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***State of Montana – 401(a)  
Manager Replacement: Janus Perkins Mid Value***

***Michael C. Schlachter, CFA  
Managing Director & Principal***

*April 2013*

# Mid Cap Value Fund Candidates



- **Columbia Mid Cap Value Z (NAMAX)<sup>1</sup>**
- **Hotchkis & Wiley Mid Cap Value (HWMIX)**
- **Janus Perkins Mid Cap Value (JMCSVX)<sup>1\*</sup>**
- **MFS Investment Management – MFS Mid Cap Value (MCVIX)**
- **Transamerica Small/Mid Cap Value (TSMVX)\***

1. Columbia Mid Cap Value is the current mid value manager in the 457 Plan while Janus Perkins is the current mid value manager in the 401(a) Plan – both funds will be shown for comparison purposes.

\* Perkins is the sub advisor for the Janus fund; Systematic is the sub advisor for the Transamerica fund.

## Columbia Mid Cap Value

- Columbia Management's Mid Cap Value strategy combines fundamental research with quantitative risk management for offering a diversified strategy with an emphasis on value, quality and catalyst. The investment management team is experienced with notable resources for conducting original in depth research. The strategy had a recent turnover in July 2011 when the former co-PM Diane Sobin transitioned into another role due to a family driven relocation. At that time, Lori Ensinger, Head of Value was asked to close down her LCV strategy and commit to MCV instead, which after an onsite and various conversations is viewed as a positive net addition. However, Wilshire will monitor the team closely for potential issues with team dynamics.

## Hotchkis & Wiley Mid Cap Value

- Hotchkis & Wiley is a well-regarded independent investment boutique that has a deeper fundamental research effort versus peers. It employs a collective decision-making approach by an experienced team of sector analysts. The investment philosophy is contrarian in nature where they seek companies that are temporarily undervalued and can revert back to its normalized earnings power. The final portfolios are moderately diversified with minimal benchmark sensitivity. Wilshire finds the strategy suitable for clients seeking an active deep value mid cap exposure. Investors need to be comfortable with the potential wide swings in performance and the lack of downside protection, thus best used as a satellite than a stand alone.

### Janus/Perkins Mid Cap Value

- Perkins Investment Management offers an institutional Mid Cap Value strategy (and the associated mutual fund) that is designed to protect significant value in down markets and achieve positive absolute returns in all market environments over the long term. The firm has been extremely stable, not losing any investment professionals since its inception other than to retirements. Due to the benchmark agnostic nature of the strategy, there can be a great amount of benchmark risk as the strategy utilizes a contrarian yet high quality investment approach. Investors can expect to protect capital during down markets but should be aware that this strategy could lag significantly during large market rallies. However, the strategy has proven to consistently add value over their benchmark over the long term. Therefore, investors should adopt a long-term view with this manager.
- The Mutual Fund has a soft close to new retail investors effective December 31, 2010. The separate account remains open, and the firm has not determined a limit on hard close yet.

### MFS Mid Cap Value *(large value evaluation was used as a proxy)*

- MFS Investment Management offers an attractive large cap value strategy that is grounded in bottom-up fundamental research, with a focus on quality, value and yield. The firm is well resourced with a global research platform and integrated back-office operations. The strategy is managed by Steven Gorham, CFA and Nevin Chitkara who previously served as equity analysts at the firm. The PMs are supported by impressive resources and have provided attractive returns with strong stock selection. It is important to note that while the strategy may lag in strong up markets, it tends to be an excellent choice in downside protection with attractive performance in the long term. As a result, Wilshire has confidence in the product and finds it suitable for clients seeking a moderately active exposure with a quality tilt in the large cap value segment of the market.

### **Transamerica/Systematic Small/Mid Cap Value**

- Systematic Financial Management, LP employs a distinctive value approach with a focus on positive earnings surprise to find attractive stocks with a low P/E. The senior investment professionals possess notable institutional backgrounds and are highly involved in the comprehensive research process. The strategy is relatively benchmark sensitive, but does not seek a specific excess return target over the Russell Mid Cap Value Index. The product tends to perform better in relative value markets with notable value added from momentum and stock selection in the long term. While it may struggle during bear markets, the strategy tends to add meaningful value in the long term. However, clients need to be aware that there could be wide swings in performance where periods of significant underperformance can persist before a snapback in performance. It is also worth noting that downside protection can be weak, therefore this strategy is not recommended as a stand alone.

# Wilshire Manager Research Scores



Manager	OVERALL	Organization (20%)	Information (20%)	Forecasting (20%)	Portfolio Construction (20%)	Implementation (10%)	Attribution (10%)	Date of Eval
Columbia	2.80	2.50	3.50	2.75	2.50	2.50	3.00	7/18/2012
Hotchkis & Wiley	3.05	3.75	3.50	3.00	2.50	2.50	2.50	10/23/2012
Janus/Perkins*	3.00	3.25	3.50	3.25	2.50	2.50	2.50	4/8/2013
MFS**	3.50	3.00	4.00	4.00	3.50	2.50	3.50	6/12/2012
Transamerica/Systematic	3.10	3.75	3.50	2.50	3.00	3.00	2.50	3/13/2012

Score Legend: 5 Excellent, 4 Good, 3 Above Average, 2 Below Average, 1 Unacceptable.

\* Previous total qualitative score for Perkins was 3.20; lower score due to reductions of 0.50 in Organization, 0.25 in Information, and 0.25 in Forecasting.

\*\* MFS evaluation score based upon the MFS Large Cap Value strategy.

## Wilshire recommends MFS based on its high qualitative scores, diversified low risk portfolio, and consistent performance.

- **Organization:** Scores organizational structure and stability
- **Information:** Scores the ability to gather and process unique sources of information
- **Forecasting:** Scores the discipline and consistency of a forecasting process
- **Portfolio Construction:** Scores portfolio construction and risk management
- **Implementation:** Scores a manager's ability to transact in the market
- **Attribution:** Scores the use of attribution information and portfolio feedback
- **Total :** Equals the weighted sum product of the individual criteria

# Fund Comparison



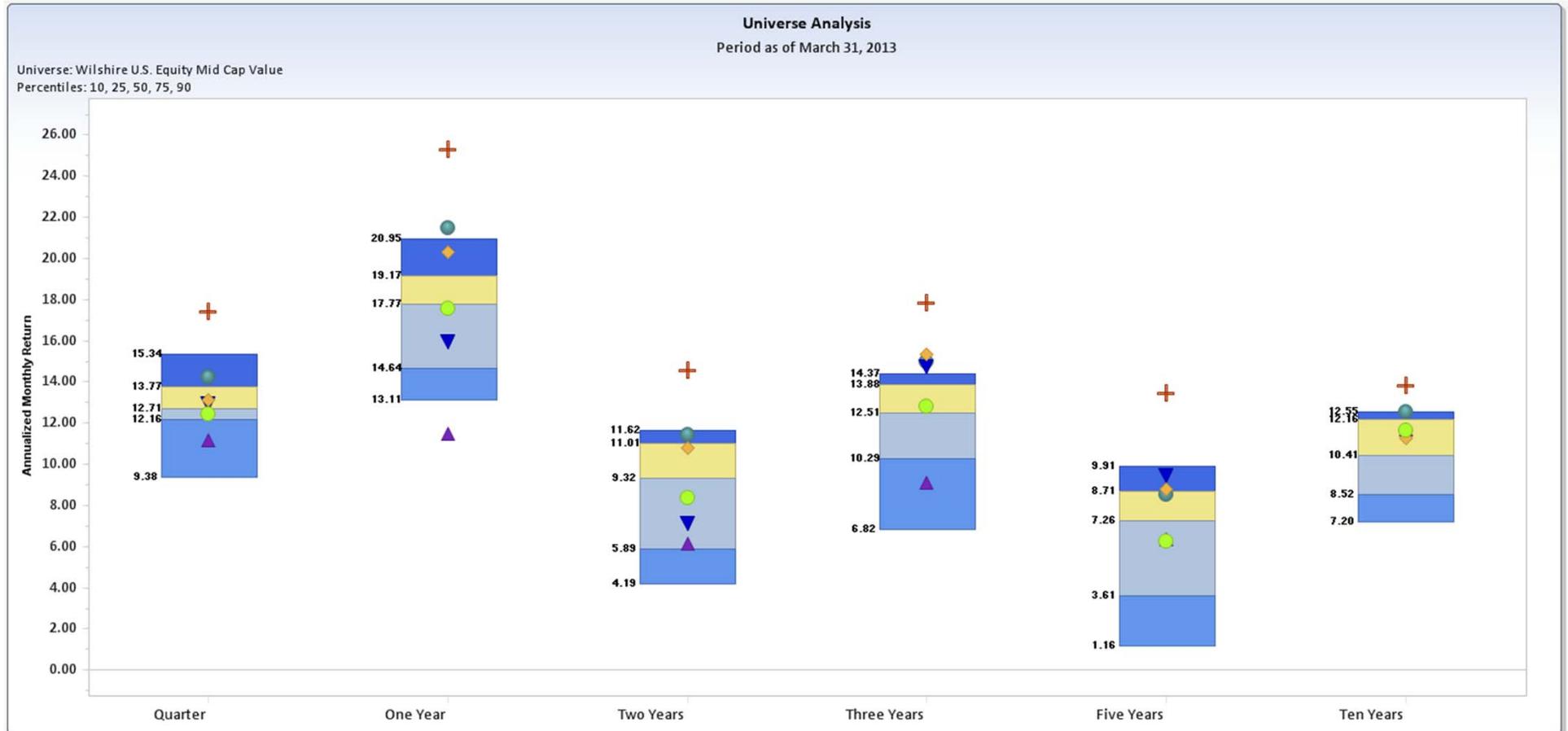
Manager/Product	Ticker	Morningstar Rating	Product Inception	Product AUM (\$MM)	Firm AUM (\$MM)	Firm Inception	Firm Location
Columbia Mid Value	NAMAX	★★★	2001	\$3,800	\$300,000	1894	Boston, MA
Hotchkis & Wiley	HWMIX	★★★★	1997	\$1,800	\$18,800	1980	Los Angeles, CA
Janus Perkins	JMCVX	★★★	1998	\$12,300	\$158,200	1969	Denver, CO
MFS	MCVIX	★★★	2001	\$1,300	\$320,000	1924	Boston, MA
Transamerica/Systematic	TSMVX	★★★	2005	\$806	\$54,500	1906	Cedar Rapids, IA

Manager/Product	# of Holdings	Avg Market Cap (\$MM)	% in Top 10 Holdings	3-yr Sharpe Ratio	5-yr Sharpe Ratio	Stated Expense Ratio*	Minimum Initial Investment	Mandate/Product Assets**
Columbia Mid Value	119	\$7,970	15%	0.75	0.37	0.93%	\$2,000	0.00%
Hotchkis & Wiley	61	\$4,787	35%	0.73	0.45	1.10%	\$1,000,000	0.02%
Janus Perkins	135	\$9,508	14%	0.61	0.33	0.83%	\$2,500	0.03%
MFS	156	\$6,914	11%	0.90	0.38	0.96%	--	0.31%
Transamerica/Systematic	203	\$3,155	15%	0.70	0.36	0.87%	\$10,000	0.50%

