



ND STATE INVESTMENT BOARD MEETING

Friday, January 22, 2016, 8:30 a.m.
Peace Garden Room, State Capitol
600 E Boulevard, Bismarck, ND

AGENDA

I. CALL TO ORDER AND ACCEPTANCE OF AGENDA

II. ACCEPTANCE OF MINUTES (November 20, 2015)

III. INVESTMENTS

- A. Investment Manager Search Reference Materials – Mr. Hunter (enclosed) (5 min)
- * B. U.S. Small Cap Equity Manager Interviews (Presentations Enclosed)
 - 1. Atlanta Capital (45 min)
 - 2. JP Morgan (45 min)
- C. Board Review/Discussion of Finalists – RIO Recommendation (to follow) (15 min) **Board Action**

===== Break from 10:20 to 10:30 a.m. =====

IV. ADMINISTRATION

- A. 2016-17 Board Meeting Schedule (July Offsite) - Mr. Hunter (enclosed) (10 min) **Board Action**
- B. RIO Website Transparency - Mr. Hunter (enclosed) (10 min)
- C. ED/CIO Effectiveness Survey - Mr. Hunter (enclosed) (10 min)
- D. Office Lease (Current Office, BND Financial Center, WSI) - Mr. Hunter

V. QUARTERLY MONITORING (enclosed) (10 min) **Board Acceptance**

- A. Budget and Financial Condition - Ms. Flanagan
- B. Executive Limitations / Staff Relations - Mr. Hunter
- C. Investment Program - Mr. Schulz
- D. Retirement Program - Ms. Kopp
- E. Watch List Update - Mr. Schulz

VI. GOVERNANCE

- A. Board Education: Investment Objectives - Mr. Hunter (enclosed) (10 min)

VII. OTHER

Next Meetings: SIB Audit Committee meeting - February 25, 2016, 3:00 p.m. - Peace Garden Room
SIB meeting - February 26, 2016, 8:30 a.m. - Peace Garden Room

VIII. ADJOURNMENT

* Per NDCC 44.04.19.2 subdivision 6, the SIB will sequester all competitors during the finalist presentations.

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
NOVEMBER 20, 2015, BOARD MEETING**

MEMBERS PRESENT: Drew Wrigley, Lt. Governor, Chair
Mike Sandal, Vice Chair
Lance Gaebe, Land Commissioner
Mike Gessner, TFFR Board
Adam Hamm, Insurance Commissioner
Rob Lech, TFFR Board
Mel Olson, TFFR Board
Kelly Schmidt, State Treasurer
Yvonne Smith, PERS Board
Cindy Ternes, WSI designee
Tom Trenbeath, PERS Board

STAFF PRESENT: Eric Chin, Investment Analyst
Connie Flanagan, Fiscal & Invt Op Mgr
Bonnie Heit, Assist to the SIB
David Hunter, ED/CIO
Fay Kopp, Dep ED/CRO
Terra Miller Bowley, Supvr Audit Services
Cody Schmidt, Compliance Officer
Darren Schulz, Dep CIO
Susan Walcker, Invt Acct

GUESTS PRESENT: Alex Browning, Callan Associates
Levi Erdmann, Land Dept.
Paul Erlendson, Callan Associates
Jan Murtha, Attorney General's Office

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, November 20, 2015, at the State Capitol, Peace Garden Room, Bismarck, ND.

AGENDA:

IT WAS MOVED BY MR. LECH AND SECONDED BY MS. SMITH AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE NOVEMBER 20, 2015, MEETING AS DISTRIBUTED.

AYES: TREASURER SCHMIDT, MR. GESSNER, COMMISSIONER HAMM, MS. TERNES, COMMISSIONER GAEBE, MS. SMITH, MR. LECH, MR. SANDAL, MR. TRENBEATH, MR. OLSON, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

MINUTES:

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. OLSON AND CARRIED ON A VOICE VOTE TO ACCEPT THE OCTOBER 23, 2015, MINUTES AS DISTRIBUTED.

AYES: MS. SMITH, MR. SANDAL, MR. OLSON, MR. GESSNER, MR. LECH, MR. TRENBEATH, MS. TERNES, COMMISSIONER HAMM, COMMISSIONER GAEBE, TREASURER SCHMIDT, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

INVESTMENTS:

Assets/Performance Overview - Mr. Hunter updated the SIB on the status of the portfolios they manage on behalf of their clients as of September 30, 2015. Assets under management grew by approximately 8.6 percent or \$828 million in the last year. Assets exceeded \$10.4 billion based on unaudited valuations as of September 30, 2015. The Pension Trust posted a net return of -0.52 percent with losses of \$24 million. The Insurance Trust generated a net return of 1.98 percent with gains of \$48 million. The Legacy Fund's net return was 0.52 percent and assets increased by 32 percent or \$812 million.

Every Pension Trust client generated positive excess returns for the 1, 3, and 5 year periods ended September 30, 2015. Every Pension Trust client also generated positive risk adjusted excess return for the 5-years ended September 30, 2015, with the exception of the Grand Forks Park District portfolio. The Grand Forks Park District portfolio generated a net return of over 8 percent along with 0.51 percent of excess return in the last five years.

Every Non-Pension Trust client generated positive excess returns for the 3 and 5-year periods ended September 30, 2015, if applicable. During the past year, five Non-Pension Trust clients experienced negative excess returns due to fixed income and diversified real asset results.

Epoch - Representatives provided a capital markets update and reviewed the Global Equity mandate of approximately \$300 million the firm manages on behalf of the SIB.

GM Bankruptcy - At the October 23, 2015, SIB meeting, the SIB authorized the Attorney General's office and RIO to pursue appointment of external counsel, on behalf of the SIB. Ms. Murtha stated RIO has retained Kasowitz Benson Torres & Friedman. Ms. Murtha stated the fees would be prorated amongst the participants. Ms. Murtha also stated a Motion to Dismiss was filed due to inadequate notice. Ms. Murtha also discussed the potential of legal action against JP Morgan Chase, related to the Term Loan litigation, and advised the SIB to expand representation by external counsel to include analysis of any potential action.

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MS. TERNES TO EXPAND THE SCOPE OF EXTERNAL COUNSEL, KASOWITZ BENSON TORRES & FRIEDMAN LLP, TO INCLUDE OVERSITE OF ANY LEGAL ACTION AGAINST JP MORGAN CHASE.

AYES: MR. TRENBEATH, TREASURER SCHMIDT, MR. OLSON, COMMISSIONER GAEBE, MR. LECH, MR. SANDAL, COMMISSIONER HAMM, MR. GESSNER, MS. SMITH, MS. TERNES, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

Securities Monitoring/Litigation Policy - Mr. Hunter reviewed a second reading of a proposed policy for Securities Monitoring and Litigation. The policy will formally document securities monitoring and litigation policies and procedures followed by the SIB and will more clearly define future roles and responsibilities of the Retirement and Investment Office (RIO) and the SIB.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. TERNES TO ACCEPT THE SECURITIES MONITORING AND LITIGATION POLICY.

AYES: COMMISSIONER GAEBE, TREASURER SCHMIDT, MR. SANDAL, COMMISSIONER HAMM, MR. OLSON, MS. TERNES, MR. GESSNER, MR. TRENBEATH, MR. LECH, MS. SMITH, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

The Board recessed at 10:22 a.m. and reconvened at 10:37 a.m.

International Equity - RIO personnel recommended the SIB engage Callan to assist RIO in conducting a search to potentially replace the Capital Group International Equity mandate. The recommendation is the result of changes to the portfolio management team, which were reviewed at the SIB August 28, 2015, meeting, and numerous requests, by RIO personnel and Callan Associates, for individual portfolio manager performance given the multi-manager approach and the need to appraise the effect of the personnel changes, which Capital Group has been unwilling to release.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SANDAL TO AUTHORIZE CALLAN ASSOCIATES TO BEGIN THE SEARCH FOR AN ENTITY TO POTENTIALLY REPLACE THE CAPITAL GROUP INTERNATIONAL EQUITY STRATEGY IN THE PENSION, INSURANCE, AND LEGACY FUND PORTFOLIOS.

AYES: MR. GESSNER, COMMISSIONER GAEBE, MS. SMITH, MS. TERNES, TREASURER SCHMIDT, MR. LECH, COMMISSIONER HAMM, MR. OLSON, MR. TRENBEATH, MR. SANDAL, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

Fiduciary Duty - Mr. Hunter reviewed Section 2, Investment Policy, and Section 3, The Fund's Mission, of "A Primer for Investment Trustees" to expand awareness of the important role played by the SIB members in acting as trustees.

PERS Group Insurance - RIO personnel presented a revised asset allocation policy for the Public Employees Retirement System (PERS) Group Insurance Fund for the board's consideration. The revised asset allocation reflects 95% (not to exceed \$36 million) in short term fixed income vs 100% in cash equivalents in order to generate incremental income without taking on undue risk.

IT WAS MOVED BY MR. LECH AND SECONDED BY MR. SANDAL TO ACCEPT THE REVISED ASSET ALLOCATION FOR THE PERS GROUP INSURANCE ACCOUNT.

AYES: MR. OLSON, MR. TRENBEATH, COMMISSIONER GAEBE, MR. GESSNER, COMMISSIONER HAMM, MS. SMITH, MR. SANDAL, TREASURER SCHMIDT, MS. TERNES, MR. LECH, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

GOVERNANCE:

Audit Committee - Ms. Miller Bowley reviewed activities of the SIB Audit Committee as of their November 19, 2015, meeting. The Audit Committee received the June 30, 2015, financial audit results of the Retirement and Investment Office (RIO). An update on internal audit activities for the first quarter of 2015-16 was given. Ms. Miller Bowley also stated the Audit Committee is reviewing and revising their charter.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE AUDIT COMMITTEE REPORT.

AYES: COMMISSIONER HAMM, MS. TERNES, COMMISSIONER GAEBE, MR. GESSNER, MS. SMITH, MR. TRENBEATH, MR. SANDAL, MR. LECH, MR. OLSON, TREASURER SCHMIDT, AND LT. GOVERNOR WRIGLEY

Financial Audit Report - Mr. Hunter stated CliftonLarsonAllen has released their June 30, 2015, financial audit of RIO. The firm has issued an unmodified "clean" opinion that the financial statements are presented fairly, in all material respects, and in conformity with U.S. Generally Accepted Accounting Principles (GAAP).

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE CLIFTONLARSONALLEN JUNE 30, 2015, FINANCIAL AUDIT REPORT FOR THE RETIREMENT AND INVESTMENT OFFICE.

AYES: MR. GESSNER, COMMISSIONER GAEBE, MS. SMITH, TREASURER SCHMIDT, MR. LECH, COMMISSIONER HAMM, MR. OLSON, MR. TRENBEATH, MR. SANDAL, MS. TERNES, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

Employee Benefits Programs Committee - Mr. Hunter stated he met with the Employee Benefits Programs Committee (EBPC) on October 27, 2015, and also followed up with requests for additional information on November 3, 2015. Mr. Hunter had provided an overview of the state's investment program and current investment climate. The SIB was provided a copy of the presentation and additional information requested by the EBPC.

MONITORING:

Callan Associates - Representatives reviewed investment performance of the Pension Trust, Insurance Trust, and Legacy Fund for the period ending September 30, 2015. Representatives stated because of disciplined rebalancing of the portfolios by RIO personnel, the actual asset allocations are close to their target asset allocations with risk factors close to zero.

The following managers remain on the "Watch List": PIMCO Mortgage Backed Securities, PIMCO Unconstrained, UBS Global Fixed Income, and Capital Group International Equity.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT CALLAN'S PORTFOLIO PERFORMANCE REVIEW REPORTS FOR THE PENSION, INSURANCE, AND LEGACY FUNDS.

AYES: MR. OLSON, MR. GESSNER, MR. SANDAL, MS. SMITH, MR. TRENBEATH, MS. TERNES,
 COMMISSIONER HAMM, COMMISSIONER GAEBE, TREASURER SCHMIDT, AND LT. GOVERNOR
 WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: MR. LECH

OTHER:

The next meeting of the SIB is scheduled for January 22, 2016, at 8:30 a.m. in
 the Peace Garden Room.

The next meeting of the SIB Audit Committee is scheduled for February 25, 2016,
 at 3:00 p.m. in the Peace Garden Room.

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Wrigley adjourned
 the meeting at 11:52 a.m.

Lt. Governor Wrigley, Chair
 State Investment Board

Bonnie Heit
 Assistant to the Board

AGENDA ITEM III.A.

TO: State Investment Board
FROM: Dave Hunter and Darren Schulz
DATE: January 15, 2016
SUBJECT: Investment Manager Search Reference Materials

The SIB and RIO intend to complete three manager searches in the 1st quarter of 2016. In anticipation of embarking upon these manager searches, RIO is providing the SIB with reference materials for the manager search process noting that these materials have been previously shared with the SIB. RIO will also request Callan to provide additional board education on the manager search process at the next SIB meeting noting the last two presentations were made in June of 2014 and March of 2015. An overview of the three upcoming investment manager searches is highlighted below:

| <u>Investment Strategy</u> | <u>Approximate \$</u> | <u>Consultant</u> | <u>Manager Search Commentary</u> |
|----------------------------|-----------------------|-------------------|--|
| U.S. Small Cap Equity | \$110 million | Aon Hewitt | Potential Callan replacement (Pension Trust) |
| Private Equity | 90 million | Callan | Complement Adams Street (Pension Trust) |
| International Equity | 450 million | Callan | Potential Capital Group Replacement (All) |

Notes:

1. The SIB engaged Aon Hewitt to conduct the U.S. small cap search to mitigate the potential impact of any perceived conflict of interest due to Callan being the incumbent manager. The Aon Hewitt Investment Consulting presentation for the U.S. Small Cap Equity mandate is attached.
2. The SIB approved the above searches for the potential replacement of Callan's U.S. small cap equity mandate and Capital Group's international equity mandate due to process changes (i.e. a significant reduction in the number of portfolio managers within a multi-manager strategy) and a heightened desire for increased investment transparency (e.g. Capital Group only).

Attachments:

- a) Aon Hewitt U.S. Small Cap Equity Due Diligence – January 15, 2016; and
- b) Callan Manager Search Process (prior Board Education reference materials).

U.S. Small Cap Equity: Recommendation of Finalists

January 20, 2016

Dave Hunter, Executive Director / CIO
Darren Schulz, Deputy Chief Investment Officer
ND Retirement & Investment Office (RIO)
State Investment Board (SIB)

RIO's Recommendation for U.S. Small Cap Equity Finalists

Overview:

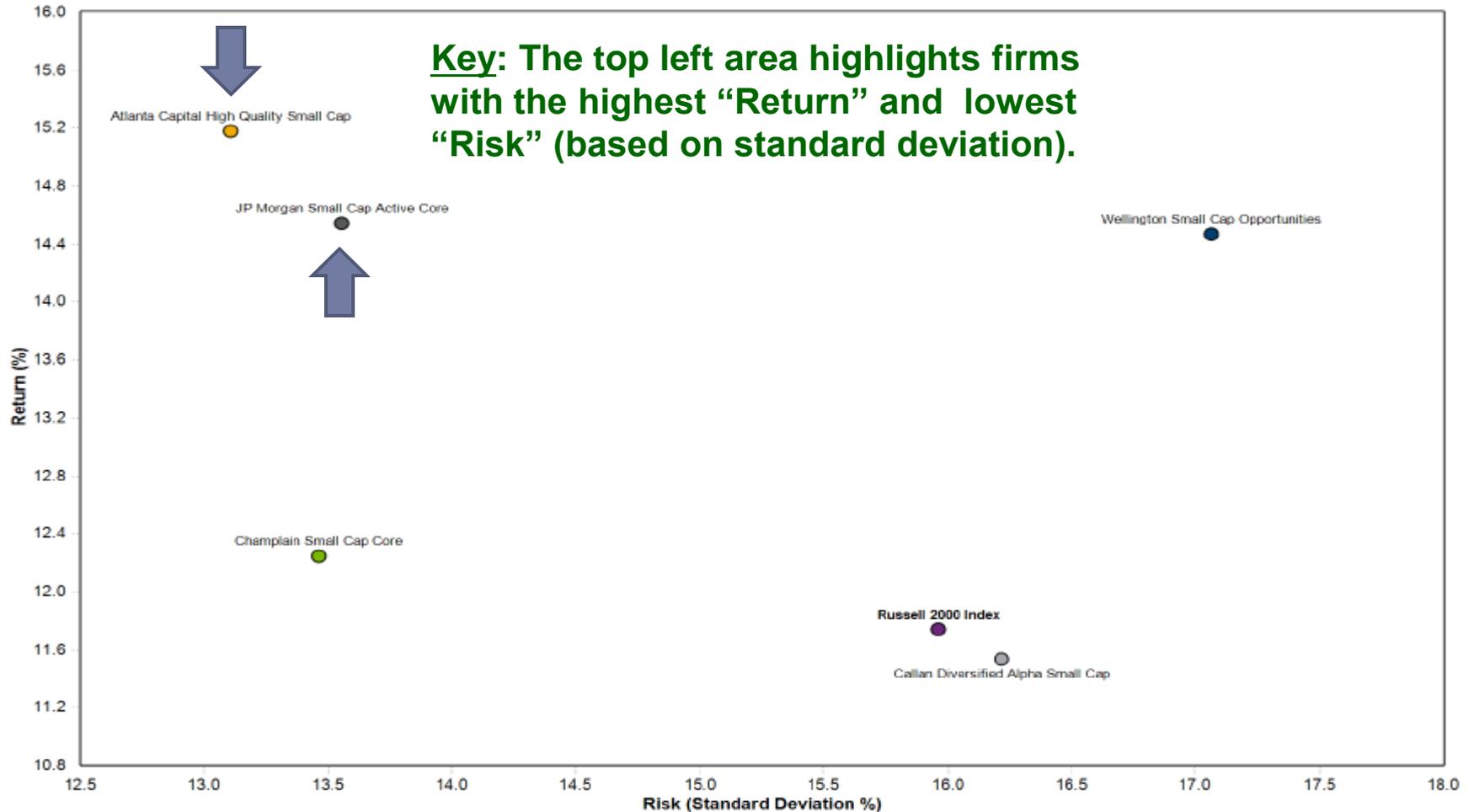
RIO identified Atlanta Capital, Champlain, JPMorgan and Wellington as our top four semi-finalists based on extensive discussions and due diligence performed on each of these strategies along with Aon Hewitt's expert guidance. Callan was ranked 5th largely based on weaker historical and prospective return expectations combined with a significant loss in assets under management. Atlanta Capital and JPMorgan were ranked slightly higher than Wellington and Champlain largely due better risk adjusted return profiles. Wellington generated strong overall returns but displayed substantially higher return volatility than the other candidates. Champlain generated lower overall returns albeit with risk levels comparable to Atlanta Capital and JPMorgan (but lower than Wellington). RIO deemed all of these candidates to be high quality managers as confirmed by multiple meetings with firm personnel including the lead portfolio managers for each strategy. **In the end, RIO ranked Atlanta Capital and JPMorgan as our top two candidates based on their demonstrated ability to generate impressive risk adjusted returns, competitive pricing and a strong portfolio management team within a sound financial organization.** Indicative pricing estimates are summarized below.

| | Estimated Fees | | | | |
|-----------------------------|----------------|--------------|------------|------------|------------|
| | Atlanta | Champlain | JP Morgan | Wellington | Callan |
| \$100 M Mandate (\$) | \$ 750,000 | \$ 925,000 | \$ 643,309 | \$ 675,000 | \$ 650,000 |
| \$100 M Mandate (%) | 0.75% | 0.93% | 0.64% | 0.68% | 0.65% |
| \$125 M Mandate (\$) | \$ 900,000 | \$ 1,112,500 | \$ 795,210 | \$ 832,500 | \$ 812,500 |
| \$125 M Mandate (%) | 0.72% | 0.89% | 0.64% | 0.67% | 0.65% |

The Risk and Return Profile of Atlanta Capital and JPMorgan is Better than Callan (and our other two semi-finalists)

Risk and Return

Five Years ending September 30, 2015



Callan's U.S. Small Cap Assets Under Management < \$600 million

Firm & Product Details

As of September 30, 2015

| Strategy Name | Atlanta | Champlain | JP Morgan | Wellington | Callan |
|--------------------------------|--|--|---------------------------------------|--------------------------------------|---|
| Product Name | High Quality Small Cap | Champlain Small Cap Core | Small Cap Active Core | Small Cap Opportunities | Diversified Alpha Small Cap |
| Location of Firm and Ownership | 86% Owned by Eaton Vance, 14% Privately Owned, based in Atlanta, GA | Privately Owned, based in Burlington, VT | Publicly Owned, based in New York, NY | Privately Owned, based in Boston, MA | Privately Owned, based in San Francisco |
| Firm AUM | \$15.6 Billion | \$5.9 Billion | \$1.7 Trillion | \$898.4 Billion | ... ³ |
| Equity AUM | \$13.7 Billion | \$5.9 Billion | \$336.0 Billion | \$377.0 Billion | ... ³ |
| Strategy AUM | \$1.8 Billion | \$3.6 Billion | \$3.6 Billion | \$1.6 Billion | \$567.1 Million |

Overview:

Aon Hewitt and RIO worked together to identify U.S. small cap equity strategies which we believed would consistently outperform the Russell 2000 benchmark over rolling 3-, 5- and 7-year periods. Leveraging Aon Hewitt's preferred list of eligible candidates, quantitative screens of the Callan and eVestment databases, and in-house research, we identified four firms as potential replacement candidates for the Callan strategy. RIO did not advance Callan to the semi-finals due to a 40% decline in assets under management following the exit of its single largest investor during the 3rd quarter of 2015. RIO believes that Callan can still be successful in this strategy going forward, however, RIO believes the other four competing strategies offer an equal or better return and risk profile than Callan with significantly less sustainability risk than Callan's offering. The following slides provide support for our opinion.

All information was sourced from eVestment, unless otherwise noted.

¹ Includes all firm Portfolio Managers, Research Analysts, Traders, and Economists. Does not include Client Service, Marketing, and Other Staff.

² SA: Separate Account; MF: Mutual Fund; CF: Commingled Fund.

³ Fund of Funds structure.

Callan's Returns Have Underperformed Russell 2000 Benchmark Index and Peers

Comparative Performance

As of September 30, 2015

| | 1 Quarter | Year To Date | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years | Since Inception | Inception Date | | | | | | | | |
|--|--------------|--------------------|-----------|------------|------------|------------|-------------|--------------------|-------------------|------|-------|------|-------|------|-------|------|------------|
| Small Cap Core | | | | | | | | | | | | | | | | | |
| Atlanta Capital High Quality Small Cap | -7.47 | (10) | -0.18 | (7) | 9.86 | (7) | 14.00 | (35) | 15.18 | (18) | 12.81 | (8) | 10.49 | (2) | 11.72 | (17) | 04/01/1992 |
| Russell 2000 Index | -11.02 | | -7.73 | | 1.25 | | 11.02 | | 11.73 | | 8.63 | | 6.55 | | 8.03 | | |
| Champlain Small Cap Core | -10.09 | (44) | -6.05 | (47) | 3.51 | (31) | 10.73 | (66) | 12.24 | (55) | 9.07 | (67) | 8.87 | (12) | 12.26 | (6) | 01/01/1996 |
| Russell 2000 Index | -11.02 | | -7.73 | | 1.25 | | 11.02 | | 11.73 | | 8.63 | | 6.55 | | 7.94 | | |
| Wellington Small Cap Opportunities | -12.91 | (89) | -6.56 | (68) | 1.64 | (62) | 17.10 | (6) | 14.46 | (27) | 12.46 | (12) | 8.31 | (19) | 11.64 | (14) | 03/01/1994 |
| Russell 2000 Index | -11.02 | | -7.73 | | 1.25 | | 11.02 | | 11.73 | | 8.63 | | 6.55 | | 8.20 | | |
| JP Morgan Small Cap Active Core | -8.78 | (26) | -4.06 | (30) | 4.32 | (33) | 12.86 | (52) | 14.54 | (25) | 12.92 | (7) | 10.30 | (3) | 11.66 | (2) | 10/01/2004 |
| Russell 2000 Index | -11.02 | | -7.73 | | 1.25 | | 11.02 | | 11.73 | | 8.63 | | 6.55 | | 7.54 | | |
| Callan Diversified Alpha Small Cap | -13.12 | (80) | -8.63 | (75) | -3.02 | (81) | 10.74 | (66) | 11.53 | (66) | 9.26 | (63) | N/A | | 6.09 | (60) | 06/01/2006 |
| Russell 2000 Index | -11.02 | | -7.73 | | 1.25 | | 11.02 | | 11.73 | | 8.63 | | 6.55 | | 6.07 | | |

Callan's U.S. Small Cap Equity Returns Have Been Consistently Lower than our Two Finalists:

For the 3-, 5-, 7- and 10-year periods ended Sep. 30, 2015, Atlanta Capital ranked between the 2nd and 35th percentile and JPMorgan ranked in the 3rd to 52nd percentile, while Callan ranked in the 63rd to 66th percentile.

Comparison of Rolling Excess Returns and Information Ratio

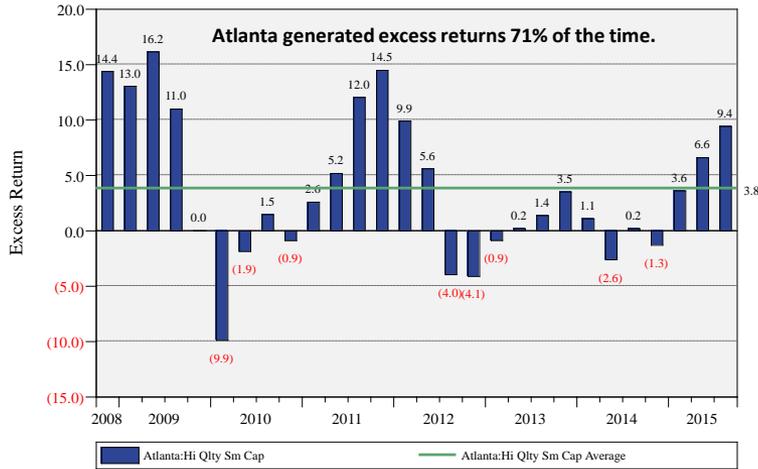
| Rolling Average Excess Returns for the 7-years ended 9/30/2015: | <u>Atlanta</u> | <u>JPMorgan</u> | <u>Wellington</u> | <u>Champlain</u> | <u>Callan</u> |
|---|----------------|-----------------|-------------------|------------------|---------------|
| - 4 Quarters (1-year) | 3.8% | 3.7% | 4.8% | 1.4% | 1.3% |
| - 12 Quarters (3-years) | 5.1% | 4.6% | 2.8% | 3.4% | 1.3% |
| Batting Average (3-years) | 93% | 100% | 82% | 82% | 96% |
| Rolling Average Information Ratio for the 7-years ended 9/30/15: | | | | | |
| - 4 Quarters (1-year) | 1.4% | 1.3% | 0.4% | 1.2% | 0.3% |

Overview:

Based on rolling 3-year average excess returns and information ratio for the 7-years ended September 30, 2015, the top two candidates within U.S. Small Cap Equity were Atlanta Capital and JPMorgan as highlighted above. Please see the following five slides for bar charts highlighting the historical excess return performance and information ratio of the five candidates.

Atlanta Capital High Quality Small Cap

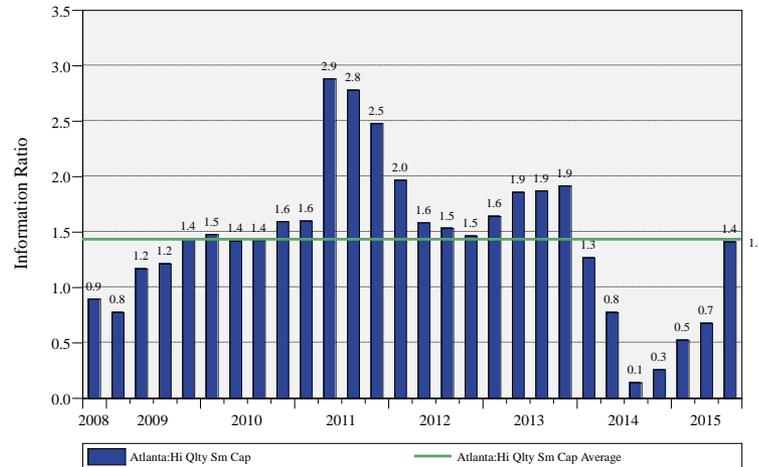
Atlanta Capital High Quality Small Cap vs Russell:2000 Index
Rolling 4 Quarter Excess Return for 7 Years Ended September 30, 2015



Atlanta Capital High Quality Small Cap vs Russell:2000 Index
Rolling 12 Quarter Excess Return for 7 Years Ended September 30, 2015



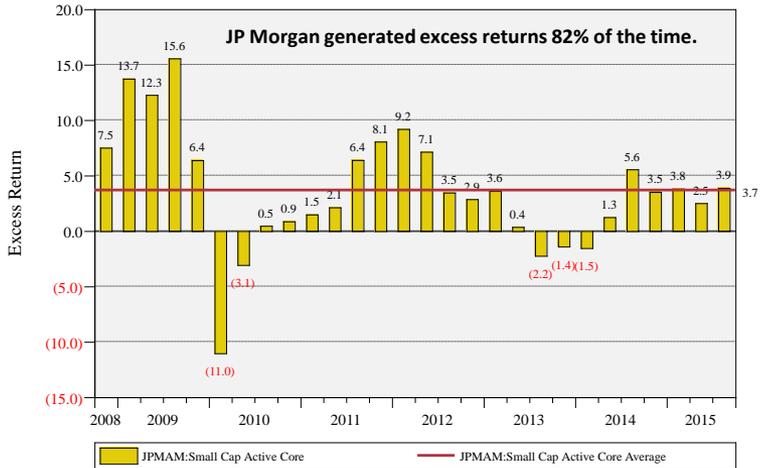
Atlanta Capital High Quality Small Cap vs Russell:2000 Index
Rolling 12 Quarter Information Ratio for 7 Years Ended September 30, 2015



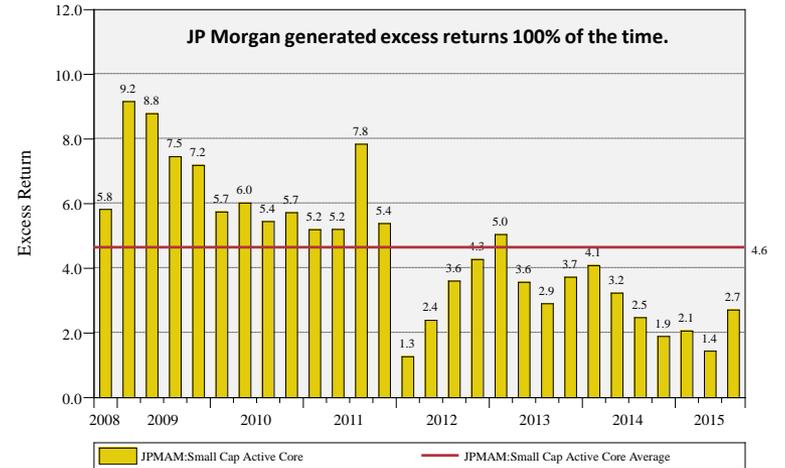
Information Ratio =
Excess Portfolio Return over a Benchmark Return divided by the volatility (or standard deviation) of those returns. The higher the information ratio the more consistent the generation of excess return.

J.P. Morgan Small Cap Active Core Strategy

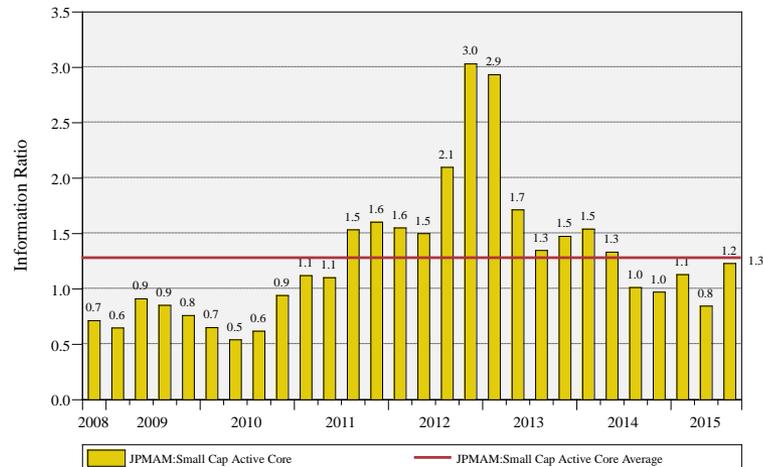
J.P. Morgan Small Cap Active Core vs Russell:2000 Index
Rolling 4 Quarter Excess Return for 7 Years Ended September 30, 2015



J.P. Morgan Small Cap Active Core vs Russell:2000 Index
Rolling 12 Quarter Excess Return for 7 Years Ended September 30, 2015

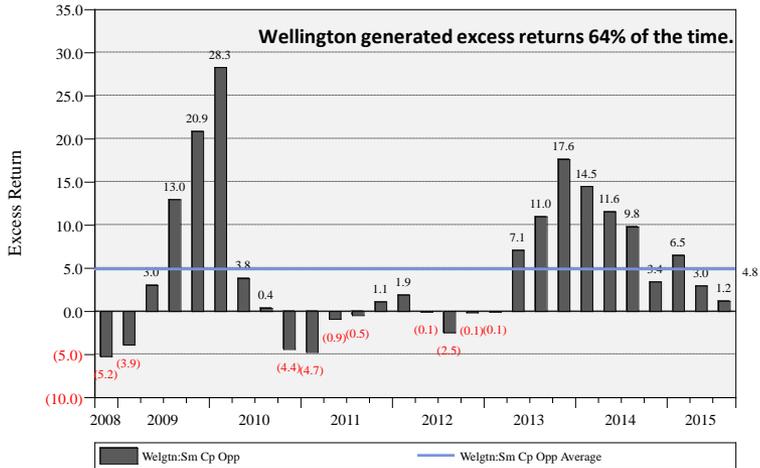


J.P. Morgan Small Cap Active Core vs Russell:2000 Index
Rolling 12 Quarter Information Ratio for 7 Years Ended September 30, 2015

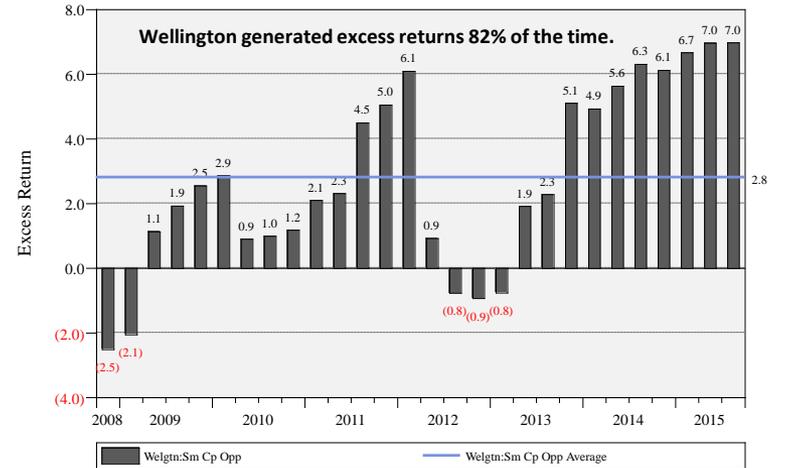


Wellington Small Cap Opportunities

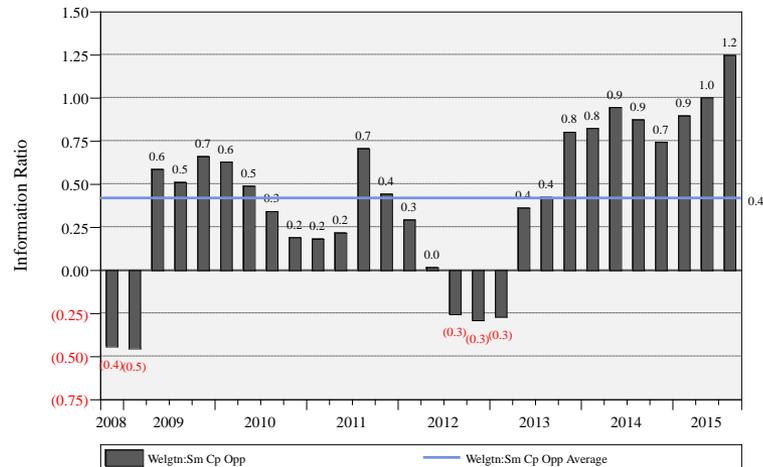
Wellington Small Cap Opportunities vs Russell:2000 Index
Rolling 4 Quarter Excess Return for 7 Years Ended September 30, 2015



Wellington Small Cap Opportunities vs Russell:2000 Index
Rolling 12 Quarter Excess Return for 7 Years Ended September 30, 2015

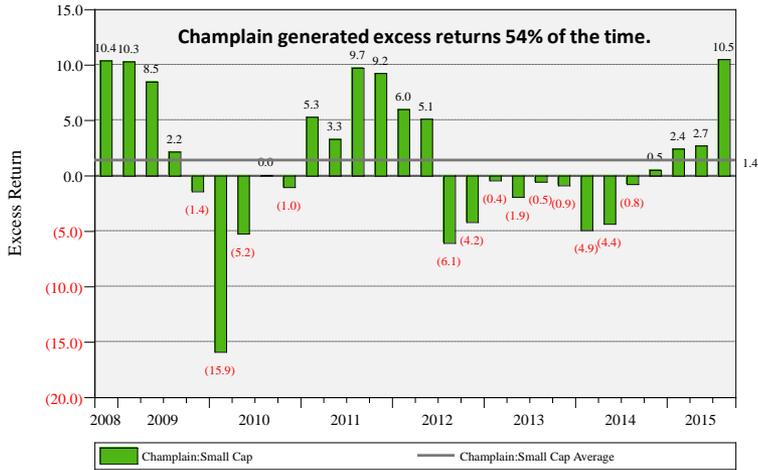


Wellington Small Cap Opportunities vs Russell:2000 Index
Rolling 12 Quarter Information Ratio for 7 Years Ended September 30, 2015

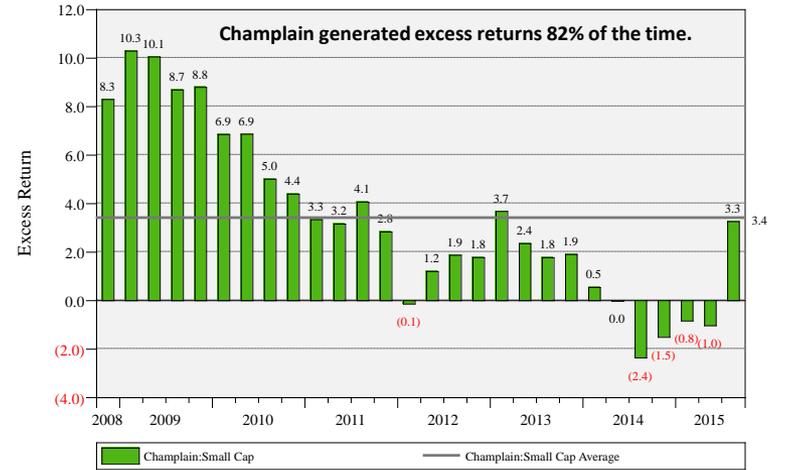


Champlain Investment Partners: Small Cap Strategy

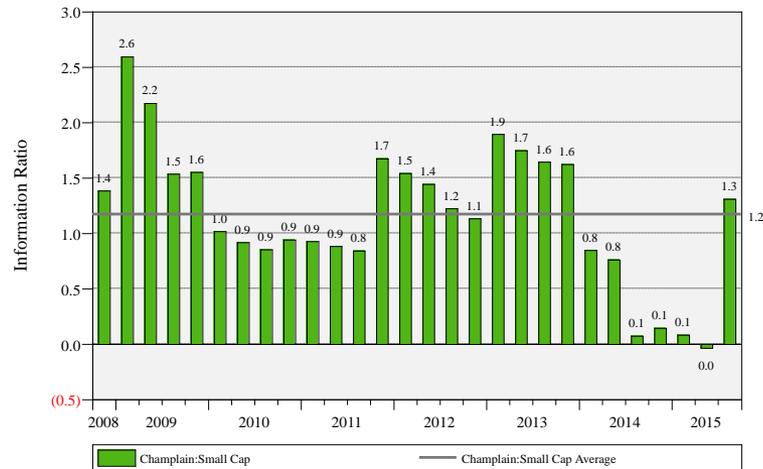
Champlain Investment Partners: Small Cap Strategy vs Russell:2000 Index
Rolling 4 Quarter Excess Return for 7 Years Ended September 30, 2015



Champlain Investment Partners: Small Cap Strategy vs Russell:2000 Index
Rolling 12 Quarter Excess Return for 7 Years Ended September 30, 2015

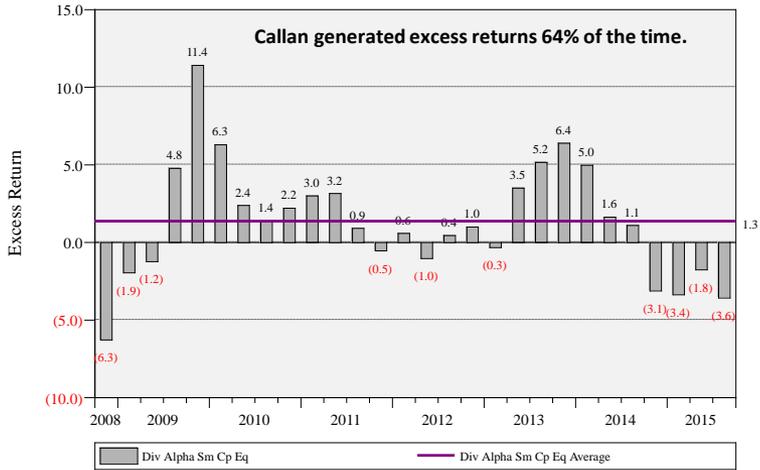


Champlain Investment Partners: Small Cap Strategy vs Russell:2000 Index
Rolling 12 Quarter Information Ratio for 7 Years Ended September 30, 2015

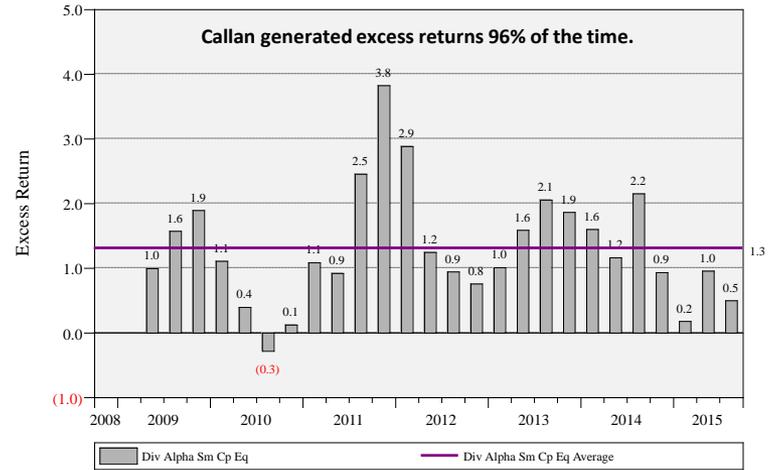


Callan Diversified Alpha Small Cap

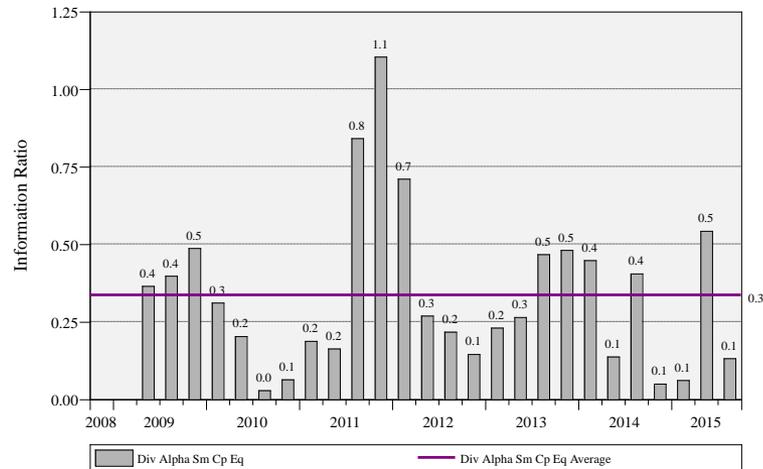
Callan Diversified Alpha Small Cap vs Russell:2000 Index
Rolling 4 Quarter Excess Return for 7 Years Ended September 30, 2015



Callan Diversified Alpha Small Cap vs Russell:2000 Index
Rolling 12 Quarter Excess Return for 7 Years Ended September 30, 2015



Callan Diversified Alpha Small Cap vs Russell:2000 Index
Rolling 12 Quarter Information Ratio for 7 Years Ended September 30, 2015



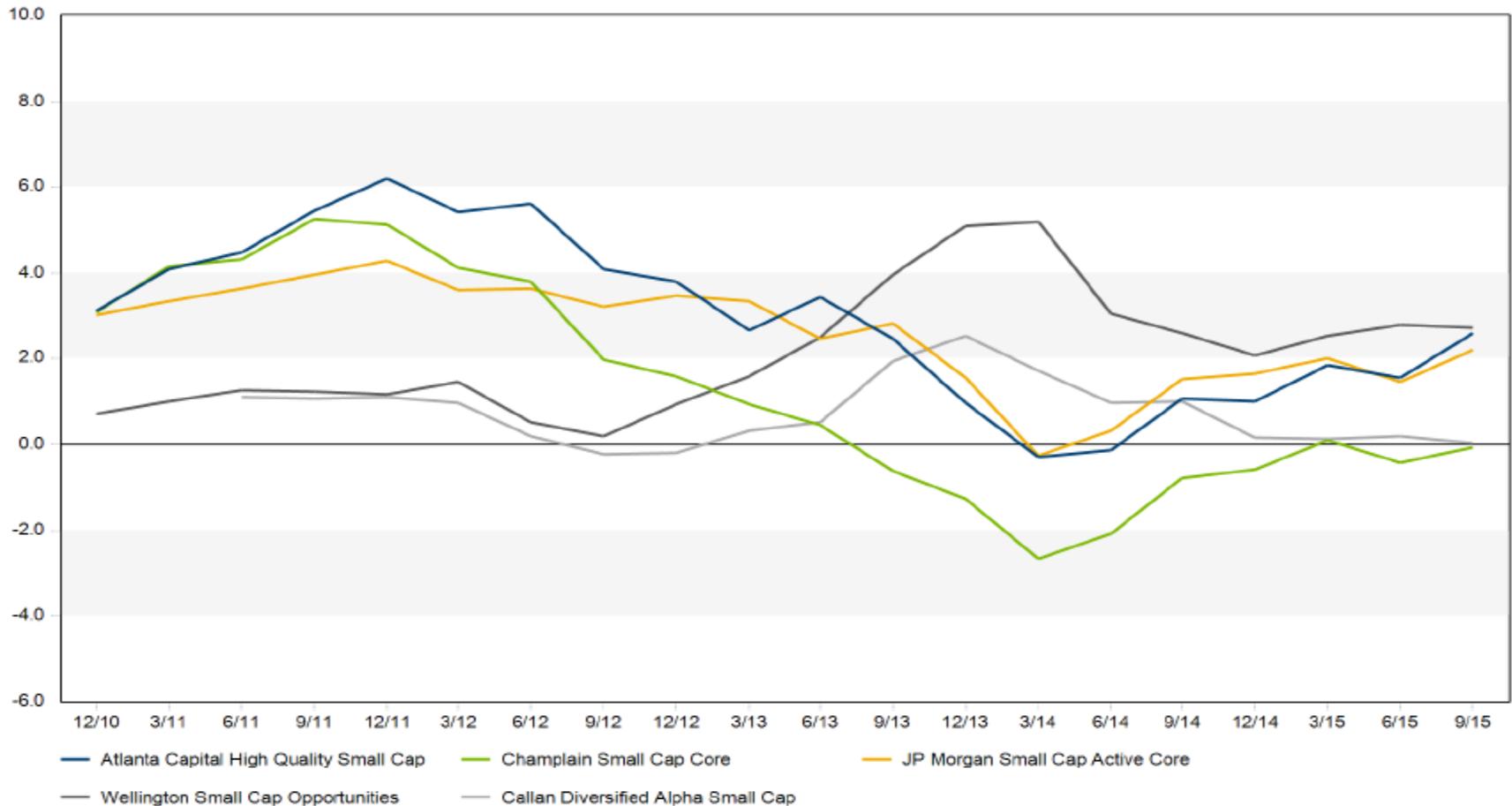
5-Year Rolling Active Return of Atlanta Capital, JPMorgan and Wellington is Superior to Callan and Champlain

Rolling Active Return

As of September 30, 2015

5 Year Rolling Active Returns vs. Russell 2000 Index

Active Return



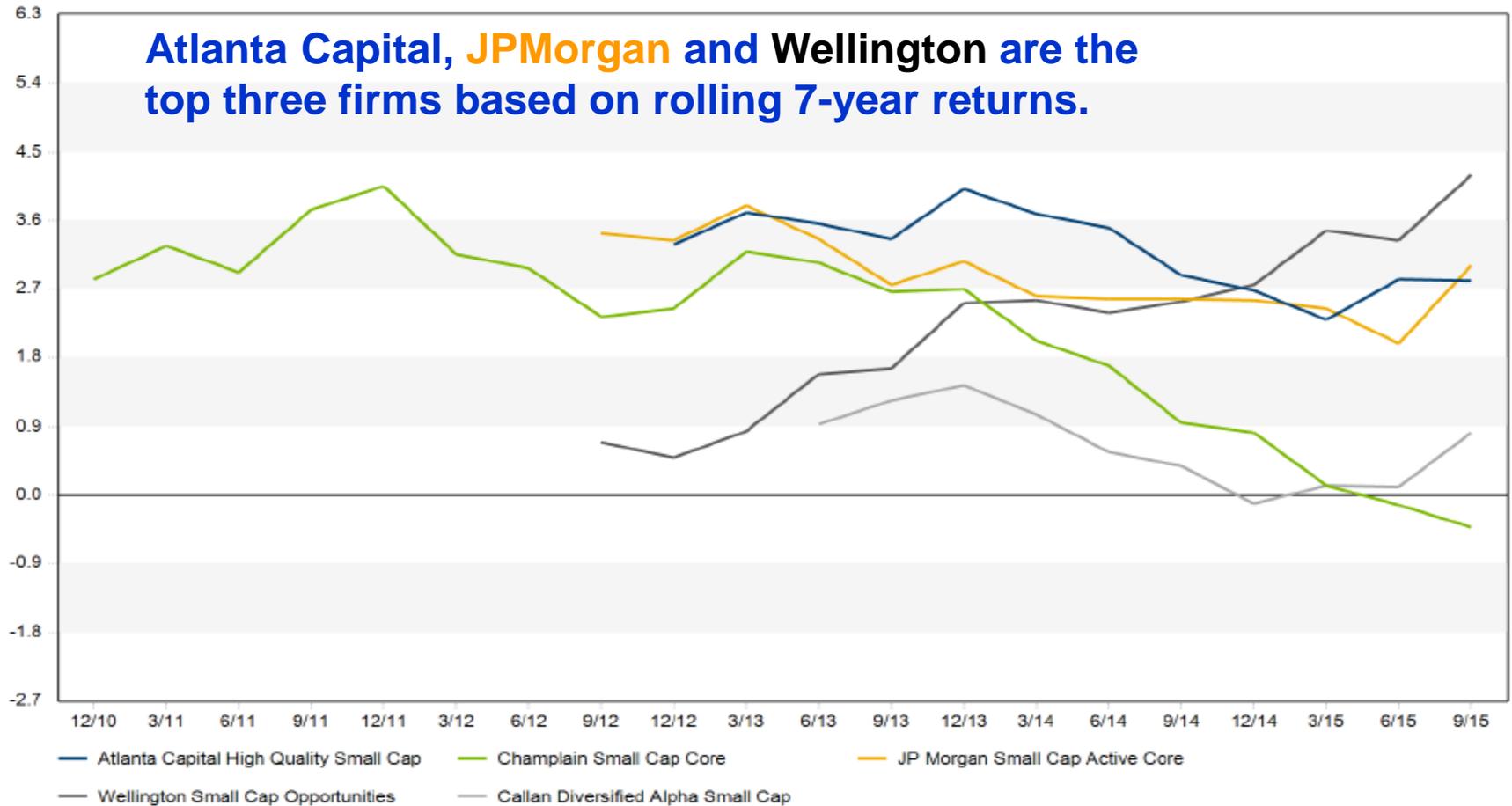
7-Year Rolling Active Return of Atlanta Capital, JPMorgan and Wellington is Superior to Callan and Champlain

Rolling Active Return

As of September 30, 2015

7 Year Rolling Active Returns vs. Russell 2000 Index

Active Return



Up Market and Down Market Capture

Market Capture Ratio

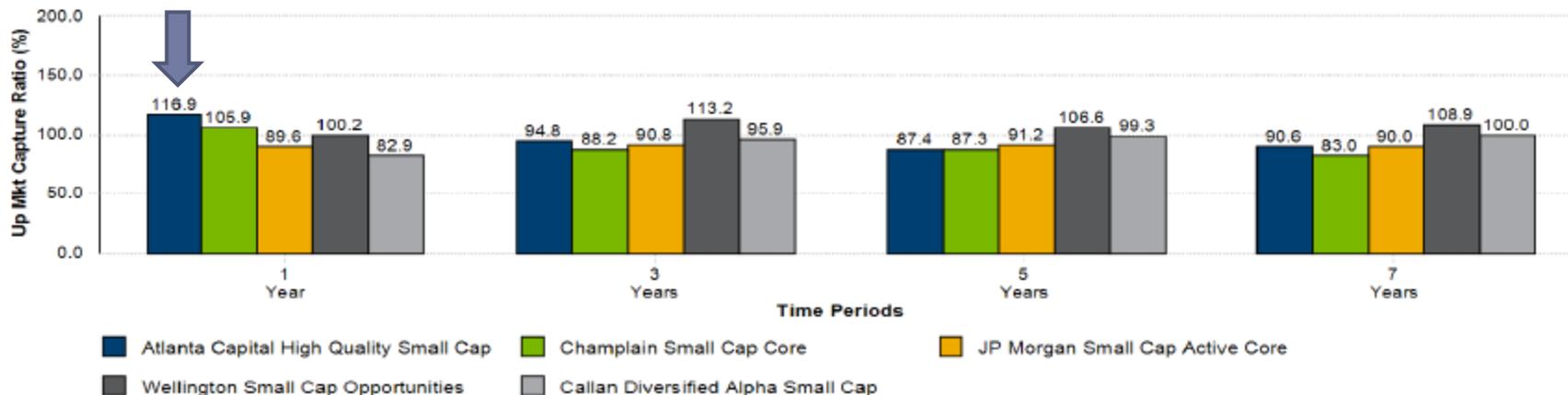
As of September 30, 2015

Goal: Down Market Capture < 100%
- A Lower % means a lower Loss

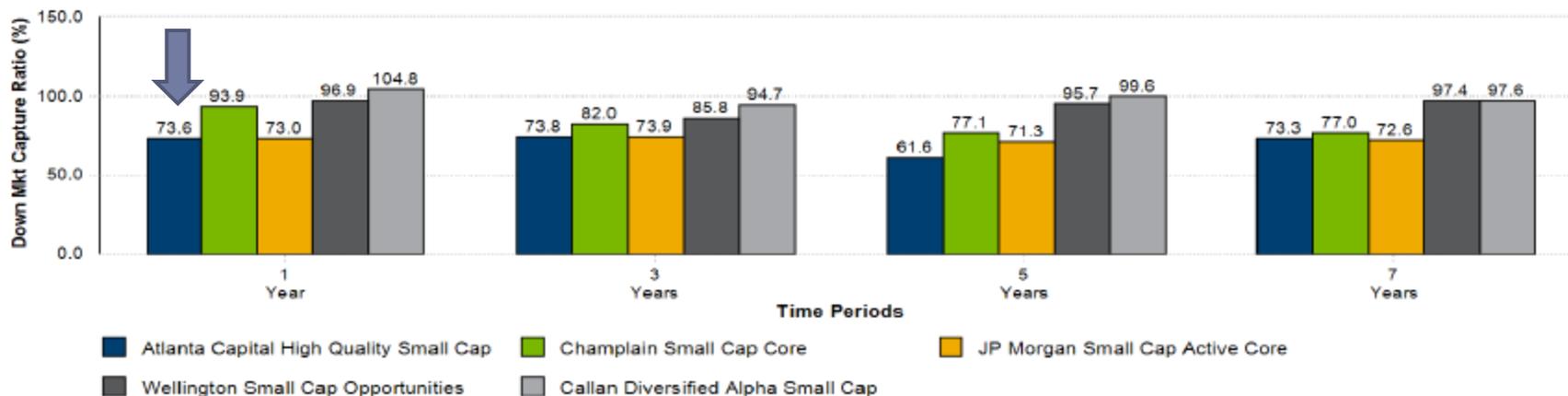
Goal: Up Market Capture > 100%
- A higher % means a higher Gain

vs. Russell 2000 Index

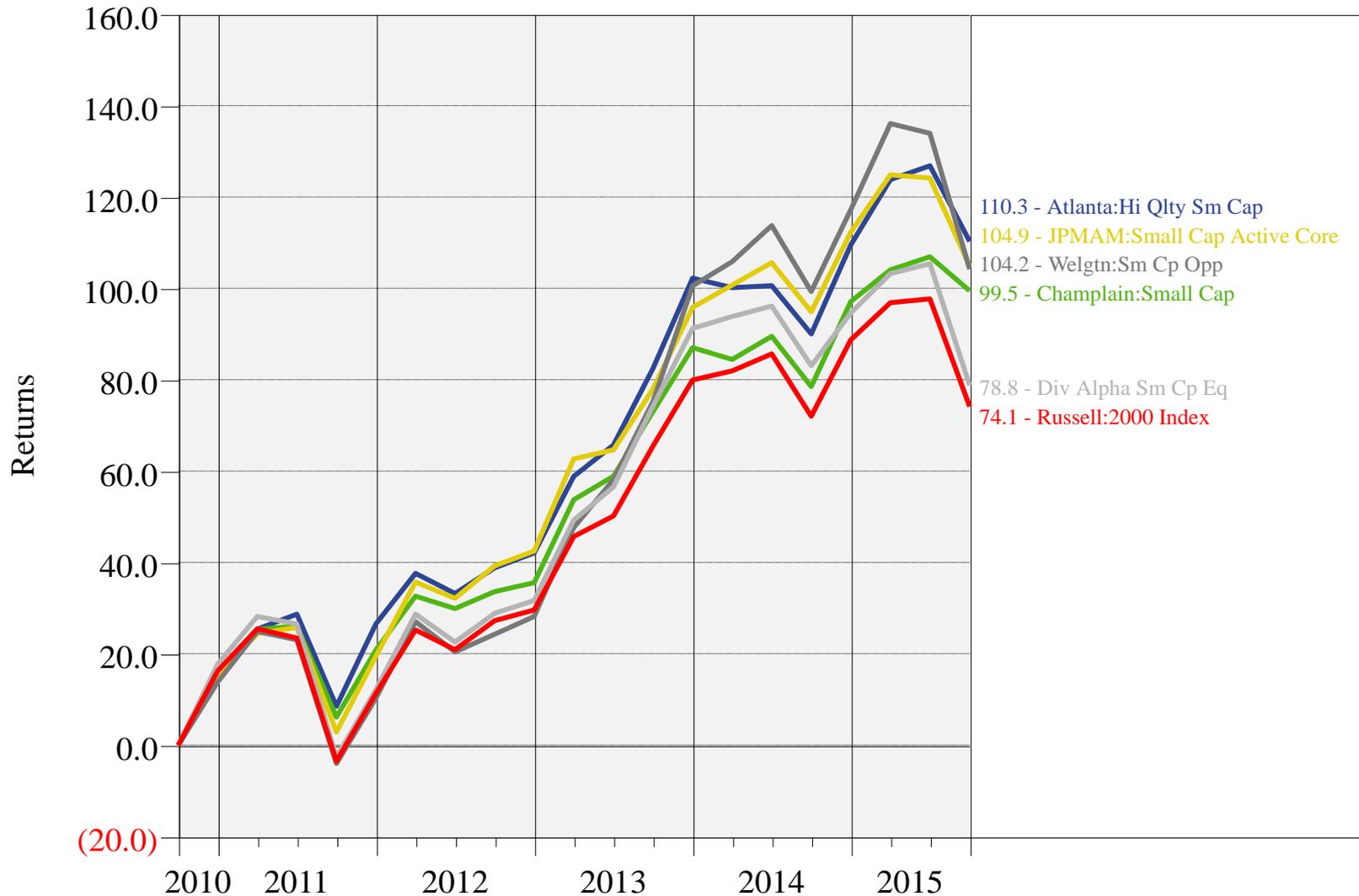
Up Market Capture



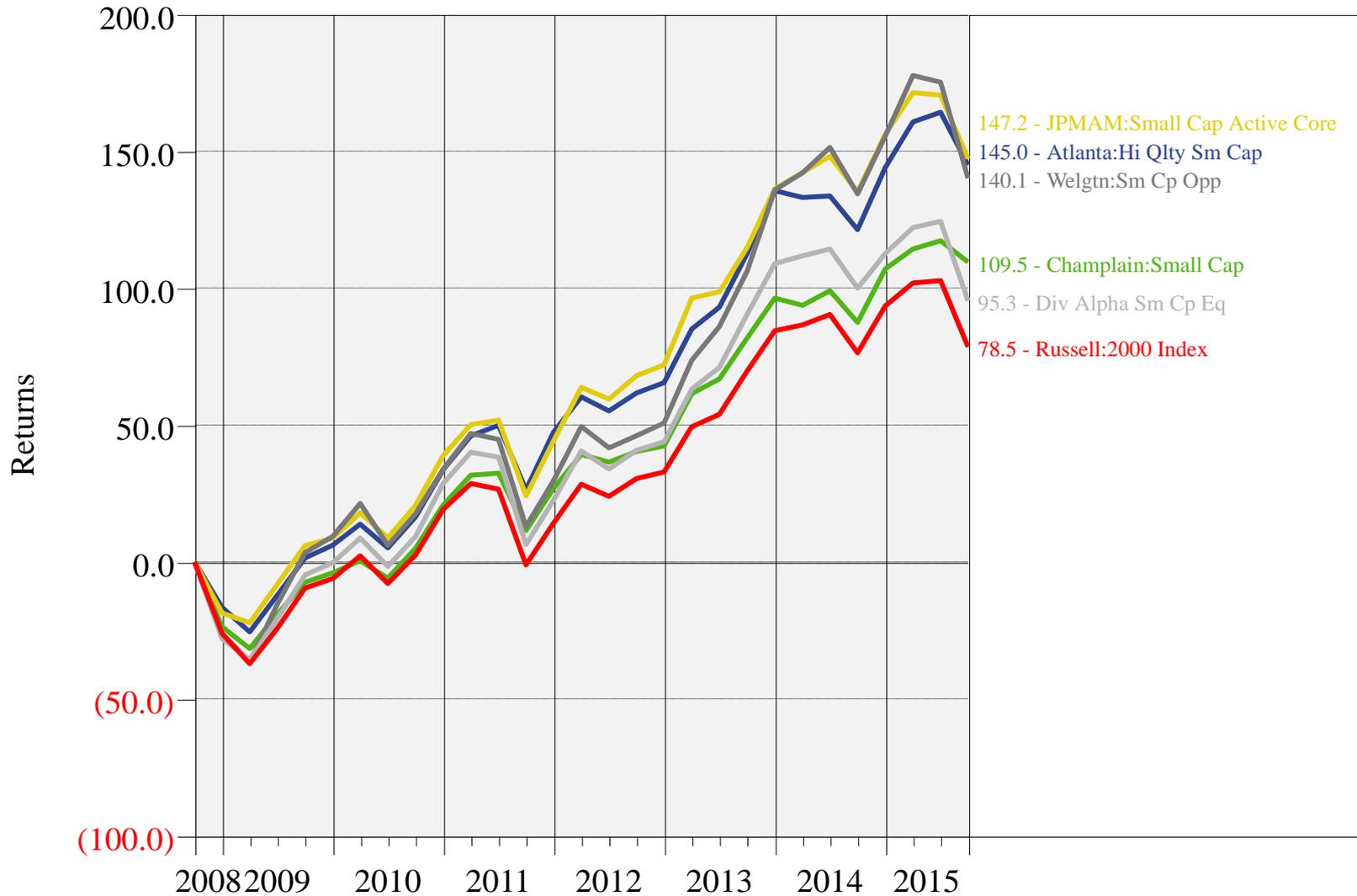
Down Market Capture

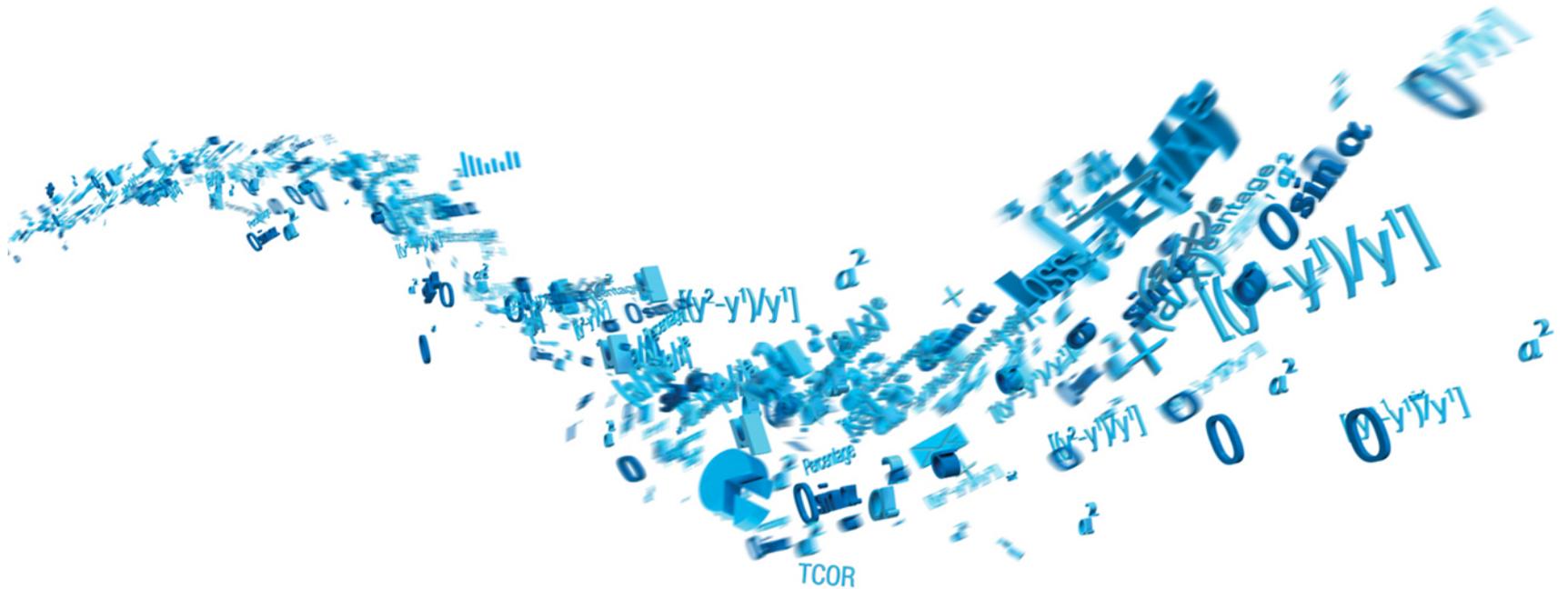


Cumulative Returns for the 5 Year Period Ending September 30, 2015



Cumulative Returns for the 7 Year Period Ending September 30, 2015





North Dakota State Investment Board U.S. Small Cap Candidates Presentation

January 15, 2016

Aon Hewitt Investment Consulting
Chris Riley
Paul Kennedy

Aon Hewitt
Retirement and Investment

Investment advice and consulting services provided by Aon Hewitt Investment Consulting, Inc., an Aon Company.



