



Efficient Alpha Capital Free Cash Flow Index

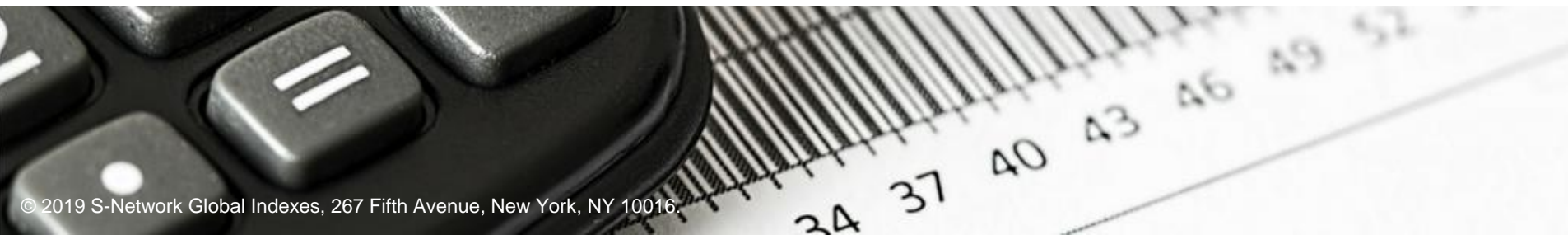
Q1 2019





Doug Scherrer Introduction

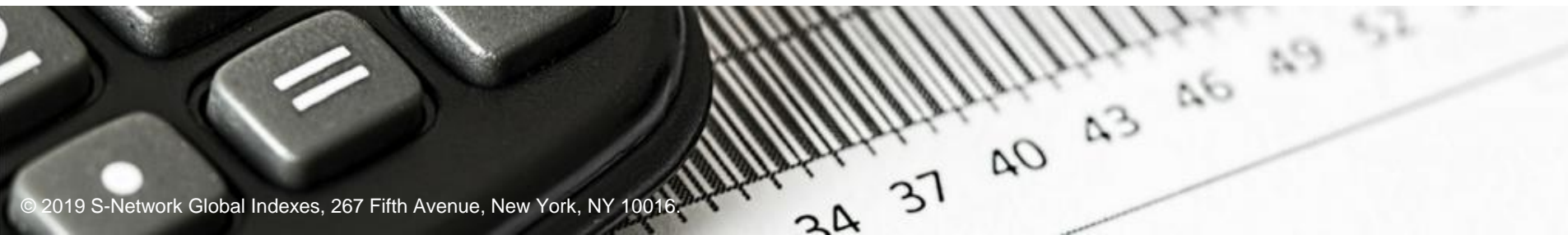
- ❑ Born and raised in St. Louis, MO
- ❑ Graduated from Princeton University with a degree in Economics, *magna cum laude* (2003)
- ❑ Started career as an Associate at The Boston Consulting Group (BCG)
- ❑ Extensive Private Equity experience at General Atlantic (New York and São Paulo, Brazil) and ClearLight 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

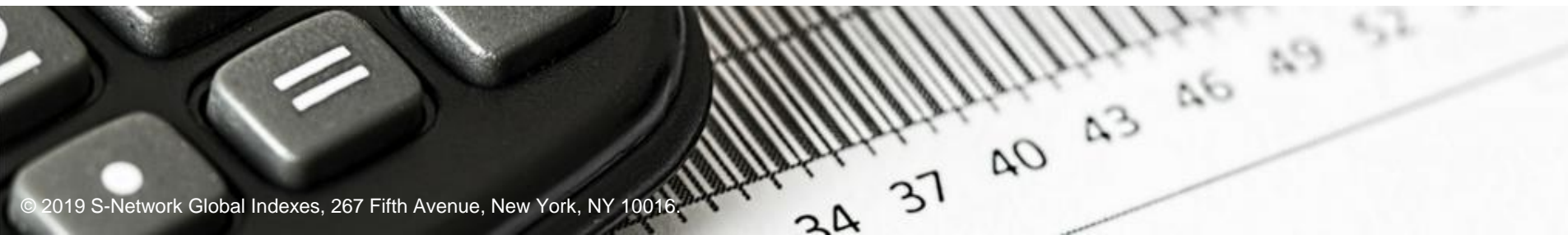
- ❑ Efficient Alpha Capital’s strategies are designed to generate Alpha in a low-cost, efficient manner through an entirely rules-based approach with no human intervention





