



**Asset
Management**

Boston Patriot Salem St LLC

October 2015

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August Commentary

Diversifying Alternative Risk Premia (DARP) Portfolio



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Global financial markets experienced heightened volatility in August amid weakening economic data out of China, a broad equity market sell-off across geographies and sectors, and continued speculation about a Fed rate hike.

The Diversifying Alternative Risk Premia Portfolio returned -0.66% (gross) in August, while the S&P 500 declined -5.25% over the month. Intra-month performance highlights the differentiated performance of the Portfolio versus equities, as the DARP Portfolio posted positive performance through August 24th of +4.60% (gross) while the S&P was down -9.84% over the same period. Since its inception on July 24th, 2015, the DARP Portfolio has gained +0.78% (gross), while the S&P 500 has declined -4.13% (as of August 28th, 2015).

The underlying strategies with the strongest performance within the DARP Portfolio in August were Trend Commodities, Trend Rates and Equity Low Beta. The Trend Commodities strategy benefited from short exposure to energy and softs given the sell-off on the back of fears of slowing growth in China and developed markets, although the strategy gave up some gains in the last few days of the month given commodity price reversals. The Trend Rates strategy benefited from net long exposure to short-term interest rates over the month (particularly US). Equity Low Beta benefited from the short side, specifically in technology names.

The FX Carry strategy detracted most from the DARP Portfolio's performance in August, specifically long positions in the Turkish lira and Russian ruble against USD. The Commodities Cross Market Momentum strategy detracted given long positions in feeder cattle and cocoa, and the Bond Calendar strategy posted negative performance driven by positions in German Bunds and US Treasuries.

Attribution by Asset Class (as of 8/28/2015)

	Attribution (Aug-15)
Commodity	-0.49%
Credit	0.26%
Currency	-1.03%
Fixed Income	0.32%
Equity	0.28%
Cash	-0.01%
Total	-0.66%

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September Commentary

Diversifying Alternative Risk Premia (DARP) Portfolio



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Volatility across global financial markets continued into September, with further declines in global equities and commodities, and the announcement of the Federal Reserve's decision to postpone a rate hike.

The Diversifying Alternative Risk Premia Portfolio returned +1.91% (gross) in September, while the S&P 500 declined 3.28% over the month. Since its inception on July 24th, 2015, the DARP Portfolio has gained +2.71% (gross), while the S&P 500 has declined -7.27% (as of September 30, 2015).

The underlying strategies with the strongest performance within the DARP Portfolio in September were Trend Rates, Bond Calendar and Equity Low Beta. The Trend Rates strategy benefited from net long positions in short term interest rates (particularly US), while the Bond Calendar strategy benefited from positions in German Bunds and UK Gilts. Equity Low Beta benefited from net long exposure to utilities and financials names, as well as net short exposure to energy stocks.

The Commodity Cross Market Momentum strategy detracted most from the DARP Portfolio's performance in September, specifically long positions in feeder and live cattle given fears of weakening demand for beef in US markets. The FX Value strategy detracted given long positions in Norwegian krone and South African rand vs. USD, while the Commodities Cross Market Carry strategy posted negative performance driven by long exposure to metals, particularly aluminum and gold.

Attribution by Asset Class (as of 9/30/2015)

	Attribution (Sep-15)
Commodity	-0.74%
Credit	0.06%
Currency	-0.70%
Fixed Income	2.62%
Equity	0.67%
Cash	0.00%
Total	1.91%

