



*Investment Program*

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## PUBLIC EQUITY DUE DILIGENCE REVIEW

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San Jose Police and Fire Department Retirement Plan  
Investment Committee

# IPS Statement

## Manager Selection Policy

*A. The Board has delegated to the CIO the authority to select and terminate all investment managers of the Plan subject to constraints and parameters contained herein. Such authority shall be further subject to Manager Selection, Retention, Evaluation & Termination Procedures (“Procedures”), approved by the CIO, that provide more detailed constraints and parameters.*

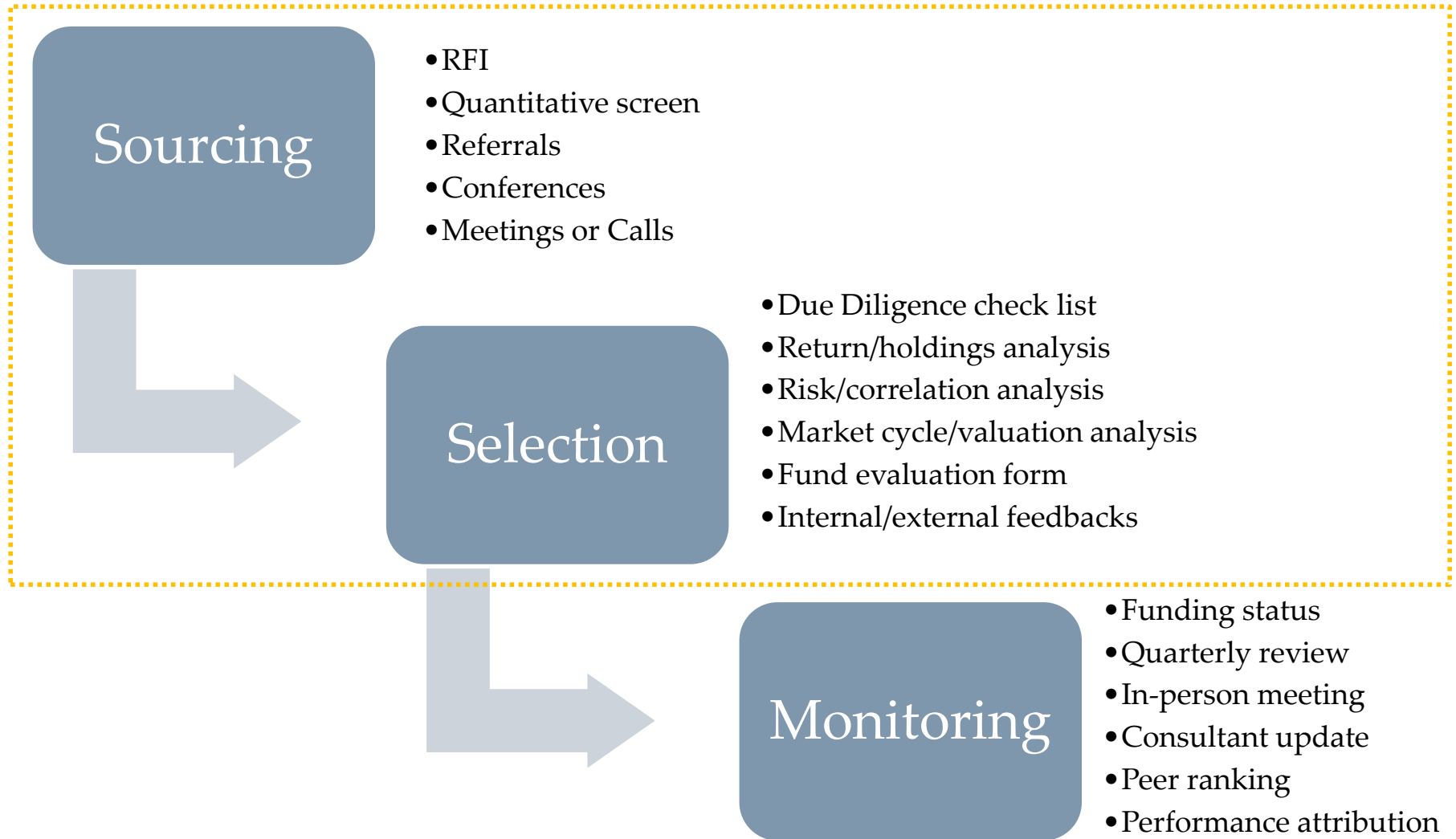
*B. It is the Board’s intention that the CIO shall have the necessary authority and resources to effectively select, retain, evaluate, and terminate investment managers with the exceptions of venture capital and co-investments (due to the nascent nature of the venture capital program and investment concentration risk of co-investments).*

P&F IPS, VII A. and B.

## Manager Selection Process

- Identification of a mandate to implement the Board’s SAA Policy Portfolio
- IDD / ODD
- Internal Staff Meeting
- CIO Approval, with Concurrence of Investment Consultant
- Contracting and Legal Review
- Funding

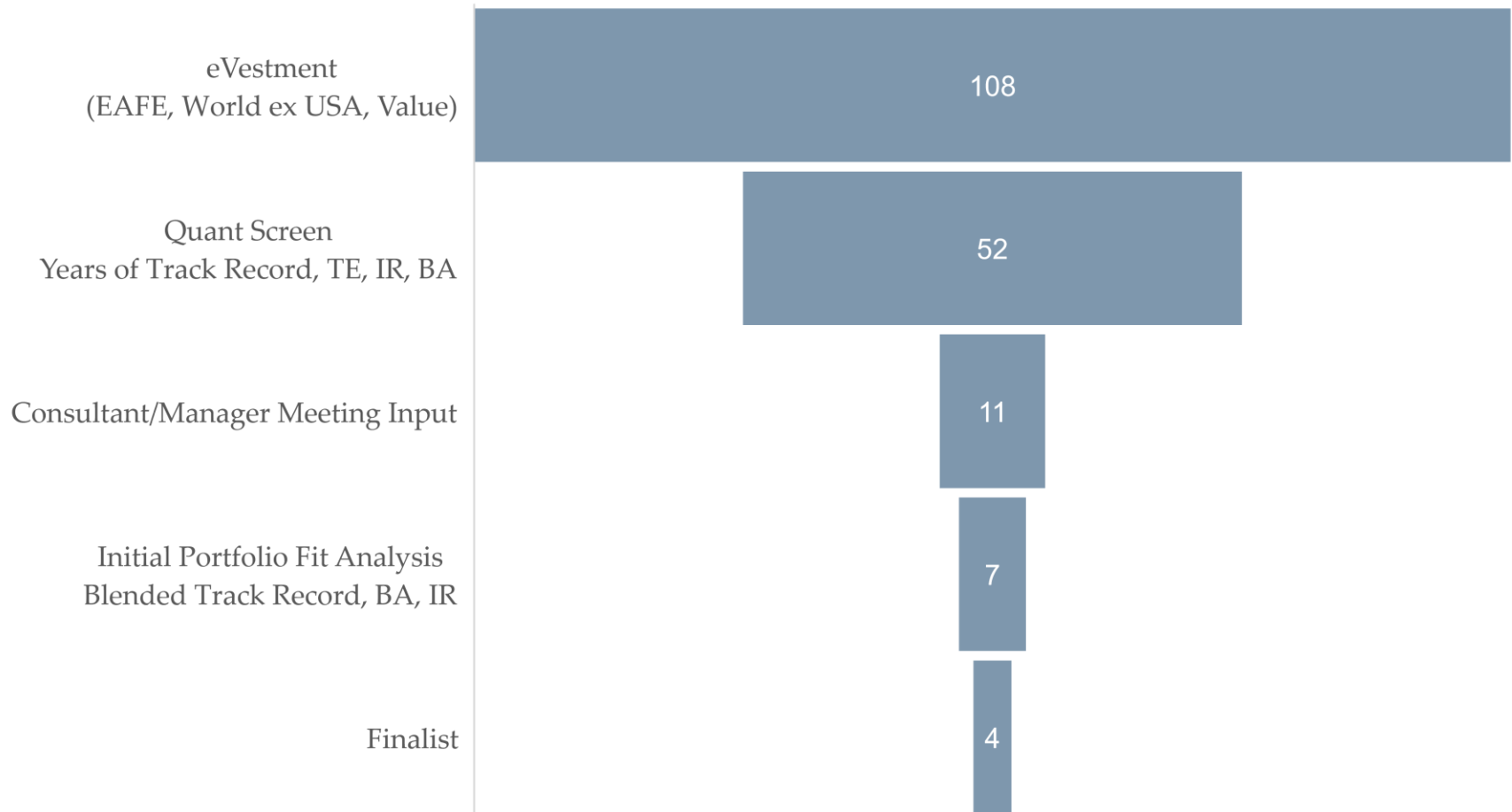
# Manager Selection and Monitoring Process



