

# **A G E N D A**

A regular meeting of the Board of Trustees of the Waxahachie Firemen's Relief and Retirement (FR&R) Fund to be held at Waxahachie Fire Station No. 2, 1600 Cleaver, Waxahachie, Texas on ***Monday, October 14, 2019 at 8:30 a.m.***

BOARD MEMBERS: Gary Myers, Chairman  
Matt Dorsey, Vice Chairman  
Scott Safford, Secretary  
John Tillery  
Lee Statham  
David Hill, Mayor  
Charles Harris, Finance Director

1. Call to Order
2. ***Public Comments:*** Persons may address the Waxahachie Firemen's Relief and Retirement (FR&R) Fund on any issues. This is the appropriate time for citizens to address the Waxahachie Firemen's Relief and Retirement (FR&R) Fund on any concern whether on this agenda or not. In accordance with the State of Texas Open Meetings Act, the Waxahachie Firemen's Relief and Retirement (FR&R) Fund may not comment or deliberate such statements during this period, except as authorized by Section 551.042, Texas Government Code.
3. Consent Agenda  

All matters listed under Item 3, Consent Agenda, are considered to be routine by the Board Members and will be enacted by one motion. Approval of the Consent Agenda authorizes the Chairman to execute all matters necessary to implement each item. Any item may be removed from the Consent Agenda for separate discussion and consideration by any Board Member.

  - a. Minutes of the regular Firemen's Relief & Retirement Fund meeting of September 9, 2019
  - b. Annuity checks for FR&R Retirees and other disbursements for the month of November 2019
4. Hear Third Quarter Report 2019 from Graystone Consulting and take any necessary action
5. Discuss Great Lake Investments and take any necessary action
6. Consider travel expenses for 2019 Texas Local Firefighters Retirement Act (TLFFRA) Pension Conference and take any necessary action
7. Discuss changes in the Texas Government Code 802 and the Pension Review Board's Guidelines and take any necessary action
8. Consider Texas Association of Public Employee Retirement Systems (TEXPERS) Dues
9. Set next meeting date and time of Firemen's Relief and Retirement Fund Board
10. Adjourn

**The Waxahachie Firemen's Relief and Retirement Fund reserves the right to go into Executive Session on any posted item.**

This meeting location is wheelchair-accessible. Parking for mobility impaired persons is available. Any request for sign interpretive services must be made forty-eight hours ahead of the meeting. To make arrangements, call the City Secretary at 469-309-4005 or (TDD) 1-800-RELAY TX

***Notice of Potential Quorum***  
***One or more members of the Waxahachie City Council may be present at this meeting***  
***No action will be taken by the City Council at this meeting***

(3a)

Firemen's Relief & Retirement Fund  
September 9, 2019

A regular meeting of the Board of Trustees of the Waxahachie Firemen's Relief and Retirement (FR&R) Fund was held at Waxahachie Fire Station No. 1, 407 Water Street, Waxahachie, Texas on Monday, September 9, 2019 at 8:30 a.m.

Members Present: Gary Myers, Chairman  
Matt Dorsey, Vice Chairman  
John Tillery  
Lee Statham  
David Hill, Mayor  
Charles Harris, Finance Director

Member Absent: Scott Safford, Secretary

Others Present: Lori Cartwright, City Secretary

**1. Call to Order**

Chairman Gary Myers called the meeting to order.

**2. Public Comments**

None

**3. Consent Agenda**

- a. Minutes of the regular Firemen's Relief & Retirement Fund meeting of August 12, 2019
- b. Annuity checks for FR&R Retirees and other disbursements for the month of October 2019

**Action:**

*Mr. John Tillery moved to approve items a. and b. on the Consent Agenda. Mr. Lee Statham seconded, All Ayes.*

Chairman Myers announced item number 5 is being discussed prior to item 4.

**5. Discuss investment changes with Smith Barney and take any necessary action**

Mr. Scott Owens, Vice President Institutional Consulting Director of Graystone Consulting, reviewed the Graystone Consulting team and presented an organizational overview noting they have 20 years of experience serving Fire Departments and government entities. He stated the job of Graystone Consulting is to act solely in the interest of participants and beneficiaries for the exclusive purpose of protecting plan assets and defraying associated expenses as well as to demonstrate accountability, transparency and conflict free.

Mr. Daniel Sullivan, Graystone Consulting, reviewed the proposed services and fees of the following:

Mr. Charles Harris stated for the first time ever both Standard&Poors and Moody rating agencies are asking specific questions and wanting additional information about this fund. He stated rating agencies may not always be right but they are always going to be the rating agency and what they think matters noting they do not ask questions for no reason. Mr. Harris stated the rating agencies think there is a reason and that is why they are both scrutinizing this fund and probably pension funds in general. He stated anything that would put pressure on these numbers is concerning.

Matt Dorsey, Vice Chairman, stated the Pension Review Board told the fund that we have enough money to go to the four (4) year extension and stay under the amortization.

Mr. Harris stated he would like to see how we did in an economy cycle stating it would be instructive to see how they did under stress noting until then he would not be comfortable making a change.

Mr. Dorsey stated everything went in the right direction the past two years. He told Mr. Harris, as the Finance Director he appreciates Mr. Harris looking at this from the standpoint of the city but when he is in an FR&R Chair it is not the responsibility of the city.

**Action:**

*Mr. John Tillery moved to extend the Benefits Formula for two (2) years. Vice Chairman Matt Dorsey seconded. The vote was as follows:*

*Ayes: Gary Myers  
Matt Dorsey  
John Tillery  
Lee Statham  
David Hill*

*Noes: Charles Harris*

***The motion carried.***

**6. Set next meeting date and time of Firemen's Relief and Retirement Fund Board**

The Firemen's Relief and Retirement Board set their next meeting for Monday, October 14, 2019.

**7. Adjourn**

There being no further business, the meeting adjourned at 9:54 a.m.

Respectfully submitted,

Lori Cartwright  
City Secretary

(3b)

## MEMORANDUM

**TO:** FR&R Board Members  
**FROM:** Lori Cartwright, City Secretary  
**DATE:** October 14, 2019  
**SUBJECT:** ANNUITY CHECKS

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Please approve the annuity checks for the month of November for the following retirees:

Mrs. James Gilley	Widow Benefits
Alan Morgan	Disability
Jimmy Turner	Service Retirement
John Olin Turner	Service Retirement
Mike Slay	Service Retirement
(Sharon Cobb QDRO Payment)	
John Tillery	Service Retirement
Loyde Junkin	Service Retirement
Don Fuller	Service Retirement
Billy Bratcher	Service Retirement
Larry Evans	Service Retirement
Dwayne Williams	Service Retirement
Don Bennett	Service Retirement
Terry Kuykendall	Service Retirement
Steve Hamilton	Service Retirement
(Denise Hamilton QDRO payment)	
Sam Lewis	Service Retirement
John Chenault	Service Retirement
Rusty Ogletree	Service Retirement
Jeff Sport	Service Retirement
Paul Carrington	Service Retirement
(Carol Nunn QDRO payment)	
Randy Johnston	Service Retirement
Terry Skipper	Service Retirement
Jeff Alexander	Service Retirement
(Lisa Warren QDRO payment)	
James Irvin	Service Retirement
(Lori Irvin QDRO payment)	
David Len Crow	Service Retirement
Randy Muirhead	Service Retirement
Jerry Sykes	Service Retirement
Don Alexander	Service Retirement
Dennis Crecelious	Service Retirement
<b>TOTAL</b>	<b>\$80,662.87</b>

# Waxahachie Firemen's Relief & Retirement Fund

Quarterly Report  
September 30, 2019

(4)

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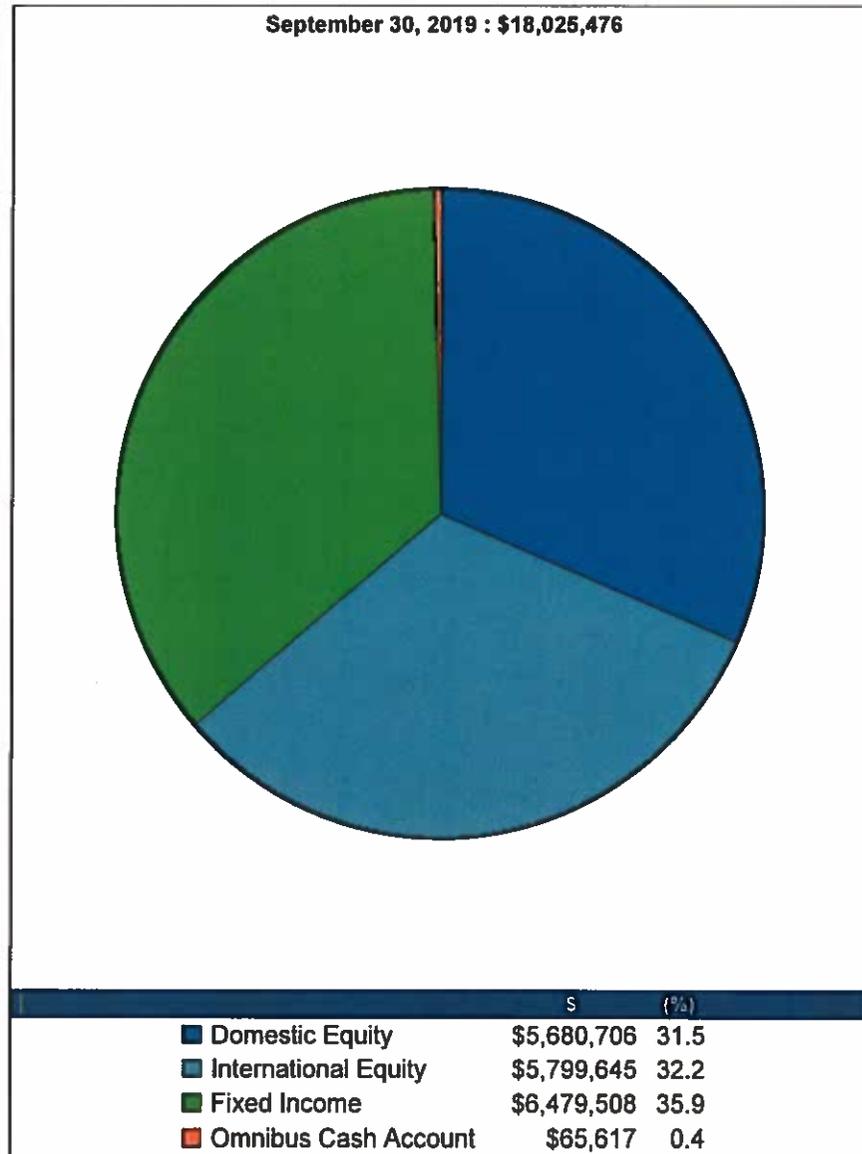
1	Balances & Asset Allocation
2	Asset Allocation and Performance

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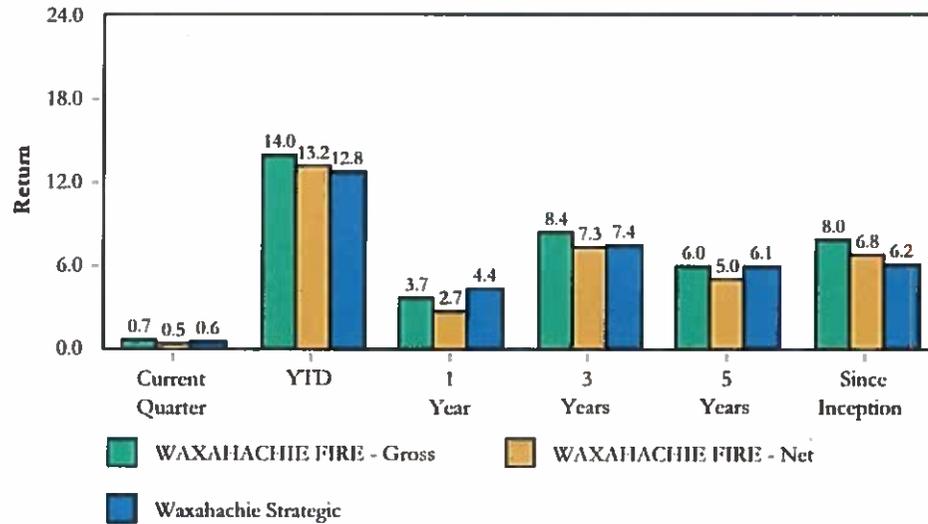
**Waxahachie Firemen's Relief & Retirement Fund  
Balances & Asset Allocation  
As of September 30, 2019**

	Total Fund	%
<b>Domestic Equity</b>	<b>\$5,680,706</b>	<b>31.5</b>
Polen Capital Management - LCG	\$1,611,612	8.9
Vanguard Index Fund - LCG	\$486,650	2.7
Delaware Domestic LCV	\$1,870,818	10.4
Vanguard Index Fund - LCV	\$236,341	1.3
Great Lakes - SMID Cap Core	\$1,475,286	8.2
<b>International Equity</b>	<b>\$5,799,645</b>	<b>32.2</b>
WCM Invest Mgmt - Focused Growth Intl	\$1,798,168	10.0
Delaware International LCV	\$1,761,412	9.8
Victory Trivalent - Intl SMID	\$950,010	5.3
Driehaus - EM	\$1,290,055	7.2
<b>Fixed Income</b>	<b>\$6,479,508</b>	<b>35.9</b>
Federated Investors Fixed Income	\$2,246,587	12.5
Blackstone BREIF II	\$2,126,570	11.8
Blackrock Strategic Income	\$2,106,351	11.7
<b>Omnibus Cash Account</b>	<b>\$65,617</b>	<b>0.4</b>
<b>WAXAHACHIE FIREMEN'S</b>	<b>\$18,025,476</b>	<b>100.0</b>

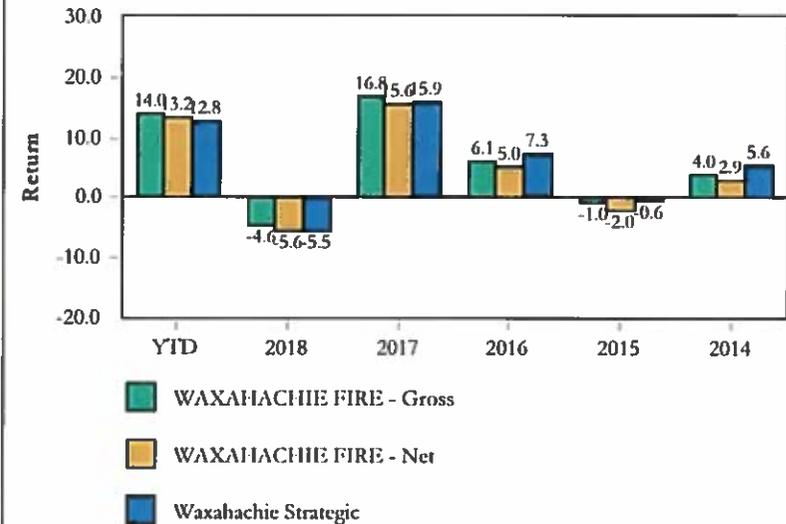


## Waxahachie Firemen's Relief & Retirement Fund

### Total Fund Performance

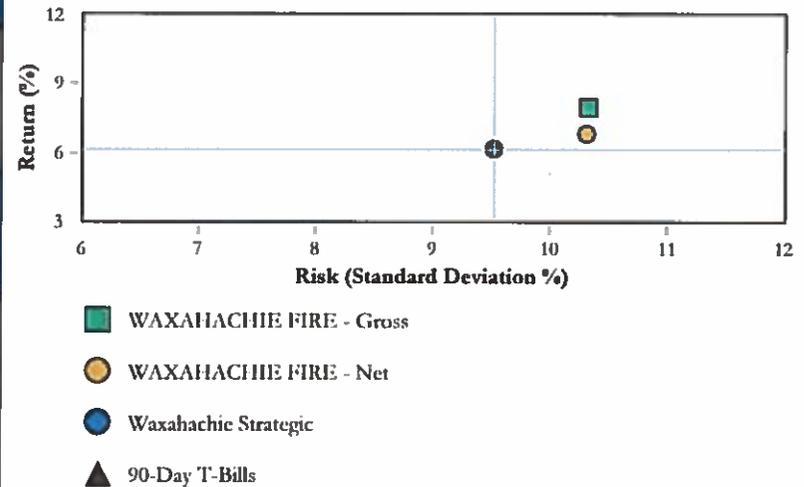


### Calendar Year Performance



	Current Quarter	YTD	1 Year	3 Years	5 Years	Since Inception	Inception Date
WAXAHACHIE FIRE - Gross	0.70	14.01	3.67	8.42	6.04	7.97	3/31/04
WAXAHACHIE FIRE - Net	0.45	13.21	2.68	7.33	4.98	6.83	3/31/04
Waxahachie Strategic	0.61	12.76	4.40	7.44	6.05	6.17	3/31/04

### Risk/Return Analysis Since Inception



### Asset Growth (\$000)

	Current Quarter	YTD	1 Year	3 Years	5 Years	Since Inception
<b>WAXAHACHIE FIREMEN'S</b>						
Beginning Market Value	17,849.11	15,850.66	17,381.92	14,148.96	13,650.07	6,962.85
Net Contributions	94.91	98.29	187.51	506.33	619.64	3,179.57
Gain/Loss	124.62	2,198.01	619.51	3,855.35	4,520.15	9,555.14
Ending Market Value	18,025.48	18,025.48	18,025.48	18,025.48	18,025.48	18,025.48

**Waxahachie Firemen's Relief & Retirement Fund**

**As of September 30, 2019**

	Allocation		Performance(%)							
	Market Value (\$000)	%	Current Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
<b>WAXAHACHIE FIREMEN'S</b>	18,025.48	100.00	0.45	13.21	2.68	7.33	4.98	7.05	6.83	03/31/2004
Waxahachie Strategic Benchmark			0.61	12.76	4.40	7.44	6.05	7.89	6.18	
<b>Omnibus Cash Account</b>	<b>65.62</b>	<b>0.36</b>								
90-Day T-Bills			0.56	1.78	2.36	1.52	0.96	0.51	1.32	
<b>Domestic Equity</b>	<b>5,680.71</b>	<b>31.51</b>	<b>1.11</b>	<b>17.21</b>	<b>0.92</b>	<b>11.42</b>	<b>8.36</b>	<b>11.68</b>	<b>7.75</b>	<b>03/31/2004</b>
Russell 3000			1.16	20.09	2.92	12.83	10.44	13.08	8.75	
<b>Polen Capital Management - LCG</b>	<b>1,611.61</b>	<b>8.94</b>	<b>0.71</b>	<b>24.54</b>	<b>8.84</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>19.32</b>	<b>04/01/2018</b>
Russell 1000 Gr			1.49	23.30	3.71	N/A	N/A	N/A	12.70	
<b>Vanguard Index Fund - LCG</b>	<b>486.65</b>	<b>2.70</b>	<b>1.83</b>	<b>23.85</b>	<b>3.85</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>10.79</b>	<b>12/01/2017</b>
Russell 1000 Gr			1.49	23.30	3.71	N/A	N/A	N/A	11.65	
<b>Delaware Domestic LCV</b>	<b>1,870.82</b>	<b>10.38</b>	<b>1.98</b>	<b>12.17</b>	<b>-0.38</b>	<b>8.50</b>	<b>7.63</b>	<b>12.37</b>	<b>8.04</b>	<b>04/01/2004</b>
Russell 1000 VL			1.36	17.81	4.00	9.43	7.79	11.46	7.72	
<b>Vanguard Index Fund - LCV</b>	<b>236.34</b>	<b>1.31</b>	<b>1.05</b>	<b>14.89</b>	<b>2.28</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>5.42</b>	<b>12/01/2017</b>
Russell 1000 VL			1.36	17.81	4.00	N/A	N/A	N/A	5.16	
<b>Great Lakes - SMID Cap Core</b>	<b>1,475.29</b>	<b>8.18</b>	<b>0.38</b>	<b>14.03</b>	<b>-6.53</b>	<b>9.33</b>	<b>N/A</b>	<b>N/A</b>	<b>6.79</b>	<b>07/01/2015</b>
Russell 2500			-1.28	17.72	-4.04	9.51	N/A	N/A	7.27	
<b>International Equity</b>	<b>5,799.65</b>	<b>32.17</b>	<b>-0.88</b>	<b>15.91</b>	<b>2.32</b>	<b>6.72</b>	<b>3.11</b>	<b>4.21</b>	<b>4.84</b>	<b>03/31/2004</b>
MSCI AC World ex US Net			-1.80	11.56	-1.23	6.33	2.90	4.45	5.52	
<b>WCM Invest Mgmt - Focused Growth Intl</b>	<b>1,798.17</b>	<b>9.98</b>	<b>-0.24</b>	<b>25.26</b>	<b>8.79</b>	<b>12.27</b>	<b>N/A</b>	<b>N/A</b>	<b>12.27</b>	<b>10/01/2016</b>
MSCI EAFE Gr Net			-0.45	17.93	2.21	7.77	N/A	N/A	7.77	
<b>Delaware International LCV</b>	<b>1,761.41</b>	<b>9.77</b>	<b>-0.94</b>	<b>9.28</b>	<b>-0.51</b>	<b>4.38</b>	<b>2.47</b>	<b>4.20</b>	<b>4.77</b>	<b>04/01/2004</b>
MSCI EAFE VL Net			-1.74	7.67	-4.92	5.10	0.99	3.23	4.29	
<b>Victory Trivalent - Intl SMID</b>	<b>950.01</b>	<b>5.27</b>	<b>0.22</b>	<b>15.70</b>	<b>-6.62</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>-6.72</b>	<b>06/01/2018</b>
MSCI ACWI x USA SMID Net			-1.47	10.96	-4.54	N/A	N/A	N/A	-5.77	

All returns shown time weighted net of fees

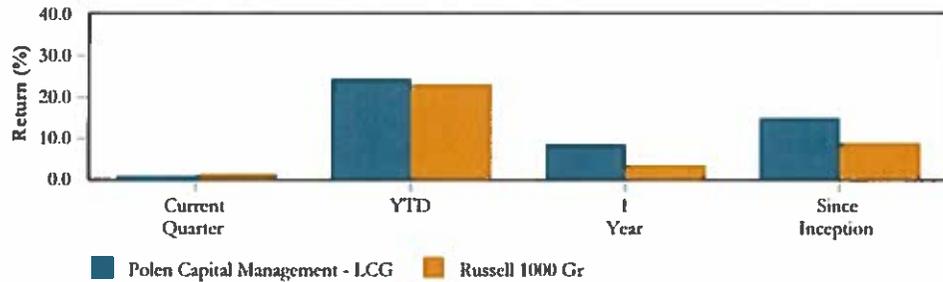
**Waxahachie Firemen's Relief & Retirement Fund**

**As of September 30, 2019**

	Allocation		Performance(%)							
	Market Value (\$000)	%	Current Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
<b>Driehaus - EM</b>	<b>1,290.05</b>	<b>7.16</b>	<b>-2.37</b>	<b>12.03</b>	<b>3.56</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>-2.82</b>	<b>06/01/2018</b>
MSCI EM Net			-4.25	5.89	-2.02	N/A	N/A	N/A	-5.38	
<b>Fixed Income</b>	<b>6,479.51</b>	<b>35.95</b>	<b>1.09</b>	<b>7.70</b>	<b>6.58</b>	<b>4.48</b>	<b>3.02</b>	<b>3.38</b>	<b>3.57</b>	<b>03/31/2004</b>
Barclays Aggregate			2.27	8.52	10.30	2.92	3.38	3.75	4.13	
<b>Federated Investors Fixed Income</b>	<b>2,246.59</b>	<b>12.46</b>	<b>2.01</b>	<b>8.66</b>	<b>9.51</b>	<b>2.81</b>	<b>3.05</b>	<b>N/A</b>	<b>2.92</b>	<b>11/01/2010</b>
Barclays Aggregate			2.27	8.52	10.30	2.92	3.38	N/A	3.26	
<b>Blackstone BREIF II</b>	<b>2,126.57</b>	<b>11.80</b>	<b>0.53</b>	<b>8.94</b>	<b>5.37</b>	<b>7.38</b>	<b>4.93</b>	<b>N/A</b>	<b>4.91</b>	<b>07/01/2014</b>
Barclays Aggregate			2.27	8.52	10.30	2.92	3.38	N/A	3.24	
<b>Blackrock Strategic Income</b>	<b>2,106.35</b>	<b>11.69</b>	<b>0.69</b>	<b>5.40</b>	<b>4.76</b>	<b>3.09</b>	<b>N/A</b>	<b>N/A</b>	<b>3.50</b>	<b>03/01/2016</b>
Barclays Aggregate			2.27	8.52	10.30	2.92	N/A	N/A	3.46	

All returns shown time weighted net of fees

Portfolio Performance (%)

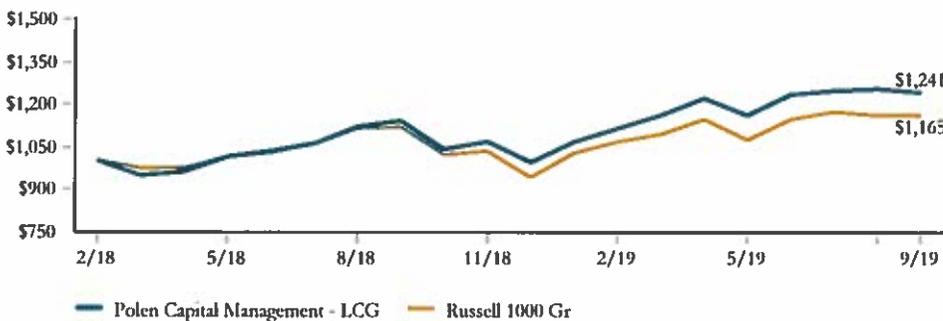


	Current Quarter	YTD	1 Year	Since Inception	Inception Date
Polen Capital Management - LCG	0.71	24.54	8.84	15.03	03/16/2018
Russell 1000 Gr	1.49	23.30	3.71	8.95	03/16/2018

