

# THE ARETE QUARTERLY

## Welcome

Summertime normally conjures up thoughts of vacations and slower, more relaxed times. For many of us, this is a welcome respite from overly busy lives. For those of us who like to read, we finally have a chance to catch up on our reading lists or to explore new works.

One form of literature that especially lends itself to summer reading is called magical realism. Some of the better known works of the genre are *One Hundred Years of Solitude* and *Love in the time of Cholera* by Gabriel Garcia Marquez. Authors such as Mario Vargas Llosa, a relatively recent Nobel prize winner, and Salman Rushdie with his famous *Satanic Verses*, have also made important contributions to the genre, among many others.

A good working description of magical realism compares it with other styles. With fantasy, you know it isn't true. With science fiction, it could be true. With magical realism, however, you just don't know. The gentle, surrealistic flows of story lines are wonderful companions for soft summer breezes that can take one's mind to other places.

While magical realism makes for very entertaining stories, it is far less appropriate as a foundation for confident investing. Nonetheless, this is an apt description of the current investment environment. We just don't know. We don't really know how long central banks

### Inside This Issue

Welcome	1
Business Update	2
Portfolio Characteristics	3
Transactions Review	5
Market Overview	5
Performance Review	7
Investment Philosophy	8
Arete Mid Cap Core Composite	10

are going to continue overriding market signals with their own capricious interventions. This makes it hard to calibrate sustainable economic activity. As a result, we don't really know what is safe or what assets are worth. As a result, it is extremely difficult to properly allocate risk exposures.

Indications of surrealism in the investment landscape abound. Bonds, for example, which are typically lauded as "safe" investments, suffered significantly in June. As the *Financial Times* recently reported, "Its [Vanguard's] intermediate-term bond ETF has fallen 6.5% since the start of May and investors have pulled out \$39m." Bond investors must worry not just about rising rates but also outflows that force further selling. Unfortunately, we don't have a good sense of when either (rising rates or money outflows) will really take hold.

Hedge funds, which have typically been considered "smart money", have largely failed to convert their smarts into returns for investors. As reported by Forbes.com, "Over the past five years, the hedge fund index lost 13.6 percent, while the indices

added 8.6 percent.” Further, “In 2013, most hedge funds have fallen even further behind, gaining 5.4 percent vs. the market’s rally of 15.4 percent.” Of course high fees and lockups add insult to injury by compounding these shortfalls.

The net result is that the investment landscape is challenging for everyone – which makes the task of sorting fact from fiction even more imperative in evaluating investment choices. In this regard, Arete’s substantial disclosures and separate account structure provide a solid contrast to many competitors. Non-fiction is the better genre for investors who want to avoid horror stories.

## Business Update

One of the things I probably don’t talk about enough is how pleased I am with operations at Arete. I keep getting better at everything I do and I keep getting better tools to do it as well. Having been there before, I also know that many of these things cannot be done as efficiently, or even at all, in large firms.

This has had a tremendously positive impact on infrastructure. Technology keeps making things cheaper, more efficient, and more robust - a trifecta of value. As a small company it has been easy to build in continuous improvement because the lock-in costs of old, inefficient processes are so low.

These benefits have also accrued to the research effort, most notably in knowledge management. Arete was a pioneer in using a wiki to manage research internally from its inception over five years ago, and has expanded that effort to increase access to

information, to leverage insights from research, and to communicate those insights with clients and interested parties.

Another important development in the quarter was that I began working with Frank Paolantonio. Frank has graciously agreed to volunteer time during his college summer break in return for the chance to learn more about equity analysis and to put his skills to work in a real money management environment.

This relationship has been extremely beneficial to me and Arete in a couple of ways. Having some extra help has clearly gone a long way in researching more companies and doing more analysis. As such, it has been an excellent test case for showing how scalable Arete’s research effort is. Many small operations have several people dutifully serving a good analyst. Arete, in contrast, is built as a platform from which a handful of analysts can work and contribute in their own unique ways. In this small test case, it has performed beautifully.

Of course success is a two-way street and much of it is owed to the exceptional effort that Frank has put forth. I have been exposed to a lot of analysts through my work experiences, through my guest teaching stints, and through my roles on the board of the CFA Society of Baltimore, and rarely have I seen someone exhibit such energy and enthusiasm for equity analysis and for self-improvement. It’s been a lot of fun working with Frank and I really appreciate his help. Thanks Frank!

