Due Diligence: IMS Select Portfolios

August 2016

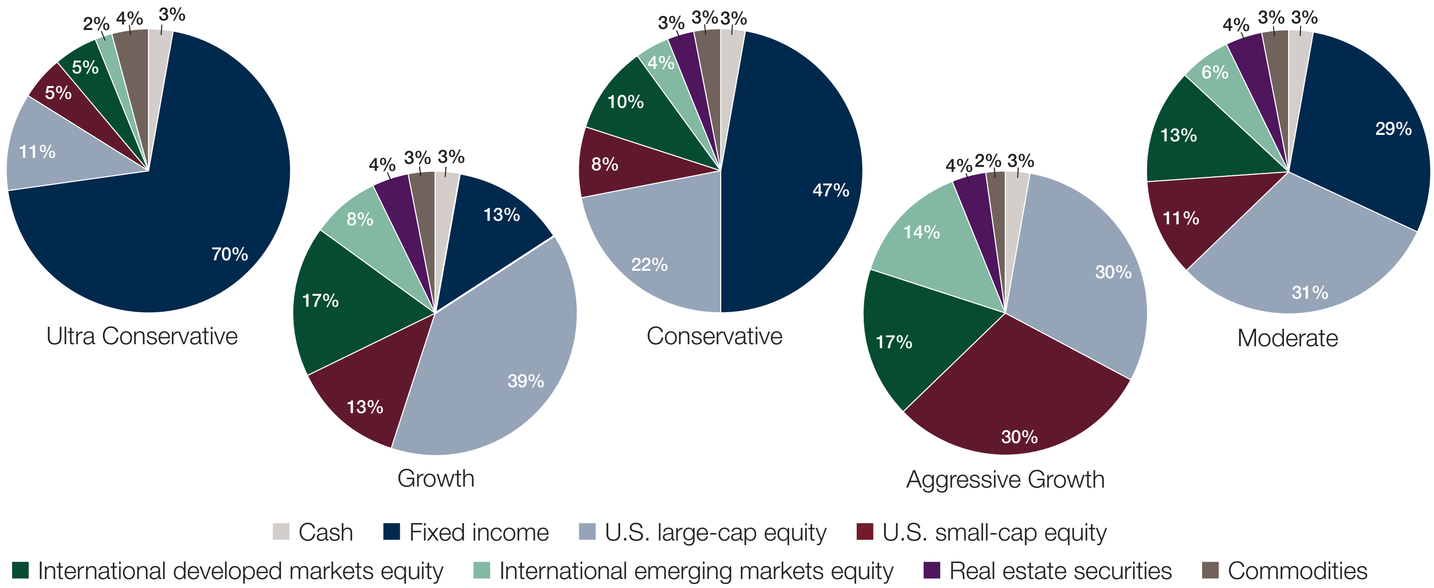
DISCIPLINE, CAPABILITY AND PROCESS TO CREATE A LASTING PLAN FOR HONORING PROMISES

1st Global's due diligence process provides the foundation for the disciplined framework used within 1st Global's IMS Select Portfolios. This process ensures that investment managers chosen embody direct implementation of the 1st Global asset allocation models. This basis for evaluation and selection follows the application of 1st Global's investment philosophy.

1st Global has long believed in the power of strategic asset allocation, implemented using rigorous academic and intellectual standards, to create the cornerstone of enabling clients to honor their important financial promises. 1st Global also believes that skillful investment managers can be identified by applying a consistent process. While there are no precise predictions of future performance, 1st Global believes those investment managers with the greatest chances of helping clients honor their promises can be found through intellectual rigor and skill.

Asset Allocation Model Development and Monitoring

1st Global's strategic asset allocation policy combines eight asset classes to create five distinct asset allocation models for different investor risk profiles. These models are created using forward-looking estimates of expected returns, risk and diversification benefits of the asset classes shown below.*



While the creation of these models is an intensive process, the ongoing due diligence conducted on the models represents an equally rigorous endeavor. The models are reviewed periodically to ensure that each exhibits characteristics aligned with its respective investor profile. These ongoing reviews help to verify the continued integrity of 1st Global's asset allocation models.

