

**Dec 2014**

**AR -1.62% AG +1.52% TMG +0.48% SP500 -0.26% GD -1.86%**

## Commentary

2014 is over and proved to be a challenge for many investors. The right concentrated bets were winners but diversification and active management came up short. Concentration in large cap US stocks was a winner as the S&P 500 climbed 13.5% and the Nasdaq 100 (QQQ) rose 19.2%. QQQ was heavily influenced by strong returns of the biggest components (Apple +40%, Microsoft +27%, Intel +43%, Facebook +43%). You did even better hiding out in long-term Treasury bonds as TLT beat equities with a 2014 return of 27%. However, a "prudent" diversified approach (using our Global Diversified benchmark that has outperformed both US stocks and TLT over the past ten years) gained a measly 2.4% in 2014. Hedge Fund Research reports that its Global Hedge Fund Index finished 2014 down 1%.

In this context, the LongRun strategies showed mixed results. Our least active strategy, Tax-Managed Growth (TMG) was concentrated in US equities and finished the year +10.7%, held back by relative underperformance of mid caps (+9%) and small caps (+5%). The Absolute Return strategy (AR) posted a 5.0% return, better than Global Diversified but mediocre by historical standards. Our most responsive strategy, Aggressive Growth (AG), brought up the rear a tick under zero (-0.1%) in a very rough year that saw trends emerge and reverse very quickly.

As we enter 2015, one of the biggest questions has to be how the Federal Reserve will manage the much anticipated increase in short-term interest rates. If you believe the markets, longer-term interest rates will remain low even if the Fed takes the first step in raising its short-term funds rate from zero to something like 25 basis points. As noted above, long-term Treasuries topped the major assets we track and real estate investment trusts finished a close second. Both of these should get smacked hard if rates are headed higher, but that obviously didn't happen in 2014 even as a lot of "smart money" was betting that it would. A big part of this puzzle is that central banks in Europe and Asia are sustaining or expanding loose monetary policies and rock-bottom interest rates in the face of stagnating economies and this makes Treasury bonds attractive even at historically low yields. Low interest rates are also a major tailwind for real estate investors.

Another question for 2015: Will the consensus forecast for US growth pan out? Economists are uniformly optimistic about continued growth and Wall Street forecasters see stock market another 8% to 12% higher. Same guys saw interest rates rising in 2014. Ooops. The US certainly seems to be in better shape than the rest of the world, but the risk is that we catch some of what they've got. The surging strength of the dollar makes our exports more expensive in countries that already have weak demand. In addition, the energy industry has been a big contributor to US growth in recent years but will be cutting jobs and spending if oil prices don't recover quickly.

As noted in the past, US markets have been in "buy the pullback" mode where every dip has been followed by a new high and we haven't had a real correction since 2011. The non-consensus outcome for 2015 would be for growth to disappoint and lead to a correction sometime during the year. It may not happen, but don't be surprised. Hopefully our strategies will adapt to major shifts and keep us on the plus side. May your new year be a good one!

