



Summit Strategies Group

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Core Plus Manager Search

**City of Jacksonville
Police & Fire Pension Fund**

March 17, 2016

EXECUTIVE SUMMARY

- The Committee tasked Summit with conducting a Core Plus fixed income manager search to further diversify the Pension Fund's fixed income allocation.
- Considerations:
 - Size: Approximately \$114MM
 - Vehicle: Separate account preferred
 - Fee Target: Under 30 bps
 - Manager Style: Provide diversification of current U.S. credit-oriented portfolio / Have ability to add non-dollar exposure
- The managers Summit included in the search fall into two camps:
 - Higher tracking error, diversified sector rotators: Neuberger, Prudential, and Western.
 - These managers typically run larger weights in spread/Plus sectors and rely on active management to avoid drawdowns.
 - Lower tracking error, more specialized managers: LM Capital and BlackRock (BGI Model-Based).
 - These managers target higher information ratios while holding lower steady-state allocations to plus sectors. These managers are more specialized or unique in their alpha source as well.
 - Additionally, at the request of one of the Board Members, Loomis's Full Discretion Core Plus product was added for review and interview by the Board.
- Note: LM Capital is majority minority-owned.

Recommendation:

- Summit recommends the Committee interview BlackRock, Neuberger, and Western.

SIDE BY SIDE COMPARISON

Core Plus Fixed Income							
	As of 12/31/15	BlackRock	LM Capital	Loomis, Sayles	Neuberger Berman	Prudential	WAMCO
Firm	Headquarters Location	New York, NY	San Diego, CA	Boston, Massachusetts	New York, NY	Newark, NJ	Pasadena, CA
	Firm Assets	\$4.6T	\$5.1B	\$229.1B	\$240.4B	\$574.8B	\$433.7B
	Ownership	78% publicly owned; 22% other ownership	100% employee owned	100% owned by Natixis Global	100% employee owned	100% publicly owned	100% owned by Legg Mason, Inc.
	Product Inception Date	May 2003	January 1993	January 1989	October 1998	January 1996	February 1993
	Product Assets	\$765M	\$3.1B	\$16.0B	\$3.2B	\$25.8B	\$55.6B
Product	Vehicle(s) Available	SA, CF	SA	SA, CF, MF	SA, CF	SA, CF, MF	SA, CF, MF
	Separate Account Minimum	\$100M	\$20M	\$50M	\$50M	\$100M	\$75M
	Fees	SA: 0.30%*	SA: 0.25% on first \$25M; 0.20% on next \$25M; 0.15% on balance**	SA: 0.40% on first \$20M; 0.30% on next \$80M; 0.20% on balance	SA: 0.35% on first \$50M; 0.25% on next \$100M; 0.20% on next \$100M; 0.15% on next \$250M; 0.12% on balance	SA: 0.30% on first \$50M; 0.28% on next \$100M; 0.25% on next \$100M; 0.20% on balance	SA: 0.30% on first \$100M; 0.20% on balance
Characteristics	Security Screening Approach	Combined	Top-Down	Bottom-Up	Bottom-Up	Combined	Combined
	No. of Securities	2,156	64	858	251	1,330	1,147
	Portfolio Turnover	51%	35%	23%	78%	106%	55%
	Average Quality	A	AA	A	A	A	A
	Yield to Maturity	3.36%	3.23%	4.10%	3.62%	4.61%	4.28%
Duration Band Around Index	± 10%	± 20%	3 to 10 years	± 25%	± 20%	± 20%	

*Summit Fee Schedule

**Verbalized Fee Schedule

BLACKROCK – COREPLUS (MODEL-BASED)

2ND TIER

FIRM DETAILS

Address: 55 East 52nd Street
New York, NY 10055

Phone: 212.810.5300

Asset Class: Core Plus Fixed Income

Benchmark: Barclays Universal

Founded: 1988

Ownership: 78% publicly held;
22% owned by PNC Financial Services Group

Assets Under Management: \$4.6 trillion

PRODUCT DETAILS

Inception: May 2003

Assets Under Management: \$765 million

Vehicles Offered: SA, CF

Separate Account Minimum: \$100 million

Portfolio Managers/Dual Role PMs: 27

Avg. Yrs of Experience: 16

Avg. Yrs at Firm: 8

Research Analysts: 8

Avg. Yrs of Experience: 13

Avg. Yrs at Firm: 8

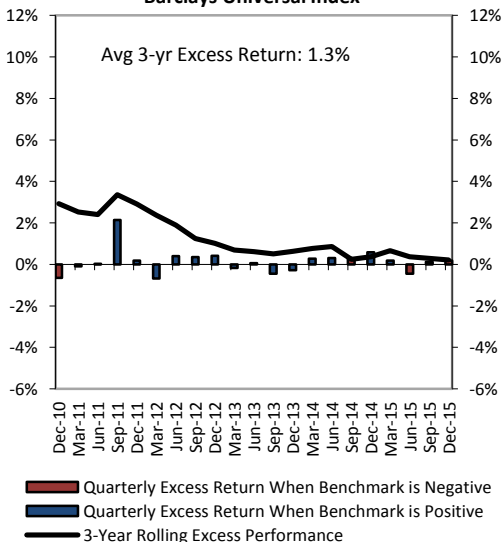
Fee Schedule (SA): 0.30%

CHARACTERISTICS

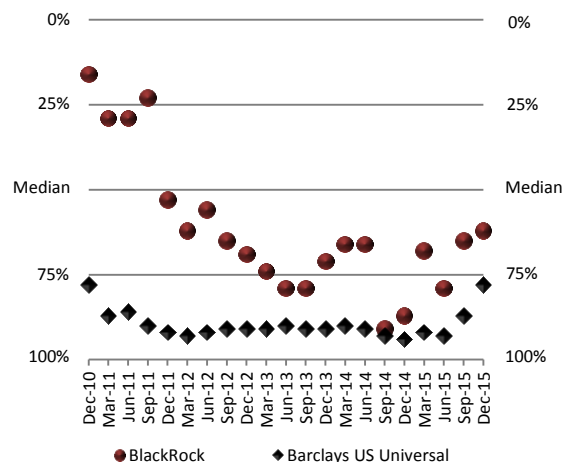
	Portfolio	Benchmark
No of Bonds:	2,156	14,955
Portfolio Turnover:	51%	N/A
Avg Credit Quality:	A	AA
Min Credit Quality:	CCC	NR
Duration:	5.4 yrs	5.4 yrs
<u>Last 3 Years:</u>		
Information Ratio:	0.3	N/A
Sharpe Ratio:	0.6	0.5

ROLLING PERFORMANCE AND RANKINGS

Three-Year Rolling/Quarterly Excess Performance vs. Barclays Universal Index

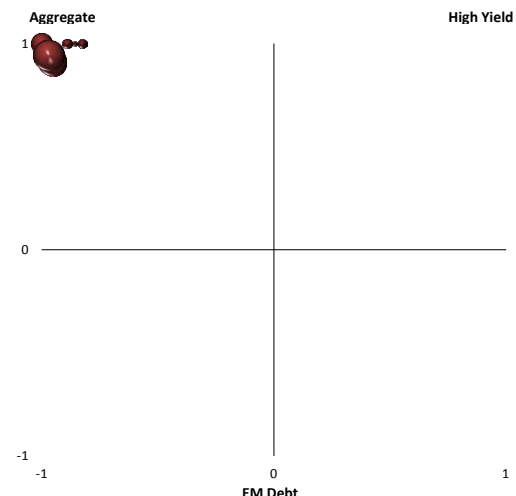


Manager vs. Core Plus Universe Rolling Three-Year Periods



QUALITATIVE OVERVIEW

- BlackRock was founded in 1988 as an independent organization focused on fixed income. Over time and via acquisitions it has transformed into a \$4.6 trillion AUM, publicly traded behemoth. Led by founder, Larry Fink, BlackRock now provides a multitude of investment solutions and guidance across the active and passive spectrum of long-only equity and fixed income as well as alternative options such as private equity.
- BlackRock's CorePlus strategy is managed by the former BGI Model-based fixed income team based in San Francisco. The investment team is led by Tom Parker, David Horowitz, Scott Radell, Karen Uyehara, and Ralph Smith. The same team of analysts/researchers is used across the suite of model-based fixed income products.
- The philosophy employed by BlackRock's model-based fixed income team is a mixture of quantitative research and market experts. The team is tasked with creating, maintaining, and deploying a set of diversified models/signals for investing in both core and plus sectors. The objective is to construct a highly diversified, high information ratio portfolio that exhibits lower correlations to traditional plus sectors. The team's more quantitative approach is unique within long-only fixed income.
- The process employed by the model-based fixed income team is two-fold. First, the researchers are tasked with developing statistically robust models or signals for investing in conjunction with the market experts. Signals approved by the Research Approval Committee graduate to the opportunity set. Signals within the opportunity set are invested in by the Investment Committee based on the overall risk budget and their expected information ratio. The entire suite of signals is monitored in a standardized manner for their efficacy.