\* Category average = 1.30%

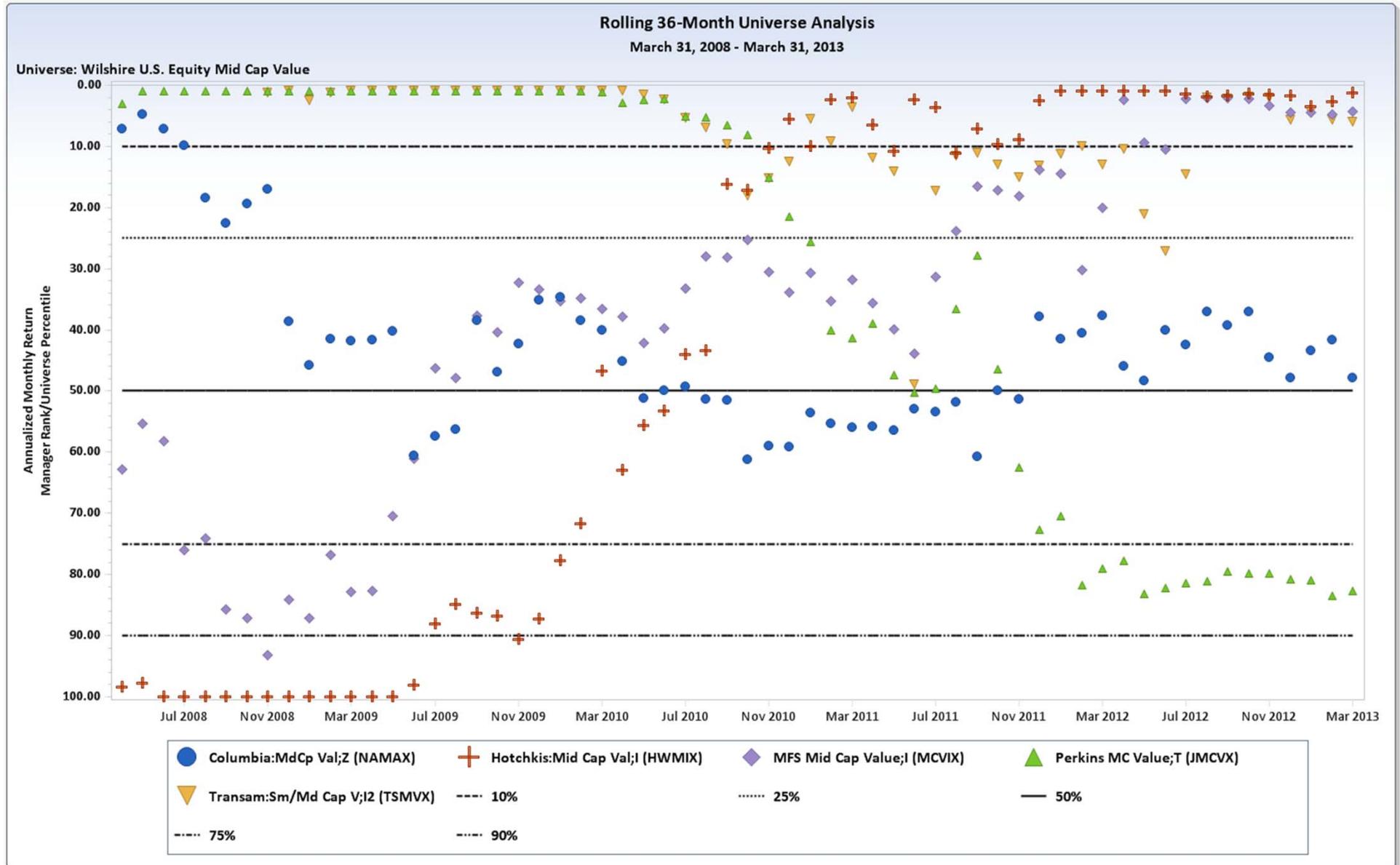
\*\* Mandate size based on \$4.0MM

# Mid Value Universe Comparison



	Quarter	One Year	Two Years	Three Years	Five Years	Ten Years
● Columbia:MidCp Val;Z (NAMAX)	12.42 ( 66% )	17.58 ( 54% )	8.38 ( 59% )	12.82 ( 48% )	6.24 ( 58% )	11.66 ( 30% )
✚ Hotchkis:Mid Cap Val;l (HWMIX)	17.39 ( 1% )	25.30 ( 1% )	14.54 ( 1% )	17.81 ( 1% )	13.46 ( 1% )	13.83 ( 1% )
◆ MFS Mid Cap Value;l (MVCVX)	13.11 ( 35% )	20.33 ( 17% )	10.80 ( 32% )	15.36 ( 4% )	8.77 ( 25% )	11.27 ( 35% )
▲ Perkins MC Value;T (JMCVX)	11.15 ( 83% )	11.49 ( 93% )	6.14 ( 74% )	9.12 ( 83% )	6.34 ( 57% )	11.68 ( 29% )
▼ Transam:Sm/Md Cap V;l2 (TSMVX)	12.93 ( 41% )	15.94 ( 71% )	7.12 ( 73% )	14.73 ( 6% )	9.44 ( 16% )	
● RUSSELL MID VAL	14.21 ( 18% )	21.47 ( 5% )	11.45 ( 18% )	14.95 ( 5% )	8.53 ( 32% )	12.57 ( 10% )
# of Products	84	84	84	84	72	29

# Mid Value – Rolling 3-year Universe Comparison



# Cumulative Performance



as of March 31, 2013

<b>Absolute Returns</b>	<b>Quarter</b>	<b>1 year</b>	<b>2 years</b>	<b>3 years</b>	<b>5 years</b>	<b>7 years</b>	<b>10 years</b>
Columbia Mid Cap Value	12.42	17.58	8.38	12.82	6.24	4.97	11.66
Hotchkis & Wiley Mid Cap Value	17.39	25.30	14.54	17.81	13.46	6.14	13.83
Janus Perkins MC Value	11.15	11.49	6.14	9.12	6.34	6.24	11.68
MFS Mid Cap Value	13.11	20.33	10.80	15.36	8.77	5.88	11.27
Transamerica Sm/Md Cap Value	12.93	15.94	7.12	14.73	9.44	9.32	--
<b>Russell - Midcap Value Index</b>	<b>14.21</b>	<b>21.47</b>	<b>11.45</b>	<b>14.95</b>	<b>8.53</b>	<b>6.11</b>	<b>12.57</b>

<b>v. Russell Midcap Value Index</b>	<b>Quarter</b>	<b>1 year</b>	<b>2 years</b>	<b>3 years</b>	<b>5 years</b>	<b>7 years</b>	<b>10 years</b>
Columbia Mid Cap Value	(1.79)	(3.89)	(3.07)	(2.13)	(2.29)	(1.14)	(0.91)
Hotchkis & Wiley Mid Cap Value	3.18	3.83	3.09	2.86	4.93	0.03	1.26
Janus Perkins MC Value	(3.06)	(9.98)	(5.31)	(5.83)	(2.19)	0.13	(0.89)
MFS Mid Cap Value	(1.10)	(1.14)	(0.65)	0.41	0.24	(0.23)	(1.30)
Transamerica Sm/Md Cap Value	(1.28)	(5.53)	(4.33)	(0.22)	0.91	3.21	--

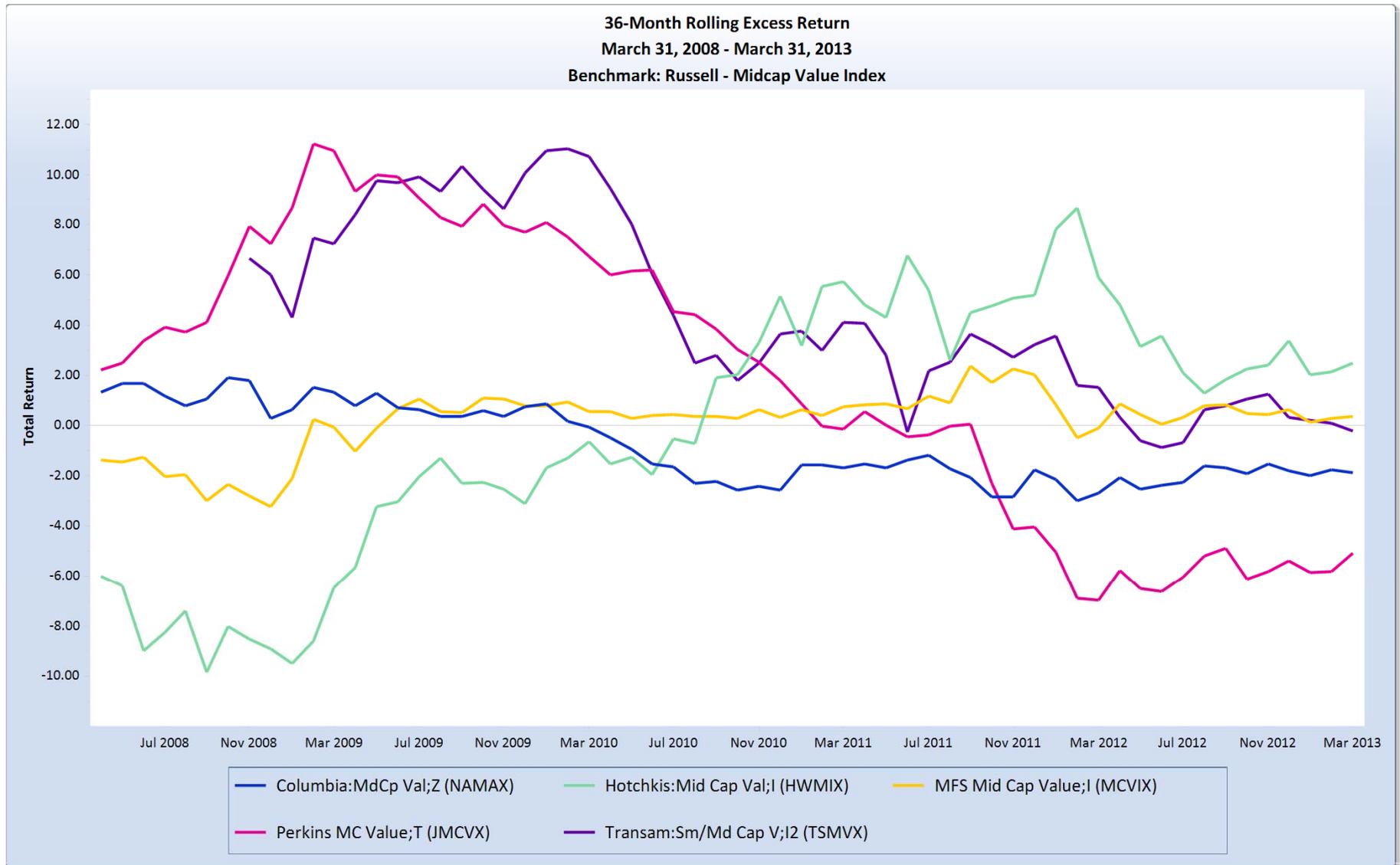
# Annual Performance



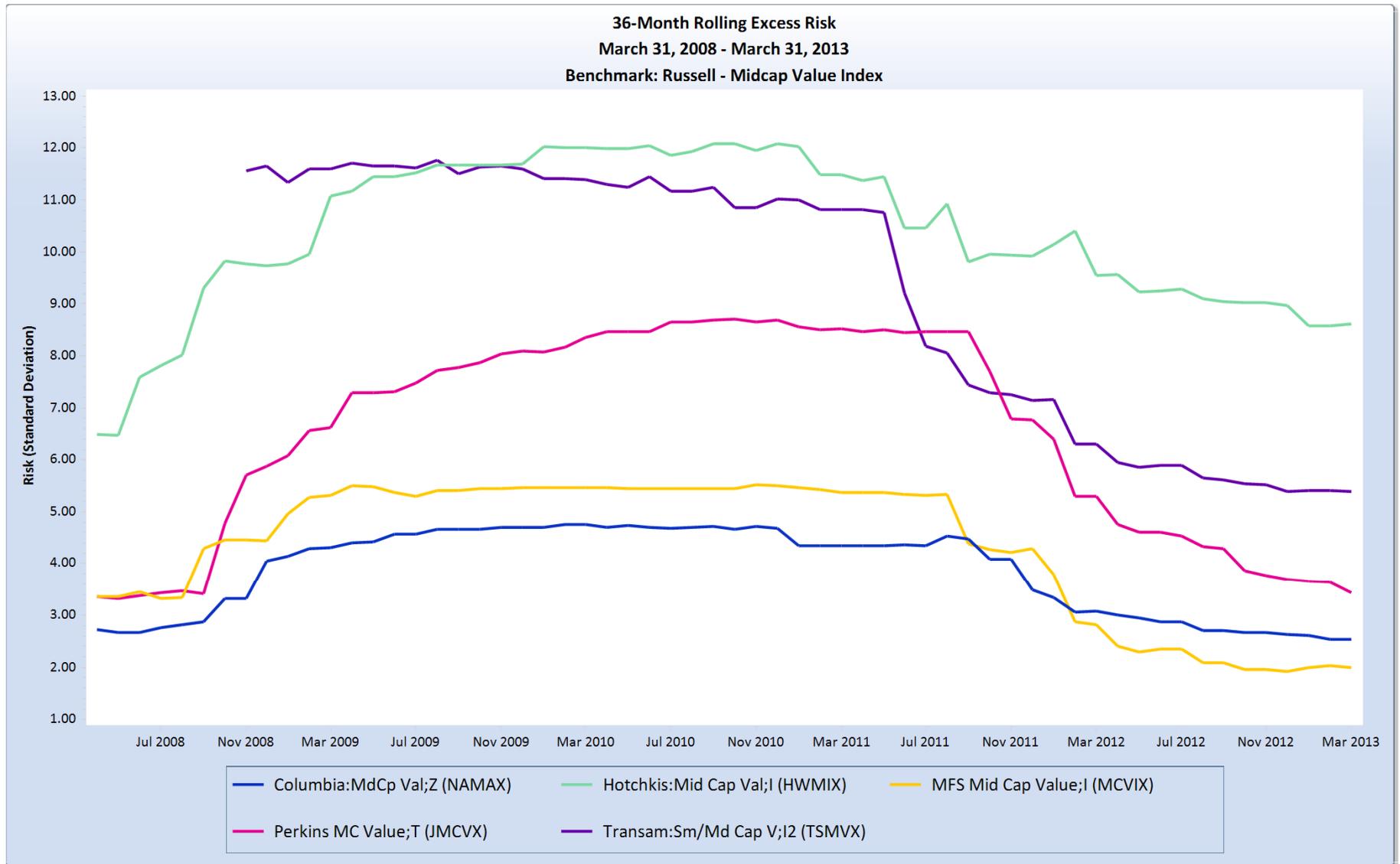
Absolute Returns	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Columbia Mid Cap Value	16.83	-4.05	23.19	32.53	-41.64	7.65	17.09	15.27	20.89	36.89
Hotchkis & Wiley Mid Cap Value	31.07	-8.62	34.42	56.49	-43.04	-16.96	16.58	10.75	25.36	55.54
Janus Perkins MC Value	10.33	-2.56	14.82	30.35	-27.33	7.43	15.25	10.36	18.36	39.33
MFS Mid Cap Value	18.83	-1.80	27.36	40.25	-41.72	2.00	11.23	8.18	21.91	34.72
Transamerica Sm/Md Cap Value	16.36	-2.76	30.17	43.45	-38.57	23.17	14.87	--	--	--
<b>Russell - Midcap Value Index</b>	<b>18.48</b>	<b>-1.38</b>	<b>24.76</b>	<b>34.20</b>	<b>-38.44</b>	<b>-1.43</b>	<b>20.21</b>	<b>12.64</b>	<b>23.70</b>	<b>38.06</b>

v. Russell Midcap Value Index	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Columbia Mid Cap Value	(1.65)	(2.67)	(1.57)	(1.67)	(3.20)	9.08	(3.12)	2.63	(2.81)	(1.17)
Hotchkis & Wiley Mid Cap Value	12.59	(7.24)	9.66	22.29	(4.60)	(15.53)	(3.63)	(1.89)	1.66	17.48
Janus Perkins MC Value	(8.15)	(1.18)	(9.94)	(3.85)	11.11	8.86	(4.96)	(2.28)	(5.34)	1.27
MFS Mid Cap Value	0.35	(0.42)	2.60	6.05	(3.28)	3.43	(8.98)	(4.46)	(1.79)	(3.34)
Transamerica Sm/Md Cap Value	(2.12)	(1.38)	5.41	9.25	(0.13)	24.60	(5.34)	--	--	--

