Efficient Alpha Capital Deferred Revenue Index

Q1 2019

Doug Scherrer Introduction

- Born and raised in St. Louis, MO
- Graduated from Princeton University with a degree in Economics, *magna cum laude* (2003)
- Started career as an Associate at The Boston Consulting Group (BCG)
- Extensive Private Equity experience at General Atlantic (New York and São Paulo, Brazil) and ClearLight Partners (Newport Beach, CA)
- CFO of two start-up companies: Nubank and Oasis Collections
- Founded Efficient Alpha Capital ("EAC") in Los Angeles, CA in 2016

Efficient Alpha Capital's Investment Philosophy

- Global investment landscape is evolving; approaches that have worked historically may not produce compelling returns in the future
- Only the best human stock pickers will be able to outperform the market (net of fees), and few investors have access to such managers
- In response to the above, assets have moved to passive index products – which have worked well in recent years as the overall market's EPS growth and multiple expansion have produced high absolute returns
- "Smart Beta" has emerged as a category of index-based strategies that attempts to outperform market cap-weighted strategies
- Few "Smart Beta" strategies have actually been successful in generating "Alpha"
- Efficient Alpha Capital has leveraged Private Equity investment experience to develop strategies that show meaningful "Alpha" generation

EAC Believes That Successful Investment Products Going Forward Will Have the Following Qualities

- ❑ Low fees
- ❑ Daily liquidity
- ❑ Little-to-no human intervention to keep costs low while avoiding biases that humans can introduce to the investment decision-making process
- ❑ Hedging done at a portfolio – not product – level
- ❑ Tax efficient

Why the Name “Efficient Alpha”?

- The term “Smart Beta” makes sense for strategies designed to invest in an entire market universe, but using a weighting methodology different than market capitalization

- However, for rules-based indexes that seek to deliver outperformance through portfolios that only buy certain stocks in a given market universe, Smart Beta is very much a misnomer
  - Quite clearly, these strategies are trying to generate Alpha – not Beta

- Efficient Alpha Capital’s strategies are designed to generate Alpha in a low-cost, efficient manner through an entirely rules-based approach with no human intervention

Efficient Alpha Capital's Strategies are Grounded in Significant Private Equity Investment Experience

- ❑ Strategies derived from investment experience at one of the world's largest and most successful PE firms

- ❑ When making a PE investment (i.e. long-term, illiquid), quality and thoughtfulness of fundamental analysis must go well beyond the approach used by typical public market investors

- ❑ *Core philosophy: Investments made in companies with superior financial models and stable / growing revenues at reasonable valuation multiples will produce above-market returns*

- ❑ Desire to make these strategies available to any investor in an efficient structure

Most “Smart Beta” Indexes with a Similar Approach to EAC Have Poor Track Records of Outperformance

