

**May 29, 2020**

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# June 2020 Global Allocation Research

- Economies are reopening worldwide, but this is **NOT** business as usual.
- Pent-up demand from the shutdown will drive a near-term recovery. What's next is more troubling.
- Our Columbus strategy is maintaining a defensive, albeit diversified position.
- We are introducing our S&P 500 Sector Insights this month. See **Sections 4 & 7** for details.



## 1. Insights Summary

### A New Normal?

Economies are reopening around the globe. At first glance, this is very good news. Although it may feel as if life is going back to normal, nothing could not be further from the truth. Wearing masks in public, long lineups for shoppers, complex safety protocols in factories, and social distancing at the office mean that productivity will be negatively affected.

Such complexity creates economic friction, forcing the economy to operate less smoothly and efficiently than before. We are in essence sowing the seeds for future inflation, as businesses will eventually have to pass on their increased costs to their customers. When that happens, the impact on the economy and financial system will likely be severe.

### Coronavirus is Still Around

In the meantime, the virus is still around while the much touted 12 to 18 months timeframe for a vaccine is "very aggressive" according to Merck CEO Ken Frazier. This means we are likely to see renewed local epidemics and related lockdowns in an attempt to control the virus, further adding to the economic chaos.

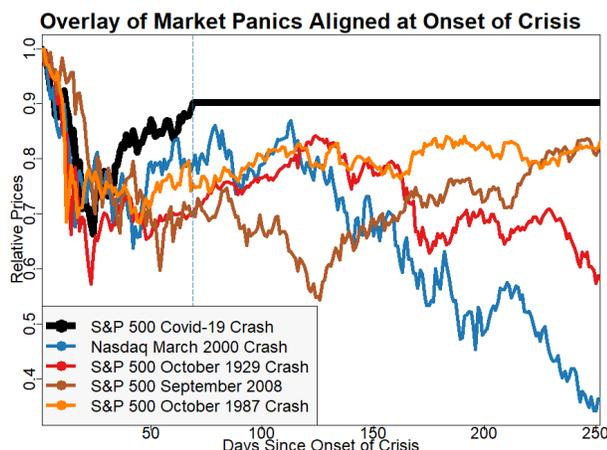
Businesses have now learned that office workers can work from home and will seek to cut costs and boost profitability by reducing their office rental space. Travel will continue to be restricted. Add to this the renewed US-China geopolitical tensions, and we can expect more economic dislocations as the domino effect of corporate bankruptcies gains momentum.

### Are Stocks Ignoring the Economy?

In the near term however, pent-up demand for

goods and services should stimulate some badly beaten up sectors of the economy, as would be expected after a 2 months shutdown. The question is what happens after that pent-up demand has been satisfied?

The chart below shows an overlay of the recent S&P 500 performance compared with four other market crashes, including the Dotcom bust, the Financial Crisis, the 1987 crash and the 1929 crash, all aligned at their peaks prior to the crash. The chart shows how the market has bounced back faster and higher than all of these prior crashes. The chart also shows how bear markets take time to materialize after the initial shock. This could be because governments will do anything they can to save their economies, essentially delaying the negative domino effect of economic dislocations.





### Massive Liquidity-Driven Rally

What’s been clear however is that much of the market recovery has been driven by massive central bank liquidity injection. All this money has to go somewhere including stocks and bonds. But liquidity-driven rallies usually don’t last forever. Positive economic development needs to happen to justify valuations.

### Not All Sectors are Made Equal

Economic dislocations imply that some businesses will thrive while others will struggle to survive or even die. This creative destruction process normally happens in a measured way in a healthy economy. In a matter of months, **the pandemic accelerated key behavioral trends fundamental to society** such as remote work and distributed offices. Such trends will stay over the long term and will drive profound transformations of the economy.

As the economy recovers in the near term, and the domino effect of dislocation takes hold afterwards, **we can expect many meaningful divergences between key sectors of the economy.** Some sectors will thrive while others will struggle.

### S&P 500 Sectors Insights

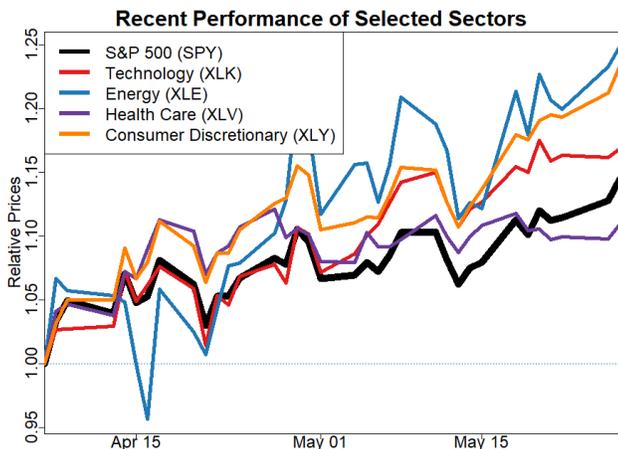
We are introducing our S&P 500 Sectors Relative Attractiveness Insights in this month’s report. This provides insights on the relative attractiveness for each of the 11 sectors of the S&P 500 index, as analyzed by our Laplace AI™ platform. A graphical Sector Insights Dashboard is provided in **Section 4**, while **Section 7** explains how to use these insights in practice.

Recent performance of these sectors is shown in the figure above. Over the past 6 weeks, the consumer discretionary, technology and energy sectors have performed better than the S&P 500 index, while health care has been leveling off. Going forward however, our platform indicates that health care is likely to at least keep track with the index.

### Columbus Analysis of the Current Situation

**The Columbus Allocation Dashboard in Section 3** provides an allocation by asset class for the Columbus strategy. A quick glance at this dashboard reveals that Columbus is maintaining a very defensive position, with only a small position in stocks.

**The Columbus ETF Allocation Table also in Section 3** provides more details. A small allocation to equities is made via US and Japanese stocks (SPY and EWJ), while a more meaningful allocation is made to gold (GLD). On the fixed-income front, Columbus is looking to diversify among US Treasuries (TLT and IEF), with an allocation to corporate investment grade bonds (LQD) and also inflation-protected treasuries (TIP). An allocation to TIP in the portfolio is interesting and supports a thesis that inflation may begin to show up at some point in the not-so-distant future. For the time being however, it is safe to assume that Columbus is seeking diversification in the fixed-income arena.



A quick glance at the **Sector Insights Dashboard in Section 4** reveals that the **technology, energy, consumer discretionary and health care sectors** are currently the most attractive.



## 2. The Laplace AI™ Platform

Laplace AI™ is Laplace Insights' proprietary machine learning platform used to generate all insights, forecast and asset allocation recommendations found in this report.