BLACKROCK – COREPLUS (MODEL-BASED)

Key Differentiator: Model-driven fixed income product with low correlation to traditional fixed income plus sectors.

- **Investment Thesis:**

- **Correlation Benefit** – BlackRock’s CorePlus strategy aims to deliver excess returns with a lower correlation to high yield and other traditional plus sectors. Frequently models/signals are designed to be risk neutral, relative value trades. In this way, the strategy is intended to derive its plus from active management rather than carry.
- **Extensive Resources** – BlackRock’s massive asset management empire affords the team access to data and resources that would be the envy of most other firms. From better trade and flow data for monitoring liquidity assumptions to custom built programs, the team has the resources (such as its own Chief Technology Officer) to complete its mission.
- **Unique Perspective** – In a core/core plus market awash with carry-oriented products, BlackRock’s model-based core plus product provides a differentiated approach to portfolio construction that provides greater confidence in its realized correlation benefit.

- **Risks/Concerns:**

- **Capacity** – The CorePlus strategy utilizes many of the long strategies from BlackRock’s closed \$6B Fixed Income GlobalAlpha hedge fund. Remaining capacity for the long only product suite (CoreActive, CoreAlpha, and CorePlus) is estimated at around \$10B.
- **Recent Organizational Shift** – BlackRock recently merged its model-based research and market practitioner sub-investment teams into six new “Centres of Excellence” with each led by a market practitioner/portfolio manager. While this set up makes more sense versus the more fragmented approach used previously, it does risk heightened turnover as the new team dynamics evolve.
- **Model Risks** – Model-based signals can breakdown in unprecedented environments. While the new organizational structure is intended to make the research process more dynamic and reactive, data limitations remain.

- **Performance Expectations:**

- Alpha expectations for this strategy are 100-150 basis points over the next market cycle.

LM CAPITAL GROUP, LLC – OPPORTUNISTIC CORE

2ND TIER

FIRM DETAILS

Address: 750 B Street, Suite 3010
San Diego, CA 92101
Phone: 619.814.1401
Asset Class: Core Plus Fixed Income
Benchmark: Barclays Universal
Founded: 1989
Ownership: 100% employee owned
Assets Under Management: \$5.1 billion

PRODUCT DETAILS

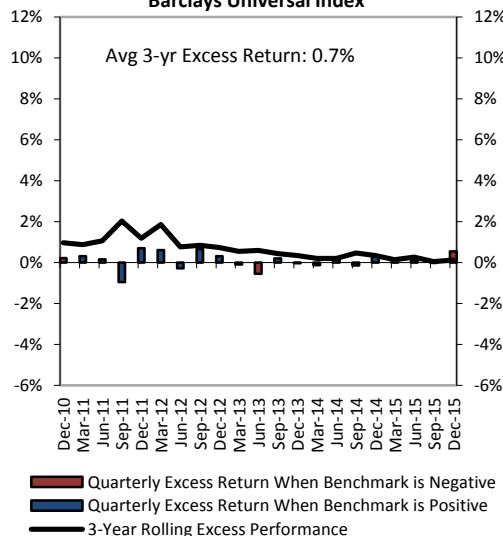
Inception: January 1993
Assets Under Management: \$3.1 billion
Vehicles Offered: SA
Separate Account Minimum: \$20 million
Portfolio Managers/Dual Role PMs: 5
Avg. Yrs of Experience: 25
Avg. Yrs at Firm: 19
Research Analysts: 2
Avg. Yrs of Experience: 8
Avg. Yrs at Firm: 4
Fee Schedule (SA)*: 0.25% on first \$25 million
0.20% on next \$25 million
0.15% on balance
(Performance-based fees are available)

CHARACTERISTICS

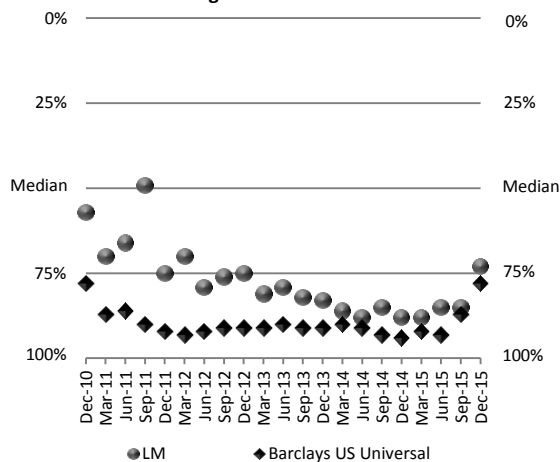
	Portfolio	Benchmark
# of Bonds:	64	14,955
Portfolio Turnover:	35%	N/A
Avg Credit Quality:	AA	AA
Min Credit Quality:	CCC	NR
Duration:	5.3 yrs	5.4 yrs
Last 3 Years:		
Information Ratio:	0.3	N/A
Sharpe Ratio:	0.5	0.5

ROLLING PERFORMANCE AND RANKINGS

Three-Year Rolling/Quarterly Excess Performance vs. Barclays Universal Index



Manager vs. Core Plus Universe Rolling Three-Year Periods



QUALITATIVE OVERVIEW

- LM Capital Group, LLC is a boutique investment firm managing \$5.1B in fixed income assets for institutional investors. Core plus assets make up the majority of their AUM but they offer short-term, intermediate, and core strategies as well. The firm was founded in 1989 by Luis Maizel and John Chalker. The firm participated in CalPERS Management Development Program for nine years, but bought back CalPERS' 35% stake and is now 100% employee owned.
- Including senior PMs, Maizel and Chalker, the team consists of five portfolio managers and two research analysts. The five PMs have 25 years of investment experience while the two research analysts average eight years. The PM team has been stable over time, averaging 19 years at the firm.
- LM Capital's philosophy is grounded in macro-economic analysis first and foremost. Their belief is that economic fundamentals drive the performance of each sector. This concentrated, low turnover strategy will see sector rotation and duration management contribute the most to excess performance as opposed to bottom-up security selection.
- The investment process begins with fundamental economic analysis; driving this analysis is the firm's proprietary Macroeconomic Matrix, which helps to identify markets with favorable or unfavorable trends. The team utilizes the subsequent scoring to determine country and sector allocations. Security selection seeks to identify the issues that best fit the proposed portfolio. Investment grade corporates purchased are usually large, liquid issuers while high yield is typically of the fallen angel variety. Non-dollar focuses on large developed nations and emerging markets debt uses hard currency.

QUALITATIVE RANKING

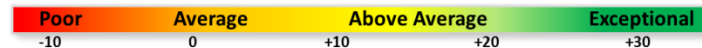
FIRM	-2	-1	0	1	2
Empl Ownership					●
Mgmt Consistency					●
Focus					●
Cost					●
Litigation					●
Responsiveness				●	
TOTAL					+9

PERSONNEL	-3	-2	-1	0	1	2	3
Staff Depth					●		
Experience						●	
Stability					●		
Support					●		
TOTAL							0

PRODUCT	-2	-1	0	1	2
History					●
Size					●
Growth					●
Asset Split					●
TOTAL					+5

PHILOSOPHY	-3	-2	-1	0	1	2	3
Philosophy						●	
Duration Mgmt						●	
Curve Mgmt						●	
Sector Mgmt						●	
Issue Selection						●	
Derivatives						●	
Risk Mgmt						●	
TOTAL							+8

TOTAL QUALITATIVE SCORE: +22



*Verbalized fee schedule from LM Capital.