# Portfolio Need and Sourcing Channels

- IPS asset allocation to International Developed Markets Equity
- Opportunities of active management in International Equity space
- Developed Markets current manager line-up
  - Two dedicated developed markets managers
  - International exposure from Global strategies
- Factor performance pattern
  - Value/Growth spread at extreme levels
- Consultant recommendations
- eVestment universe screen
- Manager meetings or calls

# Narrow Down the Candidate Universe



# Manager Evaluation



Strong leadership in the company
Lead PM # of years of experience
Investment team average # of years of experience
# of years of team working together
Responsibilities are clearly defined within the firm and the investment team
Employee compensations are adequate and aligned with their performance
Employees have their own assets invested in the product
Investment team interaction and collaboration
Investment team has adequate investment skills
Investment team share the same investment philosophy and execute the process consistently.
Investment people have their sole focus on investment decision making (not distracted by marketing, trading, etc.)
There is adequate number of people covering the strategy
There is adequate back-up for each role
Investment Philosophy
Source of investment ideas (universe, screen, sourcing channel advantages)
Company Research
Portfolio construction and sizing
Risk management
Sell discipline
Benchmark awareness & management
Adherence to investment guidelines or principals
Investment style consistency
Understand source of outperformance and underperformance (attribution)
Continued research on strategy development

Stage	Activity	LP LIST			
Stage 2	Investment Due Diligence	Complete full quantitative due diligence	Historical Monthly Fund Returns Historical Monthly Strategy AUM and Holdings (or All Historical Sub-strategy Returns and Attribution (if app Historical Risk & Exposure Reports Manager Monthly/Quarterly Strategy Update/Research Manager Current Risk and Exposure Reports Quantitative Analysis - Internal Risk System Fund suitability analysis: correlation, contribution to T		
		Seek internal and external feedbacks	Investment DD Report (Meketa) Conduct calls with consultant analysts Quantitative Analysis - Consultant Solicit feedback from IOs/CIO		
		Prepare Scoring Matrix & Proposal Memo	Manager Evaluation Form IDD memo		
		Stage 3	ODD	Operational Due Diligence	Manager ADV Review of Financial Statements (Albourne) Valuation Policy Historical Annual Financial Statements (if applicable) Reference Checks

# Investment Due Diligence

## Investment Manager Focused:

- Investment Due Diligence Questionnaire review
- Calls/Meetings with Investment team
- Historical Return and market cycle analysis
- Historical holdings-based exposure analysis
- Historical holdings-based performance attribution
- Historical Risk analysis
- Style consistency

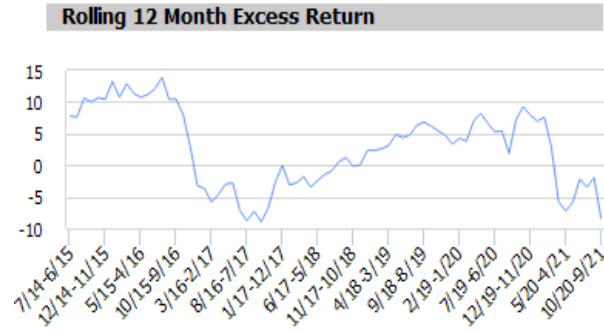
## Fund Fit Analysis:

- Role of diversification – Return enhancement and/or risk reduction
- Correlation
- Contribution to TE & Risk

## Summary

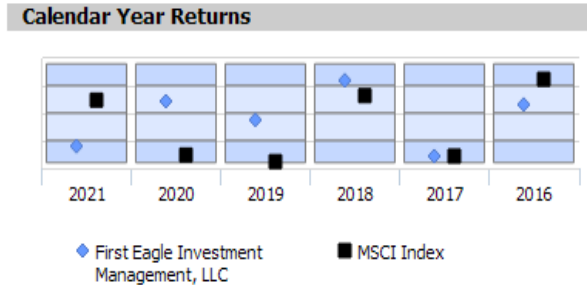
Location	New York, NY
Firm Founded	1864
Product Inception Date	1/1/2021 *
Firm AUM	\$108 billion
Product AUM	\$55 million *
Investment Team Size	22
Fees	50 bps
# of stocks	93
Turnover	26%
Active Share	90
Context of Funding	Developed Value

## Historical Net Performance (eVestment)



**Annualized Returns**

	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception
Product	7.16	24.11	6.09	6.48	8.82	12.08
Benchmark	11.15	32.60	3.45	6.25	5.95	6.93
Product - Excess Returns	-3.98	-8.50	2.64	0.23	2.87	5.16



**Characteristics - 5 Year and Since Inception**

	Tracking Error	Batting Average	Info Ratio	UMC	DMC	Beta	Sharpe Ratio
5 Year	5.92	0.52	0.04	77.94	77.83	0.76	0.40
Since Inception	6.63	0.60	0.78	85.76	66.44	0.74	0.77

## Lead PM Background

Matt McLennan is head of the Global Value team and a portfolio manager of the International Equity strategy. He joined First Eagle in 2008. Previously, Matt worked for Goldman Sachs Asset Management (GSAM) in London, where he served as co-portfolio manager of Global Equity Partners, a group he co-founded in 2003 that ran a focused global equity portfolio. Earlier in his career, Matt was equity chief investment officer of the Investment Strategy Group for Goldman Sachs' private client business. He joined Goldman Sachs in Sydney in 1994. Matt started his career in 1991 with the Queensland Investment Corporation and was ultimately responsible for the firm's international equity exposure. He received his Bachelor of Commerce and master of international commercial law from the University of Queensland.

