
THE FIXED INCOME CONTRARIAN COMPENDIUM

December 2013

Featured Companies

Ally 8% 11/01/31 Corp. Bond
LMP Corporate Loan Fund Inc. (TLI)
Brookfield Real Estate Services Inc. (BRE)
TXU 11.5% 10/01/20 Corp. Bond

Updates on Past Ideas

Fidelity National Financial, Inc.
4.25% Convertible Senior Notes due 2018



*Exclusive Marketers of
The Fixed Income Contrarian Report*

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Murray's Musings

THE SEARCH FOR YIELD

The problem of yield is not solvable within the context of conventional bonds. Let us begin by considering the iShares iBoxx \$ High Yield Corporate Bond ETF (HYG), which has an average yield to maturity of 5.19%. It does not present upside potential. Due to the unavoidable credit losses that will occur within this sector, the return unquestionably will be less than 5%, even if rates never increase. In order for investors to collect 5.19%, there really must be a complete absence of credit losses, and it is not reasonable to think that could ever happen.

Even moving to lower-grade high yield, which would be represented by the iShares B-Ca Rated Corporate Bond ETF (QLTC), the yield to maturity advances to only 5.65%. It is worth noting that people obviously have decided that the incremental 46 basis point yield over and above HYG is not worth the incremental risk, because the QLTC assets under management are only \$10.4 billion, whereas the assets under management of HYG are \$15.7 billion.

There is also no solution in global high yield. The iShares Global ex USD High Yield Corporate Bond ETF (HYXU), which excludes the United States, has an average yield to maturity of 4.31%, even lower than the U.S. funds HYG or QLTC.

Many investors have been attracted to emerging markets high yield due to the higher interest rates and lack of a correlation to the United States. The iShares Emerging Markets High Yield Bond ETF (EMHY) has an average yield to maturity of 7.70%. Ignoring any aspects of currency risk, one has to accept other risks, including that among the holdings of this fund are Venezuela 11.95% bonds due August 5, 2031, with a yield to maturity of 15.26%. Also among the holdings are the ever-popular bonds of the Republic of Lebanon: the 8.25% due April 12, 2021 with a yield to maturity of 6.41%. These bonds actually trade considerably above par. There is also the Ukraine 6.25% bond due June 17, 2016, with a yield to maturity of 12.91%, and the Egypt 5.75% due April 29, 2020, with a yield to maturity of 7.26%.

Apparently political unrest has not yet frightened investors in search of yield, nor will it. This fund is merely a security purchased in the context of a larger portfolio strategy. It is simply raw material that is required for diversification; the buyers of this ETF do not evaluate or price the securities within it.

Clearly there is risk there. The Emerging Markets High Yield Index also has duration risk because the weighted average maturity is 8.62 years. The effective duration, however, is

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only 5.54 years. The comparable figures for the U.S. High Yield Index (HYG) are 4.55 years weighted average maturity and 4.11 years effective duration. Is the incremental 251 basis points worth all those risks? One would think not.

Industry Thoughts

SENIOR LOAN CLOSED-END FUNDS

Investors in search of yield might wish to consider the senior loan closed-end funds, all of which trade at discounts to NAV right now, and yield anywhere from 6% to 7%. Of course, they are leveraged. Table 1 provides the discount to NAV; yield; average maturity, which runs about five years; and structural leverage, which runs around 30%.

Table 1: Senior Loan Closed-End Funds

| <u>Ticker</u> | <u>Fund</u> | <u>Discount to NAV</u> | <u>Yield</u> | <u>Average Maturity (Years)</u> | <u>Structural Leverage</u> |
|---------------|--|------------------------|--------------|---------------------------------|----------------------------|
| JRO | Nuveen Floating Rate Income Opp. | (7.26%) | 6.59% | 5.55 | 29.41% |
| EFR | Eaton Vance Senior Floating-Rate Trust | (4.17%) | 6.25% | 5.03 | 35.04% |
| FCT | First Trust Senior Floating Rate Income Fund | (5.03%) | 6.35% | 5.22 | 30.64% |
| JFR | Nuveen Floating Rate Income | (6.03%) | 6.23% | 6.33 | 30.09% |
| NSL | Nuveen Senior Income Fund | (6.28%) | 6.15% | 5.28 | 29.90% |
| PHD | Pioneer Floating Rate Trust | (5.36%) | 7.28% | 4.82 | 36.11% |
| BGX | Blackstone/GSO Dynamic Credit Income Fund | (8.46%) | 7.40% | 0.66 | 16.75% |
| TLI | LMP Corporate Loan Fund | (8.64%) | 7.34% | N/A** | 33.88% |

**effective duration 0.37 yrs; 0.66 yrs option-adjusted duration

Source: CEF Connect; Fund Sponsor

Clearly, the maturity is not long. The beauty of it is that, in the senior loan funds, the maturity structure is no greater, practically speaking, than in a high yield index. The securities are usually bank loans, which are the senior securities in a typical credit hierarchy. Therefore, it offers much better credit protection. The debt is floating and adjustable rate so the loans are essentially protected against rising interest rates. The funds comprise a diversified portfolio, as opposed to buying a single credit, so one is diversified against credit risk. The primary risk, such as it is, is the mark-to-market risk because the funds can go to a deep discount to net asset value. It is a very different sort of risk, and there are many who are disinclined to take it.

Of course, the funds are somewhat leveraged, but the leverage is non-recourse to the buyer. In comparison to the leverage of some of the holdings in the high yield indexes, the

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leverage in these closed end funds is very modest. Clearly, the senior loan funds make a lot of sense for the yield-seeking investor.

Facts & Figures

CLOSED-END FUNDS: A \$264 BILLION ASSET CLASS

The total assets under management of all the closed-end funds in the United States were \$264 billion in 2012. That asset class is very interesting, but it is basically ignored by institutional investors. It is worth noting that those same institutions get involved in much smaller asset classes.

Table 2: U.S. Total Assets in Closed-End Funds

| | <i>(\$ in billions)</i> |
|------|-------------------------|
| 2002 | \$159 |
| 2003 | \$214 |
| 2004 | \$253 |
| 2005 | \$276 |
| 2006 | \$297 |
| 2007 | \$312 |
| 2008 | \$184 |
| 2009 | \$224 |
| 2010 | \$238 |
| 2011 | \$243 |
| 2012 | \$264 |

Source: Investment Company Institute

Consider the breakdown of that \$264 billion asset class, focusing only on the fixed income portion of it. As can be seen in Table 3, the assets under management of domestic municipal bonds, which institutions will never touch, and domestic taxable bonds came to \$144.3 billion at year-end 2012. There was another \$120 billion in domestic equity, global equity, and global fixed income.

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Table 3: Assets Under Management at Year-End 2012

| | (\$ in billions) |
|-----------------------|------------------|
| Domestic Taxable Bond | \$53.9 |
| Domestic Municipal | \$90.4 |
| Domestic Equity | \$69.2 |
| Global Equity | \$32.0 |
| Global Fixed Income | \$18.8 |

Source: Investment Company Institute

Looking at high yield debt, the market value of all high yield debt in the U.S. at year-end 2012 was \$1.1 trillion.

Table 4: Investment Characteristics Of U.S. High Yield Debt

| | |
|-----------------------|----------------|
| Number of bond issues | 2,112 |
| Market value | \$1.1 trillion |
| Effective duration | 4.27 years |
| Average maturity | 6.48 years |

Source: Russell Report April 2013, www.russell.com

The entities not considered to be of the highest credit worthiness have collectively borrowed \$1.1 trillion. That fact in itself is interesting. It is also worth studying the degree to which the ease of obtaining credit influences other aspects of the financial markets. The effective duration of that \$1.1 trillion was 4.27 years, and the average maturity was 6.48 years. Essentially, the high yield lenders trust the credit more than they trust the central bank. They are not willing to take interest-rate risk but they are willing to take credit risk.

