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MONEY MANAGER INTERVIEW

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A Fully Invested Equity Strategy Focused on Low Volatility

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DAVID CORRIS is Head of Disciplined Equities and Portfolio Manager at BMO Global Asset Management since 2015. He leads a team of 11 investment professionals who manage over \$15 billion in active equity strategies spanning U.S., international, low volatility and global long/short. He is Portfolio Manager for U.S. large/mid/small-cap strategies and is responsible for implementing investment strategy and leading day-to-day portfolio research and trading. Additionally, he oversees quantitative research agenda and weekly equity team meetings.

SECTOR — GENERAL INVESTING

(AGV500) **TWST:** Well, I was looking at your bio and then also looking at BMO Global Low Volatility Equity Fund.

Mr. Corris: So the ticker for that would be MLVEX. It's actually got a longer track record than the global one that we've been looking at, but it's going to be very similar in how it approaches the market.

TWST: Why don't you talk to me about the goal of the fund and the strategies that you use to build it and maintain it, and then to finish off, we can talk about some favored equities.

Mr. Corris: OK, so let me start off by telling you maybe what the strategy is and what it tries to do, and then why we think it's still really timely strategy. And then I can go into the actual process of how we built the portfolio and then sectors and names. Is that unreasonable?

TWST: That sounds great.

Mr. Corris: So the low-volatility strategy aims to beat the market over four market cycles but in a way that combines significant downside protection with meaningful upside participation. So this is going to be a strategy that over the long run gives full equity exposure; it's a full investment. So it's a fully invested equity strategy; so it's a long-only fully invested U.S. equity strategy that typically is going to have more of a defensive field, so it's going to be buying names that are high-quality companies with stable earnings and stable business models, competitive advantages. And the goal of the strategy is over the long

run to outperform the market but to do so with significantly lower volatility. And the way that it accomplishes that is by buying a fully invested equity portfolio; it has significant upside participation during good times, but it offers significant downside protection during rough times.

TWST: Maybe go into a little bit about how you are able to capture the upside but limit the downside.

Mr. Corris: Sure, so there are a couple of core tenets behind the way we invest in low volatility. The basis for low volatility gets back to behavioral mistakes that investors make over time. The mistakes are things like the lottery effect, where investors overpay for stocks that have high expected return than lottery-like characteristics. You can think about that as overpaying for the chance to get a four or five extra turn on your investments. So these high-risk, seemingly high-reward companies tend to get overpaid for, whereas they tend to underbuy the slow and steady, high-quality, steady-as-she-goes type companies.

TWST: The names that might be perceived as "boring"?

Mr. Corris: They are boring, but they are going to be spinning off very high cash flow. They're going to have competitive advantages; they're going to have higher profitability. They are going to have high earnings quality, meaning that they are going to be generally less cyclical and more stable. They've got in many cases strong brands behind them, so by having these more stable earnings

Highlights

David Corris talks about his firm's low-volatility fund. Mr. Corris says this strategy aims to beat the market over four market cycles but in a way that combines significant downside protection with meaningful upside participation. He says it is a strategy that over the long run gives full equity exposure. Mr. Corris also talks about what he is seeing in the macro environment and the four sectors where he believes there are interesting things happening.

Companies discussed: Procter & Gamble Co (NYSE:PG); Clorox Co (NYSE:CLX); Colgate-Palmolive Company (NYSE:CL); Wal-Mart Stores (NYSE:WMT); Amazon.com (NASDAQ:AMZN); SYSCO Corporation (NYSE:SY); Johnson & Johnson (NYSE:JNJ); Merck & Co. (NYSE:MRK); Pfizer (NYSE:PFE); Becton Dickinson and Co (NYSE:BDX); Varian Medical Systems (NYSE:VAR); Landstar System (NASDAQ:LSTR); Spirit AeroSystems Holdings (NYSE:SPR); PNC Financial Services Group (NYSE:PNC); Allstate Corp (NYSE:ALL) and Morningstar (NASDAQ:MORN).

profiles with market-leading companies and very strong business

models, you end up getting a portfolio profile that tends to be one of higher quality and more stability.

