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CEMP Enhanced Indexing

CEMP U.S. Large Cap 500 Volatility Weighted Index – CEMP U.S. Small Cap 500 Volatility Weighted Index – CEMP International 500 Volatility Weighted Index – CEMP Emerging Market 500 Volatility Weighted Index – CEMP U.S. REIT 100 Volatility Weighted Index – CEMP Commodity Volatility Weighted Index – CEMP U.S. Equity Hedge Volatility Weighted Index – CEMP International Equity Hedge Volatility Weighted Index – CEMP U.S. REIT Hedge Volatility Weighted Index

Data as of December 31, 2012

I. Benefits of Using Fundamental Criteria and Volatility Weighting in Index Construction

Cap-Weighting Bias

The S&P 500 is one of the most widely-followed market indexes across the globe with over 1 trillion U.S. Dollars in assets tracking its performance. Despite its widespread acceptance, it contains some inefficiencies that have been chronicled in various studies of its appropriateness as a market benchmark. One of the chief inefficiencies, and the main focus of this paper, is in how weights are assigned to members in the index as a market capitalization-weighted index.

In this methodology, an index member will receive a weight in the index based upon the current market value of its common stock as a percentage of the combined market value of all index members. However, a major problem with this market-cap weighting methodology is that it concentrates the risk and return of the index to the largest names in the index, diminishing any value to be added by the smallest index members. For example, from January 2003 to December 2012, the top 25% of the largest companies in the S&P 500 Index represented approximately 72.5% of the index's total weighting while the smallest 25% comprised approximately 1.8% of the index's weighting. The dependence on the performance of the largest names reveals the S&P 500 Index as an extremely unbalanced index. Another implication of this weighting methodology is that it implicitly enforces performance-chasing behavior, as the best-performing names in the index have a tendency to become the largest members of the index over time.

The Alternative Solution

The CEMP Enhanced Indexing methodology emphasizes a target weighting of different securities or assets by their riskiness and not by their market cap or by their fundamentals. There are many different types of risks affecting all asset classes from stocks to commodities. These risks include economic risk, liquidity risk and interest rate risk to name a few. As these different risks fluctuate over time, it can be difficult to gauge what impact on performance they may have. However, price volatility is a clear and observable variable that tracks these risks in the aggregate. The core principal of CEMP Enhanced Indexing methodology is consistent earnings and each index member receives an equal weighting on the basis of volatility. The net result is an index that faces the same amount of future uncertainty as a traditional market cap-weighted index or even a fundamental weighted index, but controls and distributes that uncertainty equally across the entire index rather than concentrating it to a smaller subset of the index.

II. CEMP Enhanced Indexing Methodology

Universe

We will look at the methodology of how the CEMP U.S. Large Cap 500 Volatility-Weighted Index is constructed. The starting point for any effective index is the selection of the relevant investment universe that represents the broad market of publicly traded securities. The CEMP U.S. Large Cap 500 index, considers all publicly traded companies incorporated in the United States and traded on a U.S. exchange for which at least four quarters of publicly available accounting data exists.

Consistent Earnings

The next level of scrutiny for the CEMP U.S. Large Cap 500 Volatility-Weighted Index (and other CEMP indexes) is to include only those companies who have posted four consecutive quarters of positive earnings per share as of their most recent filing. There is ample research and data which shows that fundamental-based indexing generates a positive Alpha relative to cap-weighting only indexes over time.

Company Size

Once the universe of profitable companies has been identified, the next step is to take the 500 largest companies based on their market capitalization on the date of rebalancing. This helps ensure the index is capturing its target universe of large cap equities.

Volatility Weighting

The next step is to analyze the price volatility of the resulting 500 securities. Volatility in this context is defined as the annualized standard deviation of daily price changes over the prior 180 trading days. Each index member has its 180-day volatility compared to the average 180-day volatility of all index members. Weights are assigned to index members based on their own volatility relative to the average volatility of all index members. Companies with greater price volatility will be assigned lower index weighting and companies with less price volatility will be assigned a larger weighting.

The benefits of adding the CEMP Index weighting methodology on top of consistent earnings are two-fold. First, companies that undergo dramatic volatility due to unforeseen factors will not dominate the index, positively or negatively. These companies will be given a smaller weighting in the index

assuming they qualify to be in the index. Second, the CEMP Indices will not overweight securities based on their size, because the size of the company does not mean they will outperform the broader market.

