

## SMID Cap Value

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03 April 2019

**Shaun Pedersen** Partner and Equity Portfolio Manager  
**Akin Greville, CFA** Managing Director and Business  
Development Manager



## Agenda

**Section one** ..... Wellington Management overview

**Section two** ..... SMID Cap Value

**Section three** ..... Appendix



## Our distinctive strengths

A singular focus on investment management

Long-term perspective of a partnership structure

Comprehensive capabilities

Rigorous proprietary research

Open, collaborative culture

A commitment to bringing the right resources to each client



Our mission is simple: We seek to exceed the investment objectives and service expectations of our clients worldwide.

## Wellington Management today

### Diversified asset base

USD 1,003 billion in client assets under management

42% equity, 40% fixed income, 18% multi-strategy – including ~USD 37 billion in alternatives across all asset classes

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### Global resources

2,500+ employees

775 investment professionals

14 offices with investment and relationship personnel in key financial centers

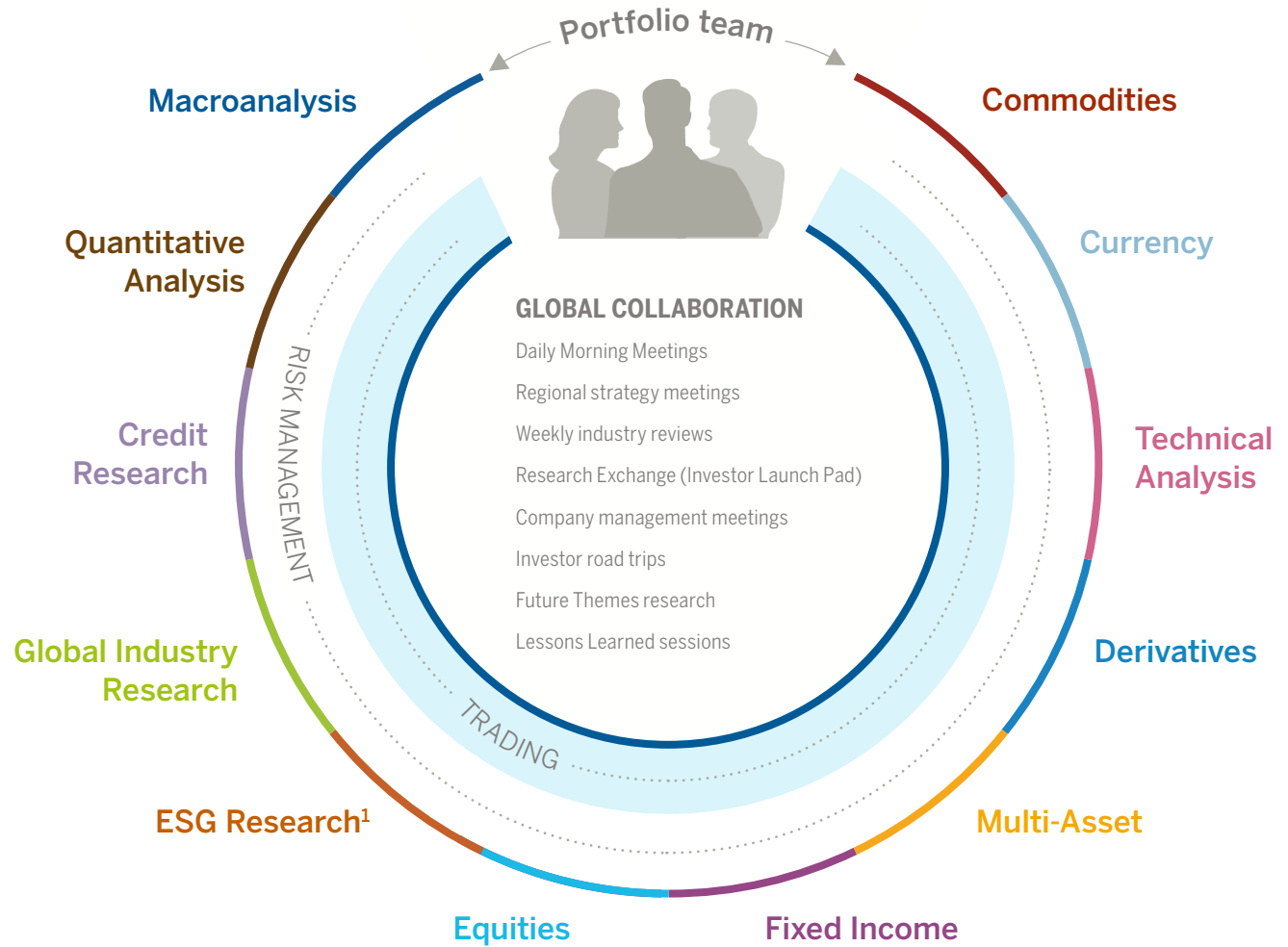
Globally integrated research since 1972



We serve as a trusted adviser and strategic partner to investors worldwide.

## Investors draw on our marketplace of ideas to build portfolios

We believe the best investment thinking is forged by the free exchange of ideas among a broadly diverse group of professionals



<sup>1</sup>Environmental, social, and corporate governance

## Representative client list

### Corporate Retirement Plans

AbbVie Inc.  
Afore Banamex  
Air Canada  
American Electric Power System  
BT Pension Scheme  
Canadian Pacific  
Canada Post Pension Plan  
Cargill, Inc.  
CoINVEST Limited  
Dow Chemical  
General Mills  
Graymont, Inc.  
Hallmark Cards, Inc.  
International Paper Company  
ITV Pension Scheme  
Laerernes Pension  
Medtronic, Inc.  
Merck & Company  
MKS Instruments  
Molson Coors Brewing Company  
Northrop Grumman Corporation  
PG&E Corporation  
Roll Group  
Royal Bank of Canada  
Siemens Corporation  
SPF Beheer  
TELUS  
Textron, Inc.  
TransCanada PipeLines  
United Technologies Corporation

### Insurance (general account assets)

Assured Guaranty Corp.  
Hiscox  
Mortgage Guaranty Insurance Corporation  
UHG

### Endowments, Foundations, and Family Offices

Chicago Symphony Orchestra  
Diocese of Portland  
Jewish Foundation of Greater Toronto  
Massachusetts Institute of Technology  
Mercy Health  
Renaissance Charitable Foundation  
Stanhope Capital  
University of Kentucky  
Wespath Benefits and Investments

