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THE ARETÉ QUARTERLY

Inside This Issue

Welcome

As a continued reminder, the text content of this and future editions will be considerably shorter than in past letters. This change will allow the *Areté Quarterly* to be more focused on portfolio analysis and will also facilitate much more regular publication of general commentary through the Areté blog. If you haven’t visited www.areteam.com/blog yet, please take a look when you get a chance.

Business Update

As I have continued to do over the last couple of years, I managed to upgrade the website again over the last three months. If you haven't already seen it please take a look at www.areteam.com and let me know what you think!

A couple of things I wanted to accomplish were to make the site more responsive to different screen sizes and to mobile devices, and to make the site "cleaner" and easier to navigate. After running for seven years now, a lot of ideas and information had piled up and not all of it was easy to find. Indeed, some of the most common feedback I have gotten on the site is that there is a lot of great information, but it is not always very easy to find. This gave me a chance to organize key ideas and to tidy things up.

A colleague of mine at betamore, Todd Douglas, was instrumental in the effort to freshen up the site, make it easier to use, and to make it more attractive visually. He has provided invaluable feedback in improving the site's appearance, distilling my thoughts into more digestible phrases, translating verbiage to visual representations, and he even created a new logo! If you ever need someone to do website design work, I highly recommend him.

The website project also gave me a chance to refine and clarify the message for Areté. A big part of the reason for founding Areté was that I thought there were a lot of things that could be done better than what most of the industry was doing. When Areté introduced its personal CIO (chief investment officer) service, the same sentiments applied, but with respect to investment services, not just investment management. This gave me a chance to develop a broader, but still completely consistent message for Areté: Helping investors to invest better.

When you visit the website, you will also notice that I have updated the competitive advantages too. While multiple dimensions and technology strategy absolutely remain key competitive advantages, I didn't feel that those two aspects alone did service to other key strengths of Areté.

For one, Areté is purpose built to help investors invest better. This is something I have always taken for granted, but it may well be the greatest single distinguishing feature and deserves attention. There are a lot of smart people in the business and there are a lot of things that are really interesting. If these things are not designed from the get-go to benefit investors, which too often they are not, they usually end up enriching their practitioners far more than making their investors better off. Areté is about helping, not taking.

Another element that differentiates Areté is knowledge management. I have always made this a core part of the research effort, but once again, I haven't talked about it in regards to the company nearly as much I could have. In a time of proliferation of automation and commoditization of information, I think it is absolutely critical to figure out what analysts should be working on and thinking about. I do believe people can add a lot to the process, but far less so when those contributions are ad hoc and directionless. Investors shouldn't have to pay for analysts who are spinning their wheels.

One of the goals I have always had for Areté is that it can be part of a broader community to improve financial and investment literacy. I think that a lot of pain that is felt as a result of bad investment decisions starts with not really understanding what is going on. While I know that a great number of people are just never going to engage in the process even to help themselves, I do think that everyone deserves to have a fighting chance. Hopefully the content that I continue to post to the Research and Education section [here] is contributing to this goal.

I am happy to report that there is good evidence that the upgrades to the website are having the desired effects. There has been a noticeable improvement in some key engagement statistics, mainly in average number of pages viewed and average time per page. Perhaps even more importantly, there are clearly individuals who are consuming twenty to forty pages of content and spending several minutes on the site. In short, it appears as if the message is resonating with people and that the upgrades to the website are succeeding in making it more accessible.

Finally, I am still spending a fair amount of time marketing the new personal chief investment officer service. I continue to hear of investors being sick and tired of conflicts of interest and high fees and that they are taking control of their own investments for lack of a better alternative. I actually think this is a pretty healthy response and liken it to the movement to self-service at gas stations many years ago. With so many good, low cost financial utilities available today, it simply doesn't make sense to pay a lot for basic services.

Given our environment of extremely low rates and hidden risks, however, the challenges associated with investing are significant and even more so if one is only doing it part time and with limited background and experience. Most people with at least some experience investing realize this and want help, but have a hard time finding sources of insight that are affordable, efficient and effective. The personal CIO effort is designed to satisfy this need. If you know of anyone who is looking for some guidance to fill in gaps in their investment knowledge or expertise, please let me know!

Thanks for your interest and take care!

David Robertson, CFA
CEO, Portfolio Manager

Portfolio Characteristics – Areté Mid Cap Core

A key proposition for Areté'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.

For example, many fund managers attempt to beat their benchmark by timing the market and/or migrating style. These tactics rarely generate sustainble 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.