This \$1.1 trillion market included 2,112 bond issues—not issuers—classified as high yield. It is worth noting that at the time of the Drexel Burnham Lambert bankruptcy in 1990, at the end of the era of Michael Milken, the size of the U.S. high yield market was \$125 billion—and that was considered a bubble. In other words, the high yield market is now nine times as large as it was at the peak of the Milken era.

Also worth noting is that the European high yield market was created by the financial crisis. Before 2008 there was no market for high yield bonds in Europe. Borrowers that were less than credit-worthy began to appear, but they had already borrowed money. According to the Loomis Sayles May 2013 report, the European high yield market was valued at €262 billion.

The Barclays Global High Yield Index has a market value of \$1.9 trillion, with 88.3% of the holdings denominated in United States dollars, which represents another kind of risk. Table 6 lists the country breakdown of the Barclays Global High Yield Index that shows

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which countries are borrowing. The biggest issuer of high yield debt, by far, was the United States.

Table 6: Barclays Global High Yield Index
Country Weights

| | |
|-------------|-------|
| U.S. | 52.2% |
| U.K. | 4.4% |
| France | 3.5% |
| Venezuela | 3.2% |
| Germany | 3.2% |
| Turkey | 3.1% |
| Italy | 2.7% |
| Luxembourg | 2.7% |
| Canada | 1.9% |
| Philippines | 1.7% |
| Russia | 1.5% |
| Hungary | 1.4% |

Source: Barclays

The second-largest issuer of high yield debt is the United Kingdom. The third largest is France. Venezuela is the fourth biggest—that country has oil.

ANALYZING THREE BONDS

Continuing with Facts & Figures, we will look at individual securities to illustrate how difficult it is to solve the income need with conventional high yield bonds. Let us consider a bond like the HCA Holdings 7.75% due May 15, 2021. It is rated B3 by Moody's, B by S&P, and yields 4.30%. The bond will not be around very long because it is going to be refinanced in due course.

A major overhaul is underway in the United States health care system. Since it is not entirely clear how that change will affect hospitals, whether for good or bad, there is a certain amount of risk that is greater than the obvious balance sheet risks. Above and beyond the Affordable Care Act, there is the issue of the high cost of health care, which is becoming increasingly unaffordable. HCA must operate in this environment so the question to be considered is whether or not 4.30% per annum is adequate compensation for those risks. That yield is the best it can achieve—there will be no further price appreciation.

Similarly, let us consider the Clear Channel Worldwide 7.625%, due March 15, 2020, and rated B3 by Moody's, and B by S&P, with a 6.04% yield to maturity. These bonds were

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issued in 2012 and were part of the process by which Clear Channel Outdoor paid a dividend to its stockholders, the biggest of which is Clear Channel Holdings. This bond is just one of the various structures used for the LBO of Clear Channel by Bain Capital. The LBO stub, known as CC Media Holdings (CCMO), trades in the Pink Sheets with a \$570 million market cap. Effectively, CC Media is a publicly traded LBO. The stub, technically speaking, looks profitable, but in reality most of that was due to extraordinary items. It is not inconceivable that this company, inclusive of interest expense, might lose \$80 million to \$100 million per quarter.

Clear Channel's problem is that it contains a conventional radio business that loses money, and that it owns 89% of Clear Channel Outdoor, a publicly traded company (CCO) with a \$3.3 billion market cap. In theory, shares of CCO could be sold to pay down debt. On a GAAP basis, Clear Channel Outdoor is modestly profitable. It has a leveraged balance sheet and negligible equity but pretty good cash flow. The entire Clear Channel group of companies has \$20 billion of debt and negative equity of \$8 billion. All of the debt of substance is long term and that is the risk investors assume in exchange for 6.04%. Is it worth it?

Another example is the Sprint Capital 6.875% due 11/15/2028. This is a long-term bond rated B1 by Moody's, BB- by S&P, and it has a 7.37% yield to maturity. Sprint was recently refinanced by Softbank. After recapitalization, Sprint has a \$31 billion market capitalization. Subsequent to the injection of funds by Softbank, Softbank bought an additional 75 million shares in the open market for roughly \$500 million so that it now owns 80% of Sprint.

The problem Sprint faces is its weak subscriber trends. It is trying to turn itself around but is very early in the turnaround process, so investors need to accept a certain degree of operational risk and a certain degree of financial risk. The major risk for investors, however, is that the bond does not mature until 2028. That is the source of its relatively higher yield. Investors would much prefer buying a shorter maturity of a poorly capitalized company with operational problems to buying a reasonably well capitalized company with operational problems and debt maturing more than 10 years from today. It is highly likely that Sprint will repay its debt, but it is a long time until 2028, and much can happen.

Featured Companies

ALLY 8% 11/01/31 CORP. BOND

The Ally Financial 8% bond due November 1, 2031 has a yield to maturity of 6.22%, The high yield market is avoiding longer-term high yield issues, of which there are not many, so this bond might be an area of opportunity.

Ally Financial was previously known as General Motors Acceptance Corporation (“GMAC”). Prior to the financial crisis, GMAC was 51% owned by the private equity firm Cerberus. In late 2008, GMAC became one of the casualties of the financial crisis, and the United States Treasury had to begin investing money into the company. The first tranche was \$6 billion followed by other tranches. Ultimately, to keep GMAC a viable entity, the U.S. Treasury invested \$16 billion into it. Among actions taken to make a better company out of GMAC, the name was changed to Ally Financial.

This is still a huge automobile finance company although it is much reduced in size. It has more than \$3 billion of net revenue. It also handles vehicle service contracts, auto insurance, and the Ally Bank. The U.S Treasury still owns 64% of the equity of Ally Financial and would like to create an IPO to exit that position. Recently, the company repurchased the convertible preferred securities held by the U.S. Treasury for \$5.9 billion. There is also the Treasury’s common equity position to consider.

As part of that effort, Ally Financial is raising equity. It is engaging in a \$1 billion private equity placement. For a finance company, its balance sheet is quite good. It has \$19 billion of equity and \$68 billion of debt. By financial company standards it is not very leveraged.

Once the government exits, Ally will probably undertake to refinance its entire balance sheet, starting with the shorter maturities. If successful, the interest expense savings would be enormous.

For the eight bonds listed in table 6, the coupons are very large and the yields to maturity are actually not. For example, the Ally Financial 6.75%, due December 1, 2014, yields 1.72%, so the company can repay that debt and take out similar-term debt and keep the differential. Even the Ally Financial 8.3% bonds, due February 12, 2015, are yielding 1.77%.

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Table 7: Ally Financial Shortest Maturities

| <u>Coupon</u> | <u>Due Date</u> | <u>YTM</u> |
|---------------|-----------------|------------|
| 7.50% | 9/15/2020 | 4.66% |
| 8.00% | 3/15/2020 | 4.34% |
| 8.30% | 2/12/2015 | 1.77% |
| 4.625% | 6/26/2015 | 1.35% |
| 5.50% | 2/15/2017 | 2.87% |
| 3.50% | 7/18/2016 | 2.25% |
| 6.25% | 12/1/2017 | 3.14% |
| 6.75% | 12/1/2014 | 1.72% |

Source: Company reports

Clearly, Ally Financial could save a lot of money. Personally, I prefer the longer-dated bond. The longer-dated bond probably will be refinanced in several years. In the meantime, one can earn at least an acceptable rate of return for an acceptable level of credit risk. This balance sheet is not imperiled; in fact, it is improving. For what it is, it offers a reasonable rate of return. Eventually it probably is going to be refinanced but not for years to come. Much has to happen before that refinancing event occurs.

