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The Arete Quarterly

Welcome

The new year is starting off with all the promise and freshness typical of new years. The foreboding presence of an economy functioning less than perfectly continues, however. As a result, many people are seeking explanations. History provides a useful context, and Arete is trying to provide some of the answers.

Inside This Issue

Questions regarding the robustness of the capitalistic economic model arise from the unfortunate truth that a lot of people are getting a raw deal. Income and opportunity inequality have broached dangerously high levels and many people have lost all realistic hope of realizing the American Dream. Too many others are perched dangerously on the precipice of economic disaster. Much of this is unrelated to effort or intent. On a human level it represents unnecessary suffering. On an economic level it represents hugely underutilized resources. How did we get here?

Interestingly, when Adam Smith wrote about capitalism in the 1700s, he lauded the system for *promoting* public interest more effectively than other systems. He argued that public interest does not result from any particular design, but is rather the result of each person's desire to deploy his or her capital to greatest effect (and in his or her own self-interest). Such efforts lead to an extremely efficient allocation of resources which benefits a national economy. The serendipitious effect occurs as if directed by an "invisible hand."

Even though these insights were valid, and remain so today, flaws in the capitalistic system appeared early. Edmund Burke, for example, criticized the unruly behavior of British East India Company agents. He concluded that, "Commercial society may depend upon inherited institutions that restrain people and make them decent," ("Thinking about Capitalism," by Jerry Z. Muller, *The Great Courses*, The Teaching Company). In other words, capitalism works fairly well, but it importantly depends on cultural and social institutions to keep people in line.

In an economic system driven by self-interest, it shouldn't be any wonder that external forces may be necessary to keep people "decent". This inherent weakness with capitalism was amplified by the proliferation of limited liability companies. With this development, the *control* of capital was bestowed upon managers by owners of capital. As a result, not only were there incentives to not be "decent", but often incentives were lacking for managers to deploy capital to greatest effect. They were playing with other people's money.

The condition of trying to receive something of value that exceeds a person's interest and/or capacity to give something of comparable value in return, is called rent-seeking by economists. Rent-seeking is defined as, "The expenditure of resources attempting to enrich oneself by increasing one's share of a fixed amount of wealth rather than trying to create wealth" (Wikipedia).

Such activities are unfair to other individuals because value is being taken, not exchanged. Rent-seeking also harms society as a whole: "Since resources are expended but no new wealth is created, the net effect of rent-seeking is to reduce the sum of social wealth."

Unfortunately for investors, the investment business is especially vulnerable to rent-seeking behavior. This happens because investment services are often hard to evaluate and of dubious value. As a result, it is extremely difficult for owners of capital to judge with certainty as to whether their capital is being deployed effectively or simply being reallocated to their advisor.

A recent Financial Times article by Pauline Skypala highlights the dilemma: "The basic problem [of the savings and investment industry] is blatant disregard for customers' or society's interest. Go to any conference and there is little if any discussion of how to serve customers better, but lots on how to make more money out of them."

Interestingly, Skypala differentiates between employees and organizations: "The individuals running money no doubt believe they are doing the best they can for their customers, but the machine they work within means however well they do, most of the rewards will accrue to the industry rather than the people it purports to serve."

One answer to the shortcomings of capitalism, then, is fleshed out by the criticisms: Change the "machine". That is exactly what Arete is trying to do in our world of investing. We work hard deploying our expertise and we charge very reasonable fees to do it. We try to get the biggest bang for our clients' investment bucks so they will be better off. We have no delusions that we will siginficantly improve capitalism or the economy on our own, but we will give a number of investors the choice of getting a much better deal than they have had.

Business Update

The end of the year is often a time for reflection for me and all the more so with Arete's fourth anniversary. A lot of things have changed since Arete was founded so I have been revisiting the marketing plan and re-examining conditions and assumptions.

Clearly, the seminal event since Arete's inception was the financial crisis of 2008 - 2009. While I was certainly aware of the potential for a market decline at the time (periodic declines are inherent to the business), I was especially surprised by the reactions of others.

Most notably, I was surprised by what can only be described as panic by many investment "professionals." Panic, and its subsequent trauma, caused some institutions to withdraw from the markets by reducing equity exposure, and caused others to increase risk by seeking hedge funds, alternative investments, and emerging markets exposure. In both cases, interest moved away from core U.S. equity strategies where Arete currently focuses. Despite substantial empirical evidence favoring the performance of smaller managers, institutional interest was further diverted by a heightened perception of risk.

