b> Managing Director, Portfolio Manager/Analyst	1997	25
	<b>Kevin J. Matthews, CFA</b> Managing Director, Portfolio Manager/Analyst	2001	16
	<b>Michael Powers</b> Managing Director, Portfolio Manager/Analyst	1990	27
	<b>John Reinsberg</b> Deputy Chairman, International and Global Strategies	1992	36

# Investment Philosophy, Objectives and Process

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## Our Investment Philosophy

- Focus on those companies that are financially productive and inexpensively valued
- Add value through stock selection and portfolio management

## Our Investment Objectives

- Outperform relevant benchmark over a full market cycle
- Participate in rising markets; preserve capital in falling markets
- Outperform our investment competitors
- Seek consistent results

## Our Investment Process



Lazard's investment process for research and portfolio construction is presented here as sequential steps; in practice the process is neither static, nor sequential, but ongoing.

# Three Levels of Risk Monitoring

## A Solid Foundation

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# Distinguishing Features

## Lazard International Equity Strategies

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- **Robust bottom up relative value culture and process**
  - Buy stocks, not markets
  - Relative Value trade-off between financial productivity and valuation
  - Borderless alpha generation
  - Strong emerging markets expertise
- **Exploiting market inefficiencies**
  - Sustainability of returns
  - Structural change
  - Short term focus on news flow
- **Flexibility of implementation**
  - Market Cap
  - Geography
  - Sectors
- **Historically consistent and attractive pattern of performance**
  - Downside protection with upside participation
  - Attractive risk-adjusted returns

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**TAB**

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# International Market Summary – 2018Q2

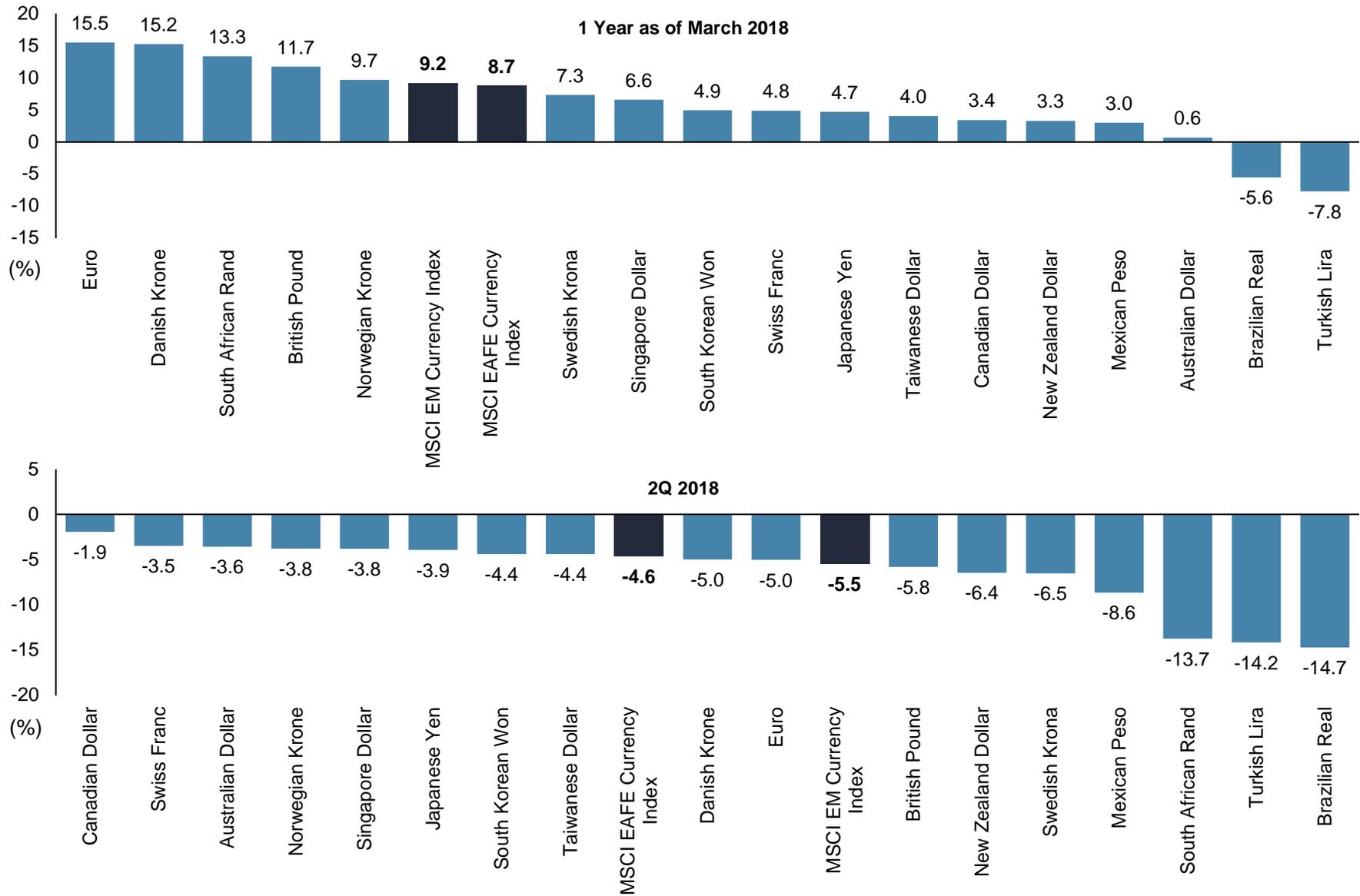
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- Positive developed equity market local returns were negative in USD terms
  - Weakness in Brazilian & Turkish equity markets and currencies dominated EM returns
  - Energy led sector returns driving Australian and Canadian equities
  - Growth continued its long winning streak vs Value
- 

- MSCI EAFE Index: **-1.2% QTD (+3.5% Local)**
- MSCI ACW ex-US Index: **-2.6% QTD (+1.9% Local)**

**We remain cautious given late cycle valuations & geopolitical risks**

# Foreign Currencies vs. US Dollar



As of 30 June 2018

The MSCI EAFE Currency Index and the MSCI EM Currency Index sets the weights of each currency equal to the relevant weight in the MSCI EAFE Index and MSCI EM Index, respectively.

The indices listed are unmanaged and have no fees. It is not possible to invest in an index.

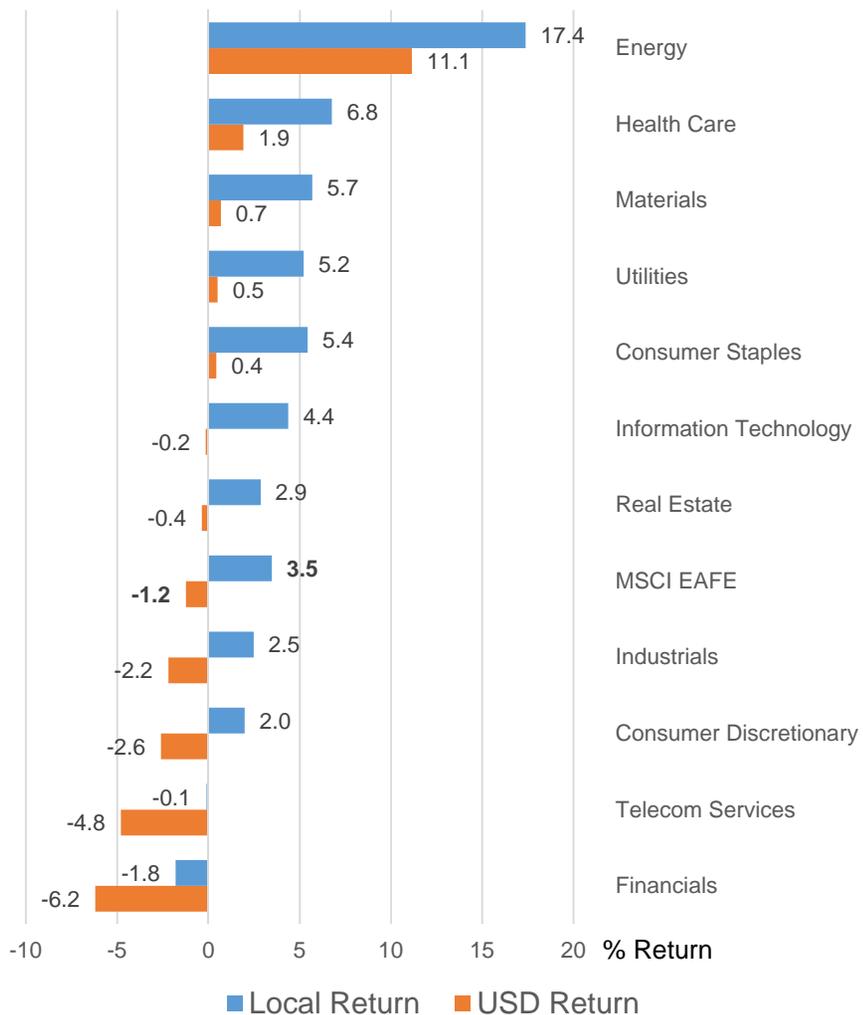
The performance quoted represents past performance. Past performance is not a reliable indicator of future results.

Source: Bloomberg

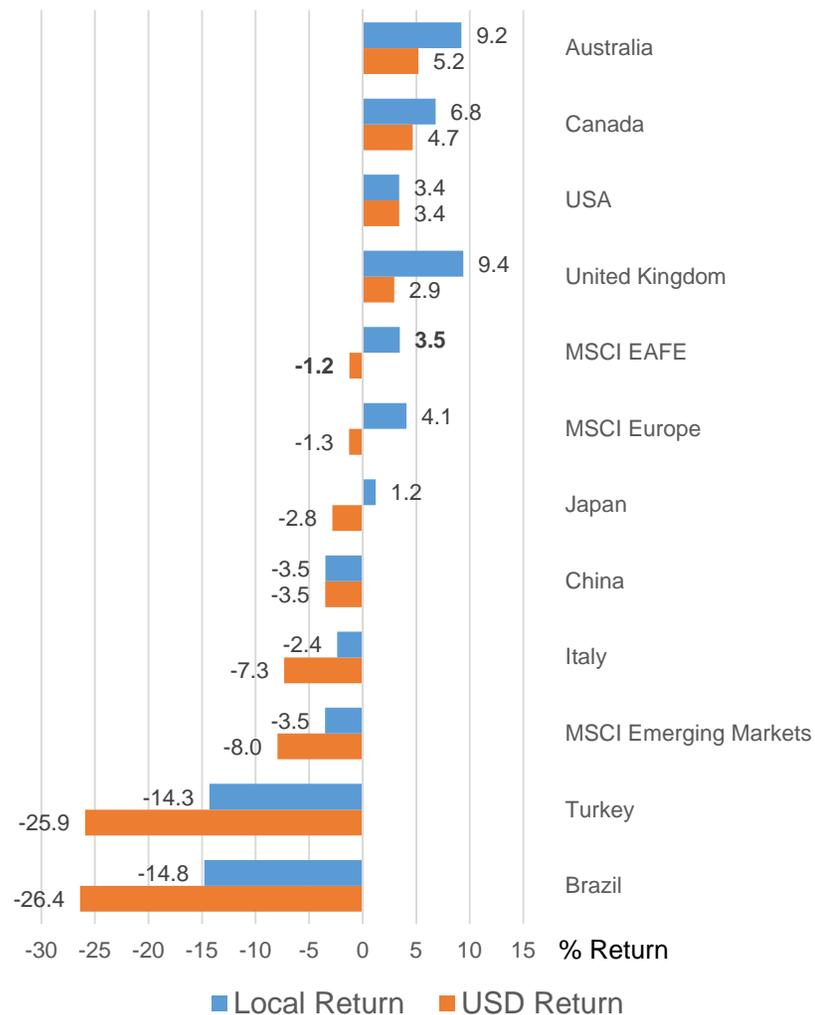
# Market Performance – 2018Q2

## MSCI EAFE

### MSCI EAFE Sector Performance



### MSCI Country Performance



**Strong local market returns offset by USD strength**

As of 30 June 2018

The performance quoted represents past performance. Past performance is not a reliable indicator of future results.

For illustrative purposes only. This information is not representative of any product or strategy managed by Lazard. The index is unmanaged and has no fees. One cannot invest directly in an index.

Source: MSCI

# Performance Summary

## Los Angeles City Employees' Retirement System

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### Performance as of 31 July 2018 (%)

	YTD	1 Year	Annualized Since Inception 07 Nov 2013
<b>Los Angeles City Employees' Retirement System (Gross of fees)</b>	<b>1.54</b>	<b>10.63</b>	<b>5.62</b>
<b>Los Angeles City Employees' Retirement System (Net of fees)</b>	<b>1.27</b>	<b>10.08</b>	<b>5.07</b>
MSCI EAFE Index	-0.36	6.40	4.23
<b>Excess Return (Gross of fees, bps)</b>	<b>+190</b>	<b>+423</b>	<b>+139</b>

### Portfolio Composition as of 31 July 2018

	Market Value	% of Portfolio
Equity	\$ 557,573,720	93.2%
Cash and Equivalents	\$ 40,857,429	6.8%
<b>Total Portfolio</b>	<b>\$ 598,431,149</b>	<b>100.0%</b>

# Composite Performance Summary

## Lazard International Strategic Equity

### Performance as of 31 July 2018 (%)

	YTD	1 Year	Annualized		Since Inception 01 Oct 2001
			5 Years	10 Years	
<b>Lazard International Strategic Equity</b>	<b>1.75</b>	<b>10.46</b>	<b>6.53</b>	<b>6.04</b>	<b>9.84</b>
MSCI EAFE Index	-0.36	6.40	5.86	2.84	6.50
<b>Excess Return (bps)</b>	<b>+211</b>	<b>+406</b>	<b>+106</b>	<b>+67</b>	<b>+334</b>

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
<b>Lazard International Strategic Equity</b>	<b>28.74</b>	<b>-4.73</b>	<b>-0.82</b>	<b>0.02</b>	<b>26.92</b>	<b>25.99</b>	<b>-9.21</b>	<b>15.13</b>	<b>29.71</b>	<b>-40.11</b>	<b>13.31</b>	<b>27.24</b>	<b>19.30</b>	<b>26.66</b>	<b>36.62</b>	<b>-6.11</b>
MSCI EAFE Index	25.03	1.00	-0.81	-4.90	22.78	17.32	-12.14	7.75	31.78	-43.38	11.17	26.34	13.54	20.25	38.59	-15.94
<b>Excess Return (bps)</b>	<b>+371</b>	<b>-573</b>	<b>-1</b>	<b>+492</b>	<b>+414</b>	<b>+867</b>	<b>+293</b>	<b>+738</b>	<b>-207</b>	<b>+327</b>	<b>+214</b>	<b>+90</b>	<b>+576</b>	<b>+641</b>	<b>-197</b>	<b>+983</b>

All data in USD.

Performance is presented gross of fees. Please refer to "GIPS® Composite Information" for additional information, including net-of-fee results. The performance quoted represents past performance. Past performance is not a reliable indicator of future results.

# Annualized Performance Rankings

## Lazard International Strategic Equity

Percentile Rank	Lazard International Strategic Equity			
	1	5	7	10
1 <sup>st</sup> Quartile	6			10
2 <sup>nd</sup> Quartile			24	
3 <sup>rd</sup> Quartile		72		
4 <sup>th</sup> Quartile				
Years	1	5	7	10
Peer Universe <sup>1</sup>	EAFE All Cap Core Equity			
No. of Observations	69	57	52	40
Benchmark	MSCI EAFE Index			
Returns (% Ann) Strategy	13.6	7.5	7.6	6.0
Benchmark	6.8	6.4	4.9	2.8
<b>Excess Return (bps)</b>	<b>+675</b>	<b>+106</b>	<b>+273</b>	<b>+320</b>

<sup>1</sup> Primary peer universe as per eVestment Alliance.

Rankings are based on June 30, 2018 data, and reported by the eVestment database on August 14, 2018.

Performance above represents Lazard's GIPS-compliant composite results for the noted investment strategies and is presented gross of fees. Peer ranking data is supplemental to the complete composite performance. Please refer to the attached disclosures for important information regarding each composite. The performance quoted represents past performance. Past performance is not a reliable indicator of future results.

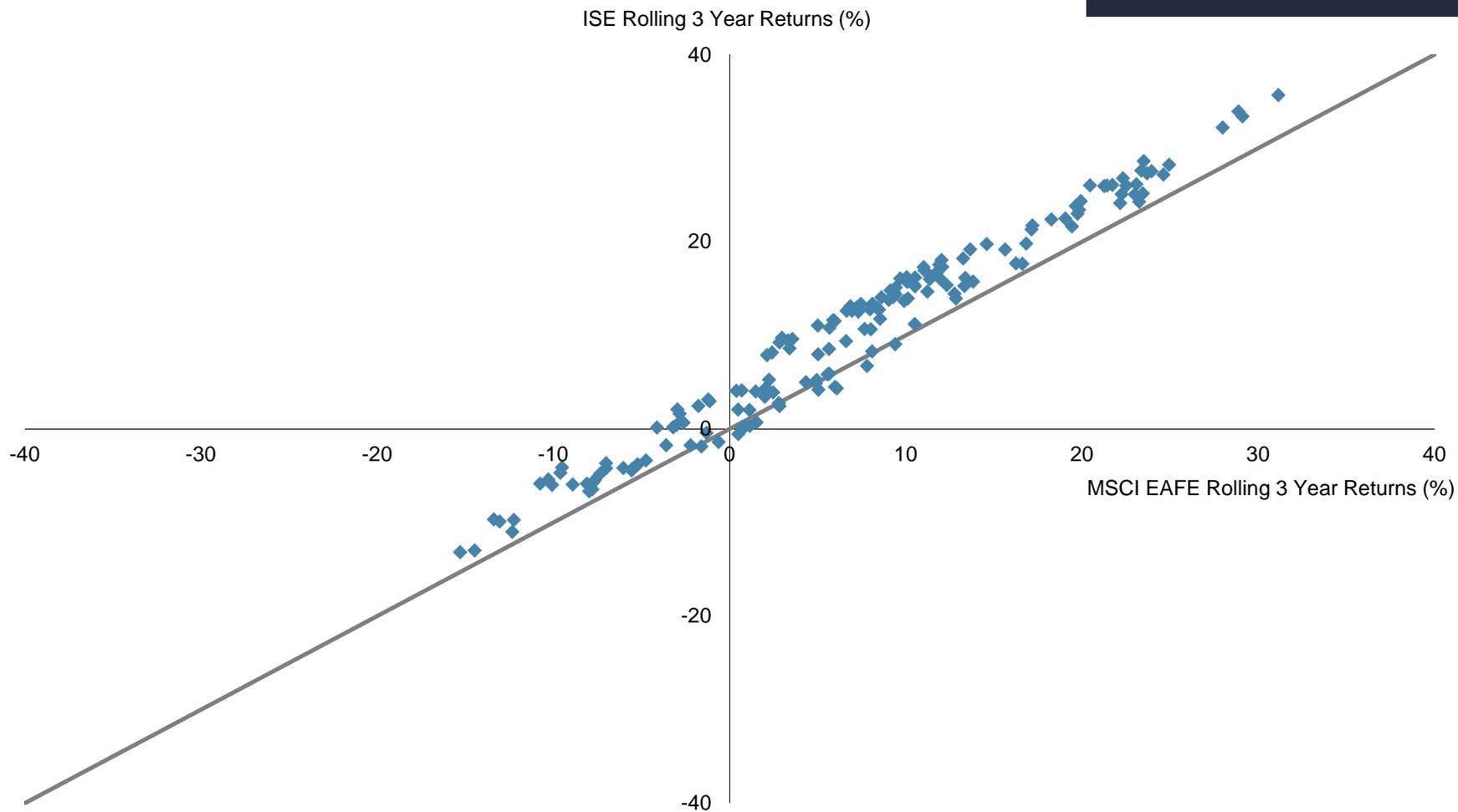
Source: eVestment Alliance, Lazard

# Outperformance/Underperformance

## Rolling 3 Year Annualized Returns Since Inception

### Lazard International Strategic Equity vs. MSCI EAFE Index

Since Inception (1 Oct 01)  
 Up Capture Ratio: 100.4%  
 Down Capture Ratio: 83.4%



As of 30 June 2018. All data in USD.

Strategy inception 1 October 2001.

Performance is preliminary and presented gross of fees. This information is supplemental to the composite performance and is provided for illustrative purposes only. Please refer to the attached disclosures for complete composite performance, performance presented on a net-of-fee basis and for a description of this composite. The performance quoted represents past performance. Past performance is not a reliable indicator future results.

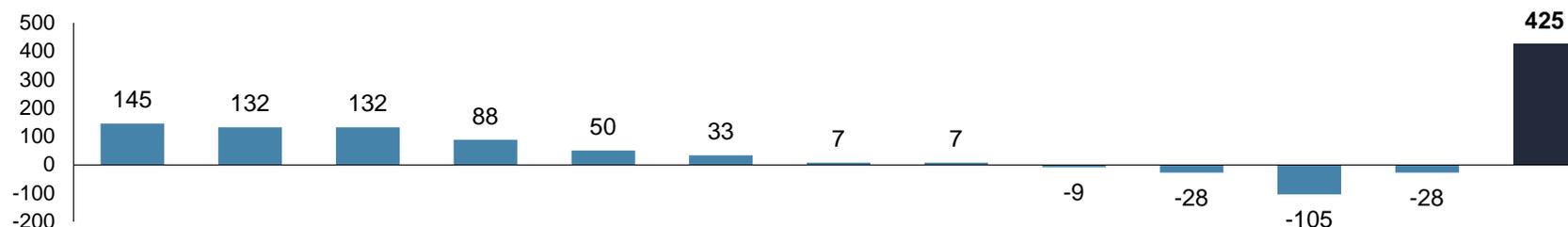
Source: Lazard, MSCI

# Attribution by Sector

## Los Angeles City Employees' Retirement System vs. MSCI EAFE Index

1 Year:

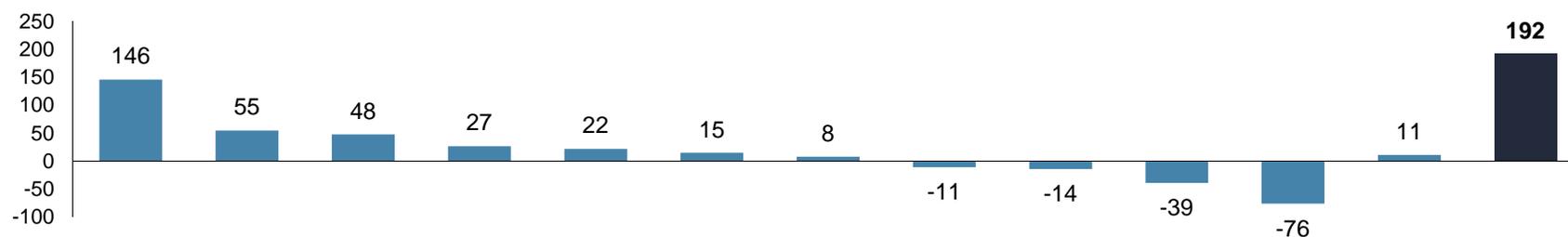
(bps)



	Industrials	Consumer Discretionary	Information Technology	Financials	Telecom Services	Consumer Staples	Real Estate	Utilities	Energy	Materials	Health Care	Cash	Total
Active Weight (%) <sup>1</sup>	2.1	5.4	3.6	2.0	-3.9	1.8	-0.3	-3.3	-0.2	-7.1	-6.1	6.1	
Sector Allocation (bps)	-11	25	23	-16	49	-14	3	7	-2	-37	-19	-28	-20
Stock Selection (bps)	156	108	109	104	0	47	4	0	-7	10	-86	0	445
Total Effect (bps)	145	132	132	88	50	33	7	7	-9	-28	-105	-28	425

YTD:

(bps)



	Industrials	Financials	Information Technology	Energy	Consumer Discretionary	Telecom Services	Materials	Real Estate	Utilities	Consumer Staples	Health Care	Cash	Total
Active Weight (%) <sup>1</sup>	3.5	2.7	3.7	-0.2	4.3	-3.8	-7.1	-0.3	-3.2	1.0	-6.6	5.9	
Sector Allocation (bps)	-7	-12	11	-1	3	15	7	0	-14	-8	-45	11	-41
Stock Selection (bps)	153	68	37	27	19	0	1	-11	0	-31	-31	0	233
Total Effect (bps)	146	55	48	27	22	15	8	-11	-14	-39	-76	11	192

As of 31 July 2018. All data shown in USD and reflects rounding.

<sup>1</sup> Active weight reflects the Los Angeles City Employees' Retirement System portfolio average weight subtracted by the MSCI EAFE Index average weight.

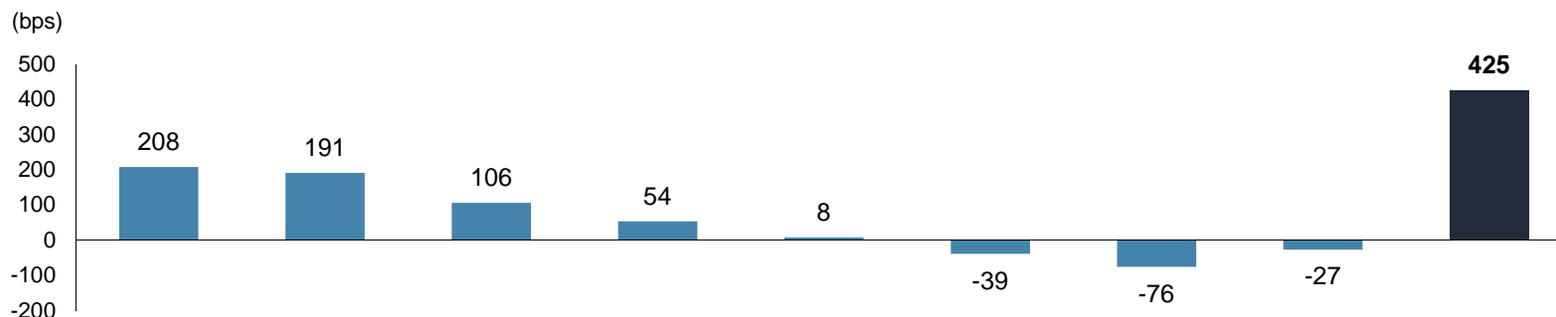
Attribution is based upon the portfolio and is versus the benchmark noted. Attribution analysis is provided for illustrative purposes only, as values are calculated based on returns gross of fees. Performance would be lower if fees and expenses were included. Past performance is not a reliable indicator of future results.

Source: Lazard, MSCI

# Attribution by Region

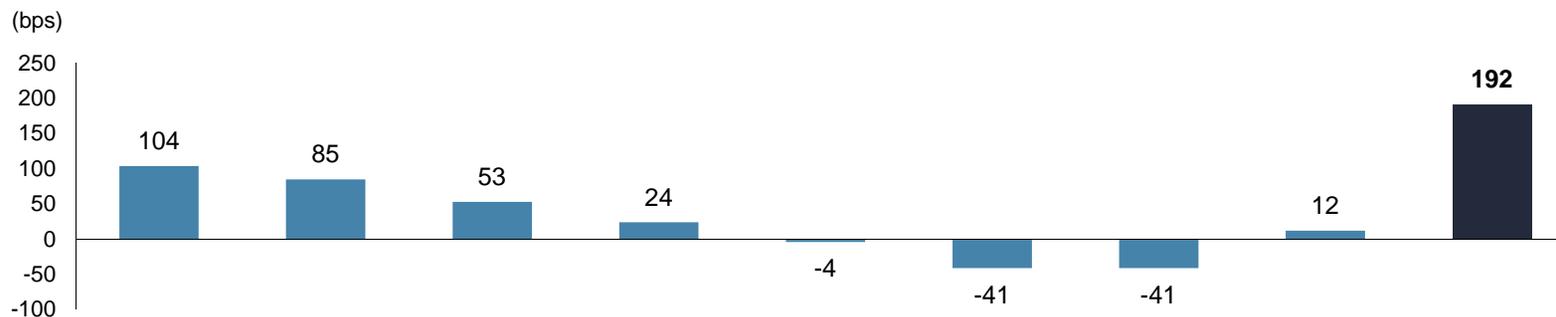
## Los Angeles City Employees' Retirement System vs. MSCI EAFE Index

1 Year:



	Japan	Continental Europe	North America	Asia ex-Japan	Middle East	Emerging Markets	United Kingdom	Cash	Total
Active Weight (%) <sup>1</sup>	-2.6	-4.7	3.1	-7.7	-0.5	3.8	2.4	6.1	
Region Allocation (bps)	8	15	106	8	8	-39	-3	-27	<b>75</b>
Stock Selection (bps)	200	176	0	46	0	0	-73	0	<b>350</b>
Total Effect (bps)	208	191	106	54	8	-39	-76	-27	<b>425</b>

YTD:



	Continental Europe	North America	Japan	Asia ex-Japan	Middle East	Emerging Markets	United Kingdom	Cash	Total
Active Weight (%) <sup>1</sup>	-3.3	3.7	-3.1	-7.4	-0.5	3.4	1.3	5.9	
Region Allocation (bps)	0	85	14	0	-4	-41	-5	12	<b>61</b>
Stock Selection (bps)	104	0	39	24	0	0	-36	0	<b>131</b>
Total Effect (bps)	104	85	53	24	-4	-41	-41	12	<b>192</b>

As of 31 July 2018. All data shown in USD and reflects rounding.

<sup>1</sup> Active weight reflects the Los Angeles City Employees' Retirement System portfolio average weight subtracted by the MSCI EAFE Index average weight.

\* During the one year period, the portfolio's weighted emerging market return was -8.5% versus +4.4% for the MSCI Emerging Markets index. During the year-to-date period, the portfolio's weighted emerging market return was -13.9% versus -4.6% for the MSCI Emerging Markets index.

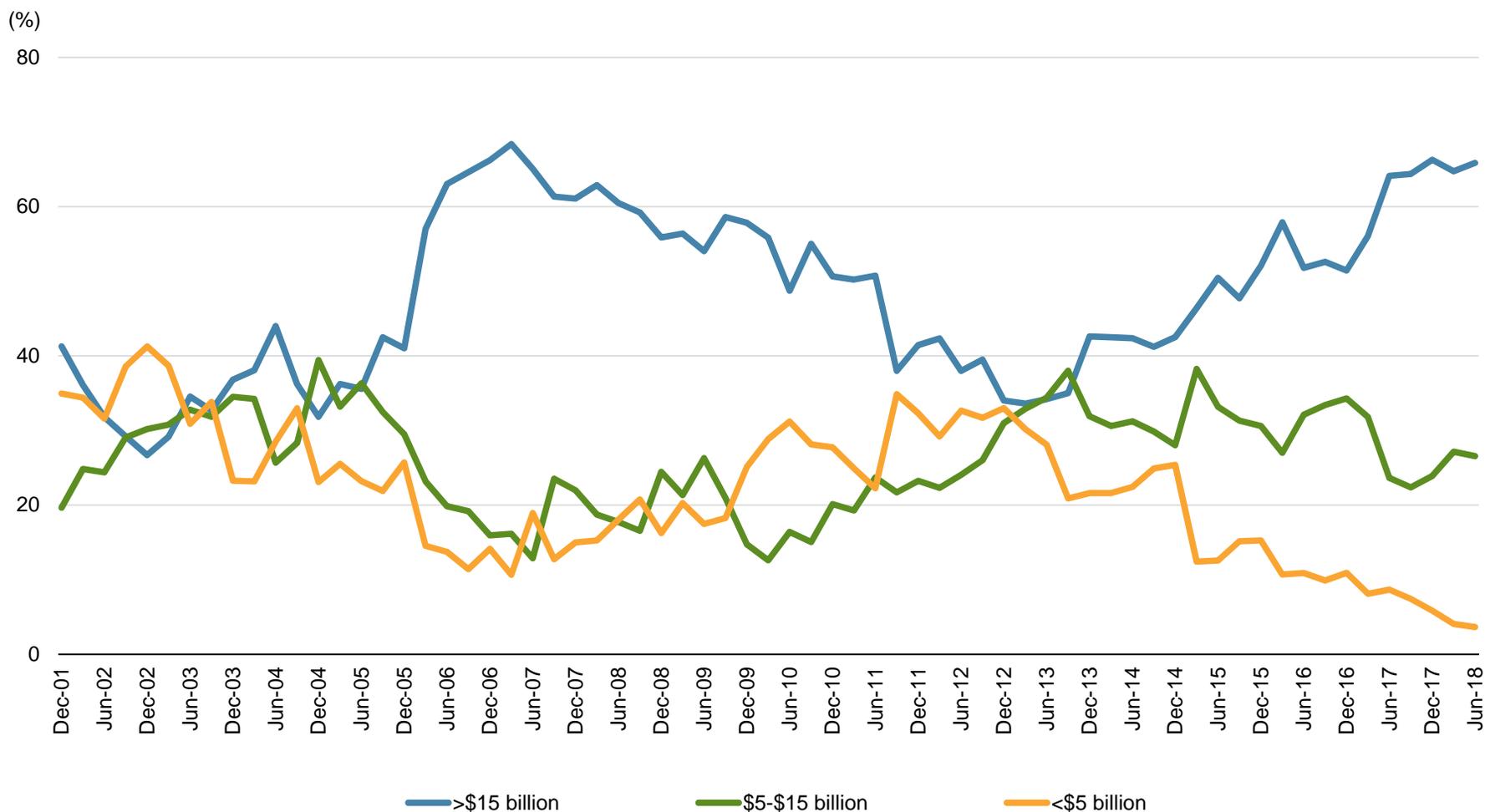
Attribution is based upon the portfolio and is versus the benchmark noted. Attribution analysis is provided for illustrative purposes only, as values are calculated based on returns gross of fees. Performance would be lower if fees and expenses were included. Past performance is not a reliable indicator of future results.

Source: Lazard, MSCI

# Capitalization Exposure History

## Lazard International Strategic Equity

### Historical Portfolio Breakdown by Market Capitalization



As of 30 June 2018

Please note that cash is not illustrated above. Cash is not viewed as a strategic asset.

The allocations mentioned are based upon a portfolio that represents the proposed investment for a fully discretionary account. Allocations and security selection are subject to change.

This information is for illustrative purposes only and is supplemental to the "GIPS® Composite Information."

Source: Lazard

# Shire

---

## Our View from Dec 2017

### '17 Concerns

- Debt/M&A
- Hemophilia competition
- CFO leaving

### '18 Opportunity

- Strong portfolio of rare disease products and undervalued pipeline
- Upgrades from the immunology business
- Significant debt reduction from Baxalta deal
- Good results; significant FCF generation
- Value from potential neuroscience exit
- Trading at 9x P/E

## June 2018

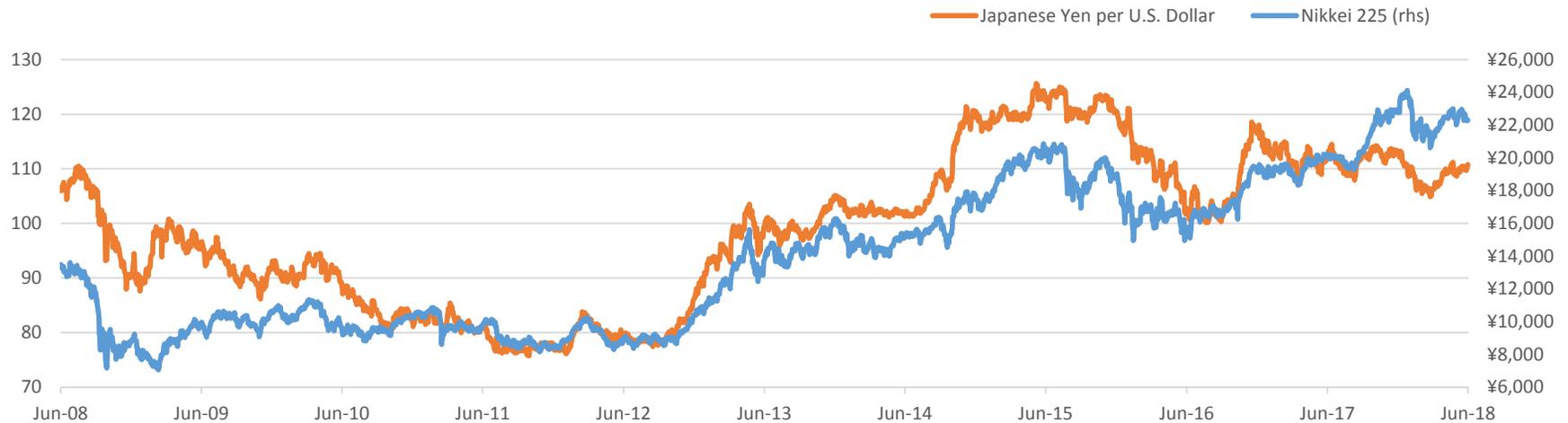
- Immunology is strong and hemophilia threat manageable
- Baxalta cost synergies coming through
- Takeda bid for Shire at around £49/share; deal should close in early 2019.
- Shareholders vote after Takeda gets antitrust clearance
- We believe the required 2/3 mandate is achievable

Information and opinions as of 30 June 2018 and are subject to change.

The securities identified are not necessarily held by Lazard Asset Management and should not be considered a recommendation or solicitation to purchase or sell these securities. It should not be assumed that any of the referenced securities were or will prove to be profitable, or that the investment decisions we make in the future will be profitable or equal to the investment performance of securities referenced herein. There is no assurance that any securities referenced herein are currently held in the account's portfolio or that securities sold have not been repurchased. The securities discussed may not represent the account's entire portfolio.

