November 5, 2017

Standard Value - Equity+Income Oct 2017 returns: 0.2% Net, 16.7% YTD, 0 Beta, 4.0 Sharpe

Hello. Please find attached the October 2017 Fact Sheet for our Standard Value Equity+Income proposed fund. This can be accessed from our website as well.

Our YTD returns (16.7% net, 21.6% gross) are keeping up with the S&P (16.9%) with a historical Beta of -0.03 to the S&P, a dramatic increase in Sharpe ratio to 4.0 (S&P 1.3), lower standard deviation (4.8% vs 9.6%), and fewer drawdowns (14% net/12% gross vs 26%).

In this letter, we provide a peek into our unique strategy.

Standard Value - October report

The goal of this Strategy and proposed Fund is to solve the pressing investment problems of too little income and too much Beta. Our solution is to construct a Beta Neutral portfolio with income. The portfolio consists of 4 sectors - Short Equities, Long Equities, Long MBS, and Long High Yield.

This is essentially a modified Equity Market Neutral strategy - we replace some of the long Equity with MBS and High Yield bonds for Income and to reduce portfolio volatility, and chose weightings to achieve a 0 Beta to the S&P 500.

We have significant Alpha in each leg of the portfolio.

Yes, the majority of the Alpha is on the Short Equity portion of our portfolio.

	Beta	Alpha (Annualized)
S&P 500	1.00	0.0%
SV Long Equity	0.99	4.1%
SV Short Equity	-0.86	13.6%
SV MBS	0.06	11.7%
HYG	0.36	-0.1%
SV Gross	**-0.03**	**29.4%**
SV Net	**-0.03**	**22.7%**

Our weights, with a 340% total exposure, result in 0 Beta to the S&P with 22% historical Alpha (and IRR), and a unique 4.0 Sharpe ratio. We are targeting 15% returns, and have considerable room for slippage. Our exposure at 340% is also significantly lower than that of other systematic market neutral strategies, as is our portfolio turnover.

The Equities Portfolio

My partner, and former colleague from MBS Strategies at Nomura, Manish Aurora of Rational Investing, is responsible for the equities process that results in our unique Long/Short equity returns. Over 20 years, he has developed a fundamental equity valuation process using a DCF valuation model across 1200+ stocks in the US (2500 globally), applied systematically and symmetrically on both the long and short side. He has a team of around 20 in India and Europe that facilitates this process. **The result is an information advantage of many weeks during each earnings cycle, and a significant amount of Alpha on both the long and short side.**

For the past 8+ years, target prices from this model have been licensed to large household name (Many $B+) quant hedge funds and wealth managers. The track record is point-in-time (8+years) from the daily feed to these investors, many of whom execute the trades systematically within their funds.

Both the long and short equities portfolios are executed systematically, with many hundred stocks on each side of the trade, with risk management processes in place. The capacity is large, and the portfolio Beta can be turned around rapidly if needed.

The MBS portfolio

The MBS process is driven by an understanding of total returns, as opposed to typical factor/model-driven investing, and reflects an unusual process using proprietary tools and processes developed and used for over 25 years. This is a result of a research process to decipher MBS total returns that was triggered in the 1990s (when I headed the MBS Strategies group at Nomura) in response to models not correlating with bond total returns.

We compound high current total returns from cashflows to create portfolio cashflow and returns that are greater than that of any individual bond. We systematically seek bonds with high current returns from cashflows, and sell them when cashflow returns drop, using a stat-arb like process on cashflow total returns to determine purchasing and selling triggers. The result is a large amount (2% to 5%) of monthly cashflow and income, low effective duration, high risk-adjusted returns, low correlations, and significant Alpha to most markets including the generic MBS market. The capacity is limited, and estimated at $500B.

As households have delevered, the MBS market also has a fundamental tailwind, and we are reaping the benefits of increasing prepayments and declining severities from credit curing on legacy MBS.

The High Yield Portfolio

We are primarily investing in High Yield bonds for their positive Beta, and have used a HYG track record and returns for our portfolio. Without High Yield bonds, our portfolio would have a significantly negative Beta skew.

We have the ability to seek out HY bonds with greater Alpha than HYG by going up in capital structure using our Equities model - the bonds of a stock we like will be safer than that stock. However, to be conservative, we are using HYG for the present.

While we believe that HY bonds are not cheap, the 40% HY portfolio is essentially over hedged with a 40% net short equities portfolio of richer equities, in a short book that has significant Alpha. This posture will pay significant dividends if the market sells off.

Track record and assumptions

As mentioned above, the equities record is Point-In-Time. The actual returns for the long and short equities are computed from daily time-stamped prices that can be executed systematically (and are, by licensee hedge funds) and are realizable. There is a 8+ year history.

The MBS returns are the actual unlevered returns from MBS Mantra's MBS portfolio, that can be viewed as an incubation portfolio. The returns have been reviewed, and have been computed starting 9/2013. We believe that these returns are typical and scalable.

The only assumptions in our portfolio construction are leverage costs for the equities and bonds, and transactions costs for the systematic equity trading - real costs could deviate from our assumptions, depending on who we select as our Prime Brokers. Our current assumptions leave us with 20% unencumbered cash for margin maintenance, and higher returns than our target.

We can customize our portfolios for specific mandates and Beta targets.

Please call with questions.

Regards, Samir and Manish.

Samir Shah

President and CIO

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