

Memorandum

To: Board of Trustees, Fresno County Employees' Retirement Association
From: Michael Kamell, CFA, CAIA, Senior Consultant, Managing Director
Date: March 29, 2023
RE: Core Fixed Income Discussion

The FCERA target asset allocation includes a 12% allocation to core fixed income, 11% of which is currently allocated to a single manager (western asset). Verus advocates diversifying this exposure across a second core fixed income strategy.

Enclosed please find a search book which includes four candidates that are highly regarded by our research team. In addition to the comparative search book, the document includes detailed write-ups on each strategy.



PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS



March 2023

Core Fixed Income

Fresno County Employee Retirement Account

Executive Summary

Strategy overview

	Baird	Dodge & Cox	IR+M	J.P. Morgan
Overview	<p>The strategy is appropriate for clients seeking exposure to a diversified portfolio of high credit quality bonds, designed to capture market inefficiencies through security selection and sector rotation. The strategy, focusing primarily on investments in US government, ABS, MBS, and corporate debt, deserves consideration for clients seeking a core fixed income strategy with low tracking error that is designed to add value through yield curve positioning, sector allocation and security selection within the investment grade fixed income universe.</p>	<p>Dodge & Cox's Core Fixed Income strategy strives to achieve long-term, above-benchmark returns by building high quality portfolios that typically have a higher yield than the overall market. Top-down macro-economic analysis does not play a primary role in the investment process. The team primarily utilizes investment grade bonds in their clients' portfolios; however, high yield bonds will be used opportunistically and as permitted by client guidelines (typically 10-15%).</p>	<p>We view the IR+M Aggregate Bond strategy as appropriate for clients seeking exposure to a diversified portfolio of high credit quality bonds, designed to capture market inefficiencies through security selection and sector rotation. The team employs a sector-neutral approach. With the goal of generating additional alpha, the team focuses on identifying securities that are mispriced due to liquidity and structural issues in addition to actively rotating sectors based on relative value. The team seeks opportunistic off-benchmark positions, focusing on the optimal yield curve entry point into high quality corporate, municipal and MBS/ABS securities. Since inception, these off-benchmark positions have generally benefited the strategy's relative performance.</p>	<p>JPMorgan's Core Bond strategy is appropriate for those investors seeking a broadly diversified, high quality exposure to US core fixed income markets. The strategy, which invests primarily in a diversified portfolio of intermediate-term, investment grade bonds, tends to have lower tracking error and is designed to leverage the global resources and proprietary research of JPM's Global Fixed Income platform.</p>

Strategy overview

	Baird	Dodge & Cox	IR+M	J.P. Morgan
Risks and Observations	<p>The team’s robust and repeatable investment process is designed to identify undervalued market sectors and securities. The strategy, which seeks to remain duration-neutral while identifying relative value across each alpha opportunity, has provided consistent excess returns since inception. We view the team and the organization in high regard, noting the broad employee ownership, low investment professional turnover, and robust investment philosophy and process which has resulted in a consistent performance profile.</p>	<p>We view the organizational stability, tradition and alignment characteristics of Dodge & Cox’s fixed income effort to be robust and differentiated. The committee-based portfolio management function is also unique versus other fixed income peers which may have named portfolio managers assigned to various strategies. As part of the team's goal to out-yield the benchmark, the strategy tends to have a strategic underweight to Treasuries. While this isn't necessarily unique across Core Plus strategies, Dodge & Cox tends to utilize credit-related sectors as its main source of spread duration.</p>	<p>Ultimately, we view the organizational structure; cohesiveness, tenure and stability of the team; and uniqueness of the strategy’s profile and characteristics as differentiated versus peers. The team often seeks to pick up additional return via the use of smaller “off-the-run” bonds, or those that are more structurally unique which may result in a portfolio with benchmark-like characteristics that looks nothing like the benchmark.</p>	<p>We appreciate that the strategy has a bias towards securitized sectors (mortgage-related and asset-backed securities) and tends to complement strategies that are more credit-focused; this differentiates this strategy from a lot core bond peers. The team’s robust and repeatable investment process is designed to identify undervalued market sectors and securities. The strategy, which seeks to remain broadly duration-neutral while identifying relative value opportunities, has provided consistent excess returns relative to the index for since inception. The strategy tends to be more benchmark-aware than benchmark-constrained and focuses on the following sectors: corporate bond/asset-backed securities (20-45%), mortgage-backed securities (25-60%), Treasury securities (15-35%) and agency bonds (0-10%).</p>

Strategy overview

	Baird	Dodge & Cox	IR+M	J.P. Morgan
Performance Sensitivity	<p>The team’s decision to remain largely duration-neutral and not actively manage interest rate risk may subject investors to benchmark-like volatility should interest rates move significantly in either direction. While the team does attempt to mitigate this risk with a sector overweight to structured securities that are shorter in duration, the overall duration exposure remains neutral to the benchmark.</p>	<p>The strategy tends to have a structural overweight to credit and a short duration bias. More recently, the strategy's defensive duration position has impacted performance based on movement in rates. The portfolio’s duration positioning tends to be dynamic, but based on the low interest rate environment, rates rising would benefit relative performance.</p>	<p>The team’s decision to remain largely duration-neutral and not actively manage interest rate risk may subject investors to benchmark-like volatility should interest rates move significantly in either direction. While the team does attempt to mitigate this risk with a sector overweight to structured securities that are shorter in duration, the overall duration exposure remains neutral to the benchmark.</p>	<p>There have been some organizational changes at JPM, including the departures of Doug Swanson in 2016 and Barb Miller in 2019. Although we believe that the team-based nature of the process reduces much of the key-person risk, turnover of key investment professionals often results in headline risk.</p>

Strategy overview

	Baird	Dodge & Cox	IR+M	J.P. Morgan
Verus View	<p>The team has a long track record of adding incremental value through actively managed, bottom-up security selection, adding value in a very consistent manner relative to the Barclays US Aggregate Bond Index (with the exception of 2008).</p>	<p>The strategy can be expected to perform well during periods of improving economic activity which typically result in credit spreads narrowing. During periods of market dislocation, the strategy may experience higher volatility due primarily to the significant underweight to US Treasury bonds.</p>	<p>This strategy can be expected to perform well during periods of low interest rate volatility and relatively stable credit spreads. Periods of high credit spread volatility and illiquidity, as evidenced during the 2008 financial crisis, will likely negatively impact performance primarily due to the strategy's significant underweight to US Treasuries.</p>	<p>The strategy seeks to outperform the index by 50-100 bps annually over a full market cycle. The team tends to favor securitized assets (ex: MBS and CMOs) over US investment grade corporate bonds in portfolio construction; the mortgage-heavy profile makes this strategy a compelling complement to credit-heavy fixed income strategies. The strategy should be expected to perform well during periods of stable interest rates and or narrow credit spreads.</p>

Manager overview

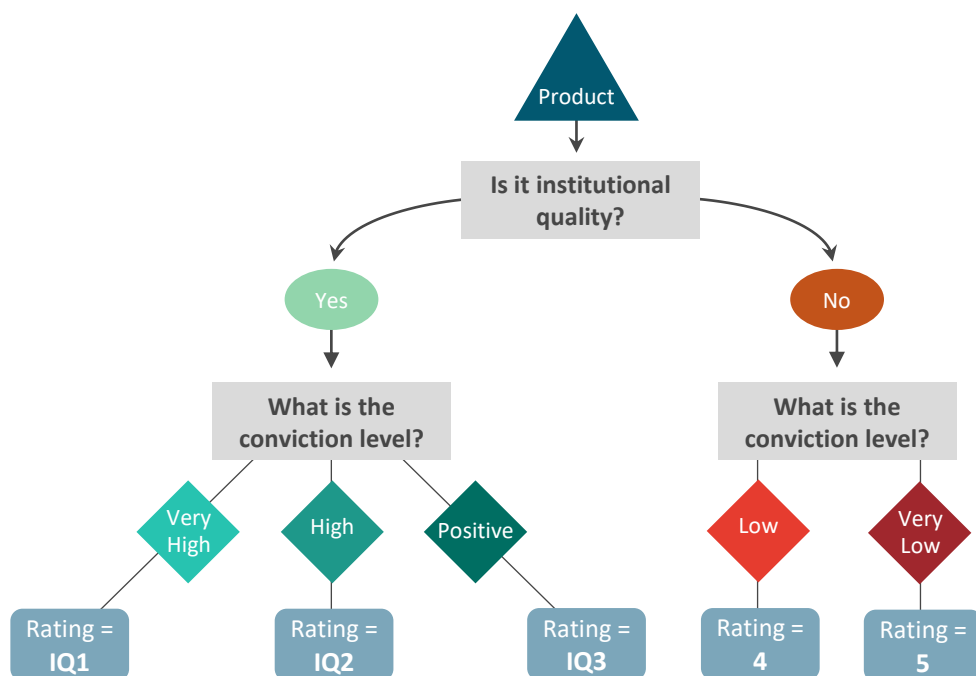
Manager rating system

The IQ Rating System communicates our conviction in investment products

There are two components to the rating:

- Institutional quality** – (IQ) The product meets or exceeds the standards of fiduciary care required by institutional investors and is suitable for use in clients’ portfolios.
- Conviction** – (1 to 5) Represents the conviction of our research teams in the distinguishing qualities of the product relative to its peers, with 1 as the highest rating and 5 the lowest.

PROCESS



Rating process simplified for illustrative purposes only

DEFINITIONS & GUIDELINES

Rating	Institutional Quality?	Conviction Level	Defining Characteristics	Recommendations
IQ1	Yes	Very High	Earns Verus’ highest conviction. Above-average characteristics most likely to achieve the strategy’s desired investment results.	Recommended for use in client portfolios. May be used in Verus discretionary portfolios.
IQ2	Yes	High	Maintains Verus’ high conviction. Above-average characteristics most likely to achieve strategy’s desired investment results.	Recommended for use in client portfolios. May be used in Verus discretionary portfolios.
IQ3	Yes	Positive	Meets institutional quality standards that can achieve desired investment results. Strengths outweigh weaknesses.	While IQ1 or IQ2 rated products are generally preferable, certain client needs may be better addressed by a highly specialized IQ3 product.
4	No	Low	Concerns with the product’s ability to meet institutional-quality standards.	Clients should re-evaluate retention or monitor closely.
5	No	Very Low	Significant issues inhibit the product’s ability to meet institutional-quality standards.	Verus recommends termination, immediately

Manager comparison

	Baird	Dodge & Cox	IR+M	J.P. Morgan
VERUS RATING	IQ1	IQ2	IQ1	IQ2
FIRM OWNERSHIP	95% employee owned, 5% owned by NML	100% employee owned	100% employee owned	Wholly owned subsidiary of JPMorgan Chase & Co (NYSE: JPM)
FIRM NAME	Baird Advisors	Dodge & Cox	Income Research & Management	J.P. Morgan Investment Management Inc.
PRODUCT NAME	Core Bond	Dodge & Cox Discretionary Core Fixed Income	IR+M Aggregate	JPM Core Bond
FIRM TOTAL AUM (\$MM)	\$112,350	\$322,933	\$88,998	\$2,361,182
STRATEGY AUM (\$MM)	\$48,512	\$83,792	\$14,414	\$67,461
INCEPTION DATE	Sep-00	Jan-78	Dec-91	Jan-86
PREFERRED BENCHMARK	Bloomberg US Aggregate	Bloomberg US Aggregate	Bloomberg US Aggregate	Bloomberg US Aggregate
INVESTMENT APPROACH	Fundamental	Fundamental	Fundamental	Fundamental
SCREENING APPROACH	Bottom-Up	Bottom-Up	Bottom-Up	Bottom-Up

Investment vehicle information

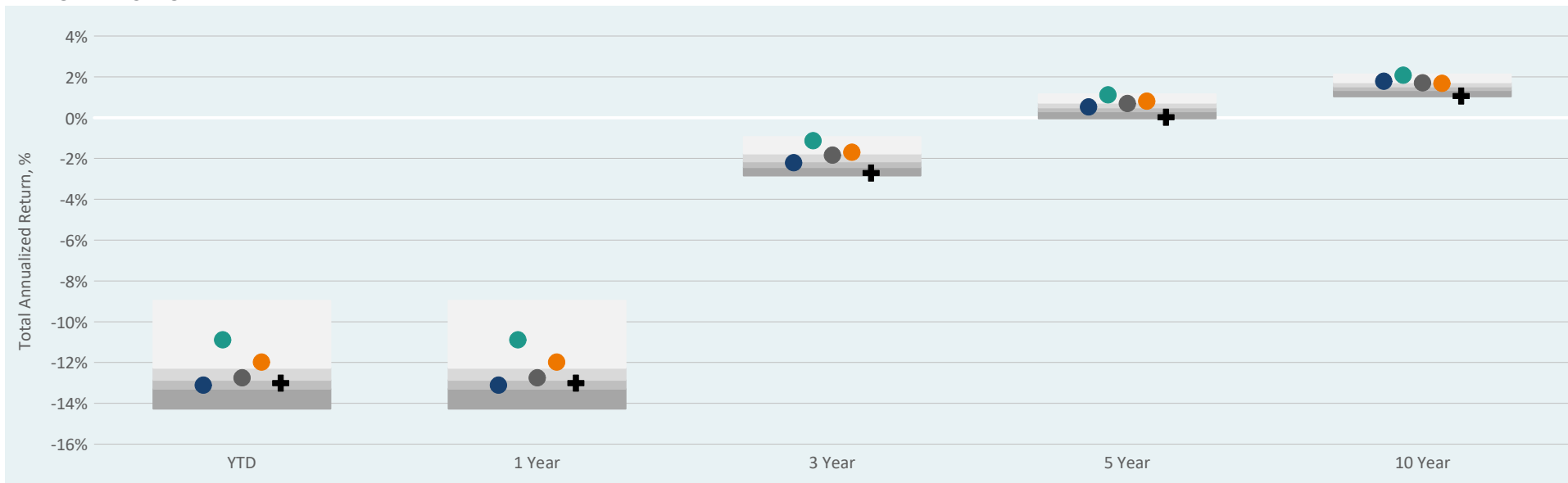
	INVESTMENT VEHICLES	MINIMUM INVESTMENT	EXPENSE RATIO	FEE SCHEDULE	OTHER FEES	LIQUIDITY
Baird	Sepatate Account	\$200,000,000	0.30% 0.20% 0.15%	First \$100,000,000 Next \$100,000,000 Balance Remaining		Buy/Sell individual securities
	Mutual Fund (BAGIX)	\$10,000	0.30%	All Assets		Daily
Dodge & Cox	Sepatate Account	\$150,000,000	0.35% 0.25% 0.15% 0.12% 0.11%	First \$25,000,000 Next \$75,000,000 Next \$150,000,000 Next \$750,000,000 Balance Remaining	Minimum quarterly fee: \$35,700	Daily
	Mutual Fund (DODIX)	\$0	0.41%	All Assets		Daily
IR+M	Separate Account	\$50,000,000	0.25% 0.225% 0.20% 0.15%	First \$50,000,000 Next \$50,000,000 Next \$100,000,000 Balance Remaining		Daily
	Commingled Fund	N/A	0.35%	All Assets		Daily
J.P. Morgan	Separate Account	\$150,000,000	0.30% 0.25% 0.225% 0.15%	First \$75,000,000 Next \$75,000,000 Next \$150,000,000 Balance Remaining		Daily
	Commingled Fund	\$10,000,000	0.30% 0.25% 0.225% 0.15%	First \$75,000,000 Next \$75,000,000 Next \$150,000,000 Balance Remaining		Daily (T+1)

Performance Analysis

Performance comparison - as of December 2022

● Baird ● Dodge & Cox ● IR+M ● J.P. Morgan ● Bloomberg US Aggregate

PERFORMANCE TO DATE



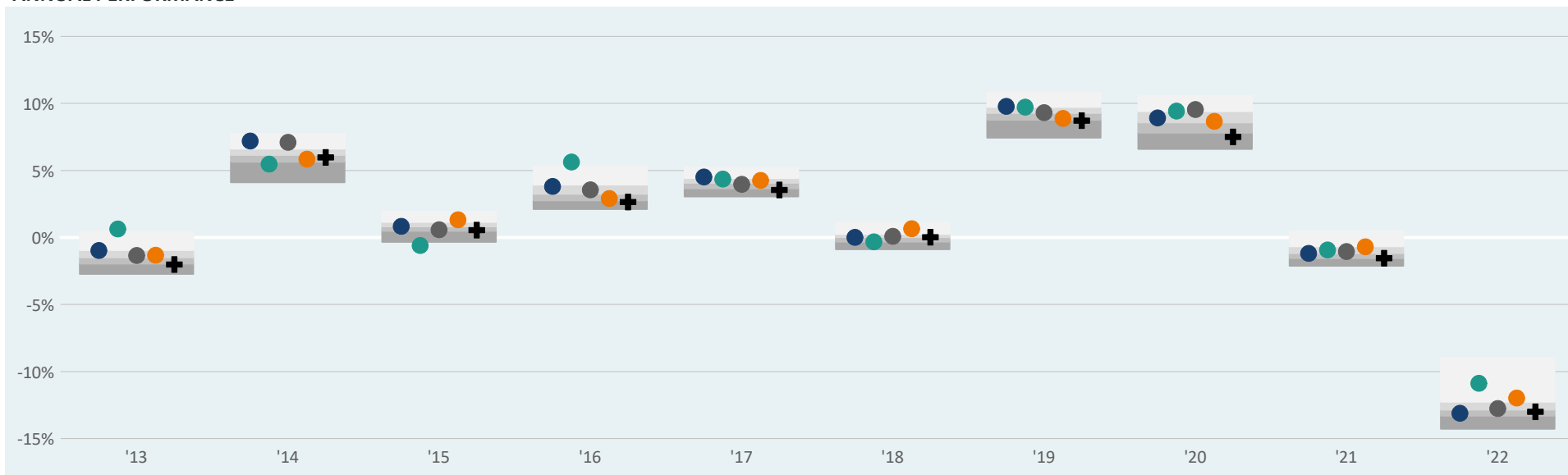
EXCESS ANNUALIZED RETURN TO DATE, %

	YTD	1 Year	3 Year	5 Year	10 Year
Baird	-0.1	-0.1	0.5	0.5	0.7
Dodge & Cox	2.1	2.1	1.6	1.1	1.0
IR+M	0.3	0.3	0.9	0.7	0.7
J.P. Morgan	1.0	1.0	1.0	0.8	0.6

Calendar year performance

● Baird ● Dodge & Cox ● IR+M ● J.P. Morgan + Bloomberg US Aggregate

ANNUAL PERFORMANCE



ANNUAL PERFORMANCE + RANKING	2014	2015	2016	2017	2018	2019	2020	2021	2022
Baird	7.2	0.9	3.8	4.5	0.0	9.8	8.9	-1.2	-13.1
Rank	10	46	28	22	49	23	37	50	65
Dodge & Cox	5.5	-0.6	5.6	4.4	-0.3	9.7	9.4	-0.9	-10.9
Rank	81	97	3	28	74	25	24	37	10
IR+M	7.1	0.6	3.6	4.0	0.1	9.3	9.6	-1.0	-12.7
Rank	13	69	38	55	42	48	21	44	41
J.P. Morgan	5.9	1.3	2.9	4.3	0.7	8.9	8.7	-0.7	-12.0
Rank	66	16	67	33	11	70	46	26	20
Bloomberg US Aggregate	6.0	0.5	2.6	3.5	0.0	8.7	7.5	-1.5	-13.0
Rank	60	71	81	83	50	76	85	75	60

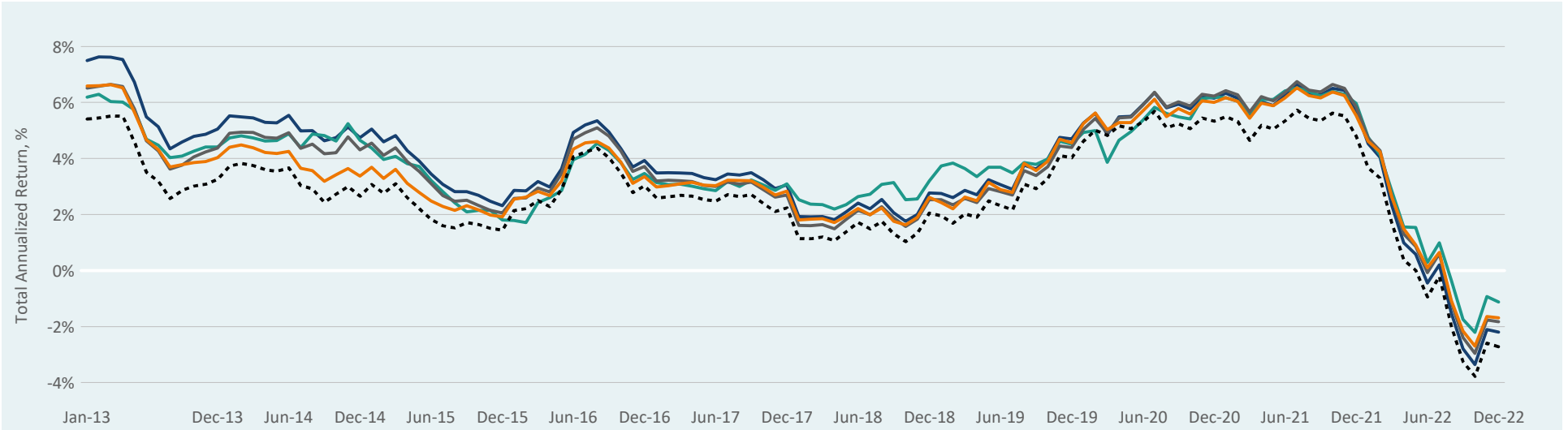
Performance summary - as of December 2022

	Baird	Dodge & Cox	IR+M	J.P. Morgan	Bloomberg US Aggregate
PERFORMANCE ANALYSIS - (5 Years)					
Alpha %	0.6	1.0	0.7	0.7	0.0
Beta	1.0	0.9	1.0	0.9	1.0
R-squared %	97.0	83.9	98.3	97.0	100.0
Sharpe Ratio	-0.1	0.0	-0.1	-0.1	-0.2
Treynor Ratio	0.0	0.0	0.0	0.0	0.0
Tracking Error %	0.9	2.1	0.7	0.9	0.0
Annualized Std Dev %	5.3	5.1	5.1	4.8	5.1
Information Ratio	0.6	0.5	1.0	0.9	---
Max Drawdown %	-17.2	-15.1	-16.5	-15.2	-17.2
Calmar Ratio	0.0	0.1	0.0	0.1	0.0
Excess Ann. Return %	0.5	1.1	0.7	0.8	0.0
PERFORMANCE TO DATE					
1 Year	-13.1	-10.9	-12.7	-12.0	-13.0
3 Year	-2.2	-1.1	-1.8	-1.7	-2.7
5 Year	0.5	1.1	0.7	0.8	0.0
7 Year	1.6	2.2	1.6	1.6	0.9
10 Year	1.8	2.1	1.7	1.7	1.1
Common Inception (Jan-03)	3.9	3.9	3.9	3.9	3.1
CALENDAR YEAR RETURNS					
2022	-13.1	-10.9	-12.7	-12.0	-13.0
2021	-1.2	-0.9	-1.0	-0.7	-1.5
2020	8.9	9.4	9.6	8.7	7.5
2019	9.8	9.7	9.3	8.9	8.7
2018	0.0	-0.3	0.1	0.7	0.0
2017	4.5	4.4	4.0	4.3	3.5
2016	3.8	5.6	3.6	2.9	2.6
2015	0.9	-0.6	0.6	1.3	0.5
2014	7.2	5.5	7.1	5.9	6.0
2013	-1.0	0.6	-1.3	-1.3	-2.0

