

Convergence Long/Short Strategies - Q2-2016 Review and Commentary

Q2-2016

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If it jiggles, it's fat.

- Arnold Schwarzenegger

The expert commentators have left the building

The second quarter of 2016 will certainly go down as the quarter that highlighted how nobody knows anything about anything when it comes to exogenous macro events. By the very definition, exogenous events are caused or produced by factors external to a system. This entire write-up could have been filled with quotes and predictions from “experts” in the investment field on not only the anticipated outcome of the British vote to exit the European Union (known by the moniker “Brexit”), but also the incorrect predictions of market activity leading up to and subsequent to this well publicized event.

For the prudent investors that have stood the test of time, it is best to ignore advice from market forecasters and stick with managing assets using proven strategies that are based on solid economic fundamentals. In this quarter’s write-up, we will highlight some of the long standing principles and tenants of investing which our empirical evidence has shown can lead to the building of real wealth, avoiding the whip-saw guess work of market predictions.

S&P 500 price action has demonstrated resilience in the face of obstacles



Source: Bloomberg Finance L.P.

For many months there has been an interesting undercurrent churning, resulting from the monumental stimulus from global central banks. The side effect of this banking action prolongs the life of risky companies with sub-par business models or lack of tangible fundamental underpinnings. For many “zombie companies” (a weak company in need of a bailout), the party has been over for some time as the likelihood of achieving any solid or sustainable sales and cash flow is probabilistically close to zero. The problem is that some market participants have been duped into perceiving these high risk companies as attractive due to the monetary extremism of central banks for the past several years.

Today there are vast swaths of the market [...] that we should call by their proper name: a derivative expression of FOMC policy.

- “Epsilon Theory” W. Ben Hunt, Ph.D.

It’s this type of market complacency that has historically been the precursor of outsized shorting opportunities. In fact, in similar times of extreme risk-taking, the market has subsequently rewarded those investors who seek to benefit from (i.e. short) stocks with weak or declining fundamentals. Mathematically, bad companies can and typically do go out of business. It’s the market’s adjustment process to that reality which we believe leads to great shorting opportunities.

The second quarter of 2016 was not kind to the long/short strategies of Convergence. Following our strong second half of 2015, global growth worries and dovish policies pushed investors into what we call an “unfundamental” rally (more on this later). Sophisticated investors often say that one should never give up on a strategy that is backed by sound logic, and we here at Convergence whole heartedly believe that our long/short strategies are backed by not only sound logic, but also empirical evidence. With these beliefs firmly intact and evidence* that markets always return to fundamentals, we look forward to the coming normalization and ideally a snapback in our returns.

Overview of performance

All three strategies underperformed their respective benchmarks in the quarter. The Core Plus returned -3.01%, the Small Cap strategy lost -1.91% and the Market Neutral dropped -4.19% (returns provided net of fees). Over the quarter, the large cap core plus was held back handsomely by the long portfolio. Our higher quality stock picks trailed the Russell 3000 index by over 375 basis points. Although our short holdings essentially matched Russell 3000 returns, the long portfolio and the long/short extension detracted from overall performance. Within the Market Neutral, our long holdings held up slightly better over the quarter, trailing by approximately 310 basis points. However, this slight improvement was countered by our short holdings which, due to the “unfundamental” rally, detracted from performance. There was a similar story for our Small Cap focused strategy. Here our long holdings again trailed their Russell 2000 benchmark by nearly 320 basis points and the short names also detracted from performance. The fact that all three of our “strong fundamental” biased long/short portfolios underperformed in such similar areas and amounts goes a long way to validate that our process was out of favor in the second quarter of 2016. Within this quarter’s commentary, we will explain the investment principles that our strategies employ (rooted in corporate

*Source: Convergence Investment Partners Appendix B
Past performance is not indicative of future results.

fundamentals) and contrast them with short-term “unfundamental” aberrations.

Managing money based on Investment Principles

Earlier, we spoke about managing money based on sound investment principles, grounded in solid economic logic. What we mean by that comment is that some money managers try to make market calls in the hopes of “being on the right side” of a trade or investment call. We know from decades of experience and significant research into the topic of “timing,” that no one is capable of perfectly synchronizing market calls 100% of the time. The challenge of making predictions is that one has to be correct on the outcome AND the timing. When you throw in the fact that the market is in a constant state of adjustment, the prospects of “predicting the future” are similar to Russian roulette.

We have found what we believe to be the recipe for success - building a well-diversified portfolio that is built upon the tenants of economic principles and sound investment logic. We look for real companies with real cash flow, earnings, and sales, all derived from the economic activity of real people. Investment success is not built upon a system of hopes and guesses.

Just as you, your personal trainer, and Arnold Schwarzenegger can tell the difference between muscle and fat based on real/tangible observations, so too, can companies with tangible/strong fundamental muscles be separated from those companies that are “jiggling” based on hype. The difference lies in analyzing and understanding those characteristics which can be measured from various financial statements, both currently and historically.

Average fundamental statistics of long holdings for each strategy:

Portfolio	P/E Ratio	Price to Sales	Return on Assets (%)	5 yr EPS Growth (%)	12M Cash Flow Growth (%)	Profit Margin (%)	Shares Outstanding Change (%)
Core Plus Long	13.7	1.9	6.1	9.7	32.5	8.6	-3.5
Mkt Neutral Long	14.2	1.8	4.6	9.9	44.0	5.2	-2.5
Small Cap Long	18.8	2.0	4.5	10.2	155.6	7.5	-0.7
Russell 3000 Index	23.1	4.0	6.0	6.8	4.2	9.1	0.6
Russell 2000 Index	49.0	6.3	0.4	7.7	18.6	-6.3	4.7

As of 06/30/2016; Source: Wilshire Analytics, Convergence Investment Partners & Bloomberg Finance L.P.

As the table above demonstrates, the Convergence fundamental stock picking methodology leads us toward holdings in the long portfolios with strong cash flow, earnings, profits and other desirable financial characteristics. In addition, these favorable portfolio statistics are achieved without overpaying in terms of valuation as shown in the price to earnings (P/E) ratios. Convergence focuses on strong fundamental traits trading at reasonable valuations because we believe these principles, as signs of healthy and growing companies, are rewarded.

0 + 0 = NOTHING!

Following this same logic, when managing our short stock selections, we believe, based on our experience, results and research that great short candidates are also best identified through economic principles rather than based on guesses, hope, or media commentary.

According to Seinfeld’s George Costanza, “It’s not a lie if you believe it.” For the stock market, that line only holds true temporarily if a company is “living a lie.” Eventually the market tends to reconcile a company to its long-term fundamentals. For a business with no cash flow, earnings, or sales foundation to stand on, it’s only a matter of time until collapse.

Average fundamental statistics of short holdings for each strategy:

Portfolio	P/E Ratio	Price to Sales	Return on Assets (%)	5 yr EPS Growth (%)	12M Cash Flow Growth (%)*	Profit Margin (%)	Shares Out Change (%)
Core Plus Short	-399.5	15.4	-2.4	3.3	-15.2	-31.7	15.9
Mkt Neutral Short	265.2	10.0	-0.8	4.5	-7.4	-15.7	13.5
Small Cap Short	-67.3	7.3	-6.4	5.5	-22.2	-22.0	10.4
Russell 3000 Index	23.1	4.0	6.0	6.8	4.2	9.1	0.6
Russell 2000 Index	49.0	6.3	0.4	7.7	18.6	-6.3	4.7

*excluded outliers in excess of +/- 50,000% to reduce the effect of possibly spurious outliers
As of 06/30/2016; Source: Wilshire Analytics, Convergence Investment Partners & Bloomberg Finance L.P.

