GLOBAL RETURN
ASSET MANAGEMENT, LLC

Re: 2017 Year in Review February 7, 2018

Dear Friends,

In 2017, Global Return generated a net return of 17.2%. We ended the year with 30% of assets in Cash and had a net market exposure of 30%.[1] On page 2 is a graph outlining our returns vs. our peers.

Performance Results (%)	2017	Q4	Q3	Q2	Q1
2017 Return	17.18	8.96	0.78	1.01	5.64
CAGR since inception[2]	11.85				
Return since inception[3]	75.08				

2017 marks Global Return's 5-Year Anniversary, so I'm using this milestone to layout the framework that differentiates Global Return. In the attached letter, I describe nine features of my **Risk Management Strategy** and the **Competitive Advantages** that flow them. I've included a Table of Contents below with links for direct access to each feature.

Please contact me with any questions or to discuss my risk management strategy.

Respectfully,

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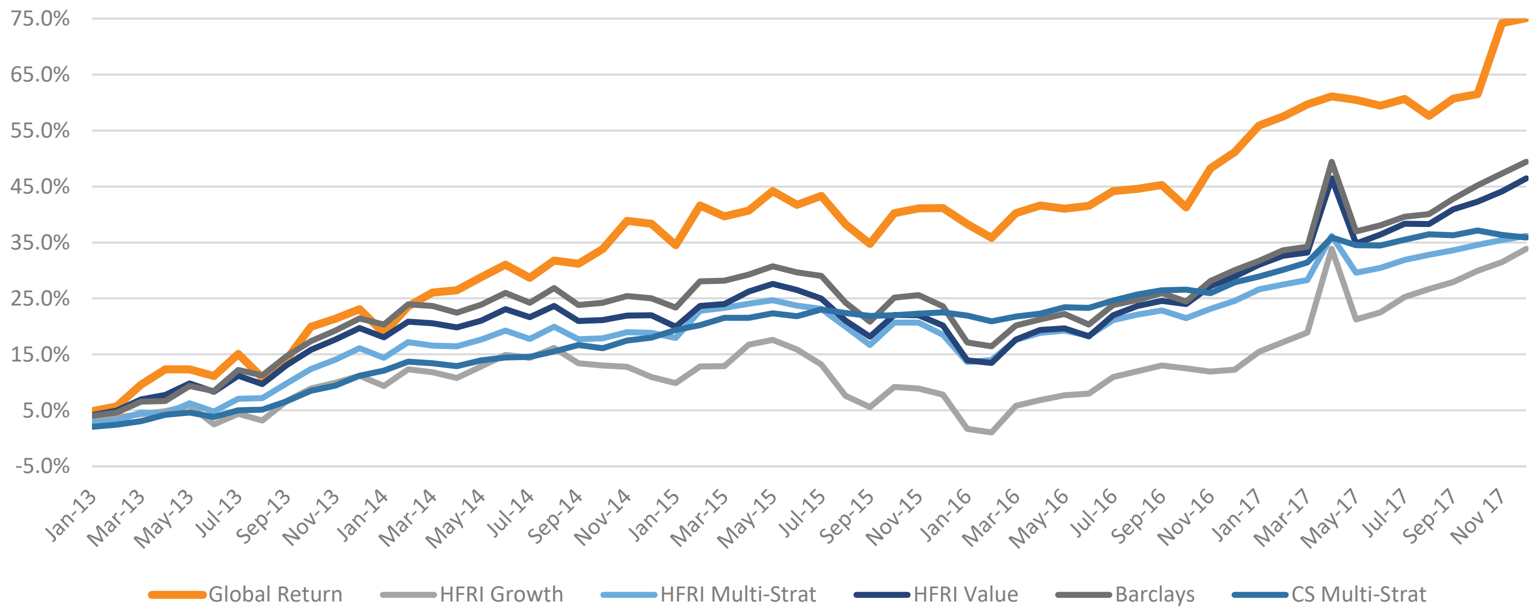
Table of Contents

PAST PERFORMANCE DOES NOT GUARANTEE FUTURE PERFORMANCE

1. All data as of December 31, 2017. Includes a Net Expense Ratio of 1.5%. See Appendix A for more information and Appendix B for Important Disclosures.
2. Compounded annual growth rate since inception, January 1, 2013. Includes a Net Expense Ratio of 1.5%.
3. Return since inception, January 1, 2013. Includes a Net Expense Ratio of 1.5%.

Global Return vs. Peer Group



Unaudited Returns %		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2013	Gain or Loss	4.84	0.75	3.69	2.46	-0.01	-1.09	3.49	-3.70	2.91	5.10	1.17	1.39	22.70
	Cash Balance	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.06	5.30	5.28	
	Net Exposure	100	100	100	100	100	100	100	100	100	100	100	100	
2014	Gain or Loss	-3.54	4.02	1.98	0.27	1.87	1.71	-1.83	2.36	-0.43	1.98	3.74	-0.39	12.07
	Cash Balance	9.17	5.02	4.92	8.40	8.25	8.11	11.88	11.02	17.17	15.39	12.73	14.00	
	Net Exposure	100	100	100	100	100	100	100	100	100	100	10	66	
2015	Gain or Loss	-2.82	5.25	-1.37	0.70	2.47	-1.74	1.09	-3.57	-2.56	4.05	0.57	0.01	1.70
	Cash Balance	23.95	17.82	14.76	14.65	13.42	34.23	28.77	32.42	31.15	28.33	27.22	28.68	
	Net Exposure	100	100	100	100	100	51	57	100	100	-40	-38	-6	
2016	Gain or Loss	-2.06	-1.83	3.25	0.96	-0.41	0.35	1.82	0.25	0.47	-2.81	4.94	1.95	6.80
	Cash Balance	31.50	21.12	19.93	21.02	22.23	19.17	13.47	14.31	18.43	15.28	14.128	14.86	
	Net Exposure	100	-384	100	100	100	45	100	100	100	100	100	100	
2017	Gain or Loss	3.14	1.03	1.38	2.07	-0.38	-0.66	0.76	-1.88	1.94	0.53	7.85	0.5	17.18
	Cash Balance	14	16	23	23	100‡	‡	‡	42	38	36	30	32	
	Net Exposure	100	100	100	100	100	100	19	-84	45	26	54	30	

Returns as-of December 31, 2017. Includes a Net Expense Ratio of 1.5%.*

Important Disclosures

Past performance is no guarantee of future results. Investors should understand that investment results and principal values fluctuate, so that when you redeem your investment it may be worth more or less than its original cost. You should consider the Fund's investment objectives, risks, charges and expenses carefully before you invest. The Prospectus details the Fund's objective and policies, charges, and other matters of interest to prospective investors. Please read the Prospectus carefully before investing. The Prospectus may be obtained by calling 646-838-8182 or by contacting the Fund in writing at info@globalreturnam.com.

