THE SPIN-OFF REPORT COMPENDIUM

November 2012

Featured Companies

News Corp. (NWS)
Reading International, Inc. (RDI)
American International Group (AIG)
SAIC, Inc. (SAI)

Exclusive Marketers of
The Spin-Off Report

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Murray's Musings

SPIN-OFFS AS A SOURCE OF CAPITAL

The existence of ETFs as a rules-based system of investing is creating another system beneath it. This new system might be referred to as the guaranteed bid for certain genres of investing.

Carl Icahn recently took control of CVR Energy (CVI). Based on 2013 consensus estimates, the company has a price-to-earnings ratio of 7.57x. Several weeks ago CVR Energy announced a filing for an IPO, or equity carve-out if one prefers, for CVR Refining Limited Partners. This equity will be priced on a yield basis and will perhaps trade at a 5% yield. Thus, if the IPO is successful, the refining portion of CVR Energy will be valued by the market at about 20x earnings. The reason is that the LP would pay out virtually the entirety of its earnings, yielding 5%, which is consistent with a multiple 20x earnings.

Similarly, Brookfield Asset Management Inc. (BAM), a company that appears to trade at a 20% discount to net asset value, is spinning off Brookfield Properties. This spin-off will hold the Brookfield investments in commercial real estate. It will also be a limited partnership. In the past, Brookfield has taken similar actions, such as creating Brookfield Renewable Energy Partners (BEP-U CN), which is currently priced to yield 4.62%, and Brookfield Infrastructure Partners LP (BIP) that currently yields 4.35%. Brookfield Properties should have a market capitalization of over $10 billion. It is reasonable to conclude that at that size it should become part of the various income-oriented ETFs such as REIT funds.

Brookfield Infrastructure Partners has been able to access the capital markets for new equities two times in the past year to fund acquisitions. As the assets in Brookfield Infrastructure Partners increase, the fee income to Brookfield Asset Management also rises, because Brookfield Asset Management is the manager of Brookfield Infrastructure. There are more Brookfield partnerships, too; the complete list appears in the *Bits and Pieces* calendar dated October 2012. It should be obvious that if one is impressed with the investment characteristics of those partnerships, Brookfield Asset Management must be an even better investment, since it collects fee income from those entities with no marginal cost associated with that income and no marginal risk of capital.

Despite a $41 billion market capitalization, however, Brookfield Asset Management is classified as a Canadian conglomerate and is only to be found as a 5.8% weight in the SPDR Dow Jones International Real Estate Fund (RWX), and a 2.6% weight in the SPDR Dow Jones Global Real Estate Fund (RWO). RWX has $3.2 billion of assets under management, so at a 5.8% weight the ETF would purchase roughly $185 million worth of

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stock, or less than one-half of 1% of the market capitalization of Brookfield Asset Management. RWO has only about $500+ million of assets under management, so the actions of that fund, given the Brookfield weighting, will not meaningfully impact the Brookfield Asset Management stock price.

Master Limited Partnerships (MLPs) have taken advantage of demand for income-producing equities to issue new stock, generally to fund acquisitions and, hence, favorably impact their own fundamental attributes. This situation is the ultimate self-reference paradox.

Table 1 shows the MLP share issuances for the period from December 31, 2008 to December 31, 2011.

Table 1: MLP Shares Issued 12/31/08 to 12/31/11

	Shares Issued *(millions)*
Enterprise Products Partners LP (EPD)	449
Kinder Morgan Energy Partners LP (KMP)	70
Plains All American Pipeline, LP (PAA)	65
Magellan Midstream Partners LP (MMP)	12
Energy Transfer Equity, LP (ETE)	--
Energy Transfer Partners (ETP)	73
Kinder Morgan Mgmt. LLC (KMR)	7
Linn Energy, LLC (LINE)	63
ONEOK Partners LP (OKS)	22
MarkWest Energy Partner, LP (MWE)	58

Source: Company Reports

Of this group, Enterprise Products Partners LP is the largest issuer of shares at 449 million for the period, which is a lot of shares. Kinder Morgan Energy Partners LP issued 70 million shares during that period. The point is that the number of shares issued is a misleading figure to a degree, since a smaller stock price would lead to greater share issuance and a larger stock price would lead to smaller share issuance. In any case, it's difficult to find MLPs that have not issued shares.

In this three-year period, these 10 leading MLPs have collectively issued 819 million shares at valuations so high that they are without any historical precedent in that industry. In response to this phenomenon, the rational rules-based investors, dispassionate and logical as they are, bringers of light and civilization to the world of investing as they always do, have created a system that purchases more equities as valuations increase and as share issuance increases.

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According to the September 17, 2012 issue of *Pensions & Investments,* there are approximately $6.1 trillion of indexed assets in the United States.[1] If more corporate financial officers realize that the funding market exists as it does in equity investing vis-à-vis ETFs, it is readily conceivable that the whole character of the equity market, especially the portion that is indexed, could alter significantly. A recent example is the UBS announcement several days prior to this writing that it will issue a UBS Etracs Monthly Pay 2xLeveraged REIT ETN (MORL).

Industry Thoughts

THE MORTGAGE REIT INDUSTRY

At the end of the *Musings* section we make reference to the UBS Etracs Monthly Pay 2xLeveraged REIT ETN (MORL). In principle, this ETF should yield more than 20%.

Table 2 lists the number of shares issued by the 11 leading Mortgage REITs between December 31, 2008 and December 31, 2011.

Table 2: Mortgage REIT Shares Issued 12/31/08 to 12/31/11

	Shares Issued (millions)
Annaly Capital Management, Inc. (NLY)	429
American Capital Agency Corp. (AGNC)	209
Starwood Properties Trust, Inc. (STWD)	46
Two Harbors Investment Corp. (TWO)	108
Chimera Investment Corp. (CIM)	993
MFA Financial, Inc. (MFA)	137
Invesco Mortgage Capital Inc. (IVR)	107
Hatteras Financial Corp. (HTS)	68
CYS Investments, Inc. (CYS)	76
ARMOUR Residential REIT, Inc. (ARR)	64
Newcastle Investment Corp. (NCT)	52

Source: Company Reports

The largest of the group is Annaly Capital, which trades at roughly $15.00 a share and has traded between $15 and $16, a very narrow range, for years. In the 36-month period ending December 31, 2011, the company issued 429 million shares. In the same period, American Capital Agency issued 209 million shares. More interesting is how much debt capital has been raised by those very same 11 mortgage REITs. That data is shown in Table 3.

[1] Melanie Zanona, "Index assets stay steady for year," *Pensions & Investments*, September 17, 2012, http://www.pionline.com/article/20120917/PRINTSUB/309179988/index-assets-stay-steady-for-year

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Table 3: Debt Capital Raised by Mortgage REITS 12/31/08 to 12/31/11

	($ in billions)
Annaly Capital Management, Inc. (NLY)	$39.4
America Capital Agency Corp. (AGNC)	47.2
Starwood Properties Trust, Inc. (STWD)	1.0
Two Harbors Investment Corp. (TWO)	6.6
Chimera Investment Corp. (CIM)	3.8
MFA Financial, Inc. (MFA)	0.0
Invesco Mortgage Capital Inc. (IVR)	12.2
Hatteras Financial Corp. (HTS)	11.8
CYS Investments, Inc. (CYS)	7.3
ARMOUR Residential REIT, Inc. (ARR)	5.3
Newcastle Investment Corp. (NCT)	(2.1)
TOTAL	$132.5

Source: Company Reports

These eleven companies are very similarly leveraged and, as they raise equity, they leverage themselves multiples of times. In the 36 months from December 31, 2008 to December 31, 2011, they collectively raised $132.5 billion, a figure I calculated by going through the balance sheets of each and every company. This number is extraordinary; however, when one considers that the debt of an agency like Fannie Mae itself is $3.1 trillion, there are some who would argue that there is room for expansion.

Clearly the mortgage-backed REITs are a dangerous area. The shareholders' equity is marked to market in a manner consistent with GAAP principles. Nevertheless, the income paid out is equivalent to the coupons on the bonds earned and, since every piece of agency paper trades above par, as a practical matter the companies are actually paying out shareholders' equity. The realizable shareholders' equity that would occur if all the bonds mature at par is significantly less than the marked-to-market shareholders' equity.

