SALIENT

RISK PARITY INDEX

Index Calculation Methodology
March 2012

1.1 THE SALIENT RISK PARITY INDEX PHILSOPHY

The Salient Risk Parity Index ("SRPI") is a composite, USD based, total return index.

The index was designed to provide a benchmark for an equally risk-weighted investment across global securities markets. It represents the value of a basket of global equity, global fixed income, global interest rate, and commodity derivatives.

The SRPI aims to be an effective measure of the price action of global securities whose weights are determined according to their respective risk contribution. The index weights aim to balance risk equally for each asset class and are calculated given a 10% targeted level of risk, as measured by annualized standard deviation. The index is designed to reflect long-term stability and broad diversification.

Historical and ongoing index values are calculated by a third-party calculation agent, Indxis Inc.

1.2 SALIENT RISK PARITY INDEX CALCULATION

The Salient Risk Parity Index is composed of futures contracts and credit default swaps, which are selected, maintained and reviewed by the members of the Salient Risk Parity Index Committee.

DERIVATIVES SELECTION:

The index is currently comprised of 46 exchange-traded futures contracts and 5 over-the-counter credit default swap indices, quoted in 11 different currencies and listed on 18 exchanges.

The SRPI Committee formulates and enacts all business assessments and decisions regarding the calculation, composition, and management of the index.

The committee is chaired by Lee Partridge. In addition to Mr. Lee Partridge the following representatives are on the committee; Jeremy Radcliffe, Roberto Croce, Adam Thomas and Heinrich Grobler.

For the sake of transparency, consistency, and stability, composition changes are rare, and generally occur only after significant shifts in the world markets or when new contracts become available. When such an event necessitates that one component be modified, the entire index is reviewed. The Committee members monitor the Index in case of needed changes. The Committee meets formally once a year in Houston, TX to assess the Index and to make any necessary changes.

A security will be considered fit to be included in the index if it provides exposure to one of the following asset classes: global fixed income, global interest rates, global equities, or commodities. The included contracts represent unique exposures and are deemed by the index committee to have enough liquidity for daily pricing and monthly rebalancing purposes.

EXCHANGE SCREENING:

All futures contracts included in the SRPI must be publicly traded on recognized exchanges to ensure the ease of tracking and verification.

Please refer to Appendix A for a complete list of the exchanges recognized by the SRPI Committee.

INCLUDED CONTRACTS:

The list of the current futures contracts composing the Index, together with their respective Bloomberg tickers, exchanges and currencies can be found in Appendix B.

INDEX WEIGHTS:

The monthly index weights are a function of 4 factors:

1. The target risk contribution of the asset class to which the asset belongs as a fraction of total portfolio target volatility,
2. The number of other assets within that asset class,
3. The target volatility of the portfolio,
4. The covariance of all the assets in the portfolio.

Starting from the target volatility of the portfolio, we work backward to the target variance contribution for each asset. The target volatility of the portfolio is 0.1 (10% annually), which translates into a variance target of 0.01 (0.1^2). Each of the four primary asset classes (Global Equities, Global Rates, Global Fixed Income, and Commodities) targets a variance contribution of ¼ of this amount, or 0.0025. This amount is then spread evenly over the sub-composites within that asset class, and evenly across assets within each sub-composite.

Thus, the target variance contribution for each asset *i* is equal to:

$$\Sigma_i^{Target} = 0.1^2 \cdot \left(\frac{1}{4}\right) \cdot \left(\frac{1}{\# \, sub - Composites}\right) \cdot \left(\frac{1}{\# \, assets \, within \, sub - Composite}\right).$$

Using a covariance matrix that considers both the long-run and recent covariance of the assets, we then simultaneously solve for a set of portfolio weights that minimizes the sum of the squared differences between our target variance contributions and the contributions we expect based on the weights and covariance matrix.

ROLLING OF THE INDEX FUTURES CONTRACTS:

The Salient Risk Parity Index is calculated using futures pricing from the Thompson Reuters continuation futures contract series. Continuation contract data reflects pricing of first active futures contracts and therefore includes the change in pricing as a result of rolling contracts. The Thompson Reuters continuation contract roll methodology is specific to the individual futures contracts and their respective exchanges. For futher details on the continuation contract roll methodology refer to the Thompson Reuters website.

ROLLING OF THE INDEX CREDIT DEFAULT SWAPS:

Daily prices for the credit default swap indices are provided by Markit Indices Limited. The credit default swap indices roll every six months as a new index with updated constituents becomes available. The SRPI rolls into the newly created series per the methodology of Markit's total return indices. For futher details on the credit deault swap roll methodology refer to the Markit website.

MONTHLY REBALANCING METHODOLOGY:

Contract allocations will rebalance on the first business day of each month. The number of contracts to be held each month is calculated using (1) the beginning of month allocation % as described in the Index Weights section above, (2) the closing contract values from previous month end and (4) the exchange rate to US dollars.

