4TH ANNUAL

Innovative ALTERNATIVE INVESTMENT STRATEGIES

Improving Asset Allocation with Alternatives

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Innovative ALTERNATIVE INVESTMENT STRATEGIES

Improving Asset Allocation With Alternatives:
A Practical Approach

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ALTERNATIVES: EXPANDING THE ASSET ALLOCATION TOOL KIT

Alternative investments potentially offer:
tools to manage risk …
additional sources of return …
and enhanced asset allocation.

Risk Management

- To potentially reduce volatility
- For potential downside protection
- Potential “tail risk” mitigation

Return Characteristics

- Additional sources of potential return
- Move beyond historic limitations of “stocks/bonds/cash”

Enhanced Diversification

- Potentially reduced correlation to traditional assets
- Varied risk/return characteristics

Enhanced Asset Allocation

- Potentially enhance the risk-return profile of a diversified portfolio
- Cerulli Associates identified a key driver of interest in alternative mutual funds:
  “Investors need alternatives to optimize the risk adjusted performance of their portfolios.”

There can be no assurance that any objectives can be achieved.

ALTERNATIVES: MOVING ACROSS THE STRATEGY SPECTRUM

Alternative strategies encompass widely varied sources of returns and risk characteristics.

Long/Short Equity	Event Driven	Long/Short Bonds	Macro
Long Biased	Merger Arbitrage	Relative Value	Discretionary
Hedged Equity	Activist	Arbitrage (fixed income, mortgage, convertible, etc.)	Systematic
Market Neutral	Event Equity/Debt	Long/Short Credit	Commodities
Short Biased	Distressed Restructuring	Stressed/Distressed	Currencies

Alternative strategies entail a wide variety of additional risks.
There can be no assurance that any strategy will be effective or that any objectives can be achieved.

Source: Lake Partners, HFR, AIMA

ALTERNATIVES: MOVING ACROSS THE LIQUIDITY SPECTRUM

Investors in alternatives can diversify across the liquidity spectrum.

***DAILY LIQUIDITY*:** Driving growth of liquid alternatives

- ***User-friendly, flexibility and ease of use***
- Daily or intra-day liquidity
- Open-end mutual funds, ETFs, ETNs, ETPs, and exchange-listed closed-end funds
- Challenges include proliferation of funds with short track records and investment limitations of regulated structures

***PERIODIC LIQUIDTY*:** Classic hedge fund structure

- ***Additional manager freedom for the pursuit of potential alpha***
- Monthly, quarterly, annual or interval liquidity
- Private LP or LLC structure; ability to use leverage and illiquid securities
- Challenges may include wide dispersion of manager returns, tax reporting and costs (as well as gating and headline risks)

***ILLIQUIDITY*:** Seeking to capture an illiquidity premium

- ***Specialized, long-term investments***
- Multi-year capital contributions and/or multi-year commitments
- Private equity, venture capital, direct real estate, farmland, timber, etc.
- Challenges may include long-term illiquidity, lack of flexibility to make adjustments, tax reporting, and costs

There can be no assurance that any objectives can be achieved.

ADDING ALTERNATIVES: A FUNCTIONAL APPROACH

Alternatives can serve multiple roles in a portfolio, as a complement to stocks and bonds or as a diversifier.

Equity Complements

- Hedged Equity
- Potentially lower beta, volatility, drawdowns or correlation versus stock market
- Examples: long/short equity, option hedging, etc.

Bond Complements

- Hedged fixed income
- Potential diversification in a rising interest rate environment
- Examples: long/short credit, duration hedging, unconstrained bond funds, etc.

