

US Core Equity Strategy

SOLUTIONS & MULTI-ASSET | APPLIED EQUITY ADVISORS TEAM | STRATEGY PROFILE | 2017

The Applied US Core Equity Strategy seeks to protect investors from prolonged periods of style-driven underperformance. Their flexible approach combines quantitative models with stock-specific research to identify 30 - 60 companies in the U.S. with exposure to factors expected to drive returns in the current market environment.

Philosophy: Active global investing, unconstrained by style

WE BELIEVE

- 1 **Common market-oriented factors drive the majority of stock returns**
- 2 **Stock selection is additive to alpha generation**
- 3 **Risk management should be integral to the investment process**

OUR APPROACH

Through factor modeling, we can tilt the towards those styles, regions or sectors we deem as being most likely to produce excess returns.

We conduct company-specific analysis to determine the stocks most likely to add to the strategy's overall return.

We intentionally seek some risks and avoid others

Process: Blends factor analysis with stock-specific research

Using proprietary quantitative models, the team seeks to identify those factors it believes will dominate markets over the next 6-12 months. Over 40 factors across five categories are ranked based on their momentum strength and cheapness (valuation) to identify potential opportunities.

Stocks are then ranked by their relative exposure to desired factors, which narrows the universe to the top quintile (20%) of stocks. To further refine the pool, each high-scoring stock undergoes risk decomposition analysis to assess its effect on desired and undesired exposures.

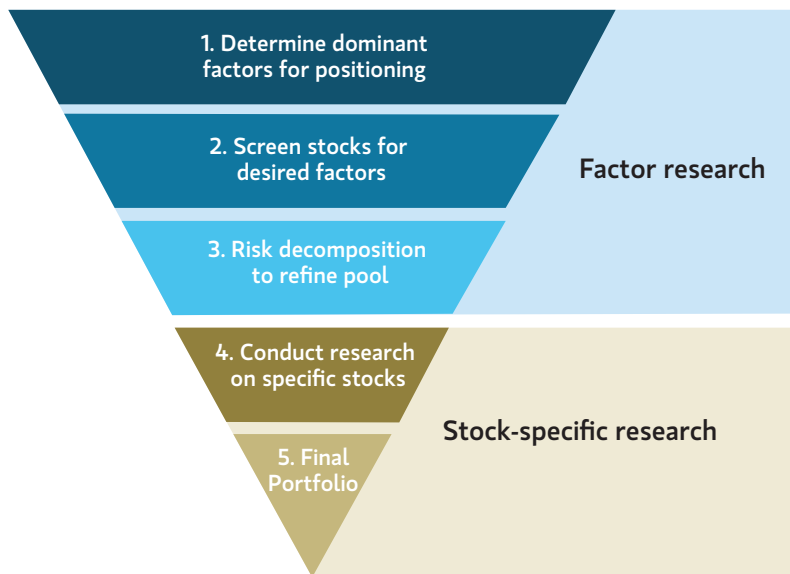
Final stock weightings are determined by a stock's exposure to desired factors, the confidence level of its idiosyncratic opportunity and its contribution to reducing intra-stock correlations within the portfolio.

STRATEGY AT A GLANCE

Inception Date	July 2001
Investment Style	Core Equity
Securities	Primarily U.S. equity securities
Typical No. of Holdings ¹	30-60
Target Active Share ²	85% or more
Target Tracking Error	4.5-5.0%
Benchmark ³	S&P 500 Index

The targets presented are typical ranges. There is no assurance that these targets will be attained.

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DISPLAY 1**Investment process: From broad market factors to specific stocks**

This represents how the portfolio management team generally implements its process under normal market conditions.

Investment Team: Strong leadership, highly experienced⁴

Andrew Slimmon is a Managing Director at Morgan Stanley Investment Management where he is the lead Senior Portfolio Manager on all long equity strategies for Applied Equity Advisors. Andrew is also a member of the Morgan Stanley Wealth Management Global Investment Committee. He has more than 30 years of investment management experience. He began his career at Morgan Stanley in 1991 as an Advisor in Private Wealth Management, and later served as the Chief Investment Officer of the Morgan Stanley Trust Company.

Phillip Kim is a Portfolio Manager for Applied Equity Advisors strategies, overseeing the team's quantitative equity research. Previously, he was a Quantitative Research Analyst for Morgan Stanley Smith Barney's alternative investment research. Mr. Kim also worked as a software engineer at Raytheon, where he was responsible for the design of the world's first high-altitude, long-endurance Unmanned Aerial Vehicle (UAV). Mr. Kim also worked at Pricewaterhouse Coopers as a financial model developer.

Competitive Advantages**UNCONSTRAINED BY STYLE**

Portfolio is positioned to gain exposure to broad market factors the team believes will drive returns in the current market environment.

STOCK-SPECIFIC IDEAS

In addition to strategically positioning the portfolio to capitalize on prevailing market factors, the team conducts research on individual stocks to extract alpha from idiosyncratic factors at the company level.

RISK MANAGEMENT EMBEDDED IN PROCESS

Every part of the investment process is oriented toward taking intentional, calculated risks and managing those risks over time.

¹ Weights and holdings provided are a typical range, not a maximum number. The portfolio may exceed this from time to time due to market conditions and outstanding trades.

² Active Share: Sum of active position weights as a percentage of the total portfolio, that is, the degree to which a portfolio is different from its benchmark. A portfolio with a high degree of Active share does not assure relative outperformance.

³ The **S&P 500® Index** measures the performance of the large cap segment of the U.S. equities market, covering approximately 75% of the U.S. equities market. The Index includes 500 leading companies in leading industries of the U.S. economy.

⁴ Team members may change without notice from time to time.

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