

Dahab Associates, Inc.  
Request for Proposal – 2016

**Small Cap Core**

**Franklin Regional Retirement System**

Company Name	Cove Street Capital, LLC
Investment Style	Small Cap Value
Product Name	Classic Value   Small Cap
Principal Address	2101 E El Segundo Boulevard, Suite 302   El Segundo, CA 90245
Telephone Number	424-221-5897
Email Address	<a href="mailto:phinkle@covestreetcapital.com">phinkle@covestreetcapital.com</a>
Individual Completing this RFP	Paul Hinkle
Position	Principal + Director of Client Portfolio Management
Mailing Address (if different from above)	
Telephone Number (if different from above)	
Fax Number	424-221-5888
Date Completed	10/31/2016

Firm Name	Cove Street Capital, LLC
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## Summary

### General Information:

Firm Name	Cove Street Capital, LLC
Product Name	Classic Value   Small Cap
<b>City, State</b> of firm's headquarters	El Segundo, CA
Name of Parent Company, or "Independent"	El Segundo, CA
Tax-Exempt Assets Under Management	Independent
Total Assets Under Management	\$1.1B
Year Founded	2011
Year Registered	2011
Contact Name	Paul Hinkle
Contact Number	424-221-5897
Contact Email	phinkle@covestreetcapital.com

Which of the following types of products are available for this search? You may offer multiple product types if you choose. Indicate with an "X." There will be room to elaborate on the product offerings elsewhere in this document.

This selection should indicate that any minimum account sizes for the product are either met or waived for this search.

Separate Account	X
Commingled Funds	
Mutual Fund	X

**Equity Product Information:**

Please provide the following figures for a representative account, with the data as of **the end of 3rd Quarter 2016** only.

**Do not submit the following data for any other quarter, even if footnoted as such.**

It is acceptable to submit preliminary data, if necessary.

Only provide statistics for indicated time-periods.

**Do not put** “since inception” statistics in lieu of the requested time-period.

If statistics for a given time period are not available, leave the response area blank.

All statistics must be **based on quarterly** numbers, never monthly, even when the question isn’t explicit in that regard.

All statistics should be made with regard to the following benchmark:

**Russell 2000**

Do not submit statistical data compared to any other benchmark, even if your product is traditionally benchmarked against a different index, **even** if you choose to indicate it as such.

Product Name	Classic Value   Small Cap
Style (Core, Growth, Value) Please answer as to your firm’s specific classification of this product.	Value
Typical Number of Securities Held	30-39
Portfolio Turnover, 12-month rolling (%)	44.5
P/E of typical portfolio- Estimate	12.0
P/E of typical portfolio- Trailing	13.0
5-year information ratio	0.4
5-Year Tracking Error	7.05
5-year Upside Capture Ratio	101.4
5-year Downside Capture Ratio	55.5
5-year R-squared statistic	0.77
Strategy Inception	12/31/1993
Benchmark Used for Above and below statistics (Must be the required benchmark as indicated)	Russell 2000
Benchmark for product	Russell 2000
Total Assets In This Strategy	\$836mm
Soft/Hard Close Amount for the Strategy	\$1.3B

	<b>3-Year</b>	<b>5-Year</b>
Alpha	1.87	3.30
Batting Average (% of quarters beating benchmark)	58.3%	60.0%
Standard Deviation	11.29	14.50
Beta	0.72	0.95

**Firm Affiliation**

1. Is the firm independent? | Yes
2. Is the firm registered under the Investment Advisors Act of 1940? | Yes
3. Is the firm minority owned? If so, what percent? | No
4. Is the firm women owned? If so, what percent? | Yes. 11%
5. Is the firm a subsidiary of, or related in any way to:

A brokerage firm	No
Insurance company	No
A bank	No
Other	No

6. What is the name of the parent company? | N/A
7. Please provide details of the ownership structure of the firm.

Cove Street Capital is 100% employee owned. Jeffrey Bronchick, CFA (85% owner) oversees all investing activity, and Daniele Beasley (10%) oversees client service, operations, and compliance. The remaining 5% of the company is divided between five other employees.

8. If the firm is related in any fashion (financially or otherwise) to any other entity, explain.

N/A

## General Background Information

1. Please indicate the types of accounts that your firm currently manages:

Domestic Equity	X	Socially Conscious	X
Fixed Income		Hedge Fund of any type	
Balanced	X	Institutional Mutual Funds	X
International		Retail Mutual Funds	
Global			

2. Please provide the location and function of each of the firm's offices.

Cove Street Capital's offices are headquartered in El Segundo, California. All business is conducted out of this office and there are no other locations.

3. Please give a brief history of the firm.

Cove Street Capital, LLC ("CSC") is an SEC registered investment advisor co-founded by veteran value investor, Jeffrey Bronchick, CFA and Daniele Beasley. CSC's principals formerly worked together at Reed Conner & Birdwell ("RCB") for eleven years and in a cordial process sold their interests in RCB in exchange for cash, the right to approach select clients and select employees, and portability rights of Jeffrey's strategies. The transaction closed on June 30, 2011, and on July 1, 2011 Cove Street Capital opened its doors with an investment team, an institutional caliber infrastructure and operations team, a client base, and \$274mm of assets under management.

