



It takes **wisdom** and
experience to spot
the best opportunities

Select Alternative Investments

What We Do

Three Types of Investment Portfolios

- Global Macro (long/short)
- Multi-Strategy (long-only)
- Custom Alternatives (tax-sensitive, low turnover)

Low Fees

Asset-based or performance-based fee (not both)

Minimum Investment

\$500,000

Concentrated Portfolios

20-25 low-cost, liquid, passively-managed, factor-based ETFs

Separately-Managed Accounts

Clients have complete control, liquidity, and transparency

What We Believe

Alternative investors want low correlations and attractive returns

- Investing long and short is the best way to achieve low correlations with stocks and bonds.
- Systematically exploiting market inefficiencies is the best way to achieve attractive returns.

Value and momentum are a powerful combination

- They are the strongest and most consistent market inefficiencies.
- They also diversify each other.
- They are effective in selecting groups of securities and factor tilts.

Active asset allocation adds the most value

- Asset allocation/factor selection drives portfolio performance
- Security-specific risk is diversified away

Kevin Means, CFA – Principal

Area of Expertise

Background and Experience

Investment research

- Director of Quantitative Research at INVESCO
- Expert at developing structured investment processes

Multi-asset class management

- Chief Investment Officer at INVESCO, Aeltus (Aetna investment subsidiary), and Alpha Equity Management
- Developed and managed multi-asset class “lifestyle” funds
- Hired and supervised asset class specialist managers

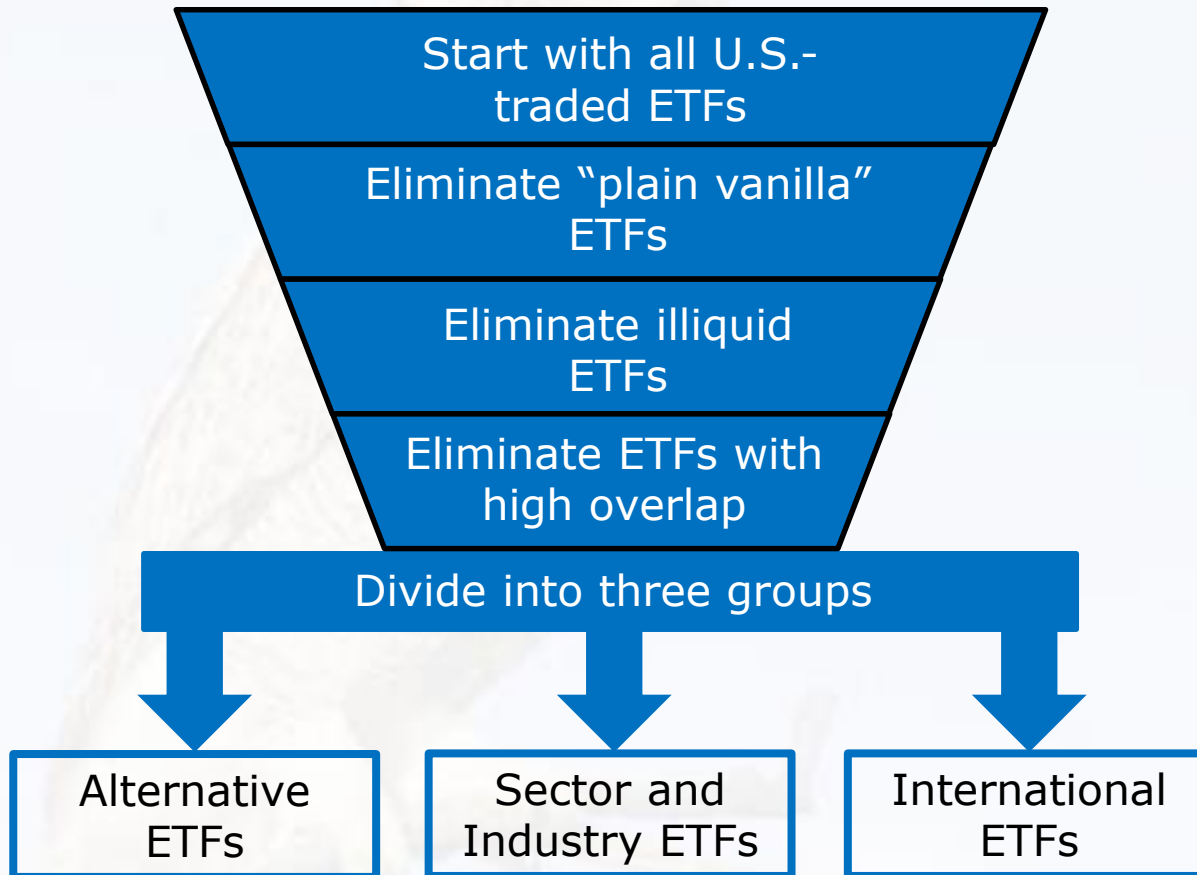
Alternatives management

- Founded a hedge fund firm – Alpha Equity Management
- Known as a pioneer in 130/30 management
- Managed a variety of long/short equity hedge funds: U.S., international, and real estate

