



## ITEM 18

Executive Staff  
Richard Stensrud  
Chief Executive Officer  
Steve Davis  
Chief Investment Officer  
Robert L. Gaumer  
General Counsel  
Kathryn T. Regalia  
Chief Operations Officer  
John W. Gobel, Sr.  
Chief Benefits Officer

**For Agenda of:**  
December 21, 2016

December 16, 2016

**TO:** President and Members  
Board of Retirement

**FROM:** JR Pearce  
Investment Officer

**SUBJECT: International Developed Growth Manager Search – Final Report**

### **RECOMMENDATION:**

**That your Board approve: (1) The selection of Walter Scott Global Investment Management to manage an approximately \$400 million International Developed Growth equity portfolio; (2) Authorize Staff to determine the most effective method for transitioning the assets and execute any necessary documents or agreements to effectuate the transition.**

### **BACKGROUND:**

As you will recall, SCERS terminated its relationship with international developed growth manager, Barings Asset Management in October 2014 due to a growing lack of confidence from Staff and Verus regarding the differentiation of Barings' investment strategy and its ability to generate long-term excess returns. Staff and Verus have been conducting a search for a manager replacement over the past several months. An in-depth manager analysis report was posted to the Board website on December 15, 2016.

To recap, for this search, Verus and Staff screened the International manager universe. The screens sought managers with a certain level of risk-adjusted returns; a minimum amount of assets under management ("AUM"); sufficient levels of institutional infrastructure; appropriate style; organizational stability; differentiated investment

philosophy and process; and appropriate fees. Staff and Verus reviewed various manager presentations and responses to a Request for Proposal (“RFP”) and narrowed the list to a group of four candidates that were invited to SCERS’ office for interviews. The managers included:

- 1- Axiom International Investors
- 2- Baillie Gifford International
- 3- Walter Scott Global Investment Management
- 4- William Blair Investment Management

Staff and Verus interviewed each investment manager candidate for approximately two hours on September 29th and October 3rd. During the interviews, the investment managers were given the opportunity to present to Staff and Verus, but the interviews were kept interactive, with Staff and Verus asking multiple questions throughout, and guiding the managers to focus on specific areas within their presentations. In addition, the investment managers were asked to provide case studies on a couple of stocks in their portfolios, which were discussed during the interviews, and provided insight into the managers’ investment philosophies and processes.

Subsequent to the interviews, Staff and Verus further analyzed each manager, and based upon all relevant considerations, are recommending Walter Scott Global Investment Management (“WS”) to your Board. The recommendation is for SCERS to invest approximately \$400 million with WS. The firm will present to your Board at the December 21st Board meeting, at which time your Board will have the opportunity to approve or not approve the recommendation.

Below Staff provides analysis and discussions for recommending Walter Scott. A recommendation report from Verus has also been posted with this final report.

**SUMMARY:**

Within SCERS’ International Equity asset class (22.5% of the portfolio), SCERS has a target allocation of 5% (relative to SCERS’ International Equity portfolio) to the Developed Large Cap Growth segment (relative to SCERS’ International Equity portfolio), and a 4.5% target allocation to the ACWI ex-US segment (relative to SCERS’ International Equity portfolio). Lazard Asset Management (ACWI ex-US) and LSV Management (Developed Large Cap Value) are SCERS’ International Developed managers, which have been performing well. Similar to the LSV portfolio, the mandate will only include

Domestic Equity:				
Sub-Asset Class	Target Allocation	Target Allocation	Minimum Allocation	Maximum Allocation
US Large Cap	81.0%		64.8%	97.2%
US Passive Large Cap		54.0%		
US Large Cap Value		11.0%		
US Large Cap Growth		11.0%		
US Large Cap 130/30		5.0%		
US Small Cap	14.0%		11.2%	16.8%
US Small Cap Value		7.0%		
US Small Cap Growth		7.0%		
US REITS	5.0%		4.0%	6.0%
US REITS		5.0%		
	100.0%	100.0%		
International Equity:				
Sub-Asset Class	Target Allocation	Target Allocation	Minimum Allocation	Maximum Allocation
Developed Markets Large Cap	66.0%		52.8%	79.2%
Developed Markets Large Cap Value		23.0%		
Developed Markets Large Cap Growth		23.0%		
ACWI ex-US		20.0%		
Developed Markets Small Cap	10.0%		8.0%	12.0%
Developed Markets Small Cap Value		5.0%		
Developed Markets Small Cap Growth		5.0%		
Emerging Markets	19.0%		15.2%	22.8%
Emerging Markets All Cap		16.3%		
Emerging Markets Small Cap		2.7%		
International REITS	5.0%		4.0%	6.0%
International REITS		5.0%		
	100.0%	100.0%		

developed market countries, exclude emerging markets, and be benchmarked against the MSCI World ex-US index.

While any of the final investment manager candidates were capable, Walter Scott distinguished itself as the most capable manager through market cycles that would be complimentary to SCERS' International Equity portfolio. The search focused on which firm would be the best manager for this particular mandate. Staff and Verus did not enter into the manager search with a fixed selection approach but were open to adjusting along the way in order to identify the best manager for a given structure. In the case of this search, Staff and Verus felt WS demonstrated an ability to mitigate market declines, yet was able to participate in rising markets. Given the uncertainty surrounding the global political and economic landscape, Staff and Verus favored WS's deep fundamental, bottom-up defensive strategy, which focuses on uncovering superior long-term value-creating businesses worldwide that tend to perform better during market distress.

Staff and Verus found WS further stood out among the four international managers for its: (1) Organizational structure (team-based with no portfolio manager role); (2) Staff backgrounds (broad diversity of educational backgrounds from the humanities, sciences, and law); (3) Staff tenure (the majority have spent their entire careers at WS); and (4) Differentiated investment philosophy (companies with long-term sustainable wealth creation over a 5 to 7 year period). Staff and Verus found the firm's rigorous quantitative and qualitative research process centered on the key components of wealth generation, such as balance sheet strength, free cash flow generation, market leadership, and barriers to entry, and exhibited superior performance metrics among the managers analyzed.

Legal negotiations and documentation have been initiated by SCERS' General Counsel and SCERS' outside counsel. If your Board approves the selection of Walter Scott, funding will be contingent on successful negotiation of the legal terms and agreements.

## **ORGANIZATION:**

### WALTER SCOTT GLOBAL INVESTMENT MANAGEMENT

Since 2006, Walter Scott ("WS") has been a wholly owned subsidiary of BNY Mellon Bank. Prior to 2006, WS was privately held since its founding in 1983. Headquartered in Edinburgh, Scotland; WS has 125 professional employees, with \$60.9 billion in assets under management, of which \$18.2 billion is for International mandates. Employee alignment is strengthened by WS employees participating in the WS operating profit, which a portion of the employees' profit participation is deferred into a long-term incentive plan that vests over a four-year period.

The international investment team consists of 37 employees, with 17 in research organized by three regional groups (Americas; Europe, Africa, and the Middle East; and Asia Pacific). A distinguishing characteristic of the firm is the long tenure and experience of senior management, with firm tenure averaging 16-years and 19-years of industry experience. WS's preference is to hire analysts out of its internship program followed by a two-year apprenticeship. Subsequently, the majority of the investment professionals have spent

their entire career at the firm. Although WS has hired experienced professionals from outside the firm, the firm's overriding criteria for employment is a cultural fit. Where most equity managers have a preponderance of finance and business academic backgrounds, WS recruits from majors in the arts and humanities, engineering, and science degrees. Because cultural fit is so important to WS, the investment professionals have diverse academic backgrounds; examples include Environmental Biology, European Studies, Japanese Studies, Law, Pharmacology, and Political Science. The firm believes its diversity of backgrounds and education creates a multiplicity of ideas and perspectives leading to differentiated investment approaches. Investment analysts are regional specialists and industry sector generalists. Geographic region/country assignments are rotated every three to five years, which provides continuity of country coverage should a member leave but also brings fresh perspectives absent biases.

WS has a unique organizational structure in that it does not have a Chief Investment Officer or portfolio managers. Unlike a typical investment firm, WS does not have dedicated fund managers for a single fund, strategy, or portfolio. Rather, WS employs a process where the same individuals work across all of WS's strategies and investment vehicles. For WS, a portfolio manager's role is no different from an analyst's role; they view them as one-in-the-same since all investment decisions are made by the collective team. The

Investment team: Years with the firm and industry experience			
Name	Title	Tenure (yrs)	Experience (yrs)
<b>Executive Management</b>			
Rodger Nisbet	Executive Chairman	22	22
Jane Henderson	Managing Director	20	20
<b>Investment Research</b>			
Charles Macquaker *	Director & Co-lead of Investment	24	24
Roy Leckie*	Director & Co-lead of Investment	20	20
Alex Torrens	Investment Manager & Co-head of Research	5	5
Alan Edington	Investment Manager & Co-head of Research	4	6
Fiona MacRae	Senior Investment Manager	1	29
Yuanli Chen	Investment Manager	10	16
Lindsay Scott	Investment Manager	12	14
Maxim Skorniakov	Investment Manager	12	12
Fraser Fox	Investment Manager	12	12
Des Armstrong	Investment Manager	12	12
Murdo Maclean	Investment Manager	10	10
Thomas Miedema	Investment Manager	8	9
Alan Lander	Investment Manager	9	9
Jamie Zegleman	Investment Manager	7	7
Jennifer Lord	Investment Analyst	3	6
Paul Loudon	Investment Analyst	1	3
Matthew Gerlach	Investment Analyst	<1	<1

The investment group is overseen by co-heads, Roy Leckie and Charlie Macquaker. Mr. Leckie's 20-year career has been with WS, having joined the firm after graduating from the University of Glasgow with a degree in Statistics. Mr. Macquaker's 24-year career has also been with WS, having joined the firm after graduating from Buckingham University with a degree in European Studies.

In January 2016, the firm established a new role to direct and prioritize internal research efforts. Head of Research was created with Alan Edington and Alex Torrens co-managing. Mr. Edington is a member of the investment committee and prior to joining WS in 2012 worked at ManoCap based in Sierra Leone. Mr. Edington holds a BA degree in Law from Oxford University and is a CFA charter holder. Mr. Torrens is also a member of the firm investment committee and joined WS after graduating with a Law degree from Cambridge University. Mr. Edington and Torrens conduct company research and idea generation across WS's strategies, in keeping with WS's team-based culture.