Our platform uses some of the most advanced time series forecasting technologies available in artificial intelligence research and has been developed by our team of scientists and engineers in collaboration with the AI research lab at the University of Sherbrooke. **Conceived as a scalable architecture**, it can easily integrate new machine learning algorithms and statistical forecasting methods as these become available in the future.

In addition, it can scale to many hundreds of thousands of data time series to improve its ability to learn the important financial lessons of history. This means that **the platform will continue to improve over time**, essentially becoming more intelligent with increased robustness to future challenging market scenarios as we keep adding more data and introducing better machine learning and forecasting algorithms to its architecture.

### Learning History's Financial Lessons

The World has experienced some very challenging periods during the past century, including two World Wars, a Depression and many recessions, as well as many political and economic crises. A fundamental tenet of finance is to learn from these great lessons of financial market history, and then see how such important learnings can help navigate today's ever more challenging markets.

Our platform is trained using data from the late 1800's until today, and includes lessons from the panics of 1901 and 1907, the two World Wars, the crash of 1929, the Great Depression, the Cold War, the OPEC crisis in the 1970s, the dotcom crash in 2000, the Great Financial crisis of 2008 and, more recently, the Coronavirus crash. In addition to these major events, our platform is also trained on tens of thousands of less dramatic financial events over the past century to bring more granularity to its decision-making process.

History often matters a lot, as Mark Twain is reputed to have said in this quote:

**"History doesn't repeat itself but it often rhymes".**

By learning the great lessons of financial markets history, our Laplace AI™ platform is well equipped to navigate today's challenging market environment with confidence.

## A Platform that Keeps Learning the Market

Financial markets evolve constantly. While many of the market's behavior bear resemblance with the past, some of the market's behavior is also novel. This means that our platform must have the ability to keep learning from new financial market and economic data while also taking advantage of the rapidly evolving world of artificial intelligence research.

Our platform continually learns from new financial market data as the market evolves every day, enabling it to quickly adapt to new market situations and paradigm changes. In addition, **our research team is constantly developing and evaluating new market indicators** to discover new predictive relationships between assets and these indicators. When shown to have a useful predictive relationship, these indicators are added to the platform to provide new sources of information and help improve the quality of forecasts.

Furthermore, our research team is the forefront of artificial intelligence research, so we are continually perfecting our algorithms and forecasting engines to capitalize on the best that technology can offer. We regularly publish scientific articles with the University of Sherbrooke AI team and we are recognized as a trend setter in financial AI research.

### Improvements to our Software Platform

Our research team continuously works hard to improve the depth and breadth of the analyses made by our Laplace AI™ platform in order to improve its forecasting accuracy. As a research organization and leading experts in financial machine learning, improving our platform is the most fundamental way in which we continue to enhance the value we provide in our research reports.

On a regular basis, **we therefore release new and improved versions of our platform** in which we run the Columbus strategy and our sector insights. This means that this report will keep improving over time and the performance of our strategies will also progressively get better with each new versions of the platform. Should you have an interest in seeing how the Columbus strategy performance changed over time, please contact us as we do trade the strategy in a live account to track its performance improvement over time.



### 3. Columbus Strategy Portfolio Allocation

#### Columbus Allocation Dashboard

The figure below shows a summary of the current asset class allocations for the Columbus Global ETF Allocation strategy. The figure is split into four quadrants, each corresponding to an asset class. For each quadrant, the figure shows the following information:

- The **large number in bold** represents the percentage allocation of the portfolio in that asset class.
- The **bar chart** on the left of the large number shows the allocation over each of the previous three months.
- The **half moon dial** provides a visual representation of the allocation percentage of that asset class in the overall portfolio.
- The words "**Balanced**", "**Underweight**" or "**Overweight**" represent the asset class allocation compared with the reference allocation shown in the table below.

To put the Columbus allocations in context, we provide a simple reference portfolio in the table below. Deviations above or below the thresholds would represent an overweight or underweight allocation for that asset class.

| Asset Class  | Underweight Threshold | Balanced Allocation | Overweight Threshold |
|--------------|-----------------------|---------------------|----------------------|
| Equities     | Below 30%             | <b>45%</b>          | Above 60%            |
| Fixed Income | Below 20%             | <b>30%</b>          | Above 45%            |
| Real Assets  | Below 10%             | <b>15%</b>          | Above 20%            |
| Cash Assets  | Below 5%              | <b>10%</b>          | Above 15%            |

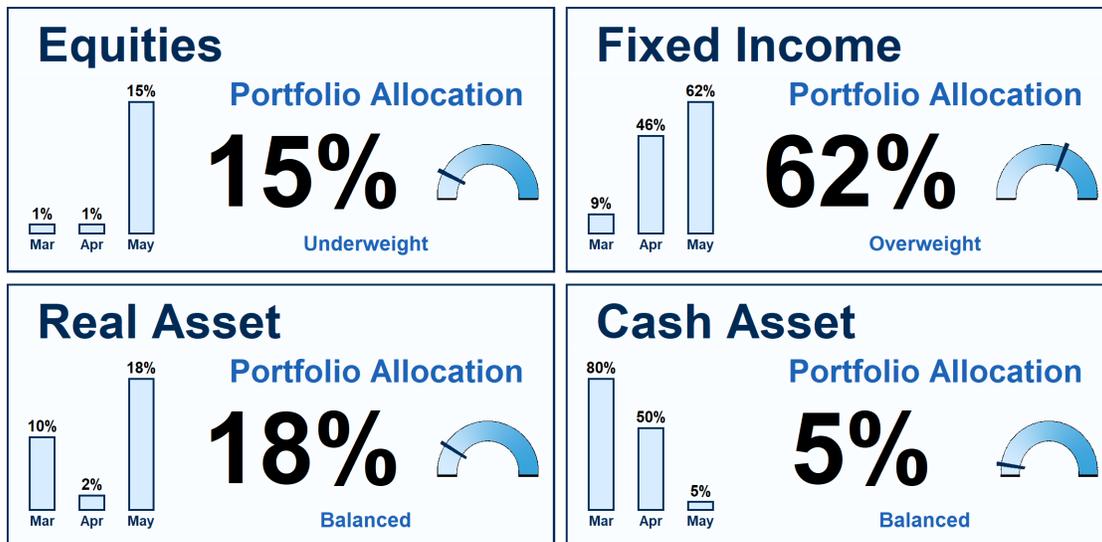


Figure 1



## Columbus ETF Allocation table

The portfolio allocations for each asset are shown below for the last rebalance period and the upcoming period. The upcoming month weights are in **bold characters** and should be used to rebalance the portfolio. The Max. Weight column shows the maximum exposure weight limit constraining each ETF. This represents the upper weight limit for that ETF during an ideal market situation, where expected returns are high and volatility is low.

