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S1 00:00 Good afternoon, and welcome to the Context Strategic Global Equity Q1 2017 Conference Call and Webinar. All participants will be in listen-only mode. After today's presentation, there'll be an opportunity to ask questions. If you are at your computer, please submit your questions in the questions chat box located on the bottom of your webinar control panel, or you may submit your questions directly to trogers@dakotafunds.com. Please note this event is being recorded. I would now like to turn the conference call over to Mr. Andy Dudley, Managing Director for Context Asset Management. Andy, please go ahead.

S2 00:35 Thank you, Tracy, and thank you, everyone, for joining today's call. Slide three, please. Before we talk about the fund, I first want to take a little time to give you some background on our parent company, Context Capital Partners or CCP. The firm was founded in 2005 and was created to harness the balance sheet, the network, and really probably most prominently, the investment expertise of a large single-family office in the creation of a broader-alternatives investment platform. In a nutshell, the core business for the firm has revolved around partnering with alternative investment managers in a variety of forms and helping them grow their businesses, both in terms of seed as well as acceleration capital. In broad terms, this effort includes everything from hedge funds, PE funds, real estate, asset-based lending, as well as the registered funds business that is Context Asset Management. As part of this effort since 2005, the parent company has seeded 16 different strategies with over 400 million in assets. In 2013, CCP launched Context Asset Management, or CAM, as the registered funds business, and the strategy of CAM is really to capitalize further on our investment talent, our seeding expertise, as well as our network of relationships to focus on bringing a differentiated set of strategies to the liquid funds marketplace. We're here, of course, today to talk about the Context Strategic Global Equity Fund, which was launched in October of 2016, and it is our second mutual fund offering at CAM. Our other mutual fund in the marketplace is the Context Macro Opportunities Fund, which is a fixed-income oriented macro and relative-value strategy, and that was launched in August 2015 and currently has assets of approximately $106 million.

S2 02:39 Slide four, please. So on slide four, we represent our senior leadership team at CAM as well as our Board of Trustees for the mutual funds. At CAM, we really think one of our core strengths is our depth and breadth of investment expertise. You can see from the backgrounds of our senior investment team that our experience spans everything from quant proprietary trading to traditional asset management in a variety of forms, in private funds, in registered funds, in SMAs, as well as proprietary trading, and also across all types of allocators and investors, from pensions, to endowments, to family offices, as well as retail-investor types. We think that this range of experience gives us a very unique perspective on what strategies really make sense for investors' portfolios. That is, we think we understand the strategies that would be a strong fit for the liquid alternatives marketplace.

S2 03:42 Slide six, please. So on slide six, we summarize some of the backgrounds for the team at Granite Peak Asset Management, who is the sub-advisor for the Context Strategic Global Equity fund. Granite Peak is lead by Daken Vanderburg, who we are about to hear from, and although the firm was founded in 2013, the core management group here has significant long-term experience as a team, working together going back for as long as 15-plus years. And so with that, let me hand it off to Daken, who will provide a little more information about the team as well as an overview of the fund and a quick update on performance in the first quarter. Daken?

S3 04:29 Great. Thank you Andy, and thanks to Dakota for setting this up. Again, the agenda for this call is fairly straightforward, which is to provide an overview of what we are, what we are building, what we have built, what we are ultimately trying to do and the value that we're delivering, and ultimately how we do that as well to make that quite clear. On page six, as Andy mentioned, is a quick overview of some of the team here. But really the main things to underline are a big portion of our team really has been trained, we've cut our teeth in many ways, at Bridgewater. My head of operations was there for nine years, and my head analyst was there for six years as well. I spent a number of years there as well where we really focused on kind of how the economy works and understanding those fundamental drivers, which we've incorporated here. And then another large portion of our backgrounds, my partners in particular, started a firm called CooperNeff in the early '80s, which is a very successful derivatives or volatility trading organization. And so really, their backgrounds were research pioneering volatility portfolio construction on the volatility side. And so, to sort of jump back on this, really, what we have done now is assembled a team, really, where we are taking advantage of the knowledge that we have about how economies work and what are those fundamental drivers, and applying that in a fairly unique way to volatility. And so it's really a fundamental approach to volatility that we think is quite different than really most of what is out there in that space.