### **INVESTMENT PHILOSOPHY:**

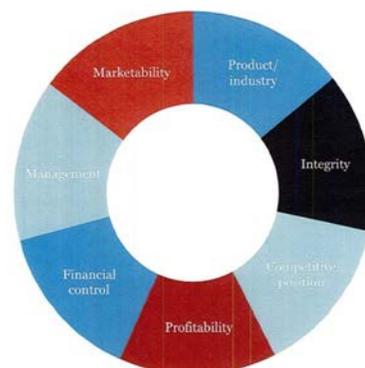
Walter Scott is a high active share (averages greater than 75% difference from the benchmark), fundamental growth manager. Employing fundamental analysis, WS prides

itself on being an active bottom-up stock picker. Therefore, a distinguishing characteristic of the firm's portfolio construction process is that geographic and sector allocations are a result of stock selection rather than active bets on a geography or sector, or mirroring the benchmark. Portfolio activity is based solely on buying and selling individual stocks rather than portfolio positioning based upon a macro view.

What differentiates the firm's investment style is their focus on a company's potential earnings prospects over a substantially long period of 5 to 7 years, whereas typical equity managers focus on a much shorter 1 to 3 year period. The firm searches for businesses that can achieve sustainable competitive advantages, which they believe can grow their earnings greater than the market, typically looking for a minimum compounded real return of 7% to 10% over the course of a business cycle. Therefore, WS will focus on companies capable of achieving above average and consistent growth in earnings, dividends, and book value over a long investment period. The firm's goal is to identify those firms that can and have self-financed their growth through internal cash generation, have market leadership, and sustainable business franchises with barriers to entry. Because of their long-term focus on future outcomes, WS's portfolio of investments can be quite different from the index, as a result of their singular focus on market leaders.

Staff and Verus believe that WS has a deep research investment process and a sound sustainable investment strategy. The firm is first-and-foremost a bottom-up, fundamental stock picker, that utilizes quantitative analysis for discovery and places a great emphasis on qualitative assessments to identify only the world's top long-term value creating companies. The team is most focused on identifying great companies, leaders in their industry, with the financial strength to maneuver through rapidly changing market conditions that can better perform during difficult macro environments.

WS's investment approach is forward looking in its evaluation of a company, using historical data as a filter and tool to measure against its internal metrics. The firm's key value-add as a growth manager is its ability to understand companies at the operating level, as well as the company's positioning relative to its industry peer group, and in turn being able to take this information and forecast it into the drivers of future growth. While a growth manager typically looks for companies that have demonstrated recent growth trends, historical data is less important in the analysis of a company, as this data is often already reflected in a stock's price. During the interview, Staff and Verus went over several stocks within the WS portfolio to ascertain how the manager's philosophy and process ties into real word examples, such as describing the investment thesis and key investment considerations.



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Market position, sustainable margins, industry dynamics.

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Accounting methods, treatment of minorities, ESG considerations.

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Market maturity, barriers to entry, customer concentration.

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Cash flow, cash return on investment.

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Accounting, balance sheet, working capital.

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Experience, track record.

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Free float, trading volume, valuation.

WS follows a systematic analysis process it describes as the “Seven Sisters”. This system evaluates a company based on seven categories indicative of superior companies:

1. Control of Destiny; a company’s standing within its industry, its proprietary positions, and pricing power.
2. Integrity; accounting methods, transparency; governance, and investor relations.
3. Market Position; business cycle, industry market cycle, barriers to entry, business concentrations, and product attributes.
4. Profitability; financial positioning, return metrics, cash flow generation, and margin trends.
5. Financial Control; balance sheet stability, business capital structure, and internal growth generation.
6. Management; senior management background, business plan execution, and site visit impressions.
7. Valuation and Trading; stock liquidity, sell-side analyst projections, and stock price metrics.

**PORTFOLIO CONSTRUCTION:**

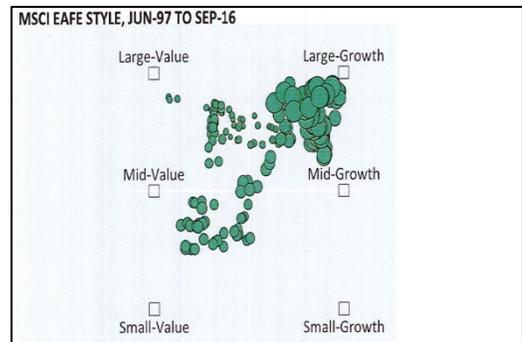
Walter Scott’s universe of stocks is over 2,000 but it only considers about 500 investable by its criteria. Although 500 firms are closely followed, about 200 firms undergo the firm’s scrutiny. There is not a defined company size requirement; however, WS generally does not consider firms less than a \$3 billion market capitalization. WS typically holds 40 to 60 stocks and, as of September 30, 2016, held 52 individual names. The firm’s long-term investment approach results in a low turnover of investments, as shown in the chart. WS’s turnover was the lowest among the manager candidates analyzed.

Date	Holdings	Buys	Sales	Names Turnover (%)
June 2012	54	4	6	7
June 2013	56	6	4	7
June 2014	54	1	5	2
June 2015	51	6	8	12
June 2016	53	5	3	6

WS’s portfolio is constructed by its bottom-up stock selection convictions, as such, it can take large industry, sector or country bets. The firm will actively take positions that are different from the benchmark and is accepting of short-term volatility resulting from being different from the index. Staff and Verus believe that a more concentrated benchmark agnostic investment approach that focuses on a best ideas strategy to active management, over the long-term lends itself to achieving excess returns over the benchmark. Further, the large cap market is a more difficult space to consistently earn excess returns using a more benchmark aware strategy, due to the smaller investable universe, the abundance of sell-side analyst coverage, and the greater efficiency with which information is priced into stocks.

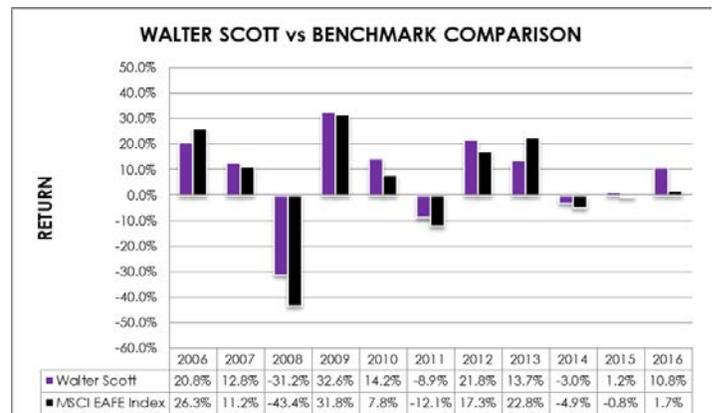
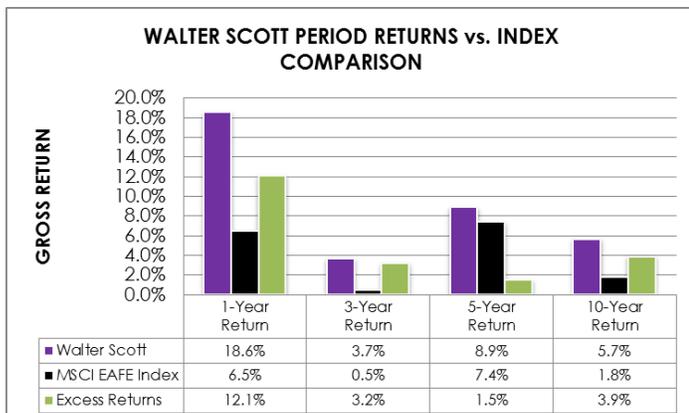
Since its inception, the firm has employed a team-based investment process. It is integral to WS's investment philosophy, with all of the firm's strategies managed collectively. Along with its team-based investment process, deep research is a hallmark of WS' historical out-performance. All investment ideas are discussed and debated among the team at least formally three times per week. With a philosophy of holding a stock forever, WS has deliberately made it very difficult for a stock to enter the portfolio. Before a new stock can be added to the portfolio, another stock would need to be sold, which is counter to their philosophy of holding a stock forever. Therefore, each analyst is competing for a scarce portfolio position and must truly bring the best ideas. This process forces analysts to conduct deep research in order to have high conviction support for inclusion in the portfolio. Analysts are known to conduct extensive research trips, from several weeks to several months, to understand a company's earnings potential by deciphering its competitive position. That means understanding how the business operates, which can only be determined by visiting with its competitors, suppliers, and industry experts. Any new investment position is further debated by the Investment Committee and a unanimous decision is required for any buy decision. Conversely, if there is just one well-researched argument, a sell decision can be approved.

Based on Verus' style analysis of WS's portfolio, the firm's portfolio composition sits decidedly in the Large-Cap Growth style box. Looking at WS's portfolio at September 30, 2016, there is a 69% weighting towards large-cap growth followed by a 4.9% weighting to Mid-Cap value and a 12.3% weighting to Emerging Markets. WS understands EM will be excluded from this mandate.