The objective, then, is to earn a yield of 6% without the assumption of bizarre risks. In the case of Ally Financial, the risks include operational risk, including whether or not the pre-2008 problems have been resolved. There is also interest rate risk, not merely what the level of interest rate is going to be given that Ally Financial lends money, but also the question of the shape of the yield curve. Political risk is another issue. One shareholder with enormous influence is the United States Treasury. That shareholder theoretically could act to the detriment of bondholders. It seems unlikely, given the current circumstances, but it is still possible. Those are the risks. The reward, however, is 6.22%, and the risks are reasonable.

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LMP CORPORATE LOAN FUND INC. (TLI)

The LMP Corporate Loan Fund (TLI) trades at an 8.64% discount to NAV. Its distribution rate yield is 7.34%. It has a \$128 million market capitalization and structural leverage of 33%. The largest loans represent a 1% position. Table 7 lists the largest loans, which are not radically different in terms of character. For example, HCA, Vanguard Health, Fortescue Metals, and Caesars Entertainment are included and are typical high yield names.

Table 8: Largest Loans

| <u>Bond</u> | <u>Due Date</u> |
|--|-----------------|
| HCA 3.47% | 5/1/2018 |
| Wall Street Systems 9.25% | 4/24/2020 |
| Vanguard Health 8.00% | 4/20/2017 |
| Par Pharmaceutical Term Loan 4.25% | 9/30/2019 |
| Fortescue Metals 5.25% | 10/18/2017 |
| Teine Energy Second Lien Term Loan 7.50% | 5/9/2019 |
| Caesars Entertainment 5.44% | 1/28/2018 |
| Grifols 4.50% | 6/1/2017 |
| Michaels Foods 4.25% | 2/23/2018 |
| Biomet 3.97% | 7/25/2017 |

Source: Company reports

The difference is that these are bank loans, which would be the first items in the credit hierarchy. The fund has a higher yield than a typical high yield bond, but with the protection that the loans are floating rate, not fixed, so there is some protection against interest rate risk.

Year to date, this fund, based on market value, has declined by 2.3%. Based on net asset value, however, it has returned 6.9%. The mere thought of the Federal Reserve tapering its bond buying—because this fund is nothing other than a retail-owned instrument—has prompted retail selling. It is not justified, given the fund's nature.

It is also worth noting the risk that in a financial crisis this fund will go to a significantly greater discount to net asset value than its current trading level. For example, in 2008, the worst year in its history, the NAV performance of this fund was negative 44.20%, much of which pertained to the discount to NAV. The best year was 2009, when the NAV performance was 77.15%; it just reversed itself.

Senior loans represent 94% of this portfolio. The fund return since the inception date of November 20, 1998 is 5.51% annualized. This fund has never been one to take a great deal

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of risk. It confines its buying, generally speaking, to the senior security in the hierarchy. As noted previously, it is protected against interest rate increases. It does not take large positions in any individual credit, because the payoff of one bond is no greater than that of another. I think that approach makes a lot of sense.

BROOKFIELD REAL ESTATE SERVICES INC. (BRE CN)

Brookfield Real Estate Services is a quasi-bond; it looks like an equity but it is not. The company receives royalties and service fees from a variety of Canadian real estate brokerage firms. It yields 9.01% and has a market capitalization of \$126 million (Canadian). The three real estate brokerage firms from which it receives franchise fees are Royal LePage, Via Capitale, and Johnston & Daniel.

Structurally, 75% of the revenue is generated from fixed franchise fees from the affiliated brokers. This arrangement is designed to produce a stable dividend stream. The remaining 25% of the dividend is derived from transactional volume. The idea is that transactional volume and the size of the average transaction will increase over the course of time and provide some inflation protection. As a bond alternative, it protects investors against rising interest rates or, phrased alternatively, if there were excessive inflation, it would be reflected in home values. If transactional volume increases and the transaction size expands, the yield of the security would increase as well, even if the price does not.

Except for the most recent quarter, the Canadian real estate market has been in modest decline since 2012. In the most recent quarter, transactional volume increased by about 1%. While that is not large, much of it has to do with building activity in western Canada, because that area is developing many fracking territories, much like the United States, and people are moving to that region of Canada.

The franchise renewal rate of this company comfortably exceeds 99%; more than 99% of the those who buy the franchise renew it. At the beginning of 2012, this company had 104,407 licensed members, which are the real estate brokers within the franchises. Close to the end of 2013, the number has increased to 107,077. That figure provides another way to predict dividend increases.

The company has a 24% Canadian market share. It has \$52 million of debt, \$3 million of cash. It has no equity, because it does not need equity. It has the right to receive a royalty. In the long run, it has no real credit risk and its dividend is likely to rise. Therefore, given the current yield and the high probability its dividend will increase, it should, over time, handily outperform the high yield bond indexes.

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TXU 11.5% 10/01/20 CORP. BOND

The Texas Competitive Electric 11.5% due October 1, 2020, has a yield to maturity of 18.32%. The maturity date is irrelevant, however, since it is very likely that Texas Competitive Electric will declare bankruptcy within approximately 90 days.

Texas Competitive Electric is part of the Energy Future leveraged buyout, being the retail electricity arm of the larger Energy Future. It owns or leases 15,427 megawatts of generation capacity in Texas. It has 1.75 million retail customers. The problem with utilities as leveraged buyouts is utility deregulation. In deregulated mode, the power market proved to be too volatile to support the \$30 billion of debt at the Texas Competitive Electric level.

Texas Competitive Electric, formerly known as TXU, controls 18.25% of the regional capacity. Its problem is that peak demand is at 78% of capacity. If peak demand were at 84% to 85%, that might have created a successful LBO and a healthy utility. Instead we have an unhealthy utility with excessive debt.

The company will go bankrupt and, as such, the only way it can be viable is if much of its debt can be converted to equity. There is no alternative. How much of the debt is converted into equity and what might happen at that point will be discussed during the bankruptcy process. It is not sensible to even speculate on those issues. Valuation of the equity, however, will be based on the current environment, and the current environment will not last. In three years the power market is going to be a lot tighter.

It will be tighter because there is population growth in Texas as well as demand growth, albeit only a percent or two a year. Over the course of three years, however, that can bring the utility close to 84% of capacity. It could be a very different pricing environment. To understand how depressed the pricing environment is, it is worth considering that the revenue run rate today is somewhere between 57% and 58% of the 2008 level, which was somewhat depressed. Another problem with deregulated utilities in Texas is that the electricity prices vary with the price of natural gas. Natural gas prices are half of what they were in 2008 and that could change as well.

Essentially, to repair the company, there must be a massive write-down of debt and conversion to equity. Current annual interest rate charges exceed \$2.8 billion, and that is very high for what this utility is likely to earn. The company will be restructured, but this bond is reflecting what it would look like if the bonds were largely converted to equity, which is what might happen. That equity might be worth a lot more several years from now. There is very little downside and a lot of upside.

Post-Musings

YIELD AND THE BLACK-SCHOLES PERSPECTIVE

Looking at the difficulty of achieving yield from a completely different standpoint, let us consider the Black-Scholes Option Pricing Model. For purposes of this imaginary exercise, let us assume that we purchase of the 30-year United States Treasury bond. The yield to maturity of that bond is 3.88%.

