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Is it alpha, beta, an expensive false story, or a useful client behavioral management tool?

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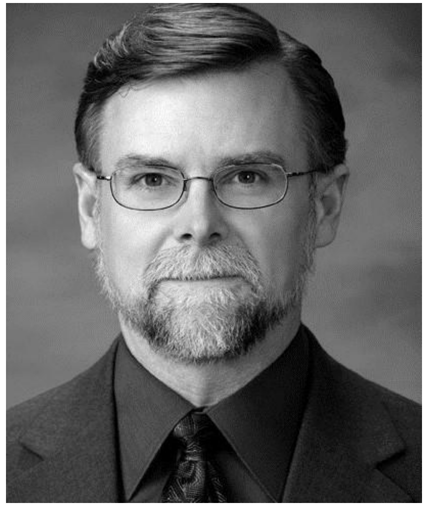

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Why this topic?

- Because it explains
  - How one selects investment management products
  - How difficult the challenge really is
  - The impediments posed by wholesalers, salespeople . . . and short-termism

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There are 4 types of products

- Alpha
- Beta
- Expensive false story
- Useful client behavior management tool

There are 4 types of products

- Alpha
  - Outperformance
  - Beat an appropriate benchmark over an appropriate period
- Beta
- Expensive false story
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There are 4 types of products

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  - Beat an appropriate benchmark over an appropriate period
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  - Passive or Buy&Hold
  - Gain efficient cheap exposure to some asset category
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  - A fancy story with little to no chance of ever succeeding
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- **Useful client behavior management tool**
  - Not alpha or beta
  - Not cheap
  - But useful for mitigating client-based behavioral biases

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There are 4 types of products

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1%
- Alpha
  - Outperformance
  - Beat an appropriate benchmark over an appropriate period

5%
- Beta
  - Passive or Buy&Hold
  - Gain efficient cheap exposure to some asset category

93%
- Expensive false story
  - Expensive, over-priced, or hidden fees and expenses
  - A fancy story with little to no chance of ever succeeding
  - The next hot-story . . . or popular investment theme
  - Sexy stories

1%
- Useful client behavior management tool
  - Not alpha or beta
  - Not cheap
  - But useful for mitigating client-based behavioral biases

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Alpha *just 1%*

Outperformance

Beat an appropriate benchmark over an appropriate period

What is alpha

- Benefit that results from successfully harvesting an isolated mispricing in the market

- The very act of harvesting the mispricing . . . serves to eliminate the mispricing . . . thus eliminating the opportunity

- Therefore . . . such mispricings (opportunities) must be continuously renewed or the investment manager most move on to other markets (populated with different mispricings)

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So to be a successful alpha manager . . . .

- There must be mispricings in the market
- You have to be targeting those mispricings
- You have to be successful with your harvesting

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Alpha that works

- The fishing analogy . . . . if you want to catch fish

- Fish in the right place
  - Lots of fish
  - Or . . . Really really big fish
  - Either quantity or size or both

- Use better equipment that the other fishermen
  - You've got to have a meaningful edge or advantage over the competition

- Don't face too much competition
  - You don't want to fish were everyone else is fishing
  - Otherwise, there's just not enough to go around

- Move on to a new location before all the fish are gone
  - Always be preparing, in advance, to be moving on to a new fishing hole
  - The simple act of fishing removes all of the fish
  - So move on to a new location before all the fish are gone

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Alpha example # 1

JSOSX

Share Class: I

JPMorgan Strategic Income Opportunities Fund

Morningstar Rating: Overall

★★★★ As of 09/30/2022

311 Funds in Category | Category: Nontraditional Bond | Read Morningstar criteria

NAV	YTD	30 DAY SEC YIELD
As of 10/17/2022	As of 10/17/2022	As of 09/30/2022
Change	at NAV	Unsub.
$11.41 $0.00	-0.12%	2.17% 2.04%

Alpha example # 2

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Pioneer High Income Municipal Fund

Y-Share: HIMYX | **A-Share:** PIMAX | **C-Share:** HICMX

The Fund seeks to maximize total return through a combination of income that is exempt from regular federal income tax and capital appreciation. The Fund puts an emphasis on managing downside risk. The Fund aims to invest primarily in the most attractive opportunities in the high yield municipal bond market focused on issues tied to financing the fundamentals of the US economy.

