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AlphaClone

**Active Index Update**

August 2017



A person is rappelling down a rock face. The image is overlaid with a semi-transparent teal color. The person is wearing a harness and a blue bag, and is holding a rope. The rock face is textured and has some cracks. The overall scene is outdoors.

# AlphaClone Performance Update

# AlphaClone Active Indexes

Learn more  
<http://alphaclone.com/active-indexes>

Index	Index Ticker	Description
Hedge Fund Downside Hedged Index	ALPHACLN	A broad, risk-managed index of US-exchange traded equities favored by hedge funds and institutional investors.
International Downside Hedged Index	ALFIIX	A risk-managed index of American Depository Receipts (ADRs) favored by hedge funds and institutional investors.
Small Cap Index	ALFSIX	An index of US-exchange traded small capitalization equities favored by hedge funds and institutional investors.
Activist Manager Index	ALFDIX	An index of US-exchange traded equities favored by hedge funds and institutional investors that pursue a activist investment approach.
Value Manager Index	ALFVIX	An index of US-exchange traded equities favored by hedge funds and institutional investors that pursue a value investment approach.

# Performance Highlights – August 2017

## Hedge Fund Downside Hedged Index (ALPHACLN).

**+17.6% YTD** vs. +11.8% for the S&P 500 (SPY)

The index outperformed the broader market for the month of August (1.0% vs 0.3% for the S&P 500) and continues to outperform by a wide margin for the year. Notable changes in sector exposures as a result of the most recent rebalance on August 27 saw a reduction in exposure to financial stocks. Previously financial names had been the index's largest sector overweight.

## International Downside Hedged Index (ALFIIX).

**+26.5% YTD** vs +18.8% for the MSCI AC World ex-USA (ACWX).

While the index saw a pullback in August, it continues to outperform its benchmark by a large margin on a year to date basis. Index performance over the past three months was driven primarily by overweight exposure to China and Brazil. The most recent rebalance saw a continuation of the same investment thesis with a particular focus on Technology and Healthcare names.

## Small Cap Index (ALFSIX).

**+9.2% YTD** vs. +4.4% for the Russell 2000 Index (IWM)

The index continues to outperform its benchmark by a wide margin on a year to date basis. Index performance over the past three months was largely driven by stocks from varying sectors including Constellium (Industrial Goods), Triple-S Management (Financial), Yelp Inc. (Technology) and Health Insurance Innovations (Healthcare).

## Activist Manager Index (ALFDIX).

**+18.5% YTD** vs. +11.8% for the S&P 500 Index (SPY)

High conviction holdings from our group of activist managers outperformed the market in the month (1.5% vs 0.3%) and by an impressive 670 basis points year to date. Performance in the index is largely driven by overweight exposure to healthcare stocks, one of the year's best performing sectors so far.