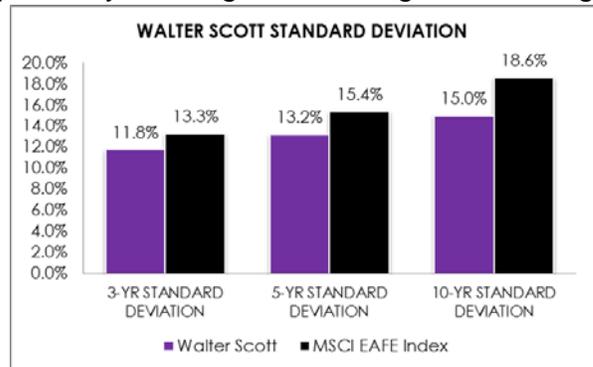
**PERFORMANCE:**

Over the past 10 years, Walter Scott has produced strong relative performance, with the reporting period ending September 2016, having generated annualized excess returns relative to the MSCI EAFE Index of 3.9%. Over the 1-, 3-, 5-, and 10-year periods, WS's excess annualized returns were 12.1%, 3.2%, 1.5%, and 3.9%, respectively. As illustrated in the calendar year chart, WS has outperformed the benchmark eight times over the last 10 years. When evaluating excess returns among the potential manager candidates, Staff

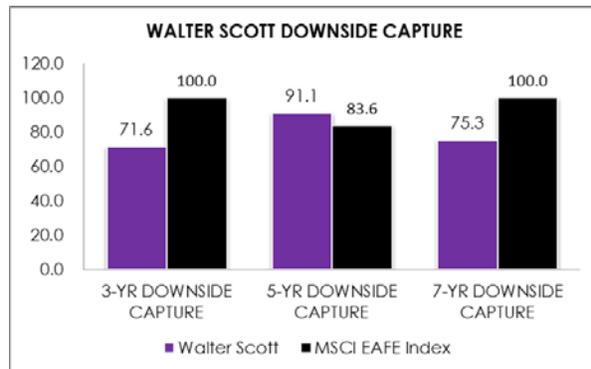
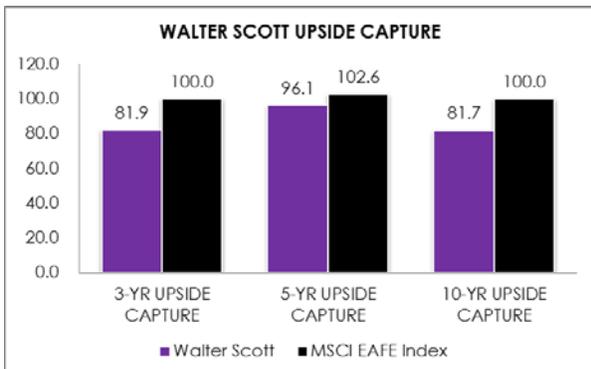


found that WS provided the highest excess returns over the majority of periods and performed better during down periods, as shown by the calendar year chart.

WS’s focus on bottom-up, fundamental stock selection can result in a portfolio concentrated in an industry sector and/or region. With its high active bets, WS’s portfolio allocations can differ significantly from the benchmark. Because WS is benchmark agnostic, the firm can tend to have a relative high tracking error, which was 4.4%, 4.6%, and 5.9% for the 3-, 5-, and 10-year periods, respectively. Though not the highest tracking error, it was the second highest among the managers interviewed. However, WS’s long-term hold philosophy can have a relatively low standard deviation (“SD”), which is a measure of absolute volatility and often considered a more appropriate measure of risk versus tracking error. The firm’s SD was the lowest among the managers and against the MSCI EAFE Index. For the 3-, 5-, and 10-year periods, WS’s SD was 11.8%, 13.2%, and 15.0%, respectively compared to the index of 13.3%, 15.4%, and 18.6%, respectively.

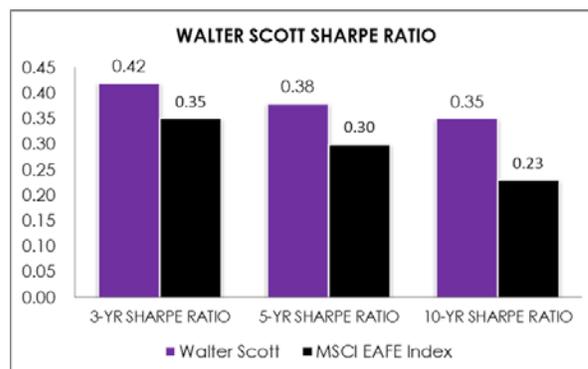


The firm’s investment approach is to invest in market-leading companies over the long-term. WS’s believes market-leading companies generate consistent high rates of internal wealth generation and have the financial strength to weather difficult markets. As investor preferences move along the cycle between growth and value, the firm’s returns can lag, particularly during rallying markets where lower quality or speculative companies are in favor. During market rallies, investors favor upward momentum rather than solid quality growth companies. Yet, during market declines, market-leading companies are better able to generate positive performance cash flow through the downturn. This is best illustrated by analyzing WS’s upside and downside capture, a measure used to evaluate a managers’ performance during rising and falling markets. The ratio measures how a manager performed relative to the market itself. The higher the upside ratio, the better the manager capitalized on a rising market and, conversely, the lower the downside ratio, the better the manager protected capital during a market decline. As noted, WS can often lag during rising markets, which is reflected in its modest upside capture of 81.9, 96.1, and 81.7 for the 3-, 5-, and 10-year periods, respectively. However, with WS’s focus on



long-term company cash flow growth, it tends to perform best when growth is rewarded and outperforms in down markets. Not surprisingly, WS had one of the best downside capture ratios of 71.6, 91.1, and 75.3 for the 3-, 5-, and 10-year periods, respectively. The charts below illustrate the upside and downside capture ratio of WS versus the index.

The Sharpe Ratio (“SR”) is another measure used to evaluate managers; it measures the manager’s average excess return over the risk-free rate per unit of absolute volatility (standard deviation). Generally, the greater the Sharpe Ratio, the more attractive the manager’s risk-adjusted return. WS’s SR for the 3-, 5-, and 10-year period equaled 0.42, 0.38, and 0.35 respectively. This compares to the manager universe SR average of 0.35, 0.30, and 0.23, respectively. Given WS’s singular focus on investing in those companies that create long-term value, for which it can hold for an indefinite period, it would be expected that the firm would have a favorable SR. Indeed, among the managers interviewed, WS had the highest SR over the 5-year and 10-year period.



Staff and Verus are impressed with WS’s defensive historical performance, where WS’s outperformance versus the benchmark occurred during down years but performed as well during up years. The firm’s performance attribute provides the SCERS international portfolio with a defensive strategy that can balance out up and down markets, which can over a market cycle, provide a less volatile return profile. WS’ defensive attributes are a good compliment to LSV’s deep value approach in the international developed sector.

### **FEES:**

WS has a tiered asset-based fee schedule, 55 basis points for less than \$250 million, followed by 50 bps for amounts between \$250 million and \$500 million. Assuming WS’s tiered fee, for a \$400 million mandate, SCERS would pay an effective fee of 53 bps. Although not the lowest fee among the managers interviewed, Staff and Verus believe the fee to be reasonable and at the lower end of the candidates. The firm does not offer a performance-based fee; however, Staff is proposing a performance-based fee alternative based on a break-even analysis performed by Verus. A performance fee structure would include a lower base fee combined with an incentive fee. The performance fee is calculated on a three-year period and would be capped at a certain level. The gross breakeven excess return is the return that the strategy would need to earn to make the performance-based fee option more expensive than the asset-based fee option.

Staff and Verus believe that a performance-based fee option is a good option if it stays at the level determined by the breakeven analysis. However, the asset-based fee proposed by WS is an acceptable alternative should a performance based fee agreement not be reached.

## **ACCOUNT STRUCTURE AND TRANSITION:**

Staff and Verus recommend a separate account structure be initiated with WS subject to SCERS' typical Investment Management Agreement ("IMA") terms and conditions. Staff and Verus will formulate a set of guidelines that WS will follow to construct and manage SCERS' International Growth mandate.

As you will recall, when SCERS terminated its engagement with Barings, SCERS entered into a total return swap ("TRS") on the MSCI World ex-US, through SCERS' overlay manager State Street Global Advisors ("SSGA"), as an interim solution until an investment manager replacement search was conducted. Provided your Board approves the hiring of Walter Scott, Staff and Verus also recommend your Board approve the development and execution of a transition plan prepared by Staff and Verus to exit the TRS and invest in WS's strategy. The proposed transition plan will involve hiring a transition manager to build the WS portfolio through a separate account at SCERS' custodian, State Street. The assets held at State Street will be owned by SCERS and managed by WS.

Consistent with the process executed for SCERS' transitions over the past several years, Staff and Verus feel it is prudent to engage a strategic partner to assist with this transition. As in previous engagements, SCERS has enlisted Zeno Consulting ("Zeno"), a highly regarded and specialized transition advisory firm. You will recall that Zeno has assisted SCERS with several complex transitions in the past, and helped SCERS obtain favorable outcomes for each. There is a fee for engaging Zeno; however, Staff believes the potential cost of running an inefficient and costly transition more than offset the fee paid. You will also recall that Zeno serves in a fiduciary capacity and performs various functions with asset transitions. Zeno's services for transitioning SCERS' international assets include:

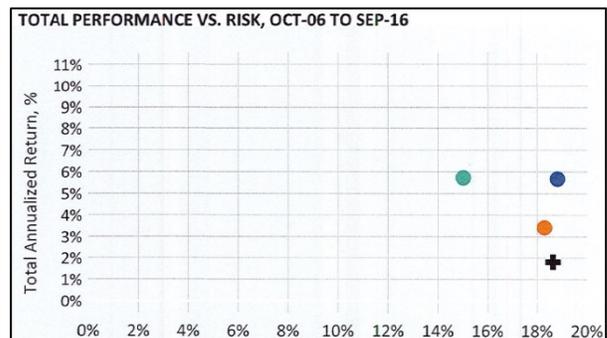
- Prepare a pre-trade cost analysis using Zeno's proprietary software;
- Collaborating with Staff to identify potential transition managers, assist in soliciting transition manager bids, and conducting transition manager pre-trade costs analysis;
- Facilitating legal documentation and engagement;
- Reviewing transition manager bids and advising Staff in the selection; and
- Running a transition post-trade analysis and review with Staff.

## **SUMMARY:**

While all of the final investment manager candidates were viable choices, Walter Scott distinguished itself as the most attractive international growth manager within SCERS' international equity structure given its ability to navigate through market cycles and its defensive characteristics. WS's long-term view on quality growth names offers returns that

## Risk vs. return

● Baillie Gifford ● Walter Scott ● William Blair ● MSCI EAFE Index



could outperform the benchmark over varying points in the market cycle. With its fundamental growth strategy, WS may lag the benchmark during bull markets, but the firm's defensive strategy tends to preserve capital during protracted market declines and has performed well across market cycles. Based on an analysis of WS's historical returns, the firm demonstrated a higher potential for risk-adjusted returns among the managers. In addition, WS has been successfully managing this strategy for over thirty years, has a stable and long-tenured investment management team, is managed as a boutique entity while benefitting from the institutional resources of the broader BNY Mellon organization, has a succinct investment philosophy, and differentiated and repeatable investment process.

Staff has submitted an Investment Management Agreement, including proposed investment guidelines and performance based fee structure to Walter Scott for review. It is anticipated that the major terms within the IMA will be finalized before the upcoming Board meeting.

We would be happy to address any questions.