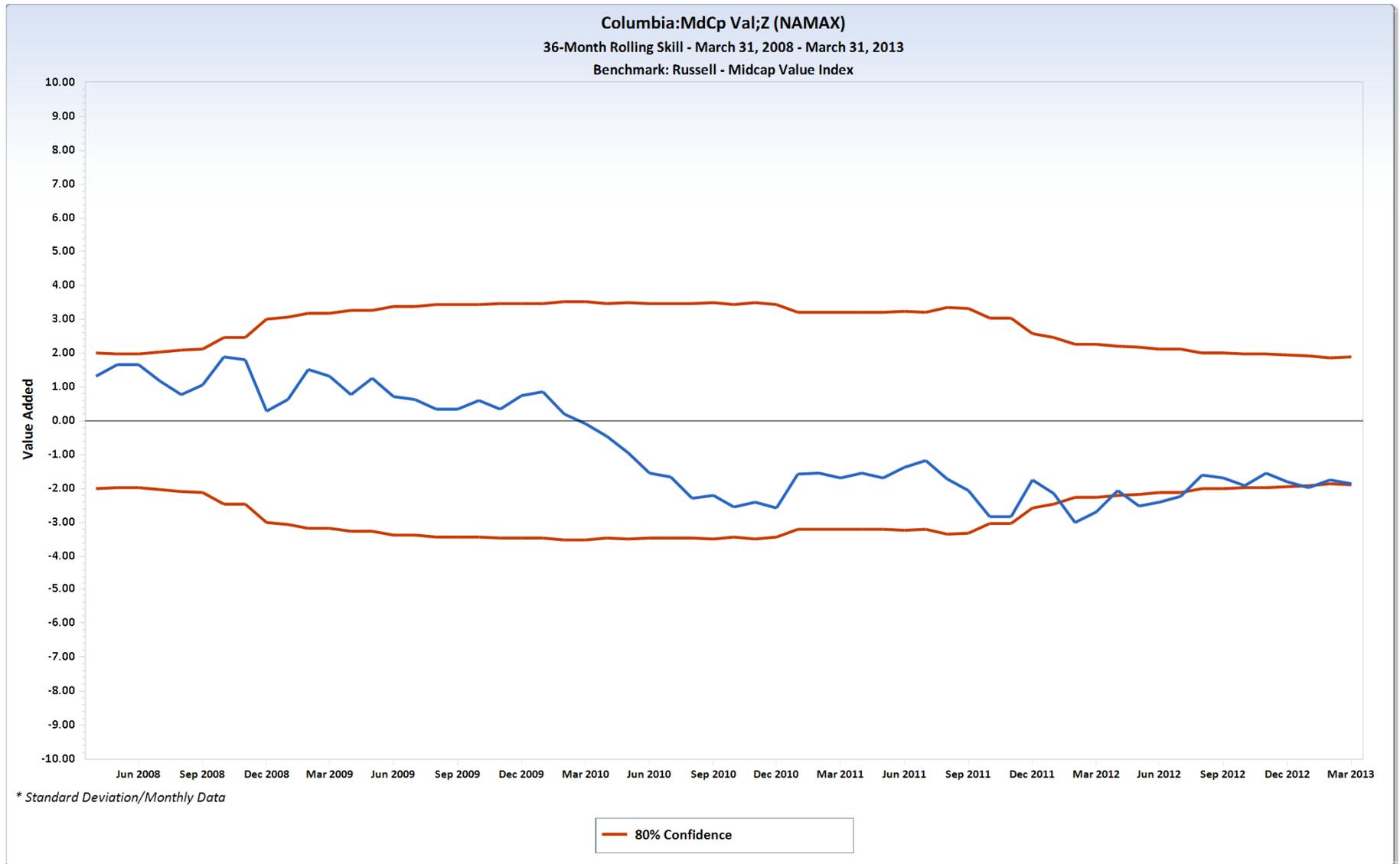
# Rolling 3-year Excess Return



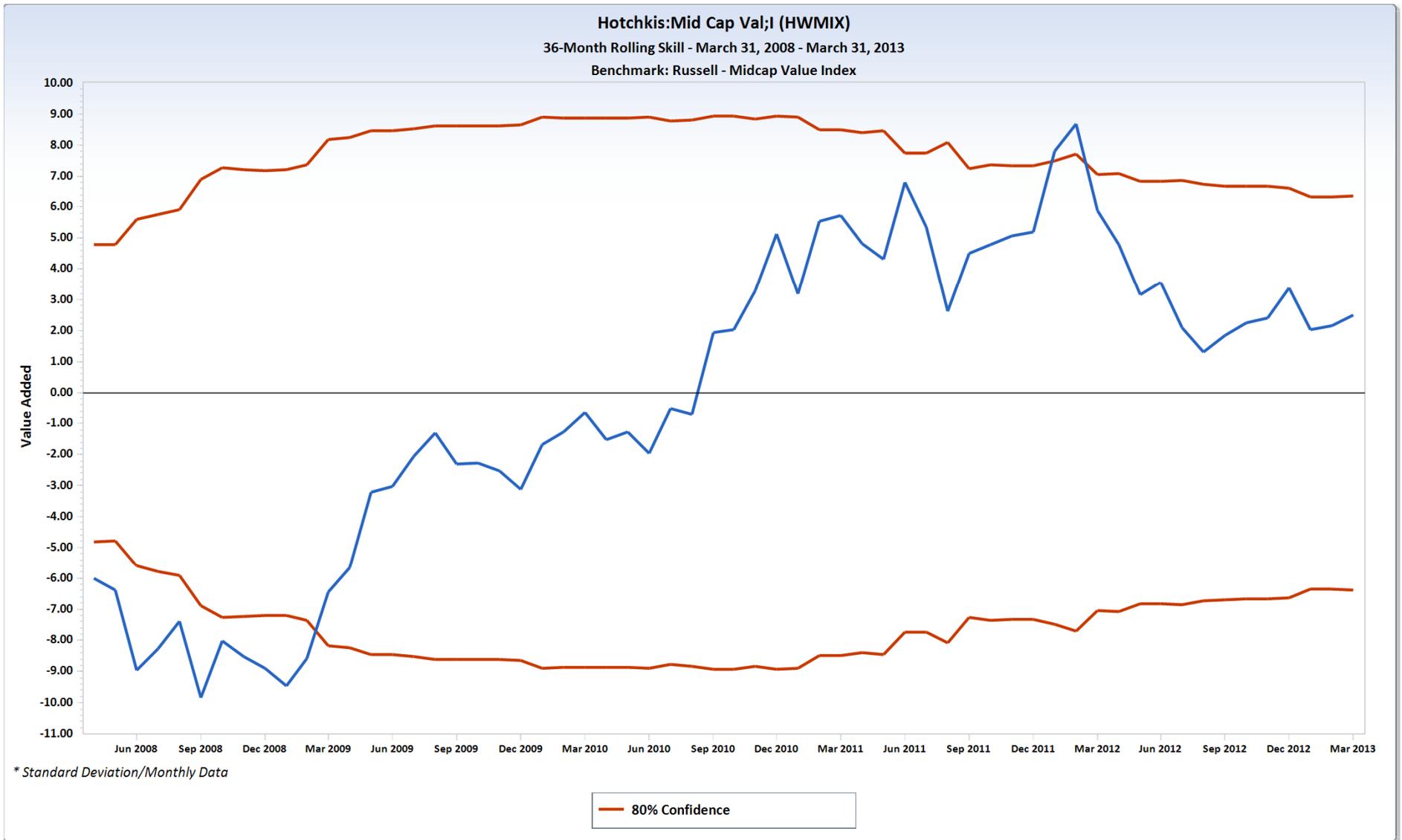
# Rolling 3-year Excess Risk



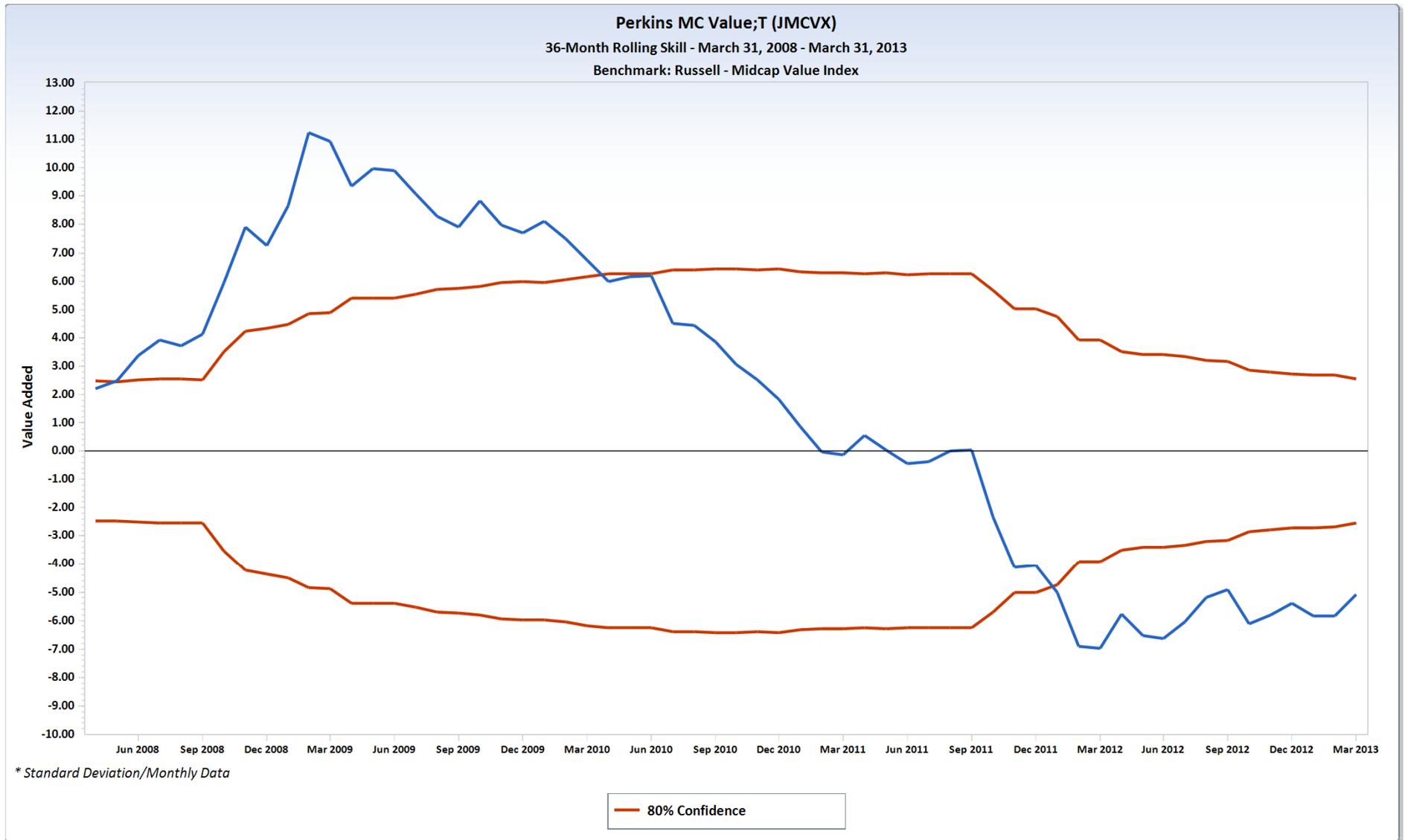
# Rolling 3-year Skill (Columbia)



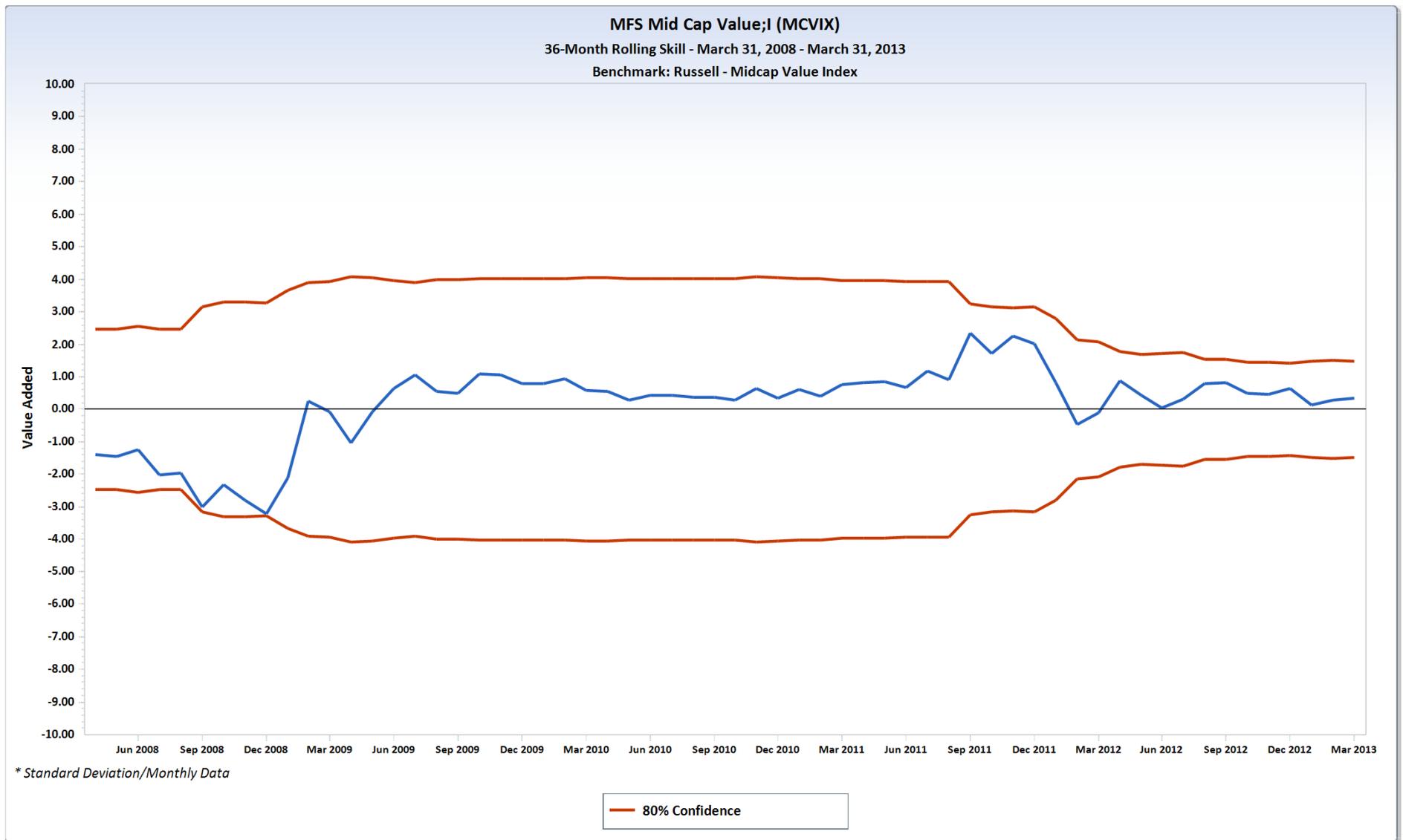
# Rolling 3-year Skill (Hotchkis & Wiley)



