

WELLINGTON
MANAGEMENT®

US Small Cap Outlook

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29 March 2017

Wellington Management today

A trusted advisor and strategic partner to clients worldwide

BY THE NUMBERS

Business

US\$979 billion of client assets under management

2,150+ clients

65+ countries in which clients are based

People and portfolios

664 investment professionals

17 years of experience, on average

163¹ partners all active at the firm

Heritage: key dates

1928 Wellington Fund – first US balanced fund

1979 Establishment of private partnership

1994 First long – short strategy launched



OWNERSHIP MODEL

Long-term perspective of a private partnership structure

Attract and retain investment talent

Independent: No public shareholders, no outside capital

Interests aligned with clients



BUSINESS MODEL

Singular focus on investment management

Diversification by asset class, geography, and client type

Research for client benefit only

Commitment to bringing the right resources to each client



INVESTMENT MODEL

Comprehensive capabilities

Rigorous proprietary research

Career analysts

Global resources

Empowered portfolio teams



CULTURE

Open, collaborative

Performance driven

Professional/collegial

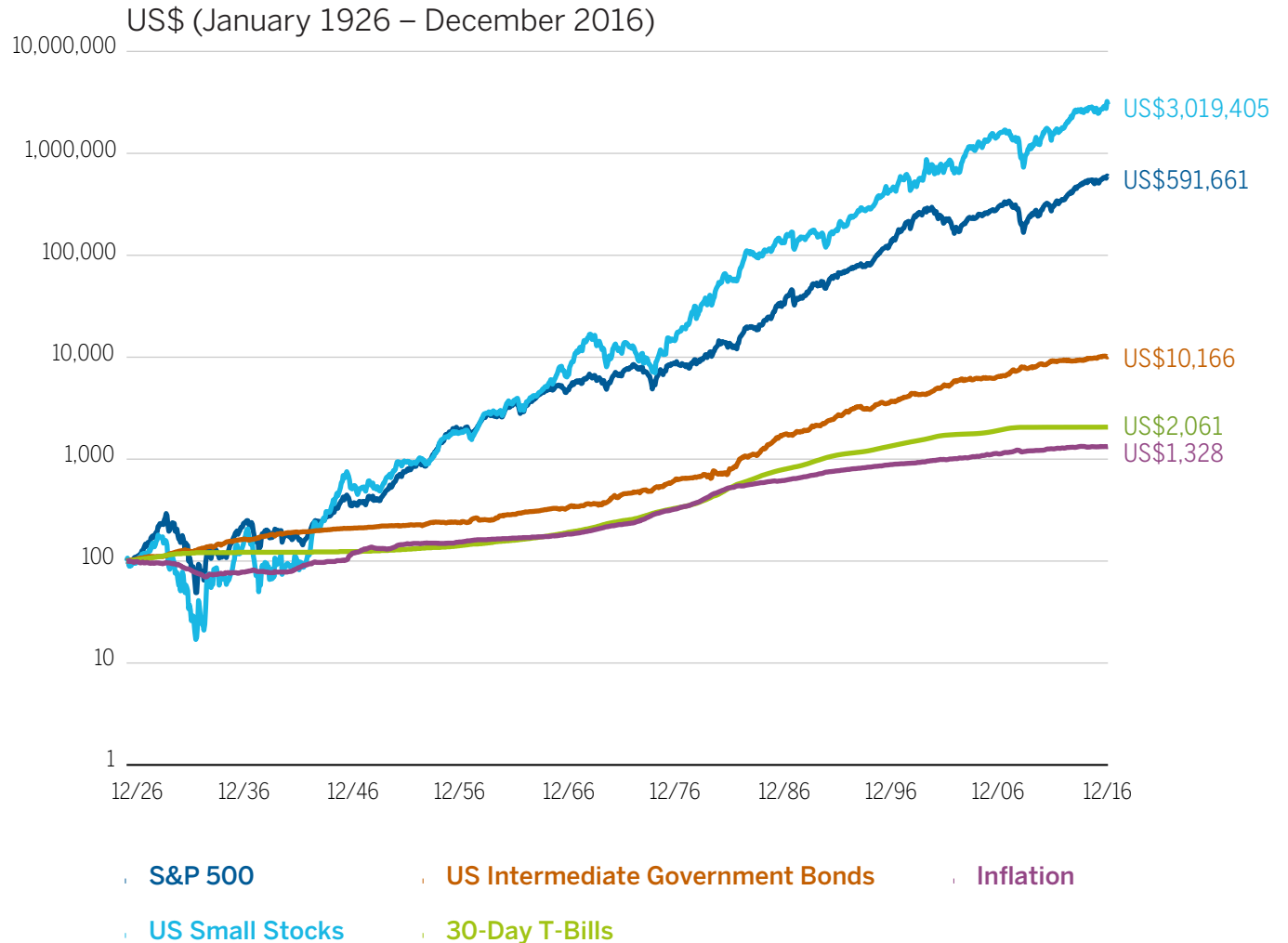
High standards, ethics, and integrity

Global diversity and inclusion



¹The partner count is as of 1 January 2017 | As of 31 December 2016

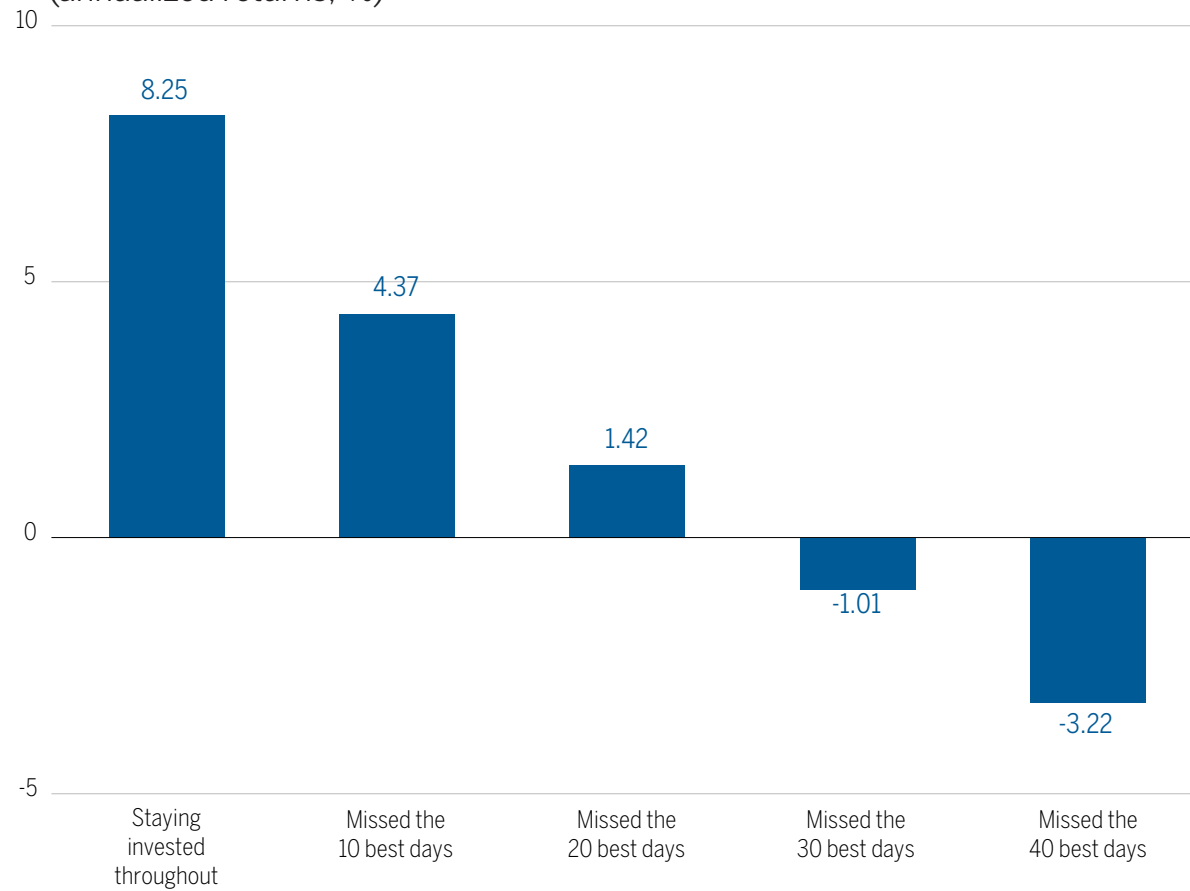