North Dakota State Investment Board (NDSIB) contracted Aon Hewitt Investment Consulting (AHIC) to assist in the review of the active small cap equity manager universe. We were also asked to provide our rating of Callan Associates' Small Cap Fund that NDSIB is currently invested in. Included in our communication with NDSIB staff was:

- Review of mandate and investment preferences
- Review of Buy rated managers within small and small/mid cap universe that fit criteria or represented unique opportunities
- Conversations to determine candidates that are best fit for further review from NDSIB staff
- Discussion of managers/strategies that NDSIB staff reviewed
- Finalization of candidate list

In addition to qualitative discussions with NDSIB staff, we provided a number of write-ups and quantitative analysis.

The following presentation includes the final list of small cap candidates to be considered as well as data on the incumbent strategy. The AHIC ratings for the strategies included in the report are:

- Atlanta Capital Management (Qualified rated)
- Champlain Investment Partners (Buy rated)
- JP Morgan Investment Management (Not rated due to lack of data)
- Wellington Management Company (Buy rated)
- Callan Associates (Qualified rated)

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| <i>Scope of Engagement</i> | |
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| Trailing Peer Group Rankings | 17 |
| Rolling Excess Returns | 19 |
| Trailing Up/Down Market Statistics | 23 |

Firm & Product Details

As of September 30, 2015

| Strategy Name | Atlanta | Champlain | JP Morgan | Wellington | Callan |
|-----------------------------------|--|--|---------------------------------------|--------------------------------------|---|
| Product Name | High Quality Small Cap | Champlain Small Cap Core | Small Cap Active Core | Small Cap Opportunities | Diversified Alpha Small Cap |
| Location of Firm and Ownership | 86% Owned by Eaton Vance, 14% Privately Owned, based in Atlanta, GA | Privately Owned, based in Burlington, VT | Publicly Owned, based in New York, NY | Privately Owned, based in Boston, MA | Privately Owned, based in San Francisco |
| Firm AUM | \$15.6 Billion | \$5.9 Billion | \$1.7 Trillion | \$898.4 Billion | ... ³ |
| Equity AUM | \$13.7 Billion | \$5.9 Billion | \$336.0 Billion | \$377.0 Billion | ... ³ |
| Strategy AUM | \$1.8 Billion | \$3.6 Billion | \$3.6 Billion | \$1.6 Billion | \$567.1 Million |
| Investment Team Size ¹ | 14 | 24 | 1,065 | 572 | 9 |
| Strategy Inception | 4/1/1992 | 1/1/1996 | 9/30/2004 | 2/28/1994 | 6/1/2006 |
| Investment Vehicle ² | SA | SA / MF / CF | SA / MF | SA / CF | CF |
| Preferred Benchmark | Russell 2000 | Russell 2000 | Russell 2000 | Russell 2000 | Russell 2000 |
| Style Emphasis | Core | Core | Core | Core | Core |
| Investment Approach | Fundamental | Fundamental | Fundamental | Fundamental | Combined |
| Screening Approach | Bottom-Up | Bottom-Up | Bottom-Up | Bottom-Up | Combined |
| Typical Number of Holdings | 65 | 100 | 100 | 105 | 1500 ³ |
| Annual Turnover | 14% | 32% | 14% | 81% | 108% |
| Maximum Sector Exposure | Yes (30%) | Yes (20%) | Yes (10%) | Yes | N/A |
| Maximum Industry Exposure | No | No | No | Yes (25%) | N/A |
| Position Size Limits | Yes (5%) | Yes (3%) | Yes (5%) | Yes (5%) | Yes (10%) |

All information was sourced from eVestment, unless otherwise noted.

¹ Includes all firm Portfolio Managers, Research Analysts, Traders, and Economists. Does not include Client Service, Marketing, and Other Staff.

² SA: Separate Account; MF: Mutual Fund; CF: Commingled Fund.

³ Fund of Funds structure.

Comparative Performance

As of September 30, 2015

| | 1 Quarter | Year To Date | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years | Since Inception | Inception Date | | | | | | | | |
|--|--------------|--------------------|-----------|------------|------------|------------|-------------|--------------------|-------------------|------|-------|------|-------|------|-------|------|------------|
| Small Cap Core | | | | | | | | | | | | | | | | | |
| Atlanta Capital High Quality Small Cap | -7.47 | (10) | -0.18 | (7) | 9.86 | (7) | 14.00 | (35) | 15.18 | (18) | 12.81 | (8) | 10.49 | (2) | 11.72 | (17) | 04/01/1992 |
| <i>Russell 2000 Index</i> | -11.92 | | -7.73 | | 1.25 | | 11.02 | | 11.73 | | 8.63 | | 6.55 | | 8.93 | | |
| Champlain Small Cap Core | -10.09 | (44) | -6.05 | (47) | 3.51 | (31) | 10.73 | (66) | 12.24 | (55) | 9.07 | (67) | 8.87 | (12) | 12.26 | (6) | 01/01/1996 |
| <i>Russell 2000 Index</i> | -11.92 | | -7.73 | | 1.25 | | 11.02 | | 11.73 | | 8.63 | | 6.55 | | 7.94 | | |
| Wellington Small Cap Opportunities | -12.91 | (89) | -6.56 | (68) | 1.64 | (62) | 17.10 | (6) | 14.46 | (27) | 12.46 | (12) | 8.31 | (19) | 11.64 | (14) | 03/01/1994 |
| <i>Russell 2000 Index</i> | -11.92 | | -7.73 | | 1.25 | | 11.02 | | 11.73 | | 8.63 | | 6.55 | | 8.26 | | |
| JP Morgan Small Cap Active Core | -8.78 | (26) | -4.06 | (30) | 4.32 | (33) | 12.86 | (52) | 14.54 | (25) | 12.92 | (7) | 10.30 | (3) | 11.66 | (2) | 10/01/2004 |
| <i>Russell 2000 Index</i> | -11.92 | | -7.73 | | 1.25 | | 11.02 | | 11.73 | | 8.63 | | 6.55 | | 7.54 | | |
| Callan Diversified Alpha Small Cap | -13.12 | (80) | -8.63 | (75) | -3.02 | (81) | 10.74 | (66) | 11.53 | (66) | 9.26 | (63) | N/A | | 6.09 | (60) | 06/01/2006 |
| <i>Russell 2000 Index</i> | -11.92 | | -7.73 | | 1.25 | | 11.02 | | 11.73 | | 8.63 | | 6.55 | | 6.07 | | |

Comparative Performance

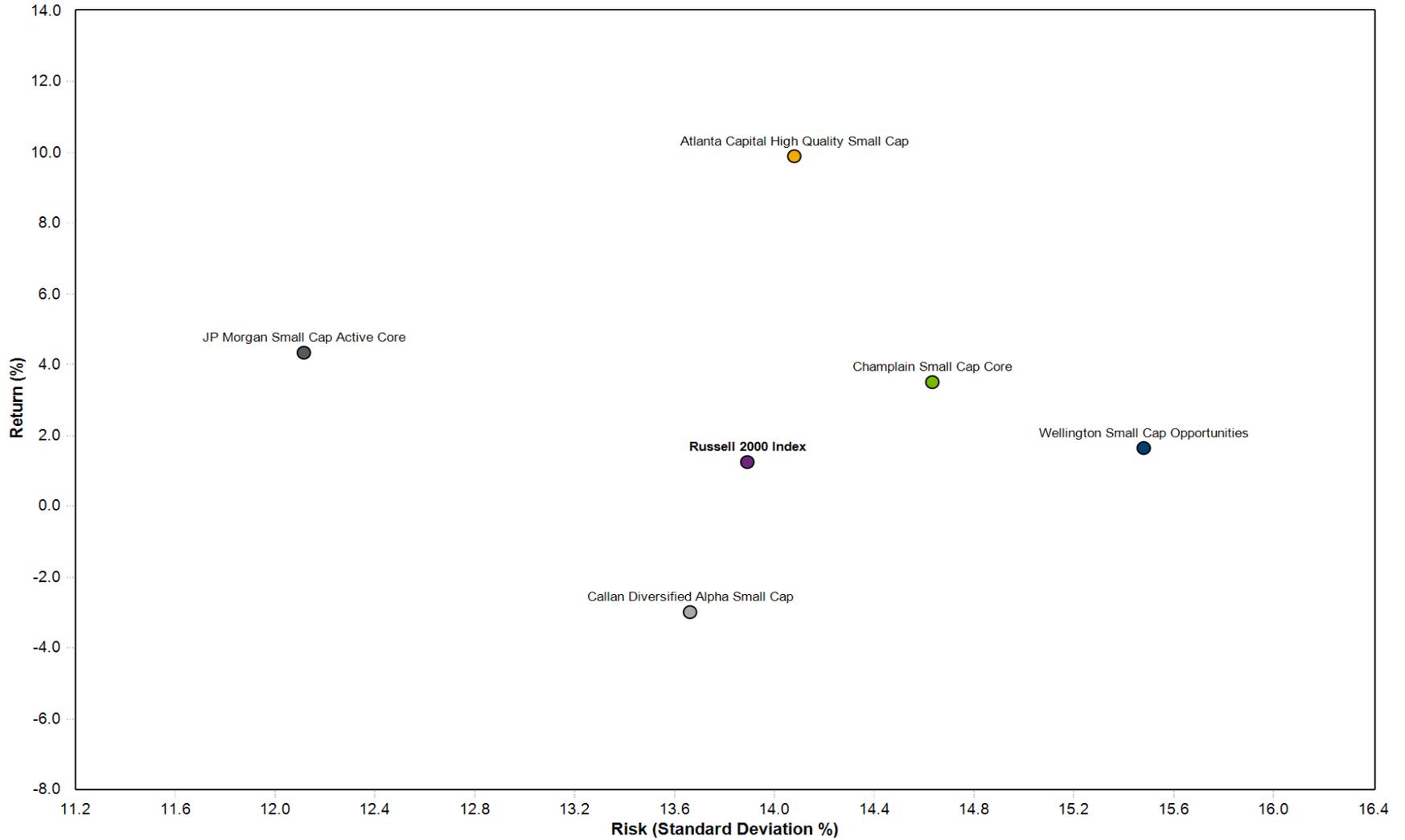
As of September 30, 2015

| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | | | | | | | | | | |
|--|------|-------|-------|-------|-------|-------|--------|-------|-------|------|-------|------|--------|------|-------|------|-------|------|-------|------|
| Small Cap Core | | | | | | | | | | | | | | | | | | | | |
| Atlanta Capital High Quality Small Cap | 2.83 | (73) | 41.31 | (44) | 11.41 | (89) | 9.49 | (1) | 25.05 | (68) | 26.24 | (66) | -20.02 | (1) | 5.97 | (18) | 15.34 | (49) | 5.38 | (65) |
| <i>Russell 2000 Index</i> | 4.89 | 38.82 | 16.35 | -4.18 | 26.85 | 27.17 | -33.79 | -1.57 | 18.37 | 4.55 | | | | | | | | | | |
| Champlain Small Cap Core | 4.43 | (49) | 36.71 | (72) | 11.14 | (84) | 4.09 | (8) | 24.67 | (69) | 24.61 | (78) | -24.13 | (3) | 11.52 | (19) | 14.97 | (49) | 11.21 | (22) |
| <i>Russell 2000 Index</i> | 4.89 | 38.82 | 16.35 | -4.18 | 26.85 | 27.17 | -33.79 | -1.57 | 18.37 | 4.55 | | | | | | | | | | |
| JP Morgan Small Cap Active Core | 7.57 | (25) | 36.37 | (82) | 18.31 | (29) | 3.09 | (13) | 26.74 | (56) | 32.52 | (38) | -26.86 | (4) | 4.18 | (31) | 18.93 | (14) | 13.02 | (10) |
| <i>Russell 2000 Index</i> | 4.89 | 38.82 | 16.35 | -4.18 | 26.85 | 27.17 | -33.79 | -1.57 | 18.37 | 4.55 | | | | | | | | | | |
| Wellington Small Cap Opportunities | 7.48 | (26) | 55.27 | (5) | 15.33 | (58) | -3.84 | (64) | 21.55 | (92) | 46.93 | (11) | -39.50 | (72) | -1.28 | (51) | 16.09 | (37) | 8.32 | (40) |
| <i>Russell 2000 Index</i> | 4.89 | 38.82 | 16.35 | -4.18 | 26.85 | 27.17 | -33.79 | -1.57 | 18.37 | 4.55 | | | | | | | | | | |
| Callan Diversified Alpha Small Cap | 1.06 | (74) | 44.22 | (29) | 16.53 | (43) | -5.39 | (69) | 28.17 | (41) | 37.63 | (37) | -40.51 | (67) | 5.20 | (36) | - | - | - | - |
| <i>Russell 2000 Index</i> | 4.89 | 38.82 | 16.35 | -4.18 | 26.85 | 27.17 | -33.79 | -1.57 | 18.37 | 4.55 | | | | | | | | | | |

Returns for periods greater than one year are annualized. □
Returns are expressed as percentages.

Risk and Return

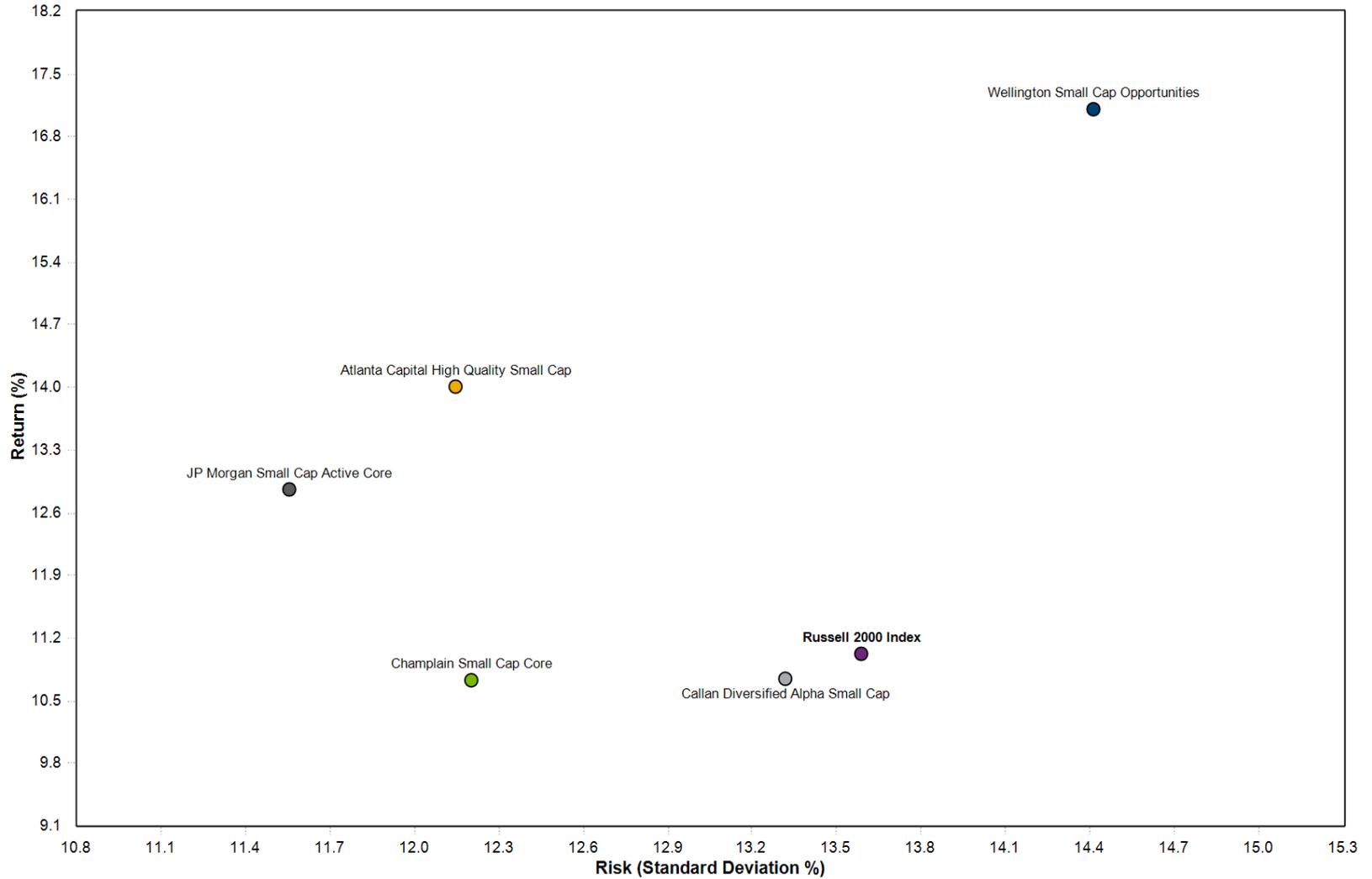
One Year ending September 30, 2015



Calculation based on monthly periodicity.

Risk and Return

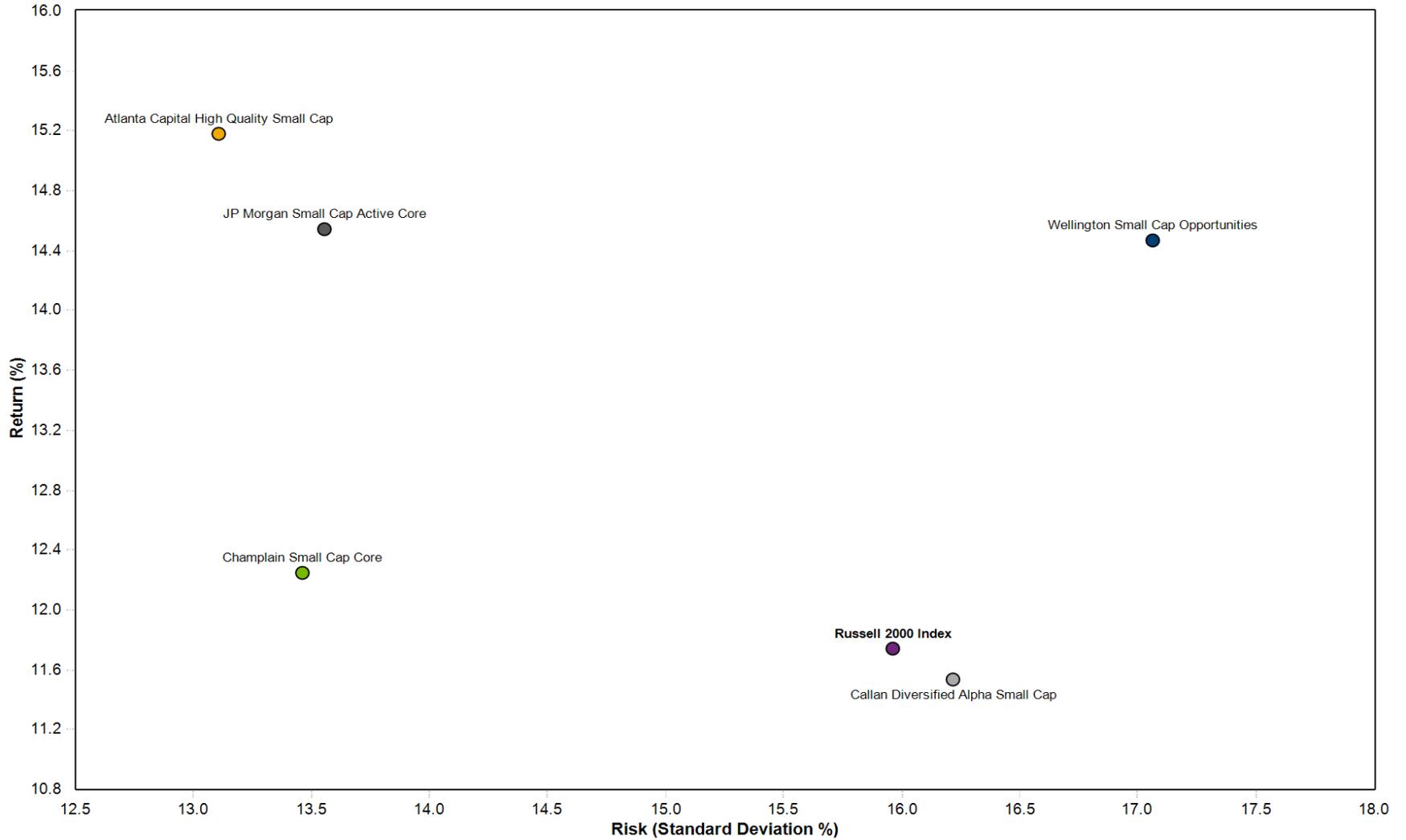
Three Years ending September 30, 2015



Calculation based on monthly periodicity.

Risk and Return

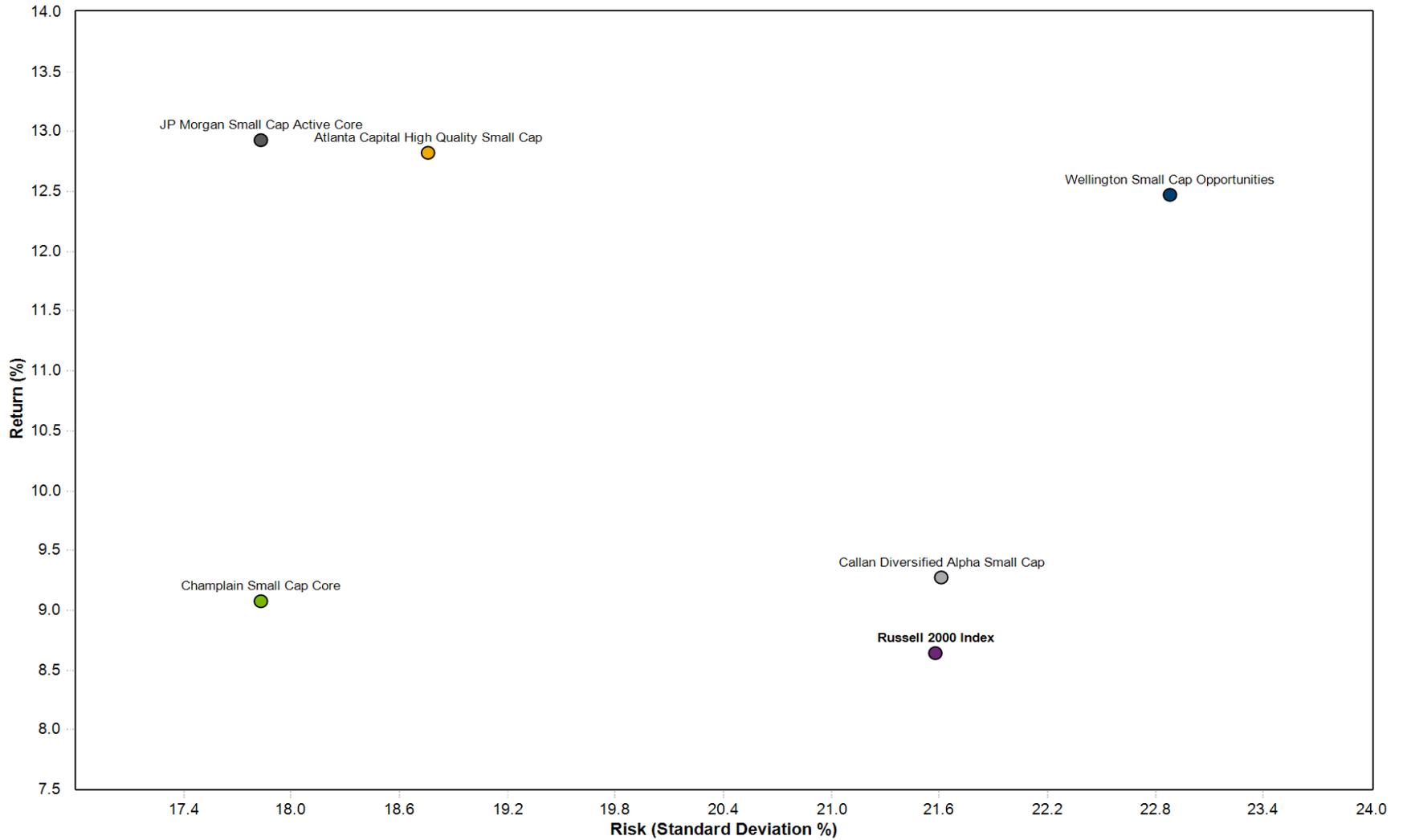
Five Years ending September 30, 2015



Calculation based on monthly periodicity.

Risk and Return

Seven Years ending September 30, 2015



Calculation based on monthly periodicity.

Fund Statistics Comparison

As of September 30, 2015

| 1 Year as of September 30, 2015 | Atlanta | Champlain | JP Morgan | Wellington | Callan | Russell 2000 Index |
|---|---------|-----------|-----------|------------|--------|--------------------|
| Return Summary Statistics | | | | | | |
| Number of Periods | 12 | 12 | 12 | 12 | 12 | 12 |
| Maximum Return | 7.73% | 8.35% | 6.16% | 8.05% | 7.17% | 6.59% |
| Minimum Return | -5.27% | -6.30% | -5.72% | -6.88% | -6.07% | -6.28% |
| Annualized Return | 9.86% | 3.51% | 4.32% | 1.64% | -3.02% | 1.25% |
| Total Return | 9.86% | 3.51% | 4.32% | 1.64% | -3.02% | 1.25% |
| Annualized Excess Return Over Risk Free | 10.30% | 4.39% | 4.87% | 2.69% | -2.25% | 2.09% |
| Annualized Excess Return | 8.21% | 2.30% | 2.78% | 0.60% | -4.33% | 0.00% |
| Risk Summary Statistics | | | | | | |
| Beta | 0.96 | 1.00 | 0.86 | 1.08 | 0.95 | 1.00 |
| Risk/Return Summary Statistics | | | | | | |
| Annualized Standard Deviation | 14.08 | 14.63 | 12.12 | 15.48 | 13.67 | 13.90 |
| Sharpe Ratio | 0.73 | 0.30 | 0.40 | 0.17 | -0.16 | 0.15 |
| Tracking Error | 4.32 | 4.47 | 3.08 | 3.86 | 3.38 | 0.00 |
| Information Ratio | 1.90 | 0.51 | 0.90 | 0.16 | -1.28 | -- |
| Correlation Statistics | | | | | | |
| R-Squared | 0.91 | 0.91 | 0.96 | 0.94 | 0.94 | 1.00 |

Fund Statistics Comparison

As of September 30, 2015

| 3 Years as of September 30, 2015 | Atlanta | Champlain | JP Morgan | Wellington | Callan | Russell 2000 Index |
|---|---------|-----------|-----------|------------|--------|--------------------|
| Return Summary Statistics | | | | | | |
| Number of Periods | 36 | 36 | 36 | 36 | 36 | 36 |
| Maximum Return | 7.73% | 8.35% | 6.16% | 8.05% | 7.17% | 7.00% |
| Minimum Return | -5.55% | -6.30% | -5.72% | -6.88% | -6.07% | -6.28% |
| Annualized Return | 14.00% | 10.73% | 12.86% | 17.10% | 10.74% | 11.02% |
| Total Return | 48.15% | 35.76% | 43.74% | 60.57% | 35.81% | 36.85% |
| Annualized Excess Return Over Risk Free | 13.83% | 10.90% | 12.75% | 16.84% | 11.05% | 11.35% |
| Annualized Excess Return | 2.49% | -0.44% | 1.40% | 5.50% | -0.29% | 0.00% |
| Risk Summary Statistics | | | | | | |
| Beta | 0.84 | 0.85 | 0.83 | 1.03 | 0.96 | 1.00 |
| Risk/Return Summary Statistics | | | | | | |
| Annualized Standard Deviation | 12.15 | 12.20 | 11.56 | 14.41 | 13.32 | 13.59 |
| Sharpe Ratio | 1.14 | 0.89 | 1.10 | 1.17 | 0.83 | 0.83 |
| Tracking Error | 4.57 | 4.46 | 3.49 | 3.30 | 2.52 | 0.00 |
| Information Ratio | 0.54 | -0.10 | 0.40 | 1.67 | -0.12 | -- |
| Correlation Statistics | | | | | | |
| R-Squared | 0.89 | 0.89 | 0.95 | 0.95 | 0.97 | 1.00 |

Fund Statistics Comparison

As of September 30, 2015

| 5 Years as of September 30, 2015 | Atlanta | Champlain | JP Morgan | Wellington | Callan | Russell 2000 Index |
|---|---------|-----------|-----------|------------|---------|--------------------|
| Return Summary Statistics | | | | | | |
| Number of Periods | 60 | 60 | 60 | 60 | 60 | 60 |
| Maximum Return | 13.91% | 12.48% | 13.42% | 17.66% | 15.22% | 15.14% |
| Minimum Return | -7.57% | -8.10% | -9.85% | -10.50% | -11.55% | -11.21% |
| Annualized Return | 15.18% | 12.24% | 14.54% | 14.46% | 11.53% | 11.73% |
| Total Return | 102.68% | 78.13% | 97.11% | 96.47% | 72.60% | 74.15% |
| Annualized Excess Return Over Risk Free | 14.98% | 12.42% | 14.48% | 14.93% | 12.19% | 12.33% |
| Annualized Excess Return | 2.65% | 0.09% | 2.15% | 2.61% | -0.14% | 0.00% |
| Risk Summary Statistics | | | | | | |
| Beta | 0.78 | 0.81 | 0.83 | 1.05 | 1.01 | 1.00 |
| Risk/Return Summary Statistics | | | | | | |
| Annualized Standard Deviation | 13.11 | 13.46 | 13.56 | 17.07 | 16.22 | 15.96 |
| Sharpe Ratio | 1.14 | 0.92 | 1.07 | 0.87 | 0.75 | 0.77 |
| Tracking Error | 5.58 | 4.91 | 3.70 | 3.57 | 2.31 | 0.00 |
| Information Ratio | 0.48 | 0.02 | 0.58 | 0.73 | -0.06 | -- |
| Correlation Statistics | | | | | | |
| R-Squared | 0.89 | 0.92 | 0.96 | 0.96 | 0.98 | 1.00 |

Fund Statistics Comparison

As of September 30, 2015

| 7 Years as of September 30, 2015 | Atlanta | Champlain | JP Morgan | Wellington | Callan | Russell 2000 Index |
|---|---------|-----------|-----------|------------|---------|--------------------|
| Return Summary Statistics | | | | | | |
| Number of Periods | 84 | 84 | 84 | 84 | 84 | 84 |
| Maximum Return | 15.05% | 12.48% | 13.42% | 19.06% | 15.68% | 15.46% |
| Minimum Return | -16.43% | -21.21% | -19.32% | -20.67% | -22.49% | -20.80% |
| Annualized Return | 12.81% | 9.07% | 12.92% | 12.46% | 9.26% | 8.63% |
| Total Return | 132.57% | 83.59% | 134.16% | 127.56% | 85.91% | 78.55% |
| Annualized Excess Return Over Risk Free | 13.75% | 10.21% | 13.70% | 14.30% | 11.14% | 10.54% |
| Annualized Excess Return | 3.21% | -0.33% | 3.16% | 3.76% | 0.60% | 0.00% |
| Risk Summary Statistics | | | | | | |
| Beta | 0.84 | 0.80 | 0.81 | 1.04 | 0.99 | 1.00 |
| Risk/Return Summary Statistics | | | | | | |
| Annualized Standard Deviation | 18.76 | 17.84 | 17.84 | 22.88 | 21.61 | 21.58 |
| Sharpe Ratio | 0.73 | 0.57 | 0.77 | 0.62 | 0.51 | 0.49 |
| Tracking Error | 5.77 | 6.06 | 5.46 | 4.48 | 2.51 | 0.00 |
| Information Ratio | 0.56 | -0.05 | 0.58 | 0.84 | 0.24 | -- |
| Correlation Statistics | | | | | | |
| R-Squared | 0.94 | 0.94 | 0.96 | 0.96 | 0.99 | 1.00 |

Portfolio Characteristics

As of September 30, 2015

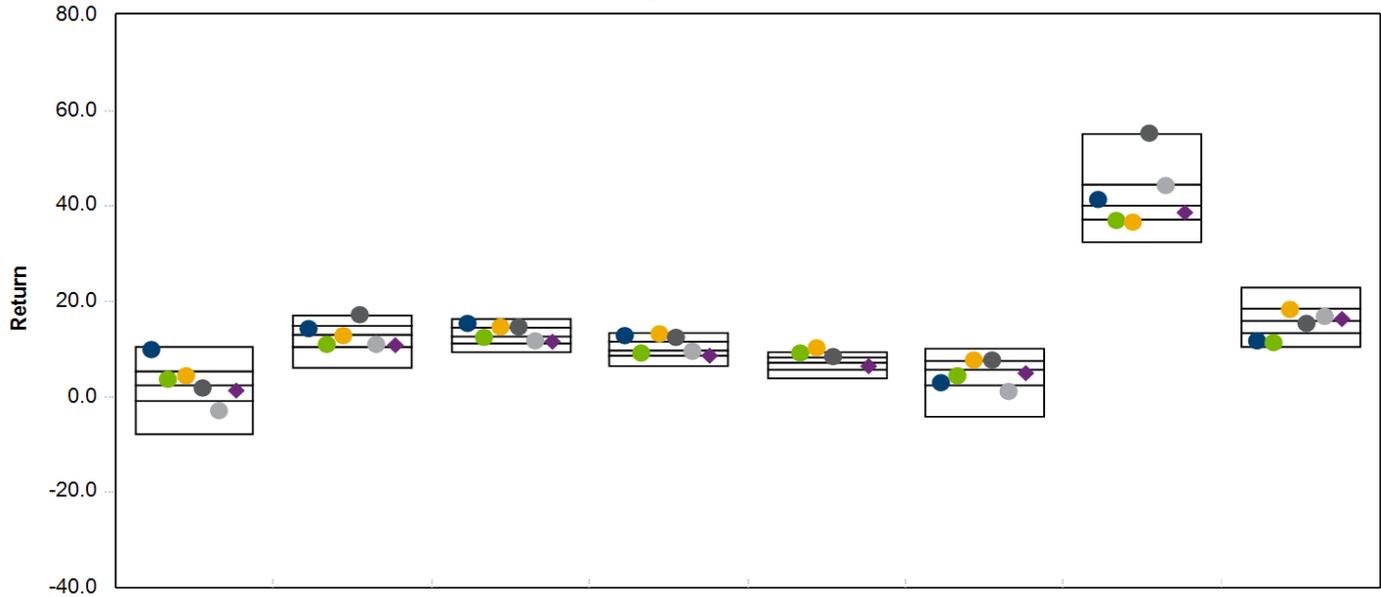
| | Atlanta | Champlain | JP Morgan | Wellington | Callan | Russell 2000 Index |
|--|---------|-----------|-----------|------------|---------|--------------------|
| Price/Earnings Ratio (trailing) | 21.27 | 26.80 | 20.34 | 16.90 | 32.41 | 27.9 |
| Price/Sales Ratio (trailing) | 3.26 | 3.10 | 1.40 | 1.20 | 1.14 | 1.40 |
| Dividend Yield | 1.12% | 1.10% | 1.60% | 1.50% | 1.11% | 1.53% |
| Earnings Growth Last 5 Yrs | 11.12% | 6.20% | 13.01% | 10.60% | 9.94% | 10.70% |
| Return on Equity (5 Year) | 15.71% | 12.00% | 14.25% | 10.80% | 7.98% | 10.70% |
| Market Cap Weighted Avg (in billions of dollars) | \$2.71B | \$2.06B | \$3.42B | \$2.19B | \$2.88B | \$1.79B |
| Market Cap Median (in billions of dollars) | \$2.29B | \$1.70B | \$2.55B | \$1.95B | \$1.58B | \$1.63B |
| Total Number of Stocks | 59 | 78 | 93 | 104 | 894 | 1955 |

Information comes from eVestment and managers.

Peer Group Analysis

As of September 30, 2015

IM U.S. Small Cap Core Equity (SA+CF)



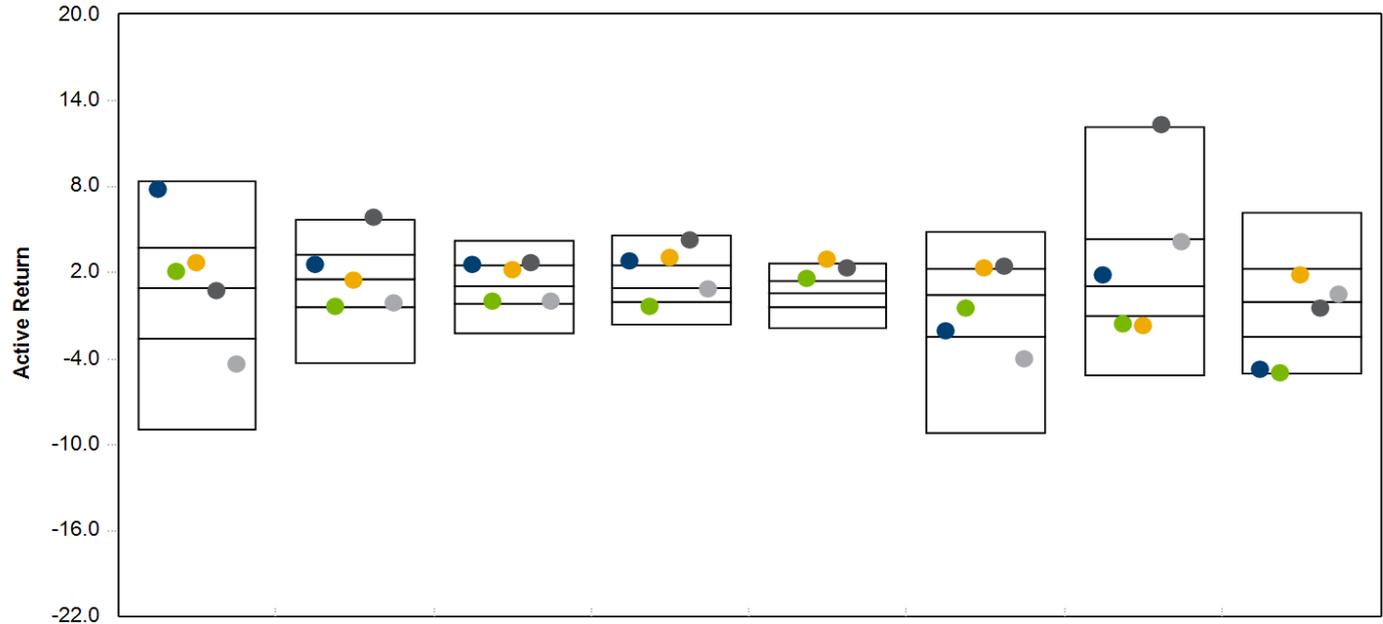
| | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years | 2014 | 2013 | 2012 | | | | | | | | |
|--|-----------|------------|------------|------------|-------------|-------|-------|-------|-------|------|------|-------|-------|-------|-------|------|
| Atlanta Capital High Quality Small Cap | 9.86 | (7) | 14.00 | (35) | 15.18 | (18) | 12.81 | (8) | N/A | 2.83 | (73) | 41.31 | (44) | 11.41 | (89) | |
| Champlain Small Cap Core | 3.51 | (39) | 10.73 | (75) | 12.24 | (61) | 9.07 | (65) | 8.87 | (9) | 4.43 | (60) | 36.71 | (80) | 11.14 | (93) |
| JP Morgan Small Cap Active Core | 4.32 | (33) | 12.86 | (52) | 14.54 | (25) | 12.92 | (7) | 10.30 | (3) | 7.57 | (25) | 36.37 | (82) | 18.31 | (29) |
| Wellington Small Cap Opportunities | 1.64 | (62) | 17.10 | (6) | 14.46 | (27) | 12.46 | (12) | 8.31 | (19) | 7.48 | (26) | 55.27 | (5) | 15.33 | (58) |
| Callan Diversified Alpha Small Cap | -3.02 | (87) | 10.74 | (74) | 11.53 | (74) | 9.26 | (59) | N/A | 1.06 | (82) | 44.22 | (26) | 16.53 | (46) | |
| Russell 2000 Index | 1.25 | (66) | 11.02 | (69) | 11.73 | (71) | 8.63 | (74) | 6.55 | (57) | 4.89 | (55) | 38.82 | (64) | 16.35 | (48) |
| 5th Percentile | 10.42 | 17.13 | 16.49 | 13.40 | 9.24 | 10.03 | 55.12 | 22.86 | | | | | | | | |
| 1st Quartile | 5.46 | 14.77 | 14.49 | 11.52 | 8.12 | 7.52 | 44.48 | 18.64 | | | | | | | | |
| Median | 2.38 | 12.95 | 12.86 | 9.70 | 7.02 | 5.63 | 40.29 | 16.07 | | | | | | | | |
| 3rd Quartile | -0.83 | 10.58 | 11.37 | 8.58 | 5.73 | 2.52 | 37.28 | 13.46 | | | | | | | | |
| 95th Percentile | -7.74 | 6.28 | 9.25 | 6.29 | 3.82 | -4.04 | 32.40 | 10.61 | | | | | | | | |
| Population | 160 | 153 | 141 | 125 | 101 | 160 | 161 | 166 | | | | | | | | |

Parentheses contain percentile rankings. □
Calculation based on quarterly periodicity.

Peer Group Analysis

As of September 30, 2015

IM U.S. Small Cap Core Equity (SA+CF) vs. Russell 2000 Index



| | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years | 2014 | 2013 | 2012 | | | | | | | | |
|--|-----------|------------|------------|------------|-------------|-------|-------|-------|------|-------|-------|------|-------|-------|-------|------|
| ● Atlanta Capital High Quality Small Cap | 7.85 | (8) | 2.52 | (37) | 2.60 | (25) | 2.81 | (22) | N/A | -2.11 | (74) | 1.87 | (45) | -4.76 | (93) | |
| ● Champlain Small Cap Core | 1.99 | (39) | -0.41 | (76) | -0.07 | (74) | -0.42 | (85) | 1.51 | (21) | -0.49 | (58) | -1.65 | (81) | -5.02 | (95) |
| ● JP Morgan Small Cap Active Core | 2.61 | (34) | 1.49 | (52) | 2.20 | (31) | 3.01 | (19) | 2.85 | (4) | 2.33 | (26) | -1.74 | (81) | 1.75 | (30) |
| ● Wellington Small Cap Opportunities | 0.71 | (54) | 5.82 | (4) | 2.72 | (23) | 4.19 | (6) | 2.24 | (9) | 2.39 | (25) | 12.29 | (5) | -0.55 | (55) |
| ● Callan Diversified Alpha Small Cap | -4.40 | (87) | -0.20 | (71) | 0.03 | (72) | 0.82 | (53) | N/A | -4.05 | (82) | 4.12 | (27) | 0.45 | (44) | |
| 5th Percentile | 8.45 | 5.72 | 4.27 | 4.64 | 2.68 | 4.80 | 12.20 | 6.17 | | | | | | | | |
| 1st Quartile | 3.77 | 3.29 | 2.52 | 2.59 | 1.43 | 2.36 | 4.37 | 2.34 | | | | | | | | |
| Median | 0.91 | 1.57 | 1.08 | 0.91 | 0.54 | 0.51 | 1.10 | -0.02 | | | | | | | | |
| 3rd Quartile | -2.59 | -0.35 | -0.13 | -0.02 | -0.37 | -2.42 | -1.01 | -2.50 | | | | | | | | |
| 95th Percentile | -8.98 | -4.32 | -2.28 | -1.62 | -1.86 | -9.20 | -5.20 | -5.08 | | | | | | | | |
| Population | 160 | 153 | 141 | 125 | 101 | 160 | 161 | 166 | | | | | | | | |

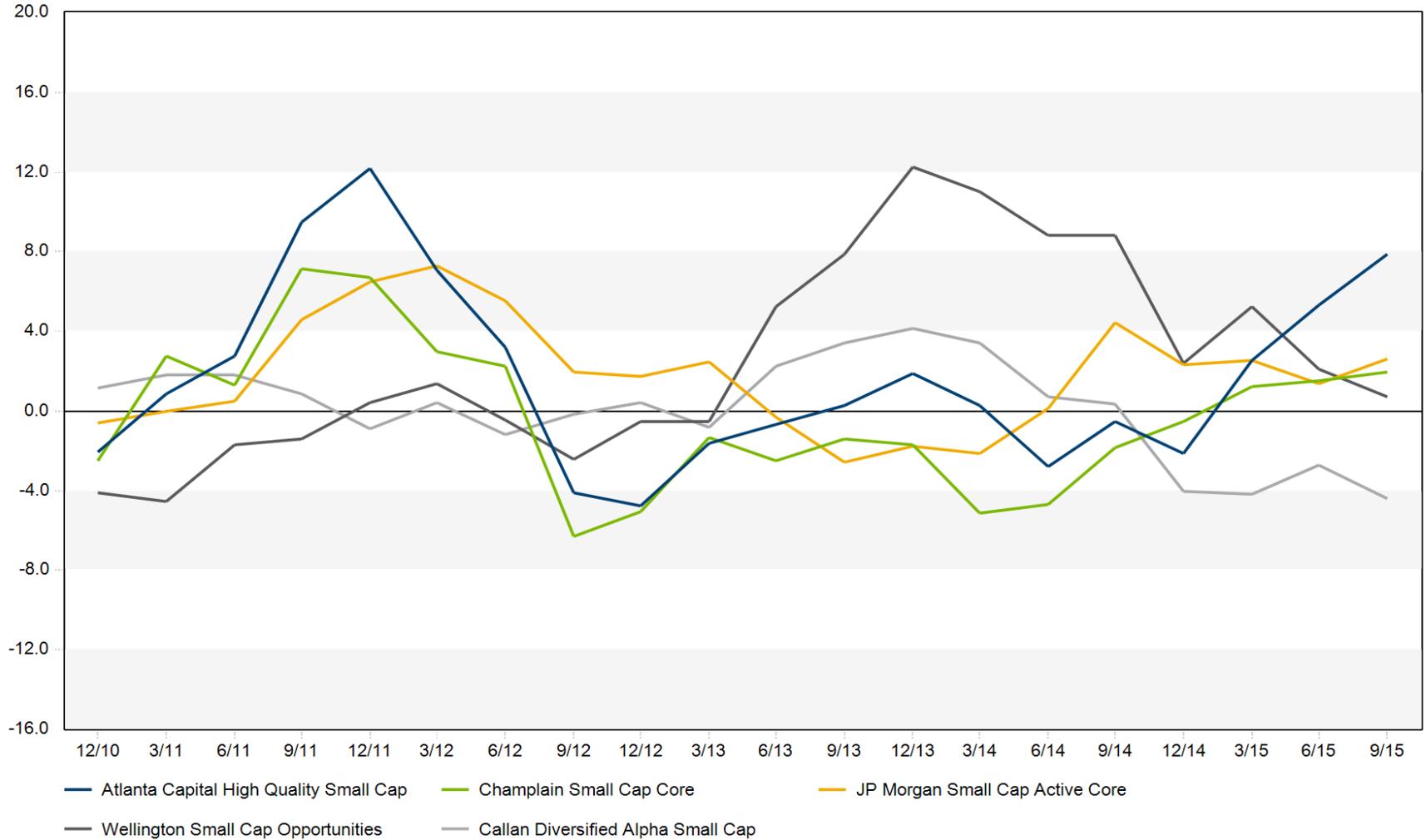
Parentheses contain percentile rankings.
Calculation based on quarterly periodicity.