# Japan

## High correlation between Yen/USD and Nikkei 225



### Positives:

- Employment is strong
- Japan benefits from global growth
- BOJ remains accommodative
- Corporate governance and shareholder returns are improving

### Negatives:

- Base wages are rising at a slow rate
- Inflationary pressure is still intangible
- Rising cash balances are hurting ROEs
- Next consumption tax rise is on the horizon

**Attribution driven by stock selection**

Information and opinions as of 30 June 2018 and are subject to change.  
The performance quoted represents past performance. Past performance is not a reliable indicator of future results.  
Source: Bloomberg

# Purchases and Sales – 2018Q2

## Los Angeles City Employees' Retirement System

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### Purchases

- 58.com
- Bunzl
- RELX
- Volkswagen

### Sales

- Cielo
- GT Captial
- Hoshizaki
- Shimano
- Swedbank
- Tokyo Electron
- UniCredit

As of 30 June 2018

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# Portfolio Direction

## Sector and Regional Active Weights

### Los Angeles City Employees' Retirement System vs. MSCI EAFE Index (%)

Sector	31 Dec 2017	31 Jul 2018	YTD Change in Active Weight
Industrials	2.8	6.4	3.6
Energy	-0.5	0.1	0.6
Financials	1.8	2.3	0.5
Real Estate	-0.4	-0.1	0.3
Materials	-7.2	-7.0	0.2
Telecom Services	-3.9	-3.7	0.2
Utilities	-3.2	-3.3	-0.1
Health Care	-6.2	-7.0	-0.8
Information Technology	3.2	2.2	-1.0
Consumer Staples	2.5	0.7	-1.8
Consumer Discretionary	6.7	2.4	-4.3
Cash & Equivalents	4.3	6.8	2.5

Region	31 Dec 2017	31 Jul 2018	YTD Change in Active Weight
Continental Europe	-4.7	-2.9	1.8
United Kingdom	2.3	3.5	1.2
North America	3.1	4.2	1.1
Asia ex-Japan	-7.8	-7.6	0.2
Middle East	-0.5	-0.5	0.0
Emerging Markets	3.9	2.8	-1.1
Japan	-0.6	-6.3	-5.7
Cash & Equivalents	4.3	6.8	2.5

# Parameters and Characteristics

## Lazard International Strategic Equity

	Lazard International Strategic Equity
<b>Primary Market Capitalization Range</b>	Generally > \$300 million
<b>Range of Holdings</b>	40-60
<b>Relative Value Focus</b>	Core
<b>Reference Client Benchmark</b>	MSCI EAFE
<b>Allowable Sector/Country Exposure</b>	Unconstrained
<b>Allowable Emerging Markets Exposure</b>	0% –15%
<b>Maximum Position Size</b>	5% at Purchase
<b>Maximum Cash</b>	10%
<b>Active Share (%)</b>	93.1
<b>Top Ten Holdings (%)</b>	27.5
<b>1 Year Turnover (%)</b>	33.9
<b>3 Year Tracking Error</b>	3.61

	Lazard International Strategic Equity	MSCI EAFE
<b>Weighted Average Market Cap (\$B)</b>	50.3	62.2
<b>P/E NTM</b>	15.9x	13.8x
<b>ROE NTM</b>	14.6%	11.4%

As of 30 June 2018

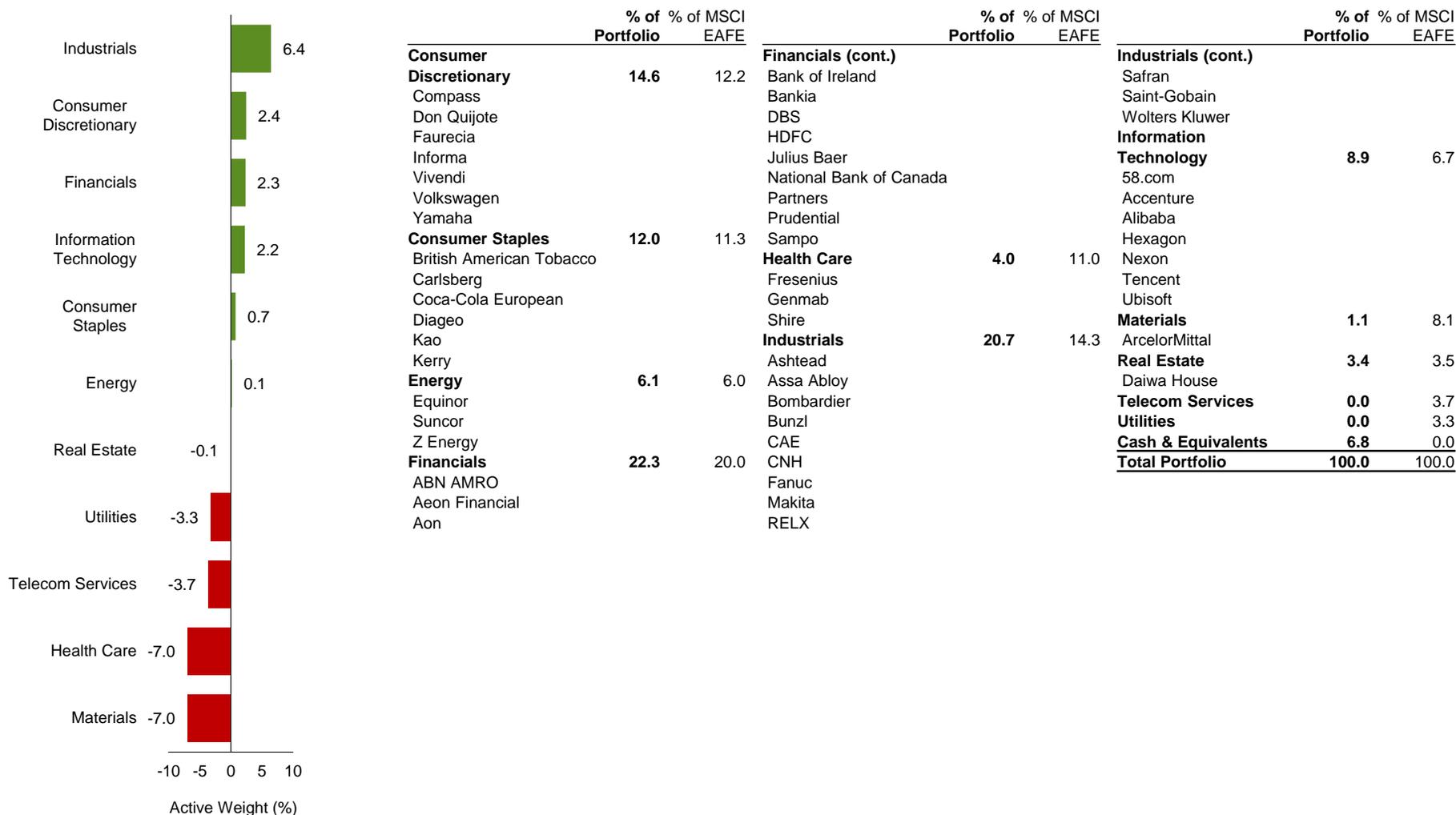
Notes: There is no assurance that the strategy's objective or performance target will be achieved.

Characteristics mentioned are based upon a portfolio which represents the proposed investment for a fully discretionary account.

Performance statistics are derived from the gross-of-fee composite returns, relative to the MSCI EAFE Index. Please refer to "GIPS® Composite Information" for additional information. The performance quoted represents past performance. Past performance is not a reliable indicator of future results.

# Holdings by Sector

## Los Angeles City Employees' Retirement System



	% of Portfolio	% of MSCI EAFE		% of Portfolio	% of MSCI EAFE		% of Portfolio	% of MSCI EAFE
<b>Consumer Discretionary</b>	<b>14.6</b>	12.2	<b>Financials (cont.)</b>			<b>Industrials (cont.)</b>		
Compass			Bank of Ireland			Safran		
Don Quijote			Bankia			Saint-Gobain		
Faurecia			DBS			Wolters Kluwer		
Informa			HDFC			<b>Information Technology</b>	<b>8.9</b>	6.7
Vivendi			Julius Baer			58.com		
Volkswagen			National Bank of Canada			Accenture		
Yamaha			Partners			Alibaba		
<b>Consumer Staples</b>	<b>12.0</b>	11.3	Prudential			Hexagon		
British American Tobacco			Sampo			Nexon		
Carlsberg			<b>Health Care</b>	<b>4.0</b>	11.0	Tencent		
Coca-Cola European			Fresenius			Ubisoft		
Diageo			Genmab			<b>Materials</b>	<b>1.1</b>	8.1
Kao			Shire			ArcelorMittal		
Kerry			<b>Industrials</b>	<b>20.7</b>	14.3	<b>Real Estate</b>	<b>3.4</b>	3.5
<b>Energy</b>	<b>6.1</b>	6.0	Ashtead			Daiwa House		
Equinor			Assa Abloy			<b>Telecom Services</b>	<b>0.0</b>	3.7
Suncor			Bombardier			<b>Utilities</b>	<b>0.0</b>	3.3
Z Energy			Bunzl			<b>Cash &amp; Equivalents</b>	<b>6.8</b>	0.0
<b>Financials</b>	<b>22.3</b>	20.0	CAE			<b>Total Portfolio</b>	<b>100.0</b>	100.0
ABN AMRO			CNH					
Aeon Financial			Fanuc					
Aon			Makita					
			RELX					

As of 31 July 2018

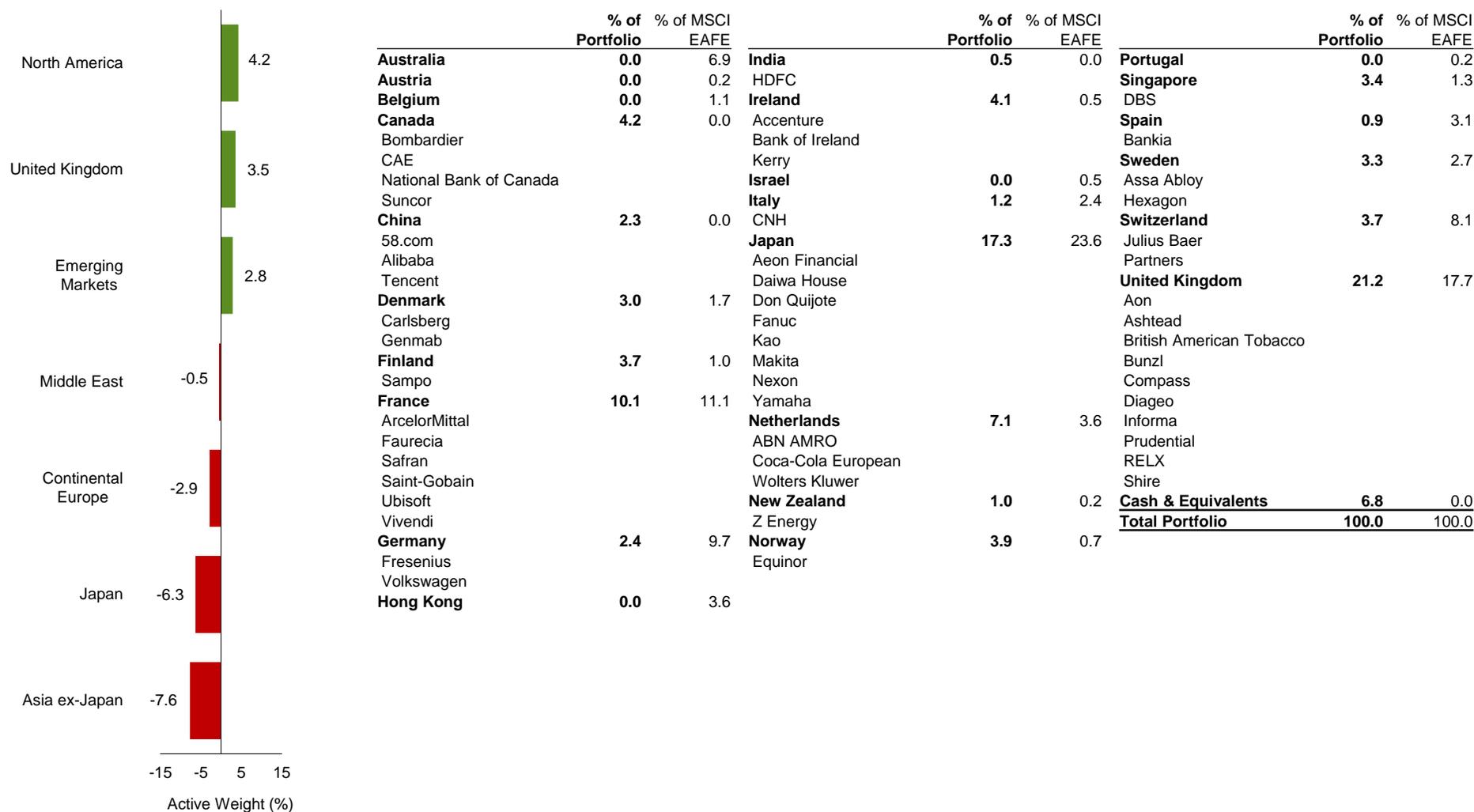
Allocations and security selection are subject to change.

The securities mentioned are not necessarily held by Lazard for all client portfolios, and their mention should not be considered a recommendation or solicitation to purchase or sell these securities. It should not be assumed that any investment in these securities was, or will prove to be, profitable, or that the investment decisions we make in the future will be profitable or equal to the investment performance of securities referenced herein. There is no assurance that any securities referenced herein are currently held in the portfolio or that securities sold have not been repurchased. The securities mentioned may not represent the entire portfolio.

Source: Lazard, MSCI

# Holdings by Country

## Los Angeles City Employees' Retirement System



As of 31 July 2018

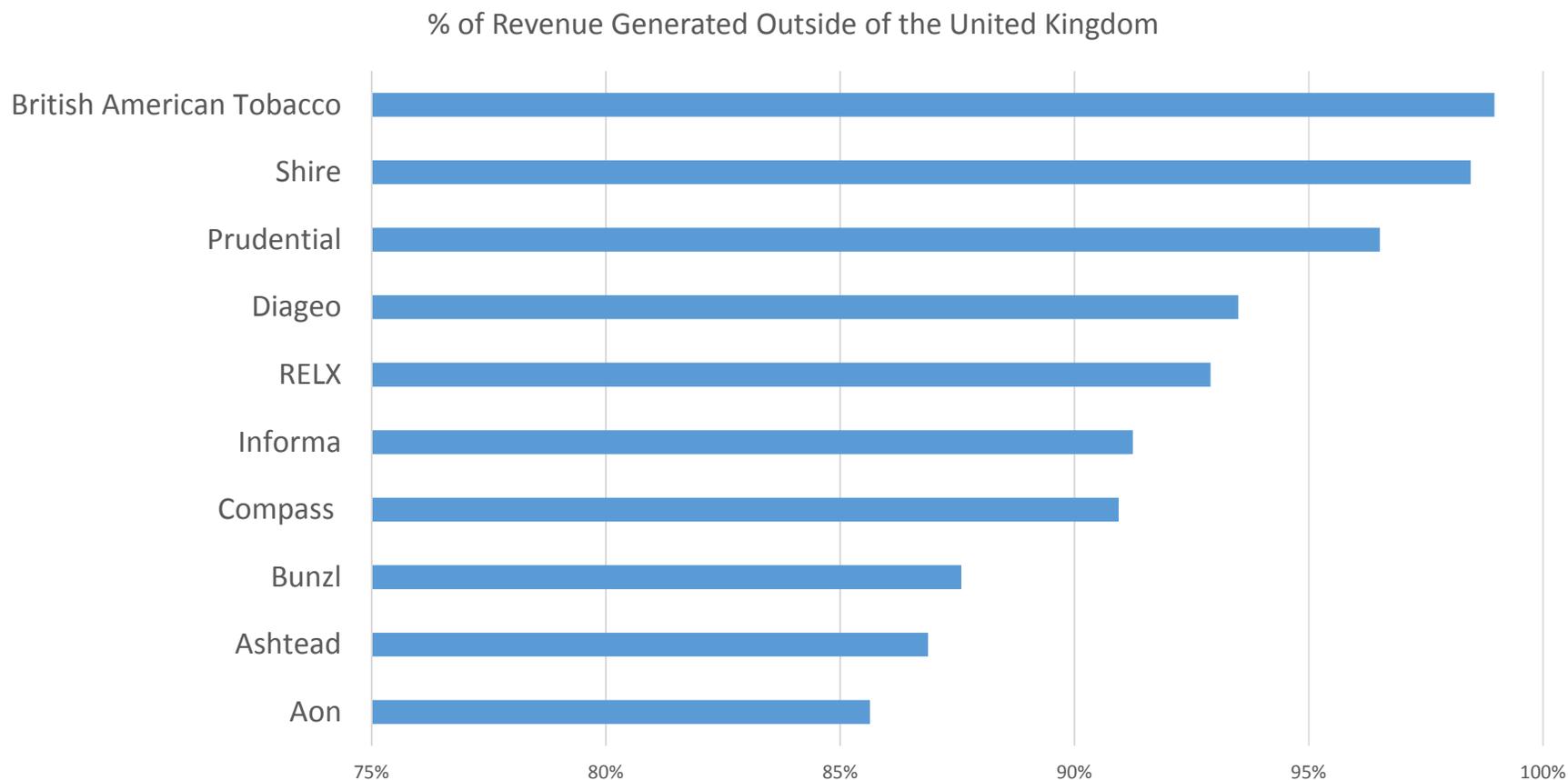
Allocations and security selection are subject to change.

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Source: Lazard, MSCI

# UK Holdings

## Los Angeles City Employees' Retirement System



**Most of “UK” Exposure is Outside the UK**

Source: Most Recent Annual Reports, Factset, Lazard Estimates

The securities mentioned are not necessarily held by Lazard for all client portfolios, and their mention should not be considered a recommendation or solicitation to purchase or sell these securities. It should not be assumed that any investment in these securities was, or will prove to be, profitable, or that the investment decisions we make in the future will be profitable or equal to the investment performance of securities referenced herein. There is no assurance that any securities referenced herein are currently held in the portfolio or that securities sold have not been repurchased. The securities mentioned may not represent the entire portfolio.

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**TAB**

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# Outlook

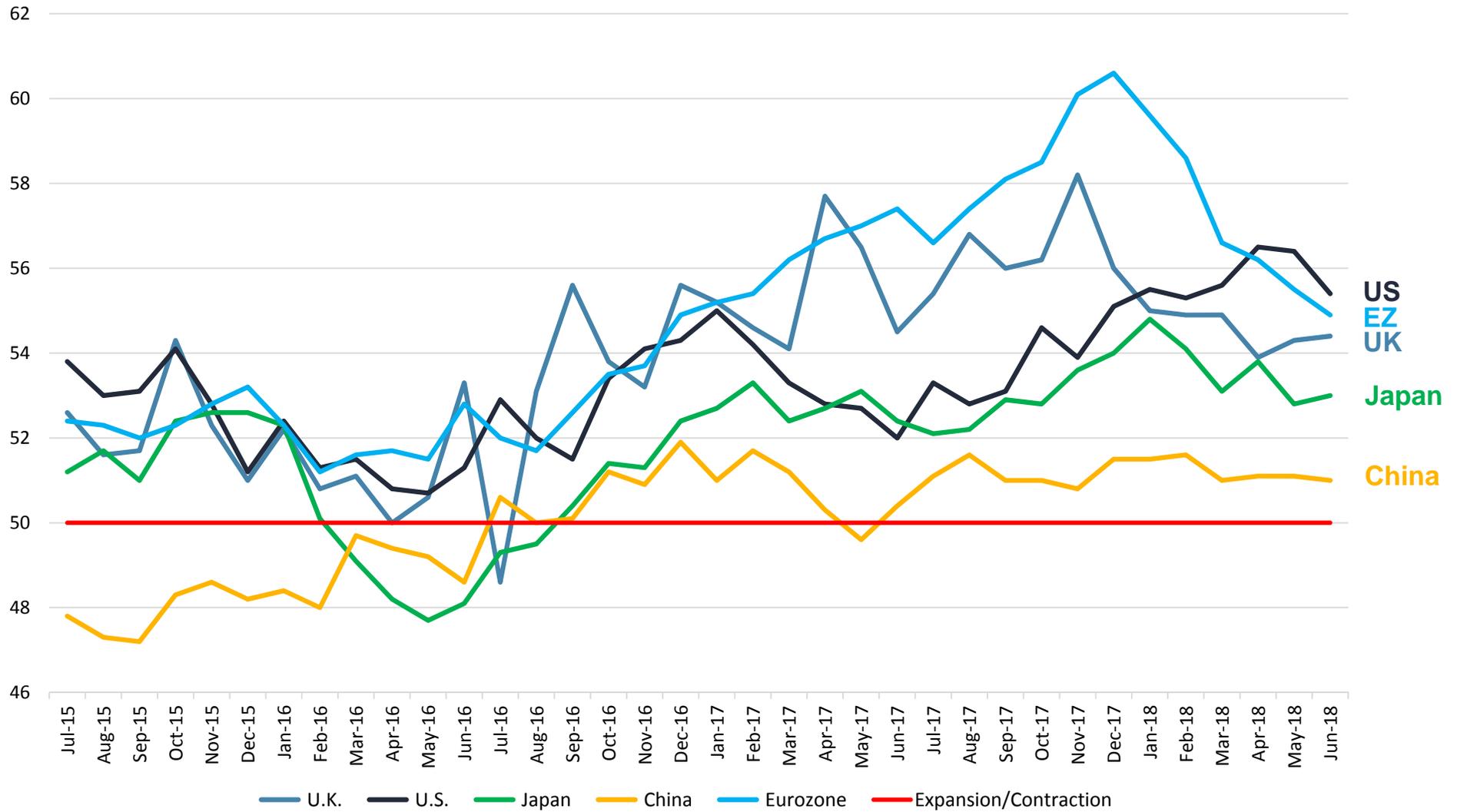
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- Late cycle - Positive economic data off its peak
  - Forward earnings vulnerable to higher costs (rates, oil, wages)
  - Continued USD strength and EM weakness are consensus
  - Geopolitical risks starting to impact multiples:
    - US Trade War/Elections
    - UK Brexit agreement
    - Immigration
    - Populism
    - EM Fragile Five
    - Middle East
    - North Korea
    - China leverage/currency
- 

## Positioning

- Higher Quality
- Moderately Defensive
- Relative Value
- Stock Specific Thesis

# Manufacturing Purchasing Managers Indices



**Global economy decelerating**

As of 30 June 2018.  
Source: Bloomberg, Markit, Nikkei, Caixin

# Trade War

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## Bear Case

- Tariffs escalate until there are clear costs for all sides
  - Period of lower GDP, heightened uncertainty, and a lower equity markets

## Base Case

- Small tariffs announced → continued uncertainty
  - Initial period of de-risking
  - Market will “wait and see”

## Bull Case

- All sides step back & tariffs are more muted or eliminated
  - Positive for equity markets in terms of impact and certainty

# Reasons Why the US Dollar Could Reverse

- After five quarters of dollar weakness, the dollar bounced from oversold levels

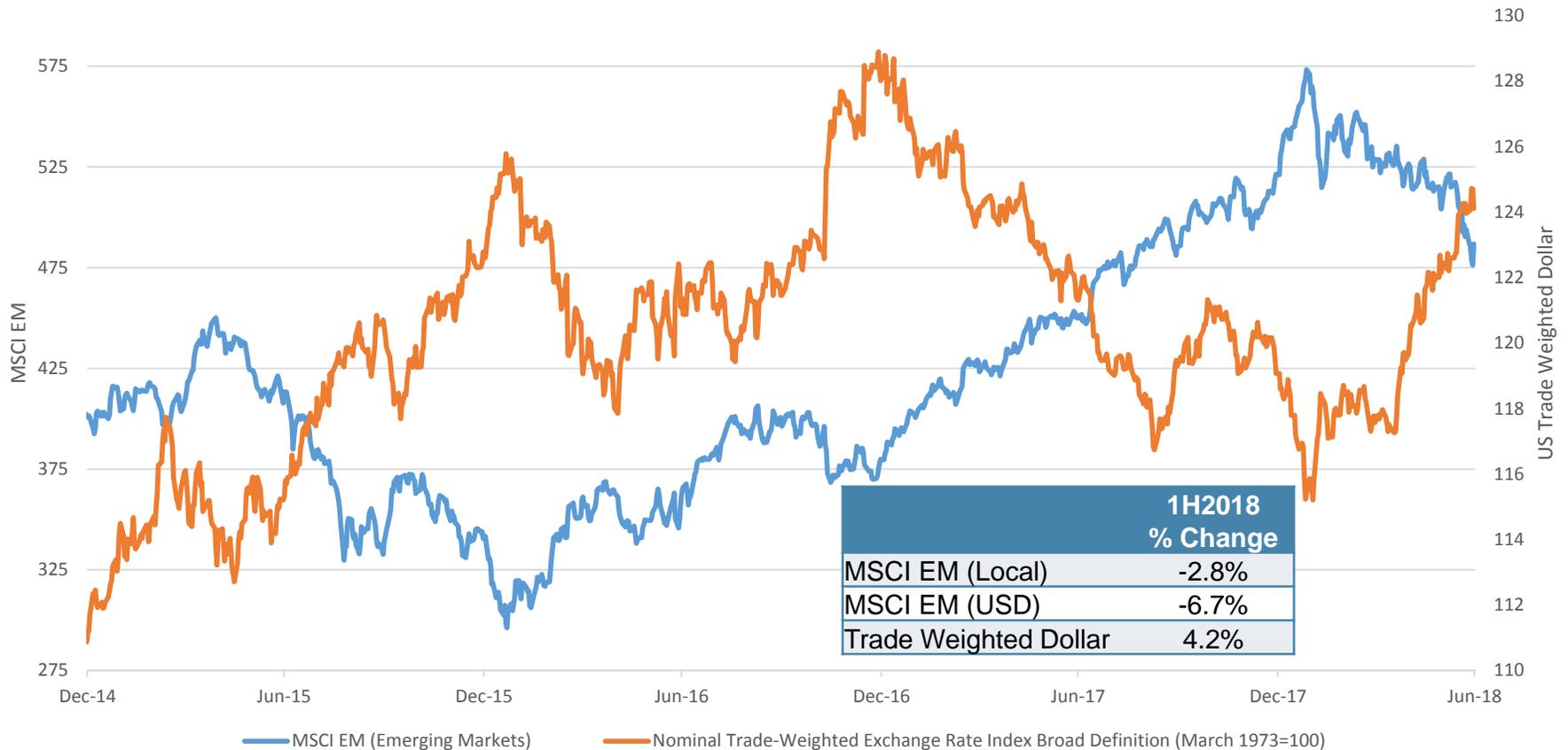


Trade Weighted Dollar	% Change
2017 + 1Q18	-8.2%
2Q18	+5.6%

- US growth rate boosted by one time tax cut
- US data vulnerable to disappointment
- Strong dollar hurts exports
- US twin deficits and uncertainty over future reserve currency

# US Dollar Effect on Emerging Markets

- EM returns are generally inversely related to USD
- EM central banks hiking rates to defend currency
- EM discounted valuation may attract flows



Information and opinions as of 30 June 2018 and are subject to change.  
 Source: Lazard, Factset, MSCI

# Relative Value

## MSCI Regions

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	Forward P/E <sup>1</sup>	Forward ROE (%) <sup>1</sup>	Dividend Yield (%)
EAFE	14.1	11.4	3.2
US	17.4	17.2	1.9
United Kingdom	13.7	13.0	4.0
Continental Europe	14.4	12.4	3.2
Asia ex-Japan	15.6	10.6	3.7
Japan	13.0	9.5	2.1
Emerging Markets	11.9	13.1	2.6

**International markets are attractive vs US**

As of 30 June 2018

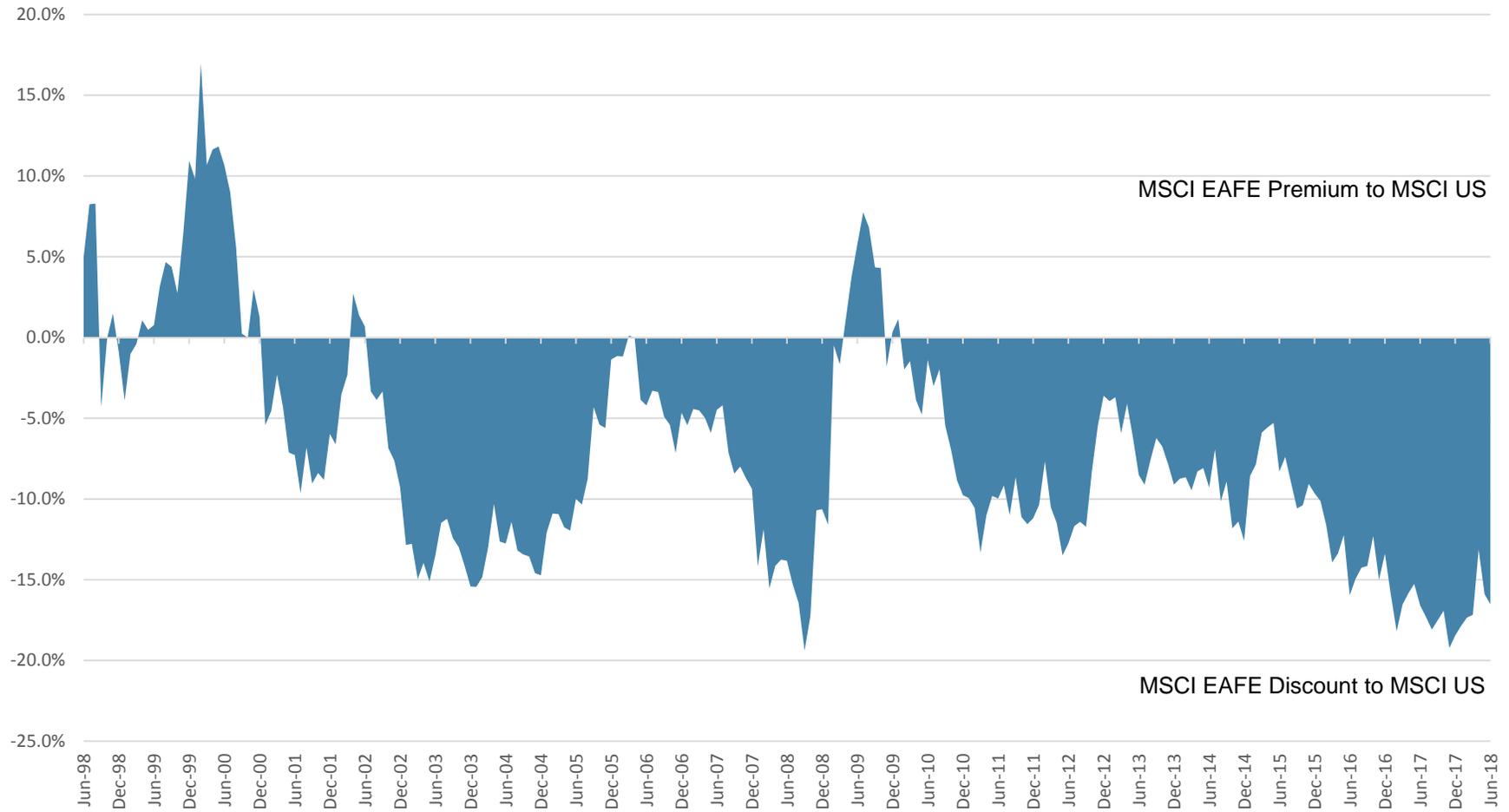
<sup>1</sup> Forward Price/Earnings is defined as Price/Earnings FY1 and Forward Return on Equity as Return on Equity NTM.

The figures above represent expected returns. Expected returns do not represent a promise or guarantee of future results and are subject to change.

Source: Lazard, Factset, MSCI

# MSCI EAFE to MSCI USA

US/EAFE PE NTM Premium or Discount

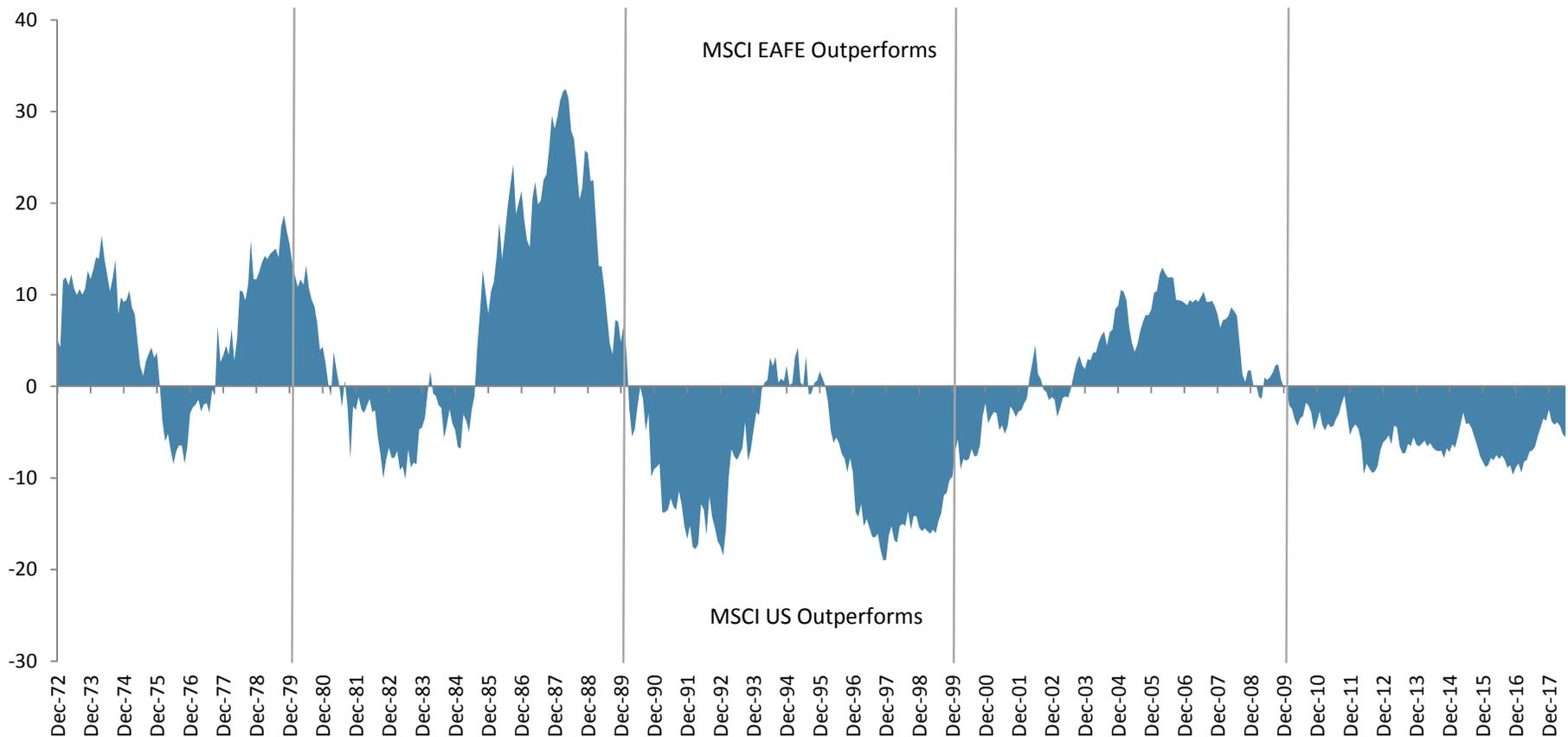


MSCI EAFE Premium to MSCI US

MSCI EAFE Discount to MSCI US

**EAFE near deepest discount to US in 20 years**

# MSCI EAFE vs MSCI US: Rolling 3 Year Returns



**Since Dec 1969:**

**MSCI US +9.2 %**

**MSCI EAFE +8.8 %**

**Non-US and US Markets Take Turns Outperforming**

As of 30 June 2018.

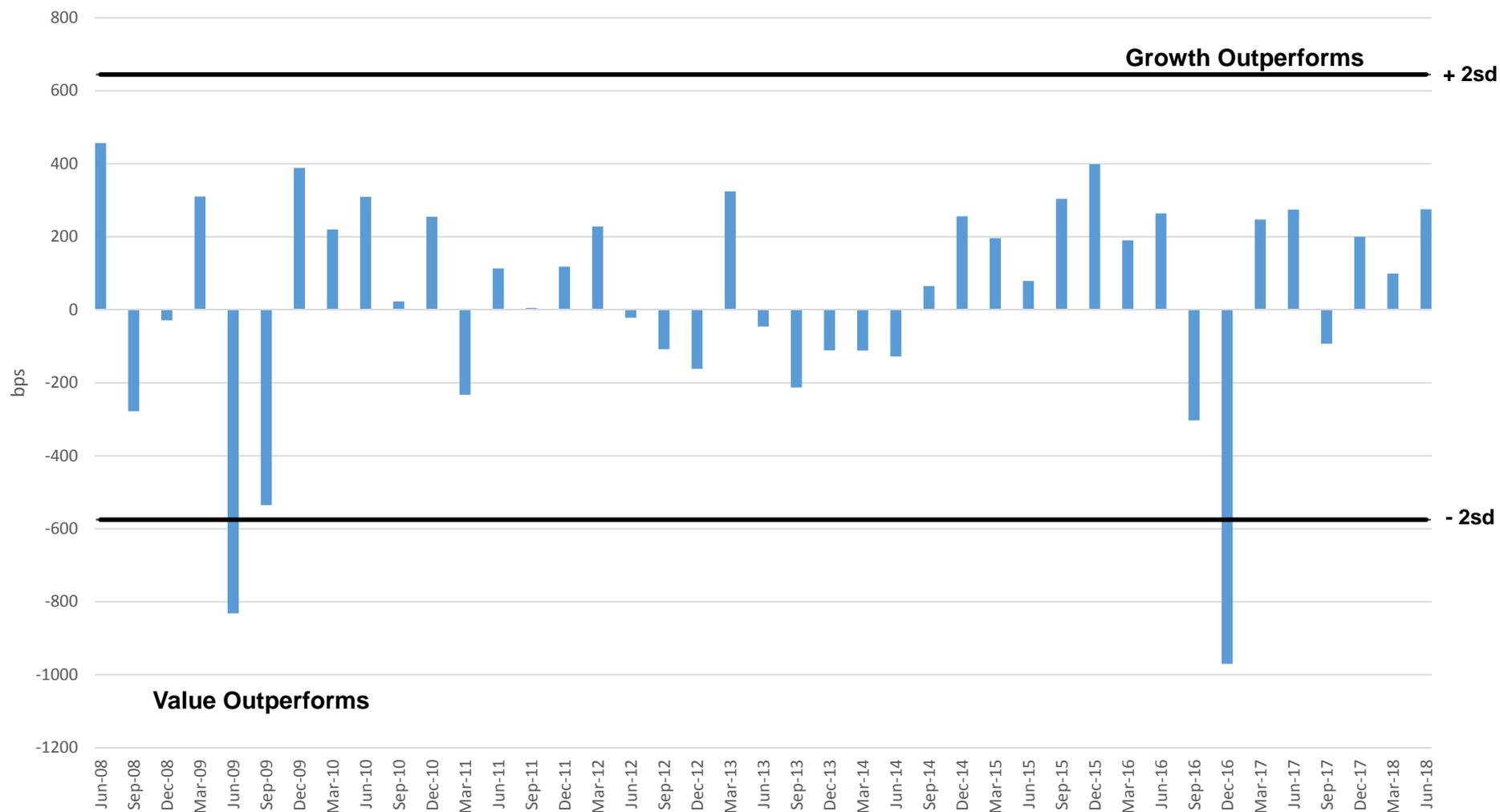
Information and opinions are as of the date of this communication and are subject to change. Returns are annualized.

The performance quoted represents past performance. Past performance is not a reliable indicator of future results. This information is for illustrative purposes only and does not represent any product or strategy managed by Lazard. It is not possible to invest directly in an index.

