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In Pursuit of Value

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The Hedge Fund Mirage Turns Five

Five years ago this month John Wiley published my first book. *[The Hedge Fund Mirage; The Illusion of Big Money and Why It's Too Good to Be True]* explained how hedge funds have in aggregate been a great business and a lousy investment. The opening sentence asserted that treasury bills would have been a better choice for the average hedge fund investor. This was a startling conclusion, since money had long been flowing to hedge funds in willful defiance of steadily worsening results. Surely, the flows were confirmation that the smart money was in hedge funds.

Hedge fund returns are conventionally presented from the perspective of a single investment at the beginning of the period. Such an approach is far from reflective of the experience of investors, since few were fortunate enough to invest in hedge funds in those early years. From 1998-2002 hedge fund investors enjoyed great returns; there just weren't that many investors. A more meaningful analysis considers everyone's returns. For this, you need to look at the asset weighted return, or IRR; the return on the average dollar invested rather than the first dollar. The difference is most stark when percentage returns (the left panel in the chart) are recalculated and shown as actual investment profits (the right panel). Viewed this way, hedge funds have delivered mediocre returns at great expense. The high percentage returns of the early years didn't generate much actual profit for investors, because the investors were few. They benefitted from exploiting many inefficiencies in financial markets without the burden of too much capital.

Substantial sums followed with the misplaced hope of achieving similar results. The book was aimed not at hedge fund managers but at the stewards of this misdirected capital; hedge fund managers are an intelligent bunch and scarcely needed any advice. The goal was to help the star-struck institutional investors challenge the guidance of their consultants, and avoid high fee strategies that too often enrich the managers but not the clients.

Five years is probably a fair period of time over which to assess the most important prediction made in the book, which was that hedge fund returns would be disappointing. This was a lonely view at the time – not as completely obvious as it should have been. The entire industry was being weighed down by the growing pool of assets it was managing. The availability of uncorrelated returns, which is what hedge funds try to provide, is finite; inevitably, dilution of returns followed.

Small hedge funds outperform big ones. Any big hedge fund did better when it was small (which is how it became big). These first two insights are generally accepted, and yet very few investors take the third logical step in this sequence of thoughts – a small hedge fund industry generated higher returns than a big one. Hedge funds were, and remain, over-capitalized.

Today, it's not hard to find critics of the industry including some of its most successful practitioners. Assets are too plentiful and fees too high. This now passes for conventional wisdom although in 2011 that was certainly not the case.

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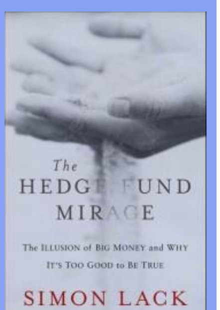

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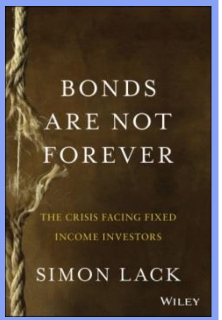
A disappointing consequence of America's increasing political polarization is the tendency of each side to assume the other is intellectually challenged. I try hard to guard against this tendency myself, but have to concede that on the subject of hedge funds I have failed. Which is to say, the hedge fund professionals who praised *The Hedge Fund Mirage* when it came out, merely confirmed the superior investing intellect that their businesses had already demonstrated. The critics (who generally aspired to invest money rather than actually doing so) similarly confirmed their place at the other end of this intellectual spectrum.

Hedge fund managers are by no means the villains in this story. Some of the smartest people around run hedge funds because that's where the financial rewards are greatest. If every hedge fund manager sincerely believes their fund is the best, this is no different than individual business owners in any industry. Many managers have long recognized the challenges of asset size even while maintaining they could rise above the weight of mediocrity.

