GW&K INVESTMENT MANAGEMENT

PORTFOLIO MANAGER Q&A | JULY 2020

DIVERSIFIED EQUITY STRATEGY

AARON C. CLARK, CFA
Principal
Portfolio Manager

Investment Professional Since 1992
Joined GW&K 2015

STRATEGY DETAILS

- Style: All Cap Core
- Approach: Active; Bottom-Up
- Benchmark: S&P 500 Index
- Inception: 1/1/1989

GW&K EQUITY STRATEGIES

DOMESTIC EQUITY

Diversified Equity
Equity Dividend Plus
Small/Mid Cap Core
Small Cap Value
Small Cap Core
Small Cap Growth

GLOBAL EQUITY

Global Small Cap
International Small Cap
Emerging Markets Equity
Emerging Markets Equity ADR
Emerging Wealth Equity
Emerging Wealth Equity ADR

AARON C. CLARK, CFA

What is the goal of the Diversified Equity Strategy?

Our Diversified Equity Strategy seeks long-term capital appreciation and to outperform the S&P 500 Index over a full market cycle. The Strategy emphasizes quality businesses with enduring competitive advantages, returns on capital, and cash flow that can be purchased at attractive multiples from a variety of industries and across the market cap spectrum.

What differentiates your strategy?

We believe that the best way to outperform a benchmark is to look different from it. We construct a high conviction portfolio with 20 to 25 growing, competitively advantaged businesses. Our strategy is not a closet index product. Additionally, the approach is unconstrained by traditional style boxes as we have the flexibility to invest across the entire market cap spectrum and are not forced to sell winners when they reach a particular size.

You say that your process for screening for new ideas is not easily replicated quantitatively. What do you mean by that?

Our process for identifying new opportunities does not align with the typical "funnel chart" approach that whittles down a larger universe based on key quantitative metrics such as valuation, size, profitability etc. Rather, over time we have applied our own rigorous fundamental research to develop our investable universe based on more difficult-to-quantify considerations. To name a few, these include the strength of the economic moat protecting the business, the total addressable market, potential returns-to-scale, importance to customer processes, incremental returns on capital and recurring revenues Importantly, these metrics are not readily available in databases and therefore not easily replicated by ETFs or passive approaches.

So how do you identify high quality businesses to include in this strategy?

We are ultimately trying to find what we like to call "perpetual motion machines." These are high quality businesses with sustainable competitive advantages and long runways for growth that have the potential for multi-decade compounding. In many cases, with the business already well established and in "motion," they do not require much incremental capital to grow. While quantifiable quality metrics are widely available, such as S&P quality scores, we have again, over time, identified our own proprietary criteria we feel are better. Most of our measures are subjective and require fundamental analysis and judgement. First, we look for competitive advantages that may include pricing power, scale, operational superiority and low cost of service relative to value provided. Second, we identify growth dynamics such as secular tailwinds, recurring revenues, evidence of network effects, organic share gain potential and consolidation share gain opportunities through M&A. We find that businesses that meet our standards for competitive advantages and growth dynamics are often self-reinforcing and end up being "perpetual motion machines."

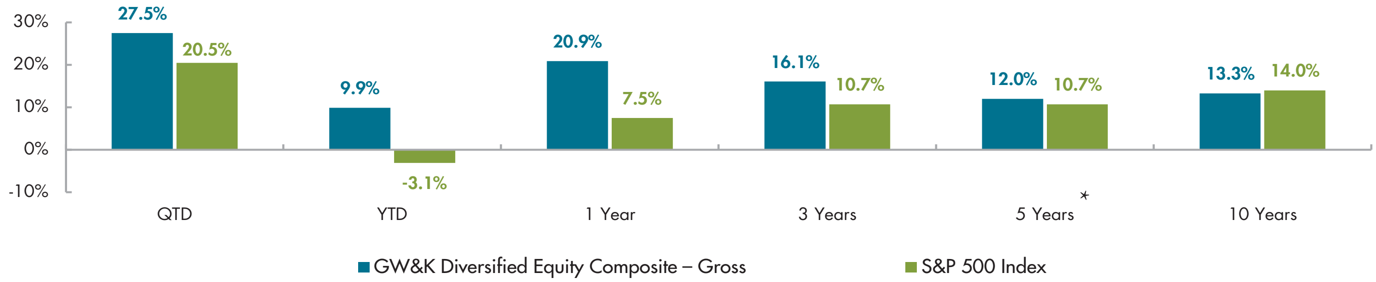
How do you think about the benchmark when constructing your portfolio?