The dates shown representing the closing prices used to determine the associated rebalance.

The maximum weight limits shown in the table have been chosen to limit the exposure to specific ETFs in the portfolio. Only on occasions will the Columbus Strategy invest in an ETF at its maximum exposure level. Such situations require a market environment with compelling positive momentum combined with low volatility. For certain clients, such exposure levels may be too aggressive. Should that be the case, **the client's advisor is urged to consider reducing the exposure to better suit his/her client's unique situation.**

**Please read Section 7 - "How to Use Our Research" to understand how Columbus can be used in practice.**

| ETF          | Max. Weight | Weight on 2020-04-29 | Weight on 2020-05-28 | Alloc. Change |
|--------------|-------------|----------------------|----------------------|---------------|
| SPY          | 50%         | -                    | <b>13%</b>           | 13%           |
| VXF          | 40%         | -                    | -                    | -             |
| EFA          | 45%         | -                    | -                    | -             |
| EWJ          | 40%         | -                    | <b>2%</b>            | 2%            |
| VWO          | 35%         | -                    | -                    | -             |
| DBC          | 35%         | -                    | -                    | -             |
| GLD          | 35%         | 2%                   | <b>18%</b>           | 16%           |
| VNQ          | 40%         | -                    | -                    | -             |
| TLT          | 45%         | -                    | <b>30%</b>           | 30%           |
| IEF          | 60%         | 44%                  | <b>10%</b>           | -34%          |
| LQD          | 60%         | 1%                   | <b>9%</b>            | 8%            |
| TIP          | 60%         | 1%                   | <b>14%</b>           | 13%           |
| PCY          | 50%         | -                    | -                    | -             |
| UUP          | 60%         | -                    | -                    | -             |
| SHY          | 100%        | 50%                  | <b>5%</b>            | -45%          |
| <b>Total</b> |             | 98%                  | 101%                 |               |

*Totals may not add up to 100% due to rounding errors, in which case an adjustment is made to SHY or the cash balance. The model portfolio trades Market-on-Close (MOC) on the trading day after the report is sent to subscribers.*



## 4. Sectors Relative Attractiveness Analysis

### Sector Insights Dashboard

The figure below shows the results of our Laplace AI™ platform analysis of the 11 sectors making up the S&P 500 index. These provide insights on each sector’s relative attractiveness for the upcoming month. These insights can be used to implement your own sector strategy. We urge you to read **Section 7** of this report which explains how you can make the best use of our Sector Insights Research.

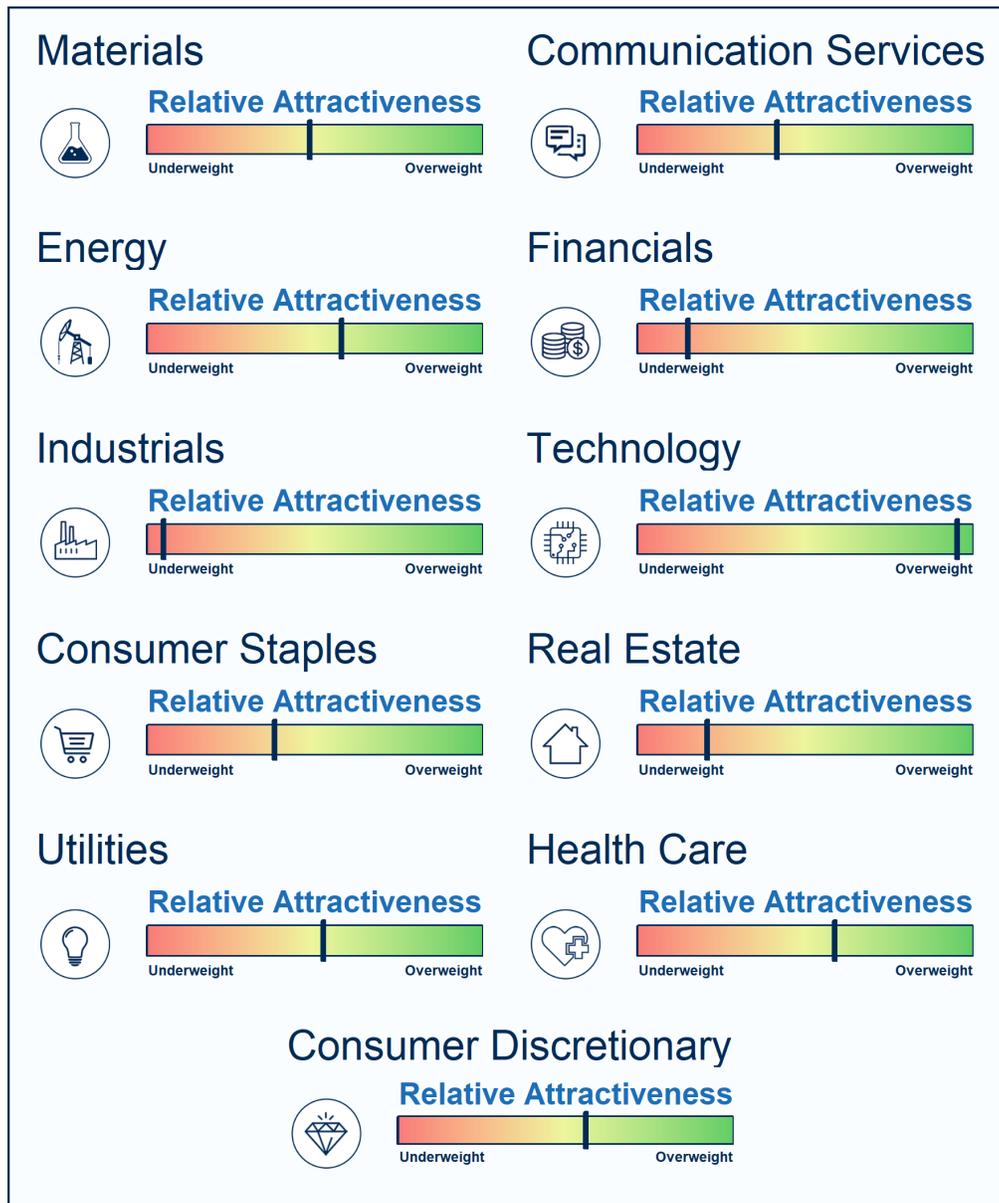


Figure 2



## 5. Risk>Returns Analysis

### Expected Returns-Volatility

Figure 3 below shows each asset in the Columbus universe on the Expected Returns - Volatility plane. The color of each dot represents the asset class each ETF belongs to, while the dot size shows the relative allocation weight for each ETF.

