METIS GLOBAL PARTNERS

METIS QUARTERLY INSIGHTS

1Q 2015

THIS ISSUE FEATURES

GLOBAL OBSERVATIONS

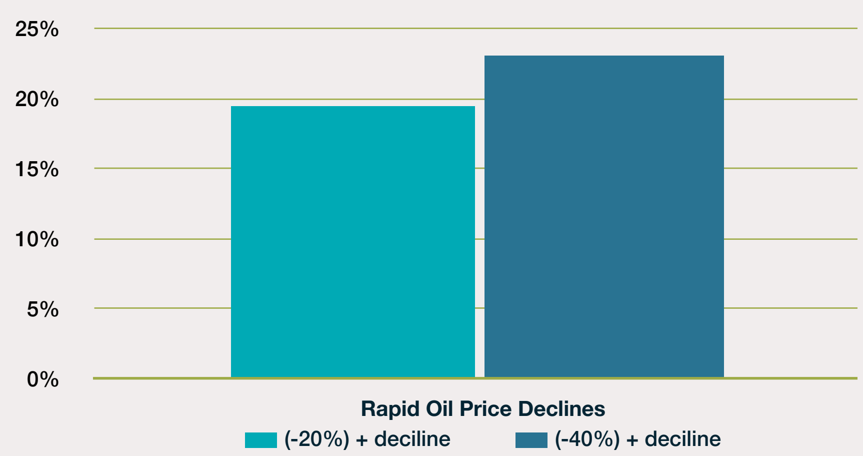
Declining Oil Prices Create Long-Term Opportunities

What a time to deliver our inaugural newsletter and commentary. Oil prices, of course, are today's hot topic. Through January 31, 2015 oil prices had fallen by -44% over the past 3 months and -55% over the past 6 months. The 3–month slide ranks as the fifth largest since 1971, fostered by a glut of supply and reluctance by influential producers (namely OPEC) to reduce production. At the time of this note, the U.S. Energy Information Administration reported the highest level of commercial crude oil inventories in at least 80 years at 413.1 million barrels. Speculation as to the future of oil prices is rampant with many suggesting we've entered a new norm of lower oil prices evidenced through the Nov-2023 futures currently settling at $71.

So what does such an extreme event look like in the context of history?

Research by Bernstein suggests a major collapse in oil prices lasts around 5 to 9 months, peak to trough[1]. We are going on 8 months in this collapse. Since 1971, oil price declines of the nature just experienced have generally been followed by a resurgence in world equity markets. As illustrated in Exhibit 1, markets on average achieved double-digit one-year returns subsequent to significant declines in oil prices.

EXHIBIT 1: MSCI World Index Average 1 Year Returns After Periods of Rapidly Declining Oil Prices
January, 1971 – January, 2015



Source: FactSet, MSCI, as of 1/31/2015.

[1] Bernstein Research, Asia-Pac Oil and Gas: What Shape Will The Oil Recovery Take? Themes, Positioning and Picks for 2015

Exhibit 2: Relative Valuations of Global Energy Stocks
January, 1990 – January, 2015

Source: Worldscope via Clarifi, as of 1/31/2015. Defined as the largest 25% of global companies as measured by market capitalization.

"Valuations are over two standard deviations below the historic average… we think this presents an opportunistic moment in energy prices."

The rapid decline in oil prices has impacted most securities directly linked to the commodity. Global energy stocks with market capitalizations above $500m currently trade at a 35% discount to the market. As depicted in Exhibit 2, this valuation is over two standard deviations below the historic average, cutting across all geographies. As believers in mean-reversion, we think this presents a opportunistic moment in energy prices.

And what if prices don't revert anytime soon?

If prices remain depressed for an extended period of time, it is likely to precipitate an elongated shakeout among energy and oil-related companies. High fixed cost (and typically smaller) producers will be faced with an untenable financial proposition. Oil prices, of course, have relevance to other industries as well. An extended period of lower oil prices may benefit chemicals and industrial companies including transportation, owing to lower input costs. A European airline recently announced it was cutting fares in light of lower fuel costs, highlighting perhaps the most relevant benefactor, the pocketbook of consumers.