Alternatively, let us assume one wished to write a put option on the iShares 20+ Year Treasury ETF (TLT), which has an average maturity of 27.35 years, and do so at the money. Using an expiration date of January 2015 and a strike price of 100 for the ETF (which is slightly out of the money), the options at the bid side would get \$6.10 per contract. That works out to a return on capital risk annualized at 5.62%, roughly 200 basis points more than what we would get in Treasury yield.

If the collateral for this trade were invested in a low-risk instrumentality such as the iShares 1-3 Year Credit Bond ETF (CSJ), one could realize, for very little increase in risk, another 104 basis points. The total yield of this package would be 6.66%.

How is it possible to achieve that yield, since writing an at-the-money put option on this 20-year ETF is no different from being long the actual long-term government bond? Answering that is the purpose of this inquiry. The reason it is possible is because the Black-Scholes option pricing model views the problem of option valuation stochastically, whereas human beings might view the problem qualitatively. In other words, a human might assert that the 30-year Treasury has no possible upside potential, as a practical matter, since the Federal Reserve will, sooner or later, end quantitative easing.

A financial mathematician would assert that the price of a security like the 30-year Treasury follows the pattern of geometric Brownian motion, which is a continuous stochastic process with drift, sometimes referred to as a Wiener process. From the mathematical perspective, the security exhibits geometric Brownian motion if the data basically can satisfy a stochastic differential equation.

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Consider the Black-Scholes option pricing model:

$$C(S, t) = N(d_1)S - N(d_2)Ke^{-r(T-t)}$$

$$d_1 = \frac{1}{\sigma\sqrt{T-t}} \left[\ln\left(\frac{S}{K}\right) + \left(r + \frac{\sigma^2}{2}\right)(T-t) \right]$$

$$d_2 = \frac{1}{\sigma\sqrt{T-t}} \left[\ln\left(\frac{S}{K}\right) + \left(r - \frac{\sigma^2}{2}\right)(T-t) \right] = d_1 - \sigma\sqrt{T-t}$$

Where

S = security price

C = price of a European style call option

N = cumulative standard normal distribution

K = strike price

R = risk free rate of return

σ = volatility of security

t = time

T = expiration date

c = Euler's constant (2.71828)

ln = natural logarithm

The reason for writing all the variables out, even though one can use a computer, is to pose the following exercise. The Black-Scholes option pricing model was designed for European-style options, which are only exercisable on the date of expiration. Let us pose the following problem: what would be the value of a one-year option on a zero coupon bond maturing on the expiration date? In other words, if the zero coupon bond matures one year from today, what is the value of an option that expires one year from today? Let us also assume for the purpose of this exercise that the current bond trades at a price of 95, the historical volatility is 10%, and the exercise price of the option is 101. Clearly, the bond is going to mature at par.

Obviously, the option has no intrinsic value. If one does this by computer, however, Black-Scholes will actually calculate a value, because implicit in the model is the assumption that the asset in question will stray from its initial spot price. As a generalization, the longer the time to expiration and the more volatile the asset, the greater the probability of that outcome.

Without knowing anything about financial mathematics, if you look at the Black-Scholes option pricing model, one can see in the equation that there is no element where one can

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assign, for the purposes of the model, the attribute, for calculation purposes, of the maturity of the bond on the expiration date of the option. It's merely a particle that vibrates in space.

These comments are not a criticism of Black-Scholes—the model works well enough in most instances. The purpose is to point out that the stochastic view of the world basically dominates all of finance, and there is no way to express the qualitative features we know securities actually have, the maturity date of a zero coupon bond being one of them. Sometimes the qualitative features can be quantified, but they are specific to a given security, and it is very hard to create a formula that can generalize all of the theoretically quantifiable attributes of every security that could exist. Even if one could, it would be a very cumbersome type of equation.

Updates on Past Ideas

FIDELITY NATIONAL FINANCIAL, INC.
4.25% Convertible Senior Notes due 2018

Original Recommendation: 12/27/11 at 98.4

Current Price: 154.6

Outstanding Par Amount: \$300 million

The Fidelity National Financial convertible notes were recommended on December 17, 2011. At the time, the notes were priced at 98 and the stock was trading at \$16.30 per share, for a conversion premium of 30.2%. Since that time, the shares have appreciated 83% to a recent price of \$29.95. As a result, the convertible notes have also increased in value, to a price of around 154, or by approximately 57%; at this level the conversion premium is roughly 11%, with a negative yield to maturity of (5.7)%.

The original recommendation was advanced during a period when real estate-related businesses and financial services businesses were still recoiling from the Great Recession of 2008. Since Fidelity National Financial operated at the intersection of these two industries, its common shares were understandably shunned by the investment community. The convertible notes were recommended based on the thesis that the common stock was valued as though the problems the company faced at that time were a permanent feature of the economic landscape. In other words, it did not appear that any form of recovery in the real estate market was discounted in the share price.

However, it was theorized that if the real estate market were to eventually recover, the company would naturally produce higher earnings. For example, if Fidelity National Financial were to achieve its historical return on equity of 15.5%, it might produce \$533 million of net income that, capitalized at a multiple of 12x, could result in a bond price of 155, assuming a modest conversion premium.

As so happens, events have unfolded in a manner consistent with our thesis, and the convertible notes now trade at almost exactly the price offered in the report. Thus, the total return to date is approximately 65.5%, or 29.4% on an annualized basis. As it exists today, the convertible notes are, in effect, a proxy for the common shares. Considering that the envisioned return has been achieved, a reasonable course of action would be to sell the notes and book the profits.

WEALTH INDEX (Ticker: RCH Index)

As of September 30, 2013

| <u>Annualized Total Return</u> | <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> | <u>7 Years</u> | <u>10 Years</u> | <u>15 Years</u> | <u>20 Years</u> | <u>Since Incep. 1991 - Sep '13</u> |
|------------------------------------|---------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|--|
| Wealth Index | 32.48% | 19.82% | 18.89% | 12.31% | 12.86% | 10.88% | 12.25% | 13.48% |
| S&P 500 | 19.34% | 16.27% | 10.02% | 5.60% | 7.57% | 5.33% | 8.80% | 9.67% |
| S&P 500 Eq. Wgt. | 27.44% | 17.73% | 13.79% | 7.90% | 10.35% | 9.40% | 10.81% | 12.16% |
| Russell 3000 | 21.60% | 16.76% | 10.58% | 6.08% | 8.11% | 6.01% | 8.89% | 10.01% |
| Russell 2000 | 30.06% | 18.29% | 11.15% | 7.23% | 9.64% | 8.91% | 8.96% | 11.18% |
| Excess Return vs. S&P 500 | 13.14% | 3.55% | 8.87% | 6.71% | 5.30% | 5.55% | 3.45% | 3.82% |
| Excess Return vs. S&P 500 Eq. Wgt. | 5.05% | 2.09% | 5.10% | 4.41% | 2.52% | 1.48% | 1.44% | 1.32% |
| Excess Return vs. Russell 3000 | 10.88% | 3.05% | 8.31% | 6.23% | 4.75% | 4.87% | 3.36% | 3.47% |
| Excess Return vs. Russell 2000 | 2.43% | 1.53% | 7.73% | 5.08% | 3.22% | 1.97% | 3.30% | 2.30% |

