Convergence Investment Partners

Convergence Quarterly Update

Q2-2015

IN PARTNERSHIP WITH Montage Investments

Convergence noticed an encouraging tidal shift during a quarter where the indexes delivered some sleepy returns. This shift allowed both strategies to finish the quarter strong. The Fed-fueled exuberance of the past 18-24 months seemed to give way in May to "core fundamentals." Cheap companies were in favor in April, while May and June were both driven by growth, earnings and profits. This transition became evident sooner within large cap names, allowing our Core Plus strategy to gain traction more quickly than our Small Cap Core Plus strategy. This shift in tide feels meaningful and our research has shown that fundamentally focused trends tend to persist for not only months, but years. We believe both Core Plus and Small Cap Core Plus are ideally positioned to perform as "normal" once again becomes normal.

rip·tide

a tide that opposes another, causing a violent disturbance

Calm on the Surface

The returns of the S&P 500 and the Russell 3000 were nearly imperceptible over the trailing 3- and 6-month periods; and, looking only at the returns, inventors would have little insight into market drivers. The small cap market, as evidenced by the Russell 2000, made some hardly memorable headway, rising 0.42% during the second quarter, and 4.75% in the first half of 2015. With valuations above long-term averages and the promise of improving economics again pushed off to "the next quarter," the market seemed content to mark time. While the market has not experienced a true correction in nearly 60 months, we may be in a "time correction." Time corrections are not uncommon or necessarily bad. Time simply creates the opportunity for corporate earnings to catch up to valuations. Frustrating and often confusing, corrections realized through time are often preferable to the alternative, however.

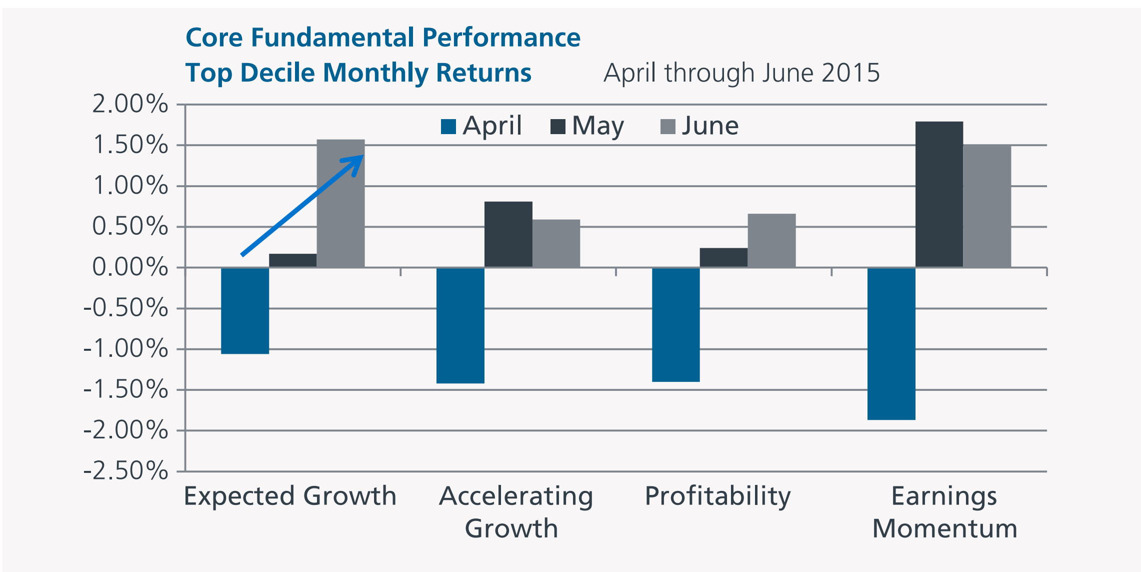
Riptide

The appearance of calm was deceptive. During the second quarter of 2015 Convergence noticed some very significant changes taking place under the surface. For the last 18 months we have discussed how the world's central banks led by our own Federal Reserve, have influenced investor behavior. Janet Yellen and

Mario Draghi have created a sense of complacency to risk and volatility, promoting risk-taking behavior on the part of investors. Companies with weak balance sheets and high expectations, what we label as "hope stocks," have been rewarded, sometimes significantly. Some companies in the biotech and social media space, with no earnings and dismal cash flow have soared with the "hope" that the fundamentals will catch up to the stock price at some point in the distant future. Such was the case in April.