It is assumed that the rebalance occurs at the settlement price on the last business day of the month.

The number of contracts is equal to:

$$\# \ of \ Contracts = Beginning \ of \ Month \ \$ \ Allocation \ \times \left(\frac{1}{Contract \ Values \ from \ Previous \ Day \ Close}\right)$$

$$\times \ Exchange \ Rate \ to \ USD \ from \ Previous \ Day \ Close$$

Note that the number of contracts will not be rounded, which allows the portfolio to exactly achieve it s target allocations each month.

DAILY INDEX VALUE:

The SRPI total index value will be calculated daily using settlement prices on all of the underlying futures contracts and credit default swaps. Price returns for futures contracts will be calculated at the time of the New York Stock Exchange (NYSE) close, 4:00pm EST, each NYSE business day. Credit default swaps will be incorporated into the index return calculation each day at 11:59 pm, when settlement prices for the CDS contracts become available. The SRPI will be published just after midnight EST.

To determine the daily price returns of the SRPI, the USD market value of each of the underlying holdings is updated daily according to the following formula:

$$USD \ Market \ Value_{Security \ i}$$
$$= \# \ of \ Contracts_{Security \ i} \ \times End \ of \ Day \ Settlement \ Price_{Security \ i}$$
$$\times \ Exchange \ Rate \ (from \ rebalance) \ to \ USD_{Security \ i}$$

The daily $Portfolio \ Notional \ Exposure$ will be the sum of the $USD \ Market \ Values$ across all 51 securities. Changes in $Portfolio \ Notional \ Exposure$ accrue directly to $Portfolio \ Market \ Value$.

In addition to price returns, the daily index value will also include a return on the cash component of the portfolio. Portfolio cash holdings are equal to the $Portfolio \ Market \ Value$, and returns on cash held between period $t-1$ and period t accrue in period t at the prior day's 3 month T-bill rate. This interest rate will be calculated according to the formula:

$$ret_{d-1}^{cash} = \left[\frac{1}{1 - \frac{91}{360} \times TBR_{d-1}}\right]^{\frac{1}{91}} - 1$$

Where TBR_{d-1} is the T-bill yield to maturity in the trading day prior to the day for which returns are being calculated and where ret_{d-1}^{cash} is the daily return accruing to cash held between period $t-1$ and period t. Thus the cash return accruing to Portfolio Market Value on a particular day is equal to $ret_{d-1}^{cash} \times$ Portfolio Market Value$_{d-1}$ and is added to the Portfolio Market Value for day t. The Portfolio Market Value on day t is thus equal to:

$$Portfolio \ Market \ Value_t$$
$$= Portfolio \ Market \ Value_{t-1} \times \left(1 + ret_{d-1}^{cash}\right) + Portfolio \ Notional \ Exposure_t$$
$$- Portfolio \ Notional \ Exposure_{t-1}.$$

The daily index return is calculated using the formula:

$$\frac{Today's \ Portfolio \ Market \ Value}{Previous \ Day's \ Portfolio \ Market \ Value} - 1.$$

In the case of a market disruption in any of the markets for the securities included in the SRPI, the index will be calculated according to the procedures outlined in the Market Disruptions section below.

MARKET DISRUPTIONS:

A "Market Disruption" will be deemed to have occurred on any day upon which the trading of a contract involved in the index calculation is disrupted or the fair determination of its price is interfered with subject to the following:

a. The settlement price for the contract as determined by the exchange is at the limit of its permissible trading range.

b. No settlement price for that contract is determined by midnight on the day of trading in the time zone in which the exchange is located.

c. The exchange upon which the contract trades closes trading in that contract at a time prior to the published closing time, unless the altered closing time was brought to public attention by the closing time on the trading day prior to the day in question.

d. The settlement closing price published by the exchange is not deemed, in the opinion of the SRPI Committee, to properly reflect the fair price of that contract as determined by its free and fair trading on that exchange.

e. A local holiday or an exceptional exchange closure day is deemed a Market Disruption.

If a Market Disruption occurs the Index is calculated using the last trading price available on the exchange. In particular the calculation of the contract weights will, in the normal course of events, take place using the last price available regardless of whether a Market Disruption Event has occurred.

