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In Pursuit of Value

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The Algorithmic Wealth Transfer

A recent article in the CFA Institute magazine caught my eye. *Hero Types, Roller Coasters and Dark Zones* is the latest effort to educate investors and their financial advisors about the costly errors humans make with their money. Behavioral Finance, the name given to this field of study, is an endlessly fascinating area. We've written about it before and incorporate elements into our investing strategies (see Why the Tortoise Beats the Hare).

Categories of common mistakes include Overconfidence, Recency (the tendency to invest based on what you just read), and Momentum (following the herd). This last one is especially interesting, because we sometimes observe it in the behavior of our mutual fund investors. Although we are blessed with a largely well-informed set of clients, this isn't true 100% of the time. Following a period of falling prices, there are inevitably a handful who decide to sell simply because others are selling. I'm always disappointed when that happens; not only because we hate to lose any clients, but also because we know the decision was made without much regard for fundamentals. The paper losses caused by lower prices had shaken the evidently weak conviction behind the original decision to buy. In addition to locking in a loss, sellers at low prices rarely return as investors again. It's probably just as well.

The reliance on others to confirm your opinion is a highly human trait. Buying an iPhone because others are is a good strategy. Letting others think for you saves the time needed to do your own analysis. It's why Op-Ed pages exist in newspapers. Thinking like others provides a feeling of security. Investing might be the only activity where such instincts are ruinous. Best results come from avoiding the crowd, a mindset that is extraordinarily difficult to maintain. People make the same mistakes time after time. Charles Mackay's *Extraordinary Popular Delusions and the Madness of Crowds* (first published in 1841) includes the Dutch Tulip Bulb craze of the 1590s, and the book has been regularly updated since new examples appear every decade or so.

Richard Thaler contributed significantly to the subject with *Misbehaving: The Making of Behavioral Economics*. He identified "econs", those mythical agents in classical economics who behave rationally (i.e. unlike humans and more like economists) by shunning lotteries, for example (because of the negative expected return). Much of the failure of economics to forecast big events, such as recessions, lies in the inconveniently sparse presence of econs in the human population.

Trading of stocks is increasingly being carried out by algorithms. They may be written by humans but they're designed to exploit what humans do. The Wall Street Journal is running a series of articles under the heading "The Quants" to highlight the growing power of artificial intelligence in decision making. One article, "The Quants Run Wall Street Now", describes the career of a Russian software engineer from the International Mathematical Olympiad to Microsoft to a hedge fund. Another, "How a Trading Algorithm Actually Works", walks through a simple example of a trading model designed to exploit mean reversion. For decades, overvalued and undervalued stocks tended to self-correct fairly predictably, as human traders acted upon such opportunities. Today, according to the article, mean reversion strategies don't work as well because algorithms have arbitraged the returns away.

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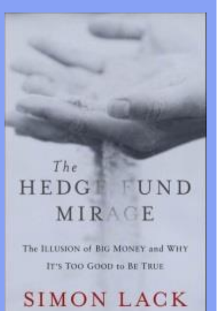

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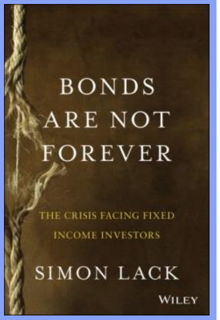
For years, writers such as Richard Thaler have sought to educate investors who are just too human about their mistakes. Those who cared to could learn and improve their decision making. Today, algorithms are acting to systematically exploit the foibles of humanity. If you don't behave like an econ, but instead trade in a human-like way, the software will seek you out. Given the resources behind High Frequency Trading (HFT) and other computer-driven activity, we could be heading to a Darwinian steady transfer of wealth from the irrational to the ruthlessly efficient. Of course, financial markets have always done that. Trading is an exceptionally efficient wealth transfer mechanism from the naïve to the savvy. Jesse Livermore, the legendary trader in Edwin Lefevre's *Reminiscences of a Stock Operator,* made (and lost) several fortunes at the expense of (or benefit to) others. Finance has come a long way from the days of Michael Lewis's *Liar's Poker*, when successful traders were swaggeringly, self-confidently human.

Analysis of large quantities of data drives the design of algorithms. As a result, there is increasing competition for some of the best data scientists among companies such as Google, and hedge funds building ever more sophisticated trading models. The traditional career path of new software engineers to tech start-ups is now challenged by hedge funds. The compensation model is different. Citadel's chief people officer, L. J. Brock, notes that, "You get to see the work you're contributing go into production and be used by our investment teams at an incredibly fast clip." The higher certainty of more immediate hedge fund compensation can be more appealing than the less certain riches from a successful IPO several years in the future.

Because capital flows where the returns are highest, the success of algorithms in systematically exploiting the behavioral finance errors of others seems set to continue inexorably, until the only humans left making trading decisions are those who can successfully control their human tendencies. Within hedge funds, investors are shifting capital away from traditional strategies and into quant-driven ones. Short term trading is already widely understood to be a losing proposition on average, and worse once commissions and taxes are figured. Cognitive dissonance by many traders (in this case, the stubborn refusal to objectively assess their results), combined with a supportive financial media that feeds the hunger for "trade ideas" ensures a steady stream of trading that exposes human frailties. It's just that now their exploitation is increasingly systematic, driven by software that refines its tactics through constant learning.



