



ARROWPOINT PARTNERS

Arrowpoint Partners
2014 CPPC Conference
September 2014

DISCLOSURES

This communication is provided for information purposes only. This is not an offer to sell or solicitation of an offer to purchase any security. Any such offer or solicitation may only be made by means of delivery of the Private Placement Memorandum (as it may hereafter be supplemented, amended or restated, the “Memorandum”) of the applicable investment partnership (the “Partnership” or “Fund”). All statements made herein are qualified in their entirety by the applicable Memorandum.

The Partnerships described herein are speculative investments that involve significant risks, and there can be no assurance that the Fund will achieve its objectives or that the Partnership and its investors will not incur substantial or total losses. In considering an investment in the Partnership, prospective investors should consult their independent legal, tax, financial and other advisors, and should be aware of certain risk factors. Prospective investors are directed to read the more detailed discussions of risks and conflicts set forth in the Memorandum.

Past performance of the principals of the General Partner, the Investment Manager or any other collective investment vehicles or arrangements managed by such persons is no guarantee of the future performance of the Partnership or any such party.

This information is strictly confidential and may not be reproduced or redistributed in whole or in part nor may its contents be disclosed to any other person under any circumstances.

The investments described herein are noted for illustration purposes only and are included to illustrate the way in which the Partnership would invest in certain securities. The returns modeled on sample investments are not representation that other investments made by Arrowpoint have similar return profiles. It should not be assumed that this example or future investments will be profitable. If any assumptions used do not prove to be true, results may vary substantially.

The Arrowpoint Income Opportunity Fund, L.P. was launched on 1/11/2011. Barclays Capital US Aggregate Bond Index® (including interest income) covers the US dollar-denominated, investment grade, fixed-rate, taxable bond market of SEC registered securities. The index includes bonds from Treasury, government agency, corporate, plus mortgage- and asset-backed sectors. Barclays U.S. Corporate High-Yield Index represents the US dollar denominated, non-investment grade, fixed-rate, taxable corporate bond market.

Average credit quality is the weighted measure of the credit quality of the underlying securities within the fund. In some cases, the fund is able to base this calculation on the credit quality assigned by an independent, national recognized statistical rating organization (an “NRSRO”; such as Moody’s, S&P, etc.) In other cases, a rating for the individual asset held by the fund is not available. In these cases, the fund attempts to make a best-effort approximation of the credit rating of the asset by using the credit rating of the underlying issuer or a comparable asset as a proxy. Such investments, however, may perform differently and have different risk characteristics than a direct investment in the underlying issuer or comparable assets.

Arrowpoint Partners is a trade name for Arrowpoint Asset Management, LLC, a registered investment adviser.

APT000122 Exp 11-1-2014

WHAT IS ALTERNATIVE ABOUT FIXED INCOME?

-

UNLOCKING THE ILLIQUIDITY PREMIUM IN NICHE AREAS

AGENDA

- **Arrowpoint Partners – *Experience, Research, Partnership***
- **Historical Look at Investment Risk**
- **Types of Fixed Income Risk**
- **Finding Opportunity in Niche Fixed Income**

ARROWPOINT'S VALUES

Arrowpoint was founded on the belief that quality asset management is derived from the synthesis of the following core principles:

EXPERIENCE

- > Pedigreed investment team with a strong track record of success.
- > Comprehensive understanding across capital structures and strategies.
- > \$6.2 billion in assets and 37 team members with experience through market cycles.

