WURTS ASSOCIATES

MEMORANDUM

To: The Board of Trustees, Fresno County Employees Retirement Association

From: Jeffrey MacLean, CEO

Date: April 30, 2014

Re: Fixed Income Management, Portfolio Disaggregation

Background

One of the primary characteristics of the newly approved asset allocation is a portfolio that relies more heavily on relatively stable cash flows rather than uncertain capital appreciation for total return. Accordingly, the new asset allocation includes dedicated allocations to Investment Grade Credit (5%), High Yield (5%), and Global Sovereign bonds (7%). Conversely, the new strategic allocation does not include an allocation to the core fixed income asset class, benchmarked to the Barclays U.S. Capital Aggregate Bond Index. As such, the current structure of three multi-sector generalist managers needs to be "disaggregated." Given FCERA has longstanding relationships with three fixed income managers who have demonstrated consistent strong relative performance within the constraints of their respective investment guidelines, the objective of this memo is to provide an evaluation as to the suitability of these three legacy managers for the newly defined sector mandates.

Wurts & Associates has reviewed the existing managers' teams, philosophies, processes, and performance track records in order to identify their comparative strengths across each of the new fixed income sectors. We believe that each of the current managers are capable and deserving of consideration for these newly defined sector mandates. After reviewing each firm's comparative strengths as well as the universe of other "best-in-class" managers, Wurts & Associates believes the following existing FCERA fixed income managers are well-suited to manage the following mandates:

- Loomis Sayles: High Yield Bonds
- Western Asset Management: Investment Grade Credit
- BlackRock: Global Sovereign

High Yield Bonds: Loomis, Sayles & Company

Within the High Yield credit space, there are a number of strong firms with stable teams and enviable track records. More recently, as investors demanded higher yielding assets for their portfolios, there has been a marked influx of firms offering new high yield strategies. While these strategies may be managed by reputable firms, Loomis has been a high yield manager for more than twenty years and we believe that they are a strong choice to execute a high yield mandate.

Firm Description

Loomis, Sayles and Company have been providing investment management services since 1926. Headquartered in Boston, the firm has grown to more than $200 billion in assets under management. The Loomis High Yield team is an integral part of the organization managing in excess of $88 billion across multiple strategies and more than $10.7 billion in the Full Discretion strategy as of December 31, 2013.

Loomis is a subsidiary of NATIXIS Global Asset Management. As the company has continued to grow, the firm has expanded its footprint and now maintains a global perspective with offices in Boston, San Francisco, London and Singapore. Loomis has developed a reputation within the investment community for their in-depth credit research and security selection processes, which are designed to add value though active security selection and sector rotation.

Team

The Loomis High Yield Full Discretion team is headed by Dan Fuss, with co-PM responsibilities shared by Matthew Eagan and Elaine Stokes. Mr. Fuss has led the strategy since its 1989 inception; Mr. Egan joined the firm in 1997 and Ms. Stokes joined in 1986. The team uses a centralized approach in which the portfolio managers are responsible for all portfolio allocation decisions. Portfolio management is supported by the firm's highly-regarded credit research team. The credit research group is represented by more than forty-five investment professionals, with an average of twenty years of industry experience for senior analysts, and additional sector specific teams. The credit teams are organized by industry and are responsible for approximately 2,000 issuers spanning investment grade to unrated high yield credits. Additionally, the team is well-supported by the firm's robust risk management, trading and compliance infrastructure.

Mr. Fuss, age 80, is the Vice Chairman of Loomis Sayles' Board of Directors and has been with the firm for approximately 38 years. The risk that Mr. Fuss may depart in the future is mitigated by the fact that he is supported by Mr. Egan and Ms. Stokes, both of whom are long-tenured with the firm with considerable industry experience. Mr. Egan and Ms. Stokes serve as co-Heads of the Full Discretion team.

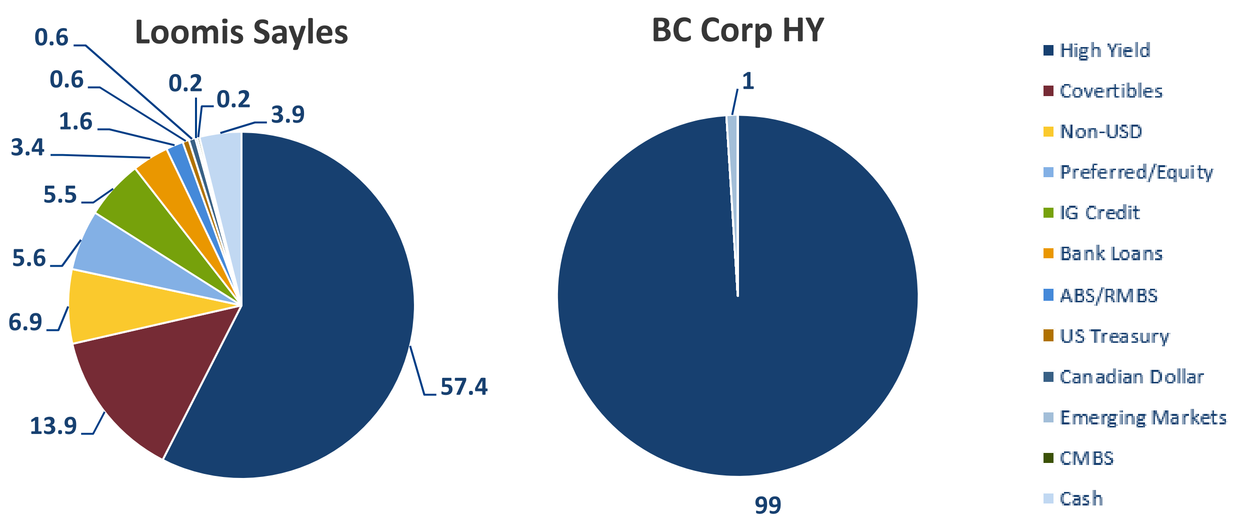
Philosophy

The Loomis team utilizes a bottom-up, fundamental security selection process to identify investments and sector allocations in combination with the firm's top-down, macroeconomic viewpoints in order to generate returns. The standard strategy is run in a total return manner with broad guidelines allowing significant flexibility and the inclusion of off-benchmark securities such as emerging market bonds, non-US dollar bonds and investment grade corporate bonds as well as convertible bonds and preferred securities. The value-driven, opportunistic approach to "bond picking" results in a diversified portfolio with a bias toward mispriced securities or credits, which the firm's analysts believe may be candidates for credit ratings increases in the future.

Performance

Performance relative to the Barclays US Corporate High Yield benchmark has been strong across all time periods (see table below). Relative to the strategy's peers, Loomis continually ranks in the top-quartile of high yield managers over the 1-year, 3-year and 5-year periods, and has generated top-decile performance over the trailing 10-year period. As would be expected, given the strategy's ability to take off-benchmark exposures, the portfolio also reflects higher volatility than the benchmark (8.2 vs. 6.5), while maintaining a beta roughly of 1.0 over the trailing five years. During the drawdown of 2008, for example, the strategy slightly underperformed the benchmark by 106 basis points, but rebounded strongly in 2009 and outperformed by 166 basis points.

Annualized Returns (Period Ending March 2014)						
	MRQ	Trailing 1 Year	Trailing 3 Year	Trailing 5 Year	Trailing 7 Year	Trailing 10 Year
Loomis Sayles (gross)	4.0%	9.0%	9.7%	19.8%	9.6%	9.9%
Barclays US Corp. HY	3.0%	7.5%	9.0%	18.2%	8.7%	8.7%
Difference (from gross)	1.0%	1.5%	0.7%	1.6%	0.9%	1.2%



Conclusion
Wurts & Associates frequently recommends the Loomis Sayles Full Discretion High Yield bond strategy to our clients. The team at Loomis Sayles, headed by Dan Fuss, has a long track record of providing value through their bottom-up fundamental approach to security selection. Given our familiarity with this team and product and Loomis' existing relationship with the Plan, we are comfortable recommending the high yield investment management mandate to Loomis Sayles. We have attached the most recent strategy summary for additional information; however, if the Board decides to conduct a manager search, we would include the Loomis Sayles strategy as part of our comparative analysis for discussion at the next meeting.

Investment Grade Credit: Western Asset Management Company

Managers within the Investment Grade Credit sector are required to have not only deep, experienced and capable teams, but significant resources devoted to performing the necessary exhaustive fundamental credit analysis. We believe Western Asset Management Company (WAMCO) has demonstrated over long periods of time and through various market cycles the ability to successfully manage investment grade mandates. As such, we believe WAMCO is a strong choice to manage FCERA's Investment Grade Credit mandate.

Firm Description
Western Asset Management Company (WAMCO) was founded in 1971 by United California Bank. In 1986, the firm was acquired by Legg Mason, Inc. and continues to operate as part of the firm's portfolio of investment managers. Headquartered in Pasadena, the firm has continued to grow, with more than 800 employees and offices in eight countries around the world. As of December 2013, the firm manages in excess of $451 billion in fixed income assets, with more than $16 billion invested in dedicated Investment Grade fixed income strategies.

Team
The firm is led by CIO Ken Leech who also chairs the firm's Global Investment Committee (GIC). The GIC develops the firm's macroeconomic viewpoints and identifies broad themes in the global economy. Within the framework provided by the GIC, the Global Credit Committee (GCC) then identifies the desired credit sector allocations for the firm's strategies. The GCC is comprised of senior portfolio managers and sector specialists across the firm and leverages this deep and experienced team to source new investment ideas. Credit portfolio management teams oversee risk allocation and overall portfolio positioning within the sectors identified by the GCC, leveraging the dedicated sector teams that direct the industry/issuer positioning within the portfolio allocation and perform security analysis. Finally, the Risk Management group is responsible for ensuring that the resulting portfolio allocations follow established processes and guidelines with regard to the specific industry/issuer.

Philosophy

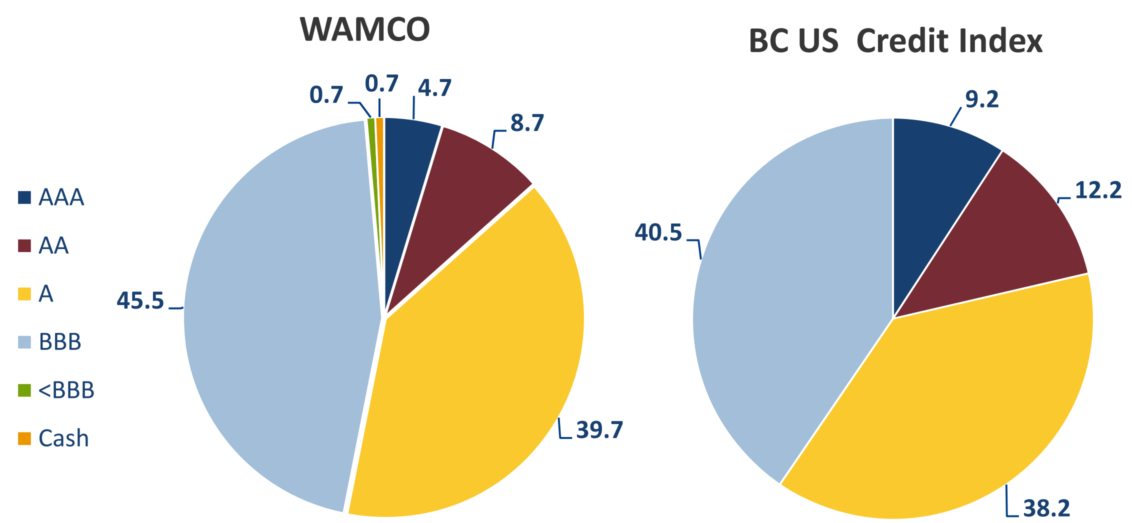
The WAMCO team combines top-down views and bottom-up research with an emphasis placed on fundamental relative value analysis. The security selection process incorporates both top-down, macroeconomic viewpoints in addition to specific sectors identified by the credit teams in an effort to identify mispriced securities and capture incremental capital appreciation in addition to coupon yields. The strategy is run in a total return manner with flexibility to allocate among the sectors within the Barclays US Credit Index. The combination of relative value-driven and opportunistic approaches results in a diversified portfolio that leans toward sectors and issuers that the firm's credit specialists believe are well positioned within their respective industries and are expected to perform well over long market cycles.

Performance

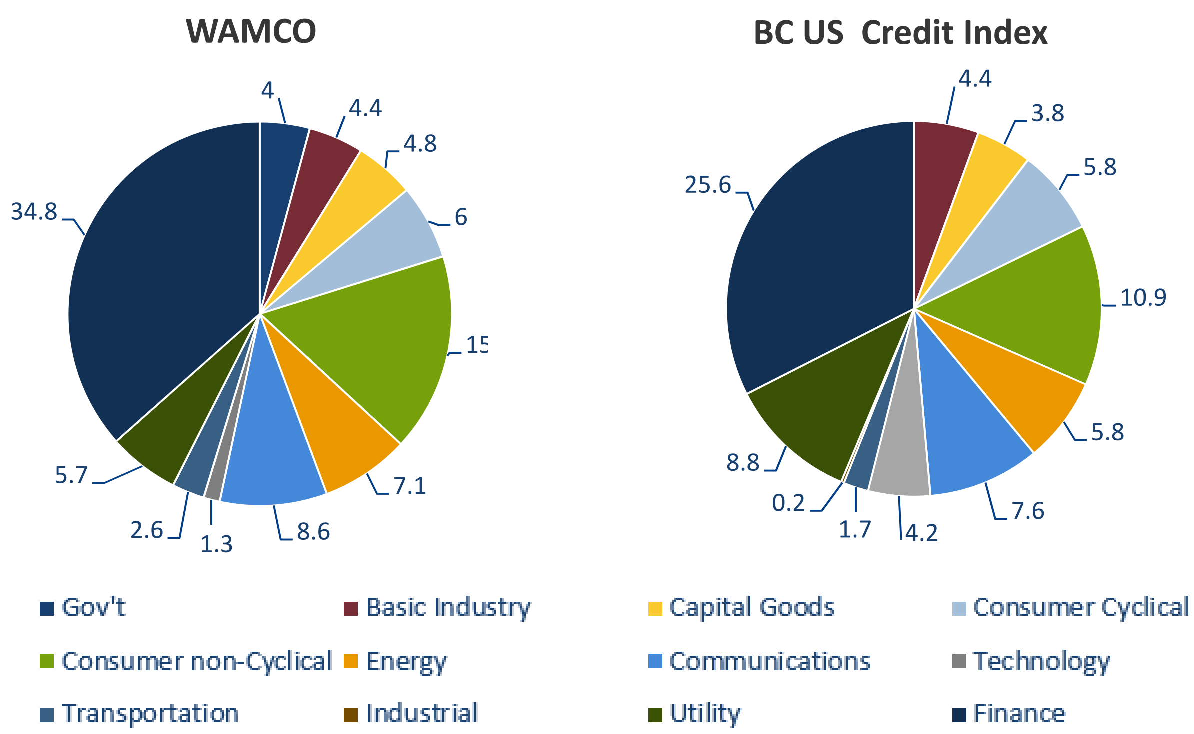
The WAMCO Investment Grade Credit composite has consistently added value relative to the Barclays US Credit index over all trailing periods as of March 2014. Relative to the strategy's peers within the eVestment US Corporate Fixed Income universe, the composite's returns have been in the second quartile over the trailing 3-year and 5-year periods. Longer-period returns relative the benchmark and the peer universe are comparable, stemming primarily from the firm's significant underperformance during the 2008 market selloff. During this period, the firm was overweight to lower credit quality corporate credit as well as off benchmark allocations with a general underweight to US Treasury bonds. While performance did recover strongly the following year, the experience exposed some weakness in risk management that the firm has since dedicated resources to improve. Since then, the firm has moved to employ a more robust risk management process with the goal of providing better insight and information to portfolio managers in order to limit and mitigate portfolio risks.

Annualized Returns (Period Ending March 2014)						
	YTD	Trailing 1 Year	Trailing 3 Year	Trailing 5 Year	Trailing 7 Year	Trailing 10 Year
WAMCO (gross)	2.9%	2.0%	6.7%	11.7%	6.2%	5.5%
Barclays US Credit Index	2.8%	1.0%	5.8%	8.9%	6.1%	5.2%
Difference (from gross)	0.1%	1.0%	0.9%	2.8%	0.1%	0.3%

Credit Ratings



Sector Exposures



Conclusion
WAMCO is widely recognized as one of the largest, highly resourced bond managers in the industry. The credit team at WAMCO has demonstrated the ability to generate positive excess returns relative to the benchmark while posting solid performance against the peer universe. The team, headed by Ken Leech, is deep and experienced, having managed investments through multiple business cycles. Based upon the performance results of the strategy and the firm's history of successfully managing institutional investments within the space, we believe WAMCO is best suited amongst the existing FCERA managers for the Investment Grade Credit mandate. Attached is the strategy summary for more information. If the Board decides to conduct a search for this mandate, Wurts would include WAMCO along with other candidates for evaluation at the July or August Board meeting.

Global Sovereign Bonds: BlackRock

The Global Bonds space is characterized by a large number of players but only a handful that have the scale and footprint to continually reinvest in the people, infrastructure and required resources for successful execution. We generally view the space as comprised of managers who focus on Sovereign Only (Global Rates); those who focus primarily on developed markets but include some credit exposure within constrained limits; and those that pursue a largely unconstrained global mandate that allows broad currency positions and even emerging market corporate debt positions. We believe a Sovereign Only or constrained Global Credit approach is most appropriate for the Plan and within these categories, BlackRock compares favorably alongside Brandywine, Colchester and Franklin Templeton, as examples of other capable managers in the space.

Firm Description
Since 1988, BlackRock has grown to become the largest provider of institutional investment and risk management services across multiple asset classes, with assets under management in excess of $4 trillion. The Global Bond team manages in excess of $33 billion, of which $5 billion are allocated to dedicated global bond portfolios with various degrees of customization. Headquartered in New York, the firm serves clients globally with offices in twenty-four countries and more than sixty cities around the world. Today's firm is the result of two significant acquisitions: the firm acquired Merrill Lynch Investment Managers in 2006 and Barclays Global Investors in 2009. The company is publicly owned, with the stock trading on the NYSE under the symbol: BLK. As of December 2013, PNC Financial Services Group is the largest majority shareholder with roughly 22%.

Team
The Global Bond team is headed by the firm's Deputy CIO of Fundamental Fixed Income, Scott Thiel and managed day-to-day by the portfolio managers who are responsible for top-down allocations and risk management; they in turn rely on the firm's sector investment teams to analyze and execute bottom-up security selection. The individual sector portfolio managers focus on specific regions and/or sectors and assist with sourcing and developing new investment themes and ideas. The firm's Global Sector Specialists are responsible for sector oversight, research, analysis and individual security selection. As head of the team and a Managing Director

with the firm, Mr. Thiel has been with BlackRock for more than twelve years, and has more than twenty-five years of industry experience. The six sector portfolio managers have an average of approximately ten years of industry experience. Additionally, the team is also supported by the firm's highly regarded risk management, trading and compliance infrastructure, including their proprietary Aladdin platform which is used broadly as a fixed income industry standard portfolio construction and risk management tool.

Philosophy

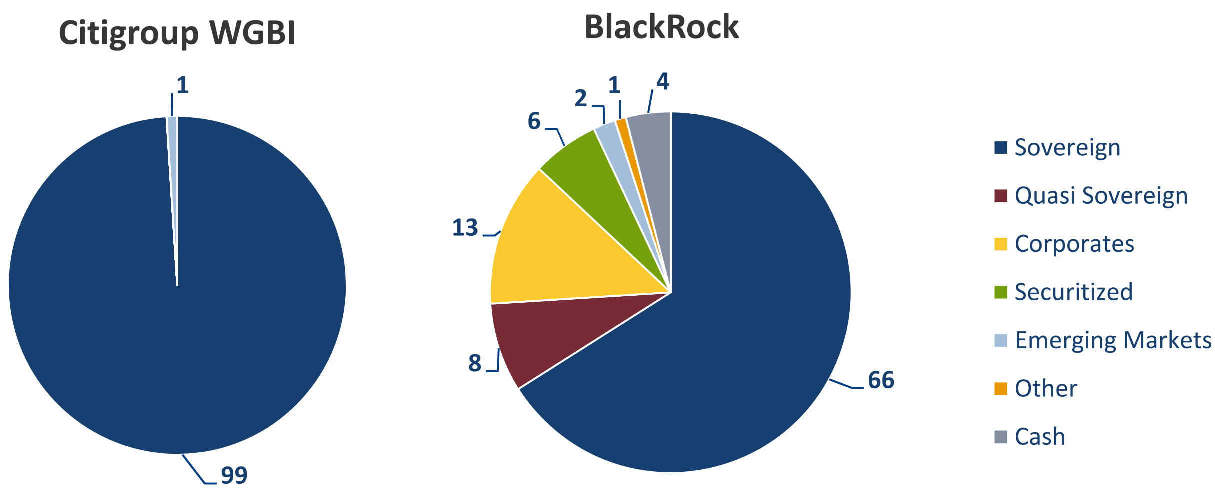
The BlackRock Global Bond team utilizes a combination of top-down macroeconomic themes and the firm's rigorous bottom-up fundamental research to identify securities. The strategy is designed to allocate risk to the highest quality, macro strategic alpha sources to provide strong risk-adjusted returns. The team encourages clients to customize the investment mandate and specify manager flexibility with off-benchmark allocations. Within the guidelines provided to the manager, the macro-thematic views drive overall portfolio exposures to global interest rates, inflation and growth forecasts and currency positions. Once defined, the sector specialists use the themes as guides in their analysis of securities, focusing on countries, sectors or industries in order to identify value. Securities are evaluated on their expected return and risk profiles.

Performance

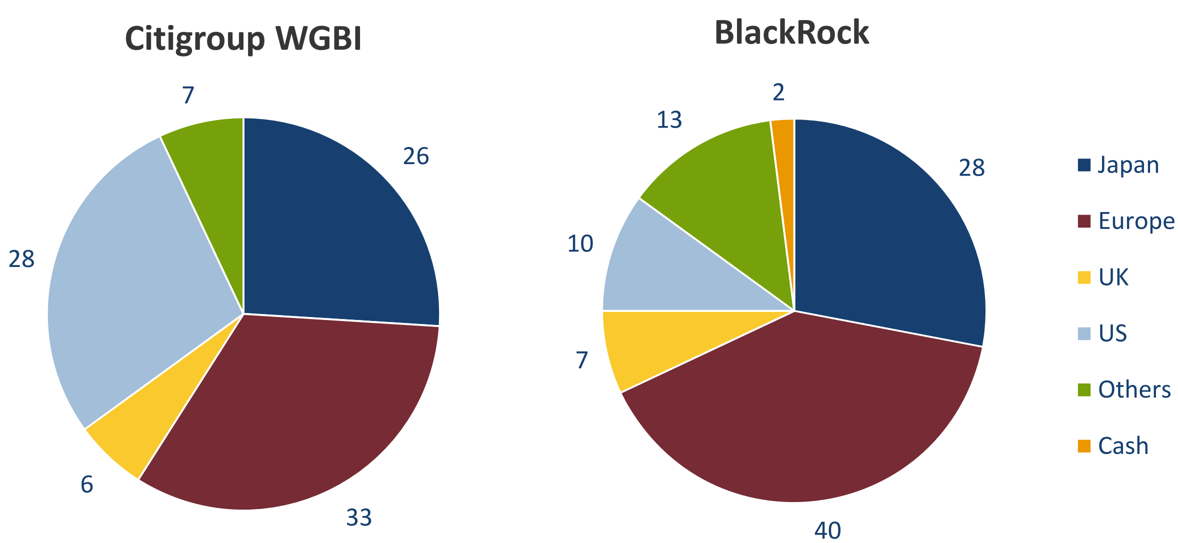
The BlackRock global bond composite has significantly outperformed the benchmark over trailing 1-year, 3-year and 5-year periods, with returns in the top-quartile of Global Government fixed income strategies, while also being additive over the longer 10-year period. The team manages currency exposures in addition to taking limited off-benchmark allocations to emerging market securities to generate alpha against the Citigroup World Government Bond Index (WGBI). The strategy significantly underperformed both the index and the peer group in 2008-2009 during which time it was pursuing a thematic overweight to securitized and credit spread risks which fared poorly during the financial crisis. However, as liquidity in those markets improved, the returns in the portfolio normalized and the strategy again continued to outperform the benchmark beginning in 2010.

Annualized Returns (Period Ending March 2014)						
	MRQ	Trailing 1 Year	Trailing 3 Year	Trailing 5 Year	Trailing 7 Year	Trailing 10 Year
BlackRock (gross)	2.7%	3.8%	5.4%	5.2%	4.8%	4.7%
Citigroup WGBI	2.1%	1.5%	1.9%	3.8%	4.9%	4.2%
Difference (from gross)	0.6%	2.3%	3.5%	1.4%	-0.1%	0.5%

Sector Exposures



Geographic Exposures



Conclusion

The Global Sovereign mandate is critical for achieving desirable interest rate exposure to a more highly diversified market of high quality government-related issuers compared to the BC Aggregate index. Whether the Board determines that an allocation to pure investment grade sovereign bonds is the desired profile (which today includes many emerging markets), or whether the Board chooses to specify a developed-only mandate and disallow exposure to emerging market bonds, a customized investment mandate will likely be the preferred investment vehicle. In the spirit of maintaining the existing relationship and as a result of our analysis of BlackRock's capabilities, we believe they are a good candidate to assume responsibility for managing the Global Sovereign Bond mandate. The firm has a deep and experienced team with a long historical track record of managing institutional assets in this space. However, in light of the recent personnel turnover and the relative performance issues stemming from the use of off-benchmark allocations, attached are strategy summaries for Brandywine, Colchester and Franklin Templeton for the Board's consideration as possible alternatives.

Next Steps

Once the managers have been selected, Wurts will work with FCERA staff and legal counsel to draft the necessary agreements and guidelines. We will then work to transition the portfolio into the new mandates in a manner that minimizes transaction costs.

WURTS ASSOCIATES
INSTITUTIONAL INVESTMENT CONSULTANTS

Manager Evaluation: Loomis Sayles
Loomis Sayles High Yield Full Discretion

Last Updated: April 2014

Strategy Basics

Asset Class:	High Yield
Investment Style:	Active
Firm Inception:	1926
Firm Assets:	$210 Billion
Strategy Inception:	January 1989
Strategy Assets:	$11.2 Billion
Min. Acct. Size, Sep. Acct:	$50 Million
Fee, Separate Account:	0.50%
Min. Acct. Size, Comm. Fund:	$5Million
Fee, Commingled Fund:	0.67% first $5M 0.50% thereafter
Min. Acct. Size, Mutual Fund:	$3 Million
Fee, Mutual Fund (LSHIX):	0.68%

Firm Background and History

In 1926, Robert H. Loomis and Ralph T. Sayles formed a partnership and established Loomis Sayles as an investment management company in Boston. Since inception, Loomis Sayles has been acquired several times by various firms and was most recently acquired in 2007 as a wholly-owned subsidiary of Natixis Global Asset Management. These changes did not impact the management or operation of Loomis Sayles.