In sharp contrast to the long holdings, the Convergence fundamental stock picking methodology leads us toward holdings in the short portfolios with extremely weak, declining or non-existent cash flow and earnings. In addition, note the undesirable profitability and the negative average P/E multiples of the companies within each strategy (negative P/E ratios occur when a company is losing money and incurring earnings losses). Over time, companies with poor fundamentals have been beneficial to investors that have the tools and ability to short. We often say that the ability to short provides additional opportunities (See our commentary from Q1-2016*).

As we mentioned in our performance summary, we believe that the up move in stocks from mid-February to quarter end can be best explained as an “unfundamental” rally. For the remainder of this commentary we will explain an “unfundamental” rally, provide evidence of the rally and ideally irrefutably explain why this not only defies logic, but also cannot persist for the long-term.

What is an unfundamental rally?

An unfundamental rally is similar to a low quality rally; however, it expands beyond stocks that are simply of low quality, perhaps as ranked by credit rating. An unfundamental rally can include stocks with strong sales growth underperforming their peers with low or no sales growth. Another example would be a period where overpriced companies from an earnings or sales multiple standpoint outperform their prudently priced colleagues. Finally, and most shocking, would be a period where companies who are losing money outshine companies with strong and improving profit, and free cash flow margins. Each of these examples would be considered abnormal behaviors that run contrary to rational economic principles.

Evidence that the Rally was “unfundamental”

As our long-term investors are well aware, we here at Convergence believe that fundamentally sound companies will outperform their lower quality and less sound competitors. We believe our research and empirical evidence supports that across all of our factor composites (value, growth, profits, quality, etc.) , over the long term, our

*https://marcomzone.com/clients/montage/static_downloads/CIP-TL-COMM-Q1-2016.pdf

process consistently outperforms by not only picking long names that beat broad market indexes, but also by selecting long positions that significantly outperform our short names. Now in terms of evidence that this rally was “unfundamental,” we will briefly discuss an example factor that was inverted during the quarter. For those of you who would enjoy a deeper dive into factors, composites and their performance and trends, please reach out to request additional information.

During the second quarter, investors seemed to reward companies with NEGATIVE growth in sales. Companies with sales growth LESS than -15%, meaning they lost MORE THAN 15% of their revenues over the past twelve months, returned an average of nearly 8% (see below)!!! This is more than DOUBLE the return of most broad market indexes (S&P 500 was 2.46%, Russell 3000 = 2.63%, Russell 2000 = 3.79%).*

*Source: Bloomberg as of 6/30/16

The average year over year’s sales growth for the largest 1500 companies in the Russell 3000 was 8.4%. The average return of this group in the second quarter of 2016 was 3.28%. The table below shows a few more statistics:

Companies with sales growth LESS THAN: Year over Year Sales growth (data as of 07/11/16 from Bloomberg)	Average Stock return in Q2-2016
-5%	+4.66%
-10%	+7.91%
-15%	+7.99%
-20%	+10.43%
-25%	+10.62%
-30%	+10.01%
-35%	+12.15%
Average return of entire group	+3.28%

Source: Bloomberg

Additionally, the table in Appendix A, shows a plethora of companies with very low (high) sales growth over the trailing 12 months (for which financial data was available as of early July 2016 in Bloomberg) and their performance during the second quarter of 2016. This table in appendix A shows multiple companies that were rewarded (punished) over the quarter for their negative (positive) sales growth.

Hopefully this seems rather peculiar to you. It seems very unusual that companies with negative sales growth would be rewarded, especially when the phenomenon is widespread and not isolated to a few companies that may have a reasonable explanation for the poor sales and stellar performance. Our research and academic studies** have found that this past quarter was atypical, and sales growth is normally a strong predictor of future outperformance.

Is this normal? What about the long-term?

One of our factor composites focuses on companies with improving sales. This factor composite, accelerating growth (AG) is a handful of individual sales ratios and growth rates. The following table shows what our long-term research has found.

**Steven A. Sharpe (2004). How Does the Market Interpret Analysts’ Long-term Growth Forecasts? Federal Reserve Board. <http://www.federalreserve.gov/pubs/feds/2002/200207/200207pap.pdf>

Factor/Composite	Top 10%	Bottom 10%	Relative Hit Top 10%	Relative Hit Bottom 10%
$\Delta 3\Delta 3$	11.07%	6.87%	51.6%	39.3%
$\Delta 6\Delta 6$	11.26%	5.82%	50.0%	39.7%
AG Composite	10.95%	7.91%	52.8%	46.4%

Sourced: Convergence Investment Partners, 1995-2014, monthly rebalance, sector neutral, Russell 1500 Universe
 $\Delta 3\Delta 3$: 3 month change in the Quarterly growth of Sales
 $\Delta 6\Delta 6$: 6 month change in the Quarterly growth of Sales
 AG Composite: The composite that includes all factors used in the Convergence Investment Process
 Top/Bottom 10%: the average return of the top/bottom decile stocks (within each industry group) annualized
 Relative Hit: the % of periods over which that groups of stocks out(under)performed the Russell 1500 Equal weighted.

The key takeaways from the above table are:

- The best performing stocks (top 10%) handsomely have historically outperformed the bottom 10%.
- The bottom 10% of stocks as ranked by improving sales, have historically underperformed nearly 60% of the time.

So how did our AG composite perform over the past few months? The following table shows the spread returns of our AG composite for the first six months of 2016. After a strong spread return (top grouping of stocks minus the bottom grouping) in January, the next 5 months were inverted.

Month	Spread Return AG Composite
Jan 2016	2.27
Feb 2016	-1.37
Mar 2016	-1.00
Apr 2016	-0.72
May 2016	0.34
Jun 2016	-0.25

Sourced: Convergence Investment Partners, 1/1/16-6/30/16.

Over the five months ending 06/30/2016, this normally dependable accelerating sales growth composite factor generated a cumulative spread return of -2.98%. In 2015, this factor generated a cumulative positive spread of +9.16%.

Clearly the data provided in this commentary shows that periods of inverted sales growth focus is atypical. Companies that are growing their sales are typically rewarded for their increased revenue and typically outperform their peers who are failing to move inventories to receivables. This abnormal inversion was also found in a multitude of our factors in the second quarter, including Accruals, Profits, and Valuation.

Much like a rubber band which when stretched will eventually snap back to its equilibrium state, we believe the markets will eventually “snap back” to fundamentals. It is best to be invested with a manager that fully understands this reality and is invested to benefit from the coming return to normalcy. Given these observations, we believe a prudently constructed long/short portfolio focused on fundamentally superior (inferior) firms will handsomely reward investors over the long-term.

