

# Mondrian International Value Equity MPIX

A solid foundation, though encountering headwinds in 2022.

## Morningstar's Take MPIX

**Morningstar Rating** ★★★

**Morningstar Analyst Rating** Silver

### Morningstar Pillars

Process	● Above Average
Performance	—
People	● Above Average
Parent	● Above Average
Price	—

### Role In Portfolio

Core

### Fund Performance

Year	Total Return (%)	+/- Category
YTD	-20.14	-1.53
2021	10.76	-1.07
2020	-4.29	-5.17
2019	17.97	0.17
2018	-11.74	3.70

Data through 10-31-22

9-26-22 | by Gregg Wolper

Mondrian International Value Equity's reasonable, consistent approach implemented by a capable, stable management team merits a Morningstar Analyst Rating of Silver.

Founded in the early 1990s, London-based Mondrian still relies on the patient, dividend-focused value strategy that its founders installed upon its creation. Long tenures abound. Lead manager Elizabeth Desmond has been with Mondrian since the beginning, and one comanager, Nigel Bliss, joined the firm in 1995. The other, Zsolt Mester—who assumed this role after a rare manager departure in 2019—has been on Mondrian's international team since 2014. Many others in the 16-person international/global group have also been on board for many years.

The managers combine top-down evaluations of country-specific factors with detailed company

analysis when assembling the portfolio. They intend to own companies for a long time, as illustrated by a relatively low turnover rate: just 19% in the most recent fiscal year. They don't require a certain dividend rate, but they feel that companies that can consistently pay decent dividends provide the portfolio a better chance to withstand market turmoil. And the strategy did lose less than the foreign large-value Morningstar Category average in 2018's fourth quarter and the bear market of early 2020. Its 10-year standard deviation is milder than the category norm.

However, the fund has not held up better than most rivals in 2022's market slide. Its 16% year-to-date loss through August was about 1 percentage point worse than the category average and more than 2 points behind the MSCI EAFE Value Index. Among the factors holding the fund back this year are a substantial overweighting in Japan, whose currency has declined against the U.S. dollar even more than other major currencies, and an underweighting in the relatively well-performing financials sector. Although some top holdings have held up relatively well, a deep drop in one of them, GSK (formerly GlaxoSmithKline) GSK, didn't help.

However, there's good reason to believe that over time the fund's defensive traits will pay off in most downturns as they have in the past, helping the fund outperform overall.

**Process Pillar** ● Above Average | Gregg Wolper 09/26/2022

This fund uses an income-focused value strategy, an approach first instituted by Clive Gillmore and David Tilles when they founded Mondrian Investment Partners in the early 1990s. It earns an Above Average Process rating.

The managers and analysts establish values for companies based on a dividend discount model and have a long time horizon. Unlike most other

international 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 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, leading to an approved list of about 80 stocks.

When deciding on proper valuations, 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 typically get a bit over 3% of assets. They use currency hedging on rare occasions when they—working with Mondrian's fixed-income/currency team—see that the value of a currency lies more than 2 standard deviations outside its usual range as measured by purchasing power parity. Turnover rates are relatively low, consistently around 20%-30% per year.

As usual, the metrics from the June 2022 portfolio land squarely in the upper part of the large-value portion of the Morningstar Style Box, in nearly the same spot as the average foreign large-value category peer and close to the MSCI EAFE Value Index. That befits the strategy's profile as an income-oriented value fund. That said, the fund's portfolio differs markedly from the category norm and the index in its country and sector allocations. Most notable is the fund's 29.3% weight in Japan, about 6.5 percentage points higher than the index's weight and 12 points above the foreign large-value average. The managers say that's not a country call; rather, they claim that there are plenty of Japanese firms with strong prospects and trading at attractive prices—and in fact the Japan overweighting has been in place quite a few years. On the flip side, the fund's 14% weight in the financial-services sector is far below the index's weight and the category average. On the individual

stock level, the managers continue to like the big pharmaceutical firms: Four of the top six names in the June 2022 portfolio are Novartis NVS, Sanofi SNY, GSK GSK, and Takeda Pharmaceuticals. The managers say that each of these giants has different strengths but that all are solid companies with strong cash flow, and that they're more focused on drug research and development now that they've spun off their consumer-products divisions.