Asset Growth (\$000)

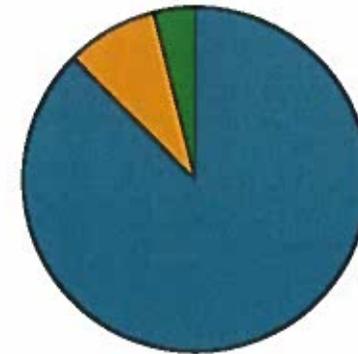
	Current Quarter	YTD	1 Year	Since Inception	Inception Date
Polen Capital Management - LCG					03/16/2018
Beginning Market Value	1,600	1,433	1,640	1,595	
Net Contributions	-	-150	-150	-310	
Fees/Expenses	-5	-15	-20	-31	
Income	3	9	13	19	
Gain/Loss	14	334	129	339	
Ending Market Value	1,612	1,612	1,612	1,612	

Growth of a Dollar (\$000)



Asset Allocation (\$000)

September 30, 2019 : \$1,612

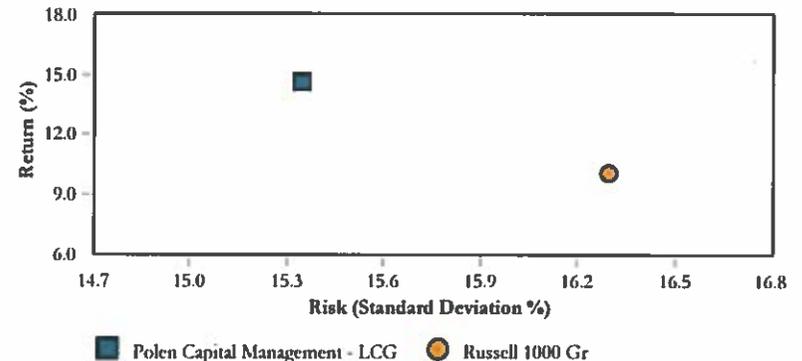


Segments	Market Value (\$000)	Allocation (%)
Domestic Equity	1,409.80	87.48
International Equity	137.65	8.54
Cash Equivalent	64.16	3.98

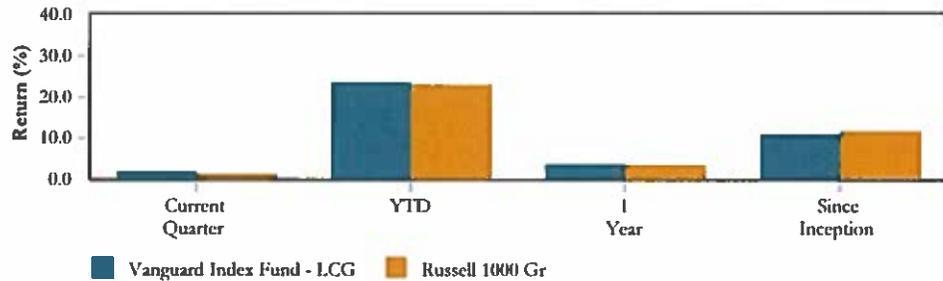
Portfolio Characteristics vs. Russell 1000 Gr Since Inception

	Beta	Alpha	R-Squared	Sharpe Ratio	Inception Date
Polen Capital Management - LCG	0.91	4.97	0.94	0.83	03/16/2018

Risk/Return Analysis Since 03/18



Portfolio Performance (%)

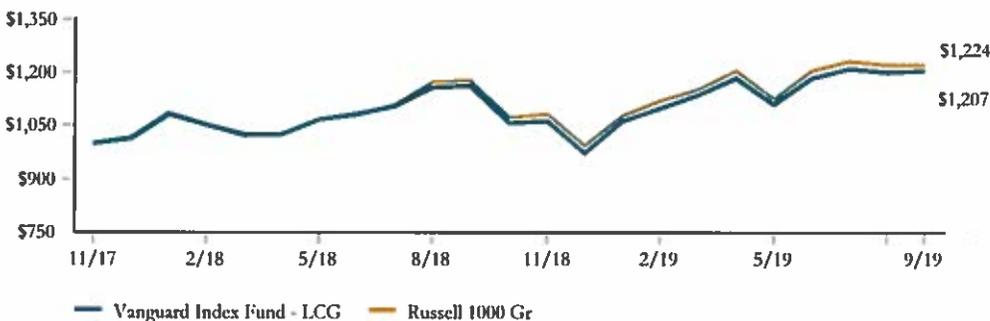


	Current Quarter	YTD	1 Year	Since Inception	Inception Date
Vanguard Index Fund - LCG	1.83	23.85	3.85	10.79	12/01/2017
Russell 1000 Gr	1.49	23.30	3.71	11.65	12/01/2017

Asset Growth (\$000)

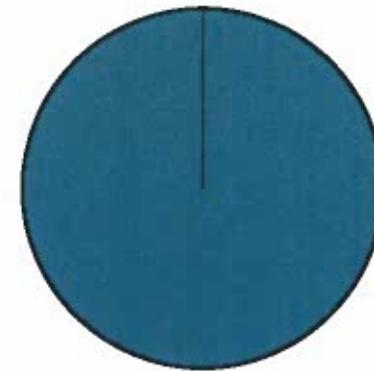
	Current Quarter	YTD	1 Year	Since Inception	Inception Date
Vanguard Index Fund - LCG					12/01/2017
Beginning Market Value	477	433	516	463	
Net Contributions	1	-48	-47	-69	
Fees/Expenses	-1	-2	-3	-6	
Income	2	4	7	11	
Gain/Loss	7	100	14	87	
Ending Market Value	487	487	487	487	

Growth of a Dollar (\$000)



Asset Allocation (\$000)

September 30, 2019 : \$487

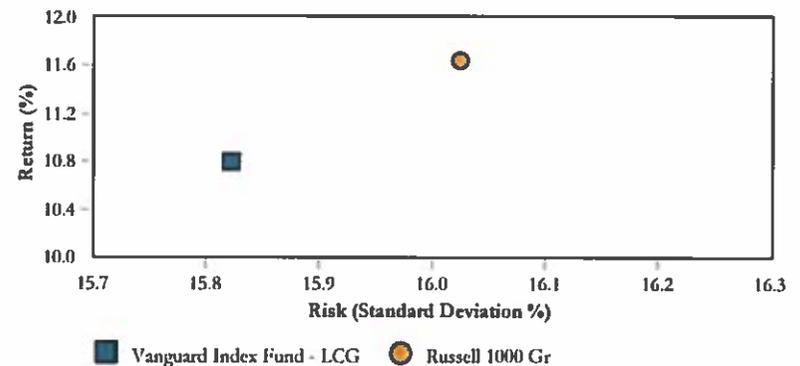


Segments	Market Value (\$000)	Allocation (%)
Domestic Equity	486.54	99.98
Cash Equivalent	0.11	0.02

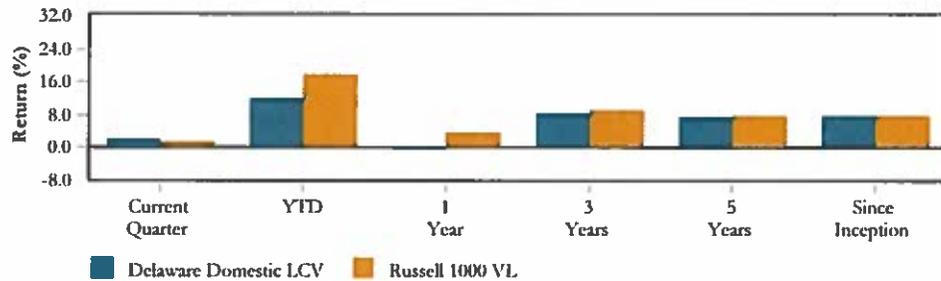
Portfolio Characteristics vs. Russell 1000 Gr Since Inception

	Beta	Alpha	R-Squared	Sharpe Ratio	Inception Date
Vanguard Index Fund - LCG	0.98	-0.62	0.99	0.60	12/01/2017

Risk/Return Analysis Since 12/17



Portfolio Performance (%)



	Current Quarter	YTD	1 Year	3 Years	5 Years	Since Inception	Inception Date
Delaware Domestic LCV	1.98	12.17	-0.38	8.50	7.63	8.04	04/01/2004
Russell 1000 VL	1.36	17.81	4.00	9.43	7.79	7.72	04/01/2004

Asset Growth (\$000)

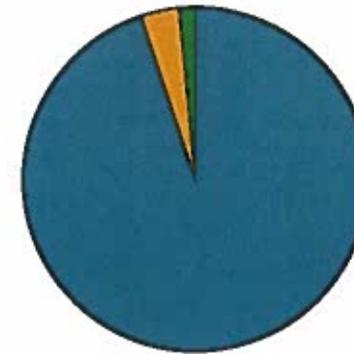
	Current Quarter	YTD	1 Year	3 Years	5 Years	Since Inception	Inception Date
Delaware Domestic LCV							04/01/2004
Beginning Market Value	1,835	1,660	1,869	2,104	2,115	748	
Net Contributions	-	10	10	-729	-994	-995	
Fees/Expenses	-5	-15	-21	-68	-117	-277	
Income	12	34	45	147	255	656	
Gain/Loss	30	182	-32	418	613	1,739	
Ending Market Value	1,871	1,871	1,871	1,871	1,871	1,871	

Growth of a Dollar (\$000)



Asset Allocation (\$000)

September 30, 2019 : \$1,871

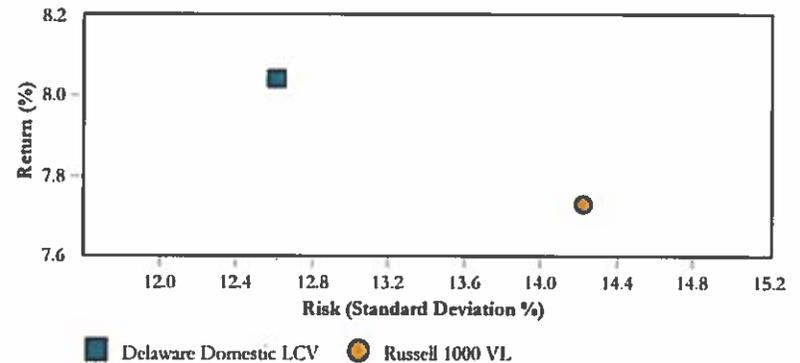


Segments	Market Value (\$000)	Allocation (%)
Domestic Equity	1,774.11	94.83
Alternative Investment	67.03	3.58
Cash Equivalent	29.68	1.59

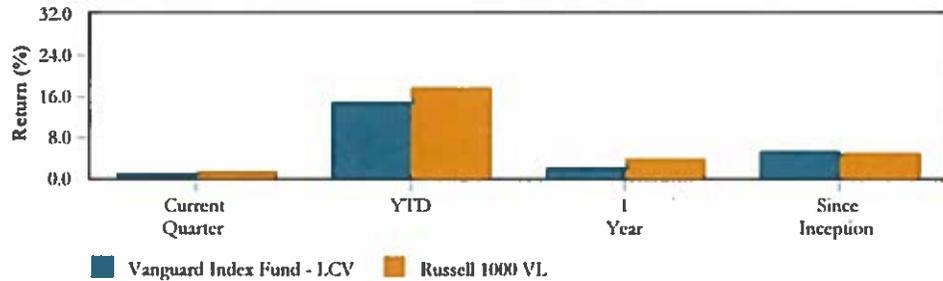
Portfolio Characteristics vs. Russell 1000 VL Since Inception

	Beta	Alpha	R-Squared	Sharpe Ratio	Inception Date
Delaware Domestic LCV	0.84	1.40	0.90	0.57	04/01/2004

Risk/Return Analysis Since 04/04



Portfolio Performance (%)

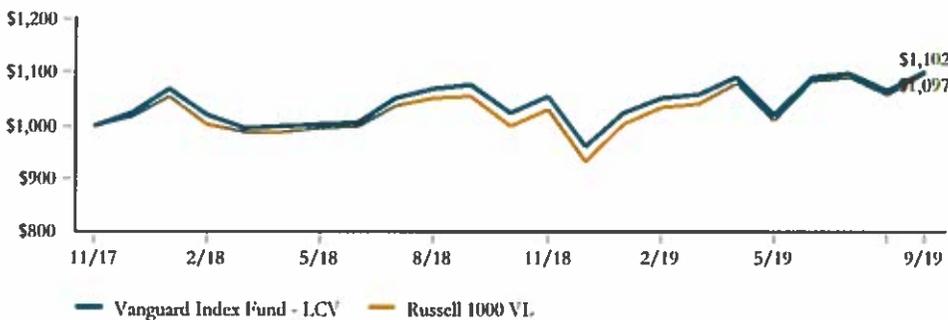


	Current Quarter	YTD	1 Year	Since Inception	Inception Date
Vanguard Index Fund - LCV	1.05	14.89	2.28	5.42	12/01/2017
Russell 1000 VL	1.36	17.81	4.00	5.16	12/01/2017

Asset Growth (\$000)

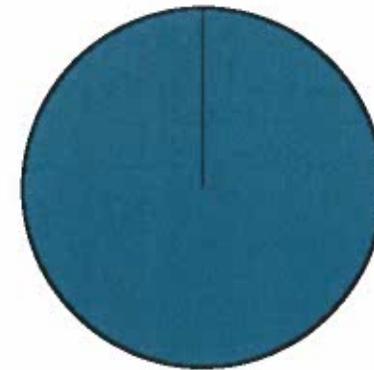
	Current Quarter	YTD	1 Year	Since Inception	Inception Date
Vanguard Index Fund - LCV					12/01/2017
Beginning Market Value	234	178	200	185	
Net Contributions	-	31	31	31	
Fees/Expenses	-	-1	-1	-2	
Income	3	4	5	10	
Gain/Loss	-	24	1	12	
Ending Market Value	236	236	236	236	

Growth of a Dollar (\$000)



Asset Allocation (\$000)

September 30, 2019 : \$236

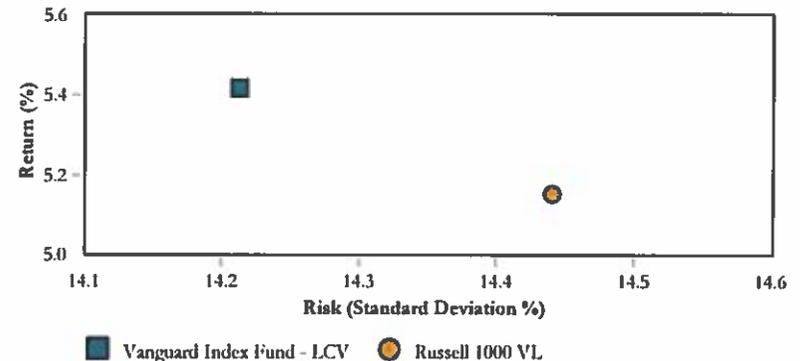


Segments	Market Value (\$000)	Allocation (%)
Domestic Equity	236.30	99.98
Cash Equivalent	0.04	0.02

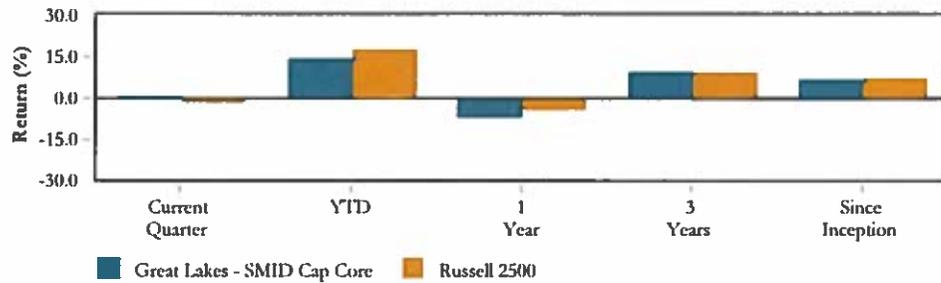
Portfolio Characteristics vs. Russell 1000 VL Since Inception

	Beta	Alpha	R-Squared	Sharpe Ratio	Inception Date
Vanguard Index Fund - LCV	0.98	0.35	0.99	0.30	12/01/2017

Risk/Return Analysis Since 12/17



Portfolio Performance (%)

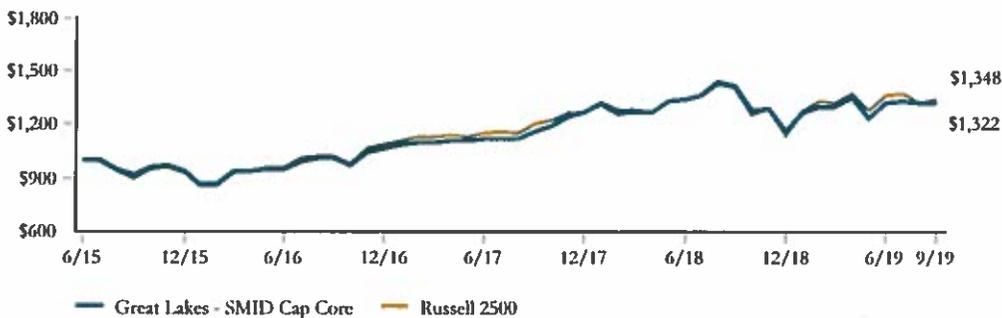


	Current Quarter	YTD	1 Year	3 Years	Since Inception	Inception Date
Great Lakes - SMID Cap Core	0.38	14.03	-6.53	9.33	6.79	07/01/2015
Russell 2500	-1.28	17.72	-4.04	9.51	7.27	07/01/2015

Asset Growth (\$000)

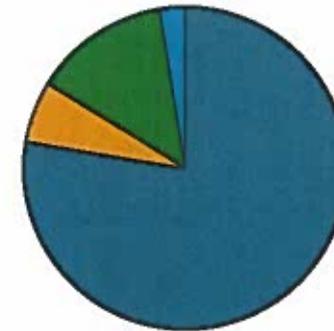
	Current Quarter	YTD	1 Year	3 Years	Since Inception	Inception Date
Great Lakes - SMID Cap Core						07/01/2015
Beginning Market Value	1,434	1,314	1,603	1,668	1,623	
Net Contributions	35	-20	-20	-657	-637	
Fees/Expenses	-4	-13	-17	-59	-81	
Income	5	17	23	69	102	
Gain/Loss	5	177	-114	454	467	
Ending Market Value	1,475	1,475	1,475	1,475	1,475	

Growth of a Dollar (\$000)



Asset Allocation (\$000)

September 30, 2019 : \$1,475

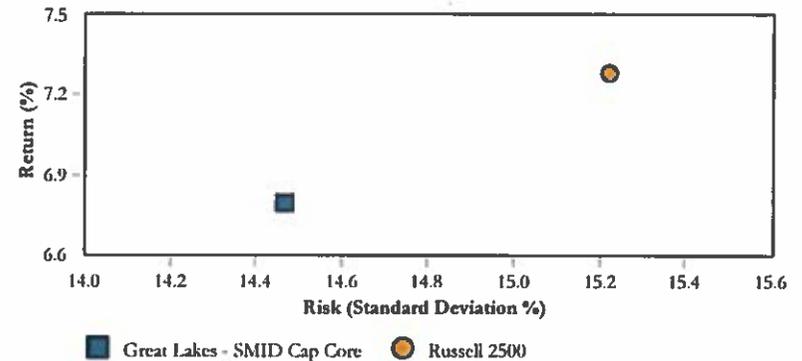


Segments	Market Value (\$000)	Allocation (%)
Domestic Equity	1,145.19	77.62
International Equity	90.62	6.14
Alternative Investment	201.56	13.66
Cash Equivalent	37.93	2.57

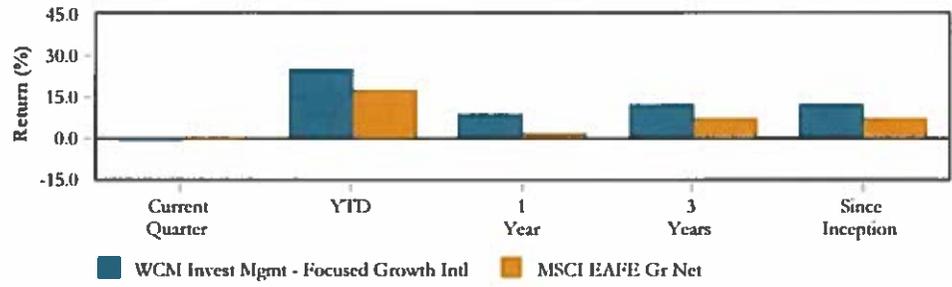
Portfolio Characteristics vs. Russell 2500 Since Inception

	Beta	Alpha	R-Squared	Sharpe Ratio	Inception Date
Great Lakes - SMID Cap Core	0.93	0.02	0.95	0.45	07/01/2015

Risk/Return Analysis Since 07/15



Portfolio Performance (%)

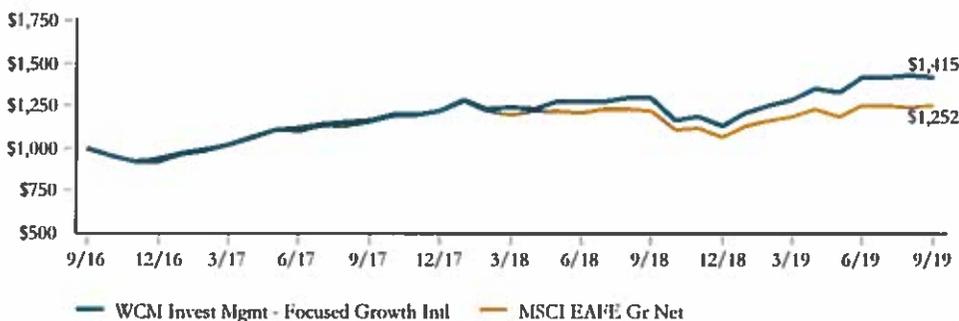


	Current Quarter	YTD	1 Year	3 Years	Since Inception	Inception Date
WCM Invest Mgmt - Focused Growth Intl	-0.24	25.26	8.79	12.27	12.27	10/01/2016
MSCI EAFE Gr Net	-0.45	17.93	2.21	7.77	7.77	10/01/2016

Asset Growth (\$000)

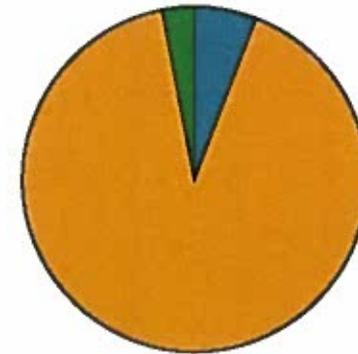
	Current Quarter	YTD	1 Year	3 Years	Since Inception	Inception Date
WCM Invest Mgmt - Focused Growth Intl						10/01/2016
Beginning Market Value	1,880	1,560	1,796	1,454	1,454	
Net Contributions	-75	-150	-150	-248	-248	
Fees/Expenses	-7	-18	-25	-71	-71	
Income	6	17	22	86	86	
Gain/Loss	-6	389	155	578	578	
Ending Market Value	1,798	1,798	1,798	1,798	1,798	

Growth of a Dollar (\$000)



Asset Allocation (\$000)

September 30, 2019 : \$1,798

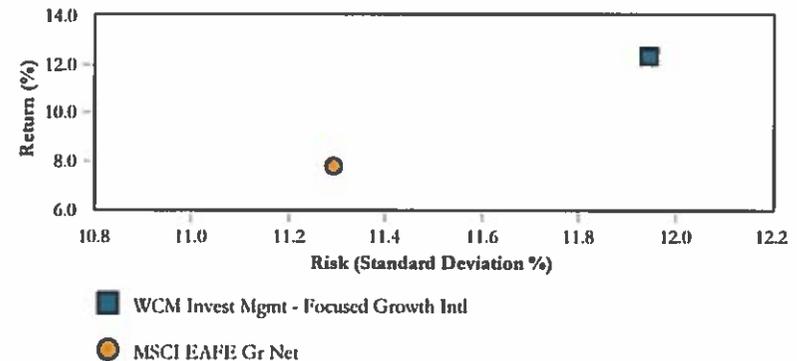


Segments	Market Value (\$000)	Allocation (%)
Domestic Equity	105.04	5.84
International Equity	1,637.80	91.08
Cash Equivalent	55.33	3.08

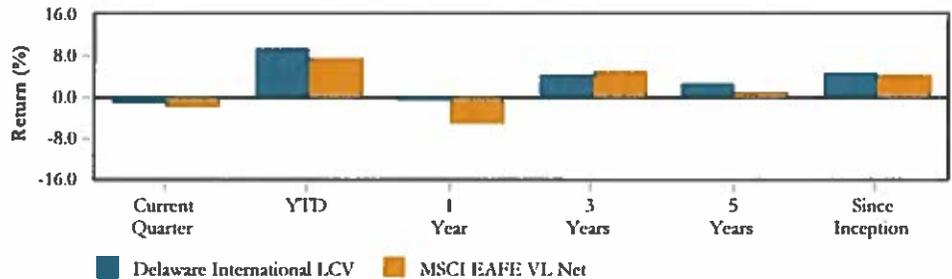
Portfolio Characteristics vs. MSCI EAFE Gr Net Since Inception

	Beta	Alpha	R-Squared	Sharpe Ratio	Inception Date
WCM Invest Mgmt - Focused Growth Intl	0.98	4.43	0.86	0.91	10/01/2016

Risk/Return Analysis Since 10/16



Portfolio Performance (%)



	Current Quarter	YTD	1 Year	3 Years	5 Years	Since Inception	Inception Date
Delaware International LCV	-0.94	9.28	-0.51	4.38	2.47	4.77	04/01/2004
MSCI EAFE VL Net	-1.74	7.67	-4.92	5.10	0.99	4.29	04/01/2004

Asset Growth (\$000)

