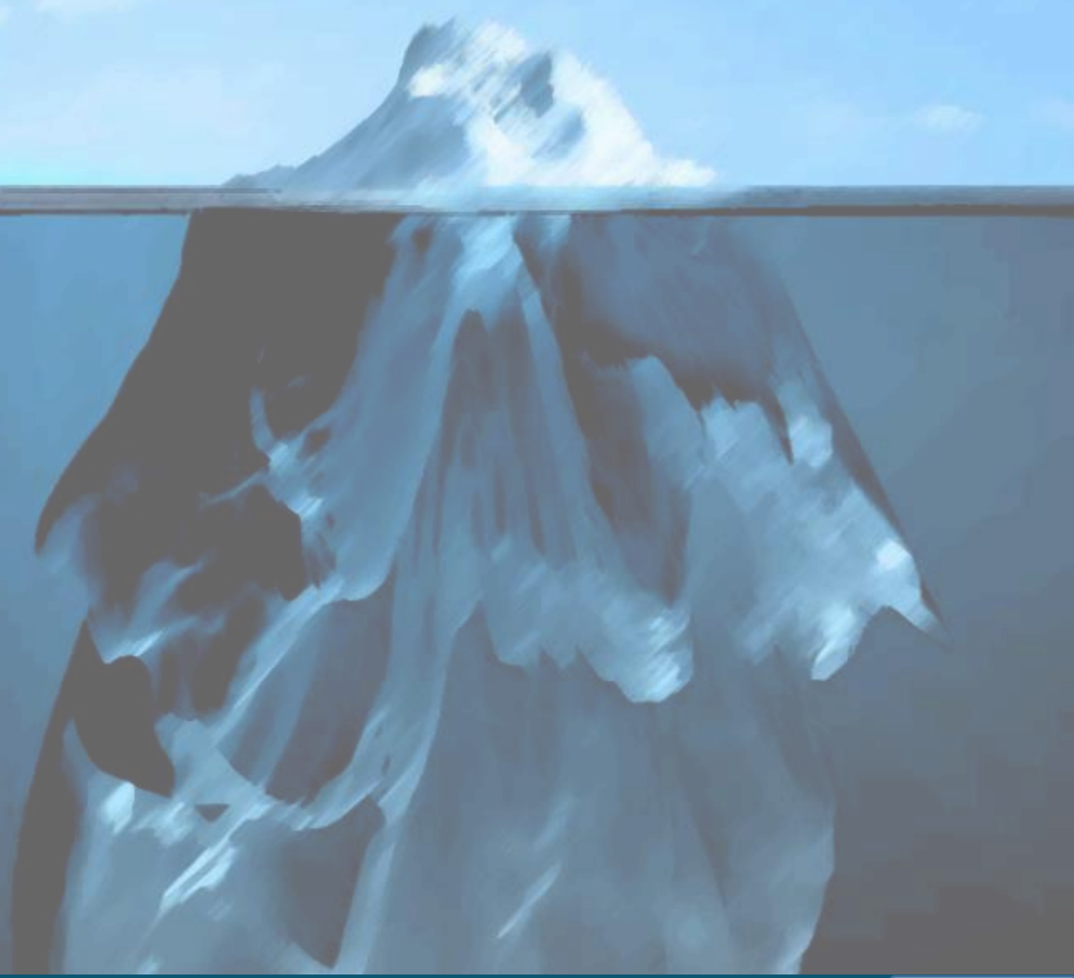
The Hidden Costs of Passive Investing

Index Funds and ETFs:

Increasing Risk in a Changing Market



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January 2018

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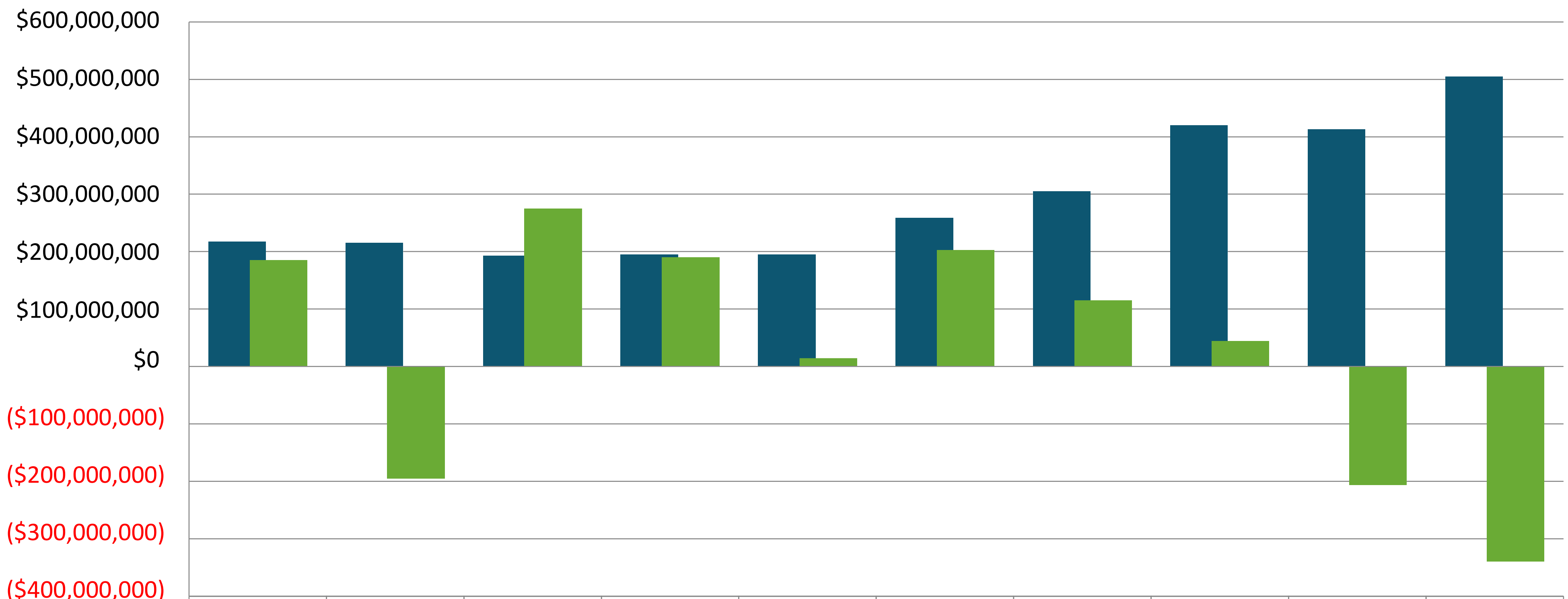
Blind Rush to Passive

U.S. Passive vs. Active Fund Flows



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Passive Flow	$217,000,000	$215,000,000	$193,000,000	$195,000,000	$195,000,000	$259,000,000	$305,000,000	$420,142,000	$412,822,000	$504,776,000
Active Flow	$185,000,000	($195,000,000)	$275,000,000	$190,000,000	$15,000,000	$203,000,000	$115,000,000	$44,265,000	($206,681,000)	($340,137,000)