Ultimately, as the shareholders' equity declines, as it inexorably will, the companies will be able to carry less debt. Certain consequences for the dividends will follow. As the higher coupon agency paper matures, the returns diminish, and those coupons are absolutely irreplaceable in today's fixed income markets.

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Facts & Figures

INITIAL PUBLIC OFFERINGS

Table 4 shows the money raised by global initial public offerings in deals of $100 million or more. This data is from Renaissance Capital, which tracks the deals and publishes an annual review of the IPO markets similar to the Investment Company Institute's *Fact Book* of mutual funds.

Table 4: Global IPO Deals of $100 Million or More, 1999-2011

Year	Number of Deals	Funds Raised *(billions)*
1999	250	$133.4
2000	315	170.0
2001	117	85.9
2002	110	50.1
2003	127	47.9
2004	257	109.0
2005	346	148.6
2006	459	220.5
2007	556	265.0
2008	121	80.8
2009	179	106.0
2010	479	234.4
2011	338	135.9

Source: Renaissance Capital, *2011 Global IPO Review*, http://www.renaissancecapital.com/ipohome/review/2011Review.aspx,

Let us take robust years like 2000 and 1999 to compare and contrast these numbers with the action in mortgage-backed paper. This list includes only initial public offerings of $100 million or greater. Including small deals would result in even larger numbers. In 1999, there were 250 IPO deals. Collectively, they raised $133.4 billion. In 2000, there were 315 deals of $100 million or more in size and, collectively, they raised $170 billion globally.

The amount of money being raised by the mortgage REIT subset, represented as it is in the REIT iShares FTSE NAREIT Mortgage Plus Capital Index (REM), is more or less equivalent to the larger section of deals and monies raised in the internet bubble era. Of course, these figures take no account of the debt capital that was raised by those very same companies.

Essentially, the total amount of debt capital raised by the mortgage REITs during the 36 months in question is roughly equivalent to the amount of money raised by all IPOs over $100 million in the year 2011, a sum of $135.9 billion. Table 5 shows the geographic distribution.

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Table 5: Number of IPOs Over $100 Million by Global Region

	2009	2010	2011
North America	50	93	87
Europe	11	41	31
Asia Pacific	108	316	200
Latin America	6	16	18
Middle East & Africa	4	13	2
Total	179	479	338

Source: Renaissance Capital, *2011 Global IPO Review*, http://www.renaissancecapital.com/ipohome/review/2011Review.aspx, 2

Of the 338 deals in 2011, 200 were geographically placed in the Asia-Pacific area. That's where new IPO capital is being raised.

What follows is a much more profound table. It shows the percent of IPOs over $100 million that were private equity fund exits as opposed to companies raising new capital for investment purposes.

Table 6: Percent of U.S. IPO Market Comprising Private Equity Exits, 2004-2011

Year	# of IPOs	# Private Equity IPOs	% of Yearly Total
2004	219	63	29.2%
2005	192	63	32.8%
2006	196	56	28.5%
2007	214	48	22.4%
2008	31	5	16.1%
2009	63	22	34.9%
2010	154	38	24.7%
2011	125	35	28.0%

Source: Renaissance Capital, *2011 Global IPO Review*, http://www.renaissancecapital.com/ipohome/review/2011Review.aspx, 3.

In 2011, about 28% of these deals were private equity fund exits. If one thinks of the function of equity markets as providing capital to firms for devising new products and services, one might be a little surprised to learn that the world works somewhat differently than the authors of the textbooks had envisaged that the equity markets would function. Those authors never imagined that the equity markets would exist to provide an exit for highly leveraged private equity deals.

Given the number of private equity IPOs that came public over the course of these years, it's difficult to think of the name of even one such company that has distinguished itself in the marketplace as being unique, extraordinary, or providing any distinctive benefit to investors. If one accepts the proposition that there really were no outstanding companies brought public, then why did the investment community accept it? Actually, the investment community didn't accept it; the computer accepted it because, if the private

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equity exits come at equity market capitalizations that are sufficiently large, they will be included in the indexes. Once they come public and the lockup period ends, the private equity funds sell yet more shares. Consequently, the market capitalizations increase, and gradually but inexorably the companies make their presence felt in the indexes.

This is a classic case of what economists would call asymmetrical information, which is to say the seller has much more information than the buyer. In many instances the buyer, given the size of the index assets, is merely an index fund. Not only does the index fund have no information about the company in question, it is an inanimate force. It has no desires and, therefore, it desires no information other than the market capitalization and the float of the company, which are readily provided by the sellers.

Henceforth, in ever increasing measure, the buyers of these deals will be the small capitalization index funds, which are the ultimate uninformed buyer. These funds are required to buy shares of the private equity exit firms simply because these firms now exist in the market; they take their place in the market and, therefore, they need to be represented in the index.

The only path remaining for the benefit of private market investors would be if an index were created that purchases shares of initial public offerings, but it has yet to be done. If there were such a fund—and someday one will probably exist—that information asymmetry could have a profound effect on the equity market, because the index will be a guaranteed bid for the IPO. At the moment, IPO prices, as a generalization, are not necessarily outrageous in terms of standard valuation metrics, although an exception might be made for an instance such as Facebook.

According to the economist George Akerlof, in principle, if robust information were released, and if that information was adverse information from the point of view of those potentially buying the shares of the IPO, that might prevent the IPO from trading at an outrageous valuation, because it would discourage certain investors. In 1970, Akerlof's paper called "The Market for Lemons: Quality Uncertainty and the Market Mechanism" appeared in the *Quarterly Journal of Economics.*[2] It's a very famous paper that launched the field of asymmetrical information within the science of economics. When Akerlof wrote his paper, he never could have imagined the existence of index funds. He was thinking about used cars.

Akerlof's paper was so influential at the time that it resulted in the passage of the Magnuson Moss Warranty Act of 1975, otherwise known as the Lemon Law. The Lemon Law set federal standards on consumer warranties, but actually it did not solve the problem of the lemon. The lemon problem was ultimately solved by firms such as CarMax, which

[2]George Akelof, "The Market for Lemons: Quality Uncertainty and the Market Mechanism," *Quarterly Journal of Economics* 84(3), (Boston: The MIT Press), 488-500

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ensure that each vehicle sold must first pass a general inspection, and then a more rigorous 125-point inspection.

The index fund business will not come into its own until it develops its own equity inspection mechanism, which it has yet to do. Now it relies upon the existence of companies as reflected in their float and their market capitalization. Chief financial officers of companies are becoming very aware that this phenomenon exists, so it's a dangerous signal for the equity market.

Featured Companies

NEWS CORPORATION (NWS)

News Corp. has a $60 billion market capitalization and, like other large media conglomerates, it doesn't trade at a very high valuation. On its consensus forecasted June 2013 earnings, it trades at 14.8x and for June 2014 estimates, it trades at 12.6x.

It's relatively inexpensive for a variety of reasons, the most prominent of which is that a potential buyer needs to wonder to what extent, historically, corporate actions have been motivated by factors other than the pure profit motive. Over the years, has Rupert Murdoch's political agenda influenced the types of assets he chooses to hold and in what manner he holds them? A good argument can be made for that point.

On the numbers that one can view, at least during the last several years, the company has not been managed exceptionally well in a financial sense. For example, in June 2008, the company had $28.6 billion of shareholders' equity and 2.6 billion shares outstanding. The corporation bought back somewhat less than 10% of its shares. Four years later, in June 2012, it had $24.7 billion of shareholders' equity, 2.4 billion shares outstanding, and $1.9 billion more debt. On paper those are not impressive numbers.

Some of the assets owned are under pressure not merely from competitive factors, but also from the changing nature of media assets. Other assets are not under pressure, including 20th Century Fox Film; 20th Century Fox TV; Fox Broadcasting; ITV plc, of which the company owns 7.5%; British Sky Broadcasting, of which News Corp owns 39.1%; Star TV, which is the Asian satellite business; and Phoenix Satellite Television (China), which is 18% owned by News Corp. News Corp also owns the Fox Business Network, the Fox Sports Network, the Fox Movie Channel, Fox Networks, 75% of the National Geographic Channel, 32% of Hulu, and various other assets.

