Integrated Capital Management

A Disciplined Approach to Scientific Investing

Presented to: The Philadelphia Council for Business Economics

Risk Premiums, Valuations, Mean Reversion & ETF Selection

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Disclosure

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There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio in any given market environment. No investment strategy, such as asset allocation, can guarantee profit or protect against loss in periods of declining values. In general, bond markets are volatile, bond prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. Investments in stocks of small companies involve additional risks. Smaller companies typically have a higher risk of failure, and are not as well established as larger blue-chip companies. They involve investment risk, including possible loss of principal amount invested. Investment return and principal value may fluctuate so that the investment, when redeemed, may be worth more or less than the original cost.

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iCM is registered with the Securities and Exchange Commission as an investment adviser and acts as an investment adviser.

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Our Firm

Firm History

• "Lift out" of the investment department from one of the nation's largest mutual insurance companies.

• Our process was used to manage the $775mm proprietary investment program since 2004.

• Our story and investment process begins nearly 17 years prior to that in one of the nation's largest pension departments.

• Contrarian value oriented philosophy and the belief that inefficiencies exist across asset classes and other common factor beta exposures.

What Makes Us Different

• Contrarian valuation driven process vs. relative strength or momentum based.

• Low Turnover, Lightly Traded

• **We are use ETFs and we are without a doubt Active Managers!**

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Our Investment Philosophy

- Risk premiums are time period dependent

- Everything important in making an investment decision exhibits a mean reverting quality.

- Risk capital is in fixed supply, buy assets where the level of reward is sufficient for the given level of risk.

- Successful investing requires conviction and discipline.

Valuations Matter!

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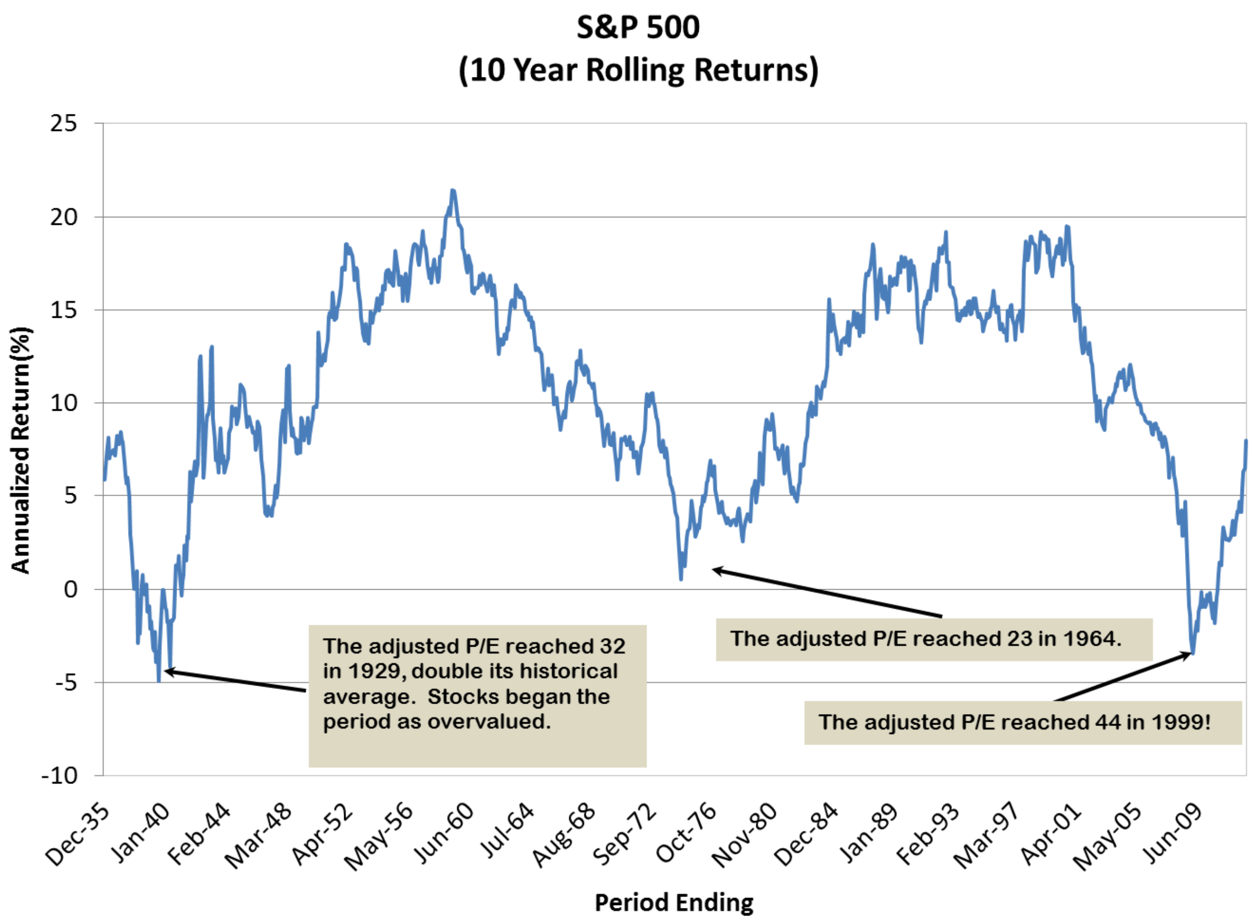
Do Valuations Matter?



