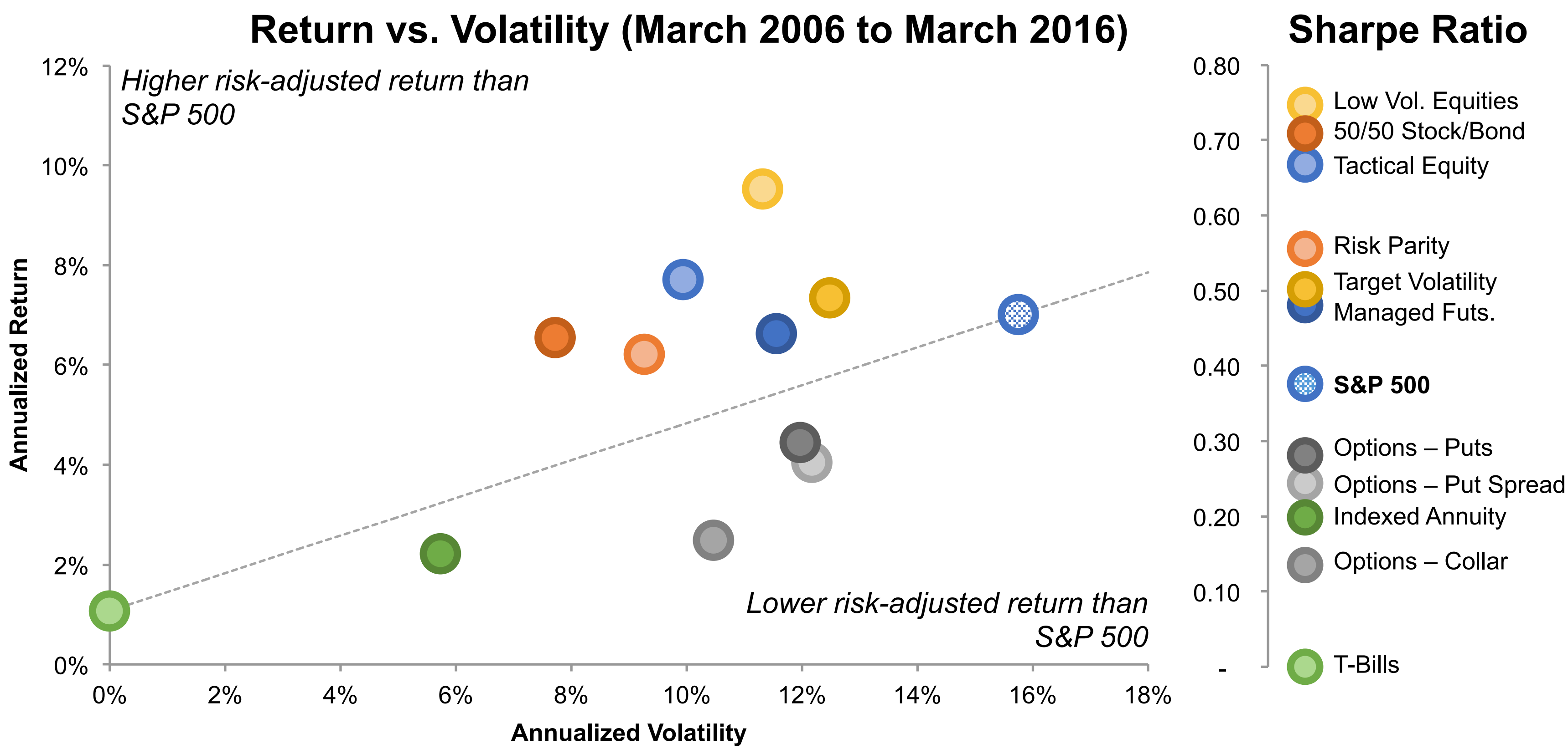
NEWFOUND RESEARCH

The State of Risk Management

May 2016

Improving risk-adjusted returns with risk management

Using volatility as the risk metric

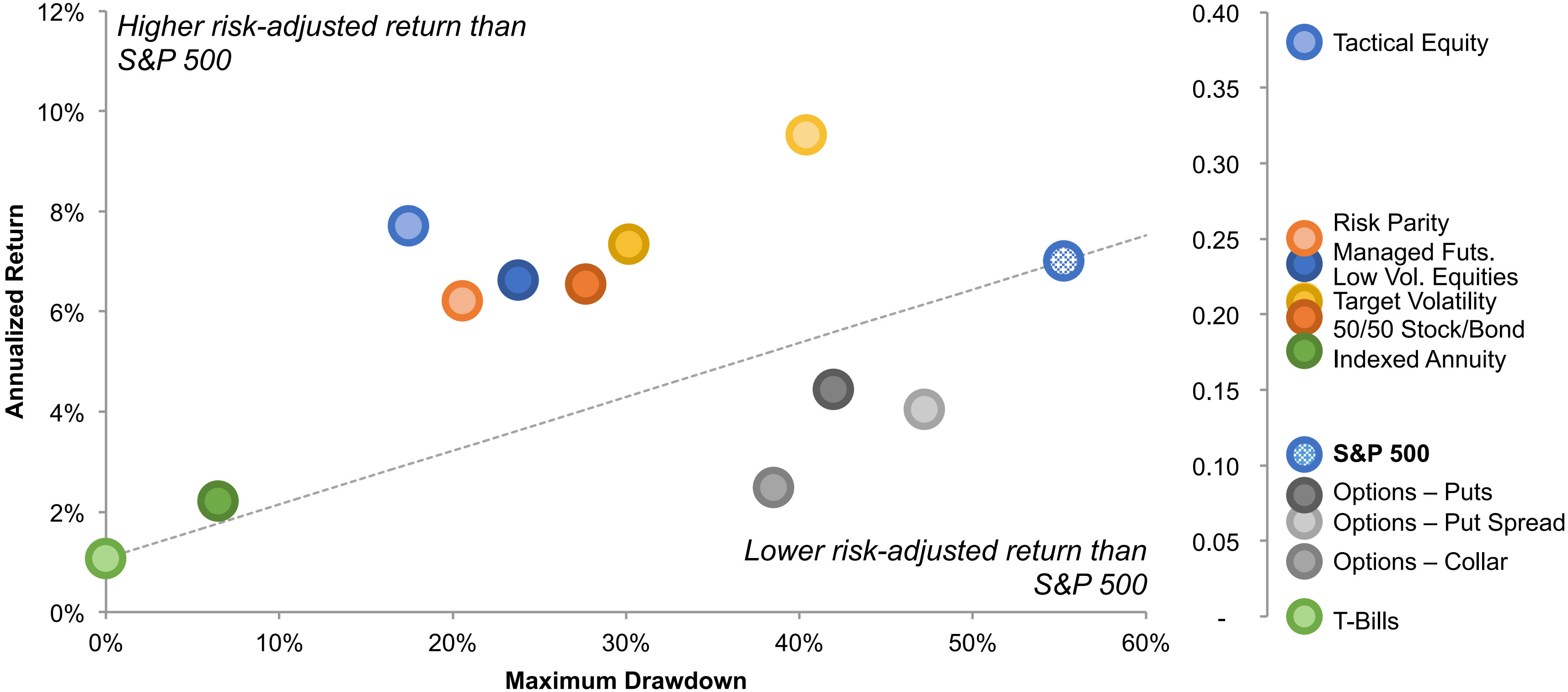


Date Source: Morningstar, CBOE, S&P. Calculations: Newfound Research. **Past performance does not guarantee future results**. Volatility is a statistical measure of the amount of variation around the average returns for a security or strategy. All returns are hypothetical index returns. You cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses, sales charges, or trading expenses. Index returns do include the reinvestment of dividends. No index is meant to measure any strategy that is or ever has been managed by Newfound Research. Please refer to the index definitions page at the end of this presentation for a description of the indices used to represent each strategy. The indices constructed by Newfound (Tactical Equity, Risk Parity, 50/50 Stock/Bond, and Diversified) were calculated on 3/31/2016 and are therefore backtested.

NEWFOUND RESEARCH

Improving risk-adjusted returns with risk management

Using drawdown as the risk metric



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NEWFOUND RESEARCH

No individual strategy is perfect

Each strategy has market environments where it excels and where it struggles

Relative Returns vs. S&P 500 (March 2006 to March 2016)

2006*	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016*	
+4.1%	+5.9%	+57.9%	-1.8%	+6.5%	+12.7%	-4.9%	+6.9%	+4.8%	+3.0%	+4.1%	Risk Parity