Small cap premium exists over the long-term



Sources: Ibbotson, Morningstar | Inflation – The Ibbotson Associates Stocks, Bonds, Bills and Inflation (IA SBBBI) US Inflation return stream was used. | US Intermediate Government Bonds – The IA SBBBI US Intermediate-Term Government Bond Index was used, which is an unweighted index that measures the performance of five-year maturity U.S. Treasury bonds. | US Small Stocks – The Ibbotson definition has evolved over time from 1926 to the present. | 1926 – 1981: The equities of smaller companies are represented by the historical series developed by Professor Rolf W. Banz. This is composed of stocks making up the fifth quintile (i.e., the ninth and tenth deciles) of the NYSE. | 1982 – 2000: The Small Company Stock return series is the total return achieved by the Dimensional Fund Advisors (DFA) Small Company 9/10 (for ninth and tenth deciles) Fund. The fund is a market-value weighted index of the ninth and tenth deciles of the NYSE, plus stocks listed on the AMEX and OTC with the same or less capitalization as the upper bound of the NYSE ninth decile. For 1981, Dimensional Fund Advisors, Inc. updated the returns using Professor Banz' methods. | 2001 – present: The Small Company Stock return series is the total return achieved by the Dimensional Fund Advisors (DFA) Small Company 9/10 (for ninth and tenth deciles) Fund. The Fund invests in a broadly diversified cross section of small companies.