Rolling Active Return

As of September 30, 2015

1 Year Rolling Active Returns vs. Russell 2000 Index

Active Return

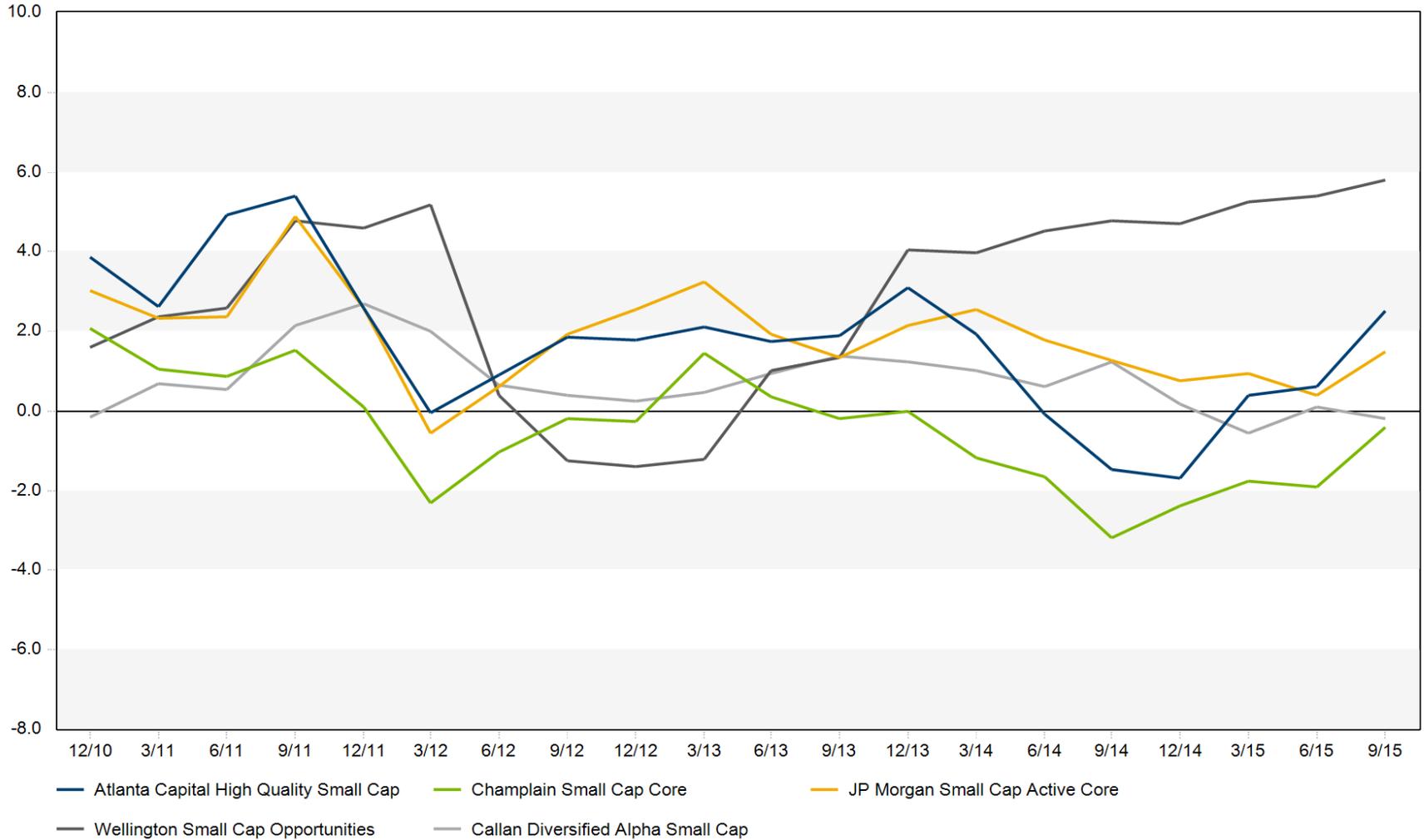


Rolling Active Return

As of September 30, 2015

3 Year Rolling Active Returns vs. Russell 2000 Index

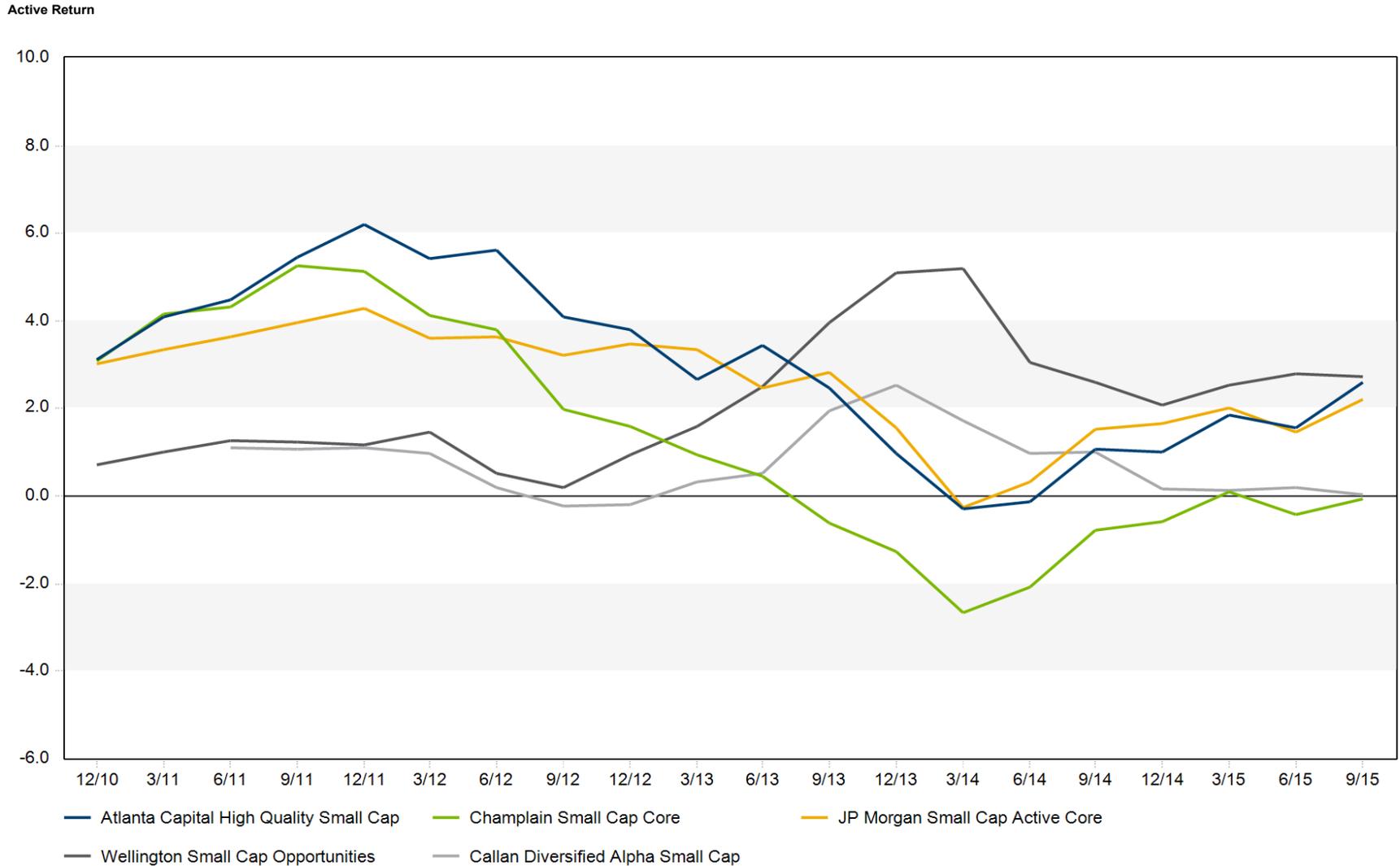
Active Return



Rolling Active Return

As of September 30, 2015

5 Year Rolling Active Returns vs. Russell 2000 Index

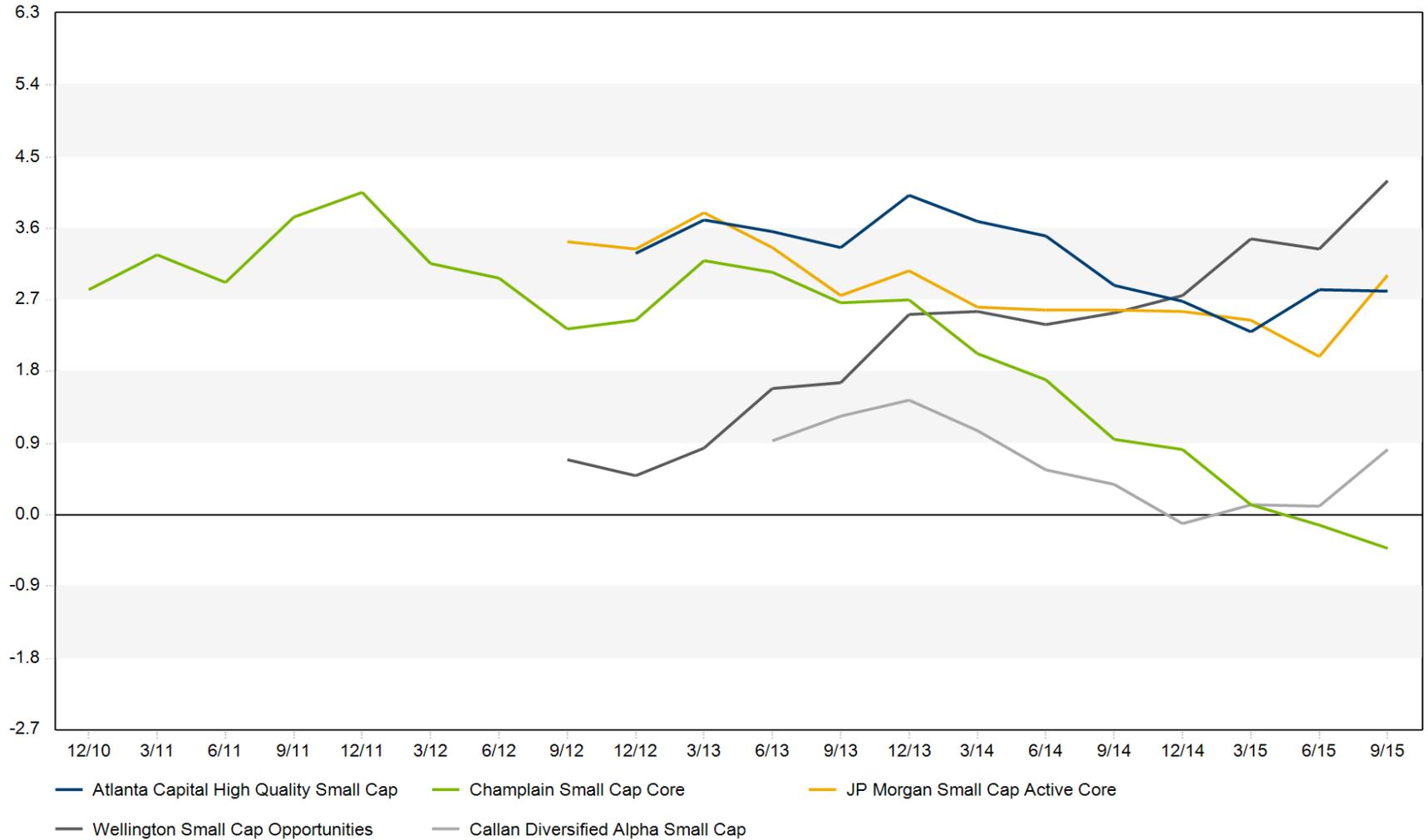


Rolling Active Return

As of September 30, 2015

7 Year Rolling Active Returns vs. Russell 2000 Index

Active Return

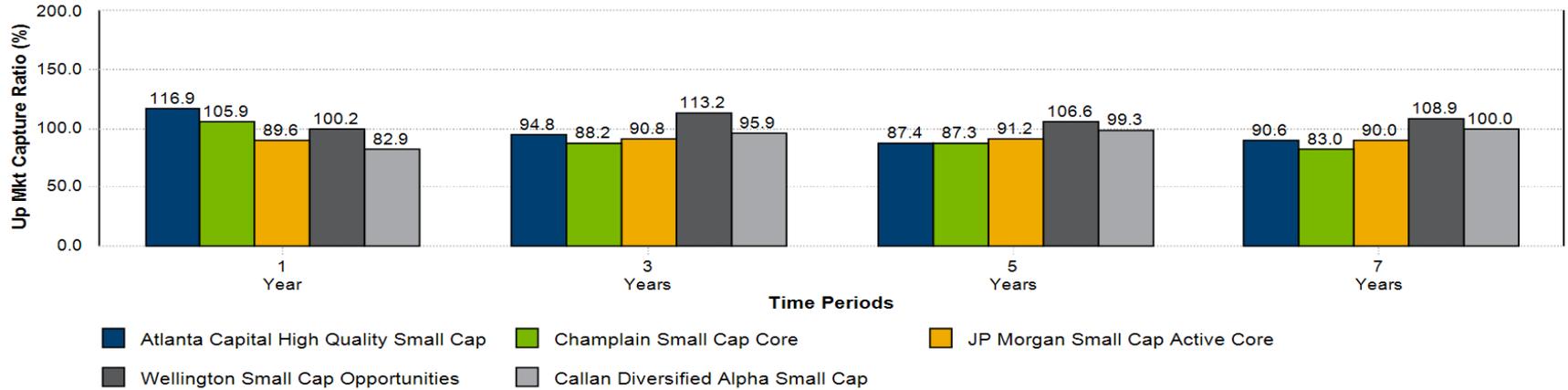


Market Capture Ratio

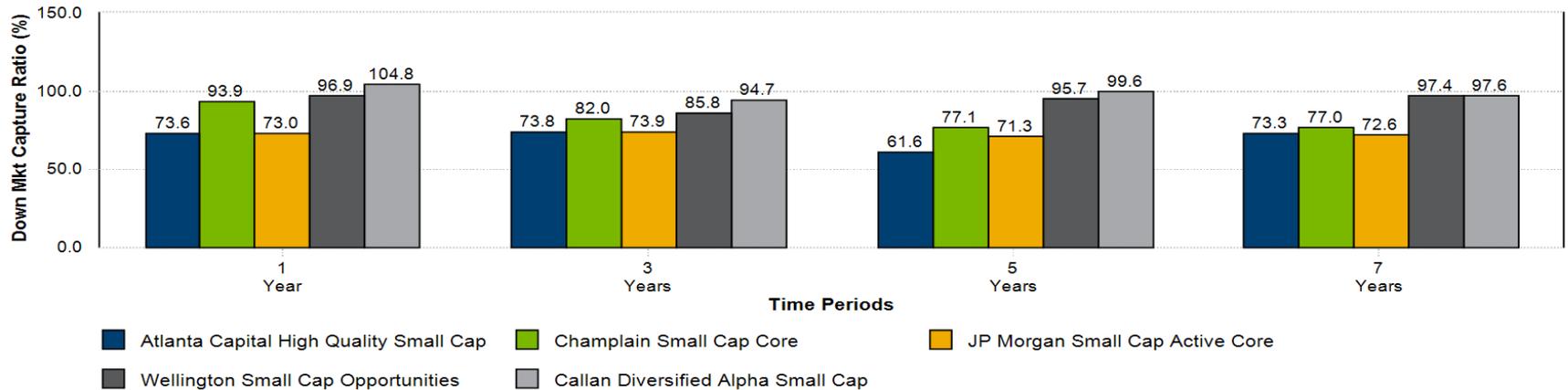
As of September 30, 2015

vs. Russell 2000 Index

Up Market Capture



Down Market Capture



Aon InForm: Atlanta Capital Management Company, LLC

High Quality Small Cap

Information as of **September 2015**
Overall Rating **Qualified***

* May be subject to further review of operational matters via a proprietary questionnaire pending GIM determination.

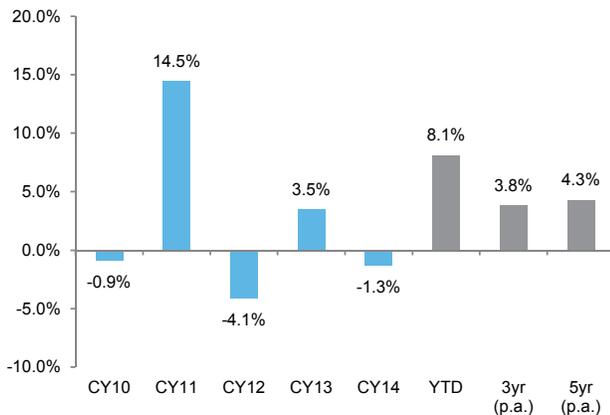
Strategy Snapshot

Primary Approach **Fundamental**
Primary Capitalization **Small Cap**
Primary Style **Core**

Aon InForm Assessment

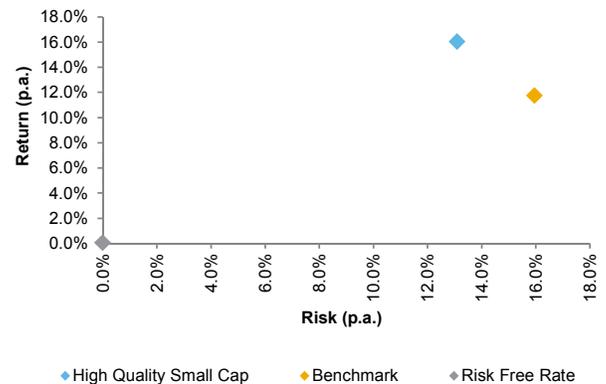
| | Current Quarter | Trend |
|-------------|-----------------|-------|
| Business | ✓ | = |
| Staff | ✓ | = |
| Process | ✓ | ↘ |
| Risk | ⌘ | ↗ |
| Operations | - | - |
| Performance | ✓ | = |
| T&C | ✓ | = |

Relative Performance to 30 Sep 2015



Composite performance (USD) is gross of fees relative to Russell 2000. CY = calendar year. Source: eVestment

Risk/Return - 5 Year to 30 Sep 2015



Benchmark: Russell 2000
Risk Free Rate: Citigroup 3-Month T-Bill

Firm and Strategy Summary

| | | | |
|----------------------|-----------------|-----------------|----------------|
| Head Office Location | Atlanta, GA, US | Firm AUM | \$15.6 billion |
| Investment Staff | 11 | Equity AUM | \$13.7 billion |
| Team Location | Atlanta, GA, US | Strategy Size | \$1.8 billion |
| Strategy Inception | April 1992 | Annual Turnover | 14.3% |
| Number of Holdings | 59 | | |
| Benchmark | Russell 2000 | | |

Note: AUM data as of 30 September 2015.

Investment Summary

The High Quality Small Cap strategy is a fundamental core approach that invests in small cap companies in strong financial condition and whose equities are priced below the team's estimate of fair value. The investment team seeks to own innovative businesses that dominate a niche, maintain high barriers to entry, and have consistent demand over an economic cycle. They conduct bottom-up proprietary research, and meet with the management teams as well as visit the facilities of each of their companies. Stock purchases are analyzed as if they were a potential acquirer of the entire business.

Atlanta Capital's Core Equity team is comprised of three portfolio managers and one investment specialist. Each portfolio manager serves as a generalist and conducts his own analytical research while investment decisions are made on a consensus basis. Chip Reed, CFA, Bill Bell, CFA and Matt Hereford, CFA are responsible for all purchase and sell decisions.

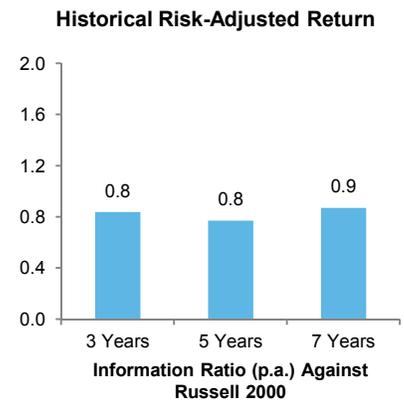
Source: eVestment

Aon InForm Assessment to 30 Sep 2015

| Business (✓) | Value | Current Quarter | Movement since last quarter |
|---|---|-----------------|-----------------------------|
| Employee Ownership | 14.0% | ⌘ | = |
| Last Change of Ownership | September 2001 | ✓ | = |
| Institutional Client Base (Product) | 73.1% | ✓ | = |
| Firm Net Asset Flow | -\$1.9 billion | ⌘ | = |
| Firm Gross Asset Outflow | -5.3% | ✓ | = |
| Product Net Asset Flow | -\$33.8 million | ⌘ | = |
| Product Gross Asset Outflow | -1.9% | ✓ | = |
| Product Importance to Firm | 11.4% | ✓ | = |
| Asset class Importance to Firm | 88.1% | ✓ | = |
| Investment Staff (✓) | Value | Current Quarter | Movement since last quarter |
| Team Size | Portfolio Managers: 3 Analysts: 0 | ⌘ | = |
| Staff Turnover | Portfolio Managers: 0.0% Analysts: --- | ✓ | = |
| Experience | Portfolio Managers: 22 years Analysts: --- | ✓ | = |
| Investment Process (✓) | Value | Current Quarter | Movement since last quarter |
| Active Risk / Tracking Error | 4.6 | ✓ | = |
| Investment Process Consistency | 19.3 | ⌘ | = |
| Style Consistency - Market Capitalization | \$2.3 billion | ✓ | = |
| Style Consistency - Value (Price-to-book) | 2.8 | ⌘ | ↘ |
| Cash Allocation | 7.3% | ⌘ | = |
| Risk Management (⌘) | Value | Current Quarter | Movement since last quarter |
| Maximum Drawdown | 8.0% | ✓ | ↗ |
| Downside Capture Volatility | 10.8% | ⌘ | = |

Aon InForm Assessment to 30 Sep 2015 (Continued)

| Performance Analysis (✓) | Value | Current Quarter | Movement since last quarter |
|--|-------|-----------------|-----------------------------|
| Excess Return | 5.0% | ✓ | = |
| Risk Adjusted Return | 0.9 | ✓ | = |
| Consistency of Outperformance vs Benchmark | 83.3% | ✓ | = |
| Consistency of Outperformance vs Peers | 72.5% | ✓ | = |



Source: eVestment

| Terms & Conditions (✓) | Value | Current Quarter | Movement since last quarter |
|------------------------|---------|-----------------|-----------------------------|
| Management Fee | 80 bps* | ✓ | = |

*Fee and assessment reflect segregated account sliding schedule at \$50 million.

| Operations* | |
|---|-----|
| Is the firm affiliated with a Broker/Dealer? | No |
| GIPS (Global Investment Performance Standards) Compliant? | Yes |
| Errors & Omissions Insurance? | Yes |
| Fiduciary Liability Insurance? | Yes |

Note: The Aon InForm Assessment is based on data as of 30 September 2015 (obtained on 12 November 2015 from eVestment) unless stated differently. Product data completion is 100.0% and peer group average data completion is 86.4%. Changes in manager or peer group data completion may impact the Aon InForm Assessment. *The output to the questions above (Operations section) is self-reported by the manager and obtained through eVestment and is provided for informational purposes only.

Glossary – Equity Manager Model Description

The below table provides a more detailed description of the factors used in the above Aon InForm Assessment. Consultants will be pleased to answer questions should you require further information in relation to this report.

| Factor | Description |
|--|---|
| Business | |
| Employee Ownership | Percentage of firm ownership held by staff |
| Last Change of Ownership | Date of most recent ownership change |
| Institutional Client Base (Product) | Percentage of assets under management (“AUM”) held by institutional investors (pension funds, sovereign wealth funds, insurance companies, endowments, foundations etc.) at the product level |
| Firm and Product Net Asset Flow | Net asset flow over the last three years at the firm and product level. Product level factor incorporates an assessment relating to the strategy’s capacity. |
| Firm and Product Gross Asset Outflow | Average gross asset outflow over the last three years at the firm and product level |
| Product and Asset class Importance to Firm | The asset class’ and product’s AUM in relation to the firm level AUM |
| Investment Staff | |
| Team Size | The managers’ investment related resources across various functions |
| Staff Turnover | Percentage of investment staff turnover (average over the last three years) |
| Experience | Number of years’ worth of investment experience across various functions |
| Investment Process | |
| Active Risk / Tracking Error | Illustrates the product’s tracking error i.e. how closely a manager follows its benchmark |
| Investment Process Consistency | Volatility of the product’s performance relative to its peer group |
| Style Consistency | Displays the Market Capitalization and Price-to-Book of the product’s underlying holdings and assesses if this is in line with its peers |
| Cash Allocation | Degree of long term cash allocation as a percentage of the portfolio |
| Risk Management | |
| Maximum Drawdown | Measures the distance between the peak and trough of the product’s performance |
| Downside Capture Volatility | Degree of volatility of the product’s long term downside capture. Downside capture relates to the manager’s losses when its benchmark is down. |

| Performance Analysis | |
|-------------------------------|--|
| Excess Return | Compares the excess return of the product against the manager's benchmark (longest available of 1, 2, 3, 5 or 7-years) |
| Risk Adjusted Return | Displays the Sharpe Ratio or Information Ratio (depending on the product's tracking error). These measures are different ways of assessing the product's return after adjusting for the level of risk taken. |
| Consistency of Outperformance | Looks at long term consistency of excess return in relation to the product's benchmark and peers |
| Terms & Conditions | |
| Management Fee | Management fee level relative to the product's peer group |
| Operations | |
| Operations Factors | These factors look across a number of non-investment related areas such as operational infrastructure, compliance and industry best practice |

Ratings Explanation

Below we describe the criteria which we use to rate fund management organizations and their specific investment products using our Aon InForm approach. Each component is assessed as follows:

Aon InForm Outcome

- ✓ **Pass:** This component in isolation meets or exceed our desired criteria
- ⚠ **Alert:** This component in isolation does not meet our desired criteria, or the lack of data on this component means that we are not able to judge whether it meets our desired criteria
- **Not assessed:** There is a lack of data, which means that we are not able to assess this component, however we do not consider this in isolation to justify an Alert
- ↗ Component has improved over the quarter
- = Component remains broadly unchanged over the quarter
- ↘ Component has worsened over the quarter

An overall rating is then derived taking into account the above outcomes for the product. The overall rating can be interpreted as follows:

| Overall Rating | What does this mean? |
|-----------------------|---|
| Qualified | A number of criteria have been met and we consider the investment manager may be qualified to manage client assets, pending a review of operational factors via a proprietary questionnaire |
| Sell | We recommend termination of client investments in this product |
| In Review | The rating is under review as we evaluate factors that may cause us to change the current rating |

The comments and assertions reflect our views of the specific investment product and our opinion of its quality. Our Aon InForm Assessment is designed to issue Qualified and Sell ratings. Prior to issuing a Buy recommendation, managers must be fully vetted on a qualitative basis.

Disclaimer

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InForm: Callan Associates Inc.

Diversified Alpha Small Cap Equity Fund

Information as of **June 2015**
Overall Rating **Qualified***

* May be subject to further review of operational matters via a proprietary questionnaire pending GIM determination.

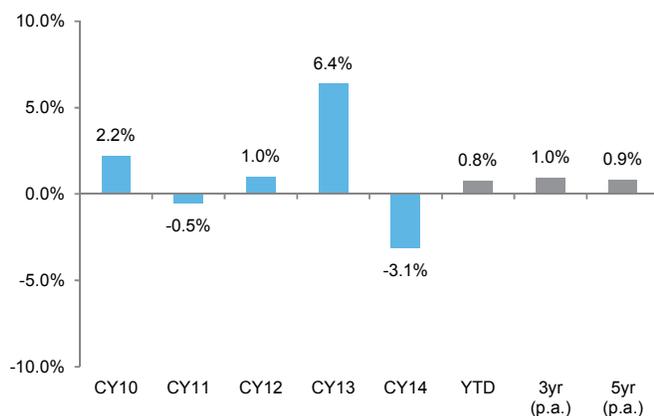
Strategy Snapshot

Primary Approach **Combined**
Primary Capitalization **Small Cap**
Primary Style **Core**

Component Ratings

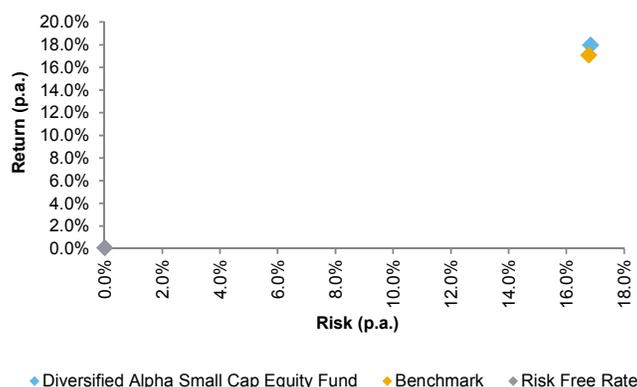
| | Current Quarter | Trend |
|-------------|-----------------|-------|
| Business | ✓ | = |
| Staff | ⊞ | - |
| Process | ⊞ | = |
| Risk | ✓ | = |
| Operations | - | - |
| Performance | ✓ | = |
| T&C | ✓ | = |

Relative Performance to 30 Jun 2015



Pooled fund performance (USD) is gross of fees relative to Russell 2000. CY = calendar year. Source: eVestment

Risk/Return - 5 Year to 30 Jun 2015



Benchmark: Russell 2000
Risk Free Rate: Citigroup 3-Month T-Bill

Firm and Strategy Summary

| | | | |
|-----------------------------|-----------------------|------------------------|---------------|
| Head Office Location | San Francisco, CA, US | Firm AUM | \$1.1 billion |
| Investment Staff | 6 | Equity AUM | \$1.1 billion |
| Team Location | San Francisco, CA, US | Strategy Size | \$1.1 billion |
| Strategy Inception | June 2006 | Annual Turnover | 84% |
| Number of Holdings | 1,440 | | |
| Benchmark | Russell 2000 Index | | |

Note: AUM data as of 30 June 2015.

Investment Summary

The Fund is based on two fundamental, well-researched beliefs: stock-weightings in the average portfolio from a broad universe of institutional small cap managers is a more efficient target portfolio than any of the small cap indices typically used as benchmarks, and smaller, less capacity-constrained strategies have a significant advantage over similar larger strategies. Combining both beliefs in its cost-efficient, multi-manager design, the Fund is expected to significantly and consistently out-perform typical cap-weighted small cap indices over time. The Fund's objective is to exceed the average performance of Callan's Total Institutional Small Cap universe. The Fund uses 40 equity sub-advisors, each managing a smaller, less capacity-constrained, high-conviction, small cap portfolio. The Fund is expected to generate 1-2% tracking error relative to the average actively managed small cap portfolio, and 4-6% tracking error relative to standard cap-weighted small cap benchmarks.

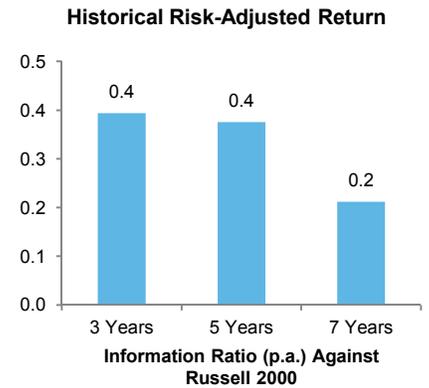
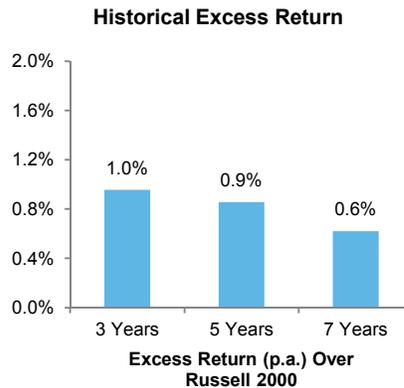
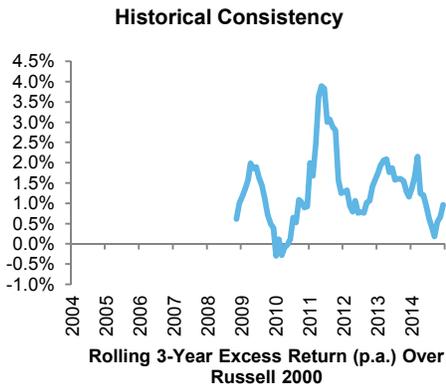
Source: eVestment

InForm Assessment to 30 Jun 2015

| Business (✓) | Value | Current Quarter | Movement since last quarter |
|---|--|-----------------|-----------------------------|
| Employee Ownership | 100.0% | ✓ | = |
| Last Change of Ownership | --- | - | - |
| Institutional Client Base (Product) | --- | - | - |
| Firm Net Asset Flow | \$3.4 billion | ✓ | = |
| Firm Gross Asset Outflow | -11.6% | ✓ | = |
| Product Net Asset Flow | -\$344.9 million | ⌘ | = |
| Product Gross Asset Outflow | -23.8% | ⌘ | = |
| Product Importance to Firm | --- | - | - |
| Asset class Importance to Firm | --- | - | - |
| Investment Staff (⌘) | Value | Current Quarter | Movement since last quarter |
| Team Size | Portfolio Managers: 2 Analysts: 4 | ⌘ | - |
| Staff Turnover | Portfolio Managers: 0.0% Analysts: 0.0% | ✓ | = |
| Experience | Portfolio Managers: 20 years Analysts: 10 years | ⌘ | - |
| Investment Process (⌘) | Value | Current Quarter | Movement since last quarter |
| Active Risk / Tracking Error | 2.4 | ⌘ | = |
| Investment Process Consistency | 6.3 | ✓ | = |
| Style Consistency - Market Capitalization | --- | - | - |
| Style Consistency - Value (Price-to-book) | --- | - | - |
| Cash Allocation | 4.5% | ✓ | - |
| Risk Management (✓) | Value | Current Quarter | Movement since last quarter |
| Maximum Drawdown | 6.7% | ⌘ | = |
| Downside Capture Volatility | 2.5% | ✓ | = |

InForm Assessment to 30 Jun 2015 (Continued)

| Performance Analysis (✓) | Value | Current Quarter | Movement since last quarter |
|--|-------|-----------------|-----------------------------|
| Excess Return | 0.6% | ☒ | = |
| Risk Adjusted Return | 0.2 | ☒ | = |
| Consistency of Outperformance vs Benchmark | 94.6% | ✓ | = |
| Consistency of Outperformance vs Peers | 47.3% | ☒ | = |



Source: eVestment

| Terms & Conditions (✓) | Value | Current Quarter | Movement since last quarter |
|------------------------|---------|-----------------|-----------------------------|
| Management Fee | 70 bps* | ✓ | = |

*Fee and assessment reflect commingled fund sliding schedule at all asset levels.

| Operations* | |
|---|-----|
| Is the firm affiliated with a Broker/Dealer? | No |
| GIPS (Global Investment Performance Standards) Compliant? | Yes |
| Errors & Omissions Insurance? | Yes |
| Fiduciary Liability Insurance? | Yes |

Note: The InForm Assessment is based on data as of 30 June 2015 (obtained on 11 August 2015 from eVestment) unless stated differently. Product data completion is 88.0% and peer group average data completion is 85.3%. Changes in manager or peer group data completion may impact the InForm outcome. *The output to the questions above (Operations section) is self-reported by the manager and obtained through eVestment and is provided for informational purposes only.

Glossary – Equity Manager Model Description

The below table provides a more detailed description of the factors used in the above InForm Assessment. Consultants will be pleased to answer questions should you require further information in relation to this report.

| Business | |
|--|---|
| Employee Ownership | Percentage of firm ownership held by staff |
| Last Change of Ownership | Date of most recent ownership change |
| Institutional Client Base (Product) | Percentage of assets under management (“AUM”) held by institutional investors (pension funds, sovereign wealth funds, insurance companies, endowments, foundations etc.) at the product level |
| Firm and Product Net Asset Flow | Net asset flows over the last three years at the firm and product level. Product level factor incorporates an assessment relating to the strategy’s capacity. |
| Firm and Product Gross Asset Flow | Gross asset flows over the last three years at the firm and product level |
| Product and Asset class Importance to Firm | The asset class’ and product’s AUM in relation to the firm level AUM |
| Investment Staff | |
| Team Size | The managers’ investment related resources across various functions |
| Staff Turnover | Percentage of investment staff turnover (average over the last three years) |
| Experience | Number of years’ worth of investment experience across various functions |
| Investment Process | |
| Active Risk / Tracking Error | Illustrates the product’s tracking error i.e. how closely a manager follows its benchmark |
| Investment Process Consistency | Volatility of the product’s performance relative to its peer group |
| Style Consistency | Displays the Market Capitalization and Price-to-Book of the product’s underlying holdings and assesses if this is in line with its peers or stated mandate |
| Cash Allocation | Degree of long term cash allocation as a percentage of the portfolio |
| Risk Management | |
| Maximum Drawdown | Measures the distance between the peak and trough of the product’s performance |
| Downside Capture Volatility | Degree of volatility of the product’s long term downside capture. Downside capture relates to the manager’s losses when its benchmark is down. |

| Performance Analysis | |
|-------------------------------|--|
| Excess Return | Compares the excess return of the product against the manager's benchmark (longest available of 1, 2, 3, 5 or 7-years) |
| Risk Adjusted Return | Displays the Sharpe Ratio or Information Ratio (depending on the product's tracking error). These measures are different ways of assessing the product's return after adjusting for the level of risk taken. |
| Consistency of Outperformance | Looks at long term consistency of excess return in relation to the product's benchmark and peers |
| Terms & Conditions | |
| Management Fee | Management fee level relative to the product's peer group |
| Operations | |
| Operations Factors | These factors look across a number of non-investment related areas such as operational infrastructure, compliance and industry best practice |

Ratings Explanation

Below we describe the criteria which we use to rate fund management organizations and their specific investment products using our InForm approach. Each component is assessed as follows:

InForm Outcome

- ✓ **Pass:** This component in isolation meets or exceed our desired criteria
- ⚠ **Alert:** This component in isolation does not meet our desired criteria, or the lack of data on this component means that we are not able to judge whether it meets our desired criteria
- **Not assessed:** There is a lack of data, which means that we are not able to assess this component, however we do not consider this in isolation to justify an Alert
- ↗ Component has improved over the quarter
- = Component remains broadly unchanged over the quarter
- ↘ Component has worsened over the quarter

An overall rating is then derived taking into account the above outcomes for the product. The overall rating can be interpreted as follows:

| Overall Rating | What does this mean? |
|-----------------------|---|
| Qualified | A number of criteria have been met and we consider the investment manager may be qualified to manage client assets, pending a review of operational factors via a proprietary questionnaire |
| Sell | We recommend termination of client investments in this product |
| In Review | The rating is under review as we evaluate factors that may cause us to change the current rating |

The comments and assertions reflect our views of the specific investment product and our opinion of its quality. Our InForm assessment is designed to issue Qualified and Sell ratings. Prior to issuing a Buy recommendation, managers must be fully vetted on a qualitative basis.

Disclaimer

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Aon InBrief: Champlain Investment Partners, LLC

Champlain Small Cap Core

| Review Date | Overall Rating | Previous Overall Rating |
|---------------|----------------|-------------------------|
| November 2015 | Buy (Closed) | No Change |

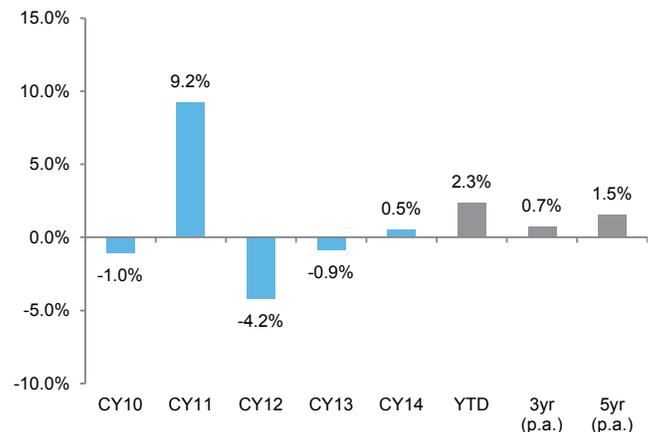
Overall Rating

The Champlain Small Cap Core strategy remains Buy (Closed) rated. We believe the investment team is made up of talented and experienced investors that have consistently applied the firm's investment process within this strategy. The investment team has demonstrated an ability to develop unique insights on portfolio holdings which has led to attractive long-term results for this product. We are confident in this team's ability to continue to add value for clients over full market cycles.

Component Ratings

| | Rating | Previous Rating | Aon InForm Assessment |
|-------------|--------|-----------------|-----------------------|
| Business | 4 | No Change | ✓ |
| Staff | 3 | No Change | ✓ |
| Process | 4 | No Change | ✓ |
| Risk | 3 | No Change | ✓ |
| ODD | Pass | No Change | - |
| Performance | 3 | No Change | ✓ |
| T&C | 2 | No Change | Ⓜ |

Relative Performance to 30 Sep 2015



Composite performance (USD) is gross of fees relative to Russell 2000. CY = calendar year. Source: eVestment

Firm and Strategy Summary

| | | | |
|------------------------------|---|-------------------------|---------------------|
| Head Office Location | Burlington, VT, US | Parent Name | 100% Employee Owned |
| Firm AUM | \$5.9 billion | Investment Staff | 13 |
| Equity AUM | \$5.9 billion | Equity Staff | 13 |
| Team Location | Burlington, VT, US | Team Head | Scott Brayman |
| Strategy Inception | January 1996 | Strategy Size | \$3.6 billion |
| Number of Holdings | 75-100 | Annual Turnover | 32% |
| Benchmark | Russell 2000 | | |
| Performance Objective | Outperform the benchmark over a full market cycle | | |
| Risk Tolerance Target | Unconstrained | | |

Note: Firm AUM, Strategy Size data as of 30 September 2015.

Investment Manager Evaluation

| Rating Sheet | | | |
|-------------------------|--------|------------------|--|
| Factor | Rating | Previous Rating | Comments |
| Business | 4 | <i>No Change</i> | <p>Champlain Investment Partners is majority owned by its employees. Equity interests are broadly distributed with Scott Brayman and Judy O'Connell having the largest stakes; however, no individual owns more than 25% of the firm. The senior professionals of the organization have continued to demonstrate a commitment to remaining independent. In 2015, Champlain entered into an agreement with Kudu Investment Management and Rosement Partners to share in the firm's revenues. This resulted in five-year employment agreements with Scott Brayman and Judy O'Connell.</p> <p>The firm is dedicated to managing a limited number of investment strategies and has shown good capacity management by closing the Small Cap Core strategy to new investors at a conservative asset level. We would expect the firm to apply the same discipline with respect to the Mid Cap Core strategy.</p> <p>Champlain has a diverse set of clients and has experienced few client terminations over the history of the firm. The firm's client base is primarily institutional which we view positively.</p> |
| Investment Staff | 3 | <i>No Change</i> | <p>The investment staff is led by Scott Brayman who serves as the firm's Chief Investment Officer. He is supported by a team of ten analysts. The three senior analysts have all collectively worked together with Mr. Brayman since the firm's inception year (2004).</p> <p>Champlain has continued to build out its investment team with the addition of multiple associate analysts over the past several years. It appears that these analysts have transitioned well into the structure of the organization. The newest addition to the team was Jason Wyman, who joined during 2012 from Dwight Asset Management. Mr. Wyman's background is primarily quantitative. The firm anticipates that Mr. Wyman's quantitative analysis will enable the team to evaluate the firm's investment discipline, risk management, and portfolio attribution in greater detail.</p> <p>We have found that Champlain has assembled a team of individuals with unique backgrounds and perspectives that are collaboratively shared within the organization. We believe the talent level and skill of the investment team is above average, and also view the team dynamic within the organization to be particularly strong.</p> |

| Rating Sheet | | | |
|----------------------------------|--------|------------------|--|
| Factor | Rating | Previous Rating | Comments |
| Investment Process | 4 | <i>No Change</i> | <p>The investment process is predicated on various qualitative sector factors that eliminate the majority of the investable universe for the Small Cap strategy. Champlain takes a conservative view with respect to its definition of quality that relies heavily on evaluating company management, management’s capital allocation abilities, as well as the durability of the firm’s business model which typically includes stable earnings growth, low debt, and high return on capital.</p> <p>The investment team applies a rigorous valuation framework to each investment idea primarily through the use of discounted cash flow analysis. Champlain remains disciplined in purchasing names trading below the firm’s estimate of fair value and incrementally trimming and eventually selling positions that reach the firm’s fair value target.</p> <p>We have found that the team’s rigorous discipline with respect to the firm’s definition of quality and valuation of respective names is consistent, thorough, and repeatable. We believe the firm’s fundamental research efforts as well as its dedication to investing in quality companies are distinguishing characteristics of this investment approach.</p> |
| Risk Management | 3 | <i>No Change</i> | <p>The firm does not have an independent risk team and they do not use risk models to evaluate total portfolio risk. However, the firm’s investment discipline has led to consistent preservation of capital during down market environments through the firm’s quality sector factors and rigorous valuation analysis.</p> |
| Operational Due Diligence | Pass | <i>No Change</i> | <p>Policies and procedures in place with regards to trading and compliance appear satisfactory.</p> |
| Performance Analysis | 3 | <i>No Change</i> | <p>Clients should expect this strategy to struggle on a relative basis during periods of strong absolute performance for the benchmark (i.e., benchmark returns greater than 15% over a twelve-month period). The investment discipline will also struggle when lower quality names materially outperform the highest quality names (generally defined by ROIC). Over full market cycles we believe this strategy will continue to add value for clients and provide strong down market protection as the strategy has done over its historical track record.</p> |

| Rating Sheet | | | |
|-------------------------------|---------------------|------------------|---|
| Factor | Rating | Previous Rating | Comments |
| Terms & Conditions | 2 | <i>No Change</i> | Investment management fees for the firm's separate account and mutual fund vehicles are higher than its peer group median. Client service provided by the organization has been satisfactory. |
| Overall Rating | Buy (Closed) | <i>No Change</i> | The Champlain Small Cap Core strategy remains Buy (Closed) rated. We believe the investment team is made up of talented and experienced investors that have consistently applied the firm's investment process within this strategy. The investment team has demonstrated an ability to develop unique insights on portfolio holdings which has led to attractive long-term results for this product. We are confident in this team's ability to continue to add value for clients over full market cycles. |

Manager Updates and Monitoring

Major Developments

There are no major developments to report.

Aon InForm Assessment

The Aon InForm assessment of this strategy is summarized in the sections below. Where this raises an alert, denoted by a flag (⚠), we have added further clarification where we believe the points raised are material or worth highlighting.

- Fees the strategy have been flagged as an area of concern. We find the published fee schedule average compared to peers, but do not believe them to be egregious.
-

Aon InForm Assessment to 30 Sep 2015

| Business (✓) | Value | Current Quarter | Movement since last quarter |
|-------------------------------------|------------------|-----------------|-----------------------------|
| Employee Ownership | 100.0% | ✓ | = |
| Last Change of Ownership | October 2008 | ✓ | = |
| Institutional Client Base (Product) | 100.0% | ✓ | = |
| Firm Net Asset Flow | -\$105.1 million | ⊞ | = |
| Firm Gross Asset Outflow | -6.6% | ✓ | = |
| Product Net Asset Flow | -\$311.6 million | ⊞ | = |
| Product Gross Asset Outflow | -3.3% | ✓ | = |
| Product Importance to Firm | 60.6% | ✓ | = |
| Asset Class Importance to Firm | 100.0%* | ✓ | = |

*Data as of 30 June 2015

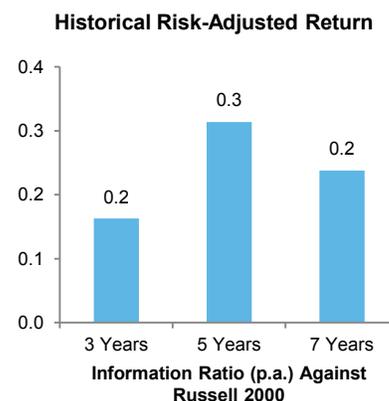
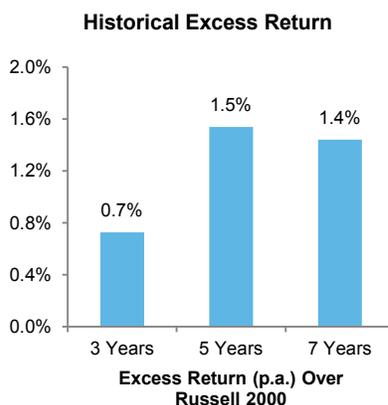
| Investment Staff (✓) | Value | Current Quarter | Movement since last quarter |
|----------------------|--|-----------------|-----------------------------|
| Team Size | Portfolio Managers: 1 Analysts: 10 | ✓ | = |
| Staff Turnover | Portfolio Managers: 0.0% Analysts: 0.0% | ✓ | = |
| Experience | Portfolio Managers: 29 years Analysts: 11 years | ✓ | = |

| Investment Process (✓) | Value | Current Quarter | Movement since last quarter |
|---|---------------|-----------------|-----------------------------|
| Active Risk / Tracking Error | 4.5 | ✓ | = |
| Investment Process Consistency | 19.9 | ⊞ | = |
| Style Consistency - Market Capitalization | \$1.7 billion | ✓ | = |
| Style Consistency - Value (Price-to-book) | 3.6 | ✓ | = |
| Cash Allocation | 9.7% | ⊞ | = |

| Risk Management (✓) | Value | Current Quarter | Movement since last quarter |
|-----------------------------|-------|-----------------|-----------------------------|
| Maximum Drawdown | 9.9% | ✓ | = |
| Downside Capture Volatility | 5.7% | ⊞ | = |

Aon InForm Assessment to 30 Sep 2015 (Continued)

| Performance Analysis (✓) | Value | Current Quarter | Movement since last quarter |
|--|-------|-----------------|-----------------------------|
| Excess Return | 1.4% | ↻ | ↘ |
| Risk Adjusted Return | 0.2 | ↻ | ↘ |
| Consistency of Outperformance vs Benchmark | 84.2% | ✓ | = |
| Consistency of Outperformance vs Peers | 70.8% | ✓ | = |



Source: eVestment

| Terms & Conditions (↻) | Value | Current Quarter | Movement since last quarter |
|------------------------|----------|-----------------|-----------------------------|
| Management Fee | 100 bps* | ↻ | = |

*Fee and assessment reflect commingled fund sliding schedule at all asset levels.

| Operations* | |
|---|-----|
| Is the firm affiliated with a Broker/Dealer? | No |
| GIPS (Global Investment Performance Standards) Compliant? | Yes |
| Errors & Omissions Insurance? | Yes |
| Fiduciary Liability Insurance? | Yes |

Note: The Aon InForm Assessment is based on data as of 30 September 2015 (obtained on 5 November 2015 from eVestment) unless stated differently. Product data completion is 100.0% and peer group average data completion is 85.4%. Changes in manager or peer group data completion may impact the Aon InForm Assessment. *The output to the questions above (Operations section) is self-reported by the manager and obtained through eVestment and is provided for informational purposes only.

Glossary – Equity Manager Model Description

The below table provides a more detailed description of the factors used in the above Aon InForm Assessment. Consultants will be pleased to answer questions should you require further information in relation to this report.

| Factor | Description |
|--|---|
| Business | |
| Employee Ownership | Percentage of firm ownership held by staff |
| Last Change of Ownership | Date of most recent ownership change |
| Institutional Client Base (Product) | Percentage of assets under management (“AUM”) held by institutional investors (pension funds, sovereign wealth funds, insurance companies, endowments, foundations etc.) at the product level |
| Firm and Product Net Asset Flow | Net asset flow over the last three years at the firm and product level. Product level factor incorporates an assessment relating to the strategy’s capacity. |
| Firm and Product Gross Asset Outflow | Average gross asset outflow over the last three years at the firm and product level |
| Product and Asset Class Importance to Firm | The asset class’ and product’s AUM in relation to the firm level AUM |
| Investment Staff | |
| Team Size | The managers’ investment related resources across various functions |
| Staff Turnover | Percentage of investment staff turnover (average over the last three years) |
| Experience | Number of years’ worth of investment experience across various functions |
| Investment Process | |
| Active Risk / Tracking Error | Illustrates the product’s tracking error i.e. how closely a manager follows its benchmark |
| Investment Process Consistency | Volatility of the product’s performance relative to its peer group |
| Style Consistency | Displays the Market Capitalization and Price-to-Book of the product’s underlying holdings and assesses if this is in line with its peers |
| Cash Allocation | Degree of long term cash allocation as a percentage of the portfolio |
| Risk Management | |
| Maximum Drawdown | Measures the distance between the peak and trough of the product’s performance |
| Downside Capture Volatility | Degree of volatility of the product’s long term downside capture. Downside capture relates to the manager’s losses when its benchmark is down. |

| Performance Analysis | |
|-------------------------------|--|
| Excess Return | Compares the excess return of the product against the manager's benchmark (longest available of 1, 2, 3, 5 or 7-years) |
| Risk Adjusted Return | Displays the Sharpe Ratio or Information Ratio (depending on the product's tracking error). These measures are different ways of assessing the product's return after adjusting for the level of risk taken. |
| Consistency of Outperformance | Looks at long term consistency of excess return in relation to the product's benchmark and peers |
| Terms & Conditions | |
| Management Fee | Management fee level relative to the product's peer group |
| Operations | |
| Operations Factors | These factors look across a number of non-investment related areas such as operational infrastructure, compliance and industry best practice |

Ratings Explanation

Below we describe the criteria which we use to rate fund management organizations and their specific investment products. Our manager research process assesses each component using both our qualitative and Aon InForm criteria. With the exception of Operational Due Diligence ("ODD"), each component is assessed as follows:

| Qualitative Outcome | Aon InForm Outcome |
|---------------------|--|
| 1 = Weak |  Pass: This component in isolation meets or exceed our desired criteria |
| 2 = Average |  Alert: This component in isolation does not meet our desired criteria, or the lack of data on this component means that we are not able to judge whether it meets our desired criteria |
| 3 = Above Average | - Not assessed: There is a lack of data, which means that we are not able to assess this component, however we do not consider this in isolation to justify an Alert |
| 4 = Strong |  Component has improved over the quarter  Component remains broadly unchanged over the quarter  Component has worsened over the quarter |

The ODD factor is assigned a rating and can be interpreted as follows:

| Overall ODD Rating | What does this mean? |
|--------------------------------|---|
| A1 | No material operational concerns – the firm’s operations largely align with a well-controlled operating environment. |
| A2 | The firm’s operations largely align with a well-controlled operating environment, with limited exceptions – managers may be rated within this category due to resource limitations or where isolated areas do not align with best practice. |
| Conditional Pass (“CP”) | Specific operational concerns noted that the firm has agreed to address in a reasonable timeframe; upon resolution, we will review the firm’s rating. |
| F | Material operational concerns that introduce the potential for economic or reputational exposure exist – we recommend investors do not invest and/or divest current holdings. |

Aon Hewitt previously assigned ODD ratings of pass, conditional pass, or fail for the ODD factor. We are in the process of refreshing all ODD ratings to the new terminology. During the transition period, the prior ratings, as follows, may persist in some deliverables until the ODD factor rating is converted to the above noted letter ratings.

- **Pass** – Our research indicates that the manager has acceptable operational controls and procedures in place.
- **Conditional Pass** – We have specific concerns that the manager needs to address within a reasonable established timeframe.
- **Fail** – Our research indicates that the manager has critical operational weaknesses and we recommend that clients formally review the appointment.

An overall rating is then derived taking into account both the above outcomes for the product. The overall rating can be interpreted as follows:

| Overall Rating | What does this mean? |
|-----------------------|---|
| Buy | We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products |
| Buy (Closed) | We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products, however it is closed to new investors |
| Qualified | A number of criteria have been met and we consider the investment manager to be qualified to manage client assets |
| Sell | We recommend termination of client investments in this product |
| In Review | The rating is under review as we evaluate factors that may cause us to change the current rating |

The comments and assertions reflect our views of the specific investment product and our opinion of its quality. Differences between the qualitative and Aon InForm outcome can occur and if meaningful these will be explained within the Key Monitoring Points section. Although the Aon InForm Assessment forms a valuable part of our manager research process, it does not automatically alter the overall rating where we already have a qualitative assessment. Overall rating changes must go through our qualitative manager vetting process. Similarly, we will not issue a Buy recommendation before fully vetting the manager on a qualitative basis.

Disclaimer

This document has been produced by the Global Investment Management Team of Aon plc. Nothing in this document should be treated as an authoritative statement of the law on any particular aspect or in any specific case. It should not be taken as financial advice and action should not be taken as a result of this document alone. Consultants will be pleased to answer questions on its contents but cannot give individual financial advice. Individuals are recommended to seek independent financial advice in respect of their own personal circumstances.

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Aon InForm: J.P. Morgan Investment Management Inc.

J.P. Morgan Small Cap Active Core

Information as of **September 2015**
Overall Rating **Not Rated***

* Subject to the manager fulfilling data completion requirements and further review of a proprietary Operations questionnaire issued by GIM, the Overall Rating will be Qualified.

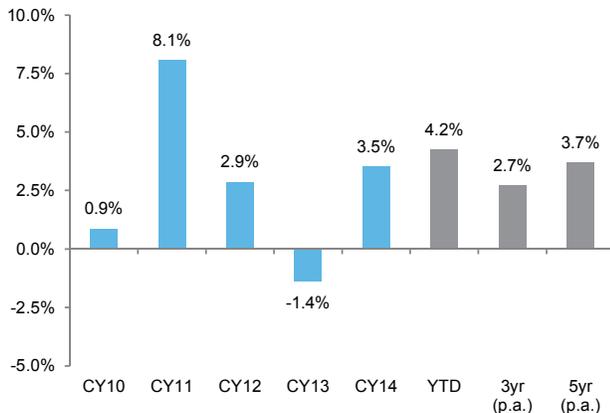
Strategy Snapshot

Primary Approach **Fundamental**
Primary Capitalization **Small Cap**
Primary Style **Core**

Aon InForm Assessment

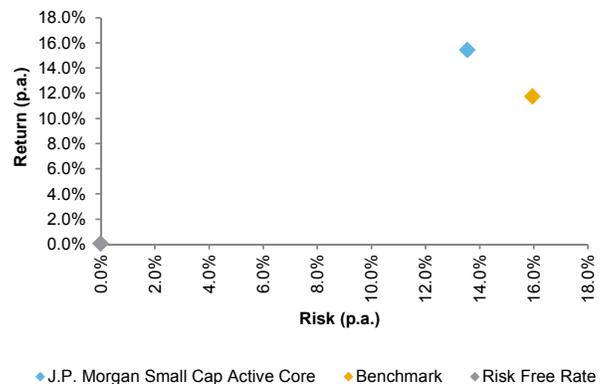
| | Current Quarter | Trend |
|-------------|-----------------|-------|
| Business | Ⓜ | = |
| Staff | - | - |
| Process | ✓ | = |
| Risk | ✓ | = |
| Operations | - | - |
| Performance | ✓ | = |
| T&C | ✓ | = |

Relative Performance to 30 Sep 2015



Composite performance (USD) is gross of fees relative to Russell 2000. CY = calendar year. Source: eVestment

Risk/Return - 5 Year to 30 Sep 2015



Benchmark: Russell 2000
Risk Free Rate: Citigroup 3-Month T-Bill

Firm and Strategy Summary

| | | | |
|----------------------|------------------|-----------------|-------------------|
| Head Office Location | New York, NY, US | Firm AUM | \$1,711.2 billion |
| Investment Staff | 1,016 | Equity AUM | \$336.0 billion |
| Team Location | New York, NY, US | Strategy Size | \$3.6 billion |
| Strategy Inception | September 2004 | Annual Turnover | 14.3% |
| Number of Holdings | 93 | | |
| Benchmark | Russell 2000 | | |

Note: AUM data as of 30 September 2015.

Investment Summary

Manager has not provided an investment summary for the strategy on eVestment.

Source: eVestment

Aon InForm Assessment to 30 Sep 2015

| Business (📁) | Value | Current Quarter | Movement since last quarter |
|-------------------------------------|----------------|-----------------|-----------------------------|
| Employee Ownership | 0.0% | 📁 | = |
| Last Change of Ownership | --- | - | - |
| Institutional Client Base (Product) | 17.0% | 📁 | = |
| Firm Net Asset Flow | \$44.8 billion | ✓ | = |
| Firm Gross Asset Outflow | -0.8% | ✓ | = |
| Product Net Asset Flow | --- | - | - |
| Product Gross Asset Outflow | 0.0% | ✓ | - |
| Product Importance to Firm | 0.2% | 📁 | = |
| Asset class Importance to Firm | 19.6% | 📁 | = |

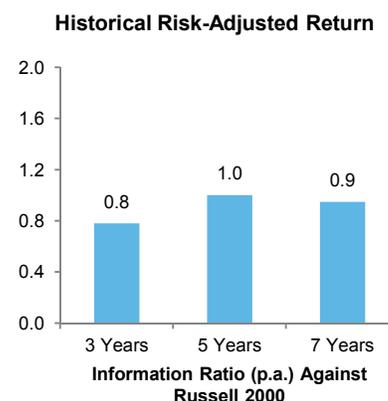
| Investment Staff (-) | Value | Current Quarter | Movement since last quarter |
|----------------------|--|-----------------|-----------------------------|
| Team Size | Portfolio Managers: --- Analysts: --- | - | - |
| Staff Turnover | Portfolio Managers: 16.7% Analysts: 11.1% | 📁 | = |
| Experience | Portfolio Managers: --- Analysts: --- | - | - |

| Investment Process (✓) | Value | Current Quarter | Movement since last quarter |
|---|---------------|-----------------|-----------------------------|
| Active Risk / Tracking Error | 3.5 | 📁 | = |
| Investment Process Consistency | 12.4 | ✓ | = |
| Style Consistency - Market Capitalization | \$2.6 billion | ✓ | = |
| Style Consistency - Value (Price-to-book) | 2.5 | ✓ | ↘ |
| Cash Allocation | 5.0% | 📁 | = |

| Risk Management (✓) | Value | Current Quarter | Movement since last quarter |
|-----------------------------|-------|-----------------|-----------------------------|
| Maximum Drawdown | 8.9% | ✓ | = |
| Downside Capture Volatility | 4.5% | ✓ | = |

Aon InForm Assessment to 30 Sep 2015 (Continued)

| Performance Analysis (✓) | Value | Current Quarter | Movement since last quarter |
|--|--------|-----------------|-----------------------------|
| Excess Return | 5.2% | ✓ | = |
| Risk Adjusted Return | 0.9 | ✓ | = |
| Consistency of Outperformance vs Benchmark | 100.0% | ✓ | = |
| Consistency of Outperformance vs Peers | 96.9% | ✓ | = |



Source: eVestment

| Terms & Conditions (✓) | Value | Current Quarter | Movement since last quarter |
|------------------------|---------|-----------------|-----------------------------|
| Management Fee | 81 bps* | ✓ | = |

*Fee and assessment reflect segregated account scaling schedule at \$50 million.

| Operations* | |
|---|-----|
| Is the firm affiliated with a Broker/Dealer? | No |
| GIPS (Global Investment Performance Standards) Compliant? | Yes |
| Errors & Omissions Insurance? | Yes |
| Fiduciary Liability Insurance? | Yes |

Note: The Aon InForm Assessment is based on data as of 30 September 2015 (obtained on 12 November 2015 from eVestment) unless stated differently. Product data completion is 85.3% and peer group average data completion is 86.4%. Changes in manager or peer group data completion may impact the Aon InForm Assessment. *The output to the questions above (Operations section) is self-reported by the manager and obtained through eVestment and is provided for informational purposes only.

