



The Long and Short of It

Benefits of an Absolute Return Strategy

January 2012

Presented by Rockledge Advisors

Alternative Strategies through
"Sector Scoring and Allocation Methodology"

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Portfolio manager of the AdvisorShares Rockledge SectorSAM ETF Fund (NYSE: SSAM)

[HTTP://SSAM.ADVISORSHARES.COM](http://ssam.advisorshares.com)

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Rockledge may manage multiple client portfolios based on a similar strategy as the Rockledge L2 strategy or Rockledge Sector Alpha strategy. Portfolios that are managed, based on the L2 or Sector Alpha strategy, may have different results. Currently, there is only one portfolio based on the L2 strategy and one portfolio based on the Sector Alpha strategy, and thus, a composite does not exist.

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- **Introduction to Rockledge team**
- **Importance of Capital Preservation**
- **Defining Alternative Strategies**
- **Discussion of Long/Short and Absolute Return strategies**
- **Review of Sector Dispersion**
- **Use of Alternative Strategies by Institutional Investors**
- **Composition of a successful portfolio**
- **Summary**



Alex Gurvich

Portfolio Manager



Jim Mitchell

Product Manager

A highly experienced institutional money management team

- Rockledge was founded by three investment executives from Cigna Investments, TimesSquare Capital and GE Capital
- Partners have over 45 years of combined capital markets and portfolio management experience
- We have a long and deep experience in managing institutional money in a risk controlled environment

Experts in sector rotation and enhanced index strategies

- Proprietary quantitative sector rotation concepts were initially conceived while managing over \$9 billion in risk controlled portfolios
- Founding partners have a history of managing 8 enhanced index, sector rotation and passive equity and fixed income funds
- Partners have a history managing over \$750 million in alternative portfolios

Successful business

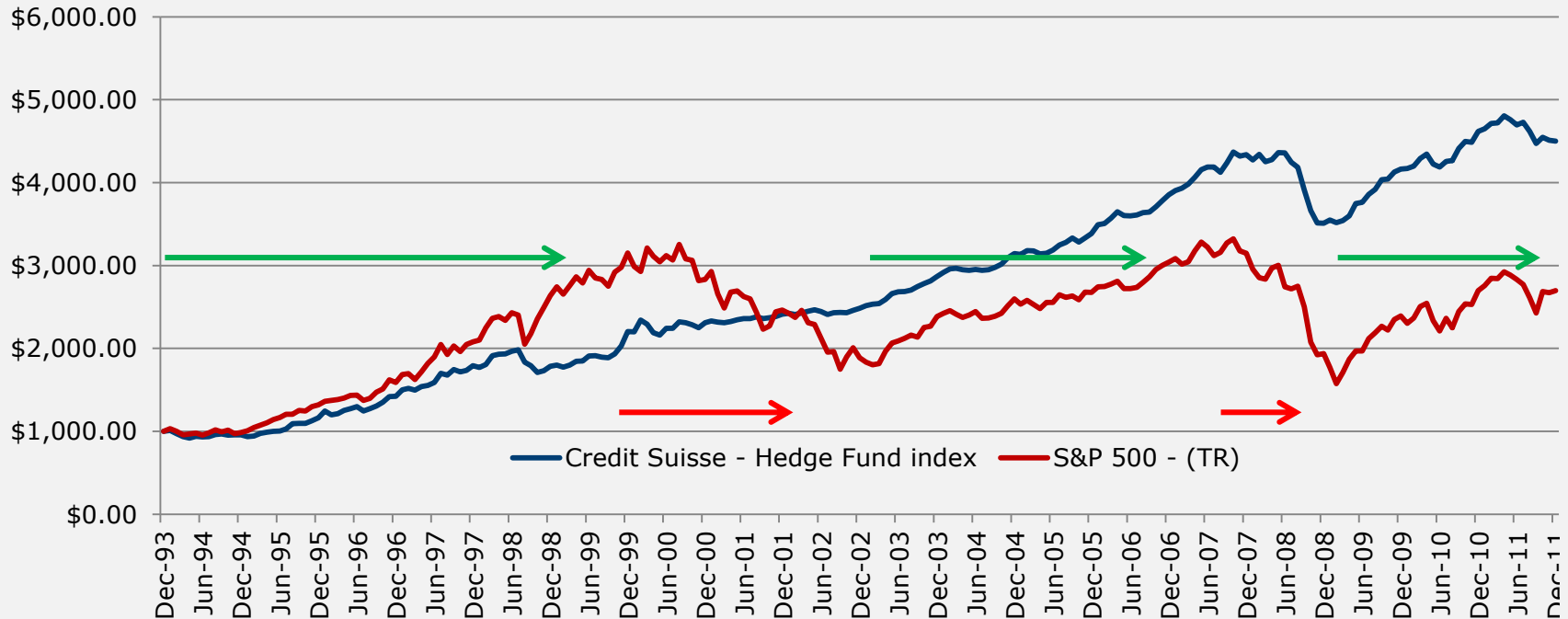
- Longevity – 6 ½ years of successful track record outperforming S&P
- Client base – managing funds for the US and European investors
- Credibility – recognized institutional money management expertise
- Risk aversion mindset – focused on capturing specific market exposures while avoiding downside
- Proprietary forecasting and valuation process – over 20 years of quantitative experience and design of models

Market declines can have a significant impact on long-term investment returns

Market Loss	Required Gain	Time (months)	
		5% Annualized	10% Annualized
-10%	11.1%	23	13
-20%	25%	54	27
-30%	42.9%	86	43

- When the S&P falls 20%, it takes a subsequent 25% return to fully recover
- At a 5% annualized return, this recovery could take 54 months
- With a 10% annualized return, this could take 27 months

Hedge fund index outperforms S&P 500



- Dow Jones / Credit Suisse Hedge Fund Index, since 1994, has outperformed the S&P 500, exhibiting lower volatility in returns, and lower correlation
- Hedge fund index, on average, delivered 350% return vs. the S&P's 170% return
- Hedge fund index has half the volatility and a correlation of 0.55 to the S&P

Up and Down Capture through different market periods.

Jan 94 to Aug 00	CS-HF	132.00%	Dec 07 to Jan 09	CS-HF	-19.68%
	SP500	225.37%		SP500	-41.70%
Sep 00 to Mar 03	CS-HF	9.50%	Feb 09 to Dec 11	CS-HF	28.52%
	SP500	-44.11%		SP500	38.05%
Apr 03 to Nov 07	CS-HF	72.50%			
	SP500	84.20%			

Alternative investments augment traditional portfolios as they are typically non correlated

