HOW TO MAKE ACTIVE MANAGEMENT WORK

Special Risks

Foreign investments may be volatile and involve additional expenses and special risks, including currency fluctuations, foreign taxes and political and economic uncertainties. Emerging and developing market investments may be especially volatile. Investments in securities of growth companies may be volatile. Fixed income investing entails credit risks and interest rate risks. When interest rates rise, bond prices generally fall, and the Fund's share prices can fall. Diversification does not guarantee profit or protect against loss. **Past performance does not guarantee future results.**

OppenheimerFunds™ THE RIGHT WAY TO INVEST

AGENDA

- Where does alpha come from
- Recipe for success if alpha is a zero-sum game
- Method of differentiation matters

OPPENHEIMERFUNDS™
THE RIGHT WAY TO INVEST

Where Does Alpha Come From

Are active managers only playing a zero-sum game (gross of fees)?

- Homogenous Alpha
  - Function of constraints
  - Consistent utility functions
  - Zero-sum game
- Success in Active Management
  - Increase uniqueness (stocks)
  - Fundamental forecasting skill
  - Minimize volatility drag

Example:

High active share/low tracking error long-only manager

- Heterogeneous Alpha
  - Fewer constraints
  - Different utility functions
  - Net positive alpha
- Success in Active Management
  - Increase uniqueness (assets)
  - Identify mismatched utility
  - Effective use of leverage

Example:

Global Macro or

Capital Structure Arbitrage

OPPENHEIMERFUNDS™
THE RIGHT WAY TO INVEST

AGENDA

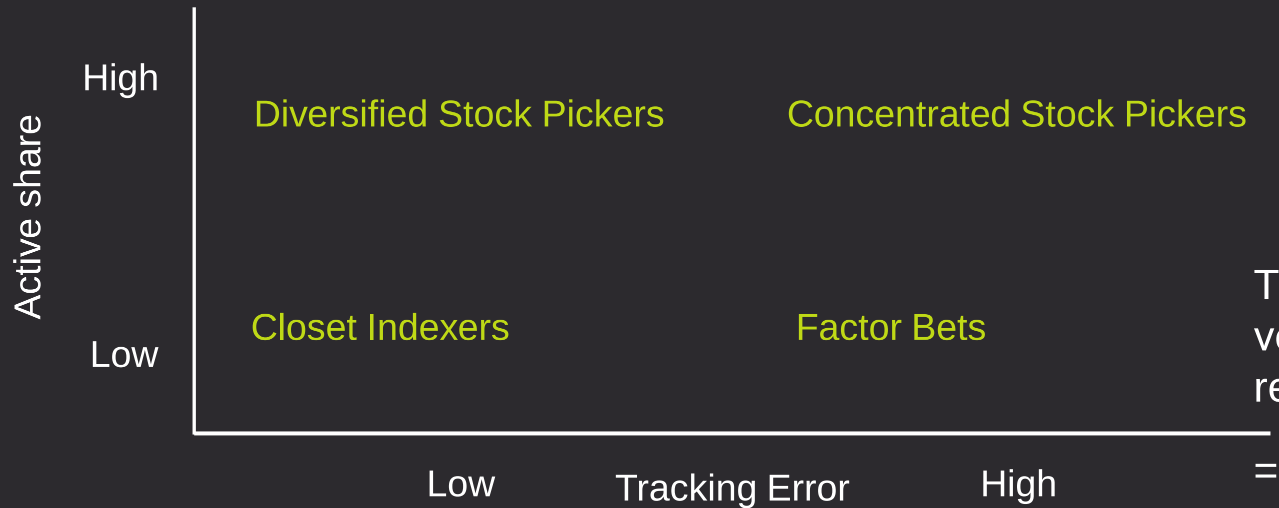
- Where does alpha come from
- Recipe for success if alpha is a zero-sum game
- Method of differentiation matters

OppenheimerFunds™
THE RIGHT WAY TO INVEST

Recipe for Success if Alpha is a Zero-Sum Game

Active share measures the percentage of stock holdings in a manager's portfolio that differ from the benchmark index.

$$= \frac{1}{2} \sum_{i=1}^{N} (W_{fund,\,i} - W_{index,\,i})^{*}$$



Tracking error measures the volatility of a portfolio's return relative to its benchmark.

$$= \text{stdev}\,(R_{fund} - R_{index})$$

The chart is meant for illustrative purposes only and is not meant to depict or predict performance of any investment strategy. The chart and methodology were sourced from a paper entitled "How Active Is Your Fund Manager? A New Measure That Predicts Performance" (2009) written by Martijn Cremers and Antti Petajisto of Yale School of Management. Higher active share may present increased risk of volatility and does not protect against loss.

*Note: The active share equation takes the weight of a security in a portfolio and calculates the difference between that weight and the weight of the security in the index. The absolute value of this number is summed across the whole portfolio and divided by 2 to avoid double counting in order to obtain an active share reading.