The firm offers a wide array of investment products in all major sectors of the fixed income market. Today the firm has approximately $210 billion in total assets under management with the majority invested in various fixed income strategies. The firm employs 619 people, of whom 247 are dedicated investment professionals.

Strategy Background

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

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

Key Investment Professionals

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

Fixed Income Investment Team

Category	Total #	Avg. Experience
Portfolio Managers:	3	35
Sr. Credit Analysts[1]:	21	20
Securitized Asset Analysts:	7	13
Global Sovereign Analysts	5	22
Quantitative Analysts:	13	12
Traders:	26	N/A

[1] *Sr. Credit Analysts are supported by a team of 24 Credit Research Analysts and Associates.*

Kathleen Gaffney was a part of the three member portfolio management team for over ten years and recently left her position as co-portfolio manager to pursue other career options in October 2012.

In January 2014 Loomis Sayles hired Brian Hess from Brandywine Global Investment Management as a member of the Full Discretion team. Mr. Hess' focuses on specific non-U.S. developed and emerging markets sectors. Mr. Hess reports directly to co-head Ms. Stokes and Mr. Eagan.

Daniel Fuss, Director, Executive Vice President, Portfolio Manager

Mr. Fuss started his investment career in 1958 and joined Loomis Sayles in 1976. He serves as the Vice

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

Matthew Eagan, Vice President, Portfolio Manager

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

Elaine Stokes, Vice President, Portfolio Manager

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

Process

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

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

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

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

Risk Management

In assembling high yield portfolios, the high yield team monitors credit risk, duration, industry and issuer concentration, currency risk and concentration within bond market sectors among other factors. However, the only risk parameter that is strictly controlled in the portfolio is a maximum position size of 5%.

Additionally, Loomis has developed quantitative tools to help portfolio managers assess and monitor risk. RiskInsite is a real-time portfolio analysis tool with which portfolio managers can view sector and security weights, duration, coupon, maturity, quality, etc. on a stand-alone basis, benchmark-relative, or with respect to a group of accounts. The Loomis Sayles Global Risk Model uses historical correlation data and Sector Team forecasts, allowing portfolio managers to test various investment scenarios on a real time basis. The model addresses currency risk, yield curve risk, and spread expansion/contraction risk across the portfolio.

Potential Red Flags

As part of our ongoing due diligence, we will regularly review this product for potential "red flags" that could warrant a material reexamination of our recommendation.

The strategy does not have constraints on sector or industry exposures and the portfolio guidelines also allow for exposures to non-benchmark securities. However, historically the fund has been managed with relatively low tracking error to the BC High Yield Index (approximately 2% over the last seven year period). Additionally, separate account clients can voluntarily place sector, industry, or position constraints on the portfolio to limit these risks.

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

In October 2012, Kathleen Gaffney resigned from her role as portfolio manager to pursue other opportunities with another firm. Loomis has decided not to replace Ms. Gaffney given the long tenure of the team currently in place. Ms. Gaffney's departure raises key-person risk since she was viewed as a potential successor in the event Mr. Fuss no longer oversaw the strategy. Her departure raises the question of who will take over in the event Mr. Fuss leaves. This risk is someone mitigated by the long tenure of the other two portfolio managers Matthew Eagan and Elaine Stokes. However, when Mr. Fuss eventually leaves Loomis, it is likely to result in significant asset flows out of the strategy despite the remaining team's experience and potential ability to continue managing the strategy in the same manner.

Performance

Over the long term this strategy has consistently outperformed the BC High Yield index; the ten year annualized excess return as of March 31st, 2014 is 118 bps gross of fees. 2012 saw a rally returning 489 bps in excess returns, after underperforming by 270 bps in 2011, mainly due to equity-sensitive convertible bond holdings. This strategy tends to outperform when equities rally, thus over a longer time horizon excess return is likely to be enhanced in bullish markets based on the strategy's equity sensitivity.

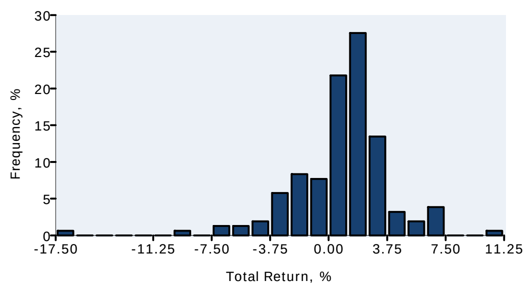
Recommendation

Wurts & Associates believes the Loomis Sayles High Yield Full Discretion Strategy is a strong candidate. Though the strategy is broadly defined with very few guideline restrictions, the overall process has remained consistent over the last twenty years. Centralized operations in Boston is an added advantage by co-locating the trading, research, finance, operations, and compliance teams within close proximity to each other. Also, the senior management team has been very stable over time and the performance track record for the fund has been strong. Clients that are comfortable with volatility that is comparable to the benchmark with potentially higher drawdowns but with more alpha opportunities due to out-of-benchmark holdings will find this strategy a good fit. This strategy should be considered a long-term investment.

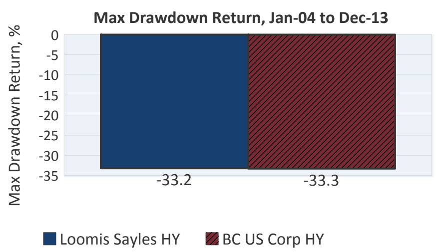
Loomis Sayles HY

Performance Evaluation	Date as of	Benchmark	Universe
	December 31, 2013	BC US Corp HY	US High Yield Universe

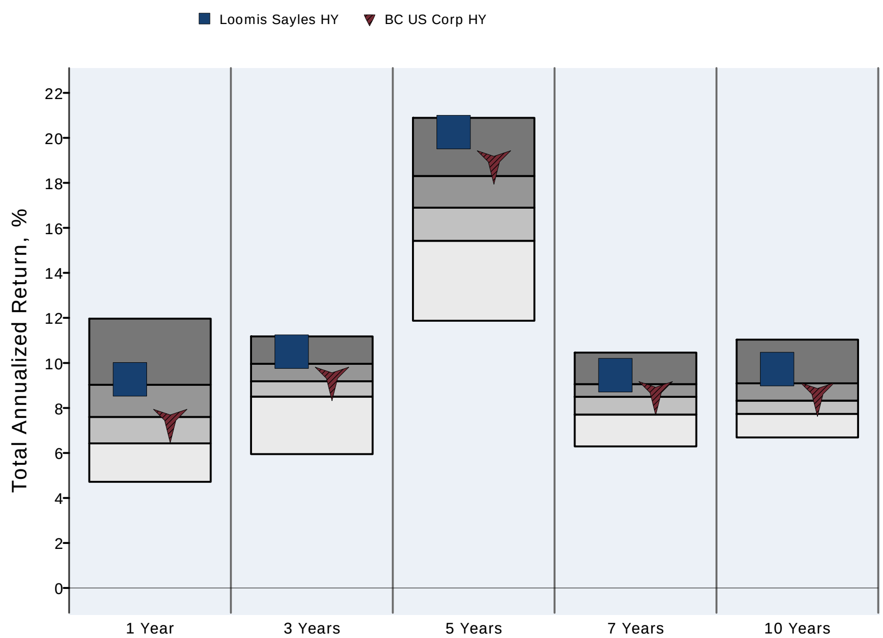
Distribution of Monthly Returns



Drawdowns



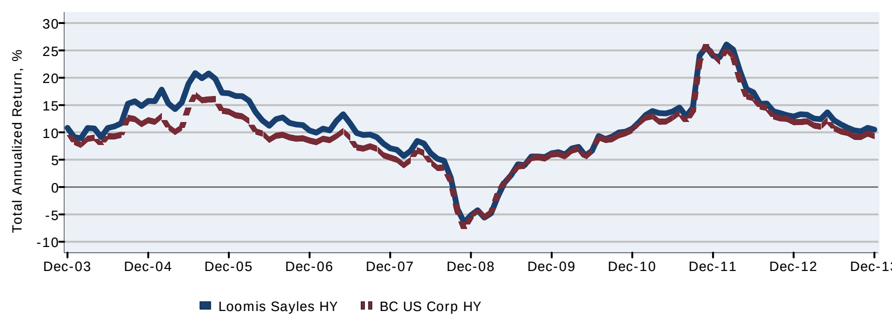
Trailing Returns vs. Benchmark



Calendar Year Returns

Calendar Year Performance	2009	2010	2011	2012	2013
Loomis Sayles HY	59.86	16.57	2.30	20.71	9.27
BC US Corp HY	58.21	15.12	4.98	15.81	7.44
US High Yield Universe Average	46.35	15.38	4.58	14.76	7.84

3 Year Rolling Performance: From Dec-03 to Dec-13



Relative Performance: Last 3 Years

	Loomis Sayles HY
Sharpe Ratio	1.25
Excess	0.42
Alpha, %	-0.67
Beta	1.21
R-Squared, %	91.04
Up Mkt Capture Ratio, %	123.05
Down Mkt Capture Ratio, %	135.10
Batting Average	0.53

3 Year Rolling Excess Performance: From Dec-03 to Dec-13

Performance Statistics: Jan-01 to Dec-13

	Loomis Sayles HY	BC US Corp HY
Average Return, %	0.80	0.72
Batting Average	0.58	0.00
Best 3 Months	4/09 - 6/09	3/09 - 5/09
Best 3 Month Return	22.21	23.46
Worst 3 Months	9/08 - 11/08	9/08 - 11/08
Worst 3 Month Return	-29.83	-29.82
Average Gain, %	2.26	2.06
Average Loss, %	-2.95	-2.50
Gain Frequency, %	72.44	71.15

Loomis Sayles HY

Risk Analysis	Date as of	Benchmark	Universe
	December 31, 2013	BC US Corp HY	US High Yield Universe

Risk Statistics

Modern Portfolio Statistics

	1 Yr	3 Yrs	5 Yrs	10 Yrs
Alpha, %	0.01	-0.67	0.74	0.95
Beta	1.24	1.21	1.02	1.02
R-Squared, %	90.18	91.04	93.60	95.11
Annual Return, %	9.27	10.50	20.25	9.72

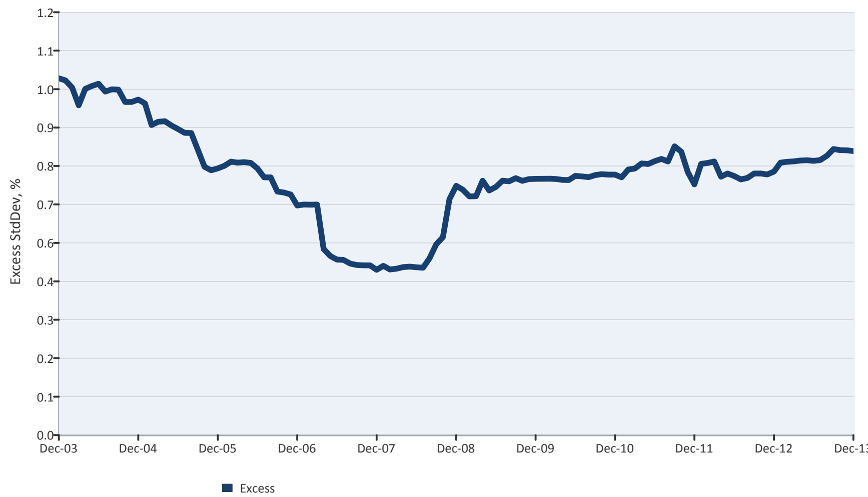
Volatility Measurements

	1 Yr	3 Yrs	5 Yrs	10 Yrs
Standard Deviation	6.25	8.24	9.78	10.90
Tracking Error	2.28	2.82	2.48	2.44

Risk-Adjusted Returns

	1 Yr	3 Yrs	5 Yrs	10 Yrs
Sharpe Ratio	1.44	1.25	1.94	0.75
Treynor Ratio	0.07	0.09	0.20	0.08
Information Ratio	1.48	1.27	2.07	0.89
Sortino Ratio	-4.92	-19.92	-25.62	-60.77
Batting Average	0.58	0.53	0.57	0.57

3 Year Rolling Tracking Error:

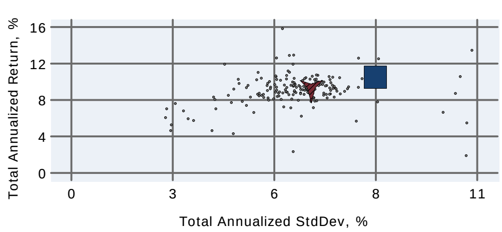


Trailing Risk vs. Benchmark

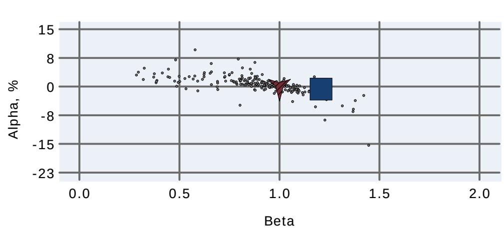
Annualized Standard Deviation	1 Year	3 Years	5 Years	7 Years	10 Years
Loomis Sayles HY	6.25	8.24	9.78	12.53	10.90
BC US Corp HY	4.77	6.50	9.24	12.23	10.44

Risk/Return Analysis

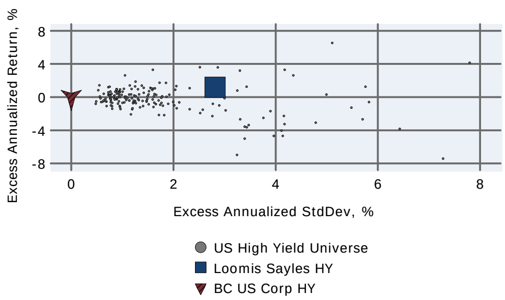
3 Year Risk / Return



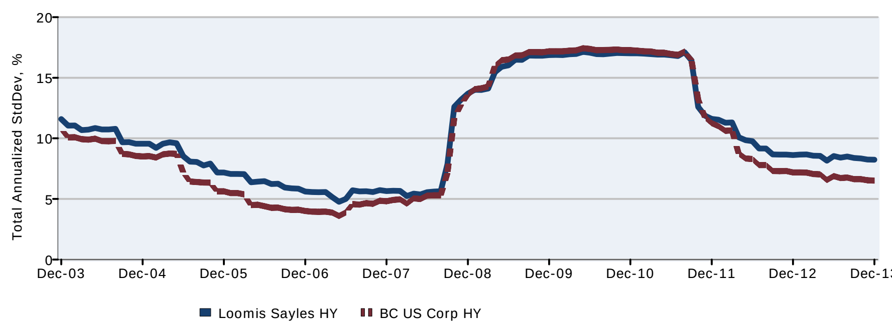
3 Year Alpha / Beta



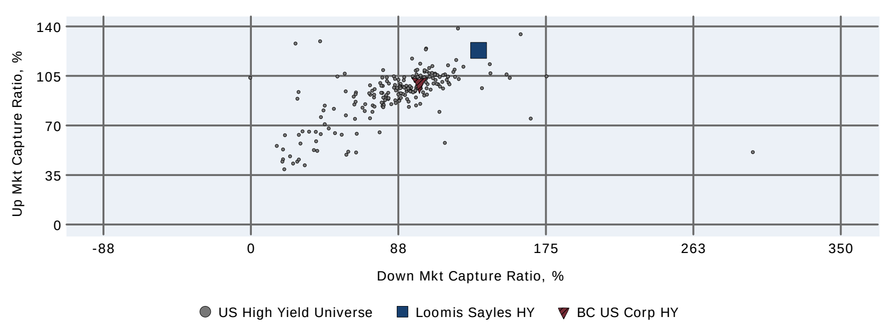
3 Year Excess Risk / Return



3 Year Rolling Risk:



Up/Down Market Capture Ratio: Last 3 Years



Glossary of Terms

Active Management: A method of portfolio management based on the assumption that security prices do not always reflect their true, or intrinsic, value and that this disparity will be corrected over time. Managers engaging in active management attempt to find securities priced below their intrinsic value. It is theorized that as the rest of the market realizes the security is selling below its intrinsic value, the forces of supply and demand will drive the price up and the investment will make money.

Agency Securities: Obligations of agencies of the United States government but not obligations of the government itself. While not backed by the full faith and credit of the U.S. government, these securities are considered to be virtually default free because it is widely viewed that the United States government would not let one of its agencies default. Some of the agencies issuing these bonds are FNMA (Fannie Mae), FHLMC (Freddie Mac), and GNMA (Ginnie Mae).

Alpha (α): The excess return of a portfolio after adjusting for market risk. This excess return is attributable to the selection skill of the portfolio manager. Alpha is calculated as: Portfolio Excess Return – (Beta x Excess Market Return).

Arithmetic Mean: The mathematical average of a series of numbers.

Asset Allocation: The way in which the assets of an investment portfolio are split among asset classes. Studies have shown that more than 90% of the variability of the return of a portfolio is due to asset allocation.

Barclays Capital Aggregate Bond Index: Broadly diversified bond index that serves as a proxy for the bond market as a whole. It contains all types of fixed income securities, including mortgage- and other asset-backed securities.

Barclays Capital Government/Credit Bond Index (BCGC): Index containing Treasure securities, foreign (denominated in US dollars) and domestic corporate bonds, as well as agency securities.

Benchmark: Investment index used as a standard by which to measure the relative performance of an overall portfolio or an individual money manager. Appropriate benchmarks are selected based on their similarity to a portfolio or to the style of the individual money manager being measured. For example, a large cap core equity manager would be appropriately measured against the S&P 500 index. Alternatively, a fixed income core manager might be measured against the Barclays Capital Aggregate Bond index.

Beta (β): A measure of systematic, or market, risk, or that part of risk in a portfolio or security that is attributable to general market movements. It is calculated by dividing the covariance of a security by the variance of the market.

Book-to-Market: The ratio of book value per share to market price per share. Growth managers will typically have low book-to-market ratios while value managers will have high book-to-market ratios.

Bottom Up: An approach of equity management generally referred to as stock picking. Using this approach, a manager does not rely as much on industry or economic variables as much as on the characteristics of individual companies. These managers try to find companies that will fare well based on internal strength, possibly even in the face of adverse economic or industry movements.

Collateralized Mortgage Obligations (CMOs): A security backed by a pool of pass-through securities or mortgages that has a stated maturity. These securities provide a much more stable and predictable cash flow pattern than do pass-through securities. Different classes (tranches) of bonds are issued with different maturities, "A" being the shortest maturity bond and "Z" being the longest maturity bonds. The cash flows from the underlying assets are used to pay interest and retire the bonds in order of maturity.

Commercial Paper: A short-term, unsecured promissory note generally issued by corporations with high credit ratings. The maturity of these notes is usually less than 270 days. Commercial paper is considered to be part of the money market. The ratings of commercial paper range from P-1 (highest rating) to P-4 (lowest rating).

Commingled Fund: A fund consisting of assets from several accounts that are blended together. Investors in a commingled fund investment benefit from economies of scale, which allow for lower trading costs per dollar investment, diversification and professional money management.

Convertible Bonds: Bonds that contain an embedded call option. They are convertible into the common stock of the company issuing the bonds at some pre-specified price. The yield on these bonds is typically less than that of a non-convertible bond due to the embedded call option and the resulting increased opportunity to realize capital gains.

Correlation Coefficient (r): A measure of the relative movement of returns of one security or asset class versus another over time. A correlation of 1 means the returns of two securities move in lock step over time. A correlation of –1 means the returns of two securities move in the exact opposite direction over time. Correlation is used as a measure to help maximize the benefits of diversification when constructing an investment portfolio.

Credit Quality: A measure of credit worthiness of an issuing company or agency as reflected by a grade given to an interest bearing security. Credit quality is rated on a scale of AAA to D and measures the ability of the borrowing company or agency to make both interest and principal payments as set forth in the bond indenture, or contract.

Diversification: The practice of selecting several assets with differing return characteristics so as to reduce overall portfolio volatility.

Downside Risk: The likelihood that the return on an investment portfolio will fall below a pre-specified rate of return, e.g., the actuarial assumed rate of return.

Duration: A measure of a bond's effective term to maturity. Duration takes into account the size and timing of cash flows in order to determine the sensitivity of the price of a bond to a change in interest rates. The higher the duration, the more sensitive a bond is to interest rates changes.

Efficient Frontier: A line plotted on a risk / return graph that represents alternative portfolios with the highest amount of return for a given level of risk.

Emerging Markets: Securities markets in less developed countries. Emerging markets are typically characterized by market inefficiencies, lack of information, lack of price continuity, little liquidity, and lack of adequate rules and regulations. There are typically a small number of players in these markets and price manipulation is common. High returns are available due to the extremely high risk associated with participation in these markets.

Excess Return: Rate of return in excess of the risk-free rate, typically defined by the rate of return on short-term U.S. government obligations, i.e., T-bills. (Also known as Risk Premium.)

Excess Return Ratio: A measure of a money manager's ability to earn additional return relative to the additional risk incurred in doing so. The ratio is calculated as follows: (Portfolio Return – Benchmark Return) / Tracking Error.

Geometric Mean: Equal to the annualized compound rate of return over a given period.

Growth Manager: Refers to the style of an equity manager. A growth manager typically seeks capital appreciation by choosing stocks that are expected to grow at a faster rate than their peers or the market as a whole. Typical portfolio characteristics of this strategy include high price-to-earnings ratio, low book-to-market ratio, and high and sustained earnings per share growth.

Index: A passively managed portfolio of securities that remains constant from one period to the next. Indexes are used to gauge the performance of sectors of the market or the market as a whole. In addition, indexes are used as a benchmark for measuring the performance of investment managers.

Information Ratio: A measure of a manager's ability to earn excess return without incurring additional risk. It can be calculated as follows: alpha divided by tracking error.

Investment Grade: Investment grade bonds are bonds that are rated BBB or higher.

Junk Bonds: Also called high-yield bonds, these are bonds with ratings from BB to D. They offer higher yields due to their increased risk of default. A bond rated D is already in default while a bond rated C is expected to default at some point in the future.

Large Capitalization Stocks: Also referred to as large-cap stocks, these are the securities of companies whose overall market capitalization is roughly greater than $6 billion.

Market Capitalization: The total value of a publicly traded company. Market capitalization is determined by multiplying the total number of shares that a company has outstanding by the market price of each of those shares. Companies are classified by market capitalization as small, medium, or large.

Market Efficiency: Defined as the ability of a market to process information quickly and correctly so that every security traded in that market is always fairly priced based upon current expectations of the future.

Mean-Variance Optimization: The process of building an Efficient Frontier through the evaluation of all possible combinations of selected asset classes with different risk and return characteristics.

Medium Capitalization Stocks: Also referred to as mid-cap stocks, these are the securities of companies whose overall market capitalization is roughly between $1.5 billion and $6 billion.

Modern Portfolio Theory: Principles underlying analysis and evaluation of rational portfolio choices based on risk-return trade-offs and investment diversification.

MSCI EAFE Index: The Morgan Stanley Capital International Europe Australia and Far East (MSCI EAFE) Index is a value-weighted index composed of equity securities traded in the countries that give the index its name. This index is a typical benchmark for international equity managers as well as the basis for many international equity index funds.

Mutual Fund: Pools of money are managed by an investment company. They offer investors a variety of goals depending on the fund and its investment charter. Some funds, for example, seek to generate income on a regular basis. Others seek to preserve an investor's money. Still others seek to invest in companies that are growing at a rapid pace. Mutual funds are investment companies regulated by the Investment Company Act of 1940.

Passive Management: A method of portfolio management that is based on the belief that all securities are fairly priced and that there are no additional returns to be made from security selection. Often called a buy and hold strategy or indexing, this method comes from purchasing a well-diversified portfolio of securities and holding them indefinitely.

Pass-Through Securities: A pool of mortgages is formed and then shares in the pool are issued. Holders of the shares receive the cash flows from the underlying mortgage pool (i.e. the interest and principal payments). One problem with pass-through securities is the unpredictable nature of the cash flows due to events such as prepayment of the underlying mortgages.

Policy Index: A customized performance benchmark designed to reflect the characteristics of an investment portfolio. The policy index represents the return that would have been produced by passive investment in the target asset allocation of a plan.

Portfolio Excess Return: The rate of return of a portfolio over and above the risk-free rate. Portfolio excess return is attributed to the amount of additional market risk born by the portfolio plus the skill of the portfolio manager.

Portfolio Turnover: The percentage of a portfolio that is sold and replaced (turned over) during a given time period. Low portfolio turnover is indicative of a buy and hold strategy while high portfolio turnover implies a more active form of management.

Price-to-Earnings Ratio: Also called the earnings multiplier, it is calculated by dividing the price of a company's stock into earnings per share. Growth managers typically hold stocks with high price-to-earnings ratios whereas value managers hold stocks with low price-to-earnings ratios.

Price-Weighted Index: An index whose value is simply the arithmetic average of the prices of the securities that the index contains. In this type of index securities with the highest prices will have the greatest effect on the value and return of the index. The Dow-Jones Industrial average is an example of a price-weighted index.

Relative Return: The difference between the rate of return of a portfolio and its benchmark.

Residual Risk: The portion of total risk attributable to the unique risk of a given portfolio or security (also known as unsystematic risk). The key goal of diversified portfolio is to reduce residual risk to the greatest extent possible. It is calculated by subtracting market risk (or Beta) from total risk.

Risk Premium: An expected return in excess of the risk-free rate. The premium provides compensation for the assumption of risk.

Risk-Free Rate: The rate of interest that one can earn on an investment with no default risk. It is generally assumed to be the interest rate on a 91 day T-Bill.

R-Squared: Also called the coefficient of determination, it measures the amount of variation in one variable explained by variations in another. In the case of investments, the term is used to explain the amount of variation in a security or portfolio explained by movements in the market or the portfolio's benchmark.

Russell 2000 Index: A value-weighted small-cap stock index composed of the 2000 securities with the lowest market capitalization in the Russell 3000 index. This is one of the most common benchmarks for small-cap equity managers and is compiled by the Frank Russell Company.

Russell Mid-Cap Index: A value-weighted index composed of the 800 smallest companies, by market capitalization, in the Russell 1000 index. This index is compiled by the Frank Russell Company and, as its name implies, is used as a benchmark for mid-cap portfolios.

S & P 500 Index: A value-weighted index compiled by Standard and Poor's that is comprised of 500 of the largest companies traded on the NYSE and NASDAQ exchanges. This is the most common proxy for the equity market as a whole and is the typical benchmark for large-cap portfolios.

Sharpe Ratio: A measure of portfolio efficiency. The Sharpe Ratio indicates excess portfolio return for each unit of risk associate with achieving the excess return. The higher the Sharpe Ratio, the more efficient the portfolio. It can be calculated as: Portfolio Excess Return / Portfolio Standard Deviation.