Diversifiers

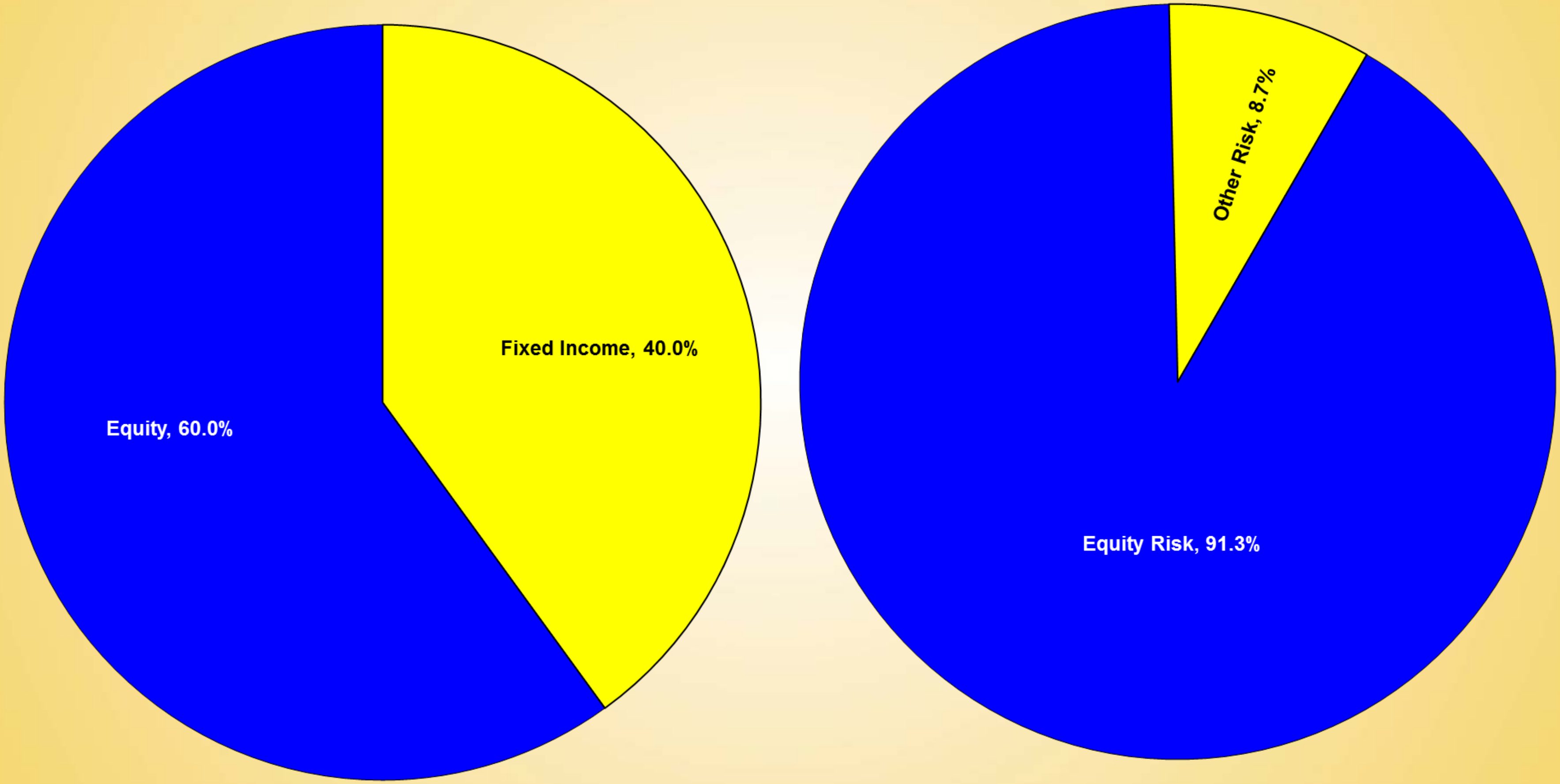
- Generally low correlation to stocks or bonds
- Sources of risk and return generally different from long-only stocks and bonds
- Examples: global macro, managed futures, commodities (long only or long/short), certain market neutral or arbitrage strategies, etc.

There can be no assurance that any objectives can be achieved.

Source: Lake Partners, Envestnet

THE NEED FOR ADDITIONAL DIVERSIFICATION

Historically, most of the risk in a 60/40 "balanced" portfolio has been equity risk.