The fault lies with those who aggregate all those optimistic individual views into a positive one of the industry without considering the obvious negative consequences of too much money. Not every institutional investor has the ability to run a hedge fund. Some of the least sophisticated investors I've ever met are the trustees of public pension plans. They understandably rely heavily on consultants to guide them, not just for their expertise but also because as fiduciaries their decisions are subject to scrutiny under ERISA (the Employee Retirement Income Security Act).

Although critics of *The Hedge Fund Mirage* were few in number, a couple are worth noting. The London-based Alternative Investment Management Association (AIMA), led at the time by Andrew Baker, abandoned any pretense of objectivity in their eagerness to defend the indefensible. They do represent hedge funds if not actually running one. An initial attempt at making the case for hedge funds was followed by a more lengthy but no more persuasive effort. One journalist famously noted that, "…the AIMA paper has convinced me of the deep truth of Lack's book in a way that the book itself never could."



Thomas Schneeweis, an academic and hedge fund consultant, descended from his ivory tower to criticize what he called "baby hedge fund analysis 101." For the sake of investors everywhere, one must hope that his investment acumen surpasses his business building ability, ensuring few victims of any Schneeweis insight.

In short, the critics were dead wrong.

Although on average hedge fund investors have done poorly, there are great hedge funds and happy clients. There probably always will be. It's not all bad. While it's extremely hard to pick hedge funds, some investors are good at it. Some hedge fund investors focus on smaller managers where research has shown returns are higher. As hedge funds have become more generic their returns have become more prosaic. Success relies on leaving the well-traveled path and considering more obscure strategies.

SL Advisors, LLC focuses on investment strategies that provide income without relying on fixed income securities

Perhaps the strongest criticism of *The Hedge Fund Mirage* is that inflows to hedge funds have continued when they shouldn't have. The reason this has happened in spite of overwhelming evidence that disappointment will follow lies in some quirky accounting. Public pension funds (such as the $300BN California Public Employee Retirement System, or CalPERS) don't use GAAP (Generally Accepted Accounting Principles) accounting like public companies. Under GASB (Governmental Accounting Standards Board), investing in riskier assets has the odd result of lowering the present value of your pension obligations. There's no economic connection between the two, and the flawed underlying logic is slowly creating a massive problem. It's why public pension funds are today's biggest hedge fund investors, a folly that will ultimately saddle taxpayers with the bill for unfunded pensions to retired teachers, firefighters and policemen in many U.S. states. Returns will continue to come up short.

The hedge fund consultants sit between the expensive, poorly performing hedge fund industry and the unsophisticated trustees of many public pension funds. The consultants are smart enough to understand the consequences of GASB, and commercial enough to know how to exploit this knowledge by guiding their naïve clients towards complex investments whose sourcing generates further consulting fees. There is a special place in Investment Purgatory for those who ply such a trade. The poor bargain this represents is gradually being acknowledged, often by early adopters including CalPERS who concluded hedge funds were going to create more problems than they'd solve.

That attractive hedge fund returns are a mirage is slowly dawning on the not-so-sophisticated institutions whose portfolios include them. The industry remains over-capitalized. Few of today's investors even think to consider what level of total hedge fund assets is consistent with their aspirational returns. Until they do, continued disappointment awaits.

Performance Tables

Midstream Energy Infrastructure

(General Partner Focused)