Respectfully submitted,

Concur:

JR Pearce  
Investment Officer

Richard Stensrud  
Chief Executive Officer

Steve Davis  
Chief Investment Officer

Attachments

**RESOLUTION NO. SCERS 2016-**

**RESOLUTION OF THE BOARD OF RETIREMENT  
OF THE SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM  
TO AUTHORIZE THE BOARD PRESIDENT OR THE CHIEF EXECUTIVE OFFICER  
TO NEGOTIATE AND EXECUTE AN AGREEMENT TO INVEST APPROXIMATELY  
FOUR HUNDRED MILLION DOLLARS IN AN INTERNATIONAL DEVELOPED GROWTH  
STRATEGY MANAGED BY WALTER SCOTT GLOBAL INVESTMENTS MANAGEMENT**

WHEREAS, the Sacramento County Employees' Retirement System ("SCERS") Board, on December 21, 2016, voted to engage Walter Scott Global Investments Management to invest approximately \$400,000,000.00 in an international developed growth investment strategy;

WHEREAS, the investment is authorized subject to negotiation of an Investment Management Agreement (Agreement) in form satisfactory to the Board;

**NOW, THEREFORE, IT IS RESOLVED:**

The President or Chief Executive Officer is authorized and directed to, subject to successful contract negotiations; execute an Investment Management Agreement with Walter Scott Global Investments Management and any other documents which may reasonably be necessary to invest approximately \$400,000,000.00 in accordance with the Agreement terms and conditions on behalf of SCERS.

On motion made by Member \_\_\_\_\_, Seconded by Member \_\_\_\_\_, the foregoing Resolution was passed and adopted by the Board of the Sacramento County Employees' Retirement System this 21<sup>st</sup> day of December, 2016, by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

\_\_\_\_\_  
President of the Board of the  
Sacramento County Employees'  
Retirement System

ATTEST:

\_\_\_\_\_  
Secretary of the Board of the  
Sacramento County Employees'  
Retirement System

# Memorandum

**To:** Richard Stensrud, Steve Davis and JR Pearce (SCERS)  
**From:** Barry Dennis, John Nicolini, Margaret Jadallah, (Verus)  
**Date:** December 21, 2016  
**RE:** EAFE Equity Screening Process and Short List

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**Verus began by screening the eVestment database and reviewing data and meeting notes in the firm's internal database. Some flexibility was built into the approach to sourcing candidates because the priority is to hire one or more strategies that will add value via active stock selection. We therefore focused on this capability, and avoided allowing rigid exclusionary screens to drive the process. However, in order to avoid overlooking promising candidates, Verus did begin the process by running a series of screens.**

- 1) Created custom universe of EAFE products that meet the criteria SCERS has set including the following:
  - a. AUM of product should be greater than \$1 billion
  - b. Non-concentrated portfolio
  - c. Little to No emerging markets exposure
  - d. Performance in excess of their peers
  - e. Strategy must be open to new accounts
  - f. Eliminated products with no demonstrated ability to generate excess returns.
- 2) Verus and SCERS staff discussed a focused list of potential managers and came to a consensus that five managers would be sent RFP's.
- 3) RFP's were received and reviewed by SCERS staff and Verus, narrowing the search pool to four managers.
- 4) Two hours were allocated to each manager for onsite presentations at SCERS' office. SCERS' Staff and Verus reviewed each of the strategies investment process, prior performance and sample investment ideas with the portfolio managers on the strategies. There was broad agreement among staff and consultant that three of the four managers have positive attributes and all are well qualified to manage SCERS' assets. Given the

choice between three very qualified candidates, our final recommendation was a difficult decision. The four strategies that presented are listed below:

- a. Axiom International Equity Strategy
- b. Baillie Gifford EAFE Pure Focus Strategy
- c. Walter Scott International/EAFE Strategy
- d. William Blair International Developed Plus

### Recommendation

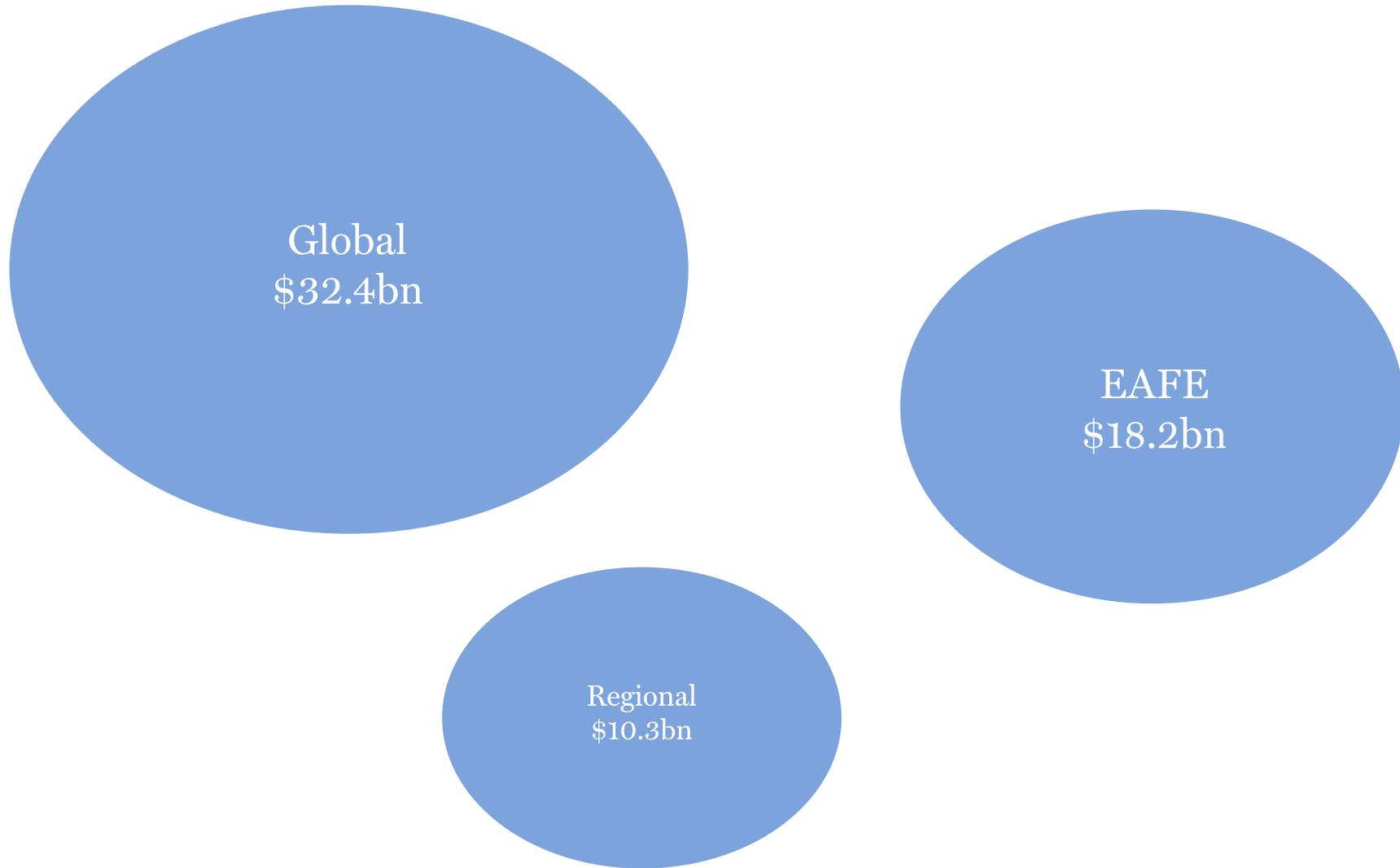
Verus and staff have performed a thorough review of each of the finalists and have recommend an initial investment of \$400 million in the Walter Scott EAFE Strategy for benefit of the Sacramento County Employees' Retirement System portfolio. Walter Scott's downside protection relative to the other strategies we reviewed was a key determining factor in our decision. One of the goals that SCERS' Board conveyed to Staff and Verus during the Enterprise Risk Tolerance survey was that loss of capital was to be minimized where it could. We believe Walter Scott's process and prior track record demonstrate that they have the capability to avoid large drawdowns relative to their benchmark and peer universe and also capture a large component of up market performance.

***Past performance is no guarantee of future results.** This document is provided for informational purposes only and is directed to institutional clients and eligible institutional counterparties only and is not intended for retail investors. Nothing herein constitutes investment, legal, accounting or tax investment vehicle or any trading strategy. This document may include or imply estimates, outlooks, projections and other "forward-looking statements." No assurance can be given that future results described or implied by any forward looking information will be achieved. Investing entails risks, including possible loss of principal. Verus Advisory Inc. and Verus Investors, LLC ("Verus") file a single form ADV under the United States Investment Advisors Act of 1940, as amended.*



- ◆ Global equity manager
- ◆ Founded in 1983
- ◆ Based in Edinburgh, Scotland
- ◆ \$18.2bn in similar International mandates
- ◆ \$60.9bn total firm assets under management
- ◆ ~ 120 staff

WALTER SCOTT AUM  
AS AT 30 SEPTEMBER 2016



## INVESTMENT STAFF

### STAFF

Investment team of 38 in one location

### STRUCTURE

All 17 members of research team, structured in three regional groups

### TRAINING

Home-grown bias, two-year research apprenticeship

### TENURE

Investment Management Committee membership average 16 years with firm, 19 years in industry

### OUTCOME

Breadth and depth of knowledge and expertise

Bound together by the firm's consistent philosophy, process and culture

INVESTMENT TEAM  
AS AT 30 SEPTEMBER 2016

Jane Henderson  
**Managing Director**

Rodger Nisbet  
**Executive Chairman**

Roy Leckie

Charlie Macquaker

**Investment Directors**

Alex Torrens

Alan Edington

**Co-heads of Research**

Fiona MacRae  
Fraser Fox  
Yuanli Chen  
Lindsay Scott  
Maxim Skorniakov  
Des Armstrong  
Murdo MacLean

Tom Miedema  
Alan Lander  
Jamie Zegleman  
Jennifer Lord  
Paul Loudon  
Matthew Gerlach

The wider investment team includes Investment Operations, Dealing, Portfolio Implementation and Client Service not listed here.

