Convergence Long/Short Equity Strategy

Q1-2024 Review and Commentary

The Convergence Long/Short Equity strategy posted a very solid 19.7% return for the first quarter of 2024, net of fees. In the first quarter of 2024, the strategy's Russell 3000 Index benchmark was up 10.0%. During the twelve months ended March 31, 2024, the strategy returned 36.2% while the Russell 3000 Index benchmark was up 29.3%. During this twelve-month period the strategy had an average net exposure of 67% of total invested assets, with long positions averaging 116% while short positions averaged 49%.

The first quarter of 2024 was a strong period of outperformance and we attribute this success to two reasons discussed further below. First, there was high correlation among fundamental signals and high performing stocks, creating an environment where our strategy was able to "fire on all cylinders." Secondly, we continue to see reverberations or aftershocks from the "un-fundamental" (our term for it) period of 2020. Given current macro-economic conditions, including a more normalized regime of interest rate levels, we believe future prospects for long/short investing remain favorable.

Fundamental signals of many types did well in the first quarter alongside our Price Momentum signal. Periods when Price Momentum performs well can be described as periods when what has worked recently continues to work. What we found different about the first quarter versus the last few years was that what was working included strong fundamentals, specifically massive free cash flow generation from high quality companies. Looking over our nearly twenty years of factor and fundamental signal analysis, we have found that momentum rallies often benefit lower quality companies, often referred to as "junk rallies". Our research shows many instances where our Price Momentum signal performs the best while at the same time our Quality and Valuation signals lag notably. Also, during these same periods our Expected Growth signal also tends to perform well. This signal looks at the current and recent changes in the long-term growth forecasts for companies' profits, a factor that does well when expectations are high and might be driven by overly optimistic growth forecasts. The performance of our Expected Growth signal tends to be correlated with that of our RiskOn signal, one that favors highly leveraged companies. (Both of these were among the better performing signals during 2020.)

When we examined the momentum rally of the first quarter, we found that Expected Growth and RiskOn were not among the best performers and that these signals trailed Quality, Economic Size, and Profitability. Moreover, our Traditional Valuation signal was additive which was not typical of past momentum rallies.

The strong representation of fundamental factors among leading stock market performers is very different than the "un-fundamental" stock market leadership of 2020. The low interest rate environment and abundant fiscal stimulus fueled risk taking by investors who were willing to overlook corporate debt levels and focus on far flung earnings forecast far into the future, as noted above. The unwinding of these conditions is still being felt. When the interest rate environment changed significantly in early 2022, investors pivoted to fundamentals and shunned lower quality companies.

History tells us that interest rate hikes take time to impact the economy and financial markets. Many have observed that it takes about twelve months for a Federal Reserve rate hike to have its full economic impact. With the last hike coming in Q3-2023, it would be reasonable to think that the effects may not be fully reflected in corporate financials until the end of summer 2024. If we continue to experience a "higher for longer" interest rate environment, we expect a strong investor urge to maintain their preference for fundamentally superior companies. As the sales and earnings of quality companies develop over time, strategies that are positioned to benefit from strong fundamentals outperforming weak fundamentals should continue to reward investors.

We remain moderately bullish on US equities. Companies with defensible business models, strong profitability and improving productivity should continue to benefit. We see interest rates remaining higher for longer than many forecasters predict. This macro environment is unlikely to help companies with shaky balance sheets and lofty valuations relative to their historical averages. We see the dispersion in equity returns that started at the end of 2020 persisting in the coming quarters. As many prognosticators say, markets like to climb a wall of worry. With continued recession concerns, geopolitical tensions, upcoming elections and higher interest rates, we see plenty of worry. Therefore, we remain optimistic for fundamentally superior stocks and see the market continuing to grind higher in the long term. We remain quite bullish for fundamentally focused investors that employ a portfolio of long and short positions, like the Convergence Long/Short Equity strategy.