“On the upside, these companies tend to do well when the markets are doing well. They may not keep up with the higher-risk names that are leading the market, but you’ll typically get something like call it 70% to 80% of the upside when the markets are doing well.”

TWST: Right. OK.

Mr. Corris: So part of it is the behavioral biases that lead to this mispricing in the market. Another part of it has to do just simply with compounding effect. Suppose you have two stocks, just for the sake of argument, both kind of have a 10% return every year. But one of them goes up 10% every year, and the other one goes up 30% some years and down 10% other years; over time the compounding effect is going to lead the stable company to outperform the volatile company over the long run just because of what they call the variance strike from the compounding effect. So lower-risk stocks tend to outperform higher-risk stocks, and then there is also compounding effect that adds on to it.

The empirical result of this is if you actually look at historical data going back 30, 40, 50 years, and you look at the high-, medium- and low-risk stocks, CAPM would tell you that the higher-risk stocks have higher return. But in real life, it’s actually the exact opposite, which is the higher-risk stocks underperform the market, and lower-risk stocks outperform the market in a compounded sense. So relating that back, just to give you kind of simple example, what does that mean in practice? What that means is, when you think about a low-volatility strategy, it’s going to be fully invested, but it’s going to be fully invested in these more defensive-type companies. And as a result, during periods of market stress, for example, think about January and early February of 2016, the fund should significantly outperform the market, or by outperform, it may provide significant capital protection during a market downturn, which is exactly what happened during that period for us.

Whereas in other types of market environments, like I would say that latter half of 2016, where you had the significant rapid rise in the market, it’s going to participate very fully in that, but not 100%. So let me give you an example real quick. If I can do this on the fly, real quick — so if I were to look at the mutual fund versus the Russell 1000 Index, and I would look at December 31, 2015, through let’s just call it the end of January 2016. The market was down almost 5.5%, and the fund was down just over 1.5%. So there was roughly 3.5 percentage points of outperformance.

So that gets to the protection, during a period like January, is going to offer significant protection in a down environment. Whereas if you look at the fourth quarter of this year, where there is a big market rally; in the fourth quarter the Russell 1000 was up nearly 4%, and the fund was up nearly 2.5%. So it had roughly two-thirds of the upside participation and like 60% downside protection.

TWST: And so your portfolio is structured such that it can weather downsides and participate in the upside?

Mr. Corris: Yes, because if you look at the types of names that are involved, it’s a fully invested equity portfolio, so you’re going to have full equity exposure. And on the upside, these companies tend to do well when the markets are doing well. They may not keep up with the higher-risk names that are leading the market, but you’ll typically get something like call it 70% to 80% of the upside when the markets are doing well.

But these names are the types of names that do exceptionally — or I shouldn’t say exceptionally well — but that do a lot better when there’s stress in the market, and they are viewed often as safe-haven stocks. So while they have 70% to 80% upside participation, on the downside they mainly have 50% participation or 60% participation, because these are the types of investor stocks that investors are looking for when times get choppy. And it’s the asymmetry of that, where they have greater upside participation than they do downside participation, that combined with the compounding effect leads these types of portfolios to outperform over full market cycles.

And what’s interesting — one thing that’s interesting is we are talking about our U.S. low-volatility strategy. As you mentioned, our team also offers a global one, but there is research in the market that has looked at this anomaly, what we call the low-volatility anomaly, over long periods of time, 50 to 100 years, across almost every equity market in the world and even non-equity markets as well. And you consistently see the same phenomenon within an asset class, which is that there is not a risk premium for taking higher risk. That generally works across asset classes. But within asset classes, that works the other way, and you typically get paid more for your lower-risk names than your higher-risk names. So it’s a fairly robust effect.

1-Year Daily Chart of Wal-Mart Stores, Inc.



Chart provided by www.BigCharts.com

TWST: Yes, it makes perfect sense. In terms of sector allocation, what’s your strategy on sectors?