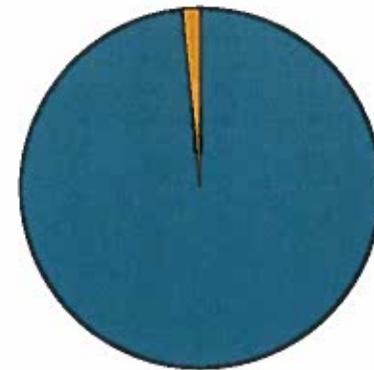
	Current Quarter	YTD	1 Year	3 Years	5 Years	Since Inception	Inception Date
Delaware International LCV							04/01/2004
Beginning Market Value	1,778	1,518	1,667	1,464	1,458	538	
Net Contributions	-	100	100	92	107	393	
Fees/Expenses	-5	-14	-18	-55	-87	-237	
Income	19	48	59	163	240	733	
Gain/Loss	-31	109	-47	98	43	334	
Ending Market Value	1,761	1,761	1,761	1,761	1,761	1,761	

Growth of a Dollar (\$000)



Asset Allocation (\$000)

September 30, 2019 : \$1,761

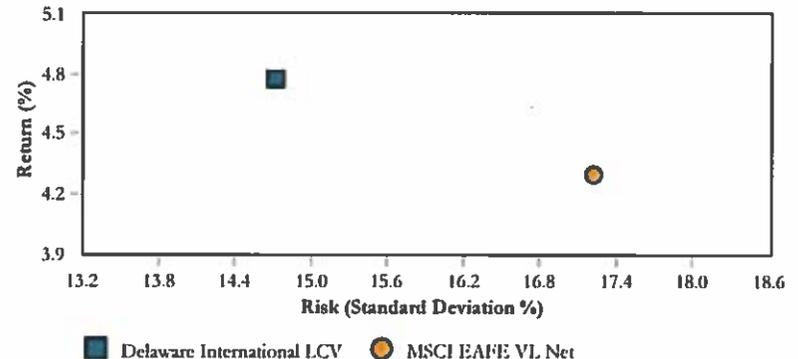


Segments	Market Value (\$000)	Allocation (%)
International Equity	1,732.49	98.36
Cash Equivalent	28.92	1.64

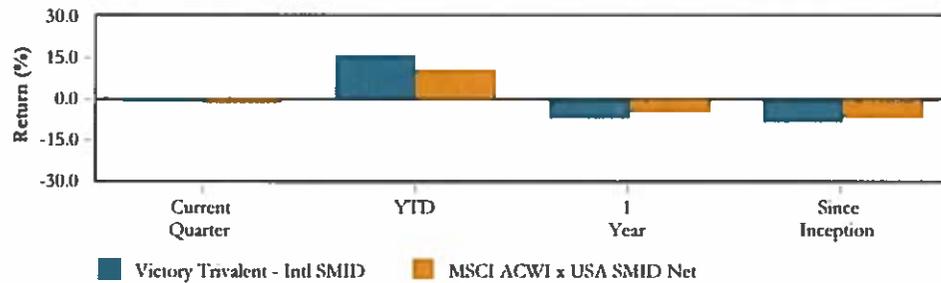
Portfolio Characteristics vs. MSCI EAFE Net Since Inception

	Beta	Alpha	R-Squared	Sharpe Ratio	Inception Date
Delaware International LCV	0.87	0.24	0.92	0.30	04/01/2004

Risk/Return Analysis Since 04/04



Portfolio Performance (%)

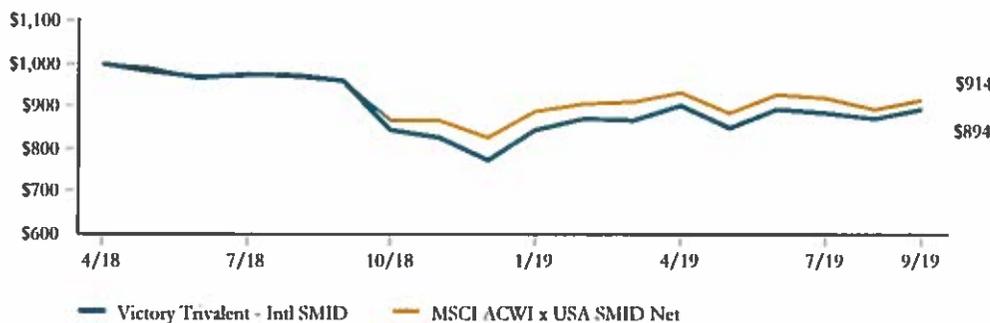


	Current Quarter	YTD	1 Year	Since Inception	Inception Date
Victory Trivalent - Intl SMID	0.22	15.70	-6.62	-7.87	05/18/2018
MSCI ACWI x USA SMID Net	-1.47	10.96	-4.54	-6.57	05/18/2018

Asset Growth (\$000)

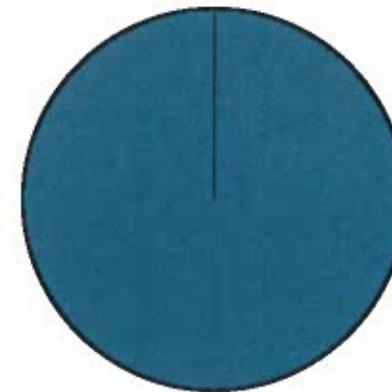
	Current Quarter	YTD	1 Year	Since Inception	Inception Date
Victory Trivalent - Intl SMID					05/18/2018
Beginning Market Value	946	755	796	831	
Net Contributions	2	74	200	201	
Fees/Expenses	-2	-4	-6	-8	
Income	-	-	25	25	
Gain/Loss	4	125	-66	-99	
Ending Market Value	950	950	950	950	

Growth of a Dollar (\$000)



Asset Allocation (\$000)

September 30, 2019 : \$950

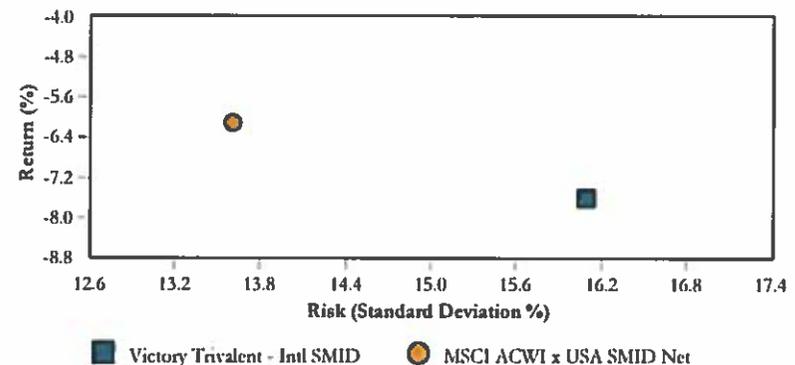


Segments	Market Value (\$000)	Allocation (%)
International Equity	950.01	100.00

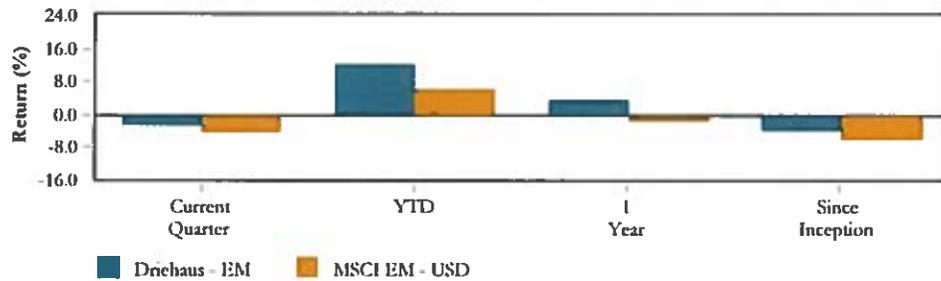
Portfolio Characteristics vs. MSCI ACWI x USA SMID Net Since

	Beta	Alpha	R-Squared	Sharpe Ratio	Inception Date
Victory Trivalent - Intl SMID	1.15	-0.39	0.95	-0.55	05/18/2018

Risk/Return Analysis Since 05/18



Portfolio Performance (%)

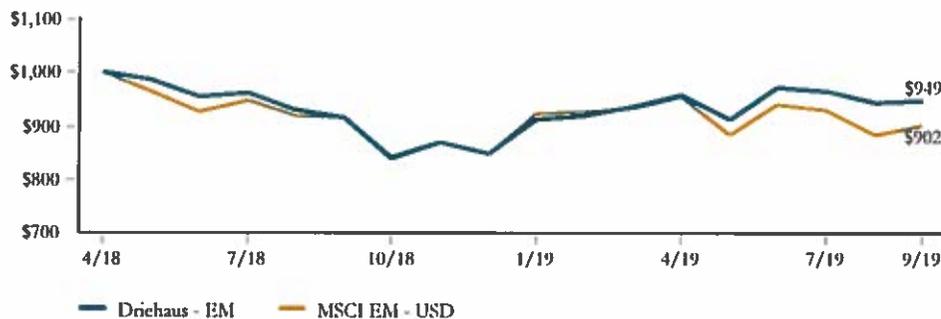


	Current Quarter	YTD	1 Year	Since Inception	Inception Date
Driehaus - EM	-2.37	12.03	3.56	-3.75	05/21/2018
MSCI EM - USD	-4.10	6.22	-1.64	-5.78	05/21/2018

Asset Growth (\$000)

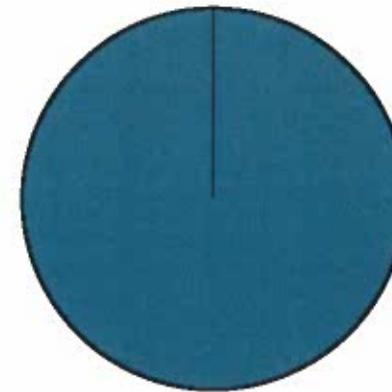
	Current Quarter	YTD	1 Year	Since Inception	Inception Date
Driehaus - EM					05/21/2018
Beginning Market Value	1,319	1,053	1,138	1,239	
Net Contributions	2	106	108	110	
Fees/Expenses	-2	-6	-8	-11	
Income	-	-	46	46	
Gain/Loss	-29	137	6	-94	
Ending Market Value	1,290	1,290	1,290	1,290	

Growth of a Dollar (\$000)



Asset Allocation (\$000)

September 30, 2019 : \$1,290

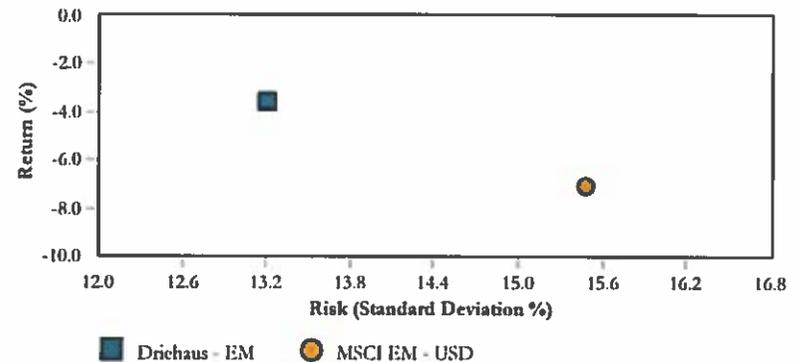


Segments	Market Value (\$000)	Allocation (%)
International Equity	1,290.05	100.00

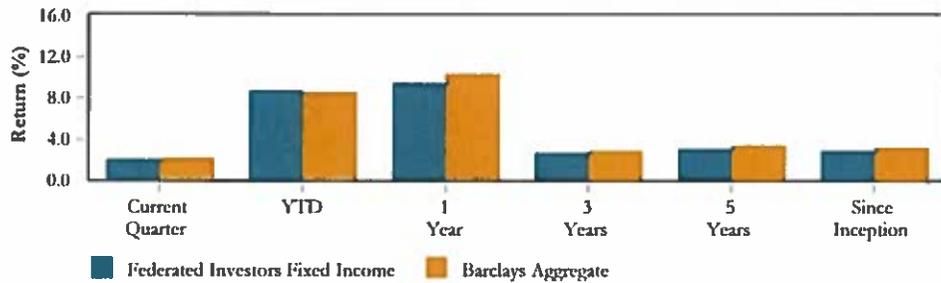
Portfolio Characteristics vs. MSCI EM - USD Since Inception

	Beta	Alpha	R-Squared	Sharpe Ratio	Inception Date
Driehaus - EM	0.83	2.26	0.94	-0.38	05/21/2018

Risk/Return Analysis Since 05/18



Portfolio Performance (%)



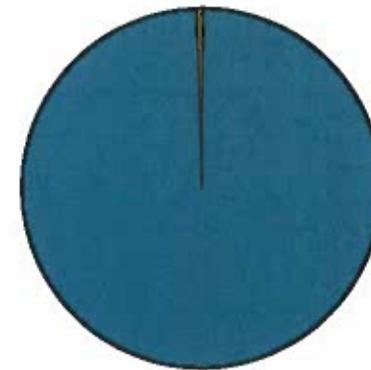
	Current Quarter	YTD	1 Year	3 Years	5 Years	Since Inception	Inception Date
Federated Investors Fixed Income	2.01	8.66	9.51	2.81	3.05	2.92	11/01/2010
Barclays Aggregate	2.27	8.52	10.30	2.92	3.38	3.26	11/01/2010

Asset Growth (\$000)

	Current Quarter	YTD	1 Year	3 Years	5 Years	Since Inception	Inception Date
Federated Investors Fixed Income							11/01/2010
Beginning Market Value	2,153	2,021	2,005	1,491	1,481	2,518	
Net Contributions	50	50	50	573	484	-908	
Fees/Expenses	-5	-14	-19	-50	-78	-190	
Income	16	47	62	139	208	590	
Gain/Loss	32	142	148	94	151	236	
Ending Market Value	2,247	2,247	2,247	2,247	2,247	2,247	

Asset Allocation (\$000)

September 30, 2019 : \$2,247

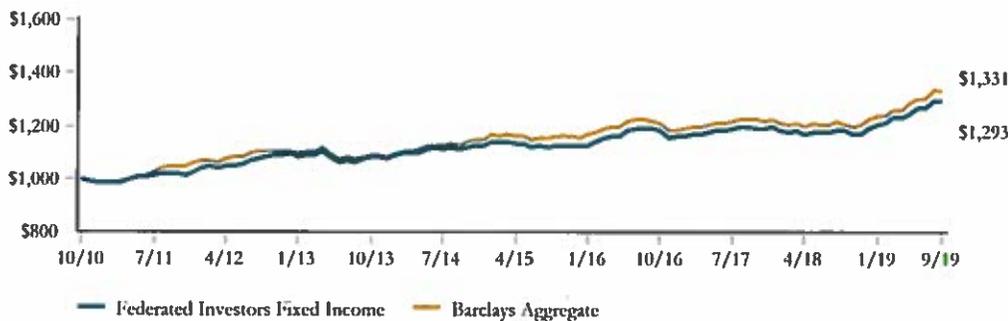


Segments	Market Value (\$000)	Allocation (%)
Domestic Fixed Income	2,236.61	99.56
Cash Equivalent	9.97	0.44

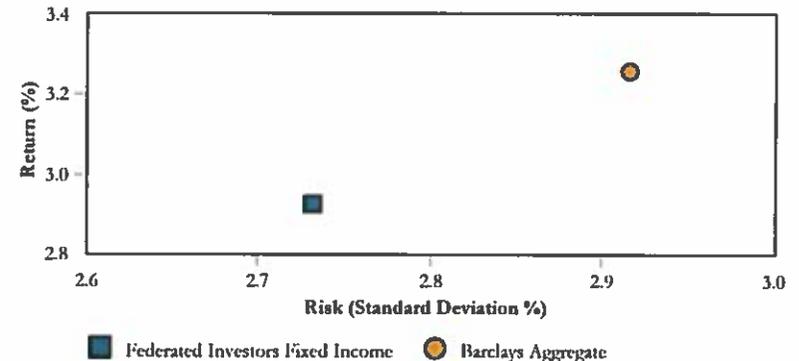
Portfolio Characteristics vs. Barclays Aggregate Since Inception

	Beta	Alpha	R-Squared	Sharpe Ratio	Inception Date
Federated Investors Fixed Income	0.87	0.09	0.86	0.87	11/01/2010

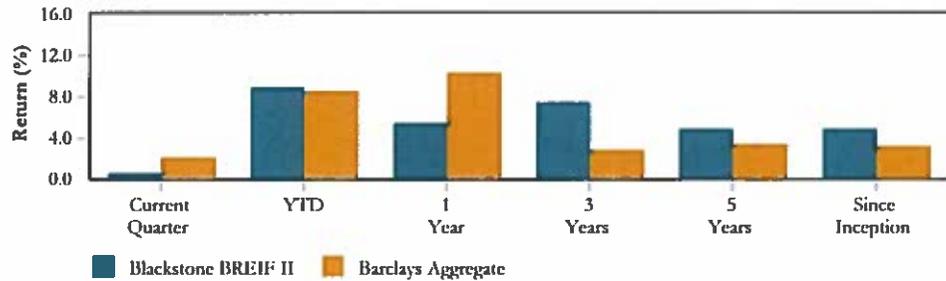
Growth of a Dollar (\$000)



Risk/Return Analysis Since 11/10



Portfolio Performance (%)

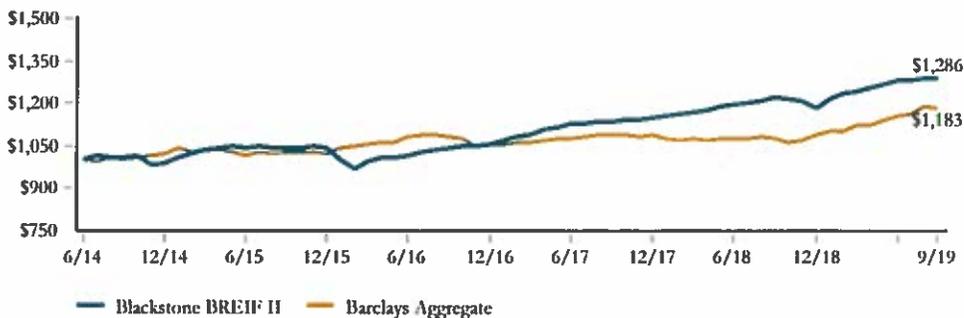


	Current Quarter	YTD	1 Year	3 Years	5 Years	Since Inception	Inception Date
Blackstone BREIF II	0.53	8.94	5.37	7.38	4.93	4.91	07/01/2014
Barclays Aggregate	2.27	8.52	10.30	2.92	3.38	3.24	07/01/2014

Asset Growth (\$000)

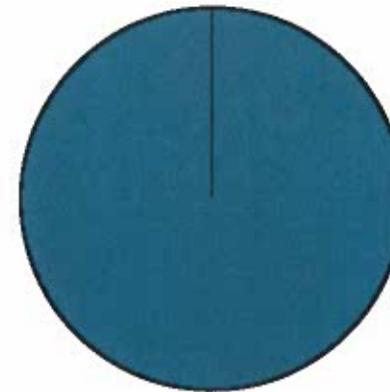
	Current Quarter	YTD	1 Year	3 Years	5 Years	Since Inception	Inception Date
Blackstone BREIF II							07/01/2014
Beginning Market Value	2,112	1,942	2,005	1,628	1,407	1,389	
Net Contributions	3	10	13	102	285	287	
Fees/Expenses	-3	-10	-13	-37	-58	-60	
Income	-	-	-	-	-	-	
Gain/Loss	15	184	122	433	493	510	
Ending Market Value	2,127	2,127	2,127	2,127	2,127	2,127	

Growth of a Dollar (\$000)



Asset Allocation (\$000)

September 30, 2019 : \$2,127

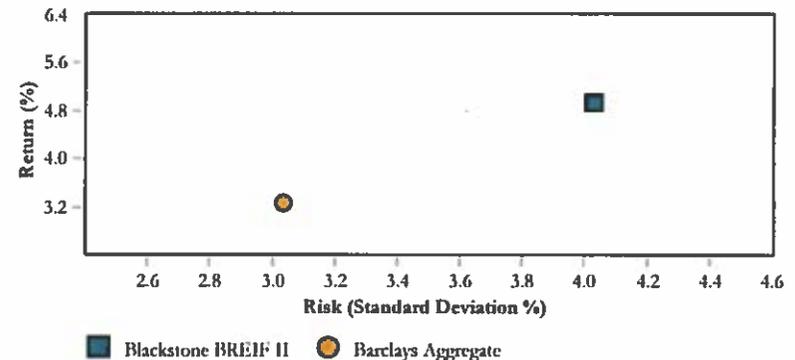


Segments	Market Value (\$000)	Allocation (%)
Alternative Investment	2,126.57	100.00

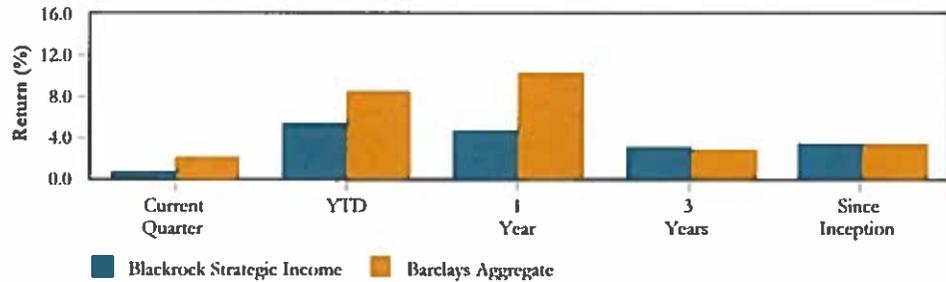
Portfolio Characteristics vs. Barclays Aggregate Since Inception

	Beta	Alpha	R-Squared	Sharpe Ratio	Inception Date
Blackstone BREIF II	-0.07	5.23	0.00	0.99	07/01/2014

Risk/Return Analysis Since 07/14



Portfolio Performance (%)

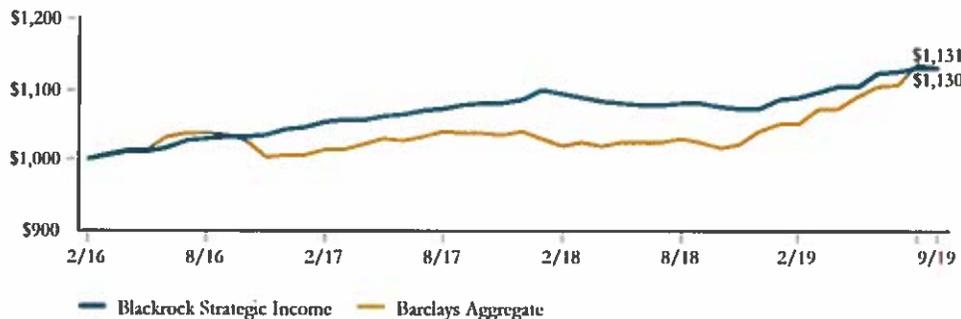


	Current Quarter	YTD	1 Year	3 Years	Since Inception	Inception Date
Blackrock Strategic Income	0.69	5.40	4.76	3.09	3.50	03/01/2016
Barclays Aggregate	2.27	8.52	10.30	2.92	3.46	03/01/2016

Asset Growth (\$000)

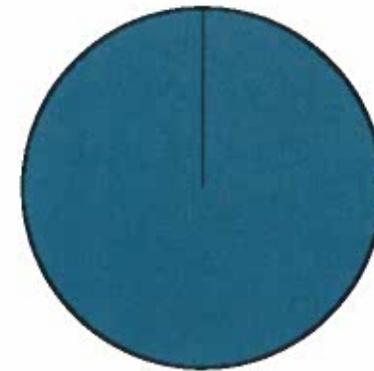
	Current Quarter	YTD	1 Year	3 Years	Since Inception	Inception Date
Blackrock Strategic Income						03/01/2016
Beginning Market Value	2,014	1,917	1,926	1,413	1,319	
Net Contributions	78	85	88	535	584	
Fees/Expenses	-3	-10	-13	-35	-39	
Income	18	52	67	177	200	
Gain/Loss	-	62	39	16	42	
Ending Market Value	2,106	2,106	2,106	2,106	2,106	

Growth of a Dollar (\$000)



Asset Allocation (\$000)

September 30, 2019 : \$2,106

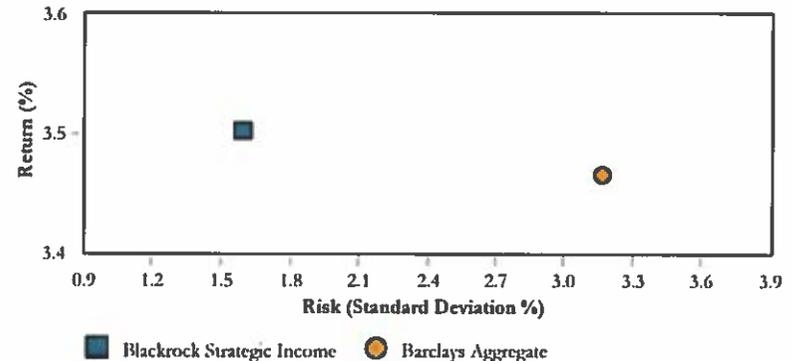


Segments	Market Value (\$000)	Allocation (%)
Alternative Investment	2,106.35	100.00
Cash Equivalent	-	0.00

Portfolio Characteristics vs. Barclays Aggregate Since Inception

	Beta	Alpha	R-Squared	Sharpe Ratio	Inception Date
Blackrock Strategic Income	0.16	2.96	0.10	1.32	03/01/2016

Risk/Return Analysis Since 03/16



## Performance Appendix

Performance Data below is net of fees. Please see the Morgan Stanley Smith Barney LLC Form ADV Part 2 Brochure for advisory accounts and/or any applicable brokerage account trade confirmation statements for a full disclosure of the applicable charges, fees and expenses. Your Financial Advisor will provide those documents to you upon request.