**"To know that we know what we know, and that we do not know what we do not know, that is true knowledge." Confucius**

### Selected Asset Class Returns for Trailing Twelve Months (%)

	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	YTD	TTM
<b>US Equity</b>														
SPY S&P 500	-3.5	4.6	0.8	0.7	2.3	2.1	-1.3	4.0	-1.4	2.4	2.8	-0.3	13.5	13.5
MDY Mid Cap	-2.2	4.9	0.4	-1.5	1.6	4.2	-4.4	5.1	-4.5	3.5	1.8	0.8	9.4	9.4
IWM Small Cap	-2.8	4.8	-0.8	-3.8	0.8	5.3	-6.1	4.8	-5.9	6.6	0.1	2.9	5.0	5.0
QQQ NASDAQ 100	-1.9	5.2	-2.7	-0.3	4.5	3.1	1.2	5.0	-0.8	2.6	4.6	-2.3	19.2	19.2
IYR Real Estate	3.4	4.8	0.1	3.0	2.8	1.0	-0.1	3.5	-5.9	8.5	2.7	0.8	26.9	26.9
XLB Materials	-4.7	6.9	0.8	0.8	3.0	1.6	-2.0	3.9	-1.4	-2.4	1.6	-0.6	7.2	7.2
XLE Energy	-5.8	5.1	2.1	5.3	1.7	5.5	-3.5	2.2	-7.8	-3.5	-8.7	-0.2	-8.7	-8.7
XLF Financials	-3.7	3.0	3.3	-1.7	1.5	2.4	-1.5	4.2	-0.4	2.9	2.4	1.9	15.1	15.1
XLI Industrials	-4.3	4.1	1.0	1.3	1.9	0.5	-4.1	4.2	-1.2	3.9	3.1	0.0	10.4	10.4
XLK Technology	-2.6	4.4	0.4	0.3	3.8	1.9	1.7	3.3	-0.5	1.6	4.8	-2.2	17.8	17.8
XLP Staples	-5.2	3.9	2.2	2.7	1.8	-0.3	-3.3	4.6	0.6	3.6	5.5	-0.9	15.7	15.7
XLV Healthcare	0.9	6.2	-1.3	-0.6	2.9	2.1	0.1	4.8	0.4	5.3	3.5	-1.4	25.1	25.1
XLY Discretionary	-6.0	6.4	-2.9	-1.4	2.9	1.9	-1.3	4.5	-2.8	2.1	5.5	0.9	9.5	9.5
XME Metals & Mining	-5.2	4.1	0.7	0.5	-6.5	8.1	-2.0	5.7	-15.6	-4.3	-3.8	-8.2	-25.3	-25.3
<b>Int'l Equity</b>														
DXJ Japan	-8.3	2.4	-0.8	-2.6	3.8	4.4	1.2	-0.2	4.9	2.9	2.9	-2.0	8.0	8.0
EEM Emerging Mkts	-8.6	3.4	3.9	0.8	3.0	2.4	1.4	2.8	-7.8	1.4	-1.5	-4.0	-3.9	-3.9
EPP Asia Pac ex Japan	-6.1	7.0	2.4	2.7	1.3	-0.1	2.8	1.0	-9.9	5.5	-4.2	-3.1	-1.9	-1.9
FXI China	-9.9	2.3	1.1	-2.4	5.5	2.0	9.3	0.0	-5.4	4.3	1.7	3.8	11.4	11.4
ILF Latin America	-10.9	2.5	8.1	3.6	-1.2	3.2	2.6	8.6	-13.5	-0.4	-2.9	-9.8	-12.3	-12.3
VGK Europe	-4.6	7.3	-0.7	2.7	0.8	-0.1	-4.3	0.7	-4.0	-1.9	2.1	-4.7	-7.1	-7.1
<b>Fixed Income</b>														
AGG Aggregate Bond	1.5	0.4	-0.2	0.8	1.2	-0.1	-0.1	1.2	-0.6	1.1	0.7	0.2	6.2	6.2
EMB EM Bonds	-0.8	3.5	1.2	1.1	3.5	0.0	-0.3	1.3	-2.1	2.0	-0.4	-2.9	6.0	6.0
HYG US High Yield	0.4	2.3	-0.1	0.4	1.2	0.6	-2.4	2.4	-2.0	1.1	-1.1	-0.8	1.9	1.9
LQD US IG Corporate	1.9	1.1	0.0	1.3	1.5	0.0	-0.3	2.0	-1.7	1.2	0.9	0.0	8.2	8.2
TLT US 20+ Treasury	6.3	0.5	0.7	2.1	3.0	-0.3	0.7	4.7	-2.1	2.8	3.0	3.3	27.3	27.3
<b>Dispersion</b>	17.2	7.0	11.0	9.0	12.0	8.3	15.3	8.8	20.5	12.8	14.2	13.6	52.6	52.6