Mr. Corris: So let me start with talking about what our construction looks like in general. We have three key inputs to our portfolio construction process, and they happened to be the same three inputs that we have for everything that our team manages. So for background, our team manages approximately \$15 billion of

active equity, mostly focused on the U.S. market with some global strategies as well, and the low volatility is part of that platform. And everything in the platform, including our low-volatility strategy, has three key inputs. The first one would be risk forecast for every name in our universe. The second input would be a return forecast for every name in the universe. And then the third would be an analysis of the market environment that we are operating in.

“We think that if we deconstruct that down into equity versus fixed income, our view right now is given the environment we’re in, with economic growth and some of the potential reforms going on as well as rising rate environment, we believe equity is a better place to be than fixed income.”

And so we have a fundamental investment philosophy that we have implemented using quantitative techniques. So what we have done is we’ve built rigorous quantitative models that translate our fundamental beliefs into a systematic objective process, where we used to build portfolios. And so what in particular that means for the U.S. low-volatility fund is that for every name in the Russell 1000, we are going to have a view of the stock’s return, relative return going forward. We’re going to have forecast of it; we’re going to have a forecast of the risk using five different risk models. And we’re going to have a view as to what types of names in the market are attractive right now in terms of valuation and in terms of risk.

And then what we do is, the way we put the portfolio together is we build a portfolio that has low-risk names. So using one of the three inputs of our risk forecast, the first thing we do, if we use the risk forecast to identify stocks that are either individually low-risk or lower the risk of the portfolio by offering diversification. So you can deliver a low-risk portfolio in two ways: You can do it by either buying low-risk names or by buying diversifying names that lower the overall risk of the portfolio.

Within that, we’re also looking for stocks that we believe have strong outperformance potential, so that we have high expected return forecast fund. And then the third thing is we are looking for stocks that fit into our view of what’s going on in the macro environment and in the economy. And so the open-end portfolio that we are going to be constructing is really balancing a low-risk portfolio that has high return potential and is properly positioned given whatever cut distortions we are seeing in the environment.

TWST: OK, so your sector allocation could change over time depending on the macro environment?

Mr. Corris: Or depending on where we find where risky companies are or where we’re finding attractive — it can vary based upon what we’re seeing in the macro economy, but it can also change more often based on where we see risk in the market and where we don’t see risk in the market and where we find attractive individual companies.

TWST: And how many issues generally on average do you have in your portfolio?

Mr. Corris: Let me just give you kind of proper range to look at. I want to make sure that I’ll give you something representative of the full-time period we’ve had. I would say on average, we’re probably going to be, let me say like maybe 100-ish or so. I’d say maybe 100 on average, with 80 to 120 being a reasonable range over time.

TWST: And sector-wise, based on your analysis of the three factors that you just mentioned, how does your portfolio look at present?

Mr. Corris: So let me give you two minutes real quickly on what we are seeing in the macro environment, so you can understand where it’s coming from, and then I will talk to you about where we’re positioned today. So in general, we’re bullish on U.S. equity. We think that if we deconstruct that down into equity versus fixed income, our view right now is given the environment we’re in, with economic growth and some of the potential reforms going on as well as rising rate environment, we believe equity is a better place to be than fixed income. And we also have a preference for U.S. over global right now, just given economic growth and some of the risks happening outside the macro and geopolitical risks outside the U.S.

So in general, we view the U.S. equity market is a good place to be. However, we see there being elevated levels of risk, and I’d say just quite simply the reason behind that is that the market has done very, very well. The last five years or so, and especially recently last couple of quarters since the election, has been a big jump in the market, and we think to some degree the market has been pricing in all of the good news out there while ignoring a lot of the potential negatives. So I guess the common narrative would be the market rallied on all those expectations of fiscal spending and individual, corporate tax reform and deregulation, but there’s a whole lot of question as to how much is going to actually get done; when is that going to actually happen; will some of the things that the market is pressing end up falling short; there is all the geopolitical risk that’s been happening between the U.S., Russia, China, etc.

