

Mondrian International Equity DPIX

Outperformance in downturns pays off over time.

Morningstar's Take DPIX

Morningstar Rating ★★★★★

Morningstar Analyst Rating Bronze

Morningstar Pillars

Process		Positive
Performance		Positive
People		Positive
Parent		Positive
Price		Positive

Role In Portfolio

Core

Fund Performance DPIX

Year	Total Return (%)	+/- Category
YTD	-11.74	3.70
2017	21.42	-0.65
2016	4.02	0.68
2015	-3.93	-0.83
2014	-2.83	3.48

Data through 12-31-18

12-28-18 | by Gregg Wolper

Mondrian International Equity has a solid approach and the right team in place to execute it. The fund earns a Morningstar Analyst Rating of Bronze.

Stability is a strong point here. Founded in the early 1990s, Mondrian—a boutique based in London—is still led by its founders and still relies on the patient, dividend-focused value strategy that they brought to the firm. Lead manager Elizabeth Desmond has been with Mondrian since the beginning. Comanagers Nigel Bliss and Melissa Platt joined the firm in 1995 and 2004, respectively. Several of the other analysts and managers on the global/international team also have long tenures at Mondrian.

The managers combine in-depth research of individual companies with top-down evaluations of country factors and currency levels (the latter are largely valued by Mondrian's fixed-income/currency team, but any hedges, used rarely, are implemented

by this group). The team's long-term focus shows in the fund's annual turnover rate, which is consistently lower than 30%. By putting an emphasis on companies that are healthy and well-positioned enough to consistently pay decent dividends, the managers hope they'll enable the fund to hold up better than most when investors get skittish and markets fall. That has played out. The fund has typically lost less than peers and its MSCI EAFE Index benchmark in market downturns. It faced quite a test of that ability in recent weeks as markets tumbled, and for the trailing month through Dec. 27, 2018, it has beaten the foreign large-value Morningstar Category average and the index by about a percentage point each. For the year to date, it is 4 percentage points ahead of the category. Its long-term performance going back 15 years is also impressive.

As its December 2018 return indicates, the fund is far from bulletproof: It still suffers losses, sometimes substantial ones, when markets fall, even if those are less than rivals'. Its caution can lead it to lag in rallies, as in 2017 (though it still posted a 21.4% gain). All in all, though, this is a reliable choice for the long term.

Process Pillar Positive | Gregg Wolper 12/28/2018

This fund uses an income-focused value strategy, an approach brought in by Clive Gillmore and David Tilles when they founded Mondrian Investment Partners in the early 1990s. The managers and analysts establish values for companies based on a dividend discount model and look out longer than most rivals, even decades if possible. Unlike most other foreign-stock funds, this one states candidly that a large amount of its analysis—40% by its estimate—is devoted to top-down factors. The teams do not rank countries and currencies based on political or macroeconomic forecasting; rather, they base their judgments on quantitative figures for inflation, interest rates, and currency levels applied to the top names in the countries' indexes. The other

60% of the analysis relies on fundamental research into individual companies, getting down to an approved core list of about 80 stocks.

When deciding the proper valuations for stocks, they tend to rely more on price/cash flow than price/earnings or price/book value, saying the former is more consistent and reliable. Top holdings are allocated a bit over 3% of assets. They use currency hedging on occasion when they—working with Mondrian's fixed-income/currency team—see the value of a currency lies more than 2 standard deviations outside its usual range as measured by purchasing power parity. Owing to their long-range focus, turnover rates are low, consistently 20%-30% per year.

With a fairly low turnover rate, this portfolio doesn't show dramatic changes from one quarter to the next, or even over a year. As usual, the metrics from its most recent edition, from September 2018, land squarely in the upper part of the large-value portion of the Morningstar Style Box, as befits its profile as an income-oriented value fund that typically focuses on big companies. When it comes to individual stock allocations, the managers spread their bets around in one sense: Top holdings get roughly equal percentages of assets rather than one or two overshadowing the others. But the managers don't shy away from making commitments. The portfolio typically holds just 50-60 stocks, and top holdings get 3%-4% of assets. In the most recent portfolio, Sanofi SNY is the number-one holding, with 3.6% of assets. It's one of three big pharmaceutical companies in the top 15, with Japan's Takeda Pharmaceutical TKPY and GlaxoSmithKline GSK joining it. Along with a fairly low turnover rate, a look at the upper reaches of the portfolios also reveals the managers' patience: 12 of those 15 stocks have been in the portfolio since at least 2015, many for much longer (Takeda's been in the portfolio for 14 years.)