## Value Manager Index (ALFVIX).

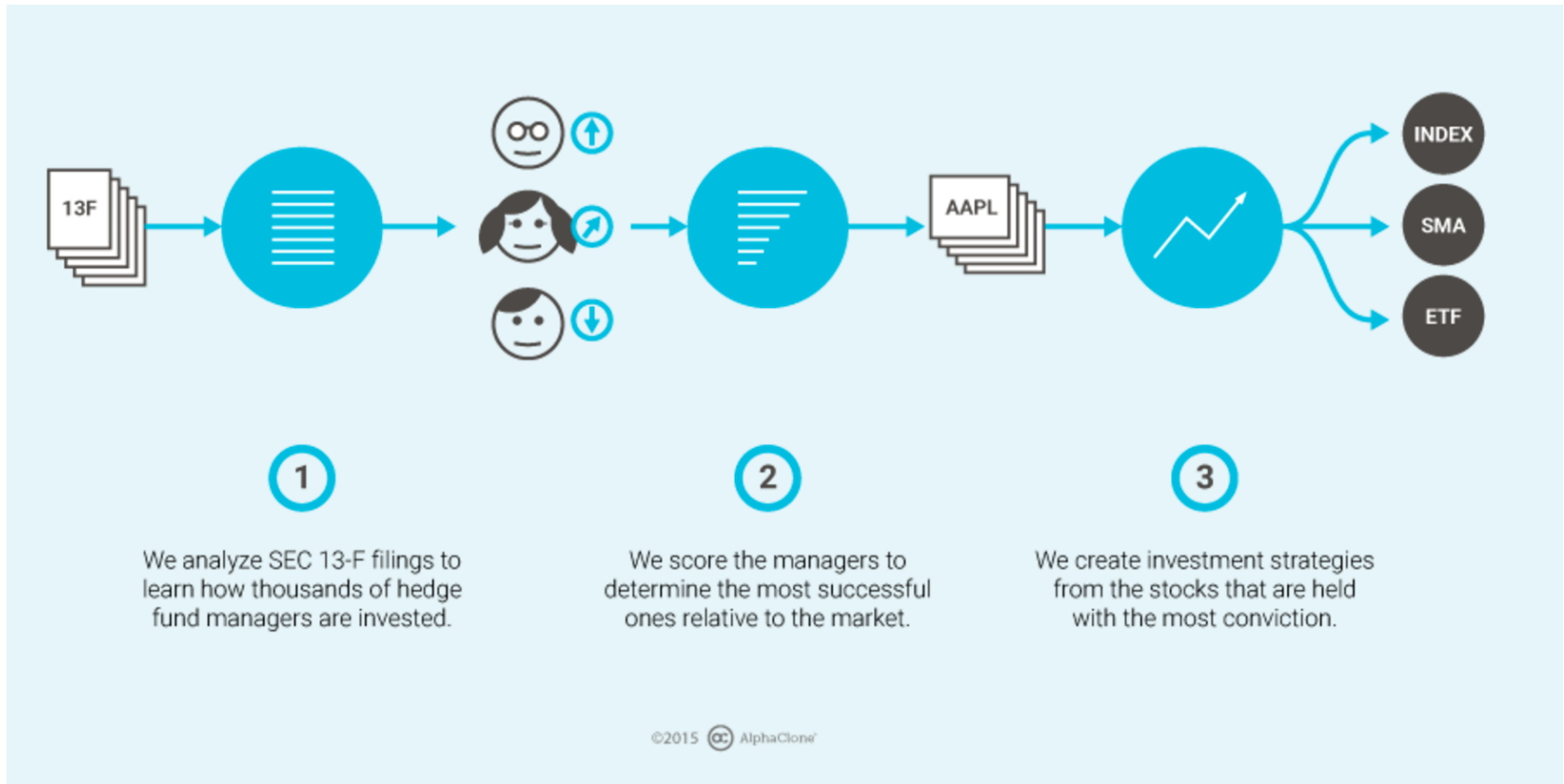
**+15.1% YTD** vs. +5.7% for the Vanguard Value ETF (VTV).

The index was on par with its benchmark for the month but is outperforming value stocks by nearly 3 to 1 and the broader market by more than 300 basis points on a year to date basis. Index performance is largely driven by Consumer Goods stocks such as Meritor Inc. (MTOR) and Financial stocks such as Altaba Inc. (AABA) and Interactive Brokers (IBKR).

# Index Performance – August 2017

As of 8.31.2017	AlphaClone Active Indexes					Benchmarks				Portfolios*	
Annualized Returns	ALPHAACLN	ALFIIIX	ALFSIX	ALFDIX	ALFVIX	SPY	IWM	VTV	ACWX	Mirror	Passive Only
MTD	1.0%	-1.7%	-0.5%	1.5%	-0.4%	0.3%	-1.3%	-0.4%	0.4%	0.3%	0.2%
YTD	17.6%	26.5%	9.2%	18.5%	15.1%	11.8%	4.4%	5.7%	18.8%	10.7%	7.6%
1Y	19.2%	20.0%	16.9%	21.3%	18.8%	16.1%	14.9%	11.6%	18.4%	11.9%	9.4%
3Y	1.8%	1.5%	5.6%	9.5%	8.4%	9.4%	7.7%	5.9%	2.2%	4.8%	5.0%
5Y	9.9%	10.2%	14.0%	17.2%	16.1%	13.9%	13.2%	11.3%	7.2%	8.8%	7.9%
10Y	8.8%	7.6%	8.4%	8.7%	7.5%	6.3%	7.4%	3.5%	1.3%	6.6%	5.2%
Benchmark	SPY	ACWX	IWM	SPY	VTV	-	-	-	-	Passive Only	
*Portfolio Allocations	ALPHAACLN	ALFIIIX	ALFSIX	ALFDIX	ALFVIX	SPY	IWM	VTV	ACWX	PDIIX	AGG
Mirror	7.50%	7.50%	7.50%	7.50%	0%	7.50%	7.50%	7.50%	7.50%	20%	20%
Passive Only	0%	0%	0%	0%	0%	15%	15%	15%	15%	0%	40%