+2.8%	+4.0%	+38.8%	-3.6%	-0.6%	+10.6%	-5.3%	+0.0%	+3.8%	0.6%	+3.9%	Low Vol. Equities
-0.9%	+0.7%	+38.8%	-7.2%	-0.6%	+2.9%	-5.5%	-5.3%	+0.0%	-0.4%	+0.8%	50/50 Stock/Bond
-1.5%	+0.7%	+37.4%	-8.8%	-1.7%	+1.1%	-5.7%	-8.6%	-2.4%	-0.4%	+0.2%	Puts
-2.7%	-0.5%	+35.5%	-9.3%	-3.4%	+1.0%	-6.0%	-8.8%	-2.5%	-1.4%	-0.5%	Managed Futures
-2.7%	-0.7%	+21.4%	-10.1%	-4.3%	-1.7%	-6.0%	-16.0%	-3.8%	-4.3%	-0.6%	Put Spread
-2.8%	-1.0%	+18.0%	-17.8%	-8.3%	-2.7%	-6.8%	-17.1%	-4.5%	-5.3%	-1.1%	Target Volatility
-3.0%	-4.6%	+16.9%	-18.2%	-10.9%	-3.5%	-9.2%	-25.4%	-4.9%	-5.4%	-1.3%	Indexed Annuity
-5.3%	-4.9%	+15.6%	-23.7%	-12.0%	-5.5%	-15.6%	-28.1%	-9.5%	-5.4%	-1.3%	T-Bills
-7.4%	-4.9%	+13.4%	-26.3%	-14.9%	-6.0%	-15.9%	-31.6%	-10.6%	-6.5%	-2.4%	Collar
-12.8%	-6.0%	+5.3%	-28.1%	-15.5%	-11.0%	-27.6%	-32.3%	-13.7%	-7.3%	-9.2%	Tactical Equity
11.1%	*5.5%*	*-37.0%*	*26.5%*	*15.1%*	*2.1%*	*16.0%*	*32.4%*	*13.7%*	*1.4%*	*1.3%*	*S&P 500*

Date Source: Morningstar, CBOE, S&P. Calculations: Newfound Research. **Past performance does not guarantee future results**. All returns are hypothetical index returns. You cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses, sales charges, or trading expenses. Index returns do include the reinvestment of dividends. No index is meant to measure any strategy that is or ever has been managed by Newfound Research. Please refer to the index definitions page at the end of this presentation for a description of the indices used to represent each strategy. The indices constructed by Newfound (Tactical Equity, Risk Parity, 50/50 Stock/Bond, and Diversified) were calculated on 3/31/2016 and are therefore backtested.