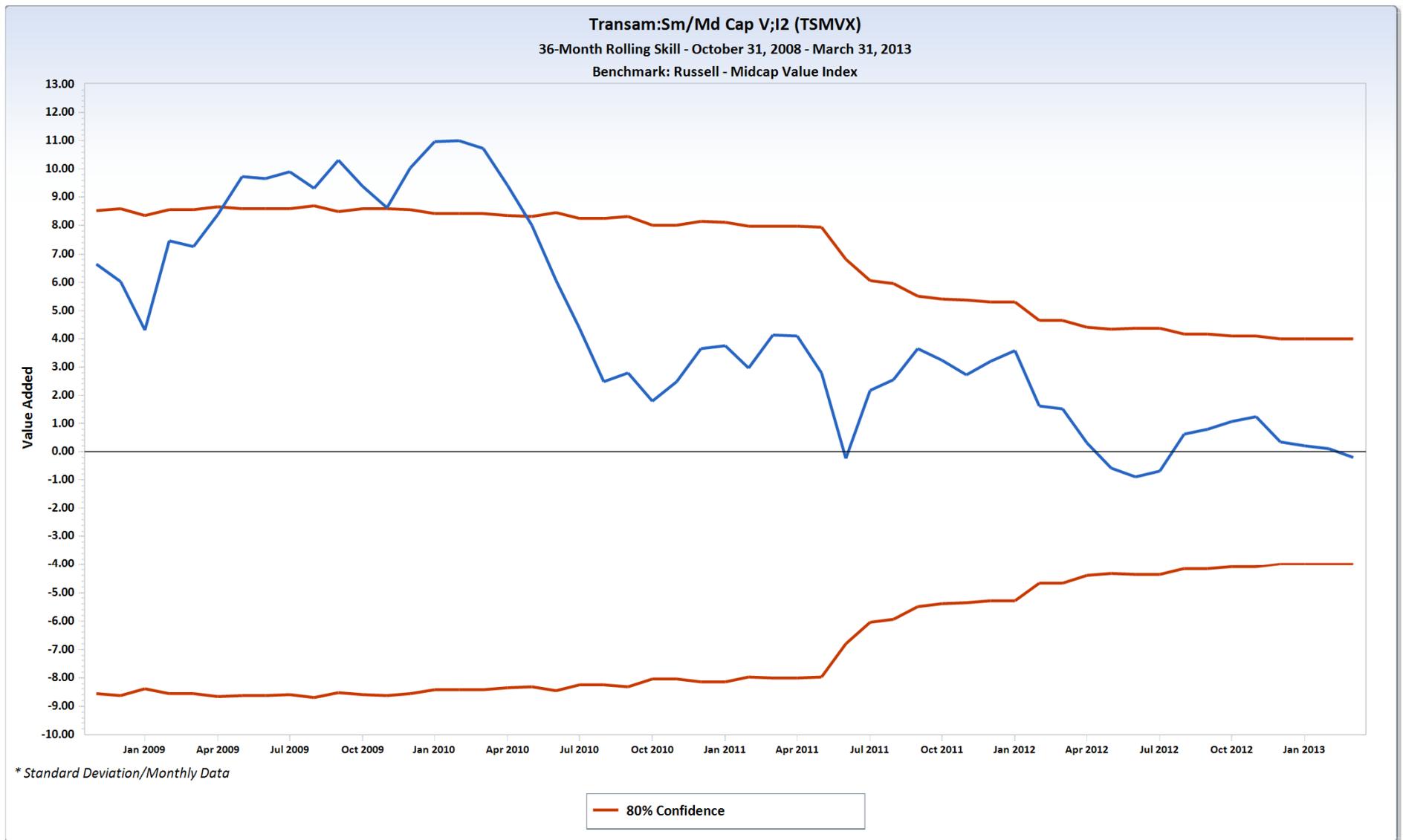
# Rolling 3-year Skill (Janus Perkins)



# Rolling 3-year Excess Skill (MFS)



# Rolling 3-year Excess Skill (Transamerica/Systematic)



# Form ADV Regulatory Disclosure Review



Wilshire reviewed the SEC Form ADV Part I and IIA (as posted on the SEC investment advisor search website at <http://www.adviserinfo.sec.gov>) of each investment manager in the table below only to determine whether the manager had made any disclosures in the listed categories. If the manager disclosed information in a category, it is the client's responsibility to review and assess the provided information. The information was collected as of the date(s) indicated and may change. Wilshire assumes no responsibility for the accuracy of the information provided by a manager.

Investment Manager	Date of Review	ADV Part I		ADV Part IIA		
		Item 11: Disclosure Information		Item 9: Disciplinary Information	Item 19 (D): Requirements for State-Registered Advisors	
		Form ADV Part I Date	Disclosure (Yes or No)	Disclosure (Yes or No)	Form ADV Part IIA Date	Disclosure (Yes or No)
Columbia	4/10/13	3/22/13	Yes	Yes	3/22/13	N/A
Hotchkis & Wiley	4/2/13	3/28/13	No	No	3/28/13	N/A
Janus	4/2/13	3/28/13	Yes	Yes	3/28/13	N/A
MFS	4/2/13	3/28/13	Yes	Yes	3/28/13	N/A
Perkins	4/2/13	3/28/13	Yes	No	3/28/13	N/A
Systematic	4/2/13	4/1/13	No	No	4/1/13	N/A
Transamerica	4/2/13	3/28/13	No	No	3/28/13	N/A

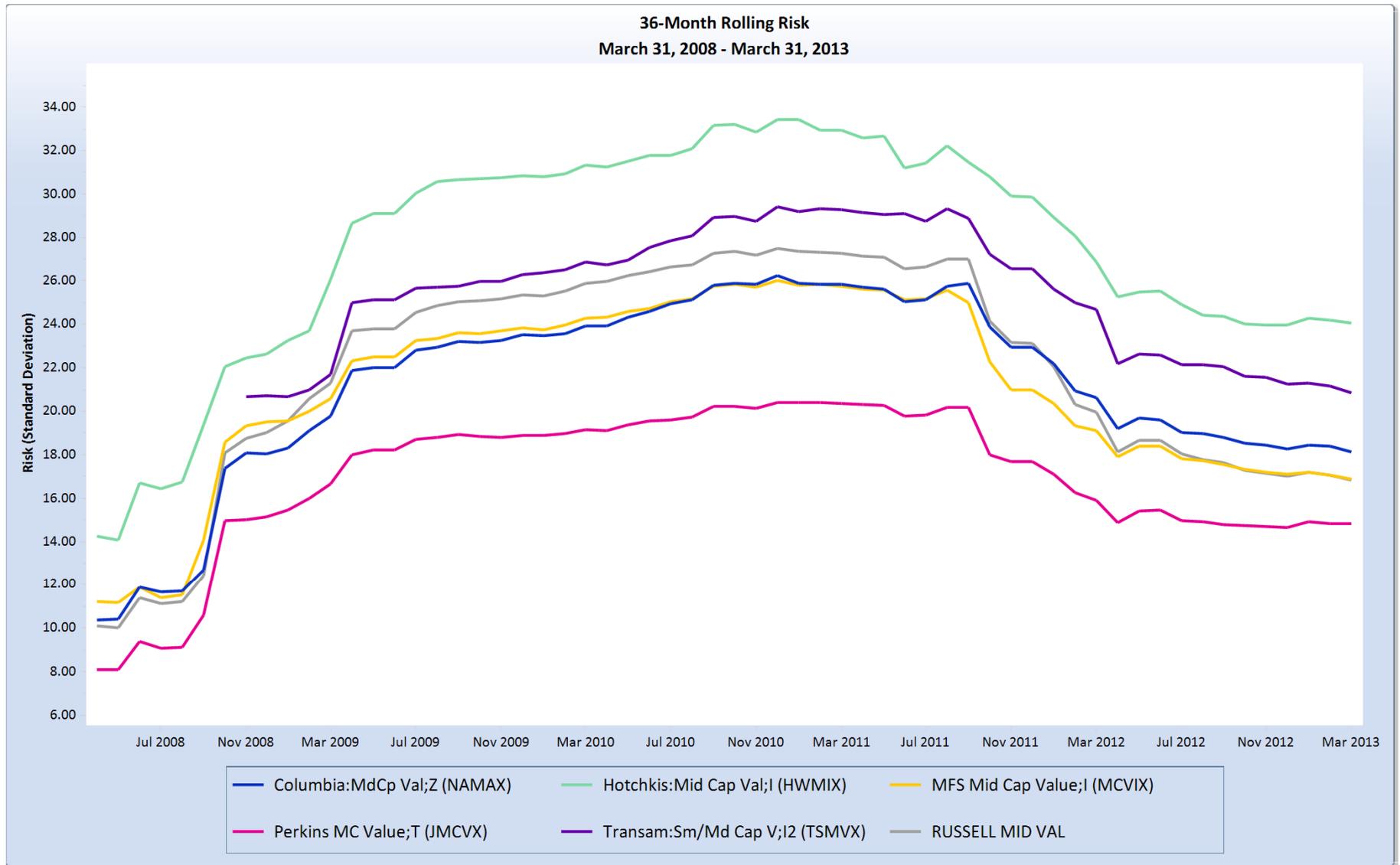
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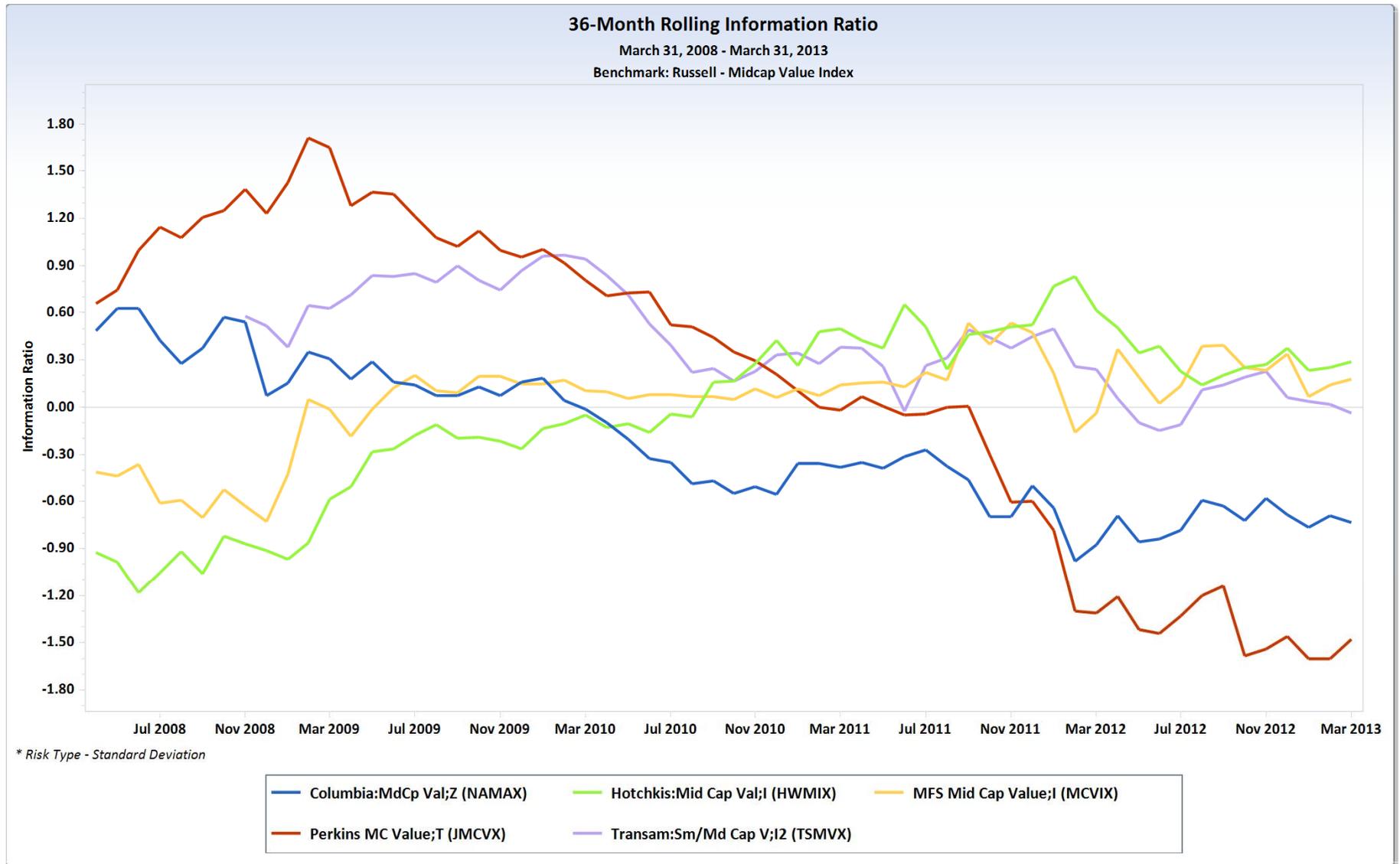
# *Appendix*