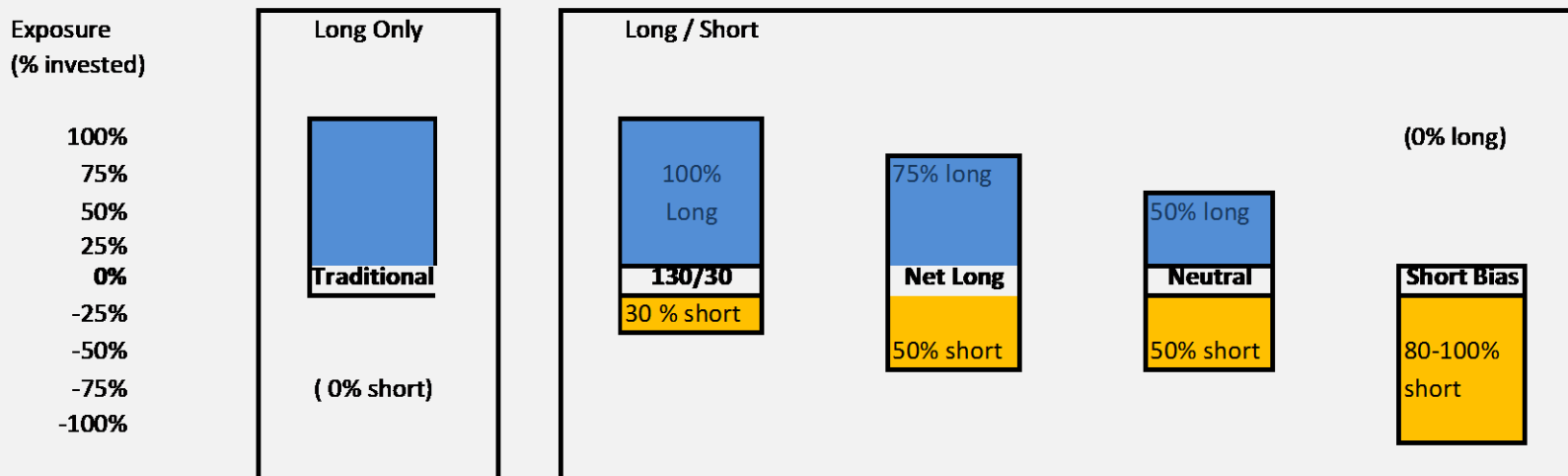
“Alternative investments differ widely in their composition and scope - including vehicles such as hedge funds, real estate, precious metals, managed futures, private equity and commodities. These investments are typically characterized as having low correlation to traditional investments - that is, their movements are generally unrelated. This low correlation may serve to “hedge” or help protect traditional portfolios during sideways or down markets. Asset classes that are not correlated generally do not move in tandem with each other - or, when the market moves down, these asset classes may not fall as much as the market in general.”

-- Rydex - *S&P; Essentials of Alternatives 2012*

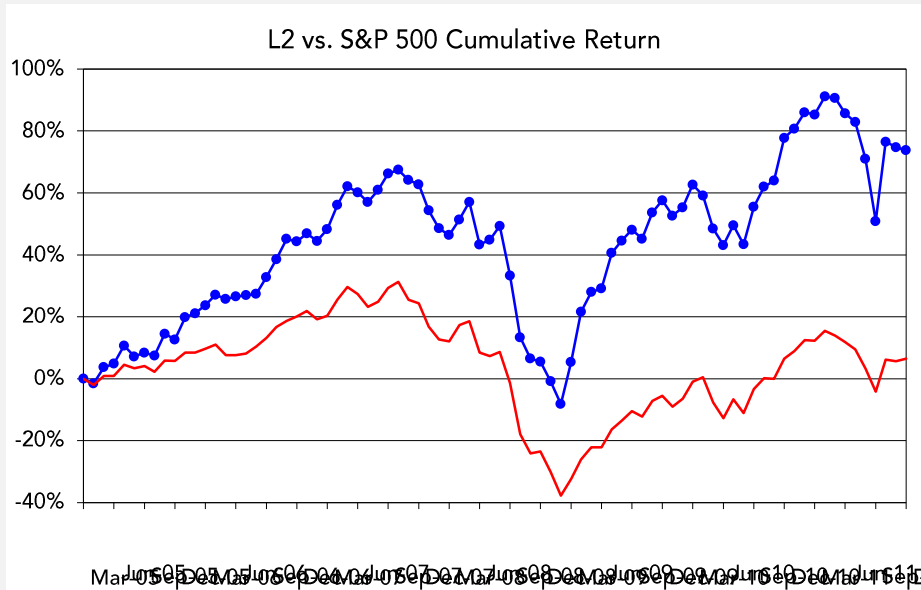
- Long/Short investing is about managing investment risk
- Short position helps investor to ‘hedge’ a particular position
- Long/Short strategies are often called ‘Hedged Strategies’ or ‘Alternative Strategies’

Long / Short investing allows a manager to potentially benefit from rising and falling markets

Examples of different Long and Long - Short Exposures

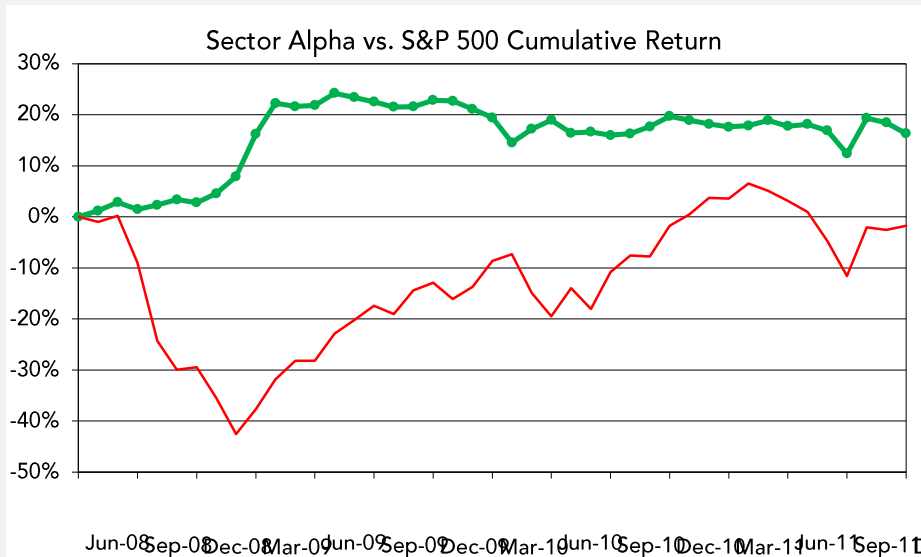


- Typically, a “Long-only strategy” invests in things the manager believes will go up more than its benchmark
- “Long / Short” strategies may have variable long and short exposures
- “Long / Short” strategies are generally benchmark agnostic which is why they are often called “absolute return”



Relative Return Strategy

- Strategy is designed to outperform S&P 500
- Strategy is strongly correlated to the S&P 500
- Strategy has similar beta to S&P 500
- Actual results of Rockledge "L2" Long Only strategy in a separately managed account



Absolute Return Strategy

- Strategy is designed to deliver cash plus several hundred basis points
- Strategy is uncorrelated to the S&P 500
- Strategy has almost no beta
- Actual results of a Rockledge "Sector Alpha" Absolute Return strategy in a separately managed account