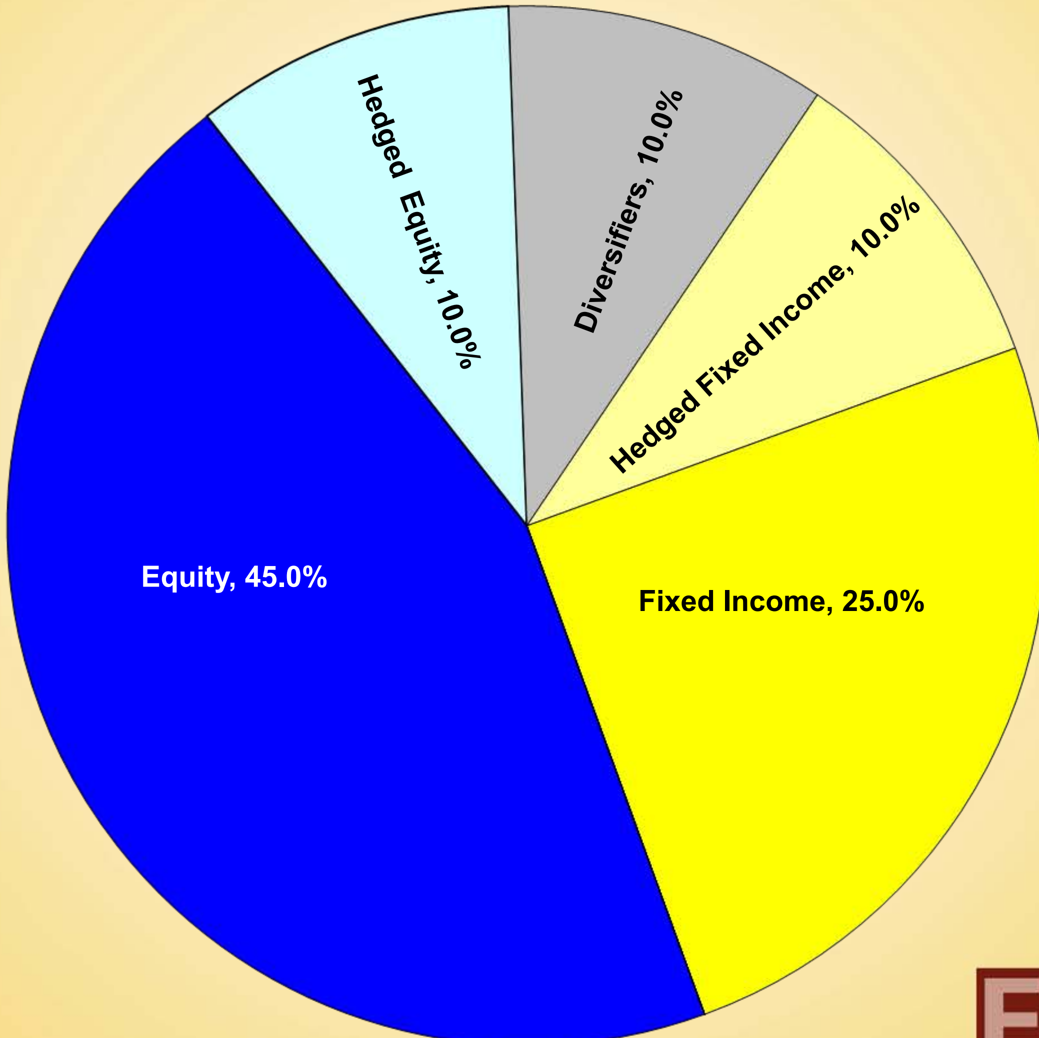


For illustration only. Not actual portfolios.

Source: First Quadrant

POTENTIAL ROLES FOR ALTERNATIVES

Alternative investments can serve multiple roles when constructing a diversified portfolio.



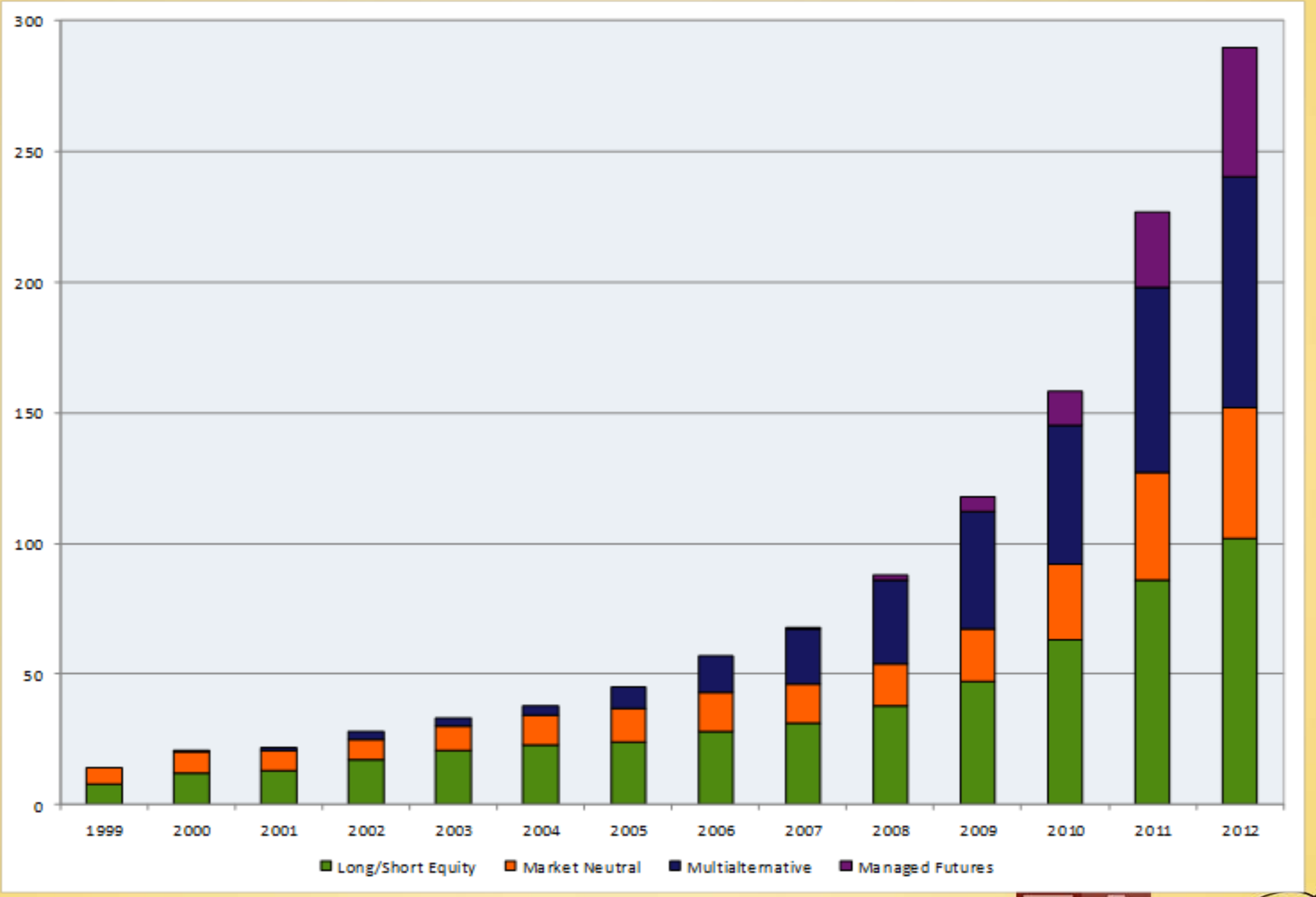
For illustration only. Not actual portfolios.

There can be no assurance that any objectives can be achieved.