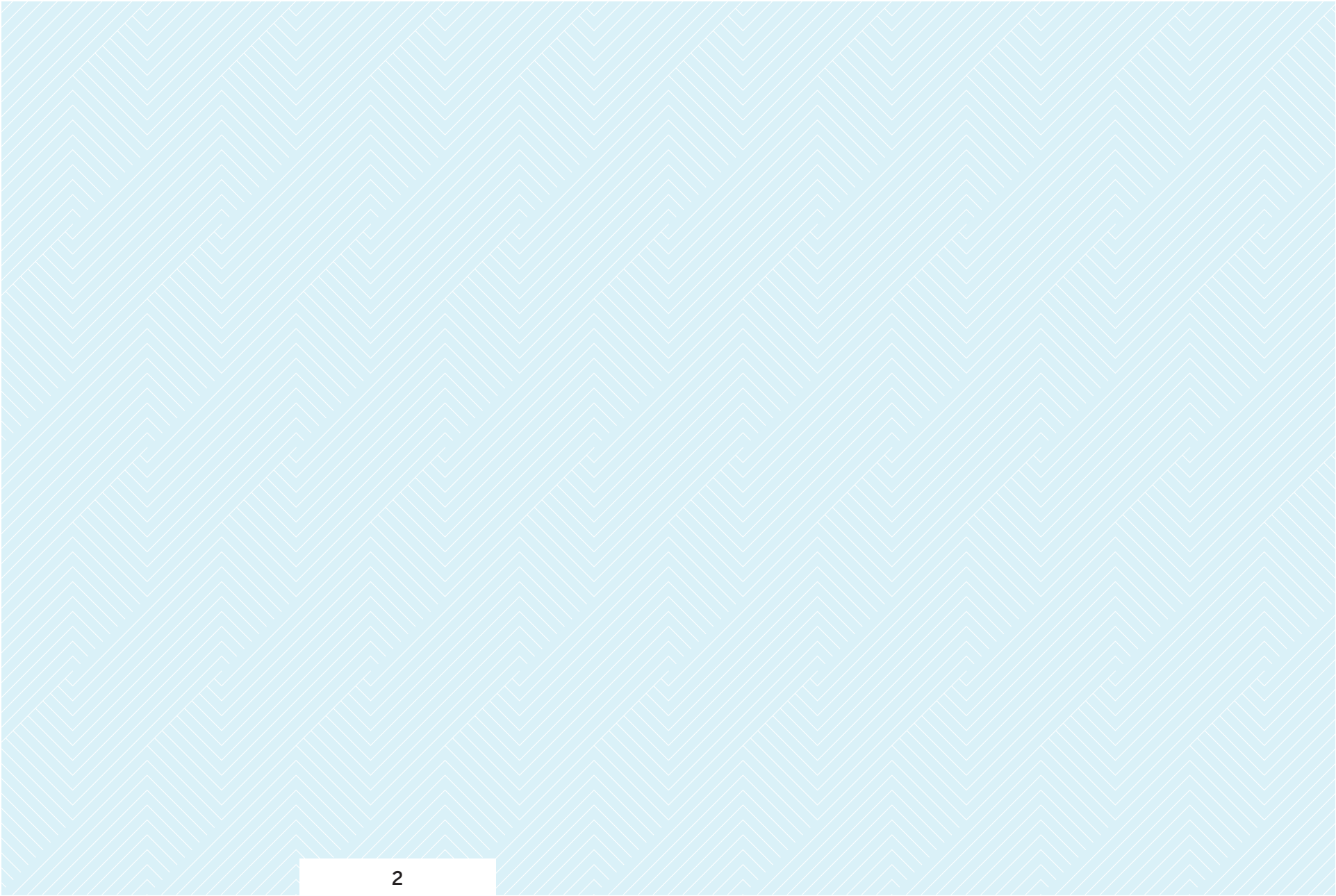
### Public Sector, Sovereign, and Taft-Hartley

Alberta Teachers' Retirement Fund  
British Columbia Investment Management Corporation  
Flintshire County Council  
Government of Bermuda  
Hospital Authority Provident Fund Scheme  
Massachusetts Laborers' Pension Fund  
Mississippi Public Employees Retirement System  
Ohio Carpenters' Pension Fund  
Oklahoma Teachers Retirement System  
Oregon Laborers – Employers Pension Trust Fund  
Retail Employees Superannuation Trust  
State of Oregon  
Treasurer of the State of North Carolina

### Subadvisory Relationships

GAM  
Nikko Asset Management  
UOB Asset Management Ltd  
Vanguard

As of 31 December 2018 | Clients included on the list above were selected based on client type, account size, and/or other nonperformance-based criteria to show a list of representative clients. This list does not represent an endorsement of the firm or its services.





## SMID Cap Value

### Investment team and resources



**Shaun F. Pedersen**  
Senior Managing Director

Equity Portfolio Manager  
Columbia University  
1996, MBA  
28 years of professional experience  
15 years with Wellington Management



**Timothy J. McCormack, CFA**  
Senior Managing Director

Equity Portfolio Manager  
University of Pennsylvania (Wharton)  
1991, MBA  
31 years of professional experience  
18 years with Wellington Management



**Edmond C. Griffin, CFA**  
Managing Director

Equity Research Analyst  
Dartmouth College (Tuck)  
2008, MBA  
17 years of professional experience  
11 years with Wellington Management



**Gardiner R. Holland, CFA**  
Managing Director

Investment Director  
Dartmouth College (Tuck)  
2012, MBA  
10 years of professional experience  
6 years with Wellington Management



**Claire R. Lewis**  
Assistant Vice President

Investment Specialist  
University of Virginia (Darden)  
2016, MBA  
8 years of professional experience  
2 year with Wellington Management

#### 51 Global Industry Analysts

19 years average professional experience  
11 years average with Wellington Management

