Warren Financial
Investing for a Greater Purpose

Warren Safer-Equity Fund

FAQ (Frequently Asked Questions)

1) What is an overview description of the Warren Safer-Equity Fund?

1. A) The key advantage of the Warren Safer-Equity Fund is the unique volatility hedge employed. Utilizing the Warren Macro VIX Indicator, the hedge is created just-in-time as opposed to typical ETF vol strategies that employ short, mid-term or mixed futures holdings. Those holdings tend to have significant "roll-costs" in their futures contracts so that the hedge consistently loses money. Warren Safer-Equity utilizes options on VIX futures in an attempt to hedge away black swan or fat tail equity risk.

Warren Safer-Equity is an opportunity to achieve "safer equity investing".

On the long side, the Warren Safer-Equity Fund invests in companies that throw off large cash dividends compared to their peer group. Stock selection includes both fundamental bottoms-up analysis as well as technical analysis. Warren Safer-Equity avoids companies that may not have the financial strength to continue to pay significant dividends in the future. Stocks are selected from the global pool of possibilities and from many sectors of the economic landscape. Warren Safer-Equity protects the principal value of the long equity exposure with a hedge. The hedge is created by using options on the VIX (Volatility Index). The hedge is created just-in-time following signals created by the Macro VIX Indicator published on WarrenFinancial.com.

2) What is unique about this Warren Safer-Equity Fund?

2. A) The hedge is the most unique part of the strategy. Think of the hedge as catastrophic loss insurance. It's not insurance. But it functions like catastrophic loss insurance. The hedge is created when we purchase low delta calls on the VIX. We use a sophisticated hedging model to help us know exactly when, and how-much hedge to purchase at any given time. That model has been published and is called the Macro VIX Indicator (MVI). The MVI is a quantitative only model which is described on our website and updated whenever there is a change to the index. Changes to MVI should be considered a call-to-action for investors and specifically are used by Warren Safer-Equity to determine how much hedge to hold and when to hold it.

We believe the hedge in the Warren Safer-Equity is quite possibly the closest thing to a "perfect hedge" because:

1. Nearly perfect negative correlation to the stock market, meaning that when the stock market goes down the hedge nearly always goes up.
2. Massive upside potential. When the market dumps, the hedge has the potential to rise as much as 10x which could in fact, end up giving the Warren Safer-Equity an overall positive return if the stock market were to drop 10-20% in a short period of time.
3. Only a small amount of money needs to be allocated to the hedge and the rest of the assets can be invested according to the Warren Safer-Equity long strategy. Because of #2 above, the massive upside potential, it does not require a major outlay of capital to create the hedge. Typical investment in the hedge might be about 0.1% in a month where the Macro VIX Indicator tells us we should be buying hedge. This equates to just over 1% of assets/year in the fund which is significantly less than the amount the fund earns on the dividends from equity investment.

3) It seems that some hedge funds are not as liquid as regular investments such as stocks, bonds, and mutual funds, and that there can be "freeze periods" based on what might be going on in the economy - like in 2008. Describe the liquidity of the Warren Safer-Equity Fund.

3. A) In general, one reason to sell an asset would be to get out-of-the-market for safety sake to avoid losses. But since our particular fund, the Warren Safer-Equity is designed to be MORE conservative than the market, it will lose less when the market goes down. In addition, the hedge is designed to GAIN when the market drops 10%-20%. In the midst of a major market decline, the hedge should gain a LOT. For example, in the case of a major decline like 2008, when the market drops more than -10% in a month, at such a time, the hedge could gain so much as to actually offset all the losses of the stocks and possibly bring the fund an overall profit.

Since the fund is designed to be conservative, there should really be no reason to exit to avoid losses. The only investment reason to exit would be to invest MORE aggressively in the good times. To avoid this problem, we recommend only putting as much assets into the fund that you consider long term conservative holdings, not growth holdings. Warren Financial can manage your growth holdings outside the Warren Safer-Equity Fund.

Specifically regarding Warren Safer-Equity, we don't hold our customers in the fund for undue times for no reason. The exit points are end-of-month and end-of-quarter. According to the official paperwork, there are only 2 exit points per year, however, for clients whose money we are managing at Warren Financial, we are significantly more flexible. For clients who are remaining clients, we allow them to take distributions or exit the fund at the end of any given month.