**Performance Pillar** | Gregg Wolper 09/26/2022

After lagging in the post-bear-market rebound in 2020 and encountering headwinds in 2022's tumbling market, this fund's long-term record doesn't look as impressive as it had previously, though it's respectable.

Until this year, this fund's defensive traits consistently helped it navigate troubled waters better than most. For example, in the early-2020 pandemic-driven bear market, it slightly outperformed the foreign large-value category average and the MSCI EAFE Value Index even though its portfolio had a deeper value tilt than either. It outperformed by wider margins during 2018's rough fourth quarter. The trouble in 2020, relatively speaking, came when the fund couldn't keep up with the strong rebound led by growth stocks that moderated only late in the year. In 2022, the fund's 16% year-to-date loss through August was about 1 percentage point worse than the category average and more than 2 points behind the MSCI EAFE Value Index. Among the factors holding the fund back this year were a substantial overweighting in Japan, whose currency has plunged against the U.S. dollar even more than other major currencies have done, and an underweighting in the relatively well-performing financials sector. Although some top holdings held up relatively well, a deep drop in one of them, GSK GSK, hurt. Over the trailing 15-year period, the fund has exactly matched the category norm while topping the MSCI EAFE Value Index by about 60 basis points annualized.

**People Pillar**  Above Average | Gregg

Wolper 09/26/2022

The experience and record of this management and analyst team earn it an Above Average 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: Nigel Bliss, who has been with Mondrian since 1995 and was listed as a manager on this fund in November 2014; and Zsolt Mester, who was named as a manager on the fund in March 2019 and has been on the team since 2014. (A rare departure occurred three years ago, when Melissa Platt, who had been a manager on this fund since 2012, left Mondrian to return to her native New Zealand.) The managers also serve as analysts, with their own areas of specialty. The managers usually all tend to agree on portfolio decisions, but if there is disagreement that can't be resolved, Desmond has the final call. Including these managers, there are 16 members of the international/global-equity group, most of whom have been at Mondrian for at least a decade. All of Mondrian's investment personnel are based in London, including CEO and co-founder Clive Gillmore, who originally instituted the value-focused approach that's still the only style followed by the firm.

**Parent Pillar**  Above Average | Gregg

Wolper 06/01/2022

Sound succession planning and a dedication to its time-tested approach earn Mondrian Investment Partners an Above Average Parent rating. The co-founders of this value-oriented boutique, founded in the early 1990s, remain in charge. CEO Clive Gillmore, who is 62, says he plans to stay in that position at least five more years and become executive chairman after that. Nonetheless, he's making plans for a smooth succession, an action sometimes lacking at founder-led firms. He and colleagues have shared with the board the names of several younger potential successors. Most come from the investment side, as Gillmore says he'd prefer the firm remain under the leadership of investors.

Mondrian had approximately USD 60 billion under management as of March 2022, up from USD 55 billion in late 2019. Manager and analyst retention

is strong, helped by a policy of spreading equity ownership widely; about half of the roughly 180 employees are partners, including all 57 of the investment staff. Another prolonged bout of underperformance by international value stocks could pose a challenge, as more than 90% of assets are in equity accounts, nearly all focused on non-U.S. markets. Only 7% is in fixed-income vehicles. The firm weathered the most recent value drought well, though, and Gillmore argues that solid performance from a consistent strategy will always appeal to investors.

**Price Pillar** | Gregg Wolper 09/26/2022

It's critical to evaluate expenses, as they come directly out of returns. The share class on this report levies a fee that ranks in its Morningstar category's second-cheapest quintile. Based on our assessment of the fund's People, Process and Parent pillars in the context of these fees, we think this share class will be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Analyst Rating of Silver.