As of September 30, 2016, CSC managed \$1.1B in assets for a mix of institutions (90%) and high net worth individuals (10%) on a separate account, mutual fund, and sub-advisory basis utilizing a research intensive, concentrated value-based strategy.

We are continually improving a world-class investment organization that delights clients with excellence in performance and client service, and inspires colleagues with a collegial meritocracy that rewards intellect and ambition.

Our name stems from 97 Cove Street, New Bedford, Massachusetts, the original home of Berkshire Hathaway.

4. When was the firm founded?

July 1, 2011

5. When was it registered as an investment advisor?

March 23, 2011

6. When did the firm begin to manage tax exempt accounts?

July 1, 2011

7. Describe the level of error and omission insurance coverage the firm carries.

We carry \$5mm of error and omission insurance with AXIS Surplus Insurance Company.

8. Are you now the subject of a SEC or other regulatory body sanction? If so, explain.

No.

9. Has the firm ever been subject to a SEC or other regulatory body sanction? If so, explain.

No.

10. Discuss, in detail, any litigation brought against the firm in the last five years.

None.

11. Please provide details on the financial condition of the firm.

Cove Street Capital opened its doors with an asset of \$274mm. With the initial team of 6, we were profitable after the first billing cycle. There is no leverage on our balance sheet. As of September 30, 2016, CSC has grown to \$1.1B in AUM and has added five team members.

12. Provide a breakdown of assets by type of Investment Strategy. (for example, Mid Cap Growth, Core Fixed Income, Emerging Markets, etc.) You may add additional rows to this table as needed.

Investment Strategy	# of Accounts	\$ Value
Classic Value   Small Cap	28	\$836mm
Classic Value   All Cap	14	\$104mm
Classic Value   Strategic	24	\$116mm
Classic Value   Large Cap	1	\$25mm

13. Please provide a breakdown of the FIRM'S accounts & assets in the following table:

	# of Accounts	\$ Value
<b>Tax Exempt Assets:</b>		
ERISA	22	\$463mm
Public	1	\$21mm
Taft-Hartley	1	\$35mm
Endowment	2	\$16mm
Foundation	5	\$55mm
Religious Order		
Other	4	\$193mm
<b>Total Tax-Exempt</b>	<b>35</b>	<b>\$782mm</b>
<b>Taxable Assets:</b>		
Personal Trusts	30	\$168mm
Commingled		
<b>Total Taxable</b>	<b>30</b>	<b>\$168mm</b>
<b>Mutual Funds:</b>		
Equity	2	\$132mm
Fixed Income		
Money Market		
<b>Total Mutual Funds</b>	<b>2</b>	<b>\$132mm</b>
<b>Overall Total</b>	<b>67</b>	<b>\$1.1B</b>

14. Provide a breakdown of the PRODUCT'S accounts & assets in the following table:

	# of Accounts	\$ Value
<b>Tax Exempt Assets:</b>		
ERISA	11	\$415mm
Public	1	\$21mm
Taft-Hartley	1	\$35mm
Endowment		
Foundation	1	\$1mm
Religious Order		
Other	3	\$193mm
<b>Total Tax-Exempt</b>	<b>17</b>	<b>\$644mm</b>
<b>Taxable Assets:</b>		
Personal Trusts	10	\$60mm
Commingled		
<b>Total Taxable</b>	<b>9</b>	<b>\$60mm</b>
<b>Mutual Funds:</b>		
Equity	2	\$132mm
Fixed Income		
Money Market		
<b>Total Mutual Funds</b>	<b>2</b>	<b>\$132mm</b>
<b>Overall Total</b>	<b>28</b>	<b>\$836mm</b>

15. What are your firm's plans for growth of these assets?  
CSC's goal is to grow our Small Cap asset base to \$1.3B by working with primarily consultants, plan sponsors, and the foundation and endowment community.
16. Are there plans for limiting growth in any of the above areas?  
We will close Small Cap to new investors at \$1.3B in assets
17. How does your firm plan to staff the growth of the firm described above?  
We have invested in and built our back office infrastructure and investment and operational teams with an eye towards this goal. We do not need to add staff to accommodate additional asset growth with the existing slate of strategies.
18. Give five (5) references for your services.  
Ms. Kathy Williams | K&M Office LLC – [Kathy.williams@klofficellc.com](mailto:Kathy.williams@klofficellc.com) – 415-300-4553  
Sister Mary Frances Johnson | Sisters of St. Joseph of Carondelet – [johnsonmf@aol.com](mailto:johnsonmf@aol.com) – 314-481-8800  
Jack Chee | Litman Gregory – [jack.chee@lgam.com](mailto:jack.chee@lgam.com) – 925-253-5225  
Megan Roach | Russell Investments – [mroach@russell.com](mailto:mroach@russell.com) – 206-505-7877  
Frank Aiello | RBC – [frank.aiello@rbc.com](mailto:frank.aiello@rbc.com) - 416-842-2693  
The above list represents clients that have either granted Cove Street Capital LLC permission to include their names on such a list or whose use of CSC's advisory services is a matter of public record. Inclusion of a client's name on the list should not be taken as an indication that the client approves or disapproves of CSC or



the advisory services provided.