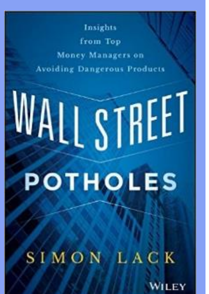
MLP Strategy (K-1s)							Since Inception 160%				*Index*	*84%*
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**YTD**
2008	**-0.6**	**3.1**	**-0.7**	**2.0**	**4.2**	**-10.6**	**-1.9**	**0.7**	**-14.9**	**-1.0**	**-22.0**	**2.9**	**-35.5**
Index	*-0.6*	*-0.5*	*-6.3*	*7.3*	*1.0*	*-4.9*	*-1.7*	*1.7*	*-17.2*	*-0.1*	*-17.1*	*-3.7*	*-36.9*
2009	**15.5**	**-2.0**	**5.1**	**5.9**	**10.0**	**-1.0**	**10.2**	**0.2**	**1.1**	**2.3**	**6.3**	**5.1**	**75.0**
Index	*15.3*	*-4.2*	*0.7*	*11.0*	*9.3*	*-1.7*	*12.4*	*-3.2*	*4.8*	*2.9*	*6.4*	*6.6*	*76.4*
2010	**0.8**	**5.5**	**2.1**	**2.5**	**-4.4**	**5.2**	**5.9**	**-1.5**	**5.1**	**2.1**	**3.3**	**2.8**	**33.0**
Index	*0.6*	*4.6*	*2.9*	*3.4*	*-5.4*	*5.6*	*7.5*	*-2.5*	*6.1*	*5.4*	*1.9*	*1.7*	*35.9*
2011	**1.3**	**5.2**	**0.1**	**2.7**	**-4.2**	**1.9**	**-2.4**	**-0.2**	**-3.3**	**9.2**	**0.2**	**6.9**	**17.6**
Index	*3.0*	*3.5*	*-0.6*	*3.3*	*-5.0*	*1.1*	*-1.9*	*-1.1*	*-4.1*	*10.3*	*-0.2*	*5.8*	*13.9*
2012	**1.7**	**5.3**	**-3.6**	**0.9**	**-7.0**	**3.3**	**5.8**	**3.2**	**2.3**	**-0.8**	**0.3**	**-3.0**	**7.8**
Index	*1.9*	*4.2*	*-4.0*	*2.2*	*-7.5*	*3.3*	*5.1*	*1.6*	*2.0*	*0.5*	*-0.8*	*-3.1*	*4.8*
2013	**12.9**	**1.8**	**5.8**	**-0.5**	**-1.1**	**2.7**	**0.3**	**-0.3**	**1.4**	**2.4**	**4.1**	**3.5**	**37.3**
Index	*12.6*	*0.9*	*5.4*	*0.9*	*-2.0*	*3.1*	*-0.5*	*-2.5*	*2.3*	*2.7*	*0.9*	*1.6*	*27.6*
2014	**1.5**	**2.6**	**3.9**	**2.4**	**5.6**	**9.6**	**-4.0**	**7.5**	**-1.5**	**-4.0**	**0.4**	**-3.0**	**21.9**
Index	*0.6*	*-0.2*	*1.5*	*4.3*	*3.4*	*5.9*	*-3.5*	*8.2*	*-1.6*	*-4.6*	*-2.6*	*-5.6*	*4.8*
2015	**-3.0**	**5.8**	**-0.9**	**4.9**	**-2.5**	**-4.8**	**-4.9**	**-6.1**	**-17.4**	**6.1**	**-8.2**	**-14.3**	**-39.0**
Index	*-3.1*	*2.1*	*-4.2*	*6.2*	*-3.6*	*-8.3*	*-3.2*	*-5.0*	*-15.3*	*9.7*	*-8.1*	*-3.6*	*-32.6*
2016	**-11.9**	**1.0**	**8.5**	**14.8**	**4.5**	**4.8**	**1.0**	**3.5**	**5.6**	**-6.8**	**7.4**		**34.1**
Index	*-11.1*	*-0.5*	*8.3*	*11.0*	*2.5*	*5.1*	*0.6*	*-1.3*	*1.9*	*-4.5*	*2.3*		*13.3*

Returns do not include cash balances prior to May 2010. The Index is the Alerian MLP Index, AMZX. Past performance is not indicative of future returns.

