Ulland Investment Advisors, Inc

Defensive Growth Strategy
Active Fixed Income Management
Targeting a 5% Net Return for Clients

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The views and opinions in the preceding commentary are as of the date of publication and are subject to change. This material represents an assessment of the market environment at a specific point in time. We consider the information in this presentation to be accurate, but we do not represent that it is complete or should be relied upon as the sole source of suitability for investment. Investors should consult their own advisors with respect to their individual circumstances.

**Risks of Investing in Preferred Securities and Subordinated Debt**

Investing in any market exposes investors to risks. In general, the risks of investing in preferred securities are similar to those of investing in bonds, including credit risk and interest-rate risk. As nearly all preferred securities have issuer call options, call risk, reinvestment risk and income risk are also important considerations.

In addition, investors face equity-like risks, such as deferral or omission of distributions, subordination to bonds and other more senior debt, and higher corporate governance risks with limited voting rights.

Past performance is no guarantee of future results. There is no guarantee that any historical trend presented in this commentary will be repeated in the future, and no way to predict precisely when such a trend will begin. There is no guarantee that any market forecast set forth in this presentation will be realized. Index performance is not representative of the performance of any Ulland Investment Advisors account and no such account will seek to replicate an index.
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### Assets
- $296 million in assets under management
- $228 million in flagship strategy - *Defensive Growth Strategy Using Preferred Securities and Subordinated Debt*
- Current yield is 7.02% in flagship strategy

### Expertise
- Pioneer in tax-efficient preferred and hybrid securities
- Proprietary independent research
- Specialization in preferred securities and subordinated debt

### People
- Portfolio manager was former state securities, banking and insurance regulator
- 6 professionals in research team and investment committee
Portfolio Management

James Ulland
President and Portfolio Manager

M.B.A., Wharton School of Finance

Nat Beebe, CFA
Portfolio Manager

NASD Series 65 certified
B.A., Carleton College

Combined experience of 39 years in portfolio management and securities research
Investment Committee

Jared Plotz
Director of Research

M.B.A., Tippie School of Management, (University of Iowa)

James Ulland
President and Portfolio Manager

M.B.A., Wharton School of Finance

Nat Beebe, CFA
Portfolio Manager

NASD Series 65 certified
B.A., Carleton College

Responsible for key investment decisions… Along with other analysts
Operations

James Skjong
Director of Trading, Operations and Compliance

NASD Series 65 certified
B.A., Carleton College

Nat Beebe, CFA
Portfolio Manager

NASD Series 65 certified
B.A., Carleton College

Combined experience of 22 years in trading, product control, settlements, compliance and communications
INVESTMENT PHILOSOPHY

- Securities providing Qualified Dividend income (QDI)
- Preferred and hybrid preferred securities
- Subordinated debt and corporate bonds
- Diversification among issuers
- A repeatable credit research process
- Separately Managed Accounts

A sustainable tax-efficient fixed-income solution
CREDIT RESEARCH FRAMEWORK

Issuer credit quality
- Coverage of interest
- Generation of sustainable cash flows
- Company comparables
- Quality of management

Sector analysis
- Sector-specific drivers
- For example, using data from Bank of International Settlements (BIS) and FDIC, and non-accural loans data to analyze the financial sector.

Securities’ features
- Position in capital structure
- Sensitivity to interest rate movements
- Call risk
- Liquidity

Macro environment
- GDP growth rates
- Current account surpluses/deficits
- Balancing of government budgets
- Sovereign debt rating
RESEARCH PROCESS

IDEA GENERATION
- Bottom-up screening
- Discussions with industry experts and sell-side
- Special situations

IN-DEPTH RESEARCH
- Proprietary framework
- Analysis of company- and sector-specific drivers
- Comparable company analysis
- Financial modeling

DECISION AND FOLLOW-UP
- Investment committee makes final decision
- Securities may be placed on Watch List for further research
- Analysts continuously monitor Watch List and Buy List.
RISK MANAGEMENT

- **Strict position limits by exposure to issuer**
- **Rigorous risk assessment mitigation framework**
- **Team-oriented, process-driven investment decision-making**
- **Disciplined execution of trades using limit orders and scaling**
- **In-depth quarterly reviews of credit quality of issuers**
- **Re-balance exposures using buy and sell disciplines**
- **Active maintenance of a Buy List of securities to mitigate reinvestment risk**
PERFORMANCE SINCE INCEPTION *

UIA Defensive Growth Strategy Using Preferred Securities and Subordinated Debt (Gross returns) 9.68%
Bank of America Merrill Lynch Core Fixed-rate Preferred Securities Index 8.95%
Barclays US Aggregate Bond Fund 3.75%

* Compounded annual growth rates on a total return basis. Inception date: January 1 2009.
Cumulative total return since inception

Inception date: January 1 2009.