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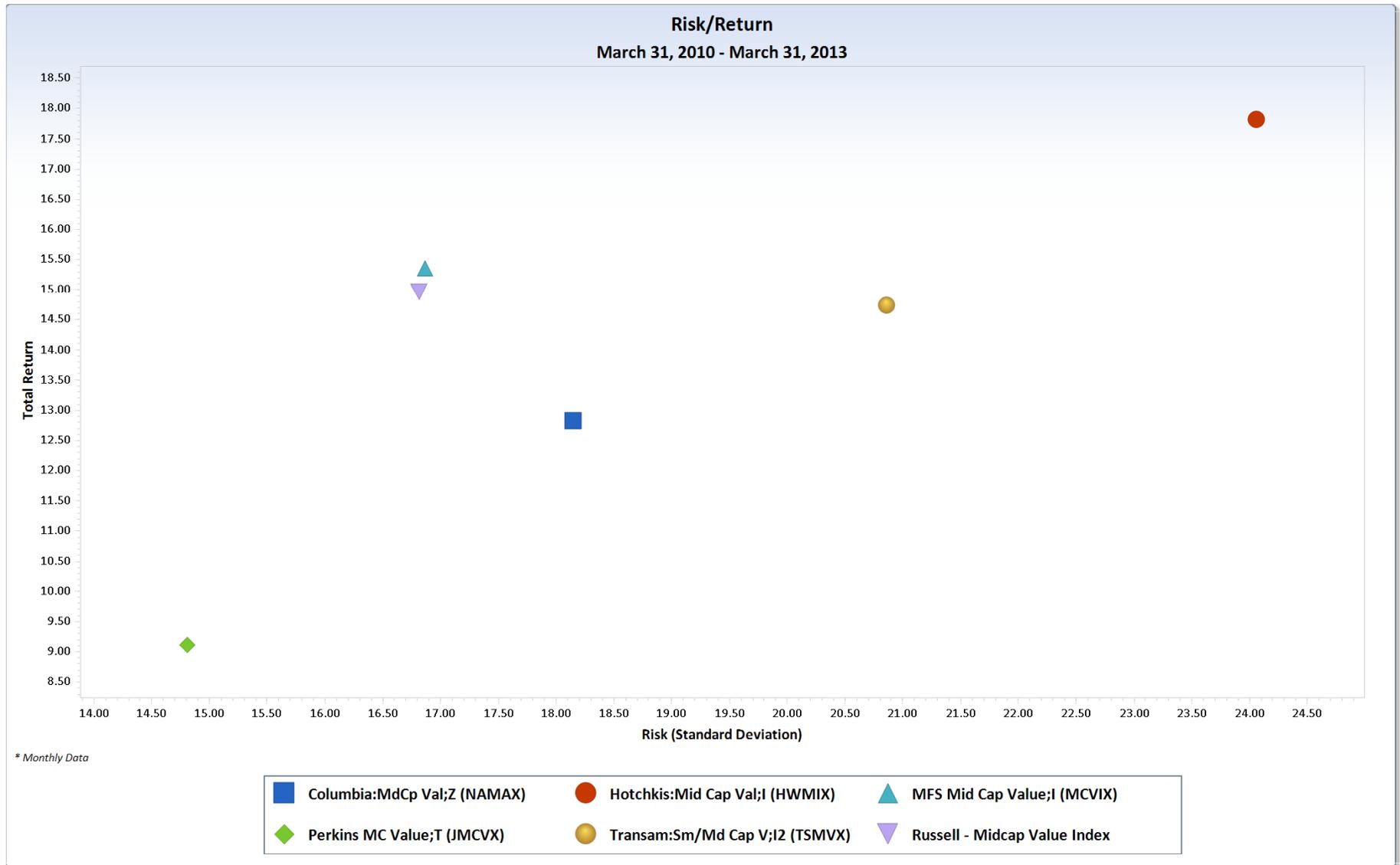
# 36-Month Rolling Risk



