

SKYBRIDGE VIEWS

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Due to disappointing US and European economic data, sharp sell-offs in market currencies and equities and continued deterioration in emerging markets, the first quarter of this year showed slower global economic growth than expected. Partway through the second quarter, the ECB has cut its refinancing rate to an historic low primarily to minimize the risk of deflation and the risk of US deflation still remains a potential issue - yet equities are reaching new historic highs primarily due to QE.

In this edition of SkyBridgeViews, SkyBridge Capital's managing partners and investment leadership – Anthony Scaramucci, Ray Nolte, Troy Gayeski and Robert Duggan – provide an overview of SkyBridge Multi-Advisor Hedge Fund Portfolios – Series G - and their perspectives on the US and global economies, geopolitical landscape and considerations for the anticipated conclusion of QE.

1. Q1 Portfolio Review: What impact did market activity have on the portfolio?

Ray Nolte, Co-Managing Partner & Chief Investment Officer, SkyBridge Capital: I think the first part of the year, this first quarter of the year, is a really interesting quarter to go back and look at, and it really tested the portfolio. You have a month like January, where markets were down about 3.5 percent; the portfolio managed to put up positive returns in that month, up modestly. I think what I really liked about the portfolio is the strategies where we thought we had more market beta were generally flat to down a little. Our cash flow generative strategies were up and kind of behaved exactly as we would expect, in kind of an uncorrelated way to the other strategies. So the portfolio effects really did exactly what they were supposed to in January. You flip to February and all the sudden you get a big up-move in the markets. The more beta-centric positions we have had a very strong February. The less correlated strategies did exactly what we anticipated them to do. Their own path generated some revenue, so we had kind of an outsized, up month. And then we run into March, very different month from January and February, where you had a lot more volatility. Partway through the month you had policy risk come in, when Janet Yellen came out and held her first press conference - that got markets a little bit nervous over, what is the tenor until they start raising rates? She threw out the 6 months that got people nervous and then later in the month you had Ukraine and Russia situations, you had geopolitical risks come in - very volatile month. Despite that, we had pretty much a breakeven month in March, despite the volatility. So, all in all, three very different months, and the portfolio was tested in each of those months and our takeaway is: the allocation process that we put in place really worked the way it was designed to.

2. Q1 Portfolio Review: How did the portfolio shift?

Troy Gayeski, Partner & Senior Portfolio Manager, SkyBridge Capital: Well, unlike 2013, where we had substantial turnover well above our long term average, we had about 50 percent turnover over 13 months, transitioning the portfolio from a heavy cash flow generative exposure to one more focused on event driven equity. Turnover in the first quarter was a bit lighter; it was only around 8 percent. We don't expect as much turnover this year in general. So what we're trying to do is keep our event driven equity and multi-strategy exposure relatively constant and then complement that with other cash flow generative strategies. So turnover was definitely lighter than what we've seen recently.

3. Q1 Portfolio Review: How did event driven equity perform?

Troy Gayeski, Partner & Senior Portfolio Manager, SkyBridge Capital: It actually outperformed our expectations in the first quarter, given what happened with equity markets. So equities were up about 1.8. Our event driven equity managers substantially outperformed that. The weighted out position was up about 4.8 percent. We thought that exceeded expectations. It was mainly because managers were able to pursue a variety of hard events as we have been discussing around mergers and acquisitions, asset sales, special dividends, some activist positions. So we don't expect that to continue – that degree of outperformance – we have tried to articulate many times that we expect a relevant outperformance to become more subdued as we go forward. But for the first quarter, yes, event driven equity actually outperformed expectations.

