Country Selection: An Important Addition to Responsible Investing

Part 1: Evolution and Growth of Responsible Investing

Part 2: Role of Countries in Responsible Investment Research

Part 3: Country Selection as Part of Building Responsible Portfolios

Prepared by:

Dr. Roger Conant, Chief Investment Officer
Matthew Zimmer, Director of Research
Jeffrey Mellas, Senior Portfolio Manager

December 2014

Republished August 2015 with the updated nomenclature of Responsible Investing

Magni Global Asset Management LLC

Magni

Executive Summary

In Part 1, we highlight the trend of Responsible Investing and its continued growth throughout the world. Just as more corporations are embracing the need to address sustainability issues as a best business practice that can lead to increased profitability, institutional investors are incorporating Environment, Social, and Governance (ESG) and related screening approaches into the construction of their portfolios. The significant and growing share of funds using Responsible Investing reflects improvements which have been made to the screening approaches and in the information available to make the underlying decisions. The improvements to Responsible Investing are also evident in the changing discussion of performance. A shift from "negative screening" that avoids specific non-ESG companies to "positive screening" that overweights ESG-aligned opportunities has begun to demonstrate strong performance. When considering the various approaches to screening companies, an emphasis on corporate governance appears to be very important in achieving the highest performing Responsible Investing portfolios.

In Part 2, we observe that despite the improvements, performing ESG evaluations can still be difficult given the unproven value of commercial rankings of companies against ESG standards. Complicating the process of improving such rankings has been the nascent nature of each country's reporting requirements for corporations regarding these topics. Beyond reporting requirements, countries impact the integrity of the financial statements, the ownership rights of and protections for shareholders, and the sustainability of the business environment. Collectively, countries have a very important role in sustainability and the next major improvement to Responsible Investing can come from performing assessments on countries. Sustainable Wealth Creation principles can be used to assess and rank countries. In essence, *Countries Matter*™ when building a Responsible Investing portfolio.

Finally in Part 3, we discuss how Sustainable Wealth Creation principles can be used to build investment portfolios. Actual portfolios built using these principles have demonstratively delivered superior risk-adjusted performance for more than a decade.

Part 1 - Evolution and Growth of Responsible Investing

Brief History of Responsible Investing

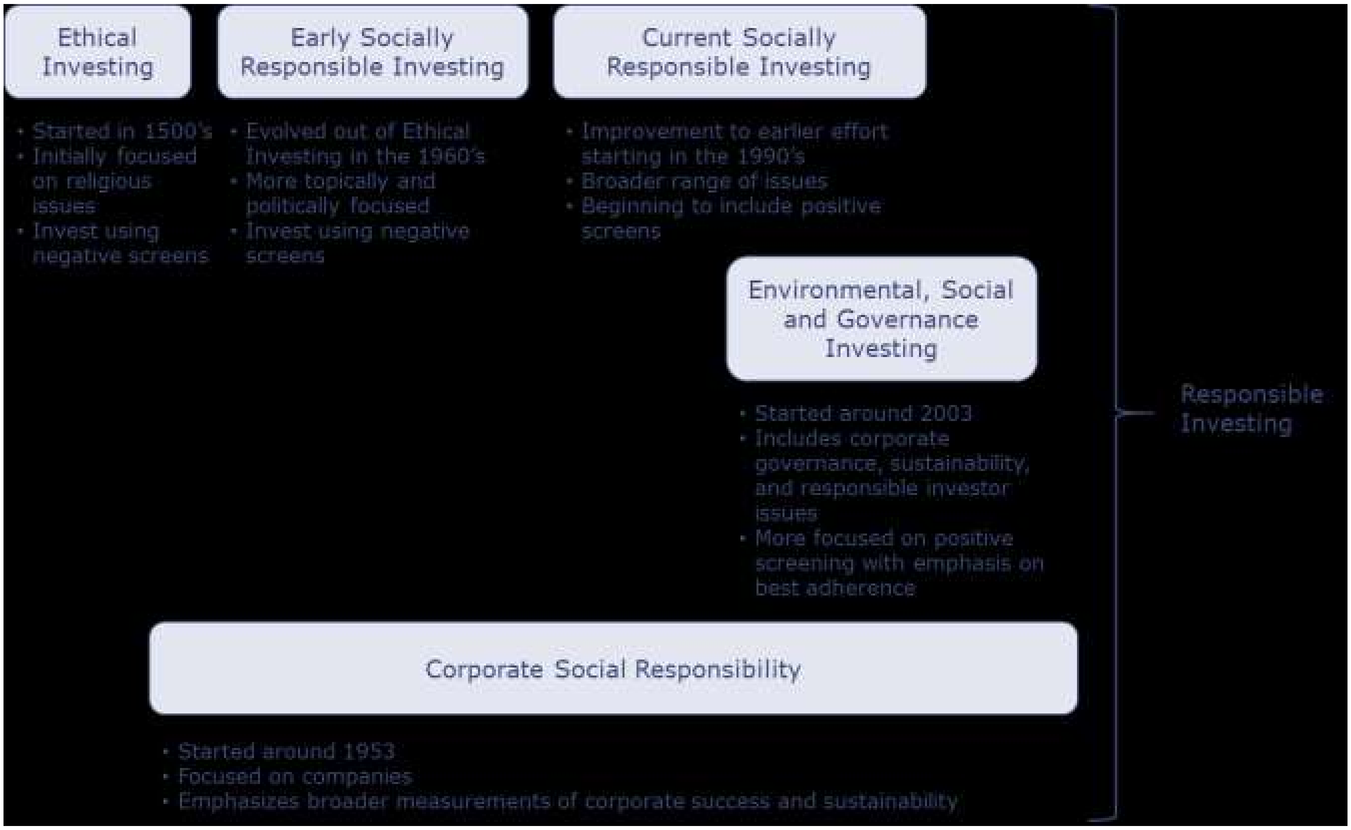
The origin of Responsible Investing dates as far back as the 1500's. The initial approach was based on religious beliefs and involved a negative screening of companies or industries that conflicted with people's values. During the twentieth century, typical screens caused consumers and investors to avoid alcohol, tobacco, and gambling in the 1920's, weapons and nuclear power in the 1960's and 1970's, and South Africa for its apartheid system in the 1980's and 1990's. In the world of investing, this value-based approach became known in the 1960's as Socially Responsible Investing (SRI). SRI was applied to any values based or exclusionary approach with regards to social, ethical or environmental issues. In the late 1990's, SRI began to shift away from solely being values driven to incorporate other factors in a decision making process, including environmental, social, and corporate governance. This evolution added a set of positive screens in addition to the negative screens in an effort to maximize the investment return of a socially responsible portfolio.