Russia: Short-Term Pain Setting Up Repeat of Gains?

Russia… cheapest investment opportunities that can be found anywhere in the world.

MSCI Russia	
0.6x	Book Value
4.5%	Dividend Yield
MSCI ACWI	
2.1x	Book Value
2.5%	Dividend Yield

The decline in oil prices has perhaps been felt deepest in Russia, another major market theme carrying over from 2014. Many of the world's largest oil companies operate out of Russia, a market mired in negative sentiment stemming from a history of poor corporate governance coupled by this past year's escalating geopolitical tension, currency volatility, and interest rate moves. Valuations have been hit doubly hard, offering the cheapest investment opportunities that can be found anywhere in the world. As of January 31, 2015 the MSCI Russia Index traded at 0.6x book value and yields 4.5% compared to 2.1x book multiple and a 2.5% dividend yield found in the broader MSCI All Country World Index. Yet many of these Russian companies exhibit attractive cash flows, higher margins, and less debt than their multi-national peers.

Nevertheless, it is a difficult situation. Russia, as a country, has long been a boom or bust investment, offering some of the best and worst returns across the global landscape. Just this past year, the MSCI Russia Index fell -45.9%. Despite the negative sentiment and ominous environment, contrarian investors have reasons to be interested. Every year in which the Russian market posted negative USD returns since 1995, it has been followed by a positive calendar year return. In fact, the calendar year returns following those down years averaged 115.0%!

"Our portfolios enjoy a diversified list of exposures to value including; Japanese equities (particularly small and micro-caps), metals and mining, media and select financials."

Exhibit 3: Negative Calendar Year Performance in Russia and Subsequent Returns

	Calendar Year Return	Subsequent Calendar Year Return	Drivers of Market Decline
1995	-27.1%	152.9%	Foreign debt, privatization
1998	-83.0%	241.1%	Ruble collapse, LTCM
2000	-30.0%	55.9%	TMT bubble collapse
2008	-73.8%	104.9%	Financial crisis, risk aversion
2011	-19.3%	14.4%	EM growth fears
2014	-45.9%	--	Ukraine conflict, oil price decline

Source: MSCI via FactSet, as of 12/31/2014.

METIS PORTFOLIOS

Being valuation-focused global investors and building portfolios from the bottom-up, these themes are present in our portfolios (in some cases meaningfully). We own oil-related stocks in all portfolios, spanning the oil production cycle from exploration and production, integrated service providers, and even equipment manufacturers. Many have strong cash flows on reasonable debt levels in what has historically been a highly cyclical, mean-reverting industry.

"While difficult to endure, volatile periods often generate the greatest opportunities."

We also are seeing value in derivative areas related to the oil decline, including attractively valued businesses in the chemicals industry and other industrials. Many such companies are domiciled in Asia or Emerging Markets in Europe and Africa, constituting a consistent area of emphasis in allocations across all of our strategies.

Our positions in Russian-based businesses were largely built in the second half of 2014, and as such detracted from portfolio returns, but remain an attractive long-term allocation. There are few, if any geographies, as satiated with negative sentiment and emotionally objectionable as Russia. Equity valuations show it. We aren't the only folks to take notice of the value, evidenced by the world's largest oil services company, Schlumberger, acquiring a major position in one of Russia's largest publicly traded drillers in January. This move made sense in terms of their stated desire to reduce internal capex, suggesting acquisition of oil assets was now cheaper. But perhaps more important to the Russia story, it telegraphed Schlumberger's expectations that the foreign sanctions that have weighed down the stock prices over the last year would be removed at some point.

Outside of these areas our portfolios enjoy a diversified list of exposures in notable areas of value including; Japanese equities (particularly small and micro-caps), metals and mining, media and select financials.

While difficult to endure, volatile periods often generate the greatest opportunities. Patience and a long-term investment horizon are key to reap the benefits of the discounted businesses in which our portfolios are invested, a cornerstone of our investment approach.

