A PORTFOLIO FOR ALL MARKETS

The Case for TRS Absolute Value

THE TRS ABSOLUTE VALUE MISSION:

TRS Absolute Value ("TRS") seeks total return from income and capital consistent with reasonable investment risk.

The primary focus is to **preserve capital** in an effort to generate risk-adjusted return over the long term.

An **absolute value methodology** is the cornerstone of our process. Capital is only deployed when the market price of a security sufficiently discounts our appraisal of intrinsic value.

A **broad opportunity** set allows TRS maximum flexibility to optimize risk-adjusted reward. Capital can be invested across the capital structure or in any asset class, market cap, industry or geography.

TRS will take **concentrated positions** in those ideas offering the best risk/reward profile.

Robust risk pricing is applied at the security and portfolio level including discounting for macro risks.

When effectively deployed, an absolute value strategy can use market turmoil to purchase value at a discount and sow the seeds for future performance.

TRS: A PROCESS DRIVEN ALTERNATIVE

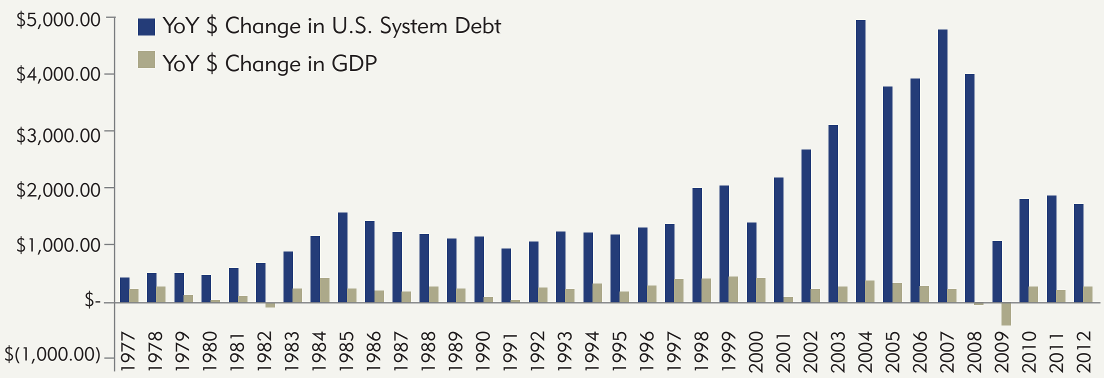
TRS views its capital preservation and risk-adjusted return mandates as two sides of the same coin. In order to meet these objectives, risk is consistently viewed through the lens of price in relation to intrinsic value. This offers investors a repeatable process that can be executed in all types of markets.

Risk management begins at the security level by requiring a margin of safety for each security and carries through to portfolio management by discounting macro risks that could alter investment returns.

TODAY'S MACRO RISKS PRESENT SERIOUS THREATS TO INVESTORS

Excessive leverage is weighing on the global economy. Over the last four decades the U.S. system experienced historic inflation in money and credit. The problem is not just the level of system indebtedness but also that prior growth rates must be maintained or exceeded in order to service the debt. The chart below compares the relationship of debt growth to economic growth in the U.S. going back to 1977.[1]

CHANGE IN U.S. SYSTEM DEBT VS. CHANGE IN U.S. GDP: 1977 – 2012



High debt and low growth are key reasons why many have diagnosed a "balance sheet recession" in the U.S. and other developed economies. In a balance sheet recession, businesses and individuals will refocus capital on debt service at the expense of capital investment and consumption. Exacerbating this dynamic in the U.S. is the combination of demographic headwinds from aging Baby Boomers together with the growth of the welfare state that increasingly allocates capital to unproductive uses.

[1]Source: Data on U.S. system debt taken from Federal Reserve Z.1 Flow of Funds Report, December 6, 2012. Debt numbers for 2012 tabulated through September 30, 2012. GDP numbers from Bureau for Economic Analysis and calculated through December 31, 2012.

POLICY "SOLUTIONS" MAY IMPAIR FUTURE RETURNS

Initiatives such as quantitative easing ("QE") in the U.S. could prove to be inversely correlated to long-term investment returns. For example, QE may actually hinder growth in the aggregate because policies to stimulate demand are local while supply chains are global.