## Investment Philosophy

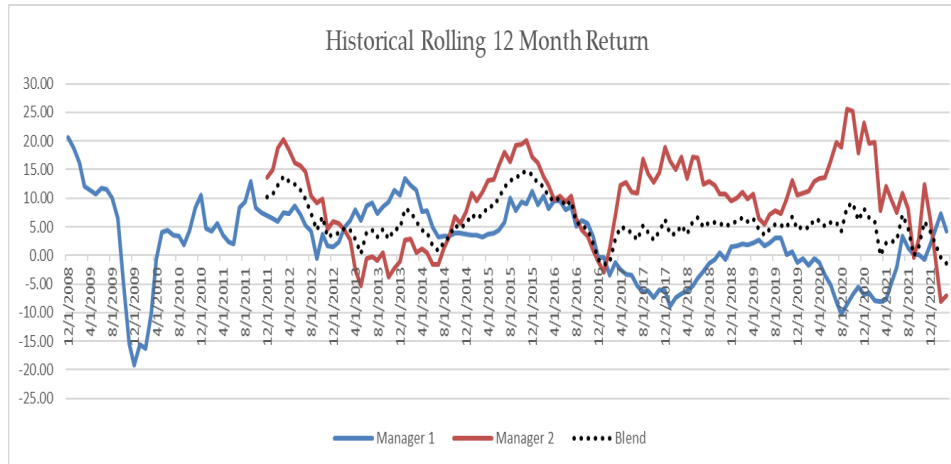
With a bottom-up investment approach, First Eagle seeks to identify companies that embody some form of scarcity, resilience and persistence and to purchase them at an attractive price. As a value manager, they consider both Ben Graham-like investments (Deep Value) and Warren Buffett-like stocks with sustainable competitive advantage.

Their research leads them to invest in companies that are trading at discounts to the intrinsic value. The team typically invest with a "margin of safety" in each holding, which leads to strong downside protection in the portfolio.

\* Carve out from International Value strategy (Incepted in 1993) with more constraints on gold and cash.



# Fund Fit Analysis



Manager Factor Exposure		
Style Factors	Manager 1	Manager 2
Growth	-0.24	0.60
Momentum	-0.03	0.07
Size	-0.21	-0.12
Volatility	-0.16	-0.08
Value	0.01	-0.40
Dividend Yield	0.13	-0.56

## Market Cycle and Correlation

		Excess Return	Batting Average	IR
Value Cycles	Manager 1	3.20	62%	0.70
	Manager 2	-0.06	46%	-0.01
	Manager 1	0.20	50%	0.10
	Manager 2	-6.01	50%	-1.05
	Manager 1	2.64	60%	1.03
	Manager 2	-14.98	20%	-2.03
Momentum Cycles	Manager 1	-2.12	45%	-0.77
	Manager 2	11.44	61%	1.50
	Manager 1	-1.73	43%	-0.51
	Manager 2	8.81	64%	1.47
	Manager 1	-3.14	41%	-0.76
	Manager 2	12.42	73%	1.15

# Operational Due Diligence

- Operational Due Diligence is conducted at multiple levels: externally (consultants) and/or internally (IG staff)
- ODD is an integral part of manager due diligence and evaluation process
- ODD review is focused on the following areas:
  - Manager organization
  - Compliance program
  - Trading and operations
- Reference check

# Appendix

- First Eagle Investment Recommendation Memo
- Meketa concurrence memo
- Due Diligence Checklist Template

**TO:** Investment Team

**FROM:** Christina Wang

**SUBJECT:** Recommendation of Manager Hiring – First Eagle International Equity

**DATE:** December 2021

## Recommendation

Staff recommends that First Eagle International Equity strategy be added to both Police and Fire Pension fund and Federated Pension fund public equity portfolios. The initial allocation will be \$75 mm in P&F, and \$45 mm in Fed, representing about 1.5% of the total plan assets, or 13% of the International Developed Markets portfolio under Public Equity.

## Background

The current public equity portfolio has a dedicated 12% allocation to International developed markets. For both Federated and P&F pension, about 50% of the allocation is through Northern Trust MSCI World ex USA passive fund. We do have four managers that have meaningful exposure to international developed markets: Artisan Global Opportunities, Artisan Global Value, Morgan Stanley International Advantage, and Oberweis International Opportunities.

Compared to US equities, International Developed Markets continue to show inefficiency in certain areas. Historical manager median returns have been higher than Index and it presents opportunities for active managers. In addition, contrary to the US market where there is a high capital concentration<sup>1</sup> in large cap, especially large cap growth names, International Developed markets show much less concentration where rarely any stocks or group of stocks dominate the index. This phenomenon has shown larger dispersion lately.

Chart 1a. Capital Concentration (As of 10/31/2021)

### CAPITAL CONCENTRATION i

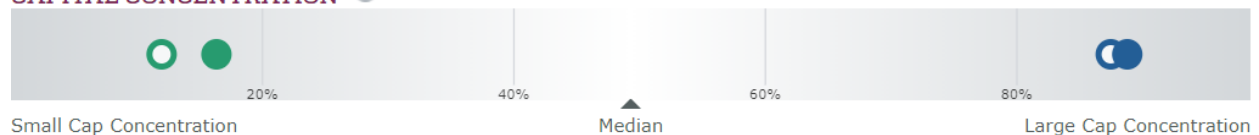
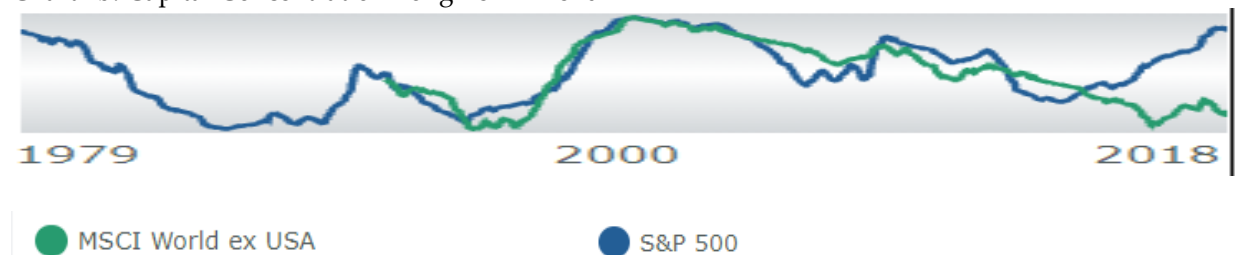


Chart 1b. Capital Concentration Long Term Trend



Source: Intech

1. Capital concentration measures how the capital is distributed between stocks within an index. An increase means that more capital is allocated to larger cap stocks. A decrease indicates that capital is moving to smaller cap stocks.