Energy Infrastructure Strategy (1099s)							Since Inception		5%		*Index*		*-14%*
	Jan	**Feb**	**Mar**	**April**	**May**	**June**	**July**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**YTD**
2013								**1.2**	**0.8**	**4.2**	**-0.3**	**6.2**	**12.5**
Index								*-0.5*	*2.3*	*2.7*	*0.9*	*1.6*	*5.3*
2014	**0.9**	**1.6**	**0.1**	**4.3**	**5.0**	**10.1**	**-2.6**	**6.7**	**-4.1**	**-2.2**	**-2.8**	**-1.1**	**16.1**
Index	*0.6*	*-0.2*	*1.5*	*4.3*	*3.4*	*5.9*	*-3.5*	*8.2*	*-1.6*	*-4.6*	*-2.6*	*-5.6*	*4.8*
2015	**-6.7**	**5.7**	**1.8**	**4.2**	**-5.3**	**-2.0**	**-6.8**	**-10.2**	**-15.5**	**5.4**	**-12.8**	**-18.3**	**-48.3**
Index	*-3.1*	*2.1*	*-4.2*	*6.2*	*-3.6*	*-8.3*	*-3.2*	*-5.0*	*-15.3*	*9.7*	*-8.1*	*-3.6*	*-32.6*
2016	**-4.5**	**-0.7**	**10.8**	**12.2**	**5.7**	**6.9**	**0.1**	**6.1**	**10.6**	**-5.4**	**6.2**		**57.3**
Index	*-11.1*	*-0.5*	*8.3*	*11.0*	*2.5*	*5.1*	*0.6*	*-1.3*	*1.9*	*-4.5*	*2.3*		*13.3*

The Index is the Alerian MLP Index, AMZX. August 2013 was a partial month. Past performance is not indicative of future returns

A book written by Wall Street insiders that reveals how unsuspecting individual investors are often steered towards high-fee investment products that deliver poor



results.

Everyone who relies on others for financial advice should read this book so they can ask the tough questions that will help them achieve better investment results at less cost.

SL Advisors runs a variety of strategies focused on generating attractive risk-adjusted returns using public equities in long-only and long-short format. Contact us for more information, or go to our website: www.sl-advisors.com

Performance Tables (Continued)

Low Volatility Strategies

Low Vol Long Only							Since Inception		67%		*Index*		*63%*
	Jan	**Feb**	**Mar**	**April**	**May**	**June**	**July**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**YTD**
2012								**0.2**	**1.9**	**0.0**	**1.0**	**-0.2**	**2.9**
Index								*-0.9*	*1.7*	*-0.1*	*-0.2*	*-0.5*	*0.0*
2013	**5.8**	**4.0**	**5.7**	**1.9**	**-2.0**	**0.2**	**4.1**	**-4.3**	**1.0**	**5.4**	**0.8**	**1.1**	**25.9**
Index	*5.0*	*2.7*	*4.9*	*3.8*	*-3.4*	*0.6*	*4.2*	*-4.8*	*2.0*	*4.6*	*1.2*	*1.1*	*23.6*
2014	**-3.5**	**2.7**	**2.0**	**2.8**	**1.4**	**0.9**	**-2.5**	**5.1**	**-0.8**	**2.2**	**2.5**	**-0.1**	**13.3**
Index	*-2.5*	*3.7*	*2.1*	*1.9*	*1.0*	*2.2*	*-3.8*	*3.8*	*-0.9*	*4.9*	*3.2*	*0.9*	*17.5*
2015	**-1.4**	**2.9**	**1.8**	**-1.2**	**-0.6**	**-2.2**	**2.7**	**-4.4**	**-1.0**	**6.0**	**-2.1**	**-0.4**	**-0.2**
Index	*-0.4*	*1.5*	*-0.3*	*-2.0*	*0.9*	*-1.8*	*4.3*	*-4.9*	*-0.4*	*6.8*	*1.1*	*-0.1*	*4.3*
2016	**1.3**	**1.6**	**5.5**	**0.2**	**2.4**	**7.3**	**-0.9**	**-2.0**	**0.5**	**-2.3**	**1.5**		**14.7**
Index	*-1.7*	*1.0*	*6.0*	*-0.7*	*1.7*	*5.7*	*0.3*	*-1.9*	*-1.0*	*-2.2*	*0.5*		*7.6*