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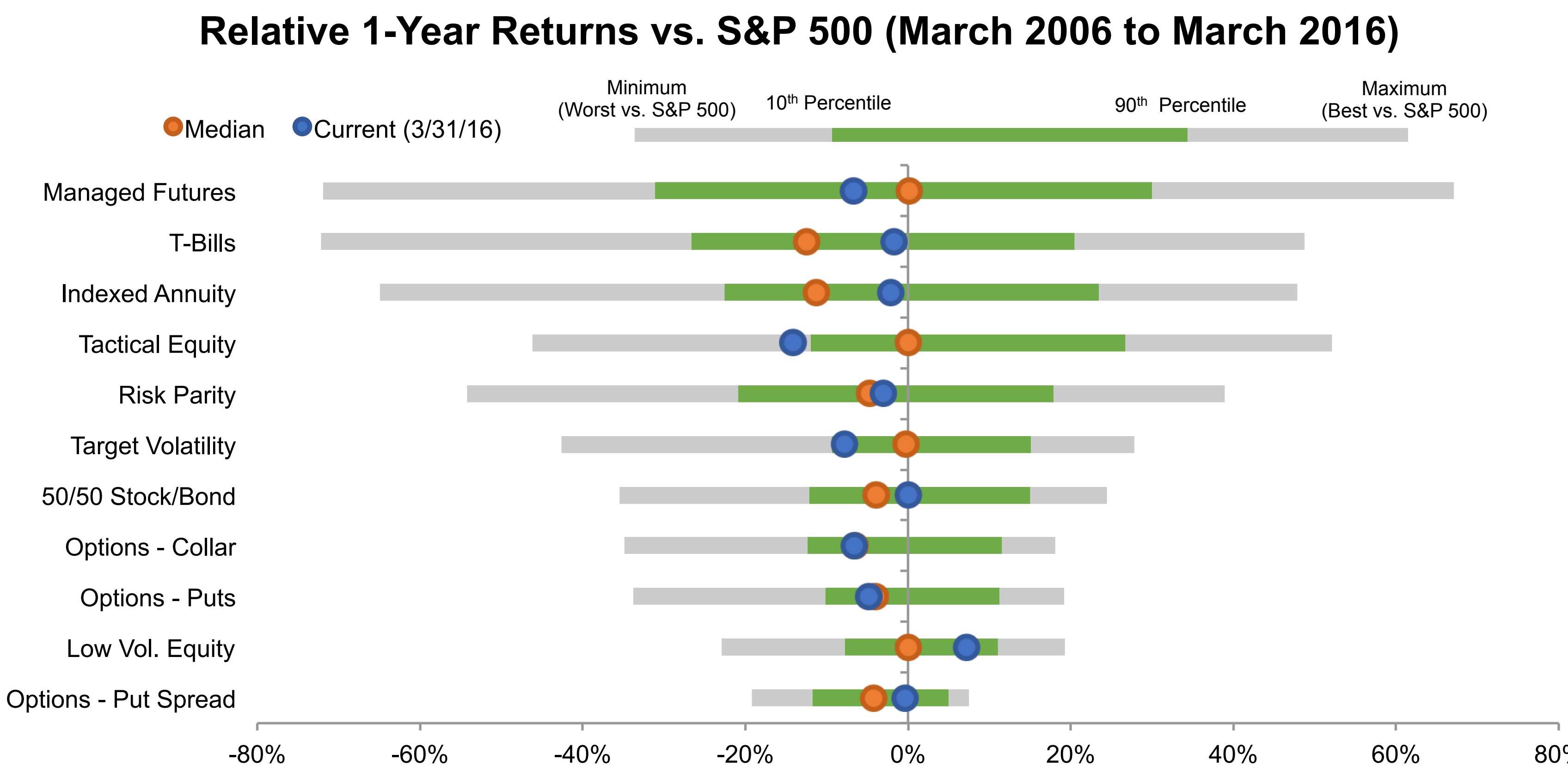
No individual strategy is perfect