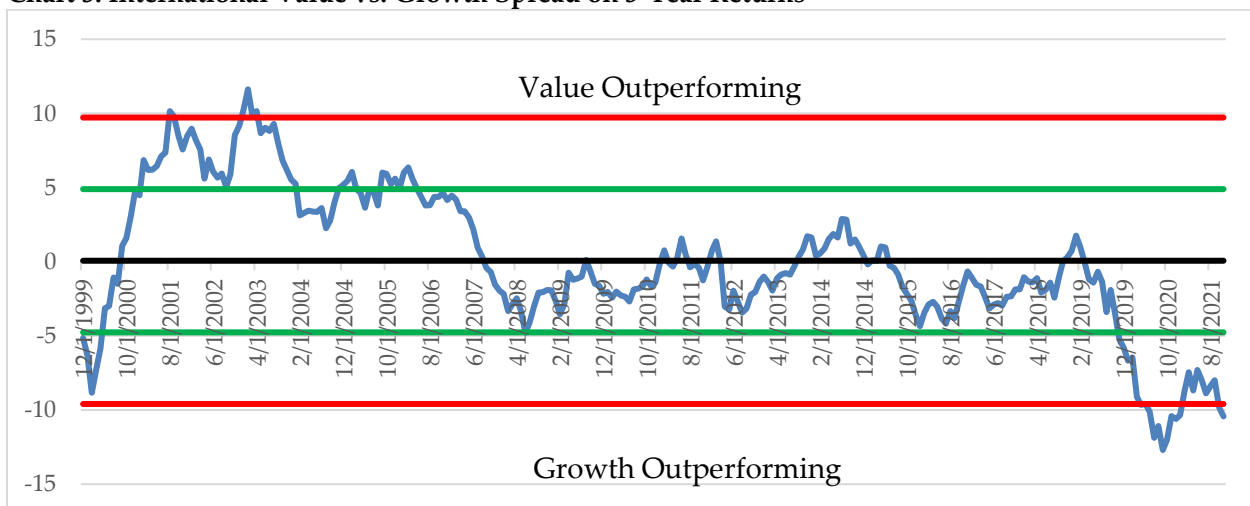
Chart 2. Top 5 Stocks Weight in the Index (US vs. Developed Markets)



Source: Hartford Funds

Since the style index existed for developed markets, Value and Growth spread on 3 year rolling returns have averaged at around 0, suggesting that long term there is not much difference in value or growth investing. This supports our approach of having a portfolio with balanced style. The recent rally in growth stocks has resulted a spread of over 10% and is outside of its 2 standard deviation historical levels. Value does present compelling opportunities should mean reversion happens.

Chart 3. International Value vs. Growth Spread on 3-Year Returns



Source: Bloomberg

Both Morgan Stanley and Oberweis strategies have a growth tilt in the portfolio, even though some of that growth tilt is balanced by Artisan Global Value, it does not cover the full spectrum of the value stocks in International Developed space. The long-term engagement with Oberweis has benefited the portfolio since value has been out of favor for a prolonged period. The long-term plan is to have a balanced approach with no significant style tilt from time to time. At this point, it presents a good entry point to hire a value manager. Throughout the manager selection process, aside from typical considerations such as team and process, fidelity to the value style is an important aspect staff focused on. Pure focus on performance may lead to growth or managers with growth tilt. With deep understanding of candidate managers' philosophy, the process allows managers with true value approach to enter into the search pool.

## Analysis

### *Strategy Description*

First Eagle Investment Management, LLC ("FEIM") is an independent, privately-owned investment management firm. With a heritage that dates to 1864, at which time it was a family-owned bank in Germany, the investment manager was formed in 1987 as Arnhold and S. Bleichroeder Advisers, Inc. In 2002, First Eagle sold all its banking related businesses to focus exclusively on asset management and in 2015, private equity funds managed by Blackstone and Corsair, as well as a number of institutions and high-net-worth family offices that are clients of the two firms, acquired 57% ownership and a controlling interest in First Eagle. First Eagle's founding family stockholders own and/or control approximately 25% and First Eagle current and former employees retain an ownership stake of approximately 18%. Day-to-day operations of FEIM are the responsibility of its senior management. The firm has offices in the US and UK.

The firm currently manages \$108 billion of total assets. The International Value strategy has \$16 billion of AUM. The recommended fund is International Equity strategy which has a very high overlap with the International Value strategy in publicly traded names, but has constraints on cash and gold holdings. The International Equity strategy has \$55 million and limited track record.

The International Value/Equity Team is led by its portfolio managers—Matthew McLennan, who heads the team, and Kimball Brooker, Jr., its deputy head. Matt and Kimball make all buy, sell and allocation decisions and are ultimately responsible for the overall construction and risk management of the portfolio. The Team's 14 analysts have the flexibility to consider investment opportunities across market capitalizations, industries, geographic regions, and asset types. They are responsible for covering their assigned industries on a global basis, identifying and suggesting qualified investment opportunities and, within their areas of coverage, maintaining a full understanding of the holdings in the portfolio, as well as potential replacement investments.

The Team's method of investing is heavily influenced by the approach to value investing as taught by Graham and Buffett. The value team believes there is a persistent market failure to recognize a company's Intrinsic Value. The Team attempts to exploit this failure through an active, bottom-up, fundamental and benchmark-agnostic investment approach. First Eagle seeks to acquire sound businesses at times of modest market expectations rather than flawed businesses that are statistically cheap; that is, it seeks endogenous integrity while taking advantage of exogenous uncertainty.

The Strategy is not limited to any defined set of securities. Looking across the value spectrum, the Team first seeks primarily to identify quality businesses. Such opportunities tend to be found in companies that have temporarily disappointed investors; in industries experiencing turmoil; and in countries undergoing economic downturns. Ideas may be generated by either the portfolio managers or the research analysts.

The Team's in-house research process for gathering fundamental information on investment instruments and sectors begins with a review of publicly available documents. An in-depth, fundamental accounting review of a company's financial statements is important in assessing value. These reviews are supplemented by meeting with the company's management, which typically occurs after the analyst has developed a thorough understanding of the company. Furthermore, conversations in such meetings tend to focus on trying to challenge the analysts' own understanding. Analysts may conduct meetings with company management, participate in quarterly earnings calls, attend industry conferences, and/or visit company facilities. After conducting any further research, the analysts will then adjust their holdings' proprietary calculation of Intrinsic Value as they believe to be appropriate.

The Team considers opportunities at both ends of the value spectrum, from what it considers to be Ben Graham-like investments to Warren Buffett-like investments. "Deep value" Graham-like stocks include the following characteristics: holding company discounts; hidden assets; understated earnings; and valuations that are at cyclical lows. Characteristics of Buffett-like stocks have a sustainable competitive advantage in the form of strong brands, global reach, customer "stickiness," and/or local market dominance. The Team looks to avoid companies with high valuations, high levels of leverage, "black box" balance sheets, vulnerable business models and aggressive management behavior.