Glossary – Equity Manager Model Description

The below table provides a more detailed description of the factors used in the above Aon InForm Assessment. Consultants will be pleased to answer questions should you require further information in relation to this report.

| Factor | Description |
|--|---|
| Business | |
| Employee Ownership | Percentage of firm ownership held by staff |
| Last Change of Ownership | Date of most recent ownership change |
| Institutional Client Base (Product) | Percentage of assets under management (“AUM”) held by institutional investors (pension funds, sovereign wealth funds, insurance companies, endowments, foundations etc.) at the product level |
| Firm and Product Net Asset Flow | Net asset flow over the last three years at the firm and product level. Product level factor incorporates an assessment relating to the strategy’s capacity. |
| Firm and Product Gross Asset Outflow | Average gross asset outflow over the last three years at the firm and product level |
| Product and Asset class Importance to Firm | The asset class’ and product’s AUM in relation to the firm level AUM |
| Investment Staff | |
| Team Size | The managers’ investment related resources across various functions |
| Staff Turnover | Percentage of investment staff turnover (average over the last three years) |
| Experience | Number of years’ worth of investment experience across various functions |
| Investment Process | |
| Active Risk / Tracking Error | Illustrates the product’s tracking error i.e. how closely a manager follows its benchmark |
| Investment Process Consistency | Volatility of the product’s performance relative to its peer group |
| Style Consistency | Displays the Market Capitalization and Price-to-Book of the product’s underlying holdings and assesses if this is in line with its peers |
| Cash Allocation | Degree of long term cash allocation as a percentage of the portfolio |
| Risk Management | |
| Maximum Drawdown | Measures the distance between the peak and trough of the product’s performance |
| Downside Capture Volatility | Degree of volatility of the product’s long term downside capture. Downside capture relates to the manager’s losses when its benchmark is down. |

| Performance Analysis | |
|-------------------------------|--|
| Excess Return | Compares the excess return of the product against the manager's benchmark (longest available of 1, 2, 3, 5 or 7-years) |
| Risk Adjusted Return | Displays the Sharpe Ratio or Information Ratio (depending on the product's tracking error). These measures are different ways of assessing the product's return after adjusting for the level of risk taken. |
| Consistency of Outperformance | Looks at long term consistency of excess return in relation to the product's benchmark and peers |
| Terms & Conditions | |
| Management Fee | Management fee level relative to the product's peer group |
| Operations | |
| Operations Factors | These factors look across a number of non-investment related areas such as operational infrastructure, compliance and industry best practice |

Ratings Explanation

Below we describe the criteria which we use to rate fund management organizations and their specific investment products using our Aon InForm approach. Each component is assessed as follows:

Aon InForm Outcome

- ✓ **Pass:** This component in isolation meets or exceed our desired criteria
- ⚠ **Alert:** This component in isolation does not meet our desired criteria, or the lack of data on this component means that we are not able to judge whether it meets our desired criteria
- **Not assessed:** There is a lack of data, which means that we are not able to assess this component, however we do not consider this in isolation to justify an Alert
- ↗ Component has improved over the quarter
- = Component remains broadly unchanged over the quarter
- ↘ Component has worsened over the quarter

An overall rating is then derived taking into account the above outcomes for the product. The overall rating can be interpreted as follows:

| Overall Rating | What does this mean? |
|-----------------------|---|
| Qualified | A number of criteria have been met and we consider the investment manager may be qualified to manage client assets, pending a review of operational factors via a proprietary questionnaire |
| Sell | We recommend termination of client investments in this product |
| In Review | The rating is under review as we evaluate factors that may cause us to change the current rating |

The comments and assertions reflect our views of the specific investment product and our opinion of its quality. Our Aon InForm Assessment is designed to issue Qualified and Sell ratings. Prior to issuing a Buy recommendation, managers must be fully vetted on a qualitative basis.

Disclaimer

This document has been produced by the Global Investment Management Team of Aon plc.

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Aon InBrief: Wellington Management Company LLP

Small Cap Opportunities

| Review Date | Overall Rating | Previous Overall Rating |
|---------------|----------------|-------------------------|
| November 2015 | Buy | No Change |

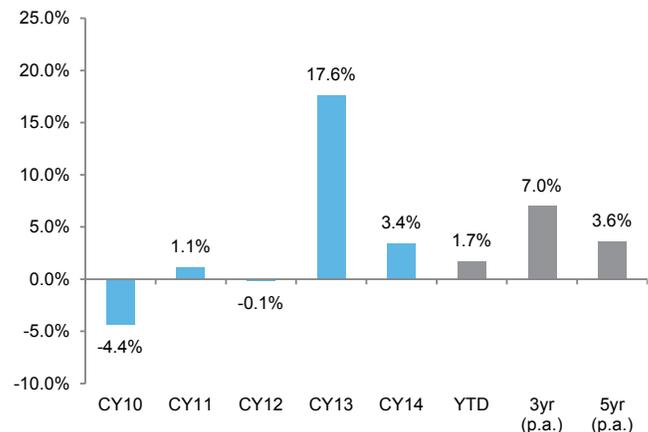
Overall Rating

We maintain a “Buy” rating for the Wellington Small Cap Opportunities strategy given the team’s in-depth approach to fundamental research, consistent execution of the investment process, and ability to generate excess returns on both short- and long-term trailing periods. We believe that the value added by the team will continue to be strong given the depth and talent of the portfolio management team coupled with the strength of Wellington’s global industry analysts.

Component Ratings

| | Rating | Previous Rating | Aon InForm Assessment |
|-------------|--------|-----------------|-----------------------|
| Business | 3 | No Change | ✓ |
| Staff | 4 | No Change | ✓ |
| Process | 3 | No Change | PB |
| Risk | 2 | No Change | PB |
| ODD | Pass | No Change | - |
| Performance | 3 | No Change | ✓ |
| T&C | 3 | No Change | PB |

Relative Performance to 30 Sep 2015



Composite performance (USD) is gross of fees relative to Russell 2000. CY = calendar year. Source: eVestment

Firm and Strategy Summary

| | | | |
|------------------------------|---|-------------------------|---------------------|
| Head Office Location | Boston, MA, US | Parent Name | 100% Employee Owned |
| Firm AUM | \$898.4 billion | Investment Staff | 590 |
| Equity AUM | \$377.0 billion | Equity Staff | 292 |
| Team Location | Boston, MA, US | Team Head | Kenneth Abrams |
| Strategy Inception | February 1994 | Strategy Size | \$1.6 billion |
| Number of Holdings | 104 | Annual Turnover | 78% |
| Benchmark | Russell 2000 Index | | |
| Performance Objective | Outperform the benchmark by 2.0 - 3.0% over rolling 3 to 5 year periods | | |
| Risk Tolerance Target | Typically 4.0 – 8.0% per annum | | |

Note: AUM data as of 30 September 2015.

Investment Manager Evaluation

| Rating Sheet | | | |
|---------------------------|--------|------------------|---|
| Factor | Rating | Previous Rating | Comments |
| Business | 3 | <i>No Change</i> | <p>Wellington is a stable organization owned by well-motivated senior staff. The firm is well-resourced and managed with clear objectives. Wellington has seen significant net inflows the past five years, particularly into fixed income mandates and sub-advisory relationships. Compensation policies align investment staff appropriately and key members of staff have significant co-investment.</p> |
| Investment Staff | 4 | <i>No Change</i> | <p>The Small Cap Opportunities strategy is managed by Kenneth Abrams. Mr. Abrams has worked at Wellington for almost 30 years and has managed the portfolio since its inception. He is one of the most senior partners at Wellington. Additionally, Mr. Abrams has three dedicated team members and utilizes the insights and research of Wellington's global industry analyst team. We have a high regard for the investment skill of Kenneth Abrams and have found him to be an above average investor with respect to top-down and bottom-up elements of his portfolio management process.</p> <p>We also have a high opinion of Wellington's global industry analysts and generally find them to be above average investors when it comes to analyzing and researching companies. The combination of both resources provides clients a favorable approach to small cap fundamental investing.</p> |
| Investment Process | 3 | <i>No Change</i> | <p>The Small Cap Opportunities strategy employs a fundamental approach to identifying opportunities in the small cap market. Mr. Abrams and his team seek to find a variety of different types of portfolio names including cyclical companies with strong balance sheets near trough earnings, stable companies with attractive ROIC that have been overlooked by most investors, and growth stocks with underappreciated earnings power.</p> <p>As a major investment management firm, Wellington enjoys a high level of access to company managements. The long-term investment horizon and</p> |

| Rating Sheet | | | |
|----------------------------------|--------|------------------|--|
| Factor | Rating | Previous Rating | Comments |
| | | | <p>tenure of investment professionals at the firm translates to an in-depth understanding of industries and individual companies. The investment approach benefits from multiple layers of Wellington research.</p> <p>The portfolio management team, which we have determined to be above average, also works with the global industry analysts. Wellington's senior-most analyst team has the ability to research companies based on various metrics they feel appropriate for the company and industry.</p> |
| Risk Management | 2 | <i>No Change</i> | <p>The team constructs the portfolio around a set of parameters as it pertains to cash and international exposure, as well as security and industry weights. In addition, the team has access to a risk advisor council, which provides risk reports to the team on a monthly basis. A dedicated product management team is also available to provide analytical support and to conduct portfolio-specific studies. We regard the availability of resources positively, but also note that the team's use of these resources is on par with a typical institutional-caliber manager.</p> |
| Operational Due Diligence | Pass | <i>No Change</i> | <p>Wellington has significant compliance resources and pre-trade compliance systems in place. The systems, which are mainly built in-house, are well-maintained and fully support the investment process. The trading staff has significant experience and best execution in equities is monitored both internally (by the director of equity trading) and externally by trade cost analysis software.</p> |
| Performance Analysis | 3 | <i>No Change</i> | <p>The strategy outperformed the Russell 2000 Index over all trailing time periods analyzed. Recent performance has been volatile with several underperforming periods having been offset by significant excess return during 2009 and 2013. We believe that the portfolio management team will outperform the Russell 2000 Index over the long term.</p> |

| Rating Sheet | | | |
|-------------------------------|------------|------------------|--|
| Factor | Rating | Previous Rating | Comments |
| Terms & Conditions | 3 | <i>No Change</i> | <p>Client service is strong and Wellington has been very responsive to queries. Feedback from clients has been positive. The Small Cap Opportunities strategy was re-opened after being closed for approximately 10 years.</p> <p>The fees are attractive within the small cap separate account and commingled fund (daily valued) universes.</p> |
| Overall Rating | Buy | <i>No Change</i> | <p>We maintain a “Buy” rating for the Wellington Small Cap Opportunities strategy given the team’s in-depth approach to fundamental research, consistent execution of the investment process, and ability to generate excess returns on both short- and long-term trailing periods. We believe that the value added by the team will continue to be strong given the depth and talent of the portfolio management team coupled with the strength of Wellington’s global industry analysts.</p> |

Manager Updates and Monitoring

Major Developments

Wellington Management communicated in August 2015 that it been notified by the Securities & Exchange Commission that the SEC has opened an investigation into one of Wellington's affiliates related to policies and procedures surrounding material non-public information. We do not currently know the scope and continue to monitor the situation.

Key Monitoring Points

Performance

- The Small Cap Opportunities strategies continued to perform well during the year-to-date period. This follows several calendar years of relative outperformance for the strategy. Over the trailing periods ending 9/30/2015, Wellington compares favorable versus the Russell 2000 Index.

Positioning and Transactions

- Nothing to report.

Aon InForm Assessment

The Aon InForm assessment of this strategy is summarized in the sections below. Where this raises an alert, denoted by a flag (F), we have added further clarification where we believe the points raised are material or worth highlighting.

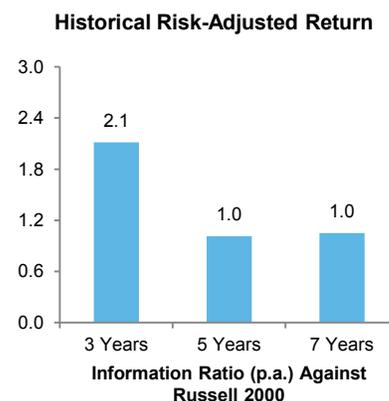
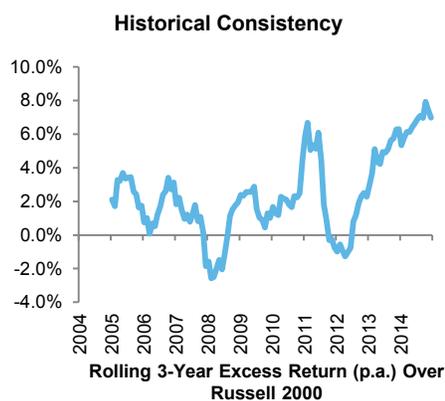
- The investment staff section was flagged due to the size of the dedicated team relative to the average team size within the small cap universe. Our qualitative assessment of the investment team led by Kenneth Abrams is positive. In addition to the dedicated Small Cap Opportunities staff, the strategy is also supported by Wellington's Global Industry Analysts group.
 - In the investment process section, several categories have been flagged including the market capitalization segment. The Small Cap Opportunities portfolio is in line with peers in the small cap core space.
-

Aon InForm Assessment to 30 Sep 2015

| Business (✓) | Value | Current Quarter | Movement since last quarter |
|---|--|-----------------|-----------------------------|
| Employee Ownership | 100.0% | ✓ | = |
| Last Change of Ownership | --- | - | - |
| Institutional Client Base (Product) | 100.0% | ✓ | = |
| Firm Net Asset Flow | \$5.2 billion | ✓ | = |
| Firm Gross Asset Outflow | -1.4% | ✓ | = |
| Product Net Asset Flow | -\$672.0 million | ⌘ | = |
| Product Gross Asset Outflow | -4.1% | ✓ | = |
| Product Importance to Firm | 0.2% | ⌘ | = |
| Asset Class Importance to Firm | 42.0% | ✓ | = |
| Investment Staff (✓) | Value | Current Quarter | Movement since last quarter |
| Team Size | Portfolio Managers: 2 Analysts: 1 | ⌘ | = |
| Staff Turnover | Portfolio Managers: 0.0% Analysts: 0.0% | ✓ | = |
| Experience | Portfolio Managers: 31 years Analysts: 16 years | ✓ | = |
| Investment Process (⌘) | Value | Current Quarter | Movement since last quarter |
| Active Risk / Tracking Error | 3.3 | ⌘ | = |
| Investment Process Consistency | 26.2 | ⌘ | = |
| Style Consistency - Market Capitalization | \$2.0 billion | ✓ | = |
| Style Consistency - Value (Price-to-book) | 2.0 | ⌘ | ↘ |
| Cash Allocation | 3.0% | ✓ | = |
| Risk Management (⌘) | Value | Current Quarter | Movement since last quarter |
| Maximum Drawdown | 13.5% | ⌘ | ↘ |
| Downside Capture Volatility | 6.3% | ⌘ | ↘ |

Aon InForm Assessment to 30 Sep 2015 (Continued)

| Performance Analysis (✓) | Value | Current Quarter | Movement since last quarter |
|--|-------|-----------------|-----------------------------|
| Excess Return | 4.7% | ✓ | = |
| Risk Adjusted Return | 1.0 | ✓ | = |
| Consistency of Outperformance vs Benchmark | 85.0% | ✓ | = |
| Consistency of Outperformance vs Peers | 75.8% | ✓ | = |



Source: eVestment

| Terms & Conditions (🔗) | Value | Current Quarter | Movement since last quarter |
|------------------------|---------|-----------------|-----------------------------|
| Management Fee | 85 bps* | 🔗 | = |

*Fee and assessment reflect commingled fund sliding schedule at \$50 million.

| Operations* | |
|---|-----|
| Is the firm affiliated with a Broker/Dealer? | Yes |
| GIPS (Global Investment Performance Standards) Compliant? | Yes |
| Errors & Omissions Insurance? | Yes |
| Fiduciary Liability Insurance? | Yes |

Note: The Aon InForm Assessment is based on data as of 30 September 2015 (obtained on 5 November 2015 from eVestment) unless stated differently. Product data completion is 100.0% and peer group average data completion is 85.4%. Changes in manager or peer group data completion may impact the Aon InForm Assessment. *The output to the questions above (Operations section) is self-reported by the manager and obtained through eVestment and is provided for informational purposes only.

Glossary – Equity Manager Model Description

The below table provides a more detailed description of the factors used in the above Aon InForm Assessment. Consultants will be pleased to answer questions should you require further information in relation to this report.

| Factor | Description |
|--|---|
| Business | |
| Employee Ownership | Percentage of firm ownership held by staff |
| Last Change of Ownership | Date of most recent ownership change |
| Institutional Client Base (Product) | Percentage of assets under management (“AUM”) held by institutional investors (pension funds, sovereign wealth funds, insurance companies, endowments, foundations etc.) at the product level |
| Firm and Product Net Asset Flow | Net asset flow over the last three years at the firm and product level. Product level factor incorporates an assessment relating to the strategy’s capacity. |
| Firm and Product Gross Asset Outflow | Average gross asset outflow over the last three years at the firm and product level |
| Product and Asset Class Importance to Firm | The asset class’ and product’s AUM in relation to the firm level AUM |
| Investment Staff | |
| Team Size | The managers’ investment related resources across various functions |
| Staff Turnover | Percentage of investment staff turnover (average over the last three years) |
| Experience | Number of years’ worth of investment experience across various functions |
| Investment Process | |
| Active Risk / Tracking Error | Illustrates the product’s tracking error i.e. how closely a manager follows its benchmark |
| Investment Process Consistency | Volatility of the product’s performance relative to its peer group |
| Style Consistency | Displays the Market Capitalization and Price-to-Book of the product’s underlying holdings and assesses if this is in line with its peers |
| Cash Allocation | Degree of long term cash allocation as a percentage of the portfolio |
| Risk Management | |
| Maximum Drawdown | Measures the distance between the peak and trough of the product’s performance |
| Downside Capture Volatility | Degree of volatility of the product’s long term downside capture. Downside capture relates to the manager’s losses when its benchmark is down. |

| Performance Analysis | |
|-------------------------------|--|
| Excess Return | Compares the excess return of the product against the manager's benchmark (longest available of 1, 2, 3, 5 or 7-years) |
| Risk Adjusted Return | Displays the Sharpe Ratio or Information Ratio (depending on the product's tracking error). These measures are different ways of assessing the product's return after adjusting for the level of risk taken. |
| Consistency of Outperformance | Looks at long term consistency of excess return in relation to the product's benchmark and peers |
| Terms & Conditions | |
| Management Fee | Management fee level relative to the product's peer group |
| Operations | |
| Operations Factors | These factors look across a number of non-investment related areas such as operational infrastructure, compliance and industry best practice |

Ratings Explanation

Below we describe the criteria which we use to rate fund management organizations and their specific investment products. Our manager research process assesses each component using both our qualitative and Aon InForm criteria. With the exception of Operational Due Diligence ("ODD"), each component is assessed as follows:

| Qualitative Outcome | Aon InForm Outcome |
|---------------------|--|
| 1 = Weak |  Pass: This component in isolation meets or exceed our desired criteria |
| 2 = Average |  Alert: This component in isolation does not meet our desired criteria, or the lack of data on this component means that we are not able to judge whether it meets our desired criteria |
| 3 = Above Average | - Not assessed: There is a lack of data, which means that we are not able to assess this component, however we do not consider this in isolation to justify an Alert |
| 4 = Strong | <ul style="list-style-type: none">  Component has improved over the quarter = Component remains broadly unchanged over the quarter  Component has worsened over the quarter |

The ODD factor is assigned a rating and can be interpreted as follows:

| Overall ODD Rating | What does this mean? |
|--------------------------------|---|
| A1 | No material operational concerns – the firm’s operations largely align with a well-controlled operating environment. |
| A2 | The firm’s operations largely align with a well-controlled operating environment, with limited exceptions – managers may be rated within this category due to resource limitations or where isolated areas do not align with best practice. |
| Conditional Pass (“CP”) | Specific operational concerns noted that the firm has agreed to address in a reasonable timeframe; upon resolution, we will review the firm’s rating. |
| F | Material operational concerns that introduce the potential for economic or reputational exposure exist – we recommend investors do not invest and/or divest current holdings. |

Aon Hewitt previously assigned ODD ratings of pass, conditional pass, or fail for the ODD factor. We are in the process of refreshing all ODD ratings to the new terminology. During the transition period, the prior ratings, as follows, may persist in some deliverables until the ODD factor rating is converted to the above noted letter ratings.

- **Pass** – Our research indicates that the manager has acceptable operational controls and procedures in place.
- **Conditional Pass** – We have specific concerns that the manager needs to address within a reasonable established timeframe.
- **Fail** – Our research indicates that the manager has critical operational weaknesses and we recommend that clients formally review the appointment.

An overall rating is then derived taking into account both the above outcomes for the product. The overall rating can be interpreted as follows:

| Overall Rating | What does this mean? |
|-----------------------|---|
| Buy | We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products |
| Buy (Closed) | We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products, however it is closed to new investors |
| Qualified | A number of criteria have been met and we consider the investment manager to be qualified to manage client assets |
| Sell | We recommend termination of client investments in this product |
| In Review | The rating is under review as we evaluate factors that may cause us to change the current rating |

The comments and assertions reflect our views of the specific investment product and our opinion of its quality. Differences between the qualitative and Aon InForm outcome can occur and if meaningful these will be explained within the Key Monitoring Points section. Although the Aon InForm Assessment forms a valuable part of our manager research process, it does not automatically alter the overall rating where we already have a qualitative assessment. Overall rating changes must go through our qualitative manager vetting process. Similarly, we will not issue a Buy recommendation before fully vetting the manager on a qualitative basis.

Disclaimer

This document has been produced by the Global Investment Management Team of Aon plc. Nothing in this document should be treated as an authoritative statement of the law on any particular aspect or in any specific case. It should not be taken as financial advice and action should not be taken as a result of this document alone. Consultants will be pleased to answer questions on its contents but cannot give individual financial advice. Individuals are recommended to seek independent financial advice in respect of their own personal circumstances.

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London
EC3V 4AN

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Manager Search Process

Manager Search

Why Do Most Plan Sponsors Use a Consultant in Their Manager Search Projects?

- **Independent and objective third party.**
- Adherence to a consistent search process that maintains clear, written guidelines to govern the search, which helps plan sponsor reduce fiduciary liability.
- Consistency will allow for a fair, repeatable process that will serve the organization as a whole, no matter the individuals involved at certain time periods.
- A resource that is committed to conducting manager due diligence.
 - Computer database availability.
 - Continuity over time.
 - Help ensure ERISA safe harbor protection.

Factors in the Search Process

- Every search should be unique.
- Client defined search specifics will narrow candidate universe (plan type, size, continuing managers, risk preferences, etc.).
- Searches are conducted through a series of steps:
 - Client-Driven Considerations
 - Screening Criteria
 - Quantitative review
 - Qualitative Assessment
 - Search Review by Senior Policy Committee
 - Document semi-finalist candidates for Client
 - Identify Finalists
 - Interview Finalists
 - Select Firm

How do Consultants Collect the Data?

General Information

- Organizational statistics
- Product specific information
- Annual questionnaire

Performance Database

- Quarterly rates of return
- 1,049 organizations; 4,082 different funds; all mutual funds
- Updated quarterly from money managers

Money Manager Visit Reports – On-site

- Qualitative impressions of money manager's philosophy, style, investment process
- Verification of Information
- Visits to money manager's offices by Global Manager Research staff and consultants
- Average of 500 visits per year

Money Manager Visit Reports – In-House

- Qualitative impressions of money manager's philosophy, style, investment process
- Verification of Information
- Visits by money managers to Callan's four offices
- Average of 1,000 visits per year

Mutual Client Relationships

- Qualitative impressions of money manager's philosophy, style, investment process
- Verification of Information
- Active evaluation of Callan's performance evaluation work with clients

Step No. 1: Client-Driven Considerations in a Search

Search considerations are client-specific and depend on a variety of items:

- Purpose (i.e., search rationale)
- Active vs. Passive
- Choice of Benchmark
- Acceptance of Style Drift
- Size Spectrum
- Risk Tolerance
 - Benchmark Aware/Unaware
 - Concentration
- Specialty Management
 - Small Cap
 - Currency
 - Distressed Debt

Step No. 2: Develop Appropriate Screening Criteria

- Manager Type
- Investment Style
- Investment Vehicle
- Managed Assets
- Size of Professional Staff
- Years of Experience
- Geographic Location
- Involvement With Other Businesses
- Flexibility of Individual Portfolio Managers
- Security Analysis Orientation
- Risk Levels
- Capitalization Levels
- In-House Research Emphasis
- Use of Cash Equivalents
- Use of ADRs, 144As, and futures and/or options
- Historical Performance Criteria
- Experience and Education of Professionals
- Financial Well Being of Firm
- Client-Servicing Capabilities
- Fees
- Organizational Ownership
- Informational Technology

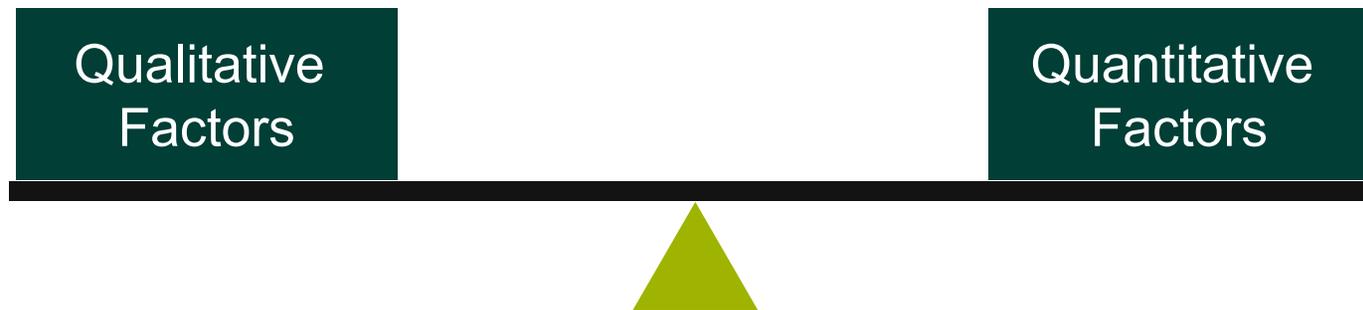
Investment Manager Evaluation

A Combination of Qualitative and Quantitative Analysis

- Quantitative research:
 - Consistency of investment performance
 - Analyzing the portfolios
 - *Return-based style analysis*
 - *Traditional holdings based analysis*
 - *MSCI's "Z-score" methodology*
- Qualitative research: Kicking the tires
 - Requires ongoing interaction with managers to understand their philosophy, process and people.
 - It is instructive to know how managers view themselves.
 - Observe how the “key” people interact with one another.
 - Confirm that the “marketing” pitch and confirms to “reality.”

Objectives of Quantitative and Qualitative Screens

- Compare/contrast candidate information.
- Weigh quantitative and qualitative factors to find the appropriate balance.
- Take into account recent developments.
- Identify approximately 10 to 12 surviving candidates.



Step No. 3: Perform Quantitative Screening Analysis

Conduct Quantitative Screening from Available Database

- Many consultants maintain their own proprietary database.
 - Only available through a consultant/client relationship.
- Shared Databases are available.
 - eVestment Alliance, PSN, Mobius, Morningstar (especially of DC related Searches)

Callan's "Universe" of Managers

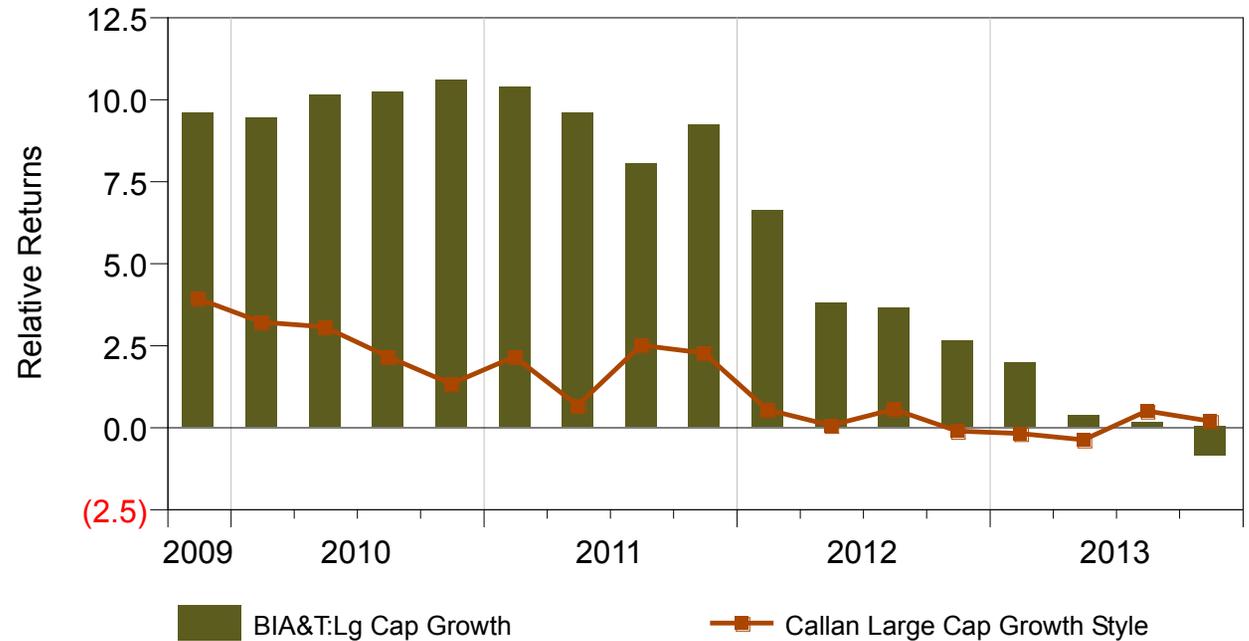
| Database Groups | Organizations | Products |
|---------------------------------------|---------------|-------------|
| Domestic Equity | 706 | 2,896 |
| Domestic Fixed-Income | 294 | 1,467 |
| Domestic Balanced | 80 | 422 |
| International Equity | 287 | 903 |
| Global Equity | 237 | 509 |
| Emerging Market Equity | 172 | 407 |
| International Fixed-Income | 38 | 70 |
| Global Fixed Income | 71 | 209 |
| Emerging Market Debt | 67 | 166 |
| International /Global Balanced | 33 | 64 |
| Currency | 22 | 45 |
| Real Estate | 62 | 194 |
| Hedge Funds | 122 | 270 |
| Derivatives / Alternative Investments | 24 | 26 |
| Total | 1485 | 7648 |

As of December 31, 2013

Historical Performance Assessment

- GIPS compliant composite return data
- Benchmark and Style-Group Comparisons
- Annual, cumulative, rolling three-year (**consistency**) return data
- Rising and falling market-cycle returns—**expectations**
- Risk-adjusted returns (e.g., Sharpe Ratios)
- Other risk measures (e.g., Information ratio, downside risk, alpha, standard deviation)

Rolling Three Year Relative Returns vs S&P 500 Index



Step No. 4: Conduct Qualitative Screening

What Qualitative Factor Matters the Most

PEOPLE!!!

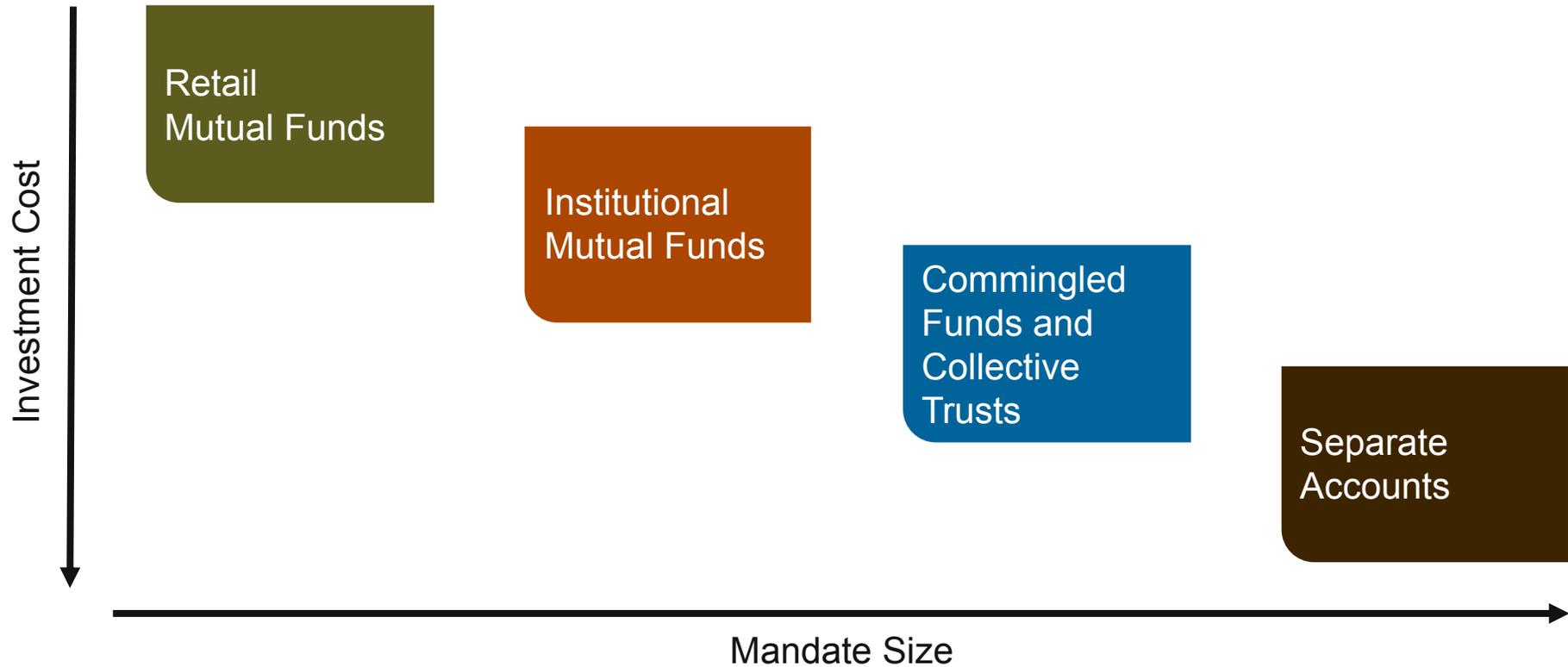
1. Who are the “idea generators?”
2. Intelligence, creativity, and innovation
3. Tenure working together
4. Depth of resources – “star” system or team effort
5. Integrity
6. Stability
7. Organizational culture

Other Important Qualitative Factors

- Investment Philosophy:
 - Clearly articulated?
 - Based on sound theory and empirical evidence?
- Investment Strategies:
 - Top down? Bottom up?
 - Sector based? Thematic?
- Research Orientation:
 - Quantitative? Qualitative?
 - Fundamental price/value framework?
- Decision-Making Process:
 - Central Research? Committee/PM Team-driven? Star PM? “Blackbox?”
- Cultural and Environmental Values
- Risk Controls:
 - What tools or strategies does the manager use to control risk?

Speaking of Fees...Vehicle Expense Comparison

Vehicle Decisions Can Have Important Cost Impacts to the Client



Step No. 5: Review by Senior Decision Makers



Objective is to identify approximately four to six Semi-Finalists.

Step No. 6: Prepare Search Review Book for Client

- Contains detailed information about each semi-finalist and comparative performance information.
- Book serves as tool to help identify the finalists.

Step No. 7: Identify Finalists

- Field consultant works with client to select finalist managers (typically three to four) for consideration.
- Schedule interviews.

Step No. 8: Interview Finalists

- Schedule interview in client's office or on site and conduct manager due diligence on site.
- What to look for during a finalist interview:
 - Enthusiasm and energy
 - Understanding of client's specific situation
 - Focus on client's specific interests and needs
 - Cogent description of investment process—who makes what decisions when?
 - Excellent listening skills
 - Excellent Q&A skills
 - Excellent time-management skills
 - Harmony among multiple presenters

Step No. 9: Manager Selection

- Development of written plan that assigns accountabilities during the transition.
- Discretion is the client's responsibility (with a possible assist from a consultant).
- Execute a contract and make sure manager receives a copy of the investment policy statement including a clear understanding of benchmarks and peer expectations.
- Develop transition plan:
 - Date by which transition will be complete.
 - Identity of transition broker (if any).
 - Create documentation of process for files.
- Establish reporting and client service protocol.

Why was a manager hired is the best question to keep in mind when monitoring a portfolio?

Cost Considerations for Manager Termination and Transitions

What explicit (and hidden) costs are associated with manager terminations and transitions?

- Portfolio transfers can be costly.
- Accountabilities need to be placed with specific parties.
- Primary direct costs, primary indirect costs, and primary timing risks.
- Benefits of a well-developed transition (portfolio restructuring) plan.

ATLANTA CAPITAL

INVESTMENT MANAGERS

North Dakota Retirement and Investment Office **High Quality Small Cap Equity**

January 22, 2016

FOR USE IN ONE-ON-ONE PRESENTATIONS ONLY
FOR USE WITH FINANCIAL PROFESSIONALS ONLY

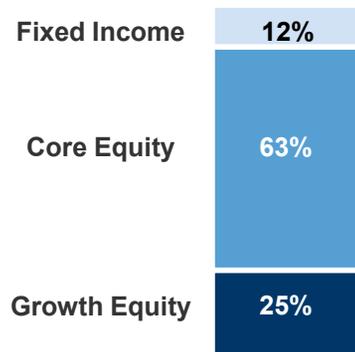
Atlanta Capital Management Co., LLC

As of September 30, 2015

- Founded in 1969 in Atlanta, Georgia
- Singular focus on High Quality stocks and bonds
- Owned by employees & Eaton Vance Corporation
- Employ 45 professionals (21 are equity partners)

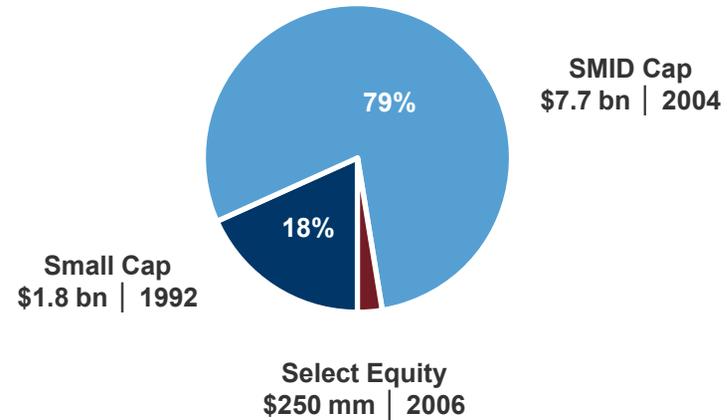
Investment Franchises

(\$15.6 Billion)



Core Equity Management

(\$9.7 Billion)



Assets under management | inception date of strategy.

Core Equity Team Biographies

As of September 30, 2015



Charles B. Reed, CFA

- Managing Director & Principal
- Portfolio Manager, Core Equity
- Management Committee Member
- BS, Florida State University
- 26 Years Investment Experience



William O. Bell, IV, CFA

- Vice President & Principal
- Portfolio Manager, Core Equity
- BS, Florida State University
- 20 Years Investment Experience



W. Matt Hereford, CFA

- Vice President & Principal
- Portfolio Manager, Core Equity
- BBA, University of Mississippi
- 20 Years Investment Experience



J. Michael Jaje, Jr., CFA

- Vice President & Principal
- Investment Specialist, Core Equity
- BS, Vanderbilt University
- 21 Years Investment Experience

Atlanta Capital – Core Equity Strategies

As of September 30, 2015

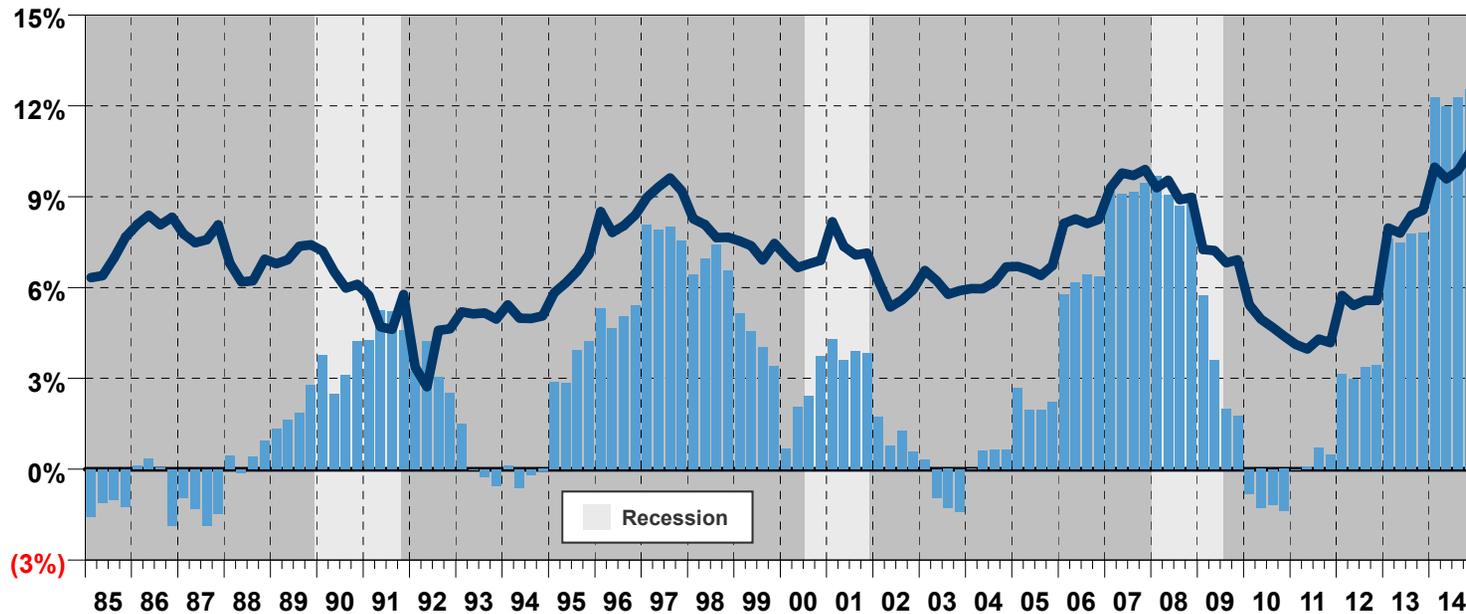
| | High Quality Small Cap | High Quality SMID Cap | High Quality Select Equity |
|-----------------------------|----------------------------------|----------------------------------|-------------------------------|
| Inception Date | <i>April 1, 1992</i> | <i>April 1, 2004</i> | <i>October 1, 2006</i> |
| Mkt. Cap Range at Purchase* | <i>\$200 mm – \$3.0 bn</i> | <i>\$500 mm – \$7.0 bn</i> | <i>> \$3 bn</i> |
| Mkt. Cap Range Upper Bound* | <i>3x wtd. avg. cap of index</i> | <i>3x wtd. avg. cap of index</i> | <i>---</i> |
| Wtd. Avg. Mkt. Cap | <i>\$2.7 bn</i> | <i>\$6.0 bn</i> | <i>\$61.2 bn</i> |
| Benchmark | <i>Russell 2000®</i> | <i>Russell 2500™</i> | <i>Russell 1000®</i> |
| Holdings Range | <i>60 – 70</i> | <i>50 – 60</i> | <i>25 – 40</i> |
| Max Position Sizes | <i>5%</i> | <i>5%</i> | <i>10%</i> |
| Sector Constraints | <i>30% Absolute</i> | <i>30% Absolute</i> | <i>25% Industry</i> |
| 3 Yr Avg. Turnover (%) | <i>12%</i> | <i>12%</i> | <i>15%</i> |
| Max Non-Traditional | <i>5% Cash</i> | <i>5% Cash</i> | <i>25% Non-US / 15% Cash</i> |
| Pooled Vehicle** | <i>---</i> | <i>EISMX</i> | <i>ESEIX</i> |
| Active Share*** | <i>95.0%</i> | <i>94.8%</i> | <i>93.8%</i> |
| Down Market Capture*** | <i>56.0%</i> | <i>58.6%</i> | <i>77.4%</i> |
| Beta*** | <i>0.72</i> | <i>0.81</i> | <i>0.90</i> |

*Atlanta Capital defines a small company as one with a market capitalization greater than the market capitalization of the smallest company in the Russell 2000® Index and less than three times the weighted average market capitalization of companies in that Index. The team will generally not initiate a position in a company unless it has a market capitalization between \$200 mm and \$3.0 bn. Atlanta Capital defines a small-to-medium company as one with a market capitalization greater than the market capitalization of the smallest company in the Russell 2500™ Index and less than three times the weighted average market capitalization of companies in that Index. The team will generally not initiate a position in a company unless it has a market capitalization between \$500 mm and \$7.0 bn. **Subadvised mutual fund managed in a similar strategy and distributed by an affiliate, Eaton Vance Distributors, Inc. ***Since inception calculation relative to the stated benchmark. Market cap, holdings characteristics and turnover are based on a single representative client portfolio for each strategy and are subject to change. Actual results will vary for each client. This material is supplemental to the GIPS® presentation included in the Appendix. **Active Share** calculates the over / under weighting of stocks in a portfolio relative to an index to measure how aggressively it differs from the index. **Down Market Capture** is determined by the index which has a down-capture ratio of 100% when the index is performing negatively, if a manager captures less than 100% of the declining market it is said to be "defensive". **Beta** measures the historical sensitivity of portfolio excess returns to movements in the excess return of the market index. The value for Beta is expressed as a percentage of the market where the market beta is 1.00. A portfolio with beta below the market has lower volatility than the market and the return on the portfolio will move less than the market return.

Consistent Growth & Stability in Earnings

Key Tenet of Our Investment Philosophy

**Five-Year Rolling CAGR of As Reported Earnings
Russell 2000® Index by Earnings Stability**

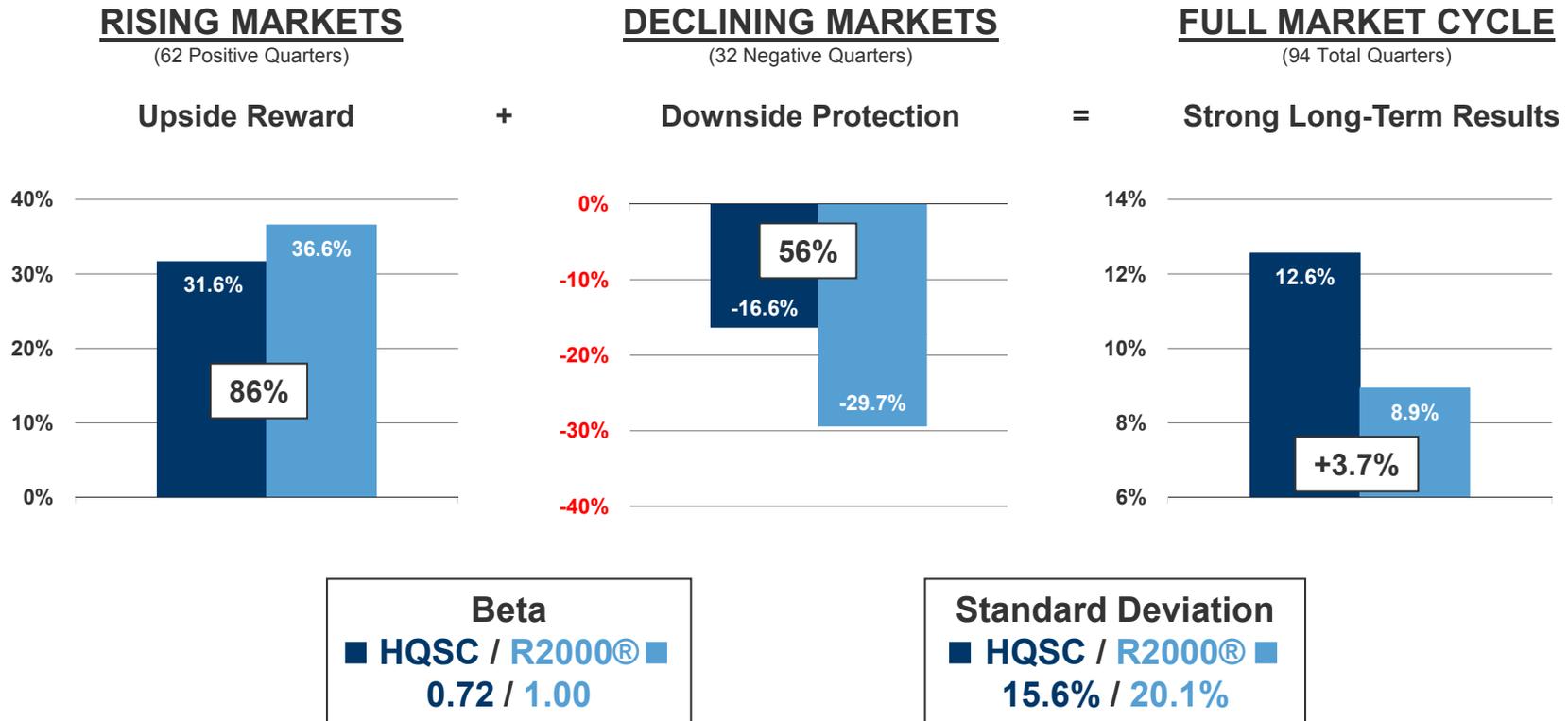


| | <u>Earnings Stability</u> | <u>Avg. 5-Year CAGR</u> | <u>Earnings Variability</u> | <u># Positive Periods</u> | <u># Negative Periods</u> |
|---|---------------------------|-------------------------|-----------------------------|---------------------------|---------------------------|
| ■ | Above-Average | 6.9% | 1.6% | 120 or 100% | 0 or 0% |
| ■ | Below-Average | 3.3% | 3.6% | 96 or 80% | 24 or 20% |

*Time period: January 1, 1985 – December 31, 2014. The Above-Average Earnings Stability and Below-Average Earnings Stability portfolios are provided to compare the aggregate of all companies with High Quality S&P Rankings (B+ or Better) to those with Low Quality S&P Rankings (B or Below). The universe includes all Russell 2000® Index constituents with S&P Quality Rankings and prices greater than \$1. Portfolios are formed and rebalanced monthly, and five-year historical earnings growth rates are calculated using a market capitalization-weighted methodology. The Russell 2000® Index is a widely-accepted measure of the U.S. small cap stock market. US market indexes are unmanaged and it is not possible to directly invest in an index. The Above-Average Earnings Stability and Below-Average Earnings Stability portfolios were derived in part from the Russell Index Data and Frank Russell Company remains the source and owner of the Russell Index Data contained or reflected and all trademarks and copyrights. Sources: Russell, Standard & Poor's, Wilshire Atlas, Atlanta Capital. The material is based upon information that S&P, Wilshire and Atlanta Capital considers to be reliable, but neither S&P, Wilshire nor Atlanta Capital warrants its completeness, accuracy or adequacy and it should not be relied upon as such. This information should not be considered investment advice. Performance during certain periods reflects strong stock market performance that is not typical and may not be repeated. Past performance does not predict future results. Reproduction or redistribution of this page in any form without express permission from Atlanta Capital is prohibited.

Key Tenet - Capital Preservation- Small Cap

April 1, 1992 – September 30, 2015



Atlanta Capital seeks to offer downside protection & upside reward without the volatility typically associated with small cap investing.

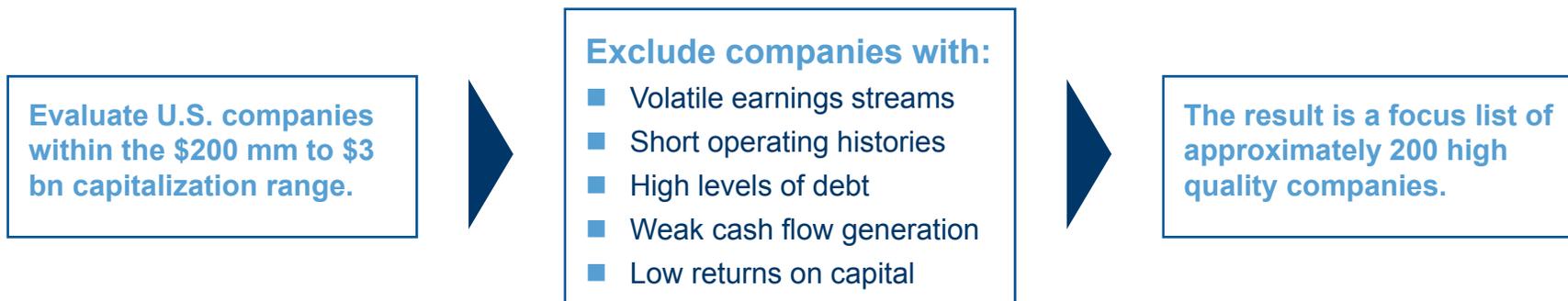
The charts above illustrate the average (annualized) return of the High Quality Small Capitalization Composite during both Rising, Declining & Full market cycles. Rising markets are defined as quarters where the return of the Russell 2000® index was positive. Declining markets are defined as quarters where the return of the Russell 2000® index was negative. Full market cycles include both rising and declining periods. These positive and negative quarters are separated out from the intervening quarters, cumulated across the period, and annualized. Composite performance is shown gross of investment advisory and custody fees, and a client's return will be reduced by these and other expenses. Composite performance on a net-of-fees basis was 11.7% for the period (+2.8% relative to the Russell 2000® index). This material is supplemental to the GIPS® presentation included in the Appendix. Past performance does not predict or guarantee future results. Source: eVestment Alliance.

Our Investment Philosophy & Process

“We believe that companies with a demonstrated history of **consistent growth & stability in earnings** provide attractive returns with moderate risk over the long-term.”

Step 1

CREATE A “FOCUS LIST” OF HIGH QUALITY COMPANIES



Our Investment Process



CONDUCT PROPRIETARY “ONSITE” FUNDAMENTAL RESEARCH

Company specific research includes:

- Meet company management and visit facilities
- Communicate with competitors, suppliers and buyers
- Review annual reports, 10K's, 10Q's, periodicals, and journals

Research must answer the following questions:

- Is this the type of business we want to own?
- What price are we willing to pay?

What Kind of Businesses Do We Own?

Financial Strength

- Sustainable Free Cash Flow
- High Return on Invested Capital
- Strong Balance Sheet

Innovative Business Model

- Dominate a Niche
- High Barriers to Entry
- Consistent Demand Over Business Cycle

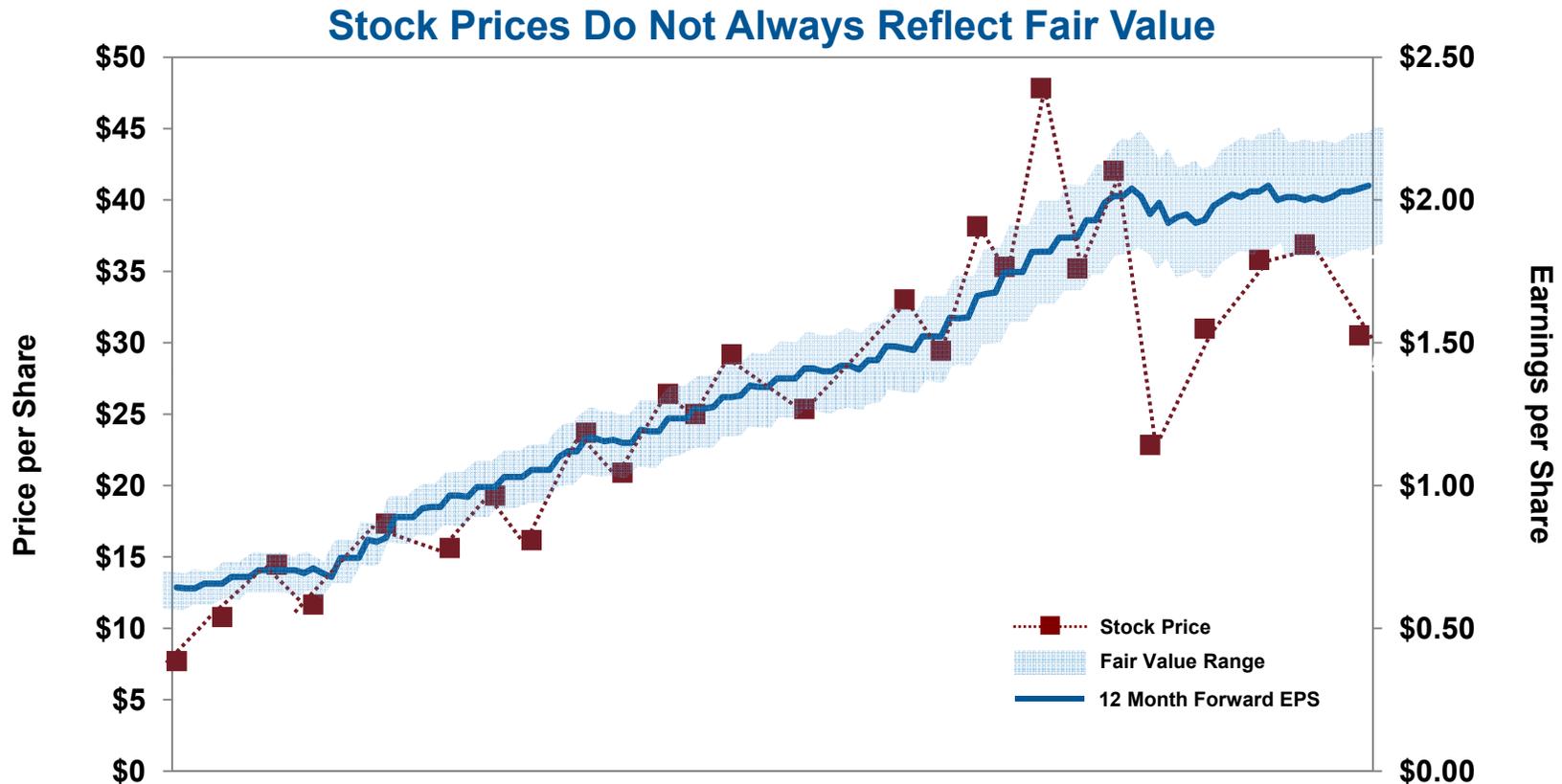
Shareholder-Oriented Management

- Significant Ownership Stake in Business
- Rational Capital Allocation
- Proven Track Record

Overlooked & Under-Followed

- Limited Wall Street Research Coverage

What Price Are We Willing To Pay?



Fair value is determined by a company's historical relative valuation range (P/E, P/FCF, EV/EBITDA) & private market value.

* The hypothetical illustration depicted is for illustration purposes only and should not be construed as the potential gain or loss of a security that might be included in a representative portfolio.