RESEARCH CHALLENGE: PROLIFERATION OF CHOICES

Growth in Number of Alternative Mutual Funds in New Morningstar Categories

From 1999 to 2012



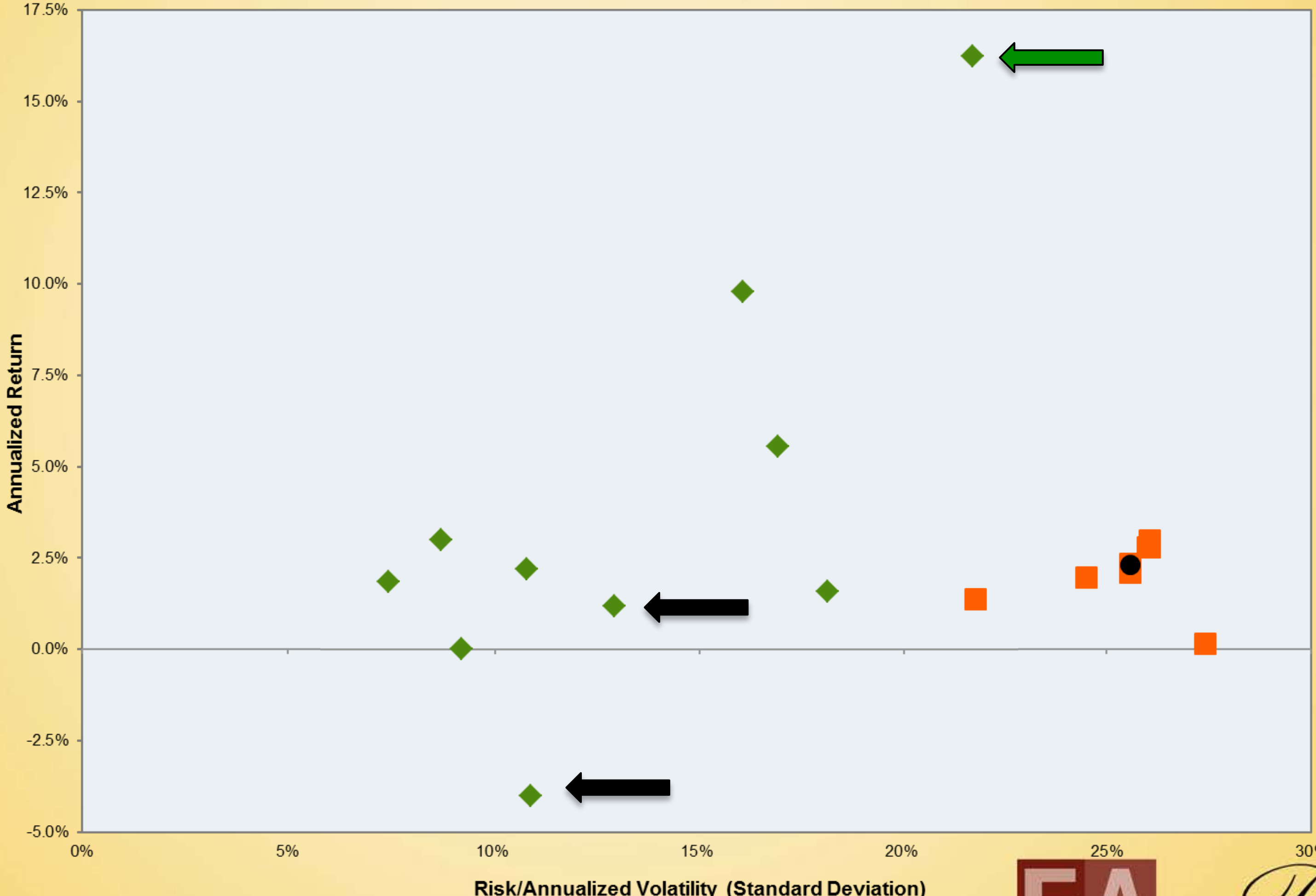
Source: Morningstar Principia, as of 12/31/12; distinct funds only in categories created in 2010 and 2011.

SELECTION CHALLENGE: DISPERSION OF RISK/RETURN

Annualized Risk/Return : 10 Largest Long/Short Equity Mutual Funds vs. 10 Largest Large Cap Blend Funds, With Minimum 5 Year Track Records (Morningstar Categories)

October 9, 2007 (equity market peak) through March 31, 2013 (based on daily data)