Certain information included herein is derived by Lazard in part from an MSCI index or indices (the "Index Data"). However, MSCI has not reviewed this product or report, and does not endorse or express any opinion regarding this product or report or any analysis or other information contained herein or the author or source of any such information or analysis. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any Index Data or data derived therefrom.

Source: MSCI, Lazard

# EAFE Growth – EAFE Value Quarterly Spread



**Most periods have been fundamentally driven**

As of 30 June 2018

Quarterly total returns.

Source: Lazard, Factset, MSCI

The performance quoted represents past performance. Past performance is not a reliable indicator of future results. The indices mentioned are unmanaged and has no fees. One cannot invest directly in an index. All data is in USD.

Information and opinions presented have been obtained or derived from sources believed by Lazard to be reliable. Lazard makes no representation as to their accuracy or completeness. All opinions expressed herein are as of the published date and are subject to change.

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# Summary

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## **Robust bottom-up relative value investment process**

- Favorable trade-off between valuation and financial productivity
- Focus on both valuation and financial productivity helps avoid "value traps"
- Borderless alpha generation capability

## **Seeks to provide a strong pattern of performance**

- Aims to achieve downside protection, good upside participation
- Seeks attractive risk adjusted returns

## **Complete opportunity set**

- Use full capitalization spectrum to seek attractive ideas
- Strong emerging markets expertise

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# Workforce Composition Report

Vendor **Lazard Asset Management LLC**  
 Address **30 Rockefeller Plaza, New York,**

Date Completed: **August 28, 2018**

Category **International Strategic Equity**

TOTAL COMPOSITION OF WORK FORCE									
<u>Occupation</u>	<u>African American Full Time</u>	<u>Hispanic Full Time</u>	<u>Asian or Pacific Islander Full Time</u>	<u>American Indian/ Alaskan Native Full Time</u>	<u>Caucasian (Non Hispanic) Full Time</u>	<u>Total Employees Full Time</u>	<u>Percent (%) Minority Full Time</u>	<u>Gender Full Time</u>	
								<u>Male</u>	<u>Female</u>
Officials & Managers	1	1	9	0	50	61	18.03%	0	0
Professionals	3	15	57	0	181	256	29.30%	0	0
Technicians	0	0	0	0	0	0	0.00%	0	0
Sales Workers	5	6	12	0	110	133	17.29%	0	0
Office/Clerical	3	3	4	0	21	31	32.26%	0	0
Semi-Skilled	0	0	0	0	0	0	0.00%	0	0
Unskilled	0	0	0	0	0	0	0.00%	0	0
Service Workers	0	0	0	0	0	0	0.00%	0	0
Other	0	0	0	0	0	0	0.00%	0	0
<b>Total</b>	<b>12</b>	<b>25</b>	<b>82</b>	<b>0</b>	<b>362</b>	<b>481</b>	<b>24.74%</b>	<b>0</b>	<b>0</b>

As of December 31, 2017.

The data above is the fiscal-year EEOC report for Lazard Asset Management LLC's U.S. staff.

Professional staff includes managers, supervisors, research and financial seniors, research and financial associates, miscellaneous professionals, accounting, auditing, and tax professionals and traders. Administrative staff includes specialized clerks, secretaries, computer clericals, and miscellaneous clericals.

# Lazard Diversity Initiatives

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Lazard was built on the premise that a multicultural firm can serve a global clientele best. Lazard is united collection of individuals who respect each other's differences. Unique perspectives, openly debated, encourage creative and innovative solutions for our clients. Lazard's offices around the world infuse the local flavor of their regions into a global network. Our people come from more than 70 countries. We take pride in the rich diversity of our employees, and in our recruiting, we seek to continually enhance the mix. Lazard is focused on attracting and retaining women and minorities at the firm through various avenues.

# Lazard Diversity Initiatives

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- Lazard is member of the 30% Club, an external organization committed to increasing women representation on Boards and advancing leadership of women in organizations. Last fall, Lazard participated in a pilot program focused on cross-firm mentoring for women. We are now into our second year with the program.
- We actively recruit and maintain relationships with organizations that support and advise underrepresented minorities such as Howard University, Black Wharton Student Association, and Smart Women Securities
- Our undergraduate campus recruiting includes focused efforts on recruiting women and students of color through club sponsorships and partnerships.
- We host an annual Undergraduate Women's Preview Day which seeks to provide students exposure to careers in Asset Management and Financial Advisory while simultaneously guiding students through the recruitment process.
- We work with external recruiters to broaden our candidate pool with the aim to diversify the slate of candidates seen by hiring managers.
- We engage in active discussions around internal diversity initiatives focused on mentoring and career development through our Employee Resource Groups, i.e. LEAD- Associate and VP Development Committee and Lazard Women's Leadership Network
- We support an inclusive organization through the establishment of employee resource groups such as Lazard Women's Leadership Network; the LEAD Initiative, which focuses on development of Associates and VPs; and newly launched affinity group, Lazard Proud, for the LGBTQ community and its allies.

# Biographies

## Portfolio Management

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### **Michael A. Bennett**

*Managing Director, Portfolio Manager/Analyst  
Lazard Asset Management LLC (New York)*

Michael Bennett is a Managing Director of Lazard Asset Management and a Portfolio Manager/Analyst on various international equity teams. He also coordinates the activities of Lazard Asset Management's Investment Council. Michael began working in the investment field in 1986. Prior to joining Lazard in 1992, Michael was with G.E. Investment Corporation, Keith Lippert Associates and became a CPA while at Arthur Andersen. He has an MBA from University of Chicago and a BS in Accounting from New York University.



### **James Donald, CFA**

*Managing Director, Portfolio Manager/Analyst  
Lazard Asset Management LLC (New York)*

James Donald is a Portfolio Manager/Analyst on the Emerging Markets Equity team and Head of the Emerging Markets Group. James is also a member of the International Equity Select with Emerging Markets team. He began working in the investment field in 1983. Prior to joining Lazard in 1996, James was a Portfolio Manager with Mercury Asset Management. He has a BA (Hons) in history from the University of Western Ontario.



### **Giles Edwards, CFA, ACMA**

*Senior Vice President, Portfolio Manager/Analyst  
Lazard Asset Management LLC (London)*

Giles Edwards is a Portfolio Manager/Analyst on the International Equity, International Equity Select, and International Concentrated teams. Prior to joining the investment teams, he was a Research Analyst with a background in media, automotive, and services. Prior to joining Lazard in 2008, Giles was a Management Accountant at BSKyB, completing his CIMA qualifications. He has a BA (Hons) in Politics and Economics from the University of Newcastle upon Tyne.

# Biographies

## Portfolio Management

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### **Michael G. Fry**

*Managing Director, Portfolio Manager/ Analyst  
Lazard Asset Management Limited (London)*

Michael G. Fry is a Portfolio Manager/ Analyst on various international equity teams. He began working in the investment field in 1981. Prior to joining Lazard in 2005, Michael was Head of Global Equity Portfolio Management, Global Head of Equity Research and Head of Australian Equities with UBS Global Asset Management, and was also previously with Armstrong Jones Fund Management, Schroder Investment Management, and Price Waterhouse in Australia. He has a BE from Flinders University, Australia. Michael is a member of the Institute of Chartered Accountants in Australia and an associate of the Financial Services Institute of Australasia.



### **Robin O. Jones**

*Managing Director, Portfolio Manager/ Analyst  
Lazard Asset Management Limited (London)*

Robin Jones is a Portfolio Manager/ Analyst on the International Strategic Equity and Global Strategic Equity teams. Robin began working in the investment field in 2002 at Lazard Asset Management, before leaving in 2006 for Bluecrest Capital Management where he worked as a Portfolio Manager. Robin re-joined Lazard in 2007. He has a BA Hons in Economics from Durham University and a PGCE in Mathematics from Cambridge University.



### **Mark Little**

*Managing Director, Portfolio Manager/ Analyst  
Lazard Asset Management Limited (London)*

Mark Little is a Portfolio Manager/ Analyst on the International Strategic Equity and Global Strategic Equity teams. He began working in the investment field in 1992. Prior to joining Lazard in 1997, he was a manager in the corporate finance practice of Coopers & Lybrand and earned his ACA qualification with Rees Pollock Chartered Accountants. Mark has an MA in Economics from Clare College, Cambridge University.

# Biographies

## Portfolio Management

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### **Kevin J. Matthews, CFA**

*Managing Director, Portfolio Manager/Analyst  
Lazard Asset Management LLC (New York)*

Kevin Matthews is a Portfolio Manager/Analyst on various international equity teams. Prior to joining the investment teams, he was a Research Analyst with a background in financials, automotive, aerospace, and capital goods sectors. He began working in the investment field in 2001 when he joined Lazard. Kevin has a BA in Politics and Philosophy from St. Chad's College, Durham University. He is a Mentor/Supporter at Minds Matter NYC, a Member of the Board of HERE Theatre, a Corporate Leader at the Council on Foreign Relations, a WSET Advanced Level holder, and an Ironman Triathlete.



### **Michael Powers**

*Managing Director, Portfolio Manager/Analyst  
Lazard Asset Management LLC (New York)*

Michael Powers is a Portfolio Manager/Analyst on various international equity teams. He began working in the investment field in 1990 when he joined Lazard. Michael has an MBA from Long Island University and a BA from Brown University.



### **John R. Reinsberg**

*Deputy Chairman, International and Global Strategies  
Lazard Asset Management LLC (New York)*

John Reinsberg is Deputy Chairman of Lazard Asset Management responsible for oversight of the firm's international and global strategies. He is also a Portfolio Manager/Analyst on the Global Equity and International Equity portfolio teams. He began working in the investment field in 1981. Prior to joining Lazard in 1992, John was Executive Vice President with General Electric Investment Corporation and Trustee of the General Electric Pension Trust. He was also previously with Jardine Matheson (Hong Kong) and Hill & Knowlton, Inc. John has an MBA from Columbia University and a BA from the University of Pennsylvania. He is an Overseer of the University of Pennsylvania School of Arts and Sciences, Chairman of the University of Pennsylvania Huntsman Program Advisory Board, a Trustee of the NPR Foundation (National Public Radio), a Member of the Board of Directors of the Alliance for Cancer Gene Therapy, and a Member of the Board of Directors of the U.S. Institute (Institutional Investor).

# Biographies

## Client Service

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**Thomas E. Franzese, CPA**

*Director, Marketing Representative*

*Lazard Asset Management LLC (New York)*

Thomas Franzese is a Director of Lazard Asset Management LLC and is responsible for Client Service/Marketing. Prior to joining the Firm in 1983, he was an Assistant Vice President at Drexel Burnham Lambert Inc. Thomas has been working in the investment field since 1979. He has a BS from Nichols College.

# GIPS Composite Information

## Lazard International Strategic Equity

<b>Benchmark:</b>	MSCI EAFE Index
<b>Reporting Date:</b>	30 June 2018
<b>Composite Inception Date:</b>	01 October 2001
<b>Reporting Currency:</b>	U.S. Dollar

### Composite Description

The composite returns represent the total returns of all fully discretionary portfolios with an International Strategic Equity investment mandate and a minimum of \$5 million in assets under management. Lazard International Strategic Equity is a multi-capitalization strategy that seeks to generate strong relative returns over a market cycle by opportunistically investing in companies with strong and/or improving financial productivity at attractive valuations. The strategy typically invests in securities of non-US companies, including those from emerging markets. The emerging markets equity allocation is implemented by investing in individual securities.

### Calculation of Performance Returns

Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Net returns for Lazard mutual funds included in this composite are net of all fees. Exchange rates for composite accounts and the benchmark are normally based on the 16:00 GMT fix, with the exception of US Mutual Fund valuation exchange rates, which are based on the 21:00 GMT fix. The composite and benchmark returns are reported net of foreign withholding taxes on dividends, interest and capital gains. The composite returns presented represent past performance and is not a reliable indicator of future results, which may vary. This composite has changed its name from International Strategic Equity with Emerging Markets to International Strategic Equity as of September 2006.

### Fee Schedule

Lazard's standard fee schedule for International Strategic Equity accounts is 0.85% on the first \$100 million of assets and 0.65% of the balance. (This fee schedule may be presented in non-US local currency equivalents based on prevailing exchange rates.) Actual account fees, inclusive of performance-based fees (if applicable) are used in the construction of composite net of fee performance unless otherwise noted. A complete list and description of all Lazard composites is available upon request.

### Benchmark Information

The MSCI Europe, Australasia, Far East Index (EAFE) is an arithmetic, market value-weighted average return net of dividends taxation, which is derived from over 900 securities listed on the stock exchanges of countries in Europe, Australasia and the Far East. The Index is compiled by MSCI Inc..

### GIPS Compliance and Verification Status

Lazard Asset Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Lazard Asset Management has been independently verified for the period of January 1, 1993 through December 31, 2017. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. Lazard Asset Management is the "Firm" to which the GIPS Standards apply (Frankfurt office included in Firm definition as of January 1, 2003). GIPS is a registered trademark of CFA Institute. CFA Institute has not been involved in the preparation or review of this presentation. The composite creation date is March 2006.

	Calendar												Annualized				
	QTD	YTD	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	1 YR	3 YR	5 YR	10 YR	Since Inception
Lazard Rate of Return (%; Gross of Fees)	-1.33	0.51	28.74	-4.73	-0.82	0.02	26.92	25.99	-9.21	15.13	29.71	-40.11	13.59	4.90	7.50	6.04	9.81
Lazard Rate of Return (%; Net of Fees)	-1.52	0.13	27.76	-5.47	-1.60	-0.74	26.04	25.22	-9.80	14.42	28.93	-40.50	12.72	4.09	6.68	5.30	9.04
Benchmark (%; Rate of Return)	-1.24	-2.75	25.03	1.00	-0.81	-4.90	22.78	17.32	-12.14	7.75	31.78	-43.38	6.84	4.90	6.44	2.84	6.38
Composite Standard Deviation (3-yr. Ann.)		11.20	10.84	11.32	11.74	12.58	15.75	19.71	22.51	26.11	22.81	19.00					
Benchmark Standard Deviation (3-yr. Ann.)		11.92	11.83	12.46	12.46	13.03	16.25	19.37	22.43	26.23	23.58	19.24					
# of Portfolios		11	11	12	8	8	8	7	6	6	6	9					
Composite Dispersion (Asset Wtd. Std. Dev.)		0.25	0.18	0.11	0.54	0.20	0.37	0.66	0.33	0.34	0.79	0.61					
Composite Assets (USD Millions)		7714.0	8626.2	7980.9	7820.6	6342.8	4685.6	2095.3	973.7	927.5	849.1	688.4					
Total Firm Assets (USD Billions)		196.8	206.6	168.0	160.1	171.4	161.6	148.3	124.4	140.6	116.5	79.8					

# Important Information

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Equity securities will fluctuate in price; the value of your investment will thus fluctuate, and this may result in a loss. Securities in certain non-domestic countries may be less liquid, more volatile, and less subject to governmental supervision than in one's home market. The values of these securities may be affected by changes in currency rates, application of a country's specific tax laws, changes in government administration, and economic and monetary policy. Emerging market securities carry special risks, such as less developed or less efficient trading markets, a lack of company information, and differing auditing and legal standards. The securities markets of emerging market countries can be extremely volatile; performance can also be influenced by political, social, and economic factors affecting companies in emerging market countries.

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# MFS<sup>®</sup> International Growth Equity

Presented to

Los Angeles City Employees' Retirement System

September 11, 2018

## Presenters



Kevin M. Dwan



- Investment Officer
- Equity Portfolio Manager
- Joined MFS in 2005; previous positions include Director of Research - Asia; Global Equity Research Analyst.
- Previous experience includes 10 years as Investment Associate, Equity Analyst and Sector Sleeve Manager at Putnam Investments.
- Affiliations include President of Sabrina's Foundation
- Harvard University, MBA
- Harvard College, AB

Carolyn Lucey, CIMA



- Director, Relationship Management
- As a Relationship Manager, responsible for the overall client experience including communicating portfolio positioning, strategy, and performance attribution and ensuring that our clients' ongoing service needs are met.
- Joined MFS in 1998; previous positions include Investment Director for Private Portfolio Services; Vice President, Director of Product Management; Assistant Vice President, Domestic Equity Product Manager.
- Previous experience includes 1 year as Product Manager at Van Kampen American Capital; 6 years as Product Manager at John Hancock Funds; 2 years as Associate at Putnam Investments.
- Affiliations include Investment Management Consultants Association (IMCA)
- Manhattanville College, BA

# MFS: Creating Value With 90 Years of Active Skill

Investment outcomes delivered through...



\* MFS believes active skill or skilled active management includes one or more of the following behaviors: demonstrating conviction through low portfolio turnover and high active share; adding value in volatile markets and conducting integrated research within a collaborative culture.

Creating long-term value through active skill,\* time and collaborative thinking

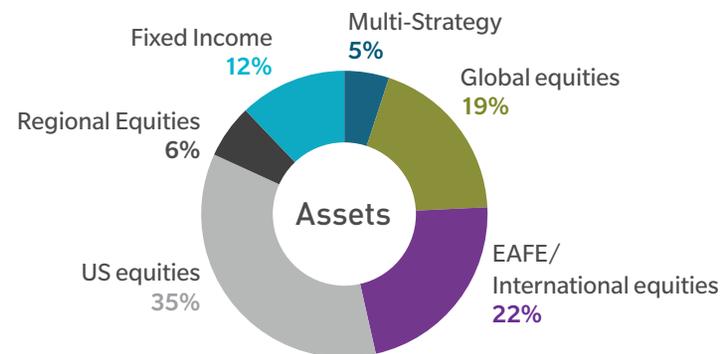
# Business Profile (USD)

473 billion total MFS® AUM



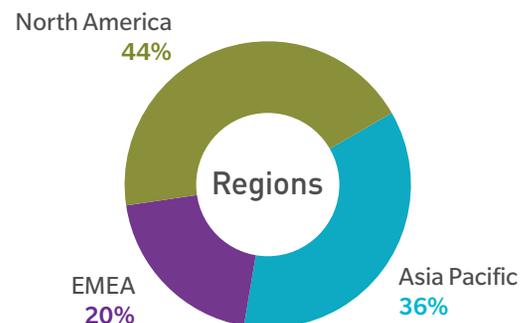
## Diversified Client and Asset Base<sup>1</sup>

Assets	
Global equities	89.5 billion
EAFE/international equities	103.3 billion
US equities	167.5 billion
Regional equities	30.0 billion
Fixed Income <sup>2</sup>	58.0 billion
Multi-strategy/other	24.7 billion



## Institutional Business by Client Type and Region<sup>3</sup>

Client Types	
Defined benefit/defined contribution	
Endowment and foundation	
Sovereign wealth fund/government agency	
Institutional platform/insurance subadvisory	



As of 30-Jun-18.

<sup>1</sup> Data is rounded to the nearest figure.

<sup>2</sup> Total fixed income assets, including non-dedicated fixed income mandates are 80 billion USD.

<sup>3</sup> Represents global clients in institutional vehicles only.

Well-diversified business across clients, regions, and investment strategies

# MFS Global Research Platform



Collaborative research environment

<p><b>99</b> Fundamental Research Analysts</p>	<p><b>8</b> Global Sector Teams</p>	<p><b>11</b> Analyst-Managed Strategies</p>	<p><b>81</b> Portfolio Managers</p>	<p><b>9</b> Quantitative Research Analysts</p>
<p>26 U.S. equity analysts 36 non-U.S. equity analysts 37 credit analysts backed by 29 research/investment associates</p>	<p>organized by region and sectors</p>	<p>USD 44.6 bn in AUM</p>	<p>with significant industry experience in value, core, growth, quantitative and fixed income investing</p>	<p>9 quantitative analysts provide proprietary research models, stock rankings, and scenario testing; backed by 14 quantitative research associates</p>

As of 30-Jun-18.

We believe a fully integrated global research platform provides competitive advantages

# MFS International Growth Equity

*What makes us different from other strategies?*



## **Invest with long-term horizon**

- Assess investment opportunities in context of 5 –10+ year time horizon

## **Focus on high quality companies**

- Invest in “blue chip” companies with durable and sustainable business models

## **Aim to benefit from long-term above-average growth potential across full market cycles**

- Seek to invest in companies that have the potential to compound above average growth at high returns

## **Maintain strong valuation discipline**

- Utilize patient and contrarian approach

## **Collaborate closely with MFS integrated global research platform**

- Benefit from the MFS global research analysts located around the world

High-quality approach with long-term investment horizon

## Performance as of 31 July 2018



	One Year (net)	Since Inception (31-Oct-13)
Los Angeles City Employees' Retirement System Return	13.27	6.65
MSCI World ex US Growth Index Return	8.91	5.08
Excess Return	4.36	1.57
LACERS percentile rank in the "eA EAFE Growth Equity" Universe <sup>1</sup>	30	50
MFS International Growth Equity Unrestricted Composite percentile rank in the "eA ACWI ex-US LCG Equity" Universe <sup>2</sup>	24	33

<sup>1</sup>Peer universe rankings are based on data from eVestment Alliance database "eA EAFE Growth Equity". Compiled on 30-Aug-18 with 97.1% of firms reporting. The number of observations for the 1 year period were 43, and since inception (31-Oct-13) were 37.

<sup>2</sup>Peer universe rankings are based on data from eVestment Alliance database "eA ACWI ex-US Large Cap Growth Equity". Compiled on 30-Aug-18 with 97.4% of firms reporting. The number of observations for the 1 year period were 26, and since inception (31-Oct-13) were 2237.

Please note the unrestricted composite shown allows for greater ownership of countries outside of the MSCI World ex US Growth Index than is currently permitted in your MFS account.

# MFS International Growth Equity Team



David Antonelli	Matthew Barrett, ASIP	Kevin Dwan	Brett Fleishman
<p><b>Portfolio Manager</b>  <i>30 years industry experience</i>                      based in Boston                      joined MFS in 1991</p> <p>Began managing the International Growth strategy in January 2010</p> <p>University of Pennsylvania Wharton School, MBA                      Pennsylvania State University, BS</p>	<p><b>Portfolio Manager</b>  <i>22 years industry experience</i>                      based in London                      joined MFS in 2000</p> <p>Began managing the International Growth strategy in March 2015</p> <p>London Business School, MBA                      University College London, BSc</p>	<p><b>Portfolio Manager</b>  <i>20 years industry experience</i>                      based in London                      joined MFS in 2005</p> <p>Began managing the International Growth strategy in January 2012</p> <p>Harvard University, MBA                      Harvard College, AB</p>	<p><b>Institutional Portfolio Manager</b>  <i>21 years industry experience</i>                      based in Boston                      joined MFS in 2001</p> <p>Joined the International Growth team in January 2008</p> <p>University of Pennsylvania, MBA                      Brandeis University, BA</p>

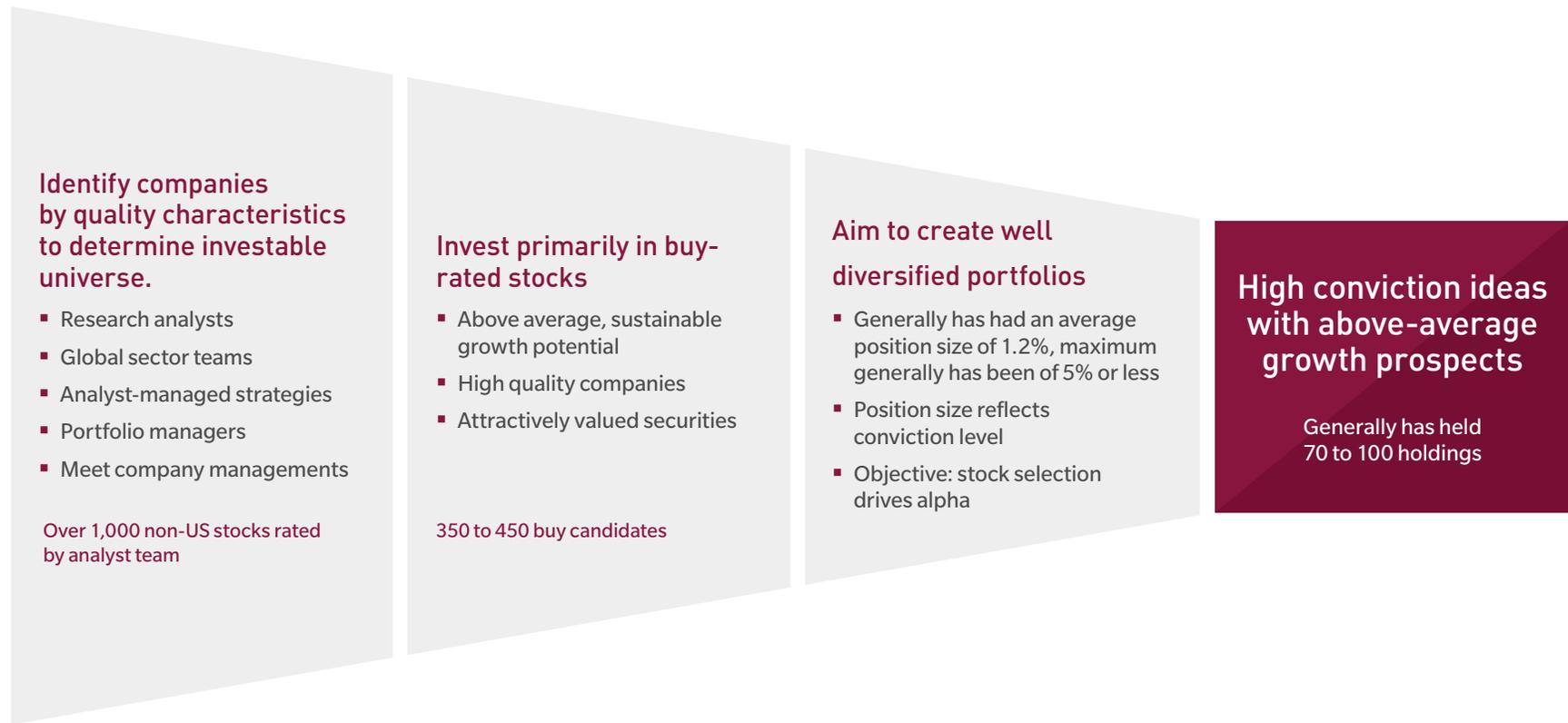


Tested by market experience, backed by depth

# Investment Process Overview



Risk management at all stages



The information listed above is current as of the date of the material, and any additions, modifications, or deletions that have occurred since that date are not reflected.

Process focused on best ideas that meet portfolio buy criteria

# Apply Buy Criteria to Identify Highest Conviction Ideas



## Above average sustainable growth across full market cycles

- Seek companies with earnings + dividend yield > market
- Strong secular growth
- Large opportunity set

## High quality companies with durable franchises

- Clear sustainable competitive advantages
- Significant free cash flow
- Solid balance sheet
- Strong management teams

## Attractively valued securities

### Multiple measures of valuation are considered:

- Valuation multiples
- Mid-cycle analysis
- Seek temporary attractive entry points and are careful not to overpay
- DCF analysis
- Sum of parts

Consistent focus on above-average long-term growth potential, high-quality businesses, and reasonable valuations

# Portfolio Construction



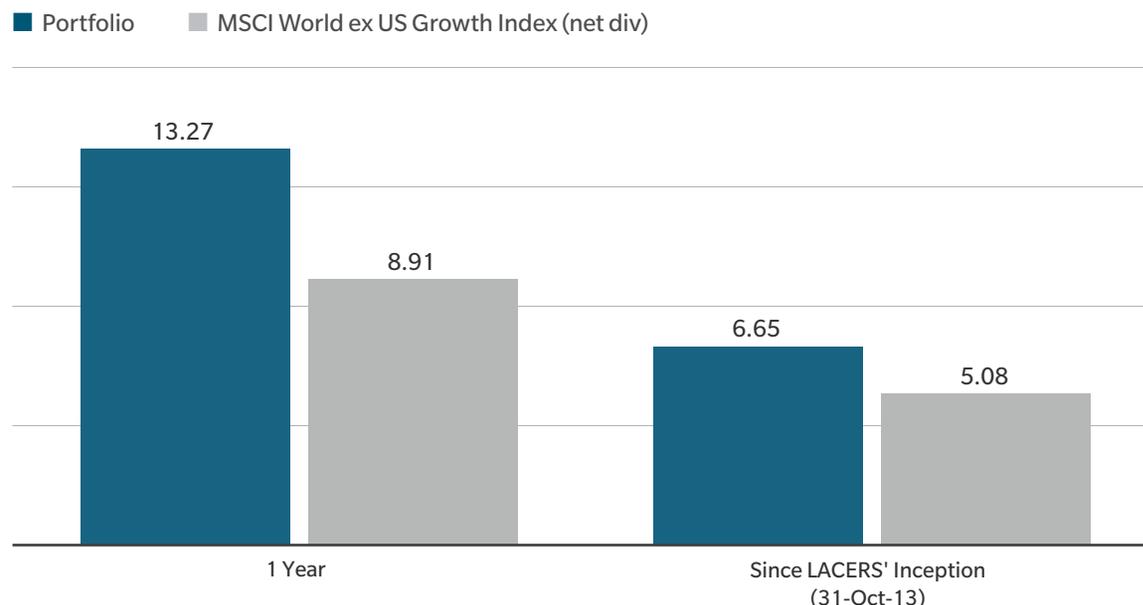
The information listed above is current as of the date of the material, and any additions, modifications, or deletions that have occurred since that date are not reflected.

Historically well-diversified portfolio with emphasis on stock selection

# Executive Summary



Performance results (%) net of fees (USD), as of 31-Jul-18



Net excess return (%) vs. MSCI World ex US Growth Index

Period	Net excess return (%)
1 Year	4.36
Since inception (31-Oct-13)	1.57

## Asset summary (USD)

Beginning value as of 31-Oct-13	382,544,916
Contributions	62,706,237
Withdrawals	-10,628,858
Change in market value	+163,271,523
Ending value as of 31-Jul-18	597,893,817

## Sector weights (%)

As of 31-Jul-18	Portfolio	Benchmark <sup>^</sup>
<b>Top overweights</b>		
Information Technology	16.3	10.9
Consumer Staples	20.7	16.5
Health Care	15.1	11.6
<b>Top underweights</b>		
Industrials	13.8	19.6
Consumer Discretionary	9.9	14.1
Real Estate	—	1.7

<sup>^</sup> MSCI World ex US Growth Index

Portfolio and benchmark data shown is based on MFS' sector/industry classification methodology, which differs from the benchmark's.

Source for benchmark performance: SPAR, FactSet Research Systems Inc.

**Past performance is no guarantee of future results.**

All periods greater than one year are annualized.

## Performance Drivers — Regions

Relative to MSCI World ex US Growth Index (USD) — one year as of 31 July 2018



		Average Relative Weighting (%)	Portfolio Returns (%)	Benchmark Returns (%)	Allocation (%) +	Stock Selection (%) +	Currency Effect (%) =	Relative Contribution (%)
<b>Contributors</b>	Europe Ex-U.K.	8.0	13.8	8.7	-0.1	2.5	0.1	2.6
	United Kingdom	0.5	11.5	5.7	0.0	0.8	-0.0	0.8
	North America	-1.0	18.2	7.9	-0.0	0.5	0.3	0.7
	Japan	-12.3	18.3	10.5	-0.1	0.7	-0.1	0.5
	Developed - Middle East/ Africa	1.2	46.5	17.1	0.1	0.4	-0.0	0.5
	Emerging Markets	6.5	11.7	-	0.1	-	0.0	0.2
<b>Detractors</b>	Asia/Pacific Ex-Japan	-4.0	15.5	14.3	-0.3	-0.1	0.3	-0.1
	Cash	1.3	1.5	-	-0.2	-	0.0	-0.1
<b>Total</b>			<b>14.2</b>	<b>9.3</b>	<b>-0.5</b>	<b>4.8</b>	<b>0.5</b>	<b>4.9</b>

Attribution results are generated by the FactSet application utilizing a methodology which is widely accepted in the investment industry. Results are based upon daily holdings using a buy and hold methodology to generate individual security returns and do not include expenses. As such, attribution results are essentially estimates and may not aggregate to the total return of the portfolio or of the benchmark which can be found elsewhere in this presentation.

## Performance Drivers – Sectors

Relative to MSCI World ex US Growth Index (USD) — one year as of 31 July 2018



		Average Relative Weighting (%)	Portfolio Returns (%)	Benchmark Returns (%)	Sector Allocation (%)	+ Stock Selection (%)	+ Currency Effect (%)	=	Relative Contribution [%]
<b>Top Contributors</b>	Information Technology	5.8	25.8	17.4	0.5	1.2	0.0		1.7
	Consumer Discretionary	-2.7	20.9	10.4	0.1	1.2	0.0		1.3
	Materials	-2.5	24.9	10.6	-0.1	0.9	0.1		1.0
	Consumer Staples	2.2	9.0	4.9	-0.0	0.8	0.0		0.8
	Industrials	-5.1	11.8	10.1	-0.0	0.1	0.1		0.2
	Utilities	-1.1	53.1	3.6	0.1	0.1	0.0		0.1
	Energy	-1.4	23.3	15.1	-0.1	0.2	-0.0		0.1
	Telecommunication Services	-0.7	2.6	-2.7	-0.0	0.1	0.0		0.1
	Financials	3.1	5.6	4.1	-0.1	0.1	0.1		0.0
	Real Estate	-1.8	—	8.3	0.0	—	-0.0		0.0
<b>Top Detractors</b>	Health Care	3.0	8.9	12.0	0.1	-0.6	0.1		-0.4
	Cash	1.3	1.5	—	-0.2	—	0.0		-0.1
<b>Total</b>			<b>14.2</b>	<b>9.3</b>	<b>0.3</b>	<b>4.0</b>	<b>0.5</b>		<b>4.9</b>

Attribution results are generated by the FactSet application utilizing a methodology which is widely accepted in the investment industry. Results are based upon daily holdings using a buy and hold methodology to generate individual security returns and do not include expenses. As such, attribution results are essentially estimates and may not aggregate to the total return of the portfolio or of the benchmark which can be found elsewhere in this presentation.

## Performance Drivers – Stocks

Relative to MSCI World ex US Growth Index (USD) — one year as of 31 July 2018



		Average Weighting (%)		Returns (%)		Relative Contribution (%)
		Portfolio	Benchmark	Portfolio <sup>1</sup>	Benchmark	
<b>Top Contributors</b>	Kering	2.0	0.4	66.9	66.9	0.8
	Terumo Corp	1.6	0.2	46.4	46.4	0.5
	Nice Ltd	1.6	0.1	46.5	46.6	0.5
	LVMH Moet Hennessy Louis Vuitton SE	2.6	1.1	42.1	42.1	0.4
	British American Tobacco	—	1.5	—	-15.2	0.4
<b>Top Detractors</b>	WPP Group PLC	1.2	0.1	-19.7	-12.2	-0.3
	Airbus Group	—	0.8	—	51.5	-0.3
	Asml Holding Nv	—	0.9	—	43.4	-0.3
	Japan Tobacco Inc	0.9	—	-14.6	—	-0.2
	Bayer	2.1	1.1	-7.7	-1.9	-0.2

<sup>1</sup> Represents performance for the time period stock was held in portfolio.

Attribution results are generated by the FactSet application utilizing a methodology which is widely accepted in the investment industry. Results are based upon daily holdings using a buy and hold methodology to generate individual security returns and do not include expenses. As such, attribution results are essentially estimates and may not aggregate to the total return of the portfolio or of the benchmark which can be found elsewhere in this presentation.

## Sector Weights

Relative to MSCI World ex US Growth Index



As of 31-Jul-18	Portfolio (%)	Benchmark (%)	Underweight/ Overweight (%)	Largest Holdings
Information Technology	16.3	10.9	5.4	SAP SE, Accenture PLC, Amadeus IT Group SA
Consumer Staples	20.7	16.5	4.2	Nestle SA, L'Oreal SA, Pernod Ricard SA
Health Care	15.1	11.6	3.5	Roche Holding AG, Bayer AG, Essilor International Cie Generale d'Optique SA
Financials	11.3	10.0	1.3	AIA Group Ltd, UBS Group AG, DBS Group Holdings Ltd
Telecommunication Services	1.3	1.9	-0.6	SoftBank Group Corp
Energy	2.2	3.1	-0.9	Oil Search Ltd
Utilities	0.2	1.2	-1.0	China Resources Gas Group Ltd
Materials	8.0	9.3	-1.3	Linde AG, Akzo Nobel NV, Air Liquide SA
Real Estate	—	1.7	-1.7	
Consumer Discretionary	9.9	14.1	-4.2	LVMH Moet Hennessy Louis Vuitton SE, Kering SA, WPP PLC
Industrials	13.8	19.6	-5.8	Canadian National Railway Co, Schneider Electric SE, Rolls-Royce Holdings PLC

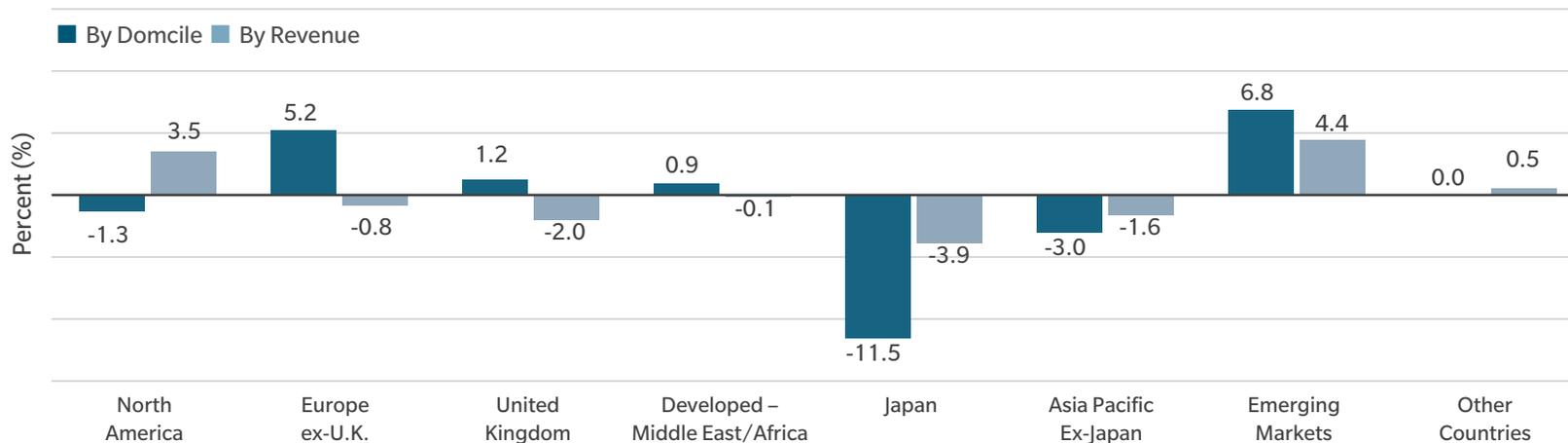
1.2% Cash & Cash Equivalents.

