

Crystal Strategy I

SEPTEMBER 2016

Portfolio review

Executive summary

Crystal finished slightly positive in September, up 0.14%. By comparison, the Morningstar Multialternative category finished up 0.09% and the HFRX Global Hedge Fund index was up 0.55%.

For the third quarter, performance was strong. Crystal finished up 1.63% outperforming the Morningstar Multialternative category which was up 0.85%. Alternatively, the HFRX Global Hedge Fund index was up 2.18%.

Our top contributing positions for the month were United Airlines (UAL, +6.5%), Silver (SLV, +2.2%), and high yield bonds (JNK, +0.6%). The largest detractors were positions in the ASG Managed Futures Fund (ASFYX, -4.0%), Equinox IPM Systematic Macro (EQIPX, -1.3%), and AMG River Road Long/Short Fund (ALSIX, -1.5%).

We made a number of strategic changes to the portfolio in September, nearly completing the migration to a manager of managers' framework. As a result, Crystal will be removed from "hold" status as of October 17, 2016.

September review

September was a relatively uneventful month with respect to performance. Our top contributing position was United Airlines (UAL), which finished up 6.49% and added 9bps to return prior to us exiting the name earlier this month. As one of the more volatile groups in the market, airlines and United in particular, has managed to stage a 30% rebound from its lows seen at the end of last quarter. We also experienced gains in Silver (SLV) which was up 2.20% and high yield bonds which fin-

ished up 0.57%. Our largest detractor was our position managed futures. The ASG Managed Futures Strategy (ASFYX) finished down -4.02% and detracted 19bps from returns. After trending in the same direction for a number of months now, both equities and bonds sold off in tandem earlier in the month resulting in a double-negative effect for managed futures strategies which were long both asset classes. We also experienced modest losses in the AMG River Road Long/Short Fund (ALSIX), down -1.51% and the Equinox IPM Systematic Macro Fund (EQIPX), down -1.32%.

Third quarter review

Overall, Crystal had a strong third quarter thanks to some of our more equity-biased exposures which continued to rebound along with overall markets. Our largest contributing position was our position in high yield bonds via the iShares High Yield Bond ETF (JNK.) As our largest exposure (averaging a 10% weight) during the quarter, it finished up 4.05% and added 41bps to performance. Our second largest contributor was United Airlines (UAL) which finished up 30.80% for the quarter and added 35bps to performance. Lastly, the RiverNorth Core Opportunity Fund (RNCOX) was up 4.69% and added 24bps. Largely due to September performance, our largest detractor for the quarter was our position in the ASG Managed Futures Fund (ASFYX). The strategy finished down -6.38% for the quarter and detracted 31bps. As mentioned above, the bulk of the negative performance occurred in September and was a result of long exposure in bonds and equities which sold off together earlier in the month. Outside of managed fu-

Portfolio review (continued)

tures, we also experienced losses on our hedges via the ProShares Short NASDAQ ETF (PSQ) and the ProShares Short Dow Jones ETF (DOG) which closed down -3.58% and -2.13% respectively over our holding periods.

Portfolio update

While returns were relatively uneventful in September, there were some changes made to the portfolio. This month saw the introduction of a number of new strategic managers to the portfolio.

Buys and additions

Equinox IPM Systematic Macro (EQIPX) - Subadvised by Stockholm-based Informed Portfolio Management (IPM), this global macro fund uses a fully quantitative (systematic) and fundamental approach to making top-down macro allocation decisions. IPM uses a relative value approach to portfolio construction whereby they will go long equity indices, fixed income, and currencies of countries which have strong valuation and fundamental characteristics and short those on the opposite end of the spectrum. Because of their relative value approach, IPM tends to have a low historical correlation to traditional asset classes.

