
FX2

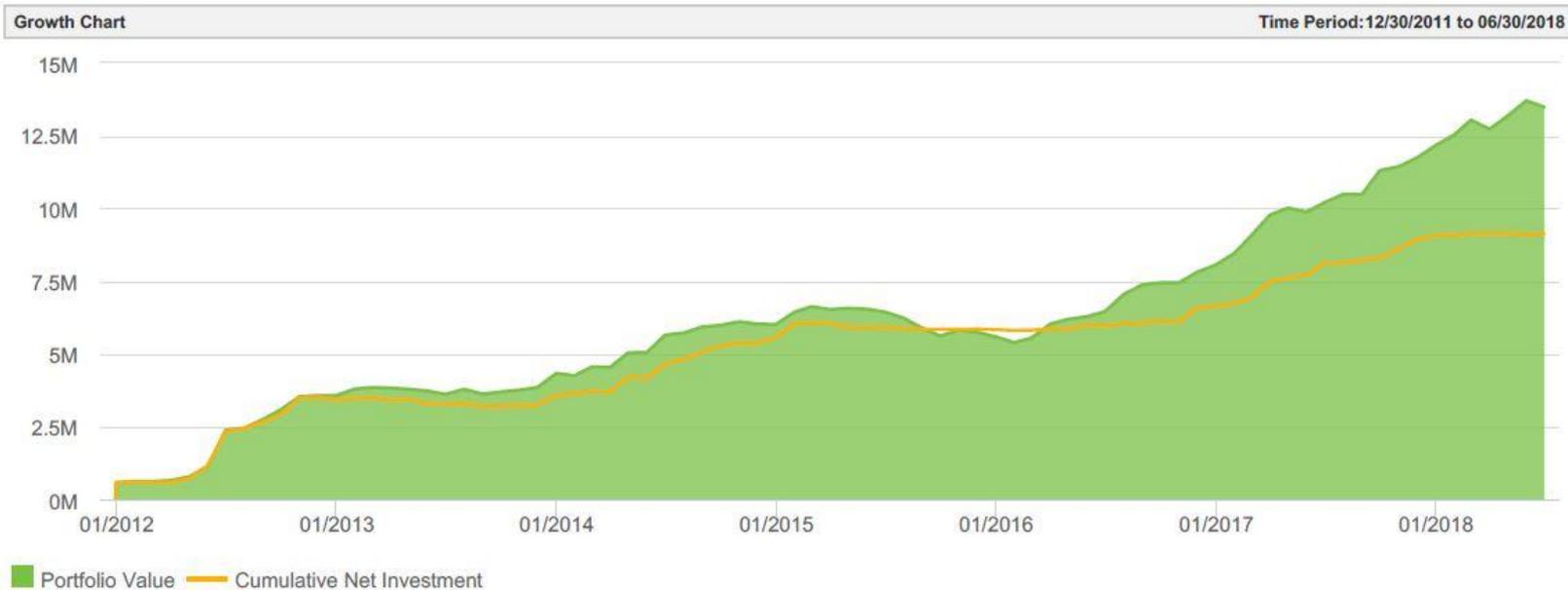
DURIG CAPITAL, *INC.*

THE SENSIBLE ALTERNATIVE TO SATISFYING YOUR FIXED INCOME NEEDS

How it Works

- ❖ Performance
- ❖ Astute Management
- ❖ Fixed Income 2 (FX2) Portfolio
 - Key Benefits
 - Our Focus & Inefficiencies
 - Risk Assessment & Mitigation
 - Selection & Operational Turnarounds
 - Allocations & Holdings
- ❖ Structural Advantages
 - Getting Started
- ❖ Third Party Support Services & References

FX2 Growth



*Key Metrics:

- ❖ Portfolio has returned **10.02%** annualized since inception (12-30-2011)