Overall Y Share Morningstar Rating™

★★★★

(out of 190 funds in the High Yield Muni Bond Category)

Alpha example # 3

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Royal Oak
REALTY TRUST

600 East Avenue, Suite 200
Rochester NY, 14607
Phone: (585) 434-1660
www.royaloakrealtytrust.com

ABOUT ROYAL OAK

Royal Oak Realty Trust ("Royal Oak") is a private, non-traded Real Estate Investment Trust (REIT) focused on the acquisition and operation of stabilized, mission critical, industrial and office net leased real estate, leased to credit-worthy tenants on long-term lease contracts. The net lease strategy allows Royal Oak to focus on generating consistent cash flow and providing attractive risk-adjusted returns for our shareholders. The REIT is externally managed by Cambridge Street Asset Management LLC and takes in new, accredited investors on a monthly basis.

6.11% ANNUAL DIVIDEND TARGET

$582M TOTAL CAPITALIZATION

INVESTMENT OPPORTUNITY

ELIGIBILITY
Accredited Investors

MINIMUM DIRECT INITIAL INVESTMENT
$200,000

MINIMUM INITIAL INVESTMENT VIA FINANCIAL ADVISOR
$100,000

DETERMINED SHARE VALUE ("DSV")
$64.50 Per Share

ANNUAL DIVIDEND TARGET
6.11%; Monthly distributions

NEXT INVESTMENT OPPORTUNITY
Monthly closings on 1st of the month

PORTFOLIO SUMMARY

STATES	21
INVESTMENTS	54
SQUARE FEET	6.1M
OCCUPANCY	100%
ANNUAL RENTAL INCOME	$37.3M
REMAINING LEASE TERM	11 Years
ANNUAL RENTAL INCREASES (WTD. AVG.)	2.1%

CAPITALIZATION STRUCTURE[1]

GROWTH OF $100,000 SINCE INCEPTION*

*assumes reinvestment of dividends[2]

126.2% CUMULATIVE RETURN SINCE INCEPTION

29.0% DSV APPRECIATION SINCE INCEPTION

10.5% COMPOUND ANNUAL GROWTH RATE

Alpha example # 4

- Julex Capital ESG individual stock portfolio
- Julex Capital High Dividend individual stock portfolio

Beta *just 5%*

Passive or Buy&Hold

Gain efficient cheap exposure to some asset category

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What is beta

- It's a risk that can NEVER be diversified away . . . you can't get rid of it
  - Equity risk
  - Interest rate risk
  - Inflation risk
  - Default risk
  - Hurricane risk
  - Earthquake risk
  - Crop failure risk
  - Rental income risk

- Because it's impossible to eliminate this risk . . . the market rewards those investors who accept this risk

- So, beta is all about accepting risk . . . . and then being fairly compensated for taking on that risk . . . . in a sense, you are becoming an "insurance provider"

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So to be a successful beta manager . . . .

- Identify a risk . . . that can never be diversified away

- Package up that specific risk
  - Don’t dilute it . . . . maintain purity
  - Stay ultra cost-effective and cheap
  - Remain stable and unerringly consistent/constant in the delivery of this exposure
  - Flawless transparency

- Gather sufficient assets fast enough
  - Requires brutal economies-of-scale
  - You need massive size to make the business work
  - You’re building and selling the ugliest and meanest of commodities

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- The gasoline station analogy . . . . if you want to fill up your gas tank

- Is it gasoline and are they selling the grade you desire
  - Pure, consistent, unvarying product
  - Never any question or doubt about the consistency and dependability of the product
  - Provide the choice (if any) that you desire

