BRIGHT ROCK
Capital Management LLC

Rationale and Methodology for Equal Weighting Sectors

DOUG BUTLER – *APRIL 2015*

THE ORIGIN OF OUR EQUAL WEIGHTING SECTOR APPROACH

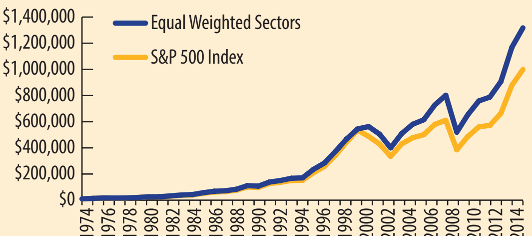
Our interest in equal weighting sectors began with the "Tech Bubble" in the early 2000's and coalesced after the financial crisis at the end of the decade. Since 2010, the Bright Rock Quality Large Cap Strategy has taken an equal weighted approach to sector allocation.

In this presentation, we will explain the historical and behavioral benefits to this approach. At Bright Rock, our goal is to deliver strong risk adjusted returns and to provide our clients with some protection from down markets. In adopting this sector approach, we still maintain our strong conviction in the benefits of both fundamental company analysis and investing in high quality companies.

Much of the reasoning behind this methodology stems from three key assumptions.

1. There is mean reversion across sectors of the economy (winners do not persist in the long run).
2. The sectors have relatively low correlation with one another and are as distinct as those asset classes based on geography or capitalization.
3. There is a behavioral bias against equal sector weighting as many managers either view themselves as pure stock pickers or have the belief that they can add tremendous value through sector rotation strategies. By owning every sector equally, our analysts can focus on owning the best companies without employing largely unsuccessful rotation strategies or exposing themselves to bubbles when they form in a sector.

Over the past 40 Years the strategy has added nearly 1% of returns per year with 1.5% less risk which would put it in the top 10% of funds over that timeframe. While 1% per year may not sound like much, a $10K portfolio invested in 1974 would have grown to $1.32 million in the equal weighted methodology versus $998K in the S&P 500 Index. [See growth of 10K Chart below.]



This chart illustrates the performance of a hypothetical $10,000 investment made in the Fund during the 40-year period ending 12/31/2014. It assumes reinvestment of dividends and capital gains, but does not reflect the effect of any applicable redemption fees. This chart does not imply future performance.

EQUAL WEIGHTING SECTORS: SECTOR WEIGHTS SINCE 1970

SECTOR WEIGHTINGS CHANGE OVER TIME

Over time sector weights are fluid, changing based on economic importance and market valuation. The size of a sector exemplifies what has done well in the past, not necessarily what will do well in the future. There are several instances over the past 40 years where the sectors with the largest weights in the S&P 500 Index have been indicative of bubble like valuations. When a sector's bubble bursts (e.g. Energy in 1980, Tech in 2000, and Financials in 2007-8) it bears the brunt of the decline in the market as a whole. By equal weighting the sectors, we will always be underweight the largest sectors and overweight the smallest sectors. Over the past 40 years the largest sector has underperformed the market by more than 6% a year with much higher volatility.

	S&P 500 Index	Largest Sector
Annualized Return	11.05%	6.63%
Annualized Volatility	17.48	25.54

SECTOR CORRELATIONS

Investing across all of the sectors is more diversifying than the traditional methods of equity diversification. In fact, the average correlation of the sectors with each other is lower than the correlations of the S&P 500 to mid-cap stocks, small-cap stocks, international stocks, and even emerging markets stocks ever the past 20 years.

Sector Correlations

Sector Name	Cons. Disc.	Cons. Staples	Energy	Financials	Health Care	Industrials	Info. Tech.	Materials	Telecom	Utilities
Cons. Disc.	1.00									
Cons. Staples	0.56	1.00								
Energy	0.44	0.37	1.00							
Financials	0.78	0.61	0.48	1.00						
Health Care	0.51	0.70	0.36	0.59	1.00					
Industrials	0.85	0.59	0.58	0.81	0.55	1.00				
Info. Tech.	0.71	0.30	0.37	0.53	0.38	0.66	1.00			
Materials	0.74	0.49	0.64	0.69	0.43	0.83	0.54	1.00		
Telecom Services	0.53	0.39	0.32	0.45	0.41	0.50	0.50	0.39	1.00	
Utilities	0.27	0.42	0.49	0.37	0.38	0.39	0.15	0.31	0.34	1.00