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Although the assets listed above are fine, the publishing assets, for the most part, are under pressure from more than the scandals. Those assets under pressure include the British papers *The Sun* and *The Sunday Times,* the American papers *The New York Post* and *The Wall Street Journal,* and even Dow Jones, which is a publishing company in and of itself. HarperCollins is being pressured as a publisher by the evolution of e-books, because the margins are gradually shrinking. News Corp owns Zondervan, which is a publisher of bibles. Although the readership of bibles is not decreasing, people are beginning to read the bible via the Kindle or other such mechanisms and the profit margin is lower.

This short précis is not the place for a complete list of the assets, because they are much more extensive than those enumerated here. The complete list occupies four pages in the company's annual report.

New Corp.'s balance sheet is sensibly arranged. The company has $15.5 billion of borrowings and $12.7 billion of cash. Were the company to divest its publishing business via spin-off, as it plans to do, it's an obvious candidate for leveraged recapitalization. This strategy has been employed many times in the world of media and broadcasting.

Publishing by itself is 26.4% of revenue or $8.8 billion, but it is only 17.8% of operating profits. If one values the publishing business at its current valuation, assuming proportional debt and presuming proportional valuation, in principle, the publishing business is worth $4.45 per News Corp share.

The larger question, however, is not the valuation of the publishing business, it is that News Corp.'s operating margin is far below that of a typical media company. The operating margin of News Corp is 14.4% while the operating margin of Viacom is 24.3%, the operating margin of CBS is 17.75%, and the operating margin of Scripps Networks, which is almost all content media, is 42.76%.

What can the operating margins be of the stub media company if it were run for profit as opposed to a political agenda? If the non-publishing assets were run in such a manner as to earn an operating margin the likes of which Viacom has manifested, it would be a very impressive and alluring share to buy. That scenario probably won't happen until the end of the Murdoch era, and the significance of the scandals is that they might well hasten that end. Also, he's very old and at some point soon he might have to surrender the stewardship of the corporation for health reasons. Therefore, a News Corp. media type spin-off might be a very interesting asset.

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SPIN-OFF OF THE FUTURE: READING INTERNATIONAL, INC. (RDI)

Reading International, Inc. has only a $145 million market capitalization, but it has three businesses. The first is operating movies theaters throughout the United States and that's a business under pressure. These are higher end movie theaters, such as the Angelika Film Center, the Rialto brand, the Paris Theatre brand, or the Beekman brand. Generally, these theaters show movies in the U.S., Australia, and New Zealand that are not usually shown on cable TV. The business has its own niche market and, as such, it has managed to survive, earn a reasonable profit margin, and grow very modestly. It's unique in the movie theatre business.

The second business is that it owns commercial real estate in Australia, the United States, and New Zealand.

The third business, which is very small, is ownership of a number of off-Broadway-style live production venues in New York and Chicago. In the United States, Reading owns 120,000 square feet of space in four live theaters, plus a 25% interest in 205-207 East 57th Street, 20,000 square feet of parking space, and 317 acres of rural land in Pennsylvania and Delaware.

In Australia it owns 2,436,000 square feet of developable space, mostly in suburban Melbourne, plus 379,000 square feet of operating space and 339,000 square feet of parking space. In Wellington, New Zealand, it has 37,000 square feet of developable land, 228,000 square feet of developed property, and 244,000 square feet of parking space.

In the U.S., it has three live theaters in Manhattan that are very small: the Minetta Lane Theatre with 399 seats; the Orpheum Theatre with 364 seats; and the Union Square Theatre with 499 seats. They're not worth much money, but they're worth something. Reading also owns the Royal George Theatre Complex in Chicago with 452 seats for the main stage, a 199-seat cabaret, a 100-seat great room, and a 60-seat gallery.

The company has $30 million of cash, $182 million of debt, and trades at 1.1x book value.

To figure out what this company might be worth if it were broken into several pieces, it's worthwhile mentioning that, at the moment, the cinema business earns, roughly, a 10% operating margin on perhaps $225-250 million of annual revenue, depending on the year, for an operating profit of $22-25 million per year. Even if that were valued at 6x operating profit, it would amount to roughly the market capitalization of the company. If you assign all the debt to support the real estate, $180 million of debt could probably be supported by the real estate by itself at current rates of interest.

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In addition to this, the company has $58 million of operating tax loss carry-forwards in Australia with no expiration, $17 million of similar operating loss carry-forwards in New Zealand with no expiration, and $26 million of tax loss carry-forwards in the U.S. expiring in 2025 and later.

If this company were broken apart, it seems reasonable to conclude that it would be worth more than its current trading price. The only problem with that sort of thinking from the perspective of a chief financial officer is that Reading was recently included in the Russell Index in the spring rebalancing. If the company were broken into two pieces and the sum of the parts were $145 million, it's quite possible that the two smaller pieces might not be included in the index and, therefore, it might not do itself justice. It might actually lose sponsorship.

In the pre-index fund days, it would be obvious that Reading is a candidate for breakup. In the index fund days, it's not so obvious. Nevertheless, the valuation parameters are such that it makes sense to break the company up.

AMERICAN INTERNATIONAL GROUP (AIG)

American International Group (AIG) is a huge company that trades at a $52 billion market capitalization and 50% of book value. It may conduct a possible spin-off of its International Lease Finance subsidiary as a means of changing its valuation.

The big problem for AIG is the remaining overhang of the U.S. Treasury's stake in the company. The U.S. government still owns 16% of the shares and the lockup ends in November. Very few people would wish to buy the shares prior to that time even though the company is profitable and the book value is growing.

However, there is a way to hedge oneself against the eventuality that the government might suddenly divest its shares by essentially selling short the publicly traded warrants, which are the former government warrants. AIG has warrants that currently trade at $14.50, are exercisable at $45, and the stock is at $33.[3] These warrants expire on January 19, 2021. If one sells short the warrant and buys the stock, essentially, one is reducing the AIG purchase price to $21 a share, which is less than a third of book value.

If AIG were to appreciate to the $45 a share, which is still less than book value, the investment would double. Of course, there's no upside past $41.

If International Lease Finance were to be spun off, it seems reasonable to believe that the spin-off would trade at a premium to book value. International Lease Finance has $7.8

[3] 10/19/2012

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billion of shareholders' equity. Inside AIG it trades at 50% of that book value. Therefore, it effectively trades at a market capitalization of 50% of book value of $3.9 billion or 50% of its shareholders' equity. If one accepts that model of valuation, given its current earnings, which are probably depressed, it trades at a P/E ratio of 4x. If it were to trade at 12x earnings, it would trade at a premium to book value.

The reason International Lease Finance trades at a low valuation is not merely that it's held captive inside American International Group but also that, during the downsizing of AIG that was required to repay the government assistance, International Lease Finance itself was forced to downsize its balance sheet. It lost many business opportunities as a consequence, and it's only in recent months that its balance sheet has started to expand.

When one does a comparison between publicly traded competitors, Air Lease Corporation (AL) trades at roughly 95% of book value and it has a P/E ratio of 12x. That valuation might be a good model for what International Lease Finance will be worth, except that International Lease Finance in the not too distant future is likely to pressure the earnings of Air Lease, because International Lease Finance has the wherewithal and the desire to expand. When it expands its balance sheet, it's really a question of borrowing money and buying more planes. When it buys new planes, it can compete very effectively with those of its competitors that have older planes.

A good example of how this phenomenon affects valuation is Aircastle LTD (AYR), another competitor of International Lease Finance. It trades at 55% of book value, but its earnings are in decline and one of its problems is that its planes are old. When the planes are old, maintenance problems increase and some airlines are less likely to lease them if there's a viable alternative of leasing newer aircraft at a reasonable price.

The weighted average age of the current International Lease Finance fleet is 7.7 years. By way of comparison, Aircastle's average fleet age is 11 years. Even that is not necessarily a good comparison because, as the business expands, the company will buy newer planes and the average age of the fleet likely will decline.

In any case, sale of the warrant against the stock position provides big protection against the government overhang, and that trade is recommended.

