



**F-Squared Investments**  
Thought Leadership. Cost Leadership.™

FORM ADV – Part II

**FORM ADV****Part II - Page 1****Uniform Application for Investment Adviser Registration****OMB APPROVAL**

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Name of Investment Adviser:

**F - S q u a r e d I n v e s t m e n t s I n c**

Address:	(Number and Street)	(City)	(State)	(Zip Code)	Area Code:	Telephone number:
	<b>16 Laurel Avenue, Suite 150</b>	<b>W e l l e s l e y</b>	<b>M A</b>	<b>2 4 8 1</b>	(781)	235-9008

This part of Form ADV gives information about the investment adviser and its business for the use of clients.  
The information has not been approved or verified by any governmental authority.

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(Schedules A, B, C, D, and E are included with Part I of this Form, for the use of regulatory bodies, and are not distributed to clients.)

Potential persons who are to respond to the collection of information contained in this form  
are not required to respond unless the form displays a currently valid OMB control number.

Applicant:  
**F - S q u a r e d I n v e s t m e n t s , I n c**

SEC File Number:  
801- 69028

Date:  
**10/1/ 0 8**

- 1. A. Advisory Services and Fees.** (check the applicable boxes) For each type of service provided, state the approximate % of total advisory billings from that service. (See instruction below.)

**Applicant:**

- |                                     |   |                   |
|-------------------------------------|---|-------------------|
| <input checked="" type="checkbox"/> | (1) Provides investment supervisory services .....  | <b>20 ( e ) %</b> |
| <input checked="" type="checkbox"/> | (2) Manages investment advisory accounts not involving investment supervisory services .....  | <b>80 ( e ) %</b> |
| <input type="checkbox"/>            | (3) Furnishes investment advice through consultations not included in either service described above ....   | _____ %           |
| <input type="checkbox"/>            | (4) Issues periodicals about securities by subscription .....   | _____ %           |
| <input type="checkbox"/>            | (5) Issues special reports about securities not included in any service described above .....   | _____ %           |
| <input type="checkbox"/>            | (6) Issues, not as part of any service described above, any charts, graphs, formulas, or other devices which clients may use to evaluate securities ..... | _____ %           |
| <input type="checkbox"/>            | (7) On more than an occasional basis, furnishes advice to clients on matters not involving securities .....   | _____ %           |
| <input type="checkbox"/>            | (8) Provides a timing service .....   | _____ %           |
| <input type="checkbox"/>            | (9) Furnishes advice about securities in any manner not described above .....   | _____ %           |

(Percentages should be based on applicant's last fiscal year. If applicant has not completed its first fiscal year, provide estimates of advisory billings for that year and state that the percentages are estimates.)

- B.** Does applicant call any of the services it checked above financial planning or some similar term? . . . . . Yes ☐ No ☒

- C.** Applicant offers investment advisory services for: (check all that apply)

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> (1) A percentage of assets under management | <input type="checkbox"/> (4) Subscription fees |
| <input type="checkbox"/> (2) Hourly charges                                     | <input type="checkbox"/> (5) Commissions       |
| <input type="checkbox"/> (3) Fixed fees (not including subscription fees)       | <input type="checkbox"/> (6) Other             |

- D.** For each checked box in A above, describe on Schedule F:

- the services provided, including the name of any publication or report issued by the adviser on a subscription basis or for a fee
- applicant's basic fee schedule, how fees are charged and whether its fees are negotiable
- when compensation is payable, and if compensation is payable before service is provided, how a client may get a refund or may terminate an investment advisory contract before its expiration date

- 2. Types of clients** - Applicant generally provides investment advice to: (check those that apply)

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> A. Individuals                      | <input checked="" type="checkbox"/> E. Trusts, estates, or charitable organizations                    |
| <input checked="" type="checkbox"/> B. Banks or thrift institutions     | <input checked="" type="checkbox"/> F. Corporations or business entities other than those listed above |
| <input type="checkbox"/> C. Investment companies                        | <input type="checkbox"/> G. Other (describe on Schedule F)   |
| <input checked="" type="checkbox"/> D. Pension and profit sharing plans |  |

**Answer all items. Complete amended pages in full, circle amended items and file with execution page (page 1).**

**3. Types of Investments.** Applicant offers advice on the following: (check those that apply)

- |   |   |
|---|---|
| <input type="checkbox"/> A. Equity securities                                       | <input type="checkbox"/> H. United States government securities     |
| <input checked="" type="checkbox"/> (1) exchange-listed securities                  | <input type="checkbox"/> I. Options contracts on:                   |
| <input checked="" type="checkbox"/> (2) securities traded over-the-counter          | <input type="checkbox"/> (1) securities                             |
| <input checked="" type="checkbox"/> (3) foreign issuers                             | <input type="checkbox"/> (2) commodities                            |
| <input type="checkbox"/> B. Warrants  | <input type="checkbox"/> J. Futures contracts on:                   |
| <input type="checkbox"/> C. Corporate debt securities (other than commercial paper) | <input type="checkbox"/> (1) tangibles                              |
| <input type="checkbox"/> D. Commercial paper  | <input type="checkbox"/> (2) intangibles                            |
| <input type="checkbox"/> E. Certificates of deposit                                 | <input type="checkbox"/> K. Interests in partnerships investing in: |
| <input type="checkbox"/> F. Municipal securities                                    | <input type="checkbox"/> (1) real estate                            |
| <input type="checkbox"/> G. Investment company securities:                          | <input type="checkbox"/> (2) oil and gas interests                  |
| <input type="checkbox"/> (1) variable life insurance                                | <input type="checkbox"/> (3) other (explain on Schedule F)          |
| <input type="checkbox"/> (2) variable annuities                                     | <input type="checkbox"/> L. Other (explain on Schedule F)           |
| <input type="checkbox"/> (3) mutual fund shares                                     |   |

