HENRY JAMES
INTERNATIONAL MANAGEMENT

New York City Police Pension Fund
NYC1
International Select Portfolio
July 2017 Commentary

Looking forward to the second half of 2017, we are expecting stronger developed market economic activity in Europe and a muted US Dollar. There is optimism in Europe for the first time since the "Great Recession"; the European Central Bank (ECB) asset purchase program did as intended and took away the threat of deflation. Now Europe is experiencing a rebound in corporate earnings; the ECB is lowering asset purchases and returning from negative interest rates to zero. In the USA, there have been three interest rate increases during the 8 months ending July 31, 2017 and against expectations the Dollar fell against most major currencies and is forecasted to remain stable into 2018. At home, Congress has not made progress on the expected economic stimulus or tax packages from the Trump election, and in-spite of that the economy caught a bounce and grew at an improved 2.5% GDP rate of growth for the second quarter of 2017, which should result in a sustainable growth rate a little over 2% for the year. These developments are a positive for International and emerging markets as total global economic growth is increasing which drives profits and dollar denominated debt remains stable, enabling good economic growth and positive markets. Since the North American equity markets have out performed the Rest of the World (ROW) since 2011, the conditions may be in place for a reversal of fortunes.

The portfolio out performed the ACWI ex USA index 4.65% (gross & net) vs. 3.71%, the portfolio out-performed the secondary benchmark the MSCI World index (gross & net) 4.65% vs. 2.99%,. Inception to date performance (5/1/2017-7/31/2017) remains strong 7.56% (gross & net) against both the MSCI ACWI ex USA 7.56% and the MSCI World 6.69% indices. Stock selection and/or country weightings in Japan, France, Canada, Germany, Italy and Switzerland aided performance. However, stock selection and/or country weightings in the United Kingdom, Hong Kong, Spain, Sweden, and Australia hindered performance. Sector, positions in health technologies, consumer non-durables, electronic technology and consumer durables aided performance, sector positions in distribution services, energy minerals, technology services, producer services and finance hurt the portfolio's return.

The United States has much influence in regional and global growth; the markets are showing that Mexico and the America are doing well and that the "best" qualities of populism are blending well with proven economic realities resulting in stronger global growth. In the first quarter we correctly asserted that: "This may be a solid period for the non-U.S. markets, especially Western Europe and Emerging Markets, [in which] to shine." We hope that the global economy will continue to experience an era of increased GDP growth, corporate earnings growth, and a rising tide. Since the North American equity markets have out performed the ROW since 2011, the conditions may be in place for a reversal of fortunes.

The portfolio's high conviction, lower turnover investment philosophy/strategy, which combines quantitative and fundamental based analysis, should prosper in this environment.

International Select Portfolio
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