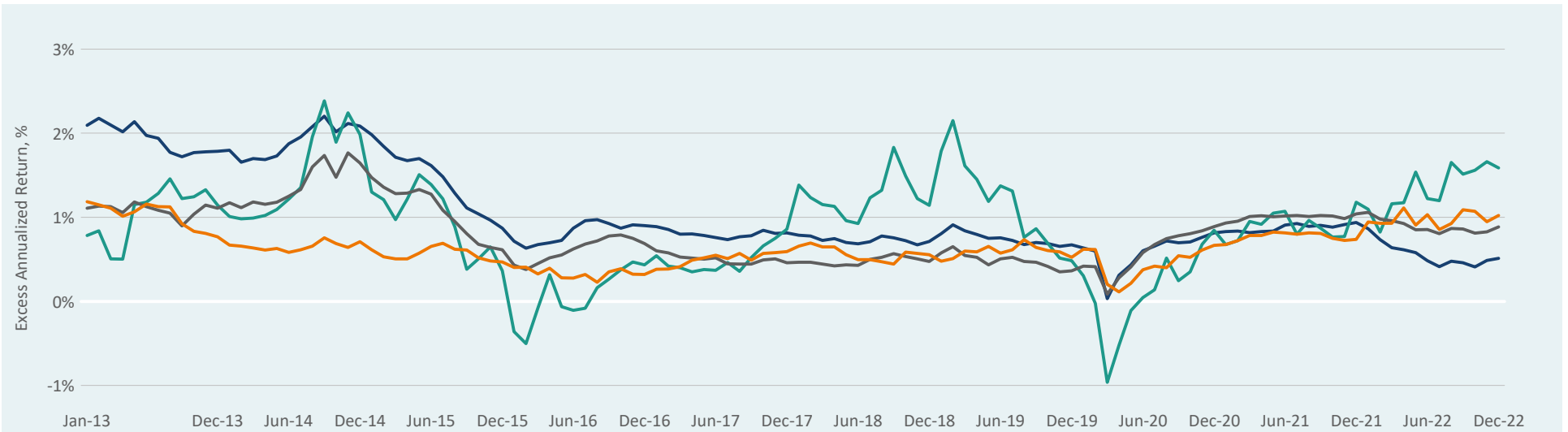
Rolling performance

● Baird
 ● Dodge & Cox
 ● IR+M
 ● J.P. Morgan
 + Bloomberg US Aggregate

TOTAL 36 MONTH ROLLING PERFORMANCE



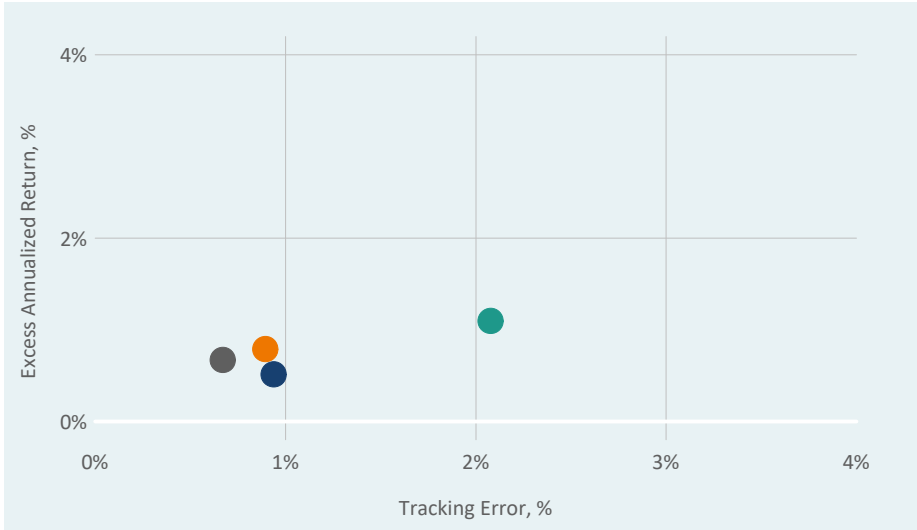
EXCESS 36 MONTH ROLLING PERFORMANCE



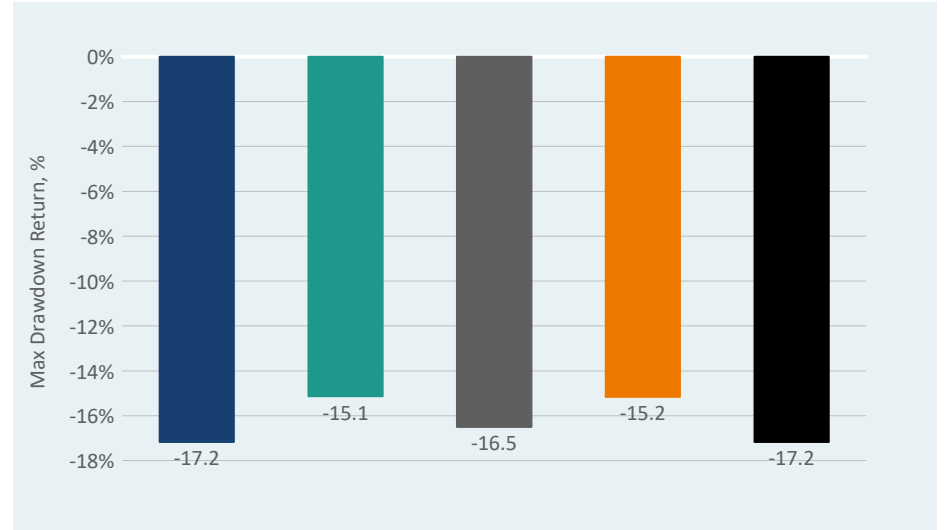
Performance statistics

● Baird ● Dodge & Cox ● IR+M ● J.P. Morgan ● Bloomberg US Aggregate

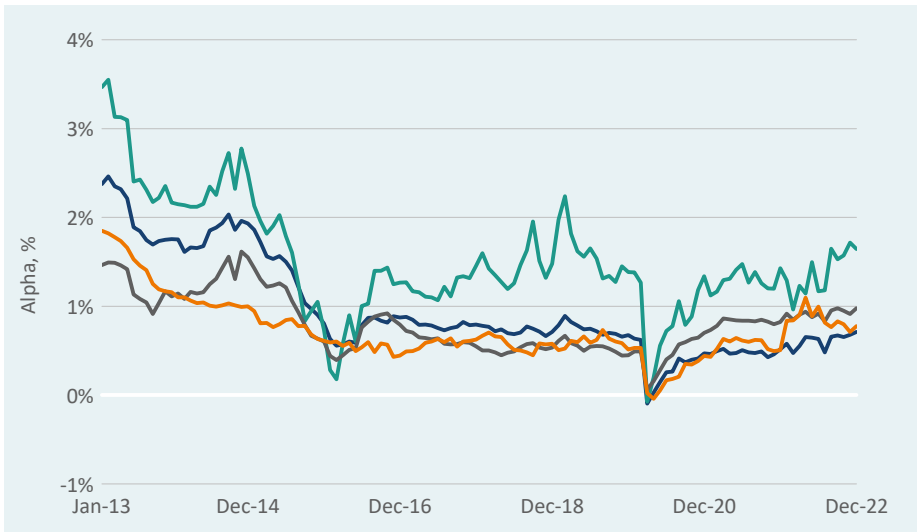
EXCESS PERFORMANCE VS. RISK, JAN-18 TO DEC-22



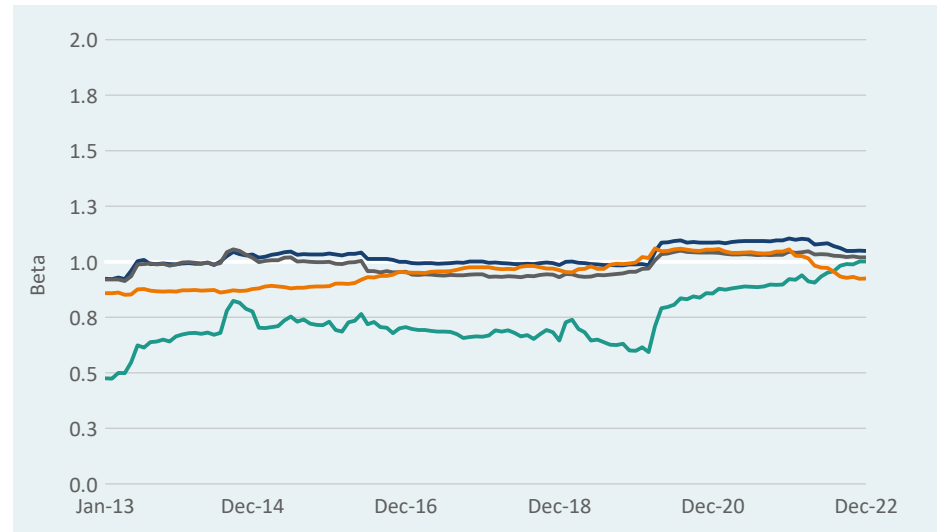
MAX DRAWDOWN RETURN, JAN-18 TO DEC-22



36 MONTH ROLLING ALPHA



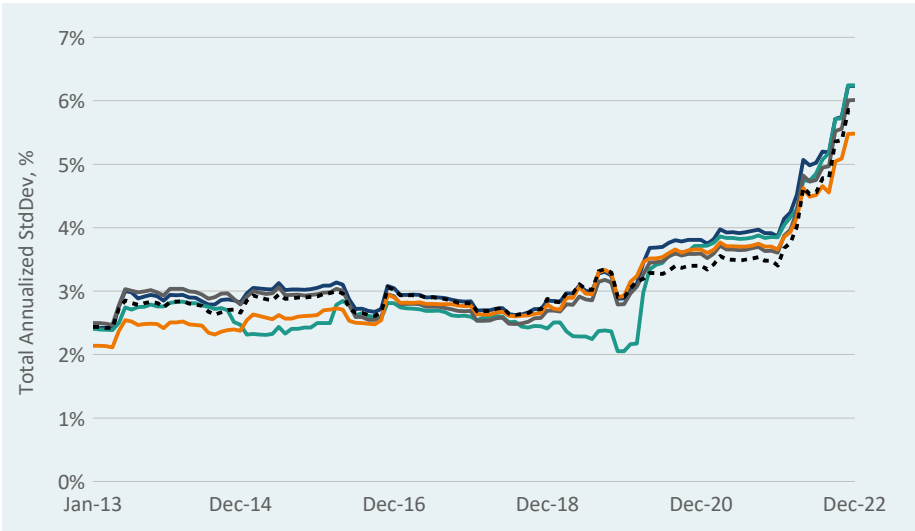
36 MONTH ROLLING BETA



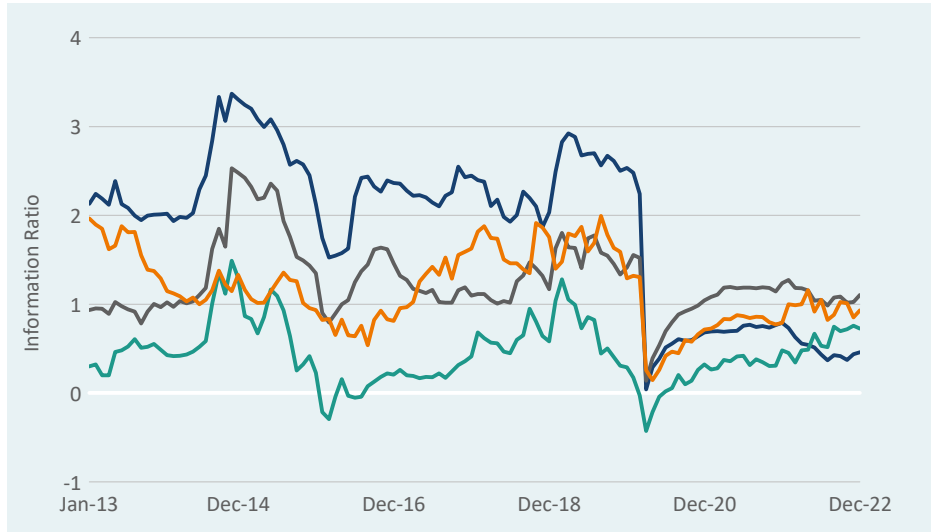
Performance statistics

● Baird
 ● Dodge & Cox
 ● IR+M
 ● J.P. Morgan
 + Bloomberg US Aggregate

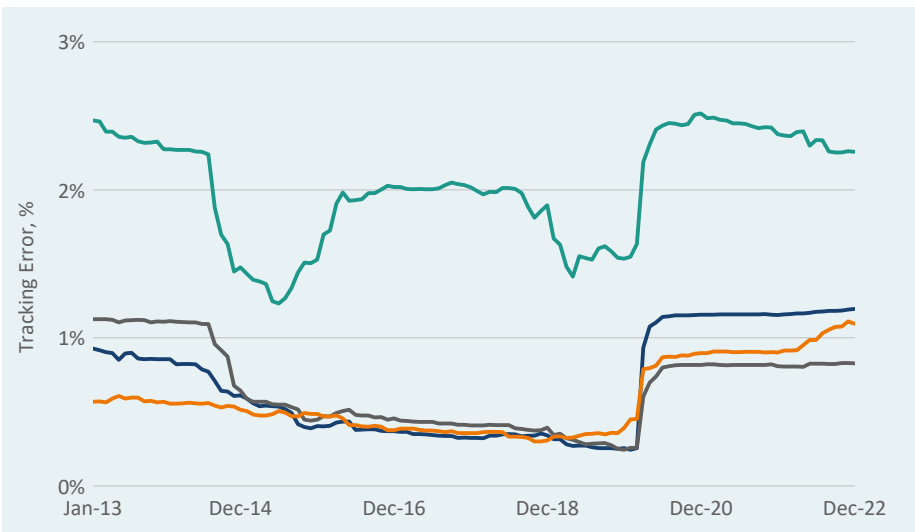
36 MONTH ROLLING RISK



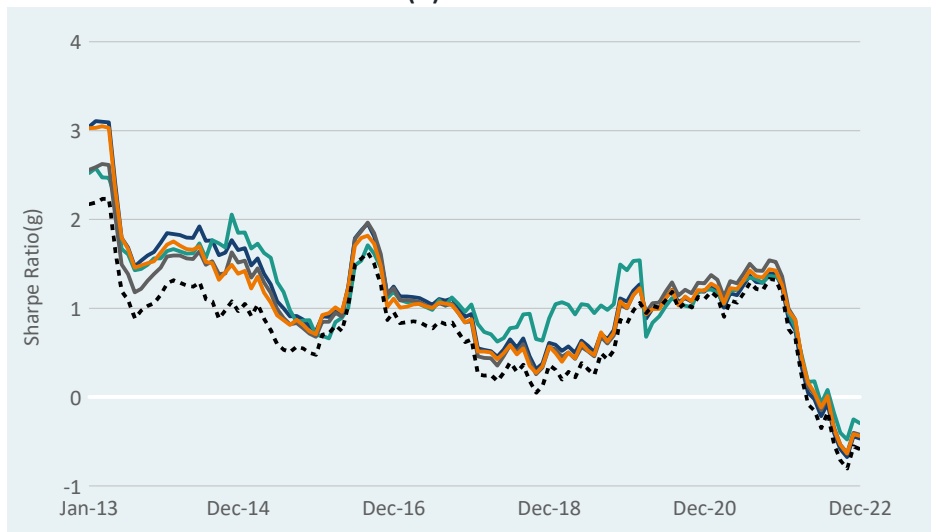
36 MONTH ROLLING INFORMATION RATIO



36 MONTH ROLLING TRACKING ERROR



36 MONTH ROLLING SHARPE RATIO(G)

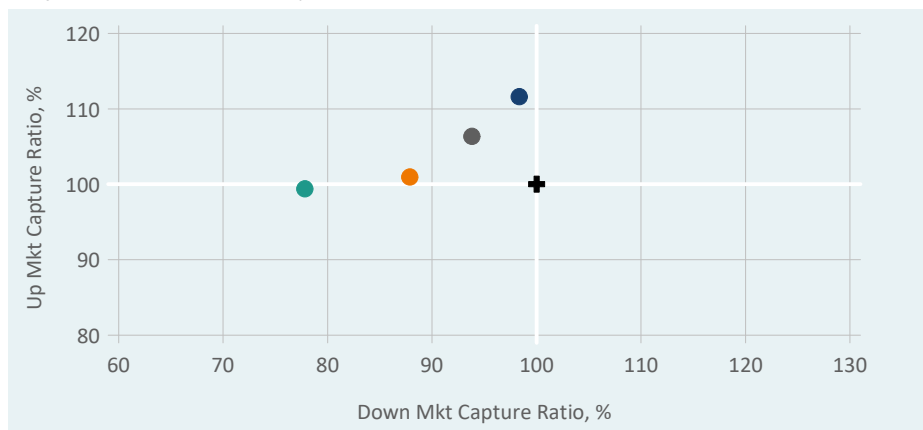


Style Analysis and Portfolio Analytics

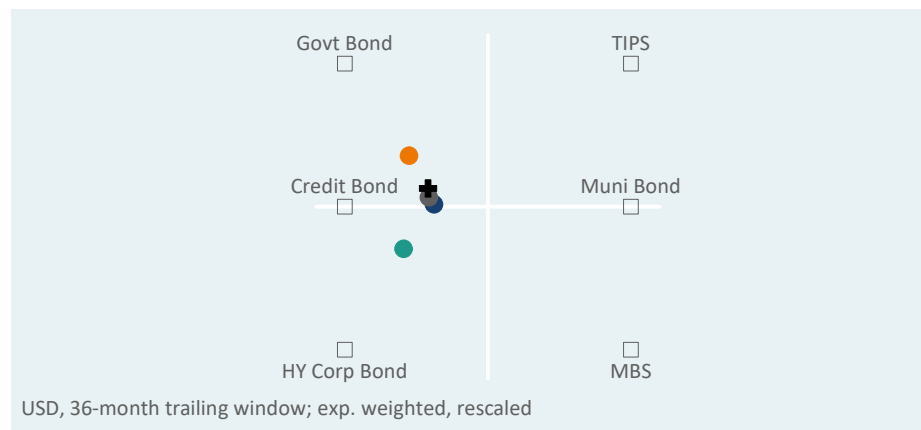
Style and portfolio comparison

● Baird ● Dodge & Cox ● IR+M ● J.P. Morgan ● Bloomberg US Aggregate

UP/DOWN MARKET CAPTURE, JAN-13 TO DEC-22



BARCAP 6-INDEX MAP, JAN-13 TO DEC-22

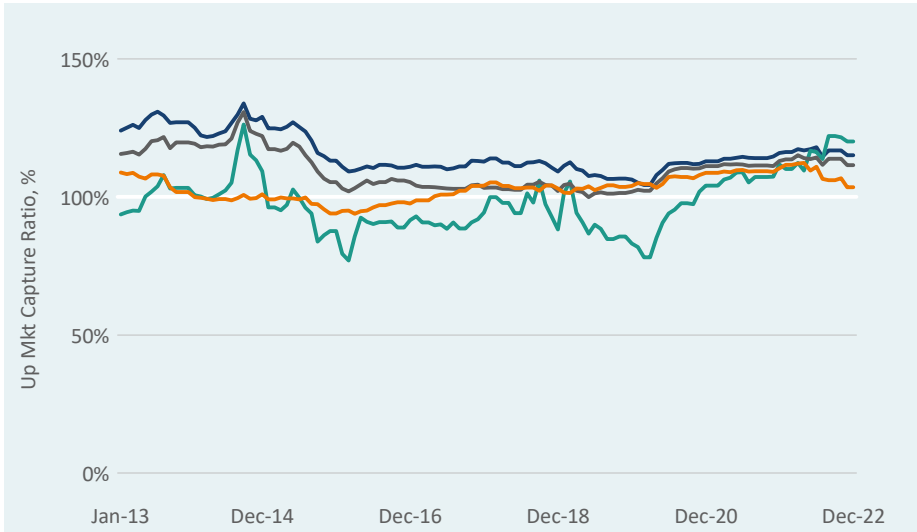


	Baird	Dodge & Cox	IR+M	J.P. Morgan
ANNUAL TURNOVER	44.0%	98.6%	32.8%	---
YIELD TO MATURITY	5.1%	5.6%	5.1%	5.6%
EFFECTIVE DURATION	6.2	5.5	6.1	6.0
AVERAGE QUALITY ISSUE	AA	A	AA	AA
CORPORATE HIGH YIELD	0.3%	6.8%	0.5%	0.0%