Appendix A: (Source: Bloomberg)

Ticker	Name	Industry	Year over Year Sales Growth (as of 7/11/16)	Q2-2016 Return
INVA	INNOVIVA INC COM	Pharmaceuticals, Biotechnology & Life Sciences	539.74	-16.4
OPK	OPKO HEALTH INC COM	Pharmaceuticals, Biotechnology & Life Sciences	439.63	-10.1
XPO	XPO LOGISTICS INC COM	Transportation	223.48	-14.5
CLNY	COLONY CAP INC CL A	Real Estate	180.05	-6.1
FIT	FITBIT INC CL A	Technology Hardware & Equipment	149.25	-19.3
XON	INTREXON CORP COM	Pharmaceuticals, Biotechnology & Life Sciences	141.35	-27.4
AGN	ALLERGAN PLC SHS	Pharmaceuticals, Biotechnology & Life Sciences	123.64	-13.8
ZBRA	ZEBRA TECHNOLOGIES CORP CL A	Technology Hardware & Equipment	118.55	-27.4
NTCT	NETSCOUT SYS INC COM	Technology Hardware & Equipment	110.6	-3.1
NRF	NORTHSTAR RLTY FIN CORP COM	Real Estate	106.64	-10.2
FRO	FRONTLINE LTD SHS NEW	Energy	89.78	-2.2
SYNA	SYNAPTICS INC COM	Semiconductors & Semiconductor Equipment	79.73	-32.6
HALO	HALOZYME THERAPEUTICS INC COM	Pharmaceuticals, Biotechnology & Life Sciences	79.28	-8.9
LVNTA	LIBERTY INTERACTIVE CORP LBT VENT COM A	Retailing	74.1	-5.2
LC	LENDINGCLUB CORP COM	Diversified Financials	72.52	-48.2
W	WAYFAIR INC CL A	Retailing	70.58	-9.8
NSAM	NORTHSTAR ASSET MGMT GROUP I COM	Diversified Financials	68.18	-9.3
BGCP	BGC PARTNERS INC CL A	Diversified Financials	67.05	-2
WETF	WISDOMTREE INVTS INC COM	Diversified Financials	62.68	-13.7
MNK	MALLINCKRODT PUB LTD CO SHS	Pharmaceuticals, Biotechnology & Life Sciences	60.75	-0.8
HUBS	HUBSPOT INC COM	Software & Services	57.02	-0.5
SCTY	SOLARCITY CORP COM	Capital Goods	56.69	-2.6
PANW	PALO ALTO NETWORKS INC COM	Technology Hardware & Equipment	55.15	-24.8
KW	KENNEDY-WILSON HLDGS INC COM	Real Estate	51.46	-12.7
CHDN	CHURCHILL DOWNS INC COM	Consumer Services	49.26	-14.6
WDAY	WORKDAY INC CL A	Software & Services	47.53	-2.8
OHI	OMEGA HEALTHCARE INVS INC COM	Real Estate	47.31	-2.2
MOH	MOLINA HEALTHCARE INC COM	Health Care Equipment & Services	46.67	-22.6
FEYE	FIREEYE INC COM	Software & Services	46.35	-8.4
LAD	LITHIA MTRS INC CL A	Retailing	45.9	-18.4
REGN	REGENERON PHARMACEUTICALS COM	Pharmaceuticals, Biotechnology & Life Sciences	45.55	-3.1
STMP	STAMPS COM INC COM NEW	Software & Services	45.28	-17.7
IPXL	IMPAX LABORATORIES INC COM	Pharmaceuticals, Biotechnology & Life Sciences	44.36	-10
IMPV	IMPERVA INC COM	Software & Services	42.86	-14.8
SWKS	SKYWORKS SOLUTIONS INC COM	Semiconductors & Semiconductor Equipment	42.2	-18.4
FLT	FLEETCOR TECHNOLOGIES INC COM	Software & Services	41.98	-3.8
XL	XL GROUP PLC SHS	Insurance	41	-8.9
MFRM	MATTRESS FIRM HLDG CORP COM	Retailing	40.73	-20.9
STL	STERLING BANCORP COM	Banks	39.63	-1
NCLH	NORWEGIAN CRUISE LINE HLDGS SHS	Consumer Services	39	-27.9
ENDP	ENDO INTERNATIONAL PLC COM	Pharmaceuticals, Biotechnology & Life Sciences	37.3	-44.6
OZRK	BANK OF THE OZARKS INC COM	Banks	36.78	-10.3
SMCI	SUPER MICRO COMPUTER INC COM	Technology Hardware & Equipment	35.71	-27.1

Ticker	Name	Industry	Year over Year Sales Growth (as of 7/11/16)	Q2-2016 Return
WBA	WALGREENS BOOTS ALLIANCE INC COM	Food & Staples Retailing	35.41	-0.7
NGHC	NATIONAL GEN HLDGS CORP COM	Insurance	34.87	-0.6
ROLL	RBC BEARINGS INC COM	Capital Goods	34.18	-1
EVR	EVERCORE PARTNERS INC CLASS A	Diversified Financials	33.16	-14.1
INFN	INFINERA CORPORATION COM	Technology Hardware & Equipment	32.73	-29.8
IONS	IONIS PHARMACEUTICALS INC COM	Pharmaceuticals, Biotechnology & Life Sciences	32.47	-42.5
SKX	SKECHERS U S A INC CL A	Consumer Durables & Apparel	32.38	-2.4
PNFP	PINNACLE FINL PARTNERS INC COM	Banks	32.05	-0.1
GILD	GILEAD SCIENCES INC COM	Pharmaceuticals, Biotechnology & Life Sciences	31.13	-8.7
SSNC	SS&C TECHNOLOGIES HLDGS INC COM	Software & Services	30.27	-11.3
BKD	BROOKDALE SR LIVING INC COM	Health Care Equipment & Services	29.46	-2.8
CRAY	CRAY INC COM NEW	Technology Hardware & Equipment	29.04	-28.6
PEB	PEBBLEBROOK HOTEL TR COM	Real Estate	28.74	-8.3
IMAX	IMAX CORP COM	Media	28.66	-5.2
UA	UNDER ARMOUR INC CL A	Consumer Durables & Apparel	28.5	-8.4
PRGO	PERRIGO CO PLC SHS	Pharmaceuticals, Biotechnology & Life Sciences	28.26	-29
AAPL	APPLE INC COM	Technology Hardware & Equipment	27.86	-11.7
TMH	TEAM HEALTH HOLDINGS INC COM	Health Care Equipment & Services	27.58	-2.7
SNCR	SYNCHRONOSS TECHNOLOGIES INC COM	Software & Services	26.57	-1.5
TSLA	TESLA MTRS INC COM	Automobiles & Components	26.5	-7.6
KFY	KORN FERRY INTL COM NEW	Commercial & Professional Services	26.33	-26.5
PRLB	PROTO LABS INC COM	Capital Goods	26.01	-25.3
PCRX	PACIRA PHARMACEUTICALS INC COM	Pharmaceuticals, Biotechnology & Life Sciences	25.97	-36.3
WAL	WESTERN ALLIANCE BANCORP COM	Banks	25.82	-2.2
EPAM	EPAM SYS INC COM	Software & Services	25.22	-13.9
HAWK	BLACKHAWK NETWORK HLDGS INC COM	Software & Services	24.65	-2.4
MTSI	MA COM TECHNOLOGY SOLUTIONS COM	Semiconductors & Semiconductor Equipment	24	-24.7
NFLX	NETFLIX INC COM	Retailing	23.16	-10.5
ESS	ESSEX PPTY TR INC COM	Real Estate	23.02	-1.8
ATHN	ATHENAHEALTH INC COM	Health Care Equipment & Services	22.87	-0.6
FWRD	FORWARD AIR CORP COM	Transportation	22.81	-1.5
MGLN	MAGELLAN HEALTH INC COM NEW	Health Care Equipment & Services	22.27	-3.2
MYL	MYLAN NV ORD SHS	Pharmaceuticals, Biotechnology & Life Sciences	22.15	-6.7
SEM	SELECT MED HLDGS CORP COM	Health Care Equipment & Services	22.11	-8
GWR	GENESEE & WYO INC CL A	Transportation	22.05	-6
SLM	SLM CORP COM	Diversified Financials	21.9	-2.8
CHSP	CHESAPEAKE LODGING TR SH BEN INT	Real Estate	21.89	-10.6
LEN	LENNAR CORP CL A	Consumer Durables & Apparel	21.78	-4.6
IDTI	INTEGRATED DEVICE TECHNOLOGY COM	Semiconductors & Semiconductor Equipment	21.73	-1.5
ADS	ALLIANCE DATA SYSTEMS CORP COM	Software & Services	21.44	-10.9
LVLT	LEVEL 3 COMMUNICATIONS INC COM	Telecommunication Services	21.43	-2.6
KS	KAPSTONE PAPER & PACKAGING C COM	Materials	21.23	-5.3
SFM	SPROUTS FMRS MKT INC COM	Food & Staples Retailing	21.08	-21.1
STE	STERIS PLC SHS USD	Health Care Equipment & Services	21	-2.9