*Note: Calculated Using Total Returns

| <u>Risk Adjusted Return</u> | <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> | <u>7 Years</u> | <u>10 Years</u> | <u>15 Years</u> | <u>20 Years</u> | <u>Since Incep. 1991 - Sep '13</u> |
|-----------------------------|---------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|--|
| Wealth Index | 3.03 | 1.30 | 0.75 | 0.54 | 0.64 | 0.46 | 0.56 | 0.64 |
| S&P 500 | 2.14 | 1.31 | 0.55 | 0.33 | 0.51 | 0.34 | 0.58 | 0.66 |
| S&P 500 Eq. Wgt. | 2.86 | 1.24 | 0.63 | 0.39 | 0.59 | 0.52 | 0.64 | 0.74 |
| Russell 3000 | 2.31 | 1.29 | 0.56 | 0.35 | 0.53 | 0.37 | 0.57 | 0.67 |
| Russell 2000 | 2.49 | 1.07 | 0.46 | 0.33 | 0.49 | 0.43 | 0.45 | 0.58 |

*Note: Calculated As Annualized Total Return Divided By Annualized Total Return Volatility (Uses Monthly Total Returns)

| <u>Information Ratio</u> | <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> | <u>7 Years</u> | <u>10 Years</u> | <u>15 Years</u> | <u>20 Years</u> | <u>Since Incep. 1991 - Sep '13</u> |
|-----------------------------------|---------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|--|
| Wealth Index vs. S&P 500 | 2.99 | 0.64 | 0.84 | 0.71 | 0.60 | 0.49 | 0.33 | 0.37 |
| Wealth Index vs. S&P 500 Eq. Wgt. | 1.38 | 0.47 | 0.85 | 0.76 | 0.44 | 0.14 | 0.15 | 0.14 |
| Wealth Index vs. Russell 3000 | 2.85 | 0.62 | 0.87 | 0.72 | 0.60 | 0.46 | 0.34 | 0.36 |
| Wealth Index vs. Russell 2000 | 0.59 | 0.24 | 0.92 | 0.64 | 0.43 | 0.16 | 0.30 | 0.22 |

*Note: Calculated As Annualized Excess Total Return Divided By Annualized Excess Total Return Volatility (Uses Monthly Excess Total Returns)

| <u>Wealth Index Batting Average</u> | <u>Roll 1 Year</u> | <u>Roll 3 Year</u> | <u>Roll 5 Year</u> |
|-------------------------------------|--------------------|--------------------|--------------------|
| vs. S&P 500 | 60.31% | 68.49% | 69.63% |
| vs. S&P 500 Eq. Wgt. | 57.63% | 63.03% | 57.94% |
| vs. Russell 3000 | 62.98% | 68.91% | 75.70% |
| vs. Russell 2000 | 60.31% | 65.55% | 72.90% |

*Note: Calculated Using Total Returns

| <u>Annualized Volatility</u> | <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> | <u>7 Years</u> | <u>10 Years</u> | <u>15 Years</u> | <u>20 Years</u> | <u>Since Incep. 1991 - Sep '13</u> |
|------------------------------|---------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|--|
| Wealth Index | 10.71% | 15.26% | 25.09% | 22.85% | 20.23% | 23.40% | 21.82% | 21.12% |
| S&P 500 | 9.04% | 12.41% | 18.08% | 16.84% | 14.69% | 15.69% | 15.19% | 14.75% |
| S&P 500 Eq. Wgt. | 9.58% | 14.33% | 22.00% | 20.16% | 17.67% | 17.97% | 16.92% | 16.44% |
| Russell 3000 | 9.35% | 13.03% | 18.82% | 17.48% | 15.29% | 16.07% | 15.48% | 15.02% |
| Russell 2000 | 12.08% | 17.14% | 24.01% | 21.81% | 19.83% | 20.68% | 19.69% | 19.20% |

*Note: Calculated Using Total Returns

| <u>Annualized Tracking Error</u> | <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> | <u>7 Years</u> | <u>10 Years</u> | <u>15 Years</u> | <u>20 Years</u> | <u>Since Incep. 1991 - Sep '13</u> |
|----------------------------------|---------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|--|
| vs. S&P 500 | 4.39% | 5.53% | 10.51% | 9.48% | 8.84% | 11.25% | 10.55% | 10.37% |
| vs. S&P 500 Eq. Wgt. | 3.66% | 4.43% | 6.02% | 5.83% | 5.71% | 10.75% | 9.84% | 9.51% |
| vs. Russell 3000 | 3.82% | 4.94% | 9.59% | 8.62% | 7.99% | 10.49% | 9.75% | 9.56% |
| vs. Russell 2000 | 4.09% | 6.32% | 8.44% | 7.94% | 7.45% | 12.13% | 11.14% | 10.71% |

*Note: Calculated Using Total Returns

| <u>Wealth Index Beta</u> | <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> | <u>7 Years</u> | <u>10 Years</u> | <u>15 Years</u> | <u>20 Years</u> | <u>Since Incep. 1991 - Sep '13</u> |
|--------------------------|---------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|--|
| vs. S&P 500 | 1.08 | 1.16 | 1.29 | 1.26 | 1.27 | 1.36 | 1.29 | 1.28 |
| vs. S&P 500 Eq. Wgt. | 1.05 | 1.02 | 1.11 | 1.10 | 1.10 | 1.17 | 1.16 | 1.16 |
| vs. Russell 3000 | 1.07 | 1.11 | 1.26 | 1.23 | 1.24 | 1.35 | 1.30 | 1.29 |
| vs. Russell 2000 | 0.84 | 0.83 | 0.98 | 0.98 | 0.95 | 0.97 | 0.95 | 0.95 |

*Note: Calculated Using Total Returns

| <u>Calendar Year Total Returns</u> | <u>Wealth Index</u> | <u>S&P 500</u> | <u>S&P 500 Eq. Wgt.</u> | <u>Russell 3000</u> | <u>Russell 2000</u> | <u>ER v. SP500</u> | <u>ER v. SP500 EW</u> | <u>ER v. R3000</u> | <u>ER v. R2000</u> |
|------------------------------------|---------------------|--------------------|-----------------------------|---------------------|---------------------|--------------------|-----------------------|--------------------|--------------------|
| 1991 | 44.25% | 30.47% | 35.51% | 33.68% | 46.04% | 13.78% | 8.73% | 10.57% | -1.80% |
| 1992 | 20.20% | 7.62% | 15.63% | 9.59% | 18.41% | 12.58% | 4.56% | 10.61% | 1.79% |
| 1993 | 3.38% | 10.08% | 15.12% | 10.88% | 18.88% | -6.70% | -11.75% | -7.50% | -15.50% |
| 1994 | 0.33% | 1.32% | 0.95% | 0.19% | -1.82% | -0.99% | -0.62% | 0.14% | 2.15% |
| 1995 | 31.31% | 37.58% | 32.03% | 36.80% | 28.45% | -6.27% | -0.72% | -5.49% | 2.86% |
| 1996 | 23.09% | 22.96% | 19.02% | 21.82% | 16.49% | 0.13% | 4.06% | 1.27% | 6.59% |
| 1997 | 27.31% | 33.36% | 29.05% | 31.78% | 22.36% | -6.06% | -1.74% | -4.48% | 4.94% |
| 1998 | 24.95% | 28.58% | 12.19% | 24.14% | -2.55% | -3.63% | 12.76% | 0.81% | 27.49% |
| 1999 | 44.68% | 21.04% | 12.03% | 20.90% | 21.26% | 23.64% | 32.66% | 23.78% | 23.43% |
| 2000 | -19.16% | -9.10% | 9.64% | -7.46% | -3.02% | -10.06% | -28.80% | -11.70% | -16.14% |
| 2001 | -10.80% | -11.89% | -0.39% | -11.46% | 2.49% | 1.08% | -10.41% | 0.65% | -13.29% |
| 2002 | -15.49% | -22.10% | -18.18% | -21.54% | -20.48% | 6.61% | 2.69% | 6.05% | 4.99% |
| 2003 | 45.41% | 28.68% | 40.97% | 31.06% | 47.25% | 16.72% | 4.44% | 14.35% | -1.85% |
| 2004 | 17.97% | 10.88% | 16.95% | 11.95% | 18.33% | 7.09% | 1.02% | 6.02% | -0.36% |
| 2005 | 3.30% | 4.91% | 8.06% | 6.12% | 4.55% | -1.61% | -4.76% | -2.82% | -1.25% |
| 2006 | 22.61% | 15.79% | 15.80% | 15.71% | 18.37% | 6.81% | 6.81% | 6.89% | 4.24% |
| 2007 | 1.73% | 5.49% | 1.53% | 5.14% | -1.57% | -3.76% | 0.20% | -3.41% | 3.30% |
| 2008 | -43.67% | -37.00% | -39.72% | -37.31% | -33.79% | -6.68% | -3.95% | -6.37% | -9.89% |
| 2009 | 72.80% | 26.46% | 46.31% | 28.34% | 27.17% | 46.33% | 26.49% | 44.46% | 45.62% |
| 2010 | 31.51% | 15.06% | 21.91% | 16.93% | 26.85% | 16.45% | 9.60% | 14.58% | 4.65% |
| 2011 | 5.11% | 2.11% | -0.11% | 1.03% | -4.18% | 3.00% | 5.22% | 4.09% | 9.29% |
| 2012 | 13.53% | 16.00% | 17.65% | 16.42% | 16.35% | -2.48% | -4.13% | -2.89% | -2.82% |
| YTD 2013 | 29.13% | 19.79% | 23.95% | 21.30% | 27.69% | 9.33% | 5.18% | 7.83% | 1.44% |