Portfolio Overview

The Convergence Long/Short Equity strategy had a strong Q1-2024. The strategy was up 19.7% net of fees for the first quarter while its Russell 3000 Index benchmark was up 10.0%. Over the trailing 6- and 12-month periods the strategy was up 27.6% and 36.2%, and the benchmark was up 23.3% and 29.3%, respectively. In all three periods our long portfolio had strong positive returns which handsomely outperformed the Russell 3000 index. Moreover, our short holdings also underperformed (good for shorts) the Russell 3000 in all three periods. With a positive contribution from both the longs and shorts over these time periods the strategy also generated very beneficial long-short spreads in these periods. Thanks to these robust relative returns we were able to deliver strong returns for our investors as the Convergence Long/Short Equity strategy was "firing on all cylinders" over recent quarters.

At the end of the first quarter the Convergence Long/Short Equity strategy had a net exposure of 65%, with 115% in longs and 50% in shorts. Our ratio of long exposure to short exposure has remained quite stable over the last three years. See the calculations of month-ending portfolio snapshots as shown in the table below.

Exposures	Net	Long	Short
3-year average	73%	118%	44%
3-year standard deviation	7%	6%	7%
Q1-2024 end	65%	115%	50%

Signal Attribution

To guide our portfolio construction Convergence maintains a suite of factors that we use as signals of what the market is rewarding and punishing. More generally, these signals are robust enough to drive the decision-making regarding stock selection for all the portfolios we manage for clients. The following attribution commentary is computed relative to our selection universe, defined as an equally weighted composite of the top half of the Russell 3000 Index when stocks are ranked by market capitalization (we abbreviate it "CIP1500").

For the long holdings during the first quarter, our Price Momentum, Size, and Profitability signal composites were the largest contributors to our relative returns. Our largest detractors from the long side of the portfolio were our Capital Discipline, Price Reversal, and Traditional Value composites.

Looking at the short portfolio during the quarter, we had notable contributions from our Price Momentum, Accruals and Earnings Momentum signals. We had notable overweights to our Price Momentum, Accruals and Earnings Momentum signal composites and all three of these signals generated a strong negative return for the quarter. The short signal composites that detracted the most were Expected Growth, Price Reversal and Capital Discipline. Only one of our short signals, Expected Growth, outperformed the CIP1500 benchmark, which is bad for shorts. Therefore, all other short signals contributed positively to our strategy return for the quarter.

In the first quarter, all but two industry groups moved higher. Automobiles and Tech Hardware ended the quarter in the red benefitting the short portfolio. Interestingly, Tech Hardware also ended the quarter lower despite the continued fervor about technology stocks. This is primarily due to the low returns of the "Supergiant" Apple, down over 10% for the three months. Just like Q4-2023, all but one industry group (24 of 25) contributed positively to our long returns. On the short side of our portfolio all but three industry groups underperformed the Russell 3000 Index, and we are pleased to report that 11 of 25 industry groups within our shorts had negative returns for the quarter, contributing positively to the absolute performance of our portfolio. Unlike Q4-2023, the start of 2024 was a grand time to be short fundamentally weak stocks.

The following table shows the industry groups that contributed the most to the long and short sides of our portfolio for the quarter.

Strategy	Top Contribution to Performance	Top Detractors from Performance
Long/Short Equity **(Long)**	Semiconductors Software & Services Capital Goods	Consumer Services
Long/Short Equity **(Short)**	Software & Services Automobiles Media & Entertainment	Retail Financial Services Pharmaceuticals & Biotech

We have frequently noted in the past those instances when the top contributing industry groups on the short side are also among the top detractors from the long (and vis-versa). For the first time in many quarters this did not happen! We see this as a sign that investors were seeking to identify winners and losers at the stock level, as opposed to larger industry group level "beta" decisions. When we see these beta moves, it supports the theory that groups were bought (or sold) as if they were a basket, irrespective of company specific metrics like fundamental factors. These types of moves make it challenging for any strategy that seeks to identify winning stocks by differentiating the fundamental characteristics of each stock in the same industry. Therefore, when we are NOT in such an environment, like last quarter, one should expect strong relative returns to strong fundamental measures, and this past quarter was a great example.

The Convergence Perspective

At Convergence, our fundamental ranking process is utilized with the aim of generating alpha (outperformance) on both the long and short side from favorably ranked holdings. Shorting stocks provides the potential for an extra alpha source that is not available to long-only managers. We believe the combination of positions in both attractively ranked long and short holdings gives the opportunity for a diversified alpha source, which in turn should help to deliver strong risk-adjusted returns over the long run. The core tenants of providing competitive, long-term returns, while assuming below market level of volatility remain steadfast to our entire investment process.