Ticker	Name	Industry	Year over Year Sales Growth (as of 7/11/16)	Q2-2016 Return
CTSH	COGNIZANT TECHNOLOGY SOLUTIONS CL A	Software & Services	20.98	-8.7
RNST	RENASANT CORP COM	Banks	20.97	-1.2
EXR	EXTRA SPACE STORAGE INC COM	Real Estate	20.88	-0.1
CELG	CELGENE CORP COM	Pharmaceuticals, Biotechnology & Life Sciences	20.67	-1.5
RNR	RENAISSANCERE HOLDINGS LTD COM	Insurance	20.24	-1.7
UMPQ	UMPQUA HLDGS CORP COM	Banks	20.12	-1.4
CBG	CBRE GROUP INC CL A	Real Estate	19.95	-8.1
ADI	ANALOG DEVICES INC COM	Semiconductors & Semiconductor Equipment	19.91	-3.6
TRIP	TRIPADVISOR INC COM	Retailing	19.74	-3.3
BWLD	BUFFALO WILD WINGS INC COM	Consumer Services	19.56	-6.2
SBNY	SIGNATURE BK NEW YORK N Y COM	Banks	19.26	-8.2
ILMN	ILLUMINA INC COM	Pharmaceuticals, Biotechnology & Life Sciences	19.25	-13.4
BMRN	BIOMARIN PHARMACEUTICAL INC COM	Pharmaceuticals, Biotechnology & Life Sciences	18.77	-5.7
INCR	INC RESH HLDGS INC CL A	Pharmaceuticals, Biotechnology & Life Sciences	18.7	-7.5
AMCX	AMC NETWORKS INC CL A	Media	18.63	-7
AAN	AARONS INC COM PAR \$0.50	Retailing	17.99	-12.7
CUBE	CUBESMART COM	Real Estate	17.92	-6.6
LTRPA	LIBERTY TRIPADVISOR HLDGS IN COM SER A	Retailing	17.76	-1.3
EIGI	ENDURANCE INTL GROUP HLDGS I COM	Software & Services	17.7	-14.6
IPGP	IPG PHOTONICS CORP COM	Technology Hardware & Equipment	17.07	-16.7
SRCL	STERICYCLE INC COM	Commercial & Professional Services	16.84	-17.5
FTR	FRONTIER COMMUNICATIONS CORP COM	Telecommunication Services	16.84	-9.7
ALXN	ALEXION PHARMACEUTICALS INC COM	Pharmaceuticals, Biotechnology & Life Sciences	16.58	-16.1
SBUX	STARBUCKS CORP COM	Consumer Services	16.51	-4
AL	AIR LEASE CORP CL A	Capital Goods	16.41	-16.5
HOMB	HOME BANCSHARES INC COM	Banks	16.36	-2.9
LPNT	LIFEPOINT HEALTH INC COM	Health Care Equipment & Services	16.31	-5.6
USNA	USANA HEALTH SCIENCES INC COM	Household & Personal Products	16.2	-8.2
GPRO	GOPRO INC CL A	Consumer Durables & Apparel	16.19	-9.6
TGNA	TEGNA INC COM	Media	16.18	-0.6
EBS	EMERGENT BIOSOLUTIONS INC COM	Pharmaceuticals, Biotechnology & Life Sciences	16.14	-22.6
RAD	RITE AID CORP COM	Food & Staples Retailing	15.86	-8.1
GDDY	GODADDY INC CL A	Software & Services	15.86	-3.5
PDCE	PDC ENERGY INC COM	Energy	15.78	-3.1
EXPE	EXPEDIA INC DEL COM NEW	Retailing	15.77	-1.2
CMN	CANTEL MEDICAL CORP COM	Health Care Equipment & Services	15.6	-3.7
PYPL	PAYPAL HLDGS INC COM	Software & Services	15.24	-5.4
HAR	HARMAN INTL INDS INC COM	Consumer Durables & Apparel	15.08	-19
RHT	RED HAT INC COM	Software & Services	14.68	-2.6
CPHD	CEPHEID COM	Pharmaceuticals, Biotechnology & Life Sciences	14.56	-7.8
SC	SANTANDER CONSUMER USA HDG I COM	Diversified Financials	14.32	-1.5
COLB	COLUMBIA BKG SYS INC COM	Banks	14.29	-5
AFSI	AMTRUST FINL SVCS INC COM	Insurance	14.2	-4.7
SIG	SIGNET JEWELERS LIMITED SHS	Retailing	14.19	-33.4
UTHR	UNITED THERAPEUTICS CORP DEL COM	Pharmaceuticals, Biotechnology & Life Sciences	13.76	-4.9
ABC	AMERISOURCEBERGEN CORP COM	Health Care Equipment & Services	13.71	-7.9

