

August 28, 2020

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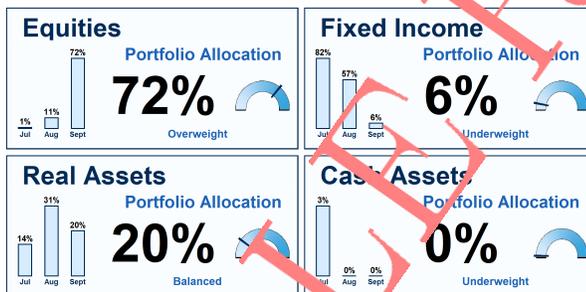
September 2020 Global Allocation Research

- The Fed shifted its policy to focus on the labor market recovery while tolerating some inflation, and stated that ultra low rates are here to stay for a long period.
- Our Columbus Global Allocation Strategy is indicating a **growth bias**. Volatility is down to normal levels, and stocks are considered attractive.
- Our S&P 500 Sector Insights is emphasizing **Technology, Consumer Discretionary and Materials** on a relative basis, although **Industrials, Energy and Financials** have also moved to neutral weight. We may see a **shift in relative sector leadership coming soon**.
- This month, we are introducing a dashboard on this page to provide a quick overview on the Columbus Allocations and the Sector Insights.

This Month's Recommendations

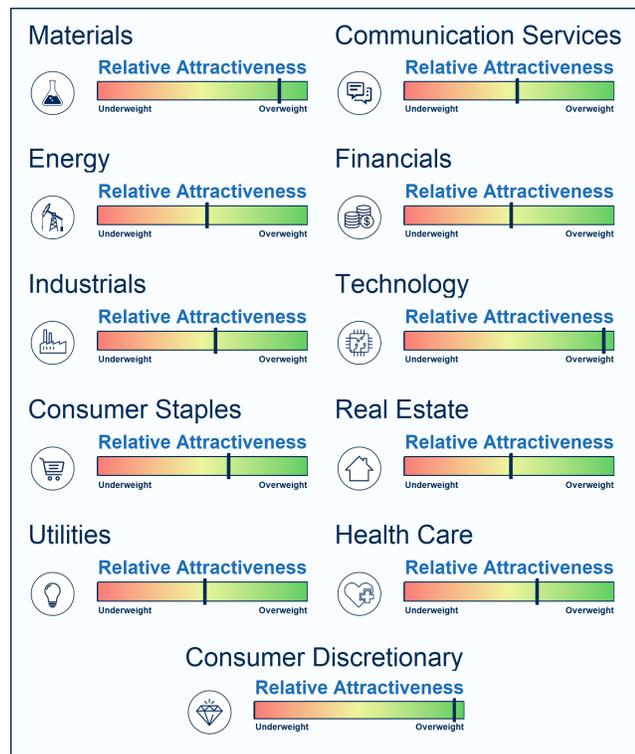


Columbus Allocation Summary



ETF	Cur. Weight (%)	Alloc. Chg (%)
SPY	11%	5%
VXF	23%	23%
EFA	-	-
EWJ	19%	14%
VNQ	20%	20%
DBC	-	-
GLD	20%	-11%
VNQ	-	-
IEF	-	-39%
IEF	-	-6%
LQD	1%	-7%
TIP	-	-4%
PCY	5%	5%
UUP	-	-
SHY	-	-
Total	99%	

Sector Insights Summary

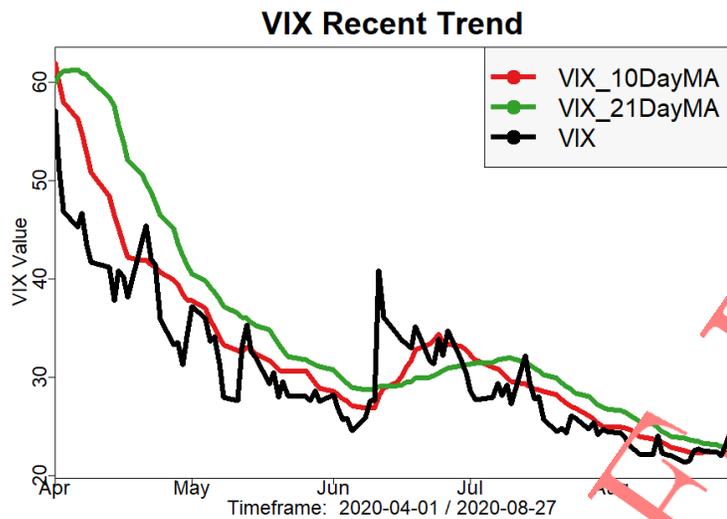




1. Insights Summary

Recovery or Investor Complacency?