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

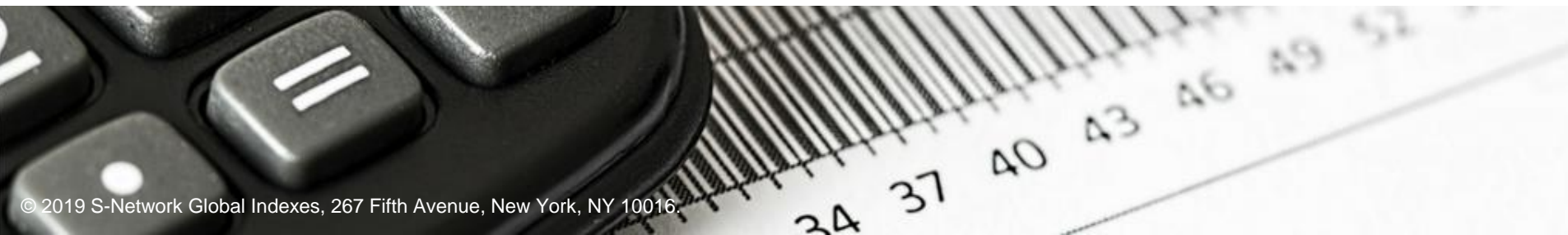
- ❑ Strategies derived from investment experience at one of the world's largest and most successful PE firms
- ❑ When making a PE investment (i.e. long-term, illiquid), quality and thoughtfulness of fundamental analysis must go well beyond the approach used by typical public market investors
- ❑ *Core 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*





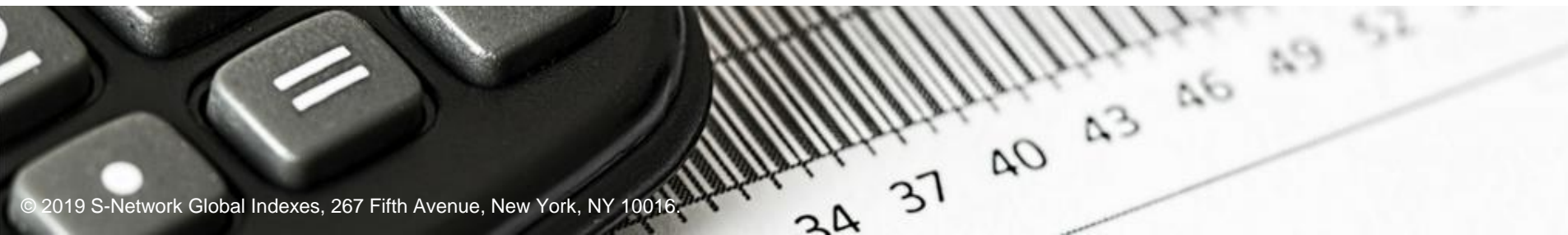
Efficient Alpha Capital Free Cash Flow Index

- ❑ The EAC Free Cash Index includes companies that have superior Free Cash Flow characteristics
 - Free Cash Flow is defined as Cash Flow from Operations less Capital Expenditures
 - The index focuses on Free Cash Flow Conversion and Free Cash Flow Margin, as opposed to Free Cash Flow Yield

- ❑ Companies that have strong Free Cash Flow generation generally have some or all of the following characteristics:
 - High profit margins
 - Low Working Capital requirements
 - Low CapEx investment needs