Investing involves risk. Principal loss is possible. The Fund can invest in a wide range of markets and securities, which could involve political, economic and currency risks, and volatility. Investments in small-cap and mid-cap companies involves additional risks such as limited liquidity and greater volatility than large-cap companies. The Fund is non-diversified, meaning that it may concentrate its assets in fewer individual holdings than a diversified fund, and is therefore more exposed to individual stock risks and price volatility than a diversified fund. Investment concentration in a security or sector could adversely affect the Fund to a greater extent than if its concentration was less. The Fund's sector exposure and characteristics are as of the date shown and are subject to change at any time without notice to you. No recommendation is made regarding the advisability of buying or selling any security within a particular sector. The Fund occassionally invests in derivatives, which involve risks different from, and in certain cases, greater than, the risks presented by more traditional investments. Derivatives may involve certain risks such as liquidity, market, credit and the risk that a position could not be closed when most advantageous.

* Return data reflects a Net Expense Ratio of 1.5%. Inception date is January 1, 2013. Returns from Inception through May 31, 2017 are a composite return of three investment accounts. Beginning June 1, 2017, returns reflect the Fund and Global Return Asset Management, LLC (the "Investment Manager") has contractually agreed, until June 1, 2018, to waive the Management Fee and reimburse Fund operating expenses to the extent necessary to limit the Net Expense Ratio to 2.0%. Management Fee waivers and operating expense reimbursements by the Investment Manager are subject to repayment by the Fund for a period of 3 years after such fees and expenses were incurred, provided that the repayments do not cause the Net Expense Ratio to exceed 2.0%. The Net Expense Ratio is the expense ratio as a percentage of the Fund's net assets as of the date listed above.

‡ On May 31, 2017, all holdings in the composite were sold and the cash was transferred into the Fund.

INTRODUCTION: RISK MANAGEMENT

Risk Management is the core of my investing: how I research a company, analyze its financials, buy and sell its stock – everything – begins with Risk Management.

Why does Risk Management dominate how I invest?

Because the goal of investing is to, *"Generate the greatest return possible with the least amount of risk."* This implies only three factors exist in investing:

1. Capital invested
2. Risk incurred
3. Return generated

In other words, people invest capital and receive risk (in the form of stock) because they believe it will generate a return. Therefore, investing is the act of buying risk and it's risk that generates a return. Importantly, knowing how to identify and analyze risk enables successful investing across time and industry.

I never understood why our industry views investment analysis and risk analysis separately. Security analysis must begin with identifying risk because each security possesses risk and risk is the source of returns. Therefore, above all else, successful investing comes from successful risk management.

The purpose of my Risk Management Strategy is simple:

1. Identify and quantify known risks within an investment
2. Determine whether the potential return compensates for this risk[4]
3. Consider how unknown risk could emerge and impact the value of the investment
4. Have policies and procedures to respond to existing, potential and unforeseen risks

The goal of my Risk Management Strategy is to eliminate prospective investments that possess uncompensated risk. Ideally, the remaining investments create a portfolio possessing the greatest return possible with the least amount of risk.

Definition of Risk
Risk is the probability of an impairment to the corpus,[5] such-that if an impairment occurs, additional investments[6] will not restore the corpus back to its original purchasing power.[7]

Sources of Risk
See my 2016 Year in Review letter where I introduce and describe Risk Variables.

[4] Risk is either "compensated risk" or "uncompensated risk." Compensated risk is what generates returns; whereas, uncompensated risk generates losses.
[5] Corpus: the original amount of capital in a portfolio. However, the corpus should be adjusted upwards after several years of gains. For example, assume a portfolio begins Year 1 with $1 million dollars and by Year 5 grows to $1.5 million dollars, then the corpus should be revised upwards. By how much? That's up to the portfolio manager based on their risk management policies.
[6] Additional investments: investments consistent with the portfolio manager's investment strategy.
[7] The purpose of generating investment returns is to increase the asset owner's purchasing power.

Characteristics of Risk
Risk is amorphic, idiosyncratic and subjective. It exists in countless different forms and grows or diminishes in severity as its ecosystem evolves. Risk is mostly latent but ignites when exogenous factors collide and reduce the asset's value.

Managing Risk
1. Purchase price
2. Size of position as a function of risk contribution to the portfolio
3. Understanding our temperament and emotional triggers
4. And most difficult, identifying and understanding a security's actual and potential sources of risk[8]

[Continue to next page]

[8] In previous letters I've provided examples of my Checklists and Decisions Trees. Though these are integral to my Risk Management Strategy and provide multiple competitive advantages, to prevent redundancy, I'm not discussing them here.

RISK MANAGEMENT STRATEGY #1: ELIMINATE UNACCEPTABLE RISK

In 2014, I began researching sectors that would be impacted by infrastructure investments. I read whitepapers published by industry associations, government agencies, consultants, and sell-side analysts. I also attended webinars and conferences on all-things infrastructure. With this information, I identified industries with the characteristics I seek.[9]

Next, I began evaluating each industry's constituents. But because I view investing as the act of purchasing risk, I didn't look for reasons why companies could increase in value. Instead, I first identified each company's risk and then eliminated the ones with unacceptable risk.

There are two advantages to my approach.