4. Q1 Portfolio Review: How did the rest of the portfolio perform?

Troy Gayeski, Partner & Senior Portfolio Manager, SkyBridge Capital: Well, fortunately, one of the reasons we had such a strong first quarter compared to the hedge fund indices again is pretty much every strategy outperformed expectations, and that is rare. Typically over any period of time one or two themes underperform, one or two themes outperform and in general you do slightly better than target. In the case of the first quarter, both the pre-payment and credit sensitive RMBS managers had very strong quarters, our Basel III bank recapitalization theme did extremely well, as well, and last but not least, our high yield exposure was stronger than we thought. That's a much smaller position today than it was, but it contributed to performance. The only very de minimis exposure that underperformed expectations was our very tiny long-bias long-short equity, that still made money, but less than we would have expected given the fact that equity markets were up close to 2 percent.

5. Q2 Strategy Outlook: How is the portfolio positioned this quarter?

Troy Gayeski, Partner & Senior Portfolio Manager, SkyBridge Capital: Well we are keeping our beta relatively constant. Our event driven exposure is relatively constant, and our cash flow generative strategy is relatively constant. Our master game plan is to start reducing beta either in the early second

quarter or late second quarter in anticipation of the end of quantitative easing. So that's going to be the next big shift in the portfolio as we get a bit more defensive going into the end of QE.

6. Q2 Strategy Outlook: What factors are driving opportunity with shareholder activism?

Anthony Scaramucci, Co-Managing Partner & Founder, SkyBridge Capital: Well there are a lot of different factors that are going into it. If you look at the macro backdrop, we have had a sluggish economic recovery since the recession. It's a long recovery, but it just hasn't been as robust. We are growing in the 2 to 3 percent zone as opposed to the 4 to 6 percent zone, a result of which a lot of corporations didn't rehire people that were anticipated to rehire. There has been a tremendous amount of cash build up on the S&P 500 balance sheet; you've got \$2 trillion plus on the balance sheet. At the same time you have that going on there's been regulatory changes. The Dodd-Frank laws as an example is making it easier for minority shareholders to establish their voices in the boardroom and with the CEO. So when you take that confluence of events, it's a very robust, very ripe environment for activism, event driven. You've seen a ton of merger activity in the first quarter of this year. You are seeing a lot of activists take positions in companies to agitate boards. And it's the main reason why our portfolio management team made that strategic shift. We took down our mortgage exposure, our credit and structured credit exposure and amped up our equity exposure.

7. Q2 Strategy Outlook: Which strategies are you avoiding and why?

Robert Duggan, Managing Director & Portfolio Manager, SkyBridge Capital: Macro and CTA managers have really struggled. Not just over the past year, but really since the crisis, coming out of the financial crisis. We think there are a couple of different reasons for that. One, if you think about what a macro manager or CTA manager typically needs in terms of an environment to generate returns - they need explosive trends and they need volatility. Additionally, dispersion amongst assets classes. Over the last several years, or post- crisis, what we've seen in the markets is correlation of asset classes that are elevated, although they have come down a little bit recently. You've also seen a lack of explosive trends and a lack of volatility, or a lower volatility regime that we've been in. So these factors combined have made it a fairly difficult environment for macro and CTA managers and we don't really see that changing anytime soon. Additionally, one thing that we point to is global macro managers in the current environment that have actually performed fairly well have done so with reflationary types of trades. And these trades are obviously correlated to risk assets, exposures that we already have in our portfolio, so therefore we are not seeing the correlation benefits of what you would typically expect from a global macro or CTA manager. So we expect to remain lightly exposed there.

8. Q2 Strategy Outlook: Will there be an allocation to emerging markets?

Robert Duggan, Managing Director & Portfolio Manager, SkyBridge Capital: At SkyBridge we have no exposure to emerging markets. That's based on our negative view of the space. It's really a function of a couple of different reasons, both fundamental and technical. From a fundamental perspective, these