Volatility is now hovering around levels that are historically considered normal, in a range between 20 and 25. The volatility scare that happened last June, when the VIX hit over 40 after a nice downtrend to the mid-20s is now behind us. Meanwhile, the VIX moving averages are showing a nice downtrend, as seen by the 10 day moving average staying below the 21 day moving average in the chart below. The open question is whether the economy is truly healing or are we witnessing a case of investor complacency.



Covid Part 2

The summer Covid infection wave in the US seems to be under control for now. Meanwhile, Europe is seeing a resurgence, but governments are doing their best to be proactive, especially with the reopening of schools that is likely to cause at least some resurgence in infection rates. However, the past few months have shown that markets are looking beyond short term infection rates when pricing financial assets.

An Extremely Dovish Fed

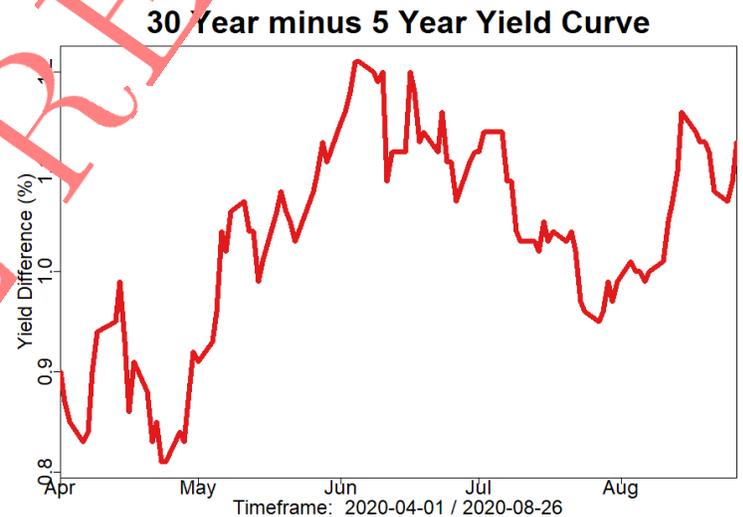
Chairman Jay Powell announced yesterday that the Federal Reserve is shifting its policy and will tolerate higher inflation going forward, above its stated 2% target. A key objective of the Fed is to sustain the economic conditions necessary to bring the labor market back to pre-Covid levels.

The Fed reframed its views on employment, stating that the goal is now a "broad and inclusive one", highlighting its sensitivity to economic inequality in the US.

This is an important shift for the Fed and shows a strong willingness to actively pin down short term rates for an extended period in order to give time for the economy and the labor markets to fully heal.

Long Term Inflation Expectations

The chart below shows the 30 year minus 5 year treasury yield curve. It illustrates how the spread over these two treasury yields has been widening recently, consistent with an increase in long term inflation expectations. This movement in the treasury markets, supported by Powell's statement about short term rates and inflation, has important long term implications for financial assets that provide protection against inflation, such as gold and inflation protected treasuries (TIPs). Conversely, long term treasuries are very expensive and provide essentially no value in the current context, while offering very real downside potential.



Growing Backlog, New Orders and Production

The July ISM Report (Institute for Supply Management) showed a reviving manufacturing sector. Its broadly followed PMI index was up 1.6% to 54.2%, indicating expansion in the overall economy (a number over 50% means expansion). Importantly, New Orders and Production are both growing faster than the previous month, showing an acceleration in economic activity, while Customer Inventories continue to be very low.

On the other hand, the report shows manufacturing employment to be contracting further. This provides another key reason for the Fed to keep interest rates very low for a long period in order to reverse the employment trend and eventually bring



the labor market back to pre-Covid levels. In essence, we are witnessing a jobless economic recovery at the moment.

A Weakening US Dollar

The Fed's massive injection of liquidity combined with sustained ultra low rates is driving a depreciation of the US Dollar relative to other currencies. A lower dollar is good news for exporting businesses since it gives them pricing power when selling their goods in overseas markets. It also has important implications for emerging markets in particular, since many emerging market governments and businesses are financing their debts using US Dollars.

