

## **Philosophy – *AlphaSector Rotation Index* and *AlphaSector Premium Index***

The Indexes are designed to deliver relative outperformance in rising markets, and significant risk controls in declining markets.

All security decisions are done with the intent of avoiding losses, in particular significant market declines. This is done for two reasons. First, losses have an exponentially negative impact on long-term returns (a 50% loss requires a subsequent 100% gain to return to “par”). Second, when comparing the frequency and extent of extreme losses versus extreme gains of the sectors of the S&P 500, the extreme losses are both much more frequent and cumulatively are much greater than the extreme gains.

Focusing all decisions on avoiding losses creates an “odds-in-your-favor” approach to investing.

Final component of the philosophy is that in periods of extreme market distress, a partial or complete allocation to cash equivalents is allowed. Cash is viewed as a safe haven in times of significant bear markets.

If executed properly, the strategies will create a means of modestly outperforming the S&P 500 in normal growth markets, while meaningfully outperforming the S&P 500 in bear markets.

## **Methodology – *AlphaSector Rotation Index* and *AlphaSector Premium Index***

[Note: The following is the methodology for the Premium option. The Monthly option is identical except the analysis and trading is done once per month on the last Friday of the month.]

The separate accounts for this strategy will track a public index published by F-Squared Investments – the AlphaSector Premium Index. The Index reflects a live strategy dating back to 2001.

The eligible investments within the Index are the nine Select Sector SPDRs exchange traded funds (“ETFs”) and an ETF representing 1 – 3 month Treasuries (ticker BIL). The Index has the potential to be invested in any combination of the nine SPDRs including all nine at the same time, a combination of sector SPDRs and the Treasury ETF, or can be 100% invested in the Treasury ETF.

The Index is re-evaluated for modifications to the existing constituency on a weekly basis. The decisions for which sector ETFs are included in the Index is made by a proprietary analytical engine that evaluates “true” sector trends while adjusting for market noise and for changing levels of volatility in the market.

The Index uses a binary model for determining inclusion of represented sector ETFs. If a sector receives a positive signal for investing, it is included in the Index. If a sector receives a neutral or negative signal, it is removed from the Index. All sectors represented are equal weighted, with a maximum allocation capped at 25% of the Index at the time of rebalancing.

If there are 3 or fewer sectors represented at a given time, the remainder of the portfolio (reflecting the 25% maximum cap per sector) is invested in the short term Treasury ETF (ticker BIL), representing cash. The Index can be 100% invested in BIL if all sectors receive a neutral or negative rating at the time of reconstitution.

This Index does not utilize derivatives, leverage, nor does it short investments.

If there is a change to the constituency for a given week, the Index is reconstituted and rebalanced at the close of trading on the last Friday of every week. If the market is closed on the last Friday, it would be reconstituted at the end of trading on the prior Thursday.

## **Philosophy – *AlphaSector International Index* and *AlphaSector International – Premium Index***

The Indexes are designed to deliver relative outperformance in rising markets, and significant risk controls in declining markets.

All security decisions are done with the intent of avoiding losses, in particular significant market declines. This is done for two reasons. First, losses have an exponentially negative impact on long-term returns (a 50% loss requires a subsequent 100% gain to return to “par”). Second, when comparing the frequency and extent of extreme losses versus key market segments of the international markets, the extreme losses are both much more frequent and cumulatively are much greater than the extreme gains. Focusing all decisions on avoiding losses creates an “odds-in-your-favor” approach to investing.

Final component of the philosophy is that in periods of extreme market distress, a partial or complete allocation to cash equivalents is allowed. Cash is viewed as a safe haven in times of significant bear markets.

If executed properly, the strategies will create a means of modestly outperforming the MSCI World ex-US Index in normal growth markets, while meaningfully outperforming the benchmark in bear markets.

## **Methodology – *AlphaSector International Index* and *AlphaSector International – Premium Index***

[Note: The following is the methodology for the Premium option. The Monthly option is identical except the analysis and trading is done once per month on the last Friday of the month.]