Study: The most active domestic stock pickers have beaten their benchmarks by 1.26% per year after fees and expenses

COMPARISON OF HYPOTHETICAL INVESTMENT RETURNING 9.26% PER YEAR VERSUS HYPOTHETICAL INVESTMENT RETURNING 8.00% PER YEAR

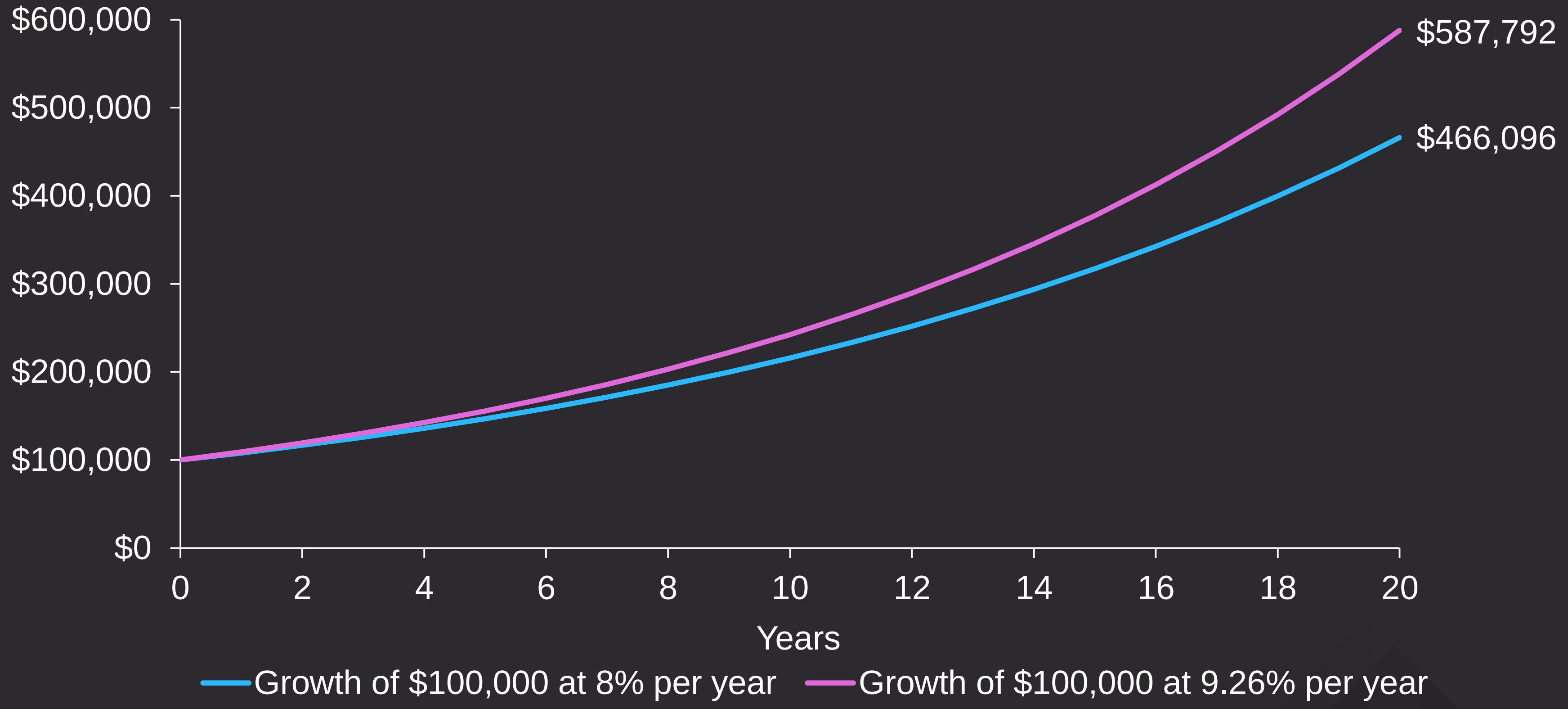
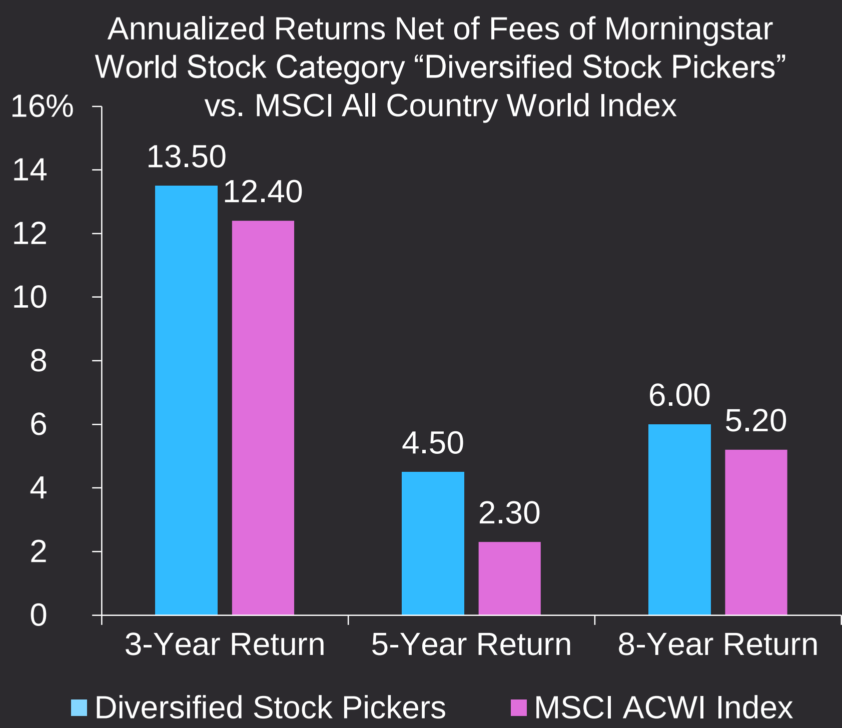