Past performance is no guarantee of future results



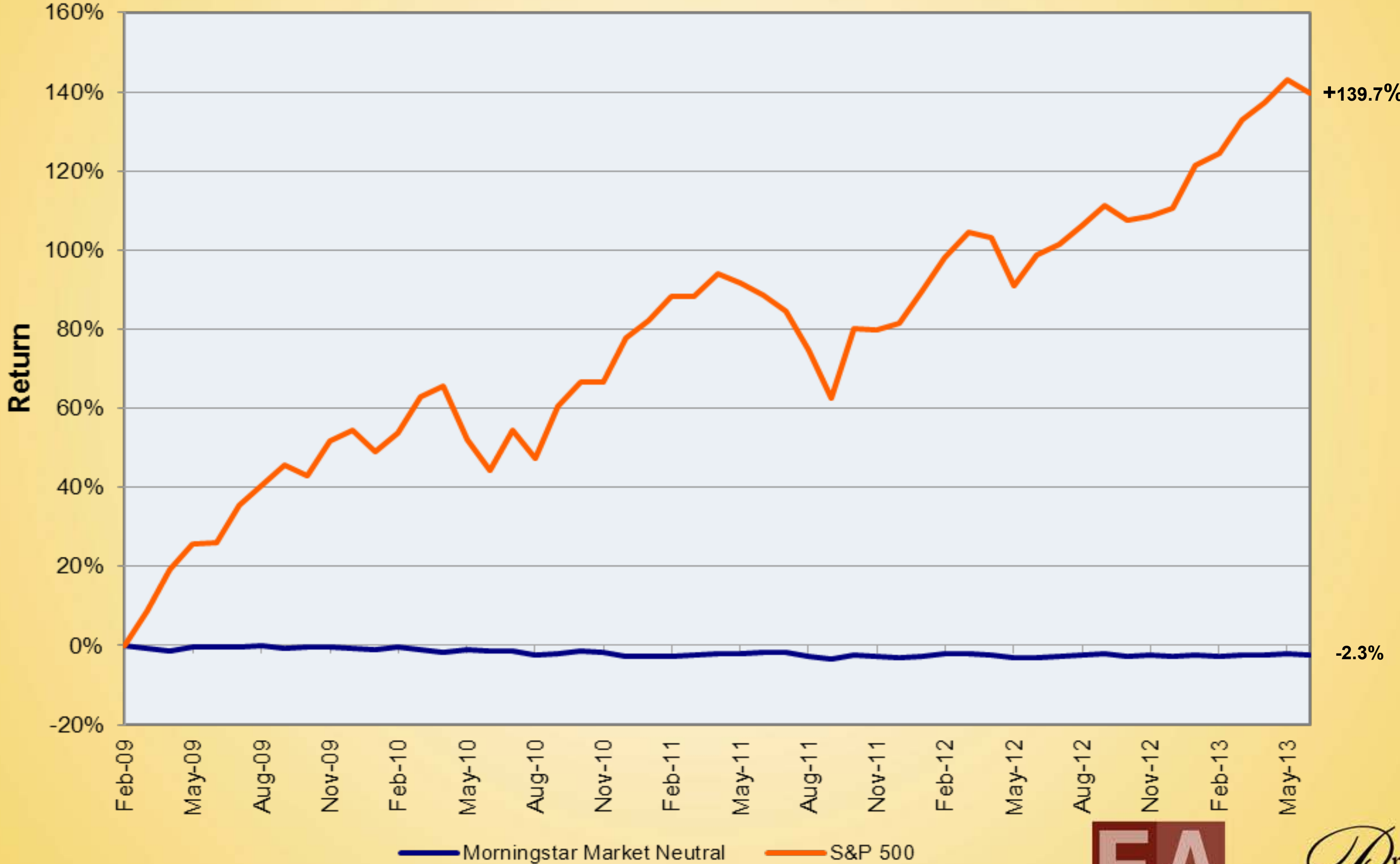
Source: Morningstar, Bloomberg

ANALYSIS CHALLENGE:
NO CORRELATION MAY MEAN NO RETURNS

Morningstar Market Neutral Category Average vs. S&P 500 Index

March 2009 through June 2013

See Explanatory Notes and Disclosures • Past performance is no guarantee of future results