19. State the average size of the firm's 5 largest tax-exempt funds. | \$90mm

20. Indicate the number & assets of tax-exempt accounts the FIRM gained & lost in each category:

Gained	2011		2012		2013		2014		2015	
	#	\$	#	\$	#	\$	#	\$	#	\$
Public			1	\$0mm	2	\$93mm				
ERISA	2	\$2mm	4	\$4mm	7	\$2mm	5	\$120mm	1	\$23mm
Taft-Hartley									1	\$2mm
Endowment										
Foundation	2	\$7mm					1	\$1mm		
Religious Order										
Other	1	\$1mm	3	\$62mm	7	\$84mm	10	\$68mm		
<b>Total</b>	<b>5</b>	<b>\$10mm</b>	<b>8</b>	<b>\$66mm</b>	<b>16</b>	<b>\$178mm</b>	<b>12</b>	<b>\$190mm</b>	<b>2</b>	<b>\$25mm</b>

Lost	2011		2012		2013		2014		2015	
	#	\$	#	\$	#	\$	#	\$	#	\$
Public									1	\$1mm
ERISA			3	\$13mm	5	\$2mm	1	\$0mm	2	\$14mm
Taft-Hartley										
Endowment										
Foundation										
Religious Order										
Other					2	\$6mm	7	\$31mm	1	\$0mm
<b>Total</b>			<b>3</b>	<b>\$13mm</b>	<b>7</b>	<b>\$8mm</b>	<b>8</b>	<b>\$31mm</b>	<b>4</b>	<b>\$14mm</b>

21. Please discuss any unusually large number of accounts or assets lost.

N/A

22. Indicate the number & assets of tax-exempt accounts the PRODUCT gained & lost:

Gained	2011		2012		2013		2014		2015	
	#	\$	#	\$	#	\$	#	\$	#	\$
Public			1	\$0mm	2	\$93mm				
ERISA	1	\$0mm	2	\$0mm	7	\$2mm	5	\$120mm	1	\$2mm
Taft-Hartley									1	\$23mm
Endowment										
Foundation										

<b>Religious Order</b>										
<b>Other</b>			3	\$62mm	7	\$84mm	10	\$66mm		
<b>Total</b>	2	\$0mm	5	\$63mm	16	\$178mm	16	\$187mm	2	\$25mm

Lost	2011		2012		2013		2014		2015	
	#	\$	#	\$	#	\$	#	\$	#	\$
<b>Public</b>									1	\$1mm
<b>ERISA</b>					5	\$2mm				
<b>Taft-Hartley</b>										
<b>Endowment</b>										
<b>Foundation</b>										
<b>Religious Order</b>										
<b>Other</b>					2	\$6mm	2	\$30mm	1	200k
<b>Total</b>					7	\$8mm	3	\$30mm	1	\$1mm

23. For the PRODUCT, please discuss any unusually large # of accounts or assets lost.

N/A

In the following table, list the 5 clients (or all clients, if fewer than 5 in the strategy) with the most invested in the product (including clients that aren't included in the composite), and the requested details.

If the client is public (or you may disclose its name) please do. Otherwise state the type of client (e.g. Taft-Hartley, Foundation, Sub-Advisory, Mutual Fund, etc.).

For Vehicle, potential choices would include (but aren't limited to) Separate Account, Commingled Fund, CIT, Mutual Fund, etc.

	<b>Client Name or Type</b>	<b>\$ Invested</b>	<b>State (or Nation)</b>	<b>Investment Year</b>	<b>Vehicle</b>	<b>Included In Composite?</b>
<b>1</b>	Mutual Fund	\$120mm	CA	1998	Mutual Fund	Yes
<b>2</b>	Public Pension	\$119mm	OK	2013	Separate Account	Yes
<b>3</b>	Corporate Pension	\$107mm	IL	2014	Separate Account	Yes
<b>4</b>	Corporate / Sub-Advisory	\$101mm	NY	2014	Separate Account	Yes
<b>5</b>	Trust	\$91mm	WA	2012	Separate Account	No

## Investment Philosophy Implementation

1. Describe the structure of the product's investment team, including how many members the team has and the responsibilities of each member. Include an organizational chart which details the flow of information used in the decision making process.

Our investment team is made up of 4 professionals: Jeffrey Bronchick (Portfolio Manager), Ben Claremon (Research Analyst), Dean Pagonis (Research Analyst), and Eugene Robin (Research Analyst). Each member, including Mr. Bronchick, is equally engaged and invested in the stages of the investment process.

We believe the best performance records in the investment industry have been created by small teams of value-based analysts, as decisions are made by those doing the actual research, and work and time value are not wasted through committees and laborious people management processes. We run concentrate portfolios, in a limited number of strategies with a long-term time horizon that leads to low turnover, a process that lends itself well to our structure.

As noted 20<sup>th</sup> century social scientist Herbert Simon noted, "A wealth of information creates a poverty of attention."

