



Small-Mid Cap Value Manager Search

North Broward Hospital District – Employees' Pension Plan

May 12, 2022 / Rose Guillette, Vice President, Senior Consultant

North Broward Hospital District – Employees' Pension Plan

Mandate

- Small/Mid Cap Value

Benchmark

- Russell 2500 Value

Purpose

- Going active from passive Small/Mid Value allocation

Top Candidates

- Systematic Financial Management
- EARNEST Partners
- Burgundy Asset Management
- Victory Capital

Product Profile

	Burgundy Asset Management Ltd. Burgundy U.S. Small/Mid Cap Equity	Victory Capital Management Inc. Integrity Small/Mid-Cap Value	EARNEST Partners, LLC Small/Mid Value	Systematic Financial Management, L.P. SMID Cap Value Free Cash Flow	US Small-Mid Cap Value Equity Universe Median
Investment Focus	Long Only	Long Only	Long Only	Long Only	-
Geographic Focus	United States	United States	United States	United States	-
Preferred Benchmark	Russell 2500	Russell 2500 Value	Russell 2500 Value	Russell 2500 Value	
Total Firm AUM	\$21,502.40	\$178,098.17	\$28,639.00	\$3,573.00	\$9,481.93
Total Product AUM	\$807.44	\$1,58.89	\$842.00	\$297.00	\$210.58
Institutional Product AUM	\$537.30	\$1,558.89	\$842.00	\$172.00	\$188.05
Total Product Accounts	52	26	15	14	9
Product Offered As	CF, PF, SA	CF, PF, SA	CF, SA	CF, SA	-
SA: Minimum Account Size	\$10.00	\$1.00	\$10.00	-	\$5.00
eVestment Primary Universe	US Small-Mid Cap Value Equity	US Small-Mid Cap Value Equity	US Small-Mid Cap Value Equity	US Small-Mid Cap Value Equity	-
Primary Capitalization	Small-Mid Cap	Small-Mid Cap	Small-Mid Cap	Small-Mid Cap	-
Primary Equity Style Emphasis	Value	Value	Relative Value	Value	-

Characteristic Profile

	Burgundy Asset Management Ltd. Burgundy U.S. Small/Mid Cap Equity	Victory Capital Management Inc. Integrity Small/Mid-Cap Value	EARNEST Partners, LLC Small/Mid Value	Systematic Financial Management, L.P. SMID Cap Value Free Cash Flow	US Small-Mid Cap Value Equity Universe Median
Current Cash Position	5.94%	1.83%	4.00%	2.00%	2.75%
Current # of Holdings	38	128	58	124	56
Current P/E (12 mo Trailing)	-	13.22	18.30	17.4	16.37
Current P/B	3.85	2.10	2.20	2.20	2.17
Wgtd. Avg. Mkt. Cap	\$10,555.95	\$8,418.50	\$11,200.00	\$8,418.00	\$7,599.47
Active Share	97.99%	81.88%	-	92.0%	95.04%
Annual Turnover (LTM)	18.49%	49.57%	20.0%	15.0%	31.45%
Managed with ESG considerations?	Yes	No	Yes	No	-

Top Candidate Considerations

Systematic Financial Management

- Systematic has the greatest overall consistency among the peer group with rolling returns 100% (5 yr), has outperformed the benchmark 7 of the last 10 calendar years and all trailing years
- The product produces high excess returns while maintaining low risk as they place in the top quintile for IR and Sharpe ratio and have the lowest TE among the peer group
- The team uses a quantitative screening process followed by traditional bottom-up, fundamental research to create a portfolio that holds 121 names diversified across all sectors, allowing for an attractive up-market capture and down-market capture

EARNEST Partners

- Earnest has consistency across all areas as they outperformed the benchmark 6 of the last 10 calendar years and historically have one of the highest performing trailing returns among the peer group and a rolling return batting average of 90% on a 5 yr basis
- The product produces high excess returns and risk adjusted returns as they place in the top 10th percentile for both IR and Sharpe Ratio while maintaining a relatively low TE
- The team uses a classic bottom-up, fundamental research process that produces a diversified portfolio of 58 holdings with higher exposure to Energy, IT, and Materials, which has allowed them to produce the highest up-market capture among the peer group while maintain protection during the down-market
- While SA fees are above the peer median, a CF/CIT is offered at 60bps

Candidate Considerations Continued

Burgundy Asset Management

- Burgundy consistently outperformed the benchmark on a rolling basis 100% (5 yr), producing excess returns 7 of the last 10 calendars year, as well as historically performing well on a trailing basis
- Though Burgundy has one of the highest TE among the peer group, they have proven that high risk produces high rewards as they placed in the top 10th percentile for IR and in the top 5th percentile for Sharpe Ratio among the peer group
- The team uses a classic bottom-up, fundamental research produces to determine high conviction in a portfolio of 35 names that is less diversified than the relative peer group, allowing for the highest performing results in the down-market and average up-market capture

Victory Capital

- Very strong analytics across all relevant risk and return metrics
- Very good risk adjusted performance defined by IR and Sharpe, have one of the lowest TE
- Diversified with over 100 holdings makes them better suited as a sole value allocation
- Very strong up market capture over all available periods, not so good with downside capture
- PM has been managing the portfolio since inception and experience support team
- Strategy mirrors the same philosophy and process as the small cap value strategy applying both quantitative and fundamental analysis seeking companies with a discount to its intrinsic value

Performance Comparisons

	Burgundy Asset Management Ltd. Burgundy U.S. Small/Mid Cap Equity	Victory Capital Management Inc. Integrity Small/Mid-Cap Value	EARNEST Partners, LLC Small/Mid Value	Systematic Financial Management, L.P. SMID Cap Value Free Cash Flow	US Small-Mid Cap Value Equity Universe Median
1 Year Return	10.08	15.25	7.13	8.60	7.73
3 Year Return	16.27	17.75	19.14	16.42	14.78
5 Year Return	13.63	12.06	14.54	12.83	10.65
1 Year Excess Return	9.74	7.52	-0.61	0.87	0.58
3 Year Excess Return	2.48	4.77	6.16	3.45	1.19
5 Year Excess Return	2.05	2.87	5.35	3.63	0.85
3 Year Rolling Batting Average	0.97	0.71	1.00	1.00	0.69

Risk Index: Manager Preferred Benchmark | Trailing Period: 1,3, 5 Year

Risk Comparisons

	Burgundy Asset Management Ltd. Burgundy U.S. Small/Mid Cap Equity	Victory Capital Management Inc. Integrity Small/Mid- Cap Value	EARNEST Partners, LLC Small/Mid Value	Systematic Financial Management, L.P. SMID Cap Value Free Cash Flow	US Small-Mid Cap Value Equity Universe Median
Standard Deviation – 3 Years	19.90	26.07	22.39	21.91	23.87
Beta – 3 Years	0.84	1.07	0.91	0.90	0.99
Annualized Alpha – 3 Years	4.20	3.64	6.45	4.12	1.88
Information Ratio – 3 Years	0.35	1.21	1.13	0.75	0.23
Sharpe Ratio – 3 Years	0.78	0.65	0.82	0.71	0.57
Upside Market Capture – 3 Years	88.36	118.05	104.12	99.62	101.44
Downside Market Capture – 3 Years	82.43	102.18	88.20	91.28	99.01
Tracking Error – 3 Years	7.04	3.95	5.47	4.59	5.70

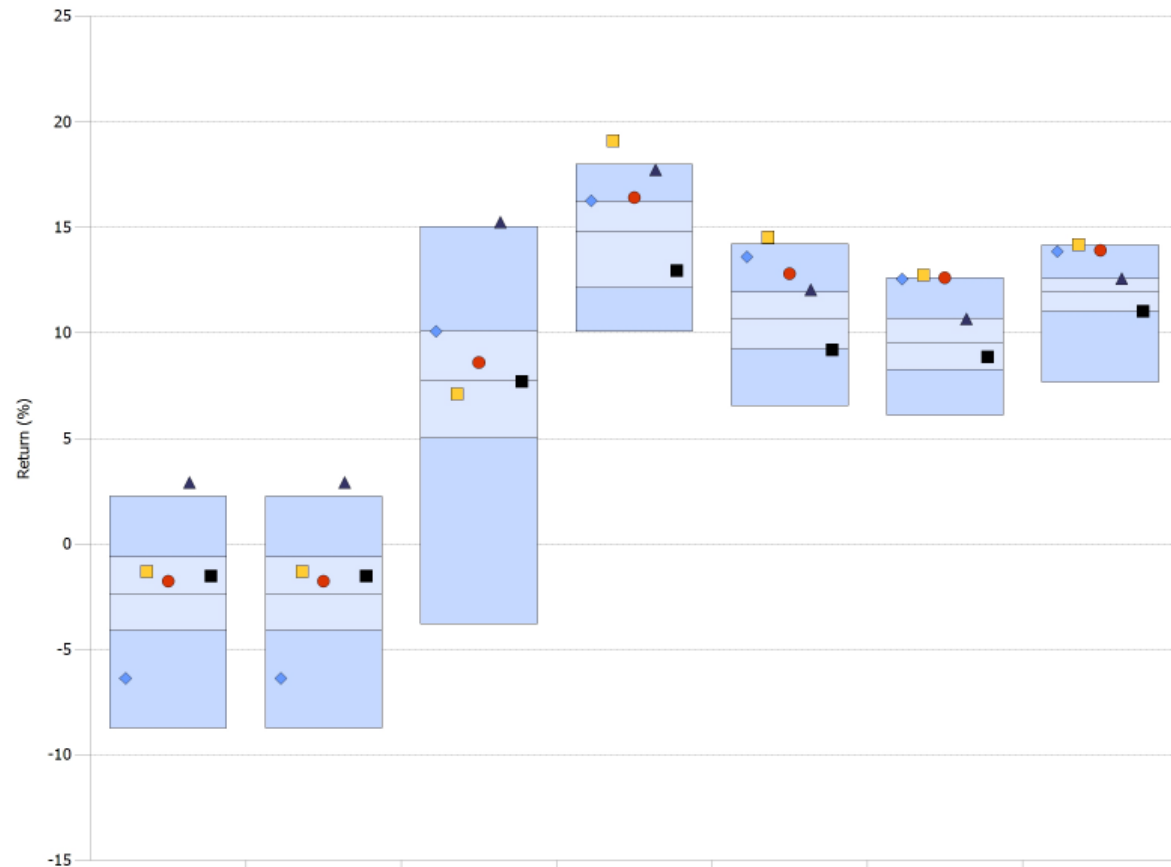
Risk Index: Manager Preferred Benchmark | Risk Free Index: FTSE 3-Month T-Bill | Trailing Period: 3 Year

Correlation Matrix

Firm Name	Product Name	Westfield Capital Management Company, L.P.
		Small/Mid Cap Growth Equity Small/Mid Cap Growth Equity (SA-GF)
Burgundy Asset Management Ltd.	Burgundy U.S. Small/Mid Cap Equity	0.30
EARNEST Partners, LLC	Small/Mid Value	-0.10
Systematic Financial Management, L.P.	SMID Cap Value Free Cash Flow	-0.36
Victory Capital Management Inc.	Integrity Small/Mid-Cap Value	-0.49
Westfield Capital Management Company, L.P.	Small/Mid Cap Growth Equity	1.00

Returns MRQ, YTD, 1, 3, 5, 7 & 10 Years

- ◆ Burgundy Asset Management Ltd.:
Burgundy U.S. Small/Mid Cap Equity
- EARNEST Partners, LLC: Small/Mid Value
- Systematic Financial Management, L.P.:
SMID Cap Value Free Cash Flow
- ▲ Victory Capital Management Inc.:
Integrity Small/Mid-Cap Value
- Russell Index: Russell 2500 Value

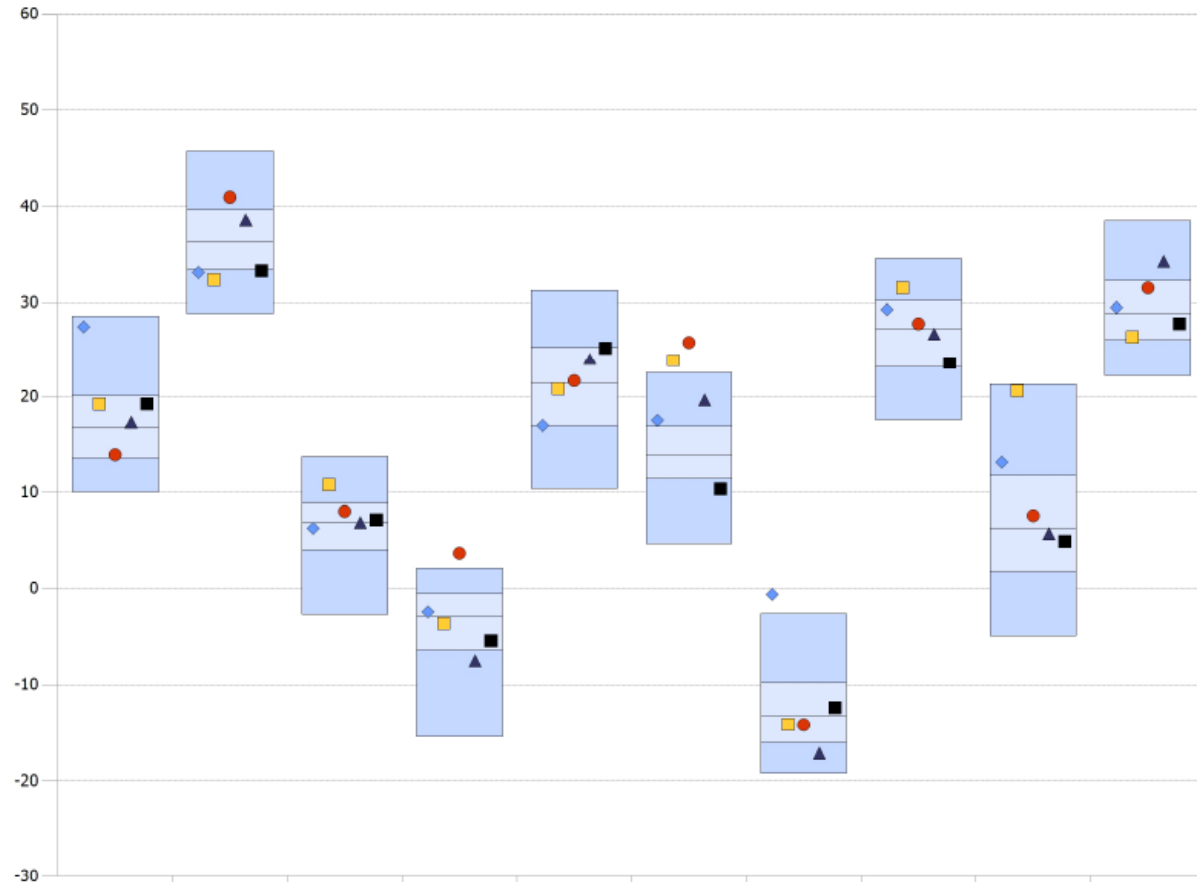


Universe:
eVestment US Small-Mid Cap Value Equity

	VT	RM	MRQ	Rk	MRQ	Rk	1 Year	Rk	3 Years	Rk	5 Years	Rk	7 Years	Rk	10 Years	Rk
5th percentile			2.26		2.26		15.04		18.01		14.24		12.64		14.19	
25th percentile			-0.60		-0.60		10.10		16.23		11.93		10.71		12.60	
Median			-2.37		-2.37		7.73		14.78		10.65		9.52		11.94	
75th percentile			-4.08		-4.08		5.02		12.16		9.25		8.26		11.03	
95th percentile			-8.72		-8.72		-3.77		10.09		6.58		6.13		7.70	
# of Observations			91		91		91		87		79		72		65	
◆ Burgundy Asset Management Ltd.	SA	GF	-6.36	89	-6.36	89	10.08	25	16.27	23	13.63	11	12.57	7	13.88	11
■ EARNEST Partners, LLC	SA	GF	-1.30	38	-1.30	38	7.13	59	19.14	2	14.54	4	12.76	3	14.22	5
● Systematic Financial Management, L.P.	SA	GF	-1.76	44	-1.76	44	8.60	40	16.42	19	12.83	17	12.63	5	13.94	9
▲ Victory Capital Management Inc.	SA	GF	2.92	4	2.92	4	15.25	5	17.75	7	12.06	23	10.68	26	12.59	26
■ Russell Index	IX	IX	-1.50	40	-1.50	40	7.73	50	12.98	69	9.19	75	8.86	70	11.04	74