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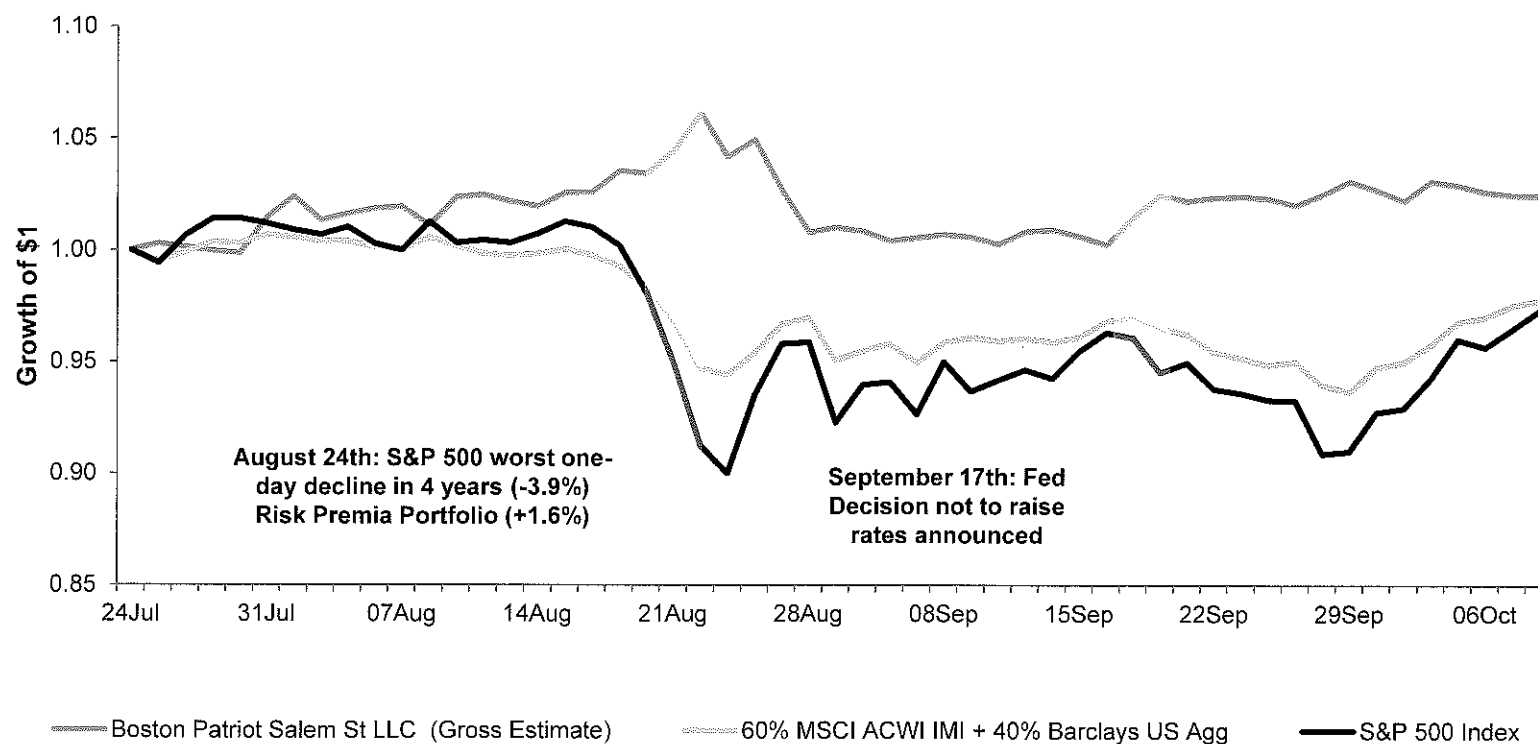
Daily Performance

Inception to date



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Boston Patriot Salem St LLC - Realized Performance vs. 60/40 and S&P 500



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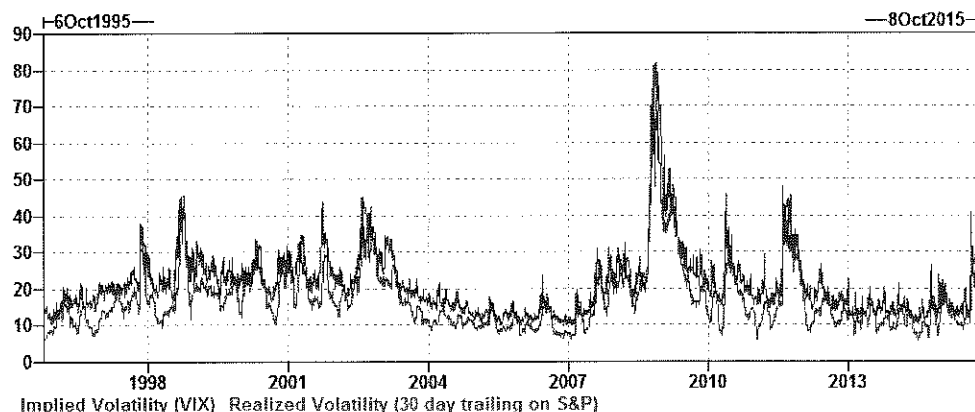
Volatility Risk Premium: Research

