



Executive Summary

Clothier Springs Capital Management (CSCM) is a Registered Investment Advisor founded in 2010 to help private and institutional investors improve outcomes and meet their objectives with greater certainty and less risk with *structurALPHA™*—our suite of Managed ETF strategies that combine the well-known cost and market capture advantages of passive investing with the superior return and risk profiles of a structurally implemented, rules-based hedge.

Academic Underpinnings

Modeled on the Chicago Board Options Exchange (CBOE) hypothetical options-based benchmarks, the CSCM *structurALPHA™* strategies are practical implementations of the benchmarks and are supported by extensive academic research from investment consulting firms such as Russell, Ibbotson, Callan, Hewitt ennisknupp, Fund Evaluation Group, Cambridge Associates and the Asset Consulting Group. In short, they deliver equity returns over a market cycle with significantly reduced risk—superior risk adjusted returns, or alpha.

Known as buy-writes or covered calls, the strategies all hedge a long market exposure with a short call option. Following the CBOE benchmark protocols, the short option hedge is an at-the-money, one month call. The hedge is rolled each month at or just prior to expiration to the next month, at-the-money call. Numerous academic studies confirm that this hedge profile is optimal, maximizing risk-adjusted returns. Hedges are maintained at all times regardless of market action.

Nuts and Bolts

The factor (exposure) that makes these simple hedged strategies work is the short volatility exposure, captured methodically each month. Volatility is the dominant variable in the pricing of options. Selling a call option collects a cash flow. This cash flow is the strategy component that augments return and mitigates risk. Whatever the

market is doing, one side of our hedged strategies is always working for the portfolio—the long or the hedge. And as the time premium component of option prices decays with the passing of time, the short option hedge is always working to the portfolio's benefit.

Timeless Truths, New Perspectives

More of the good stuff, less of the bad stuff—the aim of all investors. The question is how best to achieve that: through policy & structure or through numerous, continual active decisions. Our approach is to build strategies that deliver those positive asymmetries by implementing a structural, rules-based hedge. Our insight at CSCM is to implement these simple and effective hedged strategies on broad-based indexes and within a passive rules-based construct.

This eliminates the self-inflicted wounds of active management and trying to outguess the short-term movement of the markets. Accordingly, we are able to deliver the hedged strategies at very low-cost. They are implemented with Exchange Traded Funds (ETFs) and options on ETFs. All of our client accounts are managed in separate accounts and are held at well-capitalized, third-party custodial/ brokerage vendors specializing in serving Registered Investment Advisors such as CSCM. Our primary vendor is Interactive Brokers.

Structural Alpha = *structurALPHA™*

Institutional and private investors have demonstrated a huge appetite for risk-modified strategies by pouring billions of dollars into expensive, opaque, and illiquid hedge funds. Industry wide, hedge funds have failed to deliver adequate returns while enriching the hedge fund operators fantastically. This is neither a sustainable or rational proposition for investors.

Alpha is a word that is used widely in the investment management industry and often misused as a term for excess return. Alpha is risk-adjusted return. Excess return is incremental return above a passive benchmark.



Investing, Not Trading

Our low-cost, liquid, transparent and rules-based hedged strategies deliver superior risk-adjusted returns—alpha—relative to their underlying long-only benchmark. The return component that drives our strategies is the cash flow captured methodically each month as we sell a new one-month, at-the-money call option hedge.

The methodical implementation of a short option hedge both reduces overall portfolio risk and adds a new source of total return. And since option prices are very sensitive to investor anxiety and volatility, the short option hedge collects greater premium when markets are under pressure and investor anxiety is high.

This negative correlation adds a robust return-enhancing and risk-reduction component to the strategy. Since each short option position is covered by the underlying market exposure, our strategies exhibit significantly lower market risk than their long-only counterpart.

Our passive approach to managing the strategies maximizes premium capture from the monthly hedge while minimizing the frictions of transaction costs and trying to outguess the short-term action of the markets. In an investing world that is increasingly recognizing the futility of active management and the powerful impact on net return to clients of minimizing fees and costs, including one or more of our low-cost hedged strategies in an asset allocation gives investors an increased opportunity to meet their objectives with decreased portfolio volatility. Best of all, this result is a function of portfolio structure, not the unreliable pursuits of active management or short-term trading. ***It is structural alpha.***

Our Clients

We manage portfolios for private and institutional investors, both directly and as a sub-advisor to other RIAs operating as wealth managers. The strategies are available as a separate account, held at the client's or senior advisor's custodian. For more information: **www.clothiersprings.com**

<i>structurALPHA™</i> Single Market Hedged Strategies	Hedge Cycle	<i>structurALPHA™</i> Global Multi-Asset Hedged Strategies	Hedge Cycle
US Large Cap Buy-Write	monthly	Global Hedged	monthly
		Global Hedged PLUS	monthly

Fee Schedule: *structurALPHA™* Strategies

Fee Tier	Annual Fee
On the first \$5 million	0.40%
On the next \$10 million	0.30%
On the next \$10 million	0.20%
Above \$25 million	0.15%
Minimum Account:	\$150,000
<i>AUM aggregated at advisor level to reach fee breakpoints</i>	