**4. Methods of Analysis, Sources of Information, and Investment Strategies.**

A. Applicant's security analysis methods include: (check those that apply)

- |   |   |
|---|---|
| (1) <input type="checkbox"/> Charting             | (4) <input type="checkbox"/> Cyclical                                 |
| (2) <input type="checkbox"/> Fundamental          | (5) <input checked="" type="checkbox"/> Other (explain on Schedule F) |
| (3) <input checked="" type="checkbox"/> Technical |   |

B. The main sources of information applicant uses include: (check those that apply)

- |  |   |
|--|---|
| (1) <input type="checkbox"/> Financial newspapers and magazines    | (5) <input type="checkbox"/> Timing services  |
| (2) <input type="checkbox"/> Inspections of corporate activities   | (6) <input checked="" type="checkbox"/> Annual reports, prospectuses, filings with the Securities and Exchange Commission |
| (3) <input type="checkbox"/> Research materials prepared by others | (7) <input type="checkbox"/> Company press releases   |
| (4) <input type="checkbox"/> Corporate rating services             | (8) <input checked="" type="checkbox"/> Other (explain on Schedule F)   |

C. The investment strategies used to implement any investment advice given to clients include: (check those that apply)

- |  |  |
|--|--|
| (1) <input checked="" type="checkbox"/> Long term purchases<br>(securities held at least a year) | (5) <input type="checkbox"/> Margin transactions   |
| (2) <input checked="" type="checkbox"/> Short term purchases<br>(securities sold within a year)  | (6) <input type="checkbox"/> Option writing, including covered options,<br>uncovered options or spreading strategies |
| (3) <input checked="" type="checkbox"/> Trading (securities sold within 30 days)                 | (7) <input type="checkbox"/> Other (explain on Schedule F)   |
| (4) <input type="checkbox"/> Short sales   |  |

**Answer all items. Complete amended pages in full, circle amended items and file with execution page (page 1).**

**5. Education and Business Standards.**

Are there any general standards of education or business experience that applicant requires of those involved in determining or giving investment advice to clients? ..... ☒ Yes ☐ No  
(If yes, describe these standards on Schedule F.)

**6. Education and Business Background.**

For:

- each member of the investment committee or group that determines general investment advice to be given to clients, or
- if the applicant has no investment committee or group, each individual who determines general investment advice given to clients (if more than five, respond only for their supervisors)
- each principal executive officer of applicant or each person with similar status or performing similar functions.

On Schedule F, give the:

- name
- formal education after high school
- year of birth
- business background for the preceding five years

**7. Other Business Activities.** (check those that apply)

- ☒ A. Applicant is actively engaged in a business other than giving investment advice.
- ☒ B. Applicant sells products or services other than investment advice to clients.
- ☐ C. The principal business of applicant or its principal executive officers involves something other than providing investment advice.

(For each checked box describe the other activities, including the time spent on them, on Schedule F.)

**8. Other Financial Industry Activities or Affiliations.** (check those that apply)

- ☐ A. Applicant is registered (or has an application pending) as a securities broker-dealer.
- ☐ B. Applicant is registered (or has an application pending) as a futures commission merchant, commodity pool operator or commodity trading adviser.
- C. Applicant has arrangements that are material to its advisory business or its clients with a related person who is a:
- |  |  |
|--|--|
| <input type="checkbox"/> (1) broker-dealer   | <input type="checkbox"/> (7) accounting firm                                       |
| <input type="checkbox"/> (2) investment company  | <input type="checkbox"/> (8) law firm  |
| <input type="checkbox"/> (3) other investment adviser  | <input type="checkbox"/> (9) insurance company or agency                           |
| <input type="checkbox"/> (4) financial planning firm   | <input type="checkbox"/> (10) pension consultant                                   |
| <input type="checkbox"/> (5) commodity pool operator, commodity trading adviser or futures commission merchant | <input type="checkbox"/> (11) real estate broker or dealer                         |
| <input type="checkbox"/> (6) banking or thrift institution   | <input type="checkbox"/> (12) entity that creates or packages limited partnerships |

(For each checked box in C, on Schedule F identify the related person and describe the relationship and the arrangements.)

- D. Is applicant or a related person a general partner in any partnership in which clients are solicited to invest?.. ☐ Yes ☒ No

(If yes, describe on Schedule F the partnerships and what they invest in.)

**9. Participation or Interest in Client Transactions.**

Applicant or a related person: (check those that apply)

- ☐ A. As principal, buys securities for itself from or sells securities it owns to any client.
- ☐ B. As broker or agent effects securities transactions for compensation for any client.
- ☐ C. As broker or agent for any person other than a client effects transactions in which client securities are sold to or bought from a brokerage customer.
- ☐ D. Recommends to clients that they buy or sell securities or investment products in which the applicant or a related person has some financial interest.
- ☒ E. Buys or sells for itself securities that it also recommends to clients.

