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August 31, 2022

Key Insights For September

- **Year to date**, the Columbus tactical portfolio is down -6.4% compared to -13.5% for the 60/40 benchmark, delivering an **outperformance of +7.1%**.
- **PSIMON is increasing its exposure** to US equities, despite the recent setback in stocks.
- **PSIMON is doing so across the capitalization spectrum** by buying both the S&P 500 index (SPY) and the small/mid cap stock ETF (VXF) in the tactical portfolio.
- **Meanwhile, PSIMON is also hedging its stock exposure** with the US dollar bullish index ETF (UUP) for the Columbus tactical portfolio and the short term treasuries ETF (SHY) for the ESG portfolio.
- **PSIMON is not taking any meaningful positions in mid/long term bonds and treasuries** for this month.
- PSIMON is proposing an underweight recommendation in the **Technology sector**, and an overweight recommendation in the **Energy sector**.

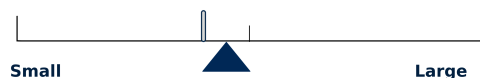
Factor Indicators

Value - Growth Factor



There is no meaningful difference between value and growth stocks at the moment.

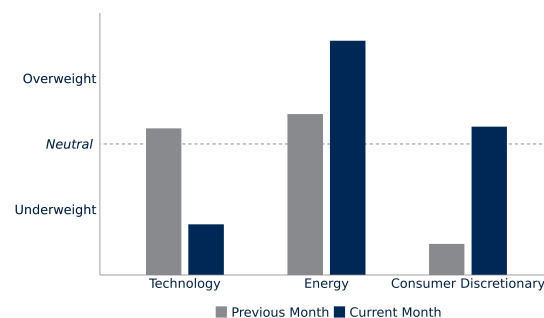
Small - Large Factor



There is no meaningful difference between small and large cap stocks at the moment.

Sector Indicator Highlights

Top Sector Changes



The top sector **changes** since last month include a decrease in the **Technology (XLK)** sector and an increase in the **Energy (XLE)** and the **Consumer Discretionary (XLY)** sectors.

With the exception of an overweight in Energy and an underweight in Technology, PSIMON generally does not have any major sector convictions for this month.

1. Market Outlook & Insights

Insights from PSIMON™

We regularly run PSIMON, our AI platform, to gain insights into market dynamics in addition to get specific forecasts. We summarize the key findings here.

What is PSIMON telling us this month?

1. Last month, PSIMON made a bet that fixed income was going to continue their recovery since June. Although that didn't pan out quite as expected, emphasizing fixed income provided a smoother ride than investing in stocks over the month.
2. PSIMON also started nibbling at stocks last month.
3. For September, PSIMON is increasing exposure to stocks, focusing essentially only on US stocks, across the capitalization range, by buying both SPY and VXF.
4. With the exception of tiny positions in EFA and VWO, PSIMON does not see the international equity market as compelling at this time.
5. For the low volatility ESG portfolio, PSIMON is buying the US equity market ETF (ESGU).
6. However, PSIMON is also hedging its stock positions using the US dollar bullish ETF (UUP) in the tactical portfolio, and using the short term treasuries ETF (SHY) in the ESG portfolio.
7. PSIMON sees these hedges as a good idea because of the increasing volatility in the stock market, given the increasing likelihood of an economic hard landing. For the tactical portfolio, The US dollar's correlation with equity market volatility provides a useful way to hedge against that volatility.

1. Market Insights

Interpreting PSIMON's Recommendations

For September, PSIMON is shifting to a stock / US dollar barbell position in the Columbus tactical portfolio, and a stock / short term treasuries in the low volatility ESG portfolio.

The investment logic is that stocks are more likely to rise than fall much further at this time, but this is unlikely to happen without volatility given the Fed's battle against inflation.

Both the US dollar position in the tactical portfolio and the short term treasury position in the ESG portfolio should be viewed as hedges against likely stock market volatility going into September.

Soft Landing RIP?

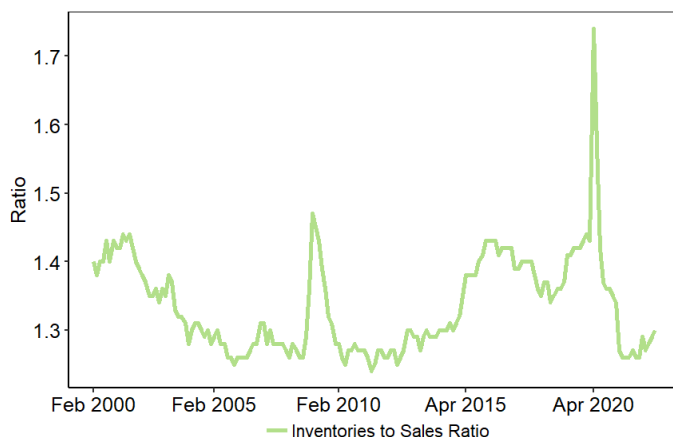
Last week's Fed meeting at Jackson Hole reminded investors that the Fed will do what it takes to win the battle against inflation - even if it means causing a recession.

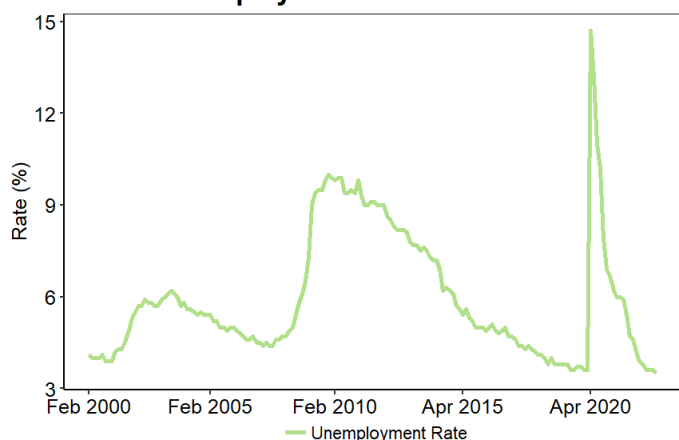
Chairman Powell said that "the Fed is not out of the woods: inflation is still elevated, there are still price pressures in the pipeline and the outlook for commodity prices is uncertain amid persistent geopolitical tensions."