S3 06:01 Let's go ahead and jump to page nine. Tracy? Okay, great. So let's just jump into the goal. The goal is also incredibly straightforward, which is we really want this portfolio, the strategy, to capture the positive benefits of a global-equity portfolio. We think by a large equities go up over time. And yet, they also could go down dramatically during some times. So the first part is just continue to allow investors to do global-equity exposure in developed markets through that good, thoughtful, liquid ways. All that's very straightforward. And then the second feature is really to allow investors to hopefully help avoid some of the large drawdowns that could take an equity market. Every single G7-country in the last hundred years have had a drawdown of more than 65%, massive, wealth-destroying drawdowns. And so really, what we're trying to do is allow investors to take advantage of the best parts of global-equity markets, but help smooth those drawdowns or try to remove those drawdowns during the left tail or very large sell-offs and slowdowns.

S3 07:05 To double click into that a little bit further, let's jump to page 10. And so here you've seen these charts before in lots of different forums. MSCI goes back to 1986, which is the Global World Index, and the S&P goes back to 1926 in this chart. And if you blur your eyes, basically what you see is charts move from bottom left to top right. These are log returns, and generally, the takeaway here is that equity markets as we all know have been good, long-term exposures to hold in most portfolios, and so consequently, many portfolios have large amounts of equity exposure in some form, whether that's through real estate, or even through commodities, or equities directly, there's generally a lot of equity exposure there.

S3 07:50 The problem comes in through page 11. And what page 11 shows is the drawdown chart of a number of different equity markets. So this takes four randomly chosen, but lots of other countries got sort of similar global developed equity markets. So here's Germany, US, Japan, and Great Britain, and the Y axis here is how much these individual equity markets have drawn down, have essentially gone down over any given period of time. And so what see you here is, again, the point that I underlined earlier, every single country has had massive wealth-destroying drawdowns that can take decades to get back to even, just even. And so if you've got a family office, or a future liability, or a retirement plan, and to the extent that that timing happens relatively late in the investment profile, you can have very dramatic spending impact or balance sheet impact, essentially, for individuals that are holding equities, and lots of portfolios are very equity-driven. Okay. So, examples of Germany in the 1920s and 1948 losing almost all of their market cap following World War I and World War II. And Japan in the 30s, and the 50s, and again over the last 20 years, losing a very large percentage of the entire market cap. United Kingdom in the 1930s, and in 1974, again, dramatic sell-offs, people losing massive amounts of dollars, and then the US, it's also happened several times in the 30s in particular, and also 1987, and again over the 2008 crisis. And what I think investors oftentimes forget when you go through a period of fairly benign times, like the last handful of years have been, is that as long as humans are involved with equity markets, these types of sell-offs will continue to happen. It always goes too far in one side, and has to come back on the other side. And so what really this portfolio is meant to do was allow investors to get the global exposure - and do that in good, thoughtful ways - but then really help protect the downside when these large movements really take place.

S3 09:54 So given that problem let's jump to page 12. Given that problem, there's a handful of investor choices, right? You can sell and go to cash. You can diversify within more traditional asset classes - allocate more to bonds, or commodities, or other such things. You can diversify through alternatives - hedge funds, or private equity, or other such things. Or you can do conventional hedges - just going and buying puts for example. The problem with each of these is that there is a true cost. There's a very significant cost, or they're not as reliable as one would think. So for example, if you sell and go to cash, if the market is up 20% over the next two years, and you've missed that, that's a very large opportunity cost, very dramatic change in your ultimate terminal wealth from missing those several years of returns. If you diversify broadly, the problem is correlations tend to converge, so while bonds can be good hedges for equity, oftentimes during crises they are not. Both can go down for example. Particularly when rates are quite low as they are. So correlations can converge. Similarly with alternatives long-short equity, for example, has a nefarious past of going to a correlation of one when a large equity market sell-offs occurs. Those alternatives sometimes, aren't as useful in crises as we often hope they would be. And then the last is conventional hedges, for example, buying puts. Well, those types of strategies can be remarkably expensive. So oftentimes, you might pay 6 to 8, to sometimes 10% a year to try to hedge your downside exposure, which honestly just isn't worth it unless you can make the timing call so precisely right, which we all know is quite difficult.