(For each box checked, describe on Schedule F when the applicant or a related person engages in these transactions and what restrictions, internal procedures, or disclosures are used for conflicts of interest in those transactions.)

Describe, on Schedule F, your code of ethics, and state that you will provide a copy of your code of ethics to any client or prospective client upon request.

**10. Conditions for Managing Accounts.** Does the applicant provide investment supervisory services, manage investment advisory accounts or hold itself out as providing financial planning or some similarly termed services *and* impose a minimum dollar value of assets or other conditions for starting or maintaining an account?

Yes No  
☒ ☐

(If yes, describe on Schedule F)

**11. Review of Accounts.** If applicant provides investment supervisory services, manages investment advisory accounts, or holds itself out as providing financial planning or some similarly termed services:

A. Describe below the reviews and reviewers of the accounts. **For reviews**, include their frequency, different levels, and triggering factors. **For reviewers**, include the number of reviewers, their titles and functions, instructions they receive from applicant on performing reviews, and number of accounts assigned each.

See item 11. A on Schedule F

B. Describe below the nature and frequency of regular reports to clients on their accounts.

See item 11. B on Schedule F

Applicant:  
**F-Squared Investments, Inc**

SEC File Number:  
**801-69028**

Date:  
**10/1/08**

**12. Investment or Brokerage Discretion.**

A. Does applicant or any related person have authority to determine, without obtaining specific client consent, the:

- |  |   |  |
|--|---|--|
| (1) securities to be bought or sold? .....               | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/>            |
| (2) amount of the securities to be bought or sold? ..... | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/>            |
| (3) broker or dealer to be used? .....                   | Yes <input type="checkbox"/>            | No <input checked="" type="checkbox"/> |
| (4) commission rates paid? .....                         | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/>            |

B. Does applicant or a related person suggest brokers to clients? ..... Yes ☒ No ☐

For each yes answer to A describe on Schedule F any limitations on the authority. For each yes to A(3), A(4) or B, describe on Schedule F the factors considered in selecting brokers and determining the reasonableness of their commissions. If the value of products, research and services given to the applicant or a related person is a factor, describe:

- the products, research and services
- whether clients may pay commissions higher than those obtainable from other brokers in return for those products and services
- whether research is used to service all of applicant's accounts or just those accounts paying for it; and
- any procedures the applicant used during the last fiscal year to direct client transactions to a particular broker in return for product and research services received.

**13. Additional Compensation.**

Does the applicant or a related person have any arrangements, oral or in writing, where it:

- |   |   |  |
|---|---|--|
| A. is paid cash by or receives some economic benefit (including commissions, equipment or non-research services) from a non-client in connection with giving advice to clients? ..... | Yes <input type="checkbox"/>            | No <input checked="" type="checkbox"/> |
| B. directly or indirectly compensates any person for client referrals? .....  | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/>            |

(For each yes, describe the arrangements on Schedule F.)

**14. Balance Sheet.** Applicant must provide a balance sheet for the most recent fiscal year on Schedule G if applicant:

- has custody of client funds or securities (unless applicant is registered or registering only with the Securities and Exchange Commission); or
- requires prepayment of more than \$500 in fees per client and 6 or more months in advance

Has applicant provided a Schedule G balance sheet? ..... Yes ☐ No ☒

<b>Schedule F of Form ADV Continuation Sheet for Form ADV Part II</b>	<b>Applicant:</b>  <b>F-Squared investments, Inc.</b>	<b>SEC File Number:</b>  <b>801-69028</b>	<b>Date:</b>  <b>October 1, 2008</b>
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**(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)**

1. Full name of applicant exactly as stated in Item 1A of Part I of Form ADV: <b>F-Squared Investments, Inc.</b>		IRA Empl. Ident. No.: <b>83-0470194</b>
Item of Form (Identify)	Answer	

### *Item 1.D.: Investment Services and Fees*

F-Squared Investments (F-Squared) is an investment management firm providing investment advisory and portfolio management services for a wide range of clients. Investments are delivered as either separately managed accounts, individually managed accounts, institutional separate accounts, or sub-advisory services.

#### Separately Managed Accounts

F-Squared creates multiple investment strategies eligible for sale through investment advisors and brokers as Separately Managed Accounts (SMAs) or Model Overlays for use with mutual fund wrap programs. In most all cases, F-Squared delivers the investment solutions as model portfolios. Model portfolios are a list of investable securities and corresponding portfolios weights that would make up the ideal portfolio. This list is delivered on a regular frequency (typically weekly, bi-weekly, or monthly) to an overlay manager who then implements the investment decisions on a discrete basis for each individual investor. The overlay manager assures that each client maintains a personal portfolio that mirrors the target model portfolio.

F-Squared currently makes its model portfolios available to financial advisors through SMA platform providers, including most of the major platforms in the country. F-Squared SMAs currently can be accessed through Schwab, Fidelity, TD Ameritrade, Pershing and FOLIOfn platforms and others that can be accessed through advisors and brokers utilizing overlay technology providers such as Smartleaf, Inc. Pricing options for providing model portfolios vary according to the SMA platform and their associated fees. The most typical fees charged by F-Squared for model portfolios are as follows:

<u>ASSET LEVEL</u>	<u>ALPHACYCLE PRICING</u>	<u>ALPHASECTOR PRICING</u>
Asset levels up to \$100 million	25bp (0.25%)	40bp (0.40%)
Asset levels > \$100 million and < \$250 million	22.5bp (0.225%)	40bp (0.40%)
Asset levels > \$250 million	20bp (0.20%)	40bp (0.40%)

The minimums for the SMAs are typically determined by the SMA platform sponsor. Cost of trading and operations for the SMA is determined by the SMA platform sponsor. Fee collection schedules are determined by the SMA platform sponsor. These fees may be negotiable based on operational support and expected future asset growth.