The first is related to human psychology and perception. Since the landmark publication in 1974 by Amos Tversky and Daniel Kahneman, study-after-study has proven that people are prone to the Anchoring Bias. Tversky and Kahneman's findings state, "…people rely on a limited number of heuristic principles which reduce the complex tasks of assessing probabilities and predicting values to simpler judgmental operations."[10]

Essentially, the Anchoring Bias states that when investing: Investors will form an opinion about a prospective investment that heavily relies on (i.e. is anchored to) the first piece of data received, even if that data is completely inaccurate.[11]

For example, assume I evaluate a company and find two reasons why its stock might increase 10%. Next, I evaluate its risk and find five reasons indicating a high probability the stock will decline 20%. The Anchoring Bias states that because I <u>first</u> identified reasons the stock will increase, there's a low probability I'll find reasons why the stock might decline. Worse, even if I find reasons the stock might decline, my mind will push these aside and convince itself that, "My detailed and thorough analysis of the company indicates its stock will increase 10%."

Therefore, by first eliminating companies with unacceptable risk, I'm reducing the chances I don't identify risks in prospective investments. This gives me better odds of finding low-risk, high-reward opportunities.

The second competitive advantage of my approach is that it saves a phenomenal amount of time. Identifying uncompensated risk requires a fraction of the time needed to value a company. The time saved allows me to review more prospective investments; again, creating higher odds of finding superior investments.

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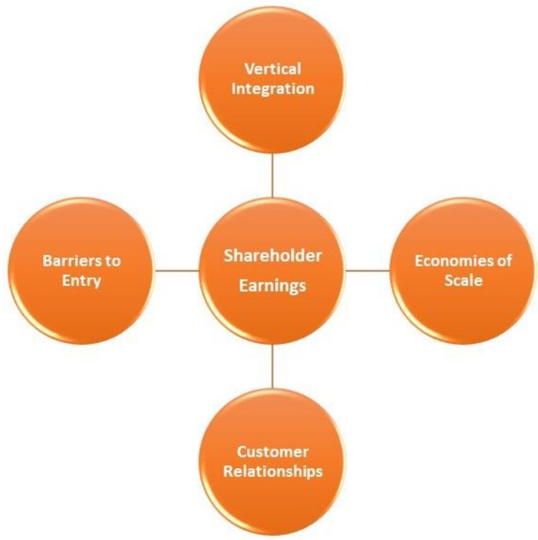
[9] Feel free to contact me if you would like a list of these characteristics.
[10] Kahneman, D., Tversky, A., *"Judgement under Uncertainty: Heuristics and Biases,"* Science, New Series. Vol. 185, No. 4157. Pages 1124-1131. September 27, 1974.
[11] This is one reason sell-side analysts often have similar estimates for a company.

RISK MANAGEMENT #2: IDENTIFY OPERATING ASSETS & VALUE DRIVERS

A pillar of risk management is investing in companies with durable Operating Assets.[12] The importance of this can't be overstated – a company's revenue and cash flow, and thus shareholder returns, flow directly from its Operating Assets.

For instances, one of our holding's is the country's largest manufacturer and distributor of shell eggs. Several of its Operating Assets include:



1. Vertical integration. Feed for chickens is the company's biggest operating expense. Not only does our company manufacture its feed, it has capacity to manufacture 746 tons of feed *per hour*.
2. Economies of Scale. Our company processes and distributes about 1 billion eggs per week. Competing would require enormous up-front investments, and customers aren't guaranteed.
3. Customer Relationships. Eggs are consistently among the top five items bought in a grocery store. Meaning, grocers heavily rely on their suppliers and rarely change them.
4. Barriers to Entry. Software, technology and mobile apps can't replace how eggs are produced or distributed. Additionally, imports can't replace U.S. produced eggs because of food safety regulation and, of-course, problems with distribution. (Hint: they're eggs!)

You can see that this company has Operating Assets that will generate increasing amounts of revenue, cash flow and shareholder returns for years to come. But identifying a company's Operating Assets is half the task, I then determine whether the company has Value Drivers.

[12] Buffett devotees would recognize these as "durable competitive advantages."

Think of Operating Assets as the engine and Value Drivers as the gas. For example, Netflix owns video content (its Operating Asset) but unless customers subscribe to Netflix (the Value Driver), its content is worthless. It's the combination Operating Assets and Value Drives that increase a company's value, which happens from:

1. Sales growth
2. Margin expansion
3. Share buybacks
4. Acquisitions

Importantly, these aren't the company's Operating Assets or Value Drivers, they're the *result* of its Operating Assets and Value Drivers. Effective risk management requires determining whether these results are sustainable.

For example, sales growth can occur because of:

1. Price reductions
2. Price increases
3. Lax customer financing
4. New products or services
5. Net new customer additions
6. Existing customers buying more

Some of these causes aren't sustainable nor will they increase the durability of a company's Operating Assets, so they're not Value Drivers. Others could be Value Drivers, but more research is required.

Identifying a company's Operating Assets and Value Drivers enables me to assess the riskiness of the company's current valuation. For example, a company's financials might report excellent growth, but if its Operating Assets or Value Drivers are deteriorating, the company's valuation is at risk of declining and causing losses.

Referring back to Netflix, imagine quarterly revenue grew because of "net new customer additions." But, these new customers agreed to a "One Time Only" promotional price 90% below standard rates and their contracts expire in 90-days. These new customers aren't a Value Driver and whatever "value" their short-term growth brings shouldn't be included in the company's valuation.[13]

Similarly, understanding Operating Assets and Value Drivers ensures more accurate valuations. If, for example, an analyst only uses financial data to project a company's valuation, yet the company's Value Drivers are improving, he might under-estimate the company's future value.

[13] I'm only using Netflix as an example. However, many companies frequently use tactics like this, which is why it's important to evaluate new revenue against whatever metric is applicable to the company.

RISK MANAGEMENT STRATEGY #3: DATA GATHERING PROCESS

How can the process of gathering data provide risk management?

On Wall Street and around the world, investment terminals and data aggregators have revolutionized every aspect of the investment industry. Most of all, these providers have changed how investment research is accessed and analyzed. And this has created unexpected risks for end-users.

One consequence of data aggregators is how investment analysis is now conducted. Due to the volume of information distributed, the buy-side analyst's role has subtly shifted away from conducting independent and thorough research and towards "information collector" of other people's research. At first glance this may not seem risky, but let's look at the effects.

