

# Small Cap Core Plus Strategy

Precise. Agile. Opportunistic.



March 2018

**Bridge Traditional Barriers.** The Convergence Small Cap Core Plus Strategy seeks to provide a greater return potential than traditional approaches. Armed with a proprietary dynamic quantitative model, additional tools, and added flexibility, the managers at Convergence pursue a more material and consistent alpha. The objective of the Convergence Small Cap Core Plus Strategy is to seek long-term growth.

## Experience, and a Proven Track Record

Convergence has a long-standing record of offering investors investment solutions with the quantitative rigor of a systematic firm but with the adaptive capabilities of a fundamental approach.

The Principals at Convergence have over 20 years of average combined experience managing equities, and importantly over 12 years managing long/short strategies.

## A Systematic Investment Process Rooted in Fundamental Analysis

Convergence's systematic equity ranking process has evolved from two decades of fundamental investment management. Our strategies capture the best of advanced technology and fundamental investment management. Technology brings the benefit of unbiased and unemotional inputs, while fundamental management provides responsiveness to industry group specifics.

## Performance Summary (net of fees) Through March 31, 2018

	Month	YTD	Trailing 1 Year	Trailing 3 Year	Trailing 5 Year	Annualized Since Inception 5/01/2012
Convergence Small Cap Core Plus Strategy	1.39%	-1.74%	10.41%	6.63%	11.44%	13.50%
Russell 2000	1.29%	-0.08%	11.79%	8.39%	11.47%	12.74%

## Periodic Returns (net of fees) May 2012 - March 2018

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
<b>Convergence Small Cap Core Plus Strategy (net)</b>													
2018	5.73	-8.34	1.39	-	-	-	-	-	-	-	-	-	-1.74
2017	-0.46	-1.12	0.53	0.84	-2.41	3.54	1.80	-0.37	6.39	2.42	0.40	-0.61	11.19
2016	-5.85	0.03	8.12	-1.11	0.03	-0.83	6.61	-2.15	1.89	-2.16	10.09	4.26	19.23
2015	-1.83	4.47	2.39	-3.52	1.22	-0.16	0.30	-5.05	-2.74	7.50	1.04	-5.12	-2.27
2014	-2.37	3.33	0.54	0.24	0.84	1.49	-3.74	5.17	-5.61	5.72	2.15	1.07	8.52
2013	6.09	0.12	6.50	-1.52	5.47	-1.50	7.23	-3.13	5.84	6.28	4.49	-0.42	40.71
2012	-	-	-	-	-6.56	5.30	1.96	3.58	0.42	-0.51	1.87	2.91	8.84 <sup>†</sup>
<b>Russell 2000</b>													
2018	2.61	-3.87	1.29	-	-	-	-	-	-	-	-	-	-0.08
2017	0.39	1.93	0.13	1.10	-2.03	3.46	0.74	-1.27	6.24	0.85	2.88	-0.40	14.65
2016	-8.79	0.00	7.98	1.57	2.25	-0.06	5.97	1.77	1.11	-4.75	11.15	2.80	21.31
2015	-3.22	5.94	1.74	-2.55	2.28	0.75	-1.16	-6.28	-4.91	5.63	3.25	-5.02	-4.41
2014	-2.77	4.71	-0.68	-3.88	0.80	5.32	-6.05	4.96	-6.05	6.59	0.09	2.85	4.89
2013	6.26	1.10	4.62	-0.37	4.00	-0.51	7.00	-3.18	6.38	2.51	4.01	1.97	38.82
2012	-	-	-	-	-6.62	4.99	-1.38	3.33	3.28	-2.17	0.53	3.56	5.09 <sup>†</sup>

\*Inception 5/01/2012

<sup>†</sup> May 1, 2012 to December 31, 2012

## Performance Statistics (5/01/2012 - 3/31/2018)

	Convergence Small Cap Core Plus Strategy	Russell 2000
Standard Deviation	13.25	13.65
Realized Beta	0.87	1.00
Alpha	2.37	0.00
Sharpe Ratio	1.00	0.91
Up Capture Ratio**	89.20	100
Down Capture Ratio**	81.00	100

\*\*The up and down capture is a measure of how well a manager was able to replicate or improve on phases of positive benchmark returns, and how badly the manager was affected by phases of negative benchmark returns.

