

40+ Years As An Active Asset Allocator  
20+ Years Of Average Industry Experience  
10+ Years Using ETFs

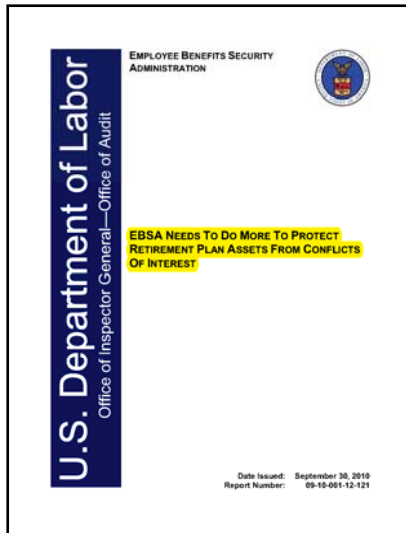


**AVATAR**  
ASSOCIATES

**401(k) Presentation**

**January 2011**

## What to remember from today's meeting:



1. Avatar avoids conflicts of interest
2. Avatar manages a more diversified portfolio
3. Avatar strives for superior risk-adjusted performance
4. Avatar provides superior QDIA investments by
  - lowering costs,
  - using ETFs, and
  - increasing transparency

**“Not only do the participants not know what fees are charged, often times the plan sponsor doesn’t understand how much they are paying for things.”**

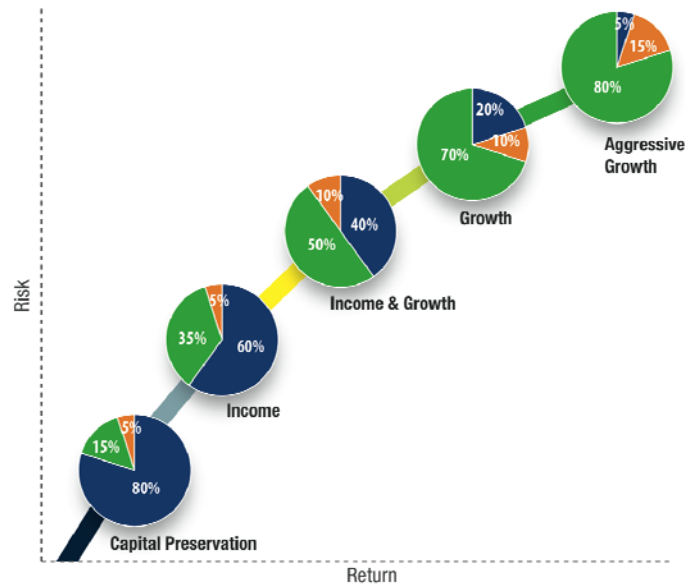


*Quote by Phyllis Borzi, Asst. Secretary of Labor for the Employee Benefit Security Administration*  
*- Bernard, Tara. Your Money: 401(k) fees gain a bit of clarity. 7.23.2010 NY Times*

