

## Commentary: October 2017

### PROGRESS DOCUMENTED

Managing client investments since 2007, Statera Asset Management<sup>1</sup> has generated nearly a decade's-worth of investment management results. Chronicled in a series of individual total return histories, called composites, those past results may be viewed as representative of the market-relative performance of our style of investing. While not necessarily indicative of what returns we may expect to see in the future, we present our composites as demonstrative of the virtues of our investment philosophy and methodology.

#### Chronicling Past Performance

The development and maintenance of performance composites is a rules-based process. The idea behind most of those rules is to collate individual portfolios into groups that are distinguished by the strategy that defines their respective investments. For Statera, the primary defining characteristics that differentiate the portfolios we have managed over the years have been: 1) how much of the portfolio comprises equity exposures and, 2) how closely those portfolios align with our core mutual fund-based strategy. Much of the remaining ruleset seeks to define the moments when portfolios enter and leave composites and ensure that the math of the related calculations is proper and exact. The end result of the application of our construction methodology was spectrum of 11 composites, on one side of which is 100% fixed income and the other side is 100% equity, with a composite at each level of equity on the 10s in percentage terms (e.g. 10% equity / 90% fixed income; 20% equity / 80% fixed income, and so on...).

An important role composites play for the firm is to gauge the performance of the firm's strategies, versus neutral benchmarks. By neutral, we mean to express the idea that, were no specific decisions made with regard to what types of securities to own, what would one own? Any decisions to drift away from that neutral allocation involves an active choice. Benchmarks, then, serve as a reasonable proxy against which to compare the results of our active investment decisions. In Appendix 1, we provide as standardized review of the past results of all our composites, versus their respective benchmarks.

Though the specifics of the portfolios in which we have invested have evolved over time, we believe our composite returns clarify what we see as simple truths to investing. First, that the split between fixed income and equity dominates the differences in relative risk and return among individual portfolios, with greater (lesser) levels of equity generally having resulted in greater (lesser) levels of return and risk. Further, we have seen that the individual characteristics toward which we tilt our portfolios—toward less expensive (Value)

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<sup>1</sup> Statera Asset Management is a dba of Signature Resources Capital Management, LLC.

and smaller-company (Size) stocks and toward credit- and duration-sensitive bonds—have induced additional general variation in relative returns.

### **Varied Historical Perspectives**

Not every composite has the same inception date, as the firm slowly developed a broader range of investment scenarios from an expanding list of clients. And in that differentiation we see that our composites offer additional insight in regard to the past absolute and relative performance of our investment approach.

First, the composites demonstrate that owning more equity does not always result in greater returns over certain periods of time. For example, as markets melted down in mid-2010, late 2011, late 2015 and in early 2016, portfolios with heavier allocations to equity saw correspondingly heavier declines. And as fixed income saw various periods of pressure, though bonds retained relative stability versus equities, returns were not always positive over the near term.

Perhaps less obvious, our tilts toward risk characteristics, particularly on the equity side to Value and Size, have not always led to outperformance, versus neutral benchmarks. Of course, as readers will note from past commentaries, some manner of medium- and even longer-term underperformance is to be expected, both as equities may underperform bonds and as portfolio tilts underperform neutral benchmarks.

To make sure that the processes we employed to construct our composites were appropriate, we engaged an outside accounting firm to assess the approach, test the comprehensiveness and exactness of the calculations defined by those rules and review the presentations of the results. While we found an oversight here and there in the calculations, none was material and the final opinion of the reviewers was that we had completed a satisfactory job on all counts.

### **Your Mileage May Vary**

We noted earlier that the comparison of the performance of composites against their respective benchmarks provides a reasonable view of the success of investment decisions over time. In this way, composites also help to highlight characteristics of individual portfolios that lead to differences in their respective performance, versus the broader group of portfolios managed in a similar fashion.

The performance of individual client accounts may diverge both positively and negatively from that of the composite within which they reside. Resulting from a range of circumstances, this divergence generally stems from differences in the respective portfolio's actual allocation, versus the aggregate of all portfolios within the composite. Some client portfolios, for example, arrive with existing holdings the sales of which would result in undesirable tax consequences. To the extent that we may manage around those individual exposures, while not imparting too grand a difference in overall portfolio exposure to market risk, we accommodate the position and still include those portfolios in the appropriate composite.

Cash flows, too, may impart differences in return. While we believe we make strong efforts to quickly invest excess cash deposited into accounts into target exposures, even a day's delay may impact relative returns on

a relative basis. Clients sometimes also ask us to raise cash for a time or wait to invest new cash, demands that also will impart relative return distinctions.