Although not initially a strong suit, Arete continues making progress on the marketing front as well. Since research is one of Arete’s strengths, I have always

tried to share important insights through the newsletters and more recently through the AreteResearch site.

While I have certainly received positive feedback from a number of investors, it turns out demand for thoughtful interpretation runs farther and deeper than I had originally anticipated. *Pensions and Investments* recently reported, "Thought leadership has taken on new importance as institutional investors try to make sense of a vertiginous new world of volatile markets, an unsteady global economy and a proliferation of investment strategies." Benjamin F. Phillips, partner at Casey Quirk & Associates LLC (a consultant to money managers) elaborated, "Increasingly, clients are looking not only for products but for ideas about how to use them; they're looking for intellectual capital."

It is interesting to see the gathering momentum for intellectual capital and thought leadership moving right into the sweet spot of Arete's strengths. One of the big advantages Arete has in this respect is that I get to decide what research and which insights seem most useful to investors. I don't have to dilute the information (i.e. "spin") content in order to make it palatable to a mass market. I get to do what I do best which is pulling together a lot of research and figuring out what it means.

Certainly institutions with a fiduciary duty are interested in thought leadership because it is their obligation to serve their constituents and there just aren't many sources that have high information content. Smaller institutions typically have fewer resources at their disposal and therefore are in even greater need.

Another group, that I'll call "savvy professionals", also tends to seek out thought leadership. These are people who, whether they are still working or not, know the value of specialized expertise, and also know the costs of complacency. They typically ask excellent, penetrating questions to ensure competence and trustworthiness. Once they do, they are happy to have someone working for them.

All of these types of investors make great clients for Arete. Whether it is through providing an extra set of eyes, a new information source, or outright portfolio management, Arete's thought leadership is becoming increasingly valuable to an important set of investors.

If you or someone you know falls into one of these groups and are interested in learning more about Arete, please let me know. Word of mouth and newsletter distribution are important and cost-effective ways to introduce Arete to investors and also allow me to continue its outstanding value proposition. As a result, I deeply appreciate any ideas you can pass on regarding potential interest.

Thanks and take care!

David Robertson, CFA  
CEO, Portfolio Manager

## Portfolio Characteristics – Arete Mid Cap Core

A key proposition for Arete's Mid Cap Core strategy is that it is a truly representative mid cap portfolio. In general, this suggests that over time, you can expect to see the aggregate characteristics and sector

exposures of the strategy migrate to those of the Russell Midcap Index®. During intervening periods, however, sector exposures and other characteristics will reflect the opportunities we find in the market at that point in time.

We believe maintaining a truly representative mid cap portfolio is important for two reasons. First, a truly mid cap portfolio faithfully plays its role in a broader asset allocation scheme. Second, it allows for accurate assessment of performance. Without an appropriate benchmark it is difficult, if not impossible, to judge whether performance differentials are due to skill or luck, and are sustainable or transient.

#### Portfolio Characteristics (6/30/13)

	Arete MCC*	Midcap Index**
<b>Size</b>		
Average Market Cap (\$ mil.)	6,960	6,831
Median Market Cap (\$ mil.)	5,011	5,059
Minimum Market Cap (\$ mil.)	179	487
Maximum Market Cap (\$ mil.)	26,429	49,476
Number of holdings	37	795
<b>Valuation</b>		
P/E current year	22.8	20.0
P/E forecast Y1	17.3	18.4
P/B	1.9	3.5
P/S	1.1	1.6
Yield (%)	1.4	2.4
<b>Valuation drivers</b>		
ROE (%)***	11.7	24.9
LT eps growth forecast (%)	8.1	12.0

Source: The Applied Finance Group™

\*Note: Excludes positions which are less than 0.1% weights.

\*\*Note: Arete currently does not subscribe to the Russell Indexes and therefore the statistics presented here represent approximations of the Russell Midcap® Index.

For example, many fund managers attempt to beat their benchmark by timing the

market and/or migrating style. These tactics rarely generate sustainable out-performance. To us, such activities usually just serve to obfuscate the underlying inability of the manager to add value through a coherent and disciplined investment process.

Portfolio characteristics for the quarter continue to confirm that the equity portion of AMCC is a very representative mid cap portfolio. Market caps for AMCC are extremely similar to the mid cap index and with the exceptions of yield and current-year P/E, AMCC is considerably cheaper. ROE is noticeably lower, but is subject to many distortions and has not been especially reliable.