4) What about the fees. I read about "2 and 20," a percentage of the assets in the fund and a performance fee if the fund's net asset value increases that year. Is this on top of the fee that you earn regularly? Do these performance fees include a "hurdle" where the performance fee is only paid in excess of a stated rate? Do these funds have a specified period of time that they shouldn't be touched without a penalty - are these the "redemption fees? Is there a penalty, or more fees taken if your investments exceed a predetermined percentage of the original investment? Do you determine a percentage for me when investing?

4. A) Regarding fees, we give our clients a huge benefit here. Warren Financial does not charge our clients anything extra to be in the Warren Safer-Equity fund. Nothing. It's true that standard hedge fund fees are in fact as you say, 2% of assets under management and 20% of the performance upside. This is because hedge funds use sophisticated hedging techniques and need to compensate the traders who run these strategies. However, the Warren Safer-Equity Fund is not run with the typical heavy fee structure. Non-clients that only get into the fund and don't use Warren Financial for asset management don't get this benefit. However, clients of Warren Financial pay only our regular standard fees for money management and nothing more. So, we have no reason to push clients into the fund. We make nothing extra on the fund. This is a seriously solid good deal. Why do we give such great terms? Because we designed this fund for the benefit of our clients, first and foremost!

5) Is Warren Safer-Equity considered a Market Neutral Fund, one that "neutralizes" the effect of market swings? Are there "Event Driven" investments? If so, how does Warren Safer-Equity get this information, like when there is going to be a merger or an acquisition, or takeover?

5. A) Warren Safer-Equity is not technically considered a "market neutral" fund. Warren Safer-Equity is more of a long/short fund. A true "market neutral" fund wouldn't make any money when the market goes up. We do try to make money when the market goes up and we do try to limit losses, or even to make money when the market goes down. There is a ton of information on our website about the fund. Please go to WarrenFinancial.com to view all the relevant information, such as Top 10 Holdings, Strategy, etc.

6) Do you have many clients using the Warren Safer-Equity Fund for investing? It appears to be a lot of work being so vigilant watching what to do and when and where to invest. What kind of "risk management" system to you have in place? I do know that all investing has its risks.

6. A) Yes, many of our clients use the fund. And some non-clients from the outside simply invest in the fund without having us managing any of their other money. Warren Financial may have some of the best risk management systems in the world. That is our specialty. Randy Warren spent 10 years (during the 1990's) creating some of the best risk management technology in the world for major international banks all across the globe. Warren Financial knows risk management. We know everything that is going on with the fund on a minute by minute basis. And we have a super sophisticated hedging system in place that we talk about on the CNBC, Bloomberg, Wall Street journal, etc. Randy Warren was on Bloomberg TV September 28, 2012, talking all about the Risk Management system of the fund. To the world, i.e. to the press, we reveal some, but not all our secrets!

7) Hedge funds are privately-owned pools, exempt from mandatory registration with the SEC; do you voluntarily register with the SEC? Are there any anti-fraud provisions and how are they enforced? (Think Madoff!)

7. A) Warren Safer-Equity Fund is registered under RegulationD with the SEC as is every fund. We have the fund audited every year by a major accounting firm such as Grant Thornton and more recently by Eisner Amper. The full audit is available upon request and is automatically sent to all clients in the fund.

8) What are the state regulations for managers who have less than $100 million in assets? What is your relationship to the fund you are recommending to me? Do you have funds in the same place you will put mine and, if so, how have you done?

8. A) The State of PA has all the same regulations as the SEC plus a few small additions. Small variations in the state rules that we have to follow in addition to the SEC. Warren Financial is a Federally registered advisor with assets over $100m.

Yes, each Investment Advisor representative at Warren Financial has money in the fund. Sometimes this is called "eating your own cooking". If the cooking were making people sick, we would be the first to know.

We run the fund right here at Warren Financial. We have used various custodians to hold them money, including Goldman Sachs, J.P. Morgan, Cowen, Pershing, and TD Ameritrade. We trade it using sophisticated trading tools right on our desktops.

9) Why is the base income so high to be able to invest in these funds? Also, needing $300,000 to start, is that a particularly high amount (33%) of my investable income to be using here? What I've read of possible fees is that they are pretty high so that would greatly reduce my earnings.

