

## RISK-MANAGED LARGE CAP DEFENSIVE EQUITY STRATEGY<sup>TM</sup>

**Investment Philosophy:** We believe in creating quantitative stock investment strategies based on fundamental factors that historically have been associated with superior stock returns. By combining this factor-based approach with our proprietary market-timing hedges, we feel that we can obtain the benefits of equity-like returns with substantially lower downside risk over a full market cycle. Our strategies are supported by empirical research and decades of market data. By employing a systematic approach to investing, we also seek to minimize the human cognitive and behavioral biases that typically lead to long-term investment underperformance.

**Objective:** To provide long-term capital appreciation over the full market cycle while also providing downside protection against major market declines. More specifically, this strategy's integrated approach seeks to produce returns that are comparable to the S&P 500 Index over a full market cycle with lower volatility by investing in stocks that have substantial quality and low volatility factor advantages. It also seeks to limit downside risk (i.e., maximum drawdowns or peak-to-bottom declines) through the application of a proprietary, multi-factor market-timing hedge as a portfolio overlay. In summary, this strategy is a defensive large cap, U.S. stock investment strategy that provides the benefits of risk-controlled equity exposure.

**Description:** This strategy is a proprietary quantitative stock selection strategy that generally employs the following systematic investment approach.

- We begin with an initial stock universe that includes all companies listed on all U.S. exchange markets with a market capitalization equal to or greater than \$3.5 billion, excluding Master Limited Partnerships (MLPS), materials and real estate companies, and any stock that is traded over-the-counter.
- We next assess the quality of each stock based on certain fundamental factors such as sales, profitability, balance sheet strength and operating efficiency. Any stock that fails to meet our defined quality criteria is excluded from consideration.
- All stocks that pass our quality screen are then ranked based on their historical price volatility.
- The 100 stocks with the lowest historical price volatility are selected for inclusion in the portfolio, subject to the application of our defined constraint regarding maximum exposure to any one sector.
- The selected stocks are market cap weighted and remodeled and rebalanced at least annually.
- To provide downside protection in the event of a major market decline, this strategy employs a proprietary multi-factor market timing hedge. By operation, this tactical hedge moves the portfolio into U.S. treasury bonds when the current market environment suggests that the risk of owning stocks is high and keeps the portfolio fully invested in stocks when the market environment suggests that the risk of owning stocks is moderate-to-low.

In summary, this strategy is a lower risk equity solution that looks for quality domestic large capitalization companies that have exhibited low historical price volatility. To provide protection against major drawdowns (i.e. peak-to-bottom declines) the strategy also employs a proprietary multi-factor market-timing hedge. Accordingly, the principal factors that drive this strategy are quality and low volatility, along with a market-timing hedge.

**Designed for:** This strategy is designed for investors looking to:

- Mitigate downside risk but who also want long-term equity-like returns with lower price volatility compared to the stock market benchmark.
- Add a quantitative or systematic investment process to their investment holdings.
- Diversify a traditional long-only equity portfolio.
- Diversify a traditional asset allocation portfolio.

**SIMULATED (NET) PERFORMANCE** (Quarter Ending March 31, 2022)

Annualized Return (%)*	YTD	1 Year	3 Year	5 Year	10 Year	15 Year
Strategy	-10.53	8.97	17.16	17.65	14.94	15.44
S&P 500 Index**	-4.61	15.46	18.40	15.95	14.44	10.16
Excess Return (%)	-5.92	-6.49	-1.24	1.70	0.50	5.28
Risk Statistics						
Strategy Max. Drawdown (%)	-	-	-17.42	-17.42	-17.42	-17.56
Benchmark Max. Drawdown (%)	-	-	-33.72	-33.72	-33.72	-55.19
Strategy Standard Deviation (%)	-	-	15.74	13.40	11.73	11.38
Benchmark Standard Deviation (%)	-	-	18.12	15.95	13.28	15.45
Strategy Sharpe Ratio	-	-	1.00	1.15	1.20	1.24
Benchmark Sharpe Ratio	-	-	0.92	0.91	1.04	0.63
Strategy Sortino Ratio	-	-	1.34	1.53	1.57	1.66
Benchmark Sortino Ratio	-	-	1.22	1.19	1.38	0.83
Strategy Annualized Alpha (%)	-	-	7.76	8.23	6.19	10.29

\*Returns are average annualized total returns, except those for periods less than one year, which are cumulative.