The Investment Process has 4 steps where each team member plays a role:

1. Generating Ideas
2. Qualify
3. Deep Dive
4. Decision

Although we appoint a lead analyst to each company that enters Stage 3, each team member does his own analysis but has access to the same resources and information. When the team comes together to complete Stage 3 and evaluate a stock, they create a Decision Process Worksheet that records the perspective and opinion of each member of the team and the issues and considerations that they reviewed during the process. The Decision Process Worksheet is a living document that continues to be updated and refined as the team continues to consider potential or existing investment.

### **The final decision is made by the Portfolio Manager.**

2. How long have the key members of the team worked with this product? Have there been additions or departures in the last 3 years for the team managing the proposed product? Please explain.

The sole key member of the team is our Portfolio Manager and founding partner Jeffrey Bronchick, who has managed the Classic Value | Small Cap strategy since inception on December 31, 1993. Jeffrey retained portability rights to the track record when Mr. Bronchick left Reed Conner & Birdwell and founded Cove Street in July 2011.

Ben Claremon and Eugene Robin became part of the investment team with the firm's inception on July 1, 2011, and became principals January 2016. Dean Pagonis joined the investment team in September 2014. One Analyst, Rohan Rangaraj, is no longer part of the team, as he was not an appropriate fit.

3. What is the # of accounts and account volume (in \$) that is handled by this team?

The number of accounts and account volume that is handled by this team is 67 and \$1.1B, respectively.

4. Do the same groups manage equity, fixed income, & balanced portfolios at the firm?

Yes.

5. Does the firm employ a central trading desk?

Yes.

6. If yes, describe the trading operation & the traders' qualifications.

CSC has a head trader, Matt Weber, who works closely with the firm's research team to achieve best execution within the context of investment goals. In our trading process, each order is evaluated to determine the optimal execution strategy. We have numerous relationships with large and small broker dealers, and we make extensive use of technology to utilize electronic trading platforms, dark liquidity pools, and algorithmic trading tactics. In making the broker selection, factors involved include liquidity offered in a specific name, size of the order, urgency of the investment decision, estimated market impact, and commission costs. We also have some client relationships that specifically direct our order flow.

We utilize Moxy as our OMS platform to improve performance and workflow. The system allows CSC to efficiently handle increased trading volume and work with disparate brokers and custodians, and it works seamlessly with our Advent portfolio accounting system.

At the end of each day, the trading desk produces a trading blotter that is electronically disseminated to the research team and firm's compliance officer.

7. Does the firm have an investment committee?

No.

8. If yes, describe how it operates & the background/experience of the members.

N/A

9. If applicable, how often does the investment committee meet?

N/A

## Equity Investment Philosophy

1. Please indicate which categories most correctly identify the equity investment style of the product:

Large Cap		Core	
Mid Cap		Bottom-Up	X
Small Cap	X	Top-Down	
Micro Cap		Momentum	
All Cap		Sector Rotator	
Value		Market Neutral	
Relative Value		Low P/E	
Deep Value	X	Quantitative	
Growth		Fundamental	X
GARP		Index Funds	

2. In one or two brief sentences, please state the product's investment philosophy.

We are classic value investors in the tradition of Ben Graham and Warren Buffett, seeking superior long-term performance through the purchase of securities selling at prices materially below our estimate of intrinsic value. This process of "winning by not losing" protects capital from permanent loss (as distinguished from "quotational risk") and puts us on the correct side of the mathematics of compounding.

3. Describe the equity investment philosophy including how buy and sell decisions are made.

**Overview:** Despite a tremendous amount of academic and practical effort, financial markets are only "occasionally efficient." Even the most cursory review of market movements over the past two decades renders any other conclusion unsupportable by common sense. Pricing inefficiencies systemically exist in the market place due to a variety of factors. Several are due to the "business" of money management, which encourages a myopic focus on short-term phenomena—quarterly earnings, news chasing, quarterly performance reporting—that are inherently and historically unpredictable. This limited scope produces opportunities for investors who have the discipline and confidence to invest with a longer-term time horizon. Another issue relates to asset size. It is simply impossible to understand with any depth 400 companies in a portfolio, and conversely, a fairly concentrated portfolio with a reasonable asset size enables in-depth fundamental research to add value as well as the enhancement of the ability to recognize mistakes and make changes.

We believe that the consistent application of our investment philosophy and process enables us to tilt the playing field in our favor and succeed over the long run. Our investment philosophy is based on a few key principals.

- **Value Focus:** Many researchers have provided evidence that "value" stocks outperform "growth" and provide alpha. We believe that this style of investing is time tested across asset classes.
- **Internally Generated Fundamental Research:** We believe the best performance records have been created by small teams, as decisions are made by those doing the actual research. Further, we believe in a team tackle, Socratic Method of reasoning which enables us to understand the circumstances of an investment from numerous perspectives.
- **Small Cap Focus:** It has been shown that equities with small capitalizations generate returns that are in excess of those predicted by the CAPM model of market efficiency. We believe the small capitalization companies attract less attention from the market, including the investment community, creating

inefficiencies on which we can capitalize.