Portfolio Construction & Sell Discipline



CONSTRUCT A FOCUSED YET WELL-DIVERSIFIED PORTFOLIO

Focused portfolio of 60 – 70 companies that reflect our best ideas
5% max position sizes
Sector weights limited to 30% absolute



MONITOR HOLDINGS & REVIEW FOCUS LIST

Prudent profit taking / portfolio rebalancing as a response to price changes

“We will sell a business if”

Change in management or business strategy
Deterioration of financial quality
Excessive valuation

More compelling investment candidate materializes

High Quality Small Cap Companies

As of September 30, 2015

| CONSUMER DISCRETIONARY | 18.2% vs. 14.5% | FINANCIALS | 14.7% vs. 25.9% | INDUSTRIALS | 23.4% vs. 12.2% |
|-------------------------------|-----------------|------------------------------------|-----------------|---------------------------------|-----------------|
| Choice Hotels Int'l (CHH) | 2.1% | Artisan Partners Asset Mgmt (APAM) | 1.4% | AAON (AAON) | 1.0% |
| Columbia Sportswear (COLM) | 2.0% | Forest City Enterprises (FCEA) | 1.1% | Advisory Board (ABCO) | 0.9% |
| Dorman Products (DORM) | 2.0% | IBERIABANK Corp. (IBKC) | 1.3% | Beacon Roofing Supply (BECN) | 1.2% |
| Hibbett Sports (HIBB) | 1.2% | Pinnacle Financial Partners (PNFP) | 1.7% | CLARCOR (CLC) | 1.8% |
| Monro Muffler Brake (MNRO) | 2.1% | Prosperity Bancshares (PB) | 1.8% | Corporate Executive Board (CEB) | 1.1% |
| Morningstar (MORN) | 3.5% | RLI (RLI) | 1.8% | Exponent (EXPO) | 2.6% |
| Pool Corp. (POOL) | 1.8% | State Bank Financial Corp. (STBZ) | 1.8% | Forward Air (FWRD) | 1.9% |
| Sally Beauty Hldgs (SBH) | 2.4% | Umpqua Holdings (UMPQ) | 1.4% | Graco (GGG) | 1.9% |
| Wolverine World Wide (WWW) | 1.0% | Universal HLTH RLTY (UHT) | 1.1% | HEICO A (HEIA) | 1.6% |
| | | Westamerica Bancorp (WABC) | 1.4% | Hub Group (HUBG) | 1.1% |
| | | | | Huron Consulting Group (HURN) | 1.5% |
| CONSUMER STAPLES | 7.3% vs. 3.4% | INFORMATION TECHNOLOGY | 21.3% vs. 17.5% | Knight Transportation (KNX) | 2.0% |
| Casey's General Stores (CASY) | 2.9% | Blackbaud (BLKB) | 2.8% | Moog Inc. 'A' (MOGA) | 1.7% |
| Inter Parfums (IPAR) | 1.4% | Cass Information Systems (CASS) | 1.1% | Raven Industries (RAVN) | 0.9% |
| J & J Snack Foods (JJSF) | 1.8% | CoreLogic (CLGX) | 1.5% | UniFirst Corporation (UNF) | 1.3% |
| Lancaster Colony (LANC) | 1.3% | Fair Isaac (FICO) | 2.8% | US Ecology (ECOL) | 0.9% |
| ENERGY | 1.7% vs. 2.9% | Jack Henry & Assoc. (JKHY) | 2.1% | HEALTH CARE | 9.1% vs. 15.5% |
| Dril-Quip (DRQ) | 1.7% | Manhattan Associates (MANH) | 4.9% | Bio-Rad Labs 'A' (BIO) | 2.2% |
| UTILITIES | 0.0% vs. 3.8% | Monotype Imaging Holdings (TYPE) | 1.1% | Bio-Techne Corp. (TECH) | 1.8% |
| | | Nat'l Instruments (NATI) | 1.0% | STERIS (STE) | 1.1% |
| | | Power Integrations (POWI) | 0.7% | VCA (WOOF) | 2.0% |
| | | ScanSource (SCSC) | 1.2% | West Pharmaceutical Svs (WST) | 2.0% |
| | | WEX (WEX) | 2.0% | MATERIALS | 4.5% vs. 3.5% |
| | | TELECOMMUNICATIONS | 0.0% vs. 0.9% | AptarGroup (ATR) | 2.5% |
| | | | | Balchem (BCPC) | 1.1% |
| | | | | Stepan Co. (SCL) | 0.9% |

- High Quality Small Cap
- Russell 2000® Index

Portfolio weightings are based on a single representative client portfolio excluding cash. Specific securities and sectors are included only to provide a snap-shot illustrative sample based upon the manager's current investment strategy as of the date indicated. The specific securities identified are not representative of all of the securities purchased, sold or recommended for advisory clients. Actual holdings will vary for each client and there is no guarantee that a particular client's account will hold any or all of the securities listed. It should not be assumed that any of the above securities were or will be profitable. For a complete list of all recommendations made by Atlanta Capital for the High Quality Small Cap Composite during the preceding 12 months, please contact the Performance Department at Atlanta Capital. This material is supplemental to the GIPS® presentation included in the Appendix. Source: FactSet.

High Quality Small Cap

As of September 30, 2015

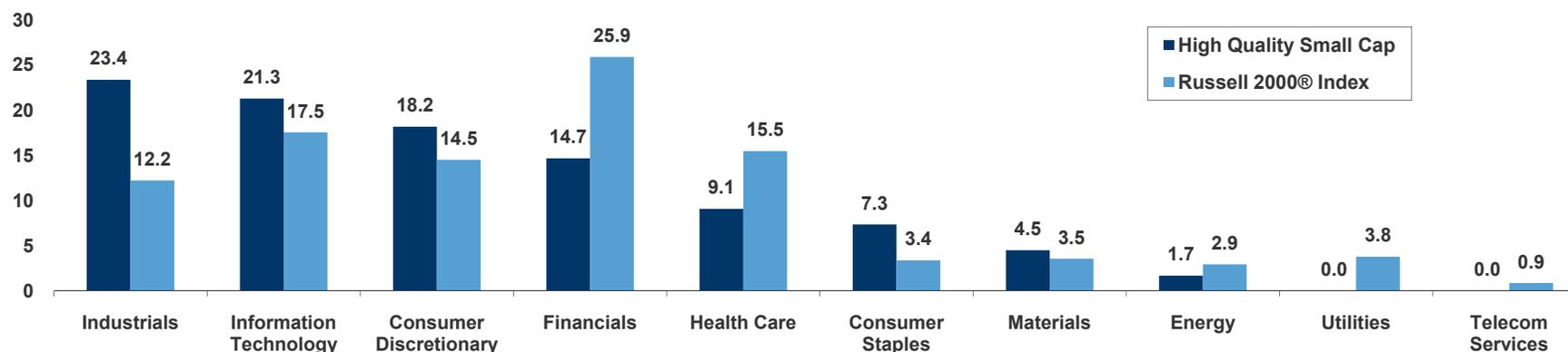
Top Ten Holdings

| | % |
|-------------------------|-----|
| Manhattan Associates | 4.9 |
| Morningstar | 3.5 |
| Casey's General Stores | 2.9 |
| Blackbaud | 2.8 |
| Fair Isaac | 2.8 |
| Exponent | 2.6 |
| AptarGroup | 2.5 |
| Sally Beauty Hldgs. | 2.4 |
| Bio-Rad Labs 'A' | 2.2 |
| Jack Henry & Associates | 2.1 |

Portfolio Metrics

| Metrics | Russell 2000® Index | High Quality Small Cap |
|-------------------------------|---------------------|------------------------|
| # of Holdings | 1,955 | 59 |
| Wtd. Avg. Mkt. Cap (billions) | \$1.8 bn | \$2.7 bn |
| Historical Earnings Growth | 14% | 11% |
| Forecasted Earnings Growth** | 15% | 12% |
| Return on Equity | 7% | 16% |
| Price/Earnings NTM | 15.9x | 19.5x |
| Dividend Yield | 1.5% | 1.1% |

Sector Exposure



**First Call estimate. Top ten holdings, portfolio metrics and sector weightings are based on equity assets of a single representative client portfolio and are subject to change. Specific securities and sectors are included only to provide a snapshot illustrative sample based upon the manager's current investment strategy as of the date indicated. The specific securities identified are not representative of all of the securities purchased, sold or recommended for advisory clients. Actual holdings will vary for each client and there is no guarantee that a particular client's account will hold any or all of the securities listed. It should not be assumed that any of the above securities were or will be profitable. For a complete list of all recommendations made by Atlanta Capital during the preceding 12 months, please contact the Performance Department at Atlanta Capital. The Russell 2000® represents the primary, long-term index. This material is supplemental to the GIPS® presentation included in the Appendix. Source: Factset.

Risk Management Results

As of September 30, 2015

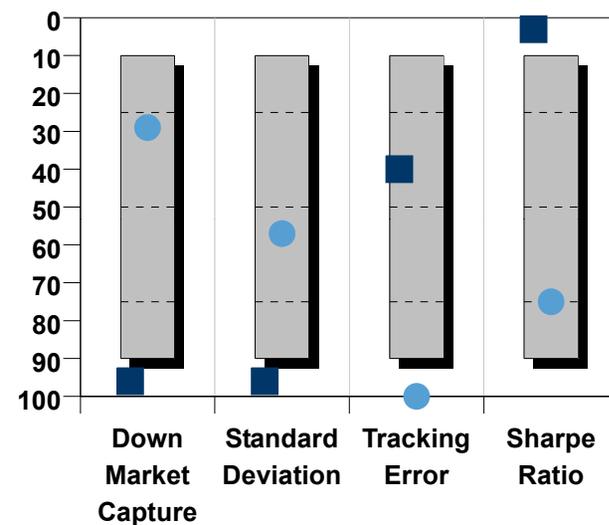
Definitions of Risk

| | Not Important | Important | Most Important |
|--------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Loss of Capital | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Volatility of Return | <input type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| Deviation from Benchmark | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Strong Financial Condition *(% of Holdings)*

| | Positive Earnings | Positive Free Cash Flow | Net Debt Free |
|------------------------|-------------------|-------------------------|---------------|
| High Quality Small Cap | 98% | 90% | 44% |

Small Cap Broad Style
Last Five Years Ending September 30, 2015



■ High Quality Small Cap ● Russell 2000® Index

Composite performance is gross of investment advisory and custody fees, and a client's return will be reduced by these and other expenses. This material is supplemental to the GIPS® presentation included in the Appendix. Past performance does not predict or guarantee future results. Inception date for the High Quality Small Cap Composite is April 1, 1992. Source: Callan Associates, Inc. & Baseline. Membership of Small Cap Broad Style Group is 189 managers.

Performance Results

As of September 30, 2015

High Quality Small Capitalization Composite 23½ Year Track Record

| | Last Quarter | Last Year | Last 3 Years* | Last 5 Years* | Last 7 Years* | Last 10 Years* | Annualized Inception** |
|---------------------------|--------------|-----------|---------------|---------------|---------------|----------------|------------------------|
| Composite - Gross of Fees | (7.3%) | 10.7% | 14.9% | 16.0% | 13.7% | 11.3% | 12.6% |
| Composite - Net of Fees | (7.5%) | 9.8% | 14.0% | 15.1% | 12.8% | 10.4% | 11.7% |
| Russell 2000® Index | (11.9%) | 1.3% | 11.0% | 11.7% | 8.6% | 6.6% | 8.9% |

| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|---------------------------|------|-------|-------|--------|-------|-------|---------|--------|-------|------|-------|
| Composite - Gross of Fees | 3.6% | 42.3% | 12.2% | 10.3% | 26.0% | 27.2% | (19.4%) | 6.8% | 16.2% | 6.2% | 20.3% |
| Composite - Net of Fees | 2.8% | 41.2% | 11.4% | 9.4% | 25.0% | 26.2% | (20.1%) | 5.9% | 15.3% | 5.3% | 19.3% |
| Russell 2000® Index | 4.9% | 38.8% | 16.4% | (4.2%) | 26.9% | 27.2% | (33.8%) | (1.6%) | 18.4% | 4.6% | 18.3% |

*Annualized. **The Inception date for the High Quality Small Capitalization Composite is April 1, 1992. Gross-of-fees performance returns are presented before management and custodial fees but after all trading expenses. Net-of-fees performance reflects the deduction of the highest management fee of 0.8% from the monthly gross-of-fees returns. Performance during certain time periods reflects the strong stock market performance and/or the strong performance of stocks held during those periods. This performance is not typical and may not be repeated. Past performance does not predict or guarantee future results. This material is supplemental to the GIPS® presentation included in the Appendix. Please see the composite presentation for important additional information.

GIPS® Performance Information and Disclosure

High Quality Small Capitalization Composite (E7)

January 1, 2005 through September 30, 2015

| Period | Composite Gross Return (%) | Composite Net Return (%) | Russell 2000® Return (%) | Composite 3-yr Std. Dev. (%) | Russell 2000® 3-yr Std. Dev. (%) | Number of Portfolios | Internal Dispersion (%) | Composite Assets (\$mil) | Firm Assets (\$mil) |
|---------|----------------------------|--------------------------|--------------------------|------------------------------|----------------------------------|----------------------|-------------------------|--------------------------|---------------------|
| 2015(1) | 0.39 | -0.21 | -7.73 | 11.98 | 13.40 | 54 | 0.17 | 1,203 | 15,553 |
| 2014 | 3.60 | 2.78 | 4.89 | 10.52 | 13.12 | 56 | 0.24 | 1,235 | 16,707 |
| 2013 | 42.34 | 41.24 | 38.82 | 12.80 | 16.45 | 57 | 0.51 | 1,294 | 18,082 |
| 2012 | 12.24 | 11.36 | 16.35 | 16.63 | 20.20 | 60 | 0.22 | 996 | 14,235 |
| 2011 | 10.31 | 9.44 | -4.18 | 21.88 | 24.99 | 60 | 0.25 | 1,023 | 11,964 |
| 2010 | 25.98 | 24.99 | 26.86 | 24.41 | 27.69 | 49 | 0.19 | 737 | 9,845 |
| 2009 | 27.17 | 26.18 | 27.17 | 21.69 | 24.83 | 36 | 0.34 | 639 | 7,748 |
| 2008 | -19.41 | -20.06 | -33.79 | 16.62 | 19.85 | 38 | 0.34 | 494 | 6,199 |
| 2007 | 6.77 | 5.92 | -1.57 | 10.66 | 13.17 | 37 | 0.25 | 551 | 8,828 |
| 2006 | 16.20 | 15.29 | 18.36 | 10.85 | 13.76 | 40 | 0.14 | 678 | 9,148 |
| 2005 | 6.17 | 5.33 | 4.56 | 11.74 | 15.09 | 37 | 0.17 | 607 | 9,752 |

(1) Period- 01/01/2015 through 09/30/2015. Past performance does not predict or guarantee future results.

Atlanta Capital Management Company, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS Standards. Atlanta Capital Management has been independently verified for the periods January 1, 1999 through December 31, 2014.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The High Quality Small Capitalization Composite has been examined for the periods January 1, 1999 through December 31, 2014. The verification and performance examination reports are available upon request.

Composite Description: The investment objective of this style is to seek long-term capital growth. Accounts in this composite invest in common stocks of companies having market capitalizations within the range of companies comprising the Russell 2000®. The portfolios are invested in quality small-cap companies whose stocks are considered to trade at attractive valuations relative to earnings or cash flow per share. A company's quality is determined by analysis of its financial statements and the use of quality rankings provided by nationally recognized rating services. The portfolios are broadly diversified. All fully discretionary accounts that are managed in this style and do not pay a bundled or SMA wrap fee are eligible for inclusion in the composite.

Benchmark: The benchmark for this composite is the Russell 2000® Index. The Index includes the smallest 2000 companies in the Russell 3000® and is a widely accepted measure of the small-cap segment of the U.S. equity universe. The index is unmanaged and does not incur management fees, transaction costs or other expenses associated with managed accounts. It is not possible to directly invest in an index. Prior to July 1, 2005, the composite utilized two indexes as benchmarks, the Russell 2000® and the Russell 2000® Value Index, the rationale being that the portfolio construction process produced both core and value characteristics. Our high quality investment philosophy tends to be defensive in nature and does consider valuation metrics, but it is more consistent with the philosophy and process of a core manager than a value manager. In order to clarify our philosophy and process for potential clients, we determined that it is most appropriate to benchmark our performance results against the Russell 2000® Index only. This change to the composite presentation was made as of July 1, 2005 and did not change the portfolio construction process.

Gross and Net Returns: Performance reflects reinvestment of all income and capital gains. Composite returns and market values are reported in U.S. dollars. Gross-of-fees performance returns are presented before management and custodial fees but after all trading expenses. Returns are presented net of withholding taxes. Net-of-fees performance returns are calculated by deducting the highest management fee of 0.80% from the monthly gross-of-fees returns. Other expenses will reduce a client's returns. The annual fee schedule for this composite is as follows: 0.80% on the first \$50 million in assets; 0.70% on the next \$50 million in assets; 0.60% on the next \$150 million. Actual management fees incurred by clients may vary.

Dispersion: The annual internal composite dispersion is calculated using the asset-weighted standard deviation of annual gross returns of those portfolios that were included in the composite for the entire year. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period.

Notes: The creation date of this composite is July 1992. Effective July 1, 2010, the composite was redefined to include both taxable and tax-exempt institutional accounts. The composite up to that time included only tax-exempt institutional accounts. The change provides increased transparency to prospective clients by reducing the number of separate composites maintained for this strategy. There has been no change in investment objective or management style. Clients or prospective clients should not assume that they will have an investment experience similar to that indicated by past performance results, as shown on the Schedule. Returns may vary based upon differences in account size, timing of transactions and market conditions at the time of investment. Performance during certain time periods reflects the strong stock market performance and/or the strong performance of stocks held during those periods. This performance is not typical and may not be repeated.

Firm Definition: Atlanta Capital Management Company, LLC (Atlanta Capital or the Firm) is an SEC-registered investment adviser located in Atlanta, Georgia. The Firm became a majority-owned subsidiary of Eaton Vance Corp. in 2001. Atlanta Capital operates as an independent subsidiary of Eaton Vance and provides professional investment advisory services to a broad range of institutional and individual clients, and sub-advisory investment management to mutual funds and separately managed sub-advisory account programs. Atlanta Capital includes all discretionary accounts under management in its composites; firm assets include nondiscretionary accounts as well. The Firm's list of composite descriptions and policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request. To request any additional information, please contact the Atlanta Capital Management Performance Department at 404-876-9411 or write to Atlanta Capital Management Company, LLC, 1075 Peachtree Street NE, Suite 2100, Atlanta, Georgia 30309, Attention Performance Department.

| Atlanta Capital High Quality Small Capitalization Composite | Annualized Returns (%) for Periods Ending 09/30/2015 | | | | | | Cumulative (%) | |
|---|--|---------|---------|---------|----------|------------------|------------------|--|
| | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years | Since Inception* | Since Inception* | |
| Composite Gross of Fees | 10.68 | 14.85 | 16.03 | 13.66 | 11.32 | 12.56 | 1511.27 | |
| Composite Net of Fees | 9.81 | 13.95 | 15.12 | 12.76 | 10.44 | 11.66 | 1236.01 | |
| Russell 2000® Index | 1.25 | 11.02 | 11.73 | 8.63 | 6.55 | 8.93 | 646.82 | |

*Inception date is April 1, 1992.
10.12.15

North Dakota State Investment Board

J.P. Morgan Small Cap Active Core | January 22, 2016

Don San Jose, Managing Director, Portfolio Manager
212-648-1839, don.a.sanjose@jpmorgan.com

James Connors, Executive Director, Client Portfolio Manager
212-648-0694, james.m.connors@jpmorgan.com

James Sakelaris, Managing Director, Client Advisor
312-732-6331, james.g.sakelaris@jpmorgan.com

Today's speakers



Don San Jose, *Managing Director*, is the portfolio manager of the JPMorgan Small Cap Active Core Strategy. An employee since 2000, Don was an analyst in JPMorgan Securities' equity research department covering capital goods companies before joining the small cap group. Prior to joining the firm, he was an equity research associate at ING Baring Furman Selz. Don holds a B.S. in finance from The Wharton School of the University of Pennsylvania and is a member of both the New York Society of Security Analysts and The CFA Institute. He is a CFA charterholder.



Jim Sakelaris, *Managing Director*, is a client advisor in Institutional Asset Management and is responsible for implementation of investment management strategies in institutional accounts. An employee since 1990, Jim has held various roles within the organization including credit analyst, commercial loan officer and manager of Fixed Income Credit Research. Prior to joining the firm, he was employed as a financial futures specialist for Kidder, Peabody & Co. and was responsible for the management of regional and national institutional financial futures investment portfolios. Jim obtained a B.G.S. in economics and political science from the University of Michigan and an M.B.A. in finance from the University of Chicago. He also holds Series 3, 7, 63, and 65 licenses.



James Connors, *Executive Director*, is a client portfolio manager in the U.S. Equity group. An employee since 2005, James is responsible for communicating investment performance, outlook and strategy for the firm's U.S. small cap and growth platform. He previously focused on the Large Cap Core and Large Cap Core 130/30 strategies. He has a B.S. in finance from Eastern Illinois University and holds the Series 7 and 63 licenses. He also is a member of the New York Society of Securities Analysts and is a CFA charterholder.

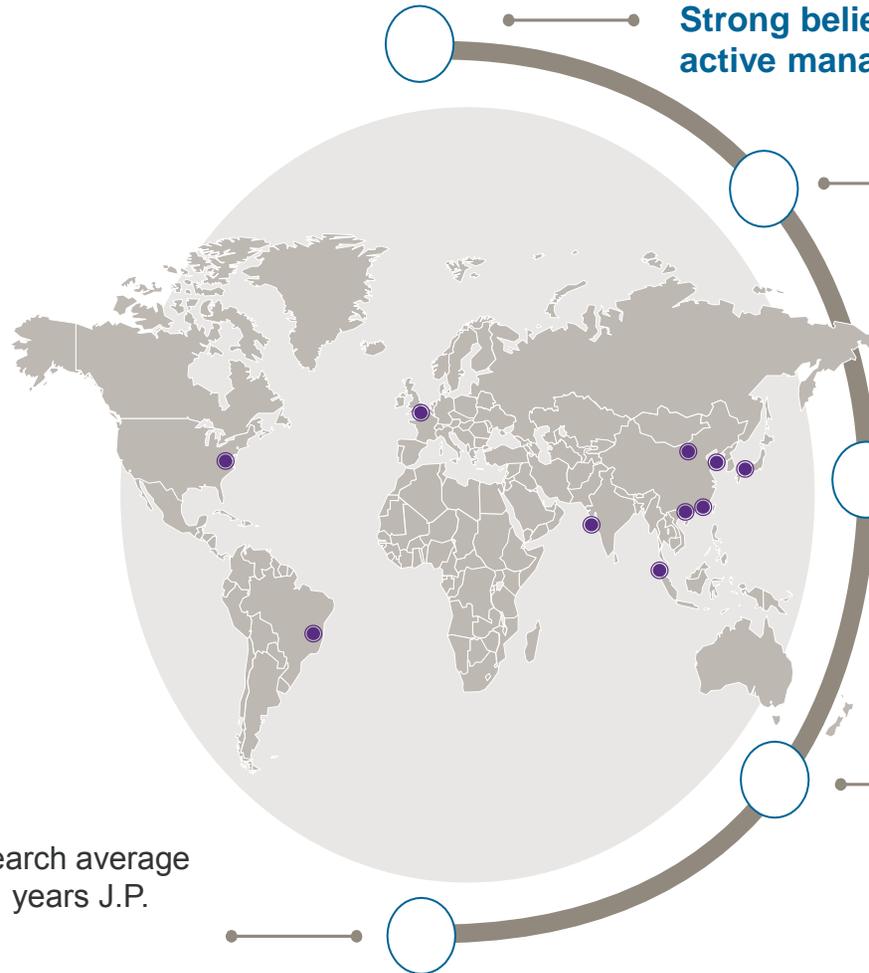
There can be no assurance that the professionals currently employed by JPMAM will continue to be employed by JPMAM or that the past performance or success of any such professional serves as an indicator of such professional's future performance or success.

Deeply resourced, research-driven global manager

Investing with J.P. Morgan Asset Management's Equity Team

430
Equity
professionals

● Office locations of the equity professionals



Strong belief and commitment to active management

Client-centric, fiduciary heritage

Extensive, well-resourced research

- Over USD150 million annual research budget
- Local focus with collaboration across a global network

Investment performance culture

- Investment teams invest alongside clients in their portfolios

Experience and stability

- Portfolio Managers and Research average tenure: 17 years industry / 11 years J.P. Morgan

Source: J.P. Morgan Asset Management. All data as of September 30, 2015

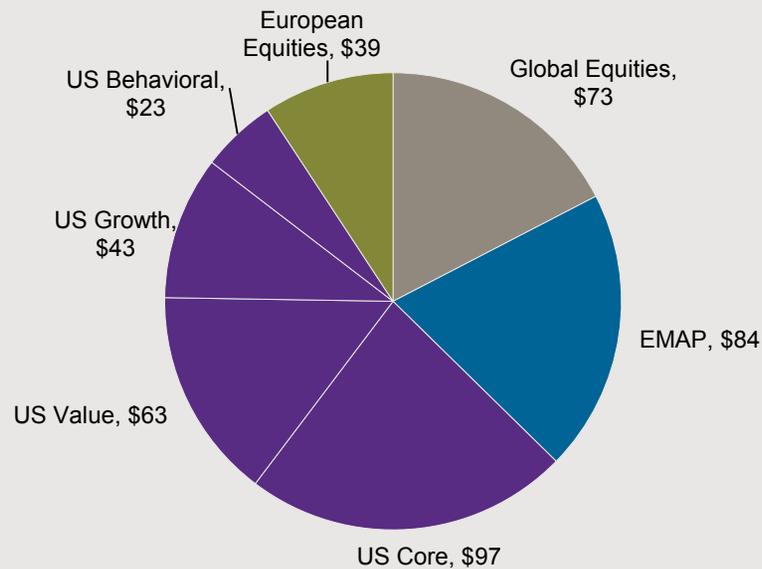
Note: J.P. Morgan Asset Management's equity professionals includes portfolio managers, research, client portfolio managers, traders and investment directors

Past performance is not an indication of future performance.

Equities Assets under Management (AUM)

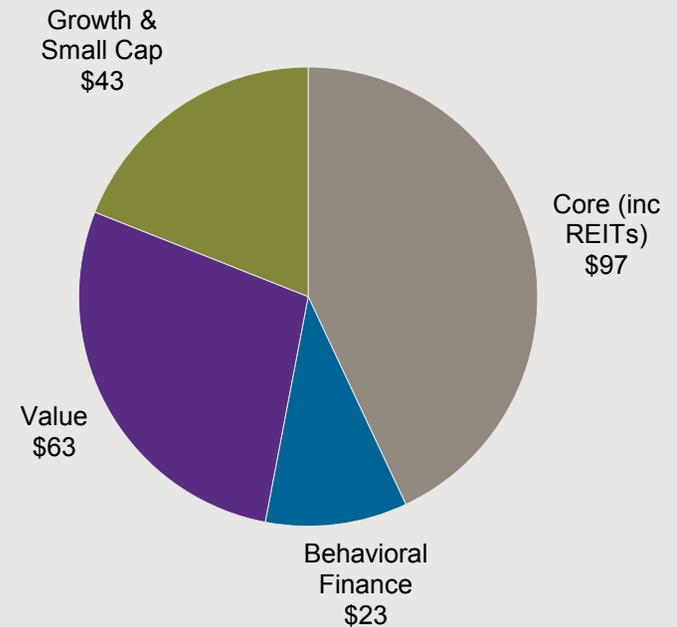
Equities

USD 421bn total assets under management



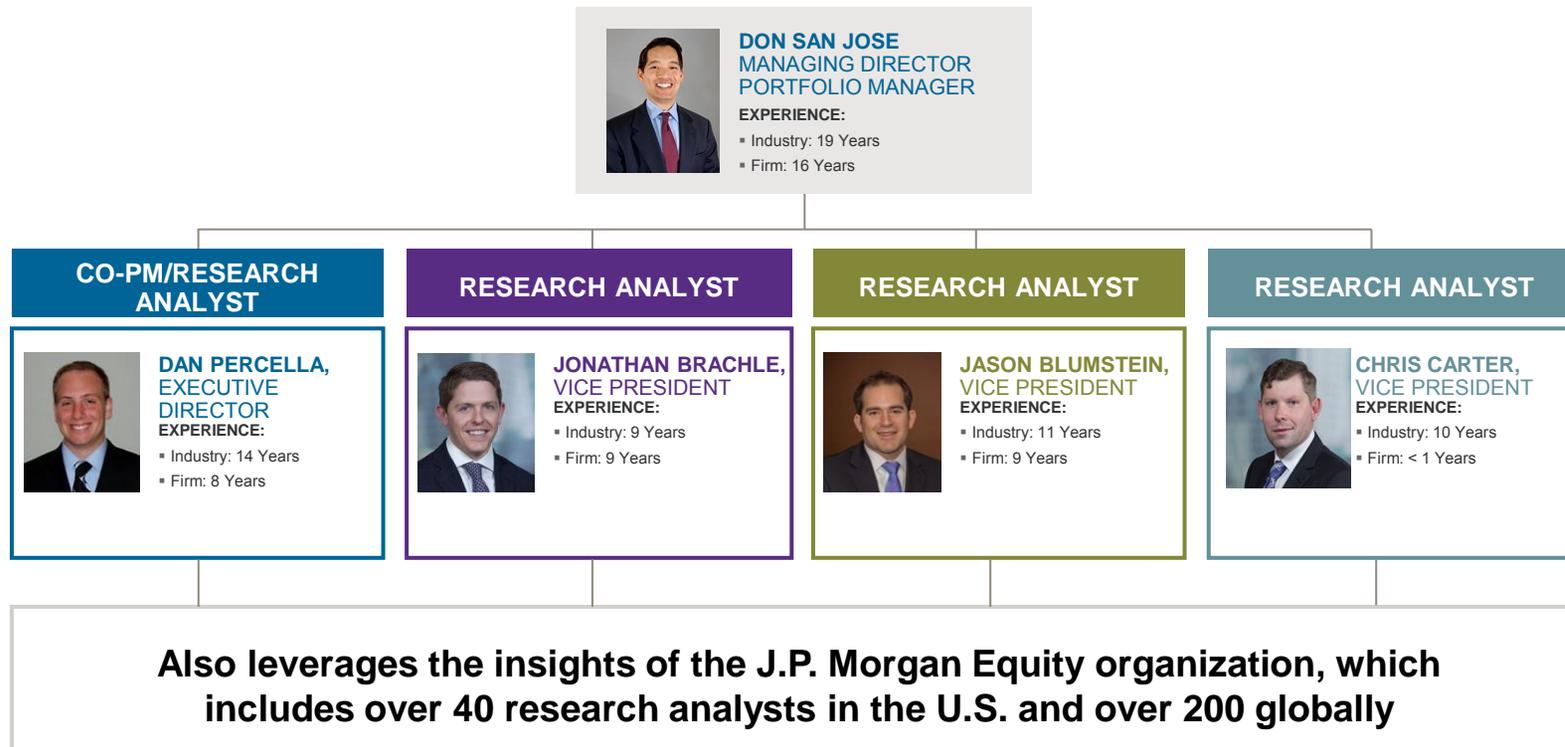
US Equities

USD 225bn total assets under management



Source: J.P. Morgan Asset Management. Data as at September 30, 2015. Data includes internal Fund of Funds and JV.

A tight knit team with a disciplined focus on delivering alpha



CLIENT PORTFOLIO MANAGERS

JONATHAN SHERMAN,
MANAGING DIRECTOR
EXPERIENCE:

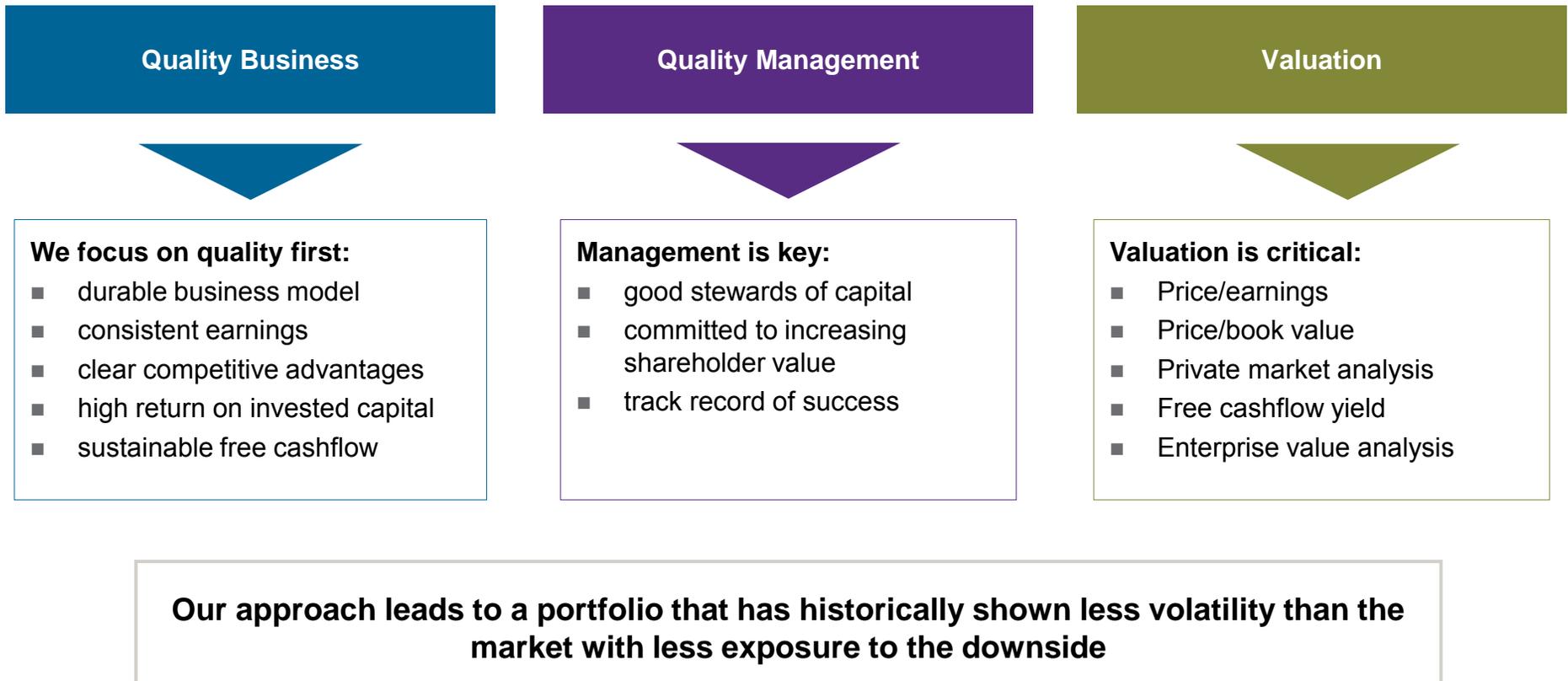
- Industry: 18 Years
- Firm: 11 Years

JAMES CONNORS,
EXECUTIVE DIRECTOR
EXPERIENCE:

- Industry: 11 Years
- Firm: 11 Years

As of December 31, 2015. There can be no assurance that the professionals currently employed by JPMAM will continue to be employed by JPMAM or that the past performance or success of any such professional serves as an indicator of such professional's future performance or success.

Our Small Cap Active Core investment philosophy: We are fundamental bottom-up stock pickers

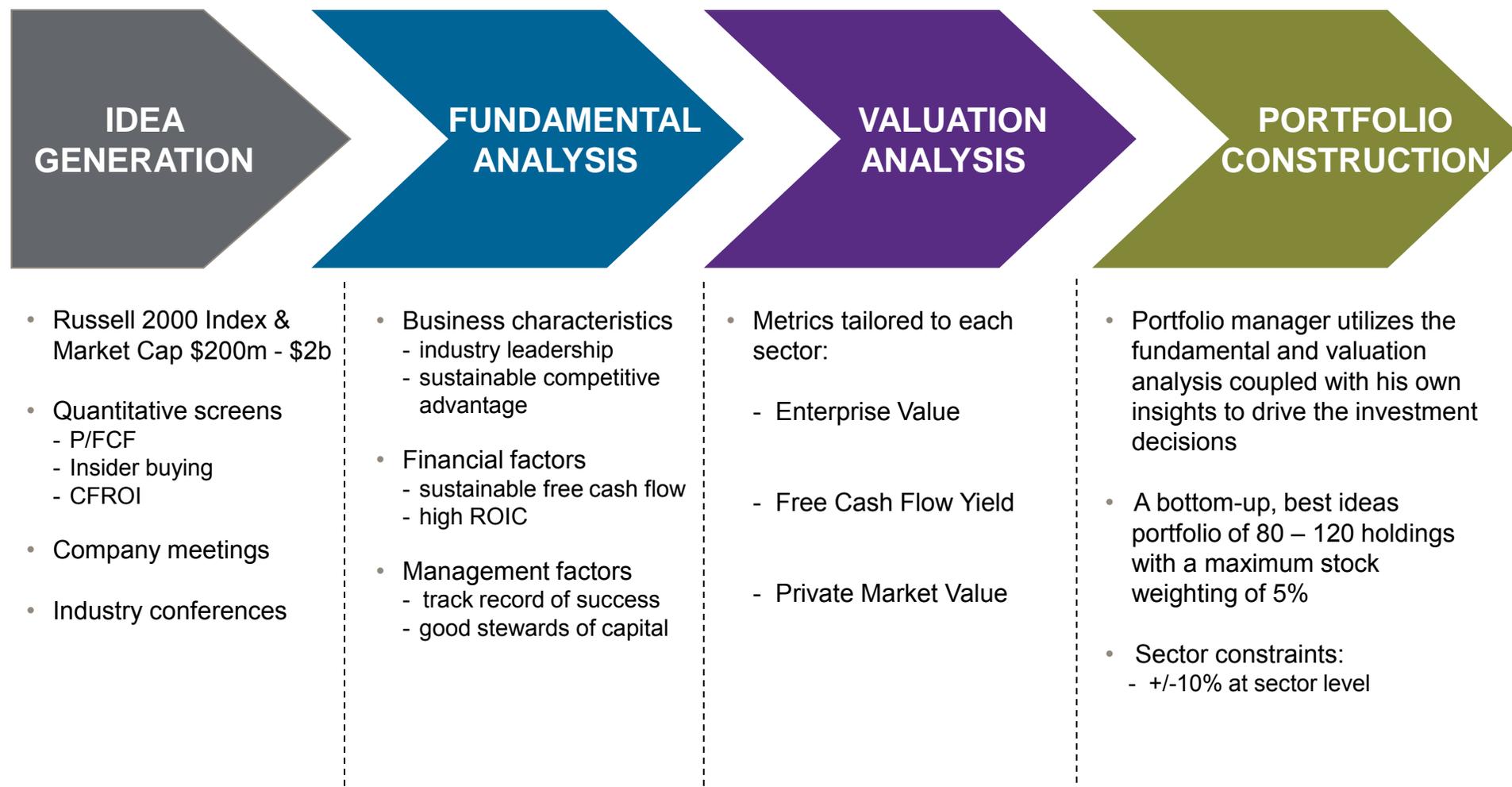


For illustrative purposes only.

The manager seeks to achieve the stated objectives. There can be no guarantee the objectives will be met.

Small-cap investing typically carry more risk than stock funds investing in well-established "blue-chip" companies. Historically, small-cap companies' stock has experienced a greater degree of market volatility than the average stock.

Our process is focused on identifying the stocks that meet our investment criteria and constructing a diversified portfolio



For illustrative purposes only.

The manager seeks to achieve the stated objectives. There can be no guarantee the objectives will be met.

Pool Corporation (POOL)

COMPANY DESCRIPTION:

Pool Corporation distributes swimming pool supplies and related products to swimming pool builders and remodelers, independent retail stores, and swimming pool repair and service companies. The Company distributes national brand and private label products to customers through its service centers in the United States and the United Kingdom.

INVESTMENT HIGHLIGHTS:

- Market leader in distribution of pool and landscaping products, with an estimated 40% market share
- High proportion of revenues come from recurring product purchases
- Well-situated between a fragmented supplier and customer base, giving the company strong bargaining and pricing power
- Excellent returns on capital and cash flows
- Disciplined capital allocation with a focus on returning excess cash to shareholders
- Long-tenured management with a significant ownership stake and solid operational track record

Sources: J.P. Morgan Asset Management

The security highlighted above has been selected based on its significance and is shown for illustrative purposes only. It should not be interpreted as a recommendation to buy or sell. It should not be assumed that other securities in the portfolio have performed in a similar manner. Past performance is not indicative of future returns. A complete list of portfolio holdings for the past year is available upon request. Data most recent as of 9/30/15.

Sell discipline is as important as buy discipline

WE REDUCE OR ELIMINATE A POSITION WHEN:

WE ARE NO LONGER COMFORTABLE WITH OUR FUNDAMENTAL THESIS

- *The quality of the business* changes or is not as strong as expected
- *The quality of management* is not as strong as expected or there is a change in business or capital allocation strategy

VALUATION BECOMES LESS ATTRACTIVE

- Valuation is critical to position sizing and managing risk

The manager seeks to achieve the stated objectives. There can be no guarantee the objectives will be met.

Small Cap Active Core Institutional Composite performance (gross of fees)

Performance as of December 31, 2015

SUPPLEMENTAL TO ANNUAL PERFORMANCE REPORT

| Trailing Returns | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception (9/30/2004) |
|-------------------------------|--------|---------|---------|----------|--------------------------------|
| Small Cap Active Core (gross) | -0.50% | 14.02% | 12.92% | 11.26% | 12.55% |
| Russell 2000 Index | -4.41% | 11.65% | 9.19% | 6.80% | 7.70% |
| Excess vs. benchmark (gross) | 3.91% | 2.37% | 3.74% | 4.46% | 4.85% |

| Calendar Year Returns | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-------------------------------|--------|--------|--------|---------|--------|--------|--------|--------|--------|-------|--------|
| Small Cap Active Core (gross) | 13.92% | 19.86% | 5.00% | -26.26% | 33.55% | 27.72% | 3.90% | 19.23% | 37.42% | 8.41% | -0.50% |
| Russell 2000 Index | 4.55% | 18.37% | -1.57% | -33.79% | 27.17% | 26.85% | -4.18% | 16.35% | 38.82% | 4.89% | -4.41% |
| Excess vs. benchmark (gross) | 9.36% | 1.49% | 6.57% | 7.53% | 6.38% | 0.87% | 8.07% | 2.88% | -1.40% | 3.52% | 3.91% |

Small Cap Active Core Strategy \$AUM

As of December 31, 2015 \$3,594 million

Source: J.P. Morgan Asset Management, Russell

Past performance is not indicative of future returns. Total returns include the reinvestment of any income.

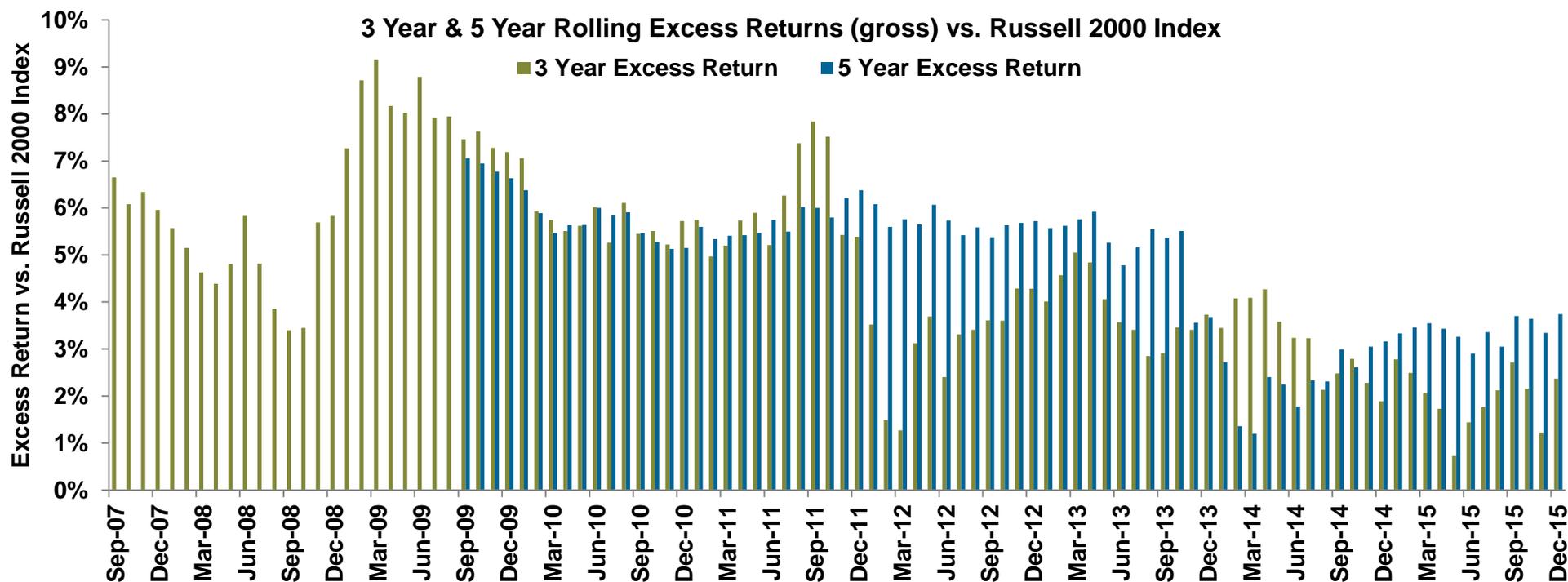
Performance results are gross of investment management fees. The deduction of an advisory fee reduces an investor's return. Actual account performance will vary depending on individual portfolio security selection and the applicable fee schedule. Fees are described in Part II of the Advisor's ADV which is available upon request. (Please see back page for additional disclosure).

The Russell 2000 Index is a market-cap-weighted index of widely held stocks that are used as a representation of the small cap market. The returns are total returns and include the reinvestment of dividends. An individual cannot invest directly in an index. The index is unmanaged.

Inception Date: September 30, 2004.

Strong risk-adjusted returns and consistency

| 10 Years as of September 30, 2015 | Return | Standard deviation | Beta | Sharpe | Up Market Capture | Down Market Capture |
|-----------------------------------|--------|--------------------|------|--------|-------------------|---------------------|
| Small Cap Active Core (gross) | 11.2% | 16.4% | 0.81 | 0.60 | 90% | 77% |
| eVestment % Rank (Small Cap Core) | 2 | 4 | 8 | 1 | 77 | 4 |



eVestment rankings are as of September 30, 2015 for the Small Cap Core category. Data for 4Q15 is not yet available.

Source: J.P. Morgan Asset Management, Russell, eVestment. Past performance is not indicative of future returns. Total returns include the reinvestment of any income. Performance results are gross of investment management fees. The deduction of an advisory fee reduces an investor's return. Actual account performance will vary depending on individual portfolio security selection and the applicable fee schedule. Fees are described in Part II of the Advisor's ADV which is available upon request. (Please see back page for additional disclosure). The Russell 2000 Index is a market-cap-weighted index of widely held stocks that are used as a representation of the small cap market. The returns are total returns and include the reinvestment of dividends. An individual cannot invest directly in an index. The index is unmanaged.

Stock selection is the primary driver of excess returns

Five year annualized sector attribution vs. the Russell 2000 Index
January 1, 2011 through December 31, 2015

| | Stock Selection | Sector Allocation | Total |
|------------------------|-----------------|-------------------|-------------|
| Consumer Discretionary | 1.83 | -0.01 | 1.82 |
| Financial Services | 0.98 | -0.01 | 0.96 |
| Technology | 0.54 | 0.01 | 0.54 |
| Materials & Processing | 0.55 | -0.22 | 0.33 |
| Energy | 0.10 | 0.17 | 0.27 |
| Producer Durables | 0.27 | -0.02 | 0.25 |
| Consumer Staples | 0.25 | -0.02 | 0.23 |
| Utilities | -0.04 | 0.00 | -0.04 |
| Health Care | 0.14 | -0.36 | -0.22 |
| Total | 4.62 | -0.47 | 4.15 |

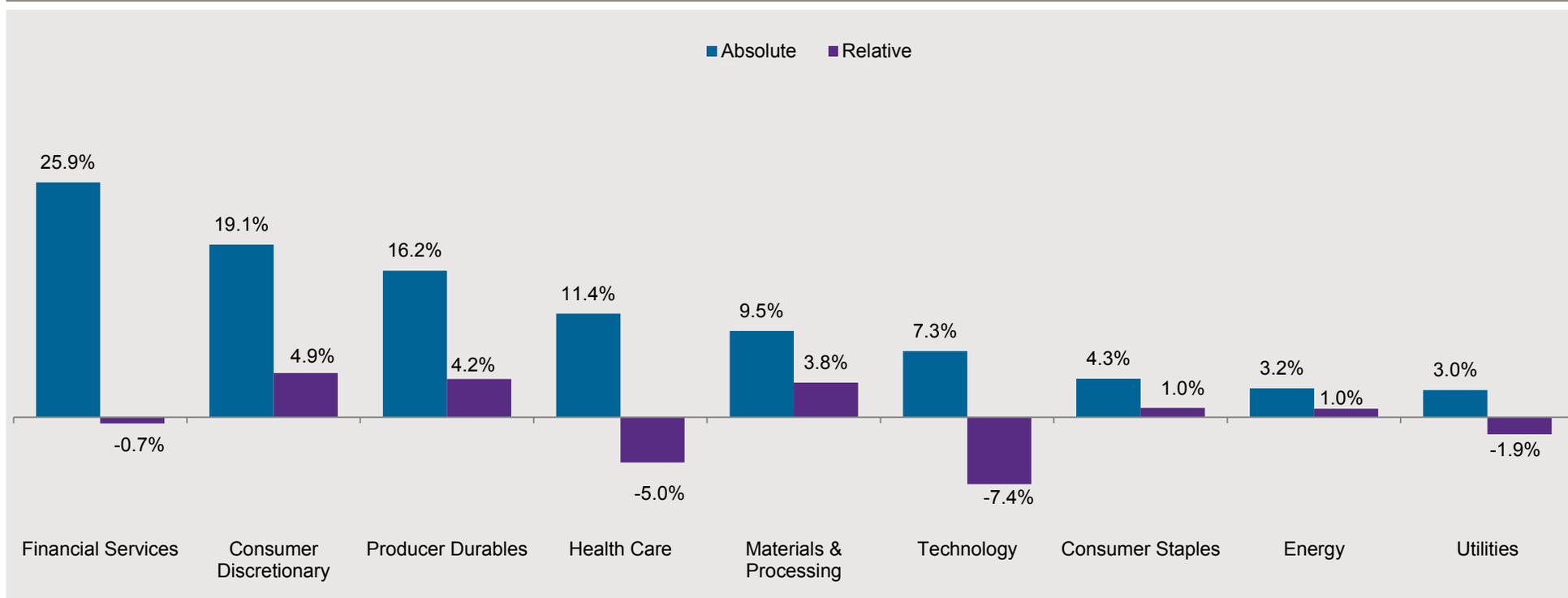
Attribution is annualized and excludes cash. Benchmark: Russell 2000 Index.

Source: J.P. Morgan Asset Management, Wilshire Atlas. Past performance is not a guarantee of future results.

Sector weightings

As of December 31, 2015

Absolute vs. Relative Sector Weighting



The benchmark is the Russell 2000 Index. For illustrative purposes only.

Source: J.P. Morgan Asset Management

Portfolio characteristics

As of December 31, 2015

| | JPM Small Cap Active Core | Russell 2000 Index |
|---|------------------------------|-----------------------|
| Market Capitalization (Weighted Average) | \$3.6bn | \$1.9bn |
| Valuation | | |
| P/E ratio ¹ | 17.6x | 20.7x |
| Growth Rate | | |
| EPS growth ² | 11.7% | 13.5% |
| Risk Measures | | |
| Beta ³ | 0.83 | 1.00 |
| Tracking Error ³ | 3.53 | N/A |
| Active Share | 94% | N/A |
| Other | | |
| ROE ⁴ | 13.2% | 8.1% |
| Turnover ⁵ | 23% | N/A |
| Holdings | 91 | 1,981 |

| Top Ten Positions | Portfolio Weight | R2000 Weight | Relative Weight |
|--------------------------|---------------------|-----------------|--------------------|
| Waste Connections | 2.99% | 0.00% | 2.99% |
| Toro | 2.59% | 0.00% | 2.59% |
| Spectrum Brands Holdings | 2.50% | 0.00% | 2.50% |
| Pool Corporation | 2.40% | 0.21% | 2.19% |
| Aptargroup | 2.27% | 0.00% | 2.27% |
| IDEXX Laboratories | 2.06% | 0.00% | 2.06% |
| Crown Holdings | 1.95% | 0.00% | 1.95% |
| Brinker International | 1.93% | 0.00% | 1.93% |
| Jarden | 1.82% | 0.00% | 1.82% |
| Centene | 1.77% | 0.00% | 1.77% |

The inclusion of the securities mentioned above is not to be interpreted as recommendations to buy or sell.

1. Twelve months forward; including negatives
2. One-year forward
3. Three-year trailing, calculated on a monthly basis
4. Twelve month trailing
5. Average 12-month turnover over past three years

Source: FactSet, J.P. Morgan Asset Management

BARRA tilts vs. Russell 2000 Index

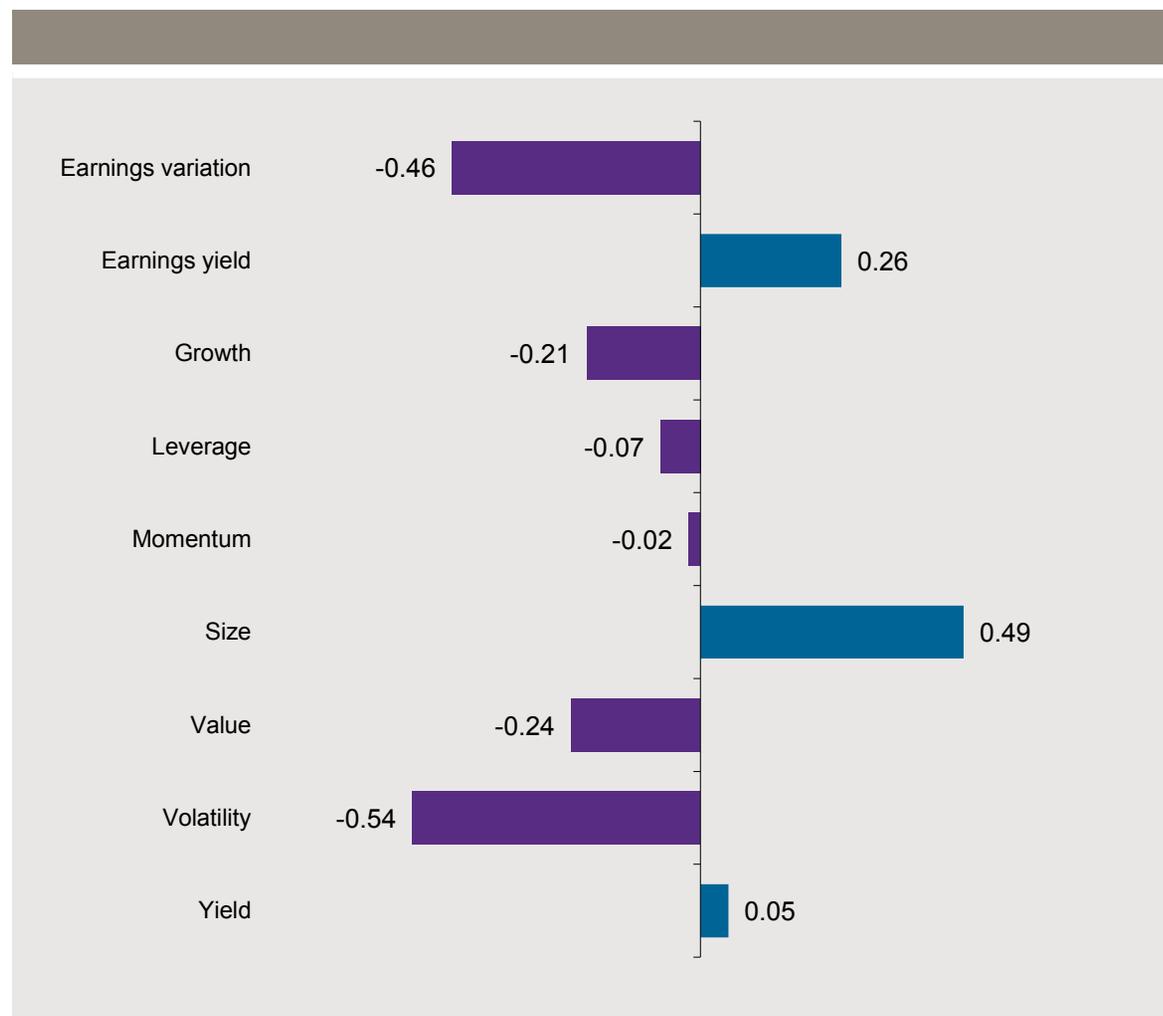
As of December 31, 2015

**PREDICTED
TRACKING ERROR:**

4.04

PREDICTED BETA:

0.90



For illustrative purposes only.

Source: BARRA, J.P. Morgan Asset Management

Appendix

Small Cap Active Core Institutional Composite performance (gross of fees)

Performance as of September 30, 2015

SUPPLEMENTAL TO ANNUAL PERFORMANCE REPORT

| Trailing Returns | YTD | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception (9/30/2004) |
|------------------------------------|--------|--------|---------|---------|----------|--------------------------------|
| Small Cap Active Core (gross) | -3.49% | 5.14% | 13.74% | 15.43% | 11.16% | 12.54% |
| Russell 2000 Index | -7.73% | 1.25% | 11.02% | 11.73% | 6.55% | 7.54% |
| Excess vs. benchmark (gross) | 4.24% | 3.89% | 2.71% | 3.70% | 4.62% | 5.00% |
| eVestment % Rank* (Small Cap Core) | -- | 30 | 43 | 24 | 2 | 3 |

| Calendar Year Returns | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|------------------------------------|--------|--------|--------|---------|--------|--------|--------|--------|--------|-------|
| Small Cap Active Core (gross) | 13.92% | 19.86% | 5.00% | -26.26% | 33.55% | 27.72% | 3.90% | 19.23% | 37.42% | 8.41% |
| Russell 2000 Index | 4.55% | 18.37% | -1.57% | -33.79% | 27.17% | 26.85% | -4.18% | 16.35% | 38.82% | 4.89% |
| Excess vs. benchmark (gross) | 9.36% | 1.49% | 6.57% | 7.53% | 6.38% | 0.87% | 8.07% | 2.88% | -1.40% | 3.52% |
| eVestment % Rank* (Small Cap Core) | 14 | 15 | 31 | 7 | 41 | 48 | 13 | 28 | 73 | 25 |

Small Cap Active Core Strategy \$AUM

As of September 30, 2015 **\$3,649 million**

* eVestment rankings are as of September 30, 2015 for the Small Cap Core category

Source: J.P. Morgan Asset Management, Russell, eVestment

Past performance is not indicative of future returns. Total returns include the reinvestment of any income.

Performance results are gross of investment management fees. The deduction of an advisory fee reduces an investor's return. Actual account performance will vary depending on individual portfolio security selection and the applicable fee schedule. Fees are described in Part II of the Advisor's ADV which is available upon request. (Please see back page for additional disclosure).

The Russell 2000 Index is a market-cap-weighted index of widely held stocks that are used as a representation of the small cap market. The returns are total returns and include the reinvestment of dividends. An individual cannot invest directly in an index. The index is unmanaged.

Inception Date: September 30, 2004.

As of September 30, 2015 the J.P. Morgan Small Cap Active Core strategy was ranked in the eVestment Small Cap Core category for the following time periods: 55 out of 187 strategies for the 1 year period, 80 out of 185 strategies for the 3 year period, 42 out of 172 strategies for the 5 year period, 4 out of 130 strategies for the 10 year period and 4 out of 120 for the Since Inception period.

