

RussellResearch

T. Rowe Price International, Inc.

GLOBAL LARGE CAP EQUITY

Equity | Global | Large Cap | Growth | Normal | All Markets

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Investment Approach

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T. Rowe Price International, Inc.

PRODUCT: GLOBAL LARGE CAP EQUITY

| ASSET CLASS | GEOGRAPHIC EMPHASIS | STYLE | SUBSTYLE |
|-------------|---------------------|--------|----------|
| Equity | Global | Growth | - |

INVESTMENT PHILOSOPHY/OBJECTIVES

T. Rowe Price International (TRPI) seeks to outperform the MSCI All Country World Index by 300 basis points, with an expected tracking error of 300-700 basis points over a full market cycle. Clients should refer to Russell’s Opinion document for an independent, product specific assessment of these objectives.

Bottom up stock selection

INVESTMENT EMPHASIS

Bottom up stock selection based on fundamental research represents the primary source of value added.

Scott Berg is the sole decision maker

DECISION MAKING STRUCTURE

Scott Berg, the Global Large Cap Equity strategy’s portfolio manager is supported by global equity portfolio manager, Rob Gensler and a twelve-member advisory committee consisting of regional and global sector specialists. Jay Noriega will be joining Berg as an associate portfolio manager for the strategy. Berg has ultimate decision making authority and accountability for all portfolio-related decisions.

Achieve superior performance by investing in growing companies within growing industries

DISTINGUISHING BELIEFS/PRINCIPLES

- As a firm, TRPI believes that investing in companies with superior growth prospects but reasonable valuations produces superior results. Accordingly, this product will have a growth bias, emphasizing high-quality growth companies that are attractively valued.

Country allocations are the result of bottom up stock selection

COUNTRY SELECTION

Country allocations are the result of the bottom-up stock selection. Country ranges are however held within +/- 10% (+/- 20% in US) of the benchmark MSCI All Country World Index. Exposure to Emerging Markets is limited to +/- 15% of the benchmark.

Although TRPI’s investment process is primarily bottom-up, with an emphasis on stock selection as the primary source of value added, they recognize that it is important to incorporate broader factors into company and industry analysis.

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They rely on the input of in-house regional specialist portfolio managers to provide an informed view on macroeconomic and local market considerations that may potentially impact the prospective growth of the investment candidates.

Currency exposures are residual of stock selection process

CURRENCY SELECTION

Currency exposures are largely residual from the stock selection process and currency affects are considered within the fundamental research process. However, TRPI maintains a view on currency movements within the economic outlook to ensure perspective. Hedging developed market currencies is done rarely and only for defensive purposes, to protect return, as opposed to being a source of return. The portfolio manager does not expect to hedge the currencies of emerging markets.

SECURITY SELECTION PROCESS

Scott Berg's investment universe begins with the approximately 1,500 publicly traded global large cap stocks, those stocks with market capitalization of at least \$6 billion for developed markets and \$3 billion for emerging markets. Berg then leverages the proprietary fundamental research developed by TRPI's worldwide network of more than 100 equity investment professionals to reduce the universe to 300-350 highly recommended stocks (buy and strong buy) that exhibit growth and are trading at reasonable valuations. This list is further narrowed through conversations with analysts and regional portfolio managers to test the strength of the investment thesis of each idea and putting it into context relative to other opportunities on a global basis. The result is a diversified portfolio of 60-100 of the most compelling global investment ideas.

Focus on well-managed companies within attractive industries with revenue growth, operational leverage, earnings growth and strong cash flow that are trading at reasonable valuations.

SECURITY SELECTION CRITERIA

The following factors are considered when researching and selecting securities.

- Attractive industry structure
 - Positive near- or long-term fundamental outlook
 - Growing industry gaining economic market share
 - Increasing barriers to entry
 - Rational competitive practices
- Compelling company business model with strong prospects for competitive advancement
 - Growing company, profitably gaining industry market share
 - Durable and superior cash flow growth
 - Improving company fundamentals
 - Pricing power

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- Product cycle
- Market share
- Margins
- Income and balance sheet quality
- Management team with compelling operational and strategic vision
- Successful business plan execution
- Prudent deployment of capital (including intellectual and brand capital)
 - Reinvest when superior returns exist
 - Return capital to shareholders
- Reasonable stock price valuation
- Multi-faceted approach using many valuation tools
- Particular emphasis on comparing free cash flow yield and prospective free cash flow growth relative to other opportunities
- Adjust investment risk premium according to confidence in achieving free cash flow targets

TRPI has regionally based research analysts aligned along global sector lines. These analysts perform rigorous primary research and are responsible for rating stocks in their industries.