In the early 2000's, based on the perceived underperformance of SRI, there was a new emphasis on risk and return. In 2003 the United Nations Environment Programme (UNEP) Finance Initiative formed a task force to research the effect of environmental, social and corporate governance (ESG) issues on security valuation. After finding that these issues positively affected long term shareholder value, the UN Secretary General Kofi Annan launched the six Principles of Responsible Investing (PRI) in 2006. This initiative helped give rise to the term, Responsible Investing, which describes the process by which risk and return investors use ESG factors in their investment process.

During the 1950's, Corporate Social Responsibility ("CSR") was launched and over time became an accepted set of best practices for companies. As CSR grew and evolved there was an increasing overlap between CSR and the governance portion of ESG.

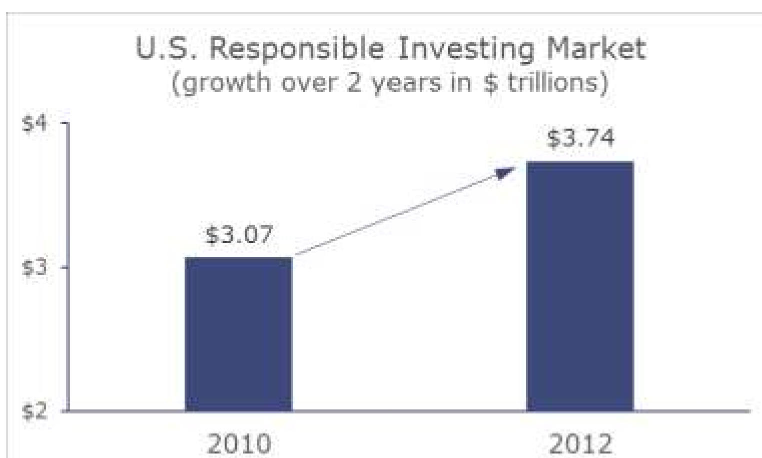
This whitepaper uses Responsible Investing as an umbrella to describe all of these efforts. Responsible Investing has evolved significantly and is likely to continue evolving. The associated frameworks are likely to continue improving and to incorporate new societal priorities. With each passing year there is greater insight into the ability of Responsible Investing to deliver performance comparable to, or perhaps even better than, traditional approaches.

Evolution of Responsible Investing[1]



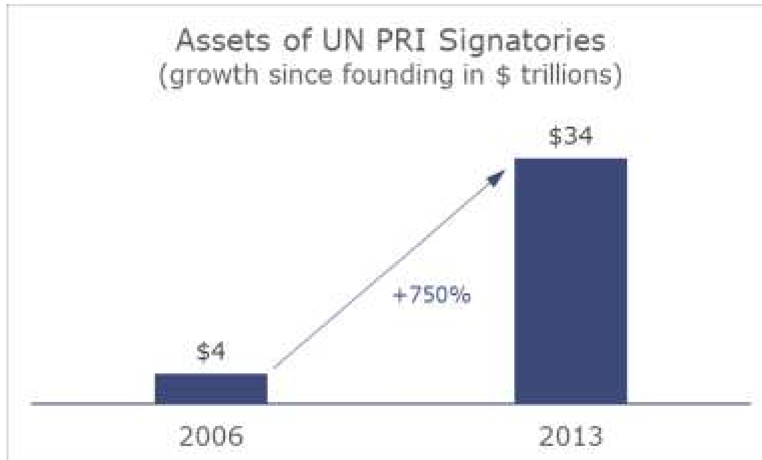
Significant and Growing Share of Invested Funds

Assets using Responsible Investing are already significant and growing rapidly. As shown in the figure on the right, the Responsible Investing market in the United States grew 22% over two years and exceeds 11% of the more than $33 trillion in total assets under management. By 2012, participants included 443 institutional investors, 272 money managers, and more than 1,000 community investment institutions[2].



