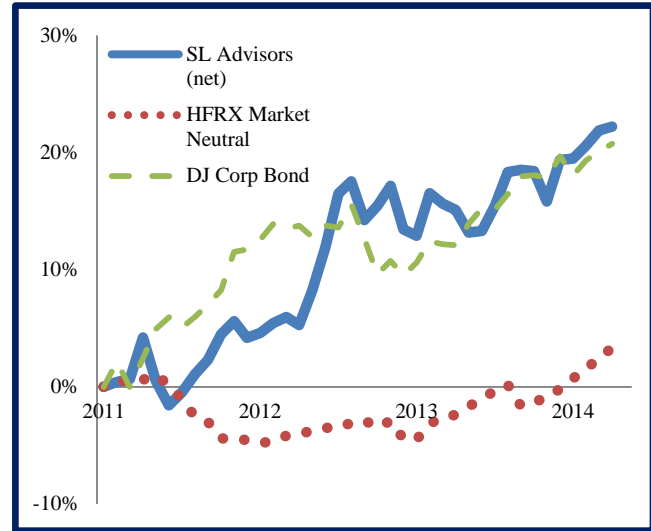


Creating a “Synthetic Bond” Using Equity Long/Short Techniques

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	22.2%	3.3%	20.8%
Since Inception: Annualized Return	6.4%	1.0%	6.0%
Standard Deviation	6.4%	2.7%	4.5%
Alpha	5.4%	N/A	N/A
Beta to the S&P500	0.10	0.05	0.12
Correlation to the S&P500	0.16	0.20	0.27
Correlation to the Dow Jones Corp. Bond Index	0.20	0.17	1.0
Sharpe Ratio	1.0	0.4	1.3
Current Yield	2.4%	N/A	3.4%

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.

Disclosure: Returns for the Hedged Dividend Capture Strategy reflect the performance of a representative account of all fee-paying discretionary accounts invested in this strategy. The returns shown reflect the deduction of a 1% annual advisory fee, as well as other charges incurred by the accounts, including brokerage and custodian fees. The returns shown also include reinvestment of dividends and other earnings. As stated above, part of the objective of the Hedged Dividend Capture Strategy is to outperform the HFRX EM Neutral Index. The performance of the HFRX EM Neutral Index and the DJ Corporate Bond Index are shown for comparison purposes only. The HFRX EM Neutral Index consists of hedge funds that employ quantitative techniques to construct portfolios which are intended to be uncorrelated with equity markets. The DJ Corporate Bond Index is an equally weighted index of investment-grade corporate bonds. HFRX EM Neutral Index is presented as it is a reasonable comparison for DivCap which seeks to generate returns while remaining uncorrelated with equities. The DJ Corporate Bond Index is presented as the manager believes DivCap can be an acceptable substitute for corporate bonds given its income generating objective. index You cannot invest directly in an index. Past performance is no guarantee of future results.