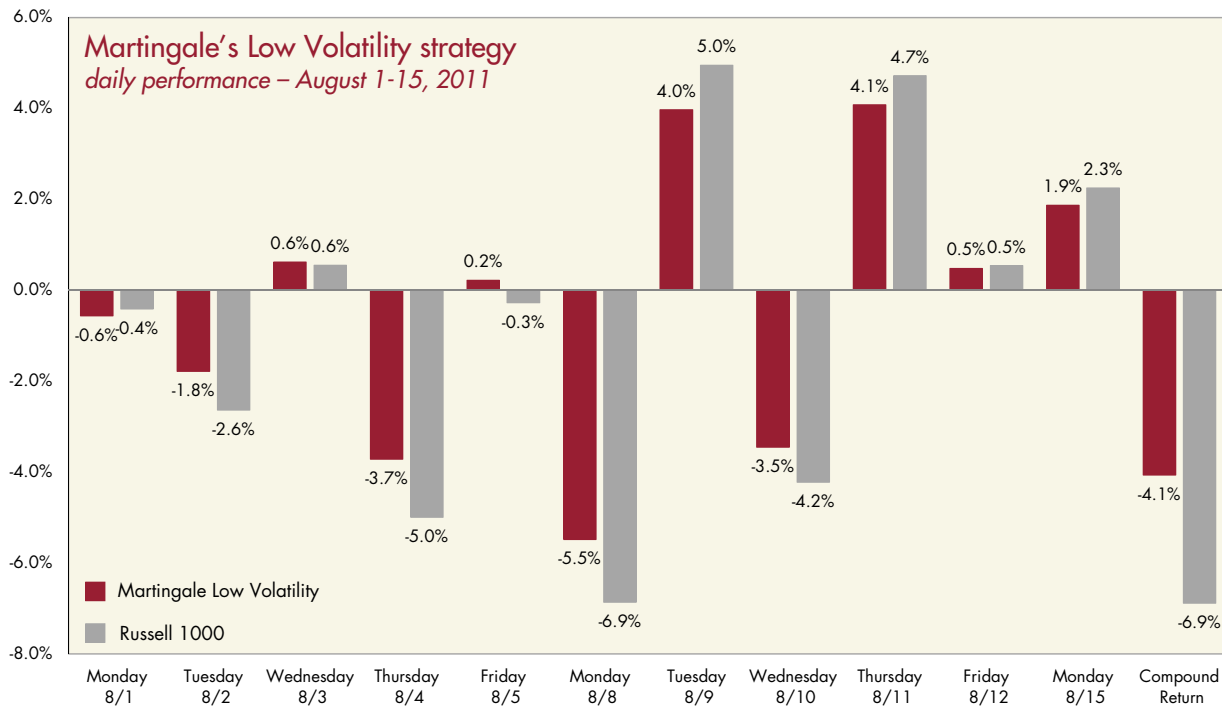




Why managing volatility matters

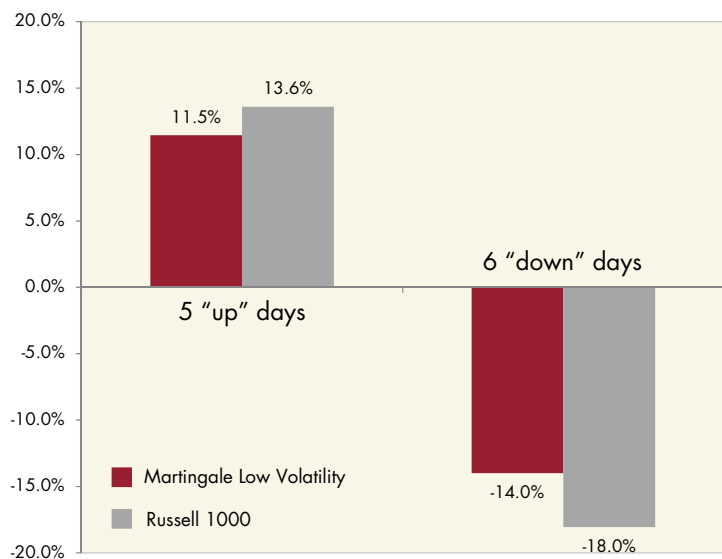
The market's wild roller coaster ride over the first eleven trading days in August highlights just how effective a low volatility equity strategy can be in handling turbulence in the market. Make no mistake – we aren't proponents of flogging short-term performance. But these roller coaster days do demonstrate why managing volatility matters and underscore the merits of shifting a portion of your assets toward a sound upside/downside capture strategy.