# Regional Exposures — Domicile vs. Revenue

LACERS' relative to MSCI World ex US Growth Index



Relative weight (%), as of 30-Jun-18



	By Domicile			By Revenue		
	MFS International Growth Equity (%)	MSCI World ex US Growth Index (%)	Relative weight (%)	MFS International Growth Equity (%)	MSCI World ex US Growth Index (%)	Relative weight (%)
North America	7.4	8.7	-1.3	29.9	26.4	3.5
Europe Ex-U.K.	52.1	46.9	5.2	18.0	18.7	-0.8
United Kingdom	12.4	11.2	1.2	3.8	5.8	-2.0
Developed - Middle East/Africa	1.3	0.4	0.9	0.2	0.3	-0.1
Japan	10.4	21.9	-11.5	10.1	14.0	-3.9
Asia Pacific Ex-Japan	7.9	10.9	-3.0	5.6	7.3	-1.6
Emerging Markets	6.8	0.0	6.8	29.0	24.6	4.4
Other Countries	0.0	0.0	0.0	3.4	2.9	0.5

Source: MSCI, FactSet. For companies not covered by the MSCI database, regional exposure was allocated based on country of domicile. All portfolio calculations exclude cash. The "Other Countries" category consists of countries not followed by MSCI.

Bottom-up stock selection drives country weights

## Top 10 Portfolio Holdings



			31-Jul-17	31-Jul-18	
	Country	Sector	Portfolio (%)	Portfolio (%)	MSCI World ex US Growth Index (%)
NESTLE SA	Switzerland	Consumer Staples	4.3	4.4	2.0
AIA GROUP LTD	Hong Kong	Financials	3.8	4.0	1.3
ROCHE HOLDING AG	Switzerland	Health Care	3.6	3.7	2.1
SAP SE	Germany	Information Technology	2.9	3.4	1.4
L'OREAL SA	France	Consumer Staples	2.3	3.1	0.8
CANADIAN NATIONAL RAILWAY CO	Canada	Industrials	2.6	2.8	0.8
LVMH MOET HENNESSY	France	Consumer Discretionary	2.4	2.6	1.2
PERNOD RICARD SA	France	Consumer Staples	2.6	2.5	0.4
DANONE SA	France	Consumer Staples	2.0	2.4	0.6
DIAGEO PLC	United Kingdom	Consumer Staples	2.1	2.4	1.1

# Characteristics



As of 31-Jul-18		Portfolio	MSCI World ex US Growth Index
<b>Fundamentals<sup>1</sup></b>	IBES long-term EPS growth <sup>2</sup>	7.9%	9.2%
	Price/earnings (12 months forward ex-negative earnings)	19.9x	19.7x
	Return on invested capital	11.0%	10.3%
	Market capitalization (USD)	54.9 bn	31.7 bn
<b>Diversification</b>	Number of holdings	80	618
<b>Turnover</b>	Trailing 1 year turnover <sup>3</sup>	18%	—
<b>Risk profile (current)</b>	Barra predicted tracking error <sup>4</sup>	2.25%	—

No forecasts can be guaranteed.

<sup>1</sup> Weighted median.

<sup>2</sup> Source: Thomson Reuters.

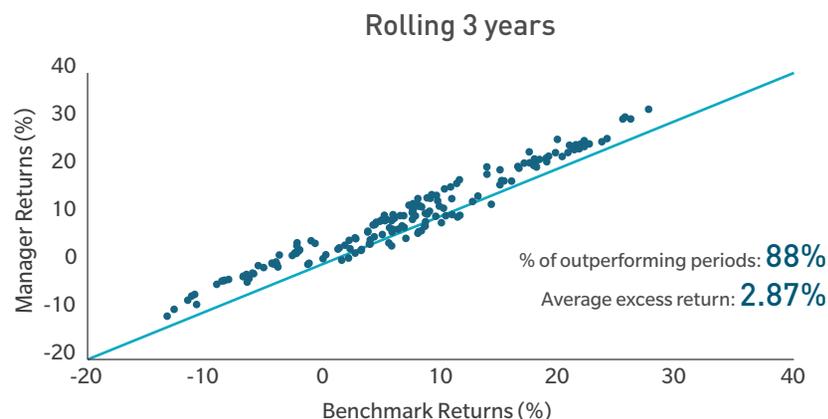
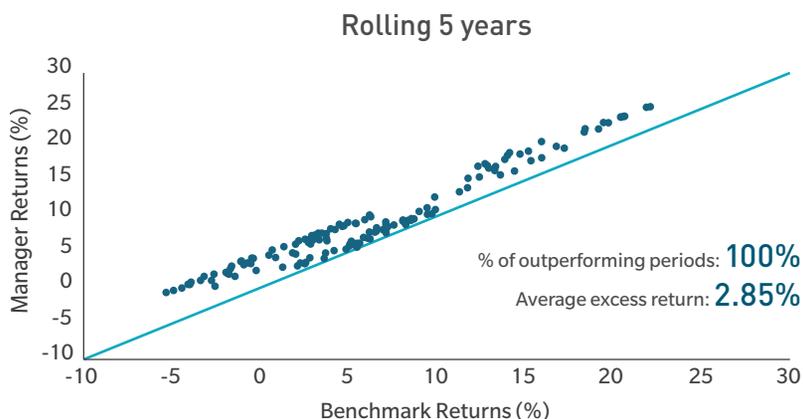
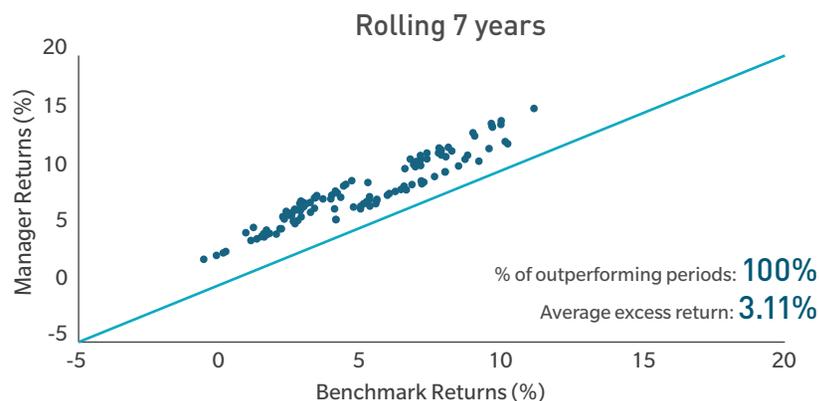
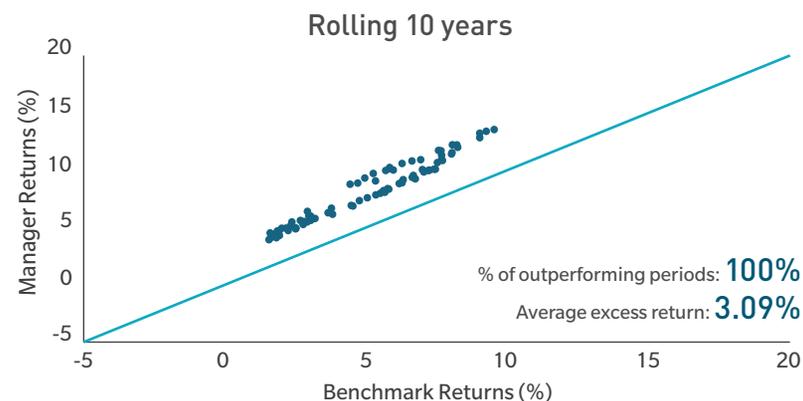
<sup>3</sup> Lesser of purchase or sales/average market value.

<sup>4</sup>  Source: Barra. The Barra information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used to create any financial instruments or products or any indices. The Barra information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. Barra, each of its affiliates and each other person involved in or related to compiling, computing or creating any Barra information (collectively, the "Barra Parties") expressly disclaims all warranties (including without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any Barra Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages.

Seeking high-quality growth with strong risk-adjusted returns

# Historically Consistent Long-Term Performance

MFS International Growth Equity Restricted Composite (gross of fees) rolling relative performance<sup>1</sup> (USD)



**Past performance is not a reliable indicator for future results. All financial investments involve an element of risk. The value of investments may rise and fall so you may get back less than originally invested.** Investors should consider the risks, including lower returns, related to currency movements between their investing currency and the portfolio's base currency, if different. The exhibit above reflects the performance of the fully discretionary restricted composite; individual portfolio results will vary. This performance information is supplemental to the composite's compliant presentation. Please see appendix for composite report, and other information.

<sup>1</sup> vs. MSCI World (ex-US) Growth Index (net div). Based on monthly returns (gross of fees) since inception (4Q01 –2Q18). For all time periods, results were calculated on a rolling basis, measured monthly. The strategy outperformed 82 out of 82 rolling 10 year periods, 118 out of 118 rolling 7 year periods, 142 out of 142 rolling 5 year periods, and 147 out of 166 rolling 3 year periods. All returns are annualized. Source: benchmark performance from SPAR, FactSet Research Systems, Inc.

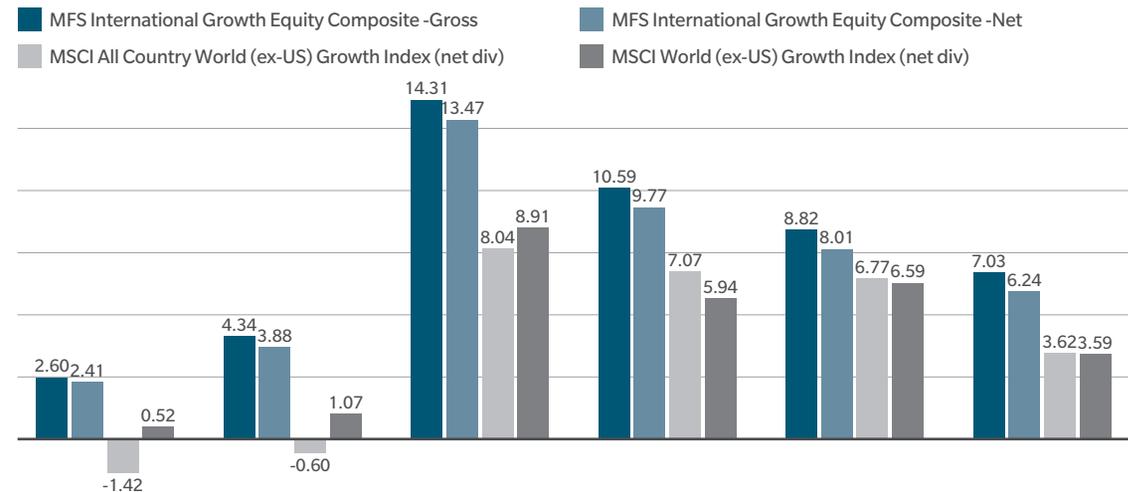
Please note the unrestricted composite shown allows for greater ownership of countries outside of the MSCI World ex US Growth Index than is currently permitted in your MFS account.

# MFS International Growth Equity Unrestricted Composite (USD)

Performance as of 31 July 2018



## Annualized Returns (%)



Excess returns (%)	2Q18	YTD	1 Year	3 Years	5 Years	10 Years
Gross vs. MSCI All Country World (ex-US) Growth Index (net div)	4.02	4.94	6.27	3.52	2.05	3.41
Net vs. MSCI All Country World (ex-US) Growth Index (net div)	3.83	4.48	5.43	2.70	1.24	2.62
Gross vs. MSCI World (ex-US) Growth Index (net div)	2.08	3.27	5.40	4.65	2.23	3.44
Net vs. MSCI World (ex-US) Growth Index (net div)	1.89	2.81	4.56	3.83	1.42	2.65

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
■ MFS International Growth Equity Composite-Gross	33.90	3.43	1.30	-4.12	15.07	20.92	-9.54	16.43	40.05	-39.33
■ MFS International Growth Equity Composite-Net	32.93	2.66	0.54	-4.84	14.22	20.03	-10.22	15.57	39.03	-39.80
■ MSCI All Country World (ex-US) Growth Index (net div)	32.01	0.12	-1.25	-2.65	15.49	16.67	-14.21	14.45	38.67	-45.61
■ MSCI World (ex-US) Growth Index (net div)	27.61	-1.87	1.65	-3.26	20.53	15.48	-12.71	13.06	30.66	-42.88

Please see performance methodology and composite report in appendix for performance and other information.

Source for benchmark performance SPAR, FactSet Research Systems Inc. Periods less than one year are actual not annualized.

**Past performance is not a reliable indicator for future results. All financial investments involve an element of risk. The value of investments may rise and fall so you may get back less than originally invested.**

Investors should consider the risks, including lower returns, related to currency movements between their investing currency and the portfolio's base currency, if different.

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Please note the unrestricted composite shown allows for greater ownership of countries outside of the MSCI World ex US Growth Index than is currently permitted in your MFS account.

MFS International Growth

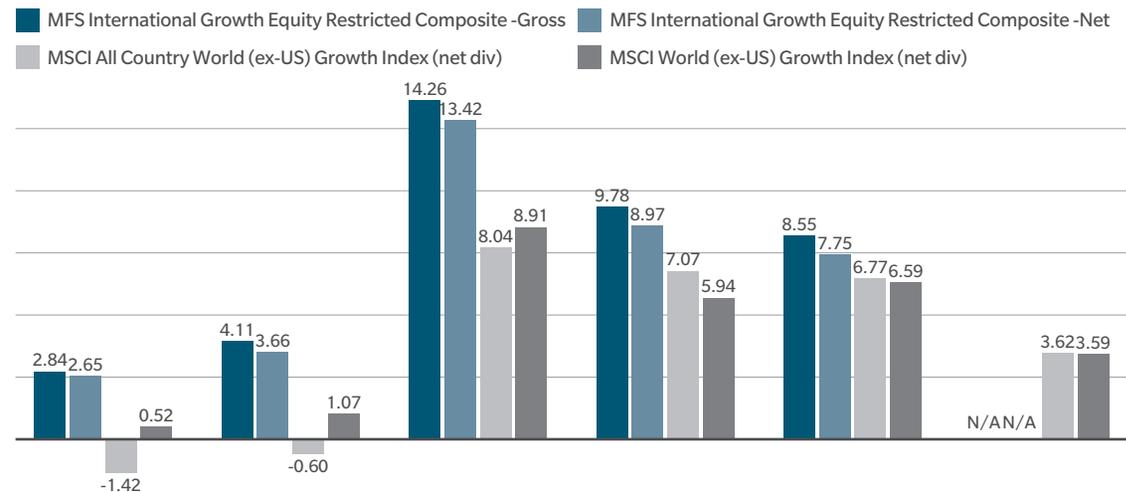
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# MFS International Growth Equity Restricted Composite (USD)

Performance as of 31 July 2018



## Annualized Returns (%)



Excess returns (%)	2Q18	YTD	1 Year	3 Years	5 Years	10 Years
Gross vs. MSCI All Country World (ex-US) Growth Index (net div)	4.26	4.71	6.22	2.71	1.78	—
Net vs. MSCI All Country World (ex-US) Growth Index (net div)	4.07	4.26	5.38	1.90	0.98	—
Gross vs. MSCI World (ex-US) Growth Index (net div)	2.32	3.04	5.35	3.84	1.96	—
Net vs. MSCI World (ex-US) Growth Index (net div)	2.13	2.59	4.51	3.03	1.16	—

	2017	2016	2015	2014	2013	2012	2011	2010	2009
MFS International Growth Equity Restricted Composite-Gross	33.11	2.33	0.61	-3.60	15.92	19.14	-10.04	15.98	44.75
MFS International Growth Equity Restricted Composite-Net	32.14	1.57	-0.14	-4.32	15.06	18.26	-10.72	15.12	43.70
MSCI All Country World (ex-US) Growth Index (net div)	32.01	0.12	-1.25	-2.65	15.49	16.67	-14.21	14.45	38.67
MSCI World (ex-US) Growth Index (net div)	27.61	-1.87	1.65	-3.26	20.53	15.48	-12.71	13.06	30.66

Please see performance methodology and composite report in appendix for performance and other information.

Source for benchmark performance SPAR, FactSet Research Systems Inc. Periods less than one year are actual not annualized.

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# Appendix



Contents	Page
MFS' Commitment to Diversity and Corporate Citizenship	22
MFS' U.S. Workforce Report	23
Long-term Performance	24
Market Capitalization (USD)	25
Performance Drivers	26
MFS International Growth Team	30
Portfolio Holdings	32
Performance Results (USD)	34
Disclosure	35
Composite Report (USD)	36

# MFS' Commitment to Diversity and Corporate Citizenship



*"We believe that diversity of thought should benefit our collective process. As such, we strive to foster an investment organization, in every department, at every level, that is as diverse as the clients it serves, and as diverse as the communities with which it engages."*



BOYS & GIRLS CLUB





Vendor **MFS Institutional Advisors, Inc.**  
 Address **111 Huntington Avenue, Boston, MA 02199**

Date Completed: **August 29, 2018**

Category **Active Non-US Equities Developed Markets Growth Portfolio Management**

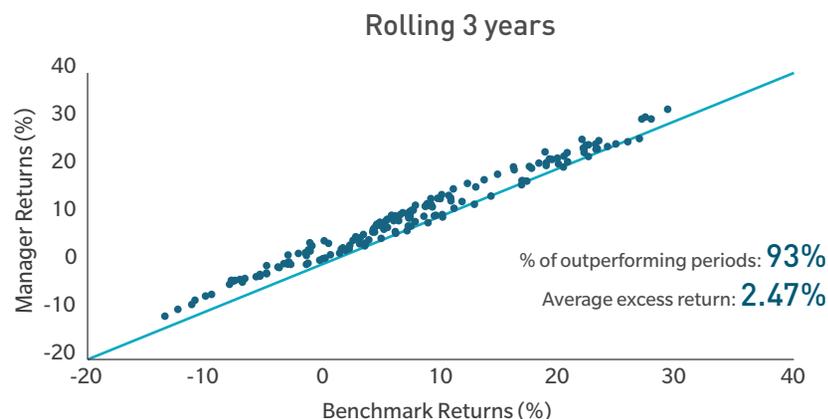
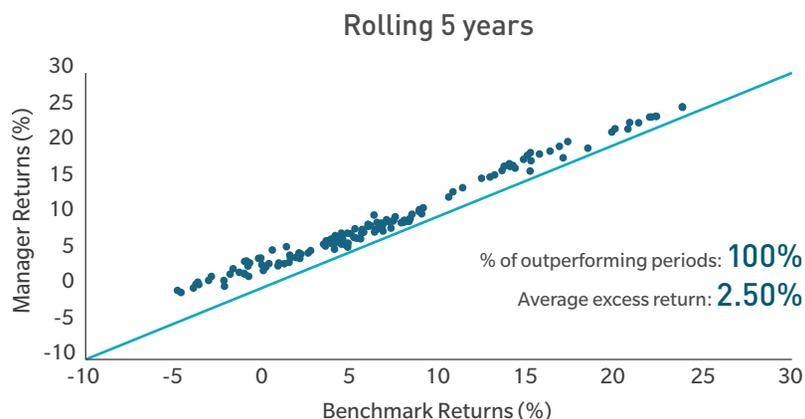
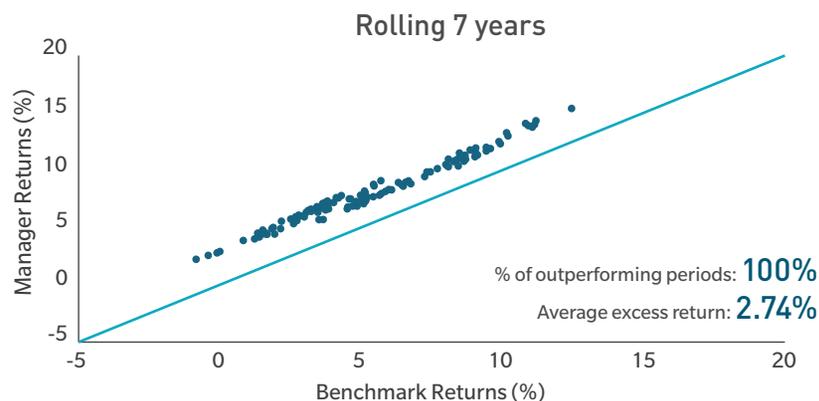
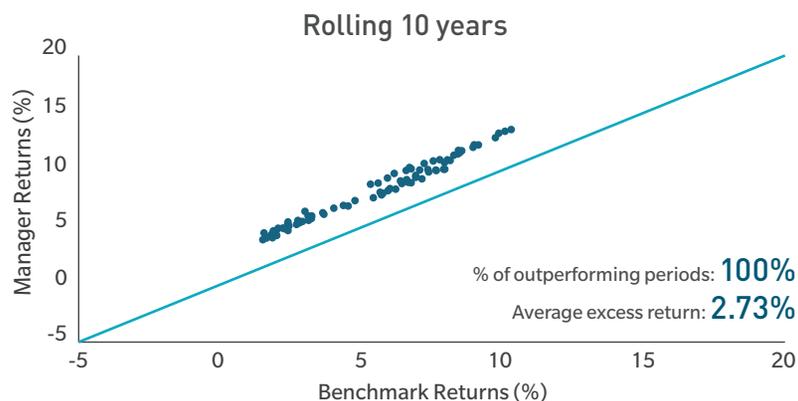
**TOTAL COMPOSITION OF WORK FORCE**

<b>Occupation</b>	<b>African American Full Time</b>	<b>Hispanic Full Time</b>	<b>Asian or Pacific Islander Full Time</b>	<b>American Indian/Alaskan Native Full Time</b>	<b>Caucasian (Non Hispanic) Full Time</b>	<b>Total Employees Full Time</b>	<b>Percent (%) Minority Full Time</b>	<b>Gender</b>	
								<b>Male Full Time</b>	<b>Female Full Time</b>
Officials & Managers	7	5	22	0	298	332	10.24%	231	108
Professionals	21	13	91	0	628	753	16.60%	440	329
Technicians	2	3	20	0	59	84	29.76%	55	30
Sales Workers	3	3	3	1	214	224	4.46%	192	37
Office/Clerical	21	3	11	0	98	133	26.32%	65	74
Semi-Skilled	0	0	0	0	1	1	0.00%	1	0
Unskilled	0	0	0	0	0	0	0.00%	0	0
Service Workers	0	0	0	0	0	0	0.00%	0	0
Other	0	0	0	0	5	5	0.00%	3	2
<b>Total</b>	<b>54</b>	<b>27</b>	<b>147</b>	<b>1</b>	<b>1,303</b>	<b>1,532</b>	<b>14.95%</b>	<b>987</b>	<b>580</b>

Please note that the legal and regulatory privacy requirements vary by region therefore this data is reflective of the MFS employees in the U.S. only (minus 35 employees who declined to identify their race).

# Historically Consistent Long-Term Performance

MFS International Growth Equity Unrestricted Composite (gross of fees) rolling relative performance<sup>1</sup> (USD)



Past performance is not a reliable indicator for future results. All financial investments involve an element of risk. The value of investments may rise and fall so you may get back less than originally invested. Investors should consider the risks, including lower returns, related to currency movements between their investing currency and the portfolio's base currency, if different. The exhibit above reflects the performance of the fully discretionary composite and not the performance of the restricted composite; individual portfolio results will vary. This performance information is supplemental to the composite's compliant presentation. Please see appendix for composite report, and other information.

<sup>1</sup> vs. MSCI AC World (ex-US) Growth Index (net div). Based on monthly returns (gross of fees) since inception (4Q01 –2Q18). For all time periods, results were calculated on a rolling basis, measured monthly. The strategy outperformed 82 out of 82 rolling 10 year periods, 118 out of 118 rolling 7 year periods, 142 out of 142 rolling 5 year periods, and 156 out of 166 rolling 3 year periods. All returns are annualized.

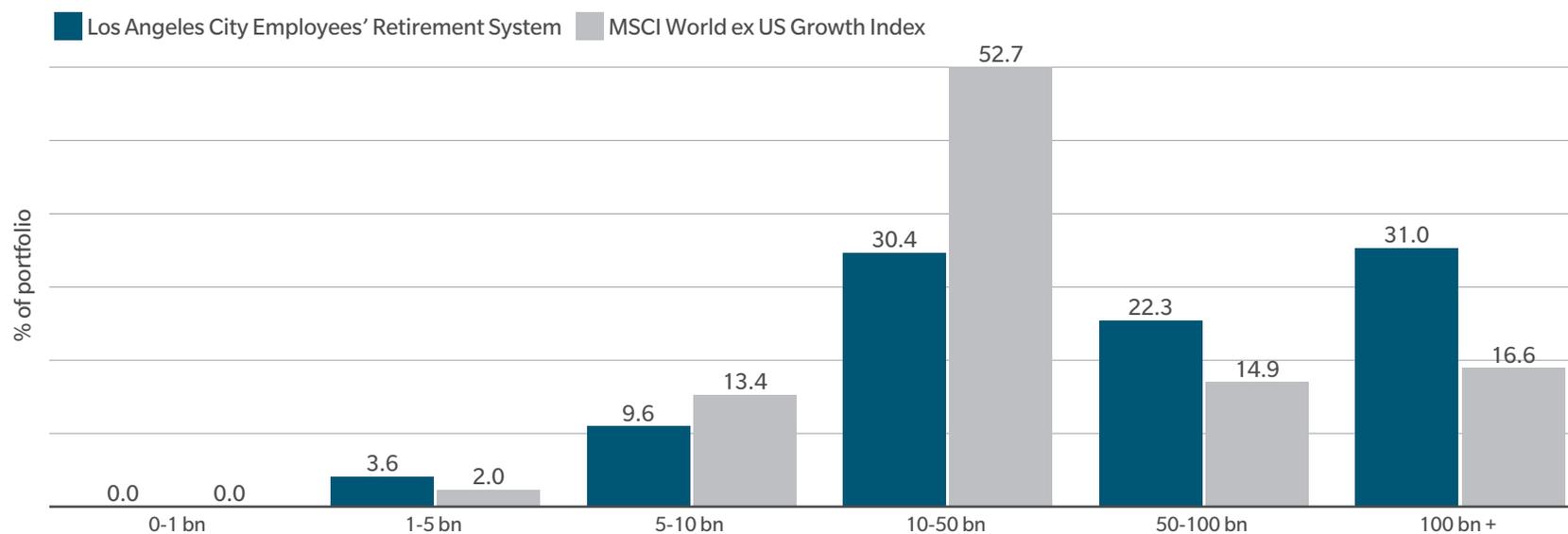
Source: benchmark performance from SPAR, FactSet Research Systems, Inc.

Please note the unrestricted composite shown allows for greater ownership of countries outside of the MSCI World ex US Growth Index than is currently permitted in your MFS account.

# Market Capitalization (USD)



As of 31-Jul-18



USD Billions	Weighted Average Market Cap	Weighted Median Market Cap
Los Angeles City Employees' Retirement System	81.6	54.9
MSCI World ex US Growth Index	53.0	31.7

1.2% Cash & Cash Equivalents.

## Performance Drivers — Regions

Relative to MSCI World ex US Growth Index (USD) — Since inception (31 October 2013) through 31 July 2018



	Average Relative Weighting (%)	Cumulative					Relative Contribution (%)
		Portfolio Returns (%)	Benchmark Returns (%)	Allocation (%) +	Stock Selection (%) +	Currency Effect (%) =	
<b>Contributors</b>							
North America	-1.1	86.8	13.3	-0.0	3.6	1.4	5.0
Europe Ex-U.K.	6.3	35.7	31.1	0.4	3.1	-0.2	3.3
United Kingdom	2.7	27.2	14.3	-0.0	2.1	-0.4	1.7
Developed - Middle East/ Africa	1.1	183.4	47.5	0.2	1.3	0.0	1.6
Asia/Pacific Ex-Japan	-5.3	42.3	24.8	0.5	0.3	0.5	1.3
Emerging Markets	5.9	48.9	2.7	1.2	-0.4	0.3	1.1
<b>Detractors</b>							
Japan	-10.8	59.3	41.1	-0.6	0.9	-1.0	-0.7
Cash	1.2	2.4	-	-0.6	-	0.2	-0.5
<b>Total</b>		<b>41.0</b>	<b>28.2</b>	<b>1.0</b>	<b>11.0</b>	<b>0.8</b>	<b>12.7</b>

Attribution results are generated by the FactSet application utilizing a methodology which is widely accepted in the investment industry. Results are based upon daily holdings using a buy and hold methodology to generate individual security returns and do not include expenses. As such, attribution results are essentially estimates and may not aggregate to the total return of the portfolio or of the benchmark which can be found elsewhere in this presentation.

## Performance Drivers — Sectors

Relative to MSCI World ex US Growth Index (USD) — Since inception (31 October 2013) through 31 July 2018



		Average Relative Weighting (%)	Cumulative					Relative Contribution (%)
			Portfolio Returns (%)	Benchmark Returns (%)	Sector Allocation (%)	+ Stock Selection (%)	+ Currency Effect (%)	
<b>Contributors</b>	Information Technology	5.8	112.7	73.7	2.9	2.3	0.7	6.0
	Materials	-0.8	78.1	20.7	-0.1	4.4	-0.3	3.9
	Consumer Discretionary	-1.4	52.5	30.9	0.3	2.6	-0.5	2.4
	Financials	1.0	28.2	16.7	0.2	0.5	1.0	1.7
	Energy	-0.9	-1.6	-8.9	0.4	0.1	-0.1	0.4
	Health Care	0.5	42.2	30.7	-1.0	2.0	-0.6	0.4
	Real Estate	-2.0	-19.1	6.1	0.4	0.0	-0.1	0.4
	Telecommunication Services	-2.1	3.5	4.8	0.3	0.1	0.0	0.3
	Utilities	-1.1	53.1	19.1	0.3	0.1	-0.1	0.3
<b>Detractors</b>	Industrials	-2.5	22.9	36.3	-0.0	-2.6	0.7	-2.0
	Consumer Staples	2.3	27.6	33.7	0.4	-1.0	-0.0	-0.6
	Cash	1.2	2.4	-	-0.7	-	0.2	-0.5
<b>Total</b>			<b>41.0</b>	<b>28.2</b>	<b>3.4</b>	<b>8.5</b>	<b>0.8</b>	<b>12.7</b>

Attribution results are generated by the FactSet application utilizing a methodology which is widely accepted in the investment industry. Results are based upon daily holdings using a buy and hold methodology to generate individual security returns and do not include expenses. As such, attribution results are essentially estimates and may not aggregate to the total return of the portfolio or of the benchmark which can be found elsewhere in this presentation.

## Performance Drivers — Stocks

Relative to MSCI World ex US Growth Index (USD) — Since inception (31 October 2013) through 31 July 2018



		Average Weighting (%)		Returns (%)		Relative Contribution (%)
		Portfolio	Benchmark Name	Portfolio <sup>1</sup>	Benchmark Name	
<b>Contributors</b>	Kering	0.9	0.2	203.3	196.4	1.7
	Accenture Plc	2.1	–	136.0	–	1.7
	Nice Ltd	1.6	0.1	183.4	179.6	1.5
	LVMH Moet Hennessy Louis Vuitton SE	2.6	0.8	124.0	124.0	1.3
	OBIC Co Ltd	1.1	0.0	193.8	60.7	1.3
<b>Detractors</b>	Novartis AG	1.7	1.4	-8.2	18.1	-0.9
	Ericsson Lm	1.1	0.2	-27.8	5.8	-0.9
	Japan Tobacco Inc	1.2	0.2	-7.6	2.8	-0.7
	Adidas Ag	0.2	0.4	-34.2	107.1	-0.7
	Asml Holding Nv	–	0.6	–	138.7	-0.6

Based on cumulative returns.

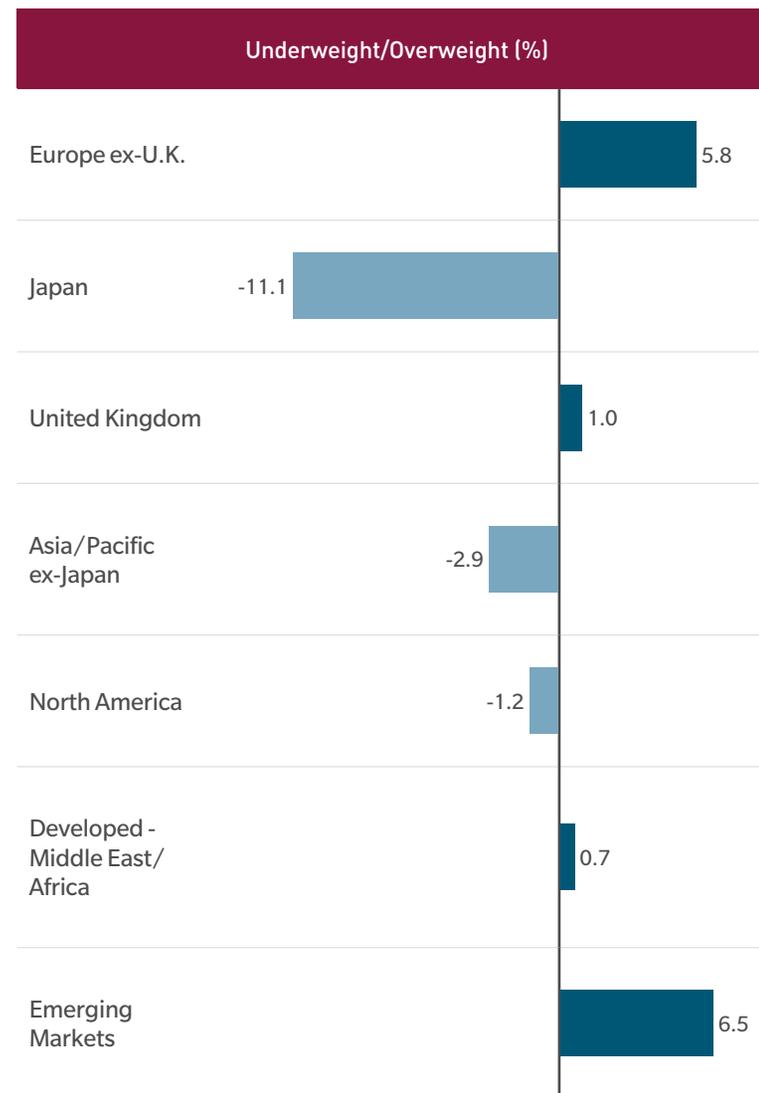
<sup>1</sup> Represents performance for the time period stock was held in portfolio.

Attribution results are generated by the FactSet application utilising a methodology which is widely accepted in the investment industry. Results are based upon daily holdings using a buy and hold methodology to generate individual security returns and do not include expenses. As such, attribution results are essentially estimates and may not aggregate to the total return of the portfolio or of the benchmark which can be found elsewhere in this presentation.

## Region and Country Weights



As of 31-Jul-18	Portfolio (%)	MSCI World ex US Growth Index (%)	Underweight/Overweight (%)
<b>Europe ex-U.K.</b>	<b>53.3</b>	<b>47.5</b>	<b>5.8</b>
France	20.1	10.7	9.4
Switzerland	14.1	8.4	5.7
Germany	12.7	10.5	2.2
Ireland	1.0	0.8	0.2
Spain	1.7	1.7	0.0
Italy	0.9	1.5	-0.6
Denmark	0.9	2.7	-1.8
Netherlands	1.9	4.9	-3.0
Other countries <sup>1</sup>	0.0	6.3	-6.3
<b>Japan</b>	<b>10.2</b>	<b>21.3</b>	<b>-11.1</b>
<b>United Kingdom</b>	<b>12.2</b>	<b>11.2</b>	<b>1.0</b>
<b>Asia/Pacific ex-Japan</b>	<b>7.9</b>	<b>10.8</b>	<b>-2.9</b>
Hong Kong	4.0	3.2	0.8
Singapore	1.6	1.1	0.5
Australia	2.3	6.3	-4.0
Other countries <sup>1</sup>	0.0	0.2	-0.2
<b>North America</b>	<b>7.6</b>	<b>8.8</b>	<b>-1.2</b>
United States	2.9	0.0	2.9
Canada	4.6	8.8	-4.2
<b>Developed - Middle East/Africa</b>	<b>1.2</b>	<b>0.5</b>	<b>0.7</b>
Israel	1.2	0.5	0.7
<b>Emerging Markets</b>	<b>6.5</b>	<b>0.0</b>	<b>6.5</b>
China	2.9	0.0	2.9
Taiwan	1.9	0.0	1.9
India	0.6	0.0	0.6
South Korea	0.5	0.0	0.5
Mexico	0.3	0.0	0.3
Brazil	0.1	0.0	0.1
Czech Republic	0.1	0.0	0.1
Peru	0.1	0.0	0.1



1.2% Cash & Cash Equivalents.

<sup>1</sup> Portfolio does not own securities in the following countries : Sweden 3.1%; Belgium 1.4%; and 5 other countries with weights less than 1.00% totaling 1.9%.

# MFS International Growth Equity Team



## David A. Antonelli

- Vice Chairman, Investment Officer
- Equity Portfolio Manager, Vice Chair
- Serves on MFS Global Equity Management Team
- Joined MFS in 1991; previous positions include Chief Investment Officer (non-U.S. and global); Chief Equity Officer; Director of International Equity Research; Director of Global Equity Research; Equity Research Analyst.
- Previous experience includes 4 years as Project Manager at General Electric Company; 4 years as Senior Accountant at Ernst & Whinney.
- Manages global, international growth and international small cap equity portfolios
- University of Pennsylvania Wharton School, MBA
- Pennsylvania State University, BS

## Matthew Barrett, ASIP

- Investment Officer
- Equity Portfolio Manager
- As a Non-U.S. Equity Portfolio Manager, responsible for final buy and sell decisions, portfolio construction, risk and cash management. Participates in the research process and strategy discussions.
- Joined MFS in 2000; previous positions include Global Equity Research Analyst.
- Previous experience includes 4 years as Associate Director at Newport Capital Ltd..
- Affiliations include Associate of the Society of Investment Professionals (ASIP), CFA Society of the U.K
- London Business School, MBA
- University College London, BSc

# MFS International Growth Equity Team

Continued...