■ Passive Flow ■ Active Flow

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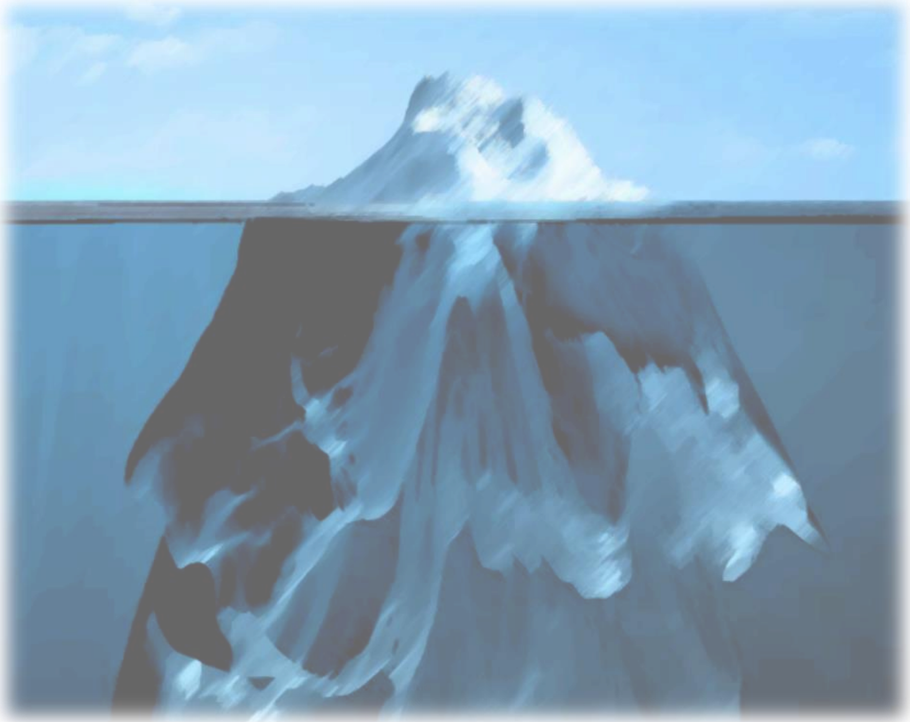
Flows by Year: Active v. Passive ($million), 2007-2016 (source: Morningstar Asset Flow Reports)



Risk #1: Hidden costs in index funds and ETFs

Hidden costs in index funds and ETFs significantly reduce returns.

We call these Look Through Expenses.

The Real Cost of An Index Fund to Shareholders

What You Think You Pay	From the Index Fund's Prospectuses	0.04%†
Dilution from Compensation	Calculated from the Company's Proxy Filing	2.6%
Buybacks to Offset Dilution	Calculated from the Company's Annual Report	1.7%

4.3%*

AVERAGE 2016 LOOK-THROUGH EXPENSES FOR S&P 500

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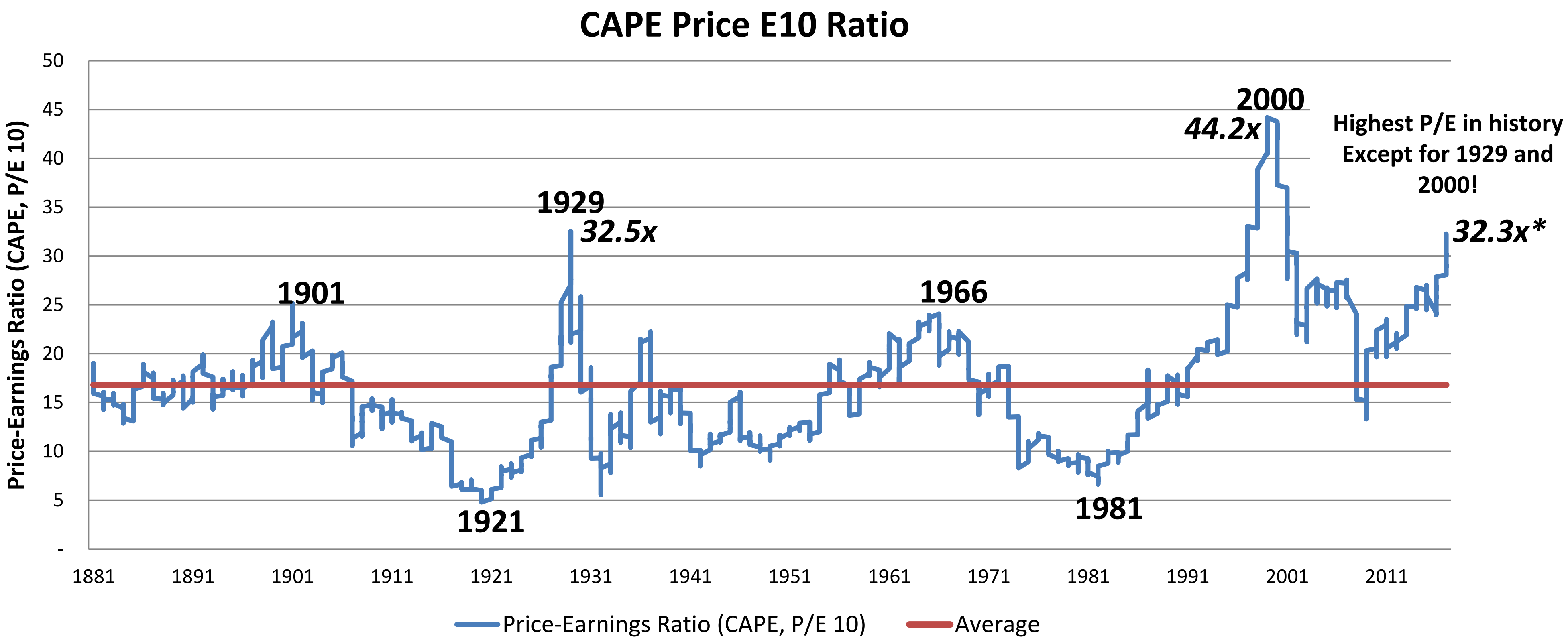
** Data as of 2016, based on Wintergreen's analysis of dilution due to executive bonus plans and buybacks used to offset that dilution.*
† Average fees of leading S&P 500 Index Funds. Please see www.wintergreeniceberg.com for more information.