The importance of a structural allocation to small caps

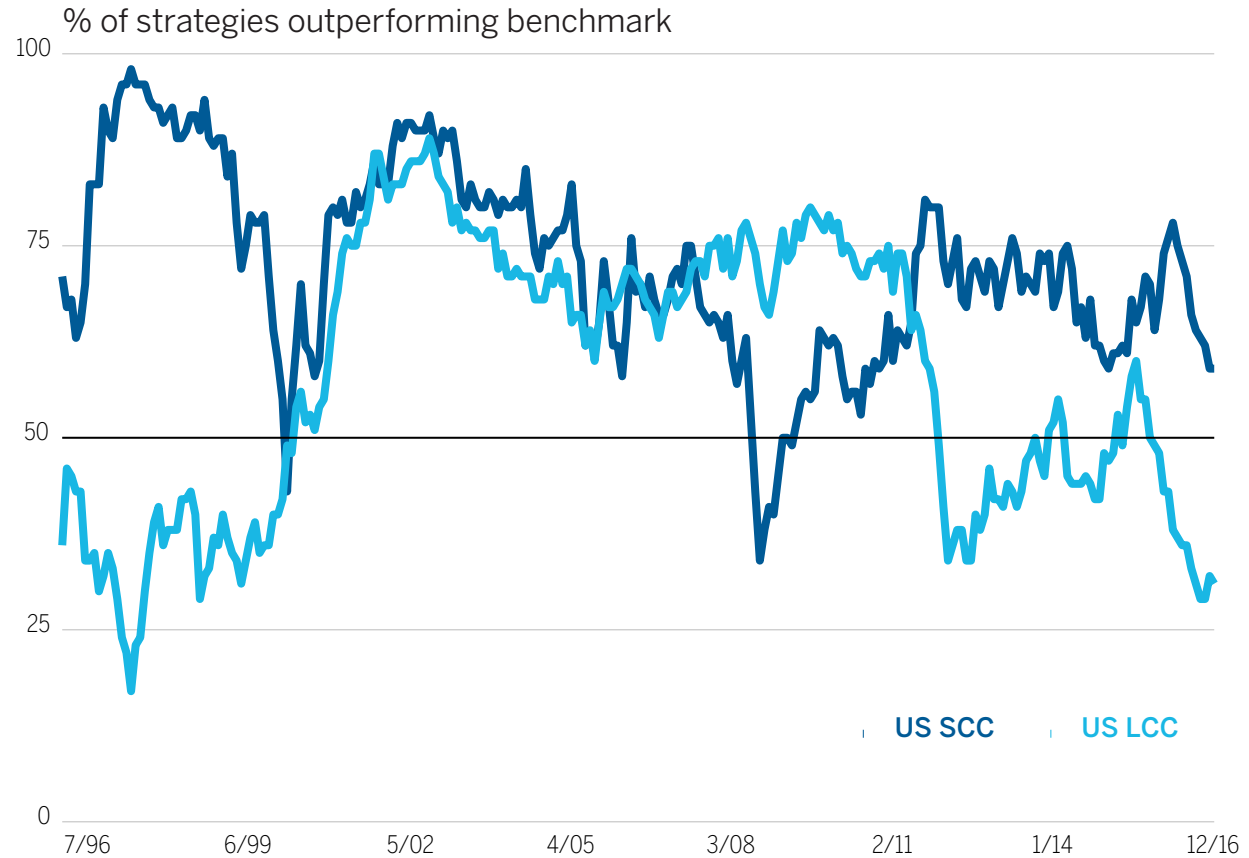
Missing the best days in the Russell 2000, 20 years ended 31 December 2016
(annualized returns, %)



Source: FactSet

Active management value has persisted over market cycles

Percent of managers outperforming rolling three years
US Equities

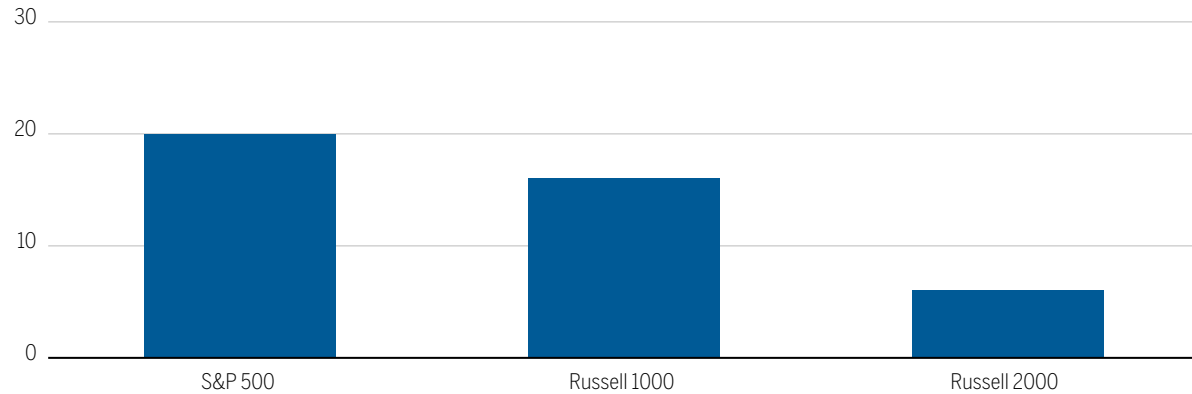


Sources: FactSet, eVestment | All investment universes are sourced from eVestment and utilize eVestment's construction methodology. | Period analyzed from 1 January 1996 – 31 December 2016. | US LCC = US Large Cap Core vs S&P 500, US SCC = US Small Cap Core vs Russell 2000.