1-Year Daily Chart of Sysco Corporation



Chart provided by www.BigCharts.com

There are a lot of things going on out there that present risk with the market seems to not have been discounting during the recent market rise. So while we are optimistic for the U.S. market based

upon economic growth, we do think that there are risks that investors have not been fully balancing in their views of the world. So based on that, our view is, it's very important for investors to maintain equity exposure, but it would behoove them to do it in a way that has some sort of risk management built in and has some balance of achieving the upside when things are good, but helping protect the downside if things are choppy than they've been recently.

“Active managers have struggled in the last few years, but a lot of the things that we are looking at, such as increasing volatility in the market, valuation opportunities in the market, a lower return, or a smaller return environment in general, those things tend to lead to better environment for active managers.”

The other things that we are seeing in the market that tie into our strategy in particular — first of all, we have data that we use to predict what types of stocks that are going to do well in the market. And value investing is something that started working well last year but is otherwise going through number of years of underperformance, and we've got some data that would suggest value investing is probably positioned well going forward. So one of the things that we're paying extra attention to right now with our investing is valuation.

The second thing would be rising interest rates. We've certainly seen a rise in interest rates in the past quarter. But we think that there is more room for that to run with the Fed raising in the next couple of years and with economic growth picking up. So we think that investors need to be thinking about valuation, and they need to be prepared for rising interest rate environment.

And then kind of the last macro theme that we're seeing right now that is really important is that we believe the environment for active management is becoming better than it's been in quite a while. We've done some work putting out the data on what types of environments tend to be better or worse for active managers, and as you probably know, active managers have struggled in the last few years, but a lot of the things that we are looking at, such as increasing volatility in the market, valuation opportunities in the market, a lower return, or a smaller return environment in general, those things tend to lead to better environment for active managers.

So where that comes back to our portfolio here is the way we're positioning the portfolio, as always, is to have low-risk stocks, but a number of competitors and similar types of funds they were looking at, as they buy low-risk stocks, are right now embedding significant valuation and significant interest rate risk into it. And what we are focusing in our portfolio right now is how can we deliver low-risk exposure while at the same time being very cognizant of lost evaluations in the low-risk space and the negative interest rate exposure that many low-risk names typically have. I said a lot there. Does that all make sense?

TWST: Yes.

Mr. Corris: Like utilities, are classic low-volatility holdings, but utilities are going to have very negative interest rate exposure, and

they've gotten expensive, so how do you balance having low risk with having names like that, and what we've been doing — so our positioning before we get into sectors in the first place is, we have been positioning ourselves to have low — as low a risk as possible or putting an emphasis on valuation and putting an emphasis on managing our negative interest rate exposure that comes along with low-risk names.

TWST: And so where does that lead you?

Mr. Corris: So I'm going to talk about four sectors real quickly there are interesting things going on in. The first one would be consumer staples. Consumer staples is always— or I should say it's traditionally a heavyweight in low-volatility strategies, including our low-vol strategies. What's interesting here though is, based on what's going on in the market, we have rotated our exposures slightly from what it historically looks like.

So historically, there tends to be a lot of weight within food and beverage and within household products, so you can think about your **Procter & Gambles** (NYSE:PG) and your **Cloroxes** (NYSE:CLX) and your **Colgates** (NYSE:CL). And a lot of these names have gotten very expensive in the past year or two while offering fairly low growth. So what we found is that because of the valuations within staples, the low-risk nature of consumer staples is very attractive to us, but the high valuations on some of the names here that are traditionally low-vol names have become unattractive. So what we have done is, we've rotated our weight into less-expensive areas of staples, examples being staples retailing and distribution rather than the food and beverage and the household products companies.

1-Year Daily Chart of Becton, Dickinson and Company



Chart provided by www.BigCharts.com

So I'll give you two names we like here. One is **Walmart** (NYSE:WMT), which is going to be the least-exciting name that I talk you about in this entire call, but I'm going to preface it by saying sometimes within low-vol portfolios, you're not talking about exciting companies, you're talking about, you know, meat-and-potato-type companies. And so **Walmart**, while they're not the most exciting name to talk about, they have a very strong business model with above-average profitability. They've got a well-managed balance sheet. They've got a very stable revenue generation model. They have an above-average yield of roughly 3%. And with all that said, they are one of the cheapest names in their peer group,

for example with the p/e of around 16 times.