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SAIC INC. (SAI)

SAIC Inc. has proposed a spin-off of SAIC International. SAI stands for Science Applications International. This company is valued as a defense contractor, because nearly three-quarters of the company's revenue is from the United States government, almost all of which is in defense. The idea behind the spin-off is to separate the government and technical services business from the civil projects businesses. The division known as Health, Energy and Civil Solutions represents 27% of corporate revenues. The object of the spin-off would be to separate that division from SAIC Inc.

At the moment, SAIC Inc. trades at a $3.7 billion market capitalization and 8x earnings.

To begin with, it's hard to imagine the Civil Solutions business trading at a multiple as low as 8x. It's almost certain to trade at a higher P/E. A more reasonable valuation would be 12x earnings. That transaction is already accredited to the valuation and it's worthwhile pursuing on that basis. However, the businesses that are related to defense, which constitute the majority of the company, are priced to reflect the risk of defense budget downsizing.

It's not entirely clear that there really will be meaningful cutbacks in the SAIC defense businesses. Much of the backlog is in intelligence and cyber security, and the statement of the Secretary of Defense's annual budget review discusses increasing emphasis in those areas rather than decreasing. Thus, it's unlikely that there will be meaningful cutbacks in this area.

In any event, the Health, Energy and Civil Solutions businesses have more than 2x the margins of the defense business. It's hard to imagine with 2x the margins and more secure contracts that it's not going to trade at a higher P/E than it gets effectively inside SAIC. That spin-off is worth pursuing.

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Post-Musings

A NEW MODEL FOR GLOBAL ASSET ALLOCATION

This section is unusual in these pages in that a new model for global asset allocation will be proposed. There are so many international and global ETFs that it's difficult to decide how to weight one country or one region in the globe vis-à-vis another. It is a serious problem.

It's a very difficult problem to solve because it essentially reduces the problem of indexation to active management. Instead of analyzing the individual companies and coming to conclusions from the bottom up as to what the weight should be, one has to analyze the various national economies and decide how much of various ETFs to buy.

All of this would be eliminated if the United States, China, and several other nations would enter into the following convention. It would require a slight change in their manner of operating and they'd have to release new statistics to the public, statistics that are not yet available, but the methodology wouldn't involve great expense to either nation. Once the United States and China engage in this exercise, the other countries, surely, will adopt it, too.

The idea is as follows. On the first of every year, the United States Air Force would fly a squadron of transport planes over China. They would be carrying a cargo of 2 million blank green cards and they would drop them over a large area of populated Chinese territory. The green cards would have serial numbers and they would all be usable. All one would need to do is to write one's name on the card. Simultaneously, the People's Air Force of China would fly similar missions over the populated regions of the United States and also drop 2 million of the Chinese equivalent of green cards. At the ports of entry, airports, and seaports, the Customs services of the two nations would calculate how many green cards from each nation are used. The ratio of the numbers of green cards used would determine the asset allocation weight.

One dares venture to say that if 2 million American green cards were dropped over China, it's likely that all 2 million would be used very quickly. If 2 million of the Chinese equivalent of green cards were dropped on the United States, it's hard to imagine that very many would be used. If we assume that 2,000 Chinese cards were to be used, the weighting should be in proportion, 2 million to 2,000.

This system can be rapidly expanded to asset allocation for any nation. For example, a big problem is how, if at all, to allocate funds to a nation in distress like Greece. Greece has a population that is approximately 5% that of the United States. Perhaps the respective air

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forces of Greece and China could fly the very same mission. The Chinese air force would drop 100,000 (5% of the U.S. allotment of 2 million) Chinese green card equivalents over Greece, and the Greek air force would drop 100,000 Greek green card equivalents over China, and then we could measure the relative proportion of cards that are used. In light of the 25% plus unemployment rate in Greece, it would be interesting to observe how many Greek Nationals would take up residency in China.

Such is the proposal and it is commended to the respective governments.

From the Readers

EFFECT OF SPIN-OFFS ON PENSION LIABILITIES

Q: *What is the effect of spin-offs on pension liabilities? Is there any pattern in the way it's practiced?*

A: Spin-offs occur for a variety of reasons. The obvious reason is to highlight to investors an undervalued segment of the business. However, the other major reason for a spin-off is to shed liabilities. Not infrequently, businesses have liabilities that are incalculable, an example of which would be pension liabilities. From time to time, companies will spin off a business and try to put as much pension business risk as possible into the spin-off. Essentially, a way to do it is by taking those employees for which the company bears large pension liabilities, putting them all in one group, and spinning off that group to the public.

Historically, this transaction was difficult to accomplish, because the market did not view that strategy kindly, so it was very hard to find sponsors. Today, it's much less difficult to do and one wonders if that won't be an approach used by many companies. I dare say it probably will happen.

Q: *Won't the regulators look at the status of a company and determine if it's viable or not?*

A: The regulators don't determine whether it's viable or not; rather, it is determined by whether a company gets a qualified or unqualified statement from the auditors. If a company is in danger of insolvency, the auditors give a qualified statement. If the auditors give you an unqualified statement, there should be no such danger. If a company is sufficiently capitalized to get an unqualified statement for a few years, that's adequate.

Don't forget, the pension liability is a liability over the course of decades. What better step can a company take than make a contribution, absorb some of the company's pro forma debt, and spin it off with cash on the balance sheet. Then, it's up to the new company to provide for its pension liability. It's unlikely that the regulators will stop any of that

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activity. The only thing stopping it is that the chief financial officers of most companies have yet to realize what dynamic exists when you combine spin-off and ETF.

Let's examine the contrast between current and historical patterns. Historically, there was one main index, the S&P 500 Index. There were always spin-offs. A large company would spin off a smaller company. (Obviously, a small company can't spin off a large company.) Since there are only 500 companies in the S&P 500, rarely was a spin-off included in that index, although it did happen from time to time. The spin-off anomaly, as it existed historically, was one in which the spin-off lacked for sponsorship for a period of time, but it eventually found its own shareholder base. Today, in the United States alone, there are nearly 1,500 ETFs, which means there are 1,500 indexes. It's unlikely that any spin-off won't find sponsorship within some type of index. If it's properly calibrated, which means that the orchestrators of the spin-off pay close attention to which indexes might absorb the spin-off company, one might earn a very high valuation. Of course, if one earns a high valuation, the mechanism for a spin-off will not be the traditional divestment spin-off mechanism; it's likely to be an equity carve-out.

Historically, you'll find that's actually what happened. When companies wished to shed a liability, but couldn't and, in the same process, raise equity capital in the marketplace, they would engage in carve-outs of subsidiaries. In the IPO debris of the last quarter century, one will see plenty of carve-outs that were created by companies that were viable, but really were carved out because the carve-out traded at a higher valuation than the parent company and one could raise equity capital on favorable terms. It seems that's likely to occur or, phrased alternatively, it's hard to believe that the chief financial officers of various companies will not eventually realize what is taking place and act to take advantage of it.

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WEALTH INDEX (Ticker: RCH Index)