Strategy	1 Year	5 Years	10 Years
Convergence Long/ Short Equity strategy (net)	36.20%	12.51%	10.42%
Morningstar Long-Short Equity	15.58%	6.24%	4.18%
HFRX Equity Hedge Index	9.66%	5.57%	3.09%
Russell 3000	29.29%	14.34%	12.33%

As of 03/31/2024

Signal Composite Definitions

Growth

Earnings Momentum:
Earnings Momentum is defined in terms of consensus earnings estimates. The Earnings Momentum alpha composite ranks the Convergence universe of stocks based on the magnitude of earnings surprises and estimate revisions.

Sales Momentum:
Sales Momentum is defined in terms of consensus Sales/Revenue estimates. The Sales Momentum composite ranks the Convergence universe of stocks based on the magnitude of Sales/Revenue surprises and Sales/Revenue revisions.

Profitability Trends:
The Profitability Trends composite ranks the Convergence universe of stocks based on the trend in various profitability measures. The Profitability Trends scoring differentiates between stocks showing strong bottom-line improvement and stocks showing deteriorating profits or increasing losses.

Historical Growth:
The Historical Growth composite ranks the Convergence universe of stocks based on the historic/realized growth rates in earnings, revenue, and cash flows.

Accelerating Growth:
The Accelerating Growth composite ranks the Convergence universe of stocks based on the growth (acceleration) of sales, earnings, and cash flow measures

Forecasted Growth:
The Future Expected Growth composite ranks the Convergence universe of stocks based on future expectations of growth rates.

Valuation

Traditional Valuation:
The Traditional Valuation composite ranks the Convergence universe of stocks on various measurements of absolute value. Traditional Value measures can be derived from price to value ratios such as earnings, enterprise value, cash flow, revenues, and yield.

Relative Valuation:
The Relative Valuation composite ranks the Convergence universe of stocks using industry relative measures. In this composite, each stock is ranked based on several relative price ratios such as earnings, enterprise value, cash flow, and sales to measure each stock's current versus historical valuation spread relative to the industry average.

Size:
The Size composite ranks the Convergence universe of stocks based on the absolute "size" of various economic value measures of each company.

Technical

Price Momentum:
The Price Momentum composite ranks the Convergence universe of stocks based on various measures of the respective stock returns over the past 6-12 months.

Price Reversal:
The Price Reversal composite ranks the Convergence universe of stocks on the magnitude of short-term returns. Price Reversal attempts to capture the pattern whereby short-term winners often result in downside reversals and short-term losers tend to temporarily revert to the upside.

Risk

Risk:
The Risk composite ranks the Convergence universe of stocks based on the overall risk rating based on measures of volatility, analyst coverage, and leverage.

Risk-On:
The Risk-On composite ranks the Convergence universe of stocks based on various risk-seeking characteristics such as financial leverage (short-term and long-term obligations) and market capitalization.

Quality:
The Quality composite ranks the Convergence universe of stocks based on the overall quality assessment of the company. The quality of the balance sheet is most prominently determined based on the measurement of accruals with the company.

Capital Discipline:
The Capital Discipline composite ranks the Convergence universe of stocks based on each company's usage of capital resources. Capital Discipline includes accruals, stock repurchases and dividends.

Earnings Risk:
The Earnings Risk composite ranks the Convergence universe of stocks based on the level of risk of disappointment in future cash flow, earnings and sales. Risk in these metrics is ascertained from the measurement of items of variability and uncertainty in cash flow, earnings and sales.

Disclosures:

Past performance is no guarantee of future results. Any investment contains risk including the risk of total loss. There is no guarantee that an investment or strategy will meet its investment objectives.

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Source of all factor data: Convergence Investment Partners.

No graph, chart, or formula should in and of itself be used to determine which securities to buy or sell.