Relative performance compared to historical bounds



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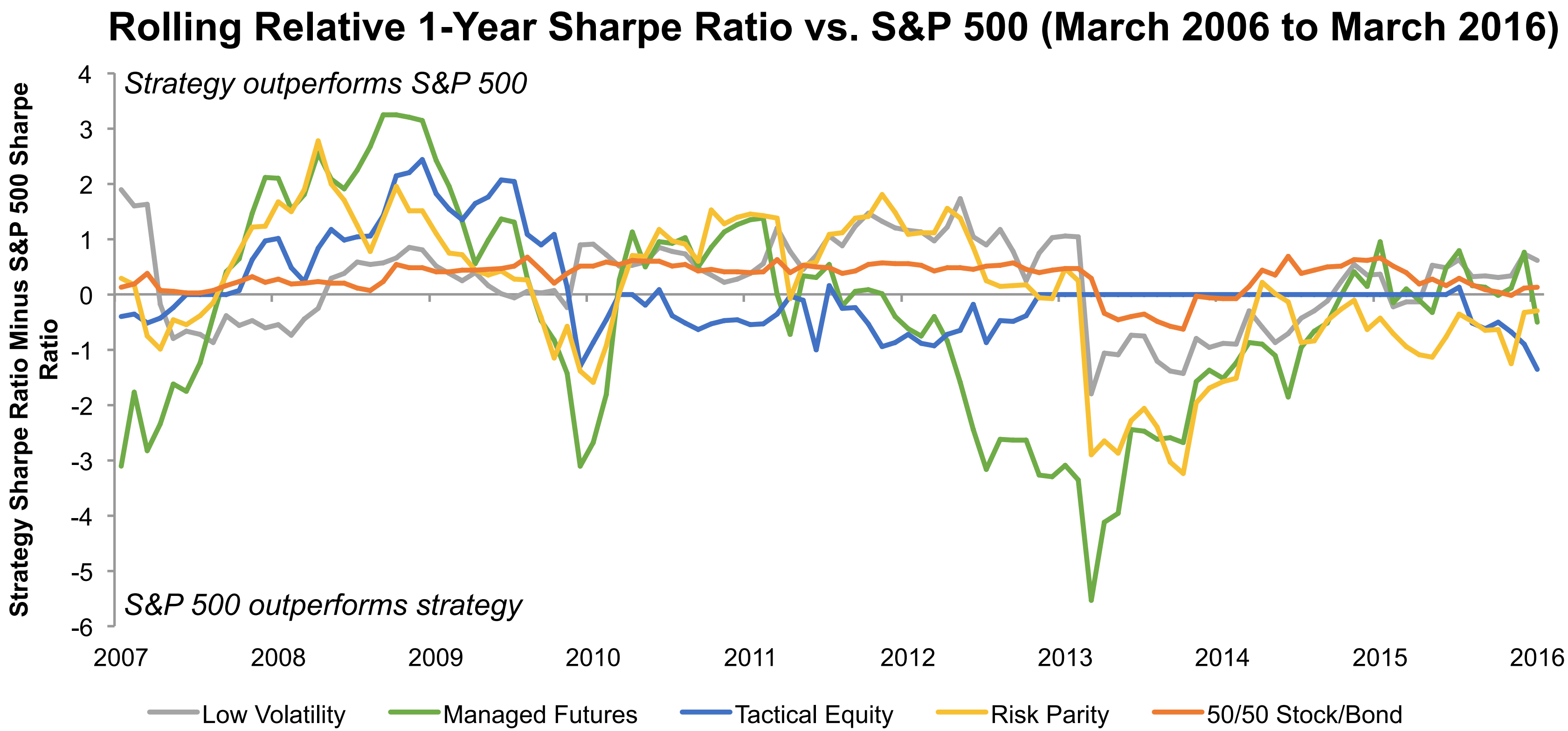
NEWFOUND RESEARCH

Individual approaches do not out/ underperform at the same time

Is there an opportunity for diversification?



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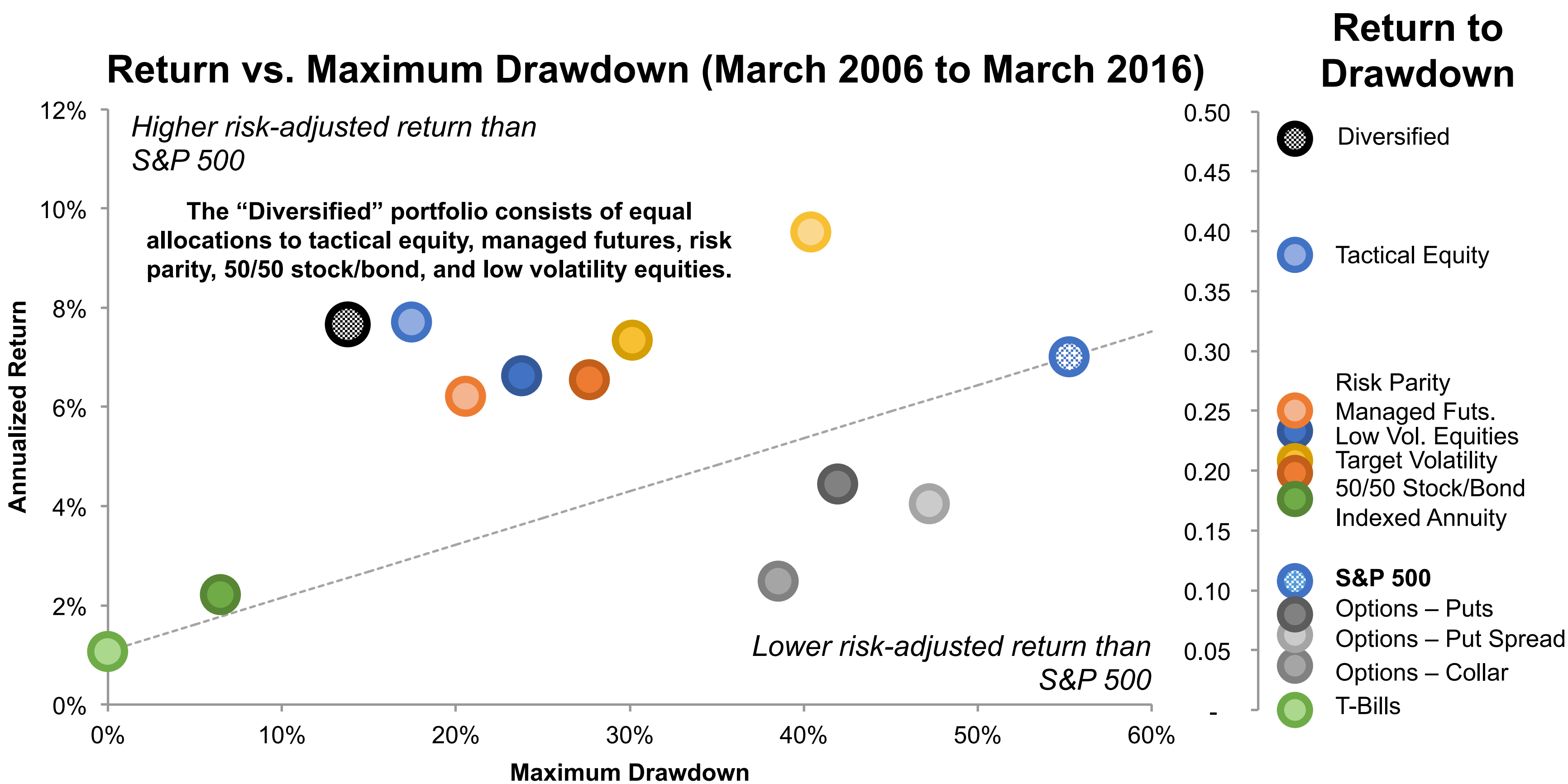
NEWFOUND RESEARCH