- ❑ The EAC Free Cash Flow Index also has a valuation and revenue growth overlay

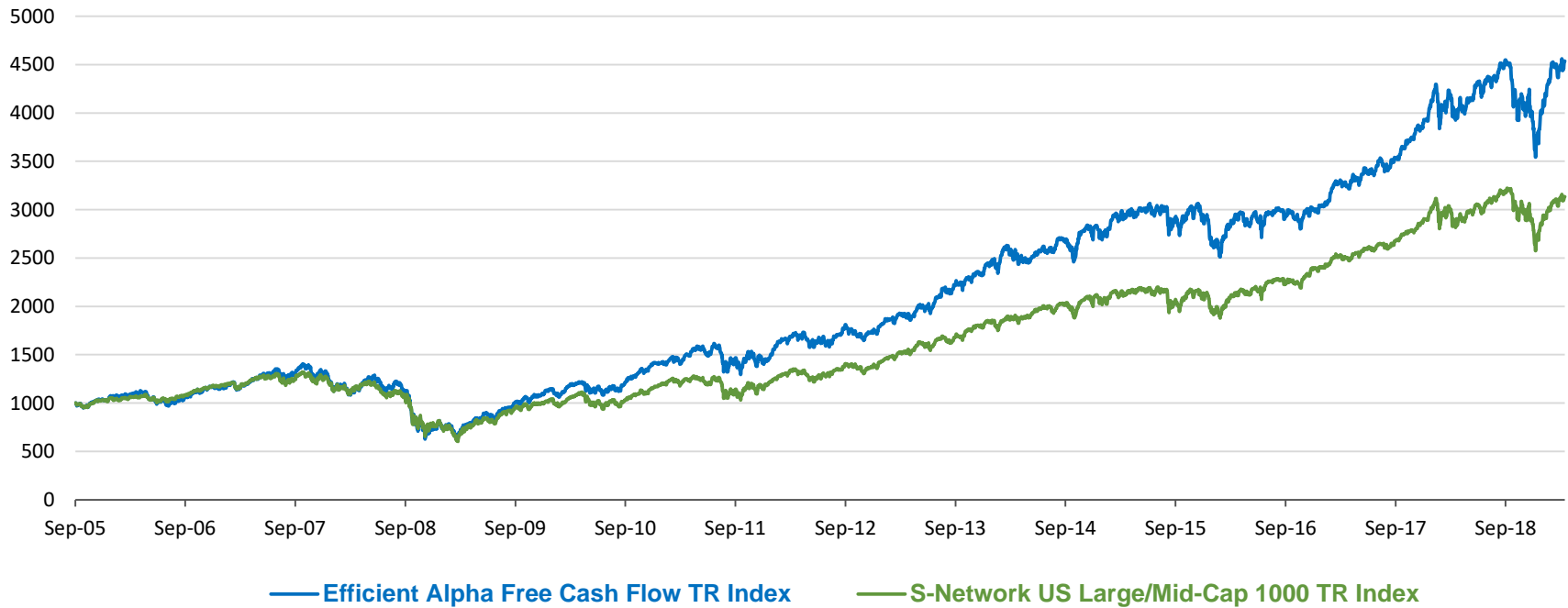
- ❑ Jan. 27, 2019 Live Production Date



Historical Performance



Free Cash Flow 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



Free Cash Flow Index

Company Name	Ticker	Sector	Weight
Ubiquiti Networks Inc	UBNT US	Information Technology	3.03%
Fleetcor Technologies Inc	FLT US	Information Technology	2.75%
Ansys Inc	ANSS US	Information Technology	2.51%
Verisign Inc	VRSN US	Information Technology	2.43%
Match Group Inc.	MTCH US	Communication Services	2.22%
Stamps.Com Inc	STMP US	Consumer Discretionary	2.16%
Nvidia Corp	NVDA US	Information Technology	2.02%
Waters Corp	WAT US	Health Care	2.01%
Booking Holdings Inc	BKNG US	Consumer Discretionary	1.89%
Mastercard Inc A	MA US	Information Technology	1.80%