LM CAPITAL GROUP, LLC – OPPORTUNISTIC CORE

Key Differentiator: Minority-owned boutique firm with unique top-down philosophy/process and emphasis on emerging market corporates.

- **Investment Thesis:**

- **Top-Down Emphasis** – Developed during his time at Harvard, Luis Maizel’s global scenario process brings a systematized way to analyzing economic and interest rate trends around the globe, which aids in implementing positioning and sector views in the portfolio. Most strategies in the core plus universe are more reliant on bottom-up, credit-oriented strategies.
- **Portfolio Diversifier** – Given their top-down framework and focus on emerging markets corporate debt, the strategy has shown a propensity to work well as a portfolio diversifier against most of its peers.
- **PM Access** – LM Capital prides itself on providing clients with direct access to the decision makers of the firm. The Client-to-PM ratio is capped at 12-to-1 in order to facilitate the “high touch” service. With 28 clients currently, LM has the capacity to maintain this level of service.
- **Alignment of Interests** – The firm repurchased the CalPERS’ minority stake in their firm to bring it back to 100% employee ownership. While Maizel and John Chalker are the primary owners, ownership is expanding and currently includes four other employees, helping to align interests of team members with investors.

- **Risks/Concerns:**

- **Leadership Succession** – Maizel and Chalker have been the lead stewards of the firm but both are now in their 60s. Their loss would prove difficult for the firm even with its established investment process.
- **Ownership** – Ownership is largely concentrated in the hands of the two founders, but it is expected to broaden over time. Maizel and Chalker are adamant in their desire to remain independent.
- **Style** – Given their emphasis on hard currency emerging markets corporates, flights-to-quality can see the portfolio underperform; in addition, their propensity to limit their high yield exposure will impact their upside capture when lower quality credit rallies.

- **Performance Expectations:**

- Excess return expectations are 40-60 basis points over the next market cycle with key drivers being their duration positioning and emerging market corporate allocation.

LOOMIS, SAYLES & COMPANY – CORE PLUS FULL DISCRETION (CPFD)

FIRM DETAILS

Address: One Financial Center 25th Floor
Boston, MA 02111

Phone: 617.482.2450

Asset Class: Core Plus Fixed Income

Benchmark: Barclays Universal

Founded: 1926

Ownership: 100% owned by Natixis Global

Assets Under Management: \$229.1 billion

PRODUCT DETAILS

Inception: January 1989

Assets Under Management: \$16.0 billion

Vehicles Offered: SA, CF, MF

Separate Account Minimum: \$50 million

Portfolio Managers/Dual Role PMs: 4

Avg. Yrs of Experience: 34

Avg. Yrs at Firm: 25

Research Analysts: 76

Avg. Yrs of Experience: 13

Avg. Yrs at Firm: 9

Fee Schedule (SA): 0.40% on first \$20 million
0.30% on next \$80 million
0.20% on balance

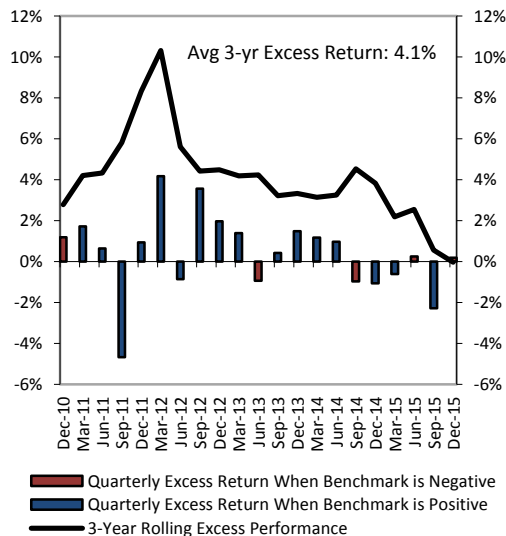
(Performance-based fees are not available)

CHARACTERISTICS

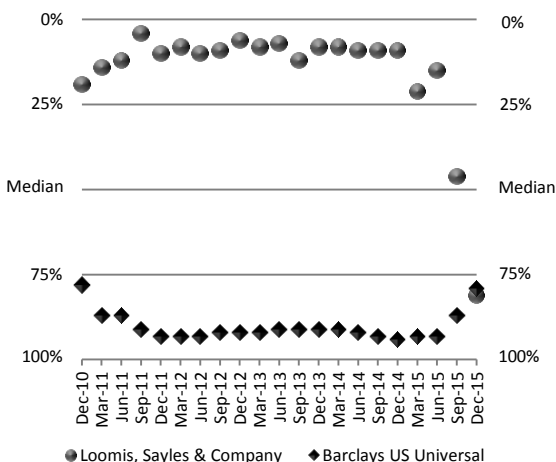
	Portfolio	Benchmark
No of Bonds:	858	14,955
Portfolio Turnover:	23%	N/A
Avg Credit Quality:	A	AA
Min Credit Quality:	CCC	NR
Duration:	4.7 yrs	5.4 yrs
Last 3 Years:		
Information Ratio:	0.0	N/A
Sharpe Ratio:	0.4	0.5

ROLLING PERFORMANCE AND RANKINGS

Three-Year Rolling/Quarterly Excess Performance vs. Barclays Universal Index

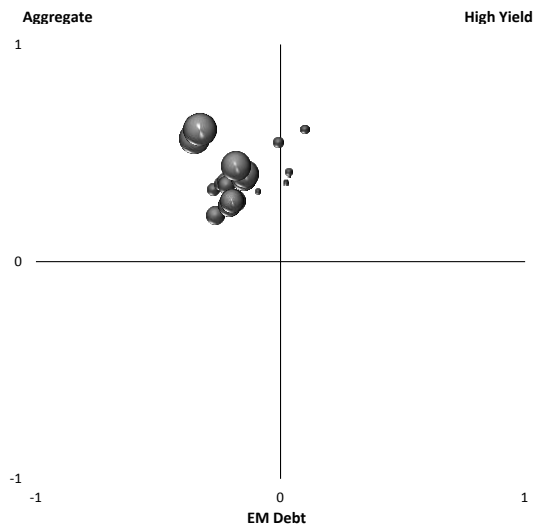


Manager vs. Core Plus Universe Rolling Three-Year Periods



QUALITATIVE OVERVIEW

- Loomis, Sayles & Co. was founded in 1926 by Robert Loomis and Ralph Sayles. Over its existence Loomis has been owned by multiple entities and is currently a wholly-owned subsidiary of Natixis Global Asset Management, L.P. Loomis manages a wide variety of strategies in both equity and fixed income space, but the latter is its core specialty.
- Veteran portfolio manager, Dan Fuss, leads the Core Plus Full Discretion product. The four member portfolio management team averages 34 years total experience and 25 years at the firm. The large and seasoned research staff averages 13 years of total investment experience.
- The team primarily employs a bottom-up approach that seeks to exploit market inefficiencies through fundamental analysis with a heavy emphasis on corporates. This approach is value-driven with emphasis on capturing alpha from market overreactions, mispricing of risk, and technical factors. The strategy is very opportunistic in nature. The team works in concert with their economics group to understand the global relative value set.
- Sector Teams make recommendations across all fixed income products and identify horizon returns and risks for the investment – the macro views of the firm are also incorporated in the research of the Sector Teams. Research analysts use an independent ranking system for the securities they follow; from the security rankings, the portfolio management team selects securities with the best potential for improvement and/or favorable spread compression versus treasuries.



LOOMIS, SAYLES & COMPANY, LP – CORE PLUS FULL DISCRETION (CPFD)

Key Differentiator: Long-standing value-oriented strategy with agnostic view toward volatility when long-term opportunities present themselves.

- **Investment Thesis:**

- **Opportunistic Driven** – As opposed to the tracking error-centric Core Plus manager that is more prevalent in the market, CPFD welcomes volatility and will move aggressively to exploit market inefficiencies generated from market overreactions, mispricing of risk, and technical factors. Their primary driver of returns will be yield which will mean a bias toward credit at most times.
- **Low Turnover** – While performance may whip up and down dramatically given the strategy’s opportunistic lean, the steady hand of the team keeps turnover limited as they seek to generate long-term value.
- **Seasoned and Deep Team** – Dan Fuss is the face of the strategy and his status in the fixed income market is established as one of the veteran voices. He has worked alongside Matt Eagan and Elaine Stokes for 19 and 22 years, respectively, providing a solid foundation for the continuity of the philosophy and process. In addition, Loomis, Sayles has a considerable research effort encompassing 76 analysts with 13 years of average experience.