# Organization

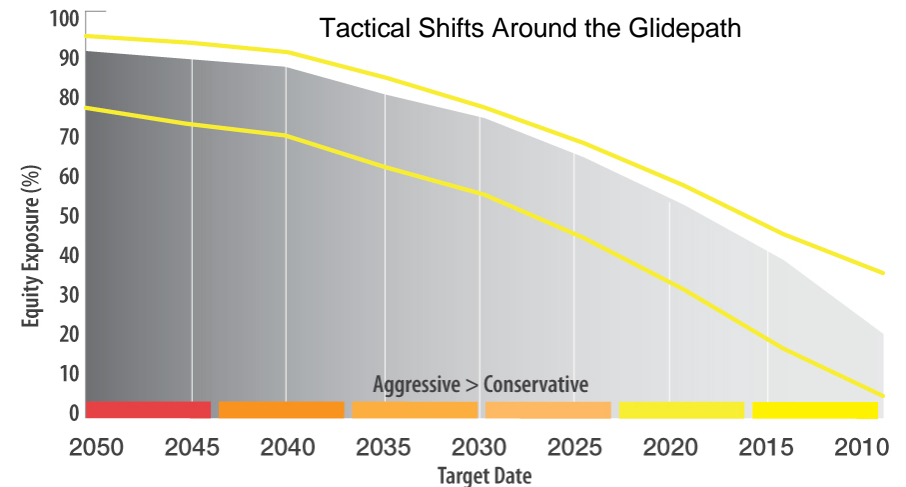
Business Description	Senior Investment Leaders
<ul style="list-style-type: none"><li>• Founded in 1970 and headquartered in New York City</li><li>• The firm currently has twenty one employees and is majority employee owned</li><li>• Client base is comprised of pension funds, corporate accounts, trusts, endowments, Taft-Hartley and high-net-worth individuals</li><li>• Senior research and portfolio management average over 25 years of experience</li><li>• As of December 31, 2011 Avatar has \$1.07 billion in total assets under management</li><li>• Investment services delivered primarily through ETF implementation</li></ul>	<p><b>Ted Theodore</b>, CFA, Chairman, Chief Investment Officer. Joined firm in 1989. 47 years of industry experience.</p> <p><b>Larry Seibert</b>, CFA, Vice Chairman, Portfolio Manager. Joined firm in 1990. 25 years of industry experience.</p> <p><b>Carol Eddy</b>, CFA, Managing Director, research. Joined firm in 1991. 23 years of industry experience</p> <p><b>Michael Suen</b>, CFA, Ph.D., Senior Vice President, research. Joined firm in 2009. 17 years of industry experience.</p> <p><b>Janet Johnston</b>, CFA, Senior Vice President, portfolio manager. Rejoined firm in 2010. 25 years of industry experience</p> <p><b>Michael Case Smith</b>, Managing Director. Investment strategies, glidepaths. Joined the firm in 2008. 17 years industry experience.</p> <p><b>Fredrick Brimberg</b>, Senior Vice President, international portfolio manager. Joined firm in 2005. 31 years industry experience</p> <p><b>John Burke</b>, Senior Vice President, trading. Joined firm in 2004. 23 years industry experience.</p>

## 5 Target Risk Collective Funds



- Trustee – Wilmington Trust
- Fee Classes –
  - 35bp (no reimbursement),
  - 60bp (25bp reimbursement),
  - 75bp (40bp reimbursement)

## 9 Target Date Collective Funds



- NSCC DCC&S Accessible
- Daily NAVs
- Results in Morningstar Direct
- Funds of non-proprietary ETFs
- Glidepath **TO** retirement

## Investment Philosophy:

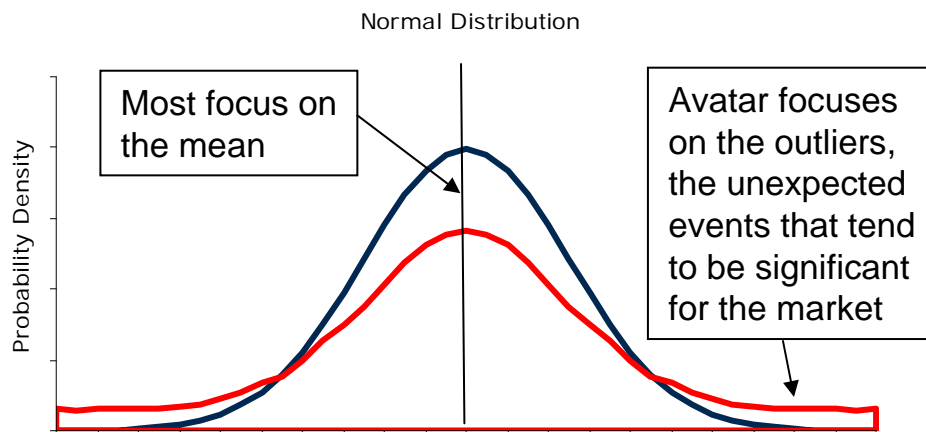
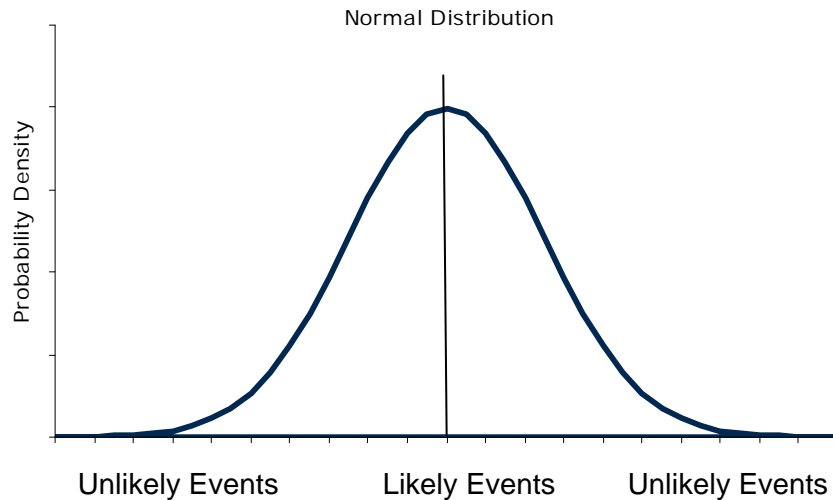
1. Steady application of investment disciplines leads to lower volatility relative to benchmarks which, in turn, leads to superior long-term returns
2. Clients do not want surprises
3. Broad based active asset allocation has been, and continues to be, an effective loss control approach
4. In summary, “participate, but protect”