The Columbus algorithm selects and weighs assets in its universe based upon their relative volatility and an expected returns measure based on our machine learning forecasts. It at-

tempts to find the optimal combination of assets to get the best returns - risk tradeoff, while also considering correlation between the assets selected.

The Expected Returns - Volatility chart does not explicitly show correlations. Some assets may therefore be more (or less) emphasized based upon their level of correlation compared to the overall portfolio.

### Expected Returns – Volatility Bubble Chart

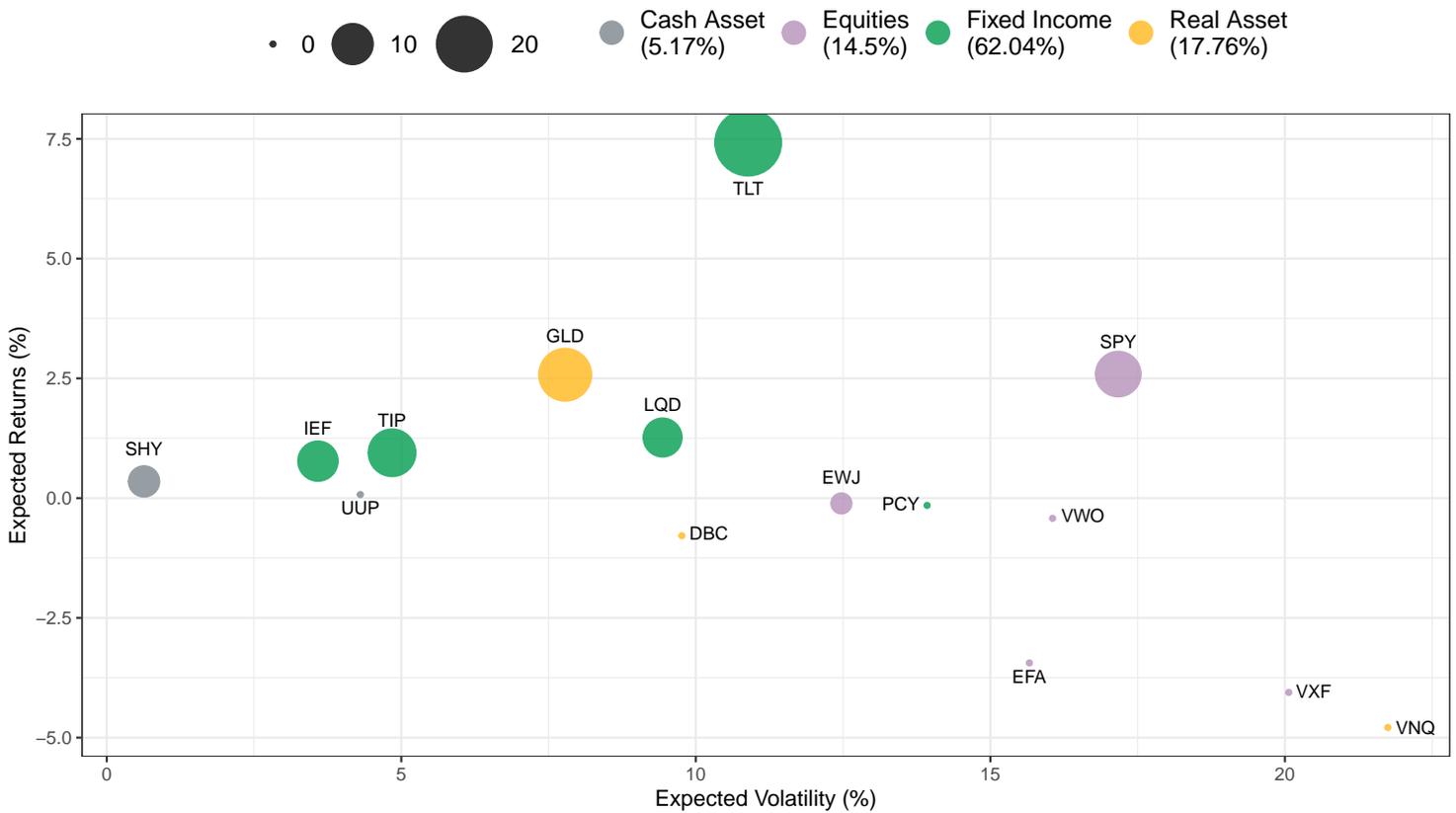


Figure 3



### Optimal Weights Allocations

Figure 4 below shows the optimal weight allocation for each ETF in the portfolio for the upcoming month. The dark blue bars correspond to the optimal weights for each ETF as optimized by the Columbus Strategy. The value of these are identical to the weights in the Columbus ETF Allocation Table.

The light blue bars show the maximum weight limits for each ETF adjusted for the asset current volatility. In other words, it is the asset's theoretical maximum weight limit reduced by an amount related to the asset's recent volatility. This provides an important method for Columbus to contain portfolio volatility and control risk in turbulent market environments.

By overlapping the dark blue bars over their associated light

blue bar, we can see how much Columbus chose to allocate to each asset vs. its allowable allocation limit for the current period. The allocation levels reflect the most optimal portfolio allocation for each asset.

More to the point, this chart tells us where Columbus finds the most optimal risk/return tradeoff for the upcoming period. When an ETF allocation (dark blue bar) approaches its allocation limit (light blue bar), Columbus is telling us that it greatly favors that asset. Conversely, when the ETF weight is small compared to its limit, then Columbus shuns that asset, yet may still want some exposure because it offers a de-correlation benefit to the overall portfolio.

