

THE ARETÉ QUARTERLY

Welcome

The investment landscape is changing and so are the needs of investors – and Areté is here to help however we can. While we do actively manage stocks in our mid cap core strategy, we also provide a Personal CIO Service [[here](#)] in order to help investors who want access to our expertise on a more modular basis. In these services, and any future ones, Areté will always focus on conducting good research, thinking independently, and putting our clients' interests first.

In order to stay apprised of our latest thinking on the investment landscape, please take a look at our blog [[here](#)]. Finally, please always feel free to contact us with questions or comments.

Business Update

Two of the things I always focus on at Areté are the development of useful investment insights and the translation of insights into good outcomes for clients. I see both as areas of significant opportunity: Many investment companies are primarily marketing organizations and don't even try to generate unique or useful insights; others do generate useful insights but don't do much to ensure those insights actually help their clients.

In regard to insights, one of my biggest strengths has always been with valuation. Unfortunately, the value of this expertise has been undermined most of the last ten

years by the strong preference for growth driven by monetary policy emphasizing extremely low rates. Conversely, such policies have created a windfall for macroeconomists, Fed whisperers, and geopolitical experts who focus more on broad perspectives than security-specific insights.

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For a number of different reasons, I believe the time is coming when the importance of valuation work will return. While macro perspectives certainly have their place, companies tend to have notably differentiated experiences and properly functioning markets should reflect that. Go back ten years ago and the vast majority of investment research was company-specific.

As more performance opportunities become company-specific, I would expect the value of fundamental research and valuation work to return. This will be very good for Areté partly because it is where my personal expertise lies, but also partly because so many other shops have discarded or diluted their valuation expertise over time. Collectively, the industry has lost much of its muscle memory for valuation work.

In regard to translation, I also have reasons to believe that Areté is well positioned. While much attention has been placed on fintech toys and new passive funds, investors are increasingly realizing neither of these help navigate challenging investment environments. They just don't solve a lot of the problems that investors actually have.

Areté's Personal CIO offering was designed specifically to improve access to investment expertise for the very purpose of solving real world problems. I very much believe that a lot of great investment insight exists. However, investors often do not realize the benefits. Academic research often does not get distributed widely unless it is incorporated into profitable products. In addition, a lot of good research exists but is only available through funds that may not be appropriate for many clients. There needs to be a way to reduce this friction and the Personal CIO offering is Areté's effort to do just that.

In relation to my broader effort to translate insights into better outcomes for investors, I have been rethinking my communication strategy. Most of what I publish gets distributed through the Areté blog and re-posted on realinvestmentadvice.com. It is also often re-posted on zerohedge.com.

My focus has been on pulling ideas together for investors. I believe the biggest challenge for most investors is not finding investment information, but rather on curating the stuff that is useful, distilling it into manageable nuggets, and describing what it means for them. In a very important sense, this work is too valuable to distribute for free.

As a result, I am considering a number of different possibilities including putting some

of the material behind a paywall, modifying the broadly published content, and migrating to more company-specific and valuation-oriented topics. I haven't reached any hard decisions yet, but expect to see some experiments.

A related issue is that free, broadly published content can only do so much to help people. The biggest problems arise when people don't have any idea how far off base they are. They make bad assumptions. They have no idea how many layers of the onion there are. They oversimplify. They focus on the wrong things and overlook the really important things.

There are all kinds of reasons why these things happen but the bigger point is, reading a free blog post is highly unlikely to overcome any deeply rooted problems. The only way those can be overcome is by way of a productive, trusting relationship. Regularly providing useful insights through the blog certainly helps establish that trust, but only goes so far.

Finally, I have been getting settled into Philadelphia and am loving the new digs and the new city so far! Please let me know if you are in the neighborhood - I'd love to get together and talk investments!

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.

Portfolio Characteristics (9/30/19)

	Areté MCC*	Midcap Index**
<u>Size</u>		
Average Market Cap (\$ mil.)	9,571	10,322
Median Market Cap (\$ mil.)	8,136	7,902
Minimum Market Cap (\$ mil.)	365	292
Maximum Market Cap (\$ mil.)***	46,957	40,858
Number of holdings	16	805
<u>Valuation</u>		
P/E current year	29.3	26.2
P/B	2.2	5.4
P/S	1.7	2.7
Yield (%)****	4.2	2.6
<u>Valuation drivers</u>		
ROE (%)****	6.4	11.9

Source: Calcbench

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

**Note: Areté 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.

****Note: Average of available yields

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 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.

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 more cheaply in the future.