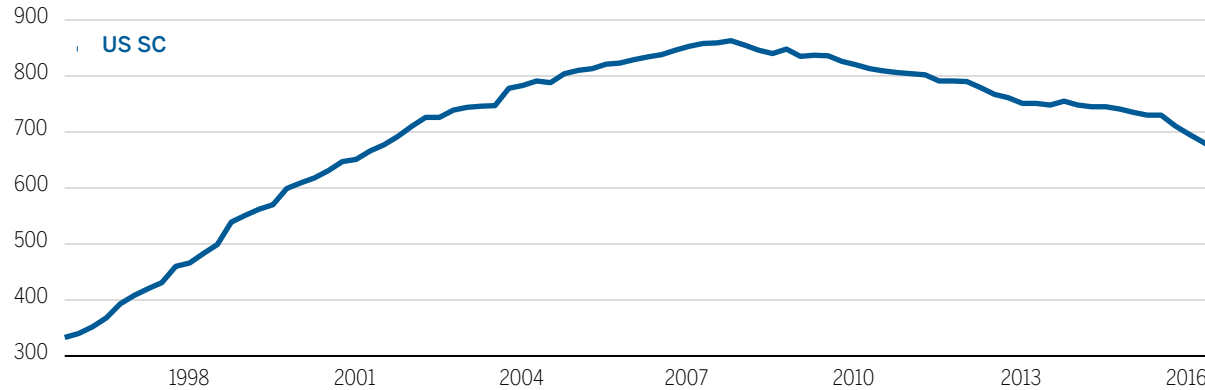
Limited coverage creates inefficiencies

Lower head count on sell-side while number of buy-side funds declining

Avg # of analysts per company
As of 31 December 2016

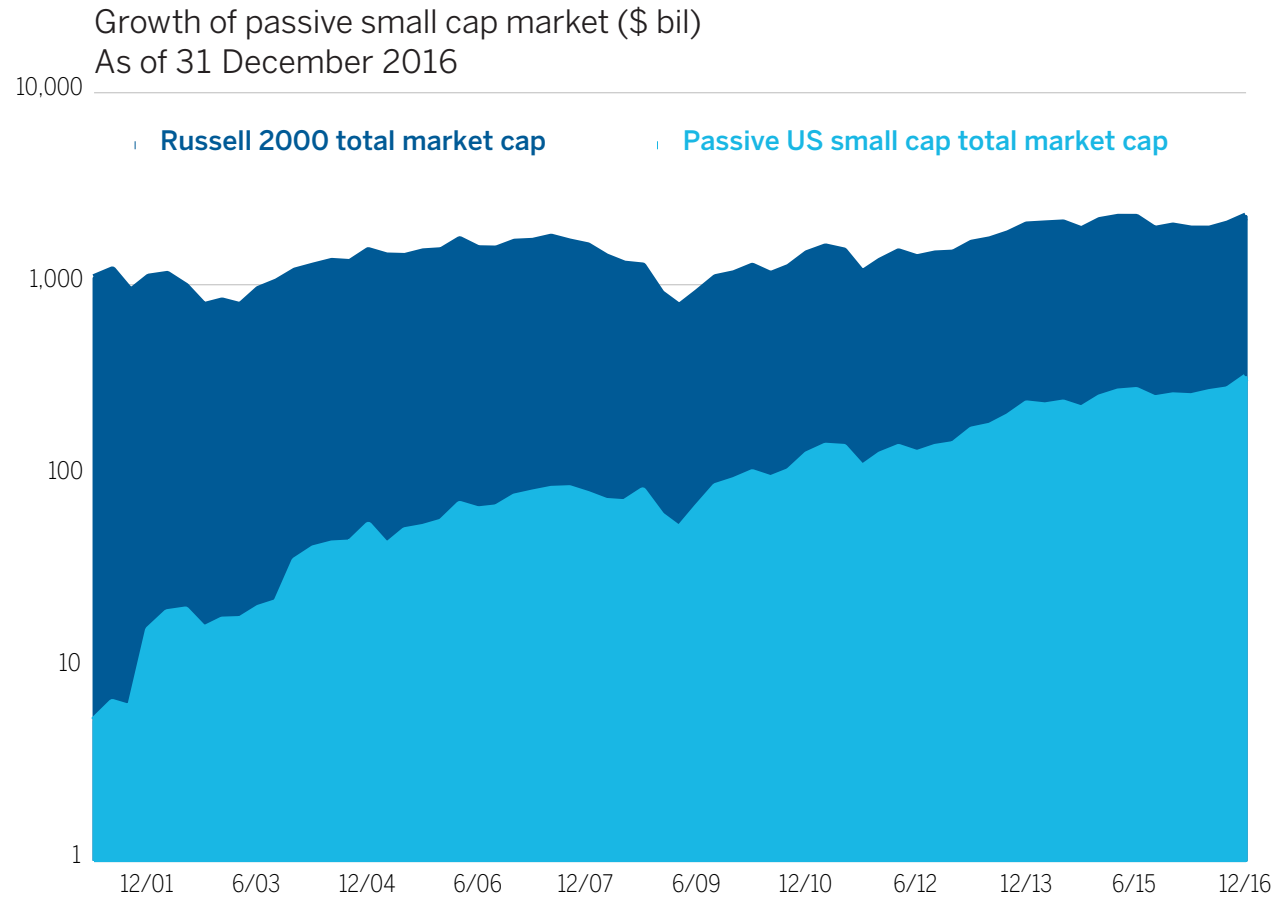


Number of funds within eVestment universe over time
As of 31 December 2016



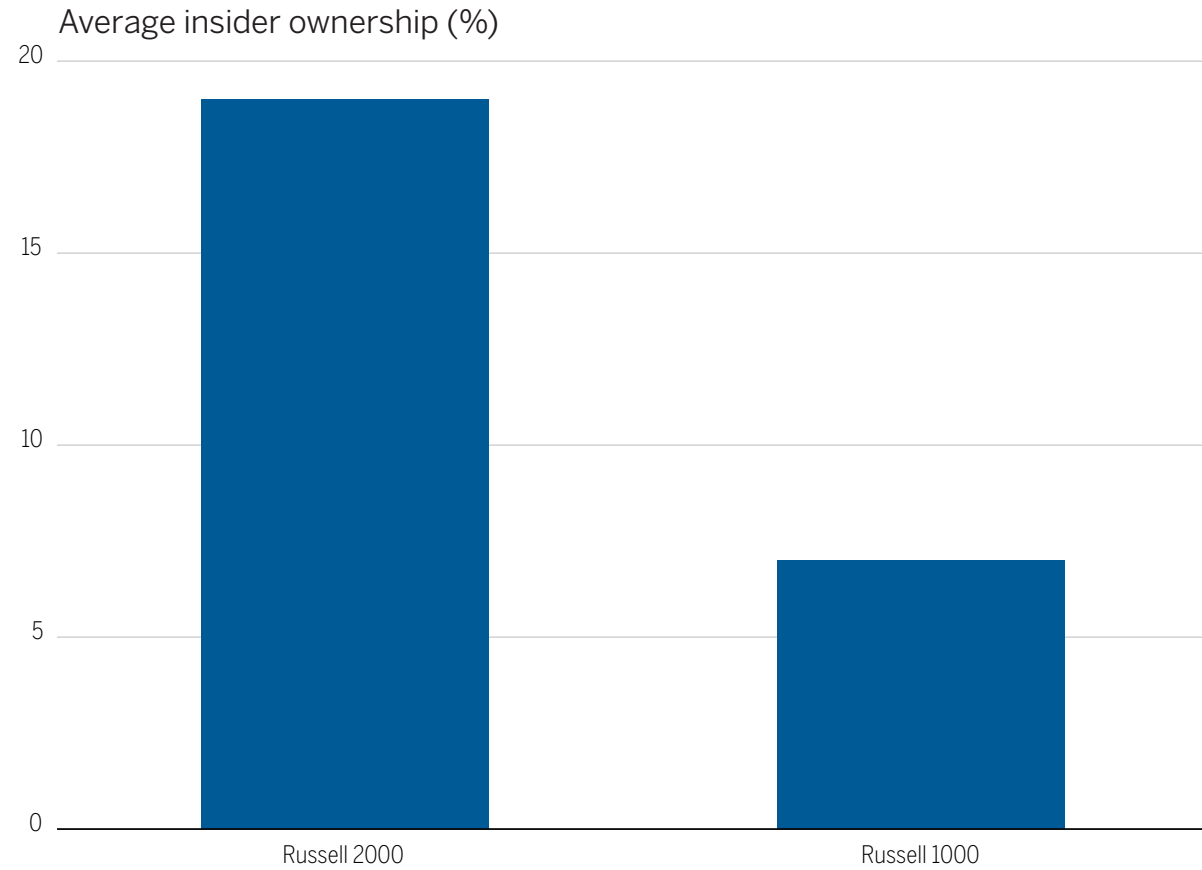
Sources: FactSet, eVestment | All investment universes are sourced from eVestment and utilize eVestment's construction methodology. | US SC = US Small Cap Equity