### Optimal Portfolio Weights Compared to Maximum Weight Limits

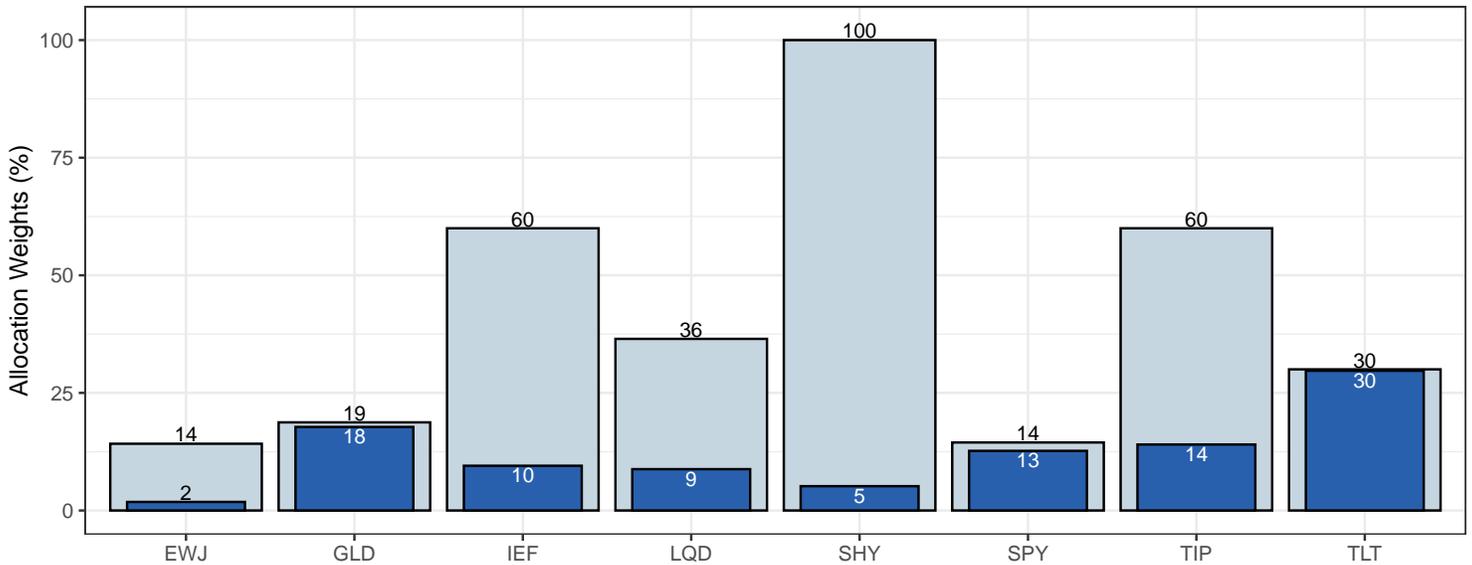


Figure 4

See the appendix for details on each ETF in the Columbus universe.



## 6. Performance Summary

### Columbus Performance Since 2008

Figure 5 below illustrates the Columbus Strategy performance since April 2008.

The blue curve shows the performance of Columbus based on the most recent software release. The grey curve is the S&P 500 ETF (SPY), whereas the red curve is the Vanguard Moderate Growth ETF (VSMGX) which provides a 60/40 allocation between stocks and bonds. The orange curve is the equal weights portfolio created by equally weighting all 15 ETFs forming the Columbus investment universe.

The investment value (alpha) created by Columbus is shown by the double arrow located on the right side of the chart (Columbus Alpha Creation). This double arrow compares Columbus

(blue) to the no-skill portfolio represented by the Equal Weights benchmark (orange). Comparing these two curves over the time frame shows how Columbus generates returns over time above and beyond the Equal Weights no-skill portfolio. This excess return is readily seen as Columbus keeps distancing itself from its Equal Weights benchmark over time.

**As we continue to improve our Laplace AI machine learning platform by adding more training data, new economic and financial indicators, and improving our machine learning forecasters with the latest technological breakthroughs, we expect the performance of the Columbus strategy to keep improving over time.**

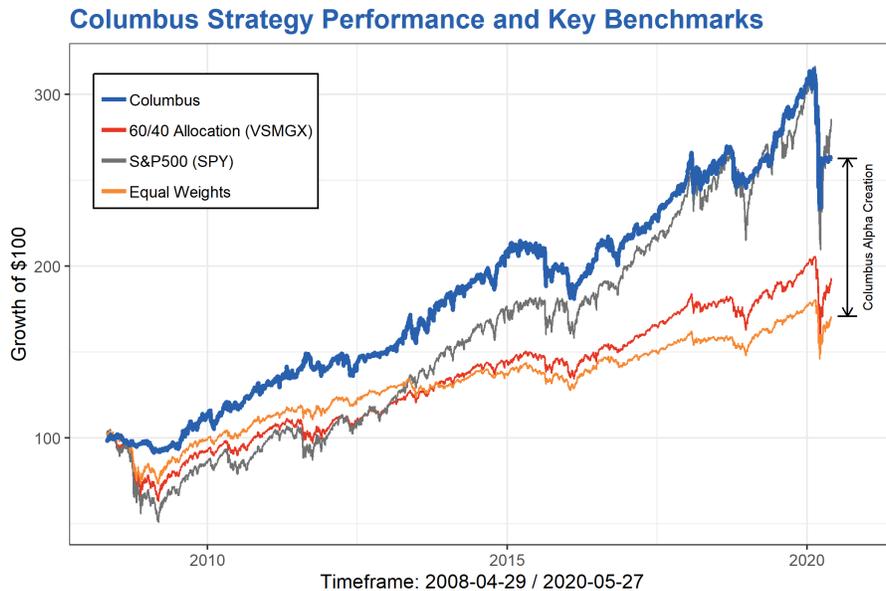


Figure 5

The table below provides a summary of the performance of the Columbus Strategy compared to the same three benchmarks shown in the Figure.

|                                     | Columbus | 60/40 Allocation | S&P500 | Equal Weights |
|-------------------------------------|----------|------------------|--------|---------------|
| <b>Annualized Return (%)</b>        | 8.48     | 5.47             | 8.9    | 4.39          |
| <b>YTD Gain / Loss (%)</b>          | -14.3    | -3.78            | -5.12  | -3.18         |
| <b>YTD Annualized Gain/Loss (%)</b> | -31.96   | -9.16            | -12.28 | -7.73         |
| <b>Maximum Drawdown (%)</b>         | -25.86   | -39.29           | -51.49 | -29.77        |
| <b>Annualized Standard Dev. (%)</b> | 11.21    | 13.13            | 21.03  | 9.89          |
| <b>Positive Rolling Years (%)</b>   | 88.49    | 85.87            | 90.17  | 85.22         |
| <b>Annualized Sharpe Ratio</b>      | 0.76     | 0.42             | 0.42   | 0.44          |
| <b>MAR Ratio</b>                    | 0.33     | 0.14             | 0.17   | 0.15          |



### Columbus Performance Since 1999

Figure 6 below illustrates the Columbus Strategy performance since 1998 using two similar investment universes:

- The **Columbus-ETF** curve (in blue) represents the Columbus Strategy applied to our 15 ETF universe. This curve is identical to the Columbus curve in Figure 2 and is reproduced here for reference.
- The **Columbus-Funds** curve (in green) is a very similar universe to the Columbus-ETF universe except that it uses

mutual funds instead of ETFs. This universe has a longer history because we selected mutual funds that have been in existence since the 1990s, and is therefore useful to demonstrate the performance of the Columbus Strategy back 20 years to the late 1990's.

The two regions in pink represent the bear markets from the **Dotcom crash** and the **Financial Crisis**. The table below shows some key statistics over the period.