*Note: Calculated Using Total Returns

Source: Horizon Kinetics LLC, International Securities Exchange, Bloomberg
See important disclosures for additional information.

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Important Disclosures

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Furthermore, the returns of the Indexes shown herein do not represent the results of actual trading of investor assets. The returns of the Indexes do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. Backtested performance of the Indexes is hypothetical, does not reflect trading in actual accounts and is provided for informational purposes only. The respective methodologies of the Indexes are subject to change at the discretion of the index provider. The backtested methodologies may differ from the current methodologies of the Indexes, which are subject to change over time. Backtested performance is achieved through the retroactive application of portfolios designed with the benefit of hindsight. Additionally, the performance of the Indexes does not incorporate the impact of expenses or fees and may differ materially from performance realized in actual accounts. The Horizon Kinetics ISE Wealth Index, the Horizon Kinetics ISE Global Wealth Index, and the Horizon Kinetics ISE Asia ex-Japan Wealth Index were first published on August 8, 2011, October 1, 2012, and October 1, 2012, respectively; therefore, any performance stated prior to this date is backtested performance.

THE FIXED INCOME CONTRARIAN COMPENDIUM

Index Constituent Changes: 1. Nuveen Investments Inc (JNC US) was delisted from the US Security Exchange effective 11/14/2007 and has been removed from the index. 2. Alliance Financial Corp (ALNC US) was delisted from US Security Exchange effective 03/11/2013 and has been removed from the index. The divisor has been adjusted accordingly for each of these changes.

Money Manager Index From Aug 1983 to Nov 2013

| Year | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Yr. End | Index | Yearly return | Annualized return (since inception) |
|------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|--------|---------------|--|
| 1983 | | | | | | | | 1.00 | 0.81 | 0.76 | 0.87 | 0.75 | 1983 | 0.75 | (60.5)% | (50.2)% |
| 1984 | 0.75 | 0.71 | 0.70 | 0.66 | 0.67 | 0.67 | 0.61 | 0.83 | 0.79 | 0.76 | 0.67 | 0.65 | 1984 | 0.65 | (13.5)% | (26.5)% |
| 1985 | 0.92 | 0.93 | 0.99 | 0.95 | 1.20 | 1.30 | 1.32 | 1.38 | 1.28 | 1.50 | 1.86 | 2.02 | 1985 | 2.02 | 211.8% | 33.7% |
| 1986 | 2.46 | 2.78 | 2.47 | 2.31 | 2.36 | 2.33 | 2.03 | 2.23 | 1.98 | 2.37 | 2.34 | 2.34 | 1986 | 2.34 | 15.9% | 28.2% |
| 1987 | 3.21 | 3.27 | 3.16 | 2.55 | 2.37 | 2.30 | 2.39 | 2.47 | 2.22 | 1.56 | 1.44 | 1.52 | 1987 | 1.52 | (35.0)% | 9.9% |
| 1988 | 1.80 | 1.87 | 1.78 | 1.79 | 1.69 | 1.94 | 1.92 | 1.96 | 2.01 | 1.97 | 1.95 | 2.07 | 1988 | 2.07 | 36.0% | 14.3% |
| 1989 | 2.42 | 2.37 | 2.54 | 2.63 | 2.64 | 2.64 | 2.93 | 3.12 | 3.07 | 3.05 | 3.23 | 3.26 | 1989 | 3.26 | 57.8% | 20.2% |
| 1990 | 3.12 | 3.15 | 3.53 | 3.06 | 3.47 | 3.45 | 3.30 | 2.70 | 2.68 | 2.40 | 2.52 | 3.02 | 1990 | 3.02 | (7.3)% | 16.1% |
| 1991 | 3.08 | 3.49 | 3.70 | 3.68 | 3.71 | 3.61 | 3.86 | 4.05 | 4.07 | 4.69 | 4.47 | 5.72 | 1991 | 5.72 | 89.4% | 23.0% |
| 1992 | 5.76 | 5.61 | 5.30 | 5.12 | 4.98 | 4.99 | 5.93 | 6.06 | 6.19 | 6.56 | 7.25 | 7.36 | 1992 | 7.36 | 28.6% | 23.6% |
| 1993 | 8.06 | 8.04 | 8.20 | 7.94 | 8.15 | 8.57 | 9.05 | 10.00 | 9.99 | 9.31 | 8.97 | 8.90 | 1993 | 8.90 | 21.0% | 23.4% |
| 1994 | 9.52 | 8.73 | 8.05 | 7.85 | 7.81 | 7.53 | 7.66 | 8.31 | 8.15 | 8.52 | 7.88 | 7.95 | 1994 | 7.95 | (10.6)% | 19.9% |
| 1995 | 7.74 | 8.38 | 8.72 | 8.77 | 9.20 | 9.35 | 9.93 | 10.78 | 11.22 | 10.53 | 10.89 | 10.40 | 1995 | 10.40 | 30.8% | 20.8% |
| 1996 | 11.12 | 11.50 | 11.33 | 11.62 | 11.86 | 12.53 | 11.91 | 12.36 | 13.32 | 14.03 | 14.42 | 15.02 | 1996 | 15.02 | 44.4% | 22.4% |
| 1997 | 16.04 | 16.81 | 15.32 | 17.27 | 18.42 | 20.29 | 22.28 | 21.39 | 25.31 | 24.95 | 24.95 | 25.50 | 1997 | 25.50 | 69.8% | 25.2% |
| 1998 | 25.67 | 29.00 | 29.89 | 30.60 | 28.90 | 30.44 | 27.67 | 21.33 | 21.74 | 25.16 | 27.27 | 25.41 | 1998 | 25.41 | (0.4)% | 23.3% |
| 1999 | 26.00 | 23.71 | 23.92 | 26.77 | 28.94 | 29.74 | 28.78 | 26.74 | 25.89 | 27.73 | 28.54 | 30.55 | 1999 | 30.55 | 20.2% | 23.2% |
| 2000 | 31.07 | 31.19 | 36.01 | 35.60 | 35.20 | 40.32 | 43.58 | 45.75 | 45.62 | 48.69 | 44.05 | 49.84 | 2000 | 49.84 | 63.1% | 25.2% |
| 2001 | 50.23 | 46.41 | 44.27 | 46.96 | 48.90 | 49.98 | 50.67 | 49.70 | 46.47 | 44.81 | 48.04 | 51.91 | 2001 | 51.91 | 4.2% | 23.9% |
| 2002 | 53.62 | 53.74 | 55.11 | 52.52 | 52.83 | 50.48 | 42.58 | 44.92 | 41.54 | 42.66 | 45.78 | 43.17 | 2002 | 43.17 | (16.8)% | 21.4% |
| 2003 | 42.72 | 41.18 | 42.36 | 45.98 | 49.02 | 50.71 | 53.47 | 53.97 | 53.46 | 56.12 | 55.83 | 58.49 | 2003 | 58.49 | 35.5% | 22.1% |
| 2004 | 64.38 | 65.08 | 64.63 | 61.68 | 60.86 | 62.30 | 58.71 | 64.08 | 65.73 | 68.86 | 73.53 | 78.16 | 2004 | 78.16 | 33.6% | 22.6% |
| 2005 | 76.46 | 77.94 | 74.06 | 72.83 | 77.02 | 80.25 | 83.59 | 83.07 | 86.03 | 89.19 | 96.58 | 97.35 | 2005 | 97.35 | 24.6% | 22.7% |
| 2006 | 107.62 | 111.44 | 110.75 | 111.88 | 101.89 | 100.61 | 100.62 | 104.98 | 114.61 | 116.64 | 113.78 | 118.05 | 2006 | 118.05 | 21.3% | 22.6% |
| 2007 | 125.73 | 123.77 | 122.62 | 127.58 | 133.57 | 134.68 | 126.61 | 124.07 | 133.57 | 148.09 | 135.13 | 135.56 | 2007 | 135.56 | 14.8% | 22.3% |
| 2008 | 127.53 | 115.76 | 115.94 | 121.58 | 130.51 | 115.68 | 119.94 | 120.55 | 109.69 | 72.70 | 62.95 | 67.91 | 2008 | 67.91 | (49.9)% | 18.1% |
| 2009 | 57.51 | 51.76 | 65.63 | 79.49 | 85.67 | 90.79 | 99.97 | 101.69 | 107.32 | 107.36 | 110.94 | 115.01 | 2009 | 115.01 | 69.4% | 19.7% |
| 2010 | 106.84 | 110.32 | 118.13 | 114.91 | 100.18 | 88.17 | 97.65 | 89.64 | 103.59 | 108.29 | 108.64 | 119.58 | 2010 | 119.58 | 4.0% | 19.1% |
| 2011 | 122.80 | 128.28 | 127.94 | 127.97 | 126.06 | 121.03 | 115.49 | 104.25 | 91.32 | 102.44 | 103.79 | 103.98 | 2011 | 103.98 | (13.1)% | 17.8% |
| 2012 | 109.46 | 120.12 | 125.37 | 121.64 | 108.44 | 114.12 | 113.56 | 118.33 | 123.18 | 127.91 | 131.76 | 135.00 | 2012 | 135.00 | 29.8% | 18.1% |
| 2013 | 151.20 | 155.13 | 165.52 | 166.55 | 174.89 | 164.20 | 179.01 | 168.47 | 176.12 | 192.14 | 197.16 | | 2013 | 197.16 | 46.0% | 19.0% |