- What's the price . . . . *"price is only relevant in the absence of value"*
  - Is it cheap . . . is it the cheapest . . . . since there is "no value"
  - It's a commodity

- Is the gas station at a most convenient location
  - Ease of use and convenience is all important . . . . since there is "no value"
  - Quick in & out, low calorie burn
  - Are there auxiliary benefits, support, or services

- Will the gas station be around for the long-run
  - It's all about economies-of-scale . . . . they need massive heft and scale
  - Your vendor needs to dwarf everyone else . . . . or inevitably they will be gone

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Beta example # 1

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Primary sources of growth

High-level asset category	Ticker symbol	Narrowly-defined asset
U.S. stocks	XLY	Consumer discretionary
	XLE	Energy
	XLF	Finance
	XLV	Health care
	XLI	Industrials
	IYR	Real estate
	XLK	Technology
International stocks	EWZ	Brazil
	EWC	Canada
	FXI	China
	EWG	Germany
	INDA	India
	EWJ	Japan
	EWY	Korea
	EWU	United Kingdom
	EWT	Taiwan
Industrial and agricultural commodities	DBB	Base metals
	PDBC	Diversified commodities
	DBO	Oil

Primary sources of protection

High-level asset category	Ticker symbol	Narrowly-defined asset
Investment grade U.S. bonds	TLT	20+ year Treasury
	IEI	3-7 year Treasury
	IEF	7-10 year Treasury
	TIP	Inflation protected Treasury
	LQD	Intermediate investment grade corp
	AGG	Investment grade govt/corporate
	VCLT	Long-term investment grade corp
	SHV	Short-term Treasury
	ZROZ	Ultra long-term Treasury
Junk bonds	HYG	High yield bonds
Precious metals	GLTR	Diversified precious metals
	GLD	Gold
	PPLT	Platinum

Beta example # 2

PREDEX

At-A-Glance (AS OF JULY 1, 2022)

Fund Facts	
Inception Date	July 1, 2016
Ticker Symbol (Class I)	PRDEX
Distribution Frequency	Quarterly
Assets Under Management	$167 M
Asset Management Fee	0.55%
Liquidity	Quarterly[1]
Pricing	Daily at Net Asset Value (NAV)
Tax Reporting	1099
Fund Adviser	PREDEX Capital Management

Quarterly Distribution[2]

PREDEX paid a quarterly dividend on June 9, 2022 of $0.3425 per share, equating to an annualized distribution rate of 4.25%.

Portfolio Characteristics	
Investment Holdings	25
Number of Properties	4,045
Gross Asset Value	$302 B
Leverage (Weighted Average)	22.3%

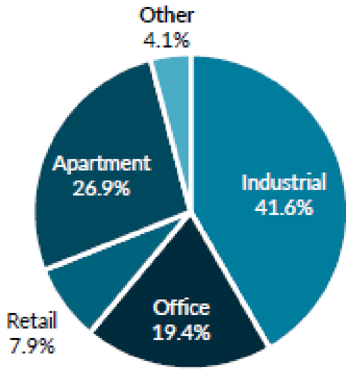
PREDEX – A Gateway to Private Core Real Estate

PREDEX offers access to institutional private core real estate funds with the convenience of an interval fund.

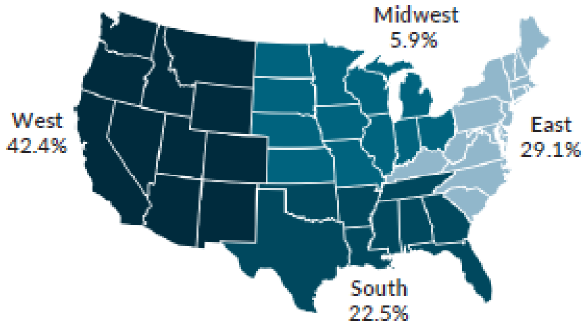
- Invests in the flagship U.S. core property funds managed by the leading institutional real estate sponsors
- Utilizes a low-cost, passive investment strategy
- Low correlation to U.S. equities and traded REITs creates the potential for portfolio diversification benefits[3]