Risk #2: Market Weighting = Concentration of Returns

Index Funds and ETFs are Concentrated and Laden with Risk

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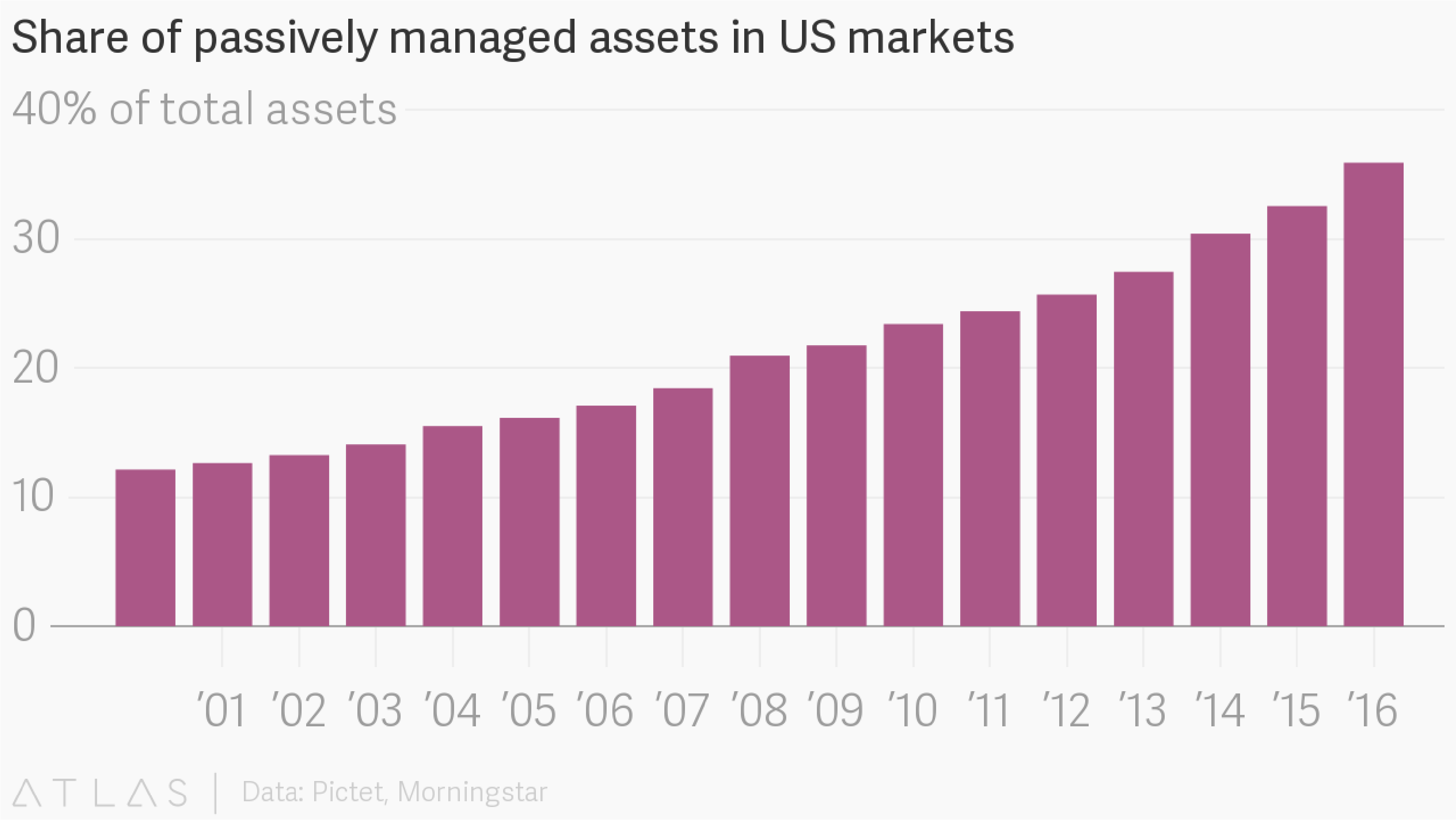
** As of December 1, 2017*
Source: http://www.multpl.com/shiller-pe/