[1] "Sustainable Investing: Establishing Long-Term Value and Performance", DB Climate Change Advisors of Deutsche Bank Group, June 2012, page 18
[2] "From SRI to ESG: The Changing World of Responsible Investing", Caplan, Griswold, & Jarvis, Commonfund, 2013, page 2

These numbers show the significant growth from the time in the mid-1990s where there were around 60 SRI mutual funds that managed about $640 billion in assets[3].



Responsible Investing is more than a U.S. trend. PRI has around 1,200 signatories from around the world. As shown in the figure on the left, PRI has been very successful from its founding in 2006 with signatories now representing about 15% of the world's investible assets[4].

Recent Improvements

As discussed earlier in the history of Responsible Investing, many improvements have been incorporated. Initially, there had been a focus on negative screening to produce ethical portfolios. In a whitepaper by Deutsche Bank[5], containing a review of SRI studies where negative screening is typically used, the authors found only 42% of the studies showed high-scoring firms in terms of SRI criteria as exhibiting outperformance. At the fund level, the whitepaper found mixed results as well with 88% of studies that reviewed SRI-based funds showing neutral or mixed results when compared to non-SRI based funds.

Increasingly, there has been a shift from negative screening to positive screening (i.e., selection of securities based on their adherence to a Responsible Investing framework). Both CSR and ESG have frameworks that enable investors to build portfolios based on positive screening. The whitepaper found overwhelming academic evidence that firms with high ratings for CSR and ESG have a lower cost of capital.

Firm Value and Governance

The Deutsche Bank whitepaper also documented better performance from positive screening as 89% of studies showed firms with high ratings for ESG exhibiting market outperformance. Within ESG ratings, governance had the strongest influence on financial performance[6]. Another study showed a strong and positive relationship between corporate

---

[3] Social Investment Forum, 2005 Report on Socially Responsible Investing Trends in the United States, January 24, 2006, pp. iv, v, 1. http:///ussif.membershipsoftwre.org/files/Publications/05_Trends_Report.pdf. The Social Investment Forum was the predecessor to the US SIF Foundation.
[4] "From SRI to ESG: The Changing World of Responsible Investing", Caplan, Griswold, & Jarvis, Commonfund, 2013, page 3
[5] "Sustainable Investing: Establishing Long-Term Value and Performance", DB Climate Change Advisors of Deutsche Bank Group, June 2012, page 8
[6] Ibid, page 54

governance and firm valuation[7]. Specifically, strong shareholder rights have been found to increase firm value[8]. Firms can protect shareholder rights and receive the benefits of increased firm value through board and audit committee independence[9]. Another study showed that firms who consider adherence to CSR as important tend to have better corporate governance and this CSR engagement has a strong positive impact on firm value[10].

There are some studies that do not show as strong a link between corporate governance and market-based financial outperformance. One study found none of the corporate governance measures as predictive of future stock performance, though it did find a positive impact on performance management of line executives from board independence and board incentives[11]. Another four studies found corporate governance had a positive link to accounting-based financial outperformance[12]. The Deutsche Bank whitepaper only listed one study where corporate governance had a negative link to accounting-based financial outperformance[13].

In a study with one of the largest Responsible Investing datasets[14] SSgA concluded that, despite the inconsistent predictive power of ESG ratings by commercial providers, the predictive power grew over time. The continued improvements and refinements to Responsible Investing frameworks could well be the source of the greater predictive power. In the not too distant future, Responsible Investing could become a proven source of alpha.

A clear majority of the studies showed a benefit in selecting investment opportunities based on a company's positive adherence to Responsible Investing. Sometimes the benefit was indirect as the adherence is linked to improved operating performance of the company. These improvements should lead to subsequent increases in firm value and hence returns for shareholders.

---

[7] "Corporate governance and firm value: International evidence", Ammann, Oesch, & Schmid, *Journal of Empirical Finance*, 2010

[8] "Corporate governance and equity prices", Gompers, Ishii, & Metrick, *Quarterly Journal of Economics*, 2003

[9] "Do US firms have the best corporate governance? A cross-country examination of the relation between corporate governance and shareholder wealth", Aggarwal, Erel, Stulz, & Williamson, *National Bureau of Economic Research (NBER) Finance Working Paper*, 2007

[10] "Corporate Governance and Firm Value: The Impact of Corporate Social Responsibility", Harjoto, M. & Jo H., *Journal of Business Ethics*, 2011

[11] "Corporate Governance and Firm Performance", Bhagat, Bolton, *Journal of Corporate Finance*, 2008

[12] "Corporate governance, corporate social responsibility, and corporate performance", Huang, C., *Journal of Management and Operation*, 2010; "Corporate Governance and Firm Performance", Bhagat, Bolton, *Journal of Corporate Finance*, 2008; Corporate Governance, Chief Executive Officer Compensation, and Firm Performance, Core, Holthausen & Larcker, *Journal of Financial Economics 51*:371-406, 1990; Cremers, Martijn K. J. and Vinay b. Nair. (2005) "Governance mechanisms and equity prices". Journal of Finance 6, 2859-2894.;

[13] "Empirical evidence on corporate governance in Europe", Bauer, Gunster, & Otten, *Journal of Asset Management*, 2003

[14] "A Comprehensive Analysis of the Relationship between ESG and Investment Returns", Kennedy, Whiteoak & Ye, State Street Global Advisors, 2008

