

International Equity Strategy Methodology

Stage 1: Qualitative Analysis

We define quality as the sustainable competitive advantage a company enjoys over its competition. We have a checklist to assess competitive advantage including the following variables: product, price, service, management, cost position, market position, financial strength, strategic planning, technology, and execution.

This is a dynamic process whereby different variables are given greater weight in some industries while given lesser weight in others. The key is to determine the critical driving forces in each industry in order to accurately assess the relative competitive advantages that each company may possess.

Stage 2: Top-Down Analysis

We identify long-term market drivers, or secular trends, which determine the sectors of the market likely to outperform and those likely to underperform the overall market. Based on this analysis we will position portfolios to hold a larger or smaller position in relation to the sector weights in the S&P 500.

Stage 3: Quantitative Analysis

We utilize industry specific valuation methodologies to determine the upside and downside potential for stocks that pass our qualitative screens. Typically, this involves approximately 200 companies.

Valuation parameters include: Price/Earnings (PE), Price/Cash Flow (PCF), Price to Growth (PEG), Price to Sales (PS), and Price/Book Value (PBV). Each of these valuation measures is analyzed relative to the overall market and historical industry averages.

Portfolio Review and Sell Discipline

We continually retest each holding in the portfolio in the context of our three-step investment process. First, we challenge our qualitative assessment of each company as the competitive landscape changes within each industry. Second, we review our overall top-down strategy on an ongoing basis through the various stages of the economic cycle. Third, through our quantitative valuation models we monitor the relative upside and downside of each individual stock in the portfolio.

Our sell discipline flows from our three-step process as follows: First, if the company loses its quality – no longer has a sustainable competitive advantage vs. its competition it would be a candidate for sale. Second, a change in our top-down strategy may lead to increasing exposure in one sector and reducing exposure in another sector. Third, if a stock becomes over-valued based on our valuation analysis it may be a candidate for sale.