Chart is for illustrative purposes only and is not meant to depict or predict the performance of any investment product. It does not reflect any sales charges, if sales charges were taken into account returns would have been lower. This hypothetical illustration assumes an initial investment of $100,000

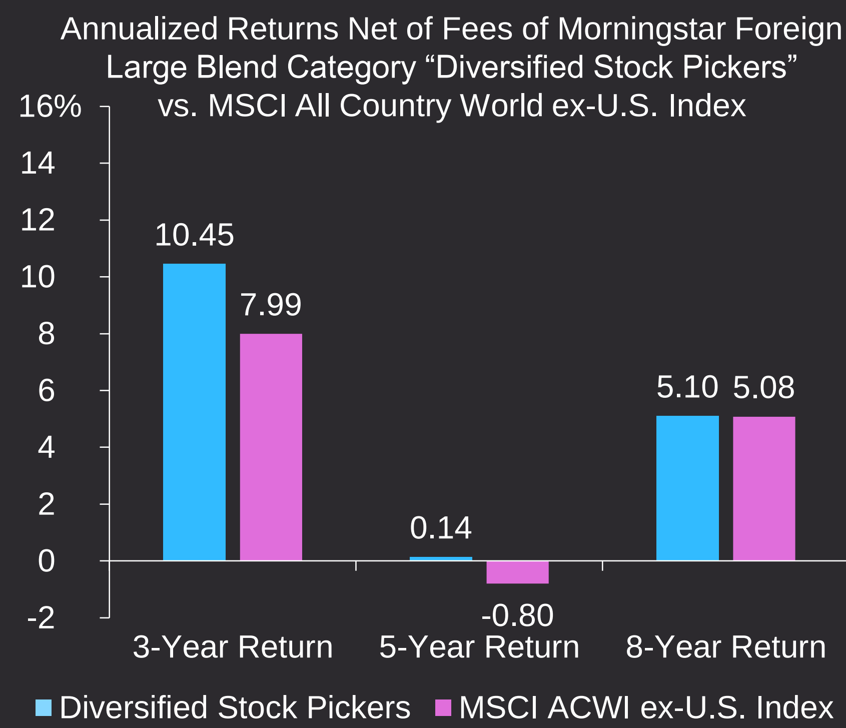
OPPENHEIMERFUNDS™
THE RIGHT WAY TO INVEST

High conviction active global and international managers also outperform over time

GLOBAL



INTERNATIONAL



Source: Morningstar Direct and Oppenheimer Proprietary Research as of 6/30/13. The Morningstar World Stock and Morningstar Foreign Large Blend categories were used, respectively, as proxies from all global and international funds. Within those categories, the fund's 3-, 5-, and 8-year average quarterly active share and tracking error were measured compared to its stated benchmark and the results were grouped by the median of both measures and divided into four categories: diversified stock pickers, concentrated stock pickers, factor bets and closet indexers. The charts above show the 3-, 5-, and 8-years of the "diversified stock pickers" versus their respective benchmarks. The MSCI All Country World Index is a free-float weighted equity index which includes both emerging and developed world markets. The MSCI All Country World ex-U.S. Index is a free-float weighted equity index which includes both emerging and developed world markets and excludes the U.S. Indices are unmanaged and cannot be purchased directly by investors. Index performance is for illustrative purposes only and does not predict or depict the performance of any investment. **Past performance does not guarantee future results.**

OPPENHEIMERFUNDS™
THE RIGHT WAY TO INVEST

AGENDA

- Where does alpha come from
- Recipe for success if alpha is a zero-sum game
- Method of differentiation matters

OPPENHEIMERFUNDS™
THE RIGHT WAY TO INVEST

Method of Differentiation Matters

Stock selection, diversification, and compound alpha

- Tracking Error is a function of stock specific risk and factor (beta) risk
- Stock specific risk can be diversified (our infamous free lunch)
- First we have to be different. . .then we have to be correct

Summary

Creativity, Self-Awareness, Risk Structure

- See what others don't
- Know what game you're in – and play by those rules
- Build and manage portfolios with intentional risk

OPPENHEIMERFUNDS™
THE RIGHT WAY TO INVEST

HOW TO SEE WHAT OTHERS DON'T