The Index is the S&P 500 Low Volatility Index including dividends. Past performance is not indicative of future returns

Low Vol Hedged						Since Inception				36%	*Index 2%*		
	Jan	**Feb**	**Mar**	**April**	**May**	**June**	**July**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**YTD**
2011										**0.3**	**0.3**	**3.6**	**4.3**
Index										*0.6*	*-0.2*	*0.2*	*0.6*
2012	**-3.5**	**-2.0**	**1.2**	**1.7**	**1.2**	**2.2**	**1.1**	**-1.3**	**0.5**	**0.8**	**0.6**	**-0.6**	**1.8**
Index	*0.4*	*-0.8*	*-1.2*	*-1.5*	*-0.4*	*-1.5*	*-0.1*	*-0.1*	*-0.3*	*0.2*	*0.5*	*0.1*	*-4.7*
2013	**2.9**	**3.5**	**4.1**	**0.9**	**-2.8**	**1.1**	**1.4**	**-3.0**	**-0.4**	**3.2**	**-0.7**	**-0.4**	**10.0**
Index	*0.4*	*0.2*	*0.0*	*0.5*	*0.2*	*-0.6*	*0.6*	*-1.6*	*-0.1*	*1.4*	*0.6*	*0.2*	*1.7*
2014	**-1.6**	**0.0**	**1.9**	**2.4**	**0.3**	**0.0**	**-2.2**	**3.1**	**0.2**	**0.9**	**1.2**	**0.3**	**6.7**
Index	*0.7*	*0.7*	*0.6*	*0.6*	*-1.8*	*0.4*	*0.2*	*0.9*	*0.3*	*1.0*	*-0.1*	*0.0*	*3.6*
2015	**-0.1**	**-0.1**	**2.8**	**-2.0**	**-1.1**	**-1.0**	**2.0**	**-1.2**	**1.0**	**1.6**	**-1.9**	**1.5**	**1.3**
Index	*0.1*	*0.5*	*1.0*	*-1.5*	*-0.4*	*1.1*	*1.4*	*0.2*	*2.0*	*1.1*	*-0.5*	*0.3*	*5.5*
2016	**3.6**	**1.4**	**2.2**	**-0.6**	**1.2**	**7.5**	**-2.7**	**-2.5**	**-0.1**	**-1.5**	**-1.0**		**7.2**
Index	*-0.2*	*-1.5*	*-0.8*	*-1.9*	*0.4*	*-1.0*	*1.2*	*-0.4*	*0.4*	*-0.1*	*0.1*		*-3.9*

The Index is the HFRX Equity Market Neutral Index. Past performance is not indicative of future returns.