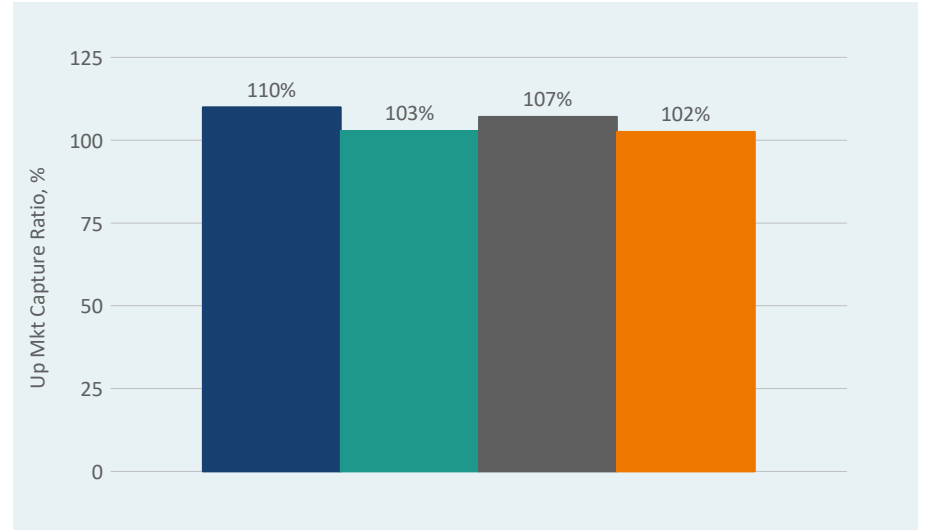
Up & down market analysis

● Baird ● Dodge & Cox ● IR+M ● J.P. Morgan ● Bloomberg US Aggregate

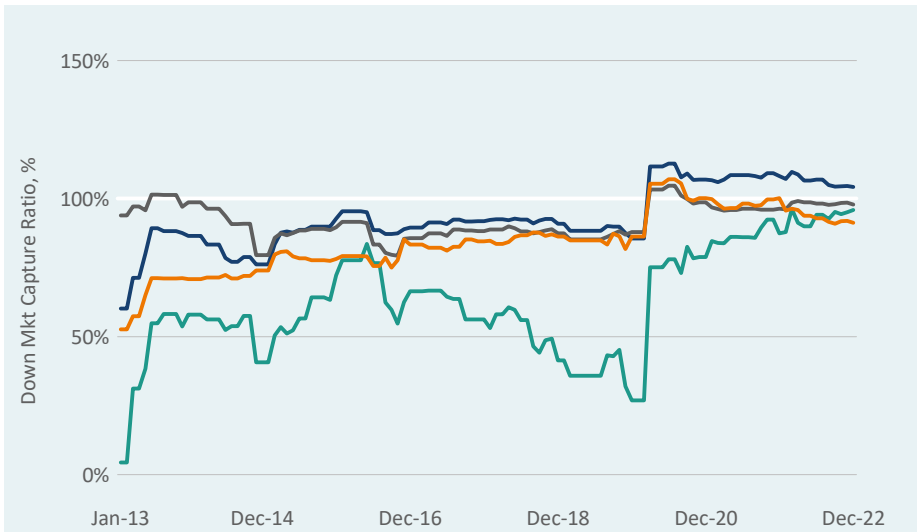
36 MONTH ROLLING UP MKT CAPTURE RATIO



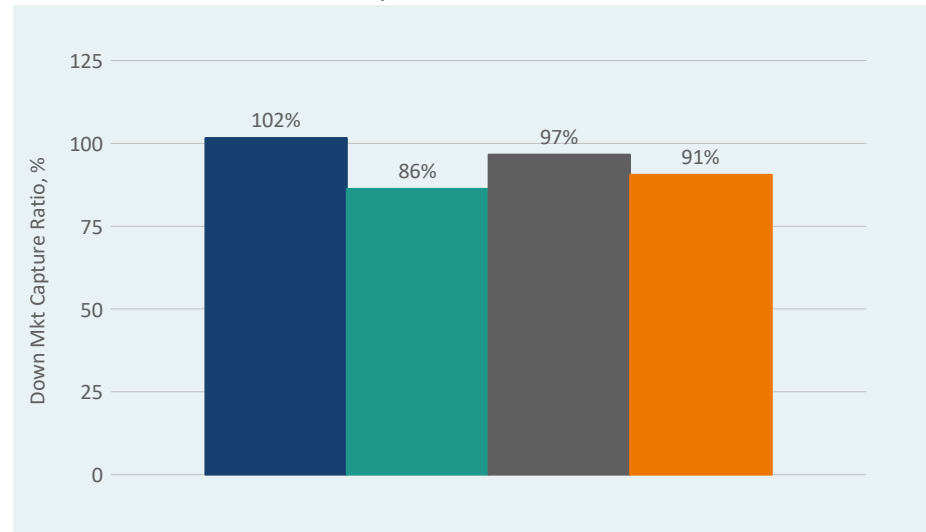
UP MARKET CAPTURE RATIO, JAN-18 TO DEC-22



36 MONTH ROLLING DOWN MKT CAPTURE RATIO



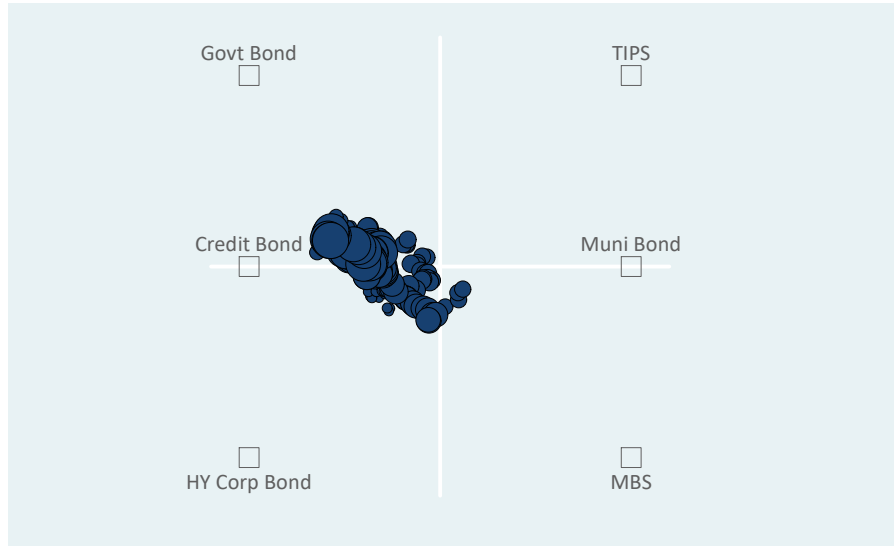
DOWN MARKET CAPTURE RATIO, JAN-18 TO DEC-22



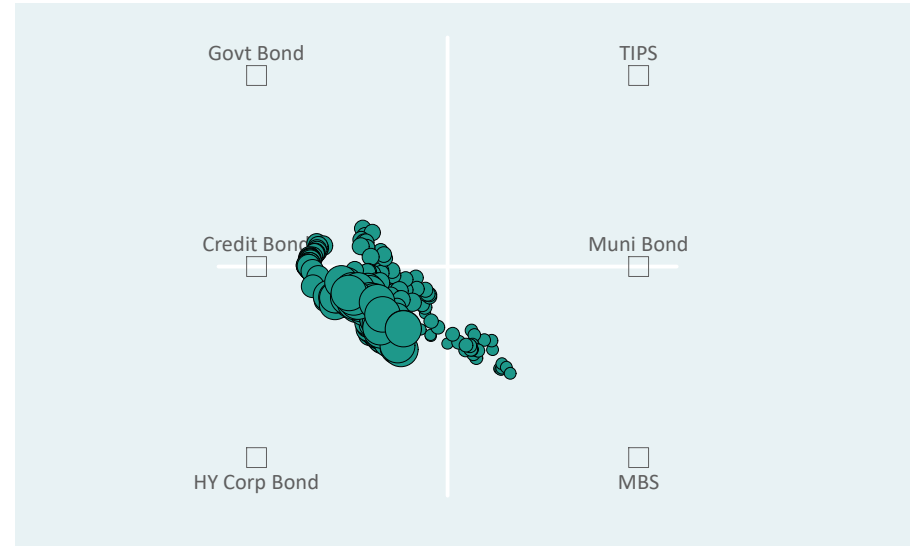
Style analysis (Barcap 6-Index Map)