“The Capital Asset Pricing Model (CAPM) is a thing of beauty. Thanks to one or another counterfactual assumptions, it achieves clean and simple conclusions..... Now, 40 years later, in the face of empirical problems with the implications of the model, we should be cognizant of the consequences of varying its convenient but unrealistic assumptions. In particular, we should be cognizant of what more realistic assumptions concerning investment constraints imply about how we should invest, value assets, and adjust for risk .”

*Harry Markowitz, October 3, 2005*

## Has the Environment Changed?



**Avatar uses quantitative techniques, but Avatar's models differ significantly from its competitors.**

**Why?**

**The un-expected happens more frequently than MPT math would explain.**

**Therefore**

**We use math that is not dependent upon "standard math" assumptions.**

## 1

### WORLD VIEW

From thousands available, Avatar selects and monitors 150 market indicators including:

- economic,
- balance sheet, *and*
- behavioral data points

Data points are entered into 27 proprietary, algorithmic models to determine market:

- direction
- liquidity, *and*
- sustainability

Avatar uses a **quantitative**, multi-factor approach that combines **fundamental** and **technical** research with **behavioral** finance. This fosters a degree of investment confidence that simply cannot be achieved by single factor models or static asset allocation strategies.



## 2 ASSET ALLOCATION

- BULLISH
- Strong Overweight
- Slight Overweight
- Maintain Benchmark Weighting
- Slight Underweight
- Strong Underweight
- BEARISH

Subcategories within each class default to neutral weightings and are tilted to coincide with Avatar’s world view.

### *Much more than just Stocks versus Bonds*

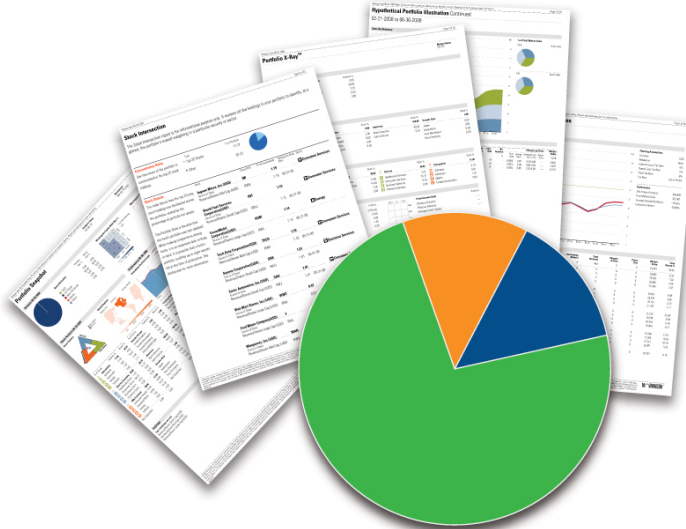
Growth vs. Value	Govt. vs. Corp.
Large, Mid or Small	Inv. Grade vs. High Yield
Sector Rotation	Maturity vs. Duration
Domestic vs. International...	

### Avatar applies market analysis to three classes of global exposure:

- 10 economic sectors (U.S./Global),
- 7 fixed income (bond) sectors, and
- 12 countries/global exchanges.

## 3

### SECURITY SELECTION



ETFs are hand-selected from Avatar's approved roster.