Blind Rush to Passive



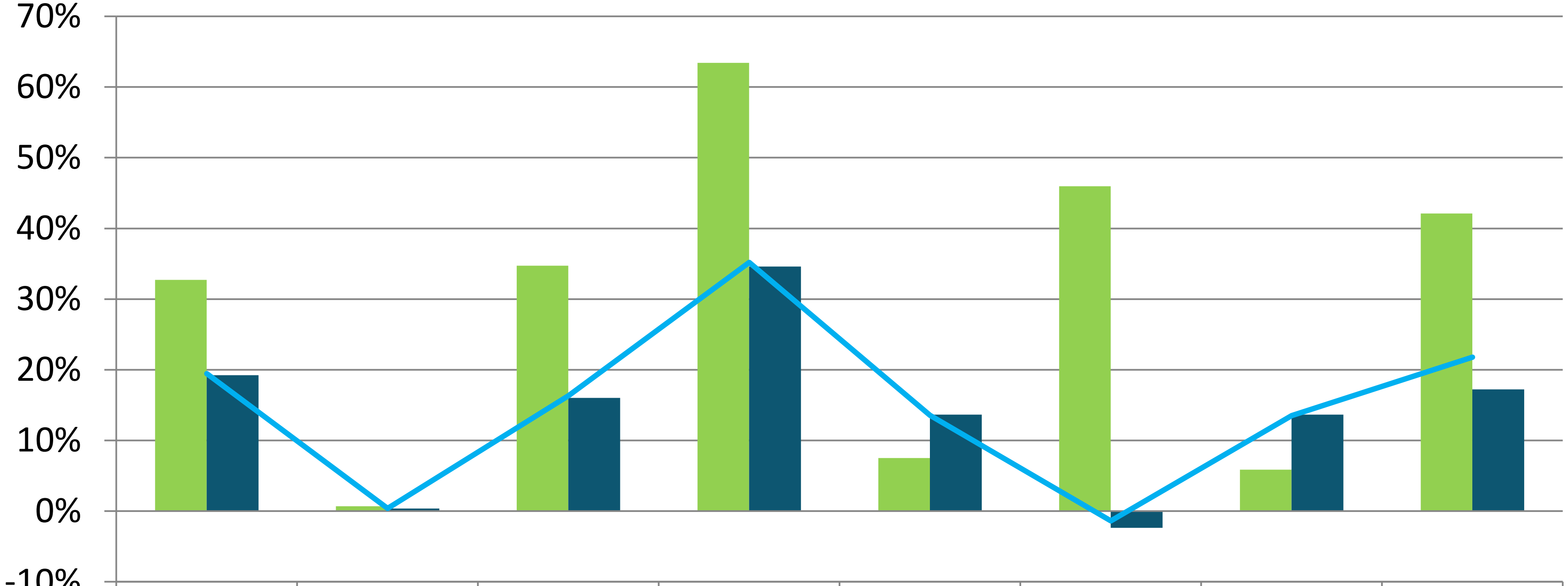
Data: Pictet, Morningstar

The Diversification Myth: FANG and Friends

75%

of the time, these **10 stocks** have driven stock market performance

FANG & Friends: Average Total Return



	2010	2011	2012	2013	2014	2015	2016	2017
FANG & Friends	32.71%	0.70%	34.72%	63.42%	7.50%	45.97%	5.86%	42.12%
Rest of S&P 500	19.22%	0.37%	16.02%	34.62%	13.67%	-2.37%	13.66%	17.22%
S&P 500 Average	19.46%	0.37%	16.34%	35.17%	13.54%	-1.38%	13.50%	21.76%

FANG and Friends: Alphabet, Amazon, Apple, eBay, Facebook, Microsoft, Netflix, Priceline, Salesforce, and Starbucks.