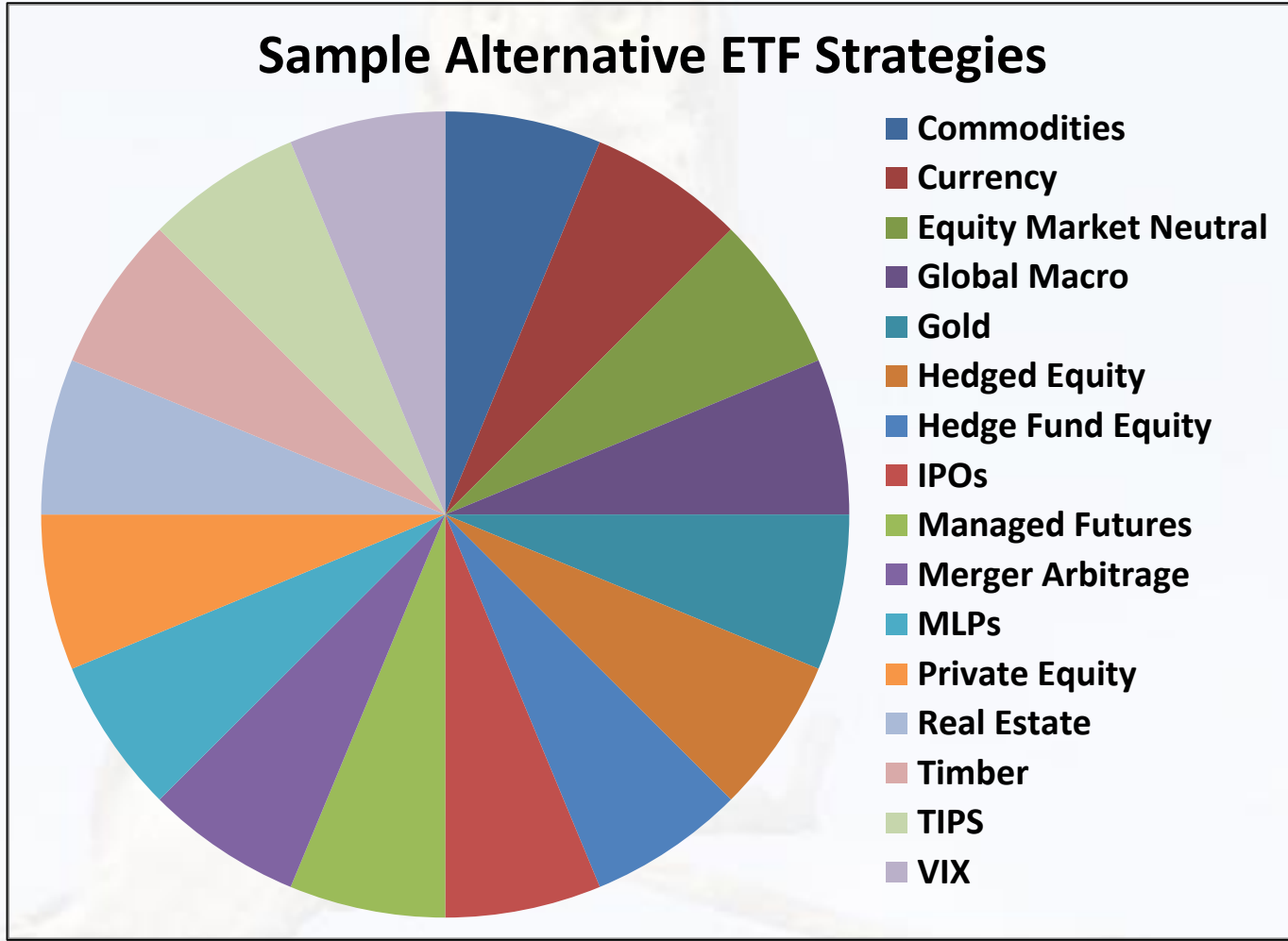
Portfolio management

- Managed a Morningstar five-star mutual fund (Alpha Equity Mgmt.)
- Managed large funds (> \$11 billion) at Aeltus
- Managed multi-asset class portfolios for over 25 years

What We Invest In



What Are Alternative ETFs?



How We Invest



Measure ETF historical risk sensitivities.

Categorize return as risk-related or residual.

Forecast risk-related and residual returns.

Combine forecasts for ETF total return forecast.

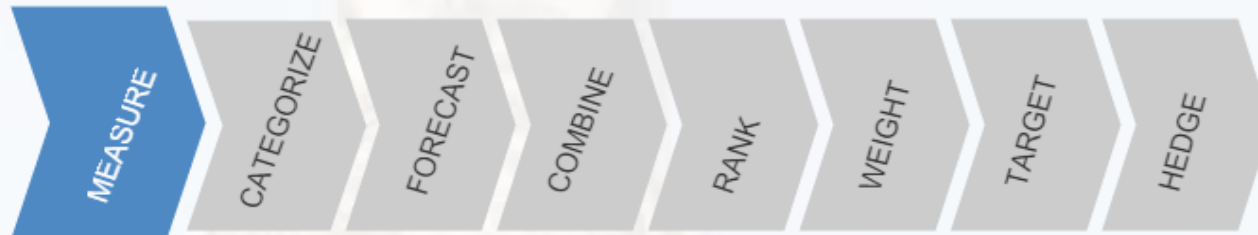
Rank ETFs according highest utility scores.

Weight 16 most attractive ETFs in descending order.

Target portfolio risk factor exposures.

Hedge to achieve desired risk exposures.

Measure ETF Risk Sensitivities



Measure the historical sensitivity of each ETF to:

- Stock Market Risk (MKT) – S&P 500 Index
- Interest Rate Risk (LTB) – 10Y Treasury Index
- Currency Risk (DLR) – U.S. Dollar Index
- Commodity Risk (OIL) – WTI Crude Oil Index