Most people agree the difference between high-quality and low-quality data is "usefulness."[14] But I take this further. Data's "usefulness" should also be evaluated on whether it's from a primary source or a secondary source. For example, much of the information distributed by aggregators is from secondary sources, which creates risks for end-users. Namely, the information has been re-interpreted and is subject to biases and motivation. For instance, do you remember the "Telephone Game" we played as children? The last person repeated the first person's statement, which got completely transformed as it went from one person to the next. Countless studies have proven this same garbling still happens. Secondary sources aren't doing this maliciously, it's human nature, but it increases the odds that inaccurate data is used to make investment decisions.

Additionally, the volume of data being distributed is not only dizzying but can lack differentiation (consensus estimates, for example). As a result, it can be difficult to separate high-quality data from everything else; again, increasing the odds low-quality data is used to make investment decisions. Finally, studies have shown that having more data can confuse people and lead to decision paralysis. An unfortunate consequence is that investment decisions become based on "consensus estimates."[15]

My data gathering process is designed to minimize these risks.

When gathering data about a company, I mostly rely on its primary sources. These sources include, the company's and its competitors' S.E.C. filings, earnings calls transcripts and investor relations presentations. Among these sources, I prefer the 10-K's and 10-Q's because they discuss (or not) the company's Operating Assets and Value Drivers. Next, I gather research from industry associations, publications, and government or oversight agencies.[16] More often, the data from these sources is used to validate information found in company filings.

I also use Philip Fisher's method of "scuttlebutt." This includes calling vendors and suppliers, going to stores as a mystery shopper, and speaking with employees. When using scuttlebutt, my goal is not to uncover specific information about, for example, next quarter's earnings. What I'm interested in learning is how the company operates, how management thinks and what's the company's reputation in the market.

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[14] "Usefulness" includes, accuracy and timeliness.
[15] Just think: Hedge fund crowding.
[16] Of-course industry association information is biased but at least I know what their bias is.

As an example, one of our holdings is the country's largest manufacturer of residential and commercial water heaters. Before investing, I called local installers and asked open-ended questions about water heater manufacturers. I also went to several Lowe's and Home Depot stores and shopped for water heaters.

Scuttlebutt offers innumerable competitive advantages. Specifically, I'm able to have direct conversations with market participants who work daily with the subject company and its competitors; and their motivations and biases are clear. The key to making scuttlebutt valuable is preparing for the conversation by knowing what specific questions to ask and when to ask them.[17]

The competitive advantages of gathering data directly from primary sources are abundant. Relying on primary sources removes the unnecessary risks listed above and ensures I'm conducting independent and thorough analysis. Importantly, because I've already identified the company's Operating Assets and Value Drivers, I know exactly what I'm looking for when gathering primary sources data; this enables me to quickly validate, invalidate, or develop my thesis. In other words, I'm not prone to relying on secondary sources and can minimize the odds of drowning in unnecessary data or using low-quality data in my analysis.

RISK MANAGEMENT STRATEGY #4: CASH BALANCE

Our returns outpace our peer groups because of risk management and the competitive advantages it offers. These results are even more impressive when considering the lack of risk we incurred, namely our Cash balance.

Our returns would be higher if we were fully invested and there have been periods when we've been fully invested. However, I think the returns generated when our cash is invested will be higher than the returns we're foregoing. Furthermore, the benefits of having flexibility to keep cash outweigh the benefits of being required to remain fully invested.

A cash balance offers us significant advantages because it allows me to enter new positions, add to existing positions, or capitalize on irrational volatility. Conversely, when fully invested, my hands are tied. To enter a new position, add to a winning position or capitalize on volatility, something must be sold. And this has implications.

For example, when an opportunity arises I must sell the stock with the least upside, is at its target price or is over-valued. But this requires me to adopt an investment principle I disagree with: I can't sell a position that has reached its fair value or is overvalued unless I have somewhere to invest the proceeds. This could force me to stuff the cash into a second-rate company (second-rate because I don't already own it).

Or, I could use the cash to invest in several new positions, but this doesn't make sense either. Monitoring more stocks requires more time and effort and I won't know them as well as the position just sold. Furthermore, the potential return to the portfolio doesn't justify this. For instance, assume a sale's proceeds equal 4% of assets, which is then reinvested into four equal-sized positions of 1%.

[17] An excellent source for information on this topic is, *"Best Practices for Equity Research Analysts"* by James Valentine.

Even if all four positions increase 25% (highly unlikely) the portfolio earns only 1% - this return is too low given the effort required to manage the positions and the probability that all four increase 25%.

These options don't benefit my clients. Conversely, my clients benefit by me having the freedom to sell a position because it's the right thing to do.

An additional reason for our cash balance is my high hurdle rate. My hurdle rate isn't a safety net for sloppy investing; it's predicated on how much risk I'm buying. My preference is to invest when risk is low. Simple math illustrates this: If I invest $10 dollars, risk $3 dollars and earn $1 dollar, then I have a 33% return. But if I invest $10 dollars, risk $2 dollars and earn $1 dollar then I have a 50% return. The former represents most opportunities today – yes, returns are available, but at what level of risk?

Having the flexibility to maintain cash is a risk management strategy that allows me to invest when low-risk, high-reward opportunities develop. I'm also free to sell existing positions when they reach fair-value or become over-valued without being forced to reinvest the proceeds.

RISK MANAGEMENT STRATEGY #5: LONG-TERM HORIZON

How can a long-term investment horizon reduce our risk and offer us competitive advantages?

To illustrate, let's consider what an analyst with a 150% turnover must accomplish to generate a 5-year CAGR equal to ours. First, he must find investments that will generate a 12% return in nine months. This leads many analysts to seek companies that will either beat or miss Wall Street's earnings estimates.

But consider the logistics of this. Many stocks are pegged to Wall Street's estimates making it difficult to find opportunities where the analyst has a variant opinion. Additionally, his roster of prospective investments is at the mercy of stock price movements. For instance, what does the analyst do if a prospective investment rises 6% before he completes his research or buys the stock?