## Portfolio Statistics (3/31/2018)

Sector Weight %	Convergence Small Cap Core Plus Strategy			Russell 2000
	Total Portfolio	Long	Short	
Consumer Discretionary	11.7	17.2	5.5	12.1
Consumer Staples	2.1	3.3	1.2	2.3
Energy	3.5	5.1	1.6	3.7
Financials	18.2	26.2	8.1	18.0
Healthcare	15.9	23.3	7.5	16.6
Industrials	14.6	21.4	6.8	15.3
Technology	17.0	25.0	7.9	17.5
Materials	4.8	6.7	2.0	4.3
Real Estate	5.9	8.7	2.8	6.3
Telecommunication	0.9	1.2	0.3	0.6
Utilities	3.0	4.5	1.5	3.3
Total	97.7	142.7	45.0	100.0
Price/Earnings Ratio	13.2	21.1	-61.1	51.9
Price to Book	1.88	1.84	1.77	2.10
Beta	1.35	1.24	0.90	1.05
Return on Assets	11.4%	6.3%	-5.5%	0.5%
EPS Growth*	9.8%	7.5%	1.6%	6.7%
Capitalization (millions)	\$3,193	\$2,907	\$2,285	\$2,549
Number of Holdings	301	133	168	1981

\*5 year trailing

## Top Ten Holdings (percent)

	Long	Short
Mgic Invt Corp	1.97	Mulesoft Inc -0.57
Wis		
Zions Bancorp	1.86	Cloudera Inc -0.46
National Fuel Gas Co	1.77	Zu Inc -0.43
Bankunited Inc	1.77	Okta Inc -0.42
Cit Group Inc	1.74	Coupa Software Inc -0.42
Comerica Inc	1.73	Conn Wtr Svc Inc -0.42
Verint Sys Inc	1.71	Sunrun Inc -0.41
Popular Inc	1.69	Twilio Inc -0.40
Emergent Biosolution	1.59	Pros Holdings Inc -0.40
Innoviva Inc	1.58	Chesapeake Utils Cor -0.39

Strategy holdings and sector allocations are as of 3/31/2018, are subject to change and should not be considered a recommendation to buy or sell any security.

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

# Convergence Small Cap Core Plus Strategy

## Appendix

### Convergence Small Cap Core Plus Composite (as of 6/30/17)

	Gross of Fees Return	Net of Fees Return	Benchmark Return (Russell 2000)	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 (Russell 2000 Index)
2012 (5/01/2012 - 12/31/2012)	9.53%	8.84%	5.10%	N/A*	1	\$1,631,918	\$217,790,421	N/A	N/A
2013	42.03%	40.71%	38.82%	N/A*	1	\$30,847,290	\$492,677,907	N/A	N/A
2014	9.63%	8.52%	4.89%	N/A*	1	\$72,769,307	\$553,692,556	N/A	N/A
2015	-1.30%	-2.27%	-4.41%	N/A*	1	\$76,858,907	\$444,781,578	13.21	14.16
2016	20.41%	19.23%	21.31%	N/A*	1	\$80,507,135	\$398,488,819	13.73	15.99
2017 (as of 12/31/2017)	12.26%	11.19%	14.65%	N/A*	1	\$67,199,604	\$409,273,927	12.92	14.11

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

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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##### Compliance Statement

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. 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 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.

#### Disclosures of Gross and Net Return calculation methodology

The composite gross of fee performance returns are presented net of transaction costs, but do not include the deduction of management fees, and other account expenses, such as custodial fees. No other fees or expenses are deducted for gross of fee performance. Gross-of-Fee performance for mutual fund accounts included in the composite is calculated by adding back the actual monthly expenses incurred to the monthly return on the Net Asset Value. Net-of-fee performance returns are net of transaction costs and management fees, but do not include the deduction of other account expenses, such as custodial fees. Trading costs, such as broker commissions, those fees are built into the cost basis of the securities. For mutual fund accounts included in the composite, net of fee performance is calculated by netting the advisor fee (1.00% annually, assessed 0.0833% monthly) from the Gross return. 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.

#### Definition of the Firm

The firm is defined as Convergence Investment Partners, LLC ("Convergence Investment Partners"), a majority owned subsidiary of Montage Investments, LLC ("Montage"). Montage is a wholly owned subsidiary of Mariner Holdings, LLC. 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 outstanding 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 results that are 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 Small Cap Core Plus Composite

The creation date of the composite is May 1, 2012. The objective of Convergence Small Cap Core Plus 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 small to medium 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.

For comparison purposes, the Convergence Small Cap Core Plus Composite is measured against the Russell 2000® Index as a primary index. Individuals cannot invest directly in any index. Comparison of the Composite to this benchmarks is for illustrative purposes only and the volatility of the benchmarks may be materially different from the volatility of the Composite due to varying degrees of diversification and / or other factors.

Since Inception, Convergence Investment Partners has adopted the following Significant Cash Flow Policy for both composites. 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).

The three year annualized standard deviation is calculated using 36 monthly returns to end of 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 Small Cap Core Plus 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.

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

The performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate thus an investor's separate account may be worth more or less than its original value.

Current performance may be lower or higher than return data quoted herein. To obtain a full GIPS® compliant presentation, contact the money management firm directly, at 262-240-0117 or visit [www.investcip.com](http://www.investcip.com).

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