Volatility Risk Premium

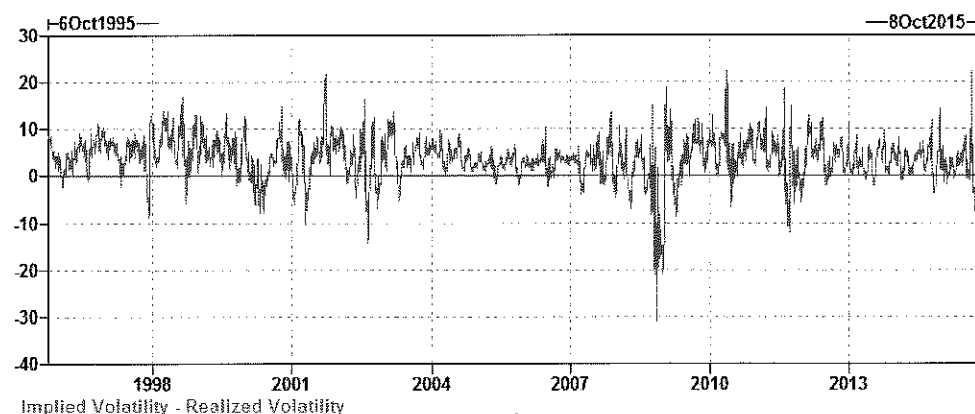


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- Seeks to capture the difference between the realized volatility of the underlying asset and the volatility implied by options prices
- Historically, implied is priced higher than realized, demonstrating the existence and persistence of the volatility risk premium



at the money options



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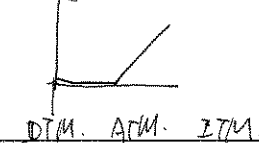
Capturing Volatility Risk Premia

Iron Condor Approach

Korean market volatility different
⇒ cross market opportunity.

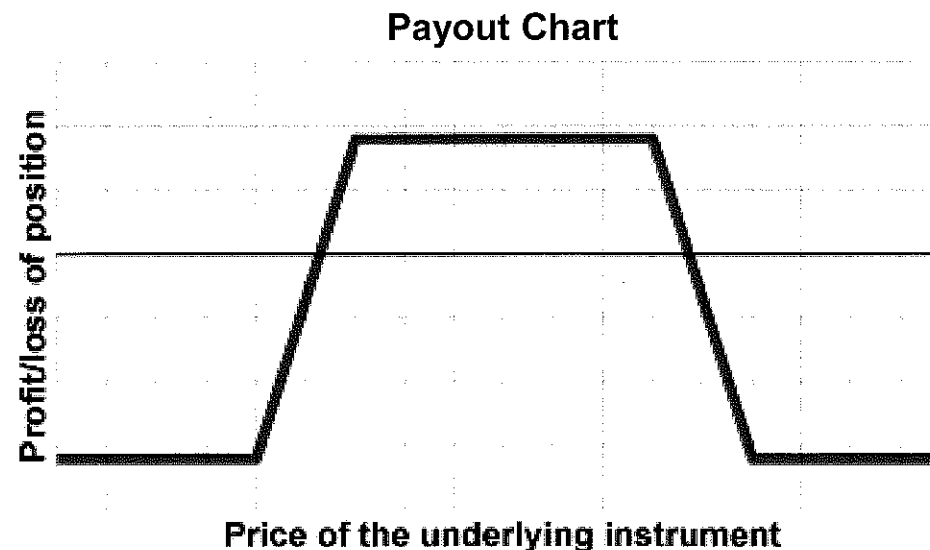


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Implementation:

- Collect premium from selling near out of the money options
- Pay smaller premium for buying far out of the money options
 - Buying back the wings limits maximum loss and reduces margin consumption
- We seek to size the positions such that the shock risk is no greater than holding the underlying contract outright
challenging



For illustrative purposes only. The Volatility Risk Premia return on subsequent pages assumes constant trading costs, constant roll costs, and a cash rate of return equal to a benchmark (fed funds). The simulation assumes trades are conducted at the closing level of each instrument. These examples are for illustrative purposes only and are not actual results. If any assumptions used do not prove to be true, results may vary substantially.



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Research: Fixed Income Value

