Smart Sector® Strategy

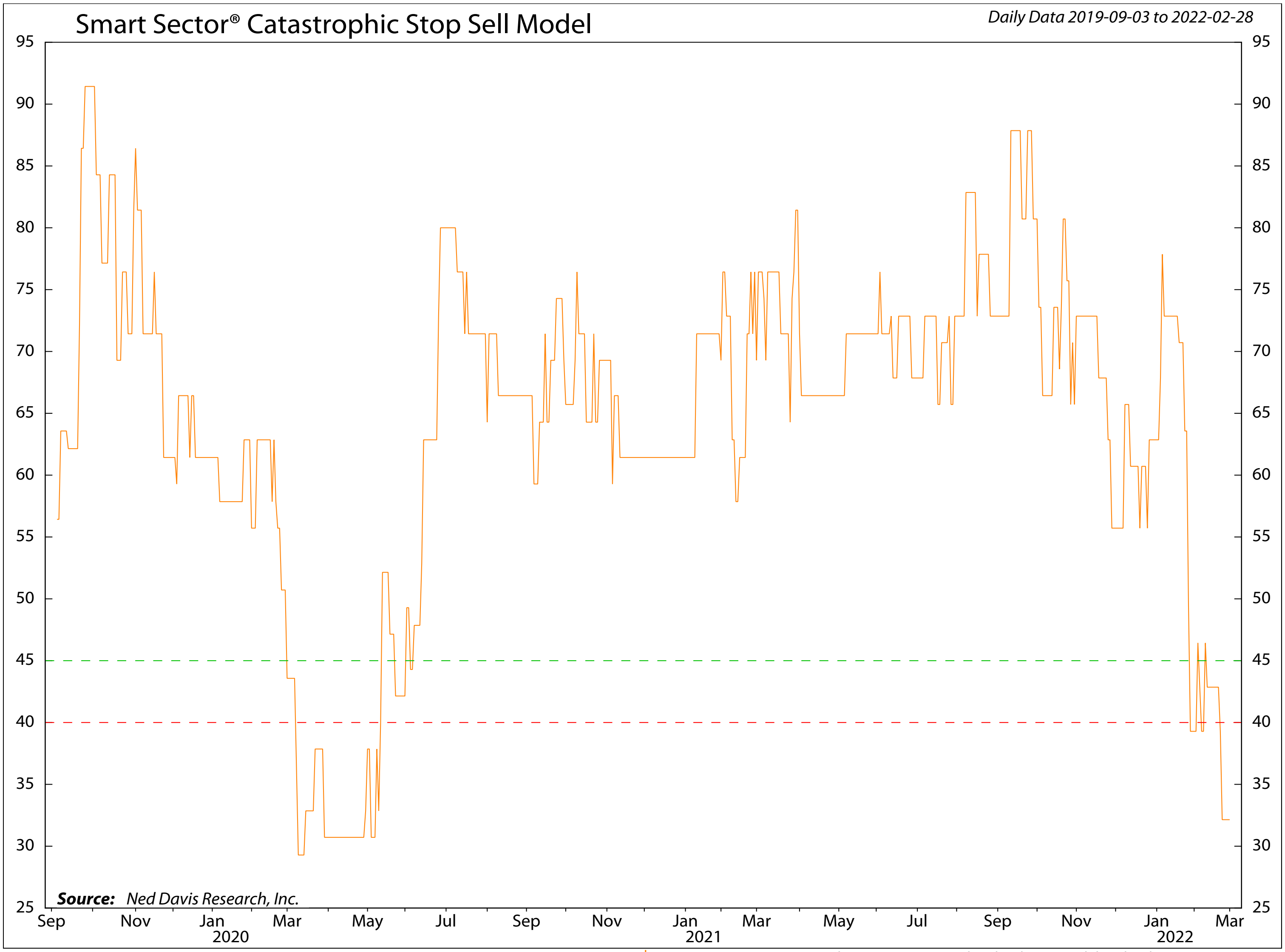
MARCH 2022

Catastrophic Stop Update

The Catastrophic Stop model (chart at bottom) has been on a sell signal since January 31. The Smart Sector® strategy recommends shifting half of the strategy's assets into cash until a better opportunity presents itself.

The intermediate-term drawdown indicator turned bearish in late February as the market dropped more than 10% from its peak. Other indicators supporting the defensive model positioning include weaker global shipping rates, widening high yield option-adjusted spreads, deteriorating global equity market breadth (upside participation), and declining price trends.

For the Catastrophic Stop model to exit its current signal would require indicator improvement from the internal (price-based) and external (macro, fundamental, and sentiment) indicators in this weight-of-the-evidence approach. Indicators that would help contribute to a fully invested buy signal include an extreme oversold condition, a breadth thrust (large number of issues simultaneously advancing higher), improving price trends, and strengthening macro conditions.