The power of diversifying risk management strategies

A diversified approach outperforms the best individual strategy



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NEWFOUND RESEARCH

The power of diversifying risk management strategies

A diversified approach can temper the ebbs and flows of individual strategies

Relative Returns vs. S&P 500 (March 2006 to March 2016)

2006*	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016*	
+4.1%	+5.9%	+57.9%	-1.8%	+6.5%	+12.7%	-4.9%	+6.9%	+4.8%	+3.0%	+4.1%	Risk Parity
+2.8%	+4.0%	+38.8%	-3.6%	-0.6%	+10.6%	-5.3%	+0.0%	+3.8%	0.6%	+3.9%	Low Vol. Equities
-0.9%	**+1.2%**	+38.8%	-7.2%	-0.6%	**+4.2%**	-5.5%	-5.3%	**+0.0%**	-0.4%	+0.8%	50/50 Stock/Bond
-1.5%	+0.7%	+37.4%	-8.8%	-1.7%	+2.9%	-5.7%	-8.6%	+0.0%	-0.4%	+0.2%	Puts
-2.7%	+0.7%	+35.5%	-9.3%	**-2.5%**	+1.1%	-6.0%	-8.8%	-2.4%	-1.4%	**-0.1%**	**Diversified**
-2.7%	-0.5%	**+34.0%**	-10.1%	-3.4%	+1.0%	-6.0%	-16.0%	-2.5%	**-1.7%**	-0.5%	Managed Futures
-2.8%	-0.7%	+21.4%	**-14.9%**	-4.3%	-1.7%	-6.8%	-17.1%	-3.8%	-4.3%	-0.6%	Put Spread
-3.0%	-1.0%	+18.0%	-17.8%	-8.3%	-2.7%	-9.2%	**-17.2%**	-4.5%	-5.3%	-1.1%	Target Volatility
-3.1%	-4.6%	+16.9%	-18.2%	-10.9%	-3.5%	**-10.2%**	-25.4%	-4.9%	-5.4%	-1.3%	Indexed Annuity
-5.3%	-4.9%	+15.6%	-23.7%	-12.0%	-5.5%	-15.6%	-28.1%	-9.5%	-5.4%	-1.3%	T-Bills
-7.4%	-4.9%	+13.4%	-26.3%	-14.9%	-6.0%	-15.9%	-31.6%	-10.6%	-6.5%	-2.4%	Collar
-12.8%	-6.0%	+5.3%	-28.1%	-15.5%	-11.0%	-27.6%	-32.3%	-13.7%	-7.3%	-9.2%	Tactical Equity
11.1%	*5.5%*	*-37.0%*	*26.5%*	*15.1%*	*2.1%*	*16.0%*	*32.4%*	*13.7%*	*1.4%*	*1.3%*	*S&P 500*

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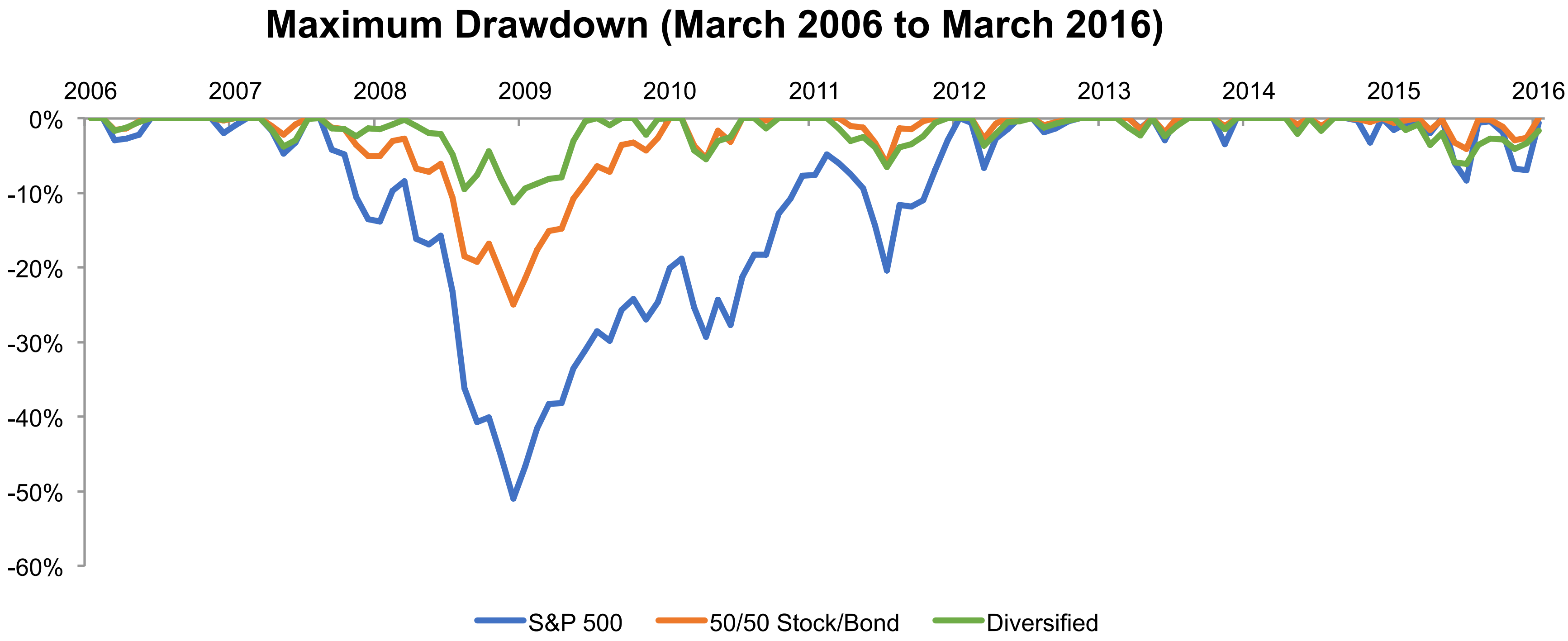
NEWFOUND RESEARCH