Portfolio Manager

Randy Durig

- ❖ CEO, Owner of Durig Capital, Inc., Portfolio Manager, (2001- Present)
- ❖ CEO,CCO, Manager of the Distressed Debt 1 Hedge Fund (2015-Present)
 - Distressed Debt 1 has returned **175.94%** since inception on 10-1-15
- ❖ Portfolio Manager, Fixed Income 2 (FX2), (2011-Present)
- ❖ Senior VP, Charter Investment Group/Sutro & Co. (Now RBC,1990-2001)
 - While managing at Sutro & Co., Randy Durig produced over **500%** (annualized at over **80%**) before starting his own advisory firm (9)
- ❖ Owns, founded, and operates numerous businesses across various industries, with *extensive experience in operational turnarounds*
- ❖ Mr. Durig has found his niche, by leveraging both his operational background and investment management experience to bring Durig Capital, Inc. to be among the top of his peers in Fixed-Income

FX2 Benchmarked Performance

Time Weighted Return Comparison



- ❖ Morningstar's Top Ranked Fixed Income SMA for 1,3,& 5 year return, Q1 2018
- ❖ Our return since inception (*annualized*) has far surpassed those provided by indices of similar composition*

* All performance metrics are as of 6-30-18

Key Benefits of an FX2 Account

- ❖ FX2 helps to provide you with Superior Income & Outstanding Performance in Fixed Income
- ❖ Our Low Beta of **0.58** means we have very minimal correlation to the overall stock market
- ❖ No pooled investments; Separately Managed Accounts provide a much cleaner investment environment (*the tax implications of the investor match that of the account*)
 - Think of this as going for a swim in your own private pool as opposed to swimming in a public pool
- ❖ Transparency; Each FX2 Account is custodied at TD Ameritrade Institutional and provides 24/7 access to view investments
- ❖ FX2 offers exposure to a wide diversity of issuers and industries
- ❖ Low average maturities help to mitigate interest rate risk and keep investments liquid
- ❖ We seek investment in firms demonstrating ample interest coverage on outstanding debt with improving fundamentals in their core business such as:
 - Positive free cash flow, improved human capital, creating barriers to entry with long-term business model

Superior **Upside** vs. Downside Risk Profile

Portfolio Risk on Multi-Benchmarks		Trailing Time Period: 3 Years	
Client/Account Name	Max Drawdown	Upside Capture Ratio	Downside Capture Ratio
FX2 Composite (Discretionary)	-8.31	207.23	117.95
<i>PIMCO 0-5 Year High Yield Corp Bd ETF</i>	-5.75	100.00	100.00
FX2 Composite (Discretionary)	-8.31	165.60	13.29
<i>SPDR® Blmbg Barclays High Yield Bd ETF</i>	-7.89	100.00	100.00
FX2 Composite (Discretionary)	-8.31	252.02	-174.77
<i>BBG Barc US Agg Bond Idx TR USD</i>	-3.28	100.00	100.00
FX2 Composite (Discretionary)	-8.31	87.72	37.47
<i>S&P 500 Idx TR USD</i>	-6.59	100.00	100.00

- ❖ In upside/downside participation we have outperformed almost all our *peers 2 to 1

*While the S&P 500 is not our peer, we have included them here to better judge our overall performance to the market as a whole

Our Focus

- ❖ Our primary goal is to provide consistently high returns on fixed income securities through our portfolio of discounted bond issues
- ❖ Typically, we focus acquisition on discounted issues that trade at a fraction of PAR value with ***improving fundamentals***, often targeting a full recovery
- ❖ Once a specific issue has been marked for investment, we monitor the firm's activity, looking for improving fundamentals such as debt service and repurchase, improving coverage ratios, and positive free cash flows
- ❖ We like to buy as soon as recovery is probable, positioning us for acquisition prior to any significant appreciation that may take place

