In 1996 the founders of Benchmark Plus introduced an innovative investment strategy based upon their experience in absolute return investing and risk management. We believe that their many years of experience, at large financial institutions and a major pension fund, led to an insightful understanding of the inherent limitations of investors to predict financial market direction, the course of interest rates, or other macroeconomic factors more accurately than the consensus. Therefore, Benchmark Plus chose to focus its efforts on capturing "alpha" (risk-adjusted returns in excess of a benchmark) and the managers that produce it; thus, the Real Alpha™ process was born.

Focusing on market inefficiencies, the investment process seeks to uncover exceptionally skilled managers, directly neutralize their systematic risks and optimize portfolio performance. By constructing a diversified alpha engine with no significant correlation to market indices, market neutral and enhanced indexed products can be developed.

The investment philosophy seeks to uncover managers that we believe are capable of consistent alpha production by applying both quantitative and qualitative techniques. Portfolios can be constructed of those managers who we believe actively exploit market inefficiencies and demonstrate a clear competitive advantage in capitalizing on those opportunities. Having a definitive framework for identifying and evaluating both the market inefficiencies and the managers' ability to profit from them has led to the codification of a definitive and disciplined PROCESS that we believe is repeatable, dependable and flexible.

Pursuing "Inefficiency Gaps"

The Efficient Markets Hypothesis encompasses a number of key assumptions that, if violated by market participants or conditions, may present profitable investment opportunities. Some of the assumptions are: Investors have equal access to all available information, freely and simultaneously; Investors act rationally; Investors have homogenous expectations for risk and reward; Investors have no restrictions on buying, holding or selling particular securities; and Investors bear no transaction costs. Most professional investors would agree that the capital markets are largely efficient; even more so today with the rapid deployment of lightning-fast technology.

HOWEVER, there are parts of the capital markets where inefficiencies may exist, preventing "price" and "fair value" from converging and resulting in mis-pricings and dislocations. We believe these discreet corners of the securities markets are the areas where profitable, asymmetric investment opportunities are to be found and where high quality managers excel!

We seek to find alpha in such places as: closed end fund arbitrage, structural impediments in the municipal bond market, trade claims, shareholder activism, sector specialist credit managers and cross-border arbitrage, to name only a few. We even capitalize on fundamental micro-cap long/short managers whose embedded long-bias is essentially rendered "beta neutral" through our active risk-management overlay (at the manager level).

With a focus on finding highly skilled managers whom we believe have the highest probability of producing alpha; we favor managers seeking to exploit clearly identifiable opportunities while avoiding the drama and risk that so often accompanies strategies reliant upon making macro "market timing" calls. In short, the process is dedicated to uncovering managers with what we believe to be a clear investment edge in exploiting "inefficiency gaps" in less obvious corners of the markets where those gaps tend to be most prevalent.

Diligence through Benchmarking

While identifying alpha opportunities is the primary goal, long term investment success cannot be achieved without careful attention to measuring and managing the multitude of risks that accompany the act of investing. By employing a technique that is standard practice in the long-only space – benchmarking, a manager's returns can be quantitatively segregated into market based returns and the residual returns, or alpha. A dynamic customized benchmark is constructed for each manager utilizing a series of regression analyses run against a universe of hundreds of market factors. This benchmark seeks to account for the entirety of risks within a manager's portfolio and offers insight into their actual alpha-generating ability.

Applying the benchmark, one can seek to objectively measure both a manager's alpha production and the risks the manager has undertaken to generate that alpha. Furthermore, actively hedging this custom benchmark, with the objective of removing systematic risk, attempts to isolate the alpha component of a fund's return producing what we believe is a true market neutral return stream.

Portfolio Construction and Monitoring

We utilize an alpha based optimization process that seeks to diversify any remaining common factor exposure that could negatively impact the fund during periods of market stress. This forward-looking optimization process seeks to create a portfolio that offers what we believe to be a strong combination of managers with high expected alpha at an acceptable level of expected volatility. Monthly expected alpha contributions are closely monitored and outliers are thoroughly researched and documented.

Active Risk Management

We believe the benchmarking process provides actionable information that can be incorporated into a risk management overlay: a mechanism that seeks to protect against adverse moves that could effectively overwhelm a manager's hard won alpha. While the primary purpose of the risk management protocol seeks to avoid losses attributable to market moves (similar to, but more encompassing than a tail-hedging program), it also has the potential benefit of reducing the volatility and market correlation of potential products and portfolios.

Investing Outside the Box

Sometimes it takes creative thinking to gain the perspective necessary to the see the right solution. Since our founding in 1996, we have cultivated an "outside the box" mindset to continually evolve our repeatable, dependable and flexible investment approach. As a result, we strive to construct portfolios of what we believe to be top-tier hedge funds delivering top-tier results to our clients. Benchmark Plus' unique investment methodology, combined with our active risk management process, is used to provide a range of products and solutions that attempt to maximize risk-adjusted returns and help investors achieve their investment objectives.

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