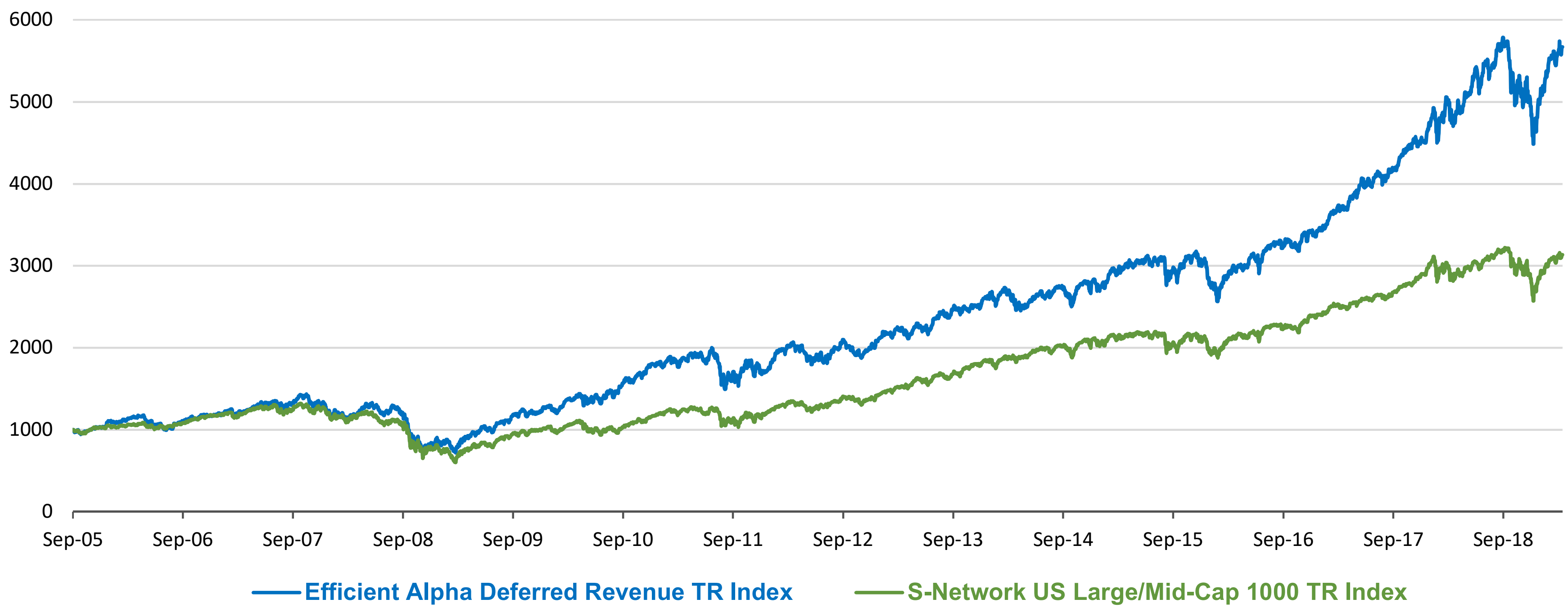
- Challenges to produce positive results with this type of product include:
  - Strategies often developed by academics, not investors
  - Over-dependence on “old-school, CFA-style” fundamental metrics and/or technical elements
  - Large asset management firms do not have an innovation culture, often cannot attract the best talent, and must be careful not to cannibalize existing products
  - Top investor talent – individuals with experience in private equity / hedge funds – are not creating this type of product
  - “Factor” frameworks may have limited effectiveness
- *Efficient Alpha Capital represents a fresh approach to public markets investing – an “outsiders” mindset may indeed be necessary to have success with this product category*

Efficient Alpha Capital Deferred Revenue Index

- The EAC Deferred Revenue Index includes companies that have a meaningful amount of Deferred Revenue on their Balance Sheet
  - A Deferred Revenue balance is created when a company has received a payment from a customer, but not yet delivered the service / product. Once the service / product has been delivered, revenue is recognized, and the Deferred Revenue balance goes away
- Why Deferred Revenue?
  - Companies with Deferred Revenue have superior cash flow profiles
  - The ability to charge customers ”upfront” is indicative of a strong competitive positioning / highly differentiated product or service
- Example: software company that requires an annual subscription payment
- The EAC Deferred Revenue Index also has a valuation and revenue growth overlay

Historical Performance

Deferred Revenue Total Return Index vs S-Network US Large/Mid-Cap 1000 Total Return Index
(12/30/2005–3/31/2019)



Source: S-Network as of 3/31/2019

Note: Chart above based on total returns.

Top Ten Constituents

Company Name	Ticker	Sector	Weight
Verisign Inc	VRSN US	Information Technology	3.70%
Red Hat Inc	RHT US	Information Technology	3.51%
Godaddy Inc A	GDDY US	Information Technology	3.12%
Fortinet Inc	FTNT US	Information Technology	2.95%
Gartner Inc	IT US	Information Technology	2.63%
Veeva Systems Inc A	VEEV US	Health Care	2.45%
Take-Two Interactive Software	TTWO US	Communication Services	2.43%
Aspen Technology Inc	AZPN US	Information Technology	2.20%
Ptc Inc	PTC US	Information Technology	2.12%
Tyler Technologies Inc	TYL US	Information Technology	2.10%