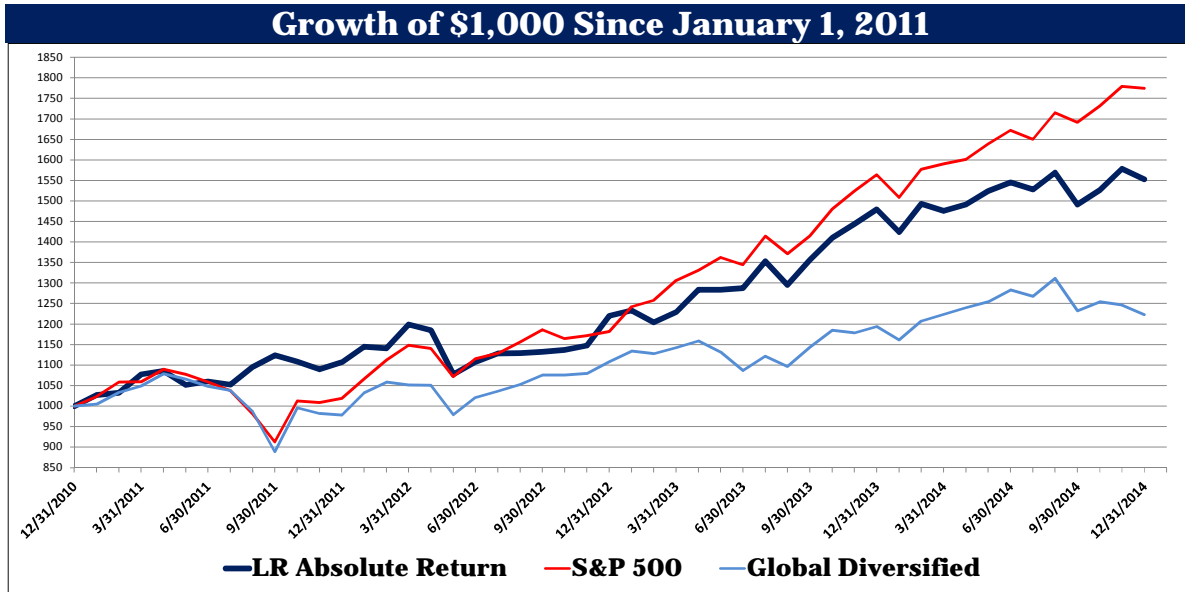
High value minus low value; large dispersion provides better opportunity for active strategies.

**IMPORTANT DISCLOSURES:** This document is not an offering to sell or the solicitation of an offering to purchase an interest in any of the separate account strategies offered by LongRun Capital Management LLC. S&P 500 benchmark represents the total return (including dividends) of the SPDR S&P 500 ETF (SPY). Global Diversified benchmark is the total return of an equal-weight portfolio consisting of 14 ETFs allocated approximately 70% equity (40% US and 30% international) and 30% fixed income. Investment returns shown for LongRun strategies represent actual client composite performance net of fees and expenses for certain periods and estimated net returns derived from a statistical backtest for other periods. The rule-sets used to determine month-to-month holdings of the LongRun strategy were applied consistently for the backtest period. Results of the complete backtest are available upon request. Underlying data has been obtained from sources believed to be reliable and LongRun is not responsible for errors or omissions in that data. Performance of individual separately managed accounts may vary from composite performance. Past performance (estimated or actual) is not necessarily indicative and is not a guarantee of future performance. Information regarding LongRun's management fees and the value of assets included in the composite results is available upon request. In addition, LongRun's disclosure document, Form ADV Part 2A, is available online at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) or upon request.

# LongRun Absolute Return Strategy - Dec 2014



The LongRun Absolute Return Strategy is a disciplined, quantitative approach to tactical asset allocation using exchange-traded funds (ETFs) for access to a wide range of equity and fixed income investments. Absolute Return is designed to outperform benchmark returns over a full market cycle with significantly less risk. ETFs are ranked using a combination of factors favoring positive momentum and low volatility. The Absolute Return portfolio is generally invested in the four ETFs at the top of a monthly ranking but may allocate as much as 100% to cash in severe bear market conditions. This version of Absolute Return was introduced in August 2013 and has completely replaced the initial version.



### Return Data for the Strategy (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>2011</b>	<i>2.7</i>	<i>0.5</i>	<i>4.4</i>	<i>0.8</i>	<i>-3.1</i>	<i>0.8</i>	<i>-0.7</i>	<i>4.2</i>	<i>2.6</i>	<i>-1.4</i>	<i>-1.7</i>	<i>1.6</i>	<b>10.7</b>
<b>2012</b>	<i>3.4</i>	<i>-0.3</i>	<i>5.0</i>	<i>-1.2</i>	<i>-9.1</i>	<i>2.8</i>	<i>1.9</i>	<i>0.0</i>	<i>0.3</i>	<i>0.5</i>	<i>0.8</i>	<i>6.3</i>	<b>10.2</b>
<b>2013</b>	<i>1.1</i>	<i>-2.4</i>	<i>2.1</i>	<i>4.4</i>	<i>0.0</i>	<i>0.3</i>	<i>5.1</i>	<i>-4.2</i>	<i>4.7</i>	<i>4.0</i>	<i>2.4</i>	<i>2.5</i>	<b>21.3</b>
<b>2014</b>	<i>-3.7</i>	<i>4.8</i>	<i>-1.2</i>	<i>1.1</i>	<i>2.2</i>	<i>1.4</i>	<i>-1.1</i>	<i>2.7</i>	<i>-5.0</i>	<i>2.3</i>	<i>3.4</i>	<i>-1.6</i>	<b>5.0</b>