#### Individually Managed Accounts (IMA)

F-Squared has developed the Individually Managed Account (IMA), a next generation version of SMAs. The key investor benefits that differentiate the IMA include:

- Investment minimums for single strategy portfolios for as low as \$15,000 (versus the typical SMA minimums of \$100,000).



<b>Schedule F of Form ADV Continuation Sheet for Form ADV Part II</b>	<b>Applicant:</b>  <b>F-Squared investments, Inc.</b>	<b>SEC File Number:</b>  <b>801-69028</b>	<b>Date:</b>  <b>October 1, 2008</b>
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**(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)**

1. Full name of applicant exactly as stated in Item 1A of Part I of Form ADV: <b>F-Squared Investments, Inc.</b>		IRA Empl. Ident. No.: <b>83-0470194</b>
Item of Form (Identify)	Answer	

- A reduction in price of up to 45% from traditional SMA rates<sup>1</sup> (see below for pricing information). Pricing for the IMA also includes complete “turnkey” pricing (all operational expenses plus the physical cost of share trading).
- Fully automated customization and tax management options.

The portfolio services that F-Squared provides for these products may include model portfolios plus supervisory services.

*Advisor-sold IMAs:*

Total fees charged and collected are 55bp (0.55%) for AlphaCycle products and 75bp (0.75%) for AlphaSector products, with a \$75 minimum account fee. Included within this fee is a maximum charge of 25bp (0.25%) that is paid to the Broker-Dealer transacting the accounts. F-Squared has negotiated certain breakpoints in fees with the Broker-Dealer that might reduce the 25bp transaction and operational expenses. Any such reduction in fee would accrue to the investor.

*Self-directed retail IMAs<sup>2</sup>:*

Total fees charged and collected are 85bp (0.85%) for AlphaCycle products and 100bp (1.00%) for AlphaSector, with a \$75 minimum account fee. Included within this fee is a maximum charge of 25bp (0.25%) that is paid to the Broker-Dealer transacting the accounts. F-Squared has negotiated certain breakpoints in fees with the Broker-Dealer that might reduce the 25bp charge. Any such reduction in fee would accrue to the investor.

The minimums for the advisor-sold IMAs are \$15,000. Fees are charged quarterly in arrears.

<sup>1</sup>The average turnkey price for advisor sold SMAs is 95 – 106bp based on “The State of Model Portfolios, Money Management Institute 2007 Report” and research by F-Squared Investments.

<sup>2</sup>Self-directed retail accounts are designed for financially knowledgeable investors able to determine their investment decisions without the aid of a traditional financial advisor relationship. Access will be primarily limited to web-based sales platforms with limited in-person support. These fees might be reduced for investors participating during the early phases of the offering cycle.

Institutional Separate Accounts and Sub-Advisory Services

F-Squared creates multiple investment strategies eligible for sale to institutional investors and as sub-advisory services to mutual funds, exchange traded funds (ETFs) and variable annuities (VAs). In most all cases, F-Squared delivers the investment solutions as model portfolios for execution on the sponsor’s investment platform. The most typical fees charged by F-Squared for model portfolios are as follows, although these fees may be subject to negotiation:

<u>ASSET LEVEL</u>	<u>ALPHACYCLE PRICING</u>	<u>ALPHASECTOR PRICING</u>
Asset levels up to \$100 million	25bp (0.25%)	40bp (0.40%)
Asset levels > \$100 million and < \$250 million	22.5bp (0.225%)	40bp (0.40%)
Asset levels > \$250 million	20bp (0.20%)	40bp (0.40%)

The minimums for these services are \$1 million. Fees are charged quarterly in arrears.

<b>Schedule F of Form ADV Continuation Sheet for Form ADV Part II</b>	<b>Applicant:</b>  <b>F-Squared investments, Inc.</b>	<b>SEC File Number:</b>  <b>801-69028</b>	<b>Date:</b>  <b>October 1, 2008</b>
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**(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)**

1. Full name of applicant exactly as stated in Item 1A of Part I of Form ADV: <b>F-Squared Investments, Inc.</b>		IRA Empl. Ident. No.: <b>83-0470194</b>
Item of Form (Identify)	Answer	

#### *Item 4.A.5: Methods of Analysis, Sources of Information, and Investment Strategies*

F-Squared primarily offers two suite of products: AlphaCycle strategies and AlphaSector strategies. AlphaCycle builds select portfolios of best-in-class active portfolio managers and, by using disciplined means of determining when to add managers to the portfolio and when to remove them, captures excess return from the managers for the period of time that they outperform the market. There are 18 discrete AlphaCycle strategies covering most domestic equity asset classes. All AlphaCycle products are designed to consistently outperform their benchmarks and peer groups with modestly reduced risk.

AlphaSector is a sector rotation strategy that uses disciplined buy and sell signals to rotate among the major sectors of the S&P 500 index. The portfolio has the ability to move to cash in periods of broader market weakness. The objective of the AlphaSector Rotation strategy is to consistently outperform the S&P 500 with materially reduced risk, especially downside risk in weak markets.