#### Sector exposure (percent of assets on 6/30/13)

	Arete MCC*	Midcap Index**	Percentage Comparison
Economic sector			
Consumer Discretionary	12.2	18.0	67.8%
Consumer Staples	0.0	5.8	0.0%
Energy	4.6	7.0	66.0%
Financial Services	13.8	21.7	63.6%
Health Care	8.7	9.7	89.4%
Materials & Processing	5.6	6.5	85.8%
Producer Durables	9.4	13.3	70.7%
Technology	8.0	11.3	71.0%
Utilities	6.9	6.7	102.6%
Equity exposure	69.2	100.0	
Cash and equivalent	30.8	0.0	

Source: The Applied Finance Group™

\*Note: Arete Mid Cap Core is represented by the aggregate of all assets in the composite at the given date.

\*\*Note: Arete currently does not subscribe to the Russell Indexes and therefore the sector weights presented here represent approximations of the Russell Midcap® Index.

Sector exposures, with the exception of utilities, are all below benchmark weights due to the high cash position. All sectors, with the exception of consumer staples, are still within our general guidelines of 50% - 150% of benchmark weights. Three sectors are currently very

close to benchmark weights including Utilities, Health Care, and Materials & Processing.

Since cash started accumulating two to three years ago, we have been fairly aggressively researching new names. With valuation as a significant consideration, however, we have found few opportunities to deploy cash. As a result, we should be in a good position to act fairly quickly when valuations approach more reasonable levels.

## Transactions review – Arete Mid Cap Core

Several transactions occurred in the second quarter, although none reflected meaningful changes to the portfolio positioning.

Several transactions were executed to “clean up” residual pieces from prior corporate events. ASCMA, CBI, OSH, and OSHSH were all small fractional positions that were not deemed worthy of becoming full positions, and therefore were sold into the continued strong market of the second quarter.

In addition, the merger between Dex One and Supermedia was consummated which led to the creation of a new ticker, DXM. This is noteworthy partly because a prepackaged bankruptcy was invoked to ensure adequate bondholder support for the deal. Largely as a result of the negative perceptions around this process, the stock jumped significantly after the deal closed posting a gain of nearly 50% for the quarter.

Finally, the purchase of HNZ by Warren Buffett and another investor was closed in the second quarter. This is noteworthy because it added cash to an already large cash position while leaving the portfolio without a consumer staple holding. We will continue to search, but many of these stocks have become quite expensive. Also, this acquisition confirms once again that Arete’s approach to stock selection reflects that of some of the best investors around.

## Market Overview

Market moves in the second quarter were dominated by the remarks from Ben Bernanke which outlined the conditions for tapering the Fed’s quantitative easing program. The fact that words from a Fed chairman can have such a pronounced effect on markets, even more so right now than underlying fundamentals and valuations, highlights the degree to which investors are contending with a brand of surrealism. The irony of this situation in a land prideful of “free markets” is not lost on us.

Given the over-arching influence of the Fed in determining market outcomes right now, investors have two basic courses of action. The first is to simply follow temptation and increase exposure to risk assets. Clearly the Fed is trying both to increase temptation and to punish resistance. This is the easy route.

The more difficult route is to calibrate exposures relative to anticipated risk and return. In normal times, this approach bears prodigious rewards for patience and prudence. Given the Herculean efforts by the Fed to coerce investors into equities,

however, limiting exposure to stocks has borne a significant opportunity cost. Further, many types of insurance have been painfully expensive. In short, it has taken something of a mythical constitution to continue adhering to sound investment principles.

This backdrop has created a market landscape in which the main game, the marginal trade, is taking the easy route and chasing exposure. Since a really, really, really, big market participant (the Fed) is trying to rig the game in one direction, one can reasonably ask, "What's an investor to do?" Why fight it?

The answer, in short, is that investors should be wary of the easy route because the Fed is not omnipotent. It can affect market outcomes in the short-term, but cannot fundamentally control the market longer-term. As a result, the easy route is a game virtually nobody wins. It is one much more amenable to gamblers and Wall Street traders than long-term investors. At least when they lose everything they still "gain" a reputation for betting big.

Essentially, the proposition investors face is a Faustian bargain: Increase exposure to risk assets and prices will continue to go up (for a while). However, in return, investors must also accept an additional stick of dynamite with each price increase. What they don't know is when the explosives are going to blow up their returns, or how bad the damage will be.