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Through December 31, 2017

The Liquidity Myth: August 24, 2015

We believe the dangers of ETFs became apparent on August 24, 2015, a day when volatility kept about half of the stocks in the S&P 500 from opening on time.

As a result, pricing for some of the most popular S&P 500 index products broke down. J.P. Morgan estimates that 290 ETFs traded at apparently “wrong” prices in the first hour of trading and led to investor losses of $250 million.

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J.P. Morgan Market and Volatility Commentary, September 24, 2015.

Record Levels of Margin Debt

Robert Kaplan

President and CEO, Federal Reserve Bank of Dallas

*"I would also note that margin debt is now at record levels. In the event of a sell-off, high levels of margin debt can encourage additional selling, which could, in turn, lead to a more rapid tightening of financial conditions."**

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**November 27, 2017, "A Balanced Approach to Monetary Policy"*

How to Tell if Your Manager is Really Active

Fund Name	Ticker	R-Squared
S&P 500 Index	**SPY**	**0.992**
Hartford International Fund	HILAX	0.851
Oakmark Fund	OAKMX	0.783
Franklin Mutual Shares Fund	MUTHX	0.765
Dodge & Cox Global Stock Fund	DODWX	0.749
Artisan Global Value	ARTGX	0.733
Wintergreen Fund	**WGRIX**	**0.125**

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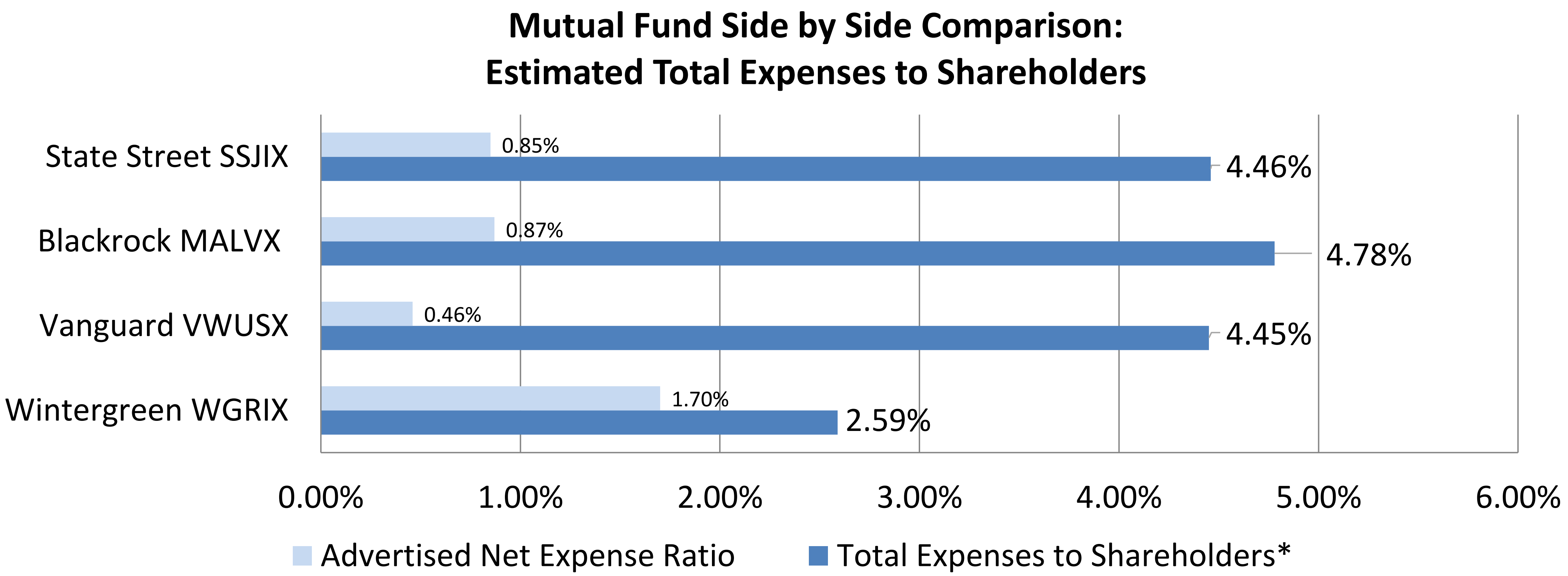
Source: Bloomberg as of 12/31/2017

