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ASSET MANAGEMENT

NDR
NED DAVIS RESEARCH

Smart Sector® Strategy

SEPTEMBER 2022

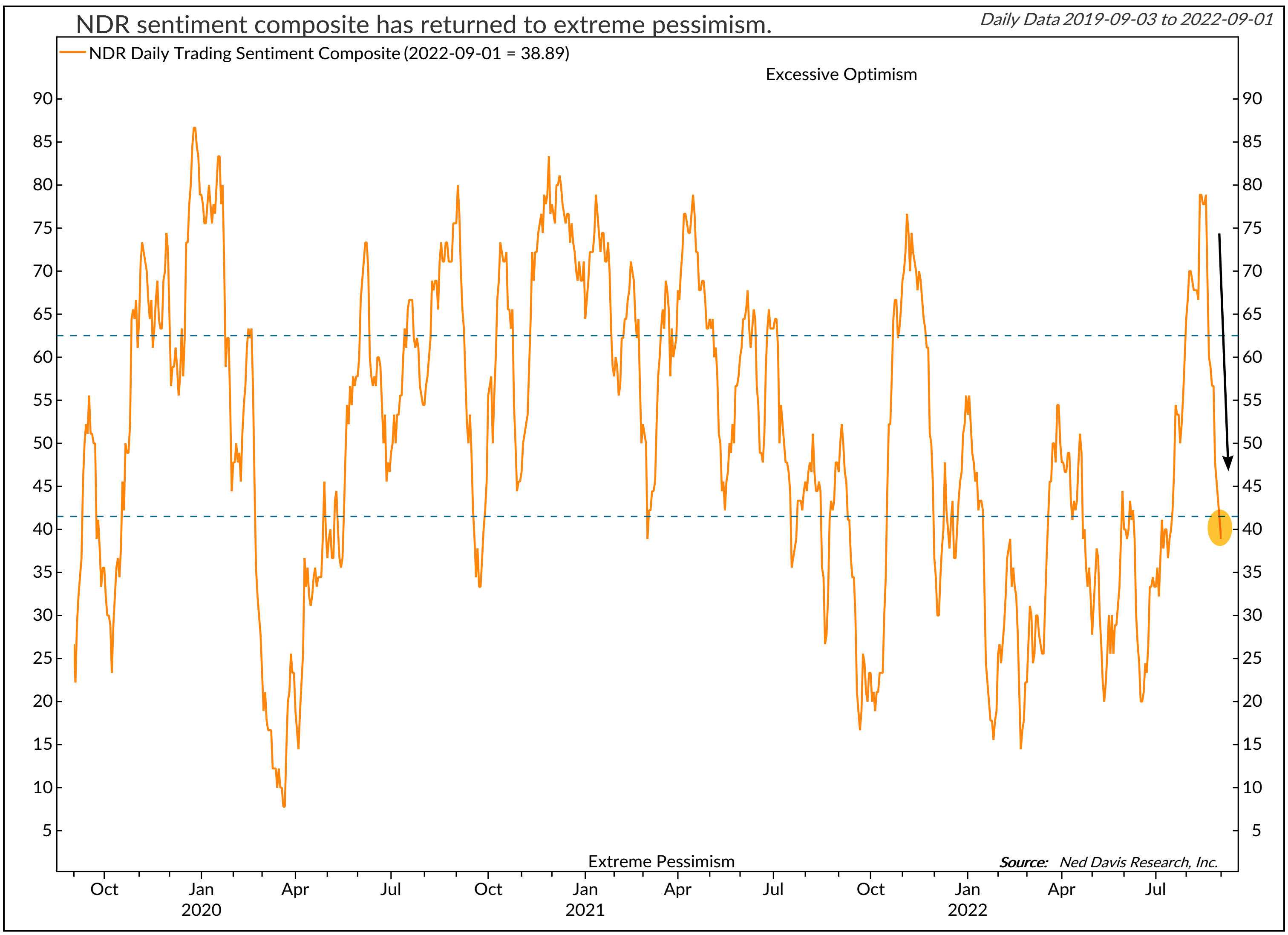
Catastrophic Stop Update

The S&P 500 Total Return Index declined by more than 400 basis points (bps) during August. Since February, the market has oscillated between positive and negative monthly returns.