We caught a glimpse of the potential for explosiveness in late June. When Bernanke discussed the conditions around tapering its quantitative easing program, markets collapsed. Bonds got crushed and the Russell Midcap Index was down over 4% in

two days. This was a useful depiction of the market's fragility, even if the magnitude of the decline was fairly small. Regardless, it was scary enough to prompt several Fed governors to immediately backpedal by making public statements with softer language.

This fragility is caused to a significant degree by behavior. When things turn, some participants will immediately and violently change course. This causes big price declines. Seeing the big declines, another wave of participants sells causing further declines. The cascade is like an avalanche; you can't stop it, you can only do your best to avoid avalanche conditions to begin with.

One of the things investors can do, then, is to embrace the reality that the value proposition for stocks is very different than it used to be. It is no longer reasonable to expect that stocks will continue cranking out double digit returns just so long as you hang on to them for a while. They are likely to be more volatile and to produce lower returns than many investors have experienced in the past.

This isn't to say that investing in stocks is a bad idea; it just means the approach will need to adapt to a more challenging environment. There are attractive stocks and they will continue to be very attractive relative to many other investments. Therefore part of the adaptation will need to be distinguishing the merits of individual stocks versus those of the market as a whole. Both index funds, which take a passive approach, and hedge funds, which typically take very aggressive approaches, will have difficulty in this environment.

A more robust approach is to develop processes for monitoring and identifying individual stocks and keeping enough powder dry to increase exposure when expected returns are high. Such an approach involves seeking out good and trustworthy information sources, being mindful of risk, and avoiding games that can't be won over the long-term. While this course may not reap outsized rewards for some period of time, it is likely to outperform many other asset classes while also avoiding the types of losses that can be debilitating.

## Performance review – Arete Mid Cap Core

The Arete Mid Cap Core product is designed with the flexibility to invest in the most attractive mid cap stocks, regardless of any particular “style” designation. With that context, the primary criterion for selecting a stock in the Mid Cap Core strategy is that market value is significantly less than our estimate of intrinsic value. In other words, we try to find situations in which our research generates expectations for a company's growth and profitability that justify substantially greater valuations than what the market discounts.

Our investment process is designed to discover, analyze, and assemble stocks into a diversified portfolio that consistently outperforms its benchmark over time. Specifically, our investment objective is to outperform the benchmark Russell Midcap® Index by 200-400 basis points per year, net of fees, over the course of a market cycle.

Our target of 200-400 basis points of outperformance is based upon our

experience with the strategy and upon our judgment of value creation. The primary metric we use to judge value creation is the information ratio. The information ratio compares a portfolio's excess return to its risk as measured by tracking error. Our goal is to outperform by a large enough margin relative to risk to clearly merit the cost in time and resources to evaluate investing with us.

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Arete's Mid Cap Core (AMCC) strategy returned 2.37% (net of fees) for the quarter versus 2.21% for the Russell Midcap Index® (RMC) (see pages 10 - 12 for performance and related disclosures). Considering the large cash position and the comparable performance of the composite, AMCC's stocks outperformed in the quarter. This is consistent with the portfolio's positioning to maintain significant exposure to stock gains while also maintaining significant insurance against a market downturn.

### Stock performance\* (3/31/13 - 6/30/13)

#### Best performers

Company	Return in quarter (%)
NII Holdings	54.0
Dex Media	47.7
Thor Industries	33.7
Investment Technology Group	26.6
Seagate Technology	22.6

#### Worst performers

Company	Return in quarter (%)
Yamana Gold	-38.1
Peabody Energy	-30.8
Annaly Capital Management	-20.9
Autodesk	-17.7
Sears Holdings	-15.7

\*Note: Performance includes price changes only; it does not include dividend income in the quarter.

Once again, several of the top performers were stocks that had performed poorly in the past. This is consistent with the recent outperformance of the value style. The top performer was NIHD which rebounded strongly off its low in May. DXM also rebounded strongly after its merger and prepackaged bankruptcy was completed. ITG finally made a decent showing after falling precipitously since the financial crisis. During that time, trading volumes have dried up and commissions have continued to fall. THO and STX have been performing well and continued to do so in the quarter without any new fundamental developments.

The two poorest performers were the commodities players AUY and BTU. AUY was especially disappointing given that it was just added last quarter, but it was added at less than a full position with the clear acknowledgement of potential volatility. BTU is suffering from a confluence of negative perceptions which are headed by the slowdown in China and the potential for even more onerous EPA restrictions on coal in the U.S.