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Valuations drive returns, why not pay attention?

iCM incorporates core beliefs into its management process with perhaps the most important being that valuations drive long-term returns as illustrated on the TABLE below.

Using our proprietary asset class valuation models applied to the US Equity market, we can see that valuations clearly influence returns on a forward looking basis.

Quintile	Adjusted P/E	Average 10 Year Forward Return	Standard Deviation of Returns	-2 St Dev	-1 St Dev	+1 St Dev	+2 St Dev
1	26.95	3.61	4.13	-4.65	-0.52	7.74	11.87
2	18.73	8.92	3.81	1.3	5.11	12.73	16.54
3	15.24	11.63	4.5	2.63	7.13	16.13	20.63
4	11.9	13.77	3.56	6.65	10.21	17.33	20.89
5	9.31	15.51	3.18	9.15	12.33	18.69	21.87
Average	16.42	10.68	5.67	-0.66	5.01	16.35	22.02

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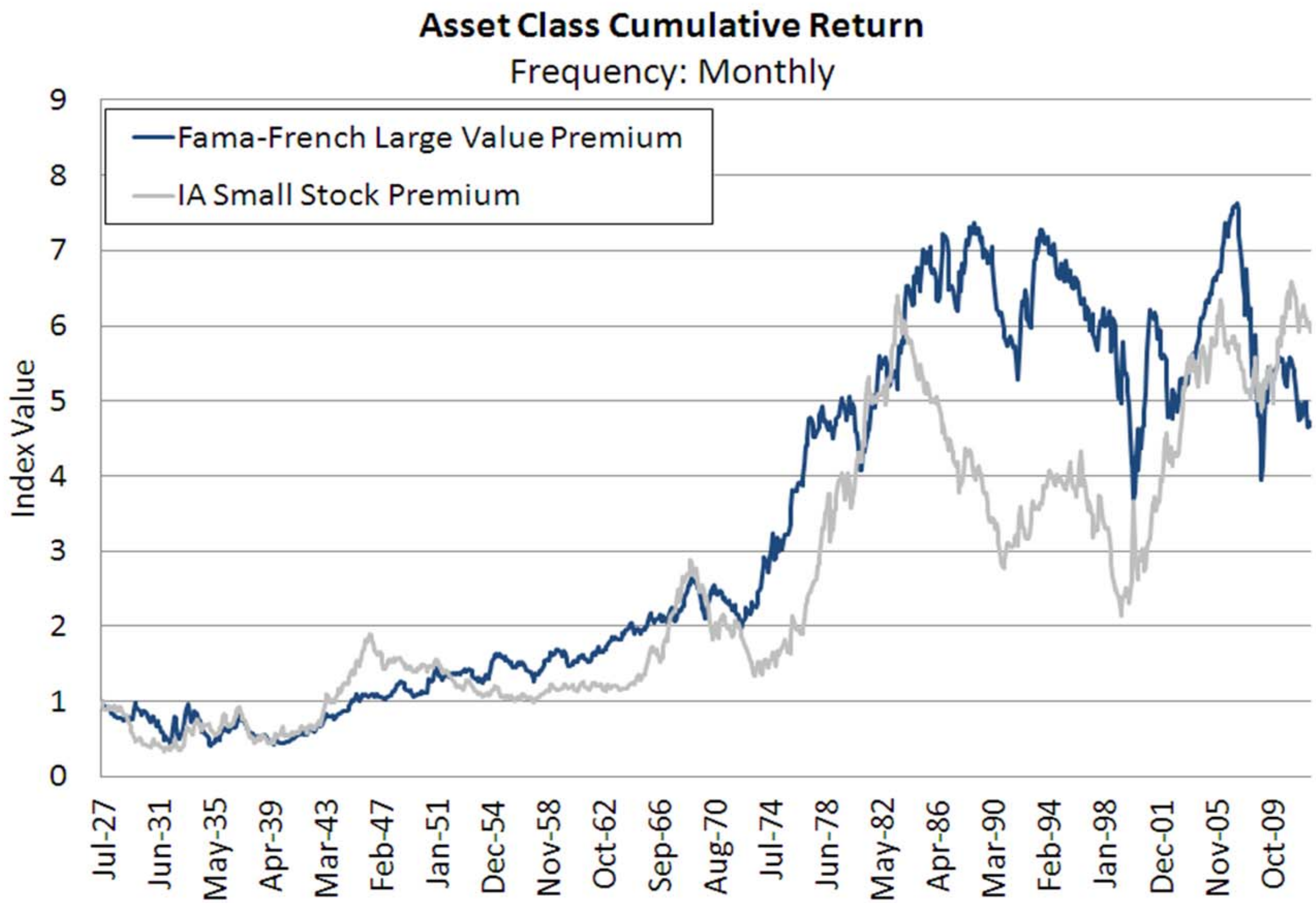
Risk Premiums – Fama French At Their Finest!