10 Year Calendar Returns

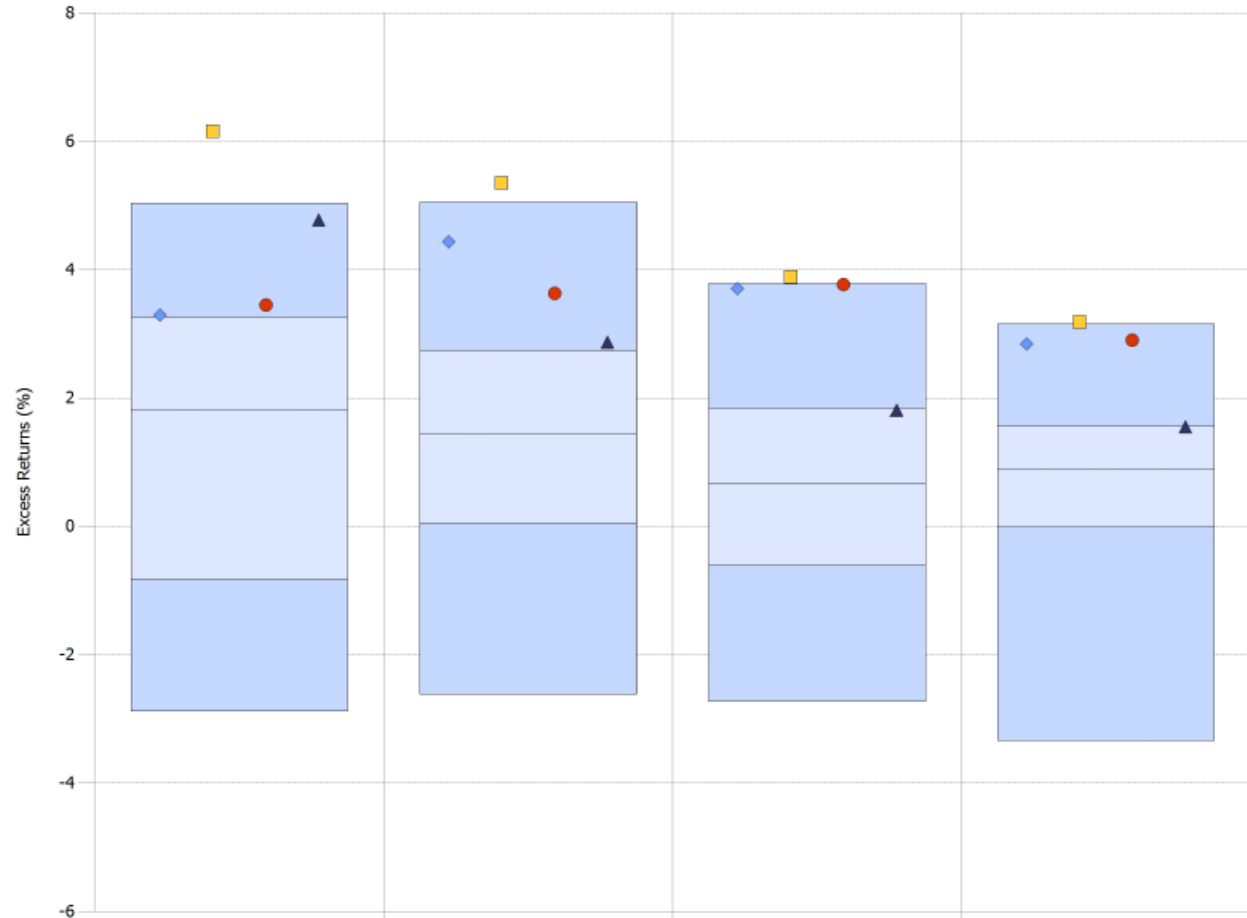
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	VT	RM	2012	Rk	2013	Rk	2014	Rk	2015	Rk	2016	Rk	2017	Rk	2018	Rk	2019	Rk	2020	Rk	2021	Rk
5th percentile			28.59		45.75		13.72		2.08		31.25		22.49		-2.66		34.58		21.28		38.50	
25th percentile			20.06		39.66		8.91		-0.57		25.28		16.85		-9.81		30.20		11.73		32.31	
Median			16.74		36.28		6.76		-2.87		21.41		13.85		-13.28		27.19		6.26		28.82	
75th percentile			13.56		33.48		4.01		-6.48		16.93		11.38		-16.02		23.12		1.71		26.05	
95th percentile			9.99		28.83		-2.71		-15.46		10.41		4.65		-19.24		17.54		-4.94		22.18	
# of Observations			115		113		111		108		105		106		106		103		98		92	
◆ Burgundy Asset Management Ltd.	SA	GF	27.46	7	33.14	77	6.23	56	-2.47	44	16.93	75	17.47	20	-0.64	1	29.27	29	13.13	19	29.49	44
■ EARNEST Partners, LLC	SA	GF	19.19	32	32.39	82	10.78	17	-3.69	60	20.81	54	23.86	4	-14.15	57	31.56	16	20.61	7	26.36	72
● Systematic Financial Management, L.P.	SA	GF	13.91	73	40.94	21	8.00	34	3.63	1	21.65	44	25.80	1	-14.17	58	27.78	41	7.55	44	31.53	30
▲ Victory Capital Management Inc.	SA	GF	17.27	44	38.58	36	6.84	49	-7.49	79	24.02	31	19.62	10	-17.14	84	26.71	53	5.67	52	34.30	16
■ Russell Index	IX	IX	19.21	32	33.32	76	7.11	44	-5.49	68	25.20	26	10.36	81	-12.36	40	23.56	71	4.88	55	27.78	59

Excess Returns: 3, 5, 7 & 10 Years

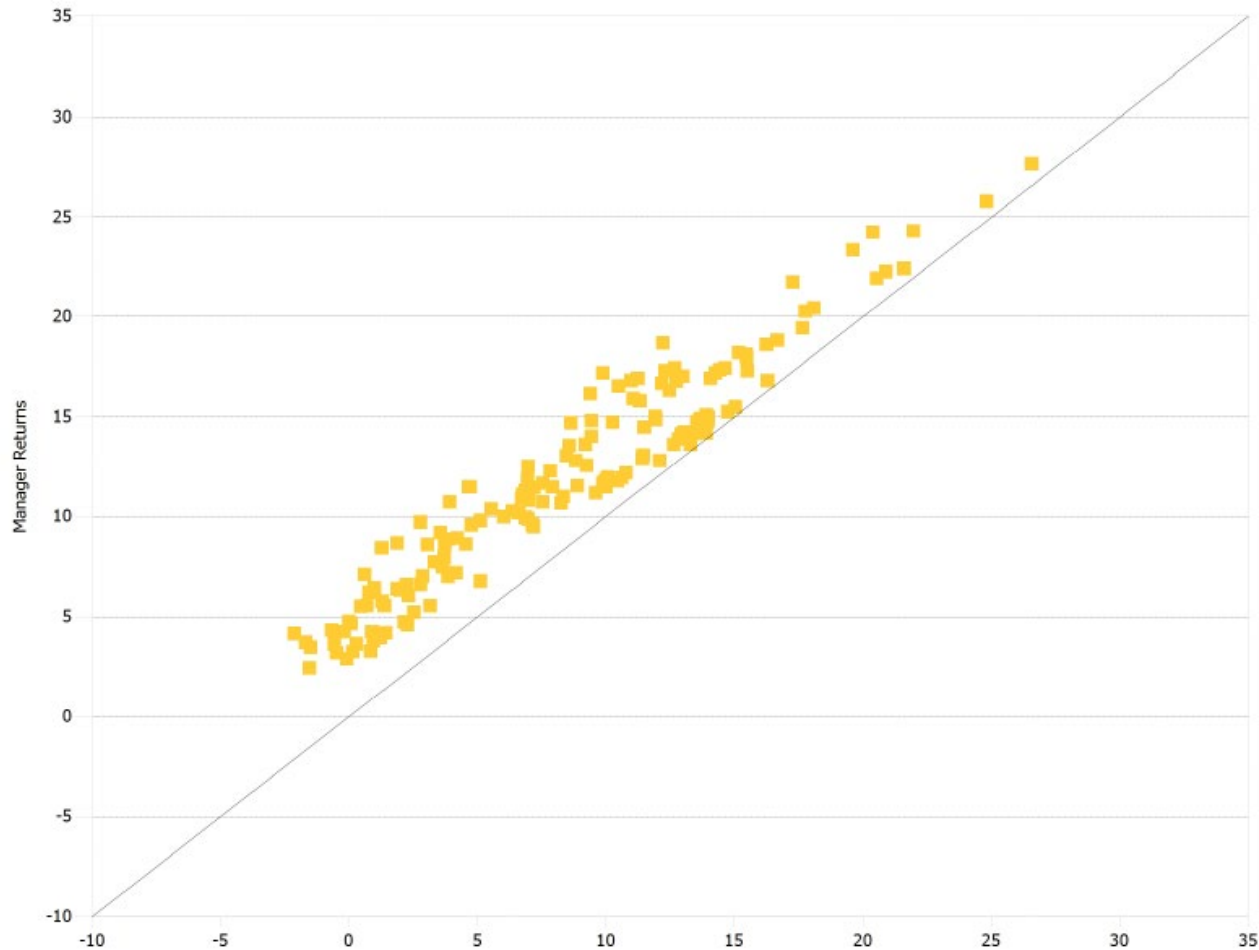
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Universe:
eVestment US Small-Mid Cap Value Equity

	VT	RM	3 Years	Rk	5 Years	Rk	7 Years	Rk	10 Years	Rk
■ 5th percentile			5.03		5.05		3.78		3.15	
■ 25th percentile			3.26		2.74		1.85		1.56	
Median			1.81		1.45		0.65		0.90	
■ 75th percentile			-0.82		0.05		-0.60		-0.01	
■ 95th percentile			-2.88		-2.62		-2.73		-3.34	
# of Observations			87		79		72		65	
◆ Burgundy Asset Management Ltd.	SA	GF	3.29	23	4.43	11	3.71	7	2.84	11
■ EARNEST Partners, LLC	SA	GF	6.16	2	5.35	4	3.89	3	3.18	5
● Systematic Financial Management, L.P.	SA	GF	3.45	19	3.63	17	3.77	5	2.90	9
▲ Victory Capital Management Inc.	SA	GF	4.77	7	2.87	23	1.81	26	1.55	26