The power of diversifying risk management strategies

Historically, a more consistent downside risk profile



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NEWFOUND RESEARCH

The Risk Management Power Rankings

Methodology

Our “power rankings” approach to comparing the historical value-add of different risk management strategies considers four factors:

1. **Drawdown** – We want to penalize downside volatility/loss of capital without penalizing upside volatility.
2. **Return** – Drawdown can easily be managed by sitting in cash; risk evaluation only makes sense within the context of long-term returns.
3. **Diversification** – All things being equal, we prefer risk management strategies with unique return profiles. In fact, strategies with unexceptional risk/return metrics can be highly valuable if they out/underperform at different times that other strategies.
4. **Profile** – Risk management means different things for different people. An approach that may make sense for someone nearing retirement may not make sense for someone in their 20’s.

For a full description of our methodology, please feel free to reach out to us.

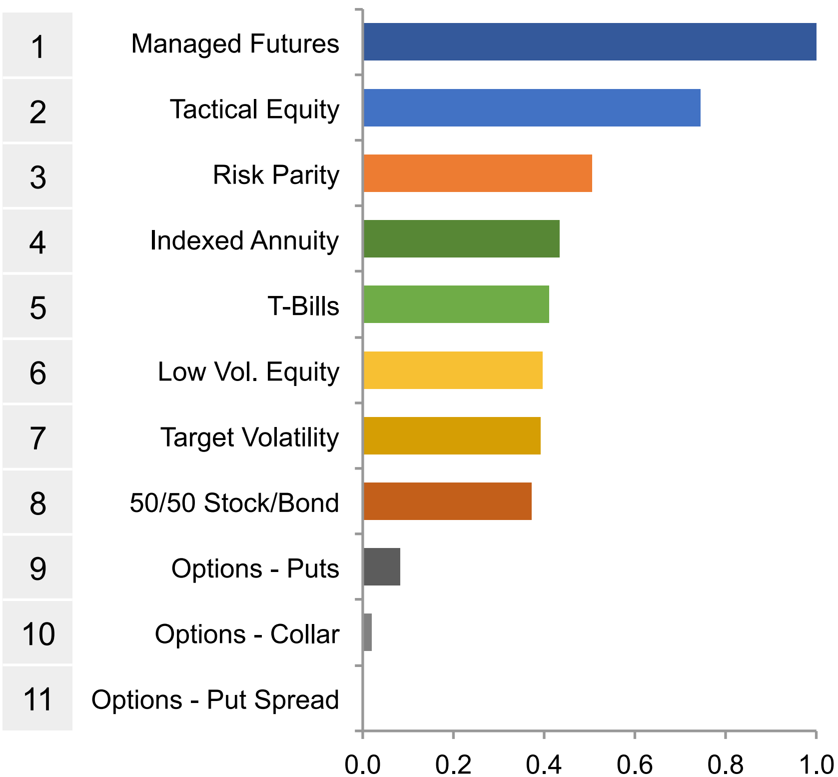
NEWFOUND RESEARCH

The Risk Management Power Rankings

"Open" Division – No return hurdle, purely the highest excess return to drawdown

Individual Strategy Rankings

Mar-06 to Mar-16, Normalized Between 0 (bad) and 1 (good)



Top 10 Equal Weight Portfolios

Measured by Excess Return/Drawdown, Dots Indicate Inclusion

	Managed Futures	*Tactical Equity*	*Risk Parity*	*Indexed Annuities*	*T-Bills*	*Low Vol. Equities*	*50/50 Stock/Bond*
#1	●	●	●	●	●	●	
#2	●	●	●		●	●	
#3	●	●	●	●		●	
#4	●	●	●			●	
#5	●	●	●		●		●
#6	●	●	●	●	●		●
#7	●	●	●				●
#8	●	●	●	●			●
#9	●			●	●	●	
#10	●				●	●	

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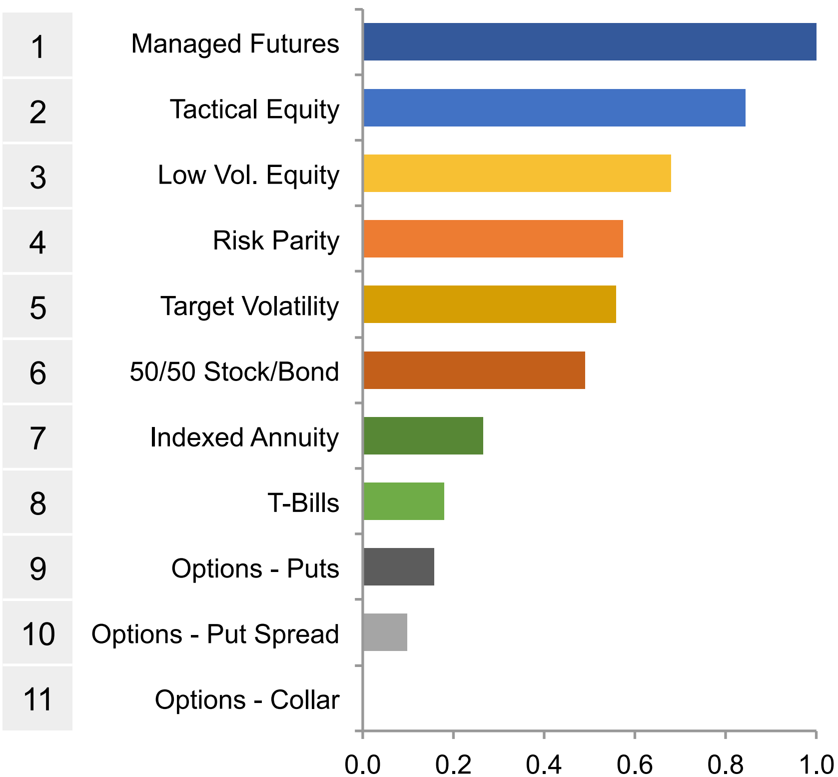
NEWFOUND RESEARCH