- **Risks/Concerns:**

- **Tracking Error** – The total return orientation of the strategy comes with a well above market standard dose of volatility/tracking error which could cause consternation for those of a short-term mindset or those looking for fixed income to form the anchor of the portfolio. A credit bias and longer duration profile will expose the strategy during the times of spread widening or rate increases.
- **Fuss Departure** – Although Fuss’s client responsibilities are limited to a handful of relationships now, his direct link to this strategy will likely cause outflows in the event of his departure. At over 80 years old, there is heightened risk although he continues to remain active. However, fellow PM, Eagan, has largely transitioned to be the next generation “face” of the strategy helping to alleviate any concern over a transition.
- **Retail Asset Concentration** – The strategy’s sizable retail base of assets (\$9B of the \$16B) could be susceptible if there is a broad move away from fixed income (rising rate) or more credit-oriented products (high yield defaults).

- **Performance Review and Expectations:**

- Excess return expectations are 150 bps to 250 bps with tracking error of 350 bps to 600 bps.

NEUBERGER BERMAN – CORE PLUS

TOP TIER

FIRM DETAILS

Address: 605 Third Avenue
New York, NY 10158

Phone: 212.476.9000

Asset Class: Core Plus Fixed Income

Benchmark: Barclays Universal

Founded: 1939

Ownership: 100% employee owned

Assets Under Management: \$240.4 billion

PRODUCT DETAILS

Inception: October 1998

Assets Under Management: \$3.2 billion

Vehicles Offered: SA, CF

Separate Account Minimum: \$50 million

Portfolio Managers/Dual Role PMs: 7

Avg. Yrs of Experience: 25

Avg. Yrs at Firm: 13

Research Analysts: 56

Avg. Yrs of Experience: 11

Avg. Yrs at Firm: 5

Fee Schedule: 0.35% on first \$50 million
0.25% on next \$100 million
0.20% on next \$100 million
0.15% on next \$250 million
0.12% on balance

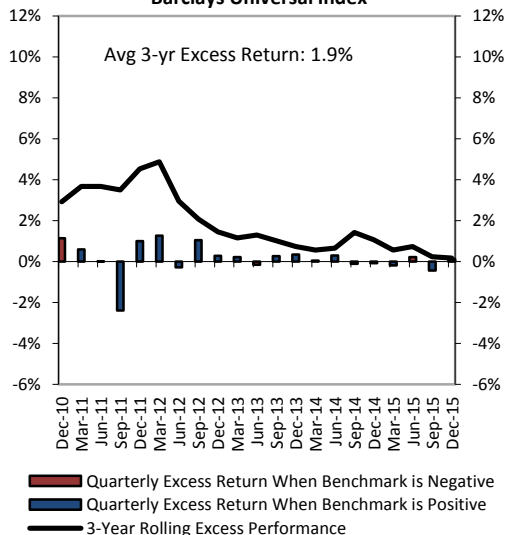
(Performance-based fees are available)

CHARACTERISTICS

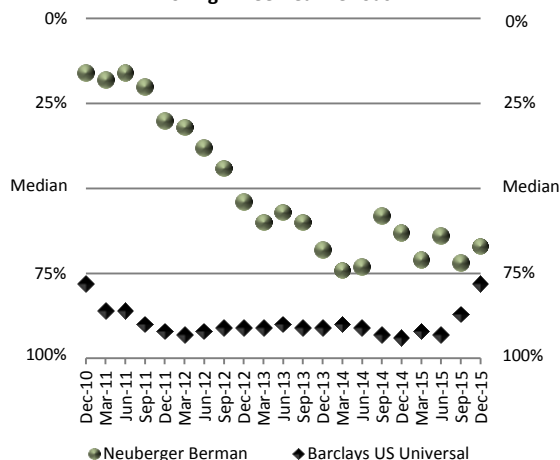
	Portfolio	Benchmark
No of Bonds:	251	14,955
Portfolio Turnover:	78%	N/A
Avg Credit Quality:	A	AA
Min Credit Quality:	CCC	NR
Duration:	5.1 yrs	5.4 yrs
<u>Last 3 Years:</u>		
Information Ratio:	0.4	N/A
Sharpe Ratio:	0.6	0.5

ROLLING PERFORMANCE AND RANKINGS

Three-Year Rolling/Quarterly Excess Performance vs. Barclays Universal Index



Manager vs. Core Plus Universe Rolling Three-Year Periods



QUALITATIVE OVERVIEW

- Neuberger Berman is a 100% employee-owned firm made up of a collection Lehman's former asset management firms including the original Neuberger Berman. The original Neuberger Berman traces its roots back to 1939.
- Andy Johnson and Athanassios Bardas serve as the lead portfolio managers on the Core Plus strategy. The seven portfolio managers average 25 years of experience while the deep pool of analysts average 11 years of experience. An emerging markets debt team was lifted out of ING, providing the Core Plus strategy with a new plus sector.
- Neuberger has adopted the term 'State Space' for their unique take on asset allocation. The State Space analysis is targeted at developing from the bottom up, Neuberger's view on the return potential for a sector as well as its level of confidence in that forecast. Underlying Neuberger's adoption of State Space is the belief that a regimented approach will help them to capture alpha where their views deviate from consensus on expected return and risk. High yield and emerging markets serve as plus sectors and can make up 20% of the portfolio.
- Neuberger's State Space requires sector teams to come up with a manageable amount of potential scenarios for their sector with expected returns and probabilities. These states are then translated into an expected return and confidence interval. Where the team has a differentiated view and is confident, there will be a greater overweight. Sector teams are then responsible for security selection. Analysts present their ideas to sector teams for approval after exhaustive research. Once passed, senior professionals on the Credit Committee then review for approval. Accepted issues will be implemented across all portfolios.

QUALITATIVE RANKING							
FIRM	-2	-1	0	1	2		
Empl Ownership					●		
Mgmt Consistency					●		
Focus					●		
Cost					●		
Litigation					●		
Responsiveness					●		
TOTAL					+5		
PERSONNEL	-3	-2	-1	0	1	2	3
Staff Depth							●
Experience							●
Stability							●
Support							●
TOTAL							+6
PHILOSOPHY	-3	-2	-1	0	1	2	3
Philosophy							●
Duration Mgmt							●
Curve Mgmt							●
Sector Mgmt							●
Issue Selection							●
Derivatives							●
Risk Mgmt							●
TOTAL							+9
TOTAL QUALITATIVE SCORE:					+25		



NEUBERGER BERMAN – CORE PLUS

Key Differentiator: Unique bottom-up scenario generation feeds a robust, risk controlled sector allocation process.

- **Investment Thesis:**

- **Talented Leadership** – Andy Johnson, head of investment grade fixed income, is the architect of the strategy. After the global financial crisis, Andy sought to re-think how Neuberger made sector allocation decisions and has transformed the process in his more mathematically-inclined image. Andy’s leadership has provided Neuberger with a clear, market differentiated identity in a sea of vanilla core plus products.
- **Unique Take On Sector Allocation** – As opposed to the more typical top-down, one-size fits all scenario analysis used at other firms, Neuberger takes the unique step of conducting bottom-up scenario analysis (‘State Space’) that is flexible to the most pertinent issues facing a sector.
- **100% Employee Owned** – The employees of Neuberger have completed the buyback of the firm from the Lehman estate as of late-2014. This alignment of interest with clients is exceedingly rare for a firm of this size.
- **Broad Opportunity Set** – As compared to smaller, more single sector focused core plus managers, the strategy has access to a full suite of plus sector investments. Neuberger, a market leader in high yield, recently added a substantial portion of ING’s emerging markets debt team.

- **Risks/Concerns:**

- **Lack of Assets In Commingled Vehicles** – Prior to late-2014, the strategy was only available as a separate account. While an ERISA-only commingled fund has been launched, assets remain low.
- **Limited Track Record Under New Process** – Neuberger’s sector allocation process is unique and has yet to be tested in a severe market correction. It relies on the sector analyst to determine overheating in their sector as opposed to a generalist economist.