Sector Performance Update

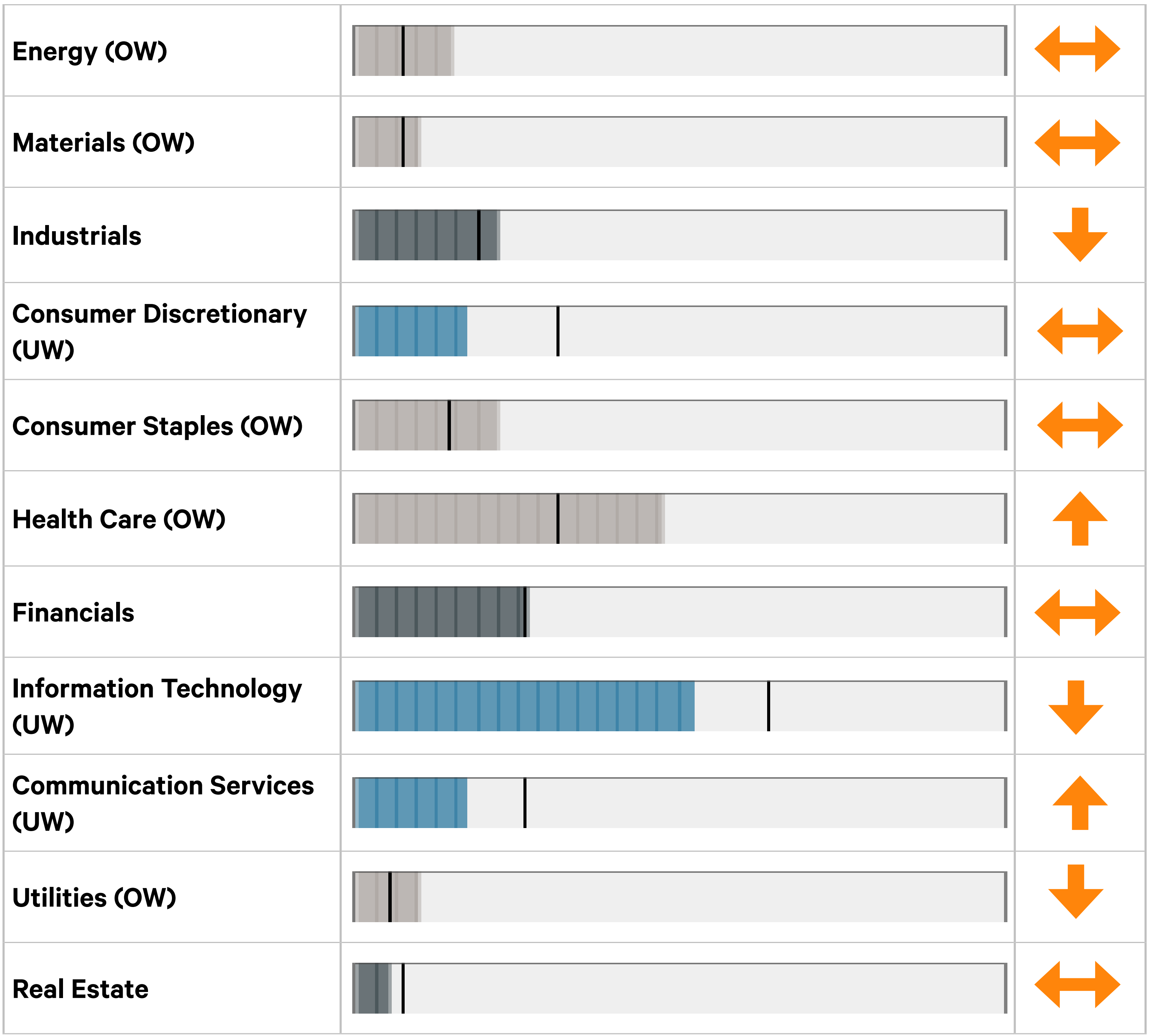
Only the Energy (XLE) sector produced a positive return in February. XLE has increased by at least 300 basis points (bps) for five of the last six months.

Health Care (XLV) and Industrials (XLI) both declined by less than 100 bps. XLI and XLV have dropped for four of the last six months. Utilities (XLU), Financials (XLF), Materials (XLB), and Consumer Staples (XLP) fell by less than 200 bps. XLU, XLB, and XLP have been lower for three of the last four months.

Consumer Discretionary (XLY), Information Technology (XLK), and Real Estate (XLRE) declined by over 400 bps for each of the first two months of the year.