The Risk Management Power Rankings

"Conservative" Division – Excludes portfolios with returns lower than 25/75 stock/bond portfolio

Individual Strategy Rankings

Mar-06 to Mar-16, Normalized Between 0 (bad) and 1 (good)



Top 10 Equal Weight Portfolios

Measured by Excess Return/Drawdown, Dots Indicate Inclusion

	Managed Futures	*Tactical Equity*	*Risk Parity*	*Indexed Annuities*	*T-Bills*	*Low Vol. Equities*	*50/50 Stock/Bond*
#1	●	●	●	●	●	●	
#2	●	●	●		●	●	
#3	●	●	●	●		●	
#4	●	●	●			●	
#5	●	●	●		●		●
#6	●	●	●	●	●		●
#7	●	●	●				●
#8	●	●	●	●			●
#9	●			●	●	●	
#10	●				●	●	

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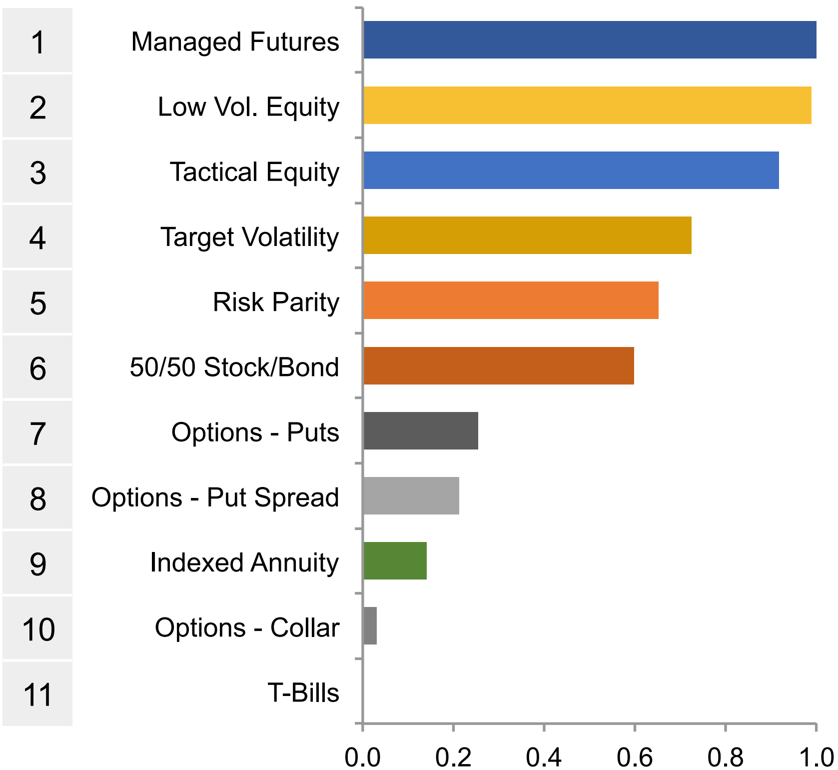
NEWFOUND RESEARCH

The Risk Management Power Rankings

"Moderate" Division – Excludes portfolios with returns lower than 50/50 stock/bond portfolio

Individual Strategy Rankings

Mar-06 to Mar-16, Normalized Between 0 (bad) and 1 (good)



Top 10 Equal Weight Portfolios

Measured by Excess Return/Drawdown, Dots Indicate Inclusion

	Managed Futures	*Tactical Equity*	*Risk Parity*	*Indexed Annuities*	*T-Bills*	*Low Vol. Equities*	*50/50 Stock/Bond*
#1	●	●	●		●	●	
#2	●	●	●	●		●	
#3	●	●	●			●	
#4	●	●	●		●		●
#5	●	●	●				●
#6	●	●	●	●			●
#7	●				●	●	
#8	●	●		●		●	
#9	●	●				●	
#10	●			●		●	