Portfolio Diversification

Property Diversification



Geographic Diversification



Total Returns[4]

Period Ending 6/30/2022	3 Months	1 Year	3 Year	5 Year	Annualized Return Since Inception	Annualized Standard Deviation[5]	Sharpe Ratio[6]
PREDEX Fund – Class I	6.15%	29.63%	12.09%	9.46%	8.14%	0.97%	7.37
Bloomberg U.S. Aggregate Bond Index	-4.69%	-10.29%	-0.93%	0.88%	0.68%	3.96%	-0.08

Beta example # 3

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Dimensional

US CORE EQUITY 2 PORTFOLIO (I)

AS OF SEPTEMBER 30, 2022

ABOUT DIMENSIONAL *

Dimensional is a leading global investment firm that has been translating academic research into practical investment solutions since 1981. Guided by a strong belief in markets, Dimensional offers strategies that focus on the drivers of expected returns. The firm applies a dynamic implementation process that integrates advanced research, methodical portfolio design, and careful execution, while balancing risks, costs, and other tradeoffs that may impact performance. This approach is applied across a full suite of investment strategies to help meet the needs of investors worldwide.

OVERVIEW

Benchmark	Russell 3000 Index
Inception Date	Sep. 15, 2005
Ticker	DFQTX
CUSIP	233203397
Fund Assets Under Management	$26.7 Billion

INVESTMENT OBJECTIVE

The investment objective of the U.S. Core Equity 2 Portfolio is to achieve long-term capital appreciation.

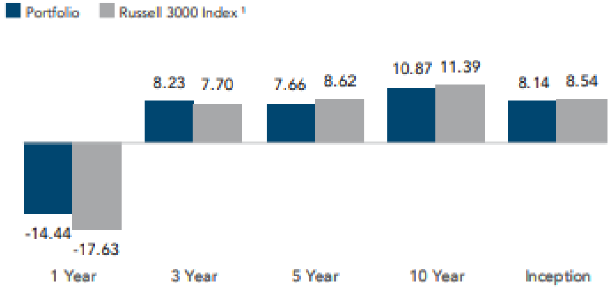
PRINCIPAL RISKS

Because the value of your investment in the Portfolio will fluctuate, there is the risk that you will lose money. An investment in the Portfolio is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Portfolio's principal risks include: equity market risk, small and mid-cap company risk, profitability investment risk, value investment risk, derivatives risk, securities lending risk, operational risk, and cyber security risk. For more information regarding the Portfolio's principal risks, please see the prospectus.

CHARACTERISTICS

Number of Holdings	2,632
% in Top 10 Holdings	17.51
Wtd. Avg. Mkt. Cap. (Millions)	$296,669
Price-to-Book	2.64
Annual Turnover (10/31/2021)	5%

ANNUALIZED PERFORMANCE (%)



CALENDAR YEAR RETURNS (%)

	PORTFOLIO	BENCHMARK
2021	28.51%	25.66%
2020	15.70%	20.89%
2019	29.38%	31.02%
2018	-9.62%	-5.24%
2017	18.94%	21.13%
2016	16.58%	12.74%
2015	-3.07%	0.48%
2014	9.32%	12.56%
2013	37.76%	33.55%
2012	18.08%	16.42%

Performance for the portfolio is reported net of all advisory fees and includes reinvestment of dividends and other earnings. Performance less than one year is not annualized. Performance data shown represents past performance and is no guarantee of future results. Current performance may be higher or lower than the performance shown. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. To obtain performance data current to the most recent month-end, visit us.dimensional.com.