While the Team maintains its primary, bottom-up approach, macroeconomic insights factor into the decision-making process. The Team does not believe that an equity portfolio can be successful if stocks are analyzed in a vacuum. Therefore, it evaluates the impact of potential macroeconomic and geopolitical events on each holding and on the portfolio as a whole.

With a focus on seeking to limit the downside, the Team is continually on the lookout for areas where unforeseen problems may arise, both within companies and in the macroeconomic or political environment that impacts them. This is the risk management that is embedded in the investment process. For example, the research analysts look for customer preference shifts, signs of business model erosion and potential conflicts of interest within a company's management. Generally, the Team focuses on the consequences of a worst-case scenario rather than on the probability of a worst-case scenario.

The analysts then determine what they believe is a security's Intrinsic Value. Although the Team considers traditional valuation criteria such as price/earnings and price/book ratios, the Team's process of estimating Intrinsic Value does not follow a systematic formula but is designed to consider various nuances applicable to each business and its place in the portfolio. The portfolio managers and research analysts will generally place greater emphasis on their view of sustainable cash flow valuation (enterprise value/EBIT) and on valuations that take the balance sheet into account (enterprise value/net asset value; enterprise value/asset replacement value). They will also consider the proven ability and growth potential of the business, the estimated duration of the franchise and, where applicable, will note multiples paid in private market transactions. Positions are typically initiated for the long-term, based on significant discounts to what the Team believes to be the business's Intrinsic Value. If a research analyst believes the business is unusually strong, the portfolio manager may accept a more modest discount. The Team considers its estimation of Intrinsic Value to be conservative as it is based on a company's historical results.

A security's calculation may be influenced by subjective determination from the Fund's portfolio managers, which may impact the final Intrinsic Value. With a long-term investment horizon of generally five years or longer, the Team typically seeks a discount to what they believe is a company's Intrinsic Value with a Margin of Safety in each holding. This Margin of Safety is viewed as a form of protection against uncertainty in a fundamentally unknowable future. The Team is willing to wait for stock valuations to fall to what it feels are highly attractive entry levels before investing—a process that may take several years. Once an investment is made, the Team maintains its patience and fortitude in allowing its investment thesis to materialize, which also may take several years.

The Strategy is unconstrained and benchmark-agnostic; therefore, the Team has the flexibility to operate in a broad investment universe. Allocations by asset class, sector/industry, geographical region and market capitalization are the result of the Team's bottom-up securities selection process. The portfolio will remain diversified with no more than 25% of its assets in securities or companies in any one industry, valued at the time of investment. Range of holdings will be between 80 and 130 securities. While sizing a position, the Team builds positions slowly over time. It will typically not invest more than 5% of its assets in the securities of any one company.

Table 1 Sector Allocation

	First Eagle International	Benchmark
Communication Services	1.3	4.6
Consumer Discretionary	9.0	11.7
Consumer Staples	21.8	8.9
Energy	4.4	4.2
Financials	19.7	17.7
Health Care	6.0	10.7
Industrials	14.0	16.4
Information Technology	5.8	9.8
Materials	8.7	8.0
Real Estate	5.5	4.0
Utilities	0	3.3
Cash	3.9	0
As of Date	9/30/2021	9/30/2021



Table 2 Country Allocation

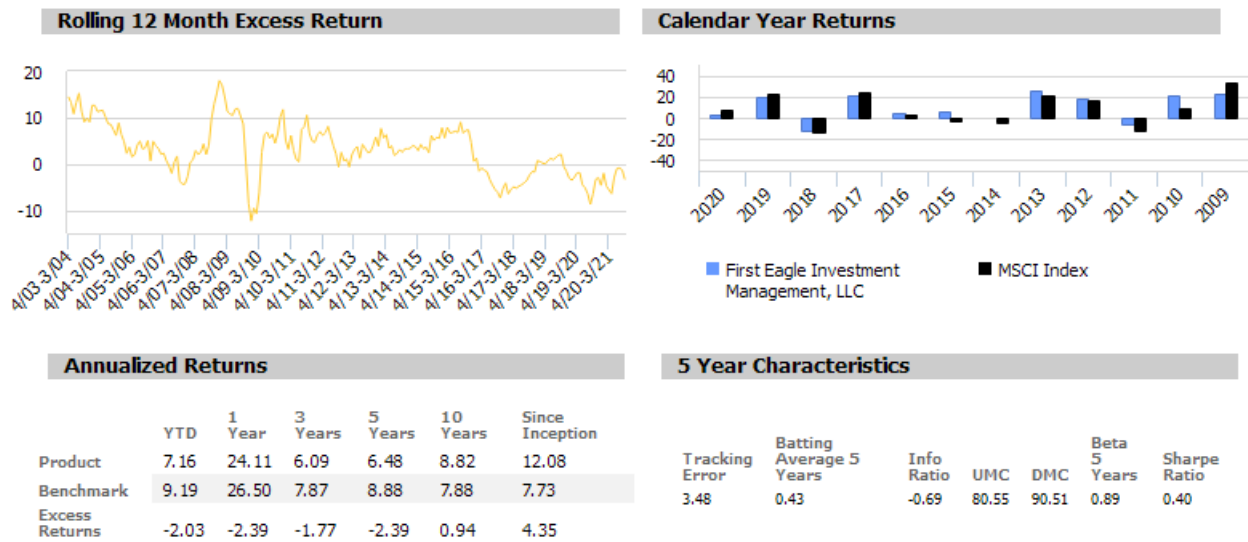
Region/Country	First Eagle International Equity	Benchmark
Developed	81.6	100
Americas	10.1	9.8
Canada	10.1	9.65
USA	-	0.18
Europe, Middle East	41.5	56.6
France	8.5	8.5
Germany	2.3	7.4
Switzerland	4.7	8.3
UK	14.0	11.6
Other Developed Europe	12.0	20.8
Pacific	30.1	32.8
Australia	-	6.6
Hong Kong	5.2	2.2
Japan	22.7	22.3
Other Developed Pacific	2.2	1.7
Emerging	14.5	-
Americas	6.1	-
Brazil	2.27	-
Mexico	1.47	-
Other EM Americas	1.42	-
Asia	8.4	-
China	0.7	-
South Korea	4.4	-
Taiwan	2.3	-
India		-
Other EM Asia	1.0	-
EMEA		-
Frontier		
Other		
Cash	3.9	
As of Date	9/30/2021	9/30/2021

Unlike the International Value product which historically have persistently higher allocations to gold and cash, the International Equity product tends to be fully invested in publicly traded securities at all times. The manager will limit cash to 4-8%. They will occasionally hold some cash and cash equivalents when the Team has been unable to find attractive valuations in the market. This cash position represents deferred purchasing power and provides agility to seize opportunities presented by negative events. As a result, Strategy has been a countercyclical provider of liquidity in the market. This characteristic also

blends well with our existing international managers which tend to outperform in momentum markets and lack downside protection in volatile environment.