#### 58 Equity Portfolio Managers

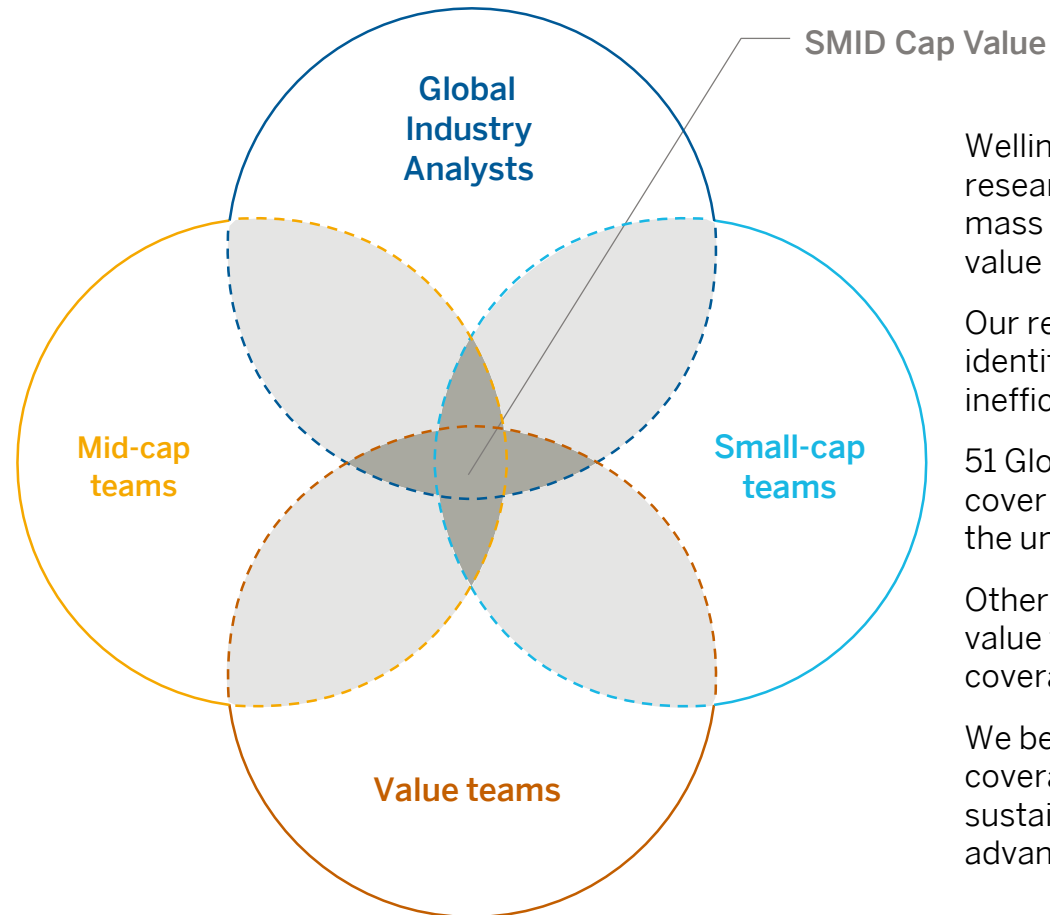
26 years average professional experience  
17 years average with Wellington Management

#### 67 Equity Research Analysts

15 years average professional experience  
8 years average with Wellington Management

## SMID Cap Value

The Wellington Management advantage



Wellington Management research provides the critical mass in the small/mid-cap value area

Our resources enable us to identify investment inefficiencies

51 Global Industry Analysts<sup>1</sup> cover a significant part of the universe

Other small-cap, mid-cap, and value teams provide additional coverage and insight

We believe this level of coverage provides a sustainable competitive advantage

## **SMID Cap Value**

Investment philosophy

### **We believe**

Higher-quality companies trading at a discount have the potential to generate above-average returns with below-average risk over a longer-term investment horizon

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Markets are generally efficient over the long run, but are often inefficient in the short run

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Mispricings often exist

- Where the market is overly focused on short-term data points or events
- In situations driven by change and uncertainty
- In structural areas that receive less investor attention (e.g., small/mid cap)

## **SMID Cap Value**

Investment objective and approach

### **Investment objective**

Seeks long-term total returns in excess of the Russell 2500 Value Index by investing in conservatively-valued securities of high-quality small- and mid-cap companies

### **Investment approach**

Bottom-up stock selection

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Resilient businesses

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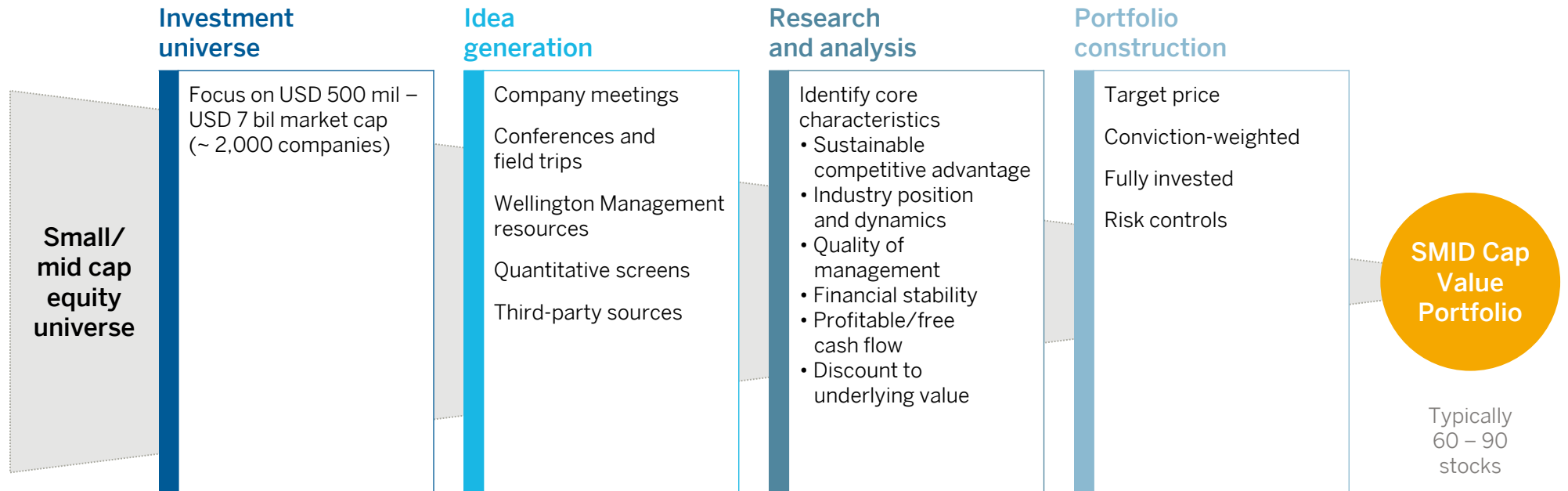
Extended time horizon

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Absolute risk and return framework

## SMID Cap Value

Investment process – Identifying inexpensive, high-quality companies



The characteristics presented are sought during the portfolio management process. Actual experience may not reflect all of these characteristics, or may be outside of stated ranges.



