

PhaseInvestingTechnologies, Inc.

Company Information

THE COMPANY

PhaseInvesting Technologies, Inc. is a privately held, independent investment advisory and consulting organization specializing in absolute return portfolio construction based on its own proprietary phaseinvesting methodology. Phaseinvesting represents a radical intellectual departure from traditional portfolio construction methodologies, delivering investors and product vendors alike, unique and uncompromising portfolio-based products. The company is based in the U.S., however it has primarily European clients and partners, and at the moment focuses on institutions in Germany and Switzerland.

PhaseInvesting is a niche player, specializing in asset allocation (style allocation). It then partners with specialist firms who provide other sources of added value along the value chain. Two of the most prominent are Deutsche Bank and Hedge Fund Research (HFR). Products are then developed and/or distributed through 3rd party institutions, asset managers or product vendors.

THE HISTORY

The market efficiency controversy and benchmark-based investing were the thorns responsible for the initial development of the phaseinvesting methodology. Long before the formation of the company, the founders were critical of existing methodologies. As a kind of philosophical challenge, a new framework called the Theory of Wild Beasts was developed. The purpose of the theory was to provide investors with a framework for understanding financial markets. This theory does a couple of radical things. First of all, it goes back to first basis, to the human investors that create markets, as well as investment opportunities. The next thing that it does, is that it acknowledges the complexity of markets--recognizing that the dimensionality of markets is often beyond our human processing capabilities. Take the example of returns. In the very end, returns are not a pure function of fundamentals, as fundamentals are influenced by the expectations of fundamentals. Therefore investors are confronted by a complex web of expectations of expectations of expectations. The Theory of Wild Beasts confronts these issues by applying a praxeological approach (something similar to the logical process applied in geometry), together with the use of artificial computer worlds, otherwise referred to as "aworlds". Here the understanding of the complexity of markets is handled through its recreation.

Theory may be interesting, however the real challenge came in implementing. Phaseinvesting is the practical extension of the Theory of Wild Beasts. How does one construct investment portfolios that are designed to generate positive, absolute returns in different market environments? There were naturally many hurdles in the implementation process. First, finding the necessary investment tools was a challenge. The investment world had been focusing on asset classes (stocks, bonds, cash, other). Phaseinvesting however, focuses on investment styles. Isolating styles or finding pure style products was an issue to which hedge funds provided a solution. But hedge funds then added a further list of concerns that needed to be dealt with. These included things such as liquidity, transparency, and risk management. Then there were also tax issues.

Times have changes since the beginning of our expedition. Germany in 2004 will be revamping its laws concerning hedge funds. Hedge funds are more popular than ever. Investable hedge fund style indices are now available. Managed accounts allow for transparency of underlying holdings, risk management, as well as attractive liquidity conditions. The setting is right for phaseinvesting.

THE PEOPLE

- ▶ **Dr. Bernhard R. Walther**, Chairman and Chief Executive Officer. The central themes behind the phaseinvesting approach have long been of interest to Bernhard R Walther. As Chairman, Dr. Walther brings not only his enthusiasm and understanding of complex investment issues, but contributes with his 25+ years of experience gained as a member of the managing board at UBS Deutschland AG, and at other institutions such as Bankers Trust, Credit Suisse, Deutscher-Investment Trust and Dresdner International Research Institute. Dr. Walther currently sits on a number supervisory boards and holds a Ph.D. in economics from Kansas State University.
- ▶ **Kathy K Sato**, Phaseinvesting Chief Investment Officer. Kathy K. Sato has long been disillusioned by the standard theories and paradigms of modern finance. Convinced that there had to be a better way, she resolved to develop a more robust and effective investment framework—one that might even offer practical guidance. The result was the Theory of Wild Beasts. Phaseinvesting is the practical extension of her theoretical pursuits. Prior to forming PhaseInvesting Technologies, Inc., she was a portfolio manager/quantitative analyst at Oechsle International Advisors, LLC, a US money management firm. She also worked at Deutscher-Investment Trust and at Dresdner International Research Institute. During her career she served as an investment advisor to private clients and pension funds, and has managed a financial planning organization. She holds a M.Sc. in Finance from the University of British Columbia, and a B.S. and B.A. in Industrial Management and English from Purdue University. She is a Chartered Alternative Investment Analyst (CAIA).
- ▶ **Hans-Christian Boos**, Chief Information Officer. Hans-Christian Boos is a specialist in information modeling and the processing of complex data structures applicable to the financial services area. He is also a member of the board of the arago Institut für komplexes Datenmanagement, a specialist IT company, and has written books and numerous articles on information modeling strategies and security. He studied Computer Sciences at the Eidgenössischen Technischen Hochschule (ETH) in Zürich and at the Technischen Hochschule in Darmstadt.

THE PRODUCTS

The main line of products is our Phaseinvesting® Advisory Programs. These programs are generally customized to clients needs. All advisory programs can be repackaged as **funds, certificates, principal-protected notes, warrants** etc. and **can be white-labeled**. All programs are geared to meet the requirements of the German Investment Modernization Act. Here are examples of programs that are currently available:

- ▶ **Phaseinvesting® Multi-Product Program**. True to its name, the Phaseinvesting® Multi-Product Program is a multi-product-based, absolute return program that integrates a range of products and vehicles—from tradition index products to mutual funds, to hedge funds and hedge fund style indices—all depending on the prevailing market phase. Think of this program as being a “total” asset allocation product. Its sources of added value range from proper phase allocation, style allocation to manager/product selection. (A monthly one-page performance report is available upon request.)
- ▶ **Phaseinvesting® with Style Program**. The Phaseinvesting® with Style Program provides pure alternative investment exposure. It was designed to be an effective alternative to traditional hedge fund-of-funds. The program combines the phaseinvesting technology with the HFRX family of investable hedge fund style indices. The objective here: simply to get the style allocation right, and right on a timely

basis. In the past, this kind of focus has generated significant outperformance versus the average hedge fund-of-funds. (A monthly one-page performance report is available upon request.)

Recently, there have been requests for a **Phaseinvesting® Hedge Fund-of-Funds Program**. This program would tailor a hedge fund-of-funds program for institutions, taking into account the requirements of the Investment Modernization Act, while drawing on our hedge fund know-how and style allocation expertise.

COMMON CHARACTERISTICS OF PHASEINVESTING ADVISORY PROGRAMS

Common to all phaseinvesting advisory programs are a set of minimum standards:

- Absolute return oriented
- Goal of consistent and steady performance
- Acclimatized portfolio structure
- Attractive risk/return profile
- Low correlation to traditional stock and bond markets
- Dynamic exposure to markets, depending on the market situation
- Effective diversification across different return drivers to protect against correlation breakdown and tail risks, thus providing true risk reduction benefits
- Disciplined approach to style allocation
- Attractive liquidity conditions
- Safety: No direct investments into hedge funds. Use managed account platforms which separates custody from trading advisors, and provides transparency of underlying positions
- Risk monitoring and compliance in collaboration with a team of excellent partners. Two of the most prominent partners are Deutsche Bank AG and Hedge Fund Research, Inc. (HFR)

TARGET CLIENTS

The target client segment includes institutions and asset managers interested in absolute return-oriented investment advisory services for their own internal portfolios or as the basis for the development of new products.

CONTACT INFORMATION

For more information, visit our website at www.phaseinvesting.com or contact our local European representative at: PhaseInvesting Technologies, Inc., European Representative Office, Frankfurter Welle, An der Welle 4, 60422 Frankfurt am Main, Germany, +49 (0)69 7593 8455, ksato@phaseinvesting.com