#### **ALHPACYCLE INVESTMENT STRATEGIES**

F-Squared generates its investment solutions through a two-step process:

1. Creation of investment value add ("alpha") through the construction of AlphaCycle™ Indexes;
2. Creation of Tracking Portfolios of individual stocks (Model Portfolios).

#### **Creation of Alpha through the Construction of AlphaCycle Indexes**

A subsidiary of F-Squared, Active Index Solutions, creates and publishes a series of specialty indexes (AlphaCycle Indexes) covering a wide range of investment strategies and asset classes. Each AlphaCycle Index is constructed utilizing the principles of AlphaCycle investing<sup>3</sup>, and consists of a select portfolio of 'best in breed' mutual funds, with the funds selected annually by third party institutional consultants. The Net Asset Value and the Gross of Fee values of each Index are published daily by the American Stock Exchange. Complete performance information for all AlphaCycle Indexes can be found at [www.activeindexsolutions.com](http://www.activeindexsolutions.com).

The construction process of the Indexes can be seen in detail at [www.activeindexsolutions.com](http://www.activeindexsolutions.com), but the core principles of AlphaCycle Investing include:

1. Professional selection of "best of breed" mutual funds;
2. Multi-manager implementation, creating diversification at the process level (typical Index has 10 underlying mutual funds);
3. Strict sell discipline and embedded manager rotation – An annual reconstitution of the index constituent funds occurs February 15 of every year, and is designed to ensure that the Index maintains a current version of "best in class" actively managed mutual funds at all times.

<b>Schedule F of Form ADV Continuation Sheet for Form ADV Part II</b>	<b>Applicant:</b>  <b>F-Squared investments, Inc.</b>	<b>SEC File Number:</b>  <b>801-69028</b>	<b>Date:</b>  <b>October 1, 2008</b>
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**(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)**

1. Full name of applicant exactly as stated in Item 1A of Part I of Form ADV: <b>F-Squared Investments, Inc.</b>		IRA Empl. Ident. No.: <b>83-0470194</b>
Item of Form (Identify)	Answer	

### **Creation of Tracking Portfolios of individual stocks**

F-Squared Investments builds portfolios of investible securities (Tracking Portfolios or investment models) which are designed to track, as closely as possible, the performance of AlphaCycle Indexes<sup>4</sup>. These portfolios are delivered as Model Portfolios for SMAs and IMAs, and Institutional Separate Accounts for institutional and sub-advisory mandates.

Using sophisticated replication technology, our proprietary Portfolio Replication Technology (PoRT™), F-Squared is able to build tracking models of individual securities for each AlphaCycle Index. PoRT™ is the result of over 8 years of development, testing, and usage. This technology allows us to create an investment solution (a portfolio of individual stocks) that avoids a direct investment into the Index's underlying basket of mutual funds. In fact, there are no costs to the investor for either investing in the underlying funds or for any licensing fee to the underlying funds. This approach not only avoids any layering of fees, but actually allows F-Squared to reduce the total fees charged to levels that are 50% or more less than traditional investment management fees<sup>5</sup>.

For the sake of clarity, F-Squared investment solutions do not include the direct investment into any mutual fund. All investments are into portfolios of individual stocks that are generated by PoRT. This approach allows us to capture the alpha from the indexes without the layering of fees that occurs from investing in underlying mutual funds.

The only inputs into PoRT are publicly available information, which includes the daily performance result of the AlphaCycle Index and the underlying funds, and accessing third party databases which provide historical fund holdings as periodically reported to the SEC. PoRT then uses a dynamic regression engine on top of a massive scale optimizer to generate the Tracking Portfolios or Model Portfolios.

### **AlphaCycle Summary**

F-Squared Investments was designed from its inception to optimally leverage its replication technology. This allows us to both implement AlphaCycle investing while also significantly reducing costs. F-Squared does not employ expensive portfolio managers or investment analysts, nor does it have the additional day to day costs associated with investment professionals. This allows us to be the industry's low cost leader for delivering active management. We are also not tied to proprietary investment teams, and can therefore fully deliver the open architecture platform required for AlphaCycle Investing.

<sup>3</sup>A more complete understanding of AlphaCycle Investing can be found in the article "Alpha Unleashed" published by the *Journal of Indexes*, March 2008, and available on the F-Squared website at [www.f-squaredinvestments.com](http://www.f-squaredinvestments.com).

<sup>4</sup>F-Squared **DOES NOT GUARANTEE** that the performance of the tracking models will replicate the performance of the target AlphaCycle Index.

<sup>5</sup>Sources: Morningstar Direct, Financial Research Corporation, Dover Research, and F-Squared Investments

<b>Schedule F of Form ADV Continuation Sheet for Form ADV Part II</b>	<b>Applicant:</b>  <b>F-Squared investments, Inc.</b>	<b>SEC File Number:</b>  <b>801-69028</b>	<b>Date:</b>  <b>October 1, 2008</b>
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**(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)**

1. Full name of applicant exactly as stated in Item 1A of Part I of Form ADV: <b>F-Squared Investments, Inc.</b>		IRA Empl. Ident. No.: <b>83-0470194</b>
Item of Form (Identify)	Answer	

### **ALPHASECTOR INVESTMENT STRATEGIES**

AlphaSector was designed with the intent of consistently outperforming the S&P 500 while also delivering lower volatility, low beta and low correlation. The product has been built with a focus on superior downside risk management, especially in weak markets.