S3 11:34 Page 13, just clicks on that a little bit further. You can see these are correlations over time. And you can see across equity markets and global markets the high levels of correlation. This goes back through to the financial crisis. And so you can see the US, for example, is 86% correlated to the FTSE over time or 70% correlated to IBEX. The point being while there's some correlation benefit there, it's not dramatic because you ultimately still have equity markets that are globally tied together. Okay, so therefore, given the opportunity, which is equity markets go up, and given the problem, which is that they can also go down a lot, and given that there are conventional solutions, which aren't actually great solutions, what do you do? Right? So given our backgrounds, we approach the problem a bit differently.

S3 12:26 So if you jump to page 14, you really hold two large portions of this portfolio. You can take really a sort of two components. The first is there is a global equity portfolio diversified across nine different countries, much more, by the way, diversified than the MSCI, which is very US-heavy. So it's a much more balanced portfolio. Those are all done in the futures, so very; very, very liquid markets, and we maintain that exposure constantly. And so by a large, we'll expect from that portion of the portfolio is that the global equity markets are up 1%, this portfolio will tend to be up about 1%. If they are up 10%, this portfolio will tend to be up about 10%. Now, the second portion of the portfolio is based on volatility. Again, it's a futures market. This is a futures-only portfolio. Aside form the cash management side; it's a future only portfolio. And for those that aren't as familiar with volatility, it's really a very straightforward idea, a very straightforward instrument. It is a tradeable future. It's traded at a number of the main exchanges, CBOE for example, and what you can essentially do is get exposure to volatility. What that really means is very straightforward. It is simply what is the market expectation for how volatile the next 30 days are going to be. And that itself is a tradeable asset.

S3 13:48 So as you would imagine, as risk increases, or as equity markets have drawdowns or get hit, the expectation for volatility rises. People think, "Hey, the future is now going to be much more volatile over the next 30 or 60 days," and that idea is a tradeable instrument. You can buy and sell volatility in a very liquid market. And so as you would imagine, and as this chart in the bottom right shows, when the equity market - which is orange in this case - gets hurt, VIX, which is a resemblance, or the idea of volatility, then moves up. Okay? So they're inversely related, and over this time period, they can be great hedges for each other. The VIX can be a great hedge for the S&P. Now, there are other times where they aren't as related, in which case it doesn't really affect us very much, but when a large equity market sell-off happens, it can be a very useful tool to be able to rely on in the overall portfolio. Okay.

S3 14:41 So going down one level deeper, page 15. Again, there are two large components of the portfolio. The first is the global equity side, and the second is a volatility component. Okay. So within the volatility side on page 15, there are two subcomponents, and you can really think of it as the first is the permanent long volatility position that is always on. And you can think of that really almost like a sleep-at-night risk, so to the extent that something happens instantaneously, and none of our signals or ideas have caught that exposure, this provides instant useful almost called crisis alpha to help smooth those drawdowns or reduce that drawdown. It has very very small amounts of decay on an annual basis. The second component is a tactical long volatility where we've really taken the types of sell-offs that occurred in the last 120 years and really classified them by how fast do they tend to occur and what are the drivers of those, and so we've created then signals and ideas to help understand how much risk is in the marketplace, for example. How expensive is the marketplace? So what is the probability of a drawdown today, for example? How much stress are investors feeling? What is the psychology of investors? And so we monitor all of these things systematically. We do this constantly throughout the day, and we convert all of those ideas then into potentially a signal that tells us how large do we want our volatility or our hedge component to be on in addition to this global equity exposure that we always have on, and in addition to the minimum volatility position that we have on. And so the idea is, again at the portfolio level, to have global equities that are always on across nine individual countries, have a small amount of permanent long vol that protects us overnight or helps us, very useful, to sort of start that protection overnight. And then have a dynamic piece that is really designed to probabilistically help us during those large left-tail events, but not cost us very much or cost us hardly at all during those other time periods.

