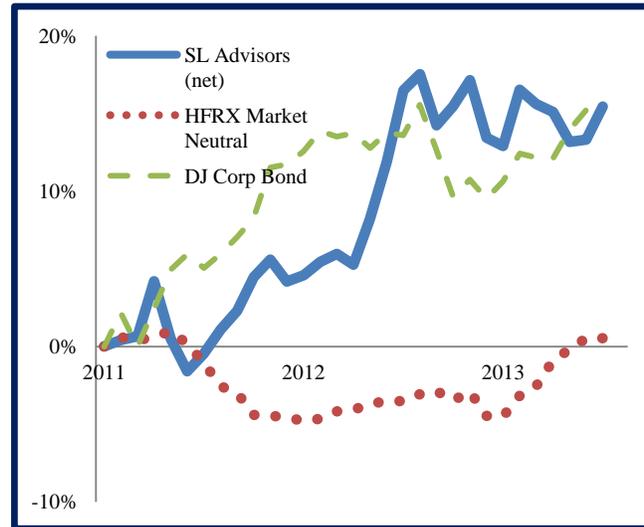


Creating a “Synthetic Bond” Using Equity Long/Short Techniques

Hedged Dividend Capture Strategy (Long/Short)

The objective of this strategy is to outperform the HFRX EM Neutral Index (i.e., market neutral) and: **(1)** generate current income, as an alternative to fixed income securities, by focusing on stocks with high dividend yields and low betas, **(2)** generate capital appreciation while remaining Beta neutral (+/- 10%) to the overall stock market, **(3)** maintain a target volatility that approximates corporate fixed income securities and **(4)** deliver a total return with little, or no, correlation to other asset classes.



The strategy is designed to exploit the Low Beta Anomaly, a well-known weakness in the Capital Asset Pricing Model (CAPM) whereby low beta stocks tend to outperform high beta stocks (i.e. greater risk doesn't appear to result in higher returns, contrary to theory and intuition). Holding a portfolio of low beta stocks hedged to be beta neutral seeks to exploit the aggregate futility of active managers who typically seek to outperform, in rising markets by owning portfolios that have more risk than the overall market.

Hedged Dividend Capture Strategy (Long/Short)			
	Strategy (Net of Fees)	HFRX EM Neutral Index	DJ Corp Bond Index
Since Inception: Total Cumulative Return	15.5%	0.5%	15.0%
Since Inception: Annualized Return	5.9%	0.2%	5.7%
Standard Deviation	6.8%	2.7%	4.9%
Alpha	5.7%	N/A	N/A
Beta to the S&P500	0.06	0.07	0.10
Correlation to the S&P500	0.10	0.30	0.22
Correlation to the Dow Jones Corp. Bond Index	0.14	0.23	1.0
Sharpe Ratio	0.87	0.08	1.17
Current Yield	2.3%	N/A	3.7%

The low correlation shows that this long short equity strategy is truly uncorrelated to the stock market. The volatility, correlation and annualized returns since inception have been in line with our objectives.