I still feel very strongly that Arete's investment philosophy and strategy are well-suited to many institutions, but the reality is I have limited resources and this is not the best group for me to focus my energy on right now. As a result, I have been shifting relatively more of Arete's business development efforts to individual investors.

This incremental shift to individuals has been extremely easy because the original value proposition started with me. I knew once I graduated from college that I would need to not only work hard but also to invest well in order to improve my station in life. I knew it would be important to take risks in order to get ahead, but I also knew they had to be smart risks because I couldn't afford to lose much. These ideas form the foundation of Arete's value proposition.

Interestingly, while the investment industry has been very good in providing me a forum to develop and refine my craft, it has been substantially bereft of investment products or services that meet my own demands for functional excellence. I believe the single biggest reason for this deficiency is that today's investment industry was built on the coattails of booming markets. Adapting to that environment, the most successful firms actively pursued asset growth at the expense of investment quality and cost control. Because investors were also making a lot of money, there was little pushback on inefficient and ineffective practices.

Eventually, my skills grew great enough that I thought I could offer a better value to investors (including myself!) than could most competitors by starting Arete on my own. The formula is simple: I focus on the aspects that matter most for long-term investment success and make concessions on other aspects. For example, I focus on investment philosophy and process, and I actively manage costs, but I restrict marketing efforts to only the most cost-effective ways to convey information.

I have no delusions that Arete's proposition is perfect; it is not. For certain, it requires a certain amount of effort on the part of investors to meet me halfway in learning about our services by reviewing our website, our newsletters, and our Form ADV which describes many important aspects of the business. Those willing to make that effort, however, receive an investment service that punches way above its weight regarding analytical output and investor value.

Further, I think it is also important to note the Arete represents far more than just my conception of terrific investment value. I believe it also represents a great business opportunity.

This notion was strongly reinforced recently when I attended a conference for high net worth investing in Philadelphia. In her keynote presentation, Lisa Shalett, Chief Investment Officer for Merrill Lynch Global Wealth Management, described 2008 as far more than just a market correction, but a "global inflection point" for the investment industry.

She continued, "Out" are the days of gathering assets, adjusting risk exposure, and selling products. "In" are managing capacity at investment firms, managing and mitigating risk, and providing services that increase well-being. When I asked Lisa in the Q&A session how many incumbent firms she thought could make the transition, she answered, "Maybe a handful of firms can change their stripes and not be paralyzed by incumbency costs."

This suggests that now is a great time for investors to start thinking which investment firms really are best placed to adapt to changing market conditions. If all but a "handful" of existing firms are unlikely to make the transition, there will be a very different playing field ten years hence; many existing firms won't make it. While Arete is not perfect, it is designed for the new landscape and it will keep getting better with time. I like Arete's chances!

On a separate note, I will also be increasing my efforts to find creative ways to leverage Arete's strengths this year. From a business standpoint, it is clear to me that the best way to leverage Arete's many strengths is to focus on them. The way to make that happen is to get help in other areas.

Importantly, I have always felt that working with others is more powerful and rewarding than working alone. Working with smart, interesting, insightful people is one of the many great pleasures of this business for me. While I decided to start Arete alone, this was a sacrifice, not a preference. Now is an opportune time to renew my efforts to expand relationships.

If you know of anyone who may have an interest in partnering with Arete in some capacity, please let me know! I would love to discuss the possibilities.

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.

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.

Portfolio Characteristics (12/31/11)

	Arete MCC*	Midcap Index**
Size		
Average Market Cap ($ mil.)	5,317	5,221
Median Market Cap ($ mil.)	3,712	3,917
Minimum Market Cap ($ mil.)	11	117
Maximum Market Cap ($ mil.)	17,782	20,472
Number of holdings	42	783
Valuation		
P/E current year	21.8	20.9
P/E forecast Y1	17.7	17.5
P/B	2.3	3.3
P/S	1.1	1.6
Yield (%)	1.2	2.6
Valuation drivers		
ROE (%)***	11.2	13.7
LT eps growth forecast (%)	10.9	12.5

Source: The Applied Finance Group™
**Note:* Excludes ASCMA allocation resulting from DISCA corporate action.
***Note*: Arete currently does not subscribe to the Russell Indexes and therefore the statistics presented here represent approximations of the Russell Midcap® Index.
****Note:* ROE for Arete MCC excludes two negative outliers which significantly distort the portfolio average

Portfolio characteristics for the quarter continue to confirm that AMCC is a very representative mid cap portfolio. Market caps for AMCC are now extremely similar to the mid cap index and most valuation metrics are also fairly similar. ROE is noticeably lower, but is also significantly distorted by very negative numbers from a couple of smaller positions.

