Verus

PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS

OCTOBER 17, 2018

FCERA Due Diligence Policy Review and Update

VERUSINVESTMENTS.COM

SEATTLE 206-622-3700
LOS ANGELES 310-297-1777
SAN FRANCISCO 415-362-3484

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FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (FCERA)

DUE DILIGENCE POLICY

I. INTRODUCTION

1. The Board of Retirement of FCERA (the "Board") recognizes and affirms its constitutional and statutory fiduciary duty to prudently administer the retirement system for the exclusive benefit of the members and their beneficiaries. Prudent administration requires the Board to ensure effective due diligence processes are in place with respect to existing and prospective service providers.

2. Due diligence shall be defined as those activities undertaken by FCERA or by agents of FCERA to determine:

   a) The suitability of prospective FCERA service providers;
   b) The continued suitability of current FCERA service providers;
   c) The accuracy of information provided, and/or claims made, by current or prospective service providers about their services, capabilities, or other factors which may influence FCERA's decision to retain the service provider; or
   d) Changes in the service provider's personnel, ownership structure, strategies, or other attributes, which may affect the suitability of a service provider in the future.

3. All due diligence activities shall be conducted in compliance with the Brown Act, not-including confidential or proprietary information deemed to be protected, which will be retained by the FCERA service providers.

II. PURPOSE

1. This policy is intended to be the primary document that articulates the Board's due diligence function.

III. GUIDELINES

1. General Due Diligence Provisions

   a) The Retirement Administrator shall be responsible for performing or causing to be performed all necessary due diligence activities in connection with current or prospective service providers in accordance with the policies of this Board.

   b) The Retirement Administrator shall ensure due diligence activities of FCERA are consistent with industry best practices for funds similar in size as FCERA, or, where feasible, exceed the practices of such funds. Due Diligence activities may include, and are not limited to:

i. Analysis of performance records, financial statements, technical standards and practices, and advisor reports filed with federal and state governments;
ii. Meetings and interviews;
iii. Research on industry trends and developments;
iv. On-site due diligence visits; and
v. Third-party evaluations.

c) The Board expects the Retirement Administrator will subject all current and prospective service providers to appropriate levels of due diligence, which reflects the materiality of the service provider relations in question. The Board expects certain types of services providers will be subjected to high levels of scrutiny, including but not limited to:

i. Investment managers
ii. Investment consultant(s)
iii. Actuaries
iv. Custodians
v. External auditors
vi. Attorneys

d) FCERA investments made through general partnerships will require prudent, cost effective due diligence at a requisite level which reflects their relatively small weighting within FCERA's portfolio. It is expected FCERA will rely primarily on its investment consultant(s) to perform such due diligence on FCERA's behalf.

e) In determining the most effective and appropriate approaches for due diligence review, the Retirement Administrator will consult with FCERA's investment consultant and financial auditor, or any other advisors or consultants as the Administrator may deem appropriate.

f) The Retirement Administrator is authorized to direct FCERA's investment consultant or financial auditor, or other advisors or consultants as the Administrator may deem appropriate, to conduct independent due diligence evaluations on FCERA's behalf, and to provide written reports of their findings to the Retirement Administrator and/or the Board. Should direction fall outside the scope of the agreement with the consultant or financial auditor, the Retirement Administrator has the authorization to incur additional fees, not to exceed $50,000 per calendar year.

g) Board members will be afforded the opportunity to attend on-site due diligence visits involving current and prospective service providers.

2. Current Service Providers - On-site Due Diligence

a) The Retirement Administrator shall provide the Board an annual due diligence plan for current service providers, which delineate the on-site due diligence visits planned for each year and the parties leading the visits (i.e. staff or advisors). The Retirement Administrator will, in a timely manner, inform the Board of changes within the due diligence plan.

b) On-site due diligence should occur on a three-year rotational basis, covering active managers based upon 1d above, excluding index managers:

   i. Domestic and international equity managers;
   ii. Fixed income, commodities, real estate managers; and
   iii. Other managers which provide reasonable liquidity for redemption.

c) More frequent on-site due diligence visits may be necessary if significant personnel changes, deterioration of investment returns, or unresolved issues relating to the manager, occur between triennial reviews.

d) The Retirement Administrator, with the assistance of the investment consultant, shall be responsible for ensuring detailed procedures are established to construct how due diligence visits are conducted, ensuring the visits are completed in a rigorous, consistent, and systematic manner. These procedures will be provided to Trustees attending the due diligence visits, assisting them in effectively completing their oversight function.

e) The Board believes periodically reviewing its contracts with primary service providers represents good fiduciary practice. The Board further recognizes the issuing of a Request for Proposal (RFP) on a required specified frequency, regardless of the circumstances, may not represent an efficient use of FCERA resources, and may have other unintended consequences. Accordingly, for each of the primary service providers listed below, contracts will be issued for a triennial period with, at the Board's discretion, two additional one-year periods may be issued. The Retirement Administrator will, at least every five years, provide the Board with a recommendation as to whether FCERA should formally review the contracts in question by issuing a RFP, or by initiating other appropriate forms of inquiry:

i. Actuary
ii. Investment Consultant(s)
iii. Outside legal counsel
iv. Custodian
v. Financial auditor.

f) Notwithstanding the above paragraph 5.f, any Board member may recommend to the Board a specific service provider contract be reviewed using an RFP or other appropriate form of inquiry.

3. Prospective Service Providers – Due diligence

a) Due diligence for prospective service providers may include the same processes used for current service providers, in addition to any other processes deemed appropriate by the Retirement Administrator for the following types of prospective service providers:

i. Investment managers
ii. General partners
iii. Investment consultants
iv. Custodians

b) When recommending to the Board the engagement of an investment manager or service provider, the Retirement Administrator shall provide the Board with a description of the conducted due diligence activities, confirming to the Board all FCERA due diligence policies and procedures were adhered.

4. Reporting

Following each due diligence visit, the Retirement Administrator shall provide to the Board, at the next practicable regular Board meeting, a report summarizing the findings and recommendations of the reviewing team. The Administrator shall make any materials obtained during the on-site visit available to Board members and FCERA staff for reference purposes. The Retirement Administrator will report the prior year due diligence activities along with the annual on-site due diligence plan for the following year.

5. Quiet Periods

Upon the Board approving the initiation of a search for new investment managers or service providers, the Board will enter a “quiet period.” Board members are expected to refrain from any direct contact with prospective managers or service providers sought by the search, other than open meeting discussions, open meeting interviews, and on-site visits as described herein. The quiet period will end once a contract is signed or the Board formally cancels a search. These stipulations shall be included in all RFPs. Service providers who fail to honor the quiet-period may be subject to disqualification.

IV. POLICY REVIEW

6. The Board shall review this Due Diligence Policy at least every three (3) years, ensuring it remains relevant and appropriate. This policy may be amended from time to time by a majority of the Board.

V. POLICY HISTORY

The Board of Retirement adopted this policy on August 3, 2005.

The Board of Retirement reviewed and modified this policy on April 4, 2007.

The Board of Retirement reviewed and modified this policy on March 19, 2008.

The Board of Retirement reviewed this policy on August 4, 2010.

The Board of Retirement reviewed and modified this policy on January 15, 2014.

The Board of Retirement reviewed and modified this policy on June 3, 2015.

VI. SECRETARY'S CERTIFICATE

I, Donald C. Kendig, the duly appointed Secretary of the Fresno County Employees' Retirement Association, hereby certify the adoption of this Policy.

June 3, 2015

Date of Action:

By: Retirement Administrator

Memorandum

To: Board of Trustees, Fresno County Employees' Retirement Association
From: Michael Kamell, CFA, CAIA, Consultant
Date: October 17, 2018
RE: Update on Investment Manager On-site Due Diligence

In accordance with FCERA's Due Diligence Policy, Verus is pleased to update the Board regarding ongoing due diligence efforts with respect to FCERA's investment managers.

FCERA's policy is that on-site due diligence should occur on a three-year rotational basis, covering all active managers which provide reasonable liquidity for redemption. Below please find a summary of all completed on-site due diligence, as well as on-site due diligence meetings scheduled for 2019 and forward.

Please note that given we are ahead of schedule and had completed all on-site diligence meetings for current managers during 2016 and 2017, there were no on-site scheduled diligence meetings during 2018. Note that this does not suggest we have not been on-site with these managers, however no formal report was produced or deemed necessary.

A copy of the most recent on-site due diligence report is included for your reference.

Manager	Strategy	Last Onsite Due Diligence	Next Onsite Due Diligence	Location	Comments
PIMCO	EM Debt	4/15/2016	**Q1 2019**	Newport Beach	
Invesco	Core RE	3/2/2016	**Q1 2019**	Dallas	
Invesco	Commodities	3/18/2016	**Q1 2019**	Atlanta	
Systematic	SMID Value	2/25/2016	**Late February 2019**	New Jersey	
AJO	Large Cap Value	6/30/2016	**June 2019**	Philadelphia	
Brandywine	Global Sovereign	4/15/2016	**Q2 2019**	Philadelphia	
Grosvenor	Hedge Funds	7/26/2016	**Q3 2019**	Chicago	
Eaton Vance	Bank Loans	10/4/2016	**Q3-Q4 2019**	Boston	
Loomis Sayles	High Yield	10/5/2016	**Q3-Q4 2019**	Boston	
Western Asset	IG Credit	4/7/2017	2020	Pasadena	
Ifm	Infrastructure	5/24/2017	2020	New York	
Artisan	Int. Growth	5/11/2017	2020	San Franscisco	
Research Affiliates	Fundamental Int'l	4/5/2017	2020	Newport Beach	
Mondrian	Int. Small Cap Value	9/25/2017	2020	U.K.	
Mondrian	EM Value	9/25/2017	2020	U.K.	
Baillie Gifford	Int. Growth	*n/a*	2020-2021	U.K.	Hired 10/2018
PIMCO	StocksPLUS Small	*n/a*	2020-2021	Newport Beach	Hired 2/2018
T Rowe Price	Large Cap Growth	*n/a*	2020-2021	Baltimore	Hired 10/2018
Ivy	Large Cap Growth	2/24/2017	n/a	n/a	Terminated

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PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS

JUNE 12, 2017

Investment Due Diligence Summary

Artisan Partners

Non U.S. Growth Equity

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Date Reviewed: 11 May 2017

Verus Attendees
Marianne Feeley, CFA – Managing Director | Public Equities
Jeffrey MacLean – Chief Executive Officer

Artisan Partners Attendees
Andrew Euretig – Portfolio Manager
Jason Kantor – Health Care Biotechnology Analyst
Herman Leung – Technology Analyst
Eileen Kwei, CFA – Director, Institutional Services

Overview

Asset Class
International Equities

Investment Style
Growth

Firm Ownership
Artisan Partners Limited Partnership and Artisan Partners UK LLP are wholly owned operating subsidiaries of Artisan Partners Holdings LP, an independent investment firm controlled by its general partner Artisan Partners Asset Management Inc. (APAM), a publicly traded company that is controlled by a stockholders committee consisting of three employee partners.

Firm Assets
$103.8 billion as of March 31, 2017

FCERA Mandate
Non-U.S. Growth separate account; $164.4 million as of December 31, 2016

Team Description

The investment team consists of the lead portfolio manager, Mark Yockey, two co-portfolio managers, Charles Hamker and Andrew Euretig, over 10 analysts and a similar group of research associates. Mr. Yockey is based in New York and Messrs. Hamker and Euretig are based in San Francisco. The analyst team is spread across New York, San Francisco and London with a regional analyst based in Singapore. All three portfolio managers and several more tenured analysts have equity ownership, and all team members participate in the revenue-sharing plan.

The three portfolio managers and analysts average about 20 years of investment experience. Each analyst is responsible for one or more sectors or regions. All final investment decisions should be approved by at least two portfolio managers.

Mark Yockey, CFA, Portfolio Manager

Mr. Yockey is a portfolio manager for the Artisan Non- U.S. Growth, Non-U.S. Small-Cap Growth, Global Equity and Global Small-Cap Growth strategies and is based in New York. Prior to joining Artisan in December 1995, Mr. Yockey was the portfolio manager of the United International Growth Fund and was vice president of Waddell & Reed from January 1990 until he joined Artisan. Before assuming responsibility for the United International Growth Fund, Mr. Yockey was an analyst for Waddell & Reed from 1986 through 1989, specializing in the worldwide healthcare industry and international special situations. Prior to joining Waddell & Reed, he was a healthcare analyst for the State of Michigan Retirement Fund for five years. Mr. Yockey holds a BA and an MBA in finance from Michigan State University. Mr. Yockey has earned the Chartered Financial Analyst designation.

Charles Hamker, Portfolio Manager

Mr. Hamker is a portfolio manager for the Artisan Non- U.S. Small-Cap Growth, Global Equity and Global Small-Cap Growth strategies, and a co-portfolio manager for the Artisan Non-U.S. Growth strategy. He also conducts research, primarily focusing on companies within the consumer sector and is based in San Francisco. Prior to joining Artisan Partners in August 2000, Mr. Hamker worked on the European Equities Desk in the New York office of Banque Nationale de Paris. Earlier in his career, he worked in the Paris and London offices of J.P. Morgan. Mr. Hamker holds a bachelor’s degree with a specialization in finance and economics from the European Business School in Paris. He is fluent in French and German.

Andrew Euretig, Portfolio Manager

Mr. Euretig is a portfolio manager for the Artisan Global Equity strategy and a co-portfolio manager for the Artisan Non-U.S. Growth strategy and is based in San Francisco. He also conducts research, primarily focusing on companies within the industrials and utilities sectors. Prior to joining Artisan Partners in June 2005, Mr. Euretig was a graduate student at the University of California at Berkeley. He previously served in the United States Navy as an amphibious operations officer. Mr. Euretig holds a bachelor’s and a master’s degree in business administration from the Haas School of Business at the University of California-Berkeley.

Strategy Description

The Artisan Non-U.S. Growth strategy was launched in 1996 by Mark Yockey. It is a fundamental, bottom-up strategy that invests in companies that have demonstrated an ability to deliver sustainable growth and are trading at attractive valuations. The investment team seeks companies that they perceive to have a strong competitive advantage, superior business model, and are run by high quality management teams. In addition, the team strives to identify major global secular trends or themes that should benefit companies strategically positioned to capitalize on these themes and serve as tail-winds for potential target companies.

The strategy invests in 70-80 companies with market capitalizations greater than $3 billion. The portfolio can hold up to 35% in companies domiciled in emerging markets. The strategy is soft closed as of September 30, 2016.

Process Implementation

The investment process comprises three parts: (1) fundamental bottom-up research to find companies with strong fundamentals and sustainable earnings growth; (2) identification of global trends or themes; and (3) selection of stocks attractively valued relative to peers.

Fundamental research

Idea generation is a long process and is a responsibility of every team member. Ideas are generated through company meetings, conference calls, and conversations with suppliers and competitors. Target companies should have a strong sustainable competitive advantage characterized by a growing or dominant market share, brand strength, pricing power, and/or high barriers to entry. When a new target company is identified, the analysts examine financial statements looking for significant free cash flow, high and improving profit margins and return on equity, and an overall strong financial position. The team also assesses the quality of the management team, their track record, alignment of interests, and look for a clearly communicated business strategy. Analysts always meet with prospective companies prior to investing. The team augments the information it receives from company meetings by gathering research from a variety of other sources including Bloomberg, FactSet, Reuters, sell-side research and industry contacts.

Specific companies are proposed and discussed with the three portfolio managers during the weekly Tuesday morning meeting. The portfolio managers will guide the discussion and suggest any further analysis that may be needed.

Global themes

The investment team seeks to identify and analyze implications of various market and secular themes for companies in different industries and geographies. Long-term investment themes include: changes in demographics in various regions, improving infrastructure, increased air travel, developing technologies and privatization of economic resources. The Artisan team believes that companies positioned to benefit from the current themes are more likely to deliver sustainable earnings growth over the medium- or long-term time horizon.

Valuation

Lastly, a candidate company is valued based on its projected growth rate. This is the crux of Artisan's strategy, i.e., "how much should an investor pay for the growth prospects of a company?" The primary metric used to answer this question is P/E over expected earnings per share (EPS) growth, or PEG ratio. A company with a PEG ratio of 1 or below is considered attractive.

The research process essentially creates a short list of agreed-upon investable companies. If and when the price of the security equals or falls below the value determined to be appropriate, companies on this list would be considered for purchase into the portfolio. As long as a company exhibits sustained growth and a reasonable valuation thereafter, Artisan will continue to hold it until the PEG ratio reaches 2. The firm will quickly exit an underperforming position, especially if it is or has been a bottom contributor.
Artisan manages risk at a security, sector and geographic level. When considering individual securities, Artisan focuses on valuation risk, company management (business risk), and economic/geopolitical risks. The ability to mitigate valuation and business risk comes from insights gained during the fundamental research process. In addition, a maximum 5% position weight is applied to all holdings. The strategy holds 60-90 stocks.

Policy limits exist to address sector and geographic risk. The strategy invests in at least 15 countries. A maximum weight in one country is 30% and a maximum weight in one industry is 25%. These limits allow the strategy the flexibility to benefit from any upside potential that is concentrated in a particular sector/region, while also protecting against overexposure in the case of a sector/region downturn. Lastly, emerging market investments may represent up to 35% of the portfolio. However, the actual allocation has never been above 25%. Similarly to other international strategies, the Artisan strategy has an indirect emerging markets exposure through companies domiciled in developed countries and generating a significant amount of their revenue from emerging markets.

Risk Factors and Potential Red Flags

The Artisan Non-U.S. Growth strategy might be exposed to key man risk with Mr. Yockey, who has been the sole decision maker for the strategy since its inception until 2011. However, in 2011, two analysts, Charles Hamker and Andrew Euretig, were promoted to portfolio managers. Since then, all final investment decisions have been made by the vote of the three portfolio managers. We believe that senior members of the team are well incentivized to stay with Artisan for the long-term. All three portfolio managers have an ownership stake in the firm. They are also required to give a three-year notice of potential departure. We would reevaluate our confidence in the strategy if any of the three were to depart.

Performance

The strategy's beta will typically vary in the 0.8 - 1.1 range. It tends to outperform the benchmark during up and stable markets. Performance in down markets has been mixed, often driven by large country or sector bets or performance of stocks from the same thematic cluster. These results are also reflected in the strategy's upside and downside capture ratios (i.e., 10-year upside/downside ratio is 105/96). Tracking error typically averages 4-8%. It is worth noting that the strategy's performance improved dramatically starting from 2011 when Charles Hamker and Andrew Euretig became co-portfolio managers.

In terms of recent performance, as illustrated in the table below, near-term results for the Non-U.S. growth strategy have been disappointing, with the strategy trailing the benchmark during the latest 1-year period (gross of fees). From inception to date, the product has not added value versus its EAFE benchmark.

Artisan Non-U.S. Growth Performance (as of 4/30/2017)

Description	YTD	1yr	3yr	SI (4/2013)
Artisan	13.3%	5.7%	1.0%	5.0%
MSCI EAFE Index	10.0%	11.3%	0.9%	5.1%

**(returns greater than 1 year are annualized, gross)*

Underperformance during 2016 fell primarily in the fourth quarter (-7.95% versus MSCI EAFE at -0,71%). Stock selection was a particularly large detractor over the fourth quarter, with specific weakness in financials, consumer discretionary, technology, and consumer nondurables.

The portfolio was positioned to favor overly defensive sectors, including consumer staples, and did not have much exposure to cyclical stocks which were favored over the quarter and the year. Andrew Euretig also highlighted that much of the year constituted a risk-on environment that doesn't favor Artisan's quality-oriented style. However, he did acknowledge that there were some issues with stockpicking, and that underperformance should not have been as significant as it was. The team were wrong on several issues driving the market including the improving backdrop for the global economy and commodity markets as well as the impacts of Brexit and the U.S. election.

Among the stocks which detracted, several were in the consumer nondurables sector (Japan Tobacco, Unilever, Nestle) which underperformed in favor of more cyclical investments. In hindsight, the team concede they could have been more disciplined about adhering to their valuation discipline, and has since sold Unilever and pared back its Nestle exposure.

Additional Observations

The investment team has been stable, although there have been two changes in the latest year. Michael Carruthers, telecom and media analyst, retired from the firm in December 2016 after 24 years in the industry, 17 of which were at Artisan. His coverage was assumed within the team by his research associate Jeff Zhu with Mark Yockey supporting from a more senior position. The firm added Nikola Legetic in May 2017. Mr. Legetic has 13 years of investment experience and will have broad coverage including energy, materials, financials and emerging markets. Artisan describes this as an opportunistic hire, rather than to replace Mr. Carruthers. With three portfolio managers and 13 analysts, we see the team as well staffed to cover the research needs of the Non-US Growth, Non-US Small Cap and Global Equity strategies.

During the fourth quarter of 2016, Artisan became more constructive in its growth outlook and began adding to the portfolio's financials exposure, increasing the allocation to 28.5% by the end of first quarter of 2017 (versus 21.3% for MSCI EAFE). Although this exposure is at an historic high for the current market cycle, the Artisan portfolio exhibited a similar allocation during 2004-2006, which marked the last rising rate environment. The financials exposure is diversified, with approximately 8.6 percentage points to banks, 13 percentage points to insurers, and the remainder to capital markets oriented companies. Although there is only one quarter of performance since this change in strategy, the Non-U.S. Growth strategy outperformed the EAFE benchmark by 2.05% in the first quarter of 2017.

In his discussion on stocks, several of Andrew Euretig's examples revolved around M&A activity, governance and activism. He cited Akzo Nobel, a Dutch paintmaker, that was a takeover target this year. Across the firm's products, Artisan Partners firm wide had assembled a significant portion of Akzo shares and took a public stance on the firm's rejection of the takeover bid. Artisan's investment philosophy emphasizes undervalued growth, and the portfolio may hold companies that are the subject of takeover activity. Activism is not a central tenet of the Artisan approach, although the legal team is involved in voting of proxies and vetting any publicly aired views.

We discussed the roles of the three portfolio managers in the decision-making process. In general, Mark Yockey has the greatest influence on overall strategic positioning of the portfolio as guided by bottom-up stock selection. The influence of Charles Hamaker and Andrew Euretig is more significant on individual stock selection decisions; if one of them is uncomfortable with a name, the team will move on to another idea. We see the three individuals as key decision makers for the process, and recognize Mark Yockey as most critical to the investment strategy.

Summary Assessment

The Artisan Non-U.S. Growth product endured a challenging period for performance during 2016. We believe the team has adhered to its philosophy focused on sustainable growth backed by global themes, and also enhanced its discipline on stock valuation. Verus recommends the Artisan Non-U.S. Growth strategy for clients seeking to allocate capital to a fundamental strategy with thematic overlay and attractive up and down market characteristics.

Operational Due Diligence Assessment

Verus' Operations team conducted an Operational Due Diligence assessment of Artisan. The objective of the analysis was to gain a thorough understanding of Artisan's operations, attaining a reasonable assurance that Artisan has sound organizational and governance structures, strong investment processes and procedures, and robust internal controls.

Verus sent Artisan a copy of the Verus Operational Due Diligence Questionnaire ("ODDQ")
The ODDQ focuses on seven main areas:

1. Firm/Fund overview
2. Personnel
3. Key Processes
4. Service Providers
5. Reporting
6. Systems
7. Regulation and Compliance

Verus received the following documents from Artisan:

- 2016 Artisan Partners AT101
- Allocation Policy
- APLP Compliance Program
- APLP – Form ADV Part 1
- Average Trading Volume Comparison
- AP Business Continuity Plan
- Code of Ethics
- Error Correction Statement of Principles
- Fresno County Employees Retirement (FCERA) IMA and Amendment
- GBLE Team Org Chart – Invest Team
- Gifts and Business Entertainment Policy
- Group Affiliates Chart
- Operational Due Diligence Questionnaire
- Order Execution Policy
- Artisan Partner Funds' Prospectus
- Statement of Additional Information
- Trading Counterparty Review Procedures
- Firm Organization Chart

Artisan has passed the operational due diligence assessment. Verus Operations will continue to monitor certain reports and information and will perform additional due diligence as necessary.

Past performance is no guarantee of future results. *The information presented in this report is provided pursuant to the contractual agreement (the "Contract") by and between Fresno County Employees Retirement Association ("Client") and Verus Advisory, Inc. ("Company"). In the event of conflict between the terms of this disclosure and the Contract, the Contract shall take precedence. Client is an institutional counter-party and in no event should the information presented be relied upon by a retail investor.*

The information presented has been prepared by the Company from sources that it believes to be reliable and the Company has exercised all reasonable professional care in preparing the information presented. However, the Company cannot guarantee the accuracy of the information contained therein. The Company shall not be liable to Client or any third party for inaccuracy or in-authenticity of information obtained or received from third parties in the analysis or for any errors or omissions in content.

The information presented does not purport to be all-inclusive nor does it contain all information that the Client may desire for its purposes. The information presented should be read in conjunction with any other material furnished by the Company. The Company will be available, upon request, to discuss the information presented in the report that Client may consider necessary, as well as any information needed to verify the accuracy of the information set forth therein, to the extent Company possesses the same or can acquire it without unreasonable effort or expense. Nothing contained therein is, or should be relied on as, a promise, representation, or guarantee as to future performance or a particular outcome. Even with portfolio diversification, asset allocation, and a long-term approach, investing involves risk of loss that the client should be prepared to bear.

The material may include estimates, outlooks, projections and other "forward-looking statements." Such statements can be identified by the use of terminology such as "believes," "expects," "may," "will," "should," "anticipates," or the negative of any of the foregoing or comparable terminology, or by discussion of strategy, or assumptions such as economic conditions underlying other statements. No assurance can be given that future results described or implied by any forward-looking information will be achieved. Actual events may differ significantly from those presented. Investing entails risks, including possible loss of principal. Risk controls and models do not promise any level of performance or guarantee against loss of principal.

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THAT DRIVE
ENTERPRISE
SUCCESS

MAY, 2017

Investment Due Diligence Summary

IFM Investors

IFM Global Infrastructure Fund

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X	**Verus FL Strategy**
	Verus FL Manager
	Client Requested Review

Date Onsite: May 24, 2017

Verus Attendees

John Wasnock – Associates Director, Private Markets
Jeff MacLean – Chief Executive Officer

Fresno County Attendees

Donald Kendig – Administrator
Nathan Magsig – Board Member
Eulalio Gomez – Board Member
Oscar Garcia – Board Member
Gregory Baxter – Board Member
Laura Basua – Board Member

IFM Attendees

Julio Garcia – Head of Infrastructure, North America
Brooks Kaufmann – Investment Director, Infrastructure
Sebastian Domenech – Director, Asset Managment
Neil Doherty – Vice President, Infrastructure
Ashwin Mathur – Senior Associate, Infrastructure
Jojo Granoff – Executive Director, Global Relationship Group
Dan Kim – Director, Global Relationship Group
David Greenberg – Analyst, Global Relationship Group

Overview

Asset Class

Private Infrastructure

Investment Style

Core

Firm Ownership

IFM Investors Pty Ltd (IFM) is a privately owned investment management company founded in 2004, and headquartered in Melbourne, Victoria. The Firm is wholly owned by Industry Super Holdings, which is owned by 29 Australian pension funds. IFM maintains a separate board of directors and operates as a separate business entity.

Firm Assets

$55 billion.

FCERA Strategy

— IFM Global Infrastructure Fund

Onsite Summary

Met with members of the IFM Infrastructure team onsite in their offices. They moved in early 2015 to 114 West 47th Street in New York. John Wasnock and Jeff MacLean from Verus attended the onsite, along with six members of the Fresno County Employees Retirement Associates Board. We spent about three hours in their offices, talking to eight members of the IFM team. We also toured the floor, meeting several other IFM team members. The meeting was led by Julio Garcia, Head of Infrastructure North America.

Firm Overview

Firm assets now sit at $62 billion, up from approximately $55 billion one year ago. Infrastructure continues to make up the majority of their assets under management at $28 billion, while debt ($19bb), listed equities ($15bb) and private equity ($1bb) comprise the rest. Most of the growth they have seen has been on the infrastructure side. They have added infrastructure debt capabilities, but the equity fund has first right to any deals, so there is no conflicts of interest. Most of their client base remains public fund clients, some Taft-Hartley and some E&F clients.

For investment professional personnel turnover over the last twelve months, IFM has lost only one senior professional, a Director in Australia, who left in November to pursue other opportunities. In the same timeframe, IFM has added two Directors (both asset management), four Associates and six investment analysts. Overall, IFM employees over 300 professionals. Non investment related turnover includes the Global Chief People Officer, whose position was made redundant. IFM has added and Executive Director of Risk and Compliance, and Executive Director of Responsible Investment and a Chief Economist.