Implications for Portfolio Construction

MSCI published an insightful study on the implications for portfolio construction where they examined three different construction techniques[15]. A portfolio based on excluding companies with low ESG ratings (i.e., negative screening) produced negative active returns; though through some optimization of the portfolio, a small positive active return was produced. A second portfolio weighted the stocks within the portfolio based on their ESG rating (i.e., overweight high ratings and underweight low ratings). This second portfolio tended to outperform in defensive ("flight to quality") periods, yet underperformed in "risk on" markets. The third portfolio overweighted companies that increased their ESG ratings, while underweighting companies that decreased their ESG ratings. The third portfolio delivered better risk-adjusted performance than the other portfolios and led to the conclusion that moderate benchmark outperformance can be achieved using ESG factors.

When building portfolios using Responsible Investing, the best practices appear to be:

- Positively screen for adherence to frameworks;
- Emphasize strong corporate governance within the frameworks; and
- Actively manage the portfolio by rewarding improvements.

[15] "Optimizing Environmental, Social, and Governance Factors in Portfolio Construction: An Analysis of Three ESG-tilted Strategies", Nagy, Cogan, & Sinnreich, MSCI Applied Research, 2013

Part 2- Role of Countries in Responsible Investment Research

Challenges to Existing ESG Frameworks

Responsible Investing seeks to both align investments with values and obtain attractive returns. Increasingly, the historical perception that these sorts of investment products deliver subpar performance is diminishing. At the same time, there are sources who supply assessments of companies against various ESG and other values-based frameworks. While these assessments have made considerable progress, there is room for meaningful improvement. Given the large and growing demand for Responsible Investing investment products along with the challenges in the existing products, there is significant room for innovation to introduce products that provide both better alignment with values and better prospects for attractive returns.

By 2008 there were eleven different commercial providers of ESG ratings for publicly held companies[16]. The SSgA study found little consistent predictive power from these ESG ratings, though the predictive power did strengthen over time. One of the three authors from SSgA, Taisheng Ye, wrote a subsequent article[17] explaining some of the limitations in current ESG ratings of companies, including underdeveloped definitions of the desired company behaviors, insufficient data so measurements are still crude, and a lack of timely publishing.

As Ye readily acknowledges, the commercial providers will compete to improve their ratings. In other words, the value of ESG ratings for companies should continue improving with time.

Countries can play a large role in improving the quality of company ratings against Responsible Investing criteria. This role includes strengthening and broadening the information reported by corporations, while also assuring common definition of the reported information. A report by the UNEP Finance Initiative[18] specifically identifies a stronger role for governments in requiring companies to report more of the environmental, social, and corporate governance information sought by people focused on Responsible Investing.

If two companies in different countries receive the same ESG score from a commercial provider of such ratings, the country can be the deciding factor regarding which company is a better investment. The company in the country with the better reporting requirements and where Responsible Investing is more important is more likely to make further improvements to its ESG score. Since active management of a Responsible Investing

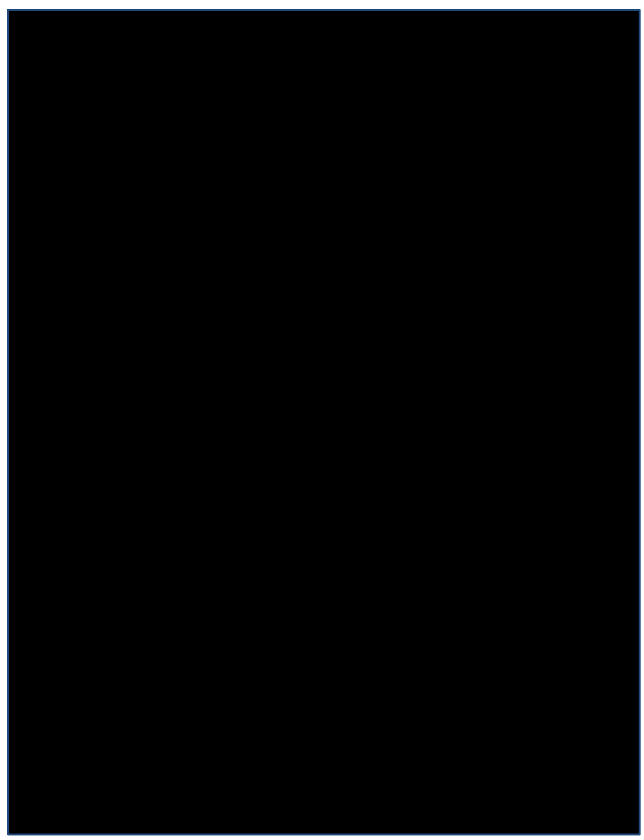
[16] "A Comprehensive Analysis of the Relationship between ESG and Investment Returns", Kennedy, Whiteoak & Ye, State Street Global Advisors, 2008
[17] "The Future of ESG Investing" Ye, Taisheng, *SSga Capital Insights*, June 2012
[18] "The Materiality of Social, Environmental and Corporate Governance Issues to Equity Pricing", The United Nations Environment Programme Finance Initiative (UNEP FI) Asset Management Working Group (AMWG), June 2004

portfolio is already identified as a best practice to produce better returns, then the selection of a company based on its country is a way to actively manage a portfolio based on where the greatest improvement is most likely.