RESEARCH

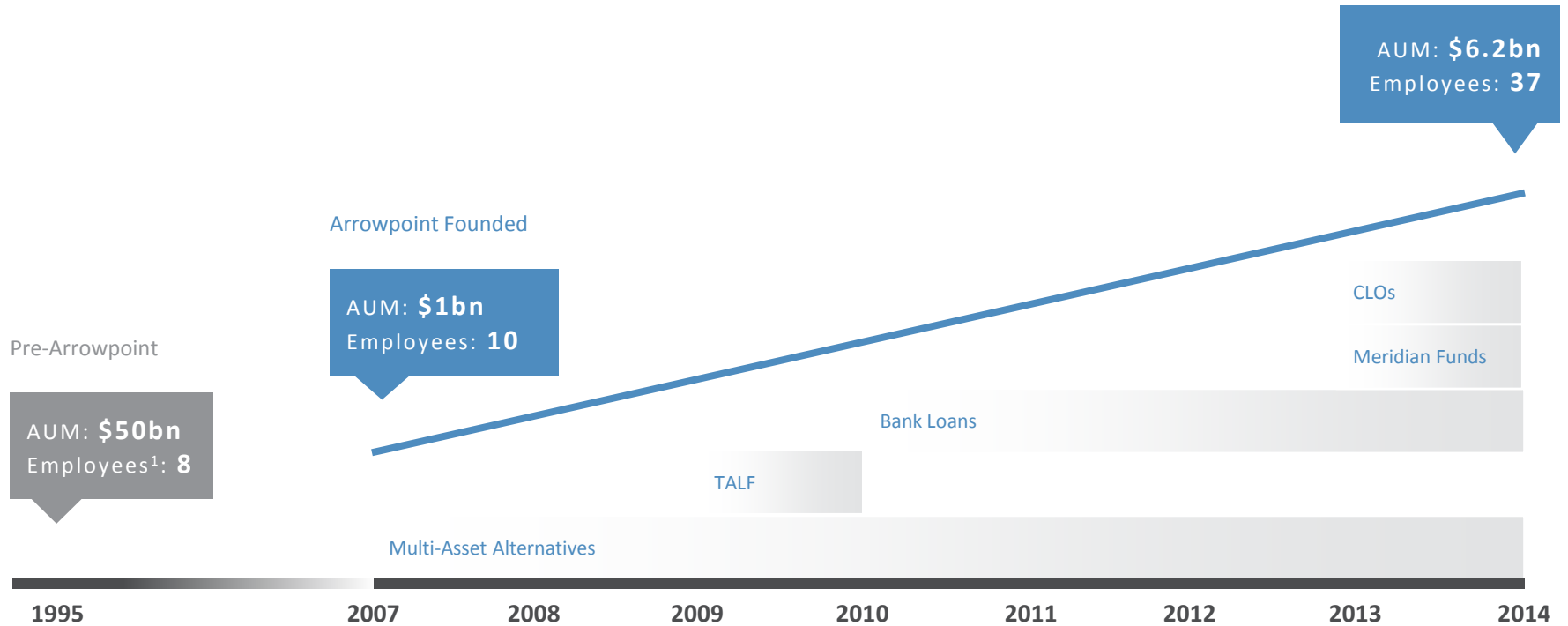
- > Rooted in an intensive fundamental research process.
- > Focus on consistent returns and managing downside risk.
- > Long-term investment horizon.

PARTNERSHIP

- > Employees work as a team in a collaborative culture.
- > Long-term client relationships.
- > 100% privately held by partners.
- > Adviser to the Meridian Funds.

ARROWPOINT HISTORY

Arrowpoint has a long history of investing across the capital structure to find attractive risk-adjusted investment opportunities for our clients.



¹ Reflects direct investment team size, not total firm.
AUM as of 6/30/2014. Source: Arrowpoint.

WHAT IS THE GREATEST RISK TO YOUR PORTFOLIO TODAY?

HISTORICAL RETURNS IN CONTEXT (25 YEARS)