All of that said, our overarching goal is to provide attractive returns to investors on an *absolute* basis. During most times, the stock market provides an attractive vehicle through which to realize those returns. In unique periods of significant overvaluation, however, when our valuation and other analyses suggest attractive returns are less likely, we may allow the cash portion of the portfolio to increase so as to preserve investors' capital and retain the option to buy cheaper in the future.

Portfolio Characteristics (9/30/15)

	Arete MCC*	Midcap Index**
Size		
Average Market Cap ($ mil.)	6,673	7,687
Median Market Cap ($ mil.)	2,950	5,885
Minimum Market Cap ($ mil.)	2	490
Maximum Market Cap ($ mil.)***	25,601	26,324
Number of holdings	22	828
Valuation		
P/E current year	25.1	24.4
P/E forecast Y1	16.9	19.2
P/B	2.4	4.8
P/S	1.2	2.1
Yield (%)	2.3	2.9
Valuation drivers		
ROE (%)****	13.1	13.1
LT eps growth forecast (%)	8.8	11.4

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.
****Note*: Stocks with low floats are excluded
****Note: The measure of ROE was changed from the average to the median as of 3/31/14.

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 fairly similar to the mid cap index although the median is now considerably smaller. AMCC is considerably cheaper on the bases of Price-book and Price-sales which tend to be more stable metrics. Notably, Price-book still compares well despite a substantial rise from the inclusion of an anomalously high figure from GLPI.

As a note, we changed the calculation of ROE from an average to a median some time ago. As it was, this particular measure was volatile and provided little information content. Indeed, as the markets have run up under the Fed's policy of quantiative easing, the benchmark's average ROE has become increasingly biased by a relatively small number of extremely high returns.

Sector exposure (percent of assets on 9/30/15)

Economic sector***	Arete MCC*	Midcap Index**	Percentage Comparison
Consumer Discretionary	2.1	16.9	12.4%
Consumer Staples	0.0	6.0	0.0%
Energy	0.0	4.9	0.0%
Financials	14.6	23.1	63.3%
Health Care	5.6	9.5	58.9%
Industrials	1.9	12.7	15.0%
Information Technology	1.9	14.8	12.9%
Materials	2.8	5.5	50.5%
Telecommunications	0.0	0.9	0.0%
Utilities	2.6	5.7	45.5%
Equity exposure	31.5	100.0	
Cash and equivalent	56.6	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.
****Note*: Economic sector classifications were changed from Russell to GICS beginning Q414.

Sector exposures are all below benchmark weights due to the high cash position. As we have continued to raise cash, partly through sales of overvalued positions, partly by way of managing risk, and partly by not redeploying cash from acquisitions, several sectors are now below our normal guidelines of 50% - 150% of benchmark weights.

Active share* (9/30/15)

Period	Percent**
Q315	92.3
Q215	93.0
Q115	94.2
Q414	93.5
Q314	93.1

**Note*: Computed for AMCC composite
***Note*: Active share > 80% is considered "very active"

As a quick reminder, active share highlights the degree to which a portfolio's holdings differ from its benchmark. A portfolio must differ significantly from its benchmark in order to significantly outperform it — and therefore to justify charging active management fees. Areté's Mid Cap Core portfolio consistently exhibits active share well above the 80% level considered to be very active.

Transactions review – Areté Mid Cap Core

The only addition to the portfolio in the quarter was SRG which we acquired through a rights offering from SHLD. We have continued to hold on to SHLD mainly because of the value of its real estate holdings and the creation of SRG should both create a viable roadmap for the realization of that value and provide useful liquidity to SHLD. Given the strong sentiment against anything related to SHLD we expect interim volatility, but we also expect due rewards over our investment horizon.

We sold the position in SPR in the quarter based largely on valuation. After suffering through some disastrous miscues by prior management, SPR stock recovered nicely on the back of improvements implemented by the new management team and strong growth in commercial air traffic. With the price discounting significant ongoing improvements, it was not hard to exit the position.

We also sold two of our bank stocks in the quarter. Both SNV and PACW were on a short list of stocks that we no longer wanted to own long term. Both nearly went under in the financial crisis and neither seems to have made lasting upgrades to their management teams or approaches to business. Nonetheless, both recovered nicely and given the context of heightened concerns about financials and our high exposure to the group, it was easy to cut these two stocks.

In addition, we sold ADSK in the quarter. ADSK has been, and continues to be an excellent franchise, but one with some important warts. Specifically, it distributes far too many shares to management for incentive compensation. While the market normally looks through this, it is extremely alert to the company's sensitivity to global construction spending. We still like the business of ADSK, but at this valuation, we opted out and will wait for a more attractive price.