Rating Countries is Another Method

In addition to countries requiring more and better information reporting from their companies, information about countries can help improve Responsible Investing. Country research may be the next major improvement to Responsible Investing. In particular, corporate governance is significantly impacted by the requirements of the countries under which they are regulated[19].

A prior whitepaper by Magni Global Asset Management[20] documents the current status of country research for investment purposes. Researching country-level information has traditionally encountered significant challenges. The available information is mostly not standardized and is inherently qualitative. Non-governmental organizations can be helpful as they perform substantial research on countries, including economic statistics (e.g., GDP, GDP per capita, trade balances) and social welfare (e.g., child labor, environmental quality). While such research is important and has many uses, it does not provide what the investment community needs. Researchers need to place the available facts into frameworks yielding clear overall pictures so that analysts can compare countries on an "apples to apples" basis. This is not easily accomplished; if it were easy, analysts would already access such information.



Sustainable Principles to Rate Countries

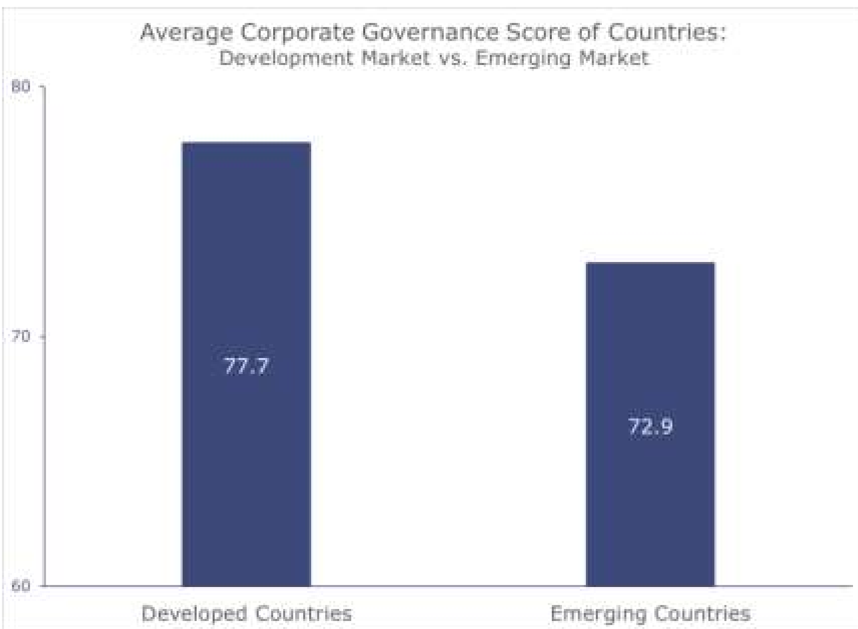
Magni has developed a process for researching and assessing the investible countries of the world using its Sustainable Wealth Creation principles. Sustainable Wealth Creation principles are based on well-accepted economic principles. Twelve Economic Standards and roughly 270 Qualitative Sovereign Factors are used to score countries on the quality of their economic infrastructure. Collectively the

[19] "Do US firms have the best corporate governance? A cross-country examination of the relation between corporate governance and shareholder wealth", Aggarwal, Erel, Stulz, & Williamson, National Bureau of Economic Research (NBER) Finance Working Paper, 2007

[20] "Country Selection – A Powerful Technique of International Equity Investing", Conant and Zimmer, Magni Global Asset Management LLC, www.magniglobal.com, August 2014, page 6

Economic Standards measure the quality of the country's economic infrastructure, including honesty, inclusiveness, and transparency. One of the twelve Economic Standards directly addresses corporate governance. Countries who receive high scores according to the Sustainable Wealth Creation principles are required to have more than strong intent and/or rules; there must be evidence that the companies within the country adopt the intended behavior. Further, high-scoring countries also have healthy economic infrastructures where investors are more likely to consider Responsible Investing important, thus creating demand for continued improvement by the companies within the country. In essence, *Countries Matter*™ when building an ESG investment portfolio.

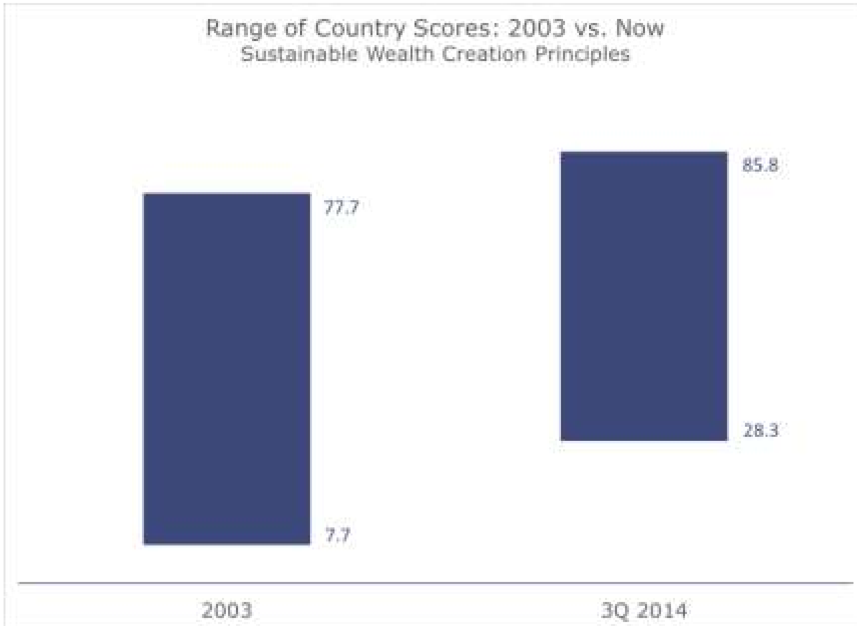
Broad generalizations about countries with regard to Responsible Investing can be misleading when constructing portfolios. For example, countries in Developed Markets are generally considered to be ahead of countries in Emerging Markets on factors related to Responsible Investing. The figure on the left shows the current average Corporate Governance scores of countries using the Sustainable Wealth Creation principles[21]. Not surprisingly, the countries considered part of Developed Markets score higher than the countries considered part of Emerging Markets[22]; yet the difference in score is surprisingly low. Further, some countries in the Developed Market, such as Switzerland, score much lower than many countries in Emerging Markets. Conversely, some countries in Emerging Markets, such as South Africa, score much higher than some countries in Developed Markets.