INVESTMENT TEAM EXPERIENCE  
AS AT 30 SEPTEMBER 2016

Name	Title	Firm tenure (yrs)	Industry experience (yrs)
Rodger Nisbet	Executive Chairman	23	23
Jane Henderson	Managing Director	21	21
Charles Macquaker	Investment Director	25	25
Roy Leckie	Investment Director	21	21
Alan Edington	Co-Head of Research	4	6
Alex Torrens	Co-Head of Research	6	6
Fiona MacRae	Investment Manager	2	30
Yuanli Chen	Investment Manager	10	16
Lindsay Scott	Investment Manager	12	14
Maxim Skorniakov	Investment Manager	12	12
Fraser Fox	Investment Manager	12	12
Des Armstrong	Investment Manager	12	12
Murdo MacLean	Investment Manager	10	10
Alan Lander	Investment Manager	9	9
Thomas Miedema	Investment Manager	8	9
Jamie Zegleman	Investment Manager	8	8
Jennifer Lord	Investment Analyst	3	6
Paul Loudon	Investment Analyst	2	4
Matthew Gerlach	Investment Analyst	<1	<1

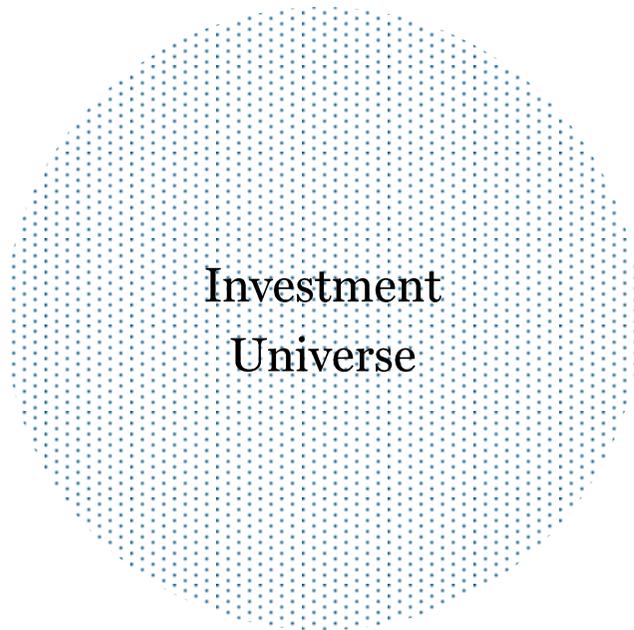
The wider investment team includes Investment Operations, Dealing, Portfolio Implementation and Client Service not listed here.

INVESTMENT PHILOSOPHY

STATEMENT	Company wealth generation drives investor return
APPROACH	Bottom-up, fundamental, research driven
OBJECTIVE	Real returns over the long term
TARGET	Companies capable of sustainable wealth generation

‘Buy and hold’ strategy requires patience

RESEARCH PROCESS

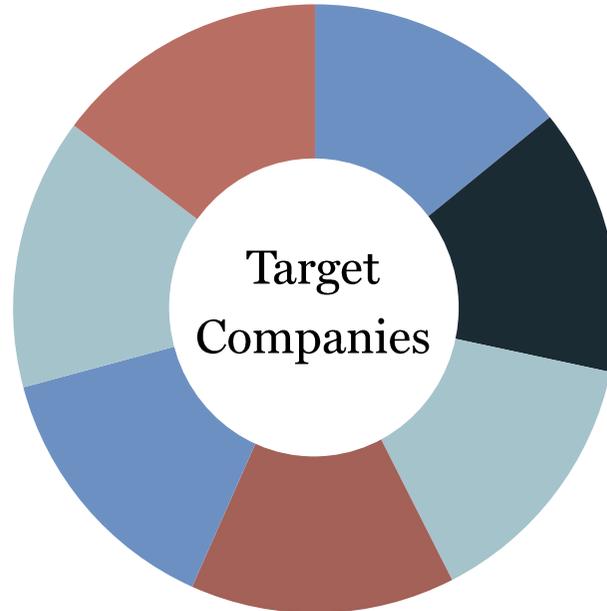


Investment  
Universe

---

Research companies capable of  
20% wealth generation per annum

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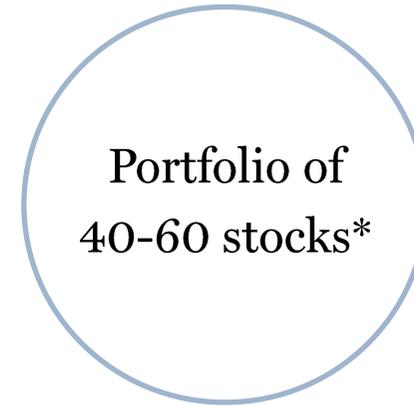


Target  
Companies

---

Intensive financial analysis  
Seven areas of investigation

---



Portfolio of  
40-60 stocks\*

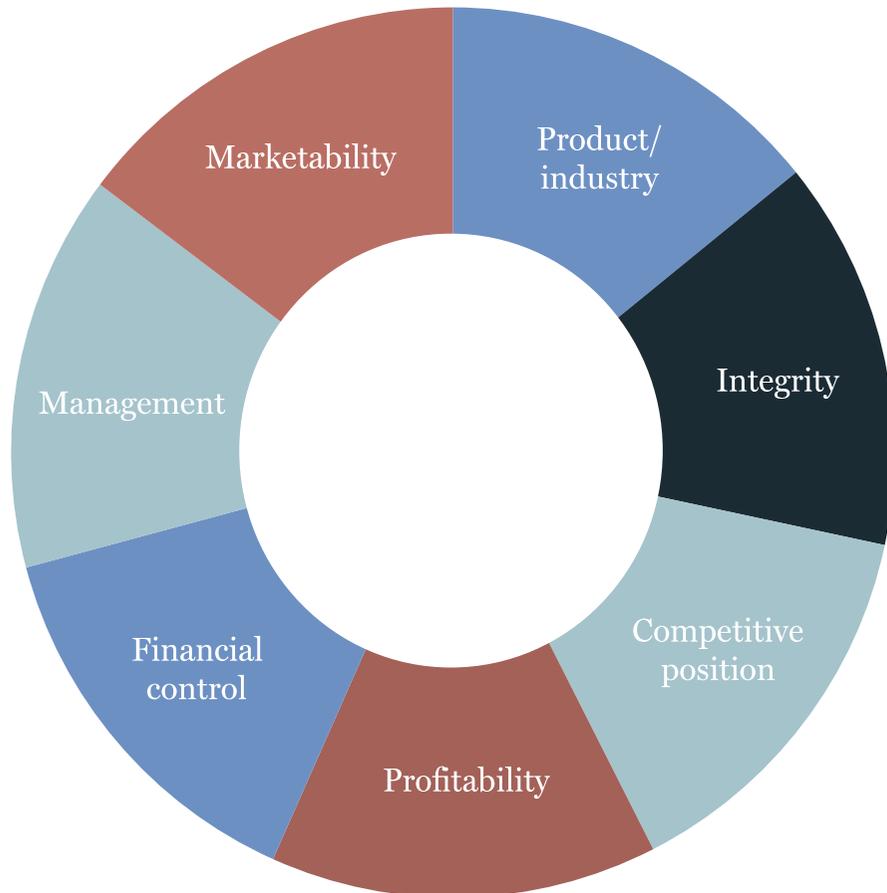
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Unanimous team decision  
Valuation

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\*Portfolios will typically include 40-60 stocks.  
A small number of strategies designed to meet particular client requests have greater or fewer stocks.

## SEVEN AREAS OF INVESTIGATION



---

Market position, sustainable margins, industry dynamics.

---

Accounting methods, treatment of minorities, ESG considerations.

---

Market maturity, barriers to entry, customer concentration.

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Cash flow, cash return on investment.

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Accounting, balance sheet, working capital.

---

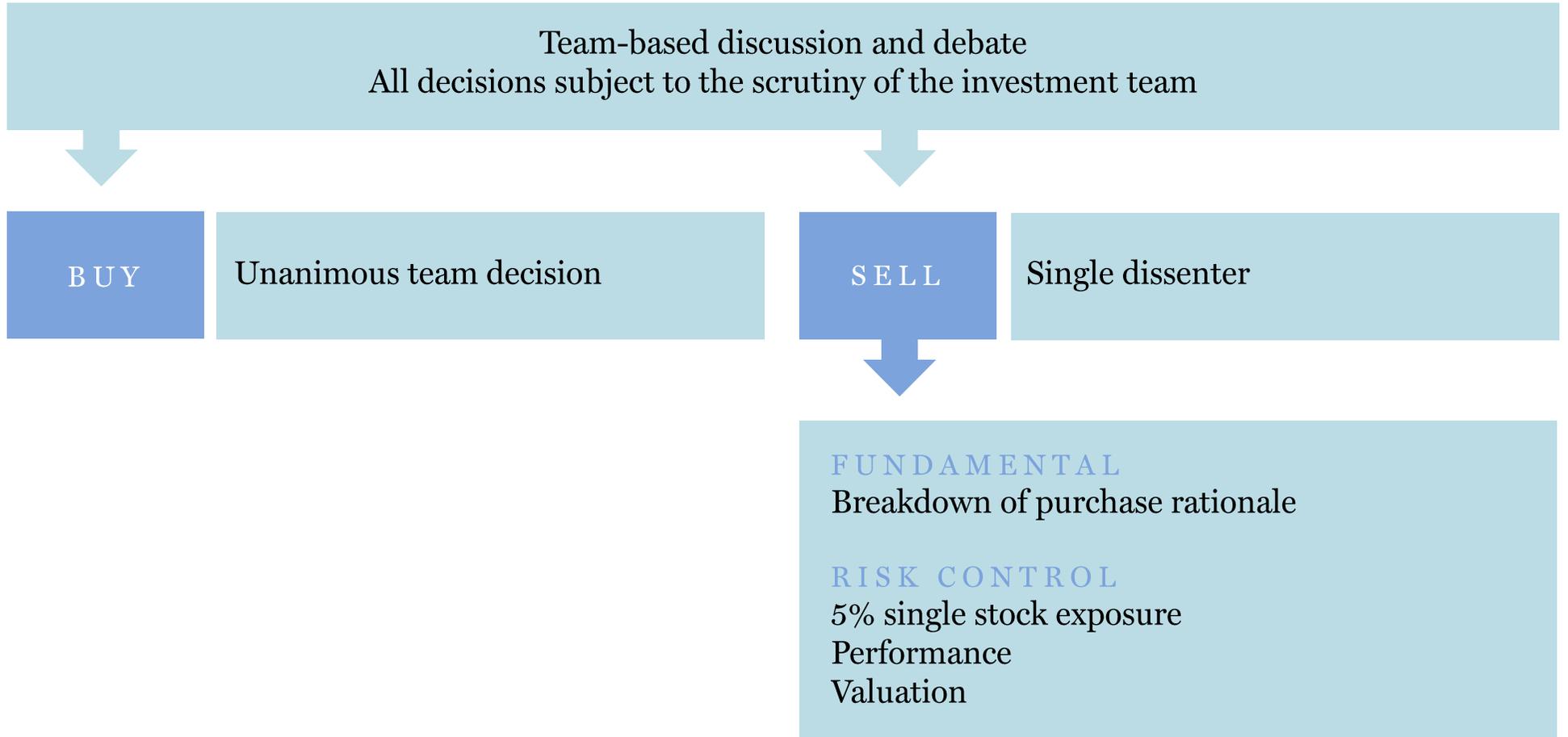
Experience, track record.