Translation: we are likely to see some economic pain as the Fed does its job. A hard landing is now likely.

The next two charts show the inventory to sales ratio and the unemployment rate respectively.

Inventories to Sales Ratio at Historical Low



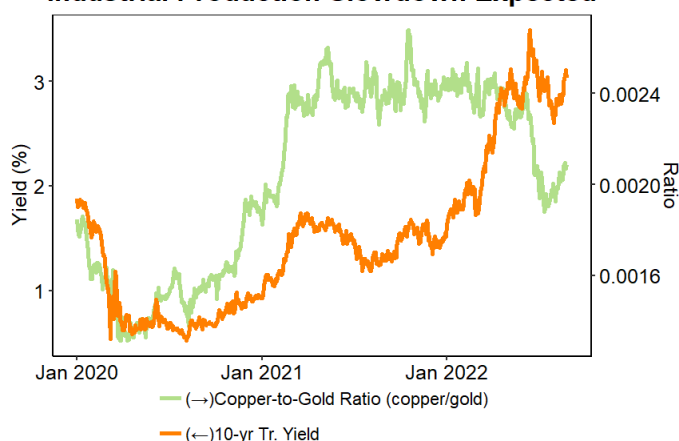
Unemployment at Historical Low

While retail inventories have risen lately, the inventory to sales ratio is still near its historical low. Similarly, unemployment is also hovering at its lows.

These charts show a strong underlying economy, which gives room for the Fed to maneuver to fight inflation going forward.

Industrial Production Slowdown Expected

The next chart shows the copper-to-gold ratio, along with the 10 year treasury yield.

Industrial Production Slowdown Expected

While the 10 year treasury rate is hovering around the 3% level, the recent drop in the copper-to-gold ratio implies that the commodities market expects a slowdown in industrial production.

This is in line with the expectation of a slowing economy.

However, note that the copper-to-gold ratio has increased somewhat lately, implying the slowdown will be contained.

Meanwhile, the TIPS market shows a further decrease in the 5 year breakeven inflation rate, as shown in the next chart.

The Fed Expected to Win the Battle on Inflation

Note how the breakeven rate is approaching its longer term average, while the recent up spike has definitely been contained.

This, combined with the Fed's determination to keep a lid on inflation, implies that the recent drop in stocks is not driven so much by P/E multiple compression. The price drop more likely reflects the prospect of lower future earnings, driven by the expected economic slowdown.

Taking the above arguments together by combining the strong underlying economic fundamentals with the expectation of a Fed-induced slowdown, it is reasonable to expect a somewhat harder landing than previously expected. Yet, this is not portraying a major economic landslide.

The implication is that stocks have likely suffered the larger part of their correction already.

Hedging Volatility

The next chart shows the VIX index, also colloquially known as the fear index, overlaid with the US Dollar bullish ETF (UUP).

We can see how the two generally track each other, forming a smile-like shape over the past two years.

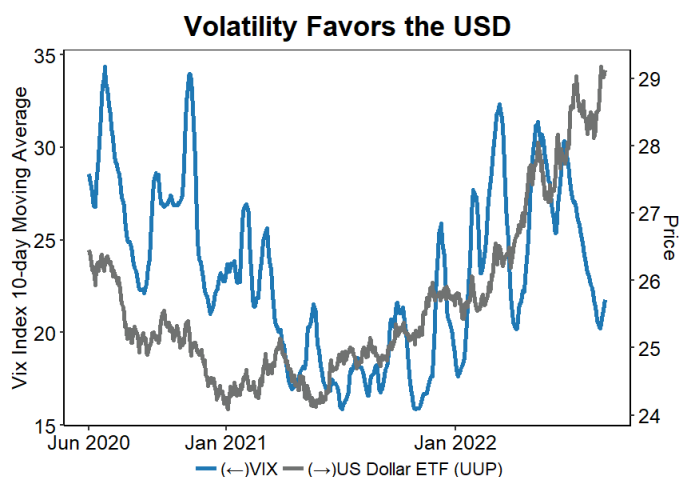
While the VIX index itself is very volatile (note: we show a 10-day smoothed moving average of the VIX in the chart), the US dollar bullish ETF is far less volatile, while it generally tracks the level of fear perceived by investors, driven by market and economic uncertainty.

This correlation implies that UUP can be effectively used as a hedge against stock market volatility in the current environment.

PSIMON is using that behavior to construct the Columbus tactical portfolio for this month, with a large position in the UUP ETF.

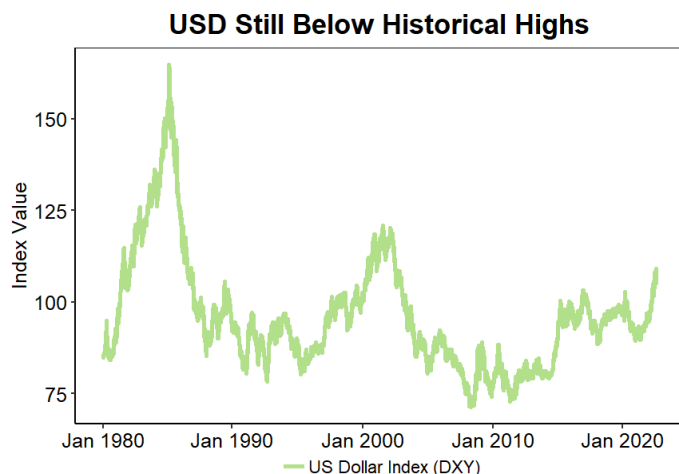
US Stocks Preferred Over International

The following chart shows the USD / EURO foreign exchange rate.



While the dollar has been making new recent highs, it is by no means at a historical high.

The next chart shows the DXY US dollar index. The index broke through its recent highs, but has not yet reached its earlier highs from the 2001 recession.



In other words, there is further potential upside for the dollar. Should the Fed need to act aggressively in the months ahead, a test of the 2001 highs becomes possible.

Geopolitics Weigh On the Euro



The Euro has been dropping precipitously against the dollar recently, and is currently at a recent low, after breaking through a series of lows established over the past decade.

This reflects the negative prospects for the Eurozone, driven by geopolitical tensions with Russia and skyrocketing energy prices in Europe.