FX2 Exceeds the Returns of the S&P 500

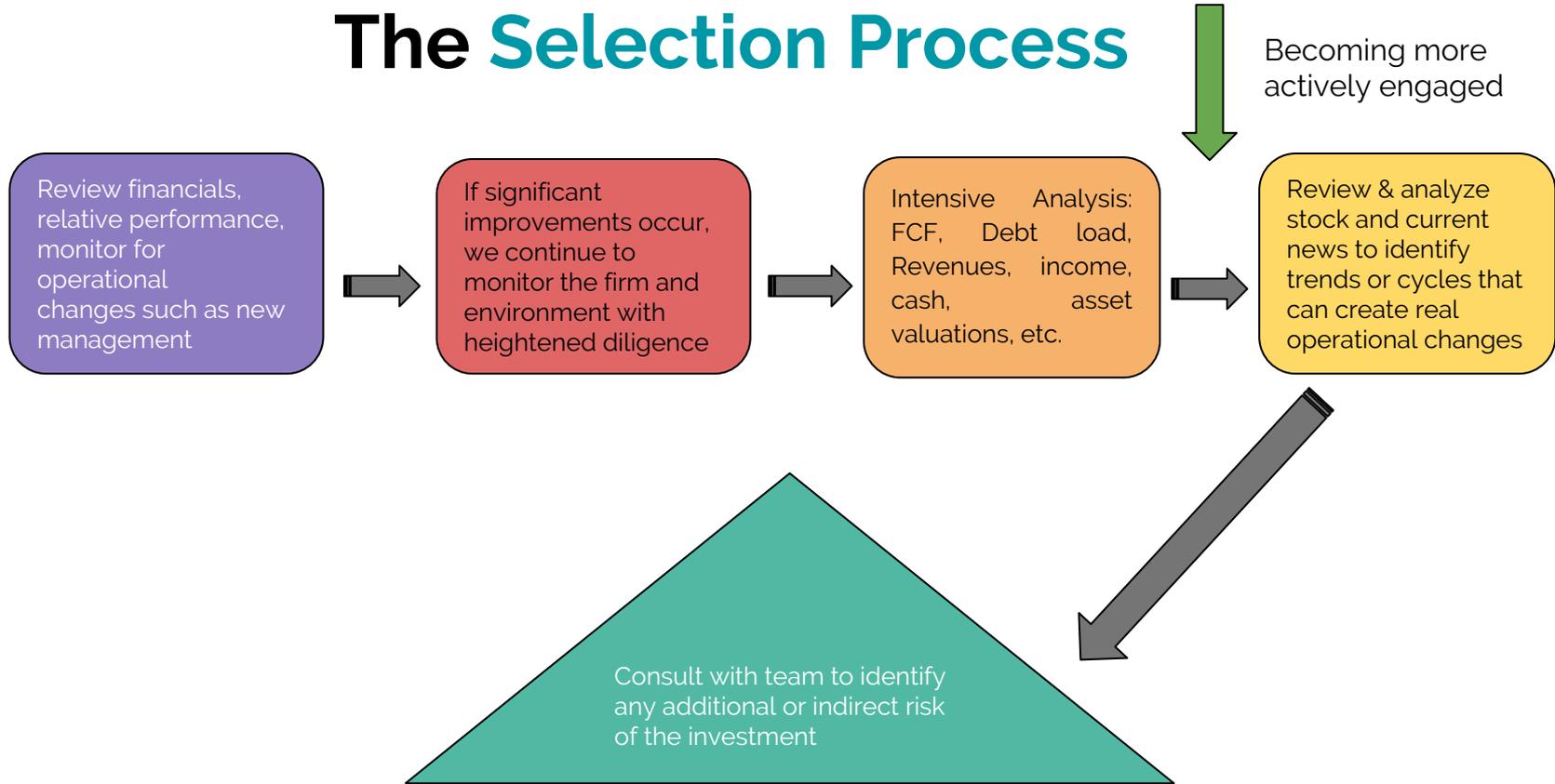
Portfolio Risk on Multi-Benchmarks		Trailing Time Period: 3 Years		
Client/Account Name	Alpha	Beta	Excess Return	
FX2 Composite (Discretionary)	7.78	1.45	10.26%	
<i>PIMCO 0-5 Year High Yield Corp Bd ETF</i>	<i>0.00</i>	<i>1.00</i>	<i>0.00%</i>	
FX2 Composite (Discretionary)	10.29	1.24	11.33%	
<i>SPDR® Blmbg Barclays High Yield Bd ETF</i>	<i>0.00</i>	<i>1.00</i>	<i>0.00%</i>	
FX2 Composite (Discretionary)	15.56	0.22	14.95%	
<i>BBG Barc US Agg Bond Idx TR USD</i>	<i>0.00</i>	<i>1.00</i>	<i>0.00%</i>	
FX2 Composite (Discretionary)	7.39	0.58	1.34%	
<i>S&P 500 Idx TR USD</i>	<i>0.00</i>	<i>1.00</i>	<i>0.00%</i>	