RESEARCH

T. Rowe Price believes proprietary, fundamental research is the key driver of value-added active management. As a result, 90% of research is generated internally. Research is conducted on a global basis from the firm's office in Baltimore, Buenos Aires, Hong Kong, London, Singapore and Tokyo.

Analysts are specialized by industry, region or market capitalization and each follows 30 to 50 equities, intensely scrutinizing those that are current holdings or promising investment candidates. While their approach to each potential investment opportunity is predominantly secular, analysts recognize when the cyclical factors which affect certain companies and industries should be considered. Each analyst is responsible for recommending the best stocks within his or her specialty.

An analyst's scrutiny of a potential investment includes an evaluation of the company's growth prospects and current valuation through:

- On-site company visits and meetings with companies at our offices
- Meetings and discussions with suppliers, customers, and competitors
- Industry and investment conferences
- Our well-developed network of industry contacts
- Industry periodicals
- Annual reports, report and accounts, official reports from public and financial agencies, press releases and conference call transcripts
- News services and online databases, such as Bloomberg, Reuters and Dow Jones Newswires
- Sell-side analysts, strategists, and economists

The qualitative assessment examines the following factors:

- Market position — Near- and long-term company and industry outlook,

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- industry structure, and company position, pricing power, product cycles, market share trends, margin outlook, and financial and operating leverage
- Management team quality and operational and strategic vision — Strategy, allocation of all forms of capital, including types such as financial, intellectual and brand capital
 - Local market influences — Politics, economics, structure of industry, regulation, cultural practice, historical anomalies and consumer behavior

Face-to-face company interviews with senior management are a routine component of the fundamental research process. The firm meets with management to assess both their strategic and operational vision.

- Business plan – Sound business plan supported by the processes and resources to be successfully executed
- Prudent deployment of capital (including intellectual and brand capital) – Reinvest when attractive returns exist, otherwise return capital to shareholders

TRPI uses a multi-faceted approach to assess whether a company is attractively valued. It employs a broad array of valuation metrics designed to match the criteria for a particular company, industry, and investment environment.

Portfolio managers who have regional specialties provide an informed view on macroeconomic and local market considerations that may impact the prospective growth of the investment candidates.

TRPI investors analyze countries in addition to companies and this fundamental analysis impacts the firm's opinion of the companies which are based in these countries.

Current accounts, fiscal accounts, primary accounts and monetary policy of individual countries

- Interest rate trends
- Commodity prices
- Currency movements
- GDP growth
- Political environment
- Regulatory framework
- Legislative process
- Consumer behavior

Portfolio is fully invested

ASSET ALLOCATION

The portfolio invests primarily in common stocks; cash is kept to a minimum (typically 5% or less).

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Sector weights are a result of the bottom up stock selection but constrained to +/- 10% MSCI AC World

SECTOR/INDUSTRY WEIGHTINGS

Sector and industry weights result from TRPI's enthusiasm, or lack thereof, for investment opportunities across the full range of industries and sectors. TRPI continuously assesses the prospects for industries and companies across the global large-cap opportunity set and, as the investment theses evolve, industry and sector portfolio weights shift accordingly.

Sector weights are typically within +/- 10% of the benchmark's weighting at the time of purchase (e.g., if information technology represents 10% of the benchmark, the sector will represent between 0% and 20% of our portfolio).

SELL DECISIONS

A stock may be sold for any of the following reasons:

- T. Rowe Price analyst downgrades
- Unanticipated deterioration of investment fundamentals
- Forced displacement ("better ideas")
- Unattractive valuation
- New information or insights alter outlook
- Decline in the quality of the management team

Portfolios hold between 80-100 stocks

PORTFOLIO CONSTRUCTION

The portfolio consists of 80-100 of the highest conviction global investment ideas. Stock position sizes are made in an absolute sense with no regard for benchmark weight. These range from a minimum of 30 basis points to a maximum of 500 basis points. Size of holding is dependent on upside potential, probability of payoff and conviction level.

There is no limit placed on the number of non-benchmark securities that can be held in the portfolio. TRPI does, however, limit emerging markets equities exposure to +/- 15% versus the MSCI All Country World index.