APPENDIX A: INCLUDED EXCHANGES

1. Chicago Mercantile Exchange - includes CBOT, NYMEX, COMEX (CME)
2. ICE Futures US (ICE)
3. London Metal Exchange (LME)
4. Sydney Futures Exchange (SFE)
5. Tokyo Stock Exchange (TSE)
6. London International Financial Futures Exchange (LIF)
7. NYSE Euronext (EOP)
8. Borsa Italiana (MIB)
9. Eurex (EUX)
10. Hong Kong Exchange (HKG)
11. Johannesburg Stock Exchange (SAF)
12. Sydney Futures Exchange (SFE)
13. MEFF (MFM)
14. Singapore Exchange (SGX)
15. Stockholm Stock Exchange (SSE)
16. Korea Futures Exchange (KFE)
17. Montreal Stock Exchange (MSE)
18. National Stock Exchange of India (NSE)

APPENDIX B: INCLUDED CONTRACTS

Product	Bloomberg Ticker	Composite – Sub Composite	Exchange	Currency
S&P 500 E-mini	ES1 Index	Equity-US	CME	USD
S&P Midcap 400 E-mini	FA1 Index	Equity-US	CME	USD
Russell 2000 E-Mini	RTA1 Index	Equity-US	ICE	USD
S&P Toronto 60	PT1 Index	Equity-Developed (Ex-US)	MSE	CAD
FTSE 100 Index	Z 1 Index	Equity-Developed (Ex-US)	LIF	GBP
CAC 40 Index	CF1 Index	Equity-Developed (Ex-US)	EOP	EUR
DAX Index	GX1 Index	Equity-Developed (Ex-US)	EUX	EUR
FTSE MIB Index	ST1 Index	Equity-Developed (Ex-US)	MIL	EUR
IBEX 35 Index	IB1 Index	Equity-Developed (Ex-US)	MFM	EUR
Stockholm OMX Index	QC1 Index	Equity-Developed (Ex-US)	SSE	SEK
TOPIX Index	TP1 Index	Equity-Developed (Ex-US)	TSE	JPY
ASX SPI Index (Australia)	XP1 Index	Equity-Developed (Ex-US)	SFE	AUD
Hong Kong Hang Seng Index	HI1 Index	Equity-Emerging	HKG	HKD
MSCI Taiwan Index	TW1 Index	Equity-Emerging	SGX	USD
FTSE/JSE Top 40	AI1 Index	Equity-Emerging	SAF	ZAR
Hang Seng China	HC1 Index	Equity-Emerging	HKG	HKD
S&P CNX Nifty	NZ1 Index	Equity-Emerging	NSE	INR
KOSPI 200 Index	KM1 Index	Equity-Emerging	KFE	KRW
Crude Oil	CL1 Comdty	Commodity – Energy	CME	USD
Brent Oil	CO1 Comdty	Commodity – Energy	ICE	USD
Natural Gas	NG1 Comdty	Commodity – Energy	CME	USD
Heating Oil	HO1 Comdty	Commodity – Energy	CME	USD
Gasoline	XB1 Comdty	Commodity – Energy	CME	USD
Gas Oil	QS1 Comdty	Commodity – Energy	ICE	USD
Cattle	LC1 Comdty	Commodity – Agriculture	CME	USD
Hogs	LH1 Comdty	Commodity – Agriculture	CME	USD
Corn	C 1 Comdty	Commodity – Agriculture	CME	USD
Soybeans	S 1 Comdty	Commodity – Agriculture	CME	USD
Sugar	QW1 Comdty	Commodity – Agriculture	LIF	USD
Cotton	CT1 Comdty	Commodity – Agriculture	ICE	USD

Wheat	W 1 Comdty	Commodity – Agriculture	CME	USD
Coffee	KC1 Comdty	Commodity – Agriculture	ICE	USD
Cocoa	CC1 Comdty	Commodity – Agriculture	ICE	USD
Gold	GC1 Comdty	Commodity – Metals	CME	USD
Copper	HG1 Comdty	Commodity – Metals	CME	USD
Silver	SI1 Comdty	Commodity – Metals	CME	USD
Zinc	LX1 Comdty	Commodity – Metals	LME	USD
Nickel	LN1 Comdty	Commodity – Metals	LME	USD
Lead	LL1 Comdty	Commodity – Metals	LME	USD
Aluminum	LA1 Comdty	Commodity – Metals	LME	USD
10 Yr. US Treasury	TY1 Comdty	Interest Rates-Developed	CME	USD
10 Yr. Canadian Treasury	CN1 Comdty	Interest Rates-Developed	MSE	CAD
10 Yr. Euro-Bund Treasury	RX1 Comdty	Interest Rates-Developed	EUX	EUR
10 Yr. Gilt Treasury	G 1 Comdty	Interest Rates-Developed	LIF	GBP
10 Yr. Japanese Treasury	JB1 Comdty	Interest Rates-Developed	TSE	JPY
10 Yr. Australian Treasury	XM1 Comdty	Interest Rates - Developed	SFE	AUD
US IG CDS	IBOXUMAE CURNCY	Fixed Income–Inv. Grade	OTC	USD
EU IG CDS	ITRXEBE CURNCY	Fixed Income–Inv. Grade	OTC	EUR
US HY CDS	IBOXHYAE CURNCY	Fixed Income–High Yield	OTC	USD
EU HY CDS	ITRXEXE CURNCY	Fixed Income–High Yield	OTC	EUR
EM CDS	IBOXUME CURNCY	Fixed Income–Emerging	OTC	USD