Historical performance is a carve-out of equity portion from the International Value product. The strategy historically had done quite well except for the recent five years when value was out of favor. The strategy also has some Emerging Markets which contributed to the underperformance lately. Despite that the strategy has faced strong headwinds in its value style, it has been consistent over time and has not deviated from its philosophy.

Chart 2: Strategy Return Profile (As of September 30, 2021)



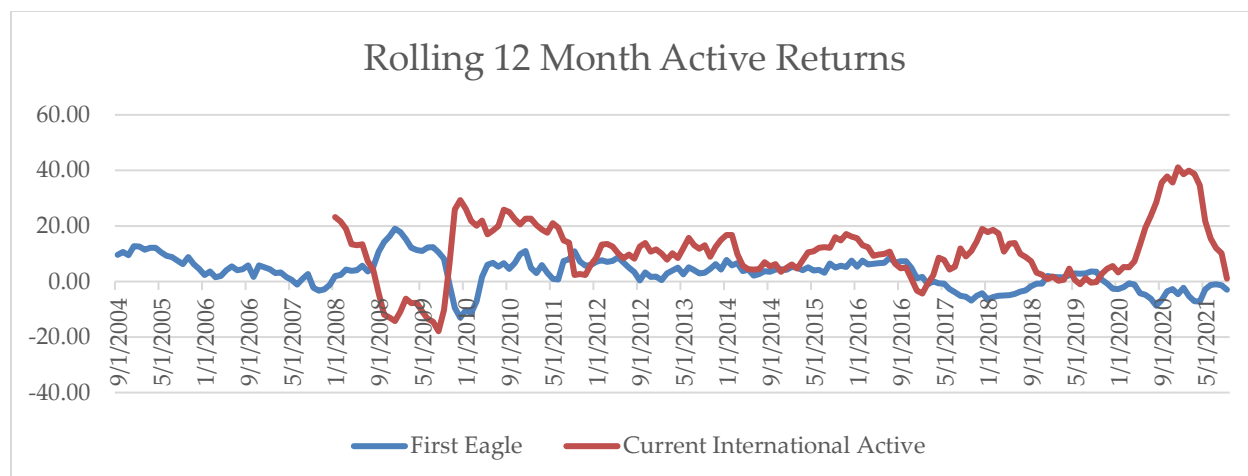
Benchmark: MSCI World ex-USA Index

Source: eVestment

**Fund Suitability**

Based on return back-test, the current international strategies show strong negative correlation with the return stream of First Eagle International Equity performance. In periods when the current blend underperforms its benchmark, First Eagle tends to do relatively well. The correlation of the two is -0.54 which suggest that they move in opposite directions in various market conditions.

Chart 3 Manager Excess Return vs. MSCI World ex USA IMI Index



With the proposed allocation, the overall International fund exhibits enhanced risk and return profile: Despite the fact that rolling 12 month excess return reduced from 11% to 7.8%, tracking error of our existing portfolio will go down from 9.2% to 5.7%. It will result in an enhanced information ratio. Fund batting average would have improved from 95% to 97%. From the backtesting, First Eagle stood out in comparison with other International Value managers as it tended to hold up well when Oberweis or Morgan Stanley underperformed. In periods when the growth strategies significantly underperformed, staff expects that First Eagle's value approach will mitigate some of the underperformance and provide diversification benefits.

Table 3 Risk and Return Profile with Managers and Proposed Fund (Jan 2011-Sept 2021)

	First Eagle	Current SJC International Active	Proposed Blend
Average Rolling 12 Month Excess Return	1.4	11.1	7.8
Tracking Error	4.5	9.2	5.7
Information Ratio	0.3	1.2	1.4
Batting Average	63%	95%	97%

The intention of adding First Eagle to the international portfolio is to mitigate some of the growth tilt from the current two international managers. Based on risk analysis using current portfolio holdings, the predicted tracking error will reduce from 6.8% to 4.4%. Factor risk is the largest contributor of risk reduction. The projected portfolio will still have a slight growth tilt but has become slightly more neutral with the addition of First Eagle.

Table 4: Portfolio Characteristics and Risk Profile for Proposed Fund

	With First Eagle	Current Intl Active	Benchmark
Dividend Yield	1.8	1.1	2.6
Price to Earnings	27.9	36.0	20.2
Price to Cash Flow	15.2	19.4	10.3
Price to Book Value	2.7	5.2	1.8
Total Debt to Common Equity	75.7	103.8	166.4
Total Tracking Error	4.4	6.8	
Factor Tracking Error	3.9	6.2	
Country	1.3	1.5	
Industry	1.0	1.7	
Style	2.8	4.5	
Non-factor	2.1	2.8	
Major Factor Exposure			
Growth	0.5	0.9	
Momentum	0.2	0.3	
Size	-0.5	-0.8	
Volatility	-0.2	-0.2	
Value	-0.4	-0.5	

### ***Risk***

Majority of First Eagle assets are in their equity products and for all their equity products they have a value approach managed by the same team. As value has experienced headwinds in recent periods, asset growth has stalled and the firm has not experienced any meaningful AUM increase in the past 4 years. Asset outflow has been consistent in the past five years. This has been a common phenomenon with many value managers, especially those that do not have a style drift. Given the firm's large asset base and strategic partnership with Blackstone and Corsair, financial viability has not been of a concern.

The investment team manages several products, but there is significant overlap among these strategies. The International Equity strategy is a newer product with limited track record and much smaller assets in it. It is the equity only version of the International Value strategy which over time has about 30% in gold and cash. In stress environment its downside capture will be limited compared to the International Value strategy. Long term beta is 0.9 given its conservative approach and high-quality focus.

The portfolio is benchmark agnostic and can deviate from the MSCI World ex-USA index from sector or country perspective. Ideally the Emerging Markets exposure is minimal but over time they could be in the 0 to 20% range. The manager has generated lackluster performance lately, and if value continues to be out of favor, that will put a lot of pressure on excess return against the core benchmark for the fund.

### ***Fees***

The flat fee schedule for a proposed \$120mm allocation is 60 bps. For separate accounts, First Eagle was able to take a performance-based fee schedule with 30 bps base fee, and 25% profit sharing for returns above MSCI EAFE with a 30 bps hurdle. Annual fee cap would be 1.5% with a "Carry Forward" provision, in which case, performance fees earned above that cap level get carried over to the next year and beyond. After negotiation, First Eagle was able to lower the flat fee to 50 bps with a commingled structure. Staff recommends the flat fee schedule.

## **Conclusion**

Current International markets show much less capital concentration compared to US market. International Value stocks trade at historical discount to growth peers. This present tremendous opportunities for active managers. In case that the recent value rally indicates a paradigm shift that may end a decade long growth rally, San Jose pension portfolio needs a manager that may capture this trend and offset some of the growth tilt embedded in the current international portfolio.

Staff recommends that both Federated and P&F pension hire First Eagle International Equity strategy with a 1.5% initial allocation. The strategy provides attractive excess return potential in value cycles and in down markets, which blends well with our existing managers.