GLOBAL MICRO CAP EQUITY SURPASSES ITS 3-YEAR PERFORMANCE MARK

We are pleased to note the Global Micro Cap Equity strategy reached its 3-year mark in August 2014 (the firm's longest running track record), and has outperformed over all periods since inception. This unique strategy is drawn from an enormous universe of 12,000 global micro cap stocks of which over 40% operate in emerging or frontier markets. Perhaps not surprisingly only half of these companies are covered by sell-side analysts, creating an opportunity for truly inefficient markets. In fact, our research on global micro caps revealed the value premium to be 3x greater than that observed in U.S. large-cap stocks, making this underserved aspect of global equity markets an especially compelling area for active, value investors.

Explore the benefits of investing in this untapped segment of the market by reading a whitepaper we co-published with the Brandes Institute available on our website: "The Next Big Thing Could be Really Small: An Introduction to Global Micro-Cap Stocks".

Please see performance for Global Micro Cap and all the Metis strategies below:

Metis Global Partners believes in the consistent application of valuation-driven decisions, free of behavioral biases, and grounded in the unique drivers of 60+ global industries.

Our strategies combine the best of both worlds: a fundamental, long-term value approach deployed in a systematic, bias-averse process.

METIS EQUITY STRATEGIES PERFORMANCE (THROUGH DECEMBER 31, 2014)

	3 Year	2 Year	1 Year	4th Q 2014	Since Inception 7/29/2011
Global Micro Cap Equity (Gross)	14.30%	11.22%	0.11%	-9.21%	6.42%
Global Micro Cap Equity (Net)	12.89%	9.84%	-1.13%	-9.49%	5.11%
Excess vs. S&P Global <$500M	1.96%	0.72%	1.50%	-6.30%	2.05%
	3 Year	2 Year	1 Year	4th Q 2014	Since Inception 12/31/2013
International Small Cap Equity (Gross)	--	--	-2.34%	-5.85%	-2.34%
International Small Cap Equity (Net)	--	--	-3.29%	-6.07%	-3.29%
Excess vs.S&P Global ex-U.S. Small Cap	--	--	1.10%	-2.50%	1.10%
	3 Year	2 Year	1 Year	4th Q 2014	Since Inception 12/31/2013
International Equity (Gross)	--	--	-8.33%	-7.04%	-8.33%
International Equity (Net)	--	--	-9.05%	-7.21%	-9.05%
Excess vs. S&P Global ex-U.S. LargeMid Cap	--	--	-4.89%	-3.14%	-4.89%
	3 Year	2 Year	1 Year	4th Q 2014	Since Inception 6/30/2014
Emerging Markets Equity (Gross)	--	--	--	-4.83%	-9.48%
Emerging Markets Equity (Net)	--	--	--	-5.05%	-9.88%
Excess vs. S&P EM LargeMid Cap	--	--	--	-1.26%	-3.56%

> "Active managers, those willing to take meaningful deviations from the benchmark, produced the greatest excess returns."

> "The combination of high active share and low turnover produced even greater excess returns than active share alone."

> "Patient and active institutions in general outperform by 2.22% per year on average over the years 1986-2012."

THE BEHAVIORISTS' CORNER

Being Patient, Long-Term Value Investors

Our investment philosophy and process give rise to active portfolios structured to seek alpha over the long term. We believe, in many ways, having a long-term horizon is intrinsic to successful value investing. Often investors struggle for patience to ride out volatile times in order to capture the long-term returns value stocks have delivered. This notion was recently supported empirically by research from Martijn Cremers and Ankur Pareek in "Patient Capital Outperformance: The Investment Skill of High Active Share Managers".[2]

Cremers is known by most for his work on active share, co-authored with Antti Petajisto.[3] Their research found that active managers, those willing to take meaningful deviations from the benchmark, produced the greatest (and statistically meaningful) excess returns.