UIA Defensive Growth Strategy Using Preferred Securities and Subordinated Debt (Gross returns)
Bank of America ML Core Fixed-rate Preferred Securities Index
Barclays Capital US Aggregate Index

* Inception date: January 1 2009.
## Historical Returns vs. Barclay Aggregate Bond Index

<table>
<thead>
<tr>
<th>Year</th>
<th>Ulland Institutional Fixed Income Composite</th>
<th>Barclay Aggregate Bond Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 (as of 02/28/17)</td>
<td>1.99%</td>
<td>0.87%</td>
</tr>
<tr>
<td>2016</td>
<td>5.54%</td>
<td>2.65%</td>
</tr>
<tr>
<td>2015</td>
<td>2.17%</td>
<td>0.55%</td>
</tr>
<tr>
<td>2014</td>
<td>5.83%</td>
<td>5.97%</td>
</tr>
<tr>
<td>2013</td>
<td>4.24%</td>
<td>-2.03%</td>
</tr>
<tr>
<td>2012</td>
<td>17.10%</td>
<td>4.22%</td>
</tr>
</tbody>
</table>

### Total Return Annualized (Gross)

<table>
<thead>
<tr>
<th>Duration</th>
<th>Ulland Institutional Fixed Income Composite</th>
<th>Barclay Aggregate Bond Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Year (2016)</td>
<td>5.54%</td>
<td>2.65%</td>
</tr>
<tr>
<td>3 Year (2014-2016)</td>
<td>4.50%</td>
<td>3.03%</td>
</tr>
<tr>
<td>5 Year (2012-2016)</td>
<td>6.85%</td>
<td>2.23%</td>
</tr>
</tbody>
</table>
U.S. Publicly Listed Preferred Market Overview

The market* for preferred securities is ~$270 billion

*Market defined by Dollar Denominated, perpetual, non Reg S, 144A, and non-agency securities, $25 or $1,000 par securities, and whose market cap is over $100 million

Numbers may not add up to 100% due to rounding.
U.S. Publicly Listed Preferred Market
Coupon Type

$270 Billion Market

- **Fixed**: 51%
- **Floating/Variable**: 49%

*Market defined by Dollar Denominated, perpetual, non Reg S,144A, and non-agency securities, $25 or $1,000 par securities, and whose market cap is over $100 million*
Positive macroeconomic and credit fundamentals favor an overweight allocation to issuers based in the United States and Northern Europe.

*Numbers may not add up to 100% due to rounding.*
Ulland Qualified Dividend Income (QDI) Allocation

For the highest income tax earners, qualified dividends are taxed federally at the lower 23.8% tax rate rather than at the highest tax rate for an individual's ordinary income at 44.6%.*

We manage to a higher allocation (target: 75-100%) to QDI securities.

*Tax rates include 3.8% Medicare tax
The graph uses the Bloomberg Composite, which is an average of existing ratings (rounded down) given by Moody’s, S&P, Fitch and DBRS. Non-rated issues make up 18% of the security credit rating portfolio.
WHY OUR STRATEGY IS COMPELLING

I. Allocation towards tax-efficient securities
II. Higher-yielding
III. Limited duration
IV. Safety of capital and dividends
V. Interest Rate Protection
I) Allocation Towards Tax-efficient Securities

- Investors in high-income tax brackets receive substantial tax benefits from securities providing qualified dividend income (QDI).

- **79% of our portfolio is invested in securities providing QDI.** Our objective is to maintain the allocation to QDI securities at 75-100% as long as the securities meet other requirements such as sound credit fundamentals and liquidity.
11) Higher Yielding

The UIA strategy yields 4.56% higher than 10-year US Treasuries and 3.06% higher than 10-year corporate bonds.
III) Limited Duration

- Dodd-Frank and Basel III regulations phase out these specific hybrid security issues (also known as trust preferred securities) as Tier 1 capital. This moderates duration risk for these securities.
  - Trust preferred securities will be phased out of Tier 1 capital for all bank-holding companies with more than $15B in assets. The phase out is completed for US banks; however, European bank trust preferred will not be phased out completely until 12/31/2022.
  - Banks are expected to redeem trust preferred securities and replace them with other forms of capital that count as Tier 1 capital.

- Reduction of financing costs
  - Since yields on trust preferreds are higher than yields on traditional debt, banks can “re-finance” at lower rates by redeeming trust preferreds and issuing senior debt.

* Dodd-Frank and Basel III – comprehensive sets of reform measures to strengthen the regulation, supervision and risk management of the banking sector.

* The Dodd-Frank Act phase-out period for US banks starts on 1/1/2013 and ended on 12/31/2015.