Small Capitalization Stocks: Also referred to as small-cap stocks, these are securities of companies whose overall market capitalization is roughly less than $1.5 billion.

Standard Deviation (σ): A measure of volatility, or risk, inherent in a security or portfolio. The standard deviation of a series is a measure of the extent to which observations in the series differ from the arithmetic mean of the series. For example, if a security has an average annual rate of return of 10% and a standard deviation of 5%, then two-thirds of the time, one would expect to receive an annual rate of return between 5% and 15%.

Systematic Risk: Often called market risk, it is risk that is due to macroeconomic factors and as such this type of risk affects all risky assets and cannot be reduced through diversification.

Top Down: An approach to equity management whereby the manager first forms an opinion on the direction of the economy as a whole. Next, the manager determines how their economic forecast will affect certain industries and finally how the industry effect will apply to individual companies within those industries.

Tracking Error: The standard deviation of the difference between the rate of return of a portfolio and its benchmark.

Treasury Securities: Obligations of the United States government, which are considered free of default risk.

Universe: Also called a peer group, a universe is a large number of portfolios of a similar style. These portfolios can be divided into deciles or quartiles and then used for performance measurement and comparative purposes. Portfolios are ranked within the universe, which tells the investor how well a manager has done relative to his or her peers.

Unsystematic Risk: Also called company specific risk, it is risk that is unique to a particular company due to things such as the nature of their business or their use of leverage. Unsystematic risk can be reduced or eliminated by holding a well-diversified portfolio.

Value: Refers to the style of an equity manager. A value manager seeks to create returns by purchasing stocks selling at a discount to their true, or intrinsic, value. Typical portfolio characteristics of this strategy include a low price-to-earnings ratio, high book-to-market ratio, and high dividend yield.

Value-Weighted Index: An index whose value is computed by determining the relative weightings of each of the securities that it contains by dividing each securities total market capitalization by the total market capitalization of all of the securities in the index. This weight is then applied to a base value for the index, usually 100. The change in the index is computed by recalculating the relative weightings using the current market capitalization for each security divided by its base time period market capitalization and multiplying the sum of all the new weightings by the initial index value. In a value-weighted index companies with the largest market capitalization will have the greatest effect on the return of the index due to their larger relative weighting. The S & P is an example of a value-weighted index.

Weighted Average Maturity (WAM): A measure of the overall maturity of a bond portfolio that can assist an investor in determining a portfolio's sensitivity to changes in interest rates. The higher the weighted average maturity, the greater the effect of a change in interest rates on portfolio value.

WURTS ASSOCIATES
INSTITUTIONAL INVESTMENT CONSULTANTS

Manager Evaluation: Western Asset Management
US Investment Grade Fixed Income

Last Updated: April 2014

Strategy Basics

Asset Class:	US Credit
Firm Inception:	1971
Firm Assets:	$451 Billion
Strategy Inception:	March 2003
Strategy Assets:	$17.4 Billion
Min. Size, Sep. Account:	$75.0 Million
Fee, Sep. Account:	
First $50 Million	0.30%
Next $50 Million	0.30%
Remaining Balance	0.15%

Firm Background and History

Western Asset Management Company (WAMCO) was founded in 1971 by the United California Bank (later to become First Interstate Bank). Headquartered in Pasadena, the firm is a wholly-owned subsidiary of Legg Mason, Inc. an NYSE-listed asset management firm headquartered in Baltimore, Maryland. The firm continues to operate as an independent investment management company.

The firm has grown to more than 800 employees, with offices in New York, London, Sao Paulo, Dubai, Hong Kong, Tokyo and Melbourne. As of December 2013, WAMCO manages excess of $451 billion in client assets, with more than $17.4 billion in US investment grade fixed income assets.

Strategy Background

WAMCO's investment philosophy combines the firm's top-down view in combination with a rigorous bottom-up, fundamental analysis approach with the goal of adding value over long credit cycles. The team will look to overweight those sectors they identify as offering additional premium relative to other sectors; they actively rotate in and out of sectors as fundamental and market conditions change. Finally, the team will look to manage the duration and interest rate risks in the portfolio largely in line with the benchmark.

The strategy will opportunistically invest in US government debt, US investment grade corporate credit, US below investment grade corporate credit, securitized bonds, and emerging market bonds. The investment mandate is customizable and can be restricted to tailor flexibility with the amount of non-US credit in the portfolio.

The total return portfolio is benchmarked against the Barclays US Credit Index. The objective of the investment team is to exceed the benchmark by 50bps to 75bps annually over a full market cycle while targeting a tracking error of roughly 100bps to 150bps while remaining broadly duration neutral. As a result of the willingness on the part of the team to deviate from benchmark weights for sector and other exposures, the strategy may exhibit a higher degree of tracking error relative to the strategy's benchmark as well as additional return volatility.

Key Investment Professionals

WAMCO is led by CIO Ken Leech, who also chairs the firm's Global Investment Committee. The firm's investment grade strategies are managed by the Investment Grade Credit team, which is a subset of the firm's Global Credit team. The team is made up of experienced investment professionals averaging approximately 19 years of industry experience. Portfolio managers are supported by the firm's sector specialists who are divided into different market sectors.

Kenneth Leech, *Chief Investment Officer*
Mr. Leech serves as the Chief Investment Officer of WAMCO and chairs the firm's Global Investment Committee. He has more than 37 years of investment industry experience and was named the Fixed Income Manager of the Year by Morningstar in 2004. Mr. Leech is a former member of the US Treasury Borrowing Advisory Committee. Mr. Leech is a graduate of the University of Pennsylvania's Wharton School of Business.

Michael Buchanan, CFA, Portfolio Manager, *Head of Global Credit*

Mr. Buchanan is the Head of Global Credit at the firm. He joined WAMCO in 2005 and is a member of the firm's Investment Grade Credit team. Mr. Buchanan previously served as a Managing Director and Head of US Credit Products at Credit Suisse Asset Management and as Executive Vice President and Portfolio Manager at Janus Capital Management. He also worked at BlackRock Financial Management as a Managing Director and Portfolio Manager. Mr. Buchanan earned a Bachelor of Arts degree from Brown University.

Ryan Brist, **CFA, Portfolio Manager**, *Head of US Investment Grade Credit*

Mr. Brist is a portfolio manager for the firm's Investment Grade Credit strategies; he joined the firm in 2009. Prior to joining the firm, he was the Chief Investment Officer and Senior Portfolio Manager for Logan Circle Partners. Previously, Mr. Brist was co-Head of Fixed Income at Delaware Investments where he oversaw the fixed income investment process and was primarily responsible for the total return based product lineup. Mr. Brist earned a Bachelor's degree in Finance from Indiana University and is a CFA charterholder.

Blanton Keh, CFA, Portfolio Manager

Mr. Keh is a portfolio manager for the firm's Investment Grade Credit strategies; he joined the firm in 2004. Previously, he was a Portfolio Manager and trader at Bank of America. Mr. Keh earned a Bachelor's degree in Mechanical Engineering from the California State Polytechnic University, a Master's in Science in Mechanical Engineering and a MBA from the University of California at Los Angeles. Mr. Keh is a CFA charterholder.

Process

The portfolio construction process begins with the firm's current macro-economic environment views. These views are developed by the US Broad Strategy Committee comprised of senior portfolio managers and specialists. Once the general framework considering the global economy, direction of interest rate moves and other top-down influences has been determined, the firm's credit portfolio managers identify sector risk profiles.

Once the general risk profile and sector allocations have been determined, the team relies on a bottom-up process of populating portfolios through individual security selection. The bottom-up, fundamental issuer analysis seeks to identify those credits that are mispriced by the markets. Finally, in addition to the traditional research performed, the credit analysts also interact with the firm's trading group to identify those companies that are most attractive on a relative value basis across sectors.

Once the portfolio construction process has been completed, portfolio managers work with the risk management team to ensure that the portfolio conforms to the desired risk profile. As part of the daily reporting package, the Risk Analytics team provides reports with metrics that include portfolio and security level measurements of value-at-risk, tracking error, industry concentration, duration, spread and issuer credit ratings.

The team's buy and sell decisions are predicated on fundamental analysis of each issuer in conjunction with the firm's views on the corresponding sector. The team seeks to minimize exposure to sectors that are deemed fully or overvalued. The decision to purchase a security depends on the credit analysts who seek to identify those issues that are mispriced due to unusual situations (mergers, optionality), or changes in credit rating. The decision to sell a position is predicated on one of three objectives: has the issue exceeded its relative value price target, has the risk associated with holding the security increased to the point where it no longer justifies inclusion in the portfolio, or have material events changed to the extent that they affect the fundamental valuation of the security. As an example, should an issuer experience a rapid deterioration in price relative to the initial purchase price, the team will execute a comprehensive review within 24 hours to determine if the security should be sold.

Potential Concerns

Historically, WAMCO has utilized off-benchmark allocations in addition to active sector tilts and security selection as a way to enhance returns relative to the benchmark. As a result, during periods of market dislocations the strategy may experience heightened volatility and potentially incur larger drawdowns, such as occurred during the financial crisis in 2008. Through separate accounts, investors may customize the team's flexibility with respect to the amount of non-US dollar and/or lower credit quality exposures to meet the investor's liquidity and drawdown control preferences.

The team experienced professional turnover of five members in the last three years, the most significant departure was Jeffrey Van Schaick, who was the lead portfolio manager until he retired in 2011. Given the team approach, none of the management changes affected investment philosophy or processes.

Finally, the firm recently announced legal settlements of several pending lawsuits with both the SEC and the Department of Justice. The litigation stemmed from two separate incidents occurring between 2007 and 2008, both involving specific ERISA accounts. The first infraction was due to the erroneous coding of a security and the subsequent failure to disclose the error to ERISA clients. The second case involved the firm's attempt to liquidate certain securities into a rapidly declining market resulting in sub-optimal execution levels on behalf of certain clients. In both instances, the firm pleaded no contest and has agreed to pay fines which will be covered by the firm's E&O insurance. These issues have largely been mitigated by the firm's investment in additional risk management infrastructure led by Dr. Kenneth Winston (discussed below) following the 2008-2009 experience.

Risk Management

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

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

Performance

The key differentiators for the strategy are primarily the team's fundamental issue selection and sector rotation process in combination with the strategy's off-benchmark allocations. The strategy should be expected to perform well when the economy is expanding and credit spreads are narrowing due to the strategy's bias toward lower credit quality debt and allocations to non-benchmark (higher beta) exposures which tend to outperform relative to high credit quality bonds during periods of increasing economic growth. Conversely, in periods of increasing bond market volatility, the strategy has historically underperformed relative to the benchmark and peer strategies that are more conservative in nature. For example, during the financial crisis in 2008, the strategy underperformed the benchmark by approximately 790 basis points only to rebound and outperform in 2009 by more than 685 basis points as credit markets recovered and spreads narrowed.

In 2009, the significant outperformance was largely attributable to the team's decision to hold the bank/finance names that had recently been severely penalized despite the fact that many issuers fell out of the index as a result of their financial conditions. In subsequent years, the team also avoided exposures to those issuers that suffered further declines. For example, the strategy had no exposure to BP Oil in 2010, ArcelorMittal in 2012, nor any holdings in the Heinz or Dell LBO's in 2013. Additionally, the strategy maintained an overweight to BBB rated names during this period. The team believed the global economy was improving and corporate management teams were improving balance sheets to garner ratings increases. As evidence of these combined decisions, the trailing 5-year excess return as of March 2014 was 279 basis points, while maintaining a beta of approximately 1.2.

Over the past several years, credit markets have largely normalized and spread volatility has decreased as the economy continues to recover. During the trailing 3-year period, relative outperformance of the strategy has narrowed as investors continued to allocate towards higher yielding assets and idiosyncratic risks decreased resulting in excess returns of 84 basis points with a beta of roughly 1a.1. In addition, as would be expected with decreasing volatility, the tracking error of the portfolio has also declined to roughly 1.0.

Given the team's macroeconomic and fundamental approaches, combined with the ability to tactically allocate within sectors and issuers, investors may experience periods of higher volatility over the short-term with the understanding that the strategy has consistently produced good relative returns over the long-term.

Recommendation

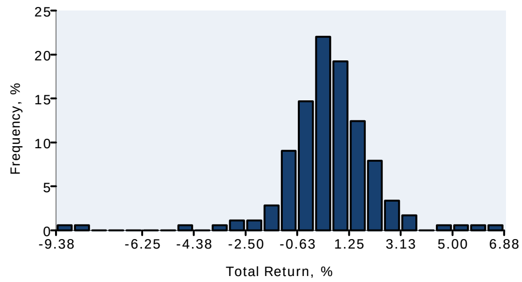
The WAMCO US Investment Grade strategy offers investors a long-term track record with an experienced investment team for clients seeking broad credit exposure.

The Investment Grade Credit team at WAMCO applies a research-driven, fundamental value-based approach that has helped the strategy perform well relative to the Barclays US Corporate Credit Index benchmark. The seasoned investment team led by Mr. Buchanan is organized with the goal of leveraging both the organization’s top-down, macro-driven viewpoints in combination with the firm’s fundamental bottom-up security selection process. The strategy has provided investors with good relative returns with a repeatable and robust approach to sector and security identification resulting in a diversified credit portfolio.

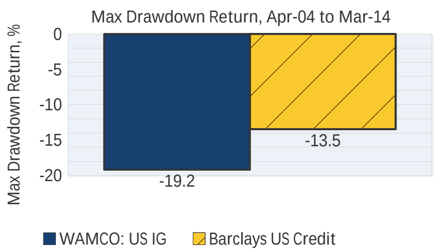
WAMCO: US IG

Performance Evaluation	Date as of March 31, 2014	Benchmark Barclays US Credit	Universe US Corporate Fixed

Distribution of Monthly Returns



Drawdowns



Calendar Year Returns

Calendar Year Performance	2009	2010	2011	2012	2013
WAMCO: US IG	22.89	9.96	7.82	11.73	-0.85
Barclays US Credit	16.04	8.47	8.35	9.37	-2.01
US Corporate Fixed Average	21.73	10.13	8.19	11.23	-0.77

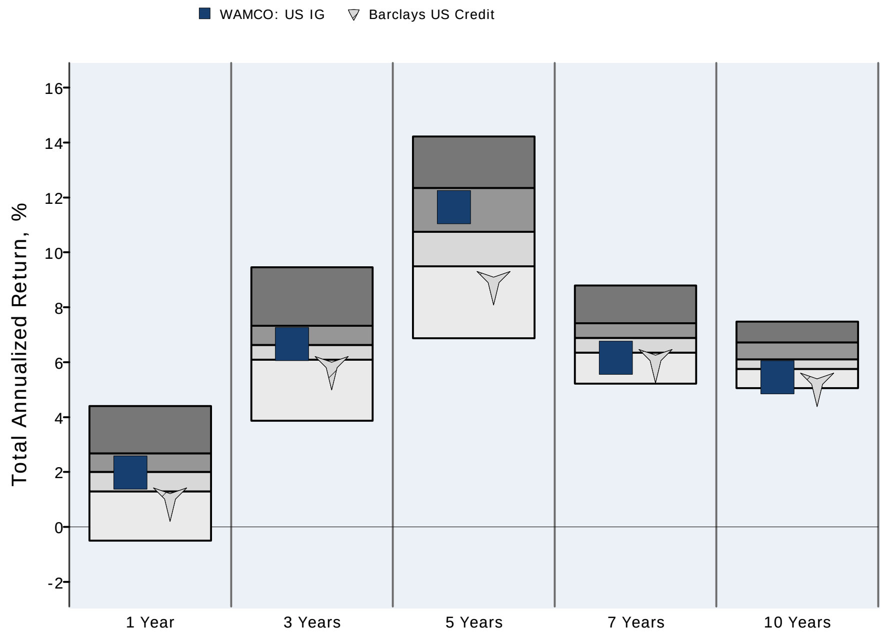
Relative Performance: Last 3 Years

	WAMCO: US IG
Sharpe Ratio	1.37
Excess	0.84
Alpha, %	0.47
Beta	1.06
R-Squared, %	95.69
Up Mkt Capture Ratio, %	108.27
Down Mkt Capture Ratio, %	97.68
Batting Average	0.61

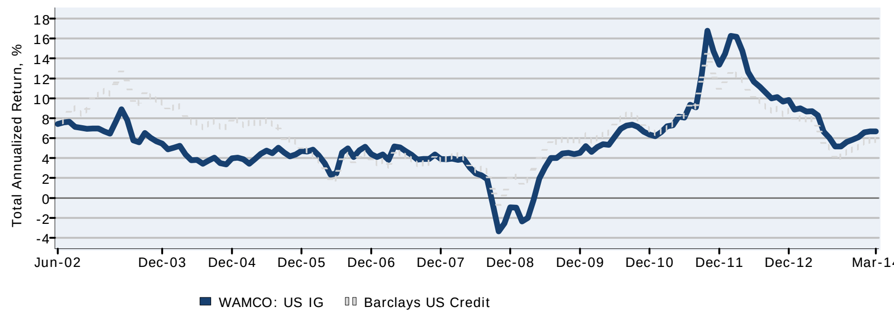
Performance Statistics: Jul-99 to Mar-14

	WAMCO: US IG	Barclays US Credit
Average Return, %	0.47	0.51
Batting Average	0.52	0.00
Best 3 Months	4/09 - 6/09	11/08 - 1/09
Best 3 Month Return	15.76	10.44
Worst 3 Months	8/08 - 10/08	8/08 - 10/08
Worst 3 Month Return	-16.45	-11.30
Average Gain, %	1.40	1.27
Average Loss, %	-1.21	-1.06
Gain Frequency, %	61.02	67.80

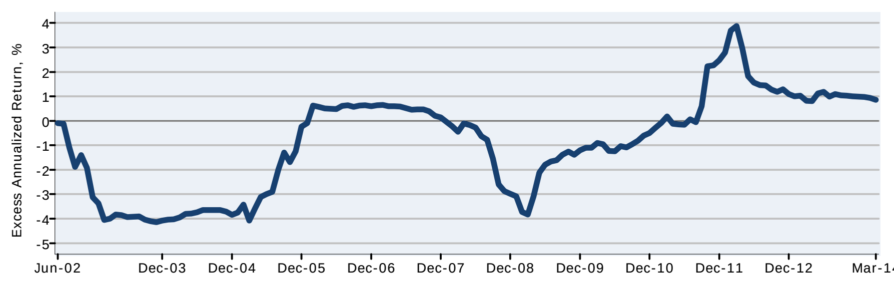
Trailing Returns vs. Benchmark



3 Year Rolling Performance: From Jun-02 to Mar-14



3 Year Rolling Excess Performance: From Jun-02 to Mar-14



WAMCO: US IG

Risk Analysis	Date as of March 31, 2014	Benchmark Barclays US Credit	Universe US Corporate Fixed

Risk Statistics

Modern Portfolio Statistics

	1 Yr	3 Yrs	5 Yrs	10 Yrs
Alpha, %	0.97	0.47	0.94	-0.36
Beta	0.98	1.06	1.19	1.19
R-Squared, %	99.48	95.69	89.92	93.25
Annual Return, %	1.98	6.67	11.65	5.45

Volatility Measurements

	1 Yr	3 Yrs	5 Yrs	10 Yrs
Standard Deviation	5.11	4.74	5.72	6.88
Tracking Error	0.39	1.03	2.01	2.11

Risk-Adjusted Returns

	1 Yr	3 Yrs	5 Yrs	10 Yrs
Sharpe Ratio	0.39	1.37	1.95	0.56
Treynor Ratio	0.02	0.06	0.10	0.03
Information Ratio	0.39	1.41	2.04	0.79
Sortino Ratio	-5.73	-10.70	-13.55	-43.51
Batting Average	0.67	0.61	0.70	0.58

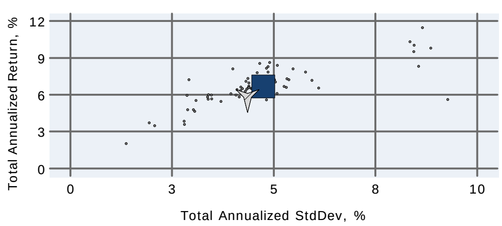
3 Year Rolling Tracking Error:

Trailing Risk vs. Benchmark

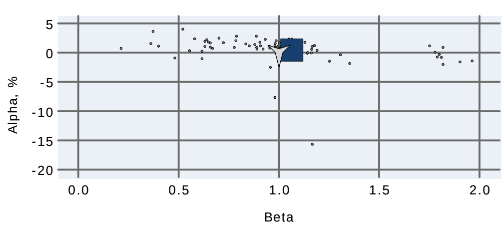
Annualized Standard Deviation	1 Year	3 Years	5 Years	7 Years	10 Years
WAMCO: US IG	5.11	4.74	5.72	7.78	6.88
Barclays US Credit	5.22	4.36	4.55	6.09	5.58

Risk/Return Analysis

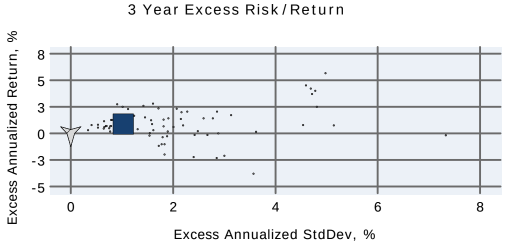
3 Year Risk/Return



3 Year Alpha/Beta

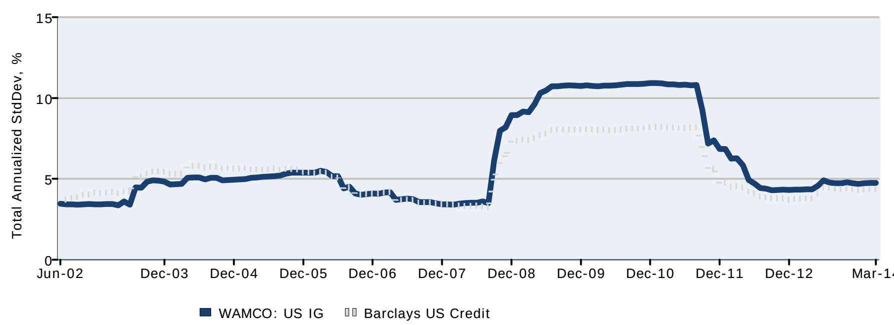


3 Year Excess Risk/Return

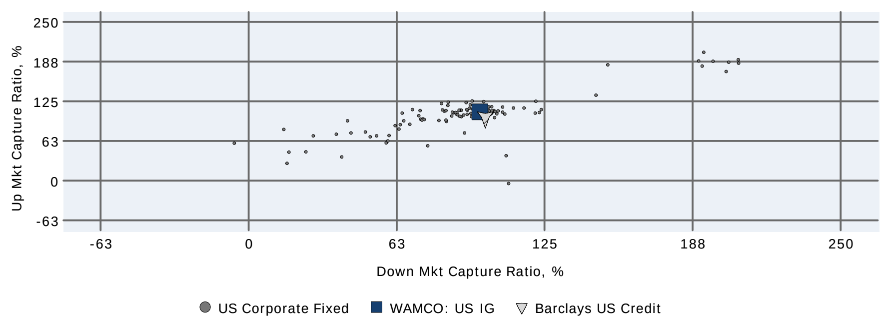


US Corporate Fixed
WAMCO: US IG
Barclays US Credit

3 Year Rolling Risk:



Up/Down Market Capture Ratio: Last 3 Years



Glossary of Terms

Active Management: A method of portfolio management based on the assumption that security prices do not always reflect their true, or intrinsic, value and that this disparity will be corrected over time. Managers engaging in active management attempt to find securities priced below their intrinsic value. It is theorized that as the rest of the market realizes the security is selling below its intrinsic value, the forces of supply and demand will drive the price up and the investment will make money.

Agency Securities: Obligations of agencies of the United States government but not obligations of the government itself. While not backed by the full faith and credit of the U.S. government, these securities are considered to be virtually default free because it is widely viewed that the United States government would not let one of its agencies default. Some of the agencies issuing these bonds are FNMA (Fannie Mae), FHLMC (Freddie Mac), and GNMA (Ginnie Mae).

Alpha (α): The excess return of a portfolio after adjusting for market risk. This excess return is attributable to the selection skill of the portfolio manager. Alpha is calculated as: Portfolio Excess Return – (Beta x Excess Market Return).

Arithmetic Mean: The mathematical average of a series of numbers.

Asset Allocation: The way in which the assets of an investment portfolio are split among asset classes. Studies have shown that more than 90% of the variability of the return of a portfolio is due to asset allocation.

Barclays Capital Aggregate Bond Index: Broadly diversified bond index that serves as a proxy for the bond market as a whole. It contains all types of fixed income securities, including mortgage- and other asset-backed securities.

Barclays Capital Government/Credit Bond Index (BCGC): Index containing Treasure securities, foreign (denominated in US dollars) and domestic corporate bonds, as well as agency securities.

Benchmark: Investment index used as a standard by which to measure the relative performance of an overall portfolio or an individual money manager. Appropriate benchmarks are selected based on their similarity to a portfolio or to the style of the individual money manager being measured. For example, a large cap core equity manager would be appropriately measured against the S&P 500 index. Alternatively, a fixed income core manager might be measured against the Barclays Capital Aggregate Bond index.

Beta (β): A measure of systematic, or market, risk, or that part of risk in a portfolio or security that is attributable to general market movements. It is calculated by dividing the covariance of a security by the variance of the market.

Book-to-Market: The ratio of book value per share to market price per share. Growth managers will typically have low book-to-market ratios while value managers will have high book-to-market ratios.

Bottom Up: An approach of equity management generally referred to as stock picking. Using this approach, a manager does not rely as much on industry or economic variables as much as on the characteristics of individual companies. These managers try to find companies that will fare well based on internal strength, possibly even in the face of adverse economic or industry movements.

Collateralized Mortgage Obligations (CMOs): A security backed by a pool of pass-through securities or mortgages that has a stated maturity. These securities provide a much more stable and predictable cash flow pattern than do pass-through securities. Different classes (tranches) of bonds are issued with different maturities, "A" being the shortest maturity bond and "Z" being the longest maturity bonds. The cash flows from the underlying assets are used to pay interest and retire the bonds in order of maturity.

Commercial Paper: A short-term, unsecured promissory note generally issued by corporations with high credit ratings. The maturity of these notes is usually less than 270 days. Commercial paper is considered to be part of the money market. The ratings of commercial paper range from P-1 (highest rating) to P-4 (lowest rating).

Commingled Fund: A fund consisting of assets from several accounts that are blended together. Investors in a commingled fund investment benefit from economies of scale, which allow for lower trading costs per dollar investment, diversification and professional money management.

Convertible Bonds: Bonds that contain an embedded call option. They are convertible into the common stock of the company issuing the bonds at some pre-specified price. The yield on these bonds is typically less than that of a non-convertible bond due to the embedded call option and the resulting increased opportunity to realize capital gains.

