Convergence
Investment Partners

Q&A WITH THE PORTFOLIO MANAGERS

March 2018

David Abitz, CFA
Lead Portfolio Manager

Convergence U.S. Long/Short Strategies

Large Cap, Small Cap, Leveraged, Market Neutral

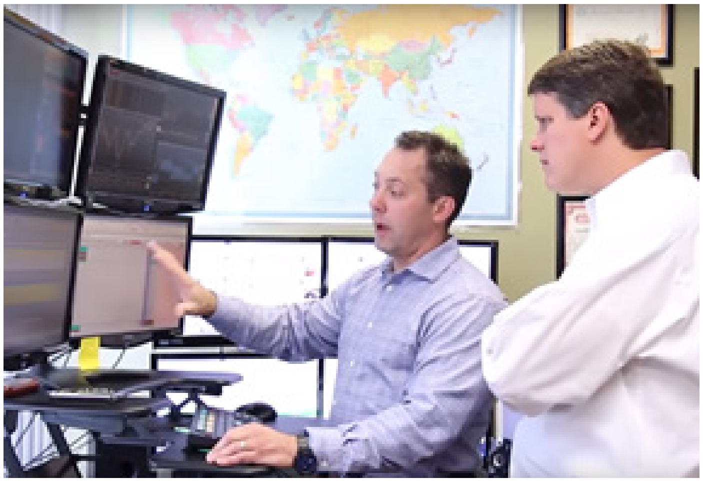
Convergence Investment Partners

Q&A with David Abitz, CFA & Justin Neuberg, CFA

Q **What is the difference between long/short equity and market neutral? And how can they be used in a portfolio?**

Abitz: The primary difference between long-short equity and market neutral is the net market exposure. Typically a long-short portfolio is around 40-70% exposed to the market; of course this varies and depends on the manager. With a market neutral portfolio, the market exposure tends to be closer to zero. The low net exposure sought in market neutral strategies tends to result in portfolio returns that have a relatively low correlation to the overall market, versus a long-short strategy that can have slightly higher market correlations on average.

Long-short equity and market neutral strategies tend to be utilized in the "alternatives" bucket of a portfolio. We have seen clients use a combination of long-short and market neutral strategies with the goal of reducing the volatility of stocks and enhancing the returns of fixed income. Given the current environment of lower expected stock returns and increasing rates, we think this is a smart move.



David J. Abitz, CFA

David Abitz is the President & Chief Investment Officer of Convergence Investment Partners, LLC and founded QIS Advisors, the predecessor firm to Convergence, in 2004. David has over two decades of investment experience as a professional money manager. As head of the investment group, David has developed and refined the team's proprietary stock ranking process that is anchored in the firm's philosophy of differentiating stocks based on underlying company fundamentals. David's investment discipline has been shaped by dec ades of experience in bottom-up stock selection in both long-short and long-only strategies. Prior to founding Convergence, David was Chief Investment Officer of the Custom Quantitative Solutions Group at BMO Investment Management (formerly M&I Investment Management Corp.) from 2000 to 2004, where he managed the Equity Income Fund, Tax Efficient Portfolios, and Dividend Income Strategies. David began his career in the early 90's at M&I in Milwaukee, WI with diverse experiences as equity trader, equity research analyst, and co-fund manager. David is a Chartered Financial Analyst with a bachelor's degree in finance from the University of Wisconsin - Oshkosh and an MBA from the University of Wisconsin - Madison. He is a member of the Society of Quantitative Analysts, the Chicago Quantitative Alliance Group, the CFA Institute and the local CFA Society of Chicago.

Q What are the benefits of Long-Short equity?

Abitz: I believe Long-Short equity can be a powerful diversifier by providing strong, risk-adjusted returns in periods of higher volatility. By taking both long and short positions in equities, market risk can be significantly reduced and the resulting returns are less correlated to most common asset classes. Historically, long-short equity has been only moderately correlated to U.S. stock and bond markets. This is a desirable characteristic in an investor's portfolio when interest rates rise, or when equity markets fall.