Beginning in May, however, the tides began to change. Coinciding with an improved outlook for second quarter growth in the economy (after a contraction in the first quarter) and statements by a number of Fed Governors that sought to prepare the market for the Fed following through on their first interest rate increase in the 3rd quarter, the market began to shift toward what we consider to be "core fundamentals."

The chart below shows the month by month performance of the top decile of what we consider "core fundamental" characteristics. Whether it was expected growth in earnings, accelerating growth in sales, profitability, or earnings momentum, the reversal in fortune from April to May and June was remarkable. Investors clearly shifted towards companies that were demonstrating the ability to grow.



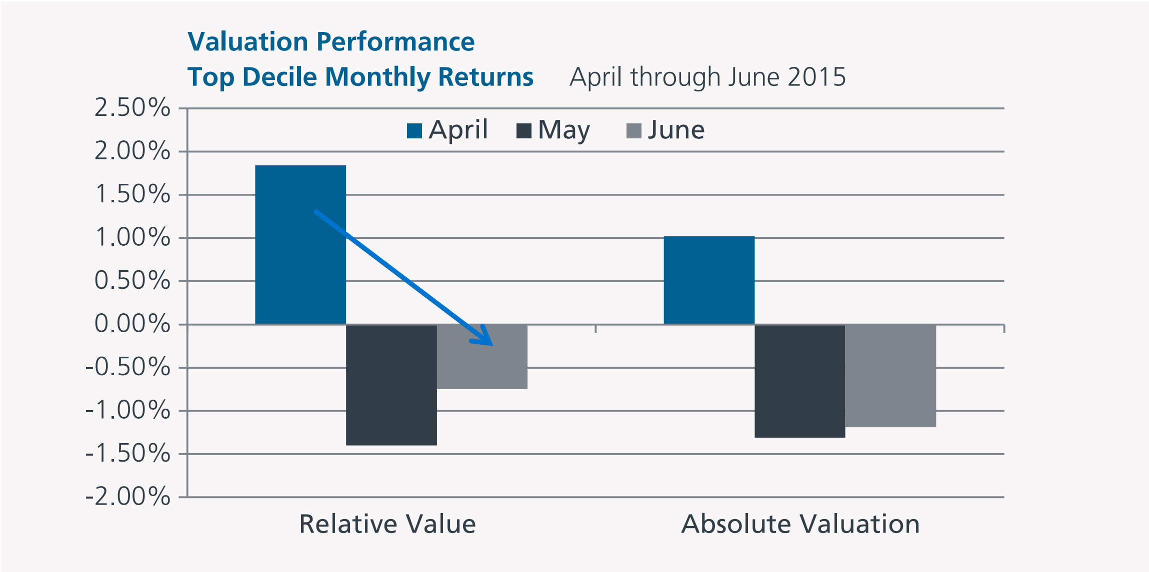
Source: Convergence Investment Partners

This shift toward core fundamentals had an impact on our performance. Major contributors to our long holdings, particularly in May and June, were in the area we consider "big growers." These companies produce a tremendous amount of revenue and cash flow. For example, Cal Maine Foods in consumer staples, Gilead in the biotech area, and Coty in consumer staples were all big contributors in the 2nd quarter and reflect the shift to core fundamentals on the part of the market. Conversely, the three largest detractors among the longs in the large cap strategy, Avis, Southwest Airlines and United Airlines, were in the transportation industry group which significantly trailed the Russell 3000 in the quarter. In the Small Cap Strategy, our biggest detractors were First BanCorp, Enphase and Amkor Tech all of which were beset by company specific challenges. The most significant contributors in our small cap strategy were Ambarella in semi-conductors, Taser International in capital goods and Triple-S Management in the healthcare equipment group. Ambarella and Taser are both attractive due to their accelerating sales and earnings and strong profitability which are important in their industry groups. Triple-S's reasonable valuations make it an attractive stock in the healthcare and equipment group.