## **SMID Cap Value**

Sell discipline

Price target achieved

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Market capitalization limits

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Better ideas

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Fundamental disappointments

# SMID Cap Value

## Portfolio construction and risk oversight

### Portfolio construction

#### Market cap

Purchase candidates: USD 500 million – USD 7 billion

Eliminate positions over USD 14 billion within three months

#### Industry weights

Typically  $\leq 20\%$  in any one industry

#### Position size

Typical position size: Typically 0.5 – 3.5%, with a maximum of 5%

Number of holdings 60 – 90

#### Valuation

Securities at a discount to their intrinsic value and inexpensive relative to the small/mid-cap market

#### Cash

Typically less than 5%

#### IPOs

Allowed

#### Non-US exposure

Typically  $\leq 15\%$  in non-US securities which may be denominated in currencies other than the USD

### Risk oversight

#### Portfolio management

Conduct in-depth fundamental research

Balance company-specific conviction and risk

Assess portfolio-level diversification

#### Product management

Independent portfolio analysis

Style consistency/factor risks/stress testing

Capacity/business risks

ESG review

#### Investments and risk management

Research and insights on risk and market trends

Risk Advisory Council

Develop new analytics/tools

#### Line management and senior management review groups

Philosophy/process/performance/characteristics

Resource assessment

#### Compliance

Active pre- and post-trade compliance monitoring

The characteristics presented are sought during the portfolio management process. Actual experience may not reflect all of these characteristics, or may be outside of stated ranges.

## SMID Cap Value

### Representative account top ten holdings

As of 28 February 2019

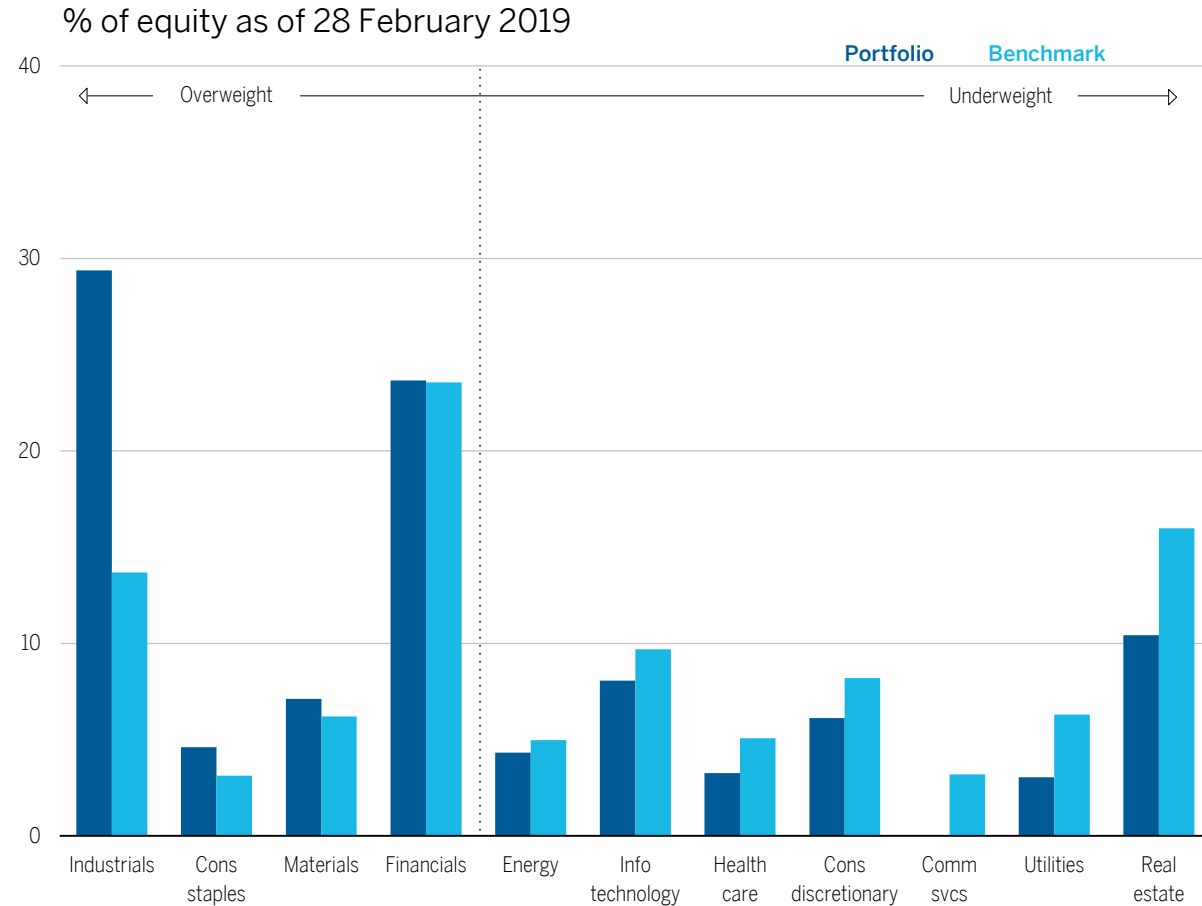
Company	Industry Group	% of equities
TriMas	Capital goods	2.6
Belden	Tech hardware & equip	2.2
Alleghany	Insurance	2.1
White Mountain Ins	Insurance	2.1
Mueller Industries	Capital goods	2.1
WNS Holdings	Software & svcs	2.0
Physicians Realty Tr	Real estate	1.9
Orion Engineered Carbons	Materials	1.8
Alexander & Baldwin	Real estate	1.7
Albany International	Capital goods	1.7
<b>Total</b>		<b>20.2</b>

Number of equity names: 90

Sums may not total due to rounding. | The specific securities identified are not representative of all of the securities purchased, sold, or recommended for clients. It should not be assumed that an investment in the securities identified has been or will be profitable. Actual holdings will vary for each client and there is no guarantee that a particular client's account will hold any or all of the securities listed. | The data shown is of a representative account, is for informational purposes only, is subject to change, and is not indicative of future portfolio characteristics or returns. This supplemental information complements the GIPS® compliant presentation provided in the attachment. Please refer to the Important Disclosures page for additional information.

## SMID Cap Value

### Representative account sector weights



Benchmark: Russell 2500 Value. | The data shown is of a representative account, is for informational purposes only, is subject to change, and is not indicative of future portfolio characteristics or returns. This supplemental information complements the GIPS® compliant presentation provided in the attachment. Please refer to the Important Disclosures page for additional information.