Growth of passive driving incremental inefficiency



Sources: FactSet, eVestment, ETFdb.com | Passive market includes ETFs and Index Funds and represents passive US Small Cap funds within eVestment combined with US Small Cap ETFs from ETFdb.com.

High levels of insider ownership in small caps

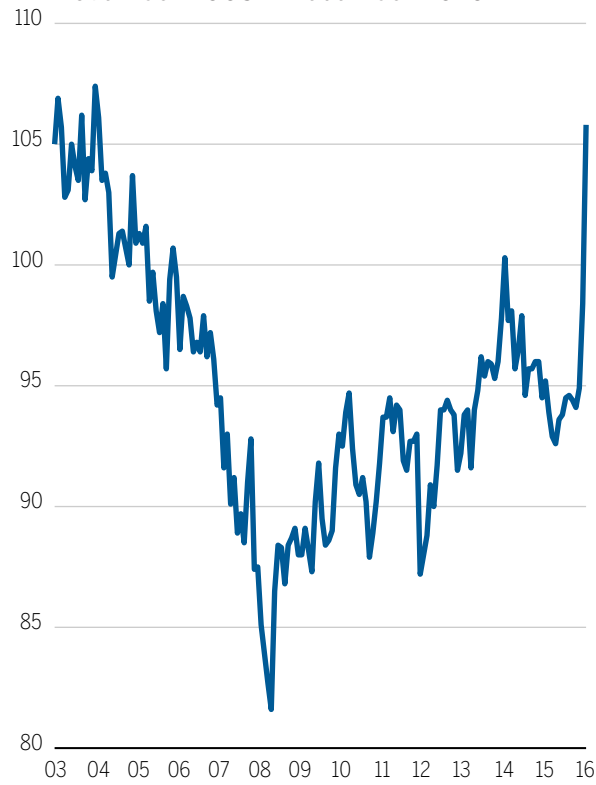


State of the market

“Animal Spirits” awaiting confirmation

Deregulation and lower taxes unleash “animal spirits”