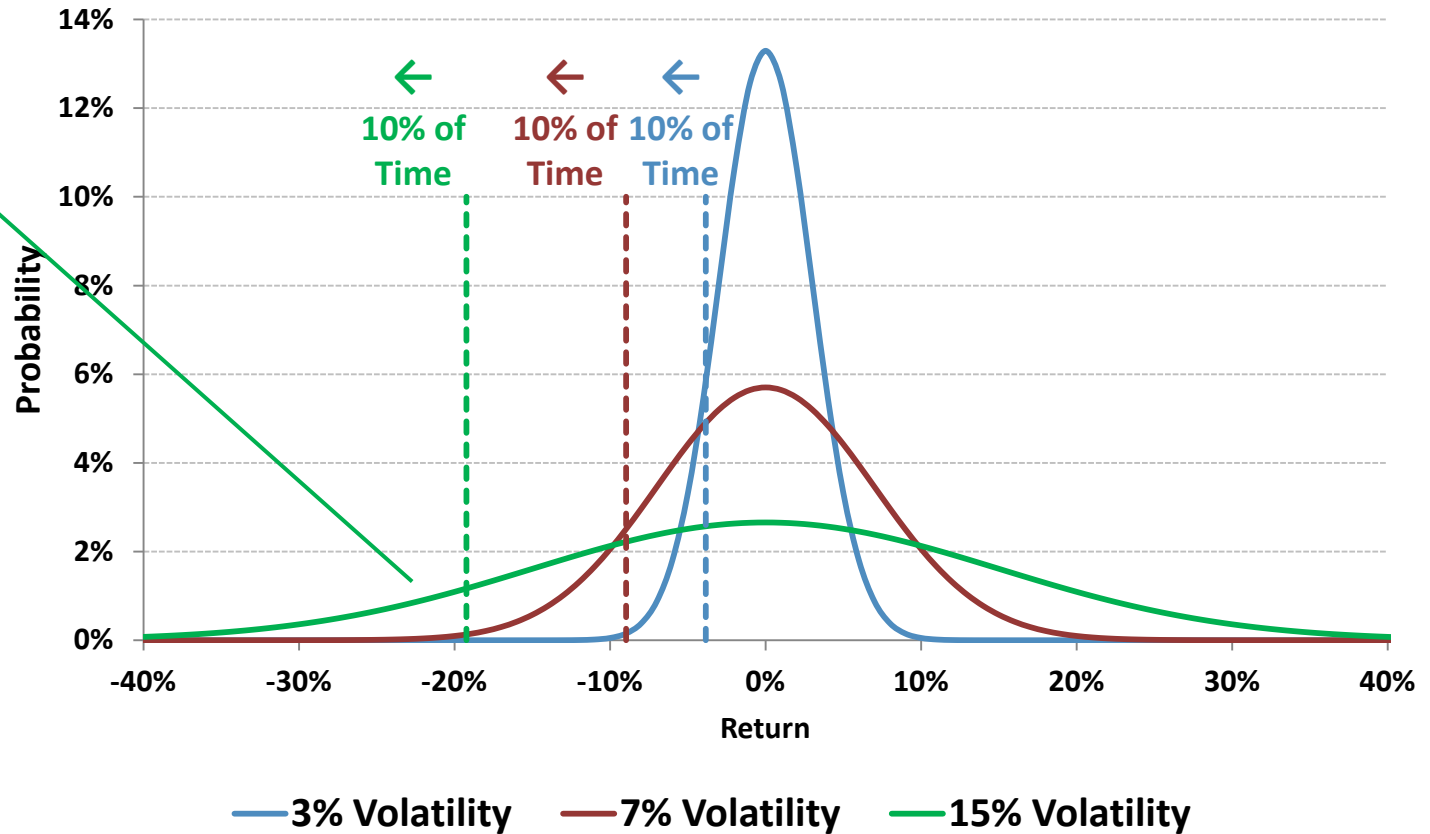
Returns should be viewed in conjunction with risk

| | Annualized Return Since Inception | Annualized Volatility since Inception | Maximum Drawdown |
|-------------------------------|-----------------------------------|---------------------------------------|------------------|
| S&P 500 Total Return Index | | | |
| Barclays High Yield Index | | | |
| Barclays Aggregate Bond Index | | | |

THE IMPACT OF VOLATILITY

Principal protection and growth are key

Normal Return Distributions



Market volatility can lead to dramatic performance swings

REAL WORLD (50 YEAR PERIODS)

Real world equity returns are not a normal distribution, making it even less attractive