9. A) The SEC sets the standard for who is eligible to invest in the fund. As of the implementation of the Dodd-Frank bill, the standard was raised to allow only those investors in the fund who have more than $1m in investable assets (not including their home). The $300k minimum investment in Warren Safer-Equity would be considered low for a hedge fund investment. Many funds require $1m, $1.5m, or more as a minimum. Again, the fees are not a concern since we are not charging our clients anything extra.

10) Since hedge funds appear to be illiquid, among other things, this makes it hard to construct a satisfactory index, and quoted returns may not be available in practice. I assume you use these quoted returns when determining where to invest; have you found them to be pretty accurate in the past and do shareholders get this information from the fund? Since there seems to be no mandatory pressure to do this, do they just publish when the funds are looking good and do they have to be accurate or can they or do they inflate these results since there doesn't seem to be anyone overseeing this process?

10. A) Warren Safer-Equity is not illiquid as mentioned above. Further the assets inside of Warren Safer-Equity are ALL stocks listed on the major exchanges which have quotes available every minute of every day. So our fund is not hard to value and there is no time when we have to estimate any valuations. We know what it's worth every second of every day. And regarding oversight, it's not accurate to think that no one is overseeing the process. As mentioned above, we are under the SEC and PA and have a full audit done every year by a P.C.A.O.B. accounting firm such as Eisner Amper. In addition, Cortland Fund advisors in Chicago is the administrator of the fund - this means that they produce the statements that get sent to you the owner/investor. So, Cortland is overseeing things as well. In our opinion, there is as much oversight of our fund as for any standard run-of-the-mill mutual fund in the world.

11) I read that the lifespan of many hedge funds is short so there are many new entrants and departures each year. Is this how they - and you - work? Is that a problem with some funds not surviving this? I know you mentioned some pretty stable-sounding companies to invest in. I think I need real specifics when this process starts.

11. A) Our fund began in Sept 2010, so it has been around for quite some time. Annualized return on investment information is available and updated regularly on our website. Some funds don't tell you what assets are inside them. We tell you, every month exactly what the fund holds. No secrets. This is more disclosure than you receive from any mutual fund. Mutual funds are only required to report to shareholders their holdings at the end of each quarter year - and they get a sizable lag time before they have to reveal it. We provide all the information each month in a timely fashion, direct from Cortland the administrator.

12) Are the funds you are recommending for me closely connected to investment banks as their prime brokers? I read that banks can freeze hedge funds. What does that mean for my investments and under what circumstances could it happen? Also, so many banks have been in trouble in these past years.

12. A) It's a good thing to have a custodian. Having a bank be your custodian ensures there can be no fraud. So, yes, the funds are at a bank, in this case we have used Goldman, JP Morgan, and most recently Pershing. It's difficult to imagine ANY circumstance where funds could be frozen. No different than depositing your money in the local bank – hard to imagine any circumstance where those types of funds could end up frozen. Note that banks are in better financial shape today than before the 2008 crisis. Banks have better balance sheets and way more Tier 1

assets on their books. In fact, banks have been some of the best investments so far in 2012 and this should continue for several more years.

13) I have some concerns about the limited level of transparency that I read about and different funds can have different levels of transparency with reporting information and performance measurement. How have you dealt with that? I assume you have to do your own research, but how do you know the findings are real? Performance is measured by comparing returns to the estimate of risk. Do you feel confident that are you able to get accurate information on the returns? And are you leading me towards "market neutral" funds?

13. A) All the investments in the fund are fully liquid and traded every day on a major stock exchange. Nothing is ever estimated or illiquid. And we disclose everything to our investors after month-end, each and every month.

Performance is measured by Cortland, the fund administrator and reported to you on your statement each month. In addition, we report on our website a simple NAV return-on-investment monthly as well as compounded annual returns based on the NAV. Since the assets inside the fund are easily valued, we can be confident that the fund returns for Warren Safer-Equity are 100% accurate and up to date.

Warren Safer-Equity is the safest hedge fund I can imagine! Just think about the possibility that Warren Safer-Equity could end up making money if the market were to ever drop 20% or more. The market has done that in the past, and probably will again in the future, and Warren Safer-Equity stands to benefit in such hard times.

14) Custodial Relationships, Score-Keeping and Statement Timing. Since TD Ameritrade is tracking the Warren Safer-Equity fund in my account, and the fund also has Cortland Administrators tracking the account, how does that work on a monthly basis?