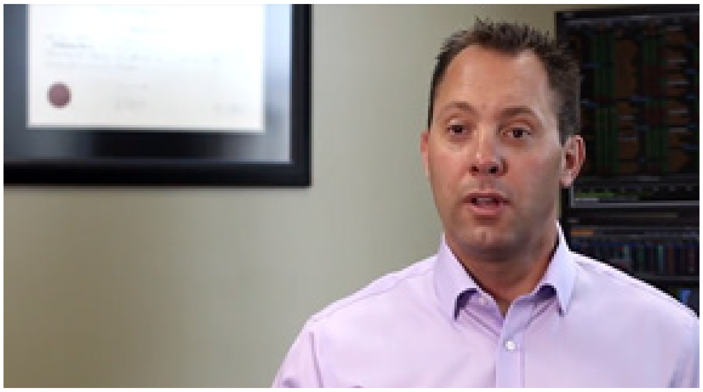
Besides the diversification benefits of long-short equity, it's also important not to overlook the potential they have for generating additional returns.

Q What is the current outlook for Long-Short Equity?

Abitz: We expect more moderate returns and higher volatility to be the norm for the coming years. With each passing year the strong run of returns since the financial crisis is more likely to subside. The economic landscape is changing given the combination of high optimism, monetary tightening, and low unemployment. Investors should be looking toward asset classes that can weather this transition.

The other item we monitor is stock correlations. We have noticed that while correlations are still historically high, we've recently seen a bit of a downward trend. Lower correlations which result in higher dispersions of stock returns should provide managers with more opportunity to add value in their portfolios through stock selection.

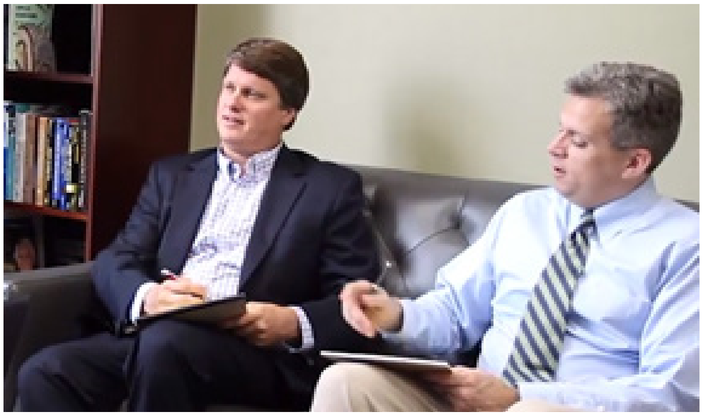
We strongly encourage investors to consider long-short equity when seeking better risk or volatility-adjusted returns in the coming market environment. We believe that long-short equity can fill this role better than simply diversifying across traditional asset classes, due to its more moderate correlation to other assets.



David Abitz; Lead Portfolio Manager

Q What is the history of Convergence? How did the team get its start?

Abitz: We founded Convergence in 2003 as a hedge fund to benefit from a modernization of the investment management business. With the increasing availability of data, and by integrating quantitative techniques with decades of fundamental management experience, we were able to generate a robust stock ranking process. Each strategy is built upon our fundamental stock picking process with the objective of outperformance through clear and predefined channels. We describe it as a systematic investment process that is rooted in equity fundamentals. Each strategy has a targeted objective designed to complement and enhance an investor's overall strategy. Our systematic stock selection strategies can help garner powerful results.



Q | What are the benefits of the Convergence process? Is the success of your process repeatable?