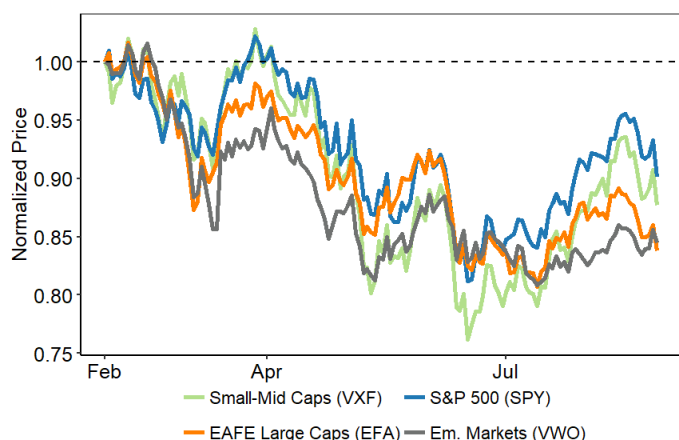
For example, European natural gas prices have recently hit 340 Euros per MegaWatt-Hour, from only 80 Euros / MW-h back in early June, driven by Russia's efforts to wean off Europe of its much needed Energy.

With the winter heating season just around the corner, it's unlikely energy prices will stabilize. In other words, the Eurozone is likely to continue with its economic struggles in the near term, driven by high energy prices and inflation.

Meanwhile, emerging markets are also struggling, not least due to China's slowdown with their draconian Covid rules.

The next chart shows how US stocks have fared compared to the rest of the world during the recent months.

US Stocks Preferred Over International



Both the S&P 500 and the small/mid caps ETF (VXF) have bounced back more vigorously since June, and continue to be ahead of emerging markets (VWO) and developed markets ex-US (EFA), despite the recent correction.

Quite simply, US stocks are the most attractive bunch at the moment, on a relative basis, driven by the US economy's better health compared with other developed markets and emerging markets taken as a group.

A Stock / Dollar Barbell Portfolio

Taking all these dynamics together, PSIMON is recommending a barbell-like portfolio, comprising of US stocks, including small/mid (VXF) and large caps (SPY), but with a hedge against volatility using the US dollar bullish index ETF (UUP).

Should inflation gets tamed relatively quickly, the stock portion should rally. If the Fed needs to be more aggressive than expected in raising rates in September, the UUP portion should rally, providing a hedge for the portfolio.

Similarly for the low volatility ESG portfolio, PSIMON is taking positions in the US equity market (ESGU) while hedging with the short term treasury ETF (SHY).

Sector Dynamics

In general, PSIMON isn't making any major bets with sectors for the upcoming month. The two exceptions are an overweight in Energy (XLE), and an underweight in Technology (XLK).

With the Fed's aggressive stance on fighting inflation, technology is likely to stay volatile (hence the underweight), while Energy is expected to continue its recent uptrend on a relative basis.

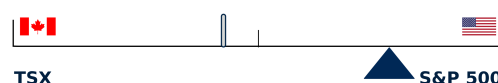
For Canadian Investors

The following box shows the US/Canada relative stock market attractiveness indicator, useful for portfolio managers investing in Canadian dollar portfolios.

TSX vs. S&P 500 Relative Attractiveness

The indicator below shows the relative attractiveness of the Canadian TSX index vs. the US S&P 500 index, adjusted for the USDCAD exchange rate.

Its purpose is to help Canadian portfolio managers evaluate the attractiveness of the US stock market for clients based in Canada.



2. Tactical Models Allocations

Columbus Tactical Model

The table below shows the Columbus Tactical model allocations for this month. It also shows the changes from the prior period and the maximum weights allowed for each ETF.

A **green up triangle and value** show an increase in allocation, whereas a **red down triangle and value** show a reduction since last month.

S&P500 SPY <i>max 50%</i>	19%	▲ 7%
Small & Mid Caps VXF <i>max 40%</i>	12%	▲ 12%
International Large Caps EFA <i>max 45%</i>	3%	▲ 3%
Japanese Equities EWJ <i>max 40%</i>	-	
Emerging Market Equities VWO <i>max 35%</i>	1%	▲ 1%
Commodities DBC <i>max 35%</i>	-	▼ 4%
Gold GLD <i>max 35%</i>	-	
Real Estate VNQ <i>max 40%</i>	1%	▲ 1%
20+ Year Treasuries TLT <i>max 45%</i>	-	▼ 20%
7-10 Year Treasuries IEF <i>max 60%</i>	-	
Corporate Bonds LQD <i>max 60%</i>	-	▼ 48%
Inflation-Protected Bonds TIP <i>max 60%</i>	-	▼ 4%
Emerging Market Bonds PCY <i>max 50%</i>	4%	▲ 2%
US Dollar Index UUP <i>max 60%</i>	58%	▲ 53%
Short Term Treasuries SHY <i>max 100%</i>	2%	▼ 3%

The *max value* shows the upper weight limit for each ETF during an ideal market situation, when expected returns are high and volatility is low.

Totals may not add up to 100% due to rounding errors, in which case an adjustment should be made to SHY.

The model portfolio trades at **market close on the last trading day of the month**, which is one day after the report is sent to subscribers.

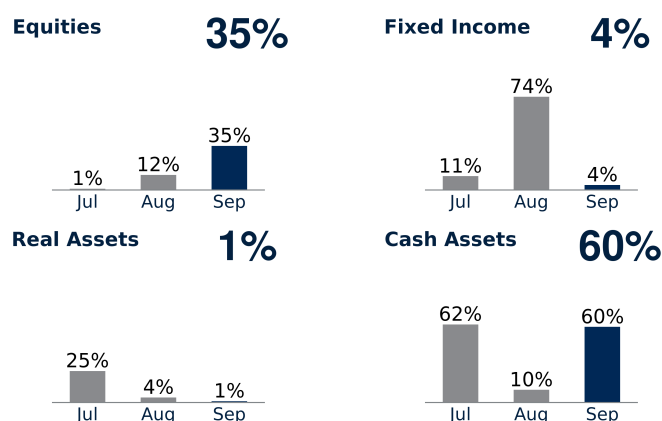
To learn more about how to use our Columbus Tactical model, please look at Appendix A - How to Use our Models. You can also find more details on the ETF universe for this model in Appendix B.