Ticker	Name	Industry	Year over Year Sales Growth (as of 7/11/16)	Q2-2016 Return
GOOGL	ALPHABET INC CL A	Software & Services	13.62	-7.8
GOOG	ALPHABET INC CL C	Software & Services	13.62	-7.1
JBL	JABIL CIRCUIT INC COM	Technology Hardware & Equipment	13.56	-3.7
CHH	CHOICE HOTELS INTL INC COM	Consumer Services	13.44	-11.5
BKU	BANKUNITED INC COM	Banks	13.27	-10.3
SNI	SCRIPPS NETWORKS INTERACT IN CL A COM	Media	13.23	-4.6
HW	HEADWATERS INC COM	Materials	13.13	-9.6
RH	RESTORATION HARDWARE HLDGS I COM	Retailing	12.94	-31.6
JNS	JANUS CAP GROUP INC COM	Diversified Financials	12.9	-4.1
LOPE	GRAND CANYON ED INC COM	Consumer Services	12.61	-6.6
IBKR	INTERACTIVE BROKERS GROUP IN COM	Diversified Financials	12.59	-9.7
CAH	CARDINAL HEALTH INC COM	Health Care Equipment & Services	12.57	-4.3
TREX	TREX INC COM	Capital Goods	12.55	-6.3
SABR	SABRE CORP COM	Software & Services	12.52	-6.9
SSS	SOVRAN SELF STORAGE INC COM	Real Estate	12.43	-10.3
PODD	INSULET CORP COM	Health Care Equipment & Services	12.3	-8.8
ABG	ASBURY AUTOMOTIVE GROUP INC COM	Retailing	12.28	-11.9
SBGI	SINCLAIR BROADCAST GROUP INC CL A	Media	12.27	-2.3
THC	TENET HEALTHCARE CORP COM	Health Care Equipment & Services	12.23	-4.5
GNTX	GENTEX CORP COM	Automobiles & Components	12.22	-1
NYRT	NEW YORK REIT INC COM	Real Estate	12.18	-7.3
SCOR	COMSCORE INC COM	Software & Services	12.05	-20.5
BUFF	BLUE BUFFALO PET PRODS INC COM	Food Beverage & Tobacco	11.95	-9
HUM	HUMANA INC COM	Health Care Equipment & Services	11.94	-1.5
PAG	PENSKE AUTOMOTIVE GRP INC COM	Retailing	11.91	-16.4
APLE	APPLE HOSPITALITY REIT INC COM NEW	Real Estate	11.75	-3.5
RAX	RACKSPACE HOSTING INC COM	Software & Services	11.53	-3.4
RDN	RADIAN GROUP INC COM	Banks	11.24	-16
DPZ	DOMINOS PIZZA INC COM	Consumer Services	11.17	-0.1
CCP	CARE CAP PPTYS INC COM	Real Estate	11.03	-0.3
ALGT	ALLEGIANT TRAVEL CO COM	Transportation	11.01	-14.5
BIIB	BIOGEN INC COM	Pharmaceuticals, Biotechnology & Life Sciences	10.93	-7.1
SAVE	SPIRIT AIRLS INC COM	Transportation	10.87	-6.5
FMBI	FIRST MIDWEST BANCORP DEL COM	Banks	10.81	-2.1
COLM	COLUMBIA SPORTSWEAR CO COM	Consumer Durables & Apparel	10.74	-3.9
GIII	G-III APPAREL GROUP LTD COM	Consumer Durables & Apparel	10.74	-6.5
VLY	VALLEY NATL BANCORP COM	Banks	10.73	-3.3
CAVM	CAVIUM INC COM	Semiconductors & Semiconductor Equipment	10.66	-36.9
IMS	IMS HEALTH HLDGS INC COM	Health Care Equipment & Services	10.6	-4.5
PINC	PREMIER INC CL A	Health Care Equipment & Services	10.6	-2
PRAH	PRA HEALTH SCIENCES INC COM	Pharmaceuticals, Biotechnology & Life Sciences	10.57	-2.3
ON	ON SEMICONDUCTOR CORP COM	Semiconductors & Semiconductor Equipment	10.56	-8
MTG	MGIC INVT CORP WIS COM	Banks	10.51	-22.4
WAIR	WESCO AIRCRAFT HLDGS INC COM	Transportation	10.45	-6.7
ORLY	O REILLY AUTOMOTIVE INC NEW COM	Retailing	10.4	-0.9
JBLU	JETBLUE AIRWAYS CORP COM	Transportation	10.3	-21.6
FNGN	FINANCIAL ENGINES INC COM	Diversified Financials	10.22	-17.5

Ticker	Name	Industry	Year over Year Sales Growth (as of 7/11/16)	Q2-2016 Return
AVB	AVALONBAY CMNTYS INC COM	Real Estate	10.15	-4.4
VAL	VALSPAR CORP COM	Materials	-5.04	1.3
MENT	MENTOR GRAPHICS CORP COM	Software & Services	-5.08	4.8
ECL	ECOLAB INC COM	Materials	-5.15	6.7
GGP	GENERAL GROWTH PPTYS INC COM NEW	Real Estate	-5.19	1
PCH	POTLATCH CORP NEW COM	Real Estate	-5.21	9.4
JW/A	WILEY JOHN & SONS INC CL A	Media	-5.23	7.4
PG	PROCTER & GAMBLE CO COM	Household & Personal Products	-5.26	3.7
SO	SOUTHERN CO COM	Utilities	-5.3	4.8
IP	INTL PAPER CO COM	Materials	-5.3	4.3
MON	MONSANTO CO NEW COM	Materials	-5.39	18.6
PB	PROSPERITY BANCSHARES INC COM	Banks	-5.4	10.6
TIME	TIME INC NEW COM	Media	-5.43	8
PEP	PEPSICO INC COM	Food Beverage & Tobacco	-5.44	4.1
HPE	HEWLETT PACKARD ENTERPRISE C COM	Technology Hardware & Equipment	-5.47	3.3
WR	WESTAR ENERGY INC COM	Utilities	-5.48	13.8
CA	CA INC COM	Software & Services	-5.56	7.5
XEL	XCEL ENERGY INC COM	Utilities	-5.66	7.9
JNJ	JOHNSON & JOHNSON COM	Pharmaceuticals, Biotechnology & Life Sciences	-5.73	12.9
AVY	AVERY DENNISON CORP COM	Materials	-5.74	4.2
KMB	KIMBERLY CLARK CORP COM	Household & Personal Products	-5.74	2.9
PLCM	POLYCOM INC COM	Technology Hardware & Equipment	-5.79	0.9
HYH	HALYARD HEALTH INC COM	Health Care Equipment & Services	-5.84	13.2
GRA	GRACE W R & CO DEL NEW COM	Materials	-5.91	3.1
GIS	GENERAL MLS INC COM	Food Beverage & Tobacco	-6.05	13.4
D	DOMINION RES INC VA NEW COM	Utilities	-6.06	4.8
KSU	KANSAS CITY SOUTHERN COM NEW	Transportation	-6.14	5.8
BMS	BEMIS INC COM	Materials	-6.26	0
CR	CRANE CO COM	Capital Goods	-6.31	5.9
L	LOEWS CORP COM	Insurance	-6.35	7.6
BKH	BLACK HILLS CORP COM	Utilities	-6.38	5.6
ZION	ZIONS BANCORPORATION COM	Banks	-6.4	4
MRK	MERCK & CO INC COM	Pharmaceuticals, Biotechnology & Life Sciences	-6.48	9.8
FLS	FLOWSERVE CORP COM	Capital Goods	-6.5	2.1
CLI	MACK CALI RLTY CORP COM	Real Estate	-6.58	15.6
ALSN	ALLISON TRANSMISSION HLDGS I COM	Capital Goods	-6.66	5.2
UVV	UNIVERSAL CORP VA COM	Food Beverage & Tobacco	-6.67	2.6
PNY	PIEDMONT NAT GAS INC COM	Utilities	-6.69	1.1
BLL	BALL CORP COM	Materials	-6.69	1.6
XYL	XYLEM INC COM	Capital Goods	-6.72	9.6
CSX	CSX CORP COM	Transportation	-6.77	2
VVC	VECTREN CORP COM	Utilities	-6.78	5
S	SPRINT CORP COM SER 1	Telecommunication Services	-6.81	30.2
BAX	BAXTER INTL INC COM	Health Care Equipment & Services	-7.01	10.4
BIO	BIO RAD LABS INC CL A	Pharmaceuticals, Biotechnology & Life Sciences	-7.15	4.6
EDE	EMPIRE DIST ELEC CO COM	Utilities	-7.17	3.6
CL	COLGATE PALMOLIVE CO COM	Household & Personal Products	-7.19	4.2
K	KELLOGG CO COM	Food Beverage & Tobacco	-7.24	7.4
HPQ	HP INC COM	Technology Hardware & Equipment	-7.27	2.8
ISIL	INTERSIL CORP CL A	Semiconductors & Semiconductor Equipment	-7.28	2.3
SRE	SEMPRA ENERGY COM	Utilities	-7.29	10.3
EPC	EDGEWELL PERSONAL CARE COMPANY COM	Household & Personal Products	-7.31	4.8