#### **Portfolio Construction and Design**

The strategy invests in the 9 sectors of the S&P 500 plus cash. The implementation of the strategy is exclusively through exchange traded funds (ETFs), which are low cost, highly liquid index-linked vehicles tracking the performance of each respective sector. The ETFs used are the Select Sector SPDRs and an ETF representing short term Treasury securities as the proxy for cash. As such, there are a maximum number of 9 securities in the portfolio at any one time, resulting in operational ease and lower transaction costs.

All AlphaSector portfolios are traded monthly with the intent of tracking the AlphaSector Rotation Index (ticker symbol ASRN), published daily by the NASDAQ.

Decisions to include a sector within the portfolio at any time are based on the output of a proprietary analytical evaluation that evaluates “true” sector trends while adjusting for market “noise” and for changing levels of informational content in the market. Sectors are included in the portfolio based on a binary model: A positive signal results in inclusion in the portfolio, and neutral or negative signal results in complete removal from the portfolio. All sectors that are included in the portfolio are equal weighted, with a maximum allocation to any one sector capped at 25% of the portfolio.

When there are three or fewer sectors with a buy signal, AlphaSector will put the remainder of the portfolio into cash, up to 100% in cash. This ability to automatically shift to a defensive position in times of broader market weakness is critical to the portfolio’s ability to manage downside risk exposures.

#### **History of the Strategy**

AlphaSector is built upon the monthly buy and sell indications from a proprietary analytical engine. The analytics was developed and has been in use since 2001. The developer of the strategy (analytical model and the corresponding portfolio construction methodology) is a multi-billion dollar wealth management firm that has been managing Private Wealth Client assets against the strategy since 2001. As of the second quarter of 2008, this firm had over \$100 million of client assets tracking the strategy.

F-Squared has partnered with this firm to deliver AlphaSector to the broader market. F-Squared has slightly modified the portfolio construction approach that the wealth firm has used to create a more systematic approach, improve slightly the risk management profile of the portfolio, and allow the strategy to be able to meet the construction requirements of a public index. The primary modifications were to set trading to once per month and to place a maximum cap on any sector position at 25% of the overall portfolio.

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### **Investment Philosophy and Rationale**

AlphaSector is built upon the premise that individual sectors of the S&P can show significant deviation of relative performance from the S&P, as well as from each other. For example, for the periods from April, 2001 (AlphaSector Rotation Index inception date) through the July, 2008:

- ♦ For rolling 90 day periods, the best sector on average outperforms the weakest by 16.4%<sup>6</sup>
- ♦ For rolling 1 year periods the difference is 35.8%<sup>6</sup>

To capture the return potential from the sector movements while embedding a strict risk management discipline, AlphaSector uses the following key disciplines:

- ♦ Proprietary analytical engine, in development since 2001, evaluates “true” sector trends while adjusting for market “noise” and for changing levels of informational content in the market
- ♦ Portfolio construction methodology blends return potential with embedded risk management
  - Only sectors with a positive signal are included in the portfolio (binary model); sectors receiving neutral or negative signals are removed
  - No arbitrary bias to market capitalization weighting
    - Sectors within the portfolio are equal weighted (with a maximum cap per sector of 25%)
  - Cash as a safe haven
    - In times of market weakness, has ability to move partially or fully to cash
    - Cash can be viewed as a default position
  - Power in simplicity
    - Portfolio uses no leverage, derivatives, or shorting
- ♦ Low fees

<sup>6</sup>Source: Morningstar Direct and Standard & Poors

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### *Item 4.B.8: Methods of Analysis, Sources of Information, and Investment Strategies*

F-Squared uses a variety of public information as inputs into our PoRT engine. We access the information through a variety of commercially available data services including Morningstar, Standard & Poors, Lipper, others. We also access certain data from public websites. All information used in our approach is publicly available information. Specific sources of information as input to PoRT includes:

- Daily values of the AlphaCycle Indexes as published by the American Stock Exchange;
- Daily Net Asset Values (NAVs) of the underlying mutual funds in the indexes;
- Total return performance returns for all stocks in the investable universe for each Index;
- Publicly disclosed data representing complete or partial historical holdings data for all funds each Index (mutual funds periodically publish historical holdings data to the SEC, with the most common frequency quarterly with a 30 – 45 day lag).

F-Squared also receives data input into the process from outside investment firms, data providers, or consultant firms. Among them is New Found Research, LLC. These feeds either occur annually for the AlphaCycle suite of products or weekly for AlphaSector.

### *Item 5: Education and Business Standards*

All professionals involved in determining or giving investment advice meet the following minimum standards:

- Licensed as required
- College degree
- 5 years of professional experience

Exceptions to education level and work experience may be made on a case by case basis.

### *Item 6: Education and Business Background*

The following individuals represent the principal executive officers of the firm:

#### ***Howard Present – President and Chief Executive Officer, Board Member***

Mr. Present is Co-Founder, President and CEO of F-Squared Investments. Prior to F-Squared Investments, he was Founder and President of Helicon Partners LLC, a boutique management firm specializing in new business development within the financial services industry.

