



Keller Partners 10x10 Portfolio

A Conservative Large-Cap Portfolio with Active Risk Management

Market Risk: the Critical Variable

Once or twice a decade, a financial tsunami inflicts breathtaking damage to stock market portfolios, with temporary losses of 35%-50%. Not only are these unforeseen “black swan” events mathematically destructive to long-term returns, but they also greatly exceed an individual investor’s tolerance for financial pain. The first priority of the portfolio manager needs to be the evaluation and management of this market risk. Survival is a prerequisite for success.

The *Keller Partners 10x10 Portfolio* is an actively-managed large-cap portfolio with two mandates: (1) the proactive management of this systematic, or market risk and (2) long-term investment returns that approximate those of the popular large-cap market indices.

Mega-Cap Portfolio

The *10x10 Portfolio* offers conservative investors a disciplined, active portfolio management system that incorporates both “top-down” and “bottom-up” defensive mechanisms:

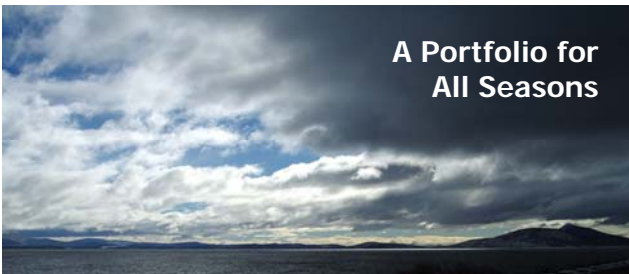
- ◆ Exposure to market risk is managed with a trend analysis system developed and used by our firm for over a decade;
- ◆ Portfolio securities are selected from a universe of over 100 large-cap issues that are evaluated weekly for intermediate-term performance potential. The resulting portfolios are exceptionally liquid.

The management process is 100% rules-based, and has operated in real time for almost five years. Our objective is to be fully invested and unconstrained during the extended “fair weather” market regimes (which are most common). However, the portfolio can also become highly defensive during the less frequent, but potentially damaging, financial storm events.

Management of Drawdown is Critical

While currently popular, passive investment approaches simply cannot manage portfolio drawdowns within the comfort zone of investors. Thus, as we see it, the cost of active management simply represents an investment in the management of drawdown.

Over time, we expect to deliver higher Sharpe Ratios than a portfolio invested in a passive benchmark, or even a factor-enhanced ETF strategy. This improvement will be achieved primarily through our proactive efforts to analyze market trends and thus avoid large losses.



A Portfolio for All Seasons

Profile Since Inception (Oct. 2012 — Aug. 2017)

Full Equity Exposure	(76%)
Partial Equity Exposure	(20%)
No Equity Exposure	(4%)
Portfolio Total Return (net CAGR)	9.48%
Dividend Contribution (2016)	2.27%
Transaction Costs (2016)	1.41%
Sharpe Ratio (since inception)	0.947

Cornerstone Investment Concepts

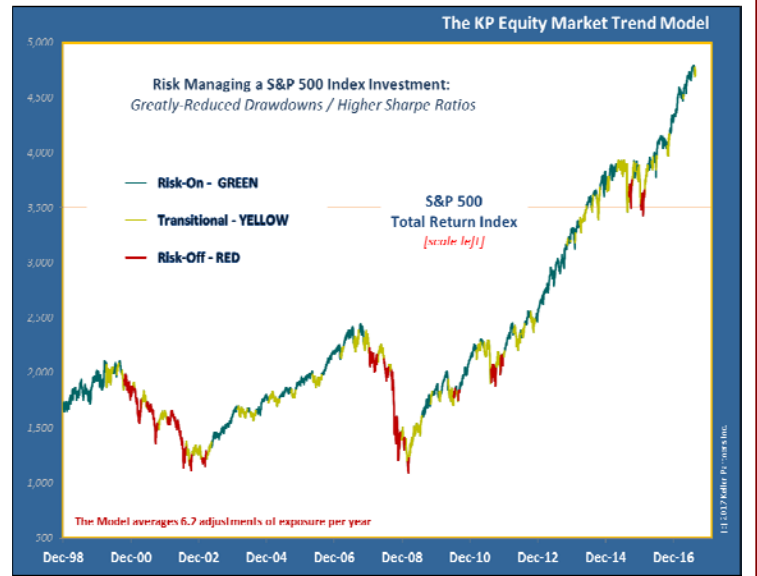
- The performance of an investment portfolio is primarily determined by its market exposure, not by the manager’s selection of individual issues.
- Control of portfolio drawdown is absolutely critical to generating attractive long-term return patterns, and just as important for client retention and confidence. Wall Street has not demonstrated much interest in trying to manage downside volatility and generally ignores the challenge, urging clients to hold on for the “long term.”
- Macroeconomic research contributes little to portfolio management. Accordingly, economic inputs do not play a role in our approach. Our quantitative trend analysis formulas do not read the *Economist* or the *Wall Street Journal*.
- Portfolio securities are selected by monitoring investment flows in the marketplace, not by fundamental research. This process tends to select portfolios that differ substantially from benchmark weights. In the pursuit of alpha (added value), we deliberately allow our portfolio to be concentrated and under-diversified this way.