Ticker	Name	Industry	Year over Year Sales Growth (as of 7/11/16)	Q2-2016 Return
EE	EL PASO ELEC CO COM NEW	Utilities	-7.37	3.7
WM	WASTE MGMT INC DEL COM	Commercial & Professional Services	-7.39	13.1
ITW	ILLINOIS TOOL WKS INC COM	Capital Goods	-7.45	2.2
PTC	PTC INC COM	Software & Services	-7.5	13.3
NRG	NRG ENERGY INC COM NEW	Utilities	-7.52	15.4
ENS	ENERSYS COM	Capital Goods	-7.55	7
TTEK	TETRA TECH INC NEW COM	Commercial & Professional Services	-7.59	3.4
MJN	MEAD JOHNSON NUTRITION CO COM	Food Beverage & Tobacco	-7.67	7.3
VSH	VISHAY INTERTECHNOLOGY INC COM	Technology Hardware & Equipment	-7.73	2
NAVI	NAVIENT CORP COM	Diversified Financials	-7.81	1
SCL	STEPAN CO COM	Materials	-7.84	8
ETR	ENERGY CORP NEW COM	Utilities	-7.86	3.8
AFL	AFLAC INC COM	Insurance	-8.17	15
CASY	CASEYS GEN STORES INC COM	Food & Staples Retailing	-8.31	16.3
NFX	NEWFIELD EXPL CO COM	Energy	-8.31	32.9
PNR	PENTAIR PLC SHS	Capital Goods	-8.38	8.1
XRAY	DENTSPLY SIRONA INC COM	Health Care Equipment & Services	-8.5	0.8
MTZ	MASTEC INC COM	Capital Goods	-8.75	10.3
MGM	MGM RESORTS INTERNATIONAL COM	Consumer Services	-8.85	5.6
SYMC	SYMANTEC CORP COM	Software & Services	-9	12.2
MGEE	MGE ENERGY INC COM	Utilities	-9.01	8.8
UNP	UNION PAC CORP COM	Transportation	-9.07	10.4
OI	OWENS ILL INC COM NEW	Materials	-9.26	12.8
PXD	PIONEER NAT RES CO COM	Energy	-9.26	7.4
DRE	DUKE REALTY CORP COM NEW	Real Estate	-9.31	19.2
PRA	PROASSURANCE CORP COM	Insurance	-9.42	6.5
AGIO	AGIOS PHARMACEUTICALS INC COM	Pharmaceuticals, Biotechnology & Life Sciences	-9.55	3.2
NSC	NORFOLK SOUTHERN CORP COM	Transportation	-9.58	2.9
RYN	RAYONIER INC COM	Real Estate	-9.72	7.4
LECO	LINCOLN ELEC HLDGS INC COM	Capital Goods	-9.86	1.4
PM	PHILIP MORRIS INTL INC COM	Food Beverage & Tobacco	-9.99	4.7
CMS	CMS ENERGY CORP COM	Utilities	-10.07	8.9
CST	CST BRANDS INC COM	Retailing	-10.27	12.7
DOV	DOVER CORP COM	Capital Goods	-10.27	8.4
OSK	OSHKOSH CORP COM	Capital Goods	-10.43	17.2
OGE	OGE ENERGY CORP COM	Utilities	-10.44	15.5
CRZO	CARRIZO OIL & GAS INC COM	Energy	-10.5	15.9
RS	RELIANCE STEEL & ALUMINUM CO COM	Materials	-10.54	11.7
ATR	APTARGROUP INC COM	Materials	-10.8	1.3
CXO	CONCHO RES INC COM	Energy	-10.82	18
HUN	HUNTSMAN CORP COM	Materials	-11.05	2
CC	CHEMOURS CO COM	Materials	-11.12	18.1
MLI	MUELLER INDS INC COM	Capital Goods	-11.18	8.7
KMI	KINDER MORGAN INC DEL COM	Energy	-11.24	5.6
SE	SPECTRA ENERGY CORP COM	Energy	-11.33	21.3
ENR	ENERGIZER HLDGS INC NEW COM	Household & Personal Products	-11.35	27.8
EQT	EQT CORPORATION COM	Energy	-11.36	15.2
HL	HECLA MNG CO COM	Materials	-11.42	83.6
DD	DU PONT E I DE NEMOURS & CO COM	Materials	-11.53	2.9
SCG	SCANA CORP NEW COM	Utilities	-11.53	8.7
AVX	AVX CORP NEW COM	Technology Hardware & Equipment	-11.65	8.9
FELE	FRANKLIN ELEC INC COM	Capital Goods	-11.73	3.1
AXLL	AXIALL CORP COM	Materials	-11.75	50
CMC	COMMERCIAL METALS CO COM	Materials	-11.81	0.3
IBM	INTERNATIONAL BUSINESS MACHS COM	Software & Services	-11.91	1.2