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

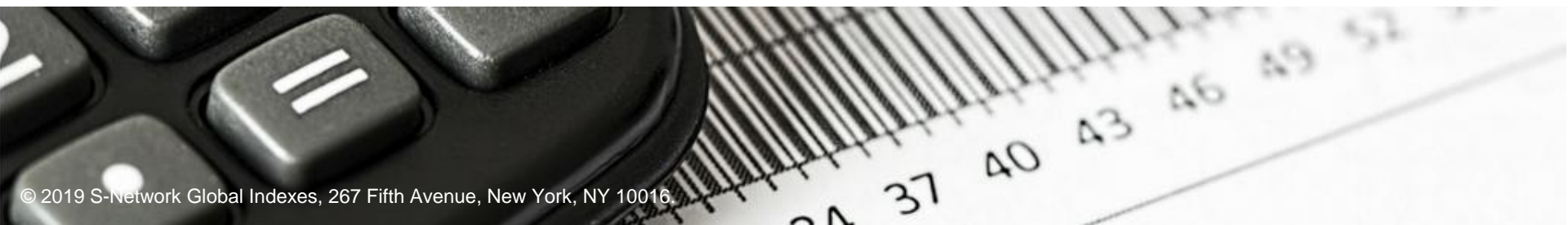


Market Capitalization Profile



Free Cash Flow Index	
Number of Constituents	172
Total Market Capitalization	6.52 Trillion USD
Largest Market Capitalization	904.86 Billion USD
Smallest Market Capitalization	1.35 Billion USD
Average Market Capitalization	37.92 Billion USD
Median Market Capitalization	10.52 Billion USD