REVIEW AND CONTROL

TRPI is aware of risk exposures versus the benchmark, and to perform risk management functions the firm leverages technical tools, including:

- Proprietary evaluation tools that measure stock, sector, and industry exposures versus the benchmarks and allows TRPI to compare these risks to similar strategies managed by other firms
- BARRA and G-RAM Citigroup to track common risk factors relative to the benchmarks. These enhance TRPI's understanding of potential exposure to changes in GDP, interest rates, currencies and commodity prices

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- The Wilshire Atlas performance attribution system to assess the effectiveness of various elements of the investment approach, such as individual stock selection
- The Zephyr Style Advisor to monitor the consistency of the investment style and the sources of added value and volatility in the strategy

TRADING

Once the investment decision has been made and the portfolio manager communicates trades to the trading desk, a series of pre-trade compliance checks when the order is entered into the Investment Technology Group's Macgregor XIP Platform (XIP), the order management system. The trade is placed with a broker by telephone or through the one of the 180 ITG FIX connections on the ITG network, an electronic means of communicating trades to brokers. The broker executes the trades and sends the execution prices back to the traders either by telephone or via FIX. For the trades that are communicated by telephone, the prices are entered into XIP.

The XIP system electronically communicates trades to TRPI's recordkeeping system for overnight processing. In-house matching processes provide a comparison of broker information to the recordkeeping/trading platform information and highlight exceptions, which the appropriate staff researches and resolves. Custodians are notified of all trades, through the DTC ID System, the DTC Bank Report, and trade tickets or SWIFT messages for nondollar-denominated trades. The trading support staff corrects and reprocesses rejected trades.

The Investment Compliance team meets regularly with the investment staff, Legal, and other senior management to maintain an effective and efficient investment compliance-monitoring program.

PRODUCT GROWTH

The Global Large-Cap Equity Strategy was launched in October 2008. As of June 30, 2009, the strategy had \$35 million in assets under management. The strategy is available as a separate account mandate, with three fund options available to investors – the Global Large-Cap Stock Fund, Institutional Global Large-Cap Equity Fund, and the T. Rowe Price Funds SICAV Global Large-Cap Equity Fund.

DCF, CF Yield, and FCF growth used as method of assessing valuation of stocks

VALUATION METHODOLOGY

- Analysts use a discounted cash flow calculation as well as examining market multiples such as P/S, P/E and P/FCF relative to the company's history, its industry, its peers and/or the market as a way to establish proper

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valuation levels. Scott Berg also confirms that a company is attractively valued by reviewing the free cash flow yield and prospective free cash flow growth.

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Russell Research / Ranks and Commentary

T. ROWE PRICE INTERNATIONAL, INC. PRODUCT: GLOBAL LARGE CAP EQUITY

| ASSET CLASS | GEOGRAPHIC EMPHASIS | CAP TIER | DURATION RANGE |
|-------------|---------------------|---------------|----------------|
| Equity | Global | Large Cap | - |
| STYLE | SUBSTYLE | MARKET STATUS | |
| Growth | Normal | All Markets | |

| ACTIVITY DATE | LOCATION | ACTIVITY TYPE | PURPOSE |
|---------------|---|---------------------------|----------------|
| 26Oct2011 | Baltimore, MD, United States of America | Research - Manager Office | Product Review |

OVERALL EVALUATION



We recommend that clients consider this manager for new placements and additional cash flow where appropriate.

Target Excess Return: 150 bp
Target Tracking Error: 500 bp
Time Period: 3-4 years
Russell Assigned Benchmark: MSCI AC W G

Expected Performance Pattern

TRPI's Global Large Cap product is based on fundamental research and the portfolio will consist of around 80-100 high conviction stocks. The portfolio is diversified with sensible restrictions on sector and country allocations.

The portfolio will exhibit growth characteristics and within a multi-manager structure would be best complemented by a manager with a value bias.

Manager Update

On October 26th 2011, Russell associates met with Rob Gensler, Scott Berg and Bob Smith of T Rowe Price to gain an organisational update and a product review on Global Equity, Global Large-Cap Equity and International Growth Equity (Non-US Equity Growth). As a result of this meeting there are no changes to the Russell ranks which remain:

- Global Equity - **Hire**
- Global Large-Cap Equity - **Hire**
- International Growth Equity - **Retain**



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In addition, Russell associates also met with Bill Stromberg, Director of Research, to receive an update on the Global research platform at T Rowe Price. The platform continues to steadily grow and in particular Stromberg has addressed non-US research by increasing the size of the research teams not based in the US. This is a broadly positive development for all of the Global and International products will rely heavily on this research platform.

All three portfolio managers are fully engaged and Gensler in particular shows more poise today than a year ago.

Performance for the Global Equity and Global Large Cap equity products was weak in 2011 with both underperforming the MSCI ACWI Growth benchmark. International Growth Equity performed better, exceeding the return on MSCI ACWI ex US Growth by 2.4%.

If you have any questions regarding this report please contact Joe Hemmant on +44 20 7024 6519 or by email at jhemmant@russell.com

Investment Staff ① ② ③ ④ ⑤

Scott Berg is the portfolio manager of the TRPI Global Large Cap strategy which was launched on October 27, 2008.