More to the point, a depreciating dollar means that the debt overhang of these countries and firms is also depreciating in value. Combining this effect with ultra low rates for an extended period (which brings a low debt service cost), and we have a compelling case for emerging countries and companies to borrow more using US dollar denominated debt to fuel their recovery and business expansion. In other words, we can expect this phenomenon to drive performance in emerging market stocks and sovereign debt portfolios over the near term.

1.1. Columbus Analysis of the Situation

The Columbus Allocation Dashboard in Section 3 (and also on page 1) provides an allocation by asset class for the Columbus strategy. A quick glance at this dashboard reveals that Columbus is now in growth mode with a substantial allocation to stocks. This corroborates with our analysis above that the economic expansion is broadening, fueled by a weakening US dollar and a clear message from the Fed that ultra low interest rates are here to stay, even if inflation starts to pick up.

Consistent with this analysis, Columbus is maintaining a very low allocation to fixed income and no allocation to long term US treasuries (TLT and IEF). The specific ETF allocations can be seen in the Columbus ETF Allocation Table in Section 3. Most of Columbus' fixed income allocation is in emerging markets sovereign debt (PCY), which holds US denominated debt from 20 emerging market countries. Again, this is consistent with our above analysis that a depreciating dollar is good news for emerging market debt.

Gold Still has Glitters

In addition, Columbus is keeping a substantial allocation to gold (GLD), essentially holding the maximum allocation level currently allowed by the Columbus risk management algorithm (see Figure 4 in Section 5 for details). This again corroborates with our analysis above that shows an increasing risk of inflation in the future, as interpreted by the yield curve shown on

the previous page. Gold provides an insurance against inflation and, because it is priced in dollars, it also protects against a depreciating dollar, again corroborating with our analysis.

As explained in Section 7, the Columbus strategy can make somewhat extreme asset allocation changes since it is intended as a tactical allocation in a portfolio. More precisely, Columbus offers a **highly liquid, low-cost, easy-to-implement and transparent tactical allocation strategy** to use in combination with an otherwise balanced portfolio.

Insights From our Bubble Chart

Figure 3 in Section 5 shows the Expected Returns - Volatility Bubble Chart. This chart brings further insights into the market and helps to understand the rationale behind the Columbus asset allocation. The chart shows the expected returns for each asset in the universe along with the volatility each of these asset is expected to suffer over the upcoming month. In general, we want to own ETFs located in the upper quadrants (showing high expected returns) and at lower expected volatility.

We can see how gold (GLD) offers reasonable expected returns at reasonable volatility, thus deserving its place in the portfolio. Japanese stocks (EWJ) and emerging market stocks (VWO) both offer a somewhat similar risk / reward profile in the bubble chart. Our small / midcap stock ETF (VXF) shows more upside potential albeit at higher expected volatility, so it also finds itself with a meaningful position in the portfolio.

Conversely, the S&P500 index ETF (SPY) does not offer as much expected reward for its risk level, so Columbus has made a smaller allocation to SPY compared to the other stock ETFs this month.

As mentioned in our analysis earlier, a compelling case can be made to own emerging market stocks because of the depreciating dollar and ultra low rates.

1.2. S&P 500 Sector Insights

Sector Performance and Economic Dislocations

During periods of economic dislocations, some businesses thrive while others struggle for survival, accelerating the creative destruction process.

As the economy recovers in fits and starts over the near term, the knock-on effects of dislocation will continue to take hold, offering many opportunities to profit from the relative performance of key sectors.



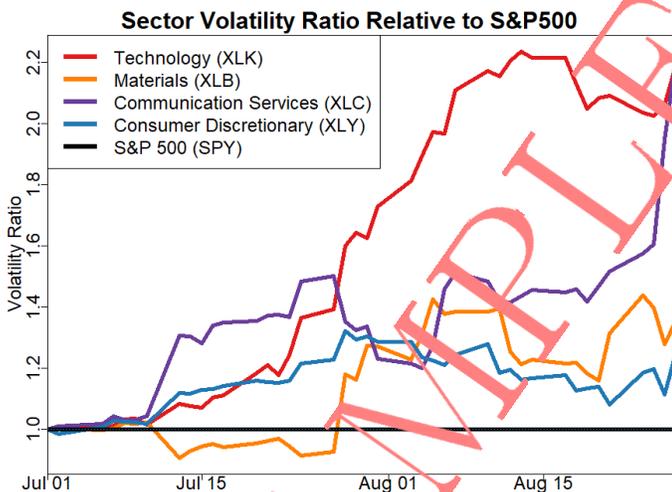
Our Sector Insights shows the **relative attractiveness** for each of the 11 sectors of the S&P 500 index, as analyzed by our Laplace AI™ platform. Our Sector Insights Dashboard is found in **Section 4**, while **Section 7** illustrates how to use these insights in practice for the benefit of the stock portion of client portfolios.