● Baird ● Dodge & Cox ● IR+M ● J.P. Morgan

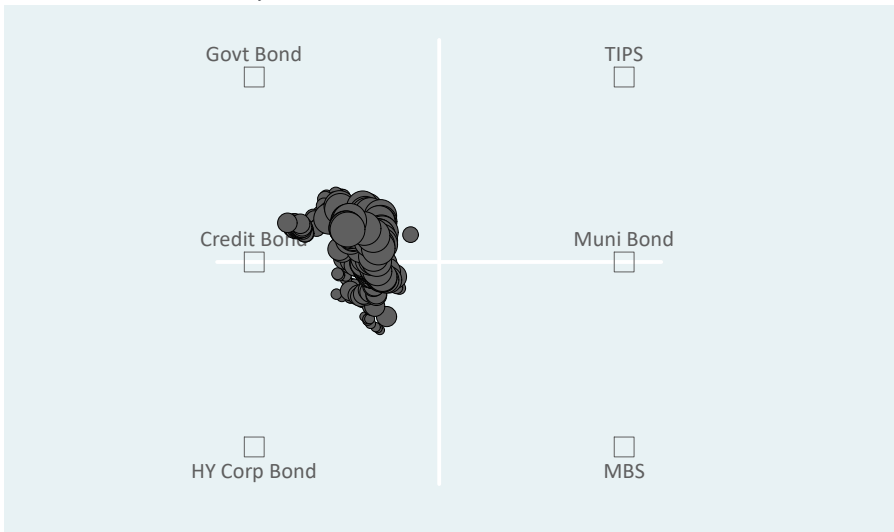
BARCAP 6-INDEX MAP, SEP-03 TO DEC-22



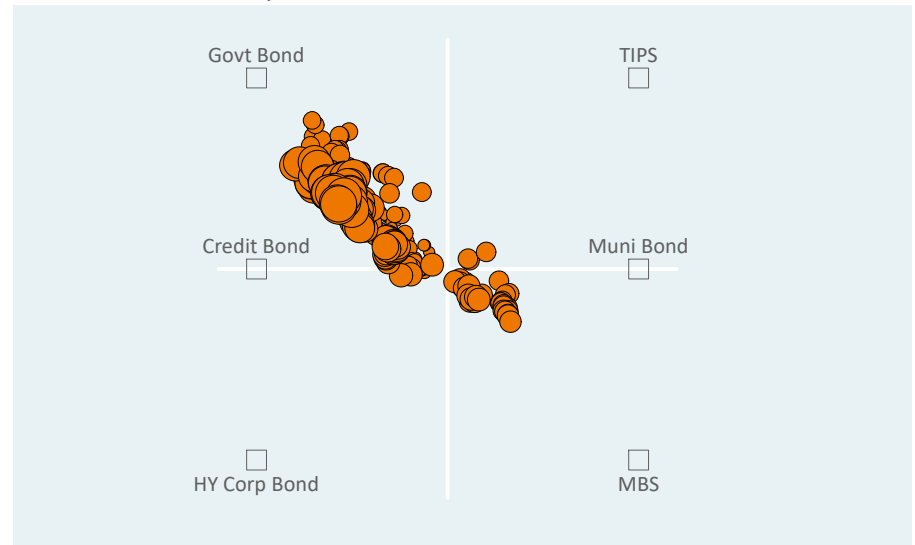
BARCAP 6-INDEX MAP, JAN-00 TO DEC-22



BARCAP 6-INDEX MAP, SEP-03 TO DEC-22

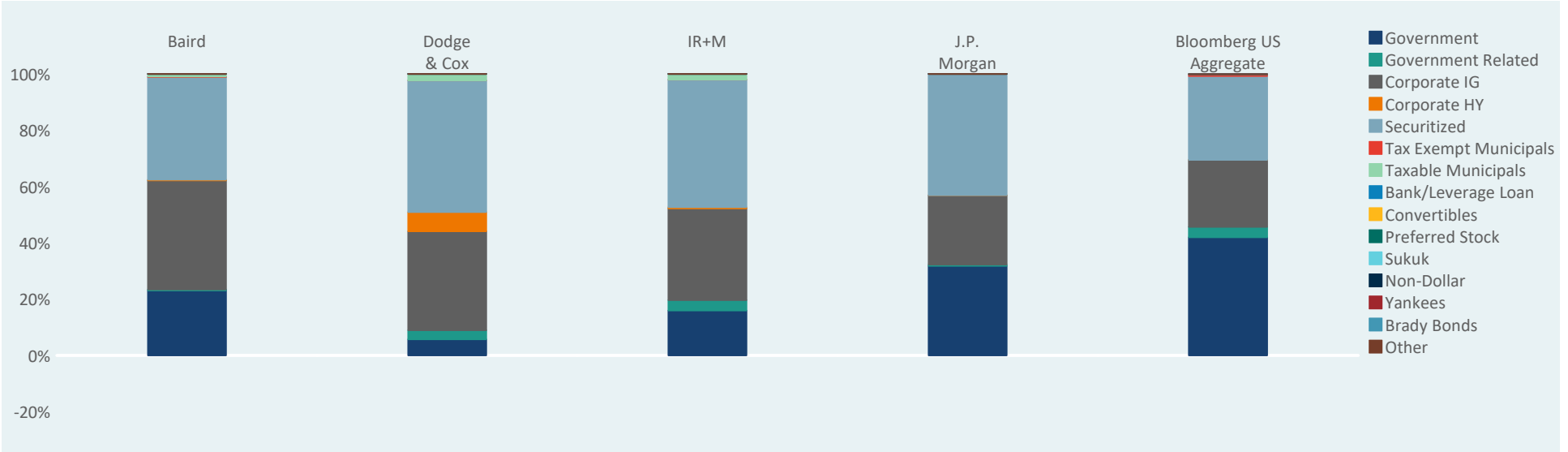


BARCAP 6-INDEX MAP, JAN-00 TO DEC-22

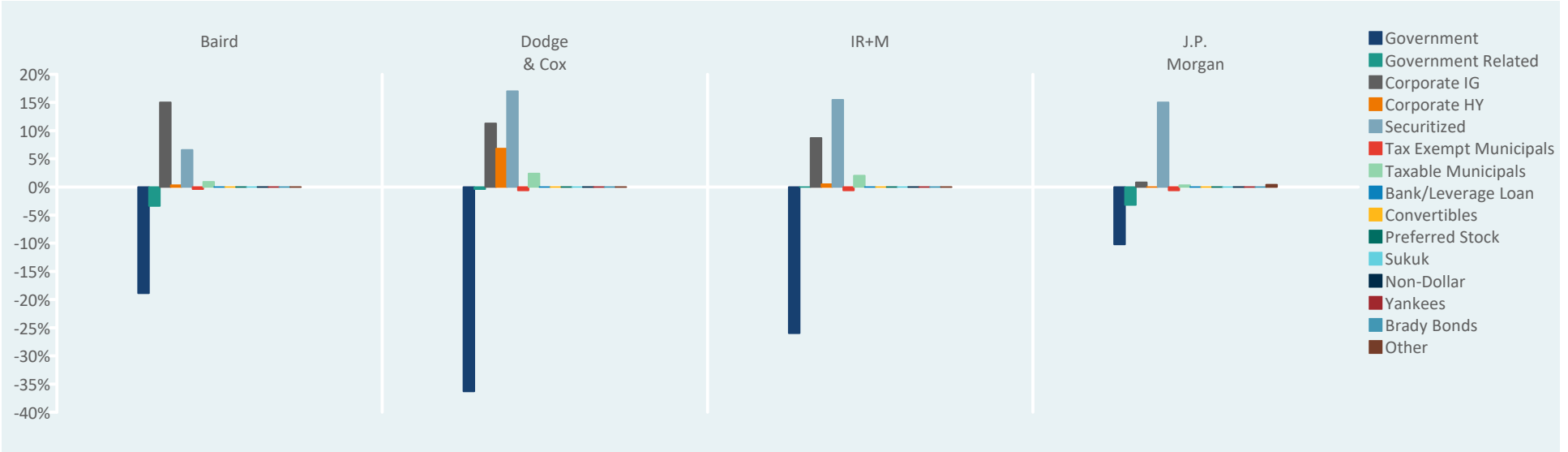


Fixed income sector exposure

CURRENT SECTOR POSITION, AS OF DEC-22

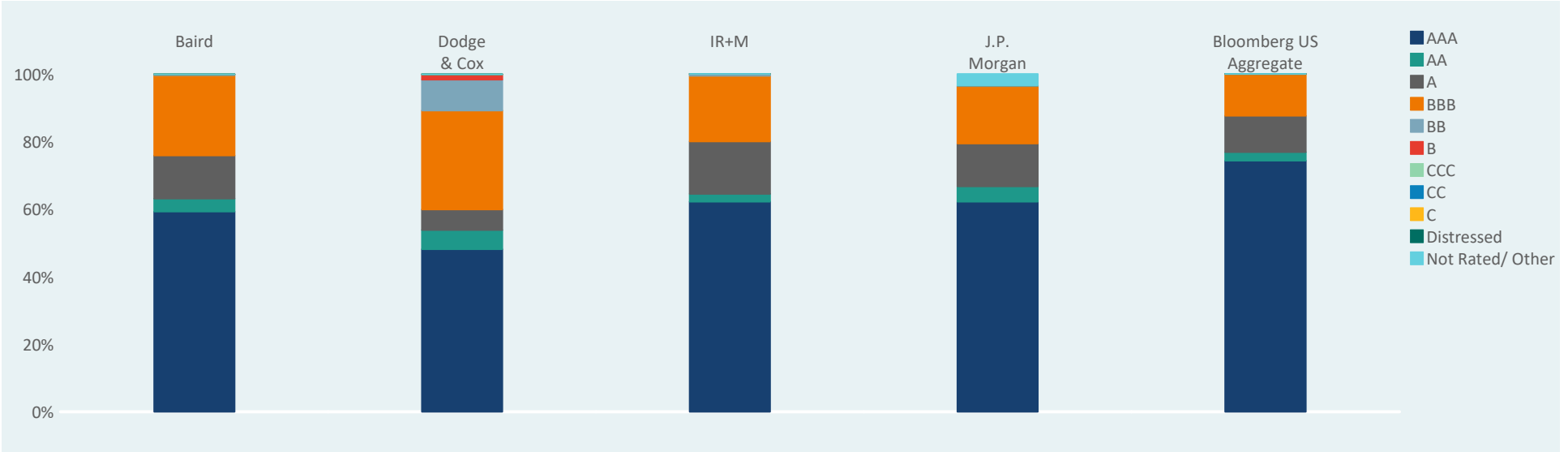


RELATIVE TO BLOOMBERG US AGGREGATE, AS OF DEC-22

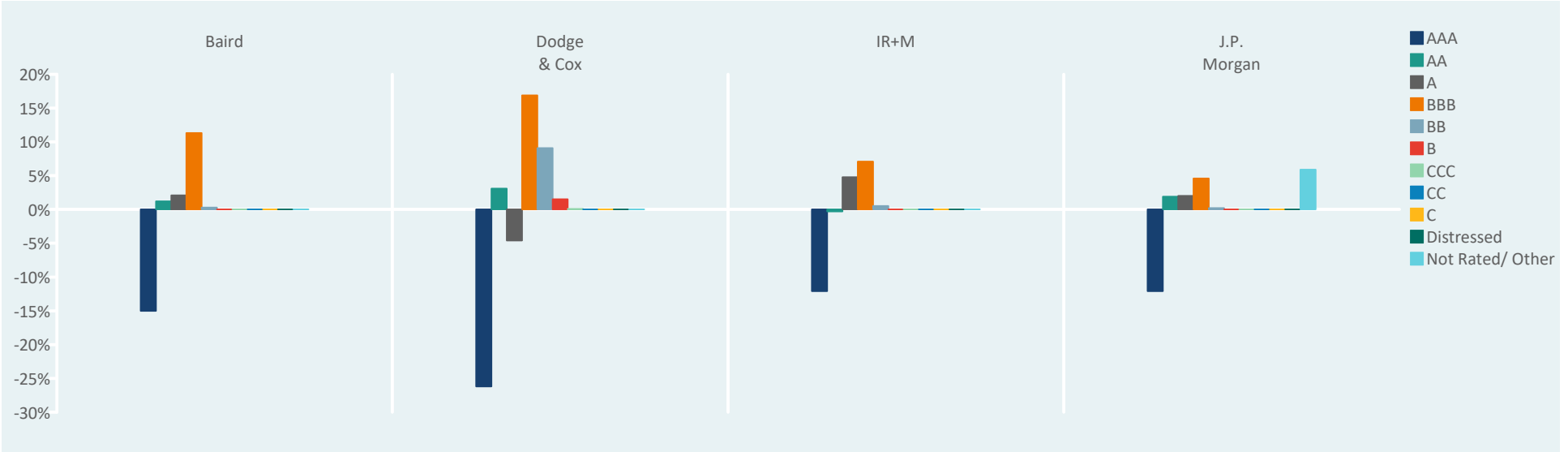


Fixed income quality exposure

CURRENT QUALITY EXPOSURE, AS OF DEC-22

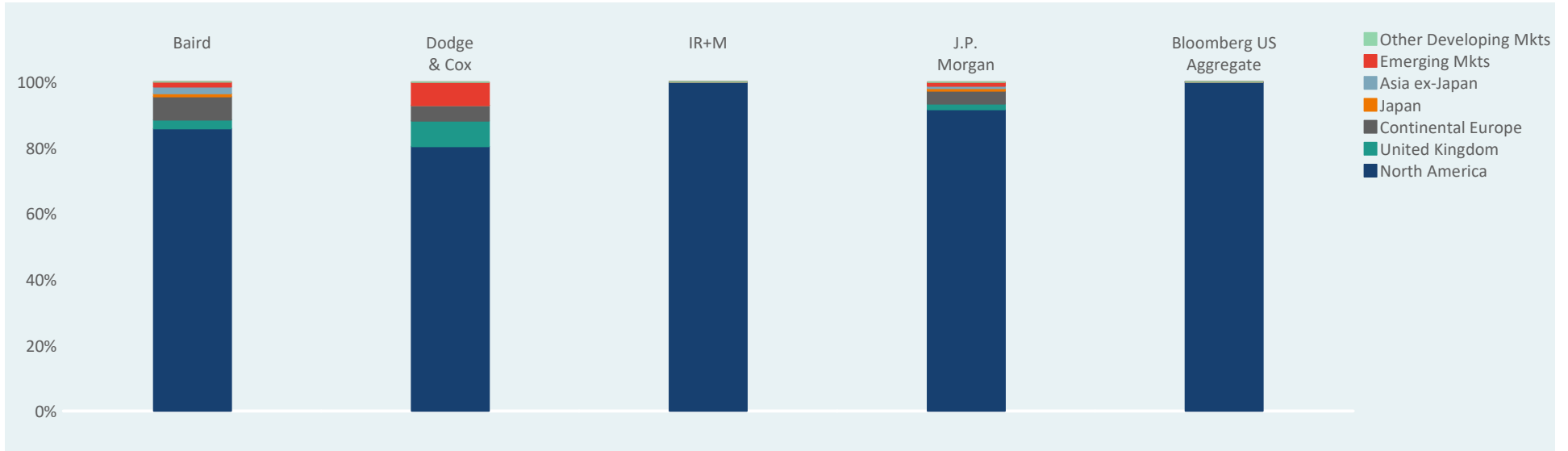


RELATIVE TO BLOOMBERG US AGGREGATE, AS OF DEC-22

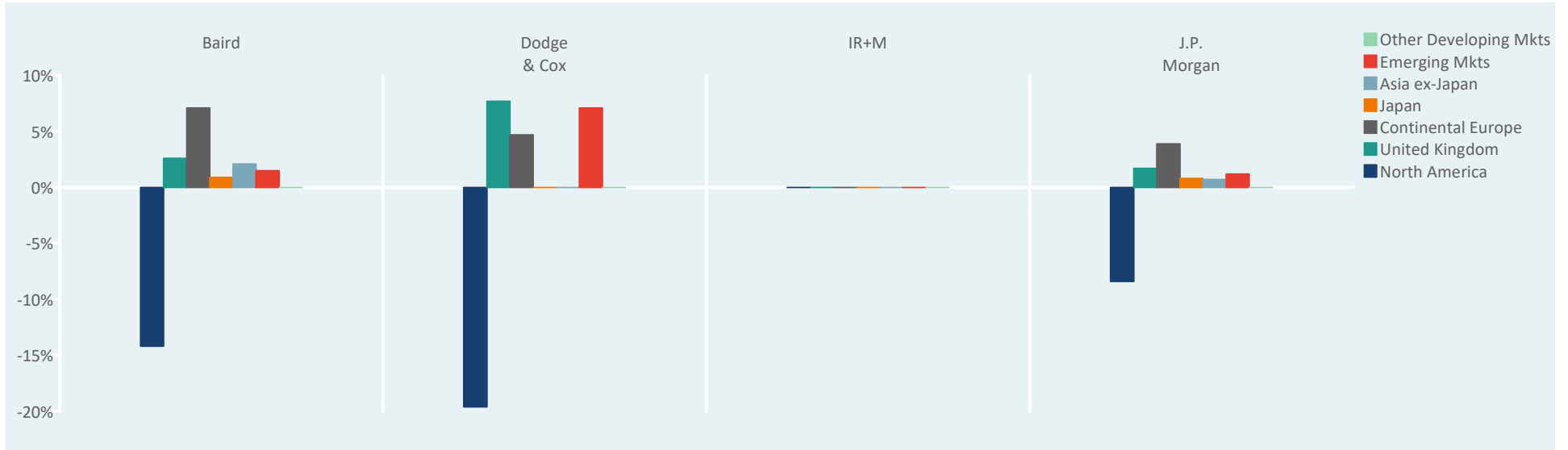


Regional exposure

CURRENT REGIONAL EXPOSURE, AS OF DEC-22



RELATIVE TO BLOOMBERG US AGGREGATE, AS OF DEC-22

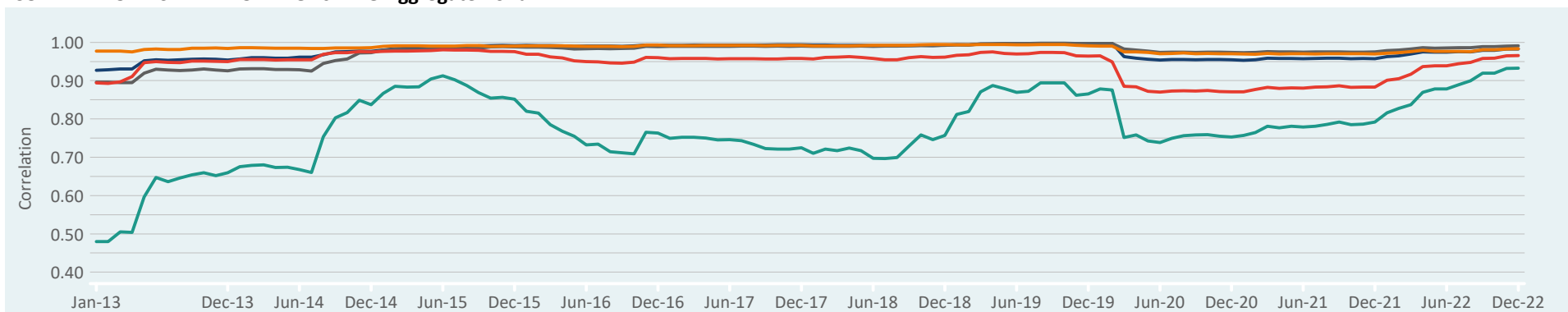


Risk Analysis

Correlations

● Baird ● Dodge & Cox ● IR+M ● J.P. Morgan ● Western ● Bloomberg US Aggregate

CORRELATION - 3 YEAR ROLLING vs. BBG Aggregate Bond



3 YEAR ENDING 12/2022

	Baird	Dodge & Cox	IR+M	J.P. Morgan	Western	Bloomberg US Aggregate
Baird	1.00	0.97	1.00	0.99	0.99	0.98
Dodge & Cox	0.97	1.00	0.96	0.95	0.99	0.93
IR+M	1.00	0.96	1.00	0.99	0.98	0.99
J.P. Morgan	0.99	0.95	0.99	1.00	0.97	0.98
Western	0.99	0.99	0.98	0.97	1.00	0.97
Bloomberg US Aggregate	0.98	0.93	0.99	0.98	0.97	1.00

5 YEAR ENDING 12/2022

	Baird	Dodge & Cox	IR+M	J.P. Morgan	Western	Bloomberg US Aggregate
Baird	1.00	0.96	1.00	0.99	0.98	0.98
Dodge & Cox	0.96	1.00	0.95	0.93	0.98	0.92
IR+M	1.00	0.95	1.00	0.99	0.98	0.99
J.P. Morgan	0.99	0.93	0.99	1.00	0.96	0.99
Western	0.98	0.98	0.98	0.96	1.00	0.96
Bloomberg US Aggregate	0.98	0.92	0.99	0.99	0.96	1.00

Excess return correlations

1 YEAR ENDING 12/2022

	Baird	Dodge & Cox	IR+M	J.P. Morgan	Western
Baird	1.00	0.37	0.55	0.07	0.40
Dodge & Cox	0.37	1.00	0.06	0.05	0.33
IR+M	0.55	0.06	1.00	0.62	-0.19
J.P. Morgan	0.07	0.05	0.62	1.00	-0.77
Western	0.40	0.33	-0.19	-0.77	1.00

3 YEAR ENDING 12/2022

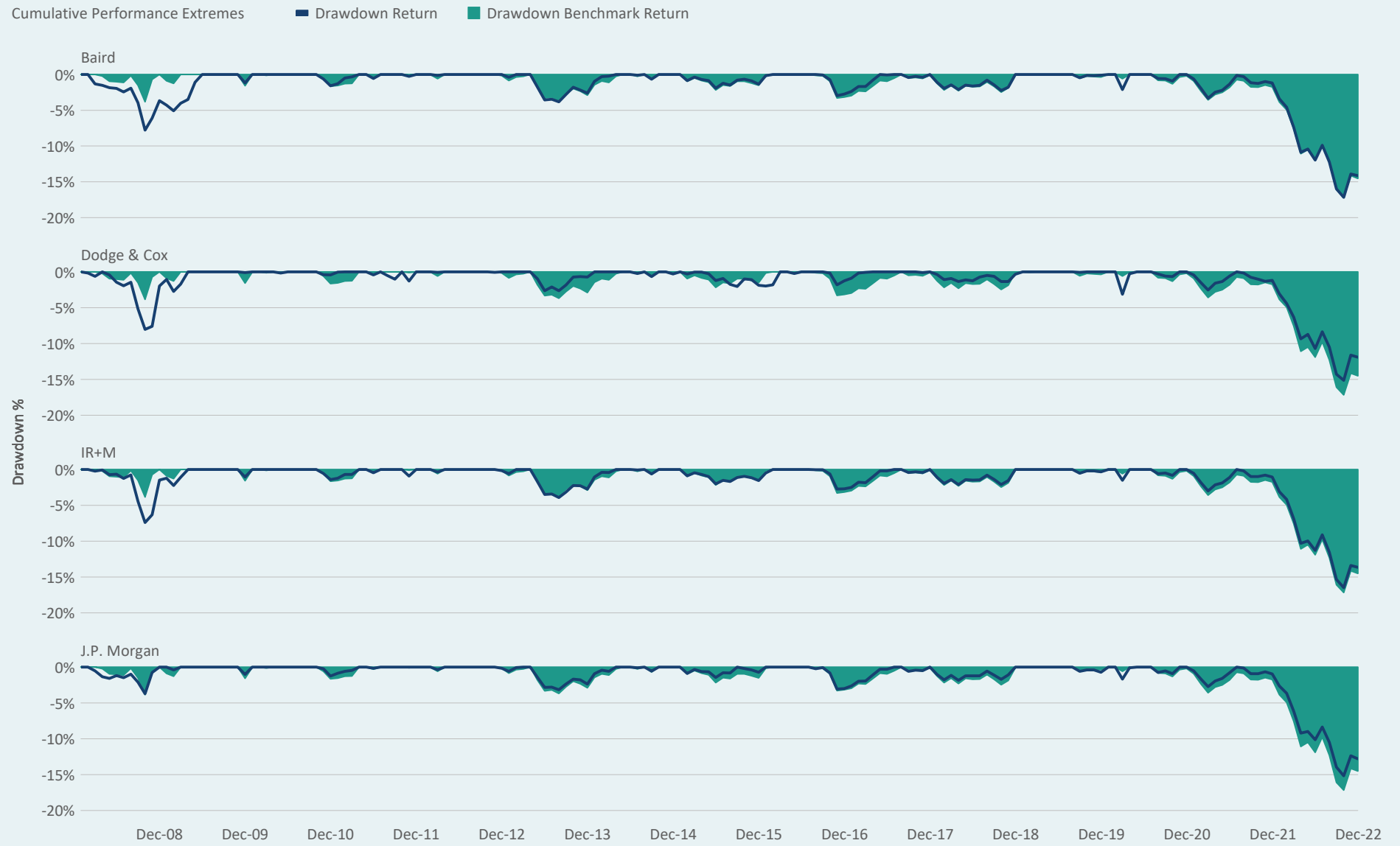
	Baird	Dodge & Cox	IR+M	J.P. Morgan	Western
Baird	1.00	0.83	0.93	0.53	0.77
Dodge & Cox	0.83	1.00	0.77	0.51	0.75
IR+M	0.93	0.77	1.00	0.67	0.65
J.P. Morgan	0.53	0.51	0.67	1.00	0.11
Western	0.77	0.75	0.65	0.11	1.00

5 YEAR ENDING 12/2022

	Baird	Dodge & Cox	IR+M	J.P. Morgan	Western
Baird	1.00	0.74	0.90	0.49	0.75
Dodge & Cox	0.74	1.00	0.73	0.38	0.69
IR+M	0.90	0.73	1.00	0.64	0.60
J.P. Morgan	0.49	0.38	0.64	1.00	0.04
Western	0.75	0.69	0.60	0.04	1.00

Historical drawdowns

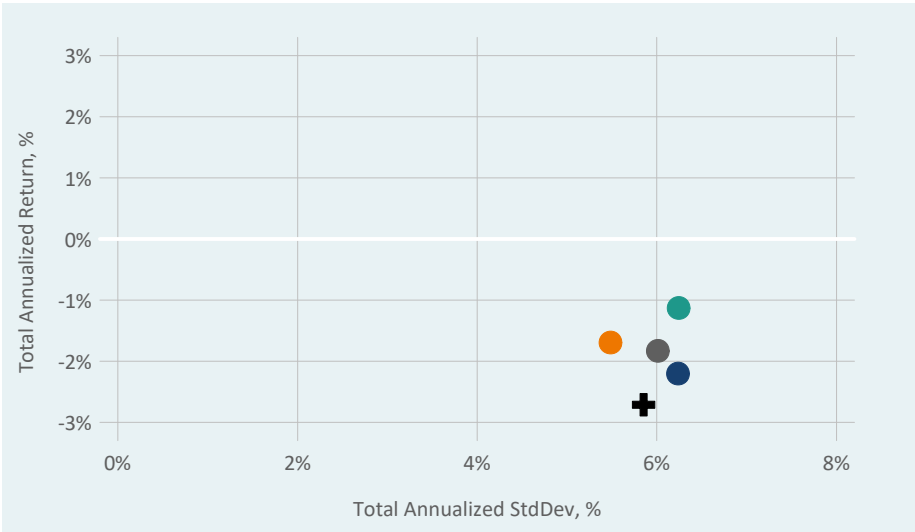
CUMULATIVE PERFORMANCE EXTREMES



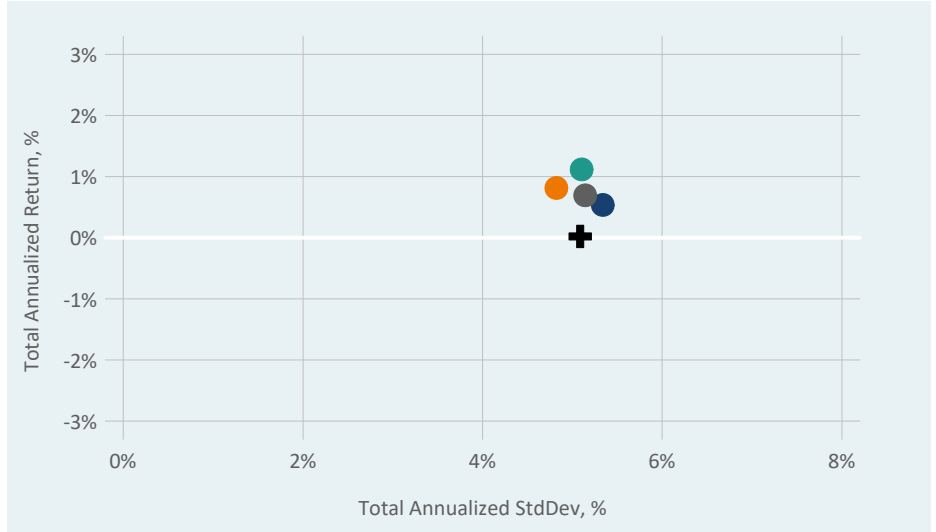
Risk vs. return

● Baird ● Dodge & Cox ● IR+M ● J.P. Morgan + Bloomberg US Aggregate

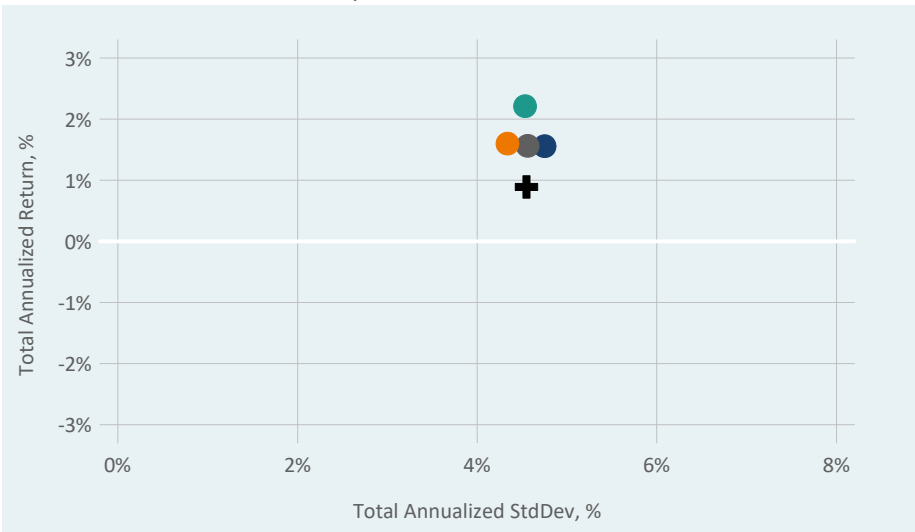
TOTAL PERFORMANCE VS. RISK, JAN-20 TO DEC-22



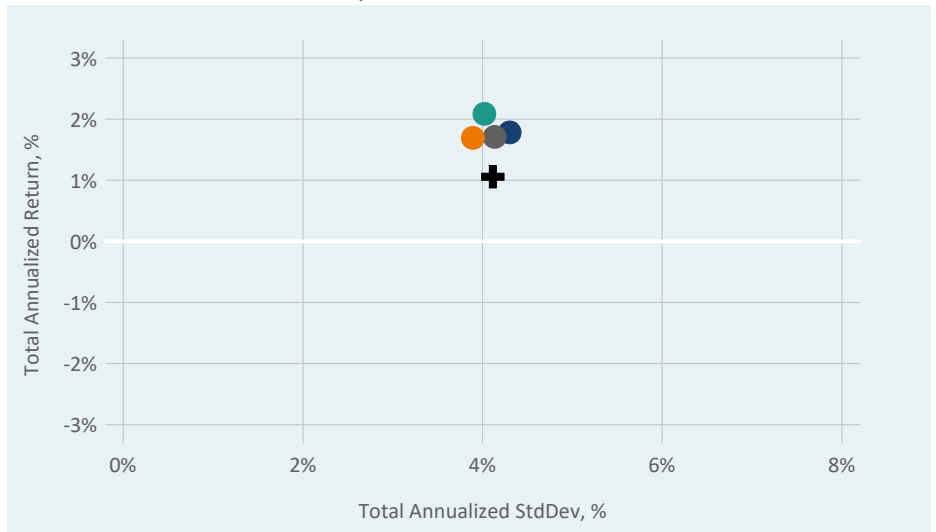
TOTAL PERFORMANCE VS. RISK, JAN-18 TO DEC-22



TOTAL PERFORMANCE VS. RISK, JAN-16 TO DEC-22



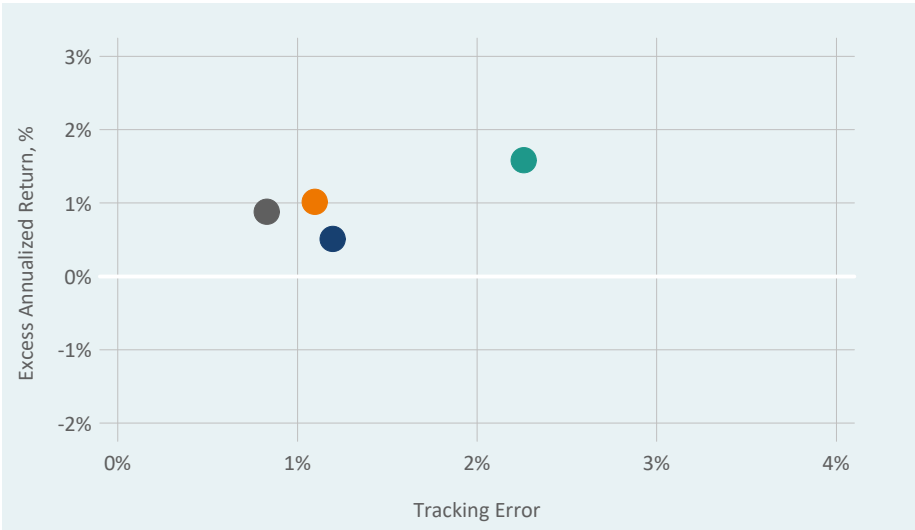
TOTAL PERFORMANCE VS. RISK, JAN-13 TO DEC-22



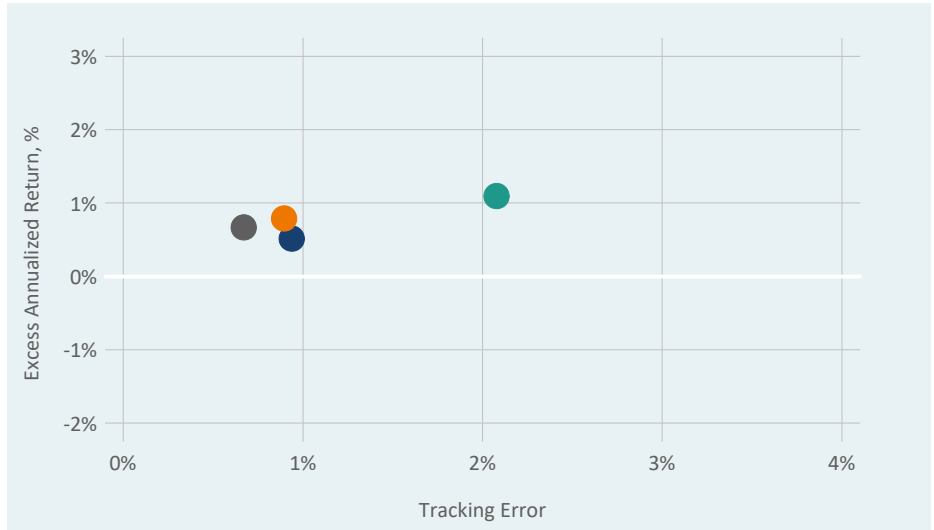
Performance efficiency

● Baird ● Dodge & Cox ● IR+M ● J.P. Morgan

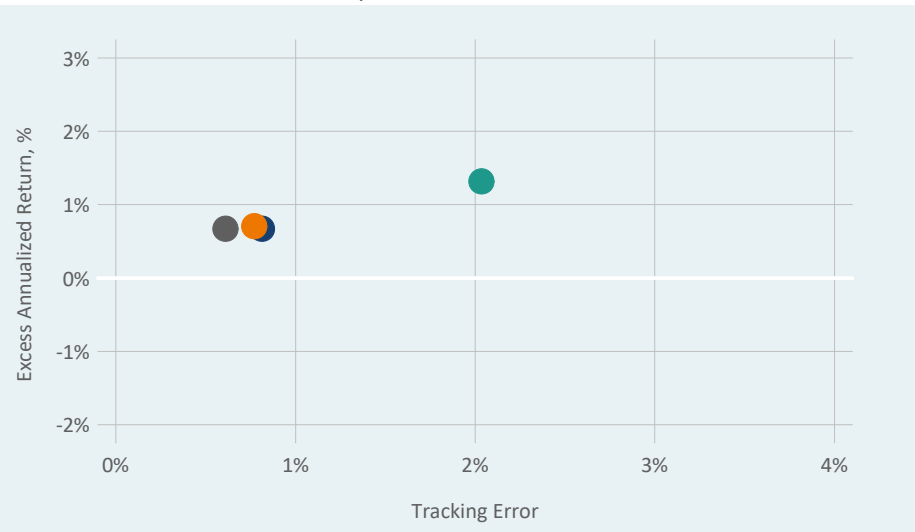
EXCESS PERFORMANCE VS. RISK, JAN-20 TO DEC-22



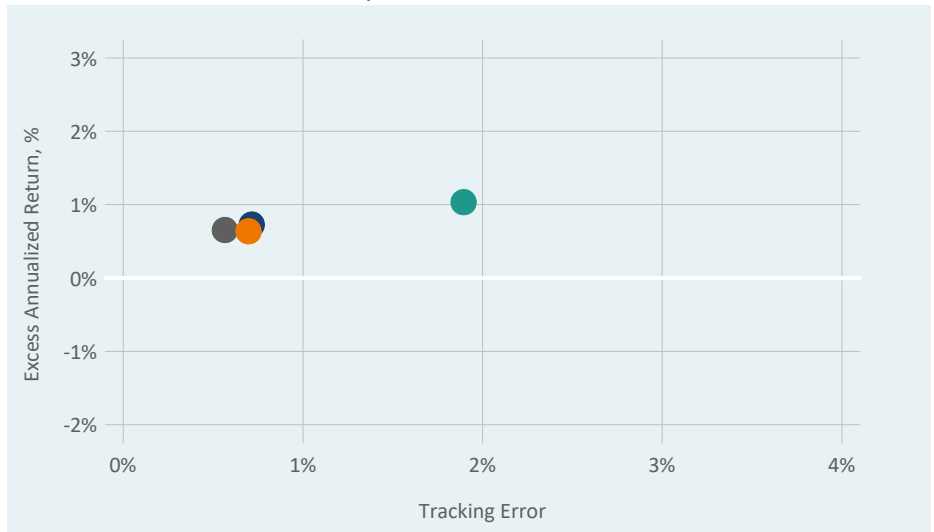
EXCESS PERFORMANCE VS. RISK, JAN-18 TO DEC-22



EXCESS PERFORMANCE VS. RISK, JAN-16 TO DEC-22



EXCESS PERFORMANCE VS. RISK, JAN-13 TO DEC-22



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JP Morgan Investment Management Inc.