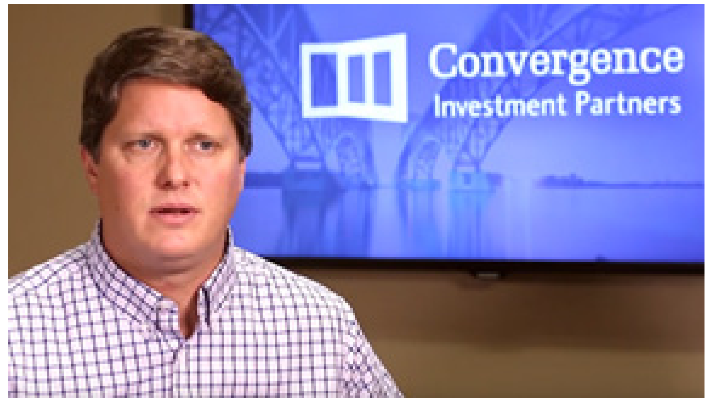
Abitz: We feel that the primary benefit of the Convergence Process is its ability to deliver powerful results; our process is systematized, repeatable, and based on sound investment logic and empirical evidence. The Convergence strategies are based on corporate fundamentals that are supported by compelling empirical results and applied within each industry group. Our team's experience spans decades of investing based on fundamental stock picking, combined with advanced technology.

Neuberg: At the end of the day our products are for investors that believe in fundamentals. Companies that generate more earnings and cash flow from $1 of sales, companies that have clear accounting, companies that spend wisely and return capital to investors tend to outperform their spendthrift, cash burning counterparts.

Q | How do you determine which stocks to own?

Abitz: We use a ranking system to determine the most attractive longs and shorts within each industry groups. We actually have both a long ranking system and a separate, autonomous short rank. Using multiple data sources, we pull in tons of financial data on the entire Russell 3000. We use that data to calculate, standardize, and rank across multiple factor composites. For example, we have a value composite, that measures items such as sales, EBITDA, and cash flow multiples, along with other metrics, relative to enterprise value. We also have growth, profitability, risk, momentum, and quality type factor composites in our process.

Neuberg: The process may sound a bit confusing, but anyone with a bit of fundamental investing experience would understand all the ratios and statistics utilized within each composite. When you look under the hood of any composite, you will find the individual factors such as P/E ratio, sales growth, or changing debt ratios. Our process at its core is actually quite simple, but when you start looking at daily data points across 3000 stocks, which are constantly evolving and improving, things rapidly become quite complex.



Justin Neuberg; Co-Portfolio Managerv

Q | It looks like you have a lot of holdings in the Fund, why so many?

Abitz: We target approximately the top 10% of names within each industry group on both the long and short sides of the portfolio. So, an industry group with 80 names might have 8 longs and 8 shorts. On the long side, we want to have a group of 8 stocks that, in aggregate, provide us the best exposure to factors that are we believe are effective at identifying winners within that industry group. We are less concerned with finding the single best name within each industry group and betting big. Instead we want to be rewarded by striving to capture the fundamental metrics within each industry group.

Neuberg: A major focus, in terms of name count, is finding an appropriate balance between qualitative downside risks while remaining concentrated enough to benefit from our factor expertise. We believe that our years of experience have led us to a desirable balance with around 130 longs and 170 shorts.

Q What's the value proposition by including shorts in a portfolio?

Abitz: Shorting is an extremely important part of our investment process here at Convergence. We believe that managers that only take long positions in their portfolios are leaving out a tremendous opportunity. It's like only using half your hand in a card game! A long-only manager can only decide NOT to own a bad stock and once you move beyond mega caps, it is quite difficult to take a meaningful position against a specific stock. In 2017, the average of the 100 best performing stocks in the Russell 1000 Index was 74.0% while the bottom 100 averaged -33.1%. Given that the index averaged 21.7%, there were quite a few attractive shorts that long managers couldn't exploit.*

Q What are the characteristics that typically make for a good short?

Neuberg: : A typical short holding is a company that has weak or declining fundamentals in one or more areas. Examples of this include falling or non-existent revenues, cash flows, and earnings. In addition, companies that are destroying shareholder value through unproductive utilization of their resources, leading to weak or declining margins tend to highlight good shorting opportunities. We also measure balance sheet quality as well as look for extreme valuation levels as a compliment to the other characteristics that make for a good short.

