Due Diligence Report

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Systematic Financial Management
Mid-Cap Value

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Organization/People:

Founded in 1982, Systematic Financial Management ("Systematic") was privately owned by Ken Hackel until 1995. In 1995, Hackel sold a majority stake in Systematic to Affiliated Managers Group ("AMG"). AMG then brought in the current investment team of Joe Joshi, Kevin McCreesh and Greg Wood in June 1996. Hackel retired shortly after the arrival of this team. Systematic is organized as a limited partnership with its parent company, AMG, owning a majority stake (52%) and the six active senior partners of Systematic owning the remaining 48%. As of September 30, 2009, Systematic had $7.5 billion assets under management.

Ronald Mushock, CFA has been the lead Portfolio Manager for the Mid-Cap Value strategy since its inception in 2000. Mushock joined Systematic in 1997, where he came from Standard & Poor's Equity Group as an Analyst. He has 18 years of investment industry experience. Mushock earned a BS in Finance from Seton Hall University and an MBA in Finance from New York University. He also holds the Chartered Financial Analyst designation. Mushock is supported by a team of nine equity analysts, who also support Systematic's other products.

Analysts at Systematic are assigned specific sectors for coverage responsibility. The main role of the analyst is to conduct all company specific research, by reading all public reports (10Ks, 10Qs and all other SEC filings), listening to company conference calls and meeting with company management and other industry participants. They also construct independent financial models for each security and compare the results to what the company is reporting. If an analyst believes that the security is a good candidate to be added to the portfolio, they present their case to the portfolio management team for discussion and debate.

Investment Philosophy/Process:

The Mid-Cap Value strategy is based on a philosophy that focuses on undervalued stocks that have a proven catalyst that will unlock their unrecognized value. Systematic believes that buying stocks based purely on valuation is often a mistake and that buying stocks based upon unproven catalysts has the potential to lead to inconsistency. Systematic takes all publicly traded U.S. companies with a market cap of between $1 and $10 billion and applies the firm's proprietary quantitative screens.
First, the quantitative screens rank stocks based on a company's forward looking price-to-earnings (P/E) ratio, looking for stocks trading at the lowest P/Es. Secondly, the screening process ranks stocks based on

Systematic's multi-factor model, identifying companies based on investor expectations, income statements and balance sheets. This screening process produces a 150-name "Focus" list comprised of the top 10 to 15 names in each economic sector.

The next step of the investment process involves in-depth fundamental analysis surrounding three major areas of focus:

- **Gauging investor expectations** – This involves dissecting current Wall Street assumptions on a company with regard to revenue and margin assumptions, as well as gauging whether or not current earnings estimates are justifiable.
- **Financial statement analysis** -Systematic focuses on identifying profit and loss trends for a company, as well as performing cash flow analysis and determining the quality of the balance sheets.
- **Company Valuations** – Systematic approaches company valuations from multiple angles to reach reasonable comfort levels in the valuations for each specific company. Company valuations are compared to historic valuations, peer groups and relative benchmarks.

Lastly, the analysts are looking for "good news" on stocks that provide a catalyst for stock price movement. Typically, they are looking for either earnings revisions or earnings surprises that are higher than Wall Street consensus. This "good news" catalyst, according to Systematic, helps the team avoid the "value trap" of beaten down stocks that do not have an imminent prospect for upward price movement. After the analysts complete this analysis and confirm that the security is a good candidate for the portfolio, they will then present the case to Mushock. Mushock has the ultimate authority with regards to adding a security to the Mid-Cap Value portfolio.

Systematic's sell discipline is essentially a reverse of its buy discipline. While Systematic buys based on confirmation of good news, it sells in anticipation of negative news. Systematic will also sell a stock due to an increase in valuation, deteriorating fundamentals and a significant negative earnings surprise. Finally, stocks will also be sold if a potentially superior investment alternative arises or if a company reaches $15 billion in market capitalization. Maximum individual holding weights typically cannot exceed 5%. The firm follows sector guidelines of investing no more than 30% in any one sector with a +/- 5% weighting vs. the Russell Midcap Value Index weight. Turnover has averaged approximately 115% annually.

Performance Expectations:

Manager Strategy classifies the Systematic Mid-Cap Value strategy as true value. True value managers are those who employ a value-oriented strategy that boasts characteristics similar to those of the Russell Midcap Value Index. True value managers tend to outperform their deep value peers during periods when growth is outperforming value, and tend to outperform the relative value managers in value dominated markets. True value managers usually have less volatility than deep value or relative managers due in part to their tight tracking error and higher correlation to the Russell Midcap Value Index. True value managers have a definite value emphasis, focusing on low price-to-earnings (P/E) and price-to-cash-flow (P/CF) ratios, as well as stocks trading well below their intrinsic value.

Manager Strategy maintains that the Mid-Cap Value strategy has the potential to outperform its peer group during periods of "down" markets and/or high volatility time periods. The investment team's focus on providing downside protection may have the potential to assist in preserving capital during these time-periods. Conversely, the strategy would be most likely to underperform during periods when the market is unduly overvalued, with little emphasis given to individual relative valuation of securities, and/or investors are unduly focused upon acquiring "hot" sectors - such as Technology (e.g. the "dot-com" phenomena during 1999/2000). Likewise the portfolio has struggled in the past when the market troughs to begin a new cycle.

Historically the strategy misses the first few innings of a new bull market since it remained too defensive and not capitalized on the potential upside. Performance of the Mid-Cap Value strategy has been competitive and within Manager Strategy's expectations to date.

Conclusion:

Manager Strategy believes the Systematic Mid-Cap Value risk/return process has been historically successful. The process is disciplined and the portfolio has produced a solid track record to date. As such, Manager Strategy reaffirms its positive stance on the Systematic Mid-Cap Value strategy.

Past Performance Cannot Guarantee Future Results.

*The **Russell Midcap Value Index** measures the performance of those Russell mid-cap companies with lower price-to-book ratios and lower forecasted growth values.*

The prices of small- and mid-cap company stocks are generally more volatile than large company stocks. They often involve higher risks because small- and mid-cap companies may lack the management expertise, financial resources, product diversification and competitive strengths to endure adverse economic conditions.

Investment and Insurance Products: ▶NOT FDIC Insured ▶NO Bank Guarantee ▶MAY Lose Value