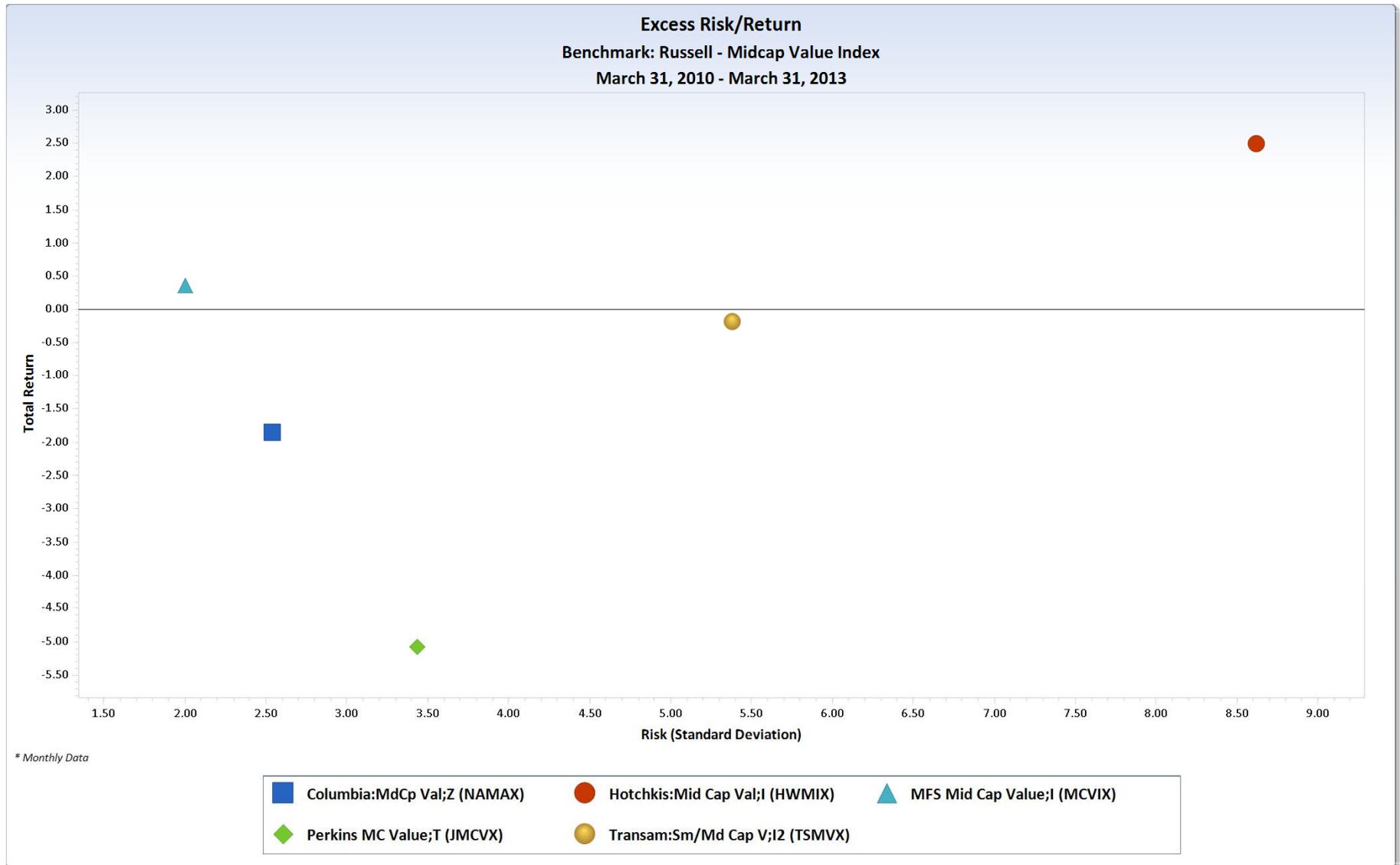
# 36-Month Rolling Information Ratio



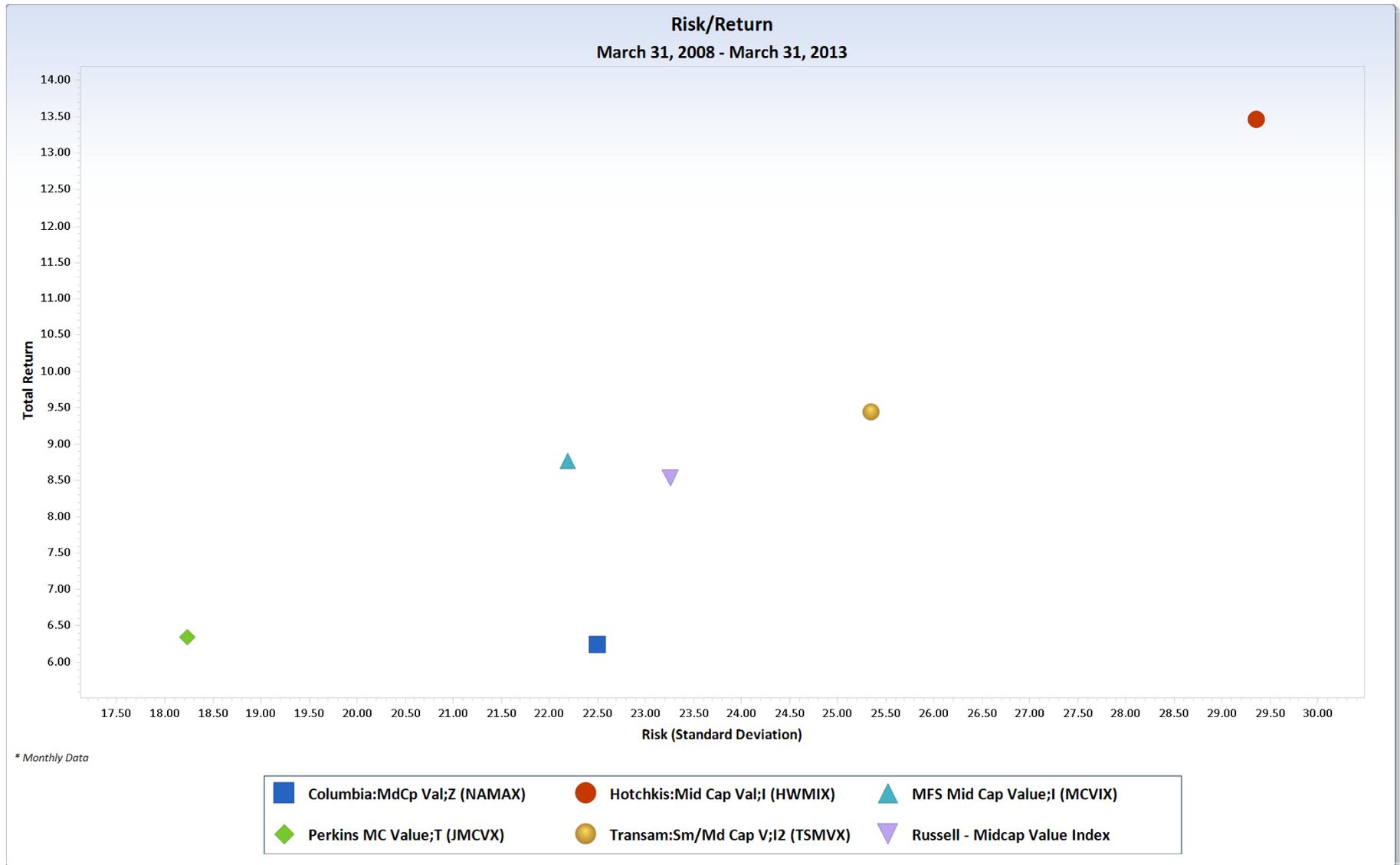
# 3-year Risk versus Return Plot



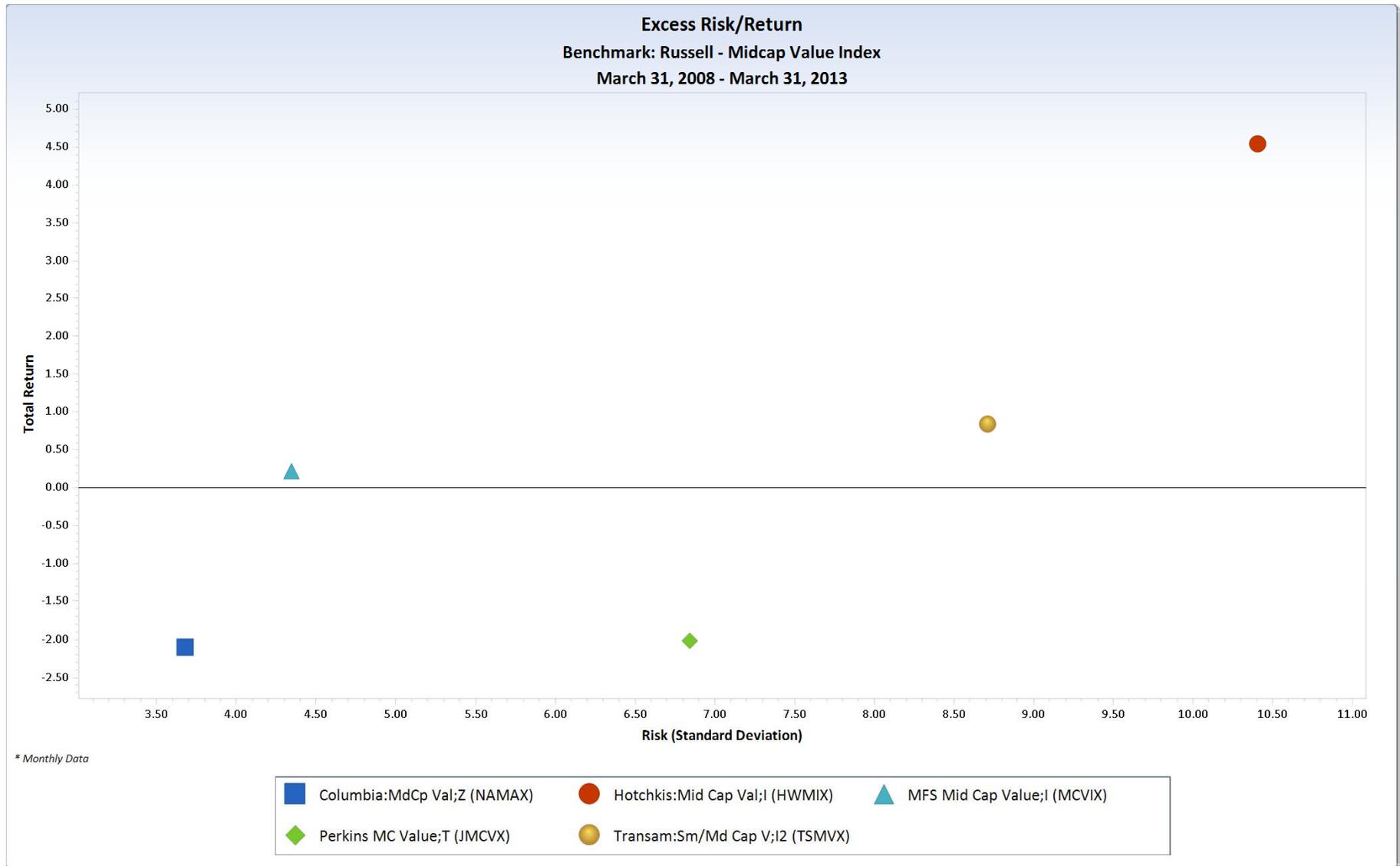
# 3-year Excess Risk versus Excess Return Plot



# 5-year Risk versus Return Plot



# 5-year Excess Risk versus Excess Return Plot



3-year as of 3/31/13				
Manager	Excess Risk	Excess Return	Sharpe Ratio	Info Ratio
Columbia	2.54	-1.85	0.75	-0.73
Hotchkis & Wiley	8.62	2.49	0.73	0.29
Janus Perkins	3.43	-5.07	0.61	-1.48
MFS	2.00	0.36	0.90	0.18
Transamerica/Systematic	5.38	-0.19	0.70	-0.04

5-year as of 3/31/13				
Manager	Excess Risk	Excess Return	Sharpe Ratio	Info Ratio
Columbia	3.68	-2.11	0.37	-0.57
Hotchkis & Wiley	10.41	4.54	0.45	0.44
Janus Perkins	6.84	-2.02	0.33	-0.30
MFS	4.34	0.22	0.38	0.05
Transamerica/Systematic	8.71	0.84	0.36	0.10

All funds were benchmarked against the Russell Midcap Value Index

- Risk = Standard deviation of portfolio returns
- Return = Annualized portfolio returns
- Sharpe Ratio = Excess return over the risk-free rate per unit of deviation
- Information Ratio = Measure of the risk-adjusted return

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# *Manager Research Evaluations*

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Manager Research

# Columbia Management Advisors, LLC

Columbia Mid Cap Value

## Summary

Qualitative
2.80

Columbia Management's Mid Cap Value strategy combines fundamental research with quantitative risk management for offering a diversified strategy with an emphasis on value, quality and catalyst. The investment management team is experienced with notable resources for conducting original in depth research. The strategy had a recent turnover in July 2011 when the former co-PM Diane Sobin transitioned into another role due to a family driven relocation. At that time, Lori Ensinger, Head of Value was asked to close down her LCV strategy and commit to MCV instead, which after an onsite and various conversations is viewed as a positive net addition. However, Wilshire will monitor the team closely for potential issues with team dynamics.

## Key Criteria

### I. Organization

Rating	Wt.
2.50	20%

Columbia Management Advisors, LLC is a wholly owned subsidiary of Ameriprise Financial, Inc since its acquisition from Bank of America; announced in September 2009 and completed in May 2010. Ted Truscott, the CIO of RiverSource Investments, assumed the leadership of the combined organization. Colin Moore, Head of Columbia's active US Equity, became the CIO. The impact has been minimal for Columbia through this transaction and the subsequent transition.

The firm provides a competitive compensation that recognizes and rewards both individual performance and team effort. For PMs, incentive compensation is based 25% on a 360-degree peer qualitative review and 75% on investment performance over 1 (10%), 3 (60%), and 5 (30%) years. The performance is first compared to the benchmark, and then against the percentile ranking against the broad based style peer group. In addition, PMs are eligible for restricted stock and stock options.

Columbia's Mid Cap Value strategy is headed by David Hoffman and Senior PM, Lori Ensinger, CFA, Head of Value Strategies. It is worth noting that Noah Petrucci was a third named PM on the strategy, though did not have any trade authority. In June 2012, he was replaced by Jonas Patrikson, who came highly regarded internally from the Strategic Investor Team. Also worth noting is that In July 2011, when the former co-PM of MCV, Diane Sobin, announced her transition to another product due to a family driven relocation, Ms. Ensinger was asked to shut down her LCV strategy and assume a more active role in mid cap instead. It is important to note that while Ms. Ensinger and Mr. Hoffman have a long tenure working together in the platform, their current level of interaction is new and will be monitored closely. It also appears that Ms. Loring will be highly influential in the decision making going forward, which is viewed positively in light of her knowledge and command of the asset class.

Overall, the organization ranks average balancing the quality of the firm and the investment professionals along with the experience and optimism of the team resources going forward against the uncertainties stemming from this material new change and its potential impact on the team dynamics. The score is subject to an upgrade as the team demonstrates a good dynamism and stability going forward.

### II. Information

Rating	Wt.
3.50	20%

Approximately 75% of the research is internally generated by the Value Strategies team. This research is across market capitalization and is augmented by the Columbia Management Investment Research Team, which is an experienced centralized group of over 20 fundamental research analysts who provide in-depth industry data, insights and ideas. Interaction with this team is focused on the discussion of general industry trends and high-level company analysis. In addition, both the PMs and the analysts meet regularly with companies, suppliers, and other industry sources as a part of the research process. The PMs also perform quantitative research in the forms of backtesting and maintenance of periodic screens in house. The team may also use Street research to leverage internal research capabilities in order to better understand a company's current valuation. Overall, the team has a wide breadth of information as well as the adequate resources, and ranks above average for information gathering.

# Columbia Management Advisors, LLC

Columbia Mid Cap Value

III. Forecasting	Rating	Wt.
	2.75	20%

The forecasting process is sound and well articulated with an emphasis on value, quality and catalyst. It is also disciplined with multiple steps which involve defining/evaluating investable universe, conducting fundamental research, and valuation analysis to ultimately determine the buy list. The portfolio considers three primary types of value opportunities; current margins below normalized (but improving revenue growth and operating margin expansion), cyclical opportunities (stabilization of revenues and stock discounts, trough earnings), and unrecognized asset value (not reflected in stock price but with a catalyst in 12-24 months). In summary, the buy list consists of securities with most attractive values with a focus on revenue trajectory and operating margin expansion along with a path to improvement through the catalyst. The execution has been spotty against the benchmark and the peers, noting that the Russell Mid Cap Value Index has been one of the hardest benchmarks to beat in a number of years. Alpha for the strategy has been consistently positive on a 5 year rolling basis, though only marginally in magnitude and not impressive compared to other peers. While stock selection has been slightly positive over a very long time frame, the results have been spotty on a yearly basis according to Wilshire's proprietary attribution analysis. Overall, the forecasting score is slightly above average.

IV. Portfolio Construction	Rating	Wt.
	2.50	20%

The team has a defined risk budget and allocates to risk to reflect core strength in stock selection while seeking to eliminate any unintended bets. The firm utilizes a BARRA based proprietary system, EPA (Equity Portfolio Analysis), that helps them identify risk exposures and marginal contribution to risk from various factors of the existing portfolio as well as contemplated trades through what/if analyses. The strategy has exhibited a tracking error of 2-7% historically and has derived about two-thirds of the forecasted tracking error from active stock specific risk. The portfolios are also diversified with 90-130 holdings. The portfolios tend to be fully invested, and the maximum cash holding is 5%. Sale will be initiated if the discount to industry peers is closed, fundamental thesis is either realized or violated, or portfolio rebalancing is necessary. Overall, the portfolio construction process is strong in that it employs fairly defined buy/sell discipline along with adequate risk budgeting which builds on a proprietary risk tool.

V. Implementation	Rating	Wt.
	2.50	10%

Columbia Management has a centralized equity block-trading desk that comprises a decent number of traders. The desk employs pre-trade analysis software to gage the expected cost and market impact of a trade. In addition, the firm employs a third party, Plexus, to perform post-trade analysis. The reports indicate that the trading added value majority of the time. The trades are prorated across all accounts when executed, and any trading overrides are logged in the LVTS system to be reviewed by Compliance on a daily basis. In addition, the Compliance also reviews post trade exceptions on LVTS. Finally, PMs monitor the impact of trades and review pre-and post-trade analysis and sign off on final trading. The annual turnover of the strategy can range depending on the market environment and has been typically 50%.

VI. Attribution	Rating	Wt.
	3.00	10%

Columbia monitors attribution on daily and monthly basis via an in-house performance attribution system that is linked real time to the stock market prices. The firm also utilizes a third party risk attribution tool and Columbia's Structured research group posts these daily, monthly and quarterly reports for all investment strategy platforms on the firm's intranet. The attribution analysis is utilized to evaluate whether the strategy of buying undervalued securities with positive inflection points is validated. In addition, the head of value strategies team, Lori Ensinger, leads a monthly discussion on performance attribution, risk analysis, and style adherence for each value strategy product. The team utilizes BARRA, Zephyr among others to conduct style analysis. Moreover, the firm employs a 5P process (Product Positioning, Investment Philosophy, People & Resources, Investment Process, and Performance Expectations and Measurement) bi-annually to assess where the product strategy is strong and if the team has enough resources to maintain a competitive edge. Overall, the team has a comprehensive attribution analysis process, and hence ranks highly.

Rating Legend
5 Excellent
4 Good
3 Above Average
2 Below Average
1 Unacceptable

# Columbia Management Investment Advisers, LLC

Columbia Mid Cap Value

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## Firm Information

**Columbia Management  
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**FIRM FOUNDED:** 1985

**OWNERSHIP** : Wholly Owned  
Subsidiary

Wholly owned subsidiary of  
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## Wilshire Associates

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Manager Research

# Hotchkis and Wiley Capital Management

Mid-Cap Value

## Summary

Qualitative
3.05

Hotchkis & Wiley is a well-regarded independent investment boutique that has a deeper fundamental research effort versus peers. It employs a collective decision-making approach by an experienced team of sector analysts. The investment philosophy is contrarian in nature where they seek companies that are temporarily undervalued and can revert back to its normalized earnings power. The final portfolios are moderately diversified with minimal benchmark sensitivity. Wilshire finds the strategy suitable for clients seeking an active deep value mid cap exposure. Investors need to be comfortable with the potential wide swings in performance and the lack of downside protection, thus best used as a satellite than a stand alone.

## Key Criteria

### I. Organization

Rating	Wt.
3.75	20%

Hotchkis & Wiley is an independent investment boutique specializing in value investing. The firm was formerly owned by Merrill Lynch for five years before completing a spin off in 2001. After this, all investment professionals transitioned over and the firm was able to maintain all track records. The firm is majority-owned by its employees with a minority interest held by a passive investor and small interests held by the ex-founders. Currently, several principals hold majority of the employee stake. In 2010 they expanded the employee owner pool by 13 employees. The firm also established a small 'equity bank' as a means to incentivize next generation investment professionals.

Stan Majcher and George Davis are the portfolio co-ordinators for the mid-cap value strategy. Mr. Majcher joined the firm approximately a year prior to the inception of the strategy in January 1997. Prior to this he worked as an analyst in Merrill Lynch's investment banking group. The other senior principals, led by CEO George Davis, are directly involved in portfolio management and research. The firm has established a tight-knit investment culture that facilitates intensive research debates but also close collaboration on all functions of the business including client service and trading. The investment team consists of experienced securities analysts, most of whom had prior backgrounds in corporate finance and accounting. Analysts are supported by a team of research associates that help build and maintain the models. With respect to turnover, the organization has been very stable with the exception of the departure of Joe Huber, former Principal and Director of Research in 2007.

Finally, the firm is committed towards maintaining controlled growth. With the exception of Diversified Value, all of the firm's products were once closed to new business. Some of the key organizational risks include key person impacts, notably David Green. Overall, the organization ranks well, both due to independent structure as well as the stability and the quality of the highly experienced investment professionals.