General portfolio characteristics for the quarter continue to confirm that the equity portion of AMCC is a representative mid cap portfolio. The average market cap for AMCC is slightly lower now than the mid cap index and the median is slightly higher. Although AMCC is much cheaper on the basis of P/S and P/B, it is important to note that valuation metrics have become less

informative as the number of holdings has declined to just 16 currently.

Sector exposure (percent of assets on 9/30/19)

Economic sector***	Arete MCC*	Midcap Index**	Percentage Comparison
Consumer Discretionary	0.2	11.5	1.7%
Consumer Staples	0.0	4.1	0.0%
Energy	0.0	3.9	0.0%
Financials	2.9	13.3	21.8%
Health Care	3.6	9.8	36.8%
Industrials	0.0	13.7	0.0%
Information Technology	2.1	17.1	12.3%
Materials	6.6	5.2	128.1%
Real Estate	6.4	10.1	63.1%
Communication	0.0	4.1	0.0%
Utilities	4.4	7.2	61.0%
Equity exposure	26.2	100.0	
Cash and equivalent	73.8	0.0	

Source: Calcbench

*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 quite different from benchmark weights, in part due to the high cash position but in part due to different exposures. Cash has remained at high but fairly stable levels over the last several quarters.

Active share* (9/30/19)

Period	Percent**
Q319	96.1
Q219	95.6
Q119	95.5
Q418	95.8
Q318	96.2

*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

There were no trades in the quarter.

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 1.64% (net of fees) for the quarter versus .48% for the Russell Midcap Index® (RMC) (see pages 7 - 9 for performance and related disclosures). Major indexes were only very modestly positive given concerns about liquidity and the potential for a recession. As a result, AMCC's defensive positioning led to outperformance in the quarter.

Stock performance* (6/30/19 - 9/30/19)

Best performers

Company	Return in quarter (%)
Yamana Gold	26.2
Royal Gold	20.2
Detour Gold	16.2
Seagate Technology	14.2
NRG Energy	12.8

Worst performers

Company	Return in quarter (%)
Seritage Growth Properties	-1.1
Gaming & Leisure Properties	-1.9
Annaly Capital Management	-3.6
Lands End	-7.2
Owens Illinois	-40.5

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

Two dominant themes were clear among top performers in the quarter. One was gold as AUY, RGLD, and DRGDF all outperformed considerably. The outperformance of STX and NRG also hinted at the improving

performance of the value style relative to growth and momentum.

Among the underperformers, OI suffered from exposure to slower European growth, a strong dollar, and a bumpy rollout of new technology. Most of the issues, however, appeared to be temporary.

LE continued to be hit by concerns about retail. The negative performance of the other underperformers was concentrated among REITs and was not especially significant.

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, 2019

Period	Gross-of-Fees Return (percent)	Net-of-Fees Return (percent)	Russell Midcap®		Internal Dispersion (percent)	Total Composite Assets (\$)	Composite Assets With Bundled Fees (\$)	Percentage of Composite Assets With Bundled Fees	Total Firm Assets (\$)
			Index Return (percent)	Number of Portfolios					
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	-7.56	-8.44	-2.44	4	NA	919,035	919,035	100%	1,206,652
2016	4.07	3.02	13.80	4	NA	946,825	946,825	100%	1,142,297
2017	5.03	4.00	18.52	4	NA	984,681	984,681	100%	1,181,490
2018	-2.06	-3.03	-9.06	4	NA	954,785	954,785	100%	1,152,786
2019									
January	3.37	3.13	10.79	4	NA	984,623	984,623	100%	1,184,800
February	0.21	0.21	4.30	4	NA	986,645	986,645	100%	1,187,424
March	0.54	0.54	0.86	4	NA	991,993	991,993	100%	1,193,131
April	0.13	-0.12	3.81	4	NA	990,777	990,777	100%	1,191,761
May	-2.46	-2.46	-6.14	4	NA	966,369	966,369	100%	1,167,153
June	2.94	2.94	6.87	3	NA	994,399	994,399	100%	1,198,127
July	0.82	0.57	1.43	3	NA	1,000,389	1,000,389	100%	1,205,458
August	0.99	0.99	-2.85	3	NA	1,010,288	1,010,288	100%	1,217,617
September	0.07	0.07	1.97	3	NA	1,010,997	1,010,997	100%	1,217,395
Q1	4.15	3.90	16.54	4	NA	991,993	991,993	100%	1,193,131
Q2	0.53	0.28	4.13	3	NA	994,399	994,399	100%	1,198,127
Q3	1.89	1.64	0.48	3	NA	1,010,997	1,010,997	100%	1,217,395
YTD	6.68	4.90	21.93	3	NA	1,010,997	1,010,997	100%	1,217,395

*Note: Performance 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®).

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.

Areté Asset Management Mid Cap Core performance composite disclosures continued:

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.

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.

Areté 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

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