Account Name	QTD	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date
Blackrock Strategic Income	0.69	5.40	4.76	3.09	--	--	3.50	03/01/2016
Blackstone BREIF II	0.53	8.94	5.37	7.38	4.93	--	4.91	07/01/2014
Delaware Domestic LCV	1.98	12.17	-0.38	8.50	7.63	12.37	8.04	04/01/2004
Delaware International LCV	-0.94	9.28	-0.51	4.38	2.47	4.20	4.77	04/01/2004
Driehaus - EM	-2.37	12.03	3.56	--	--	--	-2.82	06/01/2018
Federated Investors Fixed Income	2.01	8.66	9.51	2.81	3.05	--	2.92	11/01/2010
Great Lakes - SMID Cap Core	0.38	14.03	-6.53	9.33	--	--	6.79	07/01/2015
Omnibus Cash Account	0.63	2.74	3.46	2.03	1.23	53.92	33.05	03/31/2004
Polen Capital Management - LCG	0.71	24.54	8.84	--	--	--	19.32	04/01/2018
Vanguard Index Fund - LCG	1.83	23.85	3.85	--	--	--	10.79	12/01/2017
Vanguard Index Fund - LCV	1.05	14.89	2.28	--	--	--	5.42	12/01/2017
Victory Trivalent - Intl SMID	0.22	15.70	-6.62	--	--	--	-6.72	06/01/2018
WCM Invest Mgmt - Focused Growth Intl	-0.24	25.26	8.79	12.27	--	--	12.27	10/01/2016

All performance above are Time Weighted(TWR) performance

### Glossary of Terms

**Active Contribution Return:** The gain or loss percentage of an investment relative to the performance of the investment benchmark.

**Active Exposure:** The percentage difference in weight of the portfolio compared to its policy benchmark.

**Active Return:** Arithmetic difference between the manager's return and the benchmark's return over a specified time period.

**Actual Correlation:** A measure of the correlation (linear dependence) between two variables X and Y, with a value between +1 and -1 inclusive. This is also referred to as coefficient of correlation.

**Alpha:** A measure of a portfolio's time weighted return in excess of the market's return, both adjusted for risk. A positive alpha indicates that the portfolio outperformed the market on a risk-adjusted basis, and a negative alpha indicates the portfolio did worse than the market.

**Best Quarter:** The highest quarterly return for a certain time period.

**Beta:** A measure of the sensitivity of a portfolio's time weighted return (net of fees) against that of the market. A beta greater than 1.00 indicates volatility greater than the market.

**Consistency:** The percentage of quarters that a product achieved a rate of return higher than that of its benchmark. The higher the consistency figure, the more value a manager has contributed to the product's performance.

**Core:** Refers to an investment strategy mandate that is blend of growth and value styles without a pronounced tilt toward either style.

**Cumulative Selection Return (Cumulative Return):** Cumulative investment performance over a specified period of time.

**Distribution Rate:** The most recent distribution paid, annualized, and then divided by the current market price. Distribution rate may consist of investment income, short-term capital gains, long-term capital gains, and/or return of capital.

**Down Market Capture:** The ratio of average portfolio returns over the benchmark during periods of negative benchmark return. Lower values indicate better product performance.

**Downside Risk:** A measure similar to standard deviation, but focuses only on the negative movements of the return series. It is calculated by taking the standard deviation of the negative quarterly set of returns. The higher the value, the more risk the product has.

**Downside Semi Deviation:** A statistical calculation that measures the volatility of returns below a

**Minimum acceptable return:** This return measure isolates the negative portion of volatility: the larger the number, the greater the volatility.

**Drawdown:** A drawdown is the peak-to-trough decline during a specific period of an investment, fund or commodity.

**Excess over Benchmark:** The percentage gain or loss of an investment relative to the investment's benchmark.

**Excess Return:** Arithmetic difference between the manager's return and the risk-free return over a specified time period.

**Growth:** A diversified investment strategy which includes investment selections that have capital appreciation as the primary goal, with little or no dividend payouts. These strategies can include reinvestment in expansion, acquisitions, and/or research and development opportunities.

**Growth of Dollar:** The aggregate amount an investment has gained or lost over a certain time period, also referred to as Cumulative Return, stated in terms of the amount to which an initial dollar investment would have grown over the given time period.

**Investment Decision Process (IDP):** A model for structuring the investment process and implementing the correct attribution methodologies. The IDP includes every decision made concerning the division of the assets under management over the various asset categories. To analyze each decision's contribution to the total return, a modeling approach must measure the marginal value of every individual decision. In this respect, the hierarchy of the decisions becomes very important. We therefore use the IDP model, which serves as a proper foundation for registering the decisions and relating them to each other.

**Information Ratio:** Measured by dividing the active rate of return by the tracking error. The higher the Information Ratio, the more value-added contribution by the manager.

**Jensen's Alpha:** The Jensen's alpha measure is a risk-adjusted performance measure that represents the average return on a portfolio or investment above or below that predicted by the capital asset pricing model (CAPM) given the portfolio's or investment's beta and the average market return. This metric is also commonly referred to as alpha.

**Kurtosis:** A statistical measure that is used to describe the distribution, or skewness, of observed data around the mean, sometimes referred to as the volatility of volatility.

**Maximum Drawdown:** The drawdown is defined as the percent retrenchment from a fund's peak to the fund's trough value. It is in effect from the time the fund's retrenchment begins until a new fund high is reached. The maximum drawdown encompasses both the period from the fund's peak to the fund's valley (length), and the time from the fund's valley to a new fund high (recovery). It measures the largest percentage drawdown that has occurred in any fund's data record.

**Modern Portfolio Theory (MPT):** An investment analysis theory on how risk-averse investors can construct portfolios to optimize or maximize expected return based on a given level of market risk, emphasizing that risk is an inherent part of higher reward.

**Mutual Fund (MF):** An investment program funded by shareholders that trade in diversified holdings and is professionally managed.

**Peer Group:** A combination of funds that share the same investment style combined as a group for

comparison purposes.

**Peer/ Plan Sponsor Universe:** A combination of asset pools of total plan investments by specific sponsor and plan types for comparison purposes.

**Performance Ineligible Assets:** Performance returns are not calculated for certain assets because accurate valuations and transaction data for these assets are not processed or maintained by us. Common examples of these include life insurance, some annuities and some assets held externally.

**Performance Statistics:** A generic term for various measures of investment performance measurement terms.

**Portfolio Characteristics:** A generic term for various measures of investment portfolio characteristics.

**Preferred Return:** A term used in the private equity (PE) world, and also referred to as a "Hurdle Rate." It refers to the threshold return that the limited partners of a private equity fund must receive, prior to the PE firm receiving its carried interest or "carry."

**Ratio of Cumulative Wealth:** A defined ratio of the Cumulative Return of the portfolio divided by the Cumulative Return of the benchmark for a certain time period.

**Regression Based Analysis:** A statistical process for estimating the relationships among variables. It includes many techniques for modeling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables.

**Residual Correlation:** Within returns-based style analysis, residual correlation refers to the portion of a strategy's return pattern that cannot be explained by its correlation to the asset-class benchmarks to which it is being compared.

**Return:** A rate of investment performance for the specified period.

**Rolling Percentile Ranking:** A measure of an investment portfolio's ranking versus a peer group for a specific rolling time period (i.e. Last 3 Years, Last 5 years, etc.).

**R-Squared:** The percentage of a portfolio's performance explained by the behavior of the appropriate benchmark. High R-Squared means a higher correlation of the portfolio's performance to the appropriate benchmark.

**SA/CF (Separate Account/Commingled Fund):** Represents an acronym for Separate Account and Commingled Fund investment vehicles.

**Sector Benchmark:** A market index that serves as a proxy for a sector within an asset class.

**Sharpe Ratio:** Represents the excess rate of return over the risk free return divided by the standard deviation of the excess return. The result is the absolute rate of return per unit of risk. The higher the value, the better the product's historical risk-adjusted performance results in.

**Standard Deviation:** A statistical measure of the range of a portfolio's performance, the variability of a return around its average return over a specified time period.

**Total Fund Benchmark:** The policy benchmark for a complete asset pool that could consist of multiple investment mandates.

**Total Fund Composite:** The aggregate of multiple portfolios within an asset pool or household.

**Tracking Error:** A measure of standard deviation for a portfolio's investment performance, relative to the performance of an appropriate market benchmark.

**Treynor Ratio:** A ratio that divides the excess return (above the risk free rate) by the portfolio's beta to arrive at a unified measure of risk adjusted return. It is generally used to rank portfolios, funds and benchmarks. A higher ratio is indicative of higher returns per unit of market risk. This measurement can help determine if the portfolio is reaching its goal of increasing returns while managing market risk.

**Up Market Capture:** The ratio of average portfolio returns over the benchmark during periods of positive benchmark return. Higher values indicate better product performance.

**Upside Semi Deviation:** A statistical calculation that measures the volatility of returns above an acceptable return. This return measure isolates the positive portion of volatility: the larger the number, the greater the volatility.

**Value:** A diversified investment strategy that includes investment selections which tend to trade at a lower price relative to its dividends, earnings, and sales. Common attributes are stocks that include high dividend, low price-to-book ratio, and/or low price-to-earnings ratio.

**Worst Quarter:** The lowest rolling quarterly return for a certain time period.

#### Information Disclosures

*Performance results are annualized for time periods greater than one year and include all cash and cash equivalents, realized and unrealized capital gains and losses, and dividends, interest and income. The investment results depicted herein represent historical performance. As a result of recent market activity, current performance may vary from the figures shown. Past performance is not a guarantee of future results.*

*Please see the Morgan Stanley Smith Barney LLC Form ADV Part 2 Brochure for advisory accounts and/or any applicable brokerage account trade confirmation statements for a full disclosure of the applicable charges, fees and expenses. Your Financial Advisor will provide those documents to you upon request.*

*Benchmark indices and blends included in this material are for informational purposes only, are provided solely as a comparison tool and may not reflect the underlying composition and/or investment objective(s) associated with the account(s). Indices are unmanaged and not available for direct investment. Index returns do not take into account fees or other charges. Such fees and charges would reduce performance.*

*The performance data shown reflects past performance, which does not guarantee future results. Investment return and principal will fluctuate so that an investor's shares when redeemed may be worth more or less than original cost. Please note, current performance may be higher or lower than the performance data shown. For up to date month-end performance information, please contact your Financial Advisor or visit the funds' company website.*

*Investors should carefully consider the fund's investment objectives, risks, charges and expenses before investing. The prospectus and, if available the summary prospectus, contains this and other information that should be read carefully before investing. Investors should review the information in the prospectus carefully. To obtain a prospectus, please contact your Financial Advisor or visit the funds' company website.*

Past performance is no guarantee of future results.

Investing involves market risk, including possible loss of principal. Growth investing does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations. Value investing involves the risk that the market may not recognize that securities are undervalued and they may not appreciate as anticipated. Small and mid-capitalization companies may lack the financial resources, product diversification and competitive strengths of larger companies. The securities of small capitalization companies may not trade as readily as, and be subject to higher volatility than those of larger, more established companies. Bond funds and bond holdings have the same interest rate, inflation and credit risks that are associated with the underlying bonds owned by the funds. The return of principal in bond funds, and in funds with significant bond holdings, is not guaranteed. International securities' prices may carry additional risks, including foreign economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes and differences in financial and accounting standards. International investing may not be for everyone. These risks may be magnified in emerging markets. Alternative investments, including private equity funds, real estate funds, hedge funds, managed futures funds, and funds of hedge funds, private equity, and managed futures funds, are speculative and entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns, restrictions on transferring interests in a fund, potential lack of diversification, absence and/or delay of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds and risks associated with the operations, personnel and processes of the advisor. Master Limited Partnerships (MLPs) are limited partnerships or limited liability companies that are taxed as partnerships and whose interests (limited partnership units or limited liability company units) are traded on securities exchanges like shares of common stock. Currently, most MLPs operate in the energy, natural resources or real estate sectors. Investments in MLP interests are subject to the risks generally applicable to companies in the energy and natural resources sectors, including commodity pricing risk, supply and demand risk, depletion risk and exploration risk; and MLP interests in the real estate sector are subject to special risks, including interest rate and property value fluctuations, as well as risks related to general and economic conditions. Because of their narrow focus, MLPs maintain exposure to price volatility of commodities and/or underlying assets and tend to be more volatile than investments that diversify across many sectors and companies. MLPs are also subject to additional risks including: investors having limited control and rights to vote on matters affecting the MLP, limited access to capital, cash flow risk, lack of liquidity, dilution risk, conflict of interests, and limited call rights related to acquisitions.

Mortgage backed securities also involve prepayment risk, in that faster or slower prepayments than expected on underlying mortgage loans can dramatically alter the yield-to-maturity of a mortgage-backed security and prepayment risk includes the possibility that a fund may invest the proceeds at generally lower interest rates.

Tax managed funds may not meet their objective of being tax-efficient.

Real estate investments are subject to special risks, including interest rate and property value fluctuations, as well as risks related to general and economic conditions. High yield fixed income securities, also known as "junk bonds", are considered speculative, involve greater risk of default and tend to be more volatile than investment grade fixed income securities.

Credit quality is a measure of a bond issuer's creditworthiness, or ability to repay interest and principal to bondholders in a timely manner. The credit ratings shown are based on security rating as provided by Standard & Poor's, Moody's and/or Fitch, as applicable. Credit ratings are issued by the rating agencies for the underlying securities in the fund and not the fund itself, and the credit quality of the securities in the fund does not represent the stability or safety of the fund. Credit ratings shown range from AAA, being the highest, to D, being the lowest based on S&P and Fitch's classification (the equivalent of Aaa and C).

respectively, by Moody(s) Ratings of BBB or higher by S&P and Fitch (Baa or higher by Moody's) are considered to be investment grade-quality securities. If two or more of the agencies have assigned different ratings to a security, the highest rating is applied. Securities that are not rated by all three agencies are listed as "NR".

"Alpha tilt strategies comprise a core holding of stocks that mimic a benchmark type index such as the S&P 500 to which additional securities are added to help tilt the fund toward potentially outperforming the market in an effort to enhance overall investment returns. Tilt strategies are subject to significant timing risk and could potentially expose investors to extended periods of underperformance."

**Custom Account Index:** The Custom Account Index is an investment benchmark based on your historical target allocations and/or manager selection that you may use to evaluate the performance of your account. The Custom Account index does take into consideration certain changes that may have occurred in your portfolio since the inception of your account, i.e., asset class and/or manager changes. However, in some circumstances, it may not be an appropriate benchmark for use with your specific account composition. For detailed report of the historical composition of this blend please contact your Financial Advisor.

### Peer Groups

Peer Groups are a collection of similar investment strategies that essentially group investment products that share the same investment approach. Peer Groups are used for comparison purposes to compare and illustrate a clients investment portfolio versus its peer across various quantitative metrics like performance and risk. Peer Group comparison is conceptually another form of benchmark comparison whereby the actual investment can be ranked versus its peer across various quantitative metrics.

All Peer Group data are provided by Investment Metrics, LLC.

The URL below provides all the definitions and methodology about the various Peer Groups

<https://www.invmetrics.com/style-peer-groups>

### Peer Group Ranking Methodology

A percentile rank denotes the value of a product in which a certain percent of observations fall within a peer group. The range of percentile rankings is between 1 and 100, where 1 represents a high statistical value and 100 represents a low statistical value.

The 30th percentile, for example, is the value in which 30% of the highest observations may be found, the 65th percentile is the value in which 65% of the highest observations may be found, and so on.

Percentile rankings are calculated based on a normalized distribution ranging from 1 to 100 for all products in each peer group, where a ranking of 1 denotes a high statistical value and a ranking of 100 denotes a low statistical value. It is important to note that the same ranking methodology applies to all statistics, implying that a ranking of 1 will always mean highest value across all statistics.

For example, consider a risk/return assessment using standard deviation as a measure of risk. A percentile ranking equal to 1 for return denotes highest return, whereas a percentile ranking of 1 for standard deviation denotes highest risk among peers.

In addition, values may be used to demonstrate quartile rankings. For example, the third quartile is also known as the 75th percentile, and the median is the 50th percentile.

### Alternatives

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Traditional alternative investment vehicles are illiquid and usually are not valued daily. The estimated valuation provided will be as of the most recent date available and will be included in summaries of your assets. Such valuation may not be the most recent provided by the fund in which you are invested. No representation is made that the valuation is a market value or that the interest could be liquidated at this value. We are not required to take any action with respect to your investment unless valid instructions are received from you in a timely manner. Some positions reflected herein may not represent interests in the fund, but rather redemption proceeds withheld by the issuer pending final valuations which are not subject to the investment performance of the fund and may or may not accrue interest for the length of the withholding. Morgan Stanley does not engage in an independent valuation of your alternative investment assets. Morgan Stanley provides periodic information to you including the market value of an alternative investment vehicle based on information received from the management entity of the alternative investment vehicle or another service provider.

Traditional alternative investment vehicles often are speculative and include a high degree of risk. Investors should carefully review and consider potential risks before investing. Certain of these risks may include but are not limited to: • Loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices; • Lack of liquidity in that there may be no secondary market for a fund; • Volatility of returns; • Restrictions on transferring interests in a fund; • Potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized; • Absence of information regarding valuations and pricing; • Complex tax structures and delays in tax reporting; • Less regulation and higher fees than mutual funds; and • Risks associated with the operations, personnel, and processes of the manager. As a diversified global financial services firm, Morgan Stanley Wealth Management engages in a broad spectrum of activities including financial advisory services, investment management activities, sponsoring and managing private investment funds, engaging in broker-dealer transactions and principal securities, commodities and foreign exchange transactions, research publication, and other activities. In the ordinary course of its business, Morgan Stanley Wealth Management therefore engages in activities where Morgan Stanley Wealth Management's interests may conflict with the interests of its clients, including the private investment funds it manages. Morgan Stanley Wealth Management can give no assurance that conflicts of interest will be resolved in favor of its clients or any such fund.

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For most investment advisory clients, the program account will be charged an asset-based wrap fee every quarter ("the Fee"). In general, the Fee covers investment advisory services and reporting. In addition to the Fee, clients will pay the fees and expenses of any funds in which their account is invested. Fund fees and expenses are charged directly to the pool of assets the fund invests in and impact the valuations. Clients must understand that these fees and expenses are an additional cost and will not be included in the Fee amount in the account statements.

As fees are deducted quarterly, the compounding effect will be to increase the impact of the fees by an amount directly related to the gross account performance. For example, for an account with an initial value of \$100,000 and a 2.5% annual fee, if the gross performance is 5% per year over a three year period, the compounding effect of the fees will result in a net annual compound rate of return of approximately 2.40% per year over a three year period, and the total value of the client's portfolio at the end of the three year period would be approximately \$115,762.50 without the fees and \$107,372.63 with the fees. Please see the applicable Morgan Stanley Smith Barney LLC Form ADV Part 2A for more information including a description of the fee schedule. It is available at [www.morganstanley.com/ADV](http://www.morganstanley.com/ADV) <<http://www.morganstanley.com/ADV>> or from your Financial Advisor/Private Wealth Advisor.

Alternative investments involve complex tax structures, tax inefficient investing, and delays in distributing important tax information. Individual funds have specific risks related to their investment programs that will vary from fund to fund. Clients should consult their own tax and legal advisors as Morgan Stanley does not provide tax or legal advice. Interests in alternative investment products are offered pursuant to the terms of the applicable offering memorandum, are distributed by Morgan Stanley Smith Barney LLC and certain of its affiliates, and (1) are not FDIC-insured, (2) are not deposits or other obligations of Morgan Stanley or any of its affiliates, (3) are not guaranteed by Morgan Stanley and its affiliates, and (4) involve investment risks, including possible loss of principal. Morgan Stanley Smith Barney LLC is a registered broker-dealer, not a bank.

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You could lose money in Money Market Funds. Although MMFs classified as government funds (i.e., MMFs that invest 99.5% of total assets in cash and/or securities backed by the U.S. government) and retail funds (i.e., MMFs open to natural person investors only) seek to preserve value at \$1.00 per share, they cannot guarantee they will do so. The price of other MMFs will fluctuate and when you sell shares they may be worth more or less than originally paid. MMFs may impose a fee upon sale or temporarily suspend sales if liquidity falls below required minimums. During suspensions, shares would not be available for purchases, withdrawals, check writing or ATM debits. A MMF investment is not insured or guaranteed by the Federal Deposit Insurance Corporation or other government agency.

# Waxahachie Firemen's R&R Fund

US Small/Mid Cap Manager Search Book

October 2019

(4)

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*Waxahachie Firemen's R&R Fund*

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## 1. US Small/Mid Cap Manager Comparison

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*Waxahachie Firemen's R&R Fund*

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## **US Small/Mid Cap Manager Comparison**

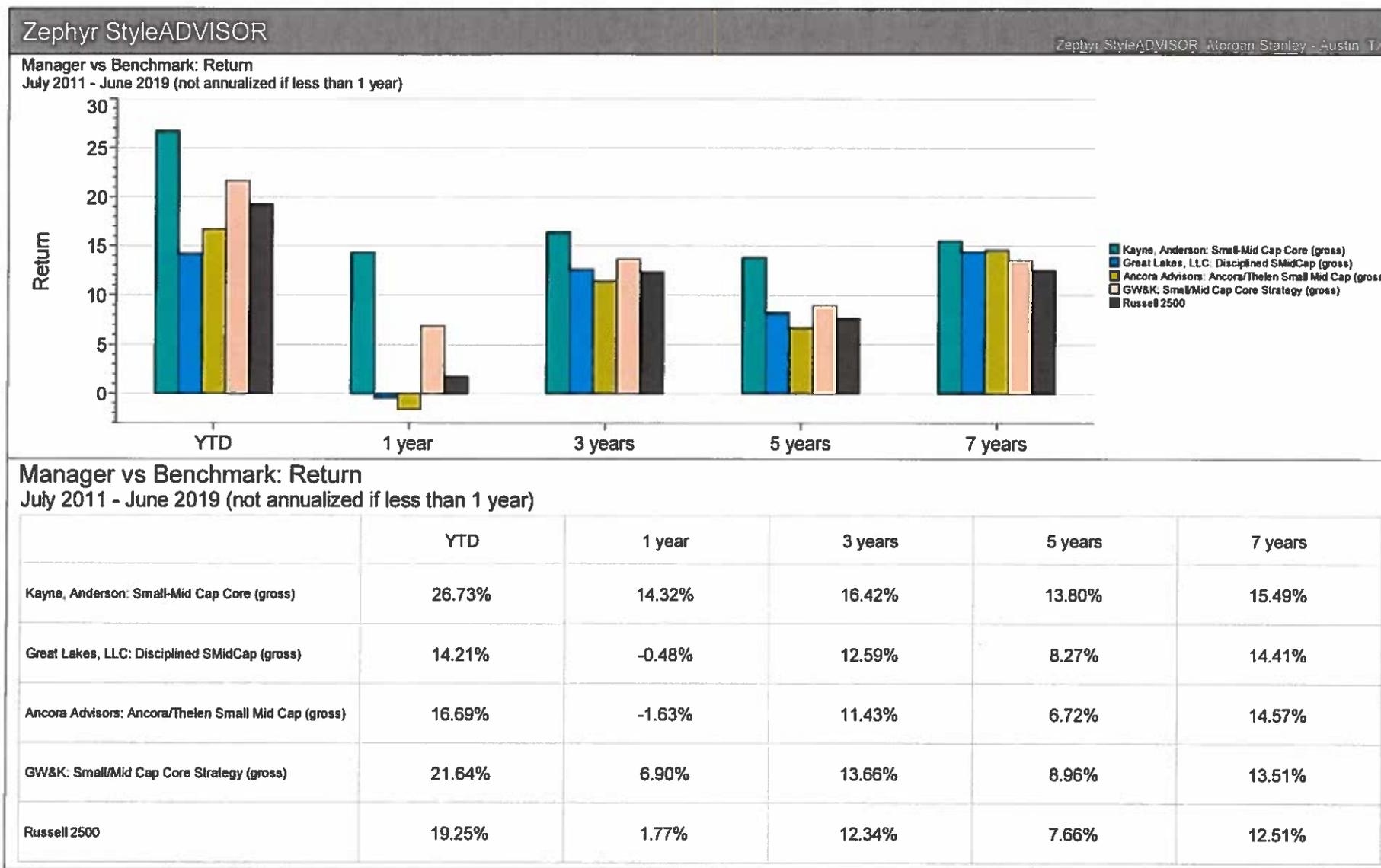
*Kayne Anderson Small/Mid Cap Core*

*Ancora Thelen Small/Mid Cap*

*GW&K Small/Mid Cap*

# Manager Vs. Benchmark Return

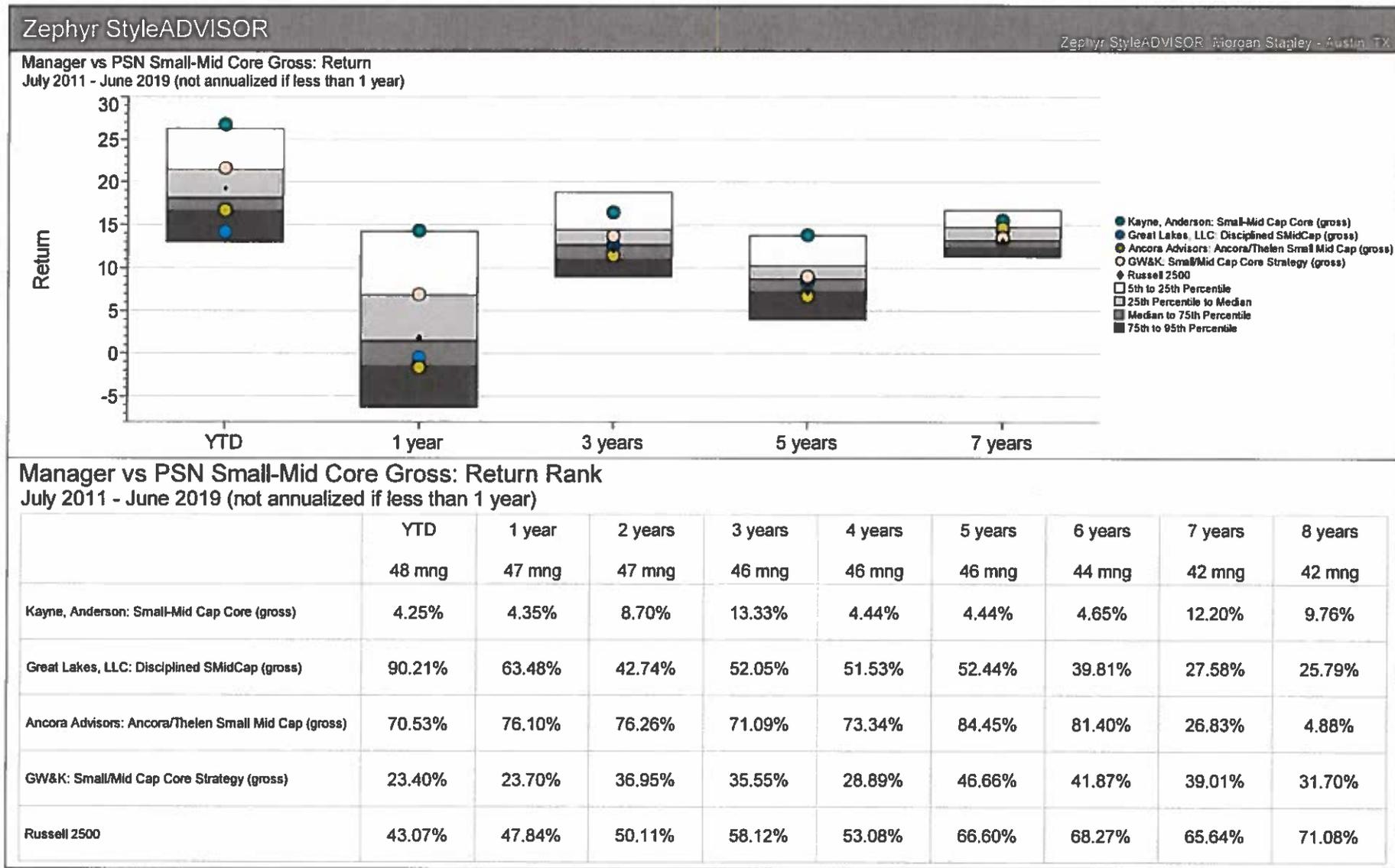
## Waxahachie Firemen's R&R Fund



The performance data shows past performance. Past performance does not guarantee future results. The performance shown is gross performance, and all statistics are calculated using gross performance. If you engaged any investment manager or invested in any fund, fees and other expenses would reduce your returns. Please see the profiles given to you with this report for both gross and net performance information on each investment manager and fund available in the applicable Morgan Stanley programs, which may be more up-to-date than the performance information in this report. Created with Zephyr StyleADVISOR. Manager returns supplied by: Morningstar, Inc.