Index Reconstitution

The index is rebalanced and reconstituted once every six months, during the months of March and September. The reason for these dates is based upon allowing sufficient time for enough companies to report prior quarterly earnings results. Most companies will have reported results for fiscal Q4 and Q2 respectively by those dates. On each rebalancing date, the index will remove any companies that have not maintained four consecutive quarters of profitability and replace them with new members; reassigning each index member's weight to a pre-determined value based on the aforementioned volatility weighting. However, index weights after this point are allowed to freely float until the next rebalancing date to represent the performance of the underlying securities and the broad market.

III. Total Return, Risk, and Risk-Adjusted Returns

Analysis of the historical performance of the CEMP volatility weighted indexing methodology shows the strength of these indices relative to the most popular market indices and benchmarks used today. Table 3 below depicts the performance of four CEMP broad market indices compared to a cap weighted index. Thus, the average annual returns and cumulative returns have significantly outperformed traditional cap weighted indexes over the short-term as well as the long-term. It is important to note that Compass Efficient Model Portfolios, LLC has weighted securities and asset classes based on their volatility since June 2003. The Index performance represents the application of Compass EMP's methodology dating back to the Index inception of June 30, 2003. Prior to March 31, 2012 the Index performance was calculated by Bloomberg analytics and verified by Dow Jones Indexes based on the criteria listed above. The CEMP Indexes are published by Dow Jones Indexes and are patent pending (Serial No. 61/645,370).

Table 3

Index Average Annual Returns 9/30/00 - 12/31/12	3 Years	5 Years	7 Years	10 Years	Since 9/30/00	Cumulative
CEMP U.S. Large Cap 500 Volatility Weighted	13.43%	4.48%	6.09%	9.97%	8.00%	156.83%
S&P 500	10.87%	1.66%	4.12%	7.10%	1.88%	25.64%
CEMP U.S. Small Cap 500 Volatility Weighted	14.56%	5.94%	6.31%	10.83%	9.85%	216.02%
Russell 2000	12.25%	3.56%	4.79%	9.72%	5.46%	91.77%
CEMP International 500 Volatility Weighted	6.20%	-1.00%	5.59%	13.18%	8.48%	171.15%
MSCI EAFE	4.04%	-3.21%	2.67%	8.70%	3.31%	49.07%
CEMP Emerging market 500 Volatility Weighted	9.69%	5.22%	18.61%	20.36%	17.39%	613.00%
Dow Jones Emerging Market	4.74%	-1.58%	7.62%	15.93%	10.80%	251.23%

Performance Over Full Market Cycles

In the tables that follow, the performance of the CEMP enhanced index methodology is presented through the CEMP U.S. Large Cap 500 Volatility-Weighted Index relative to the cap weighted S&P 500 Index. Since U.S. large cap stocks seem to be the investment of choice and the cap weighted S&P 500 has over \$1 Trillion following its index, we elected to focus on the risk and return characteristics of U.S. Large Cap stocks from this point forward. There have been two distinct bear markets and two distinct bull markets in U.S. equity markets since the year 2000. In addition, the year of 2011 presented

a unique market environment in that it was a trendless and volatile environment. Please see the comprehensive version of this white paper for additional commentary.

Table 5

Bear Market of October 2000 - December 2002						
Percentile Market Cap	S&P 500			CEMP US Large Cap 500		
	Avg. Weight	Total Return	CTR*	Avg. Weight	Total Return	CTR*
Largest 25%	84.61%	-41.14%	-35.99%	28.35%	-21.99%	-6.37%
25-50%	11.84%	-0.51%	-0.58%	28.50%	2.84%	1.67%
50-75%	2.62%	15.76%	0.11%	28.50%	15.72%	4.70%
Smallest 25%	0.68%	19.40%	0.04%	14.25%	-12.76%	-0.63%
Index		-36.42%	-36.42%		-0.63%	-0.63%

*CTR = Contribution to the Total Return

Table 6

Bull Market of January 2003 - December 2007						
Percentile Market Cap	S&P 500			CEMP US Large Cap 500		
	Avg. Weight	Total Return	CTR*	Avg. Weight	Total Return	CTR*
Largest 25%	81.89%	71.31%	61.55%	38.01%	82.02%	32.53%
25-50%	13.52%	148.13%	16.09%	30.44%	105.17%	31.66%
50-75%	2.83%	146.73%	3.07%	21.80%	128.06%	28.33%
Smallest 25%	0.89%	206.87%	1.28%	8.17%	201.59%	13.57%
Index		81.99%	81.99%		106.09%	106.09%