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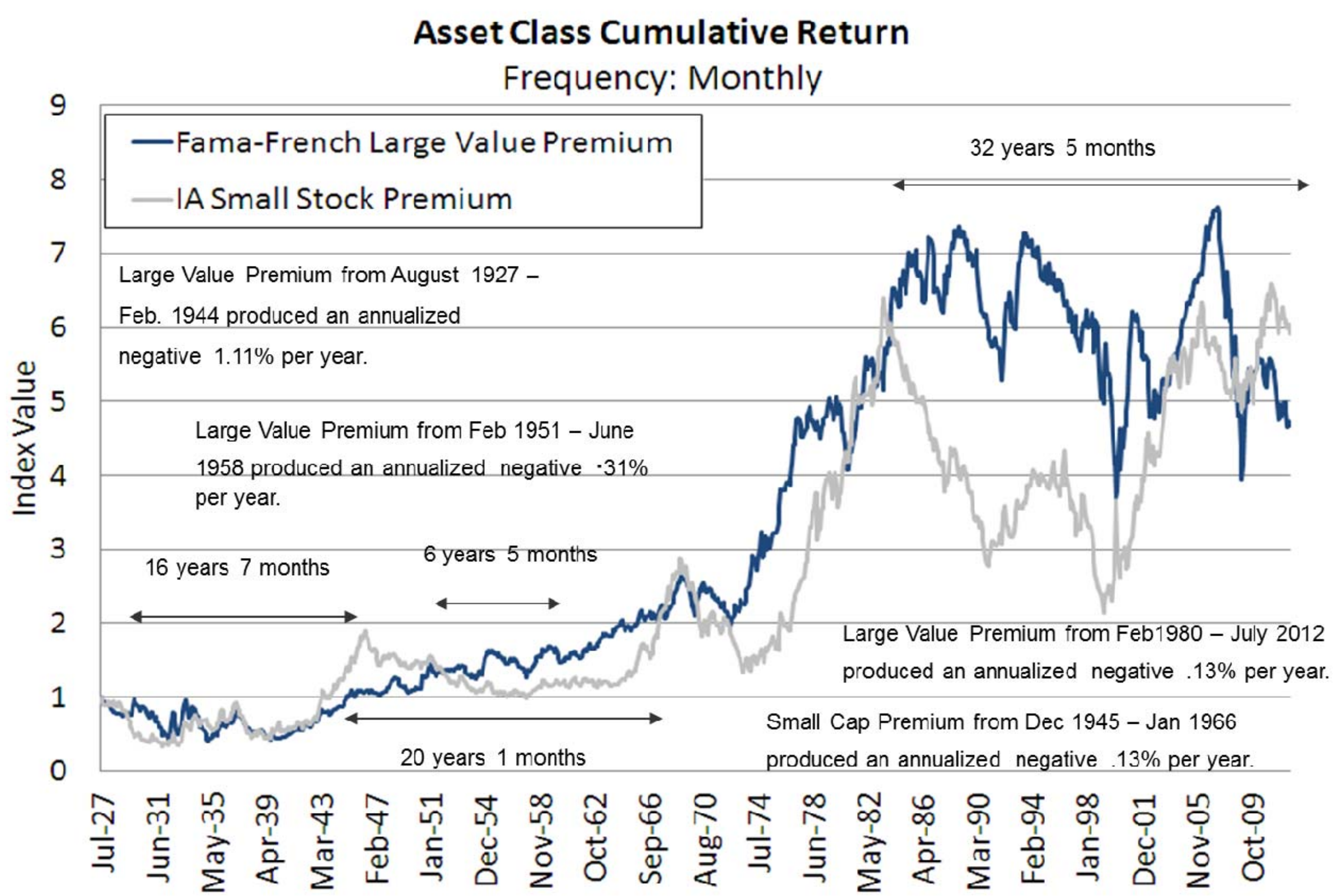
Risk Premiums – Fama French, the Fine Print