GLOBAL SUPPLY CHAINS LIMIT QE IMPACT

Manufacturing now comprises just 20% of the global economy

Multinational corporations – aided by technology – can source supply anywhere

As a result, much of the supply side of the economy is global and not local

But fiscal and monetary policy focus on stimulating local demand

Result: stimulus has a small impact on demand but can have a large impact on supply

Example: Fed QE has had little effect stimulating growth in the U.S. economy but has been a strong catalyst for emerging market inflation

Perhaps the biggest dilemma created for investors by policy makers is that extremely loose monetary policy lifts asset prices in the short term forcing investors to pay more for a unit of risk. But if these policies prove ineffective at delivering the growth rates required to successfully deleverage the system, investors could end up getting less reward despite paying a higher price.

TRS DISCOUNTS MACRO RISK

While not unprecedented, the state of today's global economy is providing investors – both individual and institutional – with unusual and material risks that will likely impact investment outcomes. These macro risks can broadly be categorized as follows:

1. **Excessive global debt levels that are out of line with sustainable economic activity.** It is not just the absolute level of debt that creates a risk of impairment but also the relationship of that debt to the underlying economy and its growth rate.
2. **Global economic growth is likely too low to successfully reduce excess debt.**
3. **Global balance of payments crisis.** The fixed exchange rate regimes of the Eurozone and Dollar/Renminbi are preventing economies from making needed adjustments thereby causing large distortions in trade and capital relationships among nations.
4. **Policy responses that allocate losses politically and not economically.**
5. **Potential inflation and deflation risk.**

At TRS, we believe the risk of a balance sheet recession and slower growth will not increase long-term investment risk if we properly discount those risks when appraising the intrinsic value of assets.

TO GROW WEALTH YOU MUST FIRST PRESERVE IT

The recent past has refocused investor attention on the fact that investment gains are not guaranteed. To succeed, investors must recognize and act upon what is within their control. One of the biggest benefits an investor has is the ability to say "no" when the market prices an asset in a way that elevates risk above reward. TRS Absolute Value is managed with this understanding. We would rather resort to patience and discipline than follow the crowd into a richly priced trade in an effort to "keep up" with the market.

WHAT DO WE CONTROL AS INVESTORS?	NO	YES
Capital market conditions?	✓	
Economic conditions?	✓	
Social, political conditions?	✓	
Undertaking rigorous research?		✓
Assumptions made when pricing risk?		✓
Asset allocation?		✓
The price we pay?		✓

VOLATILITY IS NOT THE PRIMARY RISK TO CAPITAL

The primary risk to any investment portfolio is the permanent loss of capital. If assets are bought at a price overstating real value, the investor risks permanent loss when the market ultimately prices value correctly.

Volatility in the short-term can be a valuable ally. It means emotions in the market are running high increasing the possibility of mispricing. This can produce valuable investment opportunities. Moreover, continually understanding what assets are worth will help defend the portfolio in periods of volatility. Just because volatility increases over a short period does not necessarily mean the value proposition has changed. Nor does the absence of volatility insure that a value proposition is correct.

"In the short term the market is a voting machine, but in the long term the market is a weighing machine."

Ben Graham, the patriarch of Security Analysis


HOW WILL
YOU OPTIMIZE
YOUR
PORTFOLIO?

COMPOUND RETURN: THE MOST POWERFUL FORCE IN INVESTING

Simple compounding is the most powerful tool in the investor toolkit. For instance, investing a dollar on January 1 into an asset that doubled every day for the entire month would turn the investor into a billionaire by February 1.

Since the Great Depression, U.S. investors have largely been able to compound positive performance. **Since 2000, however, negative compounding has become an all-too real experience.** Today, investors are faced with the following challenges:

- Low absolute yields
- Anemic stock returns from 2000 to 2012
- Macro risks that have not been present in the global economy since the 1930s
- A rising price environment due to easy money policy by major central banks

UNDERSTANDING THE POWER OF NEGATIVE COMPOUNDING[2]

Rate of Return	Rate of Negative Compounding and Years Back to Break Even				
	-10%	-20%	-30%	-40%	-50%
2%	5.25 years	11.25 years	17.75 years	25.50 years	34.75 years
4%	2.75 years	5.50 years	9.00 years	12.75 years	17.25 years
6%	1.75 years	3.75 years	6.00 years	8.50 years	11.50 years
8%	1.25 years	2.75 years	4.50 years	6.50 years	8.75 years
10%	1.00 year	2.25 years	3.50 years	5.25 years	7.00 years

[2]The hypothetical illustration above assumes monthly compounding. It is not meant as a forecast of future events or as a statement that prior markets may be duplicated. Recovery periods are rounded to the nearest quarter of a year.