The common theme of all of the poorest performers was that they got caught in the turmoil created by the "tapering" fears. Concerns about reducing liquidity support hurt commodities such as AUY and BTU, and also hurt housing related stocks such as NLY which owns mortgage backed securities, ADSK which has many construction clients, and SHLD which is a good proxy for consumer durables. The fact that such broad, macro-based events still dominate performance drivers is a good indication of how unusual and unhealthy market action remains.

## Investment Philosophy

We firmly believe in the critical importance of a cogent investment philosophy for any investment operation. In order to emphasize this point, and to assist you in understanding how we work, we provide an abbreviated version of our investment philosophy here. The text of our investment philosophy is also provided, in its entirety, in our Form ADV, Part II which is available upon request at any time.

**Performance derives from exploiting mispriced securities.**

The key to investment performance is finding and exploiting market inefficiencies in the form of mispriced securities. There are two components to this. One component involves determining the fair price of securities in the form of underlying intrinsic value, which we do primarily through calculating discounted cash flows.

The second component of exploiting mispriced securities is establishing a clear understanding as to the various mechanisms at work that allow mispricing to occur. By understanding the mechanisms and motivations of the marginal buyer and seller, we believe we can more accurately estimate the probabilities and expected values of investment opportunities.

**Nobody has perfect information.**

Competitive pressure and technological development have conspired over the years to make most data and analysis commodities which no longer provide a meaningful competitive advantage. What can provide an advantage, however, is *how*



that information is used and *how* it gets interpreted in making investment decisions.

In order to convert the raw material of information into the useful output of a good investment decision, it is necessary to assimilate and synthesize the information into some meaningful form. We believe the most effective way to accomplish this is to thoughtfully deploy resources available according to the nature of the research tasks at hand.

Research culture and research prioritization are also important in relation to analyzing and synthesizing information. We believe that the best way to leverage the collective knowledge and experience of a research team is to encourage active and open dialogue designed to explore multiple perspectives and to challenge individual assumptions, biases, and beliefs. Only by enduring such scrutiny do the best ideas rise to the top. Further, in order to fully leverage these ideas, we believe research efforts must be dynamic and flexible in allocating resources such that ideas receive attention in proportion to the expected benefit to the portfolio.

**Execution is crucial for investment success.**

In order to create value, an investment strategy needs to be implemented continuously and comprehensively. Actions speak louder than words. We believe the most effective efforts focus on a few simple, but key concepts that work to ensure proper execution of a firm's investment strategy.

The first key to execution is structural in nature and involves a firm's independence. By maintaining independent ownership, an investment firm eliminates agency effects which can present a conflict of interest between clients and certain of its ownership groups. Independent ownership ensures that client and manager interests are optimally aligned.

The second key to execution is temperament. The best investors tend to have a temperament that provides them the courage and initiative to act, often going against the grain, when opportunities arise. However, the same temperament provides balance such that decision-making is not simply a risk-taking activity, but a very conscious and targeted effort to engage in propositions with high risk-adjusted expected returns.

Finally, another important element of execution is simply doing what you say you do in your investment process. Too often, perfectly acceptable investment processes fail when actual investment activities bear little resemblance to the process described in the marketing presentation. We call this the "marketing gap;" the difference between what is said and what is done. Execution is optimized when the marketing gap is minimized.



