Summit *Strategies Group*
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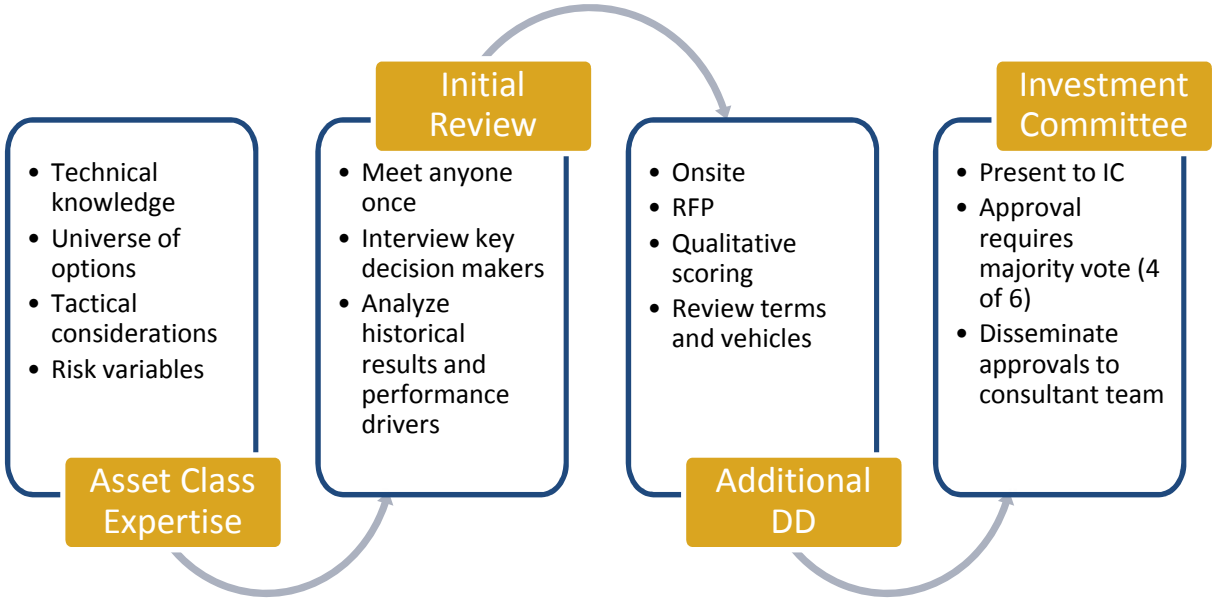
Due Diligence Process

June 2017

PROVIDING THOUGHTFUL DUE DILIGENCE

Objective – identify and aid in implementing attractive investment opportunities that are repeatable, additive to portfolios, and priced appropriately.

Due Diligence Process



Summit's High Conviction Strategy Lists

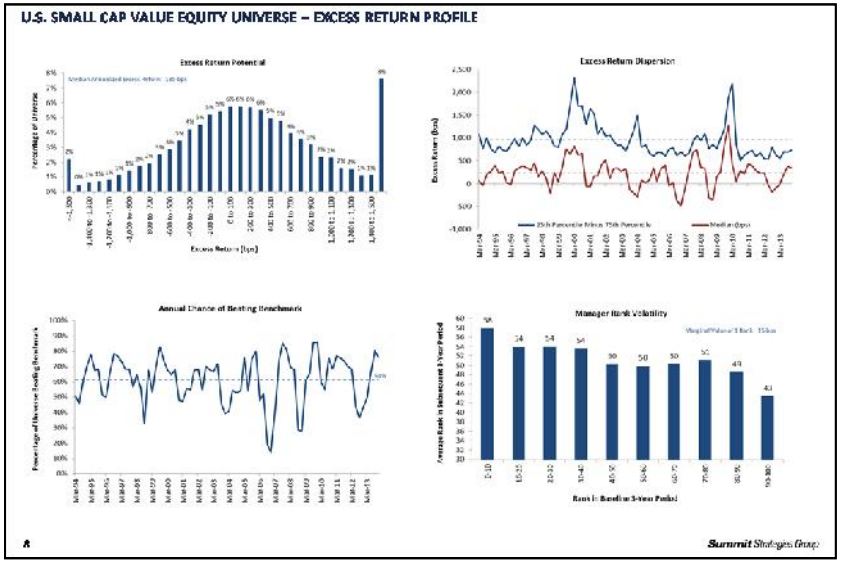
Public Markets Top Tier Lists – 21 lists with 3-8 strategies each
Hedge Fund Focus List – 60-70 strategies
Private Market Recommendations– ~2% of funds reviewed