Global Infrastructure Fund

The Global Infrastructure Fund focuses on core, developed market only, regulated assets where there is good rule of law. Currently there is $1.5 billion in the queue waiting to be invested. IFM likes to have $3-4 billion in available capital to be able to source any deals with certainty of close if something interesting comes through. Annually, they determine their pipeline of potential deal flow to decide on how much capital to raise. Existing investors have first rights to add capital, than new investors. They believe the open end structure is and advantage in deal sourcing as they are looked at as a partner, not a shorter term financial buyer. Some sellers looking to sell part, but not all of an asset, looking for partners.

The fund currently has $15.9 billion (including undrawn commitments of ~$2bb) and includes 12 core assets. The fund is diversified by sub sector, geography, vintage year and currency. Portfolio leverage is currently at 38% (maximum allowed is 50%).

Assets Update

Indiana Toll Road (ITR) was purchased in late 2015 for $3.3 billion. It was in bankruptcy, purchased from MacQuarie, who purchased prior to GFC and over-levered it. Needed some deferred maintenance, IFM has put $200mm in early to fix problems. They used a new technology to crack the concrete and re-pave, a fix that will last longer (15 years) than patching every year. Initially, IFM hired four technical firms, looking at the pavements, operational costs, tolling equipment and bridge reviews (350 bridges on the road). IFM refinanced the ITR debt into 30-40 year debt package and also sold off 15% of the ITR to reduce fund concentration. The asset has outperformed, generating a 17.7% total return over the last 12 months.

Duquesne, a Pittsburgh electric company was just sold from the portfolio in an opportunistic sale. The offer was well over book holding value, which was why twelve month return was >43%.

In February, 2017 IFM acquired its most recent deal, a 25% stake in VTTI, a portfolio of energy midstream assets. VTTI owns and operates 13 marine terminals on five continents providing import/export and storage infrastructure for oil majors, refiners and commodity marketers. Tanks are mostly gasoline, jet fuel, diesel. Mostly major customers with diverse clients, the assets are on take or pay contracts that extend 3 to 10 years. Expecting an 11-12% gross IRR on the asset.

Colonial Pipeline, the largest oil pipeline in the US, extending from Houston to NY had two incidents over the last 12 months. One was a fatal explosion (2 fatalities) which is currently under investigation by the NTSB. IFM changed the CEO to re-invigorate the safety. Formerly, the safety culture was ok and maintenance records were also ok. The accident involved a sub-contractor and they currently believe operator error may have been the cause.

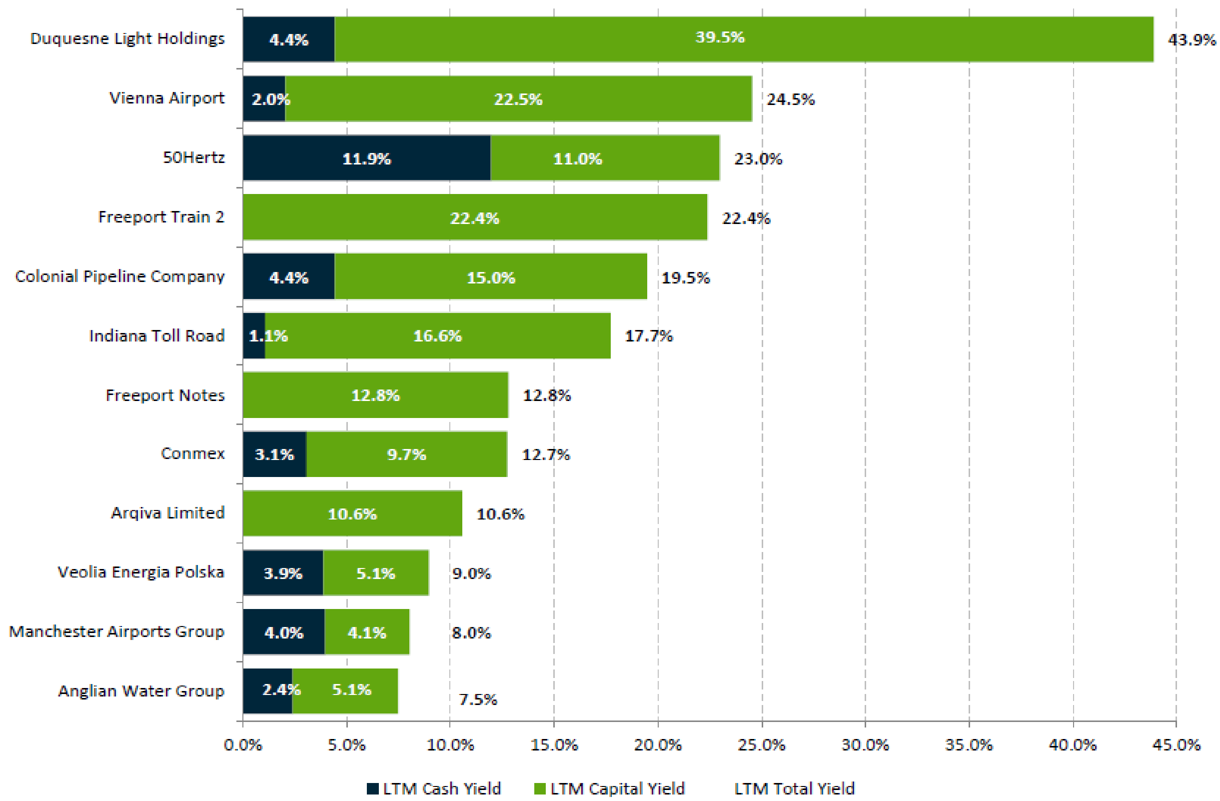
The firm is currently looking for energy midstream to take advantage of low oil prices. Large owners are selling midstream companies. Infrastructure companies/funds are able to take advantage as MLPs have had a harder time raising capital. Like transportation assets now and regulated assets in the US. Regulatory environment is more difficult in Europe now, in a pro-consumer environment.

Performance

Over the last 12 months, the fund has outperformed expectations at the asset level, returning 13.5% in local currency. With the strength of the U.S. dollar, the unhedged share class has returned 9.3%. In 2016, IFM added a USD hedged share class, allowing investors to decide between the two. 58% of US investors elected to convert to the hedged share class, overall 70% of investors use the hedged share class. Individual assets returns have been very strong, ranging between 7.5% and 43.9% over the last twelve months (through 3/31/17). See table on the following page for individual asset performance over the last 12 months:

Long term returns have been within expectations, given the currency headwinds. Over the last seven years, the fund has generated a 7.9% return.

Portfolio company performance – 12 months ended March 31, 2017[1,2]



Conclusion

Even though there have been some continued currency headwinds, the underlying asset level performance has been very strong, given the low inflationary environment and declining energy prices, which have been a headwind to the entire asset class. Verus believes the assets held by these managers will help protect the portfolio should inflation continue to move upwards. IFM remains a focus list strategy at Verus and we do not recommend any manager changes at this time.

Operational Due Diligence Assessment

Verus' Operations team conducted an Operational Due Diligence assessment of IFM Global Infrastructure Fund. The objective of the analysis was to gain a thorough understanding of IFM Global Infrastructure Fund operations, attaining a reasonable assurance that IFM Global Infrastructure Fund has sound organizational and governance structures, strong investment processes and procedures, and robust internal controls.

Verus sent IFM Global Infrastructure Fund a copy of the Verus Operational Due Diligence Questionnaire ("ODDQ")
The ODDQ focuses on seven main areas:

1. Firm/Fund overview
2. Personnel
3. Key Processes
4. Service Providers
5. Reporting
6. Systems
7. Regulation and Compliance

Verus received the following documents from IFM Global Infrastructure Fund:

- Response to Verus' operational due diligence questionnaire
- Infrastructure team biographies
- Business continuity plan summary
- Compliance manual table of contents
- IMF GIF (US) quarterly report
- IFM Global Infrastructure Fund Pitch Book
- Infrastructure (equity) DDQ – Dec 15
- Valuation Policy
- The Code of Conduct

IFM Global Infrastructure Fund has passed the operational due diligence assessment. Verus Operations will continue to monitor certain reports and information and will perform additional due diligence as necessary.

Past performance is no guarantee of future results. *The information presented in this report is provided pursuant to the contractual agreement (the "Contract") by and between Fresno County Employees Retirement Association ("Client") and Verus Advisory, Inc. ("Company"). In the event of conflict between the terms of this disclosure and the Contract, the Contract shall take precedence. Client is an institutional counter-party and in no event should the information presented be relied upon by a retail investor.*

The information presented has been prepared by the Company from sources that it believes to be reliable and the Company has exercised all reasonable professional care in preparing the information presented. However, the Company cannot guarantee the accuracy of the information contained therein. The Company shall not be liable to Client or any third party for inaccuracy or in-authenticity of information obtained or received from third parties in the analysis or for any errors or omissions in content.

The information presented does not purport to be all-inclusive nor does it contain all information that the Client may desire for its purposes. The information presented should be read in conjunction with any other material furnished by the Company. The Company will be available, upon request, to discuss the information presented in the report that Client may consider necessary, as well as any information needed to verify the accuracy of the information set forth therein, to the extent Company possesses the same or can acquire it without unreasonable effort or expense. Nothing contained therein is, or should be relied on as, a promise, representation, or guarantee as to future performance or a particular outcome. Even with portfolio diversification, asset allocation, and a long-term approach, investing involves risk of loss that the client should be prepared to bear.

The material may include estimates, outlooks, projections and other "forward-looking statements." Such statements can be identified by the use of terminology such as "believes," "expects," "may," "will," "should," "anticipates," or the negative of any of the foregoing or comparable terminology, or by discussion of strategy, or assumptions such as economic conditions underlying other statements. No assurance can be given that future results described or implied by any forward-looking information will be achieved. Actual events may differ significantly from those presented. Investing entails risks, including possible loss of principal. Risk controls and models do not promise any level of performance or guarantee against loss of principal.

PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS

APRIL 7, 2017

Investment Due Diligence Summary

Western Asset Management
Investment Grade Credit

VERUSINVESTMENTS.COM

SEATTLE 206-622-3700
LOS ANGELES 310-297-1777
SAN FRANCISCO 415-362-3484

Date Reviewed: 7 April 2017

Verus Attendees
Margaret A. McRae, CFA – Associate Director | Public Markets
Mike Kamell, CFA, CAIA – Consultant

Western Attendees
Frances Coombs – Client Service Executive
Gary Slavin – Consultant Exectuive
Ryan Brist, CFA – Head of Global Investment Grade Credit/Portfolio Manager
Kurt Halvorson, CFA – Trader
Eddie Ma, CFA – Trader
Ivor Schucking – Research Analyst
Rene Ledis – Research Analyst
John Bellows, Ph.D., CFA – Research Analyst/PM

Overview

Asset Class
Investment Grade Fixed Income

Investment Style
Relative Value

Firm Ownership
Subsidiary of Legg Mason, Inc.

Firm Assets
$432.7 billion in AUM as of March 31, 2017 (of which $96 billion is Global Investment Grade Corporates and $19.5 billion in the WA US Investment Grade Credit strategy).

Strategies

— Investment Grade Credit (9/2014 inception) $199.2 million

Onsite Visit Summary

During our onsite meeting on April 7, 2017, we met with Ryan Brist, Kurt Halvorson and Eddie Ma. We were given a brief overview of the firm's fixed income capabilities and where the U.S. Investment Grade Credit team fits within the broader asset management group. We discussed the philosophy and process, global strategy and views within various sectors, such as telecom, retail, banking, and metals and mining industries.

Specific to the FCERA mandate, which is managed in the Conservative Investment Grade composite, we met with lead portfolio manager Mr. Brist and discussed current positioning and credit markets. The health of the credit market in general is relatively sound, with banks and metals and mining sectors exhibiting strength while telecom and retail sectors exhibit weakness. Within specific sectors, Mr. Brist noted that the financial sector is broadly in good shape with many banks having strong capital positions. The mandate has an overweight to financials, with a focus on banks, as of 1Q2017. Within the industrial sector, Mr. Brist was positive on the energy and metals and mining sectors due primarily to their recovery following the recent drop in commodities prices. The team's strategy is to be overweight companies that don't need the money. There is a lot of debt-tendering in the metals industry while other sectors, such as telecom, are issuing lots of debt. Ultimately, the team is currently bullish on banks, metals and mining and energy while maintaining underweights to telecom, healthcare, cable and media.

Finally, we discussed the major themes in the market. Fundamentals remain mixed due to the late cycle indications and heightened expectations surrounding Trump and various economic policies. Technicals remain positive due to the continued inflows into credit assets as low/negative yields persist globally. Valuations are fair as investment grade spreads made an impressive move tighter in 2016.

Team Description

Western Asset Management (WAMCO) utilizes a team-based approach to portfolio management, with investment decisions made collectively following thorough discussions. The US Investment Grade (IG) Credit team is led by Mr. Brist and is a subset of the firm's Global Credit team. Once the firm's broad macro-economic views are developed by the U.S. Broad Strategy Committee, the IG Credit portfolio managers are responsible for setting the strategic direction of their portfolios by establishing a risk budget and sector positioning. The IG Credit team is supported by the firm's sector specialists who are segmented by market sector.

Each of the individuals we met has been with the firm a considerable length of time and demonstrated knowledge and experience in line with expectations. We have no concerns with the investment management team or organization, especially as it relates to the U.S. IG Credit strategy.

KEY INVESTMENT PROFESSIONALS

MICHAEL C. BUCHANAN, CFA, DEPUTY CHIEF INVESTMENT OFFICER

Mr. Buchanan, deputy chief investment officer at Western Asset, joined the Firm in 2005. He previously served as managing director and head of US credit products at Credit Suisse Asset Management and as executive vice president and portfolio manager at Janus Capital Management. He also worked at BlackRock Financial Management as managing director and portfolio manager and at Conseco Capital Management as vice president and portfolio manager. Mr. Buchanan holds the Chartered Financial Analyst designation and graduated with Honors from Brown University. He holds a bachelor's degree in economics.

RYAN K. BRIST, CFA, HEAD OF U.S. INVESTMENT GRADE CREDIT, PORTFOLIO MANAGER

Mr. Brist is Head of US Investment-Grade Credit and Portfolio Manager at Western Asset. He has over 20 years of experience in finance. Before joining the firm in 2009, he served as chief investment officer and portfolio manager at Logan Circle Partners, LP, and co-chief investment officer and senior portfolio manager at Delaware Investment Advisors. Previously, he was vice president of corporate bond trading at Conseco Capital Management and an analyst in corporate finance at Dean Witter Reynolds in the retail products Group. Mr. Brist, who holds the Chartered Financial Analyst designation, received a bachelor of science in finance from Indiana University.

BLANTON KEH, CFA, PORTFOLIO MANAGER

Mr. Keh is a portfolio manager for the firm's Investment Grade Credit strategies; he joined the firm in 2004. Previously, he was a portfolio manager and trader at Bank of America. Mr. Keh earned a bachelor's degree in mechanical engineering from the California State Polytechnic University, a master's in science in mechanical engineering and a MBA from the University of California at Los Angeles. Mr. Keh is a CFA charterholder.

Additional investment professionals

KENNETH J. WINSTON, PH.D., CHIEF RISK OFFICER

Dr. Winston is chief risk officer at Western Asset and has over 26 years of experience. Dr. Winston joined the firm in 2008 after serving for four years as chief risk officer at Morgan Stanley Investment Management. Formerly, Dr. Winston served as senior investment officer at Oppenheimer Funds, Inc.; as principal, risk analysis at Richards & Tierney, Inc., and as principal, director of research and CIO at Balch Hardy Scheinman & Winston, Inc. Dr. Winston holds a bachelor of science and a master of science in mathematics from the California Institute of Technology, and a Ph.D. in mathematics from the Massachusetts Institute of Technology.

Strategy Description

The $199 million U.S. IG Credit fixed income mandate managed on behalf of FCERA utilizes the Bloomberg Barclays U.S. Credit Index benchmark. The strategy incorporates both top-down and bottom-up approaches, emphasizing the firm's macro-thematic viewpoint towards risk taking. The investment team will look to allocate to sectors they identify as offering additional premium relative to other sectors for liquidity and credit risks in addition to actively rotating in and out of those sectors as fundamental and market conditions change.

Portfolio duration and interest rate risk is managed broadly in line with the benchmark at +/- 5%. Target gross excess returns are between 50 and 60 basis points over a full market cycle with ex-ante tracking error of between 100 and 120 basis points. The mandate provides for a fair degree of flexibility from benchmark sector weights and as such may exhibit a higher degree of tracking error relative to the benchmark during periods of increased market volatility. Below-investment grade issues are limited to 5%. The investment team seeks to limit the individual risk contribution from securities by maintaining smaller positions typically less than 2%.

Process Implementation

WAMCO's fixed income philosophy is predicated on the belief that through superior fundamental credit research in combination with accurate relative value analysis excess returns can be achieved. The strategy utilizes both top-down and bottom-up approaches, with an emphasis on fundamental research, and considers a broad opportunity set of fixed income securities (focus on credit). The key differentiator of the strategy is team's macro-economic and fundamental approaches, combined with the ability to tactically allocate between sectors and issuers.

The portfolio construction process begins with the development of the firm's macro-economic viewpoint. These views are developed by the U.S. Broad Strategy Committee comprised of senior portfolio managers and specialists from across the firm. Once the general framework considering the global economy, direction of interest rates and other top-down influences have been determined, the firm's credit portfolio managers seek to identify risk profiles and sector positioning.

Once the credit risk profile and constraints are determined, the firm's credit analysts perform the robust bottom-up, fundamental process of identifying and evaluating mispriced securities. The team assesses key financial criteria such as corporate cash flow, total debt outstanding, interest coverage and return on equity. In addition to traditional credit research, the credit research team sits near the firm's trading group which aids in communication and the determination of relative value.

After the portfolio construction process has been completed, the investment team works with the risk management team to ensure that the portfolio adheres to the desired risk profile. To provide timely risk information, the Risk Analytics team delivers daily reports that detail important risk metrics that include portfolio and security measurements of value-at-risk, tracking error, industry concentration, duration, and issuer credit ratings.

Finally, security buy and sell decisions are predicated on the fundamental analysis of each issuer in conjunction with the firm's views on the corresponding sector. The team seeks to minimize exposure to sectors that are deemed fully or overvalued. The decision to purchase a security depends on the credit analysts who seek to identify those issues that are mispriced due to unusual situations (mergers, optionality), or changes in credit rating. The decision to sell a position is predicated on one of three objectives: has the issue exceeded its relative value price target, has the risk associated with holding the security increased to the point where it no longer justifies inclusion in the portfolio, or have material events changed to the extent that they affect the fundamental valuation of the security. In the event an issuer were to experience a rapid deterioration in price relative to the initial purchase price, the team will execute a comprehensive review to determine if the security should be sold or held.

Risk Factors and Potential Red Flags

Risk management is embedded throughout the investment process. WAMCO's Chief Risk Officer (CRO) is directly responsible for overseeing the market/credit risk as well as the firm's enterprise risk. The CRO position is filled by Dr. Winston who joined the firm in October 2008. Dr. Winston has designed and implemented several improved controls and reporting procedures that have helped teams understand various risk exposures better in addition to imposing more restrictive trading controls that prohibit the types of errors that have previously occurred at WAMCO. Finally, as CRO, he has full transparency within the investment management process and provides an objective view to the firm's risk positions using both proprietary and third-party analytical tools.

Since the end of the financial crisis, the firm has made significant investments in technology and personnel as part of the effort to provide a more thorough assessment of the firm's portfolio risks. The Risk Analytics team headed by Dr. Winston now employs more than thirty individuals who provide daily reporting and risk oversight. The goal of risk management is to improve on aligning the risk-taking within the portfolios with the investment objectives of the client.

The WISER risk management system is designed to provide the firm with a single risk system with the ability to measure portfolio, benchmark and securities risk. The system acts as a data aggregator, utilizing data feeds from third-party providers across financial markets, and allows the firm to analyze risk daily. In addition to evaluating risk factors, the WISER system allows for scenario analysis to observe potential outcomes.

Historically, WAMCO has utilized off-benchmark allocations in addition to active sector tilts and security selection to enhance returns relative to the benchmark. Thus, during periods of market dislocations the strategy may experience heightened volatility and potentially incur larger drawdowns, such as occurred during the financial crisis in 2008. To mitigate portfolio risk exposures have historically been limited to 2% or less.

Performance

Performance of the investment mandate has been additive relative to the benchmark on a gross of fees basis (as of 3/31/2017) over the most recent quarter, 1-year trailing period and since inception periods by 30 basis points, 180 basis points, and 100 basis points, respectively. The portfolio's relative outperformance during the trailing 1-year period was largely driven by issue selection in banking, energy, basic industry (metals and mining) and communications. Quality positioning added to relative performance given the team's lower quality bias. As risk markets recovered since mid-February 2016, returns for lower rated bonds (BBB and lower) handily outperformed their higher rated cohorts. Duration positioning was a slight detractor largely due to tactical positioning around the US election and Brexit in June. Given the limited time the mandate has been in place it is our opinion that WAMCO has broadly delivered performance in line with expectations.

Summary Assessment

From an investment management perspective, we believe WAMCO has the necessary experience and depth within the fixed income team to continue to execute the FCERA U.S. Investment Grade investment mandate. The investment team is seasoned and well-resourced. The strategy offers a broad credit opportunity set and incorporates a robust multi-step approach that considers both macro-economic and fundamental factors. WAMCO has historically demonstrated the ability to meet investors return expectations across various market cycles. As such, we recommend FCERA retain the relationship.

Operational Due Diligence Assessment

Verus' Operations team conducted an Operational Due Diligence assessment of Western Asset Management Company ("WAMCO"). The objective of the analysis was to gain a thorough understanding of WAMCO operations, attaining a reasonable assurance that WAMCO has sound organizational and governance structures, strong investment processes and procedures, and robust internal controls.

Verus sent WAMCO a copy of the Verus Operational Due Diligence Questionnaire ("ODDQ")
The ODDQ focuses on seven main areas:

1. Firm/Fund overview
2. Personnel
3. Key Processes
4. Service Providers
5. Reporting
6. Systems
7. Regulation and Compliance

Verus received the following documents from WAMCO:

- Investment Professional Biographies
- Portfolio Operations Biographies
- Trade Process Flowchart
- Cross Transactions Policy
- Pricing Policies and Valuation Procedures
- Business Continuity Plan Executive Summary
- Code of Ethics
- Affiliate List
- Soft Dollars and Directed Brokerage Policy
- Due Diligence Questionnaire

WAMCO has passed the operational due diligence assessment. Verus Operations will continue to monitor certain reports and information and will perform additional due diligence as necessary.

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The information presented has been prepared by the Company from sources that it believes to be reliable and the Company has exercised all reasonable professional care in preparing the information presented. However, the Company cannot guarantee the accuracy of the information contained therein. The Company shall not be liable to Client or any third party for inaccuracy or in-authenticity of information obtained or received from third parties in the analysis or for any errors or omissions in content.
The information presented does not purport to be all-inclusive nor does it contain all information that the Client may desire for its purposes. The information presented should be read in conjunction with any other material furnished by the Company. The Company will be available, upon request, to discuss the information presented in the report that Client may consider necessary, as well as any information needed to verify the accuracy of the information set forth therein, to the extent Company possesses the same or can acquire it without unreasonable effort or expense. Nothing contained therein is, or should be relied on as, a promise, representation, or guarantee as to future performance or a particular outcome. Even with portfolio diversification, asset allocation, and a long-term approach, investing involves risk of loss that the client should be prepared to bear.
The material may include estimates, outlooks, projections and other "forward-looking statements." Such statements can be identified by the use of terminology such as "believes," "expects," "may," "will," "should," "anticipates," or the negative of any of the foregoing or comparable terminology, or by discussion of strategy, or assumptions such as economic conditions underlying other statements. No assurance can be given that future results described or implied by any forward-looking information will be achieved. Actual events may differ significantly from those presented. Investing entails risks, including possible loss of principal. Risk controls and models do not promise any level of performance or guarantee against loss of principal.

PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS

APRIL 2017

Investment Due Diligence Summary

PIMCO Research Affiliates Equity (RAE) Fundamental

Fundamental International Equity

VERUSINVESTMENTS.COM

SEATTLE 206-622-3700
LOS ANGELES 310-297-1777
SAN FRANCISCO 415-362-3484

Date Reviewed: 5 April 2017

Verus Attendees
Margaret A McRae, CFA – Associate Director | Public Markets

Research Affiliates Attendees
Rob Arnott – Chairman/Founder, Portfolio Manager (Research Affiliates)
Brent Leadbetter, CFA – Vice President, Product Specialist (Research Affiliates)
Mark Romano, CFA – Executive Vice President, Account Manager (PIMCO)
Stephanie Soltis – Vice President, Account Manager (PIMCO)

Overview

Asset Class
International Equity

Investment Style
Value

Firm Ownership
Wholly owned subsidiary of Allianz Global

Firm Assets
$1.5 trillion

Strategies
- PIMCO RAE Fundamental International Equity ($191.4 million)

Onsite Meeting

There have been no changes in personnel at Research Affiliates that impact the management of the portfolios. Given RAE is a systematic strategy, the firm does not have fundamental analysts providing research that impact the portfolio. Rob Arnott and Chris Brightman remain the portfolio managers. They retain final decision rights over any changes to models used to create the RAE portfolios.

There have been no recent changes to the investment process. The research team is currently working to determine whether the factor timing research the team has conducted over the past year can be incorporated into the RAE portfolios in a more explicit manner. The contrarian rebalancing approach applied in RAE inherently provides dynamic exposure to factors. When companies, industries, sectors, countries, factors, etc. become cheap, the strategy overweights them relative to a cap-weighted benchmark and vice versa. The team is working to determine whether they can complement implicit dynamic factor exposure with explicit factor bets based on the attractiveness of factors as determined by variables such as valuation, recent momentum and macroeconomic indicators. If implemented, any explicit factor timing is unlikely to be added to the RAE strategy before 2018 at the earliest.

In our discussion of the markets, the team believes the dispersion between value and growth provides opportunity for contrarian strategies such as RAE. The firm's research tells them that the current opportunity in developed international companies is greater than the historical average. Value companies are defined as being more attractively priced than growth companies; however, the degree to which they are cheaper varies over time. The team believes the valuation discount for these firms is large relative to recent history , providing an attractive opportunity for future excess returns.

Team Description

Research Affiliates has a team of over 40 investment professionals. The investment committee is responsible for making investment decisions and reviewing research findings. Key team members include Rob Arnott, chairman/founder, Chris Brightman, CIO and portfolio manager, and Vitali Kalesnik, head of equity research.

ROBERT ARNOTT, CHAIRMAN/FOUNDER, PORTFOLIO MANAGER

Mr. Arnott has more than 30 years of experience in quantitative investing. He is the chairman of Research Affiliates. He previously served as chairman of First Quadrant, as president of TSA Capital Management (now part of Analytic Investors), and as vice president at The Boston Company. He also was a global equity strategist at Salomon Brothers. He has published more than 100 articles in journals such as the Journal of Portfolio Management, the Harvard Business Review and the Financial Analysts Journal, where he also served as editor in chief from 2002 through 2006. He graduated summa cum laude from the University of California, Santa Barbara, in 1977 with degrees in economics, applied mathematics and computer science.

CHRISOPHER BRIGHTMAN, CIO, PORTFOLIO MANAGER

Mr. Brightman is managing director and head of investment management at Research Affiliates. He supervises portfolio construction and trading, as well as managing the product development process. He also contributes to research and client support activities. Mr. Brightman has more than 30 years of investment experience, including board chair of The Investment Fund for Foundations, chief executive officer of the University of Virginia Investment Management Company, chief investment officer of Strategic Investment Group, director of global equity strategy at UBS Asset Management, and senior portfolio manager at Brinson Partners. He is a board and investment committee member of the Virginia Tech Foundation. Mr. Brightman holds a bachelor's degree in finance from Virginia Tech and an MBA from Loyola University, Maryland.

VITALI KALESNIK, DIRECTOR, HEAD OF EQUITY RESEARCH

Mr. Kalesnik is responsible for quantitative research used to enhance Research Affiliates products—in particular, RAFI Fundamental Index strategies and global tactical asset allocation products. Prior to joining Research Affiliates, Mr. Kalesnik conducted research in economics at the University of California, Los Angeles, where he studied international trade and macroeconomics. He also worked as a researcher at the Ministry of Economics in Belarus and at Priorbank. Mr. Kalesnik published research papers in such journals as the Financial Analysts Journal, Journal of Portfolio Management, and Journal of Index Investing. He earned his Ph.D. in economics from the University of California, Los Angeles.