Correlation Coefficient (r): A measure of the relative movement of returns of one security or asset class versus another over time. A correlation of 1 means the returns of two securities move in lock step over time. A correlation of –1 means the returns of two securities move in the exact opposite direction over time. Correlation is used as a measure to help maximize the benefits of diversification when constructing an investment portfolio.

Credit Quality: A measure of credit worthiness of an issuing company or agency as reflected by a grade given to an interest bearing security. Credit quality is rated on a scale of AAA to D and measures the ability of the borrowing company or agency to make both interest and principal payments as set forth in the bond indenture, or contract.

Diversification: The practice of selecting several assets with differing return characteristics so as to reduce overall portfolio volatility.

Downside Risk: The likelihood that the return on an investment portfolio will fall below a pre-specified rate of return, e.g., the actuarial assumed rate of return.

Duration: A measure of a bond's effective term to maturity. Duration takes into account the size and timing of cash flows in order to determine the sensitivity of the price of a bond to a change in interest rates. The higher the duration, the more sensitive a bond is to interest rates changes.

Efficient Frontier: A line plotted on a risk / return graph that represents alternative portfolios with the highest amount of return for a given level of risk.

Emerging Markets: Securities markets in less developed countries. Emerging markets are typically characterized by market inefficiencies, lack of information, lack of price continuity, little liquidity, and lack of adequate rules and regulations. There are typically a small number of players in these markets and price manipulation is common. High returns are available due to the extremely high risk associated with participation in these markets.

Excess Return: Rate of return in excess of the risk-free rate, typically defined by the rate of return on short-term U.S. government obligations, i.e., T-bills. (Also known as Risk Premium.)

Excess Return Ratio: A measure of a money manager's ability to earn additional return relative to the additional risk incurred in doing so. The ratio is calculated as follows: (Portfolio Return – Benchmark Return) / Tracking Error.

Geometric Mean: Equal to the annualized compound rate of return over a given period.

Growth Manager: Refers to the style of an equity manager. A growth manager typically seeks capital appreciation by choosing stocks that are expected to grow at a faster rate than their peers or the market as a whole. Typical portfolio characteristics of this strategy include high price-to-earnings ratio, low book-to-market ratio, and high and sustained earnings per share growth.

Index: A passively managed portfolio of securities that remains constant from one period to the next. Indexes are used to gauge the performance of sectors of the market or the market as a whole. In addition, indexes are used as a benchmark for measuring the performance of investment managers.

Information Ratio: A measure of a manager's ability to earn excess return without incurring additional risk. It can be calculated as follows: alpha divided by tracking error.

Investment Grade: Investment grade bonds are bonds that are rated BBB or higher.

Junk Bonds: Also called high-yield bonds, these are bonds with ratings from BB to D. They offer higher yields due to their increased risk of default. A bond rated D is already in default while a bond rated C is expected to default at some point in the future.

Large Capitalization Stocks: Also referred to as large-cap stocks, these are the securities of companies whose overall market capitalization is roughly greater than $6 billion.

Market Capitalization: The total value of a publicly traded company. Market capitalization is determined by multiplying the total number of shares that a company has outstanding by the market price of each of those shares. Companies are classified by market capitalization as small, medium, or large.

Market Efficiency: Defined as the ability of a market to process information quickly and correctly so that every security traded in that market is always fairly priced based upon current expectations of the future.

Mean-Variance Optimization: The process of building an Efficient Frontier through the evaluation of all possible combinations of selected asset classes with different risk and return characteristics.

Medium Capitalization Stocks: Also referred to as mid-cap stocks, these are the securities of companies whose overall market capitalization is roughly between $1.5 billion and $6 billion.

Modern Portfolio Theory: Principles underlying analysis and evaluation of rational portfolio choices based on risk-return trade-offs and investment diversification.

MSCI EAFE Index: The Morgan Stanley Capital International Europe Australia and Far East (MSCI EAFE) Index is a value-weighted index composed of equity securities traded in the countries that give the index its name. This index is a typical benchmark for international equity managers as well as the basis for many international equity index funds.

Mutual Fund: Pools of money are managed by an investment company. They offer investors a variety of goals depending on the fund and its investment charter. Some funds, for example, seek to generate income on a regular basis. Others seek to preserve an investor's money. Still others seek to invest in companies that are growing at a rapid pace. Mutual funds are investment companies regulated by the Investment Company Act of 1940.

Passive Management: A method of portfolio management that is based on the belief that all securities are fairly priced and that there are no additional returns to be made from security selection. Often called a buy and hold strategy or indexing, this method comes from purchasing a well-diversified portfolio of securities and holding them indefinitely.

Pass-Through Securities: A pool of mortgages is formed and then shares in the pool are issued. Holders of the shares receive the cash flows from the underlying mortgage pool (i.e. the interest and principal payments). One problem with pass-through securities is the unpredictable nature of the cash flows due to events such as prepayment of the underlying mortgages.

Policy Index: A customized performance benchmark designed to reflect the characteristics of an investment portfolio. The policy index represents the return that would have been produced by passive investment in the target asset allocation of a plan.

Portfolio Excess Return: The rate of return of a portfolio over and above the risk-free rate. Portfolio excess return is attributed to the amount of additional market risk born by the portfolio plus the skill of the portfolio manager.

Portfolio Turnover: The percentage of a portfolio that is sold and replaced (turned over) during a given time period. Low portfolio turnover is indicative of a buy and hold strategy while high portfolio turnover implies a more active form of management.

Price-to-Earnings Ratio: Also called the earnings multiplier, it is calculated by dividing the price of a company's stock into earnings per share. Growth managers typically hold stocks with high price-to-earnings ratios whereas value managers hold stocks with low price-to-earnings ratios.

Price-Weighted Index: An index whose value is simply the arithmetic average of the prices of the securities that the index contains. In this type of index securities with the highest prices will have the greatest effect on the value and return of the index. The Dow-Jones Industrial average is an example of a price-weighted index.

Relative Return: The difference between the rate of return of a portfolio and its benchmark.

Residual Risk: The portion of total risk attributable to the unique risk of a given portfolio or security (also known as unsystematic risk). The key goal of diversified portfolio is to reduce residual risk to the greatest extent possible. It is calculated by subtracting market risk (or Beta) from total risk.

Risk Premium: An expected return in excess of the risk-free rate. The premium provides compensation for the assumption of risk.

Risk-Free Rate: The rate of interest that one can earn on an investment with no default risk. It is generally assumed to be the interest rate on a 91 day T-Bill.

R-Squared: Also called the coefficient of determination, it measures the amount of variation in one variable explained by variations in another. In the case of investments, the term is used to explain the amount of variation in a security or portfolio explained by movements in the market or the portfolio's benchmark.

Russell 2000 Index: A value-weighted small-cap stock index composed of the 2000 securities with the lowest market capitalization in the Russell 3000 index. This is one of the most common benchmarks for small-cap equity managers and is compiled by the Frank Russell Company.

Russell Mid-Cap Index: A value-weighted index composed of the 800 smallest companies, by market capitalization, in the Russell 1000 index. This index is compiled by the Frank Russell Company and, as its name implies, is used as a benchmark for mid-cap portfolios.

S & P 500 Index: A value-weighted index compiled by Standard and Poor's that is comprised of 500 of the largest companies traded on the NYSE and NASDAQ exchanges. This is the most common proxy for the equity market as a whole and is the typical benchmark for large-cap portfolios.

Sharpe Ratio: A measure of portfolio efficiency. The Sharpe Ratio indicates excess portfolio return for each unit of risk associate with achieving the excess return. The higher the Sharpe Ratio, the more efficient the portfolio. It can be calculated as: Portfolio Excess Return / Portfolio Standard Deviation.

Small Capitalization Stocks: Also referred to as small-cap stocks, these are securities of companies whose overall market capitalization is roughly less than $1.5 billion.

Standard Deviation (σ): A measure of volatility, or risk, inherent in a security or portfolio. The standard deviation of a series is a measure of the extent to which observations in the series differ from the arithmetic mean of the series. For example, if a security has an average annual rate of return of 10% and a standard deviation of 5%, then two-thirds of the time, one would expect to receive an annual rate of return between 5% and 15%.

Systematic Risk: Often called market risk, it is risk that is due to macroeconomic factors and as such this type of risk affects all risky assets and cannot be reduced through diversification.

Top Down: An approach to equity management whereby the manager first forms an opinion on the direction of the economy as a whole. Next, the manager determines how their economic forecast will affect certain industries and finally how the industry effect will apply to individual companies within those industries.

Tracking Error: The standard deviation of the difference between the rate of return of a portfolio and its benchmark.

Treasury Securities: Obligations of the United States government, which are considered free of default risk.

Universe: Also called a peer group, a universe is a large number of portfolios of a similar style. These portfolios can be divided into deciles or quartiles and then used for performance measurement and comparative purposes. Portfolios are ranked within the universe, which tells the investor how well a manager has done relative to his or her peers.

Unsystematic Risk: Also called company specific risk, it is risk that is unique to a particular company due to things such as the nature of their business or their use of leverage. Unsystematic risk can be reduced or eliminated by holding a well-diversified portfolio.

Value: Refers to the style of an equity manager. A value manager seeks to create returns by purchasing stocks selling at a discount to their true, or intrinsic, value. Typical portfolio characteristics of this strategy include a low price-to-earnings ratio, high book-to-market ratio, and high dividend yield.

Value-Weighted Index: An index whose value is computed by determining the relative weightings of each of the securities that it contains by dividing each securities total market capitalization by the total market capitalization of all of the securities in the index. This weight is then applied to a base value for the index, usually 100. The change in the index is computed by recalculating the relative weightings using the current market capitalization for each security divided by its base time period market capitalization and multiplying the sum of all the new weightings by the initial index value. In a value-weighted index companies with the largest market capitalization will have the greatest effect on the return of the index due to their larger relative weighting. The S & P is an example of a value-weighted index.

Weighted Average Maturity (WAM): A measure of the overall maturity of a bond portfolio that can assist an investor in determining a portfolio's sensitivity to changes in interest rates. The higher the weighted average maturity, the greater the effect of a change in interest rates on portfolio value.

Manager Evaluation: BlackRock
Global Sovereign Bonds

Last Updated: April 2014

Strategy Basics

Asset Class:	Global Bonds
Firm Inception:	1988
Firm Assets:	$4.0 Trillion
Strategy Inception:	June 1987
Strategy Assets:[1]	$5.5 Billion
Min. Size, Sep. Account:	$100 Million
Fee, Separate Account: [3]	
First $100 Million	25 bps
Next $400 Million	25 bps
Balance	25 bps

Firm Background and History

BlackRock was founded in 1988 and is a provider of asset management, risk management, and advisory services to institutional, intermediary, and individuals worldwide. As of December 2013, the firm manages in excess of US$4.0 trillion across equity, fixed income, real estate, liquidity, alternatives, and asset allocation/balanced strategies in separate accounts, mutual funds and other vehicles.

The firm is headquartered in New York and has offices in 24 countries with more than 11,000 employees. BlackRock (NYSE: BLK) is independent, with no single majority stockholder and a board comprised by a majority of independent directors. Institutional investors, employees and the public own 59.5%.

In order to anticipate changes and advances in the investment industry and to deepen the firm's investment and risk management capabilities, the firm merged with Merrill Lynch Investment Managers (MLIM) in 2006 and Barclays Global Investors (BGI) in 2009. As a consequence of the acquisition of BGI in 2009, the company now has a broad index ETF business covering multiple asset classes in addition to actively managed quantitative strategies. The subject Global Bonds strategy is one of a number of related products managed by the legacy "Fundamental" team located in New York.

Strategy Background & Philosophy

The Fundamental-Based Fixed Income investment philosophy is founded on the belief that through rigorous fundamental research and analysis the team can uncover unrecognized value in global fixed income markets. The team combines top-down, macroeconomic themes with bottom-up relative value views with a focus on active sector rotation and security selection. Additionally, the team closely manages the active exposures to individual countries, currencies and duration relative to the benchmark. They attempt to identify relative-value trades across the yield curve, across sectors and between securities. By maintaining a broadly diversified portfolio of smaller-sized, relatively lowly correlated positions, the team aims to provide more consistent returns for a given level of volatility over long periods of time.

The Global Sovereign Bond strategy targets a return of between 75 bps to 200 bps in excess of the Citigroup World Government Bond Index (WGBI) benchmark with a risk limit of 1% to 2% ex-ante, and an information ratio of 0.5 to 0.75. Other customized versions of the Global Sovereign Bond strategy offer more or fewer constraints and higher or lower risk tolerances, which may include active foreign currency management, interest rate derivatives and off benchmark allocations depending on the separate account investor's preferences.

Key Investment Professionals

Headquartered in BlackRock's London office, the Fundamental Fixed Income team is led by Scott Thiel. The nine member team is comprised of senior and junior portfolio managers, some of whom have responsibilities to specific sectors and industries while others focus across multiple sectors. Portfolio managers are primarily responsible for top-down investment allocations and risk management. The firm's sector teams perform the bottom-up, fundamental analysis to identify investment opportunities.

Scott Thiel, Deputy CIO of Fundamental Fixed Income, Head of European and Global Bonds

Located in London, Mr. Thiel is a member of the Fixed Income Executive Committee and the EMEA Executive Committee. In addition, he serves as a member of BlackRock's Leadership Committee. Prior to joining the firm in 2002, Mr. Thiel was a Vice President at Goldman Sachs & Co. During his tenure at Goldman Sachs, he was responsible for developing strategies in both US and international interest rate and derivative markets for institutional clients. Mr. Thiel earned a BA degree in American history from Princeton University in 1987.

Owen Murfin, CFA, Managing Director, Portfolio Manager
Mr. Murfin is primarily responsible for global credit strategies within the Fundamental Fixed Income team. His service with the firm dates back to 2002, including his years with Merrill Lynch Investment Managers (MLIM) which merged with BlackRock in 2006. While at MLIM, Mr. Murfin was a fixed income portfolio manager responsible for non-government securities within the global aggregate and global corporate portfolios. Prior to joining MLIM, he was employed at Goldman Sachs & Co. managing global credit portfolios. Mr. Murfin earned a BSc degree in chemistry from the University College London in 1997.

Joe Di Censo, CFA, CAIA, Managing Director
Mr. Di Censo is a member of the Global Rates Investment Team within BlackRock Fundamental Fixed Income. Prior to joining BlackRock in 2011, Mr. Di Censo was a member of the Monetary and Capital Markets Division of the International Monetary Fund (IMF) in Washington D.C. He served as a financial sector expert to IMF teams working on the European sovereign debt crisis, and advised policymakers in India, Indonesia, Japan, and Korea. In addition, Mr. Di Censo was a lead author of the *Global Financial Stability Report*. Prior to his work at the IMF, Mr. Di Censo was a Senior Vice President at Lehman Brothers, where he spent nine years as a member of the global asset allocation research team. In that role, he contributed to fundamental and quantitative investment strategies across US, European, and Asia fixed income markets as well as the broader research platform. He was also an author of Lehman's flagship fixed income research publication, *Daily* and *Weekly Global Relative Value*. Mr. Di Censo has an MA degree in economics from the University of Pennsylvania and received a BS degree, *magna cum laude*, from Georgetown University's School of Foreign Service in 1998.

Amar Bashir, CFA, Director
Mr. Bashir is a member of the European & Non-US Fixed Income Group within BlackRock Fundamental Fixed Income. He is a portfolio manager on the Global Bond Portfolio Team. Mr. Bashir joined the Portfolio Management Group in 2006. He began his career at BlackRock in 2002 as an analyst in the Portfolio Compliance Group. Mr. Bashir earned a BSC degree in economics, with a concentration in finance and electronic commerce, from the Wharton School at the University of Pennsylvania in 2002.

Yudhveer Chaudhry, Director
Mr. Chaudhry is a member of the Global Rates Investment Team within BlackRock Fundamental Fixed Income. Mr. Chaudhry moved to his current role in 2001. He joined the Portfolio Management Group in 2000 as an associate on the financing desk and was previously an analyst in the Portfolio Compliance Group. Prior to joining BlackRock in 1997, Mr. Chaudhry spent three years with Unilever as a production manager. Mr. Chaudhry earned a BTech degree in chemical engineering from the Indian Institute of Technology, New Delhi, in 1993 and an MBA degree from Baruch College in 1998.

Beata Harasim**, **CFA, CAIA, Vice President
Ms. Harasim is a member of Non-US Fixed Income Group within Blackrock Fundamental Fixed Income. She is focused on currency and global rates strategies in the Global Bond portfolio team. Ms. Harasim began her career at BlackRock as a member of the graduate program in 2008. Ms. Harasim has earned a MA in finance and banking from the Warsaw School of Economics in 2008.

Process

Summary of Process:
The strategy draws on the firm's extensive resources and incorporates both macro-economic views along with the sector team's relative value ideas in order to isolate investment opportunities between sectors and securities. The team adds value through active sector and sub-sector (e.g., government, agency, corporate bond) rotation, which may or may not be part of the benchmark. The sector allocations are established by the Global Bond team based on relative value assessments. After the framework has been established, the Global Sector Specialist teams seek to identify individual securities for inclusion into the portfolio. Chief drivers of relative performance are sector allocation, security selection, yield curve positioning, duration management, and country and currency selection.

Portfolio Construction: Portfolio managers and various members of the Global Sector Specialist teams meet regularly to conduct the Portfolio Strategy Meeting and discuss asset allocation, portfolio risk, and investment themes in the portfolio. Additionally, the Global Bond team meets regularly to discuss the Market Outlooks with a goal of incorporating those ideas into the strategy. Once the portfolio framework has been established, the portfolio management team integrates securities identified by the sector specialists. Sector specialists, in turn, are tasked with identifying factors such as sovereign credit worthiness and cash flow analysis which result in a score for each credit (strong like, like, dislike, strong dislike, avoid). Additionally, the firm strategically locates the team among its global office footprint to ensure that news flow and local information are incorporated into the analysis process.

Portfolio Construction:
Top-down risk budgeting is the foundation of the team's approach to portfolio construction. The team estimates how much risk the portfolio requires to achieve its performance target of between 75-200 basis points excess annualized return. Each investment decision, sector-, curve- and issuer contribution to excess returns (alpha) is forecasted along with the riskiness of the decision itself.

In order to accurately take the intended risk relative to the benchmark, the portfolio's duration and yield curve viewpoints are expressed in terms of "currency blocs" (e.g., USD bloc, Euro bloc, etc.), and at the individual currency market levels (e.g., British Pound, Australian Dollar, etc.) rather than aggregate portfolio exposures. Duration is largely kept within a +/- 1-year range around the benchmark, although there is flexibility to comply with mandate-specific guidelines. Country and currency exposures are generally limited to 5-10 basis point increments in order to limit the impact to the portfolios risk and returns profile as opposed to larger more concentrated positions. Portfolio positioning can be either strategic or tactical in nature, and investment timelines can vary from very short to more long-term. Portfolio positioning is made with price targets in mind; however the team frequently re-evaluates securities' relative value characteristics to determine buy/sell timing.

Buy/Sell Decisions: The decision to buy a security is based primarily on the team's relative value determination in conjunction with the risk management team's quantitative assessment of the security. For example, if a security is thought to add value to the portfolio, the portfolio is optimized with the addition of the new security. If the new portfolio has a higher IR than the current, the security will be added to the portfolio. Transaction costs are considered when evaluating the addition of the security, so bid/offer spread is an integral part of the buy decision.
Sell Decisions: The decision to sell a security is not based necessarily on fixed price targets, but consideration may be given after a period of strong performance. As an example, gains in the portfolio may be realized to modify the overall duration, convexity or ratings characteristics, or to move into sectors that exhibit higher potential relative value opportunities. All decisions to sell securities are dependent on the sector and credit analysts and their relative value analysis.

Risk Management

Active risk management is set during the portfolio construction process through the risk-budget. The Global Bond team is responsible for portfolio risk decisions with the intent to minimize the amount of additional risk relative to the benchmark while gaining isolated risk exposure through sector and security exposures. The strategy is managed in a benchmark-aware manner, so tracking error is an important risk factor. The historic tracking error relative to the benchmark has been quite low, between 1% and 2.5%, despite the inclusion of emerging market and off-benchmark allocations; during more volatile markets the tracking error has been near the upper bound of this range.

The Risk Management team works closely with the portfolio managers to provide fully independent top-down and bottom-up risk oversight. Supported by BlackRock's proprietary risk analytics platform Aladdin©, the portfolio managers focus on five risk parameters: (i) interest rate risk, (ii) yield curve risk, (iii) cash flow risk, (iv)credit risk, and (v) liquidity risk. As part of the team's daily risk reporting package, the team receives reports from the firm's proprietary risk management system designed to aid in the analysis and management of risks across the portfolio. Interest rate risks are typically managed within a relatively narrow band around the benchmark's duration (+/- 20%). The team's yield curve strategy can be managed in a flexible manner depending on the investment objectives and tolerances of the portfolio. The portfolio's exposures are measured using key rate duration, which measures the sensitivity of individual securities or the aggregate portfolio for shifts in the yield curve. Credit risks are monitored by the credit research team, and all credits require approval before inclusion into the portfolio. Finally, liquidity risks are measured based on the security's bid/ask spread with the goal of identifying those positions that may experience increased volatility due to widening of spreads. All portfolios are managed in line with the guidelines and risk objectives set forth by the investment mandate.

Potential Red Flags

As part of our due diligence process, we review the strategies for potential "red flags" that could warrant a material reexamination. These red flags include changes in any of the following: portfolio management team, investment philosophy, risk control parameters, and ownership structure of BlackRock. Additionally, we also look to evaluate the strategy for excessive benchmark relative tracking error that is outside of expected or historic norms.

The Fundamental Fixed Income team has experienced some significant personnel turnover and promotions in recent years. In 2011, after 15-years with the firm, Andrew Gordon, who was the lead portfolio manager for the strategy, departed the organization. It was during this transition that Mr. Thiel, BlackRock's Deputy CIO for Fundamental Fixed Income, assumed all investment management decision-making responsibility for the strategy. Additionally, in March 2014 Brian Weinstein, Head of Multi-Sector strategies as well as the firm's TIPS strategies and a part of the Fundamental Fixed Income team, announced that he was leaving the organization. Finally, in 2013, Rick Reider was promoted from the position of CIO of the firm's Fundamental Fixed Income team to co-Head of Americas Fixed Income Group. Turnover of this nature is not uncommon in large organizations with deep teams such as BlackRock. While organizational changes related to Messrs. Weinstein's and Reider's transitions have little direct impact on the Global Bond strategy, we are comforted by the fact that the philosophy and process of the team remain intact.

The historical volatility of the strategy has been relatively higher than the benchmark and the Global Bond peer universe. This difference was mostly due to decisions to underweight US Treasury bonds while simultaneously overweighting US and European financial credits in addition to high yield bonds. As part of the 2011 management change, Mr. Thiel limited those exposures and brought volatility more in line with the benchmark. This intentional shift toward more benchmark-relative awareness is a slight, stylistic evolution for the strategy rather than a wholesale change. The result has been an improvement in Information Ratio, a measure of risk-adjusted returns, but could potentially reduce the team's ability to achieve their return target given such a low level of Tracking Error. As discussed in more detail below, there has been no negative impact up to this point.

Performance

Excess relative performance for the strategy has been driven primarily by active sector allocations and currency management as well as off-benchmark allocations to emerging market and corporate bonds.

During the financial crisis, the strategy underperformed the benchmark by more than 670 bps as lower credit quality bonds experienced higher volatility and less liquidity. As a result of the underperformance, beginning in 2009, the team began to reduce the amount of non-government exposure, thereby reducing tracking error and volatility. For the periods between 2009 through 2012, the strategy performed better than the benchmark in three of the four years, adding 190 bps, 10 bps and 540 bps respectively during 2009, 2010 and 2012. It was during the Greek crisis in 2011, as volatility again increased, that the strategy underperformed by 230 bps, mostly due to a duration underweight, particularly in the USD market. As the flight to quality trade pushed government bond yields lower, the portfolio trailed the benchmark.

In 2013, as volatility increased during the second quarter and as emerging markets came under pressure, the strategy successfully navigated the period with only slight underperformance relative to the benchmark. As global bond market volatility decreased over the remainder of the year and credit spreads began to tighten again, the strategy was positioned well to increase off-benchmark allocations, specifically emerging market exposures, which have historically been alpha generators for the strategy.

We believe the strategy has demonstrated a strong ability to add value for clients willing to accept non-sovereign exposures and periods of higher volatility as markets transition through "risk-on" and "risk-off" market behaviors. Through March 31, 2014, the strategy has consistently outperformed the benchmark: the three year, five year, and ten year returns have outperformed by +350 bps and +140 bps and +50 bps annualized, evidence that the team can deliver outperformance over a full business cycle while targeting a low tracking error of roughly 2%.

Recommendation

Wurts & Associates recommends the BlackRock Global Bond strategy for clients seeking low tracking error exposure to a diversified portfolio of sovereign bonds.

The strategy's approach, focused primarily on investment grade, high credit quality bonds deserves consideration within the global bond space. The team, headed by Scott Thiel, is experienced, has access to significant resources and leverages the full breadth of BlackRock's credit and risk management capabilities. The strategy's process for identifying relative value investment opportunities is robust and repeatable. In addition, the mandate can be designed with flexibility to include or exclude off-benchmark exposures depending on the investor's risk profile.