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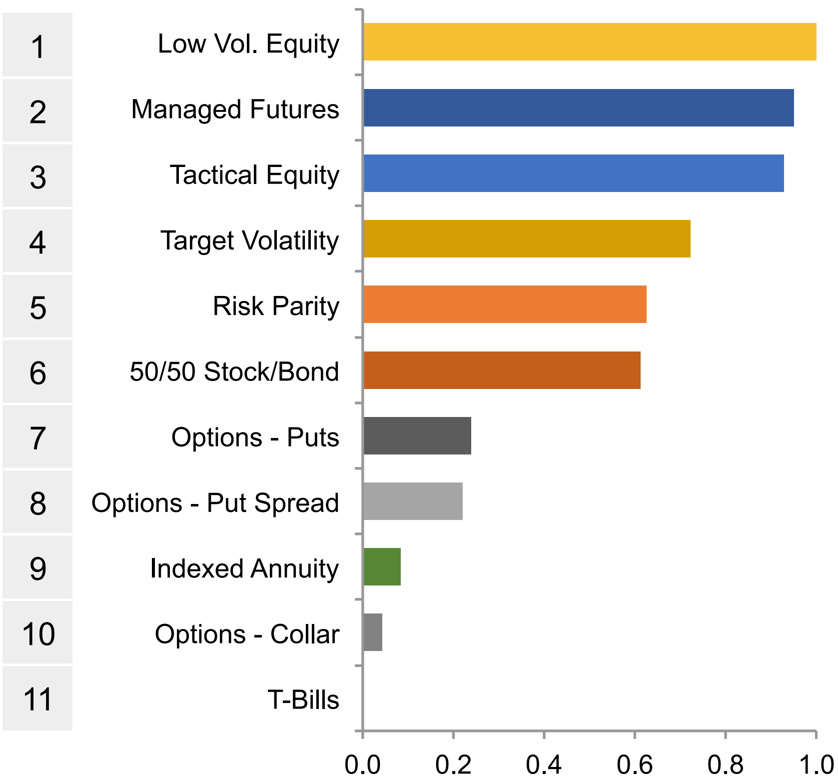
NEWFOUND RESEARCH

The Risk Management Power Rankings

"Growth" Division – Excludes portfolios with returns lower than 75/25 stock/bond portfolio

Individual Strategy Rankings

Mar-06 to Mar-16, Normalized Between 0 (bad) and 1 (good)



Top 10 Equal Weight Portfolios

Measured by Excess Return/Drawdown, Dots Indicate Inclusion

	Managed Futures	*Tactical Equity*	*Risk Parity*	*Indexed Annuities*	*T-Bills*	*Low Vol. Equities*	*50/50 Stock/Bond*
#1	●	●	●		●	●	
#2	●	●	●	●		●	
#3	●	●	●			●	
#4	●	●	●				●
#5	●	●		●		●	
#6	●	●				●	
#7	●				●	●	
#8	●	●				●	
#9	●	●	●				
#10	●	●			●	●	●

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NEWFOUND RESEARCH

Index Definitions

- 50/50 Stock/Bond: Calculated by Newfound Research. The index reflects a portfolio with a 50% allocation to the S&P 500 Index and a 50% allocation to the Barclays Aggregate Bond Index. The index is rebalanced back to 50%/50% on an annual basis. This index is backtested.
- Indexed Annuity: Calculated by Newfound Research. The index uses the S&P 500 and is calculated assuming a 4.0% bonus on the initial deposit and monthly point-to-point crediting with a 1.4% cap. This index is backtested.
- Low Volatility Equities: S&P 500 Low Volatility Index. The index measures the performance of the 100 least volatile stocks in the S&P 500.
- Managed Futures: S&P Systematic Global Macro Index. The index is designed to represent the global macro and managed futures/Commodity Trading Advisor (CTA) universe. The index uses a quantitative methodology to track the prices of a globally diversified portfolio of over 30 commodity, foreign exchange, and financial futures contracts.
- Options – Collar: CBOE S&P 500 95-110 Collar Index. The index is designed to provide investors with insights as to how one might protect an investment in S&P 500 stocks against steep market declines The index's strategy accepts a ceiling or cap on S&P 500 gains in return for a floor on S&P 500 losses. The passive collar strategy reflected by the index entails holding the stocks in the S&P 500 index, buying three-month S&P 500 put options to protect the portfolio from market decreases and selling three-month S&P call options to help finance the cost of the put options.
- Options – Puts: CBOE S&P 500 5% Put Protection Index. The index is designed to track the performance of a hypothetical strategy that holds a long position indexed to the S&P 500 and buys a monthly 5% out-of-the-money S&P 500 Index (SPY) put option as a hedge.
- Options – Put Spreads: CBOE S&P 500 Zero-Cost Put Spread Collar Index. The index is designed to track the performance of a hypothetical option trading strategy that 1) holds a long position indexed to the S&P 500 index; 2) on a monthly basis buys a 2.5% - 5% S&P 500 Index (SPX) put option spread; and 3) sells a monthly out-of-the-money (OTM) SPX call option to cover the cost of the put spread.
- Risk Parity: Calculated by Newfound Research. The index uses trailing volatility to target equal volatility contributions (assuming constant and equal correlations) between equities, interest rates, and real assets. The equities bucket is split 50/50 (on a risk basis) between U.S. equities (ticker: SPY) and foreign equities (ticker: EFA). The interest rates bucket uses long-dated U.S. Treasuries (ticker: TLT). The real assets bucket targets an equal risk contribution between broad-based commodities (ticker: GSG), gold (ticker: GLD), and REITs (ticker: VNQ). The index assumes a monthly rebalance. This index is backtested.
- Tactical Equity: Calculated by Newfound Research. The index is invested in the S&P 500 when that index's 50-day moving average is at or above its 200-day moving average. If this is not the case, the index is allocated to the Barclays 1-3 Month Treasury Bill Index. This index is backtested.
- Target Volatility: S&P 500 Risk Control 15% Index. The index is designed to provide a way for investors to gain exposure to the S&P 500 while targeting a constant volatility level of 15%.
- T-Bills: Barclays 1-3 Month U.S. Treasury Bill Index. The index is designed to reflect the performance of U.S. Treasury Bills with maturities of between 1 and 3 Months.

Important Disclosures

All performance data included in this presentation is hypothetical index data, some of which is backtested. None of this performance data reflects any strategies that are or have ever been managed by Newfound Research.

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