Strategy Description

The RAE investment philosophy is built on the premise that stocks ultimately mean revert to their true fair value over time, however, in the short-term, a stock's price may or may not reflect the true economic value of the underlying company. This approach to managing equity portfolios breaks the link between a stock's price and its portfolio weight.

The fundamental methodology selects and weights companies based on their economic footprint using non-price measures of company size including sales, book value, cash flow and dividends. The weights are then adjusted through a series of active insights to refine measurements of company size without increasing risk. These insights are the result of Research Affiliates' ongoing research and include quantitative adjustments and screens of additional fundamentals, such as a company's quality of earnings and financial distress, among others.

These insights also result in a dynamic value bias which is greatest when value stocks are cheapest. This leads to a valuation discount for the portfolio relative to cap-weighted indices.

By removing price from the portfolio construction process and weighting stocks based on their economic footprints rather than their market capitalization, the strategy capitalizes on the tendency of traditional indices to be overexposed to overpriced stocks and underexposed to underpriced stocks. By capitalizing on these inefficiencies, we believe the firm's approach provides the opportunity to generate meaningful long-term outperformance.

Process Implementation

The fundamental methodology is designed to be rules-based, objective and repeatable using a disciplined selection and rebalancing process. The portfolio construction process uses sales, cash flow, dividends and book value to compute fundamental factor scores for eligible companies, and assigns weightings based on these measures of company size. Fundamental values for sales, cash flow and dividends are calculated as the average of the five most recently available annual reporting periods. If less than five years of annual accounting data are available for a company, then the most recently available annual periods are used with a minimum of one. The book value score is defined as the value from the most recently available annual reporting period.

A fundamental score is calculated as the average score for each individual fundamental measure of firm size. Aggregate fundamental scores are converted into portfolio weights by dividing each company score by the sum of the scores of the companies in the investment universe. Company, industry, sector and country weights are all outcomes of the portfolio construction process.

After weighting stocks by fundamental size, the strategy then applies well-researched active insights into quality, momentum and diversification of active share to refine certain aspects of an otherwise simple rebalancing strategy. Whereas naïve rebalancing rules are static and do not change, RAE enhancements are live and evolve to incorporate the portfolio managers' ongoing research into improving risk-adjusted returns. Specifically, these insights, which make the strategy active, take the form of four quantitative adjustments:

1. **Quality** – the team seeks to reduce or eliminate weights to "value traps" – companies that are justifiably cheap and less likely to mean revert to past economic size. Insights on quality are obtained by the current score of a company's financial health. Firms are penalized for excessive leverage, employing aggressive accounting measures, or lack of growth prospects.
2. **Momentum** – rebalancing strategies like this one exhibit a negative exposure to momentum to take advantage of mean reversion by buying low and selling high. The team attempts to eliminate this negative momentum exposure in RAE portfolios by delaying rebalancing when a company stock trades against positive/negative twelve-month momentum. The team employs this approach in an attempt to avoid catching a falling knife or taking profits too early.
3. **Style diversification -** in an attempt to reduce the portfolio's reliance on the value factor for excess returns and increase upside potential when prices mean revert, the team increases exposure to cheap stocks with the low value factor and decreases exposure to expensive stocks with the high value factor.
4. **Size diversification** – the team seeks to redistribute active weights from large cap stocks to smaller cap stocks that are more likely to be mispriced.

Taken together, these insights result in a dynamic value bias which is greatest when value stocks are cheapest. They also lead to a valuation discount for the portfolio relative to cap-weighted indices. The strategy benefits from the ongoing research of the team and has the ability to evolve overtime with the refinement of existing insights or the introduction of new insights.

Risk Factors and Potential Red Flags

The strategy has no country or industry exposure limits. However, diversification is achieved based on the large number of holdings and sector allocations that are included in the underlying index.

In January 2016, Jason Hsu, vice chairman, co-founder and former CIO of Research Affiliates, became chairman, CEO, and majority owner of Rayliant Global Advisors (formerly Research Affiliates Global Advisors), an Asian-focused investment firm based in Hong Kong. Research Affiliates retains a substantial minority interest in Rayliant. Dr. Hsu remains as a partner and owner of Research Affiliates. He continues to operate in a non-executive capacity and collaborates on various research projects. While Dr. Hsu was one of the original architects of the strategy, the firm has assembled a capable team of investment professionals to continue research efforts. We are comforted by the continued research collaborations between Dr. Hsu and the investment team.

Key man risk does exist with Rob Arnott as the founder and majority shareholder of the firm. He is the primary architect of the strategy and provides final input on product innovation and business strategy. However, he does share final decision responsibilities on the investment process with Chris Brightman and has a research staff of over 40 professionals that implement the day-to-day asset management decisions.

Performance

As of 3/31/2017, the Fresno portfolio has outperformed its benchmark after fees by 90 bps annualized since inception on 4/30/2011, with a return of 3.74% versus 2.84% for the MSCI EAFE Index. The Fresno RAE portfolio generated this excess return despite a headwind from value exposure as the MSCI EAFE Value lagged the core MSCI EAFE Index, 2.26% vs 2.84% over this time period.

2016 was a strong year for mean reversion as commodity-based sectors performed well, with the portfolio outperforming the MSCI EAFE Index by 790 bps. RAE generated nearly 300 bps of the total excess return from materials alone, led by overweights to Canadian and UK miners such as Teck Resources, Anglo American and BHP Billiton. Simultaneously, underweights to expensive stocks contributed to performance. European Healthcare provides an illustrative example as underweights to Novartis, Novo Nordisk and Roche all helped relative returns.

Q1 2017 represented a reversal from 2016. Cheap stocks did poorly and RAE underperformed by roughly 120 bps. Overweights to cheap energy companies detracted, including the UK's BP and Canada's Suncor. Financials and Information Technology were also sectors that detracted from performance.

The strategy will typically underperform when the value style significantly underperforms growth. Dynamic value exposure (i.e., the value bias) is greatest when value is the cheapest.

Summary Assessment

We continue to view the PIMCO RAE Fundamental International Equity strategy as a compelling quantitative approach. The strategy is designed to operate with moderate tracking error. We favor the product for the following reasons: independence and sole focus on quantitative strategies should help ensure dedicated attention to research and serving existing clientele; and the firm's consistently repeatable process should help mitigate behavioral biases.

Operational Due Diligence Assessment

Verus' Operations team conducted an Operational Due Diligence assessment of PIMCO/RAFI. The objective of the analysis was to gain a thorough understanding of PIMCO/RAFI operations, attaining a reasonable assurance that PIMCO/RAFI has sound organizational and governance structures, strong investment processes and procedures, and robust internal controls.

Verus sent PIMCO/RAFI a copy of the Verus Operational Due Diligence Questionnaire ("ODDQ")
The ODDQ focuses on seven main areas:

1. Firm/Fund overview
2. Personnel
3. Key Processes
4. Service Providers
5. Reporting
6. Systems
7. Regulation and Compliance

Verus received the following documents from PIMCO/RAFI:

- Exhibit 1 PIMCO Pricing Policy
- Exhibit 2 PIMCO SOC 1 Report
- Exhibit 3 PIMCO Approach to Counterparty Risk
- Exhibit 4 PIMCO Business Continuity Management Program Overview
- Exhibit 5 Sample RFI_Q416
- Exhibit 6 PIMCO Update_4Q16
- Exhibit 7 PIMCO Global Compliance Program Summary
- Exhibit 8 PIMCO Code of Ethics
- Operational Due Diligence Questionnaire Verus 2017 (All Asset All Authority & RAFI)

PIMCO/RAFI has passed the operational due diligence assessment. Verus Operations will continue to monitor certain reports and information and will perform additional due diligence as necessary.

Verus

PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS

MARCH 24, 2017

Investment Due Diligence Summary

Ivy Investments (formerly Waddell & Reed)

Large Cap Growth

VERUSINVESTMENTS.COM

SEATTLE 206-622-3700
LOS ANGELES 310-297-1777
SAN FRANCISCO 415-362-3484

Date Reviewed: February 24, 2017

Verus Attendees
Vincent A. Francom, CFA, CAIA – Senior Associate Director | Public Markets

Ivy Investments Attendees
Philip J. Sanders, CFA – Chief Executive Officer & Chief Investment Officer
Gil C. Scott, CFA – Director of Global Equity Research
Daniel P. Becker, CFA – Senior Vice President, Portfolio Manager
Bradley M. Klapmeyer, CFA – Vice President, Portfolio Manager
Gage T. Krieger, CFA – Assistant Vice President, Assistant Portfolio Manager
Amy Scupham, CFA – Senior Vice President, Head of Institutional Sales & Consultant Relations

Overview

Asset Class
U.S. Equities

Investment Style
Large Cap Growth

Firm Ownership
Waddell & Reed Investment Management Company and Ivy Investment Management Company are wholly owned, indirect subsidiaries of Waddell & Reed Financial, Inc., which is a publically traded company (NYSE: WDR).

Firm Assets
$80.5 billion as of December 31, 2016

FCERA Mandate
Large Cap Growth separate account; $202.2 million as of December 31, 2016

Team Description

The Large Cap Growth team is led by Dan Becker who is the strategy's original architect, having managed the strategy since its inception in 1995. Brad Klapmeyer and Gage Krieger serve as the strategy's co-portfolio manager and assistant portfolio manager, respectively. The Large Cap Growth team is supported by nine global equity analysts (including Mr. Krieger) who are aligned by sector.

Key Investment Professionals

Daniel P. Becker, CFA – Senior Vice President, Portfolio Manager
Mr. Becker is co-portfolio manager of the firm's Large Cap Growth investment strategy. He developed the firm's Large Cap Growth philosophy and has been a portfolio manager of the strategy since 1995. Mr. Becker joined Waddell & Reed as an equity investment analyst in 1989, covering the consumer discretionary, financial services and industrials sectors. He assumed portfolio management responsibilities in 1994. Prior to

joining Waddell & Reed, Mr. Becker was affiliated with the State of Wisconsin Investment Board from 1988 to 1989. Mr. Becker earned an M.S. with an emphasis in finance, investments and banking and a B.S. in mathematical economics from the University of Wisconsin at Madison. He is a CFA charterholder.

Bradley M. Klapmeyer, CFA – Vice President, Portfolio Manager
Mr. Klapmeyer is co-portfolio manager of the firm's Large Cap Growth investment strategy and was appointed to this role in 2016. He has been a member of the Large Cap Growth team since 2011. Mr. Klapmeyer held equity investment analyst research responsibilities prior to his appointment as co-portfolio manager in 2016, covering large cap growth securities and the biotechnology industry. Prior to joining Waddell & Reed in 2007 as an equity investment analyst, Mr. Klapmeyer held equity analyst positions with Prudential Equity Group, LLC from 2006 to 2007 and Commerce Bank from 2000 to 2006. Mr. Klapmeyer earned a B.S. in finance from Truman State University. He is a CFA charterholder.

Gage T. Krieger, CFA – Assistant Vice President, Assistant Portfolio Manager
Mr. Krieger is assistant portfolio manager of the firm's Large Cap Growth investment strategy and assists the co-portfolio managers in idea generation, research, portfolio construction, and risk management efforts. He has been a member of the Large Cap Growth team since 2016. He is also a member of the firm's equity research team covering securities in the biotechnology, pharmaceuticals, and communications equipment industries. Prior to joining Waddell & Reed in 2012 as an equity investment analyst, Mr. Krieger was a senior associate for Citi Investment Research in New York from 2009 to 2012, covering the telecommunications services sector. Prior to his role at Citi Investment Research, Mr. Krieger was an associate for Citigroup Global Markets in Denver, Colorado from 2006 to 2009. Mr. Krieger graduated from Colorado State University with a B.S. in business administration (finance concentration) in 2006. He earned an M.B.A. from Rockhurst University in 2016. Mr. Krieger is a CFA charterholder.

Strategy Description

Ivy's Large Cap Growth team utilizes a growth-at-a-reasonable-price ("GARP") approach, emphasizing earnings sustainability over earnings growth. Ivy's large cap growth style is predicated on three core beliefs:

- The market tends to overpay for high near-term earnings growth and undervalues long-term structural earnings power;
- Structurally advantaged companies are characterized by high levels of profitability;
- Growth investors often underestimate risk.

The Large Cap Growth team focuses on companies that can use an established competitive advantage to generate above-average levels of profitability and sustained growth. In particular, the team seeks companies that are characterized by strong competitive advantages, operating in growth industries while generating high returns on equity and assets. Given Ivy's approach, the team focuses on companies that use: 1) brand equity/brand loyalty; 2) proprietary technology/patents; 3) cost advantages; 4) financial strength; 5) distribution channel advantages; 6) switching cost barriers; 7) economies of scale; and/or 8) network effects to lead their respective industries.

Process

Ivy's stock selection process utilizes a combination of quantitative and fundamental research. The investment team starts with an initial universe of the 1,500 largest U.S. companies with market capitalizations of at least $3 billion. From a quantitative standpoint, the team concentrates on profitability, capital intensity, cash flow and valuation measures, as well as above-average growth rates. Following a quantitative screen to narrow the investible universe, fundamental research is employed to validate initial findings and further narrow the universe. Key to Ivy's fundamental research effort is the identification of those companies that the team believes possess sustainable competitive advantages (as outlined in the previous section). The resulting portfolio typically consists of between 45 and 60 stocks.

In terms of risk management, individual holdings are generally limited to a maximum weighting of 5% of the portfolio or 1.5x the issuer's weighting in the Russell 1000 Growth Index (whichever is greater). Sectors are limited to 2x the index weight for larger sectors and no more than 25% of the portfolio for smaller sectors. The team also monitors and manages risk by separating their investment universe into five distinct risk categories: speculative growth, accelerating growth, controlled growth, cyclical growth and asset growth. Special attention is paid to the proportion of assets in the most/least risky categories and the team seeks to concentrate at least 90% of the portfolio's holdings in the middle three categories (i.e., accelerating growth, controlled growth and cyclical growth).

Risk Factors and Potential Red Flags

Over the past year, Ivy has experienced several organizational changes. In May 2016, Waddell & Reed, Ivy's parent, announced the retirement of Henry Hermann, chairman of the board and chief executive officer, effective August 1, 2016. Waddell & Reed also announced that Philip Sanders, CIO and co-portfolio manager on the Large Cap Growth portfolio, would succeed Mr. Hermann. Since assuming Mr. Hermann's CEO responsibilities, Mr. Sanders has remained CIO; however, he has relinquished direct involvement with the Large Cap Growth product. In terms of his tenure as CIO, Mr. Sanders will likely step aside in the next 12 to 18 months to focus solely on his CEO responsibilities. According to the firm, Mr. Sanders' eventual successor as CIO could come from either inside or outside of the organization.

Brad Klapmeyer, who had worked as an assistant portfolio manager on the strategy since 2011, was promoted to portfolio manager upon Mr. Sanders' promotion. Gage Krieger, a member of Ivy's equity research team, succeeded Mr. Klapmeyer as the strategy's assistant portfolio manager. Dan Becker remains the strategy's other co-portfolio manager; however, while Messrs. Becker and Sanders historically operated as true co-portfolio managers during their 21-year tenure together, Mr. Becker is now viewed as the strategy's lead portfolio manager. Given that Mr. Becker created the strategy, we would not expect material changes to the investment process. That said, there could be subtle changes in the application of the strategy with Mr. Becker leading the newly constituted team.

In April 2016, Waddell & Reed announced a 10% reduction in its workforce, following a 23% year-over-year decline in the firm's assets under management (AUM). The impact to Ivy's investment management division was much lower compared to other departments; however, the broad team did lose two analysts and one portfolio manager as a result of the reduction. That said, none of the departing investment professionals had a direct impact on the Large Cap Growth strategy.

For 2016, the firm experienced \$5.9 billion in net outflows as a result of client turnover, finishing the year with \$80.5 billion in AUM. To provide some context, according to the eVestment Alliance database, the firm's AUM stood at \$123.6 million and \$104.4 million at the end of 2014 and 2015, respectively. Ivy's multi-asset strategy took the brunt of the firm's asset losses during this period, declining from \$35.9 billion at the end to 2014 to \$8.0 billion at the end of 2016. While asset losses have slowed since mid-2016, citing a couple of factors, Ivy cautioned that it might be another 12 to 18 months before the firm's net asset flows turn positive.

In terms of the Large Cap Growth strategy, AUM was fairly stable prior to last year, hovering at around $8 to $9 billion. However, following the portfolio management team change, the strategy experienced about $1.9 billion in outflows during the second quarter of 2016. As Ivy explained, the significant mid-year outflow was the result of a large multi-manager client dropping their allocation to zero when the Large Cap Growth portfolio management team changed. According to Ivy, the client has a hard process rule that requires full redemption in the event of a portfolio management change. Ivy indicated that they continue to hold quarterly calls with the client, so it is possible that they may be added back to the client's platform at some point. Following the large mid-year outflow, subsequent asset losses in the strategy were relatively modest (i.e., $137 million for the remainder of 2016) and Large Cap Growth exited 2016 with $6.2 billion in AUM.

Performance

Given Ivy's more conservative, GARP approach to growth investing, the Large Cap Growth strategy is expected to outperform during periods of significant market declines (e.g., 2001, 2002 and 2008) and keep pace in flat or moderately advancing markets. In contrast, Ivy's approach tends not to favor robust market rallies. Relative to the Russell 1000 Growth, Ivy's beta typically averages close to one with tracking error in the 3-4% range.

In terms of recent performance, as illustrated in the table below, near-term results for Large Cap Growth have been disappointing, with the strategy trailing the benchmark over the trailing one-, three- and five-year periods (gross of fees).

Ivy Large Cap Growth Performance (as of 12/31/16)

Description	4Q	1 Year	3 Year	5 Year	10 Year	Since Inception (1/95)
Ivy Large Cap Growth Composite (gross)	-1.1	2.2	7.5	14.0	8.8	11.3
Russell 1000 Growth Index	1.0	7.1	8.6	14.5	8.3	8.8

Source: *Ivy Investments*

Last year was a particularly challenging one for the strategy as Large Cap Growth trailed the index by about 490 basis points (i.e., 2.2% versus 7.1%). Relative to its peer universe, Ivy's Large Cap Growth composite finished in the third quartile (70th percentile) in a year that was particularly difficult for active large cap growth managers (e.g., the performance of the Russell 1000 Growth Index placed the benchmark in the top quartile of the peer universe). According to Ivy, about 60% of the strategy's underperformance in 2016 was due to unfavorable stock selection within health care and an overweight to the sector. Significantly underweighting so-called "bond proxies" (e.g., REITS, utilities and staples) was largely responsible for Ivy's remaining underperformance in 2016.

Additional Observations

Driving cultural change is one of Philip Sanders' goals as CEO. Specifically, he would like to bring a greater institutional focus to all facets of the organization. As part of this effort, Mr. Sanders believed the firm needed a single person to take ownership of the organization's entire risk process. To this end, last summer, Waddell & Reed announced the appointment of Daniel Sherman in the newly created role of chief risk officer. Mr. Sherman was formerly CRO at Calamos and Janus. In addition, Mr. Sanders sought a fully dedicated director of research (i.e., with no portfolio management responsibility), which led to the appointment of Gil Scott to the role at the end of last year. Prior to becoming the global director of equity research, Mr. Scott was a portfolio manager on Ivy's small cap growth strategy.

In terms of staffing, although the investment team lost three professionals last year as a result of Waddell & Reed's firm-wide headcount reduction, Mr. Scott stated that he has approval to add between three and five analysts to the research team in the near future.

Summary Assessment

While the recent organizational changes and asset losses at both the firm and strategy level warrant increased attention, and recent performance has been disappointing, we believe Ivy Large Cap Growth is acceptable for clients seeking a more conservative, GARP approach to large cap growth investing. In contrast, this strategy is less appropriate for clients that covet a more aggressive, higher beta performance profile.

Operational Due Diligence Assessment

Verus' Operations team conducted an Operational Due Diligence assessment of Ivy Investments ("Ivy"). The objective of the analysis was to gain a thorough understanding of Ivy's operations, attaining a reasonable assurance that Ivy has sound organizational and governance structures, strong investment processes and procedures, and robust internal controls.

Verus sent Ivy a copy of the Verus Operational Due Diligence Questionnaire ("ODDQ")

The ODDQ focuses on seven main areas:
1. Firm/Fund overview
2. Personnel
3. Key Processes
4. Service Providers
5. Reporting
6. Systems
7. Regulation and Compliance

Verus received without limitation the following information and documents from Ivy:

- Verus Operational Due Diligence Questionnaire
- Waddell & Reed Corporate Org Chart
- Biographies
- Operations Org Chart
- Aggregation and Allocation Procedures
- Valuation Procedures
- Ivy Management Compliance Org Chart
- Code of Ethics
- Summary of Compliance Policies and Procedures
- Insider Trading Policy
- Waddell & Reed 2016 Annual Report
- Accountants Report Ivy Funds
- CCO 2016 Annual Report
- 206(4)-7 Compliance Program Review

Based on Verus' due diligence processes and the information and documents provided:

Ivy has passed the operational due diligence assessment. Verus Operations will continue to monitor certain reports and information and will perform additional due diligence, as necessary.

Past performance is no guarantee of future results. *The information presented in this report is provided pursuant to the contractual agreement (the "Contract") by and between Fresno County Employees Retirement Association ("Client") and Verus Advisory, Inc. ("Company"). In the event of conflict between the terms of this disclosure and the Contract, the Contract shall take precedence. Client is an institutional counter-party and in no event should the information presented be relied upon by a retail investor.*

The information presented has been prepared by the Company from sources that it believes to be reliable and the Company has exercised all reasonable professional care in preparing the information presented. However, the Company cannot guarantee the accuracy of the information contained therein. The Company shall not be liable to Client or any third party for inaccuracy or in-authenticity of information obtained or received from third parties in the analysis or for any errors or omissions in content.

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The material may include estimates, outlooks, projections and other "forward-looking statements." Such statements can be identified by the use of terminology such as "believes," "expects," "may," "will," "should," "anticipates," or the negative of any of the foregoing or comparable terminology, or by discussion of strategy, or assumptions such as economic conditions underlying other statements. No assurance can be given that future results described or implied by any forward-looking information will be achieved. Actual events may differ significantly from those presented. Investing entails risks, including possible loss of principal. Risk controls and models do not promise any level of performance or guarantee against loss of principal.

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PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS

DECEMBER 2016

Investment Due Diligence Summary

Eaton Vance Management

Senior Floating-Rate Bank Loans

VERUSINVESTMENTS.COM

SEATTLE 206-622-3700
LOS ANGELES 310-297-1777
SAN FRANCISCO 415-362-3484

X	**Verus FL Strategy**
	Verus FL Manager
	Client Requested Review

Date Reviewed: 04 October 2016

Verus Attendees
Margaret McRae, CFA – Senior Manager Research Analyst

Eaton Vance Attendees
Monica Marois – Assistant Vice President/Consultant Relations
John P. Redding – Vice President/Portfolio Manager
Heath Christensen, CFA – Vice President/Senior Credit Analyst
Jeffrey R. Hesselbein, CFA – Vice President/Senior Credit Analyst
Christopher J. Remington – Vice President/Institutional Portfolio Manager
Scott Page, CFA – Vice President/Co-Director of Bank Loans/Portfolio Manager

Overview

Asset Class
Bank Loans

Investment Style
Bottom-up, value-driven

Firm Ownership
15% employee owned; 85% publicly held (NYSE: EV)

Firm Assets
$165.5 billion

FCERA Strategies
— Senior Floating-Rate Bank Loans ($207.1 million)

Onsite Visit Summary

On October 4, 2016, Verus performed an on-site due diligence visit to Eaton Vance Management in Boston, MA. Verus met with members of the portfolio management and relationship management teams to assist in our evaluation, including John P. Redding, portfolio manager, Heath Christensen, senior credit analyst, Jeffrey R. Hesselbein, senior credit analyst and Scott Page, co-director of bank loans/portfolio manager. We were given an update of the trends in assets under management across the fixed income complex at Eaton Vance, trends in the credit space, and the investment process employed by the senior loan team.

We discussed the market environment for bank loans and how it has evolved from the fourth quarter of 2015 through YTD 2016. Credit assets saw significant outflows and volatile market conditions in the last quarter of 2015 driven by a collapse in commodity prices. Retail fund flows were panic-driven and spilled over into the first quarter of 2016. This trend reversed in the end of the first quarter 2016. Coming out of 2015, the team still feels that there is concern over credit risk, especially in oil and gas related industries, although the team feels that much of this risk is already priced in. Retail client outflows have slowed and Eaton Vance has seen increased institutional asset inflows. YTD, Eaton Vance has had 95% client retention. In terms of size, Eaton Vance currently holds 5-6% of the market value in bank loan assets under management (the bank loan market is now ~$1 trillion in size). The team believes that its size is more of a benefit that a risk as they have access to deals and attractive pricing.

We also discussed the portfolio and process employed by the senior loan team. The commingled fund (vehicle held by FCERA) is highly diversified with ~400 borrowers. The bigger holdings in the fund tend to be stable, durable enterprises. The PMs and analysts will analyze leverage statistics, subordinated debt and equity valuations to assess relative value with roughly 35-45% of the market approved for purchase. The goals of the portfolio are to outperform the S&P LSTA Leveraged Loan Index by 25-75 bps over a full market cycle and avoidance of permanent risk. Ultimately, the team is looking to hit a bunch of singles rather than one or two homeruns. The portfolio is mostly focused in the BB and B-rated names; there is a modest CCC exposure but the majority of these names have drifted from B-rated. The team utilizes a quintile risk-ranking system that additionally drives position sizing. The top ten names in the portfolio tend to be “bulletproof” quintile 1 credits that tend to be more cyclical in nature while quintile 5 names have substantially lower weightings. Higher quintile rankings are driven by higher EBITDA, free cash flow generation, moderate cash flows and improving industry positioning. Portfolio reviews are completed three times a year where analysts typically upgrade/downgrade names. Each analyst presents all companies to the group but highlights the most notable issuers.

Lastly, we discussed how the team approaches analyzing credit risk and the various measures the team uses to assess risk. There is not a static approach to measuring risk; the team believes that assessing a company’s ratings, the scale of the company, debt/EBITDA, middle market access and truly assessing willingness and ability to pay are essential to materializing the true credit risk of an issuer. The team does not depend solely on ratings from major agencies or volatility measures to assess credit risk. Ultimately, risk is the focus and return is an element of the quintile rating system.

Team Description

Eaton Vance's Bank Loan team consists of eight portfolio managers, four of whom are dedicated portfolio managers, and ten credit analysts. Scott Page is head of the Bank Loan team and has been with Eaton Vance since inception of the team.

SCOTT PAGE, VICE PRESIDENT, DIRECTOR OF SENIOR LOAN FUNDS

Mr. Page has been a member of Eaton Vance's Bank Loan Team since 1989 and was named Co-Director in July 1996. In November 2007, he was named Director of Bank Loans. Prior to Eaton Vance, Mr. Page was an Investment Officer at Dartmouth College Investment Office, assistant Vice President at within Citicorp's Leverage Finance group, and Credit Review Officer at Chase Manhattan Bank. Mr. Page earned his MBA from the Amos Tuck School at Dartmouth College in 1987 and his BA from Williams College in 1981. He is a current CFA Charterholder.

JOHN REDDING, VICE PRESIDENT, PORTFOLIO MANAGER

Mr. Redding has been a member of Eaton Vance's Bank Loan Team since 1998. In September 2005, Mr. Redding relocated to London to lead the group's entry into the European loan market. Mr. Redding previously focused on credit analysis; asset-backed transactions; and stressed loan situations, including serving on several steering committees for lender syndicates. Prior to joining Eaton Vance, he worked as a Leveraged Loan Credit Analyst for Erste Bank and Creditanstalt-Bankverein. Mr. Redding earned his BS from the State University of New York at Albany and is a current Board Member of the LMA.

CRAIG RUSS, VICE PRESIDENT, PORTFOLIO MANAGER

Mr. Russ is a co-manager for several Eaton Vance senior loan funds and has been a member of the Bank Loan Team since 1997. Prior to joining Eaton Vance, Mr. Russ was a Vice President in the Specialized Lending Division of State Street Bank. Mr. Russ is a graduate of Middlebury College and studied at the London School of Economics and Political Science.

