SelectAlts

Wisely Managed Absolute Return Portfolios

Our Unique Approach to Investing

Most investors follow a conventional asset allocation mix which is based upon the implicit assumption that capitalization-weighted stock and bond indexes are an optimal reflection of the overall capital market. We believe this is unwarranted, and that a more *flexible and opportunistic* approach to asset allocation can significantly enhance the return/risk tradeoff.

Most investors focus their active management on stock and bond selection that hones closely to capitalization-weighted benchmark indexes. We believe that a more *unconstrained* approach to active management—one that is benchmark-free—can add significantly more value. Most active managers prefer the emotional safety of the conventional. We believe that *being different* than the crowd is more likely to lead to attractive investment opportunities.

We believe that exploiting *systematic* market inefficiencies is likely to be more consistently rewarding than subjectively attempting to select the right individual securities. In our view, the most powerful and consistent market inefficiencies can be captured through a combination of *value, momentum, and quality* styles of investing applied to groups of securities that share common characteristics and diversify away most security-specific risk.

The most efficient way to simply and inexpensively invest in securities that share common characteristics is with funds, especially *ETFs* (exchange-traded funds). Each of the more than 400 *niche-focused ETFs* in our universe is a portfolio built around an *alternative strategy* (such as equity market neutral, merger arbitrage, or managed futures), an *alternative asset class* (such as commodities, currencies, or real estate), a *factor portfolio* (such as stock buybacks, spinoffs, IPOs, low volatility, high dividend yield, high quality, or favorable sentiment), or an *equity market segment* (such as a country, sector, or industry). We believe that those characteristics that have been providing the most risk-adjusted return in the recent past (favorable *momentum*) are most likely to continue to prove rewarding as long as their valuations are not exceedingly high (favorable *value*) and their fundamentals are not exceedingly low (favorable *quality*).

Our investment approach rests upon both *published research* and our own *proprietary research*. Published research has well established the fact that most capital markets (in the U.S. and elsewhere) exhibit both a long-term mean-reverting tendency (making value investing worthwhile) and a short- to medium-term trend-following tendency (making momentum investing worthwhile), and that higher profitability, lower leverage, and better corporate governance are all positive indicators of future outperformance in terms of both earnings and stock price. Our proprietary research focuses on separating risk-related return from residual return, with a focus upon residual return for purposes of calibrating long-term mean aversion (value) and short- to medium-term trends (momentum) in residual return. Our application of this research to funds (as opposed to individual securities) further differentiates us from our competitors.

SELECT ALTERNATIVE INVESTMENTS LLC

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