- **Performance Expectations:**

- Excess return expectations are 75 to 100 bps over a 3- to 5-year market cycle with an expected tracking error of 125 to 175 bps.

PRUDENTIAL FIXED INCOME – CORE PLUS

2ND TIER

FIRM DETAILS

Address: 655 Broad St.
Newark, NJ 07102
Phone: 973.367.9203
Asset Class: Core Plus Fixed Income
Benchmark: Barclays Universal
Founded: 1875
Ownership: 100% Publicly Held via Parent
Assets Under Management: \$574.8 billion

PRODUCT DETAILS

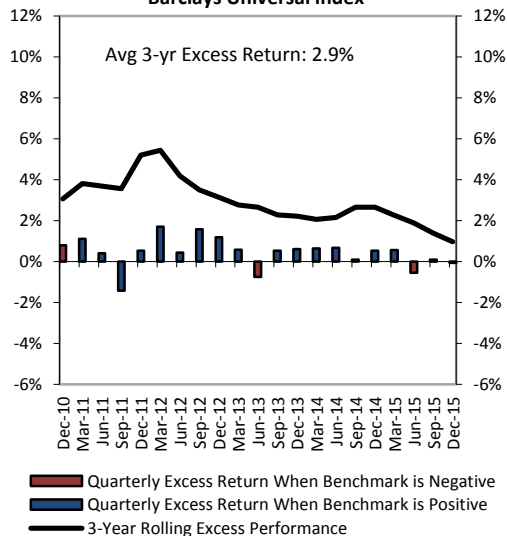
Inception: January 1996
Assets Under Management: \$25.8 billion
Vehicles Offered: SA, CF, MF
Separate Account Minimum: \$100 million
Portfolio Managers/Dual Role PMs: 18
Avg. Yrs of Experience: 20
Avg. Yrs at Firm: 20
Research Analysts: 87
Avg. Yrs of Experience: 13
Avg. Yrs at Firm: 11
Fee Schedule: 0.30% on first \$50 million
0.28% on next \$100 million
0.25% on next \$100 million
0.20% on balance

CHARACTERISTICS

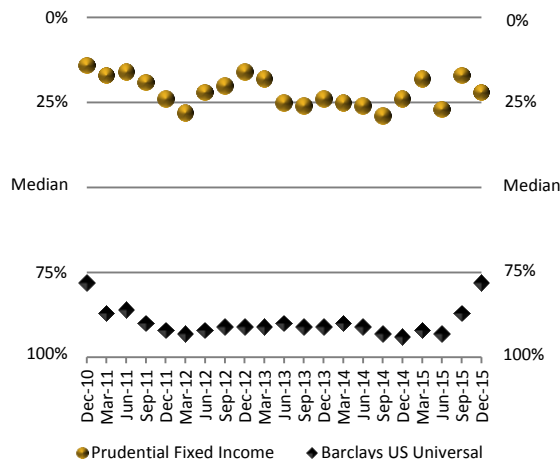
	Portfolio	Benchmark
No of Bonds:	1,330	14,955
Portfolio Turnover:	106%	N/A
Avg Credit Quality:	A	AA
Min Credit Quality:	CCC	NR
Duration:	6.2 yrs	5.4 yrs
<u>Last 3 Years:</u>		
Information Ratio:	1.0	N/A
Sharpe Ratio:	0.7	0.5

ROLLING PERFORMANCE AND RANKINGS

Three-Year Rolling/Quarterly Excess Performance vs. Barclays Universal Index

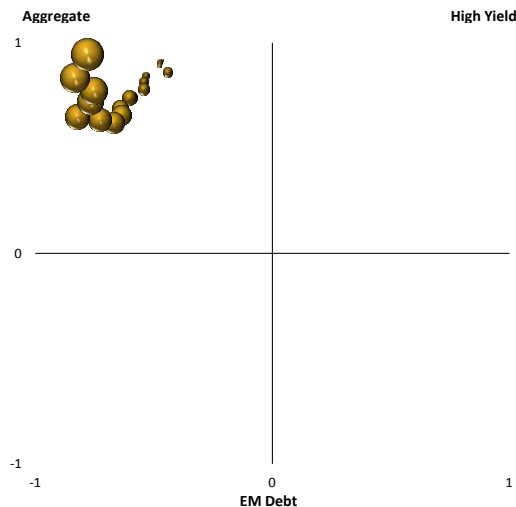


Manager vs. Core Plus Universe Rolling Three-Year Periods



QUALITATIVE OVERVIEW

- Prudential Fixed Income, a unit of publicly held Prudential Financial, has \$575B in assets under management. Of the assets, \$304B are third party with the majority, \$209B, institutional. As a firm, Prudential traces its history all the way back to 1875.
- Michael Collins, Gregory Peters, and Richard Piccirillo lead the 18 portfolio managers contributing to the Core Plus strategy. The portfolio manager group averages 20 years of experience while the large pool of 87 analysts averages 13 years of experience.
- Prudential’s philosophy centers on risk budgeting, diversification, and sector rotation. Prudential’s focus on active sector rotation and a risk budgeting, combined with dedicated sector teams that provide a highly diversified opportunity set, aims to achieve both a high information ratio as well as stellar excess returns.
- Prudential’s approach combines its investment philosophy with top-down themes and bottom-up security selection. The focus for driving alpha remains more on sector rotation (50%) than security selection or yield curve/FX. For its risk budgeting, Prudential breaks down risk into systematic risk (yield curve, currency, and sector/quality) and tail risk (industry/issuers) with budgets designated for each along with the total tracking error budget. The target for risk budgeting is to push the portfolio to the areas of the market with the greatest reward per unit of risk. In conjunction with the CIO, the senior portfolio managers are tasked with determining the overall risk, sector, and yield curve positioning. These decisions are made via Investment Committee and Sector Allocation meetings. Security selection falls to the sector teams.



PRUDENTIAL FIXED INCOME – CORE PLUS

Key Differentiator: Core Plus strategy with a wide variety of plus sectors and a risk budgeting, sector rotation focused approach.

- **Investment Thesis:**

- **Diversified Plus Sectors** – Prudential’s sizable third-party and in-house fixed income asset base has helped it to build out a deep fixed income effort that brings a large number of sectors into the tool set. This diversified set of sectors serves as the jumping off point for this sector rotating Core Plus strategy.
- **Risk Management** – An independent and regimented process, Prudential’s risk budgeting approach has helped it to keep portfolio positioning aligned with the greatest reward per unit of risk and has helped lead to a stellar information ratio over time.
- **Stable Team** – Prudential has done an impressive job of developing talent internally as well as retaining its team. A portfolio management team that averages 20 years of investment experience and 20 years of firm tenure highlights Prudential’s impressive retention record.

- **Risks/Concerns:**

- **Wider Plus Bands** – Prudential’s impressive combination of information ratio and excess return comes from a skillful use of its wide plus sector bands. These wider plus band also represent a risk factor if Prudential fails to be as skillful in navigating turbulent fixed income markets in the future.
- **Growth in Assets** – The strategy AUM has tripled in 2014/2015 in large part due to the turmoil at PIMCO. The stickiness of this large chunk of assets as well as the strategy’s ability navigate with a larger AUM is untested.

- **Performance Expectations:**

- Alpha expectations for this strategy are 125-175 basis points over the next market cycle.