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Valuations drive relative returns, definitely pay attention!

Excess Returns				
	Small vs Large	**Value** vs Growth	**Int'l** vs Domestic	**HY Corporate** vs Gov't
Least Expensive	4.27	5.28	4.46	5.3
Below Average Valuation	0.82	1.84	4.5	3.83
Above Average Valuation	-3.47	-0.91	-5.7	-0.1
Most Expensive	-2.56	-0.88	-12.26	-1.94
Avg. Valuation Premium(Discount	24%	-34%	-6%	481bps
Current Premium(Discount)	72%	-31%	-17%	600bps
Favors	**Large Cap**	**Neutral**	**International**	**Neutral**

Frequency of Positive Risk Premium				
	Small vs Large	**Value** vs Growth	**Int'l** vs Domestic	**HY Corporate** vs Gov't
Least Expensive	80%	83%	83%	95%
Below Average Valuation	51%	63%	87%	86%
Above Average Valuation	29%	43%	33%	57%
Most Expensive	26%	46%	8%	36%
Overall	42%	62%	60%	72%
Favors	**Large Cap**	**Neutral**	**International**	**Neutral**

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Mean Reversion at its Finest!

Overweight	Underweight	Date Undervalued	Date Overvalued	Holding Period	+/- Benchmark Return
Emerging Markets Eq	S&P 500	Jan-01	Sep-07	81 months	+295.87%
International Developed Eq	S&P 500	Jun-01	Sep-07	75 months	+70.01%
US IG Corporate	Barcap Aggregate	Oct-08	Present	48 months	+25.70%
US High Yield	Barcap Aggregate	Sep-08	Jan-11	28 months	+25.66%
US Large Growth	US Large Value	Apr-06	Nov-11	68 months	+21.12%
S&P 500	Commodities	Oct-04	Jul-10	70 months	+9.81%
US Large Cap	US Small Cap	Apr-06	Present	78 months	+8.21%
Corp/Mortgages	Barcap Aggregate	Apr-10	Present	30 months	+7.01%
Barcap Aggregate	US High Yield	Oct-04	Sep-08	48 months	+6.06%
Municipal Bonds	Barcap Aggregate	Jan-11	Present	21 months	+5.26%
US Quality Equity	S&P 500	Apr-06	Mar-09	36 months	+5.01%
US Quality Equity	S&P 500	Nov-09	Present	35 months	-2.28%
Curve Flattener	Barcap Aggregate	Aug-10	Present	26 months	-16.93%
Commodities	S&P 500	Aug-10	Present	26 months	-26.15%
S&P 500	REITs	Oct-04	Present	96 months	-36.07%