## Appendix

Table 1: Other Managers by Comparison

Firm Name	Excess Returns - 3 Years using MSCI World ex-US IMI-ND (09/2021)	Excess Returns - 5 Years using MSCI World ex-US IMI-ND (09/2021)	Excess Returns - 7 Years using MSCI World ex-US IMI-ND (09/2021)	Information Ratio - 3 Years using MSCI World ex-US IMI-ND (09/2021)	Information Ratio - 5 Years using MSCI World ex-US IMI-ND (09/2021)	Information Ratio - 7 Years using MSCI World ex-US IMI-ND (09/2021)	Product: Total AUM - 09/2021	Beta - 7 Years using MSCI World ex-US IMI-ND (09/2021)
Altrinsic Global Advisors, LLC	-1.6	-0.7	0.8	-0.5	-0.2	0.2	8,247.2	0.9
Causeway Capital Management LLC	-1.5	-0.4	-0.9	-0.2	-0.1	-0.1	21,286.3	1.2
First Eagle Investment Management, LLC	-2.0	-2.6	0.0	-0.5	-0.7	0.0	51.3	0.9
Harris Associates L.P.	-1.5	0.3	0.3	-0.1	0.0	0.0	37,580.0	1.4
Kopernik Global Investors, LLC	9.1	1.7	---	0.7	0.2	---	496.3	---
LSV Asset Management	-2.8	-1.1	-0.9	-0.7	-0.3	-0.3	24,316.8	1.1
MFS Investment Management	4.5	3.1	5.3	0.6	0.4	0.8	42,876.1	0.7
Mondrian Investment Partners Limited	-3.3	-2.4	-1.8	-0.6	-0.5	-0.4	15,663.9	1.0
Polaris Capital Management LLC	-2.4	-0.3	1.0	-0.3	0.0	0.2	9,945.7	1.2
Schroder Investment Management Limited	4.6	3.6	3.1	1.5	1.3	1.2	2,360.4	1.0
Wellington Management Company LLP	-2.4	-0.3	1.1	-0.3	-0.1	0.2	4,504.0	1.2

Table 1: Historical Performance Cycle (see next page)

## First Eagle Investment Management, LLC

### First Eagle International Equity Strategy

MSCI World ex-US-ND

#### Up Markets

Cumulative Returns (02/2009 - 06/2011)	Excess Returns (02/2009 - 06/2011)	Tracking Error	Batting Average (02/2009 - 06/2011)	Info Ratio	UMC	DMC	Beta (02/2009 - 06/2011)	Sharpe Ratio
71.45	0.99	7.56	0.52	0.13	73.31	58.30	0.75	1.48
Cumulative Returns (05/2012 - 06/2014)	Excess Returns (05/2012 - 06/2014)	Tracking Error	Batting Average (05/2012 - 06/2014)	Info Ratio	UMC	DMC	Beta (05/2012 - 06/2014)	Sharpe Ratio
49.74	4.90	4.46	0.54	1.10	97.19	63.86	0.83	1.74
Cumulative Returns (02/2016 - 01/2018)	Excess Returns (02/2016 - 01/2018)	Tracking Error	Batting Average (02/2016 - 01/2018)	Info Ratio	UMC	DMC	Beta (02/2016 - 01/2018)	Sharpe Ratio
39.72	-1.57	3.45	0.42	-0.45	87.42	76.07	0.88	2.22
Cumulative Returns (03/2020 - 09/2021)	Excess Returns (03/2020 - 09/2021)	Tracking Error	Batting Average (03/2020 - 09/2021)	Info Ratio	UMC	DMC	Beta (03/2020 - 09/2021)	Sharpe Ratio
26.18	-3.04	4.34	0.42	-0.70	76.88	81.42	0.90	0.86

#### Down Markets

Cumulative Returns (10/2007 - 02/2009)	Excess Returns (10/2007 - 02/2009)	Tracking Error	Batting Average (10/2007 - 02/2009)	Info Ratio	UMC	DMC	Beta (10/2007 - 02/2009)	Sharpe Ratio
-38.60	13.73	7.61	0.82	1.80	104.91	78.94	0.82	-1.47
Cumulative Returns (06/2011 - 05/2012)	Excess Returns (06/2011 - 05/2012)	Tracking Error	Batting Average (06/2011 - 05/2012)	Info Ratio	UMC	DMC	Beta (06/2011 - 05/2012)	Sharpe Ratio
-11.78	8.77	7.20	0.75	1.22	65.20	69.68	0.73	-0.71
Cumulative Returns (06/2014 - 02/2016)	Excess Returns (06/2014 - 02/2016)	Tracking Error	Batting Average (06/2014 - 02/2016)	Info Ratio	UMC	DMC	Beta (06/2014 - 02/2016)	Sharpe Ratio
-7.31	6.50	4.22	0.67	1.54	90.53	70.07	0.88	-0.35
Cumulative Returns (01/2018 - 12/2018)	Excess Returns (01/2018 - 12/2018)	Tracking Error	Batting Average (02/2018 - 12/2018)	Info Ratio	UMC	DMC	Beta (02/2018 - 12/2018)	Sharpe Ratio
-12.72	1.37	2.47	0.64	0.85	78.95	88.58	0.82	-2.08
Cumulative Returns (12/2019 - 03/2020)	Excess Returns (12/2019 - 03/2020)	Tracking Error	Batting Average (03/2017 - 06/2018)	Info Ratio	UMC	DMC	Beta (03/2017 - 06/2018)	Sharpe Ratio
-20.58	0.23	3.99	0.38	-1.79	77.66	93.99	0.88	0.94

#### Value Markets

Cumulative Returns (06/2008 - 02/2010)	Excess Returns (06/2008 - 02/2010)	Tracking Error	Batting Average (06/2008 - 02/2010)	Info Ratio	UMC	DMC	Beta (06/2008 - 02/2010)	Sharpe Ratio
-11.29	9.57	9.77	0.57	0.98	79.31	77.44	0.77	-0.30
Cumulative Returns (11/2010 - 07/2014)	Excess Returns (11/2010 - 07/2014)	Tracking Error	Batting Average (11/2010 - 07/2014)	Info Ratio	UMC	DMC	Beta (11/2010 - 07/2014)	Sharpe Ratio
58.22	5.22	5.27	0.58	0.99	87.69	64.09	0.78	1.00
Cumulative Returns (12/2015 - 01/2017)	Excess Returns (12/2015 - 01/2017)	Tracking Error	Batting Average (12/2015 - 01/2017)	Info Ratio	UMC	DMC	Beta (12/2015 - 01/2017)	Sharpe Ratio
8.68	4.05	4.46	0.64	0.91	96.04	74.35	0.89	0.60
Cumulative Returns (09/2020 - 09/2021)	Excess Returns (09/2020 - 09/2021)	Tracking Error	Batting Average (09/2020 - 09/2021)	Info Ratio	UMC	DMC	Beta (09/2020 - 09/2021)	Sharpe Ratio
23.47	0.49	4.38	0.46	0.11	82.29	60.03	0.88	1.38

## MEMORANDUM

**TO:** Boards of Administration, San Jose Federated City Employees' Retirement System and San Jose Police & Fire Department Retirement Plan

**FROM:** Laura Wirick, Jared Pratt, Hayley Tran, Meketa Investment Group

**DATE:** March 31, 2022

**RE:** First Eagle International Equity

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### Background

The San Jose Federated City Employees' Retirement System and San Jose Police & Fire Department Retirement Plan currently have target allocations of 12% and 11%, respectively, to the International Equity asset class. Both plans invest in International Equity through a MSCI World ex US Index fund and the Oberweis International Small Cap Equity strategy, while the Federated Plan also invests with Morgan Stanley International Equity. First Eagle will be funded from the index strategy, which will also remain in the plans, and the initial allocations will be \$45 million for the Federated Plan and \$75 million for the Police and Fire Plan.