*CTR = Contribution to the Total Return

Table 7

Bear Market of January 2008 - February 2009						
Percentile Market Cap	S&P 500			CEMP US Large Cap 500		
	Avg. Weight	Total Return	CTR*	Avg. Weight	Total Return	CTR*
Largest 25%	77.99%	-46.63%	-35.96%	33.86%	-43.40%	-14.59%
25-50%	15.16%	-51.78%	-8.01%	26.06%	-47.58%	-12.33%
50-75%	4.59%	-50.93%	-2.40%	25.62%	-43.67%	-10.70%
Smallest 25%	1.73%	-50.44%	-0.90%	14.46%	-41.61%	-6.64%
Index		-47.27%	-47.27%		-44.26%	-44.26%

*CTR = Contribution to the Total Return

Table 8

Bull Market of March 2009 - February 2011						
Percentile Market Cap	S&P 500			CEMP US Large Cap 500		
	Avg. Weight	Total Return	CTR*	Avg. Weight	Total Return	CTR*
Largest 25%	81.51%	77.27%	65.82%	33.81%	76.93%	27.47%
25-50%	13.39%	134.42%	15.46%	27.34%	98.15%	26.63%
50-75%	3.70%	195.26%	5.12%	25.19%	114.34%	28.20%
Smallest 25%	1.36%	246.38%	2.10%	13.45%	107.68%	13.50%
Index		88.50%	88.50%		95.80%	95.80%

*CTR = Contribution to the Total Return

Table 9

www.CEMPIndex.com

Flat Market of January 2011 - December 2011						
Percentile Market Cap	S&P 500			CEMP US Large Cap 500		
	Avg. Weight	Total Return	CTR*	Avg. Weight	Total Return	CTR*
Largest 25%	77.59%	2.58%	2.02%	33.35%	3.79%	1.27%
25-50%	15.50%	0.54%	0.07%	27.46%	3.59%	1.00%
50-75%	5.44%	0.76%	0.05%	24.28%	3.87%	0.90%
Smallest 25%	1.38%	-2.07%	-0.03%	14.91%	3.91%	0.74%
Index		2.11%	2.11%		3.91%	3.91%

*CTR means Contribution to the Total Return

Risk and Risk Adjusted Returns

Another dimension of performance comparison is risk. In Table 10 below, we evaluate return performance relative to a given level of risk. The declines of 2008 and the elevated return of volatility in markets in 2011 have exposed the benefits of incorporating better risk management into a broad market index. In the sections below, we will demonstrate what the CEMP Enhanced Indexing methodology brings to the table in terms of lower absolute levels of risk and improved return efficiency through higher risk-adjusted returns across all segments of the market. Please see the comprehensive version of this white paper for additional commentary.

Table 10

Standard Deviation 9/30/00 - 12/31/12	3 Years	5 Years	7 Years	10 Years	Since 9/30/00
CEMP U.S. Large Cap 500 Volatility Weighted	14.14%	18.49%	16.12%	14.44%	14.50%
S&P 500	15.30%	19.04%	16.60%	14.77%	15.90%
Beta - 9/30/00 - 12/31/12	3 Years	5 Years	7 Years	10 Years	Since 9/30/00
CEMP U.S. Large Cap 500 Volatility Weighted	0.91	0.95	0.95	0.96	0.86
S&P 500	1.00	1.00	1.00	1.00	1.00

Risk Adjusted Returns

Risk and return represents two sides of the same coin; there can not be one without the other. The prior sections have looked exclusively at one or the other, but in this section we consider their joint interaction. Alpha is one way of quantifying an asset's risk-adjusted performance compared to a market benchmark or index. Alpha is closely related to Beta as they are both derived from the same market model for explaining asset returns. If Beta captures the return of an asset that is driven by the return of the market, then Alpha captures all other components of return not explained by market movement.

The Sharpe Ratio of an asset is an alternative look at risk-adjusted performance. Central to the concept of the Sharpe Ratio is excess return, or asset return that is greater than the risk-free rate of return. The Sharpe Ratio is simply the ratio of an asset's excess return compared to its own standard deviation; in other words, Sharp Ratio does not need an index for comparison. Table 11 below reveals the risk adjusted returns of the CEMP Index versus the S&P 500 Index.