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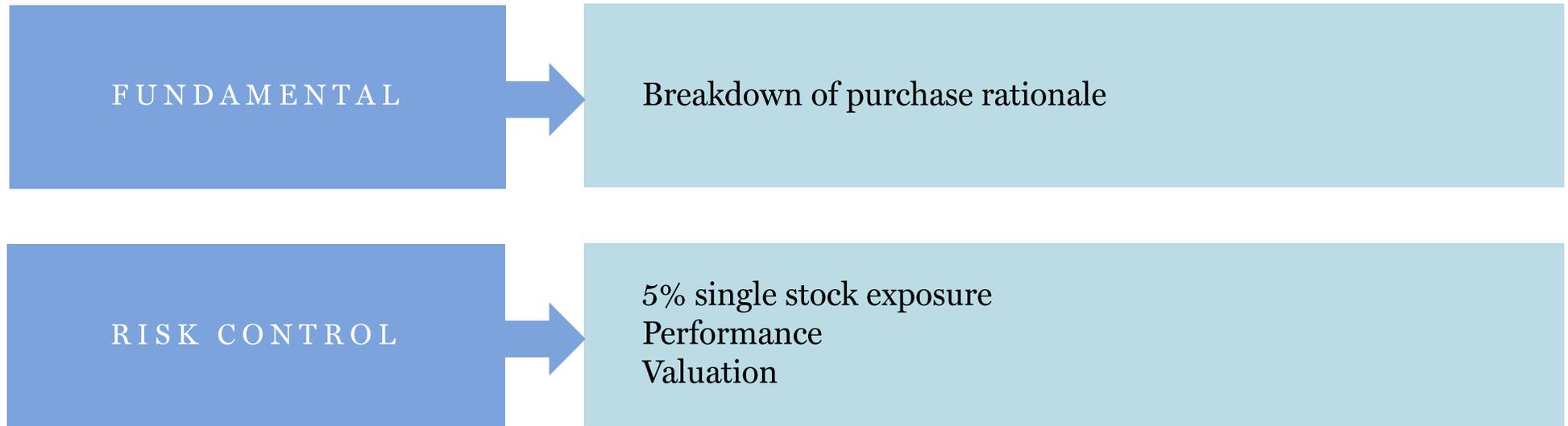
Free float, trading volume, valuation.

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INVESTMENT DECISION



PORTFOLIO MANAGEMENT



DISTRIBUTION: BY SECTOR AND REGION  
AS AT 30 NOVEMBER 2016

Sector	Portfolio %	MSCI EAFE %	Difference %
Industrials	18.9	14.2	4.7
Consumer discretionary	16.9	12.6	4.3
Information technology	8.2	5.5	2.7
Energy	7.8	5.2	2.6
Utilities	4.5	3.4	1.1
Healthcare	11.5	10.6	0.9
Real estate	4.4	3.9	0.5
Materials	8.4	7.9	0.5
Consumer staples	10.1	11.3	-1.2
Telecom services	2.0	4.5	-2.5
Financials	5.0	21.0	-16.0
Liquidity	2.2		2.2

Region	Portfolio %	MSCI EAFE %	Difference %
Emerging Markets	6.4	0.0	6.4
Canada	2.3	0.0	2.3
Asia Pacific ex Japan	14.4	12.5	1.9
Japan	25.1	24.7	0.4
Rest of World	0.0	0.7	-0.7
UK	12.5	18.2	-5.7
Europe ex UK	37.2	43.9	-6.7
Liquidity	2.2		2.2

Source: Walter Scott, MSCI. A representative international USD based equity portfolio was used to illustrate this strategy. Sector and regional distribution are subject to change and may not be representative of future portfolio composition. Please refer to the appendix for important information.

INTERNATIONAL PORTFOLIO CHARACTERISTICS  
AS AT 30 SEPTEMBER 2016

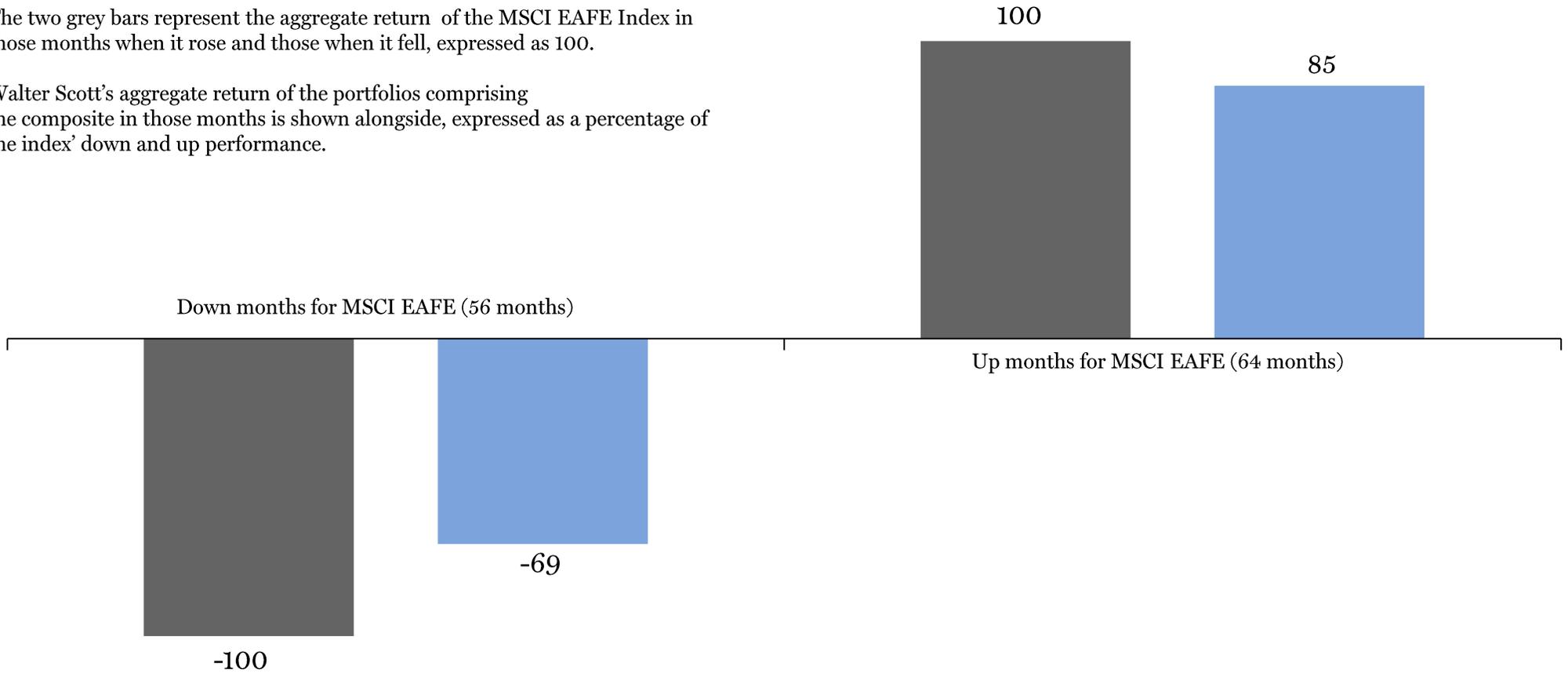
ROE	11.2%
CROCE	20.8%
Number of securities	53
Operating Margin	18.4%
Dividend Yield	2.3%
Turnover (12 months)	9.6%

Source: Walter Scott, Factset. A representative international portfolio was used to illustrate this strategy. Full details of characteristics calculation methodology available upon request.

INTERNATIONAL EQUITIES CAPTURE RATIOS  
TEN YEARS TO 30 SEPTEMBER 2016

The two grey bars represent the aggregate return of the MSCI EAFE Index in those months when it rose and those when it fell, expressed as 100.

Walter Scott's aggregate return of the portfolios comprising the composite in those months is shown alongside, expressed as a percentage of the index' down and up performance.



Source: Walter Scott, MSCI. Returns are shown in USD. Past performance is not indicative of future results. Please refer to the appendix for important information and related performance disclosure in section 16.5.

WALTER SCOTT USD COMPOSITE PERFORMANCE SCHEDULE  
AS AT 30 SEPTEMBER 2016

PERCENTAGE RETURNS, ANNUALISED FROM TWO YEARS ONWARDS

Period	Quarter	One Year	Three Years	Five Years	Ten Years	Fifteen Years	Twenty Years	Twenty-Five Years	Thirty Years
Walter Scott International Equities <sup>#</sup>	6.4	18.6	3.7	8.9	5.7	8.6	7.4	8.5	9.2
MSCI EAFE	6.4	6.5	0.5	7.4	1.8	-	-	-	-

Walter Scott claims compliance with the Global Investment Performance Standards (GIPS®).  
Performance is shown gross of investment management fees; Past performance is not a guide to future performance.

Source: Walter Scott, MSCI. <sup>#</sup>Walter Scott International Equities is also known as the Walter Scott EAFE Equities Composite. MSCI indices are shown on a total return, net dividends reinvested basis unless otherwise stated. Past performance is not indicative of future results. Please refer to the appendix for important information and related performance disclosure in section 16.5.