- Average duration is 47.68 months
- Median non-allocation weighted excess return is 7.01%

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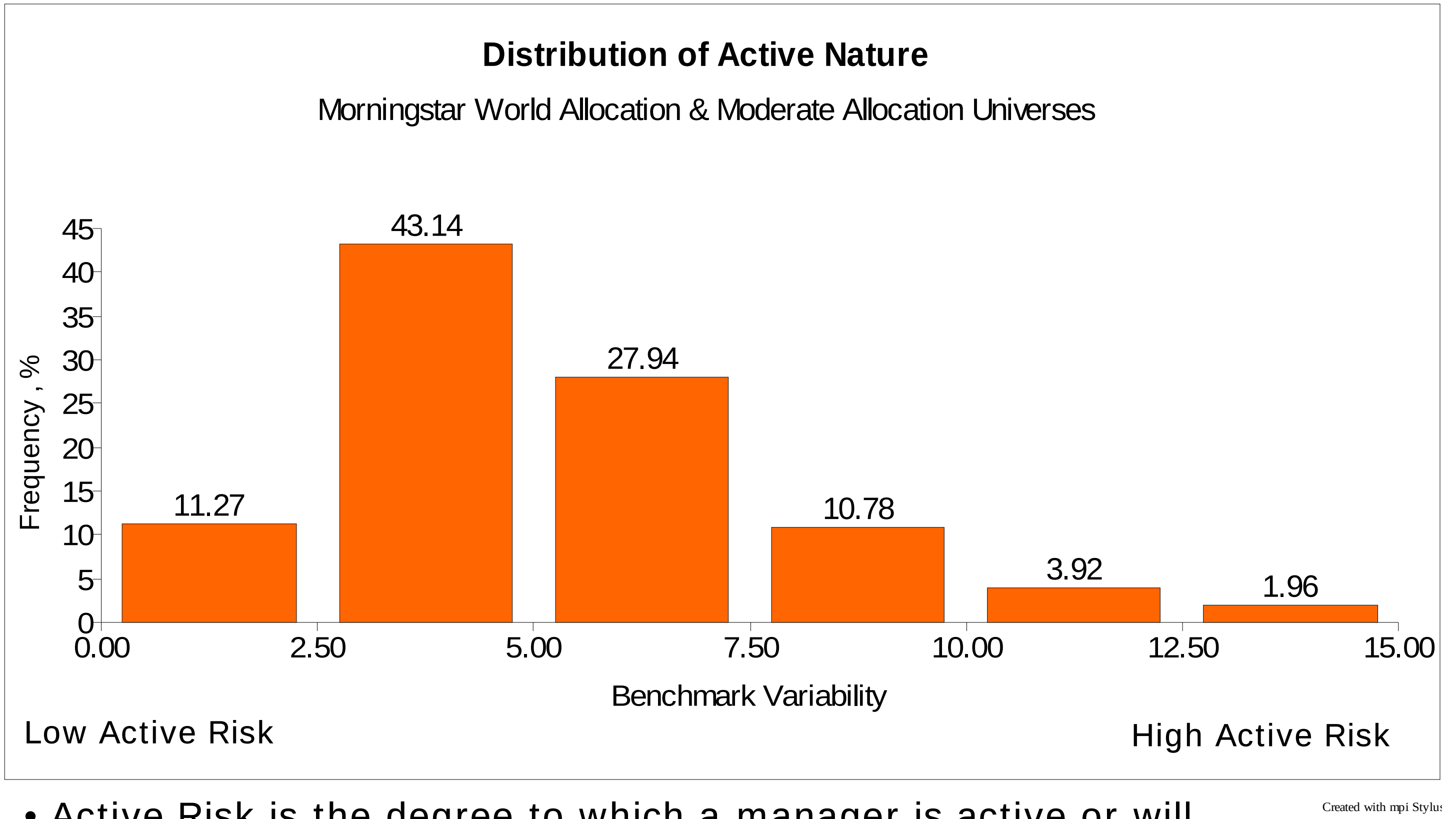
Active Management Quantified