Returns in italics are from a systematic backtest of the strategy; non-italicized periods represent client composite results.

	Absolute Return	S&P 500	Global Diversified
Year-to-Date Return	5.0%	13.5%	2.4%
Trailing 1-Year Return	5.0%	13.5%	2.4%
Trailing 3-Year Cume Return	40.3%	74.2%	25.0%
Annualized Return from 2/1/03*	17.2%	9.6%	11.4%

\* Common start date for backtests of three LongRun strategies

### Portfolio Holdings for Latest Month and Current Month

December 2014		January 2015	
<b>XLV</b>	<b>Healthcare</b>	<b>XLP</b>	<b>Consumer Staples</b>
<b>XLP</b>	<b>Consumer Staples</b>	<b>IYR</b>	<b>Real Estate</b>
<b>QQQ</b>	<b>Nasdaq 100</b>	<b>FXI</b>	<b>China</b>
<b>DXJ</b>	<b>Japan (Currency Hedged)</b>	<b>XLY</b>	<b>Consumer Discretionary</b>

### Management and Operational Details

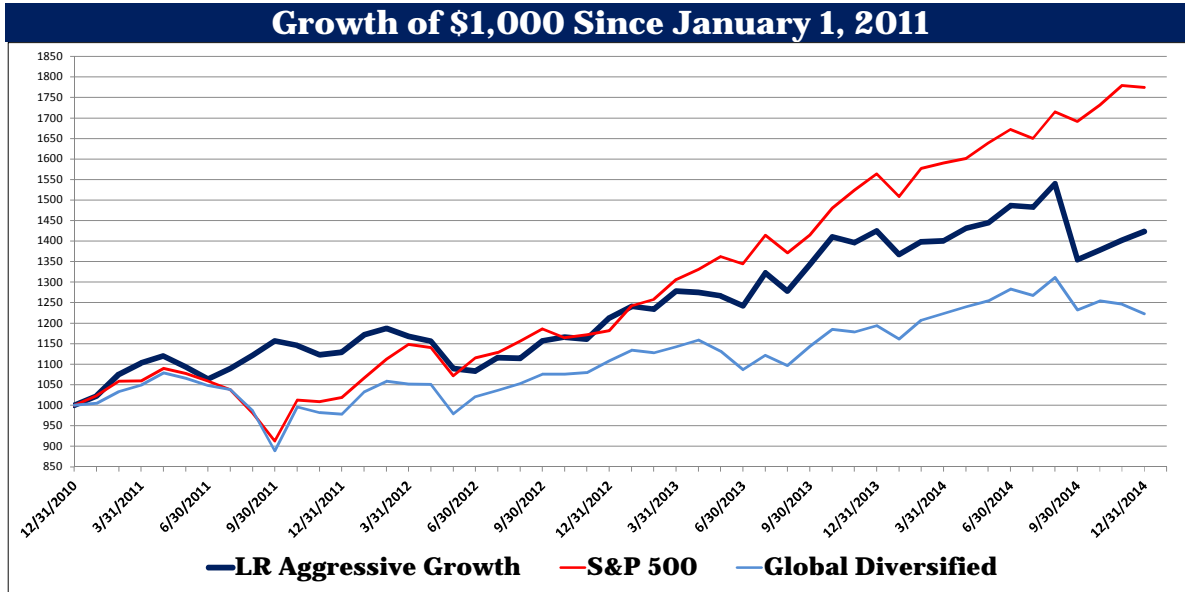
Investment Manager:	LongRun Capital Management LLC
Investment Structure:	Separately Managed Accounts
Custodian:	Fidelity Investments
Minimum Investment:	\$1,000,000 (subject to waiver)
Lock-up:	None
Liquidity/Redemption:	Upon client request
Management fee:	1% of first \$5 million; .75% of assets above \$5 million
Contact Information:	Jim Carroll, jim@longruncapital.com, 914-202-2755