markets are now experiencing a slowdown in growth. I think the 2003-2007 boom times are obviously way in the past and not coming around any time soon so we are seeing slower growth in the EM economies. Additionally, in the US you are starting to see a pickup in growth, which is a positive and that growth is ultimately leading to a tapering of QE and ultimately a rising of rates which is not a positive tailwind for EM market countries and assets. Add on the technical side we are seeing a lot of money that has come into this market post crisis. So of the \$250 billion or so that have come into emerging markets over the last several years, most of that has come into the market post crisis which has resulted in significantly lower returns than developed market equity exposures, so I think you are going to start to see further assets come out of the market and we think at that point potentially emerging markets could be interesting. So for the next six to nine months we think the emerging markets are likely a difficult place to make money. Additionally, you do have the elections coming up in a number of different countries which is leading to uncertainty in many of these markets, therefore after that time period; we are likely to see some potential opportunities.

9. Q2 Strategy Outlook: What impact may rising rates have on the portfolio's positioning?

Troy Gayeski, Partner & Senior Portfolio Manager, SkyBridge Capital: Well going forward, at some point in the second quarter and certainly by the third quarter we are going to be reducing our beta from around .5 to .3, maybe even lower. Basically what that means is we will have less sensitivity to equity markets because we think the probability of corrections is increasing. We still think the equity bull market continues, but gains will be much harder to come by. They are already harder to come by this year than last year and they will be much harder to come by once QE ends.

10. US Economy: What are your views on the current state of the US economy?

Anthony Scaramucci, Co-Managing Partner & Founder, SkyBridge Capital: The economy's very sluggish. It's way more sluggish than the even some of the data suggests. The lower and middle class are struggling. Take yourself out of the insulated bubble of say the tri-state area and go into the heartland and spend time in the real economy and what you will find is that the average American is struggling. They are struggling in the college world. They are struggling in the household. And it is not clear to me when we are going to resolve that. We are growing below trend line. If you look at 2 percent productivity which is what should happen in a modern economy like ours and you add the 1.1 percent population growth – thank god the US is growing – you have to grow at about 3 percent just to stay even and we are having a rough time growing at 3 percent. So in many ways we are in a statistical recession. And this is not something one of your politicians is going to tell you, but that's really what the real world looks like right now.

11. US Economy: What should Washington do to help improve the US economy?

Anthony Scaramucci, Co-Managing Partner & Founder, SkyBridge Capital: Well if Washington probably did the opposite of everything it's doing, we'd probably have a better economy. I think we all know in the United States that the politics of extremism doesn't work, we know in the United States that the locking of heads in Congress, the Presidential branch and the legislative branch, constant locking of

heads, going nowhere, doing nothing, probably hasn't been a super successful strategy. The United States, the largest economy in the world, has not passed a federal budget in five years; we have operated the world's largest Federal budget on a continuing resolution and that has long term consequences for everyone because nobody can really plan off of what the Federal government is doing. So until we dial back the rhetoric, dial back the politics of extremism, we are faced with what I think is an albatross on our back, which is a sluggish government which is not going to aid in the long term growth and success of American businesses.

12. US Economy: If you had lunch with Janet Yellen, what would you say to her?

Anthony Scaramucci, Co-Managing Partner & Founder, SkyBridge Capital: My best experiences when I'm having lunch with super important people, is that I try to do something that I'm not naturally good at which is to let them talk and have myself listen. So I would probably come with a series of questions and I would do the best I could to listen to her. And the first question I would have for her is to explain the unemployment situation to me the way she sees it, because the way we see it at SkyBridge is that we are in a national unemployment crisis. You know the U6 unemployment number, which factors in all of the part timers; it has a factorial in there for the labor participation rate and squeezes out all of the statistical nonsense. We are at a 12.7 percent unemployment rate. My number one question would be on unemployment, how does she view unemployment, and what does she think the Fed can do to help cure the national epidemic of unemployment?