WALTER SCOTT USD COMPOSITE PERFORMANCE SCHEDULE  
AS AT 30 SEPTEMBER 2016

PERCENTAGE RETURNS, ANNUALISED FROM TWO YEARS ONWARDS

Period	Quarter	One Year	Three Years	Five Years	Ten Years	Fifteen Years	Twenty Years	Twenty-Five Years	Thirty Years
Walter Scott Global Equities	3.5	14.1	6.3	11.8	7.5	9.9	9.9	10.2	10.7
MSCI World	4.9	11.4	5.8	11.6	4.5	6.3	5.9	6.8	7.4
Walter Scott Europe Equities	4.4	13.6	3.2	10.4	7.4	10.5	9.5	9.9	-
MSCI Europe	5.4	2.5	-0.6	7.5	1.5	5.7	5.8	7.0	-
Walter Scott USA Equities	3.1	16.1	7.5	13.9	-	-	-	-	-
MSCI USA	3.9	14.4	10.3	15.6	-	-	-	-	-
Walter Scott Emerging Markets Equities	6.3	24.4	0.8	6.0	8.0	13.7	-	-	-
MSCI Emerging Markets <sup>~</sup>	9.2	17.2	-0.2	3.4	4.3	11.9	-	-	-
US Income Growth Composite	-0.3	17.8	9.5	14.8	9.5	-	-	-	-
MSCI USA	3.9	14.4	10.3	15.6	6.7	-	-	-	-
EAFE Income Growth Composite	3.6	17.3	4.1	8.9	6.1	-	-	-	-
MSCI EAFE	6.4	6.5	0.5	7.4	1.8	-	-	-	-

Walter Scott claims compliance with the Global Investment Performance Standards (GIPS®).  
Performance is shown gross of investment management fees; Past performance is not a guide to future performance.

Source: Walter Scott, MSCI. #Walter Scott International Equities is also known as the Walter Scott EAFE Equities Composite. MSCI indices are shown on a total return, net dividends reinvested basis unless otherwise stated. ~MSCI Emerging Markets is shown with gross dividends reinvested. Past performance is not indicative of future results. Please refer to the appendix for important information and related performance disclosure in section 16.5.

## INVESTMENT BIOGRAPHIES

### INVESTMENT EXECUTIVE

#### RODGER NISBET

Rodger is the executive chairman of Walter Scott. After joining the firm in 1993 and training as an investment analyst, he went on to play a principal role in the development of the firm's emerging markets strategy. Following his appointment to the board in 2003, Rodger took a lead role in the development of Walter Scott's business in Canada, South Africa and Australia. He holds a BA (hons) from the University of Dundee.

#### JANE HENDERSON

Jane is the managing director of Walter Scott. After joining the firm in 1995 and training as an investment analyst, she was instrumental in the development of the firm's US investment strategy and co-chaired the Investment Management Group prior to becoming managing director in 2010. She holds a BSc (hons) in Marine and Environmental Biology from the University of St. Andrews.

#### CHARLES MACQUAKER

Charlie is an investment director of Walter Scott. He joined the firm in 1991 and the Board of Walter Scott in 2009. Charlie holds a BSc (Econ) (hons) in European Studies from Buckingham University.

#### ROY LECKIE

Roy is an investment director of Walter Scott. He joined the firm in 1995 and the Board of Walter Scott in 2008. Roy holds a BSc (hons) in Statistics from the University of Glasgow.

### INVESTMENT RESEARCH

#### ALEX TORRENS

Alex is co-head of research. He joined Walter Scott in 2010 having previously worked in numerous departments across the firm during university holidays. He holds a BA (hons) in Law from Cambridge University.

#### ALAN EDINGTON

Alan is co-head of research. Prior to joining Walter Scott in 2012 he worked at ManoCap, a private equity firm based in Sierra Leone, and at the UK law firm Slaughter and May. Before university, Alan undertook an extended internship at Walter Scott. He holds a BA (hons) in Law from Oxford University. Alan became a CFA charterholder in 2015.

#### FIONA MACRAE

Fiona MacRae is an investment manager. She joined Walter Scott in 2014. Fiona began her career as an investment manager in 1987 most recently working at Alliance Trust where she was responsible for European equities. She holds an LLB (hons) in Law from the University of Edinburgh.

#### FRASER FOX

Fraser is an investment manager. He joined Walter Scott in 2003. Fraser holds an LLB (hons) in Law from the University of Edinburgh and became a CFA charterholder in 2006.

#### MAXIM SKORNIAKOV

Maxim is an investment manager. He joined Walter Scott in 2003. Maxim holds an MA in Economics from the University of Colorado and an MSc in Investment Analysis from the University of Stirling. He became a CFA charterholder in 2006.

#### DES ARMSTRONG

Des is an investment manager. Prior to joining Walter Scott in 2004 he spent four years at Scottish & Newcastle plc, initially as a graduate trainee. He holds a BSc (hons) in Pharmacology from the University of Aberdeen.

#### LINDSAY SCOTT

Lindsay is an investment manager. Prior to joining Walter Scott in 2004 she trained in accountancy at AstraZeneca in Manchester before moving to London in 2000 to join the European healthcare team within SG Cowen's corporate finance team. She holds a BSc (hons) in Biology from Nottingham University and an International MBA awarded by the University of Edinburgh and ESADE Business School in Spain.

## INVESTMENT BIOGRAPHIES (CONTINUED)

### YUANLI CHEN

Yuanli is an investment manager. Prior to joining Walter Scott in 2006 she worked with Mitsubishi Corporation in Beijing and then as an investment analyst at Alliance Trust. She also worked at China Economics and Business Monitor, a start-up investment consulting company in Shanghai. Yuanli holds a BA in Business English from the University of International Business and Economics in Beijing and an MSc in Investment Analysis from the University of Stirling. She became a CFA charterholder in 2003.

### MURDO MACLEAN

Murdo is an investment manager. Before joining Walter Scott in 2006 he lived and worked in Japan for six years. He holds a BA (hons) in Japanese and Marketing from the University of Stirling.

### ALAN LANDER

Alan is an investment manager. He joined Walter Scott in 2006. He holds a BSc (hons) in Mathematics from the University of Nottingham and an MSc in Financial Mathematics awarded jointly by Edinburgh and Heriot-Watt Universities. Alan became a CFA charterholder in 2010.

### THOMAS MIEDEMA

Tom is an investment manager. Before joining Walter Scott in 2007 he worked at Baillie Gifford having previously lived and worked in Taiwan. He holds an MA in Business and Economics from Heriot-Watt University, Edinburgh. Tom became a CFA charterholder in 2011.

### JAMIE ZEGLEMAN

Jamie is an investment manager. He joined Walter Scott in 2008. He holds an MA (hons) in Mathematics and Economics from the University of St. Andrews. Jamie became a CFA charterholder in 2012.

### PAUL LOUDON

Paul is an investment analyst. Prior to joining Walter Scott in 2014 he worked at Morgan Stanley in London. He holds a BA in Economics from Durham University and an MA in Land Economy from Cambridge University.

### MATTHEW GERLACH

Matthew is an investment analyst. Having been an intern at Walter Scott in 2015, he joined the firm in January 2016. Prior to this, Matthew undertook internships at Stryker and the Trade & Investment Department of the British Consulate-General in Sao Paulo, Brazil. He grew up in Sao Paulo and Buenos Aires, Argentina. Matthew graduated with a BSc (hons) in Management from Warwick Business School in 2015.

## APPENDIX

### 1. DEFINITION OF FIRM

Walter Scott & Partners Limited (“Walter Scott”) is an investment management firm authorized and regulated in the United Kingdom by the Financial Conduct Authority in the conduct of investment business. Walter Scott is a wholly-owned subsidiary of The Bank of New York Mellon Corporation. Walter Scott is responsible for portfolios managed on behalf of pension plans, endowments and similar institutional investors. Total assets under management were US\$60.9 billion as at 30 September 2016.

### 2. FIRM COMPOSITES

Walter Scott constructs composites of portfolios invested in equities. They include US dollar composites for EAFE, Global, European and Emerging Markets mandates, Canadian dollar composites for EAFE and Global mandates, and a number of others.

Composites include all portfolios managed by Walter Scott where the company has full discretionary authority. No non-fee paying portfolios are included in the composites presented in this report. Portfolios where Walter Scott acts in an advisory only role are excluded from composites.

Composite figures in this presentation are extracted from one or more of the composites reports prepared by Walter Scott in compliance with the Global Investment Performance Standards (GIPS). The effective date of compliance of the Firm with GIPS standards is 1 January 1994.

### 3. CALCULATION METHODOLOGY

Performance results are calculated on a total return basis and include all portfolio income, unrealized and realized capital gains, contributions and withdrawals and are geometrically linked. Cash and cash equivalents are included in total portfolio assets and in the return calculations. Trade date accounting is used for valuations. For periods less than one year, rates of return are not annualized.

The composite shown is an aggregation of portfolios representing a similar investment strategy. Composites are size-weighted using beginning of period values to weight portfolio returns. Portfolios are included in a composite beginning with the first full month of performance and until the month immediately prior to termination of an account.

Annualized return represents the level annual rate which, if earned each year in a multiple-year period, would produce the actual cumulative rate of return over the whole period.

### 4. FEES AND TRADING EXPENSES

Composites are net of trading expenses, administrative fees and non-reclaimable withholding taxes on dividends and interest. Withholding taxes vary depending upon the country of investment but range between 0% and 30%. Benchmark returns are net of withholding taxes on dividends unless otherwise stated. Performance results net of fees are available on request.

### 5. INTERNAL DISPERSION

The internal dispersion measure presented is the equal-weighted standard deviation of the annual returns of all the portfolios that were included in the composite for the entire period, but is not appropriate for less than five portfolios.

### 6. COMPOSITE CREATION DATE

The composite creation date is the date on which Walter Scott first grouped portfolios to create the composite.

### 7. MINIMUM PORTFOLIO VALUE

From 1 October 2014, a minimum asset level for inclusion in all composites has been set at \$2m or composite currency equivalent. Portfolios that have previously been below this level must maintain a market value greater than US\$2 million for three consecutive month-ends prior to being included in the composite (from the following month). Similarly, if a portfolio's market value has dropped below this threshold, the month-end market value must remain below this level for three consecutive month-ends before being excluded from the next month.

### 8. STANDARD DEVIATION

The three-year annualised standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The standard deviation is not presented when monthly returns were not available throughout the full 36-month period.

### 9. EXCHANGE RATES

WM/Reuters Closing Spot rates (taken at 4pm London time) are used in portfolio and composite level return calculations. Prior to 1 October 2014, composite return calculations were based on custodian exchange rates at the individual portfolio level. This created additional transient dispersion between the returns of portfolios which make up the composite. Benchmark data also uses the WM/Reuters Closing Spot rates.