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# LongRun Aggressive Growth Strategy - Dec 2014



The LongRun Aggressive Growth Strategy is a disciplined, quantitative approach to tactical asset allocation using exchange-traded funds (ETFs) for access to a diverse selection of equity and fixed income investments. Aggressive Growth is designed to significantly outperform benchmark returns over a full market cycle with less risk. ETFs are ranked based on total return for a relatively short lookback period as the single quantitative factor. The Aggressive Growth portfolio is always invested in the top three ETFs from the monthly ranking. In our research, this methodology demonstrated a higher return/higher risk profile than the Absolute Return strategy.



### Return Data for the Strategy (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>2011</b>	2.2	5.2	2.6	1.6	-2.4	-2.8	2.4	2.9	3.2	-0.9	-2.0	0.6	<b>13.0</b>
<b>2012</b>	3.7	1.3	-1.6	-1.0	-5.7	-0.6	3.1	-0.1	3.7	0.8	-0.4	4.4	<b>7.3</b>
<b>2013</b>	2.4	-0.6	3.6	-0.2	-0.7	-1.9	6.5	-3.4	5.1	5.0	-1.0	2.1	<b>17.5</b>
<b>2014</b>	-4.1	2.3	0.1	2.2	0.9	2.9	-0.3	3.9	-12.0	1.7	1.8	1.5	<b>-0.1</b>

Returns for all periods represent client composite results.

	Aggressive Growth	S&P 500	Global Diversified
Year-to-Date Return	-0.1%	13.5%	2.4%
Trailing 1-Year Return	-0.1%	13.5%	2.4%
Trailing 3-Year Cume Return	26.0%	74.2%	25.0%
Annualized Return from 2/1/03*	20.1%	9.6%	11.4%

\* Common start date for backtests of three LongRun strategies

### Portfolio Holdings for Latest Month and Current Month

December 2014		January 2015	
IYR	US Real Estate	IYR	US Real Estate
TLT	20+ Year Treasury Bonds	TLT	20+ Year Treasury Bonds
IVV	US Large Cap	IWM	US Small Cap

### Management and Operational Details

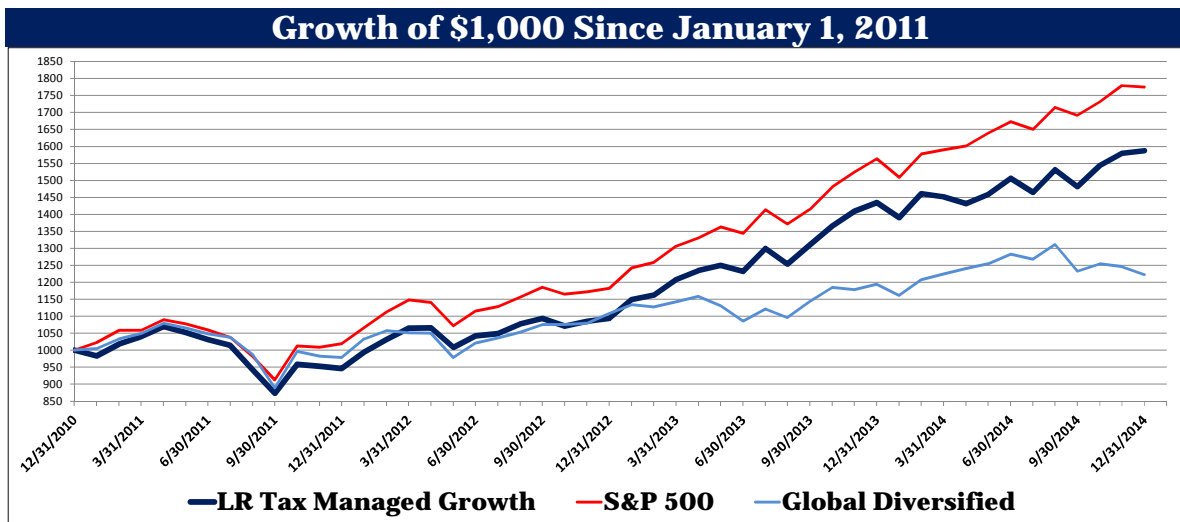
Investment Manager:	LongRun Capital Management LLC
Investment Structure:	Separately Managed Accounts
Custodian:	Fidelity Investments
Minimum Investment:	\$1,000,000 (subject to waiver)
Lock-up:	None
Liquidity/Redemption:	Upon client request
Management fee:	1% of first \$5 million; .75% of assets above \$5 million
Contact Information:	Jim Carroll, jim@longruncapital.com, 914-202-2755