# Manager vs Peer Universe Rankings

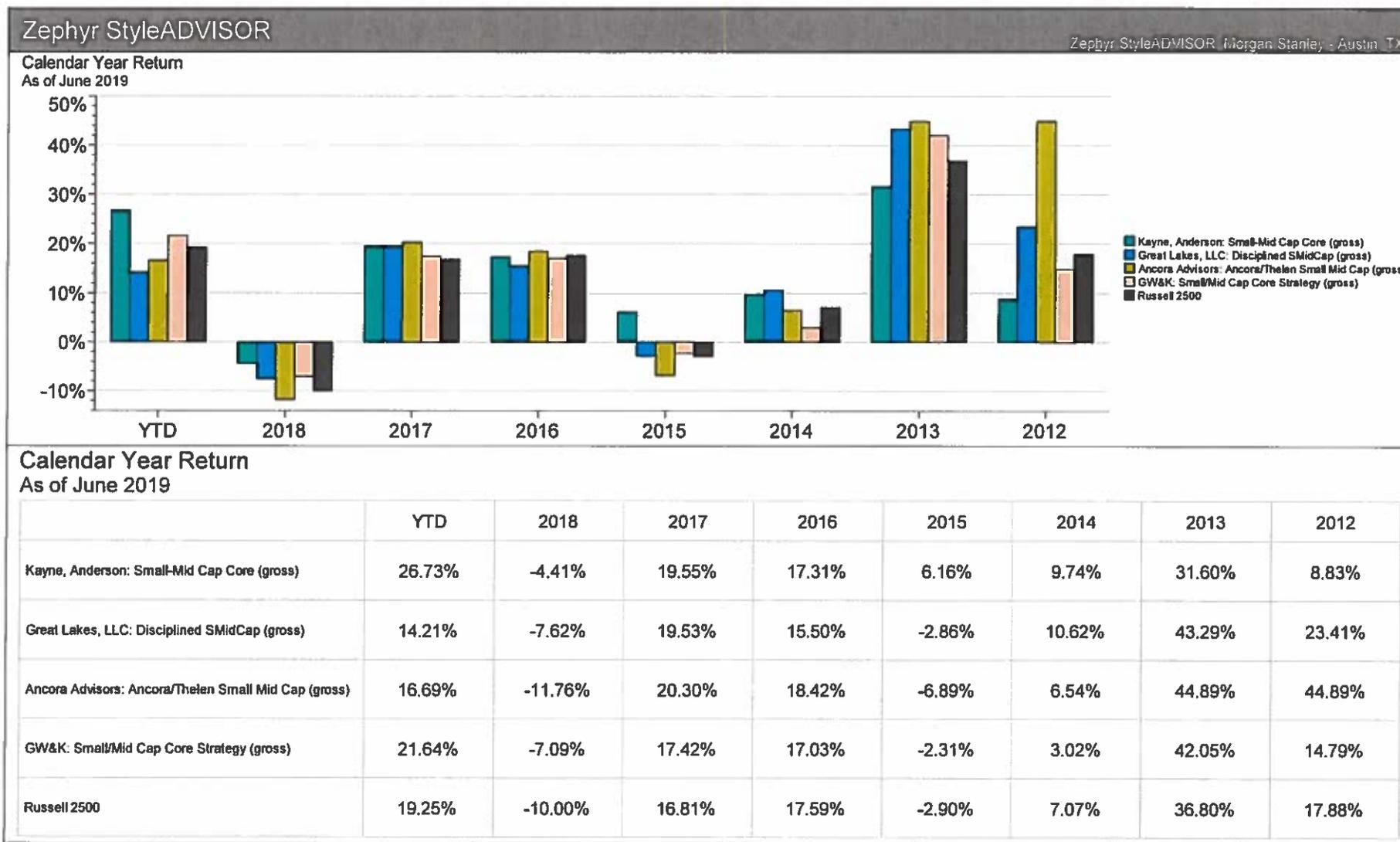
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# Manager vs Benchmark Calendar Year

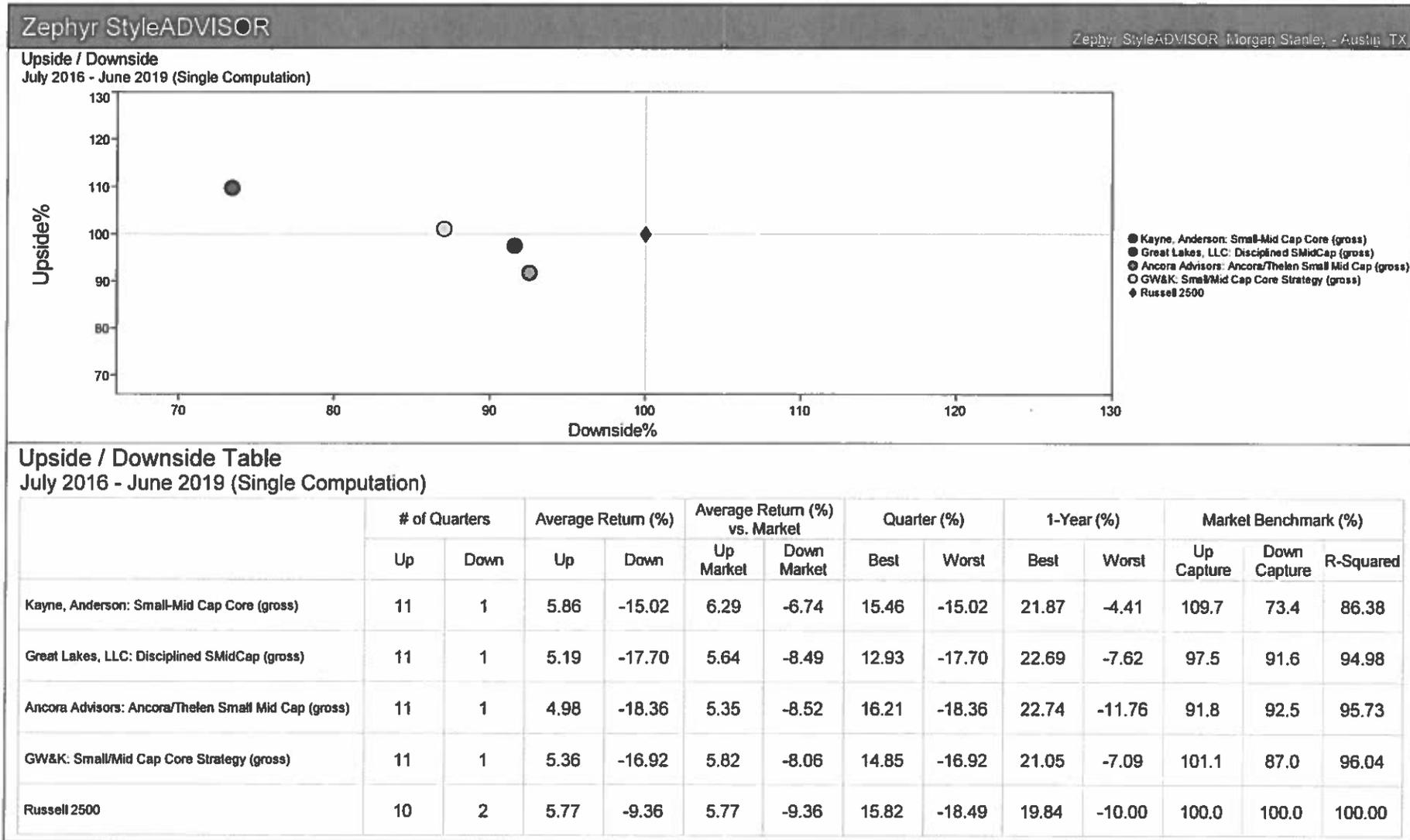
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# Manager Upside/Downside 3 Years

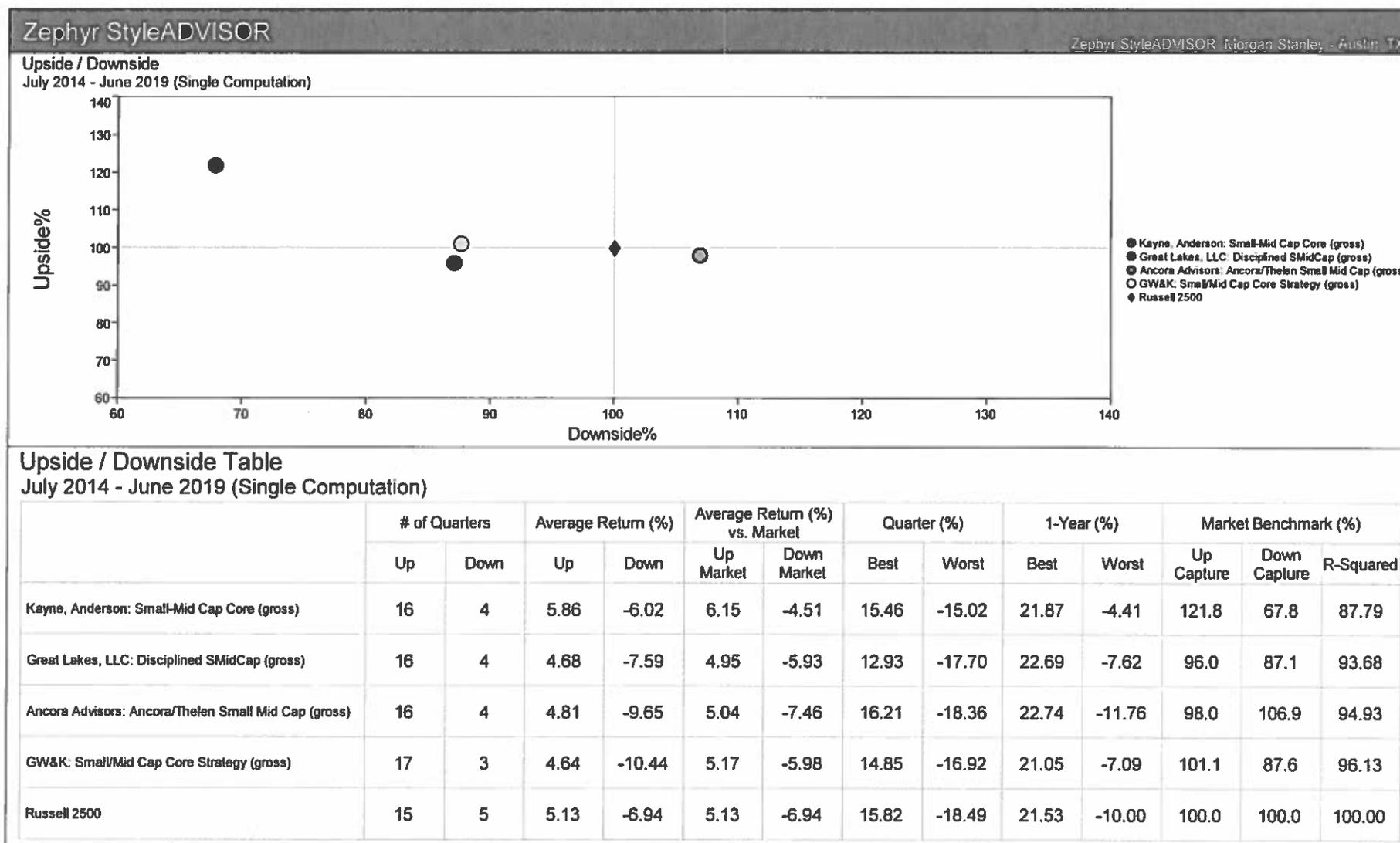
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# Manager Upside/Downside 5 Years

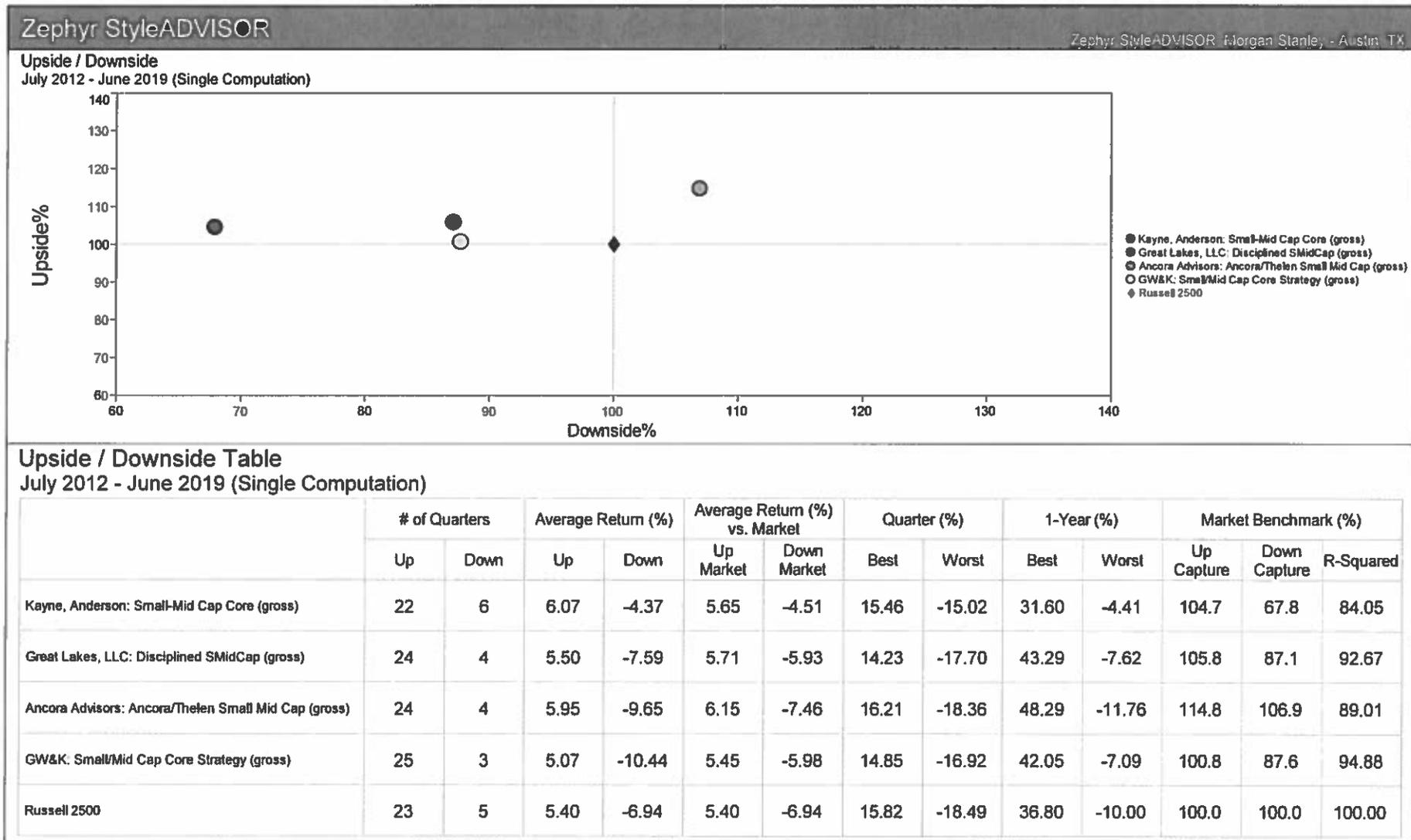
## Waxahachie Firemen's R&R Fund



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# Manager Upside/Downside 7 Years

## Waxahachie Firemen's R&R Fund



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# Manager Risk/Return Statistics 7 Years

## Waxahachie Firemen's R&R Fund

Zephyr StyleADVISOR

Zephyr StyleADVISOR, Morgan Stanley - Austin, TX

### Custom Table

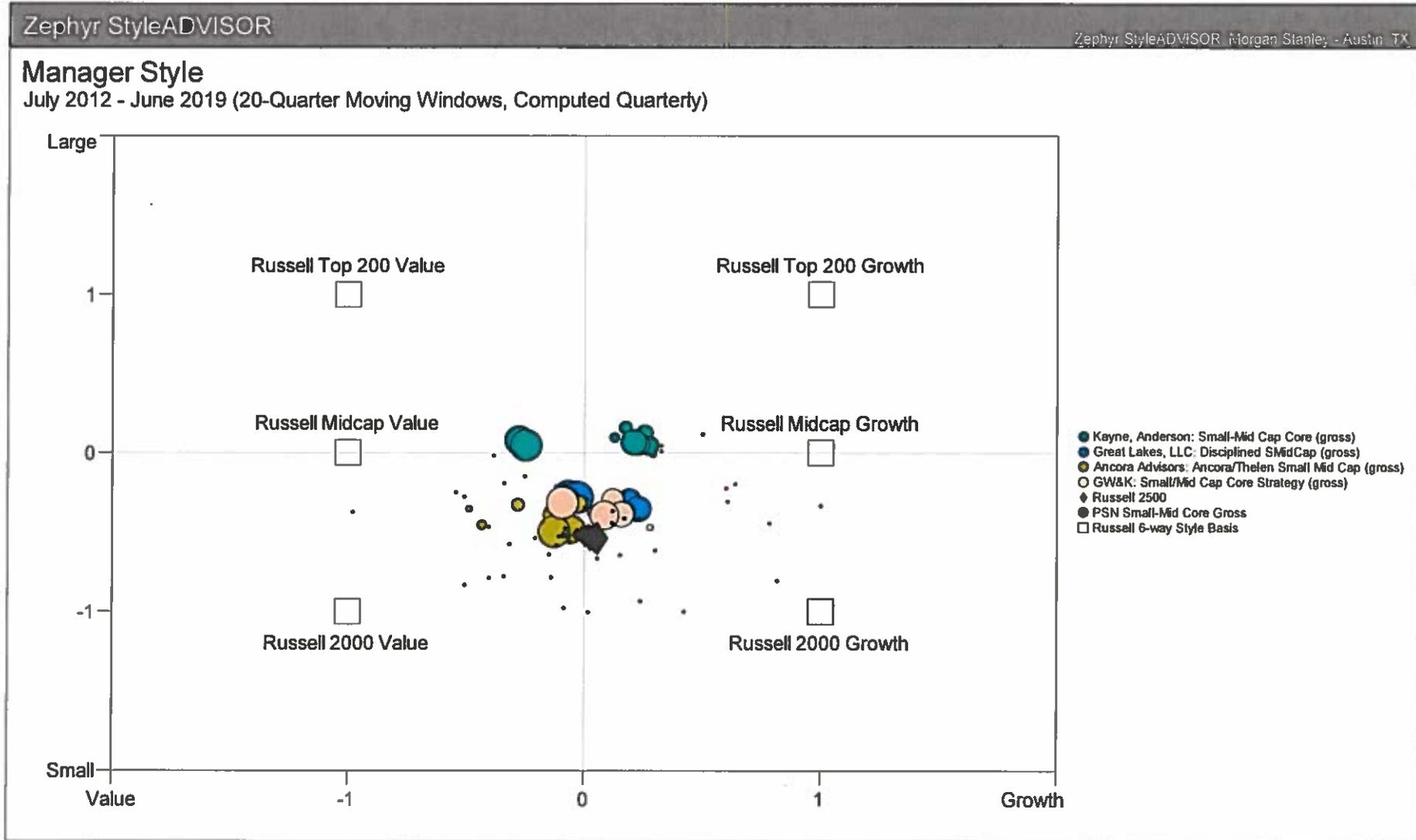
July 2012 - June 2019: Summary Statistics

	Return	Cumulative Return	Standard Deviation	Sharpe Ratio	Maximum Drawdown	Excess Return vs. Market	Batting Average vs. Style	Alpha vs. Market	Beta vs. Market
Keyns, Anderson: Small-Mid Cap Core (gross)	15.49%	174.01%	11.83%	1.26	-15.02%	2.98%	64.29%	4.72%	0.84
Great Lakes, LLC: Disciplined SMidCap (gross)	14.41%	156.67%	12.98%	1.06	-17.70%	1.91%	50.00%	2.21%	0.96
Ancora Advisors: Ancora/Thelein Small Mid Cap (gross)	14.57%	159.17%	14.58%	0.96	-18.36%	2.07%	50.00%	1.32%	1.06
GW&K: Small/Mid Cap Core Strategy (gross)	13.51%	142.74%	12.46%	1.03	-16.92%	1.00%	53.57%	1.67%	0.94
Russell 2500	12.51%	128.17%	12.97%	0.92	-18.49%	0.00%	50.00%	0.00%	1.00

The performance data shows past performance. Past performance does not guarantee future results. The performance shown is gross performance, and all statistics are calculated using gross performance. If you engaged any investment manager or invested in any fund, fees and other expenses would reduce your returns. Please see the profiles given to you with this report for both gross and net performance information on each investment manager and fund available in the applicable Morgan Stanley programs, which may be more up-to-date than the performance information in this report. Created with Zephyr StyleADVISOR. Manager returns supplied by: Morningstar, Inc.

# Manager Style

Waxahachie Firemen's R&R Fund



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# Manager Fee Comparison

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## *Waxahachie Firemen's R&R Fund*

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Below are the managers stated fees and if available, the Morgan Stanley negotiated fee. Because of our size and scope we have the ability to negotiate fees lower on behalf of our clients. The fees shown are not guaranteed for your position, they are shown for comparison purposes only.

<b>Manager Fee Comparison</b>	
<b>Manager Fee Comparison</b>	<b>Fee</b>
Kayne Anderson Small/Mid Cap Core	0.35%
Ancora Thelen Small/Mid Cap Core	0.42%
GW&K Small/Mid Cap Core	0.40%

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The performance data shows past performance. Past performance does not guarantee future results. The performance shown is gross performance, and all statistics are calculated using gross performance. If you engaged any investment manager or invested in any fund, fees and other expenses would reduce your returns. Please see the profiles given to you with this report for both gross and net performance information on each investment manager and fund available in the applicable Morgan Stanley programs, which may be more up-to-date than the performance information in this report. Created with Zephyr StyleADVISOR. Manager returns supplied by: Morningstar, Inc.

# Morgan Stanley Manager Rating

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*Waxahachie Firemen's R&R Fund*

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Below are the managers and their current Morgan Stanley Research rating.

<b>Manager Rating</b>		
<b>Manager</b>	<b>MS Research Status</b>	<b>High Adverse Active Alpha</b>
Kayne Anderson Small/Mid Cap Core	Focus	yes
Ancora Thelen Small/Mid Cap Core	Focus	yes
GW&K Small/Mid Cap Core	Focus	yes

**Rating Definitions:**

- **Approved List:** Approved list managers meet an acceptable due diligence standard based upon GIMA's evaluation and are approved for use.
- **Focus List:** Our high conviction list of managers approved for use. Focus list status indicates GIMA's high confidence level in the overall quality of the investment option and its ability to outperform applicable benchmarks over a full market cycle.
- **Adverse Active Alpha "AAA":** "AAA" is a patented quantitative ranking system used to determine if a manager will add alpha vs the benchmark. See next page for detailed explanation.

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The performance data shows past performance. Past performance does not guarantee future results. The performance shown is gross performance, and all statistics are calculated using gross performance. If you engaged any investment manager or invested in any fund, fees and other expenses would reduce your returns. Please see the profiles given to you with this report for both gross and net performance information on each investment manager and fund available in the applicable Morgan Stanley programs, which may be more up-to-date than the performance information in this report. Created with Zephyr StyleADVISOR. Manager returns supplied by: Morningstar, Inc.