Dispersion of sector returns provide continuous over- and underperformance

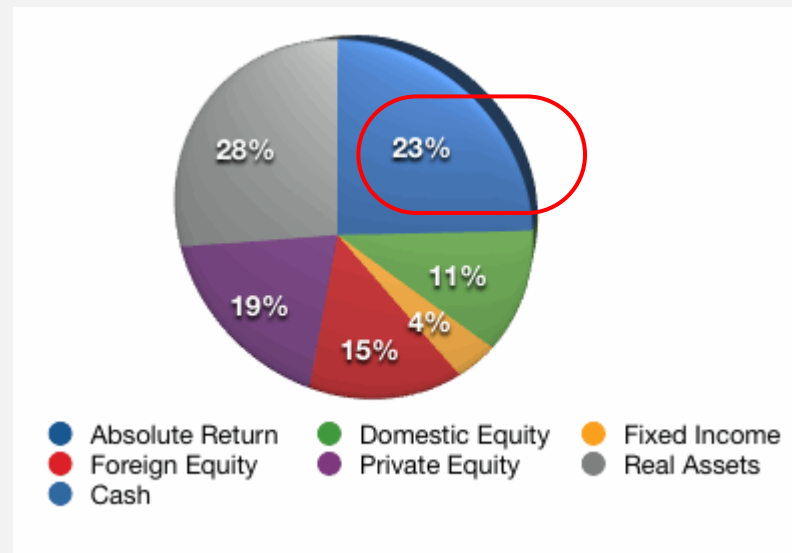
Index	Symbol	Holdings	% S&P 500	2006	2007	2008	2009	2010	2011
S&P 500 ETF	SPY	500	100.0%	15.2%	5.1%	-36.8%	26.3%	14.6%	1.9%
Materials	XLB	30	3.4%	Utilities 19.8%	Energy 36.9%	Consumer Staples -15.7%	Technology 51.4%	Industrials 27.4%	Utilities 19.7%
Energy	XLE	42	11.9%	Consumer Discretionary 18.0%	Materials 22.1%	Health Care -23.8%	Materials 48.2%	Consumer Discretionary 27.2%	Consumer Staples 14.1%
Financials	XLF	81	14.2%	Financials 18.0%	Utilities 18.4%	Utilities -28.9%	Consumer Discretionary 40.6%	Energy 21.4%	Health Care 12.4%
Industrials	XLI	61	10.3%	Energy 17.3%	Technology 15.5%	Consumer Discretionary -33.5%	Industrials 22.1%	Materials 20.3%	Consumer Discretionary 6.0%
Technology	XLK	79	21.9%	Materials 17.1%	Industrials 13.5%	Energy -39.3%	Energy 21.8%	Consumer Staples 13.3%	Energy 2.8%
Consumer Staples	XLP	42	12.2%	Consumer Staples 13.9%	Consumer Staples 12.7%	Industrials -39.3%	Health Care 19.5%	Financials 11.7%	Technology 2.6%
Utilities	XLU	33	3.7%	Industrials 12.6%	Health Care 7.2%	Technology -41.8%	Financials 17.6%	Technology 11.0%	Industrials -1.1%
Health Care	XLV	52	11.6%	Technology 11.5%	Consumer Discretionary -13.7%	Materials -44.7%	Consumer Staples 14.3%	Utilities 4.4%	Materials -10.9%
Consumer Discretionary	XLY	80	10.8%	Health Care 6.7%	Financials -19.2%	Financials -54.9%	Utilities 11.7%	Health Care 2.9%	Financials -17.1%
Average Sector Return				15.0%	10.4%	-35.8%	27.4%	15.5%	3.2%
Max-Min Dispersion				13.1%	56.0%	39.2%	39.6%	24.5%	36.8%

- The main premise of the sector allocation stems from the belief that there will always be outperformance and underperformance of sectors within the S&P 500
- During 2008-2010 years of high correlation, sector dispersion was between 25-40%

CalPERS current asset allocation mix by market value and policy target percentages as of September 30, 2011

Asset Class	Actual Investment (\$ Billions)	Actual Investment (percent)	Strategic Target % ¹
Growth	\$134.7	62.00%	64.00%
Public Equity	\$100.5	46.00%	50.00%
Private Equity	\$34.2	16.00%	14.00%
Income	\$41.3	19.00%	19.00%
Liquidity	\$9.0	4.00%	4.00%
Real Assets	\$22.1	10.00%	10.00%
Real Estate	\$19.1	9.00%	8.00%
Forestland/Infrastructure	\$3.0	1.00%	2.00%
Inflation	\$7.0	3.00%	3.00%
Absolute return	\$5.3	2.00%	n/a
Total Fund	\$219.4	100.00%	100.00%

Chart: The Yale Model asset allocation



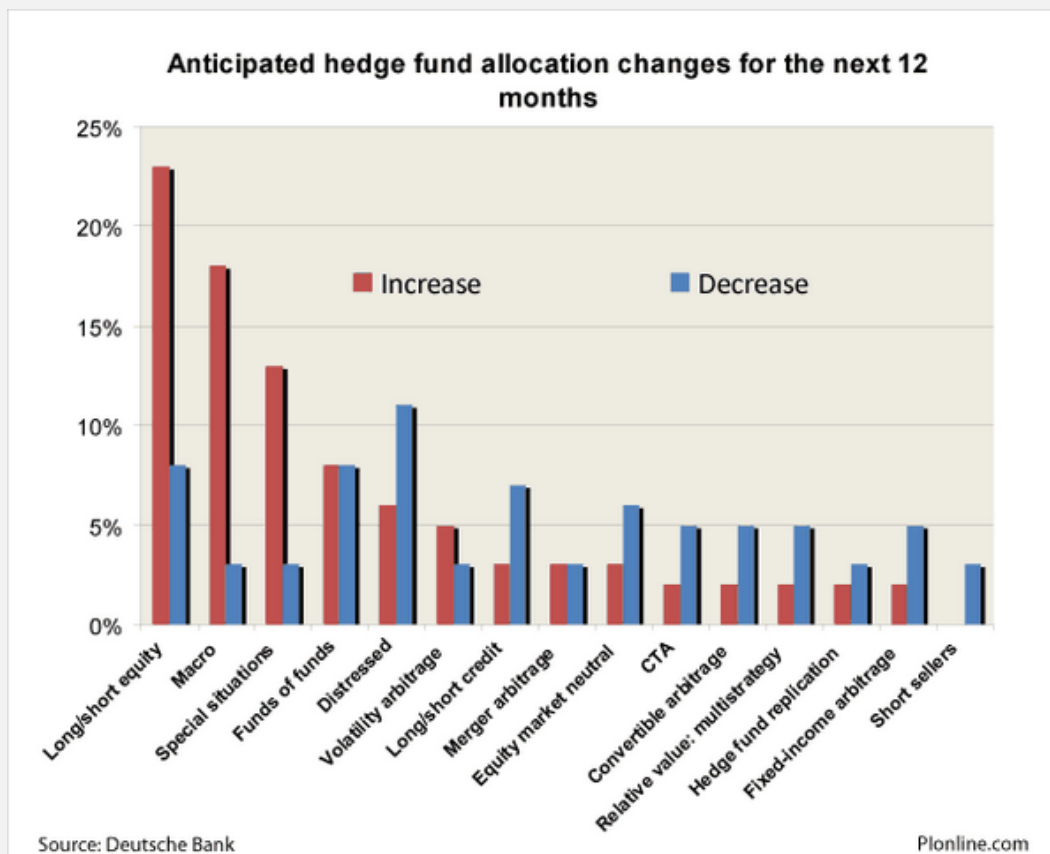
Source: www.thedividendguyblog.com

Asset Class	Typical Allocation	Expected Return
Equity - Domestic & International	52%	7.5 – 9.5%
Fixed Income	28%	4.5 – 7.5%
Real Estate	5%	8.0%
Alternative Assets	14%	6.0 – 8.5%
Cash / Cash Equivalents	1%	3.5%
Weighted Average Expected Return		7.0%
Median Expected Return Assumption		8.0%

Source: J.P. Morgan Investment Analytics & Consulting estimates

Asset Class	1980	1984	1988	1995	1999	2002	2010
Domestic Equity	66%	47%	46%	38%	24%	15%	11%
Foreign Equity	0%	0%	0%	20%	24%	15%	22%
Private Equity	0%	7%	12%	12%	12%	13%	13%
Real Assets	0%	3%	5%	15%	17%	29%	23%
Fixed Income	34%	43%	37%	17%	17%	16%	15%
Alternative	0%	0%	0%	0%	6%	12%	16%
Total	100%	100%	100%	100%	100%	100%	100%

Source: Harvard University, Annual Report of the Harvard Management Company, September 2009.



- Deutsche Bank's 2011 Institutional Survey revealed that 25% of institutional investors plan to increase allocations to hedge funds over the next 12 months
- Long/short equity and macro funds appear to be best positioned for growth, while distressed and funds of funds may see the greatest decreases

Public pension plans, college endowments and corporate plans have grown their Alternative / Absolute Return allocations meaningfully over the years

General Motors has become the largest U.S. pension fund investor in hedge funds

By Christine Williamson , Feb 7, 2011

General Motors Co. has become the largest U.S. pension fund investor in hedge funds and possibly the biggest in the world — after nearly doubling its allocation during the past five years.

US pension funds set to increase investment allocations to hedge funds

March 1, 2011

US pension funds are increasing investment in hedge funds and starting to consider smaller funds if they demonstrate sharp presentation skills and ensure mutual interests are aligned.