\*\*Benchmark: S&P 500 Index as represented by the SPDR S&P 500 Index ETF (SPY).

**SIMULATED (NET) PERFORMANCE BY CALENDAR YEAR** (Calendar Years 2007 – 2022)

Return (%)	2007*	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022**
Strategy	6.44	12.97	27.62	26.84	-1.68	13.48	31.40	12.37	-3.55	13.88	30.64	9.45	20.03	30.87	21.90	-10.53
S&P 500 Index	4.33	-36.79	26.35	15.06	1.89	15.99	32.31	13.46	1.23	12.00	21.71	-4.57	31.22	18.33	28.73	-4.61
Excess	2.11	49.76	1.27	11.78	-3.57	-2.51	-0.91	-1.09	-4.78	1.88	8.93	14.02	-11.19	12.54	-6.83	-5.92

From (\*) 4/1/07 to (\*\*) 3/31/22

**KEY DEFINITIONS**

**Alpha:** A measure of performance on a risk-adjusted basis. Simply stated, alpha is considered to represent the value that a portfolio manager adds to (positive alpha) or subtracts from (negative alpha) a portfolio's return. It is expressed as an annualized percentage. For example, an alpha of 1.0% means that the portfolio has outperformed its risk-adjusted benchmark by 1.0% per year.

**Excess Return:** A strategy's annualized (net) total return in excess of the applicable benchmark's annualized total return for the same period.

**Maximum Drawdown:** The largest drop from peak to bottom during a certain time period, expressed in percentage from the peak.

**Sharpe Ratio:** A measure of a portfolio's risk-adjusted performance. It divides the average of an investment's return by the standard deviation (i.e., volatility) of returns. Therefore, the higher this ratio the better. This ratio is typically used to compare the risk-adjusted returns of two or more investments. The investment with the highest Sharpe Ratio is deemed to have the best risk-adjusted return.

**Sortino Ratio:** A measure of a portfolio's downside risk-adjusted performance. It divides the average of an investment's return by the downside standard deviation (i.e., negative volatility) of returns. Therefore, the higher this ratio the better. Like the Sharpe Ratio, this ratio is typically used to compare the risk-adjusted returns of two or more investments. The investment with the highest Sortino Ratio is deemed to have the best risk-adjusted return. However, this measure of risk-adjusted returns typically is considered superior to the Sharpe Ratio because it measures an investment's performance in relation to only its volatility of negative returns or downside volatility.

**Standard Deviation:** A statistical measurement that shows the historical volatility of an investment's return. The greater the standard deviation, the greater the volatility. For example, a volatile stock or portfolio will have a high standard deviation, while a more stable stock or portfolio will have a lower standard deviation.

**ADDITIONAL EXPLANATORY NOTES & DISCLOSURES**

1. All strategy returns are based on simulated portfolio total returns net of an estimated annual advisory fee of 0.85%, estimated annual custodian and trading fee of 0.20% and estimated slippage or bid-ask trading costs of between 0.25% and 0.65% per trade.
2. Market data for back-testing provided by Portfolio 123, S&P Global Market Intelligence, Compustat, S&P Capital IQ Estimates, ICE Data, LLP, IEX and FactSet.
3. The material in this presentation is based on information from a variety of sources we consider reliable, but we do not represent that the information is accurate or complete. The material provided herein is for informational purposes only.
4. References to market or composite indices, benchmarks or other measures of relative market performance over a specified period of time are provided for your information only.
5. This presentation is neither an offer to sell nor a solicitation of an offer to buy any securities.
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7. The simulated performance information set forth herein is for our model strategy only. Individual investors who invest in separately managed accounts that track this strategy may experience different returns than our model. Accordingly, the statements made herein are not necessarily representative of the returns that any investor may actually attain.
8. This strategy may be subject to high portfolio turnover as a result of frequent trading, and thus, may incur a higher level of taxes and transaction costs.
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