| S.No. | Ticker | Name | Amount Invested | Shares Purchased | Date of Investment | Current Index Value |
|-------|----------------|-----------------------------|-----------------|------------------|--------------------|---------------------|
| 1 | AMG US Equity | Affiliated Manager | \$22,947 | 1,377 | 11/30/1997 | \$275,706 |
| 2 | BLK US Equity | BlackRock | \$23,205 | 1,658 | 9/30/1999 | \$504,597 |
| 3 | WDR US Equity | Waddell & Reed | \$27,513 | 1,587 | 3/31/1998 | \$101,158 |
| 4 | EV US Equity | Eaton Vance | \$2,641 | 3,998 | 1/31/1986 | \$167,173 |
| 5 | TROW US Equity | T. Rowe Price | \$2,423 | 2,014 | 4/30/1986 | \$162,034 |
| 6 | BEN US Equity | Franklin resources | \$908 | 1,263 | 4/30/1985 | \$209,895 |
| 7 | LM US Equity | Legg Mason | \$1,000 | 462 | 8/31/1983 | \$18,076 |
| 8 | FII US Equity | Federated Inv | \$26,381 | 2,206 | 5/31/1998 | \$60,755 |
| 9 | FIG US Equity | Fortress Investment Group | \$102,249 | 3,389 | 2/28/2007 | \$27,418 |
| 10 | PZN US Equity | Pzena Investment Management | \$122,426 | 6,317 | 10/31/2007 | \$59,634 |

THE FIXED INCOME CONTRARIAN COMPENDIUM

Index Constituent Changes: 1. New Star Asset Management (NSAM LN) was delisted from the London Security Exchange effective 03/10/2009 and has been removed from the index. 2. Australia Wealth Management (AUW AU) was delisted from Australian Security Exchange effective 05/18/2009 and has been removed from the index. 3. Bluebay Asset Management/UNI (BBAY LN) was delisted from the London Security Exchange effective 12/20/2010 and has been removed from the index. 4. Everest Financial Group Limited (EFG AU) was delisted from the Australian Security Exchange effective 7/19/2011 and has been removed from the index. 5. RAB Capital Plc (RAB LN) was delisted from the London Security Exchange effective 9/2/2011 and has been removed from the index. 6. Invista Real Estate (INRE LN) was delisted effective 8/13/2012 and has been removed from the index. The divisor has been adjusted accordingly for each of these changes.