As of September 30, 2012

No.	Ticker	Security Name	Individual Name	Position
1	AMCX	AMC Networks Inc	Charles Francis Dolan	Chairman
2	AMKR	Amkor Technology Inc	James J. Kim	Chairman
3	AMZN	Amazon.com Inc	Jeffrey P. Bezos	Chairman/President/Chief Executive Officer/Founder
4	AN	AutoNation Inc	Edward S. Lampert	Director-by-Proxy
5	APOL	Apollo Group Inc	John G. Sperling	Chairman/Founder
6	ARG	Airgas Inc	Peter McCausland	Chairman/President/Chief Executive Officer/Founder
7	ARII	American Railcar Industries Inc	Carl C. Icahn	Chairman
8	ASPS	Altisource Portfolio Solutions SA	William C. Erbey	Chairman
9	AXE	Anixter International Inc	Samuel Zell	Chairman
10	AZO	AutoZone Inc	Edward S. Lampert	Director-by-Proxy
11	BEN	Franklin Resources Inc	Charles B. Johnson	Chairman
12	BF/B	Brown-Forman Corp	George Garvin Brown IV	Chairman
13	BFS	Saul Centers Inc	B. Francis Saul II	Chairman/Chief Executive Officer
14	BKE	Buckle Inc/The	Daniel J. Hirschfeld	Chairman
15	BOKF	BOK Financial Corp	George B. Kaiser	Chairman
16	BRCM	Broadcom Corp	Henry Samueli	Director/Founder/Chief Technology Officer
17	BRK/B	Berkshire Hathaway Inc	Warren E. Buffett	Chairman/Chief Executive Officer
18	BRKR	Bruker Corp	Frank H. Laukien	Chairman/President/Chief Executive Officer
19	BRO	Brown & Brown Inc	J. Hyatt Brown	Chairman
20	BXP	Boston Properties Inc	Mortimer B. Zuckerman	Chairman/Chief Executive Officer/Co-Founder
21	CAB	Cabela's Inc	Richard N. Cabela	Chairman/Co-Founder
22	CACC	Credit Acceptance Corp	Donald A. Foss	Chairman
23	CBS	CBS Corp	Sumner M. Redstone	Chairman
24	CCL	Carnival Corp	Micky Meir Arison	Chairman/Chief Executive Officer
25	CERN	Cerner Corp	Neal L. Patterson	Chairman/President/Chief Executive Officer
26	CFX	Colfax Corp	Mitchell P. Rales	Chairman/Co-Founder
27	CLR	Continental Resources Inc/OK	Harold G. Hamm	Chairman/Chief Executive Officer/Founder
28	CMCSA	Comcast Corp	Brian L. Roberts	Chairman/President/Chief Executive Officer
29	COLM	Columbia Sportswear Co	Timothy P. Boyle	President/Chief Executive Officer
30	CPB	Campbell Soup Co	Mary Alice Dorrance Malon	Director
31	CRM	Salesforce.com Inc	Marc R. Benioff	Chairman/Chief Executive Officer/Co-Founder
32	CTAS	Cintas Corp	Scott D. Farmer	Chief Executive Officer
33	CVA	Covanta Holding Corp	Samuel Zell	Chairman
34	CVC	Cablevision Systems Corp	Charles Francis Dolan	Chairman
35	CVI	CVR Energy Inc	Carl C. Icahn	Chairman
36	DELL	Dell Inc	Michael S. Dell	Chairman/Chief Executive Officer/Founder
37	DHI	DR Horton Inc	Donald R. Horton	Chairman/Founder
38	DHR	Danaher Corp	Steven M. Rales	Chairman/Co-Founder
39	DISCA	Discovery Communications Inc	John C. Malone	Board Member
40	DISH	DISH Network Corp	Charles William Ergen	Chairman/Co-Founder
41	DOLE	Dole Food Co Inc	David H. Murdock	Chairman
42	DSW	DSW Inc	Jay L. Schottenstein	Chairman
43	EBAY	eBay Inc	Pierre M. Omidyar	Chairman/Co-Founder
44	EL	Estee Lauder Cos Inc/The	William P. Lauder	Chairman
45	ELS	Equity Lifestyle Properties Inc	Samuel Zell	Chairman
46	EQR	Equity Residential	Samuel Zell	Chairman
47	ERIE	Erie Indemnity Co	Thomas B. Hagen	Chairman
48	EXPE	Expedia Inc	Barry Diller	Chairman
49	F	Ford Motor Co	William C. Ford Jr.	Chairman
50	FAST	Fastenal Co	Robert A. Kierlin	Chairman/Founder
51	FDO	Family Dollar Stores Inc	Howard R. Levine	Chairman/Chief Executive Officer
52	FDX	FedEx Corp	Frederick Wallace Smith	Chairman/President/Chief Executive Officer
53	FOSL	Fossil Inc	Kosta N. Kartsotis	Chairman/Chief Executive Officer
54	GLRE	Greenlight Capital Re Ltd	David M. Einhorn	Chairman/Co-Founder
55	GOOG	Google Inc	Lawrence E. Page	Chief Executive Officer/Co-Founder
56	GPS	Gap Inc/The	Robert J. Fisher	Director
57	GRMN	Garmin Ltd	Min H. Kao	Chairman/Chief Executive Officer
58	H	Hyatt Hotels Corp	Thomas J. Pritzker	Chairman
59	HALO	Halozyme Therapeutics Inc	Randal Kirk	Board Member
60	HHC	Howard Hughes Corp/The	William A. Ackman	Chairman
61	HRG	Harbinger Group Inc	Philip A. Falcone	Chairman/Chief Executive Officer
62	HST	Host Hotels & Resorts Inc	Richard E. Marriott	Chairman
63	IACI	IAC/InterActiveCorp	Barry Diller	Chairman
64	INTC	Intel Corp	Gordon Earle Moore	Chairman Emeritus/Co-Founder
65	INTU	Intuit Inc	Scott D. Cook	Director/Founder
66	JWN	Nordstrom Inc	Blake W. Nordstrom	President
67	KMR	Kinder Morgan Management LLC	Richard D. Kinder	Chairman/Chief Executive Officer
68	KRO	Kronos Worldwide Inc	Harold C. Simmons	Chairman
69	KSS	Kohl's Corp	William S. Kellogg	Director/Former Chairman/Former Chief Executive Officer
70	L	Loews Corp	Andrew H. Tisch	Co-Chairman
71	LBTYA	Liberty Global Inc	John C. Malone	Chairman
72	LEN	Lennar Corp	Stuart A. Miller	Chief Executive Officer
73	LINTA	Liberty Interactive Corp	John C. Malone	Chairman
74	LMCA	Liberty Media Corp - Liberty Capital	John C. Malone	Chairman
75	LTD	Ltd Brands Inc	Leslie Herbert Wexner	Chairman/Chief Executive Officer

WEALTH INDEX (Ticker: RCH Index)

As of September 30, 2012

No.	Ticker	Security Name	Individual Name	Position
76	LUK	Leucadia National Corp	Joseph S. Steinberg	President
77	LVNTA	Liberty Ventures	John C. Malone	Chairman
78	LVS	Las Vegas Sands Corp	Sheldon Gary Adelson	Chairman/Chief Executive Officer/Treasurer
79	MAR	Marriott International Inc/DE	John W. Marriott Jr.	Chairman/Chief Executive Officer
80	MCY	Mercury General Corp	George Joseph	Chairman/Founder
81	MGM	MGM Resorts International	Kirk Kerkorian	Director Emeritus
82	MNST	Monster Beverage Corp	Rodney C. Sacks	Chairman/Chief Executive Officer
83	MOLX	Molex Inc	Frederick A. Krehbiel	Co-Chairman
84	MORN	Morningstar Inc	Joseph D. Mansueto	Chairman/Chief Executive Officer/Founder
85	MRVL	Marvell Technology Group Ltd	Sehat Sutardja	Chairman/President/Chief Executive Officer/Co-Founder
86	MSFT	Microsoft Corp	William Henry Gates III	Chairman/Co-Founder
87	MSG	Madison Square Garden Co/The	James L. Dolan	Chairman
88	NATI	National Instruments Corp	James J. Truchard	Chairman/President/Chief Executive Officer/Co-Founder
89	NG	Novagold Resources Inc	Thomas S. Kaplan	Chairman
90	NKE	NIKE Inc	Philip H. Knight	Chairman
91	NWSA	News Corp	Keith Rupert Murdoch	Chairman/Chief Executive Officer/Founder
92	OCN	Ocwen Financial Corp	William C. Erbey	Chairman
93	OPK	Opko Health Inc	Phillip Frost	Chairman/Chief Executive Officer
94	ORCL	Oracle Corp	Lawrence Joseph Ellison	Chief Executive Officer
95	OXY	Occidental Petroleum Corp	Ray R. Irani	Chairman
96	PAG	Penske Automotive Group Inc	Roger S. Penske	Chairman/Chief Executive Officer
97	PAYX	Paychex Inc	Blasé Thomas Golisano	Chairman/Founder
98	PCYC	Pharmacyclics Inc	Robert W. Duggan	Chairman/Chief Executive Officer
99	PEGA	Pegasystems Inc	Alan Trefler	Chairman/Chief Executive Officer/Founder
100	PGR	Progressive Corp/The	Peter Benjamin Lewis	Chairman
101	PSMT	Pricesmart Inc	Robert E. Price	Chairman
102	QCOM	QUALCOMM Inc	Paul Eric Jacobs	Chairman/Chief Executive Officer
103	RAX	Rackspace Hosting Inc	Graham M. Weston	Chairman
104	RES	RPC Inc	R. Randall Rollins	Chairman
105	RJF	Raymond James Financial Inc	Thomas A. James	Chairman
106	RL	Ralph Lauren Corp	Ralph Lauren	Chairman/Chief Executive Officer/Founder
107	ROL	Rollins Inc	R. Randall Rollins	Chairman
108	RP	RealPage Inc	Stephen T. Winn	Chairman/Chief Executive Officer
109	RYAAY	Ryanair Holdings PLC	David Bonderman	Chairman
110	SATS	EchoStar Corp	Charles William Ergen	Chairman
111	SBUX	Starbucks Corp	Howard D. Schultz	Chairman/President/Chief Executive Officer/Founder
112	SCHW	Charles Schwab Corp/The	Charles R. Schwab	Chairman/Founder
113	SHLD	Sears Holdings Corp	Edward S. Lampert	Chairman
114	SPG	Simon Property Group Inc	Herbert Simon	Chairman Emeritius
115	SYK	Stryker Corp	Ronda E. Stryker	Director
116	SYNT	Syntel Inc	Bhrat Desai	Chairman/Co-Founder
117	TCO	Taubman Centers Inc	Robert S. Taubman	Chairman/President/Chief Executive Officer
118	TEVA	Teva Pharmaceutical Industries Ltd	Phillip Frost	Chairman
119	TIE	Titanium Metals Corp	Harold C. Simmons	Chairman
120	TR	Tootsie Roll Industries Inc	Melvin J. Gordon	Chairman/Chief Executive Officer
121	TRIP	TripAdvisor Inc	Barry Diller	Chairman
122	TSLA	Tesla Motors Inc	Elon R. Musk	Chairman/Chief Executive Officer
123	TTEC	TeleTech Holdings Inc	Kenneth D. Tuchman	Chairman/Chief Executive Officer
124	UA	Under Armour Inc	Kevin A. Plank	Chairman/President/Chief Executive Officer/Founder
125	URBN	Urban Outfitters Inc	Richard A. Hayne	Chairman/President/Chief Executive Officer
126	VIAB	Viacom Inc	Sumner M. Redstone	Chairman
127	VNO	Vornado Realty Trust	Steven Roth	Chairman
128	WEN	Wendy's Co/The	Nelson Peltz	Chairman
129	WLK	Westlake Chemical Corp	James Y. Chao	Chairman
130	WMT	Wal-Mart Stores Inc	Samuel Robson Walton	Chairman
131	WRB	WR Berkley Corp	William R. Berkley	Chairman/Chief Executive Officer/Founder
132	WTI	W&T Offshore Inc	Tracy W. Krohn	Chairman/Chief Executive Officer/Founder
133	WYNN	Wynn Resorts Ltd	Stephen A. Wynn	Chairman/Chief Executive Officer/Founder
134	YHOO	Yahoo! Inc	David Filo	Chief Yahoo/Co-Founder