Beta example # 4

- Julex Capital tactical asset allocation series
    - Dynamic series of TAA models
    - Spanning investment time horizons from short (5-10 years) to long (21 years and greater)

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Expensive false story *more than 93%*

Expensive, over-priced, or hidden fees and expenses

A fancy story with little to no chance of ever succeeding

The next hot-story . . . or popular investment theme

Sexy stories

Expensive false story *more than 93%*

- It’s understandable

- You’re trying to sell a commodity . . . but you need a fatter profit margin . . . or lack the economies-of-scale to make a go of it

- So . . . you make up a fancy story
- Draw inappropriate comparisons . . . misleading benchmarks and timeframes
- Hire talented sales folk . . . to push the false narrative
- Hire lawyers . . . to keep the regulators and litigators off your back

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Expensive false story example # 1

- ESG as a durable rewarded non-diversifiable risk factor
- ESG as a rewarded beta
- This is what we see when ESG is packaged up in an ETF
- The only way such a thing could work . . . is for those companies who pursue ESG to be inherently and fundamentally riskier and more likely to fail

Expensive false story example # 2

Artificial Intelligence | Autonomous Vehicles | Fintech | DNA Sequencing | Robotics | 3D Printing

Overview

Type: Active Equity

Typical # of Holdings: 35-55

Inception: Oct. 2014

Portfolio Manager: Catherine Wood

Analysts: Collective Team

Strategy Description

This actively managed equity strategy seeks long-term capital growth by investing in the US listed securities, including ADRs, of companies focused on disruptive innovation. ARK defines "disruptive innovation" as the introduction of a technologically enabled product or service that potentially changes the way the world works. Companies in ARK's cornerstone strategy aim to capture the substantial benefits of new products or services associated with scientific research in DNA technologies, energy storage, the increased use of autonomous technology, next generation internet services, and technologies that make financial services more efficient.

Availability

Strategy	ETF	Managed Account	Mutual Fund	UCITS
ARK Disruptive Innovation	✓	✓	✓	✓

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Expensive false story example # 3

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TI+ BLUEROCK Total Income+ Real Estate Fund

Fund Fact Sheet

Investment Objective

The Bluerock Total Income+ Real Estate Fund ("TI+" or "Fund") is a public, closed-end interval fund utilizing a multi-manager, strategy, and sector approach. The Fund allows individuals to invest in institutional private equity real estate (IPERE) securities alongside some of the nation's largest endowment and pension plans. The Fund's primary investment objective is to generate current income while secondarily seeking long-term capital appreciation with low to moderate volatility and low correlation to the broader markets.

TI+ seeks to provide:

+ Income
+ Capital appreciation and diversification
+ Lower volatility and correlation to the broader markets
+ Access to best in class institutional managers

Strategy

A comprehensive multi-strategy, multi-manager, multi-sector approach, primarily investing in a strategic combination of "best-in-class" institutional private real estate equity securities and public real estate securities.

UNDERLYING PRIVATE PORTFOLIO[1]

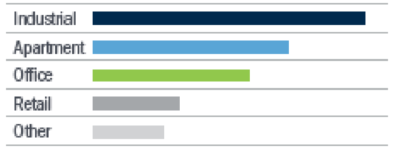
$208 Billion gross asset value

4,200+ properties

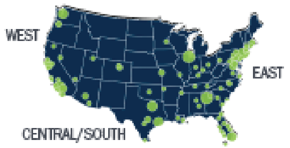
92% occupancy[2]

27% weighted average loan-to-value[3]

Property Sector Diversification



Geographic Diversification



Sample Institutional Manager Diversification

Blackstone · Morgan Stanley · Principal · UBS · Clarion Partners · PGIM

Best-in-Class Subadvisors

MERCER	DWS
$11.6 Trillion in Assets Under Advisement	$800+ Billion in Assets Under Management

Features & Benefits

- STRUCTURE:
  A 1940 Act, continuously offered, non-diversified, closed-end interv fund.
- PORTFOLIO PLACEMENT:
  Core real estate allocation, tax efficient income allocation, total return vehicle, and inflation hedge
- PRICING & LIQUIDITY:
  Daily pricing at Net Asset value (NAV), Quarterly liquidity**

