# CataMetrics Adaptive Strategies

## Pursuing Outperformance for You

CATAMETRICS®
MANAGEMENT, LLC

# The Adaptive Approach: Philosophy

## Pursuing Outperformance and Adapting to Changing Markets

The Adaptive strategies are designed to maintain diversification while systematically identifying and allocating to the stronger-performing asset classes and managers. As markets evolve and new, strong performers emerge, the strategy adapts.

## Momentum and Strength

The philosophy behind the Adaptive strategies is grounded in nearly 20 years of academic and practitioner research that demonstrates that momentum leads to trending markets (i.e. that strongly performing markets today are likely to be strongly performing in the near future.)

The research shows that momentum works broadly across asset classes including US stocks, foreign stocks, bonds, commodities, and currencies.[1] Research in this area demonstrates that markets have exhibited statistically significant trends for well over a century going back at least to 1880.[2]

[1] Moskowitz, Tobias, Yao Hua Ooi and Lasse H. Pedersen, 2012, "Time Series Momentum," *Journal of Financial Economics,* 104(2), 228–250.
[2] Hurst, Brian, Yao Hua Ooi, and Lasse H. Pedersen, 2014, "A Century of Evidence on Trend-Following Investing," AQR White Paper

# The Adaptive Approach: What is Adaptive

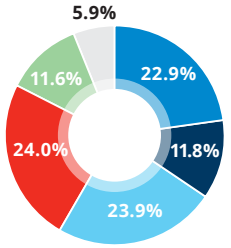
The Adaptive strategies provide a range of investment choices, from defensive to growth, with varying risk and return objectives. Each strategy is defined by a well-diversified global benchmark and an investment portfolio of cost-effective ETFs.

**Lower** — **RISK/RETURN** — **Higher**

## Adaptive Defensive

**Objective:** Seeking to preserve wealth while pursuing modest growth through a globally diversified and actively managed portfolio over the intermediate to long-term horizon.

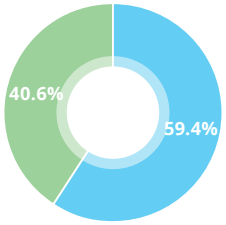
**Benchmark:** Russell 3000/ ACWI ex-US/Global bond Index/ Cash (20/14/41/25)




## Adaptive US Income-Focused

**Objective:** Seeking to generate an enhanced level of income while maintaining a portfolio that is diversified across interest rate, and credit risks.

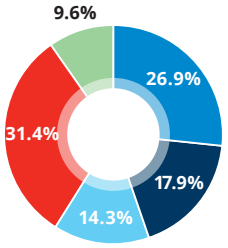
**Benchmark:** Bloomberg Barclays Global Aggregate (100)




## Adaptive Global Market Portfolio

**Objective:** Pursuing modest growth through a globally diversified and actively managed portfolio over the intermediate to long-term horizon

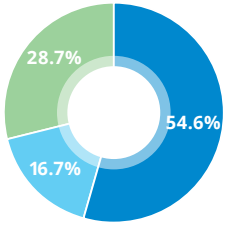
**Benchmark:** Russell 3000/ ACWI ex-US/Global bond index (27/19/54)




## Adaptive US Balanced Income

**Objective:** Seeking to generate an enhanced level of income from diversified sources while balancing risk and return opportunities across fixed income and equity asset classes.

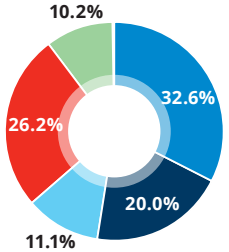
**Benchmark:** Russell 3000/ Bloomberg Barclays Global Aggregate (50/50)




## Adaptive Moderate Growth

**Objective:** Pursuing moderate growth through a globally diversified and actively managed portfolio over the intermediate to long-term horizon.

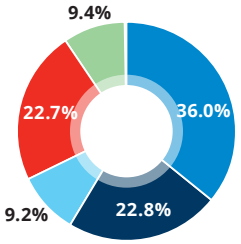
**Benchmark:** Russell 3000/ ACWI ex-US/Global bond index (32/23/45)




## Adaptive Growth

**Objective:** Pursuing growth through a globally diversified and actively managed portfolio over the long-term horizon.

**Benchmark:** Russell 3000/ ACWI ex-US/Global bond Index (35/25/40)




US equities | International equities | US bonds | International bonds | Total return, alternatives, multi-asset class | Cash

Strategic allocations as of 12/29/2017.
May not reflect current allocations.