As usual, emerging markets get very little exposure in the most recent portfolio. Only 4% of assets were

devoted to companies based in emerging markets including South Korea and Taiwan.

Performance Pillar + Positive | Gregg Wolper
12/28/2018

This fund has racked up solid performance over the long term as well as shorter periods, whether measured by conventional total returns or risk-adjusted measures. As a result, the fund receives a Positive Performance rating.

Lead manager Elizabeth Desmond has been a manager on this fund since 1999 and CIO for international equities since January 2008, and the other managers have been analysts or managers for the fund for more than 10 years. Thus, even though other managers have been listed on the fund in the past, including Mondrian founders Clive Gillmore and David Tilles, the long-range performance is a reasonable reflection on the current team and strategy (which has remained intact). The fund has beaten roughly two thirds of its foreign large-value category rivals and also topped its MSCI EAFE Index benchmark over the trailing 15-year period through Nov. 30, 2018. It also looks good over shorter trailing periods. With the fund's defensive traits paying off, the fund's risk-adjusted returns are even more impressive. (In 2011, the fund lost just 3.7%, compared with losses of 12% to 14% for the category average and the index.) It often lags in rallies, as it did in 2017's strong upsurge, but it still gained 21.4%, less than a percentage point behind the category norm. And in 2018's rough conditions, the fund has posted a more moderate loss than the category and the index, as one would expect.

People Pillar + Positive | Gregg Wolper
12/28/2018

The experience and consistency of this management and analyst team earns it a Positive People rating. Lead manager Elizabeth Desmond has been at Mondrian since the early 1990s and has been a named manager on this fund since 1999. In January 2005 she was named joint CIO for developed markets and in January 2008 became sole CIO for all international equities, and head of the international strategy committee. Desmond works with two other named managers on this fund: Melissa Platt, who joined Mondrian in 2004 after stints at KPMG and FundSource Research and was named a manager on this fund in February 2012; and Nigel Bliss, who has

been with Mondrian since 1995 and was listed as a manager on this fund in November 2014. The managers also serve as analysts, with their own areas of specialty. Platt, for example, focuses on companies in Spain, Italy, and Switzerland, and the general consumer sector. The managers usually all have to agree on portfolio decisions, but if there is disagreement, Desmond has the final call. Including these managers, there are 18 members of the international/global-equity group, most of whom have been at Mondrian for at least a decade. (The only departures from this team over the past 10 years are one analyst who left the investment field in mid-2017 and another who shifted to a business role at Mondrian in 2014.) All are based in London, along with the rest of Mondrian's investment personnel.

Parent Pillar + Positive | Gregg Wolper
01/26/2018

Mondrian Investment Partners, a London-based boutique that focuses mainly on institutional accounts, is an admirable parent. It was founded in the early 1990s by investors who believed strongly in the value strategy they had developed and who did not want to expand into other areas then popular in the market, as they felt their employers were pressuring them to do. The co-founders are still leading the firm, which offers just one mutual fund in the United States, Mondrian International Equity DPIX. That fund has less than \$1 billion in assets, but the firm has approximately \$60 billion under management, with most of that amount coming from institutional clients in the U.S. The firm offers other strategies, including emerging-markets stocks and global fixed income, but all use a variation of the firm's value approach. Manager and analyst retention is good, helped by a policy of spreading equity ownership widely throughout the firm; roughly half of the firm's staff own equity or the equivalent. Mondrian International Equity's solid record is built on relatively impressive showings when markets decline, which is the pattern that the firm's defensively oriented strategy aims to provide.

Mondrian Investment Partners' CEO and co-founder Clive Gillmore says he expects to stay in charge for another decade or so, and that his successors also will have to be experienced investors who have spent plenty of time personally managing money.

Price Pillar + Positive | Gregg Wolper
12/28/2018

This fund offers just one share class, an Institutional class. Its expense ratio has been falling in recent years; in the most recent prospectus from March 2018 as well as the annual report from October 2017, it was 0.79%. That lands in the second-cheapest quintile for institutional shares of foreign large-cap funds, earning a Positive Price rating.