An additional layer of differentiation may come in the timing of initial and subsequent investments. Portfolio investments will “evolve” from initial levels as the returns for the underlying holdings differ. This is the reason we seek to rebalance back to target allocations those portfolios with allocations that have strayed too far from desired levels. Nonetheless, differences in when initial investments occur and when/if additional deposits/withdrawals allow for subsequent rebalancing will impact relative levels of the underlying holdings and therefore relative returns. That said, the investment process by design should constrain differences in relative performance to relatively narrow ranges, with any gaps (both positive and negative) generally finding reasonable explanation.

### **Bolstering Confidence**

For sure, the results of the composite-building exercise fortified the confidence the firm maintains in the investment approach we have employed for our clients over the past near decade. In all, we were pleased that the end result developed as it did, providing evidence after-the-fact that the decisions we have made for clients over the years generally have proven fruitful over the long term. We hope, too that our desire to be transparent in providing our historical composite returns fosters a similar level of trust our clients place in our investment decisions.

## Appendix 1: SRCM Composite Performance

### Gross-of-Fee Total Return

	3 Month	YTD	1 Year	3 Year	5 Year	Since Inception	Inception
Global Fixed Income	0.58	3.12	1.44	2.06	1.37	3.61	03.31.09
Global All Asset 10/90	1.04	3.65	1.86	2.54	2.54	3.57	08.31.10
Global All Asset 20/80	1.58	4.67	4.55	3.58	3.87	5.28	07.31.09
Global All Asset 30/70	1.97	5.72	6.29	4.23	4.65	4.81	05.31.10
Global All Asset 40/60	2.56	7.24	8.07	4.81	5.79	7.71	06.30.09
Global All Asset 50/50	2.99	8.32	9.78	5.35	6.62	5.65	09.30.08
Global All Asset 60/40	3.34	9.37	11.55	6.21	7.99	11.40	03.31.09
Global All Asset 70/30	3.97	10.76	13.67	6.89	9.22	11.37	02.28.09
Global All Asset 80/20	4.48	12.04	15.64	7.55	10.26	11.71	07.31.09
Global All Asset 90/10	4.85	13.07	17.54	8.69	NA	11.41	01.31.13
Global Equity	5.46	14.39	19.62	8.97	NA	8.08	04.30.14

### Net-of-Fee Total Return

	3 Month	YTD	1 Year	3 Year	5 Year	Since Inception	Inception
Global Fixed Income	0.32	2.42	0.55	1.20	0.52	2.78	03.31.09
Global All Asset 10/90	0.78	2.88	0.84	1.52	1.52	2.55	08.31.10
Global All Asset 20/80	1.40	4.07	3.71	2.67	2.90	4.31	07.31.09
Global All Asset 30/70	1.74	5.05	5.40	3.31	3.73	3.92	05.31.10
Global All Asset 40/60	2.32	6.52	7.11	3.89	4.84	6.72	06.30.09
Global All Asset 50/50	2.78	7.72	8.96	4.50	5.71	4.64	09.30.08
Global All Asset 60/40	3.12	8.63	10.55	5.26	7.01	10.31	03.31.09
Global All Asset 70/30	3.73	9.99	12.62	5.88	8.19	10.55	02.28.09
Global All Asset 80/20	4.25	11.30	14.61	6.58	9.23	10.65	07.31.09
Global All Asset 90/10	4.61	12.30	16.47	7.61	NA	10.26	01.31.13
Global Equity	5.24	13.59	18.48	7.90	NA	6.95	04.30.14

### Benchmark Total Return

	3 Month	YTD	1 Year	3 Year	5 Year	Since Inception	Inception
Global Fixed Income	0.43	1.58	0.51	1.51	1.20	2.33	03.31.09
Global All Asset 10/90	0.91	3.08	2.22	2.12	2.11	2.46	08.31.10
Global All Asset 20/80	1.38	4.59	3.96	2.73	3.01	4.04	07.31.09
Global All Asset 30/70	1.86	6.13	5.72	3.34	3.91	4.05	05.31.10
Global All Asset 40/60	2.33	7.67	7.50	3.94	4.81	5.79	06.30.09
Global All Asset 50/50	2.81	9.23	9.31	4.54	5.71	4.84	09.30.08
Global All Asset 60/40	3.28	10.81	11.13	5.13	6.61	9.61	03.31.09
Global All Asset 70/30	3.76	12.40	12.98	5.71	7.51	9.74	02.28.09
Global All Asset 80/20	4.23	14.00	14.85	6.29	8.41	9.34	07.31.09
Global All Asset 90/10	4.71	15.62	16.74	6.86	NA	9.22	01.31.13
Global Equity	5.18	17.25	18.65	7.43	NA	7.13	04.30.14