JPM Core Bond

IQ RATING AS OF: 12/20/2019
RESEARCH UPDATE:

Asset Class:	Fixed Income	Verus IQ Rating:	IQ2
Sub-Asset Class:	Core Aggregate	Flag:	
Strategy Inception:	1/1/1986	ESG Rating:	C
Benchmark:	Bloomberg US Aggregate	Emerging Diverse:	
Performance Objective:	50 - 100 bps (gross of fees) annually	Risk Objective:	Duration +/- 10% of index

Executive Summary

JPMorgan's Core Bond strategy is appropriate for those investors seeking a broadly diversified, high quality exposure to US core fixed income markets. The strategy, which invests primarily in a diversified portfolio of intermediate-term, investment grade bonds, tends to have lower tracking error and is designed to leverage the global resources and proprietary research of JPM's Global Fixed Income platform.

We appreciate that the strategy has a bias towards securitized sectors (mortgage-related and asset-backed securities) and tends to complement strategies that are more credit-focused; this differentiates this strategy from a lot core bond peers. The team's robust and repeatable investment process is designed to identify undervalued market sectors and securities. The strategy, which seeks to remain broadly duration-neutral while identifying relative value opportunities, has provided consistent excess returns relative to the index for since inception. The strategy tends to be more benchmark-aware than benchmark-constrained and focuses on the following sectors: corporate bond/asset-backed securities (20-45%), mortgage-backed securities (25-60%), Treasury securities (15-35%) and agency bonds (0-10%).

There have been some organizational changes at JPM, including the departures of Doug Swanson in 2016 and Barb Miller in 2019. Although we believe that the team-based nature of the process reduces much of the key-person risk, turnover of key investment professionals often results in headline risk.

The strategy seeks to outperform the index by 50-100 bps annually over a full market cycle. The team tends to favor securitized assets (ex: MBS and CMOs) over US investment grade corporate bonds in portfolio construction; the mortgage-heavy profile makes this strategy a compelling complement to credit-heavy fixed income strategies. The strategy should be expected to perform well during periods of stable interest rates and or narrow credit spreads.

Firm Assets:	\$2,361,182MM	Separate Accounts:	Available
Strategy Assets:	\$67,460.79MM	Commingled Vehicles:	Available
Location:	383 Madison Avenue New York New York, 10172	Mutual Funds:	Available
Key Persons:	Team-managed; Bob Michele, Richard Figuly, Justin Rucker	Status (Open/Closed):	Active

Alignment - The investment product is supported by a robust and stable organizational and team structure.

Description

JPMorgan Asset Management (JPM) is a division of JPMorgan Chase & Company, a publicly traded corporation. The parent company is among the leaders in asset management, retail banking, private banking, treasury and security services and private equity. JPMorgan Chase & Company acquired Banc One Corporation in 2004 and acquired Bear Stearns in 2008. JPM manages assets across a global platform offering a diverse spectrum of strategies that includes traditional fixed income and equity strategies as well as alternatives (hedge funds, real estate and commodities strategies).

The Global Fixed Income, Currency and Commodities team (GFICC) manages a broad range of strategies including broad market, long duration, stable value, intermediate high yield, emerging markets debt, short- and ultra-short duration, global bonds, structured products, mortgages and tax-aware strategies. Every investment decision across the firm's fixed income solutions is underpinned by the proprietary research of a globally integrated team of sector specialists. The team's shared research language, combining fundamental, quantitative valuation and technical inputs, facilitates the comparison of ideas across sectors and geographies.

JPM maintains a balanced total compensation program comprised of a mix of fixed compensation (including a competitive base salary and, for certain employees, a fixed cash allowance), and variable compensation in the form of cash incentives, and long-term incentives in the form of equity based and/or fund-tracking incentives that vest over time. Long-term awards comprise up to 60% of overall incentive compensation, depending on an employee's pay level. JPM believes this pay structure encourages employees to focus on the long-term success of the firm while avoiding excessive risk-taking, and provides a competitive annual cash incentive opportunity. Long-term awards are generally in the form of time vested JPMC Restricted Stock Units ("RSUs"). However, investor employees are subject to a mandatory deferral of long-term incentive compensation under the firm's Mandatory Investor Plan (MIP). MIP awards provide for a rate of return equal to that of the funds that the investors manage, thereby aligning investors' pay with that of their client's experience/return. 100% of the investor's long-term incentive compensation is eligible for MIP, 50% of which needs to be aligned with the specific fund they manage as determined by their respective Investment Committee member. The remaining portion of the overall amount is electable and may be treated as if invested in any of the other funds available in the plan or can take the form of RSUs.

The Columbus-based team (which manages the core bond strategy and has historically been known as the Value Driven team) had some key personnel turnover over the last five years with the departure of portfolio manager Doug Swanson. Swanson, head of US Value Driven strategies and portfolio manager of the Core Bond strategy, took a leave of absence in October 2015 and in June 2016, the firm announced that Swanson would not be returning to the firm and would retire effective immediately. Barb Miller succeeded Swanson as head of the Columbus-based team in 2016. Miller had been with the firm for more than twenty years and had spent the past seventeen years working with Swanson managing the firm's mid-institutional business. In addition to Swanson's departure in 2016, the firm announced that portfolio managers Henry Song and Mark Jackson had resigned to pursue other opportunities. Their respective departures were unexpected. Jackson had been an employee of the firm for more than 20 years while Song had served for more than 11 years. Following Swanson's retirement in June 2016, assets in the strategy have declined roughly ~10% over the following year given concerns over his departure. Since then, assets have stabilized and recovered as investors have gotten comfortable with Miller at the helm.

In 2019, JPM announced a restructuring of the GFICC platform which involves Miller stepping off of the fund to lead a new effort at the firm. Rick Figuly assumed Barb's role as lead on the Core Bond strategy. Additionally, JPM has been taking steps to ensure that every portfolio managed by the firm benefits from the entire platform's best ideas. Their goal is to essentially have one GFICC platform with a line-up of products that encompass the views of a centralized

team that are supported by centralized resources (including people and technology). Part of this change is to essentially strip the titles of "value-driven" and "macro-driven" from the Columbus and New York-based teams, respectively.

Justification

Given that JPM is a behemoth, publicly traded organization with global presence, they are often subject to headline risk. JPM is one of the largest banks in the world and is often under pressure for a myriad of reasons. While JPM's recent changes to their GFICC platform have caused some short-term disruptions, the long-term goal of these changes are to allow JPM to simplify their product and service offerings (while cutting costs) to improve efficiency. We believe that having one cohesive platform makes sense. Also, we believe that the recent senior level turnover has been concerning but the team-based nature of the strategy alleviates some of the key person risk associated with the strategy. We appreciate all of the work the team has done in terms of succession planning/transitioning over the last couple of years. We have observed the collaborative culture and appreciate that the team tends to promote-from-within; long term, this tends to contribute to lower turnover and more engaged employees over time. This is apparent to us as we have watched several individuals rise in the ranks over the last few years. We have observed the culture of the team and appreciate the Midwestern roots of many of the staff. While we have confidence in Figuly to lead and retain the core team, the changes in leadership and key personnel turnover in 2016 and 2019 for the Columbus-based team are still notable.

Edge - The manager has articulated an inefficiency or market-based belief that informs its process.

Description

The team believes that inefficiencies in the fixed income market are pervasive and will continue. However, the identification of individual undervalued securities is difficult and requires advanced analytical skills and extensive experience in order to capitalize successfully on these inefficiencies. JPM believes they can identify inefficiencies through a combination of active investment management and disciplined risk control through a bottom-up, value-oriented approach to fixed income investment management. Central to this approach is:

- * Identifying securities that are priced inefficiently.
- * Making sector allocation decisions based on a broad sector outlook, utilizing expected return and valuation analysis.
- * Managing yield curve, with an emphasis on evaluating relative risk/reward relationships along the yield curve.
- * Managing portfolio duration used primarily as a risk control measure.

The team's approach is to identify mispriced securities with the goal of providing excess returns relative to the Barclays Aggregate Bond Index. The strategy invests in a diversified portfolio primarily composed of US government obligations, non-Agency mortgage-backed securities, asset-backed securities and investment and non-investment grade corporate bonds. The team's value-oriented, relatively benchmark-aware style emphasizes market sector and security selection as the key drivers of returns. The expected contribution to excess returns is as follows: duration (10%); yield curve (10%); sector allocation (25%); security selection (50%); trade execution (5%).

The strategy's benchmark-aware style results in a bias towards high-quality securities as evidenced by approximately 75% of the holdings rated AAA at the time of purchase. While the strategy's duration is managed within a relatively narrow +/- 10% band around the benchmark, the team may choose to include adjustable rate securities which may mitigate interest rate risk.

Finally, the strategy's risk/reward expectations are set within the global JPM framework. Risk management is embedded throughout the portfolio construction process. As part of the investment process the team performs analysis on interest rate risk, credit risk, as well as analyzing the legal structures of securitized assets.

The strategy is managed by the Global Fixed Income, Currency and Commodities team (GFICC), which has vast expertise across all major fixed income sectors, including niche markets. Every investment decision in the firm's fixed income solutions is underpinned by the proprietary research of a globally integrated team of sector specialists. JPM has a shared research language which combines fundamental, quantitative valuation and technical inputs ("FQT") and facilitates the comparison of ideas across sectors and geographies. Team members include portfolio managers, research analysts and risk management professionals. All members of the team contribute new ideas. JPM believes that this open communication allows individuals on the team to expand their horizons, reaching for creative new ideas that are then put through the process to determine if the ideas add value. Each portfolio manager takes the recommendations of the team and selects or sells the appropriate securities in their portfolios.

Justification

We view the team-based approach, the vast resources at the team's disposal to develop research views and the portfolio characteristics of the strategy as above average versus peers. Only 5% of JPM's research is generated from external sources. The strategy's style emphasizes research and individual security analysis, rather than large macro bets. The team's duration-neutral stance and historical sector allocation are testaments to this style. The team-based approach allows all investors to be responsible for idea generation which we view positively; this can lead to long-term satisfaction among all levels of employees. The team's value style has been consistent, and we have observed that performance adheres to this style over time.

Implementation - The manager has described an investment approach which is sensible, repeatable.

Description

The hallmark of the fixed income investment strategy is the selection of high-quality individual issues with an emphasis on identifying undervalued securities. Security selection is generally guided by the benchmark and can include corporate bonds, mortgage-backed securities, asset-backed securities, treasury securities and agency bonds. The investment process seeks to generate positive alpha through the selection of undervalued securities and spread sectors that offer incremental yield and total return in comparison to the index. A variety of quantitative methodologies are used to assess security value, including total return analysis, which is used to estimate the total return for a given security over a specified time horizon. In this context, scenario research is conducted, which allows for analysis of each security based on different interest rate scenarios for reinvestment rates and hypothetical yields. JPM's security selection process for the portfolio emphasizes the mortgage-backed security sector because the team believes that the market has been relatively less efficient at pricing these securities.

The team also considers sector allocation to be a driver of returns. Although the fixed income investment process is driven largely by a bottom-up approach emphasizing security selection, close attention is paid to sector and sub-sector valuations and weightings. Sectors are analyzed and their relative attractiveness is determined based on an assessment of economic and industry factors as well as supply and demand conditions. Any overweighting or underweighting is done with respect to the benchmark. Historical spread analysis is conducted to identify sectors that are over- or undervalued and to establish the risk/return tradeoff between sectors. Sectors are emphasized when the sector dynamics are attractive and when undervalued securities within the sector can be readily identified. Sector allocation generally falls within the following ranges: Treasury: 15%- 35%; agency (excluding MBS): 0%- 10%; corporate/asset-backed: 20%- 45%; mortgage-backed securities: 25%- 60%.

In conjunction with the economic analysis performed with respect to duration decision, the team identifies broad interest rate trends and supply and demand relationships that may influence the shape of the yield curve. As part of the investment process, JPM evaluates the risk/reward posture of every maturity along the yield curve in an effort to identify undervalued portions of the yield curve. For a given duration target, the yield curve strategy seeks to find optimal exposures along the yield curve. Expected returns are established via scenario analysis, which incorporates yield curve shifts, the roll-down effect and time horizon. JPM also carefully manages duration to help control interest rate risk and use it sparingly as an active management tool. The duration decision is based on interest rate forecasts, which incorporate many factors such as the outlook for inflation, the monetary aggregates, anticipated Federal Reserve policy and the overall economic environment. Duration is adjusted periodically, typically in small increments, to enhance returns when the market is undervalued and to protect portfolio value when the market is overvalued.

The universe of securities considered for fixed income portfolios is determined by the investment policy, guidelines and prospectus. JPM's focus on identifying undervalued securities will also result in non-index securities being purchased where appropriate. All securities held in portfolios are actively followed by the research team. Securities held in fixed income portfolios are continually monitored and analyzed by the firm's integrated team of portfolio managers, credit analysts and risk managers. Quantitative valuation methodologies are used on an ongoing basis to identify securities that are undervalued, fairly valued and overvalued. Securities are purchased when they are undervalued and offer a strong total return profile as compared to similar securities.

JPM typically does not invest in securities from any one issuance that is less than \$50 million. The team avoids investing in illiquid securities regardless of the attractiveness of the bond yield. Individual security concentrations are usually no more than 3% of a portfolio, with typically no more than 5% of the portfolio consisting of one credit issuer. Discretion lies with the portfolio manager as to what constraints and/or weightings are used in the process.

Justification

We believe that the team has applied the process in a consistent and diligent manner over time, even under various PM leadership. The consistency of application of the investment process is especially shown in the strategy's performance, which has been extremely consistent throughout its history. While the areas of emphasis in managing the strategy (i.e. security selection, sector allocation and yield curve and duration management) are relatively straightforward and similar to most of their peers, JPM has been able to build a high quality portfolio that has been able to beat the Bloomberg Barclays US Aggregate Index over most time periods.

JPM's security selection process for the portfolio emphasizes the mortgage-backed security sector because the team believes that the market has been relatively less efficient at pricing these securities. We believe that JPM has the relevant experience, sophisticated systems and necessary depth to identify good value in this area. We also view the team's use of structured credit (including RMBS, ABS and CMBS) as a differentiator versus peers. The strategy tends to overweight these sectors in order to add value, rather than increasing exposure to investment grade credit, which tends to be the most common bias for other core fixed income managers.

Optimal use of risk - The manager has an effective framework to assess and manage risk inherent in its process.

Description

Within Fixed Income, portfolio risk is controlled at three levels:

1. Portfolio Manager: The portfolio manager has ultimate responsibility for managing overall risk, setting profit target

and hard review levels, as well as scaling active positions. JPM's portfolio management teams are responsible for developing risk budgets for individual accounts and sector specialists are responsible for identifying risks associated with specific securities and sectors. The goal of the risk management activities is to improve risk-adjusted performance and contain downside risk.

Beginning with security selection, the team incorporates the GFICC's broad thematic viewpoints in an effort to identify undervalued market sectors and securities. The team, using historical volatilities and correlations, utilizes a Monte-Carlo simulation process designed to measure portfolio risk. Additionally, the team incorporates a three-month, forward-looking process for measuring and seeking to control the Strategy's risk. Aggregate portfolio risk in comparison to the benchmark is set such that using a 98% confidence interval, portfolio results are expected to rank at or above the 75th percentile in comparison to competitors. The target percentile risk tolerance has historically resulted in a 40 to 60 basis point maximum downside risk limit in comparison to index benchmarks.

Portfolio managers perform security and portfolio level stress tests which can include: interest rate, term structure and prepayment scenarios. Risk is assessed both ex-ante and ex-post through a comparison of portfolio characteristics and a review of style performance respectively. Results of the stress tests are presented to the Fixed Income Policy Committee during regular meetings.

2. Global Fixed Income Risk Management team ("FIRM" team): This team reports to Vincent Kumaradjaja and is responsible for providing risk oversight and analytics to support the entire GFICC (global fixed income) investment team. The FIRM team's objective is to help ensure that portfolio risk exposures are consistent with investment goals and within appropriate operating ranges, risk measurements are properly calibrated for all strategies and appropriate monitoring/control frameworks are applied. The team is also responsible for validation portfolio risk analytics.

3. The Independent/ Firm-wide risk management team: the investment management and core business operations teams are primarily responsible for their own controls. The firm also has a centralized risk management department, which oversees risk controls and provides advice on risk issues on a day to day basis to these teams. It is operationally autonomous and has independent reporting lines separate from the investment management function. The independent risk management function provides oversight, coordination and a consolidated view of risks and controls, its core objectives being:

- * Developing risk policies
- * Reviewing new products, businesses and unusually complex or risky transactions
- * Reviewing self-assessments
- * Adopting and adapting corporate requirements to the investment management business
- * Performing risk/portfolio reviews
- * Providing risk reporting to management

Justification

We view JPM's embedded risk management function as meeting expectations for a large, global investment management firm. We appreciate that JPM evaluates and manages risk on multiple levels, including the portfolio management team, a dedicated global risk team, and an independent firm-wide risk management team.

Understandable Performance - Historical and future performance sensitivities are consistent with the manager's process.

Description

Given that the strategy is largely duration-neutral, returns in excess of the benchmark can primarily be attributed mainly to security selection (50%) and secondarily to sector selection (25%). Yield curve structure, duration management and active trading make up the remainder of estimated value-add to performance. As a result, the strategy should be expected to perform well in environments characteristic by stable interest rates and/or narrow credit spreads. Periods of interest rate and credit spread volatility can often result in illiquidity, as evidenced during the market dislocation in 2008, which can negatively impact performance. The strategy tends to be underweight Treasuries and US IG credit while overweight securitized sectors such as CMOs, CMBS, ABS and non-agency mortgages. Historically, the team has found ample relative value in these securitized sectors and believe they are often better compensated for risk in this area. The high-quality bias of the strategy will most likely result in underperformance relative to those strategies that allocate to “plus” sectors such as high yield, bank loans and emerging markets debt in a risk-on rally.

Despite underperforming the benchmark by nearly 70 bps (4.6% versus 5.2%) during the financial crisis in 2008, the strategy outperformed peers due to the strategy’s exposure to high-quality mortgage-related securities. As credit markets recovered in 2009, the strategy was able to deliver approximately 450 basis points (10.4% versus 5.9%) of excess returns relative to the benchmark as the investment team rotated into corporate credit to capture additional credit premium. Additionally, the strategy has experienced consistent long-term performance, earning consistent excess returns over the Barclays Aggregate with a beta of 1.0 (on average over time). The strategy has outperformed the Barclays Aggregate index in nine out of the last ten calendar years, and since inception excess returns have been within the expected 50-100 bps of excess returns over a full market cycle.

Justification

We believe the strategy has provided consistent exposure to the asset class while delivering incremental value-add through the strategy’s actively managed, bottom-up security selection process. Given that the strategy is largely neutral on top-line duration versus the benchmark, returns in excess of the benchmark can primarily be attributed to active sector and security selection. As a result, the strategy should be expected to perform well during periods of stable interest rates and/or relatively tighter credit spreads. Periods of interest rate and credit spread volatility can often result in illiquidity, as evidenced during the market dislocation in 2008, which can negatively impact performance. Because of the strategy’s portfolio construction methodology and given that it is a core bond product, we would expect excess returns to lag behind core plus bond products during strong risk-on environments. While the team can increase the strategy’s risk profile within a narrow band around the benchmark during periods of increasing volatility, with the goal of capturing additional return premium, the benchmark-aware, value-oriented approach is designed to provide consistent high-quality returns with low volatility. The team tends to favor securitized assets (ex: MBS and CMOs) over US investment grade corporate bonds in portfolio construction; the mortgage-heavy profile makes this strategy a compelling complement to credit-heavy fixed income strategies.

The manager has described an integration of ESG into their investment philosophy.

Description

The GFICC group is committed to delivering strong risk-adjusted returns for clients, and the firm believes that one of the drivers of that performance over the long term is an assessment of the ESG practices of the issuers in which they invest. As such, JPM takes into consideration, where relevant and material, ESG issues, alongside other market risk factors, as a fundamental part of the firm's risk management.

Across the GFICC platform, JPM has historically considered ESG factors alongside other material return drivers as part of the firm's research efforts. In the past few years, JPM has formalized this into a systematic approach to ESG

integration. Given the scale and variety of the global fixed income market, ESG factors in each sector and market are assessed slightly differently. However, the approaches share three common pillars: proprietary research, engagement and portfolio construction.

* **Proprietary research:** A key tenet of JPM's fixed income platform is the focus on proprietary research. JPM's common research framework—in which every investment idea is assessed using fundamental, quantitative valuation and technical analysis—allows for comparison across all sectors of the bond market. GFICC's team of research analysts incorporates the assessment of an issuer's ESG practices directly into this framework, as part of the fundamental analysis. The firm uses third-party data as an input into this view, but it does not dictate the position. Analyst research is documented in a dedicated ESG field in Research Notes (an application within the common global technology platform, Spectrum™). This information is visible to all investors across the platform, including portfolio managers and investment specialists, to encourage transparency and discussion.

* **Engagement:** As bond investors, JPM does not carry voting rights. However, the firm engages on a wide range of ESG issues with a variety of market participants. In addition to individual companies, JPM also engages with government officials, industry boards and forums, ratings agencies, data providers and other global institutions, with the goal of driving progress on sustainability. The firm's scale and position within the asset management industry also allows JPM significant representation across asset classes, and the firm often conducts engagement with the firm's equity counterparts, where relevant.

* **Portfolio construction:** JPM monitors ESG exposure throughout the portfolio construction process, on both an ongoing informal basis and during official periodic reviews. JPM has enhanced front-office systems to incorporate ESG data, primarily from third-party providers, to give portfolio managers understanding and oversight of ESG risks in portfolios on both a pre- and post-trade basis. This system provides significant flexibility, showing the breakdown of a portfolio's ESG score by a variety of factors such as sector and country. Portfolio ESG risks are also formally captured in a series of risk reports produced by the dedicated risk management teams. These are regularly reviewed and monitored by portfolio managers during official portfolio review meetings.