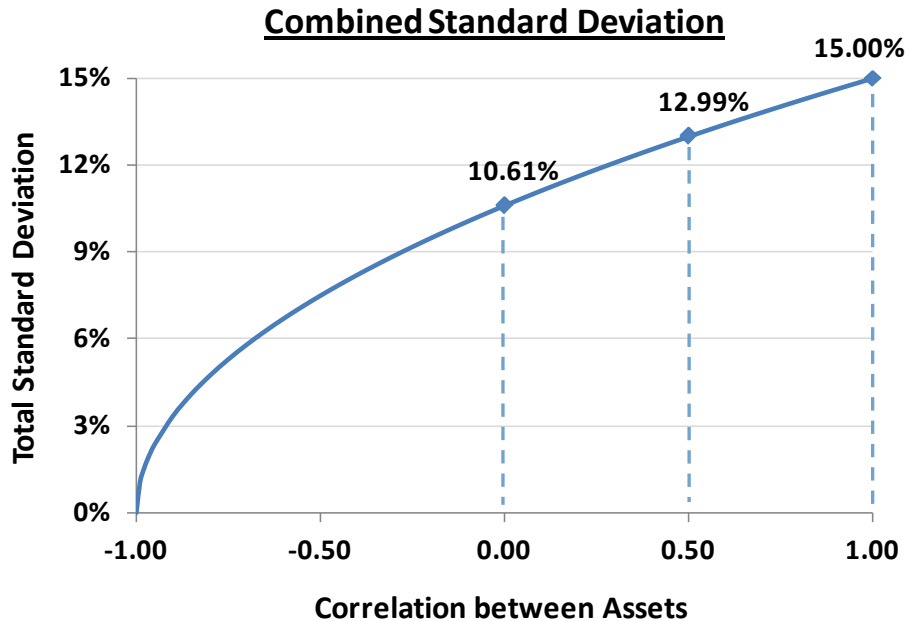
| | Scenario 1 |
|--|------------|
| Inputs | |
| Payout | 7.0% |
| Outputs (based on \$100 starting portfolio) | |
| Average Total Payout | \$263 |
| Highest Payout | \$660 |
| Lowest Payout | \$87 |
| % of 80%+ Losses | 50.6% |
| Average End Balance | \$69 |

Markets have historically averaged 6.7% returns with 15% volatility

After 50 years of 7% payouts, institutions were left with less than they started

Correlation Matters

Low correlation translates to reduced volatility



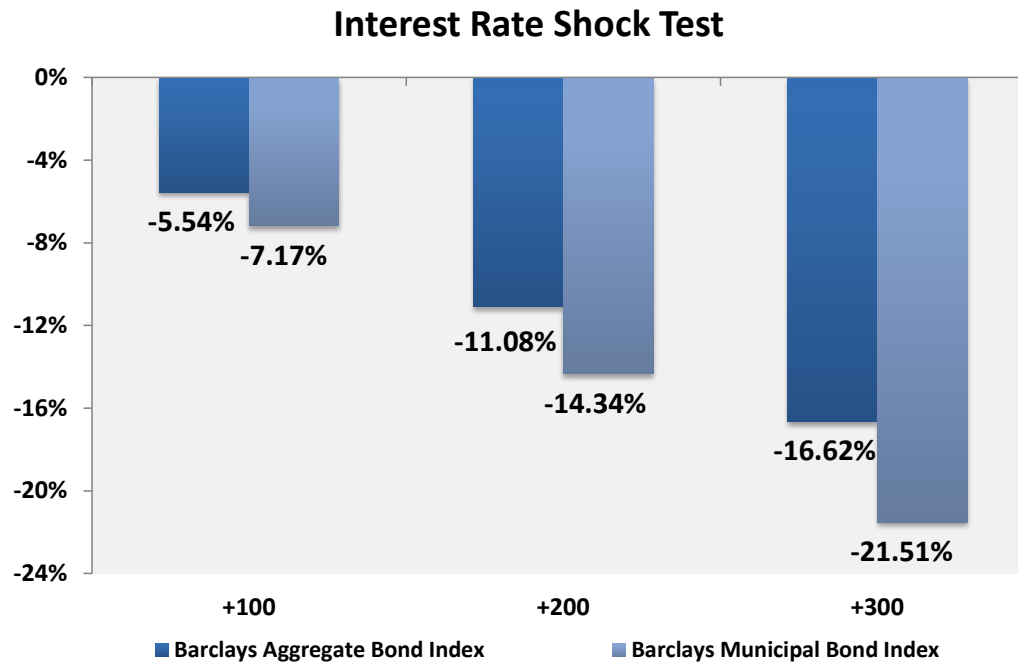
Reducing correlation dramatically improves the combined volatility

| Investment 1 Standard Dev. | Investment 2 Standard Dev. | Correlation | Combined Standard Dev. |
|----------------------------|----------------------------|-------------|------------------------|
| 15.00% | 15.00% | 1.00 | 15.00% |
| 15.00% | 15.00% | 0.50 | 12.99% |
| 15.00% | 15.00% | 0.00 | 10.61% |

TYPES OF FIXED INCOME RISK

INTEREST RATE RISK

An increase in interest rates may have adverse consequences for many bond portfolios