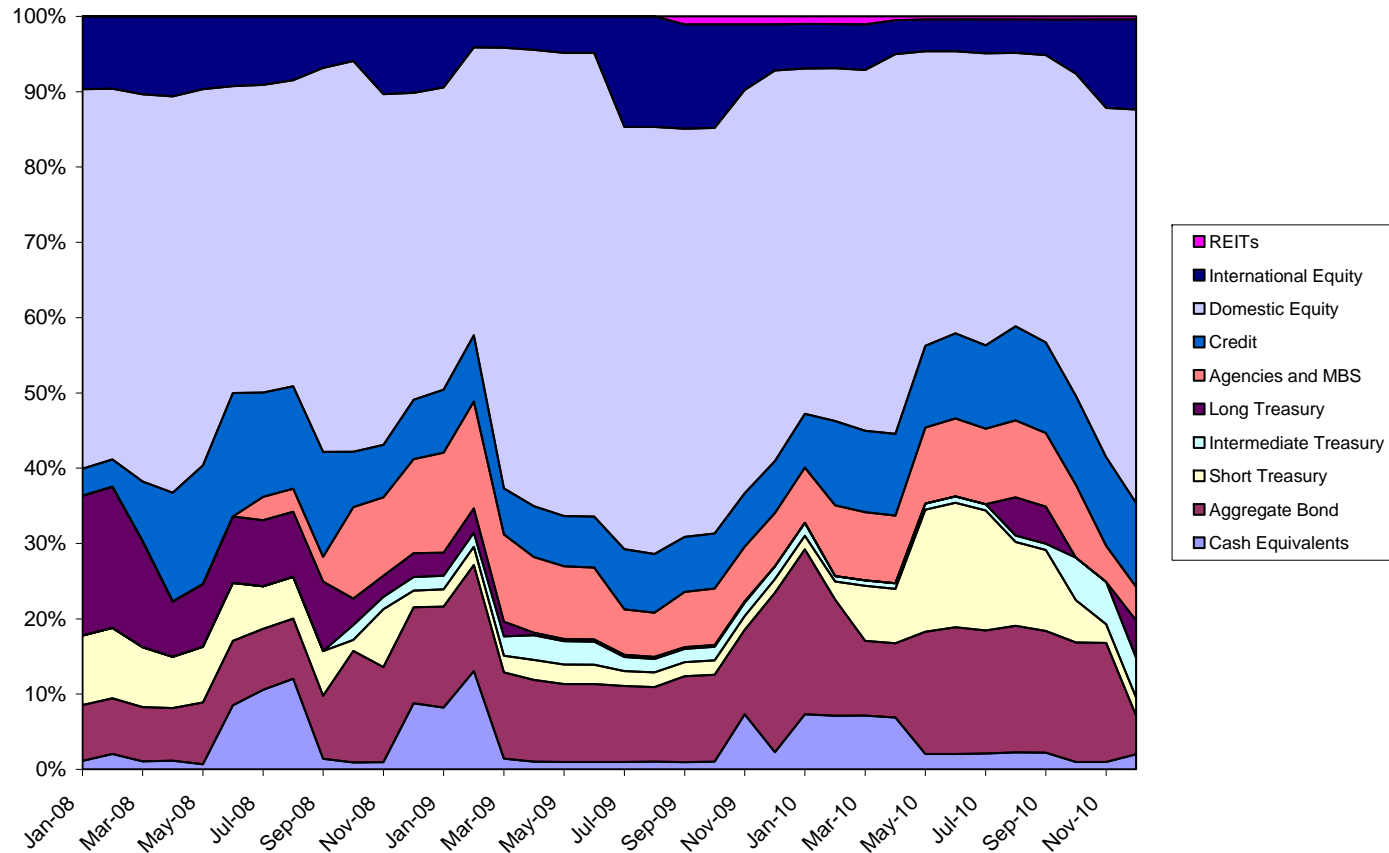
Avatar begins with a universe of over 750 ETFs and approves about 160 with favorable correlation to appropriate asset classes or sector weightings.