Use proprietary database of pro-forma historical ETF pre-launch returns

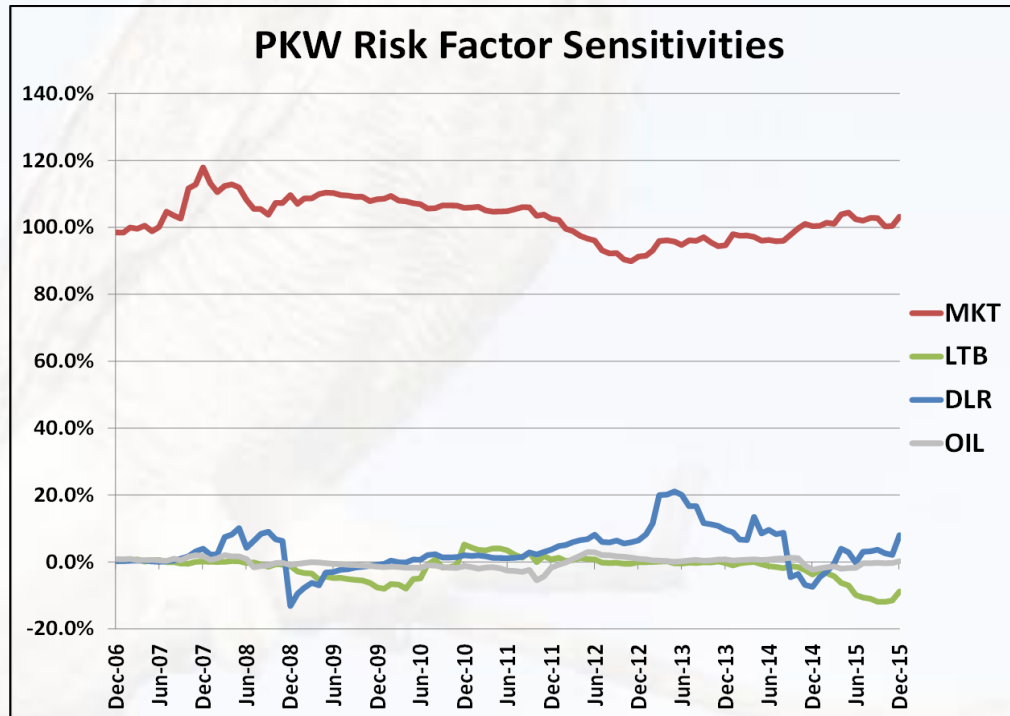
Use sophisticated statistical techniques to estimate ETF risk sensitivities

Measure ETF Risk Sensitivities

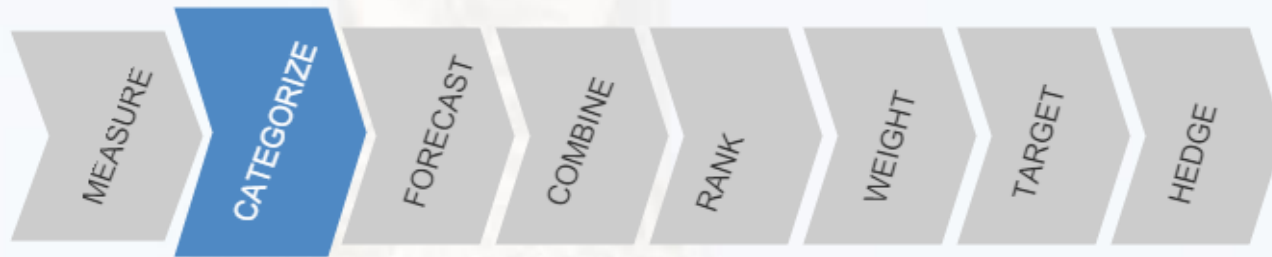
For example, PowerShares Buyback Achievers ETF (PKW)

A factor-based portfolio of companies that have had net stock buyback of 5% or more

As an equity ETF, its most important risk is equity market risk (MKT)



Categorize returns



For each ETF, separate historical return into two components:

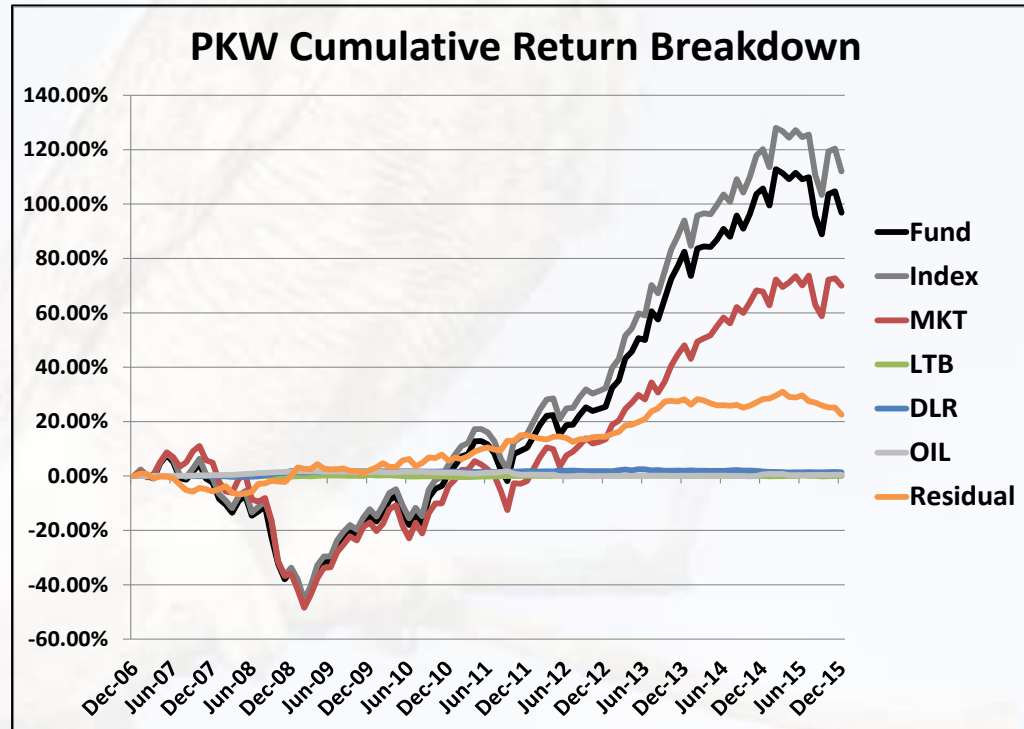
- Risk-related return
- Residual return

Categorize returns

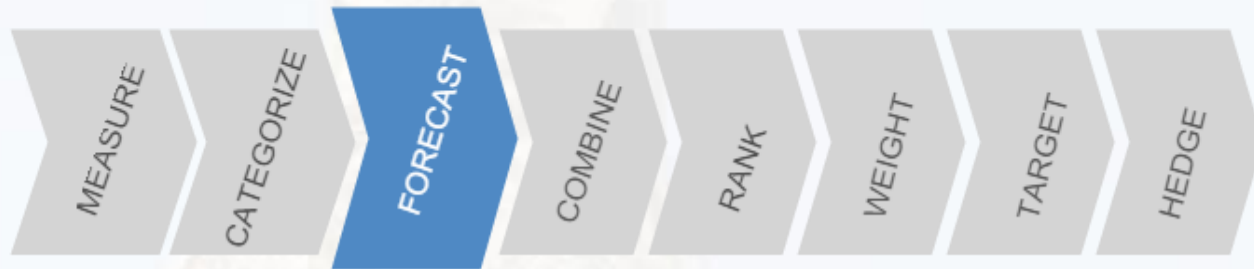
PowerShares Buyback Achievers ETF (PKW) has had significant residual return (net of risk)

Residual returns are variable, so timing exposures is important

Residual returns tend to trend



Forecast risk-related returns



Forecast the expected return of each risk factor: $\text{base case} + \text{mispricing} = \text{total return}$

