

# Convergence Domestic Active Tax Management



May 2017

## Strategy Objectives

- Track the S&P 500 Index pre-tax with minimal variance over a cycle.
- Systematically offset capital gains with realized tax losses within the portfolio to defer realized gains.
- Systematically harvest tax losses throughout the year in an attempt to create net realized losses.

## Strategic Benefits of Active Tax Management

1. Tactical decisions to modify your overall investment strategy are easier to make when the tax implications are mitigated.
2. Decisions to add investment strategies or managers that may not be tax efficient are easier to make when at least some of their gains can be offset.
3. Concentrated holdings can be systematically pared back over time with less of a tax impact.

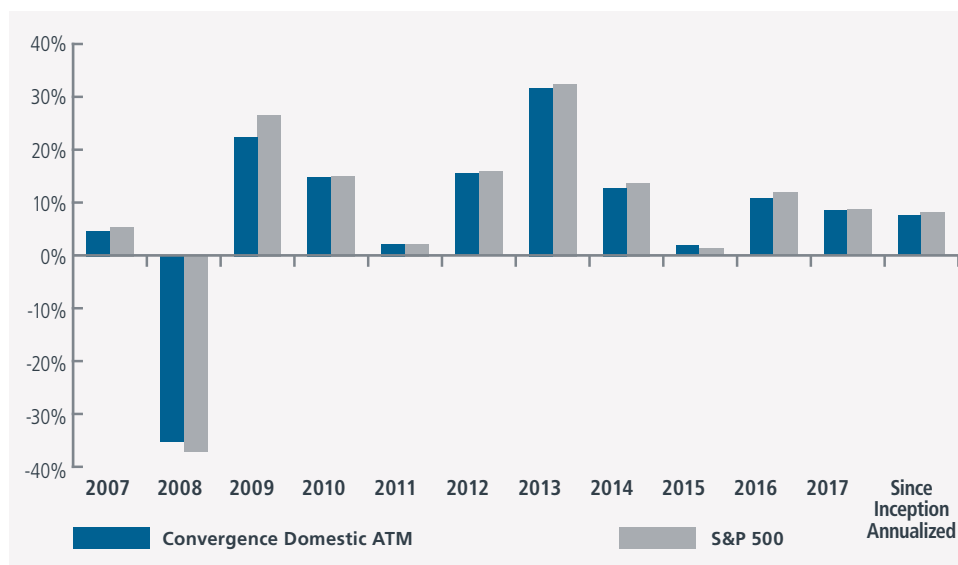
## Economic Benefits of Pursuing Tax Losses

- Realized tax losses in a given year may, in some instances, be used to offset capital gains realized in that year, resulting in direct current year tax savings.
- Individuals may, in some instances, carry forward tax losses indefinitely. If capital gains are not available in the current year, the investor can carry forward the capital loss and use it to offset gains realized in the future.
- The value of a tax loss is determined by the type of capital gain that is offset. For some individuals, the potential benefit is 20% if long-term capital gains are offset, and up to 39% for short-term gains that are offset.

## Performance (net of fees)

\*Inception date 4/01/2006

Apr 2006 - May 2017	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Since Inception Annualized
Convergence Domestic ATM	4.61%	-35.17%	22.29%	14.79%	2.14%	15.49%	31.68%	12.67%	2.01%	10.65%	8.53%	7.57%
S&P 500	5.49%	-37.00%	26.46%	15.06%	2.11%	16.00%	32.39%	13.69%	1.38%	11.96%	8.66%	8.01%



Past performance is not indicative of future results.

## Investment Process

- Convergence builds each investor their own index portfolio.
- Throughout the year, a sophisticated computer model tracks each security in each portfolio. When a security's market value drops below its cost, a tax loss is created by selling that security.
- Finally, the portfolio is rebalanced to again mirror the characteristics of the targeted index.

## About Convergence

Convergence Investment Partners is an active equity manager dedicated to managing outstanding U.S. equity strategies. Our team's experience spans decades of investing based on fundamental stock picking combined with advanced technology. This has allowed us to develop systematic stock selection strategies that we believe helps garner powerful results. Our firm's name, Convergence, communicates our philosophy of a fundamental stock picking process that incorporates the intersection of sound investment theory executed in a disciplined environment utilizing advanced technology.

## Appendix

## Convergence Domestic Active Tax Management Composite (as of 12/31/16)

	Gross of Fees Return	Net of Fees Return	Benchmark Return (S&P 500 Index TR)	Composite Dispersion (Full Period)	Number of Separate Accounts (End of Period)	Total Composite Assets (End of Period)	Total Firm Assets (End of Period)	3 Year Annualized Standard Deviation (Composite)	3 Year Annualized Standard Deviation (S&P 500 Index TR)
2006 (4/01/2006 - 12/31/2006)	10.97%	10.72%	11.12%	N/A*	2	\$3,286,985	\$39,742,010	N/A	N/A
2007	5.00%	4.61%	5.49%	N/A*	1	\$574,257	\$106,671,978	N/A	N/A
2008	-34.88%	-35.17%	-37.00%	N/A*	1	\$371,668	\$71,507,256	N/A	N/A
2009	22.68%	22.29%	26.46%	N/A*	1	\$449,963	\$66,537,478	18.92	19.91
2010	15.31%	14.79%	15.06%	N/A*	1	\$514,028	\$93,181,292	21.34	22.16
2011	2.53%	2.14%	2.11%	N/A*	5	\$2,389,964	\$154,362,324	18.39	18.97
2012	15.95%	15.49%	16.00%	0.46	5	\$2,751,555	\$217,790,421	15.10	15.30
2013	32.18%	31.68%	32.39%	0.46	8	\$4,723,855	\$492,677,907	11.79	12.11
2014	13.01%	12.67%	13.69%	0.37	16	\$8,472,200	\$553,692,556	8.94	9.10
2015	2.33%	2.01%	1.38%	0.32	17	\$8,614,978	\$444,781,578	10.32	10.62
2016	11.03%	10.65%	11.96%	0.50	17	\$8,013,822	\$398,488,819	10.37	10.74