Source: Horizon Kinetics LLC, International Securities Exchange, Bloomberg

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WEALTH INDEX (Ticker: RCH Index)

As of September 30, 2012

Annualized Total Return	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years	20 Years
Wealth Index	23.45%	16.87%	6.93%	9.62%	14.41%	8.78%	11.41%
S&P 500	30.20%	13.20%	1.05%	4.48%	8.01%	4.70%	8.50%
S&P 500 Eq. Wgt.	28.68%	14.04%	3.16%	5.78%	11.14%	7.36%	10.54%
Russell 3000	30.20%	13.26%	1.30%	4.60%	8.49%	4.95%	8.66%
Russell 2000	31.91%	12.99%	2.21%	4.68%	10.17%	5.52%	9.09%
Excess Return vs. S&P 500	-6.75%	3.66%	5.87%	5.13%	6.40%	4.08%	2.91%
Excess Return vs. S&P 500 Eq. Wgt.	-5.22%	2.82%	3.76%	3.84%	3.27%	1.42%	0.87%
Excess Return vs. Russell 3000	-6.75%	3.61%	5.62%	5.01%	5.92%	3.83%	2.75%
Excess Return vs. Russell 2000	-8.45%	3.88%	4.71%	4.93%	4.24%	3.25%	2.32%

**Note: Calculated Using Total Returns*

Risk Adjusted Return	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years	20 Years
Wealth Index	1.27	0.88	0.26	0.42	0.68	0.36	0.52
S&P 500	2.19	0.85	0.06	0.27	0.53	0.29	0.56
S&P 500 Eq. Wgt.	1.76	0.80	0.14	0.29	0.60	0.40	0.63
Russell 3000	2.09	0.81	0.07	0.27	0.54	0.30	0.56
Russell 2000	1.72	0.61	0.09	0.21	0.50	0.26	0.46

**Note: Calculated As Annualized Total Return Divided By Annualized Total Return Volatility (Uses Monthly Total Returns)*

Information Ratio	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years	20 Years
Wealth Index vs. S&P 500	(1.12)	0.56	0.55	0.52	0.68	0.36	0.27
Wealth Index vs. S&P 500 Eq. Wgt.	(1.65)	0.61	0.59	0.63	0.54	0.13	0.09
Wealth Index vs. Russell 3000	(1.33)	0.64	0.57	0.56	0.69	0.36	0.28
Wealth Index vs. Russell 2000	(1.91)	0.57	0.53	0.61	0.52	0.27	0.21

**Note: Calculated As Annualized Excess Total Return Divided By Annualized Excess Total Return Volatility (Uses Monthly Excess Total Returns)*

Wealth Index Batting Average	Roll. 1 Year	Roll. 3 Year	Roll. 5 Year
vs. S&P 500	61.20%	66.81%	67.82%
vs. S&P 500 Eq. Wgt.	59.20%	61.06%	55.45%
vs. Russell 3000	64.00%	67.26%	74.26%
vs. Russell 2000	62.00%	63.72%	71.29%

**Note: Calculated Using Total Returns*

Annualized Volatility	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years	20 Years
Wealth Index	18.53%	19.15%	26.21%	22.90%	21.34%	24.14%	21.85%
S&P 500	13.78%	15.58%	19.13%	16.65%	15.21%	16.30%	15.12%
S&P 500 Eq. Wgt.	16.34%	17.65%	23.13%	20.01%	18.49%	18.54%	16.84%
Russell 3000	14.42%	16.27%	19.88%	17.29%	15.74%	16.70%	15.40%
Russell 2000	18.51%	21.28%	24.75%	21.86%	20.34%	21.48%	19.65%

**Note: Calculated Using Total Returns*

Annualized Tracking Error	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years	20 Years
vs. S&P 500	6.03%	6.51%	10.75%	9.82%	9.37%	11.42%	10.66%
vs. S&P 500 Eq. Wgt.	3.17%	4.59%	6.34%	6.11%	6.04%	10.87%	9.94%
vs. Russell 3000	5.07%	5.65%	9.80%	8.91%	8.59%	10.62%	9.85%
vs. Russell 2000	4.43%	6.81%	8.92%	8.07%	8.17%	12.28%	11.23%

**Note: Calculated Using Total Returns*

Wealth Index Beta	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years	20 Years
vs. S&P 500	1.31	1.17	1.28	1.27	1.30	1.35	1.30
vs. S&P 500 Eq. Wgt.	1.12	1.06	1.10	1.11	1.11	1.18	1.17
vs. Russell 3000	1.26	1.13	1.25	1.24	1.27	1.34	1.30
vs. Russell 2000	0.97	0.85	1.00	0.98	0.97	0.97	0.95