Perhaps he puts the stock "on the bench" and sets an alert to buy at lower prices. But before this happens, the company reports earnings. Yet, if earnings are the catalyst for a 12% return, the analyst must maintain an enormous roster of potential investments. Why? Well, how many times will a stock offer a 12% return in nine months? My guess is not often.

If that isn't daunting enough, let's review stock price changes after earnings announcements. Owing to the success of data terminals, price movements aren't what they used to be. According to a report published by McKinsey & Company, missing earnings consensus by 1% leads to a price decline of two-tenths of 1%.[18] Hardly a profitable short. Moreover, of companies that miss earnings, 40% see their stock price increase.

This data is similar to the findings of Professors Baruch Lev (NYU Stern School of Business) and Feng Gu (University of New York at Buffalo School of Management). In studying the largest 1,000 publicly-traded companies, the professors found that, on average, companies that miss earnings consensus see their

[18] Koller, T., Raj, R., Saxena, A, *"Avoiding the consensus-earnings trap"*. McKinsey & Company, Corporate Finance Practice. Pages 3-4. January 2013.

stock decline about 1% over the next two months. Companies that beat earnings consensus see their stock increase, on average, about 1.4% over the next two months.[19]

It's true many stocks advance or decline more than 1% after earnings are released. However, over the last five years 75% and 25% of S&P 500 constituents beat or missed earnings consensus estimates, respectively.[20] Meaning, the odds of me finding companies that advance more than 1% are low.

In summation, finding investment opportunities that will increase 12% in nine months due to earnings beats or misses, is challenging at best.

To be fair though, not all high-turnover managers seek returns from earnings beats or misses. Price changes, like a 12% increase in nine months, can occur when event-driven news or special situations are realized by the market. But neither of these investment styles is consistent with my temperament or skill set; so merely avoiding these is risk management.

Finally, the advent of data terminals has decreased short-term investors' informational edge. With more people accessing the same information, any alpha that's found (if you believe in that mercurial magic promised to investors) must be divvied-up among more participants; which explains Wall Street's latest arms race to Artificial Intelligence.

So, is having a long-term horizon a risk management strategy that offers us a competitive advantage? Based on the alternative, yes. And additional reasons exist too.

Knowing I could own a stock for years shifts my mindset. I'm not rushed to buy a company and can take whatever time necessary to understand it. For instance, two months researching a company doesn't even equal 5% of my average holding period. Plus, fully understanding a company gives me the needed confidence to buy its stock should it unreasonably decline.

Another advantage to a long-term horizon is that it affords me time to wait for an ideal opportunity. For example, it wasn't until June 2017 – *3.5 years* after I began researching infrastructure investments – before I made our first investment. Perhaps not ironically, that investment became our largest and generated a 222% return by the end of 2017.[21,22]

Similarly, a long-term horizon ensures we're not subject to – and can take advantage of – irrational volatility. Which is how I entered this infrastructure investment. Specifically, an unexpected rise in labor and input costs caused the company to miss earnings consensus estimates. Of-course, the stock price was pegged to Wall Street's expectations, so it got pummeled. However, the company has confronted this before and been able to raise prices to offset these increases. Had sellers of the stock waited long enough to listen to the earnings call, they would have heard that price increases had already been implemented.

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[19] Gu, F., Lev, B. "The End of Accounting and The Path Forward for Investors and Managers." John Wiley & Sons, Inc. Pages 20-21. 2016.
[20] Source: S&P Dow Jones Indices.
[21] My lawyer's contribution to this letter: Past Performance Does Not Indicate Future Performance. See Important Disclosures.
[22] I make no effort to generate returns like this in a short period of time. However, I fundamentally believe you can shift the odds in your favor if you know exactly what you're seeking, you're prepared for the opportunity (i.e. you maintain up-to-date information on the company and have the cash to buy), and you execute your strategy when the opportunity becomes available. A fantastic book that discusses this in detail is, "The Success Equation," by Michael Mauboussin.

Importantly, the rise in labor and input costs didn't erode the company's Operating Assets or Value Drivers. This underscores another competitive advantage of our long-term horizon. Our investment theses are based on the company's Operating Assets and Value Drivers and these don't change quarter-to-quarter. Further, it's unlikely our theses will break because of normal changes in operations, like rising labor or input costs.

RISK MANAGEMENT STRATEGY #6: INDEPENDENT THINKING

Independent Thinking and Contrarian Thinking are like brothers, they're related but not the same.

Dictionary.com states a contrarian is: *A person who takes an opposing view, especially one who rejects the majority opinion, as in economic matters.*

I was born a contrarian which was my biggest liability growing up. Do you know what they call a child who's contrarian? Misbehaved.

It wasn't until I found value investing that this penchant became my biggest asset. But don't think I'm so contrarian that I blindly do the opposite of everyone else. Being contrarian without the guardrails of risk management is like gambling drunk in Las Vegas.

One competitive advantage to independent thinking is the ability to form judgements and make decisions based on my own analysis and not what other people think or do. Similarly, being contrarian provides the fortitude necessary to stand strong when others disagree.[23]

As an example, following the earnings release (and before we bought the stock) of the infrastructure company referenced earlier, three firms downgraded the company. I didn't agree with the downgrades but even if I did, the ensuing stock decline was sufficient to compensate for the perceived risks causing the downgrade. So, I bought the stock, despite consensus opinion, and over the next several months it regained much of the decline; so, we profited from my independent and contrarian thinking.

But then Hurricane Harvey developed causing the stock to decline precipitously because the company generates 20% of their revenue from the South.

Effective risk management requires considering all risks that might impact a company. I had evaluated the company's geographic revenue, but never considered the impact of a hurricane. Consequently, when Harvey developed, I knew I was responsible for failing to consider this risk. Of-course, I've been in similar situations when risk emerges and the outcome isn't obvious. When this happens, I don't "jump into action" because capricious decisions are rarely beneficial. Plus, more information generally develops, and I want to consider the possible outcomes.

Back to Harvey. I began considering its consequences but after a few minutes I realized what would probably happen. Of-course, the company's revenue would be impacted, but in exactly the *opposite* direction that sellers assumed: *If a hurricane causes damage to a city's infrastructure, then an infrastructure company will generate unanticipated revenue when they fix the broken infrastructure.*

[23] Though both statements in this paragraph are true, effective risk management requires knowing when to concede.