TRADITIONAL UNIVERSE SCREENING

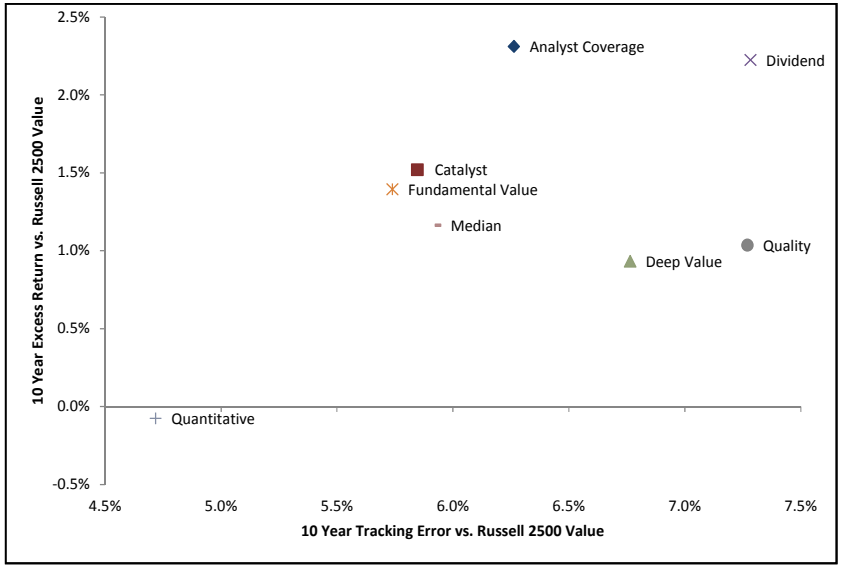
- Access to over 5,000 equity and 2,200 fixed income strategies
- 400-500 meetings/conference calls per year
- Aggregate analysis of asset class peer group makeup and performance
- Style classifications and return driver analysis
- Category capacity studies
- Historical performance persistence screens
- New product development opportunities

Asset Class Universe Characteristics

Asset Class Universe Quantitative Review



Style Analysis



NEW IDEA DUE DILIGENCE – PUBLIC EQUITIES / FIXED INCOME

Initial Due Diligence

- Meet with strategy decision makers
- Conduct cursory evaluation:
  - Firm history, ownership, and capabilities
  - Investment philosophy
  - Investment team and decision process
  - Historical performance
- Add idea to Watch List if compelling
- Compare idea with existing Top Tier
- Develop investment thesis if warranted

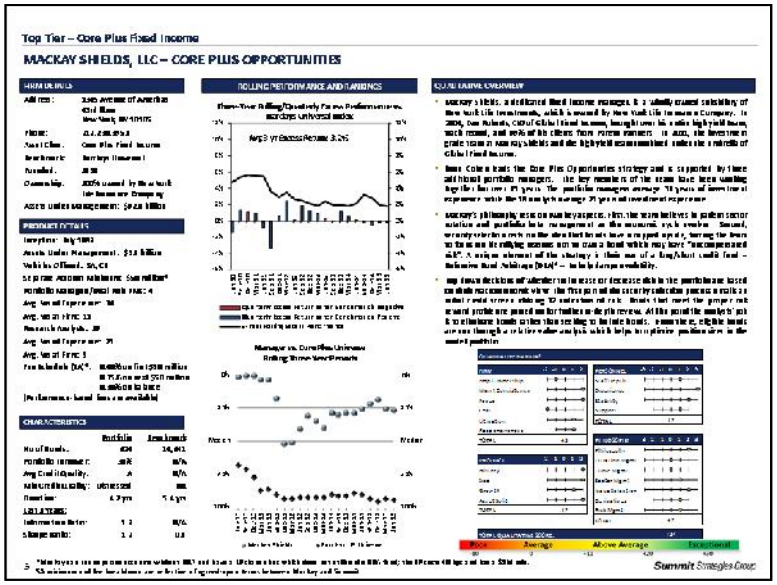
Full Strategy Evaluation

- Comprehensive RFI
- Qualitative Scoring Framework:
  - 21 separate variables covering firm, product, personnel, and investment process
- Performance attribution analysis
- Onsite due diligence:
  - Investment decision makers and analysts
  - Trading, compliance, operations, management
- Formalize investment thesis
- Establish risks and expectations
- Reference checks
- Internal Public Markets review

