

# Diversified Risk Parity Portfolio

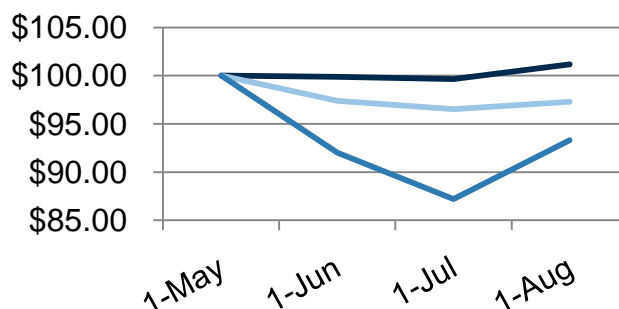
Multi-strategy, multi-manager, diversified exposure to global financial markets

## Investment Highlights

- » The DRP<sup>1</sup> strategy offers exposure to the alternative investment space with lower risk and less volatility than most traditional equity investment returns.
- » Over time, alternative investments have produced returns that are significantly less correlated to traditional investments. This is particularly beneficial in down markets.
- » The goal of the Diversified Risk Parity Portfolio is to seek to compound returns as often as possible.

## Investment Performance<sup>†</sup>

Growth of \$100 (assuming no withdrawals or contributions).



Statistics (US \$)	DRP <sup>1</sup>	S&P 500 <sup>2</sup>	HFRI <sup>3</sup>
July 2010 <sup>†</sup>	1.52%	7.01%	0.77%
Average Monthly Return <sup>†</sup>	0.33%	-2.07%	-0.91%
Standard Deviation <sup>†</sup>	3.8	16.9	6.4
Beta <sup>†</sup>	0.14	1	NA

## General Information

**Inception Date:** 5/1/2010  
**Portfolio Size:** \$10 million  
**General Partner:** Risk Paradigm Group  
**Subscription:** Daily  
**Redemption:** Daily  
**Min. Investment:** \$25,000  
**Addl. Investment :** \$1,000  
**Comparative Indices:** HFRI Fund of Hedge Fund Index  
 Standard & Poor's 500 DRI Index  
**Management Fee:** 2.0%  
**Performance Fee:** None  
**Lock-up Period:** None  
**Eligible Investors:** Non-IRA and IRA eligible

## Performance

DRP <sup>1</sup> - Monthly Historical Performance (Unaudited)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug <sup>†</sup>	Sep	Oct	Nov	Dec	Annual (Net)*
2010 (YTD)					-0.21%	-0.32%	1.52%						0.98%

S&P 500 <sup>2</sup> - Monthly Historical Performance (Unaudited)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug <sup>†</sup>	Sep	Oct	Nov	Dec	Annual (Net)*
2010 (YTD)					-7.99%	-5.23%	7.01%						-6.69%

HFRI Fund of Funds Index <sup>3</sup> - Monthly Historical Performance (Unaudited)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug <sup>†</sup>	Sep	Oct	Nov	Dec	Annual (Net)*
2010 (YTD)					-2.60%	-0.89%	0.77%						-2.72%

\*YTD performance numbers are not annualized

<sup>†</sup>Based on past 3 monthly returns, and is current as of August 25<sup>th</sup>, 2010

1. Diversified Risk Parity Portfolio
2. Standard & Poor's 500 DRI Index
3. HFRI Fund of Funds Index

(Past performance is not a guide to future results. Performance is net of fees. Please see Important Information (following page) for more details regarding performance.)

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July-31-2010

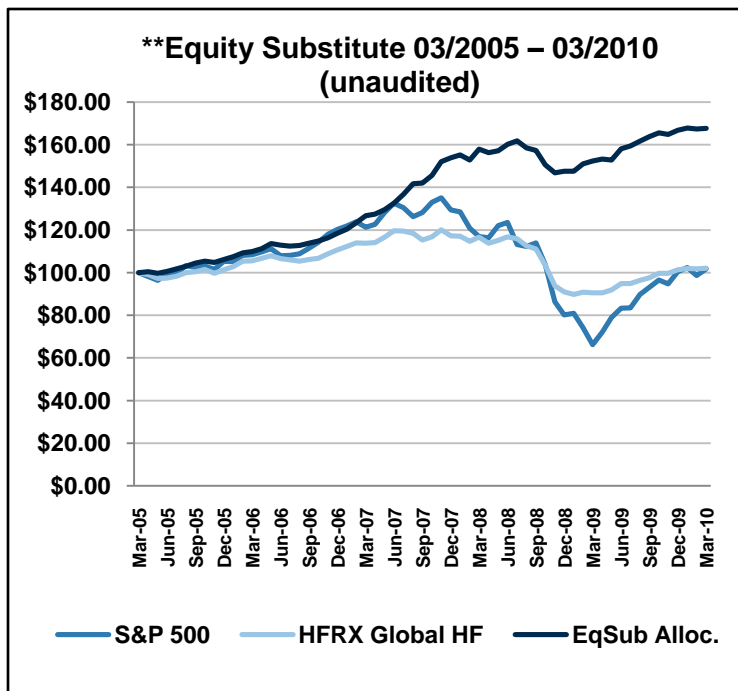
## Manager's Commentary

While it was a grind, DRP added relative value to the benchmarks for the three months ending July 30. July was a positive 198 bps and DRP was a positive 162 bps for the three months vs. -6.21% and -2.76% for the S&P 500 and HFRI fund of hedge fund indices respectively. As we've mentioned in past commentary, DRP continually seeks asymmetry of risks vs. rewards in the positions we are exposed to with the goal of defining the downside risk of our trades. We are alert to small mispricings that often result from the eagerness of some investors to express a view. And in the first three months it has been all work and no play.