US pension funds have been allocating to hedge funds for some time. Californian Public Employees' Retirement System (Calpers) made its first allocation to hedge funds in 1991, paving the way for a number of others to follow suit. Calpers' total allocation to hedge funds is around 5% or \$5.4 billion of its global equity allocation. This could rise to 8%.

New Jersey To Double Hedge Fund Allocations

Posted on March 21, 2011 from HFMWeek

The \$71.6bn New Jersey State Investment Council is set to boost its allocation to hedge funds once again, as it prepares to approve new legislation which will more than double the amount it can allocate to the sector.

Rhode Island Latest State to Kick Start Hedge Fund Investment Allocation

October 28th, 2011 EST

The \$6.5B State Investment Commission of Rhode Island has identified six managers who could kick start its first hedge fund investment programme, *HFMWeek* can exclusively reveal ... six funds, which would be divided between the global equity and absolute return buckets...

Kentucky Uni endowment doubles hedge fund target

06/04/2011 Author: Shannon Hawthorne

The \$920m University of Kentucky Endowment Fund has doubled its target allocation to hedge funds, *HFMWeek* has learned. The endowment fund, which has been investing in hedge funds since 2009, increased its target allocation from 10% to 20% in December last year, following a recommendation made by investment consulting firm RV Kuhns & Associates in September...

Professional allocators provide an example

ASSET ALLOCATIONS FOR LARGE ENDOWMENTS, AVERAGE EDUCATION ENDOWMENT, AND ESTIMATED RETURN FROM JUNE 2008–JUNE 2009

Endowment	Hedge Funds	Domestic Equity	Bonds	Foreign Equity	Private Equity	Real Assets	Cash
Harvard	18%	11%	11%	22%	13%	26%	-3%
Yale	25%	10%	4%	15%	20%	29%	-4%
Princeton	24%	7%	2%	12%	29%	23%	2%
Stanford	18%	37%	10%	N/A	12%	23%	N/A
Avg. Education Endowment	22%	22%	12%	20%	9%	14%	2%
Estimated Return since June '08–June '09	-20%	-27%	6%	-31%	-50%	-47%	2%

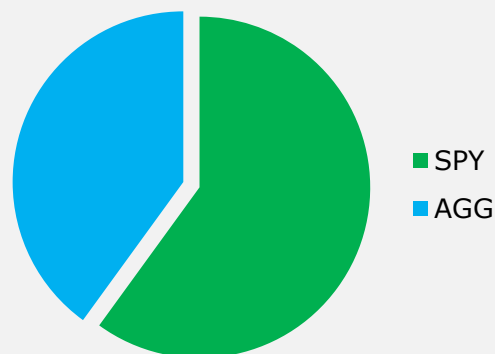
Source: Bary. (2009)

- Harvard and Yale have been very visible with their allocation methodology
- RIAs have adopted the “Endowment Model” when allocating assets for their clients

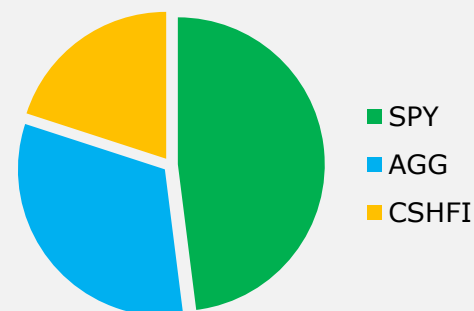
Asset Returns

Asset	Ticket	Return	Volatility	Worst Month
S&P500 - Total Return	SPY	24.8%	15.4%	-16.9%
Barclays Aggregate Bond index	AGG	50.0%	4.2%	-2.8%
Credit Suisse Hedge Fund Index	CSHFI	66.4%	6.3%	-6.6%

60/40 Traditional Portfolio Allocation



48/32/20 Alternative allocation portfolio



Alternative Portfolio

Statistic	Traditional Allocation	Alternative Allocation
Return	40.7%	45.6%
Volatility	9.3%	8.3%
RAR	0.6%	0.7%
Worst	-10.2%	-9.4%

- Returns: Higher return by 12%
- Volatility: Reduced standard deviation by 10%
- Risk: Risk adjusted return increase by 25%
- Better downside protection

	Alternative Investment Long - Short (Hedge Fund)	Traditional Investment Long-Only (Active)	Traditional Investment Long Only (Passive)	Alternative Investment Long - Short (Active ETF)
Objective	Absolute Return (seeks positive returns regardless of market direction)	Relative Return (seeks to outperform a specific index)	Relative Return (Seeks to replicate a specific index)	Absolute Return (Seeks positive returns regardless of market direction)
Marketplace	Private Placements (Investor qualification required)	Public / Private Mutual Funds / Separately managed accounts	Publicly traded Mutual Funds / ETF	Publicly Trades Mutual Funds / ETF
Seeks	Minimize loss of capital	Outperform specific index	Match specific index	Minimize loss of capital
Fund Fees:	High	Medium	Low	Medium
Management-	Generally 2% (range 1.5% to 5%)	0.75% to 1.5% depending upon style and structure	0.15% to 0.50%	Average 1.5%
Performance -	Generally 20% of any profits	Typically none	None	None
Liquidity	Generally quarterly with notice periods required (Qly + 30 days)	Mutual funds daily Separate accounts negotiated	Daily	Daily
Transparency	Limited	Typically quarterly	Daily	Daily
Ability to Hedge	YES	Seldom	Seldom	YES
Example	George Soros Quantum Fund Julian Robertson's Tiger Fund	Bill Miller's Legg Mason Value Fidelity Magellan Fund	S&P 500 Index Barclays Aggregate Bond	AdvisorShares Rockledge SectorSAM (SSAM)

- **Preservation of the capital is the name of today's game**
- **Sophisticated institutions focus on asset allocation**
- **Successful endowments employ alternative strategies to diversify their portfolios**
- **Diversification means utilizing non-correlated strategies**
- **Examples of non-correlated strategies are Long/Short and Absolute Return strategies**

The Long and Short of It is "Both Long and Short Works"



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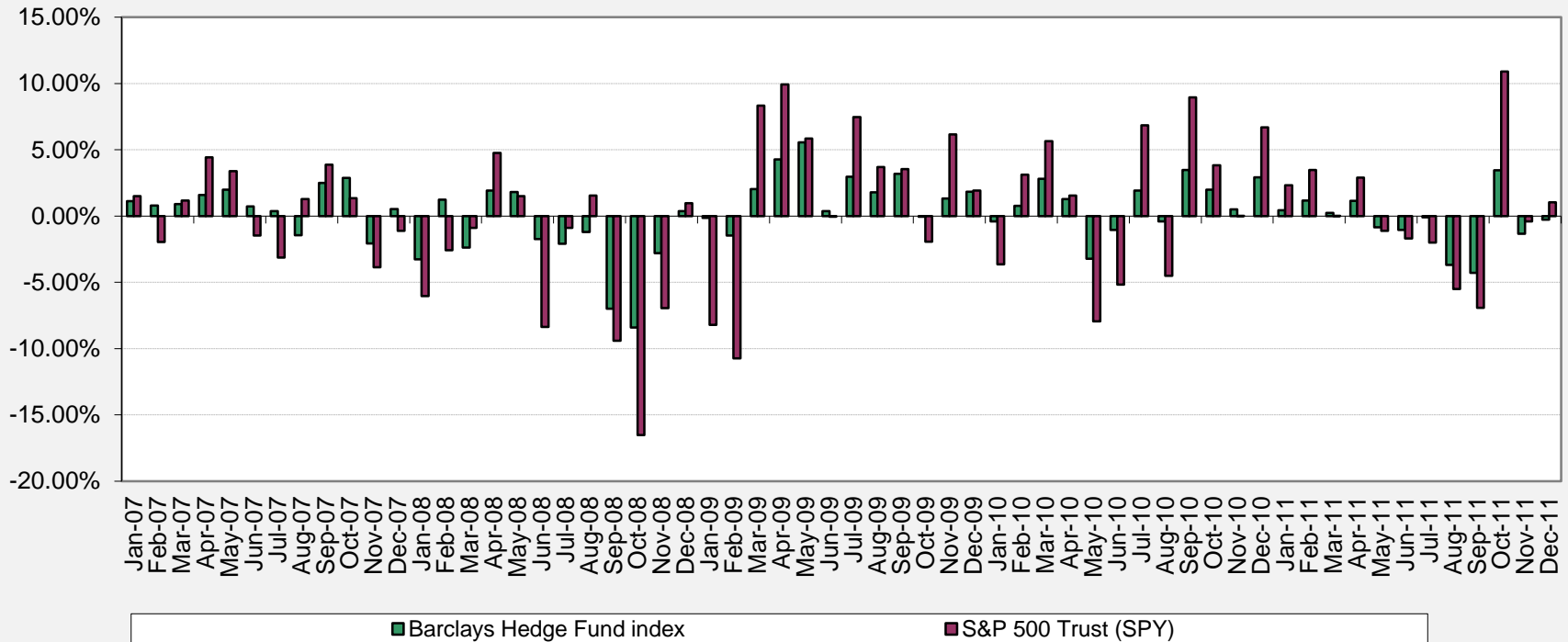
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Index of hedge funds helps show why these strategies work

