BOSTON HARBOR
INVESTMENT MANAGEMENT

WHITEPAPER

SELECT 40 VS. COMPETING EQUITY AND ALTERNATIVES INVESTMENT STRATEGIES

SELECT 40 is benchmarked to the S&P 500 Index and portfolios are selected only from members of the S&P 500 Index.

Competing equity strategies are large-cap growth, blend, value, and low volatility strategies. For the ten years ended calendar 2012, SELECT 40 outperformed 99.8% of all large-cap mutual funds[1]. SELECT 40 is not selected by style boxes and the portfolios include both growth and value stocks. For the 2013 portfolio SELECT 40 has a growth tilt.

SELECT 40 is differentiated from other low volatility strategies which are expected not to outperform a benchmark, but to instead lower volatility about 33% and thereby increase return per unit of risk while performing similar to the benchmark[2]. SELECT 40 increases return per unit of risk by decreasing volatility and producing excess returns and thereby outperforms the benchmark and generates absolute returns. SELECT 40's high risk-adjusted returns in the 17% range may be captured by applying equity leverage of about 50% to increase volatility to the market level of risk.

SELECT 40 Low Volatility Low Beta Strategy is fundamentally different from all other low volatility, minimum volatility, or managed volatility portfolios that are selected by beta. The SELECT 40 low beta is derived from selecting stocks from the S&P 500 universe that are well-managed, healthy companies with a high probability of sustainable earnings.

SELECT 40's investment process of fundamental, bottoms-up, analysis of all S&P 500 companies in all S&P 500 sectors analyzes the economic drivers of sustainable earnings. SELECT 40's portfolio is not concentrated in financials and utilities, because beta is not used to select low volatility portfolios. The financial and utility sectors are heavily weighted in low volatility portfolios[3] selected by beta. In a rising interest rate environment these high dividend, low total return, portfolios are subject to the same risks as fixed income.

All low volatility strategies share the characteristic that, because of the mathematics of beta, they are expected to underperform in bull markets, outperform in a bear markets, and over the market cycle performance is expected to about balance out to its benchmark. Select 40 shares these characteristics, but, while lagging a little in up markets, it generates strong absolute returns in up markets. The result is strong outperformance over market cycles, because of the strong absolute returns in up markets and strong outperformance in down markets. SELECT 40 provides protection for the portfolio when bad things happen to the market.

For example, SELECT 40 20 years ended December 31, 2012, annualized returns of 11.39% and annualized risk of 10.52% as compared to the S&P 500TR annualized return of 8.22% and annualized risk of 15.12%. SELECT 40 return per unit of risk 1.08 and S&P 500TR 0.54. In the 2008 decline the S&P 500 declined -37.00% and the SELECT 40 -13.81%. Maximum drawdown statics are presented in the chart below:

	Maximum Peak-to-Trough Decline	Peak-to-Peak Duration Months	Start Date	End Date
Event: 2008 Housing Bubble Collapse				
S&P 500 TR	-50.9%	58	Oct - 07	Aug - 12
SELECT 40	-26.6%	18	May - 08	Nov - 09
SELECT 40 50% Equity Leverage	-39.4%	22	May - 08	Mar - 10
Event: 2000 Tech Bubble Collapse				
S&P 500 TR	-43.8%	79	Mar - 00	Oct - 06
SELECT 40	-17.4%	19	Mar - 02	Oct - 03
SELECT 40 50% Equity Leverage	-26.9%	20	Mar - 02	Nov - 03

[1] Morningstar Mutual Fund Screener, March 1, 2013.
[2] Gevorgyan Arman, CFA, "Low Volatility Equity Portfolios," White Paper, RogersCasey, October 2010.
[3] Standard & Poor's Low Volatility Index, April 10, 2013, 31% financials and 15% banks.

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Alternatives:

Alternatives do not compete with SELECT 40. However, SELECT 40 effectively competes with alternatives and with a lower correlation to the S&P 500 (R^2 0.85 as compared to HFRI Equity Hedge Index 0.90) for the five years ended December 31, 2012[4]. SELECT 40 unlevered and levered outperform alternatives for the 10 years ended December 31, 2012, plus SELECT 40 provides immediate liquidity-a huge advantage! Lastly, SELECT 40 leveraged pays a dividend equal to about the S&P 500 times the leverage factor and contributes to investment income while holding a slot in alternatives asset allocation. The chart below presents the 10 year statistics for SELECT 40 unlevered and levered:

SELECT 40 vs. Equity & Bonds	Annualized Returns	Annualized Volatility	Return Per Unit Risk	Liquidity
SELECT 40[1]	11.84%	10.27%	1.15	Ave Mkt Cap $61.3B
S&P 500 TR Index	7.10%	14.77%	0.48	Ave Mkt Cap $27.8B
Barclays U.S. Aggregate Bond Index	5.16%	1.63%	3.17	
SELECT 40 Leverage vs. Alternatives				
SELECT 40 50% Equity Leverage[1]	16.59%	15.48%	1.07	Ave Mkt Cap $61.3B
Hedge Funds[2]	7.80%	12.50%	0.62	
Private Equity[2]	7.90%	26.80%	0.29	

Notes:
1. Hypothetical Returns Net of Fees 1.21% AUM
2. Harvard University Financial Report 2012 - 10 year performance, The Yale Endowment 2012 Annual Report – Volatility Benchmark

PAST HYPOTHETICAL PERFORMANCE IS NOT A GUARANTEE OR A RELIABLE INDICATOR OF FUTURE RESULTS.
All investments contain risks and may lose value.

Conclusion:
Over the last 10 years SELECT 40 has been one of the top 1% performing strategies for U.S. large-cap equities. SELECT 40 with 50% leverage has demonstrated higher total absolute returns with less risk, immediate liquidity and dividends. SELECT 40 with 50% leverage is a good candidate for replacing alternative asset allocations.

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[4] Roche Cullen, "So Much for Non-Correlation in Hedge Funds," Pragmatic Capitalism, July 12, 2013.