

# Nominees for 2014 International-Stock Manager of the Year

A tough year for foreign markets and currencies yields a compact field.

**Fund Spy** | 01-06-15 | by Gregg Wolper

In Monday's column, we unveiled the nominees for Morningstar's Domestic-Stock Fund Manager of the Year. Below are the nominees for International-Stock Fund Manager of the Year. Columns discussing the nominees for other asset classes will follow this week and next.

The winners will be announced on Jan. 21.

These nominations reflect more than the managers' performance and portfolio decisions in 2014 alone; we're not trying to promote one-year wonders. Rather, we recognize managers who not only had topnotch results in 2014, but whose strong one-year showing underscores the merits of their approach and their ability to deliver sound long-term returns. To be nominated, therefore, managers must have demonstrated success over time as well as in 2014 and must run a fund with a Morningstar Analyst Rating of Gold, Silver, or Bronze.

In evaluating the candidates, we consider not just the managers' most prominent fund but (when applicable) also others that they run.

The year 2014 was a thorny one for funds that primarily target markets outside of the United States. Most economies were sluggish; foreign currencies floundered; and war in Ukraine and sanctions on Russia often negatively affected European companies more than those based in the United States. The late-year crash in oil prices caused further anguish.

As a result, it was a challenge for international-stock funds even to eke out a positive return for the year. There are just three nominees for 2014 International-Stock Fund Manager of the Year. Two of them have won this award in the past.

The nominees are:

**Dodge & Cox International Investment Policy Committee, Dodge & Cox International Stock (DODFX)**

**2014 Return: 0.1%**

**Morningstar Category Rank (Percentile): 9**

This group, which won this award in 2004 and was also nominated last

year, makes the decisions for Dodge & Cox International Stock. Some of the members of this nine-person team also serve on the committees that direct other funds at that venerable firm. Those funds, like this one, have put together very impressive records over long periods of time.

The managers on the International Investment Policy Committee are highly experienced, to say the least. And like so many at Dodge & Cox, once there, they tend to stay. As of late 2014, the average tenure on the international-stock fund's committee was 24 years; all had been at the firm for at least a decade.

These managers are very patient in their investing as well. Dodge & Cox International Stock's portfolio has low annual turnover rates—typically just 10%-20%. Its managers are willing to wait years for troubled companies, or companies whose prices have been hit hard for reasons the managers deem short-term in nature, to turn things around.

They'll also wait patiently for a company they like to reach an appealing valuation. For example, they already owned a small stake in India's ICICI Bank entering 2013, but they added to that position repeatedly in the first three quarters of that year when the Indian market, and that stock, were falling precipitously. That boldness paid off when ICICI Bank soared more than 60% in 2014.

The fund also benefited from well-known, fairly steady firms such as Novartis (NVS) and Roche (RHHBY), top-five holdings that posted double-digit gains in a tough year. Yet as the ICICI Bank play shows, the managers have not let the fund's size and popularity lead to caution and blandness. Also in the top five is a far less-known company, Naspers, a South Africa-based Internet firm that has posted stellar gains for the fund.

Dodge & Cox International Stock has a top-quartile ranking in the foreign large-blend category for the trailing 10-year period. It's in the top decile for the three- and five-year stretches.

On Jan. 6, Dodge & Cox announced that the International Stock fund will close to new investors on Jan. 16. It will remain open for investments by existing shareholders. All five of the other Dodge & Cox funds are open to new investors as well as existing shareholders.

**David Samra and Daniel O’Keefe, Artisan International Value (ARTKX) and Artisan Global Value (ARTGX)**

**2014 Returns: -0.6% and 4.5%**

**Morningstar Category Ranks (Percentile): 10 and 29**

This duo won Morningstar’s International-Stock Fund Manager of the Year award for 2008, when the financial system buckled and markets tumbled. In that disastrous year, the managers’ cautious value approach held both funds’ losses far below those of all but a few of their respective rivals. They also outperformed in 2011’s market slide. Then in 2013, the managers posted outstanding relative returns in a completely different environment—a powerful rally. They were awarded the Manager of the Year award again for that surprising 2013 success.

Having demonstrated that they can handle both rallies and deep downturns, in 2014 the managers pulled another trick; outperforming in a volatile, difficult, but ultimately fairly flat market.

The core of Samra and O’Keefe’s strategy is to assemble a compact portfolio of companies with relatively modest debt loads, excellent management, and reliable business models. Then there’s the valuation component; they want to buy these stocks when they’re cheap.