The Catastrophic Stop model recommends being fully invested in the U.S. large-cap space at the start of September. Trends have improved within the financial markets, but breadth has deteriorated from elevated levels within both equities and fixed income during August.

The weakness since mid-August has helped to alleviate an excessively optimistic condition (chart below). Broad sentiment indicates that markets have been pricing in a worst-case scenario, which typically leads to a rebound.

For the Catastrophic Stop model to recommend a defensive position would require deterioration from the internal (price-based) and external (macro, fundamental, and sentiment) indicators in this weight-of-the-evidence approach



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Sector Performance Update

After all sectors rose in July, only two of the 11 U.S. large-cap sectors had positive returns in August — Energy and Utilities — as investors became risk averse following the Fed's hawkish comments.

Energy (XLE) had the strongest performance, up over 250 basis points (bps). XLE has increased for nine of the last 12 months. Utilities (XLU) eked out a gain of just over 50 bps for the month.

Financials (XLF) and Consumer Staples (XLP) were both down by nearly 200 bps in August.

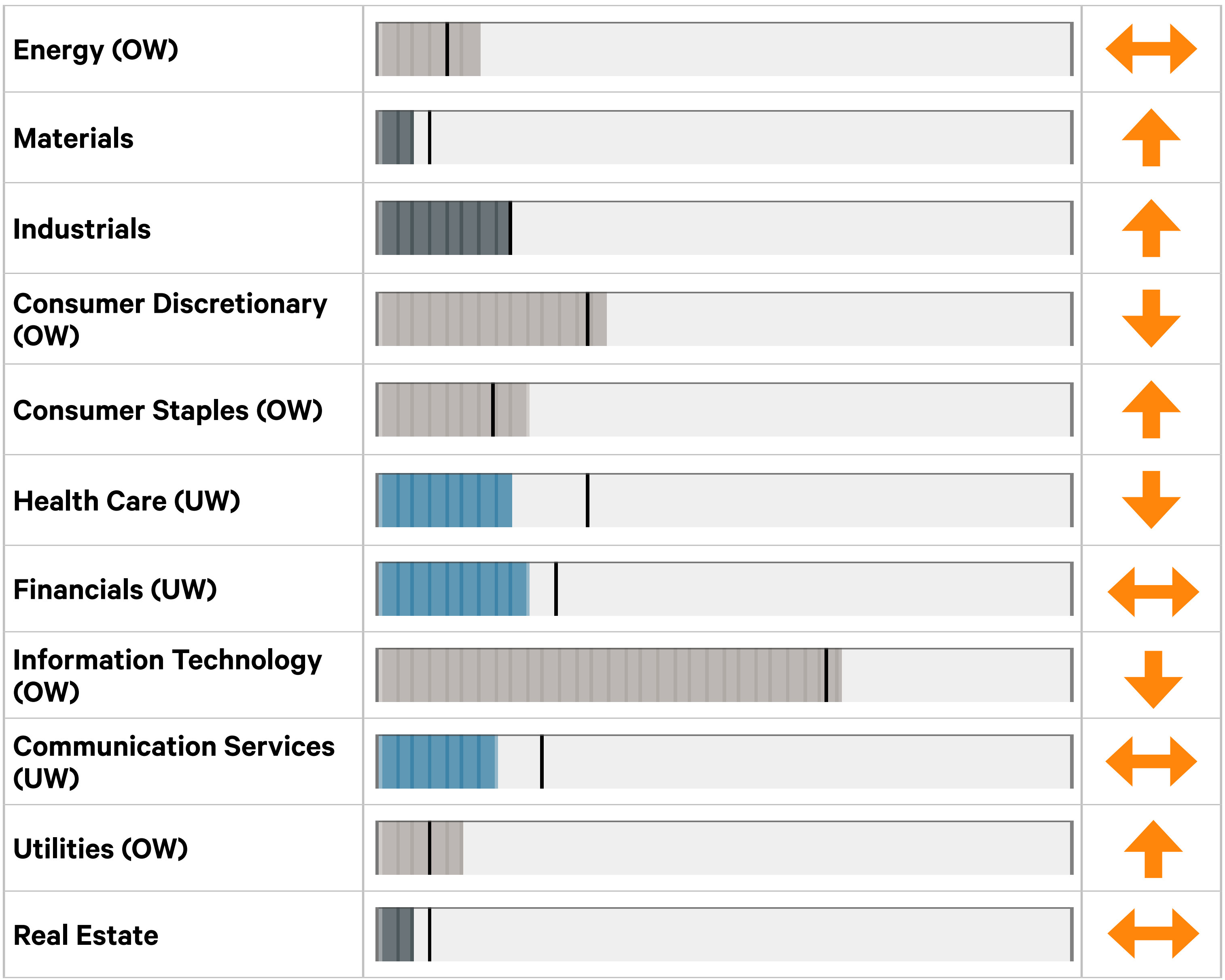
After jumping more than 900 bps in July, Industrials (XLI) was down over 200 bps for the month. XLI has only been up once in the past five months.