- **Concentration:** Managers who combine active management with concentrated portfolios tend to outperform all other managers and show meaningful alpha generation versus index trackers.
- **Contrarian Style:** “Contrarian” stocks, or those that have been out-of-favor with the general investing public tend to outperform stocks that are in vogue or popular and have provided alpha returns for managers who have employed this strategy.
- **Long Time Horizon:** Most investors have shorter time horizons than are required for value strategies to succeed. We take the position that in order for value to manifest itself, we need to be patient and look 3-5 years out, instead of the typical quarterly trading game played by many in the investment world. Patience and the ability to weather short-term trends have been crucial to our success.

The process by which we make investment decisions has four stages:

Idea Generation, **Stage 1** of our process, is driven by both quantitative and qualitative processes. As a value-based, bottom-up manager, we consistently screen markets for securities that appear statistically inexpensive and have that pool of ideas drive our efforts and work rather than begin the day with a preconceived notion of what we would like buy. We also screen for "good businesses" as defined by classic characteristics like consistency of growth and profitability, high returns on invested capital, and sustainable competitive advantages and ask ourselves if the valuation is cheap enough to provide a proper margin of safety. Lastly, we screen on corporate and executive behavior such as share repurchase and insider buying and selling. On a qualitative basis, ideas are produced from our collective investment experience, our deep contact network, out of office experiences and obvious headline issues.

Once we have determined that an idea has promise, we begin **Stage 2:** Qualify, which consists of the data download of all relevant company financial information into the Cove Street analytical spreadsheet and we digest all public company information. We then ask: Does it appear to either be a great business at a reasonable price or an exceedingly cheap security that provides a deeper margin of safety to compensate for potential business issues?

**Stage 3** is the Deep Dive. The research team performs intensive analysis on valuation and business characteristics, with a group of analysts focused on the stock as a “purchase” and one or more analysts focused on the stock as a “short-sale,” a version of the so-called Socratic method of reasoning. Key pivot points include:

- What is a reasonable estimate of intrinsic value? We incorporate a multivariate approach that utilizes a discounted cashflow analysis, private market values, and a historical calculation of enterprise value to normalized earnings, cashflow and revenue.
- Classic Porter value chain analysis of competitors, suppliers, potential entrants, customers and substitutes.
- Is there a competitive advantage that can generate sustainably strong returns on invested capital?
- Management: friend, neutral or foe?
- PEST Control: political, economic, social, technological issues.
- What are we thinking that others are not?
- What will it cost us if things go very wrong?

**Stage 4** is Decision. Is there sufficient risk adjusted upside—on an absolute basis and vs. other stocks we own? How does it fit with the portfolio's industry concentration? Tactical timing issues: Full (5%) or half (2.5%) position?

The final decision is made by the *Portfolio Manager*.

Less is more in regards to portfolio turnover, as experience has proven that the quality of decision-making decreases with frequency. That said, mistakes are inevitable and our concentrated research assists in identifying errors relatively early.

Our sell discipline is also based upon a blend of qualitative and quantitative measures:

Valuation:

- A good business is excessively valued or a reasonable business is fairly valued.
- A better idea is found that materially improves the risk/reward characteristics.

People:

- Unexpectedly poor decisions are made allocating shareholder capital.
- Loss of confidence that management and the board are best representing shareholders and the cost and effort to influence this process are deemed prohibitive.

Business:

- We are incorrect in our expectations about long-term economic margins and earnings power.
- Actual or likely prospects of balance sheet deterioration.

Cyclical industry problems reveal themselves as secular.

4. When was the investment philosophy established?

Mr. Bronchick, CFA has consistently applied the core of the philosophy and process since the strategy's inception in 1993.

5. Has this philosophy been implemented for the last five years? If not, are the creators of the previous philosophy still with the firm?

Yes.

6. What is considered to be the competitive advantage of the philosophy?

We believe our competitive advantage stems from several of the factors that are embedded in our philosophy and process.

We field a **small and focused team of investment professionals**, and we believe the best performance records in the investment industry have been created by small teams, as decisions are made by those doing the actual research, and work and time value are not wasted through committees and laborious people management processes. Although our investment team works in a very flat fashion with everyone contributing, **the PM makes the final decision** with respect to the portfolio.

**Value investing** – the art of buying a dollar for 60 cents – is not easy in practice. It requires discipline and patience. Whatever the asset class, value-oriented investing remains the only intellectually viable investment philosophy that not only makes common sense, but also has a track record that has stood the test of time.

Our Portfolio Manager Jeffrey Bronchick has a strong performance track record but has also instilled a culture of learning from mistakes. Our **decision process** worksheet highlights potential mistakes (many of which Jeffrey has made over the course of his nearly 30 year career), provides an intellectually honest history of our analysis and decisions, and enables an institutionalized framework to help the team avoid repeating these and other missteps.

We run **concentrated, index agnostic portfolios**, which allow our best ideas to drive performance. It is both a fool's errand as well as disingenuous to clients to over-diversify the results of careful decision-



making and attempt to mimic indices to achieve performance. The only way to achieve superior long-term returns is to have the intellectual courage to differ from the mood of the day and the indices to which we are compared.