The **Sector Insights Dashboard in Section 4** shows that the most attractive sectors on a relative basis continues to be the **Technology and the Consumer Discretionary sectors**, albeit not without substantial concentration risks as discussed below. In addition, the **Materials sector** is now greatly favored, while the **Energy, Financials and Industrials sectors** have all moved from underweight to an equal weight allocation. Meanwhile, **Communication Services has moved down** from overweight to an equal weight allocation.

Technology Sector Volatility

In last month's report, we discussed how the S&P 500 recovery was concentrated in a few mega cap tech stocks and the oversized impact these tech titans had on the index due to their index weights.

The chart below shows the ratio of the volatility between key sector ETFs and the S&P 500, all normalized at July 1st. This chart essentially tells us how the volatility of these sectors has changed, relative to the S&P 500 volatility, since July 1st.



We can see how the **volatility of the Technology (XLK) and the Communication Services (XLC) sector ETFs** have more than doubled over the past two months, relative to the S&P 500. This is a telltale sign that the risk in these sectors **has increased substantially over the recent weeks**. It is also worthwhile to note that these sectors are dominated by a few key stocks. For example, Google/Alphabet and Facebook together make up 64%

of the Communications Services sector while Apple and Microsoft together make up 45% of the Technology sector, further adding to these sector's risk exposure.

It is therefore prudent at this time to **carefully consider these risk factors** when investing in these sectors.

Consumer Discretionary Also Concentrated

The **Consumer Discretionary** sector is also very concentrated, dominated by Amazon at a 46% weight. On the other hand, its relative volatility has not increased much since July, unlike the technology sector, as shown in the chart. However, given the dominance of Amazon in the sector, it may be prudent to diversify within that sector by considering other stocks that are expected to benefit from sustained ultra low interest rates, such as home renovation companies. The table below shows the GICS weights for the top 5 stocks in the consumer discretionary sector for your consideration.

Company	Cons. Discretionary Weight	YTD Gain (%)
Amazon	46.5%	84.1%
Home Depot	8.5%	32.2%
Nike	4.7%	9.4%
McDonald's	4.3%	7.4%
Lowe's	3.5%	38.2%
Top 5 Weights	67.5%	

Materials Sector Not as Concentrated

In contrast to the sectors mentioned above, the Materials sector isn't as concentrated. The top 5 stocks make up 49% of the sector's weighting, with the largest weight at 17.8% for Linde Plc. In addition, Linde's YTD gain at 19% isn't as extreme as Amazon in the Consumer Discretionary sector implying a lower contribution to the YTD returns of the sector. The table below shows the 5 highest weighted stocks in the Materials sector along with their YTD gains. Although the gains do vary a fair bit between stocks, the sector is nevertheless reasonably diversified and does not necessarily warrant much adjustments to reduce concentration.

Company	Materials Weight	YTD Gain (%)
Linde Plc	17.8%	19.1%
Air Products & Chemicals	8.7%	24.6%
Sherwin-Williams	8.2%	15.1%
Ecolab Inc	7.5%	2.4%
Newmont Mining	7.1%	49.0%
Top 5 Weights	49.3%	



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 at 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 to our customers.

On a regular basis, **we 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 as we improved the platform, please contact us as we do trade the strategy in a live account to track its performance improvements in real time.



3. Columbus Strategy Portfolio Allocation

Columbus Allocation Dashboard

The figure below shows a summary of the current allocations by asset class for the Columbus Global Allocation alternative 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%	45%	Above 60%
Fixed Income	Below 20%	30%	Above 45%
Real Assets	Below 10%	15%	Above 20%
Cash Assets	Below 5%	10%	Above 15%