Materials (XLB) and Communications Services (XLC) dropped by about 350 bps.

Consumer Discretionary (XLY) dropped by nearly 450 bps, while Health Care (XLV) and Real Estate (XLRE) both fell by over 500 bps.

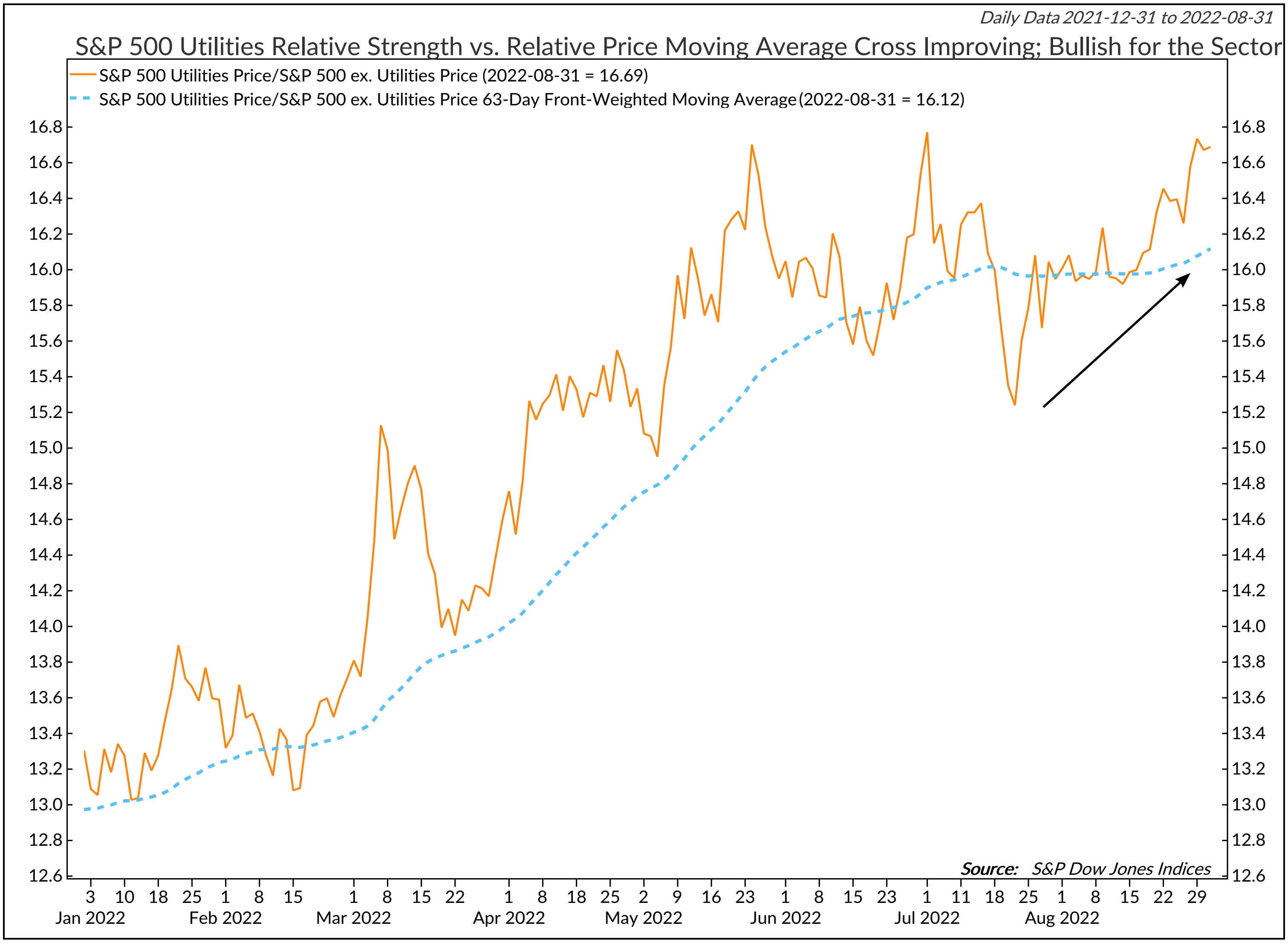
After soaring by more than 13% in July, Information Technology (XLK) gave back nearly half of its gains in August, dropping by over 600 bps. XLK has been down seven of the past 12 months.