Previously, Mr. Present was Managing Director at Evergreen Investments where he was a member of the Evergreen Executive Committee. Mr. Present ran global product management and strategy for the firm, led the successful multi-

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billion dollar business launch into closed end funds, and was business owner of the Alternative Investments, Managed Accounts, and 529 businesses. He was also a lead participant in the firm's M&A efforts.

Prior to joining Evergreen, he was a Managing Director at Putnam Investments, where he founded the firm's Corporate Product Management department. He also was Partner and Director of Strategy for the Boston Financial Group, a leader in the real estate investment industry, and spent 6 years at Chase Manhattan Private Bank where he ran the firm's offshore fund business.

Mr. Present earned a BS in Petroleum Engineering from the University of Texas at Austin and an MBA from Emory University, where he was awarded the Robert W. Woodruff Fellowship for academic excellence. He was born in 1961.

Mr. Present has authored or co-authored several strategy white papers and research studies covering the investment industry, including a 2006 Study in conjunction with Financial Research Corporation entitled "*THE NEW GATEKEEPERS: Navigating the Investment Manager Selection Process at Distributors.*"

***George McClelland – Vice Chairman and Director of Business Development, Board Member***

Mr. McClelland is a Co-Founder, Vice Chairman, and Director of Business Development for F-Squared Investments. Mr. McClelland has experience in the computer, software, telecommunications, financial services, Internet auction, nanotech and medical delivery fields. Mr. McClelland has held senior positions at Data General, Fidelity Investments, University of Massachusetts Medical Center and United Asset Management. He has founded, or co-founded The Charitable Gift Fund and eSecLending companies, where he was Chairman and CEO.

He currently serves on the board of Safeguard Scientifics, Inc. He has previously served on the Boards of Riverstone Networks, Storage Networks, Ensign Bickford Industries, Porticus Technologies, Damanet Telecommunications, Nippon Data General, Patni Computers, Colt, Proxy Edge, The Campbell Group, OSV Partners, Acadian Asset Management, Dwight Asset Management, Clay Finlay, Rogge Partners, Palladyn, Murray Johnstone, L&B Realty Advisors, C S McKee,

Advisory Committee of the Group of Thirty, The Japan Society of Boston, Big Brother Mass Bay, Friends of the Children, and the Harvard Business School Association Board of Governors.

Mr. McClelland has lectured at MIT, Boston College, and Bentley College. He also has the rare distinction of having Harvard Business School write a case series on entrepreneurship and leadership based on his experience. This case is taught to all first year students. His educational background includes Trinity College in Hartford, Connecticut with a BA in economics, cum laude, Harvard Business School with an MBA (with distinction). In 1998 he was awarded a Ph.D., Humane Letters from the University of Massachusetts Medical School in Worcester, Massachusetts. Mr. McClelland was born in 1946.

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***Vadim Fishman – Senior Vice President and Chief Technology Officer***

Mr. Fishman is a Co-Founder, Senior Vice President and Chief Technology Officer of F-Squared Investments. Prior to F-Squared Investments, Mr. Fishman was the Founder and CEO of IntelDM, Inc., a consulting firm providing mathematical and programming services for the financial services and biotech industries.

Previously, Mr. Fishman was Software Project Manager for Artann Laboratories, where he led software development of new medical diagnostic devices. In this capacity, he designed and developed a near real-time methods and software for 2D- and 3D-medical image analysis. He has also held analytical and development roles for such firms as Markov Processes, Inc., Minimax Ltd. in Kharkov, Ukraine, and the Kharkov Institute of Industrial Buildings.

Mr. Fishman is fluent in multiple computer and web programming languages, software and database programs. He earned an MS in Technology from the Kharkov Politechnical University in Kharkov, Ukraine. He was born in 1960.

***John Nelson – Senior Vice President, Sales and Marketing***

Mr. Nelson joined F-Squared Investments in December, 2007. Prior to F-Squared Investments, he was a principal with Smartleaf, Inc., responsible for managing the company's sales and marketing activity. Smartleaf is an industry-leading technology firm providing in-house, web-based overlay services to financial institutions. Customers include US Bank Corp., SEI Investments, Compass Bank, and Sungard Advisor Technologies. During Mr. Nelson's four year tenure at Smartleaf, the company grew from two clients and less than \$50 million on the system to over 45 clients and in excess of \$10 billion of assets on the system.

Prior to joining Smartleaf, Mr. Nelson spent three years as the first head of business development for Placemark Investments, a firm which provides outsourced overlay services to financial institutions. His background also includes senior positions at United Asset Management and Trans National Financial Services, in addition to tenure as a Vice President at Chase Manhattan Bank with the Real Estate lending group.

Mr. Nelson received a BA from Brown University and an MS Management from the Sloan School of Management at MIT. He was born in 1959.

***Sharon Siegfriedt – Senior Vice President, Director of Operations and Chief Compliance Officer***

Ms. Siegfriedt joined F-Squared Investments in August, 2008. Prior to F-Squared she was the Executive Director of Separately Managed Accounts at Anchor Capital Advisors, LLC. In this role, she was responsible for overseeing all trading, operations, due diligence, administration, compliance, contract review, proxy voting, sales support and Sponsor relationship management functions for Anchor's SMA and UMA multi-billion dollar business. At Anchor Capital she also held the title of Senior Vice President, Portfolio Manager, where she managed over \$990 million both DMA and SMA clients.



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Prior to Anchor Capital, Ms. Siegfriedt also held management or investment positions at Schroder Wertheim Investment Services, Fleet Investment Advisors, and New England Equity Research.