The second thing I would ask her about is deflation. I would want to know what her opinion is, where we are, where we stand on deflation. The great debate in the US now is about are we in a deflationary environment or an inflationary one? And the truth of the matter is deflationary environments are way more harmful than inflationary environments. Most Americans are conditioned and accustomed to deal with inflation because a lot of us grew up in the 1970s and we understand the dynamics economically of inflation. But if you ask the average American about deflation, they really don't understand what that means. So, what does that mean, my job, my salary goes down and then the price of the goods go down too, so what's the big deal about that? See what people forget is that because we are a debt laden economy. If you are holding debt, like let's say a mortgage, where the federal government's holding debt - if you have a deflationary spiral, it's an absolute black hole, death star contraction on a modern economy. A deflationary spiral, someone has a house, they have a \$100,000 loan on the house and their job salary gets cut in half, well guess what, the burden of that debt is doubled. I mean, see people don't realize that. And in an inflationary based world, the burden of that debt is actually lessened because you are paying back those dollars that you borrowed with cheaper dollars. But when you flip it around, you end up paying back the debt with more expensive dollars. This is an absolute death spiral for an economy and I would want Mrs. Yellen to explain to me why I don't need to be up at night worrying about deflation. And then the last thing I would ask her about is why she took the job, because that's got to be a brutal one.

13. Global Economy: How may the situation between Russia and the Ukraine impact markets?

Ray Nolte, Co-Managing Partner & Chief Investment Officer, SkyBridge Capital: You know I think we often face geopolitical risk. Last quarter some of the things we were talking about were what's going on in the Middle East around Syria and Iraq, what's happening in North Korea with the South. We have talked in the past about what is happening in the South China Seas between Japan, China and Korea. So there are always little hot spots. Certainly this one flared up and it flared up pretty quickly it is probably more material because of geographically where it is located. At the end of the day, I think what that is probably more inclined to do is create some short term volatility unless it really spills over to a major confrontation. I think it will be just that. It will be short term noise that the market has to deal with. That said, it certainly takes investing in Eastern European emerging markets largely off the table, I think, for quite some time.

14. Global Economy: You recently returned from Asia. How is economic and investor sentiment there?

Ray Nolte, Co-Managing Partner & Chief Investment Officer, SkyBridge Capital: Yea, I had a very good trip to both Korea and Japan. I think it's kind of mixed sentiment out there right now. I think China is clearly showing some signs of not seeing as strong of a recovery as people had anticipated. I think the general sentiment is where people were hoping to see 7.5/8 percent growth; they are now ratcheting that down to 6 to 7 percent growth. Still growing but it is somewhat more subdued pace and that has caused people to have a little more anxiety around growth in the region. In Japan there is some question around what is the new impact of tax policy that went into place at the beginning of their fiscal year, as of April 1. How much drain will that have on economic activity? There are other signs, all be them modest, that there is some improvement in wages, there is some improvement in the workforce that may offset that. I think it's very much the jury is out on Abenomics and how successful they will be. And I would say the Korean folks that we met with said they felt reasonably good about things, but I wouldn't say anyone was jumping for joy.

15. Global Economy: Is there opportunity to invest in Asia?

Ray Nolte, Co-Managing Partner & Chief Investment Officer, SkyBridge Capital: Look, I think US based investors – and this probably goes more broadly than that – investors in general, if you look at strength of Asia, strength of Europe, strength of the US, I think everything points back to the US. I think you probably have almost as equal return prospects, but I think in the US you have a lot less risk associated with that. So I would continue running a portfolio that is more heavily weighted to US assets. I think a lot of the positive factors that are going to drive markets will also be supportive for US markets. I think there is more certainty around the US economy and US markets and, as a result, on a risk-adjusted basis I still favor US assets over Asian assets.

Important Information

All investments are subject to risk, including the possible loss of the money you invest.

For more information about SkyBridge Multi-Adviser Hedge Fund Portfolios – Series G (“Series G”), call 1-888-759-2730, to obtain a prospectus. Investment objectives, risks, charges, expenses, and other important information about a fund are contained in the prospectus; read and consider it carefully before investing.

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