Fundamental investors love to boast they're not impacted by a stock's price. I'll admit I *was impacted* by the stock's price – I bought a lot of stock from sellers who disagreed with my conclusion.

Another competitive advantage of my independent thinking is in my financial analysis.

Specifically, I don't use any boilerplate formulas provided by data terminals. Presumably, these formulas allow analysts to quickly and precisely calculate a company's intrinsic value. No longer does an analyst need to memorize any formulas, only where they're located in the terminal; this has removed the need for analysts to understand the components of any formulas. Simultaneously, accounting standards and corporate business models have evolved; yet, the components of these formulas have not.

For example, among fundamental investors, a favorite method for calculating a company's intrinsic value is the Discounted Cash Flow (DCF). But copious problems exist with the formulas offered.

First, some Free Cash Flow (FCF) formulas begin with reported GAAP Net Income. But, the evolution of accounting standards nearly ensures this number is produced from management massaging. Notably, the financial reports of S&P 500 companies have seen a *500% increase* in the use of words like, "estimated," "projected," "anticipated," "assumed" and their synonyms. This has caused an explosive use of line-item events that include, "extraordinary," "special item," "one-time item," "adjusted," and their synonyms, which now account for nearly *20% of reported Net Income!*[24]

This same problem applies to FCF formulas that begin with Cash Flow from Operations (CFO). Obviously, the formula for calculating the CFO begins with Net Income. Irrespective, even if the Net Income accurately represents the company's financial activities, there are plenty of items listed below it that may not.

A third problem with automated formulas is they arbitrarily subtract a "Capex" number to calculate FCF. But two types of Capex exist (Growth and Maintenance), and the formula's output is determined by which Capex is used. Additionally, Growth Capex is more variable than Maintenance Capex, which is more predictable. And, since a DCF requires projecting FCF, if Growth Capex is not separately projected from Maintenance Capex, the total Capex deducted will be inaccurate. This will generate an inaccurate FCF forecast and an inaccurate intrinsic value. Additionally, every FCF metric and many return metrics will be inaccurate.

Finally, boilerplate formulas have not been updated to address modern business models. For example, the four largest companies (by market cap), in the S&P 500 are Apple, Microsoft, Amazon and Facebook.[25] These companies generate most of their Revenue from the intangible assets they've developed from investments in Research and Development (R&D).[26] But accounting standards require R&D to be an Operating Expense; when in reality, it's a Growth Capex that should be considered when calculating FCF. Additionally, the intangible assets created from R&D investments aren't listed on the company's Balance Sheet; even though these assets are integral to, and in some cases the foundation

[24] Gu, F., Lev, B. "The End of Accounting and The Path Forward for Investors and Managers." John Wiley & Sons, Inc. Pgs.57-98. 2016.
[25] If both share classes of Google were combined, the company would rank third largest. Data as-of December 31, 2017. Source: S&P Dow Jones Indices.
[26] Because Microsoft is a software developer, they expense R&D until feasibility has been established; then, all costs are amortized and included in Cost of Revenue over the estimated useful life of the product. Note, companies that develop software must "estimate," "anticipate," etc. the useful life of the product. These assumptions are subject to change and will impact future margins and valuations.

of, the company's operations. As a result, auto-generated valuations, metrics and ratios won't reflect the company's economic operations.

In summary, my formulas are different from investment terminals' offerings, and this removes the risk of calculating inaccurate valuations, metrics and ratios. Admittedly, my independent thinking had me insecure, but the swift and sincere responses, which included multiple meetings and phone calls, of four name-brand terminal providers confirmed the validity of my thinking.

RISK MANAGEMENT STRATEGY #7: FINANCIAL FINAGLING

"More money has been stolen with the point of a pen than at the point of a gun." – Warren Buffett[27]

A company's 10-Q's and 10-K's are the easiest place to find risk, but don't count on U.S. GAAP standards to illuminate these.

80% of companies that make it this far in my analysis are eliminated for presenting financial statements I describe as, "Legal but not right."

To illustrate why, let me introduce you to "Trexler Household Incorporated" (THI). This very un-complicated business consists of two people and two dogs. Below is their Income Statement.

2017 Annual Statement of Operations
(Audited)

Revenue	**Amount ($)**
His revenue	250,000
Her revenue	250,000
Gross Revenue	500,000
Federal and state taxes	218,900
Retirement contribution	125,000
Insurance	6,000
Net Revenue	150,100

Operating Expenses	**Amount ($)**
Rental lease	75,000
Internet and cable	1,500
Electric bill	2,250
Mobile phones	2,300
His walking around money[1]	7,200
Her walking around money[2]	7,200
Miscellaneous expenses[3]	20,000
Total expenses	115,450
Annual Retained Earnings	34,650

[1] Every good financial statement needs lots of footnotes, definitions and explanations in small print. This figure is the annual amount His can use for anything His would like, such-as, haircuts, dinner with the guys and "Just Because Flowers" for Her. [2] This is the same as "His walking around money." [3] This expense is for vacation travel, dog healthcare, and the "one-time expense" that THI wasn't expecting. These expenses go on a 0% credit card and are paid-off at the end of the month.

[27] Annual Shareholder Letter. Page 18. 2000.

As you can see, THI doesn't have hundreds of employees. There is no Sales, General and Administrative Department. Nor does THI have research and development or depreciation and amortization expenses. It doesn't have to juggle accounts receivable and payable. And other than one credit card THI maintains for the unexpected "one-time expense," THI doesn't have any financing activities or long-term liabilities.

THI's operations are so simple, that Annual Shareholder Meetings last around 5 minutes and in 10-years of operations, it has never had to file an Amended Annual Report with the I.R.S.

But there's one problem THI has never be able to solve: THI can't calculate what it's earnings will be next quarter, nor can it forecast its full year earnings. You would think this is easy, but things never turnout like expected.

Conversely, other corporations with thousands of employees around world and operations far more complicated than THI's, can forecast – to the penny – how much they'll earn and then actually do it!

Now ask yourself this, "At the end of the month, after I pay my bills and spend (or not spend) my walking around money, will I know how much money – to the penny – I'll have in my bank account?" The answer is likely, No.