# AlphaClone active index construction process

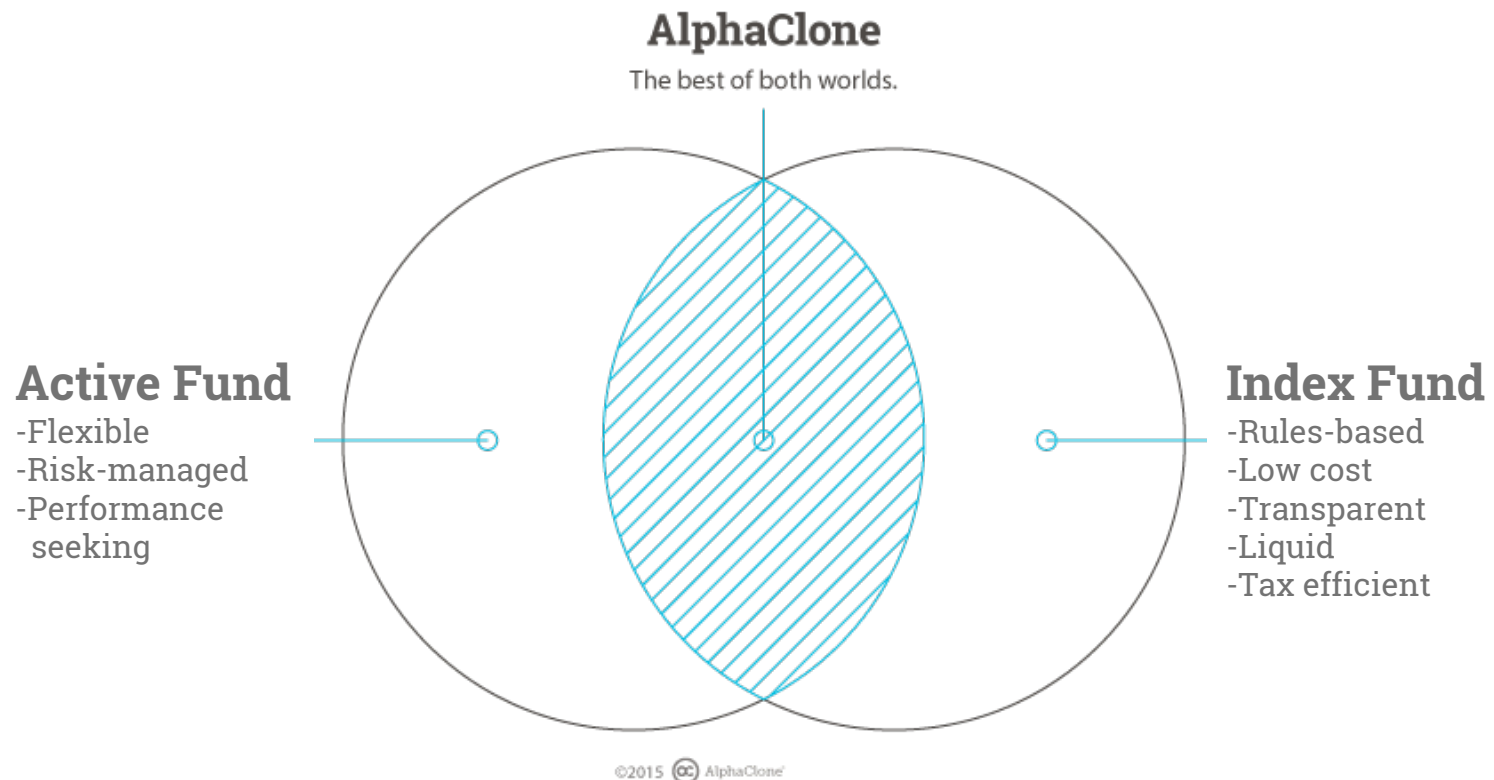


A person is rappelling down a rock face. The image is overlaid with a semi-transparent teal color. The person is wearing a harness and a blue bag, and is holding a rope that extends down the page. The background shows the texture of the rock and some green vegetation.