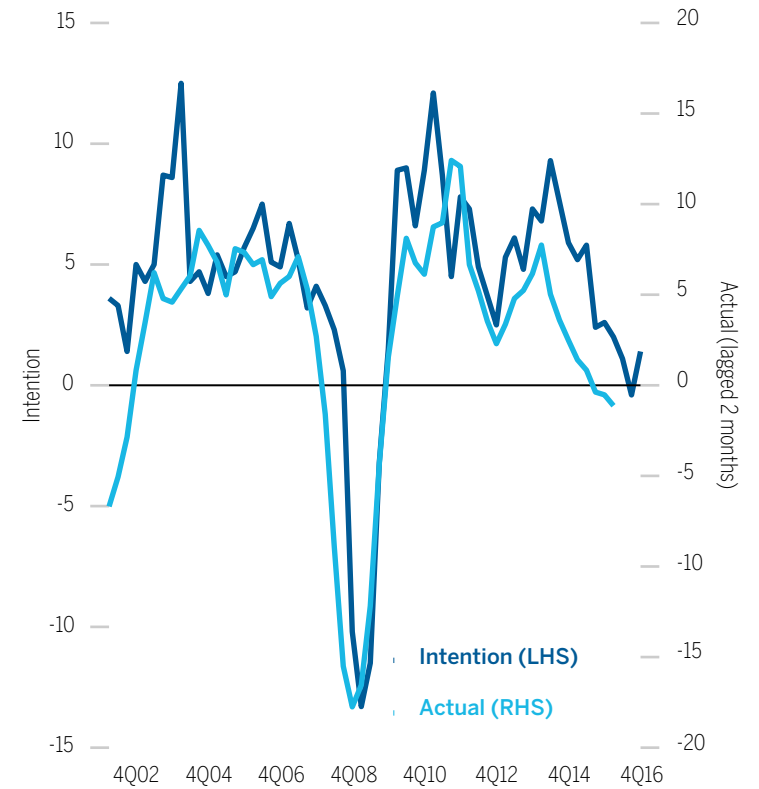
NFIB Small Business Optimism Index,
November 2003 – December 2016



Sources: NFIB, Bloomberg

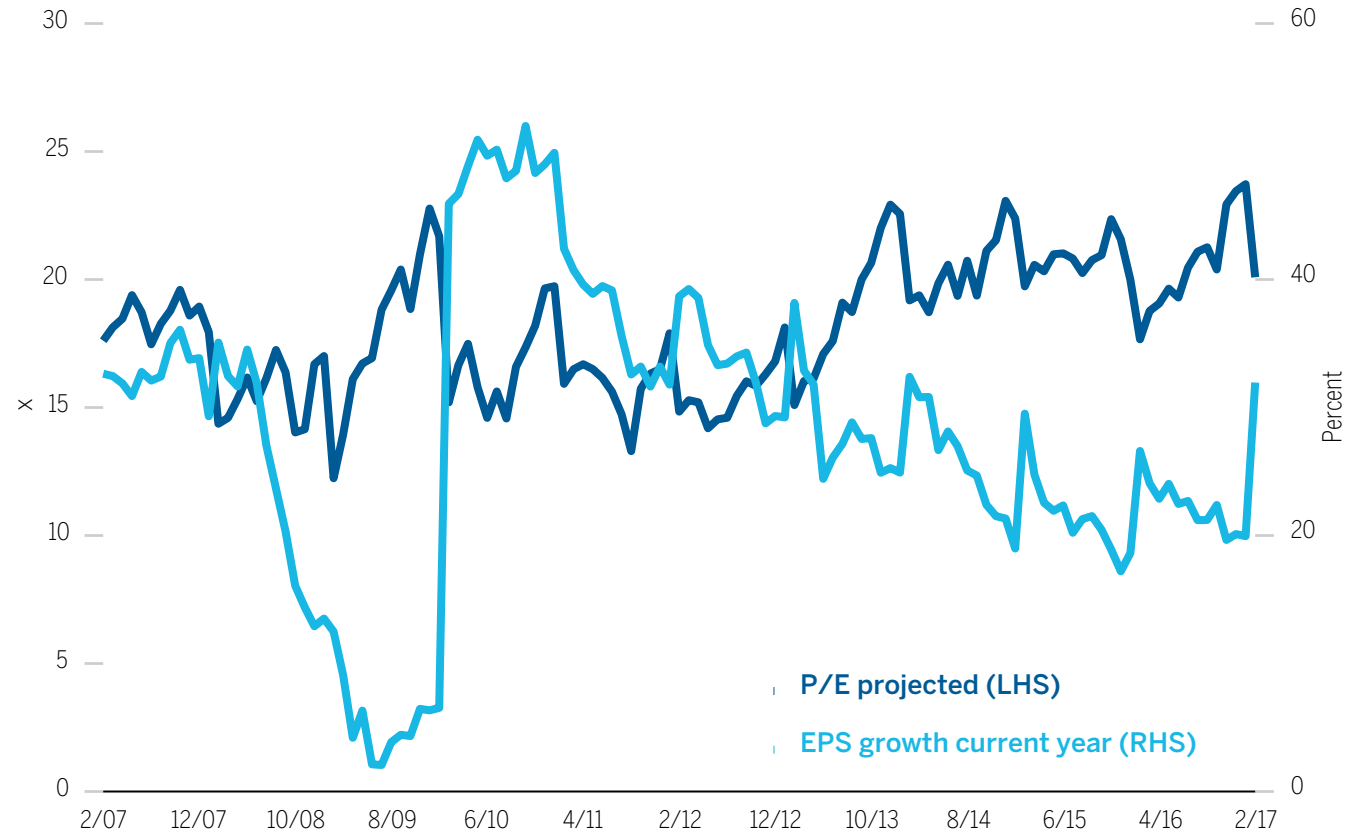
...but will capex follow through?