Ticker	Name	Industry	Year over Year Sales Growth (as of 7/11/16)	Q2-2016 Return
POL	POLYONE CORP COM	Materials	-11.94	16.9
ASH	ASHLAND INC NEW COM	Materials	-11.99	4.7
SMTC	SEMTECH CORP COM	Semiconductors & Semiconductor Equipment	-12.13	8.5
CSC	COMPUTER SCIENCES CORP COM	Software & Services	-12.46	45.4
NUS	NU SKIN ENTERPRISES INC CL A	Household & Personal Products	-12.55	21.8
AES	AES CORP COM	Utilities	-12.73	6.8
COH	COACH INC COM	Consumer Durables & Apparel	-12.79	2.5
STLD	STEEL DYNAMICS INC COM	Materials	-13.27	9.5
UNVR	UNIVAR INC COM	Capital Goods	-13.42	10.1
MDLZ	MONDELEZ INTL INC CL A	Food Beverage & Tobacco	-13.46	13.9
HTS	HATTERAS FINL CORP COM	Real Estate	-13.48	18
TAP	MOLSON COORS BREWING CO CL B	Food Beverage & Tobacco	-13.96	5.6
DO	DIAMOND OFFSHORE DRILLING INC COM	Energy	-14.04	12
EIX	EDISON INTL COM	Utilities	-14.08	8.7
DAR	DARLING INGREDIENTS INC COM	Food Beverage & Tobacco	-14.13	13.1
RRC	RANGE RES CORP COM	Energy	-14.3	33.3
CMP	COMPASS MINERALS INTL INC COM	Materials	-14.33	5.6
DF	DEAN FOODS CO NEW COM	Food Beverage & Tobacco	-14.54	5
DVN	DEVON ENERGY CORP NEW COM	Energy	-14.6	32.3
CAT	CATERPILLAR INC DEL COM	Capital Goods	-14.81	0
HP	HELMERICH & PAYNE INC COM	Energy	-14.9	15.6
OGS	ONE GAS INC COM	Utilities	-14.91	9.6
DTE	DTE ENERGY CO COM	Utilities	-15.97	10.2
JOY	JOY GLOBAL INC COM	Capital Goods	-16.04	31.6
VMI	VALMONT INDS INC COM	Capital Goods	-16.14	9.5
ATO	ATMOS ENERGY CORP COM	Utilities	-16.17	10.1
KEX	KIRBY CORP COM	Transportation	-16.32	3.5
CE	CELANESE CORP DEL COM SER A	Materials	-16.58	0.4
ADM	ARCHER DANIELS MIDLAND CO COM	Food Beverage & Tobacco	-16.62	19.1
NFG	NATIONAL FUEL GAS CO N J COM	Utilities	-16.67	14.5
WOR	WORTHINGTON INDS INC COM	Materials	-16.68	19.3
EQC	EQUITY COMMONWEALTH CWH	Real Estate	-17.05	3.2
SWN	SOUTHWESTERN ENERGY CO COM	Energy	-17.31	55.9
TCO	TAUBMAN CTRS INC COM	Real Estate	-17.96	5.1
NBL	NOBLE ENERGY INC COM	Energy	-18.31	14.5
UGI	UGI CORP NEW COM	Utilities	-19.16	12.9
HE	HAWAIIAN ELEC INDUSTRIES COM	Utilities	-19.65	2.2
CNP	CENTERPOINT ENERGY INC COM	Utilities	-19.94	16.1
DE	DEERE & CO COM	Capital Goods	-19.97	6
CIM	CHIMERA INVT CORP COM	Real Estate	-21.51	19.1
NUE	NUCOR CORP COM	Materials	-22.11	5.3
TSE	TRINSEO S A SHS	Materials	-22.54	16.6
CNX	CONSOL ENERGY INC COM	Energy	-22.72	42.5
TRGP	TARGA RES CORP COM	Energy	-22.72	44.3
SWC	STILLWATER MNG CO COM	Materials	-23.03	11.4
MRC	MRC GLOBAL INC COM	Capital Goods	-23.67	8.1
BG	BUNGE LIMITED COM	Food Beverage & Tobacco	-23.98	5
QEP	QEP RES INC COM	Energy	-24.45	24.9
MUSA	MURPHY USA INC COM	Retailing	-25.24	20.7
FCX	FREEPORT-MCMORAN INC CL B	Materials	-25.94	7.7
CAG	CONAGRA FOODS INC COM	Food Beverage & Tobacco	-26.46	7.7
COG	CABOT OIL & GAS CORP COM	Energy	-26.56	13.4
SLCA	U S SILICA HLDGS INC COM	Energy	-26.66	52
DNOW	NOW INC COM	Capital Goods	-26.67	2.4
GAS	AGL RES INC COM	Utilities	-26.82	2.1

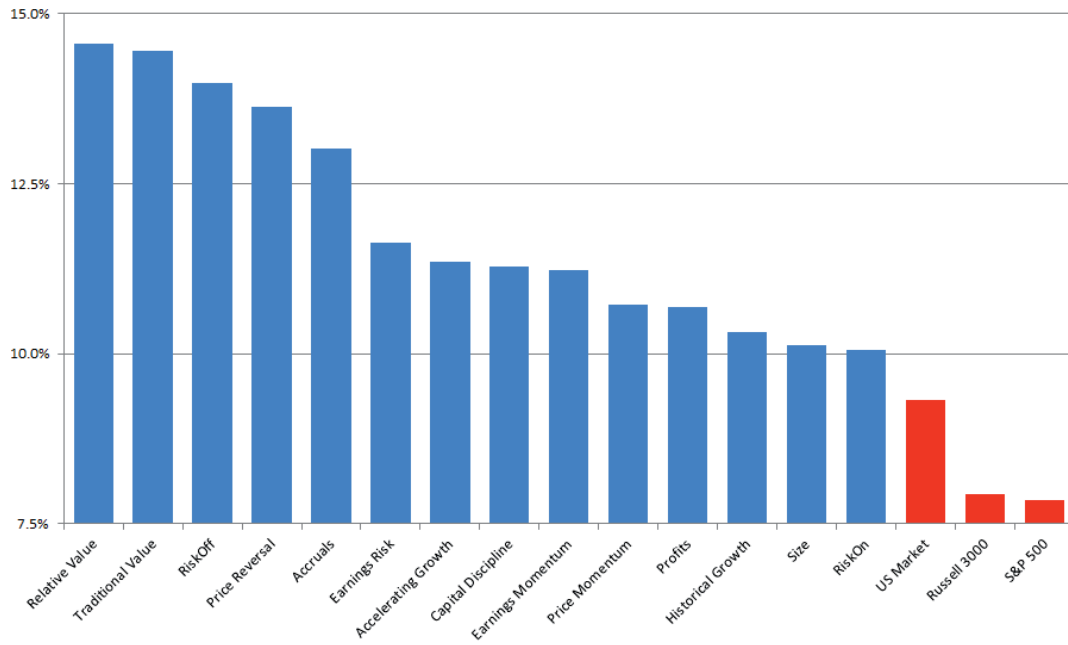
Ticker	Name	Industry	Year over Year Sales Growth (as of 7/11/16)	Q2-2016 Return
NJR	NEW JERSEY RES COM	Utilities	-26.86	6.5
SLB	SCHLUMBERGER LTD COM	Energy	-26.98	7.9
DNR	DENBURY RES INC COM NEW	Energy	-27.42	61.7
HAL	HALLIBURTON CO COM	Energy	-28.1	27.3
NI	NISOURCE INC COM	Utilities	-28.11	13.3
AEIS	ADVANCED ENERGY INDS COM	Semiconductors & Semiconductor Equipment	-28.86	9.1
MPC	MARATHON PETE CORP COM	Energy	-29.38	3
WLL	WHITING PETE CORP NEW COM	Energy	-30.82	16
NOV	NATIONAL OILWELL VARCO INC COM	Energy	-31.17	8.3
SEMG	SEMGROUP CORP CL A	Energy	-31.45	47.6
OMAM	OM ASSET MGMT PLC SHS	Diversified Financials	-33.8	0.6
X	UNITED STATES STL CORP NEW COM	Materials	-33.89	5.4
XOM	EXXON MOBIL CORP COM	Energy	-35.08	13.1
OXY	OCCIDENTAL PETE CORP DEL COM	Energy	-35.38	11.5
WPX	WPX ENERGY INC COM	Energy	-35.65	33.2
BHI	BAKER HUGHES INC COM	Energy	-35.88	3.3
CVX	CHEVRON CORP NEW COM	Energy	-36.27	11.1
OKE	ONEOK INC NEW COM	Energy	-36.34	61.7
KHC	KRAFT HEINZ CO COM	Food Beverage & Tobacco	-37.03	13.4
CHK	CHESAPEAKE ENERGY CORP COM	Energy	-38.07	3.9
HES	HESS CORP COM	Energy	-38.2	14.6
FET	FORUM ENERGY TECHNOLOGIES IN COM	Energy	-38.29	31.1
SPN	SUPERIOR ENERGY SVCS INC COM	Energy	-39.11	37.5
OIS	OIL STS INTL INC COM	Energy	-39.55	4.3
SM	SM ENERGY COMPANY COM	Energy	-39.96	44.3
XEC	CIMAREX ENERGY CO COM	Energy	-40.27	22.8
PTEN	PATTERSON UTI ENERGY INC COM	Energy	-40.57	21.1
CLR	CONTINENTAL RESOURCES INC COM	Energy	-42.08	49.1
NBR	NABORS INDUSTRIES LTD SHS	Energy	-43.21	9.8
OAS	OASIS PETE INC NEW COM	Energy	-43.47	28.3
COP	CONOCOPHILLIPS COM	Energy	-43.71	8.9
EGN	ENERGEN CORP COM	Energy	-44.03	31.8
BLUE	BLUEBIRD BIO INC COM	Pharmaceuticals, Biotechnology & Life Sciences	-44.62	1.9
RES	RPC INC COM	Energy	-45.93	9.5
MUR	MURPHY OIL CORP COM	Energy	-47.3	27.5
EOG	EOG RES INC COM	Energy	-47.96	15.2
MRO	MARATHON OIL CORP COM	Energy	-48.77	35.3
ACAD	ACADIA PHARMACEUTICALS INC COM	Pharmaceuticals, Biotechnology & Life Sciences	-49.17	16.1
APA	APACHE CORP COM	Energy	-50.27	14.6
APC	ANADARKO PETE CORP COM	Energy	-51.09	14.5
MDCO	MEDICINES CO COM	Pharmaceuticals, Biotechnology & Life Sciences	-53.16	5.9
ITCI	INTRA CELLULAR THERAPIES INC COM	Pharmaceuticals, Biotechnology & Life Sciences	-84.17	39.6