Investment Committee & Top Tier

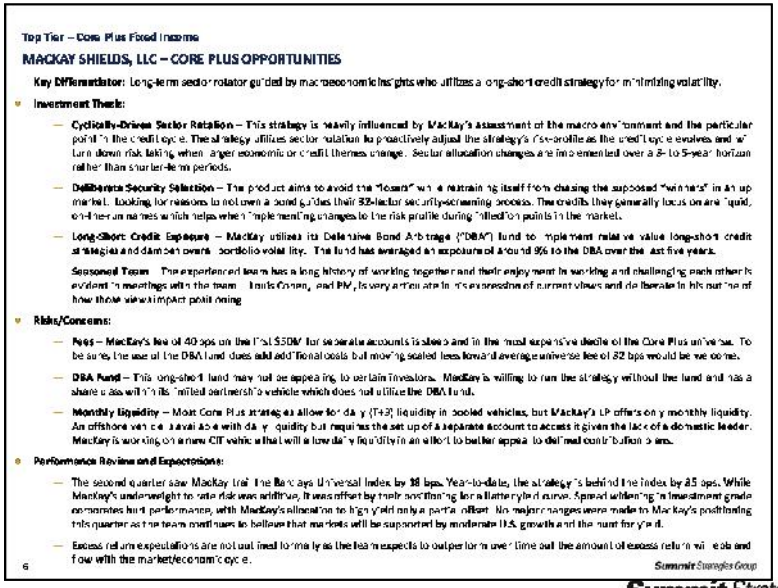
- Analyst makes formal presentation to the Investment Committee
- Research and investment thesis vetted
- 4of 6 votes required for inclusion in one of Summit's Top Tier lists
- Each asset class Top Tier list includes 3-8 strategies, in both Top Tier and Second Tier

Top Tier One-Pager


Top Tier – Core Plus Fixed Income

MACKAY SHIELDS, LLC – CORE PLUS OPPORTUNITIES

Top Tier Investment Thesis


Top Tier – Core Plus Fixed Income

MACKAY SHIELDS, LLC – CORE PLUS OPPORTUNITIES

Key Differentiator: Long-term sector rotator guided by macroeconomic insights who utilizes a long-short credit strategy for minimizing volatility.

- **Investment Thesis:**
  - **Cyclically-Driven Sector Rotation** – This strategy is heavily influenced by MacKay's assessment of the macro environment and the particular point in the credit cycle. The strategy utilizes sector rotation to proactively adjust the strategy's risk-profile as the credit cycle evolves and will turn down risk taking when larger economic or credit themes change. Sector allocation changes are implemented over a 3- to 5-year horizon rather than shorter-term periods.
  - **Deliberate Security Selection** – The product aims to avoid the "losers" while refraining itself from chasing the supposed "winners" in an up market. Looking for reasons to not own a bond guides their 32-factor security-screening process. The credits they generally focus on are liquid, on-the-run names which helps when implementing changes to the risk profile during inflection points in the market.
  - **Long-Short Credit Exposure** – MacKay utilizes its Relative Bond Arbitrage ("DBA") fund to implement relative value long-short credit strategies and dampen overall portfolio volatility. The fund has averaged an exposure of around 9% to the DBA over the last five years.

