



*A fundamentally different
approach to ETFs*

**ALTAR
Score™**

An Explanation

ALTAR Score™

Our rating of an ETF's overall investment merit:

- ❖ AltaVista Long Term Annual Return
- ❖ Foundation in financial theory
 - ❖ Forward-looking Buffet-style ownership approach
 - ❖ Gauges intrinsic value
 - ❖ Allows pan-cyclical comparisons across asset classes
 - ❖ Dynamically allocates assets
- ❖ Simple and transparent

ALTAR Score™

$$ROE_{avg} \div \frac{P}{BV_{FY1}} - fees$$

Illustration

Firm A: 10% ROE, P/BV = 2.0x

if BV = \$1,000

Profits = \$100 (10% x \$1,000)

My investment = \$2,000 (2.0x BV)

My return = 5% (\$100 ÷ \$2,000)

Academic Foundations

*Relation between P/BV and ROE
well established in Financial literature:*

- ❖ DDM is rearranged algebraically to relate ROE & P/BV (equations)
- ❖ Direct relationship demonstrated by Wilcox (*Financial Analysts Journal*, Jan/Feb 1984)
- ❖ Advantages: simple, versatile, intrinsic
- ❖ Disadvantage: Small errors in estimates → large changes in outcome

Dividend Discount Model (DDM)

$$P = \frac{D}{k - g}$$

Substituting...

$$ROE = EPS \div BV$$
$$g = ROE(1 - \text{payout})$$

Rearranged algebraically

$$\frac{P}{BV} = \frac{ROE - g}{k - g}$$

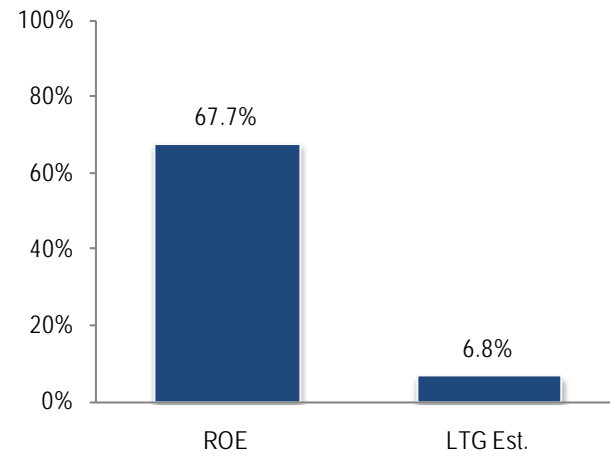


AltaVista Modifications

- ❖ Use *average* ROE for better estimate of sustainable profits & facilitate comparisons
- ❖ Use forward P/BV multiple
- ❖ Indifferent to dividend payout; assumes owners reinvest dividends
- ❖ Accepts linear relationship* as good estimate of CAGR in owner's equity
 - ❖ Forecast error is small for reasonable time horizons and realistic ROEs
 - ❖ Compensates for likelihood high ROEs will fall over long periods
 - ❖ Observed as strong indicator (chart)

**Mathematical relationship between PBV and ROE is geometric (i.e., over time, 20% ROE is worth more than twice what 10% ROE is worth)*

Correlation of ROE and LTG to P/BV, S&P500 stocks



Note: Growth & Value report, AltaVista Research, Jan. 2005

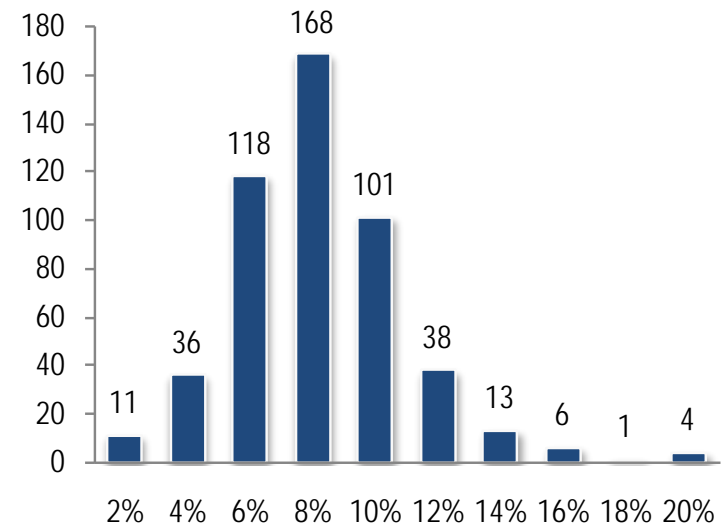


ALTAR Score™ in Practice

Applied to a universe of 500+ equity ETFs:

- ❖ Average ALTAR Score™ = 7.2% in line with historical stock returns
- ❖ Normal distribution (chart) with a standard deviation of 2.8%
- ❖ High ALTAR Scores™ are BUY candidates
- ❖ Low scores are SELL candidates

Distribution of ALTAR Scores™



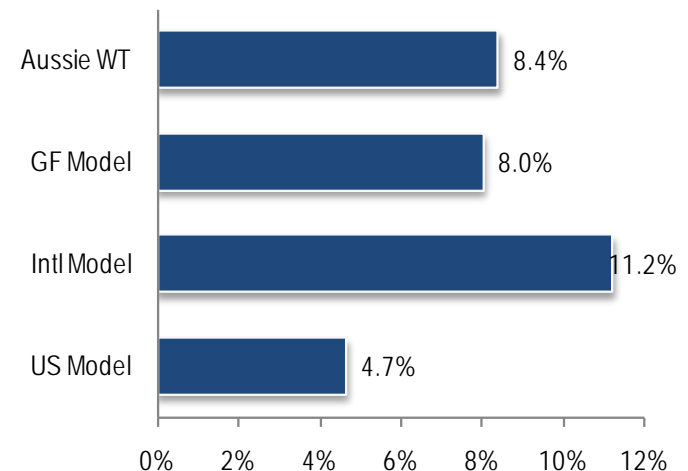
Note: as of Dec. 10, 2009, current coverage universe

ALTAR Score™ in Practice

Used as primary selection tool in four model portfolios:

- ❖ US Model, *US equities*, +4.7% vs. S&P500
- ❖ Int'l Model, *non-US equity*, +11.2% vs. MSCI EAFE Index
- ❖ Global Fundamentals, *Global equity*, NYSE-listed fundamental ETFs, +8.0% vs. FTSE All-World
- ❖ Australian World Traveler, *Global equity*, ASX ETFs, +8.4% vs. FTSE All-World

Performance vs. benchmark



Note: Inception date for US, Int'l & GF models is 7/15/07; inception data for Australian World Traveler is 7/15/09. Cumulative over/underperformance since inception versus benchmark (chart).