Fund Details

- DISTRIBUTION RATE*:
  5.25% annual; paid quarterly.
- NASDAQ TICKERS:
  A-Shares: TIPRX
  C-Shares: TIPPX
  I-Shares: TIPWX
  L-Shares: TIPLX
- CUSIP:
  A-Shares: 09630D 209
  C-Shares: 09630D 308
  I-Shares: 09630D 407
  L-Shares: 09630D 100
- INCEPTION DATES:
  A-Shares: October 22, 2012
  C-Shares: April 1, 2014
  I-Shares: April 1, 2014
  L-Shares: June 1, 2017
- MANAGEMENT FEE: 1.50%

Expensive false story example # 4

- Tax loss harvesting overlay managers

- All long-only portfolios very quickly become frozen (locked-up) preventing any tax loss harvesting

- It’s one of the more egregious shames . . . eventually attracting SEC enforcement

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Expensive false story example # 5

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- Use of individual bonds instead of efficient bond ETFs and mutual funds

What a serious scam

- The use of individual bonds has driven numerous cases of
  - Congressional hearings . . . and subsequent regulatory actions
  - SEC investigations
  - FINRA actions
- The abuses bred the role of the *"Bond Daddies"*
- Their use can no longer be justified by a fiduciary . . . clear and unambiguous breach
- See https://www.fa-mag.com/news/don-t-equivocate-on-bonds-17754.html
- VERY IMPORTANT NOTE . . . This does not apply to U.S. Treasuries

Useful client behavior management tool *just 1%*

Not alpha or beta

Not cheap

But useful for mitigating client-based behavioral biases

Perhaps . . . . and yes, I think it is true

- Mitigating behavioral bias . . . . is the single greatest source of value-added . . . from the advisor to the client

- Reducing behavioral bias . . . this benefit dwarfs all others combined

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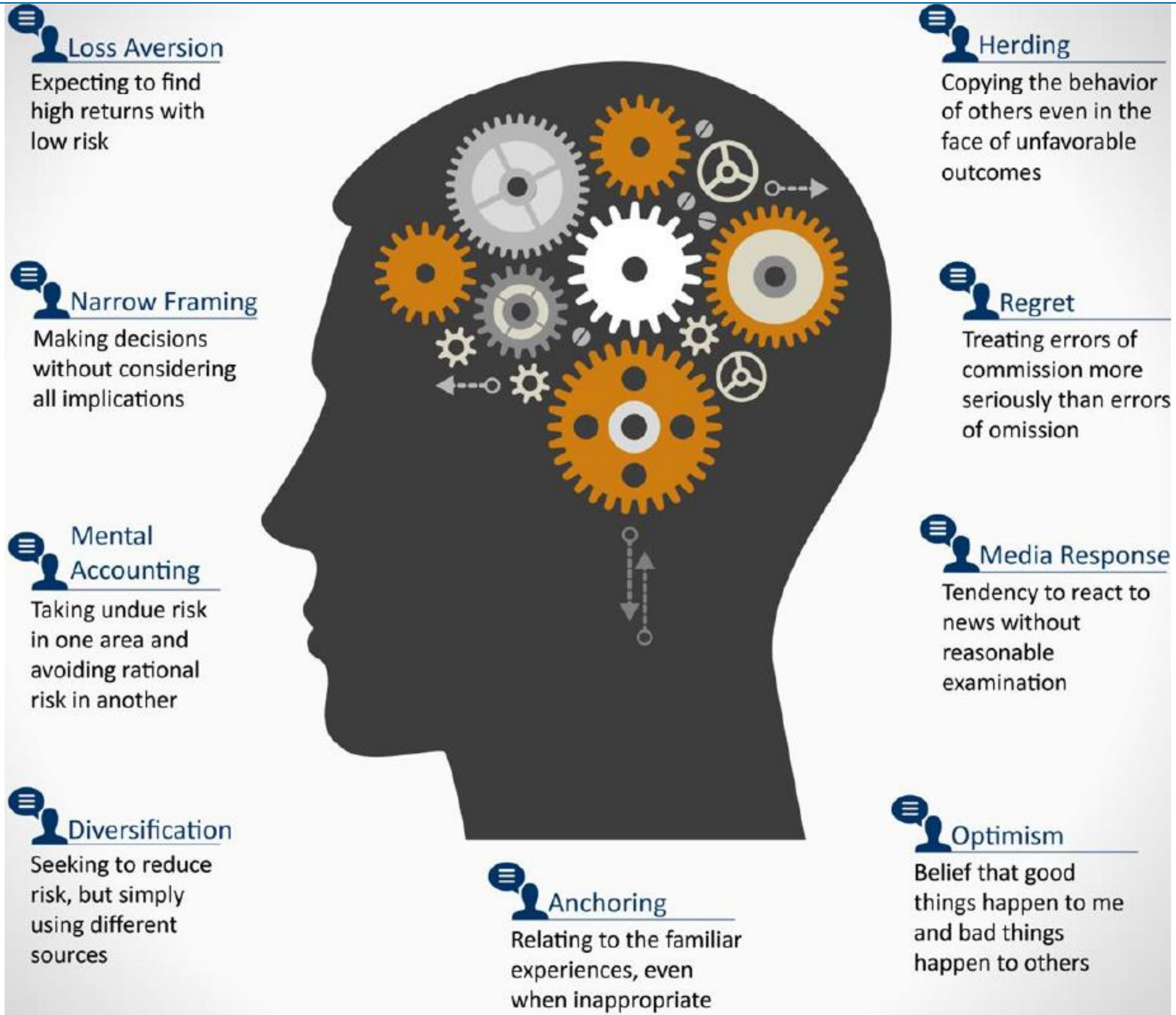
The insidious behavioral biases