Deferred Revenue Index

Source: S-Network as of 3/31/2019

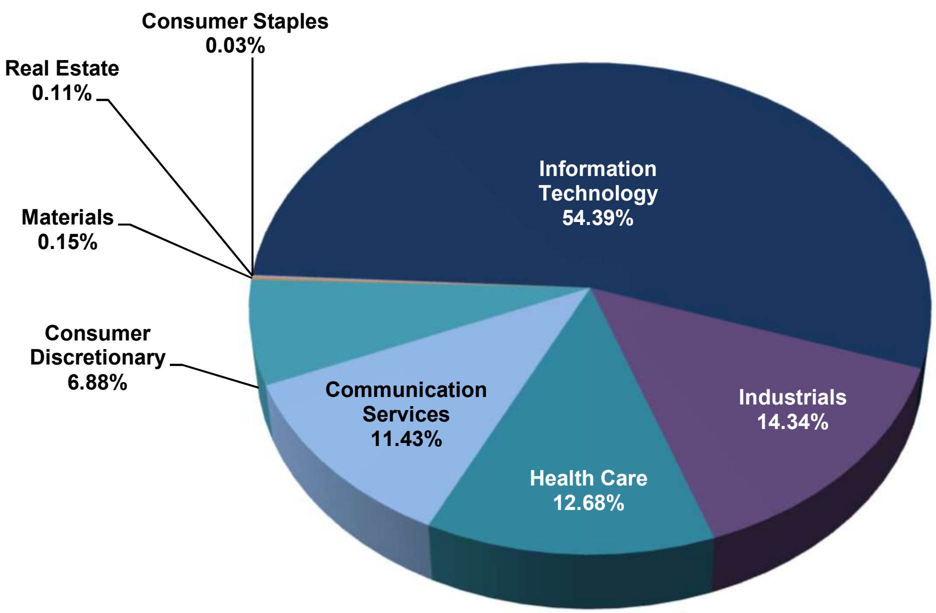
Market Capitalization Profile

Deferred Revenue Index	
Number of Constituents	200
Total Market Capitalization	8.74 Trillion USD
Largest Market Capitalization	904.86 Billion USD
Smallest Market Capitalization	1.35 Billion USD
Average Market Capitalization	43.72 Billion USD
Median Market Capitalization	11.17 Billion USD

Source: S-Network as of 3/31/2019

Sector Distribution

Deferred Revenue Index



Source: S-Network as of 3/31/2019

Back-Tested Results I

Total Return Appreciation	Deferred Revenue TR	S-Network US Large/Mid-Cap 1000 TR
10 Year	565.62%	340.60%
5 Year	117.60%	66.08%
3 Year	90.09%	47.26%
1 Year	17.84%	8.80%

Compound Annual Growth Rate	Deferred Revenue TR	S-Network US Large/Mid-Cap 1000 TR
10 Year	20.87%	15.99%
5 Year	16.82%	10.68%
3 Year	23.88%	13.77%
1 Year	17.84%	8.80%

Source: S-Network as of 3/31/2019

Back-Tested Results II

Annualized Monthly Standard Deviation		
	Deferred Revenue TR	**S-Network US Large/Mid-Cap 1000 TR**
10 Year	15.05%	12.92%
5 Year	13.81%	11.47%
3 Year	13.32%	11.06%
1 Year	19.61%	16.55%

Sharpe Ratio		
	Deferred Revenue TR	**S-Network US Large/Mid-Cap 1000 TR**
10 Year	1.3137	1.1847
5 Year	1.1441	0.8760
3 Year	1.5924	1.1132
1 Year	0.8226	0.4567

Source: S-Network as of 3/31/2019

Back-Tested Results III

Downside Risk (vs. SN1000 Index)	
	Deferred Revenue TR
10 Year	7.43%
5 Year	5.79%
3 Year	4.61%
1 Year	5.29%

Sortino Ratio (vs. SN1000 Index)	
	Deferred Revenue TR
10 Year	0.1737
5 Year	0.2869
3 Year	0.5575
1 Year	0.4678

Source: S-Network as of 3/31/2019

Back-Tested Results IV

Tracking Error (vs. SN1000 Index)	Deferred Revenue TR
10 Year	6.99%
5 Year	5.56%
3 Year	5.62%
1 Year	5.65%

Correlation (vs. SN1000 Index)	Deferred Revenue TR
10 Year	0.8862
5 Year	0.9198
3 Year	0.9100
1 Year	0.9653

Source: S-Network as of 3/31/2019

Back-Tested Results V

Beta (vs. SN1000 Index)	
	Deferred Revenue TR
10 Year	1.0327
5 Year	1.1074
3 Year	1.0959
1 Year	1.1438

R-Squared (vs. SN1000 Index)	
	Deferred Revenue TR
10 Year	0.7854
5 Year	0.8461
3 Year	0.8280
1 Year	0.9318

Source: S-Network as of 3/31/2019

Back-Tested Results VI

Upside Capture Ratio (vs. SN1000 Index)

	Deferred Revenue TR
10 Year	112.67%
5 Year	125.60%
3 Year	137.97%
1 Year	138.94%

Downside Capture Ratio (vs. SN1000 Index)

	Deferred Revenue TR
10 Year	92.37%
5 Year	98.37%
3 Year	94.56%
1 Year	110.20%

Source: S-Network as of 3/31/2019