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# MEMO

To: City of Santa Clara Deferred Compensation Plan Committee

From: Hyas Group

Date: April 30, 2021

RE: Recommendation to Terminate the MFS International Intrinsic Value Equity Fund and Replace with the Vanguard International Value Fund

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At the conclusion of the formal Request for Proposal (RFP) for retirement plan administration services in 2018, Hyas Group worked with the Committee to develop a consolidated investment menu for plan participants. The structure was designed to offer funds in every major asset class in an economical manner. One major asset class offered is international value, which was funded by MFS International Intrinsic Value Equity.

Recently, the characteristics of the MFS International Intrinsic Value Equity Fund have shifted significantly towards the growth investment style, diverging from its intended role on the investment menu. In the summer of 2020, Hyas Group analysts met with the portfolio management team to discuss this. Our analysts concluded that the fund's approach to the value investment style (emphasizing economically sound companies with cash-centric earnings) has led it into more growth-oriented sectors, namely information technology and healthcare, while underweighting sectors exhibiting more traditional value characteristics such as low valuations and higher dividend yields. This causes the fund to replicate the style and purpose of the international growth fund offered within the investment menu and creates doubt about the fund's ability to perform consistent with its value objective. The Committee placed this fund on watch status at the third quarter meeting in November 2020 to allow the fund time to correct this style drift. Since no such correction has occurred or appears likely to occur, Hyas Group's recommendation is to replace the MFS International Intrinsic Value Equity Fund with a more stylistically consistent international value option.

Hyas Group has prepared a search document for the international value asset class for the Committee to review. In this search document we have provided three alternatives along with the incumbent investment option for review. We have included several datapoints such as performance, risk metrics, investment style, composition analysis, and a summary of fees. While all three replacement candidates are suitable, the Hyas Group recommends replacing the MFS International Intrinsic Value Fund with the Vanguard International Value Fund. The Vanguard International Value Fund is much more reflective of the international value asset class and has been a consistent performer at a relatively low cost. If the Committee approves this fund change, Nationwide will transfer all existing balances and any future contributions to the Vanguard fund effective on or around August 17.