Equity Index Correlations

Index Name	S&P 500	MSCI EAFE	Russell 2000	Russell Mid Cap	MSCI EM
S&P 500 Index	1.00				
MSCI EAFE	0.76	1.00			
Russell 2000	0.81	0.67	1.00		
Russell Mid Cap	0.93	0.75	0.93	1.00	
MSCI EM	0.78	0.90	0.70	0.77	1.00

EQUAL WEIGHTING SECTORS OFFERS DOWNSIDE PROTECTION

One of the core pillars for this strategy is to deliver value when markets turn negative. The equal weighted sector strategy has outperformed in 7 of the 8 years that the S&P 500 Index had negative returns. The only year where the strategy did not outperform was 1990 and then it underperformed by 3 basis points. [See table below.]

S&P 500 Index Negative Years since 1974

Year	EW Sector S&P 500 Index	S&P 500 Index	EW Premium
1974	-24.5	-26.5	1.9
1977	-5.8	-7.2	1.3
1981	2.1	-4.9	7.0
1990	-3.1	-3.1	0.0
2000	3.3	-9.1	12.4
2001	-10.4	-11.9	1.5
2002	-20.7	-22.1	1.4
2008	-35.2	-37.0	1.8

EQUAL WEIGHTING SECTORS PERFORMANCE AND PEER GROUP RESULTS (1974-2014)

Index	Annual Return	Std. Deviation	Alpha	Beta	Upside Capture	Downside Capture	Tracking Error
Equal Weighted Sectors	11.87%	16.24	1.66	0.92	100.14	88.45	3.06
S&P 500 Index	11.05%	17.48	-	1.00	100.00	100.00	-

Over the past 40 years, by equal weighting sectors within the S&P 500 Index, one would have improved returns and reduced portfolio volatility. This simple strategy captured 100% of the upside of the market and only 88% of the downside. Over the past 25 years, the strategy has outperformed the S&P 500 Index in nearly 75% of rolling 3 year periods and the average large cap mutual fund in 90% of rolling 3 year periods. We believe the simplicity of the strategy is one of the reasons why we alone thus far have adopted it. Most active fundamental managers we know would be very uncomfortable with a mandate requiring a 10% allocation to every sector. Most of the quantitative managers we know would be uncomfortable with the simplicity of the strategy. We believe that equal weighting the sectors will benefit our clients and allow our portfolio managers and analysts to focus on finding great high quality companies at attractive valuations.

Douglas S. Butler, CFA, CFP®
Senior Vice President & Director of Research

Doug Butler has worked in the investment management business since 1991. As the Director of Research, he is responsible for the equity research process and manages the research analyst team. Doug is also responsible for developing the firm's asset allocation models. He is the co-portfolio manager of the Bright Rock Quality Large Cap Fund.

Doug is a CFA charterholder and has also received his designation as a Certified Financial Planner™. He is a member of the CFA Institute, the Boston Security Analysts Society, and the Williams Club.

Important Disclosures

Alpha: A statistic that measures the difference between the Fund's actual returns and its expected performance, given its level of risk as measured by beta. The difference is expressed as an annual percentage. **Beta:** A statistic that measures the volatility of the fund, as compared to that of the overall market. **Standard Deviation:** A statistical measure of portfolio risk used to measure variability of total return around an average, over a specified period of time. The greater the standard deviation over the period, the wider the variability or range of returns and hence, the greater the fund's volatility. by the estimate of earnings expected over the next four quarters. **Tracking Error:** A divergence between the price behavior of a position or a portfolio and the price behavior of a benchmark. This is often in the context of a hedge or mutual fund that did not work as effectively as intended, creating an unexpected profit or loss instead. **Upside/Downside Market Capture** measures a manager's performance in up/down markets relative to the fund's benchmark.

The **S&P 500 Index** is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The **MSCI EAFE Index** (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following 21 developed market country indexes: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The **Russell 2000 Index** consists of the smallest 2,000 companies in a group of 3,000 U.S. companies in the Russell 3000 Index, as ranked by market capitalization. The **Russell Midcap® Index**, an unmanaged index, measures the performance of the 800 smallest companies in the Russell 1000 Index. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The **MSCI Emerging Markets Index** consists of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. One cannot invest in an index.