**Barclays Hedge Fund Index
Performance in Up and Down Markets**



- On average, the hedge fund captured 30% of the positive returns of the S&P500 and only participated 50% of the losses
- Index gained over 12% vs. the S&P's loss of -1.95%.

- Strategy results are in line with the principles of academic research by Brinson, Hood and Beebower ¹, and Vardharaj and Fabozzi ², that proper asset class selection is responsible for the greater part of overall investment results
- Economic sector influences dominate individual stock performance in delivering returns to capitalization weighted portfolios
- Consistent Alpha Availability through economic and stock market cycles which continuously provide relative sector variation

1: "Determinants of Portfolio Performance", by Gary P. Brinson, L. Randolph Hood and Gilbert L. Beebower, Financial Analysts Journal, July-August 1986

2: "Sector, Style, Region - Explaining Stock Allocation Performance", by Raman Vardharaj and Frank J. Fabozzi, Financial Analysts Journal, May/June 2007

Rockledge

Apply dynamic hedging (Sector Alpha)
Use total market hedge, not specific sector bets

Focus on individual sectors only, based on Economic and Business Cycles

Create nine proprietary financial models, one for each economic sector, with different factors for each sector

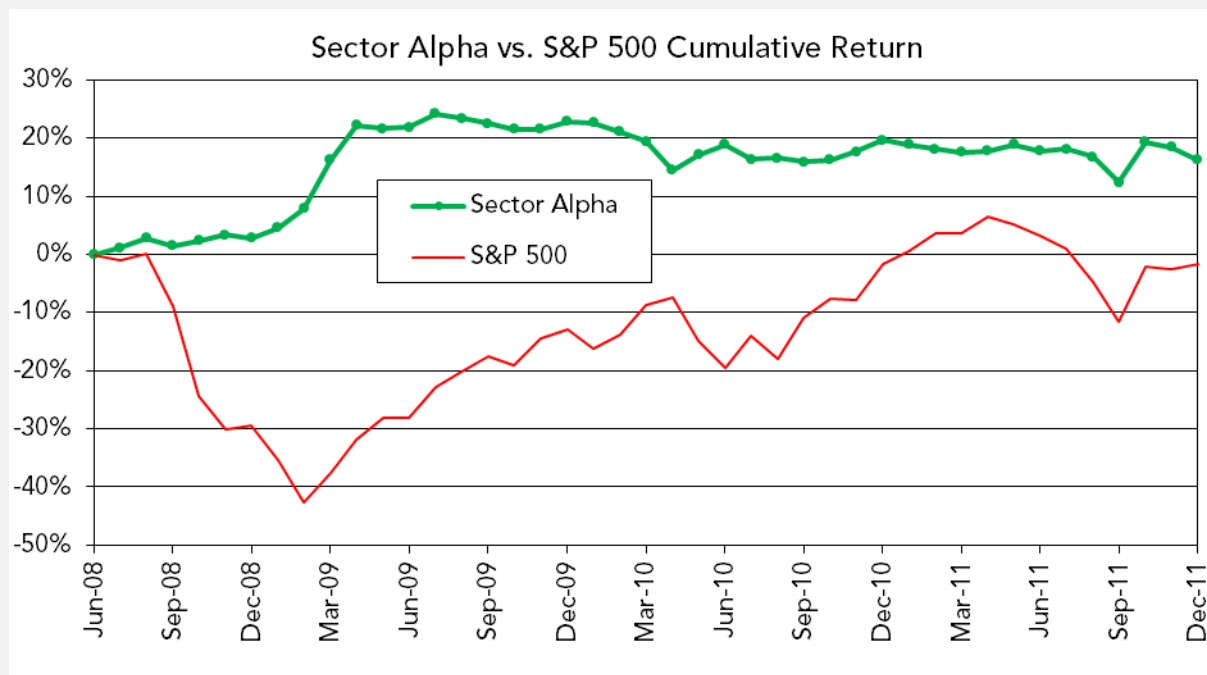
Combine all three Fundamental (bottom up), Macroeconomic (top down) and Technical (price driven) approaches

Execute using sector ETFs or baskets of stocks mitigating company specific risk

Others

- Active risk on both long and short sides of the portfolio
- Top down macro, country, sector, commodities approach
- Rely on single model based on only one set of factors to rank all sectors
- Pursue only one approach, either Fundamental factors, Macro business cycle or Technical indicators
- Use various assets while assuming significant company specific risk

Sector Alpha (Long/Short)



Statistics	SA
December 2011	-1.80%
YTD	-2.82%
Last Twelve Months Annualized	-2.82%
Since inception (7/2008)	16.33%
Up months	22
Down months	20
Average monthly gain	0.38%
Average up month	1.84%
Average down month	-1.22%
Monthly maximum	7.74%
Monthly minimum	-4.08%
Max drawdown	-6.87%
Volatility	7.77%

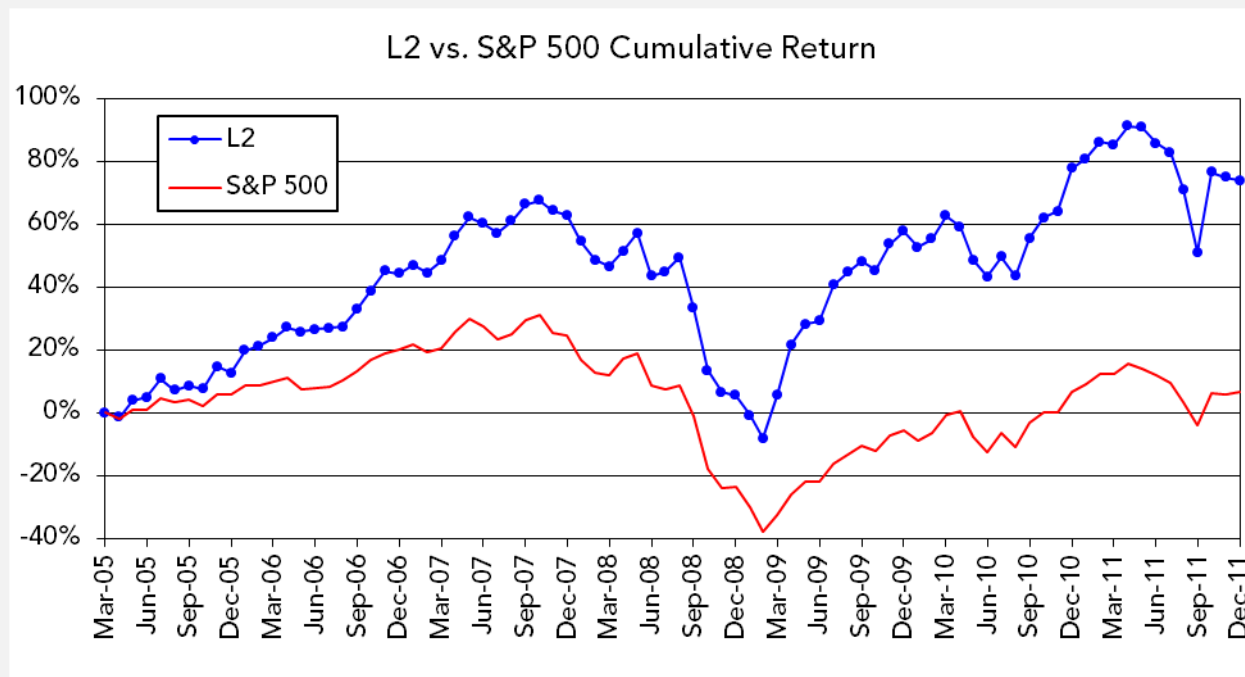
Risk Measures	SA
Correlation to S&P 500	0.19
Sharpe ratio	0.57
Alpha (monthly)	0.37%
Beta	0.07
Months since inception	42