# The Adaptive Approach: What is Adaptive

The Adaptive strategies use a model to measure the systematic exposures and alpha of ETFs that make up the components of the portfolio. This portfolio is designed to track a global market portfolio. The algorithm then directs the portfolio to underweight the weaker asset classes and the weaker performing funds while seeking higher-alpha components across all asset classes.

## Diversified

Building off of the global market portfolio, the Adaptive strategies are diversified across a broad basket of asset classes by investing in up to three different investment styles (index funds, smart-beta funds and liquid alternative funds).

## Systematic

By utilizing an algorithmic decision-making process the strategies follow an unemotional, disciplined process that provides a consistent and repeatable investment experience.

## Active

Through our quarterly rebalancing process the Adaptive strategies analyze a pre-qualified universe of investment choices seeking the most attractive combination of cost-effective ETFs with the goal of managing risk while pursuing attractive return opportunities.

# The Adaptive Investor

A sophisticated investor who understands the value of advanced quantitative analysis and a disciplined approach in capturing opportunities for outperformance.

Rather than rely on markets to deliver satisfactory returns, the Adaptive strategies actively pursue returns through a rigorous, systematic methodology that seeks to take advantage of market insights.

## The Adaptive Investor is:

- **Focused on Return Opportunities:** The Adaptive investor is willing to take some risk to uncover and take advantage of return opportunities with the goal of out-performing the market over time.
- **Focused on Results:** The Adaptive investor is focused on achieving attractive investment results regardless of how markets are performing. The Adaptive strategies combine active fund selection with rigorous risk management and seek to take advantage of medium-term opportunities to generate attractive returns relative to their respective benchmarks in all market environments.
- **Focused on the Long Term:** The Adaptive investor understands that the pursuit of excess returns through an active investment approach is not without some risks. While the strategy may experience periods of underperformance, the Adaptive investor is patient enough to realize the potential long-term benefits of active investing.

# Performance

The Adaptive strategies seek to identify market trends and take advantage of them to achieve outperformance. Historically, trending markets have been the more common environment providing the possibility of a long-term advantage to trend-based investment approaches.

> …consistent long-term evidence suggests that trends are pervasive features of global markets.
> **Hurst, Brian, Yao Hua Ooi, and Lasse H. Pedersen, 2014, "A Century of Evidence on Trend-Following Investing," AQR White Paper (pg. 7)**

## Informational Advantage

The Adaptive strategies use vastly more information in determining investment allocations than passive strategies. We believe this informational advantage will result in better long-term growth than passive, buy-and-hold investment approaches.

## Having the Right Expectations

- **Trending Markets: Positive** – In a trending market the Adaptive strategies are designed to identify and overweight the positively-performing asset classes therefore potentially generating attractive returns. Investors can generally expect benchmark-beating performance.
- **Listless Markets: Neutral** – In a listless and sideways market the Adaptive strategies are unlikely to identify trends to take advantage of and will therefore remain neutrally allocated relative to the benchmark. Investors can generally expect benchmark-like performance.
- **Bouncing Markets: Negative** – In a market characterized by sudden and rapid declines followed by sudden and rapid rebounds the Adaptive strategies are likely to struggle as they may adapt to a short-lived trend only to have it reverse suddenly causing the strategy to be out of sync with the market. Investors can generally expect underperformance relative to the assigned benchmark.

# The Adaptive Advantage: Benefits

The strategies combine active fund selection with rigorous risk management and seek to take advantage of medium-term opportunities to outperform their benchmarks.

## The Benefits of Broad Diversification

Allocations range across a broad basket of asset classes providing the risk-management benefits of diversification and the enhanced return opportunities that come with taking a broad view of the market. The strategies seek to maintain broad diversification while focusing allocations on stronger-performing asset classes through the beta-tracking design.

## The Confidence of a Repeatable Process

The strategies employ a quantitative and systematic investment process, helping to provide a more consistent and understandable investment experience.