# Active Indexing Investment Case

# What is an active index?

Active indexes offer the benefits of index funds while still seeking to outperform the overall market





# Why should I consider active indexing?

Over the long term, active indexing has outperformed both the market and traditional active funds

## US Large Capitalization Stocks Annualized Returns, as of 1/31/2017

## US Small Capitalization Stocks Annualized Returns, as of 1/31/2017

## International Stocks Annualized Returns, as of 1/31/2017

US Large Capitalization Stocks				US Small Capitalization Stocks				International Stocks			
1 Year	3 Year	5 Year	10 Year	1 Year	3 Year	5 Year	10 Year	1 Year	3 Year	5 Year	10 Year
Active Index 31.0%	Passive 10.9%	Active Index 15.4%	Active Index 8.5%	Active Index 36.4%	Passive 7.3%	Active Index 13.7%	Active Index 7.9%	Passive 15.9%	Active Index 4.6%	Active Index 7.0%	Active Index 4.5%
Passive 20.1%	Active 8.7%	Passive 14.1%	Passive 7.0%	Passive 33.5%	Active 7.2%	Passive 12.4%	Passive 7.1%	Active Index 14.3%	Passive 0.9%	Active 5.2%	Active 0.8%
Active 18.8%	Active Index 8.6%	Active 12.5%	Active 6.1%	Active 30.6%	Active Index 4.9%	Active 12.1%	Active 6.6%	Active 10.7%	Active 0.6%	Passive 4.3%	Passive -1.7%

Active Index = AlphaClone Activist Manager Index  
(as of 1.31.17 avg. portfolio market cap = \$59B)

Active = Morningstar Large Blend Category

Passive = S&P 500TR

Active Index = AlphaClone Small Cap Index

Active = Morningstar Small Blend Category

Passive = Russell 2000

Active Index = AlphaClone International Index  
(long only)

Active = Morningstar Foreign Large Category

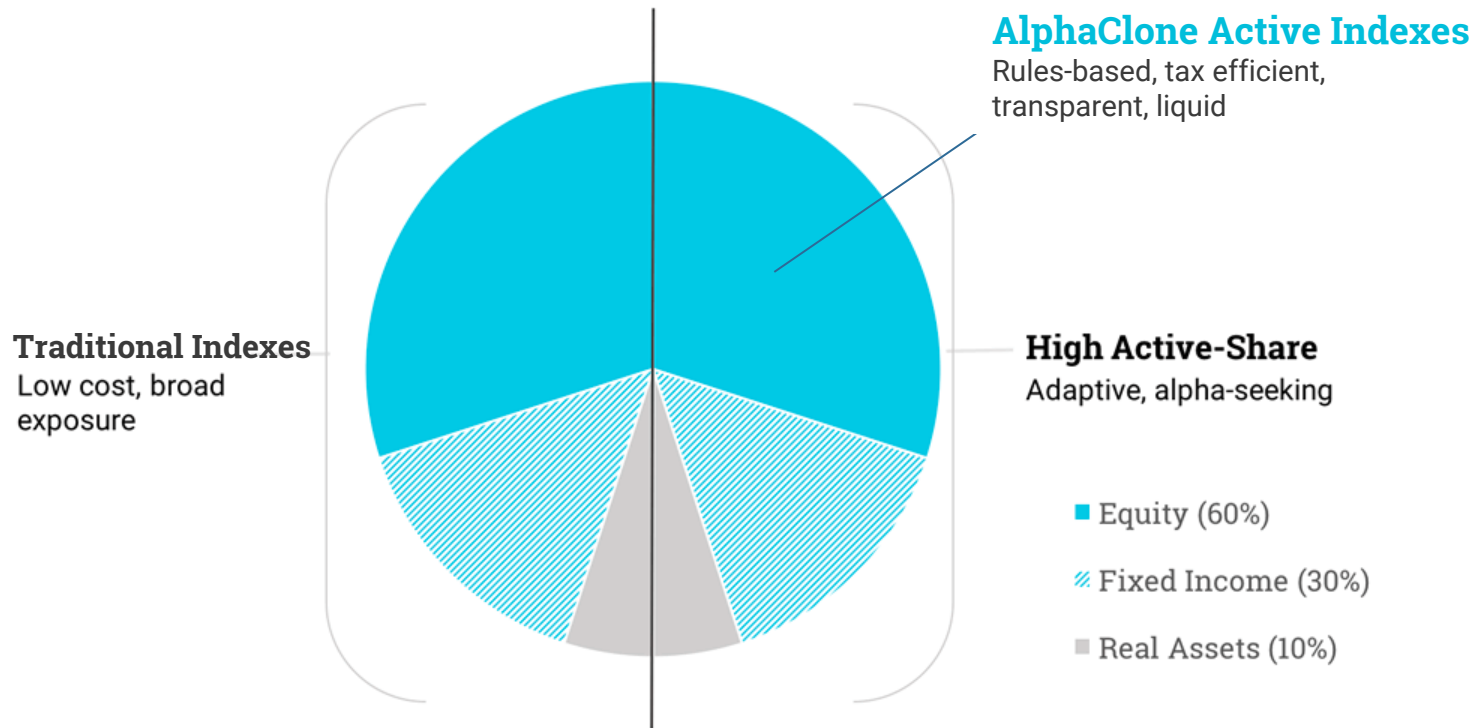
Passive = MSCI All Country World ex-US Index