Burgundy Asset Management Consistency 5 Year Rolling



of Observations

154

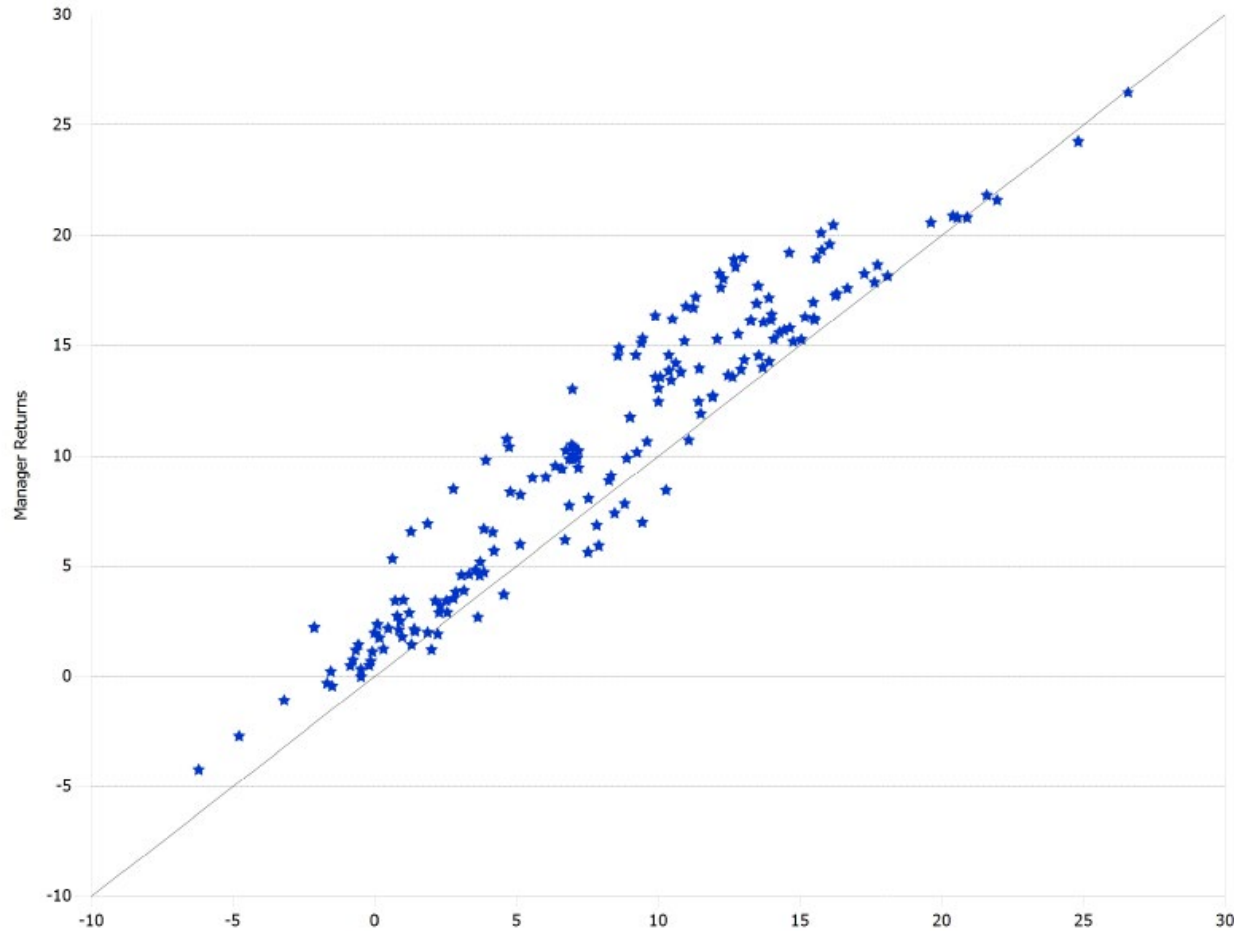
Outperform Benchmark

154

% Outperform Benchmark

100%

EARNEST Partners Consistency 5 Year Rolling



of Observations

173

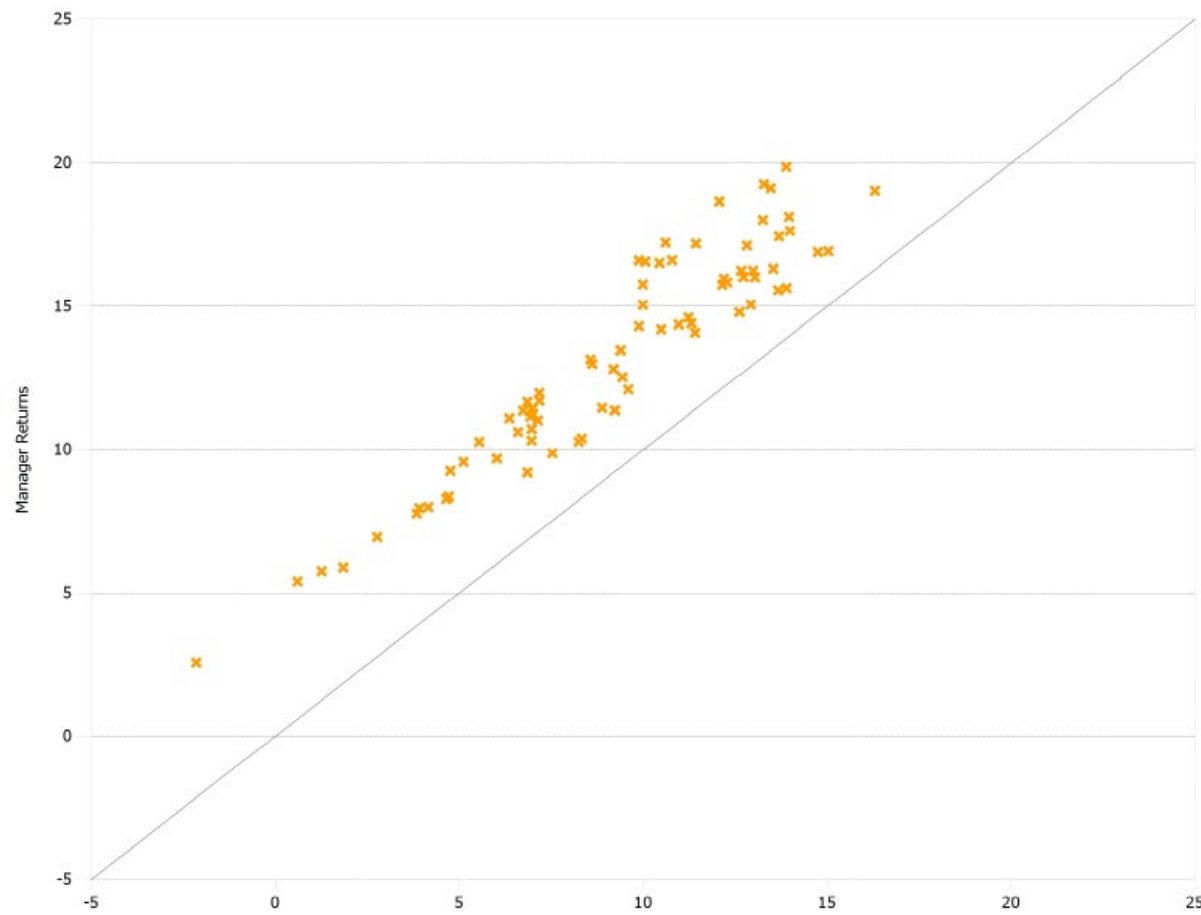
Outperform Benchmark

156

% Outperform Benchmark

90%

Systematic Financial Management Consistency 5 Year Rolling



of Observations

Outperform Benchmark

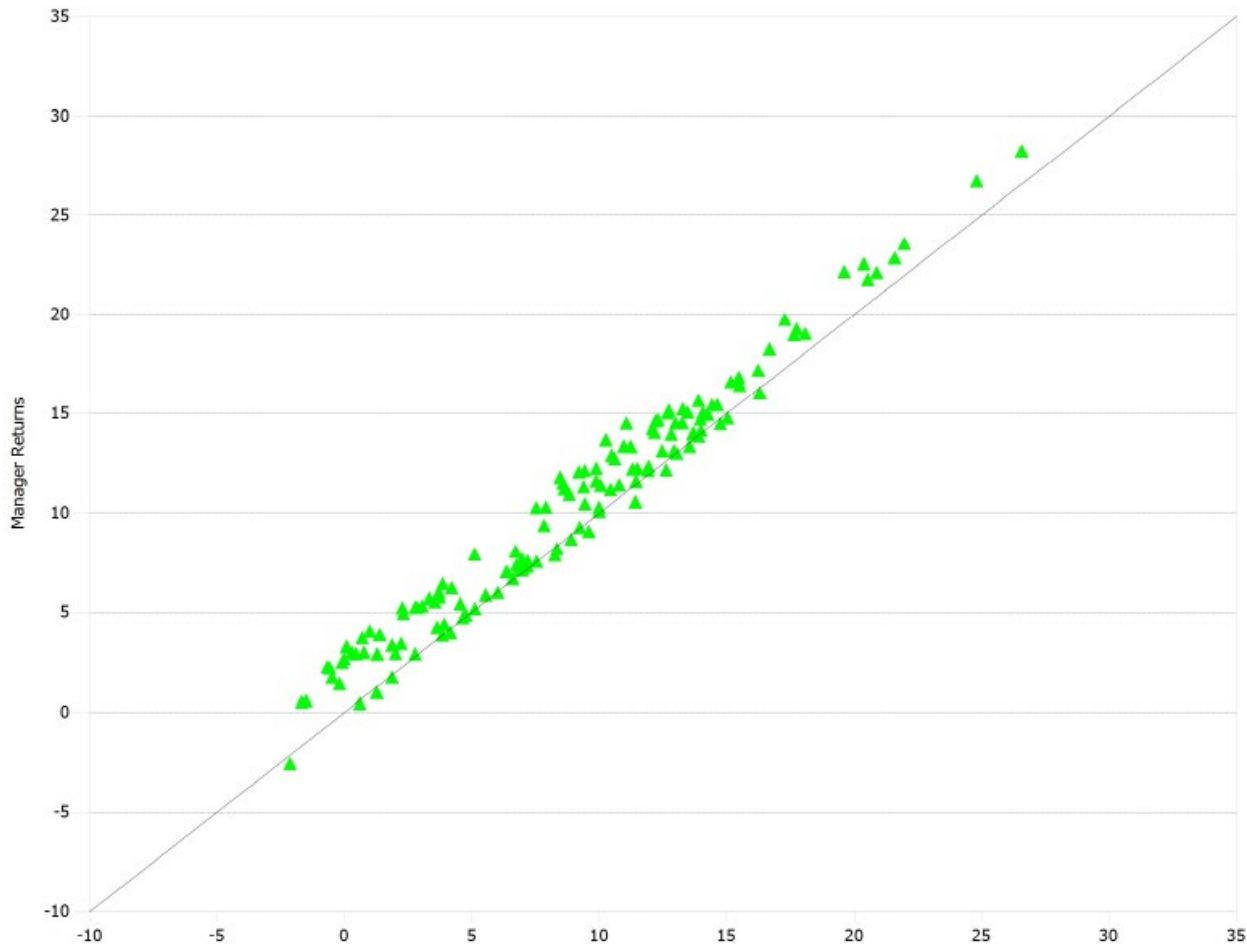
% Outperform Benchmark

76

76

100%

Victory Capital Management Consistency 5 Year Rolling



of Observations

144

Outperform Benchmark

126

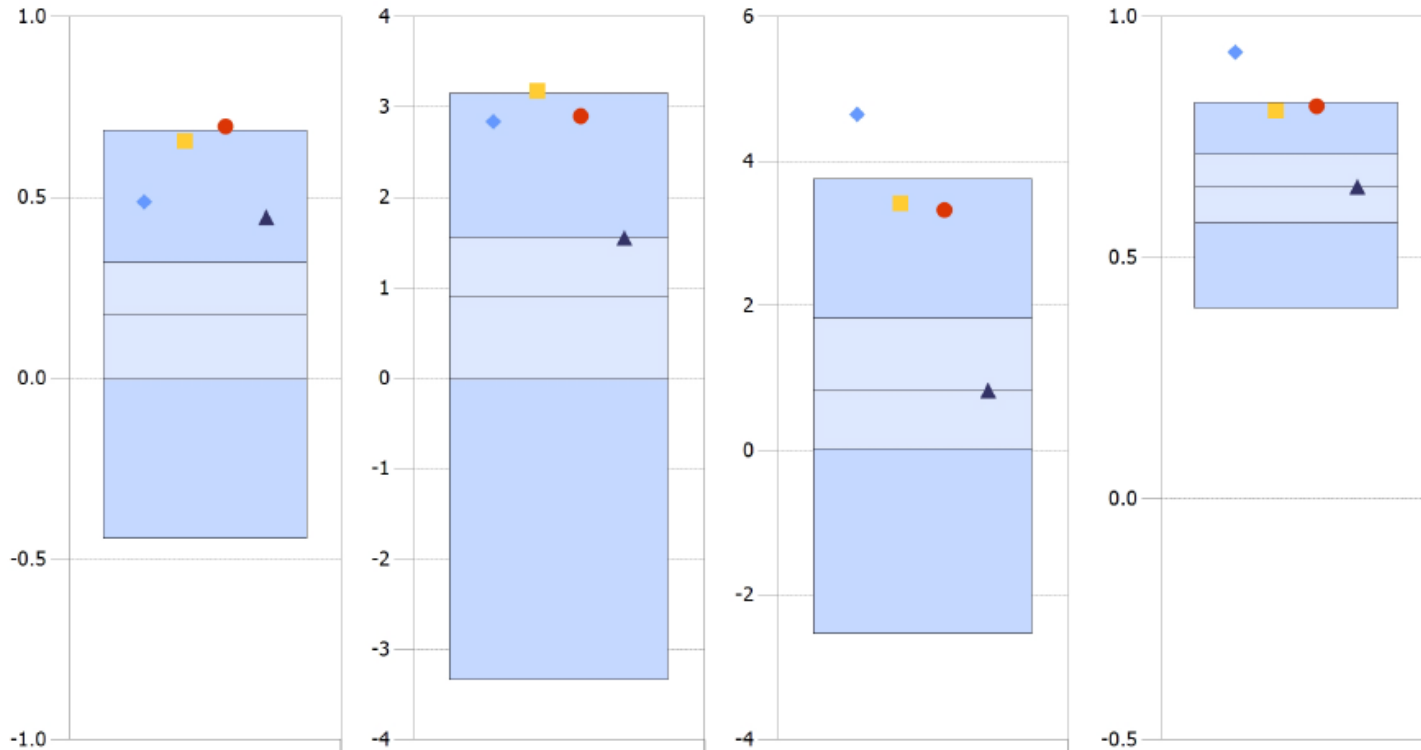
% Outperform Benchmark

88%

MPT Stats: 10 Years

10 Years As Of: March 31, 2022

- ◆ Burgundy Asset Management Ltd.: Burgundy U.S. Small/Mid Cap Equity
- EARNEST Partners, LLC: Small/Mid Value
- Systematic Financial Management, L.P.: SMID Cap Value Free Cash Flow
- ▲ Victory Capital Management Inc.: Integrity Small/Mid-Cap Value



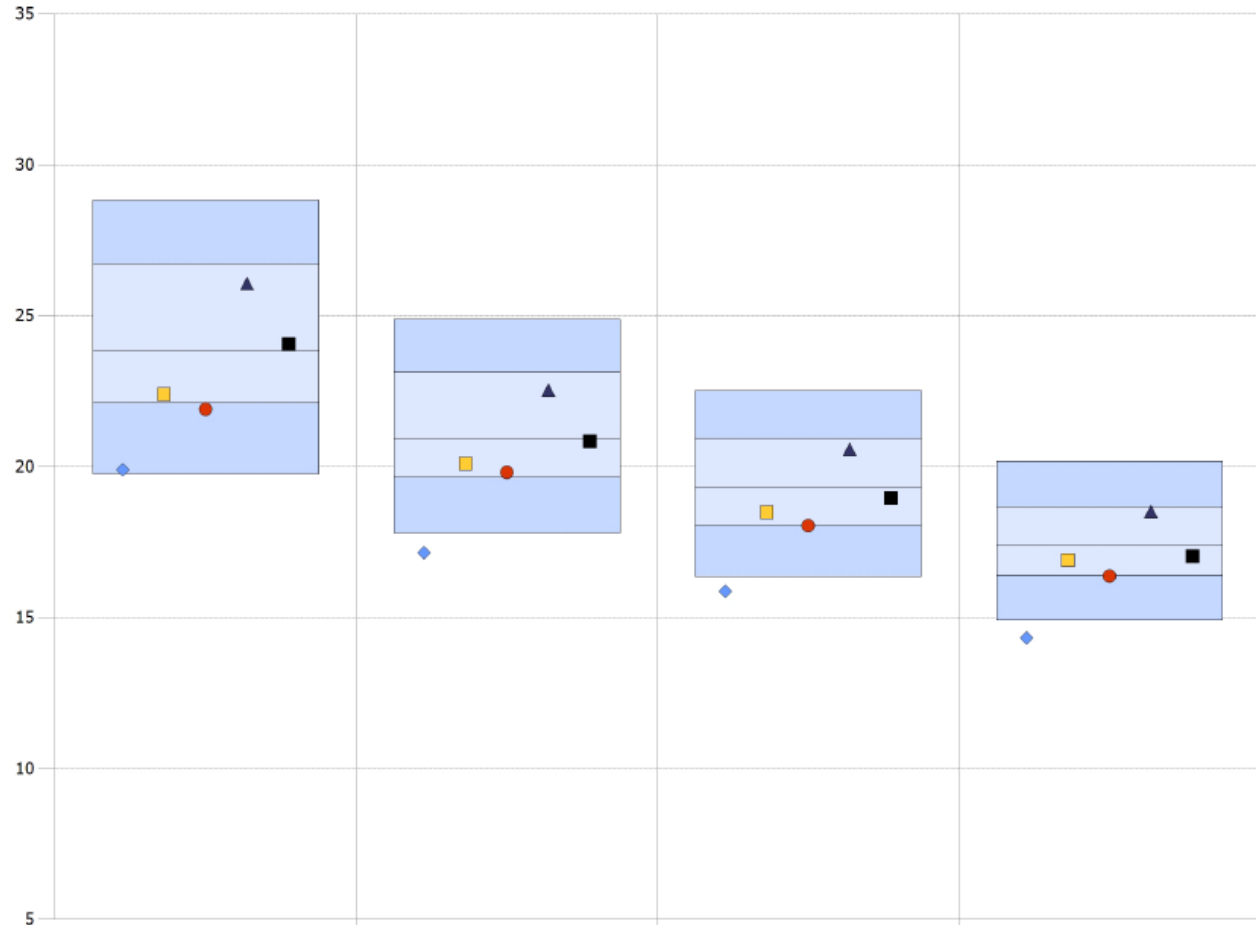
	VT	RM	IR	Rk	Excess Rtn	Rk	Alpha	Rk	Sharpe ¹	Rk
5th percentile			0.69		3.15		3.75		0.82	
25th percentile			0.32		1.56		1.83		0.71	
Median			0.18		0.90		0.83		0.65	
75th percentile			0.00		-0.01		0.03		0.57	
95th percentile			-0.44		-3.34		-2.53		0.40	
# of Observations			65		65		65		65	
◆ Burgundy Asset Management Ltd.	SA	GF	0.49	14	2.84	11	4.65	3	0.93	3
■ EARNEST Partners, LLC	SA	GF	0.66	7	3.18	5	3.42	7	0.81	7
● Systematic Financial Management, L.P.	SA	GF	0.70	3	2.90	9	3.33	8	0.81	6
▲ Victory Capital Management Inc.	SA	GF	0.44	16	1.55	26	0.83	50	0.65	46

Results displayed in US Dollar (USD)

Russell 2500 Value; 1 FTSE 3-Month T-Bill

Standard Deviation: 3, 5, 7 & 10 Years

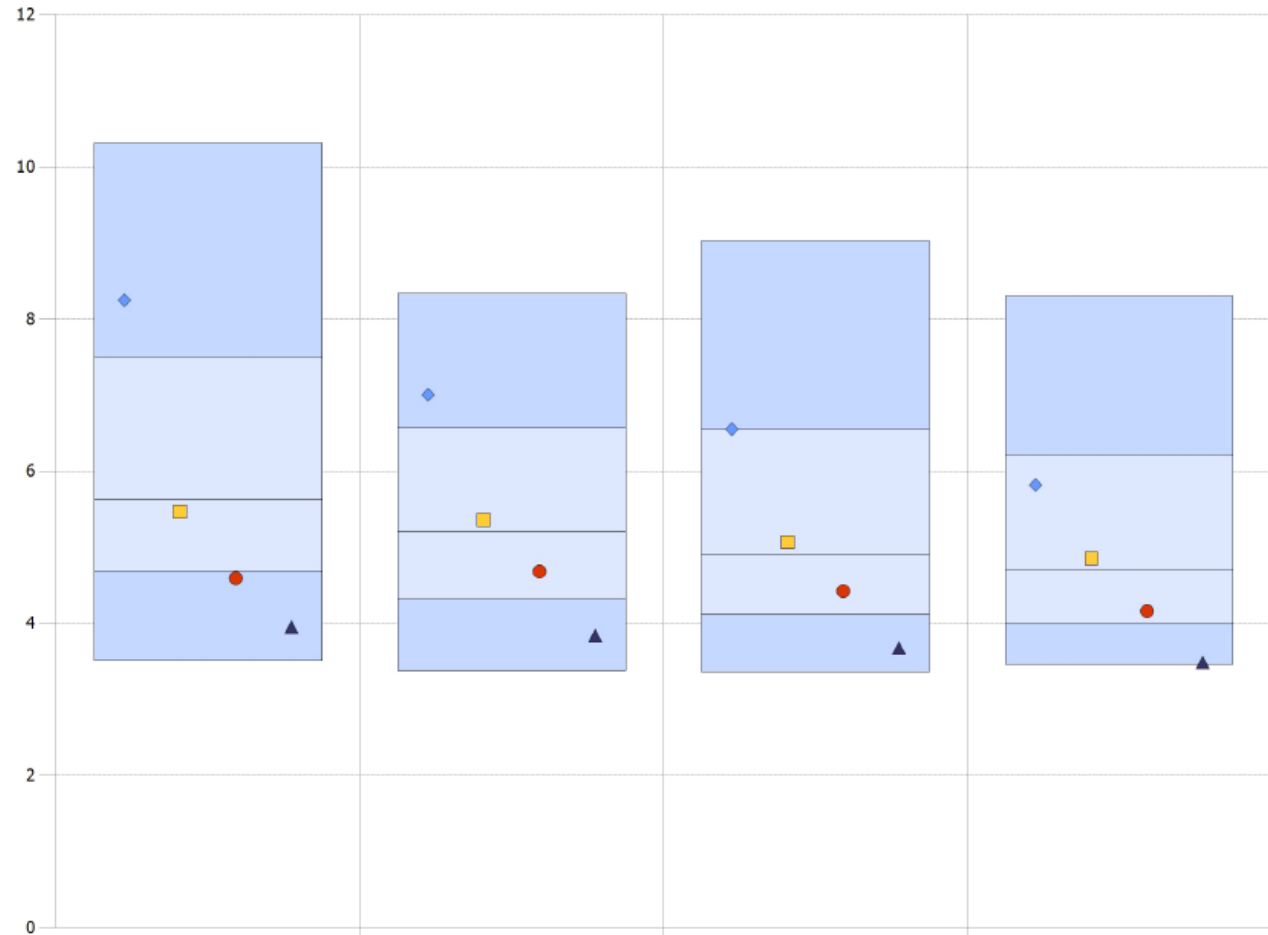
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VT RM		3 Years		5 Years		7 Years		10 Years	
		Rk		Rk		Rk		Rk	
■	5th percentile		19.76		17.79		16.37		14.93
■	25th percentile		22.12		19.63		18.05		16.40
	Median		23.87		20.95		19.33		17.39
■	75th percentile		26.73		23.13		20.95		18.68
■	95th percentile		28.82		24.89		22.53		20.18
	# of Observations		87		79		72		65
◆	Burgundy Asset Management Ltd.	SA GF	19.90	6	17.15	2	15.87	2	14.33
■	EARNEST Partners, LLC	SA GF	22.39	27	20.10	32	18.49	32	16.90
●	Systematic Financial Management, L.P.	SA GF	21.91	23	19.82	29	18.05	25	16.38
▲	Victory Capital Management Inc.	SA GF	26.07	70	22.54	67	20.58	67	18.52
■	Russell Index	IX IX	24.05	51	20.85	44	18.97	41	17.03

Tracking Error: 3, 5, 7, & 10 Years

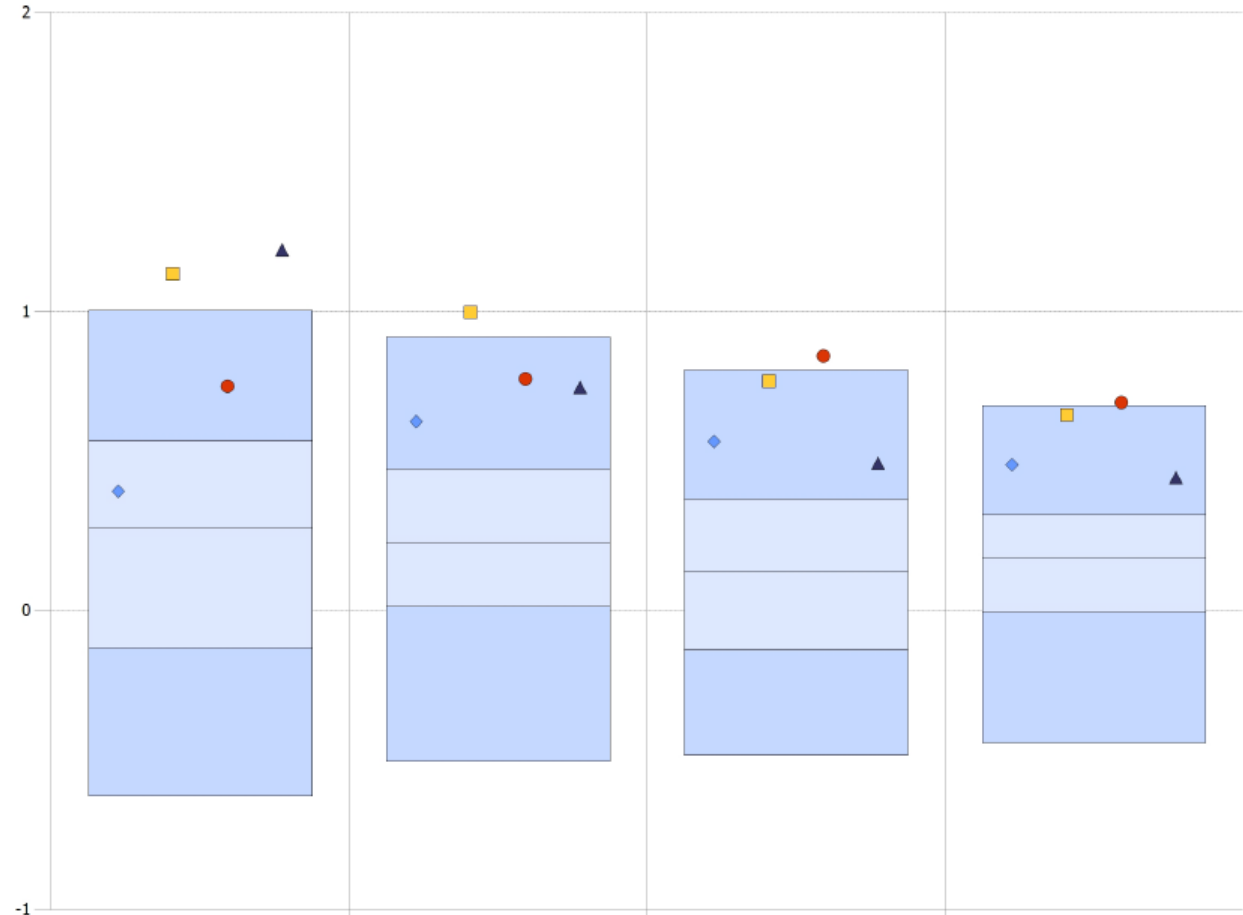
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			3 Years		5 Years		7 Years		10 Years	
			Rk		Rk		Rk		Rk	
5th percentile			3.51		3.38		3.37		3.47	
25th percentile			4.69		4.32		4.12		4.00	
Median			5.63		5.21		4.91		4.69	
75th percentile			7.51		6.57		6.55		6.22	
95th percentile			10.32		8.34		9.03		8.31	
# of Observations			87		79		72		65	
◆ Burgundy Asset Management Ltd.	SA	GF	8.25	85	7.01	78	6.55	76	5.82	71
■ EARNEST Partners, LLC	SA	GF	5.47	45	5.36	51	5.07	57	4.85	55
● Systematic Financial Management, L.P.	SA	GF	4.59	23	4.68	38	4.42	35	4.16	35
▲ Victory Capital Management Inc.	SA	GF	3.95	9	3.84	10	3.68	8	3.49	8