Like the Dodge & Cox fund’s leaders, these managers don’t trade too much, but unlike those peers, they’re willing to let their funds’ cash stake rise somewhat if they can’t find enough worthy stocks. In fact, double-digit cash positions have been common in recent years as the managers have found fewer stocks cheap enough to meet their standards. In 2014, a wide variety of their stocks have buoyed performance. At International Value, that included a trio of top-10 holdings that they’ve held for at least five years: Novartis, Covidien (COV), and Reed Elsevier (ENL).

Artisan International Value is in the top decile of the foreign large-blend category for the three-, five-, and 10-year periods. Artisan Global Value does not yet have a 10-year record, but is in the top decile for the three- and five-year periods. And though the managers don’t shy away from controversial stocks and routinely put more than 4% of assets in their top choices, the funds have been less volatile than their average peers over time.

Unfortunately for those who aren’t shareholders, but probably best for those who are, both funds are currently closed to new investors.

*(Disclosure: O’Keefe was an analyst at Morningstar for several years in the 1990s.)*

**Justin Thomson and Team, T. Rowe Price International Discovery (PRIDX)**

**2014 Returns: -0.4%**

**Morningstar Category Ranks (Percentile): 15**

Justin Thomson has been running T. Rowe Price International Discovery since late 1998, which means he has led this fund through a remarkable variety of crises, booms, and everything in between. The fund’s ranking is impressive in every trailing period. He has had much support from analysts and comanagers over the years; for example, emerging Asia stocks are largely the province of a colleague on the team. But Thomson is the lead manager.

Thomson, who looks for firms with shareholder-oriented management teams that are expanding their market shares, owns around 200 stocks, and he normally doesn’t allot more than 1.5% of assets to any one of them. That’s quite a different approach from the Dodge & Cox and Artisan nominees, whose funds are more concentrated.

This fund has withstood 2014’s volatile conditions better than most of its peers. With a 0.4% loss, it is 5 percentage points ahead of the foreign small/mid-growth average. The fund is heavy in India, which has helped in macro terms. But with this fund’s small- and mid-cap focus, the specific companies in the portfolio had to come through as well, and many did. For example, two of the top holdings—Dixons Carphone and Jazztel (JAZ)—posted gains of more than 50% in 2014..

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Average annual total returns for the fund and benchmark as of 31 Dec 2014:

<p><b>Artisan Global Value Fund – ARTGX (Inception 10 Dec 2007):</b>  4.50% (1YR), 17.69% (3YR), 13.96% (5YR), 8.22% (Since Inception). MSCI All Country World Index: 4.16% (1YR), 14.10% (3YR), 9.17% (5YR), 2.25% (Since Inception). For the fiscal year ended 30 Sep 2013, the Fund's expense ratio is 1.38%.</p>
<p><b>Artisan International Value Fund – ARTKX (Inception 23 Sep 2002):</b>  -0.59% (1YR), 16.79% (3YR), 11.96% (5YR), 9.21% (10YR), 14.55% (Since Inception). MSCI EAFE Index: -4.90% (1YR), 11.06% (3YR), 5.33% (5YR), 4.43% (10YR), 8.58% (Since Inception). MSCI EAFE Value Index: -5.39% (1YR), 11.04% (3YR), 4.42% (5YR), 3.89% (10YR), 8.79% (Since Inception). For the fiscal year ended 30 Sep 2013, the Fund's expense ratio is 1.18%.</p>

Morningstar Category Percentile <i>As of 31 Dec 2014</i>	1 YR	5 YR	10 YR
Artisan International Value Fund – ARTKX <i>Morningstar Foreign Large Blend Category<sup>1</sup></i>	10%	1%	1%
Artisan Global Value Fund – ARTGX <i>Morningstar World Stock Category<sup>2</sup></i>	29%	5%	NA

Source: Artisan Partners/MSCI/Morningstar. <sup>1</sup>Category contains 750 funds (1 YR), 583 (5 YR) and 313 funds (10 YR). <sup>2</sup>Category contains 1,158 funds (1 YR) and 688 funds (5 YR). Morningstar Rankings represent a fund's historical total-return percentile rank relative to all funds that have the same Morningstar Category. The highest percentile rank is 1 and the lowest is 100. The number of funds in the category may include several share classes of the same mutual fund which may have a material impact on the fund's ranking within the category.

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