**The asset allocation represented in the pie charts in this document is for all IMS Select Portfolios except for the IMS Select — Core/Satellite strategy and the IMS Select — Dimensional strategy. Note that both the IMS Select — Core/Satellite strategy and the IMS Select — Dimensional strategy follow the same due diligence process; however, they each deviate from the asset allocation models presented in the pie charts listed on this document.*

Investment Manager Search and Selection

The goal of active manager selection is to identify managers with consistent investment processes that can demonstrate value-added risk-adjusted performance over time. The investment manager search and selection process is conducted by 1st Global's Investment Management Research Group (IMRG) in conjunction with other 1st Global resources.

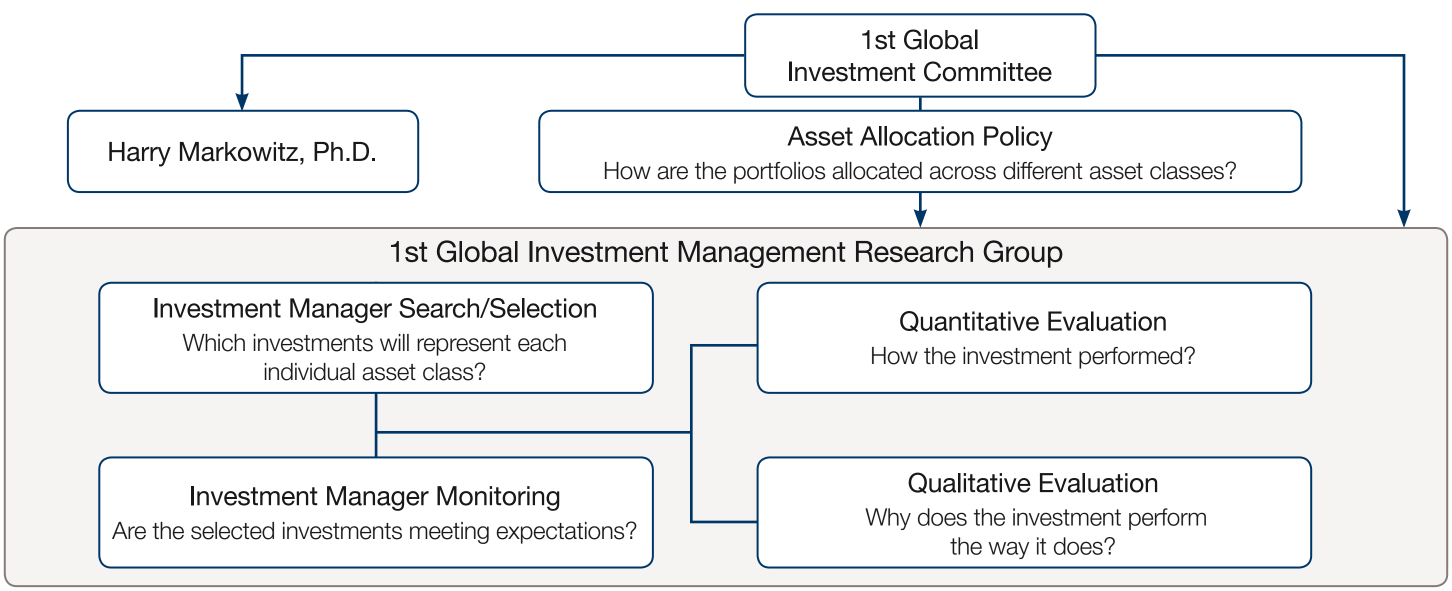
The evaluation process can be separated into two parts, and the relative importance in the decision-making process is weighted as follows:

1. **Qualitative evaluation (60 percent) —** evaluation of the investment based on people, philosophy, process and implementation (why the investment performs the way it does).
2. **Quantitative evaluation (40 percent) —** evaluation of the investment based on numerical, statistical or measurable attributes (how the investment performed).

The IMRG begins by working from the universe of mutual funds available, which includes load-waived funds, no-load funds and institutional-class funds. The IMRG seeks funds that have expense ratios in the bottom half of their appropriate peer groups and prefers that a mutual fund has a three-year performance track record with the current portfolio manager.