*Criteria for ETF inclusion:*

- **Low Cost**
- **Transparent**
- **Low Tracking Error**
- **Strong Track Record**

# Asset Allocation Changes

Allocation Changes in the Income & Growth Strategy



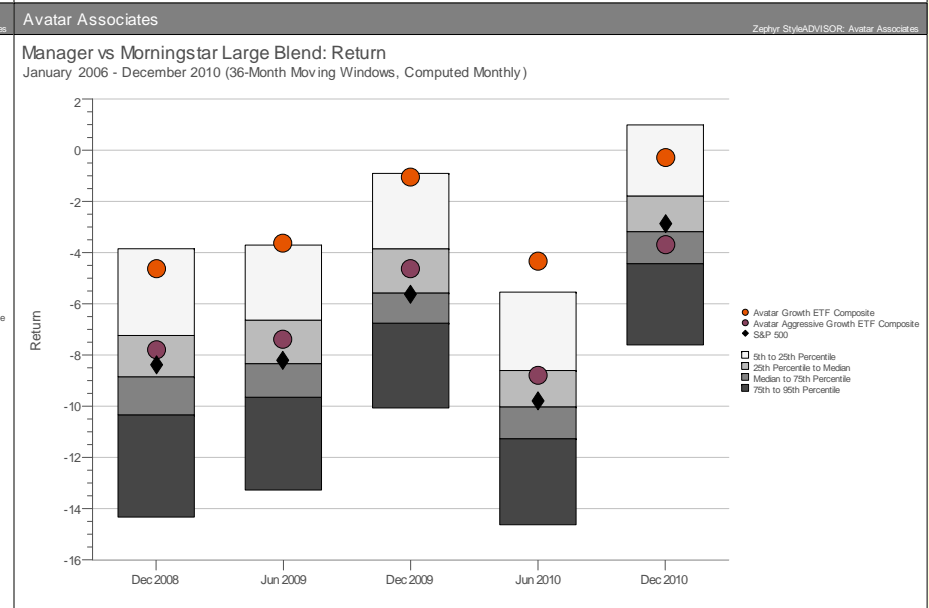
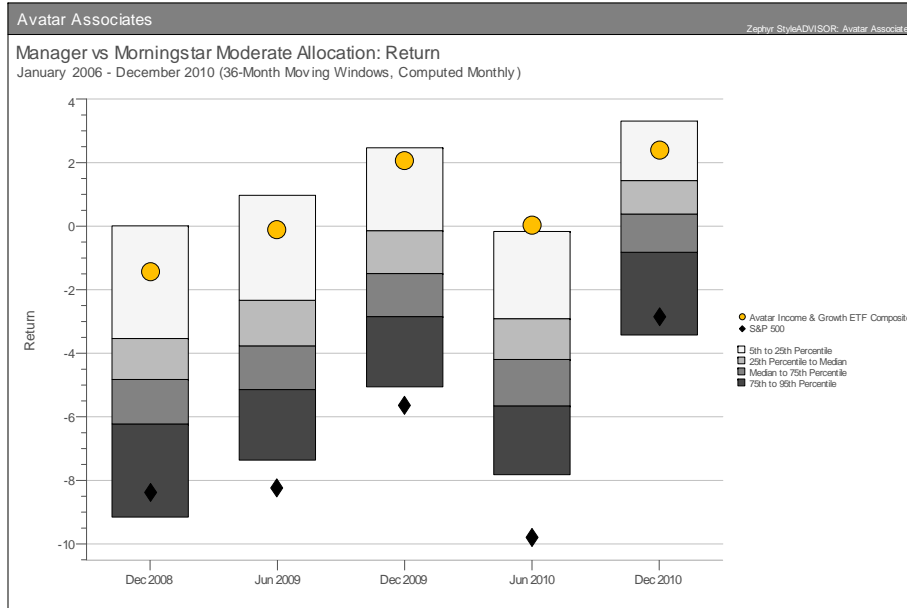
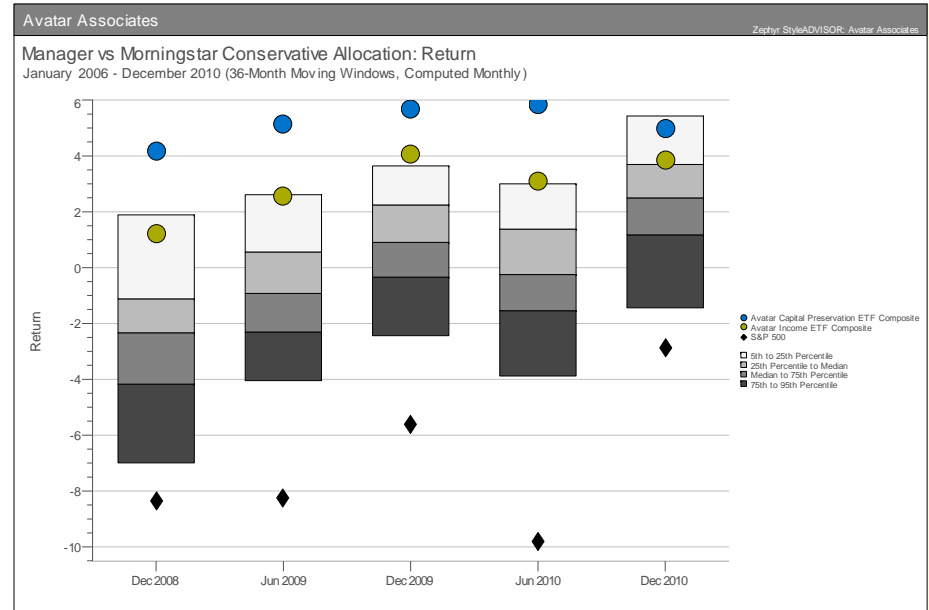
**The average Avatar portfolio includes exposure to:**