  Seasoned Team – The experienced team has a long history of working together and their enjoyment in working and challenging each other is evident in meetings with the team. Louis Cohen, Lead PM, is very articulate in his expression of current views and deliberate in his outline of how those views impact portfolio positioning.
- **Risks/Concerns:**
  - **Fees** – MacKay's fee of 40 bps on the first $50M for separate accounts is above and in the annual expensive decile of the Core Plus universe. To be sure, the use of the DBA fund does add additional costs but moving scaled fees forward average universe fee of 32 bps would be welcome.
  - **DBA Fund** – This long-short fund may not be appealing to certain investors. MacKay is willing to run the strategy without the fund and has a share class with its limited partnership vehicle which does not utilize the DBA fund.
  - **Monthly Liquidity** – Most Core Plus strategies allow for daily (T+3) liquidity in pooled vehicles, but MacKay's LP offers only monthly liquidity. An offshore vehicle is available with daily liquidity but requires the set up of a separate account to access it given the lack of a domestic feeder. MacKay is working on a new CIT vehicle that will allow daily liquidity in an effort to better appeal to defined contribution plans.
- **Performance Review and Expectations:**
  - The second quarter saw MacKay trail the Barclays Universal Index by 18 bps. Year-to-date, the strategy is behind the index by 35 bps. While MacKay's underweight to rate risk was additive, it was offset by their positioning for a flatter yield curve. Spread widening in investment grade companies hurt performance, with MacKay's allocation to high yield only a partial offset. No major changes were made to MacKay's positioning this quarter as the team continues to believe that markets will be supported by moderate U.S. growth and the hunt for yield.
  - Excess return expectations are not quantified formally as the team expects to outperform over time but the amount of excess return will ebb and flow with the market/economic cycle.

MANAGER MONITORING – PUBLIC EQUITIES / FIXED INCOME

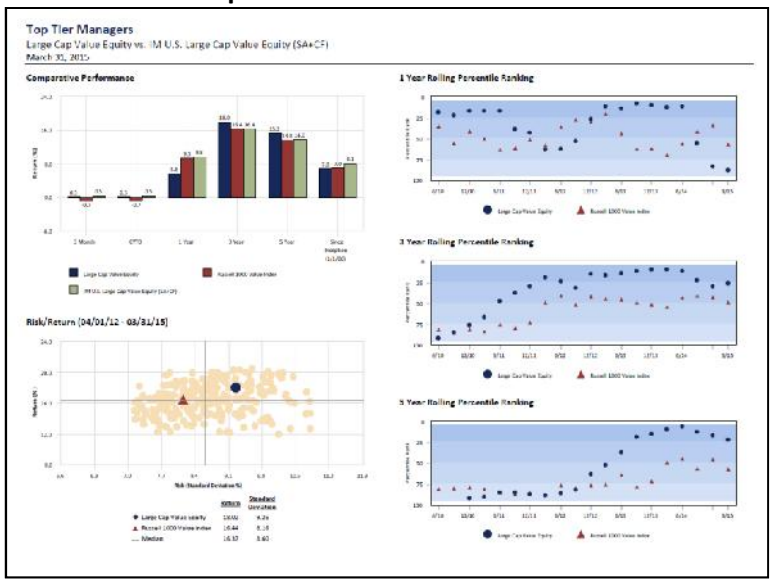
Top Tier

- Bi-weekly Public Markets Top Tier review meeting
- Quarterly performance attribution analysis
- Annual Investment Committee asset class review
- Onsite every 12-18 months*
- Annual RFI
- Annual qualitative scoring update
- Formal meeting or conference call 2-4 times a year
- Provide proactive updates to consultants
- All research web-accessible

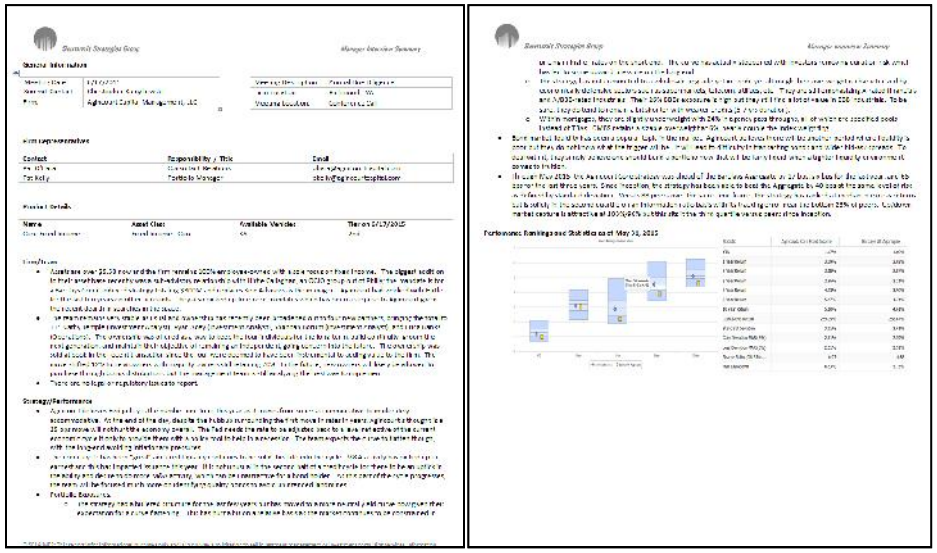
Non Top Tier Existing Managers

- Address incoming questions from consultants
- Bi-weekly Public Markets Existing Manager review meeting
- Annual call or meeting addressing performance attribution and changes to firm, team, asset levels, investment philosophy and process
- Annual Due Diligence report
  - Organizational update
  - Performance and positioning commentary
- Provide proactive updates to consultants