# How can I use active indexing in my portfolio?

Use active indexes to diversify your investment style exposure while avoiding the inefficiency and high fees of traditional active funds.

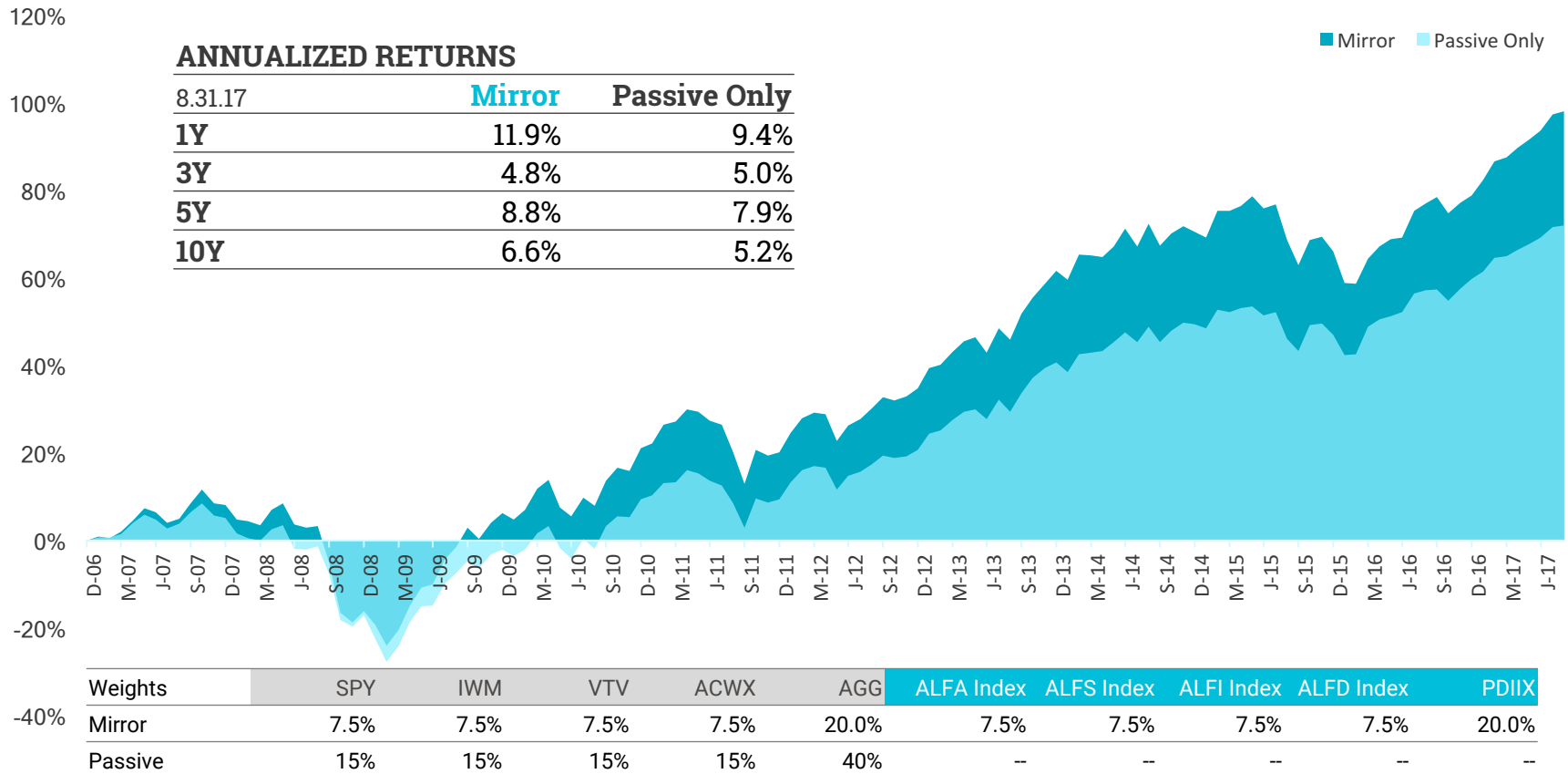
## Mirror Portfolio Objective

Diversify across investment styles.



# Allocating to active indexes can improve your portfolio's long-term results

AlphaClone Mirror Portfolio vs Traditional Passive Portfolio  
 Total Returns; Rebalanced Annually; 12/2006 through 8/2017



Source: AlphaClone. Results are theoretical and for illustrative purposes only.  
 Returns are shown net of fund expenses but gross of advisor management fee.  
 Please see important disclosures section at the end of this document.

# Controlling costs is one of the most important determinants of investment success

The table below summarizes the average fees for a model moderate risk portfolio that invests \$500,000. Fees for the average traditional advisor and fund expenses comes from the 2016 InvestmentNews Financial Study of Advisory Firms, a survey of 500+ RIAs. Fees for Betterment come from an analysis conducted by [Investor Junkie](#).

Annual	Advisor Fee	Fund Expenses	Trading Commission	Investor Total