## SMID Cap Value

### Representative account characteristics

As of 28 February 2019

	Portfolio	Benchmark
<b>Size</b>		
Asset-weighted market cap (USD, bil)	3.0	4.9
Median market cap (USD, bil)	1.9	1.1
Over USD 10 bil (%)	3	9
USD 5 – 10 bil (%)	13	35
USD 2 – 5 bil (%)	36	35
USD 1 – 2 bil (%)	32	12
Under USD 1 bil (%)	16	9
<b>Valuation</b>		
Projected EPS growth (5-yr, %)	10.5	10.2
Historical EPS growth (5-yr, %)	9.7	6.8
Average ROE (5-yr, %)	9.1	9.0
Projected P/E (x)	13.2	13.0
Price/book (x)	1.8	1.6
Yield (%)	1.8	2.4
<b>Risk</b>		
Historical beta (3-yr, USD)	1.04	
Historical R <sup>2</sup> (3-yr, USD)	0.95	
Historical tracking risk (3-yr, USD, %)	3.45	
Asset turnover (1-yr, %)	23	

Benchmark: Russell 2500 Value | Sums may not total due to rounding. | If access products are held by the portfolio they may not be included in the calculation of characteristic data. Access products are instruments used to gain access to equity markets not otherwise available and may include (but are not limited to) instruments such as warrants, total return swaps, p-notes, or zero strike options. | The data shown is of a representative account, is for informational purposes only, is subject to change, and is not indicative of future portfolio characteristics or returns. Portfolio characteristics are based on the underlying holdings of the representative account and are subject to change. This data may be sourced internally or externally depending on the specific approach, availability of internal data, underlying holdings characteristics, and other factors. Projected or forward looking characteristics are based on a number of assumptions and the use of alternative assumptions could yield significantly different results. Additional information on this data is available upon request. | Historical performance based risk characteristics are based upon composite data rather than representative account. | This supplemental information complements the GIPS® compliant presentation provided in the attachment. Please refer to the Important Disclosures page for additional information.



## SMID Cap Value

### Investment returns

As of 28 February 2019 (% , USD)

	3 mos	1 yr	3 yrs	5 yrs	10 yrs	Since inception
<b>SMID Cap Value Composite (gross)</b>	<b>2.4</b>	<b>8.5</b>	<b>12.0</b>	<b>8.3</b>	<b>17.8</b>	<b>11.0</b>
Russell 2500 Value	2.0	4.4	13.5	6.6	16.2	8.2
Active return (gross vs benchmark)	0.5	4.1	-1.5	1.7	1.6	2.8

	YTD	2018	2017	2016	2015	2014
<b>SMID Cap Value Composite (gross)</b>	<b>14.8</b>	<b>-8.4</b>	<b>4.4</b>	<b>23.4</b>	<b>-0.4</b>	<b>11.1</b>
Russell 2500 Value	14.6	-12.4	10.4	25.2	-5.5	7.1
Active return (gross vs benchmark)	0.2	3.9	-6.0	-1.8	5.1	4.0

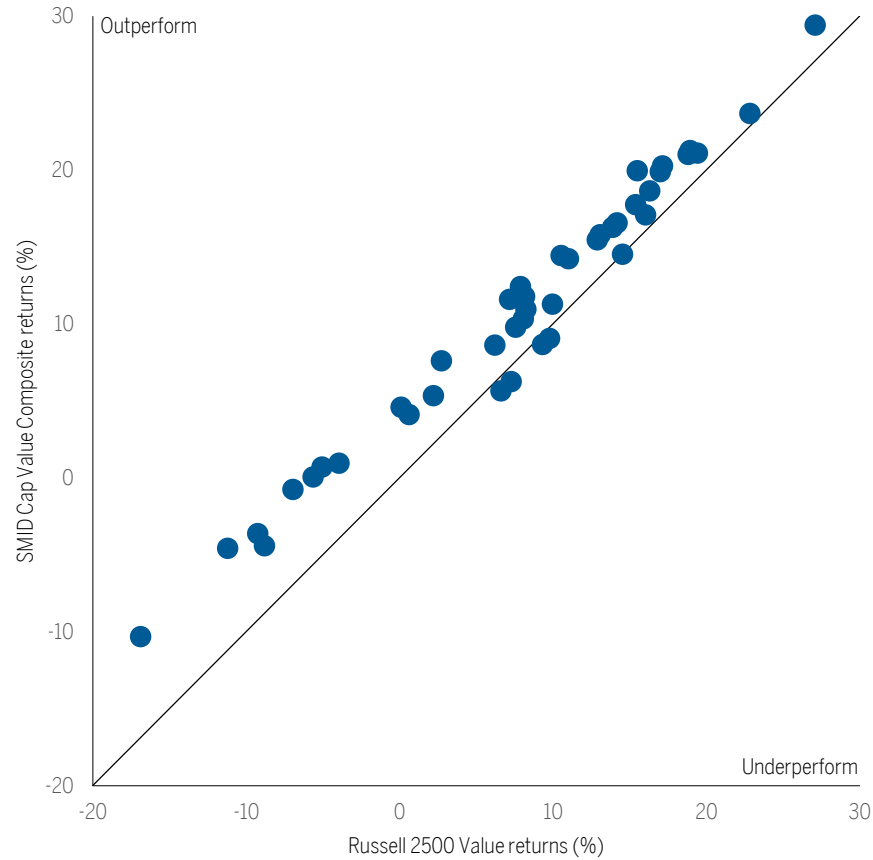
	2013	2012	2011	2010	2009
<b>SMID Cap Value Composite (gross)</b>	<b>35.4</b>	<b>18.0</b>	<b>2.1</b>	<b>27.7</b>	<b>32.4</b>
Russell 2500 Value	33.3	19.2	-3.4	24.8	27.7
Active return (gross vs benchmark)	2.1	-1.2	5.5	2.9	4.7

The inception date of the SMID Cap Value Composite is 30 April 2005. | Sums may not total due to rounding. | Performance returns for periods one year or less are not annualized. | **PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS AND AN INVESTMENT CAN LOSE VALUE.** Gross performance results are net of commissions and other direct expenses, but before (gross of) advisory fees, custody charges, withholding taxes, and other indirect expenses, and include reinvestment of dividends and other earnings. If all expenses were reflected, the performance shown would be lower. Actual fees will vary depending on, among other things, the applicable fee schedule and account size. Composite returns have the potential to be adjusted until reviewed and finalized 30 days following each calendar quarter end period. For use in one-on-one presentations only. This supplemental information complements the GIPS® compliant presentation provided in the attachment. Please refer to the Important Disclosures page for additional information.