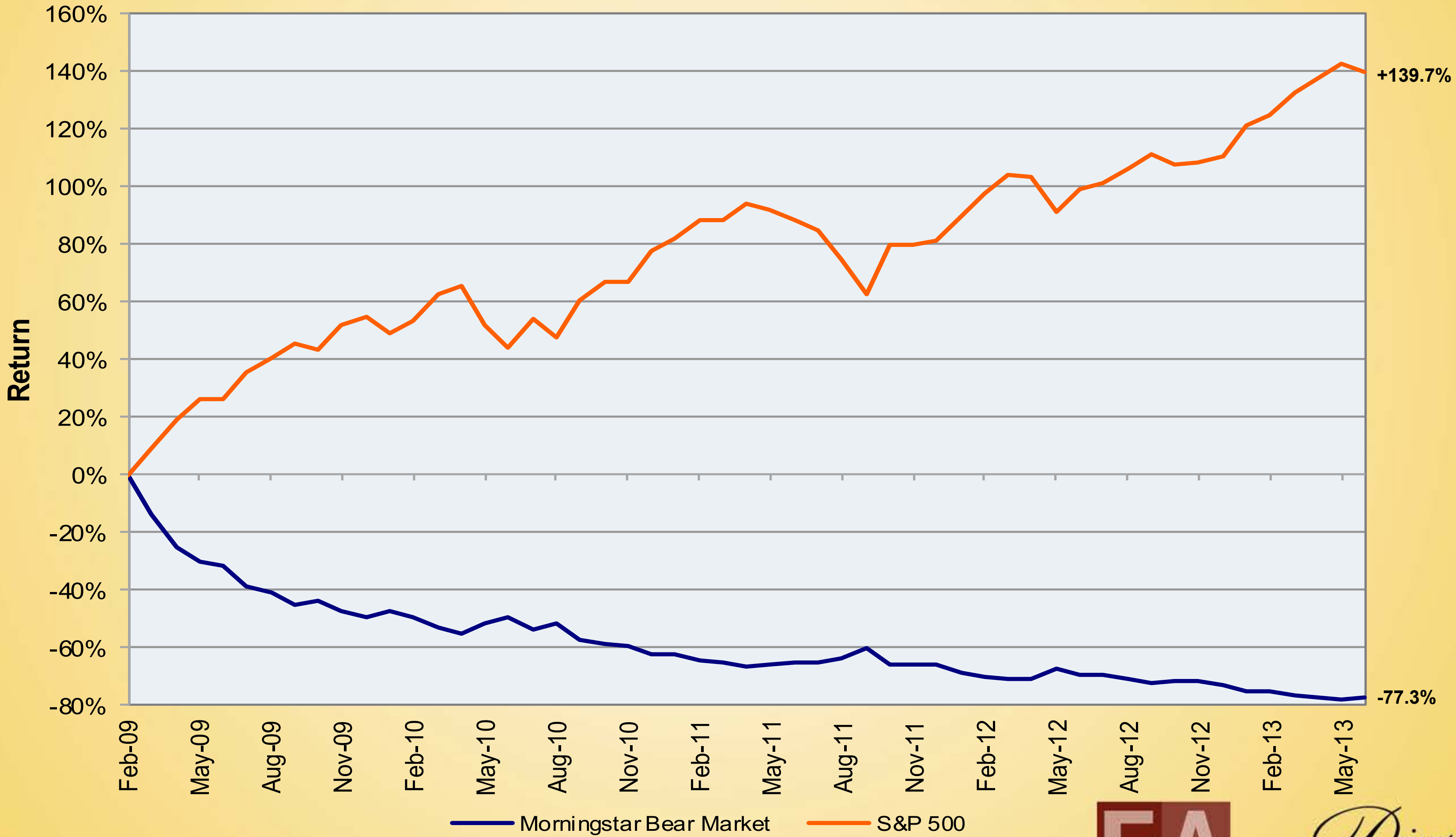
Source: Morningstar

ANALYSIS CHALLENGE:
NEGATIVE CORRELATION MAY MEAN NEGATIVE RETURNS

Morningstar Bear Market Category Average vs. S&P 500 Index

March 2009 through June 2013

See Explanatory Notes and Disclosures • Past performance is no guarantee of future results