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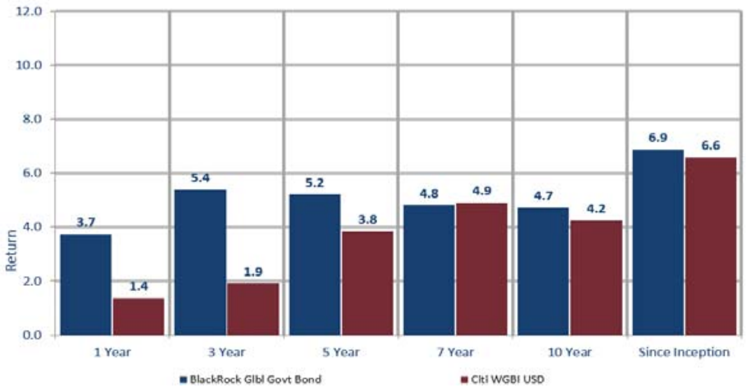
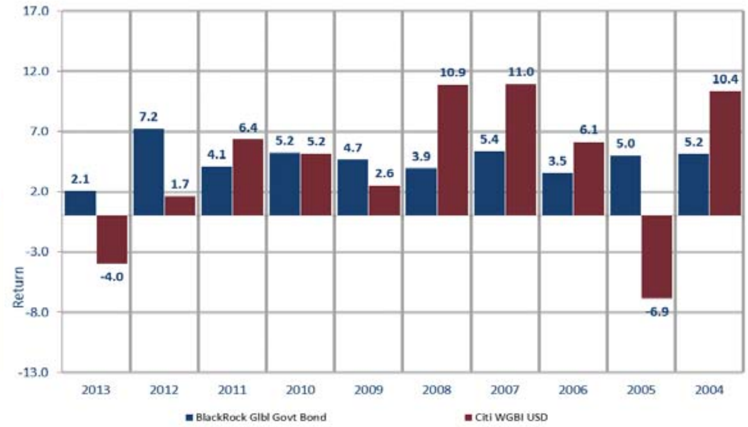
BlackRock Global Government Bond

Annualized Performance

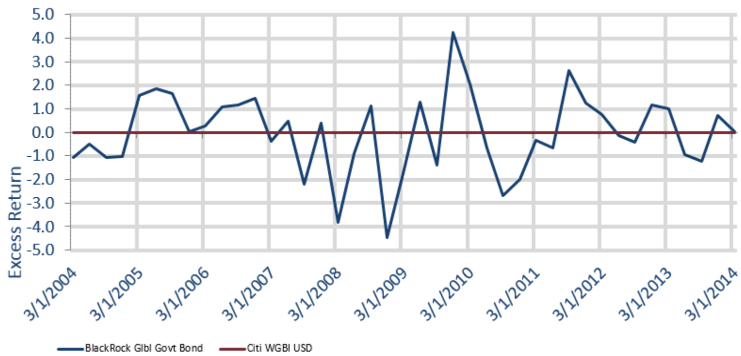
Source Data: Gross, Monthly Return



Performance



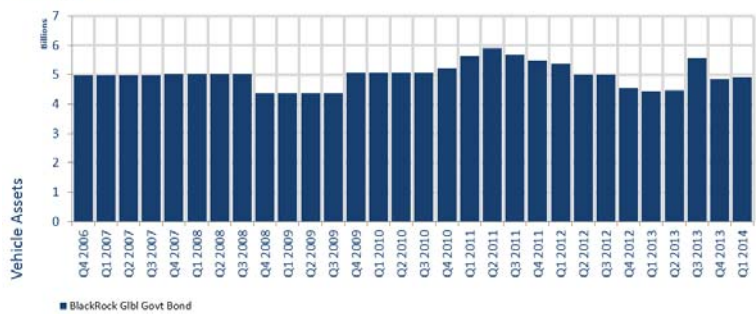
Excess Returns



Strategy Assets

Time Period: 12/31/2006 to 03/31/2014

Currency: US Dollar



Risk/Reward vs. Benchmark

As of Date: 03/31/2014

	3 Years	5 Years	10 Years
Downside Deviation	1.28	1.41	1.24
Sharpe Ratio	2.00	1.83	1.16
Alpha	4.81	4.41	3.80
Beta	0.29	0.21	0.21
R2	27.00	19.00	28.00
Tracking Error	4.08	5.40	5.87
Information Ratio (geo)	0.85	0.25	0.08
Excess Return	3.47	1.37	0.48
Standard Deviation	2.66	2.81	2.72
Batting Average	61.00	53.00	52.00
Treynor Ratio (arith)	18.40	24.96	15.02

Glossary of Terms

Active Management: A method of portfolio management based on the assumption that security prices do not always reflect their true, or intrinsic, value and that this disparity will be corrected over time. Managers engaging in active management attempt to find securities priced below their intrinsic value. It is theorized that as the rest of the market realizes the security is selling below its intrinsic value, the forces of supply and demand will drive the price up and the investment will make money.

Agency Securities: Obligations of agencies of the United States government but not obligations of the government itself. While not backed by the full faith and credit of the U.S. government, these securities are considered to be virtually default free because it is widely viewed that the United States government would not let one of its agencies default. Some of the agencies issuing these bonds are FNMA (Fannie Mae), FHLMC (Freddie Mac), and GNMA (Ginnie Mae).

Alpha (α): The excess return of a portfolio after adjusting for market risk. This excess return is attributable to the selection skill of the portfolio manager. Alpha is calculated as: Portfolio Excess Return – (Beta x Excess Market Return).

Arithmetic Mean: The mathematical average of a series of numbers.

Asset Allocation: The way in which the assets of an investment portfolio are split among asset classes. Studies have shown that more than 90% of the variability of the return of a portfolio is due to asset allocation.

Barclays Capital Aggregate Bond Index: Broadly diversified bond index that serves as a proxy for the bond market as a whole. It contains all types of fixed income securities, including mortgage- and other asset-backed securities.

Barclays Capital Government/Credit Bond Index (BCGC): Index containing Treasure securities, foreign (denominated in US dollars) and domestic corporate bonds, as well as agency securities.

Benchmark: Investment index used as a standard by which to measure the relative performance of an overall portfolio or an individual money manager. Appropriate benchmarks are selected based on their similarity to a portfolio or to the style of the individual money manager being measured. For example, a large cap core equity manager would be appropriately measured against the S&P 500 index. Alternatively, a fixed income core manager might be measured against the Barclays Capital Aggregate Bond index.

Beta (β): A measure of systematic, or market, risk, or that part of risk in a portfolio or security that is attributable to general market movements. It is calculated by dividing the covariance of a security by the variance of the market.

Book-to-Market: The ratio of book value per share to market price per share. Growth managers will typically have low book-to-market ratios while value managers will have high book-to-market ratios.

Bottom Up: An approach of equity management generally referred to as stock picking. Using this approach, a manager does not rely as much on industry or economic variables as much as on the characteristics of individual companies. These managers try to find companies that will fare well based on internal strength, possibly even in the face of adverse economic or industry movements.

Collateralized Mortgage Obligations (CMOs): A security backed by a pool of pass-through securities or mortgages that has a stated maturity. These securities provide a much more stable and predictable cash flow pattern than do pass-through securities. Different classes (tranches) of bonds are issued with different maturities, "A" being the shortest maturity bond and "Z" being the longest maturity bonds. The cash flows from the underlying assets are used to pay interest and retire the bonds in order of maturity.

Commercial Paper: A short-term, unsecured promissory note generally issued by corporations with high credit ratings. The maturity of these notes is usually less than 270 days. Commercial paper is considered to be part of the money market. The ratings of commercial paper range from P-1 (highest rating) to P-4 (lowest rating).

Commingled Fund: A fund consisting of assets from several accounts that are blended together. Investors in a commingled fund investment benefit from economies of scale, which allow for lower trading costs per dollar investment, diversification and professional money management.

Convertible Bonds: Bonds that contain an embedded call option. They are convertible into the common stock of the company issuing the bonds at some pre-specified price. The yield on these bonds is typically less than that of a non-convertible bond due to the embedded call option and the resulting increased opportunity to realize capital gains.

Correlation Coefficient (r): A measure of the relative movement of returns of one security or asset class versus another over time. A correlation of 1 means the returns of two securities move in lock step over time. A correlation of –1 means the returns of two securities move in the exact opposite direction over time. Correlation is used as a measure to help maximize the benefits of diversification when constructing an investment portfolio.

Credit Quality: A measure of credit worthiness of an issuing company or agency as reflected by a grade given to an interest bearing security. Credit quality is rated on a scale of AAA to D and measures the ability of the borrowing company or agency to make both interest and principal payments as set forth in the bond indenture, or contract.

Diversification: The practice of selecting several assets with differing return characteristics so as to reduce overall portfolio volatility.

Downside Risk: The likelihood that the return on an investment portfolio will fall below a pre-specified rate of return, e.g., the actuarial assumed rate of return.

Duration: A measure of a bond's effective term to maturity. Duration takes into account the size and timing of cash flows in order to determine the sensitivity of the price of a bond to a change in interest rates. The higher the duration, the more sensitive a bond is to interest rates changes.

Efficient Frontier: A line plotted on a risk / return graph that represents alternative portfolios with the highest amount of return for a given level of risk.

Emerging Markets: Securities markets in less developed countries. Emerging markets are typically characterized by market inefficiencies, lack of information, lack of price continuity, little liquidity, and lack of adequate rules and regulations. There are typically a small number of players in these markets and price manipulation is common. High returns are available due to the extremely high risk associated with participation in these markets.

Excess Return: Rate of return in excess of the risk-free rate, typically defined by the rate of return on short-term U.S. government obligations, i.e., T-bills. (Also known as Risk Premium.)

Excess Return Ratio: A measure of a money manager's ability to earn additional return relative to the additional risk incurred in doing so. The ratio is calculated as follows: (Portfolio Return – Benchmark Return) / Tracking Error.

Geometric Mean: Equal to the annualized compound rate of return over a given period.

Growth Manager: Refers to the style of an equity manager. A growth manager typically seeks capital appreciation by choosing stocks that are expected to grow at a faster rate than their peers or the market as a whole. Typical portfolio characteristics of this strategy include high price-to-earnings ratio, low book-to-market ratio, and high and sustained earnings per share growth.

Index: A passively managed portfolio of securities that remains constant from one period to the next. Indexes are used to gauge the performance of sectors of the market or the market as a whole. In addition, indexes are used as a benchmark for measuring the performance of investment managers.

Information Ratio: A measure of a manager's ability to earn excess return without incurring additional risk. It can be calculated as follows: alpha divided by tracking error.

Investment Grade: Investment grade bonds are bonds that are rated BBB or higher.

Junk Bonds: Also called high-yield bonds, these are bonds with ratings from BB to D. They offer higher yields due to their increased risk of default. A bond rated D is already in default while a bond rated C is expected to default at some point in the future.

Large Capitalization Stocks: Also referred to as large-cap stocks, these are the securities of companies whose overall market capitalization is roughly greater than $6 billion.

Market Capitalization: The total value of a publicly traded company. Market capitalization is determined by multiplying the total number of shares that a company has outstanding by the market price of each of those shares. Companies are classified by market capitalization as small, medium, or large.

Market Efficiency: Defined as the ability of a market to process information quickly and correctly so that every security traded in that market is always fairly priced based upon current expectations of the future.

Mean-Variance Optimization: The process of building an Efficient Frontier through the evaluation of all possible combinations of selected asset classes with different risk and return characteristics.

Medium Capitalization Stocks: Also referred to as mid-cap stocks, these are the securities of companies whose overall market capitalization is roughly between $1.5 billion and $6 billion.

Modern Portfolio Theory: Principles underlying analysis and evaluation of rational portfolio choices based on risk-return trade-offs and investment diversification.

MSCI EAFE Index: The Morgan Stanley Capital International Europe Australia and Far East (MSCI EAFE) Index is a value-weighted index composed of equity securities traded in the countries that give the index its name. This index is a typical benchmark for international equity managers as well as the basis for many international equity index funds.

Mutual Fund: Pools of money are managed by an investment company. They offer investors a variety of goals depending on the fund and its investment charter. Some funds, for example, seek to generate income on a regular basis. Others seek to preserve an investor's money. Still others seek to invest in companies that are growing at a rapid pace. Mutual funds are investment companies regulated by the Investment Company Act of 1940.

Passive Management: A method of portfolio management that is based on the belief that all securities are fairly priced and that there are no additional returns to be made from security selection. Often called a buy and hold strategy or indexing, this method comes from purchasing a well-diversified portfolio of securities and holding them indefinitely.

Pass-Through Securities: A pool of mortgages is formed and then shares in the pool are issued. Holders of the shares receive the cash flows from the underlying mortgage pool (i.e. the interest and principal payments). One problem with pass-through securities is the unpredictable nature of the cash flows due to events such as prepayment of the underlying mortgages.

Policy Index: A customized performance benchmark designed to reflect the characteristics of an investment portfolio. The policy index represents the return that would have been produced by passive investment in the target asset allocation of a plan.

Portfolio Excess Return: The rate of return of a portfolio over and above the risk-free rate. Portfolio excess return is attributed to the amount of additional market risk born by the portfolio plus the skill of the portfolio manager.

Portfolio Turnover: The percentage of a portfolio that is sold and replaced (turned over) during a given time period. Low portfolio turnover is indicative of a buy and hold strategy while high portfolio turnover implies a more active form of management.

Price-to-Earnings Ratio: Also called the earnings multiplier, it is calculated by dividing the price of a company's stock into earnings per share. Growth managers typically hold stocks with high price-to-earnings ratios whereas value managers hold stocks with low price-to-earnings ratios.

Price-Weighted Index: An index whose value is simply the arithmetic average of the prices of the securities that the index contains. In this type of index securities with the highest prices will have the greatest effect on the value and return of the index. The Dow-Jones Industrial average is an example of a price-weighted index.

Relative Return: The difference between the rate of return of a portfolio and its benchmark.

Residual Risk: The portion of total risk attributable to the unique risk of a given portfolio or security (also known as unsystematic risk). The key goal of diversified portfolio is to reduce residual risk to the greatest extent possible. It is calculated by subtracting market risk (or Beta) from total risk.

Risk Premium: An expected return in excess of the risk-free rate. The premium provides compensation for the assumption of risk.

Risk-Free Rate: The rate of interest that one can earn on an investment with no default risk. It is generally assumed to be the interest rate on a 91 day T-Bill.

R-Squared: Also called the coefficient of determination, it measures the amount of variation in one variable explained by variations in another. In the case of investments, the term is used to explain the amount of variation in a security or portfolio explained by movements in the market or the portfolio's benchmark.

Russell 2000 Index: A value-weighted small-cap stock index composed of the 2000 securities with the lowest market capitalization in the Russell 3000 index. This is one of the most common benchmarks for small-cap equity managers and is compiled by the Frank Russell Company.

Russell Mid-Cap Index: A value-weighted index composed of the 800 smallest companies, by market capitalization, in the Russell 1000 index. This index is compiled by the Frank Russell Company and, as its name implies, is used as a benchmark for mid-cap portfolios.

S & P 500 Index: A value-weighted index compiled by Standard and Poor's that is comprised of 500 of the largest companies traded on the NYSE and NASDAQ exchanges. This is the most common proxy for the equity market as a whole and is the typical benchmark for large-cap portfolios.

Sharpe Ratio: A measure of portfolio efficiency. The Sharpe Ratio indicates excess portfolio return for each unit of risk associate with achieving the excess return. The higher the Sharpe Ratio, the more efficient the portfolio. It can be calculated as: Portfolio Excess Return / Portfolio Standard Deviation.

Small Capitalization Stocks: Also referred to as small-cap stocks, these are securities of companies whose overall market capitalization is roughly less than $1.5 billion.

Standard Deviation (σ): A measure of volatility, or risk, inherent in a security or portfolio. The standard deviation of a series is a measure of the extent to which observations in the series differ from the arithmetic mean of the series. For example, if a security has an average annual rate of return of 10% and a standard deviation of 5%, then two-thirds of the time, one would expect to receive an annual rate of return between 5% and 15%.

Systematic Risk: Often called market risk, it is risk that is due to macroeconomic factors and as such this type of risk affects all risky assets and cannot be reduced through diversification.

Top Down: An approach to equity management whereby the manager first forms an opinion on the direction of the economy as a whole. Next, the manager determines how their economic forecast will affect certain industries and finally how the industry effect will apply to individual companies within those industries.

Tracking Error: The standard deviation of the difference between the rate of return of a portfolio and its benchmark.

Treasury Securities: Obligations of the United States government, which are considered free of default risk.

Universe: Also called a peer group, a universe is a large number of portfolios of a similar style. These portfolios can be divided into deciles or quartiles and then used for performance measurement and comparative purposes. Portfolios are ranked within the universe, which tells the investor how well a manager has done relative to his or her peers.

Unsystematic Risk: Also called company specific risk, it is risk that is unique to a particular company due to things such as the nature of their business or their use of leverage. Unsystematic risk can be reduced or eliminated by holding a well-diversified portfolio.

Value: Refers to the style of an equity manager. A value manager seeks to create returns by purchasing stocks selling at a discount to their true, or intrinsic, value. Typical portfolio characteristics of this strategy include a low price-to-earnings ratio, high book-to-market ratio, and high dividend yield.

Value-Weighted Index: An index whose value is computed by determining the relative weightings of each of the securities that it contains by dividing each securities total market capitalization by the total market capitalization of all of the securities in the index. This weight is then applied to a base value for the index, usually 100. The change in the index is computed by recalculating the relative weightings using the current market capitalization for each security divided by its base time period market capitalization and multiplying the sum of all the new weightings by the initial index value. In a value-weighted index companies with the largest market capitalization will have the greatest effect on the return of the index due to their larger relative weighting. The S & P is an example of a value-weighted index.

Weighted Average Maturity (WAM): A measure of the overall maturity of a bond portfolio that can assist an investor in determining a portfolio's sensitivity to changes in interest rates. The higher the weighted average maturity, the greater the effect of a change in interest rates on portfolio value.

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Manager Evaluation: Brandywine Global Investment Management, LLC
Global Opportunistic Fixed Income

Last Updated: April 2014

Strategy Basics

Asset Class:	Global Fixed Income
Firm Inception:	1986
Firm Assets:	$52.3 Billion
Strategy Inception:	January 1998
Strategy Assets:	$18.2 Billion
Min. Size, Mutual Fund:	$1 Million
Fee, Mutual Fund (GOBSX):	0.62%
Min. Size, Commingled:	$5 Million
Min. Size, Sep. Acct:	$50 Million
Fee, Sep. Acct/ Commingled:	
First $50 Million	0.45%
Next $50 Million	0.43%
Remaining Balance	0.35%

Firm Background and History

Brandywine Global Investment Management, ("Brandywine"), was incorporated in in 1986. The firm is focused exclusively on investment management activities across fixed income ($38 billion) and equity ($10 billion).

Brandywine operates as a wholly-owned but independent subsidiary of Legg Mason, Inc. (NYSE: LM), retaining investment autonomy and control over management, investment, and employment decisions. Legg Mason acquired 100% of Brandywine in January 1998.

The firm is headquartered in Philadelphia with offices in Singapore and London and employs approximately 40 investment professionals and 100 support staff.

Strategy Background

Brandywine's fixed income philosophy is a value-driven, active, top-down approach. The Global Opportunistic Fixed Income ("GOFI") strategy invests in primarily sovereign bonds of the largest 20 countries, concentrating on those with high real (inflation adjusted) interest rates and appreciating currencies in an effort to limit risk while producing strong relative returns. Currency exposure is actively managed and has been a significant return driver.

The value-driven, actively managed approach is well-suited to global fixed income since each country and sector exhibit unique valuation characteristics that vary over time. By concentrating on markets with above-average value, defined as a combination of above-average real interest rates and an under-valued currency, the strategy attempts to benefit from the eventual recognition of credit fundamentals and currency appreciation. The team concentrates investments where existing economic and market conditions are positioned to be realized in an intermediate time frame.

The team believes its active strategy has superior potential for reward compared to passive index-replication which they believe is poorly constructed and adds an unnecessary level of risk to the portfolio management process. Country-by-country return dispersion across developed country bond markets is significant. This feature allows the potential for an active managed process to achieve significant excess return above the benchmark. The Brandywine team seeks to capture those excess returns through strategic investment in countries, currencies, sectors and securities. The Global Opportunistic Fixed Income strategy allows 0-15% allocation to emerging markets and 0-15% allocation to high yield debt.

More recently the Brandywine team launched a sovereign only composite, Global Investment Grade Sovereign Fixed Income, which is an attractive option due to the limitations put on credit risk. The three year track record currently has $1.5 billion in assets under management. Similar to the "GOFI" strategy, the sovereign only strategy uses a value-driven process with the primary measure of value coming from real (inflation-adjusted) yield followed by currency valuation. The strategy typically concentrates investments in 8-12 countries that appear to offer the best total return potential. Currency exposures are actively managed.

Key Investment Professionals

Stephen Smith, *Managing Director / Portfolio Manager*
Mr. Smith is co-lead portfolio manager for the firm's Global Fixed Income and related strategies. He joined the firm in 1991 and is a member of the firm's Executive Board.

Previously, Mr. Smith was with Mitchell Hutchins Asset Management, Inc. as managing director of taxable fixed income (1988-1991); Provident Capital Management, Inc. as senior vice president overseeing taxable fixed income (1984-1988); Munsch & Smith Management as a founding partner (1980-1984), and First Pennsylvania Bank as vice president and portfolio manager (1976-1980). He earned a B.S. in Economics and Business Administration from Xavier University, where he is currently chair of the university's foundation and is a member of the board of trustees for this and other nonprofit institutions.

David Hoffman, **CFA** *Managing Director /Portfolio Manager*
Mr. Hoffman is co-lead portfolio manager for the firm's Global Fixed Income and related strategies. He joined the firm in 1995 and is currently serving as the Executive Board's chairman. Previously, Mr. Hoffman was president of Hoffman Capital, a global financial futures investment firm (1991-1995); head of fixed income investments at Columbus Circle Investors (1983-1990); senior vice president and portfolio manager at INA Capital Management (1979-1982), and fixed income portfolio manager at Provident National Bank (1975-1979). Mr. Hoffman is a CFA charterholder and earned a B.A. in Art History from Williams College.

Jack McIntyre, CFA *Associate Portfolio Manager*
As associate portfolio manager and senior research analyst for the Global Fixed Income and related strategies, Mr. McIntyre provides valuable analytical and strategic insight. He joined the firm in 1998. Previously, he held positions as market strategist with McCarthy, Crisanti & Maffei, Inc. (1995-1998); senior fixed income analyst with Technical Data, a division of Thomson Financial Services (1992-1995); quantitative associate with Brown Brothers Harriman & Co. (1990), and investment analyst with the Public Employee Retirement Administration of Massachusetts (1987-1989). Mr. McIntyre is a CFA charterholder and earned an M.B.A. in Finance from the Leonard N. Stern Graduate School of Business at New York University and a B.B.A. in Finance from the University of Massachusetts, Amherst.

Francis Scotland, *Director of Global Macro Research*
As Brandywine's director of global macro research, Mr. Scotland is responsible for development of the firm's proprietary macro research. He joined the firm in January 2006 and is based in Montreal. Previously, he was editor-in-chief, chief global strategist and former principal of the BCA Research Group, one of the world's leading independent research and investment strategy firms (1984-2005), and an economist with the Bank of Canada (1977-1984). Mr. Scotland earned an M.A. in Economics from the University of Western Ontario and a B.A. in Economics from Queen's University in Ontario.

Marc Semaan, **CFA** *Global Macro Research Analyst*
Mr. Semaan joined the firm in 2013 to contribute to the firm's proprietary macro research. Prior to Brandywine, Mr. Semaan was a financial economist and investment and currency analyst at Hexavest between 2011 and 2013. Mr. Semann earned a Bachelor of Applied Mathematics degree from the Universite Francois-Rabelais, a Bachelor of Economics and a Master's degree in Applied Finance from Montreal University. Mr. Semaan is a CFA charterholder and a member of the Professional Development Committee of the CFA Society of Montreal.

Process

The investment universe for GOFI includes sovereign debt and currencies of countries in the Citigroup World Government Bond Index Unhedged, as well as the investment-grade corporate bond and mortgage-backed securities markets in those countries. The strategy may invest, to limited degrees, in emerging market and high yield debt, as well as in countries rated A-or-better by a nationally recognized statistical rating organization, such as Moody's or Standard & Poor's.

Real yield is the primary measure of value. Currency valuation is the second-most critical component, since the real yield must be captured in the investor's local currency (dollars for U.S. investors and euros for many of those in Europe, for example). Thus, the strategy focuses on appreciating, undervalued currencies, and high real-yield securities in overvalued currencies that can be efficiently hedged without significant loss of return potential.

The team applies a country-by-country macro-economic analysis to rank opportunities based on real interest rate levels. Inflation trends, political risks, monetary trends, business and liquidity cycle measures all play a role in determining relative value rankings. Further analysis then centers on those countries that exhibit the highest real interest rates. Acceptable duration (the sensitivity of prices to movements in interest rates) is determined at the country level, though portfolio-level adjustments may be made according to the team's overall outlook.

Portfolios are typically invested in 8-16 developed countries and currencies across 20-40 securities that they believe provide the best value and total return potential. The majority of investments are in sovereign or government debt; however, when the team believes the market overestimates the credit risk associated with corporate debt and mortgage-backed securities, as evidenced by wide interest rate or price differentials between "spread" products and government securities, they will tilt the strategy to benefit from the expected improvement in these sectors (this process is excluded in the sovereign only strategy). Tactical moves as these served the product well in past post-recessionary environments which led to strong outperformance in subsequent years of recovery, but the team was early during the 2008 crisis and suffered underperformance during the last half of the year before eventually recovering in 2009.

Securities in the portfolio are weighted within the range specified in the investment contract and guidelines. Country and currency restrictions as outlined below:

	Country Allocation Ranges[1]	Currency Allocation Ranges
U.S.	0% - 65%	0% - 100%
Canada	0% - 25%	0% - 25%
Euro	-	0% - 70%
Germany	0% - 40%	-
France	0% - 40%	-
Italy	0% - 30%	-
Belgium	0% - 20%	-
Netherlands	0% - 20%	-
Spain	0% - 20%	-
United Kingdom	0% - 40%	0% - 40%
Denmark	0% - 20%	0% - 20%
Sweden	0% - 20%	0% - 20%
Japan	0% - 60%	0% - 60%
New Zealand	0% - 10%	0% - 10%
Other Countries Contained in the Index (each)	0% - 15%	0% - 15%
Other Non-Index Country (each) AA or better rating by an NRSRO[2]	0% - 10%	0% - 10%
Other Non-Index Country (each) A or better rating by NRSRO[2]	0% - 5%	0% - 5%
Non-Index Countries (aggregate) A or better rating by an NRSRO[2]	0% - 25%	0% - 25%
Emerging markets (each)	0% - 5%	0% - 5%
Emerging markets[3] (aggregate)	0% - 15%	0% - 15%

The actual percentage selected within that range depends on the extent to which the team believes both country and currency of issuance are undervalued. The portfolio allocations reflect the team's convictions: for country or currency with superior risk/return profiles and ideal conditions, a significant overweight toward the high end of the range results. This conviction weighting often results in concentration of investments in eight to sixteen countries, rather than a broadly diversified portfolio spread naively across many countries in an attempt to replicate index-like performance. In support of this approach, the minimum investment allocation is zero across all countries: if the team does not find compelling value in a particular country, they will not invest in that country.

The team typically sells a position when the country no longer meets their definition of value; specifically, when its real interest rates, currency valuation, and/or political and economic environment have fundamentally deteriorated. For corporate bonds and mortgage-backed securities, positions are sold for one of two reasons: either the security's spread has narrowed such that further gains are unlikely, or the fundamental drivers shift to create risks that likely outweigh rewards.

In certain instances, instead of completely eliminating exposure to a country, the team may alter the characteristics of the holdings by shortening duration or entering into currency swaps.

Potential Concerns

Recently, the firm announced that associate portfolio manager Brian Hess left the organization to pursue opportunity portfolio management role at Loomis Sayles. Mr. Hess had been with the firm for more than ten years and was responsible for researching global economic trends and managing client accounts. We believe that Mr. Hess' decision to leave the organization was due to his desire to take on additional responsibilities while continuing to gain experience.

The Global team at Brandywine is made up of senior investment professionals who have been with the team and organization for a significant amount of time. Based on the depth of the team and the collaborative approach to managing the investment process, we do not believe the departure of Mr. Hess will result in any changes to philosophy, process or overall strategy.

