

## CONTEXT



*"Morpheus opens a container which holds two pills: a blue one, and a red one. He puts one in each hand, and holds them out to Neo.*

***Morpheus:** This is your last chance. After this, there is no turning back...*

*You take the blue pill, the story ends. You wake up and believe... whatever you want to believe. You take the red pill...*

*You stay in wonderland...and I show you just how deep the rabbit hole goes.*

***Neo** pauses for an instant, then reaches for the red pill. He swallows it down with a glass of water, and looks at **Morpheus**.*

***Morpheus:** Remember...all I'm offering you is the truth: nothing more."*



**Oswaldo Lairret**  
@olairret

[Follow](#)

This communication may contain information that is legally privileged, confidential or exempt from disclosure. No confidentiality or privilege is lost or waived by miss-transmission. If you are not the intended recipient, please notify the sender via return email immediately and delete this message from your system. Disclosure, use, distribution or copying this message, any attachments thereto or their contents is strictly prohibited.

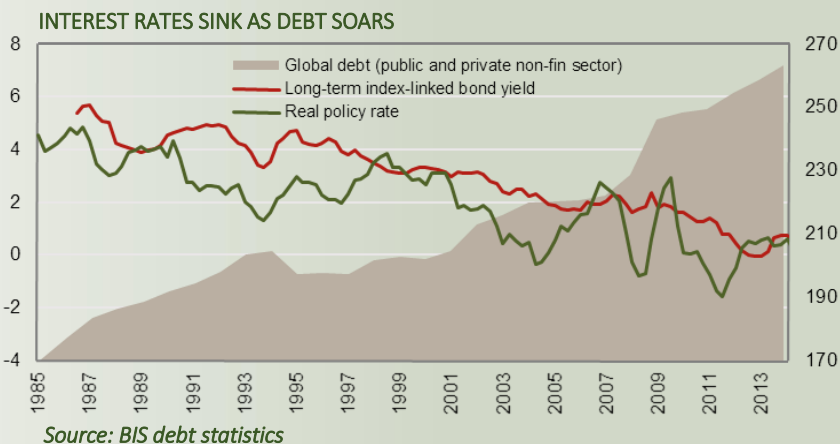
### NOTE ON PERFORMANCE:

Any reference to performance figures, statistics or comparison should be considered for illustrative purposes only, they come from the referenced manager as estimates and are not independently verified. All information should be verified by appropriate legal documentation, official audits or otherwise independently by the reader of this email or any follow up materials.

### NOT AN OFFER OR SOLICITATION:

Nothing in this email or any attachments thereto is an offer to sell or solicitation to buy any product or service. Any investment should be made subject to legal documentation thereof and based upon independent review of the merits, as well as risks, of such an investment on its own and in context of a broader investment portfolio. Any investment should also consider the specific financial position and goals of the individual or institution and take into account the overall economic environment.

## THE DISCOUNT-RATE PYRAMID SCHEME



**GLOBAL CENTRAL BANKS (GCB)** have artificially raised the NPV of income-producing assets for 34 years, by persistently cutting interest rates ([I.1, p7](#)). Yet, rate intervention bred asset/liability value gaps vs. natural rates ([V.3, p92](#)), which ultimately, grew until crushing asset prices (1987, 1997/98 & 2007/08). As each crisis devalued richly-priced collaterals guaranteeing loans held by Global Systemically Important Banks ([GSIBs](#)), it impaired them, which led GCB to swap them for newly-issued sovereign debt (see [p3-4](#)) "to avoid systemic events." Over three decades, this mechanism has helped G-7 debt grow by 500% ([I.2, p8](#)) taking GCB balance-sheets ([IV-center, p67](#)) and rate-cuts to their limits ([bottom](#)).

### MARKET OPPORTUNITY

Few times in history are better justified than now to hedge for a peak volatility event. [For the third time in 15 years](#), stock valuations reach a level that has historically ended in losses of 20%-50% of market value and until 2000, arose about once a century: 2 standard deviations above the mean

### OBJECTIVE

Increasing the capital preservation potential of your investment portfolio during peak volatility events. For instance, over the past three years, a balanced-growth fund allocating 20% of its AUM to SRAF would have offset drawdowns to the extent of raising its annualized return by nearly 300 bps

### PERFORMANCE

SRAF's net returns are intended to reverse, asymmetrically, the direction of S&P 500 stock returns. Hence, while S&P 500 stocks gained over 51% in value from Jul-12 (fund inception) to Jul-15, SRAF gained 18%. Conversely, when S&P 500 stocks lost 6% of their value in Aug-15, SRAF gained 50% in total asset value.