

# Convergence Market Neutral Strategy



September 2018

**Independence.** The Convergence Market Neutral Strategy seeks to produce returns that are independent of stock market behavior. With a targeted beta, or market exposure, of between 0% and 20%, the market neutral strategy is designed to produce returns uncorrelated to the stock market, aiding diversification while improving risk adjusted returns.

## Performance Summary (net of fees) May 1, 2015 to September 30, 2018

(net of fees)	1 month	YTD	1 year	3 year	Since Inception Annualized*
<b>Convergence Market Neutral</b>	0.30%	7.12%	9.90%	5.88%	7.08%
<b>Morningstar Market Neutral</b>	0.01%	-0.25%	0.54%	1.40%	1.07%
<b>HFRX Market Neutral</b>	-0.83%	-0.50%	-1.51%	-1.04%	0.32%

## Overall Morningstar Rating™

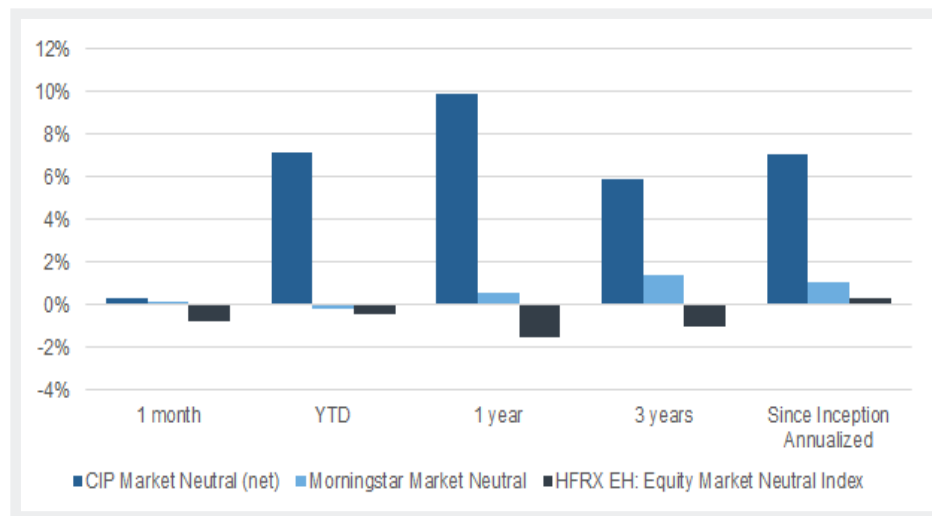
(as of June 30, 2018)



Category: Market Neutral

Number Rated: 18

The Overall Morningstar Rating™ is based on risk-adjusted gross returns, derived from a weighted average of the three, five-, and 10-year (if applicable) Morningstar metrics.



## Portfolio Statistics (9/30/2018)

Sector Weight %	Convergence Market Neutral Strategy	
	Long	Short
Communication Services	5.3	4.0
Consumer Discretionary	12.2	10.0
Consumer Staples	4.9	3.7
Energy	5.7	4.6
Financials	16.3	12.7
Health Care	14.0	10.6
Industrials	15.5	11.9
Information Technology	17.0	12.5
Materials	5.6	4.3
Real Estate	8.8	6.9
Utilities	4.6	3.5
<b>Total</b>	<b>109.9</b>	<b>84.8</b>
Price/Earnings Ratio	17.00	62.30
Price to Book	2.43	2.00
Beta*	1.09	0.97
Return on Assets	6.8%	0.8%
EPS Growth*	9.0%	7.8%
Capitalization (millions)	78,964	11,609
Number of Holdings	138	172

\*5 year trailing

## Periodic Returns (net of fees) May 2015 - September 2018

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>Convergence Market Neutral</b>	2018 4.39	-1.21	-1.22	0.68	1.12	-1.21	2.39	1.81	0.30	-	-	-	7.12
	2017 -1.68	0.03	-0.45	-0.25	-0.25	1.12	1.40	0.62	0.80	0.80	1.17	0.60	3.94
	2016 0.85	-0.76	0.54	-3.77	0.14	-0.58	2.03	-1.19	0.66	1.80	4.71	1.50	5.85
	2015 -	-	-	-	0.60	0.98	2.31	-1.13	3.57	0.58	1.12	-0.97	7.19
<b>Morningstar Market Neutral</b>	2018 0.80	-0.71	-0.31	-0.40	0.24	-0.16	0.17	0.10	0.01	-	-	-	-0.25
	2017 -0.05	0.32	0.33	0.21	-0.33	0.11	0.33	0.19	0.49	0.45	-0.02	0.36	2.42
	2016 -0.13	-0.04	0.47	-0.40	0.08	-0.42	0.40	-0.20	0.54	0.05	1.13	0.47	1.95
	2015 -	-	-	-	0.40	-0.62	-0.05	-0.39	0.15	0.71	-0.52	-0.10	-0.43
<b>HFRX Market Neutral</b>	2018 1.19	-0.30	-0.16	-0.07	0.14	-0.61	-0.15	0.29	-0.83	-	-	-	-0.50
	2017 0.75	0.01	0.74	0.12	-1.50	0.60	0.50	0.91	0.63	-0.34	0.04	-0.72	1.73
	2016 -0.21	-1.55	-0.84	-1.86	0.44	-1.00	1.19	-0.45	0.36	-0.12	-0.04	-1.07	-5.08
	2015 -	-	-	-	-0.45	1.09	1.44	0.18	2.02	1.07	-0.53	0.34	5.24
<b>Russell 1000</b>	2018 5.49	-3.67	-2.27	0.34	2.55	0.65	3.45	3.45	0.38	-	-	-	10.49
	2017 2.01	3.87	0.06	1.06	1.28	0.70	1.98	0.31	2.13	2.29	3.05	1.11	21.69
	2016 -5.38	-0.03	6.97	0.54	1.75	0.23	3.81	0.13	0.08	-1.95	3.94	1.88	12.05
	2015 -	-	-	-	1.31	-1.88	1.93	-6.02	-2.74	8.09	0.33	-1.80	-1.36