Our **bottom-up approach** enables us to understand the specific circumstances and value for our subject companies. While we hunger for objective evidence and rigorously model our investment ideas, we retain a healthy skepticism toward advanced math and formulaic convention. We are investing in real businesses run by real people whose securities are valued in the short-run through an imprecise prism into a future that is always uncertain. There will never be a precise formula for good judgment.

We will **limit assets under management** in the Classic Value Small Cap strategy to \$1.3B in order to protect the integrity of the strategy and the interests of our clients.

To paraphrase Buffett paraphrasing Graham, we will neither be right nor wrong because the crowd disagrees with us. We will be right when our data and reasoning are right. We believe our philosophy and process enable us to develop data and reasoning that enable us to tilt the market in our favor and create value over the long term for our clients.

7. What changes have been made to the investment process in the past 5 years?

Mr. Bronchick, CFA has refined the process and techniques over time. The following enhancements have been made to the investment process over the past five years:

- Position Weighting as Risk Management: We consciously use position weighting as a risk management tool. Our positions vary between 5% (full position) and 2.5% (half position). This enables us to lean into and out of positions as appropriate. Other factors that may impact position weighting include severe cyclicity, illiquidity, or balance sheet transition. In addition, “Buffett versus Graham” discussions early in the investment process help guide the size of the positions.
- PEST Control: We weigh Political, Economic, Social Changes, and Technological issues that could impact the subject company. We do not focus on macro factors, but we check to make sure there isn’t something that could have a materially negative impact on its prospects going forward.
- “Longs and Shorts”: We create a devil’s advocate dynamic within the team that forces an intellectual honesty and discourages “group think.”

The Decision Process is a living document that is continually refined based on the experiences and observations of the investment team. Examples of recent additions include Management Objective analysis that helps track a management team’s commitments and execution over time and an Alternative Competing Hypothesis analysis that identifies factors that further support or contradict the Short Analysis.

8. In what market environments is the strategy expected to outperform/underperform?

We expect our philosophy and strategy to enable us to be competitive in up markets and outperform in down markets.

9. Please explain any significant quarterly underperformance over the past five years.

Through nearly twenty years of market cycles, Mr. Bronchick and the strategy have successfully fulfilled the goal of being competitive in up markets and outperforming in down markets except for 2008/2009. We would suggest that truly was a "Black Swan" period and recent years have seen portfolios revert back to more traditional behavior.

10. Indicate the % of equity market capitalization as of the most recent quarter-end, as well as a range over the last three years.

	<u>Current</u>	<u>3 year range</u>
Micro Cap (<\$100mm)	3%	1 -12%

Small Cap (\$100mm - \$2b)	63%	45 - 75%
Mid Cap (\$2b - \$15b)	34%	20 - 50%
Large Cap (>\$15b)	0%	0%

11. Indicate the median and average market capitalizations for the most recent quarter-end.

	(Product)	(Benchmark)
Median Market Cap	\$833mm	\$752mm
Average Market Cap	\$2.0B	\$1.9B

12. Please share some of the risk constraints that are used by the firm (e.g., maximum sector weightings, maximum % for an individual holding, tracking error, etc.)

In its purest form, risk is the likelihood of permanent capital loss. As the world remains inherently uncertain in terms of outcome, we reject the idea that risk can be adequately defined by volatility. If an investment time horizon is appropriately aligned with style of management, short-term, "quotational risk" should be a factor that is de minimis as one views a longer-term investment program.

Position Size:

- concentrating on best ideas lowers risk of permanently losing capital
- 5% of portfolio maximum at cost, 10% at market

Industry Concentrations:

- 30% maximum in any industry

Liquidity Constraints:

- Client guidelines and goals

Exceptionally wary eye on large holdings of small cap companies in portfolios.

13. Are your managers given an approved stock list?

No.

14. If so, how many securities are typically on that list?

N/A

15. Are there provisions so that securities that are not on the approved list may be purchased?

N/A

16. Does the product invest in ADRs? If so, what are the current and maximum exposures?

Yes, we do invest in ADRs in the Small Cap strategy. The currently there are no ADRs in the portfolio. The maximum level would be 20%.

17. Does the product invest in foreign ordinary shares?

No.

18. Describe, in detail, the use of cash in the equity process.

While we are generally investing with a three to five year outlook, stock and market volatility can produce swings that enable value-adding shifts in position weighting within the context of our longer term outlook. In our equity-only strategies, we have held up to 20% cash if we found it difficult to replace sold equity positions with new ideas. Cash is a residual of our investment process rather than a "feeling" that all is not right in the world. We will communicate with the client if we feel we cannot intelligently put their money to work.

19. What range of cash is typical?

Typically cash balances are range from 0% to 10%.