* Basel III phase-out period for European banks starts on 1/1/2013 and ends on 12/31/2022.
IV) Safety of Capital and Dividends

- Banks have built strong capital positions post-crisis to comply with regulations and in anticipation of more stringent Basel III requirements.

- Strong capital positions increase the probability that all expected dividends will be paid.

- All US banks in the strategy paid their hybrid dividends during the 2008/09 banking crisis.
Changes in Tier 1 capital ratio **

Average increase of 275 bps between 2008 and 2015

** Tier 1 capital ratio = Tier 1 capital / Risk-weighted assets
Tier 1 capital = common equity + some non-redeemable non-cumulative equity
V) Interest Rate Protection
Fixed-to-Float Preferred Allocation

Ulland Fixed-to-Float Preferred Exposure
Security Overview

- **Fixed Rate**

  - **Fixed Coupon At Issuance**
    - Fixed Rate Coupon: 6-8%
    - Non-Callable - 5-10 Years from issuance
    - Primarily Big Bank Issuers
      - Top Holdings: JP Morgan, Citigroup, Morgan Stanley, Goldman Sachs

- **Floating Rate**

  - **Floating Rate After First Call Date**
    - Floating Rate Coupon: Spread + Base Rate
    - Spread - 3.30-4.5%
    - Base Rate 3 Month LIBOR
V) Interest Rate Protection-Fixed-to-Float Allocation

Ulland Fixed-to-Float Exposure
Current Holdings as of 12/31/2016

- Current Allocation - 50% of total preferreds
- Target is to increase exposure as the threat of inflation increases
- “Ladder” float reset date to gradually convert fixed rate payments to floating rate

<table>
<thead>
<tr>
<th>Float Reset Date</th>
<th>As % of Floating Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>50%</td>
</tr>
<tr>
<td>2019</td>
<td>15%</td>
</tr>
<tr>
<td>2020-2023</td>
<td>10%</td>
</tr>
<tr>
<td>2024-2025</td>
<td>25%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>
CURRENT VIEWS
Improving Bank Balance Sheet

• General improvement in credit quality of US banks
  ◦ Banks have actively de-risked balance sheets. Non-performing loans as a percentage of total loans declined from 1.18% in 2008 to 0.61% in the current quarter in our universe of 19 large US banks. *
  ◦ Banks are also significantly improving profitability. The trailing twelve month normalized return on equity for our universe of US banks was 7.08% compared to -0.35% in 2008.

*Non-performing assets are assets in jeopardy of default, defined as when the borrower fails to make interest or principal payments for 90 days or longer.
CURRENT VIEWS
Bank Regulation Benefit Preferreds

- Implementation of Dodd-Frank and Basel III regulations will force banks to hold more capital, providing increased assurance that dividends will be paid.

- The redemption feature of bank hybrid preferred securities continues to be confirmed.

- The Federal Reserve and the European Central Bank are widely expected to maintain record-low interest rates. The accommodative stance will result in low yields on traditional fixed income instruments. The Federal Reserve has signaled its intention to raise rates in 2017 marking fixed-to-float securities a valuable defense.
The Federal Reserve and the European Central Bank are widely expected to maintain record-low interest rates. The accommodative stance will result in low yields on traditional fixed income instruments.

Two Federal Reserve hikes are likely in 2017 and more in 2018-2019.

We expect traditional fixed income choices to face headwinds in a gradually rising rate environment.
CURRENT VIEWS
Ulland Model Portfolio positioned for rising interest rates

- Model Ulland Portfolio
  - 50 - 60% Fixed-to-Float Preferreds
  - 20 - 30% Traditional Fixed Rate U.S. Preferreds
  - 15 - 25% European Hybrid Preferreds
  - 75 - 85% Qualified Dividend Income
SUMMARY

- The strategy’s current yield is 7.00%.
- The majority of hybrid securities issued by European banks are expected to be redeemed over the next five years.
- Fixed-to-Float allocation will provide some portfolio interest rate protection.
- The Defensive Growth strategy is designed for a gradual rate hike path.
- The strategy will build greater exposure to securities providing QDI such as US preferred securities and securities issued by European banks.
- The Ulland preferred and hybrid securities are traded daily and have liquidity. *

*For securities with a $25 par value, the middle 80% of issues (as determined by volume) has an average 3-month daily volume of 25,965 shares.
# Fee schedule

<table>
<thead>
<tr>
<th>Total investment (in USD)</th>
<th>Annual fee*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between $500,000 and $2,000,000</td>
<td>1.00%</td>
</tr>
<tr>
<td>Between $2,000,000 and $5,000,000</td>
<td>0.75%</td>
</tr>
<tr>
<td>Amount above $5,000,000</td>
<td>0.50%</td>
</tr>
</tbody>
</table>

*Fees are paid quarterly, in advance.*