## SMID Cap Value

### Consistent historical performance

3-year annualized gross returns, rolling quarterly,  
30 April 2005 to 31 December 2018 (USD)



Performance displayed since 30 April 2005 represents the inception date of the composite. | **PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS AND AN INVESTMENT CAN LOSE VALUE.** Gross performance results are net of commissions and other direct expenses, but before (gross of) advisory fees, custody charges, withholding taxes, and other indirect expenses, and include reinvestment of dividends and other earnings. If all expenses were reflected, the performance shown would be lower. Actual fees will vary depending on, among other things, the applicable fee schedule and account size. Composite returns have the potential to be adjusted until reviewed and finalized 30 days following each calendar quarter end period. For use in one-on-one presentations only. This supplemental information complements the GIPS® compliant presentation provided in the attachment. Please refer to the Important Disclosures page for additional information.

## Distinguishing characteristics

### Team

- Experienced and stable investment team
- 

### Philosophy

- Primary focus on business quality and conservative valuation
- 

### Approach

- Long-term investment horizon
- 

### Resources

- Access to broader Wellington Management research and firm resources



## SMID Cap Value

### Separate account investment management fee schedule

	<b>Assets under management</b>	<b>Annual fee</b>
On the first	USD 25 million	0.90%
On the next	25	0.80
Over	50	0.70
	<b>Minimum account size</b>	<b>Minimum annual fee</b>
Separate account	USD 25 million	USD 225,000

Fee changes are not anticipated at this time, but could occur in the future.



## SMID Cap Value

### Separate account investment management fee schedule

	<b>Annual fee</b>
Base fee	0.35%
Participation rate	20%

	<b>Minimum account size</b>
Separate account	USD 50 million

The participation rate will be applied to alpha net of the base fee. Measurement of the participation rate will be over a three year period, with no high water mark, and an alpha cap of 5%. This is a custom fee for Fresno County Employees Retirement Association.

## Our diversity and inclusion strategy

Global Diversity Committee

Upstanders

Director, Global Diversity  
and Inclusion

12 Diversity Business Networks with  
regional chapters and one EMEA  
Business Network Council

15 External Diversity Associations

Partnered with more than 100  
US-based diverse suppliers

Grants with 165 organizations in  
11 geographies since 1992



As of February 2018

As a global asset management firm, we believe that diversity and inclusion enable us to deliver better investment results and innovative solutions for clients.

## What is our philosophy?

We believe there are four competitive advantages to having a globally diverse and inclusive firm



Enhances our ability to **understand clients' goals** and needs



Attracts, develops, and retains **exceptional talent** around the world



Introduces **new perspectives** and fosters constructive debate

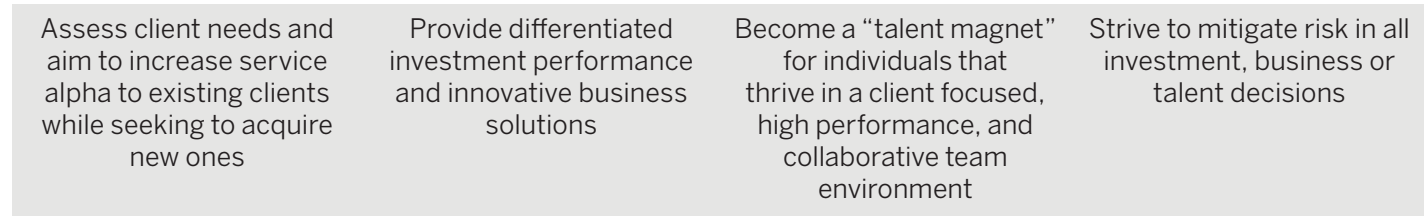


Strengthens our ability to **adapt and innovate** in a complex global market

### DIFFERENTIATED APPROACH



### OUTCOMES



<sup>1</sup>Including a Global Diversity Committee, 12 business networks with regional chapters, and a director of Global Diversity and Inclusion | Updated in February 2018

## SMID Cap Value

### Investment risks

#### PRINCIPAL RISKS

**Common Stock Risk** – Common stock are subject to many factors, including economic conditions, government regulations, market sentiment, local and international political events, and environmental and technological issues as well as the profitability and viability of the individual company. Equity security prices may decline as a result of adverse changes in these factors, and there is no assurance that a portfolio manager will be able to predict these changes. Some equity markets are more volatile than others and may present higher risks of loss. Common stock represents an equity or ownership interest in an issuer.

**Concentration Risk** – Concentration risk is the risk of amplified losses that may occur from having a large percentage of your investments in a particular security, issuer, industry, or country. The investments may move in the same direction in reaction to the conditions of the industries, sectors, countries and regions of investment, and a single security or issuer could have a significant impact on the portfolio's risk and returns.

**Smaller Capitalization Stock Risk** – The share prices of small and mid-cap companies may exhibit greater volatility than the share prices of larger capitalization companies. In addition, shares of small and mid-cap companies are often less liquid than larger capitalization companies.

#### ADDITIONAL RISKS

**Derivatives Risk** – Derivatives can be volatile and involve various degrees of risk. The value of derivative instruments may be affected by changes in overall market movements, the business or financial condition of specific companies, index volatility, changes in interest rates, or factors affecting a particular industry or region. Derivative instruments may provide more market exposure than the money paid or deposited when the transaction is entered into. As a result, a relatively small adverse market movement can not only result in the loss of the entire investment, but may also expose a portfolio to the possibility of a loss exceeding the original amount invested. Derivatives may also be imperfectly correlated with the underlying securities or indices it represents, and may be subject to additional liquidity and counterparty risk. Examples include futures, options and swaps.

## Important disclosures

### **Additional performance information**

**Past results are not necessarily indicative of future results.** There can be no assurance nor should it be assumed that future investment performance of any strategy will conform to any performance examples set forth in this material or that the portfolio's underlying investments will be able to avoid losses. The investment results and any portfolio compositions set forth in this material are provided for illustrative purposes only and may not be indicative of the future investment results or future portfolio composition. The composition, size of, and risks associated with an investment in the strategy may differ substantially from the examples set forth in this material. An investment can lose value.

### **Impact of fees**

Illustration of impact of fees: If USD100,000 was invested and experienced a 10% annual return compounded monthly for ten years, its ending value, without giving effect to the deduction of advisory fees, would be USD270,704 with an annualized compounded return of 10.47%. If an advisory fee of 0.95% of average net assets per year were deducted monthly for the ten-year period, the annualized compounded return would be 9.43% and the ending USD value would be USD246,355. Information regarding the firm's advisory fees is available upon request.