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*Waxahachie Firemen's R&R Fund*

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## **Manager Research**

*Kayne Anderson Small/Mid Cap Core*

*Ancora Thelen Small/Mid Cap*

*GW&K Small/Mid Cap*

# Morgan Stanley

WEALTH MANAGEMENT

Global Investment Manager Analysis | September 24, 2019

## Kayne Anderson Small Mid Cap Core Equity

Focus List Report

### Summary of Opinion

- In 1Q 2018, Global Investment Manager Analysis (GIMA) elected to change the status of this strategy from the Approved List to the Focus List due to an above-average opinion of Kayne Anderson's investment capabilities and favorable performance and portfolio characteristics.
- GIMA has a high level of conviction in the portfolio managers, Julie Kutasov and Craig Stone, who have managed this strategy since 2008 and 2009, respectively. Jon Christensen was added as an additional co-PM in 2017.
- The strategy is supported by a well-resourced investment team composed of nine investment professionals, with an average of approximately 17 years of investment experience.
- The portfolio tends to have a higher tracking error and higher active share due to the concentrated structure. However, GIMA believes that the portfolio's concentration risk is partially mitigated by the combination of the investment team's high-quality discipline and intensive initial and ongoing business analysis efforts, which has historically resulted in a significant overweight of high-quality stocks.

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#### STRATEGY DETAILS

**Investment Style:**

U.S. Mid Cap

**Sub-Style:**

Blend

**Benchmark:**

Russell 2500 Index

**GIMA Status:**

Focus List

**Product Type:**

Separately Managed Account

**Ticker Symbol:**

N/A

[www.kanye.com](http://www.kanye.com)

#### Strategy Description

The investment process is based on investing in high-quality companies with competitive moats at attractive valuations. The investment objective is to outperform over a market cycle with lower risk characteristics.

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This is not a "research report" as defined by FINRA Rule 2241 and was not prepared by the Research Departments of Morgan Stanley Smith Barney LLC or its affiliates.

INVESTMENT PRODUCTS: NOT FDIC INSURED\*NO BANK GUARANTEE\* MAY LOSE VALUE

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## Strategy Snapshot

INVESTMENT CAPABILITIES	BUSINESS EVALUATION	INVESTMENT RESOURCES	PORTFOLIO CONSTRUCTION CAPABILITIES	HIGH ADVERSE ACTIVE ALPHA	SHORT -TERM PERFORMANCE ANALYSIS (≤ 3 YRS)	LONG -TERM PERFORMANCE ANALYSIS (> 3 YRS)
Above Average	Above Average	Above Average	Above Average	Yes	Above Expectations	Above Expectations

See Strategy Snapshot description at the end of this report.

## Strategy Attributes

### Positive Attributes

- The investment team has a history of adding value across multiple products.
- The process is transparent, repeatable and has been consistently implemented.
- The firm has had success growing assets, and the assets under management at the firm are diversified by product.

### Points to Consider

- The low turnover portfolio is concentrated with 25-35 holdings and a higher active share.
- The strategy had a significant overweight to stocks with high-quality ratings relative to the Russell 2500 Index.
- The strategy tends to have a larger weighted-average market cap relative to the Russell 2500 Index due to the 3-5 year investment horizon and low level of portfolio turnover.
- The strategy's earnings growth rate was similar to the benchmark in recent years. Additionally, the strategy's valuation metrics were at a premium to the benchmark. This type of positioning is typical for a strategy classified as relative value.
- The strategy has had a consistent overweight to the Financials and Industrials sectors and an underweight to the Consumer Discretionary, Real Estate and Materials sectors.

### Areas of Concern

- This strategy's small cap allocation has a high degree of overlap with the firm's Small Cap Core strategy. Product assets under management (AUM) for the Small Cap Core have grown significantly from \$1.7 billion in 2012 to \$7.3 billion as of 6/30/ 2019. While the Small Cap Core has soft-closed, further increases in Small Cap Core AUM may result in changes to this strategy's portfolio characteristics, such as an increase in the number of holdings and lower active share, as well as reduced liquidity that can negatively impact GIMA's performance expectations.

### Performance Expectations

- The strategy is expected to participate in up markets due to the emphasis on stocks with moderate valuations and earnings growth rates. As a result of the emphasis on high-quality stocks with lower betas, the portfolio is also expected to provide some support in down markets.
- The portfolio is not expected to outperform in speculative markets led by lower-quality stocks.
- This strategy has a higher tracking error and higher active share as a result of the concentrated portfolio. Consequently, there may be periods when the strategy significantly outperforms or underperforms the benchmark.

## Investment Capabilities Overview

### Portfolio Management Team & Decision-Making

- Robert Schwarzkopf was the firm's CIO and a portfolio manager on this strategy from its inception in 1992 until 2013 and he retired in December 2014. Douglas Foreman is the current CIO at Kayne Anderson Rudnick Investment Management (KAR), but he does not have a direct role in managing the portfolios.
- Julie Kutasov, Craig Stone and Jon Christensen are the current co-portfolio managers on the strategy. Ms. Kutasov joined the firm in 2001 as an analyst and was promoted to co-portfolio manager in 2008. Mr. Stone joined the firm in 2000 as an analyst and was promoted to co-portfolio manager in 2009. Mr. Christensen joined the firm in 2001 as an analyst and became a co-PM on this strategy in 2017.
- The portfolio managers are supported by 6 dedicated research analysts.
- The portfolio managers work together to make the investment decisions for the portfolio. However, either of the portfolio managers can make the investment decisions if one of them is not available.

### Investment Process & Portfolio Construction

- The investment process is based on investing in high-quality companies with competitive moats at attractive valuations. The firm defines high-quality companies as those with strong management, consistent growth, high returns on capital, high free cash flow and low debt levels.
- The investment objective is to outperform the benchmark with a lower level of risk, and the investment horizon is 3-5 years.
- The investment team starts with a universe of high-quality stocks that they develop from quantitative screens based on high returns on equity (ROE), high returns on assets (ROA), minimal debt, etc. They also use other sources, including company meetings, investment conferences, industry reviews, etc.
- Companies that pass these screens are subjected to a qualitative analysis to evaluate potential competitive advantages and the companies' financial statements. In addition, the analysts compare the valuations of the companies to the market, industry peers and their own history.
- The SMA portfolios are typically 25-35 holdings. The positions tend to begin at 3% of the portfolio and may reach 10% of the portfolio's market value.
- The sell discipline is based on higher valuations, better investment opportunities, sector rebalancing, or negative company/industry changes.

### Track Record Reliability

- The track record reliability is considered to be high. Prior to becoming co-portfolio managers in 2008 and 2009, Ms. Kutasov and Mr. Stone worked together as analysts on this team using the same investment process since 2001. Mr. Christensen has only been a co-PM on this strategy since 2017. However, he has also been an analyst on this strategy since 2001, and has also been a co-PM on other strategies at the firm using the same investment process. Therefore, GIMA believes the track record is representative of what investors could expect over time.

3 Please refer to important information, disclosures and qualifications at the end of this material.

## Portfolio Traits

EQUITY	
Range of Holdings	25 - 35
Maximum Position Size	5% at cost, 10% at market
Econ Sector Constraints	+/- 10% of benchmark sector weights
Country Constraints	Limit of 20% Non-U.S Holdings
Emerging Mkts Constraints	< 20% (at market)
Currency Hedging	No
Tracking Error Target	None
Typical Annual Turnover	25% - 35%
Invests in ADRs	20% max
Invests in ETFs	Yes - temporarily if position acquired & no better alternatives available
Invests in Derivatives	No
Invests in IPOs	Yes
Liquidity Constraints	No
Maximum Cash	10%
Typical Cash Position	<5%
Est. Product Capacity	\$6.5 - \$7.0 billion

Source: Kayne Anderson Rudnick

## Ownership And Parent Company

NAME OF OWNER	PERCENT OWNED
Virtus Investment Partners	100%
PUBLICLY TRADED	TICKER SYMBOL
Yes	NASDAQ: VRTS

Source: Kayne Anderson Rudnick

## Assets Under Management (\$ Millions)

YEAR	FIRM	SMA
6/2019	\$29,528	\$3,422
2018	\$22,822	\$2,289
2017	\$18,900	\$1,992
2016	\$12,775	\$1,293
2015	\$9,629	\$787
2014	\$9,367	\$712
2013	\$9,170	\$729
2012	\$6,877	\$540

Source: Kayne Anderson Rudnick

## Legal/Compliance

- According to KAR, the firm has never been the subject of an investigation by the SEC, NASD or any other government or regulatory office.
- KAR's most recent SEC audit was in 2005. According to KAR, the audit did not require the firm to update any disclosures on the firm's ADV. In addition, the firm states that all of the deficiencies from the audit were addressed.

## Definitions

**Russell 2500** - Russell 2500 Index measures the performance of the 2500 smallest companies in the Russell 3000 Index.

**Sub-Styles:** Subjective classifications designed to assist with manager selection and performance evaluation based on GIMA's understanding of a manager's long-term investment philosophy and portfolio structuring biases and techniques. At points in time managers may display attributes of other sub-style classifications, and these classifications may change due to changes in the capital markets, evolution of performance benchmarks, industry trends, or changes involving a manager's personnel or process.

**Blend:** Flexible managers that may invest in a blend of growth and value stocks at different times and in differing proportions due to a lack of a significant long-term bias in either style direction, and may have benchmark-constraints and tracking error guidelines such that performance and characteristics are similar to the respective benchmark.

## Strategy Snapshot

**Investment Capabilities** – Represents GIMA's opinion of the investment manager's investment capabilities with respect to the product under evaluation. This section covers the areas of quality of investment professionals, portfolio management, research and process execution. As these areas are not mutually exclusive, but rather interrelated, it is important to render a cohesive opinion on these areas of an organization. This section has three potential opinion outcomes: **Above Average, Average and Needs Improvement.**

**Business Evaluation** - Represents GIMA's opinion of the state of the investment manager's overall business condition. This area reviews items such as ownership structure, trends in assets under management, legal and/or compliance issues, investment professional incentives and trading policies. This area has three potential opinion outcomes: **Above Average, Average and Needs Improvement.**

**Investment Resources** – Represents several important components dedicated to a strategy, such as the level and quality of investment personnel (portfolio managers, analysts, etc.), analytical tools and methodologies, and the parent firm's overall commitment to support of the strategy. This area has three potential opinion outcomes: **Above Average, Average and Needs Improvement.**

**Portfolio Construction Capabilities** – Represents an assessment of a manager's ability to utilize its investment resources and select securities in order to effectively build portfolios. This includes elements of diversification, risk management, sell discipline, position sizing, and turnover management. This area has three potential opinion outcomes: **Above Average, Average and Needs Improvement.**

**High Adverse Active Alpha\*** – High Adverse Active Alpha rankings are generally defined as falling into the top two quintiles (40%). Separately Managed Account and mutual fund rankings could differ. In some cases where the separately managed account product and mutual fund are substantially similar, the separately managed account rating may be applied to the mutual fund and vice versa. This area has three potential opinion outcomes: **Yes, No, and NA.**

**Short-Term & Long-Term Performance Analysis** – The opinion for performance is broken into two components: 1) Short-Term Performance Analysis represents GIMA's opinion of the investment product's performance typically over a time period of the trailing three years or less, 2) Long-Term Performance Analysis represents GIMA's opinion of the investment product's performance typically over a time period of more than the trailing three years. These areas have three potential opinion outcomes: **Above Expectations, In-Line and Below Expectations.**

## GIMA defines the Adverse Active Alpha (AAA) ranking model as follows:

Global Investment Manager Analysis provides comprehensive manager analysis for Morgan Stanley's investment advisory platforms on a wide range of investment products, including separately managed accounts, mutual funds and exchange-traded funds in the equity, fixed income and alternative investment categories.

### Adverse Active Alpha (AAA)

**Adverse** refers to the demonstrated ability to outperform in a variety of market environments and when conditions were difficult for active manager relative performance. "Difficult" periods were times when active management did not perform well relative to the index, as opposed to down market periods. At various times, active management has experienced difficult relative performance periods in up, down, and flat markets. We developed a set of factors to help discern which periods were more difficult for active managers that we utilize to identify managers that were able to overcome these headwinds and outperformed in the face of adversity.

**Active** refers to managers with portfolios that looked different from the index and had moderate to low tracking error. For all products,  $r^2$  is used to measure the degree of differentiation from the benchmark in conjunction with tracking error. The ranking seeks to find managers that were active, but not taking outsized bets, and that had some degree of style consistency. The combination of  $r^2$  and low tracking error is fairly uncommon among active managers, but we believe these traits may point toward managers with strong stock picking skills.

**Alpha** refers to the demonstrated ability to add value relative to an index and/or peers. Back tests indicate that highly ranked managers as a group outperformed the index and style peer group over subsequent periods and relative to active share alone. By combining the "adverse" component with the "active" component, we believe we increase the odds of finding some of the most proficient stock pickers.

### Important Considerations Regarding the Adverse Active Alpha and Value Score ranking models:

In our view, the Adverse Active Alpha and Value Score manager rankings are an important part of evaluating managers for consideration. However, we do recognize that these ranking models cannot, in and of themselves, tell us which managers' strategies to invest in or when to buy or sell the strategies. While highly ranked managers historically performed well as a group in our analysis, past performance is not a guarantee of future results for any manager or strategy. Index returns assume reinvestment of dividends and, unlike fund or strategy returns, do not reflect any fees or expenses. Indices are unmanaged and not available for direct investment.

GIMA strives to evaluate other material and forward looking factors as part of the overall manager evaluation process. Factors such as but not limited to manager turnover and changes to investment process can partially or fully negate a positive Adverse Active Alpha or Value Score ranking. Additionally, highly ranked managers can have differing risk profiles that might not be suitable for all investors. For more information on the ranking models, please see *Adverse Active Alpha<sup>SM</sup> 2.0: Scoring Active Managers According to Potential Alpha*. This Special Report is available by request from your Financial Advisor or Private Wealth Advisor.

5 Please refer to important information, disclosures and qualifications at the end of this material.

ADVERSE ACTIVE ALPHA is a registered service mark of Morgan Stanley and/or its affiliates. U.S. Pat. No. 8,756,098 applies to the Adverse Active Alpha system and/or methodology.

\*High Adverse Active Alpha is generally defined as falling into the top two quintiles (40%) within the ranking model. Separately Managed Account and mutual fund rankings could differ. In some cases where the separately managed account product and mutual fund are substantially similar, the separately managed account rating may be applied to the mutual fund and vice versa.

### Glossary of Terms

**Active Share** – is a measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index; Active Share is calculated by taking the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the benchmark index and dividing by two.

**ADRs** – American Depositary Receipts are U.S. dollar denominated forms of equity ownership in non-U.S. companies. These shares are issued against the local market shares held in the home market. ADRs are typically listed on U.S. exchanges such as NYSE, AMEX and NASDAQ.

**Alpha** – measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive Alpha figure indicates the portfolio has performed better than its Beta would predict. A negative Alpha indicates the portfolio's underperformance given the expectations established by the Beta. The accuracy of the Alpha is therefore dependent on the accuracy of the Beta. Alpha is often viewed as a measurement of the value added or subtracted by a portfolio's manager.

**Beta** – measures a portfolio's volatility relative to its benchmark. A portfolio with a Beta higher than 1.0 has historically been more volatile than the benchmark, while a portfolio with a Beta lower than 1.0 has been less volatile. The accuracy of the Beta is dependent on R-Squared.

**Correlation** – measures the degree to which the returns of two securities or indices are related. The range of possible correlations is between 1.0 and -1.0. Positive correlation indicates that returns tend to move in the same direction. Negative correlation indicates that returns tend to move in opposite directions. Zero correlation implies that there is no relationship between the securities' returns.

**EPS Growth – Forecast** – a measure of one year earnings (cash flow or dividends) per share growth from the prior fiscal year (FY0) to the current fiscal year (FY1) using analyst consensus forecasts. Growth is expressed as a percent. The FY1 EPS (earnings per share) growth rate for the portfolio is a weighted average of the forecasts for the individual stocks in the portfolio.

**EPS Growth – 5 Year Historical** – The weighted average annualized earnings per share growth for a portfolio over the past five years.

**Excess Return** – represents the average quarterly total return of the portfolio relative to its benchmark. A portfolio with a positive Excess Return has on average outperformed its benchmark on a quarterly basis. This statistic is obtained by subtracting the benchmark return from the portfolio's return.

**Historical EPS Growth** - calculated by regressing over time the quarterly earnings per share for the past 20 quarters to determine the share's historical growth rate in earnings. The quarterly historical growth rate for each share is then annualized and the Historical EPS Growth shown in this report is the weighted average of these results.

**Information Ratio** – represents the Excess Return divided by the Tracking Error. It provides a measure of the historical consistency of the portfolio's outperformance or underperformance relative to its benchmark. A higher, positive Information Ratio suggests that the portfolio's excess returns may have been the result of making measured or moderate bets against the relevant benchmark's risk exposures.

**Long Term EPS Growth Rate** – analyst consensus of expected annual increase in operating earnings per share over the company's next full business cycle - usually three to five years. The Long Term EPS Growth Rate for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

**P/E – Forecast 12-Mo.** – The price/earnings ratio for the stock based on the most recent closing price divided by the annual mean expected earnings for the current fiscal year (FY1 EPS forecast). P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

**P/E – Trailing 12-Mo.** – the current price of a stock divided by the most recent 12 months trailing earnings per share. P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

**Price-to-Book** – price per share divided by book value per share. Price-to-Book for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

**R-Squared (R<sup>2</sup>)** – represents the percentage of the volatility of returns that is attributable to movements of the benchmark. It is a measure of "co-movement" between portfolio returns and benchmark returns. The closer the portfolio's R<sup>2</sup> is to 100%, the more closely the portfolio correlates to, or follows, the benchmark. Generally, highly diversified portfolios have higher R<sup>2</sup> percentages.

**Return on Equity (ROE)** – is another profitability ratio which gauges return on investment by measuring how effectually stockholder money is being employed by the company. ROE is calculated by dividing a company's net income by average total equity. Unlike Return on Assets (ROA), ROE considers the degree to which a company uses leveraging, as interest expense paid to creditors is generally deducted from earnings to arrive at net income. ROE for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

**Sharpe Ratio** – measures a portfolio's rate of return based on the risk it assumed and is often referred to as its risk-adjusted performance. Using Standard Deviation and returns in excess of the returns of T-bills, it determines reward per unit of risk. This measurement can help determine if the portfolio is reaching its goal of increasing returns while managing risk.

**Standard Deviation** – quantifies the volatility associated with a portfolio's returns. The statistic measures the variation in returns around the mean return. Unlike Beta, which measures volatility relative to the aggregate market, Standard Deviation measures the absolute volatility of a portfolio's return.

**Tracking Error** – represents the Standard Deviation of the Excess Return. This provides a historical measure of the variability of the portfolio's returns relative to its benchmark. A portfolio with a low Tracking Error would have quarterly Excess Returns that have exhibited very low volatility.

### Important Disclosures

#### Report for Use Only in Investment Advisory Programs

This report is only to be used in Morgan Stanley Wealth Management investment advisory programs and not in connection with brokerage accounts.

6 Please refer to important information, disclosures and qualifications at the end of this material.

# Morgan Stanley

## WEALTH MANAGEMENT

GLOBAL INVESTMENT MANAGER ANALYSIS / SEPTEMBER 24, 2019

### **The Global Investment Manager Analysis (GIMA) services Only Apply to Certain Investment Advisory Programs**

GIMA evaluates certain investment products for the purposes of some – but not all – of Morgan Stanley Smith Barney LLC's investment advisory programs (as described in more detail in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management). If you do not invest through one of these investment advisory programs, Morgan Stanley Wealth Management is not obligated to provide you notice of any GIMA status changes even though it may give notice to clients in other programs.

### **Focus List, Approved List and Tactical Opportunities List; Watch Policy**

GIMA uses two methods to evaluate investment products in applicable advisory programs: Focus (and investment products meeting this standard are described as being on the Focus List) and Approved (and investment products meeting this standard are described as being on the Approved List). In general, Focus entails a more thorough evaluation of an investment product than Approved. Sometimes an investment product may be evaluated using the Focus List process but then placed on the Approved List instead of the Focus List. Investment products may move from the Focus List to the Approved List, or vice versa. GIMA may also determine that an investment product no longer meets the criteria under either process and will no longer be recommended in investment advisory programs (in which case the investment product is given a "Not Approved" status).

GIMA has a "Watch" policy and may describe a Focus List or Approved List investment product as being on "Watch" if GIMA identifies specific areas that (a) merit further evaluation by GIMA and (b) may, but are not certain to, result in the investment product becoming "Not Approved." The Watch period depends on the length of time needed for GIMA to conduct its evaluation and for the investment manager or fund to address any concerns. GIMA may, but is not obligated to, note the Watch status in this report with a "W" or "Watch" next to the "Status" on the cover page.

Certain investment products on either the Focus List or Approved List may also be recommended for the Tactical Opportunities List based in part on tactical opportunities existing at a given time. The investment products on the Tactical Opportunities List change over time.

For more information on the Focus List, Approved List, Tactical Opportunities List and Watch processes, please see the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management. Your Financial Advisor or Private Wealth Advisor can also provide upon request a copy of a publication entitled "GIMA at a Glance".

### **No Obligation to Update**

Morgan Stanley Wealth Management has no obligation to update you when any information or opinion in this report changes.

### **Strategy May Be Available as a Separately Managed Account or Mutual Fund**

Strategies are sometimes available in Morgan Stanley Wealth Management investment advisory programs both in the form of a separately managed account ("SMA") and a mutual fund. These may have different expenses and investment minimums. Your Financial Advisor or Private Wealth Advisor can provide more information on whether any particular strategy is available in more than one form in a particular investment advisory program.

### **Consider Your Own Investment Needs**

This report is not intended to be a client-specific suitability analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities (includes securities of Morgan Stanley, and/or their affiliates if shown in this report). Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon.

### **Performance and Other Portfolio Information**

#### **General**

*Past performance does not guarantee future results.* There is no guarantee that this investment strategy will work under all market conditions. As a result of recent market activity, current performance may vary from the performance referenced in this report.

For mutual funds, the investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. To obtain performance information, current to the most recent month-end, please contact the fund directly at the website set out on the cover page of this report.

#### **Benchmark Index**

Depending on the composition of your account and your investment objectives, any indices shown in this report may not be an appropriate measure for comparison purposes and are therefore presented for illustration only.

Indices are unmanaged. They do not reflect any management, custody, transaction or other expenses, and generally assume reinvestment of dividends, accrued income and capital gains. Past performance of indices does not guarantee future results. You cannot invest directly in an index.

Performance of indices may be more or less volatile than any investment product. The risk of loss in value of a specific investment (such as with an investment manager or in a fund) is not the same as the risk of loss in a broad market index. Therefore, the historical returns of an index will not be the same as the historical returns of a particular investment product.

#### **Other data**

Portfolio analysis may be based on information on less than all of the securities held in the portfolio. For equity portfolios, the analysis typically reflects securities representing at least 95% of portfolio assets. This may differ for other strategies, including those in the fixed income and specialty asset classes, due to availability of portfolio information.

# Morgan Stanley

## WEALTH MANAGEMENT

GLOBAL INVESTMENT MANAGER ANALYSIS / SEPTEMBER 24, 2019

Other data in this report is accurate as of the date this report was prepared unless stated otherwise. Data in this report may be calculated by the investment manager, Morgan Stanley Wealth Management or a third party service provider, and may be based on a representative account or a composite of accounts.

### **Securities holdings**

Holdings are subject to change daily, so any securities discussed in this report may or may not be included in your portfolio if you invest in this investment product. Your portfolio may also include other securities in addition to or instead of any securities discussed in this report. Do not assume that any holdings mentioned were, or will be, profitable.

### **Sources of Data**

Material in this report has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy, completeness or timeliness. Third party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data.

### **Asset Class and Other Risks**

Investing in *stocks*, *mutual funds* and *exchange-traded funds ("ETFs")* entails the risks of market volatility. The value of all types of investments may increase or decrease over varying time periods. Besides the general risk of holding securities that may decline in value, *closed-end funds* may have additional risks related to declining market prices relative to net asset values (NAVs), active manager underperformance, and potential leverage. Some funds also invest in foreign securities, which may involve currency risk.

*Value* and *growth investing* also carry risks. Value investing involves the risk that the market may not recognize that securities are undervalued and they may not appreciate as anticipated. Growth investing does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations.

*International securities* may carry additional risks, including foreign economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes and differences in financial and accounting standards. International investing may not be for everyone. These risks may be magnified in *emerging markets*.

*Small- and mid- capitalization* companies may lack the financial resources, product diversification and competitive strengths of larger companies. The securities of small capitalization companies may not trade as readily as, and be subject to higher volatility than, those of larger, more established companies.

### **No Tax Advice**

Tax laws are complex and subject to change. Morgan Stanley Smith Barney LLC ("Morgan Stanley"), its affiliates and Morgan Stanley Financial Advisors and Private Wealth Advisors do not provide tax or legal advice and are not "fiduciaries" (under ERISA, the Internal Revenue Code or otherwise) with respect to the services or activities described herein except as otherwise provided in writing by Morgan Stanley and/or as described at [www.morganstanley.com/disclosures/dol](http://www.morganstanley.com/disclosures/dol). Individuals are encouraged to consult their tax and legal advisors (a) before establishing a retirement plan or account, and (b) regarding any potential tax, ERISA and related consequences of any investments made under such plan or account.

If any investments in this report are described as "tax free", the income from these investments may be subject to state and local taxes and (if applicable) the federal Alternative Minimum Tax. Realized capital gains on these investments may be subject to federal, state and local capital gains tax.