Table 11

Alpha - 9/30/00 - 12/31/12	3 Years	5 Years	7 Years	10 Years	Since 9/30/00
CEMP U.S. Large Cap 500 Volatility Weighted	3.22%	2.82%	2.01%	2.93%	5.97%
S&P 500	0.00%	0.00%	0.00%	0.00%	0.00%

Sharpe Ratio - 9/30/00 - 12/31/12	3 Years	5 Years	7 Years	10 Years	Since 9/30/00
CEMP U.S. Large Cap 500 Volatility Weighted	0.94	0.22	0.27	0.57	0.42
S&P 500	0.70	0.06	0.15	0.37	-0.01

S&P 500 Index – A Market Benchmark?

The S&P 500 Index has been widely used as a market benchmark for active money managers for many years. As mentioned above, there is over one trillion U.S. Dollars following the performance of the S&P 500 Index. Portfolio Managers are judged based on their ability to outperform this cap-weighted index even though many portfolio managers are unjustly compared to the S&P 500 due to their size, style and strategy. To analyze a more appropriate peer group of active money managers within the Morningstar Large Cap Blend Category, you will find in Table 12 below that most active managers still under perform the S&P 500. It is widely known that the S&P 500's performance has been dictated by their largest companies by market capitalization. Yet, 61.66% of the 1,243 mutual fund managers in the last 10 years ending December 2012 underperform the Morningstar Large Cap Blend Category. Even though the CEMP U.S. Large Cap 500 Volatility Weighted Index is obviously a more broad representation of 500 U.S. Large Cap stocks that make money, an astonishing 97.64% of the Morningstar Large Cap Blend mutual fund managers have underperformed the CEMP U.S. Large Cap 500 Volatility Weighted Index.

Table 12 (Ending December 31, 2012)

Represents the number of Mutual Fund Managers that under perform the indexes below.	1 Year	3 Years	5 Years	7 Years	10 Years
Active Fund Managers in Peer Group	1,735	1,607	1,534	1,423	1,194
CEMP U.S. Large Cap 500 Volatility Weighted Index	49.06%	97.17%	97.34%	94.15%	97.64%
S&P 500 Index	65.46%	85.08%	72.82%	71.63%	65.67%

Source: Zephyr & Assoc. and Morningstar, Inc.

The CEMP Enhanced Indices are presented as a broad market enhancement to traditional cap weighted and even fundamental weighted indexes available to the investment community. By combining the aspects of fundamentals as an initial criterion for company inclusion and ultimately equalizing the risk contribution to the index, CEMP Index believes its indices are the ultimate enhancement to passive indexing. We believe the evidence validates the theory....and the historical risk and return is the evidence.

Notice and Disclaimer

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Index Descriptions:

The S&P 500 Index is a market-cap weighted index composed of the common stocks of 500 leading U.S. companies

The Russell 2000 Index is a market-cap weighted index composed of 2000 U.S. small-cap common stocks.

The MSCI EAFE Index is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of the developed markets excluding the United States.

Dow Emerging Markets Index covers approximately 95% of the market capitalization of the represented countries. The industry indexes are created according to definitions used by Dow Jones Indexes' proprietary classification system and are maintained at both the country and regional level. More-granular sector indexes are also available. The size-segment indexes (large-cap, mid-cap and small-cap) are defined by cumulative market capitalizations. They are maintained at both the country and regional level.

The CEMP U.S. Large Cap 500 Volatility Weighted Index consists of 500 of the largest U.S. stocks with consistent positive earnings and with an equal weighting of risk among all 500 stocks.

The CEMP U.S. Small Cap 500 Volatility Weighted Index consists of 500 of the largest U.S. small cap stocks \$3 Billion or less with consistent positive earnings and with an equal weighting of risk among all 500 stocks.

The CEMP International 500 Risk Weighted Index consists of 500 of the largest developed country stocks with consistent positive earnings and with an equal weighting of risk among all 500 stocks.

The CEMP Emerging Market 500 Volatility Weighted Index consists of 500 of the largest emerging market country stocks with consistent positive earnings and with an equal weighting of risk among all 500 stocks. The CEMP U.S. REIT 100 Volatility Weighted Index consists of 100 of the largest U.S. REIT stocks with consistent positive earnings and with an equal weighting of risk among all 500 stocks.