The chart below shows the summary allocations for the Columbus Tactical model. The allocation to each asset class is summed up in the chart.

ETFs are grouped as follows:

- **Equities:** SPY, VXF, EFA, EWJ and VWO.
- **Fixed Income:** TLT, IEF, LQD, TIP and PCY.
- **Real Assets:** GLD, VNQ and DBC.
- **Cash Assets:** SHY and UUP.

Columbus Allocation Summary



Low Volatility ESG Asset Mix Model

The table below shows the Low Volatility ESG Asset Mix model allocations for this month. It also shows the changes from the prior period and the maximum weights allowed for each ETF.

A **green up triangle and value** show an increase in allocation, whereas a **red down triangle and value** show a reduction since last month.

ESG MSCI EAFE Equities	ESGD	-	
	<i>max 100%</i>		
ESG MSCI Emerging Markets	ESGE	1%	▲ 1%
	<i>max 100%</i>		
ESG MSCI USA Equities	ESGU	38%	▲ 37%
	<i>max 100%</i>		
ESG US Aggregate Bonds	EAGG	1%	
	<i>max 100%</i>		
ESG Corporate Bonds	SUSC	-	▼ 77%
	<i>max 100%</i>		
US Short Term Treasuries	SHY	60%	▲ 39%
	<i>min 20%, max 100%</i>		

The *max value* shows the upper weight limit for each ETF during an ideal market situation, when expected returns are high and volatility is low.

Totals may not add up to 100% due to rounding errors, in which case an adjustment should be made to SHY.

The model portfolio trades at **market close on the last trading day of the month**, which is one day after the report is sent to subscribers.

Because this is a **low volatility model**, it dynamically controls downside risk by emphasizing US Short Term Treasuries (SHY) whenever market volatility warrants it.

Moreover, the allocation to SHY has a set minimum of 20%, which effectively puts an upper exposure limit at 80% for equities and fixed income in aggregate.

To learn more about how to use our Low Volatility ESG Asset Mix model, please look at Appendix A - How to Use our Models.

You can also find more details on the ETF universe for this model in Appendix B.

The chart below shows the summary allocations for the Low Volatility ESG Asset Mix model. The allocation to each asset class is summed up in the chart.

For this model, ETFs are grouped as follows:

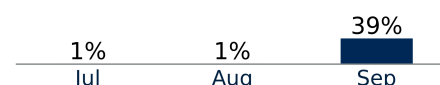
- **Equities:** ESGD, ESGE, and ESGU.
- **Fixed Income:** EAGG and SUSC.
- **Cash Assets:** SHY.

Unlike the Columbus Tactical model, the Low Volatility ESG Asset Mix model is simpler by construction and does not include any real assets.

Low Vol ESG Allocation Summary

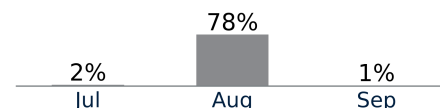
Equities

39%



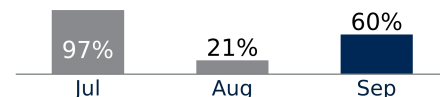
Fixed Income

1%



Cash Assets

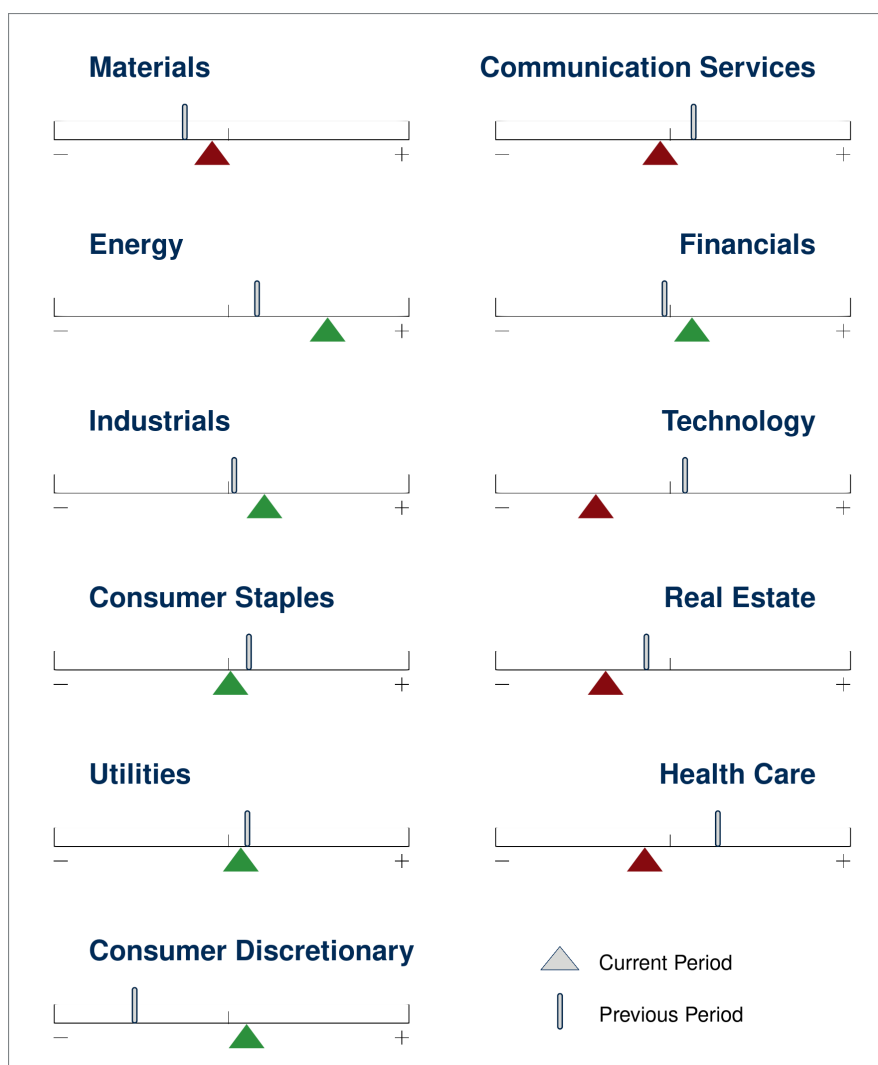
60%



3. Sector Outlook

Sector Relative Attractiveness

The figure below shows the attractiveness of each sector **relative to the S&P 500 index**.