• Active Risk is the degree to which a manager is active or will statistically stray from the stated benchmark

• A manager with an active risk of 2 will typically generate performance +/- 2% of the benchmark(assuming alpha is zero)

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

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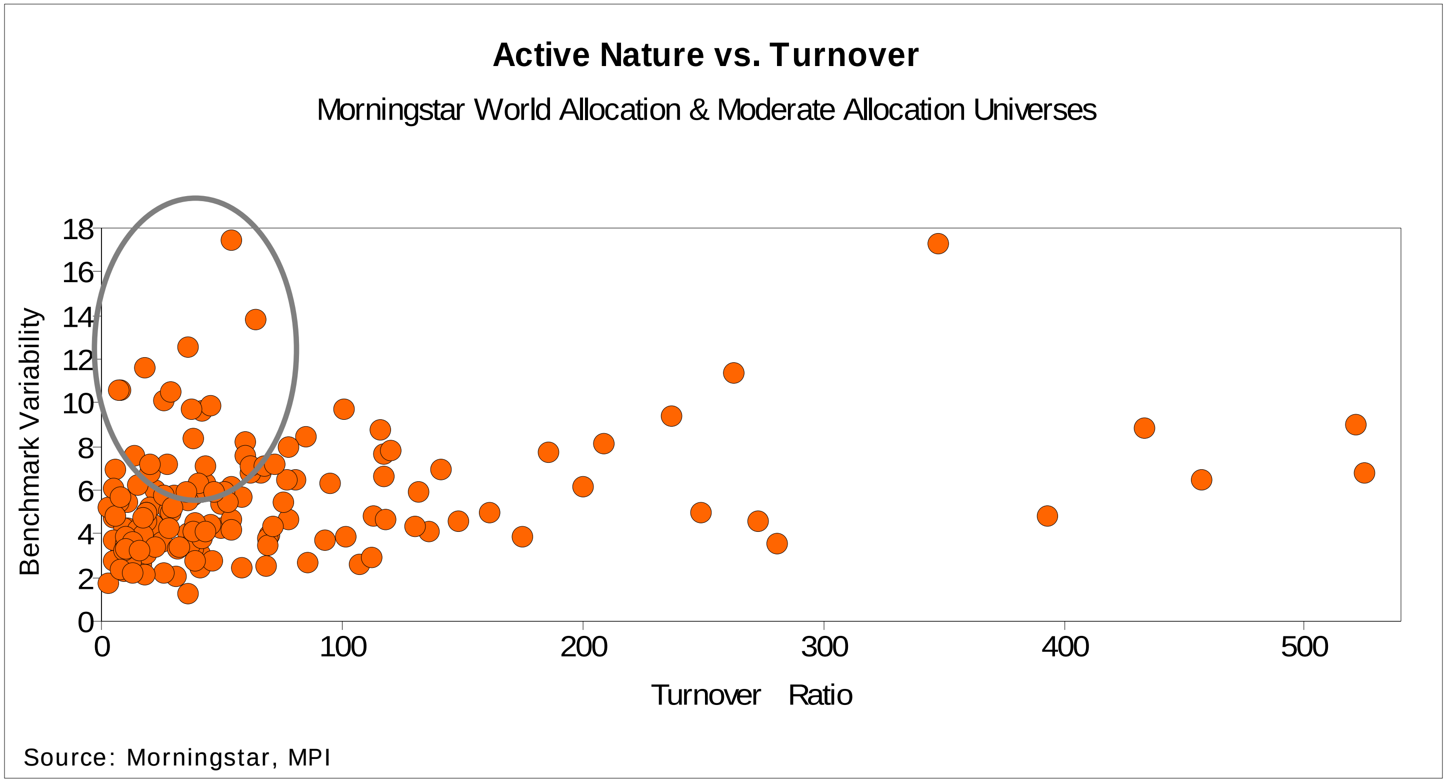
Active Management ≠ High Turnover



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• Turnover does not equate to active risk. To add active risk one must invest differently than the benchmark.

• The outliers are usually the result of misspecified benchmarks or that makes meaningful active bets against the benchmark not heavy trading.

• Correlation Coefficient .38, R squared of .14

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