S3 16:47 Okay, then taking a step back. Jumping to page 16. This is really putting it all together. And so you can see there's the types of countries that we're trading. These were all developed markets, all very liquid futures markets. Again, this is all done in futures itself. We come up with essentially a base allocation that we review periodically. The idea is more of a combination between parity-adjusted GDP and then an equal weight essentially. There's a slight value to all, but it's small, but the idea being we tilt a little bit more towards those countries that are cheaper, a little bit less towards those countries that are expensive. And then we have the volatility component, which is done in fixed futures, b-stocks futures, again a permanent piece that's always on, and then a larger exposure that can scale up and down based on what's going on in the world essentially with this notion of really minimizing decay for most of the time because most of the time sell-offs don't happen, but then allowing it to scale up as something more dramatic begins to occur.

S3 17:44 Page 17. It's worth noting just a couple of the nitty-gritty details. We use indexed futures. So this is done with long futures positions. We don't any shorting or any sort of relative value things that some people do in this space. It's all very clean, very straightforward, generally, very cash-efficient, tax-advantage, liquid-scalable instruments. And it also then, really, allows the fund, or allows our investors to then minimize currency risks. And this is a really important but somewhat subtle point, which is that a lot of the global equity mutual funds, for example, buy individual stocks, and what that means is they've got currency exposure, and they either hedge that, or they leave it, and it just generates noise. Whereas this, because its futures, means that everyone receives local currency returns. So I know that if the IBEX, the Spain index, for example, is up 2%, I will receive that 2% return on that future, and there's not a bunch of noise that goes along with that. And that just allows us to essentially generate a much cleaner return profile without a bunch of additional noise that comes from the currency exposure. It's also worth noting that because these are futures, we have a lot of excess cash, typically unencumbered cash, that sits on the side, and we use that, essentially reduce counterparty risk, so we'll put it in smart money market instruments that are very safe, or we'll do short-term treasuries and T-bills, again, to just give us a useful yield. Or if we need to, we can also do short-term again, bonds, exchange-rated funds to just, again, provides additional yield and reduce counterparty risk. It's worth noting that that gives us a little additional yield over time.

S3 19:23 Jumping to page 18, we started trading in October, all-in since inception through the end of the month, essentially the end of May. Something like 15%, which is a bit more than what the benchmark is. There was a relative underperformance in Q1, just due to the weaker US dollar. That noise will occur relative to the index occasionally again because we don't have much currency exposure. All-in in what we generally expect to do is deliver global equity exposure and then help minimize those downside returns. When big things have happened-- When big things happen to the downsides, there really hasn't been any sustained volatility spikes during this period. So again, it's doing what it's supposed to do, which is deliver global equity exposure during those time periods, during those more benign time periods.

S3 20:13 And page 19 really wraps it all up with the summary of the strategy. Again, the fund is a global equity fund. We do that through futures, developed only, no emerging market, all very liquid and straightforward markets, we tilt slightly more towards the less expensive markets and slightly less towards more expensive markets. It's got its permanent protection. It's always on, all of the time. And then very minimal decay. Again, the global equity markets were up 12% next year. We basically should expect somewhere in that ballpark. Again, small differences based on individual countries' exposure, but usually that global equity exposure, it's done through indexed futures, which means you get the local currency risk, or a local currency exposure, which is a very, very useful and very clean equity exposure ultimately, so we don't have to pay to hedge, or we don't have to take additional noise that comes from holding multiple equities. And then, ultimately, where the real value-add comes is during those big left-tail events by thoughtfully and fundamentally increasing the exposure as those left-tail events occur while doing that with our sort of deep understanding and background in both fundamentals and in volatility. And with that, that really concludes the presentation. Happy to open it up to questions now.

S1 21:36 Daken, thank you so much for all of your comments this afternoon and for your time, and we will now open the session for Q&A to the audience. If you do have a question, please feel free to submit it in the questions chat box in the bottom of your control panel, or you may email them to trogers@dakotafunds.com. First question for you: How are you affected by currency exposure?