Finally, in an environment that has been fairly hostile to valuation based strategies for the last several years, we thought it would make sense to highlight a recent reminder of why valuation works. Back in the first quarter of the year, we wrote, "POM was sold within a few cents of its acquisition offer from EXC despite hurdles remaining to complete the deal." In August, those hurdles became manifested when regulators rejected the deal and POM stock fell 16%. It is currently looking like the deal will be resurrected, but only after concessions are made. The main point is that such risks were real and foreseeable, and yet the market was not properly discounting them.

Performance review – Areté Mid Cap Core

The Areté 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. 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.

Areté's Mid Cap Core (AMCC) strategy returned -6.10% (net of fees) for the quarter versus -8.01% for the Russell Midcap Index® (RMC) (see pages 8 – 10 for performance and related disclosures). Although the strategy underperformed in July, it outperformed considerably in the difficult month of August and again in the down month of September. Key factors affecting performance were the benefit of having such a large cash cushion in a down market which was partly offset by poor stock performance.

Looking across the list of worst performers gives a good idea of just how brutal the quarter was for many companies. The selloff in high yield certainly affected DXM and GNW, although the impact of DXM is small. AUY was hit hard as were all gold companies in anticipation of a rate hike. MYL sold off severely along with biotech companies as a group, but we took some solace as we had cut the position by half last quarter. ITG was the only worst performer that exhibited demonstrably poor company-specific performance when they announced paying a large fine to the SEC as a penalty for misusing information in their dark pool.

The best performers stood out less for postive individual fundamentals than for avoiding the worst of the damage in a tough quarter. Notably, NLY was on the list showing a nice rebound after being fairly weak most of the last year.

Stock performance* (6/30/15 - 9/30/15)

Best performers

Company	Return in quarter (%)
The Saint Joe Company	23.2
Lands End	8.8
Annaly Capital Management	7.4
Capitol Federal Financial	0.7
Exelon Corp	-5.5

Worst performers

Company	Return in quarter (%)
Dex Media	-81.5
Investment Technology Group	-46.2
Yamana Gold	-43.3
Mylan Inc.	-40.7
Genworth Financial	-39.0

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

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.

Areté Mid Cap Core Composite

Arete Asset Management, LLC
Mid Cap Core Composite
July 31, 2008 - September 30, 2015

Period	Gross-of-Fees Return (percent)	Net-of-Fees Return (percent)	Russell Midcap® Index Return (percent)	Number of Portfolios	Internal Dispersion (percent)	Total Composite Assets ($)	Composite Assets With Bundled Fees ($)	Percentage of Composite Assets With Bundled Fees	Total Firm Assets ($)
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	23.18	22.00	34.76	4	NA	974,605	974,605	100%	1,172,496
2014	4.01	2.99	13.22	4	NA	1,003,729	1,003,729	100%	1,200,564
2015									
January	-2.61	-2.61	-1.56	4	NA	977,504	977,504	100%	1,171,544
February	3.22	2.98	5.54	4	NA	1,006,595	1,006,595	100%	1,202,192
March	0.25	0.25	0.06	4	NA	1,009,091	1,009,091	100%	1,307,160
April	0.52	0.28	-0.91	4	NA	1,011,891	1,011,891	100%	1,310,162
May	-0.10	-0.10	1.46	4	NA	1,010,876	1,010,876	100%	1,308,576
June	-2.81	-2.81	-2.07	4	NA	982,483	982,483	100%	1,276,571
July	-2.12	-2.36	0.74	4	NA	959,340	959,340	100%	1,250,264
August	-1.59	-1.59	-5.28	4	NA	944,045	944,045	100%	1,234,471
September	-2.27	-2.27	-3.60	4	NA	922,598	922,598	100%	1,211,146
Q1	0.78	0.53	3.95	4	NA	1,009,091	1,009,091	100%	1,307,160
Q2	-2.40	-2.64	-1.54	4	NA	982,483	982,483	100%	1,276,571
Q3	-5.87	-6.10	-8.01	4	NA	922,598	922,598	100%	1,211,146
YTD	-7.42	-8.08	-5.84	4	NA	922,598	922,598	100%	1,211,146

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

Areté Asset Management Mid Cap Core performance composite disclosures follow:

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

Areté Asset Management Mid Cap Core performance composite disclosures continued:

Definition of the firm

Areté Asset Management, LLC (Areté) was established in 2008 and is registered as an investment adviser in the state of Maryland. Areté is defined as an independent investment management firm and is not affiliated with any parent organization. Areté 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.

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. Areté 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.

Areté Asset Management Mid Cap Core performance composite disclosures continued:

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.

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