\*N/A is shown because there were five or fewer portfolios in the composite for the full year.

## Disclosures

The information provided herein is for informational purposes only. Investors should seek their own financial, legal, accounting, and tax advice regarding the appropriateness of investing in any securities or investment strategies discussed in this documentation. Investors should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities may fluctuate and that each security's price or value may rise or fall. Accordingly, investors may receive back less than originally invested.

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## Compliance Statement

Convergence Investment Partners claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. The firm maintains a complete list and description of composites, which is available upon request. Results are based on discretionary separate accounts under management, including those accounts no longer with the firm. The U.S. Dollar is the currency used to express performance returns and assets. Performance results are presented both net and gross of management fees and include the reinvestment of income. From the inception of each composite until 01/01/11, Time Weighted Return

was compounded on a monthly basis. Beginning 01/01/11 through present, Time Weighted Return was compounded on a daily basis.

## Definition of the Firm

The firm is defined as Convergence Investment Partners, LLC ("Convergence Investment Partners"), a majority owned subsidiary of Montage Investments, LLC ("Montage"). Montage is a wholly owned subsidiary of Mariner Holdings, LLC. Convergence Investment Partners is an investment adviser registered with the Securities and Exchange Commission. Registration does not imply a certain skill level or training. Convergence Investment Partners is an active equity manager dedicated to managing outstanding U.S. equity strategies. Convergence uses its proprietary process to select and rank investments, construct portfolios, and help manage risk in each of its products. Convergence strategies are based on corporate fundamentals supported by compelling empirical results that are applied within each industry group. The name, Convergence, communicates the firm's philosophy of a fundamental stock picking process that incorporates the intersection of sound investment theory executed in a disciplined environment utilizing advanced technology. The total firm assets will be defined as all discretionary and non-discretionary assets under management within Convergence Investment Partners. This includes primary investment management accounts and sub-advisory investment management accounts, as well as both fee-paying and non-fee paying assets.

## The Convergence Domestic Active Tax Management Composite

The creation date of the composite is April 1, 2006. The Convergence Domestic Active Tax Management Strategy seeks to track a specified market index on a pre-tax basis while systematically deferring taxable gains and harvesting taxable losses. The objective is to match the specified index over market cycle while maximizing the after-tax return to the investor.

The portfolio returns have been compared to the S&P 500 Index TR as its benchmark. The S&P 500 Index TR measures the performance of the large-cap segment of the U.S. equity universe. You cannot invest directly in an index. Comparison of the Composite to these benchmarks is for illustrative purposes only and the volatility of the benchmarks may be materially different from the volatility of the Composite due to varying degrees of diversification and / or other factors.

Since Inception, Convergence Investment Partners has adopted the following Significant Cash Flow Policy for the composite. If a single or cumulative cash flow(s) are equal or greater than 20 percent of the total account value on the day the cash flow(s) is initiated. If these circumstances exist, the account will be removed from the composite and added back to the composite on the first day of the month following the date that the account is fully invested (defined as being within ten percent of the model portfolios cash target).

The three year annualized standard deviation is calculated using 36 monthly returns to end of period for the Convergence Domestic Active Tax Management Strategy. 36 months of returns were not available prior to 2009.

## Fees and Related

The full fee schedule for all Convergence Investment Partners products is available upon request. It should be noted that the

collection of fees produces a compounding effect on the total rate of return net of management fees. Convergence Investment Partners Convergence Domestic Active Tax Management Strategy charges 0.40% annually, and is assessed 0.10% on a quarterly basis. Convergence Investment Partners reserves the right to modify fee structures on an account by account basis at its discretion.

Gross of fee performance returns are presented before management fees but after all trading expenses. No other fees or expenses are deducted for gross of fee performance. Net of fee performance returns are presented after actual standard management fees and all trading expenses. No other fees are deducted aside from trading and management fees for the calculation of net of fee performance. Valuations are net of all applicable withholding taxes. Portfolios are valued in accordance with GIPS® Valuation Hierarchy Principles. More information regarding standard investment management fees is available upon request.

## Additional Notes and Disclosures

The use of derivatives may be employed for purposes of currency hedging and or to equitize the cash position of the portfolios. Derivatives have not been used to date, and it is expected that any future use would be on a limited basis. Past performance is not indicative of future results.

Full Calendar year dispersion is calculated using equal weighted Standard deviation methodology.

The minimum account size for composite inclusion is \$100,000.

Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

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