Market Risk Indicator (MRI) Monthly Update – June 2018

MRI Description:

- The risk management philosophy at 55ip is to attempt to protect client portfolios from extreme losses. This is achieved through increased diversification but also through monitoring the varying effectiveness of diversification in protecting capital. 55ip investment science allows investors to dynamically shift asset allocation from higher volatility assets such as equities to lower volatility assets such as short duration fixed income based on a proprietary indicator of the future risk environment.

- The purpose of such dynamic adjustment of the overall risk budget is to address the limitations of diversification. Diversification is helpful but the effectiveness of diversification is limited in certain market conditions due to a high degree of correlations among various sub-asset classes.

- 55ip has designed a proprietary measure – the 55ip Market Risk Indicator (MRI) – that seeks to assess the likelihood of extreme market conditions and help investors protect their portfolio from significant losses, by using cash substitutes to reduce portfolio downside exposure.

- The MRI score can range from 0% (indicating 55ip has the lowest possible risk assessment) to 100% (indicating 55ip has the highest possible risk assessment). The objective of the MRI score is, when applied over time, to lower the overall risk of the portfolio by decreasing equity exposure during periods more likely to have high downside risk in exchange for cash substitutes and vice versa. If successful, this would result in improved compounding of returns, especially when investors seek to generate a steady stream of income from their portfolios (See White Paper).

- Recent periods preceded by a high MRI include June 2016 (pre-Brexit) and October 2016 (pre-US election).

Current MRI (June): 20%

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<th>Relative to most recent quarters:</th>
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<td>Q4 2017</td>
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<td>20%</td>
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MRI Commentary:

- MRI value is at a relatively low value of 20%. Based on this, a full deployment of MRI will decrease the equity allocation in 55ip powered portfolios by 20% relative to the maximum possible equity allocation.

- The MRI Score aggregates indicators across 4 categories:
  - Valuation (e.g. price to book ratio)
  - Macroeconomic conditions (e.g. manufacturing sentiment index)
  - Financing indicators (e.g. Trend indicators)
  - Statistical measures of return distributions (e.g. multi-asset VIX)

Important disclosures are on the next page:
Notes:

MRI is lower compared to last month. Overall, market conditions indicate low valuation, macroeconomic, financing and perceived risk across as identified by statistical measures of return distributions. Asset class return dynamics and their interactions are not unusual. Information from option markets however do suggest a higher downside to upside risk. This merits some, but low levels of allocation to cash or an equivalent shelter basket to hedge the risk of uncertain correlations and ineffective diversification.