Sector Alpha	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	-0.64%	-0.63%	-0.48%	0.21%	0.88%	-0.95%	0.32%	-1.08%	-3.85%	6.19%	-0.73%	-1.80%	-2.82%
2010	-0.11%	-1.29%	-1.40%	-4.08%	2.30%	1.51%	-2.15%	0.20%	-0.56%	0.26%	1.20%	1.71%	-2.55%
2009	1.71%	3.19%	7.74%	5.18%	-0.53%	0.19%	1.94%	-0.65%	-0.70%	-0.82%	0.04%	1.03%	19.49%
2008							1.18%	1.64%	-1.32%	0.84%	1.03%	-0.57%	2.80%

Actual results since inception (July 2008), Audited to February 2011, without short stock rebates, returns are gross of management and performance fees, net of brokerage fees

The performance presented by Rockledge is before deducting investment advisory fees but is net of transaction costs. Client returns will be reduced by advisory fees and other expenses. The client is referred to the Firm's Brochure for a full disclosure of the fee schedule. As fees are deducted quarterly, the compounding effect will be to increase the impact of the fee by an amount directly related to the gross account performance

L2 (Long Only)



Statistics	L2	S&P 500
December 2011	-0.55%	0.85%
YTD	-2.21%	0.00%
Last Twelve Months	-2.21%	0.00%
Annualized	8.53%	0.94%
Since inception (4/2005)	73.79%	6.52%
Up months	46	47
Down months	35	34
Average monthly gain	0.83%	0.19%
Average up month	4.24%	3.24%
Average down month	-3.66%	-4.01%
Monthly maximum	16.99%	10.77%
Monthly minimum	-14.95%	-16.83%
Max drawdown	-46.09%	-33.52%
Volatility	18.59%	16.61%

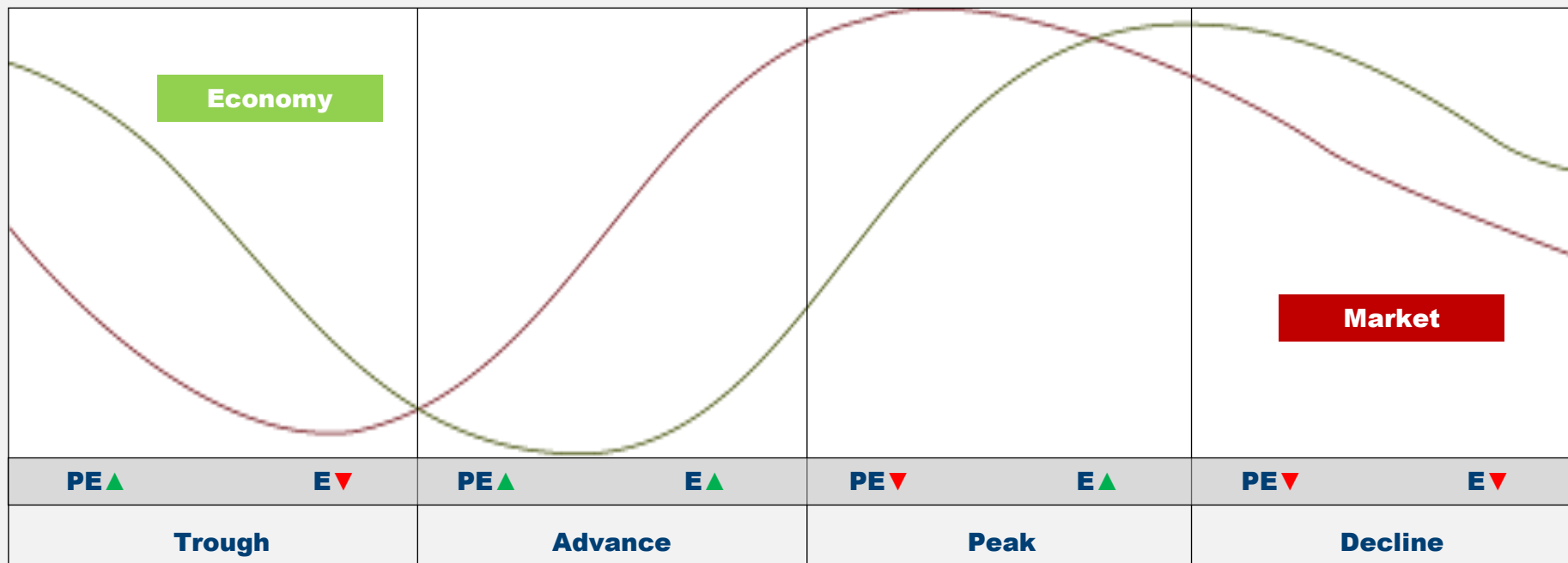
Risk Measures	L2
Correlation to S&P 500	0.94
Sharpe ratio	0.46
Alpha (monthly)	0.62%
Beta	1.05
Months since inception	81
Outperformed S&P 500	64.2%

L2	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	L2	S&P 500
2011	1.71%	2.91%	-0.40%	3.14%	-0.22%	-2.60%	-1.54%	-6.51%	-11.74%	16.99%	-1.00%	-0.55%	-2.21%	0.00%
2010	-3.15%	1.76%	4.73%	-2.18%	-6.70%	-3.60%	4.47%	-4.11%	8.44%	4.19%	1.20%	8.41%	12.76%	12.78%
2009	-6.01%	-7.40%	14.74%	15.41%	5.27%	0.88%	8.90%	2.82%	2.41%	-1.95%	5.85%	2.56%	49.39%	23.45%
2008	-5.15%	-3.75%	-1.49%	3.42%	3.77%	-8.76%	1.06%	3.09%	-10.73%	-14.95%	-6.08%	-0.92%	-35.17%	-38.49%
2007	1.79%	-1.66%	2.64%	5.33%	3.79%	-1.17%	-1.99%	2.52%	3.27%	0.73%	-1.96%	-0.86%	12.77%	3.53%
2006	6.38%	1.10%	2.12%	2.75%	-1.10%	0.66%	0.32%	0.33%	4.27%	4.37%	4.71%	-0.57%	28.11%	13.62%
2005				-1.52%	5.31%	1.11%	5.54%	-3.18%	1.19%	-0.90%	6.58%	-1.65%	12.64%	5.73%

Actual Results since Inception (April 2005), Audited to February 2011, returns are gross of management and performance fees, net of brokerage fees