CFO capex intention and actual, 1Q00 – 4Q16¹



¹Expected growth in capital spending over next 12 months | Sources: Duke University, Haver

Multiples compressing with rapid earnings growth



Wellington Small Cap Value Approach

Our investment philosophy

We believe

Higher-quality companies trading at a discount have the potential to generate above-average returns with below-average risk over a longer-term investment horizon

Markets are generally efficient over the long run, but are often inefficient in the short run

Mispricings often exist

- Where the market is overly focused on short-term data points or events
- In situations driven by change and uncertainty
- In structural areas that receive less investor attention (e.g., small cap)

Wellington Small Cap Value Approach

Investment objective

Investment objective

Seeks long-term total returns in excess of the Russell 2000 Value Index by investing in conservatively-valued securities of high-quality, small-cap companies

Investment approach

Bottom-up stock selection

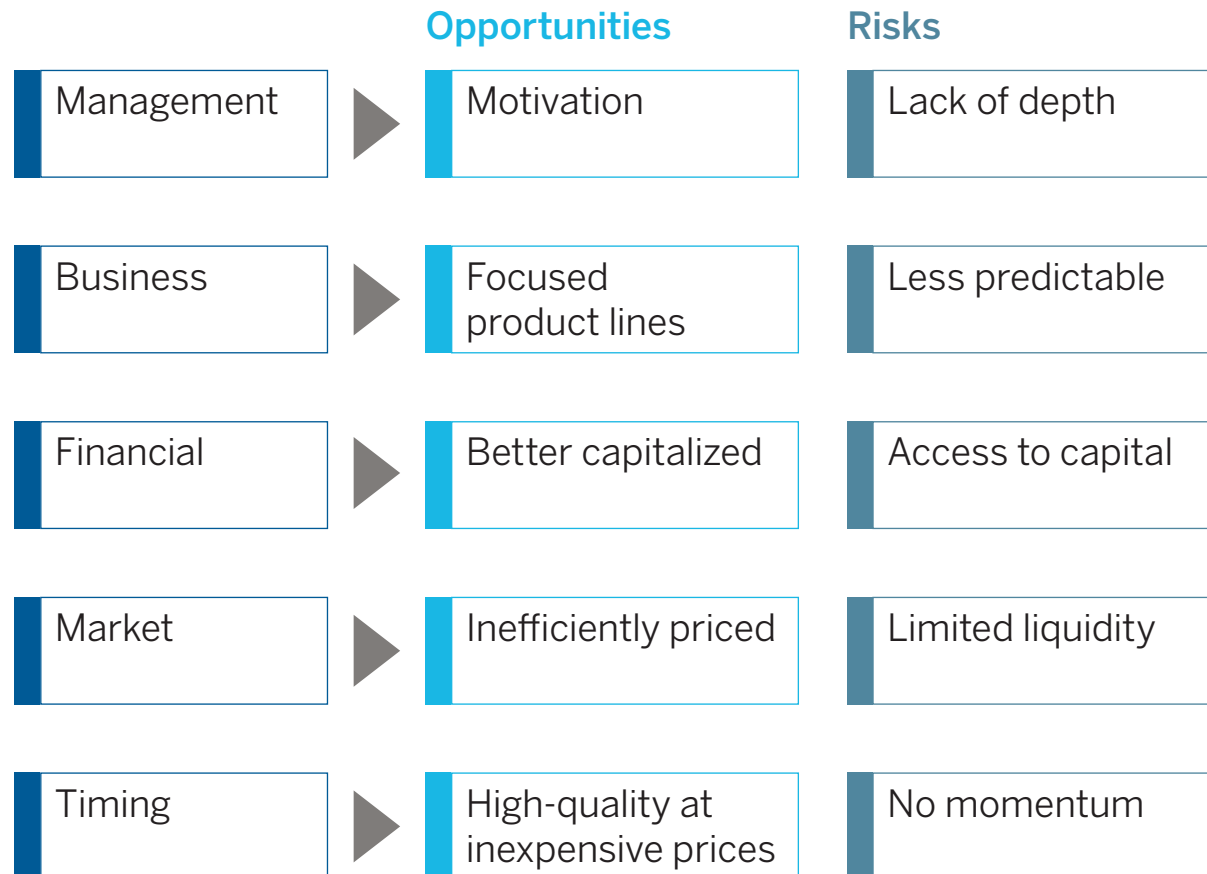