## The Advantages of Active Management

The strategies are designed to take advantage of market insights with the objective of outperforming their benchmarks over time on a risk-adjusted basis.

# Risks

The Adaptive strategy is an unhedged market-exposure strategy. If markets are down, it will decline in some measure with the market.

All investing has risks. These risks include loss of principal, timing of loss, possible liquidity risks as well as others. Fees and transactions costs will affect the performance of any investment.

Before investing in an ETF, investors should read both its summary prospectus and its full prospectus, which provide detailed information on the ETF's investment objective, principal investment strategies, risks, costs, and historical performance (if any). The SEC's EDGAR system, as well as internet search engines, can help locate a specific ETF prospectus. You can also find prospectuses on the websites of the financial firms that sponsor a particular ETF, as well as through your broker.

This list is not a comprehensive list and investors are advised to read the accompanying disclosure statement as well as visit the firm's website for more information, including viewing the firm's ADV Part 2.

# Disclosures and Disclaimers

CataMetrics Management, LLC, (the "Firm") a Registered Investment Adviser, offers global, risk-managed, multi-asset class, and index-focused portfolio strategies to the institutional platform marketplace as well as to financial advisors. Please visit our website www.catametricsmanagement.com for more information and to review the firm's Form ADV Part 2A. All investments carry a certain risk, and there is no assurance that an investment will provide positive performance over any period. An investor may experience loss of principal. Investment decisions should always be made based on the investor's specific financial needs and objectives, goals, time horizon, and risk tolerance. The asset classes and/or investment strategies described may not be suitable for all investors and investors should consult with an investment adviser to determine the appropriate investment strategy.

Exchange-traded funds (ETFs) are subject to risks similar to those of stocks, such as market, interest rate, foreign exchange, and liquidity risks. An investor in ETFs may bear indirect fees and expenses charged by the ETFs in addition to their direct fees and expenses, and is subject to the risk of loss of principal. ETF sponsors may suspend trading in ETFs and may not honor redemption requests. ETFs may trade at a discount or premium to their net asset value and are subject to the market fluctuations of their underlying investments. When considering investing in an ETF, you should consult your financial advisor and accountant on how investing in the fund will affect your taxes.

Before investing in an ETF, you should read both its summary prospectus and its full prospectus, which provide detailed information on the ETF's investment objective, principal investment strategies, risks, costs, and historical performance (if any). The SEC's EDGAR system, as well as Internet search engines, can help you locate a specific ETF prospectus. You can also find prospectuses on the websites of the financial firms that sponsor a particular ETF, as well as through your broker.

Past performance is no guarantee of future results of any ETF.

Information obtained from third-party sources is believed to be reliable but is not guaranteed. The Firm makes no representation regarding the accuracy or completeness of information provided herein. All opinions and views constitute our judgments as of the date of writing and are subject to change at any time without notice.

The S&P 500 Index is a commonly recognized, market-capitalization-weighted index of 500 widely-held companies, designed to measure the performance of US large-cap stocks. The Russell 3000 Index is a free float-adjusted, market-capitalization-weighted index which measures the performance of the largest 3,000 US companies representing approximately 98% of the investable US equity market. The MSCI All Country World Index [ACWI] is designed to measure the performance of the global equity market and is a free float-adjusted, market-capitalization-weighted index composed of large- and mid-cap stocks of companies located in developed and emerging countries throughout the world. The MSCI ACWI ex-USA Index is designed to measure the performance of the global equity market excluding the US component and is a free float-adjusted, market-capitalization-weighted index composed of large- and mid-cap stocks of companies located in developed- and emerging-market countries. The Bloomberg Barclays US Aggregate Bond Index [BBG Barc Agg] provides a broad-based measure of the fixed-rate US investment-grade debt market. The Bloomberg Barclays Global Aggregate Bond Index [BBG Barc Global Agg] measures global investment-grade, fixed-rate debt from both developed- and emerging-markets. The J.P. Morgan Global Aggregate Bond Index (JPM GABI) provides a broad-based measure of the global fixed-rate, investment-grade debt markets. The JPM GABI is a US dollar denominated, investment-grade index with asset classes from developed and emerging markets. Cash refers to overnight Fed funds.

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