ANDREW SVEEN, VICE PRESIDENT, HEAD TRADER, PORTFOLIO MANAGER

Mr. Sveen has been a member of the Eaton Vance Bank Loan Team since 1999. He previously worked at State Street Bank as a Credit Analysts assigned to median and communications. Mr. Sveen earned his MBA from the William E. Simon School at the University of Rochester and his BA from Dartmouth College. He is a CFA Charterholder.

MICHAEL KINAHAN, VICE PRESIDENT, STRUCTURED PORTFOLIO MANAGER

Mr. Kinahan has been a member of the Bank Loan Team since 2000 and is responsible for structuring, analyzing and managing the Bank Loan team's structured products and several institutional accounts. Mr. Kinahan joined Eaton Vance in 1998 and previously served as the Manager of Financial Planning and Analysis. Prior to joining Eaton Vance, he was an accounting manager with Australian Portfolio Managers in Sydney, Australia and an audit manager at Deloitte & Touche, LLP in Boston. Mr. Kinahan earned his BS from the University of Southern California. He is a CFA Charterholder.

Strategy Description

The investment team focuses exclusively on adding value through avoiding defaults, which have a costly effect on performance due to the asymmetric payoff characteristic of bank loans (i.e., limited upside potential with greater downside risk). They remain cognizant that over the long run bank loan performance should be driven by credit fundamentals and not by behavioral forces or technical flows. As such, the team utilizes a fundamental, bottom-up approach to investing with a focus on credit analysis.

Their philosophy leads the investment team to target attractive income-producing bank loans with a low probability of default over the entire credit cycle, placing less emphasis on loans with potential price appreciation. They believe attempting to enhance portfolio yield by reaching for lower-quality credit adds geometrically to risk without a comparable increase in return. Nearly the entire portfolio is invested in higher-quality credit rated BB-B to avoid the unattractive risk-reward characteristics inherent with lower-quality bank loans.

The conservative philosophy of investing for income rather than price appreciation means the team targets small over-/underweights relative to the benchmark. Of the approximately 1,100 issues in the benchmark, the portfolio typically invests in 350-450 issues of higher credit quality, with broad diversification by industry, geography, type of transaction and borrower. In addition, the team avoids loans to technology companies that need high growth in order to meet debt obligations; they also avoid loans that are not current on principal and interest payments.

Due to the large amount of assets managed in this strategy, the team is typically invited to participate in new issue loans coming to market. As a consequence, the majority of loans within the portfolio are new issue, although this ebbs and flows with market trends and the team's assessment of valuations. Additionally, the team may have some pricing power when invited to new issues; however, the expectation to take large positions in favorable issues can result in a lack of agility in the marketplace.

In October 2013, the team announced their intention to largely forego private status in favor of combining their internal team's views in both private loans and publicly-traded high yield bonds. This is a slight change to their historical practice of remaining a private market participant in all but a few select issues. Instead, now they will elect private status only on those issues that are in restructuring or workout to participate in those negotiations.

Most of the team's bank loan strategies invest solely in bank loans, instead of mixing bank loans with some allocation to high yield. The exception is the Floating Rate High Income fund, ticker EIFAX, which can invest up to 20% in high yield. The commingled fund and the mutual fund (EILBX) versions of the recommended strategy use no leverage. In addition, the commingled fund does not opportunistically allocate to out-of-benchmark high yield issues. The mutual fund version can and does allocate a small portion to high yield, although historically the allocation has been below 2% and in most years it has none.

Process Implementation

The Eaton Vance Senior Loan group utilizes a bottom-up, fundamental process to build a portfolio that is highly diversified across industry and issuers while attempting to achieve a lower default rate compared to the benchmark. They screen the investable universe using a systematic process with four categories: fundamental credit analysis, quantitative analysis, relative value analysis, and structural analysis. All issues are assigned an internal risk rating using these four categories. The resulting portfolio consists of 350-450 loans, typically with a higher credit quality in the BB-B range, which has historically outperformed in down markets given the lower realized defaults.

The investment team whittles down the 1,200 loan universe to approximately 800 issues using two criteria: 1) EBITDA > $75 million and 2) Deal size > $200 million. Compared to smaller-sized companies, larger companies typically have stronger collateral, predictable cash flows, diversified revenues sources, and multiple financing options. Smaller deal size, on the other hand, is usually accompanied by higher illiquidity risk that the team finds unfavorably rewarded. In addition to these two criteria, the investment team avoids industries where business conditions can change abruptly, such as high technology, or that do not bear leverage well, such as oil and gas, and commodity-driven companies.

Qualitative Credit Analysis: Fundamental measures such as company scale and market position within an industry, along with the industry outlook are reviewed to determine cash flow risk, companies' ability to generate sufficient cash to meet debt obligations. Ultimately, cash flow generation is the focal point of their entire process.

The portfolio managers often visit companies, talk with management and attend due diligence presentations in an attempt to understand a company's business, its opportunities going forward, and reasons for obtaining funding. They also maintain contacts with competitors, suppliers, customers, and financial industry sponsors to gain a second-layer perspective of the company. A qualitative assessment can quickly weed out obviously unattractive companies and encompasses "big picture" ideas, but it will often lack the necessary detail needed for analysts to determine an issuers rating. Therefore, a large part of the analyst's time is spent reviewing quantitative assessments and business projections.

Quantitative Analysis: Primary investment team focus is on cash flow rather than debt/capitalization ratios. These ratios are emphasized by the rating agencies and are often inaccurate because they are backward-looking. While the investment team believes these measures are important, ratios can change quickly depending on a company's prospects, so a better analysis looks to the ability of a company to generate sufficient cash flow to meet debt payments under multiple future scenarios. This becomes the framework by which the team analyzes credit. Other measures such as historical operating performance and financial condition, as well as stability of enterprise value are also reviewed as part of this analysis.

Financial information and business plans provided by the company and agent bank are used to construct cash flow projections. From there, scenario analysis determines probability-based cash flows and stress tests summarize worst-case scenarios. The investment team does receive and use material non-public information (monthly budgets, interim financial statements and information gained from private management meetings) as part of their credit analysis.

In addition, as syndicated lenders issuing collateralized loan obligations (CLOs), they have substantial direct access to company management, which adds another informational layer that arguably gives this team a competitive edge.

Structural Analysis: Due to the senior position of bank loans within the capital stack, varying degrees of collateral quality and deal structures, investment teams must consider the structure of each issue by assessing the legal documents. As such, the team often utilizes legal review by outside counsel as needed. In addition to outside counsel, the investment team includes two recovery experts in the event of loan defaults: David Aloise and David McKown, both of whom have been with Eaton Vance for over 12 years. They frequently take an active role in negotiations to benefit investors in case an issuer defaults. This duo played a larger role during 2009, when approximately 8% of the portfolio was in default.

Relative Value Analysis: The team may find an issue fundamentally attractive, but priced richly relative to other, similar issues with strong fundamentals. A review of technical market conditions (supply and demand), primary versus secondary market pricing, and comparative assessments of risk/returns versus other market opportunities influence the relative value analysis.

Portfolio Construction: All four categories are given a score of one through five and are combined to form an overall score for each issue. An issue with a score of one is considered to be the lowest risk whereas one with a score of 5 is the highest.

The analysts write a detailed report summarizing the reason for each component score and include the aforementioned qualitative and quantitative data, as well as details of the deal including amount, LIBOR spread, tenor, ratings for senior and junior debt, agent in the deal, collateral, prepayment provisions, industry and origin, and repayment schedule. This report is known as the “bank loan credit report” which is an input into the investment team’s proprietary web-based monitoring and portfolio management system. This system integrates credit information and all research in one, central location that analyst and portfolio managers can access anywhere.

Analysts present their reports to the investment team’s portfolio manager who then approves the buy. Once a new recommendation is included in the portfolio, the analyst who originally made the recommendation is responsible for tracking and monitoring the issue. The portfolio manager makes the allocation decision based on the relative risk ranking of the issue.

The following table reflects targeted holdings of relative risk ranking within the portfolio:

Relative Risk Ranking	Position Size	# of Holdings	% of Market Value
1	0.8%-1.5%	20%	30%
2	0.6%-0.8%	20%	25%
3	0.4%-0.6%	20%	20%
4	0.3%-0.4%	20%	15%
5	<0.3%	20%	10%

Portfolio managers typically overweight issues with a risk ranking of 1 compared to issues with a risk ranking of 5. These weightings are fairly static over time in an attempt to systematically optimize risk and return. Allocations are made regardless of benchmark weights, so tracking error is not considered when making allocations. The 350-450 names within the portfolio and maximum position size ensures that the portfolio tracking error will be kept within a reasonable range over time.

As part of the monitoring process, analysts continually re-evaluate the risk ranking of each issue as they receive new information. Positions that receive a higher risk ranking may be trimmed to conform to position sizes reflected in the table above. In contrast, portfolio managers may add to those positions that receive a better risk ranking.

In addition, the investment team meets on a formal basis at least twice a week to discuss market conditions and individual credits. During these meetings analysts present findings to the portfolio managers, who ultimate make final buy and sell decisions. Although meetings are held frequently to discuss individual names, the team’s focus on income rather than price appreciation leads to a lower portfolio turnover; an average of 39% over the last ten years with an average holding period of approximately 1.5-3 years.

Risk Factors and Potential Red Flags

The Fund currently has approximately $33 billion assets, which is over double the size of the fund in 2010, and represents around 6% of the U.S. leveraged loan market. The investment team is comfortable managing assets up to 8% of the total market, which is an additional $10 billion at the current size of the market. Part of this growth in assets can be attributed to the inflows from investors seeking a hedge against rising rates without giving up yield. Many managers in this space have experienced a similar percentage increase in their assets. Typically, assets increasing at this rate create a concern, but given the depth and experience team we believe they can handle the increased assets under management using the same philosophy and process. We will continue to monitor excessive asset growth going forward, but more realistically, the issue will be one of massive technical flows out of the bank loan space which could adversely impact market pricing and liquidity. Impacts to the bank loan team or, more generally, to the Eaton Vance organization in that case are not expected to be material.

The mutual fund version of this strategy has a historical tracking error of around 1.0% compared to the composite. Higher tracking error over the last five years is attributed to a small high yield bond allocation (bonds are typically more volatile than bank loans). Before the investment team made a decision to invest in high yield opportunistically, the tracking error between the two had been much tighter. Also, comparable tracking error in 2008 was wide due to the mutual fund's large outflows during a time of low liquidity, i.e., performance suffered for remaining investors because of the wide bid-ask spreads in the market at that time. While fund guidelines state that the investment team can allocate up to 20% in high yield bonds, the maximum historical allocation is 3.2%.

Before the financial crisis of 2008, the senior loan asset class performance exhibited similar volatility but with higher return compared to investment grade, making it an attractive alternative to high yield. Although senior loans are senior secured credit, higher in the capital structure than high yield bonds and enjoy default recovery rates that are 20% higher, senior loans did experience similar drawdowns to high yield bonds in 2008. Investors sold loans to raise liquidity and the asset class's liquidity was tested and exposed as being less liquid than investors originally expected. As a consequence, investors should consider this strategy as a long-term investment and should not necessarily rely upon it for immediate cash liquidity needs in the event of another crisis due mainly to the mismatch between the settlement of the underlying security and redemptions. In an effort to mitigate liquidity risk, the investment team focuses on loans that meet certain liquidity requirements.

Performance

The investment team's focus on higher quality credit is evident in the strategy's performance over the last ten years. In markets where CCC-rated credit and highly cyclical names rally, this strategy has historically underperformed. In contrast, in a year such as 2008 the strategy composite outperformed 430 basis points gross of fee, not only because the loans within the portfolio did not sell-off as much, but also because it experienced a default rate that was approximately half that of the S&P/LSTA Leveraged Loan index. The outperformance can be attributed both to their credit quality allocation and credit selection, credit selection being the main source where they attempt to add value.

Long-term absolute performance relative to the S&P/LSTA Leverage Loan index has been additive, but this is mainly because of the strategy's persistent allocation to higher quality credit. The allocation to higher quality credit has led to a tracking error of approximately 60 basis points over the trailing 5-year period, though lately it has been near the lower bound. Given the strategy's lower volatility, the Sharpe ratio is higher relative to the benchmark which means absolute performance is being efficiently rewarded for the risk taken compared to the benchmark.

Summary Assessment

Verus believes that Eaton Vance has the necessary experience and depth within the fixed income team to continue to execute the FCERA Senior Floating-Rate Loan mandate. The investment team is well-seasoned and well-resourced. The strategy offers a value-driven, opportunistic approach that combines a top-down perspective of the economic and investment environment in conjunction with a bottom-up fundamental research to arrive at a best-ideas portfolio. Eaton Vance has historically demonstrated the ability to meet investors' return expectations across various market cycles. As such, we recommend FCERA retain the relationship.

Operational Due Diligence Assessment

Verus' Operations team conducted an Operational Due Diligence assessment of Eaton Vance Management ("Eaton Vance"). The objective of the analysis was to gain a thorough understanding of Eaton Vance's operations, attaining a reasonable assurance that Eaton Vance has sound organizational and governance structures, strong investment processes and procedures, and robust internal controls. Verus sent Eaton Vance a copy of the Verus Operational Due Diligence Questionnaire ("ODDQ").

The ODDQ focuses on seven main areas:
1. Firm/Fund overview
2. Personnel
3. Key Processes
4. Service Providers
5. Reporting
6. Systems
7. Regulation and Compliance

Verus received without limitation the following information and documents from Eaton Vance:

- Attachment A: Floating Rate Team Biographies
- Attachment B: Eaton Vance Institutional Senior Loan Fund Strategy Review
- Attachment C: Institutional Senior Loan Fund Commentary Q2 2016
- Attachment D: Executive Compliance Summaries 2-16
- Attachment E: EV Business Continuity Plan 12.15
- Attachment F: EV Code of Ethics
- Attachment G: EV Bank Loan SOC 1 Final 2015
- Eaton Vance Management ODDQ
- SOC 1 Type 2 Bank Loan Client Cover Letter 2015

Based on Verus' due diligence processes and the information and documents provided:

Eaton Vance has passed the operational due diligence assessment. Verus Operations will continue to monitor certain reports and information and will perform additional due diligence, as necessary.

Past performance is no guarantee of future results. *The information presented in this report is provided pursuant to the contractual agreement (the "Contract") by and between Fresno County Employees Retirement Association ("Client") and Verus Advisory, Inc. ("Company"). In the event of conflict between the terms of this disclosure and the Contract, the Contract shall take precedence. Client is an institutional counter-party and in no event should the information presented be relied upon by a retail investor.*

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The material may include estimates, outlooks, projections and other "forward-looking statements." Such statements can be identified by the use of terminology such as "believes," "expects," "may," "will," "should," "anticipates," or the negative of any of the foregoing or comparable terminology, or by discussion of strategy, or assumptions such as economic conditions underlying other statements. No assurance can be given that future results described or implied by any forward-looking information will be achieved. Actual events may differ significantly from those presented. Investing entails risks, including possible loss of principal. Risk controls and models do not promise any level of performance or guarantee against loss of principal.

Verus

PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS

DECEMBER 2016

Investment Due Diligence Summary

Loomis, Sayles & Company

High Yield Full Discretion

VERUSINVESTMENTS.COM

SEATTLE 206-622-3700
LOS ANGELES 310-297-1777
SAN FRANCISCO 415-362-3484

X	**Verus FL Strategy**
	Verus FL Manager
	Client Requested Review

Date Reviewed: 05 October 2016

Verus Attendees

Margaret McRae, CFA – Senior Manager Research Analyst

Loomis Sayles Attendees

Ryan McGrail – Vice President, Senior Analyst

Todd Vandam, CFA – Vice President, Portfolio Manager

Neil McKenna, CFA – Vice President, Consultant Relations

Overview

Asset Class

High Yield Fixed Income

Investment Style

Value-driven, opportunistic

Firm Ownership

Owned by Natixis Global Asset Management

Firm Assets

$245.2 billion (of which $12.0 billion is managed in High Yield Full Discretion)

FCERA Strategy

— High Yield Full Discretion (inception 1/1/1989) $210.3 million

Onsite Visit Summary

On October 5, 2016, Verus performed an on-site due diligence visit to Loomis, Sayles & Company in Boston, MA. Verus met with members of the portfolio management and relationship management teams to assist in our evaluation, including Todd Vandam, portfolio manager and senior credit strategist, and Ryan McGrail, senior analyst. We were given a brief overview of the firm's fixed income capabilities, trends in assets under management across the fixed income complex at Loomis, and the investment process employed by the High Yield Full Discretion team.

Specific to the FCERA mandate, which is managed in a High Yield Full Discretion separate account, we met with portfolio manager and senior credit strategist Mr. Vandam and discussed current positioning, investment process and trends influencing the credit markets. Mr. Vandam outlined that Loomis' outlook for U.S. and global economies remains positive with expectations for better growth through the end of this year. He discussed that the global economy is experiencing more headwinds but should experience relatively moderate growth, led by a healthy U.S. economy and accommodative global central bank policies. Additionally, credit fundamentals have been relatively stable and Loomis does not expect a significant increase in corporate defaults in 2017. The team expects low global yields to continue supporting flows into U.S. credit but at a more modest pace. Mr. Vandam noted that recent volatility has been higher than other credit cycles and the team is looking to take advantage of illiquidity in the market. The investment mandate's style is value-oriented and the team will look to be a provider (buyer) of liquidity in weak markets. Within credit, the team is constructive on higher quality high yield. Mr. Vandam noted that year-to-date the largest source of excess return was primarily due to security selection in the industrial sector, specifically both the energy and communications sectors outperformed. Additionally, oil-related Yankee government-related securities (ex: Petrobras) boosted performance. Detractors from performance include out-of-benchmark exposure to non-U.S.-dollar-denominated holdings; the portfolio's Mexican peso-denominated issues weighed on the portfolio as the peso hit an all-time low against the U.S. dollar in mid-September. Often used as a hedge against other long emerging market positions, the Mexican peso can be lower during moments of market turmoil. FCERA guidelines have a 5% maximum to non-U.S.-dollar denominated holdings, which places limits on the negative excess return generated from these issues. Standard guidelines for this strategy allow up to 40% in non-U.S.-dollar-denominated securities. Additionally, out-of-benchmark securitized positions in RMBS, ABS and CMBS detracted from excess returns.

We also met with Ryan McGrail, senior analyst, to discuss the recent activity in the energy market following the decline in commodity prices over the last 18 months. Mr. McGrail covers energy, pipelines and MLP sectors at Loomis and has fifteen years of investment industry experience. We discussed the recent weakness in the energy market and how the team identifies attractive opportunities within the space. He admitted the team underestimated both how low oil prices would be and how long they'd be depressed in late 2015-early 2016. Due to these views, the team was early on a few of their energy names. Mr. McGrail explained the team's strategy in uncovering companies with good underlying assets and the ability to generate excess free cash flow. He explained that despite the recovery in prices in the second quarter of 2016, very few companies made money in 2016. Companies have outspent cash flow by over $40 billion since the beginning of the downturn. Additionally, free cash flow has narrowed considerably over the last 21 months. His views are that Exploration and Production (E&P) is an attractive industry but choosing the right companies is imperative. He believes the majority of defaults in high yield E&P are behind us as the recent rebound in oil and gas prices and the opening of the capital markets has prevented the rate from climbing further.

Team Description

Loomis Sayles utilizes a centralized team approach to investment management. There are three portfolio managers on this strategy: Daniel Fuss, Matthew Eagan, and Elaine Stokes who share responsibilities equally and make primarily consensus portfolio decisions. Mr. Fuss, Mr. Eagan, and Ms. Stokes have served as Portfolio Managers on the Loomis Sayles High Yield Full Discretion strategy over the last 21-, 15-, and 11 years, respectively. As a team, they have been managing the fund for over ten years. The Fund utilizes the resources of a central research group summarized below:

Fixed Income Investment Team

Category	Total #	Avg. Experience
Portfolio Managers:	3	38
Sr. Credit Analysts:	27	15
Securitized Asset Analysts:	8	9
Global Sovereign Analysts	9	16
Quantitative Analysts:	6	8
Traders and Compliance:	47	14

DANIEL FUSS, DIRECTOR, EXECUTIVE VICE PRESIDENT, PORTFOLIO MANAGER

Mr. Fuss started his investment career in 1958 and joined Loomis Sayles in 1976. He serves as the Vice Chairman of Loomis Sayles' Board of Directors. Mr. Fuss co-manages a variety of mutual funds, including the flagship Bond Fund, Strategic Income Fund, Institutional High Income Fund and Investment Grade Bond Fund. He is past president of the Boston Security Analysts Society, and a former Morningstar "Fixed Income Manager of the Year." In 2000, he was named to the Fixed Income Analysts Society's Hall of Fame in recognition of his contributions and lifetime achievements in the advancement of the analysis of fixed income securities and portfolios. Prior to joining Loomis Sayles, he was Vice President, Investment Counsel at The Boston Company, and held positions with Endowment Management, and Continental Illinois Bank, Illinois Mid-Continental Insurance Company. He was also an investment analyst with First Wisconsin Trust Company and began his career at Wauwatosa Bank. He earned both a BA (1955) and MBA (1965) from Marquette University. He served in the US Navy from 1955 to 1958 and held the rank of Lieutenant.

MATTHEW EAGAN, VICE PRESIDENT, PORTFOLIO MANAGER

Mr. Eagan started his investment career in 1990 and joined Loomis Sayles in 1997. During his tenure, he has also served as part of the medium grade fixed income team and as a fixed income research analyst. Prior to Loomis Sayles, he worked for Liberty Mutual Insurance Company as a senior fixed income analyst and for BancBoston Financial Company as a senior credit analyst. He earned a BA from Northeastern University and an MBA from Boston University.

ELAINE STOKES, VICE PRESIDENT, PORTFOLIO MANAGER

Ms. Stokes started her investment career in 1987 and joined Loomis Sayles in 1988. She co-manages the Loomis Sayles Multi-Sector Bond Discipline and the Loomis Sales High Income Opportunities Fund. Her experience is in high yield and domestic/emerging markets. Previously, she served as both a senior high yield trader and high yield portfolio specialist for the firm. She earned a BS from St. Michael's College.

Strategy Description

Loomis Sayles High Yield Full Discretion fund (the Fund) seeks to identify attractive total return investment opportunities in U.S. high yield bonds, and opportunistically in non-benchmark sectors including emerging markets, non-U.S. dollar bonds, investment grade corporates, and convertibles.

Loomis Sayles believes that security selection is the primary driver of performance. The Fund is built using bottom-up, fundamental investment evaluation. Sector and industry allocations are a residual of this bottom-up security selection process, however, the firm does conduct its own macroeconomic research as well. This top-down thinking is used to influence security selection and sector allocation, but it is not the primary driver of these decisions.

Process Implementation

The Loomis Sayles investment process utilizes a bottom-up, fundamental security selection approach to building portfolios, overlaid with top-down, macroeconomic insights from their Economics Group and Sector Teams. The Economics Group provides a global economic and interest rate framework for identifying attractive sectors, while the Sector Teams identify specific investment opportunities within the global credit market.

The depth of the credit research team allows them to provide comprehensive market coverage by tracking over 1,500 credit issuers as well as the entire U.S. government agency and mortgage markets. The universe is exhaustive with coverage representing 96% of the Barclays Capital Investment Grade Universe, 90% of the Barclays Capital High Yield Universe, 96% of the JP Morgan EMBI Global Index, and 100% of the Citi World Government Bond Index. Therefore, very little screening is utilized. Very small issuers are generally excluded as are others lacking liquidity.

Asset class and sector allocations are influenced by their macroeconomic view, while security selection based on fundamental and relative value analysis is the primary driver of sector allocations and accounts for the majority of excess returns. Portfolio managers collaborate with in-house credit analysts to identify attractive investment opportunities in the global credit market. They look for attractively priced securities with projected stable or improving credit profiles. Analysts rely on a number of factors when considering issue selection. Specifically, they analyze cash flow projections, market position, management strength, industry developments and trends, company developments and trends, political climate, and economic forecasts.

Due to the size of the fund, Loomis can only transact in bonds that are actively trading with sufficient liquidity; therefore, many investment ideas are sourced from their bond traders.

Risk Factors and Potential Red Flags

Historically, Loomis Sayles has utilized off-benchmark allocations in addition to active sector tilts and security selection as a way to enhance returns relative to the index. The strategy does not have constraints on sector or industry exposures and portfolio guidelines also allow for exposures to non-benchmark securities. However, the strategy has been managed with relatively low tracking error to the Barclays US Corporate High

Yield Index (between 2-3% historically). As a result, during periods of market dislocation, the strategy may experience heightened volatility and potentially incur larger drawdowns, such as the experience during the financial crisis in 2008.

The ages of some of the key portfolio managers warrants some consideration, especially Mr. Fuss. Mr. Fuss is in his eighties but has expressed no desire to retire. Other members of the team are also nearing the typical retirement age but none of them have expressed any intentions to leave.

In October 2012, Kathleen Gaffney resigned from her role as portfolio manager to pursue other opportunities with another firm. Loomis had decided not to replace Ms. Gaffney given the long tenure of the team currently in place. Ms. Gaffney's departure raises key-person-risk since she was viewed as a potential successor in the event Mr. Fuss relinquishes his duties as a portfolio manager. This risk is somewhat mitigated by the long tenure of the other two portfolio managers, Matthew Egan and Elaine Stokes. However, when Mr. Fuss eventually leaves Loomis, it is likely to result in significant asset outflows despite the remaining team's experience and potential ability to continue managing the strategy in the same manner.

Performance

Performance of the investment mandate has been additive relative to the benchmark on a gross of fee basis over the recent quarter, year-to-date, and since inception by 28 bps, 59 bps and 84 bps, respectively. The portfolio's relative outperformance for the quarter and year was primarily driven by sector allocation and security selection. Overall, below investment grade industrials were top contributors to excess return, mainly due to security selection as energy and communications holdings outperformed. Below investment grade utilities also aided return for the quarter. The biggest detractor to performance was cash, which dragged on return, and the exposure to non-US-dollar-denominated holdings, namely Mexican-peso-denominated issues. Currency weakness and low oil prices hindered Mexican peso performance.

Summary Assessment

Verus believes that Loomis Sayles has the necessary experience and depth within the fixed income team to continue to execute the FCERA High Yield Full Discretion mandate. The investment team is well-seasoned and well-resourced. The strategy offers a value-driven, opportunistic approach that combines a top-down perspective of the economic and investment environment in conjunction with a bottom-up fundamental research to arrive at a best-ideas portfolio. Loomis has historically demonstrated the ability to meet investors' return expectations across various market cycles. As such, we recommend FCERA retain the relationship.

The information contained in this report may not be copied, reproduced or distributed, in whole or in part, nor may its contents or facts or terms of any securities (if any) contained therein be disclosed to any other person except in accordance with the terms of the Contract, including its terms of confidentiality.

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Operational Due Diligence Assessment

Verus' Operations team conducted an Operational Due Diligence assessment of Loomis Sayles & Partners LP ("Loomis Sayles"). The objective of the analysis was to gain a thorough understanding of the Loomis Sayles' operations, attaining a reasonable assurance that Loomis Sayles has sound organizational and governance structures, strong investment processes and procedures, and robust internal controls.

Verus sent Loomis Sayles a copy of the Verus Operational Due Diligence Questionnaire ("ODDQ")
The ODDQ focuses on seven main areas:

1. Firm/Fund overview
2. Personnel
3. Key Processes
4. Service Providers
5. Reporting
6. Systems
7. Regulation and Compliance

Verus received without limitation the following information and documents from Loomis Sayles:

- Verus ODD Questionnaire
- 2015-2016 Continuity of Business Operations - REDACTED
- Compliance Program Summary
- Firm Marketing Document
- Fresno County IPS
- Fresno County October Mailer
- Fresno County IMA
- Operations Manual
- Pricing Policies Procedures
- Sample Loomis Sayles High Yield Full Discretion RFP Q3 2015 Final
- SOC 1 Report 2014
- Brokerage Allocation Policies Procedures
- Derivatives Counterparty Policies Procedures
- Employee Data
- Firm Overview – Senior Management 11.01.2015
- Insider Trading Policies Procedures
- Investment Operations Overview
- Management Company Org Chart
- Operations Department Overview
- Research Group Overview
- Trade Aggregation Allocation Procedures

Based on Verus' due diligence processes and the information and documents provided:

Loomis Sayles has passed the operational due diligence assessment. Verus Operations will continue to monitor certain reports and information and will perform additional due diligence, as necessary.