**Note: Calculated Using Total Returns*

Calendar Year Total Returns	Wealth Index	S&P 500	S&P 500 Eq. Wgt.	Russell 3000	Russell 2000	ER v. SP500	ER v. SP500 EW	ER v. R3000	ER v. R2000
1991	44.25%	30.47%	35.51%	33.68%	46.04%	13.78%	8.73%	10.57%	-1.80%
1992	20.20%	7.62%	15.63%	9.59%	18.41%	12.58%	4.56%	10.61%	1.79%
1993	3.38%	10.08%	15.12%	10.88%	18.88%	-6.70%	-11.75%	-7.50%	-15.50%
1994	0.33%	1.32%	0.95%	0.19%	-1.82%	-0.99%	-0.62%	0.14%	2.15%
1995	31.31%	37.58%	32.03%	36.80%	28.45%	-6.27%	-0.72%	-5.49%	2.86%
1996	23.09%	22.96%	19.02%	21.82%	16.49%	0.13%	4.06%	1.27%	6.59%
1997	27.31%	33.36%	29.05%	31.78%	22.36%	-6.06%	-1.74%	-4.48%	4.94%
1998	24.95%	28.58%	12.19%	24.14%	-2.55%	-3.63%	12.76%	0.81%	27.49%
1999	44.68%	21.04%	12.03%	20.90%	21.26%	23.64%	32.66%	23.78%	23.43%
2000	-19.16%	-9.10%	9.64%	-7.46%	-3.02%	-10.06%	-28.80%	-11.70%	-16.14%
2001	-10.80%	-11.89%	-0.39%	-11.46%	2.49%	1.08%	-10.41%	0.65%	-13.29%
2002	-15.49%	-22.10%	-18.18%	-21.54%	-20.48%	6.61%	2.69%	6.05%	4.99%
2003	45.41%	28.68%	40.97%	31.06%	47.25%	16.72%	4.44%	14.35%	-1.85%
2004	17.97%	10.88%	16.95%	11.95%	18.33%	7.09%	1.02%	6.02%	-0.36%
2005	3.30%	4.91%	8.06%	6.12%	4.55%	-1.61%	-4.76%	-2.82%	-1.25%
2006	22.61%	15.79%	15.80%	15.71%	18.37%	6.81%	6.81%	6.89%	4.24%
2007	1.73%	5.49%	1.53%	5.14%	-1.57%	-3.76%	0.20%	-3.41%	3.30%
2008	-43.67%	-37.00%	-39.72%	-37.31%	-33.79%	-6.68%	-3.95%	-6.37%	-9.89%
2009	72.80%	26.46%	46.31%	28.34%	27.17%	46.33%	26.49%	44.46%	45.62%
2010	31.51%	15.06%	21.91%	16.93%	26.85%	16.45%	9.60%	14.58%	4.65%
2011	5.11%	2.11%	-0.11%	1.03%	-4.18%	3.00%	5.22%	4.09%	9.29%
YTD 2012	10.65%	16.44%	14.43%	16.13%	14.23%	-5.79%	-3.78%	-5.48%	-3.58%

**Note: Calculated Using Total Returns*

Source: Horizon Kinetics LLC, International Securities Exchange, Bloomberg

See important disclosures for additional information.

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Important Disclosures

Horizon Kinetics ISE Wealth Index (the "Index") was created in conjunction with the International Securities Exchange, LLC ("ISE"), which operates a leading U.S. options exchange and offers option trading on over 2,000 underlying equity, EFT, index, and FX products.

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In situations where back-tested performance of data has been employed, prospective application of the methodology used to construct the information of such index may not result in performance commensurate with the back-test returns shown. The back-test period does not necessarily correspond to the entire available history of the Index.

A limitation associated with the hypothetical information of the Index is that generally the Index calculations are being prepared with the benefit of hindsight. Back-tested data reflects the application of the Index methodology and selection of Index constituents in hindsight. No hypothetical record can completely account for the impact of financial risk in actual trading. For example, there are numerous factors related to the equities markets in general which cannot be, and have not been accounted for in the preparation of the Index information, all of which can affect actual performance. Historical calculations may change from month to month based on revisions to the underlying economic data that was used in the calculation of the Index.

Furthermore, the Index returns shown do not represent the results of actual trading of investor assets. Index returns do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause actual and back-tested performance to be lower than the performance shown.

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Money Manager Index

From Jan 1983 to Oct 2012

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr. End	Index	Yearly return	Annualized return (since inception)
1983								1.00	0.81	0.76	0.87	0.75	1983	0.75	(60.5)%	(50.2)%
1984	0.75	0.71	0.70	0.66	0.67	0.67	0.61	0.83	0.79	0.76	0.67	0.65	1984	0.65	(13.5)%	(26.5)%
1985	0.92	0.93	0.99	0.95	1.20	1.30	1.32	1.38	1.28	1.50	1.86	2.02	1985	2.02	211.8%	33.7%
1986	2.46	2.78	2.47	2.31	2.36	2.33	2.03	2.23	1.98	2.37	2.34	2.34	1986	2.34	15.9%	28.2%
1987	3.21	3.27	3.16	2.55	2.37	2.30	2.39	2.47	2.22	1.56	1.44	1.52	1987	1.52	(35.0)%	9.9%
1988	1.80	1.87	1.78	1.79	1.69	1.94	1.92	1.96	2.01	1.97	1.95	2.07	1988	2.07	36.0%	14.3%
1989	2.42	2.37	2.54	2.63	2.64	2.64	2.93	3.12	3.07	3.05	3.23	3.26	1989	3.26	57.8%	20.2%
1990	3.12	3.15	3.53	3.06	3.47	3.45	3.30	2.70	2.68	2.40	2.52	3.02	1990	3.02	(7.3)%	16.1%
1991	3.08	3.49	3.70	3.68	3.71	3.61	3.86	4.05	4.07	4.69	4.47	5.72	1991	5.72	89.4%	23.0%
1992	5.76	5.61	5.30	5.12	4.98	4.99	5.93	6.06	6.19	6.56	7.25	7.36	1992	7.36	28.6%	23.6%
1993	8.06	8.04	8.20	7.94	8.15	8.57	9.05	10.00	9.99	9.31	8.97	8.90	1993	8.90	21.0%	23.4%
1994	9.52	8.73	8.05	7.85	7.81	7.53	7.66	8.31	8.15	8.52	7.88	7.95	1994	7.95	(10.6)%	19.9%
1995	7.74	8.38	8.72	8.77	9.20	9.35	9.93	10.78	11.22	10.53	10.89	10.40	1995	10.40	30.8%	20.8%
1996	11.12	11.50	11.33	11.62	11.86	12.53	11.91	12.36	13.32	14.03	14.42	15.02	1996	15.02	44.4%	22.4%
1997	16.04	16.81	15.32	17.27	18.42	20.29	22.28	21.39	25.31	24.95	24.95	25.50	1997	25.50	69.8%	25.2%
1998	25.67	29.00	29.89	30.60	28.90	30.44	27.67	21.33	21.74	25.16	27.27	25.41	1998	25.41	(0.4)%	23.3%
1999	26.00	23.71	23.92	26.77	28.94	29.74	28.78	26.74	25.89	27.73	28.54	30.55	1999	30.55	20.2%	23.2%
2000	31.07	31.19	36.01	35.60	35.20	40.32	43.58	45.75	45.62	48.69	44.05	49.84	2000	49.84	63.1%	25.2%
2001	50.23	46.41	44.27	46.96	48.90	49.98	50.67	49.70	46.47	44.81	48.04	51.91	2001	51.91	4.2%	23.9%
2002	53.62	53.74	55.11	52.52	52.83	50.48	42.58	44.92	41.54	42.66	45.78	43.17	2002	43.17	(16.8)%	21.4%
2003	42.72	41.18	42.36	45.98	49.02	50.71	53.47	53.97	53.46	56.12	55.83	58.49	2003	58.49	35.5%	22.1%
2004	64.38	65.08	64.63	61.68	60.86	62.30	58.71	64.08	65.73	68.86	73.53	78.16	2004	78.16	33.6%	22.6%
2005	76.46	77.94	74.06	72.83	77.02	80.25	83.59	83.07	86.03	89.19	96.58	97.35	2005	97.35	24.6%	22.7%
2006	107.62	111.44	110.75	111.88	101.89	100.61	100.62	104.98	114.61	116.64	113.78	118.05	2006	118.05	21.3%	22.6%
2007	125.73	123.77	122.62	127.58	133.57	134.68	126.61	124.07	133.57	148.09	135.13	135.56	2007	135.56	14.8%	22.3%
2008	127.53	115.76	115.94	121.58	130.51	115.68	119.94	120.55	109.69	72.70	62.95	67.91	2008	67.91	(49.9)%	18.1%
2009	57.51	51.76	65.63	79.49	85.67	90.79	99.97	101.69	107.32	107.36	110.94	115.01	2009	115.01	69.4%	19.7%
2010	106.84	110.32	118.13	114.91	100.18	88.17	97.65	89.64	103.59	108.29	108.64	119.58	2010	119.58	4.0%	19.1%
2011	122.80	128.28	127.94	127.97	126.06	121.03	115.49	104.25	91.32	102.44	103.79	103.98	2011	103.98	(13.1)%	17.8%
2012	109.46	120.12	125.37	121.64	108.44	114.12	113.56	118.33	123.18	127.91			2012	127.91	23.0%	18.0%