Sector Allocation Summary



The vertical, black line represents the benchmark weight. The dark shading represents the sector's allocation. Shading significantly to the right (left) of the benchmark line represents an overweight (underweight) position. The direction of the arrow indicates whether the allocation increased, decreased, or remained approximately the same as the previous month.

- The Consumer Staples sector's weighting rose and remains at an overweight allocation relative to benchmark. Relative breadth and the cyclical credit to food spread have improved for this sector. Price-based indicators are mixed, but the majority of the external (macro, fundamental, and behavioral) measures remain bullish.
- The Utilities sector's weighting rose and is now above benchmark allocation. The sector's relative strength has improved (chart below). Four out of seven of the Utilities' sectors internal measures are bullish.
- The Energy sector continues to be overweight relative to benchmark. Crude oil days of supply has risen, which is negative for the sector. But, eight of the 11 indicators are bullish.
- Consumer Discretionary's allocation dropped but remains at an overweight position. Only one indicator changed for the month — net new highs (126-days) weakened and is now bearish for the sector.
- The Information Technology sector's allocation also dropped in August but remains above a benchmark position. After July's strong upward move, the sector got short-term overbought, which is bearish for the sector. Price-based and external indicators are mixed for the sector.



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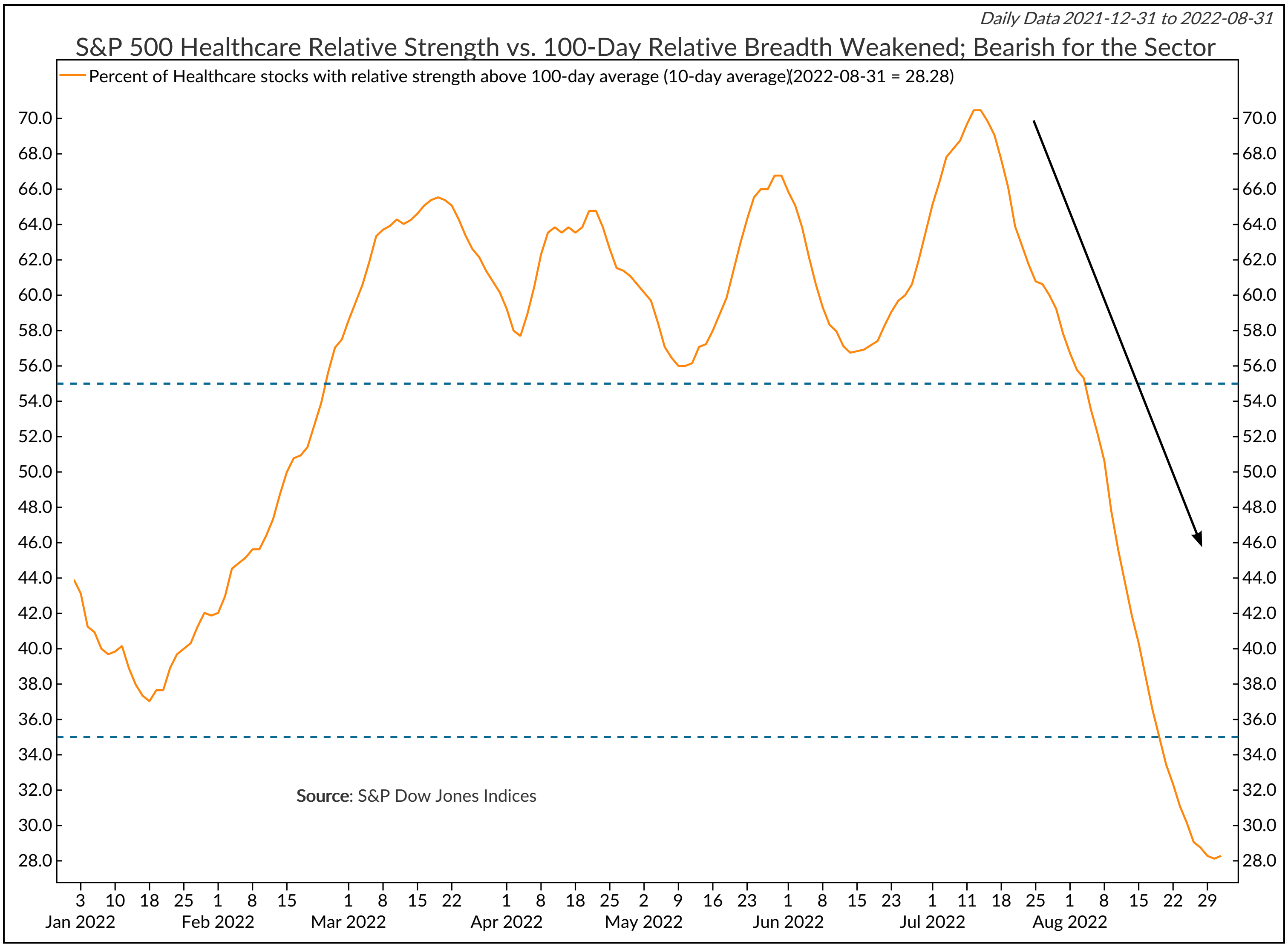
- Industrials' weighting rebounded back to benchmark allocation, as three technical indicators improved. Only one of the sector's external indicators is bullish.
- The Real Estate sector's allocation rose modestly but remains close to benchmark. Construction supplies was the only indicator that improved in the month.
- The Materials sector's allocation rose and it is now back to marketweight status. The sector's relative strength reversed from a short-term oversold condition.