### Firm Overview

First Eagle is a New York-based international equity manager. In terms of firm ownership, 25% is owned by the firm's founding family, 18% is held by current and former employees, and a majority is held by private equity (Blackstone and Corsair). The firm manages \$110.5 billion in total assets as of December 31, 2021, primarily in equities (65%), with the remainder of assets allocation to credit strategies and gold-related investments.

The firm's investment process was developed by Jean-Marie Eveillard, who was a pioneer in global value investing. Currently, the team is led by Matt McLennan and Kimball Brooker, who have over 30 years of industry experience and are team co-heads, as well as Portfolio Managers Alan Barr and Christian Heck. Mr. McLennan retains final decision-making authority of the portfolio. The firm has three senior advisors who hold PhDs, and the Portfolio Managers are supported by 13 equity analysts who specialize by global sector. There is information-sharing between the equity analysts and other firm analysts who specialize in debt securities, and the team has three dedicated traders.

First Eagle's long-standing investment philosophy maintains "value as a philosophy, not as a style." The firm believes that the market often fails to recognize the intrinsic value of companies, and First Eagle aims to selectively invest when prices present a margin of safety. They seek businesses that benefit from asset scarcity, strong capital structures, and corporate resilience. The team's approach is fundamental and bottom-up, with a stated emphasis on patience, humility, and flexibility.





In terms of responsible investment, First Eagle is a signatory of the United Nations Principles for Responsible Investment, the International Corporate Governance Network, and the Council of Institutional Investors. The investment team seeks to evaluate governance risk and fade risk, as environmental and social factors can have a material impact on their portfolio.

### Strategy Overview

The goal of First Eagle's International Equity strategy is to deliver sound real returns over time, while avoiding the permanent impairment of capital. The investment team focuses on generating absolute returns using a bottom up process that is agnostic to the MSCI EAFE benchmark. The International Equity strategy will typically consist of 80 to 130 holdings (compared to over 800 in the benchmark), with anticipated annual turnover of 10-20%.

The investment team seeks to avoid high levels of leverage, aggressive management behavior, high valuations, "black box" balance sheets, and vulnerable business models. The investment team believes that company engagement with management and companies' Boards of Directors is a critical part of the investment process and stewardship. The team typically conducts more than 1,000 company meetings each year and seeks to build long-term relationships with target companies.

In the firm's International Value strategy, the team has successfully avoided sectors that came under duress in short order. For example, the First Eagle International Value strategy owned less than 8% of the portfolio in tech and telecom on 12/31/99, compared to nearly 28% in the MSCI EAFE benchmark, and First Eagle owned less than 3% in Financials on 12/3/06, compared to nearly 30% in the MSCI EAFE benchmark.

### Summary

Meketa has high conviction in First Eagle's investment team and in the firm's long-running Global and International Value strategies, as well as the firm's gold-focused strategy. The City of San Jose plans would be the first assets in First Eagle's International Equity strategy, allowing the plans to take advantage of a low negotiated fee of 50 basis points per year (compared to a stated fee of 70 basis points and an eVestment International Equity universe fee of 75 basis points). Another public fund is committed to funding an additional \$150 million shortly (likely in May).

While making an investment based on a hypothetical track record for this specific strategy represents a risk, the longevity and skill of the firm and team mitigate that risk. Therefore, we concur with the recommendation of the City of San Jose's internal investment team to add First Eagle International Equity to the plans' manager line-ups.

Please feel free to contact Meketa at (760) 795-3450 with any questions.

LBW

## Due Diligence Checklist

Firm Name
Fund Name
Strategy
Vehicle
Key Terms
Primary Office Location
Investment Officer
Secondary Analyst

Stage	Due Diligence Process	Action Items/Documentation	Lead	Date
Stage 1	Manager Sourcing	Identify manager candidates	eVestment screen, referrals, manager database screen	
		Perform initial qualitative due diligence	Manager Marketing Materials	
			Manager Organizational Chart	
			Firm-wide AUM and Returns Disclosure	
		Perform initial quantitative due diligence	Initial fee estimate	
			Returns Stats (Alpha, beta, TE, IR, batting average, up/down capture, etc.)	
		Funding considerations	Check capacity	
Determine optimal & initial investment size				
Conduct initial call with consultant analysts	Determine source of funding			
	Check consultant coverage, initial feedbacks			
	Narrow to top candidate(s)	Inform IG of top candidates		

Stage 2	Investment Due Diligence	Perform DD calls & meetings w/ managers	Manager DDQ	
			Supplemental DDQ (ad hoc)	
			ILPA DDQ/PREA DD Guidelines	
			LP List	
		Complete full quantitative due diligence	Historical Monthly Fund Returns	
			Historical Monthly Strategy AUM and Holdings (or Allocations)	
			Historical Sub-strategy Returns and Attribution (if applicable)	
			Historical Risk & Exposure Reports	
			Manager Monthly/Quarterly Strategy Update/Research	
			Manager Current Risk and Exposure Reports	
		Seek internal and external feedbacks	Quantitative Analysis - Internal Risk System	
			Fund suitability analysis: correlation, contribution to TE & Return, etc.	
			Investment DD Report (Meketa)	
Prepare Scoring Matrix & Proposal Memo	Conduct calls with consultant analysts			
	Quantitative Analysis - Consultant			
	Solicit feedback from IOs/CIO			
		Manager Evaluation Form		
		IDD memo		

Stage 3	ODD	Operational Due Diligence	Manager ADV	
			Review of Financial Statements (Albourne)	
			Valuation Policy	
			Historical Annual Financial Statements (if applicable)	
			Reference Checks	
			Background checks for firm AUM < \$5 billion	
		Operational DD Report (Meketa or Albourne)		

Stage 4	Terms Review & Negotiations	Evaluate fees and core terms	Manager Fees/Terms	
		CIO Review	Review Manager standard IMA	
			CIO Meets with manager	
		Prepare final documents	Due Diligence Process Review & Checklist w/ Signoff	
			Staff Proposal Memo	
Make final fund selection decision	Obtain Consultant supporting memo			
		Key Legal Documents (IMA, PPM/OM, LPA, Sub-Docs etc.)		

Stage 5	Approval	CIO Approval	CIO approval form	
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Stage 6	Communication	Federated IC notification		
		P&F IC notification		
		Federated board notification		
		P&F board notification		