Taking this concept one step further, in "Patient Capital" the authors reveal the combination of high active share and low turnover (i.e. patient, long-term investors) produced even greater excess returns than active share alone. This finding was robust across mutual funds, institutional portfolios, and even hedge funds, as well as across a number of proxies for an investor's time horizon. Exhibit 1 from their paper depicts an investor's time horizon as fund duration, defined as the average time a position was held in the portfolio over the past 5 years. It illustrates the summary outcome of this study that stocks held by patient and active institutions in general outperform by 2.22% per year on average over the years 1986-2012. It's important to note that excess returns are defined by the authors as 5-factor alphas, indicating returns *after* accounting for each portfolio's return contribution from beta, size, value, momentum, and liquidity factors.[4]

Exhibit 4: Annual Excess Returns of Institutional Funds: 5-Factor Alphas by Active Share and Fund Duration Quintiles

		Fund Duration				
		Low 1	2	3	4	High 5
Active Share	Low 1	-0.25	0.15	0.16	0.72	0.40
	2	-0.10	-0.28	-0.27	0.14	0.94
	3	-0.21	-0.08	0.03	0.15	0.61
	4	-0.13	0.19	0.20	0.24	1.65
	High 5	0.15	0.47	0.34	0.29	2.22

Source: Martijn Cremers, "Patient Capital Outperformance: The Investment Skill of High Active Share Managers".

[2] Cremers, Martijn and Pareek, Ankur, Patient Capital Outperformance: The Investment Skill of High Active Share Managers Who Trade Infrequently (September 19, 2014). http://ssrn.com/abstract=2498743or http://dx.doi.org/10.2139/ssrn.2498743

[3] Cremers, Martijn and Petajisto, Antti, How Active is Your Fund Manager? A New Measure That Predicts Performance (March 31, 2009). AFA 2007 Chicago Meetings Paper; EFA 2007 Ljubljana Meetings Paper; Yale ICF Working Paper No. 06-14. Available at SSRN: http://ssrn.com/abstract=891719 orhttp://dx.doi.org/10.2139/ssrn.891719

[4] Authors obtain 5-factor alphas by regressing the benchmark-adjusted returns on the Fama & French 3 factors, momentum factor, and Pastor & Stambaugh traded liquidity factor (see page 52 of "Patient Capital" for further details).

“Benchmark hugging and short-termism hinder investors from achieving their long-term investment goals.”

“Delivering benchmark outperformance requires, almost by definition, investing differently than the benchmark.”

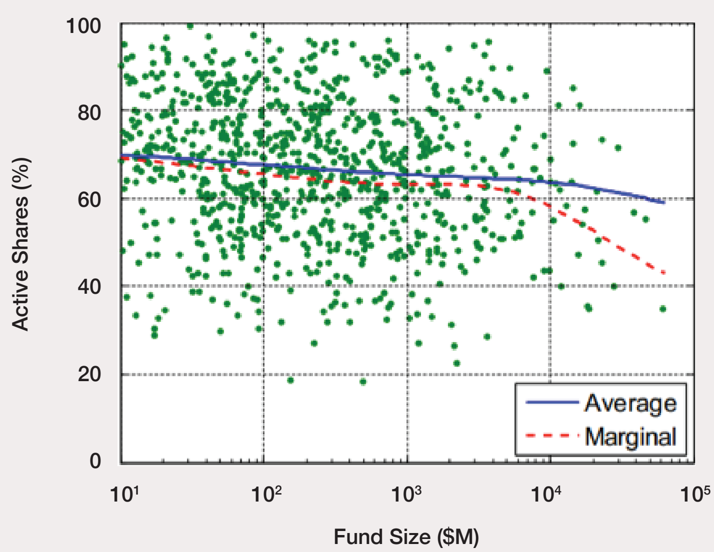
“When faced with an ambiguous situation we are overwhelmed by the feeling to do something, whether it’s a good idea or not.”

THE BEHAVIORISTS’ CORNER, CONTINUED

As ardent believers in behavioral investing, this research struck a chord. In our view, the findings illustrate two important behavioral traps that frequently hinder investors from achieving their long-term investment goals: benchmark hugging and short-termism (or ‘bias to take action’).