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Verus

PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS

NOVEMBER, 2016

Investment Due Diligence Summary

Invesco, LTD

Balanced-Risk Commodities

VERUSINVESTMENTS.COM

SEATTLE 206-622-3700
LOS ANGELES 310-297-1777
SAN FRANCISCO 415-362-3484

X	**Verus FL Strategy**
	Verus FL Manager
	Client Requested Review

Date Onsite: March 2, 2016

Verus Attendees
John Wasnock – Senior Research Analyst

Invesco Attendees
Mark Ahnrud, CFA, Portfolio Manager
Chris Devine, CFA, Portfolio Manager
Scott Hixon, CFA, Head of Investment Research
Christian Ulrich, CFA, Portfolio Manager
Scott Wolle, CFA, Chief Investment Officer

Overview

Asset Class
Commodities

Investment Style
Active Futures Based

Firm Ownership
Subsidiary of Invesco, PLC, a publicly traded

Firm Assets
$775 billion.

FCERA Strategy
- Invesco Balanced-Risk Commodity Trust

Onsite Summary

Firm Overview

The overall firm now has $775 billion in assets spread across a wide range of investment capabilities. They manage $371 billion in equities, $253 billion in fixed income, $48 billion in balanced strategies and $104 billion in alternatives. The Global Asset Allocation team, which the commodity strategy is managed, currently has $24 billion in assets under management. The bulk of the Global Asset Allocation team assets are in their flagship multi asset Balanced-Risk strategy (long only), which has approximately $16 billion. The Balanced Risk Commodities strategy has $1.1 billion in dedicated assets. The largest areas for AUM growth in the firm have been in the real estate and global asset allocation teams.

The Global Asset Allocation team, based in Atlanta, is led by five Senior Portfolio Managers who have been together collectively since 2000. They have added people over time and now there are eleven members of the team that average 22 years of experience. Additionally, they have three dedicated support analysts. They have not lost a team member since 2007, which was an Analyst position.

The team members are all considered generalists across the multi-asset platform. They have a compensation structure that includes salary and a bonus that is performance related over one & three years. The bonus has a current portion and a deferred portion of Invesco stock that vests over four years.

Balanced Risk Commodity Strategy

Invesco is currently managing $7 billion in total commodities assets. Approximately $6 billion is part of their multi asset strategy and $1.1 billion in their dedicated commodities strategy. They believe they can manage up to $15 billion in commodities (CFTC limits are the primary constraint). The target for the strategy is to outperform the Bloomberg Commodities Index by 5% over a full market cycle with better risk diversification. Since inception, the strategy has achieved its target.

The strategy's positioning includes a structural component, tied to term structure and an equal risk contribution, as well as a tactical component, which includes optimal roll yield management and tactical sector allocation. The structural component is based on a longer term view of the market, which incorporates commodity scarcity and difficulty of storage. Commodities that more often trade in contango (e.g. natural gas) are structurally underweighted and those that are more often in backwardation(e.g. gasoline) are overweighted. The equal risk contribution reduces exposure to those commodities that exhibit higher volatility (e.g. energy) and increases those with low volatility (e.g. precious metals).

The tactical component allows an overlay to the long term structural component of the strategy and is able to have notional exposure between 75% to 125%. In periods when commodities are out of favor, they will be underweight exposure and vice versa in periods when commodities are in favor. They use both momentum indicators in every commodity, monitoring 3 month and 10 month moving averages as well as macro-economic strength indicators such as monetary policy, yield curve slopes, U.S. Dollar strength as examples.

Current positioning has a tactical underweight to nearly all commodities due to oversupply issues that are prevalent. Over much of 2014-15, the exposure was close to the lowest end of that range at around 80% exposure, which has benefitted performance

Performance

The Balanced Risk Commodity strategy continues to outperform The Bloomberg Commodities Index by significant margins. Over recent time periods the lower than index notional exposure, driven by the tactical component has been a significant tail wind as commodities has trended lower, especially in 2014 and 2015. The risk balanced component, which reduces exposure to high volatility commodities has also provided positive relative performance as energy had traded downward significantly from its 2013 peaks.

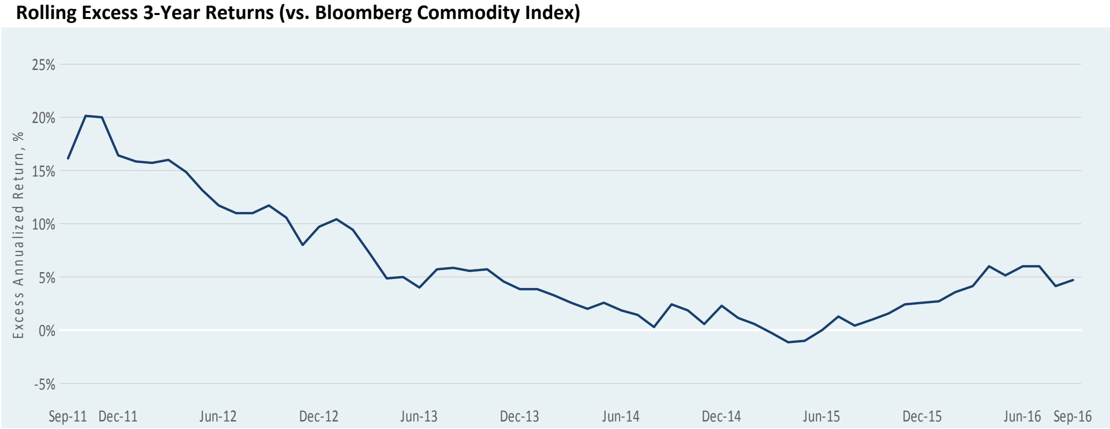
Annualized Returns	**1-Year**	**3-Year**	**5-Year**	**7-Year**
Invesco Balanced Risk Commodities	8.5	-7.6	-4.0	0.9
Bloomberg Commodity Index	-2.6	-12.3	-9.4	-5.5
Excess Returns	11.1	4.7	5.4	6.4

as of 9/30/16

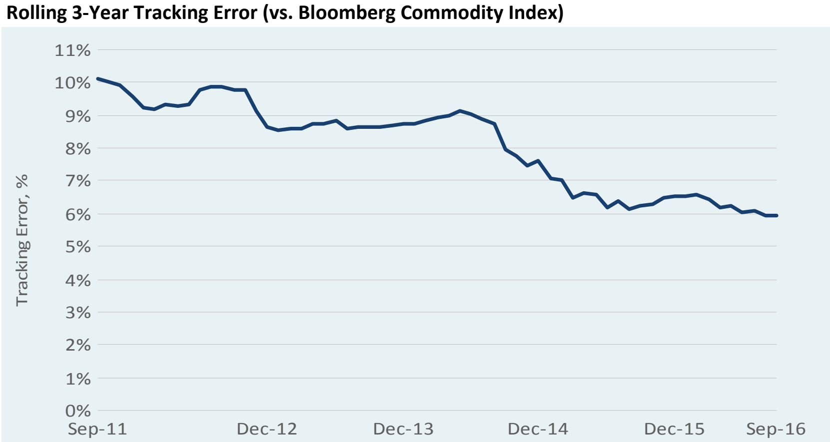
Calendar Returns	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016 YTD**
Invesco Balanced Risk Commodities	52.3	31.1	-7.1	8.8	-13.1	-15.4	-15.6	14.1
Bloomberg Commodity Index	18.9	16.8	13.3	-1.1	-9.5	-17.0	-24.7	8.9
Excess Returns	33.4	14.3	**-20.4**	**9.9**	-3.6	1.6	9.1	5.2

as of 9/30/16

Rolling Excess 3-Year Returns (vs. Bloomberg Commodity Index)



Rolling 3-Year Tracking Error (vs. Bloomberg Commodity Index)



Conclusion

The Invesco Balanced Risk Commodity strategy has achieved its target excess performance over the long term. The strategy remains a focus list strategy at Verus for those clients looking to gain active commodities exposure and a willingness to invest in a high tracking error strategy that at times will look much different that the benchmark with higher tracking error that other active commodities strategies. Additionally, clients must be willing to accept there will be periods where notional exposure will be as high as 125% or as low as 75%, based on the manager's process.

Verus

Operational Due Diligence Assessment

Verus' Operations team conducted an Operational Due Diligence assessment of Invesco Trust Company ("ITC"). The objective of the analysis was to gain a thorough understanding of the ITC's operations, attaining a reasonable assurance that ITC has sound organizational and governance structures, strong investment processes and procedures, and robust internal controls.
Verus sent ITC a copy of the Verus Operational Due Diligence Questionnaire ("ODDQ")

The ODDQ focuses on seven main areas:
1. Firm/Fund overview
2. Personnel
3. Key Processes
4. Service Providers
5. Reporting
6. Systems
7. Regulation and Compliance

Verus received without limitation the following information and documents from ITC:

- Fresno County ERA Versus (IBRC) Onsite DDQ
- Invesco Pricing Procedures
- Invesco Pricing Methodology Grid Exhibit 1
- Invesco Trust Company Declaration of Trust
- IVZ Information Security Overview
- Invesco Advisers, Inc. Code of Ethics
- Invesco Advisers, Inc. Compliance Manual Policies and Procedures TOC
- Insider Trading Policies
- Invesco BCP Overview

Based on Verus' due diligence processes and the information and documents provided:

ITC has passed the operational due diligence assessment. Verus Operations will continue to monitor certain reports and information and will perform additional due diligence, as necessary.

Past performance is no guarantee of future results. *The information presented in this report is provided pursuant to the contractual agreement (the "Contract") by and between Fresno County Employees Retirement Association ("Client") and Verus Advisory, Inc. ("Company"). In the event of conflict between the terms of this disclosure and the Contract, the Contract shall take precedence. Client is an institutional counter-party and in no event should the information presented be relied upon by a retail investor.*

The information presented has been prepared by the Company from sources that it believes to be reliable and the Company has exercised all reasonable professional care in preparing the information presented. However, the Company cannot guarantee the accuracy of the information contained therein. The Company shall not be liable to Client or any third party for inaccuracy or in-authenticity of information obtained or received from third parties in the analysis or for any errors or omissions in content.

The information presented does not purport to be all-inclusive nor does it contain all information that the Client may desire for its purposes. The information presented should be read in conjunction with any other material furnished by the Company. The Company will be available, upon request, to discuss the information presented in the report that Client may consider necessary, as well as any information needed to verify the accuracy of the information set forth therein, to the extent Company possesses the same or can acquire it without unreasonable effort or expense. Nothing contained therein is, or should be relied on as, a promise, representation, or guarantee as to future performance or a particular outcome. Even with portfolio diversification, asset allocation, and a long-term approach, investing involves risk of loss that the client should be prepared to bear.

The material may include estimates, outlooks, projections and other "forward-looking statements." Such statements can be identified by the use of terminology such as "believes," "expects," "may," "will," "should," "anticipates," or the negative of any of the foregoing or comparable terminology, or by discussion of strategy, or assumptions such as economic conditions underlying other statements. No assurance can be given that future results described or implied by any forward-looking information will be achieved. Actual events may differ significantly from those presented. Investing entails risks, including possible loss of principal. Risk controls and models do not promise any level of performance or guarantee against loss of principal.

Verus

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THAT DRIVE
ENTERPRISE
SUCCESS

NOVEMBER, 2016

Investment Due Diligence Summary

Invesco, LTD

Real Estate – Core

VERUSINVESTMENTS.COM

SEATTLE 206-622-3700
LOS ANGELES 310-297-1777
SAN FRANCISCO 415-362-3484

X	**Verus FL Strategy**
	Verus FL Manager
	Client Requested Review

Date Onsite: March 2, 2016

Verus Attendees
John Wasnock – Senior Research Analyst

Invesco Attendees
Max Swango, Managing Director, Head of Client Portfolio Management
Brad Gillman, Managing Director, U.S. Consultant Relations Team
Mike Sobolik, MD, Regional Director of Research, North America
Nick Buss, Senior Director, Senior Research Analyst
Michelle Foss, Director, Portfolio Manager
Beth Worthy, Director, Fund Operations
Thomas Threadgill, Fund Operations Analyst
Melissa Neckar, Senior Product Specialist
Kevin Conroy, Associate Portfolio Manager
Courtney Popelka, Director, Fund Operations
Dan Kubiak, Director Portfolio Manager
Bert Crouch, Managing Director, Investment Officer – Structured Investments

Overview

Asset Class
Real Estate

Investment Style
Core

Firm Ownership
Subsidiary of Invesco, PLC, a publicly traded

Firm Assets
$775 billion. $64.4 billion in real estate.

FCERA Strategy

- Invesco Core Real Estate USA

Onsite Summary

Firm Overview

The real estate business has $64.4 billion with 434 employees and 40 Managing Directors globally. They all share in profits to align interests across the entire platform. The alignment is not as "silo-ed" as it used to be. 195 employees in North America, 132 in Europe and 107 in Asia. They manage core, core plus, value added and opportunistic in all regions. Overall, the firm is only in the investment management business, which has been an advantage at times vs. competitors that have been in trouble in other areas of their businesses. They believe their competitive advantages are diversified investment styles across their real estate platform, reduction of separate accounts (only a few larger clients now) and ability to attract & retain talent.

They have been adding non-US clients in core over the last several years and now comprise 20% of the client base in the core fund.

Departures of note have been: A senior acquisitions officer in New York, Todd Bussian, who left for a start-up. No Managing Director level departures. Typically they have a 10% departure rate for junior members.

Research

The firm's top down research is more focused on supporting the core strategies. They currently have more interest in urban growth CBD (central business districts) and high density suburban markets. They currently believe market selection and variability between markets is becoming less impactful and they believe asset selection will be a more key driver going forward, given the fact that high growth markets are more expensive, but have greater demand and better fundamentals to support that higher pricing.

They build a five year forecast for each market, plus other indicators including job growth, permits, vacancy, and rent growth. They believe multifamily vacancy has likely topped out. They believe slow growth has been a good thing for the real estate markets, as it hasn't caused an oversupply and interest rates have remained low.

Core Fund USA

They have become more defensive overall. They like the strategy of taking short term vacancy risk, not longer term. They are looking to sell good assets in suburban markets that are not high density markets. Also selling older apartment assets. They believe pricing for value added (spreads) have compressed down to 150 basis points in cap rates. They look to find curable problems in the value added space. They don't believe in "timing" markets, but believe late cycle they want to be in lower leverage, underweight office, overweight multifamily, higher quality assets and near term execution timeframes on value added. Core leverage is targeted at 20-25% and now at 20%, at the lower end of the range. Value added leverage is at 50% now with a range of 50-60%, so also at the lower end of the target range. In the core fund, they are currently at 5.5% value added, with a maximum allowed of 10%. They have three development projects with a goal of "creating core" as long term holds, not flips.

In their industrial portfolio, they are shifting focus back to larger, infill assets close to population centers that are designed for same day delivery demand, which has been increasing as e-commerce increases. In retail, they like a two pronged approach – focus on grocery anchored retail and high street "experiential" retail. High street retail are great location centers that are hard to replicate online. Within their apartment and office portfolio, they are continuing to shift from suburban to urban. Currently their portfolio is 80/20 urban/suburban, whereas five years ago, it was reversed at 20/80.

Asset flows

They have historically added $700 to 900 million annually to the core fund. In 2015 they were seeing more client interest in value added and has shifted back to core in 2016. Their queue is down to $20 million plus $75 million in commitments.

Performance

Performance has been pretty close to median over intermediate timeframes. Leverage has been a couple percent below peers at high teens to the low 20's percent over the last couple of years versus an industry average around 21-22%. The fund has had a conservative debt structure using longer term debt than peers, which has also been a slight headwind. Their value added portion of their portfolio is also slightly below peers at 5%. The shift in the portfolio over the last five years from heavier suburban assets to a greater percentage in urban assets

Conclusion

The Invesco Core Real Estate USA fund remains a recommended focus list strategy at Verus. We like the steady, stable firm and the team is very deep and experienced with minimal turnover. The portfolio is currently positioned well to take advantage of the demand in high quality assets in urban areas, while remaining slightly conservative with respect to leverage and debt usage, given where we are at in this point of the cycle. We recommend no changes to the exposure in this strategy.

Operational Due Diligence Assessment

Verus' Operations team conducted an Operational Due Diligence assessment of Invesco Advisers, Inc. ("Invesco"). The objective of the analysis was to gain a thorough understanding of the Invesco's operations, attaining a reasonable assurance that Invesco has sound organizational and governance structures, strong investment processes and procedures, and robust internal controls.
Verus sent Invesco a copy of the Verus Operational Due Diligence Questionnaire ("ODDQ")

The ODDQ focuses on seven main areas:
1. Firm/Fund overview
2. Personnel
3. Key Processes
4. Service Providers
5. Reporting
6. Systems
7. Regulation and Compliance

Verus received without limitation the following information and documents from Invesco:

- Fresno County ERS-Verus (Core Fund) Onsite DDQ
- F2015 ICRE Annual Report
- 2015 Invesco US IA and ITGC SOC1
- 2015Q4 ICRE Flash Report
- IRE Core Fund Valuation Policy
- Invesco Level Cash Management Procedures
- IVZ Information Security Overview
- Invesco BCP Overview
- 2015 206(4)7 Annual Report
- Invesco Advisers, Inc. Code of Ethics
- Invesco Advisers, Inc. Compliance Manual Policies and Procedures (Table of Contents)
- Insider Trading Policies
- Standard Core Client Book (4Q15)

Based on Verus' due diligence processes and the information and documents provided:

Invesco has passed the operational due diligence assessment. Verus Operations will continue to monitor certain reports and information and will perform additional due diligence, as necessary.

Past performance is no guarantee of future results. *The information presented in this report is provided pursuant to the contractual agreement (the "Contract") by and between Fresno County Employees Retirement Association ("Client") and Verus Advisory, Inc. ("Company"). In the event of conflict between the terms of this disclosure and the Contract, the Contract shall take precedence. Client is an institutional counter-party and in no event should the information presented be relied upon by a retail investor.*
The information presented has been prepared by the Company from sources that it believes to be reliable and the Company has exercised all reasonable professional care in preparing the information presented. However, the Company cannot guarantee the accuracy of the information contained therein. The Company shall not be liable to Client or any third party for inaccuracy or in-authenticity of information obtained or received from third parties in the analysis or for any errors or omissions in content.
The information presented does not purport to be all-inclusive nor does it contain all information that the Client may desire for its purposes. The information presented should be read in conjunction with any other material furnished by the Company. The Company will be available, upon request, to discuss the information presented in the report that Client may consider necessary, as well as any information needed to verify the accuracy of the information set forth therein, to the extent Company possesses the same or can acquire it without unreasonable effort or expense. Nothing contained therein is, or should be relied on as, a promise, representation, or guarantee as to future performance or a particular outcome. Even with portfolio diversification, asset allocation, and a long-term approach, investing involves risk of loss that the client should be prepared to bear.
The material may include estimates, outlooks, projections and other "forward-looking statements." Such statements can be identified by the use of terminology such as "believes," "expects," "may," "will," "should," "anticipates," or the negative of any of the foregoing or comparable terminology, or by discussion of strategy, or assumptions such as economic conditions underlying other statements. No assurance can be given that future results described or implied by any forward-looking information will be achieved. Actual events may differ significantly from those presented. Investing entails risks, including possible loss of principal. Risk controls and models do not promise any level of performance or guarantee against loss of principal.

Verus

PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS

SEPTEMBER 2016

Investment Due Diligence Summary

Grosvenor Capital Management, L.P.

Hedge Fund of Funds

VERUSINVESTMENTS.COM

SEATTLE 206-622-3700
LOS ANGELES 310-297-1777
SAN FRANCISCO 415-362-3484

Date Reviewed: 26 July 2016

Verus Attendees
Brian Rowe, CFA, CAIA – Managing Director | Hedge Funds
Trevor Parmelee, CFA – Research Analyst

Grosvenor Attendees
Lisa Kastigar – Director, Business Development
Jon Levin – Managing Director, Office of the Chairman
Ivaldo Basso – Managing Director, Investment Operations
Mary Ronsheim – Vice President, Legal
Jennifer Stack – Managing Director, Investments – Risk Management
Dianna Di Iorio Henrich – Senior Vice President, Investments - Public Markets
David Richter – Managing Director, Investments – Public Markets
Kendal Lewis Rowden - Associate, Portfolio Management – Public Markets
Frederick Pollock – Managing Director, Strategic Investments

Overview

Asset Class
Hedge Funds

Investment Approach
Diversified Fund of Funds

Firm Ownership
Employees and former associates own 71% of Grosvenor Capital Management (“GCM”). Chairman and CEO Michael Sacks is the firm’s principal owner. The remaining 29% of the firm is collectively owned by three private equity vehicles under the management of Hellman & Friedman LLC (“H&F Partners”). H&F Partner’s minority investment is passive and they do not play an active role in day-to-day management of the firm.

Firm Assets – as of 6/30/16
$24.9 billion (Public Markets)
$23.0 billion (Private Markets)

Strategy Assets – as of 6/30/16
$5.2 billion (commingled fund only)

FCERA Strategies – as of 6/30/16
Grosvenor Institutional Partners – $147 million

Onsite Visit Summary

Grosvenor is one of the largest hedge fund investment firms in the world and our visit to their headquarters in Chicago reinforced our conviction in their ability to deliver satisfactory results for clients. We met with team members from the various groups involved in the investment process (Research, Portfolio Management, Operations, Risk Management, and Strategic Investments); everyone seemed knowledgeable and able to answer all questions we asked, and even able to answer those that didn't fall directly under their area of expertise. We also received an impressive demonstration of the web portal that is used for manager due diligence reporting, risk management, and portfolio monitoring. Grosvenor has consistently proved that they are willing to accommodate our client's needs and satisfy our requirements for appropriate monitoring and due diligence.

Ms. Kastigar provided an update on the firm and the AUM breakdown between Public Markets ($25 billion) and Private Markets ($15 billion in "traditional" PE, rest spread across real estate, infrastructure, credit, etc.). Mr. Levin discussed the new Strategic Investments Group that will source "best ideas" from across both platforms and is led by Frederick Pollock, who we met with later during our visit. We also discussed the "Global Investment Council", formed in 2015 to provide high level guidance and allow the firm to make more informed decisions. It consists of team members from both divisions and will not have any approval responsibilities. Broadly speaking, Mr. Levin stated that the firm was positioned in a conservative manner, as evidenced by the falling allocation to equity strategies in recent years. It would be reasonable to expect this trend to continue in the short term.

The big takeaway from our discussion with Mr. Richter and team was their emphasis on being as nimble as possible and finding new ways to add value such as creating unique account structures, increasing co-investment exposure, and making opportunistic direct trades in certain circumstances. They are investing significant resources to build out this platform, led by Mr. Pollack and the Strategic Investments Group, we consider to be necessary for Grosvenor to keep up with peers. Additionally, we no longer see the acquisition of the private markets division as a distraction. We have begun to see some of the expected benefits materialize as integration matures in the form of cross-platform sharing of research, connections, sourcing, and best ideas for process/management. Highlights from our discussions with the team are below.

Research and Portfolio Management (Richter, Di lorio Henrich, Lewis Rowden, Pollock)

- Prospective managers need ¾ vote to pass the IDD committee. If it ties, the vote is decided by CEO Michael Sacks. This has rarely happened. The risk team does not have an explicit veto authority but can present their case to Michael Sacks, who does have authority to veto. This is also rare, and the team is very focused on making their concerns known early on in the due diligence process.
- Five responsibilities of the IDD committee:
    - Quarterly allocations to various strategy types
    - Policies and guidelines for all mandates
    - Approvals and terminations of managers
    - Adding and removal of managers from watch
    - Provide strategic guidance for teams
- Three to six managers are usually on watch for various "formal" concerns. Part of the reason for having a watch list is to have a check on the risk of redeeming from a manager too soon.

- Investment decisions are analyzed ex-post to determine whether right move was made as well as which group was responsible for the idea (committee vs. research teams).
    - Talked about Discovery as an example: They had done poorly, placed them on watch but confirmed their conviction in the fund. They now believe that with lower AUM the manager is more likely to meet or exceed their performance expectations going forward, and have shown that in recent months.
- Funds are either part of the "Core" or "Tactical" allocations. Core is typically 2/3rds, Tactical 1/3rd. Core investments are considered very long term (Elliott, Fir Tree, Citadel) investments, while Tactical managers have a "shorter leash" on their performance. Typically, 18-24 months is the window of evaluation for Tactical managers.
- If a manager is on the Investment watch list, no future allocations are allowed whatsoever (compared to the Operational watch list, where allocations can be approved with a committee override).
- There are currently six Strategy (Macro, Distressed, etc.) teams and two Regional teams.
- Grosvenor believes there are approximately 1000 hedge funds of "institutional quality".
- Themes over last 24 months have included volatility trading, long volatility bias, and decreasing directional equity exposure.
- Portfolios are tested monthly for compliance.

Operational Due Diligence (Basso)

- Fourteen dedicated professionals, fourteen additional full-time equivalents (much higher number of personnel who contribute but are not dedicated ODD professionals).
- Currently cover 90 hedge fund managers and 140-150 individual funds across the entire platform.
- 80% of time is spent monitoring existing investments, remaining is spent on prospective managers and other tasks.
- 80% of ODD conducted on prospective managers requires one or more significant changes to be made before moving forward with approval. Example of significant change would be modifying insider/employee rules with regards to preferential terms investing in their fund, more often with regards to liquidity terms rather than fees.
- Two to three days before they actually invest (physically wire the money) they will ask a series of questions to make sure there are no surprises or changes. Mr. Basso was able to give an example of a manger being notified of an SEC investigation in the time between final due diligence and scheduled investment date.
- Twelve of the program's ninety managers are going through some sort of government event (SEC/IRS/DOJ), routine or not. They were not able to provide details on which managers.
- Once a manager is undergoing some sort of legal event, they are placed on operations watch list, and cannot receive any future allocations without explicit approval from the committee.
- The team recently added three dedicated legal professionals to support the strategic investment platform buildout.

Legal (Ronsheim)

- Sixty custom/managed accounts which require legal review. More upfront work is required for these accounts but at this point they have most of the templates built out and are aware of the primary sticking points.

- Asked if clients (such as FCERA) would be able to review Grosvenor's legal review documentations, she confirmed that clients would have access to any findings, impressions, terms – anything that goes into their internal reports will be available to solutions clients.
- They like to catch the managers off guard by sending list of required documentation only a short time before they visit them.

Risk Management (Stack)

- Currently manage eight dedicated risk professionals with another individual joining soon. Group size has historically ranged from 5-10 over the years.
- Their three key tenets of risk management:
  - Top down macro support for strategy heads and the research they conduct
  - Manager level analysis: absolute, relative to peers, risk decomposition, performance attribution, qualitative topics for discussion. Ms. Stack noted they had success recreating the Barr and Northfield factors (or similar ones) in house to use.
  - Portfolio construction, top-down or bottom-up.
- They can gather data directly from managers or through a third party risk aggregator. If it does come from a third party, they will go through extensive reconciliation exercises to ensure there are no gaps or mismatches from what the manager would provide.
- Equity funds are very easy (in terms of data quality, access) compared to non-equity funds, which usually require some custom data metrics to be satisfactory.
- Monitoring existing managers for return outliers can be done by comparison to historical return profiles, aggregated exposure proxy portfolios, or a multi-factor model. These are all available to solutions clients via the online portal.

Strategic Investments Discussion (Pollack)

- They see the ability to source new ideas as the biggest challenge running an opportunistic fund. They claim (and we would agree) their advantage comes from being one of the largest and most tenured HF and PE investors in the space.
- The group is breaks out prospective investments into three types:
  - Direct: As a result of dislocations, Grosvenor will be able to act quickly and execute the trade themselves. Discretion lies with Grosvenor.
  - Co-investment: No different than existing co-investment strategies. Manager has typically sized their highest conviction idea at maximum allowed, and will reach out to strategic partners such as Grosvenor and share some attractive terms to get some additional capital behind it in a dedicated vehicle.
  - Hybrid: Like co-investments, ideas are sourced from managers, but they haven't set up a dedicated vehicle. Grosvenor will execute directly in the market, own and hold the securities, but will remunerate some funds back to the manager if the investment is successful. This structure allows them to be much quicker than waiting for the process of getting a dedicated investment vehicle up and running and committing.
- They've been running a ~3% slice of GIP and it has a return target of 10% over cash.
- Investments will have no longer than a 5-year expected time horizon.
- No external investors yet, looking to begin marketing to external clients around the end of the year.
- They have built out a dedicated team of seven (including Mr. Pollack) that includes people with direct investing experience and three traders.