### **Conflicts of Interest**

GIMA's goal is to provide professional, objective evaluations in support of the Morgan Stanley Wealth Management investment advisory programs. We have policies and procedures to help us meet this goal. However, our business is subject to various conflicts of interest. For example, ideas and suggestions for which investment products should be evaluated by GIMA come from a variety of sources, including our Morgan Stanley Wealth Management Financial Advisors and their direct or indirect managers, and other business persons within Morgan Stanley Wealth Management or its affiliates. Such persons may have an ongoing business relationship with certain investment managers or mutual fund companies whereby they, Morgan Stanley Wealth Management or its affiliates receive compensation from, or otherwise related to, those investment managers or mutual funds. For example, a Financial Advisor may suggest that GIMA evaluates an investment manager or fund in which a portion of his or her clients' assets are already invested. While such a recommendation is permissible, GIMA is responsible for the opinions expressed by GIMA. See the conflicts of interest section in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management for a discussion of other types of conflicts that may be relevant to GIMA's evaluation of managers and funds. In addition, Morgan Stanley Wealth Management, MS&Co., managers and their affiliates provide a variety of services (including research, brokerage, asset management, trading, lending and investment banking services) for each other and for various clients, including issuers of securities that may be recommended for purchase or sale by clients or are otherwise held in client accounts, and managers in various advisory programs. Morgan Stanley Wealth Management, managers, MS&Co., and their affiliates receive compensation and fees in connection with these services. Morgan Stanley Wealth Management believes that the nature and range of clients to which such services are rendered is such that it would be inadvisable to exclude categorically all of these companies from an account. Morgan Stanley charges each fund family we offer a mutual fund support fee, also called a "revenue-sharing payment," on client account holdings in fund families according to a tiered rate that increases along with the management fee of the fund so that lower management fee funds pay lower rates than those with higher management fees.

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# Morgan Stanley

WEALTH MANAGEMENT

Global Investment Manager Analysis | April 5, 2019

## Ancora/Thelen Small Mid Cap Core

### Focus List Report

#### Summary of Opinion

- Global Investment Manager Analysis (GIMA) has placed the Ancora/Thelen Small Mid Cap Core SMA on the Focus List due to our high opinion of portfolio manager (PM) Dan Thelen and the investment process that he has consistently implemented over the past 18 years (2000 to 2011 with Loomis Sayles and since 2012 with Ancora). GIMA views the process favorably and believes it is capable of adding value over a full market cycle.
- The Strategy looks for securities that are classified in three special themes or buckets: Special Situations or spin-offs, franchises, and under-followed stocks. Many of the holdings (micro-cap stocks) within the portfolio have limited sell-side analyst coverage so the success of the strategy may ultimately be derived from the ability of the investment team (mainly PM Dan Thelen) to conduct thorough analysis. GIMA believes that the three-bucket investment approach differentiates the strategy from peers.
- Mr. Thelen has a significant portion of his net worth invested with the strategy, which GIMA regards as aligning with investor interests.

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#### STRATEGY DETAILS

**Investment Style:**

US Small Cap

**Sub-Style:**

Value-Oriented

**Benchmark:**

Russell 2500 Index

**GIMA Status:**

Focus List

**Product Type:**

Separately Managed Account

**Ticker Symbol:**

N/A

#### Strategy Description

Ancora focuses on in-depth fundamental, bottom-up analysis. The strategy may deviate significantly from the benchmark in regards to sector positioning as a direct result of the process and may have a larger allocation to micro-cap stocks relative to peers. The product has tended to generate better relative results when value-oriented small cap stocks are in favor.

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INVESTMENT PRODUCTS: NOT FDIC INSURED\*NO BANK GUARANTEE\* MAY LOSE VALUE

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## Strategy Snapshot

INVESTMENT CAPABILITIES	BUSINESS EVALUATION	INVESTMENT RESOURCES	PORTFOLIO CONSTRUCTION CAPABILITIES	HIGH ADVERSE ACTIVE ALPHA	SHORT -TERM PERFORMANCE ANALYSIS (≤ 3 YRS)	LONG -TERM PERFORMANCE ANALYSIS (> 3 YRS)
Above Average	Average	Needs Improvement	Above Average	Yes	In-Line	Above Expectations

See Strategy Snapshot description at the end of this report.

## Strategy Attributes

### Positive Attributes

- Portfolio Manager, Dan Thelen is experienced and has followed the same process for over 18 years.
- The investment process has shown flexibility and has added value over multiple economic cycles.
- Mr. Thelen has a significant portion of his net worth invested with the strategy.

### Points to Consider

- The portfolio may significantly deviate from the benchmark regarding its sector positioning and may not be considered benchmark sensitive.
- Typically 50-70 holdings and up to 70% annual turnover.
- Will purchase "holds" for new accounts.
- Typical cash position ranges from 0%-5%.
- Tends to have a larger allocation to micro-cap stocks (<\$750 million in market cap).
- May hold some stocks that are classified as "Special Situations". Therefore, quality metrics (ROE, Debt/Equity, etc.) can shift over time.
- Volatility as measured by standard deviation may be at a discount or premium compared to the benchmark.

### Areas of Concern

- Meaningful level of key-man risk. The Small Mid Cap Core strategy is led solely by Portfolio Manager, Dan Thelen.
- Ancora is a relatively small boutique investment firm in the early stages of growth that does not have the same degree of product diversification relative to larger asset management firms.

### Performance Expectations

- The portfolio will tend to have in-line to lower estimated growth metrics relative to the benchmark. This has tended to lead to outperformance in more value-oriented markets. Over the course of Mr. Thelen's investment career, strategies he has managed have typically outperformed when lower beta is in favor. However, due to the presence of "Special Situation"

and micro-cap stocks, the strategy could be adversely affected by a market environment that abruptly switches to "risk-off."

- The strategy's flexibility to hold micro-cap companies and the ability to meaningfully deviate from the benchmark on a sector positioning basis (in more recent periods the portfolio has held a meaningful overweight to Consumer Discretionary) may translate into prolonged periods of potential underperformance or outperformance depending on the economic environment.

## Investment Capabilities Overview

### Portfolio Management Team & Decision-Making

- Dan Thelen is the lead PM for the Small Cap Core, Small Mid Cap Core and Mid Cap strategies. Mr. Thelen previously was a Co-PM at Loomis Sayles (Detroit) in charge of the firm's SMID Cap and Small Cap strategies. These two strategies have been on GIMA's Focus List for several years.
- Lead Portfolio Manager Dan Thelen holds final authority for all investment decisions within the portfolio.

### Investment Process & Portfolio Construction

- The investment philosophy is rooted in the belief that low valuation strategies outperform other approaches. The investment team subscribes to the basic value philosophy that under valuations can generally be expected to return to normal valuations, and the early identification of a catalyst not properly priced by the market can close the gap between the estimated intrinsic value of a company and what the market is currently pricing.
- The product's investible universe includes all domestic companies that trade within the market cap of the constituents of the Russell 2500. The universe is then refined by screening on key growth and profitability factors including returns on capital, long-term demonstrated growth rates and cash flow returns on equity. Further screens based on each company's valuation relative to its industry are then implemented. The firm states that they focus on specific valuation and growth metrics (e.g. ROIC, long-term growth rates, FCF, valuation relative to industry etc.) for certain sectors and industries. For example, within the Utility and Financial Services sectors, management places higher emphasis on asset-based measures such as price to book value, which the firm states that over time has led to positive performance over specific periods.
- Layered on top of profitability and valuation factors, Ancora also screens out those companies that are deemed to have highly leveraged balance sheets. The primary leverage ratios considered are total debt to earnings before interest, taxes, depreciation and amortization (EBITDA), total debt to free cash flow and total debt to total market capital of equity. The overall screening process will typically reduce the number of companies from the original universe down to approximately 200-300 names.
- The remaining stocks are reviewed by the team, seeking to identify catalysts that will unlock the estimated intrinsic value of the company. They put the largest emphasis on this part of the analysis. The catalysts can include a corporate restructuring, surprisingly strong revenue and/or earnings trends, and gaining additional visibility into a company's

prospects. As a result of the strong focus on catalysts, holdings tend to fall into three categories:

- Underfollowed stocks which are those companies that have limited "Wall Street" coverage;
  - Special Situations include those companies that are in the process of making substantial changes to the capital structure such as spinning off from a larger company, bankruptcy reemergence and demutualization of stock from a mutual holding company to publicly traded stock;
  - Franchise company with unique competitive advantage that is temporarily mispriced due to an external factor.
- In general a stock becomes a purchase candidate if all or some of the following attributes exist: current valuation and earnings visibility are attractive; fundamental characteristics (i.e., financial strength, industry, position and company outlook) are favorable; its projected total return is in excess to both the Russell 2500 Index and other stocks within the same industry.
  - Holdings can be sold for three reasons:
    - Company fundamentals begin to deteriorate.
    - The team finds a better investment opportunity.
    - A stock reaches the price level estimated according to the intrinsic valuation calculation.

### Track Record Reliability

- The track record is highly reliable since there has been no personnel turnover on the investment team.

## Portfolio Traits

EQUITY	
Range of Holdings	50 – 70
Maximum Position Size	5% at cost
Econ Sector Constraints	Generally 2x
Country Constraints	N/A
Emerging Mkts Constraints	N/A
Currency Hedging	N/A
Tracking Error Target	Generally 6 – 8%
Typical Annual Turnover	50 – 70%
Invests in ADRs	10% max; typically no exposure
Invests in ETFs	No
Invests in Derivatives	No
Invests in IPOs	No
Liquidity Constraints	No liquidity requirement at current asset level
Maximum Cash	5%
Typical Cash Position	0 – 5%
Est. Product Capacity	\$2 - \$2.5 billion; will evaluate at ~\$1.2 bln

Source: Ancora

## Ownership And Parent Company

NAME OF OWNER	PERCENT OWNED
Employee owned	100%
PUBLICLY TRADED	TICKER SYMBOL
N/A	N/A

Source: Ancora

## Assets Under Management (\$ Millions)

YEAR	FIRM*	SMA
2018	\$2,443	\$803
2017	\$2,495	\$725
2016	\$2,047	\$324
2015	\$2,005	\$164
2014	\$2,004	\$157
2013	\$1,690	\$132
2012	\$1,415	\$18
2011	\$1,452	\$10

Source: Ancora

\*Ancora Advisors LLC firm GIPS Discretionary Assets. Total Ancora Holdings Inc. AUM was \$6.4 billion as of 12/31/2018

## Legal/Compliance

- In December, 2018, Ancora Advisors, LLC agreed to be censured and to pay a \$100,000 civil penalty to resolve allegations of pay-to-play rule violations found by the Securities and Exchange Commission.

## Definitions

**Sub-Styles:** Subjective classifications designed to assist with manager selection and performance evaluation based on GIMA's understanding of a manager's long-term investment philosophy and portfolio structuring biases and techniques. At points in time managers may display attributes of other sub-style classifications, and these classifications may change due to changes in the capital markets, evolution of performance benchmarks, industry trends, or changes involving a manager's personnel or process.

**Value-Oriented:** Tend to have a more value-oriented investment philosophy and portfolio orientation often placing valuation concerns above either benchmark structure or growth characteristics and may exhibit less volatility than peers.

**Russell 2500 -** Russell 2500 Index measures the performance of the 2500 smallest companies in the Russell 3000 Index.

## Strategy Snapshot

**Investment Capabilities** – Represents GIMA's opinion of the investment manager's investment capabilities with respect to the product under evaluation. This section covers the areas of quality of investment professionals, portfolio management, research and process execution. As these areas are not mutually exclusive, but rather interrelated, it is important to render a cohesive opinion on these areas of an organization. This section has three potential opinion outcomes: **Above Average, Average and Needs Improvement.**

**Business Evaluation** - Represents GIMA's opinion of the state of the investment manager's overall business condition. This area reviews items such as ownership structure, trends in assets under management, legal and/or compliance issues, investment professional incentives and trading policies. This area has three potential opinion outcomes: **Above Average, Average and Needs Improvement.**

**Investment Resources** – Represents several important components dedicated to a strategy, such as the level and quality of investment personnel (portfolio managers, analysts, etc.), analytical tools and methodologies, and the parent firm's overall commitment to support of the strategy. This area has three potential opinion outcomes: **Above Average, Average and Needs Improvement.**

**Portfolio Construction Capabilities** – Represents an assessment of a manager's ability to utilize its investment resources and select securities in order to effectively build portfolios. This includes elements of diversification, risk management, sell discipline, position sizing, and turnover management. This area has three potential opinion outcomes: **Above Average, Average and Needs Improvement.**

**High Adverse Active Alpha\*** – High Adverse Active Alpha rankings are generally defined as falling into the top two quintiles (40%). Separately Managed Account and mutual fund rankings could differ. In some cases where the separately managed account product and mutual fund are substantially similar, the separately managed account rating may be applied to the mutual fund and vice versa. This area has three potential opinion outcomes: **Yes, No, and NA.**

**Short-Term & Long-Term Performance Analysis** – The opinion for performance is broken into two components: 1) Short-Term Performance Analysis represents GIMA's opinion of the investment product's performance typically over a time period of the trailing three years or less, 2) Long-Term Performance Analysis represents GIMA's opinion of the investment product's performance typically over a time period of more than the trailing three years. These areas have three potential opinion outcomes: **Above Expectations, In-Line and Below Expectations.**

## GIMA defines the Adverse Active Alpha (AAA) ranking model as follows:

Global Investment Manager Analysis provides comprehensive manager analysis for Morgan Stanley's investment advisory platforms on a wide range of investment products, including separately managed accounts, mutual funds and exchange-traded funds in the equity, fixed income and alternative investment categories.

### Adverse Active Alpha (AAA)

Adverse refers to the demonstrated ability to outperform in a variety of market environments and when conditions were difficult for active manager relative performance. "Difficult" periods were times when active management did not perform well relative to the index, as opposed to down market periods. At various times, active management has experienced difficult relative performance periods in up, down, and flat markets. We developed a set of factors to help discern which periods were more difficult for active managers that we utilize to identify managers that were able to overcome these headwinds and outperformed in the face of adversity.

Active refers to managers with portfolios that looked different from the index and had moderate to low tracking error. For all products,  $r_2$  is used to measure the degree of differentiation from the benchmark in conjunction with tracking error. The ranking seeks to find managers that were active, but not taking outsized bets, and that had some degree of style consistency. The combination of  $r_2$  and low tracking error is fairly uncommon among active managers, but we believe these traits may point toward managers with strong stock picking skills.

Alpha refers to the demonstrated ability to add value relative to an index and/or peers. Back tests indicate that highly ranked managers as a group outperformed the index and style peer group over subsequent periods and relative to active share alone. By combining the "adverse" component with the "active" component, we believe we increase the odds of finding some of the most proficient stock pickers.

### Important Considerations Regarding the Adverse Active Alpha and Value Score ranking models:

In our view, the Adverse Active Alpha and Value Score manager rankings are an important part of evaluating managers for consideration. However, we do recognize that these ranking models cannot, in and of themselves, tell us which managers' strategies to invest in or when to buy or sell the strategies. While highly ranked managers historically performed well as a group in our analysis, past performance is not a guarantee of future results for any manager or strategy. Index returns assume reinvestment of dividends and, unlike fund or strategy returns, do not reflect any fees or expenses. Indices are unmanaged and not available for direct investment.

GIMA strives to evaluate other material and forward looking factors as part of the overall manager evaluation process. Factors such as but not limited to manager turnover and changes to investment process can partially or fully negate a positive Adverse Active Alpha or Value Score ranking. Additionally, highly ranked managers can have differing risk profiles that might not be suitable for all investors. For more information on the ranking models, please see *Adverse Active Alpha<sup>SM</sup> 2.0: Scoring Active Managers According to Potential Alpha*. This Special Report is available by request from your Financial Advisor or Private Wealth Advisor.

ADVERSE ACTIVE ALPHA is a registered service mark of Morgan Stanley and/or its affiliates. U.S. Pat. No. 8,756,098 applies to the Adverse Active Alpha system and/or methodology.

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\*High Adverse Active Alpha is generally defined as falling into the top two quintiles (40%) within the ranking model. Separately Managed Account and mutual fund rankings could differ. In some cases where the separately managed account product and mutual fund are substantially similar, the separately managed account rating may be applied to the mutual fund and vice versa.

### Glossary of Terms

**Active Share** – is a measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index; Active Share is calculated by taking the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the benchmark index and dividing by two.

**ADRs** – American Depositary Receipts are U.S. dollar denominated forms of equity ownership in non-U.S. companies. These shares are issued against the local market shares held in the home market. ADRs are typically listed on U.S. exchanges such as NYSE, AMEX and NASDAQ.

**Alpha** – measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive Alpha figure indicates the portfolio has performed better than its Beta would predict. A negative Alpha indicates the portfolio's underperformance given the expectations established by the Beta. The accuracy of the Alpha is therefore dependent on the accuracy of the Beta. Alpha is often viewed as a measurement of the value added or subtracted by a portfolio's manager.

**Beta** – measures a portfolio's volatility relative to its benchmark. A portfolio with a Beta higher than 1.0 has historically been more volatile than the benchmark, while a portfolio with a Beta lower than 1.0 has been less volatile. The accuracy of the Beta is dependent on R-Squared.

**Correlation** – measures the degree to which the returns of two securities or indices are related. The range of possible correlations is between 1.0 and -1.0. Positive correlation indicates that returns tend to move in the same direction. Negative correlation indicates that returns tend to move in opposite directions. Zero correlation implies that there is no relationship between the securities' returns.

**EPS Growth – Forecast** – a measure of one year earnings (cash flow or dividends) per share growth from the prior fiscal year (FY0) to the current fiscal year (FY1) using analyst consensus forecasts. Growth is expressed as a percent. The FY1 EPS (earnings per share) growth rate for the portfolio is a weighted average of the forecasts for the individual stocks in the portfolio.

**EPS Growth – 5 Year Historical** – The weighted average annualized earnings per share growth for a portfolio over the past five years.

**Excess Return** – represents the average quarterly total return of the portfolio relative to its benchmark. A portfolio with a positive Excess Return has on average outperformed its benchmark on a quarterly basis. This statistic is obtained by subtracting the benchmark return from the portfolio's return.

**Historical EPS Growth** – calculated by regressing over time the quarterly earnings per share for the past 20 quarters to determine the share's historical growth rate in earnings. The quarterly historical growth rate for each share is then annualized and the Historical EPS Growth shown in this report is the weighted average of these results.

**Information Ratio** – represents the Excess Return divided by the Tracking Error. It provides a measure of the historical consistency of the portfolio's outperformance or underperformance relative to its benchmark. A higher, positive Information Ratio suggests that the portfolio's excess returns may have been the result of making measured or moderate bets against the relevant benchmark's risk exposures.

**Long Term EPS Growth Rate** – analyst consensus of expected annual increase in operating earnings per share over the company's next full business cycle – usually three to five years. The Long Term EPS Growth Rate for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

**P/E – Forecast 12-Mo.** – The price/earnings ratio for the stock based on the most recent closing price divided by the annual mean expected earnings for the current fiscal year (FY1 EPS forecast). P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

**P/E – Trailing 12-Mo.** – the current price of a stock divided by the most recent 12 months trailing earnings per share. P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

**Price-to-Book** – price per share divided by book value per share. Price-to-Book for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

**R-Squared (R<sup>2</sup>)** – represents the percentage of the volatility of returns that is attributable to movements of the benchmark. It is a measure of "co-movement" between portfolio returns and benchmark returns. The closer the portfolio's R<sup>2</sup> is to 100%, the more closely the portfolio correlates to, or follows, the benchmark. Generally, highly diversified portfolios have higher R<sup>2</sup> percentages.

**Return on Equity (ROE)** – is another profitability ratio which gauges return on investment by measuring how effectively stockholder money is being employed by the company. ROE is calculated by dividing a company's net income by average total equity. Unlike Return on Assets (ROA), ROE considers the degree to which a company uses leveraging, as interest expense paid to creditors is generally deducted from earnings to arrive at net income. ROE for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

**Sharpe Ratio** – measures a portfolio's rate of return based on the risk it assumed and is often referred to as its risk-adjusted performance. Using Standard Deviation and returns in excess of the returns of T-bills, it determines reward per unit of risk. This measurement can help determine if the portfolio is reaching its goal of increasing returns while managing risk.

**Standard Deviation** – quantifies the volatility associated with a portfolio's returns. The statistic measures the variation in returns around the mean return. Unlike Beta, which measures volatility relative to the aggregate market, Standard Deviation measures the absolute volatility of a portfolio's return.

**Tracking Error** – represents the Standard Deviation of the Excess Return. This provides a historical measure of the variability of the portfolio's returns relative to its benchmark. A portfolio with a low Tracking Error would have quarterly Excess Returns that have exhibited very low volatility.

## Important Disclosures

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### Focus List, Approved List and Tactical Opportunities List; Watch Policy

GIMA uses two methods to evaluate investment products in applicable advisory programs: Focus (and investment products meeting this standard are described as being on the Focus List) and Approved (and investment products meeting this standard are described as being on the Approved List). In general, Focus entails a more thorough evaluation of an investment product than Approved. Sometimes an investment product may be evaluated using the Focus List process but then placed on the Approved List instead of the Focus List. Investment products may move from the Focus List to the Approved List, or vice versa. GIMA may also determine that an investment product no longer meets the criteria under either process and will no longer be recommended in investment advisory programs (in which case the investment product is given a "Not Approved" status).

GIMA has a "Watch" policy and may describe a Focus List or Approved List investment product as being on "Watch" if GIMA identifies specific areas that (a) merit further evaluation by GIMA and (b) may, but are not certain to, result in the investment product becoming "Not Approved." The Watch period depends on the length of time needed for GIMA to conduct its evaluation and for the investment manager or fund to address any concerns. GIMA may, but is not obligated to, note the Watch status in this report with a "W" or "Watch" next to the "Status" on the cover page.

Certain investment products on either the Focus List or Approved List may also be recommended for the Tactical Opportunities List based in part on tactical opportunities existing at a given time. The investment products on the Tactical Opportunities List change over time.

For more information on the Focus List, Approved List, Tactical Opportunities List and Watch processes, please see the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management. Your Financial Advisor or Private Wealth Advisor can also provide upon request a copy of a publication entitled "GIMA at a Glance."

### No Obligation to Update

Morgan Stanley Wealth Management has no obligation to update you when any information or opinion in this report changes.

### Strategy May Be Available as a Separately Managed Account or Mutual Fund

Strategies are sometimes available in Morgan Stanley Wealth Management investment advisory programs both in the form of a separately managed account ("SMA") and a mutual fund. These may have different expenses and investment minimums. Your Financial Advisor or Private Wealth Advisor can provide more information on whether any particular strategy is available in more than one form in a particular investment advisory program.

### Consider Your Own Investment Needs

This report is not intended to be a client-specific suitability analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities (includes securities of Morgan Stanley, and/or their affiliates if shown in this report). Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon.

### Performance and Other Portfolio Information

#### General

*Past performance does not guarantee future results.* There is no guarantee that this investment strategy will work under all market conditions. As a result of recent market activity, current performance may vary from the performance referenced in this report.

For mutual funds, the investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. To obtain performance information, current to the most recent month-end, please contact the fund directly at the website set out on the cover page of this report.

#### Benchmark Index

Depending on the composition of your account and your investment objectives, any indices shown in this report may not be an appropriate measure for comparison purposes and are therefore presented for illustration only.

Indices are unmanaged. They do not reflect any management, custody, transaction or other expenses, and generally assume reinvestment of dividends, accrued income and capital gains. Past performance of indices does not guarantee future results. You cannot invest directly in an index.

Performance of indices may be more or less volatile than any investment product. The risk of loss in value of a specific investment (such as with an investment manager or in a fund) is not the same as the risk of loss in a broad market index. Therefore, the historical returns of an index will not be the same as the historical returns of a particular investment product.

### **Other data**

Portfolio analysis may be based on information on less than all of the securities held in the portfolio. For equity portfolios, the analysis typically reflects securities representing at least 95% of portfolio assets. This may differ for other strategies, including those in the fixed income and specialty asset classes, due to availability of portfolio information.

Other data in this report is accurate as of the date this report was prepared unless stated otherwise. Data in this report may be calculated by the investment manager, Morgan Stanley Wealth Management or a third party service provider, and may be based on a representative account or a composite of accounts.

### **Securities holdings**

Holdings are subject to change daily, so any securities discussed in this report may or may not be included in your portfolio if you invest in this investment product. Your portfolio may also include other securities in addition to or instead of any securities discussed in this report. Do not assume that any holdings mentioned were, or will be, profitable.

### **Sources of Data**

Material in this report has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy, completeness or timeliness. Third party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data.

### **Asset Class and Other Risks**

Investing in *stocks*, *mutual funds* and *exchange-traded funds* ("ETFs") entails the risks of market volatility. The value of all types of investments may increase or decrease over varying time periods. Besides the general risk of holding securities that may decline in value, *closed-end funds* may have additional risks related to declining market prices relative to net asset values (NAVs), active manager underperformance, and potential leverage. Some funds also invest in foreign securities, which may involve currency risk.

*Value and growth investing* also carry risks. Value investing involves the risk that the market may not recognize that securities are undervalued and they may not appreciate as anticipated. Growth investing does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations.

*International securities* may carry additional risks, including foreign economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes and differences in financial and accounting standards. International investing may not be for everyone. These risks may be magnified in *emerging markets*.

*Small- and mid- capitalization* companies may lack the financial resources, product diversification and competitive strengths of larger companies. The securities of small capitalization companies may not trade as readily as, and be subject to higher volatility than, those of larger, more established companies.

### **No Tax Advice**

Tax laws are complex and subject to change. Morgan Stanley Smith Barney LLC ("Morgan Stanley"), its affiliates and Morgan Stanley Financial Advisors and Private Wealth Advisors do not provide tax or legal advice and are not "fiduciaries" (under ERISA, the Internal Revenue Code or otherwise) with respect to the services or activities described herein except as otherwise provided in writing by Morgan Stanley and/or as described at [www.morganstanley.com/disclosures/dol](http://www.morganstanley.com/disclosures/dol). Individuals are encouraged to consult their tax and legal advisors (a) before establishing a retirement plan or account, and (b) regarding any potential tax, ERISA and related consequences of any investments made under such plan or account.