20. For the most recent period available please indicate the Product's top ten holdings:

	<u>Name</u>	<u>Industry</u>	<u>%</u>
(1)	ViaSat Inc	Technology	4.9
(2)	FMC Corp	Materials & Processing	4.8
(3)	Liberty Media Corp - A	Consumer Discretionary	4.8
(4)	Liberty Global PLC LiLAC - A	Consumer Discretionary	4.6
(5)	Heritage-Crystal Clean Inc	Producer Durables	4.3
(6)	Carrols Restaurant Group	Consumer Discretionary	4.1
(7)	Forestar Group Inc	Financial Services	4.0
(8)	Belmond LTD	Consumer Discretionary	4.0
(9)	GP Strategies Corp	Producer Durables	3.8
(10)	Halyard Health Inc	Healthcare	3.5

% Total	42.8%
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## Research

- |    |  |     |
|----|--|-----|
| 1. | What percentage of research is generated internally?               | 90% |
| 2. | What percentage of research is obtained from outside sources?      | 10% |
| 3. | Please describe how the research operation within your firm works. |     |

We do not have a separate research operation. The investment team does its own research and it permeates all parts of our investment process.

**Stage 1:** We use technology and automation to efficiently screen for “fishing pools” of cheap stocks and undervalued businesses. We run our screens through CapitalIQ. The investment team receives an automated email each Saturday morning that reports the results of each of our screens. These reports include changes from the previous week (additions and removals) and the complete list of companies per the screen.

**Stage 2:** We have automated the process of gathering and organize the relevant publically available information. The analytical spreadsheet which is the primary financial evaluation tool is automatically populated through CapitalIQ. Public filings, including 10Ks and Proxies are automatically distributed to the team. This enables the team to quickly qualify the companies that had been identified through Stage 1.

**Stage 3:** During the Deep Dive, each member of the investment team does their own research to solidify an opinion on the company and an estimate of intrinsic value. This research process is bottom-up and fundamental. It can include any source that would help the analyst better understand the company and its landscape, ranging from reading filings of competitors, talking to customers or competitors and attending industry conferences.

Although our investment team works in a very flat fashion with everyone contributing, the PM makes the final decision with respect to the portfolio.

4. Please describe how your firm obtains and pays for outside research reports.

CSC does not pay for research services through contractual soft-dollar arrangements. There are no predetermined commission commitments to pay any broker for research or any other services. We do not have an affiliation with a broker dealer.

5. Please name the three primary sources of data and/or analyses upon which your firm relies.

- |     |                                |
|-----|--------------------------------|
| (1) | Internally generated analytics |
| (2) | Public Filings                 |
| (3) | Capital IQ                     |

6. Who coordinates the firm’s research effort & what are their qualifications for that position.

CSC’s research effort is led by our Portfolio Manager, Jeffrey Bronchick, CFA who initiated the strategy in 1993 and has managed the research and investment process since then.

Below is Mr. Bronchick’s biography:

Jeffrey Bronchick, CFA | Principal + Portfolio Manager | Mr. Bronchick is the Portfolio Manager and co-founder of Cove Street Capital (CSC). He has over 30 years’ experience running research-driven, concentrated, value-based strategies across all market capitalizations. Prior to the founding of CSC, Mr. Bronchick was the Chief Investment Officer and a lead principal of Reed Conner & Birdwell, LLC, a Los Angeles based investment manager. He was one of the first columnists for the TheStreet.com in the 1990’s and then moved on to a similar role with Grant’s Interest Rate Observer’s first online effort. Mr. Bronchick also previously worked in research and trading roles at Neuberger Berman, Bankers Trust, and First Boston. He attended the London School of Economics and

graduated from the University of Pennsylvania with a BA in Economics.

## Personnel

1. In the table below, indicate the appropriate number of employees employed in each category.

	2012	2013	2014	2015
Equity portfolio managers	1	1	1	1
Bond portfolio managers				
Balanced fund managers				
Equity research analysts	2	2	4	3
Bond research analysts				
Economists				
Management and Administrative (Compliance, Operations)	1	1	1	2
Computer professionals				
Clerical				
Other (Marketing, Client Service, Trading)	2	5	5	5
<b>Total</b>	<b>6</b>	<b>9</b>	<b>11</b>	<b>11</b>

2. Please provide biographical information on all key members of the proposed product's asset mgmt team, including years of experience with this asset class & years with the firm.

Mr. Bronchick is the Portfolio Manager and co-founder of Cove Street Capital (CSC). He has over 30 years' experience running research-driven, concentrated, value-based strategies across all market capitalizations. Prior to the founding of CSC, Mr. Bronchick was the Chief Investment Officer and a lead principal of Reed Conner & Birdwell, LLC, a Los Angeles based investment manager. He was one of the first columnists for the TheStreet.com in the 1990's and then moved on to a similar role with Grant's Interest Rate Observer's first online effort. Mr. Bronchick also previously worked in research and trading roles at Neuberger Berman, Bankers Trust, and First Boston. He attended the London School of Economics and graduated from the University of Pennsylvania with a BA in Economics.

3. In the last 3 years, how many professional employees have left the firm for any reason?

There has been one Analyst departure. Rohan Rangaraj was not an appropriate fit for the team.

4. What qualifications are typical of the PMs, include yrs w/ firm, \$ under mgmt & # of accounts.

Mr. Bronchick, CFA is currently our sole Portfolio Manager. His qualifications include over 30 years of experience building investment portfolios, managing investment teams and mentoring analysts.