Top Tier Performance Tracker



Annual Due Diligence Report



*Applies to domestic managers. Non-US based managers visits every 18-24 months.

MANAGER MONITORING: SELL DISCIPLINE

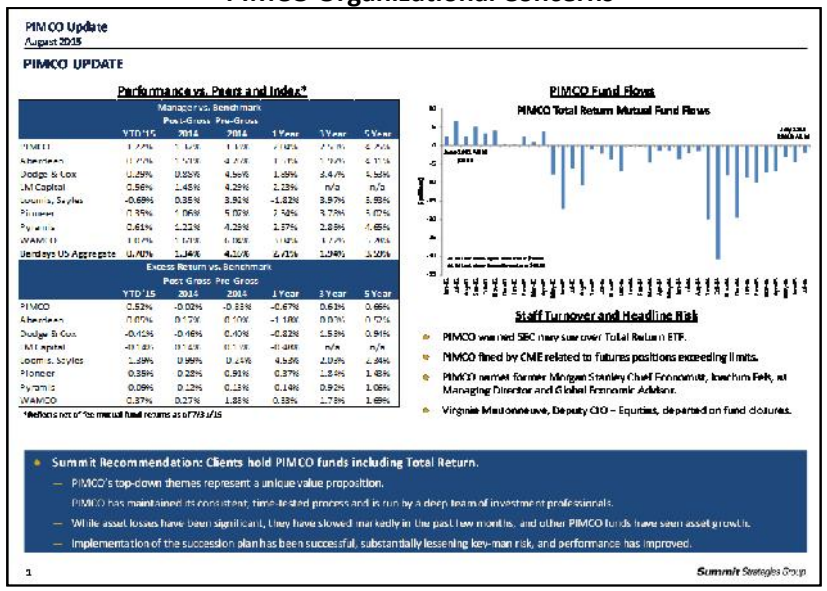
Criteria for Formal Review

- Firm - Material ownership change or regulatory concern
- Product - Change in assets under management, style drift, or dilution/orphan of product
- Personnel - Departure of key investment professional or change in team structure and decision process
- Philosophy and Process - Change in investment philosophy, shift in market environment not conducive to style, or relaxation of risk controls
- Performance - Three-year excess return outside of original investment thesis or deterioration in quantitative criteria – information ratio, tracking error, standard deviation, batting average, up-/down-capture ratio, etc.

Criteria for Mandatory Termination

- Team - Unexpected departure of "star" portfolio manager
- Process - Outright change in process that alters stated investment discipline

PIMCO Organizational Concerns


PIMCO Update
August 2015

PIMCO UPDATE

Performance vs. Peers and Index*

Manager vs. Benchmark	Post-Gross	Pre-Gross				
	YTD '15	2014	2014	1 Year	3 Year	5 Year
PIMCO	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aberdeen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dodge & Cox	0.29%	0.85%	4.56%	1.69%	3.47%	4.53%
LM Capital	0.56%	1.48%	4.29%	2.23%	n/a	n/a
Loomis, Sayles	-0.69%	0.35%	3.92%	-1.82%	3.97%	3.93%
Pioneer	0.35%	1.06%	5.02%	2.54%	3.78%	5.02%
Pyramis	0.61%	1.22%	4.29%	1.37%	2.86%	4.65%
WAMCO	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bendays US Aggregate	0.70%	1.34%	4.20%	2.71%	1.94%	3.20%