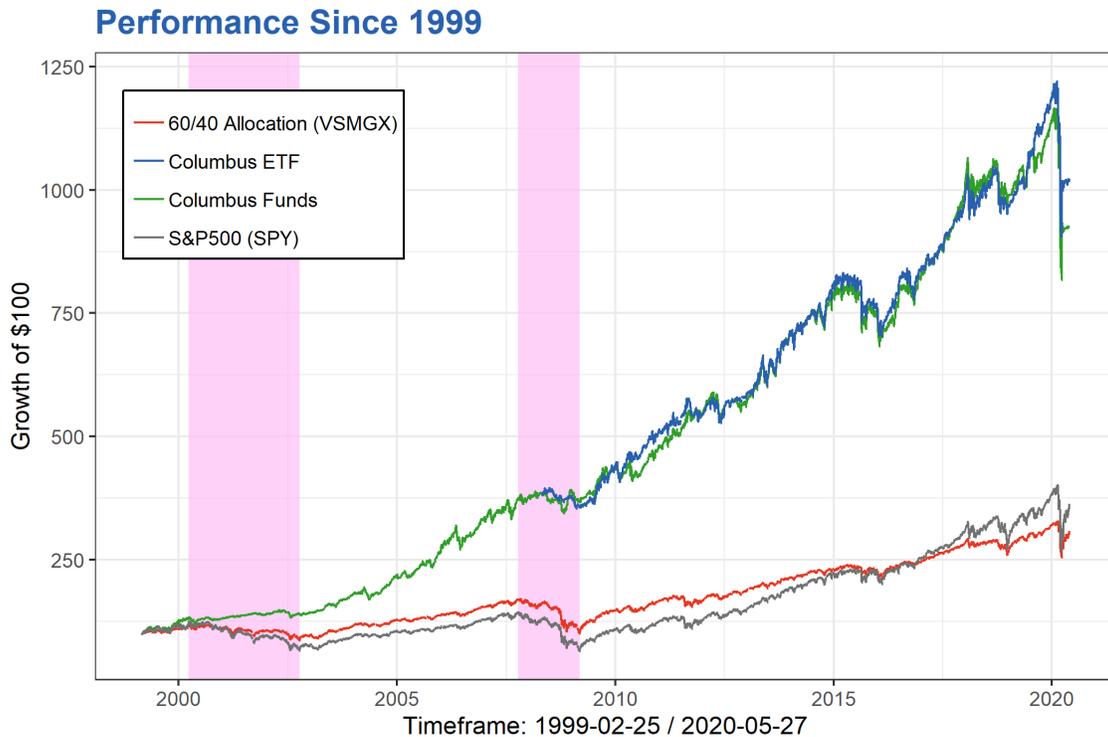


Figure 6

|                                   | 60/40 Allocation | S&P500 | Columbus-Funds (1998) | Columbus-ETF (2008) |
|-----------------------------------|------------------|--------|-----------------------|---------------------|
| <b>Annualized Return (%)</b>      | 5.45             | 6.27   | 11.05                 | 8.48                |
| <b>Maximum Drawdown (%)</b>       | -41.12           | -55.2  | -29.86                | -25.86              |
| <b>Annualized Sharpe Ratio</b>    | 0.45             | 0.32   | 1.02                  | 0.76                |
| <b>Positive Rolling Years (%)</b> | 75.96            | 75.7   | 89.99                 | 88.49               |

**Note:** Statistics for Columbus-Fund and the S&P 500 are calculated since January 1999. Statistics for Columbus-ETF are calculated since May 2008.



## Sector Insights Performance Since 2004

There are many ways to use our Sector Insights to implement a sector strategy. **Section 7** of this report proposes a few approaches. Here, we show an example of a simple strategy whereby we overweight the most attractive sectors by purchasing the appropriate SPDR Sector ETFs while underweighting those ETFs with the lowest relative attractiveness rating.

**Note: This strategy is always 100% invested in equity sectors, even when all sector recommendations are underweight.**

The figure below shows the performance of our **Sector Relative Attractiveness Insights** since 2004. The S&P 500 SPY ETF performance is also shown as reference to illustrate how our simple strategy of overweighting and underweighting sectors can lead to superior performance beyond a passive investment in the S&P 500.

Since markets evolve continuously, some sectors tend to perform substantially better than the S&P500 during certain pe-

riods while at other times, all sectors perform more or less equally well. A key objective of a sector strategy is to capture the extra returns offered during those periods when a clear divergence in sector performance exists. During the other periods when all sectors perform more or less equally well, our simple strategy essentially tracks the S&P500 as one would expect.

For example, the recent 5 years saw some very impressive gains in our simple sector strategy because of such sector performance divergence. Given the **massive economic dislocations created by the Coronavirus pandemic**, we expect more such divergences going forward because certain sectors of the economy will suffer greatly from the resulting changes while other sectors will benefit from newfound opportunities. **These dislocations will create investment opportunities**, and our sector insights have been developed to help you capture these opportunities as they arise.