White knuckled investors held tight during the market's daily hairpin turns. But Martingale's Low Volatility strategy provided a steadier return path relative to the traditional market cap index (Russell 1000). By carving its own path of reduced volatility, the Martingale Low Volatility strategy outpaced the Russell 1000 by 2.8 percentage points.¹

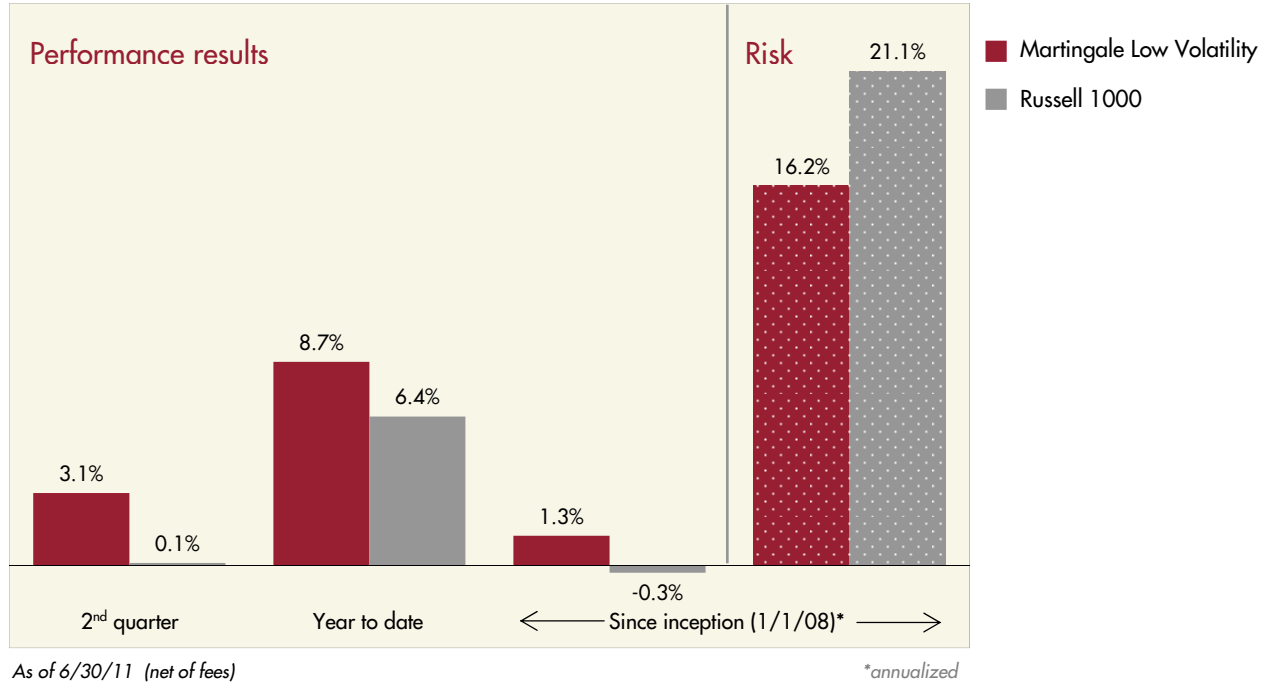


What happened?

Martingale's Low Volatility strategy captured 85% of the rising days but only 78% of the falling days. This ratio demonstrates both strong downside protection and resilient upside participation. Whether considering broader horizons of months, quarters, or years, this August snapshot illuminates the reality of compound returns: the farther down your portfolio slides, the harder the push needed to climb up from the deficit. A portfolio that can cushion the downside and participate in the rise by a larger margin than the fall can offer stronger returns and good protection for your plan.



The market’s recent turbulence has plenty of catalysts: the political showdown in Washington, the threat of a double-dip recession and Standard and Poor’s recent downgrade of U.S. debt. Rattled investors wonder how to strap in for a smoother ride. We believe our Low Volatility strategies offer a promising solution. Their favorable risk/return characteristics provide a promising way to earn equity-like returns and dampen volatility. Our 3½-year record (below) is consistent with research on low volatility strategies that we have shared in past issues of *Insights*. As unsettling as the market has been, it is reassuring to see that Martingale’s Low Volatility strategies deliver as intended.