“We’ve been shifting some weight into the health care equipment names, and so like the medical equipment and suppliers that should benefit from steady growth and demand for health care, but don’t have some of the same regulatory overhangs.”

TWST: Why are they trading at a lower multiple than their peers?

Mr. Corris: Sure, so I think some of it is the concern about **Amazon** (NASDAQ:AMZN) and things moving online and how **Amazon** has been compressing margins throughout all of retail, and now **Walmart** is in an area where margins can sometimes be tighter. So if you have someone like **Amazon** take too much share, that can be a problem for someone like **Walmart**.

I think frankly they’ve struggled with their online presence, and they’ve recently taking steps to improve their online execution, but it’s something they haven’t excelled at. But let’s say we are always willing to balance some of those concerns with valuations we get, and we look around the market as a whole, trading whatever you call it, 18 times or whatever, and some of the staples names that are at a lower risk trading more expensively than that. We view a name like **Walmart** at 16 times as being a reasonable good valuation to get a high-quality staples-type name.

TWST: So what would be another interesting issue?

Mr. Corris: There is a company called **Sysco** (NYSE:SYO). They are the leading food service supplier in the U.S. They supply food to restaurants, schools, businesses, etc. And this is a really stable business model, similar to other types of consumer staples names. It’s a little bit boring, but they provide — the staple food is going to be in demand day in and day out. We like their profitability, and in particular, we also like that they have been consistently growing at about 5% a year over the last five years.

So it’s interesting, when you look at that, they are trading at roughly the same valuation as many of these other staples names I mentioned, like **Procter and Gamble** or **Clorox** or **Colgate**, that have really struggled to grow at all. And so we view this as a chance to get a name that may not be as much of a household name, but they have a very stable business model, and they have been achieving better growth than a lot of names in the sector. But they are doing it without us having to pay a premium to hold the stock.

So there are four sectors that I think there’s something interesting going on. The second one would be health care. Health care is another area that we and other low-vol managers typically have a lot of weight, because you have a lot of low-risk names in health care. It’s typically considered a defensive sector in the market. Typically, you’ll have a decent amount of weight in large pharma, so your **J&J** (NYSE:JNJ) and your **Merck** (NYSE:MRK) and **Pfizer** (NYSE:PFE)-type names.

You’ll also have weight in health insurance-type

companies. What we found as we look at risk in the market is that both pharma and health insurers have gotten a lot riskier lately, in part with pharma is due to the drug pricing concerns, and with health insurance in the large part due to the Affordable Care Act and the risk around, number one, what the Affordable Care Act is doing to their margins and then, number two, what the future of that act is going to be. So we view health care as an attractive place to invest for the long run; certainly with the aging U.S. population, the demand for health care in aggregate is going to be a really steady, stable place to be.

But we think there is a lot of risk, or there is higher risk than normal, with pharma and the health insurance. So what we’ve been doing is, we’ve been shifting some weight into the health care equipment names, and so like the medical equipment and suppliers that should benefit from steady growth and demand for health care, but don’t have some of the same regulatory overhangs. So two names there I’d give you would be **Becton Dickinson** (NYSE:BDX) and **Varian** (NYSE:VAR). **Becton Dickinson**, they are provider of medical device staples like syringes and other injectables. One of their business lines focuses on diabetes, which fairly — unfortunately large and stable market up there in the U.S. So you’ve got **Becton Dickinson** that has this, like a couple of real kind of meat-and-potato-type niches in the health care market.

Then you’ve got **Varian**, they provide equipment and software to treat cancer. Again, fairly stable earnings profile. So these are two companies that are both have stable earnings. They’ve also been growing stably, so they’ve got stable growth. And they are both trading at attractive valuations that are cheaper than the market with just over 17 times forward earnings. So it’s an example of both the type of name that we like as well as how the way we approach health care has been changing in the recent market environment given some of the risks emerging around some of the names we typically might have owned in the past.

1-Year Daily Chart of Varian Medical Systems, Inc.