A dedicated team focused on Growth & Small Cap



Eytan Shapiro
CIO – Growth & Small Cap
PM – Small Cap Growth

- 33 years of experience
- 30 years at JPMorgan

Large Cap Growth Portfolio Managers



Giri Devulapally
Experience

- 24 years of experience
- 12 years at JPMorgan



Greg Luttrell
Experience

- 29 years of experience
- 9 years at JPMorgan

Large Cap Growth Research Analysts

Larry Lee
 Nancy Hoch
 Holly Fleiss
 Rob Maloney
 Joseph Wilson

Mid Cap Growth Portfolio Manager



Tim Parton
Experience

- 29 years of experience
- 29 years at JPMorgan

Mid/Small Cap Growth Research Analysts

Felise Agranoff *
 Greg Tuorto
 Matt Cohen
 Daniel Bloomgarden
 James Baclawski

Small Cap Core Portfolio Manager



Don San Jose
Experience

- 19 years of experience
- 16 years at JPMorgan

Small Cap Core Research Analysts

Dan Percella *
 Jon Brachle
 Jason Blumstein
 Chris Carter

Client Portfolio Managers



Jonathan Sherman
Experience

- 18 years of experience
- 11 years at JPMorgan



James Connors
Experience

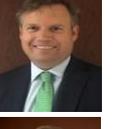
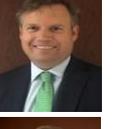
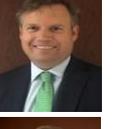
- 11 years of experience
- 11 years at JPMorgan

Client Portfolio Management

Doug Stewart
 Nick Cangialosi

* Dan Percella is co-portfolio manager for Small Cap Core and Felise Agranoff is co-portfolio manager for Mid Cap Growth
 As of December 2015

U.S. Equity Research: Career analysts drive our investment process

| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|---|--|--|--|--|--|--|---|---|---|--|--|--|---|---|--|--|---|---|---|--|---|---|--|---|---|--|--|---|---|---|--|--|
|  <p>Helge Skibeli Director of Global Developed Markets Industry: 28 yrs Firm: 24 yrs</p> |  <p>Kay Herr * Associate Director of Global Developed Markets Industry: 20 yrs Firm: 16 yrs</p> |  <p>David Small Associate Director of U.S. Research Industry: 15 yrs Firm: 11 yrs</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <h3>Industrials</h3> <table border="1"> <tr> <td data-bbox="107 431 222 561">  <p>James Brown Basic Materials Experience Industry: 31 yrs Firm: 28 yrs</p> </td> <td data-bbox="432 431 548 561">  <p>Felise Agranoff Energy / Industrials, & Materials Experience Industry: 12 yrs Firm: 12 yrs</p> </td> </tr> <tr> <td data-bbox="107 570 222 699">  <p>Nishesh Kumar Energy Experience Industry: 17 yrs Firm: 16 yrs</p> </td> <td data-bbox="432 570 548 699">  <p>Lerone Vincent Basic Materials Experience Industry: 17 yrs Firm: 17 yrs</p> </td> </tr> <tr> <td data-bbox="107 708 222 837">  <p>David Maccarrone Infrastructure Experience Industry: 21 yrs Firm: 5 yrs</p> </td> <td data-bbox="432 708 548 837">  <p>Hunter Horgan Energy Experience Industry: 18 yrs Firm: <1 yr.</p> </td> </tr> <tr> <td data-bbox="107 846 222 976">  <p>David Pasquale Industrial Cyclicals Experience Industry: 18 yrs Firm: 10 yrs</p> </td> <td data-bbox="432 846 548 976">  <p>Robert Maloney Industrials Experience Industry: 16 yrs Firm: 3 yr</p> </td> </tr> <tr> <td data-bbox="107 984 222 1114">  <p>Chris Ceraso Autos & Transport Experience Industry: 15 yrs Firm: 2 yrs</p> </td> <td data-bbox="432 984 548 1114">  <p>Joanna Shatney Industrials Experience Industry: 18 yrs Firm: 1 yr</p> </td> </tr> <tr> <td data-bbox="107 1122 222 1252">  <p>Mike Leskinen Aerospace & Defense Experience Industry: 15 yrs Firm: 2 yrs</p> </td> <td data-bbox="432 1122 548 1252">  <p>Andrew Brandon Generalist Experience Industry: 18 yrs Firm: 16 yrs</p> </td> </tr> </table> | |  <p>James Brown Basic Materials Experience Industry: 31 yrs Firm: 28 yrs</p> |  <p>Felise Agranoff Energy / Industrials, & Materials Experience Industry: 12 yrs Firm: 12 yrs</p> |  <p>Nishesh Kumar Energy Experience Industry: 17 yrs Firm: 16 yrs</p> |  <p>Lerone Vincent Basic Materials Experience Industry: 17 yrs Firm: 17 yrs</p> |  <p>David Maccarrone Infrastructure Experience Industry: 21 yrs Firm: 5 yrs</p> |  <p>Hunter Horgan Energy Experience Industry: 18 yrs Firm: <1 yr.</p> |  <p>David Pasquale Industrial Cyclicals Experience Industry: 18 yrs Firm: 10 yrs</p> |  <p>Robert Maloney Industrials Experience Industry: 16 yrs Firm: 3 yr</p> |  <p>Chris Ceraso Autos & Transport Experience Industry: 15 yrs Firm: 2 yrs</p> |  <p>Joanna Shatney Industrials Experience Industry: 18 yrs Firm: 1 yr</p> |  <p>Mike Leskinen Aerospace & Defense Experience Industry: 15 yrs Firm: 2 yrs</p> |  <p>Andrew Brandon Generalist Experience Industry: 18 yrs Firm: 16 yrs</p> | <h3>Financials</h3> <table border="1"> <tr> <td data-bbox="758 399 873 529">  <p>Steven Wharton Capital Markets Experience Industry: 20 yrs Firm: 10 yrs</p> </td> </tr> <tr> <td data-bbox="758 537 873 667">  <p>Larry Lee Financials / Business Services Experience Industry: 23 yrs Firm: 10 yrs</p> </td> </tr> <tr> <td data-bbox="758 675 873 805">  <p>Dan Percella Generalist/ Banking & Finance Experience Industry: 13 yrs Firm: 8 yrs</p> </td> </tr> </table> |  <p>Steven Wharton Capital Markets Experience Industry: 20 yrs Firm: 10 yrs</p> |  <p>Larry Lee Financials / Business Services Experience Industry: 23 yrs Firm: 10 yrs</p> |  <p>Dan Percella Generalist/ Banking & Finance Experience Industry: 13 yrs Firm: 8 yrs</p> | <h3>Financials</h3> <table border="1"> <tr> <td data-bbox="1073 293 1188 423">  <p>Urmaz Wompa Regional Banks Experience Industry: 32 yrs Firm: 29 yrs</p> </td> </tr> <tr> <td data-bbox="1073 431 1188 561">  <p>Jason Ko REITs Experience Industry: 14 yrs Firm: 14 yrs</p> </td> </tr> <tr> <td data-bbox="1073 570 1188 699">  <p>Matthew Rand REITs Experience Industry: 9 yrs Firm: 2 yrs</p> </td> </tr> <tr> <td data-bbox="1073 708 1188 837">  <p>Saumil Kachhy REITs Experience Industry: 6 yrs Firm: 6 yrs</p> </td> </tr> <tr> <td data-bbox="1073 846 1188 976">  <p>James Baclawski Financials Experience Industry: 7 yrs Firm: 6 yrs</p> </td> </tr> </table> |  <p>Urmaz Wompa Regional Banks Experience Industry: 32 yrs Firm: 29 yrs</p> |  <p>Jason Ko REITs Experience Industry: 14 yrs Firm: 14 yrs</p> |  <p>Matthew Rand REITs Experience Industry: 9 yrs Firm: 2 yrs</p> |  <p>Saumil Kachhy REITs Experience Industry: 6 yrs Firm: 6 yrs</p> |  <p>James Baclawski Financials Experience Industry: 7 yrs Firm: 6 yrs</p> | <h3>Consumer</h3> <table border="1"> <tr> <td data-bbox="1398 269 1514 399">  <p>Lisa S. Sadioglu Consumer Stable & Homebuilding Experience Industry: 15 yrs Firm: 15 yrs</p> </td> <td data-bbox="1724 277 1839 407">  <p>Tim Gamache Consumer Experience Industry: 9 yrs Firm: 9 yrs</p> </td> </tr> <tr> <td data-bbox="1398 415 1514 545">  <p>Kris Erickson Media Experience Industry: 15 yrs Firm: 3 yrs</p> </td> <td data-bbox="1724 423 1839 553">  <p>Nancy Hoch Consumer Experience Industry: 22 yrs Firm: 13 yrs</p> </td> </tr> <tr> <td data-bbox="1398 553 1514 683">  <p>Greg Fowlkes Retail Experience Industry: 16 yrs Firm: 10 yrs</p> </td> <td data-bbox="1724 561 1839 691">  <p>Jason Blumstein Generalist/ Consumer Experience Industry: 11 yrs Firm: 8yrs</p> </td> </tr> <tr> <td data-bbox="1398 691 1514 821">  <p>Massimo Marolo Retail Experience Industry: 14 yrs Firm: 9 yrs</p> </td> <td data-bbox="1724 699 1839 829">  <p>Shilpee Raina Generalist Experience Industry: 10 yrs Firm: 10 yrs</p> </td> </tr> <tr> <td data-bbox="1398 829 1514 959">  <p>Daniel Bloomgarden Consumer Experience Industry: 19 yrs Firm: 1 yr</p> </td> <td></td> </tr> </table> |  <p>Lisa S. Sadioglu Consumer Stable & Homebuilding Experience Industry: 15 yrs Firm: 15 yrs</p> |  <p>Tim Gamache Consumer Experience Industry: 9 yrs Firm: 9 yrs</p> |  <p>Kris Erickson Media Experience Industry: 15 yrs Firm: 3 yrs</p> |  <p>Nancy Hoch Consumer Experience Industry: 22 yrs Firm: 13 yrs</p> |  <p>Greg Fowlkes Retail Experience Industry: 16 yrs Firm: 10 yrs</p> |  <p>Jason Blumstein Generalist/ Consumer Experience Industry: 11 yrs Firm: 8yrs</p> |  <p>Massimo Marolo Retail Experience Industry: 14 yrs Firm: 9 yrs</p> |  <p>Shilpee Raina Generalist Experience Industry: 10 yrs Firm: 10 yrs</p> |  <p>Daniel Bloomgarden Consumer Experience Industry: 19 yrs Firm: 1 yr</p> | |
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|  <p>David Maccarrone Infrastructure Experience Industry: 21 yrs Firm: 5 yrs</p> |  <p>Hunter Horgan Energy Experience Industry: 18 yrs Firm: <1 yr.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  <p>David Pasquale Industrial Cyclicals Experience Industry: 18 yrs Firm: 10 yrs</p> |  <p>Robert Maloney Industrials Experience Industry: 16 yrs Firm: 3 yr</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  <p>Chris Ceraso Autos & Transport Experience Industry: 15 yrs Firm: 2 yrs</p> |  <p>Joanna Shatney Industrials Experience Industry: 18 yrs Firm: 1 yr</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  <p>Mike Leskinen Aerospace & Defense Experience Industry: 15 yrs Firm: 2 yrs</p> |  <p>Andrew Brandon Generalist Experience Industry: 18 yrs Firm: 16 yrs</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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|  <p>Larry Lee Financials / Business Services Experience Industry: 23 yrs Firm: 10 yrs</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  <p>Dan Percella Generalist/ Banking & Finance Experience Industry: 13 yrs Firm: 8 yrs</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  <p>Urmaz Wompa Regional Banks Experience Industry: 32 yrs Firm: 29 yrs</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  <p>Jason Ko REITs Experience Industry: 14 yrs Firm: 14 yrs</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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|  <p>Saumil Kachhy REITs Experience Industry: 6 yrs Firm: 6 yrs</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  <p>James Baclawski Financials Experience Industry: 7 yrs Firm: 6 yrs</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  <p>Lisa S. Sadioglu Consumer Stable & Homebuilding Experience Industry: 15 yrs Firm: 15 yrs</p> |  <p>Tim Gamache Consumer Experience Industry: 9 yrs Firm: 9 yrs</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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|  <p>Massimo Marolo Retail Experience Industry: 14 yrs Firm: 9 yrs</p> |  <p>Shilpee Raina Generalist Experience Industry: 10 yrs Firm: 10 yrs</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  <p>Daniel Bloomgarden Consumer Experience Industry: 19 yrs Firm: 1 yr</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <h3>Telecom & Utilities</h3> <table border="1"> <tr> <td data-bbox="107 1292 222 1422">  <p>Leslie Rich Utilities Experience Industry: 22 yrs Firm: 5 yrs</p> </td> <td data-bbox="432 1292 548 1422">  <p>Ryan Vineyard Telecom Experience Industry: 11 yrs Firm: 4 yrs</p> </td> </tr> </table> | |  <p>Leslie Rich Utilities Experience Industry: 22 yrs Firm: 5 yrs</p> |  <p>Ryan Vineyard Telecom Experience Industry: 11 yrs Firm: 4 yrs</p> | <h3>Technology</h3> <table border="1"> <tr> <td data-bbox="758 878 873 1008">  <p>Robert Bowman Semi/Hardware/ Network Experience Industry: 21 yrs Firm: 21 yrs</p> </td> </tr> <tr> <td data-bbox="758 1016 873 1146">  <p>Nitin Bhambhani Software/Services Experience Industry: 22 yrs Firm: 19 yrs</p> </td> </tr> <tr> <td data-bbox="758 1154 873 1284">  <p>Greg Tuorto Technology Experience Industry: 23 yrs Firm: 8 yrs</p> </td> </tr> <tr> <td data-bbox="758 1292 873 1422">  <p>Joe Wilson Technology Experience Industry: 11 yrs Firm: 1 yr</p> </td> </tr> </table> |  <p>Robert Bowman Semi/Hardware/ Network Experience Industry: 21 yrs Firm: 21 yrs</p> |  <p>Nitin Bhambhani Software/Services Experience Industry: 22 yrs Firm: 19 yrs</p> |  <p>Greg Tuorto Technology Experience Industry: 23 yrs Firm: 8 yrs</p> |  <p>Joe Wilson Technology Experience Industry: 11 yrs Firm: 1 yr</p> | <h3>Healthcare</h3> <table border="1"> <tr> <td data-bbox="1398 1000 1514 1130">  <p>Dr. Matt Cohen Healthcare Experience Industry: 19 yrs Firm: 11 yrs</p> </td> <td data-bbox="1682 1008 1797 1138">  <p>Dr. Charles Silberstein Healthcare Experience Industry: 20 yrs Firm: 1 yr</p> </td> </tr> <tr> <td data-bbox="1398 1146 1514 1276">  <p>Laurence McGrath Health Svcs / Medtech Experience Industry: 18 yrs Firm: 5 yrs</p> </td> <td data-bbox="1682 1154 1797 1284">  <p>Daphne Karydas Healthcare Experience Industry: 20 yrs Firm: 1 yr</p> </td> </tr> <tr> <td data-bbox="1398 1284 1514 1414">  <p>Holly Fleiss Healthcare Experience Industry: 11 yrs Firm: 4 yrs</p> </td> <td data-bbox="1682 1292 1797 1422">  <p>Chris Carter Generalist/ Health Care Experience Industry: 9 yrs Firm: < 1 yr</p> </td> </tr> </table> |  <p>Dr. Matt Cohen Healthcare Experience Industry: 19 yrs Firm: 11 yrs</p> |  <p>Dr. Charles Silberstein Healthcare Experience Industry: 20 yrs Firm: 1 yr</p> |  <p>Laurence McGrath Health Svcs / Medtech Experience Industry: 18 yrs Firm: 5 yrs</p> |  <p>Daphne Karydas Healthcare Experience Industry: 20 yrs Firm: 1 yr</p> |  <p>Holly Fleiss Healthcare Experience Industry: 11 yrs Firm: 4 yrs</p> |  <p>Chris Carter Generalist/ Health Care Experience Industry: 9 yrs Firm: < 1 yr</p> | | | | | | | | | | | | | | | | | | | |
|  <p>Leslie Rich Utilities Experience Industry: 22 yrs Firm: 5 yrs</p> |  <p>Ryan Vineyard Telecom Experience Industry: 11 yrs Firm: 4 yrs</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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|  <p>Nitin Bhambhani Software/Services Experience Industry: 22 yrs Firm: 19 yrs</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  <p>Greg Tuorto Technology Experience Industry: 23 yrs Firm: 8 yrs</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  <p>Joe Wilson Technology Experience Industry: 11 yrs Firm: 1 yr</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  <p>Dr. Matt Cohen Healthcare Experience Industry: 19 yrs Firm: 11 yrs</p> |  <p>Dr. Charles Silberstein Healthcare Experience Industry: 20 yrs Firm: 1 yr</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  <p>Laurence McGrath Health Svcs / Medtech Experience Industry: 18 yrs Firm: 5 yrs</p> |  <p>Daphne Karydas Healthcare Experience Industry: 20 yrs Firm: 1 yr</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  <p>Holly Fleiss Healthcare Experience Industry: 11 yrs Firm: 4 yrs</p> |  <p>Chris Carter Generalist/ Health Care Experience Industry: 9 yrs Firm: < 1 yr</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

* Kay Herr is also a co-portfolio manager for the REIT strategies
As of December 2015

Small Cap Active Core biographies

DON SAN JOSE

Managing Director

is the portfolio manager of the JPMorgan Small Cap Active Core Strategy. An employee since 2000, Don was an analyst in JPMorgan Securities' equity research department covering capital goods companies before joining the small cap group. Prior to joining the firm, he was an equity research associate at ING Baring Furman Selz. Don holds a B.S. in finance from The Wharton School of the University of Pennsylvania and is a member of both the New York Society of Security Analysts and The CFA Institute. He is a CFA charterholder.

DAN PERCELLA

Executive Director

is an analyst on the Small Cap Active Core Team. An employee since 2008, Dan was previously a member of Institutional Investor-ranked equity research teams covering the transportation sector at Bear Stearns, Bank of America and Citigroup. Dan holds a B.S. in economics from Georgetown University's Walsh School of Foreign Service and is a member of both the New York Society of Security Analysts and The CFA Institute. He is also a CFA charterholder.

JONATHAN BRACHLE

Vice President

is an analyst with the Small Cap Active Core Team. An employee since 2007, Jon was previously a research associate covering software and IT services companies for the U.S. Large Cap Equity Group. Jon holds a B.S. in finance from the University of Colorado's Leeds School of Business and is a CFA charterholder.

JASON BLUMSTEIN

Vice President

is an analyst on the Small Cap Active Core Team. Jason joined the team in 2012, and has been an employee at JPMorgan Chase & Co since 2007. He previously worked as the lead U.S. Equity due diligence and portfolio construction analyst for a JP Morgan asset allocation product, and was the co-developer of the product. Prior to joining JPMorgan, Jason worked as an analyst for Morgan Stanley, and as a consultant for Pricewaterhouse Coopers. Jason holds a B.S. in Finance from Lehigh University. In addition, he is a member of both the New York Society of Security Analysts and the CFA Institute. He is also a CFA charterholder.

CHRIS CARTER

Vice President

is an analyst on the Small Cap Active Core Team. He joined the team in 2015 from Credit Suisse where he spent 5 years covering the Healthcare Managed Care and Facilities sectors, including primary coverage of three SMID Cap stocks. He also previously worked on the sell side at Citigroup and as a buy side equity analyst for Columbus Investment Advisory, a boutique asset management firm in Columbus, Ohio. Chris holds a B.B.A. in finance from Ohio University.

JONATHAN SHERMAN

Managing Director

is the head of the Client Portfolio Manager Team for U.S. growth and small cap strategies. He is responsible for communicating investment performance, outlook and strategy to institutional and retail clients throughout North America. An employee since 2005, Jonathan previously worked as a client portfolio manager on the Global Equities Team. Prior to joining the firm, Jonathan worked as a director of Asset Allocation Product Management at UBS Global Asset Management and as an analyst in the Equity Research and Global Economics Group at Merrill Lynch. Jonathan obtained a B.A. from Syracuse University and an M.B.A. in finance from Fordham University. He holds Series 7 and 63 licenses.

JAMES CONNORS

Executive Director

is a client portfolio manager in the U.S. Equity group. An employee since 2005, James is responsible for communicating investment performance, outlook and strategy for the firm's U.S. small cap and growth platform. He previously focused on the Large Cap Core and Large Cap Core 130/30 strategies. He has a B.S. in finance from Eastern Illinois University and holds the Series 7 and 63 licenses. He also is a member of the New York Society of Securities Analysts and is a CFA charterholder.

J.P. Morgan Small Cap Active Core Institutional Composite – Annual performance report

| Year | Gross Return (%) | Net Return (%) | Benchmark Return (%) | Composite 3-yr St Dev (%) | Benchmark 3-yr St Dev (%) | Internal Dispersion (%) | As of December 31 | | |
|------|------------------|----------------|----------------------|---------------------------|---------------------------|-------------------------|--------------------|--------------------------------|---------------------------------|
| | | | | | | | Number of Accounts | Composite Assets (\$ millions) | Total Firm Assets (\$ billions) |
| 2014 | 8.41 | 7.46 | 4.89 | 10.94 | 13.31 | n/a | <5 | 3,990 | 845 |
| 2013 | 37.42 | 36.28 | 38.82 | 14.05 | 16.68 | n/a | ≤5 | 3,828 | 775 |
| 2012 | 19.23 | 18.20 | 16.35 | 17.49 | 20.48 | n/a | ≤5 | 2,795 | 701 |
| 2011 | 3.90 | 2.97 | (4.18) | 20.66 | 25.34 | n/a | ≤5 | 2,532 | 657 |
| 2010 | 27.72 | 26.64 | 26.85 | 23.09 | 28.08 | n/a | ≤5 | 2,541 | 621 |
| 2009 | 33.55 | 32.43 | 27.17 | 20.50 | 25.19 | n/a | ≤5 | 1,848 | 617 |
| 2008 | (26.26) | (26.97) | (33.79) | 17.21 | 20.13 | n/a | ≤5 | 1,084 | 575 |
| 2007 | 5.00 | 4.07 | (1.57) | 11.64 | 13.35 | n/a | ≤5 | 1,487 | 442 |
| 2006 | 19.86 | 18.83 | 18.37 | n/a | n/a | n/a | ≤5 | 1,112 | 374 |
| 2005 | 13.92 | 12.93 | 4.55 | n/a | n/a | n/a | ≤5 | 550 | 348 |

J.P. Morgan Investment Management Inc. claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards.

J.P. Morgan Investment Management Inc. has been independently verified for the period 1993-2007. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Small Cap Active Core composite has been examined for the periods 1/07 – 12/07. The verification and performance examination reports are available upon request.

1. J.P. Morgan Investment Management Inc. (JPMIM or the Firm) consists of the assets of institutional clients invested in US managed products including 1) the fixed income and cash assets formerly part of Chase Asset Management and MDS&Chase Partners, 2) the New York institutional investment division of JPMorgan Chase Bank, N.A., formerly Morgan Guaranty Trust Company of New York, and 3) the institutional investment assets of JPMorgan Investment Advisors, Inc. (JPMIA), formerly known as Banc One Investment Advisors Corporation (BOIA), the advisor to institutional assets directly managed by JPMIA or sub-advised by an affiliate institution, and 4) the institutional assets of Bear Stearns Asset Management Inc. The Firm also includes Separately Managed Accounts over which JPMIM has full and sole discretion. JPMIM is marketed under JPMorgan Asset Management.

2. The composite includes all discretionary accounts, including pooled funds, directly invested according to JPMIM's Small Cap Active Core strategy. The strategy invests in a diversified portfolio of 80-120 in equities of small cap companies. Small cap companies are companies with market capitalizations equal to those within the universe of the Russell 2000® Index. Sector weightings relative to the benchmark is +/- 10%. The strategy's targeted tracking error relative to the benchmark is approximately 5.0% - 8.0% per year. The composite was created in October 2004.

3. Equity futures are occasionally used in accordance with client-authorized account objectives and guidelines in order to equitize large cash contributions and to minimize market impact while purchasing individual equity securities.

4. Both gross and net returns reflect the reinvestment of income, deduction of transaction costs, and are net of withholding taxes where applicable. All returns are expressed in U.S. dollars. Gross returns do not reflect the deduction of investment advisory fees or any other expenses that may be incurred in the management of the account. Net returns are net of model investment advisory fees in effect for the respective time period. Model net returns are calculated by subtracting the highest applicable fee on a quarterly basis from the gross composite return. The standard annual fee schedule currently in effect is as follows: 0.90% on the first \$25 million of assets managed; 0.75% on the balance. Actual advisory fees charged and actual account minimum size may vary by account due to various conditions described in Part II of Form ADV.

5. The firm's list of composite descriptions and the policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

6. The benchmark is the Russell 2000® Index. The index returns are provided to represent the investment environment existing during the time periods shown and are not covered by the report of independent verifiers. For comparison purposes the index is fully invested, which includes the reinvestment of income. The returns for the index do not include any transaction costs, management fees or other costs.

7. The dispersion of annual returns is measured by the asset-weighted standard deviation of account returns included in the composite for the full year. For periods with 5 or fewer accounts included for the entire year, dispersion is not presented (n/a) as it is not considered meaningful.

8. Past performance is no guarantee of future results. As with any investment vehicle, there is always the potential for gains as well as the possibility of losses.

J.P. Morgan Asset Management

This document is intended solely to report on various investment views held by J.P. Morgan Asset Management. Opinions, estimates, forecasts, and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. We believe the information provided here is reliable but should not be assumed to be accurate or complete. The views and strategies described may not be suitable for all investors. References to specific securities, asset classes and financial markets are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations. Indices do not include fees or operating expenses and are not available for actual investment. The information contained herein employs proprietary projections of expected returns as well as estimates of their future volatility. The relative relationships and forecasts contained herein are based upon proprietary research and are developed through analysis of historical data and capital markets theory. These estimates have certain inherent limitations, and unlike an actual performance record, they do not reflect actual trading, liquidity constraints, fees or other costs. References to future net returns are not promises or even estimates of actual returns a client portfolio may achieve. The forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation.

There can be no assurance that the professionals currently employed by JPMAM will continue to be employed by JPMAM or that the past performance or success of any such professional serves as an indicator of such professional's future performance or success.

Equity Risks: The strategy is subject to management risk and may not achieve its objective if the adviser's expectations regarding particular securities or markets are not met. The price of equity securities may rise or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. These price movements may result from factors affecting individual companies, sectors or industries selected for a portfolio or the securities market as a whole, such as changes in economic or political conditions. When the value of a portfolio's securities goes down, your investment will decrease in value. The manager may use derivatives in connection with its investment strategies. Derivatives may be riskier than other types of investments because they may be more sensitive to changes in economic or market conditions than other types of investments and could result in losses that significantly exceed the strategy's original investments. Certain derivatives may give rise to a form of leverage. As a result, the strategy may be more volatile than if the strategy had not been leveraged because the leverage tends to exaggerate the effect of any increase or decrease in the value of the portfolio's securities. Derivatives are also subject to the risk that changes in the value of a derivative may not correlate perfectly with the underlying asset, rate or index. The use of derivatives for hedging or risk management purposes or to increase income or gain may not be successful, resulting in losses to a portfolio, and the cost of such strategies may reduce a portfolio's returns. Derivatives would also expose a portfolio to the credit risk of the derivative counterparty.

Small-cap funds typically carry more risk than stock funds investing in well-established "blue-chip" companies. Historically, small-cap and companies' stock has experienced a greater degree of market volatility than the average stock.

In cases where performance results are presented gross of investment management fees. The deduction of an advisory fee reduces an investor's return. Actual account performance will vary depending on individual portfolio security selection and the applicable fee schedule. Fees are available upon request. Illustration showing impact of investment management fees: An investment of USD \$1,000,000 under the management of JPMFAM achieves a 10% compounded gross annual return for 10 years. If a management fee of 0.75% of average assets under management were charged per year for the 10-year period, the annual return would be 9.25% and the value of assets would be USD \$2,422,225 net of fees, compared with USD \$2,593,742 gross of fees. Therefore, the investment management fee, and any other expenses incurred in the management of the portfolio, will reduce the client's return.

Any securities/portfolio holdings mentioned throughout the presentation are shown for illustrative purposes only and should not be interpreted as recommendations to buy or sell. A full list of firm recommendations for the past year are available upon request.

J.P. Morgan Asset Management is the marketing name for the asset management businesses of JPMorgan Chase & Co. Those businesses include, but are not limited to, J.P. Morgan Investment Management Inc., Security Capital Research & Management Incorporated and J.P. Morgan Alternative Asset Management, Inc.

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BOARD ACTION REQUESTED

TO: State Investment Board

FROM: Darren Schulz and Eric Chin

DATE: January 22, 2016

SUBJECT: Small Cap Equity Recommendation: Replace Callan Small Cap Equity Fund with Atlanta Capital Management's High Quality Small Cap Strategy

RIO Recommendation:

Staff recommends that the SIB replace the Callan Small Cap Equity Fund with Atlanta Capital Management Co., LLC's (Atlanta) High Quality Small Cap vehicle. Projecting forward we believe that Atlanta will produce better risk adjusted returns, and will continue to generate greater excess returns than the Callan Small Cap Fund over the long term. Atlanta's investment strategy (which focuses on quality) can capture the majority of the upside of small cap performance while providing downside protection in tumultuous markets. Atlanta's small but experienced three person team has been managing this strategy together since 2002, and Staff believes that this team can continue to, over the long term, deliver excess returns over the Russell 2000 Index. Across a number of key metrics (see table below – Atlanta Capital High Quality Small Cap Strategy: Performance Overview) Atlanta has generally outperformed Callan's Small Cap Equity vehicle over the seven year period ending September 30, 2015 (key metrics include annualized returns, risk adjusted returns, excess returns, down market capture, and standard deviation). Ultimately, Staff believes that the shift to Atlanta's more concentrated strategy with a focus on quality investments is better positioned to meet the SIB's long term risk/return objectives.

Background:

During the August 2015 SIB Board Meeting, Staff highlighted a number of concerns regarding the Callan Small Cap Equity Fund.

These included:

1. A significant decline of assets under management: The fund's largest investor fully redeemed on July 21, 2015 leading to a substantial decline in AUM (from \$1.1B to \$567M).
2. Significant change in strategy: Callan has reduced the number of investment firms used in its multi-manager approach by half (from 40 firms to 20 firms).
3. Performance of the fund relative to the Russell 2000 Index has been lackluster:
 - a. One-year returns trail the Russell 2000 Index by 358 basis points as of September 30, 2015

- b. Excess returns relative to the Russell 2000 Index have trended down. As of September 30, 5-year excess returns are 0.59%, 3-year 0.50%, and 1-year -3.58% (calculations are **gross** of fees)
- c. As of September 30, 2015 five-year returns are in-line with the Russell 2000: 12.32% for the Callan Small Cap Equity Fund vs 11.73% for the Russell 2000 Index

Consequently, the SIB approved a search for a small cap equity replacement, and the appointment of Aon Hewitt as the lead consultant for this search.

Process:

To produce a short list of candidate small cap managers, Aon Hewitt began by vetting suitable managers from its preferred list. Separately, Staff identified candidate managers by conducting quantitative screens of the Callan and eVestment database and by performing in-house research. These efforts produced a list of 15 candidate managers. Staff and Hewitt culled managers from this list by evaluating a variety of quantitative and qualitative factors. Areas of focus included:

- **Organization:** Firm ownership, client make-up (geographic & type), assets under management, and product offerings
- **Team:** Size and experience of the team, staff turnover, organizational culture, and retention methods for key staff
- **Strategy:** Total strategy assets, capacity, investment process/philosophy, trading, and fees
- **Portfolio Characteristics:** Portfolio holdings, style characteristics, concentration, liquidity, and turnover
- **Performance Based Metrics:** Correlation, risk (standalone and benchmark relative), excess returns, upside/downside capture, and consistency of performance

Staff placed increased scrutiny on a number of factors as a result of the unique characteristics of the small-cap asset class. These factors included capacity management, downside protection, and liquidity. Four firms – Atlanta Capital Management, JP Morgan (JPM), Champlain Investment Partners (Champlain), and Wellington Management Company LLP (Wellington) were selected for additional evaluation and analysis. Staff conducted onsite visits with JPM and Atlanta, and held multiple conference calls with Wellington and Champlain. While all four products were highly rated, the JPM and Atlanta strategies rose to the top. Some of the key characteristics that led to this decision included:

1. The ability to preserve capital in down markets while capturing the majority of the upside of the small cap index.
2. Ability to consistently generate excess returns over rolling three year periods.
3. Attractive risk and reward characteristics: High Sharpe and information ratios.
4. Demonstrated capability to navigate tumultuous markets: Atlanta and JP Morgan outperformed the Russell 2000 by 20.3% and 14.0% respectively during the global financial crisis (July 2007-March 2009)

Atlanta Capital Management High Quality Small Cap Strategy Evaluation:

1. **Organizational Overview:** Atlanta was founded in 1969 as an institutional investment manager. The firm employs an investment process that focusses on identifying high quality stocks and bonds. In 2001, Atlanta sold a majority interest to Eaton Vance Corporation. Today, Atlanta operates as an autonomous subsidiary of Eaton Vance Corporation. Employees own 13% of Atlanta while Eaton Vance owns the remainder. Atlanta employs 45 professionals, 21 of which are equity partners. As of September 30, 2015 the firm manages approximately \$15.6B in AUM divided across Fixed Income (12%), Core Equity (63%), and Growth Equity (25%). Within the Core Equity strategy Atlanta manages SMID Cap (\$7.7B), Small Cap Equity (\$1.8B) and Select Equity strategies (\$250M).
2. **Atlanta Capital High Quality Small Cap Strategy:**
 - a. **Overview:** The High Quality Small Cap Strategy was incepted on April 1, 1992. It is currently managed by Chip Reed, Bill Bell, and Matt Hereford who have collectively managed the strategy since 2002. These three serve as both fundamental analysts and portfolio managers for the strategy. New additions to the portfolio must be unanimous, while a sell can be triggered by one dissenting voice. These three manage the entirety of Atlanta's Core Equity Strategy, and oversee risk management and trading for this group.
 - b. **Strategy:** The High Quality Small Cap Strategy seeks to invest in *Quality* companies—companies with a demonstrated history of consistent growth and stability in earnings. The strategy invests in companies with market caps between \$200M - \$3.0B and the portfolio typically holds 60-70 positions. The maximum position size is 5%, with sector weights limited to 30%.

The portfolio managers begin by developing a focus list of high quality companies. They screen all U.S. companies within the \$200M – \$3B market cap range and exclude companies with volatile earnings, short operating histories, high levels of debt, weak cash flow generation, and low returns on capital. This results in an investible universe of about 200 companies. The portfolio managers seek companies with a high return on capital, low debt, high free cash flow generation, and consistent growth.

The portfolio managers analyze each of the companies in this universe, and seek to determine which companies are best positioned to be successful going forward. The portfolio managers employ rigorous fundamental research that includes meetings with management, onsite facility visits, channel checks with competitors, suppliers and buyers, and reviews of annual reports and SEC filings. The portfolio managers place significant weight on their evaluation of management. They believe that compared to large cap companies, management at small cap companies are often less polished and more willing to share valuable pieces of information that offer insight into the future earnings of the company. Furthermore, Atlanta believes it is critical to determine if management is honest, intelligent, and can strategically allocate capital.

If the portfolio managers identify an attractive business, the next step is to determine if it is properly valued by the market. Atlanta employs a number of

valuation metrics including P/E, P/FCF, P/B, and EV/EBITDA. If the market valuation is below Atlanta's internal assessment and offers attractive risk/reward potential (both absolute and relative to other positions in the portfolio) Atlanta will invest in the firm. Ultimately, Atlanta seeks to be long term owners of the businesses it invests in.

c. Performance Overview:

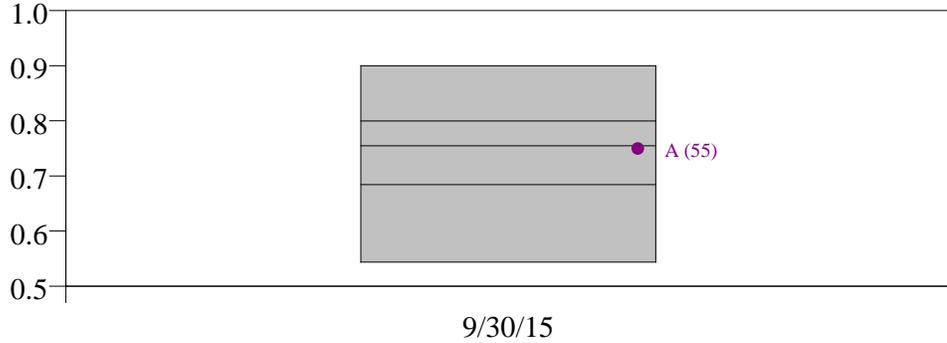
**Common Period Returns and Risk Statistics
7 Years as of 09/30/15**

| | Atlanta | JP Morgan | Champlain | Wellington | Callan | Russell 2000 |
|------------------------------------|----------------|------------------|------------------|-------------------|---------------|---------------------|
| Returns | 13.65% | 13.80% | 11.14% | 13.33% | 10.04% | 8.63% |
| Excess Return (Russell 2000) | 5.02% | 5.17% | 2.51% | 4.70% | 1.40% | 0.00% |
| Excess Return Ratio (Russell 2000) | 0.77 | 0.82 | 0.40 | 0.71 | 0.43 | N/A |
| Standard Deviation | 18.79% | 19.29% | 19.31% | 26.44% | 24.38% | 23.45% |
| Sharpe Ratio (3 month T-bill) | 0.72 | 0.71 | 0.57 | 0.50 | 0.41 | 0.36 |
| Tracking Error (Russell 2000) | 5.97% | 5.82% | 5.83% | 6.09% | 2.98% | 0.00% |
| Information Ratio (Russell 2000) | 1.78 | 1.62 | 0.95 | 0.69 | 0.41 | 0 |
| Batting Average (Russell 2000) | 60.71% | 64.29% | 53.57% | 60.71% | 67.86% | N/A |
| Alpha (Russell 2000) | 6.03% | 6.07% | 3.58% | 3.92% | 1.19% | 0.00% |
| Beta (Russell 2000) | 0.79 | 0.81 | 0.81 | 1.10 | 1.03 | 1.00 |
| Up Market Capture | 91.33% | 93.74% | 79.34% | 149.61% | 111.93% | 100.00% |
| Down Market Capture | 75.22% | 76.09% | 78.70% | 102.08% | 100.11% | 100.00% |

Quantitatively, both JPM and Atlanta compare favorably to the other managers. JPM and Atlanta generate higher absolute returns, higher excess returns, and higher alphas while delivering lower down market capture and standard deviation. While JPM and Atlanta generate lower up market capture, we believe this is offset by lower risk, and lower down market capture. Staff believes that these two managers can produce highly attractive risk adjusted returns and are most suitable for the SIB mandates.

- d. **Fees and Capacity:** Atlanta has been closed to new capital in the small cap strategy since 2011. The strategy remains closed; however, Atlanta is willing to accept capital from the SIB as replacement for money recently lost as a result of client rebalancing. Atlanta currently manages \$1.8B in this strategy and has stringently adhered to its capacity limits. Staff looks upon this favorably as asset bloat in small cap strategies tend to lead towards underperformance.

Effective Annual Fee
for a \$100,000,000 Mandate
for Periods Ended September 30, 2015
Group: CAI Small Cap Core Style



| | |
|----------------------------|------|
| 10th Percentile | 0.90 |
| 25th Percentile | 0.80 |
| Median | 0.76 |
| 75th Percentile | 0.68 |
| 90th Percentile | 0.54 |
| Member Count | 54 |
| Atlanta:Hi Qlty Sm Cap ● A | 0.75 |

Atlanta's current fee schedule is: 0.80% on the first \$50 million in assets; 0.70% on the next \$50 million in assets; 0.60% on the next \$150 million. For a \$100M mandate Atlanta's fees are in line with other small cap managers.

Conclusion:

We believe that replacing the Callan mandate with an allocation to either Atlanta or JPM would better position the SIB's portfolios for the long term. Atlanta and JPM both focus on identifying quality businesses and employ a number of valuation metrics to ascertain attractive entry and exit points. Their performance over the seven year period is comparable across key metrics. **However, Staff recommends an allocation to Atlanta over JPM as a result of the following factors:**

1. The tenure, experience, and continuity of Atlanta's portfolio management team are significant advantages. While Atlanta employs a smaller team, the team has collectively been managing the strategy since 2002. Each portfolio manager is an experienced investment professional with over 19 years of investment experience. While we respect and hold the JPM portfolio manager Mr. Don San Jose in high regard, he became the lead portfolio manager of the strategy in 2013—leading to some concern regarding continuity of the strategy. Furthermore, the JPM team is less experienced with the team averaging just 12 years of investment experience.

2. Atlanta's smaller AUM of \$1.8B is favorable. Atlanta's strategy can be more nimble and it is easier for the portfolio managers to deploy capital in an asset class that has experienced significant liquidity issues. In contrast, JPM's small cap strategy is double Atlanta's size with \$3.65B in AUM.
3. Lastly, selecting Atlanta will diversify organization risk across the SIB portfolios. JPM manages over \$1B for the SIB across a number of strategies. Given the choice between two managers that employ similar strategies and that have generated similar performance, it is prudent to diversify organizational risk across providers.

BOARD APPROVAL REQUESTED

TO: State Investment Board
FROM: Dave Hunter, Executive Director/CIO
DATE: January 22, 2016
SUBJECT: State Investment Board Meeting Schedule for 2016-17

Recommendation:

RIO requests the SIB approve the proposed board meeting schedule for the period from July 1, 2016 to June 30, 2017. As in the past, meetings are held on the fourth Friday morning of each month with the exception of June, November and December. The November meeting has historically been moved up to the third Friday (due to Thanksgiving), while no meeting has been scheduled in December in recent years (due to Christmas). As consistent with last year, we intend to conduct a ½-day governance session in July of 2016. This year, RIO recommends that we invite Jeanna Cullins from Aon Hewitt EnnisKnupp, who heads up the firms efforts in fiduciary audits, strategic planning, trustee education and board governance matters. [Jeanna has a considerable amount of practical governance experience working with U.S. public pension plans.](#)

State Investment Board 2016-17 Meeting Schedule

July 22, 2016 (Retreat)

August 26, 2016

September 23, 2016

October 28, 2016

November 18, 2016

December – No Meeting

January 27, 2017

February 24, 2017

March 24, 2017

April 28, 2017

May 26, 2017

June – No Meeting

Jeanna M. Cullins

Partner, Hewitt EnnisKnupp, Inc.



Jeanna co-leads the firm's efforts in the areas of fiduciary audits, strategic planning, trustee education and plan governance matters. Prior to joining the firm in 2008, Jeanna served as Managing Director and Operational Review Practice Leader at Independent Fiduciary Services. During her 10-year tenure at IFS, Ms. Cullins worked on more than 30 operational reviews (a.k.a. fiduciary audits), advising the leadership of some of the largest pension funds in the country to develop effective, efficient, practical ways to enhance their operations. She served as Executive Director to the District of Columbia Retirement Board from 1993 to 1997, and as the Board's General Counsel from 1985 to 1993. Jeanna holds a B.A., cum laude, from Brooklyn College, City University of New York and a J.D. from Georgetown University Law Center. She serves on the emeritus board and is an active member of the National Association of Public Pension Attorneys, served as a trustee on the District of Columbia Tobacco Settlement Trust Fund and the National Association Securities Professionals Board, and is secretary of the NASP Foundation. She is a frequent speaker at pension industry conferences specifically on topics including fiduciary audits, "best practices," pension fund processes, investment consultant practices, and risk management.

Jeanna has provided fiduciary and governance training to dozens of public funds and entities including the Federal Thrift Board, Colorado PERA, Ohio Public Employees, State of Wisconsin Investment Board, Teacher's Retirement System of Illinois, Tennessee Valley Authority Retirement System, Illinois Municipal Retirement System, State Universities Retirement System of Illinois, New Mexico Educational Retirement System and the Financial Industry Regulatory Authority (or FINRA).

Proposed topics for the governance session include:

- Define what governance means
- Identify key issues and essential features that will be common for all public funds, large or small, private or public bodies.
- Discuss five of the common governance models
 - The Policy Model (Carver)
 - The Outcomes Model (Cortex)
 - The Consensus/Process Model
 - The Competency Model, and
 - The Structural (Traditional) Model
- Why a "one size fits all" model will not work -- Importance of flexibility and adaptability to the unique circumstances of each fund.

RIO Website Transparency

January 15, 2016

Dave Hunter, Executive Director / CIO
ND Retirement & Investment Office (RIO)
State Investment Board (SIB)

Transparency Enhancement Update – January 15, 2016

Strategic Investment Belief / Goal:

Although SIB meetings are open to the public and RIO is committed to adhering to all applicable open records laws, a transparency enhancement initiative was commenced in mid-2015 in order to make it easier for interested parties to gain access to information on RIO's website. RIO believes these actions support our desire to foster trust, understanding and support within our community.

RIO's Stated Action Plan (as stated in our SIB Meeting Materials for August of 2015):

- 1) Enhance public access to our SIB Governance Manual by adding a new hyperlink on our RIO website (hyperlink accessed by clicking on "SIB Governance Manual" under the "SIB / Board" section); <http://www.nd.gov/rio/SIB/Board/GovernanceManual/default.htm>
- 2) Enhance public access to our SIB Meeting Materials by adding a new hyperlink on our RIO website (hyperlink accessed by clicking on "Meeting Materials" under the "SIB / Board" section); <http://www.nd.gov/rio/SIB/Board/SIB%20Meeting%20Materials/default.htm>
- 3) Enhance public access to our SIB's Audit Committee Charter and Meeting Materials by adding a new hyperlink on our RIO website (hyperlinks accessed by clicking on "SIB Audit Charter" or "Meeting Materials" under the "SIB Audit" section). <http://www.nd.gov/rio/SIB%20Audit/Board/default.htm>

Update: RIO's Supervisor of Information Systems, Rich Nagel, was instrumental in updating RIO's website to achieve these "Transparency Enhancements" in a timely and diligent manner.

NDRIO 2015-17

Fundamental Beliefs and Strategic Investment Plan

Fundamental Investment Beliefs

Asset allocation decisions are the primary driver of investment returns, but the prudent use of active investment management is an important contributor towards ensuring our clients attain their stated investment objectives. SIB clients generated over \$200 million of incremental income via the prudent use of active investment management over the past five years including \$100 million of excess return for the fiscal year ended June 30, 2015.

Strategic Investment Plan

1. Reaffirm the organizational commitment to our current governance structure including a persistent awareness to the importance of continuing board education.
 2. Enhance transparency and understanding of our core goals and beliefs.
 - a. Remain steadfast in our commitment to the prudent use of active investment management.
 - b. Expand awareness to downside risk management which is essential to achieving our long term investment goals.
 - c. Given actual and projected growth of SIB client assets and the heightened public awareness of the Legacy Fund, align our investment platforms to promote greater clarity and efficiency in reporting and implementing client investment policies.
 3. Expand RIO's influence and ability to create positive and sustainable change by developing relationships with existing clients, organizations and legislative leaders.
 - a. Enhance community outreach to build upon public awareness and confidence.
 - b. Develop concise presentations which highlight our overall risk, return and cost control framework including our progress towards attaining our long-term goals.
 4. Heighten employee engagement by promoting an open and collaborative work environment while encouraging employee participation in staff meetings, offer more opportunities to impact RIO's change initiatives and improve overall compensation levels.
 - a. RIO's ability to continue to deliver strong results is dependent on the combined efforts of our highly valuable team members.
 5. Enhance our existing risk management tools and processes by developing a more robust risk management framework utilizing proven risk management solutions with a focus on portfolio construction and downside risk management (or "stress test" scenarios).
 - a. A robust risk management framework provides a foundation to understand downside risks and our ability to withstand market corrections in varying stress test scenarios.
 6. Evaluate and expand the efficient use of technology in our investment program activities including risk management, compliance monitoring, client satisfaction surveys, website design and communications in order to increase overall efficiency and effectiveness.
-

RIO's Mission Statement

Background: RIO's "Mission" is defined in SIB Governance Policy D-1 on "Ends".

"The Retirement and Investment Office serves the SIB and exists in order that:

- 1) SIB clients receive investment returns, consistent with their written investment policies and market variables, in a cost effective investment manner and under the Prudent Investor Rule.
- 2) Potential SIB clients have access to information regarding the investment services provided by the SIB.
- 3) TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner.
- 4) TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement.
- 5) SIB clients and TFFR benefit recipients receive satisfactory services from the boards and staff of the office."

Summary:

Based on SIB and TFFR client survey results and noting that every SIB client with a 3-year or 5-year track is generating positive excess return for the 3- and 5-year periods ended 9/30/2015 while adhering to prescribed risk metrics, the SIB and RIO are achieving its' stated goals and mission.



Annual Board Planning Cycle – Biennial Agenda

Annual Board Planning Cycle Biennial Agenda



| Fiscal 2015-16 | July 2015 | August | September | October | November | December | January 2016 | February | March | April | May | June |
|----------------|---|--|--|---|--|------------|--------------|---|--|-------|---|------------|
| | Gov. Offsite | Annual | Annual | Annual | Investment | No Meeting | | Investment | Review | | Investment | No Meeting |
| | - Election of Officers, - Appoint Audit Comm. - Plan Annual Agenda - Plan Board Education | Investment Performance Review - Establish Work Plan - Add Invest. Education | Review of Gov. Manual (Done) - New Board Member Orientation Complete | Evaluation of RIO vs. Ends policies - Annual Board Evaluation | Director Report on Investment Work Plan | Scheduled | | Director Report on Investment Work Plan - Exec. Limit. & CIO Review | Budget Guidelines for next Biennium | | Director Report on Investment Work Plan - Investment Guidelines | Scheduled |

| Fiscal 2016-17 | July 2016 | August | September | October | November | December | January 2017 | February | March | April | May | June |
|---|---|--|---|---|--|------------|----------------------|---|--|----------------------|--|------------|
| <i>The SIB Meeting Agenda has not been established for Fiscal 2016-17</i> | Gov. Offsite | Annual | Annual | Annual | Investment | No Meeting | | Investment | Confirm | | Investment | No Meeting |
| | - Election of Officers, - Appoint Audit Comm. - Plan Annual Agenda - Plan Board Education | Investment Performance Review - Establish Work Plan - Add Invest. Education | Review of Gov. Manual - New Board Member Orientation Complete | Evaluation of RIO vs. Ends policies - Annual Board Evaluation | Director Report on Investment Work Plan | Planned | - Legislative Update | Director Report on Investment Work Plan - Exec. Limit. & CIO Review | Budget Guidelines - Legislative Update | - Legislative Update | Director Report on Investment Work Plan | Planned |

- 1.) SIB Governance Policy B-7 on Governance Process states that "the Board will follow a biennial agenda which (a) completes a re-exploration of Ends policies annually (April) and (b) continually improves its performance through attention to board education and to enriched input and deliberation."
- 2.) "In the first three months of the new cycle, the Board will develop its agenda for the ensuing year. Scheduled monitoring will be used to evaluate and adjust the annual agenda as needed."
- 3.) "The Board will identify areas of education and input needed to increase the level of wisdom forethought it can give to subsequent choices. A board education plan will be developed during July and August of each year."

To: **State Investment Board**

From: Dave Hunter, Executive Director / CIO

Date: January 12, 2016

RE: **Executive Director / CIO Effectiveness Survey – Cover Memo**

Background, Scope and Results Summary:

The background, scope and results of the annual Executive Director / CIO Effectiveness Survey are summarized and detailed on the following ten pages.

Overview of the Executive Director / CIO Employee Opinion Survey Results:

I am pleased to report that 91% of survey respondents indicated that they “Agree” or “Strongly Agree” with the overall effectiveness of the ED/CIO, for which I am sincerely grateful. This is a meaningful improvement from last year in which 78% of the survey responses were recorded as “Agree” or “Strongly Agree”. The most significant area of improvement occurred in “Communication” which improved to 89% in 2015 (versus 63% in 2014), although RIO team members clearly desire further improvement in this area. I am also pleased to report that “Leadership” improved to 89% (from 83%) between years, while “Valuing Employees” improved to 96% (from 87%). RIO team members provided a great deal of constructive feedback which demonstrates a high level of engagement and sincere desire for further improvements. I take all constructive comments and recommendations to heart. As such, I endeavor to continue to improve upon my own overall effectiveness in the upcoming year.

SIB Review of the Executive Director/CIO:

RIO’s Supervisor of Audit Services, Terra Miller-Bowley, is in the process of finalizing the Executive Limitations Audit for 2015 and will present the findings to the SIB Audit Committee and SIB at the next two meetings. Terra Miller-Bowley is also coordinating the timeline for the *SIB survey of the Executive Director/CIO* which will be administered by RIO’s Audit Services team on behalf of the SIB. **SIB Governance Manual C-4 on “Monitoring Executive Performance” states that “Each March the board will conduct a formal evaluation of the ED/CIO. This evaluation will be based on accomplishments of Ends and Compliance with Executive Limitations. At the February board meeting, the chairperson will appoint a three-member committee to review the board’s evaluation and make a recommendation to the full board concerning the salary for ED/CIO.”**

Attachments: Executive Director / CIO Effectiveness Survey

Audit Services – North Dakota Retirement and Investment Office
Executive Director/CIO Effectiveness Survey Results
January 6, 2016

Background

The Audit Services Division of the Retirement and Investment Office (RIO) on an annual basis reviews the Executive Director/CIO's level of compliance with State Investment Board (SIB) Governance Manual Executive Limitation policies A-1 through A-11. Executive Limitation policy A-2 references staff relations. In an effort to gain insight into the relationship which exists between the Executive Director/CIO and staff an organization wide employee opinion survey is conducted annually to provide employees the opportunity to evaluate the effectiveness of the Executive Director/CIO in the areas of leadership, communication, and valuing employees. The results of this survey are then used to determine the Executive Director/CIO's compliance with Executive Limitation policy A-2.

Scope

The survey is comprised of ten multiple choice questions and one open ended question. The multiple choice questions focus on the areas of leadership, communication, and valuing employees with three questions dedicated to each area. Staff are presented with a statement and asked to select the option which best reflects how strongly they agree or disagree with the statement. Available options include strongly agree, agree, neither agree or disagree, disagree, and strongly disagree. The open ended question provides staff with the opportunity to provide comments and constructive feedback pertaining to their overall satisfaction with the job being done by the Executive Director/CIO, what the Executive Director/CIO has done well, and what the Executive Director/CIO could do better in the future.

Results Summary

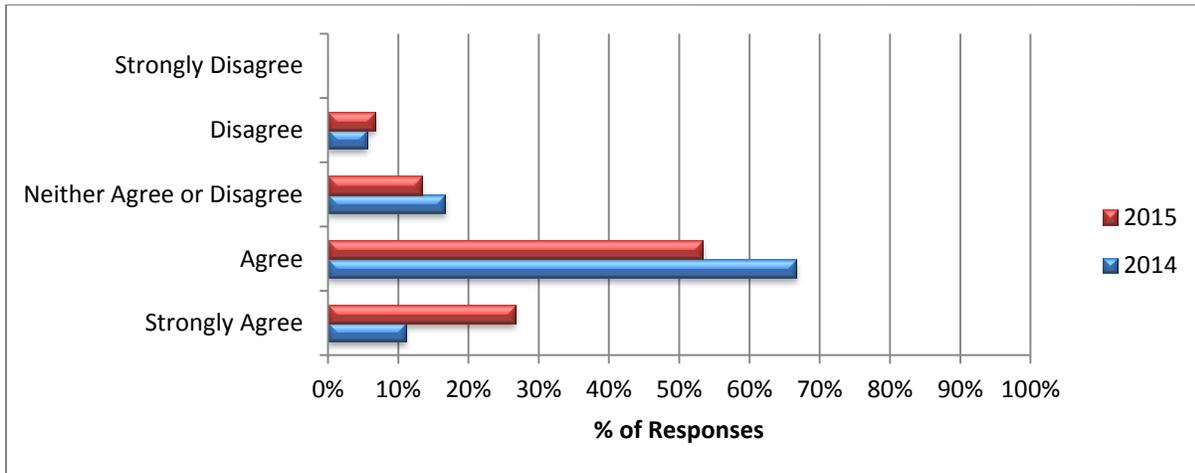
Overall survey responses trended more positive in 2015 when compared to the prior year. Staff agree the Executive Director/CIO provides a sense of purpose to the organization and defines roles and responsibilities of others. Staff indicated improved confidence in the Executive Director/CIO and overwhelmingly agreed that the Executive Director/CIO demonstrates integrity and sets an example for others. A marked improvement was seen in the area of communication with a greater number of staff indicating they are informed about organizational activities. Staff believes that information and communication are occurring throughout the organization at a greater frequency. Staff also agrees that the Executive Director/CIO is doing better at understanding the perspectives of others and demonstrating more openness to changing his position based on these perspectives. Consistent with the prior year the Executive Director/CIO received favorable responses in the area of valuing employees. Staff overwhelmingly agrees that the Executive Director/CIO shows genuine concern for staff and treats everyone with respect.

The responses to the open ended question reveal that in general staff believes that the Executive Director/CIO is doing a great job and representing the RIO well. Monthly staff meetings and one-on-one meetings were very positively received with all agreeing overall communication has improved. Although communication has improved as a whole, several staff indicated concern regarding communication among supervisory and other management staff, indicating this was an area which could use improvement. There is some concern that not all staff members are required to adhere to office policies and procedures and would like the Executive Director/CIO to ensure that this is not the case moving forward. Several staff indicated that the Executive Director/CIO has done a better job of soliciting information and gaining the perspectives of staff in the past year, however there is also an opportunity for improvement. Staff would also like greater autonomy to complete delegated tasks and would encourage the Executive Director/CIO to have greater confidence in their ability to complete those tasks. Finally staff acknowledged that they have observed the Executive Director/CIO attempting to make improvements and positive changes over the course of the last calendar year and are very encouraged by the efforts made. Staff would encourage the Executive Director/CIO to continue these efforts in the future.