Companies accomplish this miraculous feat because U.S. GAAP is as malleable as silly putty.

To be clear, I don't totally fault management for massaging the financial statements, companies have many moving parts and precision is impossible. But these acrobatics have a real impact on earnings. Public company CFOs reported they believe about 20% of companies intentionally misrepresent earnings, using discretion within GAAP, to increase earnings by 10%.[28]

Thus, effective financial analysis must include probing for irregularities in a company's financial statements. I have six pages of methods to identify financial finagling. Companies that massage their financial statements are generally trying to boost revenue, net income or cash flow. And there are a multitude of ways (at least six pages) to accomplish this; methods include: reporting revenue far in advance of when it might be earned, shifting expenses to later periods to boost income and cash flow, and shuffling expenses between the balance sheet and statement of cash flows to boost operating income and cash flow.

Using forensic accounting provides a multitude of advantages. First, it lowers the odds I invest in a company for the wrong reasons – the financials look great, but the underlying Operating Assets are deteriorating and could lead to losses. It also enables me to confirm the Operating Assets generate the stated revenue and cash flow. Finally, I'm able to dig beneath the financial data to assess their quality and sustainability, which should enable more accurate valuations.

[28] Dichev, I., Graham, J., Harvey, C., Rajgopal, S., *"The Misrepresentation of Earnings."* Financial Analysts Journal, Vol. 72, Num. 1. 2016.

RISK MANAGEMENT STRATEGY # 8: ESG ANALYSIS

It must be obvious that most of my risk management strategy focuses on a company's operations. I do this because this is where risk resides; never have I seen a line-item for "Risk" on a financial statement. Another method I use to identify risk within a company's operations is ESG analysis.

The term "ESG" has many connotations. Therefore, to be clear, I believe that: *Integrating ESG analysis does not, and should not, compromise investment returns for sustainable outcomes. I only use ESG analysis to identify risks within a company's operations.*

I've been incorporating ESG analysis since 2014 and it's been helpful in identifying companies with latent operating risks. The risks stemming from ineffective ESG practices can result in a multitude of consequences, including, legal, regulatory, reputation, employee and financial repercussions.[29] The financial costs can be significant, and include civil, criminal and government penalties, reduced sales and profitability, and increased cost of capital.[30]

In addition to avoiding companies with operating risks, another advantage to incorporating ESG analysis is to identify companies with a higher probability of generating superior returns. This is possible because effective ESG practices encourage processes that reduce operating risks and expenses and increase cash flow.[31] A landmark study published by Harvard Business School Professors Mozaffar Khan, George Serafeim and Aaron Yoon confirms that companies with robust ESG practices generate approximately 6% higher returns than firms with weak ESG practices.[32] This is due to the incremental cash flow generated by material ESG practices that can be invested into research and development, expanding operations, buying competitors, buying back shares or paying a dividend. And since the value of a company is equivalent to its future cash flow discounted to a net present value, and these options increase cash flow, the value of the company, and hence shareholder returns, have a higher probability of increasing.

Other research conducted by Oxford University, Goldman Sachs, Morgan Stanley, Deutsche Bank, US Trust, PwC, Deloitte, KPMG and many government and nongovernment associations all conclude with similar emphasis – companies that incorporate effective ESG practices reduce operating risks, reduce expenses, increase cash flow and increase shareholder returns. In summary, incorporating ESG analysis is risk management.

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[29] *"The Business Case for Corporate Social Responsibility."* Carroll, A. and Shabana, K. The Conference Board. No. DN-V3N11. June 2011.

[30] *"Can Investing in Corporate Social Responsibility Lower a Company's Cost of Capital?"* Bienert, S., Cajias, M., Fuerst, F. University of Regensburg and University of Cambridge. 2012.

[31] *"The Impact of Corporate Social Performance on Financial Risk and Utility: A Longitudinal Analysis."* Brooks, C., Oikonomou, I., Pavelin, S. Financial Management Volume 41 Issue 2. Pages 483-515. 2012.

[32] *"Corporate Sustainability: First Evidence of Materiality."* Mozaffar, K., Serafeim, G., Yoon, A. Working Paper 15-073. Harvard Business School. 2015. See also, "The Impact of Corporate Sustainability on Organizational Processes and Performance." Eccles, R., Ioannou, I., Serafeim, G. November 2011.

RISK MANAGEMENT STRATEGY #9: COGNITIVE PSYCHOLOGY AND NEUROSCIENCE

Many fund managers boast that they make investment decisions *without* being influenced by their temperament[33] or emotions[34]. But this isn't entirely possible because our temperament and emotions constitute who we are and therefore can't be avoided. That said, our emotions can be regulated and amended, but our temperament is more fixed.

Knowing this, I designed my risk management strategy and investment principles, policies and procedures to match my temperament and emotions. I did this to maximize my strengths and minimize my weaknesses. I wanted to stack the odds in my favor. But to accomplish this, I had to complete two requirements; neither was easy, and both were time consuming.

First, I had to identify what my temperament and emotions are and when they manifest. To do this, I maintained a daily investing journal where I logged details of how my temperament and emotions responded to different investments and market conditions.[35]

Second, I had to identify the beliefs underpinning my emotions. This might sound more complicated than it is; so, here's a simple example: If an investor has more fear investing in biotech companies than when investing in industrial companies, then the investor has a belief that biotech companies are riskier.

After identifying these beliefs, I had to decide whether they would help me achieve my goals. The purpose of this exercise was to remove the beliefs that would impede me from my goals. The remaining beliefs were used as the foundation for building my risk management strategy.

For the last six years, I've been refining my beliefs and building an operating structure that maximizes the strengths of my temperament and emotions. I do this to enhance my risk management strategy and investing processes and procedures. I hope I never stop improving upon this.

This lengthy and in-depth topic is worthy of much more than one page, but I wanted to introduce it because it's the genesis of my risk management strategy and style of investing. Stay tuned for additions to this section.

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[33] Temperament refers to an individual's innate characteristics (introvert or extrovert) that predisposes the individual to perceive, think and act/react to events in a certain way.