5. Please describe the method of compensation employed for portfolio managers.

There is a competitive salary structure plus a bonus that is both performance-based and incorporates qualitative factors such as internal teamwork, client-facing activities and the improvement of CSC's investment and operational infrastructure. Mr. Bronchick is a 85% owner in the firm and his compensation is ultimately driven by the success of our strategies, our clients and the firm.

6. Please describe the method of compensation employed for research analysts.

There is a competitive salary structure plus a bonus that is both performance-based and incorporates qualitative factors such as internal teamwork, client-facing activities and the improvement of CSC's investment and operational infrastructure.

## Client Service

1. Who would be the individual providing service for this client? Please provide a brief bio and description of responsibilities for this individual.
 

Paul Hinkle is our Director of Client Portfolio Management and will be providing service for this client. Paul is responsible for business development and client service. Paul participates in investment meetings and has a deep understanding of our philosophy, process and portfolio.

Paul joined Cove Street in November 2012 and brings over 16 years of experience in the financial services industry. Previously Mr. Hinkle was a Vice President at Guggenheim Partners, where he executed M&A advisory and financing transactions for both middle-market and large cap companies. Mr. Hinkle had similar roles at Bear, Stearns & Co. and Needham & Company. In addition, Mr. Hinkle founded Silverstrand Enterprises, a consulting practice focused on start-up companies in Southern California. Mr. Hinkle earned his BA in International Relations from Stanford University and his MBA from the UCLA Anderson School of Management with concentrations in Finance and Entrepreneurial Studies.
2. What information about investments made in the submitted product is available to institutional clients in this strategy? How regular/up-to-date is this information, and how detailed?
 

Information is disseminated on a quarterly basis unless requested monthly by clients. Information includes holdings, transactional information, income and expenses as well as quarterly commentary from the portfolio manager.
3. Does your firm offer an online portal for accessing information about this product?
 

Our website provides qualitative information the characteristics of our product. <http://covestreetcapital.com/>  
We also populate databases such as eVestment with our data quarterly.
4. How often does your firm create attribution reports for the portfolio (either on a perfunctory basis, or as solicited by clients).
 

We create attribution reports when requested by clients through our portfolio accounting software APX.
5. Would your firm have a representative accept invitations to present to the board on a regular basis (roughly once per year, though possibly more or less often?) Would your firm be willing to have a portfolio manager present to the board as part of those presentations?
 

We would accept invitations to present to the board on a regular basis and are willing to have a portfolio manager available for some of the sessions. The Client Portfolio Manager would be the main contact for the relationship.

**Performance**

1. Is your firm in compliance with GIPS?
2. If yes to the above, has your GIPS compliance been audited?
3. If yes to the above, who performed the audit?

Yes

Yes

ACA Performance Services

**Performance – as of 3Q16**

Investment Style	Value
Product Name Used For Performance	Classic Value   Small Cap
Inception Date	12/31/1993
Account Type	Composite
Benchmark Used	Russell 2000
Portfolio Manager/Team Leader	Jeffrey Bronchick, CFA
Years Managing this Product	23 years



Only include **RETURNS FOR COMPLETE YEARS'** performance in the table below.

Do NOT place returns for partial years in the table below, even if noted as incomplete.

Partial years and their performance may **only** go in the indicated box above.

Only complete years may be included in the returns below. List incomplete years, if any, this product has had in the box to the right.	
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Commingled Funds and Separate Accounts **must** provide Gross of Fees Returns  
Mutual Funds **should** submit Gross of Fees numbers if you have access to those numbers,  
and must provide Net of Fees numbers at a minimum.

Never delete any of the below columns for any reason, even if you are leaving it blank.  
These returns are **in addition** to the requirement to submit a complete quarterly returns since inception document, as described in the instructions section at the beginning of this RFP.

Are you providing Net of Fees instead of Gross of Fees returns below? Indicate with an "X" to the right <b>only</b> if yes. Otherwise, leave blank. (Only Mutual Fund submissions may do this)	
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Period	Return Gross of Fees	Return Net of Fees	Preferred Benchmark Return	# of Accounts for Product	Assets (\$) in Composite
2006	18.5	17.5	18.4	49	\$349mm
2007	-9.9	-10.7	-1.6	37	\$254mm
2008	-42.9	-43.5	-33.8	10	\$33mm
2009	55.5	54.3	27.2	7	\$6mm
2010	20.2	19.3	26.9	9	\$32mm
2011	4.3	3.6	-4.2	5	\$37mm
2012	28.5	27.6	16.3	6	\$104mm
2013	37.5	36.9	38.8	12	\$394mm
2014	-2.2	-2.8	4.9	20	\$492mm
2015	-0.5	-1.1	-4.4	19	\$535mm
1 <sup>st</sup> Quarter 2016	6.1	5.9	-1.5	17	\$584mm
2 <sup>nd</sup> Quarter 2016	-0.5	-0.6	3.8	18	\$642mm
3 <sup>rd</sup> Quarter 2016	8.1	8.0	9.0	19	\$685mm
Annualized 3-year	7.0	6.3			
Annualized 5-year	18.9	18.2			