

# Russell Research / Ranks and Commentary

## T. ROWE PRICE INTERNATIONAL, INC.

PRODUCT: GLOBAL EQUITY

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

<b>ACTIVITY DATE</b> 26Oct2011	<b>LOCATION</b> Baltimore, MD, United States of America	<b>ACTIVITY TYPE</b> Research - Manager Office	<b>PURPOSE</b> Product Review
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### OVERALL EVALUATION



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

**Target Excess Return:** 200 bp  
**Target Tracking Error:** 600 bp  
**Time Period:** 3-4 years  
**Russell Assigned Benchmark:** MSCI AC W G

### Expected Performance Pattern

This is an earnings growth oriented strategy that should fare relatively better in upwardly trending markets and struggle in defensive or value driven markets. The growth at a reasonable price approach will likely allow the strategy to participate more in transitory markets versus higher growth oriented peers.

### 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 changes to the Russell ranks which remain:

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

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-



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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](mailto:jhemmant@russell.com)

### Investment Staff ① ② ③ ④ ⑤

Rob Gensler assumed the role of portfolio manager on the TRPI Global Equity product in April 2005.

Rob's experience had been limited to the technology, media, and telecom sectors when he first launched the strategy but rotations in London and Singapore and many years of global investing experience have deepened his perspective and broadened his local market knowledge. These experiences combined with Rob's high energy level and clear focus on extracting the best ideas of the TRPI research platform have contributed to the product's success. Rob utilizes an "advisory committee" of skilled senior TRPI regional portfolio managers and sector analysts to help in idea generation and debate. We believe the input he receives from these professionals is of high quality.

Rob has been joined by Josh Nelson who will support him as associate portfolio manager. Nelson is young and bright but our expectation is that he will not supplant Rob as the key driver of returns in the Global strategy and the principle decision maker. We expect Josh to be a conduit for information to Rob and would be concerned if he serves more as a filter, as the potential for information slippage would increase.

### 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 took full control and began dedicating significant resources to building the non-US equity research staff. The support from the organisation that Rob Gensler has benefited from while living in London and in Singapore is a positive and we expect that Josh Nelson will benefit from the same.

### Security Selection ① ② ③ ④ ⑤

While TRPI's analysts provide the major source of ideas and maintenance research support for the product, Rob is ultimately responsible for stock selection. He generally focuses on expanding industries and well run companies within these with superior cash flow growth and strong or improving fundamentals. However Rob's investment approach affords a broader opportunity set than most growth managers and he will also buy turnaround prospects. We see this flexibility as compelling since it yields a larger opportunity set and gives scope for the product to participate in different stages of the market cycle.

Rob vigorously tests the merits of new ideas and the conviction levels of TRPI's research analysts. We believe the considerable time he spends here is differentiating from peers and allows him to deftly extract the truly best global ideas the firm can offer. This combined with his global perspective will support robust security selection decisions.



**T. ROWE PRICE INTERNATIONAL, INC.****Country Selection** ① ② ③ ④ ⑤

Country weights are largely a result of stock selection and are restricted to +/-10% (20% in the US) relative to the benchmark. Rob does consider the impact of macro economic factors at the stock level which helps to limit unintended bets on the country level but he doesn't make explicit bets on markets.

The strategy is benchmarked against MSCI All Country World Index and exposure to emerging markets will be higher than peers.

**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 sectors/industries.

We believe the foundational research and quality of stock recommendations to be robust, particularly in the US, though there are areas of weakness within non-US research as TRPI continues to build its knowledge and skill there. We see the near term deficit here as being more than mitigated by a set of insightful regional portfolio managers that Rob interacts with on his 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, Rob has the ability to consolidate these various investment views and properly harness the research offered up. William Stromberg as Director of Global Equities has clearly demonstrated a desire to better integrate the firm's research teams worldwide and improve communication among analysts. 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 seen Rob adhere to these well. He is willing to exit stocks that have reached valuation peaks, seen deterioration in the underlying fundamentals, or where a better idea is available. Rob scrutinizes his holdings frequently 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

We view Rob's approach to portfolio construction as a strength of this product. Although there are sector and country restrictions to balance risk exposures, Rob assigns absolute weights to stocks based on his conviction level using a combination of the magnitude of upside potential, probability of payoff, and inherent stock specific risks. He will also try to expose the portfolio to uncorrelated bets, which is an appealing additional diversification element. The risk conscious approach combined with using just highest conviction stocks is compelling and helps to distinguish this product from peers.

**Currency Management** ① ② ③ ④ ⑤

TRPI engages in currency hedging for defensive purposes only, and only when it believes currencies are extremely



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overvalued. We do not anticipate Rob using currency hedges but would advise clients to limit latitude here.

**Implementation** ① ② ③ ④ ⑤

The sole decision-making structure and Rob's ability to act on new buy/sell signals in a timely fashion, result in a high degree of implementation efficiency. Dynamic communication between Rob and TRPI's global trading team provides the capacity to execute trades in a competitive and informed fashion. The immediate impact of Josh Nelson on Implementation is expected to be small but we will closely monitor Rob's continued engagement with the process as this is critical to our positive view. Assets have grown rapidly in the strategy under Rob's management. We view it positively that TRPI decided to close the strategy in the second half of 2007, and we will continue to monitor implementation efficacy.



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