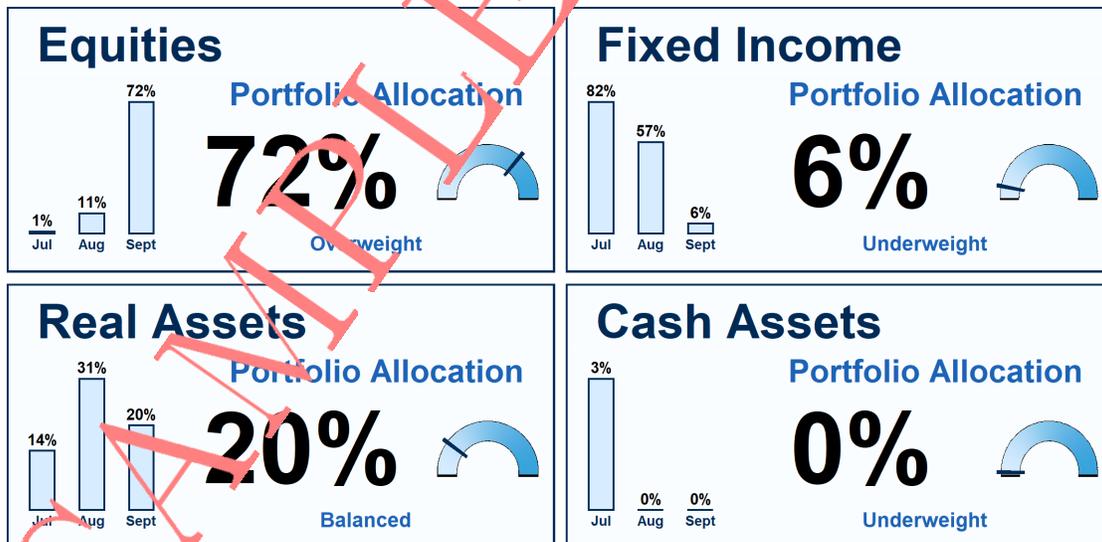


Figure 1



Columbus ETF Allocation table

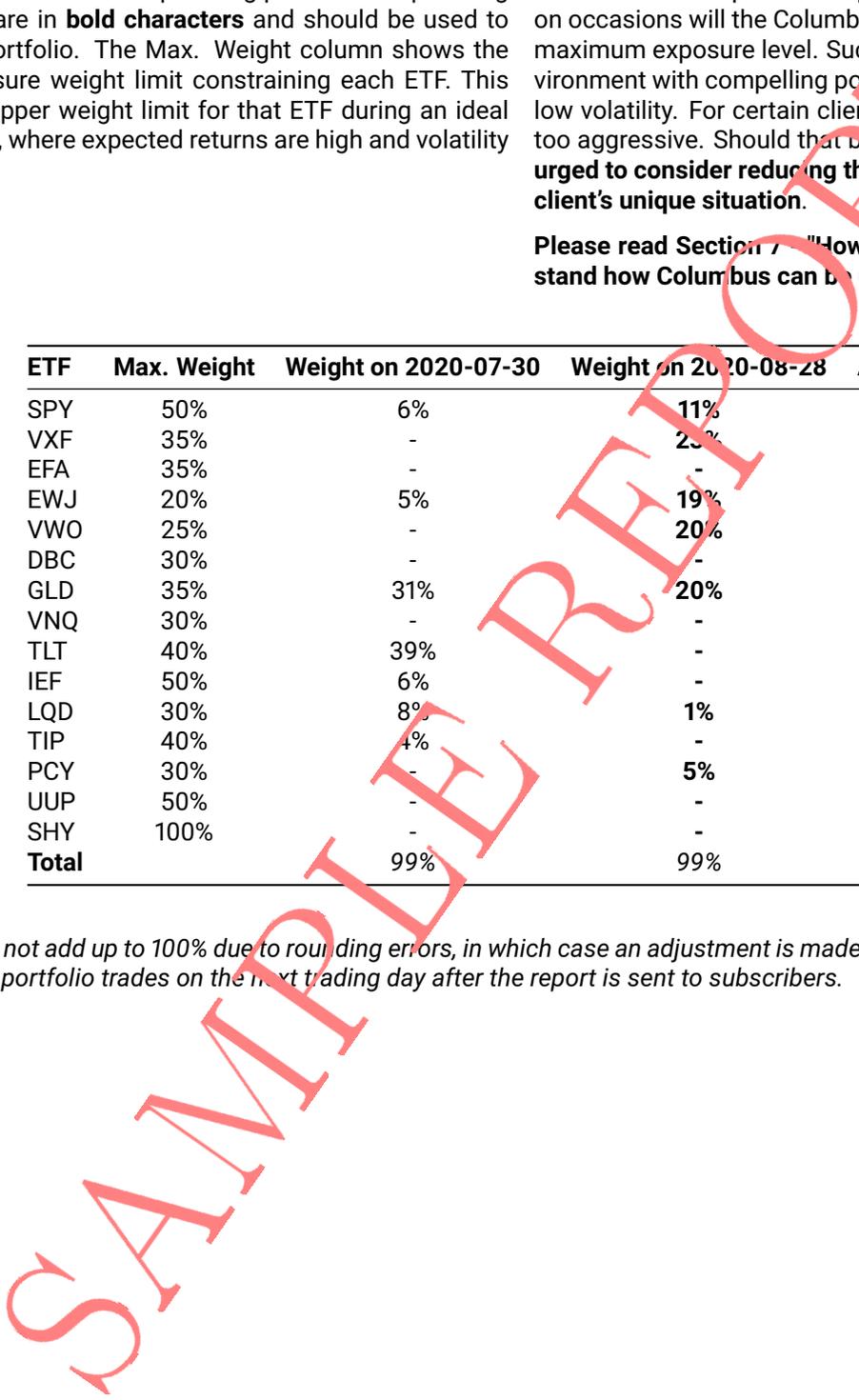
The portfolio allocations for each asset are shown below for the last rebalance period and the upcoming period. The upcoming month weights are in **bold characters** and should be used to rebalance the portfolio. The Max. Weight column shows the maximum exposure weight limit constraining each ETF. This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