The key for us is the relative comparison that is being made within a given industry group. What I mean is that our process is really a scoring system within each industry group, where we look at all these various metrics that we have identified as key factors that the market rewards or penalizes. Therefore, a given stock's valuation, profitability, or growth characteristics is constantly being measured and ranked relative to its peers within a given industry group.

Q When looking at your long exposures versus short exposures, does one side of the equation drive total performance more than the other?

Abitz: That's one of the wonderful aspects of long-short. We have found that over time, sometimes the market rewards good fundamentals in a meaningful way. Then at other times it rewards the shorting of negative fundamentals in a significant way. We look at the purpose of the short within our portfolios as an active alpha source. We have witnessed that over time, both our long and short holdings have contributed positively to our portfolio attribution. However, the degree of outperformance from the respective long or short holdings varies over time and therefore this contributes to a more diversified and consistent alpha capability than simply a long-only portfolio.

Q What risk controls do you have in place? How are portfolio risks monitored?

Neuberg: Risk management is built into our portfolio construction process. We have rigid constraints on position size, industry group weights, and position count. All of these constraints work to help minimize stock specific (non-factor) risks. We also use Bloomberg's and Wilshire's risk models to analyze the aggregate portfolios on a regular basis. We monitor forward beta, value at risk and conduct some scenario analysis. We monitor these values on an absolute and relative basis.

Q What are the most important things investors should know about Convergence?

Abitz: We are built for investors who believe that fundamentals matter. If fundamentally strong companies outperform those with poor and weakening fundamentals, then we are the manager for you. If one believes that market fundamentals matter over the long-term, our strategies better reflect this than ANY long-only manager as there are both winners AND losers over time.

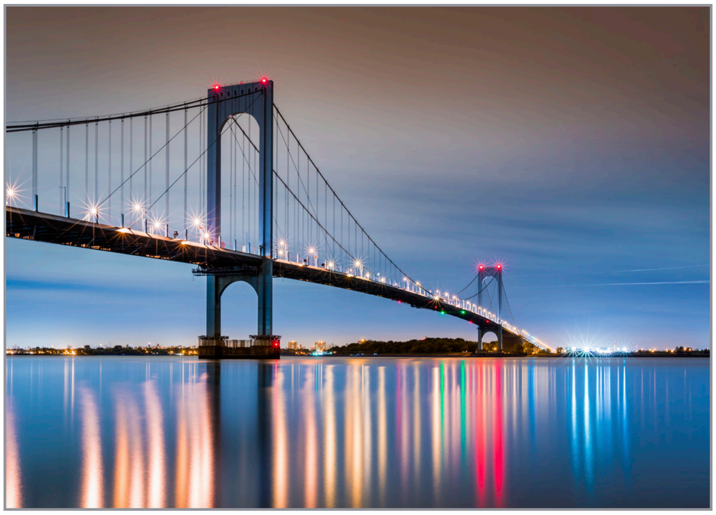
Neuberg: Unlike traditional long-only managers, we provide multiple potential sources of alpha through stock selection, short positions, and factor tilting. Also, our time tested and systematic process is built on the foundation of fundamental experience and is designed to maximize repeatability and consistency while eliminating manager bias and "luck."

Q What are the most important things investors should know when considering the Convergence Market Neutral Strategy?

Abitz: Aside from our returns, both on an absolute level and relative to the broader market, our numbers are lowly correlated to the broader market, making them a very attractive portfolio enhancement. Our market neutral strategy is the purest expression of our long/short process. It is fully focused on a return from the spread between strong and weak company fundamentals. This strategy has been very successful at generating returns that are independent of market direction. In fact since the strategy's inception, we have realized a negative monthly down capture, which means, when the broader U.S. market was down, on average we delivered a positive return. That is what one should expect from a market neutral strategy.

Thanks so much for taking the time to speak with us today.

Abitz: It has been our pleasure. We always welcome the opportunity to talk about Convergence and our products. We are very passionate about our style of investing and strive for excellence in everything that we do.



* Source: Wilshire Associates, trailing twelve months ended 12/31/17