### II. Information

Rating	Wt.
3.50	20%

The investment team conducts fundamental research with a sharp focus on market-based research and understanding of company/industry dynamics that drive assumptions into the proprietary DCF framework. Analysts conduct deep industry studies prior to actual stock-specific research and recommendations. A "red flag list" is also utilized as a growing checklist of corporate governance, accounting, and management quality issues. The firm is very patient in how it conducts research and is not quick to reach conclusions just to fill a data bank of buy recommendations. The sector team approach was implemented in 2008 as a way to help stimulate deeper discussions than could otherwise take place in a large team setting. Analysis is discussed in depth at the sector level which includes industry experts as well as a couple of analysts that cover other sectors as a way to play devil's advocate. Each sector lead will then relay the information back to the portfolio co-ordination team where portfolio allocation decisions are made. Overall, the information gathering effort ranks well as the firm employs a rigorous, multi-faceted, in-house fundamental research platform that is augmented by industry studies.

# Hotchkis and Wiley Capital Management

Mid-Cap Value

III. Forecasting	Rating	Wt.
	3.00	20%

The value process at Hotchkis & Wiley has evolved from a sleepy dividend-yield oriented approach to one focused on free cash flow yield and discount to intrinsic value. The investment team employs screens based on earnings yield (earnings/price), payout yield (dividends plus stock buyback) as well as financial strength but also augments the universe with some deeper value names. Information is typically processed in a conservative manner and normalized earnings power is a key component to the valuation philosophy. Although the process is deep and intuitively appealing, it can lead the strategy to delve into industries sooner than the inflection point which typically causes some pain until the bounce back.

Performance has been notable relative to peers in the mid cap value universe as the Russell Mid Cap Value benchmark has been challenging to beat. Long term 5 year rolling alphas have been spotty, though improving as the terrible numbers from 2008 begin to roll off. Consequently, the 3 year rolling alphas look much more impressive. Overall, due to the disciplined approach, the process ranks moderately above average. Investors need to be comfortable with the lack of downside protection of this strategy.

IV. Portfolio Construction	Rating	Wt.
	2.50	20%

Portfolios are moderately diversified holding between 50-100 stocks with a market cap between \$500 million and \$15 billion. The firm does conviction-weight some of their top names but with a focus on inherent risks to their underlying theses not working out. On the other hand, the sell discipline can be loose at times lingering on disappointing stocks (e.g. Homebuilders, Financials). The firm does not augment its portfolio construction with risk analytics, however does employ some basic risk budgeting through security limits (5% max), industry limits (15% max) and sector limits (35%) at cost. In addition, Wilshire's proprietary attribution indicates that the strategy has exhibited consistent portfolio characteristics. Overall, while the portfolio characteristics appear consistent for a deep value philosophy, the relatively loose sell discipline along with the lower emphasis on the portfolio level risk management lend themselves to rank poorly.

V. Implementation	Rating	Wt.
	2.50	10%

The firm implements Charles River for trade systems and accesses various electronic trading networks through discount brokers. The firm typically uses limit orders for relatively small blocks of stock to take positions over an extended period of time. Although this represents a trade-off between higher potential opportunity costs and lower transaction/market costs, the firm believes this trading style complements the investment process. In addition, the firm places liquidity constraints of five days trading volume at time of initial investment. The firm has one senior trader to support all the strategies although Mid-Cap PM Stan Majcher supports trade execution. The overall infrastructure appears to be in place for the firm to operate (essentially bought the former infrastructure from Merrill). This is a patient approach with a relatively low annual targeted turnover of 50%.

VI. Attribution	Rating	Wt.
	2.50	10%

The firm performs attribution analysis using FactSet based on economic sectors, valuation characteristics, market cap ranges and other portfolio characteristics. However, the results are typically not integrated to the investment process as the firm can hold on to stocks with losses even when the near to medium term potential looks grim.

Rating Legend
5 Excellent
4 Good
3 Above Average
2 Below Average
1 Unacceptable

# Hotchkis and Wiley Capital Management, LLC

Mid-Cap Value

## Firm Information

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**FIRM FOUNDED:** 1980

**OWNERSHIP** : Other - Explain below

53% Employee-owned

43% Stephens-H&W LLC

4% Other

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Manager Research

# Perkins Investment Management LLC

Perkins Mid Cap Value

## Summary

Qualitative

3.00

Perkins Investment Management offers an institutional Mid Cap Value strategy (and the associated mutual fund) that is designed to protect significant value in down markets and achieve positive absolute returns in all market environments over the long term. The firm has been extremely stable, not losing any investment professionals since its inception other than to retirements. Due to the benchmark agnostic nature of the strategy, there can be a great amount of benchmark risk as the strategy utilizes a contrarian yet high quality investment approach. Investors can expect to protect capital during down markets but should be aware that this strategy could lag significantly during large market rallies. However, the strategy has proven to consistently add value over their benchmark over the long term. Therefore, investors should adopt a long-term view with this manager.

The Mutual Fund has a soft close to new retail investors effective December 31, 2010. The separate account remains open, and the firm has not determined a limit on hard close yet.

## Key Criteria

### I. Organization

Rating

Wt.

3.25

20%

Perkins Investment Management (“Perkins”) is a Chicago-based institutional manager that is solely dedicated to domestic value equities. The firm, which was founded in 1980, is 78% owned by Janus Capital Group, with the remainder owned by key employees. As such, it is an affiliate of other Janus subsidiaries, including Janus Funds and INTECH. Janus formerly owned 30% of the firm but purchased an additional 50% in late 2008, primarily to allow the senior principals at Perkins to have some liquidity in their shares without causing the firm or junior professionals to incur too much debt. Investment professionals have historically experienced a generous compensation scheme, in which bonuses are uncapped and are directly tied to portfolio performance vs. predetermined peer groups. The breakdown of the ownership was 78% Janus, 2% Peter Thompson (CEO), and the remaining 20% was split between Bob Perkins, Tom Perkins, Jeff Kautz, and two outside investor Greg Wolf and McDonald where Bob Perkins owned the lion share. In early 2013, they exercised their right to sell the remaining equity stake (all but 2%) to Janus. A new compensation structure will be designed to flatten the hierarchy and help better align profits with the entire firm. Details of the plan have not been disclosed yet, but should include a phantom equity structure to at least all investment professionals. Autonomy in management of the firm is expected.

The Mid Cap Value strategy is co-managed by CIO Jeff Kautz, Tom Perkins, and Kevin Preloger. Mr. Kautz has been with the firm since 1997, while Mr. Perkins joined in 1998 in order to launch this strategy. Mr. Preloger has been on the team but was recently named as a third PM for the MC strategy in early 2013. They are supported by a team of industry analysts who are led by Director of Research Randy Hughes. Employees are encouraged to invest in at least one of Perkin’s products. It is also worth noting that each of the co-portfolio managers have invested over \$1,000,000 of their personal money into Perkins Funds. Worth mentioning is that in early 2013, Todd Perkins announced a somewhat surprise retirement for personal reasons. He was a co-PM for the SC and AC strategies. Overall, the stable team and the boutique nature of firm ranks highly. The score errs slightly on the conservative side until we can get further visibility in the new compensation structure and comfort that the firm will remain completely autonomous.

# Perkins Investment Management LLC

Perkins Mid Cap Value

II. Information	Rating	Wt.
	3.50	20%

All of Perkins's strategies are grounded in fundamental, bottom-up research that attempts to limit downside risk at all costs. The team uses a collaborative approach the same team manages all the value products, and each strategy is led by two or three portfolio managers. The team of analysts (including Director of Research Randy Hughes and 2 dual role analysts/co-PMs), spend a great deal of time understanding the key drivers of each industry and determining which companies are best positioned to profit. Each analyst is a sector specialist and broadly follows approximately 200-250 companies, with more detailed focus on a smaller 50-75 name subset. The team typically meets with management before investing in a stock, but it is not a strict requirement. Idea generation is accomplished through a variety of screening tools, in addition to conference attendance and general knowledge of out of favor stocks and industries.

Approximately 80% of Perkin's research efforts are internally generated. The team typically meets with management before investing in a stock, but it is not a strict requirement. Idea generation is accomplished through a variety of screening tools, in addition to conference attendance, industry contacts, and general knowledge of out of favor stocks and industries. External sources of information such as Baseline, Bridge, FactSet, Bloomberg, and brokerage research is used when deemed beneficial. Overall, the information gathering effort is solid and the resources are deep.

III. Forecasting	Rating	Wt.
	3.25	20%

The forecasting process is relatively simple, with a contrarian but high quality profile that is designed to primarily protect significant value on the downside and yet also partake in market upswings. The team first screens the universe, looking for stocks trading at historical lows according to traditional valuation metrics. In addition, they search out stocks with undervalued assets, out of favor growth companies, and stocks trading near 52-week lows. Since the overriding focus is on downside protection, the team spends a great deal of time answering the question "How much worse can things get?" They focus on strong balance sheets, solid cash flows, and companies that have a competitive edge versus peers. They also look for significant insider ownership and/or company share repurchase programs that indicate management's view of the stock's current valuation. Once the analyst has set a pessimistic downside target, the focus turns to deriving a cautious upside target. For this aspect, the team uses a normalized earnings approach and then applies a conservative multiple to a normal mid-cycle earnings picture. They look for a reward-to-risk ratio of at least 1.5 to 1, although they will require 2.5 to 1 for higher beta stocks.

Over a full market cycle, Perkins has shown the ability to add value through both stock selection and industry selection, though the stock selection has not been as strong as it has been in its sister Small Cap Value strategy. Performance in the short term tends to be variable and can be quite lumpy given the fact that the team does not desire taking any undue risk in order to potentially capture more gains. The strategy has offered very attractive downside protection but tends to be weak during strong rallies. This trend has been very consistent and almost predictable to a fault over the various cycles in the short term. In the long term (5 year rolling periods), the team has been successful at generating consistent alpha over the Russell 1000 Value benchmark. It is worth noting, however, that more recently, 5 year rolling alphas have been depleting as the markets have been volatile with a risk on and risk off phenomon for the past couple of years.

IV. Portfolio Construction	Rating	Wt.
	2.50	20%

The team focuses their risk management efforts on prudent diversification and minimization of business risk at the individual stock level by setting conservative price tragets and attractive risk/reward relationships. The portfolio typically holds 120-150 names, with individual positions generally ranging from 0.5-2%. As another means of risk control, the PMs scale into positions as they begin to gain or lose conviction in management's ability to execute and likewise scale out of positions when valuation starts to creep up or if the investment thesis is violated. It is also worth noting that the Mid Cap Value strategy uses index puts to protect against large declines, though the ~ 2% position has been declining. While there are no sector or industry constraints other than an absolute max of 35%, the team does monitor intended active risk positions and considers ways to manage them prudently. Additionally, the team ensures that the bottom up approach does not create unintended market cap, style tilt, or benchmark risks. However, because there are no formal sector bands, investors should be aware that benchmark risk is inevitable. Additionally, the strategy has had historically high cash levels which has led to cash drag during up markets. The team does not explicitly use the cash position as a tactical allocation, but explains that the high cash levels are due to the lack of investment opportunities they are seeing in the market. While this is characteristic of their cautious and defensive nature, we will continue to monitor the team's ability to be fully invested for investors. While this is characteristic of their cautious and defensive nature, we will continue to monitor the team's ability to be fully invested for investors.

# Perkins Investment Management LLC

Perkins Mid Cap Value

## V. Implementation

Rating

Wt.

2.50

10%

The firm does not have any trading on-site and instead leverages Janus's trading operations in Denver. Perkins does have a dedicated trader, Julie Di Iorio, who is in constant communication with the team. Janus's trading department utilizes MacGregor's trading system for both equity and fixed income trades. Approximately 30% of shares traded are completed through electronic platforms. The firm also utilizes Charles River system to perform pre-trade and post trade compliance checks. Overall, the firm has adequate people and system in place to serve institutional clients.

## VI. Attribution

Rating

Wt.

2.50

10%

Perkins does not focus on attribution, as their main goal is to achieve absolute returns regardless of benchmark performance. However, they use FactSet, BARRA, SPAR and Zephyr on an ex-ante basis to monitor unintended market cap, style tilt, or benchmark risks; though do not make changes simply to manage to their benchmark.

### Rating Legend

5 Excellent  
 4 Good  
 3 Above Average  
 2 Below Average  
 1 Unacceptable

# Perkins Investment Management LLC

Perkins Mid Cap Value

## Firm Information

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**FIRM FOUNDED:** 1980

**OWNERSHIP :** Other - Explain below

Janus Capital Group Inc. has approximately an 78% ownership stake in the investment advisory business of Perkins Investment Management LLC.

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Manager Research

# MFS Investment Management

MFS Large Cap Value Equity

## Summary

Qualitative
3.50

MFS Investment Management offers an attractive large cap value strategy that is grounded in bottom-up fundamental research, with a focus on quality, value and yield. The firm is well resourced with a global research platform and integrated back-office operations. The strategy is managed by Steven Gorham, CFA and Nevin Chitkara who previously served as equity analysts at the firm. The PMs are supported by impressive resources and have provided attractive returns with strong stock selection. It is important to note that while the strategy may lag in strong up markets, it tends to be an excellent choice in downside protection with attractive performance in the long term. As a result, Wilshire has confidence in the product and finds it suitable for clients seeking a moderately active exposure with a quality tilt in the large cap value segment of the market.

## Key Criteria

I. Organization	Rating	Wt.
	3.00	20%

MFS is a subsidiary of Sun Life Assurance Company of Canada, which owns a majority interest in the firm. In November 2011, Sun Life acquired the remaining 33% minority stake in McLean Budden and merged the firm into the MFS organization. MFS' compensation structure includes a base salary, performance bonus (3-year peer and benchmark quant rankings as well as a 360 degree peer review), and equity incentives for key investment professionals. The firm currently maintains a 22% equity stake which has mostly been distributed to key employees. Overall, the compensation structure appears attractive with equity incentives; however, the historical 10-15% annual turnover rate amongst its analyst team is roughly in line with industry standards.