[34] Emotions are short-term, specific responses to an event that results in physical and psychological changes (happy or sad) that influence the individual's thoughts and behaviors.

[35] Several years of data is needed for an investing journal to provide insight. This is because enough data must be collected to identify patterns in our emotions; simultaneously, this data must be collected across different types of investments and market cycles. I still regularly use an investing journal.

CONCLUSION

I have no prognosis for what the market will do in 2018. As stock prices decline, the sentiment of my letters will change to bullishness. I yearn for declining prices because this is when our Cash is most productive – I can buy more stock with less money. It should not be ironic that declining prices offer reduced risk and increased returns, which, after all, is what every investor wants.

On a personal note, I need to pay tribute to the man who introduced me to investing. My uncle Sal Barbera, who recently passed away, was the first person to explain to me what "buying stock" meant. At about nine years old, I was in his office standing next to his large L-shaped desk; it was covered with papers, books and several computer monitors that had flashing red and green numbers on them. I saw my uncle punch a few keys on his keyboard, so I asked, "What did you just do?" He replied, "I just bought an ownership interest in a company." That's when I knew I wanted to dedicate my career to investing. So, I tip my hat to the man who introduced me to my life's passion.

Please contact me if you would like to discuss my risk management strategy (hopefully it's obvious I'd welcome your call to discuss risk!).

Respectfully,

Elliot Trexler

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Appendix A

Annualized Data

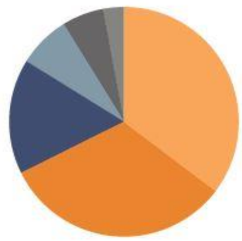
	Trailing CAGR		
	3-Year	5-Year	10-Year
Sales Growth	21.8%	14.2%	17.1%
Earnings Growth	25.2%	25.3%	19.3%
Dividend Growth	22.9%	31.4%	27.2%
Free Cash Flow Growth	35.8%	33.2%	30.9%

	Forward Data		
	1-Year	3-Year	5-Year
Price/Earnings	25.5	19.4	15.9
Price/Sales	1.2	0.9	0.7
Free Cash Flow Yield	6.2%	8.2%	8.8%
Dividend Yield	0.6%	0.8%	1.0%

Portfolio Characteristics

Number of Holdings	19
Average Weighted Market Cap (Bil)	15
Median Market Cap (Bil)	7
Average Annual Turnover	24%
Top 10 Holdings	31%
Dividend Yield	0.6%

Allocation by Sector



Industrials	24%
Consumer Discretionary	22%
Information Technology	11%
Consumer Staples	5%
Energy	4%
Health Care	2%

*Excludes Cash.

*All data as-of December 31, 2017.

PAST PERFORMANCE DOES NOT GUARANTEE FUTURE PERFORMANCE

Appendix B

IMPORTANT DISCLOSURES

This document is confidential and intended solely for the addressee. It is intended for information purposes only and should be used only by sophisticated investors who are knowledgeable of the risks involved in investing. This document does not constitute an offer to sell or the solicitation of an offer to purchase securities and may not be published or distributed without the express written consent of Global Return Asset Management, LLC ("Global Return"). An offer may be made only by use of a confidential private offering memorandum and only in jurisdictions where permitted by law. This information is not intended to be a description of the risks of an investment in any fund (the "Fund") managed by Global Return or its investment strategies. This material is not meant as a general guide to investing or as a source of any investment recommendation and makes no implied or express recommendations concerning the matter in which the Fund could or would be handled.

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There can be no assurances that the Fund will have a return on invested capital similar to prior years' returns, because, among other reasons, there may be differences in investment policies, economic conditions, regulatory climate, portfolio size, and expenses. The fact that the Fund or investors in the Fund have realized gains in the past is not an indication that the Fund or its investors will realize any gains in the future. Prior performance is not necessarily indicative of future results.

Investment returns and the principal value of an investment in the Fund will fluctuate so that an investor's units, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance shown. Performance data current to the most recent month may be obtained by calling 646-838-8182. The Fund imposes a 2.00% redemption fee on units held 30 days or less. Performance shown does not reflect the redemption fee, and if it had, returns would have been lower.

An investor cannot invest directly into an index. Indexes listed include the following:

HFRI Fundamental Value strategies employ investment processes designed to identify opportunities which trade at valuation metrics the manager determines to be inexpensive and undervalued compared with relevant benchmarks. Investment theses are focused on the firm's financial statements in both an absolute sense and relative to other similar securities and more broadly, market indicators. Fundamental Value strategies typically focus on equities which currently generate high cash flow, but trade at discounted valuation multiples, possibly as a result of limited anticipated growth prospects or generally out of favor conditions, which may be specific to sector or specific holding.

HFRI Fundamental Growth employ techniques in which the investment thesis is predicated on assessment of the valuation characteristics on the underlying companies which are expected to have prospects for earnings growth and capital appreciation exceeding the broader equity market. Investment theses are focused on the firm's financial statements in both an absolute sense and relative to other similar securities and more broadly, market indicators. Strategies employ investment processes designed to identify opportunities in companies which are experiencing or expected to experience abnormally high levels of growth compared with relevant benchmarks growth in earnings, profitability, sales or market share.

HFRI Multi-Strategy Investment Managers maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. EH Multi-Strategy managers typically do not maintain more than 50% exposure in any one Equity Hedge sub-strategy.

Barclay Equity Long Bias Index is recalculated and updated real-time on this page as soon as the monthly returns for the underlying funds are recorded. Only funds that provide us with net returns are included in the index calculation. The number of funds that are currently included in the calculations for the most recent months can be found in the footnotes below. Please note that the calculation for the number of funds is time-stamped and that the number of funds will continue to increase until all funds categorized within the sector have reported monthly returns.

Credit Suisse Multi-Strategy Index measures the aggregate performance of multi-strategy funds. Multi-strategy funds typically are characterized by their ability to allocate capital based on perceived opportunities among several hedge fund strategies. Through the diversification of capital, managers seek to deliver consistently positive returns regardless of the directional movement in equity, interest rate or currency markets. Strategies adopted in a multi-strategy fund may include, but are not limited to, convertible bond arbitrage, equity long/short, statistical arbitrage and merger arbitrage.