- ~2,500 equity issues
- ~1,500 debt issues

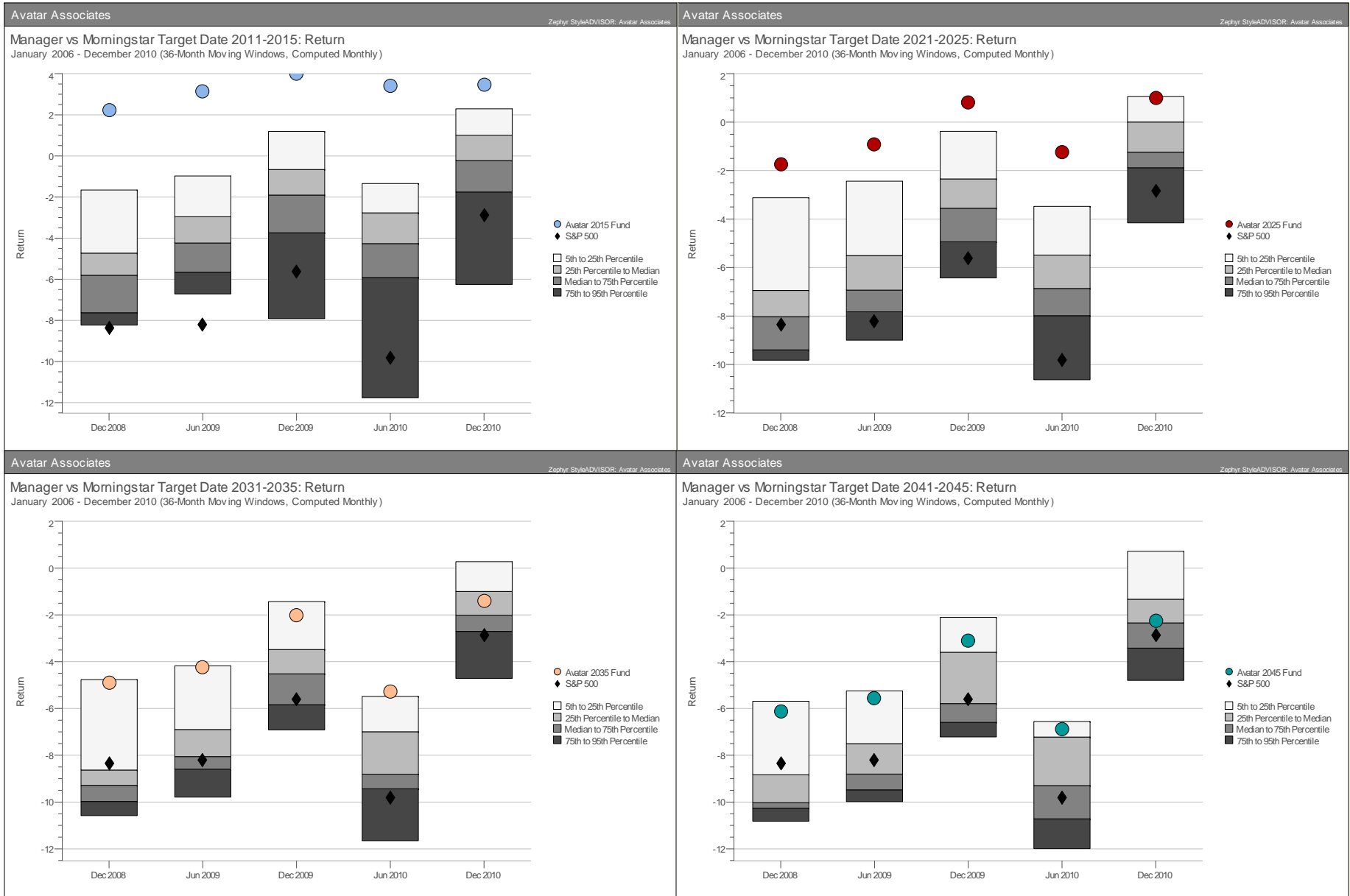
# Performance – Risk-based Funds

## Morningstar Rankings – 9/30/2010

Strategy	Stars
Capital Preservation	★★★★★
Income	★★★★
Income & Growth	★★★★★
Growth	★★★★★
Aggressive Growth	★★★



# Performance – Target Date Funds



## Record Keepers

- AmeriPay 401k
- Ascensus (PrudentLink and PrudentAdvisor)
- Daily Access Corporation
- Digital Retirement Solutions
- Diversified Investment Advisors
- ePlan Services
- Granite Retirement Services/ETF401k
- Great-West Retirement (Custom Key Product)
- Lincoln Financial (SmartFuture and Alliance Product)
- NextStep Defined Contributions, Inc.
- Plan Administrators, Inc (PAI)
- Professional Capital Services (PCS)
- RPG Consultants
- Schloss & Co, LLC

## Trading Platforms

- Fidelity (NFS)
- Matrix Financial Solutions
- Reliance Trust Company
- Charles Schwab & Co.
- Wachovia
- Wilmington Trust/AST Capital
- ACS/Buck
- Invesmart
- Mercer/Putnam
- Mid-Atlantic
- GreatWest (FasCorp)
- TD Ameritrade
- Ascensus



# Equity Indicators

## Monetary Model: Generally

- Long and short term government and corporate rates: level, trend and change
- Prices: consumer, producer, commodity, import and export
- Federal Reserve policy actions
- Spreads between interest rates: calendar and quality
- Economic and monetary liquidity
- Various monetary aggregates: real and nominal, growth rates, vs. GDP
- Currency: spot and trade-weighted
- Banking system: loans, deposits, reserves
- Economic indicators: lagging, coincident, and leading