Risk Management

Currency exposures are actively managed via currency forwards in one of two ways. First, currency exposure resulting from a bond position may be hedged if the team believes a currency is excessively risky or likely to depreciate. Secondly, currency forwards may be employed to gain exposure to a currency they believe is likely to appreciate but in which no bonds of that sovereign issuer are owned due to cash bond market illiquidity or in cases where capital controls adversely affect direct ownership. Creating currency exposure may also be beneficial when the yield available through a currency forward is superior to that available in the local currency bond market.

Derivatives, including options, swaps and futures, may each be employed assuming client permission. Finally, interest rate futures may be employed to hedge interest rates. For example, the team could sell U.S. Treasury bond futures to offset the duration of a corporate bond holding to isolate changes in the credit spread in expectation of a rising interest rate environment, which negatively impacts straight bonds, thus separating undesired interest rate risk from the desired credit risk.

Performance

The keys to GOFI outperformance are country selection and currency selection, which are closely related in terms of the analysis undertaken by the team. During occasional periods of significant spread widening relative to sovereign rates, for instance going into a recessionary cycle, the team will invest in corporate credit. This approach provided outperformance during past cycles, including 1998 and 2001-2003, but the team was early to the 2007-2008 credit crisis. Those credit positions eventually improved, leading to significant outperformance beginning in 2009. As a result, over the trailing ten year period the fund has underperformed the benchmark in only two years (2008 & 2009).

Since the product is primarily focused on sovereign debt, it is expected to perform well when economies are expanding steadily. In times of turmoil, the G3 ("safe haven") country bias, particularly weighted toward U.S. Treasuries, has historically offered protection from spread widening and credit events elsewhere. For example, during the third quarter of 2011 as sovereign crises mounted in Europe, the strategy was overweight long-dated U.S. Treasuries which rallied despite the S&P's downgrade of U.S. Treasury's credit from AAA to AA+.

Holistically, this and other globally-oriented fixed income strategies will be significantly impacted by the volatility of currencies in which they trade. The returns achieved by holding a currency other than the dollar (for domestic clients) generally have greater influence over the total performance of the investment. For example, during the volatile second quarter of 2013, the team added to the strategy's longer duration positions in Mexico in anticipation of further economic improvement. The benefits of adding to duration were outdone as a result of the exposures to the Brazilian real, Chilean peso and South African rand. As a result, the fund's short-term performance ranked in the bottom decile for all global bond managers for the year.

The Brandywine team has a long track record of adding value through actively managed currency exposure which has helped this product achieve more than +371 basis points of annualized excess return over the Citigroup WGBI index since inception.

Similarly, although limited to a three-year track record, the sovereign only version of this strategy has strong excess returns since inception as well, gaining +319 bps annualized over the Citigroup WGBI index. Over time, the strategy is expected to have lower volatility when compared to the "GOFI" strategy due to credit exposure limitations which contributed to volatile swings in returns, for example during the 2008 and 2009 periods.

Recommendation

Wurts & Associates recommends the Brandywine Global Opportunistic Fixed Income and Sovereign Only strategies for clients seeking exposure to both global sovereign and global credit strategies. Both strategies offer long-tenured track records respectively with an experienced investment team.

Brandywine's focus on inflation adjusted real yields and a value-oriented approach towards currency management have helped both strategies perform consistently well relative to the Citi WGBI unhedged benchmark. The seasoned investment team, led by Stephen Smith and David Hoffman, is structured with the goal of balancing the team's top-down macro-driven thematic viewpoints against the fundamental bottom-up security selection process. Both strategies exhibit strong long-term track records and provide investors with a robust approach to investing in developed market interest rates while providing currency diversification.

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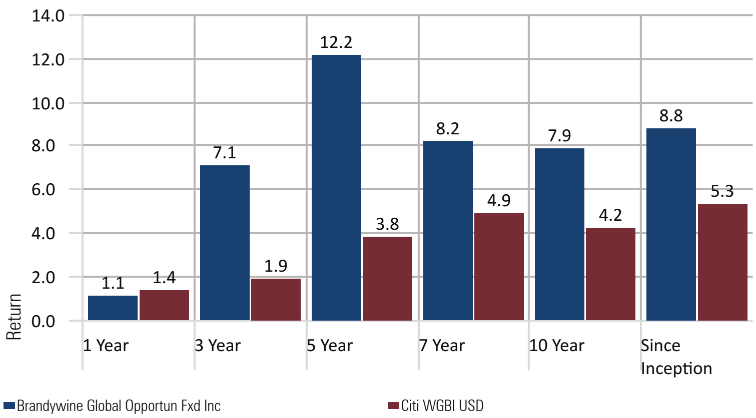
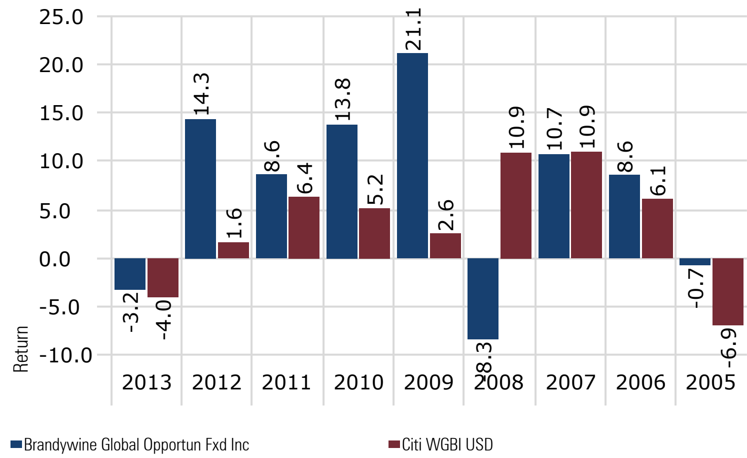
Brandywine Global Opportun Fxd Inc

Annualized Performance

Source Data: Gross, Quarterly Return



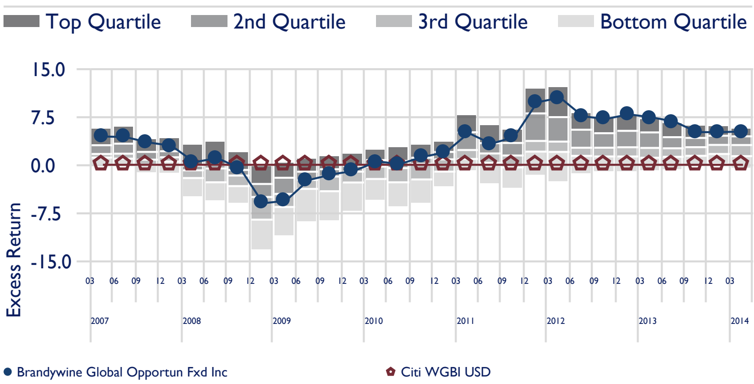
Performance



Excess Returns

Time Period: 4/1/2004 to 3/31/2014

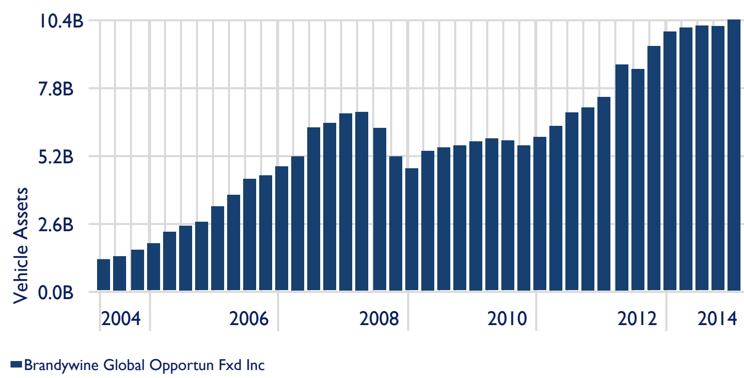
Peer Group (5-95%): Separate Accounts/CITs - Morningstar Institutional Category - World Bond   Rolling Window: 3 Years 3 Months shif



Strategy Assets

Time Period: 4/1/2004 to 3/31/2014

Currency: US Dollar



Risk/Reward vs. Benchmark

As of Date: 3/31/2014

	3 years	5 years	10 years
Downside Deviation	2.53	2.31	4.20
Sharpe Ratio	1.00	1.56	0.78
Alpha	4.95	8.24	4.09
Beta	1.08	0.90	0.80
R2	53.37	52.06	46.65
Tracking Error	4.85	5.24	6.03
Information Ratio (geo)	1.05	1.53	0.58
Excess Return	5.18	8.34	3.65
Standard Deviation	7.08	7.53	8.01
Batting Average	58.33	63.33	60.83
Treynor Ratio (arith)	6.49	13.37	7.78

Glossary of Terms

Active Management: A method of portfolio management based on the assumption that security prices do not always reflect their true, or intrinsic, value and that this disparity will be corrected over time. Managers engaging in active management attempt to find securities priced below their intrinsic value. It is theorized that as the rest of the market realizes the security is selling below its intrinsic value, the forces of supply and demand will drive the price up and the investment will make money.

Agency Securities: Obligations of agencies of the United States government but not obligations of the government itself. While not backed by the full faith and credit of the U.S. government, these securities are considered to be virtually default free because it is widely viewed that the United States government would not let one of its agencies default. Some of the agencies issuing these bonds are FNMA (Fannie Mae), FHLMC (Freddie Mac), and GNMA (Ginnie Mae).

Alpha (α): The excess return of a portfolio after adjusting for market risk. This excess return is attributable to the selection skill of the portfolio manager. Alpha is calculated as: Portfolio Excess Return – (Beta x Excess Market Return).

Arithmetic Mean: The mathematical average of a series of numbers.

Asset Allocation: The way in which the assets of an investment portfolio are split among asset classes. Studies have shown that more than 90% of the variability of the return of a portfolio is due to asset allocation.

Barclays Capital Aggregate Bond Index: Broadly diversified bond index that serves as a proxy for the bond market as a whole. It contains all types of fixed income securities, including mortgage- and other asset-backed securities.

Barclays Capital Government/Credit Bond Index (BCGC): Index containing Treasure securities, foreign (denominated in US dollars) and domestic corporate bonds, as well as agency securities.

Benchmark: Investment index used as a standard by which to measure the relative performance of an overall portfolio or an individual money manager. Appropriate benchmarks are selected based on their similarity to a portfolio or to the style of the individual money manager being measured. For example, a large cap core equity manager would be appropriately measured against the S&P 500 index. Alternatively, a fixed income core manager might be measured against the Barclays Capital Aggregate Bond index.

Beta (β): A measure of systematic, or market, risk, or that part of risk in a portfolio or security that is attributable to general market movements. It is calculated by dividing the covariance of a security by the variance of the market.

Book-to-Market: The ratio of book value per share to market price per share. Growth managers will typically have low book-to-market ratios while value managers will have high book-to-market ratios.

Bottom Up: An approach of equity management generally referred to as stock picking. Using this approach, a manager does not rely as much on industry or economic variables as much as on the characteristics of individual companies. These managers try to find companies that will fare well based on internal strength, possibly even in the face of adverse economic or industry movements.

Collateralized Mortgage Obligations (CMOs): A security backed by a pool of pass-through securities or mortgages that has a stated maturity. These securities provide a much more stable and predictable cash flow pattern than do pass-through securities. Different classes (tranches) of bonds are issued with different maturities, "A" being the shortest maturity bond and "Z" being the longest maturity bonds. The cash flows from the underlying assets are used to pay interest and retire the bonds in order of maturity.

Commercial Paper: A short-term, unsecured promissory note generally issued by corporations with high credit ratings. The maturity of these notes is usually less than 270 days. Commercial paper is considered to be part of the money market. The ratings of commercial paper range from P-1 (highest rating) to P-4 (lowest rating).

Commingled Fund: A fund consisting of assets from several accounts that are blended together. Investors in a commingled fund investment benefit from economies of scale, which allow for lower trading costs per dollar investment, diversification and professional money management.

Convertible Bonds: Bonds that contain an embedded call option. They are convertible into the common stock of the company issuing the bonds at some pre-specified price. The yield on these bonds is typically less than that of a non-convertible bond due to the embedded call option and the resulting increased opportunity to realize capital gains.

Correlation Coefficient (r): A measure of the relative movement of returns of one security or asset class versus another over time. A correlation of 1 means the returns of two securities move in lock step over time. A correlation of –1 means the returns of two securities move in the exact opposite direction over time. Correlation is used as a measure to help maximize the benefits of diversification when constructing an investment portfolio.

Credit Quality: A measure of credit worthiness of an issuing company or agency as reflected by a grade given to an interest bearing security. Credit quality is rated on a scale of AAA to D and measures the ability of the borrowing company or agency to make both interest and principal payments as set forth in the bond indenture, or contract.

Diversification: The practice of selecting several assets with differing return characteristics so as to reduce overall portfolio volatility.

Downside Risk: The likelihood that the return on an investment portfolio will fall below a pre-specified rate of return, e.g., the actuarial assumed rate of return.

Duration: A measure of a bond's effective term to maturity. Duration takes into account the size and timing of cash flows in order to determine the sensitivity of the price of a bond to a change in interest rates. The higher the duration, the more sensitive a bond is to interest rates changes.

Efficient Frontier: A line plotted on a risk / return graph that represents alternative portfolios with the highest amount of return for a given level of risk.

Emerging Markets: Securities markets in less developed countries. Emerging markets are typically characterized by market inefficiencies, lack of information, lack of price continuity, little liquidity, and lack of adequate rules and regulations. There are typically a small number of players in these markets and price manipulation is common. High returns are available due to the extremely high risk associated with participation in these markets.

Excess Return: Rate of return in excess of the risk-free rate, typically defined by the rate of return on short-term U.S. government obligations, i.e., T-bills. (Also known as Risk Premium.)

Excess Return Ratio: A measure of a money manager's ability to earn additional return relative to the additional risk incurred in doing so. The ratio is calculated as follows: (Portfolio Return – Benchmark Return) / Tracking Error.

Geometric Mean: Equal to the annualized compound rate of return over a given period.

Growth Manager: Refers to the style of an equity manager. A growth manager typically seeks capital appreciation by choosing stocks that are expected to grow at a faster rate than their peers or the market as a whole. Typical portfolio characteristics of this strategy include high price-to-earnings ratio, low book-to-market ratio, and high and sustained earnings per share growth.

Index: A passively managed portfolio of securities that remains constant from one period to the next. Indexes are used to gauge the performance of sectors of the market or the market as a whole. In addition, indexes are used as a benchmark for measuring the performance of investment managers.

Information Ratio: A measure of a manager's ability to earn excess return without incurring additional risk. It can be calculated as follows: alpha divided by tracking error.
Investment Grade: Investment grade bonds are bonds that are rated BBB or higher.

Junk Bonds: Also called high-yield bonds, these are bonds with ratings from BB to D. They offer higher yields due to their increased risk of default. A bond rated D is already in default while a bond rated C is expected to default at some point in the future.

Large Capitalization Stocks: Also referred to as large-cap stocks, these are the securities of companies whose overall market capitalization is roughly greater than $6 billion.

Market Capitalization: The total value of a publicly traded company. Market capitalization is determined by multiplying the total number of shares that a company has outstanding by the market price of each of those shares. Companies are classified by market capitalization as small, medium, or large.

Market Efficiency: Defined as the ability of a market to process information quickly and correctly so that every security traded in that market is always fairly priced based upon current expectations of the future.

Mean-Variance Optimization: The process of building an Efficient Frontier through the evaluation of all possible combinations of selected asset classes with different risk and return characteristics.

Medium Capitalization Stocks: Also referred to as mid-cap stocks, these are the securities of companies whose overall market capitalization is roughly between $1.5 billion and $6 billion.

Modern Portfolio Theory: Principles underlying analysis and evaluation of rational portfolio choices based on risk-return trade-offs and investment diversification.

MSCI EAFE Index: The Morgan Stanley Capital International Europe Australia and Far East (MSCI EAFE) Index is a value-weighted index composed of equity securities traded in the countries that give the index its name. This index is a typical benchmark for international equity managers as well as the basis for many international equity index funds.

Mutual Fund: Pools of money are managed by an investment company. They offer investors a variety of goals depending on the fund and its investment charter. Some funds, for example, seek to generate income on a regular basis. Others seek to preserve an investor's money. Still others seek to invest in companies that are growing at a rapid pace. Mutual funds are investment companies regulated by the Investment Company Act of 1940.

Passive Management: A method of portfolio management that is based on the belief that all securities are fairly priced and that there are no additional returns to be made from security selection. Often called a buy and hold strategy or indexing, this method comes from purchasing a well-diversified portfolio of securities and holding them indefinitely.

Pass-Through Securities: A pool of mortgages is formed and then shares in the pool are issued. Holders of the shares receive the cash flows from the underlying mortgage pool (i.e. the interest and principal payments). One problem with pass-through securities is the unpredictable nature of the cash flows due to events such as prepayment of the underlying mortgages.

Policy Index: A customized performance benchmark designed to reflect the characteristics of an investment portfolio. The policy index represents the return that would have been produced by passive investment in the target asset allocation of a plan.

Portfolio Excess Return: The rate of return of a portfolio over and above the risk-free rate. Portfolio excess return is attributed to the amount of additional market risk born by the portfolio plus the skill of the portfolio manager.

Portfolio Turnover: The percentage of a portfolio that is sold and replaced (turned over) during a given time period. Low portfolio turnover is indicative of a buy and hold strategy while high portfolio turnover implies a more active form of management.

Price-to-Earnings Ratio: Also called the earnings multiplier, it is calculated by dividing the price of a company's stock into earnings per share. Growth managers typically hold stocks with high price-to-earnings ratios whereas value managers hold stocks with low price-to-earnings ratios.

Price-Weighted Index: An index whose value is simply the arithmetic average of the prices of the securities that the index contains. In this type of index securities with the highest prices will have the greatest effect on the value and return of the index. The Dow-Jones Industrial average is an example of a price-weighted index.

Relative Return: The difference between the rate of return of a portfolio and its benchmark.

Residual Risk: The portion of total risk attributable to the unique risk of a given portfolio or security (also known as unsystematic risk). The key goal of diversified portfolio is to reduce residual risk to the greatest extent possible. It is calculated by subtracting market risk (or Beta) from total risk.

Risk Premium: An expected return in excess of the risk-free rate. The premium provides compensation for the assumption of risk.

Risk-Free Rate: The rate of interest that one can earn on an investment with no default risk. It is generally assumed to be the interest rate on a 91 day T-Bill.

R-Squared: Also called the coefficient of determination, it measures the amount of variation in one variable explained by variations in another. In the case of investments, the term is used to explain the amount of variation in a security or portfolio explained by movements in the market or the portfolio's benchmark.

Russell 2000 Index: A value-weighted small-cap stock index composed of the 2000 securities with the lowest market capitalization in the Russell 3000 index. This is one of the most common benchmarks for small-cap equity managers and is compiled by the Frank Russell Company.

Russell Mid-Cap Index: A value-weighted index composed of the 800 smallest companies, by market capitalization, in the Russell 1000 index. This index is compiled by the Frank Russell Company and, as its name implies, is used as a benchmark for mid-cap portfolios.

S & P 500 Index: A value-weighted index compiled by Standard and Poor's that is comprised of 500 of the largest companies traded on the NYSE and NASDAQ exchanges. This is the most common proxy for the equity market as a whole and is the typical benchmark for large-cap portfolios.

Sharpe Ratio: A measure of portfolio efficiency. The Sharpe Ratio indicates excess portfolio return for each unit of risk associate with achieving the excess return. The higher the Sharpe Ratio, the more efficient the portfolio. It can be calculated as: Portfolio Excess Return / Portfolio Standard Deviation.

Small Capitalization Stocks: Also referred to as small-cap stocks, these are securities of companies whose overall market capitalization is roughly less than $1.5 billion.

Standard Deviation (σ): A measure of volatility, or risk, inherent in a security or portfolio. The standard deviation of a series is a measure of the extent to which observations in the series differ from the arithmetic mean of the series. For example, if a security has an average annual rate of return of 10% and a standard deviation of 5%, then two-thirds of the time, one would expect to receive an annual rate of return between 5% and 15%.

Systematic Risk: Often called market risk, it is risk that is due to macroeconomic factors and as such this type of risk affects all risky assets and cannot be reduced through diversification.

Top Down: An approach to equity management whereby the manager first forms an opinion on the direction of the economy as a whole. Next, the manager determines how their economic forecast will affect certain industries and finally how the industry effect will apply to individual companies within those industries.

Tracking Error: The standard deviation of the difference between the rate of return of a portfolio and its benchmark.

Treasury Securities: Obligations of the United States government, which are considered free of default risk.

Universe: Also called a peer group, a universe is a large number of portfolios of a similar style. These portfolios can be divided into deciles or quartiles and then used for performance measurement and comparative purposes. Portfolios are ranked within the universe, which tells the investor how well a manager has done relative to his or her peers.

Unsystematic Risk: Also called company specific risk, it is risk that is unique to a particular company due to things such as the nature of their business or their use of leverage. Unsystematic risk can be reduced or eliminated by holding a well-diversified portfolio.

Value: Refers to the style of an equity manager. A value manager seeks to create returns by purchasing stocks selling at a discount to their true, or intrinsic, value. Typical portfolio characteristics of this strategy include a low price-to-earnings ratio, high book-to-market ratio, and high dividend yield.

Value-Weighted Index: An index whose value is computed by determining the relative weightings of each of the securities that it contains by dividing each securities total market capitalization by the total market capitalization of all of the securities in the index. This weight is then applied to a base value for the index, usually 100. The change in the index is computed by recalculating the relative weightings using the current market capitalization for each security divided by its base time period market capitalization and multiplying the sum of all the new weightings by the initial index value. In a value-weighted index companies with the largest market capitalization will have the greatest effect on the return of the index due to their larger relative weighting. The S & P is an example of a value-weighted index.

Weighted Average Maturity (WAM): A measure of the overall maturity of a bond portfolio that can assist an investor in determining a portfolio's sensitivity to changes in interest rates. The higher the weighted average maturity, the greater the effect of a change in interest rates on portfolio value.

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Manager Evaluation: Colchester Global Investors
Global Bond Fund
Last Updated: April 2014

Strategy Basics

Asset Class:	Global Bonds
Firm Inception:	1999
Firm Assets:	$23.9 billion
Strategy Inception:	09/2000
Strategy Assets:	$12.3 billion
Min. Size, Separate Account:	$75 million
Fee Separate Account:	
First $25m	0.48%
Next $25m	0.40%
Remainder	0.30%
Min. Size, Commingled Fund:	$3 million
Fee Commingled Fund:	
First $25m	0.60%
Next $25m	0.50%
Next $100m	0.35%
Remainder	0.25%

Firm Background and History

Colchester Global Investors Limited was founded by Ian G. Sims in 1999. The firm is narrowly focused on value oriented, global and international interest rate, bond and currency investment management services.

Headquartered in London, England, Colchester employs roughly 30 professionals. All investment and operation functions are out of the London office, while marketing and client service resides in New York with a team of six.

Since the firm's inception, Colchester has maintained an employee majority ownership of 51% with Silchester Partners Limited, also a private investment company, as the minority shareholder. The majority of Colchester's investment professionals maintain an ownership interest and it is the firm's intention that key future employees will also have well aligned interests.

In addition to the flagship long-only Global Bonds strategy, Colchester also offers inflation-linked portfolios, emerging market debt and unconstrained, long-short strategies.

Strategy Background

Colchester invests in high quality government bonds. The investment universe includes markets that are investment grade or higher. The global bond program was created in September 2000, with the objective of outperforming the Citigroup World Government Bond Index (WGBI) USD Unhedged by 100-150bps annually over a five- to seven year horizon with a tracking error of 250-500bps.

The fairly concentrated strategy of approximately 70 positions is predicated on Colchester's value-oriented philosophy and reflects the firm's belief that investments should be valued in terms of the real income they will generate. The portfolio is constructed based on analysis of inflation, real interest rates, and real exchange rates supplemented by an assessment of sovereign financial balances. Strategic allocations will be made to the opportunities with the greatest relative investment potential for a given level of risk relative to its benchmark.

The portfolio is principally comprised of sovereign bonds; the firm prefers to avoid the use of corporate credit due to the belief that the sovereign universe provides sufficient diversity and return potential without adding additional credit risk. They offer primarily unhedged currency exposure depending on client's tolerance for volatility. The unhedged strategy does make tactical currency decisions based on the firm's views and has contributed an estimated one-third of the total value additive over time.

Key Investment Professionals

The Global Bond strategy is managed by a team of seven comprised of four senior portfolio managers and three senior analysts. Ian Sims, the firm's founder and CIO, retains ultimate decision-making authority. This team is responsible for all the investment products of the firm.

Ian Sims, Chairman and Chief Investment Officer

Mr. Sims began his career in the global fixed income and currency investment management industry in 1980. Prior to founding Colchester Global Investors his experience included fixed income portfolio management at the Royal Bank of Canada and Hill Samuel Investment Advisors. In addition, he became a founder and director of Delaware International Advisers, Ltd., where he worked for nearly 10 years, at the time of his departure he served as Chief Investment Officer of Global Fixed Income. Mr. Sims holds graduate and post-graduate degrees in mathematics, economics, and statistics, and is also an author of publications on the use of real yields in global bond management. Mr. Sims is one of two employees at Colchester who own in excess of 10% of the firm.

Keith Lloyd, CFA, CEO and Deputy CIO

Mr. Lloyd began his career in 1983 as an international macro-monetary economist and investment manager. He spent seven years with the Reserve Bank of New Zealand as an economist serving on its policy-making committee. Following his time in New Zealand, Mr. Lloyd experienced eight years at the World Bank, a number of which were in the World Bank's Investment Department managing global real and leveraged assets as a lead fixed income portfolio manager, senior investment strategist, and proprietary trader. In addition, he has also authored several exchange and interest rate papers. Along with Mr. Sims, Mr. Lloyd is one of two employees at Colchester who owns in excess of 10% of the firm.

Kathryn Elsby, Senior Investment Manager

Ms. Elsby has many years of investment experience in fixed-income portfolio management and research. She began her career in 1983 at Manufacturer's Life. From 1983 to 1999 Ms. Elsby was employed in a number of portfolio management and research capacities at Hill Samuel and latter within its subsidiary, IAI International. She holds a graduate degree in mathematics.

Paul Grice, Senior Investment Manager

Mr. Grice brings with him nearly thirty years of investment industry experience. Prior to joining the firm in 2011, Mr. Grice was employed at F&C Investments as the Director, Head of Global Government Bonds for five years. From 2002 to 2006, Mr. Grice was employed at Baring Asset Management as a Client Relationship Director. Previously, between 1994 and 2002, Mr. Grice was the Sr. Vice President and Currency Portfolio Manager for Lombard Odier. Mr. Grice is a CFA charter holder.