Sector exposures were all below benchmarket weights due to the high cash position, but within our general guidelines of 50% - 150% of benchmark weights. The Consumer Staples and Technology sector weights are closest to the guideline minimums which reflects the dearth of attractively valued stocks we have found in those areas.

Sector exposure (percent of assets on 12/31/11)

Economic sector	Arete MCC*	Midcap Index**	Percentage Comparison
Consumer Discretionary	12.4	16.5	75.4%
Consumer Staples	3.9	6.3	61.9%
Energy	5.7	7.9	72.1%
Financial Services	16.2	20.6	78.5%
Health Care	8.0	9.0	88.6%
Materials & Processing	5.1	7.3	70.3%
Producer Durables	7.9	12.9	61.2%
Technology	6.1	10.8	56.3%
Utilities	6.0	8.7	69.2%
Equity exposure	71.3	100.0	
Cash and equivalent	28.5	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.

It is important to note that cash was not raised through a wholesale culling of the portfolio. Instead, the vast majority of the cash was raised through exercising our normal sell discipline and through realizing the benefits of several acquisitions for cash. As much as anything, the accumulation of cash reflects an intentional delay in reallocation. Looking to the intermediate future, cash will serve as insurance against significant market dislocations, but will also allow us to make opportunistic purchases.

Transactions review – Arete Mid Cap Core

With the renewed strength of the market in the fourth quarter, and as a continuation of our risk management vigilance, we executed the sale of our Liberty Global position. Fundamentally we still like the company. It has a solid management team and is in a great position to lead the consolidation of the cable tv business in Europe. The combination of the stock price reaching our assessment of fair value, the company's significant debt burden, and the company's extremely high exposure to European consumers, was enough to sway us to take our profits.

In addition to the one outright sale, we also received cash for Kinetic Concepts stock and for Nalco Holding stock. Both companies are prodigious generators of cash which were valued more by suitors than by the public markets. Both were acquired at significant premiums to pre-transaction prices and provided significant gains for Arete's client portfolios.

Market Overview

Most of our market observations from the past quarter remained very similar to those of the past two years. We saw extreme volatility in the markets and even more so in individual stocks. Most of this was related to the continuation of swings in "risk on" and "risk off" activity by market participants.

One manifestation of risk bifurcation has been record high correlations across stocks and asset classes. The perception seems to be that an asset either has risk or it doesn't. Those perceived as risky, whether through being in a cyclical downturn, having a questionable balance sheet, or suffering short-term setbacks, have been punished disproportionately. It has often seemed as if these stocks get caught in the gravitational field of a black hole, never to return.

Conversely, stocks perceived as safe, such as those paying dividends, the larger companies with more diverse revenue streams, and those in defensive industries, seem to be given every benefit of the doubt. These stocks seem to continue to float effortlessly upward.

It is not unusual for such starkly delineated activity in markets to occur, but it is unusual for it to persist for so long. A recent paper entitled, "A Network Value Theory of a Market, and Puzzles," by Robert Snigaroff and David Wroblewski, in the *Financial Analysts Journal*, goes a long way toward explaining this activity.

The authors begin by acknowledging the usefulness of discounting dividends to value shares. Their contribution is to demonstrate that including a component for network value to discounted dividends substantially increases the capacity to explain share prices. By using share turnover as a proxy for network value, they show the explanatory power of a combined model is more than twice as great as a dividend discount model alone.

The implications of this network value theory are significant. First and foremost, it goes a long way toward explaining the observation of some significant declines in individual stock prices, despite negligible changes in fundamental values. This phenomenon can occur when network value erodes, even though fundamental value does not. For example, fears regarding a stock's economic exposure, liquidity, etc., may significantly reduce the number of potential buyers in the market. While the value of the network increases exponentially with incremental buyers and sellers, so too does it decline in a nonlinear fashion.

Insofar as network value theory is correct, it gives a strong indication of how dysfunctional markets are right now. As the number and diversity of market participants has dried up, it has had a disproportionately negative effect on the subset of under-appreciated stocks that, by definition, have fewer network connections. This has flown largely under the radar of major market indexes which are biased by market cap weighting.

As a result, we believe a number of extreme expectation disparities exist at the individual stock level. Indexes are dominated by large components with average performance and excessive valuations in many cases. While unsustainable, this quite possibly will not change until better alternatives become clear. On the other hand, several "at risk" stocks are excessively cheap, but will require increased buying interest from some source or sources.

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.

Arete's Mid Cap Core (AMCC) strategy was up 11.11% (net of fees) versus 12.31% for the Russell Midcap Index® (RMC) in the quarter (see pages 10 – 12 for performance and related disclosures). While we underperformed in the quarter, we did take some solace in capturing as much upside as we did with such a large cash position.