We find it very encouraging to see names with high exposure to these "core fundamentals" contributing heavily to our relative performance.

The shift to "core fundamentals" influenced the long/short spread of each Convergence Strategy. The April "risk-on" trade did result in a negative spread in the long/short extension within Core Plus and Small Cap Core Plus. With the shift in May, however, the long/short spread in Core Plus turned positive and contributed to performance. Moreover, since the May shift the long/short extension has been a major contributor and given the environment, we foresee this persisting. The Small Cap Strategy did not see a positive contribution in the spread until later in June as the small cap high expectation stocks continued to hold on. Just as in Core Plus, however, the move to core fundamentals proved powerful and should continue.

At the same time, the market made an amazing shift away from valuation. For the last several years, the market has rewarded companies that were considered cheap on a price to earnings, price to sales, price to book etc. basis. The reversal in May and June is the mirror image of what we experienced in terms of the core growth measures.



Source: Convergence Investment Partners

The one area that has kept the eye of investors through this transition is what we call capital discipline. Unlike "yield," capital discipline looks at how management is using their available cash. Are they buying back shares? Are they raising dividends? The riptide in the market did not change investors' strong desire for shareholder friendly management. The top ranked stocks in capital discipline made money all three months.

Surfing the Wave

The adverse trends of risk taking behavior experienced in April proved too much for the Core Plus and Small Cap Core Plus Strategies to overcome in the quarter just ended. However, the tide turning move to fundamentals outlined above had a profound effect on the performance of both strategies. The Core Plus Strategy outperformed in both May and June. The Small Cap Strategy, which experienced only its second negative quarter on a relative basis since starting in May of 2012, steadily closed the performance gap at the end of the quarter.

The shift in tide is clearly advantageous for both strategies. Our research has consistently shown that the gap between prices and fundamentals cannot widen forever, and the forces that return these long term relationships are very strong. Over the past 18 months, central bank policy has been a strong external force that has served to distort the normal relationship between fundamentals and price. The Federal Reserve's decision to end quantitative easing was an important first step. A move to begin the process of returning interest rates to normal levels will be very significant.

We believe both Core Plus and Small Cap Core Plus are ideally positioned to perform as "normal" once again becomes normal.

Disclosures

In addition to the aforementioned characteristics, there are numerous other alpha sources including, but not limited to, our ability to take short positions, our short extension structure, our autonomous short model, and factor tilts.

All employees of Convergence Investment Partners are heavily invested in the firm's mutual funds – CIPOX, MARNX and MARVX.

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The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The summary prospectus and statutory prospectus contain this and other important information about the investment company, and may be obtained by calling 877-677-9414, or visiting http://www.investcip.com/solutions/coreplus/. Read it carefully before investing.

Mutual fund investing involves risk. Principal loss is possible. Investments in midcap companies involve additional risk such as limited liquidity and greater volatility than larger capitalization companies. The Fund invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. The fund regularly makes short sales of securities, which involves unlimited risk including the possibility that losses may exceed the original amount invested. However, a mutual fund investor's risk is limited to one's amount of investment in a mutual fund.

The Russell 3000 Index is the measure of the performance of the largest 3000 US companies. It is constructed to provide a comprehensive, unbiased, and stable barometer of the broad market and is reconstituted annually to ensure new and growing equities are reflected. Comparison of the Fund to this benchmark is for illustrative purposes only and the volatility of the benchmark may be materially different from the volatility of the Fund due to varying degrees of diversification and / or other factors. Index performance returns do not reflect any management fees, transaction costs, or expenses. Indices are unmanaged. You cannot invest directly in an index. **Beta** measures the sensitivity of rates of return on a fund to general market movements. **Alpha** is an annualized return measure of how much better or worse a fund's performance is relative to an index of funds in the same category, after allowing for differences in risk.

Diversification does not assure a profit nor protect against loss in a declining market.

Convergence Investment Partners is the advisor to the Convergence Core Plus Fund, which is distributed by Quasar Distributors, LLC.

Past performance is no guarantee of future results.