The triangle indicates the current attractiveness level, whereas the vertical bar indicates that sector's attractiveness forecast made in the previous period (last month).

A **green triangle** shows an overweight recommendation relative to the S&P 500. A strong overweight recommendation is associated with a triangle that is furthest to the right.

Conversely, an underweight is recommended when the **triangle is red** and on the left side of the indicator.

When the triangle is in the middle, a neutral weight relative to the S&P 500 is recommended.

For details on the S&P 500 GICS sector weightings, please see **Appendix B**.

4. Performance Summary

Columbus Tactical Model Performance

The chart below shows the Columbus Tactical model performance since April 2007.

The vertical dotted line shows when the first version of PSIMON, our AI platform, was released for live trading.

The blue curve shows the model performance. The portion of the curve on the left of the vertical dotted line is based on a backtest of the **latest release of PSIMON**, while the portion on the right of the dotted line represents the live model since the original release of PSIMON.

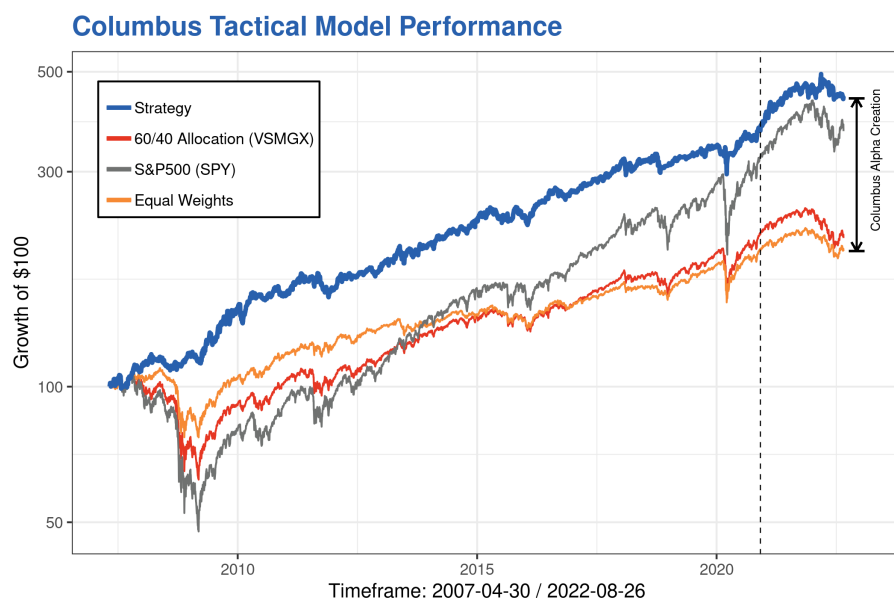
Live trading using PSIMON AI began on November 30, 2020.

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 the Columbus model 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 period shows how the model generates returns above and beyond the Equal Weights no-skill portfolio over time.

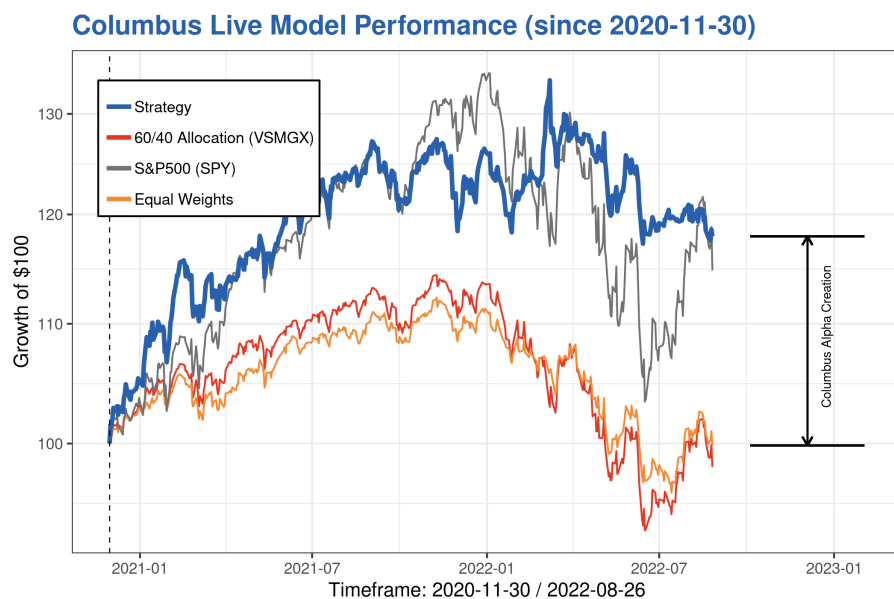
As we continue to improve PSIMON by adding more training data, new economic and financial indicators, and improving our machine learning forecasters with the latest technological breakthroughs, **we expect the performance of the Columbus model to keep improving over time.**



The next page shows more details of the Columbus live performance, along with performance statistics for the model and its benchmarks.

Columbus Model Live Performance

The following chart shows the Columbus model performance since it started trading live on November 30, 2020 using our PSI-MON AI platform.



Columbus Model Performance Summary Statistics

This table provides a summary of the model performance statistics.

	Columbus	60/40 Allocation	S&P500	Equal Weights
Annualized Return (%)	10.1	5.08	8.9	4.63
YTD Gain / Loss (%)	-6.46	-13.51	-14.03	-10.24
Maximum Drawdown (%)	-13.93	-41.11	-55.2	-29.82
Annualized Standard Dev. (%)	10.19	12.74	20.51	9.59
Positive Rolling Years (%)	95.29	79.35	83.34	81.6
Annualized Sharpe Ratio	0.99	0.4	0.43	0.48
MAR Ratio	0.73	0.12	0.16	0.16
1 Year Return (%)	-4.91	-12.07	-7.88	-8.47
3 Year Annualized Return (%)	9.46	5.13	13.91	4
5 Year Annualized Return (%)	8.57	5.28	12.58	4.47
Live Return (since 2020-11-30) (%)	17.93	-1.85	14.78	-0.15

Low Volatility ESG Asset Mix Model Performance

The chart below shows the Low Volatility ESG Asset Mix model performance since April 2007. This is based on the **latest re-release of PSIMON, our AI platform**.