Quantitative evaluation begins with a list of all the funds representing a specific asset class or sub-asset class drawn from the available universe. The IMRG will take this list of funds and initially scrub it based on a number of key analytics, such as active share, manager tenure, information ratio, expense ratios, fund size, various performance metrics and other crucial attributes. This type of review is used as an indicator of the probability that the manager's returns were based on a consistent skillful investment process, as opposed to being based merely on luck. At this point, additional work is done to further reduce the list of potential candidates. This analysis examines the diversification benefits the fund brings to the portfolio as a whole. Operational and logistical criteria are also considered to ensure that funds selected for additional review represent both prudent and practical investment options for use within the IMS Select Portfolios.

Qualitative evaluation begins by conducting conference calls with the investment management team of each of the funds that have passed the quantitative screening process previously mentioned. The calls serve to gain precise understanding of the fund's investment process, specific risk controls and sources of excess returns. The IMRG makes a special effort to understand what differentiates a manager from others in its peer group and how the fund will react in various market environments and/or conditions. The underlying focus within this process is to identify exceptional managers who can offer unique investing insights. A clearly defined investment process that can be evaluated on an ongoing basis is also crucial. This ensures the ability to regularly determine consistency in a manager's ability/skill as well as an investment process' unique characteristics. Those managers passing this segment of the screen will make the short-finalist list, at which time members



of the IMRG will conduct an on-site visit to the manager's office. While there, members of the IMRG team will verify information shared on the initial conference call as well as assess the fund's transparency, accessibility to key decision makers, and the stability and reputation of the investment firm.

The final candidates' quantitative and qualitative evaluations are presented to the Investment Committee for deliberation prior to moving on to a vote for inclusion in the IMS Select Portfolios.

Investment Manager Monitoring and Review

Once a fund is included in the IMS Select Portfolios, the process of evaluating a manager does not stop. One of the primary goals of ongoing monitoring is to identify early warning signs of adverse changes in existing managers' strategies, organizations or processes. Periodically, the IMRG performs robust quantitative analysis of each fund based on many of the same initial criteria used in the fund's onboarding process, namely various numerical, statistical and measurable attributes. This consistent approach helps ensure that selected funds are adhering to 1st Global's expectations regarding their stated disciplines.

The quantitative review process provides information that will focus the qualitative review efforts. The IMRG evaluates each fund by studying the fund manager's written commentary and keeping in close contact with the management of each fund. As such, conference calls in which the IMRG seeks to understand what is driving the performance of a fund are conducted on a regular basis.

While the IMRG conducts the majority of the functions mentioned above, it is supported by a number of additional resources. The IMRG draws upon the expertise of the 1st Global Investment Committee, which includes members from 1st Global's executive leadership team. Each member of the committee provides insight on different aspects of the due diligence process by drawing on his or her work responsibilities and professional experiences to help in making decisions for the IMS Select Portfolios.

Disclosures

Investing in fixed-income securities involves special risks, including credit risk, which is the risk of potential loss due to the inability to meet contractual debt obligations, and interest rate risk, which is the risk that an investment's value will change due to a change in the level of interest rates. There is an inverse relationship between bond prices and interest rates specific to fixed-income securities. As interest rates rise, bond prices fall, and conversely, as interest rates fall, bond prices rise.

Investing in micro/small-cap stocks may involve risk not associated with investing in more established companies. These stocks can be highly speculative, more volatile and less liquid. These companies may nor be financially secure, and their product lines are not as diverse.

International investing presents certain risks not associated with investing in the U.S. These risks include fluctuations in the value of the U.S. dollar relative to the values of other currencies, custody arrangements made for foreign stocks, political risks, differences in accounting procedures and the amount of public information disclosed by non-U.S. exchange-listed companies.

Investing in emerging markets involves greater risk than investing in more established foreign market stocks. Such risks include currency exchange rates, political and economic upheaval, lack of information about companies, low market liquidity, and differences in financial and accounting standards.

An investment in commodity-linked derivative instruments may be subject to greater volatility than traditional securities.

Neither asset allocation nor diversification assures a profit or protects against a loss in declining markets.

Past performance is not an indicator of future results.