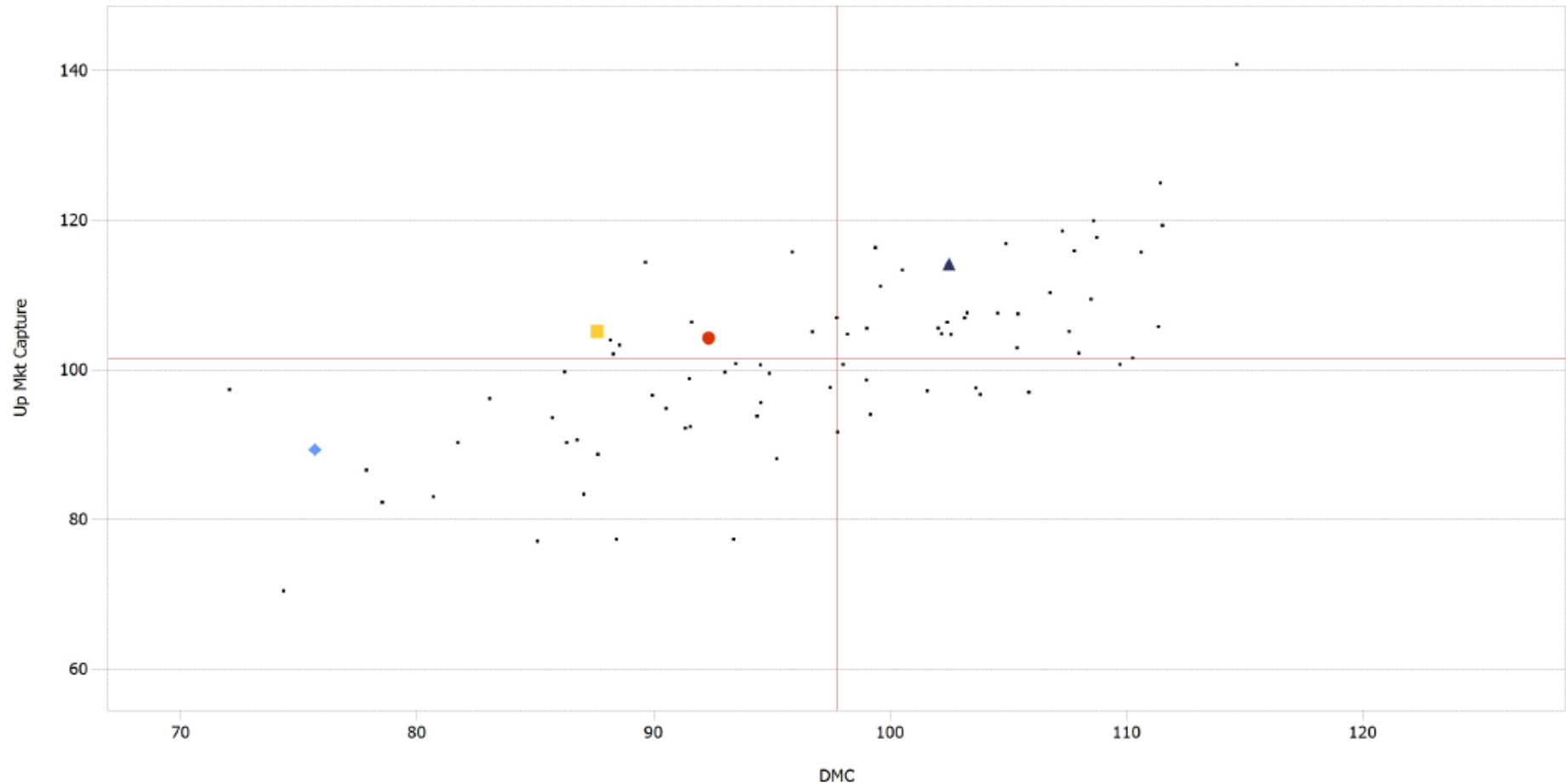
Information Ratio: 3, 5, 7 & 10 Years

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SMID Cap Value Free Cash Flow
- ▲ Victory Capital Management Inc.:
Integrity Small/Mid-Cap Value



VT RM		3 Years	Rk	5 Years	Rk	7 Years	Rk	10 Years	Rk
5th percentile		1.00		0.92		0.81		0.69	
25th percentile		0.57		0.47		0.37		0.32	
Median		0.28		0.23		0.13		0.18	
75th percentile		-0.13		0.01		-0.13		0.00	
95th percentile		-0.62		-0.50		-0.48		-0.44	
# of Observations		87		79		72		65	
◆ Burgundy Asset Management Ltd.	SA GF	0.40	38	0.63	17	0.57	10	0.49	14
■ EARNEST Partners, LLC	SA GF	1.13	3	1.00	3	0.77	6	0.66	7
● Systematic Financial Management, L.P.	SA GF	0.75	13	0.78	10	0.85	4	0.70	3
▲ Victory Capital Management Inc.	SA GF	1.21	2	0.75	13	0.49	16	0.44	16

Upside vs Downside Capture: 5 Years

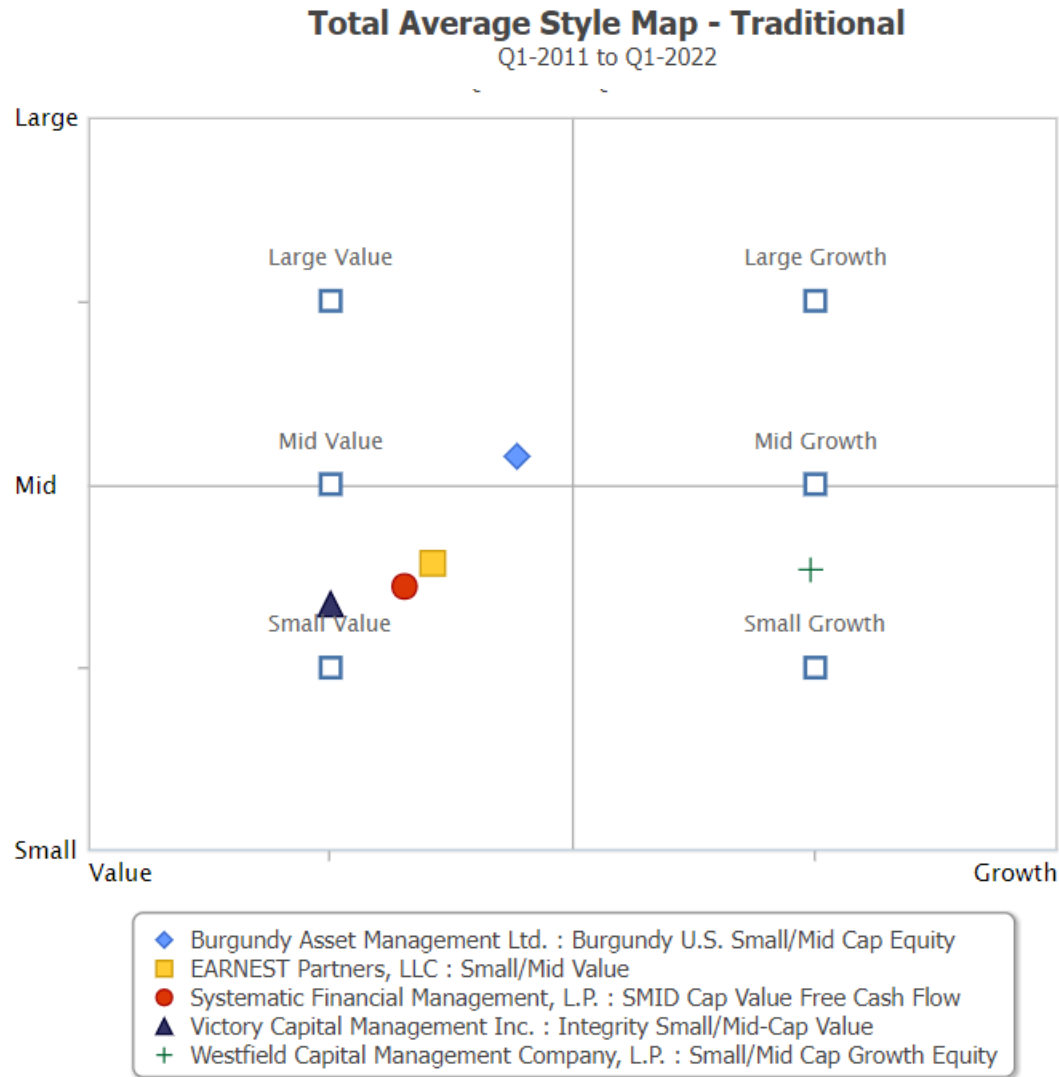


Universe: eVestment US Small-Mid Cap Value Equity

As Of: March 31, 2022

	VT	RM	Up Mkt Capture	DMC
◆ Burgundy Asset Management Ltd.	SA	GF	89.34	75.67
■ EARNEST Partners, LLC	SA	GF	105.12	87.60
● Systematic Financial Management, L.P.	SA	GF	104.27	92.32
▲ Victory Capital Management Inc.	SA	GF	114.16	102.49
+ Universe Median			101.58	97.74

Style Analytics



Calculated Representative Fees

Percentiles	Product: SA: Fee Calc. - Sliding @ 40mm	Product: SA: Basis Pt. Calc. - Sliding @ 40mm	Product: CF: Fee Calc. - Sliding @ 40mm	Product: CF: Basis Pt. Calc. - Sliding @ 40mm	Product: MF: Fee Calc. - Sliding @ 40mm	Product: MF: Basis Pt. Calc. - Sliding @ 40mm
High	\$120,000	30	\$180,000	45	\$116,000	29
5th Percentile	\$215,375	54	\$186,000	47	\$276,000	69
25th Percentile	\$300,000	75	\$270,000	68	\$336,000	84
Median	\$337,500	84	\$320,000	80	\$352,000	88
75th Percentile	\$364,375	91	\$366,250	92	\$420,000	105
95th Percentile	\$400,000	100	\$400,000	100	\$500,000	125
Low	\$600,000	150	\$600,000	150	\$540,000	135
Observations	84	84	23	23	21	21

Firm Name	Product: SA: Fee Calc. - Sliding @ 40mm	Rank	Product: SA: Basis Pt. Calc. - Sliding @ 40mm	Rank	Product: CF: Fee Calc. - Sliding @ 40mm	Rank	Product: CF: Basis Pt. Calc. - Sliding @ 40mm	Rank	Product: MF: Fee Calc. - Sliding @ 40mm	Rank	Product: MF: Basis Pt. Calc. - Sliding @ 40mm	Rank
Burgundy Asset Management Ltd.	\$360,000	74	90	73	\$360,000	73	90	73	---	---	---	---
EARNEST Partners, LLC	\$350,000	67	88	66	\$240,000	10	60	9	---	---	---	---
Systematic Financial Management, L.P.	\$325,000	43	81	42	---	---	---	---	---	---	---	---
Victory Capital Management Inc.	\$362,500	74	91	75	---	---	---	---	\$352,000	40	88	39

Manager Assessment

Burgundy Asset Management – SMID Cap Value Equity

Investment Opinion

The Burgundy US Small/Mid Cap Value strategy (the "Strategy") managed by Burgundy Asset Management Ltd. is rated Recommended as of 12/1/2012. The key observations relating to our Seven Principles are summarized below:

- Burgundy is a firm committed to serving clients, not gathering assets. The culture at the firm, which clearly originates from the senior leadership of CIO Anne Mette de Place Filippini and Chairman Tony Arrell, seems very strong. The culture under the leadership of CIO Anne Mette de Place Filippini and Chairman Tony Arrell, seems very strong and the firm has done a great job with servicing client needs.
- Under the leadership of Steve Boutin as lead portfolio manager, the team is supported by adequate staffing of analysts given their investment approach of high quality companies with long time horizons and very low portfolio turnover.
- Burgundy's value philosophy is firmly designed to preserve capital, which is appealing for investors who view risk through the lense of loss of capital. Several years after taking over, Boutin's leadership has not led to a meaningful change in portfolio characteristics, which highlights the consistency of the process. Turnover remains low, portfolio holdings remain concentrated, and the market cap remains firmly in the range allotted.
- Burgundy's focus on quality and valuation is evident throughout the investment process, which is disciplined and rigorous. Its in-depth fundamental research distinguishes the firm and is a key reason for its success in managing equities. The long-term time horizon and concentrated portfolios are hallmarks of its investment approach.
- Burgundy has an appropriate operational and compliance structure in place. Over the past five years or so, the firm has added significantly in this area in response to the firm's strong growth in assets under management. The added resources in this area of the business are crucial given the diversified client base Burgundy is building and the increased complexity of the regulatory environment.
- Burgundy's investment approach is benchmark agnostic, resulting in a high active share, which can lead to a higher relative risk (tracking error) at times. However, the strategy has been very consistent in providing alpha (risk-adjusted excess returns) over long time periods. The strategy has also demonstrated its ability to protect capital during down markets, validating a key tenet of the Strategy's investment philosophy.
- Burgundy offers clients flexibility by having both a segregated account and pooled fund option available with low minimums. Relative to peers in the eVestment U.S. Small-Mid Cap Equity universe, at the stated minimum of \$10 million, is 4 basis points above median (86 basis points). The commingled fund, at the stated minimum of \$5 million, is 8 basis points above median (82 basis points), ranking in the 66th percentile.

Manager Assessment

EARNEST Partners – Small/Mid Value Equity

Investment Opinion

The Small/Mid Cap Value strategy (the "Strategy") managed by EARNEST Partners is rated Recommended pending final approval from the AMRC on May 16, 2022. The key observations relating to our Seven Principles are summarized below:

- EARNEST is 100% employee owned and is well capitalized, with all of its capital provided by the eight principals of the firm and has zero debt on the balance sheet. In addition, the firm's employee ownership structure encourages employee retention, and the firm's incentive compensation structure is aligned with client interests.
- The team consists of individuals who have been in the investment industry for an average of 20 years. Team members have varying backgrounds, typically starting in a field or profession unrelated to finance or investing. The firm believes the diversity on the investment team provides better insight and variability into their stock analysis capabilities. In addition, the quality and diversity of the investment insight provided by this eclectic group of investors is unique within the industry.
- The team's value investment approach, which has been consistent since the firm's inception and is applied across all equity strategies at the firm, is structured as an "alpha generating" strategy. The Strategy is best described as relative value with a quality bias. We feel the competitive advantage is the caliber of individuals with combined educational and practical experience who provides deep insights and unique perspective to allow for high conviction stock picking.
- EARNEST investment process is proven and distinguished where research is conducted exclusively in-house and their use of proprietary tools are only applicable to their process. Furthermore, EARNEST hires distinguished individuals with vast industry experience with limited investment experience and convert them to conform them to their philosophy and process.
- Given the boutique nature of the firm, we feel that EARNEST has a comprehensive compliance and operations architecture in place. We also view retaining of Carsten Fiege, General Counsel, as favorable given the shifting regulatory landscapes of the various markets the team operates in, specifically Brazil and China, and believe they are well equipped to address key areas of international regulatory requirements.
- The performance have consistently outshined the index on a calendar, trailing and rolling return basis. The Strategy has also had strong risk-adjusted return metrics displayed by the strong information and and sharpe ratio, ranking in the top quartile for the trailing 1-, 2-, 3-, 4- and 5-year trailing periods. Also, upside and downside market capture has been favorable in both rising and declining markets.
- Relative to peers in the eVestment U.S. Smid Cap Value Equity universe, fees for the separate account are above the fee of their peers, by 5 basis points. However, fees on the commingled fund are priced more competitively, with stated fees 20 basis points lower than the median fee of 85 basis points.