<b>AlphaClone Mirror</b>	<b>0.19%</b>	<b>0.41%</b>	<b>none</b>	<b>0.60%</b>
Avg. Advisor	1.11%	0.68%	\$5-10/trade	<b>1.79%</b>
Betterment	0.25%	0.15%	none	<b>0.40%</b>

Model Weights	IVV	VO	VEU	BND	GLTR	ALFA	ALFI	DBLFX	AQMIX
AlphaClone Mirror	10%	10%	10%	20%	5%	10%	10%	20%	5%
Passive	20%	10%	20%	40%	10%	--	--	--	--

For illustrative purposes only. In addition to any annual advisor fee earned by AlphaClone for management of a separate account, the firm earns an annual fee from exchange traded funds (ETFs) that track its active indexes (ALFA and ALFI). Please see important disclosures section at the end of this document.

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# How to Invest

# Mirror Portfolios make it easy to incorporate active indexing into your portfolio



## Discover.

We use the latest technology to help you identify your risk tolerance relative to your investment objectives. The first step takes five minutes – try it now.



## Build.

Using exchange-traded funds and mutual funds, we'll build an AlphaClone Mirror Portfolio that aligns with your risk tolerance and investment priorities.



## Implement and track.

We'll then implement your portfolio, rebalancing at least annually to stay tax-efficient.