Scott was the associate portfolio manager of the "Hire" ranked Global Equity strategy managed by Rob Gensler from 2006 to 2008. This assignment allowed him to gain a global perspective and engage with TRPI's vast network of global investors. Prior to this, Scott had been a research analyst, joining the firm in 2002. Scott has continued to strengthen his global perspective and local market knowledge during the past year. He is a highly driven, engaged investor with a clear focus on extracting the best ideas from the TRPI research platform. Scott utilizes an advisory committee of skilled senior TRPI regional portfolio managers and sector analysts to help in idea generation and debate. He also looks to experienced investors, Rob Gensler, portfolio manager of the Global Equity strategy and Bob Smith, portfolio manager of the Non-US Equity strategy to serve as sounding boards.

Further support will come from Jay Nogueira, who will join as the associate portfolio manager for the product in the next year. He is a highly regarded healthcare focused analyst that will help Scott better leverage the research knowledge base at TRPI. We believe the input he receives from these professionals are of a high quality.

Organizational Environment ① ② ③ ④ ⑤

The Baltimore based US teams have been quite stable over time and the firm has built a solid culture there. The non-US effort had been in a state of evolution since the separation of TRPI's joint venture with Fleming and has stabilized as TRPI has full control and has been dedicating significant resources to building its non-US equity research staff. There are currently an equal number of US and non-US focused investors.

Security Selection ① ② ③ ④ ⑤

While TRPI's analysts provide the major source of ideas and maintenance research support for the product, Scott is



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ultimately responsible for stock selection. He generally focuses on expanding industries and well run companies within these with superior earnings and cash flow growth and strong or improving fundamentals. Scott's investment approach affords breadth as he will opportunistically flex his criteria for undervalued opportunities. We see this flexibility as compelling since it gives scope for the product to participate in different stages of the market cycle.

Scott tests the merits of new ideas and the conviction levels of TRPI's research analysts. He will also seek out the most credible sources and cross reference views within TRPI. We believe the considerable time he spends here is differentiating and allows him deftly extract the best global ideas of the firm.

Country Selection ① ② ③ ④ ⑤

Country weights are largely a result of stock selection and are restricted to +/- 10% (20% in the U.S.) relative to the benchmark. The strategy is benchmarked against the MSCI All Country World Index and exposure to emerging market will be capped at +/- 15% of the benchmark.

Research ① ② ③ ④ ⑤

TRPI principally follows a growth-at-a-reasonable price (GARP) investment philosophy to generate investment ideas. However, the attention to growth/valuation will depend on the metrics/models deemed most appropriate for the various sector/industries.

We believe the foundational research and quality of stock recommendations to be robust, particularly in the U.S. The non-US effort while not as strong as that of the U.S., has been improving and we have a positive view of the regional portfolio managers that are on Scott's advisory committee.

Research is divided between geographical regions and also along global sectors such as energy, materials, and technology. This blend doesn't provide an ideal mechanism to make global tradeoffs but it is pragmatic given the firm's product set. Importantly, Scott has the ability to consolidate these various investment views and properly harness the research offered up. William Stromberg, the Director of Global Equities is a strong leader and puts a high emphasis on supporting and strengthening the research effort. He has demonstrated a desire to improve the integration of the firm's research teams worldwide and improve communication among the investors. This is a positive backdrop to the research effort.

Asset Allocation ① ② ③ ④ ⑤

This component is not ranked, as TRPI manages fully invested portfolios.

Sell Decision ① ② ③ ④ ⑤

The sell criteria are typical but clearly defined and we have observed Scott to adhere to these sufficiently. He is willing to



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exit stock that have reached valuation peaks, seen deterioration in the underlying fundamentals, or where a better idea is available. Scott scrutinizes his holdings to review conviction levels, upside potential and risk and as a result is active in keeping the portfolio fresh.

Portfolio Construction ① ② ③ ④ ⑤

Scott is solely responsible for portfolio construction and will scale positions based on conviction and upside potential while considering the risks in each holding. The sector and country restrictions provide additional risk controls.

Currency Management ① ② ③ ④ ⑤

TRPI engages in currency hedging for defensive purposes only, and only when it believes currencies are extremely overvalued. We do not anticipate Scott using currency hedges but would advise clients to limit latitude here.

Implementation ① ② ③ ④ ⑤

The sole decision-making structure and Scott's ability to act on new buy/sell signals in a timely fashion, result in a high degree of implementation efficiency. Dynamic communication between Scott and TRPI's global trading team provides the capacity to execute trades in a competitive and informed fashion.



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