The 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 2020-07-30	Weight on 2020-08-28	Alloc. Change
SPY	50%	6%	11%	5%
VXF	35%	-	23%	23%
EFA	35%	-	-	-
EWJ	20%	5%	19%	14%
VWO	25%	-	20%	20%
DBC	30%	-	-	-
GLD	35%	31%	20%	-11%
VNQ	30%	-	-	-
TLT	40%	39%	-	-39%
IEF	50%	6%	-	-6%
LQD	30%	8%	1%	-7%
TIP	40%	4%	-	-4%
PCY	30%	-	5%	5%
UUP	50%	-	-	-
SHY	100%	-	-	-
Total		99%	99%	

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 on the next trading day after the report is sent to subscribers.





4. Sector 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.

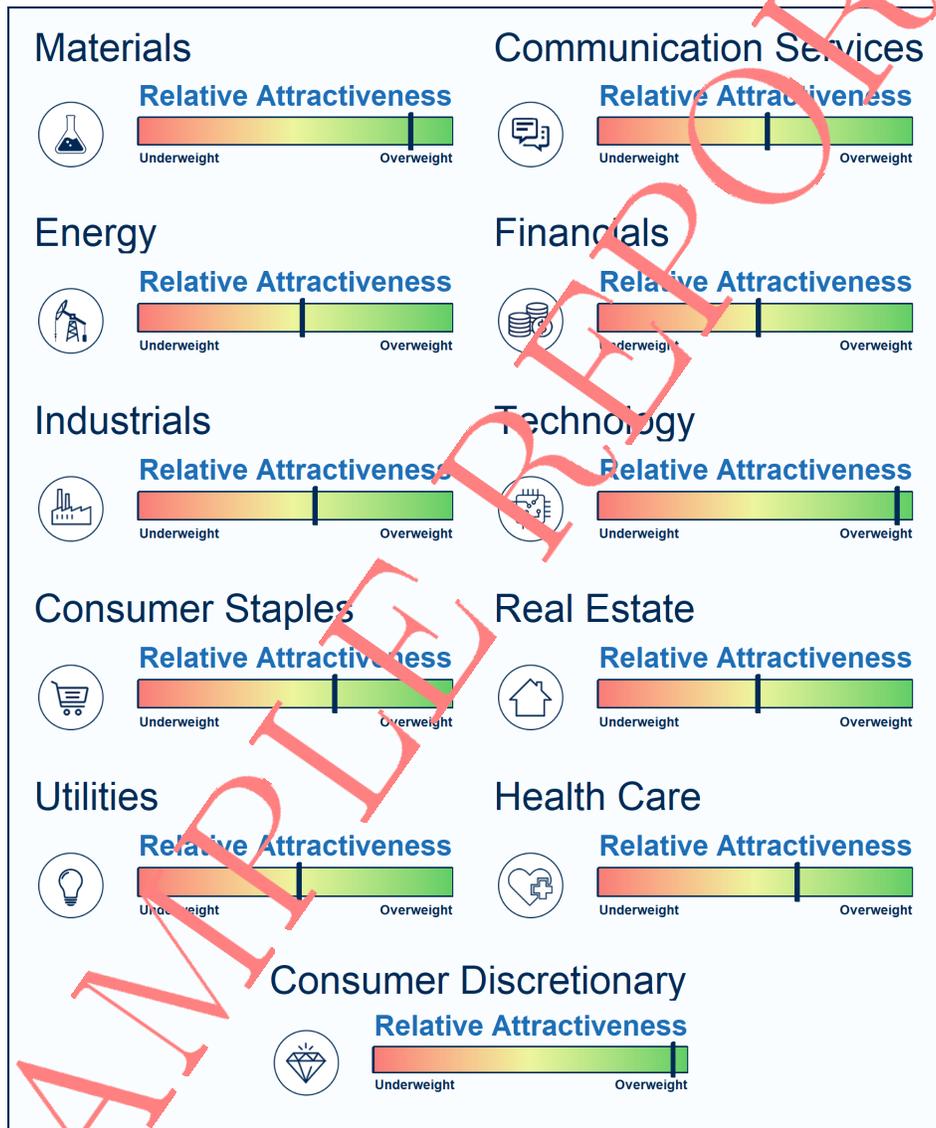


Figure 2

Please refer to the discussion in Section 1 for an interpretation of these Sector Insights.



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

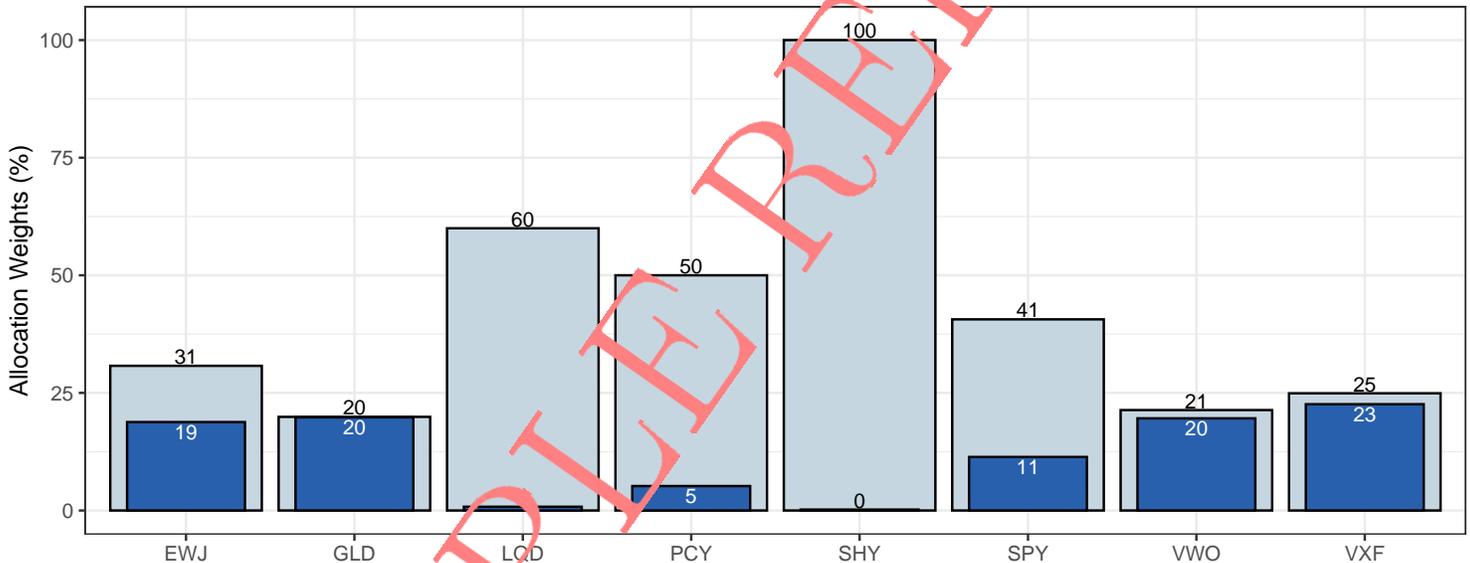


Figure 4

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 with respect to its investment universe 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.