Sectors Insights Performance Since 2004

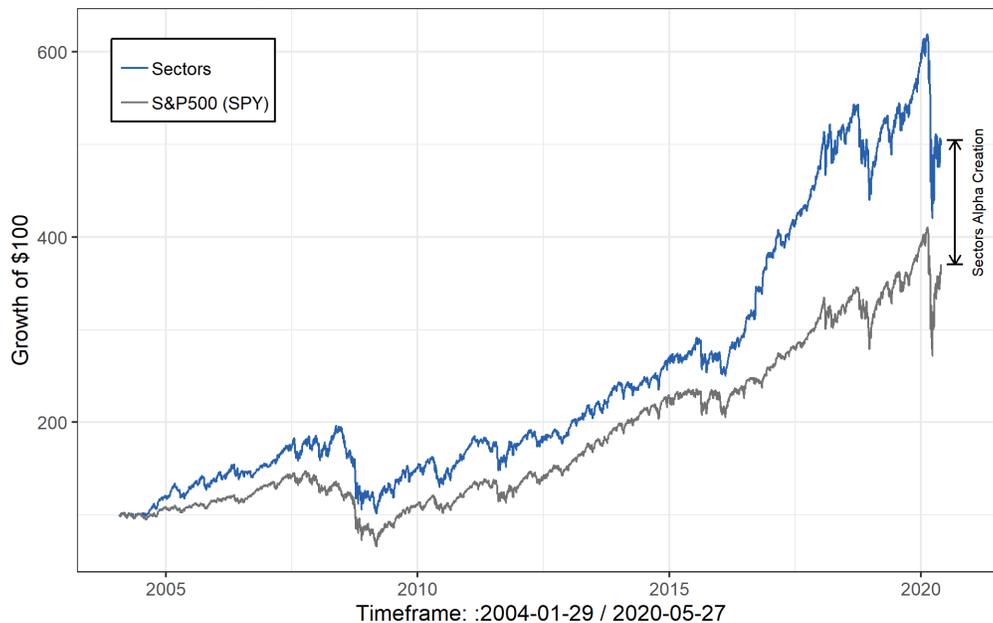


Figure 7

|  | Sector Insights | S&P500 (SPY) | Difference |
|--|-----------------|--------------|------------|
| <b>Annualized Return (%)</b>             | 7.96            | 6.22         | 1.74       |
| <b>YTD Gain / Loss (%)</b>               | -14.4           | -5.1         | -9.3       |
| <b>1 Year Gain / Loss (%)</b>            | -0.5            | 9.5          | -10        |
| <b>Last 5 Years Gain / Loss (%)</b>      | 78.6            | 61           | 17.6       |
| <b>Maximum Drawdown (%)</b>              | -52.74          | -59.58       | 6.84       |
| <b>Annualized Standard Deviation (%)</b> | 20.24           | 19.1         | 1.14       |



## 7. How to Use Our Research

Our research is 100% automated and generated by our proprietary Laplace AI™ machine learning and artificial intelligence platform. This ensures that you get recommendations and insights based on:

- **Market facts and statistics**, driven by more than 100 000 financial events and 120 years of market history.
- **Emotion-free and opinion-free information**, helping you understand market dynamics and bring clarity during turbulent and uncertain times.
- **An adaptive platform**, capable of discovering and learning new predictive relationships in financial data as the global economy evolves or as new paradigms emerge.

In addition to our automated AI process, we provide a commentary in Section 1 where we analyze the market environment from the perspective of our fact-based, emotion-free platform recommendations. This commentary helps you filter the noise of daily news and gain insights into the market driven by data, statistics, and financial market history.

### Preserve Capital and Deliver Returns

This **Global Allocation Research** report can be used to help you preserve client capital while also providing a source of additional equity market returns over the long run.

These dual objectives are achieved using two complementary strategies and insights:

- The **Columbus Global ETF Allocation Strategy** helps preserve capital during turbulent or bear markets by providing tactical asset allocation recommendations. During bull markets, the strategy generally captures global equity market uptrends by allocating into global equity ETFs.
- The **Sector Relative Attractiveness Insights** help create additional equity market returns by providing insights into the S&P 500 equity sectors. These insights propose to overweight the more attractive sectors while also underweighting the least attractive sectors to help achieve higher equity market returns than those offered by the S&P 500.

Our research helps enhance the performance of your client portfolios by reducing overall risks while also improving long term returns through active tactical allocation. It is not meant to be a portfolio core, but rather **complements the core of an investor's portfolio through satellite allocations**.

The sections below explain the Columbus Global ETF Allocation strategy and the Sector Relative Attractiveness Insights in more details.

### Columbus Delivers Uncorrelated Returns

The Columbus strategy provides a source of uncorrelated returns during those times when it is most important to be **decorrelated from the stock market**. The concept of uncorrelated returns is used extensively by investment professionals such as pension funds and large institutions. Rather than solely trying to maximize returns during bull markets, which often comes with amplified losses during bear markets, pension funds and institutions use different sources of returns to build portfolios that are **resilient to global economic uncertainty**. Columbus was developed with this idea in mind by providing a simple way for investment advisors to deliver uncorrelated returns in their client portfolios.

The primary objectives of the strategy are to protect capital during bear markets while also capturing stable growth over the long term.

**During bear markets**, Columbus invests in assets that are generally not correlated with the stock market. This helps to deliver returns during those times when it really matters to own a source of uncorrelated returns.

Conversely, Columbus becomes correlated to global equities **during stable bull markets in stocks**. This allows it to capture stock market upside and ensure your clients do not miss out on those gains.

### How Columbus Works

The Columbus strategy selects up to 8 assets from a universe of 15 low costs, highly liquid ETFs, each representing one of the world's major asset classes. The strategy selects assets and adjusts their allocation weights to optimize for the best risk/return tradeoff, by emphasizing safety and capital preservation over short term gains.

The Columbus strategy trades monthly on the last trading day of the calendar month.



## Columbus is Not a Market Timer

Although it may appear that Columbus can be used as a stock market timer, it is **NOT designed to be a market timer**. Unlike a market timer, Columbus will stay out of the stock market during times when it perceives a high degree of risks in equities, even though equities may turn out to be rallying strongly during those high risk periods.

## Columbus is a Tactical Sleeve

In addition, Columbus can recommend a 100% stock allocation during high quality and stable bull markets in stocks, whereas it can also recommend a 100% allocation in government treasuries during bear markets. To ensure some level of diversification, certain maximum allocations have been imposed on each ETFs as discussed in Section 3 of this report. These maximums are dynamically reduced based on the expected volatility of each ETFs. This provides a way to manage concentration risks into a single ETF, but does not preclude the possibility to allocate 100% of the portfolio into equity ETFs.

For these reasons, Columbus should never be used as a portfolio core but **rather as a tactical sleeve to complement a client's core portfolio**. Columbus adjusts its allocations at the end of each month based on the prevailing market conditions and related returns and risks expected in all 15 ETFs it tracks in its investment universe. Appendix A includes the list of all 15 ETFs used by Columbus.

## Sector Relative Attractiveness Insights

In addition to the Columbus Global ETF Allocation strategy, this report also includes insights on the S&P 500 equity sectors. This helps create additional equity market returns by proposing to overweight the more attractive S&P 500 sectors while simultaneously underweighting the least attractive sectors. This overweighting / underweighting approach is updated in every monthly report and are meant to provide a sense of **the sectors that are most likely to perform better on a relative basis** over the next several weeks and months.

The S&P 500 is composed of 11 sectors defined by the Global Industry Classification Standard (GICS), developed jointly by Standard & Poor's and MSCI Research. Each company making up the S&P 500 belong to a given sector. As valuations change and as companies are included or removed from the S&P 500 index, the exact sector weighting in the index changes correspondingly.

As of December 31st, 2019, the GICS sector weightings in the S&P 500 were as shown in the table below. The table also shows the SPDR Sector ETFs that can be used to track each of the S&P 500 sectors. More information on these ETFs can be found on the ETF sponsor's web site.

| GICS Sector            | ETF Symbol | Sector Weighting |
|------------------------|------------|------------------|
| Materials              | XLB        | 2.7 %            |
| Communication Services | XLC        | 10.4%            |
| Energy                 | XLE        | 4.4 %            |
| Financials             | XLF        | 12.9%            |
| Industrials            | XLI        | 9.1 %            |
| Technology             | XLK        | 23.2%            |
| Consumer Staples       | XLP        | 7.2 %            |
| Real Estate            | XLRE       | 2.9 %            |
| Utilities              | XLU        | 3.3 %            |
| Health Care            | XLV        | 14.2%            |
| Consumer Discretionary | XLY        | 9.8 %            |



## How the Sector Insights Work

The figure below gives an example of the sector relative attractiveness insights provided in Section 4. For each of the 11 GICS sectors, a gauge shows the attractiveness of that sector relative to all other sectors in the S&P 500. When the gauge is in the green region, an overweight of that sector is warranted relative to the GICS weighting. Conversely, when the gauge is in the red region, an underweight of that sector is recommended. When the gauge is in the yellow region, the rough equivalent of the GICS sector weighting is recommended.