14. A) TD Ameritrade tracks more than 400,000 hedge funds for their clients monthly. They have a process where they update the information on www.advisorclient.com for all 400,000+ funds simultaneously (more on this below). Cortland is the official score-keeper administrator for the Warren Safer-Equity fund. They do a calculation once per month of the value of the fund and produce the official monthly NAV, or price. Cortland is the official, most up-to-date information, so whatever your Cortland statement says should be taken as the bottom line. The timing of information flow on the fund goes like this:

At the end of a month, Warren Financial will update our own website, with an (Unofficial) NAV value for the fund based on our calculations. This should happen usually within a couple days of each month end and is the quickest piece of information, however, it is still unofficial until Cortland gives their number. Cortland will send you a monthly statement about 15 days after the end of each month showing you the official NAV and the value of your holdings (as of the end of the month just passed) as well as a listing of all the holdings inside the fund (full transparency). If there is any difference between the quick Warren Financial calculation and the Cortland calculations, we will update everything to match the Cortland numbers. At this point, the NAV posted on WarrenFinancial.com will be updated and changed to (Official). Finally, about 25 days after month-end, TD Ameritrade will update the value of your Warren Safer-Equity holdings available on www.advisorclient.com. As you can see, the TD information lags reality by about 25 days. When TD updates their website, it is 25 days past month-end and they are only reflecting the value of the fund at the previous month that just passed. TD's process calls for TD to wait for all 400,000+ hedge funds to update simultaneously. At any time, you can place a quick call or send an email to Warren Financial to get up to date unofficial information.

For example, Warren Financial will calculate the NAV for the end of Jan on Jan 31 and post our Unofficial NAV (price) on WarrenFinancial.com by about Feb 3rd. Cortland then sends out an official statement to each investor on about Feb 15th-19th which reflects the official NAV value of the fund on Jan 31st. If there is any difference between Cortland and WF we will update the NAV on the WarrenFInancial.com website and change the NAV to the Official Cortland number. Finally, near Feb 25th to 28th TD will update www.advisorclient.com to reflect the value of the fund as of Jan 31. So, there is a lag on TD site. And the cycle starts all over again on Feb 28th with Warren Financial updating the NAV (Unofficial) on WarrenFInancial.com, followed on March 15th by your Cortland statement, followed by TD getting updated on March 25-28th with the end-Feb 28th value of the Warren Safer-Equity fund.

Initial NAV calculation	You receive TD paper statement	NAV reported on WF Warren Safer-Equity website. Cortland stmt available	NAV reported online at TD
WF calculates NAV for month end Jan 31 and posts it to WarrenFinancial.com by approx Feb 3	TD paper stmt arrives in your mailbox approx Feb 8 (does not reflect the updated Jan 31 NAV yet – still reflects Dec 31 NAV)	Jan 31 NAV updated Feb 3 with Unofficial WF calcs Jan 31 NAV updated Feb 18 with Official Corland calcs. Your Cortland stmt arrives by email about Feb 18th-20th	Jan 31 NAV updated on TD's client no sooner than 6 business days prior to end of month = Feb 24-28
WF calculates NAV for month end Feb 28 and posts it to WarrenFinancial.com by approx Mar 3	TD paper stmt arrives in your mailbox approx Mar 8 (does not reflect the updated Feb 28 NAV yet – still reflects Jan 31 NAV)	Feb 28 NAV updated Mar 3 with Unofficial WF calcs Feb 28 NAV updated Mar 18 with Official Corland calcs. Your Cortland stmt arrives by email about Mar 18th-20th	Feb 28 NAV updated on TD's client site no sooner than 6 business days prior to end of month = Mar 24-28

In General) The Warren Safer-Equity is an opportunity to experience lower risk equity investing. The stocks in the fund may be low risk, such as ATT, Verizon, utilities like Duke and Excelon, First Energy, etc., however we may also invest in some growth oriented stocks from time-to-time if we think that conservative stocks will not make much gains in the coming months. In addition, Warren Safer-Equity has the possibility of making money when the market drops dramatically. Consider the hedge to be similar in nature to catastrophic loss insurance. It's not insurance, it's a hedge constructed of low delta calls on the VIX. This hedge operates like catastrophic loss insurance, meaning that when a catastrophe occurs, the hedge kicks in and makes Warren Safer-Equity a lot of money. The hedge does not help when the market goes down only 5% or even 10% over several months time - a slow burning, down sloping market. The hedge does indeed help when the market drops big and or drops quick.