Low Vol Best Ideas							Since Inception			113%	*Index*		*-3%*
	Jan	**Feb**	**Mar**	**April**	**May**	**June**	**July**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**YTD**
2011			**-3.6**	**19.4**	**6.5**	**4.6**	**0.1**	**9.2**	**-1.0**	**6.8**	**2.0**	**1.6**	**53.6**
Index			*-0.9*	*0.5*	*-1.4*	*-1.6*	*-0.1*	*-3.5*	*-3.0*	*0.8*	*-0.9*	*-0.4*	*-10.0*
2012	**-4.9**	**-1.5**	**5.8**	**3.4**	**1.2**	**2.5**	**3.3**	**-2.1**	**0.0**	**3.1**	**0.3**	**-1.2**	**9.8**
Index	*1.7*	*1.4*	*0.0*	*0.1*	*-1.7*	*-0.3*	*0.5*	*0.5*	*0.4*	*-0.5*	*0.4*	*0.9*	*3.5*
2013	**7.9**	**6.6**	**6.6**	**3.3**	**-2.0**	**-0.6**	**3.9**	**-2.0**	**0.4**	**0.4**	**-2.7**	**2.1**	**25.7**
Index	*2.0*	*0.4*	*0.7*	*0.6*	*0.7*	*-1.3*	*1.0*	*-0.9*	*1.0*	*1.2*	*0.6*	*0.4*	*6.5*
2014	**-5.6**	**-0.5**	**1.3**	**2.9**	**-1.0**	**3.5**	**-0.7**	**5.2**	**-0.5**	**-0.9**	**2.3**	**1.5**	**7.4**
Index	*-0.1*	*1.6*	*-0.2*	*-0.7*	*0.5*	*0.9*	*-0.9*	*1.1*	*-0.8*	*-1.3*	*0.3*	*-0.8*	*-0.4*
2015	**-1.2**	**0.0**	**2.1**	**-1.2**	**-2.9**	**-2.8**	**0.3**	**-0.4**	**-2.7**	**-3.4**	**-6.6**	**-0.2**	**-17.7**
Index	*-0.3*	*2.0*	*0.3*	*0.2*	*0.3*	*-1.3*	*0.0*	*-2.2*	*-2.1*	*1.5*	*-0.7*	*-1.3*	*-3.6*
2016	**2.1**	**3.5**	**2.9**	**1.2**	**2.1**	**7.4**	**-1.5**	**-0.1**	**-3.2**	**0.4**	**-1.5**		**13.6**
Index	*-2.8*	*-0.3*	*1.8*	*-0.1*	*0.5*	*0.2*	*1.5*	*0.2*	*0.6*	*-0.6*	*0.7*		*1.4*

The Index is the HFRX Global Hedge Fund Index. Returns are net of fees. Past performance is not indicative of future returns.

SL Advisors offers separately managed accounts for individuals, family offices and institutions across various investment strategies. Client assets are held with Charles Schwab, the largest provider of custody services for independent registered investment advisors in the U.S. with client assets of $1.1 trillion (as of December 31, 2014). Client portfolios are completely transparent via Schwab's extensive website which provides real-time access to accounts and all supporting information. Detailed monthly statements are mailed directly to clients from Schwab.

SL Advisors MLP Strategy
This portfolio consists of approximately 15 investments in Master Limited Partnerships (MLPs) and publicly traded companies in energy infrastructure and related assets to receive a healthy and growing tax deferred income stream. MLPs are publicly traded interests primarily invested in energy infrastructure and related assets. They represent direct proportional ownership stakes in the underlying assets rather than securities in a corporation. Historically they have paid regular distributions which have steadily grown, and as such they can be suitable for investors seeking income generating investments with a tolerance for equity market exposure.

SL Energy Infrastructure Strategy
This strategy seeks to achieve its investment objective by primarily investing in the equity securities of the general partners of master limited partnerships ("MLPs") and the parent companies of general partners of MLPs (collectively, "GPs"). It holds some of the same names that are in the MLP Strategy but only invests in securities that generate 1099s for tax-reporting. As such, it may be appropriate for tax-deferred, tax-exempt and non-U.S. investors.

SL Advisors Low Vol Long Only Strategy
This strategy utilizes stocks of stable companies with high dividend yields to generate income with capital appreciation by investing in a diverse, unleveraged, hedged portfolio of U.S. equities. Companies are selected that possess a history of steady earnings growth, attractive dividend yields and are less volatile than the overall market. Academic research has shown the Capital Asset Pricing Model (CAPM) fails to explain risk-adjusted returns. Over long periods of time, high beta stocks tend to under-perform and low beta stocks tend to out-perform, on a risk-adjusted basis, which is inconsistent with predicted performance by the CAPM. This strategy attempts to take advantage of this persistent anomaly.

SL Advisors Low Vol Hedged Strategy
An alternative to bonds, this strategy combines the Low Vol Long Only Strategy with a short S&P500 position with the objective of making the portfolio beta neutral while still maintaining a net long equity exposure. Historically this strategy has exhibited monthly swings comparable to corporate bonds, and given the relative attractiveness of equities compared with investment grade bonds we believe it has a more attractive return outlook. This strategy may be considered as a substitute for a portion of an investor's fixed income allocation.