Calculate the base case for MKT return: $\text{yield} + \text{long-term growth}$

Set base case for LTB, DLR, and OIL to: zero

Forecast mispricing returns for all four risk factors using multi-factor models

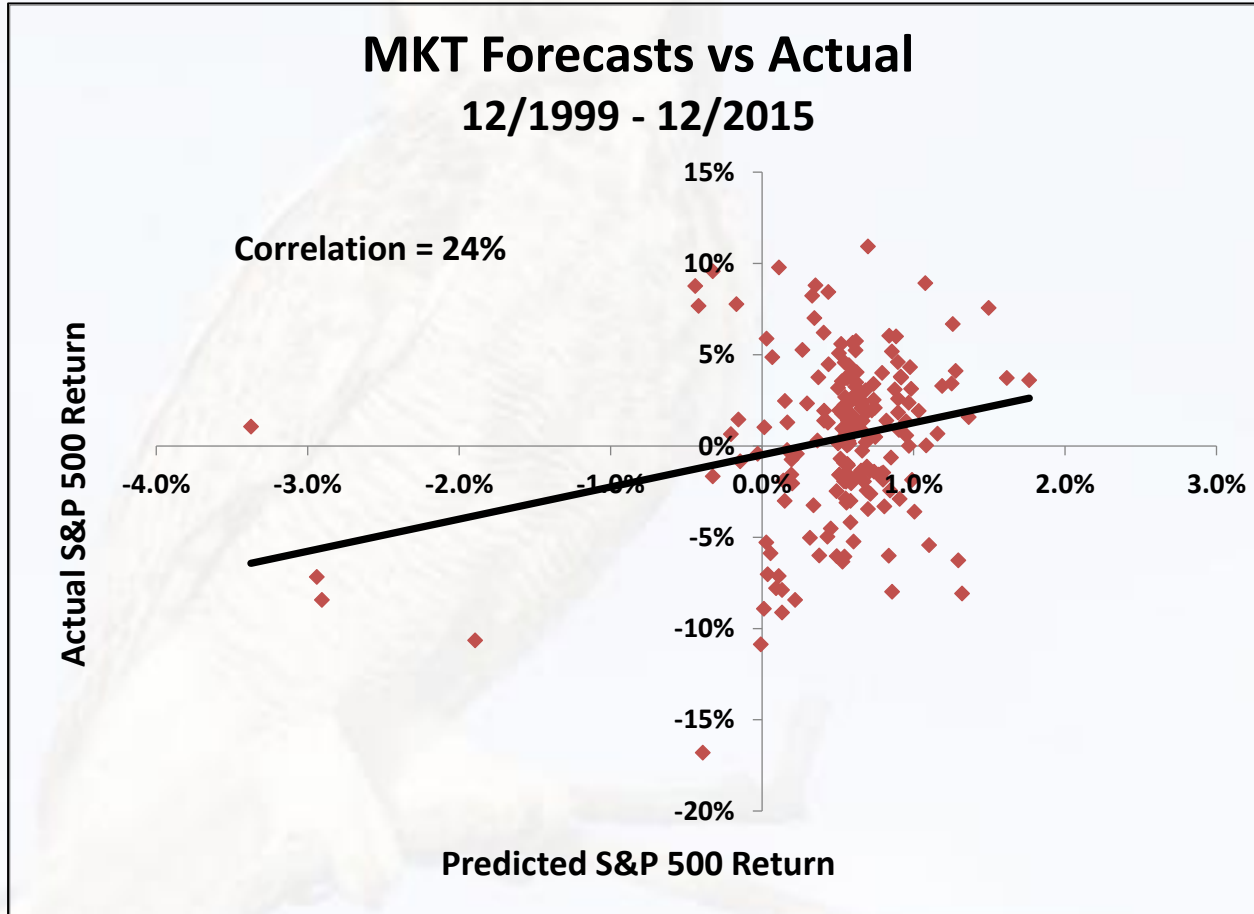
Forecast risk-related returns

Expected Returns on U.S. Stocks: Base Case

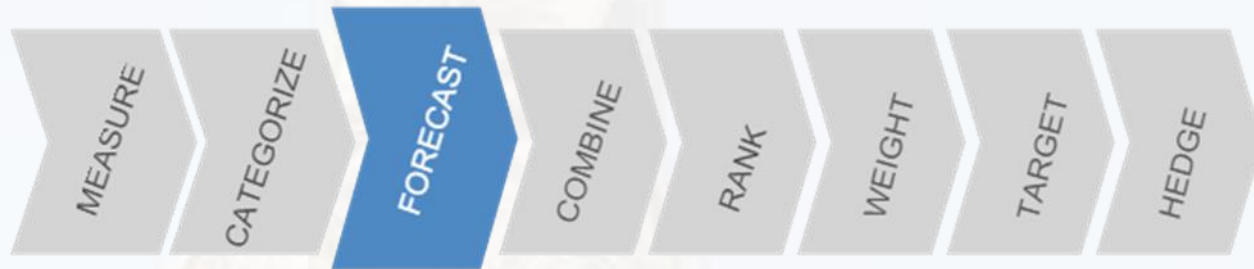
12/31/2015

	<u>S&P 500</u>		
	<u>Low</u>	<u>Mid</u>	<u>High</u>
Current yield	2.15%	2.15%	2.15%
Net buyback yield	1.00%	2.00%	3.00%
Expected inflation	1.50%	2.00%	2.50%
Expected real growth	<u>1.50%</u>	<u>2.00%</u>	<u>2.50%</u>
Nominal expected return	6.15%	8.15%	10.15%

Forecast risk-related returns



Forecast residual returns



Forecast ETF residual returns using multi-factor models:

- Value factors
- Momentum factors

Base factor weights on trailing historical forecasting effectiveness

Forecast residual returns

SelectAlts Residual Return Multi-Factor Model Factors by ETF Universe									
ETF Universe	Value Factors				Momentum Fctrs			Economic Factors	
	Yield	EPS/Price	LT Avg Residual	Value+Momentum	Change in EPS	Total Return Mo	Resid Rtrn Skewness	Yield Curve Slope	3M Change in PMI
Alternative	X	X	X	X	X	X	X		
Sector & Industry	X	X		X	X	X	X		
International	X	X		X	X	X	X	X	X

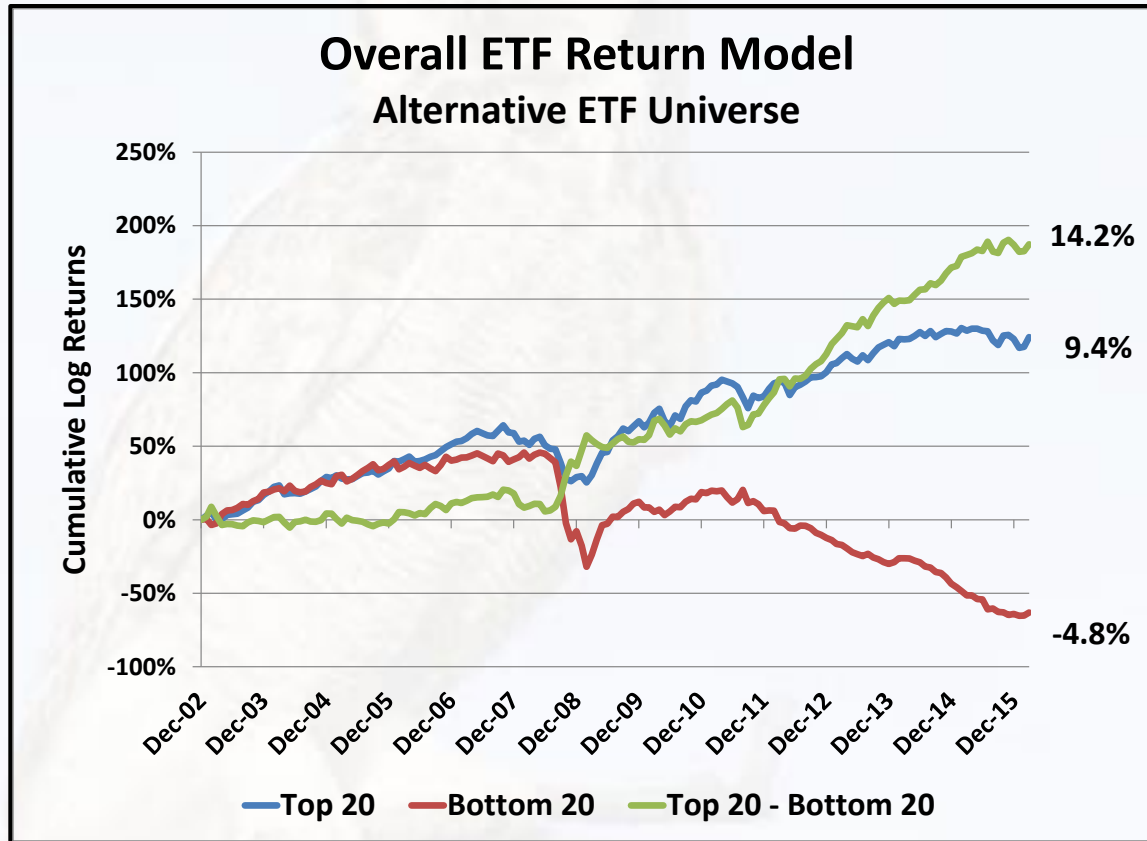
Combine risk and residual forecasts



Calculate ETF expected total return:

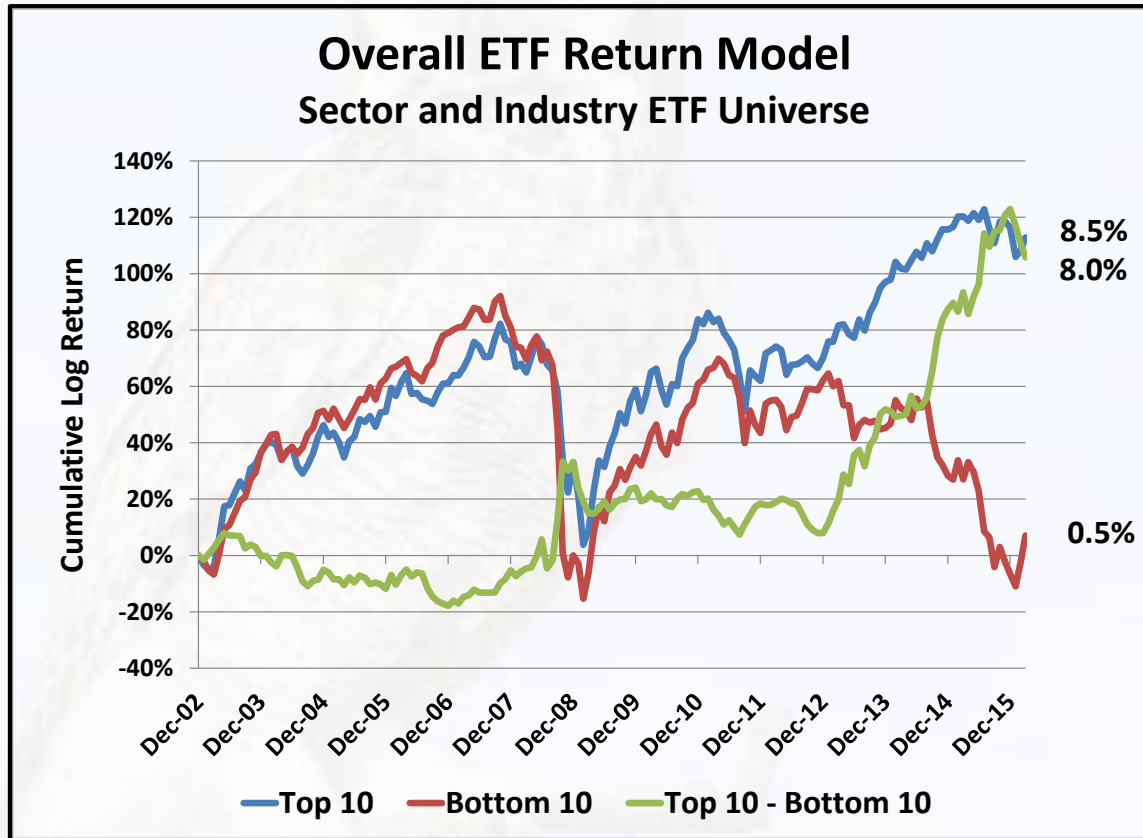
$$\begin{aligned} & \text{ETF expected risk-related return} \\ & + \text{ETF expected residual return} \\ \hline & = \text{ETF expected total return} \end{aligned}$$

Combine risk and residual forecasts



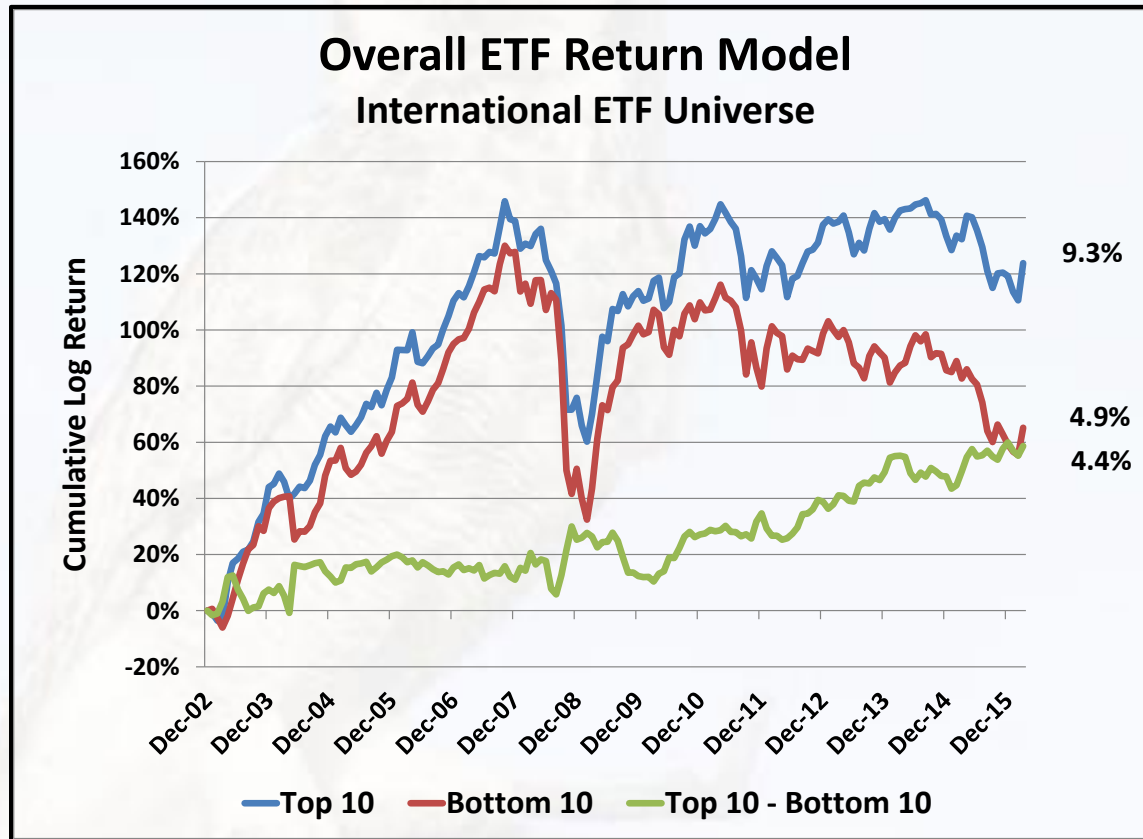
Prospective clients should review carefully "Important Notes Regarding Backtesting (Hypothetical) Performance Information and Other Investment Considerations" found at the end of the document *Investment Process Description* found on our website.