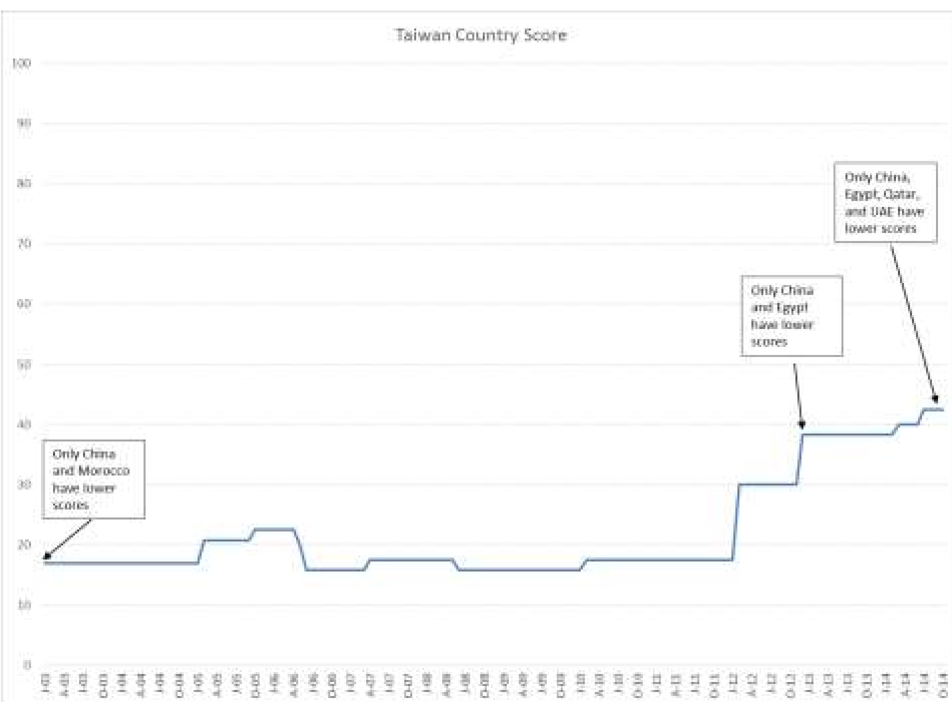
Generalizations about countries also tend to become less valuable over time. Over the last twelve years, Sustainable Wealth Creation principles have been used to measure progress of the investible countries of the world[23]. During that time, countries have generally improved with only the United States currently receiving a lower score now than at the beginning of the measurement period (the United States score decreased by a small amount over the period). The scores of individual countries went both up and down during the period; sometimes significantly. As shown in the figure on the next page, the highest

[21] Ibid. Corporate Governance scores as of 9/30/2014
[22] Using the MSCI definition of Developed Markets and Emerging Markets
[23] Investible countries include the countries in MSCI's All Country World definition

country score increased somewhat (from 77.7 to 85.8), while the lowest country score increased significantly (from 7.7 to 28.3). This increase in minimum country score represents tangible improvements in sustainability.

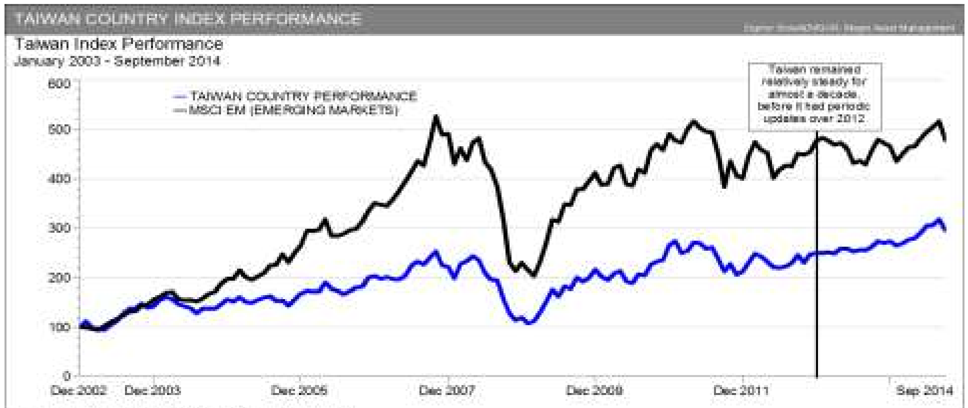


Even as a country takes the actions required to improve their country score, if they are not improving as rapidly as other countries, then their relative rank will not improve. One country where that has happened is Taiwan. Taiwan is the third largest equity market in the Emerging Markets. Despite its large equity market and substantial economic success, the country has not scored very well from a Responsible Investing perspective. The chart at the left shows Taiwan’s country score over time. Even though its score has more than doubled it remains one of the lowest ranked Emerging Markets country. It has consistently ranked better than China, while passing Egypt by the beginning of 2013. It is also ranked better than