The Dynamic Management of Equity Market (Systematic) Risk

The equity exposure of our *10x10 Portfolios* is controlled by the *KP Market Trend Model*, a composite of two proprietary trend studies, each of which analyzes market direction uniquely.

The Model has three possible states: *risk-on* (green); *transitional* (yellow), and *risk-off* (red). Over the past 18 years, the Model has been fully committed to risk assets for roughly 50% of all trading days, and partially invested for 35% of the trading days.

The extreme “*risk-off*” condition is colored red on the chart to the right, and occurs rarely — only 15% of all trading days since 1998, and 12% of all days since 1980. Yet, this is statistically by far the most dangerous environment in which to own stocks.



The Keller Partners 10x10 Portfolio Active Mega-Cap Strategy as of Market Close Friday, August 25, 2017

KP Mega-Cap Universe	Price as of 25-Aug-17	Momentum Factors		Tranche Size = \$50,909
		A	B	
Existing Portfolio Positions		> 1.30	> 0.00	
				Shares
BK Bank of NY/Mellon	52.65	1.79	0.08	965
LMT Lockheed Martin	302.80	1.76	0.17	170
BRKB Berkshire Hathaway B	179.60	1.75	0.13	285
UNH UnitedHealth Group	194.36	1.70	0.12	260
BA Boeing	235.89	1.67	0.37	215
GILD Gilead Sciences	73.79	1.66	0.12	690
GM General Motors	35.60	1.58	0.02	1,430
UPS United Parcel Service	113.40	1.57	0.09	450
MA Mastercard	132.75	1.56	0.16	385
ABBV AbbVie	72.48	1.56	0.02	700
CELG Celgene	129.68	1.54	0.00	395
WMT Wal-Mart Stores	78.63	1.54	0.09	645
FB Facebook	166.32	1.50	0.18	305
CMCSA Comcast	40.20	1.49	0.07	1,265
MET MetLife	47.99	1.48	-0.04	1,060
ACN Accenture	129.39	1.48	0.07	395
V Visa	103.35	1.46	0.18	495
NEE NextEra Energy	150.62	1.43	-0.38	340
AAPL Apple Inc.	159.86	1.42	0.18	320
PG Procter & Gamble	92.51	1.41	0.11	550
WBA Walgreen's	81.13	1.38	0.03	630
VZ Verizon	48.68	1.33	0.16	1,045
BMY Bristol-Myers Squibb	58.37	1.33	0.11	870
PYPL Paypal	59.97	1.32	0.23	850

Momentum Analysis of Portfolio Securities

Individual portfolio positions are selected from a universe of 110 US mega-cap securities using a sophisticated multi-factor momentum screening process. At purchase, all commitments are equally-sized.

Individual issues are required to have both “A” and “B” momentum factor scores at or above pre-defined minimum values at purchase.

Positions are held as long as they continue to meet, or exceed, minimum threshold values for both filters.

The portfolio is re-scored and reviewed weekly. The graphic to the left illustrates the top section of a recent evaluation run, at a time when the Market Trend Model had reduced equity exposure to 50%.

Cash Balances. Fully-invested portfolios are structured to hold ten equity positions of 9.1% each and a 9.1% cash position to facilitate equal sizing of initial commitments. The dollar amount of the initial position size is reviewed/adjusted quarterly.

Performance Benchmark. Given the 9.1% policy cash allocation, we would expect to capture roughly 91% of the performance of a large-cap index such as the *Standard & Poor's 100 (OEX) Cash Index*, plus or minus the impacts of portfolio management.

Performance Updates. The historical performance of the portfolio, together with appropriate portfolio metrics are presented in the *KP-OEX Performance Summary* under the *Documents* tab at www.kellerpartners.com.