## Arete Mid Cap Core Composite

**Arete Asset Management, LLC**  
**Mid Cap Core Composite**  
**July 31, 2008 - June 30, 2013**

Period	Gross-of-Fees		Net-of-Fees		Russell Midcap®	Number of Portfolios**	Internal Dispersion (percent)	Total Composite Assets (\$)**	Composite Assets With Bundled Fees (\$)	Percentage of Composite Assets With Bundled Fees	Total Firm Assets (\$)
	Return (percent)	Return (percent)	Return (percent)	Return (percent)	Index Return (percent)						
2008*	-37.97	-38.16	-35.01	3	NA	207,031	207,031	100%	207,031		
2009	48.63	47.83	40.48	3	NA	471,867	471,867	100%	673,806		
2010	16.86	15.78	25.48	3	NA	546,315	546,315	100%	877,368		
2011	-8.20	-8.88	-1.55	3	NA	497,767	797,767	100%	897,918		
2012	15.20	13.84	17.28	4	NA	798,766	798,766	100%	897,341		
2013											
January	5.17	4.92	6.84	4	NA	838,074	838,074	100%	1,036,725		
February	0.28	0.28	1.41	4	NA	840,390	840,390	100%	1,038,478		
March	3.54	3.54	4.25	4	NA	870,137	870,137	100%	1,069,209		
April	1.27	1.03	1.28	4	NA	879,095	879,095	100%	1,081,449		
May	2.05	2.05	2.15	4	NA	897,114	897,114	100%	1,099,687		
June	-0.70	-0.70	-1.21	4	NA	890,790	890,790	100%	1,092,129		
Q1	9.20	8.94	12.96	4	NA	870,137	870,137	100%	1,069,209		
Q2	2.62	2.37	2.21	4	NA	890,790	879,095	100%	1,092,129		
YTD	12.06	11.52	15.45	4	NA	890,790	890,790	100%	1,092,129		

\*Note: Performance through 12/31/08 is from inception of composite on 7/31/08.

\*\*Note: One new account contributed additional funds which were not at least 90% invested by the end of the quarter.

Per our rules for inclusion, this account was excluded from the composite and will be added once the funds are fully invested.

### Arete Asset Management Mid Cap Core performance composite disclosures follow:

#### Compliance statement

Arete Asset Management has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

#### Definition of the firm

Arete Asset Management, LLC (Arete) was established in 2008 and is registered as an investment adviser in the state of Maryland. Arete is defined as an independent investment management firm and is not affiliated with any parent organization. Arete currently manages one strategy, the U.S. equity mid cap core strategy, which it markets to individual and institutional clients.

#### Benchmark

The benchmark is the Russell Midcap® Index and its performance is reported in U.S. dollars.

Arete Asset Management Mid Cap Core performance composite disclosures continued:

### Calculation methodology

Portfolio valuations are calculated as of calendar month-end and are computed in U.S. dollars and performance is also reported in U.S. dollars. Time-weighted rates of return are used which adjust for external cash flows. Our smaller, retail accounts contain fee structures in which one flat, per-transaction fee is charged for trading expenses and which embeds an implicit charge for custody. Since trading and custody charges cannot be directly segregated in these cases, they constitute "bundled fees". Gross-of-fees performance returns are presented before management and custodial fees when custodial fees can be segregated from trading, but are presented before management fees and after bundled (trading and custodial) expenses for our retail accounts. Net-of-fees returns are presented after management fees, trading expenses, and custodial expenses are deducted or after management fees and bundled (trading and custodial) fees for retail accounts. There are no instances in which management fees are bundled with trading or custodial fees. Returns are presented net of nonreclaimable withholding taxes when applicable. Arete does not use leverage or derivatives in the management of portfolios. Additional information regarding policies for calculating and reporting returns is available upon request.

### The composite

This U.S. Equity Mid Cap Core composite was created in August, 2008 and includes all fee-paying, taxable and non-taxable, discretionary, long only, fully invested portfolios benchmarked to the Russell Midcap Index. Every new portfolio is added to the composite in the first complete calendar month that it is "fully invested". For purposes of composite construction, a portfolio is "fully invested" if its equity composition is greater than 90% of the equity composition of the composite. Each portfolio will remain in the composite until its equity composition becomes less than 90% of that of the composite. A complete list and description of firm composites is available upon request.

\*As of March 31, 2012, the composite has been redefined in order to clarify policy in light of unusually high cash positions recently. Prior to March 31, 2012, a portfolio was considered to be "fully invested" if greater than 90% of portfolio assets were invested in equity securities which implicitly assumed a nearly 100% equity position in the composite.

### Fee schedule

The management fee schedule is as follows: 1% of AUM up to \$1 million, 0.75% on AUM greater than \$1 million, but less than \$5 million, and 0.65% on assets greater than \$5 million.

### Minimum account size

There is no minimum account size for inclusion in the composite. Please note, however, the minimum initial account size accepted is \$100,000.

Arete Asset Management Mid Cap Core performance composite disclosures continued:

**Dispersion**

Internal dispersion is currently not meaningful as there are five or fewer portfolios included in the composite. In the future, we plan to calculate dispersion using the dollar-weighted standard deviation of all portfolios included in the composite for each performance period.

**Verification**

Arete has not been verified by an independent verifier for its compliance with GIPS.