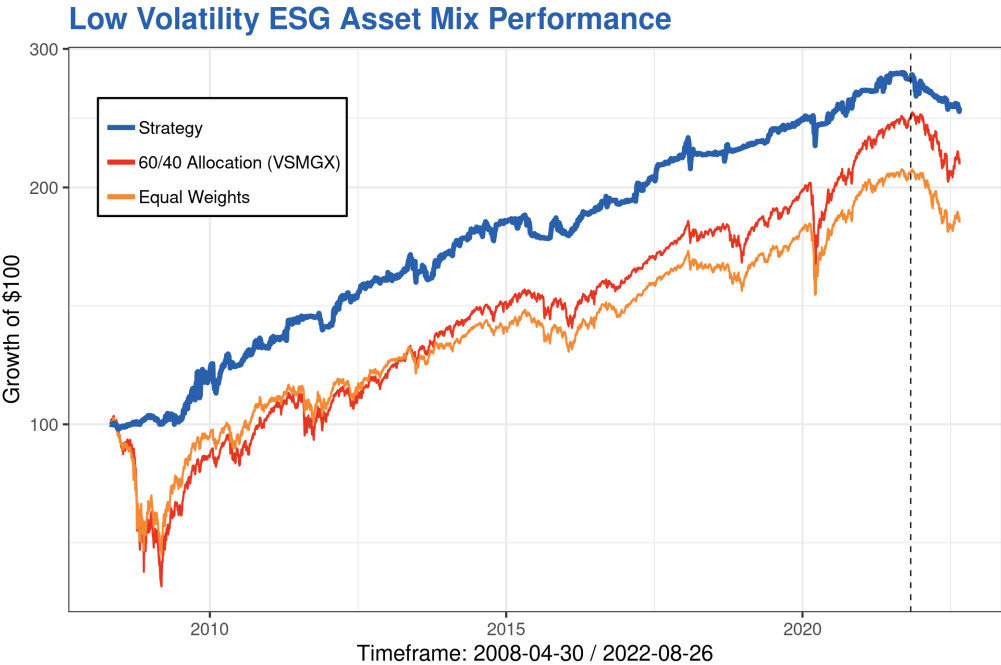
The blue curve shows the model performance based on the most recent software release. The red curve is the Vanguard Moderate Growth ETF (VSMGX), which provides a 60/40 allocation between stocks and bonds. The orange curve is the equal weights portfolio created by equally weighting all 6 ETFs forming the Low Volatility ESG model investment universe.

In addition to being ESG-qualified through the judicious selection of its ETF universe, this model seeks to provide returns

similar to a 60/40 balanced portfolio, while **greatly reducing its volatility**, with a particular focus on containing the magnitude of the drawdowns.

As we continue to improve PSIMON 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 Low Volatility ESG model to keep improving over time**.

The table below provides a performance summary of the model compared to the same benchmarks shown in the chart.



Low Volatility ESG Model Performance Summary Statistics

This table provides a summary of the model performance statistics.

	ESG	60/40 Allocation	Equal Weights
Annualized Return (%)	6.63	5.45	4.21
YTD Gain / Loss (%)	-7.83	-13.51	-13.41
Maximum Drawdown (%)	-10.78	-39.29	-33
Annualized Standard Dev. (%)	6.9	12.75	10.83
Positive Rolling Years (%)	90.22	85.1	81.22
Annualized Sharpe Ratio	0.96	0.43	0.39
MAR Ratio	0.62	0.14	0.13
1 Year Return (%)	-10.18	-12.07	-13.13
3 Year Annualized Return (%)	1.8	5.13	3.08
5 Year Annualized Return (%)	3.23	5.28	3.2

Appendix A

How to Use Our Service

Our service provides you with an outlook on the market for the upcoming month, supported by recommended allocations for two strategies and a recommendation for all 11 S&P 500 sectors.

The information is presented as follows:

1. The front page provides a summary of key take-aways, supported by PSIMON's outlook:
 - The top section provides a summary of key take-aways for the upcoming month. When appropriate, we also include a box for news and updates about our models and strategies.
 - The bottom section includes a bar chart showing the most relevant changes in sector outlooks for the upcoming month. It also includes indicators showing the popular factors Value vs. Growth and Small caps vs. Large caps.
2. Next, Section 1 provides market insights and a summary of PSIMON's outlook for the upcoming month.
 - The box provides the key highlights of PSIMON's outlook for the upcoming month.
 - Next, we interpret PSIMON's outlook, which typically includes a general context as well as some more detailed analysis on specific recommendations. This section helps you understand in plain English why PSIMON is making certain changes to its model allocations and indicators. This is all based on PSIMON's analysis and outlook.
 - For Canadian portfolio managers, we include an indicator showing the relative attractiveness of the Canadian vs. the US equity market, adjusted for the exchange rate.
3. Section 2 provides the details on our tactical models. These models are 100% automated and run on our PSIMON AI platform. They were developed to help adjust client portfolios to the prevailing market trends to help capture alpha while reducing exposure to risk. Two models are included: the Columbus Tactical model and the Low Volatility ESG Asset Mix model. Both models adapt to the market every month and trade the day after the report is published.
 - The Columbus model is a tactical global allocation strategy that includes 15 ETFs, each representing
- a global asset class. The ETFs are grouped into stocks, bonds, real assets and cash assets. Up to 8 ETFs are selected each month.
- The Low Volatility ESG Asset Mix model includes 6 ESG-qualified ETFs, grouped into stocks, bonds and cash assets. All 6 ETFs may be part of the recommended portfolio at the same time, but their relative weights change from month to month.
- Details on these ETFs may be found in Appendix B.
4. Section 3 provides an outlook for each 11 GICS sector relative to the S&P 500. All 11 sectors are analyzed and an outlook is provided by PSIMON in the form of a simple indicator. These indicators show a relative attractiveness of the sector compared with the S&P 500. The appendix shows the list of ETFs used to represent these sectors, providing a simple way to over- or under-weight particular sectors as desired.
5. Section 4 provides the historical performance of each model, based on the latest PSIMON software release. Please contact us should you have an interest in learning about the performance of prior models.

Helping You Interpret Key Market Dynamics

PSIMON produces a lot of useful information every month, all of which is **free of opinions and human biases**.

