55IP JANUARY 2019 RISK REPORT

55ip Risk Management Capabilities

55ip provides portfolio construction and rebalancing algorithms aimed at protecting investors from extreme losses through increased diversification and monitoring the effectiveness of diversification in protecting capital in various market conditions.

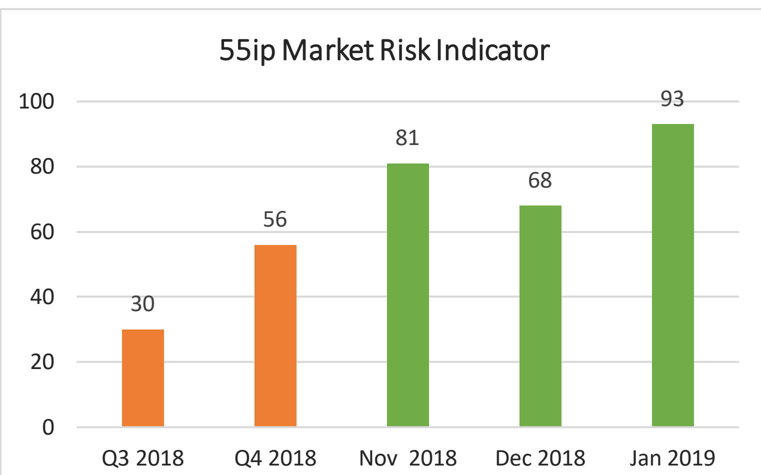
55ip believes asset class diversification is helpful, but its effectiveness is limited in certain market conditions when there is a high degree of correlation. We help advisors leverage sophisticated quantitative capabilities to address these limitations by dynamically shifting asset allocation from higher volatility assets such as equities to lower volatility assets such as short duration fixed income.

55ip Risk Indicators

Market Risk Indicator (MRI)

55ip MRI guides allocation among global equities and a shelter basket (cash equivalents and other stable asset classes) to protect investors from extreme losses due to correlated and down markets. Based on the 55ip MRI score, exposure is dynamically adjusted to minimize the drag due to such allocation while aiming to provide protection when most needed. This becomes significantly important for investors who are averse to losses because of income or other needs.

The MRI score can range from 0 (lowest possible downside risk assessment) to 100 (highest possible downside risk assessment). (See White Paper). The MRI score is based on several indicators for **Valuations** (e.g. price to book ratio), **Macroeconomic Conditions** (e.g. manufacturing sentiment index), **Financing Indicators** (e.g. trend indicators) and **Return Stability** (e.g. multi-asset VIX).



55ip Market Risk Indicator (MRI) score went from 68 in December 2018 to 93 in January 2019.

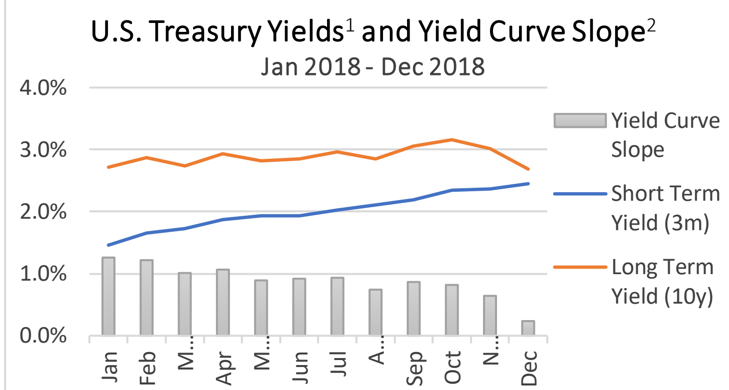
Based on this score, a 46.6% allocation in the shelter basket relative to the maximum equity allocation was made in a standard 55ip-powered portfolio. For example, a portfolio with 100% maximum equity will have a 46.6% shelter basket allocation and 53.4% equity allocation.