## Kevin M. Dwan

- Investment Officer
- Equity Portfolio Manager
- Joined MFS in 2005; previous positions include Director of Research - Asia; Global Equity Research Analyst.
- Previous experience includes 10 years as Investment Associate, Equity Analyst and Sector Sleeve Manager at Putnam Investments.
- Affiliations include President of Sabrina's Foundation
- Harvard University, MBA
- Harvard College, AB

## Brett A. Fleishman

- Investment Officer
- Institutional Equity Portfolio Manager
- As an Institutional Portfolio Manager, participates in the research process and strategy discussions. Assesses portfolio risk, customizes portfolios to client objectives and guidelines, and manages daily cash flows. Communicates investment policy, strategy, and positioning.
- Joined MFS in 2001; previous positions include Investment Specialist; Senior Associate Investment Specialist; Equity Research Analyst.
- Previous experience includes 2 years as Senior Consultant at Ernst & Young LLP, Economics Consulting Group; 2 years as Research Analyst at Industrial Economics, Inc..
- University of Pennsylvania, MBA
- Brandeis University, BA, Phi Beta Kappa, magna cum laude

# Portfolio Holdings



As of 31-Jul-18	Country	Market Value (%)
<b>Cash &amp; Cash Equivalents</b>		<b>1.2</b>
<b>Consumer Discretionary</b>		<b>9.9</b>
LVMH Moet Hennessy Louis Vuitton SE	France	2.6
Kering SA	France	1.8
WPP PLC	United Kingdom	1.2
Paddy Power Betfair PLC	Ireland	1.0
Burberry Group PLC	United Kingdom	1.0
Compass Group PLC	United Kingdom	0.9
Publicis Groupe SA	France	0.7
Bandai Namco Holdings Inc	Japan	0.5
Yum China Holdings Inc	China	0.2
<b>Consumer Staples</b>		<b>20.7</b>
Nestle SA	Switzerland	4.4
L'Oreal SA	France	3.1
Pernod Ricard SA	France	2.5
Danone SA	France	2.4
Diageo PLC	United Kingdom	2.4
Reckitt Benckiser Group PLC	United Kingdom	2.2
Japan Tobacco Inc	Japan	1.2
Kao Corp	Japan	1.1
Sundrug Co Ltd	Japan	1.0
ITC Ltd	India	0.2
China Resources Beer Holdings Co Ltd	China	0.1
Ambev SA ADR	Brazil	0.1
<b>Energy</b>		<b>2.2</b>
Oil Search Ltd	Australia	1.0
Suncor Energy Inc	Canada	0.7
Caltex Australia Ltd	Australia	0.5

As of 31-Jul-18	Country	Market Value (%)
<b>Financials</b>		<b>11.3</b>
AIA Group Ltd	Hong Kong	4.0
UBS Group AG	Switzerland	2.3
DBS Group Holdings Ltd	Singapore	1.6
AEON Financial Service Co Ltd	Japan	1.2
Julius Baer Group Ltd	Switzerland	1.0
HDFC Bank Ltd ADR	India	0.4
Element Fleet Management Corp	Canada	0.3
Grupo Financiero Banorte SAB de CV	Mexico	0.2
Grupo Financiero Inbursa SAB de CV	Mexico	0.1
Credicorp Ltd	Peru	0.1
Komercni banka as	Czech Republic	0.1
<b>Health Care</b>		<b>15.1</b>
Roche Holding AG	Switzerland	3.7
Bayer AG	Germany	2.1
Essilor International Cie Generale d'Optique SA	France	2.1
Novartis AG	Switzerland	2.1
Fresenius Medical Care AG & Co KGaA	Germany	1.4
QIAGEN NV	Germany	1.1
Terumo Corp	Japan	1.0
Novo Nordisk AS	Denmark	0.9
Mettler-Toledo International Inc	United States	0.7
<b>Industrials</b>		<b>13.8</b>
Canadian National Railway Co	Canada	2.8
Schneider Electric SE	France	1.8

## Portfolio Holdings

Continued...



As of 31-Jul-18	Country	Market Value (%)
Rolls-Royce Holdings PLC	United Kingdom	1.5
Experian PLC	United Kingdom	1.3
TOTO Ltd	Japan	0.9
Brenntag AG	Germany	0.9
Prismian SpA	Italy	0.9
Ritchie Bros Auctioneers Inc	Canada	0.8
Brambles Ltd	Australia	0.8
GEA Group AG	Germany	0.8
Intertek Group PLC	United Kingdom	0.7
Legrand SA	France	0.6
Adani Ports & Special Economic Zone Ltd	India	0.0
<b>Information Technology</b>		<b>16.3</b>
SAP SE	Germany	3.4
Accenture PLC	United States	1.9
Amadeus IT Group SA	Spain	1.7
Taiwan Semiconductor Manufacturing Co Ltd ADR	Taiwan	1.7
Baidu Inc ADR	China	1.4
Nice Ltd ADR	Israel	1.2
Alibaba Group Holding Ltd ADR	China	1.0
Hitachi Ltd	Japan	1.0
Dassault Systemes SE	France	1.0
Obic Co Ltd	Japan	0.8
NAVER Corp	South Korea	0.5
Mellanox Technologies Ltd	United States	0.2
MediaTek Inc	Taiwan	0.2
Luxoft Holding Inc	United States	0.1

As of 31-Jul-18	Country	Market Value (%)
<b>Materials</b>		<b>8.0</b>
Linde AG	Germany	1.9
Akzo Nobel NV	Netherlands	1.9
Air Liquide SA	France	1.5
Croda International PLC	United Kingdom	1.0
Symrise AG	Germany	1.0
Sika AG	Switzerland	0.7
Grupo Mexico SAB de CV	Mexico	0.0
<b>Telecommunication Services</b>		<b>1.3</b>
SoftBank Group Corp	Japan	1.3
<b>Utilities</b>		<b>0.2</b>
China Resources Gas Group Ltd	China	0.2

## Performance Results – Net of Fees (USD)

Relative to MSCI World (ex-US) Growth Index (net div)



As of 31-Jul-18	Period	Portfolio Net (%)	Benchmark (%)
<b>Quarterly returns</b>	2Q18	2.68	0.52
	1Q18	-1.93	-1.56
	4Q14	6.37	5.06
	3Q17	4.55	5.10
<b>Annual returns</b>	2018 year to date	3.29	1.07
	2017	31.93	27.61
	2016	1.89	-1.87
	2015	1.79	1.65
<b>Annualized returns</b>	1 year	13.27	8.91
	3 years	9.05	5.94
	Since inception (31-Oct-13)	6.65	5.08

Source: Benchmark performance from SPAR, FactSet Research Systems Inc.

It is not possible to invest directly in an index.

All periods greater than one year are annualized.

**Past performance is no guarantee of future results.**

## Disclosure



This material is directed at investment professionals for general information use only with no consideration given to the specific investment objective, financial situation and particular needs of any specific person. Any securities and/or sectors mentioned herein are for illustration purposes and should not be construed as a recommendation for investment. Investment involves risk. Past performance is not indicative of future performance. The information contained herein may not be copied, reproduced or redistributed without the express consent of MFS Investment Management ("MFS"). While the information is believed to be accurate, it may be subject to change without notice. MFS does not warrant or represent that it is free from errors or omissions or that the information is suitable for any particular person's intended use. Except in so far as any liability under any law cannot be excluded, MFS does not accept liability for any inaccuracy or for the investment decisions or any other actions taken by any person on the basis of the material included. MFS does not authorise distribution to retail investors.

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**Composite:** MFS International Growth Equity Restricted Composite

**Benchmark:** MSCI AC World Index ex USA Growth - Net Return

**Creation Date:** 06-Jan-2009

**Inception Date:** 01-Dec-2008

**Investment Objective:** Seeks long-term capital appreciation by investing principally in stocks of companies whose primary activities lie outside the US. Portfolios in this strategy seek companies with higher sustainable earnings growth and returns than their industry, improving fundamentals, and whose stock valuations do not fully reflect their long-term growth prospects, while adhering to client-specific restrictions.

**Institutional Separate Accounts Fee Schedule**

Asset Breakpoints (USD)	Fee
For Assets Up To 50 MM	75 bp
For Assets From 50 MM To 100 MM	60 bp
For Assets Over 100 MM	50 bp

Accounts are eligible for inclusion in the composite if they have assets greater than 2 MM USD. Accounts are included as of their first full month of performance.

Period	Composite and Benchmark Return %			Composite Dispersion	Accounts in Composite at End of Period	Annualized 3-Year Standard Deviation		Assets in Composite	
	Gross of fees	Net of fees	Benchmark			Composite	Benchmark	(USD million)	%Firm
2018 Q2	2.84	2.65	-1.42	n/a	<6	11.39	11.84	\$2,324.8	0.5
2018 Q1	-1.43	-1.62	-0.87	n/a	<6	11.71	12.15	\$2,320.7	0.5
2017	33.11	32.14	32.01	n/a	<6	11.57	11.73	\$2,365.2	0.5
2016	2.33	1.57	0.12	n/a	<6	12.10	12.19	\$2,555.5	0.6
2015	0.61	-0.14	-1.25	n/a	<6	11.78	11.55	\$2,806.9	0.7
2014	-3.60	-4.32	-2.65	0.44	7	12.34	12.23	\$4,955.8	1.2
2013	15.92	15.06	15.49	n/a	7	15.96	16.26	\$4,847.1	1.2
2012	19.14	18.26	16.67	n/a	6	19.25	19.37	\$3,192.1	1.0
2011	-10.04	-10.72	-14.21	n/a	<6	22.08	22.05	\$291.5	0.1
2010	15.98	15.12	14.45	n/a	<6	n/a	n/a	\$332.4	0.2
2009	44.75	43.70	38.67	n/a	<6	n/a	n/a	\$36.6	0.0
2008**	6.61	6.55	6.17	n/a	<6	n/a	n/a	\$27.6	0.0

MFS Investment Management® claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. MFS Investment Management® has been independently verified for the periods 1-Jan-1988 through 31-Dec-2016. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

\*\* Indicates partial period.

Total Gross-of-fee returns in USD (includes both capital appreciation and income) are net of transaction costs, withholding taxes and direct expenses, but before management fees, custody and other indirect expenses. Certain institutional accounts hold Canadian trusts subject to custody and other indirect expenses. Certain accounts may be subject to fair valuation as conditions warrant. Typical separate accounts utilize 4:00 PM (London Time) foreign exchange rates; retail products will use rates deemed most appropriate for daily NAV per share calculations. The possibility exists for performance dispersion between otherwise similarly managed accounts and also with the benchmark.

Net composite returns are prepared by subtracting from the monthly gross returns one-twelfth of the maximum applicable annual institutional separate account fee.

Total returns of the benchmark are provided for each period depicted, expressed in USD. Source of Benchmark Performance: FACTSET ®. Benchmark returns and benchmark annualized 3-year standard deviation are not examined by independent accountants.

MSCI AC World Index ex USA Growth - Net Return - a market capitalization-weighted index that is designed to measure equity market performance for growth securities in the global developed and emerging markets, excluding the USA.

Composite Dispersion is measured by the asset-weighted standard deviation of account returns for all accounts in the composite for the full period. For composites containing less than six accounts for the full period, dispersion is deemed not meaningful.

Prior to 31-Mar-2009 accounts have been eligible for inclusion in the composite if they had assets greater than 5.0 MM USD.

For purposes of GIPS compliance, the firm is defined as MFS Investment Management® which is comprised of Massachusetts Financial Services Company (MFS) and MFS Institutional Advisors, Inc. (MFSI), each of which is a registered investment advisor, MFS Heritage Trust Company, a New Hampshire Trust company, and MFS Investment Management Canada Limited. Total firm assets are calculated at market value and include assets managed by MFS, MFSI, MFS Heritage Trust Company and MFS Investment Management Canada Limited as well as assets managed by MFS and MFSI in a sub-advisory capacity on behalf of affiliated investment advisors that are not registered under the United States Investment Advisers Act of 1940, such as MFS International (U.K.), Ltd. (MIL UK) and MFS Investment Management K.K. (MIMKK), MFS International Singapore Pte. Ltd and MFS International Australia Pty Ltd as well as assets managed by MFS and MFSI on behalf of unaffiliated investment advisors that may or may not be registered under the United States Investment Advisers Act of 1940. Total firm assets for GIPS purposes do not include assets of non-discretionary advisory relationships.

In November of 2011 MFS acquired McLean Budden Limited (now MFS Investment Management Canada Limited). Total firm assets from 31-Mar-2012 forward include the assets of institutional and pooled MFS Investment Management Canada Limited products. Assets from 31-Dec-2012 forward include the MFS Investment Management Canada Limited PPM product assets.

A complete list of firm composites and descriptions, along with additional information regarding policies for valuing portfolios, calculating and reporting performance, and preparing compliant presentations are available upon request.

Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI.



**Composite:** MFS International Growth Equity Composite

**Benchmark:** MSCI AC World Index ex USA Growth - Net Return

**Creation Date:** 13-Nov-2001

**Inception Date:** 01-Oct-2001

**Investment Objective:** Seeks long-term capital appreciation by investing principally in stocks of companies whose primary activities lie outside the U.S. Portfolios in this strategy seek companies with higher sustainable earnings growth and returns than their industry, improving fundamentals, and whose stock valuations do not fully reflect their long-term growth prospects.

**Institutional Separate Accounts Fee Schedule**

Asset Breakpoints (USD)	Fee
For Assets Up To 50 MM	75 bp
For Assets From 50 MM To 100 MM	60 bp
For Assets Over 100 MM	50 bp

Period	Composite and Benchmark Return %			Composite Dispersion	Accounts in Composite at End of Period	Annualized 3-Year Standard Deviation		Assets in Composite	
	Gross of fees	Net of fees	Benchmark			Composite	Benchmark	(USD million)	%Firm
2018 Q2	2.60	2.41	-1.42	0.08	15	11.22	11.84	\$13,561.4	2.9
2018 Q1	-1.06	-1.25	-0.87	0.09	15	11.51	12.15	\$12,988.4	2.7
2017	33.90	32.93	32.01	0.23	15	11.28	11.73	\$12,601.3	2.6
2016	3.43	2.66	0.12	0.26	14	11.96	12.19	\$8,975.1	2.1
2015	1.30	0.54	-1.25	0.17	14	11.77	11.55	\$8,952.1	2.2
2014	-4.12	-4.84	-2.65	0.17	15	12.22	12.23	\$8,989.9	2.1
2013	15.07	14.22	15.49	0.16	13	15.76	16.26	\$9,331.2	2.3
2012	20.92	20.03	16.67	0.22	12	18.76	19.37	\$7,210.5	2.2
2011	-9.54	-10.22	-14.21	0.46	9	22.20	22.05	\$4,321.4	1.9
2010	16.43	15.57	14.45	0.28	9	n/a	n/a	\$4,187.3	1.9
2009	40.05	39.03	38.67	0.83	7	n/a	n/a	\$3,166.4	1.7
2008	-39.33	-39.80	-45.61	0.37	8	n/a	n/a	\$1,660.7	1.3

MFS Investment Management® claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. MFS Investment Management® has been independently verified for the periods 1-Jan-1988 through 31-Dec-2016. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. MFS International Growth Equity Composite has been examined for the periods 01-Oct-2001 through 31-Dec-2016. The verification and performance examination reports are available upon request.

Accounts are eligible for inclusion in the composite if they have assets greater than 2 MM USD. Accounts are included as of their first full month of performance.

Total Gross-of-fee returns in USD (includes both capital appreciation and income) are net of transaction costs, withholding taxes and direct expenses, but before management fees, custody and other indirect expenses. Certain institutional accounts hold Canadian trusts subject to custody and other indirect expenses. Certain accounts may be subject to fair valuation as conditions warrant. Typical separate accounts utilize 4:00 PM (London Time) foreign exchange rates; retail products will use rates deemed most appropriate for daily NAV per share calculations. The possibility exists for performance dispersion between otherwise similarly managed accounts and also with the benchmark.

Net composite returns are prepared by subtracting from the monthly gross returns one-twelfth of the maximum applicable annual institutional separate account fee. Returns based on actual management fees, including non-separate account fees, would be lower for the following periods - 2008: -39.82. Total returns of the benchmark are provided for each period depicted, expressed in USD. Source of Benchmark Performance: FACTSET®. Benchmark returns and benchmark annualized 3-year standard deviation are not examined by independent accountants.

MSCI AC World Index ex USA Growth - Net Return - a market capitalization-weighted index that is designed to measure equity market performance for growth securities in the global developed and emerging markets, excluding the USA.

Composite Dispersion is measured by the asset-weighted standard deviation of account returns for all accounts in the composite for the full period. For composites containing less than six accounts for the full period, dispersion is deemed not meaningful.

The Long derivative exposure and number of accounts were missing on the Q2, Q3 and Q4 2017 reports. The Long derivative exposures were 0.68%, 0.50% and 0.49% respectively for these periods, for one account.

Prior to 31-Mar-2009 accounts have been eligible for inclusion in the composite if they had assets greater than 5.0 MM USD.

For purposes of GIPS compliance, the firm is defined as MFS Investment Management® which is comprised of Massachusetts Financial Services Company (MFS) and MFS Institutional Advisors, Inc. (MFSI), each of which is a registered investment advisor, MFS Heritage Trust Company, a New Hampshire Trust company, and MFS Investment Management Canada Limited. Total firm assets are calculated at market value and include assets managed by MFS, MFSI, MFS Heritage Trust Company and MFS Investment Management Canada Limited as well as assets managed by MFS and MFSI in a sub-advisory capacity on behalf of affiliated investment advisors that are not registered under the United States Investment Advisers Act of 1940, such as MFS International (U.K.), Ltd. (MIL UK) and MFS Investment Management K.K. (MIMKK), MFS International Singapore Pte. Ltd and MFS International Australia Pty Ltd as well as assets managed by MFS and MFSI on behalf of unaffiliated investment advisors that may or may not be registered under the United States Investment Advisers Act of 1940. Total firm assets for GIPS purposes do not include assets of non-discretionary advisory relationships.

In November of 2011 MFS acquired McLean Budden Limited (now MFS Investment Management Canada Limited). Total firm assets from 31-Mar-2012 forward include the assets of institutional and pooled MFS Investment Management Canada Limited products. Assets from 31-Dec-2012 forward include the MFS Investment Management Canada Limited PPM product assets.

A complete list of firm composites and descriptions, along with additional information regarding policies for valuing portfolios, calculating and reporting performance, and preparing compliant presentations are available upon request.

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## PORTFOLIO REVIEW



SEPTEMBER 11, 2018

**BARROW, HANLEY, MEWHINNEY & STRAUSS, LLC**

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Telephone: 214.665.1900 | [clientservices@barrowhanley.com](mailto:clientservices@barrowhanley.com)

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# OVERVIEW OF FIRM

## NON-US VALUE EQUITY PRESENTERS



***JAMES M. CARPENTER, CFA – Director, Client Portfolio Manager***

Mr. Carpenter joined BHMS in 2015 from Russell Investments, where he served as a portfolio manager for several multi-manager funds across the firm's international and global equity strategies. Previous to this role, Mr. Carpenter was head of the firm's global equity manager research team and was also responsible for researching and ranking the value strategies of investment management firms. Prior to his nearly 18-year tenure at Russell Investments, Mr. Carpenter served as an auditor at Ernst & Young LLP. He graduated from Brigham Young University with both a Bachelor's and Master's degree in Accounting. He is a member of the CFA Institute and the CFA Society of Seattle.



***TJ CARTER, CPA, CFA – Director, Portfolio Manager / Equity Analyst***

Mr. Carter joined BHMS in 2014 from Kingstown Capital Management, where he served as an analyst. His prior experience includes analyst positions at Outpoint Capital Management and Highland Capital Management. Mr. Carter began his 14-year career at Deloitte & Touche, LLP. He received a BSBA from the University of Arkansas and an MBA from Columbia Business School.



***RANDOLPH S. WRIGHTON, JR., CFA – Managing Director, Portfolio Manager / Equity Analyst***

Mr. Wrighton joined BHMS in 2005 as an equity analyst. During his 18-year investment career, he worked as an intern analyst for the University of Texas Investment Management Company in Austin and Perry Capital in New York while attending graduate school at the McCombs School of Business at the University of Texas. Prior experience includes work as an associate in institutional equity sales for Deutsche Bank Securities in Atlanta. Mr. Wrighton served in the U.S. Marine Corps for four years, where he attained the rank of Captain. He is a member of the CFA Society of Dallas-Fort Worth. Mr. Wrighton holds an MBA from the University of Texas and a BA in Economics from Vanderbilt University.

# BARROW HANLEY: A LEGACY OF STABILITY

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## STABILITY OF OUR FIRM

- ❑ 39-Year-Old Firm, Founded in 1979 in Dallas, Texas, USA – \$85 Billion AUM
- ❑ One of the Largest Managers of active U.S. Value Equities
- ❑ Nearly Four-Decade History of Unique Organizational Stability
- ❑ Institutional Focus – Boutique Culture
- ❑ 102 Employees, Including 49 Investment Professionals
- ❑ Significant Employee Equity Ownership

## STABILITY OF OUR PROCESS

- ❑ For the Past 39 Years, the BHMS Value-Oriented Approach to Stock Selection has Always Emphasized the Importance of Dividends and the Protection of Assets
- ❑ Our Firm's Size and Stature Provides Direct Access to the Senior Management of Publicly-Traded Companies Worldwide
- ❑ BHMS has a 39-Year Record of Consistently Producing Alpha in the Large, Mid, and Small Cap Sectors of the Market with a Proven Ability to Protect Assets in Down Markets through Risk Control and Yield

## STABILITY OF OUR CLIENT BASE

- ❑ Uniquely Stable Partner Base – 29 Clients for More than 20 Years
- ❑ Experienced in Management of Large Portfolios – 30+ Larger than \$500 Million
- ❑ Serving Clients Globally: North America, Europe, Asia, Australia, Africa

### WHY BARROW HANLEY?

- ❑ With \$73 billion in equity AUM (\$85 billion total) as of 6/30/18, BHMS is one of the largest active U.S. value equity investment managers in the United States.
- ❑ Our firm's size and stature provides direct access to the senior management of publicly-traded companies worldwide.
- ❑ The BHMS equity investment team is highly experienced and has had a three decade history of unique organizational stability. Our approach to training analysts and portfolio managers is best described as a long-term "apprenticeship," as we have learned that the most effective way to train young investment professionals is to enable them to work side by side with experienced professionals.
- ❑ For the past 39 years, the BHMS value-oriented approach to stock selection has emphasized the importance of dividends and the protection of assets.
- ❑ BHMS has a 39-year record of consistently producing alpha in the large, mid, and small cap sectors of the market with a proven ability to protect assets in down markets through risk control and yield.

# ORGANIZATIONAL OVERVIEW

AS OF JUNE 30, 2018

39-Year-Old Firm, Founded in 1979 in Dallas, Texas

Sole Focus is “Long Only” Value Management for Institutional Investors

Firm is Financially Strong and Growing

Employee Equity Ownership

Institutional Focus – Boutique Culture

Strategy	Inception	Assets Under Management
Large Cap Value Equity	1979	38.6 Billion
Diversified Large Cap Value Equity	2000	6.4 Billion
Dividend Focused Value Equity	2000	7.8 Billion
Mid Cap Value Equity	1999	7.2 Billion
Small Cap Value Equity–Concentrated	1995	2.3 Billion
Diversified Small Cap Value Equity	2006	634 Million
Non-U.S. Value Equity	2006	2.3 Billion
ACWI Ex-U.S. Value Equity	2014	1.1 Billion
Global Value Equity	2010	4.8 Billion
Emerging Markets Equity	2012	82 Million
Fixed Income	1983	12.1 Billion

# BHMS INVESTMENT PROFESSIONALS – EQUITY INVESTMENT TEAM

EQUITY MANAGEMENT			EQUITY MANAGEMENT		
	YEARS OF EXPERIENCE	YEARS AT BHMS		YEARS OF EXPERIENCE	YEARS AT BHMS
James Barrow, <i>Founding Director, Portfolio Manager</i>	56	39	Rand Wrighton, <i>CFA, Managing Director, Portfolio Manager / Analyst</i>	18	13
Jane Gilday, <i>CFA, Managing Director, Analyst</i>	50	20	Brian Quinn, <i>CFA, Director, Portfolio Manager / Analyst</i>	17	13
James McClure, <i>CFA, Managing Director, Portfolio Manager / Analyst</i>	46	23	Michael Nayfa, <i>CFA, Director, Portfolio Manager / Analyst</i>	14	10
John Harloe, <i>CFA, Managing Director, Portfolio Manager / Analyst</i>	42	23	TJ Carter, <i>CFA, CPA, Director, Portfolio Manager / Analyst</i>	14	4
Monroe Helm, <i>Director, Analyst</i>	42	12	Josh Ayers, <i>Director, Portfolio Manager / Analyst</i>	14	3
Ray Nixon, <i>Executive Director, Portfolio Manager</i>	41	24	David Feygenson, <i>Director, Analyst</i>	14	<1
Lewis Ropp, <i>Managing Director, Portfolio Manager / Analyst</i>	37	17	Terry Pelzel, <i>CFA, Director, Portfolio Manager / Analyst</i>	13	8
Matt Egenes, <i>CFA, Managing Director, Client Portfolio Manager</i>	31	13	Eric Micek, <i>CFA, Director, Analyst</i>	13	5
Cory Martin, <i>Executive Director, Portfolio Manager</i>	28	19	John Barber, <i>CFA, Director, Analyst</i>	11	3
Mark Giambrone, <i>Managing Director, Portfolio Manager / Analyst</i>	26	19	Chris Hathorn, <i>Analyst</i>	11	3
Kirby Smith, <i>CFA, Director, Client Portfolio Manager</i>	25	13	Preston Brown, <i>CFA, Analyst</i>	10	<1
Bill Underwood, <i>Director, Client Portfolio Manager</i>	22	20	Coleman Hubbard, <i>CFA, Director, Analyst</i>	9	6
David Ganucheau, <i>CFA, Managing Director, Portfolio Manager / Analyst</i>	22	14	Zane Keller, <i>CFA, Director, Analyst</i>	7	3
Brad Kinkelaar, <i>Managing Director, Portfolio Manager / Analyst</i>	22	<1	DJ Taylor, <i>CFA, CAIA, Analyst</i>	5	2
Jeff Fahrenbruch, <i>CFA, Managing Director, Portfolio Manager / Analyst</i>	21	16	<b>RESPONSIBLE INVESTING</b>		
Sherry Zhang, <i>CFA, Director, Portfolio Manager / Analyst</i>	21	5	Ross Campbell, <i>Director, Responsible Investing Portfolio Manager / Analyst</i>	15	<1
James Carpenter, <i>CFA, Director, Client Portfolio Manager</i>	21	3	Brad Mickelson, <i>CFA, ESG Research Coordinator / Analyst</i>	6	6
Pranay Laharia, <i>CFA, Director, Analyst</i>	20	5	<b>PORTFOLIO ANALYTICS</b>		
Luis Rhi, <i>Director, Portfolio Manager/Analyst</i>	20	<1	James McCormack, <i>CFA, CIPM, Director, Quantitative Analyst</i>	11	5
			Dawson Liu, <i>Quantitative Analyst</i>	1	<1

# BHMS GLOBAL SECTOR RESEARCH ASSIGNMENTS

---

## CONSUMER DISCRETIONARY

Preston Brown, CFA  
David Feygenson  
Jane Gilday, CFA  
Chris Hathorn  
Michael Nayfa, CFA  
Brian Quinn, CFA  
Sherry Zhang, CFA

## CONSUMER STAPLES

Preston Brown, CFA  
Jane Gilday, CFA  
Sherry Zhang, CFA

## ENERGY

David Feygenson  
Monroe Helm  
Luis Rhi  
Lewis Ropp  
Rand Wrighton, CFA

## FINANCIALS

Josh Ayers  
John Barber, CFA  
Preston Brown, CFA  
David Ganucheau, CFA  
Zane Keller, CFA  
Eric Micek, CFA  
Brian Quinn, CFA

## HEALTH CARE

Jeff Fahrenbruch, CFA  
Mark Giambrone  
Pranay Laharia, CFA  
Sherry Zhang, CFA

## INDUSTRIALS

TJ Carter, CFA, CPA  
David Feygenson  
Pranay Laharia, CFA  
Terry Pelzel, CFA  
Rand Wrighton, CFA

## INFORMATION TECHNOLOGY

Pranay Laharia, CFA  
Michael Nayfa, CFA

## MATERIALS

Eric Micek, CFA  
Terry Pelzel, CFA

## REAL ESTATE

Eric Micek, CFA  
Brian Quinn, CFA  
Luis Rhi

## TELECOM. SERVICES

Monroe Helm  
Pranay Laharia, CFA  
Michael Nayfa, CFA

## UTILITIES

Zane Keller, CFA  
Luis Rhi

## RESPONSIBLE INVESTING

Ross Campbell  
Brad Mickelson, CFA

## PORTFOLIO ANALYTICS

Dawson Liu  
James McCormack, CFA, CIPM

# BHMS CLIENT PARTNERSHIPS

## CORPORATE

AT&T Services Inc  
ABX Air Inc-7  
Air Products & Chemicals Inc-34  
Alabama Power Company-19  
American Airlines-33  
American Institute of CPAs  
The Boeing Company  
CVS Health Corporation-10  
Caterpillar Inc-13  
CenterPoint Energy Inc-20  
Chattem Inc-35  
ConocoPhillips Company-39  
Consolidated Edison Co of NY Inc  
Cox Enterprises Inc  
Ericsson Inc-13  
Genuine Parts Company-17  
Harris Corporation (Exelis Inc)-35  
Johnson & Johnson-19  
Marathon Petroleum  
Monsanto Company - 7  
Norton Rose Fulbright US LLP-15  
Phillips 66 Company  
Prudential Retirement-16  
Public Service Enterprise Group  
Saint-Gobain Corporation  
Southern Company-20  
Stanley Black & Decker Inc  
Teck Resources-11  
Thomson Reuters-9  
Valero Energy Corporation-34  
Verizon Communications-31  
WEA Insurance Trust

## ENDOWMENT / FOUNDATION

Alabama Power Co-19  
American Indian College-8  
BaylorScott&White Health-26  
Children's Health-28  
Dallas Museum of Art-26  
Diocese of Fort Worth Foundation  
Idaho Endowment Fund Inv't Board-14  
John W Anderson Fdn-15  
Joyce Foundation-34  
Mee Charitable Fdn-10  
Noble Foundation-25  
Oklahoma Tobacco-13  
Pathways Home Health-14  
Purdue University-19  
Saint Francis University-9  
St. Mary's Univ End Fund-8  
St. Mark's School of Texas-22  
Texas Presbyterian Foundation-15  
Unihealth Foundation-15  
University of Alabama-23  
University of South Florida-7  
University of West Florida Fdn-15

## MUTUAL FUNDS

AXA O/S Multi-Manager Funds-14  
American Beacon Funds-33  
Columbia Threadneedle Inv-14  
AssetMark Inc - GuideMark Fund  
Principal Financial Group-13  
Russell Investment Group-9  
Transamerica Asset Management  
Harmony Overseas Equity Pool  
USAA Value Fund-14  
VALIC Broad Cap Value Income Fd-13  
Vanguard Windsor II Fund-33

## HEALTH CARE

BaylorScott&White Health-26  
Cape Fear Valley Health System  
Catholic Health Initiatives-19  
Children's Health-28  
El Camino Hospital-27  
Fidelis Care New York  
Hartford HealthCare-10  
Highmark Health  
Kelsey-Seybold Clinic-14  
McLaren Health Care Corporation  
The Methodist Hospital of Houston-12  
Methodist Le Bonheur Healthcare  
Nash Health Care Systems-10  
Northwell Health  
Parkland Health and Hospital Sys-27  
Pathways Home Hlth and Hospice-14  
Rapid City Regional Hospital-19  
St Luke's Reg Medical Center-14  
Sturdy Memorial Hospital-17  
Texas Hospital Association-14  
Univ of Alabama Health Services-23  
Vizient Inc-26  
WakeMed-18  
Washington Reg Med Center-15

## PUBLIC

Alabama Self-Ins Wkrs Comp Fd-13  
Anchorage Police & Fire Ret System  
Boca Raton Police & Fire-21  
Charlotte Firefighters' Ret System-15  
D/FW Airport Employees Ret Plan-21  
Los Angeles City Employees' Ret. System  
Lower Colorado River Authority-24  
Memphis City Retirement System-36  
Merced County (CA) Ret System  
City of Miami Fire & Police-28  
The Navajo Nation-28  
New York City Retirement Systems-9  
St Paul Teachers Ret Fund Assoc-18  
Schuylkill County Emps Ret Plan  
Employees Retirement System of Texas-7  
Tulsa County Retirement Sys-23

## TAFT-HARTLEY

Airconditioning & Refrigeration Ret-19  
Allied Pilots Association-34  
Bricklayers & Trowel Trades Int'l Pen-13  
Excavators Union Local 731 Pension-7  
Houston Carpenters-28  
Trust for the IBEW Pension Benefit Fd-23  
Ironworkers Mid-American Pension-16  
Jacksonville Plumbers & Pipefitters-12  
Miami Fire Fighters' Relief & Pen #175-10  
Minnesota Laborers Pen & Health-14  
New York Racing Association-13  
Plumbers & Pipefitters Local 9-14  
Plumbers & Pipefitters Local 25-13  
Sound Retirement Trust-29  
Sheet Metal Workers Local #85-17  
Shopmen's Ironworkers Local #502-16  
Southern Calif Lumber Ind Ret Fd-17  
Southern Electrical Retirement Fd-17  
Southeastern Carpenters & Millwrights-14  
Texas Iron Workers Trust Fund-23

Number indicates client for 7 years or more.  
Partial client list - see appendix for disclosure.

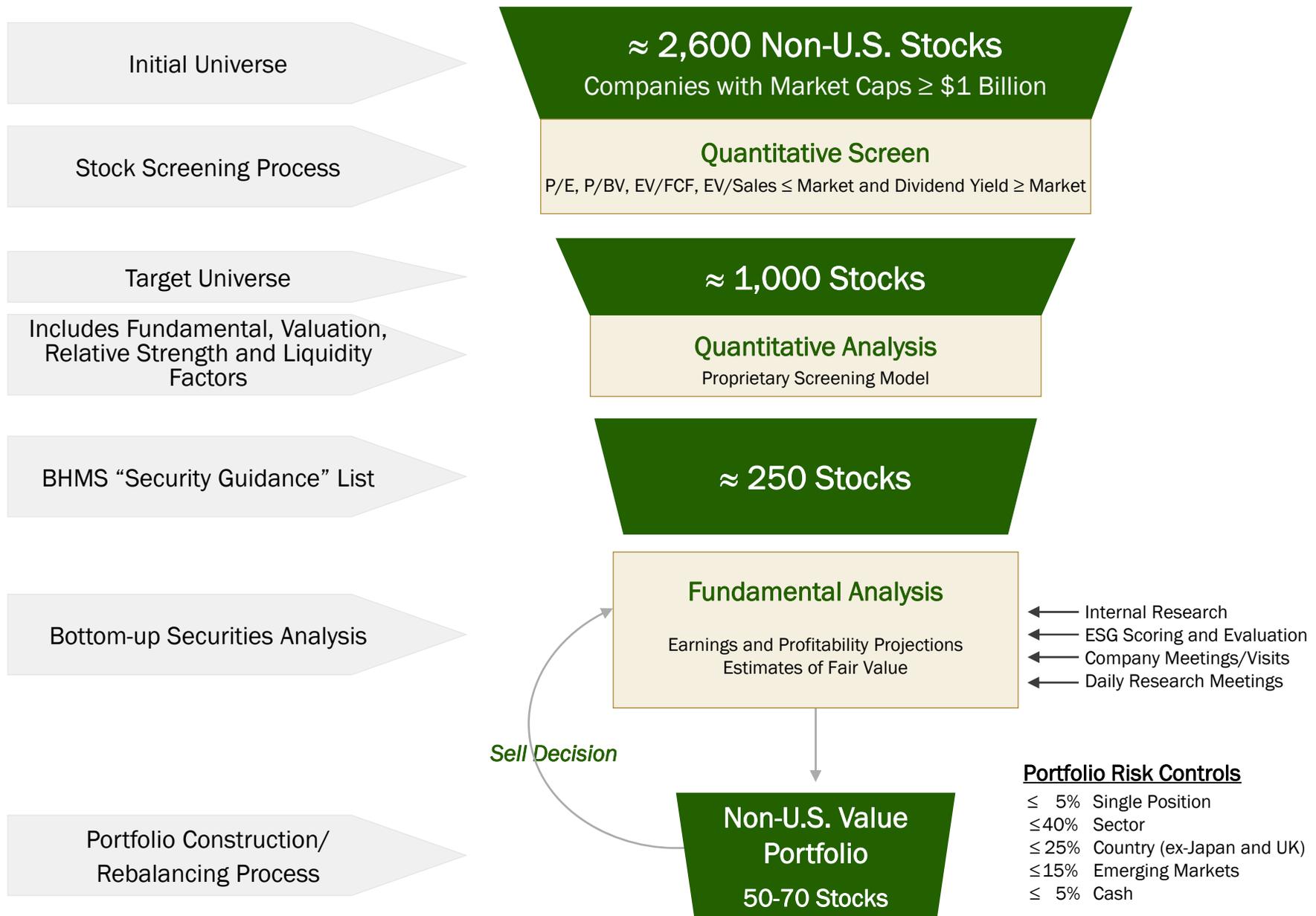
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# INVESTMENT PHILOSOPHY AND PROCESS

### DISTINGUISHING FACTORS OF OUR INVESTMENT PROCESS

- ❑ True Traditional Value Portfolio Concentrated in 50-70 Stocks
- ❑ High Active Share ~90%
- ❑ Focus on Companies with Improving / Stable Operating Fundamentals
- ❑ Fundamental Stock Selection with Risk Controls Creates Consistency
- ❑ \$2.7B AUM in Strategy Allows Exploitation of Broadest Range of Market Inefficiencies
- ❑ Targeting Outperformance of 1% NOF in Excess of MSCI EAFE Value over a Full Market Cycle

# NON-U.S. VALUE PORTFOLIO CONSTRUCTION PROCESS



# NON-U.S. VALUE EQUITY – FOUR ELEMENTS OF RISK CONTROL

---

1

## BHMS INVESTMENT PHILOSOPHY

1. Focus on Good Companies with Depressed Valuations and Strong Balance Sheets
2. Emphasis on: (a) Cash Earnings and Dividends reduces risk of fictitious accounting  
(b) Improving operating fundamentals – avoidance of “Value Trap”

2

## PORTFOLIO CONSTRUCTION AND SELL DISCIPLINE

1. Ensure proper diversification across Securities, Sectors, and Regions
2. Adhere to fundamentally derived price targets
3. Manage the opportunity cost of capital
4. Individual Positions are Conviction-weighted based on Risk/Reward Opportunity
5. Portfolios are Constructed for High Active Share

3

## PORTFOLIO CONSTRAINTS

Position sizes: 5% Single issue max  
Country limits: ≤ 25% (ex-Japan and UK)  
Region limits: Emerging Markets exposure ≤ 10%  
Sector limits: ≤ 40% in Sector  
Cash limits: ≤ 5% Cash

4

## INDEPENDENT PORTFOLIO RISK REVIEW

1. Portfolio Management Team is challenged by our Independent Investment Risk Committee
2. Quarterly review employing our comprehensive, proprietary risk analysis for each portfolio

### THREE PRIMARY REASONS TO SELL

- ❑ Share price reaches the BHMS estimate of “Fair Value.”
- ❑ Evidence confirms that original “Buy” thesis is materially impaired.
- ❑ Upside to “Fair Value” is markedly less than a new, alternative “Buy” candidate.