COMPOUNDING POSITIVE RETURN IS THE KEY TO LONG-TERM INVESTMENT SUCCESS

Much has been made about the S&P 500 recovering all the losses since the crash of 2008-2009. Here are the total returns of the S&P 500 in relation to gold and the 30 year Treasury from October 31, 2007 – before negative compounding set in for stocks – through March 31, 2013.

IF YOU DIDN'T GET OUT OF STOCKS BEFORE 2008 YOU ARE STILL SUFFERING FROM NEGATIVE COMPOUNDING[3]

	Inception Date: October 31, 2007	
	Total Return	**Annual Equivalent**
S&P 500	14.29%	2.49%
Gold	100.49%	13.70%
10 Yr Treasury	63.30%	9.48%

When you compound negative performance, you have less capital to reinvest when the pricing mechanism becomes more opportunistic for generating return.

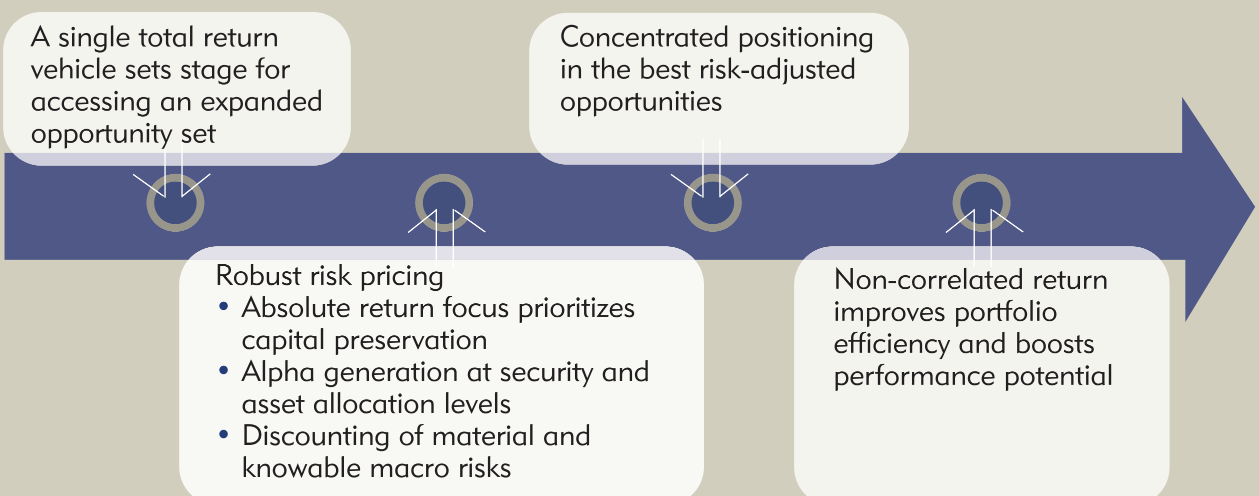
[3]Source: Bloomberg

INDEXING AND RELATIVE VALUE: LEGITIMATE STRATEGIES WITH BLIND SPOTS

Most people invest using a passive index or on a relative-value basis. Indexing offers investors a similar level of risk and return to the market being tracked. Relative value investing evaluates an asset relative to something else and not in relation to the value of the asset itself. An example of this would be to buy an asset that is trading more cheaply than a group of its peers, regardless of whether the asset is itself overpriced.

Indexing and relative value strategies represent legitimate approaches to the market but they have shortcomings. Indexing leads to over-diversification as most of the benefits of diversifying business risk (i.e. a company going bankrupt) are attained with a portfolio of 20 names or less. Another problem is that indexing and relative value limit performance. Indexing is guaranteed not to beat the market. Relative value requires short-term trading acumen to generate outperformance increasing the need for speculation.

OPTIMIZING AN INVESTMENT PORTFOLIO WITH TRS ABSOLUTE VALUE



Arguably the most significant shortcoming of indexing and relative value strategies is that they don't protect investors from overpaying for risk, which increases the potential for permanent loss. This in turn could force investors to compound negative performance, the worst possible outcome.

TRS PROCESS: CHECKLISTS MATTER

TRS uses checklists as a fundamental part of the investment process at the security, asset allocation, and portfolio levels. Although they are not a substitute for knowledge, understanding and judgment, they bring a critical discipline to the investment process.