- Economic models: profits, employment, production, sales, inflation

## Monetary Model: Specifically and/or additionally analyze level, trend and change

- 15-Year T-Bond perpetual contract
- Lehman Brothers long-term bonds
- Moody AAA bond yields
- Merrill Lynch corporate bonds
- Short-Term government bonds
- 91-Day t-bill perpetual contract
- Fed funds rate
- Prime rate
- 10-Year Treasuries minus t-bills
- Short term governments divided by t-bills
- Fed fund to discount rate ratio
- T-Bill perpetual contract minus eurodollar
- CD rate minus t-bills
- Moody AAA bond yields less commercial paper rate
- S&P dividend yield
- Real M3 money supply minus industrial production
- Diffusion index of coincident indicators
- Commercial paper - non-financial companies
- U.S. dollar vs. Dow Jones commodity futures
- (M1 Money Supply / M3 Money Supply) / CRB Spot Raw Industrials
- Monetary base
- Real money supply (M1, M2 and M3)
- Total reserves
- Non-borrowed and net-free reserves
- Total reserves divided by required reserves
- CRB futures prices, all commodities
- Dow Jones commodity futures
- CRB perpetual contract
- Market Vane - bond futures sentiment
- Consensus Inc. – eurodollar
- Market Vane – eurodollar
- Consensus Inc. – t-bill
- Market Vane – t-bill futures

## Practical Value Model: Generally

- Investor opinion surveys
- Investor group activities
- Flow of funds: cash acquisitions, mutual fund inflows, equity offerings
- Imbedded volatility indices
- Trading Index: NYSE, NASDAQ, Amex