The separate accounts for this strategy will track a public index published by F-Squared Investments – the AlphaSector International - Premium Index.

The eligible investments within the Index are two international equity exchange traded funds (“ETFs”) and an ETF representing 1 – 3 month Treasuries. The international equity ETFs cover Emerging Markets (ticker EEM) and developed international markets (ticker EFA). The short-term Treasury ETF’s ticker is BIL.

The Index is re-evaluated for modifications to the existing constituency on a weekly basis. The decisions for which ETFs are included in the Index is made by a proprietary analytical engine that evaluates sectors of the US markets, with a proprietary mix of up to four US sector signals then used to “stage” investments into or out of the international equity ETFs. These sectors have been chosen due to their long-term correlations with the international equity markets, especially during periods of market declines.

As the US sectors receive either a positive or negative signal, the Index will increase or decrease its allocation to the two international equity ETFs. The Index has the potential to be invested up to 50% in either EFA or EEM, or can be 100% invested in the Treasury ETF.

This Index does not utilize derivatives, leverage, nor does it short investments.

If there is a change to the constituency for a given week, the Index is reconstituted and rebalanced at the close of trading on the last Friday of every week. If the market is closed on the last Friday, it would be reconstituted at the end of trading on the prior Thursday.

## **Philosophy – *AlphaSector Global Index* and *AlphaSector Global – Premium Index***

The Indexes are designed to deliver relative outperformance in rising markets, and significant risk controls in declining markets.

All security decisions are done with the intent of avoiding losses, in particular significant market declines. This is done for two reasons. First, losses have an exponentially negative impact on long-term returns (a 50% loss requires a subsequent 100% gain to return to “par”). Second, when comparing the frequency and extent of extreme losses versus extreme gains of the sectors of the S&P 500 and key international markets, the extreme losses are both much more frequent and cumulatively are much greater than the extreme gains. Focusing all decisions on avoiding losses creates an “odds-in-your-favor” approach to investing.

Final component of the philosophy is that in periods of extreme market distress, a partial or complete allocation to cash equivalents is allowed. Cash is viewed as a safe haven in times of significant bear markets.

If executed properly, these strategies will create a means of modestly outperforming the MSCI World Index in normal growth markets, while meaningfully outperforming the benchmark in bear markets.

## **Methodology – *AlphaSector Global Index* and *AlphaSector Global – Premium Index***

[Note: The following is the methodology for the Premium option. The Monthly option is identical except the analysis and trading is done once per month on the last Friday of the month.]

The separate accounts for this strategy will track a public index published by F-Squared Investments – the AlphaSector Global - Premium Index.

This Index is a blend of two other F-Squared Indexes: 60% AlphaSector Premium Index and 40% AlphaSector International – Premium Index. (See above for methodology for these two Indexes.)

Both Indexes are re-evaluated for modifications to the existing constituency on a weekly basis. The decisions for which sector ETFs are included in the Index is made by a proprietary analytical engine.

This Index does not utilize derivatives, leverage, nor does it short investments.

If there is a change to the constituency for a given week, the Index is reconstituted and rebalanced at the close of trading on the last Friday of every week. If the market is closed on the last Friday, it would be reconstituted at the end of trading on the prior Thursday.

## **Philosophy – *AlphaSector Allocator Index* and *AlphaSector Allocator – Premium Index***

The Indexes are designed to deliver relative outperformance in rising markets, and significant risk controls in declining markets.

All security decisions are done with the intent of avoiding losses, in particular significant market declines. This is done for two reasons. First, losses have an exponentially negative impact on long-term returns (a 50% loss requires a subsequent 100% gain to return to “par”). Second, when comparing the frequency and extent of extreme losses versus extreme gains of the sectors of the S&P 500 and key international markets, the extreme losses are both much more frequent and cumulatively are much greater than the extreme gains. Focusing all decisions on avoiding losses creates an “odds-in-your-favor” approach to investing.