Investors Beware: Total Expenses Can Diminish Your Returns Greatly

True Active Managers Can Make Investments in Securities with Lower Look Through Expenses



*Total Expenses to Shareholders = (AVG LTE x R^2) + Net Expense Ratio

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Look Through Expense data as of 2016, based on Wintergreen's analysis of dilution due to executive bonus plans and buybacks used to offset that dilution.   Expense Ratios from 2017 prospectuses.

Risk #3: Weak Corporate Governance

Investors Don’t Realize the Impact of Weak Governance on Hidden Costs

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Weak Corporate Governance Costs Billions

- **The societal impact is staggering** - the potential of $908 billion of Look Through Expenses is equal to **4.9% of the United States GDP**.
- Potential dollar amounts for LTE:

$475 Billion TARP
in 2008
A one-time expense

$828 Billion Look-Through Expenses
in 2015
About equal to the 17th largest economy in the world (Turkey)
Potential ongoing annual expense

$908 Billion Look-Through Expenses
in 2016
About equal to the 16th largest economy in the world (Indonesia)
Potential ongoing annual expense

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Although Congress initially authorized $700 billion for TARP in October 2008, that authority was reduced to $475 billion by the Dodd-Frank Act. Look- Through Expenses are an ongoing annual expense; data calculated as of 2016. Source: https://www.treasury.gov/initiatives/financial-stability/TARP-Programs/Pages/default.aspx

The Current Index Investing System

- The top 4-6 shareholders in most S&P 500 companies are index funds.
- Index Funds vote in favor of management proposals 97% of the time.*
- Over time, executive compensation has ballooned, diluting shareholder value for all.**
- 54% of the time buybacks are used to absorb the dilution caused by these expensive stock-based compensation packages.***
- The active vote has value – ERISA (the Employee Retirement Income Security Act of 1974) recognized the value of the right to say no.

**Based on proxy voting in 2016*

***Economic Policy Institute, "CEO Pay Rises as Typical Workers Are Less," Issue Brief #380, June 2014. Washington, DC.*

****Data as of 2016, based on Wintergreen's analysis of dilution due to executive bonus plans and buybacks used to offset that dilution.*

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Potential Solutions

Starting a Discussion on how to Remedy these Issues

Wintergreen's Suggested Solutions to these Hidden Costs

- Clearer disclosure to improve voting decisions including:
  - Greater transparency and disclosure of Look-Through Expenses: Portfolio companies should disclose the costs of dilutive stock executive compensation plans and the stock buybacks involved. This cost disclosure should be clearly identified in the annual report and proxy statement for each company.
  - This standardized expense number, once properly disclosed, can be used by investors to make judgements as to which companies to avoid, based on their total LTE.

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Wintergreen's Suggested Solutions to these Hidden Costs

- Clearer disclosure to improve voting decisions:
  - Funds should disclose their true expense to shareholders based on the average LTE in their portfolios. If investors knew that the LTE for a fund was 4.3%, their investment decision may change.

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Wintergreen's Suggested Solutions to these Hidden Costs

- Change executive compensation plans from stock grants to cash compensation with long-term stock ownership requirements.
- Requiring management purchase shares with cash that they have paid tax on, and requiring minimum ownership provisions, will align managements interests with shareholder interests.
- The resulting savings can be used to benefit shareholders by increased reinvestment in the underlying businesses or by paying dividends to shareholders.

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Discussion

Q&A

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