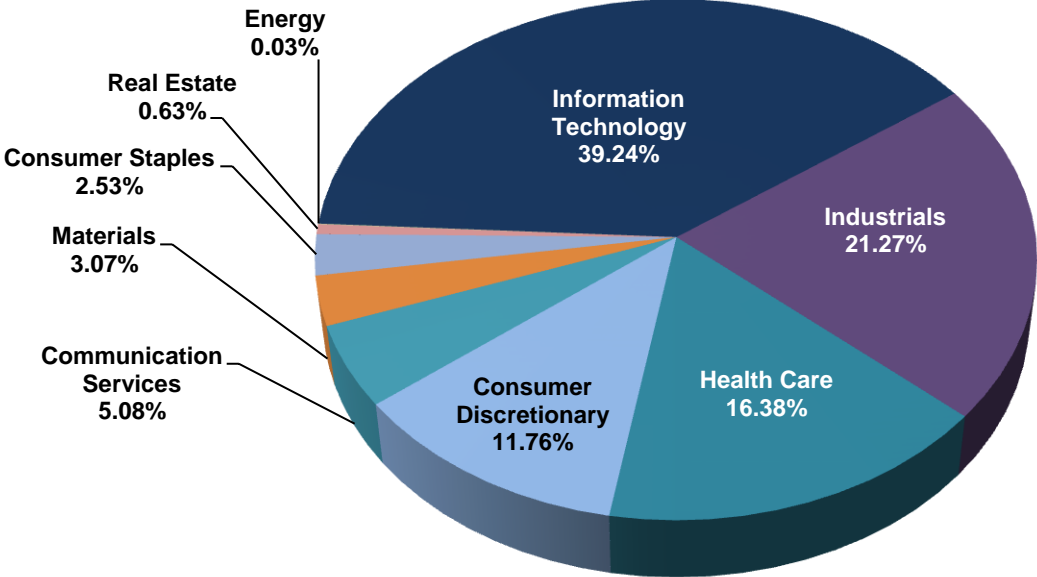
Source: S-Network as of 3/31/2019



Sector Distribution



Free Cash Flow Index



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



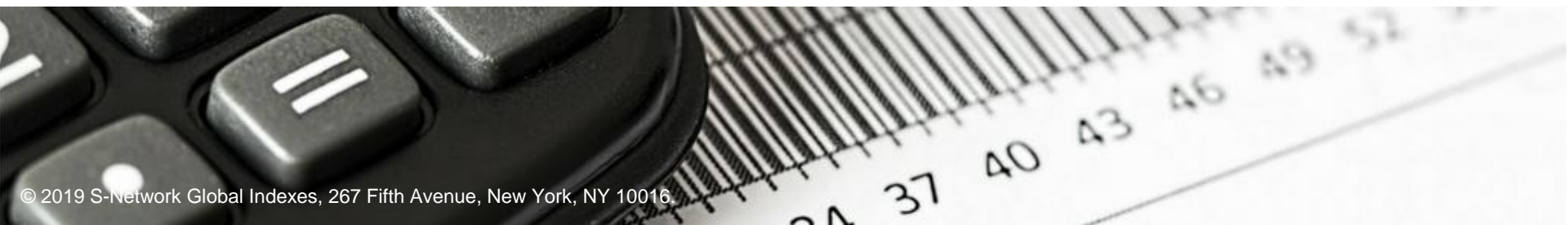
Back-Tested Results I



Total Return Appreciation		
	Free Cash Flow TR	S-Network US Large/Mid-Cap 1000 TR
10 Year	507.40%	340.60%
5 Year	80.07%	66.08%
3 Year	55.11%	47.26%
1 Year	12.95%	8.80%

Compound Annual Growth Rate		
	Free Cash Flow TR	S-Network US Large/Mid-Cap 1000 TR
10 Year	19.77%	15.99%
5 Year	12.48%	10.68%
3 Year	15.76%	13.77%
1 Year	12.95%	8.80%

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



Back-Tested Results II



Annualized Monthly Standard Deviation

	Free Cash Flow TR	S-Network US Large/Mid-Cap 1000 TR
10 Year	14.53%	12.92%
5 Year	13.89%	11.47%
3 Year	13.78%	11.06%
1 Year	20.50%	16.55%

Sharpe Ratio

	Free Cash Flow TR	S-Network US Large/Mid-Cap 1000 TR
10 Year	1.2922	1.1847
5 Year	0.8624	0.8760
3 Year	1.0439	1.1132
1 Year	0.5852	0.4567

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



Back-Tested Results III



Downside Risk (vs. SN1000 Index)	
	Free Cash Flow TR
10 Year	5.28%
5 Year	4.61%
3 Year	4.39%
1 Year	4.79%

Sortino Ratio (vs. SN1000 Index)	
	Free Cash Flow TR
10 Year	0.1894
5 Year	0.1210
3 Year	0.1362
1 Year	0.2676

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



Back-Tested Results IV



Tracking Error (vs. SN1000 Index)	
	Free Cash Flow TR
10 Year	5.63%
5 Year	4.65%
3 Year	4.62%
1 Year	5.21%

Correlation (vs. SN1000 Index)	
	Free Cash Flow TR
10 Year	0.9223
5 Year	0.9504
3 Year	0.9542
1 Year	0.9830

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



Back-Tested Results V



Beta (vs. SN1000 Index)	
	Free Cash Flow TR
10 Year	1.0371
5 Year	1.1508
3 Year	1.1889
1 Year	1.2176

R-Squared (vs. SN1000 Index)	
	Free Cash Flow TR
10 Year	0.8506
5 Year	0.9033
3 Year	0.9105
1 Year	0.9663

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



Back-Tested Results VI



Upside Capture Ratio (vs. SN1000 Index)	
	Free Cash Flow TR
10 Year	109.08%
5 Year	115.00%
3 Year	115.96%
1 Year	125.82%

Downside Capture Ratio (vs. SN1000 Index)	
	Free Cash Flow TR
10 Year	92.26%
5 Year	113.96%
3 Year	119.53%
1 Year	115.33%

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