JPM adopts a positive engagement approach to sustainable investing. Therefore, specific assets or types of assets are not automatically excluded from portfolios explicitly on environmental, social or governance criteria, unless specifically requested by clients or required by local or global legislation. For sustainability-focused investors, JPM offers a multidimensional approach. The firm is able to manage to ESG benchmarks, incorporate screens such as issuer exclusion on norms- and value-based criteria, and provide customizations such as thematic investments. JPM also support the green bond market, and, where appropriate and permitted by clients, the team endeavors to allocate to green bonds given the opportunity they present to provide financing for environmentally beneficial projects and activities.

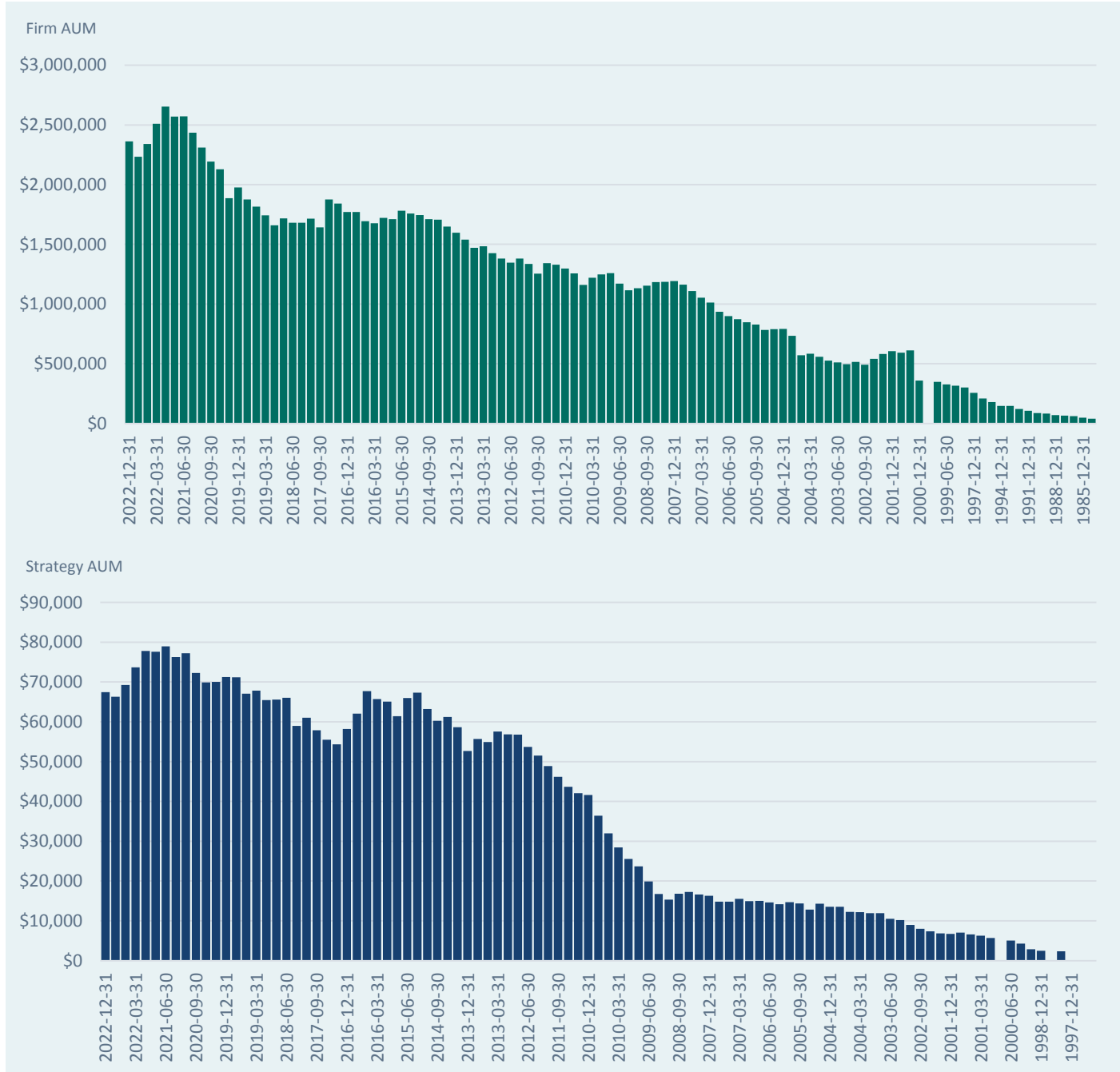
Justification

While JPMorgan applies ESG factor screening at the total GFICC (Global Fixed Income, Currency and Commodities team) platform level, the investment team does not apply any processes or screens as it specifically relates to Core Bond strategy. We view the firm's overall process as satisfactory, but we do not consider the Core Bond strategy to have ESG factors that are fully integrated into the investment process.

Monthly Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2022	-1.72	-1.02	-2.62	-3.26	0.26	-1.29	2.00	-2.34	-3.85	-1.42	3.29	-0.47
2021	-0.53	-1.13	-1.10	0.82	0.37	0.80	1.04	-0.12	-0.79	0.00	0.27	-0.29
2020	2.37	1.78	-1.66	1.62	0.77	1.19	1.65	-0.75	0.24	-0.39	1.29	0.32
2019	0.89	0.07	2.05	-	1.99	1.14	0.34	2.83	-0.58	0.21	-0.01	-0.32
2018	-0.99	-0.77	0.61	-0.70	0.64	-	-	0.67	-0.55	-0.59	0.63	1.75
2017	0.38	0.67	0.03	0.88	0.78	-	0.46	1.00	-0.58	0.16	-0.06	0.48
2016	1.43	0.74	0.79	0.38	0.06	1.91	0.64	-0.22	0.16	-0.74	-2.27	0.07
2015	2.05	-0.87	0.57	-0.31	-0.04	-0.79	0.67	-0.04	0.84	-0.20	-0.18	-0.35
2014	1.47	0.52	-0.16	0.72	1.07	0.06	-0.10	1.02	-0.55	0.85	0.74	0.08
2013	-0.44	0.52	0.19	0.81	-1.42	-1.42	0.02	-0.35	0.81	0.72	-0.10	-0.62

AUM Growth (\$Millions)



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IQ RATING AS OF: 08/30/2021
RESEARCH UPDATE:

Baird Advisors Core Bond

Asset Class:	Fixed Income	Verus IQ Rating:	IQ1
Sub-Asset Class:	Core Fixed Income	Flag:	No Flag
Strategy Inception:	9/29/2000	ESG Rating:	B
Benchmark:	Bloomberg US Aggregate	Emerging Diverse:	N/A
Performance Objective:	25 to 50 bps versus the Bloomberg Barclays Aggregate Index, net of fees.	Risk Objective:	Duration-neutral

Executive Summary

The strategy is appropriate for clients seeking exposure to a diversified portfolio of high credit quality bonds, designed to capture market inefficiencies through security selection and sector rotation. The strategy, focusing primarily on investments in US government, ABS, MBS, and corporate debt, deserves consideration for clients seeking a core fixed income strategy with low tracking error that is designed to add value through yield curve positioning, sector allocation and security selection within the investment grade fixed income universe.

The team's robust and repeatable investment process is designed to identify undervalued market sectors and securities. The strategy, which seeks to remain duration-neutral while identifying relative value across each alpha opportunity, has provided consistent excess returns since inception. We view the team and the organization in high regard, noting the broad employee ownership, low investment professional turnover, and robust investment philosophy and process which has resulted in a consistent performance profile.

The team's decision to remain largely duration-neutral and not actively manage interest rate risk may subject investors to benchmark-like volatility should interest rates move significantly in either direction. While the team does attempt to mitigate this risk with a sector overweight to structured securities that are shorter in duration, the overall duration exposure remains neutral to the benchmark.

The team has a long track record of adding incremental value through actively managed, bottom-up security selection, adding value in a very consistent manner relative to the Barclays US Aggregate Bond Index (with the exception of 2008).

Firm Assets:	\$112,349.55MM	Separate Accounts:	Available
Strategy Assets:	\$48,512.09MM	Commingled Vehicles:	N/A
Location:	777 E. Wisconsin Ave. Milwaukee Wisconsin, 53202	Mutual Funds:	Available
Key Persons:	Team-managed	Status (Open/Closed):	Active

Alignment - The investment product is supported by a robust and stable organizational and team structure.

Description

Baird Advisors is the institutional fixed income management group of Robert W. Baird & Co. (R.W. Baird), formed in February 2000 by the entire fixed income portfolio management team at Firststar Investment Research and Management Company (FIRMCO). R.W. Baird is a privately held, full-service firm headquartered in Milwaukee, WI. The firm was originally founded in 1919 as the investment arm of the First Wisconsin National Bank. In 1934, the firm became an independent entity. Northwestern Mutual purchased 80% of R.W. Baird in 1982. Recognizing the importance employee ownership plays in Baird's success, Northwestern Mutual worked with the firm over the years to increase the ownership interest of Baird employees. In May 2004, the employees of R.W. Baird regained controlling interest in the firm.

Baird utilizes a team approach with all members performing portfolio management, both quantitative and fundamental research and trading functions. Baird has been successfully implementing their model for over 25 years. The team structure and approach to investing enables them to consistently have experienced individuals managing the portfolios and mutual funds at all times when the bond markets are open. Baird has formally identified backup responsibilities for all key management roles and continually adds analysts and portfolio managers to develop the professional skills required to effectively manage and service current and future clients. Baird's holistic approach to portfolio management integrates the sector focus and expertise of various team members. All portfolio managers and analysts participate in the research and decision-making process. This includes bottom-up portfolio construction and optimization process across the duration spectrum with cross sector relative value analysis and security selection typically being a collaborative effort. The firm believes that combining both quantitative and fundamental analysis, as part of each portfolio manager's general responsibility, provides a better overall view of the multiple relative value opportunities in the marketplace.

Baird's compensation and incentive package is very competitive and based on investment and business results. The package has three aspects: base salary, bonus and equity ownership. The firm offers a base salary structure that is related to similar positions at independent investment advisory firms. Annual bonuses are calculated based on performance of fixed income portfolios relative to their respective benchmarks. This performance-based incentive constitutes a major portion of compensation for both analysts and portfolio managers, increasing with a team member's seniority. Lastly, employees participate in a stock-purchase program of Robert W. Baird & Company providing significant direct equity ownership. All members of the portfolio management team have a significant equity interest in Robert W. Baird & Company in the form of both purchased stock and granted options.

Justification

Baird has a several characteristics which set them apart from other fixed income managers. The organization, which is broadly held by employees, has been repeatedly rated as a top place to work by Fortune 100. The 100-year old, employee owned firm has committed to providing employees at all levels of the organization ownership which we believe aligns the interests of investment professionals and investors. There are very few fixed income firms which have this level of broad employee ownership. Additionally, the fixed income platform is led by a very stable and experienced team of investors. Most of the original team that created the strategy still manages the portfolio today with some investment professionals having worked together for over 30 years. Since inception of the track record, the team has suffered very low turnover. Baird has been very thoughtful about succession planning for the senior members of the team, including signaling formal transition plans and putting these plans in motion well in advance of senior level retirements. This tradition supplies a depth in the management team familiar with the firm's investment discipline. We are also confident that the team-based nature of the process also supports the organizational stability. Baird's flat team structure and personnel development in all levels of investment professionals will allow for a smooth

transition to experienced individuals familiar with the firm's methods should a planned or unplanned succession be needed.

Edge - The manager has articulated an inefficiency or market-based belief that informs its process.

Description

Baird's fixed income philosophy is predicated on the belief that the bond capital market is very efficient in discounting risk and return over time. The team expands that bond market benchmarks accurately reflect this relationship between risk and return across the duration curve. Baird believes that interest rates are extremely difficult to consistently forecast over time. Due to this view, the team employs a duration-neutral, risk-controlled approach in managing portfolios where they set the duration of the portfolio approximately equal to the Barclays US Aggregate, thus helping to ensure a high degree of predictability in tracking benchmark returns. The team then aims to add incremental value through security selection, yield curve positioning, sector allocation and competitive execution of trades. Ultimately, Baird employs a holistic approach to portfolio management that integrates the sector focus and expertise of various team members.

The team focuses on the risk/reward profiles offered by various sectors within the bond market. Working within the strategy's guidelines and objectives, long-term decisions are made to overweight and underweight sectors and sub-sectors on a relative value basis. Sector positions are analyzed on a contribution-to-duration basis and carefully evaluated for the return potential of each sector, focusing on general and specific risks involved. The strategy will generally overweight the finance and securitized sectors (ex: ABS, MBS, CMOs) from a contribution-to-duration basis versus the Barclays Aggregate.

Justification

We believe that the strategy has demonstrated a very consistent performance profile, governed by the team's risk-controlled, duration-neutral, bottom-up process which has been consistent since inception of the strategy. We view the cornerstone of the team's investment philosophy as the team's duration-neutral positioning versus the benchmark coupled with the consistency of their credit research and disciplined, repeatable investment process. The team's decision to maintain its duration-neutral posture relative to the benchmark at all times demonstrates the team's candor on their inability to time interest rates and rotate the portfolio based on top-down views; some managers claim to be able to manage duration around a specific range which can be successful some of the time, although we believe it is very difficult (if not impossible) to consistently add alpha from duration positioning over all market cycles. Instead, Baird focuses on their strength, which is a fundamental credit research approach utilizing bottom-up security selection. Additionally, Baird's strategic size is a competitive advantage, especially in the corporate market and other spread sectors; the team is able to take advantage of unique opportunities involving smaller positions that are often overlooked by larger firms. They are able to add to or reduce exposure in particular credits without disrupting the orderly trading of these issues.

Implementation - The manager has described an investment approach which is sensible, repeatable.

Description

The team interacts in both formal and informal groups. The entire portfolio management team meets formally once a week. At this meeting the team discusses macroeconomic data and its effect on fixed income markets. They also review fixed income markets for trends in government, corporate, municipal and structured securities. This detailed analysis includes data on yield curves, liquidity, volume, spreads and new issuance. Team members then discuss

individual security information for existing positions and the potential to add new issues and analyze client portfolios for structure and potential actions. In addition, portfolio managers work together informally on a daily basis as the group implements investment policy, monitors market conditions, executes trades and addresses cash movements within portfolios. The majority of this communication is done in groups of two or more portfolio managers or analysts.

Detailed credit research plays a fundamental role in security selection. The team determines which issuers offer the best relative value within each sector. The research includes a comprehensive review of each company's management, financial data, competitive advantages within their industry and industry outlook. In the construction process, the team's goal is to effectively measure and control the top-line duration or price risk of each portfolio versus the benchmark. The team focuses on the contribution-to-duration of each security and sector when analyzing any allocation to the portfolio. Each permissible security is evaluated based on the credit fundamentals of the issuer or the underlying asset collateral, the structural risks of the security itself and market liquidity risk. This analysis helps control credit risk and allows the team to consistently add value through yield curve position, sector allocation and security selection. The team does not integrate top-down views when constructing portfolios; all ideas are sourced from the bottom-up. Portfolios are also positioned fairly neutral to the yield curve while being duration neutral overall versus the benchmark. The team aims to have roll advantage and positive convexity tilt. The strategy's use of all cash bonds with no use of derivatives or leverage contributes to the ease of implementation.

The team uses Treasuries and agencies to achieve a large portion of the target duration of a portfolio, enabling the team to more effectively manage credit risk with shorter corporate issues. Emphasizing attractive points on the yield curve is a key consideration in choosing specific government issues. Treasuries and agencies are used as liquidity tools to keep portfolios duration-neutral to their benchmark and handle cash flows. The team will focus on collateral and structure in assessing residential MBS risk-adjusted returns. Baird utilizes the risk analytics platform, Intex, to perform cash flow "stress testing" analysis; this includes stressing prepayment and default curves along with recovery assumptions to assess relative value. Following initial purchase, the team continues to stress the bonds on an ongoing basis and adjust assumptions if necessary. The agency mortgage exposure is broken out between agency mortgage-backed pass-through securities and agency CMOs. The team will underweight agency mortgage-backed pass-through securities due to the negative convexity exhibited by agency pass-throughs as well as uncertainties surrounding government policies and event risk. Agency CMOs are used as a substitute for agency debentures and pass-through securities. The team prefers well-structured, stable cash flows that are less negatively convex than mortgage pass-throughs.

Ultimately, the team aims to add value attributable to different investment strategies as follows: security selection 50%; credit analysis 20%; sector selection 20%; yield curve positioning 10%; and duration management 0%.

Justification

We are constructive on the team's use of the contribution-to-duration and relative value analysis of each security and sector when contemplating any allocation to the portfolio. We see rigor in the process when each permissible security is evaluated based on the credit fundamentals of the issuer or the underlying asset collateral, the structural risks of the security itself and market liquidity risk. This relative value analysis helps the team to select the securities they believe are undervalued and have the best risk-adjusted expected return potential within the permissible universe of bonds. We appreciate that the team focuses solely on bottom-up credit research and does not integrate top-down views when constructing portfolios; all ideas are sourced from the bottom-up. In terms of portfolio positioning, sector overweight biases are generally the finance and securitized sectors as the team feels there are more opportunities for dislocation. The team also tends to take spread exposure on the shorter end of the yield curve. We find comfort in the consistency of these structural biases and we feel that the strategy's performance is usually easily explainable.

Optimal use of risk - The manager has an effective framework to assess and manage risk inherent in its process.

Description

Risk management processes are embedded throughout the portfolio management process. The primary risk control factor has been the discipline of duration-neutrality to the benchmark allowing the strategy a high probability of providing at least benchmark-like returns. This has enabled the team to focus on more value-additive strategies such as yield curve positioning, sector allocation and security selection. Utilizing benchmark analysis, proprietary monitoring tools, and proprietary security-level and portfolio analytics systems, the team can effectively monitor portfolio structure, measure risk and attribute performance versus client benchmarks. The team utilizes the risk analytics platform, Intex, to perform cash flow “stress testing” analysis.

In addition to duration-neutrality, measures to control portfolio risk include: using US Treasury and Agency securities for long-maturity exposures; continually reviewing a portfolio’s credit allocation; credit risk in general is limited to shorter maturities; reducing credit risk by focusing on securitized debt products; increasing portfolio diversification with lower rated corporate issues; focusing on the financial industry in which issuers maintain a higher attention to their credit ratings and have a lower historical probability of default; and utilizing seasoned and more stable mortgage-backed securities. The strategy can only purchase US dollar-denominated debt securities and in debt securities rated investment-grade at the time of purchase. While the strategy's guidelines do not allow the team to purchase below-investment-grade securities, the team is permitted to hold securities that have been downgraded although this is typically a very low allocation.

Justification

Ultimately, we are constructive on Baird's ability to manage risk due to the risk-controlled implementation approach. The team's focus on risk-adjusted returns is evident through the contribution-to-duration analysis performed on each security and sector when analyzing any allocation to the portfolio. This risk identification process is facilitated with the use of multiple quantitative models coupled with experienced portfolio managers interpreting the output from these models and providing an additional qualitative assessment of the risk inherent in each security. This relative value analysis helps the team to select the securities they believe are undervalued and have the best risk-adjusted expected return potential within the permissible universe of bonds. We believe that Baird's portfolio construction process consistently assembles these securities with above-average risk-adjusted expected returns focusing on risk control relative to the benchmark and the discipline of diversification. Additionally, the duration-neutral profile of the fund has been consistent since the inception of the philosophy, demonstrating that the team has remained disciplined in managing interest rate risk during market cycles (even in long interest rate cycles). We are impressed that the team has been able to generate consistent added value by purchasing only investment grade dollar-denominated securities without the use of swaps, futures, options or other leveraged strategies. The team's use of benchmark analysis, proprietary monitoring tools, and security-level and portfolio analytics systems are essentially industry standard.

Understandable Performance - Historical and future performance sensitivities are consistent with the manager’s process.

Description

Baird’s investment philosophy and fundamental decision to remain duration-neutral to the benchmark at all times generally allows the portfolio to outperform in both up and down markets. However, given that the strategy is structured with a tilt or “bias” to an overweight in non-US Treasury sectors relative to the Barclays Aggregate Index, market crises that create temporary, though severe dislocations and a flight to the US Treasury sector for safety and liquidity, could lead to short-term periods of underperformance. The strategy should outperform during expansion phases of economic growth where risk premiums on spread assets are stable or tightening.

The strategy tends to derive the majority of its value from security selection (50%), followed by credit analysis (20%), sector selection (20%) and yield curve positioning (10%).

Justification

The Baird team has a long track record of adding incremental value through actively managed, bottom-up security selection, adding value in a very consistent manner relative to the Barclays US Aggregate Bond Index (with the exception of 2008). In addition to strong performance, the team has also maintained attractive up-market capture and down-market capture since inception. The beta of the strategy tends to hover around 1.0 and the risk-adjusted return (as measured by Sharpe Ratio) have been between 1.0 and 1.3 over the past ten years. The strategy also has an institutional mutual fund vehicle with an attractive expense ratio of 30 bps, a cost that is below average versus peers. Given the team's philosophy and process, we believe that performance is easily explainable over all time periods. The team tends to be underweight Treasuries (except on the long-end), overweight financials and overweight short-dated securitized sectors. Ultimately, we are constructive on Baird's performance profile and have observed that they have exceeded their return objective across various time periods.

The manager has described an integration of ESG into their investment philosophy.