S.No.	Ticker	Name	Initial Amount Invested	Shares Purchased	Date of Investment	Current Index Value
1	AMG us equity	Affiliated Manager	$22,947	1377	11/30/1997	174,166
2	ALNC us equity	Alliance	$7,633	491	4/30/1994	22,218
3	BLK us equity	BlackRock	$23,205	1658	9/30/1999	314,397
4	WDR us equity	Waddell & Reed	$27,513	1587	3/31/1998	53,301
5	EV us equity	Eaton Vance	$2,641	3998	1/31/1986	113,314
6	TROW us equity	T. Rowe Price	$2,423	2014	4/30/1986	130,658
7	BEN us equity	Franklin Resources	$908	1263	4/30/1985	161,428
8	LM us equity	Legg Mason	$1,000	462	8/31/1983	11,828
9	FII us equity	Federated Inv	$26,381	2206	5/31/1998	51,269
10	FIG us equity	Fortress Investment Group	$102,249	3389	2/28/2007	14,641
11	PZN us equity	Pzena Investment Management	$122,426	6317	10/31/2007	35,629

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Index Constituent Changes: 1. Everest Financial Group Limited (EFG AU) was delisted from the Australian Security Exchange effective 7/19/2011 and has been removed from the index. 2. RAB Capital Plc (RAB LN) was delisted from the London Security Exchange effective 9/2/2011 and has been removed from the index. 3. Invista Real Estate (INRE LN) was delisted effective 8/10/2012. The divisor has been adjusted accordingly for each of these changes.

International Money Manager Index

From Jan 1983 to Oct 2012

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr. End	Index	Yearly return	Annualized return (since inception)
1986											1.00	1.02	1986	1.02	10.0%	10.0%
1987	1.25	1.37	1.48	1.48	1.37	1.33	1.39	1.40	1.33	0.81	0.76	0.73	1987	0.73	(27.7)%	(23.3)%
1988	0.75	0.92	1.02	0.95	0.80	0.89	0.88	0.82	0.86	0.88	0.89	0.93	1988	0.93	26.4%	(3.4)%
1989	1.03	1.02	1.06	1.17	1.19	1.18	1.25	1.16	1.17	1.20	1.21	1.28	1989	1.28	37.8%	8.1%
1990	1.24	1.24	1.18	1.19	1.22	1.24	1.26	1.26	1.23	1.24	1.25	1.33	1990	1.33	3.7%	7.0%
1991	1.34	1.52	1.56	1.58	1.57	1.47	1.52	1.64	1.81	1.89	1.94	1.92	1991	1.92	44.8%	13.5%
1992	2.01	1.93	1.88	2.14	2.19	2.13	2.08	1.99	1.95	1.77	1.76	1.96	1992	1.96	1.9%	11.5%
1993	1.98	2.03	2.20	2.39	2.42	2.45	2.54	3.05	3.01	3.07	3.01	3.30	1993	3.30	68.7%	18.1%
1994	3.72	3.39	3.17	3.04	2.99	2.89	3.01	3.14	3.13	3.19	3.15	3.15	1994	3.15	(4.7)%	15.1%
1995	3.07	3.12	3.28	3.41	3.56	3.59	3.87	3.76	3.76	3.77	3.70	3.73	1995	3.73	18.6%	15.4%
1996	3.76	3.85	3.70	3.79	3.96	3.90	3.75	3.96	4.16	4.47	4.90	4.86	1996	4.86	30.3%	16.8%
1997	5.11	5.37	4.99	4.96	5.43	5.94	6.57	6.32	7.45	7.24	6.80	7.19	1997	7.19	47.9%	19.3%
1998	7.12	8.05	8.78	9.25	8.95	8.74	8.91	6.67	6.08	7.01	7.51	7.71	1998	7.71	7.3%	18.3%
1999	7.99	8.21	8.68	9.07	8.71	8.61	8.63	8.43	8.47	8.79	9.80	10.79	1999	10.79	39.9%	19.8%
2000	11.23	12.27	13.95	13.50	13.73	15.39	15.85	16.82	17.07	16.31	14.43	16.76	2000	16.76	55.4%	20.7%
2001	17.42	15.88	13.46	15.14	15.84	15.15	14.21	13.61	10.77	11.43	13.90	14.12	2001	14.12	(15.8)%	19.1%
2002	14.74	13.78	15.09	15.11	16.38	14.14	12.92	12.10	11.23	11.06	11.33	10.50	2002	10.50	(25.6)%	15.7%
2003	10.18	9.52	9.69	10.62	12.17	13.04	13.98	15.38	16.67	17.88	18.16	18.07	2003	18.07	72.1%	18.4%
2004	20.00	22.41	29.98	35.46	26.68	30.80	25.37	25.20	23.67	23.34	27.56	31.48	2004	31.48	74.2%	20.9%
2005	32.19	32.57	31.88	27.79	27.36	29.05	30.38	31.49	33.39	32.24	32.95	37.18	2005	37.18	18.1%	20.8%
2006	41.01	40.97	43.69	46.45	42.39	41.58	40.60	43.32	43.55	43.70	44.58	49.38	2006	49.38	32.8%	21.3%
2007	50.95	51.18	53.59	56.09	58.16	56.37	53.90	48.65	50.96	57.03	48.21	45.75	2007	45.75	(7.3)%	19.8%
2008	38.71	39.71	38.59	40.18	39.25	35.10	34.59	33.33	26.09	18.72	14.50	15.79	2008	15.79	(65.5)%	13.3%
2009	14.62	13.24	14.96	19.63	22.82	23.73	26.14	27.05	28.41	28.53	28.69	29.83	2009	29.83	89.0%	15.8%
2010	28.50	27.58	29.90	29.58	25.53	24.72	27.82	26.74	30.36	33.68	31.85	34.52	2010	34.52	15.7%	15.8%
2011	34.91	36.17	36.51	39.63	37.86	35.31	35.83	32.76	29.28	32.04	31.23	30.59	2011	30.59	(11.4)%	14.7%
2012	32.12	34.36	35.67	35.08	31.03	32.92	32.66	34.17	36.33	37.28			2012	37.28	21.9%	14.9%

S.No.	Ticker	Name	Initial Amount Invested	Shares Purchased	Date of Investment	Current Index Value
1	IGM CN Equity	IGM Financial Inc	$1,000	73	31/11/1986	2,911
2	FCAM LN Equity	F&C Asset Management Plc	$1,203	485	5/31/1989	783
3	IVZ US Equity	Invesco Plc (Previously Amvescap)	$1,357	1,153	1/31/1991	14,015
4	SDR LN Equity	Schroders Plc	$1,208	505	3/31/1991	12,415
5	RAT LN Equity	Rathbone Brothers Plc	$1,208	736	3/31/1991	15,382
6	ADN LN Equity	Aberdeen Asset Mgmt Plc	$1,208	1,827	3/31/1991	9,568
7	CIX CN Equity	CI Financial Corp.	$2,585	3,224	6/30/1994	75,524
8	EMG LN Equity	Man Group Plc	$2,862	6,344	10/31/1994	6,104
9	AGF/B CN Equity	AGF Management Ltd-Cl B	$3,343	1,346	1/31/1996	13,792
10	8739 JP Equity	Sparx Group Co Ltd	$11,762	108	12/31/2001	7,082
11	HGG LN Equity	Henderson Group Plc	$14,447	8,666	12/31/2003	13,087
13	AZM IM Equity	Azimut Holding Spa	$21,908	4,977	7/31/2004	63,068
15	CCAP LN Equity	Charlemagne Capital Ltd	$36,848	22,300	3/31/2006	2,878
16	PGHN SW Equity	Partners Group-Reg	$36,848	578	3/31/2006	122,467
18	ASHM LN Equity	Ashmore Group Plc.	$36,688	9,873	10/31/2006	57,933

HORIZON KINETICS
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