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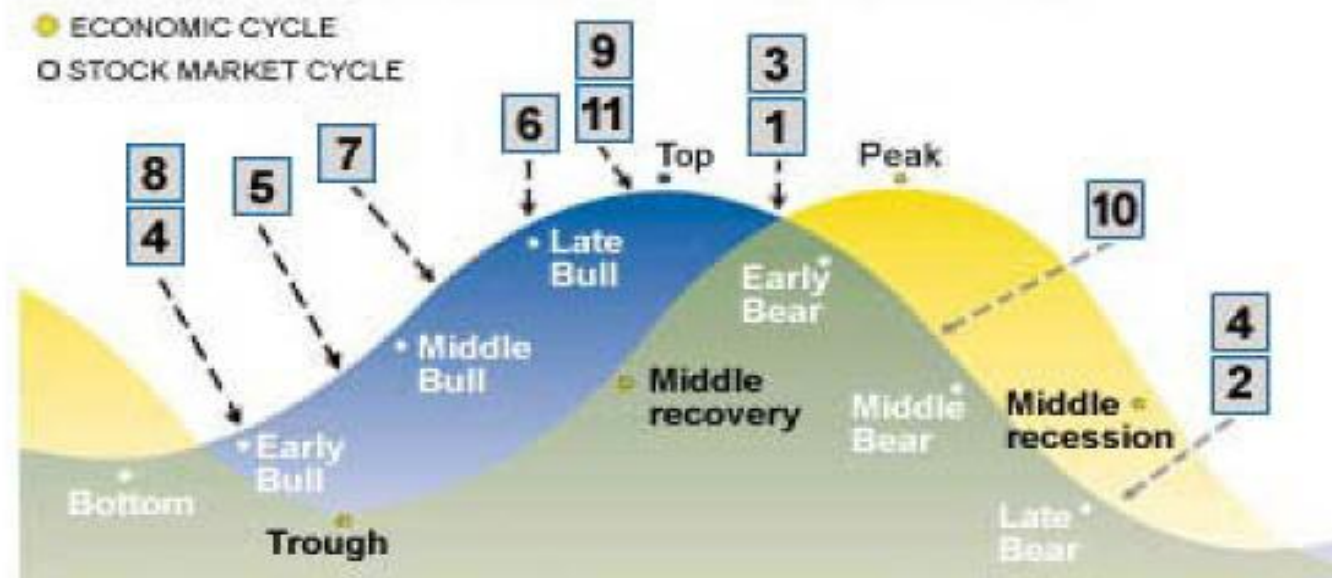
Valuations and earnings through economy and market cycles



PE = Price to Earnings
E = Earnings

▲ Rising
▼ Falling

Movement of economic and market cycles



1 Consumer Non-Cyclicals

2 Consumer Cyclicals (durable and non)

3 Health Care

4 Financials

5 Technology

6 Basic Industry

7 Capital Goods

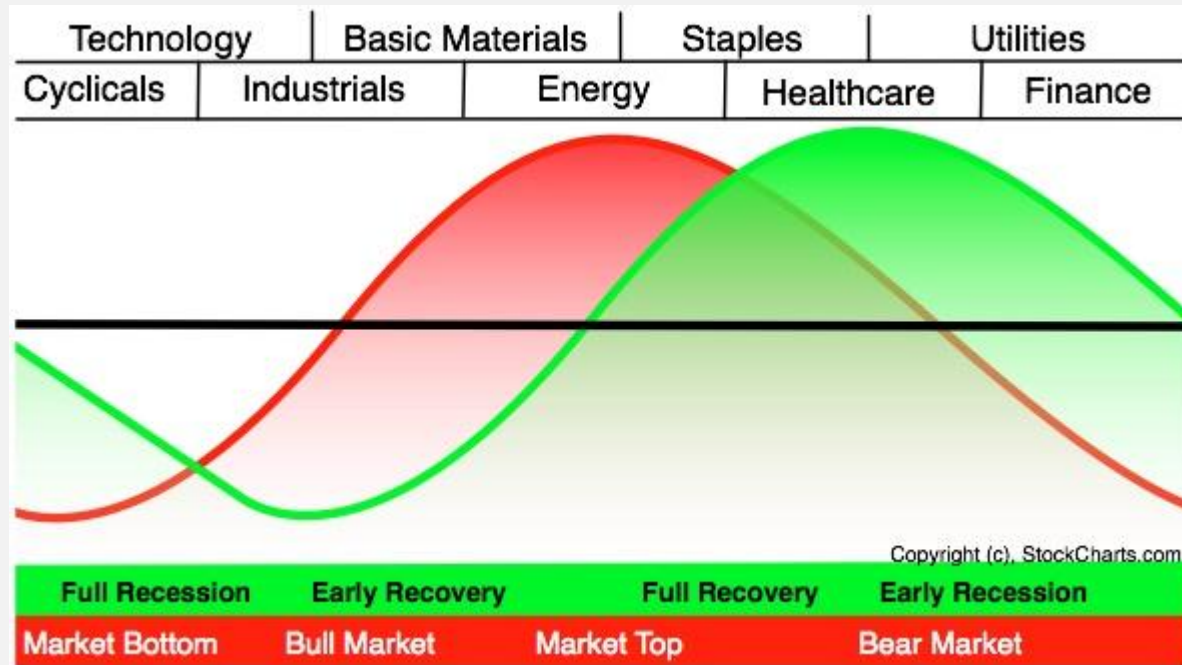
8 Transportation

9 Energy

10 Utilities

11 Precious Metals

Sector Rotation Model



Stage:	Full Recession	Early Recovery	Full Recovery	Early Recession
Consumer Expectations:	Reviving	Rising	Declining	Falling Sharply
Industrial Production:	Bottoming Out	Rising	Flat	Falling
Interest Rates:	Falling	Bottoming Out	Rising Rapidly (Fed)	Peaking
Yield Curve:	Normal	Normal (Steep)	Flattening Out	Flat/Inverted

This theoretical model is based on Sam Stovall's S&P's Guide to Sector Rotation and states that different sectors are stronger at different points in the economic cycle. The graph shows these relationships and the order in which the various sectors should get a boost from the economy. The Market Cycle precedes the Economic Cycle because investors try to anticipate economic effects.

Historical S&P 500 Sector Weightings

	1970	1975	1980	1985	1990	1995	2000	6/07
Consumer Discretionary	16.5	12.9	7.3	12.5	10.1	13.0	10.3	10.0
Consumer Staples	10.3	11.2	8.7	12.5	16.4	12.8	8.1	9.4
Energy	15.7	16.6	28.2	11.6	13.1	9.1	6.6	10.6
Financial	0.8	0.6	5.0	7.0	7.2	13.1	17.3	21.4
Healthcare	4.8	6.9	8.0	6.9	10.3	10.8	14.4	11.8
Industrials*	16.6	15.2	15.0	14.4	11.9	12.6	10.6	11.3
Information Technology	11.5	10.7	8.7	14.8	8.8	9.4	21.2	15.1
Materials	10.0	13.0	9.7	7.1	7.1	6.1	2.3	3.1
Telecommunications	5.9	5.7	3.8	1.8	2.0	8.5	5.5	3.8
Utilities	7.9	7.2	5.6	11.4	13.1	4.5	3.8	3.5

Highlighted and lowest weighted sector are highlighted

GICS

- ❑ Economic Sector forecasts (10 sectors)
- ❑ Industry Group forecasts (24 groups)
- ❑ Industry forecasts (68 industries)
- ❑ Sub-industry forecasts (154 sub-industries)

Rockledge Portfolio Construction

- ❑ Forecasts for time frames of 1 to 12 months
- ❑ Specific allocation for each sector, industry group, industry and sub-industry
- ❑ Allocation on daily, weekly or monthly basis

** S&P 500 GICS Sector Scorecard (6/5/09) -- All classifications are based on Standard & Poor's officially released GICS (Global Industry Classification Standard) sector, industry group, industry and sub-industry level*