### 10. LEVERAGE, DERIVATIVES AND SHORT POSITIONS

Walter Scott does not generally use derivatives, but American style currency options have been used occasionally for hedging purposes. Walter Scott does not use leverage or short positions.

### 11. FIRM POLICIES

Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

### 12. BENCHMARK DEFINITIONS

Walter Scott compares its composites against the published MSCI indices as shown in this presentation. Further information on these indices can be found at [www.msci.com](http://www.msci.com).

## APPENDIX

### 13. COMPOSITE DESCRIPTIONS

Walter Scott applies the same investment philosophy and process across all portfolios, regardless of size, mandate type or base currency.

Walter Scott uses broad inclusion criteria for its composites. Some composites may contain portfolios that have ethical or other investment restrictions, and portfolios that are subject to different tax regimes. Although these mandate differences can lead to some performance dispersion within composites, Walter Scott believes that its composite methodology accurately reflects the firm's investment record. The returns for each composite are shown alongside the relevant benchmark.

Walter Scott has been independently verified from 1 January 1994. Performance data for the full history of some composites has not been shown. This information is available on request.

A description of each composite included in this report follows. A full list of the firm's composite descriptions is available on request.

#### **Walter Scott Global Equities USD**

This composite includes all global equity portfolios with a US dollar base currency that have broadly similar mandates and guidelines.

#### **Walter Scott EAFE Equities USD**

This composite includes all global ex USA equity portfolios with a US dollar base currency that have broadly similar mandates and guidelines.

#### **Walter Scott Europe Equities USD**

This composite includes all European equity portfolios with a US dollar base currency that have broadly similar mandates and guidelines.

#### **Walter Scott USA Equities USD**

This composite includes all USA equity portfolios with a US dollar base currency that have broadly similar mandates and guidelines.

#### **Walter Scott Emerging Markets Equities USD**

This composite includes all emerging market equity portfolios with a US dollar base currency that have broadly similar mandates and guidelines.

#### **Walter Scott USA Income Growth Equities USD**

This composite includes all US dollar based USA equity portfolios that are managed with an emphasis on dividend growth that have broadly similar mandates and guidelines.

#### **Walter Scott EAFE Income Growth Equities USD**

This composite includes all US dollar based global ex USA equity portfolios that are managed with an emphasis on dividend growth that have broadly similar mandates and guidelines.

### 14. FEE SCHEDULE

Unless otherwise stated, returns are calculated gross of advisory fees, and include the reinvestment of dividends. The effect of advisory fees could be material. If the advisory fees were reflected, the performance shown would be lower. As an example of the effect of investment advisory fees on the total value of an account, a three year compound return before the deduction of investment advisory fees of 14.75% would be 13.61% after investment advisory fees of 1.00% per annum.

Investment advisory fees are described in more detail in Part II of Form ADV for Walter Scott. An example of the current US\$ fees charged to a portfolio included in the composite are set forth below.

Segregated Accounts:	%	Commingled Accounts:	%
Initial funding in excess of US\$100m		International <sup>1,3</sup> /Global LLC <sup>1,3</sup>	
On the first US\$100m	0.75	Flat fee	1.00
Thereafter	0.50		
		International <sup>2</sup> /Global <sup>2</sup> /EM Group Trust <sup>2</sup>	
Funding in excess of US\$250m		On the first US\$50m	1.00
On the first US\$250m	0.55	Next US\$25m	0.85
Next US\$250m	0.50	Thereafter	0.60
Next US\$250m	0.45		
Next US\$250m	0.40	Group Trust USA <sup>2</sup>	
Thereafter	0.35	On the first US\$100m	0.70
		Thereafter	0.50
Funding in excess of US\$500m		Notes:	
On the first US\$500m	0.50	1. Fund pays custody and other expenses	
Next US\$250m	0.45	2. Manager pays custody	
Next US\$250m	0.40	3. Segregated fees not applicable in this fund	
Thereafter	0.35		

### 15. COMPLIANCE STATEMENT

Communication of performance figures reflected in this document must be on a one-on-one basis, private and of a confidential nature. They may not be disseminated to the public in any print, electronic or other medium, including a web-site or any database of general circulation. The following disclosures must be provided in writing when onwardly communicating these performance figures.

- 1) Unless otherwise stated performance figures do not reflect the deduction of investment advisory fees.
- 2) Returns will be reduced by investment advisory fees and any other expenses that may be incurred in the management of an account.

## APPENDIX

### 16. IMPORTANT INFORMATION

#### 16.1 Walter Scott's Investment Approach

This presentation contains certain statements based on Walter Scott's experience and expectations about the markets in which it invests its portfolios and about the methods by which it causes its portfolios to be invested in those markets. Those statements are not guaranties of future performance and are subject to many risks, uncertainties and assumptions that are difficult to predict. The information in this presentation is subject to change and Walter Scott has no obligation to revise or update any statement herein for any reason. The opinions expressed in this presentation are those of Walter Scott and should not be construed as investment advice.

#### 16.2 Portfolio Holdings and Allocations

To derive ten largest holdings, characteristics, economic sector weightings, country weightings and portfolio holdings for presentation purposes, Walter Scott has identified a representative institutional account to be used as a proxy for this strategy.

This portfolio data should not be relied upon as a complete listing of the portfolio's holdings (or top holdings) as information on particular holdings may be withheld. Portfolio holdings are subject to change without notice and may not represent current or future portfolio composition. The portfolio date is 'as of' the date indicated.

The information provided in this document should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in a portfolio at the time this report is received or that securities sold have not been repurchased. The securities discussed do not represent an entire portfolio and in the aggregate may represent only a small percentage of a portfolio holdings.

It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions Walter Scott make in the future will be profitable or will equal the investment performance of the securities discussed herein.

The allocation distribution and actual percentages may vary from time to time. The types of investments presented in the allocation chart will not always have the same comparable risks and returns. The actual performance of the portfolio will depend on Walter Scott's ability to identify and access appropriate investments, and balance assets to maximize return while minimizing its risk. The actual investments in the portfolio may or may not be the same or in the same proportion as those shown above.

#### 16.3 Definitions

Beta = Portfolio Beta and is the measure of the sensitivity of rates of return to changes in the market return.  $R^2$  = The R-Squared of a portfolio relative to the market and indicates the proportion of a security's total variance explained by variations in the market.

#### 16.4 Third Party Sources

Some information contained herein has been obtained from third party sources that are believed to be reliable, but the information has not been independently verified by Walter Scott. Walter Scott makes no representations as to the accuracy or the completeness of such information and has no obligation to revise or update any statement herein for any reason.

#### 16.5 Performance Statement

Past performance is not a guide to future returns and the objective mentioned may not be reached. The value of investments and the income from them can fall as well as rise and investors may not get back the original amount invested. The value of overseas securities will be influenced by fluctuations in exchange rates. This presentation may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is unlawful or not authorized.

Some of the data included reflects performance and characteristics of the assets of other accounts managed by Walter Scott, (collectively, the "Other Accounts"). Such assets are managed with a similar investment philosophy and process to the International Equity strategies. Performance information of the Other Accounts is presented gross of management fees and expenses that would be applicable to fund investors. There may be material differences between the International Equity strategies and the Other Accounts and their respective investment strategies. Therefore, information from the Other Accounts is included for illustrative purposes only and should not be relied upon when making an investment decision.

#### 16.6 Performance Indices

Comparisons to the indices have limitations because the volatility and material characteristics of the indices represented in this presentation may be materially different from that of the portfolio managed by Walter Scott. Because of these differences, investors should carefully consider these limitations when evaluating the performance in comparison to benchmark data as provided herein. Where referencing MSCI or any other index performance figures:

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### 16.7 Benchmark Definitions

#### **MSCI World**

The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. As of June 2014 the MSCI World Index consists of the following 23 developed market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States.

#### **MSCI EAFE (Europe, Australasia, Far East)**

The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. As of June 2014 the MSCI EAFE Index consists of the following 21 developed market country indexes: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

#### **MSCI Europe**

The MSCI Europe Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Europe. As of June 2014 the MSCI Europe Index consists of the following 15 developed market country indexes: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

#### **MSCI USA**

The MSCI USA index is a free float-adjusted market capitalization index that is designed to measure equity market performance of the US market.

#### **MSCI Emerging Markets**

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of June 2014 the MSCI Emerging Markets Index consists of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

### 16.8 Private Fund Information and Risks

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BNY Mellon Investment Management Cayman Ltd., (the "Manager") a Cayman Islands exempted company, serves as Manager to the Fund and is responsible for the overall management of the Fund. The Manager has delegated day-to-day portfolio management responsibility of the Fund to Walter Scott (the "Investment Manager").

Investments in private funds are speculative and involve special risks. Investments in private funds may be suitable only for certain investors. The following is not an inclusive list of all risk factors applicable to hedge funds and private funds: Funds often engage in investment practices that may increase the risk of investment loss. An investor could lose all or a substantial portion of his or her investment. Private funds are generally not subject to the same regulatory oversight and/or regulatory requirements as mutual funds. Due to the fund's tax structure, it may take longer to distribute important tax information. Funds may not be required to provide daily valuation information to investors. Performance may be volatile. There can be no assurance that a fund's objectives will be met. Fees and expenses may offset an investor's profits. The investment adviser has total discretion over strategy selection and allocation decisions. A lack of manager and/or strategy diversification may result in higher risk. There is generally no secondary market for an investor's interest in a privately-offered fund. Any potential risk factors discussed in connection with this presentation are not intended to be a complete list of risks associated with an investment in any fund. A more comprehensive description of the private fund's investment philosophy and the potential risk factors are outlined in the offering memorandum of each private fund.

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### 16.9 Placement Agent

Securities offered through MBSC Securities Corporation, a registered broker dealer. MBSC Securities Corporation, BNY Mellon Investment Management Cayman Ltd. and Walter Scott are subsidiaries of The Bank of New York Mellon Corporation. BNY Mellon Investment Management is one of the world's leading investment management organizations and one of the top U.S. wealth managers, encompassing BNY Mellon's affiliated investment management firms, wealth management services and global distribution companies. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may also be used as a generic term to reference the Corporation as a whole or its various subsidiaries generally. Products and services may be provided under various brand names and in various countries by subsidiaries, affiliates, and joint ventures of The Bank of New York Mellon Corporation where authorized and regulated as required within each jurisdiction.

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On behalf of us all,  
thank you.

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