The key to our success is our process

Our robust approach to pricing risk and our method for appraising value are proven. Checklists are routinely used to verify what we trust to be true, and also to identify what we are not sure about and where we may be wrong about future performance. Having a rigorous process prevents big mistakes and further allows us to focus capital on those opportunities where risk-adjusted return is most clearly understood.

TRS EXECUTION: A CHECKLIST PROCESS

TRS uses checklists at the security level…

INITIAL SCREEN → SECONDARY WORK → DUE DILIGENCE → FINAL CHECKLIST

INITIAL SCREEN
- Volume restrictions
- Other restrictions (i.e. OTC stocks)

SECONDARY WORK
- Valuation thresholds
- Industry & positioning

DUE DILIGENCE
- Quantitative
- Qualitative

FINAL CHECKLIST
- Up/down ratio
- Stress-test
- Catalysts
- Risk factors
- Portfolio fit

…and at the asset allocation level…

FIXED INCOME → EQUITIES → COMMODITIES → CROSS-ASSET OPPORTUNITY COST

FIXED INCOME
- Spreads
- Rates
- Credits

EQUITIES
- Cross-market metrics
- Out of favor dynamics

COMMODITIES
- Business cycle analysis
- Secular trends

CROSS-ASSET OPPORTUNITY COST
- Up/down ratio
- Stress-test
- Catalysts
- Hedging
- Portfolio fit

…to deliver risk-adjusted return regardless of macro-driven outcomes

TRS ABSOLUTE VALUE CURRENTLY HAS A PORTFOLIO THAT CAN WEATHER MULTIPLE MACRO SCENARIOS

INFLATIONARY
- Erodes purchasing power
- Nominal bonds and cash suffer
- Inflation-linked bonds and commodities benefit

DEFLATIONARY
- Erodes wealth
- Nominal bonds and cash benefit
- Equity suffers if real growth declines

INCREASING GROWTH
- Potential for increasing rates
- Fixed income suffers
- Equities and commodities benefit

DECREASING GROWTH
- Contracts wealth
- Nominal and inflation-linked bonds benefit
- Equities and commodities suffer

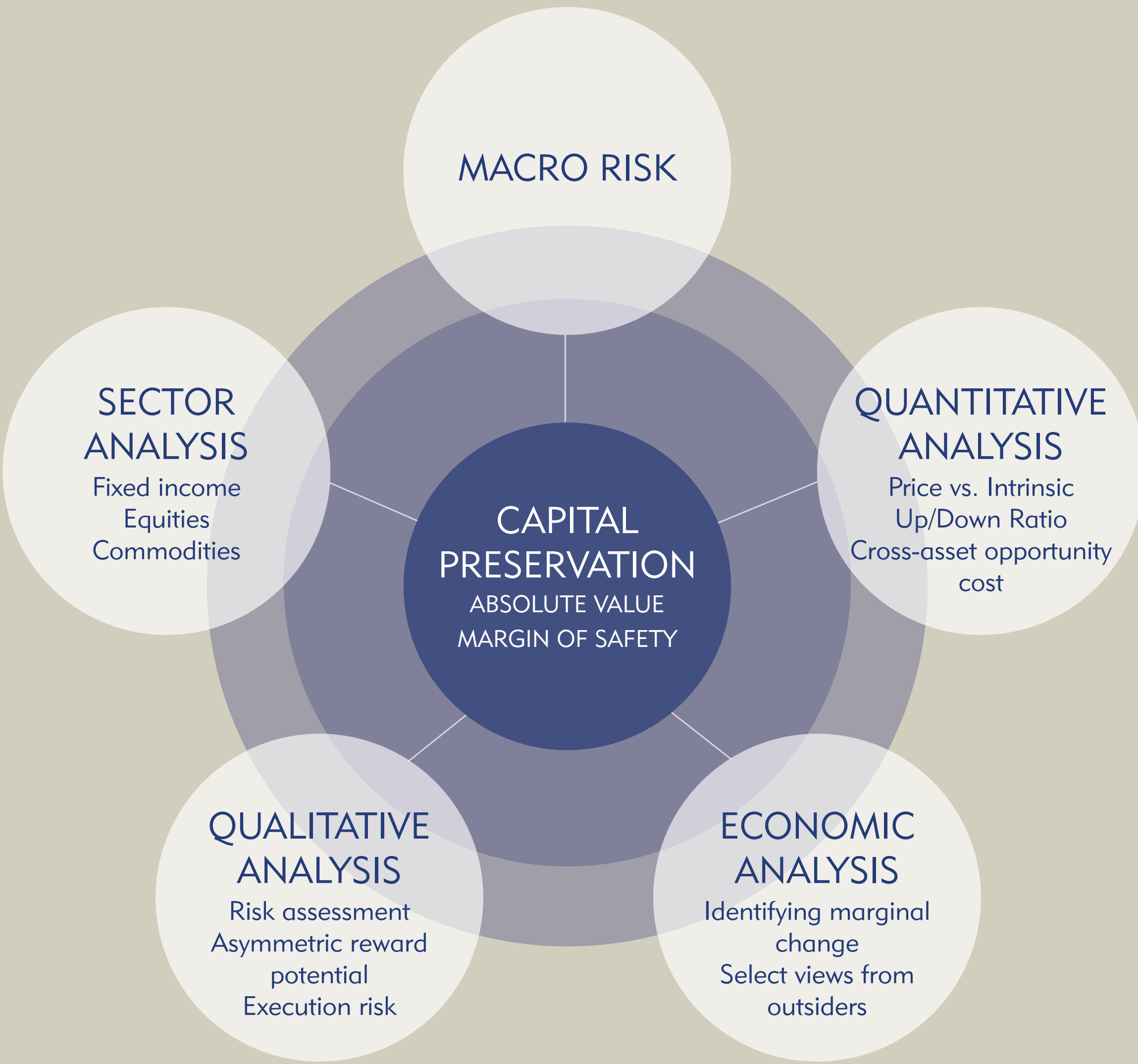
Whether we experience inflation or deflation, real growth or recession, a part of the TRS portfolio will benefit. In every case, portfolio risk will only be taken if absolute value parameters are met. This provides TRS investors with a pathway to preserving capital and compounding positive risk-adjusted total return over the long-term.