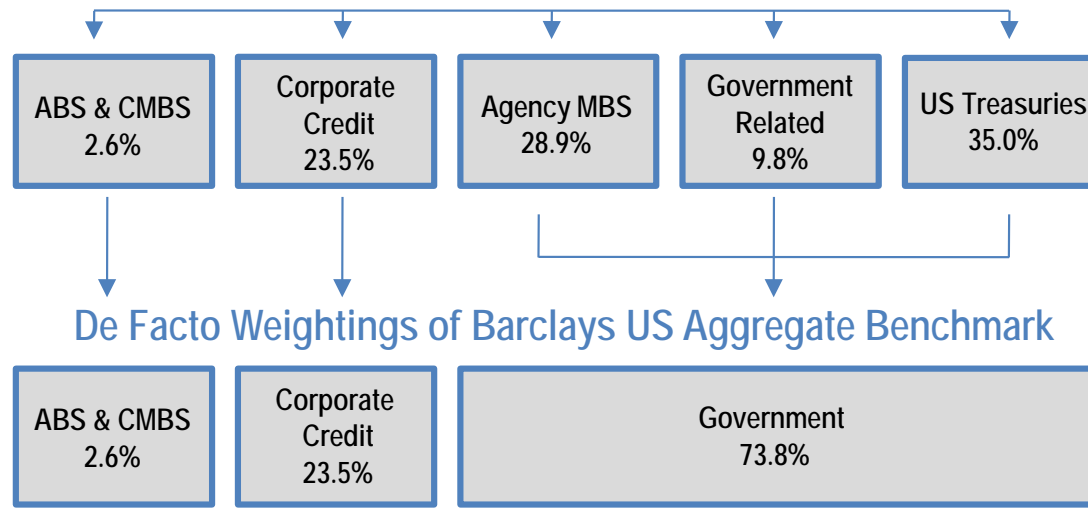
Duration:

Barclays Aggregate Bond Index: **5.54yrs**
 Barclays Municipal Index (non-taxable): **7.17 yrs**

INTEREST RATE RISK

Barclays Agg returns are highly correlated to changes in interest rates

Weightings of Barclays US Aggregate Benchmark, 7/31/2014



- Correlation: Returns of the Barclays Agg & Barclays Treasury Index is **88.5%** (10-year Period)
- Since the end of 2007, the duration of the index has gone from 4.33 to 5.54

CREDIT RISK

The spread over the treasury acts as compensation for owning credit risk. Spread compression in High Yield has resulted in greater interest rate sensitivity.

U.S. Corporate High Yield - Spread



$$\text{Total Return} = \text{Coupon} \pm \text{Price Change}$$

As credit spreads decrease, coupon (income) decreases

As coupon declines, sensitivity to changes in treasury prices increases

LIQUIDITY RISK

Illiquidity is an market risk that eases with the passage of time

Factors impacting liquidity:

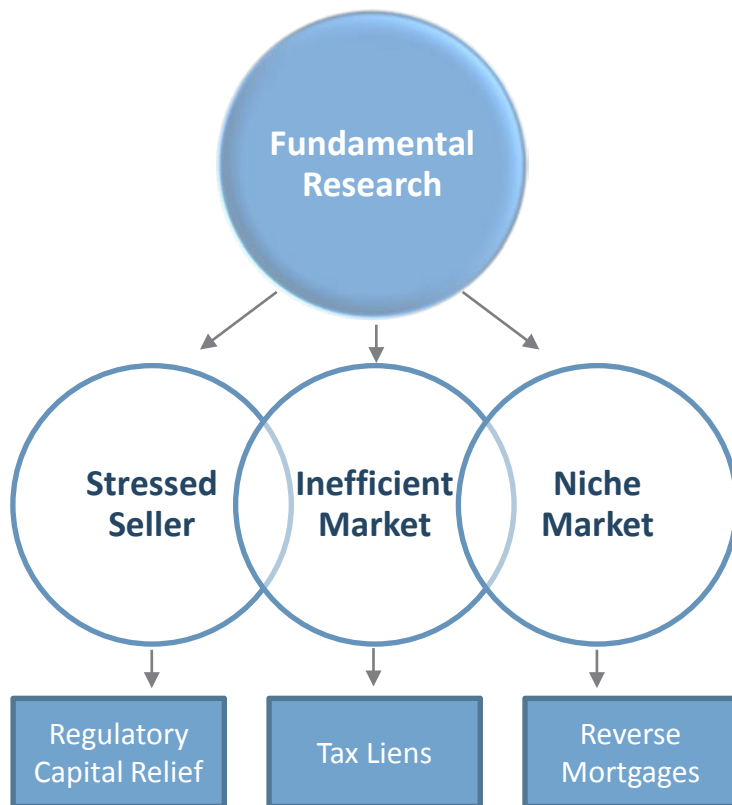
- Market Depth →
- Asset Type →
- Fungibility →
- Time Horizon →