Please visit  
<http://alphaclone.com/portfolios>

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# Important Disclosures



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AlphaClone, Inc., is registered as an investment adviser with the United States Securities and Exchange Commission (SEC). Registration does not constitute an endorsement of the firm by the SEC nor does it indicate that the Adviser has attained a particular level of skill or ability. Investors should consider a strategy's investment objectives, risks, charges and expenses carefully before investing. The strategy is subject to management risk and an investor's return and principal value of investment may fluctuate, so that an investment, when liquidated, may be worth more or less than their original investment. AlphaClone, Inc., ("AlphaClone" or the "Adviser") Active Indexes are rules-based investment strategies that rely on institutional investor SEC disclosures as a primary source of information. AlphaClone makes no representation or warranty as to the completeness of that information. Overall market risk, including volatility, may affect the value of the individual instruments in which the strategy invests. No current or prospective client should assume future performance of any specific investment strategy will be profitable or equal to past performance levels. All investment strategies have the potential for profit or loss. Changes in investment strategies, contributions or withdrawals may cause the performance results of your portfolio to differ materially from the reported composite performance. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for a client's investment portfolio. Historical performance results for market indices generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment-management fee, the incurrence of which would have the effect of decreasing historical performance results. Economic factors, market conditions and investment strategies will affect the performance of any portfolio and there are no assurances that it will match or outperform any particular benchmark. The S&P 500 Total Return Index is the total return version of the S&P 500 Index which includes the effects of reinvested dividends. The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The Russell 2000 Index is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small-cap stocks in the United States. The MSCI All Country World Index Ex-US is a capitalization-weighted index that tracks international equities. The index serves as a benchmark for foreign equities. The investment strategies and types of securities held by the relevant comparison indices may be substantially different from the investment strategy and the types of securities held by any AlphaClone strategy.

The AlphaClone Hedge Fund Downside Hedged Index (ALPHAACLN) is an index of high conviction equity holdings derived from hedge fund public disclosures and selected by AlphaClone. ALPHAACLN was launched in October 11, 2011 and is calculated by Solactive. The AlphaClone International Downside Hedged Index (ALFIIX) is an index of high conviction ADR holdings derived from hedge fund public disclosures and selected by AlphaClone. ALFIIX was launched on November 5, 2015 and is calculated by Solactive. The AlphaClone Value Manager Index (ALFVIX) is an index of high conviction holdings derived from the public disclosures of value-oriented managers selected by AlphaClone. ALFVIX was launched on September 1, 2016 and is calculated by AlphaClone, Inc.. The AlphaClone Small Cap Index is an index of high conviction small capitalization stocks derived from hedge fund public disclosures and selected by AlphaClone. ALFSIX was launched on September 1, 2016 and is calculated by AlphaClone, Inc. Index calculation methodology can be obtained by downloading the respective indexes' guidelines document or by contacting AlphaClone, Inc. Index performance is presented for general information purposes only. Index performance that is prior to the date each index was launched relates only to a hypothetical model of past performance. Performance does not relate to any asset management products based on any of our indexes. No allowance has been made for trading costs or management fees which would reduce investment performance. Actual results may differ. In addition to any separate account fee earned by AlphaClone for management a separate account, the firm earns a fee from exchange traded funds (ETFs) that track the above indexes.

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# Important Disclosures (cont.)

The performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted. The performance quoted reflects the reinvestment of dividends and capital gains, is net of expenses and, where applicable, does not reflect the maximum sales charge of 5.75%. Such a fee, if taken into consideration, will reduce the performance quoted above.

Investors should consider the investment objectives, risks, charges and expenses of the investment company carefully before investing. The prospectus and, if available, the summary prospectus contain this and other important information about the investment company. Request a prospectus from the offering institution or your financial representative. Read carefully before investing.

Investments in this report are subject to market risk, including the possible loss of principal. It should be assumed that investments listed in this report are not FDIC insured. The value of the portfolio will fluctuate with the value of the underlying securities. Investors should consider an investment's investment objective, risks, charges, and expenses carefully before investing. In the case of mutual funds and ETFs (Exchange Traded Funds) a prospectus is available which contains this and other important information and should be read carefully before investing. Diversification does not ensure a profit and may not protect against loss in declining markets.

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Mutual funds may contain sales charges, expenses, management fees, and breakpoint discounts (quantity discounts); which vary from mutual fund to mutual fund. Therefore, you should discuss these issues with your financial representative and review each mutual fund's prospectus and statement of additional information to get the specific information regarding the charges and breakpoint discounts associated with a particular mutual fund. Please see the mutual fund prospectus and statement of additional information for details about sales charges, expenses, management fees, discount programs (rights of accumulation, letter of intent, breakpoint discounts, etc). A mutual fund's total expense ratio is shown as provided by a third party vendor and may or may not contain fee waivers or expense reimbursements that may be in effect for the fund. Please refer to the fee table in the fund's prospectus.

ETFs trade like a stock, and ETFs may trade for less than their net asset value. See prospectus for details.

Investing often generates tax consequences which are not incorporated in this report.

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