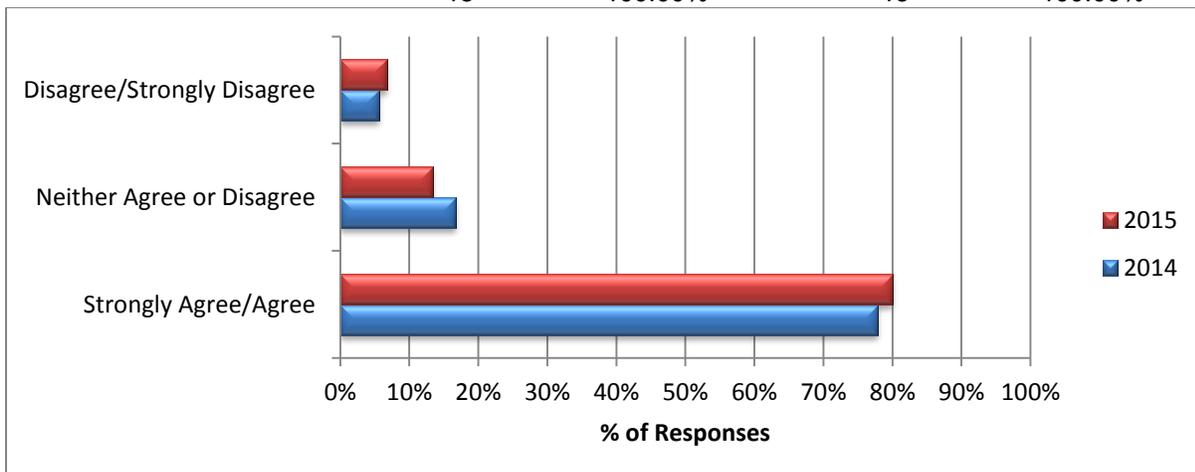
Executive Director/CIO Effectiveness - Leadership

Question 1: *The Executive Director/CIO provides a clear sense of purpose and direction, roles and responsibilities, for me and our team as a whole.*

| <u>Answer Choices</u> | <u>2014 Responses</u> | <u>2014 % Responses</u> | <u>2015 Responses</u> | <u>2015 % Responses</u> |
|---------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Strongly Agree | 2 | 11.11% | 4 | 26.67% |
| Agree | 12 | 66.67% | 8 | 53.33% |
| Neither Agree or Disagree | 3 | 16.67% | 2 | 13.33% |
| Disagree | 1 | 5.56% | 1 | 6.67% |
| Strongly Disagree | 0 | 0.00% | 0 | 0.00% |
| | <u>18</u> | <u>100.00%</u> | <u>15</u> | <u>100.00%</u> |



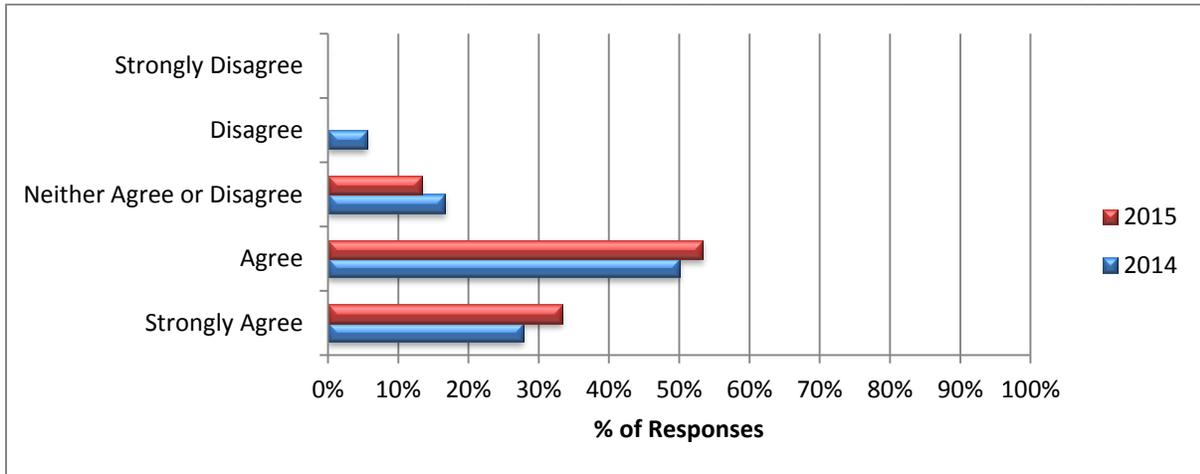
| <u>Answer Choices</u> | <u>2014 Responses</u> | <u>2014 % Responses</u> | <u>2015 Responses</u> | <u>2015 % Responses</u> |
|----------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Strongly Agree/Agree | 14 | 77.78% | 12 | 80.00% |
| Neither Agree or Disagree | 3 | 16.67% | 2 | 13.33% |
| Disagree/Strongly Disagree | 1 | 5.56% | 1 | 6.67% |
| | <u>18</u> | <u>100.00%</u> | <u>15</u> | <u>100.00%</u> |



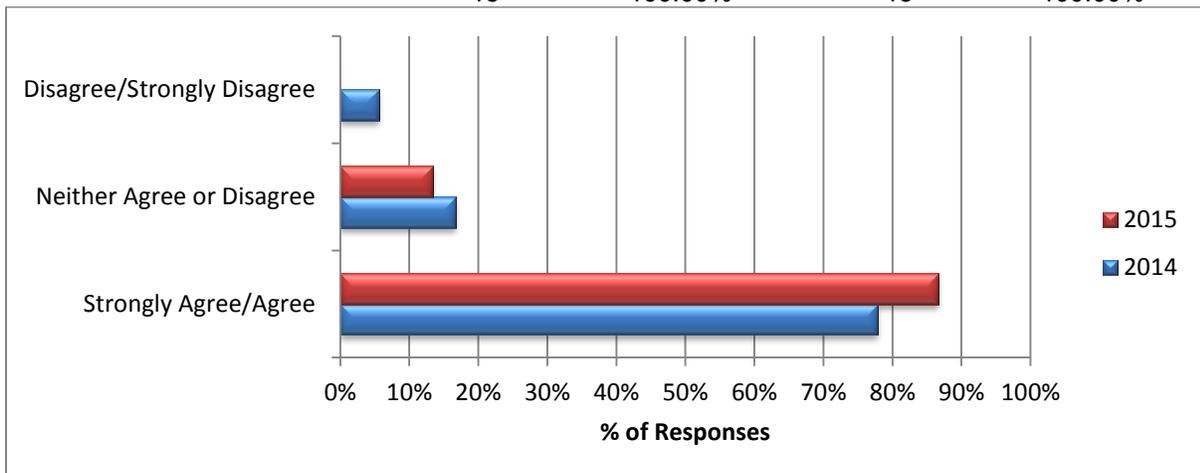
Executive Director/CIO Effectiveness – Leadership

Question 2: Employees have confidence in the Executive Director/CIO.

| <u>Answer Choices</u> | <u>2014 Responses</u> | <u>2014 % Responses</u> | <u>2015 Responses</u> | <u>2015 % Responses</u> |
|---------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Strongly Agree | 5 | 27.78% | 5 | 33.33% |
| Agree | 9 | 50.00% | 8 | 53.33% |
| Neither Agree or Disagree | 3 | 16.67% | 2 | 13.33% |
| Disagree | 1 | 5.56% | 0 | 0.00% |
| Strongly Disagree | 0 | 0.00% | 0 | 0.00% |
| | 18 | 100.00% | 15 | 100.00% |



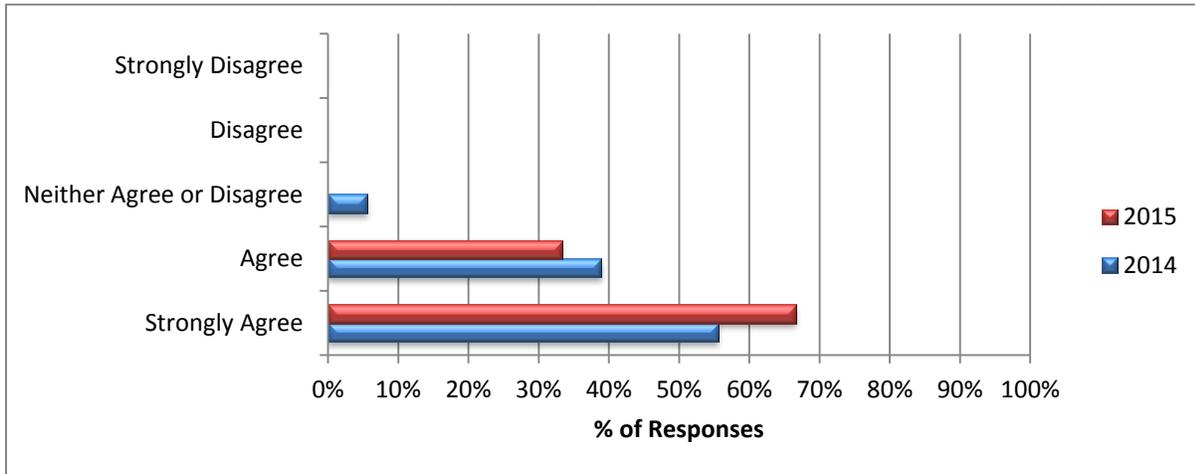
| <u>Answer Choices</u> | <u>2014 Responses</u> | <u>2014 % Responses</u> | <u>2015 Responses</u> | <u>2015 % Responses</u> |
|----------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Strongly Agree/Agree | 14 | 77.78% | 13 | 86.67% |
| Neither Agree or Disagree | 3 | 16.67% | 2 | 13.33% |
| Disagree/Strongly Disagree | 1 | 5.56% | 0 | 0.00% |
| | 18 | 100.00% | 15 | 100.00% |



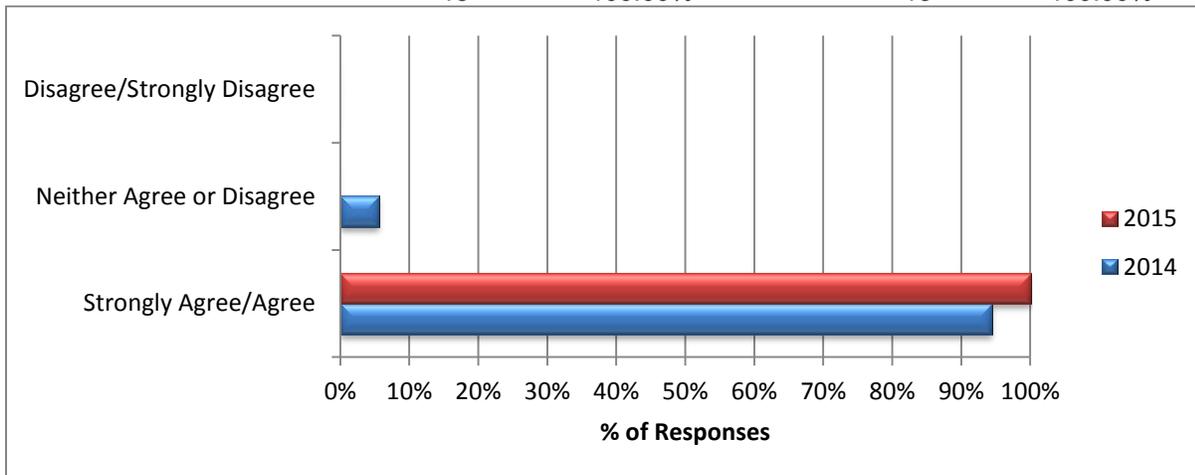
Executive Director/CIO Effectiveness - Leadership

Question 3: *The Executive Director/CIO demonstrates integrity and sets an example for others to follow.*

| <u>Answer Choices</u> | <u>2014</u> <u>Responses</u> | <u>2014</u> <u>% Responses</u> | <u>2015</u> <u>Responses</u> | <u>2015</u> <u>% Responses</u> |
|---------------------------|---------------------------------|-----------------------------------|---------------------------------|-----------------------------------|
| Strongly Agree | 10 | 55.56% | 10 | 66.67% |
| Agree | 7 | 38.89% | 5 | 33.33% |
| Neither Agree or Disagree | 1 | 5.56% | 0 | 0.00% |
| Disagree | 0 | 0.00% | 0 | 0.00% |
| Strongly Disagree | 0 | 0.00% | 0 | 0.00% |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 18 | 100.00% | 15 | 100.00% |



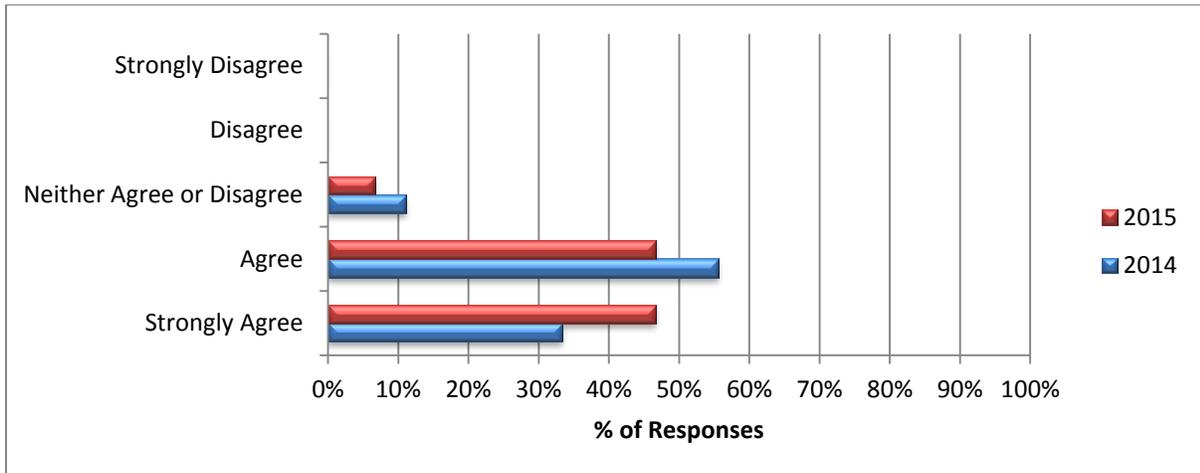
| <u>Answer Choices</u> | <u>2014</u> <u>Responses</u> | <u>2014</u> <u>% Responses</u> | <u>2015</u> <u>Responses</u> | <u>2015</u> <u>% Responses</u> |
|----------------------------|---------------------------------|-----------------------------------|---------------------------------|-----------------------------------|
| Strongly Agree/Agree | 17 | 94.44% | 15 | 100.00% |
| Neither Agree or Disagree | 1 | 5.56% | 0 | 0.00% |
| Disagree/Strongly Disagree | 0 | 0.00% | 0 | 0.00% |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 18 | 100.00% | 15 | 100.00% |



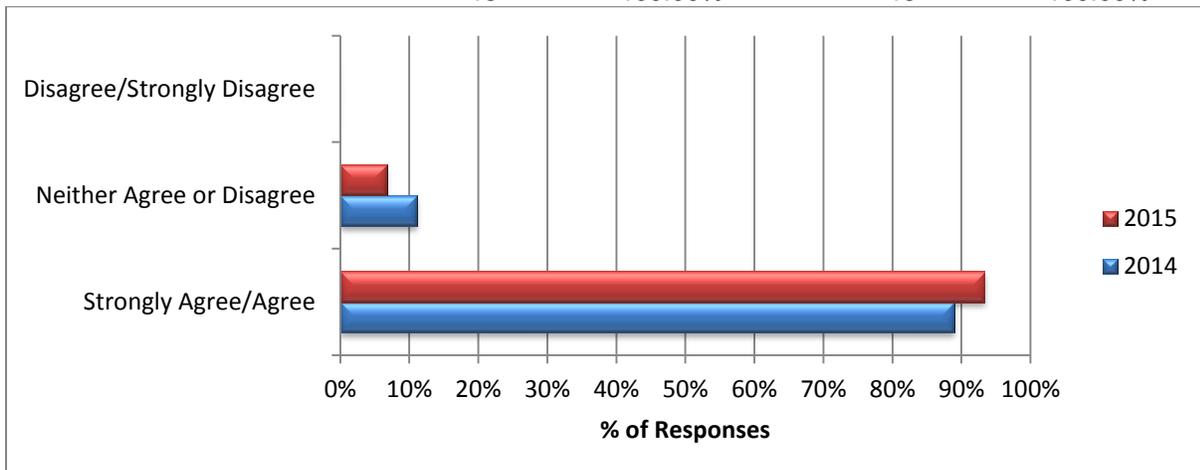
Executive Director/CIO Effectiveness – Communication

Question 1: *The Executive Director/CIO takes time to understand other perspectives and is open to changing his position.*

| <u>Answer Choices</u> | <u>2014 Responses</u> | <u>2014 % Responses</u> | <u>2015 Responses</u> | <u>2015 % Responses</u> |
|---------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Strongly Agree | 6 | 33.33% | 7 | 46.67% |
| Agree | 10 | 55.56% | 7 | 46.67% |
| Neither Agree or Disagree | 2 | 11.11% | 1 | 6.67% |
| Disagree | 0 | 0.00% | 0 | 0.00% |
| Strongly Disagree | 0 | 0.00% | 0 | 0.00% |
| | 18 | 100.00% | 15 | 100.00% |



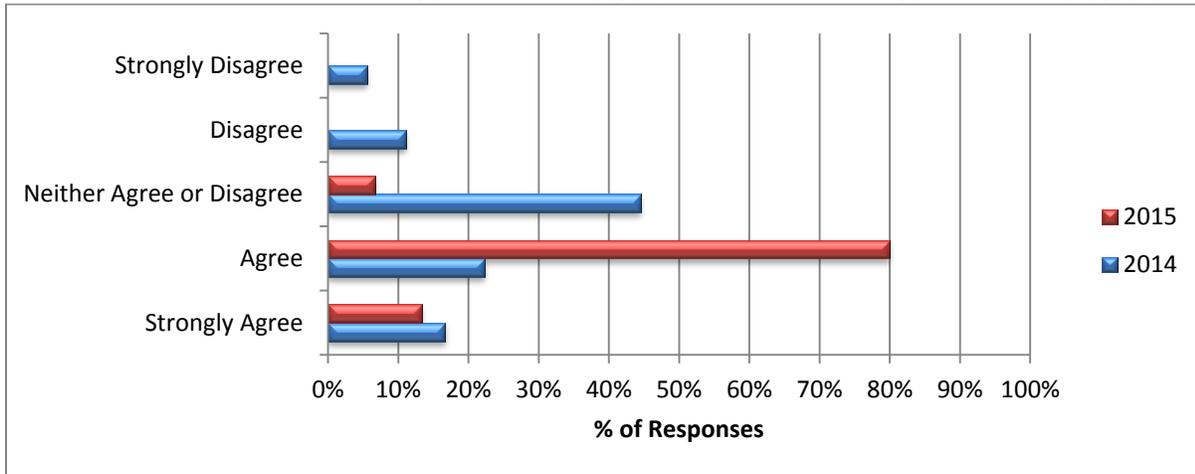
| <u>Answer Choices</u> | <u>2014 Responses</u> | <u>2014 % Responses</u> | <u>2015 Responses</u> | <u>2015 % Responses</u> |
|----------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Strongly Agree/Agree | 16 | 88.89% | 14 | 93.33% |
| Neither Agree or Disagree | 2 | 11.11% | 1 | 6.67% |
| Disagree/Strongly Disagree | 0 | 0.00% | 0 | 0.00% |
| | 18 | 100.00% | 15 | 100.00% |



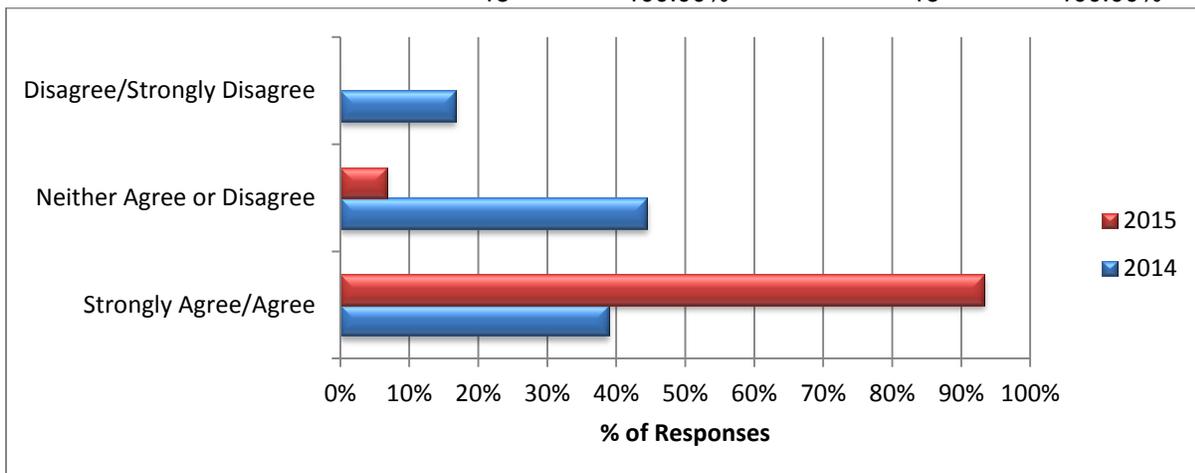
Executive Director/CIO Effectiveness - Communication

Question 2: The Executive Director/CIO keeps employees informed about what is occurring throughout the organization.

| <u>Answer Choices</u> | <u>2014 Responses</u> | <u>2014 % Responses</u> | <u>2015 Responses</u> | <u>2015 % Responses</u> |
|---------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Strongly Agree | 3 | 16.67% | 2 | 13.33% |
| Agree | 4 | 22.22% | 12 | 80.00% |
| Neither Agree or Disagree | 8 | 44.44% | 1 | 6.67% |
| Disagree | 2 | 11.11% | 0 | 0.00% |
| Strongly Disagree | 1 | 5.56% | 0 | 0.00% |
| | 18 | 100.00% | 15 | 100.00% |



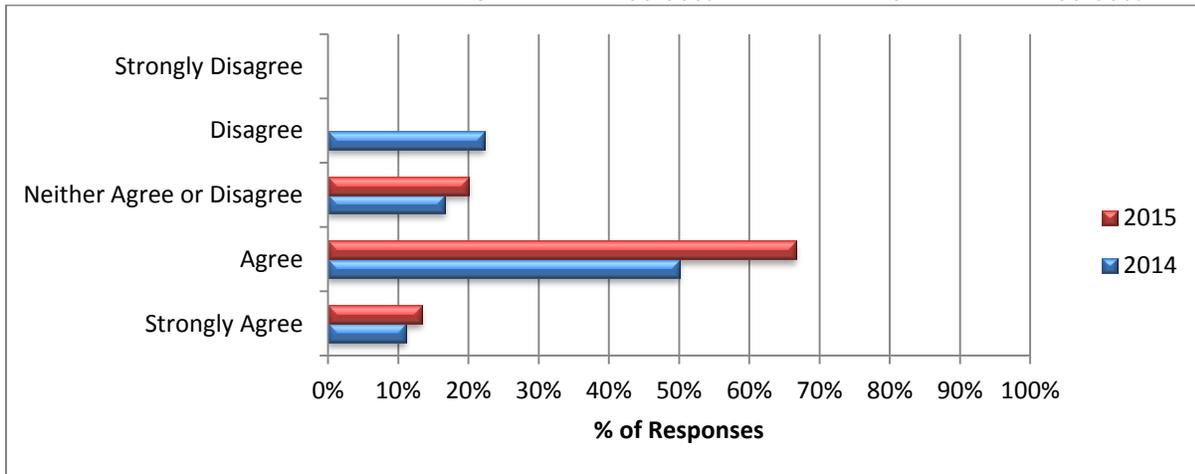
| <u>Answer Choices</u> | <u>2014 Responses</u> | <u>2014 % Responses</u> | <u>2015 Responses</u> | <u>2015 % Responses</u> |
|----------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Strongly Agree/Agree | 7 | 38.89% | 14 | 93.33% |
| Neither Agree or Disagree | 8 | 44.44% | 1 | 6.67% |
| Disagree/Strongly Disagree | 3 | 16.67% | 0 | 0.00% |
| | 18 | 100.00% | 15 | 100.00% |



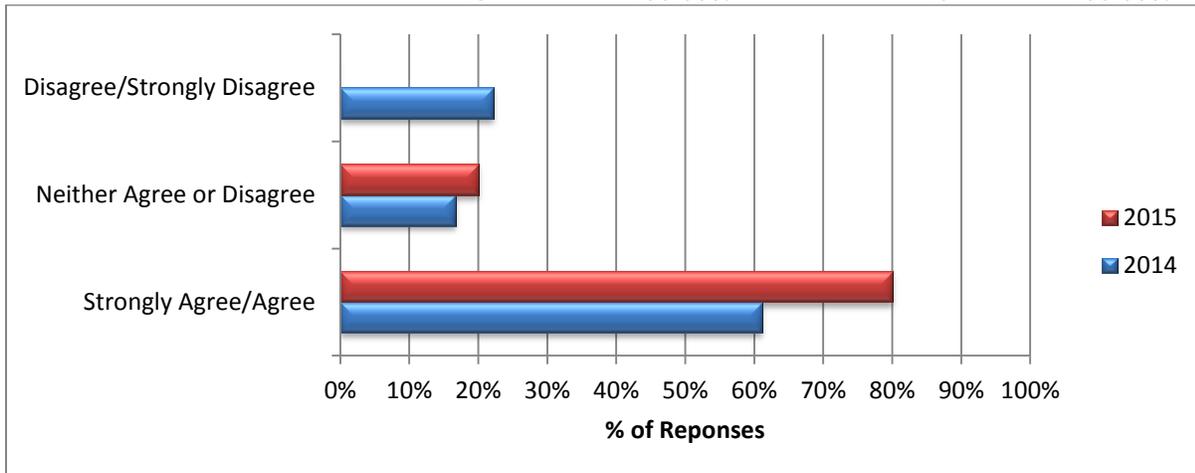
Executive Director/CIO Effectiveness - Communication

Question 3: Information and knowledge are shared openly within this organization.

| <u>Answer Choices</u> | <u>2014 Responses</u> | <u>2014 % Responses</u> | <u>2015 Responses</u> | <u>2015 % Responses</u> |
|---------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Strongly Agree | 2 | 11.11% | 2 | 13.33% |
| Agree | 9 | 50.00% | 10 | 66.67% |
| Neither Agree or Disagree | 3 | 16.67% | 3 | 20.00% |
| Disagree | 4 | 22.22% | 0 | 0.00% |
| Strongly Disagree | 0 | 0.00% | 0 | 0.00% |
| | 18 | 100.00% | 15 | 100.00% |



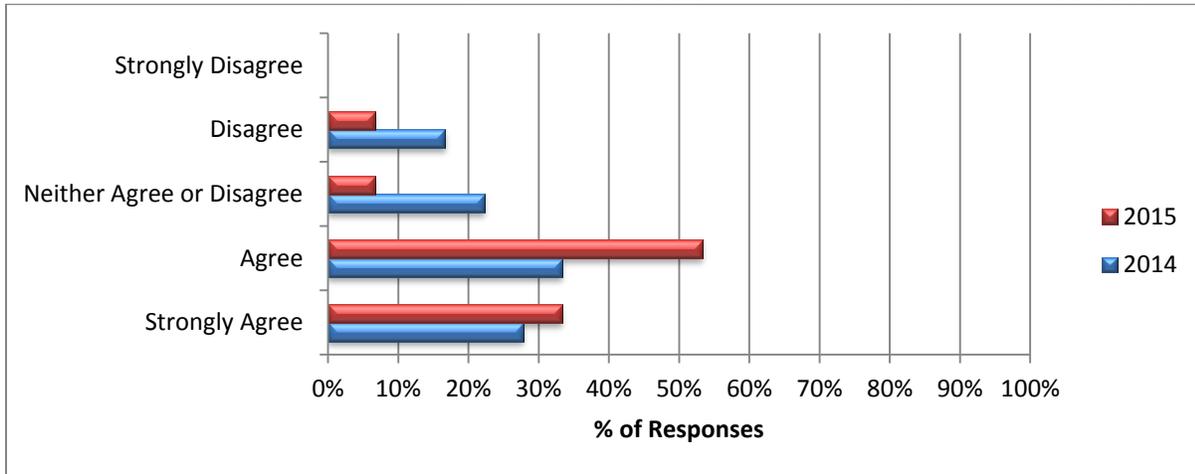
| <u>Answer Choices</u> | <u>2014 Responses</u> | <u>2014 % Responses</u> | <u>2015 Responses</u> | <u>2015 % Responses</u> |
|----------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Strongly Agree/Agree | 11 | 61.11% | 12 | 80.00% |
| Neither Agree or Disagree | 3 | 16.67% | 3 | 20.00% |
| Disagree/Strongly Disagree | 4 | 22.22% | 0 | 0.00% |
| | 18 | 100.00% | 15 | 100.00% |



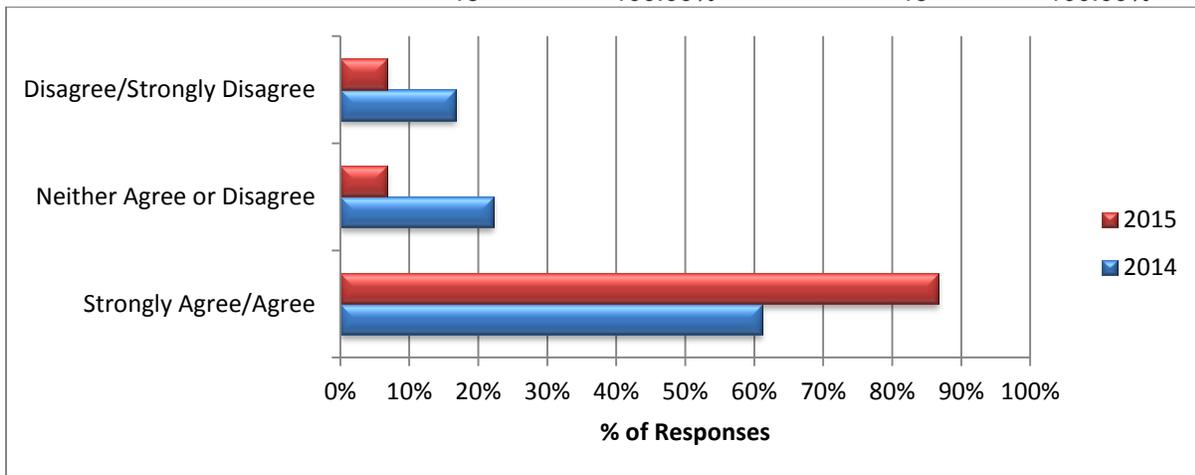
Executive Director/CIO Effectiveness – Valuing Employees

Question 1: The Executive Director/CIO seeks input from all team members.

| <u>Answer Choices</u> | <u>2014</u> <u>Responses</u> | <u>2014</u> <u>% Responses</u> | <u>2015</u> <u>Responses</u> | <u>2015</u> <u>% Responses</u> |
|---------------------------|---------------------------------|-----------------------------------|---------------------------------|-----------------------------------|
| Strongly Agree | 5 | 27.78% | 5 | 33.33% |
| Agree | 6 | 33.33% | 8 | 53.33% |
| Neither Agree or Disagree | 4 | 22.22% | 1 | 6.67% |
| Disagree | 3 | 16.67% | 1 | 6.67% |
| Strongly Disagree | 0 | 0.00% | 0 | 0.00% |
| | 18 | 100.00% | 15 | 100.00% |



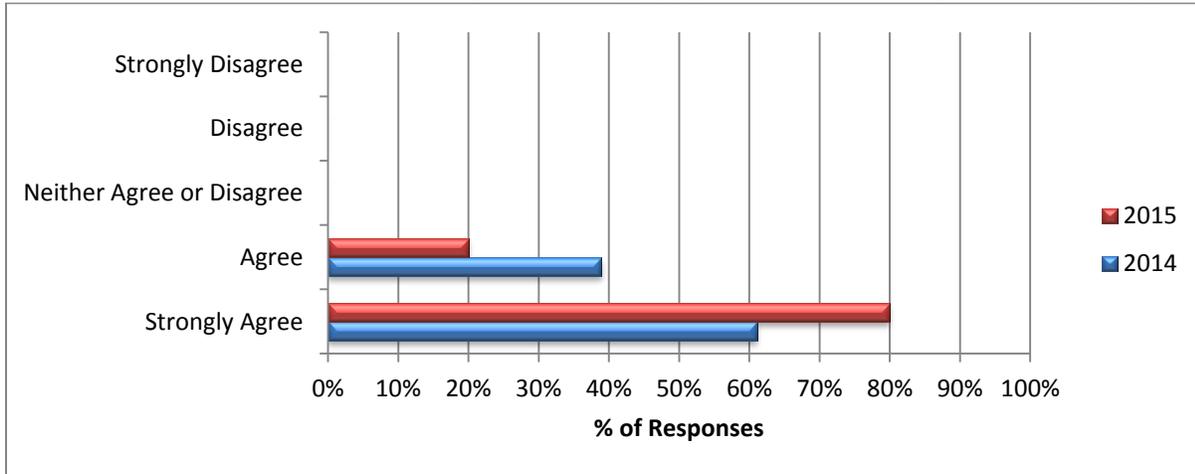
| <u>Answer Choices</u> | <u>2014</u> <u>Responses</u> | <u>2014</u> <u>% Responses</u> | <u>2015</u> <u>Responses</u> | <u>2015</u> <u>% Responses</u> |
|----------------------------|---------------------------------|-----------------------------------|---------------------------------|-----------------------------------|
| Strongly Agree/Agree | 11 | 61.11% | 13 | 86.67% |
| Neither Agree or Disagree | 4 | 22.22% | 1 | 6.67% |
| Disagree/Strongly Disagree | 3 | 16.67% | 1 | 6.67% |
| | 18 | 100.00% | 15 | 100.00% |



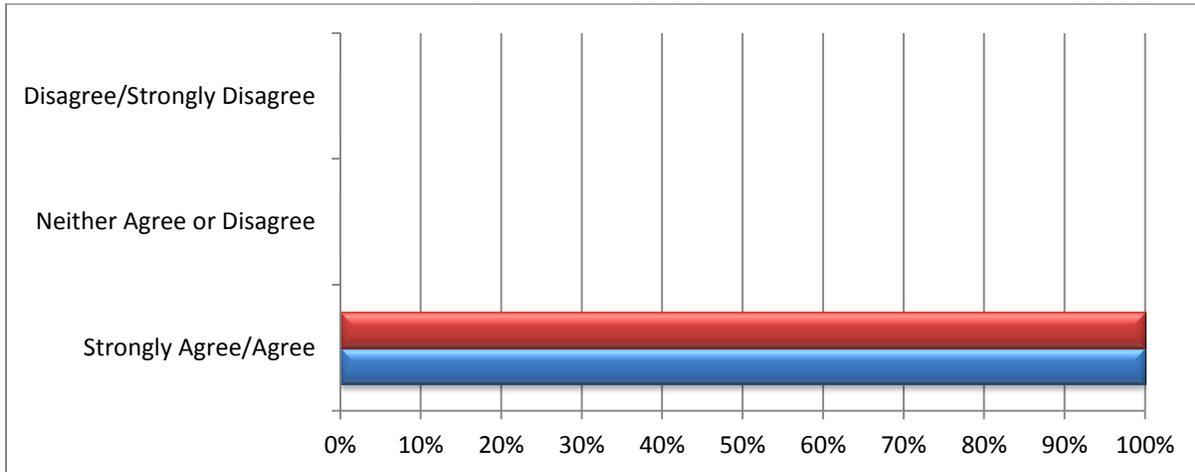
Executive Director/CIO Effectiveness – Valuing Employees

Question 2: *The Executive Director/CIO shows genuine concern for team members.*

| <u>Answer Choices</u> | <u>2014 Responses</u> | <u>2014 % Responses</u> | <u>2015 Responses</u> | <u>2015 % Responses</u> |
|---------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Strongly Agree | 11 | 61.11% | 12 | 80.00% |
| Agree | 7 | 38.89% | 3 | 20.00% |
| Neither Agree or Disagree | 0 | 0.00% | 0 | 0.00% |
| Disagree | 0 | 0.00% | 0 | 0.00% |
| Strongly Disagree | 0 | 0.00% | 0 | 0.00% |
| | <hr/> | | <hr/> | |
| | 18 | 100.00% | 15 | 100.00% |



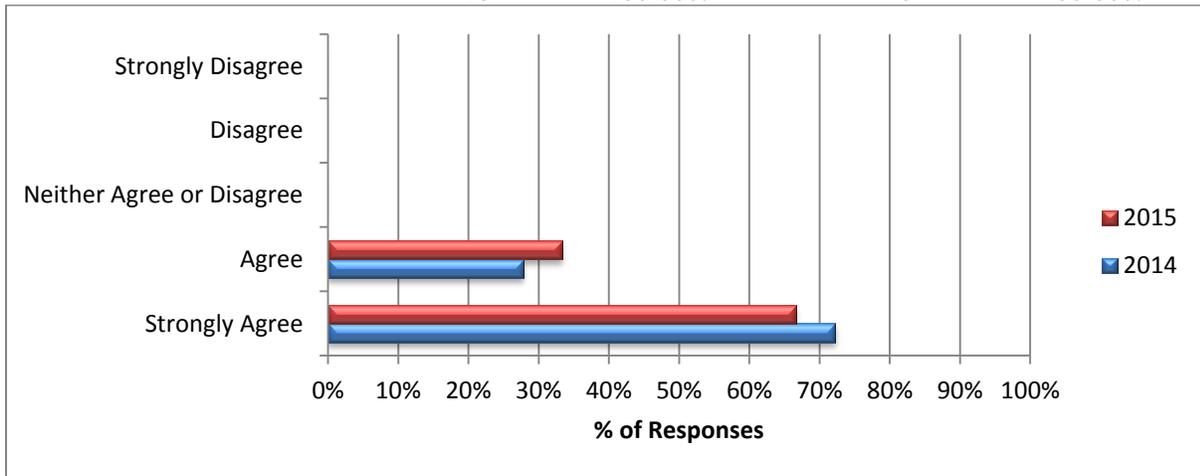
| <u>Answer Choices</u> | <u>2014 Responses</u> | <u>2014 % Responses</u> | <u>2015 Responses</u> | <u>2015 % Responses</u> |
|----------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Strongly Agree/Agree | 18 | 100.00% | 15 | 100.00% |
| Neither Agree or Disagree | 0 | 0.00% | 0 | 0.00% |
| Disagree/Strongly Disagree | 0 | 0.00% | 0 | 0.00% |
| | <hr/> | | <hr/> | |
| | 18 | 100.00% | 15 | 100.00% |



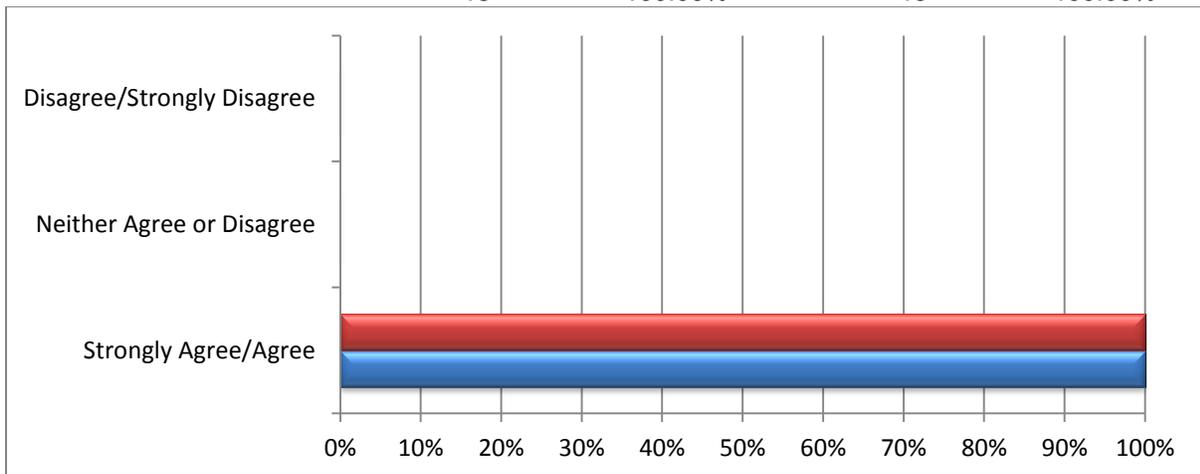
Executive Director/CIO Effectiveness – Valuing Employees

Question 3: *The Executive Limitation/CIO treats employees with respect.*

| <u>Answer Choices</u> | <u>2014 Responses</u> | <u>2014 % Responses</u> | <u>2015 Responses</u> | <u>2015 % Responses</u> |
|---------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Strongly Agree | 13 | 72.22% | 10 | 66.67% |
| Agree | 5 | 27.78% | 5 | 33.33% |
| Neither Agree or Disagree | 0 | 0.00% | 0 | 0.00% |
| Disagree | 0 | 0.00% | 0 | 0.00% |
| Strongly Disagree | 0 | 0.00% | 0 | 0.00% |
| | <u>18</u> | <u>100.00%</u> | <u>15</u> | <u>100.00%</u> |



| <u>Answer Choices</u> | <u>2014 Responses</u> | <u>2014 % Responses</u> | <u>2015 Responses</u> | <u>2015 % Responses</u> |
|----------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Strongly Agree/Agree | 18 | 100.00% | 15 | 100.00% |
| Neither Agree or Disagree | 0 | 0.00% | 0 | 0.00% |
| Disagree/Strongly Disagree | 0 | 0.00% | 0 | 0.00% |
| | <u>18</u> | <u>100.00%</u> | <u>15</u> | <u>100.00%</u> |



BUDGETING / FINANCIAL CONDITION

AS OF DECEMBER 31, 2015

| | 2015-2017 BUDGET | ADJUSTED APPROPRIATION | BIENNIUM TO DATE ACTUAL | EXPENDITURES | | |
|------------------------|------------------------|---------------------------|----------------------------|---------------------|-----------------------|----------------------------|
| | | | | BUDGET AVAILABLE | % BUDGET AVAILABLE | % OF BIENNIUM REMAINING |
| SALARIES AND BENEFITS | \$ 4,340,551.00 | \$ 4,340,551.00 | \$ 1,004,841.80 | \$ 3,335,709.20 | 76.85% | 75.00% |
| OPERATING EXPENDITURES | 990,874.00 | 990,874.00 | 158,565.51 | 832,308.49 | 84.00% | 75.00% |
| CONTINGENCY | 82,000.00 | 82,000.00 | 0.00 | 82,000.00 | 100.00% | 75.00% |
| TOTAL | <u>\$ 5,413,425.00</u> | <u>\$ 5,413,425.00</u> | <u>\$ 1,163,407.31</u> | <u>4,250,017.69</u> | <u>78.51%</u> | <u>75.00%</u> |

EXPENDITURE REPORT

QUARTER ENDED DECEMBER 31, 2015

| | INVESTMENT | RETIREMENT | QUARTERLY TOTALS | FISCAL YEAR TO - DATE | BIENNIUM TO - DATE | PRIOR FISCAL YEAR TO - DATE | PRIOR BIENNIUM TO - DATE |
|--|-----------------|------------------|---------------------|--------------------------|-----------------------|-----------------------------------|--------------------------------|
| CONTINUING APPROPRIATIONS | | | | | | | |
| INVESTMENT EXPENDITURES (SEE ATTACHED DETAIL) | \$ 5,633,248.90 | \$ 0.00 | \$ 5,633,248.90 | \$ 17,472,265.07 | \$ 17,472,265.07 | \$ 11,839,016.17 | \$ 11,839,016.17 |
| MEMBER CLAIMS | | | | | | | |
| 1. ANNUITY PAYMENTS | 0.00 | 45,115,893.12 | 45,115,893.12 | 89,824,656.14 | 89,824,656.14 | 44,708,763.02 | 44,708,763.02 |
| 2. REFUND PAYMENTS | 0.00 | 1,883,416.45 | 1,883,416.45 | 3,530,446.97 | 3,530,446.97 | 1,647,030.52 | 1,647,030.52 |
| TOTAL MEMBER CLAIMS | 0.00 | 46,999,309.57 | 46,999,309.57 | 93,355,103.11 | 93,355,103.11 | 46,355,793.54 | 46,355,793.54 |
| OTHER CONTINUING APPROPRIATIONS | 73,397.12 | 109,963.06 | 183,360.18 | 252,514.28 | 252,514.28 | 69,154.10 | 69,154.10 |
| TOTAL CONTINUING APPROPRIATIONS | 5,706,646.02 | 47,109,272.63 | 52,815,918.65 | 111,079,882.46 | 111,079,882.46 | 58,263,963.81 | 58,263,963.81 |
| BUDGETED EXPENDITURES | | | | | | | |
| 1. SALARIES & BENEFITS | | | | | | | |
| SALARIES | 189,674.95 | 183,152.05 | 372,827.00 | 745,382.00 | 745,382.00 | 372,555.00 | 372,555.00 |
| OVERTIME/TEMPORARY | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| TERMINATION SALARY & BENEFITS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| FRINGE BENEFITS | 58,650.72 | 72,840.28 | 131,491.00 | 259,459.80 | 259,459.80 | 127,968.80 | 127,968.80 |
| TOTAL SALARY & BENEFITS | 248,325.67 | 255,992.33 | 504,318.00 | 1,004,841.80 | 1,004,841.80 | 500,523.80 | 500,523.80 |
| 2. OPERATING EXPENDITURES | | | | | | | |
| DATA PROCESSING | 3,186.57 | 16,403.32 | 19,589.89 | 32,848.91 | 32,848.91 | 13,259.02 | 13,259.02 |
| TELECOMMUNICATIONS - ISD | 865.27 | 1,433.47 | 2,298.74 | 3,924.49 | 3,924.49 | 1,625.75 | 1,625.75 |
| TRAVEL | 7,136.47 | 10,598.64 | 17,735.11 | 22,993.37 | 22,993.37 | 5,258.26 | 5,258.26 |
| IT - SOFTWARE/SUPPLIES | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| POSTAGE SERVICES | 758.46 | 2,750.03 | 3,508.49 | 21,329.14 | 21,329.14 | 17,820.65 | 17,820.65 |
| IT - CONTRACTUAL SERVICES | 222.60 | 1,470.65 | 1,693.25 | 2,154.16 | 2,154.16 | 460.91 | 460.91 |
| BUILDING/LAND RENT & LEASES | 7,761.24 | 12,560.31 | 20,321.55 | 41,018.10 | 41,018.10 | 20,696.55 | 20,696.55 |
| DUES & PROF. DEVELOPMENT | 318.20 | 2,068.80 | 2,387.00 | 11,812.00 | 11,812.00 | 9,425.00 | 9,425.00 |
| OPERATING FEES & SERVICES | 536.31 | 4,780.01 | 5,316.32 | 6,970.96 | 6,970.96 | 1,654.64 | 1,654.64 |
| REPAIR SERVICE | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| PROFESSIONAL SERVICES | 991.16 | 1,908.84 | 2,900.00 | 5,280.00 | 5,280.00 | 2,380.00 | 2,380.00 |
| INSURANCE | 0.00 | 0.00 | 0.00 | 127.07 | 127.07 | 127.07 | 127.07 |
| OFFICE SUPPLIES | 56.22 | 388.77 | 444.99 | 572.66 | 572.66 | 127.67 | 127.67 |
| PRINTING | 654.79 | 1,886.46 | 2,541.25 | 7,289.77 | 7,289.77 | 4,748.52 | 4,748.52 |
| PROFESSIONAL SUPPLIES & MATERIALS | 331.79 | 315.55 | 647.34 | 647.34 | 647.34 | 0.00 | 0.00 |
| MISCELLANEOUS SUPPLIES | 55.32 | 121.40 | 176.72 | 277.54 | 277.54 | 100.82 | 100.82 |
| IT EQUIPMENT UNDER \$5000 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| OFFICE EQUIPMENT & FURNITURE UNDER \$5000 | 660.00 | 660.00 | 1,320.00 | 1,320.00 | 1,320.00 | 0.00 | 0.00 |
| TOTAL OPERATING EXPENDITURES | 23,534.40 | 57,346.25 | 80,880.65 | 158,565.51 | 158,565.51 | 77,684.86 | 77,684.86 |
| 3. CONTINGENCY | | | | | | | |
| | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| TOTAL BUDGETED EXPENDITURES | 271,860.07 | 313,338.58 | 585,198.65 | 1,163,407.31 | 1,163,407.31 | 578,208.66 | 578,208.66 |
| TOTAL EXPENDITURES | \$ 5,905,108.97 | \$ 47,312,648.15 | \$ 53,401,117.30 | \$ 112,243,289.77 | \$ 112,243,289.77 | \$ 58,842,172.47 | \$ 58,842,172.47 |

INVESTMENT EXPENDITURE DETAIL

FEES PAID DURING THE QUARTER ENDED DECEMBER 31, 2015

FOR QUARTER ENDED 9/30/15

PENSION DEVELOPED INTERNATIONAL EQUITY POOL

| | | |
|------------------------------------|------------|------------|
| Capital Guardian | 131,945.07 | |
| Wellington | 184,798.87 | |
| TOTAL PENSION INTERNATIONAL EQUITY | <hr/> | 316,743.94 |

PENSION GLOBAL EQUITY POOL

| | | |
|-----------------------------|------------|------------|
| Epoch | 484,961.12 | |
| LSV | 95,685.00 | |
| TOTAL PENSION GLOBAL EQUITY | <hr/> | 580,646.12 |

PENSION BELOW INVESTMENT GRADE FIXED

| | | |
|---------------|--|------------|
| Loomis Sayles | | 269,021.30 |
|---------------|--|------------|

PENSION INVESTMENT GRADE FIXED INCOME POOL

| | | |
|---|--------------|-------------|
| JP Morgan | 65,191.64 | |
| PIMCO | (163,715.81) | |
| State Street | 7,770.72 | |
| TOTAL PENSION INVESTMENT GRADE FIXED INCOME | <hr/> | (90,753.45) |

PENSION INFRASTRUCTURE POOL

| | | |
|-----------|--|------------|
| JP Morgan | | 320,047.70 |
|-----------|--|------------|

PENSION LARGE CAP EQUITY POOL

| | | |
|------------|--|------------|
| LA Capital | | 220,320.01 |
|------------|--|------------|

PENSION REAL ESTATE

| | | |
|---------------------------------|------------|------------|
| JP Morgan (Special & Strategic) | 410,223.00 | |
| Invesco | 160,990.28 | |
| TOTAL PENSION REAL ESTATE | <hr/> | 571,213.28 |

PENSION INTERNATIONAL FIXED INCOME

| | | |
|--|------------|------------|
| Brandywine | 120,330.49 | |
| UBS | 82,047.74 | |
| TOTAL PENSION INTERNATIONAL FIXED INCOME | <hr/> | 202,378.23 |

INSURANCE FIXED INCOME POOL

| | | |
|------------------------------|------------|------------|
| Prudential | 61,265.02 | |
| State Street | 11,456.79 | |
| Wells | 137,212.69 | |
| Western Asset | 107,378.49 | |
| TOTAL INSURANCE FIXED INCOME | <hr/> | 317,312.99 |

INSURANCE LARGE CAP EQUITY POOL

| | | |
|---------------------------|-----------|-----------|
| LA Capital | 51,657.13 | |
| LSV | 48,103.00 | |
| TOTAL INSURANCE LARGE CAP | <hr/> | 99,760.13 |

INSURANCE SMALL CAP EQUITY POOL

| | | |
|---------------------|--|-----------|
| Research Affiliates | | 16,768.34 |
|---------------------|--|-----------|

INSURANCE INT'L EQUITY

| | | |
|------------------------------|-----------|------------|
| Capital Guardian | 73,347.36 | |
| LSV | 56,919.00 | |
| TOTAL INSURANCE INT'L EQUITY | <hr/> | 130,266.36 |

INVESTMENT EXPENDITURE DETAIL

FEES PAID DURING THE QUARTER ENDED DECEMBER 31, 2015

FOR QUARTER ENDED 12/31/15

PENSION CASH

Northern Trust

13,487.41

TOTAL FOR QUARTER ENDED 12/31/15

13,487.41

TOTAL FEES PAID DURING QUARTER ENDED 12/31/2015

5,633,248.90

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

QUARTERLY MONITORING REPORT

Quarter Ended December 31, 2015

EXECUTIVE LIMITATIONS / STAFF RELATIONS

The Executive Limitation “Staff Relations” deals with the treatment of staff at RIO. The executive director “shall not cause or allow any condition or any communication which is unfair, undignified, or disrespectful.” This Executive Limitation lists six specific limitations that range from personnel policies to exit interviews. All the limitations are intended to protect staff from unfair, undignified, or disrespectful treatment by management.

During the past quarter, there were no exceptions to this Executive Limitation.

The executive director conducted monthly meetings with the full RIO team in order to promote an open and collaborative work environment while enhancing team member communication, awareness and engagement. In December, RIO’s Supervisor of Audit Services conducted an anonymous survey of RIO staff to gain insight into the effectiveness of the executive director. Based on the results of this 2015 survey, the executive director received a 96% positive rating for questions relating to “Valuing Employees” and 89% positive ratings for “Communication” and “Leadership”.

We continue to search for a new Data Processing Coordinator noting that this position has been vacant since May 29, 2015. Rich Nagel, as Supervisor of Information Systems, has done a fine job expanding his considerable duties and responsibilities to fulfill our IT needs while we seek a qualified candidate to assist him in the near future. RIO intends to schedule interviews for up to five qualified candidates (as determined by HRMS) over the next month to fill this important position.

RIO team members have been kept informed on the status of this position.

Quarterly Report on Ends Q2:FY16

Investment Program

Continuing due diligence conducted on the following organizations:

| | | |
|---------------|-------------|---------------|
| Adams Street | Corsair | Loomis Sayles |
| Axiom | Declaration | LSV |
| Babson | Grosvenor | PIMCO |
| Brandywine | Invesco | Wellington |
| Capital Group | JP Morgan | Western |

Initial due diligence conducted on the following organizations:

| | | |
|-------------------------|-------------------|------------------------|
| Abbott Capital | Hamilton Lane | Pantheon |
| AllianceBernstein | JP Morgan | Pathway |
| Apollo | Kepos | Pine River |
| Atlanta Capital | KKR | Portfolio Advisors |
| Blackrock | Longview Partners | Public Pension Capital |
| Champlain | Lyrical Partners | RCP |
| Chicago Equity Partners | Mesirow Financial | Thornburg |
| Frontier Market | Millennium Global | Wellington |
| Goldman Sachs | Neuberger Berman | |
| Grosvenor | Nuveen | |

At the November SIB meeting, due to investment personnel changes at Capital Group and the firm's unwillingness to provide Staff greater transparency surrounding individual portfolio manager performance, the Board approved the engagement of Callan to conduct a search to potentially replace the international equity mandates managed by Capital Group across all three pools. Staff began the search process with Callan in December.

The Board approved a new policy allocation for the NDPERS Group Insurance Account. The former policy allocation of 100% cash was changed to a new policy allocation of not more than \$36 million in short term fixed income, which will be managed through an existing JP Morgan Short Bond mandate within the insurance trust. The new policy allocation was implemented in mid-December.

Staff transferred approximately 95% of Job Service Pension Plan assets to SEI Investments for implementation as part of the comprehensive de-risking solution on behalf of the Plan. The remaining Plan assets are expected to be transferred by the end of the first quarter of 2016 following final payment of 4Q 2015 investment management fees.

Staff continues to perform due diligence with Aon Hewitt to identify finalist candidates as part of a U.S. Small Cap Equity search on behalf of the pension trust. Finalist candidates are scheduled to present to the Board at the January 2016 SIB meeting.

Staff continues to work with Callan Associates to identify finalist candidates as part of a private equity search to identify candidates to complement the existing private equity program on behalf of the pension trust.

Staff and Callan are working jointly to complete an asset-liability study on behalf of the Teachers Fund for Retirement, which is expected to be finalized in January.

Staff attended meetings with the following entities: TFFR Board, NDPERS Board and Investment Subcommittee, ND Department of Insurance, Legislative Employees Benefits Program Committee, Legacy and Budget Stabilization Fund Advisory Board.

Staff is continuing its review of third-party total plan risk management software vendors with the goal of implementing an enhanced risk management system utilizing holdings-based analysis across all investment programs overseen by the SIB.

Staff continues to conduct preliminary due diligence on possible managers/products for future consideration.

Staff continues to monitor each client's asset allocation monthly and makes rebalancing decisions based on rebalancing policy and cash flow requirements.

Quarterly Monitoring Report on TFFR Ends Quarter ended December 31, 2015

Retirement Program

This report highlights exceptions to normal operating conditions.

- TFFR's actuary presented 2015 annual actuarial valuation report, funding projections, and GASB 68 information to TFFR Board and the Legislative Employee Benefits Programs Committee.
- TFFR received 2015 Public Pension Standards Award for Funding and Administration. This award is designed to recognize and commend public employee retirement systems that meet professional standards for pension plan funding and administration.
- TFFR Board and Callan Associates continue work on the 5-year Asset Liability Study. Results of the study and recommendations will be reviewed with the TFFR Board at their January 2016 meeting.
- TFFR staff completed specifications and CPAS software vendor is in the process of programming and testing the system changes to incorporate new mortality tables and investment return assumption from Actuarial Experience Study into pension administration software. The changes will update benefit option and service purchase calculations.
- TFFR legal counsel is in the process of reviewing the documentation prepared for the IRS compliance review. TFFR will submit the IRS determination letter request by the January 31, 2016 deadline.
- TFFR held a public hearing regarding the update to TFFR Administrative Rules which defines certain terms for administrative clarification, updates language to maintain compliance with federal IRC requirements (HEART Act), and updates recently revised actuarial assumption changes.

NDSIB Watch List

PIMCO data as of 11/30/2015

| PIMCO MBS (Pen.) | | \$181,406,842 | |
|------------------|---------|--------------------|--------|
| | Returns | Index ² | Excess |
| 1 Year | 1.74 | 1.70 | 0.04 |
| 3 Year | 1.62 | 2.07 | (0.45) |
| Inception* | 2.02 | 2.18 | (0.16) |

*Funded 3/31/2012

| PIMCO Unconstrained (Pen.) | | \$79,571,020 | |
|----------------------------|---------|--------------------|--------|
| | Returns | Index ³ | Excess |
| 1 Year | (1.34) | 0.29 | (1.63) |
| 3 Year | (0.20) | 0.27 | (0.46) |
| Inception* | 1.57 | 0.30 | 1.26 |

*Funded 3/12/2012

Callan data as of 11/30/2015

| Callan Small Cap Equity | | \$116,146,229 | |
|-------------------------|---------|--------------------|--------|
| | Returns | Index ⁴ | Excess |
| 1 Year | 0.33 | 3.51 | (3.17) |
| 3 Year | 13.79 | 14.92 | (1.13) |
| 5 Year | 11.35 | 12.02 | (0.66) |
| Inception* | 6.07 | 6.23 | (0.16) |

*Funded 05/03/2006

UBS data as of 11/30/2015

| UBS Global Bond | | \$97,323,806 | |
|-----------------|---------|--------------------|--------|
| | Returns | Index ⁵ | Excess |
| 1 Year | (8.27) | (8.29) | 0.02 |
| 3 Year | (5.24) | (4.62) | 0.63 |
| 5 Year | (0.78) | (0.48) | 0.29 |
| Inception* | 5.94 | 5.64 | 0.30 |

*Funded 07/01/1989

Capital Guardian data as of 11/30/2015

| Cap Guardian Intl Equity (PEN) | | \$127,616,470 | |
|--------------------------------|---------|--------------------|--------|
| | Returns | Index ¹ | Excess |
| 1 Year | (4.15) | (2.94) | (1.21) |
| 3 Year | 6.51 | 6.60 | (0.09) |
| 5 Year | 5.63 | 5.52 | 0.11 |
| Inception* | 6.97 | 4.85 | 2.12 |

*Funded 03/01/1992

| Cap Guardian Intl Equity (INS) | | \$61,849,958 | |
|--------------------------------|---------|--------------------|--------|
| | Returns | Index ¹ | Excess |
| 1 Year | (4.49) | (2.94) | (1.55) |
| 3 Year | 5.75 | 6.60 | (0.85) |
| 5 Year | 5.20 | 5.52 | (0.31) |
| Inception* | 5.66 | 4.58 | 1.08 |

*Funded 04/01/1997

| Cap Guardian Intl Equity (LEG) | | \$270,738,105 | |
|--------------------------------|---------|--------------------|--------|
| | Returns | Index ¹ | Excess |
| 1 Year | | | |
| 3 Year | | | |
| 5 Year | | | |
| Inception* | | | |

Note: Performance data for Legacy account is included in INS data due to the recent transition

*Funded 02/02/2015

| |
|---|
| ¹ MSCI EAFE |
| ² Barclays Mortgage Index |
| ³ Libor 3-Month |
| ⁴ Russell 2000 |
| ⁵ Barclays Global Agg. Ex US |

Note: Returns for PIMCO and CALLAN are net of fees, UBS & CAPITAL GUARDIAN use gross due to data availability

AGENDA ITEM VI.A.

TO: State Investment Board
FROM: Dave Hunter
DATE: January 15, 2016
SUBJECT: Board Education on Fiduciary Duty – Investment Objectives

During the past year, SIB members and RIO personnel have actively participated in numerous educational opportunities including industry conferences (i.e. Callan, NASIO and NCTR) and specialized training courses in investments, retirement benefit services, auditing, ethics, fiduciary duty, governance and systems.

In order to expand awareness of the important role played by our SIB members in acting as a trustee, RIO is re-distributing “A Primer for Investment Trustees”. Over the next several board meetings, RIO will highlight key **“Takeaways”** from each section and invite a board discussion on any related topics, questions or concerns which may benefit from a broader exchange of ideas. This publication is highly recommended by: 1) National Association of State Investment Officers; 2) CFA Institute; and 3) the investment consultant community.

In late-2015, we focused on “Governance Structure”, “Investment Policy” and “The Fund’s Mission”. This month, we will focus on “Investment Objectives”. **As a result, RIO encourages SIB and RIO members to review pages 41-to-46 of “A Primer for Investment Trustees”.**

Section 3: Investment Objectives

1. A fund’s investment objectives are a quantifiable set of investment results that decision makers expect to achieve over specified periods of time.
2. Investment objectives play both a prospective and retrospective role in directing the investment program.
3. A fund’s investment objectives should be unambiguous and measureable, specified in advance, actionable and attainable, reflective of decision makers’ risk tolerance, and consistent with the fund’s mission.
4. The most useful investment objectives generally are those expressed relative to an investment alternative (such as a market index).
5. Investment objectives are best specified as a range of desirable outcomes as opposed to a single number.

SIB clients receive investment returns, consistent with their written investment policies and market variables, in a cost effective manner and under the Prudent Investor Rule.

1. The client fund’s rate of return net of fees and expenses should exceed the client’s policy benchmark over a minimum period of five-years;
2. The client fund’s risk, measured by standard deviation, should not materially exceed (i.e. within 15%) the client’s policy benchmark over a minimum period of five-years; and
3. The client fund’s risk adjusted performance, measured by risk adjusted excess return, should exceed the client’s policy benchmark over a minimum period of five-years.