### **Selection of representative account**

The current representative account became effective on 1 October 2007 because it was the least restrictive account at the time of selection. For data shown prior to the current representative account effective date, data of the representative account(s) deemed appropriate for the time period was used. Further information regarding former representative accounts can be provided upon request. Each client account is individually managed; individual holdings will vary for each account and there is no guarantee that a particular account will have the same characteristics as described. Actual results may vary for each client due to specific client guidelines, holdings, and other factors. In limited circumstances, the designated representative account may have changed over time, for reasons including, but not limited to, account termination, imposition of significant investment restrictions, or material asset size fluctuations.

### **Access products**

If access products are held by the portfolio they may not be included in the calculation of characteristic data. Access products are instruments used to gain access to equity markets not otherwise available and may include (but are not limited to) instruments such as warrants, total return swaps, p-notes, or zero strike options.

### **Global Industry Classification Standard (GICS) changes**

S&P Dow Jones Indices and MSCI have broadened and renamed the Telecommunication Services Sector as Communication Services to include companies that facilitate communication and offer related content and information through various media. These changes to Global Industry Classification Standard (GICS) are effective as of 1 October 2018 in the data shown. The new sector name applies retroactively and therefore Communication Services will replace Telecommunications Services for all periods. Wellington Management data reflects changes in line with the official GICS update; however, MSCI and S&P have elected to update their official index structures with different timing. Therefore, index data shown may differ from data obtained directly from the index vendors.

### **Benchmark definition**

Russell 2500 Value: The Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500 Index companies with lower price-to-book ratios and lower forecasted growth values.



**Wellington Management**  
**Composite: SMID Cap Value**  
**Schedule of Performance Returns from 01 January 2009 to 31 December 2018**

<i>Period</i>	<i>Gross Return (%)</i>	<i>Net Return (%)</i>	<i>Benchmark Return (%)</i>	<i>Number of Portfolios</i>	<i>Internal Dispersion (%)</i>	<i>Composite Mkt. Value (USD Mil)</i>	<i>Total Firm Assets (USD Mil)</i>
2009	32.40	31.24	27.67	< 6	N/M	240	537,384
2010	27.71	26.59	24.82	< 6	N/M	276	633,922
2011	2.13	1.22	-3.36	7	N/M	388	651,496
2012	18.05	17.00	19.21	8	0.1	512	757,903
2013	35.43	34.24	33.32	11	0.2	1,156	834,441
2014	11.12	10.13	7.11	12	0.2	1,124	914,109
2015	-0.35	-1.25	-5.49	10	0.2	1,048	926,949
2016	23.38	22.29	25.20	14	0.6	1,078	979,210
2017	4.40	3.47	10.36	15	0.3	1,263	1,080,307
2018	-8.42	-9.25	-12.36	16	0.5	1,090	1,003,389

Benchmark: Russell 2500 Value

*N/M: For years where there are less than six portfolios throughout the performance period, Internal Dispersion is not meaningful.*

**Composite Description:** Portfolios included in the SMID Cap Value Composite seek to achieve long-term total returns in excess of the Russell 2500 Value Index by investing in conservatively-valued securities of high quality small and mid cap companies. We employ a bottom-up stock selection process that utilizes Wellington Management's proprietary, fundamental research to identify undervalued companies that have the potential for significant longer-term rewards.

**Composite Creation Date:** The composite creation date is May 2005.

**Composite Membership:** All fully discretionary, fee paying portfolios are eligible for inclusion in the composite.

**Fee Schedule:** The institutional separate account fee schedule for this product is:

<u>Market Value</u>	<u>Annual Fee</u>
On the first US\$25 million	0.90%
On the next US\$25 million	0.80
Over US\$50 million	0.70

**Benchmark Definition:** Russell 2500 Value measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500 Index companies with lower price-to-book ratios and lower forecasted growth values.

**Firm:** For purposes of GIPS® compliance, the Firm is defined as all portfolios managed by Wellington Management Company LLP, an independently owned, SEC-registered investment adviser, as well as its affiliates (collectively, Wellington Management). Wellington Management provides investment advisory services to institutions around the world.

**GIPS®:** Wellington Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Wellington Management has been independently verified for the periods 1 January 1993 to 31 December 2017. The verification reports are available upon request. 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.

**Performance Calculation:** Gross performance results are net of trading expenses. Returns are gross of withholding taxes on dividends, interest and capital gains. Returns, market values, and assets are reported in USD except when otherwise noted. Returns, market values and assets reported in currencies other than USD are calculated by converting the USD monthly return and assets using the appropriate exchange rate (official 4:00 p.m. London closing spot rates). Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

Net of fees performance reflects the deduction of the highest tier investment management fee ("model fee") that would be charged based on the fee schedule appropriate to you for this mandate, without the benefit of breakpoints and is calculated by subtracting 1/12th of the model fee from monthly gross composite returns. In certain instances Wellington Management may charge certain clients a fee in excess of the standard model fee, such as to legacy clients or clients receiving additional investment services. Performance net of model fees is intended to provide the most appropriate example of the impact management fees would have for you.

Pool investors will experience costs in excess of investment management fees, such as operating expenses and custodial fees. These indirect costs are not reflected in the model fee, or net of fees performance.

**Internal Dispersion:** The dispersion measure presented is the asset-weighted standard deviation. The asset-weighted standard deviation measures the dispersion of individual portfolio returns relative to the asset-weighted composite return. Only portfolios that have been included in the composite for the full period are included in the standard deviation calculation. Limitations imposed by client guidelines or by law on a portfolio's ability to invest in certain securities or instruments, such as IPO securities, and/or implementation of the firm's Trade Allocation Policies and Procedures, may cause the portfolio's performance to differ from that of the composite.

**Wellington Management**  
**Composite: SMID Cap Value**  
**Schedule of Performance Returns from 01 January 2009 to 31 December 2018**

**External Dispersion:** The dispersion measure presented is the three-year annualized ex-post standard deviation. It measures the variability of the composite and the benchmark(s) over the preceding 36-month period. For periods prior to 1 January 2011, the Firm was not required to present the three-year annualized ex-post standard deviation.