Chart provided by www.BigCharts.com

TWST: That makes sense.

Mr. Corris: Industrials will be a little bit of a surprise for you here then. So industrials is an area that we typically don’t have very much weight as any in a low-vol portfolio, because industrials tend to be higher-risk cyclical companies. However, in the starting

— like the middle of last year, I've mentioned that we are focusing a lot on interest rate risk and economic risk and valuations. And we started noticing with our data with — while a lot of the traditional low-vol names like bond proxies and utilities were getting fairly expensive, industrial companies were getting fairly cheap. And this is something we've been noticing late last year and early this year. And they certainly have a very different economic profile than most of the bond proxies. So one thing we started doing earlier this year was adding some industrial weight to the low-vol portfolio, number one, because we are able to find some lower-risk industrials that we really like and, number two, because it really help diversify the profile of our low-vol portfolio in a way that I think a lot of other low-vol providers might not have done.

“One thing we started doing earlier this year was adding some industrial weight to the low-vol portfolio, number one, because we are able to find some lower-risk industrials that we really like and, number two, because it really help diversify the profile of our low-vol portfolio in a way that I think a lot of other low-vol providers might not have done.”

So one example I'll give there is **Landstar** (NASDAQ:LSTR). **Landstar** is a trucking carrier that they use what is called an asset-light business model, meaning that they offer the trucking capacity, but they don't actually own the trucks themselves; instead they offer it through partnerships with contractors that — on the trucks. What this does is that dramatically reduces the capital requirements and fixed expenses that they have as a business. So as a result, when economic times are good, they benefit from the improving economy and the business activity. But when times are bad and volumes dry up a little bit, there is limited downside for them because they don't have all the capital tied up in the business, and their costs tend to be more variable than your traditional trucking companies.

TWST: OK. So they are like a logistics manager?

Mr. Corris: Yes, they are almost like a middleman kind of — they put the people that need to ship their heavy freight in touch with the people that operate the trucks. But they are not actually the ones owning the trucks and having the huge capital investment on their balance sheet. And so when we look at them, they've got good profitability, they've got attractive growth, very strong capital management. When we look at kind of investor sentiment around the name, the way we measure using different tools we have — really good profile. So they are a name that while they are in industrial, they have a lot of the characteristics we look for by being able to participate in up markets but having limited downside in more difficult markets.

TWST: OK, interesting.

Mr. Corris: Another example I'm sure you know: **Spirit AeroSystems** (NYSE:SPR). They are supplier to the global aircraft industry, which is a growing business. There is consistent demand all the time for airline parts, both for expanding fleets and then also for replacing aircraft. So they are supplier into what we

consider to be a stably growing business over the long run. They are very profitable. They have a nice growth profile. Their earnings quality tends to be pretty high.

And for them, one of the really attractive parts I mentioned for industrial is valuation. So them, they are only trading at about 13 times earnings. So you know, again, while industrials are not an area that we would typically look over the long run, here is a chance to get a player that does very well. This is a market leader in the area that they work in. They are supplying a relatively — a stably growing industry. They've got a very well-run business, but they are trading at a discount to the overall market.

TWST: And then you had mentioned a fourth sector.

Mr. Corris: Financials. So financials is an area that we generally have significant weight. But again, because of what we're seeing in the market, we've been changing the way we've been implementing here. The key that I'll go back to is, within a low-volatility strategy, we believe low-vol strategies are very good places to be over the long run. However, sometimes risks come up that you need to be aware of. And for us, interest rates are big risk right now because a lot of low-vol bond-proxy-type equities have the significantly negative interest rate risk.

So we have viewed financials as an area of the market where we can find lower-risk good companies that also have positive interest rate exposure in a portfolio context, help balance out the portfolio as a whole and help offset some of the negative interest rate risk that lot of the other low-risk names have. So I think the common theme within financials is, we've been using it as a way to marry lowering risk with managing the overall interest rate exposure that our portfolio would have ordinarily had if we weren't being active about it. Does that make sense?

1-Year Daily Chart of Landstar System, Inc.