TRS ABSOLUTE VALUE IS ABSOLUTELY CRITICAL

There are compelling reasons to consider absolute value investing, especially against the backdrop of today's global macro-economic risks. Combining our robust approach to pricing risk with our long-proven appraisal methodology, TRS offers a pathway to delivering risk-adjusted return to capital preservation-minded investors over the long-term.

The most proven way to consistently compound positive return over time is to buy securities at a discount to their true value. We believe this principle remains unchanged regardless of the severity of macro problems facing investors.

THE RESULT IS A PORTFOLIO DESIGNED TO PRESERVE CAPITAL FOR REINVESTMENT WHEN THE PRICING MECHANISM OFFERS THE GREATEST OPPORTUNITY



TRS ABSOLUTE VALUE: A PERFORMANCE-DRIVEN ALTERNATIVE FOR ALL

TRS avoids over-diversification and has designed processes to prevent overpaying for risk. Wealth must be preserved so that it can durably generate return. By investing in absolute terms, TRS prioritizes the capital preservation mission and provides an alternative that can be adjunctive to traditional portfolios.

Individuals and institutions alike can utilize TRS as an alternative vehicle to complement indexing or relative-value strategies, or as a complement to a traditional blend of stocks, bonds and mutual funds.

TRS Absolute Value is designed to be implemented for separately managed accounts using third-party custodians. It is transparent, easily implemented and free of lock-up. And it is performance-driven. We are intensely focused on absolute return principles when making asset allocation, security selection, and risk management decisions. TRS has proven its ability to preserve capital in a down market and compound positive performance at satisfactory rates under a wide range of market conditions.

The more successful we are at preserving capital in negative periods, the more capital we will have to reinvest when prices become more favorable for long-term investment.

ABOUT THE AUTHOR

John A. Schmit has been a member of the Investment Committee of Frontier Investment Management Company since joining the firm in May 2008. He has been the Portfolio Manager for the TRS Absolute Value portfolio since its launch in January 2009. In addition to his TRS duties, Mr. Schmit focuses on equity research, security and manager selection, and portfolio strategy for the firm. He has previously served as Manager of Crestview Capital Partners, LLC and Vice President of Investments for RENN Capital Group, Inc. John holds a BBA in Finance from Texas Christian University, a JD from the University of Oklahoma College of Law and an LLM in International and Comparative Law from The Georgetown University Law Center.

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