Individual stock performance reflected substantially similar market conditions in the quarter, albeit with some interesting anomalies.

Stock performance* (9/30/11 - 12/31/11)

Best performers

Company	Return in quarter (%)
Dex One	196.4
United Rentals	75.5
Seagate Technology	59.5
Toll Brothers	41.5
Mohawk Industries	39.5

Worst performers

Company	Return in quarter (%)
Energy Conversion Devices	-61.9
Sears Holdings	-44.8
NII Holdings	-21.0
Eastman Kodak	-16.8
NRG Energy	-14.6

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

For the bottom performers, the story was much the same. Energy Conversion Devices and Eastman Kodak continued to perform poorly as if their futures were all but certain. We could discuss many factors regarding these companies but suffice it to say, erosion of network value seems to offer a very good explanation for the poor performance.

Each of the top performers reflected significant rebounds in stocks that had been sold off. There is never a magical signal telling us when the market is going to change its mind from hating these stocks to loving them. As a result, we rely on the discipline of our investment philosophy and process which prevents us from selling on the basis of price movement alone.

As we have been discussing all year, we have further heightened our consideration of risk management and risk mitigation in regards to portfolio construction and stock selection. In both cases, we consider an important part of Arete's job to be a good steward of client capital. This obligation is manifested in requiring a greater margin of safety for individual stocks and holding cash until we can clearly earn returns appropriate to compensate for equity risk.

Finally, while we have been disappointed with performance relative to the RMC this year, we have many reasons to be enthusiastic regarding opportunities. We saw a nice resurgence of takeout activity in the portfolio this year which traditionally has been a strength of our approach. Also, we know market indexes can deviate significantly from reasonable valuations. We like being in the position of making investment decisions based purely on merit without having to chase those indexes.

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 Asset Management

Arete Mid Cap Core Composite

Arete Asset Management, LLC
Mid Cap Core Composite
July 31, 2008 - December 31, 2011

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									
January	2.61	2.37	2.13	3	NA	559,270	559,270	100%	895,481
February	1.56	1.56	3.80	3	NA	568,001	568,001	100%	907,094
March	0.53	0.53	1.53	3	NA	571,008	571,008	100%	1,011,132
April	2.16	2.16	2.99	3	NA	583,327	583,327	100%	1,028,436
May	-1.99	-2.23	-0.42	3	NA	570,329	570,329	100%	1,008,298
June	-2.22	-2.22	-2.09	3	NA	557,644	557,644	100%	990,488
July	-4.58	-4.83	-3.63	3	NA	530,723	530,723	100%	949,361
August	-6.81	-6.81	-6.88	3	NA	494,557	494,557	100%	896,027
September	-9.41	-9.41	-9.63	3	NA	447,996	447,996	100%	826,060
October	11.03	11.03	13.01	3	NA	497,408	497,408	100%	897,918
November	0.46	0.46	-0.50	3	NA	499,704	499,704	100%	901,280
December	-0.39	-0.39	-0.12	3	NA	497,767	497,767	100%	897,619
Q1	4.77	4.52	7.63	3	NA	571,008	571,008	100%	1,011,132
Q2	-2.10	-2.34	0.42	3	NA	557,644	557,644	100%	990,488
Q3	-19.45	-19.66	-18.90	3	NA	447,996	447,996	100%	826,060
Q4	11.11	11.11	12.31	3	NA	497,767	497,767	100%	897,918
YTD	-8.20	-8.88	-1.55	3	NA	497,767	497,767	100%	897,918

**Note*: Peformance through 12/31/08 is from inception of composite on 7/31/08.
***Note*: One existing and two new accounts contributed additional funds which were not at least 90% invested by the end of the quarter. Per our rules for inclusion, these accounts were excluded from the composite and will be added once the funds are fully invested.

Arete Asset Management Mid Cap Core performance composite disclosures follow:

Arete Asset Management Mid Cap Core performance composite disclosures continued:

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.

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. For purposes of composite construction, "fully invested" is defined as having greater than 90% of portfolio assets invested in equity securities. Every new portfolio is added to the composite in the first complete calendar month that it is "fully invested". A complete list and description of firm composites is available upon request.

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.

Arete Asset Management, LLC, Business address: 729 E. Pratt St., Suite 700, Baltimore, MD 21202
http://www.areteam.com drobertson@areteam.com 410/649-0086 Toll Free: 866/526-6008

Arete Asset Management Mid Cap Core performance composite disclosures continued:

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

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