Manager Assessment

Systematic Financial Management – SMID Cap Value Free Cash Flow

Investment Opinion

The Smid Cap Value Free Cash Flow strategy (the "Strategy") managed by Systematic Financial Management L.P. is rated Recommended as of 10/1/2018. The key observations relating to our Seven Principles are summarized below:

- Systematic Financial Management has recently restructured its equity ownership deal with owner Affiliated Managers Group, resulting in an outcome where remuneration of investors better reflects their contribution to the business. We believe that this is a positive step for the firm.
- In our discussions with PM Ken Burgess his depth of knowledge of the U.S. small cap equity market has impressed us, and we believe that his long tenure at the helm of this Strategy is noteworthy (over 20 years). His passion for investing is clearly evident, and over his tenure on the Strategy, has developed an abundance of quantitative tools to help streamline the investment process, and increase the efficiency of his
- The combination of valuation discipline and quality focus is highly appealing. The niche nature of the inefficiency that they are targeting is validated by the consistent long-term performance of the Strategy. The team has been cautious about managing the capacity of the Strategy, and have demonstrated on several occasions that they are willing to close the Strategy to new client assets to protect existing investors when they have felt liquidity of the portfolio tighten.
- The rigorous process that the team has for identifying potential stocks for the focus list allows them to dedicate their time to a narrow portion of the universe. The quantitative tools that they have developed to automate a significant proportion of the free cash flow analysis also contributes to their efficiency.
- SFM benefits from its affiliation with AMG. AMG's legal and compliance group reviews all investment management contracts, aids in the development of policies and procedures, and provides annual compliance training. SFM has demonstrated its commitment to compliance and operations through its promotion of CCO/COO Karen Kohler to equity partner.
- Relative to peers, the Strategy's performance numbers are compelling over trailing time periods since inception. The quality bias within the portfolio translates to returns that are also impressive on a risk-adjusted basis, as per the Information Ratio of 0.78, and the Sharpe Ratio of 0.67 over the trailing 5-year period.
- The separate account is priced 5 bps less than the median fee (90 bps) for the eVestment U.S. Small Mid Cap Value Equity universe. The commingled fund fees for early investors will be highly attractive relative to the peer group universe.

Manager Assessment

Victory Capital Management – Integrity Small/Mid Cap Value Equity

Investment Opinion

The Integrity Small/Mid Cap Value Equity strategy (the "Strategy") managed by Victory Capital Management Inc. is rated Recommended as of 3/6/2014. The key observations relating to our Seven Principles are summarized below:

- Integrity, which is wholly owned by Victory Capital, has benefitted from the increased infrastructure support of being part of a broader organization and have been left to focus on their investment responsibilities, unencumbered with the day-to-day realities of managing a business. In addition, we view the fact that investment professional's compensation package includes equity in Victory Capital's business as a positive. Victory Capital's acquisition of USAA Asset Management Company provides greater capabilities for clients and is ultimately beneficial to Integrity Asset Management and the other boutique franchises.
- Lead Portfolio Manager Daniel Bandi has been at the helm of the Strategy since its inception in 2003, and, as a result, has provided consistency and stability to the underlying investment process. In addition, several capable portfolio managers, who are running other related products at the firm, provide support, limiting any concerns around key-person risk. The addition of two new analysts in 2017 means greater sector coverage and grants more time to Dan Bandi to focus on the portfolio responsibilities.
- The team's investment philosophy of Right Company, Right Price, Right Time is intuitively appealing, and emphasizes a pragmatic approach that may cause the portfolio to shift sometimes between exhibiting value and relative value characteristics, depending on the market cycle.
- The team's investment process is consistent, well-articulated, and embraced by the entire investment team. In addition, their use of a combination of quantitative models and fundamental research is appropriate for the Strategy. While the team uses resources judiciously, they will conduct deeper due diligence where they feel it will add value, including conducting company visits and management meetings.
- The Integrity team has benefitted from the deepening of operational resources and compliance functions that are available at Victory Capital. We have no concerns regarding the compliance and operations framework at the firm or their effectiveness.
- The performance pattern, risk exposures, and portfolio characteristics exhibited by the Strategy have been stable over time and are consistent with the Strategy's Right Stock, Right Value, Right Time investment approach. In addition, the Strategy has delivered consistent excess returns since inception, within a relatively low tracking error framework, which we find appealing.
- The 100 basis points fee on separate accounts with an investment minimum of \$5 million is slightly more expensive than peers, priced 5 basis points above median. The fee of 90 basis points for the commingled fund is directly in line with peers. The fee of 88 basis points on the mutual fund with an investment minimum of \$1 million is less expensive than peers, coming in 4 basis points below the median.

Manager Assessment

Burgundy Asset Management – SMID Cap Value Equity

Organization

Description

Based in Toronto, Canada and founded in May 1991, Burgundy Asset Management Ltd. ("Burgundy") is a value-oriented global investment manager whose product offerings include Global, Canadian, U.S., European, Asian and Emerging Markets equity and balanced strategies. Burgundy is 100% employee-owned, with equity distributed widely across 130 partners. No one shareholder owns more than 30% of the firm's equity, with the firm's eleven senior partners holding 75% of the equity stake. Tony Arrell (Chairman and CEO) and Anne Mette de Place Filippini (CIO) maintain voting control over the firm. Currently, Burgundy employs 160 people, including 41 investment professionals. It should be noted that effective July 1, 2018, Anne Mette de Place Filippini was promoted to the newly-created position of Deputy Chief Investment Officer.

As of March 31, 2022, Burgundy managed approximately \$21.5 billion in assets through the offerings of: Canadian All Cap, Canadian Small Cap, Focus Canadian, U.S. Small Cap, Global Focused Opportunities, EAFE Equity, European All Cap, Asian All Cap and Emerging Markets. Canadian clients account for roughly two-thirds of the firm's assets, with the remainder divided fairly evenly between U.K. and U.S. clients.

Opinion

Burgundy is a firm committed to serving clients, not gathering assets. In several instances, they have turned down potential clients, which, in their view, were not a right fit for the firm. The culture seems very strong at the firm, which has clearly been guided by Filippini and Arrell at the top. While the ownership structure is broadening out, it is still concentrated with 11 people owning 75% of the shares. Burgundy is growing at a fast pace, with their assets under management having increased by more than 12.5% in the past five years, a result of exceptionally strong performance across all of their equity products (June 2013: \$14.4 billion, June 2019: \$32.9 billion). With competitive foreign equity offerings, the firm should be able to continue to build their presence among their client base outside of Canada. Even with this success, the firm has been very proactive in managing capacity of its products, limiting new account flows to strategies where they feel liquidity is more constrained.

As a firm, Burgundy had been very stable, losing only one senior portfolio manager since the inception of the firm (John Di Tommaso, 1994). In June 2016, however, Senior Partner and Portfolio Manager Stephen Mitchell left the firm by what we believe was mutual agreement. He worked on the American Equity and Global Equity strategies. Ken Broekaert has taken on Global Equity, after having just taken on Global Focused from Richard Rooney earlier in 2016. Doug Winslow has been appointed Portfolio Manager on American Equity. Until this move, we had indicated that the long tenure and stability in the senior portfolio manager ranks may sometimes translate to limited opportunities for advancement among junior portfolio managers and analysts, which could be some of the reason for historically high analyst turnover at the firm. Mitchell's departure has allowed one analyst, Andrew Lu, to take on the Director of Research role from Broekaert; that position has historically been a rotating one.

Manager Assessment

Burgundy Asset Management – SMID Cap Value Equity

Team

Description

Steve Boutin has managed the Strategy since early 2012, having taken over from Ken Jesudian, the current CEO of the firm who has given up his portfolio management responsibilities. The portfolio manager from inception until 2010 was Allan MacDonald, who works with Boutin on the U.S. Small Cap and U.S. Small/Mid Cap team on a day to day basis. In 2012, Jesudian made room for the opportunistic addition of Boutin, who is a talented and experienced investor. Boutin is supported by three investment analysts, Oliver Cardoso (2010, 2016), Donald Gawel (2013, 2016), and Erik Danudjaja (2019, 2019). Added support comes from MacDonald, who joined Burgundy in 1995 and is the lead portfolio manager on U.S. Small Cap Value, but who shares a long-standing professional relationship with Boutin whereby they act as sounding boards for each other. They are also considered each other's back-ups in the event that one becomes unavailable. Both portfolios utilize the analysis provided by Cardoso, Gawel and Danudjaja. In addition, the team has the part-time help of Andrew Lu, who started on Canadian small cap stocks at Burgundy in 2013, but in 2016 began to take on U.S. small cap coverage as well. It should be noted that the firm decided to part ways with previous analyst, Jeff Daley in 2019 and hired Danudjaja as his replacement.

Opinion

Boutin is a strong lead portfolio manager and the team supporting him continues to grow at a measured pace. Boutin apprenticed at the same firm for the first three years of their career, and thus knew they shared a common philosophy and temperament. Segal Marco was a supporter of Boutin when he managed portfolios at Van Berkompolder earlier in his career.

While turnover at the portfolio manager level has been low (the last such departure from Burgundy was in 1994) and the small and mid-cap team has been largely stable except for additions and rotations within the firm, Burgundy has faced issues keeping analysts. By our tracking, Burgundy has lost five analysts in the past five years due to either resignations or terminations. It is well known in Toronto that working at Burgundy as an analyst is one of the toughest equity research jobs. That said, it is a premier firm where new talent can learn a lot and exceptional individuals can see promotion at fairly young ages. The decision by management to rotate analysts into different responsibilities, such as Andrew Lu's taking on some U.S. small cap research while retaining his Canadian equity responsibilities, is seen as a positive, as it broadens the career path for analysts and provides the opportunity to work with other portfolio managers within the firm. We have no concerns with the replacement of Jeff Daley and the hiring of Erik Danudjaja. Boutin has been working closely with Danudjaja and we feel that although Danudjaja may be a less experienced hire, he has been able to keep up with the workload and is being mentored well along the way.

Although less seasoned than Boutin, the analysts on the team demonstrate in-depth knowledge of the companies which they cover for the portfolio. In our opinion, Burgundy has been very good at training new analysts joining the firm.

Manager Assessment

Burgundy Asset Management – SMID Cap Value Equity

Strategy

Description

Burgundy's investment philosophy of bottom-up research focused on quality and valuation is applied consistently across all of its equity products. The firm utilizes an investment perspective of long-term company ownership, not stock ownership. The basic premise that undergirds the investment process is to identify profitable companies, suffering from temporary business impairment, that are selling at a significant discount to their intrinsic value. Furthermore, a focus on downside protection is a hallmark of the investment approach, as they view risk as permanent loss of capital, not volatility. The universe allowed for the Strategy is U.S. companies between \$750 million and \$8.5 billion in market cap. The investment style of the strategy is best described as traditional value. Strategy assets through March 31, 2022, were \$807.4 million. The team also manages a Small Cap Value strategy which has CAD\$2.4 billion in total AUM. The overlap between the two products are typically between 30-50%.

Opinion

Burgundy's value philosophy is firmly grounded in preserving capital, which is appealing for investors who view risk through the lens of loss of capital. Several years after taking over, Boutin's leadership has not led to a meaningful change in portfolio characteristics, which highlights the continuity of the process. Turnover remains low, portfolio holdings remain concentrated, and the market cap remains firmly in the range allotted.

Manager Assessment

Burgundy Asset Management – SMID Cap Value Equity

Investment Process

Description

Description:

The investment process begins with a universe of 4,000 small and mid-cap companies that are screened along traditional valuation (EV/EBIT and pre-tax operating margin/EV), earnings (EPS growth) and quality (changes in shares outstanding, return on capital, financial leverage and retained earnings/paid-in-capital) metrics. The initial quantitative screen is further supplemented by including stocks that are trading at their 52-week lows. Qualitative work, particularly on quality characteristics (business, managerial, and financial quality metrics), provides a short list of roughly 80 stocks on which the team will do further work.

Through fundamental research, the team seeks to identify and invest in businesses: (1) with strong financial characteristics; (2) with sustainable operating advantages; (3) whose management and shareholder interests are properly aligned; and (4) that are trading below their intrinsic value. Superior free cash flow growth, consistent high return on invested capital, and low financial leverage are some of the examples of strong financial characteristics. Recurring demand, industry leadership, barriers to entry, and economic resilience represent examples of sustainable operating advantages. For Burgundy, no one valuation metric is appropriate for all stocks in its small cap universe; notwithstanding, discounted cash flow analysis and discount to private market valuation are preferred in assessing the discount or premium to the intrinsic value. Before establishing a position in a company, Burgundy typically requires, at a minimum, a 30% discount to the team's determined intrinsic value. Burgundy also maintains a "Dream Team", which is a list of potential companies that embody all of the key characteristics that Burgundy looks for, but which are not currently available at a favorable discount. A stock is sold when its price reaches its intrinsic value. A deterioration of company fundamentals or identification of better investment opportunities will also result in a sell.

The final portfolio typically holds 30-45 stocks, with average portfolio turnover in the range of 25-35% per year. Sectors will be held to between 0% and 40% of the portfolio, with a 10% maximum limit on individual positions. The strategy may also invest up to 10% in names not domiciled in the U.S. Cash will be between 0 and 10% in normal market conditions.

Opinion

Burgundy's focus on quality and valuation is evident throughout the investment process, which is disciplined and rigorous. Its in-depth fundamental research distinguishes the firm and is a key reason for its success in managing equities. The long-term time horizon and concentrated portfolios are hallmarks of its investment approach.

Manager Assessment

Burgundy Asset Management – SMID Cap Value Equity

Operations

Description

Burgundy's in-house operations department is responsible for the day-to-day servicing and administration of client accounts and the operational functioning of the firm as a whole. The operations department includes accounting, client and account operations, investment performance, IT and trading, under the oversight of the Chief Financial Officer (CFO) and the Senior Vice President, Head of Operations. Each area is managed by a key professional. Fayaz Suleman, CPA, CA, serves as the firm's Chief Financial Officer. He joined Burgundy in 2015 from Vitran Corporation where he was CFO and VP of Finance since 2005.

Burgundy has a dedicated Legal & Compliance Department to ensure that the comprehensive set of policies and procedures established by the firm are being adhered to by all employees. Burgundy's Legal & Compliance team consists of experienced compliance and legal professionals. In addition to the team's joint effort to oversee compliance functions throughout the firm, the Chief Compliance Officer is responsible for the monitoring and oversight of the firm's compliance system. This includes establishing and updating policies and procedures and providing the framework for internal controls and monitoring. Robert Sankey, CFA, is Chief Operating Officer for Burgundy. He joined Burgundy in May 2005 to focus on performance measurement and firm-wide compliance initiatives. In May 2011, Sankey assumed the role of Director of Research and was appointed a Vice President of the firm. In December 2016, Robert was appointed Executive Vice President and Chief Operating Officer of the firm. Cathy Hui Chun Lin, Esq., is the Chief Compliance Officer and joined Burgundy in February 2015. She has over a decade of experience in the asset management industry with a background in European, Asian and Canadian securities regulations. Cathy was appointed to the role of Chief Compliance Officer in September 2017 after serving as interim Chief Compliance Officer at Burgundy between March 2016 and March 2017.

There is a clear segregation of duties between portfolio management and trading. The portfolio managers provide the traders with security transaction details, and it is the traders responsibility to execute the trade, ensuring best execution. Trading is centralized for the entire firm. Burgundy seeks to achieve best execution with respect to trading, taking into consideration both the ease and timeliness of the trade and the cost of such execution (both explicit and implicit costs).

Burgundy does not use brokerage commissions (soft dollar commissions) for the payment of portfolio management systems, trading systems or databases of any kind. The decision to cease using commissions for these purposes was implemented in February 2004, when we also discontinued accepting client-directed brokerage arrangements. Burgundy does not allow security lending in any of its Pooled/Commingled Funds.

As part of their normal regulatory review process, Burgundy was subject to a limited scope desk examination by the U.S. Securities Exchange Commission (SEC) which began in December 2016 and concluded in April 2017. The items noted in the audit were subsequently satisfactorily addressed. Burgundy is currently undergoing a limited scope review by the Ontario Securities Commission (OSC). There have not been any regulatory actions taken against the firm or its principals. Also, there is no pending litigation against the firm.

Manager Assessment

Burgundy Asset Management – SMID Cap Value Equity

Operations

Opinion

Burgundy has an appropriate operational and compliance structure in place. Over the past five years or so, the firm has added significantly in this area in response to the firm's strong growth in assets under management. This has also included a fair bit of turnover, which, in the firm's view, has allowed it to upgrade some positions. Since 2015, the firm has seen new individuals in both compliance and CFO functions; we will keep an eye on the back office faces to ensure that this turnover in the senior non-investment ranks is not a recurring activity. Overall, we feel the added resources in this area of the business as crucial given the diversified client base Burgundy is building and the increased complexity of the regulatory environment.

Manager Assessment

Burgundy Asset Management – SMID Cap Value Equity

Performance

Description

Through March 31, 2022, the Burgundy U.S. Small-Mid Cap Value strategy has outpaced its benchmark, the Russell 2500 Value Index, over all trailing periods. The Strategy has outperformed over the trailing 1 (+974 bps), 3 (+248 bps), 5 (+205 bps), 7 (+258 bps), and 10-year (+179 bps) periods, as well as since inception (June 2004: +228). On a calendar year basis, the Strategy has outpaced the Index in six of the past ten years. Against the eVestment U.S. Small/Mid Cap Value Equity universe excess returns over the trailing 5-years ranked in the top 11% against peers. Tracking error, which is a measure of relative risk, has ranged from (trailing 3-year: 8.3%, trailing 10-year: 5.8%). As a result, the Strategy's Information Ratio ranked in the 17th percentile of its peer group over the trailing 5-year period (0.63), and 14th percentile over the last 10 years (0.49). The Strategy has been remarkably less volatile, as measured by standard deviation, for the trailing five years was less than 98% of its small/mid cap value peers and against the Index (17.2% vs 20.9%), and 98% of peers for trailing ten years and against the index (14.3% vs 17.0%). As a result, the Strategy's Sharpe ratio ranked in the top 2% of its peer group over the trailing 5-year period (0.73) and in the top 3% over trailing 10-year (0.93). During rising and falling market environments, the Strategy's upside market capture over the trailing 5-year and 10-year periods were 89% and 90%, respectively, while downside capture ratios were 75% and 76%, respectively. Finally, regarding the consistency of outperformance, the Strategy outperformed the benchmark in 97% of 178 rolling 3-year periods since inception and 100% of 154 rolling 5-year periods.