Biographies

JONATHAN R. LEVIN, MANAGING DIRECTOR, OFFICE OF THE CHAIRMAN

Mr. Levin is a member of the Office of the Chairman, Head of the Strategy and Corporate Development Team, and Chair of the Global Investment Council. He assists in managing the firm on a day-to-day basis and is responsible for guiding the short- and long-term objectives of the business. Mr. Levin is also a member of the Investment Committees for Private Markets, Public Markets Seeding and certain opportunistic investing strategies. Prior to joining GCM Grosvenor, Mr. Levin was the Treasurer and Head of Investor Relations at Kohlberg Kravis Roberts & Co., where he was responsible for managing KKR's balance sheet investments, engaging with public investors and industry analysts, and leading strategic projects. Prior to his role as Treasurer and Head of Investor Relations, Mr. Levin worked in KKR's private equity business and focused on investments in the financial services industry. Mr. Levin began his career as an Analyst within the private equity group of Bear Stearns. He holds an A.B. in Economics from Harvard College. Mr. Levin is a member of the Board of Directors of the Ann & Robert H. Lurie Children's Hospital of Chicago.

IVALDO M. BASSO, CPA, HEAD OF INVESTMENT OPERATIONS

Mr. Basso heads the Finance Department's Investment Operations, including the Operational Due Diligence Team, Trade Management Team and Treasury Team. Mr. Basso is primarily responsible for operational due diligence matters, including evaluating the operational infrastructure of investment managers and negotiating terms of investments. Prior to joining GCM Grosvenor, from 2002 to 2004, Mr. Basso worked in the Financial Services Industry Practice for Ernst & Young, L.L.P. in its Chicago office. From 1994 to 2002, he worked in the same capacity for Arthur Andersen, L.L.P. in its Chicago office. He received a Bachelor of Science in Accounting from Northern Illinois University in 1994. He is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants and the Illinois CPA Society.

MARY P. RONSHEIM, J.D., VICE PRESIDENT, FINANCE

Ms. Ronsheim is a member of the Operational Due Diligence Team. Ms. Ronsheim shares responsibility for the legal aspects of operational due diligence, including drafting and negotiation of side letters with managers, legal review and analysis of underlying commingled fund governing documents, structuring customized single investor funds with underlying managers, interpreting the liquidity provisions of managers' legal documents, and coordinating the firm's proxy review and voting process. Prior to joining GCM Grosvenor, from 2005 to 2007, she was associated with Foley Law Firm in Wisconsin. She graduated *magna cum laude* from Saint Louis University in 2003 with a Bachelor of Science in Business and Administration and received a Juris Doctor from Marquette University Law School in 2006. Ms. Ronsheim is a member of the Illinois and Wisconsin Bars.

JENNIFER N. STACK, PH.D., HEAD OF RISK MANAGEMENT

Ms. Stack is Head of Public Markets Risk Management and serves on the Global Investment Council. Ms. Stack and her team are responsible for independently reviewing each potential investment manager, assessing the risk in portfolios in conjunction with the Public Markets Portfolio Management Team, and working with the Information Technology Team to build and deploy analytical tools. She graduated summa cum laude with her Bachelor of Arts in Economics and Mathematics from Wellesley College in 2001. She was a National Science Foundation Graduate Research Fellow at Harvard University, where she completed her Doctor of Philosophy in Economics in 2005.

DAVID S. RICHTER, CPA, PUBLIC MARKETS INVESTMENT COMMITTEE CHAIR, CO-HEAD OF RESEARCH

Mr. Richter is Chair of the Public Markets Investment Committee, is Co-Head of Public Markets Research and serves on the Global Investment Council. Mr. Richter is also a member of the Special Opportunities Investment Committee. Mr. Richter approves public markets portfolio allocations and shares responsibility for the evaluation, selection and monitoring of various investment strategies and investment managers. Prior to joining GCM Grosvenor, from 1994 through 2002, he was the Founder and Managing Partner of Chicago-based Waveland Capital Management, L.P., a U.S. long/short equity hedge fund affiliated with GCM Grosvenor. From 1988 to 1994, Mr. Richter was a Vice President of JMB Realty Corporation in the Corporate Acquisitions Group. Prior to 1988, Mr. Richter was a Manager of KPMG Peat Marwick. He graduated summa cum laude with his Bachelor of Science in Accountancy from the University of Illinois at Urbana-Champaign in 1983. Mr. Richter is a Certified Public Accountant and received the national AICPA Elijah Watt Sells Award from the American Institute of CPAs for his scores on the Uniform CPA Examination.

FREDERICK POLLOCK, J.D., PUBLIC MARKETS INVESTMENT COMMITTEE MEMBER, CO-HEAD OF RESEARCH, HEAD OF STRATEGIC INVESTMENTS TEAM

Mr. Pollock is Head of Strategic Investments, is a member of the Public Markets Investment Committee, is Co-Head of Public Markets Research and serves on the Global Investment Council. He is also Chair of the Special Opportunities Investment Committee. Prior to joining GCM Grosvenor, from 2006 to 2015, Mr. Pollock had various roles at Morgan Stanley, most recently as Senior Adviser to its merchant banking division. In his roles at Morgan Stanley, Mr. Pollock specialized in infrastructure investments and was responsible for deal sourcing and due diligence, assessing proposed investments, managing the financing and realization process, and serving as Board Member of portfolio companies. He helped form the infrastructure investment group at Morgan Stanley in 2006 and structured and raised capital for its initial funds. In addition, Mr. Pollock founded a boutique investment company in 2010 and was a Managing Partner at the company until 2014. From 2005 to 2006, he was an Assistant Vice President at Deutsche Bank, where he made direct investments in infrastructure projects and real estate companies. From 2003 to 2005, he was co-founder of a private investment company, during which time he developed the company's business model and overall strategic plan and facilitated its partnership with New York University and ING Bank. He received his Bachelor of Science summa cum laude in Economics from the University of Nevada in 2001 and his Juris Doctor magna cum laude from Harvard Law School in 2004.

DIANNA (DI LORIO) HENRICH, CFA, SENIOR VICE PRESIDENT, PORTFOLIO MANAGEMENT

Ms. Henrich serves as a Public Markets Portfolio Manager for multi-strategy portfolios as well as other specialized strategies and custom mandates. Ms. Henrich leads activities related to the construction, implementation and monitoring of portfolios. Prior to joining GCM Grosvenor, Ms. Henrich was a Senior Financial Analyst at Goldman Sachs in Private Wealth Management and worked closely with clients to make asset allocation and manager selection decisions. She was also previously at the JPMorgan Private Bank, where she worked with bankers, investors, wealth advisors, and fiduciary officers to service ultra-high net worth individuals. Ms. Henrich received her Bachelor of Arts cum laude with department honors, double majoring in Economics and Mathematical Methods in the Social Sciences, from Northwestern University and her Master of Business Administration with honors and Beta Gamma Sigma membership from the University of Chicago Booth School of Business. Ms. Henrich holds the Chartered Financial Analyst® designation.

Operational Due Diligence Assessment

Verus' Operations team conducted an operational due diligence assessment of Grosvenor Capital Management, L.P. ("GCM"). The objective of the analysis was to gain a thorough understanding of the GCM's operations, attaining a reasonable assurance that GCM has sound organizational and governance structures, strong investment processes and procedures, and robust internal controls.

Verus sent GCM a copy of the Verus operational due diligence questionnaire ("ODDQ"). The ODDQ focuses on seven main areas:

1. Firm/Fund overview
2. Personnel
3. Key Processes
4. Service Providers
5. Reporting
6. Systems
7. Regulation and Compliance

Verus received without limitation the following information and documents from GCM:

- Appendix A: Biographies for Key Personnel
- Appendix B: Grosvenor Due Diligence Questionnaire
- Appendix C: Overview Presentation
- Appendix D: Sample Investor Reporting Book
- Appendix E: NAV Process Summary March 2016
- Appendix F: 2015 SOC 1 Report
- Appendix G: Code of Ethics
- Operational Due Diligence Questionnaire

Based on Verus' due diligence processes and the information and documents provided:

GCM has passed the operational due diligence assessment. Verus Operations will continue to monitor certain reports and information and will perform additional due diligence, as necessary.

Past performance is no guarantee of future results. *The information presented in this report is provided pursuant to the contractual agreement (the "Contract") by and between Fresno County Employees' Retirement Association ("Client") and Verus Advisory, Inc. ("Company"). In the event of conflict between the terms of this disclosure and the Contract, the Contract shall take precedence. Client is an institutional counter-party and in no event should the information presented be relied upon by a retail investor.*

The information presented has been prepared by the Company from sources that it believes to be reliable and the Company has exercised all reasonable professional care in preparing the information presented. However, the Company cannot guarantee the accuracy of the information contained therein. The Company shall not be liable to Client or any third party for inaccuracy or in-authenticity of information obtained or received from third parties in the analysis or for any errors or omissions in content.

The information presented does not purport to be all-inclusive nor does it contain all information that the Client may desire for its purposes. The information presented should be read in conjunction with any other material furnished by the Company. The Company will be available, upon request, to discuss the information presented in the report that Client may consider necessary, as well as any information needed to verify the accuracy of the information set forth therein, to the extent Company possesses the same or can acquire it without unreasonable effort or expense. Nothing contained therein is, or should be relied on as, a promise, representation, or guarantee as to future performance or a particular outcome. Even with portfolio diversification, asset allocation, and a long-term approach, investing involves risk of loss that the client should be prepared to bear.

The material may include estimates, outlooks, projections and other "forward-looking statements." Such statements can be identified by the use of terminology such as "believes," "expects," "may," "will," "should," "anticipates," or the negative of any of the foregoing or comparable terminology, or by discussion of strategy, or assumptions such as economic conditions underlying other statements. No assurance can be given that future results described or implied by any forward-looking information will be achieved. Actual events may differ significantly from those presented. Investing entails risks, including possible loss of principal. Risk controls and models do not promise any level of performance or guarantee against loss of principal.

Verus

PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS

JUNE 30, 2016

Investment Due Diligence Summary

AJO

Large Cap – Absolute Value

VERUSINVESTMENTS.COM

SEATTLE 206-622-3700
LOS ANGELES 310-297-1777
SAN FRANCISCO 415-362-3484

X	**Verus FL Strategy**
X	**Verus FL Manager**
X	**Client Requested Review**

Date Reviewed: June 30, 2016

Location
AJO
230 Broad Street, 20th Floor
Philadelphia, PA 19102

Verus Attendees
Margaret Jadallah – Managing Director, Senior Consultant
Vincent A. Francom, CFA, CAIA – Senior Research Analyst

AJO Attendees
Theodore R. Aronson, CFA, CIC – Managing Principal, Portfolio Manager
Gina N. Moore, CFA – Principal, Portfolio Manager
Gregory J. Rogers, CFA – Principal, Portfolio Manager
Jocelin Reed, CFA – Associate, Portfolio Manager
Douglas D. Dixon, CFA – Principal, Trader
Joseph J. Finer, CFA – Associate, Trader
Robert O. Louka, CFA – Principal, Trader
Sean D. Paylor – Associate, Trader
Stefani Cranston, CFA, CPA – Principal, Portfolio Manager
Joseph F. Dietrick – Principal, Chief Compliance Officer

Overview

Asset Class
Domestic Equities

Investment Style
Large Cap Value

Firm Ownership
AJO (formerly Aronson Johnson Ortiz) is an independent, registered investment adviser founded in 1984 by Theodore Aronson. The firm is a limited partnership and is wholly owned by 17 active principals. Of these active principals, Mr. Aronson maintains the largest ownership share in the firm (42%), followed by Gina Moore (12%), Brian Wenzinger (8%), Stefani Cranston (5%) and Paul Dodge (5%).

Firm Assets
$26.1 billion as of June 30, 2016

Strategy Assets

$14.5 billion as of June 30, 2016

Team Description

AJO's U.S. equity team currently consists of seven portfolio managers and 11 research analysts with an average industry experience of 24 years and 17 years, respectively. Though titles separate the firm into "teams", both portfolio management and research responsibilities are collectively shared.

It is worth noting that two principals who previously held portfolio management roles, Martha Ortiz and Brian Wenzinger, plan to retire in 2017. Ms. Ortiz and Mr. Wenzinger are focusing on research prior to their respective retirements. Last year, Christopher Covington and Jocelin Reed, who were previously designated as research analysts, were re-designated as portfolio managers to better reflect their roles.

KEY INVESTMENT PROFESSIONALS

Theodore R. Aronson, CFA, CIC – Managing Principal, Portfolio Manager
Mr. Aronson (M.B.A., B.S., Wharton), founded AJO in 1984 and is involved with portfolio management, executive management, and marketing. As a graduate student, he joined Drexel Burnham Investment Advisors as a member of its Quantitative Equities Group. This group managed the Revere Fund, the first active SEC-registered fund to employ Modern Portfolio Theory (MPT). Prior to forming AJO, Mr. Aronson founded Addison Capital. Mr. Aronson was chair of the CFA Institute and is both a CFA charterholder and a Chartered Investment Counselor. He is a trustee and investment committee member of Spelman College. Mr. Aronson was also a lecturer in finance at The Wharton School.

Stefani Cranston, CFA, CPA – Principal, Portfolio Manager
Stefani Cranston (B.S., Villanova), was a senior accountant at Deloitte & Touche before joining AJO in 1991. A CFA charterholder and a CPA, Ms. Cranston is involved with financial accounting, performance measurement, and portfolio management.

Arup Datta, CFA – Principal, Portfolio Manager
Arup Datta (M.B.A., Cornell; B.T., Indian Institute of Technology, Kanpur), joined AJO in 2012 after founding Agriya Investors. Prior to that, Mr. Datta was director of portfolio management at Numeric Investors. He joined Numeric in 1993, became a portfolio manager in 1994, and a member of its management committee in 2001. Mr. Datta is a CFA charterholder.

Gina N. Moore, CFA – Principal, Portfolio Manager
Gina Moore (B.S., B.A., Delaware) joined AJO in 1998. A CFA charterholder, Ms. Moore began her career as a licensed CPA at Price Waterhouse and then joined Scott Paper as a pension analyst. She became involved in marketing, client service, and portfolio analytics at Brandywine Asset Management and at Glenmede Trust. Ms. Moore is active in portfolio management and marketing.

Martha E. Ortiz, CFA, CIC – Principal
Martha Ortiz (M.B.A., Wharton; B.A., Harvard) joined AJO in 1987 after stints at Wilshire Associates and Continental Grain. While at Continental, she traded cash grain commodities. At Wilshire, she supported the Equity Management System. Ms. Ortiz served on the board of the CFA Society of Philadelphia and is both a CFA charterholder and a Chartered Investment Counselor. Ms. Ortiz is involved in portfolio management, research and trading. Ms. Ortiz plans to retire from AJO in 2017. In the interim, she has stepped down from her day-to-day portfolio management responsibilities to focus on research.

Gregory J. Rogers, CFA – Principal, Portfolio Manager
Mr. Rogers (B.S., Wharton; B.S., Pennsylvania) began his career at First Boston prior to joining AJO in 1993. A CFA charterholder, his experience includes trading and computer systems. Mr. Rogers is involved with portfolio management, trading, and research.

Christopher J. Whitehead, CFA – Principal, Portfolio Manager
Mr. Whitehead (B.A., Colby College) was a senior research associate at Cambridge Associates before joining the back office at AJO in 2000. Four years later, he made the move to research. A CFA charterholder, Mr. Whitehead is involved with portfolio management and research.

R. Brian Wenzinger, CFA – Principal
Brian Wenzinger (M.B.A., University of Delaware; B.S., Northeastern) joined AJO in 2000. Prior to joining AJO he spent 11 years at DuPont, primarily researching and implementing quantitative investment strategies in the firm's internal pension group. A CFA charterholder, Mr. Wenzinger is involved with portfolio management and research. Ms. Wenzinger plans to retire from AJO in 2017. In the interim, he has stepped down from his day-to-day portfolio management responsibilities to focus on research.

The structure of the U.S. equity team is summarized below:

Investment Professional	Title	Role
Theodore R. Aronson, CFA, CIC	Principal	Portfolio Management
Christopher W. Covington, CFA	Associate	Portfolio Management
Stefani Cranston, CFA, CPA	Principal	Portfolio Management
Gina N. Moore, CFA	Principal	Portfolio Management
Jocelin Reed, CFA	Associate	Portfolio Management
Gregory J. Rogers, CFA	Principal	Portfolio Management
Christopher J. Whitehead, CFA	Principal	Portfolio Management
Seth D. Allen, CFA	Principal	Research
Matthew D. Austin, CFA	Associate	Research
Michael R. Dowd, CFA	Associate	Research
Gene Gualtieri	Associate	Research
Claire C. McConnell, CFA	Associate	Research
César A. Orosco, CFA	Principal	Research
Martha E. Ortiz, CFA, CIC	Principal	Research
Mario A. Petrozzi	Associate	Research
Edward T. Roche, CFA	Associate	Research
Collen A. Smith, CFA	Principal	Research
R. Brian Wenzinger, CFA	Principal	Research

Strategy Description

AJO's investment approach is predicated on the belief that above-market returns can be achieved with a combination of classical security analysis, modern quantitative investment techniques, and keen attention to trading costs. AJO focuses on asset-rich companies that: 1) sell at relatively low multiples; 2) are led by proven and confident management; 3) exhibit positive earnings and price momentum; and 4) display favorable investor sentiment within industry peer groups. AJO refers to these four categories of attractiveness as "pillars" and uses them to evaluate companies relative to their peers.

In general, AJO believes the stock market is reasonably efficient, yet emotionally unstable enough to provide opportunities for disciplined investors. Because the market is complex, AJO believes opportunities are best exploited using a systematic, quantitative approach to investing in an attempt to remove behavioral influences.

AJO believes the minimization of trading costs is a vital component of their portfolio management process. AJO contends transaction costs are higher and more complicated than is generally perceived by the investing public and that controlling these costs is the key to exploiting stock market opportunities.

The strategy is fully invested, well-diversified, and sector-neutral. While it is typically positioned with a deeper value bias than the benchmark, it also maintains a higher allocation to both earnings growth and management quality as well as momentum factors. Over a normal market cycle, the investment team aims to deliver 2% annual added value over the Russell 1000 Value benchmark with 4% tracking error.

Process

AJO's process begins with every stock that trades on a major U.S. exchange, including REITs, which amounts to roughly 6,000 names. The first screen generates an investment universe of about 3,000 companies that are seasoned (at least three-years of operating history), suitable (no bankruptcies, ADRs, gold stocks, or funds), and liquid (minimum of $700,000 average daily dollar trading volume). AJO then pools the 1,000 largest companies of this universe into industry sub-segments to build portfolios with broad diversification. It is important to note that the liquidity element may influence the average market cap of the investable universe as some mid-cap companies may meet the strategy's requirements. As a result, the strategy's investable universe will typically have a smaller market cap bias than the Russell 1000 Value Index.

Companies from the investable universe are then evaluated using the firm's proprietary quantitative models. The models are designed to analyze companies relative to industry peers, as well as their own history, using four categories of attractiveness: value, management, momentum and sentiment. Peer groups are classified into 13 sectors and 34 industry segments which AJO has found to exhibit common statistical and fundamental economic relationships (e.g., within the oil and gas sector, exploration and production firms significantly differ from refiners and marketers). Some details regarding the four broad categories of variables employed in their multifactor valuation models are included below.

Value: AJO favors asset-rich companies with higher value metrics relative to price. The more earnings for every dollar invested, the more attractive the security. They examine price-driven ratios at various points on the balance sheet and income statement including: book-to-price, earnings yield, and multiples of sales and forecasted earnings.

Management: In addition to various qualitative factors, AJO uses numerous quantitative measures to gauge the effectiveness and outlook of management by measuring the basic underlying performance as a going concern. These factors include return on operating assets over the last five years (with greater emphasis on the recent past), earnings quality (discrimination based on levels of R&D expenditures, cash versus accruals, levels of debt, etc.), changes in sales-to-assets, long-term forecasted earnings growth, insider trading and company share repurchases.

Momentum: AJO defines and measures momentum by examining earnings revision trends, relative price and volume action, price stability, earnings surprises, and short interest. Momentum is used to gauge Wall Street's appraisal of a company's future prospects and to help distinguish between future leaders and laggards. AJO researchers believe they have discovered a way to measure the market's reliance on individual analysts' estimates, not whether the analyst is typically right or wrong, but whether the market believes that the analyst will be right or wrong. In AJO's methodology, analysts are not weighted equally.

Sentiment: AJO scrutinizes the trading behavior of informed market participants, with the goal of deriving alpha indications from their actions in the market. Particular segments of interest include: insider trading, institutional ownership, short interest and stock options.

Each of the major variables used to judge the attractiveness of companies varies in influence with a stock's industry, size and growth characteristics. For example, AJO weights the earnings estimate revision trends more heavily for small-cap issues than large-cap.

All of these factors come together in a model to generate an estimate of expected excess return for each company in the investable universe. AJO then uses these excess return estimates to build optimized portfolios for their clients. Portfolios are fully invested, sector-neutral, and diversified. Controlled, stock-specific positions are taken based on expected excess return estimates with consideration given to the diversification and risk attributes of the portfolio. For securities to be included in the portfolio, individual position sizes are held to a minimum of 0.3% of the portfolio or a maximum of 1.2% (at cost) over the benchmark weight. AJO's level of turnover is approximately 60% over the long-term, which implies positions are held for an average of about two years.

Portfolios are implemented with considerable attention to trading costs; in fact, this aspect of the firm's philosophy is considered a critical differentiator and a significant value-add component of their strategies. Trading is conducted based on best execution and aims to minimize total transaction costs. Total transaction costs are measured as implementation shortfall (i.e., the difference between valuation price and execution price and includes commissions, spreads, market impact, and opportunity costs). Trading results are captured in AJO's transaction cost model and are used to guide their selection of trading methods and venues. They utilize blind-strike package trading (i.e., principal trades), active electronic communication networks (ECNs), passive crossing networks, and a screened roster of broker/dealers. AJO believes this information feedback helps them to drive trading costs lower than most other investors and helps AJO evaluate whether specific trades are likely to result in captured excess return.

Risk Management

AJO utilizes fairly common methods of managing risk. They build broadly diversified portfolios with 80 – 140 names on a sector-neutral basis while controlling stock-specific exposures. Additionally, AJO considers exposure to five other factors when managing portfolio risk: industry allocation (controlled but not neutral exposure), fundamental characteristics (e.g., size, growth, and value exposures), interest rate sensitivity, return cluster groups, and individual stock-by-stock covariance.

Ongoing awareness of transaction costs and the firm's success in capturing its own estimates of excess returns on a stock-specific basis are constantly fed back into the model in an effort to enhance future performance.

AJO also attempts to avoid being restricted to their models by giving portfolio managers the ability to exercise their best judgment in limited situations. For instance, if there is late-breaking news on a company or other economic developments that may not be accurately accounted for in their models, portfolio managers may trigger "no-trade" calls on stocks or pause trading activity.

Finally, the firm has structured its research efforts to continually evaluate new methods for measuring risk and uncovering variables critical to estimating excess returns with the highest efficacy. Many options are considered and discarded; others must pass rigorous scrutiny before implementation in the working models.

Risk Factors and Potential Red Flags

Quantitative strategies attempt to avoid the behavioral pitfalls of investing by relying solely on publicly available data. Unfortunately, this blind data reliance could potentially be the approach's Achilles' heel. AJO does not conduct company management interviews or insert any other qualitative judgments into their daily portfolio management process. AJO's models do not encompass all of the relevant financial information regarding a company. For example, it is not designed to detect accounting fraud; in fact, the WorldCom debacle was the strategy's greatest dollar loss.

In addition, the strategy appears to rely on a level of market volatility that allows for the exploitation of minor pricing inefficiencies. Too much volatility, however, could cause the models to predict erroneous future price behavior. This reliance on generally stable market volatility leaves potential for the strategy to underperform during periods when irrational fear or greed dominate investor behavior. That said, relative to other quantitative managers, AJO's models are longer term in nature. As a result, during periods when other quantitative managers suffered, like the summer of 2007, this strategy did well.

Lastly, due to the use of publicly available data and the huge financial incentives for others to enter the quantitative investment management arena, AJO may be subject to the "crowding out effect." In general, most quantitative managers rely on the same or similar factors to estimate excess returns. Alpha opportunities are limited and an increasing amount of money and managers attempting to exploit the same alpha opportunities could potentially degrade or eliminate future opportunities. AJO attempts to overcome deterioration of potential alpha by constantly feeding their specific performance back into their models and enhancing their process with new components found to be efficient predictors.

Performance

The strategy is expected to perform well in rational markets when a value orientation is rewarded on a broad economic basis. Historically, the strategy has provided good down-market protection while lagging in up-markets. This is especially true at the outset of explosive bull markets, market reversals, or when the market is driven by a handful of economic sectors or concentrated market-cap segments, particularly mega-cap issues. The strategy was particularly challenged in the bubble period from late 1998 through early 2000, and more recently in the 2009 market snap-back. The tech bubble period proved difficult because of value exposure, while non-value factors were the culprit most recently. In response, AJO believes the inclusion of management quality, growth and momentum factors should help mitigate negative performance when value is out of favor.

Value factors and security selection dominate sector/industry factors in explaining AJO's performance. This is as expected from the individual stock ranking approach of the strategy and the tight sector allocations tied to the benchmark.

In terms of recent performance, as illustrated in the table below, near-term results for Large Cap – Absolute Value have been quite disappointing with the strategy trailing the benchmark by about 720 basis points over the trailing 12-months (through May 31, 2016):

Returns & Risk

Gross Composite Results (%)

Composite/ Benchmark	YTD	Annualized 1 Year	3 Years	5 Years	10 Years	Since Incep	Tracking Error	Years/ Incep	Clients/ $mm
AJO Large Cap – Absolute Value	(2.6)	(7.3)	8.0	10.4	6.4	10.9		20.4	63
Russell 1000 Value	5.4	(0.1)	9.2	10.7	6.1	8.6		12/95	14,744
Added value	**(8.0)**	**(7.2)**	**(1.2)**	**(0.3)**	**0.3**	**2.3**	**3.8**		

During the first quarter of 2016, value and sentiment measures dramatically underperformed; however, it was poor stock selection that was the main driver of underperformance. Specifically, selections within energy and financials were especially poor (detracting approximately 170 basis points and 120 basis points, respectively). Momentum and management factors offered mixed support. Sentiment failed to add value.

Unfortunately, the headwinds from the first quarter have persisted into the second with AJO estimating that Large Cap – Absolute Value would lag the benchmark by about 1,000 basis points year-to-date (through June 30, 2016). According to AJO, the culprits in the second quarter were similar to the first:

- A strong preference in the market for stability led to an indifference to value;
- Exposure to higher value and higher volatility, especially within energy, financials, and industrials sectors;
- Management factors provided mixed support;
- AJO's holdings failed to participate in the momentum rally — driven by the continued preference in the market for stability;
- Sentiment provided only a modest boost to relative return.

Given the significant underperformance of late, AJO is spending a lot of time trying to diagnose the cause or causes. While they have been unable to identify a definitive "smoking gun," it is clear to AJO that of the three general components of their process (i.e., alpha, risk and trading), the most recent underperformance can only be blamed on alpha – risk and trading are fine. Interestingly, AJO's managed volatility strategy, which uses the same risk model as Large Cap – Absolute Value, has performed well year-to-date. Unlike Large Cap – Absolute Value, the managed volatility strategy is not held to sector neutrality. In the managed volatility strategy, for instance, AJO does not own anything in energy because the stocks in the sector are viewed as too expensive (note that energy has been one of the main areas of weakness for Large Cap – Absolute Value in 2016).

With regard to the recent low-volatility headwind for Large Cap – Absolute Value, AJO continues to look at ways to enhance their models, and while it is possible that AJO's process may eventually incorporate some kind of volatility factor, there are no immediate plans. As Ted Aronson said during our visit, AJO employs an evolutionary research process – change happens slowly by design.

Additional Observations

During our visit, we met briefly with members of AJO's trading (i.e., Douglas Dixon, Joseph Finer, Robert Louka and Sean Paylor) and back office/compliance (i.e., Stefani Cranston and Joseph Dietrick) teams. With the trading team, we reviewed their approach to measuring transaction costs (utilizing implementation shortfall methodology) as well as their trading venues. AJO monitors their trading results internally as well as through a third-party vendor (Trade Informatics). In addition to a screened roster of traditional agency brokers, AJO utilizes direct market access, broker algorithms, passive crossing networks, principal risk packages and agency basket trading. As part of a periodic trading review, each broker is evaluated against its peers in its roster category. The rankings are used to create AJO's roster of trading partners for the next measurement period.