During a severe market correction, it is possible for all sectors insights gauges to show an underweight value. This is because our AI platform would generally recommend to be underweight stocks during such periods.

## Using Sector Insights in Practice

Our relative attractiveness gauges provide insights on expected relative attractiveness of each S&P 500 sector. **There are many ways in which these insights can be used in an equity portfolio.** For example:

- One simple approach to achieve a sector overweight is by purchasing the equivalent SPDR sector ETF in an equity portfolio.
- For more complex portfolios that can include individual stocks, a sector overweight insight can be a sign to increase the weighting of stocks that belong to that sector.
- Conversely, also for individual stock portfolios, a sector underweight insight may be an indication to reduce some stock positions that belong to that sector.
- A combination of the above may also be useful in certain types of client portfolios.

## Health Care

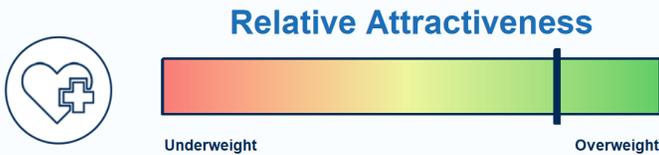


Figure 8

The sector insights can be used in a variety of ways and are meant **to provide an emotion-free, fact-based, machine-driven relative outlook on the S&P 500 sectors.** It is not a complete investment strategy and should never be used as such. Rather, it should be used as a way to complement an existing equity sectors investment strategy.



## 8. Appendix

### Appendix A - Columbus ETF Universe

The Columbus ETF universe is designed according to the following criteria:

- It is based on ETFs representing the major tradable asset classes available in global finance.
- Each ETF trades on the US markets and provides ample liquidity through its size.
- The level of correlation between each ETF is generally low enough to provide diversification.

The table below provides a short description of each ETF with their total assets and annual expense ratios.

| Symbol         | Assets         | Exp. Ratio   | ETF Name and Description                                  |
|----------------|----------------|--------------|---|
| SPY            | \$ 242B        | 0.09%        | SPDR S&P500 Index   |
| EFA            | \$ 79B         | 0.33%        | iShares MSCI EAFE Index                                   |
| VWO            | \$ 82B         | 0.14%        | Vanguard FTSE Emerging Market Equities                    |
| VXF            | \$ 58B         | 0.08%        | Vanguard Extended Market (US small & mid caps, ex-S&P500) |
| EWJ            | \$ 17B         | 0.48%        | iShares MSCI Japan Equities                               |
| VNQ            | \$ 65B         | 0.12%        | Vanguard REIT Index                                       |
| GLD            | \$ 32B         | 0.40%        | SPDR Gold Trust (Gold Bullion)                            |
| DBC            | \$ 1.9B        | 0.89%        | PowerShares DB Commodity Index Tracking Fund              |
| IEF            | \$ 7.3B        | 0.15%        | iShares 7-10 Year Treasury Bonds                          |
| TLT            | \$ 7.4B        | 0.15%        | iShares 20+ Year Treasury Bonds                           |
| TIP            | \$ 23B         | 0.20%        | iShares TIPS Bonds  |
| LQD            | \$ 38B         | 0.15%        | iShares iBoxx \$ Investment Grade Corporate Bond Fund     |
| PCY            | \$ 4.7B        | 0.50%        | PowerShares Emerging Markets Sovereign Debt Portfolio     |
| UUP            | \$ 515M        | 0.75%        | PowerShares DB US Dollar Bullish Index Fund               |
| SHY            | \$ 11B         | 0.15%        | iShares 1-3 Year Treasury Bonds (Primary Cash Asset)      |
| <b>AVERAGE</b> | <b>\$44.6B</b> | <b>0.31%</b> |   |

Note that certain asset classes were considered large enough to warrant being covered by two separate ETFs. This is the case with US stocks, where SPY provides exposure to the large capitalization stocks while VXF provides exposure to small and mid-sized capitalization stocks.

Similarly, EFA provides exposure to international large capitalization stocks, which includes a wide range of countries. How-

ever, we also added Japanese stocks as a separate ETF (EWJ) despite some exposure to the Japanese market through EFA via large multinational Japanese companies. This choice is justified because Japan is a major global equity market that is generally less correlated with other major developed equity markets. Thus, adding Japan to the mix provides an additional de-correlation component to the universe.



## Appendix B - ETF Universe Used by our Sector Insights

The Sectors universe is made up of the Select Sector SPDR ETFs, each tracking its related GICS sector making up the 11 sectors of the S&P 500 index. For more information about these ETFs, please consult the ETF sponsor's web site.

The table below provides a short description of each sector ETF with their total assets and annual expense ratios.

| <b>Symbol</b>  | <b>Assets</b>   | <b>Exp. Ratio</b> | <b>Description</b>                     |
|----------------|-----------------|-------------------|--|
| XLB            | \$ 4.33B        | 0.13%             | Materials Sector SPDR ETF              |
| XLC            | \$ 7.74B        | 0.13%             | Communication Services Sector SPDR ETF |
| XLE            | \$ 9.97B        | 0.13%             | Energy Sector SPDR ETF                 |
| XLF            | \$ 17.57B       | 0.13%             | Financials Sector SPDR ETF             |
| XLI            | \$ 7.68B        | 0.13%             | Industrials Sector SPDR ETF            |
| XLK            | \$ 27.23B       | 0.13%             | Technology Sector SPDR ETF             |
| XLP            | \$ 14.51B       | 0.13%             | Consumer Staples Sector SPDR ETF       |
| XLRE           | \$ 4.68B        | 0.13%             | Real Estate Sector SPDR ETF            |
| XLU            | \$ 11.8B        | 0.13%             | Utilities Sector SPDR ETF              |
| XLV            | \$ 24.65B       | 0.13%             | Health Care Sector SPDR ETF            |
| XLY            | \$ 11.85B       | 0.13%             | Consumer Discretionary Sector SPDR ETF |
| <b>AVERAGE</b> | <b>\$12.91B</b> | <b>0.13%</b>      |  |



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