Fixed Income Value

Research Update & Backtested Performance



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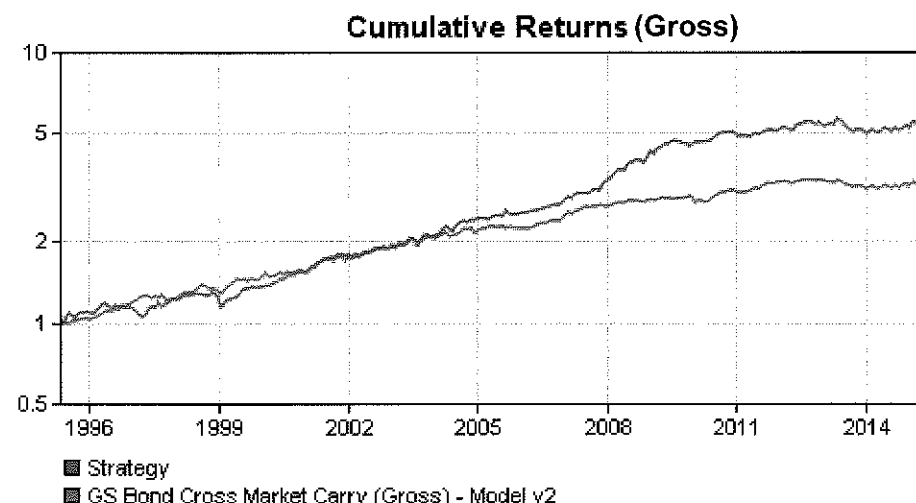
Common approaches to measure Fixed Income Value

- Look at **financial variables** (concavity and slope of yield curve): convexity and carry are measures of bond risk premium. Conditioning on these variables has predictive ability for bond returns
 - Cochrane J., Piazzesi M., "Bond Risk Premia", <http://web.stanford.edu/~piazzesi/cp.pdf>, 2002
 - Hellerstein R., "Global Bond Risk Premiums", http://www.nyfedeconomists.org/research/staff_reports/sr499.pdf, 2011
- Looking at **economic fundamentals** (SUDOKU model by Global Investment Research): deviation from macroeconomic fundamentals mean-revert based on:
 - GIR, September 2006: 10Y yield is linked to expected GDP growth, CPI, expected 3m rate in 1Y time, average of global 10Y rates

AIS approach and research items

- Ranking based on:
 - Regression residual of 10Y rates on expected inflation + GDP
 - Convexity ($5y - 0.5 \cdot (2y + 10y)$) ?
- Determine best way to combine signals (presently 50:50)
- Better understand period from 2011
- Present to GSAM FI PMs and get feedback before finalization

Statistics	Bond Value (Gross)	GS Bond Cross Market Carry (Gross) - Model v2
Start Date	30/04/1995	30/04/1995
End Date	30/06/2015	30/06/2015
Total Return	428.82%	225.00%
Annualized Return	8.61%	6.02%
Annualized ER	5.79%	3.20%
Total Return YTD	1.83%	1.56%
Return 12m	2.71%	2.51%
Max Drawdown	-12.44%	-7.83%
Annualized Vol	7.73%	5.50%
Sharpe	0.75	0.58
Correlation	100.00%	39.62%



Strategy above denotes the Bond Value strategy. These performance results are backtested based on an analysis of past market data with the benefit of hindsight, do not reflect the performance of any GSAM product and are being shown for informational purposes only. Please see additional disclosures. **Past performance does not guarantee future results, which may vary.** The returns are gross and do not reflect the deduction of investment advisory fees, which will reduce returns. Our investment advisory fees are described in Part 2 of our Form ADV. See additional disclosures. Past correlations are not indicative of future correlations, which may vary.

August 2015

Portfolio Overview

The Diversifying Alternative Risk Premia (DARP) Portfolio combines several risk premia strategies in an effort to deliver performance with low correlation to equities, along with the potential additional benefits of liquidity, transparency, and cost-effectiveness. Strategies are employed that span Value, Carry and Momentum styles, and the Portfolio holds over 100 positions across fixed income, credit, currencies, commodities, and equities.

Performance Commentary

Global financial markets experienced heightened volatility in August amid weakening economic data out of China, a broad equity market sell-off across geographies and sectors, and continued speculation about a Fed rate hike.

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Key Statistics (as of 8/28/2015)

Assets (\$M)	\$ 202		
Performance Inception Date	7/24/2015		
Base Currency	USD		

Risk and Return Characteristics (as of 8/28/2015)

	DARP	S&P 500	Barclays US Agg
1 Month (8/28/2015)	-0.66%	-5.25%	-0.09%
YTD (%)	-	-	-
Inception to Date (%)	0.78%	-4.13%	0.24%
Since Inception			
Ann. Return (%)	-	-	-
Ann. Volatility (%)	-	-	-
Shapre Ratio	-	-	-
Max Drawdown (%)	-	-	-
Correlation	-	-	-

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Historical Monthly Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD**
2015	-	-	-	-	-	-	1.45%*	-0.86%					0.78%

*July performance above is partial for the month (beginning on inception: July 24th, 2015).

YTD above signifies Inception to Date Performance for 2015. **Past performance does not guarantee future results, which may vary.

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