countries that have moved between Emerging and Frontier Market status (e.g., Morocco, Qatar, and UAE).

In addition to having a low country score, Taiwan has not been a particularly attractive equity market. The chart on the right shows the performance of the Taiwan equity market (in blue) relative to the Emerging Markets index (in black). Taiwan annually underperformed by more than 450 bps, while providing slightly greater risk (as measured by standard deviation) than the Emerging Markets benchmark. Conversely, following the period of rapid upgrades in 2012 Taiwan has outperformed the Emerging Markets benchmark by over 18% cumulatively with lower volatility.



January 2003 - September 2014: Summary Statistics

	Annualized Return (%)	Cumulative Return (%)	Standard Deviation	Cumulative Excess Return (%)	Sharpe Ratio	Information Ratio	Tracking Error
TAIWAN COUNTRY PERFORMANCE	9.68%	196.03%	23.33%	-181.91%	0.35	-0.33	13.89%
MSCI EM (EMERGING MARKETS)	14.24%	377.94%	22.84%	0.00%	0.56	0.00	0.00%

Country scores are a Responsible Investing measure and have also demonstrated a correlation to investment performance. Decisions about Responsible Investing can be enriched through the incorporation of country scores from Sustainable Wealth Creation principles.

PART 3- COUNTRY SELECTION AS PART OF BUILDING RESPONSIBLE PORTFOLIOS

Country Selection Technique

The Country Selection Technique converts the scores arising from researching each country on its adherence to the Sustainable Wealth Creation principles into initial target weightings. Following adjustments for country-level liquidity and to maximize the prospective ratio of reward to risk as measured by the Sharpe Ratio, the weightings are used to build portfolios.

The Magni team began building and testing the Country Selection Technique in 2001. Using back testing during 2001 and 2002, the team built portfolios applying country-score-driven weightings to the holdings in the applicable MSCI country-level indices. The model went live at the beginning of 2003 and has been run through the contemporaneous period. Target weightings were determined at the beginning of each month and rebalanced to the model portfolios at the end of that month.

- The Magni model has been run continuously since the beginning of 2003
- The target weightings were applied before investment results were known
- The Magni model is unchanged over the entire period
- The actual track record closely matches model performance when adjusted for fees and expenses

The Country Selection Technique incorporates the three best practices previously identified:

1. The Country Selection Technique uses positive screening for adherence to the Sustainable Wealth Creation principles.
2. Sustainable Wealth Creation principles are built on well-accepted economic principles, including a major focus on corporate governance.
3. Active management occurs through continued country research and systematic monthly rebalancing which combine to reward country-level improvements.

Live Model Performance[24]

The Country Selection Technique model consistently demonstrated significant outperformance across portfolios when compared to their MSCI benchmarks[25].

Magni Global Portfolios versus MSCI benchmark	Annualized Return	Standard Deviation	Alpha	Sharpe Ratio	Information Ratio	R-Squared vs. Market
Magni Emerging Markets	18.18%	22.15%	3.86%	0.75	0.58	94.45%
MSCI EM	15.00%	23.31%	0.00%	0.58	0.00	100.00%
Magni ACW ex USA	13.49%	20.87%	1.67%	0.57	0.71	97.49%
MSCI ACWI ex USA	10.71%	18.54%	0.00%	0.49	0.00	100.00%
Performance of the model is presented for the period beginning January 2003 through the end of 2013. It is run on a concurrent basis. Returns reflect the reinvestment of dividends and other earnings and is presented gross of fees and expenses (including investment management fees).						

Constructing Responsible Portfolios

The Country Selection Technique can be used to build portfolios with multiple types of country-level securities. Typically, a portfolio is constructed using individual country-level ETFs replicating the respective target country's overall equity exposures with allocation decisions based on the Country Selection Technique. Alternatively, country-level funds other than market cap weighting could be used. For example, the funds could be composed of individual companies identified as supporting ESG principles. In such a portfolio, the Country Selection Technique becomes an overlay where the countries represented in the portfolio are over and underweighted based on their adherence to Sustainable Wealth Creation principles.

The combination of company and country criteria within a Responsible Investing portfolio is truly powerful. The large and growing base of responsible investors could both align their investments with their values and position themselves for attractive returns.

[24] Performance from the live model. Returns reflect the reinvestment of dividends and other earnings, but not trading costs, and are presented on a gross basis.
[25] Investment professionals can see specific performance information at www.magniglobal.com.

CONCLUSION

Responsible Investing is playing an even more important role in portfolio construction. Recent improvements have addressed many of the historical performance concerns. The next major improvement is strengthening the predictive power of Responsible Investing frameworks such as ESG.