You will find many **data-driven commentaries and discussions** throughout the report. These commentaries are meant to help you understand and bring clarity on the most relevant market dynamics at play.

We generally use charts and tables to illustrate key points. **Feel free to use these illustrations with your clients**, especially if you find them helpful to support your client discussions.

Ultimately, our objective is to help you **act with clarity and conviction** when you consider trades in client portfolios.

We are here to help, and we are always open to suggestions to improve our service. So don't hesitate to contact us with your suggestions.

Preserve Capital and Enjoy Consistent Returns

PSIMON was developed to help you preserve client capital during bear markets while also delivering consistent and compelling performance over the long run.

These dual objectives are achieved through **active tactical allocation** to adapt to the prevailing market conditions.

Columbus Tactical Model

Columbus Delivers Uncorrelated Returns

The Columbus Tactical model was developed to deliver 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 asset managers such as large institutions and pension funds.

Rather than solely trying to maximize returns during bull markets, which often comes with amplified losses during bear markets, these asset managers use different sources of returns to build portfolios that are **resilient to global economic uncertainty**.

The Columbus model was developed with this idea in mind by providing a simple way for portfolio managers to deliver uncorrelated returns within their client portfolios.

The primary objectives of the model 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 deliver returns during those times when uncorrelated returns truly matters to overall performance.

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 model 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 model trades monthly on the last trading day of the calendar month.

Columbus is Not a Market Timer

The Columbus model was **NOT developed to be a market timer**. Unlike a market timer, it may 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

Columbus may 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 allocation limits have been imposed on each ETFs, discussed in Section 2. These limits are dynamically reduced based on the expected volatility of each ETFs. While this provides a way to manage concentration risks into each ETF, it does not preclude the possibility of allocating 100% of the portfolio into equity ETFs.

For these reasons, Columbus should not be used as a portfolio core but **rather as a tactical sleeve to complement a client's core portfolio**.

Low Volatility ESG Asset Mix Model

Easy-To-Implement ESG Model

The low volatility ESG model universe was selected to simplify the task of ESG investing. We selected ESG optimized ETFs sponsored by iShares, each representing a broad asset class.

The equity asset classes represented include the US stock market (ESGU), international developed stock markets (ESGD) and emerging markets (ESGE). Bonds asset classes are represented with US aggregate bonds (EAGG) and corporate bonds (SUSC). Cash assets is represented with short term US treasuries (SHY).

Seeking Performance at Low Volatility

The Low Volatility ESG Asset Mix model is designed to rotate among these 6 ETFs as market conditions warrant.

The model has a preset minimum weight of 20% in SHY, useful as an insurance against swift, unforeseen and negative market shocks. However, the remaining 80

To manage market volatility, the model makes a careful assessment of the current market situation and its expected volatility in the short term.

Only when all lights are showing green - that is, low expected short term volatility - will the model invest up to 80% in the equity ETFs. Otherwise, it will seek refuge in SHY to protect against potential expected volatility.

As reference, the model allocated over 45% of its historical weightings in SHY to protect against such volatility.

Since it minimally holds 20% in SHY at any time, this implies that an additional 25% has been added, on average, to dynamically counter expected volatility bouts over the period since April 2007.

Sector Outlook Model

The Sector Outlook model provides a forecast on the relative attractiveness of the S&P 500 equity sectors over the next month.

By surgically over-weighting or under-weighting sectors in the S&P 500, the model can help you create additional alpha for your client portfolios.

Each of the 11 sectors has an associated ETF, making it easy to trade sectors directly. Appendix B includes the ETF list of along with their most recent published weight in the S&P 500 index.

How the Sector Outlook Works

The figure below provides an example of the Sector Outlook indicators.

For each sector, an indicator shows the attractiveness of that sector relative to all other sectors in the S&P 500.

The triangle indicates the current attractiveness level, whereas the vertical bar indicates that sector's attractiveness forecast made in the previous period (last month).

A **green triangle** shows an overweight recommendation relative to the S&P 500. A strong overweight recommendation is associated with a triangle that is furthest to the right.

Conversely, an underweight is recommended when the **triangle is red** and on the left side of the indicator.

When the triangle is in the middle, a neutral weight relative to the S&P 500 is recommended.

This same indicator format is used for all 11 sectors.



Sector Indicator Example

Using the Sector Outlook in Practice

The Sector Outlook can be used in an equity portfolio in several ways, including:

- The simplest approach is to purchase the equivalent SPDR sector ETF in an equity portfolio to overweight your portfolio in that sector.
- For portfolios that include individual stocks, an overweight signal can indicate to increase the weighting of stocks that belong to that sector.
- Conversely, also for individual stock portfolios, a sector underweight may indicate 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.

Market Factor Indicators

We also provide two market factor indicators on the front page. These are meant to help you assess which factor tends to prevail in the current market environment.

These factors are very broad in scope, and may occasionally be at odd with PSIMON's outlook. This is because PSIMON's outlook is generally far more surgical in scope, while the factors are represent broader market tendencies.

For all indicators, the **blue triangle** shows the current outlook while the vertical bar shows the previous month's indicator value as reference.

Small - Large Factor Indicator

This indicator provides a sense of whether small or large caps are currently in favor.



Value - Growth Factor Indicator

This indicator provides a sense of whether value or growth stocks are currently in favor.



US/CAN Relative Attractiveness

For Canadian Portfolio Managers

At the end of Section 1, we provide a box that includes an indicator showing the relative attractiveness of the Canadian stock market vs. the US stock market. This indicator is also adjusted for the USDCAD exchange rate, to express the US market as experienced from the perspective of an investor based in Canada, investing in Canadian dollars.

We developed this indicator for our Canadian portfolio manager audience to help them evaluate US market opportunities from the Canadian perspective.

This indicator is intended to help Canadian portfolio managers manage the un-hedged currency exposure to the US stock market.



Appendix B

ETFs Used by Our Models

Columbus Tactical Model ETF List

Our Columbus Tactical model uses a universe of 15 ETFs to represent the major asset classes available in global finance. These are some of the largest and most liquid ETFs available, and they all trade on the US market.

The US stock asset class is covered by two ETFs: the S&P500 ETF (SPY), representing large cap stocks, and the extended market ETF (VXF), representing small and mid cap stocks.