We describe our Diversified Equity approach as benchmark agnostic. While we are aware of sector weights and the larger individual stocks within the Index, they do not influence

GW&K DIVERSIFIED EQUITY STRATEGY

ANNUALIZED RETURNS

Period Ending 6/30/2020



	QTD	YTD	1 Year	3 Years	5 Years*	10 Years
GW&K Diversified Equity Composite – Gross	27.5%	9.9%	20.9%	16.1%	12.0%	13.3%
S&P 500 Index	20.5%	-3.1%	7.5%	10.7%	10.7%	14.0%
GW&K Diversified Equity Composite – Net	27.2%	9.3%	19.7%	15.0%	10.9%	12.2%

Net of fee performance based on highest fee. Past performance is no guarantee of future results.

*Aaron Clark assumed management of the Diversified Equity Strategy when he joined GW&K in February 2015.

our portfolio construction. Our investment mandate is unconstrained. We are not required to be invested in every sector. For example, most companies within the Energy and Materials sectors will not typically meet our quality criteria; so we currently have no exposure in either. Additionally, given our focused approach and desire to look different than the benchmark we do not own all of the largest weight stocks in the Index.

Why do you believe this strategy's approach to be the right one for the long term?

Before we make any investment, we ask ourselves if this is a business we can own forever. Not because we are likely to do that for every investment, but rather it shows the hurdle rate we apply to assess the sustainability of the competitive advantage and the growth outlook. This long-term outlook really allows for the power of compounding to take hold and limits portfolio turnover which is tax efficient for clients. We stress a long-term orientation because we agree with Benjamin Graham's aphorism: "in the short run, the market is a voting machine, but in the long run, it is a weighing machine." The competitively advantaged, high return businesses held in this Strategy may be out of favor at the "ballot box" for periods of time, but we firmly believe they'll tip the scales in our clients' favor over the long run as the businesses' underlying returns become reflected in their stock prices.

You typically have 20-25 holdings. Is that enough to be diversified?

With 20-25 holdings, we believe that we have more than enough diversification as we have exposure to several different end markets, growth drivers, business models and industries. One common theme is that many of the companies in which we invest do not rely solely on economic growth to achieve success. One example of diversification would be the Industrials sector. On the surface it might look like a big sector bet as it is our largest overweight at nearly 20% versus only 8% for the S&P 500 Index as of June 30, 2020. However, our seven holdings are all very different and none are overly reliant on industrial demand. We have businesses whose core focus ranges from municipal solid waste disposal, to data and analytics for the Insurance industry, as well as landscape supply distribution and even the manufacturing of replacement parts for the aerospace and defense industry. In many circles of the asset management industry, diversification is synonymous with minimizing portfolio volatility, which in turn is equivalent to minimizing systematic risk. However, we don't view volatility as risk but as (typically) unhelpful noise. We focus more on business risk and the risk of permanent capital impairment. We also seek to assemble a portfolio of the highest quality businesses possible while also factoring in valuation considerations. By focusing our portfolio only on those businesses where we have the highest conviction we believe we are able to deliver a diversified portfolio of the highest quality businesses that minimizes risk and is focused on long-term growth of capital.

How has the COVID-19 pandemic influenced positioning within the portfolio?

We endeavor to build a portfolio of resilient, growth businesses rather than reflect a specific "macro" view within the portfolio. We recognize that the equity markets are fragile and sporadically volatile – especially with the proliferation of an alphabet soup of ETFs and quantitative investment strategies – so we always ask ourselves how the fundamentals and performance of a prospective stock might handle these backdrops. One example of a company that fits this mold is a holding which sells operationally critical data, underwriting tools and analytics primarily to the property & casualty (P&C) insurance industry. Due to the criticality, high value, and embedded nature of their services in customer workflows, this business enjoys a high mix of recurring subscription revenues and loyal customers. Additionally, the P&C industry itself is often not correlated to the broader economic cycle and, more importantly, insurers literally could not run their businesses and manage their risks without our holding's data. That's a resilient business regardless of the environment.

Performance Disclosure

	3-Year Standard Deviation		Composite Statistics			
Year	GW&K Diversified Equity Composite (%)	S&P 500 Index (%)	Number of Portfolios	Internal Dispersion (%)	Total Composite Assets ($000s)	Total Firm Assets ($000s)
2019	11.71	11.93	139	0.55	$217,622	$42,154,892
2018	12.00	10.80	113	0.33	$145,296	$34,395,747
2017	10.47	9.92	142	0.21	$221,348	$36,503,378
2016	11.36	10.59	136	0.39	$208,828	$32,193,721
2015	10.47	10.47	107	0.29	$128,112	$26,646,814
2014	9.21	8.97	169	0.17	$261,085	$22,823,427
2013	11.77	11.94	169	0.28	$238,584	$18,994,569
2012	14.95	15.09	164	0.23	$196,025	$17,059,751
2011	17.64	18.71	185	0.38	$205,503	$12,913,885
2010	21.05	21.85	198	0.57	$228,835	$10,972,513

The composite performance results displayed herein represent the investment performance record of GW&K Investment Management, LLC. GW&K is an SEC-registered investment management firm that offers active equity and fixed income investment solutions. Founded in 1974, GW&K is an independent and autonomous investment management firm that is an affiliate of Affiliated Managers Group, Inc. (NYSE: AMG), a publicly traded global asset management company. On February 1, 2019 the investment team of Trilogy Global Advisors, LP (TGA), an AMG Affiliate located in Winter Park, FL and New York City joined GW&K Investment Management. Effective March 30, 2015, the legal name of the firm was changed from Gannett Welsh & Kotler, LLC to GW&K Investment Management, LLC.