- The Communication Services sector's allocation remains below benchmark. Option-adjusted spreads widened, a bearish indication for the sector. Only one of the sector's internal indicators is bullish.
- The Financials sector's allocation continues to be below benchmark. The sector's technicals have weakened and there is only one bullish internal indicator. Most of the external measures remain bearish — the only improvement was from the Economic Surprise Index indicator.
- The Health Care sector's weighting dropped to an underweight allocation. Breadth weakened sharply (chart below) which is bearish for the sector. Relative drawdown and health care personal expenditures also turned bearish.



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Strategy description

- The Smart Sector® with Catastrophic Stop strategy combines two Ned Davis Research quantitative investment strategies: The NDR Sector Allocation and the NDR Catastrophic Stop.

The process is based on the weight of the evidence

- The fund begins by overweighting and underweighting the S&P 500 sectors based on Ned Davis Research's proprietary sector models.
- Each of the sector models utilize sector-specific, weight-of-the-evidence composites of fundamental, economic, technical, and behavioral indicators to determine each sector's probability of outperforming the S&P 500.
- Sectors are weighted accordingly relative to benchmark weightings.

When market risks become extraordinarily high — reduce your portfolio risk

- The model remains fully invested unless the Ned Davis Research Catastrophic Sell Stop (CSS) model is triggered, whereupon the equity-invested position is trimmed to 50%.
- The NDR Catastrophic Sell Stop model combines time-tested, objective indicators designed to identify periods of high risk for the broad U.S. equity market. The model uses price-based, breadth, deviation from trend, fundamental, economic, interest rate, behavioral and volatility-based indicator composites.

When market risks return to normal — put your money back to work

- When the NDR CSS model moves back to bullish levels, indicating lower risk, the strategy immediately moves back to fully invested.

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