Boston Partners Global Long/Short (BGLSX) - As a fundamental long short manager, the Boston Partners Global Long/Short strategy looks to profit from bottom-up opportunities, both long and short, in companies across the world. Using a formalized process of owning stocks with good valuations, strong business fundamentals, and solid business momentum, Boston Partners believes that their in-depth research and experienced team can identify alpha, allowing them to deliver equity like returns with less volatility over a market cycle. The strategy will typically own 80-120 long positions, 120-175 short positions and has a net exposure of 30-70%.

LS Opportunity Fund (LSOFX) - Subadvised by Prospector Partners, the LS Opportunity Fund is a bottom-up, value oriented strategy which looks to capitalize on long and short opportunities within the U.S. equity market. With a team of 8 portfolio managers and analysts, Prospector tends to focus on free cash flow yields and balance sheet valuations to identify stocks with a 2 to 1 upside to downside risk/return profile. The strategy will

typically own 50-70 long positions, 20-40 short positions and has a net exposure of 60-80%.

RMB Mendon Financial Long/Short Fund (RMBIX)

- Subadvised by Mendon Capital, this sector specific long/short strategy invests only in companies within the financial sector and has a particular emphasis on small- and micro-cap depository institutions. The team heavily relies on their extensive experience analyzing financial institutions along with their expert network of bank management teams and industry experts to understand areas of opportunity and risk within the sector. The strategy will typically own 50-70 long positions, 10-30 short positions and has an average net exposure of 40-60%.

SilverPepper Merger Arbitrage (SPAIX) - Subadvised by Chicago Capital, the SilverPepper Merger Arbitrage fund attempts to exploit the uncertainty premium associated with companies undergoing a merger or acquisition. By shorting the acquiring company and purchasing the target company, the SilverPepper fund can collect the discount which typically exists due to uncertainty that the deal will ultimately close. Analogous to picking up pennies and nickels many times a year, the strategy can generate positive returns with low volatility and almost no correlation to traditional asset classes.

Vivaldi Merger Arbitrage (VARBX) - Similar to SilverPepper Fund, the Vivaldi Merger Arbitrage fund attempts to exploit the uncertainty premium associated with companies undergoing a merger or acquisition. Vivaldi typically plays in the merger and acquisition deals that range from \$2 to \$10B. Additionally, they prefer to play in deals with a shorter duration (e.g. closer to closing) and a greater certainty of closing.

iShares 20+ Year Bond ETF (TLT) - Long-term U.S. Treasuries have a strong historical tendency to perform well during periods of highly negative equity market performance (e.g. they exhibit positive convexity.) Additionally, unlike many other tail-risk or hedging strategies that are often costly to hold, U.S. Treasuries generate a modest yield to compensate investors for holding them.

ASG Managed Futures (ASFYX) – Increased position. The ASG Managed Futures Fund is a medium-term trend following strategy which invests in over 70 securities spread across equity indices, fixed income, commodities, and currencies. As a trend following strategy, the ASG fund attempts to capitalize on the behavioral concept that trends and momentum tend to persist over time. Because the strategy can go long and short across many different asset classes, trend following strategies like the ASG fund often act differently than traditional markets and also have a historical tendency to perform well during periods of meaningfully negative equity market returns.

JP Morgan Strategic Income Opportunities (JSOSX) – Increased position. Using a combination of bottom-up and top-down ideas, the JP Morgan Strategic Income Opportunities fund invests across a number of different areas in the fixed income universe. Depending on the market environment, the strategy will invest in more directional (beta-based strategies), relative value (alpha strategies) or portfolio hedging strategies designed to protect risk.

Sells and trims

iShares High Yield Bond ETF (JNK)
ProShares Short Dow Jones Industrial Average ETF (DOG)
iShares Silver ETF (SLV)
RedRocks Listed Private Equity (LPEIX)
iShares MSCI India (INDA)
Starwood Property Trust (STWD)
Bogle Small Cap Growth (BOGIX)
Wasatch Frontier Emerging Small Countries (WAFMX)
United Continental Holdings (UAL)

Holdings discussed are as of 9/30/16 and are subject to change.