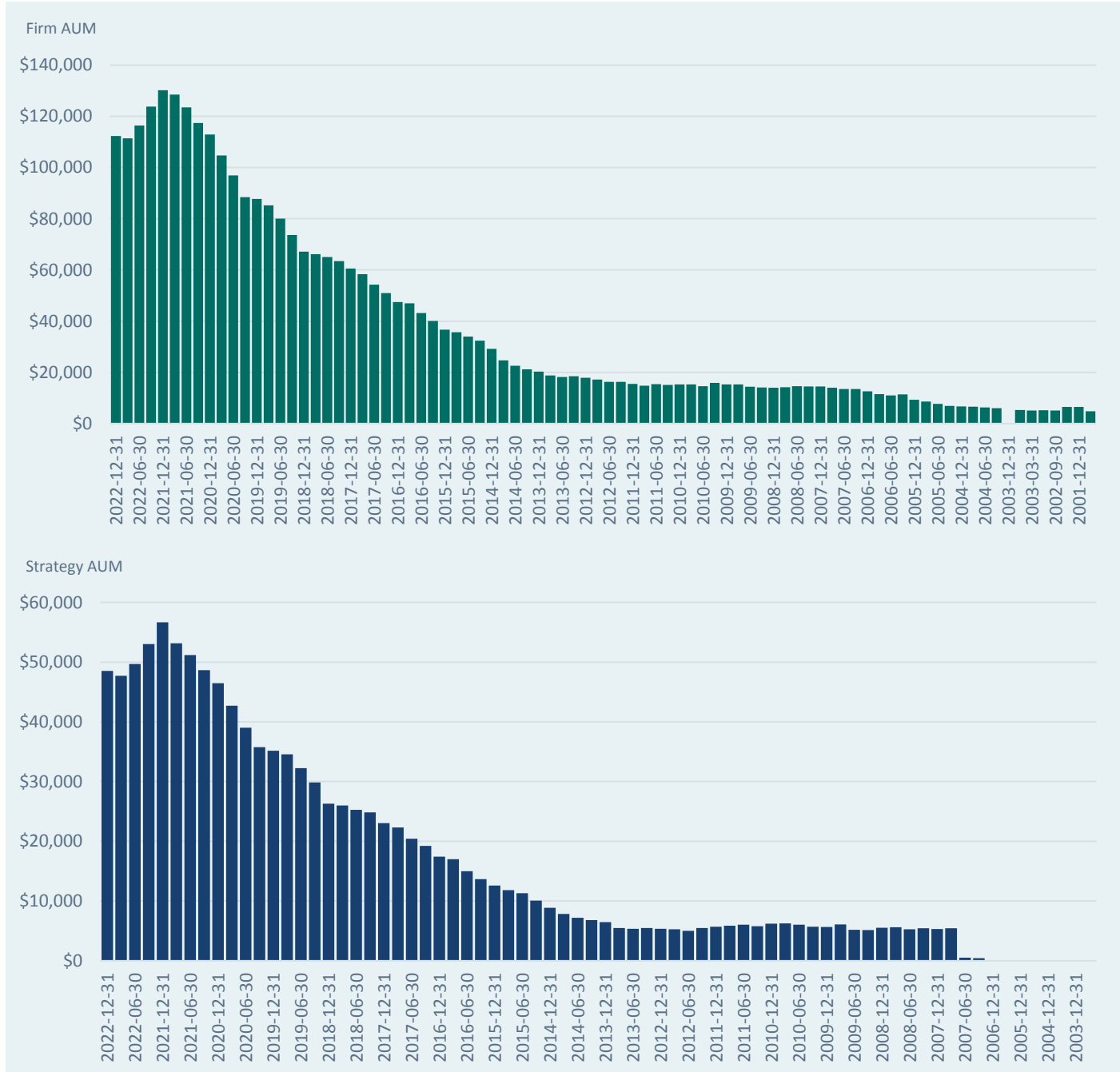
Justification

While this is not an ESG-dedicated portfolio, analysts on the team analyze ESG-related risks as part of their research process. We estimate that most of the work is being done around the governance factor, which is typical for most bond investors. While Baird has a lot of dedicated resources firmwide around ESG, we believe other products in their fixed income suite more heavily consider ESG factors as part of their approach, such as the Baird Intermediate Bond Fund (BIMIX) follows a socially responsible investing (SRI) approach and complies with the United States Conference of Catholic Bishops (USCCB) criteria for socially responsible funds. The team also manages a subset of its portfolios with SRI considerations.

Monthly Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2022	-2.23	-1.25	-2.92	-3.77	0.52	-1.73	2.33	-2.60	-4.28	-1.40	3.93	-0.24
2021	-0.61	-1.35	-1.40	0.89	0.27	0.89	1.23	-0.18	-0.86	-0.08	0.26	-0.20
2020	1.98	1.73	-2.10	2.71	0.93	1.16	1.73	-0.55	-0.05	-0.32	1.13	0.33
2019	1.17	0.17	2.02	0.10	1.75	1.36	0.34	2.60	-0.45	0.34	-0.03	0.06
2018	-1.09	-0.87	0.52	-0.67	0.64	-0.13	0.09	0.74	-0.67	-0.78	0.47	1.81
2017	0.37	0.71	0.03	0.89	0.88	-0.04	0.51	0.97	-0.41	0.16	-0.13	0.50
2016	1.21	0.62	1.24	0.58	0.15	1.88	0.84	0.05	-0.05	-0.68	-2.24	0.22
2015	2.22	-0.84	0.50	-0.35	-0.17	-1.05	0.69	-0.24	0.70	0.12	-0.24	-0.45
2014	1.68	0.67	0.07	0.95	1.30	0.19	-0.10	1.08	-0.65	0.89	0.81	0.12
2013	-0.40	0.66	0.28	1.14	-1.73	-1.85	0.09	-0.38	1.08	1.04	-0.38	-0.45

AUM Growth (\$Millions)



Author: Maggie Hoy
 Reviewer: Pete McConville

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IQ RATING AS OF: 12/20/2019
RESEARCH UPDATE:

Income Research & Management

IR+M Aggregate

Asset Class:	Fixed Income	Verus IQ Rating:	IQ1
Sub-Asset Class:	Core Aggregate	Flag:	
Strategy Inception:	12/31/1991	ESG Rating:	B
Benchmark:	Bloomberg US Aggregate	Emerging Diverse:	
Performance Objective:	50-75 bps excess return over the Bloomberg Barclays US Aggregate Bond Index annualized, gross of fees.	Risk Objective:	Duration-neutral to benchmark.

Executive Summary

We view the IR+M Aggregate Bond strategy as appropriate for clients seeking exposure to a diversified portfolio of high credit quality bonds, designed to capture market inefficiencies through security selection and sector rotation. The team employs a sector-neutral approach. With the goal of generating additional alpha, the team focuses on identifying securities that are mispriced due to liquidity and structural issues in addition to actively rotating sectors based on relative value. The team seeks opportunistic off-benchmark positions, focusing on the optimal yield curve entry point into high quality corporate, municipal and MBS/ABS securities. Since inception, these off-benchmark positions have generally benefited the strategy's relative performance.

Ultimately, we view the organizational structure; cohesiveness, tenure and stability of the team; and uniqueness of the strategy's profile and characteristics as differentiated versus peers. The team often seeks to pick up additional return via the use of smaller "off-the-run" bonds, or those that are more structurally unique which may result in a portfolio with benchmark-like characteristics that looks nothing like the benchmark.

The team's decision to remain largely duration-neutral and not actively manage interest rate risk may subject investors to benchmark-like volatility should interest rates move significantly in either direction. While the team does attempt to mitigate this risk with a sector overweight to structured securities that are shorter in duration, the overall duration exposure remains neutral to the benchmark.

This strategy can be expected to perform well during periods of low interest rate volatility and relatively stable credit spreads. Periods of high credit spread volatility and illiquidity, as evidenced during the 2008 financial crisis, will likely negatively impact performance primarily due to the strategy's significant underweight to US Treasuries.

Firm Assets:	\$88,998.29MM	Separate Accounts:	Available
Strategy Assets:	\$14,414.29MM	Commingled Vehicles:	Available
Location:	100 Federal Street Boston Massachusetts, 02110	Mutual Funds:	Available
Key Persons:	Team-managed	Status (Open/Closed):	Active

Alignment - The investment product is supported by a robust and stable organizational and team structure.

Description

Income Research and Management (IR+M) was founded by two of the current managing principals, John and Jack Sommers, to specialize in the US dollar-denominated fixed income market. The firm was registered as an investment adviser and began managing assets in 1987. IR+M is focused exclusively on managing domestic fixed income strategies for institutional and private clients. In addition to their flagship Aggregate strategy, the team manages strategies across various duration ranges and benchmarks including long duration, intermediate duration, short duration and tax-exempt mandates, which includes the 1-3 strategy. IR+M is an independent and privately owned company with over 50 employee shareholders. The firm is headquartered in Boston and employs over 150 people, including roughly fifteen key investment professionals. The firm, which is 100% employee owned, continues to offer equity ownership to employees who demonstrate superior contributions and commitment to the firm, which may result in ongoing adjustments to the ownership distribution. Employees are incentivized with competitive base pay and bonus separate from compensation, as a long-term incentive, key employees may be offered the opportunity to purchase equity in IR+M and participate in the growth of the company and its profitability.

IR+M takes a team approach to managing portfolios. As such, all members of the investment team are involved in a strategy to the extent that their sector of expertise is utilized within the portfolio's guidelines. Portfolio managers, directors, specialists, analysts, and traders are not assigned to specific portfolios or mandates, they work within their respective specialties which are broadly delineated as the credit, securitized, government, and municipal sectors; portfolio strategy; portfolio risk; investment risk; and product management.

Justification

We view IR+M's organization as favorable as demonstrated by the broadly distributed ownership, consistency in long-term results, and continuity of investment team over various market cycles. Privately owned since inception, IR+M has exhibited stability for more than 30 years. Additionally, IR+M's philosophy and process have remained consistent since the inception of the firm, which is evident through the team's performance profile. We are also constructive on IR+M's team-based approach, the firm's collaborative culture promotes constant communication, the free flow of ideas, and interaction across teams. Portfolio managers make investment decisions as a team, promoting consistency of culture, philosophy, and process. The firm has also enjoyed consistent and steady growth in firm AUM over the last decade.

Edge - The manager has articulated an inefficiency or market-based belief that informs its process.

Description

IR+M's fixed income philosophy is predicated on the belief that an actively managed, value-oriented, bottom-up approach can produce superior long-term results. Portfolios are duration-neutral with an emphasis placed upon identifying securities that offer attractive yield advantage through credit and structure. The team is benchmark-aware, but broadly agnostic, preferring to seek out the highest risk-adjusted returns across various investment grade credit sectors. The team's value-driven, "best ideas" approach is well suited to a stable interest rate and credit spread environment. The team seeks to identify those securities they believe are mispriced by examining the credit quality, security structure, cash flow timing, liquidity, market pricing and size of the issue. Only after identifying those bonds that offer incremental risk-adjusted return will the team then target specific yield levels prior to inclusion into the portfolio.

In general, the investment process is driven by bottom-up security selection, which helps provide consistency over

time relative to potentially more volatile macro decisions. Given the firm's relatively small size, the team does not have to buy everything, and they can be selective within smaller market sub-sectors in which larger managers may not be able to participate. These factors have allowed IR+M to add value historically and should continue to allow them to add value going forward.

Justification

The team's philosophy has been consistent since inception of the strategy, and has been broadly demonstrated by a positive performance profile over multiple market cycles. The IR+M Aggregate Bond strategy can deviate substantially from the benchmark sector weights; this is characteristic of the firm's portfolio management philosophy of accepting relative value from the market when presented. In addition to positive yield spread, the added benefit of including such securities as MBS, RMBS and CMOs is that these bonds enhance the convexity profile of the strategy which provides more predictable cash flows while usually maintaining a higher credit quality. It is these characteristics that make this strategy unique versus peers. The team often focuses on more esoteric niche segments of the markets than peers, which have characteristics similar to the Aggregate. Overall, the investment strategy centers around several core principles: bottom-up security selection, a value orientation, appropriate diversification, and risk control. We believe that IR+M has aptly demonstrated consistency of application surrounding these core principles over time, which is evident in their long-term performance.

Implementation - The manager has described an investment approach which is sensible, repeatable.

Description

Collaborative sector and credit teams, comprised of both research analysts and portfolio managers, drive the investment decision-making process. Each team works to identify the best potential return opportunities in their assigned space and promote those ideas to the portfolio managers. This is also referred to as the Target Team. Once purchased, the team monitors securities for material changes to credit, structure or price against the targets to ensure they are meeting their respective return objectives.

Within the available opportunity set of fixed income securities – government, credit and structured securities – the team seeks to find relative value within each sector by concentrating on those securities that offer higher yields due to structural differences such as optionality or issue size. These securities also may be smaller, “off-the-run” issues which tend to be passed over due to their limited liquidity and smaller offer size. The team focuses on securitized issues that are senior in the capital structure with favorable convexity, seasoned collateral, and attractive structure. In addition, they focus on securitized issues with favorable underlying credit and underwriting standards, along with embedded credit enhancement.

Finally, yield curve positioning is critical: comparable credit quality issuers have a unique “on the run” credit curve which may offer steeper “roll down” effects than others. Many large investors often pay a premium for liquidity, thus older “off-the-run” issues of similar maturity often offer an incremental yield advantage for exposure to the same credit risk. In addition to yield curve positioning, the team also seeks bonds that may be part of a smaller offer size. While the strategy has grown in popularity, the team believes its asset size continues to allow flexibility to acquire smaller positions that would otherwise be ignored.

Justification

Given IR+M's modest size as a firm, they are able to be selective and concentrate on the most appealing opportunities within the broad aggregate universe without having to buy less attractive issues to stay fully invested. This is generally

a benefit of a smaller- to medium-sized firm; behemoth firms must purchase large quantities of issues in order to "move the needle," whereas IR+M has greater flexibility to more nimbly position portfolios. The team has thoughtful processes surrounding the firm's research efforts, which are driven by research analysts who are regarded as sector specialists across the corporate and securitized sectors. Portfolio managers oversee and are involved in every aspect of research, security selection, and portfolio construction, providing consistency throughout the process. While the process isn't necessarily unique versus peers, we view it as stable over various market environments. Overall, we view that the team is able to consistently implement their investment process.

Optimal use of risk - The manager has an effective framework to assess and manage risk inherent in its process.

Description

IR+M has multiple teams that collaborate on various risk the Target Team is responsible for overall risk management at the strategy level. Comprised of the director of IR+M's investment team, five senior portfolio managers, and the director of investment risk, the team makes decisions on strategic direction, sector targets, and overall risk positioning. The Target Team's primary responsibilities are to assess relative value across sectors, communicate overall risk preferences, and to ultimately distill asset allocation decisions into sector targets for each product. As part of their decision-making process, the Target Team will solicit input from other members of the investment team. The investment risk team works closely with the senior portfolio managers on the Target Team. The primary responsibilities of investment risk are to identify, monitor, and escalate positioning risks. Through risk model assessments, product consistency research, and quantitative support, the team focuses on the more strategic components of the investment process. The investment risk effort is purposely removed from the investment decision making process so that risks can be audited and evaluated in an unbiased, third-party manner. IR+M also has a portfolio risk team, whose job is to implement security placement; through trade allocations, pre-trade compliance, and cash management, the portfolio risk team focuses on the more tactical components of risk management. The portfolio risk function partners with the investment risk function to ensure strategic themes and risk exposures are consistently implemented at the portfolio level.

Risk management processes are embedded throughout the portfolio management process. As part of the security selection process, the Target Team relies on the proprietary Target Maintenance Application (TMA) to provide a controlled, restricted environment in order to monitor both sector level exposures and price targets. These targets are adjusted based on the team's evaluation of fundamentals and valuation. When valuations become either too expensive or cheap relative to the assigned target, the targeted weights will be adjusted resulting in additional purchases or sales.

IR+M utilizes Fidessa's Investment Management Solution and integrated Compliance Engine for investment and compliance functions. The Investment Management Suite ("Minerva" & "Tesseract") is comprised of the following components: investment decision, order generation, trade order management, and trade allocation. The Compliance Engine ("Sentinel") is used for pre- and post-trade compliance.

Justification

The team is very thoughtful in incorporating various risk exposures into the portfolio. This is essentially inherent in IR+M's philosophy of maintaining a duration-neutral posture versus the benchmark, and only introducing incremental risk when compensation is attractive while reducing risk when spread sectors are rich. We view the team's use of all cash bonds (no derivatives) as attractive given the opportunity set and broad investment objective for the strategy. We view the risk management function at IR+M as above average versus peers; the firm has a clear understanding of measuring risk at each step of the process, which incorporates senior portfolio managers, analysts, portfolio risk

analysts and back-end operations and trading functions at the firm. We view IR+M's use of proprietary risk tool TMA favorably. The firm's tools (both outsourced and proprietary) allow these functions to be integrated, allowing for client restrictions, regulatory, internal limits, and targets to be integrated into IR+M's pre- and post-trade investment and compliance processes.

Understandable Performance - Historical and future performance sensitivities are consistent with the manager's process.

Description

The key to this strategy's outperformance is willingness to deviate from benchmark sector exposure, overweighting both the credit and spread duration securities relative to Treasuries. This strategy can be expected to perform well during periods of low interest rate volatility and relatively stable credit spreads. Periods of high credit spread volatility and illiquidity, as evidenced during the 2008 financial crisis, will likely negatively impact performance primarily due to the strategy's significant underweight to U.S. Treasuries. However, the credit exposure and carry/yield advantage over the benchmark contributed to the strategy's outperformance as the economy recovered and credit concerns waned in 2009.

The IR+M Aggregate Bond strategy can deviate substantially from the benchmark sector weights and is characteristic of the firm's portfolio management philosophy of accepting relative value from the market when presented. The strategy should be expected to add value relative to the benchmark during periods of stable to declining credit spreads. Conversely, during periods of increased market volatility, the strategy may underperform due to its tactical off-benchmark allocations.

Justification

The IR+M team has a long track record of adding incremental value through actively managed, bottom-up security selection, contributing between 50 to 75 basis points of annualized excess return over the Bloomberg Barclays Aggregate Bond since inception of the strategy. The decision by the team to position the portfolio in less liquid "off-the run" securities has led the strategy to consistently outperform the benchmark since inception. The team has only underperformed the benchmark in one calendar year over the past ten years (2011), which resulted in underperformance of 55 bps. The firm constantly strives to out-yield the benchmark with focus on high-quality corporate bonds and securitized issues that are senior in the capital structure with favorable convexity, seasoned collateral, and attractive structures. Using a baseball analogy, the team seeks to hit singles and doubles through diversification rather than trying to hit home runs by incorporating large, high conviction trades in the portfolio.

The manager has described an integration of ESG into their investment philosophy.

Description

IR+M's research analysts and portfolio managers employ an integrated approach to incorporating ESG factors into the fundamental bottom-up credit research process. Analysts are sector specialists and consider sector-specific ESG factors as a mandatory component of the credit research due diligence process. IR+M believes issuers that exhibit elevated/lowered levels of key ESG risks, such as environmental impacts and corporate governance issues, have more/less volatile credit spreads and have a greater/lesser potential for negative credit events. This integrated approach is applied to new credits and existing holdings such that ESG and traditional credit factors are incorporated into a holistic risk assessment which guides investment decisions. ESG integration leads to a more complete understanding of potential material issues, and the team expects this to ultimately result in superior risk-adjusted returns over the long-term.

In May of 2013, IR+M became a signatory to the Principles for Responsible Investment (“PRI”). This was an important milestone in the firm’s continued commitment to responsible investing, which includes a 15+ year track record managing Socially Responsible Investment (“SRI”) portfolios. As a signatory, IR+M has formally pledged to consider environmental, social, and governance (“ESG”) factors during the investment decision-making process. The firm believes this commitment complements the bottom-up, value-oriented investment approach, fosters clarity of the ongoing efforts to consider ESG factors, and inspires the team to further enhance the integration of ESG factors into the process.

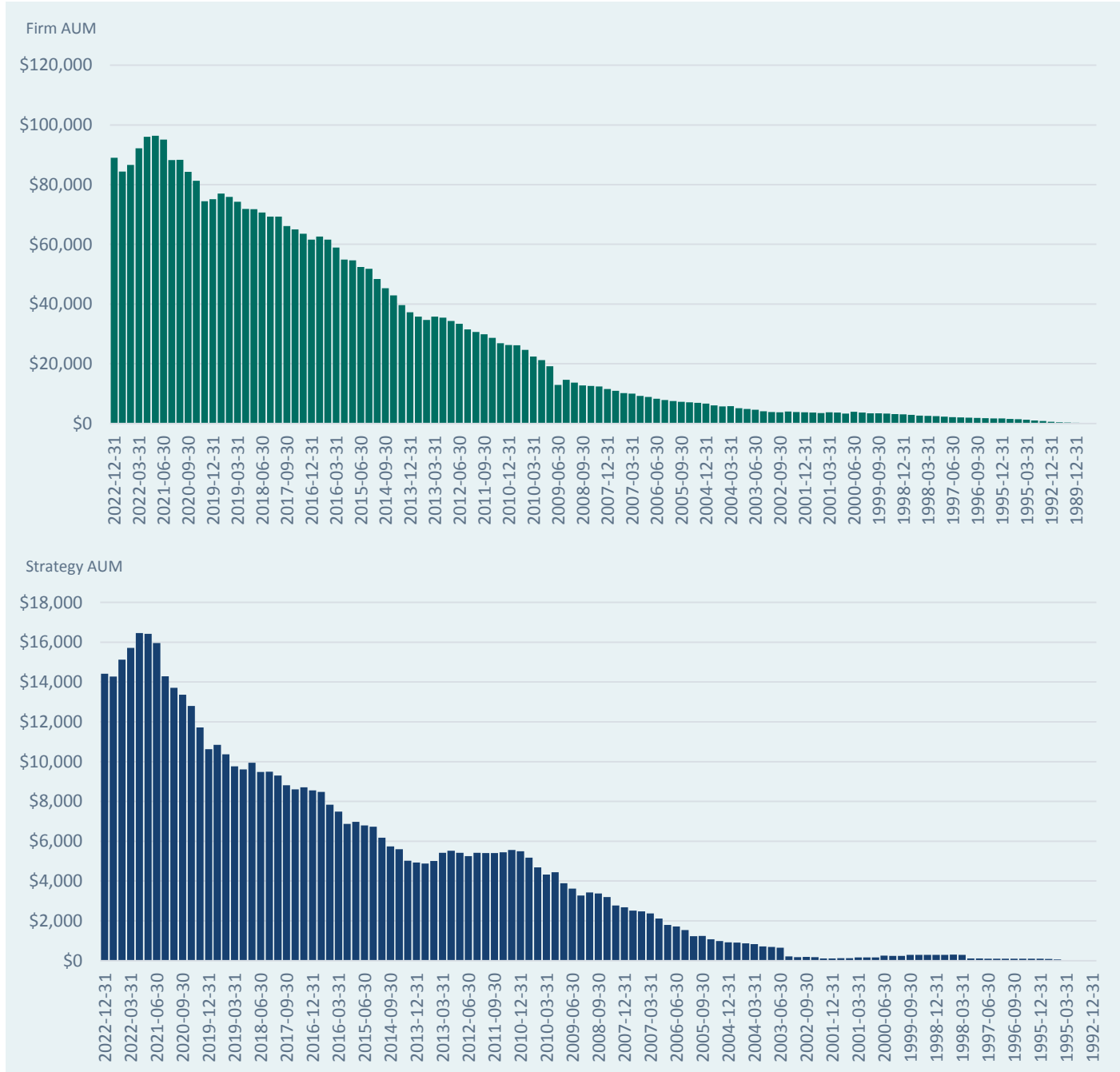
Justification

We are pleased with IR+M’s approach and progress on ESG integration. About five years ago, the team started off with just looking at governance; now the process captures all three factors. The team has admitted that analyzing “S” is harder as certain industries lead to more social considerations. The team has been thoughtful in formalizing a lot of the process surrounding ESG over the last few years. The corporate team has a robust process around the ESG integration while the securitized and municipal teams are in various stages. There are no restrictions on putting a “laggard” in the portfolio; the team would consider it as long as they are being compensated for the lack of management of some of these issues. This might be reflected in a shorter-term issue. Overall, we believe that the process is holistic and looks at all ESG factors.