WESTERN ASSET MANAGEMENT COMPANY (WAMCO) – US CORE FULL

TOP TIER

FIRM DETAILS

Address: 385 E. Colorado Boulevard
Pasadena, CA 91101
Phone: 626.844.9400
Asset Class: Core Plus Fixed Income
Benchmark: Barclays Universal
Founded: 1971
Ownership: 100% owned by Legg Mason, Inc.
Assets Under Management: \$433.7 billion

PRODUCT DETAILS

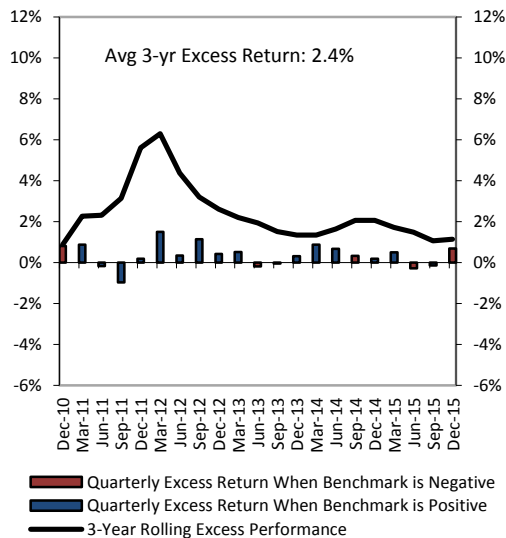
Inception: February 1993
Assets Under Management: \$55.6 billion
Vehicles Offered: SA, CF, MF
Separate Account Minimum: \$75 million
Portfolio Managers/Dual Role PMs: 65
Avg. Yrs of Experience: 23
Avg. Yrs at Firm: 10
Research Analysts: 45
Avg. Yrs of Experience: 19
Avg. Yrs at Firm: 8
Fee Schedule (SA): 0.30% on first \$100 million
0.20% on balance
(Performance-based fees are available)

CHARACTERISTICS

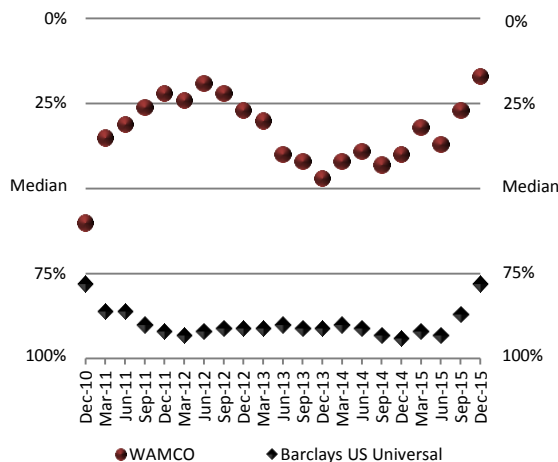
	Portfolio	Benchmark
# of Bonds:	1,147	14,955
Portfolio Turnover:	55%	N/A
Avg Credit Quality:	A	AA
Min Credit Quality:	CCC	NR
Duration:	6.7 yrs	5.4 yrs
Last 3 Years:		
Information Ratio:	1.5	N/A
Sharpe Ratio:	0.8	0.5

ROLLING PERFORMANCE AND RANKINGS

Three-Year Rolling/Quarterly Excess Performance vs. Barclays Universal Index



Manager vs. Core Plus Universe Rolling Three-Year Periods



QUALITATIVE OVERVIEW

- Western Asset Management (WAMCO or Western) was founded in 1971 and was purchased by Legg Mason in 1986. In 2005, WAMCO expanded its capabilities, offices, and strategies through Legg Mason's acquisition of a substantial part of Citigroup Asset Management. WAMCO is focused exclusively on fixed income management and offers a diverse fixed income product line ranging from enhanced cash mandates to unconstrained mandates.
- Carl Eichstaedt and Mark Lindbloom oversee the Core Plus strategy. Additionally, the US Broad Market Committee headed by CIO, Ken Leech, is a major driver of the strategy. Portfolio managers average 23 years of investment experience while research analysts average 19 years of investment experience.
- Philosophically, WAMCO believes in utilizing a diverse range of strategies within a risk-controlled environment to generate excess returns. The firm primarily relies on its sector rotation skills and emphasizes spread sectors, such as corporates and structured product, due to the inherent yield advantage. Treasuries are deemed a poor store of value over the long term.
- The US Broad Market Committee is responsible for setting allocation and duration targets for all the major sectors. These decisions are based on the firm's economic outlook and its potential impact on factors that drive yield spreads. Sector teams are tasked with achieving these targets utilizing their own sector outlook and strategy to guide how they implement. The sector teams are responsible for issue selection within their area of expertise; the teams strive to uncover undervalued/mispriced securities within a sector.

QUALITATIVE RANKING

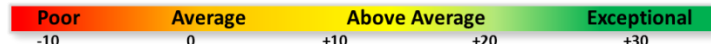
FIRM	-2	-1	0	1	2
Empl Ownership				●	
Mgmt Consistency				●	
Focus				●	
Cost				●	
Litigation				●	
Responsiveness				●	
TOTAL					+1

PERSONNEL	-3	-2	-1	0	1	2	3
Staff Depth							●
Experience							●
Stability							●
Support							●
TOTAL							+6

PRODUCT	-2	-1	0	1	2
History				●	
Size				●	
Growth				●	
Asset Split				●	
TOTAL					+3

PHILOSOPHY	-3	-2	-1	0	1	2	3
Philosophy							●
Duration Mgmt							●
Curve Mgmt							●
Sector Mgmt							●
Issue Selection							●
Derivatives							●
Risk Mgmt							●
TOTAL							+10

TOTAL QUALITATIVE SCORE: +20



WESTERN ASSET MANAGEMENT COMPANY (WAMCO) – US CORE FULL

Key Differentiator: Spread sector-focused manager who brings an extensive history of bond management and seasoned professionals to the table.

- **Investment Thesis:**

- **Fixed Income Focus** – Western (WAMCO) has built its reputation solely on its successful management of fixed income portfolios. It remains dedicated to the asset class and has a well-diversified lineup of strategies encompassing domestic and global mandates.
- **Spread Sector Philosophy** – WAMCO is first and foremost a spread sector manager and has not shied away from its fundamental belief in yield. This product will be volatile given its spread-sector bias, but the team has been able to remain steadfast in tough periods and recover short-term underperformance.
- **Deep/Seasoned Team** – Led by CIO, Ken Leech, WAMCO’s senior professionals are supported by one of the larger fixed income teams in the industry consisting of 65 portfolio managers and 45 research analysts with 23 and 19 years average experience, respectively. Even in the midst of its worst hours, WAMCO was able to attract experienced, senior level professionals to the firm.

- **Risks/Concerns:**

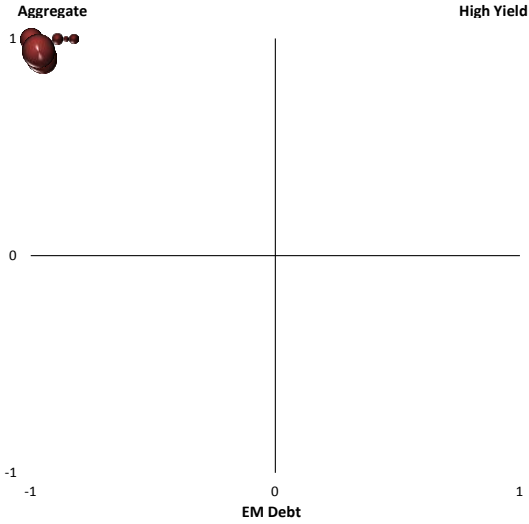
- **Investment Style** – WAMCO’s adherence to its spread philosophy needs to be understood and respected during volatile market periods. Balancing one’s exposure to WAMCO with a more stable fixed income strategy is prudent.
- **Succession Plan Announcement** – After successfully transitioning investment leadership from Steve Walsh back to former CIO Ken Leech, WAMCO has moved to further address succession planning. In 1Q2015, Michael Buchanan was named as Deputy CIO to provide greater clarity regarding Ken’s eventual successor. While Michael, previously Head of Global Credit, certainly has the background in spread sectors you would expect from WAMCO, he lacks Ken’s background in Macro, a potential concern for broad market strategies.
- **Regulatory** – While admitting no guilt or wrongdoing, WAMCO settled and paid a fine to end SEC/DOL investigations. This will be a hit to its reputation over the near-term.