S3 21:59 Sure. So I touched on that a little bit. But, again, because we're trading equity futures, it means we're generally getting local exposure. So there's a couple different subcomponents. The summary is, we're generally not affected by currency exposure, but the futures themselves give us local returns. And so we don't need to hedge back any exposure to US dollar. We simply get the local return on a daily basis. Now from a collateral perspective, let's assume that we have small, for example, euro balance if we sell one of our futures. What occurs on a daily basis is that if we have any collateral that is non-US dollar, we convert that every single day almost instantaneously. So very quickly above or back to US dollars. So on a daily basis, there really is not any real exposure. Of course, we have to post initial margin on the future, so there is a very small amount there. And then the cash management piece, which is really the third leg of that, that's all done in US-dollar denominated exposure, so any T-bills we hold, any money markets. We've occasionally held a US-based ETF. That's a short-term, very high-quality cash management vehicle. Those are all done in US dollars, so we don't have any exposure from that component as well.

S1 23:16 Great, thank you, Daken. Next question, how does a low-vol environment help or hurt your strategy?

S3 23:24 Sure. So the high-level answer is we're fairly indifferent to it. Again, the primary objective of the fund is to deliver global equity returns, and if you never have an event again - which is unlikely, but let's assume that happens - we would be fairly indifferent to that, and we would simply continue to generate global equity exposure for our investors, and they can continue to benefit from that. Now, we've gone through a fairly low in vol environment recently, and it hasn't really hurt us very much. We haven't had, really, hardly any decay, very, very small amounts of decay, and because we do what we think are thoughtful and intelligent things with maintaining that exposure, being price-sensitive etc., that low vol environment, we're somewhat indifferent to. We just simply maintain our exposure. We do that in a systematic, methodical, thoughtful way every single day. We continue to execute well. So costs are low. Decay is low. And ultimately, we just continue to deliver that global equity exposure. And then as the event occurs, again because this all done systematically, but also fundamentally driven, we can really ramp up that exposure and help protect our investors during those more dramatic time periods.

S1 24:38 Thank you so much. Next question, what new ideas are you working on?

S3 24:44 Sure. So in some ways at our core, we're really a research organization. We believe we think quite deeply about what drives markets. We think we understand quite well how volatility works, how markets work themselves, how economies work, and so we're really sort of two main buckets that we're focused on right now. The first is I'm thinking about really new weighting paradigms, or we have all of these different ideas. We've got this notion of investor psychology, and market valuation, and how much risk is in the marketplace, and all of this things we've talked about earlier, at least high-level forms, how do you combine those? And so we really gone back over time and have studied a number of the different sell-offs that occurred both in the US and across other countries to get a better understanding of investor psychology and the drivers of those over time. And what we're really trying to do is sort of weight the ideas, so that as opposed to concentrating in ideas that for example, just did well in 2008, also understood what took place in 1938, and also understand what took place in 1929 or 1974 in the UK, all these different environments, and then simply ensure that we have different ideas to deal with those different types of crises. Fear can drive some crises. Economics can drive some crises. Geopolitical events can drive some crises. And making sure we're understanding these things holistically in creating a good weighting process is essentially to holistically cover that exposure. That's sort of the first bucket.

S3 26:08 And the second bucket is just thinking of better ideas to signal to us what's going on in the world. So for example, one of the things we work on recently is trying to essentially build something that measures the likeliness of a depression-type environment. You know what it is. If market stress is high, but liquidity is high, you'll generally not have a depression. But if you have market stress high, and the ability to provide liquidity is low, that can create a depression kind of environment. So creating those types of signals or ideas, again, systematically to keep us informed about what type of environment it is allows us to ultimately better serve our investors, continue to deliver that global exposure, but help protect them during those big events that can take place and take place somewhat regularly, every 5, 8, 10 years, and that we're constantly preparing for.

S1 27:00 Great. Daken, thank you so much. It looks like it concludes our Q&A session for today. And would just like to turn the call back over to you for any closing remarks.

S3 27:10 That's generally all I have. Go ahead, Andy.

S2 27:13 Yeah. I'd just like to say thank you Daken for walking us through all that. And thank you, everybody, for joining the call today. We really appreciate your attention. Should you have any further questions, please reach out to the folks at Dakota or to us directly at Context, and thank you again for your time.

S1 27:35 Great, thank you again to Daken and Andy for their time this afternoon and to our audience for your participation. The conference is now concluded, and you may now disconnect.