



**PRESIDIO MULTI-STRATEGY FUND (PMSFX)  
PERFORMANCE UPDATE AND MARKET OUTLOOK**

**SEPTEMBER 2011**

The Presidio Multi-Strategy Fund (PMSFX) was down -5.46% for the month of September, bringing Q3 to a close at -2.85%. However, year-to-date and inception-to-date performance netted at -0.20% and +4.05%<sup>1</sup>, respectively. Inception-to-date portfolio volatility (annualized) was approximately 7.20%, with correlation to the equity markets (S&P 500) of 0.60, and a portfolio beta of 0.20.

The main contributor(s)/detractor(s) to the Fund’s September performance, by magnitude, were:

Description	MTD Performance Contribution
• Safety Portfolio	0.84%
• Duration Portfolio (e.g. deflation hedges)	-0.01%
• Opportunistic (Stylistic) Portfolio	-0.06%
• Hedged Credit Portfolio	-0.81%
• Relative Value Portfolio	-1.67%
• Global Equity Portfolio	-1.78%
• Commodities Portfolio (e.g. inflation hedges)	-1.96%

**MARKET REVIEW:**

Since our last quarterly commentary, the equity markets have continued their downward trajectory, with the S&P 500 down approximately -14% for Q3 2011 (and the MSCI EAFE down -19%). Investors continue to be concerned about the issues in Europe (and potential ramifications about a Greek default), the possibility of an economic double dip here in the U.S., and a hard landing in China and other emerging market economies.

The PMSFX fund was down -2.85% for the quarter and -5.46% for the month of September. In September, we found the heightened correlation among the various strategies in our portfolio interesting – we designed it to be lowly correlated with the equity markets, and the underlying strategies to also be lowly correlated to each other (particularly within our relative value portfolio). September found nearly all strategies (except for hedges and Treasuries) moving in unison, suggesting that investors were blindly selling off risk assets.

On another note, we now see in hindsight that we were slightly early in reducing our hedges and Treasury exposures in August. We reduced them by almost half, on the basis that Treasuries and our hedges were looking expensive (e.g. 10-yr. Treasuries around 2.2% and the VIX bouncing around the mid-30’s). At the same

<sup>1</sup> Performance represents average annual total return and does not reflect the maximum sales charge of 4.25%. If the sales charge had been reflected in this number, performance would have been lower.

time, we began to increase our exposures to risk assets (e.g. credit, emerging markets) on the basis that valuations in those areas were looking more attractive. Of course, everything is 20-20 in hindsight, and we have no regrets with our decision. We recognize that we will likely be “early” from time to time (actually, more often than not), but we firmly believe that decisions based on valuation will ultimately be the right call.

Lastly, the recent market decline has certainly tested the resolve and discipline of many portfolio managers. We would like our investors to know that our general portfolio philosophy and strategy has not changed, and though we may have been early in making some tactical moves (discussed above); we remain committed to having a highly risk-diversified portfolio and taking on certain risks when valuation warrants us to do so. We remain confident this approach will serve as a foundation for achieving steady, compounded growth over time.

## **MARKET OUTLOOK:**

### ***Equities:***

- Recent equity decline has made valuations more attractive, but we still believe equities are not yet “cheap.”
- On a valuation basis, the implied equity risk premium provides slightly above “average” compensation for taking on equity risk. Based on today’s prices, our estimate of the longer-term equity risk premium is around 6%. We estimate equity risk premiums by using normalized earnings (average earnings over the last 5 and 10 years) to smooth out earnings cyclicality; this provides a much better base-line cash flow measure to use in our valuation work.
- Though equities provide above average compensation for their risk, there are still unresolved issues that suggest the risk-reward of equities are still skewed to the downside. With the VIX above 30 (as of this writing), the market continues to price in a bumpy macro-environment.
- Near-term, we may have a rally in the markets simply because of oversold conditions.
- Within equities, we believe non-U.S. equities (both developed and emerging) are more attractive on a relative basis.
- We have a little more than 20% of our risk budget allocated to equity related assets and strategies.

### ***Credit:***

- We have become more bullish on the credit markets on an absolute and relative basis.
- Early in the year, high yield bonds hovered around 7.5% on an absolute basis and spreads were approximately 500 basis points over Treasuries.
- Since the market high in April, high yield bonds are now close to 10% on an absolute basis, and credit spreads have blown out to 800–900 basis points over Treasuries (and investment grade bonds trading at over 200 basis point spreads), implying default rates well above historical averages.
- We’ve slowly increased our exposure to credit and will continue to do so if spreads widen further.
- Our credit positions are generally hedged from both interest rate and equity risk through shorting interest rate and equity beta.

- We have a little more than 30% of our risk budget allocated to credit and credit-related assets and strategies.

**Duration:**

- Bond valuations (and corresponding yield levels) have moved rapidly towards extremely overvalued conditions in the last few months. In mid-September, 10-year yields hit a generation low of 1.72%.
- In our view, Treasury yields at all maturity levels provide an unappealing risk-reward outcome. We still believe a fair yield (real yield + inflation + risk premium) for the 10-year Treasury should lie in the range of 4.25-4.75%. 10-year Treasuries are just above 2% as of this writing.
- Significantly low yield levels suggest that Treasuries no longer provide the same level of “safety” and “deflationary hedge” characteristics as they have before. In other words, there is only limited upside but significant downside risks. Cash, we believe, provides a better deflation hedge.
- We reduced our deflation hedge exposures significantly as yields compressed during August.
- We have less than 10% of our risk budget dedicated to duration related themes and strategies.