- ❖ Our returns have greatly outperformed our peer group
 - We are one of the few bond portfolios that have offered returns over & above the S&P 500, and to have done so with less volatility

Targeting Inefficiencies

- ❖ It is our belief that while the stock markets are very efficient, the bond markets are **not**
- ❖ Debt Markets are susceptible to seasonality and cyclical turns (38)
- ❖ Many bondholders employ "buy & hold" strategies, leading to a lack of trading activity & less efficient dissemination of information
- ❖ Due to the inefficiencies present, bond investing is thought to be more complex to understand to the average investor than stock investing
- ❖ Rating agencies tend to lag behind current market trends due to infrequent credit reviews, and often give more favorable treatment to large cap, established firms (11)
- ❖ Most ratings agencies' policy is to maintain a review Period of 12 months (*Standard & Poor's*) (11)
 - Mid & Small-cap firms often are overlooked and receive less frequent credit reviews due to a broken pay model in which issuers pay substantially to be given a rating (24)
 - "The quality of investment-grade securities can deteriorate over time. With lower-rated securities, the opposite is often true." - *Michael milken (27)*
- ❖ Many large financial institutions are mandated to liquidate positions once the underlying security's rating has been downgraded beyond a certain threshold, often perpetuated by "bandwagon" individual investors

The Selection Process

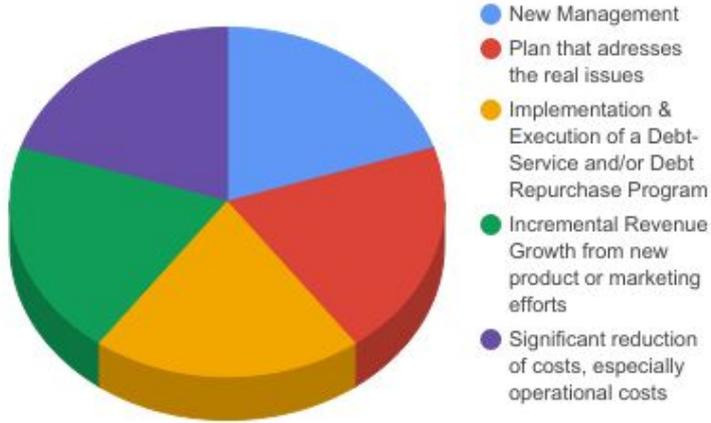


Risk Assessment

- ❖ Substantial protection against risk in the long-term is to buy assets below their intrinsic value (we target undervalued companies) or those trading well below PAR value, allowing for much greater upside reward potential (37)
- ❖ This pricing scenario often comes from the aftermath of a “Black Swan Events”, cyclical downturns or crashes, oversupply of products, services, volatile interest rates, etc.
 - In 1999, the crash was the Internet- Real Estate & Oil were not significantly impacted
 - Crash of 2008 - Real Estate & Banking markets crash- Internet businesses & Oil firms were not significantly impacted
 - 2016 - The Oil markets crash - Internet businesses & Real Estate markets were not significantly impacted
- ❖ These industry focused sell-offs often create unbalanced pricing scenarios in which assets are carried at a value substantially below their intrinsic values
- ❖ Most flee such events, but we look at the company's “vitals” :
 - Long-Term Businesses with significant barriers to entry
 - Improved Business
 - Positive Free Cash Flow
 - Improved Human Capital
 - “Any analysis of capital structure should recognize that most balance sheets are dramatically inaccurate because.. they fail to include the value of human capital.” - *Michael Milken on Human Capital (27)*