GIPS COMPLIANCE DISCLOSURES

Convergence Investment Partners claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Convergence Investment Partners has been independently verified for the periods 1/1/2011 to 6/30/2023. The verification report(s) is/are available upon request. Verification does not ensure the accuracy of any specific composite presentation. The firm maintains a complete list and description of composites, which is available upon request. Results are based on discretionary separate accounts under management, including those accounts no longer with the firm. The results portrayed relate only to the adviser's clients invested in the portfolio that meet the criteria for inclusion in composite performance. The U.S. Dollar is the currency used to express performance returns and assets. Performance results are presented both net and gross of management fees and include the reinvestment of income. From the inception of each composite until 01/01/11, Time Weighted Return was compounded on a monthly basis. Beginning 01/01/11 through present, Time Weighted Return was compounded on a daily basis.

Definition of the Firm

The firm is defined as Convergence Investment Partners, LLC ("Convergence Investment Partners"), a majority-owned subsidiary of Nile Capital Group, LLC effective October 1, 2018. Convergence Investment Partners was founded in November 2004. From December 2008 to September 2018, Convergence Investment Partners was a majority-owned subsidiary of Montage Investments, LLC. Convergence Investment Partners (CIP) is an investment adviser registered with the Securities and Exchange Commission. Registration of an investment adviser does not imply any specific level of skill or knowledge.

Convergence Investment Partners is an active equity manager dedicated to managing U.S equity strategies. Convergence uses its proprietary process to select and rank investments, construct portfolios, and help manage risk in each of its products. Convergence strategies are based on corporate fundamentals supported by compelling empirical research applied within each industry group. The name, Convergence, communicates the firm's philosophy of a fundamental stock picking process that incorporates the intersection of sound investment theory executed in a disciplined environment utilizing advanced technology.

The total firm assets will be defined as all discretionary and non-discretionary assets under management within Convergence Investment Partners. This includes primary investment management accounts and sub-advisory investment management accounts, as well as both fee-paying and non-fee paying assets.

The Convergence Long/Short Equity Composite

As of April 1, 2019, the composite name was changed to Convergence Long/Short Equity. Prior to April 1, 2019, the composite was named Convergence Core Plus. The firm updated the composite name to better reflect the objective and management of the strategy. The creation date of the composite is December 31, 2009. The objective of Convergence Long/Short Equity is to achieve long-term capital growth. The strategy seeks to achieve its investment objective by establishing long and short positions in equity securities of domestic and foreign companies. The strategy focuses primarily on companies with medium and large market capitalizations, although the strategy may establish long and short positions in companies of any market capitalization. The strategy will hold long (purchase) securities that the Adviser believes will outperform the market and will sell short securities expected to underperform the market.

Additional Index Definitions

For comparison purposes, the Convergence Long/Short Equity Composite is measured against the Russell 3000® Index as a primary index. The Russell 3000 Index measures the performance of the largest 3,000 U.S. companies. It is constructed to provide a comprehensive, unbiased, and stable barometer of the broad market and it is reconstituted annually to ensure new and growing equities are reflected. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance.

Comparison to any index is for illustrative purposes only and the volatility of the benchmark may be materially different from the volatility of the strategies due to varying degrees of diversification and/or other factors. Index performance returns do not reflect any management fees, transaction costs, or expenses. Indices are unmanaged. You cannot invest directly in an index. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect fees, expenses or sales charges.

Drawdown is the measurement of the greatest difference between an investment's highest cumulative performance (peak) and subsequent lowest cumulative performance (trough) over a specified time period.

Fees and Related

The full fee schedule for all Convergence Investment Partners products is available upon request. It should be noted that the collection of fees produces a compounding effect on the total rate of return net of management fees. Convergence Investment Partners Convergence Long/Short Equity strategy charge 0.95% annually and is assessed .0792% on a monthly basis. Convergence Investment Partners reserves the right to modify fee structures on an account-by-account basis at its discretion. Gross of fee performance returns are presented before management fees but after all trading expenses. No other fees or expenses are deducted for gross of fee performance. Net of fee performance returns are presented after actual standard management fees and all trading expenses. No other fees are deducted aside from trading and management fees for the calculation of net of fee performance. Valuations are net of all applicable withholding taxes. Portfolios are valued in accordance with GIPS® Valuation Hierarchy Principles. More information regarding standard investment management fees is available upon request.