JUDGMENTS ARE MADE IN CONTEXT OF MARKET VALUATION AND ALTERNATIVE INVESTMENT OPPORTUNITIES

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## CHARACTERISTICS RELATIVE TO BENCHMARK

# PORTFOLIO CHARACTERISTICS

AS OF JULY 31, 2018

## PORTFOLIO CHARACTERISTICS

	LACERS	MSCI EAFE Value	MSCI EAFE
Price/Earnings (NTM)	12.8 x	11.3 x	13.8 x
Price/Book Value	1.6 x	1.2 x	1.7 x
Price/Cash Flow	9.1 x	6.5 x	8.7 x
Div. Yield	3.3 %	4.2 %	3.1 %
Wtd. Avg. Market Cap	\$ 32,234 M	\$ 74,080 M	\$ 63,373 M
No. of securities	52	459	926
Tracking Error (SI)	3.1 %		
Tracking Error Range (SI)	3.0 - 3.3 %		
Portfolio Turnover (SI)	31.4 %		
Cash Range (SI)	0.2 - 4.9 %		

Note: Tracking Error range is a rolling 3-year period calculated monthly

### PORTFOLIO CONSTRUCTION OBJECTIVES

- ❑ Bottom-up Stock Selection
- ❑ Buy Stocks Trading at Discount to Market (MSCI EAFE)
  - Price/Earnings Lower
  - Enterprise Value/Free Cash Flow Lower
  - Price/Book Lower
  - Dividend Yield Higher
- ❑ Low Turnover Approach
- ❑ 50-70 Stock Portfolios

### PORTFOLIO RISK CONTROLS

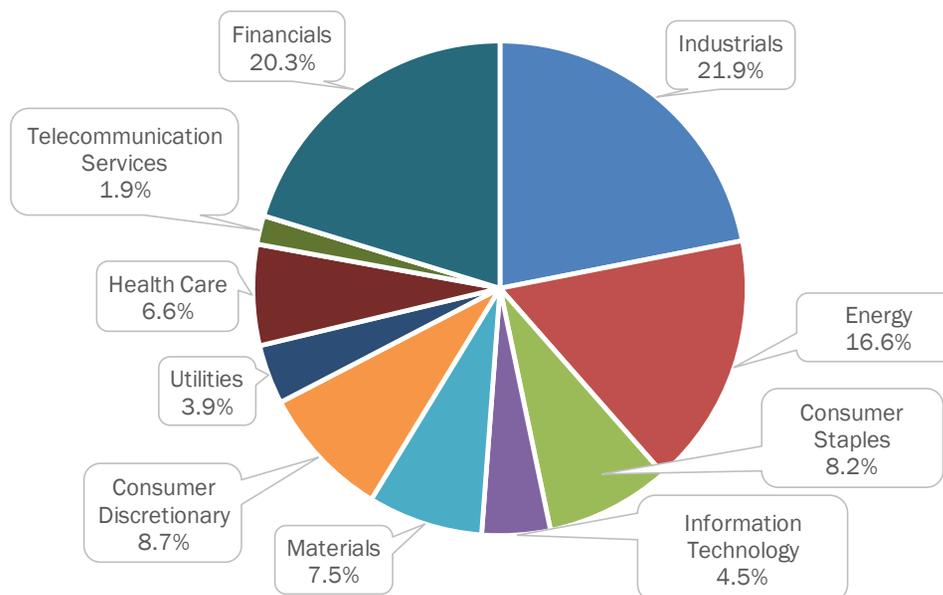
- ❑ Individual Positions are Conviction-weighted Based on Risk/Reward Opportunity
- ❑ Maximum 5% in a Single Position
- ❑ Maximum 25% in One Country (ex-U.S.)
- ❑ Maximum 40% in Single Sector
- ❑ Max. 5% Cash

Source: FactSet.

# DIVERSIFICATION – SECTOR WEIGHTINGS

AS OF JULY 31, 2018

## LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM



### Ending Weights

	<i>Portfolio</i>	<i>MSCI EAFE Value</i>	<i>Difference</i>
Industrials	21.9 %	8.5 %	13.4 %
Energy	16.6 %	10.9 %	5.7 %
Consumer Staples	8.2 %	4.9 %	3.3 %
Information Technology	4.5 %	2.2 %	2.3 %
Materials	7.5 %	6.9 %	0.6 %
Consumer Discretionary	8.7 %	9.5 %	-0.8 %
Utilities	3.9 %	5.3 %	-1.4 %
Health Care	6.6 %	9.2 %	-2.6 %
Telecommunication Services	1.9 %	5.7 %	-3.8 %
Real Estate	0.0 %	5.1 %	-5.1 %
Financials	20.3 %	31.9 %	-11.6 %

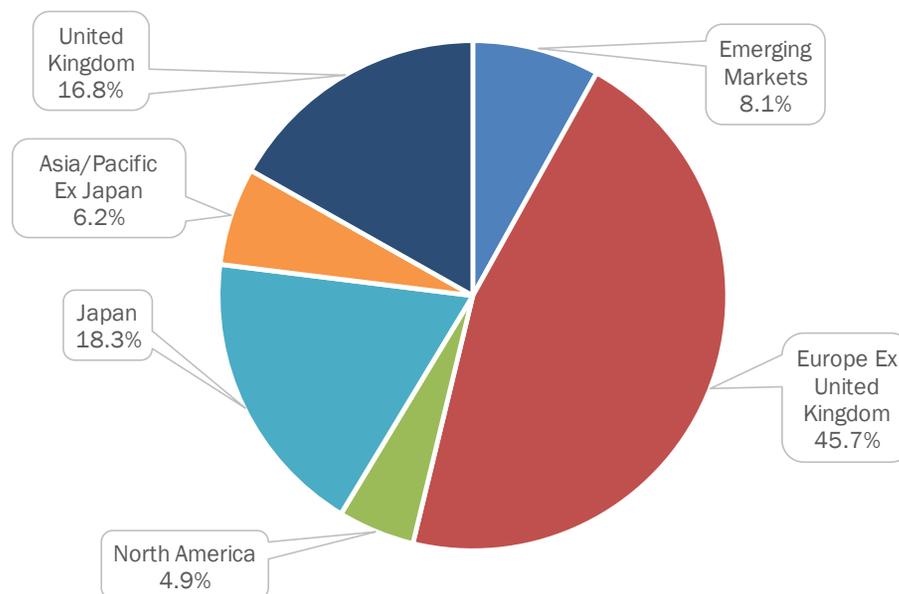
*Excludes cash.*

Source: FactSet.

# DIVERSIFICATION – REGION WEIGHTINGS

AS OF JULY 31, 2018

## LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM



### Ending Weights

	Portfolio	MSCI EAFE Value	Difference
Emerging Markets	8.1 %	0.0 %	8.1 %
Europe Ex United Kingdom	45.7 %	40.1 %	5.5 %
North America	4.9 %	0.0 %	4.9 %
Africa/Mideast	0.0 %	0.6 %	-0.6 %
Japan	18.3 %	23.7 %	-5.4 %
Asia/Pacific Ex Japan	6.2 %	12.1 %	-5.9 %
United Kingdom	16.8 %	23.4 %	-6.6 %

*Excludes cash.*

Source: FactSet.

# DIVERSIFICATION – COUNTRY WEIGHTINGS

AS OF JULY 31, 2018

## COUNTRY DIVERSIFICATION

### Ending Weights

	<i>Portfolio</i>	<i>MSCI EAFE Value</i>	<i>Difference</i>
Germany	13.7 %	7.8 %	5.9 %
United States	4.9 %	0.0 %	4.9 %
Netherlands	6.2 %	1.8 %	4.4 %
Colombia	3.0 %	0.0 %	3.0 %
Italy	5.4 %	3.2 %	2.2 %
Malaysia	1.8 %	0.0 %	1.8 %
Ireland	1.8 %	0.2 %	1.7 %
Austria	1.7 %	0.2 %	1.5 %
Taiwan	1.3 %	0.0 %	1.3 %
Singapore	2.5 %	1.3 %	1.2 %
Brazil	1.0 %	0.0 %	1.0 %
Korea	1.0 %	0.0 %	1.0 %
Iceland	0.9 %	0.0 %	0.9 %
Finland	1.9 %	1.2 %	0.7 %

*Excludes cash.*

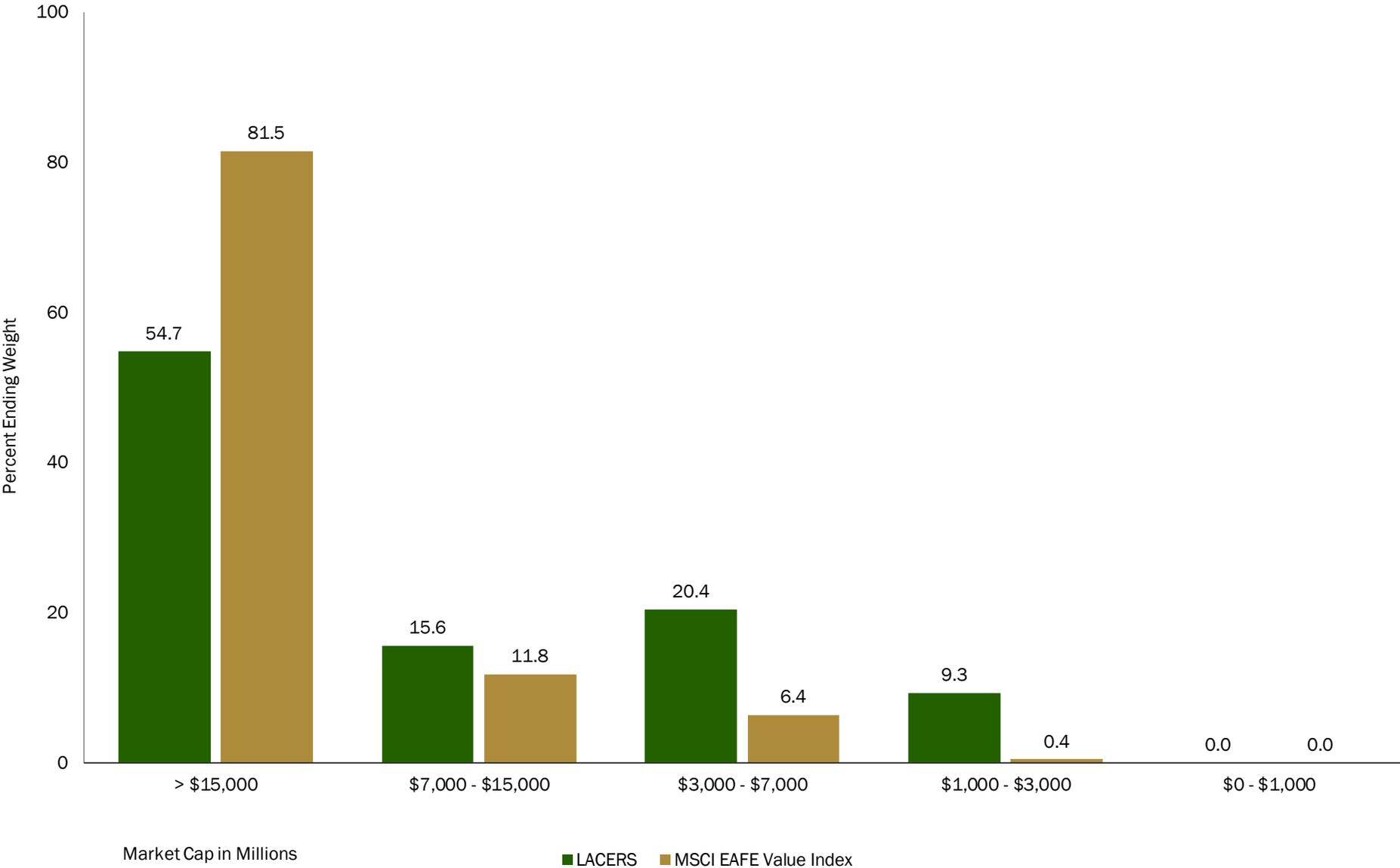
### Ending Weights

	<i>Portfolio</i>	<i>MSCI EAFE Value</i>	<i>Difference</i>
Portugal	0.0 %	0.2 %	-0.2 %
New Zealand	0.0 %	0.2 %	-0.2 %
Denmark	0.0 %	0.5 %	-0.5 %
Israel	0.0 %	0.6 %	-0.6 %
Belgium	0.0 %	0.6 %	-0.6 %
Norway	0.0 %	0.9 %	-0.9 %
France	9.3 %	10.5 %	-1.2 %
Hong Kong	2.2 %	3.7 %	-1.4 %
Sweden	0.0 %	1.9 %	-1.9 %
Spain	1.5 %	4.4 %	-2.8 %
Switzerland	3.2 %	7.0 %	-3.7 %
Japan	18.3 %	23.7 %	-5.4 %
Australia	1.4 %	6.9 %	-5.5 %
United Kingdom	16.8 %	23.4 %	-6.6 %

Source: FactSet.

# MARKET CAP

AS OF JULY 31, 2018



Source: FactSet.

# PORTFOLIO HOLDINGS

AS OF JULY 31, 2018

	%MSCI			%MSCI			%MSCI	
	% Port.	EAFE Value		% Port.	EAFE Value		% Port.	EAFE Value
<b>CONSUMER DISCRETIONARY</b>	<b>8.5</b>	<b>9.5</b>	<b>FINANCIALS</b>	<b>19.8</b>	<b>31.9</b>	<b>INDUSTRIALS</b>	<b>21.4</b>	<b>8.5</b>
SJM Holdings Limited	2.2		United Overseas Bank Ltd.	2.5		Airbus SE	4.2	
HUGO BOSS AG	2.0		Credit Suisse Group AG	2.3		Siemens AG	2.8	
ITV plc	1.8		Bank of Ireland Group Plc	1.8		Sumitomo Corporation	2.3	
Greene King plc	1.5		Seven Bank, Ltd.	1.8		GEA Group Aktiengesellschaft	2.0	
Elior Group SA	0.9		CIMB Group Holdings Bhd	1.8		Seibu Holdings, Inc.	2.0	
			Erste Group Bank AG	1.7		CNH Industrial NV	1.9	
			ORIX Corporation	1.6		Cobham plc	1.9	
<b>CONSUMER STAPLES</b>	<b>8.0</b>	<b>4.9</b>	Resona Holdings, Inc.	1.6		Fuji Electric Co., Ltd.	1.6	
Imperial Brands PLC	2.8		Standard Life Aberdeen PLC	1.5		Travis Perkins plc	1.4	
Japan Tobacco Inc.	2.3		AMP Limited	1.4		Babcock International Group PLC	1.3	
Coca-Cola European Partners Plc	2.1		Samsung Securities Co., Ltd.	0.9				
Aryzta AG	0.8		Arion Banki hf Shs Swedish DR	0.9		<b>MATERIALS</b>	<b>7.4</b>	<b>6.9</b>
						RPC Group Plc	2.2	
<b>ENERGY</b>	<b>16.2</b>	<b>10.9</b>	<b>HEALTH CARE</b>	<b>6.4</b>	<b>9.2</b>	Linde AG	2.1	
Ecopetrol SA Sponsored ADR	2.9		Bayer AG	2.7		Air Liquide SA	2.0	
Oceaneering International, Inc.	2.8		GlaxoSmithKline plc	2.0		Sumitomo Osaka Cement Co., Ltd.	1.1	
Eni S.p.A.	2.2		Royal Philips NV	1.8				
Royal Vopak NV	2.1					<b>REAL ESTATE</b>	<b>0.0</b>	<b>5.1</b>
Schlumberger NV	2.0		<b>INFO. TECHNOLOGY</b>	<b>4.4</b>	<b>2.2</b>			
INPEX CORPORATION	1.5		Hitachi,Ltd.	2.1				
Enagas SA	1.5		MediaTek Inc	1.3		<b>TELECOM. SERVICES</b>	<b>1.8</b>	<b>5.7</b>
Snam S.p.A.	1.1		Cielo	1.0		Deutsche Telekom AG	1.8	
			<b>UTILITIES</b>	<b>3.8</b>	<b>5.3</b>			
			ENGIE SA	1.9		<b>CASH AND EQUIV.</b>	<b>2.3</b>	
			Fortum Oyj	1.9				
<b>TOP TEN HOLDINGS</b>	<b>% Wgt.</b>							
Airbus SE	4.2							
Ecopetrol SA Sponsored ADR	2.9							
Siemens AG	2.8							
Oceaneering International, Inc.	2.8							
Imperial Brands PLC	2.8							
Bayer AG	2.7							
United Overseas Bank Ltd.	2.5							
Credit Suisse Group AG	2.3							
Sumitomo Corporation	2.3							
Japan Tobacco Inc.	2.3							
	27.6							

Source: FactSet.

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## PERFORMANCE AND ATTRIBUTION

# PORTFOLIO STRUCTURE AND PERFORMANCE

AS OF JULY 31, 2018

## PORTFOLIO STRUCTURE

### PORTFOLIO COMPOSITION

		<i>Market</i>	<i>Pct.</i>
		<i>Value</i>	<i>Assets</i>
Cash and Equiv.	\$ 12,602,505		2.3
Equities	538,537,710		97.7
<b>Total</b>	<b>\$ 551,140,215</b>		<b>100.0</b>

### CHANGE IN PORTFOLIO

Portfolio Value on	12/31/2017	\$ 557,810,619
Net Additions/Withdrawals		(1,406,169)
Realized Gains		2,833,699
Unrealized Gains		(19,259,725)
Income Received		11,161,792
<b>Portfolio Value on</b>	<b>7/31/2018</b>	<b>\$ 551,140,215</b>

## PERFORMANCE

### Periods Ending July 31, 2018

	<i>YTD</i>	<i>1 Year</i>	<i>3 Years</i>	<i>Since Inception (11/6/13)</i>
LACERS	-0.95 %	5.07 %	4.46 %	4.21 %
LACERS (NOF)	-1.24 %	4.54 %	3.92 %	3.67 %
MSCI EAFE Value	-1.40 %	4.40 %	4.29 %	3.41 %

*Periods over one year are annualized.*

Source: APX.

# PORTFOLIO ATTRIBUTION

## ONE YEAR ENDING JULY 31, 2018

BHMS Sector	LACERS		MSCI EAFE Value		Attribution Analysis		
	Average Weight	Total Return	Average Weight	Total Return	Allocation Effect	Selection + Interaction	Total Effect
Consumer Discretionary	7.6	29.2	10.3	8.5	-0.3	1.5	1.2
Industrials	19.4	11.8	10.0	6.2	0.0	1.1	1.1
Financials	21.9	-2.5	34.5	-2.6	0.9	0.2	1.0
Energy	10.5	40.5	9.5	32.1	0.1	0.7	0.8
Telecommunication Services	1.7	-3.3	6.0	-6.3	0.5	0.0	0.5
Materials	10.3	12.0	6.2	12.3	0.6	-0.2	0.3
Utilities	4.5	4.6	5.3	5.9	0.1	-0.1	0.1
Real Estate	0.0	0.0	5.0	5.7	-0.1	0.0	-0.1
Information Technology	5.8	-15.4	2.2	-10.9	-0.7	0.0	-0.7
Health Care	10.9	-5.9	7.5	3.9	-0.6	-1.0	-1.6
Consumer Staples	7.3	-18.2	3.5	0.7	-0.2	-1.5	-1.7
<b>Total</b>	<b>100.0</b>	<b>5.3</b>	<b>100.0</b>	<b>4.4</b>	<b>0.3</b>	<b>0.6</b>	<b>0.9</b>

Selection=return differential x portfolio weight. Allocation=weight differential x return differential between benchmark sector return and benchmark total return  
Excludes cash.

Largest Relative Portfolio Contributors		
	Avg. Wt.	Contribution
Ecopetrol SA Sponsored ADR	2.0 %	1.62 %
Airbus SE	3.6 %	1.33 %
* Fiat Chrysler Automobiles N.V.	2.2 %	1.26 %
Oceaneering International, Inc.	1.2 %	0.65 %
* XL Group Ltd	0.6 %	0.64 %

Contribution to relative return is the combination of selection interaction and allocation interaction as defined above.  
Excludes cash.

Largest Relative Portfolio Detractors		
	Avg. Wt.	Contribution
Aryzta AG	0.7 %	-1.11 %
Cielo	1.3 %	-0.90 %
* Teva Pharmaceutical Industries Limited ADR	0.1 %	-0.69 %
* Sanofi	2.1 %	-0.57 %
AMP Limited	0.5 %	-0.56 %

\*Sold

Source: FactSet.

# PORTFOLIO REGIONAL ATTRIBUTION

ONE YEAR ENDING JULY 31, 2018

<i>BHMS Region</i>	LACERS		MSCI EAFE Value		Attribution Analysis		
	Average Weight	Total Return	Average Weight	Total Return	Allocation Effect	Selection + Interaction	Total Effect
Europe Ex United Kingdom	50.4	8.6	43.4	2.3	-0.1	3.1	3.0
North America	3.4	59.8	0.0	0.0	1.2	0.0	1.2
Asia/Pacific Ex Japan	5.6	1.7	11.6	-1.6	0.4	0.1	0.4
Emerging Markets	9.1	2.4	0.2	9.8	0.4	-0.8	-0.3
Japan	15.1	6.6	23.9	7.5	-0.4	-0.2	-0.6
Africa/Mideast	0.1	-44.7	0.5	-16.2	-0.4	-0.3	-0.7
United Kingdom	16.3	-2.1	20.4	10.4	-0.2	-1.9	-2.0
<b>Total</b>	<b>100.0</b>	<b>5.3</b>	<b>100.0</b>	<b>4.4</b>	<b>1.0</b>	<b>-0.0</b>	<b>0.9</b>

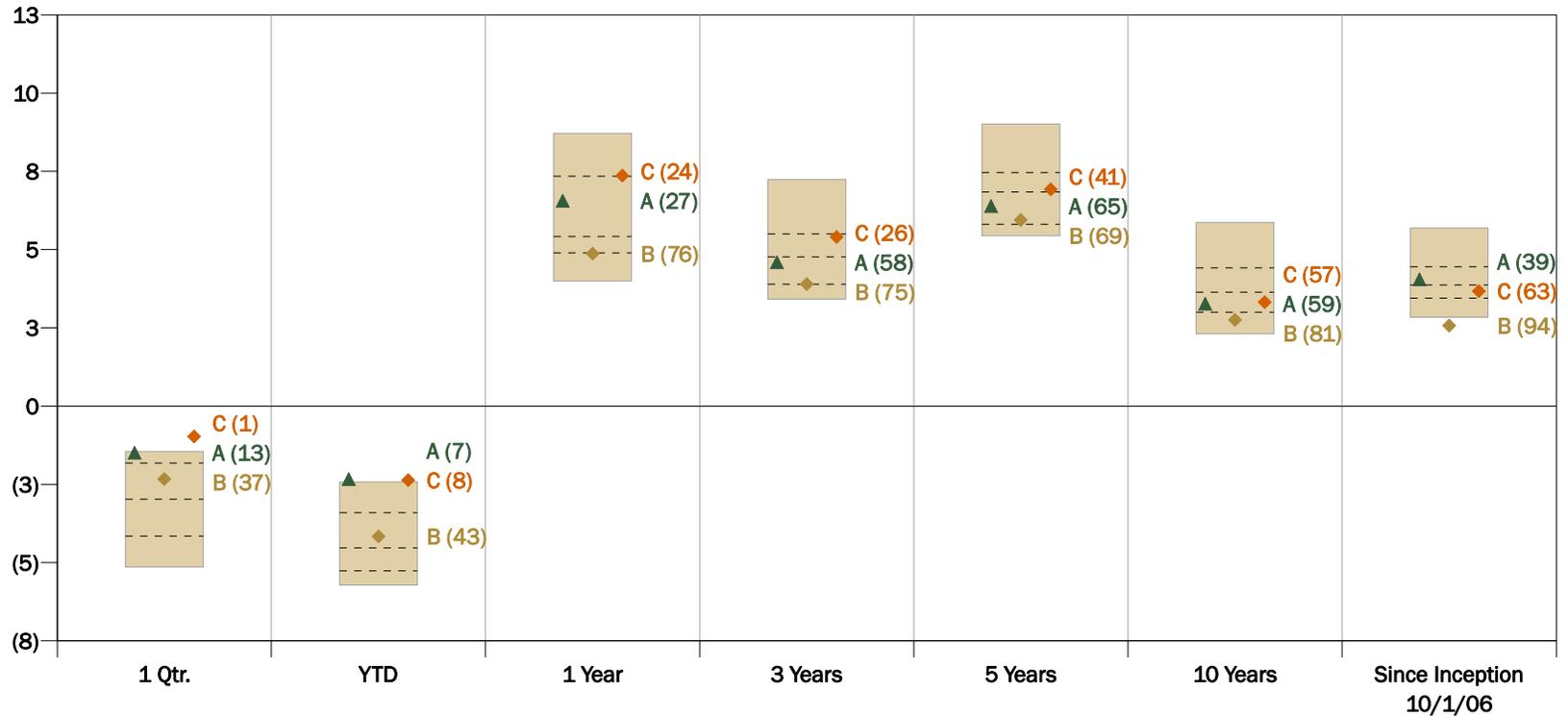
Selection=return differential x portfolio weight. Allocation=weight differential x return differential between benchmark sector return and benchmark total return  
Excludes cash.

Source: FactSet.

# NON-U.S. VALUE PERFORMANCE

ENDING JUNE 30, 2018

BHMS Non-U.S. Value Equity  
 Periods Ending June 30, 2018  
 Group: Callan Non-US Broad Value Equity



	1 Qtr.	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception 10/1/06
25th Percentile	(1.82)	(3.40)	7.35	5.50	7.47	4.42	4.45
Median	(2.98)	(4.53)	5.42	4.77	6.85	3.64	3.87
75th Percentile	(4.15)	(5.26)	4.90	3.89	5.82	3.00	3.45
Non-USV Rank	13	7	27	58	65	59	39
Non-USV ▲ A	(1.48)	(2.33)	6.57	4.60	6.40	3.28	4.06
MSCI EAFE Value ◆ B	(2.33)	(4.16)	4.87	3.90	5.95	2.76	2.58
MSCI EAFE ◆ C	(0.97)	(2.37)	7.37	5.41	6.93	3.33	3.68

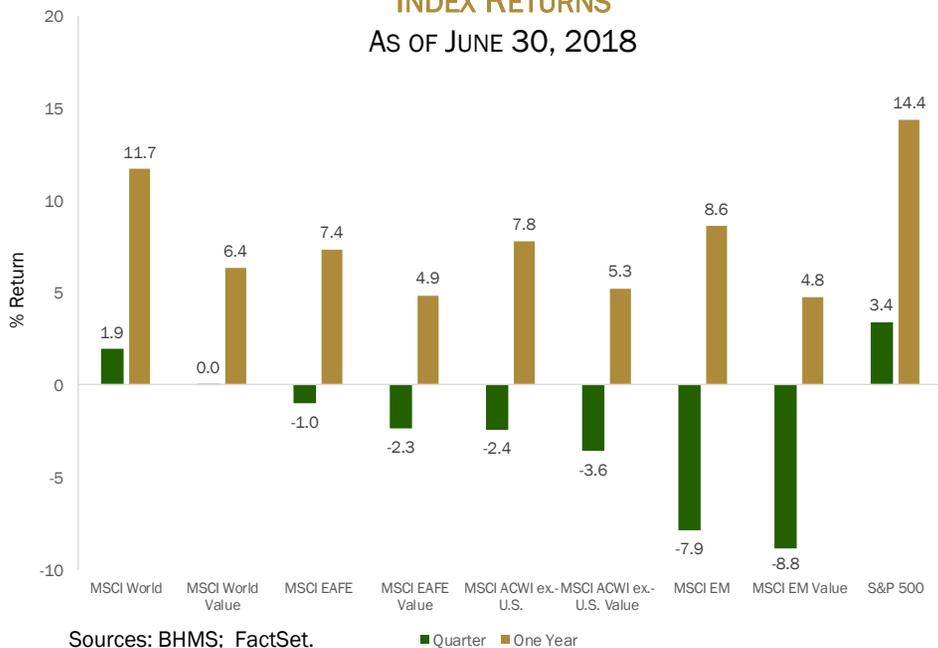
Since inception data begins on October 1, 2006, as performance is based on quarterly returns and the inception date of the BHMS Non-USV composite is August 1, 2006. See appendix for GIPS® compliant disclosure.

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## MARKET OVERVIEW

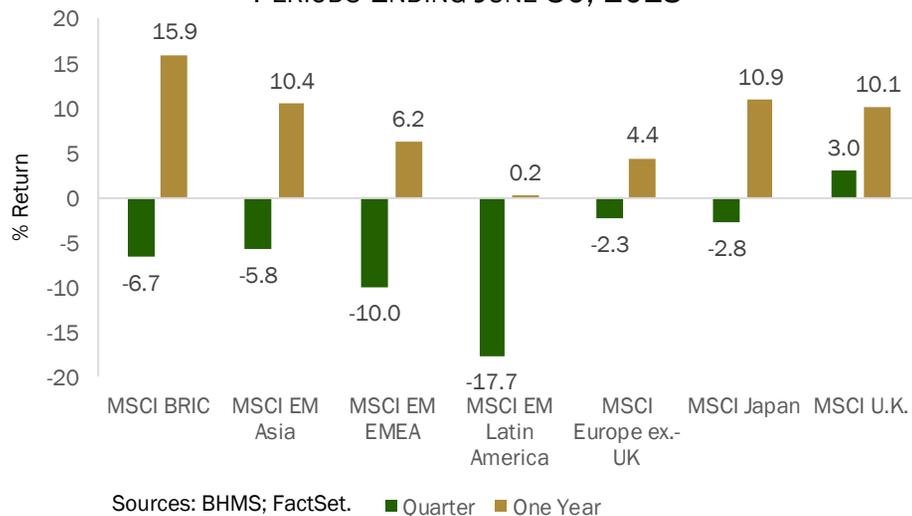
# INDEX, SECTOR, AND REGIONAL RETURNS

**INDEX RETURNS**  
AS OF JUNE 30, 2018

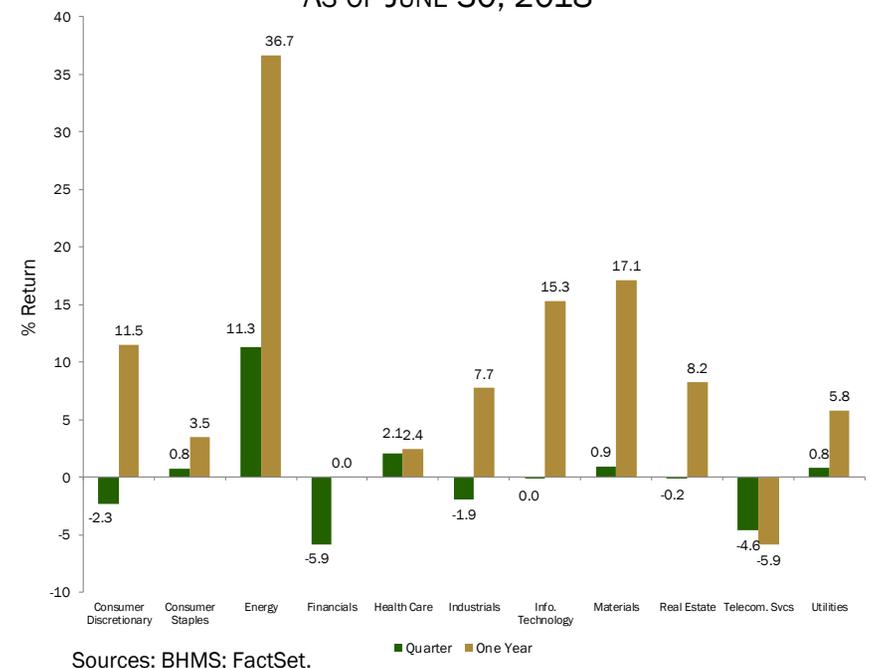


- The U.S. dollar rally caused considerable problems for those emerging markets (EM) with high dependency on external funding such as Argentina, Brazil, and Turkey. Consequently, EM suffered its worst quarter since 2015
- The strengthening U.S. dollar, trade war fears, and political uncertainty in Europe were key contributors to the negative returns experienced in non-U.S. markets.
- Defensive sectors performed well as Consumer Staples, Health Care, and Utilities outpaced their more cyclical peers. However, Energy was the best performing sector on the back of appreciating oil prices. Financial stocks across most markets meaningfully lagged and was one reason value indexes underperformed their growth counterparts.

**MSCI REGIONAL RETURNS**  
PERIODS ENDING JUNE 30, 2018

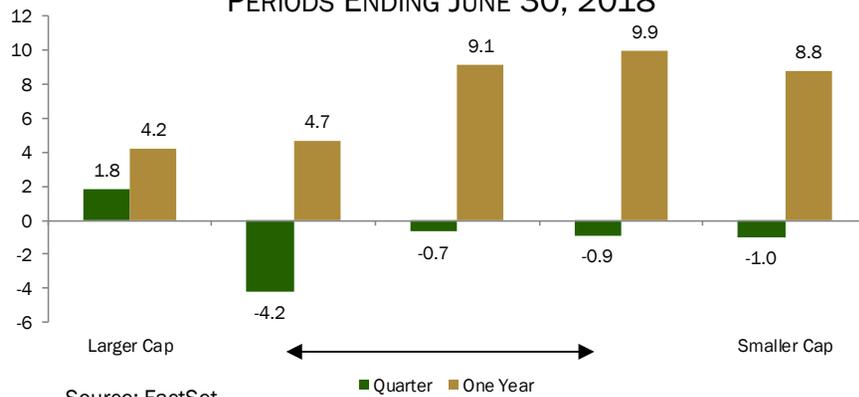


**MSCI EAFE SECTOR RETURNS**  
AS OF JUNE 30, 2018

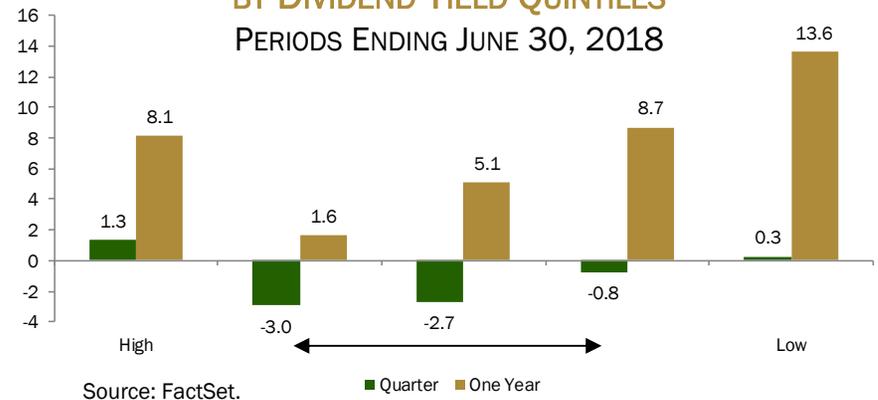


# MARKET CAP, DIVIDEND YIELD, AND VALUATION PERFORMANCE

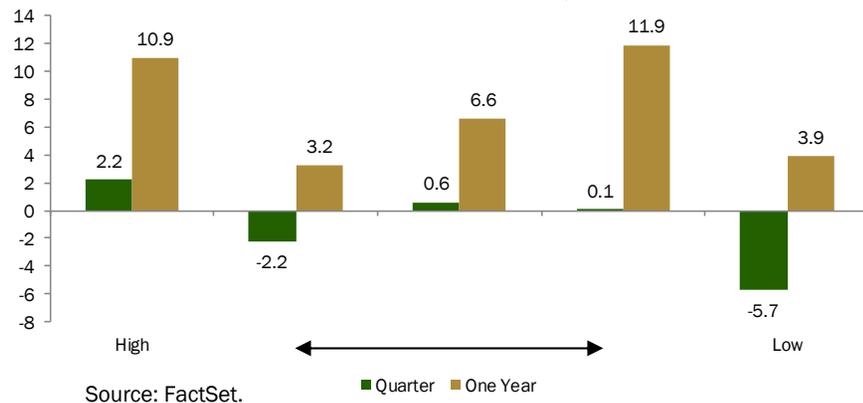
**MSCI EAFE RETURNS  
BY MARKET CAP QUINTILES**  
PERIODS ENDING JUNE 30, 2018



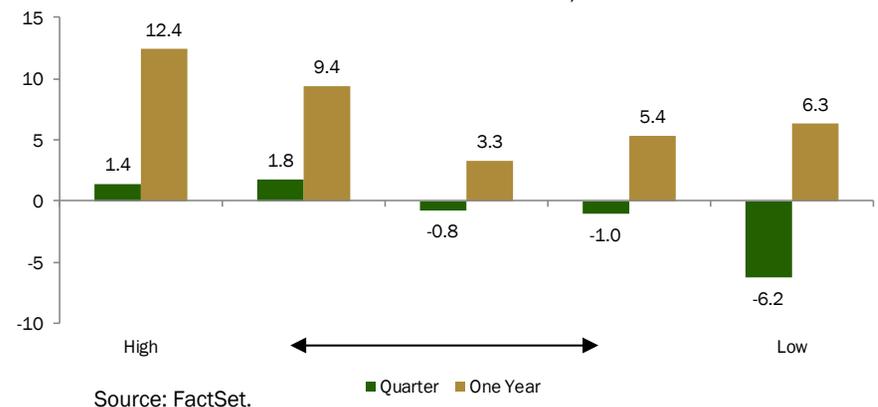
**MSCI EAFE RETURNS  
BY DIVIDEND YIELD QUINTILES**  
PERIODS ENDING JUNE 30, 2018



**MSCI EAFE RETURNS  
BY LTM P/B QUINTILES**  
PERIODS ENDING JUNE 30, 2018

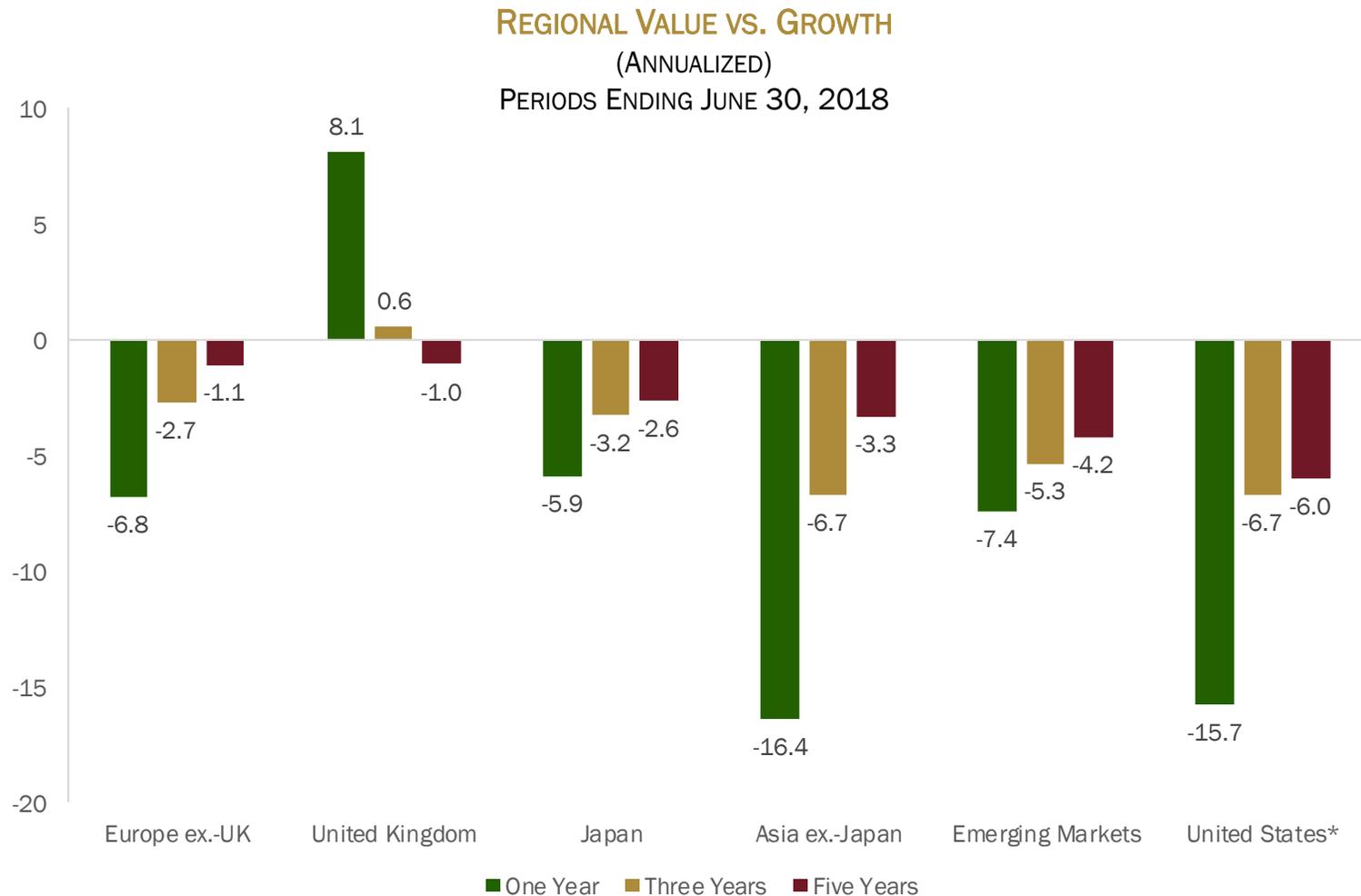


**MSCI EAFE RETURNS  
BY NTM P/E QUINTILES**  
PERIODS ENDING JUNE 30, 2018



- Stocks in the cheapest part of the market as measured by P/B and NTM P/E meaningfully lagged the broader market in the quarter while the most expensive stocks tended to outperform.