Process

The investment team employs a value-oriented approach to invest in both debt securities and foreign exchange that utilizes a combination of bottom-up and top-down analysis. For fixed income, the firm believes that fundamental value can be isolated in identifying countries that (i) possess high yields after allowing for the impact of estimated future inflation, and (ii) a qualitative financial stability analysis to identify currencies that are either undervalued or reasonably valued according to purchasing power parity analysis. Determinants for the foreign exchange are (i) examination of real exchange rates, (ii) foreign exchange interest rate differentials, and (iii) a qualitative financial stability analysis.

Fixed income security selection is determined within the same value-oriented framework – determining value based on country, sector and security. Individual country portfolios are constructed using the framework or expected returns in order to optimize local market portfolios with the intent of identifying attractive maturities, inflation-linked bonds or foreign currency bonds. These individual portfolios are then used as inputs into the final aggregate portfolio construction. The final portfolio is based on a standard mean-variance framework and risk is defined as the volatility of excess returns versus the benchmark.

In addition to its fundamental research and investment process that mitigates risk, Colchester applies a qualitative screen to all high investment grade countries. The screen includes factors such as size of market, liquidity and daily trading volume, institutional structure, regulatory environment, capital regulations, political environment, stability issues, etc. Furthermore, a 10% portfolio limit applies to markets that are below A- but still investment grade. Once this screening is completed, Colchester will apply maximum exposure limits for each country based on their assessment of sovereign macroeconomic balances, creditworthiness, liquidity and the international structure of each country.

The portfolio construction process employs a consistent framework from security selection to final portfolio optimization. The team emphasizes value determination at the individual country, sector, and security level. Theoretical single currency portfolios are constructed for each country to represent the local market universe for each region. The investment team believes this process captures "bottom-up" opportunities that may have otherwise been overlooked using a "top-down" approach.

Following individual country analysis, the team uses the best risk-adjusted securities from each of the "local portfolios" to construct an optimized global portfolio that reflects the team's desired country allocations. The firm employs an optimization model that is based on a standard mean-variance framework and assesses risk based on the volatility of excess returns versus the Citigroup World Government Bond Index (WGBI) USD Unhedged index.

Buy and sell decisions are driven by rank order changes among the securities in the single currency portfolios as well as the portfolio level construction framework. The portfolio is rebalanced when changes in valuations occur that require adjustments, subject to the overall level and balance of risk at the portfolio level. Colchester believes its ability to add value comes from their internal and extensive due diligence. As a result once investment allocation decisions are made, trades are made subject to market liquidity and local market environment.

Risk Management

The strategy concentrates on sovereign government issued securities; however, the team also finds value in certain securities issued by supranational entities as well as foreign (i.e., non-domestic, "hard") currency issues and inflation-linked securities. Allocations to these other sectors are restricted to no more than 30% each.

The investment team's risk management process also monitors concentration limits to ensure adequate liquidity. Rules by which the team operate include:

- Issuer size normally at least $100 million equivalent,
- Non-sovereign borrowers not normally considered,
- Bid-ask spreads greater than ¾ of a percentage point are not considered.

Finally, no more than 5% of any issue may be held in the portfolio without prior investment management committee approval.

Colchester seeks to build efficient, transparent portfolios that contain no leverage or derivative type products. Most portfolios comprise standard 'bullet bonds' issued or guaranteed by sovereigns or quasi-sovereign governments.

Subject to client wishes, Colchester will impose country, currency and concentration exposure limits on the constituents' within its opportunity set. These limits are intended to avoid excess concentration risks and reflect careful analysis of geographic and country risks. The head of risk has the final say on maximum exposure limits.

Performance

Colchester's Global Bond strategy, benchmarked against the Citi WGBI Unhedged index has produced strong returns since inception in 2000. Over the most recent ten calendar years, the strategy has outperformed the benchmark in seven of those periods. In the most recent three- and five-year periods it is has outperformed by 355bps and 332bps respectively. Since inception the strategy has outperformed by 321bps annualized, while maintaining relatively consistent tracking error of 3.32%.

The strategy exhibits strong correlation (0.93 5yr) with the benchmark despite substantial deviation from the underlying index issues. During the most recent five-year period the strategy also achieved a very strong upside-to-downside market capture ratio of 127%/89%. The global bond asset class is volatile, in large part due to the currency exposure maintained by the index and the strategy. Additionally, the strategy should be expected to demonstrate substantial tracking error as the team is not beholden to benchmark constituents – they often prefer a non-index issue by the same sovereign issuer and frequently find better risk-adjusted opportunities in off-benchmark or "non-classic" issuers and currencies such as Mexico, Poland, Malaysia and South Korea.

Recommendation

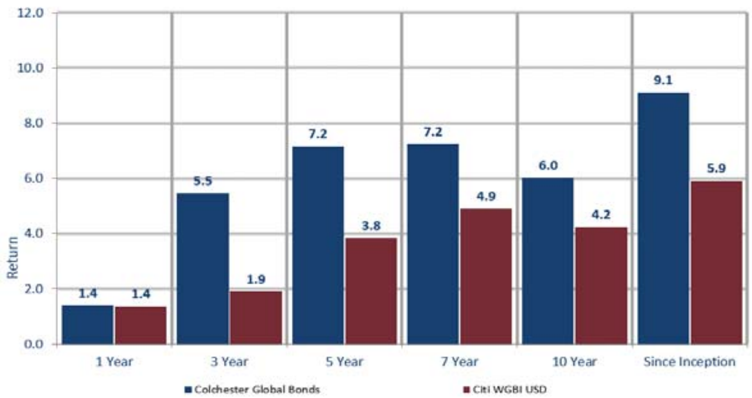
Wurts & Associates recommends Colchester's Global Bond strategy for clients seeking exposure to a diversified portfolio of high grade sovereign debt. The strategy has a long-tenured and experienced team with an extensive track record of success since inception of the strategy in 2000.

The strategy offers a bottom-up, fundamental value approach that incorporates credit strength of issuer countries, inflation expectations and likelihood of currency appreciation. The strategy achieves broad exposure to developed sovereign markets, while minimizing the corporate credit exposures often used by other strategies to beat their benchmark. The strategy's excellent and consistent performance track record, robust philosophy and research-based process, as well as the firm's independent ownership present an appealing opportunity for clients seeking exposure to developed interest rates and currency diversification.

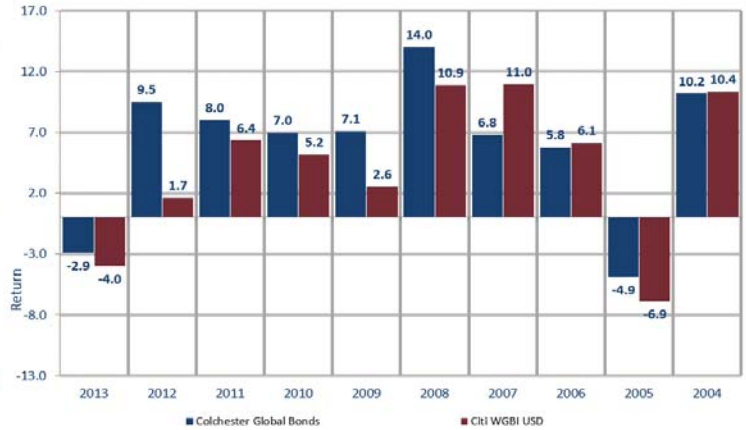
Colchester Global Bond

Annualized Performance

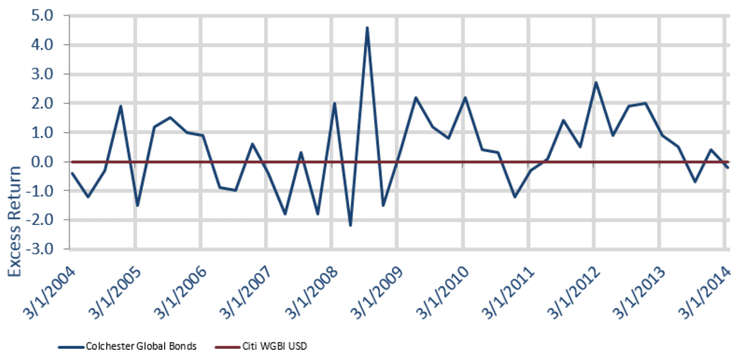
Source Data: Gross, Monthly Return



Performance



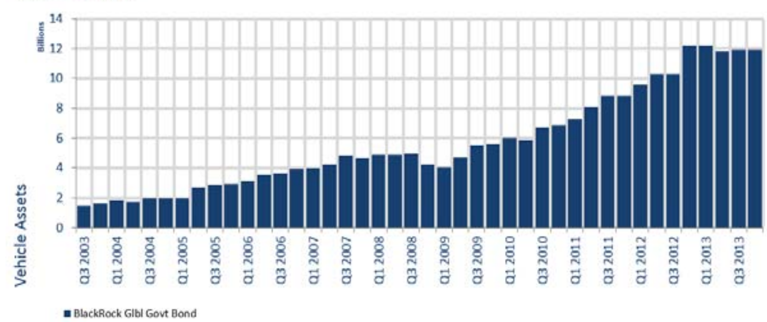
Excess Returns



Strategy Assets

Time Period: 09/30/2003 to 03/31/2014

Currency: US Dollar



Risk/Reward vs. Benchmark

As of Date: 03/31/2014

	3 Years	5 Years	10 Years
Downside Deviation	3.25	4.16	4.64
Sharpe Ratio	0.92	1.05	0.59
Alpha	3.27	3.06	1.68
Beta	1.12	1.04	1.03
R2	82.06	85.90	84.76
Tracking Error	2.55	2.54	3.00
Information Ratio (geo)	1.37	1.26	0.58
Excess Return	3.55	3.32	1.80
Standard Deviation	5.88	6.74	7.65
Batting Average	72.00	68.00	58.00
Treynor Ratio (arith)	4.82	6.78	4.23

Glossary of Terms

Active Management: A method of portfolio management based on the assumption that security prices do not always reflect their true, or intrinsic, value and that this disparity will be corrected over time. Managers engaging in active management attempt to find securities priced below their intrinsic value. It is theorized that as the rest of the market realizes the security is selling below its intrinsic value, the forces of supply and demand will drive the price up and the investment will make money.

Agency Securities: Obligations of agencies of the United States government but not obligations of the government itself. While not backed by the full faith and credit of the U.S. government, these securities are considered to be virtually default free because it is widely viewed that the United States government would not let one of its agencies default. Some of the agencies issuing these bonds are FNMA (Fannie Mae), FHLMC (Freddie Mac), and GNMA (Ginnie Mae).

Alpha (α): The excess return of a portfolio after adjusting for market risk. This excess return is attributable to the selection skill of the portfolio manager. Alpha is calculated as: Portfolio Excess Return – (Beta x Excess Market Return).

Arithmetic Mean: The mathematical average of a series of numbers.

Asset Allocation: The way in which the assets of an investment portfolio are split among asset classes. Studies have shown that more than 90% of the variability of the return of a portfolio is due to asset allocation.

Barclays Capital Aggregate Bond Index: Broadly diversified bond index that serves as a proxy for the bond market as a whole. It contains all types of fixed income securities, including mortgage- and other asset-backed securities.

Barclays Capital Government/Credit Bond Index (BCGC): Index containing Treasure securities, foreign (denominated in US dollars) and domestic corporate bonds, as well as agency securities.

Benchmark: Investment index used as a standard by which to measure the relative performance of an overall portfolio or an individual money manager. Appropriate benchmarks are selected based on their similarity to a portfolio or to the style of the individual money manager being measured. For example, a large cap core equity manager would be appropriately measured against the S&P 500 index. Alternatively, a fixed income core manager might be measured against the Barclays Capital Aggregate Bond index.

Beta (β): A measure of systematic, or market, risk, or that part of risk in a portfolio or security that is attributable to general market movements. It is calculated by dividing the covariance of a security by the variance of the market.

Book-to-Market: The ratio of book value per share to market price per share. Growth managers will typically have low book-to-market ratios while value managers will have high book-to-market ratios.

Bottom Up: An approach of equity management generally referred to as stock picking. Using this approach, a manager does not rely as much on industry or economic variables as much as on the characteristics of individual companies. These managers try to find companies that will fare well based on internal strength, possibly even in the face of adverse economic or industry movements.

Collateralized Mortgage Obligations (CMOs): A security backed by a pool of pass-through securities or mortgages that has a stated maturity. These securities provide a much more stable and predictable cash flow pattern than do pass-through securities. Different classes (tranches) of bonds are issued with different maturities, "A" being the shortest maturity bond and "Z" being the longest maturity bonds. The cash flows from the underlying assets are used to pay interest and retire the bonds in order of maturity.

Commercial Paper: A short-term, unsecured promissory note generally issued by corporations with high credit ratings. The maturity of these notes is usually less than 270 days. Commercial paper is considered to be part of the money market. The ratings of commercial paper range from P-1 (highest rating) to P-4 (lowest rating).

Commingled Fund: A fund consisting of assets from several accounts that are blended together. Investors in a commingled fund investment benefit from economies of scale, which allow for lower trading costs per dollar investment, diversification and professional money management.

Convertible Bonds: Bonds that contain an embedded call option. They are convertible into the common stock of the company issuing the bonds at some pre-specified price. The yield on these bonds is typically less than that of a non-convertible bond due to the embedded call option and the resulting increased opportunity to realize capital gains.

Correlation Coefficient (r): A measure of the relative movement of returns of one security or asset class versus another over time. A correlation of 1 means the returns of two securities move in lock step over time. A correlation of –1 means the returns of two securities move in the exact opposite direction over time. Correlation is used as a measure to help maximize the benefits of diversification when constructing an investment portfolio.

Credit Quality: A measure of credit worthiness of an issuing company or agency as reflected by a grade given to an interest bearing security. Credit quality is rated on a scale of AAA to D and measures the ability of the borrowing company or agency to make both interest and principal payments as set forth in the bond indenture, or contract.

Diversification: The practice of selecting several assets with differing return characteristics so as to reduce overall portfolio volatility.

Downside Risk: The likelihood that the return on an investment portfolio will fall below a pre-specified rate of return, e.g., the actuarial assumed rate of return.

Duration: A measure of a bond's effective term to maturity. Duration takes into account the size and timing of cash flows in order to determine the sensitivity of the price of a bond to a change in interest rates. The higher the duration, the more sensitive a bond is to interest rates changes.

Efficient Frontier: A line plotted on a risk / return graph that represents alternative portfolios with the highest amount of return for a given level of risk.

Emerging Markets: Securities markets in less developed countries. Emerging markets are typically characterized by market inefficiencies, lack of information, lack of price continuity, little liquidity, and lack of adequate rules and regulations. There are typically a small number of players in these markets and price manipulation is common. High returns are available due to the extremely high risk associated with participation in these markets.

Excess Return: Rate of return in excess of the risk-free rate, typically defined by the rate of return on short-term U.S. government obligations, i.e., T-bills. (Also known as Risk Premium.)

Excess Return Ratio: A measure of a money manager's ability to earn additional return relative to the additional risk incurred in doing so. The ratio is calculated as follows: (Portfolio Return – Benchmark Return) / Tracking Error.

Geometric Mean: Equal to the annualized compound rate of return over a given period.

Growth Manager: Refers to the style of an equity manager. A growth manager typically seeks capital appreciation by choosing stocks that are expected to grow at a faster rate than their peers or the market as a whole. Typical portfolio characteristics of this strategy include high price-to-earnings ratio, low book-to-market ratio, and high and sustained earnings per share growth.

Index: A passively managed portfolio of securities that remains constant from one period to the next. Indexes are used to gauge the performance of sectors of the market or the market as a whole. In addition, indexes are used as a benchmark for measuring the performance of investment managers.

Information Ratio: A measure of a manager's ability to earn excess return without incurring additional risk. It can be calculated as follows: alpha divided by tracking error.

Investment Grade: Investment grade bonds are bonds that are rated BBB or higher.

Junk Bonds: Also called high-yield bonds, these are bonds with ratings from BB to D. They offer higher yields due to their increased risk of default. A bond rated D is already in default while a bond rated C is expected to default at some point in the future.

Large Capitalization Stocks: Also referred to as large-cap stocks, these are the securities of companies whose overall market capitalization is roughly greater than $6 billion.

Market Capitalization: The total value of a publicly traded company. Market capitalization is determined by multiplying the total number of shares that a company has outstanding by the market price of each of those shares. Companies are classified by market capitalization as small, medium, or large.

Market Efficiency: Defined as the ability of a market to process information quickly and correctly so that every security traded in that market is always fairly priced based upon current expectations of the future.

Mean-Variance Optimization: The process of building an Efficient Frontier through the evaluation of all possible combinations of selected asset classes with different risk and return characteristics.

Medium Capitalization Stocks: Also referred to as mid-cap stocks, these are the securities of companies whose overall market capitalization is roughly between $1.5 billion and $6 billion.

Modern Portfolio Theory: Principles underlying analysis and evaluation of rational portfolio choices based on risk-return trade-offs and investment diversification.

MSCI EAFE Index: The Morgan Stanley Capital International Europe Australia and Far East (MSCI EAFE) Index is a value-weighted index composed of equity securities traded in the countries that give the index its name. This index is a typical benchmark for international equity managers as well as the basis for many international equity index funds.

Mutual Fund: Pools of money are managed by an investment company. They offer investors a variety of goals depending on the fund and its investment charter. Some funds, for example, seek to generate income on a regular basis. Others seek to preserve an investor's money. Still others seek to invest in companies that are growing at a rapid pace. Mutual funds are investment companies regulated by the Investment Company Act of 1940.

Passive Management: A method of portfolio management that is based on the belief that all securities are fairly priced and that there are no additional returns to be made from security selection. Often called a buy and hold strategy or indexing, this method comes from purchasing a well-diversified portfolio of securities and holding them indefinitely.

Pass-Through Securities: A pool of mortgages is formed and then shares in the pool are issued. Holders of the shares receive the cash flows from the underlying mortgage pool (i.e. the interest and principal payments). One problem with pass-through securities is the unpredictable nature of the cash flows due to events such as prepayment of the underlying mortgages.

Policy Index: A customized performance benchmark designed to reflect the characteristics of an investment portfolio. The policy index represents the return that would have been produced by passive investment in the target asset allocation of a plan.

Portfolio Excess Return: The rate of return of a portfolio over and above the risk-free rate. Portfolio excess return is attributed to the amount of additional market risk born by the portfolio plus the skill of the portfolio manager.

Portfolio Turnover: The percentage of a portfolio that is sold and replaced (turned over) during a given time period. Low portfolio turnover is indicative of a buy and hold strategy while high portfolio turnover implies a more active form of management.

Price-to-Earnings Ratio: Also called the earnings multiplier, it is calculated by dividing the price of a company's stock into earnings per share. Growth managers typically hold stocks with high price-to-earnings ratios whereas value managers hold stocks with low price-to-earnings ratios.

Price-Weighted Index: An index whose value is simply the arithmetic average of the prices of the securities that the index contains. In this type of index securities with the highest prices will have the greatest effect on the value and return of the index. The Dow-Jones Industrial average is an example of a price-weighted index.

Relative Return: The difference between the rate of return of a portfolio and its benchmark.

Residual Risk: The portion of total risk attributable to the unique risk of a given portfolio or security (also known as unsystematic risk). The key goal of diversified portfolio is to reduce residual risk to the greatest extent possible. It is calculated by subtracting market risk (or Beta) from total risk.

Risk Premium: An expected return in excess of the risk-free rate. The premium provides compensation for the assumption of risk.

Risk-Free Rate: The rate of interest that one can earn on an investment with no default risk. It is generally assumed to be the interest rate on a 91 day T-Bill.

R-Squared: Also called the coefficient of determination, it measures the amount of variation in one variable explained by variations in another. In the case of investments, the term is used to explain the amount of variation in a security or portfolio explained by movements in the market or the portfolio's benchmark.

Russell 2000 Index: A value-weighted small-cap stock index composed of the 2000 securities with the lowest market capitalization in the Russell 3000 index. This is one of the most common benchmarks for small-cap equity managers and is compiled by the Frank Russell Company.

Russell Mid-Cap Index: A value-weighted index composed of the 800 smallest companies, by market capitalization, in the Russell 1000 index. This index is compiled by the Frank Russell Company and, as its name implies, is used as a benchmark for mid-cap portfolios.

S & P 500 Index: A value-weighted index compiled by Standard and Poor's that is comprised of 500 of the largest companies traded on the NYSE and NASDAQ exchanges. This is the most common proxy for the equity market as a whole and is the typical benchmark for large-cap portfolios.

Sharpe Ratio: A measure of portfolio efficiency. The Sharpe Ratio indicates excess portfolio return for each unit of risk associate with achieving the excess return. The higher the Sharpe Ratio, the more efficient the portfolio. It can be calculated as: Portfolio Excess Return / Portfolio Standard Deviation.

Small Capitalization Stocks: Also referred to as small-cap stocks, these are securities of companies whose overall market capitalization is roughly less than $1.5 billion.

Standard Deviation (σ): A measure of volatility, or risk, inherent in a security or portfolio. The standard deviation of a series is a measure of the extent to which observations in the series differ from the arithmetic mean of the series. For example, if a security has an average annual rate of return of 10% and a standard deviation of 5%, then two-thirds of the time, one would expect to receive an annual rate of return between 5% and 15%.

Systematic Risk: Often called market risk, it is risk that is due to macroeconomic factors and as such this type of risk affects all risky assets and cannot be reduced through diversification.

Top Down: An approach to equity management whereby the manager first forms an opinion on the direction of the economy as a whole. Next, the manager determines how their economic forecast will affect certain industries and finally how the industry effect will apply to individual companies within those industries.

Tracking Error: The standard deviation of the difference between the rate of return of a portfolio and its benchmark.

Treasury Securities: Obligations of the United States government, which are considered free of default risk.

Universe: Also called a peer group, a universe is a large number of portfolios of a similar style. These portfolios can be divided into deciles or quartiles and then used for performance measurement and comparative purposes. Portfolios are ranked within the universe, which tells the investor how well a manager has done relative to his or her peers.

Unsystematic Risk: Also called company specific risk, it is risk that is unique to a particular company due to things such as the nature of their business or their use of leverage. Unsystematic risk can be reduced or eliminated by holding a well-diversified portfolio.

Value: Refers to the style of an equity manager. A value manager seeks to create returns by purchasing stocks selling at a discount to their true, or intrinsic, value. Typical portfolio characteristics of this strategy include a low price-to-earnings ratio, high book-to-market ratio, and high dividend yield.

Value-Weighted Index: An index whose value is computed by determining the relative weightings of each of the securities that it contains by dividing each securities total market capitalization by the total market capitalization of all of the securities in the index. This weight is then applied to a base value for the index, usually 100. The change in the index is computed by recalculating the relative weightings using the current market capitalization for each security divided by its base time period market capitalization and multiplying the sum of all the new weightings by the initial index value. In a value-weighted index companies with the largest market capitalization will have the greatest effect on the return of the index due to their larger relative weighting. The S & P is an example of a value-weighted index.

Weighted Average Maturity (WAM): A measure of the overall maturity of a bond portfolio that can assist an investor in determining a portfolio's sensitivity to changes in interest rates. The higher the weighted average maturity, the greater the effect of a change in interest rates on portfolio value.

Manager Evaluation: Franklin Templeton Global Bond Plus Fixed Income

Last Updated: *April 2014*

Strategy Basics

Asset Class:	Global Fixed Income
Firm Inception:	1947
Firm Assets:	$886.9 Billion
Strategy Inception:	December 1993
Strategy Assets:	$125.5 Billion
Min. Size, Mutual Fund:	$1 Million
Min. Size, Sep. Account:	$100 Million
Min. Size, Commingled:	$10 Million
Fee, Mutual Fund (TGBAX):	0.61%
Fee, Sep. Account:	
First $50 Million	0.45%
Next $50 Million	0.35%
Remaining Balance	0.30%
Fee, Sep. Commingled:	
First $50 Million	0.62%
Next $50 Million	0.51%
Remaining Balance	0.45%

Firm Background and History

Franklin Investments was incorporated in New York in 1947. The firm relocated its headquarters to San Mateo, California in 1973. In 1992, the firm acquired Templeton, Galbraith and Hansberger Investments and began to expand the firm's product offerings globally, leveraging Templeton's experience with international and emerging markets. Today, the firm is focused exclusively on investment management activities across fixed income ($354 billion), equity ($370 billion) and hybrid ($151 billion) assets.

The firm has more than 100 dedicated investment professionals, most of whom are located in the San Mateo office. The firm has offices in New York, London, Sao Paulo, Dubai, Mumbai and Singapore.

Strategy Background

Templeton's Global Bond investment philosophy is predicated on a fundamental, research-driven approach, not constrained by benchmarks, allowing access to a wide universe of opportunities. Portfolio construction combines the firm's top-down macro-economic viewpoints with recommendations from local sector specialist teams. The portfolio is positioned to contain lowly-correlated exposures with potentially above-average risk-adjusted returns.

The strategy will opportunistically invest in sovereign debt, non-dollar local corporate bonds, below investment grade bonds (limited to 25% of NAV), structured credit as well as emerging market bonds. Currency exposures within the strategy are actively managed and have been a key driver of returns historically. Additionally, the team will express their views on interest rates by taking significant deviations from the strategy's preferred benchmark duration. Currently, the JPMorgan Government Bond Index duration is approximately 6.6 years compared to the strategy's duration of slightly less than two years. As a result of the team's willingness to deviate from benchmark weights in currency and duration, the strategy may exhibit higher degrees of tracking error relative to the benchmark.

While the team has flexibility to manage the strategy with off-benchmark exposures, position size is limited by relative attractiveness, valuation and risk/return potential in conjunction with the team's level of conviction in an effort to mitigate overall risk to the portfolio. By focusing on a limited number of macro views/exposures (typically 20-30), the team attempts to add value from in-depth quantitative analysis with a belief that markets will recognize intrinsic value and structural imbalances will return to equilibrium.

Key Investment Professionals

The Global Bond Group is comprised of twenty-four professionals, seventeen of whom are dedicated to the investment management process and are responsible for both Global Bond and Global Multi-Sector Bond strategies.

Michael Hasenstab, Ph.D., *EVP and CIO Global Bonds*
Dr. Hasenstab is the lead portfolio manager for the firm's Global Bond and Global Multi-sector strategies. He joined the firm in 1995 and is a member of the firm's Fixed Income Policy Committee. Dr. Hasenstab rejoined the firm in 2001 after obtaining his Ph.D. in economics degree from the Asia Pacific School of Economics and Management at Australian National University. He also has a Master's degree in economics of development from the Australian National University, and a Bachelor of Arts degree in International Relations and Political Economy from Carleton College in the United States.

Canyon Chan, **CFA**, *Sr. Vice President and Portfolio Manager*
Mr. Chan is co-lead portfolio manager for the firm's Global Fixed Income strategies. He joined the firm in 1991 and focuses primarily on quantitative strategies and risk budgeting. Mr. Chan joined the Global Fixed Income team in 2006. Mr. Chan is a CFA charterholder and earned a B.A. in Quantitative Economics from Stanford University.