The international stock market is split among three ETFs: EFA to provide exposure to international developed market stocks (ex-US), VWO to provide exposure to emerging market stocks, and EWJ to cover the Japanese market which tends to have a relatively low correlation to other stock markets.

US Treasuries are represented by TLT and IEF, while inflated-protected bonds are represented by TIP. LQD is used to represent investment grade corporate bonds while PCY is used for emerging market sovereign bonds.

Real assets are represented by VNQ (real estate), DBC (commodities) and GLD (gold). For cash assets, we use short term treasuries (SHY) and the US dollar bullish ETF (UUP).

The table below provides a short description of all ETFs comprising the Columbus investment universe along with their total assets and annual expense ratios. Please refer to the ETF sponsor's web site for details.

Symbol	Exp. Ratio	ETF Name and Description
SPY	0.09%	SPDR S&P500 Index
EFA	0.32%	iShares MSCI EAFE Index
VWO	0.10%	Vanguard FTSE Emerging Market Equities
VXF	0.06%	Vanguard Extended Market (US small & mid caps, ex-S&P500)
EWJ	0.51%	iShares MSCI Japan Equities
VNQ	0.12%	Vanguard REIT Index
GLD	0.40%	SPDR Gold Trust (Gold Bullion)
DBC	0.82%	PowerShares DB Commodity Index Tracking Fund
IEF	0.15%	iShares 7-10 Year Treasury Bonds
TLT	0.15%	iShares 20+ Year Treasury Bonds
TIP	0.19%	iShares TIPS Bonds
LQD	0.14%	iShares iBoxx \$ Investment Grade Corporate Bond Fund
PCY	0.50%	PowerShares Emerging Markets Sovereign Debt Portfolio
UUP	0.68%	PowerShares DB US Dollar Bullish Index Fund
SHY	0.15%	iShares 1-3 Year Treasury Bonds
AVERAGE	0.29%	

Sector Outlook ETF List

The S&P 500 is composed of 11 sectors defined by the Global Industry Classification Standard (GICS).

We use the Select Sector SPDR ETFs to track these sectors. PSIMON uses these ETFs to produce the Sector Outlook indicators.

As of September 30, 2021, the GICS sector weightings were as shown in the table below.

Please consult the ETF sponsor's web site for more information.

Symbol	Exp. Ratio	GICS Sector Weight	Description
XLB	0.13%	2.5 %	Materials Sector SPDR ETF
XLC	0.13%	11.3 %	Communication Services Sector SPDR ETF
XLE	0.13%	2.8 %	Energy Sector SPDR ETF
XLF	0.13%	11.4 %	Financials Sector SPDR ETF
XLI	0.13%	8.0 %	Industrials Sector SPDR ETF
XLK	0.13%	27.6 %	Technology Sector SPDR ETF
XLP	0.13%	5.8 %	Consumer Staples Sector SPDR ETF
XLRE	0.13%	2.6 %	Real Estate Sector SPDR ETF
XLU	0.13%	2.5 %	Utilities Sector SPDR ETF
XLV	0.13%	13.3 %	Health Care Sector SPDR ETF
XLY	0.13%	12.4 %	Consumer Discretionary Sector SPDR ETF
AVERAGE	0.13%		

Low Volatility ESG Asset Mix ETF List

We selected a list of low cost ETFs provided by iShares to develop the universe of our Low Volatility ESG Asset Mix model.

The model always selects these 6 ETFs, but their realtive weights will change from month to month, depending on the

prevailing risk/return situation in the market.

To learn more about these ETFs and the methodology they use to optimize for their respective ESG mandates, please consult the ETF sponsor's web site.

Symbol	Exp. Ratio	ETF Name and Description
ESGU	0.15%	iShares MSCI USA ESG Optimized ETF
ESGD	0.20%	iShares MSCI EAFE ESG Optimized ETF
ESGE	0.25%	iShares MSCI Emerging Markets ESG Optimized ETF
EAGG	0.10%	iShares ESG US Aggregate Bond ETF
SUSC	0.18%	iShares ESG USD Corporate Bond ETF
SHY	0.15%	iShares 1-3 Year Treasury Bonds
AVERAGE	0.17%	

Appendix C

About PSIMON™

PSIMON is Laplace Insights™ proprietary machine learning platform used to produce the investment outlooks and tactical models found in this document.

It is the result of 6 years of research in partnership with the AI research team at the University of Sherbrooke in Canada. It includes an ensemble of state-of-the-art machine learning algorithms that were specifically developed to address the unique challenges of predicting financial markets.

PSIMON Adapts to Changing Markets

Our AI research is focused on developing and improving machine learning algorithms that can learn the market in real-time and adapt to regime changes and structural breaks as they occur.

For example, our models were developed to perform well in challenging situations such as the Covid crash in March 2020, as well as more traditional bear markets such as the 2008 financial crisis.

Our models adapt to both slow and fast changing market situations, enabling them to perform well during both types of crises. This includes history's shortest bear market in March 2020, and more traditional bear markets that take longer to unwind such as the 2008 Financial Crisis or even the Dot-Com crash of 2000.

Learning Fast and Slow

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

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

PSIMON is built using an ensemble of many predictive models, each with the ability to provide forecasting value and insights in specific types of market situations.

At one extreme, PSIMON includes models that are quick to learn and adapt to the market's rapidly changing dynamics, enabling it to react to major market shifts such as the Covid crash of March 2020.

On the other hand, PSIMON also includes models that have been trained using decades of data, enabling it to capture the lessons of history. In other words, PSIMON can recognize and adapt to these situations as they happen in real-time.

Combining models that can learn and adapt quickly with models that have learned and endured the lessons of history gives PSIMON the unique ability to deliver performance in both **stable and rapidly changing markets**, as they occur at different times.

Continuously Improving PSIMON

Our research team is continuously at work to improve the algorithms used by PSIMON, providing it with more depth and breadth of analysis.

This not only results in better performance, but it also makes PSIMON more robust to future, *unseen-before events*, while giving it the resilience to quickly bounce back during important market stresses.

We develop and release new models and improved versions of PSIMON on a regular basis. These efforts ensure that PSIMON keeps getting better over time, providing you with the value you seek for your clients.

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