Following our visit to the trading floor, we spent a few minutes with back office and compliance. Chief Compliance Officer Joe Dietrick indicated that the SEC is currently conducting a routine examination of AJO; the last one was conducted 10 years ago.

Summary Assessment

Verus continues to believe that AJO is a skilled quantitative manager. The recent underperformance of the Large Cap – Absolute Value strategy is a concern; however, given our confidence in the firm, team and process, we believe patience is warranted at this time.

Operational Due Diligence Assessment

Verus' Operations team conducted an Operational Due Diligence assessment of AJO, LP ("AJO"). The objective of the analysis was to gain a thorough understanding of the AJO's operations, attaining a reasonable assurance that AJO has sound organizational and governance structures, strong investment processes and procedures, and robust internal controls.

Verus sent AJO a copy of the Verus Operational Due Diligence Questionnaire ("ODDQ"). The ODDQ focuses on seven main areas:

1. Firm/Fund overview
2. Personnel
3. Key Processes
4. Service Providers
5. Reporting
6. Systems
7. Regulation and Compliance

Verus received without limitation the following information and documents from AJO:

- AJO Operational Due Diligence Questionnaire
- AJO 2016 Due Diligence Questionnaire
- AJO Business Continuity Plan 2016
- AJO Code of Ethics 2014
- AJO Compliance Policies 2016
- AJO Marketing Materials
- AJO SecureWorks Services Summary
- AJO Portfolio Accounting Procedures

Based on Verus' due diligence processes and the information and documents provided:

AJO has passed the operational due diligence assessment. Verus Operations will continue to monitor certain reports and information and will perform additional due diligence, as necessary.

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APRIL 15, 2016

Investment Due Diligence Summary
Brandywine Asset Management
Global Sovereign Investment Grade Bonds

VERUSINVESTMENTS.COM

SEATTLE 206-622-3700
LOS ANGELES 310-297-1777

INVESTMENT DUE DILIGENCE SUMMARY

Date Reviewed: 15 April 2016

X	Verus FL Strategy
	Verus FL Manager
	Client Requested Review

Verus Attendees
Philip Schmitt, CIMA – Sr. Research Analyst

Brandywine Attendees
Richard Lawrence, Sr. Vice President, Portfolio Manager
Jonathan Fella, Portfolio Compliance
Stephen Lopez, Manager, Reconciliation
Travis Crumley, Fixed Income Trader
John Ford, CFA, Director of Marketing

Overview

Asset Class
Global Government Fixed Income

Investment Style
Relative Value

Firm Ownership
Subsidiary of Legg Mason

Firm Assets
$69 billion in AUM (of which $3.7 billion is Global Investment Grade Sovereign strategy related exposure)

FCERA Strategies
— Global Investment Grade Sovereign Bond (1/2015 Inception) $293.3 million

Verus

Onsite Visit Summary

During our on-site meeting with Brandywine we engaged in a wide-ranging discussion centered on various global sovereign, credit and foreign exchange markets. Products offered by the firm (and actively recommended and monitored by Verus) include the firm's Global Sovereign Investment Grade Bond and Global Opportunistic Fixed Income funds.

After a brief introduction by John Ford, Director of Marketing, Richard Lawrence, Senior V.P. and Portfolio Manager, provided an update and some perspective on the firm's global fixed income business, strategies and currency markets. Richard highlighted that the firm grew assets under managed to nearly $69 billion as of December 2015, up nearly $5.5 billion from the previous year despite headwinds in the currency markets. Both the firm's Global Investment Grade Sovereign and Global Opportunistic Fixed Income products saw inflow, up nearly $3 billion and $1 billion, respectively. Richard remarked that the business pipeline remains solid and that the firm is expanding its product offerings deeper into the global credit spectrum with Global High Yield and Global Sustainable Fixed income products.

Specific to the FCERA Global Investment Grade Sovereign bond exposure, Richard stated that the strategy incorporates between 70% and 80% of the firm's best ideas inclusive of investment grade sovereign debt, emerging market sovereign and corporate debt and foreign exchange. Richard provided more detail on the firm's approach to global macro forecasting. He explained that the investment team closely monitors capital flows of currencies for signs of thematic shifts and as a leading indicator of relative value. As evidence, he referenced the negative interest rate environment in both Europe and Japan which increased investors' appetites for riskier, higher-yielding assets outside of their respective countries. The primary beneficiaries of these flows have been U.S. investment and below investment grade credit and emerging market debt.

From a duration positioning perspective, Richard explained that the investment team remains positive on the U.S. markets and higher yielding European periphery and emerging market countries and underweight European core and Japan. Richard state that he believe many investment managers remain net short to U.S. Treasury securities based on the expectation that the U.S. Federal Reserve will continue raising short-term interest rates in the coming months. As such, the portfolio is approximately 1.0-years overweight to the U.S. specifically in longer-dated Treasury bonds. Other overweight positions include Mexico (1.3-years), Austrailia (0.4-years), Hungary (0.3-years), Poland (0.3-years) and Brazil (0.3-years). On an aggregate basis, the portfolio's duration remains slightly underweight relative to the Citigroup World Government Bond Index (WGBI) by roughly one quarter year (7.4-years versus 7.7-years) as of March 2015. Richard explained that the firm continues to believe that based on the current spread between 10-year German Bunds and U.S. Treasury bonds (roughly 170 basis points), the U.S. will continue to benefit from foreign investment flows which should provide a ceiling on interest rates and provide a tail-wind to the market.

From a currency perspective, Richard stated that the investment team recently shifted to a significant underweight in the U.S. dollar compared to the benchmark (13.6% versus 32.6%) as of March 2015, a move of nearly 6.4%. In conjunction with this move, the team trimmed the underweight position in the Euro (7.8% versus 32.1%), increased exposure to the Mexican peso (13.2% versus 1.0%) and added to the Brazilian real (4.9% versus 0.0%). Richard explained that the team believes the U.S. dollar rally is nearing completion, and as such, are seeking relative value in currencies that have experienced significant relative depreciation such as the real. Regarding the Japanese yen underweight, Richard stated that the recent strength in the currency is concerning. He explained that the carry trade thesis remains intact, should the currency continue to show strength it would not take much to see long-only managers begin to unwind their short positions, which would provide another catalyst higher for the yen.

From a credit perspective, the team continues to favor higher yielding, good quality issuers such as Mexico based on attractive yield differentials and higher GDP growth rates. Richard stated that the investment team does not expect the U.S. to enter into a recession in 2016, but that the recent announcement by the Federal Reserve concerning future rate increases didn't provide clarity on the path to normalization. Within Europe, the team continues to favor the periphery over the core based on the belief that future ECB bond purchases will be directed at those countries with higher yields in an attempt to lower borrowing costs. With regard to Brazil, the team will remain invested based on the belief that any movement towards an outcome will be viewed as a positive by the market. As evidence, Richard stated that risk assets in Brazil are already priced for a political resolution, and as such, investors are being compensated for the risk. Finally, Richard addressed the economic situation in China. He explained that the investment team expects additional currency devaluation in an attempt to increase economic growth. More than likely, the government will institute additional stimulus packages which could be used to support workers who have been laid off. Overall, the strategy remains tilted towards a positive economic growth environment, preferring higher beta credits linked to continued positive U.S. economic growth.

Next, John Fella and Stephen Lopez discussed the firm's portfolio compliance and operations processes. John explained that the compliance team is operates independently of the investment team and is responsible for pre- and post-trade compliance as well as maintaining the systems that reflect the clients' mandates. Currently, the firm utilizes Bloomberg for maintaining investment mandate constraints and that only the compliance team has authority to change those constraints. John stated that the compliance team acts as a second set of eyes for the firm and that no trades are processed until they are reviewed and approved. Next, Stephen detailed the firm's operations procedures post- trade. Post-trade reconciliation is primarily handled via the SWIFT system for those custodians that are enabled. For accounting and performance measurement, the firm utilizes the Eagle PACE system. The firm utilizes PWC as the independent third-party auditor. Finally, Stephen detailed the firm's data and disaster recovery procedures. Currently, the firm has a redundant site located 25 miles from the headquarters and all systems are backed up on a daily basis. Additionally, the firm undergoes a twice-yearly disaster recovery test to ensure the systems are functioning.

Next, Travis Crumley provided a brief overview of the firm's trading processes. For foreign exchange trading the firm utilizes the FXGO system and FX Transparency for third-party trade verification. For fixed income trading, the team utilizes Bloomberg for both research and trade execution. Travis explained that the role of the traders at Brandywine is designed to be collaborative with the strategy portfolio managers. The trading team sits in close proximity with the portfolio management team as is regularly providing pricing and flow information in an effort to help identify relative value within the fixed income markets. With regard to the current market environment, Travis stated that the overall market liquidity profile is narrow. He stated that price volatility has increased and the market depth is shallow depending on which credit he is attempting to trade.

The account was incepted in January 2015, and as such, has a short-dated performance track record. In evaluating the performance since inception, the portfolio has lagged the Citigroup WGBI benchmark by nearly 490 basis points (-1.8% versus 3.1%) as of March 2016 due mainly to a strong U.S. dollar. More recently, as foreign currency volatility subsided, the strategy was additive during first quarter relative to the benchmark by approximately 160 basis points (8.7% versus 7.1%). The portfolio's strong performance was a result of stabilizing commodity prices, stronger-than-expected U.S. economic growth and a weakening of the U.S. dollar relative to global currencies. Given the relatively short time since inception, it is difficult to draw any conclusions regarding the performance of the strategy. That being said, Brandywine has a long history of adding value, both in fixed income and currency markets, and we would expect the firm to meet FCERA's return expectations in the future.

Summary Assessment

From an investment standpoint, the visit reaffirmed our belief that Brandywine offers investors a capable global fixed income manager with the ability to add value across a wide spectrum of credits and currencies. The attached Manager Evaluation provides a broader overview of the firm and personnel as well as a deeper dive in to the process-oriented approach to the team's execution of the Global Investment Grade Sovereign Bond strategy. We recommend FCERA retain the relationship.

Operational Due Diligence Assessment

Verus' Operations team conducted an Operational Due Diligence assessment of Brandywine Global Investment Management, LLC ("Brandywine"). The objective of the analysis was to gain a thorough understanding of the Brandywine's operations, attaining a reasonable assurance that Brandywine has sound organizational and governance structures, strong investment processes and procedures, and robust internal controls.
Verus sent Brandywine a copy of the Verus Operational Due Diligence Questionnaire ("ODDQ")

The ODDQ focuses on seven main areas:
1. Firm/Fund overview
2. Personnel
3. Key Processes
4. Service Providers
5. Reporting
6. Systems
7. Regulation and Compliance

Verus received without limitation the following information and documents from Brandywine:

- Operational Due Diligence Questionnaire
- Exhibit I – Brandywine Global Valuations Policy July 2015
- Exhibit II – Brandywine Global Counterparty Risk Policy
- Exhibit III – Brandywine Global Valuations Procedures July 2015
- Exhibit IV – Brandywine Global 2015 Compliance Review Summary
- Exhibit V – Brandywine Global Subsidiaries
- Exhibit VI – Brandywine Global Compliance Policies and Procedures Manual
- Exhibit VII – Brandywine Global Code of Ethics

Based on Verus' due diligence processes (including an onsite review) and the information and documents provided:

Brandywine has passed the operational due diligence assessment. Verus Operations will continue to monitor certain reports and information and will perform additional due diligence, as necessary.

Past performance is no guarantee of future results. *The information presented in this report is provided pursuant to the contractual agreement (the "Contract") by and between Fresno County Employees Retirement Association ("Client") and Verus Advisory, Inc. ("Company"). In the event of conflict between the terms of this disclosure and the Contract, the Contract shall take precedence. Client is an institutional counter-party and in no event should the information presented be relied upon by a retail investor.*

The information presented has been prepared by the Company from sources that it believes to be reliable and the Company has exercised all reasonable professional care in preparing the information presented. However, the Company cannot guarantee the accuracy of the information contained therein. The Company shall not be liable to Client or any third party for inaccuracy or in-authenticity of information obtained or received from third parties in the analysis or for any errors or omissions in content.

The information presented does not purport to be all-inclusive nor does it contain all information that the Client may desire for its purposes. The information presented should be read in conjunction with any other material furnished by the Company. The Company will be available, upon request, to discuss the information presented in the report that Client may consider necessary, as well as any information needed to verify the accuracy of the information set forth therein, to the extent Company possesses the same or can acquire it without unreasonable effort or expense. Nothing contained therein is, or should be relied on as, a promise, representation, or guarantee as to future performance or a particular outcome. Even with portfolio diversification, asset allocation, and a long-term approach, investing involves risk of loss that the client should be prepared to bear.

The material may include estimates, outlooks, projections and other "forward-looking statements." Such statements can be identified by the use of terminology such as "believes," "expects," "may," "will," "should," "anticipates," or the negative of any of the foregoing or comparable terminology, or by discussion of strategy, or assumptions such as economic conditions underlying other statements. No assurance can be given that future results described or implied by any forward-looking information will be achieved. Actual events may differ significantly from those presented. Investing entails risks, including possible loss of principal. Risk controls and models do not promise any level of performance or guarantee against loss of principal.

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APRIL 15, 2016

Investment Due Diligence Summary
PIMCO
Emerging Market Debt Local Currency

VERUSINVESTMENTS.COM

SEATTLE 206-622-3700
LOS ANGELES 310-297-1777

Date Reviewed: 15 April 2016

X	Verus FL Strategy
	Verus FL Manager
	Client Requested Review

Verus Attendees
Philip Schmitt, CIMA – Sr. Research Analyst
Anne Westreich, Managing Director and Sr. Consultant

PIMCO Attendees
Jay Jacobs, Managing Director and President
Mike Gomez, Portfolio Manager
Mark Romano, EVP, Consultant Relations

Overview

Asset Class
Emerging Market Fixed Income

Investment Style
Relative Value

Firm Ownership
Subsidiary of Allianz

Firm Assets
$1.5 trillion in AUM (of which nearly $43 billion is emerging market debt strategy related exposures)

FCERA Strategies
— Emerging Market Debt Local Currency (7/31/2013 Inception) $165.9 million

Onsite Visit Summary

During our on-site meeting with PIMCO we engaged in a variety of discussions centered primarily on the current state of the firm, emerging market sovereign, credit and foreign exchange markets. Products offered by the firm (and actively recommended and monitored by Verus) include the firm's Emerging Market Debt and Emerging Market Debt Local Currency funds.

After a brief introduction by Mark Romano, Jay Jacobs, President, provided an update on the firm's employees and an overview of the global fixed income business. Jay began by stating that the firm has continued to experience normal levels of attrition, approximately 10% annually, following the departure of Bill Gross in 2014. The makeup of the peer group remains roughly the same as well, with equal departures from both investment professionals and support staff. Following Bill's departure, the firm embarked on a comprehensive employee compensation review in order to benchmark the firm against the broader financial services industry. As a result of that study some of the compensation levels were adjusted which may have contributed to employee departures. The firm currently employs nearly 2,400 employees in Newport Beach, London, New York, Singapore and Munich. Approximately two-thirds of the firm's employees are in support roles with the remainder serving in investment professional roles.

With regard to the previously announced employee retention program, the first payment due to employees was paid in October, with the remaining payments due in April 2016 and June 2017. Jay noted that the structure of the compensation program was such that employees received the largest percentage of the payout in the first month with the goal of ensuring employees remained with the firm following Mr. Gross's departure. Following the payment in October, and the subsequent bonus payment in December, total employee attrition levels have remained broadly the same compared to prior years. Jay stated that the firm continues to be a magnet for high-quality talent as evidenced by the recent additions of Moshen Fami, Jacom Fels and Ben Bernanke.

With regard to the broader PIMCO business, Jay stated that PIMCO contributed approximately 18% to Allianz's overall earnings during the recent year. While PIMCO has suffered from significant outflows, Jay stated that there are no pressures internally to adjust the business at this time. He further explained that, from a financial perspective, the management team expects only modest future growth and remains comfortable with the stated targets. Within the product lineup Core bond strategies remain approximately 20% of the firm's overall revenues despite the recent loss of AUM. Of the remaining assets, roughly 50% reside in specialty fixed income products with the remainder invested in real estate, equities and asset allocation strategies. During the first quarter, the firm has seen some internal rebalancing from accounts, but no substantial inflows at this time.

Next, Mike Gomez provided us with an update on the firm's emerging market products and emerging debt markets. Regarding the firm's emerging debt strategies, Mike explained that at this time last year the team was managing approximately thirty line-items within each of the portfolios. Between the sovereign credit, currency and swap positions the team was monitoring more than fifty risk factors. In an effort to tighten up the risk controls, the team moved to reduce the number of risks in the portfolio in an effort to simplify the management process. Mike explained that the team is closely looking into the strategy's mean reversion characteristics in order to better understand how the strategy will react to changing market conditions and the length of time it will take for the portfolio's risks to mean revert.

With regard to the broader markets, Mike noted that the landscape has been positioned for bad news the past three years. As a result of the strengthening U.S. dollar relative to emerging currencies, overall market volatility increased following the Federal Reserve's decision to begin normalizing interest rates. According to Mike, the hurdle to do well has been lowered to such an extent that only recently have investors began to see that the market offers compelling relative value. Mike explained that while the first few weeks of the quarter saw a continuation from last year's decline, he believed it was a function of the developed world catching up to the decline already seen in emerging markets. Mike stated that he believes once investors understand that the worst of the left-tail outcomes have dissipated the will begin to reexamine the space.

Mike explained that he believes that the underlying fundamentals of the emerging markets remains strong as evidenced by low debt/GDP levels, strong foreign exchange reserves combined with the continued expectation of higher GDP growth potential compared to the developed world. Mike stated that if countries are able to manage their balance sheets effectively, they can turn the vicious cycle into a virtuous one.

Specific to the FCERA investment mandate, in examining the currency positioning the strategy has remained overweight to the U.S. dollar compared to countries with potential for further devaluation such as China. Mike noted that the team believes that China will ultimately be forced to further devalue its currency based on a continued slowing of the economy. Within the European market, the strategy has remained defensive with its exposures to periphery countries, due mostly to concerns of continued economic weakness. Mike stated that he believes Europe needs to further loosen financial conditions, primarily through further currency devaluation, in order to stimulate economic growth. Certain countries such as Hungary have already moved towards an easing posture. With regard to Mexico, the strategy had been slightly underweight Mexican peso relative to the U.S. dollar, although recently the team has moved to close the gap. Mike explained that the strategy's currency approach remains tilted towards those countries where the team expects to see positive flows back resulting from both increased economic growth and compelling relative value.

With regard to the duration positioning, the strategy has moved towards a neutral stance based on the belief that central banks will be forced to lower interest rates as global economic growth slows. As evidence, Mike again referenced China stating that a slowing economy would most likely result in countries such as Thailand and Singapore lowering rates to stimulate growth. With regard to Brazil, one of the strategy's largest holdings, Mike stated that he continues to look for signs that inflation is falling and referenced a recent CPI report confirming the slowdown. He further reiterated that he doesn't believe that the country will achieve the stated 6.5% inflation target, and as such, doesn't believe that the central bank will ease conditions. Given the current environment, while inflation break evens remain high, Mike indicated that the team prefers to continue owning nominal bonds instead of inflation-linked securities.

From a performance perspective, the strategy was incepted on July 31, 2013 and is nearing its three-year anniversary. Given that the investment mandate's track record is relatively short-lived, it is difficult to draw too many conclusions about the overall performance of the strategy. However, in evaluating recent performance, the investment mandate has underperformed the JPMorgan GBI-EM local currency index over the trailing 3-month, 1-year and 2-year periods by approximately 53 basis points, 161 basis points and 56 basis points, respectively. Active managers within the emerging debt market space have faced severe headwinds due mainly to a strengthening U.S. dollar and increasing idiosyncratic risks such as Venezuela, Ukraine and Brazil. More recently, the U.S. dollar has weakened relative to emerging market currencies which resulted in decreased foreign exchange volatility as commodity prices increased.

Summary Assessment

From an investment standpoint, the visit with the senior members of PIMCO reaffirmed our belief that the firm and investment team are capable and possess the ability to add value across a wide spectrum of credits and currencies. The attached Manager Evaluation provides a broader overview of the firm and personnel as well as a deeper dive in to the process-oriented approach to the team's execution of the Emerging Market Debt Local Currency strategy. At this time we recommend FCERA retain the relationship.

Operational Due Diligence Assessment

Verus' Operations team conducted an Operational Due Diligence assessment of Pacific Investment Management Company LLC ("PIMCO"). The objective of the analysis was to gain a thorough understanding of the PIMCO's operations, attaining a reasonable assurance that PIMCO has sound organizational and governance structures, strong investment processes and procedures, and robust internal controls.
Verus sent PIMCO a copy of the Verus Operational Due Diligence Questionnaire ("ODDQ")

The ODDQ focuses on seven main areas:
1. Firm/Fund overview
2. Personnel
3. Key Processes
4. Service Providers
5. Reporting
6. Systems
7. Regulation and Compliance

Verus received without limitation the following information and documents from PIMCO:

- Verus' operational due diligence questionnaire
- PIMCO pricing policy
- PIMCO SOC 1 report
- The PIMCO approach to counterparty risk
- Information security program summary
- Code of Ethics
- Compliance Program Summary
- Disaster Recovery and Business Continuity Plan Summary
- Form ADV Part 2A

Based on Verus' due diligence processes and the information and documents provided:

PIMCO has passed the operational due diligence assessment. Verus Operations will continue to monitor certain reports and information and will perform additional due diligence, as necessary.

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APRIL 25, 2016

Investment Due Diligence Summary

Systematic Financial Management

SMID Cap Value Equity

VERUSINVESTMENTS.COM

SEATTLE 206-622-3700
LOS ANGELES 310-297-1777
SAN FRANCISCO 415-362-3484

	Verus FL Strategy
	Verus FL Manager
X	**Client Requested Review**

Date Reviewed: 25 February 2016

Verus Attendees
Marianne Feeley, CFA –Director | Traditional Assets

Systematic Financial Management Attendees
Ronald Mushock, CFA – Portfolio Manager / Partner
Aman Patel, CFA – Partner / Portfolio Management
Karen Kohler – Chief Operating Officer / Partner
James Barker – Assistant Vice President

Overview

Asset Class
Domestic Equities

Investment Style
Smid Cap Value

Firm Ownership
Systematic Financial Management (Systematic) was founded in 1982 and became an affiliate of Affilated Managers Group (AMG) in 1996. AMG holds 60% of the firm's equity with Systematic partners holding the remaining 40%. There are six general partners and six limited partners, all of whom participate in the firm's profit.

Firm Assets
$9.4 billion as of December 31, 2015

Fresno County Strategies
— SMID Cap Value

Team Description

Systematic applies its catalyst value approach across a range of products covering US equity from small cap to large cap. The investment team is segregated by sector with Ronald Mushock acting as lead portfolio manager for the smid value product. Mr. Mushock is a partner in the firm and one of the three largest shareholders outside the AMG holding. He is supported by a team of three assistant portfolio managers, three senior equity analyst and two equity analysts, each of whom focuses on a particular sector. In addition, there is a senior analyst focusing on quantitative analysis, and an equity analyst functioning as a generalist.

Name	Title	Fundamental Research	Quantitative Analysis	Portfolio Management	Fundamental Research Focus	Years Investment Experience	Year Joined Systematic
D. Kevin McCreesh, CFA*	Chief Investment Officer	●		●	Generalist	30	1996
Kenneth W. Burgess, CFA*	Portfolio Manager	●	●	●	Generalist, FCF	22	1993
Ronald M. Mushock, CFA*	Portfolio Manager	●	●	●	Generalist	24	1997
Joseph M. Sharma, CFA*	Portfolio Manager	●		●	Generalist	23	2000
Eoin E. Middaugh, CFA*	Portfolio Manager	●	●	●	Quantitative Analysis	18	2002
Aman Patel, CFA*	Assistant Portfolio Manager	●		●	Cons. Staples, Energy, Financials, Healthcare, Industrials, Materials, Utilities	17	2002
Brian D. Kostka, CFA*	Assistant Portfolio Manager	●		●	Cons. Disc., Cons. Staples, Healthcare, Industrials, Materials, Telecom	16	2007
W. Ryan Wick, CFA	Assistant Portfolio Manager	●		●	Cons. Disc., Cons. Staples, Financials, Healthcare, Industrials, Technology, FCF	16	2005
Rick Plummer, CFA*	Senior Equity Analyst	●			Generalist, PM Specialist	21	2004
Christopher Lippincott, CFA	Senior Equity Analyst	●			Cons. Disc., Financials, Industrials, Technology, Materials, FCF	19	2008
Tom LaBarbera Jr., CFA	Senior Equity Analyst		●		Quantitative Analysis	15	2005
Jennifer Mulroy, CFA	Senior Equity Analyst	●			Cons. Disc., Cons. Staples, Healthcare, Technology	9	2010
Matthew Tangel, CFA	Equity Analyst	●	●		Quantitative Analysis/Fundamental Research, Energy, Financials, Industrials, Materials, Utilities	10	2008
Elizabeth Howell, CFA	Equity Analyst	●			Industrials, Technology, Telecom, Utilities	7	2013
Mike Cikos, CFA	Equity Analyst	●			Generalist	6	2015

* Partner of the firm

D. Kevin McCreesh – 30 Years Experience

Mr. McCreesh is Chief Investment Officer of Systematic and also acts as lead portfolio manager for the large cap and value and small cap value products. He has co-portfolio manager responsibility for the Select Equity product. He joined the firm in 1996 as part of AMG's lift out of the Mitchell Hutchins investment team. He began his career at IBM, became a senior analyst at Paine Webber in 1986 and joined Mitchell Hutchins in 1988 where he served as an equity portfolio manager. Mr. McCreesh has a BS from the University of Delaware and an MBA from Drexel University.

Kenneth Burgess – 22 Years Experience

Mr. Burgess is a portfolio manager with generalist responsibilities; he manages Systematic's Free Cash Flow Value products, which have a quality orientation. He joined the firm in 1993 and rose through the ranks before becoming a portfolio manager in 1996. Mr. Burgess was educated at New Hampshire College.

Ronald Mushock – 24 Years Experience

Mr. Mushock is a portfolio manager with generalist responsibilities and acts as lead portfolio manager for the Mid Cap Value and Smid Cap Value products. He has co-portfolio manager responsibility for the Select Equity product. He joined Systematic in 1997 as an equity analyst progressing through the ranks before becoming a portfolio manager in 2000. Prior to joining Systematic, he was an analyst at Standard & Poors, CSK Software and Abel Noser. Mr. Mushock has a BS from Seton Hall University and an MBA from New York University's Stern School of Business.

Strategy Description

Systematic's investment philosophy is grounded in the belief that stock prices follow earnings and investors consistently under-react to changes in company fundamentals. The investment approach involves buying stocks only on confirmation of fundamental improvement and selling on anticipation of fundamental deterioration. The firm describes its style as relative value plus a catalyst, and portfolios will tend to exhibit a core-to-value style.

Process Implementation

The investment process is implemented via a combination of quantitative screening and fundamental research. Beginning with an initial universe of stocks within the market cap range of the Russell 2500 Value Index, the team employs a quantitative model which is equally weighted to valuation and an earnings catalyst models. The valuation model allows unique definitions of value by sector and uses multiple factors to assess valuation. The catalyst model is a multi-factor model with equal weighting to investor expectations, inflections in operations as identified in the income statement and quality based on balance sheet and cash flow analysis. The result of the screen is a research focus list comprising 150 stocks, 15 stocks in each economic sector.

Most of the team's time is spent on the fundamental research portion of the process, searching for evidence that a company is improving in a sustainable manner. Sector analysts evaluate revenue and margin assumptions to gauge investor expectations. They perform financial statement analysis, assessing profit iand loss trends, balance sheet quality and cash flow. They assess company valuation relative to company history, its peers and the benchmark.

Analysts are measured on their ability to recommend stocks within their sector that will improve on performance of the quantitatively-produced research focus list. Risk control is implemented at the portfolio level. The team aims for 80% of value added coming from security selection with only 20% from sector allocation. The portfolio is sector constrained, limiting sector over/underweights to +/- 5% relative to the benchmark. Maximum allocation to any sector is 30%, and maximum weighting to an individual stock is 5%.

