Investment Philosophy and Process Review

STATERA

ASSET MANAGEMENT

Investment Philosophy

Capital market prices reflect collective investor expectations for the potential risks and returns inherent to all investments. This crowd-sourced wisdom leaves little room for incremental gain over the aggregate performance of similar securities. Nonetheless, certain investment characteristics have shown to support greater-than-average returns over time. We believe models built to emphasize portfolio diversification across and within a diverse range of asset classes and at the same time favor these characteristics have the potential to create the optimal experience for our clients and partners.

Investment Approach

Our approach to investment management seeks pragmatism in concept and efficiency in practice. It is grounded upon more than a century of market history and informed by our collective decades of investment and advisory experience. Executed with cost effectiveness and practicality in mind, our methodology acknowledges the give and take of return and risk inherent to all investments and is designed to be applicable to a very wide range of individual investment scenarios.

The approach seeks higher expected total return as tolerance for risk and investment time-horizons increase. We seek to enhance return expectations primarily through increased exposure to equity. As the target exposure to investment risk grows in a particular model, the approach additionally seeks to boost return through enhanced global diversification, and increasingly stronger tilts toward equity characteristics seen to have provided higher returns through time. We also tend to boost the potential to seek additional income with fixed income through stronger tilts toward duration (sensitivity to changes interest rates) and credit (potential for default) among fixed income securities.

Investment Methodology

By design, our Target Risk Strategy is meant to serve as a through-cycle, core- or whole-portfolio solution. We believe our disciplined investment methodology constitutes a unique and broadly applicable solution for advisors and their clients. The following primary tenets comprise this methodology:

- Our approach considers risk and return peers in the asset allocation decision
- Emphasizing broad diversification within and among the broad asset classes, we map combinations of global equity, fixed income and other exposures to specific risk-tolerance levels to formulate our range of investment solutions
- Acknowledging the trade-off between expected return and risk, we may tilt exposures away from global capitalization-based proportions based on characteristics perceived to be indicative of relative future performance

We believe long-term drivers of risk-relative performance will originate primarily through global diversification, with incremental gain sought through asset-class and sub-asset-class tilts to specific factors suggestive of higher expected return.

Portfolio Construction Process

Global diversification sits at the core of our investment methodology. Assuming no medium-term bias to the allocations (i.e., a completely passive portfolio), our core methodology would result in passive exposure to the domestic investment-grade fixed income and global equity markets.

In turn, we acknowledge that certain investment characteristics have shown to support greater-than-average returns over time. We thus seek to outperform that otherwise entirely passive allocation through portfolio tilts that favor these characteristics and emphasize portfolio diversification within and among a diverse range of exposures.

In practice, strategic tilts toward specific equity-related investment factors (e.g., Size, Relative Price and Profitability) increase along with the overall exposure to equity, with similar effect among fixed income characteristics (e.g., duration and credit). As part of this process, the Team utilizes a simulation process to ensure a range of factor exposures are understood and appropriately targeted according to the model's overall investment risk target. This simulation process incorporates both holdings-based and returns-based analytics to evaluate exposure to and the relative returns of the desired factors.

To gauge the impact of and otherwise track the relative return of strategic tilts within the models, the Team regularly (generally quarterly and minimally annually) performs quantitative reviews of fundamental characteristics for all exposures.

We incorporate desired exposures in models through our selection of mutual funds that, in addition to providing broadly diversified exposures to targeted asset classes, specifically express desired investment characteristics.

We regularly (at least annual) review whether a sufficiently substantial increase in potential risk-relative return may be found in some manner of shift in model exposures, including adjustments to targets weights of existing exposures and/or the addition of new exposures. As part of this process the Team may iterate reviews of various changes to target allocations for their potential impacts to expected risk-relative return. When a suitably attractive revision is designed, the Investment Team may seek to reposition existing portfolios to the revised model allocations.

Investment Opportunity Set

We believe our approach to defining an investment opportunity set is core to the overall value SRCM provides. Recalling the firm's Investment Philosophy, SRCM believes optimal long-term risk-relative return is best pursued via a strategy that emphasizes global diversification across and within major asset classes, in addition to model tilts that favor characteristics within asset classes suggestive of expected returns potentially higher than respective market averages.

The Investment Team seeks to achieve desired exposures at a cost to fund investors that is reasonable when one considers the breadth of complications related to managing such portfolios.

The Investment Team's development of the investment opportunity set begins with a regular scan of the universe of mutual funds that express exposures relevant to our investment approach. We then whittle this universe to identify those funds with which we most efficiently can achieve our desired mix of exposures.

Risk Management

The Global Target Risk Series is designed to offer a wide range of exposures to market risk, as defined predominantly by the level of exposure to equity markets within each model allocation. Within each model, the Investment Team regularly monitors relative performance and risk at the individual fund and portfolio levels, versus both the global cap-neutral benchmarks (for reviewing all portfolio tilts) and factor-cognizant benchmarks (for reviewing the effects of individual factor tilts within each exposure). Additionally, at both the individual portfolio level and in the aggregate, the Investment Team evaluates and may address deviations from actual model exposure weights relative to target.

Using a combination of live and hypothetical (internal, Investment Team use only) daily exposures and total return series, the Investment Team closely monitors overall model performance, with risk characteristics featured as prominently as return in such reviews. These examinations include a combination of internal-only reviews, as well as advisor-oriented collateral (data and commentary) to be sure that the Team is providing detail for advisors to complete similar reviews with clients. All such reviews incorporate benchmark-relative comparisons, using at least one entirely passive benchmark and one benchmark that passively reflects both levels of exposure tilts to provide attribution at each successive level of relevant detail.

Investment Team

Mark Mowrey, CFA, Chief Investment Officer

With a career in investment research and management spanning nearly two decades, Signature Resources' Chief Investment Officer, Mark Mowrey, brings a uniquely broad and relevant expertise to the firm. Graduated from the Wharton School of the University of Pennsylvania and holding the Chartered Financial Analyst® designation, his roles have ranged from financial journalism and sell-side equity research to the management of multi-billion-dollar investment portfolios.

Having endured several capital market cycles during his industry tenure, Mark has learned firsthand the power of a quantitative methodology, grounded in an approach that fosters continual learning, to impart a beneficial discipline to the investment process. He further believes candid reviews of investment methods and their results nurtures the trust that is required for clients and colleagues to share in the team's confidence in its work.

Even so, Mark understands that confidence is at best a secondary source of investment success and that hubris and similar emotional states only detract from the investment process. Rather, he believes a methodical approach, respectful of more than a century's-worth of collective industry knowledge development and evolved to be relevant to the investment challenges and opportunities of today, ultimately will enable the firm to achieve client investment goals.

Mark's career highlights include:

- Graduated from the Wharton School of the University of Pennsylvania with a B.S. in Economics in 1994
- Began investment career building value-focused equity portfolios
- For more than fifteen years has managed whole-portfolio, multi-asset-class investment solutions

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