SL Advisors Low Vol Best Ideas Strategy
Low Beta Long-Short is more concentrated than Low Vol Hedged with added leverage and is not restricted to dividend paying stocks. It includes our best ideas from Low Vol weighted according to conviction rather than diversified, equal weight allocations. It is managed to be beta neutral and returns are driven very largely by individual stock selection. Interactive Brokers is custodian for assets in this strategy only.

Wall Street Potholes: Insights from Top Money Managers on Avoiding Dangerous Products
is available at Amazon.com.

Our blog, ***In Pursuit of Value***, is at: http://www.sl-advisors.com/blog/

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DISCLOSURES

MLP Strategy

Returns for the MLP Strategy reflect the performance of the composite of all discretionary accounts invested in this strategy. The returns shown reflect the deduction of an 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. The performance of the Alerian MLP index is shown for comparison purposes only. The Alerian MLP is a float-adjusted, capitalization-weighted index, which tracks 50 large- and mid-cap energy Master Limited Partnerships (MLPs), capturing 75% of available market capitalization. This index tracks securities which most closely correlate to the securities in which the MLP strategy invests. You cannot invest directly in an index. Past performance is no guarantee of future results.

Energy Infrastructure Strategy

The Energy Infrastructure Strategy seeks to invest in the General Partners (GPs) of Master Limited Partnerships (MLPs) and other energy infrastructure businesses solely through C-corps rather than partnerships. Consequently, the tax reporting consists of 1099s rather than the K-1s common with MLPs. Returns for the Energy Infrastructure Strategy reflect the performance of a composite comprised of all fee-paying discretionary accounts invested in this strategy. The returns shown reflect the deduction of an 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. The performance of the Alerian MLP Index is shown for comparison purposes only. The Alerian MLP Index is a float-adjusted, market-capitalization weighted index of publicly traded MLPs. This index best reflects the universe of stocks from which the Energy Infrastructure Strategy seeks to invest. You cannot invest directly in an index. Past performance is no guarantee of future results.

Low Vol Long Only Strategy

The objective of this strategy is to: (1) generate equity market returns over full market cycle with lower volatility (2) outperform S&P500 during periods of significant stock market underperformance (3) generate higher dividend income than the S&P500. Returns for the Low Vol Long Only Strategy reflect the performance of a composite comprised 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. The performance of the S&P 500 Low Volatility index is shown for comparison purposes only. The S&P 500 Low Volatility index measures performance of the 100 least volatile stocks in the S&P500. The index benchmarks low volatility or low variance strategies for the U.S Stocks market. This index tracks securities which most closely correlate to the securities in which the Low Vol Long Only strategy invests. Past performance is no guarantee of future results. You cannot invest directly in an index.

Low Vol Hedged Strategy

Returns for the Low Vol Hedged Strategy reflects the performance of the composite of all discretionary accounts invested in this strategy. The returns shown reflect the deduction of an 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 Low Vol Hedged 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 Low Vol Hedged which seeks to generate returns while remaining uncorrelated with equities. The DJ Corporate Bond Index is presented as the manager believes Low Vol Hedged 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.

Low Vol Best Ideas

The objective of this strategy is to deliver absolute returns that are uncorrelated to traditional asset classes. It aims to generate capital appreciation while remaining Beta neutral by maintaining a net long position in low beta equities hedged with the S&P500 (using SPY) to deliver uncorrelated returns. It deploys gross leverage of typically < 2:1 and targets volatility similar to the S&P500. Returns for the Low Vol Best Ideas Strategy reflect the performance of a composite comprised 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. The performance of the HFRX Global Hedge Fund Index is shown for comparison purposes only. The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies. The Strategies are asset weighted based on the distribution of assets in the hedge fund industry. HFRX Global Hedge Fund Index is presented as it is a reasonable comparison for Low Vol Best Ideas which seeks to generate absolute returns while remaining uncorrelated with equities. You cannot invest directly in an index. Past performance is no guarantee of future results.