Source: SIB Governance Manual Section D. Investment Criteria for Ends

SIB client “Investment Objectives” are quantifiable over a specified time period, unambiguous, incorporate a stated risk tolerance and measured relative to a market based policy index. RIO notes the investment return (1) and risk (2) criteria are satisfied for all SIB clients with a 5-year track record for the period ended September 30, 2015, while the risk adjusted return criteria are satisfied for 19 out of 21 clients (with a 5-year track record as of 9/30/2015). The two exceptions relate to the Grand Forks Park District and PERS Retiree Health Insurance Credit Fund, which still generated meaningfully positive excess return (of at least 0.33%) while operating within approved risk tolerance levels (within 110% of policy), for the 5-years ended September 30, 2015.

Board Education Calendar for the CFA Institute “A Primer for Investment Trustees”:

| | |
|---------------------|---|
| October 2015 | Session 1: Governance Structure |
| November 2015 | Session 2: Investment Policy Session 3: The Fund’s Mission |
| January 2016 | Session 4: Investment Objectives |
| February 2016 | Session 5: Investment Risk Tolerance |
| March 2016 | Session 6: Investment Assets |
| April 2016 | Session 7: Performance Evaluation |
| May 2016 | Session 8: Ethics in Investing |
| June 2016 | <i>No SIB meeting scheduled</i> |
| July 2016 | Governance Retreat (Jeanna Cullins of Aon Hewitt) |

Session 4. Investment Objectives

You must have long-range goals to keep you from being frustrated by short-range failures.

—Charles C. Noble

Molly, we now want to take the next step by declaring what the investment committee intends its investment program to accomplish—that is, what sort of investment outcomes would signal that the program has been successful. The trustees express those outcomes in a set of investment objectives.

Criteria for Effective Investment Objectives

The Fund's investment objectives contain both prospective and retrospective elements. In a prospective sense, the Fund's investment objectives assist in defining the structure of the investment program. The investment staff stays mindful of the established investment objectives when it implements the asset allocation policy and manager selection. The Fund's mission, on the one hand, provides a high-level sense of direction. The Fund's investment objectives, on the other hand, offer considerably more detail than the Fund's mission about the path that the investment committee expects the staff to follow. The objectives provide specific guidance regarding the critical trade-off between expected reward and risk that is reflected in the Fund's investment policy.

In a retrospective sense, the Fund's investment objectives play an important role in the assessment of the investment program's results. The Fund's investment objectives are part of the feedback-and-control mechanism embedded in the performance evaluation process. If the investment program fails to achieve the Fund's investment objectives, then it loses credibility and may bring about changes; if the investment program succeeds in achieving the Fund's investment objectives, then current practices are reinforced.

In contrast to the Fund's mission, which involves a set of broad purposes, the Fund's investment objectives are a quantifiable set of investment results that the investment committee expects to achieve over specified time periods. Therefore, investment objectives should meet several criteria. They should be

- unambiguous and measurable,
- specified in advance,
- actionable and attainable,
- reflective of the investment committee's risk tolerance, and

- consistent with the Fund's mission.

Let's consider each of these criteria.

Unambiguous and Measurable. Simply put, the investment committee attempts to be clear about what it expects the staff to accomplish when investing the Fund's assets. Therefore, the trustees develop unambiguous and measurable goals. Subjective or difficult-to-measure objectives typically result in confusion and are open to conflicting interpretations. In the end, they are often ignored, to everyone's consternation. For example, statements such as "the fund should generate returns commensurate with the risk assumed" are of little value in selecting investments or in determining whether the investment results were indeed satisfactory. These types of objectives fall under the category of "do good and avoid evil." Obviously, no one can argue with their positive intent, but they are more aspirational than practical.

In contrast, investment objectives expressed in clearly defined terms, particularly relative to a specified benchmark, help the staff design an effective investment program and allow the investment committee to evaluate the program's performance. For example, one of the Fund's investment objectives is to add 100–200 basis points (bps) annually of active management value while taking no more than 300–400 bps annually in aggregate active management risk in the U.S. equity asset class, evaluated over a five-year period. (A basis point is 1/100 of 1 percent, so 200 bps equals 2 percent.) The staff can clearly comprehend and discuss this objective and measure results relative to it. The objective dictates how the staff constructs the lineup of U.S. equity managers. It obviously necessitates hiring active managers, and it also requires relatively aggressive active managers. In addition, the objective affects how the staff combines the managers into a portfolio of managers. Furthermore, as the staff analysts prepare performance evaluation reports for the investment committee, they structure those reports to provide information as to what the Fund's U.S. equity managers have done relative to this objective and why the desired outcome has or has not occurred.

Specified in Advance. The investment committee defines the Fund's investment objectives in advance of the time period over which the investment program is held accountable to those objectives. To do otherwise would run the risk of revisionist analysis, a truly dangerous activity from a governance standpoint. Whether it is the investment committee critiquing the investment staff or outsiders evaluating the decisions of the trustees, investment objectives defined after the evaluation period has ended are contentious and fundamentally unfair. The process of investing, because it produces measurable results, is always open to unconstructive second guessing, regardless of what preventive

practices the trustees put into effect. It thus makes little sense for the trustees to compound the problem by delineating expected outcomes prior to the investment activity taking place and then holding the staff responsible for other outcomes not communicated until later. Molly, you certainly realize that, although all decision makers have a responsibility to be aware of changes in the environment and recommend modifications when necessary, in the conduct of business affairs, you don't instruct someone to do A and then wonder why he or she didn't do B.

Actionable and Attainable. The investment committee sets actionable and attainable fund investment objectives. The staff must be able to influence, in some way, the outcomes that are being evaluated in light of the objectives. Investment objectives that cannot be acted upon produce frustration and a sense of powerlessness on the part of the staff. Instead of being an incentive to drive the investment program in a particular direction, those types of objectives can generate a bunker mentality with staff members fearful that they will be held accountable for results over which they have no control.

At many organizations, investment objectives come stated in the form of absolute return targets, which in many cases are not actionable. Consider a common objective: Earn a return in excess of the liability discount rate of 8 percent. Rarely are investment products available that offer a guaranteed fixed return of 8 percent. Still, over the very long term, that objective might appear attainable. With sufficiently aggressive investments in equities, an investment program could have achieved that result over certain long historical periods. There have also been many extended periods, however, when the capital markets simply did not produce returns of that magnitude. In those periods, that absolute return target was not actionable. Nothing the staff at those funds could do would have achieved that goal.

Investment objectives expressed relative to investable benchmarks, such as a *market index*, are more likely to be actionable. (We will talk more about benchmarks in Session 7 on performance evaluation.) Superior active management programs, for example, can be expected to outperform appropriate benchmarks regardless of the market environment. Thus, a realistic return objective for active managers should focus the staff on hiring the most productive managers. Staff members can feel confident that if they do their jobs effectively, the intended result can be achieved.

The trustees should design investment objectives for the Fund that also are attainable. Although an investment objective involving a return relative to a particular benchmark might be actionable, to state that the Fund's active managers should produce active results 500 bps above the benchmark is unrealistic. In setting attainable investment objectives, the trustees should

review what other investment programs have been able to accomplish and what the capital markets and investment managers have offered investors over varying time periods.

Attainable investment objectives also avoid unrealistic precision. The investment committee prefers objectives involving a range of desired outcomes as opposed to a single numeric target. Such a range better captures the trustees' understanding of the variability inherent in investment management.

Reflective of the Investment Committee's Risk Tolerance.

The Fund's investment objectives should reflect the risk tolerance of the trustees in pursuing the Fund's mission. The investment committee has to feel comfortable with the investment objectives that it establishes. As a trustee, Molly, you need to understand the amount of risk that those objectives will lead the investment program to pursue. Investment objectives that translate into an aggressive investment program may produce uncomfortable results in periods of poor market performance. You have to be able to tolerate those results. Suppose the investment objective calls for high positive real rates of return and thus a large allocation to equities. If the trustees decide *after* a period of significantly negative returns in the stock market that they cannot bear the risk, the consequences will be counterproductive, potentially producing a "buy high, sell low" outcome.

Consistent with the Fund's Mission. The investment committee has designed the Fund's mission to be consistent with the trustees' collective risk tolerance. Because the investment objectives should also reflect that level of risk tolerance, it follows that if the Fund achieves its investment objectives, then the Fund's mission will similarly be fulfilled. At first, that logic might seem obvious, but it is quite easy to end up with investment objectives that convey different messages from what one might understand from the Fund's mission. For example, suppose the Fund's mission strongly emphasizes maintaining a funded ratio at or above full funding, with little tolerance for volatility in that ratio. Establishing an investment objective that involved taking considerable risk in the pursuit of returns higher than those necessary to maintain full funding would be inconsistent with the Fund's mission.

Examples of Investment Objectives

To give you a sense of what constitutes viable investment objectives and what does not, we have provided in **Exhibit 1** some examples of what other organizations have used. Some of the examples are valid investment objectives. Other examples, despite being widely accepted, actually violate many of the criteria for acceptability.

Exhibit 1. Examples of Investment Objectives

| Investment Objective | Comment | Assessment |
|--|--|------------|
| Achieve an investment return in excess of the policy asset mix's return over a five-year time period. | Actionable and attainable by use of active management. Consistent with the trustees' willingness to bear risk and the fund's mission. Unambiguous. Specified in advance. | Good |
| Generate active management performance in excess of an appropriate benchmark over a five-year time period. | Actionable and attainable by use of active management. Consistent with the trustees' willingness to bear risk and the fund's mission. Unambiguous. Specified in advance. | Good |
| Maintain a funded ratio (assets/liabilities) in excess of 0.9 measured annually. | Appropriate for funds in which liabilities or expected fund outflows have been specified (e.g., defined-benefit plans, insurance companies). Actionable and attainable as long as the fund has access to source of contributions. Unambiguous. Specified in advance. | Good |
| Realize investment performance that allows annual spending or fund withdrawals to equal or grow relative to the prior year's spending. | Pertains primarily to endowments and foundations. Based on the idea that fund beneficiaries have an aversion to declines in benefits. | Good |
| Maintain projected investment risk consistent with investment policy specifications. | Acknowledges the existence of different types of investment risk and a policy to incur certain ones, in approved amounts. Actionable and attainable. | Good |
| Outperform the returns of the median fund in a peer group universe. | Ambiguous and not actionable (median fund is unknown); possibly inconsistent with the trustees' willingness to bear risk or the fund's mission. | Poor |
| Attain return (equal to or greater than) the actuarial rate of return. | Possibly achievable over a long time period but certainly not annually. | Poor |
| Attain return (equal to or greater than) S&P 500 Index + 3 percent. | Unlikely to be attainable; possibly inconsistent with the trustees' willingness to bear risk. | Poor |
| No negative investment performance years. | Achievable only with low-risk, low-return investments that are likely to be inconsistent with the fund's mission and investment policy. | Bad |
| Attain U.S. Consumer Price Index + 3 percent. | Not actionable. No such investable alternative exists. Purely aspirational. | Bad |
| "Beat Harvard." | Not actionable (Harvard's investment policy and process is not known) and not necessarily consistent with the trustees' willingness to bear risk or the fund's mission. Purely aspirational. | Bad |

Takeaways

- A fund's investment objectives are a quantifiable set of investment results that decision makers expect to achieve over specified time periods.
- Investment objectives play both a prospective and retrospective role in directing the investment program.
- A fund's investment objectives should be unambiguous and measurable, specified in advance, actionable and attainable, reflective of decision makers' risk tolerance, and consistent with the fund's mission.
- The most useful investment objectives generally are those expressed relative to an investable alternative (such as a market index).
- Investment objectives are best specified as a range of desirable outcomes as opposed to a single number.

QUESTIONS MOLLY SHOULD ASK

- What are the Fund's investment objectives? When were they last reviewed?
- If the investment objectives are attained, do we expect that the Fund's mission will likewise be achieved?
- Are the investment committee and staff satisfied that all of our investment objectives meet the criteria of being actionable and attainable?
- Have there been times in the past when poor performance or turbulent markets caused the trustees to question the Fund's investment objectives? Discuss those situations.
- Has the investment committee modified the investment objectives over time to reflect changes made to the investment program? If so, describe those changes.
- Are the Fund's investment objectives consistent with the trustees' collective risk tolerance?
- Do the Fund's investment management strategies (for example, policy asset allocation, active versus passive management) appropriately reflect its investment objectives?
- Are the Fund's investment objectives integrated into the reporting for purposes of performance evaluation?
- How has the investment program performed relative to the Fund's investment objectives?



BOARD LEADERSHIP

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Creating an Empathetic Board: The Power of Feeling "Gotten"

by Rosa Zubizarreta

Board members need to collaborate in order to arrive at collective decisions, and it isn't always easy. Here, Rosa Zubizarreta of Diapraxis, which specializes in collaborative leadership and "flow-friendly meetings," provides some insights to help boards develop the empathetic approach that is crucial to this work.

BOARDS ARE OFTEN dealing with high-stakes issues, where the difficulties of the situation are compounded by the fact that participants may have significantly different perspectives. As human beings, we know from experience how easily our differences can trigger one another into defensive postures, and how unproductive and unpleasant that can be. From a group facilitation perspective, the challenge is to foster conditions that allow for learning and discovery, along with the creation of new shared understandings. In turn, this leads to new possibilities for shared action.

Within the growing field of brain science, researchers have been mapping how, whenever humans are triggered into a fight-or-flight state, we temporarily lose our connection to the open and creative state of mind that allows access to higher-order capacities. Conversely, when we shift into connected-and-creative mode instead of fight-flight-freeze, our brains become more open to hearing other perspectives and better able to handle complex problem solving.¹

This has confirmed one of the key principles of Diapraxis's facilitation work, which is "maximizing creative tension, while minimizing interpersonal anxiety." As facilitators, we want to foster inclusion and creative thinking by welcoming a wide variety of perspectives; at the same time, we work hard to help each person feel understood and accepted. In our experience, this creates a creative incubator, where the natural human drive to learn, create new patterns, and make meaning can flourish freely.

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EVENTS

FEBRUARY 19-20, 2016

International Policy Governance Association (IPGA) Consultants' Forum

— Toronto, Ontario, Canada

One of the two major opportunities IPGA provides each year for consultants and experienced practitioners (defined as those who have worked with their board using the Policy Governance® system for at least two full annual monitoring cycles) is to get together for enriched learning and networking with expert presentations and lively discussion. A major feature to this forum will be a full-day examination of the rationale for the use of negative language within the Policy Governance system.

For more information e-mail ceo@policygovernanceassociation.org.

MARCH 11-12, 2016

An Introductory Training in Policy Governance

— Atlanta, Georgia, USA

No prior knowledge of the Policy Governance model is required. Conducted by Miriam Carver.

For more information see <http://www.carvergovernance.com/train.htm>.

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Empathetic Board

(continued from front page)

The Key Role of Empathy

We are also witnessing a growing body of research on the power of empathy. For example, in the field of positive psychology, Barbara Fredrickson² has been documenting the powerful physiological effects that are brought about as a result of empathic understanding. She describes the experience of “feeling gotten,” or being deeply understood by another, as a “micro-moment of connection,” and sees the cumulative effect of these moments as key to our well-being. This has been another confirmation of our facilitation approach, which is primarily focused on creating these moments of connection through empathic understanding.

Some of what we have learned from our practice runs counter to the conventional ways of facilitating meetings. For example, instead of asking participants to put their initial positions aside in order to follow a step-by-step problem-solving sequence, we find it helpful to welcome participants’ initial solutions. Indeed, when working with facilitators who are learning our approach, we often describe participants’ initial solutions as their “best creative efforts to date, with whatever limited amounts of information they have had at their disposal.”

Thus, by welcoming and appreciating each person’s best creative effort to date, we invite each participant to step into a larger field, where all of us together can explore the wide variety of initial solutions they are bringing. These initial solutions are just that—the launching point for our creative journey. As we do this, and each participant feels that his/her initial solution has been heard and “gotten,” we find a growing sense of openness among participants to one another’s perspectives.

What is key to remember here is that simply saying something aloud

in a group does *not* usually equate to feeling heard. Instead, to feel deeply heard, humans usually need to experience that someone else has really “gotten it.” Whenever we are facilitating, we see this as our prime directive: listening deeply to what each person has to say, reflecting back to make sure we have understood, and recording the gist of what they have said, in their own words. Of course, the attitude with which we do this is key, and I will say more about that later on. Just going through the motions with this can be worse than useless!

Simply saying something aloud in a group does *not* usually equate to feeling heard. Instead, to feel deeply heard, humans usually need to experience that someone else has really “gotten it.”

Working with Critical Energies

While welcoming and appreciating participants’ initial solutions, we also welcome and appreciate their critical thinking. Edward de Bono,³ in his brilliant “Six Thinking Hats” framework, defines this as “black hat thinking”—the energy that points out everything that could go wrong. This kind of thinking has its own gifts to offer; for example, you wouldn’t want to buy a new car without knowing that it had gone through extensive crash testing! Yet de Bono points out how crucial it is, for anyone holding a “young green shoot” of creativity, to be protected from premature exposure to this black hat energy.

In our own practice, we have confirmed the importance of protecting creativity. At the same time, we have found other ways to do so. Unlike de Bono’s approach, and also unlike a conventional brainstorming session, we don’t need a separate time for welcoming critical thinking. Instead, we have found that we can usefully welcome it whenever it arises. Yet to do so we need to strongly protect the creative energies in the group by asking participants to redirect their critical energy *toward us as facilitators*.

In practice what this means is that whenever a concern comes up, we verbally acknowledge it as a sign of care. We recognize that the person who is voicing the concern is demonstrating that *they care* about having an outcome that works well. If they didn’t care, they would not go through the trouble of voicing their concern! At the same time, we ask the participant to tell us about their concern, so that we can reflect it back to them and make sure we have understood it. We have usually already talked about this at the beginning of the session in our agreement-setting preliminaries; however, we don’t hesitate to actively remind people about this whenever it comes up, as we see protecting creativity as a key part of our work.⁴

Our primary intention in welcoming concerns is twofold. We really want to listen to the person with the concern, and help them “feel gotten” by reflecting and recording their valuable concerns. At the same time, we want to offer the person who generated the original creative idea the opportunity to sit back and “overhear” the concern that is being put forward. We sometimes remind the concern bearer that the idea generator will be able to hear the concern *better* if it isn’t being directly addressed to him/her. By being off the hook in this way, those who generated the idea, as well as those who support the idea, are more likely to remain in an open and creative state.

Yet it doesn’t stop here. Just as we offer empathy for the concern, we also

want to draw out the concern bearer's own creative energy. So whenever that person feels that his/her concern has been fully understood, we proceed to ask how *he/she* would address the situation. We then reflect back our understanding of his/her creative solution to see if we have "gotten it"; thus, we are inviting him/her also to step into the creativity incubator.

Working without an External Facilitator

In sharing with you how we work with empathic understanding in our facilitation practice, my hope is that you will feel free to experiment and adapt these practices for your own use. For example, in a group without an external facilitator, it's often possible to ask those who are least involved in a particular conflict to serve as temporary empathic listeners who can help each "side" feel heard, as well as the others in the circle. As the situation starts to feel less stuck, do remember that these participant-facilitators also have their own perspectives that need to be heard, and have someone else volunteer to step into the empathic listener role.

One key point here is the distinction between using "active listening" as a technique and practicing empathic understanding with clear intention, self-awareness, and integrity. By definition, if we are using active listening techniques in a rote manner, they cease to be a genuine expression of empathy. We are no longer offering someone else the possibility of authentically "feeling gotten."

Even worse is when active listening is used in a manipulative way to accomplish an ulterior motive. For example, if a facilitator uses active listening with the intention of getting a participant to settle down in order to move on with the agenda, it is unlikely that the participant will feel truly heard and valued. In situations like these, the technique does not cover up the underlying experience of disregard or manipulation. Instead, people are

likely to become "allergic" to hearing their words reflected back to them!

It's a sad truth that active listening, the format for communicating empathy originally inspired by the transformative work of Carl Rogers,⁵ has often been misused and abused. Yet we humans still want to feel heard and understood. If our intentions as listeners are clear and appreciative, it's usually safe to let the other person know that we want to check our understanding and to ask if it's okay to reflect back some of what we have heard. Our willingness to be corrected is often the key test of

Learning to listen with presence and awareness, and without saying anything at all, might be the best initial training for later learning to offer unobtrusive and attuned reflections.

our sincerity—after all, it's not about whether we are "getting it right" but, instead, about offering the other person the opportunity to "feel gotten."⁶

At the same time, we also know that empathy does not always need to take a verbal form in order to be effective. Indeed, Nancy Kline's brilliant research on creating "Thinking Environments" shows that human beings think more effectively when receiving silent yet appreciative attention than when not receiving any attention or receiving negative attention.^{7,8} In fact, learning to listen with presence and awareness, and without saying anything at all, might be the best initial training for later learning to offer unobtrusive and attuned reflections.

(continued on page 4)

FOOD FOR THOUGHT

"System—a system is a whole which is defined by its function in a larger system of which it's a part.

- Every system is contained in a larger system.
- Its role or function in that system is what defines it.
- For a system to perform its function it has essential parts.
- Essential parts are necessary for the system to perform its function but not sufficient.
- Implies that an essential property of a system is that it cannot be divided into independent parts.
- Its properties derive out of the interaction of its parts and not the actions of its parts taken separately."

Systems Thinking with Dr. Russell Ackoff, <http://environment-ecology.com/general-systems-theory/380-systems-thinking-with-dr-russell-ackoff.html>

Thinking of publishing in Board Leadership? Contact managing editor Caroline Oliver for criteria at coliver@goodtogovern.com

Empathetic Board

(continued from page 3)

Communication as a Relational Process

One of the underlying assumptions that frames our work is understanding communication as a relational process. Instead, our default cultural assumption is to see communication as transactional. From that perspective, we tend to focus on whether each person has had a chance to speak. From a relational perspective, we realize that having a chance to speak is not at all the same thing as feeling heard.

Similarly, from a transactional perspective, the focus is on facilitators' impartiality. Of course, we don't want to take anyone's side over anyone else's side. Yet from a relational perspective, it makes much more sense to see our work as *taking all sides*, a stance that is sometimes referred to in the field of family therapy as "multidirectional partiality"⁹ or, more simply, "multipartiality." While we are not doing therapy, when we take each person's perspective in turn and offer that person the opportunity to "feel gotten," we are generating a field where participants can tap into their own creative energies, rather than getting stuck in defensive routines.

Once participants have the opportunity to experience the value that their different perspectives can bring, and to experience those different perspectives as different forms of caring rather than as threats, we often find that things begin to shift. Participants often begin to spontaneously listen to one another more deeply, to become curious when they encounter additional differences, and to offer one another reflections to check their understanding. At this point, our role as facilitators is to move into the background, where we can be available to step in as needed.

Of course, the larger context also plays a key role. In a majorly unstable

or abusive situation that is chronically triggering fight-or-flight, it may not be possible or appropriate to create a sheltered space for working creatively with differences. However, what is most often true is that everyone is well intentioned, yet the lack of sufficient listening has created a polarized situation where no one feels understood. The good news is that it's usually quite possible for such a situation to shift toward the better. □

Rosa Zubizarreta can be contacted at rosa@diaprxis.com

Notes

1. David Rock, "SCARF: A Brain-Based Model for Collaborating with and Influencing Others." *Neuroleadership Journal* No. 1 (2008): 1–9.

2. Barbara Fredrickson, *Love 2.0: How Our Supreme Emotion Affects Everything We Feel, Think, Do, and Become* (New York: Penguin Books, 2013).

3. Edward De Bono, *Serious Creativity: Using the Power of Lateral Thinking to Create New Ideas* (New York: Harper Business, 1992).

4. Rosa Zubizarreta, *From Conflict to Creative Collaboration: A User's Guide to Dynamic Facilitation* (Minneapolis, MN: Two Harbors Press, 2014).

5. See, for example, Carl Rogers, *On Becoming a Person* (London: Robinson, 2004).

6. For those who wish to explore the nuances involved in offering listening responses that help someone to connect more deeply with their own experiences, we highly recommend Gendlin's chapter on "The Experiential Response" (1968). While written in academic language for therapists, anyone whose professional work involves listening can benefit greatly from it. Eugene T. Gendlin, "The Experiential Response." In *Use of Interpretation in Treatment*, edited by Emanuel Hammer, 208–227. (New York: Grune & Stratton, 1968). http://www.focusing.org/gendlin/docs/gol_2156.html

7. Nancy Kline, *Time to Think: The Power of Independent Thinking* (London: Octopus Publishing Group, 1999/2014).

8. Nancy Kline, *More Time to Think: Listening to Ignite the Human Mind* (London: Octopus Publishing Group, 2009/2015).

9. Ivan Bozormenyi-Nagy and Barbara R. Krasner, *Between Give and Take: A Clinical Guide to Contextual Therapy* (New York: Brunner/Mazel, 1986).

NEWS

G20/OECD Principles of Corporate Governance Updated

The updated principles were launched at the meeting of G20 Finance Ministers and Central Bank Governors in Ankara, Turkey, on September 4–5, 2015, as part of continuing efforts to promote market confidence and business integrity.

They provide recommendations for national policymakers on shareholder rights, executive remuneration, financial disclosure, the behavior of institutional investors, and how stock markets should function. Sound corporate governance is seen as an essential element for promoting capital-market-based financing and unlocking investment as keys to boosting long-term economic growth.

Developed by the Organization for Economic Cooperation and Development (OECD) in 1999, the Principles "serve as a standard for governments and regulators worldwide."

The principles can be seen at <http://www.oecd.org/daf/ca/Corporate-Governance-Principles-ENG.pdf>. □

Governing the World

Board Leadership Editor Caroline Oliver interviews Otto Otto Spijkers, Assistant Professor of Public International Law at Utrecht University and researcher at the Utrecht Centre for Water, Oceans and Sustainability Law.

CAROLINE: I recently came across your article “What’s Running the World: Global Values, World Law, the United Nations and Global Governance,¹ and I know you have taught in a variety of national and international settings. I am delighted that you have kindly given me the opportunity to ask you a lot of questions about this immense subject. My first question is what does global governance mean in theory?

Otto: I think it is useful to use the term global governance as reference to a more realistic and less threatening form of organization at the global level than “global government.” Global governance refers to coordinated action of various entities operating at the global level—nation-states, international organizations, corporations, nongovernmental organizations, peoples, individuals—driven by shared goals and values, without reliance on a global police force or any other form of compulsory compliance mechanism.

What drives global governance is thus a voluntary commitment to certain shared goals and values, and not powerful institutions that can impose their will on recalcitrant elements in the global community. Such a system of loose global networks, kept together only by shared goals, of course, has its weaknesses. When important entities refuse to join, it is impossible to force them to change their mind. All we have is soft forms of persuasion. I think it is good to accept this as a given, and not expect the so-called “powerful” players—the UN Security Council, the USA, Russia, the European Union, etc.—to try to force recalcitrant entities to join the consensus.

Caroline: To what extent does global governance exist in practice? Is it becoming more or less real?

Otto: When global governance is defined in such cautious terms as I have just done, it is very real. It is, I believe, an accurate description of the world of international relations. Global governance is a fact of life. It is an unstoppable phenomenon, which I believe is a good thing. Whenever

What drives global governance is thus a voluntary commitment to certain shared goals and values, and not powerful institutions that can impose their will on recalcitrant elements in the global community.

people interact frequently, a body of shared values emerges because people feel the need to explain their behavior in a moral language that all other members of the group understand. If the group we have to answer to is no longer the state but the international community, we need to develop a common language that everyone can understand. I think international law provides that common language.

Caroline: Is it being seen as more or less desirable than before and by whom?

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WHEN WE SAY ...

BOARD LEADERSHIP’S mission is “to discover, explain, and discuss innovative approaches to board governance with the goal of helping organizations achieve effective, meaningful, and successful leadership to fulfill their missions.”

Board Leadership aims to fulfill this mission by engaging its readers in a lively and illuminating inquiry into how board governance can be made more effective. This inquiry is based on three key assumptions:

- Boards exist to lead organizations; not merely monitor them.
- Effective board governance is not about either systems, structures, processes, theories, practices, culture, or behaviors—it is about all of them.
- Significant improvements are likely to come only through challenging the status quo and trying out new ideas in theory and in practice.

Uniquely among regular publications on board governance, *Board Leadership* primarily focuses on the job of board leadership as a whole, rather than on individual elements of practice within the overall job.

Over time, *Board Leadership* will provide a repository of different approaches to governance created through its regular “One Way to Govern” feature.

Here’s what a few of the key terms we use mean to us:

- **Innovative:** Creating significant positive change.
- **Approaches to:** principles, theories, ideas, methodologies, and practices.
- **Board governance:** The job of governing whole organizations. □

Governing the World

(continued from page 5)

Otto: Global governance is a fact of life. We did not deliberately choose, at some point in history, to organize the world in this way. Of course, you can regret that the world has become smaller. Some people may wallow in nostalgia, and long for “the old days” in which people hardly left their own towns or villages. But there is no way back. And thus global governance is a fact, and it is irrelevant how desirable one might think it is.

We do still have to make certain choices. There are different kinds of global governance, different sets of goals and values to choose from, and different ways to coordinate our actions. As global governance becomes more inherent in everything we do, we move away from a *laissez-faire* type of global interaction to what has been termed as “globalization with a human face.” This refers to a type of global governance driven by certain core values, of which respect for human dignity is the most important. The trick is to give a meaning to this value that can be accepted by all, i.e., people from all the different religions, and also nonbelievers (such as humanists like myself). If you define human dignity as the idea that every human being possesses an intrinsic worth, merely by being human, and that this intrinsic worth cannot be taken away from him or her and should be recognized and respected by others, then I think you still have everybody on board.

Caroline: Is global public participation possible?

Otto: I think it is. Public participation as a process has been developed and tested at the domestic level. It basically refers to ways to allow those affected by a decision to be involved in the decision-making process. One can distinguish different types of public participation. There is the “rubber stamp” type, in which participants are asked to approve

or disapprove a particular policy after it is made, but before it is put in practice. There is the “define the problem” type, in which participants are consulted before the policymaking process starts, to clearly define the problem or challenge. And then there’s the “advisory” type, where participants influence policymaking during the process, as advisors to the institution. And finally, there’s the “co-produce” type, where participants take the initiative, define the problem themselves, and get together with the institution to develop a policy.

We should strive for a type of global governance that is as inclusive as possible, and facilitating and encouraging global public participation is the way to do this.

These types of public participation, which have all been tried and tested and perfected at the domestic level, are also applicable at the global level, I think. We should strive for a type of global governance that is as inclusive as possible, and facilitating and encouraging global public participation is the way to do this.

Global public participation can then be defined as the practice of consulting and involving the world’s citizens, especially those substantially interested and affected, in the decision-making and policy-forming activities at the global level. In my research work, I have focused on such processes at the United Nations and there is no doubt that, especially at the global level, public participation can quickly become a show.

So what is meaningful global public participation? The type of public participation that is likely to be most successful at the global level depends, of course, on the particular issue at hand and the circumstances that surround it. However, there is no reason why the UN could not engage the public in many types of participation through use of referenda, surveys, citizen panels, and other types of consultations, especially if done online. The Internet is well suited for such “online referenda.” In many cases, it is appropriate to ask ordinary people to help define a particular problem before a UN policy to respond to the problem is made. Here, too, online consultations might be a good tool, but in some cases more traditional means might be needed to reach particularly vulnerable groups, which might not have access to the Internet.

The UN could also use the public as advisors in the drafting of a global policy to meet a certain global challenge. One might expect the invitations to be a bit more “targeted” here: the UN might ask only people with proven skills or expertise or with relevant experience to advise the policymakers. Selected stakeholders—experts, or those with particular experiences—could be invited to participate in juries, panels, public hearings, public inquiries, conferences, or advisory committees.

The UN could even introduce a UN citizens’ initiative. Why not allow one million citizens, from a great geographical variety of states, to participate directly in the development of UN policies, by calling on the UN General Assembly to take a vote on a particular draft text of a resolution? This is a relatively harmless process, because such a resolution, if adopted by the Assembly, will only consist of recommendations, and does not create binding international law. And there are many other possibilities like that.

Since there are so many world citizens, the most formidable challenge is to find ways to distinguish the sub-

stantially affected from the rest of the world; and this is a selection process the UN appears to be struggling with. The trick is to ensure the effectiveness and affordability of the public participation process by not inviting too many people, but at the same time not to offend anyone by excluding them from the process. That is a difficult thing to do. A justified “door policy,” which is acceptable even to those who are ultimately refused entry, i.e., excluded from participation, is thus crucial.

So to answer your question, yes, I think global public participation is possible and worth experimenting with further. The UN’s most ambitious experimentation with global public participation was with the drafting of the Sustainable Development Goals, and I think this is seen as a success.

Caroline: From a global governance perspective, how do you view the current refugee crisis and how it should be approached?

Otto: First of all, I would not use the words refugee crisis because that suggests the world is not capable of responding to the challenge, and this might stir up fears. Why not refer to it as the “refugee problem” or the “question of the refugees”? Of course, this is not meant to trivialize the problem.

To answer your question, I understand global governance to refer to coordinated action of various actors at the global level. It must be a voluntary coordination, motivated by shared goals and values, rather than one forced upon these actors by strong global institutions, because there are no such institutions.

Is there such a global framework when it comes to refugees? In the Refugee Convention of 1954, we find the shared goals and values. Refugees, i.e., people with a well-founded fear of persecution in their own country, have a legal right not to be turned away when they apply for asylum in any other state in the world. Now we often hear that the Refugee Convention is outdated and hopelessly naïve,

that it never envisaged such a mass influx of refugees as we are faced with today. This is not true. There’s lots of realism in the convention. For example, in the Preamble, it is acknowledged that “the grant of asylum may place unduly heavy burdens on certain countries,” and thus “a satisfactory solution of a problem of which the United Nations has recognized the international scope and nature cannot be achieved without international cooperation.” In other words, the convention was made exactly because it was felt that states could not deal with the problem by themselves.

The UN’s most ambitious experimentation with global public participation was with the drafting of the Sustainable Development Goals, and I think this is seen as a success.

And we also find references to responsibilities and obligations of the refugees themselves. Most importantly, the first general obligation we find in the convention is addressed to the refugee, not the state: “Every refugee has duties to the country in which he finds himself, which require in particular that he conform to its laws and regulations as well as to measures taken for the maintenance of public order.”

So the goals and values are there in the convention, and they are not utopian but pragmatic, not outdated but applicable to the current state of affairs. And they are globally shared: the Refugee Convention has been ratified by an impressive 145 states!

Do we find coordinated action, the second element of global gover-

nance? Unfortunately, there is little international coordination when it comes to refugee protection. A long time ago the United Nations High Commissioner for Refugees (UNHCR) put in place a resettlement program as one of the durable solutions to the refugee problem. Through this program, the UNHCR organizes the transfer of refugees from an overburdened and impoverished asylum country in the region (e.g., Turkey, Lebanon) to states that have agreed to take a number of refugees in. This is particularly useful for refugees who see no future for themselves in the country where they have first applied for asylum. But it is also a display of international solidarity because it alleviates the burden of those states that have to care for the overwhelming majority of the refugees. An organized resettlement program also prevents refugees from traveling to Europe by themselves. Resettlement thus seems an excellent global strategy to tackle the problem and share the burdens evenly, but only a handful of states—including the Netherlands—participate in this program. And the number of refugees many of these participating states accept is ridiculously low (only 500 a year for the Netherlands).

(continued on page 8)

WRITING FOR BOARD LEADERSHIP

Board Leadership welcomes articles from governance practitioners, researchers, and consultants on topics related to the discovery, explanation, and discussion of innovative approaches to board governance. If you have something new to say or want to provide a new perspective on something already said, please get in touch to discuss your idea further and to get a copy of our publishing criteria. Email: coliver@goodtogovern.com □

Events

(continued from front page)

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- The Board's Role in a Crisis
- Dealing with Conflicts of Interest on Private Company Boards
- How to Interview Director Candidates
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- Private Company Capitalization, Liquidity, and Shareholder Return

For more information see <http://www.privatecompanydirector.com/PCGS16>.

JUNE 16–18, 2016

International Policy Governance Association (IPGA) 2016 Annual Conference: It's All About Ethics!

— Toronto, Ontario, Canada

Governing the World

(continued from page 7)

There is thus a lot to do still before we get to coordinated action, driven by shared values, in which all the members of the international community voluntarily participate. To get all actors on board, it might help to emphasize that the convention regulates many things, but some important issues are deliberately left unregulated. Importantly, it is up to the host state to decide under what conditions to grant refugees and their family permanent residence status or citizenship, and states may decide to distribute refugees equitably among them, as the European Union now appears to be doing. □

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JUNE 27–29, 2016

International Corporate Governance Network Annual Conference

— Toronto, Ontario, Canada

For more information see <https://www.icgn.org/events/annual-conference-san-francisco-2016-0>

BOARDSOURCE

Throughout the year, BoardSource organizes a range of webinars and training events for US nonprofit board leaders.

For more information see <http://bit.ly/BdSourceEvents>.

HOLACRACY

Holacracy is not a system for the work of boards but does bring structure and discipline to a peer-to-peer workplace. HolacracyOne offers a range of events from free introductory webinars to advanced immersive trainings.

Notes

1. Otto Spijkers, "What's Running the World: Global Values, International Law, and the United Nations International Law, and the United Nations." *Interdisciplinary Journal of Human Rights Law* 4, no. 1, (2009–2010). <http://www.americanstudents.us/IJHRL4/4.Spijkers%20-%20Online.pdf>

2. See also Otto Spijkers and Arron Honniball, "Developing Global Public Participation (1)." *International Community Law Review* 17, no. 3 (2015): 222–250; and Otto Spijkers, *The United Nations, the Evolution of Global Values and International Law* (doctoral dissertation) (Intersentia, 2011). Also available from: <https://openaccess.leidenuniv.nl/handle/1887/17926>

For more information see <http://events.holacracy.org/>.

NATIONAL COALITION FOR DIALOGUE & DELIBERATION (NCDD)

NCDD also regularly provides useful training events. For more information see <http://ncdd.org/events>.

SOCIOCRACY/DYNAMIC GOVERNANCE

This methodology for the operation of organizations was described in *Board Leadership* Issue 134 in the *One Way to Govern* feature.

More information and events can be found at <http://sociocracyconsulting.com/dynamic-governance/principles/> and <http://sociocracyconsulting.com/events/>. □

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The AMBACHTSHEER Letter

Sustainable Pension Design • Effective Pension Management

January 2016

‘ACTIVE INVESTING’.....THREE POSSIBLE PATHS

“We find that the Canadian Coalition for Good Governance’s private engagements influence the adoption of shareholder democracy measures, say-on-pay advisory votes, and improve compensation structure and disclosure...”

“Can Institutional Investors Improve Corporate Governance through Collective Action?”
Doidge, Dyck, Mahmudi, and Virani (2015)

“We document outperformance following environmental, social, and governance (ESG) engagements by a UK institutional investor. After successful engagements, companies experience improvements in operating performance, profitability, efficiency, and governance.”

“Active Ownership”
Dimson, Karakas, and Li (2012)

“Our strategy incorporates ESG factors holistically within a fundamental financial framework. Our high ‘due diligence’ focus, combined with the desire to maintain an active corporate oversight role with limited resources, leads to a concentrated portfolio..... but our ‘active ownership’ approach outweighs the risks embedded in this concentration....”

“Really Investing for the Long-Term: A Case Study”
van der Velden, van Buul (2012)

Rethinking ‘Active Investing’

Our December *Letter* titled “Professor Fama’s Folly: “Financial Markets Are Efficient” argued that while it may be impossible for ‘beauty contest’ investors to consistently outperform the market in the short-term, this is not the case for investors who focus on wealth-creation in the long-term. This *Letter* continues that theme by identifying concrete, practical pathways open to asset owners and institutional investors if they truly want to be wealth-creating long-term investors.

Specifically, we interpret the findings of published studies in three mutually-supportive contexts:

1. A collective action approach with limited objectives, supported by a large group of

like-minded asset owners and institutional investors.

2. An individual ‘change agent’ approach on specific issues, with a single entity acting on behalf of a number of asset owners and institutional investors.
3. An integrative investment approach, with a single entity empowered to implement a comprehensive long-term investment program on behalf of one or more asset owners.

Why is identifying concrete, practical pathways to successful long-term investing so important? Because a survey of 81 institutional investor we conducted for the *Focusing Capital on the Long-Term* initiative in 2014 clearly showed a material aspiration gap: survey respondents said they understood the value of long-term investing, but offered a list

of barriers that stood in the way of actually investing that way.¹ These barriers included a lack of resources qualified to operate actively in the long-term investing arena, dysfunction in how ‘performance’ is measured, perverse incentives, and ineffective collective action strategies.

A ‘Large Group’ Collective Action Approach

The 2015 study by Doidge et al. cited above sets out the accomplishments of the Canadian Coalition for Good Governance (CCGG) over the course of its first 11 years of existence (2002-2013). CCGG has been globally lauded as an effective initiative to raise the quality of corporate governance. The study lists four reasons for this:

- CCGG membership is restricted to Canadian asset owners and institutional investors, increasing the likelihood of positive responses to CCGG proposals. However, care was taken to ensure that the membership included different types of asset owners and institutional investors, eliminating the prospect for accusations of bias. CCGG members collectively hold material stakes in all major publicly-listed Canadian corporations. There were 50 members at the time the study was conducted.
- A collective choice was made to pursue activism through private CCGG persuasion rather than through more adversarial public shareholder proposals or proxy fights. This meant activism through targeting specific firms with letter writing campaigns, phone calls, and meetings with independent directors.
- CCGG would limit its activism to broad governance ‘best practices’ issues, rather than on issues such as business strategy, financial policy, or leadership at specific corporations.
- Corporate governance practices in Canada are largely guidelines- rather than rules-based, with a comply-or-explain requirement. There were no regulatory changes during the observation period.

A key success ingredient in the study itself was that CCGG made its private records available to the researchers, so that they could form a complete picture of its activism efforts. This in turn allowed them to construct tests that measure the impact of these efforts on corporate governance practices.

During the observation period, CCGG engaged firms on three major governance issues: 1. Majority Voting, 2. Say-on-Pay, and 3. Compensation Policies. Quoting from the study findings on the adoption of CCGG proposals in these three areas, the researchers found “in each case, we find that CCGG engagement is associated with a statistically significant and economically meaningful increase in the likelihood of adoption”. The researchers conclude that ‘large group’ collective action strategies can be highly effective, if careful thought is given to organizational composition and structure, social context, and devising simple, well-understood implementation protocols.

An Individual ‘Change Agent’ Approach

The 2012 study by Dimson et al. cited above is also based on access to a unique proprietary database. The focus here is individual corporate engagements related to environmental, social, and governance (ESG) issues. The database was provided by a large UK-based institutional investor with a long history of actively engaging corporations in which it, and/or its clients, are shareholders. It engages with over 3000 target companies around the world via letters, emails, telephone conversations, and direct dialogue with senior management. The focus for the study is 2152 engagement events at 613 U.S. public companies over the 1999-2009 period.

The study produced the following key findings:

- The engagement success rate was 18% attained over a median timeframe of one year.
- Successful engagements produced an average cumulative abnormal return of 4.4% in the year after success was achieved. There was no market reaction to unsuccessful engagements.
- Successful engagements related to governance and climate change issues were most successful, producing cumulative abnormal returns of 7.1% and 10.6% respectively.
- Successful engagements on non-governance themes generated 5.9% in cumulative abnormal returns.
- The return on assets, profit margin, asset turnover, and sales/employee ratios improve significantly one year after successful engagements, as compared to unsuccessful ones.

- Shareholdings by activist investors increase, and stock return volatility decreases one year after successful engagements.
- Corporate governance quality (as measured by the Gompers and Bebchuk indexes) improves in the targeted firms two years after successful engagements.

These findings lead Dimson et al. to conclude that this kind of activism lengthens the time horizon in which corporate managers frame strategic decisions, which in turn creates incremental value for all corporate stakeholders, including shareholders.

Related studies by Bauer, Clark, Moers, and Viehs extend the study by Dimson et al. to include public shareholder proposals as another form of activist engagement. They note that 20% of these public proposals are withdrawn before they come to a vote, and that these withdrawn proposals tend to be filed by large institutional investors. They point out that this effectively transforms public proposals into private corporation-investor negotiations, indicating that the public and private engagement routes are closely connected.

An Integrative Long-Term Investment Approach

The logical extension of the two activist approaches set out above is to empower a single entity to manage a comprehensive, integrated, long-term investment program on behalf of one or more asset owners. In the cited 2012 article, van der Velden and van Buul set out the key success drivers for the design and implementation of such a program. They had been managing such a program at a large Dutch fiduciary manager since 2008 at the time they wrote the article, and became principals of *Ownership Capital (OC)* at its founding in late 2012. *OC* has employed the same integrative long-term investment approach described in the article since its inception. Five key success drivers are:

- Start with the fundamental belief that ‘sustainability pays’: corporations which live by that belief will naturally frame their strategies in horizons that stretch beyond tomorrow into the ‘long-term’. This in turn will drive superior value-creation over time. For research backing, they reference the same Eccles et al. study we did in our

February 2015 *Letter*. The study found that the return of a portfolio of high-sustainability firms was 4.8%/yr. higher than the return of a portfolio of low-sustainability firms over a 17-year period.

- Integrate ESG factors holistically within a fundamental financial framework: such integration recognizes that true corporate sustainability requires paying equal attention to the financial and non-financial drivers of corporate performance. ‘Due diligence’ doesn’t just involve thorough financial analysis and valuation, but also plant visits and conversations with management, customers, suppliers, competitors, unions, and NGOs.
- Be able and willing to add ‘active ownership’ activities in the mix if needed: such initiatives require in-depth knowledge of, and strong relationships with investee companies. This requires being a ‘top 20’ investor in investee companies with understandable business models and balance sheets. The average holding period for each investment is expected to be many years. Most engagements over time have been positive and constructive. However, sometimes an investee corporation will stray from its sustainability path, and if efforts to return it to that path fail, the exit option must be exercised.
- Conviction investing means holding a concentrated portfolio: this means holdings in the 20-25 range rather 200-250. However, such concentration does not necessarily mean greater risk exposure. Portfolio risk is controlled through deep fundamental and ESG analysis, combined with ‘active ownership’ activities. The resulting portfolio has a beta under 1.0, and the same level of absolute return volatility as a broadly-based index fund.
- Align the ‘sustainability pays’ belief with manager compensation: while incentive structures can be designed with different specifics, they must recognize the long-term nature of this approach to investing. Also, HR policies must do more than just recognize the need for financial skills on the investment team. Broader business strategy and applied ESG skills and experience are also needed.

Does this kind of integrative, long-term approach to investing work as well in practice as to does in theory?

The cited study by Eccles et al. suggested an affirmative answer: the high-sustainability portfolio outperformed the low-sustainability one by almost 5%/yr. over a 17-year period. Interestingly, stringing the actual portfolio performance of the approach described above together over its combined five years of operation has also produced an outperformance result in the 5%/yr. area.ⁱⁱ

The cited December 2015 *Letter* “Professor Fama’s Folly” provided additional evidence for the ‘outperformance’ proposition, both theoretical and empirical. For example, John Maynard Keynes made a clear theoretical distinction between short-term ‘beauty contest’ and long-term wealth-creating investing way back in 1936. Empirically, using the latter style, he managed the University of Cambridge endowment fund from 1921 to 1946, producing an excess return, once again, in the 5%/yr. area. As another example, the CEM Benchmarking Inc. database contains pension funds with long-term outperformance results in the 2%/yr. area. Common characteristics of many of these high-performance funds are that they are large, and that they have insourced most of their private markets investment activities, leading to materially lower cost structures and higher net returns.

Three Pathways to Active Investing

The goal of this *Letter* was to examine three pathways to active investing in some detail. Why is this important? Because active investing, properly defined and implemented, is a ‘win-win’ proposition. It leads to a more functional, sustainable form of capitalism, and at the same time, it produces excess returns for the investors who practice it effectively. Importantly, the three pathways mutually support each other.

In closing, some thoughts on the practical ‘take-aways’ of the three pathways studies:

- The leaderships of other national and international governance coalitions (e.g., CII, ACSI, Eumedion, ICGN) should have a close look at the findings from the Doidge et al. study on the CCGG. What are the lessons to be learned? Can the effectiveness of these coalitions be improved?
- The 18% success rate for engagements in the Dimson et al. study seems disappointingly low, especially given the apparent financial benefits attached to engagement success. Why is the success rate so low? What can be done to improve it?
- The van der Velden-van Buul study helps explain why integrative, active long-term investment approaches are still such a rarity in the institutional investing world. Their adoption requires a genuine shift away from the still-dominant short-term ‘beauty contest’ paradigm. It is one thing to say such a shift is needed, it is quite another to actually achieve it.

Given these thoughts, it seems appropriate to let Keynes have the final word: “*Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally.*”

Thus, we need to shift ‘active investing’ from an unconventional to a conventional strategy.



Endnotes:

- The study title is “How Effective Is Pension Fund Governance Today? and Do Pension Funds Invest for the Long-Term?” by Ambachtsheer and McLaughlin, January 2015. It can be accessed through the KPA Advisory Services website in Recent Publications.*
- Based on information provided by Ownership Capital.*

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PROFESSOR FAMA'S FOLLY: “FINANCIAL MARKETS ARE EFFICIENT”

“Only the smallest fraction of economic writings, theoretical and applied, has been concerned with the derivation of operationally meaningful theorems. In part, at least, this has been the result of the bad preconception that economic laws deduced from a priori assumptions possess rigor and validity independently of any human behavior. But only very few economists have gone as far as this. The majority would have been glad to enunciate meaningful theorems if any had occurred to them.....”

Professor Paul Samuelson
Nobel Prize Laureate

Professor Fama's Folly

A recent missive from the investment publication *Top1000Funds* included a taped conversation between interviewer Amanda White and Professor Eugene Fama of the University of Chicago. The tape identified Prof. Fama as the Nobel Prize Laureate who is “The Father of Modern Finance”. Ms. White asked Prof. Fama to comment on a stated investment belief of Australia's *Future Fund* (and many other funds) that “...markets can be inefficient...and skillful management can add value after fees...”. Prof. Fama responded that investors who really believed that “must be from the moon”. He went on to offer the opinion that he could not understand why people continued to cling to such beliefs when “no data in the world” supports that conclusion. After all, active management is “a zero-sum game less fees”.

These comments raise an interesting question. How might Prof. Fama's career have unfolded if he had taken time to reflect on Prof. Samuelson's observation cited above? Would he still think the Efficient Market Hypothesis to be an “operationally meaningful” investment theorem to guide institutional investing? Despite the fact that any school child knows that the EMH is based on

a priori artificial assumptions “independent of any human behavior”? Surely with such reflection, he would have welcomed Prof. Andrew Lo's Adaptive Markets Hypothesis which does very much take human behavior into account. Or, for that matter, the writings of such intellectual powerhouses as Keynes, Samuelson, Minsky, Kahneman, Akerlof, and Shiller, all of who have produced “operationally meaningful” investment theorems because they took the time to integrate human behavior into them.

Not surprisingly, “operationally meaningful theorems” about investing which incorporate realistic human behavior assumptions are perfectly consistent with an investment belief that “markets can be inefficient...and that skillful management can add value after fees”.

An Inefficient Markets Hypothesis

What might an “operationally meaningful” Inefficient Markets Hypothesis look like? Surely it would start by acknowledging the reality that financial markets are very messy places. Much of that messiness comes from the behavior of its participants. If you would like to meet some of these participants, read Michael Lewis' books such as

Liar's Poker, The Money Culture, The Big Short, Boomerang, and most recently, Flash Boys. Lots of colorful characters. Lots of rational and irrational (even outrageous) behavior.

Another good grounder is John Maynard Keynes' famous Chapter 12 in his 1936 opus "The General Theory of Employment, Interest, and Money". His pre-WWII description of institutional investor behaviour nicely mirrors those of Lewis' post-WWII descriptions. Apparently, things haven't changed much in the last 75 years. Keynes describes 'beauty contest' investors as people who engage in trading contests with each other, each hoping to outguess 'the crowd' about which stocks 'the market' will find most attractive 3, 6, 9, 12 months hence. This constitutes a 'zero-sum' game for its players.

If we now throw Nobel Prize Laureate George Akerlof's 'asymmetric information' hypothesis into the mix, we have the fundamental pieces to explain a great deal of what goes on in financial markets. The asymmetric information problem provides commercial institutional investors the opportunity to sell beauty contest-based active management services to unsuspecting clients. As a result, it is these clients who finance the zero-sum beauty contest investment game.

Happily, Keynes also offered an alternative to beauty contest investing centered on the economic purpose of investing: transforming society's financial savings into wealth-producing capital. Now the focus shifts to understanding and pricing current and prospective returns on investment in the forms of current and future payments of interest, rents, tolls, dividends and earnings in public and private markets. This is a positive-sum game, where participants with the best information, the best investment models, and the best implementation strategies have a clear and obvious advantage over participants lacking in these dimensions.

As a footnote, Keynes himself was this kind of value-creating investor in managing the Cambridge University Endowment Fund from 1921 to his death in 1946. Not surprisingly, his skillful management added considerable value (about 6%/yr.) over this 25-year period, net of fees.¹

What about Fama's "No Data in the World" Observation?

Of course Prof. Fama is right to point out that a good deal of empirical research indicates that active institutional investing generates only market returns less fees. He suggests that this is due to market efficiency (i.e., because financial market prices incorporate all known information interpreted identically by all investors). The behavioralists don't agree. They point to dysfunctional behavior by market participants (e.g., asymmetric information, irrational exuberance, short-termism, principal-agent problems, etc.) for the generally poor investment results of both institutional and individual investors.

So who is right? Fama or the behavioralists? Logic favors the behavioralists. Their 'a priori' assumptions are grounded in reality compared to Fama's "from the moon" efficient market assumptions. Can this 'a priori' logic also be confirmed 'ex post' empirically? Such a demonstration requires identifying a subset of investors who have successfully addressed the behavioral barriers to "skillful management that can add value after fees" for a long-enough period of time to make the resulting positive 'net value-added' results extremely unlikely to be due to good luck.

We documented four such cases in the Fall 2014 issue of the *Rotman International Journal of Pension Management* ("The Case for Long-Termism"). One of them is the Keynes story summarized above. The key elements in each of the four stories were a clear 'ex ante' understanding of the investment processes of the four investors (Keynes, Buffett, MFS, OTPP), as well as carefully documented investment results produced by these processes over extended periods of time (25, 35, 26, and 24 years respectively in the four cases). All four processes produced extraordinary 'net value-added' results that were extremely unlikely to have resulted from good luck.

There is an important point to be made here about the dysfunction of traditional academic research orthodoxy. Prof. Fama actually touched on it in the cited *Top1000Funds* interview, when he criticised people doing things "that hadn't been thor-

oughly tested”. None of the four highly successful investment processes cited above had been “thoroughly tested” before they commenced.ⁱⁱ Reflecting on this change-resisting orthodoxy, the Anglo-Irish playwright George Bernard Shaw commented 100 years ago: “*The reasonable man adapts himself to the world. The unreasonable one persists in trying to adapt the world to himself. Thus all progress depends on the unreasonable man...*”.

New Evidence of Market Inefficiency

A missive titled “Elegant Design” also came our way recently, courtesy of our friends at Research Affiliates. The article argued for ‘and-and’ thinking in portfolio construction, rather than the orthodox ‘either-or’ approach. They applied this ‘and-and’ thinking to creating a high-yield equity portfolio. Rather than accepting the traditional efficient markets ‘high yield/low quality’ vs. ‘low yield/high quality’ trade-off, they asked: ‘why not go for a ‘high yield/high quality’ combination?’ Back-testing this ‘and-and’ strategy over the 1964-2014 investment period, they found the ‘high yield/high quality’ portfolio (100 names) generated a higher total return at lower volatility than both a broad cap-weighted market index portfolio (1000 names), as well as a ‘high yield/low quality’ portfolio of 100 names. This kind of ‘free lunch’ is not supposed to be available in efficient financial markets!

New Evidence of Organizational Effectiveness

The fact that asymmetric information-driven agency costs are the scourge of retail investors has already been noted above. In most cases, the result is that the value investors receive doesn’t match the fees they pay. There are two options for retail investors to escape this low value/high cost trap:

1. Invest through low-cost index funds on their own, or
2. Invest through a skilled financial institution with a fiduciary obligation to act in the best interests of its participants. Pension funds and other public investment institutions with long-horizon investment mandates are examples of this second option.

We have been involved in the design and development of this second implementation option for some 35 years now. This included the co-founding of the CEM Benchmarking Inc. organization in 1991. With the passage of time, CEM has created and developed databases that permit ‘value for money’ assessments of the investment function of these ‘second option’ organizations for extended periods of time. Overall, over the last 25 years, participating funds have generated positive ‘value for money’ for their participants in the sense that the average fund generated a modest net value-added of 0.2%/yr. versus its passively-implemented reference portfolio. This finding deserves two further comments:

1. The hundreds of funds participating in the CEM benchmarking process are not a random sample of the global Pension/SWF universe. Generally speaking, only the better governed/managed funds submit themselves to regular benchmarking disciplines.
2. Even over long (10+yrs.) evaluation periods, there is a considerable range of net value-added outcomes, ranging from +2%/yr. to -2%/yr.

Research indicates that an important driver of longer-term, net value-added outcomes in the CEM universe is how funds deal with private markets investing in such areas as real estate and private equity. Tables 1 and 2 indicate that insourcing these functions generate significantly better outcomes, mainly because of material reductions in implementation costs. For example, Table 1 indicates that in private equity investing, internally-managed programs have performed materially better than directly investing with externally managed LP programs, which in turn have performed materially better than externally-managed Fund-of-Funds implementation programs. These findings align directly with the respective investment costs of these three options. Table 2 tells the same story in the real estate investing space.

The point here is that private markets such as those in private equity and real estate (and by extension, infrastructure) are far from efficient. The choice of implementation strategy has a major impact on both ‘ex ante’ and ‘ex post’ ‘value for

Table 1 Private Equity Performance by Implementation Style (1996-2012)

| | Internal | Direct LP | Fund of Funds |
|-----------------------------|----------|-----------|---------------|
| Annualized Net Return | 12.2% | 9.6% | 7.2% |
| Annualized Benchmark Return | 8.7% | 9.4% | 8.8% |
| Annualized Net Value Added | 3.5% | 0.2% | -1.6% |

Table 2 Real Estate Performance by Implementation Style (1995-2012)

| | Internal/ Operating Sub | External Fund | Fund of Funds |
|-----------------------------|----------------------------|---------------|---------------|
| Annualized Net Return | 10.1% | 7.6% | 4.8% |
| Annualized Benchmark Return | 8.9% | 9.2% | 8.7% |
| Annualized Net Value Added | 1.2% | -1.6% | -3.9% |

SOURCE: CEM Benchmarking Inc.

money’ outcomes. The existence or absence of the ‘fiduciary duty’ motivator is a key driver of how, and in whose interest, these implementation strategy decisions are made. So once again, behavioral factors play predictable roles in generating superior investment results for participants.

So who is “From the Moon”?

What are we to make of a Nobel Prize Laureate who believes, in the words of another Nobel Prize Laureate, that meaningful economic theorems can be deduced from a priori assumptions independent of any human behavior? Or, putting the question somewhat differently, are in-

vestors who believe that markets can be inefficient...and that skillful management can add value “from the moon”? Or is the good professor?



Endnotes

- i. For more on Keynes’ investment prowess, see Chambers and Dimson (2013), “John Maynard Keynes: Investment Innovator”, *Journal of Economic Perspectives*.
- ii. Nineteenth Century philosopher C.S. Peirce used the term “abductive reasoning” to justify drawing plausible inferences from ‘ex ante’ logic and small samples. Current academic orthodoxy seems to have forgotten Peirce’s sensible justification of this practice.

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