As demonstrated in the original work on active share, fund managers often exhibit an unwillingness to take positions meaningfully away from the benchmark, even if it is in the best interest of clients long-term. This is a classic principal-agency problem in that the fund manager, particularly those who have been successful (as measured by assets under management), are less enticed to deviate from the benchmark and risk the probability of material short-term underperformance. As noted by the original authors in Exhibit 2, the greater the fund size, the lower the active share. Investment decisions, as a result, are anchored to benchmark-relative market capitalization and liquidity factors rather than underlying business quality and long-term focused returns. This, of course, all but removes the odds of material *outperformance* for which the active fees were originally intended to achieve.

Exhibit 5: Active Share as a Function of Fund Size



Source: Cremers and Petajisto, “How Active is Your Fund Manager? A New Measure that Predicts Performance”.

Delivering benchmark outperformance requires, almost by definition, investing differently than the benchmark. A frequent corollary of this investment approach are periods of short-term underperformance en route to producing long-term excess returns. As demonstrated in “Patient Capital”, only investors with sufficiently long-term investment horizons were able to profit from their deviations from the benchmark.

The obvious question is what prevents investors from being long-term oriented?

In the age of continuous information flow, the trap is set for fixating on short-term (i.e., noisy) data. In doing so, investors are more apt to observe periods of short-term underperformance, even in the investment track records of the best investors. So while investors might espouse to be long-term thinkers, the pain of going

THE BEHAVIORISTS' CORNER, CONTINUED

through periods of temporary underperformance often induces the bias to 'take action'. When faced with an ambiguous situation in circumstances surrounded by the perception of great risk, we are overwhelmed by the feeling to do something, whether it's a good idea or not. (These impulses find their roots in other behavioral biases including overconfidence and illusions of control, but we will save that trip to Disneyland for another newsletter!)

Empirical evidence points to higher returns from being active and patient. Both of these attributes are cornerstones of our investment philosophy and process, embedded in all portfolios managed at Metis. We believe this is an important distinction among the various investment options available to investors. More importantly, we believe this gives our portfolios the best chance of delivering excess returns in the long run and clients the confidence to achieve their investment goals.

METIS: FIRST YEAR REVIEW

The firm celebrated its first full year of business in November. Looking back, it's been an amazing and industrious first year.

Founded in late 2013, Metis now employs 5 people. In addition to the founding three-person investment team, the firm was fortunate to hire Candice Sharar on day one as a Marketing Associate. Candice has been working with institutional clients in a sales, marketing, and client service capacity for the past 15 years. We have been able to reach a large and diverse audience in our first year in no small part due to her efforts. In addition to Candice, the firm was equally privileged to bring Chetana Tadepally on as a full-time employee after an initial stint with the firm as a consultant. Chetana is a familiar face, having worked at Brandes Investment Partners for 7 years. She worked closely with the investment teams there to develop technology solutions as well as implementing system projects throughout the firm. In her role at Metis as Investment Systems and Technology Manager, her focus is on oversight of our production investment environments, data, and system management across the organization. These professionals, combined with the best in class back-office and trading capabilities provided to us by our strategic partner Brandes Investment Partners, have allowed us to offer institutional quality investment management, operations and client service from day one. We are thrilled to have the depth of experience and expertise that we enjoy and look forward to future announcements of additions to the Metis team.

From a product perspective, the firm continues to sub-advise the Global Micro Cap Equity strategy for our partner Brandes, which is our longest running strategy (see page 4 of the newsletter). We were also able to fund our core global strategies including; International Small Cap Equity, International Equity, Emerging Markets Equity, and most recently Global All Cap Equity. Our bias-averse investment process is deployed across all Metis strategies and executed by the firm's investment team.

In any new enterprise, there's always the hope, but no guarantee, that clients will share your vision. We are grateful and honored to have been retained by several prominent pension plans in our first year of business. We currently manage approximately $45 million for four institutional clients in all. We are both delighted and humbled that they have entrusted us to help their constituents achieve their investment goals, and we are committed to delivering the long-term oriented, bias-averse value investing they expect. We are excited about the firm's investment and client opportunities in 2015 and we look forward to updating you through this newsletter each quarter.

Ever patient and searching the globe for value,

The Metis Team

THE METIS TEAM

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