GW&K claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS Standards. GW&K has been independently verified for the periods January 1, 1995 through December 31, 2018. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS Standards on a firm-wide basis, and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS Standards. Verification does not ensure the accuracy of any specific composite presentations.

The Diversified Equity Strategy combines growth and value disciplines and diversifies across large, mid, and small capitalization stocks. The Strategy is allocated across market segments, investment styles and company sizes. The investment process supports the identification and research of one stock idea at a time and we seek to hold companies for the long term. The Diversified Equity Composite (composite) includes all portfolios invested in the Diversified Equity Strategy with a minimum market value of $500,000 from inception to December 31, 2008, and a minimum market value of $250,000 from January 1, 2009 forward. On July 1, 2016, the composite was redefined to exclude portfolios with directed brokerage arrangements that do not pay explicit trading costs. These accounts were removed from the composite because their trading processes more closely resemble the trading processes of wrap portfolios. The composite was created on September 30, 2000. The Diversified Equity segments of multi-asset portfolios are included in the composite. Each segment of multi-asset portfolios is managed with its own cash account. Accounts are included in the composite after one full month under management. Closed accounts are included through the last full month under management. Inception date is January 1, 1993.

All results reflect the reinvestment of dividends and income, and factor in commission costs. Performance is expressed in U.S. dollars. Composite portfolio income may be net or gross of withholding tax depending on the accounting methodology of the custodian bank. The performance results presented may not equal the rate of return experienced by any particular GW&K portfolio due to various reasons, including differences in brokerage commissions, fees, client contributions or withdrawals, position size in relation to account size, diversification among securities and market conditions. Prior to January 1, 2000, cash inflows on multi-asset portfolios may have temporarily resulted in an additional cash position that was not allocated to each portfolio segment during the period of time in which it was being invested. Investment performance for these segments has been modified to reflect the effect of cash using the single asset portfolios as a proxy. A complete list and description of the firm's composites as well as policies for valuing portfolios, calculating performance, and preparing compliant presentations is available upon request by contacting info@gwkinvest.com.

The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. Gross returns are used for the composite calculation. The standard deviation measure is presented annually, for periods where 36 monthly returns are available.

The firm uses an asset-weighted standard deviation calculation to measure dispersion, which is reported on a yearly basis. Dispersion is used to measure the volatility of portfolio returns within the composite. Only portfolios that have been included in the composite for the full year are included in the dispersion calculation. Dispersion of N/A represents information not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

To account for advisory fees, net performance results reflect the deduction of the maximum fee (1.00% annually) GW&K Investment Management would charge for managing portfolios in this strategy. Client fees may vary.

The performance shown is compared to the S&P 500 Index. The S&P 500 Index is a capitalization-weighted index designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Effective June 30, 2015, the Russell 2000 Index was removed as a secondary benchmark for this Strategy. The Strategy continues to have the flexibility to invest across the market cap spectrum, though there are no specific allocation targets for investing in small or mid cap stocks. Indexes are not subject to fees and expenses typically associated with managed accounts or investment funds. Investments cannot be made directly in an index. Index data has been obtained from third-party data providers that GW&K believes to be reliable, but GW&K does not guarantee its accuracy, completeness or timeliness. Third-party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data. The third-party data may not be further redistributed or used without the relevant third-party's consent. Sources for index data include: Bloomberg (www.bloomberg.com), FactSet (www.factset.com), ICE (www.theice.com), FTSE Russell (www.ftserussell.com), MSCI (www.msci.com) and Standard & Poor's (www.standardandpoors.com).

Investing in securities or investment strategies, including GW&K's Strategies presented in this document, involves risk of loss that clients should be prepared to bear. No investment process is free of risk; no strategy or risk management technique can guarantee returns or eliminate risk in any market environment. There is no guarantee that GW&K's investment processes will be profitable, and you therefore may lose money. The value of investments, as well as any investment income, is not guaranteed and can fluctuate based on market conditions. Diversification does not assure a profit or protect against loss. GW&K's active management styles include equity and fixed income strategies that are subject to various risks, including those described in GW&K's Form ADV Part 2A, Item 8. GW&K's Form ADV Part 2A may be found at https://adviserinfo.sec.gov/Firm/121942 or is available from GW&K upon request.