Our biggest contributor to performance in July was our event driven long portion of the book. The exposures were the result of companies whose balance sheets had been re-worked and came out of the process with a better board, better management and a better balance sheet. We calculated the downside to be 30 bps with the hopes to earn 150 to 300 bps over time if we were correct. That trade played out in part in July and for a small amount of risk we were able to deliver a solid profit. As we have written in the past, we believe some of the best opportunities from a risk/reward perspective will come from what we refer to as the "blue collar strategies". Those are the opportunities where real skill has to be imposed on a stressed balance sheet/board/management team for the greater good of the common shareholder, such as distressed, work-outs and event driven strategies.

While equity correlations remained high and actually elevated in the month, the equity long/short portion of the allocation managed to add to the monthly returns. It is difficult to produce consistent returns in long/short strategies if all securities are moving in the same direction. When correlations revert to more normal levels, the reversion will likely be good for DRP as we tend to favor strategies with lower beta exposures and attempt to produce profits through security selection as opposed to market direction. In summary, spread compression assisted in our bread & butter credit strategies. However, declines in implied volatility in the U.S. acted as a headwind for DRP. We have rebalanced trades throughout the month, but the opportunities to replace trades have been limited. As we stated earlier... It's a grind.

As always, please do not hesitate to call (512) 327-6000.



\*\*Equity Substitute is the Fund of Hedge Funds portfolio that the DRP Risk Model is built upon. The chart above DOES NOT reflect the performance of DRP. DRP was launched May 1<sup>st</sup> 2010. See DRP Strategy Development History below for more information.

## DRP Strategy Development History

The reason we highlight the Equity Substitute portfolio below is to display the return streams of a strategy that was built with the same design template. The Diversified Risk Parity (DRP) portfolio utilizes the same "risk factor neutral" balance that the equity substitute utilizes. However, DRP selectively invests in mutual funds, exchange traded funds (ETFs) and other daily liquid securities as opposed to a fund of hedge funds with limited liquidity and high minimum initial investments. And while the return streams are sure to differ, the way we look at and consider risk, is identical. While DRP is designed to be a core fund exposure which seeks to achieve similar return streams as the HFRI Fund of Hedge Funds index, there are areas where those return streams create outsized exposure to certain economic factors. DRP seeks to achieve balance to the economic risk factors by providing a counter balance to the risk exposure embedded in the index risk allocation.

## Equity Substitute Annual Performance (Unaudited)

Year	2005	2006	2007	2008	2009	2010 (June)	Annualized Net Return Since Inception:	Standard Deviation
Equity Substitute	6.83%	12.01%	28.98%	-5.51%	14.62%	-1.11%	10.05%	5.43%
S&P 500 Index	7.20%	15.79%	5.39%	-36.99%	26.45%	-6.66%	-0.52%	16.50%
HFRX Global Hedge Fund Index	3.81%	9.26%	4.23%	-23.25%	13.39%	-1.21%	0.31%	7.40%

### Important Information

**Past performance is not a guide to future results.** Performance reflects the reinvestment of dividends, is net of portfolio-level fees/expenses and reflects deduction of performance allocation as if payable monthly, not quarterly. Performance may be volatile and the portfolio will fluctuate. Investors may not receive the full amount invested upon redemption. **Indexes** listed do not represent benchmarks for DRP, but allow for comparison of DRP's performance to an index. An investor cannot invest directly in an index. Index performance does not reflect fees and expenses. Hedge funds are speculative and involve **Risk**. Portfolio risks include: dependence on the performance of underlying managers; DRP's ability to allocate assets; expenses at DRP and underlying fund; limited transparency with respect to the holdings in portfolio funds; and portfolio funds are generally not subject to any comprehensive regulatory scheme. Risks of underlying hedge funds include, among others, leverage, options, derivatives, distressed securities, futures, and short sales, and investments in small, mid cap, fixed income, illiquid, emerging and developed market securities or specific sectors. Exchange rate fluctuations may affect returns. Allocations and holdings are subject to change. There is no assurance that DRP's investment objective will be attained. Incentive fees/allocations could encourage parties to make investments that are riskier or more speculative. This material is not an offer or a solicitation to subscribe for any Fund, and is not investment advice. Investment in DRP may not be suitable for all investors; investors should consider risks and other information in the offering circular and consult their professional advisers regarding suitability, legal, tax and economic consequences of an investment.