## REGIONAL VALUE VS. GROWTH: LONG-TERM



\* As measured by the Russell 1000 Index.

Source: FactSet.

- Value stocks across most regions have meaningfully lagged growth stocks over the longer term with the near term underperformance being very acute. This longer term trend has been driven largely by investor preference for highly valued Information Technology and Consumer Discretionary stocks which comprise a large portion of most growth indexes.

# GROWTH VS. VALUE:

## MAGNITUDE AND DURATION AT HISTORIC LEVELS

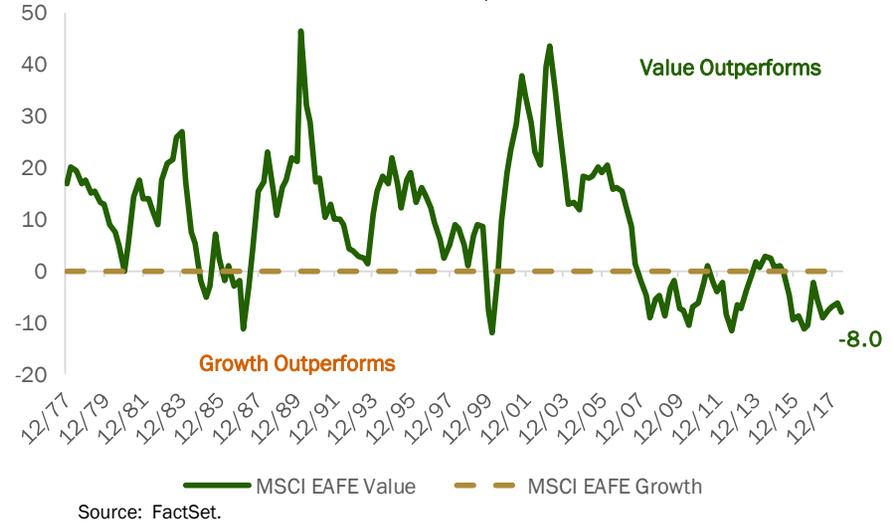
### MSCI EAFE VALUE VS. MSCI EAFE GROWTH ROLLING TEN YEAR CUMULATIVE EXCESS RETURN

AS OF JUNE 30, 2018



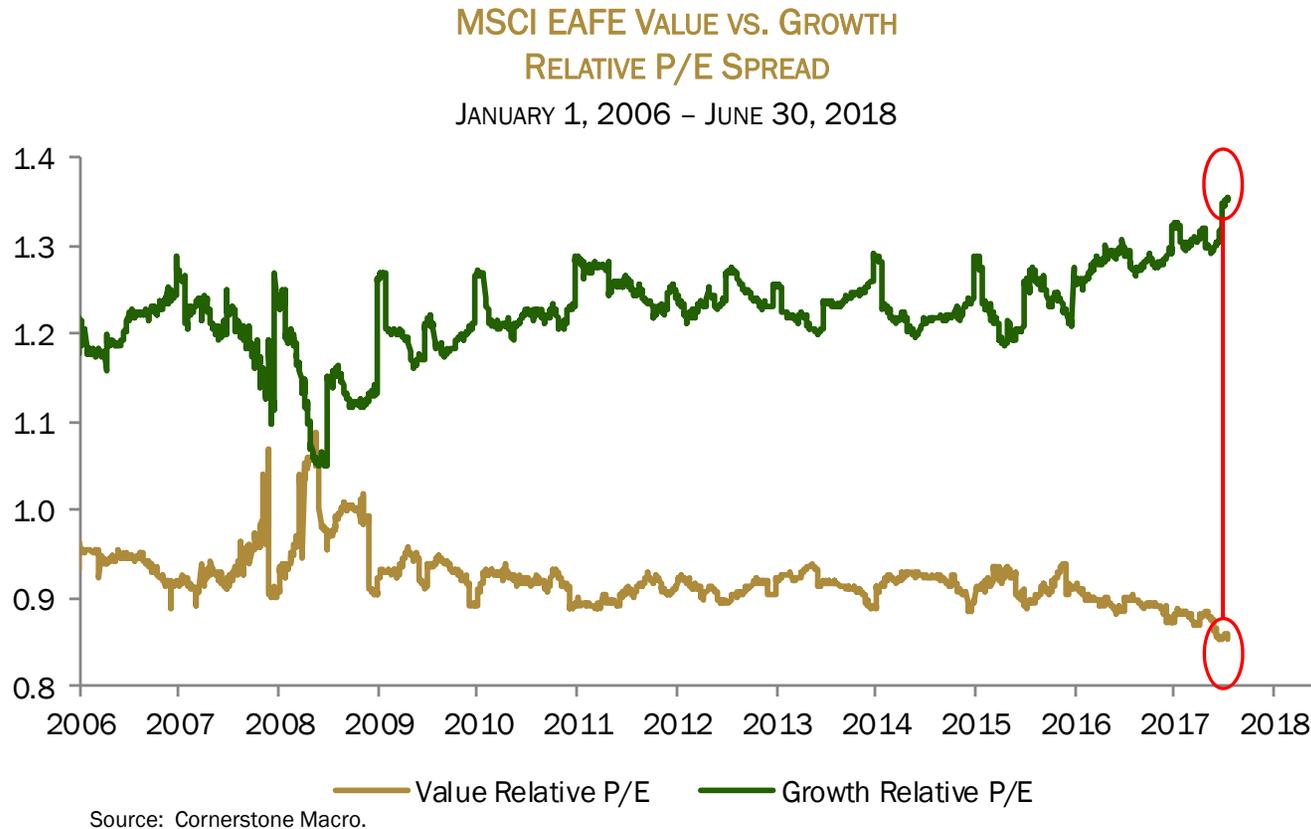
### MSCI EAFE VALUE VS. MSCI EAFE GROWTH ROLLING THREE YEAR CUMULATIVE EXCESS RETURN

AS OF JUNE 30, 2018



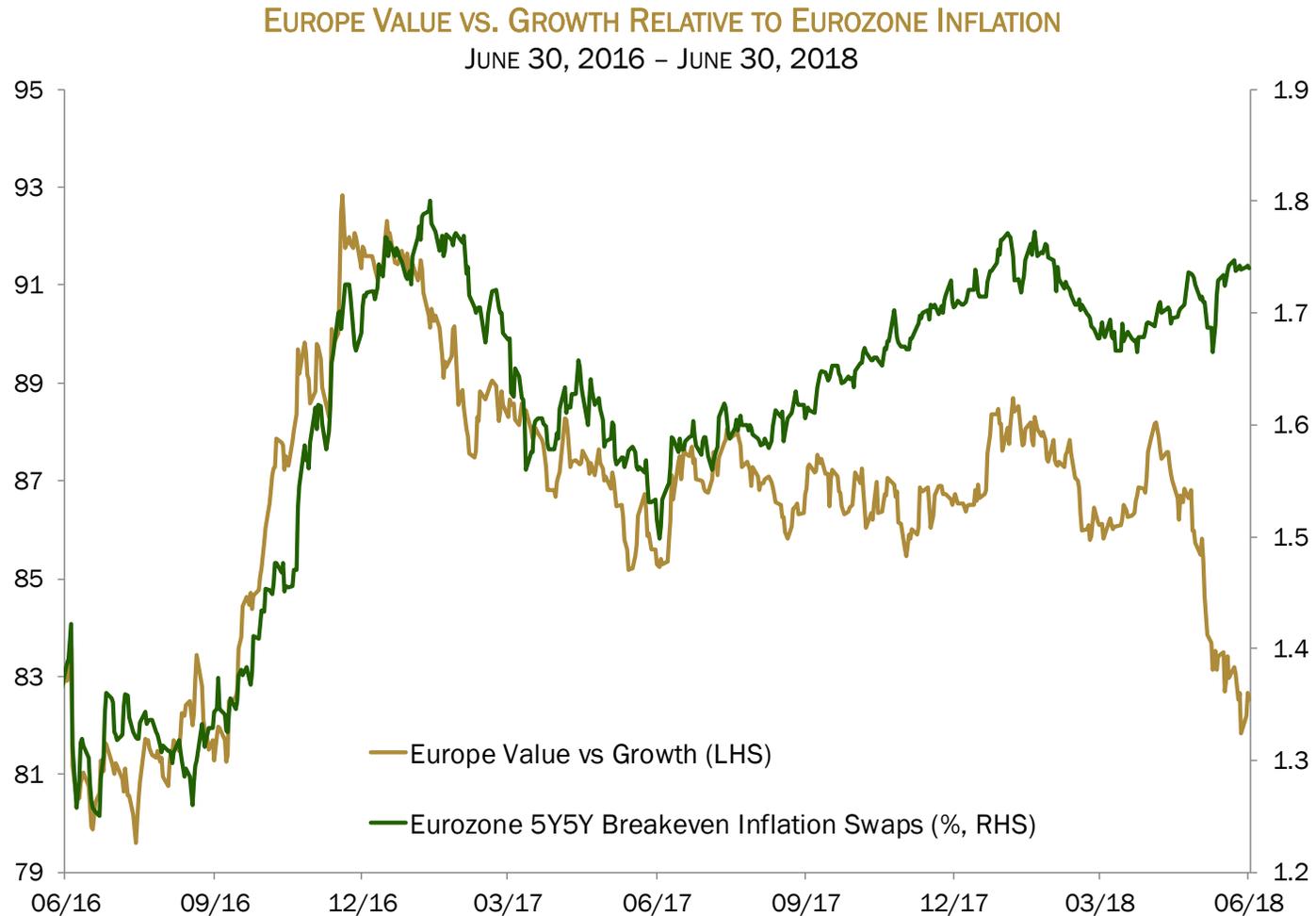
- The magnitude and duration of value stocks underperforming growth stocks remains at historic levels.

## VALUE VS. GROWTH



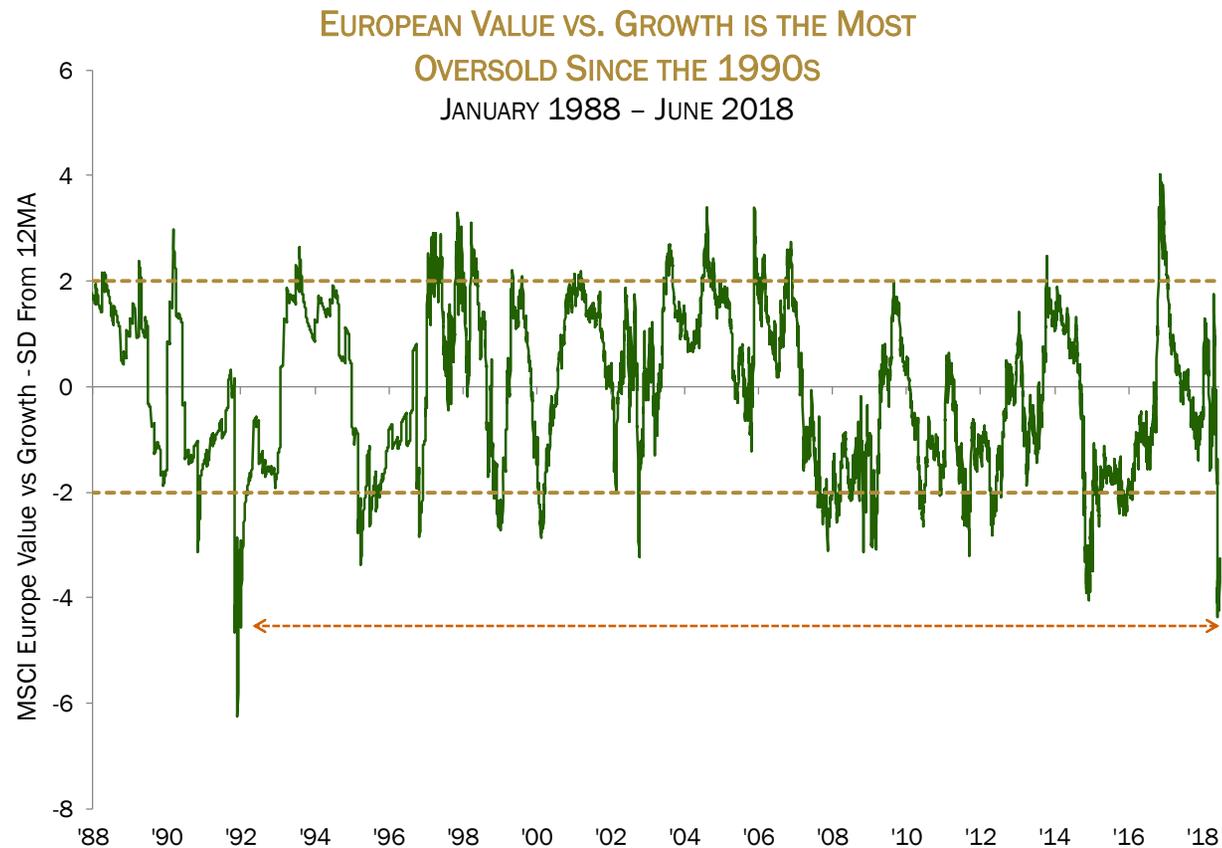
- ❑ The current bull market has produced dominant outperformance of growth stocks over value stocks, creating an historically wide valuation spread between growth and value.
- ❑ Rather than moderating as the market moves into this historic outperformance of growth, the past several years have seen a dramatic widening of the valuation spread.
- ❑ We have experienced cycles similar to this in our 39-year history, and mean reversion toward value stocks is a matter not of *if*, but *when*.

# EUROPEAN VALUE VS. GROWTH AND INFLATION



Source: Morgan Stanley.

- ❑ European value stocks continue to underperform despite higher inflation expectations.
- ❑ If inflation expectations remain at this level or start to move higher, value stocks are likely to perform well.



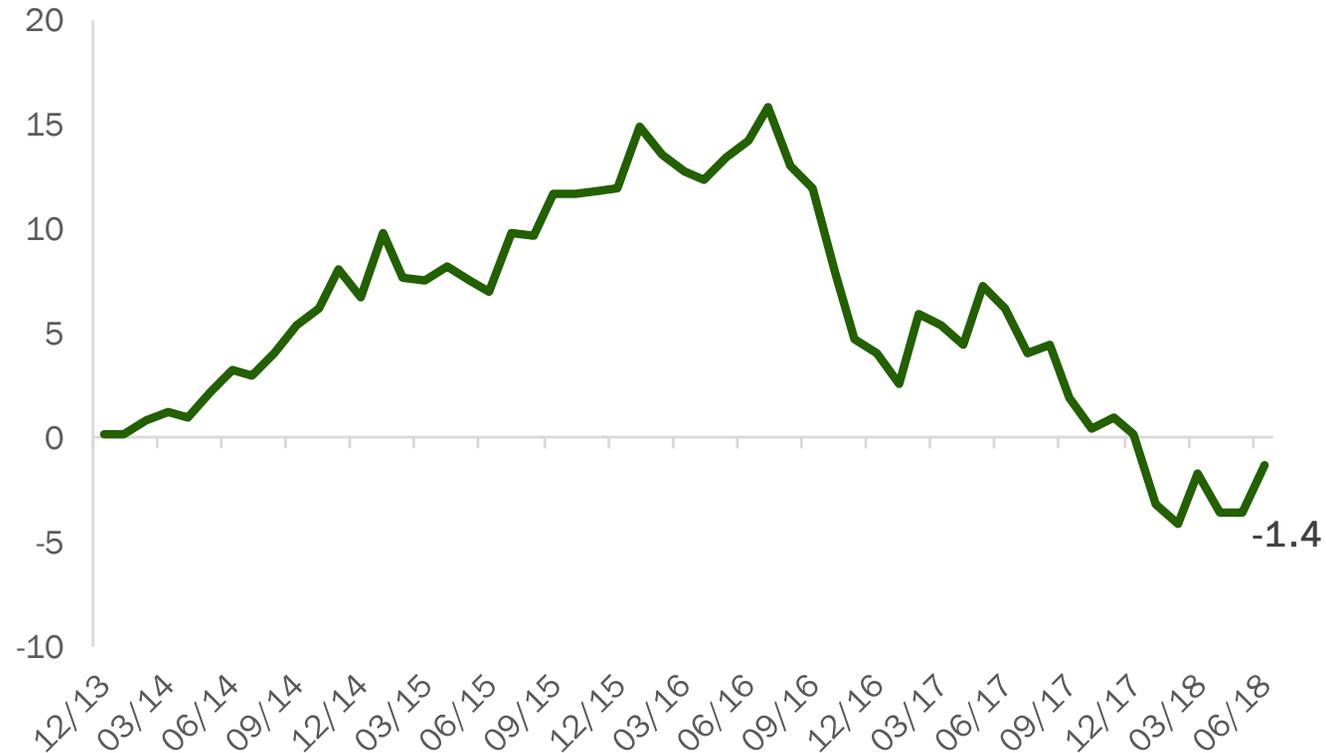
Source: Morgan Stanley.

- ❑ Increasing European market fears have once again challenged value performance, particularly within continental Europe, wherein value stocks have lagged their growth peers by nearly 700bps over the last year.
- ❑ The recent sharp sell-off in value stocks has now pushed value stocks' performance relative to growth stocks to more than four standard deviations below its 12-month average.
- ❑ This is the most oversold level on this measure since the early 1990s, and the gap between European value and growth stocks on a NTM P/E basis is now at nearly a 10-year high.

# EUROPEAN DEFENSIVES VS. MSCI EUROPE

## CUMULATIVE RETURNS OF EUROPEAN DEFENSIVE SECTORS\* vs. MSCI EUROPE

DECEMBER 31, 2013 – JUNE 30, 2018



\*European Defensives: MSCI Europe Consumer Staples, Telecoms, Health Care, Utilities.

Source: FactSet.

- After a strong run up to Brexit, European defensive stocks have fallen precipitously into 2018.

# ECONOMIC DATA IS TRENDING POSITIVE

**U.S. CONSUMER CONFIDENCE**  
MARCH 31, 2009 – JUNE 30, 2018



Source: FactSet.

**EUROZONE CONSUMER CONFIDENCE**  
MARCH 31, 2009 – JUNE 30, 2018



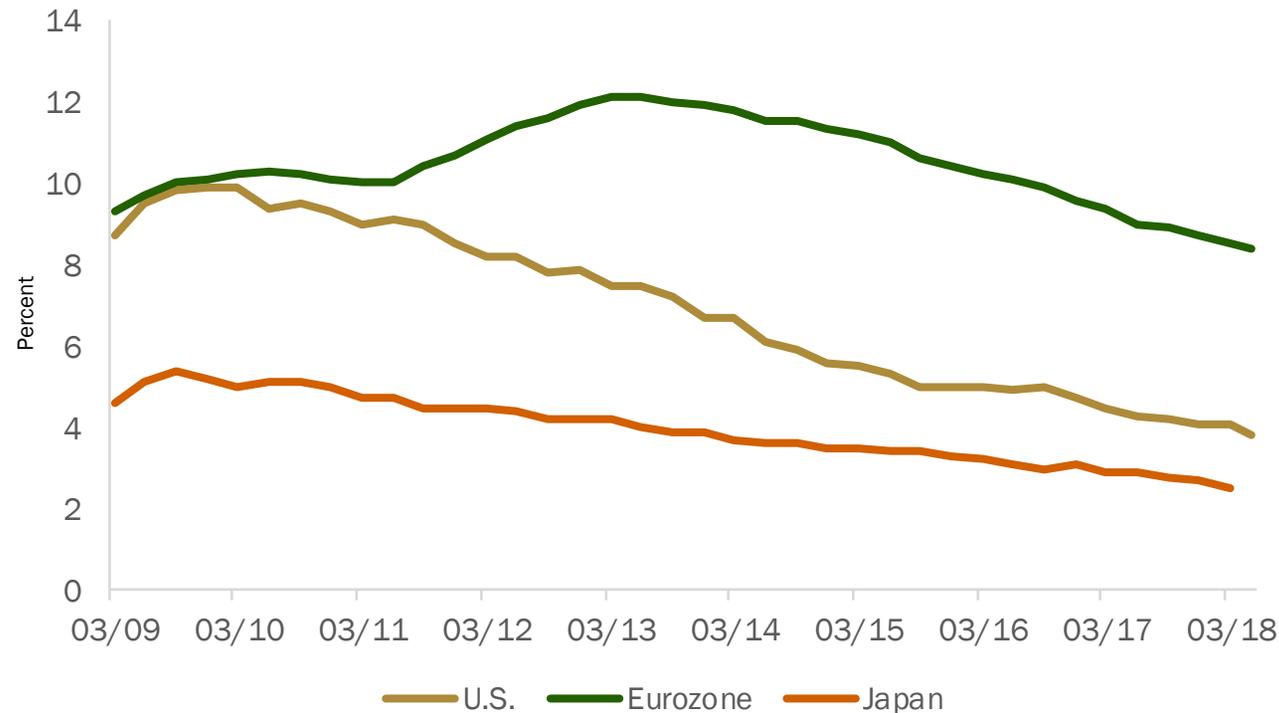
Source: Strategas Research Partners.

- U.S. and Eurozone consumer confidence remains at multi-year highs.

## ECONOMIC DATA IS TRENDING POSITIVE (CONT.)

### U.S., JAPAN, AND EUROZONE UNEMPLOYMENT

MARCH 31, 2009 – MAY 31, 2018\*

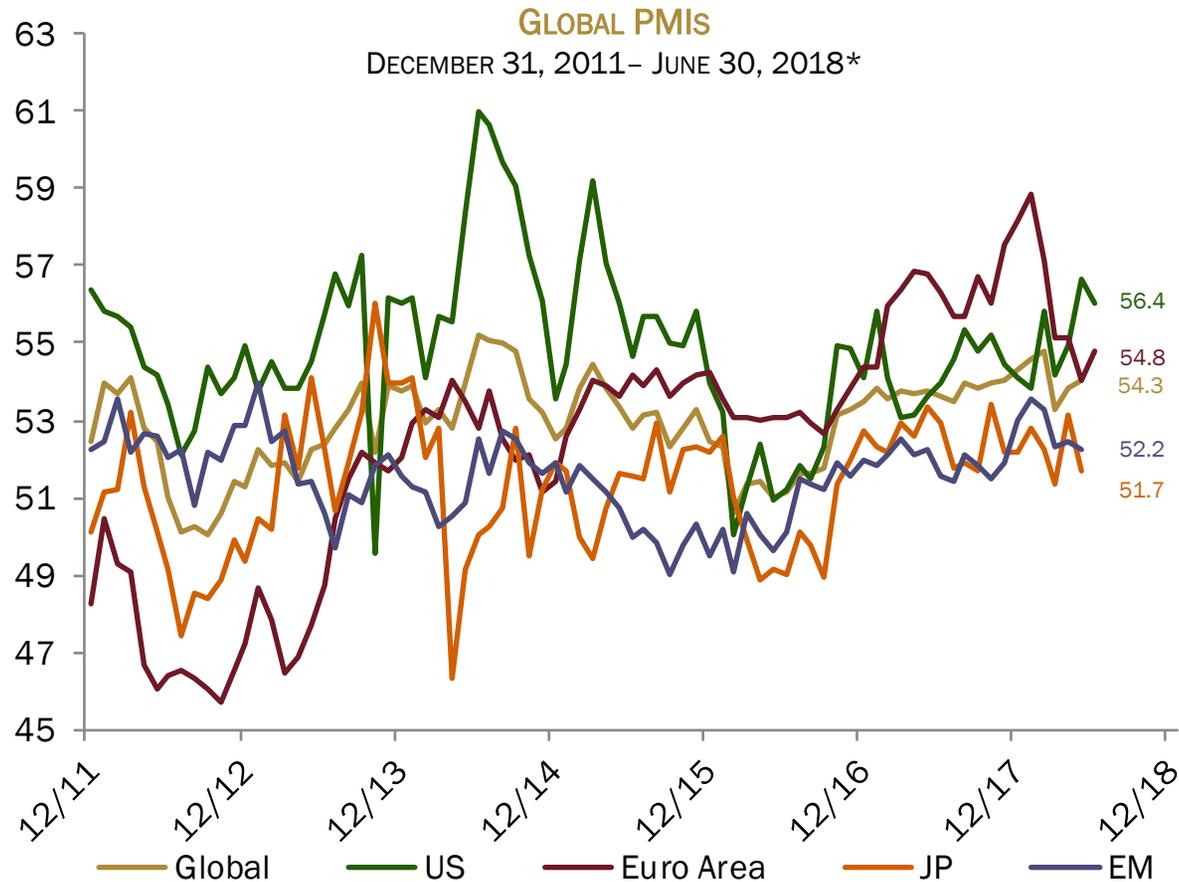


\* Japan unemployment through March 31, 2018.

Source: Strategas ResearchPartners.

- Employment across the globe has continued to rebound strongly post global financial crisis. Eurozone unemployment is now at post-crisis lows, as noted in the chart above. The U.S. and Japan are also at historic lows.
- The improvement in employment across the globe will begin to put pressure on wage growth, which has trended well below historical averages. Accordingly, the flagging global inflation is at risk of heading higher.

# PMIs ACROSS MAJOR REGIONS



\* Global, Japan, and EM PMIs through May 31, 2018.

Source: Strategas Research Partners.

- Global PMIs remain firmly in expansion territory (greater than 50), indicating that synchronized global growth remains strong. Although PMIs have rolled over, if they stabilize at these levels, global growth can continue to increase at above recent historical trends benefitting value stocks. Increasing wages, strong consumer confidence, and low unemployment (as shown on prior slides) should support economic expansion.

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# APPENDIX

### VALUE EQUITY



***JOSH D. AYERS – Director, Portfolio Manager / Equity Analyst***

Mr. Ayers joined BHMS in 2015 from Paradarch Advisors, LLC, where he published the firm’s financial newsletter. Prior to founding Paradarch, he was a partner at Corriente Advisors, LLC, where he was a co-portfolio manager for Corriente’s European Divergence Fund, LP. Mr. Ayers began his 14-year investment career at JP Morgan Chase. He received a BA from Southern Methodist University and an MBA from the University of Virginia’s Darden School of Business.



***JOHN W. BARBER, CFA – Director, Equity Analyst***

Mr. Barber joined BHMS in 2015 from Keefe, Bruyette & Woods, where he served as a vice president, working in the principal strategies group as a financial analyst. Prior to this role, he served as a bank analyst in the firm’s equity research area. Mr. Barber received a BA in Economics from Trinity College in Hartford. He is a member of the CFA Institute.



***JAMES P. BARROW – Founding Director, Portfolio Manager***

During Mr. Barrow’s 56-year investment career, he has worked as a securities analyst and portfolio manager for several major institutions including Citizens & Southern Bank of South Carolina, Atlantic Richfield, and Reliance Insurance. In 1973 he joined Republic National Bank of Dallas as a portfolio manager. He later was placed in charge of the Employee Benefit Portfolio Group and was a member of the Trust Investment Committee until the founding of this firm in 1979. Mr. Barrow graduated from the University of South Carolina.

***PRESTON B. BROWN, CFA – Equity Analyst***

Mr. Brown joined BHMS in 2018 from DePrince, Race & Zollo, Inc., where he served as a portfolio manager for the firm’s International Small Cap Value strategy. Prior to this role, Mr. Brown served as a senior research analyst, focused on idea generation for the firm’s non-U.S. strategies. He has 10 years of investment experience. Mr. Brown received a BSBA with a concentration in Finance from the University of Central Florida and is a member of the CFA Institute.



***ROSS M. CAMPBELL, Director, Responsible Investing Portfolio Manager / Equity Analyst***

Mr. Campbell joined BHMS in 2017 from SRI Research Group, where he was president of the consulting firm, focused on assisting companies with their corporate disclosures and corporate sustainability reports. Before founding the SRI Research Group, Mr. Campbell managed the sustainability and investor relations efforts for AECOM and Denbury Resources Inc. His 15-year investment career includes serving as a senior analyst for Wells Capital Management and as an investment management senior consultant for FactSet Research Systems. Mr. Campbell earned a BA from Franklin and Marshall College and an MBA from the Cox School of Business at Southern Methodist University.



***JAMES M. CARPENTER, CFA – Director, Client Portfolio Manager***

Mr. Carpenter joined BHMS in 2015 from Russell Investments, where he served as a portfolio manager for several multi-manager funds across the firm’s international and global equity strategies. Previous to this role, Mr. Carpenter was head of the firm’s global equity manager research team and was also responsible for researching and ranking the value strategies of investment management firms. Prior to his nearly 18-year tenure at Russell Investments, Mr. Carpenter served as an auditor at Ernst & Young LLP. He graduated from Brigham Young University with both a Bachelor’s and Master’s degree in Accounting. He is a member of the CFA Institute and the CFA Society of Seattle.



***TJ CARTER, CPA, CFA – Director, Portfolio Manager / Equity Analyst***

Mr. Carter joined BHMS in 2014 from Kingstown Capital Management, where he served as an analyst. His prior experience includes analyst positions at Outpoint Capital Management and Highland Capital Management. Mr. Carter began his 14-year career at Deloitte & Touche, LLP. He received a BSBA from the University of Arkansas and an MBA from Columbia Business School.

### VALUE EQUITY (Continued)



**MATTHEW P. EGENES, CFA – Managing Director, Client Portfolio Manager**

Mr. Egenes joined BHMS as a client portfolio manager in 2005. He joined our firm from American Century Investments, where he served as vice president and institutional client advisor. Prior to his eight years at American Century, Mr. Egenes was executive vice president and portfolio manager for the firm that is now U.S. Bancorp, where he began his 31-year career in the investment management industry. Mr. Egenes graduated from Iowa State University with a BBA in Finance. He is a member of the CFA Institute and the CFA Society of Dallas-Fort Worth.



**JEFF G. FAHRENBRUCH, CFA – Managing Director, Portfolio Manager / Equity Analyst**

Mr. Fahrenbruch joined BHMS in 2002. Prior to joining BHMS, he was an equity analyst at Westwood Holdings Group. Mr. Fahrenbruch, with 21 years of experience in the investment industry, serves on the Board of Directors and the Strategic Advisory Board of the CFA Society of Dallas-Fort Worth. He earned a BBA in Finance with Highest Honors from the University of Texas, where he also served as an analyst on the MBA Investment Fund, LLC and competed on the University of Texas golf team. In 1997, Mr. Fahrenbruch received the Ben Hogan Award and now serves on the selection committee for the award.



**DAVID I. FEYGENSON - Director, Equity Analyst**

Mr. Feygenson joined BHMS in 2017 from VanEck Global, where he was a senior analyst, covering emerging market equities. Prior to joining VanEck, Mr. Feygenson served as a portfolio manager/senior analyst at Mirae Asset Global Investments, one of South Korea's largest asset managers. His 14-year career also includes a research position on the emerging markets team at Wellington Management Company. Mr. Feygenson earned a BS in Economics, magna cum laude, from the Wharton School of the University of Pennsylvania and an MSc in Finance and Economics from the London School of Economics.



**DAVID W. GANUCHEAU, CFA – Managing Director, Portfolio Manager / Equity Analyst**

Mr. Ganuchau joined BHMS in 2004 from Clover Partners, LP, where he served on the management team for several funds, including a financial sector fund. Prior to his tenure at Clover Partners, Mr. Ganuchau served as securities analyst at GSB Investment Management, where he began his 22-year career in the investment management industry. Mr. Ganuchau graduated from Southern Methodist University with a BBA in Accounting and is a member of the CFA Society of Dallas-Fort Worth.



**MARK GIAMBRONE – Managing Director, Portfolio Manager / Equity Analyst**

Mr. Giambrone joined BHMS in 1999. Prior to joining BHMS, Mr. Giambrone served as a portfolio consultant at HOLT Value Associates. During his 26-year career, he has also served as a senior auditor/tax specialist for KPMG Peat Marwick and Ernst & Young Kenneth Leventhal. Mr. Giambrone graduated summa cum laude from Indiana University with a BS in Business and received an MBA from the University of Chicago.



**JANE GILDAY, CFA – Managing Director, Equity Analyst**

Ms. Gilday joined BHMS in 1998. During her 50-year investment career, she has worked as a securities analyst at Argus Research, Spencer Trask & Co., First Boston Corp., M.J. Gilday Associates Inc., McKinley Aillsopp, Gruntal & Co., Hancock Institutional Equity Services, and Advest Inc. Ms. Gilday graduated from Smith College, where she earned her BS in Economics, cum laude.



**JOHN P. HARLOE, CFA – Managing Director, Portfolio Manager / Equity Analyst**

Mr. Harloe joined BHMS in 1995 from Sterling Capital Management, where he served as a vice president and equity portfolio manager/analyst for 9 years. During the remainder of his 42-year investment career, Mr. Harloe worked with James McClure at American National Insurance Company, American Capital Management and Research, and Oppenheimer & Co., Inc. Mr. Harloe graduated from the University of South Carolina with a BA and an MBA.

### VALUE EQUITY (Continued)



**CHRISTOPHER S. HATHORN – Equity Analyst**

Mr. Hathorn joined BHMS in 2016 from Lionstone Capital Management, where he served as an analyst, focusing on long-only, value-oriented equity investments. Prior to his work at Lionstone, he was an analyst at The Sterling Group, LP. Mr. Hathorn began his investment career as an analyst at Stephens Inc. in its investment banking group. He received a BA in Economics and Business Administration from Rhodes College in Memphis and earned an MBA from Columbia Business School, where he completed the Value Investing Program.



**H. MONROE HELM, III – Director, Equity Analyst**

Mr. Helm joined BHMS as an equity analyst in 1997 and 2010. He founded Cimarrone Capital Management, LLC and was a co-manager of Monomoy Natural Resources Fund, both affiliated with CM Energy Partners, Inc. Mr. Helm was also a founding member of RoundRock Capital Management, LLC. During his 42-year investment career, he has worked as a securities analyst at Republic National Bank of Dallas, Wells Fargo Investment Advisors, Morgan Stanley & Co., and Dillon, Read & Co. Mr. Helm has also worked for finance groups at Tenneco, Inc. and Lear Petroleum Corporation. He graduated from the University of Texas, where he earned both his BA and MBA.



**W. COLEMAN HUBBARD, JR., CFA – Director, Equity Analyst**

Mr. Hubbard joined BHMS in 2012 as an equity analyst, focusing on small cap stocks. Prior to joining BHMS, he served as a financial analyst at Edgeview Partners. Mr. Hubbard began his investment career as an analyst at Bank of America Merrill Lynch. He graduated from Davidson College, where he earned a BA in Economics. Mr. Hubbard is a member of the CFA Society of Dallas-Fort Worth.



**ZANE C. KELLER, CFA – Director, Equity Analyst**

Mr. Keller joined BHMS in 2015. His prior experience includes serving as a research associate at Brandes Investment Partners in San Diego, where he specialized in analyzing financial institutions in both developed and emerging markets. Mr. Keller earned a BA in Economics and a BBA in Finance from the University of Texas. He received an MBA from the University of California at Berkeley.



**BRAD KINKELAAR – Managing Director, Portfolio Manager / Equity Analyst**

Mr. Kinkelaar joined BHMS in 2017. He previously served as an equity portfolio manager and head of dividend strategies at Pacific Investment Management Company (PIMCO). During his 22-year investment career, Mr. Kinkelaar served as a managing director and equity portfolio manager at Thornburg Investment Management and as an equity analyst at State Farm Insurance Companies. Mr. Kinkelaar earned a BS in Management and Marketing from Eastern Illinois University, where he graduated cum laude. He received an MBA in Finance from the Kellogg School of Management at Northwestern University.



**PRANAY G. LAHARIA, CFA – Director, Equity Analyst**

Mr. Laharia joined BHMS in 2013. Prior to joining the firm, he served as an analyst for State Street Global Advisors in Ireland, where he led a team that focused on the research of companies in the technology and telecom sectors. His 20-year career in the technology sector includes positions at Deutsche Bank Securities, Cambridge Technology Partners, and UOP, a Honeywell Company. Mr. Laharia graduated from the Indian Institute of Technology with a BTech in Chemical Engineering. He earned an MS in Chemical Engineering from The Ohio State University and an MBA, with High Honors, from University of Chicago.