Ms. Siegfriedt earned a BS in Psychology from Tulane University. She was born in 1958.

### *Item 7.A and 7.B: Other Business Activities*

F-Squared is primarily engaged in providing investment advisory services. However, its wholly owned subsidiary, Active Index Solutions, LLC, is in the business of creating and licensing indexes. The AlphaCycle Indexes are part of the Active Index Solutions portfolio of indexes.

### *Item 9.E: Participation or Interest in Client Transactions*

F-Squared has a range of Model Portfolios it makes available to investors as SMAs, IMAs, or Institutional Separate Accounts. F-Squared will typically have either corporate assets or assets of senior management invested in these Models on a parallel basis to that managed for clients.

F-Squared acts as adviser to other clients and may publish or give advice and take action with respect to any other client, which may differ from the timing or nature of action taken with respect to the SMAs, IMAs, or Institutional Separate Accounts ("Investment Accounts"). F-Squared will not have any obligation to recommend for purchase or sale by Investment Accounts, any securities which F-Squared, its principals, affiliates or employees may purchase or sell for any other client or themselves if, in their reasonable opinion, such transaction appears inadvisable for the Investment Account.

### *Item 9: Participation or Interest in Client Transactions*

F-Squared has adopted a Code of Ethics ("Code of Ethics") that sets forth the high standard of conduct expected of our firm's personnel. In keeping with the fiduciary principles that arise in the advisory relationship, the Code of Ethics requires the submission of periodic reports detailing the personnel's securities holdings and transactions (subject to several exemptions contained in the rules), and requires pre-approval for certain securities transactions by personnel, including purchases and sales of reportable securities, investments in initial public offerings and private placements. The Code of Ethics explicitly requires personnel to promptly report violations of the Code to the Chief Compliance Officer. A copy of the Code of Ethics is available free of charge, upon request.

### *Item 10: Conditions for Managing Accounts*

There are minimums for accounts, varying by account type. Please see section 1.D. in this Schedule F for information on minimums by account type.

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### *Item 11.A: Review of Accounts*

Pursuant to the terms of Advisory Agreements, each client account is reviewed on an ongoing basis, including at the time of any purchase or sale of securities, upon implementing any rebalancing of Model Portfolios, and upon receipt of each monthly statement of the brokerage account for the client account. An annual review of all accounts also occurs.

### *Item 11.B: Review of Accounts*

The securities broker-dealer, through whom a client's transactions are executed, will send in electronic format a confirmation to the client for each transaction, although this confirmation may be suppressed by client election. The broker-dealer also sends the client in electronic format a quarterly statement of the account showing all transactions during the quarter and the quarter-end position. Finally, the broker-dealer also sends to the client an annual summary including all appropriate information for tax reporting. This annual reporting is also done in electronic format.

### *Item 12.A: Investment or Brokerage Discretion*

F-Squared may be limited by the investment advisory agreement with a client as to the amounts and types of investments which may be made for an account, as well as for constraints such as individual security restrictions or other customization requirements. Tax management guidelines will also be observed in all accounts. F-Squared implements its investment services through Model Portfolios, adjusted for client requirements of customization and tax management considerations. Absent any such limitation, F-Squared has full investment discretion.

In those situations where we have discretion, F-Squared's policy is to seek the most favorable combination of price and execution for client portfolio transactions. Typically we negotiate these contracts in advance. In many circumstances F-Squared has been able to negotiate brokerage commissions, custodial fees, and account minimums that are substantially below that commonly found in the industry. Our Individually Managed Account (IMA), for example, has investment minimums at \$15,000 versus industry norms of \$100,000 and account fees that we believe are 45% or more below traditional fees in the industry. (See 1.D. in Schedule F for more information.)

The value of research services furnished to F-Squared by a particular broker-dealer can NEVER be a factor because F-Squared has a strict policy to NOT accept any such services.

For institutional clients and certain advisor-sold relationships F-Squared will allow the client to designate broker-dealers and custodians. In these cases, the specific cost and commission arrangements will be determined by those clients, and may be more expensive than the arrangements that F-Squared may have been able to establish.

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### *Item 12.B: Investment or Brokerage Discretion*

F-Squared's policy is to seek the most favorable combination of price and execution for client portfolio transactions. In many circumstances F-Squared has been able to negotiate brokerage commissions, custodial fees, and account minimums that are substantially below that commonly found in the industry. Our Individually Managed Account (IMA), for example, has investment minimums at \$15,000 versus industry norms of \$100,000 and account fees that we believe are 45% or more below traditional fees in the industry. (See 1.D. in Schedule F for more information.)

For institutional clients and certain advisor-sold relationships F-Squared will allow the client to designate broker dealers and custodians. In these cases, the specific cost and commission arrangements will be determined by those clients, and may be more expensive than the arrangements that F-Squared may have been able to establish.

### *Item 13.B: Additional Compensation*

F-Squared on occasion has entered into third-party marketing agreements with individuals or firms whereby they assist the firm in generating client referrals or sales. In such cases, the fee is only payable provided the client has full disclosure of the arrangement and consents in writing in accordance with cash solicitation rules and applicable provisions of the Investment Advisors Act of 1940. Such referral fees can be one-time fees paid during the first year of the relationship with a client, they can be ongoing fees over a specific time period, or the fees might be payable over the entire term of the relationship between F-Squared and the client.