The insidious behavioral biases

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Loss aversion

Irrational risk avoidance

Diversification

Not understanding the source of risk reduction

Media response

Listening to the news

Narrow framing

Restricting your information

Anchoring

Tying yourself to an initial perspective

Regret

Would of, could of, should of

Mental accounting

Treating different sources differently

Optimism

Overconfidence and lack of humility

Herding

Following the crowd

Useful client behavior management tool

- Not alpha . . . it will never outperform
- Not beta . . . it's not a cheap, dependable, transparent rewarded risk exposure

- It's expensive, not cheap
- It will underperform
- It might even have rotten tax consequences

- BUT . . . . so what *!!!*
- If it gets your client to . . . better do what they need to do
- Then everyone is better off . . . everyone wins

Useful client behavior management tool

- It’s all about modifying behavior

- And if that costs more in terms of
  - Taxes
  - Fees
  - Expenses
  - Performance

Useful client behavior management tool examples

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- Structured notes
- Immediate fixed annuity
- 5-year ladder of U.S. Treasury bonds
- Muni bonds
- Stock ETF with a built-in floor
  - JP Morgan’s Hedged Equity Fund
  - CBOE Vest U.S. Large Cap 10% Buffer Strategies Fund
- Private investments that aren’t marked to market
  - Thus hiding market movements
  - Venture capital is the perfect example . . . . and real estate limited partnerships
- Target Date Fund used inside of a 401k or 529 plan

For more information contact

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Are bear markets shorter than in the past, and is TAA working more poorly?

Friday

December 2nd

11:00 a.m. EASTERN

Important Disclosures

All data and statistics were provided by Global Financial Data, Inc. and NDR, Inc. (unless otherwise indicated in the exhibit)

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Some part of the investment performance shown is HYPOTHETICAL. It is based on the back tests of historical data. Hypothetical performance results have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular trading program.

One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the presentation of hypothetical performance results and all of which can adversely affect actual trading results.

The composition of a benchmark index may not reflect the manner in which a Julex portfolio is constructed in relation to expected or achieved returns, investment holdings, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility, or tracking error targets, all of which are subject to change over time.

No representation or warranty is made to the reasonableness of the assumptions made or that all assumptions used to construct the performance provided have been stated or fully considered.