The latest from Martingale

- Our Annual Meeting of the **Martingale Academic Advisory Board** took place in July. All three Board members participated and shared a “buffet” of sorts that touched on their recent research endeavors. Notably, Robin Greenwood presented the soon-to-be-released white paper, *The Risk Anomaly Revealed*, in which all Board members collaborated with our own Bill Jacques, CIO, and Mac Eysenbach, Director of Research.
- Assets in our Low Volatility strategies exceed \$500 million**, as new mandates have funded this summer. As investors’ understanding of the fallibility of CAPM grows, so does their interest in deploying a less risky alternative. Martingale’s stature in both understanding the Risk Anomaly and developing a suite of products that offer unique insight into exploiting this opportunity grows, too.

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Notes

1. Results for Martingale shown in the August daily performance charts are net of transaction costs but *gross of management fees*. The “up” and “down” days are defined by the Russell 1000 Index, in which its positive performance are “up” days; its negative performance are “down” days.

Martingale Low Volatility LargeCap Equity Disclosures Martingale Asset Management, L.P. claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. Martingale has been independently verified for the periods January 1, 1993 through December 31, 2010. Verification assesses whether 1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and 2) the firm’s policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Low Volatility LargeCap Equity Composite has been examined for the periods from January 1, 2008 through December 31, 2010. Verification and performance examination reports are available upon request. Martingale Asset Management is a privately held, independent investment firm registered under the Investment Advisers Act of 1940. A list of composite descriptions and policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

The composite’s inception and creation date is 1/1/08. The Low Volatility LargeCap Equity Composite was previously named the Low Volatility LargeCap Core Composite. This strategy seeks opportunities within the 1,000 largest U.S. equity stocks, considering both return expectations and volatility. By emphasizing undervalued and low volatility securities, the strategy seeks to achieve equity market returns with significantly lower volatility. The Russell 1000 index is the composite’s benchmark; its returns are provided to represent the investment environment existing during the time periods shown and are not covered by the report of independent verifiers. For comparison purposes, the index is fully invested, which includes the reinvestment of income. Index returns do not include any transaction costs, management fees or other costs. Market and economic conditions have not affected our performance significantly relative to its benchmark. Supplemental information regarding largest holdings, sector weightings and characteristics are from a representative account managed in this strategy, and its performance results are included in the composite. These are subject to change and are not considered as recommendations.

Performance calculations are time-weighted rates of return based on trade date valuations and accrual-based accounting for income. Returns are net of transaction costs. Dividends, interest and other earnings are reinvested. Portfolios are revalued for all cash flows. Monthly composite returns are calculated by weighting each account’s monthly return by its relative beginning market value. All valuations and returns are expressed in U.S. dollars. The performance presented herein represents past performance and is not an indicator of future results. Further, as with any active equity strategy, there is always the potential for declines in the value of accounts employing this strategy. The internal dispersion of annual returns is measured by the asset weighted standard deviation of annual portfolio returns represented within the composite for the full year. Dispersion is not presented for composites with fewer than five accounts included for the entire year because it is not considered meaningful. As of 12/31/10, the three-year annualized ex-post standard deviation of the composite and its benchmark are 17.21% and 22.61%, respectively.

| Year | Rate of Return (%) | | | Composite Dispersion | ← As of December 31 → | | |
|------|--------------------|--------|--------|----------------------|-----------------------|----------------------|----------------------------|
| | Gross | Net | Index | | # of Portfolios | Comp Assets (US\$ M) | Total Firm Assets (US\$ M) |
| 2010 | 15.04 | 14.26 | 16.10 | n/a | <5 | <1 | 1,874 |
| 2009 | 15.45 | 14.67 | 28.43 | n/a | <5 | <1 | 2,434 |
| 2008 | -26.07 | -26.60 | -37.60 | n/a | <5 | <1 | 3,143 |

While not presented herein, gross results do not reflect the deduction of investment advisory fees or any other expenses that may be incurred in the management of the account. Net of fee results are calculated by applying the highest fee charged to any account employing the strategy for the performance period. The standard fee schedule in effect is as follows: 0.70% on the first \$25 million and 0.30% thereafter. Actual advisory fees paid can vary among clients employing this strategy. This composite held one non-paying fee account that represented 100% of the composite from 2008 through 2010.

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