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# LongRun Tax Managed Growth Strategy - Dec 2014



The LongRun Tax-Managed Growth Strategy ("TMG") is a disciplined, quantitative approach to tactical asset allocation using exchange-traded funds (ETFs) for access to a diverse selection of primarily equity and fixed income investments. TMG is designed to outperform benchmark returns over a full market cycle with less risk while also being highly tax efficient. ETFs are ranked based on an assessment of relative strength versus each of the 36 ETFs in the model. The strategy generally owns the top 8 ETFs subject to a buffer and may also allocate as much as 100% to cash in adverse market conditions. Rankings are reviewed daily and holdings adjusted as ranking changes dictate.



### Return Data for the Strategy (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
<b>2011</b>	<i>-1.7</i>	<i>3.5</i>	<i>2.2</i>	<i>2.9</i>	<i>-1.7</i>	<i>-1.9</i>	<i>-1.7</i>	<i>-7.1</i>	<i>-7.3</i>	<i>9.7</i>	<i>-0.6</i>	<i>-0.6</i>	<b>-5.3</b>
<b>2012</b>	<i>5.1</i>	<i>3.6</i>	<i>3.4</i>	<i>0.0</i>	<i>-5.3</i>	<i>3.3</i>	<i>0.6</i>	<i>2.8</i>	<i>1.5</i>	<i>-2.1</i>	<i>1.3</i>	<i>0.8</i>	<b>15.5</b>
<b>2013</b>	<i>5.1</i>	<i>1.2</i>	<i>3.9</i>	<i>2.2</i>	<i>1.2</i>	<i>-1.4</i>	<i>5.6</i>	<i>-3.6</i>	<i>4.5</i>	<i>4.2</i>	<i>3.2</i>	<i>1.8</i>	<b>31.2</b>
<b>2014</b>	<i>-3.1</i>	<i>5.1</i>	<i>-0.6</i>	<i>-1.4</i>	<i>1.9</i>	<i>3.3</i>	<i>-2.8</i>	<i>4.6</i>	<i>-3.3</i>	<i>4.2</i>	<i>2.3</i>	<i>0.5</i>	<b>10.7</b>

Returns in italics are from a systematic backtest of the strategy; non-italicized periods represent client composite results.

	Tax-Managed Growth	S&P 500	Global Diversified
Year-to-Date Return	10.7%	13.5%	2.4%
Trailing 1-Year Return	10.7%	13.5%	2.4%
Trailing 3-Year Cume Return	67.7%	74.2%	25.0%
Annualized Return from 2/1/03*	15.9%	9.6%	11.4%

\* Common start date for backtests of three LongRun strategies

### Portfolio Holdings for Latest Month and Current Month

December 2014		January 2015	
XLY	US Consumer Discretionary	XLY	US Consumer Discretionary
QQQ	NASDAQ 100	QQQ	NASDAQ 100
IJK	US Mid Cap Growth	IJK	US Mid Cap Growth
XLV	US Healthcare	XLV	US Healthcare
RSP	Equal-Weight S&P 500	RSP	Equal-Weight S&P 500
IJT	US Small Cap Growth	IJT	US Small Cap Growth
IJS	US Small Cap Value	IJS	US Small Cap Value
IJJ	US Mid Cap Value	IJJ	US Mid Cap Value

Holdings shown reflect the portfolio at the start of the given month; changes are infrequent but may occur intra-month

### Management and Operational Details

Investment Manager:	LongRun Capital Management LLC
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Custodian:	Fidelity Investments
Minimum Investment:	\$1,000,000 (subject to waiver)
Lock-up:	None
Liquidity/Redemption:	Upon client request
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