Opinion

Burgundy's investment approach is very benchmark agnostic resulting in a high active share, which can lead to a higher tracking error at times. However, the Strategy has been very consistent in providing alpha (risk-adjusted excess returns) over long time periods. The Strategy has also demonstrated its ability to protect capital during down markets, validating a key tenet of the Strategy's investment philosophy. Finally, the strong down-market protection, low volatility (as defined by standard deviation), and low market risk exposure (as defined by beta) attributes to a portfolio that can generate returns during challenged markets.

Manager Assessment

Burgundy Asset Management – SMID Cap Value Equity

Terms

Description

Burgundy offers both a segregated account and a commingled fund offering for institutional clients for the Strategy. The minimum size for a segregated account is \$10 million dollars and the fee schedule for both vehicles is as follows: 90 bps on the first \$150 million, and 65 bps on remaining balance. The minimum account size for the commingled fund is \$5 million with a flat fee of 90 bps. For Canadian investors who invest less than C\$10 million, a performance fee of 10% will be applied to any performance in excess of 10%.

Opinion

Burgundy offers clients flexibility by having both a segregated account and pooled fund option available with low minimums. Relative to peers in the eVestment U.S. Small-Mid Cap Equity universe, at the stated minimum of \$10 million, is 4 basis points above median (86 basis points). The commingled fund, at the stated minimum of \$5 million, is 8 basis points above median (82 basis points), ranking in the 66th percentile.

Manager Assessment

Burgundy Asset Management – SMID Cap Value Equity

Bios

Steve Boutin, CFA, Vice President, joined Burgundy in January 2012 as Vice President focusing on U.S. small- and mid-cap equities. In September 2012, he was appointed the Portfolio Manager for Burgundy's U.S. Small/Mid Cap Equity portfolio. Boutin has more than 25 years of experience in the investment industry. Before joining Burgundy, he founded Tonus Capital Inc., where he served as President for four years. Prior to that, he spent 10 years with Van Berkomp & Associates, where he became a Partner and Director of the firm, specializing in small cap equities. Boutin also worked at I.A. Michael Investment Counsel and Value Search Investment Services, where he focused on small cap equities. Boutin earned his Bachelor of Business Administration (Finance) degree from HEC Montreal and was awarded the Chartered Financial Analyst designation in 1997.

Erik Danudjaja, Analyst, joined Burgundy in September 2019 as an investment analyst focusing on U.S. small- and mid-cap equities. Before joining Burgundy, Danudjaja held an internship position at Sionna Investment Managers as an Equity Research Analyst. Prior to this Danudjaja held a position as a staff accountant at Segal LLP. Danudjaja earned his Bachelor of Business Administration from Wilfrid Laurier University in 2019. While completing his degree, Danudjaja played an active role in several student-run investment clubs. Danudjaja was an Equity Research Analyst for the Laurier Student Investment Fund, which managed roughly \$1 billion in AUM. Danudjaja was also an Equity Research Analyst for the Laurier Investment & Finance Association.

Manager Assessment

EARNEST Partners – Small/Mid Value Equity

Organization

Description

Based in Atlanta, Georgia, EARNEST Partners, LLC (“EARNEST”) was originally founded in 1993 as Connor & Associates by Michael A. Connor. In 1998, Paul Viera, a former partner at INVESCO Ltd, bought a majority stake in Connor & Associates and renamed the firm EARNEST Partners. One year later, the company acquired Investek Investment Management (“Investek”), a fixed income boutique established in 1989; all of Investek’s people, assets, clients, and their fixed income investment process, transitioned to EARNEST.

Viera serves as the CEO and portfolio manager of EARNEST’s equity strategies. Chief Operating Officer John Whitmore, Chief Compliance Officer James Wilson, and General Counsel Carsten Fiege, round out the rest of the senior management team. The firm is 100% employee owned by nine partners, with Viera owning a majority portion of the equity, which is roughly 60%. The firm has 45 employees, 16 are investment professionals, 4 are traders, and the remainder are in client service and operations. As of June 30, 2020, the firm managed \$20.7 billion in client assets, including \$13.3 billion in equity assets and \$7.5 billion in fixed income assets.

Opinion

EARNEST is 100% employee owned and is well capitalized, with all of its capital provided by principals of the firm and has zero debt on the balance sheet. In addition, the firm’s employee ownership structure encourages employee retention, and the firm’s incentive compensation structure is aligned with client interests. For example, profit sharing is paid out as contributions to 401(k) accounts, which are invested in EARNEST products. In fact, almost two-thirds of the partners’ net worth are invested in EARNEST’s strategies.

Manager Assessment

EARNEST Partners – Small/Mid Value Equity

Team

Description

Launched in October 1993, the U.S. Small Cap Value strategy is managed by the firm's 15-member investment team. Paul Viera serves as the Chief Investment Officer and lead portfolio manager for this Strategy, however, all investment decisions require a majority consensus among the 15-member investment team. In addition to managing the Strategy, the team also manages the other equity products at the firm, spanning the U.S., international, global, and emerging markets. Members of the equity team are responsible for all portfolio management decisions, and operate as generalists, but have industry expertise. In addition to Viera, other senior investors on the team include Trey Greer, Chris Hovis, Jessie Magee, and Tammy Tang.

Opinion

The equity team consists of individuals who have been in the investment industry for an average of 20 years. The investors comprising the team have varying backgrounds, typically starting in a field or profession unrelated to finance or investing. The firm believes the diversity on the investment team provides better insight and variability into their stock analysis capabilities. In addition, the quality and diversity of the investment insight provided by this eclectic group of investors is unique within the industry.

Although the equity team is experienced and their strategies are managed using the same philosophy and process, having 16 investment professionals managing the entire equity suite of products could prove taxing. Currently, the firm offers 10 distinct equity strategies that span across various market capitalizations and regions. However, their heavy initial quantitative process and relatively concentrated portfolios mitigates some of the resourcing issues.

Manager Assessment

EARNEST Partners – Small/Mid Value Equity

Strategy

Description

The team believes that the market is inefficient and therefore a security's market price does not always reflect its intrinsic value. As such, they seek to apply a disciplined investment process that seeks to take advantage of this mispricing to add value over time. The team believes that each company presents a specific set of unique characteristics and to properly value each company they must understand what makes each company unique and why it is misunderstood. The Strategy utilizes the Russell 2500 Value Index as its benchmark.

As of June 30, 2020, assets in the Strategy totaled \$651.0 billion, including \$192 million in the commingled fund.

Opinion

The team's value investment approach, which has been consistent since the firm's inception and is applied across all equity strategies at the firm, is structured as an "alpha generating" strategy. The Strategy is best described as relative value with a quality bias. The stock picking capabilities of the investors leads to strong risk adjusted return potential and performance across various markets. Furthermore, we feel a competitive advantage of the Strategy that the investment team researches potential investments from the viewpoint of industry practitioners; we believe this combined educational and practical experience gives the team deep insights and unique perspective on the best investment opportunities.

Manager Assessment

EARNEST Partners – Small/Mid Value Equity

Investment Process

Description

The investment process begins with a proprietary screening model called Return Pattern Recognition (“RPR”) that seeks to identify specific drivers of each stock and then identify stock opportunities for further due diligence based on financial characteristics and the current environment. The RPR model divides the universe into industry clusters and back-tests economic and financial metrics in an attempt to identify the drivers of historical outperformance within each industry cluster. The metrics include valuation measures (e.g., P/E, P/S, P/CF), growth measures (sales and earnings growth), market trends (relative strength), profitability measures (ROE, ROA), operating trends (gross and operating profit margins), and macroeconomic trends (interest rates, GDP growth). RPR generally identifies a combination of two to three factors for each industry group with explanatory power. Lastly, RPR identifies the stocks exhibiting the appropriate quintile ranking within the two to three factors identified for each of the industry groups. The resulting 150 stocks are the focus of the investment team’s fundamental research.

Through fundamental research, the team seeks to identify companies that offer attractive relative value and have a catalyst that will increase the value of a stock by around 30% over the next 18 to 24 months. Analysts assess the company’s competitive landscape, financial statements, business environment, and management teams. Overall, the team seeks companies in attractive industries with developed strategies, talented and honest management teams, sufficient funding, and strong financial results.

In addition to fundamental research, there is an element of socially responsible investing which EARNEST employs. Their investment objective is to outperform the Russell 2000 Value index while seeking to control volatility and risk, which they believe companies that are more aware of their environmental impact will be more successful over time. These socially responsible investment principles are not a recent trend or a simple screen on top of their system, but are a core element of their investment philosophy and integrated into the investment process. They support these principles through their investments and through their associations as a signatory of the United Nations Principles for Responsible Investing. As part of their security selection process, they examine each company in accordance with multiple standards for socially responsible investing and only companies that achieve a satisfactory view are considered for investment.

Members of the equity team present their research findings to the rest of the investment team, and at least 80% of members must agree for an investment decision to occur. Viera leads the investment discussion and has one vote like other members of the team, and no Veto power. He casts the last vote, to avoid swaying any decision-making of the other team members. Before finalizing the purchase of a stock, the team uses a statistical approach called downside deviation to measure and then constrain the likelihood of significantly underperforming the assigned benchmark via Monte Carlo simulation. Stocks are not sold when they reach a certain market capitalization; as a result, the Strategy generally holds a number of stocks with market capitalizations outside the range of the Russell 2500 Value Index. The portfolio consists of 50 to 60 names, with average annual turnover of 15-30%. Individual positions typically do not exceed 5% of the portfolio. The Strategy does not employ formal sector weights constraints.

Manager Assessment

EARNEST Partners – Small/Mid Value Equity

Investment Process

Opinion

The investment team at EARNEST is rigorous in its application of its processes, maintaining consistency and adhering to the discipline. In our opinion, the RPR model is unique in its use of industry clusters and is the primary alpha generator for the Strategy. However, given its focus on industry clusters, the RPR model is ineffective for multi-segment companies. This inefficiency however, is unlikely to be a major issue for most small capitalization companies.

The firm further differentiates itself in the way it considers risk. Conventional risk measurement assigns the same penalty, in the form of a volatility measure, to a portfolio that significantly outperforms its benchmark as it does to a portfolio that significantly underperforms its benchmark. EARNEST instead chooses to focus on constructing a portfolio that minimizes the probability of underperforming the assigned benchmark by applying a downside deviation approach to risk management, which we find appealing.

In regards to EARNEST's environmental, social and governance (ESG) investment focus, though we believe they implement this at a base level, it does not drive the investment process. There are no defined metrics or framework in how companies are evaluated on ESG factors and we are unable to discern how deeply integrated it is into the process. We do recognize that these are elements in which the team uses to manage risk, but caution investors that this should not be considered an ESG or socially responsible product.

Manager Assessment

EARNEST Partners – Small/Mid Value Equity

Operations

Description

James M. Wilson, CFA, CPA, CSCP, CIPM, is the Chief Compliance Officer at EARNEST. As CCO, he is responsible for the design, implementation, and oversight of the compliance policies, procedures, and internal controls of the firm. The CCO reports directly to the Chief Executive Officer, Paul Viera. John Whitmore II, CPA, is the firm's Chief Operating Officer, he reports directly to the CEO. A staff of 12, working in the administration and portfolio operations groups, supports the CCO and COO. EARNEST employs three traders dedicated to equity trading, led by Senior Trader Ryan Kelly, CFA.

EARNEST Partners utilizes a combination of system controls and human controls to ensure that the investment process is consistently applied in the management of each client's portfolio and that each client's investment guidelines are followed. Each client's portfolio is modeled on Charles River, their compliance system, which enables them to input each client's investment guidelines and constraints and perform automatic guideline compliance checks before a trade is executed as well as post-trade on an ongoing basis. The firm uses Omgeo's Central Trade Manager (CTM), DTC Tradesuits and ALERT products for trade confirmation and settlement. CTM is a trade processing system that automates messaging and settlement for foreign equity securities and is used for post-trade matching processing. ALERT is a web-based global database for the maintenance and communication of standing settlement and account instructions. For international accounts, EARNET Partners uses SWIFT messaging via BBH Infomediary. EARNEST Partners maintains all account holdings in Advent Software's portfolio accounting tool, Geneva.

The firm has deployed intrusion prevention devices, anti-virus software, and data protection policies to prevent unauthorized cyber and/or physical access to its network. They have also deployed two high availability firewalls at its primary location in Atlanta, plus one additional firewall at its disaster recovery site in Dallas, TX, to prevent unauthorized entry into the firm's network. It also utilizes a proxy server to prevent employee access to unauthorized and/or insecure web sites. TLS encrypted connections exist between the firm and custodian banks to secure electronic communications. Additionally, the firm deploys a SPAM filter to prevent malware exposure via email, and anti-virus/malware applications are installed at both the server and endpoint levels. In order to minimize the risk of potential unauthorized access to the network and the exposure to viruses/malware, they conduct regular training and threat simulations with their employees that increase the awareness of cybersecurity threats and enhance employees' ability to identify and avoid them. Employees are required to review and certify their compliance with our information technology policies on an annual basis. The firm has not experienced any cybersecurity breaches.

In terms of regulatory actions taken against the firm, EARNEST Partners was dismissed in 2012 from a lawsuit involving Alabama's Prepaid Affordable College Tuition Program ("PACT Program"). Otherwise, there is no pending litigation against the firm.

Manager Assessment

EARNEST Partners – Small/Mid Value Equity

Operations

Opinion

Given the boutique nature of the firm, we feel that EARNEST Partners has a comprehensive compliance and operations architecture in place. We also view the retaining of Carsten Fiege, General Counsel, as favorable given the shifting regulatory landscapes of the various markets the team operates in, specifically Brazil and China, and believe they are well equipped to address key areas of international regulatory requirements. In regards to the lean trading staff, in our opinion, the size of the equity-trading department is appropriate given the number of stocks and low turnover in their portfolios.

Manager Assessment

EARNEST Partners – Small/Mid Value Equity

Performance

Description

Through September 30, 2020, the Strategy outperformed its benchmark, the Russell 2500 Value Index, across all trailing periods over the last 10 years. The Strategy outperformance over the past 1-, 3-, 5-, 7- and 10-year trailing periods is 13.7%, 7.0%, 4.91%, 6.1% and 2.9%, respectively. On a calendar year basis, the Strategy outperformed six of the last ten years.

The Strategy's absolute volatility, as measured by standard deviation, was 20.9% over the past 5 years, compared to the benchmark volatility of 22.2%. These results translated to a Sharpe ratio of .46, which placed it in the top decile of its peer group (5th percentile). Relative risk, as measured by tracking error, 530 bps over the trailing 5-year period and 475 bps over the trailing 10-year period, which was roughly around the peer group median for both trailing periods (45th percentile and 55th percentile). This translated to an information ratio of 1.27 over the trailing 5-year period and 0.7 over the trailing 10-year period, which, for the 5-year trailing period, was amongst the top quartile for its peer group 2nd percentile).

As it pertains to performance in rising and falling markets environments, upside market capture over the trailing 5- and 10-year periods was 121% and 115%, respectively, while the downside capture ratio was 87% and 96%, respectively. Finally, regarding the consistency of outperformance, the Strategy outperformed the benchmark in 77% of 179 quarterly rolling 3-year periods since inception and 89% of 155 quarterly rolling 5-year periods.

Opinion

The performance have consistently outshined the index on a calendar, trailing and rolling return basis. The Strategy has also had strong risk-adjusted return metrics displayed by the strong information and sharpe ratio, ranking in the top quartile for the trailing 1-, 2-, 3-, 4- and 5-year trailing periods. Also, upside and downside market capture has been favorable in both rising and declining markets.

Manager Assessment

EARNEST Partners – Small/Mid Value Equity

Terms

Description

The Strategy is offered in a separate account and mutual fund. The minimum account size for a separate account is \$10 million, 95 basis points on the first \$15 million, 85 basis points on the next \$20 million, 75 basis points on the next \$25 million, and 65 basis points on the balance. The Strategy's commingled fund is offered at 65 bps for all assets. Relative to peers in the eVestment U.S. Small/Mid Value Cap Equity universe, fees on the separate account based on the minimum account size is 5 basis points above the peer group.

Opinion

Relative to peers in the eVestment U.S. Smid Cap Value Equity universe, fees for the separate account are above the fee of their peers, by 5 basis points. However, fees on the commingled fund are priced more competitively, with stated fees 20 basis points lower than the median fee of 85 basis points.