- **Performance Expectations:**

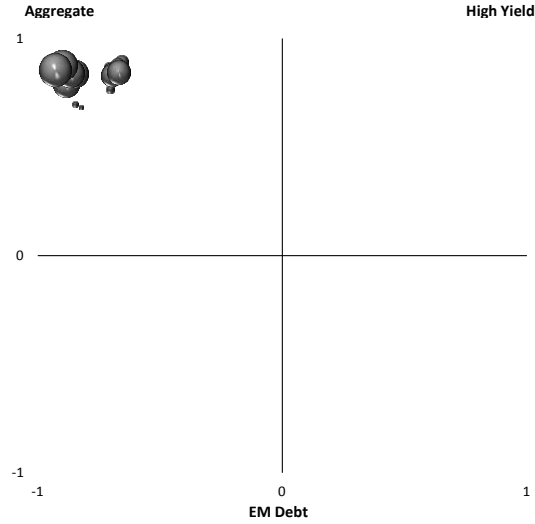
- Excess return expectations are 100-125 basis points over the next market cycle.

STYLE ANALYSIS, ROLLING THREE-YEAR PERIODS

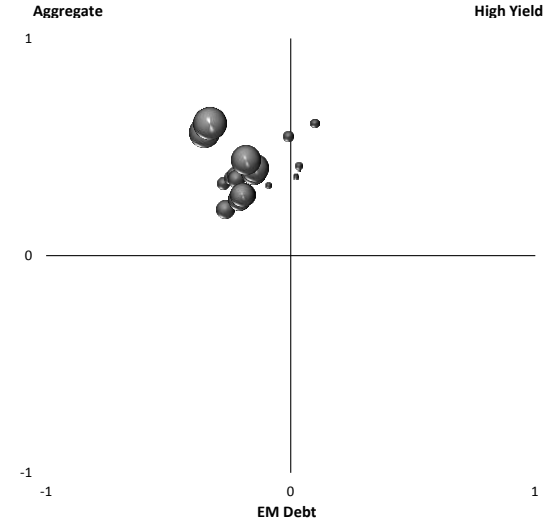
BlackRock



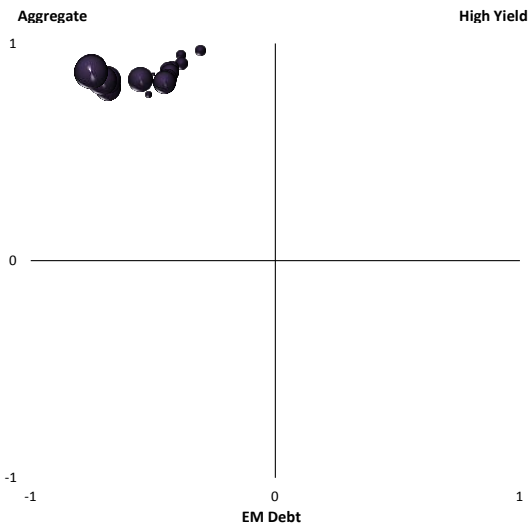
LM Capital



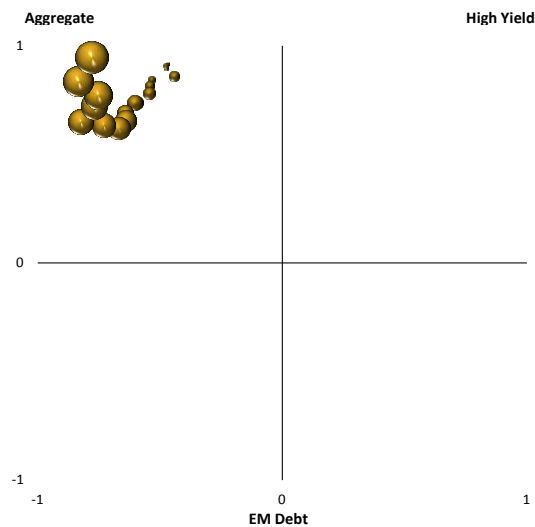
Loomis



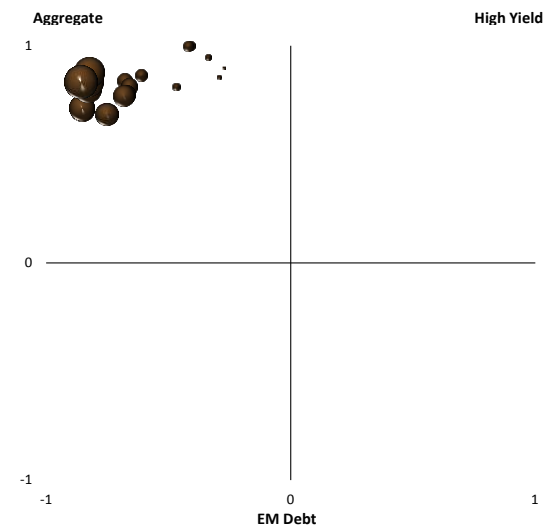
Neuberger



Prudential



WAMCO



CORRELATION ANALYSIS: 10-YEAR CORRELATION OF EXCESS RETURN

	BlackRock	LM Capital	Loomis, Sayles	Neuberger Berman	Prudential	WAMCO
<u>Current Fixed Income Managers</u>						
Eaton Vance (Bank Loans)	0.07	0.04	0.64	0.49	0.55	0.62
Thompson, Siegel (Core)	0.80	0.94	0.78	0.84	0.76	0.73
<u>Fixed Income Indices</u>						
Core FI Benchmark (Barclays Aggregate)	0.90	0.84	0.38	0.62	0.60	0.50
Core Plus FI Benchmark (Barclays US Universal)	0.94	0.90	0.76	0.81	0.80	0.72
Investment Grade Credit Benchmark (Barclays US Credit)	0.88	0.95	0.83	0.91	0.86	0.84
High Yield Benchmark (Barclays US High Yield)	0.25	0.30	0.84	0.71	0.72	0.78
Bank Loans (CS Leveraged Loan)	0.07	0.05	0.68	0.52	0.58	0.67
International FI Benchmark (Citi WGBI Non-US Unhedged)	0.53	0.67	0.41	0.48	0.39	0.30
Hard Currency EMD Benchmark (JPM EMBI GD)	0.56	0.60	0.88	0.86	0.89	0.87
Local Currency EMD Benchmark (JPM GBI-EM GD Unhedged)	0.32	0.48	0.76	0.66	0.63	0.60
<u>Equity Indices</u>						
Global Equity Benchmark (MSCI ACWI IM-ND)	0.02	0.24	0.75	0.55	0.53	0.60
International Equity Benchmark (MSCI EAFE-ND)	0.06	0.30	0.76	0.56	0.53	0.59
U.S. Small Cap Equity Benchmark (Russell 2000)	-0.13	0.02	0.54	0.38	0.37	0.44
U.S. Large Cap Equity Benchmark (S&P 500)	-0.08	0.10	0.63	0.44	0.44	0.53

- Over the long-run, the two camps of Core Plus managers including in the search can be demonstrated via their excess return correlations. The higher tracking error managers (Loomis, Neuberger, Prudential, and WAMCO) have a higher correlation to high yield and bank loans (as well as equity benchmarks) than the lower tracking error managers (BlackRock and LM Capital).

CORRELATION ANALYSIS: 3- & 5-YEAR CORRELATION OF EXCESS RETURN

- However, these relationships can vary depending on the look back period.

3-Year Correlation of Excess Return

	BlackRock	LM Capital	Loomis, Sayles	Neuberger Berman	Prudential	WAMCO
<u>Current Fixed Income Managers</u>						
Eaton Vance (Bank Loans)	0.18	0.21	0.54	0.35	0.35	0.28
Thompson, Siegel (Core)	0.95	0.95	0.81	0.95	0.98	0.96
<u>Fixed Income Indices</u>						
Core FI Benchmark (Barclays Aggregate)	0.99	0.97	0.68	0.94	0.96	0.95
Core Plus FI Benchmark (Barclays US Universal)	0.98	0.99	0.76	0.99	0.99	0.98
Investment Grade Credit Benchmark (Barclays US Credit)	0.97	0.97	0.82	0.97	0.99	0.98
High Yield Benchmark (Barclays US High Yield)	0.29	0.36	0.79	0.51	0.46	0.44
Bank Loans (CS Leveraged Loan)	0.16	0.19	0.58	0.35	0.33	0.27
International FI Benchmark (Citi WGBI Non-US Unhedged)	0.34	0.43	0.45	0.46	0.40	0.37
Hard Currency EMD Benchmark (JPM EMBI GD)	0.71	0.80	0.84	0.83	0.76	0.80
Local Currency EMD Benchmark (JPM GB-EM GD Unhedged)	0.24	0.35	0.76	0.46	0.35	0.41
<u>Equity Indices</u>						
Global Equity Benchmark (MSCI ACWI IMI-ND)	0.02	0.16	0.58	0.26	0.20	0.19
International Equity Benchmark (MSCI EAFE-ND)	-0.01	0.15	0.53	0.24	0.18	0.16
U.S. Small Cap Equity Benchmark (Russell 2000)	0.00	0.09	0.41	0.16	0.14	0.09
U.S. Large Cap Equity Benchmark (S&P 500)	-0.07	0.01	0.43	0.10	0.07	0.07