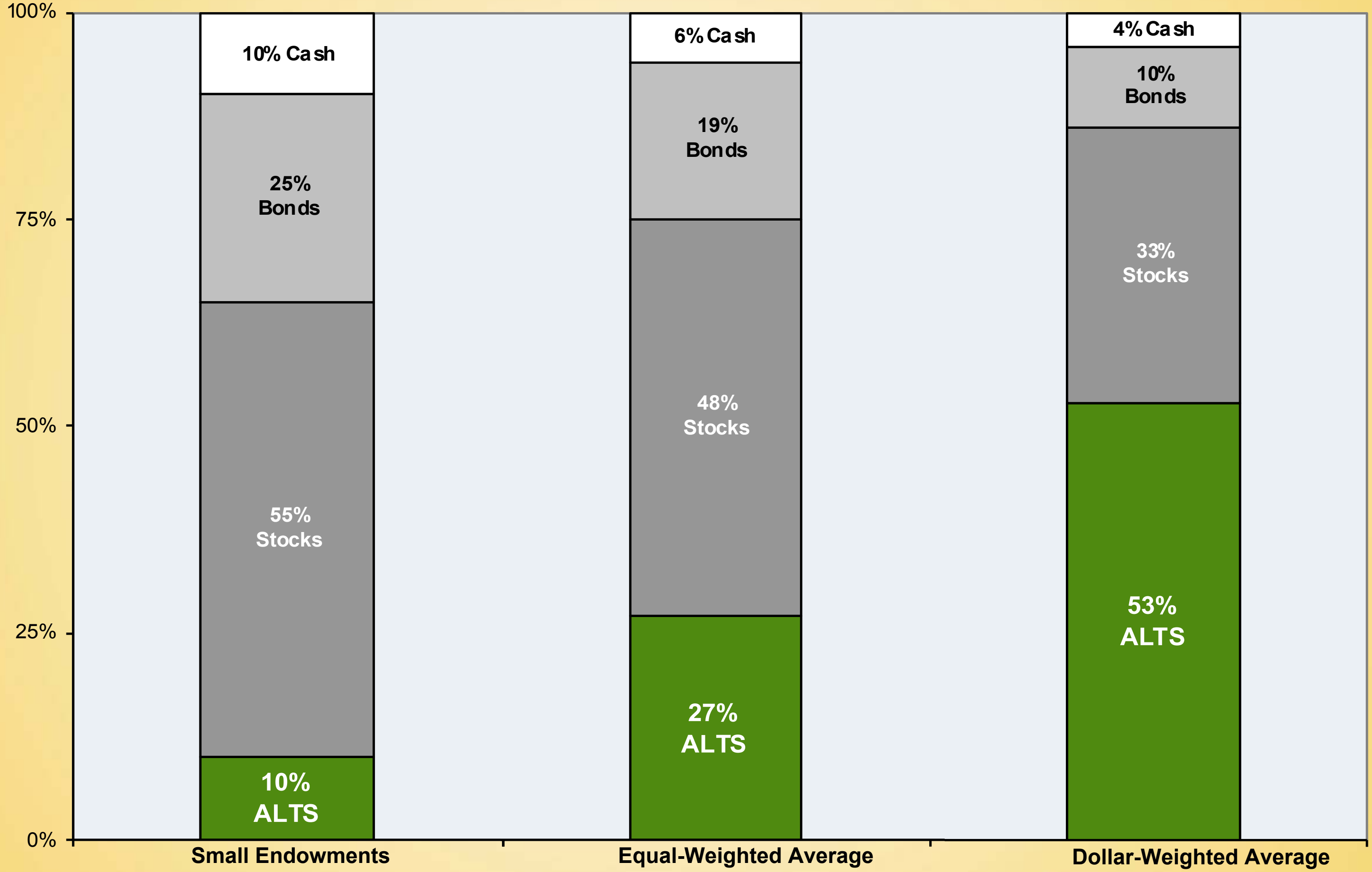


Source: Morningstar

BEYOND 60/40: THE NEW "BALANCED" PORTFOLIO

Average Asset Allocation for University Endowments and Foundations

Fiscal Year 2011



Source: © 2012 NACUBO
(National Association of College and University Business Officers)

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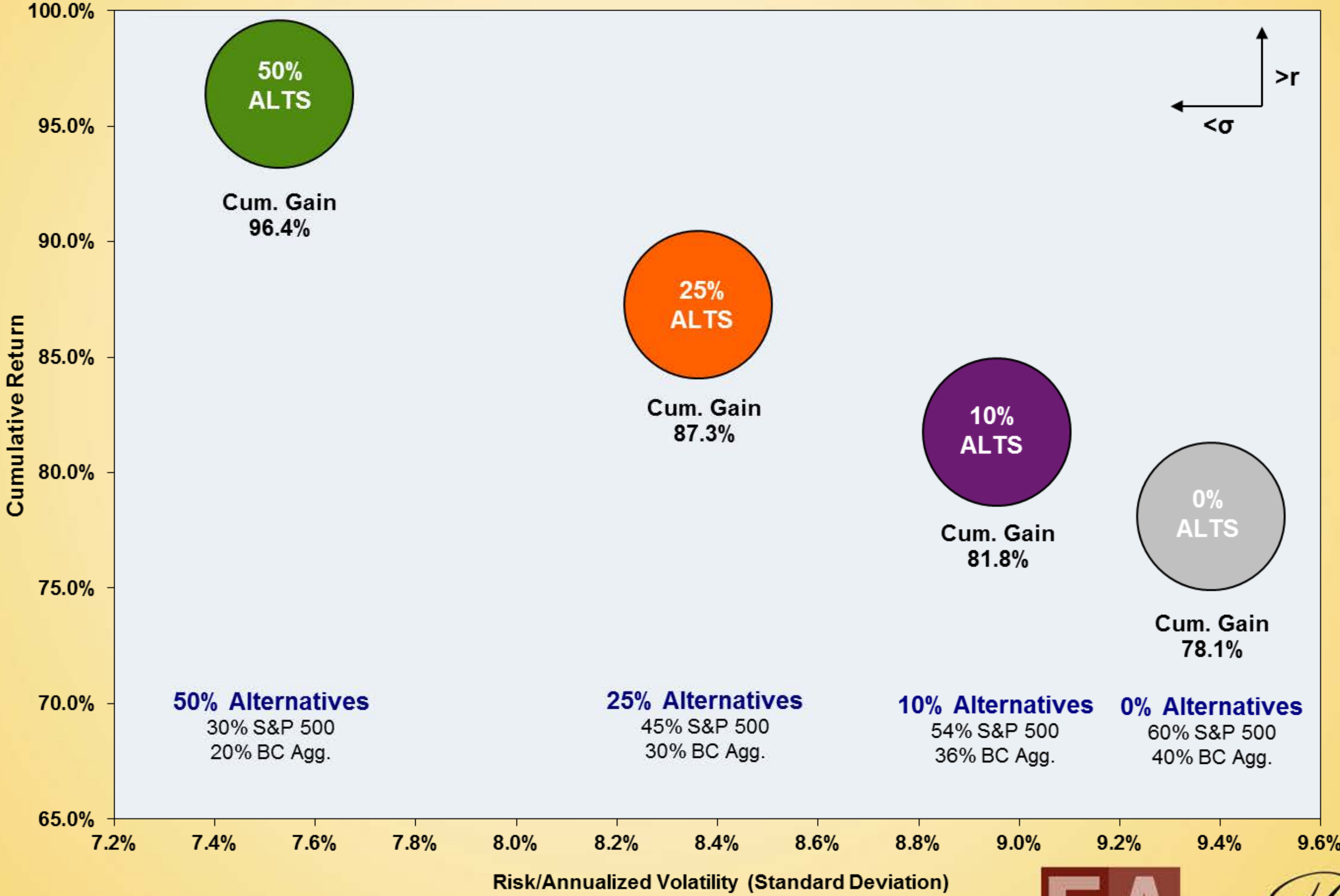
IMPACT OF ALTERNATIVES IN A “BALANCED” PORTOFLIO

Hypothetical Risk/Return Dynamics: Varied “Balanced” Mix of S&P 500, Barclays Capital Aggregate, and HFRI Fund Weighted Index

From January 2000 through June 2013

See Explanatory Notes and Disclosures • Past performance is no guarantee of future results



Note: Uses HFRI Fund Weighted Composite Index for alternative allocation.
Risk/return statistics are based on monthly data, rebalanced quarterly.