Manager Assessment

EARNEST Partners – Small/Mid Value Equity

Bios

Paul Viera is the founder of EARNEST Partners. He developed Return Pattern Recognition®, the investment methodology used to screen equities at EARNEST Partners. He has a BA in Economics from the University of Michigan, an MBA from the Harvard Business School, and has been in the investment industry since 1979. Viera was a Vice President at Bankers Trust in both New York and London. He later joined Invesco, where he became a Global Partner and senior member of its Investment Team. He is a Trustee of the Woodruff Arts Center and a member of its investment committee; a member of the Board of Dean's Advisors for Harvard Business School; a member of the Council on Foreign Relations; a member of Haitong Securities (second largest Chinese securities firm) board of Foreign Advisors; a board member for the National Center for Human & Civil Rights, and the Atlanta Society of Financial Analysts. He is also a commentator for several news organizations, including, among others, CNBC and Bloomberg News. Trey Greer, CFA, CPA, Partner, is a member of the investment team at EARNEST Partners. He has a BS in Business Administration and a Master of Accounting from the University of North Carolina at Chapel Hill and an MBA from Emory University. He has over 20 years of investment experience and began his career in public accounting. He later joined AMVESCAP PLC where he was an Investment Manager with assignments in London, Houston, and Atlanta. He is a member of the CFA Institute, the Atlanta Society of Finance and Investment Professionals, and the American Institute of Certified Public Accountants. Chris Hovis, CFA, Partner, is a member of the investment team at EARNEST Partners. Prior to joining EARNEST Partners, he served as a Senior Analyst with Morgan Keegan where he was an analyst in US Software. His extensive background also includes experience in the information technology industry as well as in Equity Research with SunTrust Robinson Humphrey and CQ Partners. Previously, he was VP of Marketing and Business Development at Lancope, and a senior software engineer at Intel and Alliance Semiconductor. He holds an MBA with Distinction from The Wharton School of Business and Bachelor degrees with Highest Honors in Electrical Engineering from Georgia Tech and in Physics from Centre College. Hovis is also a member of the CFA Institute and the Atlanta Society of Finance and Investment Professionals. Jessie Magee, CFA, Partner, is a member of the investment team at EARNEST Partners. Prior to joining EARNEST Partners, he spent more than seven years in the Research & Advanced Vehicle Technology division of Ford Motor Company working on alternative fuel technologies, occupant safety, and new product development. Later, he worked in Corporate Finance at Intel Corporation where he developed strategies to improve semiconductor materials sourcing and support price negotiations with Intel's strategic suppliers. He also spent six years in the Army National Guard as a Combat Engineer. He holds a BS in Mechanical Engineering from Southern University, an MS in Mechanical Engineering from the University of Michigan, and an MBA from Emory University. He is also a member of the CFA Institute and the Atlanta Society of Finance and Investment Professionals. Tammy QiuHong Tang, Partner, is a member of the investment team at EARNEST Partners and is leading EARNEST Partners operations in China. She holds a BS in English Literature from Beijing Foreign Studies University, a BA in Business Administration from the University of California, Riverside, and an MBA from the University of Southern California. She began her career with General Electric, China. Later, she worked as a senior manager in the Investment Bank at Haitong Securities Company, where she focused on IPOs and follow-on issues. Prior to joining EARNEST Partners, she served as Director of the International Relationship Department of the Securities Association of China. Tang is fluent in Mandarin.

Manager Assessment

Systematic Financial Management – SMID Cap Value Free Cash Flow

Organization

Description

Based in Teaneck, New Jersey, Systematic Financial Management Inc. was founded in 1982, as a registered investment advisor, specializing in the management of value portfolios. In 1995, a majority stake in the firm was sold to Affiliated Managers Group (AMG), a publicly traded holding company that invests in asset management firms (NYSE: AMG), this facilitated the retirement of the firm's founder Ken Hackle. The firm was subsequently re-registered with the SEC as Systematic Financial Management, L.P. ("SFM") on April 10, 1995.

The firm is managed on a day-to-day basis by a two-person management team consisting of Ken Burgess (free cash flow strategies Portfolio Manager) and Karen Kohler (Chief Compliance Officer/Chief Operating Officer). In October 2018, the firm announced that AMG has expanded its ownership stake in the firm from 60%, up to 100% of the firm equity, with investors at the firm being remunerated on a profit-sharing basis going forward. The firm employs 19 individuals including 8 investment professionals.

As of March 31, 2022, the firm managed total assets of \$3.7 billion across four equity strategies, all of which are free cash flow focused. The firm closed their catalyst value strategies at the end of September 2019, in part due to one of the senior team members taking long-term health related leave from the firm - as a result of this product closure headcount dropped from 33 staff to roughly 20 staff.

Opinion

We believe that the extension of SFM's arrangement with AMG is a positive move and reinforces AMG's conviction in SFM as a firm. More importantly, this allows the firm to directly remunerate those partners whose strategies are contributing most to the firm's profitability. It is notable that the Free Cash Flow team has become the main focus of SFM's business, and this restructuring allows key investors on those strategies to be rewarded in line with their contribution to the business. We have no concerns regarding the closing of the Catalyst Value strategies in 2019 - ultimately we think that their increased focus on the Free Cash Flow team is positive.

Manager Assessment

Systematic Financial Management – SMID Cap Value Free Cash Flow

Team

Description

Launched in January 2011, the Systematic Financial Management SMID Cap Value Free Cash Flow strategy is managed by lead portfolio manager Ken Burgess (joined the investment industry in 1993, joined the firm in 1993). Burgess is supported by five dedicated investors, assistant portfolio managers Ryan Wick (1999, 2005), Rick Plummer (1994, 2004), Brian Kostka (2001, 2007), and senior analysts Chris Lippincott (1996, 2008), and Matthew Tangel (2006, 2008). This focused team of six investment professionals also receives tangential support from the broader investment team at SFM, which totals 8 investment professionals with an average industry experience of over 20 years.

The SMID Cap Value Free Cash Flow strategy is an extension of the Small Cap Value Free Cash Flow strategy, which has been running since 1993. Ken Burgess has been a lead been the lead portfolio manager of the Small Cap strategy since 1996.

Opinion

Portfolio manager, Ken Burgess' depth of knowledge of the U.S. small/mid cap equity market is impressive and his long tenure at the helm of this team is noteworthy (over 20 years). He is directly supported by three experienced assistant portfolio managers in Ryan Wick, Rick Plummer and Brian Kostka. Burgess continues to be passionate about what he does, and over his tenure on the Strategy has developed an abundance of quantitative tools to help streamline the investment process, and increase the efficiency of his three-person team. With the Catalyst Value strategies having closed at the end of September 2019, Brian Kostka, Matt Tangel, and Rick Plummer were retained within the firm and began supporting Burgess and the Free Cash Flow strategies on a full time basis.

Ken Burgess is central to our conviction in the rating on this Strategy, and we are comfortable that he remains committed to managing the Free Cash Flow strategies at SFM for the long-term.

Manager Assessment

Systematic Financial Management – SMID Cap Value Free Cash Flow

Strategy

Description

The Free Cash Flow team at SFM believes investors can seek the higher rates of returns associated with small cap investing without sacrificing the quality of the portfolio. They define high quality companies as those that possess strong financial strength while executing a proven business model that generates positive amounts of free cash flow. A company's true value is equal to its discounted future cash flows. They believe that by focusing on companies that can retire all outstanding debt within ten years based on expected levels of free cash flow, they have an additional margin of safety of any investment.

The investment opportunity set for this team is U.S. traded stocks within the market capitalization range as defined by the Russell 2500 Index. While the cash flow oriented philosophy typically places them as value investors, their focus on business quality means that this approach can appear to be more of a core style during certain periods of the market cycle. At March 31, 2022, assets under management in the Strategy totaled \$297 million.

Opinion

The combination of valuation discipline and quality focus is highly appealing, due to the portfolio's ability to protect in down markets as well as capture rising markets. The niche nature of the inefficiency that they are targeting is validated by the consistent long-term performance of the Strategy. The Strategy's excess return placed in the top 14% of the eVestment US Small/Mid Cap Value Equity peer group since its inception in January 2011, with an annualized excess return of 2.8% as of March 31, 2021. The team has been cautious about managing the capacity of the Free Cash Flow platform, with several periods in the early 2000s when they closed the Small Cap strategy to new client assets. Currently they believe that they can manage up to \$3.0 billion across the Small Cap Value Free Cash Flow and Smid Cap Value Free Cash Flow strategies, though currently the Smid Cap strategy only has \$148 million in AUM.

Although the firm has not signed the UN PRI the team does consider Environmental, Social, Governance factors as part of its analysis, as they believe this is aligned with sustainability of free cash flow. They utilize the MSCI ESG database as a dedicated ESG research tool to supplement their own work.

Manager Assessment

Systematic Financial Management – SMID Cap Value Free Cash Flow

Investment Process

Description

Quantitative screens are run on a weekly basis to identify those companies within the Russell 2500 that exhibit the following criteria: low price to free cash flow, low price to operating cash flow, low enterprise value to free cash flow, low total debt to equity, and strong debt service coverage. As a rule of thumb, Burgess will not invest in a company unless its free cash flow over the next 10 years will cover its total debt. For further consideration, a stock must be at least 20% undervalued, as measured by one or more of the following criteria: price/earnings ratio, price/operating cash flow, price/free cash flow, and a discount to DCF valuation. The quantitative screening process identifies a focus list of approximately 200 companies.

The team conducts fundamental analysis on companies that are identified by the screening process, including further analysis of financial metrics, as well as reviewing the business model, company management, and key industry trends, in order to project future operating results and determine the ultimate valuation of a company based on its free cash flow. With the aim of identifying companies that are well-managed (in terms of capital allocation), financially sound companies that are trading at a discount to intrinsic value, are generating strong operating and free cash flow, and have a catalyst for stock price appreciation. When analyzing bank stocks, the team also assesses the quality of their loan book, and the capitalization rate of the bank.

A position is sold when the market capitalization exceeds the definitions of the Russell 2500 index or if the stock is judged to be trading at a premium price to its intrinsic value, exhibit deteriorating operating results, show a meaningful increase in financial leverage, or if they identify superior investment alternatives.

Portfolios contain 100-150 stocks, with sector/industry exposures as a residual of the best companies identified by their investment process. Turnover is typically 20% to 40% annually. The maximum weight in one security is 5%. The maximum allocation to ADRs in the portfolio is 10%.

Opinion

The rigorous process that the team has for identifying potential stocks for the focus list allows them to better dedicate their time to a subset of companies that they find more fundamentally appealing. The team has also developed quantitative tools that automate a significant proportion of the free cash flow analysis, which further contributes to their efficiency. Finally, the extensive experience that Burgess has in this space, means that he has built a substantial foundation of knowledge across many of the companies that are investable in this process. As a result, he has an experienced eye for those companies that are likely to meet the established quality criteria in terms of business plan and quality of management.

Manager Assessment

Systematic Financial Management – SMID Cap Value Free Cash Flow

Operations

Description

CCO/COO Karen Kohler administers SFM's overall compliance program, assisted by a dedicated team of two compliance professionals. Various business units carry out additional compliance oversight, and senior members of the firm participate on several internal oversight committees related to compliance issues. In addition to our internal team of compliance professionals, SFM participates in the AMG Affiliate Legal and Compliance Program ("ALCP"), which provides full scope legal and compliance support on a day-to-day basis to enhance and strengthen SFM's compliance program. The ALCP provides legal and compliance support in several areas including, but not limited to, general counseling support on assorted legal matters associated with the asset management business, assistance in the development and implementation matters of written policies and procedures, oversight of regulatory compliance, and assistance with regulatory examinations.

As a registered investment adviser with the Securities and Exchange Commission (SEC), SFM is periodically subject to examinations and other inquiries in the ordinary course of its business. SFM last underwent such an examination in 2012. There were no material concerns identified by the SEC. However, based on feedback following the examination SFM voluntarily adjusted some of their internal procedures to align with best practices proposed by the SEC.

SFM's in-house operations department is led by William Skayhan, who serves as Operations Manager and reports directly to Karen Kohler. Roger Chang is the head trader at SFM, he joined the firm in 1996, and has been a partner since 2011.

Opinion

SFM has demonstrated its commitment to compliance and operations through its promotion of Karen Kohler to equity partner. During our discussion with Kohler, she outlined a number of accomplishments and initiatives in compliance and operations. Additionally, SFM benefits from its affiliation with AMG. AMG's legal and compliance group reviews all investment management contracts, aids in the development of policies and procedures, and provides annual compliance training.

Manager Assessment

Systematic Financial Management – SMID Cap Value Free Cash Flow

Performance

Description

Through March 31, 2022, the Strategy's returns relative to the Russell 2500 Value index were as follows: 1-year (+87 bps), 3-year (+345 bps), 5-year (+363 bps), 7-year (+377 bps), 10-year (+290 bps) and since inception (January 2011: +262 bps). The 5- and 10-year results are ranked highly in the 17th and 11th percentiles of the eVestment US Small-Mid Cap Value Equity peer group universe, respectively. On a calendar year basis, the Strategy outpaced the benchmark in seven out of the last ten periods.

The Strategy's absolute volatility, as measured by standard deviation, was 19.8% over the past 5 years, compared to the benchmark volatility of 20.8%, which was below the median in the eVestment US Small-Mid Cap Value Equity peer group universe (29th percentile). These results translated to a Sharpe ratio of 0.59 over the trailing 5-year period, which placed it at the top of its peer group (12th percentile). Relative risk, as measured by tracking error, 468 bps over the trailing 5-year period, which was slightly below the peer group median (38th percentile). This translated to an information ratio of 0.78, which ranked in the 10th percentile of the peer group.

Upside market capture over the trailing 3- year and 5-year periods was 104% and 104% respectively, while the downside capture ratio over the trailing 3-year and 5-year periods was 92% and 92% respectively. Finally, regarding consistency of outperformance, the Strategy outperformed the benchmark in 95% of 100 rolling 3-year periods since inception and 100% of 76 rolling 5-year periods.

Opinion

Holdings based analysis in eVestment Style Research confirms that the Strategy sits somewhere between the value and core benchmarks, combining a focus on cash flow oriented valuation, with quality aspects such as return on equity, and low leverage. Additionally, holding based attribution, as of March 2021, through eVestment's Style Research indicates the Strategy's significant positive exposure to value factors such as book-to-price, earnings yield, cash flow yield and sales-to-price. The peer group relative performance numbers are highly attractive. Over that period, the Strategy has demonstrated impressive upside capture, with limited downside protection. The quality bias within the portfolio means that returns are also impressive on a risk-adjusted basis, as per the Information Ratio of 0.78, and the Sharpe Ratio of 0.59 over the trailing 5-year period.

Manager Assessment

Systematic Financial Management – SMID Cap Value Free Cash Flow

Terms

Description

The Strategy is available via a separate account vehicle. The minimum investment for a separate account is \$5 million, with fees starting at 85 bps for the first \$25 million, 75 bps for the next \$50 million, and 60 bps for the balance in excess of \$75 million. SFM are seeking to launch a commingled vehicle with reduced fees for earlier investors in the region of 65 bps.

Opinion

The separate account is priced 5 bps less than the median fee of 90 bps for the eVestment U.S. Small Mid Cap Value Equity universe. The commingled fund fees for early investors will be highly attractive relative to the peer group universe.

Manager Assessment

Systematic Financial Management – SMID Cap Value Free Cash Flow

Bios

Ken Burgess, Lead Portfolio Manager, is a Managing Partner at Systematic Financial Management and member of the Management Committee, as well as lead portfolio manager for the Small Cap and SMID Cap Value Free Cash Flow portfolios. He also serves as an analyst, providing research support within selected economic sectors. Ken joined Systematic in 1993 and has been a partner in the firm since 1997. Ken holds the Chartered Financial Analyst (CFA) designation and is a member of both the CFA Institute and New York Society of Security Analysts (NYSSA). Ken conducted his undergraduate studies at New Hampshire College, majoring in economics and finance. Ryan Wick, Assistant Portfolio Manager, joined Systematic Financial Management in 2005. He began his investment career at ABN AMRO in 1999 as an associate equity research analyst covering Diversified Industrials. Prior to joining Systematic in 2005, Wick was an equity analyst with Axe-Houghton Associates, where he conducted fundamental research coverage for small to mid-cap companies in the Healthcare, Industrial and Technology sectors. He received an M.B.A. in finance from Columbia Business School and a B.A. in English from Bucknell University. He holds the Chartered Financial Analyst (CFA) designation, and is a member of the CFA Institute and New York Society of Security Analysts (NYSSA). Chris Lippincott, Senior Equity Analyst, joined Systematic Financial Management in 2008. He began his investment career in 1996, at Alexander, Wescott & Co. as an equity analyst, before moving to Auerbach, Pollack & Richardson where he conducted fundamental research coverage for small to mid-cap companies in the Technology Hardware sector. In 2000, Chris joined KeyBanc Capital Markets as the senior equity analyst covering Electronic Equipment and Components. Prior to joining Systematic in 2008, Chris was a senior industry analyst at Standard & Poor's covering Industrial Machinery, Coal Mining and Specialty Chemicals. Lippincott holds the Chartered Financial Analyst (CFA) designation and is a member of both the CFA Institute and New York Society of Security Analysts (NYSSA). He received an M.B.A. in finance from the Fordham University Business School and a B.A. in history from Vassar College

Manager Assessment

Victory Capital Management – Integrity Small/Mid Cap Value Equity

Organization

Description

Victory Capital Management Inc. (“Victory Capital”) is an independent SEC-registered investment advisor headquartered in Brooklyn, OH. Victory Capital is focused on active investment management delivered through a multi-boutique structure of autonomous investment franchises that manage domestic and international equities, fixed income and convertibles. Victory Capital primarily seeks institutional clients (including sub-advisory) and distribution via retirement platforms and broker/dealer wrap platforms.

Through predecessor firms, Victory Capital was organized in 1894 and began managing tax-exempt assets in 1912. Victory Capital's current name was established on May 1, 2001. Victory Capital was a wholly owned subsidiary of KeyCorp until July 31, 2013, when the employees of Victory Capital teamed with private equity firm, Crestview Partners, to acquire all of KeyCorp's interest in Victory Capital. Upon completion of the transaction, Victory Capital became an independent firm with the senior management team, portfolio managers and other employees owning a portion of the outstanding equity. Victory Capital is an indirect, wholly owned subsidiary of Victory Capital Holdings, Inc. The current ownership structure of Victory Capital consists of the following owners and percentages: employees and directors of Victory Capital (28%); Crestview Partners (44%); Reverence Capital Partners (12%); and public (16%).

Most recently on November 7, 2018, Victory Capital announced it was acquiring USAA Asset Management Company. This includes USAA's Mutual Fund and ETF businesses, 529 College Savings Plan and a comprehensive array of fixed income solutions. USAA Asset Management Company, based in San Antonio, Texas, had \$69.2 billion in AUM and 53 investment funds. USAA is the 11th franchise under the Victory Capital umbrella. The acquisition has fully taken place, with Victory Capital finishing the move of its headquarters into a temporary space within USAA headquarters (more than 100 of their employees, including senior leadership members, as well as 120 outsourced employees have moved).

Victory Capital's Senior Management Committee, led by Chairman and CEO, David Brown, are responsible for directing business strategy, promoting corporate culture, allocating resources, and managing all aspects of the investment business at Victory Capital. While each investment boutique is independent with full autonomy and control over their investment process and portfolio decisions, each boutique is supported by a common infrastructure comprising trading, risk management, compliance, sales and client service, and general business management. In total, there are eleven boutiques as of June 30, 2020. Victory Capital's compensation package for investment professionals at its boutiques includes a combination of 1) base salary; 2) annual cash bonus and/or revenue sharing; and/or 3) equity in Victory Capital.