\*Inception 4/30/2015

## Performance Statistics

(4/30/2015 - 9/30/2018)

	Convergence Market Neutral Strategy	Russell 1000
Standard Deviation	5.57	9.86
Sharpe Ratio	1.14	1.17
Up Capture vs. Market	30.08	-
Down Capture vs. Market	-7.84	-
Alpha vs. Market	4.81	0.00
Beta vs. Market	0.19	1.00

Holdings and sector allocations are subject to change and should not be considered a recommendation to buy or sell any security. Holdings and weights as of 9/30/2018.

Earnings Growth is not a measure of future performance.

Past performance is not indicative of future results.

## Appendix

Convergence Market Neutral Composite (as of 6/30/18)									
	Gross of Fees Return	Net of Fees Return	Benchmark Return (Citi T-Bill)	Composite Dispersion (Full Period)	Number of Separate Accounts (End of Period)	Total Composite Assets (End of Period)	Total Firm Assets (End of Period)	3 Year Annualized Standard Deviation (Composite)	3 Year Annualized Standard Deviation (Citi T-Bill)
May 1, 2015 - Dec 31, 2015	7.91%	7.19%	0.02%	N/A*	1	\$2,455,782	\$444,781,578	N/A	N/A
2016	6.93%	5.85%	0.27%	N/A*	1	\$18,720,591	\$398,488,819	N/A	N/A
2017	5.02%	3.94%	0.84%	N/A*	1	\$24,854,625	\$409,273,927	N/A	N/A
2018 (as of 6/30/2018)	2.99%	2.46%	0.79%	N/A*	1	\$59,973,358	\$405,037,351	5.80	0.16

\*N/A is shown because there were five or fewer portfolios in the composite for the full year.

## Disclosures

**Past performance is not indicative of future results.**

The information provided herein is for informational purposes only. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed in this documentation and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities may fluctuate and that each security's price or value may rise or fall. Accordingly, investors may receive back less than originally invested.

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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. 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"). Convergence Investment Partners is an investment adviser registered with the Securities and Exchange Commission. Registration does not imply a certain skill level or training. 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 data 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 Market Neutral Composite**

The creation date of the composite is May 1, 2015. The Convergence Market Neutral Composite objective is to achieve an absolute return uncorrelated to major market stock indexes. 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 on companies with small to large market capitalizations. 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.

If a single or cumulative cash flow(s) are equal or greater than 20 percent of the total account value on the day the cash flow(s) is initiated. If these circumstances exist, the account will be removed from the composite and added back to the composite on the first day of the month following the date that the account is fully invested (defined as being within ten percent of the model portfolios cash target).

**Additional Index Definitions**

The official benchmark of the strategy is the Citi 3-Month Treasury Bill Index, an unmanaged index representing monthly return equivalents of yield averages of the last 3 month Treasury Bill issues. However, investing in treasury bills is different from investing in the Convergence Market Neutral strategy, as Treasury bills are issued and backed by the federal government and the volatility of the Citi 3-Month Treasury Bill Index is materially lower than what is expected from the Convergence Market Neutral strategy. We have also compared the strategy to the Morningstar Market Neutral Category, which represents funds that attempt to eliminate the risks of the market by holding 50% of assets in long positions in stocks and 50% of assets in short positions. The HFRX Market Neutral Index is an index that uses defined and predetermined rules and objective criteria to select and rebalance components to maximize representation of the market neutral Hedge Fund Universe. The Russell 1000® Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current

index membership. The volatility of the Russell 1000 is materially higher than what is expected from the Convergence Market Neutral strategy. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect fees, expenses or sales charges. Individuals cannot invest directly in any index and index returns do not reflect fees and expenses.

**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 Market Neutral Strategy charges 1.00% annually, and is assessed .0833% 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.

**Additional Notes and Disclosures**

The use of derivatives may be employed for purposes of currency hedging and or to equitize the cash position of the portfolios. Derivatives have not been used to date, and it is expected that any future use would be on a limited basis. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Full Calendar year dispersion is calculated using net-of-fee returns with an equal weighted standard deviation methodology.

The minimum account size for composite inclusion is \$5,000,000.

Current performance may be lower or higher than return data quoted herein. The money management firm can be contacted directly at 262-240-0117 or visit [www.investcip.com](http://www.investcip.com).