Excess Return vs. Benchmark	Post Gross	Pre Gross				
	YTD '15	2014	2014	1 Year	3 Year	5 Year
PIMCO	0.52%	-0.02%	-0.33%	-0.67%	0.61%	0.66%
Aberdeen	0.07%	0.17%	0.10%	-1.18%	0.07%	0.72%
Dodge & Cox	-0.41%	-0.46%	0.40%	-0.82%	1.53%	0.94%
LM Capital	[illegible]	[illegible]	[illegible]	[illegible]	n/a	n/a
Loomis, Sayles	1.39%	0.99%	0.24%	4.53%	2.03%	2.34%
Pioneer	0.35%	0.28%	0.91%	0.37%	1.84%	1.48%
Pyramis	0.09%	0.12%	0.13%	0.14%	0.92%	1.06%
WAMCO	0.37%	0.27%	1.83%	0.33%	1.73%	1.69%

*Reflects net of fee mutual fund returns as of 7/31/15

PIMCO Fund Flows

PIMCO Total Return Mutual Fund Flows

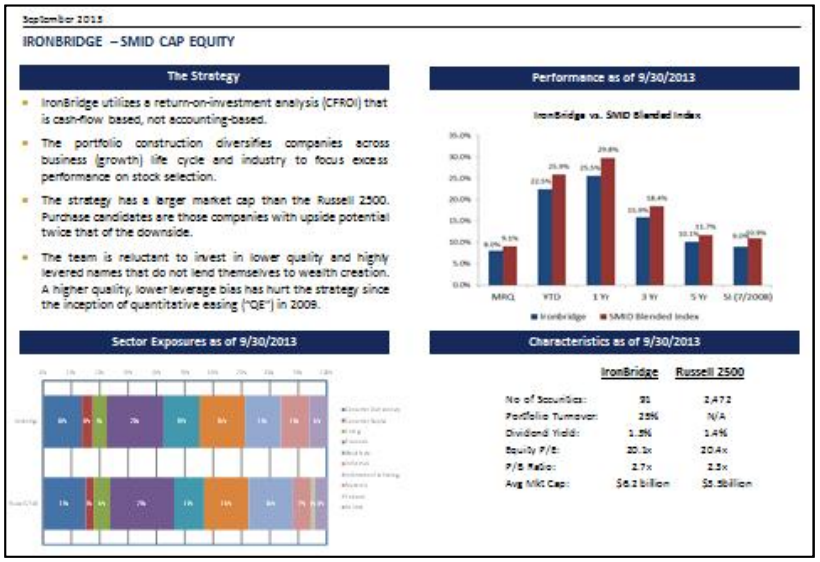
Staff Turnover and Headline Risk

- PIMCO warned SEC may sue over Total Return ETF.
- PIMCO fined by CME related to futures positions exceeding limits.
- PIMCO names former Morgan Stanley Chief Economist, Joachim Fels, at Managing Director and Global Economic Advisor.
- Virginie Maisonneuve, Deputy CIO – Equities, departed on fund closures.

- Summit Recommendation: Clients hold PIMCO funds including Total Return.
  - PIMCO's top-down themes represent a unique value proposition.
  - PIMCO has maintained its consistent, time-tested process and is run by a deep team of investment professionals.
  - While asset losses have been significant, they have slowed markedly in the past few months, and other PIMCO funds have seen asset growth.
  - Implementation of the succession plan has been successful, substantially lessening key-man risk, and performance has improved.

1 Summit Strategies Group

IronBridge SMID Cap Equity Performance Concerns


September 2013

IRONBRIDGE – SMID CAP EQUITY

The Strategy

- IronBridge utilizes a return-on-investment analysis (CFROI) that is cash-flow based, not accounting-based.
- The portfolio construction diversifies companies across business (growth) life cycle and industry to focus excess performance on stock selection.
- The strategy has a larger market cap than the Russell 2500. Purchase candidates are those companies with upside potential twice that of the downside.
- The team is reluctant to invest in lower quality and highly levered names that do not lend themselves to wealth creation. A higher quality, lower leverage bias has hurt the strategy since the inception of quantitative easing ("QE") in 2009.

Performance as of 9/30/2013

IronBridge vs. SMID Blended Index

MRQ YTD 1 Yr 3 Yr 5 Yr SI (7/2008)

IronBridge SMID Blended Index

Sector Exposures as of 9/30/2013

Characteristics as of 9/30/2013

	IronBridge	Russell 2500
No of Securities:	91	2,472
Portfolio Turnover:	25%	N/A
Dividend Yield:	1.5%	1.4%
Equity P/E:	20.1x	20.4x
P/E Ratio:	2.7x	2.5x
Avg Mkt Cap:	$6.2 billion	$5.5billion