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EXPLANATORY NOTES AND DISCLOSURES

All securities investing involves the risk of loss. Past performance is no guarantee of future results. There can be no assurance that any objectives can be achieved.

The illustrations herein are hypothetical and do not represent the performance of any actual portfolio. Historical index performance was affected by material market and economic conditions that may be different in the future.

The S&P 500 is an unmanaged, capitalization-weighted index of the common stocks of 500 widely held U.S. companies. It does not include fees or expenses. Direct investment in an index is not possible. (S&P 500 is a registered trademark of The McGraw-Hill Companies, Inc.) The S&P 500 is used for comparison purposes as a widely recognized measure of U.S. stock market performance.

The Barclays Capital US Aggregate Bond Index is an unmanaged index of fixed rate debt securities rated investment grade or higher by Moody's, Standard & Poor's, or Fitch rating services. All issues have at least one year to maturity and an outstanding par value of at least $100 million. It does not include fees or expenses. Direct investment in an index is not possible. (The index is a registered trademark of Barclays Capital PLC.) This index is used for comparison purposes as a widely recognized measure of U.S. bond market performance.

The 60% S&P 500/40% BC Aggregate hybrid index, calculated from two indices described above, is a widely used comparison for balanced strategies utilizing a mix of stocks and bonds. Direct investment in an index is not possible. The hypothetical asset allocation on the preceding page, reflecting investment in varying proportions of a hybrid balanced 60/40 portfolio and alternative investments (as represented by the HFRI Fund Weighted Index) is for illustration only and does not represent actual or future performance of any portfolio mix The performance and volatility of the hypothetical asset allocations presumes investment since January 2000. Investment on any other date would cause different results. The hypothetical performance figures were affected by material market and economic conditions that may be different in the future. The hypothetical asset allocation illustration assumes that there would not have been any additional cash balances, and that there would be no additional fees, which would have reduced returns.

The HFRI Fund Weighted Composite Index ("HFRIFWI"), published by Hedge Fund Research, Inc. ("HFR"), is a global, equal weighted index of over 2,000 single-manager funds that report to the HFR Database. The HFRFWI includes funds that meet the screening criteria of HFR, including $50 million under management or a track record longer than 12 months. Performance is calculated monthly, net of all fees. (Underlying hedge funds may or may not include side pocket investments in performance calculations.) Trailing four months of performance are subject to revision. This index is used for comparison purposes as a widely recognized measure of the performance of hedge funds and alternative investment strategies. The index is net of fees and expenses of underlying funds, including incentive fees. The HFRIFWI is not an investable index. Direct investment in the index is not possible.

EXPLANATORY NOTES AND DISCLOSURES

Due to the growth in the number and variety of alternative mutual funds, Morningstar eliminated its prior, broadly inclusive Long-Short Category, and created four new, more differentiated alternative categories in 2010 and 2011 described below. Morningstar had previously created the Bear Market Category, also described below. These Morningstar Alternative Category Averages ("MACAs") are among the various averages published by Morningstar, Inc. to measure the performance of a group of funds that utilize a similar investment strategy. The MACAs are designed to reflect the average performance of mutual funds utilizing similar alternative investment strategies. The strategy definitions for the MACAs are described below. The MACAs are net of fees and expenses of the underlying managers. Direct investment in the MACAs are not possible.

Multialternative Category. These funds offer investors exposure to several different alternative investment strategies. Funds in this category allocate a majority of their assets to alternative strategies. Funds in this category include both funds with static allocations to alternative strategies and funds tactically allocating among alternative strategies and asset classes. Gross short exposure is generally greater than 20%.

Long-Short Equity Category. Long-short equity funds take long positions in securities that appear attractive and short positions in securities that appear to be unattractive. Some of these funds use bottom-up research to determine long or short positions. Other funds in this category may hedge equity exposure through ETFs or derivatives. Gross short exposure is generally greater than 20%.

Market Neutral Category. These funds attempt to hedge out all market exposure by taking offsetting long and short positions. Strategies in this category may include equity market neutral, merger arbitrage, convertible arbitrage and similar strategies. Funds included are often managed as beta-neutral, dollar-neutral, or sector-neutral. A distinguishing feature of funds in this category is that they typically have low beta exposures (< 0.3 in absolute value) to major market indexes such as MSCI World. To reduce systematic risk, these funds put the emphasis on issue selection, with profits dependent on their ability to sell short and buy long the correct securities.

Managed Futures Category. These funds primarily trade liquid global futures, options, swaps, and foreign exchange contracts, both listed and over-the-counter. A majority of these funds utilize trend-following, price-momentum strategies. Other strategies included in this category are systematic mean reversion, discretionary global macro, commodity index tracking, and other futures strategies. More than 60% of a fund's exposure is invested through derivative securities. These funds obtain exposure primarily through derivatives; the holdings are largely cash instruments.

Bear Market Category. These funds dedicate a majority of their portfolios to short stock positions in an attempt to take advantage of anticipated market or stock declines. Some managers invest the proceeds from their short positions in low-risk assets, while others dedicate a portion to long stock positions in order to hedge against broad market rallies. Short positions typically account for 60% to 85% of fund assets, although some managers may be 100% short.

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