Combine risk and residual forecasts



Prospective clients should review carefully "Important Notes Regarding Backtesting (Hypothetical) Performance Information and Other Investment Considerations" found at the end of the document *Investment Process Description* found on our website.

Combine risk and residual forecasts



Prospective clients should review carefully "Important Notes Regarding Backtesting (Hypothetical) Performance Information and Other Investment Considerations" found at the end of the document *Investment Process Description* found on our website.

Rank

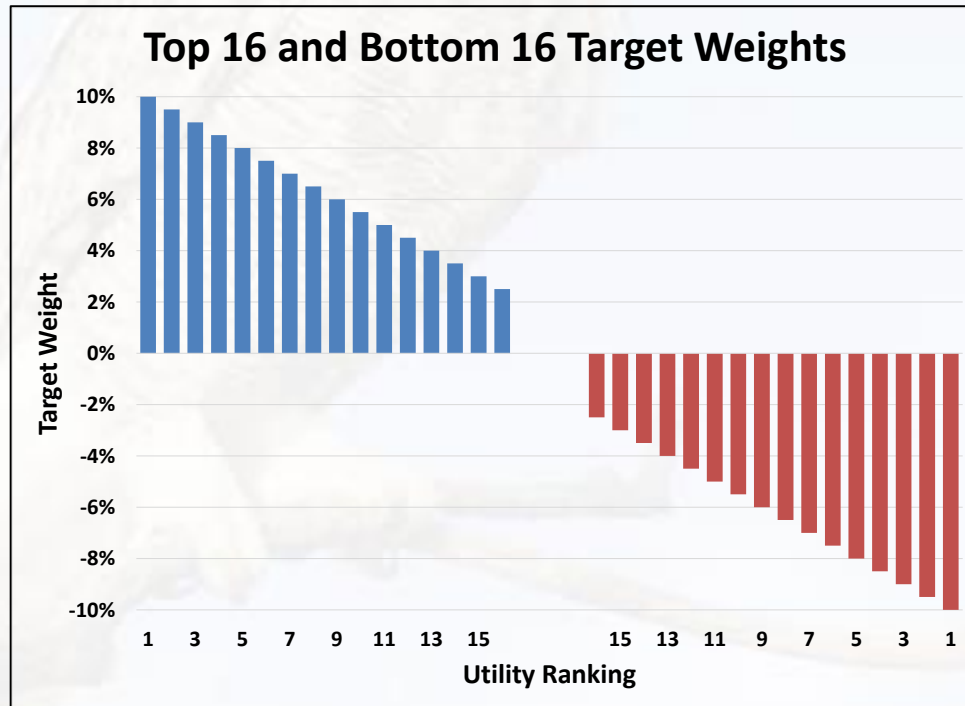
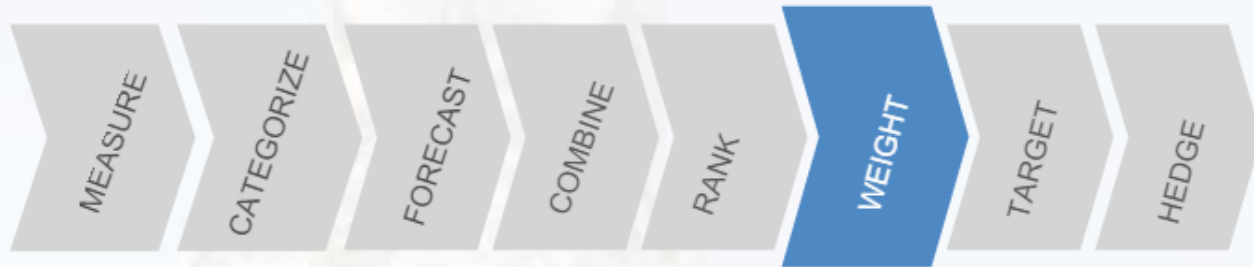


Rank the utility of each ETF using the formula:

- Expected total return*
- *Systematic risk penalty (MKT, LTB, DLR, and OIL)*
- *Residual risk penalty (downside volatility of residual returns)*
- *Implementation shortfall (fund tracking error to index including expense ratio)*
- *Bid/ask spread*
- *Commission*
- *Borrow cost (for shorts)*
- = *Utility*