The Integrity team specializes in managing U.S. value equity strategies and currently offers Micro Cap, Small Cap, Mid Cap, and Small/Mid Cap products. As of June 30, 2021 the firm has fully integrated with USAA and Victory Capital has a total AUM of roughly \$178 billion.

Manager Assessment

Victory Capital Management – Integrity Small/Mid Cap Value Equity

Organization

Opinion

Integrity, which is wholly owned by Victory Capital, have benefitted from the increased infrastructure support of being part of a broader organization and have been left to focus on their investment responsibilities, unencumbered with the day-to-day realities of managing a business. In addition, we view the fact that investment professional's compensation package includes equity in the Victory Capital's business as a positive.

Furthermore, the acquisition of USAA Asset Management Company provides a greater depth of solutions for Victory clients and does not affect Integrity, which means we uphold a strong outlook on Integrity as a subsidiary. Considering the large amount of assets which is coming from USAA, we hope that Victory Capital does not make more acquisitions anytime soon. The acquisition should have no direct effect on Integrity and its team, however, we will re-evaluate once the deal is fully complete.

Crestview's investment in Victory is through their second fund, and the additional capital for the RS Investments transaction came from the same fund. Crestview have also earmarked capital in Fund II for similar bolt-on transactions. The term of the Crestview fund continues until the 10th anniversary of the last closing date of the fund, which was December 2009. Therefore, the initial investment term expires in November 2019 (although this can be extended with LP consent for up to three additional successive one-year terms through to November 2022). Crestview has additional options outside of this to retain ownership beyond November 2021. Therefore, the medium-term ownership of the firm is relatively uncertain, Crestview will look to monetize their position by 2022. Our communications with Victory have made reference to bringing ownership back to the employees once Crestview has fully liquidated.

Manager Assessment

Victory Capital Management – Integrity Small/Mid Cap Value Equity

Team

Description

Since its inception in April 2005, Integrity's Small/Mid Cap Value Equity strategy has been led by CIO Daniel Bandi, who has worked in the industry since 1991. Bandi draws research support from two other senior portfolio managers, Daniel DeMonica (Co-lead PM for Micro Cap Equity) and Adam Friedman (lead PM on Mid Cap Value Equity), both of whom have been involved in the Strategy since its inception. There are five other portfolio managers and two equity analysts, who are new, that also contribute to this Strategy through their sector coverage. Members of the investment team have specific sector responsibilities and thus serve all products at the firm; Bandi is responsible for the financial and industrial sectors; DeMonica covers the healthcare, utilities, telecommunications, and consumer services sectors; Friedman is focused on the technology and consumer cyclicals sectors. The other portfolio managers are: Joe Gilbert, covering consumer staples, insurance, transportation, and auto; Mirsat Nikovic, covering REITS, financials, and industrials; Bryan Tinsley, covering basic materials, energy, and commercial services sectors; Sean Burke, covering energy, health care, telecommunications and utilities; and Michael Wayton, covering consumer cyclicals, consumer services, consumer staples and technology.

The two new equity analysts brought on to the team were Frankie Carson and Konner Reed. Frankie Carson covers financials and insurance. Konner Reed covers materials and industrials. Both new hires have previous sell-side experience and were not related to turnover, the new hires allow for dual coverage on every sector.

Opinion

Daniel Bandi has been at the helm of the Strategy since its inception, and, as a result, has provided consistency and stability to the underlying investment process. This has been a positive considering that the team has been through two corporate acquisitions in recent years. In addition, Bandi is the person most responsible for portfolio construction for the Strategy, but there are several capable portfolio managers running other related products at the firm. Thus, in the event of his departure, others at the firm have sufficient experience to replace him. Furthermore, the mandates have significant overlap, so the names in the portfolio would be familiar to a new manager. It is also worth noting that five of the eight investment team members worked together at National City prior to the founding of Integrity Asset Management in 2003. The additions of Konner Reed and Frankie Carson provide dual coverage on every sector and free up Daniel Bandi to focus more on the macro portfolio construction views, which is beneficial.

Manager Assessment

Victory Capital Management – Integrity Small/Mid Cap Value Equity

Strategy

Description

The team believes that statistically cheap stocks trading below Integrity's estimate of intrinsic value will outperform the benchmark over time. To improve the timing of their purchases, they seek catalysts that can lead to improving investor sentiment. The team encapsulates this approach as investing in "the right company, at the right price, and at the right time." They define the right company as those that have profitable reinvestment opportunities and/or willingness to return profits to shareholders. In addition, factors such as a company's economic value added (EVA), capital allocation discipline, and the impact of past management decisions are continuously evaluated. They define the right price as companies that look statistically cheap in comparison to their intrinsic value. They define the right time through identifying a catalyst (which may be company specific, industry wide, or macroeconomic) that will lead to improving investor sentiment. The Strategy utilizes the Russell 2500 Value Index as its benchmark and considers its investment universe to be all U.S. stocks within the market capitalization of the benchmark, with an average daily trading volume of at least \$3 million. As of March 31, 2022, the Small/Mid Cap Value Equity strategy had around \$1.6 billion in assets under management, of which roughly \$249 million was in the mutual fund (institutional ticker: MYISX).

Opinion

The team's investment philosophy of Right Company, Right Price, Right Time is intuitively appealing, and emphasizes a pragmatic approach that may cause the portfolio to shift sometimes between exhibiting value and relative value characteristics, depending on the market cycle.

Manager Assessment

Victory Capital Management – Integrity Small/Mid Cap Value Equity

Investment Process

Description

The initial market capitalization and liquidity screens reduce the investable universe from 11,000 stocks to around 1,700. The team then uses a valuation screen based on Price/Book, Price/Sales, Price/Cash Flow, and Price/Free Cash Flow, which narrows the universe to around 850 stocks. The team then carries out fundamental analysis using their Right Company, Right Price, and Right Time approach. Right Company analysis includes management assessment from both a backward look at economic value added and capital allocation discipline as well as a qualitative identification of future opportunities and potential problems. This is accomplished through meetings with management teams and evaluating management styles and decisions. Right Price looks at statistical cheapness relative to the universe, the sector, and the stock's own history. Intrinsic value is determined by modeling earnings and balance sheet growth as well as through discounted economic value added and dividend discount model approaches. Right Time is an exercise in identifying catalysts that could come from company, industry, or macroeconomic developments. Examples of catalysts include new product cycles, entry into new markets, gain in market share, new company management, acquisitions or divestitures, government or regulatory changes, or changes in pricing power as an industry dynamic. Although individuals are responsible for modeling their own stocks, there is frequent dialogue and cross-sector information sharing to tap the knowledge and expertise of people evaluating related businesses. Bandi makes final purchase and portfolio construction decisions for the Strategy. Although the team does meet regularly for robust discussions about what they are working on, buy candidates are discussed one-on-one with Bandi when the analyst feels they are ready for purchase. Bandi also leads the team in discussions on macroeconomic forecasts that are then incorporated into the fundamental research process and portfolio positioning. Bandi will look to sell a stock once it has reached its price target, if it looks overpriced relative to its universe, if the expected catalyst does not develop, or if they identify a better investment opportunity. It is also worth noting that the team may continue to hold on to a winner in the portfolio that has risen in market cap until it has been rebalanced out of the benchmark, the Russell 2500 Value Index.

The final portfolio holds between 90 and 110 stocks and has historically generated annual average portfolio turnover of 80%. Cash and individual positions are constrained to 5% of the weight of the portfolio. Sector weights are constrained to 10% over or under the sector weight in the benchmark. The team may also invest up to 25% of portfolio assets in ADR's, but rarely does so.

Opinion

The team's investment process is consistent, well-articulated, and embraced by the entire investment team. In addition, their use of a combination of quantitative models and fundamental research is appropriate for the Strategy. While the team uses resources judiciously, they will conduct deeper due diligence where they feel it will add value, including conducting company visits and management meetings. As such, it is worth noting that a large part of Integrity's fundamental research consists of financial modeling to determine relative cheapness and intrinsic value using subjective growth rates, margins, etc. as inputs into pre-fabricated models. As such, while the investment team does conduct face-to-face meetings with company managements, they have not met with management teams from every stock held in the portfolio.

Manager Assessment

Victory Capital Management – Integrity Small/Mid Cap Value Equity

Operations

Facts

The Victory Capital Compliance team is part of the Legal, Compliance & Risk Department. The compliance staff reports to Colin Kinney, Chief Compliance Officer & Chief Risk Officer, who in turn reports to the Chief Legal Officer, Gregory Ewald. Kinney is responsible for the implementation of the firm's investment adviser compliance program, to ensure its regulatory and fiduciary obligations are met, as well as the firm's Enterprise Risk Management program, including firm-wide risk assessments and management reporting. Kinney is assisted by Traci Donovan, Linda Meints, Rochelle Gulich, Sean Fox and Joseph Hartshorn. Peter W. Scharich serves as the Chief Compliance Officer for Victory Capital Advisers, which is a division of focused on broker dealer activities and mutual fund distribution services, this team operates independently from the portfolio management and investment research teams.

Victory Capital has both a written Code of Ethics and a Compliance Manual. This documentation, in combination with Victory Capital's Policy Statement on Insider Trading describes duties to clients and to Victory Capital, as well as additional obligations under all applicable regulations, and sets forth standards that have been adopted by the firm to ensure such requirements are fulfilled. Victory Capital requires that each employee read and understand their fiduciary obligations. Victory Capital's Legal, Compliance, and Risk department performs an annual assessment of the firm's compliance program. While the primary objective of these internal reviews is to assess the adequacy of policies and procedures that are designed to mitigate the risk of compliance violations, the reviews also include assessments of internal controls aimed at mitigating financial, operational, and technology risks. Victory Capital's annual compliance program assessment is conducted under Rule 206(4)-7. The most recent compliance risk assessment was completed on April 1, 2016.

For all Integrity Asset Management accounts, Victory Capital uses Citi Global Transaction Services ("Citi GTS") to provide investment administration services including trade processing, corporate actions, portfolio accounting, reconciliation, and performance services for all of Victory Capital's institutional portfolios, funds, and separately managed accounts. Victory Capital reviews and oversees all processes and provides full oversight of the service provider to ensure strict compliance with policies, procedures, and controls agreed with Citi GTS. Victory Capital Middle Office Operations is responsible for all post trade execution tasks. Citi GTS is the book of record and performs the following services with Victory Capital's oversight of all processes. Victory Capital uses Charles River Manager and Charles River Trader for its trade order management processes. Equity trading is a separate and distinct department from portfolio management. Victory has a centralized trading desk, consisting of six traders that serve all markets, with a primary trader for Europe markets and a dedicated primary trader for Asia markets. Brian Cavalier is the dedicated trader for Integrity strategies, with support from the other five traders when required.

Victory Capital Management Inc. is an investment advisory firm registered with the U.S. Securities and Exchange Commission ("SEC") and the Commodity Futures Trading Commission ("CFTC") as a commodity pool operator. The SEC staff conducted a routine regulatory examination of Victory Capital in February 2011. This exam identified several issues, including two marketing-related items and one trading issue relating to a product that Victory Capital no longer offers. All of these issues were resolved. The close out letter was dated March 3, 2014. At this time, there are no matters outstanding with the SEC staff.

Manager Assessment

Victory Capital Management – Integrity Small/Mid Cap Value Equity

Operations

Facts (continue)

Victory Capital maintains a Business Continuity Plan (“BCP”) that addresses business continuity, disaster recovery and information security, including cybersecurity. Victory Capital’s BCP is reviewed by the Technology and Operations Department and the Chief Risk Officer on a periodic basis, and is adjusted as necessary to ensure its continued appropriateness and effectiveness.

Opinion

The Integrity team has benefitted from the deepening of operational resources and compliance functions that are available at Victory Capital. We have no concerns regarding the compliance and operations framework at the firm or their effectiveness.

Manager Assessment

Victory Capital Management – Integrity Small/Mid Cap Value Equity

Performance

Description

Through March 31, 2022, the Strategy's returns relative to the Russell 2500 Value benchmark were as follows: 1-year (+752 basis points), 3-year (+477 basis points), 5-year (+287 basis points), 7-year (+181 basis points), 10-year (+155 basis points), and since inception (April 2005: +188 basis points). On a calendar year basis, it outperformed in 6 out of the last 10 years. Against peers in the eVestment U.S. Small/Mid Cap Value Equity universe, the Strategy's excess returns over the trailing 5- and 10-year periods ranked in the 23rd and 26th percentiles, respectively.

The Strategy's absolute volatility, as measured by standard deviation, was 22.5% over the trailing 5-year period and 20.9% over the trailing 5-year period, higher. These results translated to a Sharpe ratio over the trailing 5- and 10-year periods of 0.49 and 0.65, which placed it in the 38th percentile and 46th percentile, respectively, of the eVestment US Small/Mid Cap Value Equity peer group universe. Relative risk, as measured by tracking error was 384 bps over the trailing 5-year period, which translated to an information ratio of 1.2 over the trailing 5-year period, which ranked in the top 2nd percentile of the peer group universe.

As it pertains to performance in rising and falling market environments, upside market capture over the trailing five and ten-year periods was 114% and 112%, respectively, while the downside capture ratio over the trailing five and ten-year periods was 106% and 102%, respectively. Finally, regarding consistency of outperformance, the Strategy outperformed the benchmark in 84% of 168 rolling 3-year periods since inception and 86% of 144 rolling 5-year periods.

Opinion

The performance pattern, risk exposures, and portfolio characteristics exhibited by the Strategy have been stable over time and are consistent with the Strategy's investment approach. The Strategy has delivered consistent excess returns since inception, within a relatively low tracking error framework, which we find appealing. In addition, eVestment Style research holdings-based analytics shows that the team's philosophy of 'right company, right price, right time' means that the Strategy may appear to be more relative value versus traditional value during some time periods. It is not significantly tilted toward all value factors, in fact the Strategy shows negative exposure to the book-to-price and dividend yield factors relative to the Russell 2500 Value benchmark. However, when compared to the core benchmark, most value factors, including book-to-price and cash flow yield, are positive.

Manager Assessment

Victory Capital Management – Integrity Small/Mid Cap Value Equity

Terms

Description

The Strategy is available through separate account, commingled fund and mutual fund vehicles. The minimum account size for a separate account is \$5 million and fees are 100 basis points on the first \$15 million, 85 basis points on the next \$35 million, 80 basis points on the next \$50 million, and 75 basis points on the remaining balance. The commingled fund has a minimum investment size of \$1 million and the following fee structure, 90 basis points on the first \$10 million, 80 basis points on the next \$25 million and 70 basis points on the remaining balance. The mutual fund, The Victory Integrity Small/Mid Cap Value Fund (institutional class ticker: MYISX) has a minimum investment amount of \$1 million and is priced at 88 basis points, regardless of asset size. Relative to peers in the eVestment U.S. Small/Mid Cap Value Equity universe, based on the minimum account size for each vehicle, the separate account fees ranked in the bottom quartile, while the fees on the mutual fund ranked in the 87th percentile.

Opinion

The 100 basis points fee on separate accounts with an investment minimum of \$5 million is slightly more expensive than peers, priced 5 basis points above median. The fee of 90 basis points for the commingled fund is directly in line with peers. The fee of 88 basis points on the mutual fund with an investment minimum of \$1 million is less expensive than peers, coming in 4 basis points below the median.

Manager Assessment

Victory Capital Management – Integrity Small/Mid Cap Value Equity

Bios

Daniel Bandi, CIO/Portfolio Manager is a CFA charter holder who has been in the industry since 1991. He serves as CIO for all of Victory Asset Management's Integrity value equity strategies, and is lead portfolio manager for the Small Cap Value Equity strategy and the Small/Mid Cap Value Equity strategy. Bandi has sector responsibilities focused on the financials and industrials sectors. He graduated from the University of Pittsburgh and earned an MBA from Texas A&M University, and is a member and past President of the CFA Society of Cleveland. Daniel DeMonica, Senior Portfolio Manager, is a CFA charter holder who has been in the industry since 1997. He is a member of the Victory Asset Management's Integrity value equity management team, serving as a Senior Portfolio Manager for all value strategies and is lead portfolio manager for the Micro-Cap Equity strategy. He focuses on the healthcare, utilities, telecommunications and consumer services sectors. DeMonica graduated from Indiana University - Bloomington, and earned his MBA from Case Western Reserve University. He is a member of the CFA Society of Cleveland. Adam Friedman, Portfolio Manager, has been in the industry since 1991 and is a member of Victory Asset Management's Integrity value equity management team, serving as a Senior Portfolio Manager for all value strategies and is lead portfolio manager for the Mid Cap Value Equity strategy. Friedman has sector responsibilities focused on the technology and consumer cyclicals sectors. After completing his undergraduate studies at the University of Maryland, Friedman earned his MBA from Case Western Reserve University. Joe Gilbert, Portfolio Manager, is a member of Victory Asset Management's Integrity value equity management team with responsibility for the consumer staples, insurance and transportation sectors. He has been in the industry since 1996 and is a CFA charter holder. He earned both his undergraduate degree and his MBA from the University of Maryland. He is a member of the CFA Society of Cleveland and the CFA Institute. Mirsat Nikovic is a member of Victory Asset Management's Integrity value equity management team with responsibility for quantitative and fundamental equity analysis. His sector responsibilities include supporting Daniel Bandi on the financials and industrials sectors. Nikovic is also co-portfolio manager for the Micro-Cap Equity strategy. He is a CFA charter holder and has been in the industry since 1997. He is a graduate of John Carroll University and a member of the CFA Society of Cleveland. J. Bryan Tinsley, Portfolio Manager, is a member of Victory Asset Management's Integrity value equity management team, responsible for research and security selection. His sector responsibilities include the basic materials, energy and commercial services sectors. He has been in the industry since 1996. He is a graduate of Transylvania University and earned his MBA from Case Western Reserve University. He is a CFA charter holder and is a member of the CFA Society of Cleveland.