Resilient businesses

Extended time horizon

Absolute risk and return framework

Wellington Small Cap Value Approach

Opportunities and risks – How we take advantage of market inefficiency



Wellington Small Cap Value Approach

Sell discipline

Price target achieved

Market capitalization limits

Better ideas

Fundamental disappointments

WTC-CTF Small Cap Value

Top ten holdings as of 31 December 2016

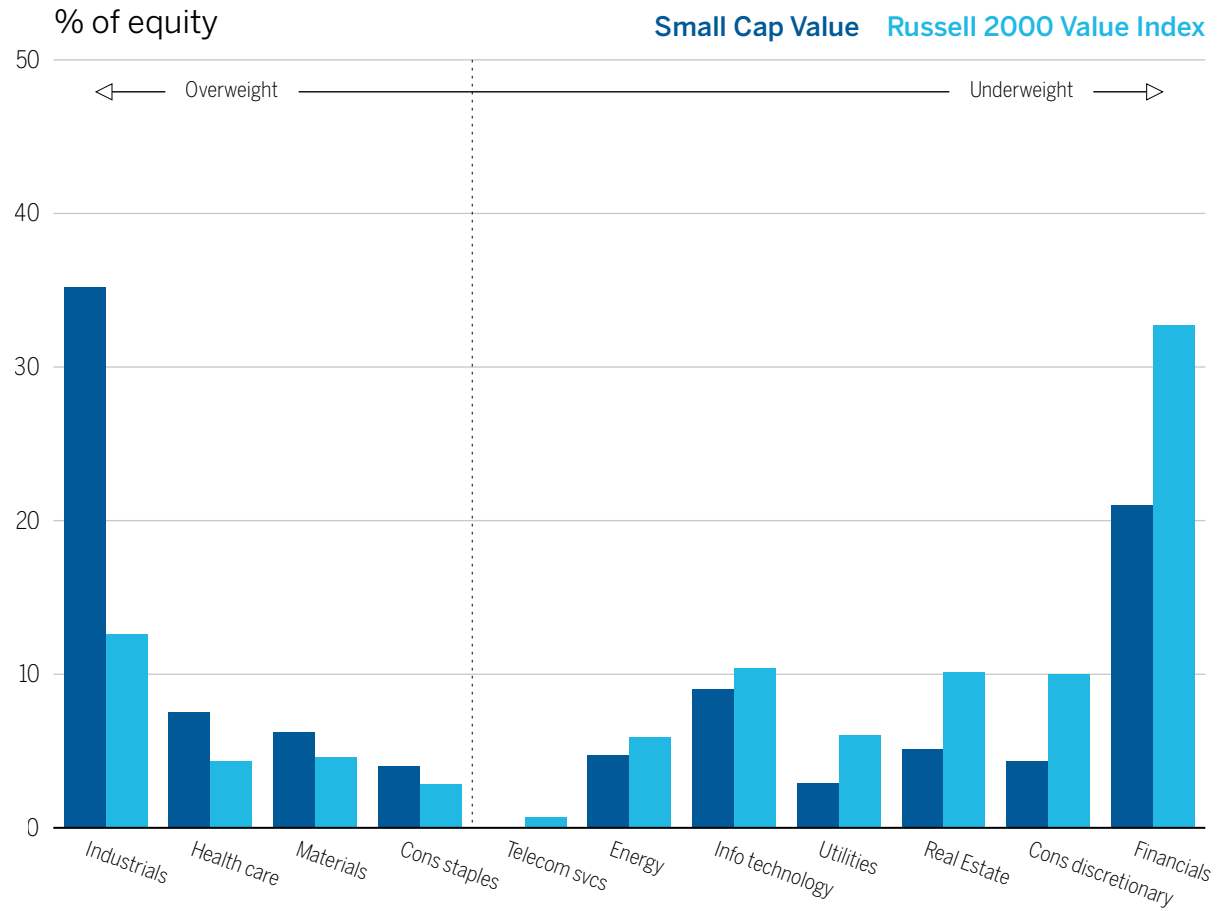
Company	Industry	% equities
Mueller Industries	Machinery	3.1
Webster Financial	Banks	3.0
Belden	Electronic Equip, Instrument & Comp	2.7
G & K Services	Comm svcs & supplies	2.6
International Bancshares	Banks	2.6
Albany International	Machinery	2.3
First Midwest Bancorp	Banks	2.3
Northwest Bancshares	Thrifths & Mortgage Finance	2.1
Sensient Technologies	Chemicals	2.1
TriMas	Machinery	2.1
Total of top ten		24.9

Number of equity names: 74

Total may not sum correctly due to rounding.

WTC-CTF Small Cap Value

Sector weights as of 31 December 2016



Important notice

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