GICS based allocation

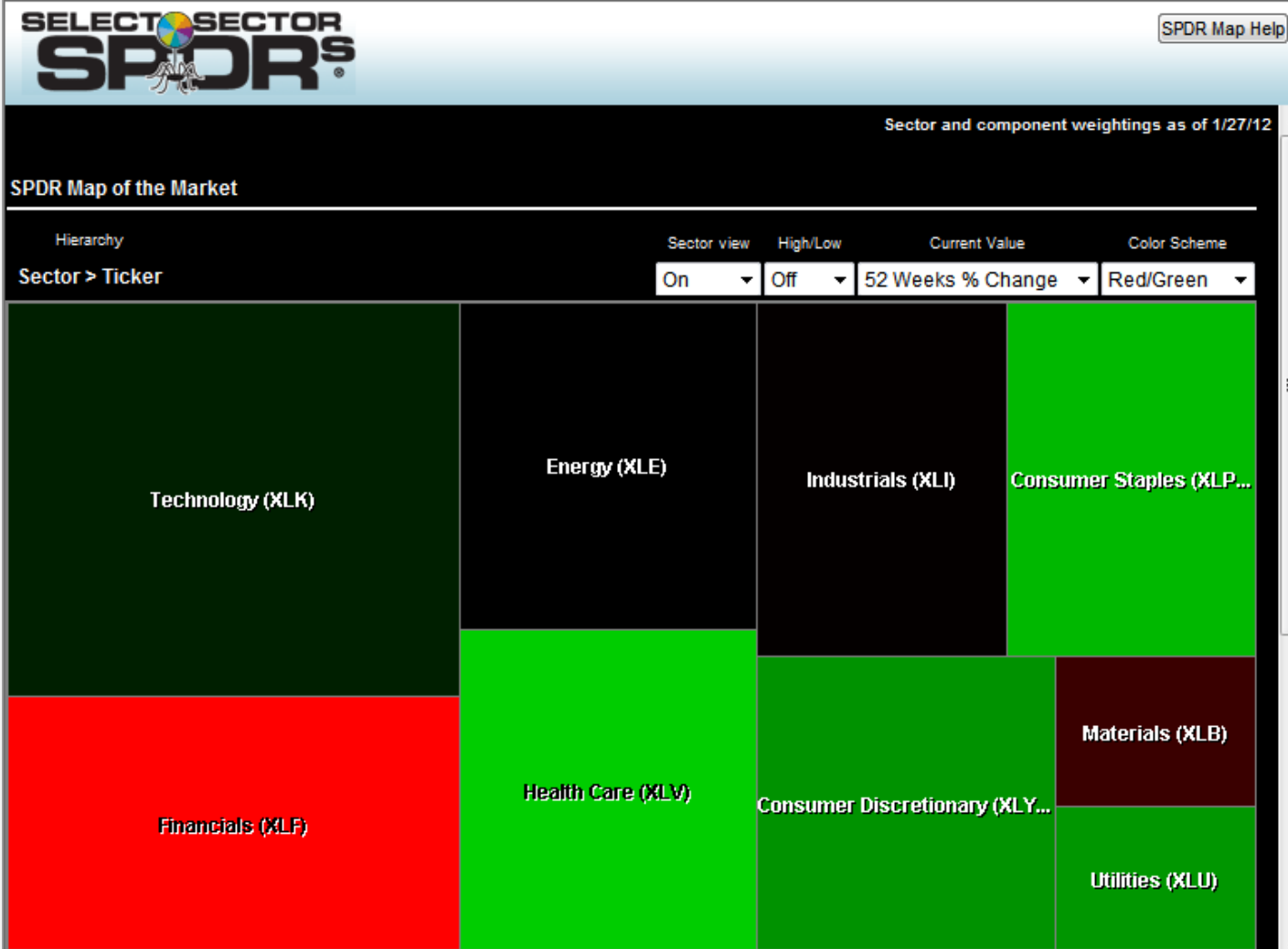
- Economic Sector forecasts (10 Sectors)
- Industry Group forecasts (24 groups)
- Industry forecasts (65 industries)
- Sub-industry forecasts (132 sub-industries)

Portfolio construction

- Forecasts for time frames of 1 to 12 months
- Specific allocation for each sector, industry group, industry and sub-industry
- Allocation on daily, weekly or monthly basis

All classifications are based on Standard & Poor's officially released GICS (Global Industry Classification Standard) sector, industry group, industry and sub-industry level

Performance of 9 Sectors



S&P 500

- Widely regarded as the best single gauge of the large cap US equity market. Standard & Poor's published the index which includes 500 leading companies in leading industries.

SPY

- S&P 500 Depository Trust, or SPDR, is a fund that generally corresponds to the price and yield of the S&P 500 index. Issues by State Street Global Advisors.

AGG

- The iShares Barclays Aggregate Bond Fund seeks results that generally correspond to the price and yield of the Barclays Capital US Aggregate Bond index, formerly the Lehman Aggregate Bond Index.

CSHFI

- Dow Jones / Credit Suisse hedge Fund Index is a cap weighted index that represents the largest hedge funds sourced across a wide range of platforms.

Rockledge L2

- A traditional, long only, equity, sector rotation strategy deployed by Rockledge. Strategy was launched in May 2005 and operates in a separate account format.

Rockledge Sector Alpha

- A long and short, sector rotation strategy deployed by Rockledge. Strategy maintains long positions, similar to the positioning of Rockledge L2, with an equal short position in SPY, the S&P 500 ETF. Strategy was launched in July 2008 and operates in a separate account format.

- SSAM is a 'LONG and SHORT' strategy, which is 'ACTIVELY MANAGED'
- Typically, a hedge fund's fee is "2 and 20", where investor pays an annual fee of 2% in addition to paying 20% of any investment gains
- Passive Index strategies typically have fees ranging from 20 to 50 bps
- Actively managed ETFs and mutual funds often charge over 1% and specialized stock funds often charge over 1.25%
- Alternative strategies which include shorting, charge in excess of 1%

3 year leaders

▪ Forward Strategic Alternatives	1.30
▪ Changing Parameters	1.77
▪ Putnam Absolute 500	0.91
▪ Waddell & Reed InvestEd	1.14
▪ Forester Value	1.25

5 year Leaders

▪ Intrepid Sm Cap	1.40
▪ Reynolds BlueChip	1.55
▪ Fidelity Select Chemicals	0.89
▪ Brown Capital Small Co	1.20
▪ Needham Aggressive Growth	2.05

Specialty Funds – 5 year leaders

Robeco long-Short Eq	2.72
Van Eck Hard Asset	1.10
Prudential/Jennison Nar Res	1.11
Firsthand Technology Opp	1.85
Goldman Sachs Tech Tollkeeper	1.40

International Stock

Van Eck International Gold	1.25
Dreyfus Greater China	1.84
Columbia Abs Return	1.50
Laudus Mondrian EM	1.80
Toews Large Cap	1.25

Investment Returns and Asset Allocation

Disagreement over the importance of asset allocation policy stems from asking different questions. We used balanced mutual fund and pension fund data to answer the three relevant questions. We found that about 90 percent of the variability in returns of a fund across time is explained by policy, about 50 percent of the variation of returns among funds is explained by policy, and on average, about 100 percent of the return level is explained by the policy return level.

Roger Ibbotson and Paul Kaplan – 2000 Association for Investment Management Research

Well publicized academic studies have raised arguments across the investment community over active vs. passive investment management. Controversial?

In 1986, Gary Brinson, Randolph Hood and Gilbert Beebower published an important study – **Determinants of Portfolio Performance – The Financial Analysts journal, July 1986**

They looked at the asset allocations of 91 large pension plans from 1974 to 1983. They substituted the pensions stock, bond and cash returns with corresponding index returns. The resulting indexed returns yielded higher results than the plans actual results. The corresponding return series were highly correlated, with a measured variance of 91.5% leading to a much studied conclusion that asset allocation decisions account for over 90% of a funds variability.

Yes - on one hand, Rockledge believes that ACTIVE MANAGEMENT of portfolios can lead to above average returns over time. And, Rockledge believes that the ASSET ALLOCATION decisions investors make are critical to achieving the above average returns over time.