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

Companies like Blackrock are even applying some of the market sentiment measures built into algorithms to direct their ETF advertising. In short term trading, the qualitative is no match for the quantitative. In the future, those who manage to grow their capital will do so by correctly defining the terms of the contest so that they're not disadvantaged.

This isn't a case of computers replacing humans. Is anybody worse off nowadays for relying on their GPS instead of asking for directions? Peter Thiel notes in *Zero to One; Notes on Startups, or How to Build the Future,* the computing power Google deployed in an experiment to recognize cats in thousands of YouTube videos. Their 75% success rate could be beaten by a typical four year old. The analytical capabilities of computers are virtually limitless. However, turning human judgment into software code remains extraordinarily difficult.

Humans can never compete in the arena of data analysis. Trading activity is the sustenance without which HFT is simply a theoretical concept. More than ever, the rational human decision is to do less; make fewer decisions but make them carefully. Develop judgment into a competitive edge that can't be automated. Be an investor not a trader. Avoid short term trading, thereby depriving the algorithms of their opportunity to make your capital theirs. For trading to lead to long term wealth, less is more. Leaving data analysis to computers and focusing on decisions requiring judgment is where the future lies.

Performance Tables

Midstream Energy Infrastructure

(General Partner Focused)

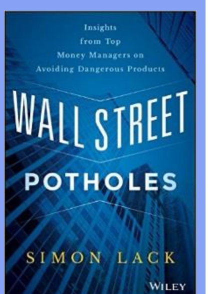
MLP Strategy (K-1s)							Since Inception 154%				*Index*		*89%*
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**YTD**
2008	**-0.6**	**3.1**	**-0.7**	**2.0**	**4.2**	**-10.6**	**-1.9**	**0.7**	**-14.9**	**-1.0**	**-22.0**	**2.9**	**-35.5**
Index	*-0.6*	*-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**	**5.1**	**40.8**
Index	*-11.1*	*-0.5*	*8.3*	*11.0*	*2.5*	*5.1*	*0.6*	*-1.3*	*1.9*	*-4.5*	*2.3*	*4.4*	*18.3*
2017	**0.7**	**0.2**	**0.9**	**-2.9**	**-5.7**								**-6.8**
Index	*4.9*	*0.4*	*-1.3*	*-1.3*	*-4.5*								*-2.0*

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*		*-12%*
	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**	**2.1**	**60.5**
Index	*-11.1*	*-0.5*	*8.3*	*11.0*	*2.5*	*5.1*	*0.6*	*-1.3*	*1.9*	*-4.5*	*2.3*	*4.4*	*18.3*
2017	**-1.6**	**-1.0**	**0.8**	**-3.8**	**-6.6**								**-11.8**
Index	*4.9*	*0.4*	*-1.3*	*-1.3*	*-4.5*								*-2.0*

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.

Performance Tables (Continued)
Low Volatility Strategies

Low Vol Long Only							Since Inception			82%	Index		83%
	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	**1.5**	**1.6**	**5.4**	**0.1**	**2.4**	**7.5**	**-0.7**	**-2.0**	**0.5**	**-2.4**	**1.4**	**2.7**	**19.1**
Index	*-1.7*	*1.0*	*6.0*	*-0.7*	*1.7*	*5.7*	*0.3*	*-1.9*	*-1.0*	*-2.2*	*0.5*	*2.6*	*10.4*
2017	**0.8**	**3.7**	**0.5**	**-0.5**	**0.3**								**4.8**
Index	*0.7*	*4.5*	*-0.1*	*1.1*	*2.7*								*9.2*

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			41%	Index 1%		
	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**	**-1.4**	**-0.9**	**2.3**	**9.9**
Index	*-0.2*	*-1.5*	*-0.8*	*-1.9*	*0.4*	*-1.0*	*1.2*	*-0.4*	*0.4*	*-0.1*	*0.0*	*-1.1*	*-5.1*
2017	**-0.4**	**2.3**	**0.5**	**-1.0**	**0.2**								**1.6**
Index	*0.7*	*0.0*	*0.7*	*0.1*	*-1.5*								*0.1*

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

Low Vol Best Ideas							Since Inception			119%	Index		0%
	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**	**2.6**	**16.5**
Index	*-2.8*	*-0.3*	*1.8*	*-0.1*	*0.5*	*0.2*	*1.5*	*0.2*	*0.6*	*-0.6*	*0.9*	*0.9*	*2.5*
2017	**0.4**	**1.7**	**-1.1**	**-1.7**	**1.0**								**0.3**
Index	*0.5*	*1.2*	*0.0*	*0.4*	*0.2*								*2.3*

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

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

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.

The Hedge Fund Mirage; The Illusion of Big Money and Why It's Too Good To Be True

Bonds Are Not Forever; The Crisis Facing Fixed Income Investors

and

Wall Street Potholes: Insights from Top Money Managers on Avoiding Dangerous Products

are all 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.