Adding country-level considerations to the process of building responsible portfolios is an important step forward. The Sustainable Wealth Creation principles measure the adherence of countries to economic standards associated with good governance and help create an environment where investors consider Responsible Investing important. The Country Selection Technique is a method for building portfolios using these principles. The resulting portfolios have demonstratively delivered superior risk-adjusted performance for more than a decade.

About Magni

About Magni Global Asset Management LLC is a Minnesota based money management firm founded by Dr. Roger Conant, previously the Chief Investment Officer for the St. Paul Companies/Travelers. Magni believes Countries MatterTM when investing internationally and scores countries on their ability to provide an environment conducive to good corporate governance. The firm developed its Sustainable Wealth Creation (SWC) research process based on well-accepted economic principles. Those principles are disaggregated into almost 300 Qualitative Sovereign Factors about the legal, regulatory, accounting, and economic infrastructure of a country. Magni has more than a decade of research across the investible countries of the world. For more information, please visit www.magniglobal.com or follow @MagniGlobal.

Disclosures

This document is provided solely for the use of the recipient and may not be copied or REDISTRIBUTED. Information includes data provided by third parties and is believed to be reliable. Magni Global Asset Management LLC (“Magni”) cannot guarantee its accuracy. This presentation is not intended to be used as the primary basis for investment decisions. Due to individual client requirements, it is not, and it should not be construed as advice designed to meet the needs of any investor. This presentation is not an offer or the solicitation of an offer to buy or sell SECURITIES.

DESCRIPTION OF THE MODEL

Returns are based on a model using index results for each country. The performance shown is forward-tested performance based upon a simulation of concurrent actual trading. While no trades using client assets were actually executed, the simulated, concurrent trades were based upon real time market data and trade entries and exits are documented along with any profits or losses. Investment decisions and weightings were made based upon research received from a third-party data provider, which were then translated into algorithmic inputs.

Magni relied on a third-party data provider to provide certain research information and data relevant to the model. In early 2011, Magni purchased the third-party data provider and began performing the research process internally. While Magni believes the research process has been improved as a result of the acquisition, no guarantees can be made that Magni will be able to recreate the research process and data inputs identically as they were before Magni purchased the third-party data provider.

PERFORMANCE RESULTS

The performance results are United States dollar-based, based upon trade-date accounting and include the reinvestment of dividends, capital gains and interest (if any). The results for the full historical period are time-weighted. The performance results are presented gross or net as indicated. Where performance results are presented on a gross of fees and expenses basis, the results shown do not reflect the deduction of advisory fees paid to Magni. Gross results do, however, reflect the underlying expenses of the ETFs such as trading and other expenses that reduce the return. Additional fees for custody and other expenses, which can range from 0.05% for developed markets to 1.00% for emerging markets, are not included in the net of fees results due to the fact that such transaction expenses are difficult to approximate given the ongoing changes to the percentage mix of the markets selected by Magni.

The comparison index used in this document is the MSCI EM (EMERGING MARKETS) Index ("MSCI EM"). The MSCI EM is a free float-adjusted market capitalization weighted index that is designed to measure the equity performance of emerging markets and currently consists of 23 country indices. The MSCI EM is not a managed portfolio and is not subject to advisory fees, trading costs and other expenses. Investors cannot invest directly in the MSCI EM. The Actual Track Record represents real trading and results.

CAVEATS AND RISKS

Model performance results have inherent limitations. Model performance does not involve financial risk and cannot completely account for the impact of financial risk associated with actual trading. Certain factors and variables related to the markets in general or to the implementation of any specific trading or investment strategy cannot be fully accounted for in the preparation of model performance results; these factors can affect actual trading results adversely. Furthermore, model performance data does not include transaction costs, which can affect performance.

The Model performance results shown are based upon a proprietary model developed by Magni and, as stated above, do not represent actual trading of securities. Actual performance will vary due to the fees and other expenses that an account would incur over time and as a result of general market conditions and the investment decisions and strategies employed by Magni which may or may not be successful. Adjustments to Magni’s proprietary strategy, investment process and algorithms and related data inputs in the future may result in different investment decisions by Magni than the investment decisions associated with the Model performance. Market and economic factors may result in different trading decisions at times than those projected by the Model performance and obtained by simulated trading.

The ETFs expected to be utilized by Magni to implement its strategy may not be available in the future and alternative investments to access the markets covered by the strategy may involve higher costs and higher risks, particularly if greater use of derivatives is employed. It should be noted that while the ETFs which Magni expects to utilize use a passive or indexing investment strategy, the Funds at times may have a different composition, weighting, risk, volatility and other investment factors such as the use of derivatives from their actual referenced benchmarks and therefore the Funds' results and Magni's performance results may vary from the results of the applicable benchmark (s). There are risks involved with investing, including possible loss of principal. Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries.

Past performance, particularly model performance cannot be used to predict future performance. Individual account performance may vary and no representation is being made that any account will achieve performance similar to that shown by the Model Performance.

The MSCI EM (Emerging Markets Index is a trademark of MSCI Inc. Any financial products referred to herein are not sponsored, endorsed, or promoted by MSCI and MSCI bears no liability with respect to such financial products or any index on which such financial products are based. Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any such data.