## Practical Value Model: Specifically and/or additionally analyze level, trend and change

- Investors Intelligence survey of strategists
- Market Vane survey of institutional traders
- Consensus Inc. survey of futures traders
- American Association of Individual Investors surveys
- All options put/call volume index
- CBOE Index put/call volume index
- Equity only put/call volume index
- All options dollar premium put/call index
- NYSE buy program volume to total volume ratio
- Insider buy/sell ratio
- Specialists short ratio
- Odd lot short ratio
- Cash to asset ratios for equity and bond mutual funds
- Exchange traded and enhanced index fund short to long ratio

## Momentum Model: Generally

- Price indices
- Volume indices
- Landmarks: highs, lows and event extremes (e.g., "thrusts")
- Group, sector and industry participation

## Momentum Model: Specifically and/or additionally analyze level, trend and change

- NYSE Composite
- S&P Composite
- Wilshire Composite
- NASDAQ Composite
- Value Line Geometric Index
- NYSE advance/decline
- NASDAQ advance/decline
- Amex advance/decline
- All market advance/decline
- Ten, thirty day a/d ratios
- Stochastic ratios
- Relative Strength Index ratios
- MACD indicators
- All industry breadth and price momentum
- Group, sector and industry genuineness confirmation

## Monetary Model: Generally

- Long and short term government and corporate rates: level, trend and change
- Prices: consumer, producer, commodity, import and export
- Federal Reserve policy actions
- Spreads between interest rates: calendar and quality
- Economic and monetary liquidity
- Various monetary aggregates: real and nominal, growth rates, vs. GDP
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- CD rate minus t-bills
- Moody AAA bond yields less commercial paper rate
- Dollar financial future
- Trade-weighted dollar
- Industrial production
- Capacity utilization
- NAPM, all series
- Real M3 money supply minus industrial production
- Diffusion index of coincident indicators
- Commercial paper - non-financial companies
- U.S. dollar vs. Dow Jones commodity futures
- $(M1 \text{ Money Supply} / M3 \text{ Money Supply}) / \text{CRB Spot Raw Industrials}$
- CRB Spot Raw Industrials/unemployment claims
- Monetary base
- Real M2 money supply
- Money with zero maturity ("MZM")

## Monetary Model: Specifically and/or additionally analyze level, trend and change *Continued...*

- Non-borrowed and net-free reserves
- Total reserves divided by required reserves
- Commodity Research Bureau Spot Raw Industrial Material Prices
- CRB futures prices, all commodities
- Consumer price index, all-urban and core
- Producer price index, final, intermediate, raw, and core
- Gold prices
- Oil prices
- Lumber prices
- Moody's scrap metal prices
- Copper prices
- Dow Jones commodity futures
- CRB perpetual contract

## Practical Value Model: Generally

- Investor opinion surveys
- Investor group activities
- Flow of funds: mutual fund inflows, bond offerings
- Imbedded volatility indices

## Practical Value Model: Specifically and/or additionally analyze level, trend and change

- Market Vane - bond futures sentiment
- Consensus Inc. - t-bill
- Market Vane - t-bill futures
- Bond/stock futures
- Bond/gold futures
- ISI duration survey
- Options put/call volume index
- Options dollar premium put/call index
- Cash to asset ratios for bond mutual funds
- Exchange traded and enhanced index fund short to long ratio

## Momentum Model: Generally

- Price indices
- Landmarks: event extremes (e.g., "thrusts")

## Momentum Model: Specifically and/or additionally analyze level, trend and change

- T-bills
- Eurodollars
- Ten year note
- Thirty year bond
- Lehman Aggregate

# Disclosure

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The returns provided herein are provided by Avatar Associates LLC and are based upon the allocation and the past performance of the underlying ETFs initially contained in the relevant composite. We rely on the performance returns provided by the underlying ETFs to a database, which we believe to be reliable, but make no representations or warranties as to its accuracy or completeness. The underlying ETFs' performance returns are unaudited and we make no representations as to their accuracy. The returns are gross of underlying ETFs' fees and any product fees. Actual portfolio returns would be reduced by investment advisory fees (25 basis points), possible transaction costs and other expenses that may be incurred in the management of the account.

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The Morningstar Target Risk Universes were chosen as comparables because they were most similar in composition and investment strategy to the Avatar Target Risk Funds.