If any investments in this report are described as "tax free", the income from these investments may be subject to state and local taxes and (if applicable) the federal Alternative Minimum Tax. Realized capital gains on these investments may be subject to federal, state and local capital gains tax.

### **Conflicts of Interest**

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# Morgan Stanley

WEALTH MANAGEMENT

Global Investment Manager Analysis | February 22, 2019

## GW&K Investment Management Small/Mid Cap Core

Focus List Report

### Summary of Opinion

- Global Investment Manager Analysis (GIMA) has placed the GW&K Small/Mid Cap Equity strategy on the Focus List based on our high level of confidence in the lead Portfolio Manager, Jeffrey Thibault. Mr. Thibault has consistently implemented the strategy's investment process and demonstrated ability to add value in a variety of market environments. The investment team has grown along with the strategy's assets under management.
- The strategy employs a blended investment approach, with the flexibility to utilize both value and growth stocks. However, the portfolio currently has a growth tilt due to the team's focus on earnings growth potential.
- The investment process emphasizes return on capital, return on assets and return on equity. This, along with a focus on the company's financial strength, has led to a quality bias in the portfolio which has a times resulted in attractive downside support.

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#### STRATEGY DETAILS

**Investment Style:**

US Mid Cap

**Sub-Style:**

Blend

**Benchmark:**

Russell 2500 Index

**GIMA Status:**

Focus List

**Product Type:**

Separately Managed Account

**Ticker Symbol:**

N/A

#### Strategy Description

The GW&K Small/Mid Cap Equity strategy uses a bottom-up, fundamental investment process that seeks companies that are leaders in attractive and defensible niche markets, have business models that can deliver consistent long-term growth potential, offer capable management teams that are dedicated to enhancing shareholder value and trade at reasonable valuations.

This report is only to be used in connection with investment advisory programs and not brokerage accounts.

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This is not a "research report" as defined by FINRA Rule 2241 and was not prepared by the Research Departments of Morgan Stanley Smith Barney LLC or its affiliates.

INVESTMENT PRODUCTS: NOT FDIC INSURED\*NO BANK GUARANTEE\* MAY LOSE VALUE

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## Strategy Snapshot

INVESTMENT CAPABILITIES	BUSINESS EVALUATION	INVESTMENT RESOURCES	PORTFOLIO CONSTRUCTION CAPABILITIES	HIGH ADVERSE ACTIVE ALPHA	SHORT -TERM PERFORMANCE ANALYSIS (≤ 3 YRS)	LONG -TERM PERFORMANCE ANALYSIS (> 3 YRS)
Average	Above Average	Average	Above Average	Yes	Above Expectations	In-Line

See Strategy Snapshot description at the end of this report.

## Strategy Attributes

### Positive Attributes

- Boutique firm with the support of a well-resourced partner, Affiliated Managers Group.
- Consistent outperformance over multiple time periods.
- High confidence in the investment acumen of lead PM Jeffrey Thibault.
- The product utilizes a blended investment strategy, with the flexibility to own both value and growth stocks.

### Points to Consider

- The portfolio consists of 55-85 stocks, with a maximum individual stock weight of 5%.
- Turnover is typically less than 50%.
- The top 10 holdings usually represent 20-35% of the total portfolio.
- Portfolios may invest in closed end funds that invest in MLP securities (Master Limited Partnership).
- The portfolio weighted avg. market cap has typically been slightly greater than the index. Portfolios are typically underweight micro-cap stocks.
- Portfolios tend to maintain an underweight to REITs relative to the Russell 2500 Index.
- Standard deviation, a measure of portfolio volatility, has historically been lower than that of the Russell 2500 Index.

### Areas of Concern

- The team manages four strategies (small core, small growth, smid core, small value) based on the same investment philosophy and a similar investment process, with deviations based on the investment mandate. Over the past few years, strategy assets have increased. GW&K soft closed the small cap strategy in 2013 while the small/mid, small growth and small value strategies remain open. Given the holdings overlap, overall small cap capacity should be monitored.
- Jeff Thibault, lead portfolio manager, is the key decision maker on the strategy. Although there are no indications, his departure would be a concern.

### Performance Expectations

- The process provides flexibility to potentially add value in both growth and value market environments.
- The portfolios have generally displayed outperformance in down markets.
- GIMA would anticipate the portfolios to lag the index in high beta markets, as well as in narrow momentum-driven or deep value markets.

2 Please refer to important information, disclosures and qualifications at the end of this material.

## Investment Capabilities Overview

### Portfolio Management Team & Decision-Making

- Jeffrey Thibault, lead portfolio manager, has worked on the strategy since its inception and was a Co-PM during 2006 and most of 2007. He was promoted to lead PM in December 2007.
- Mr. Thibault is assisted by research analysts, Joseph Craigen, Jeffrey Whitney, Gabrielle Greenman and Jackie Williams. Daniel Miller, Director of Equities, is also a member of the investment team. He oversees the equity products at the firm.
- As lead PM, Mr. Thibault makes the final buy and sell decisions on the portfolio.

### Investment Process & Portfolio Construction

- The investment process is bottom up with a focus on long-term sustainable earnings growth potential. Stocks are considered for purchase with a market capitalization range of \$250M-\$10B or stocks that are in the Russell 2500 Index. Most (80-85%) of the strategy's investment ideas are qualitative. Analysts gather investment ideas from conversations with company management, trade shows, conferences, analyst developed networks, sell side analysts and niche brokers. The remaining 15%-20% of investment ideas come from a proprietary alpha model.
- Companies are analyzed from a qualitative and quantitative perspective based on five factors: company management, growth profile, market positioning, financial strength and valuation.
- When evaluating company management, analysts are seeking to understand "what makes the company special, what is the company's five-year plan and what are the company's clients telling them." If the company cannot articulate a response to these questions, they are not a good fit for portfolios. Analysts also analyze insider ownership, the independence of the firm's Board of Directors, the board member's knowledge of the industry, reputation and management's character and integrity.
- When evaluating a company's potential growth profile, the investment team analyzes a company's revenue drivers, recurring revenue, expenses, research and development spending, the success rate of new products and management's success rate of prior products.
- To evaluate a company's market positioning, analysts attempt to estimate a company's expected level of growth, sustainability of growth and competitive position or industry advantage.
- The financial strength of a company is evaluated based on a number of metrics with an emphasis on return on capital,

return on equity and return on assets. Additional metrics analyzed include profitability margins, cash flow and debt levels.

- Numerous valuation metrics are analyzed when evaluating a company. Analysis focuses on a company's price-to-earnings ratio on an absolute basis, relative to its history, relative to its peer group and relative to the market. Additional metrics analyzed include price-to-book ratios (particularly for financial companies), EBITDA, estimated downside risk and cash. Analysts will also try to evaluate whether a company may be a takeover candidate. Companies that are leaders in attractive and defensible niche markets, have business models that can deliver more consistent long-term growth potential, appear to offer capable management teams that are dedicated to enhancing shareholder value and appear to trade at reasonable valuations are recommended for inclusion in portfolios.
- Portfolio holdings are continuously evaluated for changes in a company's fundamentals. Changes in the following elements will lead to a thorough review of the stocks in the portfolio and could potentially trigger a decision to sell:
  - Company management changes
  - Lack of consistency of growth profile relative to the team's expectations
  - Market Positioning and deterioration of fundamentals
  - Changes to financial strength
  - Valuations

### Track Record Reliability

- The track record reliability for the portfolio is considered high. The lead PM has worked on the strategy since its inception. At inception, Mr. Thibault was a Co-PM and during December 2007, he became the lead PM.

## Portfolio Traits

EQUITY	
Range of Holdings	55 – 85
Maximum Position Size	5%
Econ Sector Constraints	Plus or minus 10% of Russell 2500
Country Constraints	N/A
Emerging Mkts Constraints	N/A
Currency Hedging	N/A
Tracking Error Target	Historically, the range has been 3 – 7%
Typical Annual Turnover	<50%
Invests in ADRs	Allowable up to 10%, but historically not used.
Invests in ETFs	No
Invests in Derivatives	No
Invests in IPOs	No
Liquidity Constraints	The majority of the new purchases will have a min. avg. dollar volume of \$2 million. In general, GWK prefers # of days trading volume of one week or less.
Maximum Cash	5%
Typical Cash Position	<3%
Est. Product Capacity	\$2.5 billion

Source: GW&K

## Ownership And Parent Company

NAME OF OWNER	PERCENT OWNED
Affiliated Managers Group	75%
GWK Senior Executives	25%
PUBLICLY TRADED	TICKER SYMBOL
NYSE	AMG

Source: GW&K

## Assets Under Management (\$ Millions)

YEAR	FIRM	PRODUCT
2018	\$34,396	\$1,673
2017	\$36,503	\$1,680
2016	\$32,194	\$1,194
2015	\$26,647	\$647
2014	\$22,823	\$489
2013	\$18,995	\$250
2012	\$17,060	\$122
2011	\$12,914	\$33

Source: GW&K

## Legal/Compliance

- GW&K's last SEC examination was concluded in September 2016. The firm is currently in good standing.

## Definitions

**Sub-Styles:** Subjective classifications designed to assist with manager selection and performance evaluation based on GIMA's understanding of a manager's long-term investment philosophy and portfolio structuring biases and techniques. At points in time managers may display attributes of other sub-style classifications, and these classifications may change due to changes in the capital markets, evolution of performance benchmarks, industry trends, or changes involving a manager's personnel or process.

**Blend:** Flexible managers that may invest in a blend of growth and value stocks at different times and in differing proportions due to a lack of a significant long-term bias in either style direction, and may have benchmark-constraints and tracking error guidelines such that performance and characteristics are similar to the respective benchmark.

**Russell 2500 Index -** Russell 2500 Index measures the performance of the 2500 smallest companies in the Russell 3000 Index.

## Strategy Snapshot

**Investment Capabilities** – Represents GIMA's opinion of the investment manager's investment capabilities with respect to the product under evaluation. This section covers the areas of quality of investment professionals, portfolio management, research and process execution. As these areas are not mutually exclusive, but rather interrelated, it is important to render a cohesive opinion on these areas of an organization. This section has three potential opinion outcomes: **Above Average, Average and Needs Improvement.**

**Business Evaluation** - Represents GIMA's opinion of the state of the investment manager's overall business condition. This area reviews items such as ownership structure, trends in assets under management, legal and/or compliance issues, investment professional incentives and trading policies. This area has three potential opinion outcomes: **Above Average, Average and Needs Improvement.**

**Investment Resources** – Represents several important components dedicated to a strategy, such as the level and quality of investment personnel (portfolio managers, analysts, etc.), analytical tools and methodologies, and the parent firm's overall commitment to support of the strategy. This area has three potential opinion outcomes: **Above Average, Average and Needs Improvement.**

**Portfolio Construction Capabilities** – Represents an assessment of a manager's ability to utilize its investment resources and select securities in order to effectively build portfolios. This includes elements of diversification, risk management, sell discipline, position sizing, and turnover management. This area has three potential opinion outcomes: **Above Average, Average and Needs Improvement.**

**High Adverse Active Alpha\*** – High Adverse Active Alpha rankings are generally defined as falling into the top two quintiles (40%). Separately Managed Account and mutual fund rankings could differ. In some cases where the separately managed account product and mutual fund are substantially similar, the separately managed account rating may be applied to the mutual fund and vice versa. This area has three potential opinion outcomes: **Yes, No, and NA.**

**Short-Term & Long-Term Performance Analysis** – The opinion for performance is broken into two components: 1) Short-Term Performance Analysis represents GIMA's opinion of the investment product's performance typically over a time period of the trailing three years or less, 2) Long-Term Performance Analysis represents GIMA's opinion of the investment product's performance typically over a time period of more than the trailing three years. These areas have three potential opinion outcomes: **Above Expectations, In-Line and Below Expectations.**

## GIMA defines the Adverse Active Alpha (AAA) ranking model as follows:

Global Investment Manager Analysis provides comprehensive manager analysis for Morgan Stanley's investment advisory platforms on a wide range of investment products, including separately managed accounts, mutual funds and exchange-traded funds in the equity, fixed income and alternative investment categories.

### Adverse Active Alpha (AAA)

**Adverse** refers to the demonstrated ability to outperform in a variety of market environments and when conditions were difficult for active manager relative performance. "Difficult" periods were times when active management did not perform well relative to the index, as opposed to down market periods. At various times, active management has experienced difficult relative performance periods in up, down, and flat markets. We developed a set of factors to help discern which periods were more difficult for active managers that we utilize to identify managers that were able to overcome these headwinds and outperformed in the face of adversity.

**Active** refers to managers with portfolios that looked different from the index and had moderate to low tracking error. For all products,  $r_2$  is used to measure the degree of differentiation from the benchmark in conjunction with tracking error. The ranking seeks to find managers that were active, but not taking outsized bets, and that had some degree of style consistency. The combination of  $r_2$  and low tracking error is fairly uncommon among active managers, but we believe these traits may point toward managers with strong stock picking skills.

**Alpha** refers to the demonstrated ability to add value relative to an index and/or peers. Back tests indicate that highly ranked managers as a group outperformed the index and style peer group over subsequent periods and relative to active share alone. By combining the "adverse" component with the "active" component, we believe we increase the odds of finding some of the most proficient stock pickers.

### Important Considerations Regarding the Adverse Active Alpha and Value Score ranking models:

In our view, the Adverse Active Alpha and Value Score manager rankings are an important part of evaluating managers for consideration. However, we do recognize that these ranking models cannot, in and of themselves, tell us which managers' strategies to invest in or when to buy or sell the strategies. While highly ranked managers historically performed well as a group in our analysis, past performance is not a guarantee of future results for any manager or strategy. Index returns assume reinvestment of dividends and, unlike fund or strategy returns, do not reflect any fees or expenses. Indices are unmanaged and not available for direct investment.

GIMA strives to evaluate other material and forward looking factors as part of the overall manager evaluation process. Factors such as but not limited to manager turnover and changes to investment process can partially or fully negate a positive Adverse Active Alpha or Value Score ranking. Additionally, highly ranked managers can have differing risk profiles that might not be suitable for all investors. For more information on the ranking models, please see *Adverse Active Alpha™ 2.0: Scoring Active Managers According to Potential Alpha*. This Special Report is available by request from your Financial Advisor or Private Wealth Advisor.

ADVERSE ACTIVE ALPHA is a registered service mark of Morgan Stanley and/or its affiliates. U.S. Pat. No. 8,756,098 applies to the Adverse Active Alpha system and/or methodology.

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\*High Adverse Active Alpha is generally defined as falling into the top two quintiles (40%) within the ranking model. Separately Managed Account and mutual fund rankings could differ. In some cases where the separately managed account product and mutual fund are substantially similar, the separately managed account rating may be applied to the mutual fund and vice versa.

### Glossary of Terms

**Active Share** – is a measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index; Active Share is calculated by taking the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the benchmark index and dividing by two.

**ADRs** – American Depositary Receipts are U.S. dollar denominated forms of equity ownership in non-U.S. companies. These shares are issued against the local market shares held in the home market. ADRs are typically listed on U.S. exchanges such as NYSE, AMEX and NASDAQ.

**Alpha** – measures the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by Beta. A positive Alpha figure indicates the portfolio has performed better than its Beta would predict. A negative Alpha indicates the portfolio's underperformance given the expectations established by the Beta. The accuracy of the Alpha is therefore dependent on the accuracy of the Beta. Alpha is often viewed as a measurement of the value added or subtracted by a portfolio's manager.

**Beta** – measures a portfolio's volatility relative to its benchmark. A portfolio with a Beta higher than 1.0 has historically been more volatile than the benchmark, while a portfolio with a Beta lower than 1.0 has been less volatile. The accuracy of the Beta is dependent on R-Squared.

**Correlation** – measures the degree to which the returns of two securities or indices are related. The range of possible correlations is between 1.0 and -1.0. Positive correlation indicates that returns tend to move in the same direction. Negative correlation indicates that returns tend to move in opposite directions. Zero correlation implies that there is no relationship between the securities' returns.

**EPS Growth – Forecast** – a measure of one year earnings (cash flow or dividends) per share growth from the prior fiscal year (FY0) to the current fiscal year (FY1) using analyst consensus forecasts. Growth is expressed as a percent. The FY1 EPS (earnings per share) growth rate for the portfolio is a weighted average of the forecasts for the individual stocks in the portfolio.

**EPS Growth – 5 Year Historical** – The weighted average annualized earnings per share growth for a portfolio over the past five years.

**Excess Return** – represents the average quarterly total return of the portfolio relative to its benchmark. A portfolio with a positive Excess Return has on average outperformed its benchmark on a quarterly basis. This statistic is obtained by subtracting the benchmark return from the portfolio's return.

**Historical EPS Growth** – calculated by regressing over time the quarterly earnings per share for the past 20 quarters to determine the share's historical growth rate in earnings. The quarterly historical growth rate for each share is then annualized and the Historical EPS Growth shown in this report is the weighted average of these results.

**Information Ratio** – represents the Excess Return divided by the Tracking Error. It provides a measure of the historical consistency of the portfolio's outperformance or underperformance relative to its benchmark. A higher, positive Information Ratio suggests that the portfolio's excess returns may have been the result of making measured or moderate bets against the relevant benchmark's risk exposures.

**Long Term EPS Growth Rate** – analyst consensus of expected annual increase in operating earnings per share over the company's next full business cycle – usually three to five years. The Long Term EPS Growth Rate for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

**P/E - Forecast 12-Mo.** – The price/earnings ratio for the stock based on the most recent closing price divided by the annual mean expected earnings for the current fiscal year (FY1 EPS forecast). P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

**P/E – Trailing 12-Mo.** – the current price of a stock divided by the most recent 12 months trailing earnings per share. P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

**Price-to-Book** – price per share divided by book value per share. Price-to-Book for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

**R-Squared (R<sup>2</sup>)** – represents the percentage of the volatility of returns that is attributable to movements of the benchmark. It is a measure of "co-movement" between portfolio returns and benchmark returns. The closer the portfolio's R<sup>2</sup> is to 100%, the more closely the portfolio correlates to, or follows, the benchmark. Generally, highly diversified portfolios have higher R<sup>2</sup> percentages.

**Return on Equity (ROE)** – is another profitability ratio which gauges return on investment by measuring how effectually stockholder money is being employed by the company. ROE is calculated by dividing a company's net income by average total equity. Unlike Return on Assets (ROA), ROE considers the degree to which a company uses leveraging, as interest expense paid to creditors is generally deducted from earnings to arrive at net income. ROE for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

**Sharpe Ratio** – measures a portfolio's rate of return based on the risk it assumed and is often referred to as its risk-adjusted performance. Using Standard Deviation and returns in excess of the returns of T-bills, it determines reward per unit of risk. This measurement can help determine if the portfolio is reaching its goal of increasing returns while managing risk.

**Standard Deviation** – quantifies the volatility associated with a portfolio's returns. The statistic measures the variation in returns around the mean return. Unlike Beta, which measures volatility relative to the aggregate market, Standard Deviation measures the absolute volatility of a portfolio's return.

**Tracking Error** – represents the Standard Deviation of the Excess Return. This provides a historical measure of the variability of the portfolio's returns relative to its benchmark. A portfolio with a low Tracking Error would have quarterly Excess Returns that have exhibited very low volatility.

### Important Disclosures

#### Report for Use Only in Investment Advisory Programs

This report is only to be used in Morgan Stanley Wealth Management investment advisory programs and not in connection with brokerage accounts.

#### The Global Investment Manager Analysis (GIMA) services Only Apply to Certain Investment Advisory Programs

GIMA evaluates certain investment products for the purposes of some – but not all – of Morgan Stanley Smith Barney LLC's investment advisory programs (as described in more detail in the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management). If you do not

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invest through one of these investment advisory programs, Morgan Stanley Wealth Management is not obligated to provide you notice of any GIMA status changes even though it may give notice to clients in other programs.

### **Focus List, Approved List and Tactical Opportunities List: Watch Policy**

GIMA uses two methods to evaluate investment products in applicable advisory programs: Focus (and investment products meeting this standard are described as being on the Focus List) and Approved (and investment products meeting this standard are described as being on the Approved List). In general, Focus entails a more thorough evaluation of an investment product than Approved. Sometimes an investment product may be evaluated using the Focus List process but then placed on the Approved List instead of the Focus List. Investment products may move from the Focus List to the Approved List, or vice versa. GIMA may also determine that an investment product no longer meets the criteria under either process and will no longer be recommended in investment advisory programs (in which case the investment product is given a "Not Approved" status).

GIMA has a "Watch" policy and may describe a Focus List or Approved List investment product as being on "Watch" if GIMA identifies specific areas that (a) merit further evaluation by GIMA and (b) may, but are not certain to, result in the investment product becoming "Not Approved." The Watch period depends on the length of time needed for GIMA to conduct its evaluation and for the investment manager or fund to address any concerns. GIMA may, but is not obligated to, note the Watch status in this report with a "W" or "Watch" next to the "Status" on the cover page.

Certain investment products on either the Focus List or Approved List may also be recommended for the Tactical Opportunities List based in part on tactical opportunities existing at a given time. The investment products on the Tactical Opportunities List change over time.

For more information on the Focus List, Approved List, Tactical Opportunities List and Watch processes, please see the applicable Form ADV Disclosure Document for Morgan Stanley Wealth Management. Your Financial Advisor or Private Wealth Advisor can also provide upon request a copy of a publication entitled "GIMA at a Glance."

### **No Obligation to Update**

Morgan Stanley Wealth Management has no obligation to update you when any information or opinion in this report changes.

### **Strategy May Be Available as a Separately Managed Account or Mutual Fund**

Strategies are sometimes available in Morgan Stanley Wealth Management investment advisory programs both in the form of a separately managed account ("SMA") and a mutual fund. These may have different expenses and investment minimums. Your Financial Advisor or Private Wealth Advisor can provide more information on whether any particular strategy is available in more than one form in a particular investment advisory program.

### **Consider Your Own Investment Needs**

This report is not intended to be a client-specific suitability analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities (includes securities of Morgan Stanley, and/or their affiliates if shown in this report). Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon.

### **Performance and Other Portfolio Information**

#### **General**

*Past performance does not guarantee future results.* There is no guarantee that this investment strategy will work under all market conditions. As a result of recent market activity, current performance may vary from the performance referenced in this report.

For mutual funds, the investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. To obtain performance information, current to the most recent month-end, please contact the fund directly at the website set out on the cover page of this report.

#### **Benchmark Index**

Depending on the composition of your account and your investment objectives, any indices shown in this report may not be an appropriate measure for comparison purposes and are therefore presented for illustration only.

Indices are unmanaged. They do not reflect any management, custody, transaction or other expenses, and generally assume reinvestment of dividends, accrued income and capital gains. Past performance of indices does not guarantee future results. You cannot invest directly in an index.

Performance of indices may be more or less volatile than any investment product. The risk of loss in value of a specific investment (such as with an investment manager or in a fund) is not the same as the risk of loss in a broad market index. Therefore, the historical returns of an index will not be the same as the historical returns of a particular investment product.

#### **Other data**

Portfolio analysis may be based on information on less than all of the securities held in the portfolio. For equity portfolios, the analysis typically reflects securities representing at least 95% of portfolio assets. This may differ for other strategies, including those in the fixed income and specialty asset classes, due to availability of portfolio information.

Other data in this report is accurate as of the date this report was prepared unless stated otherwise. Data in this report may be calculated by the investment manager, Morgan Stanley Wealth Management or a third party service provider, and may be based on a representative account or a composite of accounts.

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# Morgan Stanley

## WEALTH MANAGEMENT

GLOBAL INVESTMENT MANAGER ANALYSIS / FEBRUARY 22, 2019

### **Securities holdings**

Holdings are subject to change daily, so any securities discussed in this report may or may not be included in your portfolio if you invest in this investment product. Your portfolio may also include other securities in addition to or instead of any securities discussed in this report. Do not assume that any holdings mentioned were, or will be, profitable.

### **Sources of Data**

Material in this report has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy, completeness or timeliness. Third party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data.

### **Asset Class and Other Risks**

Investing in *stocks*, *mutual funds* and *exchange-traded funds ("ETFs")* entails the risks of market volatility. The value of all types of investments may increase or decrease over varying time periods. Besides the general risk of holding securities that may decline in value, *closed-end funds* may have additional risks related to declining market prices relative to net asset values (NAVs), active manager underperformance, and potential leverage. Some funds also invest in foreign securities, which may involve currency risk.

*Value and growth investing* also carry risks. Value investing involves the risk that the market may not recognize that securities are undervalued and they may not appreciate as anticipated. Growth investing does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations.

*International securities* may carry additional risks, including foreign economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes and differences in financial and accounting standards. International investing may not be for everyone. These risks may be magnified in *emerging markets*.

*Small- and mid- capitalization* companies may lack the financial resources, product diversification and competitive strengths of larger companies. The securities of small capitalization companies may not trade as readily as, and be subject to higher volatility than, those of larger, more established companies.

### **No Tax Advice**

Tax laws are complex and subject to change. Morgan Stanley Smith Barney LLC ("Morgan Stanley"), its affiliates and Morgan Stanley Financial Advisors and Private Wealth Advisors do not provide tax or legal advice and are not "fiduciaries" (under ERISA, the Internal Revenue Code or otherwise) with respect to the services or activities described herein except as otherwise provided in writing by Morgan Stanley and/or as described at [www.morganstanley.com/disclosures/dol](http://www.morganstanley.com/disclosures/dol). Individuals are encouraged to consult their tax and legal advisors (a) before establishing a retirement plan or account, and (b) regarding any potential tax, ERISA and related consequences of any investments made under such plan or account.

If any investments in this report are described as "tax free", the income from these investments may be subject to state and local taxes and (if applicable) the federal Alternative Minimum Tax. Realized capital gains on these investments may be subject to federal, state and local capital gains tax.

### **Conflicts of Interest**

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