- **VALUATION METRICS:** Within our valuation metrics, our analysis still indicates rich valuations, despite the sell-off in equity markets witnessed in December. The decline was broad, with little difference between the performance of the growth and value factors, indicating that market valuations remain expensive relative to earnings expectations.
- **MACROECONOMIC METRICS:** Our macro indicators for consumer confidence and business confidence remain unchanged from December.
- **FINANCING METRICS:** Financing risks that measure uncertainty worsened, with the short-term and long-term market momentum in developed and emerging market geographies declining and contributing to the increase in

the MRI score for January. Additionally, the U.S. short-term rates increased, widening Treasury-EuroDollar spreads, adding further to the increase in MRI.

- **RETURNS STABILITY METRICS:** Within our return stability indicators, the equity volatility spiked in December, while the distribution of returns turned unfavorable with increasing skew.

The MRI is at the highest value since the Financial Crisis of 2008: rising short-term rates, tracking the Fed's signaling of continued rate increases through 2019, together with the flattening of the yield curve, suggest a higher risk of an economic slowdown, increasing the prospects of continuing volatility and likelihood of extreme moves in equity markets.

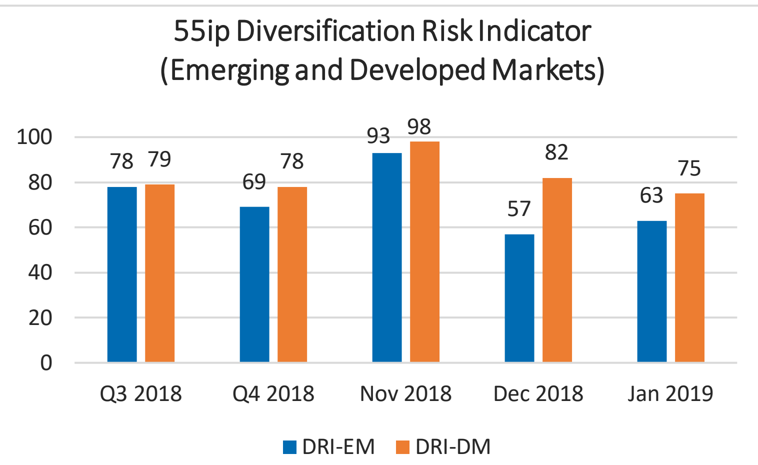


[1] Treasury yields as at the end of the month for 3-month and 10-year maturities
[2] Yield Curve Slope = Long term Yield (10 year) – Short Term Yield (3-month)
Source: Thomson Reuters

Diversification Risk Indicator (DRI)

55ip DRI guides allocation among US and non-US equities to protect from times when international exposure could lead to increased risk instead of diversification and risk reduction. This score is comprised of two regional components. DRI for Emerging Markets (DRI-EM) guides allocation between emerging market equities and US domestic markets. DRI for Developed Markets (ex-US) (DRI-DM) guides allocation between developed market equities and US domestic markets.

DRI score can range from 0 (lowest possible downside risk assessment) to 100 (highest possible downside risk assessment).



The regional risk scores, DRI for Emerging Markets (DRI-EM) went from 57 to 63 and for Developed Markets (DRI-DM) went from 82 to 75.

The DRI-EM measure will decrease the EM equity allocation by 31.7% relative to the maximum possible EM equity allocation. The DRI-DM measure will decrease the DM equity allocation by 37.5% in a standard 55ip-powered portfolio.

The increase (+6) in DRI-EM for January compared to its value in December was due to a decrease in long-term momentum in EM country markets. Meanwhile, the decrease (-7) in DRI-DM for January was due to net improvement in risk expectations in developed equity markets as risk relative to U.S. markets improved, even as long-term and short-term momentum decreased in developed markets.

Limited changes in DRI scores over the previous month indicate stable levels of risk expectations for January in Developed (ex-US) and Emerging economies relative to US markets, following the global sell-off in December.

Please contact us with any questions at 617.960.9559.

Disclaimer

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