Sunol Desai, Ph.D., *Director of Research, Portfolio Manager*
As the Director of Research, Dr. Desai is responsible for shaping the research agenda for the Global Fixed Income strategies. She joined the team in 2009 and is a member of the Fixed Income Policy Committee. Previously, she held positions with Thames River in London and the IMF. Dr. Desai earned a B.A. from Delhi University in New Delhi, and a Ph.D. from Northwestern University in Economics.

Christine Zhu, *Quantitative Analyst and Portfolio Manager*
Ms. Zhu is responsible for portfolio construction, quantitative strategies and portfolio attribution and risk management. She joined the firm in 2007. Ms. Zhu received her M.B.A. from the University of California, Berkeley, and a M.S. in computer science and engineering from the University of Notre Dame.

Calvin Ho, **Ph.D.**, *Senior Global Macro Research Analyst*
Dr. Ho joined the firm in 2005 and is responsible for providing global macro research for the firm's Global Fixed Income strategies. Dr. Ho earned a Ph.D. and B.A. in Economics from the University of California, Berkeley.

Process

As a result of the team's approach, the portfolio does not adhere to the weightings of commonly referenced global bond benchmarks. Total return is the primary measure of value created with the acknowledgement that currency plays a critical component of the overall return profile. The team seeks undervalued countries, securities and currencies that they believe will accrue substantial returns with low risk over time.

The team applies a multi-step approach designed to identify and capture the three sources of returns in the markets: rates (duration), credit and currencies. Interest rate views are a reflection of the firm and team's macro-economic and country viewpoints in conjunction with the team's proprietary interest rate models. The team seeks to identify prospective changes in interest rates, inflation expectations and monetary policy shifts and take positions accordingly to maximize exposures to those countries/currencies that would most likely benefit from those changes.

Sovereign credit exposures are determined by an extensive bottom-up fundamental credit analysis of factors such as: balance sheet strength, balance of payments, market liquidity, monetary policy and political risks. Research analysts spend a significant amount of time traveling to their assigned regions in order to better understand the individual country idiosyncratic risks. Desired exposure to countries and their respective yield curves are determined relative to the assigned risk budget and the team's viewpoints. Corporate credit exposures are achieved by the same bottom-up fundamental process once the sovereign risks have been identified. Positions represent the team's views on relative value across the sovereign credit curve.

Finally, currency exposures are formed using the same approach as the sovereign credit process. Exposures are based on a multi-tiered methodology that incorporates the team's fundamental valuation, macro-economic viewpoints and a relative value framework. Additionally, the team seeks to identify trends that may act as catalysts and drive currency values higher such as: strengthening local economies, higher relative interest rates, and reasonable monetary policies.

Portfolio construction incorporates 20-30 of the team's best thematic investment ideas across multiple countries and currencies. Currently, the portfolio has significant exposure to emerging market countries based upon the belief that the recent market selloff provides not only attractive relative value compared to developed market credits, but also that the market is overestimating the credit risk associated with both emerging market credit and currencies. Tactical shifts such as this have served the strategy well in the past, leading to strong outperformance relative to the Global Aggregate fixed income peer group over all trailing time periods.

When determining to add or remove a position in the portfolio, the team incorporates a probability weighted expected return analysis designed to assess the likelihood of the security achieving the internal price target over a determined period of time. Additionally, the team will reevaluate the security's risk/reward potential based forecasted price changes, which then results in the buy or sell decision. The team will also evaluate changes in macro-economic conditions as well as individual sector performance in an effort to detect regime changes in the market. Should a security exceed its price target set by the sector specialists, the portfolio management team will evaluate other securities within the sector to determine if additional relative value can be added by swapping to a similar credit.

Potential Concerns

Recently, the strategy had a significant short position against the Japanese Yen (roughly 20% of NAV). While we are comfortable with the expression the team's view on currencies, the magnitude of the position gave us pause. In speaking with a representative from the team, the total short position was an expression of two separate strategies which resulted in a higher than normal short position. Investors in the strategy should be aware that the team manages both currencies and long physical bond positions with an unconstrained approach.

Finally, given the flexible nature of the strategy, traditional global bond benchmarks may have trouble accurately reflecting the variability of duration, credit and currency exposures within the portfolio. In addition, given the potential for higher allocations to non-investment grade and emerging market bonds, the portfolio may be more sensitive to periods of credit spread widening as compared to a sovereign only strategy. Furthermore, the Global Bond team manages in excess of $175 billion in assets and while we have no reservations regarding the team's ability to effectively manage those assets, the ability to quickly express viewpoints within the portfolios in smaller more niche sectors may be delayed given the size and complexity of the asset base.

Risk Management

The team incorporates risk management throughout the investment process. They believe risk should be allocated efficiently where the opportunity commensurately rewards investors for the amount of risk being taken. There are more than thirty risk professionals that are part of the Performance Analysis and Investment Risk Group (PAIR) who are dedicated to the firm's fixed income strategies and perform a variety of scenario analyses such as risk modeling and stress testing to portfolios. The PAIR team produces detailed reports that contain exposures to various risks such as: yield curve, duration, sector, country and currency. Additionally, the FIPC meets weekly to discuss return outlooks and risks in the portfolios.

The strategy makes use of derivatives including options, swaps, forwards and futures. Currency swaps and interest rate futures may be employed to hedge exposures or to take explicit viewpoints. For example, the team may sell Yen currency forwards based on their belief that the currency will continue to depreciate relative to U.S. dollars, or sell Japanese Government bond futures to offset the duration of a corporate bond holding in an effort to isolate changes in the credit spread in expectation of a rising interest rate environment. The use of these instruments is designed to both mitigate risks as well as express the team's viewpoints.

Performance

The key differentiators for the strategy are primarily country and currency selection. As result of the team's unconstrained approach, the strategy should be expected to perform well when economies are expanding steadily due to the strategy's ability to tilt towards emerging market and lower credit quality debt which tend to outperform relative to developed markets during periods of increasing growth in combination with the ability to short currencies that are appear overvalued on a relative basis. Additionally, during heightened market volatility, the strategy has the ability to express the team's viewpoints in security and currency selection as well as overall duration exposure which should provide downside protection as compared to strategies that are more static in nature. Based on the team's view of the underlying credit quality and relative value of the local economy, the team may opportunistically enter into both a long position in local credit or sovereign bonds or even currency, based on the belief that, due to mispricing, spreads will tighten and the currency will appreciate once the market volatility subsides. For example, the strategy currently maintains a very short duration bias of roughly two years and an overweight to emerging market bonds based on the view that global interest rates will rise as economic activity increases and the relative value of emerging markets as compared to developed sovereign debt.

When attempting to compare the strategy's returns relative to a benchmark, traditional indices such as the Citigroup WGBI and JPMorgan Government Bond Index do not capture the complete picture. The JPMorgan Government Bond Index is a global sovereign benchmark devoid of corporate credit and emerging markets exposures with a duration close to seven years. While the Barclays Global Aggregate Bond Index does include currency and emerging market exposures, the index is investment grade only and fails to properly reflect the strategy's roughly 18% exposure to below investment grade credit as of March 2014. Given the significant exposure to high yield and broader set of currencies, the Barclays Multiverse Index, which is a combination of the Barclays Global Aggregate Bond index and the Barclays Global High Yield index, more completely represents the opportunity set available to the strategy within credit and currency markets while maintaining a duration of approximately five years.

The ability of the team to significantly shift duration and currency exposures relative to the preferred benchmark can drive overall performance, both positively and negatively. From a duration perspective, the strategy is currently positioned in anticipation of higher interest rates; portfolio duration is more than three years shorter than the Barclays Multiverse Index. If interest rates were to rise in a parallel manner across the yield curve, the strategy would benefit by not participating in the longer-end of the curve which is more sensitive to interest rate increases. However, if interest rates were to move higher in the short end, commonly known as a curve flattening shift, then the strategy may be adversely affected relative to the index. From a currency perspective, when evaluating the attribution of the portfolio over the previous three years, the strategy has managed to add more than +940 basis points of excess returns due primarily to the ability to take large off-benchmark bets as well as the ability to short currencies deemed comparatively overvalued.

The Franklin team has a long track record of adding value in the Global Bond Plus strategy through actively managed currency and credit exposures, which have helped this product achieve more than +5.8% and +5.2% of annualized excess return over the Barclays Multiverse Index over the trailing five and ten year periods as of December 2013. The strategy has also provided higher risk adjusted returns as measured by a 0.6 Sharpe Ratio over the trailing three year period compared to the eVestment Global Government Fixed Income Universe peer group median of 0.4.

When examining the strategy's risk/return profile, we see that it participates strongly in both up and down market environments, due primarily to the exposures to emerging market and high yield bonds in conjunction with foreign currency. As evidence, the portfolio has provided approximately 212 basis points of excess alpha with a standard deviation of 9.3% as compared to the peer group's excess returns of roughly -50 basis points with a standard deviation of 5.1%, ranking the strategy in the top quartile of both statistics. The takeaway from the analysis is that given the thematic macroeconomic approach, combined with the ability to tactically allocate within sectors and currencies, investors may experience periods of higher volatility over the short-term with the understanding that the strategy has consistently produced strong relative returns over the long-term.

Recommendation

Wurts & Associates recommends the Franklin Templeton Global Bond Plus strategy for clients seeking a broad set of global exposures to include: sovereign, emerging markets, structured product, corporate credit, and active currency management. The strategy offer investors a long-term track record with an experienced investment team.

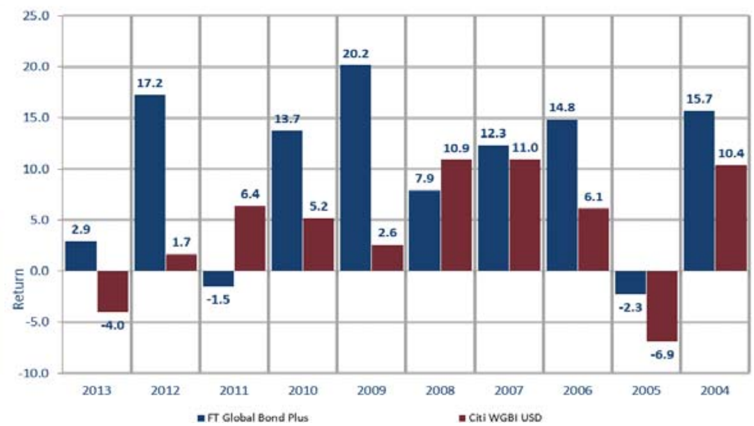
The Global Bond team at Franklin focuses on a research-driven, value-based approach that has helped the strategy perform consistently well relative to the Barclays Multiverse Index benchmark. The seasoned investment team, led by Dr. Hasenstab, is organized with the goal of leveraging the organization's deep top-down, macro-driven country viewpoints in conjunction with the fundamental bottom-up security selection process. The strategy exhibits a strong long-term track record and provides investors with a robust approach to investing in developed and emerging market interest rates while providing currency diversification.

WURTS ASSOCIATES
INSTITUTIONAL INVESTMENT CONSULTANTS

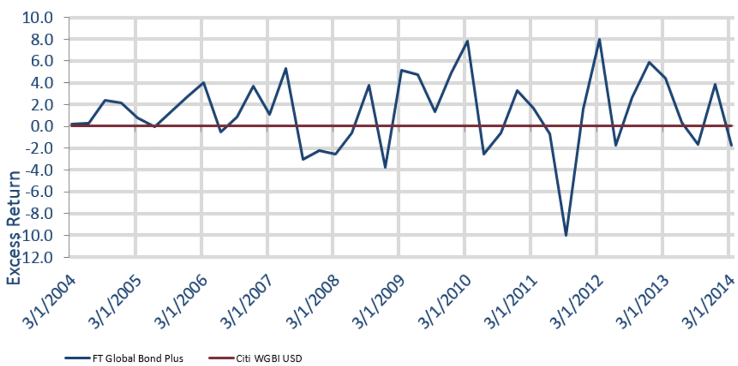
Franklin Templeton Global Bond Plus

Annualized Performance

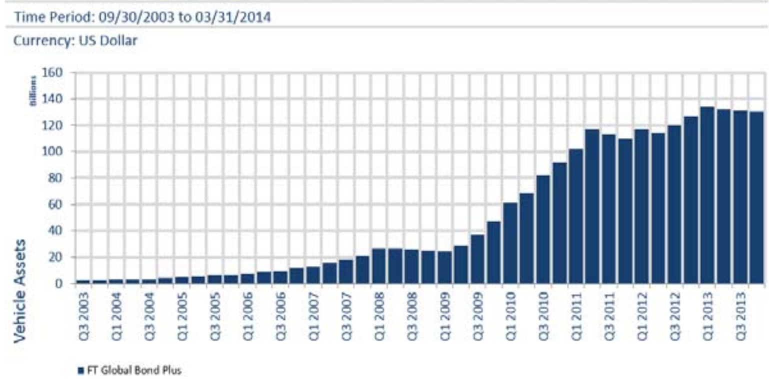
Performance



Excess Returns



Strategy Assets



Risk/Reward vs. Benchmark

As of Date: 03/31/2014

	3 Years	5 Years	10 Years
Downside Deviation	6.56	5.41	4.83
Sharpe Ratio	0.60	1.16	0.97
Alpha	3.89	8.02	6.25
Beta	0.91	0.55	0.63
R2	21.01	14.22	27.44
Tracking Error	8.42	8.50	7.45
Information Ratio (geo)	0.41	0.73	0.70
Excess Return	3.50	6.47	5.47
Standard Deviation	9.46	8.70	8.23
Batting Average	61.00	60.00	63.00
Treynor Ratio (arith)	5.85	18.65	12.70

Glossary of Terms

Active Management: A method of portfolio management based on the assumption that security prices do not always reflect their true, or intrinsic, value and that this disparity will be corrected over time. Managers engaging in active management attempt to find securities priced below their intrinsic value. It is theorized that as the rest of the market realizes the security is selling below its intrinsic value, the forces of supply and demand will drive the price up and the investment will make money.

Agency Securities: Obligations of agencies of the United States government but not obligations of the government itself. While not backed by the full faith and credit of the U.S. government, these securities are considered to be virtually default free because it is widely viewed that the United States government would not let one of its agencies default. Some of the agencies issuing these bonds are FNMA (Fannie Mae), FHLMC (Freddie Mac), and GNMA (Ginnie Mae).

Alpha (α): The excess return of a portfolio after adjusting for market risk. This excess return is attributable to the selection skill of the portfolio manager. Alpha is calculated as: Portfolio Excess Return – (Beta x Excess Market Return).

Arithmetic Mean: The mathematical average of a series of numbers.

Asset Allocation: The way in which the assets of an investment portfolio are split among asset classes. Studies have shown that more than 90% of the variability of the return of a portfolio is due to asset allocation.

Barclays Capital Aggregate Bond Index: Broadly diversified bond index that serves as a proxy for the bond market as a whole. It contains all types of fixed income securities, including mortgage- and other asset-backed securities.

Barclays Capital Government/Credit Bond Index (BCGC): Index containing Treasure securities, foreign (denominated in US dollars) and domestic corporate bonds, as well as agency securities.

Benchmark: Investment index used as a standard by which to measure the relative performance of an overall portfolio or an individual money manager. Appropriate benchmarks are selected based on their similarity to a portfolio or to the style of the individual money manager being measured. For example, a large cap core equity manager would be appropriately measured against the S&P 500 index. Alternatively, a fixed income core manager might be measured against the Barclays Capital Aggregate Bond index.

Beta (β): A measure of systematic, or market, risk, or that part of risk in a portfolio or security that is attributable to general market movements. It is calculated by dividing the covariance of a security by the variance of the market.

Book-to-Market: The ratio of book value per share to market price per share. Growth managers will typically have low book-to-market ratios while value managers will have high book-to-market ratios.

Bottom Up: An approach of equity management generally referred to as stock picking. Using this approach, a manager does not rely as much on industry or economic variables as much as on the characteristics of individual companies. These managers try to find companies that will fare well based on internal strength, possibly even in the face of adverse economic or industry movements.

Collateralized Mortgage Obligations (CMOs): A security backed by a pool of pass-through securities or mortgages that has a stated maturity. These securities provide a much more stable and predictable cash flow pattern than do pass-through securities. Different classes (tranches) of bonds are issued with different maturities, "A" being the shortest maturity bond and "Z" being the longest maturity bonds. The cash flows from the underlying assets are used to pay interest and retire the bonds in order of maturity.

Commercial Paper: A short-term, unsecured promissory note generally issued by corporations with high credit ratings. The maturity of these notes is usually less than 270 days. Commercial paper is considered to be part of the money market. The ratings of commercial paper range from P-1 (highest rating) to P-4 (lowest rating).

Commingled Fund: A fund consisting of assets from several accounts that are blended together. Investors in a commingled fund investment benefit from economies of scale, which allow for lower trading costs per dollar investment, diversification and professional money management.

Convertible Bonds: Bonds that contain an embedded call option. They are convertible into the common stock of the company issuing the bonds at some pre-specified price. The yield on these bonds is typically less than that of a non-convertible bond due to the embedded call option and the resulting increased opportunity to realize capital gains.

Correlation Coefficient (r): A measure of the relative movement of returns of one security or asset class versus another over time. A correlation of 1 means the returns of two securities move in lock step over time. A correlation of –1 means the returns of two securities move in the exact opposite direction over time. Correlation is used as a measure to help maximize the benefits of diversification when constructing an investment portfolio.

Credit Quality: A measure of credit worthiness of an issuing company or agency as reflected by a grade given to an interest bearing security. Credit quality is rated on a scale of AAA to D and measures the ability of the borrowing company or agency to make both interest and principal payments as set forth in the bond indenture, or contract.

Diversification: The practice of selecting several assets with differing return characteristics so as to reduce overall portfolio volatility.

Downside Risk: The likelihood that the return on an investment portfolio will fall below a pre-specified rate of return, e.g., the actuarial assumed rate of return.

Duration: A measure of a bond's effective term to maturity. Duration takes into account the size and timing of cash flows in order to determine the sensitivity of the price of a bond to a change in interest rates. The higher the duration, the more sensitive a bond is to interest rates changes.

Efficient Frontier: A line plotted on a risk / return graph that represents alternative portfolios with the highest amount of return for a given level of risk.

Emerging Markets: Securities markets in less developed countries. Emerging markets are typically characterized by market inefficiencies, lack of information, lack of price continuity, little liquidity, and lack of adequate rules and regulations. There are typically a small number of players in these markets and price manipulation is common. High returns are available due to the extremely high risk associated with participation in these markets.

Excess Return: Rate of return in excess of the risk-free rate, typically defined by the rate of return on short-term U.S. government obligations, i.e., T-bills. (Also known as Risk Premium.)

Excess Return Ratio: A measure of a money manager's ability to earn additional return relative to the additional risk incurred in doing so. The ratio is calculated as follows: (Portfolio Return – Benchmark Return) / Tracking Error.

Geometric Mean: Equal to the annualized compound rate of return over a given period.

Growth Manager: Refers to the style of an equity manager. A growth manager typically seeks capital appreciation by choosing stocks that are expected to grow at a faster rate than their peers or the market as a whole. Typical portfolio characteristics of this strategy include high price-to-earnings ratio, low book-to-market ratio, and high and sustained earnings per share growth.

Index: A passively managed portfolio of securities that remains constant from one period to the next. Indexes are used to gauge the performance of sectors of the market or the market as a whole. In addition, indexes are used as a benchmark for measuring the performance of investment managers.

Information Ratio: A measure of a manager's ability to earn excess return without incurring additional risk. It can be calculated as follows: alpha divided by tracking error.

Investment Grade: Investment grade bonds are bonds that are rated BBB or higher.

Junk Bonds: Also called high-yield bonds, these are bonds with ratings from BB to D. They offer higher yields due to their increased risk of default. A bond rated D is already in default while a bond rated C is expected to default at some point in the future.

Large Capitalization Stocks: Also referred to as large-cap stocks, these are the securities of companies whose overall market capitalization is roughly greater than $6 billion.

Market Capitalization: The total value of a publicly traded company. Market capitalization is determined by multiplying the total number of shares that a company has outstanding by the market price of each of those shares. Companies are classified by market capitalization as small, medium, or large.

Market Efficiency: Defined as the ability of a market to process information quickly and correctly so that every security traded in that market is always fairly priced based upon current expectations of the future.

Mean-Variance Optimization: The process of building an Efficient Frontier through the evaluation of all possible combinations of selected asset classes with different risk and return characteristics.

Medium Capitalization Stocks: Also referred to as mid-cap stocks, these are the securities of companies whose overall market capitalization is roughly between $1.5 billion and $6 billion.

Modern Portfolio Theory: Principles underlying analysis and evaluation of rational portfolio choices based on risk-return trade-offs and investment diversification.

MSCI EAFE Index: The Morgan Stanley Capital International Europe Australia and Far East (MSCI EAFE) Index is a value-weighted index composed of equity securities traded in the countries that give the index its name. This index is a typical benchmark for international equity managers as well as the basis for many international equity index funds.

Mutual Fund: Pools of money are managed by an investment company. They offer investors a variety of goals depending on the fund and its investment charter. Some funds, for example, seek to generate income on a regular basis. Others seek to preserve an investor's money. Still others seek to invest in companies that are growing at a rapid pace. Mutual funds are investment companies regulated by the Investment Company Act of 1940.

Passive Management: A method of portfolio management that is based on the belief that all securities are fairly priced and that there are no additional returns to be made from security selection. Often called a buy and hold strategy or indexing, this method comes from purchasing a well-diversified portfolio of securities and holding them indefinitely.

Pass-Through Securities: A pool of mortgages is formed and then shares in the pool are issued. Holders of the shares receive the cash flows from the underlying mortgage pool (i.e. the interest and principal payments). One problem with pass-through securities is the unpredictable nature of the cash flows due to events such as prepayment of the underlying mortgages.

Policy Index: A customized performance benchmark designed to reflect the characteristics of an investment portfolio. The policy index represents the return that would have been produced by passive investment in the target asset allocation of a plan.

Portfolio Excess Return: The rate of return of a portfolio over and above the risk-free rate. Portfolio excess return is attributed to the amount of additional market risk born by the portfolio plus the skill of the portfolio manager.

Portfolio Turnover: The percentage of a portfolio that is sold and replaced (turned over) during a given time period. Low portfolio turnover is indicative of a buy and hold strategy while high portfolio turnover implies a more active form of management.

Price-to-Earnings Ratio: Also called the earnings multiplier, it is calculated by dividing the price of a company's stock into earnings per share. Growth managers typically hold stocks with high price-to-earnings ratios whereas value managers hold stocks with low price-to-earnings ratios.

Price-Weighted Index: An index whose value is simply the arithmetic average of the prices of the securities that the index contains. In this type of index securities with the highest prices will have the greatest effect on the value and return of the index. The Dow-Jones Industrial average is an example of a price-weighted index.

Relative Return: The difference between the rate of return of a portfolio and its benchmark.

Residual Risk: The portion of total risk attributable to the unique risk of a given portfolio or security (also known as unsystematic risk). The key goal of diversified portfolio is to reduce residual risk to the greatest extent possible. It is calculated by subtracting market risk (or Beta) from total risk.

Risk Premium: An expected return in excess of the risk-free rate. The premium provides compensation for the assumption of risk.

Risk-Free Rate: The rate of interest that one can earn on an investment with no default risk. It is generally assumed to be the interest rate on a 91 day T-Bill.

R-Squared: Also called the coefficient of determination, it measures the amount of variation in one variable explained by variations in another. In the case of investments, the term is used to explain the amount of variation in a security or portfolio explained by movements in the market or the portfolio's benchmark.

Russell 2000 Index: A value-weighted small-cap stock index composed of the 2000 securities with the lowest market capitalization in the Russell 3000 index. This is one of the most common benchmarks for small-cap equity managers and is compiled by the Frank Russell Company.

Russell Mid-Cap Index: A value-weighted index composed of the 800 smallest companies, by market capitalization, in the Russell 1000 index. This index is compiled by the Frank Russell Company and, as its name implies, is used as a benchmark for mid-cap portfolios.

S & P 500 Index: A value-weighted index compiled by Standard and Poor's that is comprised of 500 of the largest companies traded on the NYSE and NASDAQ exchanges. This is the most common proxy for the equity market as a whole and is the typical benchmark for large-cap portfolios.

Sharpe Ratio: A measure of portfolio efficiency. The Sharpe Ratio indicates excess portfolio return for each unit of risk associate with achieving the excess return. The higher the Sharpe Ratio, the more efficient the portfolio. It can be calculated as: Portfolio Excess Return / Portfolio Standard Deviation.

Small Capitalization Stocks: Also referred to as small-cap stocks, these are securities of companies whose overall market capitalization is roughly less than $1.5 billion.

Standard Deviation (σ): A measure of volatility, or risk, inherent in a security or portfolio. The standard deviation of a series is a measure of the extent to which observations in the series differ from the arithmetic mean of the series. For example, if a security has an average annual rate of return of 10% and a standard deviation of 5%, then two-thirds of the time, one would expect to receive an annual rate of return between 5% and 15%.

Systematic Risk: Often called market risk, it is risk that is due to macroeconomic factors and as such this type of risk affects all risky assets and cannot be reduced through diversification.

Top Down: An approach to equity management whereby the manager first forms an opinion on the direction of the economy as a whole. Next, the manager determines how their economic forecast will affect certain industries and finally how the industry effect will apply to individual companies within those industries.

Tracking Error: The standard deviation of the difference between the rate of return of a portfolio and its benchmark.

Treasury Securities: Obligations of the United States government, which are considered free of default risk.

Universe: Also called a peer group, a universe is a large number of portfolios of a similar style. These portfolios can be divided into deciles or quartiles and then used for performance measurement and comparative purposes. Portfolios are ranked within the universe, which tells the investor how well a manager has done relative to his or her peers.

Unsystematic Risk: Also called company specific risk, it is risk that is unique to a particular company due to things such as the nature of their business or their use of leverage. Unsystematic risk can be reduced or eliminated by holding a well-diversified portfolio.

Value: Refers to the style of an equity manager. A value manager seeks to create returns by purchasing stocks selling at a discount to their true, or intrinsic, value. Typical portfolio characteristics of this strategy include a low price-to-earnings ratio, high book-to-market ratio, and high dividend yield.

Value-Weighted Index: An index whose value is computed by determining the relative weightings of each of the securities that it contains by dividing each securities total market capitalization by the total market capitalization of all of the securities in the index. This weight is then applied to a base value for the index, usually 100. The change in the index is computed by recalculating the relative weightings using the current market capitalization for each security divided by its base time period market capitalization and multiplying the sum of all the new weightings by the initial index value. In a value-weighted index companies with the largest market capitalization will have the greatest effect on the return of the index due to their larger relative weighting. The S & P is an example of a value-weighted index.

Weighted Average Maturity (WAM): A measure of the overall maturity of a bond portfolio that can assist an investor in determining a portfolio's sensitivity to changes in interest rates. The higher the weighted average maturity, the greater the effect of a change in interest rates on portfolio value.