**DAWSON LIU – Quantitative Analyst**

Mr. Liu joined BHMS in 2018 as a quantitative analyst. His responsibilities at the firm include quantitative/market research and risk analysis, covering both fundamental and quantitative aspects. Prior to joining BHMS, his experience included a position at PanAgora Asset Management, Inc. Mr. Liu holds an MS in Mathematical Finance from Boston University and a BS in Finance from Shanghai Jiao Tong University.

### VALUE EQUITY (Continued)



**CORY L. MARTIN – Executive Director, Portfolio Manager**

Mr. Martin joined BHMS in 1999. During his 19-year tenure at BHMS, he has been instrumental in the creation, development, and implementation of our non-U.S. value equity strategies. He has also overseen the construction and management of the model portfolio that is used to manage a portion of assets in the firm's Large Cap Value strategy. Prior to joining BHMS, Mr. Martin served as a vice president at Templeton Investment Counsel, Inc. in Fort Lauderdale, Florida. His 28-year career in the investment management industry includes serving as an institutional investment consultant at LCG Associates, Inc. Mr. Martin is a member of the CFA Institute and the CFA Society of Dallas-Fort Worth. He graduated from Baylor University.



**JAMES S. McCLURE, CFA – Managing Director, Portfolio Manager / Equity Analyst**

Mr. McClure joined BHMS in 1995 from Goldman Sachs Asset Management, where he had been a vice president and senior portfolio manager, managing the Capital Growth Fund, as well as separate accounts. During his 46-year investment career, he has served as the Chief Investment Officer, and then President and Chief Operating Officer at National Securities and Research Corporation. He also served as the Chief Investment Officer and executive vice president at Oppenheimer & Co., Inc. He managed mutual funds at American Capital Management and Research and was initially a securities analyst at American National Insurance Company. Mr. McClure graduated from the University of Texas where he earned both his BA and MBA.



**JAMES R. McCORMACK, CFA, CIPM – Director, Quantitative Analyst**

Mr. McCormack joined BHMS in 2014. His responsibilities include portfolio/market research, risk analysis, and model construction, using both traditional and quantitative approaches. Mr. McCormack also works closely with our equity client service team, developing proprietary reports and models to enhance our processes. He serves on the BHMS Investment Risk Committee and the BHMS Responsible Investing Committee. Prior to joining the firm, Mr. McCormack worked as a senior portfolio analytics specialist for FactSet Research Systems. He is a member of the CFA Institute and the CFA Society of Dallas-Fort Worth. Mr. McCormack graduated from Fordham University with a BA in Economics.



**ERIC M. MICEK, CFA – Director, Equity Analyst**

Mr. Micek joined BHMS in 2013 from Wells Fargo Securities, where he served in the Energy and Power group in the investment banking division. His 13 years of experience includes positions at Standard and Poor's and the Royal Bank of Canada. Mr. Micek earned his BS degrees in Electrical Engineering and Mathematics from Southern Methodist University and his MBA from Columbia Business School, where he completed the Applied Value Investing program.



**BRAD A. MICKELSON, CFA – ESG Research Coordinator / Equity Analyst**

Mr. Mickelson joined BHMS in 2012, focusing his efforts on market research and portfolio analysis. In 2015, Mr. Mickelson was appointed ESG Research Coordinator. His prior experience includes work in the wealth management business for UBS Financial Services. In addition, he served for six years as an enlisted engineer in the U.S. Navy, where he was awarded the Navy and Marine Corps Achievement Medal. Mr. Mickelson earned a BBA in Economics and an MBA in Finance from the University of North Texas and is currently a Level III CFA candidate.



**MICHAEL B. NAYFA, CFA – Director, Portfolio Manager / Equity Analyst**

Mr. Nayfa joined BHMS in 2008. His 14 years of experience includes work as an analyst at HBK and institutional equity sales at Natexis Bleichroeder. Mr. Nayfa began his career in institutional sales at Sidoti & Company, LLC. He holds an MBA from the University of Texas, as well as a BBA in Finance from Texas Christian University, and is a member of the CFA Society of Dallas-Fort Worth.



**RAY NIXON, JR. – Executive Director, Portfolio Manager**

Mr. Nixon joined BHMS in 1994 from Smith Barney, Inc., where he was a member of the firm's Investment Policy Committee and served as their lead institutional stockbroker for the Southwest. During his 41-year investment career, he also served as a research analyst for the Teacher Retirement System of Texas. Mr. Nixon is a member of the Board of the Salvation Army and is Chairman of the Texas Health Resources Endowment Investment Committee. He is also a member of the Board of UTIMCO, fiduciary for the University of Texas endowment. Mr. Nixon holds a BA and an MBA from the University of Texas.

### VALUE EQUITY (Continued)



***TERRY L. PELZEL, CFA – Director, Portfolio Manager / Equity Analyst***

Mr. Pelzel joined BHMS in 2010. During his 13-year investment career, he served as a senior portfolio analyst at Highland Capital Management, LP and as a financial analyst at Houlihan, Lokey, Howard & Zukin, Inc. Mr. Pelzel graduated from Texas A&M University, where he earned his BBA in Finance, magna cum laude.



***BRIAN F. QUINN, CFA – Director, Portfolio Manager / Equity Analyst***

Mr. Quinn joined BHMS in 2005. During his 17-year investment career, he served as an equity analyst for Clover Partners, LP and as a credit analyst for Frost Bank. Mr. Quinn received an MBA from Texas Christian University, where he served as a portfolio manager and equity research analyst for the William C. Conner Foundation Educational Investment Fund and was named a Neeley Scholar. He earned a BS, with a concentration in Finance from Fordham University, where he was a Varsity Football Letterman and three-time member of the Patriot League Academic Honor Roll. Mr. Quinn is a member of the CFA Society of Dallas-Fort Worth.



***LUIS P. RHI – Director, Portfolio Manager / Equity Analyst***

Mr. Rhi joined BHMS in 2017 from BNY Mellon, where he was a portfolio manager on their large cap equity, dividend equity, and MLP strategies. Mr. Rhi began his 20-year investment career at BNY Mellon, and during his tenure there, he also served as a senior equity analyst and sector portfolio manager, covering Energy, Utilities, and REIT's. Mr. Rhi earned a BBA in Finance from the McCombs School of Business at the University of Texas, where he served as an analyst on the MBA Investment Fund, LLC. Currently, Mr. Rhi serves on the executive board for New York for McCombs (NYFM) and is an advisory board member for the McCombs Real Estate Investment Fund.



***R. LEWIS ROPP – Managing Director, Portfolio Manager / Equity Analyst***

Mr. Ropp joined BHMS in 2001 from Frost Securities, where he was a senior equity analyst and served as managing director of the Energy Group. He served in management positions at Shell Oil Company and as a securities analyst in the energy sector at Howard, Weil, Labouisse, Friedrichs, Inc. prior to joining Frost Securities. Mr. Ropp received a Wall Street Journal "Best On The Street" listing in 2001 for his coverage of the secondary oil sector. Mr. Ropp graduated from the University of Louisiana at Lafayette with a BS in Mechanical Engineering. He received an MBA, as well as an MS in Civil and Environmental Engineering from Tulane University.



***KIRBY H. SMITH, CFA – Director, Client Portfolio Manager***

Mr. Smith joined BHMS in 2005 as a client portfolio manager. During his 25-year career, Mr. Smith served as a managing director of institutional equity sales for Bear Stearns. Prior to joining Bear Stearns, he worked at Donaldson, Lufkin & Jenrette and Lehman Brothers. Prior to his investment banking tenure, Mr. Smith held positions in public accounting and corporate finance. He graduated from Rhodes College with a BA and received an MBA in Finance and Accounting from Emory University. Mr. Smith is a member of the American Institute of Certified Public Accountants, and the CFA Society of Dallas-Fort Worth.

### VALUE EQUITY (Continued)



***DJ TAYLOR, CAIA, CFA – Equity Analyst***

Mr. Taylor joined BHMS in 2016 as an equity analyst, focusing on small cap stocks. Prior to joining BHMS, he served as a senior analyst at Value Management Group. Mr. Taylor earned a BA in Mathematics and Economics from Williams College, where he was an NCAA All-American and school record-holder for the Ephs swimming and diving team. He is a member of the CAIA Association.



***WILLIAM B. UNDERWOOD – Director, Client Portfolio Manager***

Mr. Underwood joined BHMS in 1998. Prior to servicing the firm's client relationships, his work at the firm included market and index research and portfolio analysis. Mr. Underwood began his 22-year career as a financial analyst at First City Financial Corporation. He graduated from Baylor University with a BBA and received an MBA from the Cox School of Business at Southern Methodist University.



***RANDOLPH S. WRIGHTON, JR., CFA – Managing Director, Portfolio Manager / Equity Analyst***

Mr. Wrighton joined BHMS in 2005 as an equity analyst. During his 18-year investment career, he worked as an intern analyst for the University of Texas Investment Management Company in Austin and Perry Capital in New York while attending graduate school at the McCombs School of Business at the University of Texas. Prior experience includes work as an associate in institutional equity sales for Deutsche Bank Securities in Atlanta. Mr. Wrighton served in the U.S. Marine Corps for four years, where he attained the rank of Captain. He is a member of the CFA Society of Dallas-Fort Worth. Mr. Wrighton holds an MBA from the University of Texas and a BA in Economics from Vanderbilt University.



***SHERRY ZHANG, CFA – Director, Portfolio Manager / Equity Analyst***

Ms. Zhang joined BHMS in 2013 from Matthews Asia, where she was responsible for the analysis and recommendation of Asian stocks across numerous economic sectors. Ms. Zhang's 21-year investment career includes analyst roles at Q Investments, ARC Communication, and Exxon Mobil Corporation. Her tenure at Q Investments included a two-year residency in China, where she gained valuable firsthand experience overseeing operating companies located in emerging market economies. Ms. Zhang received her BBA in Finance, cum laude, as well as her MBA, from Baylor University.

### CLIENT DEVELOPMENT



**ROBERT D. BARKLEY – Managing Director**

Mr. Barkley joined BHMS in 1996. Prior to joining the firm, Mr. Barkley was a vice president and regional sales manager for Goldman Sachs Asset Management. During his 38-year investment career, he has worked as a senior capital advisor with SEI Corporation, and as a vice president in charge of institutional marketing at L.J. Melody & Co. He began his career at Goldman, Sachs & Co. as a member of the firm's private client services group. Mr. Barkley graduated from Baylor University with a BBA and from the Baylor School of Law with a JD.



**BILL BRAXTON – Director**

Mr. Braxton joined BHMS in 2018 from Crestline Investors, where he served as a managing director in the client service and partnership group. Prior to Crestline, he was a member of Merrill Lynch's institutional and HNW distribution and asset management groups. Mr. Braxton has 18 years of investment experience, focused on sales, marketing, investment due diligence, finance, and entrepreneurship. He earned a BBA in Finance from the University of Mary Hardin-Baylor, where he competed on the basketball team and was an Academic All-American. Mr. Braxton holds an MBA from the Wharton School of the University of Pennsylvania with a dual concentration in Finance and Entrepreneurship.



**LIN FITZENHAGEN, CFA – Managing Director**

Mr. Fitzenhagen joined our firm as a director in 2010. Prior to joining BHMS, he worked for Callan Associates, where before acting as a general consultant, he was a specialty consultant in Callan's Global Manager Research Group responsible for covering international and global equity strategies. During his 17-year investment career, Mr. Fitzenhagen also served at the San Diego City Employees' Retirement System as an investment analyst. He graduated from Washington and Lee University with a BA and received an MBA from the University of Texas at Dallas. Mr. Fitzenhagen is a member of the CFA Society of Dallas-Fort Worth, the Financial Analysts Society of San Diego and the CFA Institute.



**ANDREW T. GREENAWALT – Portfolio Specialist**

Mr. Greenawalt joined BHMS in 2016 from American Beacon Advisors, where he served as a wholesaler. Prior to his work at American Beacon, Mr. Greenawalt was a wholesaler at Fidelity Investments and Nuveen Investments. He began his career as a client service specialist at Ameriprise Financial. Mr. Greenawalt earned a BA in Interdisciplinary Studies from the University of Illinois, where he competed on the wrestling team and was selected as an All-American Wrestler and ranked in the Top Eight in the U.S. Mr. Greenawalt also holds an MBA from North Central College in Illinois and an MS from Northwestern University.



**T. CLAYTON JOHNSTON – Director**

Mr. Johnston joined BHMS in 2017 from Waddell & Reed Asset Management Group, where he served as vice president of institutional marketing. Prior to his 14-year tenure at Waddell & Reed, he was affiliated with the timberland investment group at Wachovia Bank in a similar capacity for eight years. Mr. Johnston, with 26 years of investment experience, graduated cum laude from Washington & Lee University with a BS and earned an MBA from the University of Texas.



**AMADI R. NZE – Portfolio Specialist**

Mr. Nze joined BHMS in 2017 from Milliman, Inc., where he served as a business development officer in their financial risk management practice. Prior to his work at Milliman, Mr. Nze was a regional investment specialist with Morgan Stanley Wealth Management. His 11-year investment career includes positions in wealth management at Morgan Stanley Smith Barney and Allianz Global Investors/PIMCO Advisors. Mr. Nze earned a BBA in International Business from The George Washington University.

### COMPLIANCE



***PATRICIA B. ANDREWS, IACCP – Managing Director, Chief Compliance & Risk Officer***

Ms. Andrews joined our firm in 2000. She began serving as BHMS' Compliance Officer in 2001 and was appointed Chief Compliance Officer (CCO) in 2004. In 2010, Ms. Andrews was also appointed Chief Risk Officer. She is responsible for overseeing the firm's compliance program and firm-wide risk assessment program. Her 32-year career in the investment industry includes serving at Citigroup and Morgan Stanley. Ms. Andrews graduated from Western Governors University with a BS in Business Management. She holds the Investment Adviser Certified Compliance Professional (IACCP) certification, as well as the Risk Management Specialist certification, and has also earned the CFA Institute Investment Foundations™ Certificate.

### TRADING



***DHRUV V. KHADE, CFA – Trader***

Mr. Khade joined BHMS in 2014 as an equity trader. In his position on the equity trading desk, he acts as a generalist, trading all sectors and strategies. Mr. Khade graduated from Cornell University, where he earned a BS in Policy Analysis and Management. He is a member of the CFA Institute and the CFA Society of Dallas-Fort Worth.



***JASON W. SKINNER – Director, Head Trader***

Mr. Skinner joined our firm in 1993 and currently serves as head equity trader. Mr. Skinner started his 25-year investment career with Fidelity Investments. He graduated from the University of Texas at Arlington with a BBA in Finance.



***AARON J. SKIPWITH – Director, Trader***

Mr. Skipwith joined BHMS in 2003. Mr. Skipwith currently serves as an equity trader. His 18-year investment career includes working for Lamp Technologies LLC, a technology consultant and service provider to the alternative investment community. Mr. Skipwith also served as a quantitative analyst at ATA Research, Inc. He graduated from the University of Texas at Dallas with a BS in Economics and Finance, cum laude.

## REGULATORY DISCLOSURES

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**Partial Client List:** The representative client list was compiled based on diversity of client type and length of relationship with BHMS (both old and new relationships). Performance-based criteria was not used in determining which clients to include on the list. Inclusion on this list does not reflect an endorsement of our firm or the advisory services provided.

**Russell Indexes:** Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company.

**General Disclosures:** A complete list and details concerning all composites are available upon request. Past performance is not indicative of future results. This information is to be used solely in one-on-one discussions with plan sponsors and consultants, with the appropriate reference to these disclosures.

**Largest Contributors/Detractors and Largest Gainers/Decliners:** Returns shown are of an actual client's portfolio managed by BHMS as of the date noted. Performance is expressed in U.S. currency. The returns include the reinvestment of all income. Gross returns are presented before investment management and custodial fees. Past performance does not guarantee future results. The calculation methodology used and a list of the contribution to overall performance for each holding during the measurement period is available by contacting [clientservices@barrowhanley.com](mailto:clientservices@barrowhanley.com). Holdings identified do not represent all of the securities purchased, sold, or recommended.

**GIPS® Compliant Disclosure:** Our Non-USV composite has been calculated in compliance with GIPS® guidelines since inception in August 2006. An independent verifier has conducted a Performance Examination of this composite for the period of August 1, 2006 through September 30, 2017.

Vendor **Barrow, Hanley, Mewhinney & Strauss, LLC**  
 Address **2200 Ross Avenue, 31st Floor**  
 Dallas, Texas 75201

Date Completed: **August 31, 2018**

Category **Asset Class: Non-U.S.**

TOTAL COMPOSITION OF WORK FORCE										
<u>Occupation</u>	<u>African American Full Time</u>	<u>Hispanic Full Time</u>	<u>Asian or Pacific Islander Full Time</u>	<u>American Indian/ Alaskan Native Full Time</u>	<u>Caucasian (Non Hispanic) Full Time</u>	<u>Two or more<sup>3</sup> Full Time</u>	<u>Total Employees Full Time</u>	<u>Percent (%) Minority Full Time</u>	<u>Gender Full Time</u>	
									<u>Male</u>	<u>Female</u>
Officials & Managers					4		4	0.00%	3	1
Professionals		2	6		51	1	60	15.00%	51	9
Technicians <sup>1</sup>	1	1			2		4	50.00%	3	1
Sales Workers <sup>2</sup>	2				4		6	33.33%	6	0
Office/Clerical	1	1			23	3	28	17.86%	3	25
Semi-Skilled							0	#DIV/0!	0	0
Unskilled							0	#DIV/0!	0	0
Service Workers							0	#DIV/0!	0	0
Other							0	#DIV/0!	0	0
<b>Total</b>	<b>4</b>	<b>4</b>	<b>6</b>	<b>0</b>	<b>84</b>	<b>4</b>	<b>102</b>	<b>13.73%</b>	<b>66</b>	<b>36</b>

<sup>1</sup>Reference to Information Technology

<sup>2</sup>Reference to Client Development Professionals

<sup>3</sup>A column has been added for those with two or more ethnicities of origin



# LACERS

LOS ANGELES CITY EMPLOYEES'  
RETIREMENT SYSTEM



## Report to Investment Committee

*Neil M. Guglielmo*  
From: Neil M. Guglielmo, General Manager

Agenda of: **SEPTEMBER 11, 2018**

ITEM: VII

**SUBJECT: INVESTMENT MANAGER CONTRACT WITH AJO, LP REGARDING THE MANAGEMENT OF AN ACTIVE LARGE CAP VALUE EQUITIES PORTFOLIO AND POSSIBLE COMMITTEE ACTION**

### Recommendation

That the Committee recommend to the Board a one-year contract extension with AJO, LP for management of an active large cap value equities portfolio.

### Discussion

#### *Background*

AJO, LP (AJO) has managed an active U.S. large cap value equities portfolio for LACERS since October 2001, and is benchmarked against the Russell 1000 Value Index. AJO uses a quantitative investment strategy that seeks to identify well-managed companies with cash profits, relatively low market valuations, positive price and earnings momentum, and favorable market sentiment. AJO also emphasizes efficient trading to minimize transaction costs. The portfolio management team consists of seven portfolio managers, including Ted Aronson, a founding principal of AJO. LACERS' portfolio was valued at \$184 million as of June 30, 2018.

As detailed in the Performance section of this report, AJO has been "On-Watch" for performance since June 30, 2016, pursuant to the LACERS Manager Monitoring Policy (Policy). Last year, at its meeting of August 22, 2017, the Board approved a one-year extension to AJO's contract and watch period as a result of AJO's improved performance; the current contract extension expires on October 31, 2018.

#### *Organization*

AJO is 100% employee-owned, has 67 employees, and is headquartered in Philadelphia with a satellite office in Boston. As of June 30, 2018, AJO managed approximately \$24 billion in total assets with \$12 billion in the U.S. large cap value equities strategy.

#### *Due Diligence*

AJO's investment philosophy, strategy, process, and key personnel have not changed over the contract period.

**Performance**

Two years ago, AJO was placed “On Watch” for an initial one-year period beginning June 30, 2016, and ending June 30, 2017, due to a breach of the following Policy criteria based on performance as of June 30, 2016:

1. Annualized net underperformance versus the benchmark over the trailing 5-year period.
2. Moving average net Information Ratio less than 0.20 over the trailing 5-year period.

Annualized returns as of June 30, 2016, are presented in the table below.

<b>Annualized Performance as of 6/30/16 (Net-of-Fees)</b>									
	3-Month	1-Year	2-Year	3-Year	4-Year	5-Year	7-Year	10-Year	Since Inception <sup>^</sup>
AJO	-0.99	-6.79	-0.71	7.38	11.82	9.94	13.47	5.66	7.65
Russell 1000 Value Index	4.58	2.86	3.49	9.87	13.54	11.35	14.50	6.13	7.44
<i>% of Excess Return</i>	-5.57%	-9.65%	-4.20%	-2.49%	-1.72%	-1.41%	-1.03%	-0.47%	0.21%

<sup>^</sup>Inception Date: 10/31/01

Last year, subsequent to the end of the initial one-year watch period, the Board and Investment Committee reviewed AJO’s performance as of June 30, 2017. While AJO continued to breach the two Policy criteria, performance had improved over all time periods as shown in the table below. The Board and Investment Committee approved a recommendation from staff and NEPC, LLC (NEPC), LACERS’ General Fund Consultant, to extend AJO’s contract and watch period for an additional year.

<b>Annualized Performance as of 6/30/17 (Net-of-Fees)</b>									
	3-Month	1-Year	2-Year	3-Year	4-Year	5-Year	7-Year	10-Year	Since Inception <sup>^</sup>
AJO	1.42	18.55	5.12	5.33	10.07	13.14	14.17	5.42	8.32
Russell 1000 Value Index	1.34	15.53	9.01	7.36	11.26	13.94	14.31	5.57	7.94
<i>% of Excess Return</i>	0.08%	3.02%	-3.89%	-2.03%	-1.19%	-0.80%	-0.14%	-0.15%	0.38%

<sup>^</sup>Inception Date: 10/31/01

As of June 30, 2018, the end of the second one-year watch period, AJO continued to breach the two Policy criteria. However, the firm continued to improve performance substantially as presented in the table below. Specifically, over the one-year period ending June 30, 2018, the strategy outperformed its benchmark by 426 basis points (4.26%) net-of-fees. The strategy continues to add value to the LACERS portfolio since inception, outperforming the benchmark by 61 basis points (0.61%) on an annualized basis.

<b>Annualized Performance as of 6/30/18 (Net-of-Fees)</b>									
	3-Month	1-Year	2-Year	3-Year	4-Year	5-Year	7-Year	10-Year	Since Inception <sup>^</sup>
AJO	1.55	11.03	14.73	7.05	6.73	10.26	11.28	8.81	8.48
Russell 1000 Value Index	1.18	6.77	11.06	8.26	7.21	10.34	11.27	8.49	7.87
<i>% of Excess Return</i>	0.37%	4.26%	3.67%	-1.21%	-0.48%	-0.08%	0.01%	0.32%	0.61%

<sup>^</sup>Inception Date: 10/31/01

Calendar year performance is presented in the table below as supplemental information.

Calendar Year Performance as of 6/30/18 (Net-of-Fees)										
	YTD 2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
AJO	-0.97	16.22	9.68	0.00	9.06	38.25	17.62	2.61	15.74	15.20
Russell 1000 Value Index	-1.69	13.66	17.34	-3.83	13.45	32.53	17.51	0.39	15.51	19.69
% of Excess Return	0.72%	2.56%	7.66%	-3.83%	-4.39%	5.72%	0.11%	2.22%	0.23%	-4.49%

Staff and NEPC recommend a one-year extension of the contract and watch period due to AJO's progress toward compliance with the Policy.

*Fees*

LACERS pays AJO an effective annual fee of 30 basis points (0.30%), which is approximately \$552,000 annually based on the value of LACERS' assets as of June 30, 2018. This fee ranks between the 4<sup>th</sup> and 5<sup>th</sup> percentile of AJO's peers based on the eVestment U.S. Large Cap Value universe (i.e., AJO's fee is lower than 95% of peers).

*General Fund Consultant Opinion*

NEPC, LACERS' General Fund Consultant, concurs with this recommendation.

*Strategic Plan Impact Statement*

A contract renewal with AJO, LP will allow the fund to maintain a diversified exposure to the U.S. large cap value equities market, which is expected to help achieve satisfactory long-term risk adjusted investment returns (Goal IV). The discussion of the investment manager's profile, strategy, performance, and management fee structure are consistent with Goal V (uphold good governance practices which affirm transparency, accountability, and fiduciary duty).

This report was prepared by Barbara Sandoval, Investment Officer II, Investment Division.

RJ:BF:BS:ap

Attachments:       A) Consultant Recommendation – NEPC  
                           B) Workforce Composition



**To:** Los Angeles City Employees' Retirement System Investment Committee  
**From:** NEPC, LLC  
**Date:** September 11, 2018  
**Subject:** AJO Partners – Large Cap Value Equities Contract Extension

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### **Recommendation**

NEPC recommends Los Angeles City Employees' Retirement System (LACERS) extend the contract that is currently in place with AJO Partners Ltd. ('AJO') for a period of one year from the date of contract expiry. NEPC also recommends an extension of the LACERS' Watch status at this time for a period of one year in accordance with the LACERS' Manager Monitoring Policy.

### **Background**

AJO has been an active equity manager for LACERS since October 31, 2001. As of June 30, 2018 AJO managed \$183.8 million, or 1.1% of Plan assets with an asset-based fee of 0.285% annually. The performance objective is to exceed the performance of the Russell 1000 Value Index, net of fees, by 2.0% over full market cycles. AJO has been on 'watch' pursuant to LACERS Manager Monitoring Policy since June 30, 2016 for underperforming the benchmark in the five-year trailing return as well as having a negative five-year information ratio. While performance over the past year has been positive versus the benchmark (i.e., 11.03% vs. 6.77%), it was not enough to bring the five-year performance return above the benchmark.

The firm is 100% employee-owned, with the founder Ted Aronson remaining an active owner and investment team member. Over the past ten years, Mr. Aronson has transitioned approximately 55% of the ownership of the firm to other active employees. In the past five years, there have been two Principal level departures from the team responsible for managing the portfolio, however, the two departures were unrelated and we believe they have not negatively impacted the firm's resources or the investment process. The key individuals managing the product have been with AJO for at least 15 years with a significant portion being owners in the firm. The firm's business continuity plan and key-man risk planning appears to include a cogent succession plan for its founder.

The firm manages approximately \$24 billion on behalf of 109 clients with 67 employees; 57 individuals are located in Philadelphia and 10 are located in Boston. The firm's key client relationship types include public pension (37%), corporate/ERISA (28%), and pooled sub-advised mutual fund clients (25%) making up 90% of total AUM.



The philosophy and process employed to construct the portfolio has been consistently applied. AJO's stock selection process focuses on identifying companies with consistent earnings and free-cash-flow characteristics trading at attractive valuations based on price/book, price/sales and price/earnings criteria along with positive momentum and sentiment characteristics. The product's portfolio construction is designed to be sector-neutral to the benchmark weightings, but the product will maintain over- and under-weightings to industry categories that are driven by bottom-up stock selection.

### **Performance**

Since inception, the AJO portfolio has outperformed the Russell 1000 Value Index by 0.61%, net of fees, through June 30, 2018. In the five-year period ended June 30, 2018, the portfolio underperformed the index by 0.08% (10.26% vs. 10.34%), ranking in the 61<sup>st</sup> percentile in the eVestment Large Cap Value Equity peer group of investment managers (please refer to Exhibit 1). The portfolio has an information ratio of -0.02 and ranks in the 61<sup>st</sup> percentile among its peers over the past five years. Since inception, the information ratio is 0.17 and ranks in the 39<sup>th</sup> percentile for the period ended June 30, 2018. It is worth noting, that the five-year information ratio most recently turned negative in 2016 and recovered to near positive territory in the fourth quarter of 2017 (refer to Exhibit 2). Active risk, as measured by tracking error versus the index since inception has been 3.5% oscillating between 2% and 4% on a rolling three-year basis over the past 13 years.

The portfolio experienced a relatively large drawdown in the first half of 2016 underperforming the Russell 1000 Value Index by 10.4% (-4.1% vs. 6.3%). During this time period the market favored lower volatility stocks while ignoring valuation, momentum and other key factors that have historically generated excess return in security selection for AJO.

In the one year ended June 30, 2018 the portfolio outperformed the benchmark by 4.26% (11.03% vs. 6.77%) ranking in the 33<sup>rd</sup> percentile in its peer group. Strong active large cap value manager outperformance in the past two years has resulted in medium to long-run median manager returns the large cap value equity space to rank above the index in the trailing three-years, five-years and 10 years ended June, 2018 (refer to Exhibit 1). Referring to Exhibit 3, on a cumulative basis the portfolio has added value quarterly since inception against its benchmark. Meaning, investment gains from periods of outperformance have not been eroded by periods of underperformance on a cumulative basis relative to the benchmark. There are however notable periods of underperformance of 2.5% or larger in five quarterly periods.

It is worth noting that while AJO's benchmark agnostic approach can result in short-term periods of high volatility, it is this ability to be less constrained to a benchmark that we believe may result in attractive long-term qualities for the equity program broadly. Importantly, there is a large body of academic work that supports 'value' as being a factor in driving alpha within equity markets and over long periods of time AJO has been able to harvest gains for LACERS using their approach.

With respect to investment management fees, when compared to other large cap value managers at the same asset level, eVestment U.S. Large Cap Value, AJO falls between the



4<sup>th</sup> and 5<sup>th</sup> percentile, or in other words, 95% of the universe charges higher investment management fees.

### **Conclusion**

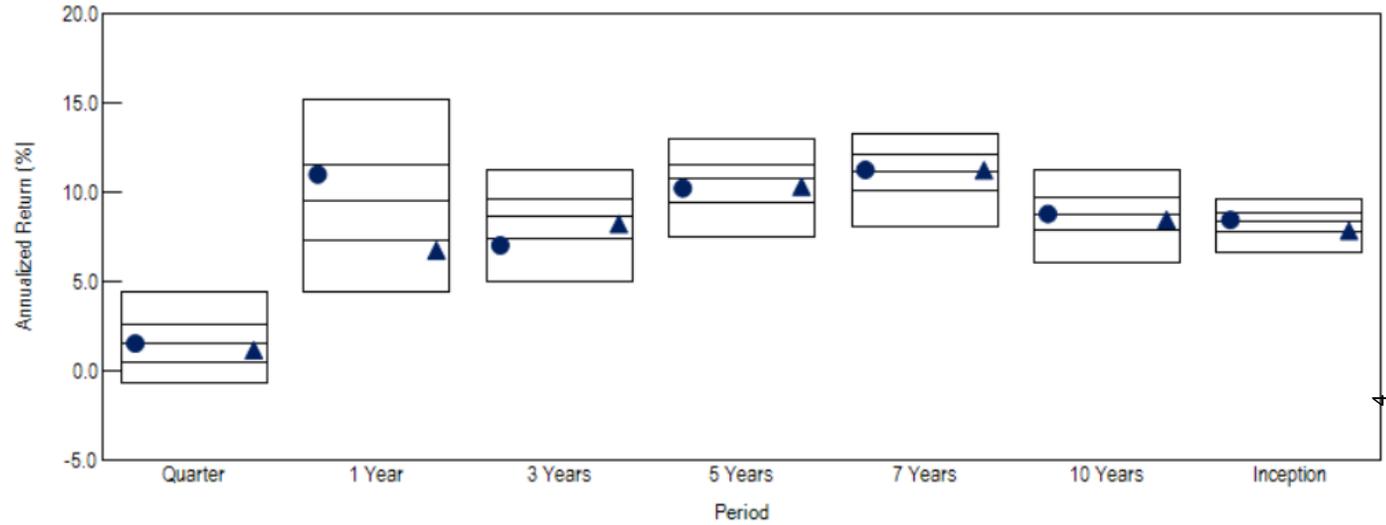
While AJO has struggled to outperform the index over the medium-term, their consistent, repeatable process and quantitative benchmark agnostic strategy has led to positive cumulative performance over longer periods. There have not been any material changes to the team responsible for the strategy, which has now been together for 16 years, and while we cannot anticipate future changes to the team, the strong planning and team structure that has been built suggests stability in the near term.

The following tables provide specific performance information, net of fees referenced above.

Exhibit 1

eVestment US Large Cap Value Equity Net Account  
Ending June 30, 2017

**eV US Large Cap Value Equity Net Return Comparison  
Ending June 30, 2018**



	Return (Rank)													
	Quarter	1 Year	3 Years	5 Years	7 Years	10 Years	Inception							
5th Percentile	4.43	15.23	11.30	13.04	13.28	11.31	9.68							
25th Percentile	2.57	11.56	9.59	11.60	12.10	9.75	8.84							
Median	1.59	9.56	8.64	10.75	11.20	8.76	8.42							
75th Percentile	0.44	7.29	7.45	9.49	10.07	7.91	7.82							
95th Percentile	-0.71	4.47	4.98	7.54	8.09	6.09	6.64							
# of Portfolios	230	230	226	212	187	166	86							
● Aronson, Johnson & Ortiz	1.55 (52)	11.03 (33)	7.05 (81)	10.26 (61)	11.28 (46)	8.81 (48)	8.48 (46)							
▲ Russell 1000 Value	1.18 (60)	6.77 (81)	8.26 (58)	10.34 (59)	11.27 (47)	8.49 (56)	7.87 (73)							

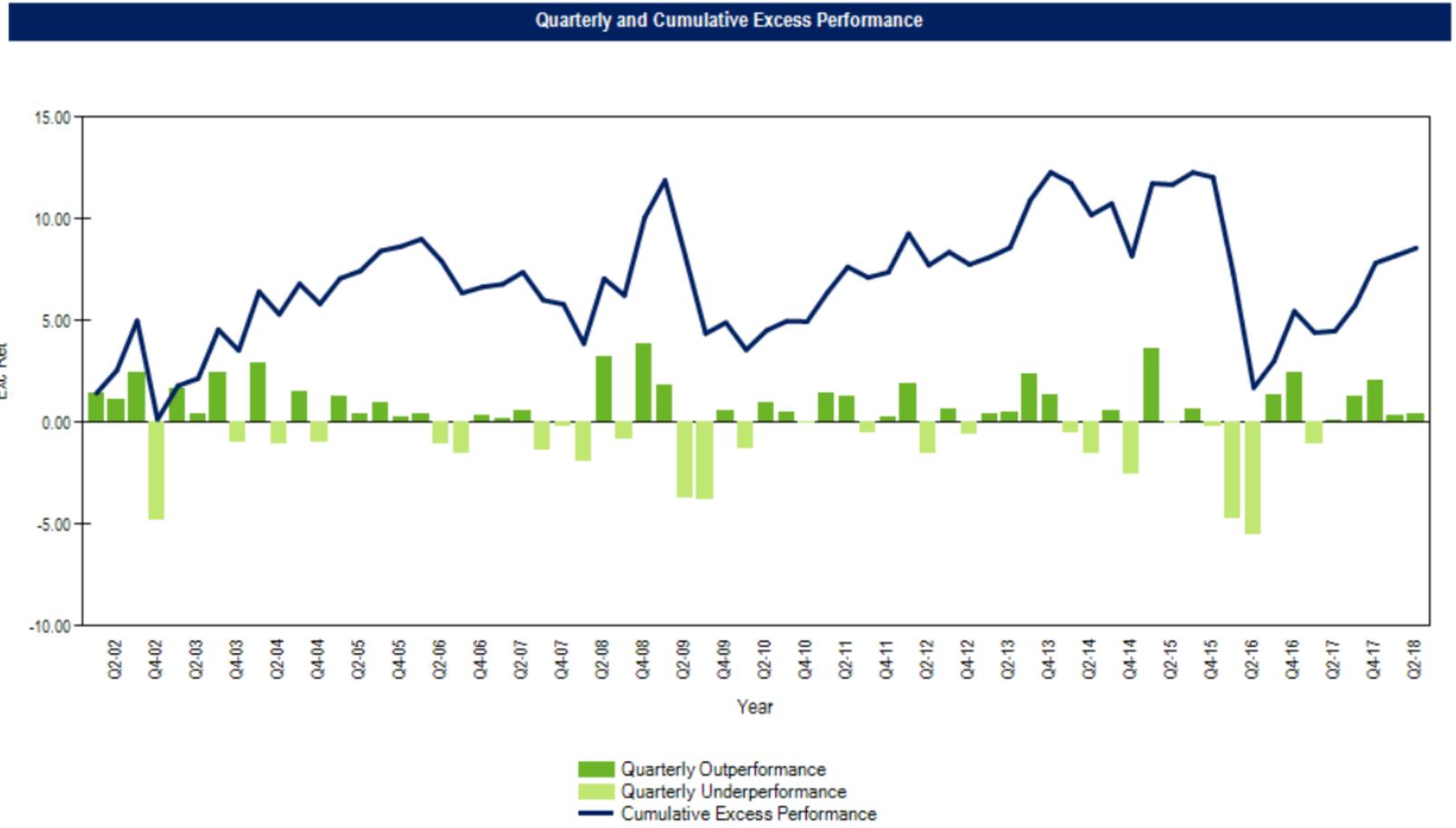


Exhibit 2

Rolling 5 Year Information Ratio



Exhibit 3





Vendor **AJO**  
 Address **230 S. Broad Street, 20th Floor**  
**Philadelphia, PA 19102**

Date Completed: **August 29, 2018**

Category **Domestic Equities**

TOTAL COMPOSITION OF WORK FORCE									
Occupation	African American	Hispanic	Asian or Pacific Islander	American Indian/Alaskan Native	Caucasian (Non Hispanic)	Total Employees	Percent (%) Minority	Gender	
	Full Time	Full Time	Full Time	Full Time	Full Time	Full Time	Full Time	Male Full Time	Female Full Time
Officials & Managers	0	0	0	0	4	4	0.00%	2	2
Professionals	3	5	8	0	40	56	28.57%	40	16
Technicians	0	0	0	0	0	0	0.00%	0	0
Sales Workers	0	0	0	0	0	0	0.00%	0	0
Office/Clerical	1	0	0	0	6	7	14.29%	1	6
Semi-Skilled	0	0	0	0	0	0	0.00%	0	0
Unskilled	0	0	0	0	0	0	0.00%	0	0
Service Workers	0	0	0	0	0	0	0.00%	0	0
Other	0	0	0	0	0	0	0.00%	0	0
<b>Total</b>	<b>4</b>	<b>5</b>	<b>8</b>	<b>0</b>	<b>50</b>	<b>67</b>	<b>25.37%</b>	<b>43</b>	<b>24</b>