Appendix B:

The following two charts show that over the long term (in this case 20 years ended 06/30/2016) these fundamental composites generate positive return. In the top chart, over this period, the top 20% of stocks in each composite outperformed both the broad capitalization weighted indexes and the Convergence equal weighted US market (top 1500 stocks within the Russell 3000 equally weighted.) The second chart shows that, over the same period, these composites generated positive spread. Spread is the performance differential between the top 20% of stocks as ranked by that composite and the bottom 20% of stocks. These charts reflect industry group neutral results, meaning that industry group weights are held constant and the best/worst stocks are used to fill the weights to avoid (significantly reduce) industry group allocation effect. The composite returns reflect a monthly rebalance, and are gross of all fees. Given the long term nature of this chart, we are comfortable assuming that these reflect the long run averages (which are greater than zero) and therefore can assume that positive fundamentals outperforming poor is the equilibrium state.

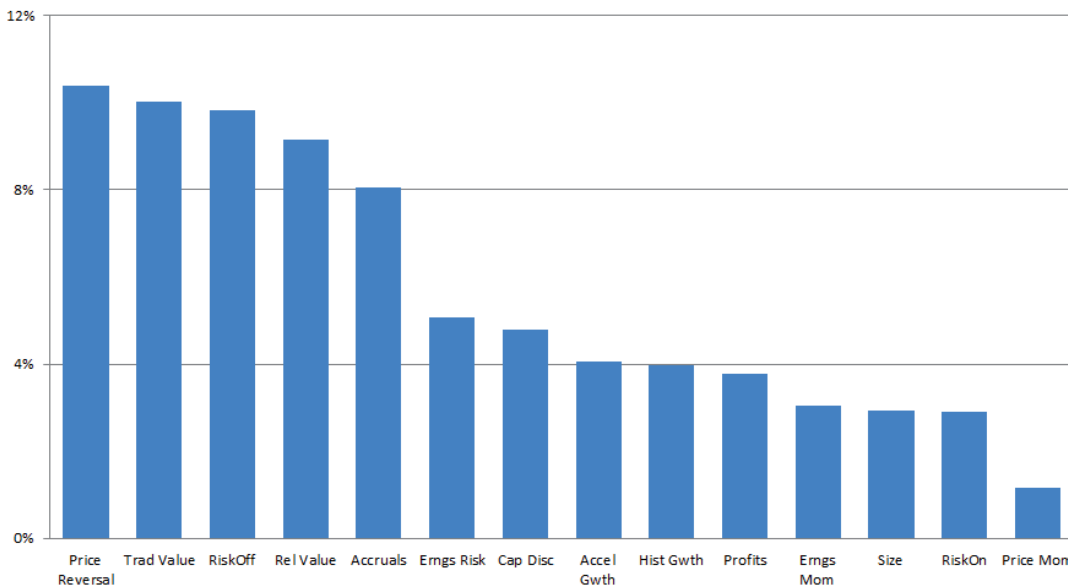
Top Quintile Factor Returns

20 years ended 06/30/2016; Russ1500; Quintile; Industry Group Neutral; Monthly Rebalance



Factor Spread Returns (Q1-Q5)

20 years ended 06/30/2016; Russ1500; Quintile; Industry Group Neutral; Monthly Rebalance



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Strategy returns are presented net of fees. Net of fee performance returns are presented after actual standard management fees, actual performance-based 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.

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Price/earnings (or P/E) is a ratio for valuing a company that measures its current share price relative to its per-share earnings.

Basis points (BPS) refer to a common unit of measure for percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01% (0.0001), and is used to denote the percentage change in a financial instrument.

Price-sales (P/S ratio) is a valuation metric for stocks that is calculated by dividing the company's market cap by the revenue in the most recent year; or, equivalently, divide the per-share stock price by the per-share revenue.

Return on Assets (ROA) is an indicator of how profitable a company is relative to its total assets, calculated by dividing a company's annual earnings by its total assets.

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock.

Cash flow is the total amount of money being transferred into and out of a business, especially as affecting liquidity.

Profit margin is the amount by which revenue from sales exceeds costs in a business.

Shares outstanding are all the shares of a corporation or financial asset that have been authorized, issued and purchased by investors and are held by them.

No graph, chart, or formula should in and of itself be used to determine which securities to buy or sell. The Russell 3000 Index and the Russell 2000 Index are measures of the performance of the largest 3000 and 2000 US companies respectively. They are constructed to provide a

comprehensive, unbiased, and stable barometer of the broad market and it is reconstituted annually to ensure new and growing equities are reflected. Comparison to these benchmarks are for illustrative purposes only and the volatility of the benchmark may be materially different from the volatility of the strategies 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.