**Commodities:**

- Our longer-term view on commodities has not changed, but shorter-term, we believe an upside rally is in place largely due to oversold conditions.
- We believe commodity prices should be well supported (though volatile) over the intermediate and longer term, based on our thesis of growth and increased consumption demand in emerging market economies (commodity exposure can also be thought of as a derivative play on the emerging markets).
- More specifically, within the commodity complex, we find beta-neutral equity-linked energy and natural resource names more attractive than their derivative (futures) counterparts (which introduces contango risk). However, we do have some exposure to futures-based ETF's, which we believe are more sensitive to commodity price spikes.
- We have less than 20% of our risk budget dedicated to commodity themes and strategies.

**Currencies:**

- Our longer-term, secular view on the dollar is still bearish.
- Despite our view on the dollar, we continue to have some long-dollar exposure in the portfolio for the purpose of hedging several of our non-dollar exposures (e.g. non-US equities, international fixed income and commodity exposures).
- We have less than 5% of our risk budget dedicated to currency themes and strategies.

Performance Information as of:	1 Year (no load)	1 Year (with load)	Since Inception* (no load)	Since Inception* (with load)	Expense Ratio (Gross)**	Expense Ratio (Net)***
Sept. 30, 2011	1.17%	-3.13%	4.05%	0.45%	2.13%	1.75%

**Performance shown represents returns for the periods ended September 30, 2011. The performance data quoted above represents past performance, which is not a guarantee of future results. Investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Shares of the Fund have a maximum sales load of 4.25%. The sales load may be reduced or eliminated under certain conditions described in the prospectus. To obtain more current performance data regarding the Fund, including performance data current to the Funds' most recent month-end, please visit [www.ncfunds.com](http://www.ncfunds.com).**

*\*The Fund's inception date is July 7, 2010 and these returns reflect average annual total returns.*

*\*\*Gross expense ratio is from the Funds' prospectus dated February 28, 2011.*

*\*\*\* The Advisor has entered into an Operating Plan Agreement with the Administrator that runs through October 1, 2012 where it has agreed to assume certain expenses of the Administrator to the extent the operating expenses of the Fund exceed 1.75%.*

An investor should consider the investment objectives, risks, and charges and expenses of the Fund before investing. The prospectus contains this and other information about the Fund. A copy of the prospectus is available by clicking [here](#) or calling the fund directly at 800-773-3863. The prospectus should be read carefully before investing.

*An investment in the Fund is subject to investment risks, including the possible loss of some or the entire principal amount invested. There can be no assurance that the Fund will be successful in meeting its investment objective. Investment in the Fund is also subject to the following risks: market risk, sector risk, portfolio turnover risk, investment advisor risk, new fund risk, foreign securities and emerging markets risk, currency risk, political/economic risk, derivative risk, currency option transactions risk, currency futures risk, leverage risk, counterparty risk, short sales risk, risks related to investing in other investment companies, etn risk, small cap and mid cap securities risk, interest rate and credit risk, maturity risk, inflation risk, investment grade securities risk, lower rated securities or junk bonds risk, risks of investing in corporate debt securities. More information about these risks and other risks can be found in the Fund's prospectus.*

*The Presidio Multi-Strategy Fund is distributed by **Capital Investment Group, Inc., Member FINRA/SIPC, 17 Glenwood Ave., Raleigh, NC 27603**. There is no affiliation between Presidio Capital Investments, LLC, including its principals, and Capital Investment Group, Inc.*

### **Explanation of Statistics**

#### **Volatility:**

Volatility is measured as annualized standard deviation and is considered a measure of risk. Annualized standard deviation is calculated using standard methodology of taking the standard deviation of realized daily returns multiplied by the square root of the number of trading days in a year (assumed at 250). Volatility is a statistical measure that provides an estimate of the dispersion (or range) of potential returns.

When used in conjunction with the assumption of a normal distribution, investors may use standard deviation to make probability statements about potential return outcomes. For example, a portfolio with an expected annual return of 5%, and an annualized volatility of 10%, can be interpreted as the following: There is 68% chance that the return of this portfolio, in any given year, may be in the range of -5% to +15%, with a 32% chance that the return will be outside of this range.

Taking it one step further, it can also be interpreted as: There is a 95% chance that the return of this portfolio, in any given year, may be in the range of -14.6% to +24.6%, with a 5% chance that the return will be outside of this range.

Investors should be aware that volatility estimates, like any other “statistics”, are not constant, and that they may change as the capital markets change and as the composition of the underlying portfolio changes.

**Correlation:**

Correlation is a measure of tendency for two assets to move together, and is bound between -1 to 1. For example, a correlation of +1 indicates perfect correlation between two assets and their tendency to move in a certain direction. Conversely, a correlation of -1 between two assets indicates perfect negative correlation and the tendency to move in opposite direction. A correlation of 0 between two assets indicates no relationship or tendency to move together.

**Beta:**

Beta is a measure of the price sensitivity of an asset (or portfolio) to the broader market, and is also considered a risk statistic. Beta was calculated by regressing the daily returns of the fund and daily returns of the S&P 500 (for the time period from fund inception through noted month end).

Investors may use beta estimates to gauge the relative risk of an asset or portfolio. For example, an asset (or portfolio) with a beta of 1.5 suggests that that asset (or portfolio) may move 1.5 times that of the movement of the broader market. If, for example, the S&P is down 10%, this asset (portfolio) with a beta of 1.5 is expected to be down 15% ( $= -10\% \times 1.5$ ).

Conversely, if an asset (portfolio) has a beta of 0.5, it is expected to move 0.5 times that of the broader market. If, for example, the S&P is down 10%, this asset (portfolio) with a beta of 0.5 is expected to be down 5% ( $= -10\% \times 0.5$ ).

Investors should be aware that beta estimates, like any other “statistics”, are not constant, and that they may change as the capital markets change and as the composition of the underlying portfolio changes.