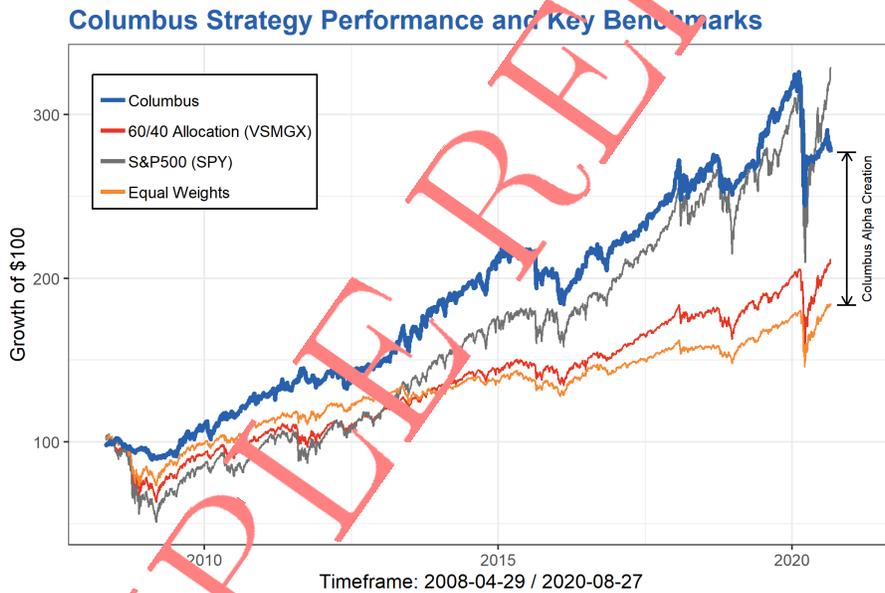


Figure 5

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
Annualized Return (%)	8.79	6.12	9.97	4.9
YTD Gain / Loss (%)	-12.78	5.23	9.37	4.07
YTD Annualized Gain/Loss (%)	-18.75	8.04	14.57	6.24
Maximum Drawdown (%)	-25.08	-39.29	-51.49	-29.77
Annualized Standard Dev. (%)	11	13.09	20.99	9.87
Positive Rolling Years (%)	87.49	86.19	90.4	85.56
Annualized Sharpe Ratio	0.8	0.47	0.47	0.5
MAR Ratio	0.35	0.16	0.19	0.16



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 extend the performance of the Columbus Strategy back over 20 years to the late 1990s.

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)
Annualized Return (%)	5.82	6.89	11.6	8.79
Maximum Drawdown (%)	-41.12	-55.2	-25.08	-25.08
Annualized Sharpe Ratio	0.48	0.35	1.09	0.8
Positive Rolling Years (%)	76.24	76.01	88.28	87.49

Note: Statistics for Columbus-Fund (green and blue curves taken together) and the S&P 500 are calculated since January 1999. Statistics for Columbus-ETF strategy 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.

Sector Divergences Driven by Dislocations

The recent 5 years saw some very impressive gains in our simple sector strategy because of 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 was developed to help you capture these opportunities as they arise.

Sectors Insights Performance Since 2004



Figure 7

	Sector Insights	S&P500 (SPY)	Difference
Annualized Return (%)	9.38	6.98	2.4
YTD Gain / Loss (%)	0.6	9.3	-8.7
1 Year Gain / Loss (%)	10.5	19.2	-8.7
Last 5 Years Gain / Loss (%)	124.5	91.9	32.6
Maximum Drawdown (%)	-43.83	-59.58	15.75
Annualized Standard Deviation (%)	18.91	19.09	-0.18



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 June 30th, 2020, 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	2.5 %
Communication Services	XLC	10.8 %
Energy	XLE	2.8 %
Financials	XLF	10.1 %
Industrials	XLI	8.0 %
Technology	XLK	27.5 %
Consumer Staples	XLP	7.0 %
Real Estate	XLRE	2.8 %
Utilities	XLU	3.1 %
Health Care	XLV	14.6 %
Consumer Discretionary	XLY	10.8 %



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 sector 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.

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.

Health Care

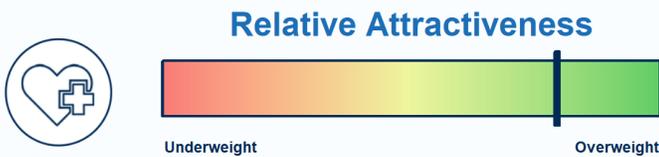


Figure 8



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)
AVERAGE	\$44.6B	0.31%	

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.

Symbol	Assets	Exp. Ratio	Description
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
AVERAGE	\$12.91B	0.13%	

SAMPLE REPORT



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