International Money Manager Index

From Nov 1986 to Nov 2013

| Year | | | | | | | | | | | | | Annualized return | | | |
|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------------------|-------|---------------|-------------------|
| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Yr. End | Index | Yearly return | (since inception) |
| 1986 | | | | | | | | | | | | | 1986 | 1.02 | 10.0% | 10.0% |
| 1987 | 1.25 | 1.37 | 1.48 | 1.48 | 1.37 | 1.33 | 1.39 | 1.40 | 1.33 | 0.81 | 0.76 | 0.73 | 1987 | 0.73 | (27.7)% | (23.3)% |
| 1988 | 0.75 | 0.92 | 1.02 | 0.95 | 0.80 | 0.89 | 0.88 | 0.82 | 0.86 | 0.88 | 0.89 | 0.93 | 1988 | 0.93 | 26.4% | (3.4)% |
| 1989 | 1.03 | 1.02 | 1.06 | 1.17 | 1.19 | 1.18 | 1.25 | 1.16 | 1.17 | 1.20 | 1.21 | 1.28 | 1989 | 1.28 | 37.8% | 8.1% |
| 1990 | 1.24 | 1.24 | 1.18 | 1.19 | 1.22 | 1.24 | 1.26 | 1.26 | 1.23 | 1.24 | 1.25 | 1.33 | 1990 | 1.33 | 3.7% | 7.0% |
| 1991 | 1.34 | 1.52 | 1.56 | 1.58 | 1.57 | 1.47 | 1.52 | 1.64 | 1.81 | 1.89 | 1.94 | 1.92 | 1991 | 1.92 | 44.8% | 13.5% |
| 1992 | 2.01 | 1.93 | 1.88 | 2.14 | 2.19 | 2.13 | 2.08 | 1.99 | 1.95 | 1.77 | 1.76 | 1.96 | 1992 | 1.96 | 1.9% | 11.5% |
| 1993 | 1.98 | 2.03 | 2.20 | 2.39 | 2.42 | 2.45 | 2.54 | 3.05 | 3.01 | 3.07 | 3.01 | 3.30 | 1993 | 3.30 | 68.7% | 18.1% |
| 1994 | 3.72 | 3.39 | 3.17 | 3.04 | 2.99 | 2.89 | 3.01 | 3.14 | 3.13 | 3.19 | 3.15 | 3.15 | 1994 | 3.15 | (4.7)% | 15.1% |
| 1995 | 3.07 | 3.12 | 3.28 | 3.41 | 3.56 | 3.59 | 3.87 | 3.76 | 3.76 | 3.77 | 3.70 | 3.73 | 1995 | 3.73 | 18.6% | 15.4% |
| 1996 | 3.76 | 3.85 | 3.70 | 3.79 | 3.96 | 3.90 | 3.75 | 3.96 | 4.16 | 4.47 | 4.90 | 4.86 | 1996 | 4.86 | 30.3% | 16.8% |
| 1997 | 5.11 | 5.37 | 4.99 | 4.96 | 5.43 | 5.94 | 6.57 | 6.32 | 7.45 | 7.24 | 6.80 | 7.19 | 1997 | 7.19 | 47.9% | 19.3% |
| 1998 | 7.12 | 8.05 | 8.78 | 9.25 | 8.95 | 8.74 | 8.91 | 6.67 | 6.08 | 7.01 | 7.51 | 7.71 | 1998 | 7.71 | 7.3% | 18.3% |
| 1999 | 7.99 | 8.21 | 8.68 | 9.07 | 8.71 | 8.61 | 8.63 | 8.43 | 8.47 | 8.79 | 9.80 | 10.79 | 1999 | 10.79 | 39.9% | 19.8% |
| 2000 | 11.23 | 12.27 | 13.95 | 13.50 | 13.73 | 15.39 | 15.85 | 16.82 | 17.07 | 16.31 | 14.43 | 16.76 | 2000 | 14.43 | 33.8% | 20.7% |
| 2001 | 17.42 | 15.88 | 13.46 | 15.14 | 15.84 | 15.15 | 14.21 | 13.61 | 10.77 | 11.43 | 13.90 | 14.12 | 2001 | 14.12 | (2.2)% | 19.1% |
| 2002 | 14.74 | 13.78 | 15.09 | 15.11 | 16.38 | 14.14 | 12.92 | 12.10 | 11.23 | 11.06 | 11.33 | 10.50 | 2002 | 10.50 | (25.6)% | 15.7% |
| 2003 | 10.18 | 9.52 | 9.69 | 10.62 | 12.17 | 13.04 | 13.98 | 15.38 | 16.67 | 17.88 | 18.16 | 18.07 | 2003 | 18.07 | 72.1% | 18.4% |
| 2004 | 20.00 | 22.41 | 29.98 | 35.46 | 26.68 | 30.80 | 25.37 | 25.20 | 23.67 | 23.34 | 27.56 | 31.48 | 2004 | 31.48 | 74.2% | 20.9% |
| 2005 | 32.19 | 32.57 | 31.88 | 27.79 | 27.36 | 29.05 | 30.38 | 31.49 | 33.39 | 32.24 | 32.95 | 37.18 | 2005 | 37.18 | 18.1% | 20.8% |
| 2006 | 41.01 | 40.97 | 43.69 | 46.45 | 42.39 | 41.58 | 40.60 | 43.32 | 43.55 | 43.70 | 44.58 | 49.38 | 2006 | 49.38 | 32.8% | 21.3% |
| 2007 | 50.95 | 51.18 | 53.59 | 56.09 | 58.16 | 56.37 | 53.90 | 48.65 | 50.96 | 57.03 | 48.21 | 45.75 | 2007 | 45.75 | (7.3)% | 19.8% |
| 2008 | 38.71 | 39.71 | 38.59 | 40.18 | 39.25 | 35.10 | 34.59 | 33.33 | 26.09 | 18.72 | 14.50 | 15.79 | 2008 | 15.79 | (65.5)% | 13.3% |
| 2009 | 14.62 | 13.24 | 14.96 | 19.63 | 22.82 | 23.73 | 26.14 | 27.05 | 28.41 | 28.53 | 28.69 | 29.83 | 2009 | 29.83 | 89.0% | 15.8% |
| 2010 | 28.50 | 27.58 | 29.90 | 29.58 | 25.53 | 24.72 | 27.82 | 26.74 | 30.36 | 33.68 | 31.85 | 34.52 | 2010 | 34.52 | 15.7% | 15.8% |
| 2011 | 34.91 | 36.17 | 36.51 | 39.63 | 37.86 | 35.31 | 35.83 | 32.76 | 29.28 | 32.04 | 31.23 | 30.59 | 2011 | 30.59 | (11.4)% | 14.56% |
| 2012 | 32.12 | 34.36 | 35.67 | 35.08 | 31.03 | 32.92 | 32.66 | 34.17 | 36.33 | 37.28 | 38.11 | 40.73 | 2012 | 40.73 | 33.1% | 15.22% |
| 2013 | 43.61 | 42.58 | 44.42 | 49.29 | 50.40 | 47.75 | 50.58 | 49.32 | 52.49 | 55.65 | 55.41 | | 2013 | 55.41 | 36.1% | 15.98% |

| S.No. | Ticker | Name | Initial Amount Invested | Shares Purchased | Date of Investment | Current Index Value |
|-------|-----------------|-----------------------------------|-------------------------|------------------|--------------------|---------------------|
| 1 | IGM CN Equity | IGM Financial Inc | \$1,000 | 73 | 31/11/1986 | \$3,713 |
| 2 | FCAM LN Equity | F&C Asset Management Plc | \$1,203 | 485 | 5/31/1989 | \$743 |
| 3 | IVZ US Equity | Invesco Plc (Previously Amvescap) | \$1,357 | 1,153 | 1/31/1991 | \$20,212 |
| 4 | SDR LN Equity | Schroders Plc | \$1,208 | 505 | 3/31/1991 | \$20,372 |
| 5 | RAT LN Equity | Rathbone Brothers Plc | \$1,208 | 736 | 3/31/1991 | \$18,753 |
| 6 | ADN LN Equity | Aberdeen Asset Mgmt Plc | \$1,208 | 1,827 | 3/31/1991 | \$14,720 |
| 7 | CIX CN Equity | CI Financial Corp. | \$2,585 | 3,224 | 6/30/1994 | \$104,077 |
| 8 | EMG LN Equity | Man Group Plc | \$2,862 | 6,344 | 10/31/1994 | \$6,999 |
| 9 | AGF/B CN Equity | AGF Management Ltd-CI B | \$3,343 | 1,346 | 1/31/1996 | \$18,174 |
| 10 | 8739 JP Equity | Sparx Group Co Ltd | \$11,762 | 108 | 12/31/2001 | \$23,260 |
| 11 | HGG LN Equity | Henderson Group Plc | \$14,447 | 8,666 | 12/31/2003 | \$24,309 |
| 12 | AZM IM Equity | Azimut Holding Spa | \$21,908 | 4,977 | 7/31/2004 | \$127,329 |
| 13 | CCAP LN Equity | Charlemagne Capital Ltd | \$36,848 | 22,300 | 3/31/2006 | \$5,473 |
| 14 | PGHN SW Equity | Partners Group-Reg | \$36,848 | 578 | 3/31/2006 | \$143,972 |
| 15 | ASHM LN Equity | Ashmore Group Plc. | \$36,688 | 9,873 | 10/31/2006 | \$65,719 |