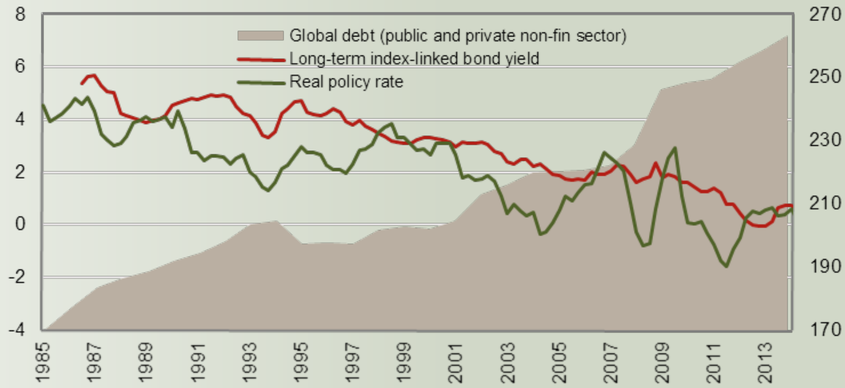
THE DISCOUNT-RATE PYRAMID SCHEME

INTEREST RATES SINK AS DEBT SOARS



Source: BIS debt statistics

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 (1982, 1987, 1994, 1997-98, 2001 & 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

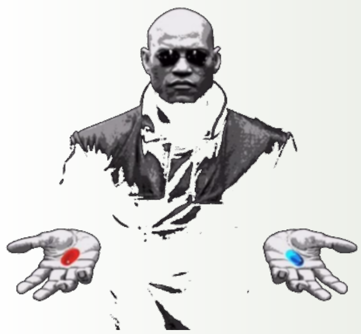
OBJECTIVE

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.

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."*

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