The Turnaround

Key Elements of a Turnaround



- ❖ Through our experience we have found several factors present in nearly every turnaround

Portfolio Diversification & Risk Mitigation

- ❖ We methodically analyze the overall impact to risk & reward in the fund for each security we mark for investment, in line with Modern Portfolio Theory
 - We monitor a company's situation/fundamentals for months, sometimes years, before determining if the investment is cohesive with the risk/reward profile of the overall portfolio
- ❖ *A car with dents will sell cheap, it doesn't mean it can't be fixed*
 - By doing our own in-house research and benchmarking against the actions of the rating agencies, we can validate that the rating agencies are not acting in a timely manner
 - By looking at the company's quarter, we can affirm our beliefs and capture opportunities or act on inefficiencies much sooner than the rating agencies, who typically review once a year (11)
- ❖ We also seek to Lower Portfolio Risk by:
 - Diversification among issuers and industries
 - Producing and maintaining a High Alpha (return generated by investment manager that exceeds the expected return anticipated by Beta)

Allocations & Top Holdings

- ❖ The majority of our FX2 accounts are overweight in domestic corporate bond issues that have met our stringent investment criteria
- ❖ We try to maintain average bond maturities in most portfolios at 2-3 years to minimize interest rate volatility and benefit from laddered maturities



Top 5 Holdings As of Date 06/30/2018

Security Name/Description	Symbol	Weight
GRAN COLOMBIA GOLD CORP SR DEB E...	38501DAH8	12.34%
WTI 8 1/2 06/15/19	92922PAC0	9.34%
INTELSAT BERMUDA LTD SENIOR NO TE...	458204AP9	8.88%
LEGACY RESERVES LP/ LEGACY FI SEN...	52471TAB3	5.15%
ALLIANCE ONE INTERNATIONAL SEN IOR...	018772AS2	2.86%

FX2 Structural Advantages

- ❖ Low average cost + Higher Returns = Higher Net Returns to Clients
- ❖ Professional Management & Personalized Service
- ❖ Discretion allows for active management of investments
 - This grants us the ability to take a more proactive approach in our actions as opposed to reacting to market events *after* they unfold
- ❖ Segregated accounts; no pooled funding
 - The tax implications of the account match that of the investor
- ❖ Investors may access their account online, allowing for 3rd party validation
 - TD Ameritrade offers comprehensive, 24/7 account access online to their custodial clients
- ❖ Our team leverages over 50 years of professional investment experience
 - We offer professional investment management with an emphasis on personalized service
- ❖ Short maturities allow us to keep investments liquid & help to minimize the effects of interest rate volatility in the markets
- ❖ *Our historical returns have outperformed those of even our closest peer benchmarks

**We are happy to provide complete reporting of holdings, transactions and other metrics upon request. Fee shown above is based on previous quarter. Past performance may not be indicative of future results. Our managed accounts appear to greatly outperform the individually (client) selected investments. Durig Capital, Inc. (971) 327-8847*

Investing in FX²

- ❖ Minimum Investment of **125k**
- ❖ Discretionary Management *only*
 - Low Annual fee of 0.5%
- ❖ No minimum investment period
- ❖ Custodied at TD Ameritrade

Getting Started is Easy

- ❖ Introductory Conversation
 - This is where we learn more about you and your investment goals & preferences, account type needed, funding, etc.
- ❖ Review and return a signed copy of our Discretionary Management Agreement
- ❖ We send you the appropriate forms with clear instructions on how to complete them
 - Your advisor is just a call or email away should you need assistance at any stage
- ❖ Send the forms back to us and relax, we will take care of the rest of the set-up

Thank you



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