Risk Factors and Potential Red Flags

Joseph Sharma, generalist portfolio manager, left the firm in March 2016. Mr. Sharma was focused on Systematic's Select Equity product, which is an all cap portfolio of best ideas drawing from securities already held on other Systematic portfolios. The product has $40 million AUM for a single client; it was not actively marketed and had not gained traction in the marketplace. At the end of 2015, the managing partners decided to change the product to a best ideas team approach, and Mr. Sharma left the firm not long after. He was not involved in management of the Smid Value portfolio, and we do not have concerns about the departure. However, responsibility for the product will now be shared by Kevin McCreesh and Ronald Mushock. We believe this oversight is primarily portfolio construction and will not be a huge demand on their time. However, the issue should be revisited in future discussions with the firm.

Systematic's approach is aimed at consistency of returns and a high overall batting average. However, the portfolio sector-controlled stance can potentially lead to underperformance in narrow markets led by few sectors.

The Systematic portfolio currently has a beta that is higher than historically. Mr. Mushock acknowledged the portfolio has a pro-cyclical bias when stable companies and low volatility stocks have done well. Based on his analysis of performance, he notes that, since 2010, the portfolio has struggled when interest rates have declined. It will be useful to follow up on this issue in an environment of rising rates.

Performance

Gross Performance as of 12/31/15

Performance Summary	January 2016	4Q 2015	1 Year Trailing	3 Year Trailing	5 Year Trailing	Inception To Date*
Fresno County Employees' Retirement Association	**-8.0**	**5.7**	**-0.8**	**12.6**	**10.0**	**11.9**
Russell 2500™ Value	-6.1	2.8	-5.5	10.5	9.2	11.0
Russell 2500™	-8.0	3.3	-2.9	12.5	10.3	12.3

* Annualized 10/8/10 to 12/31/15

Market Value Summary	
Market Value (10/8/10)	$119,704,121
Withdrawals	($124,210,448)
Contributions	$15,424,247
Adjusted Value	$10,917,920
Market Value (12/31/15)	$68,337,325
Net Gain	$57,419,405

Benchmark Source: FactSet

The Fresno portfolio has outperformed the Russell 2500 Value Index in trailing 1-, 3- and 5-year periods and since inception. On a calendar year basis, the performance pattern is less steady with 2015 outperformance of 4.7% on the heels of underperformance of -2.6% in 2014.

The portfolio has been underweight REITs, utilities and staples, all of which were a drag on 2015 performance. Within financials, the positive impact of stock selection offset the negative impact of sector allocation. However, both stock selection and the underweight contributed negatively in the utilities sector.

Summary

Systematic's combination of a quantitative screen and fundamental research to verify a company's turnaround is designed to avoid value traps. The team is well resourced, although future meetings should address Mr. Mushock's workload given his new co-management responsibility for the Select Equity product. Verus believes Systematic's discipline in terms of looking for fundamental confirmation of value positions can result in a smoother return pattern relative to a classic value-oriented approach and we believe the product is acceptable for client portfolios.

Operational Due Diligence Assessment

Verus' Operations team conducted an Operational Due Diligence assessment of Systematic Financial Management L.P. ("Systematic"). The objective of the analysis was to gain a thorough understanding of the Systematic's operations, attaining a reasonable assurance that Systematic has sound organizational and governance structures, strong investment processes and procedures, and robust internal controls.

Verus sent Systematic a copy of the Verus Operational Due Diligence Questionnaire ("ODDQ")

The ODDQ focuses on seven main areas:
1. Firm/Fund overview
2. Personnel
3. Key Processes
4. Service Providers
5. Reporting
6. Systems
7. Regulation and Compliance

Verus received without limitation the following information and documents from Systematic:

- Response to Verus' Operational Due Diligence Questionnaire
- 2014 Systematic Annual Compliance Review Report
- 2016 Systematic BCP
- Fresno 4Q 2015 Market Letter
- Systematic Financial Code of Ethics
- Systematic Financial Compliance Manual (Table of Contents)
- Systematic Financial SMID Cap Value Fact Sheet 12312015
- Systematic Sample SMID Cap Value RFP 12312015
- Systematic Valuation
- Systematic ADV filing

Based on Verus' due diligence processes and the information and documents provided:

Systematic has passed the operational due diligence assessment. Verus Operations will continue to monitor certain reports and information and will perform additional onsite due diligence, as necessary.

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Verus

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OCTOBER 25, 2017

Investment Due Diligence Summary

Mondrian Investment Partners Limited

International Small Cap Equity

VERUSINVESTMENTS.COM

SEATTLE 206-622-3700
LOS ANGELES 310-297-1777
SAN FRANCISCO 415-362-3484

	Verus FL Strategy
X	**Verus FL Manager**
X	**Client Requested Review**

Date Reviewed: 25 September 2017

Verus Attendees
Margaret McRae, CFA – Associate Director | Public Markets
Marianne Feeley, CFA – Managing Director | Public Markets

Mondrian Attendees
Aidan Nicholson Senior PM Intl Small Cap
Ormala Krishnan CIO Small Cap
Andrew Kiely – Client Service Manager
Ed Lambert – Manager, Compliance & Risk

FCERA Attendees
Steven Jolly – Board Vice-Chair
Laura Basua – Board Member

Overview

Asset Class
International Equity

Investment Style
Small Cap

Firm Ownership
100% employee owned

Firm Assets
$61.3 billion

Onsite Description

During our onsite visit on September 25, 2017, we met with Aidan Nicholson, Ormala Krishnan, Andrew Kiely and Ed Lambert. We were given a brief firm overview and updates specific to the International Small Cap Equity team and the strategy. We discussed the philosophy and process, the team's approach, fund positioning and the current market environment.

We also discussed Mondrian's plan for The Markets in Financial Instruments Directive (MiFId II), which increases the transparency among the EU's financial markets and standardizes the regulatory disclosures required for particular markets. Mondrian has always been thoughtful of all research consumed, and they have a budget for ad hoc research. The majority of research the team uses is internally generated; they have been well prepared for this change in regulation.

Finally, we discussed performance and major themes in the market. We discussed how Mondrian's value-oriented style has led them to underperform the benchmark and peers over the 3- and 5-year trailing periods. The team focuses on identifying well capitalized companies that are dominate in their niche industries with defenses against threats of competition. Due to the team's overall philosophy, the strategy will tend to outperform in difficult periods and aim to capture at least 75% of upside in strong growth market environments. In terms of current positioning, the team has a lack of exposure to cyclical stocks and financials. Additionally, the team does not have exposure to sectors that have benefited on the back of the reflation rally, which shows their stock-picking ability has added value. An example of a current investment idea is cinema operators; the team has invested in two cinema stocks and feels it is a compelling top-down story. The team has noticed that entertainment has been gaining traction in heavy retail areas since most brick and mortar stores are being eclipsed by companies like Amazon. Cinemas are a great source of cheaper entertainment (than sports games or going to a restaurant). The team feels that as cinemas are poised to grow as they continue to penetrate emerging Europe and other areas.

Team Description

The firm has a team of over 55 investment professionals centrally located in London. Investment professionals are subdivided into separate teams for emerging markets, small cap, international and global strategies. Equity investment research is structured along a matrix approach where each portfolio manager/analyst has both regional and industry/sector responsibilities. The firm's fixed income research is also available to the equity team. The only recent change in management of note was the retirement of Nigel May, deputy CEO (effective February 2018); he is a founder that has been with the firm for 25 years. The firm isn't planning on replacing Mr. May. The small cap team has been working together for over 10 years. The most recent additions were Alastair Cornwell in 2010 and Charl Basson in 2015.

ORMALA KRISHNAN, CHIEF INVESTMENT OFFICER, SMALL CAP EQUITIES

Dr. Krishnan heads Mondrian's International and emerging markets small capitalization Teams. Dr. Krishnan started her investment career in 1993 with Singapore based Koeneman Capital Management. Prior to joining Mondrian in 2000 as a portfolio manager, Dr. Krishnan was an investment consultant with William M Mercer. Upon completion of her BSc in Pure and Applied Mathematics from the National University of Singapore, Dr. Krishnan achieved her MSc in Actuarial Science from City University, London. In 2006, Dr. Krishnan completed her Doctoral program in Investment and Finance from Sir John Cass Business School, City of London. Her doctoral thesis was on 'Value versus Growth in the Asian Equity Markets'.

AIDAN NICHOLSON, CFA, SENIOR PORTFOLIO MANAGER, INTERNATIONAL SMALL CAP EQUITIES

Having graduated from Pembroke College, Oxford with a Masters in Engineering, Economics & Management, Mr. Nicholson worked at Cazenove & Co. in the UK Smaller Companies Team, before moving to Mondrian in 2003 where he is a Portfolio Manager on the International Small Capitalisation Team. Mr. Nicholson is a CFA Charterholder, a member of the CFA Institute and a member of the CFA Society of the UK.

FRANCES CUTHBERT, CFA, SENIOR PORTFOLIO MANAGER, INTERNATIONAL SMALL CAP EQUITIES

Ms. Cuthbert is a graduate of the University of Edinburgh where she completed a MA (Hons) degree in Economics. She commenced her career at Deutsche Bank before joining Mondrian in 1999 with responsibilities in the international small capitalization Team. Ms. Cuthbert is a CFA Charterholder, a member of the CFA Institute and a member of the CFA Society of the UK.

BHAVIN MANEK, CFA, SENIOR PORTFOLIO MANAGER, INTERNATIONAL SMALL CAP EQUITIES

Mr. Manek is a graduate of the London School of Economics where he achieved a First Class Honours degree in Economics. Mr. Manek started his career at Mercer Investment Consulting where he worked for 3 years as an Investment Analyst, before joining Mondrian in 2006. Mr. Manek is an Assistant Portfolio Manager on the international small capitalization Team. Mr. Manek is a CFA Charterholder and is a member of the CFA Institute and the CFA Society of the UK.

ALASTAIR CORNWELL, CFA, PORTFOLIO MANAGER, INTERNATIONAL SMALL CAP EQUITIES

Mr. Cornwell is a graduate of the Imperial College, London where he achieved a BSc (Hons) degree in physics. Mr. Cornwell started his career at Mondrian as an investment administrator in 2008, subsequently joining the international small cap team in 2010. Mr. Cornwell is a CFA Charterholder and is a member of the CFA Institute and the CFA Society of the UK.

Strategy Description

Mondrian is income-orientated with a value discipline based on global fundamental research. The strategy is managed from an absolute return perspective and is benchmark agnostic in nature. They invest in stocks with favorable dividend growth potential and attempt to isolate value in terms of the long-term growth of dividends. In small cap, future real growth plays a central role in the decision-making process. The international small cap equity strategy employs fundamental analysis based on international economic and political studies, currency evaluations, and business cycle analysis. Mondrian's market analysis and stock selection relies on extensive in-house research of each current and prospective holding, including on-site visits with policy makers and company management. Their international small cap products are currently closed to new business.

Process Implementation

The International Equity Strategy Committee meets formally at least every two weeks to review the portfolios, and analysts' research relating to possible portfolio changes. Portfolio policies and decisions are made by the Committee. Individual portfolio managers have little discretion to change portfolios, although all of them are part of the Committee decision-making process. In the unlikely event that the Committee is unable to reach an agreement, Ormala Krishnan, CIO Small Cap Equities, has final decision-making authority.

The security selection process is bottom-up and is based on individual security valuations. Mondrian notes that it is the nature of small cap securities to be embedded within their local economies where local factors such as politics, regulatory environment, macroeconomics and socio-demographics are important. For this reason, the firm believes top-down fundamental analysis is essential. The team also uses top-down analysis to focus on the right aspects of the value chain. This is used in Mondrian's underlying bottom-up stock models to determine security valuations. Further management appraisal is carried out to ascertain the quality of management and the clarity and coherence of their strategic direction.

The Mondrian small cap universe consists of securities with a market capitalization of up to $3.5 billion at the inception of the position. Companies considered for the Mondrian portfolio are not fledgling companies but rather well-established global players. The investment philosophy has a value chain focus, looking at service providers or component producers to larger companies. The team works closely with the large cap teams at Mondrian. They believe this level addresses the opportunity set of companies small enough to be genuinely small cap and large enough to allow relevant comparison to the available indices. Country allocation is driven by valuation rather than the benchmark. Diversification between countries is part of the allocation process. Mondrian sets maximum weights for each country with reference to a combination of market capitalization and liquidity. Mondrian takes into account currency movements. They believe currency is driven by purchasing power parity, and they use four different models to evaluate currency relationships. They look at both historical and prospective currency behavior and regard deviation from normal behavior as a signal. They will consider hedging when a currency is more than two standard deviations overvalued. Mondrian believes that in the medium-to-long term, currencies adjust to their purchasing power parities (PPP). This analysis is supplemented by a shorter-term assessment of the key identifiable factors that result in deviations from PPP.

There is a clear sell discipline for stocks, and sales are identified when: (1) price appreciation leads to significant overvaluation against a predetermined value level; (2) a change in the fundamentals occurs, which adversely affects appraised value; (3) more attractive alternative investments become available; or (4) an adverse change takes place in the political environment, or market regulation and control that could negatively impact shareholder value.

Risk Factors and Potential Red Flags

The strategy has very low turnover as a result of Mondrian's approach to value investing and their investment time horizon. This could possibly result in holding onto undervalued positions for too long and affect the portfolio's performance. This may also limit the portfolio's ability to quickly adapt to structural changes in an industry, overall macro dynamics, and shifts in the business cycle.

Performance

During bull markets, when stock markets are rising strongly, Mondrian believes valuation fundamentals are often ignored by the markets. Mondrian would not be expected to outperform the benchmark or growth-oriented managers in such periods. Benchmark relative performance has historically been best in down market periods.

As of 9/30/2017, performance for the strategy has underwhelming; the strategy underperformed the MSCI EAFE Small Cap for the 1-, 3-, 5- and 7-year trailing periods. The strategy tends to perform well in down markets, such as 2011. In high growth markets such as 2013 and 2015, the strategy has underperformed the benchmark and peers. The team has reiterated that they will stay true to their philosophy and process and continue to seek well-capitalized companies that have defense against their competition.

Summary Assessment

Verus believes that Mondrian is an experienced and skilled international small cap equity manager that does well covering the value portion of the investable universe. Performance has been good over longer periods of time, however more recent returns have not been as strong. Given their investment process and the resulting value-oriented and defensive profile amidst generally positive markets, this underwhelming performance is not wholly unexpected.

Operational Due Diligence Assessment

Verus' Operations team conducted an Operational Due Diligence assessment Mondrian Investment Partners Ltd. Small Cap and Emerging Markets. The objective of the analysis was to gain a thorough understanding of Mondrian Investment Partners Ltd. Small Cap and Emerging Markets operations, attaining a reasonable assurance that Mondrian Investment Partners Ltd. Small Cap and Emerging Markets has sound organizational and governance structures, strong investment processes and procedures, and robust internal controls.

Verus sent Mondrian Investment Partners Ltd. Small Cap and Emerging Markets a copy of the Verus Operational Due Diligence Questionnaire ("ODDQ")
The ODDQ focuses on seven main areas:

1. Firm/Fund overview
2. Personnel
3. Key Processes
4. Service Providers
5. Reporting
6. Systems
7. Regulation and Compliance

Verus received the following documents from Mondrian Investment Partners Ltd. Small Cap and Emerging Markets:

- Verus Operational Due Diligence Questionnaire
- 2017 Code of Ethics
- Asset Breakdown IEQ-ISC-EME
- Business Continuity Plan
- Compliance Manual
- Compliance Program 2017
- Compliance Program Annual Review 2017
- Controls Report 2017
- Group Structure Chart June 2016
- Mondrian Form ADV Part 2A & 2B
- Mondrian Insurance Pack
- Mondrian Investment Client Service Professionals Organization Chart and Biographies
- 2017 Trade Execution Policy and Procedures
- Operations Organization Chart
- Valuation & Pricing Policy

Mondrian Investment Partners Ltd. Small Cap and Emerging Markets has passed the operational due diligence assessment. Verus Operations will continue to monitor certain reports and information and will perform additional due diligence as necessary.

Past performance is no guarantee of future results. *The information presented in this report is provided pursuant to the contractual agreement (the "Contract") by and between Mondrian Investment Partners* Ltd. Small Cap and Emerging Markets *("Client") and Verus Advisory, Inc. ("Company"). In the event of conflict between the terms of this disclosure and the Contract, the Contract shall take precedence. Client is an institutional counter-party and in no event should the information presented be relied upon by a retail investor.*

The information presented has been prepared by the Company from sources that it believes to be reliable and the Company has exercised all reasonable professional care in preparing the information presented. However, the Company cannot guarantee the accuracy of the information contained therein. The Company shall not be liable to Client or any third party for inaccuracy or in-authenticity of information obtained or received from third parties in the analysis or for any errors or omissions in content.

The information presented does not purport to be all-inclusive nor does it contain all information that the Client may desire for its purposes. The information presented should be read in conjunction with any other material furnished by the Company. The Company will be available, upon request, to discuss the information presented in the report that Client may consider necessary, as well as any information needed to verify the accuracy of the information set forth therein, to the extent Company possesses the same or can acquire it without unreasonable effort or expense. Nothing contained therein is, or should be relied on as, a promise, representation, or guarantee as to future performance or a particular outcome. Even with portfolio diversification, asset allocation, and a long-term approach, investing involves risk of loss that the client should be prepared to bear.

The material may include estimates, outlooks, projections and other "forward-looking statements." Such statements can be identified by the use of terminology such as "believes," "expects," "may," "will," "should," "anticipates," or the negative of any of the foregoing or comparable terminology, or by discussion of strategy, or assumptions such as economic conditions underlying other statements. No assurance can be given that future results described or implied by any forward-looking information will be achieved. Actual events may differ significantly from those presented. Investing entails risks, including possible loss of principal. Risk controls and models do not promise any level of performance or guarantee against loss of principal.

Verus

PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS

OCTOBER 25, 2017

Investment Due Diligence Summary

Mondrian Investment Partners Limited
Emerging Markets Equity

VERUSINVESTMENTS.COM

SEATTLE 206-622-3700
LOS ANGELES 310-297-1777
SAN FRANCISCO 415-362-3484

	Verus FL Strategy
	Verus FL Manager
X	Client Requested Review

Date Reviewed: 25 September 2017

Verus Attendees
Margaret McRae, CFA – Associate Director | Public Markets
Marianne Feeley, CFA – Managing Director | Public Markets

Mondrian Attendees
Greg Halton – Senior Portfolio Manager Emerging Markets
Andrew Miller – CIO of Emerging Markets
Andrew Kiely – Client Service Manager
Ed Lambert – Manager, Compliance & Risk

FCERA Attendees
Steven Jolly – Board Vice-Chair
Laura Basua – Board Member

Overview

Asset Class
International Equity

Investment Style
Emerging Markets

Firm Ownership
100% employee owned

Firm Assets
$61.3 billion

Onsite Description

During our onsite visit on September 25, 2017, we met with Greg Halton, Andrew Miller, Andrew Kiely and Ed Lambert. We were given a brief firm overview and updates specific to the Emerging Markets Equity team and the strategy. We discussed the philosophy and process, the team's approach, fund positioning and the current market environment.

We also discussed Mondrian's plan for The Markets in Financial Instruments Directive (MiFId II), which increases the transparency among the EU's financial markets and standardizes the regulatory disclosures required for particular markets. Mondrian has always been thoughtful of all research consumed, and they have a budget for ad hoc research. The majority of research the team uses is internally generated; they have been well prepared for this change in regulation.

Finally, we discussed performance and major themes in the market. We discussed how Mondrian's value-oriented style has led them to underperform the benchmark and peers over the 3- and 5-year trailing periods. There have been some errors in Mondrian stock picks and the underweight to well-performing Chinese technology companies has led to underperformance. Chinese technology companies have not fit Mondrian's approach due to their valuation premium and low dividend yield. The firm's positioning coupled with the low interest rate environment has resulted in Mondrian's style being out-of-favor versus strategies with a growth bias. In terms of current positioning, the team is overweight to financials, consumer discretionary and utilities and is underweight technology. An example of a current investment idea is India; the team has a reasonable overweight and feels it is a compelling top-down story. Valuations in some areas are very attractive, for example, autos, mortgage-related and finance are under penetrated. Mondrian feels that the multi-year growth profile yields some decent businesses.

Team Description

The firm has a team of over 55 investment professionals centrally located in London. Investment professionals are subdivided into separate teams for Emerging Markets, Small Cap, International and Global strategies. Equity investment research is structured along a matrix approach where each portfolio manager/analyst has both regional and industry/sector responsibilities. The firm's fixed income research is also available to the equity team. The only recent change in management of note was the retirement of Nigel May, deputy CEO (effective February 2018); he is a founder that has been with the firm for 25 years. The firm isn't planning on replacing Mr. May. Additionally, there are a few new team members (including Sam Wyatt) inside the international equity team but no significant departures. The firm is hoping to hire a Mandarin speaker to focus on Chinese equities. Mondrian tends to hire young professionals and develop their careers.

ANDREW MILLER, CIO EMERGING MARKET EQUITIES

Mr. Miller is a graduate of the University of Birmingham. Prior to joining Mondrian in 2000, he worked in the Investment Management department of PricewaterhouseCoopers, where he was responsible for the analysis and audit of various investment vehicles. In 2013, Mr. Miller was promoted to Chief Investment Officer of the Emerging Markets team. Mr. Miller holds the ASIP designation and is a member of the CFA Institute and the CFA Society of the UK.

GINNY CHONG, CFA, SENIOR PORTFOLIO MANAGER, EMERGING MARKET EQUITIES

Prior to joining Mondrian in 2000, Ms. Chong worked for PricewaterhouseCoopers in Vancouver, within the Corporate Finance and Investment Banking Division where she qualified as a Canadian Chartered Accountant. Ms. Chong has a degree in Commerce from the University of British Columbia, Vancouver. Ms. Chong is presently a Senior Portfolio Manager within the Emerging Markets Team. Ms. Chong is a CFA charterholder and is a member of the CFA Institute and the CFA Society of the UK.

GREGORY HALTON, CFA, SENIOR PORTFOLIO MANAGER, EMERGING MARKET EQUITIES

Having graduated from St Catherine's College, Oxford University in 2000 with a MEng (Hons) in Engineering Science, Mr. Halton worked in the global equity division of Deutsche Asset Management before joining Mondrian in 2004. Mr. Halton is a Senior Portfolio Manager within the Emerging Markets Team. Mr. Halton is a CFA charterholder and is a member of the CFA Institute and the CFA Society of the UK.

BORIS VESELINOVICH, SENIOR PORTFOLIO MANAGER, EMERGING MARKET EQUITIES

Mr. Veselinovich is an Economics and Quantitative Finance graduate from the University of Western Australia and holds an MSc in Mathematical Trading and Finance from CASS Business School, London. He commenced his career as an Investment Research Analyst at Challenger International in Australia covering the local equity market. He joined Mondrian in 2001 and has since worked on global equity coverage as well as new product development initiatives. Mr. Veselinovich has the IMC designation, the Securities and Investment Institute Certificate in Derivatives and is a member of the CFA Institute and CFA Society of the UK.

Strategy Description

Mondrian is income-orientated with a value discipline based on global fundamental research. The strategy is managed from an absolute return perspective and is benchmark agnostic in nature. The team invests in stocks with a favorable dividend discount profile and attempt to isolate value in terms of the long-term growth of dividends. Dividend yield and future real growth play a central role in the decision-making process and over time the dividend component is expected to be a meaningful portion of expected total return. The Emerging Markets Strategy employs fundamental analysis based on international economic and political studies, currency evaluations, and business cycle analysis. Mondrian's market analysis and stock selection relies on extensive in-house research of each current and prospective holding, including on-site visits with policy makers and company management. Their emerging markets products are currently closed to new business.

Process Implementation

The Emerging Markets Equity Strategy Committee meets formally at least every two weeks to review the portfolios, and analysts' research relating to possible portfolio changes. Portfolio policies and decisions are made by the Committee. Individual portfolio managers have little discretion to change portfolios, although all of them are part of the Committee decision-making process. In the unlikely event that the Committee is unable to reach an agreement, Andrew Miller, CIO Emerging Markets Equity has final decision-making authority.

Mondrian's security selection process is based on market and security valuations, rather than top-down factors such as sector weights. Mondrian estimates that top-down and bottom-up security selection accounts for equal portions of its approach. For Emerging Markets Equity, all countries in the MSCI EM index are considered, but they are not restricted to the markets or stocks in the benchmark index. Capitalization size is not a major factor in the investment process, and there is no set maximum or minimum percentage of the portfolio that will be invested in certain capitalization size ranges. The firm consistently utilizes a dividend discount valuation model of inflation-adjusted future income streams across all markets, industries, and securities. Their DDM model has four stages, 1 to 5 years, 5 to 10 years, 11 to 15 years, and 50 years onwards. They discount all of these periods at 5% real as this represents the minimum return they would need for positive excess returns.

Country allocation is driven by valuation rather than the benchmark. Diversification between countries is part of the allocation process. Mondrian sets maximum weights for each country with reference to a combination of market capitalization and liquidity. Currently the maximum to any country is 30% but typically not more than 10% overweight any one country. Mondrian takes into account currency movements. They believe currency is driven by purchasing power parity and they use four different models to evaluate currency relationships. They look at both historical and prospective currency behavior and regard standard deviations from normal behavior as a signal. They will consider hedging when a currency is more than two standard deviations overvalued. Mondrian believes that in the medium to long term currencies adjust to their purchasing power parities (PPP). This analysis is supplemented by a shorter-term assessment of the key identifiable factors that result in deviations from purchasing power parity.

There is a clear sell discipline for stocks, markets and currencies, and sales are identified when: (1) price appreciation leads to significant overvaluation against a predetermined value level; (2) a change in the fundamentals occurs, which adversely affects appraised value; (3) more attractive alternative investments become available; or (4) an adverse change takes place in the political environment, or market regulation and control that could negatively impact shareholder value.

Risk Factors and Potential Red Flags

The strategy has very low turnover as a result of Mondrian's approach to value investing and their investment time horizon. This could possibly result in holding onto undervalued positions for too long and affect the portfolio's performance. This may also limit the portfolio's ability to quickly adapt to structural changes in an industry, overall macro dynamics, and shifts in the business cycle.

Performance

During bull markets, when stock markets are rising strongly, Mondrian believes valuation fundamentals are often ignored by the markets. Mondrian would not be expected to outperform the benchmark or growth-oriented managers in such periods. Benchmark relative performance has historically been best in down market periods. They believe that during these periods' stocks and markets identified by high and growing dividend streams are most likely to outperform.

As growth stocks have been leading in 2017, the strategy has struggled to keep up with the benchmark, although this expected given Mondrian's style. The last 3-5 years have been challenging given the strategy's strategic underweight to Chinese internet and growth stocks; these hurt performance as these segments have performed well. The low interest rate environment has been causing investors to pay more for stocks that can grow in the current environment. The firm's focus on the downside and avoiding leveraged companies has not been rewarded in the current environment. The strategy could continue to underperform peers if Chinese internet names (ex: Tencent, Alibaba, Napsers, Baidu, etc. continue to outperform and increase their market share in the index.

Summary Assessment

Verus believes that Mondrian is a experienced and skilled emerging markets equity manager that does well covering the value portion of the investable universe. Performance has been good over longer periods of time; however more recent returns have not been as strong. Given their investment process and the resulting value-oriented and defensive profile amidst generally positive markets, this underwhelming performance is not wholly unexpected.

Operational Due Diligence Assessment

Verus' Operations team conducted an Operational Due Diligence assessment Mondrian Investment Partners Ltd. Small Cap and Emerging Markets. The objective of the analysis was to gain a thorough understanding of Mondrian Investment Partners Ltd. Small Cap and Emerging Markets operations, attaining a reasonable assurance that Mondrian Investment Partners Ltd. Small Cap and Emerging Markets has sound organizational and governance structures, strong investment processes and procedures, and robust internal controls.

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5. Reporting
6. Systems
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- Asset Breakdown IEQ-ISC-EME
- Business Continuity Plan
- Compliance Manual
- Compliance Program 2017
- Compliance Program Annual Review 2017
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- Group Structure Chart June 2016
- Mondrian Form ADV Part 2A & 2B
- Mondrian Insurance Pack
- Mondrian Investment Client Service Professionals Organization Chart and Biographies
- 2017 Trade Execution Policy and Procedures
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The material may include estimates, outlooks, projections and other "forward-looking statements." Such statements can be identified by the use of terminology such as "believes," "expects," "may," "will," "should," "anticipates," or the negative of any of the foregoing or comparable terminology, or by discussion of strategy, or assumptions such as economic conditions underlying other statements. No assurance can be given that future results described or implied by any forward-looking information will be achieved. Actual events may differ significantly from those presented. Investing entails risks, including possible loss of principal. Risk controls and models do not promise any level of performance or guarantee against loss of principal.