FINDING OPPORTUNITY IN NICHE FIXED INCOME

REPEATABLE FUNDAMENTAL RESEARCH PROCESS

Apply fundamental research to diverse parts of the market containing recognizable patterns and variables which can lead to asymmetric risk/reward investment opportunities



Differentiation:

- **Prioritize risk before return**
- **Invest nimbly in niche markets**
- **Allocate dynamically across sectors**
- **Access industry relationships**

BANK LOANS

Stressed Seller

- Capital pressure on banks resulting from sovereign debt crisis and Basel III standards

Performing Loans

- Loan selection based on fundamental analysis of balance sheet, free cash flow, debt levels, and repayment ability of each underlying

Asymmetric

- Expected double-digit return given low historical default rate

EVALUATING RISK FOR BANK LOANS

25-year Historical Bond Default Rates

- Peak rate of BBB annual defaults: 0.76% in 2008
- Multiple years of no BBB defaults
- Default rates historically higher on bonds than bank loans

| Model Analysis for Recent Six-Year BBB Bank Loan Investment | | | | |
|--|-------------------------------|----------------------|------------------------|------------------------|
| | <i>Annual Rate of Default</i> | <i>Recovery Rate</i> | <i>Realized Losses</i> | <i>Return Estimate</i> |
| Best | 0.00% | 70.00% | 0.00% | 10.80% |
| Base | 0.25% | 70.00% | 0.08% | 9.90% |
| Stressed | 0.76% | 50.00% | 0.37% | 4.30% |

TAX LIENS

Limited Market Size

- 500 tax jurisdictions (28 states) hold tax lien sales annually
- Each tax jurisdiction has different bidding methods (i.e. interest rates, fees, servicing requirements)

Fundamental research

- Access to information is limited; most jurisdictions do not offer ability to search properties online
- Time intensive

Asymmetric

- Minimal default risk with reduced correlation to broader market

Arrowpoint Tax Lien Portfolio (Five states)

| | |
|-----------------|-----------|
| Number of Liens | 20,000 |
| Weighted LTV | 5% |
| Duration | 1.5 Years |
| Typical Term | 2-3 years |
| Portfolio IRR | 8.5% |

Reverse Mortgage

Liquid, AAA-rated, niche GNMA mortgage-backed security

Leverage Points

- Limited market size
- Reduced correlation to interest rates and credit spreads
- Fundamental research of key drivers
- Misperception of risk and asymmetric returns

| | Arrowpoint Reverse Mortgages | MBS Index |
|----------------|------------------------------|-----------|
| Target Yield | 6.75% | 3.11% |
| Credit Quality | AAA | AAA |
| Duration (yrs) | 3.79 | 5.51 |
| Spread | 5.79% | 0.86% |