<i>3-Year Standard Deviation (%)</i>		
<i>Year</i>	<i>Composite</i>	<i>Benchmark</i>
2011	22.10	24.23
2012	17.75	18.41
2013	15.23	15.07
2014	11.84	11.25
2015	13	12.02
2016	14.09	13.17
2017	12.77	11.81
2018	14.38	13.58

**Composite Listing:** Wellington Management's list of composite descriptions is available upon request.

**Other Matters:** This material contains summary information regarding the investment approach described herein and is not a complete description of the investment objectives, policies, guidelines, or portfolio management and research that supports this investment approach. Any decision to engage Wellington Management should be based upon a review of the terms of the investment management agreement and the specific investment objectives, policies, and guidelines that apply under the terms of such agreement.

**Past Performance:** Past results are not necessarily indicative of future results and an investment can lose value.

## Important Notice

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# SMID Cap Value

As of 31 December 2018

## INVESTMENT OBJECTIVE

Our investment objective is to seek long-term total returns in excess of the Russell 2500 Value Index by investing in conservatively-valued securities of high-quality small- and mid-cap companies. We employ a bottom-up stock selection process that utilizes Wellington Management's proprietary, fundamental research to identify undervalued companies that have the potential for significant longer-term rewards.

## INVESTMENT PROFESSIONALS

The SMID Cap Value Team includes Equity Portfolio Managers Shaun Pedersen and Timothy McCormack and Equity Research Analyst Edmond Griffin. They are supported by the full breadth of Wellington Management's research, trading, and administrative resources. Gardiner Holland serves as the Investment Director on the approach and supports the team with portfolio-level analysis.

Name	Function	Title	Degree	Prof Exp	WMC Exp
Shaun F. Pedersen	Equity Portfolio Manager	SMD	MBA	28	15
Timothy J. McCormack, CFA	Equity Portfolio Manager	SMD	MBA	31	18
Edmond C. Griffin, CFA	Equity Research Analyst	MD	MBA	17	11
Gardiner R. Holland, CFA	Investment Director	MD	MBA	10	6
51 Global Industry Analysts	Global Industry Analyst			19 <sup>1</sup>	11 <sup>1</sup>

<sup>1</sup>Years of experience for groups are averages.

## INVESTMENT PROCESS

We believe that focusing on individual stock selection and taking a long-term timeframe are the most predictable ways to identify mispricings and generate strong returns. Backed by Wellington Management's large and experienced research resources, we have a competitive advantage in investing in small- and mid-cap stocks selling at modest valuation levels. Despite the significant number of stocks within these segments, there is less investment research in these areas, thus making them the least efficient segments of the US market.

The SMID Cap Value approach focuses on high-quality companies with a proven record of above-average rates of profitability that sell at a discount relative to the overall small- and mid-cap markets. We believe that a company with a history of an above-average rate of profitability is likely to have a strong and sustainable competitive position within a market niche. These companies typically generate strong cash flows that can be used to build the value of the business or in some other way to benefit the shareholders (e.g., share repurchase, dividends, etc.).

The typical market capitalization for new investments is between US\$500 million and US\$5 billion. These stocks are reviewed for certain financial and valuation criteria that correspond with our investment process and philosophy. Companies whose market capitalizations fall outside the market capitalization range after purchase continue to be eligible holdings for the portfolio, and the team may make additional purchases of those companies' securities.

Companies with financial structures that are more conservative than their industry average and have longer histories of attractive operating performance as public companies are given priority for further research. In our research efforts, we seek to understand the dynamics of the industry in which the company operates. This includes the factors that have enabled the company to earn above-average rates of return, and the sustainability of those factors. The

quality of the management, strategic direction, and expectations with regards to the use of current and future cash flows are also integral components of the valuation process.

There are four primary reasons that a stock will be sold. First, stocks will be sold if the price exceeds our analysis of the company's fair value. We may also sell a stock when we believe the company is losing its competitive advantage or when the industry appears to be changing in a negative manner. Finally, stocks will generally be sold within three months if their market cap exceeds US\$10 billion. This threshold may vary over time based on market movements.

### PORTFOLIO CHARACTERISTICS

The foundation of our investment process is bottom-up stock selection, and we expect our performance to be primarily an outcome of this process. We do incorporate a few portfolio construction guidelines as well to help manage risk:

The portfolio is well-diversified. Typically, no more than 20% of the portfolio will be invested in any one industry. This threshold may be exceeded when deemed appropriate by the portfolio managers or if the index industry weight exceeds this level. Holdings are expected to range from 60 – 90. Positions generally range from 0.5% – 3.5% at purchase, and are conviction-weighted; historically, the top ten holdings have generally ranged from 20% – 25% of the portfolio's weight. Typically, no single position will be greater than 5% of the portfolio at market. Index representation is not a factor in determining permissible investments. Therefore, the portfolio may hold significant positions in, or a significant portion of portfolio assets may be invested in, securities that are not included in the index. Typically, the portfolio will have ≤ 15% exposure in non-US securities which may be denominated in currencies other than the US dollar. Cash is expected to be less than 5%.

While not formal guidelines, the portfolio is expected to have a lower P/E ratio and other value-oriented characteristics relative to the overall small- and mid-cap markets. The return on equity is typically higher than the small- and mid-cap value indexes, consistent with the high-quality focus.

### ACCOUNT MINIMUMS

Generally, the minimum assets required for a separately managed SMID Cap Value Portfolio are US\$25 million. Based on this requirement, the minimum annual fee for a separately managed account is US\$225,000. Commingled vehicles may be available for this approach; fees and account minimums vary by vehicle.

### FEE SCHEDULE

The institutional separate account fee schedule for this product is:

Market Value	Annual Fee <sup>1</sup>
On the first US\$25 million	0.90%
On the next US\$25 million	0.80
Over US\$50 million	0.70

<sup>1</sup>Fee changes are not anticipated at this time, but could occur in the future. The fees referenced above represent our separate account fee schedule. Fee schedules may vary based upon the availability of commingled vehicles and qualification of the investment.

The product is currently closed to new accounts greater than US\$50 million, but is open to new opportunities below that threshold.

## DISCLOSURE

The characteristics presented are sought during the portfolio management process. Actual experience may not reflect all of these characteristics or may be outside of stated ranges.

## CONSIDER THE RISKS

All investing involves risk. If an investor is in any doubt as to the suitability of an investment, they should consult an independent financial advisor.

**Risk to Capital:** Investment markets are subject to economic, regulatory, market sentiment and political risks. All investors should consider the risks that may impact their capital, before investing. The value of your investment may become worth more or less than at the time of the original investment.

**Manager Risks:** Investment performance depends on the investment management team and their investment strategies. If the strategies do not perform as expected, if opportunities to implement them do not arise, or if the team does not implement its investment strategies successfully; then a strategy may underperform or experience losses.

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