At the end of 2011, MFS underwent a number of leadership transitions. Bob Pozen, Chairman of MFS since 2004, retired and Rob Manning, CEO since 2004, relinquished his CIO title and assumed the title of Chairman. Mike Roberge, who was promoted to President in January 2010, was elected the sole CIO and Director of Global Research; David Antonelli became Vice Chairman and relinquished his CIO of Non-US Investments title; and Marty Beaulieu was named Chairman and CEO of McLean Budden. In 2011, MFS completed the distribution process for settling multiple lawsuits that were filed in federal and state courts related to pre-2004 market timing and/or late trading events.

The Large Cap Value strategy is team managed by Steven Gorham, CFA and Nevin Chitkara, portfolio managers, who are supported by a deep global research team. Mr. Gorham was a member of the firm's equity research team since 1992 when he was named the co-portfolio manager in January of 2002 to help transition the retirement of Lisa Nurme, PM, which took place in mid 2004. Mr. Chitkara was named the co-PM in May 2006 also from the equity research team of MFS, which he joined in 1997. The PMs work together with Katrina Mead, CFA, Institutional PM. This team has been very stable since the addition of Mr. Chitkara. Although the research team has experienced some gradual turnover over time, the quality and experience of the analysts is impressive.

While the organization scores well due to the quality of the investment professionals as well as the investment experience, the ownership structure along with some firm level turnover reduces the overall score.

# MFS Investment Management

## MFS Large Cap Value Equity

II. Information	Rating	Wt.
	4.00	20%

MFS has established a strong research platform with a global presence. The equity team relies entirely on the proprietary knowledge of the firm’s global research analysts, who each cover roughly 30 - 50 companies and perform visits with company management, competitors, suppliers, downstream users, industry contacts, and consultants to develop a comprehensive understanding of business fundamentals and industry dynamics. In a typical year, MFS equity analysts and portfolio managers will meet with representatives from approximately 3,000 companies through on-site visits or hosting meetings at one of MFS’ worldwide offices. Additionally, they will consult with approximately 1,500 analysts from hundreds of domestic and foreign brokerage houses. The analysts utilize the meetings to assess the company’s fundamental outlook and to create detailed proprietary financial projections and extensive valuation analyses which utilize scenario analysis and earnings sensitivity models.

In addition, the firm has developed a robust quantitative research capability, which has a number of analysts dedicated to ongoing factor research and implementation. From an external standpoint, the analysts utilize securities filings and computer-based systems such as Bloomberg®, FactSet®, and Thompson One® in formulating their investment recommendations. In total, the firm’s analysts actively follow approximately 1,400-1,600 securities on a global basis, which are assigned either a 1-rating (buy), 2-rating (hold), or a 3-rating (sell). These ratings as well as analysts’ views on companies and industries are formally documented in the firm’s proprietary web-based, Global Investment Research System. Overall, MFS scores above average in their information gathering efforts.

III. Forecasting	Rating	Wt.
	4.00	20%

MFS Large Cap Value team forecasts with a focus on bottom-up fundamental research, quality, value and yield. For this the team screens for Russell 1000 companies and global peers to find the stocks with the ideal characteristics: sustainable franchise, solid balance sheet, free cash generation, and shareholder friendliness. The team also screens for cheapness through P/CF, P/B, P/E, P/S, and yield. The process is not exactly focused on funneling, but more on combining different aspects. As a result of the research, analysts prepare formal ratings (1-3) of securities under consideration. MFS has conducted a study on how the analyst ratings fare, and notes that the global research team adds value. Overall, the forecasting process has an overriding focus on quality complemented with value screens to keep the strategy from straying to the core space. The process relies on strong fundamental research conducted by the global analysts and augmented by the PMs. According to Wilshire attribution, the team has been able to drive the majority of their alpha through stock selection in the long term. Long term rolling periods on a 5 year basis have shown that the team has been consistent at generating alpha over the Russell 1000 Value benchmark. Shorter term 3 year rolling periods have also been fairly consistent. Additionally, rolling information ratios have been fairly consistently positive over the longer term, though shorter term ratios have been slightly less impressive. As a result, the forecasting process ranks highly.

IV. Portfolio Construction	Rating	Wt.
	3.50	20%

The team builds diversified portfolios of 90-110 stocks with a focus on low beta. While the portfolios emphasize U.S. common stocks, they may also include a maximum of 10% exposure to ADRs, dually listed shares of large global companies, and non-U.S. stocks that are traded on U.S. exchanges, if client guidelines allow. The maximum investment in any one security does not typically exceed 5% or 1 ½ times the security’s weighting in the benchmark at market, whichever is greater. The sector industry level limit is broad with maximum 20% in any industry. While this gives the PMs considerable latitude to make sizable sector bets, active sector weights have been moderate to tight in the past few years. The team has access to multi-factor risk models; however these appear to be instrumental in portfolio monitoring as opposed to construction. The tracking error is typically a function of the perceived opportunities in the market and tends to move up when the spreads widen in the market. During the past ten years, the realized rolling tracking error has been moderate ranging from 2% to 7%. The cash level limit is relatively high with 10%. In terms of style, the product typically keeps a clear traditional value profile while at times showing slight core bias.

V. Implementation	Rating	Wt.
	2.50	10%

MFS has a deep trading platform of seasoned trading professionals. The firm’s trading platform uses automated trade management systems which have built in screens for compliance. The firm also uses program trading to improve execution when appropriate, and internally cross trades when buying and selling securities at the same time. The firm’s Trade Oversight Management Committee oversees the team’s execution and trading, and monitors relationships with broker/dealers. The annual turnover ranges from 40% to 80%. The firm continues to maintain soft dollar relationships. One area worth monitoring is the size of the assets, as the product has grown considerably in the past decade. Overall, the firm has sufficient resources to implement its investment strategy.

# MFS Investment Management

MFS Large Cap Value Equity

## VI. Attribution

Rating

Wt.

3.50

10%

MFS uses FactSet for performance attribution and also leverages BARRA for multi-factor risk modeling, which plays a key role in monitoring the firm's portfolio construction process. Attribution analysis is also pivotal assessing other market risks their impacts on the strategy as well as making changes to the portfolio on the margin, so the process ranks highly among the peers.

### Rating Legend

5 Excellent  
4 Good  
3 Above Average  
2 Below Average  
1 Unacceptable

# MFS Investment Management

MFS Large Cap Value Equity

## Firm Information

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**FIRM FOUNDED:** 1924

**OWNERSHIP :** Wholly Owned  
Subsidiary

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Manager Research

# Systematic Financial Management, L.P.

SMID Cap Value

## Summary

Qualitative
3.10

Systematic Financial Management, LP employs a distinctive value approach with a focus on positive earnings surprise to find attractive stocks with a low P/E. The senior investment professionals possess notable institutional backgrounds and are highly involved in the comprehensive research process. The strategy is relatively benchmark sensitive, however does not seek a specific excess return target over the Russell 2500 Value Index. The product tends to perform better in relative value markets with notable value added from momentum and stock selection in the long term. While it may struggle during bear markets, the strategy tends to add meaningful value in the long term. However, clients need to be aware that there could be wide swings in performance where prolonged periods of significant underperformance can persist before a snapback in performance. It is also worth noting that downside protection can be weak, therefore this strategy is not recommended as a stand alone.

## Key Criteria

### I. Organization

Rating	Wt.
3.75	20%

Founded in 1982, Systematic Financial Management, LP is a registered investment advisory firm specialized in value strategies across the market cap spectrum. The firm is jointly owned by senior investment professionals and Affiliated Managers Group, a holding company that invests in asset management firms. Affiliated Managers Group holds over 50% of the equity and has been gradually purchasing more shares from Joe Joshi, former President/CEO, who retired December 2010. The additional shares from the transactions are expected to recycle mostly back to Systematic employees with no predetermined formula at this time. In addition to the equity ownership, the partners are eligible for revenue sharing arrangements. In January of 2012, four new partners were added including two investment professionals, one trader and a marketing/cs person. This is evidence to their commitment to rewarding strong performers as well as broadening ownership across the firm.

The investment team is well experienced and conducts research for all the strategies. The investment team is headed by Kevin McCreesh, CFA, CIO and Ron Mushok, CFA, PM, who conduct research along with the analysts. Mr. McCreesh is the PM for the Large and Small Cap strategies while Mr. Mushok manages the Mid and SMID versions, though both work closely together. The investment process was originally developed by Mr. Joshi over two decades ago and applies similarly across all products. Overall, the senior professionals possess notable institutional backgrounds. The firm also hired several analysts over the past few years with moderate degrees of financial and industry background.

Overall, the firm scores well in organization due to the relative stability of its key professionals in addition to the quality of the firm and the investment professionals. Although the retirement in 2010 of Mr. Joshi is noteworthy, the firm has been building up its investment team in anticipation with a solid bench at this time, so concerns are minimal for this transition. Also worth noting is that in 2009, Equity Analyst Jakov Stipanov left on mutual agreement with the firm. Jennifer Mulroy was brought on to replace him shortly afterwards. In 2011, Senior Analyst Maya Venkatraman focused solely on the International strategy and there are no plans for a replacement. Wilshire will continue to monitor the culture and dynamics of the analyst pool but does not have any immediate concerns.

### II. Information

Rating	Wt.
3.50	20%

The team employs fundamental bottom up research process supplemented with a screening process. Approximately 75% of the research is conducted in house through reviewing annual reports and SEC filings of approximately 150 stocks. One unique aspect of the research is the significant time committed to reviewing off-balance sheet items, evaluating company accounting practices, and conducting on-sites. The team also utilizes financial databases such as Baseline, CIA, Factset, Compustat, etc. In addition, sell side research is used to gain additional insights for the names generated through internal research. Overall, the information gathering process ranks above average as it is comprehensive and is conducted by experienced professionals.

# Systematic Financial Management, L.P.

SMID Cap Value

III. Forecasting	Rating	Wt.
	2.50	20%

The forecasting process incorporates multiple steps such as financial statement analysis, investor expectations review, thorough company valuation and fundamental due diligence. The process starts by screening companies for a market capitalization between \$100 million and \$10 billion ranked by low forward P/E and positive earnings surprise. This creates a list of roughly 150 companies that are subject to financial analysis which has the goal of identifying the sources of earnings along with sustainability. The team engages in thorough research to make sure the firm has a sustainable income that can trigger positive earnings estimates. The team then examines balance sheet and cash flow statements to evaluate the quality of earnings. Specific attention is committed to accounting practices adopted by the companies. As the third step of the process, the team works on assessing company valuation on an absolute basis as well as a relative basis. The final stage of the forecasting process is fundamental due diligence. Overall, the forecasting process is systematic and distinctive with the overriding focus on earnings surprise.

According to Wilshire's proprietary attribution analysis, stock selection has been spotty throughout the years. Over the longer term, stock selection has added value, although more recently, stock selection has been weak. Stock selection was particularly strong in 2005, 2007 and to some extent 2010 but has detracted in other years. However, it is worth noting that while stock selection has not been consistent, the magnitude of contribution during favorable years has been significant and has been the primary driver if viewed over a much longer time frame. Therefore, clients need to be aware that there could be wide swings in performance where prolonged periods of significant underperformance can persist before seeing a snapback in performance. Lastly, downside protection can be weak, therefore, this strategy is not recommended as a stand alone.

IV. Portfolio Construction	Rating	Wt.
	3.00	20%

The portfolios are typically diversified with 70-80 equally weighted securities maintaining a maximum position of 5% in any individual stock and 30% in any sector. As a risk measure, the sector weightings generally remain within 5% of the benchmark. A buy decision is made by consensus among the investment team with the lead responsibility coming from the PMs. The team has strong sell discipline as it tends to sell stocks when price appreciation causes P/E expansion to fair value, if there are other investment opportunities that are more attractive on a relative basis, if one of the analysts expects a downward estimate revision or possible negative earnings surprise, and finally if there is reported negative earnings surprise. The stated benchmark for this strategy is the Russell 2500 Value Index. The strategy has no targeted tracking error; however it is relatively benchmark aware. The realized rolling tracking error was typically below 7% until late 2008 when it spiked up to low-mid teens. In terms of style, the strategy tends to provide consistent larger cap exposure on a holdings based analysis. It also typically plots relative value according to Wilshire's proprietary attribution analysis. Overall, the strategy is not benchmark constrained but relatively risk aware resulting in an above average score.

V. Implementation	Rating	Wt.
	3.00	10%

All trading is done on a traditional basis as the firm seeks best execution as the ultimate goal. Systematic employs soft dollars (15%) to access broker research. On the trading side, Systematic has made a concerted effort to lower portfolio turnover to approximately 100%. The firm uses the Advent Investment Management software as the primary portfolio management system where client guidelines and restrictions are constantly monitored. In addition, the investment team reviews the portfolios on a daily basis to verify that they are being managed consistently and appropriately. Overall, implementation efforts are adequate.

# Systematic Financial Management, L.P.

SMID Cap Value

## VI. Attribution

Rating

Wt.

2.50

10%

Systematic utilizes FactSet software to perform performance attribution analysis. The firm identifies stock selection as the largest contributor to the performance, and expects sector effects to be a result of its individual security selection. The team makes does not mention integrating this attribution back into their process in an effort to improve the investment process. More importantly, Wilshire attribution does not show stock selection as being consistently the largest contributor to performance, though it has had a couple of years of strong stock selection that made up for lagging periods. Overall, Systematic has adequate attribution analysis tools and a process, and ranks average.

### Rating Legend

5 Excellent  
 4 Good  
 3 Above Average  
 2 Below Average  
 1 Unacceptable

# Systematic Financial Management, L.P.

SMID Cap Value

## Firm Information

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**FIRM FOUNDED:** 1982

**OWNERSHIP :** Other - Explain below

Affiliated Managers Group owns approximately 52% (they are a publicly-traded company). 48% is held by senior active employees.

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