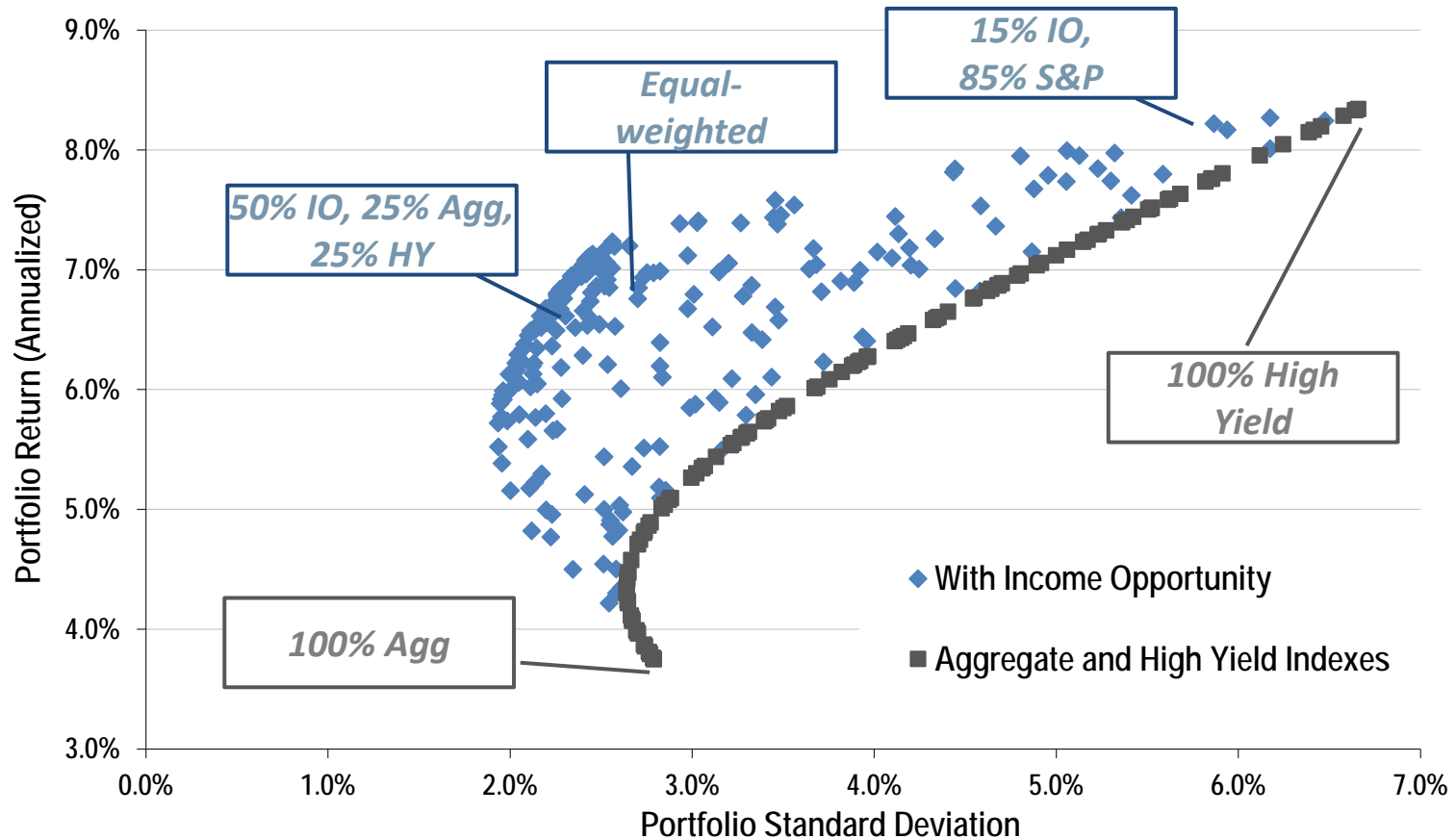
PUBLIC VS. OPPORTUNISTIC INVESTMENTS

| | Public Investments | | | Opportunistic Investments | | |
|-----------------------|--------------------|----------------------|-----------|---------------------------|-----------|------------------|
| | High Yield Index | Aggregate Bond Index | MBS Index | Bank Loans | Tax Liens | Reverse Mortgage |
| Target Yield | 5.70% | 2.33% | 2.96% | 10.80% | 8-10% | 6.75% |
| Credit Quality | B+/B | AA+/AA | AAA | BB | A | AAA |
| Duration (yrs) | 4.29 | 5.62 | 5.18 | 0.25 | 1.50 | 3.79 |
| Spread | 3.88% | 0.58% | 0.79% | 9.11% | 7.50% | 5.79% |

Improving the Efficient Frontier

Income Opportunity exposure can shift the efficient frontier of a portfolio

Efficient Frontier



CONTACT ARROWPOINT PARTNERS

100 Fillmore Street
Suite 325
Denver, CO 80206
303.398.2929 **MAIN**
info@ap-am.com

CHRIS DUNNE

Managing Director

303.398.2952

cdunne@ap-am.com

KRISTIN FENIK

Director

303.398.2961

kfenik@ap-am.com

Kristin Fenik and Chris Dunne are registered representatives of ALPS Distributors Inc.