From the inception of each composite through 09.30.17. Inception dates shown. The performance data presented are annualized for periods greater than 1 year. With the exceptions of the Global Fixed Income and Global Equity Composites, the benchmarks for which are 100% the fixed income index and 100% the equity index, in that order, the benchmark for each composite is composed of a fixed split between the equity index and the fixed income index in the same proportion of the target weights for equity and fixed income in each strategy. For example, the benchmark for the Global All Asset 60/40 Composite is composed of 60% the equity index and 40% the fixed income index. The equity index used for this presentation is the MSCI ACWI Index, which captures large- and mid-cap representation across 23 Developed Markets countries and 23 Emerging Markets countries. The fixed income index used for this presentation is the Bloomberg Barclays U.S. 1-5 Year Government/Credit Bond Index, which is a broad-based benchmark that includes investment grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related and corporate securities with maturities between 1 and 5 years. Past performance is not indicative of future results. Investing in securities involves risk, including risk of losing some or all the invested capital. One cannot directly invest in an index. Index performance reflects the reinvestment of dividends, but does not reflect the expenses associated with the management of an actual portfolio. Please see additional important information regarding indexes at the end of this report. SOURCE: SRCM

## Important Information

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Investing in any investment vehicle carries risk, including the possible loss of principal, and there can be no assurance that any investment strategy will provide positive performance over a period of time. The asset classes and/or investment strategies described in this publication may not be suitable for all investors. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon, tax liability and risk tolerance.

This material is not intended as and should not be used to provide investment advice and is not an offer to sell a security or a solicitation or an offer, or a recommendation, to buy a security. Investors should consult with an advisor to determine the appropriate investment vehicle.

The S&P 500 Index represents 500 U.S. companies and captures approximately 80% coverage of available market capitalization.

The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. Components of the index include Treasury, Corporate, Agency and Securitized bonds.

As of 06.30.16, Composite dispersion is calculated as the equal-weighted standard deviation of gross-of-fee annual returns for all portfolios within the composite for the entire year. Standard deviation is a statistical metric that describes the variation of a set of data about its average. A higher number reflects more variation (or volatility). The percentage of non-fee-paying accounts is calculated as the year-end market value of all non-fee-paying accounts as a percentage of total composite value.

The Global All Asset Composites include all discretionary portfolios that are managed to the respective Global All Asset Strategies. These strategies invest predominantly in mutual funds and exchange traded funds variously representing exposures to global equity and fixed income asset classes. Prior to initial inclusion in the composites, portfolios must be materially invested to the model and may hold a minimal amount of cash and/or non-model assets. Portfolios included in the composites are not necessarily 100% invested to the model for all time periods.

These strategies invest exclusively in mutual funds and exchange-traded funds that individually charge fees. Detail regarding the performance calculation and portfolio valuation methodologies, in addition to detail regarding individual and aggregate fees charged by the funds represented within these composites are available upon request. Actual fees incurred for individual portfolios may vary.

Gross-of-fee performance data reflect any reinvestment of income and exclude all advisory- and investment management-related fees, but include transaction fees and fees charged by the underlying funds. Performance data covering periods longer than one year are annualized. Net-of-fee performance data reflect any reinvestment of income, in addition to all actual costs related to the management of portfolios within the composite. These costs include transaction fees, fees and expenses within the underlying mutual funds and exchange-traded funds, and the advisor's fee, which includes the fees for the management and monitoring of the portfolios.

Advisory fees are described in Form ADV Part 2A.

All returns are expressed in U.S. dollars. All performance data are calculated using monthly intervals.

Diversification does not protect against loss in declining markets.

Investing in foreign currency-denominated and/or foreign domiciled securities may involve increased overall risk due to currency, economic and political risks. Such risks may be particularly pronounced among emerging markets.

Changes in interest rates affect the values of fixed income securities, with the prices of bonds and funds that own bonds generally falling as interest rates rise. This tendency to decline as interest rates rise increases with the maturity of the bond, often reflected in a metric known as duration. Longer-duration bonds generally are more sensitive to changes in interest rates, leading to their tendency also to be more volatile.

The MSCI ACWI Index captures large- and mid-cap representation across 23 Developed Markets countries and 23 Emerging Markets countries.

The Bloomberg Barclays U.S. 1-5 Year Government/Credit Bond Index is a broad-based benchmark that includes investment grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related and corporate securities with maturities between 1 and 5 years.

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