OUR INVESTMENT PROCESS

Weight



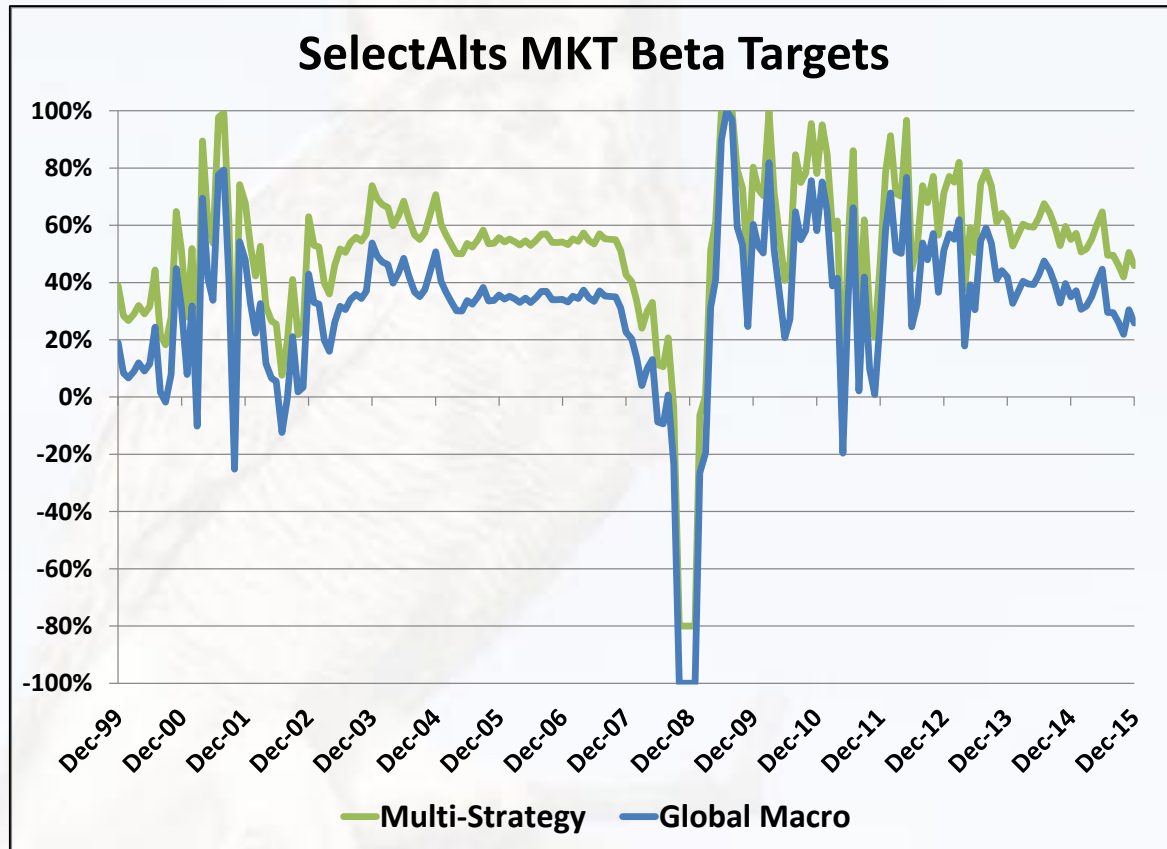
Target



Target risk factor exposures based on risk factor expected returns:

- MKT exposure for Global Macro: avg. $\approx 35\%$
- MKT exposure for Multi-Strategy: avg. $\approx 55\%$
- LTB, DLR, and OIL exposures: avg. $\approx 0\%$

Target



OUR INVESTMENT PROCESS

Hedge



Trade hedging ETFs as necessary to achieve target positions.

Our Edge

Breadth of scope

Over 250 niche strategies

Flexibility

No benchmark hugging, no artificial constraints, go anywhere

Nimbleness

Highly liquid ETFs and small AUM

Exploitable inefficiencies

Many relatively new and poorly understood ETFs (e.g., VIX)

Lack of competition

Few sophisticated ETF-focused investors

Proprietary data and models

Developed for and focused on ETFs

Principal's background and expertise in:

- Quantitative research
- Multi-asset class management
- Long/short portfolios

Why SelectAlts?

Return

- Seeks a higher return than most diversified alternative funds
- Actively manages equity market beta to participate in up markets and protect in down markets

Diversification

- Designed for low correlation with stocks and bonds
- Exposure to a wide variety of asset classes and strategies

Simplicity

- A “one-and-done” overall alternatives solution in a single investment
- Offloads the task of deciding how much to allocate to which asset classes and strategies

Peace of mind

- ETFs are publicly traded registered investment vehicles
- Client owns and controls the assets in a separately-managed account

SELECT ALTERNATIVE INVESTMENTS LLC

GENERAL DISCLAIMER

THIS DOCUMENT IS BEING PROVIDED ON A CONFIDENTIAL BASIS SOLELY TO ITS DIRECT RECIPIENT AND SHALL NOT BE REPRODUCED, QUOTED FROM OR DISTRIBUTED WITHOUT THE EXPRESS CONSENT OF SELECT ALTERNATIVE INVESTMENTS LLC AND IN ANY EVENT IS NOT INTENDED FOR PUBLIC USE OR DISTRIBUTION. THE INFORMATION CONTAINED HEREIN IS SUMMARY IN NATURE AND INCOMPLETE AND IS SUBJECT TO CHANGE OR ADDITION WITHOUT NOTICE. SUCH INFORMATION HAS BEEN PREPARED WITH REASONABLE CARE BUT DOES NOT CONSTITUTE ANY REPRESENTATION OR WARRANTY BY SELECT ALTERNATIVE INVESTMENTS LLC, THE INVESTMENT MANAGER OR ANY OF THEIR AFFILIATES. PAST INVESTMENT PERFORMANCE IS NO ASSURANCE OF FUTURE RESULTS. THERE ARE IMPORTANT MATTERS (INCLUDING RISK FACTORS, TAX CONSEQUENCES AND RELEVANT INVESTMENT CONSIDERATIONS) TO BE CONSIDERED IN CONNECTION WITH BECOMING A CLIENT THAT ARE NOT DISCUSSED HEREIN AND PROSPECTIVE CLIENTS ARE RESPONSIBLE FOR REVIEWING THE SAME WITH THEIR PERSONAL ADVISORS. PROSPECTIVE CLIENTS ARE NOT BEING SOLICITED AS SUCH IN ANY JURISDICTION IN WHICH SUCH SOLICITATION WOULD BE UNLAWFUL UNLESS AND UNTIL THE REQUIREMENTS OF THE LAWS OF SUCH JURISDICTION HAVE BEEN SATISFIED. THIS DOCUMENT IS NOT INTENDED FOR USE BY BROKER-DEALERS, MARKETERS OR OTHER THIRD PARTIES.