Chart provided by www.BigCharts.com

TWST: Yes.

Mr. Corris: So what we've been doing there is we've been adding more weight than normal to insurance companies, which will typically benefit from rising rates. And we've also increased our weight in banks, which have the same exposure. So a bank that we like is **PNC** (NYSE:PNC), a large regional bank based in Pittsburgh. As a pure regional bank, they don't have a lot of the overhang and the risks that the large money center banks have. And so therefore they are more kind

of a pure play on banking. They get us the direct interest rate exposure, but they are also like a well-run regional bank. And they are trading at an attractive valuation at 16 times forward earnings.

Another name real quickly on the interest rate side of it would be **Allstate** (NYSE:ALL) home and auto insurance company. Again, we view them as being attractively valued. They've had steady growth that's projected to continue going into the future. They've been buying back shares. It is a high-quality company that get us — they get us more neutral on interest rate exposure. The other name I was going to mention getting off of interest rates, just to give you an idea the types of diversity we find in the portfolio, is **Morningstar** (NASDAQ:MORN), which I know you are very familiar with.

TWST: Yes.

Mr. Corris: But the way we think about **Morningstar** is that they've developed this niche in the market, where they are a very high-quality company that's not only a market leader, but they are firmly entrenched with all of their customers. And they have this reliable and recurring business model with all the stock and mutual fund research they provide. So it leads to a very reliable, low-risk and steady earnings stream.

The caveat I will acknowledge is that they are a little bit more expensive than some of the names you hold in the portfolio, but they trade at 25 times earnings. But we are willing to pay up for things that diversify the risk profile of the portfolio and give us low-risk, stable market-leading-type companies in other areas of the market that we don't already have exposure. So I think when you look at its financials, I think it's kind of an interesting basket where we've been adding to banks and insurance to manage the interest rate exposure, and then buying the name like **Morningstar** you might not immediately think of when you are talking about a low-vol portfolio, but if you think about their business model and the revenue model, it tends to be a very consistent earnings stream with good growth behind it.

TWST: Absolutely, I get the point.

Mr. Corris: The outcome of all this is that it sounds like you understand very — you are very familiar with low-vol strategies and what we are doing to reduce risk in the portfolio. What's interesting about the way that we've been doing it with our active approaches, it leads to a portfolio where valuations are a lot more meaningful than what we do. So as of basically the end of the year, a lift at the p/e ratio of our fund, which is roughly 18.5 times earnings, the Russell 1000 as a whole, this is trailing earnings with the 20.5.

Actually, let me give you forward earnings — is probably better one to use. Our fund was trading at 16.7 times forward earnings. The Russell is trading at 18.3 times forward earnings. And the two primary ETFs in the space, which would be PowerShares S&P 500 Low Vol Portfolio, ticker SPLV, and the iShares MSCI Minimum Volatility USA ETF, which is USMV. The SPLV is trading at 22.3 times, and the USMV is trading at 23.5 times.

So I guess the thing I wanted to tie it altogether with and explain why we really have so much conviction on what we are doing here is that we are delivering this low-risk stable portfolio, but these types of companies in general have gotten very expensive. And when you look at some of the other providers in the market, you are paying 10% to 15% higher multiples than the market as a whole, which in and of itself has become richly valued, and we are trading at a discount.

TWST: Yes, so you said S&P low volatility is trading at?

Mr. Corris: No, I confused my lines. Let me go back and give you the — make sure I've got the right numbers. Our mutual fund is 16.7. The Russell 1000 is 18.3. The SPLV is at 19.7 on forward earnings. The USMV is at 19.6 on forward earnings. So you have this pattern where low-volatility strategies in general tend to be more expensive than the market. And our version of low vol has been delivering comparably low risk but is doing so at a valuation discount to the market. And our research has shown over time that adding this valuation component to low-vol strategy is core to us producing the excess active returns in addition to the risk reduction.

TWST: And all make sense to me.

Mr. Corris: OK.

TWST: Is there anything that you like to add that we have not talked about?

Mr. Corris: No, unless if you have any other questions, I'm good.

TWST: Thank you. (JM)

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