Final component of the philosophy is that in periods of extreme market distress, a partial or complete allocation to low risk investments is allowed. For equity portions of the portfolio, the “low risk” option is short-term Treasuries, or cash equivalents. Cash is viewed as a safe haven for equity exposure in times of significant bear markets. For the fixed income portion of the portfolio the “low risk” option is 10 year Treasuries. While this still maintains a duration risk, it has removed all other fixed income market risk, such as credit risk.

If executed properly, these strategies will create a means of modestly outperforming the DJ Moderate Allocation Index in normal growth markets, while meaningfully outperforming the benchmark in bear markets.

## **Methodology – *AlphaSector Allocator Index* and *AlphaSector Allocator – Premium Index***

[Note: The following is the methodology for the Premium option. The Monthly option is identical except the analysis and trading is done once per month on the last Friday of the month.]

The separate accounts for this strategy will track a public index published by F-Squared Investments – the AlphaSector Allocator Index.

This index is a blend of 60% AlphaSector Global Index, 30% AlphaSector Fixed Income and 10% AlphaSector Alternatives. The AlphaSector Global Index is a blend of two other F-Squared Indexes: 60% AlphaSector Premium Index and 40% AlphaSector International – Premium Index.

The Indexes are re-evaluated for modifications to the existing constituency on a weekly basis. The decisions for which sector ETF’s are included in the Index is made by a proprietary analytical engine.

The index does not utilize derivatives, leverage, nor does it short investments.

If there is a change to the constituency for a given week, the Index is reconstituted and rebalanced at the close of trading on the last Friday of every week. If the market is closed on the last Friday, it would be reconstituted at the end of trading on the prior Thursday.

### **ALPHASECTOR PREMIUM PORTION.**

Please see Methodology above.

### **ALPHASECTOR INTERNATIONAL - PREMIUM PORTION.**

## **Fixed Income Portion**

The eligible investments in this portion of the Index are fixed income exchange traded funds (“ETFs”):

- AAA corporate bond ETF (ticker LQD),
- High yield bond ETF (ticker HYG),
- Municipal bond ETF (ticker MUB),
- Mortgage backed securities ETF (ticker MBB),
- Seven year treasury bond ETF (ticker IEF).

The Index uses a binary model for determining inclusion of sector ETFs – except the seven year treasury ETF which is always included. For the other sectors, if a sector receives a positive signal for investing, it is included in the Index. If a sector receives a negative signal, it is removed from the Index. All sectors represented are equal weighted within the Fixed Income sleeve, with a maximum allocation capped at 33.3% of the Fixed Income sleeve at the time of rebalancing.

If there are 2 or fewer fixed income sectors represented at a given time, the remainder of the fixed income sleeve (reflecting the 33.3% maximum cap per fixed income sector) is invested in the seven year Treasury ETF. The Index can be 100% invested in the seven year Treasury ETF if all fixed income sectors receive a negative rating at the time of reconstitution.

The index does not utilize derivatives, leverage, nor does it short investments.

If there is a change to the constituency for a given week, the Fixed Income sleeve is reconstituted and rebalanced at the close of trading on the last Friday of every week. If the market is closed on the last Friday, it would be reconstituted at the end of trading on the prior Thursday.

## **Alternatives Portion**

The eligible investments in this portion of the Index are four ETFs:

- Real estate (ticker IYR)
- Gold (ticker GLD)
- S&P500 Index (ticker SPY)
- 1-3 month Treasuries (ticker BIL).

The Alternatives sleeve has the potential to be invested in a combination of real estate, gold and either the S&P500 or the 1-3 month Treasuries ETFs.

The Alternatives sleeve uses a binary model for determining inclusion of real estate or gold. If an Alternatives sector receives a positive signal for investing, it is included in the sleeve. If an Alternatives sector receives a negative signal, it is removed from the sleeve. The Alternatives sectors are equal weighted with a maximum allocation capped at 50% of the sleeve at the time of rebalancing. If either or both Alternatives sectors are removed, they are replaced with the S&P Index ETF, with one potential exception. If the AlphaSector equity model has any exposure to BIL, any removed Alternatives sectors will instead be replaced with 1-3 month Treasuries (ticker BIL).