

MODEL REPOSITIONING

Via this update to our investment models, we have sought to boost flexibility to bolster income potential across the model spectrum. Among the more aggressive models (as defined primarily via exposure to equity), we have consolidated positions that maintained potentially more aggressive exposures to credit and duration risk. We similarly expanded such flexibility among less-aggressive models, though with an eye toward maintaining the fixed income portfolio as a potential ballast against equity risk. The model update expresses our belief that greater potential adaptability to the broader interest rate environment may enhance investor outcomes. Among the equity portions of our models, we boosted emerging market equity exposure relative to developed international market equity exposure. We have retained the existing broader split between domestic and international equity exposures, retaining a general U.S. bias.

Focus on Fixed Income

Past iterations of our investment models have sought to incorporate across-the-board flexibility among fixed income positions to adapt to the broader fixed income environment by modulating exposure to interest rate and credit risk. We capped the ranges of this adaptability across the model spectrum via the incorporation of several funds with various mandates with respect to potential fixed income expected return and risk.

Via this model update, we have consolidated funds with more aggressive potential exposures. We believe this shift widens the breadth of flexibility within the model to assume duration and credit risk in exchange for increased potential income, while also introducing the potential for wider diversification of fixed income exposures, both domestic and international.

Similarly among the models with less aggressive overall portfolio risk, we have incorporated a moderately larger additional potential for exposure to credit risk within the shorter-duration mix of funds. We additionally have sought to expand the level of protection against potential increases in inflation via an increase in the exposure to a fund designed specifically to hedge inflation, while otherwise retaining modest to moderate exposure to credit and interest rate risk. Also among the less-aggressive models, we further consolidated exposures with an eye toward expanding adaptability to a more variable interest rate and credit risk environment.

Modest Shifts within Equity

In addition to the relatively more substantial changes across the fixed income side of the models, we have implemented mostly modest changes on the equity side. These changes reflect interim shifts in the balance of relative weights (based on aggregate market capitalization) across regional equity markets, while also accepting a modestly more favorable view toward international equity markets on a going-forward basis.

Enhancing EM's Presence

As part of this update we have altered the composition of the international component of our models. Both from market growth and for technical reasons related to the investability of its mainland markets, China has seen its weight within the global aggregate market capitalization grow as well. This shift has increased the overall weight of emerging markets relative to developed markets. This adjustment acknowledges that shift, while also reflecting our belief that investment outcomes may be improved by the incremental emphasis on emerging markets within our models.

Maintaining U.S. Bias

Across regional equity markets, we have seen the outperformance of the U.S. equity market expand the relative weight of domestic stocks relative to international markets. As such, our domestic bias, relative to the passive weight of U.S. stocks in global indexes, effectively has been reduced by a modest amount. We remain comfortable with that shift as we retain our belief that portfolios may benefit from the increased diversification that non-U.S. stocks may present. We gain additional comfort from observations related to the relative-return outlook that the medium-term underperformance of non-U.S. stocks may represent.

Exposure Details Available

For those wishing deeper details with regard to the model changes and the exposures now maintained within each model, additional materials are available for review. Please reach out to info@statera-am.com for that expanded discussion.

Important Information

Statera Asset Management is a dba of Signature Resources Capital Management, LLC (SRCM), which is a Registered Investment Advisor. Registration of an investment adviser does not imply any specific level of skill or training. The information contained herein has been prepared solely for informational purposes and is not an offer to buy or sell any security or to participate in any trading strategy. Any decision to utilize the services described herein should be made after reviewing such definitive investment management agreement and SRCM's Form ADV Part 2A and 2Bs and conducting such due diligence as the client deems necessary and consulting the client's own legal, accounting and tax advisors in order to make an independent determination of the suitability and consequences of SRCM services. Any portfolio with SRCM involves significant risk, including a complete loss of capital. The applicable definitive investment management agreement and Form ADV Part 2 contains a more thorough discussion of risk and conflict, which should be carefully reviewed prior to making any investment decision. Please contact your investment adviser representative to obtain a copy of Form ADV Part 2. All data presented herein is unaudited, subject to revision by SRCM, and is provided solely as a guide to current expectations.

The opinions expressed herein are those of SRCM as of the date of writing and are subject to change. The material is based on SRCM proprietary research and analysis of global markets and investing. The information and/or analysis contained in this material have been compiled, or arrived at, from sources believed to be reliable; however, SRCM does not make any representation as to their accuracy or completeness and does not accept liability for any loss arising from the use hereof. Some internally generated information may be considered theoretical in nature and is subject to inherent limitations associated thereby. Any market exposures referenced may or may not be represented in portfolios of clients of SRCM or its affiliates, and do not represent all securities purchased, sold or recommended for client accounts. The reader should not assume that any investments in market exposures identified or described were or will be profitable. The information in this material may contain projections or other forward-looking statements regarding future events, targets or expectations, and are current as of the date indicated. There is no assurance that such events or targets will be achieved. Thus, potential outcomes may be significantly different. 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 measures the performance of the large-cap segment of the U.S. equity market.

One cannot invest directly in an index. Index performance does not reflect the expenses associated with the management of an actual portfolio.

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.

Publication: 01.15.21

2021-SRCM-10