5-Year Correlation of Excess Return

	BlackRock	LM Capital	Loomis, Sayles	Neuberger Berman	Prudential	WAMCO
<u>Current Fixed Income Managers</u>						
Eaton Vance (Bank Loans)	-0.13	0.24	0.74	0.51	0.41	0.31
Thompson, Siegel (Core)	0.73	0.93	0.80	0.96	0.97	0.95
<u>Fixed Income Indices</u>						
Core FI Benchmark (Barclays Aggregate)	0.98	0.88	0.30	0.71	0.79	0.83
Core Plus FI Benchmark (Barclays US Universal)	0.95	0.96	0.87	0.85	0.90	0.92
Investment Grade Credit Benchmark (Barclays US Credit)	0.89	0.96	0.66	0.90	0.96	0.97
High Yield Benchmark (Barclays US High Yield)	-0.07	0.32	0.81	0.58	0.47	0.39
Bank Loans (CS Leveraged Loan)	-0.22	0.17	0.73	0.46	0.36	0.27
International FI Benchmark (Citi WGBI Non-US Unhedged)	0.42	0.55	0.46	0.55	0.51	0.50
Hard Currency EMD Benchmark (JPM EMBI GD)	0.42	0.76	0.88	0.87	0.78	0.76
Local Currency EMD Benchmark (JPM GB-EM GD Unhedged)	0.01	0.38	0.87	0.58	0.49	0.45
<u>Equity Indices</u>						
Global Equity Benchmark (MSCI ACWI IMI-ND)	-0.42	0.03	0.64	0.29	0.16	0.09
International Equity Benchmark (MSCI EAFE-ND)	-0.41	0.03	0.63	0.27	0.16	0.07
U.S. Small Cap Equity Benchmark (Russell 2000)	-0.41	-0.01	0.50	0.24	0.11	0.02
U.S. Large Cap Equity Benchmark (S&P 500)	-0.44	-0.04	0.52	0.22	0.07	0.02

PERFORMANCE RETURNS

Manager vs Benchmark										
As of 12/31/15	1 year	3 years	5 years	7 years	10 years					
BlackRock	0.46%	1.72%	4.14%	6.07%	5.76%					
LM Capital	1.08%	1.63%	3.85%	5.44%	5.25%					
Loomis, Sayles	-2.00%	1.47%	4.93%	9.41%	6.62%					
Neuberger Berman	0.15%	1.68%	3.87%	6.99%	5.70%					
Prudential	0.44%	2.47%	5.18%	8.01%	6.38%					
WAMCO	1.19%	2.65%	4.84%	8.03%	5.47%					
Barclays US Universal	0.43%	1.51%	3.46%	4.70%	4.67%					
Calendar Year Return										
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
BlackRock	0.46%	7.08%	-2.14%	6.02%	9.77%	7.37%	14.87%	4.82%	4.81%	5.51%
LM Capital	1.08%	5.78%	-1.83%	6.89%	7.64%	7.76%	11.36%	2.01%	6.63%	5.84%
Loomis, Sayles	-2.00%	5.62%	0.94%	14.99%	5.89%	12.85%	30.77%	-12.73%	7.38%	7.91%
Neuberger Berman	0.15%	5.71%	-0.70%	7.95%	6.56%	9.96%	20.69%	-2.60%	5.61%	5.45%
Prudential	0.44%	7.58%	-0.43%	10.73%	8.08%	10.74%	20.32%	-2.62%	5.33%	5.45%
WAMCO	1.19%	7.70%	-0.76%	9.12%	7.32%	11.51%	21.61%	-9.95%	3.65%	6.22%
Barclays US Universal	0.43%	5.56%	-1.35%	5.53%	7.40%	7.16%	8.60%	2.38%	6.50%	4.97%

Performance reflects gross of fees composite returns.

STATISTICAL SUMMARY

As of 12/31/15	BlackRock	LM Capital	Loomis, Sayles	Neuberger Berman	Prudential	Western	Barclays US Universal
3 Year Performance:							
Annualized Return	1.7%	1.6%	1.5%	1.7%	2.5%	2.6%	1.5%
Annualized St. Dev	3.1%	3.0%	3.9%	2.8%	3.6%	3.2%	2.7%
Sharpe Ratio	0.55	0.53	0.37	0.58	0.67	0.80	0.53
Tracking Error	0.6%	0.5%	2.4%	0.5%	1.0%	0.8%	N/A
Info Ratio	0.34	0.23	-0.01	0.36	0.99	1.50	N/A
Batting Average	66.7%	50.0%	58.3%	58.3%	75.0%	66.7%	N/A
Up Market Capture	106.4%	105.1%	116.2%	105.2%	148.1%	132.8%	N/A
Down Market Capture	98.0%	101.6%	133.3%	98.6%	128.9%	88.1%	N/A
5 Year Performance:							
Annualized Return	4.1%	3.8%	4.9%	3.9%	5.2%	4.8%	3.5%
Annualized St. Dev	3.3%	2.7%	4.6%	2.7%	3.3%	2.9%	2.6%
Sharpe Ratio	1.23	1.38	1.06	1.40	1.54	1.64	1.30
Tracking Error	1.1%	0.8%	3.9%	1.5%	1.5%	1.1%	N/A
Info Ratio	0.60	0.48	0.37	0.28	1.16	1.23	N/A
Batting Average	70.0%	60.0%	65.0%	65.0%	80.0%	70.0%	N/A
Up Market Capture	115.4%	109.3%	141.5%	109.3%	146.5%	129.5%	N/A
Down Market Capture	98.0%	101.6%	133.3%	98.6%	128.9%	88.1%	N/A
7 Year Performance:							
Annualized Return	6.1%	5.4%	9.4%	7.0%	8.0%	8.0%	4.7%
Annualized St. Dev	4.0%	3.6%	7.8%	4.5%	4.5%	4.9%	3.0%
Sharpe Ratio	1.46	1.46	1.19	1.50	1.74	1.59	1.50
Tracking Error	1.5%	1.4%	6.2%	2.7%	2.3%	2.8%	N/A
Info Ratio	0.94	0.52	0.76	0.85	1.44	1.20	N/A
Batting Average	71.4%	64.3%	67.9%	71.4%	82.1%	75.0%	N/A
Up Market Capture	126.7%	113.2%	187.8%	138.7%	162.4%	157.5%	N/A
Down Market Capture	110.1%	97.3%	105.5%	78.1%	109.1%	75.6%	N/A
10 Year Performance:							
Annualized Return	5.8%	5.3%	6.6%	5.7%	6.4%	5.5%	4.7%
Annualized St. Dev	3.9%	4.1%	7.8%	4.3%	4.3%	5.2%	3.1%
Sharpe Ratio	1.14	0.95	0.68	1.01	1.17	0.79	1.08
Tracking Error	1.4%	1.9%	6.4%	2.6%	2.6%	3.7%	N/A
Info Ratio	0.75	0.30	0.31	0.40	0.65	0.22	N/A
Batting Average	65.0%	67.5%	67.5%	65.0%	67.5%	62.5%	N/A
Up Market Capture	120.4%	116.7%	149.5%	118.9%	132.4%	119.2%	N/A
Down Market Capture	102.3%	137.1%	180.7%	100.6%	107.0%	127.9%	N/A

Performance reflects gross of fees composite returns.

GUIDELINE REVIEW

	BlackRock	LM Capital	Loomis, Sayles	Neuberger Berman	Prudential	WAMCO
High Yield	20%	10%	50%	20%	30%	20%
Emerging Markets	20%	20%	40%	20%	30%	20%
Non-Dollar	20%	10%	50%	20%	30%	20%

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