Monthly Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2023	3.36	-2.41	-	-	-	-	-	-	-	-	-	-
2022	-2.05	-1.14	-2.81	-3.68	0.38	-1.47	2.43	-2.65	-4.28	-1.40	3.72	-0.31
2021	-0.52	-1.32	-1.16	0.85	0.29	0.75	1.15	-0.19	-0.79	-0.01	0.20	-0.27
2020	2.09	1.82	-1.50	2.39	0.91	1.19	1.76	-0.59	0.10	-0.33	1.10	0.30
2019	1.08	0.15	1.90	0.20	1.72	1.33	0.37	2.54	-0.51	0.34	-0.02	-0.12
2018	-1.06	-0.89	0.56	-0.69	0.70	-0.09	0.05	0.67	-0.60	-0.75	0.58	1.64
2017	0.20	0.72	-0.04	0.82	0.84	-0.01	0.43	0.90	-0.41	0.10	-0.10	0.47
2016	1.09	0.69	1.22	0.62	0.25	1.66	0.72	-0.01	-0.01	-0.58	-2.14	0.06
2015	2.16	-0.88	0.45	-0.25	-0.28	-1.04	0.51	-0.18	0.59	0.15	-0.19	-0.42
2014	1.74	0.64	-0.01	0.92	1.24	0.09	-0.04	1.11	-0.62	0.88	0.70	0.24

AUM Growth (\$Millions)



Author: Maggie Hoy
 Reviewer: Misty Watson

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Dodge & Cox

Dodge & Cox Core Fixed Income

Asset Class:	Fixed Income	Verus IQ Rating:	IQ2
Sub-Asset Class:	Core Plus	Flag:	No Flag
Strategy Inception:	1/1/1978	ESG Rating:	C
Benchmark:	Bloomberg US Aggregate	Emerging Diverse:	N/A
Performance Objective:	No stated performance objective	Risk Objective:	No stated risk objective

Executive Summary

Dodge & Cox's Core Fixed Income strategy strives to achieve long-term, above-benchmark returns by building high quality portfolios that typically have a higher yield than the overall market. Top-down macro-economic analysis does not play a primary role in the investment process. The team primarily utilizes investment grade bonds in their clients' portfolios; however, high yield bonds will be used opportunistically and as permitted by client guidelines (typically 10-15%).

We view the organizational stability, tradition and alignment characteristics of Dodge & Cox's fixed income effort to be robust and differentiated. The committee-based portfolio management function is also unique versus other fixed income peers which may have named portfolio managers assigned to various strategies. As part of the team's goal to out-yield the benchmark, the strategy tends to have a strategic underweight to Treasuries. While this isn't necessarily unique across Core Plus strategies, Dodge & Cox tends to utilize credit-related sectors as its main source of spread duration.

The strategy tends to have a structural overweight to credit and a short duration bias. More recently, the strategy's defensive duration position has impacted performance based on movement in rates. The portfolio's duration positioning tends to be dynamic, but based on the low interest rate environment, rates rising would benefit relative performance.

The strategy can be expected to perform well during periods of improving economic activity which typically result in credit spreads narrowing. During periods of market dislocation, the strategy may experience higher volatility due primarily to the significant underweight to US Treasury bonds.

Firm Assets:	\$322,933.19MM	Separate Accounts:	Available
Strategy Assets:	\$83,792.08MM	Commingled Vehicles:	N/A
Location:	555 California Street San Francisco California, 94104	Mutual Funds:	Available
Key Persons:	Team-managed	Status (Open/Closed):	Active

Alignment - The investment product is supported by a robust and stable organizational and team structure.

Description

Established in 1930, Dodge & Cox is an independent investment management firm operated out of a single office located in San Francisco, CA. In the firm's early years, the firm managed assets for individuals and families in separate accounts and the Dodge & Cox Balanced Fund, which was established in 1931. As the firm's reputation grew in the 1950s and 60s, Dodge & Cox began to work with institutional clients, initially on the West Coast, but eventually nationwide. Today, institutional clients represent a substantial portion of the firm's asset base. Dodge & Cox provides equity, fixed income and balanced account management services for their clients. Ownership is limited to active employees of the firm; currently, there are over 75 shareholders.

Compensation of all employees of Dodge & Cox includes a base salary, plus a discretionary bonus based on a number of factors including the profitability of the firm and the individual's long-term contribution to the firm. In addition, Dodge & Cox has a profit sharing plan funded at the maximum allowable amount. Key professionals also have the opportunity to become shareholders of Dodge & Cox, generally after six to eight years of employment with the firm. Dodge & Cox believes that this is a powerful incentive for attracting and retaining high-caliber, long-term employees, and it has contributed to a low level of personnel turnover throughout the firm's history. The determination and distribution of equity ownership is based upon the individual's contribution to the firm's success.

The 52-member fixed income department, led by Dana Emery and Tom Dugan, is comprised of investment professionals representing all major segments of the fixed income markets (credit, securitized, Treasury, municipals, non-US markets), macroeconomists, client service professionals, and administrative support personnel. The department works closely with the firm's in-house global industry analyst team, which conducts both equity and credit research on companies and industries worldwide. The firm's US Fixed Income Investment Committee (USFIIC), which averages 20 years at Dodge & Cox, is considered the "portfolio manager" for the core fixed income strategy, and is responsible for the portfolio management decisions of the strategy.

Justification

Dodge & Cox has several characteristics which set them apart from other fixed income managers. The 90+ year old employee owned firm has committed to providing employees of the organization ownership which we believe aligns the interests of investment professionals and investors. There are very few fixed income firms which have this level of broad employee ownership. Additionally, the fixed income platform has been led by a very stable and experienced team of investors over the course of the firm's history. Dodge & Cox has been thoughtful about succession planning as they operate the firm and all investment committees on a team basis. As a result of the team-based approach, management succession and transition issues have been handled smoothly over the life of the firm. We are also confident that the team-based nature of the process also supports the organizational stability.

Edge - The manager has articulated an inefficiency or market-based belief that informs its process.

Description

Dodge & Cox's fixed income philosophy is to construct and manage a high quality, diversified portfolio of securities that are selected through bottom-up, fundamental analysis with a focus on valuation. The team believes that by combining fundamental research with a long-term investment horizon, it is possible to uncover and act upon inefficiencies in the valuation of individual securities. When this fundamental research effort is combined with a disciplined program of risk analysis, Dodge & Cox believes attractive returns are possible over the long-term. In an effort to consistently apply this investment approach over time, the team:

- * Emphasizes valuation and individual security selection
- * Strives to build portfolios that have a higher yield than that of the client's benchmark
- * Analyzes portfolio and individual security risk

Fundamental research is central to the investment process. Credit research focuses on analysis of the fundamental factors that impact an individual issuer's creditworthiness. Dodge & Cox also considers economic trends and special circumstances which may affect an industry or a specific issue or issuer. At the security level, research emphasizes the structural characteristics of individual securities, e.g., sinking funds, put and call options, and, for mortgage securities, the effects of changing prepayments speeds. The purpose of research is to identify securities that they believe will provide a relatively high and predictable stream of income and opportunities for attractive relative price performance. An extended investment horizon enables the team to take advantage of short-term uncertainty in an effort to maximize long-term performance.

The sector allocation decision is based upon the relative value merits of the particular securities that comprise the various sectors. In selecting securities within a given sector, research seeks to determine whether the incremental yield of the securities within this sector is sufficient compensation for assuming the associated risks. The relative weightings of these sectors will depend upon the analysis of the total return prospects, over longer time periods, of the individual securities within the sector. Adjustments to the sector weightings will typically be gradual and incremental in nature.

The team typically constructs portfolios with the goal of generating a relatively high, sustainable income stream without assuming undue levels of risk. Though it is rarely critical in any single year, the compounding of this income can have a significant positive effect on the total return of a fixed income portfolio over longer periods of time.

Another important aspect of their fixed income management process is the analysis of risk, both at the individual issuer/security and portfolio level. At the issuer/security level, the primary concern is the potential for permanent loss of capital. As such, Dodge & Cox's primary risk management tool is detailed fundamental analysis, with an emphasis on downside scenario and liquidity analysis. Portfolio level risk is assessed on the basis of overall exposure to individual issuers, sectors, and themes, and the team employs qualitative and quantitative methods to evaluate the exposure of portfolios to various sources of total return variability over time. In this context, the team continually strives to improve the potential return and lower the overall risk of the portfolios.

Dodge & Cox has operated with the same basic investment philosophy since the firm's founding in 1930. The team believes this philosophy – investing for the longer term based on thorough fundamental research and a strict valuation discipline – is appropriate in all market environments.

Justification

We view the organizational stability, tradition and alignment characteristics of Dodge & Cox's fixed income effort to be robust and differentiated. The committee-based portfolio management function is also unique versus other fixed income peers which may have named portfolio managers assigned to various strategies. As part of the team's goal to out-yield the benchmark, the strategy tends to have a strategic underweight to Treasuries. While this isn't necessarily unique across Core Plus strategies, Dodge & Cox tends to utilize credit-related (both investment grade and non-investment grade) sectors as its main source of value-add. The strategy also tends to have a perpetual short duration bias, which is a differentiator versus peers. Overall, we view that the strategy has for the most part been successful in avoiding uncompensated risk while providing strong risk-adjusted returns, as evidenced by their Sharpe ratio over the long-term.

Implementation - The manager has described an investment approach which is sensible, repeatable.

Description

For all of the firm's fixed income strategies, the US Fixed Income Investment Committee (USFIIC) serves as the portfolio manager and is ultimately responsible for portfolio-level oversight within the bottom-up investing framework. As the portfolio manager for the core fixed income strategy, the USFIIC is responsible for setting portfolio strategy and overseeing implementation of approved investment decisions. The process is team-based and deliberative, consisting of three primary phases: idea generation and initial research; sector committee review/discussions/approval; and review/approval by the USFIIC. The duration of each phase will vary with each investment under consideration.

The first phase of the investment process involves the generation of investment ideas by the fixed income team (analysts and traders) and global industry analysts (a critical shared resource between the equity and fixed income portfolio management teams). Informal dialogue between these groups typically turns into formal research advocacy when attractive valuation and favorable fundamentals meet opportunity, either through new issuance or on the secondary market. Analysis focuses on issuer fundamentals, with a particular emphasis on downside outcomes, terms and structural features of securities, and the perception of security valuation relative to the risks assumed. All primary research and analysis is conducted by the team of fixed income analysts, who tend to focus on corporate structure, issuer liquidity, and downside outcomes, and industry analysts, who have global company and sector coverage responsibility that informs Dodge & Cox's investment in both equity and debt securities. This structure offers broad, deep insight into investment opportunities, enabling the team to take a long-term perspective and providing greater confidence in the research underpinning investment decisions.

The second phase of the investment process entails formal presentation of the proposed investment by subject matter experts at the credit and/or structured products sector committee level. Sector teams are comprised of the analysts and traders specializing in that sector, as well as senior investment team members, and are joined by other investment team members (e.g., macro analysts or industry analysts with unique insight into the sector or issuer) when appropriate. The trading team is also deeply involved in the process for vetting the attractiveness of opportunities within the credit sector. At the committee meetings, information that has been gathered through the initial research process is shared and discussed with team members. At this stage, the focus is on the absolute risks, opportunities, and portfolio implications associated with the investment proposal. A typical meeting will include a presentation of the investment merits of the idea, review of the issuer's financials (if a credit investment) and the analyst's financial projections across various scenarios, with particular attention paid to the downside case. Assumptions are scrutinized and debated, and the investment is stress-tested over a broad range of interest rate, spread, and (if applicable) prepayment environments. Market considerations (supply, execution ability) are also addressed. Frequently these meetings end with a number of follow-ups for analysts or other team members - additional findings are typically presented at a future sector committee meeting or via an internal communication to committee members. These sector-level meetings occur weekly, or more often as warranted. Committees also formally review strategy and portfolio positioning within their respective sector, periodically, reporting up to USFIIC, and receive formal updates on existing holding when new information has come to light which may affect our investment thesis (e.g., material price change, rating change, upcoming corporate action, etc.).

Once an investment idea or proposed action is approved at the sector committee level, the recommendation is presented to the relevant investment committee (USFIIC serves that purpose for the broad US fixed income strategy). The USFIIC is comprised of senior members of the fixed income group. Importantly, significant overlap among committee members facilitates efficient information flow; sector and USFIIC discussions often occur simultaneously,

especially when an expedited response is required (as in a new issue situation). The primary responsibilities of the investment committee are as follows:

- * Set and review fixed income investment strategy
- * Oversee the fixed income research process
- * Oversee the implementation of strategy across client portfolios

The team purchases securities only when 1) the analysis shows that they offer compelling relative value and long-term total return potential, and 2) they have the opportunity to establish a meaningful position in the securities at those valuations. If both criteria are met, the investment idea is approved and implemented across all eligible portfolios on an equitable basis. The fixed income traders have the discretion to implement the approved strategy by selecting the most attractive securities within the approved issuer/structure/program.

Existing holdings are monitored on an ongoing basis. Securities are generally sold when the analysis shows that the team is no longer being compensated for the security's risks, the risk/reward profile of an alternative investment is more compelling, or a sale is mandated by a change in the needs or objectives of the client. As in the case with new investments, the decision to sell an existing holding generally goes through an extensive review process.

Justification

We believe that Dodge & Cox has been successful in implementing their process over time, even in periods where the strategy may be out-of-favor (i.e. periods of market dislocation and flight-to-quality). While we do not believe that the philosophy or process of the strategy is necessarily unique given that most core plus managers use a similar toolkit (duration, yield curve, sector, security, etc.) to add value, we believe that the team has been consistent and diligent in applying this philosophy through the various market environments over the strategy's long history. The firm's portfolio management style via committee alleviates key person risk and allows for collaboration and diversity of opinions and ideas.

Optimal use of risk - The manager has an effective framework to assess and manage risk inherent in its process.

Description

The team's risk analysis focuses on future performance rather than on historical relationships measured by tracking error and other ratios. The team does not constrain themselves to thinking of risk relative to a benchmark. Rather, they view risk first and foremost as the potential for permanent loss of capital. Portfolio risk analysis and mitigation is an important aspect of the fixed income management process. Risk management begins at the security level and is thoroughly integrated into the investment process. Dodge & Cox believes that thoughtful analysis of a fixed income security involves understanding and evaluating the security's exposure to various sources of risk and estimating the incremental yield compensation that should be earned for assuming each risk.

At the strategy level, portfolios are constructed so that many different investment ideas are featured and there is no undue reliance on a single investment theme or economic/market outcome. Within the credit sector, portfolios will typically hold 40-60 issuers, with typical position sizes ranging from 0.5% to 3% of the total portfolio (though subject to change). The number of holdings within the mortgage sector will vary depending on the size of the individual holdings and age of the separate account; older portfolios will typically hold a greater number of issues as MBS pools pay down and new pools are purchased. Although the team does not have any fixed limits on corporate industry concentrations, in general they would not have greater than 15% in a given industry. In general, the team identifies four types of security risk – credit risk, structural risk, interest rate risk, and liquidity risk – as they evaluate how much

additional yield should be earned from investing in a “risky” security as compared to a comparable-duration US Treasury that does not have credit or call risk.

Historical exposure ranges for discretionary core fixed income accounts have been: 5-30% US Treasury; 5-10% government-related (non-mortgage); 30-50% corporate, with another 5-10% in “non-corporate credit” holdings (e.g., taxable municipals, non-US government-related issuers); 30 - 50% mortgages (US Agency, US GSE, private label); 0 – 10% asset-backed securities.

Justification

We believe that the risk management function at the firm is robust and sound. The team has tools and resources at its disposal to efficiently and effectively manage risks at the strategy level and in individual client portfolios. More granular, on a portfolio level, we view that the team has processes to effectively manage interest rate risk, credit risk, liquidity risk and structural risk. Guidelines and historical exposure ranges make sense given the strategy's mandate.

Understandable Performance - Historical and future performance sensitivities are consistent with the manager’s process.

Description

The strategy tends to deviate from the US Aggregate’s sector weightings, with the team preferring to overweight investment grade credit and underweight US Treasury and Agency MBS exposures. The strategy can be expected to perform well during periods of improving economic activity which typically result in credit spreads narrowing. During periods of market dislocation, the strategy may experience higher volatility due primarily to the significant underweight to US Treasury bonds.

Dodge & Cox expects that security selection and asset allocation (overweight to corporates/underweight to US Treasuries) to drive performance. This typically leads to outperformance in periods of spread tightening and the reverse in a widening environment. The team’s security selection (in both credit and structured products) has historically generated a yield advantage over the benchmark, which the team believes helps drive outperformance over a full cycle. More recently, the strategy's defensive duration position has impacted performance based on movement in rates. The portfolio’s duration positioning tends to be dynamic, but based on the low interest rate environment, rates rising would benefit relative performance.

Justification

We view performance as sensible given the overall approach and opportunity set employed by the team. The strategy has experienced positive performance over the past several years and annualized performance for the past ten years has ranged between 30-100 bps excess return over the Bloomberg Barclays US Aggregate. Though the strategy does not have stated return or risk objectives, the team has been able to generate positive risk adjusted performance as evidenced by the Sharpe ratio, which has been well over 1.0 over the last ten years and since inception. The strategy tends to have a beta of 0.9 with a tracking error of ~175-300 bps versus the index. The strategy also has demonstrated an attractive upside market capture/downside market capture ratio since inception (~104/75), showing that the team is able to slightly outperform in up markets and protect capital in down markets. Given that the strategy tends to be overweight credit and shorter duration versus the Agg, it tends to do well when credit spreads tighten and when rates rise.

The manager has described an integration of ESG into their investment philosophy.

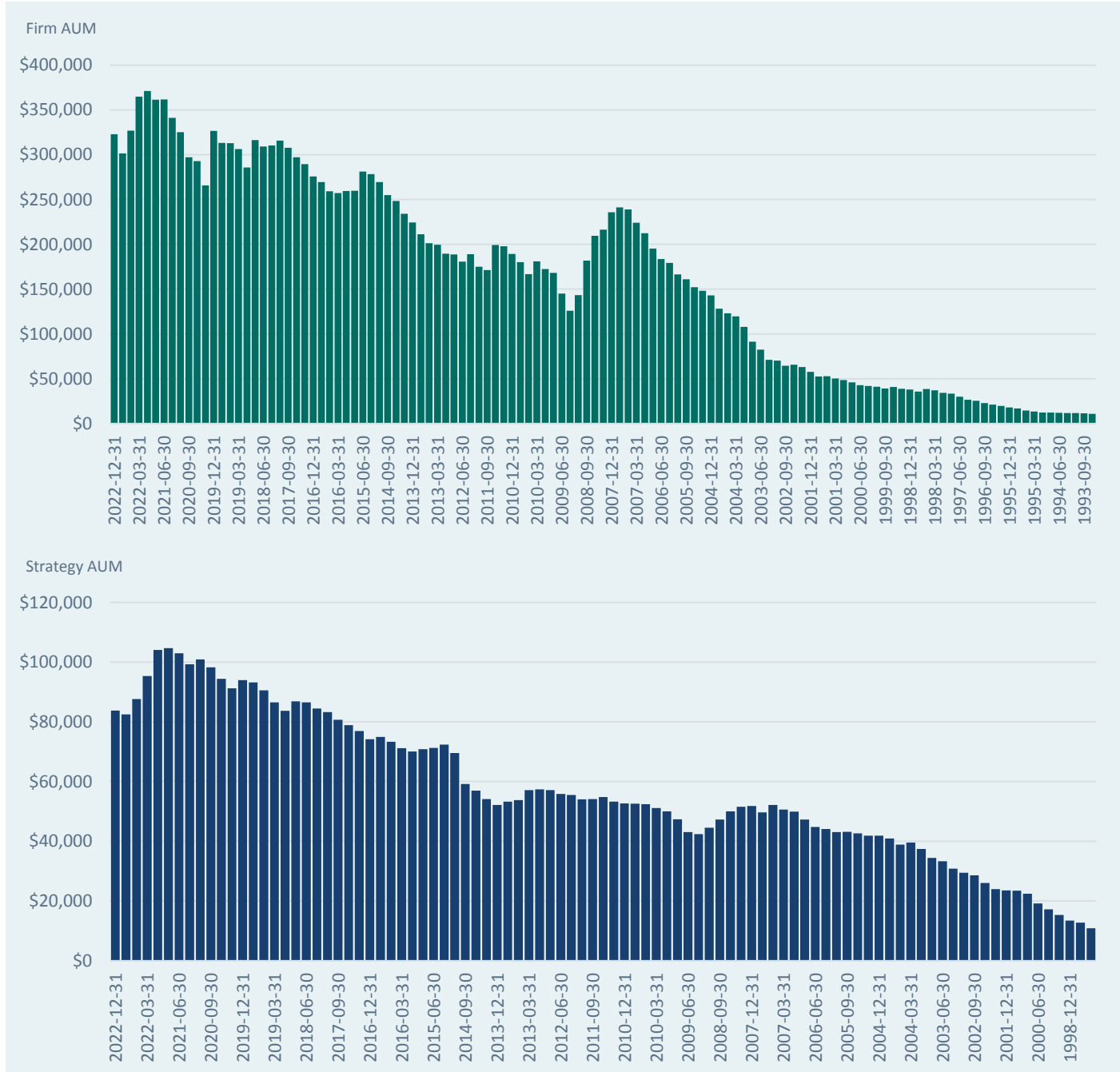
Justification

While the team does consider ESG factors as part of its issuer analysis, we don't view this as a meaningful part of the process at this time.

Monthly Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2023	3.69	-2.29	-	-	-	-	-	-	-	-	-	-
2022	-1.92	-1.38	-2.00	-3.24	0.70	-2.19	2.63	-2.33	-4.22	-1.00	4.14	-0.33
2021	-0.41	-1.10	-1.03	0.99	0.21	0.77	0.84	-0.14	-0.60	-0.28	-0.28	0.13
2020	1.57	0.91	-3.12	2.97	1.62	1.28	2.06	-0.27	-0.30	-0.07	1.98	0.56
2019	1.51	0.45	1.70	0.51	0.73	1.52	0.50	1.65	-0.07	0.42	0.14	0.28
2018	-0.36	-0.73	0.20	-0.44	0.22	-0.11	0.52	0.22	-0.11	-0.75	-	1.05
2017	0.37	0.73	0.08	0.66	0.73	0.11	0.73	0.36	0.03	0.14	-0.07	0.41
2016	-0.07	0.15	2.29	1.34	-0.22	1.51	1.09	0.58	0.11	-0.14	-1.66	0.57
2015	1.31	-0.29	0.27	-	-0.22	-0.97	0.29	-0.81	-0.30	1.05	-0.07	-0.83
2014	1.33	0.95	0.02	0.88	1.01	0.29	-0.22	0.87	-0.64	0.65	0.50	-0.27

AUM Growth (\$Millions)



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