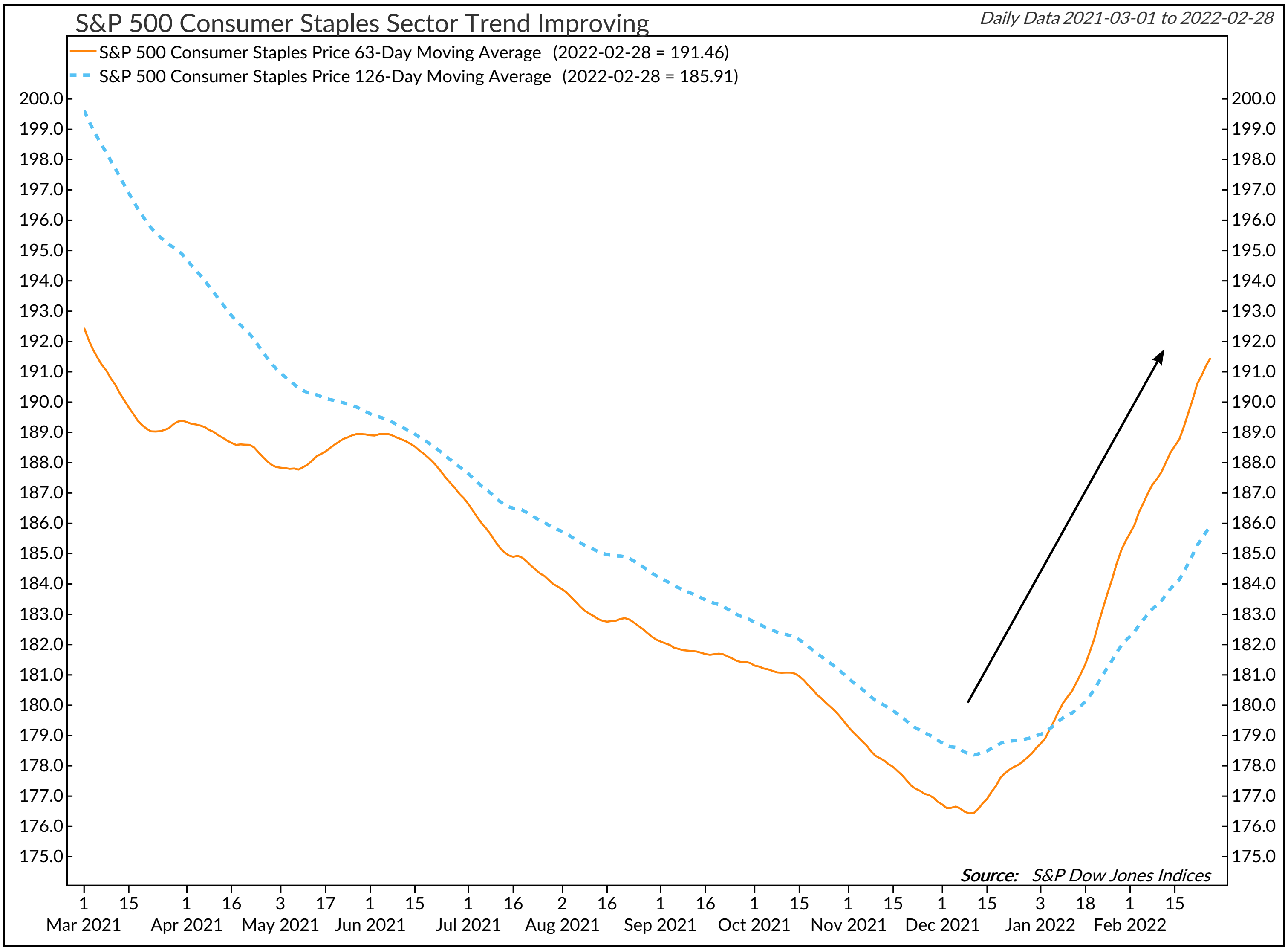
Communications Services (XLC) plummeted by over 700 bps. It was XLC's worst month since March 2020.

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 Health Care sector's weighting rose and the sector still has the largest overweight allocation. There were conflicting price-based (internals) indicator movements. Near-term price momentum strengthened, but intermediate-term momentum has started to reverse from an extreme. There were offsetting external (macro, fundamental, and behavioral) indicator changes as high yield option-adjusted spreads narrowed, but health care personal expenditures were no longer bullish. None of the sector's external indicators are bearish.
- The Energy sector remains overweight relative to benchmark. A mean reversion indicator retuned to an overbought condition. Currently, the sector has only one bearish indicator.
- The Materials sector's allocation moved further overweight. No indicators changed signals. More than two-thirds of the sector's indicators are bullish.
- The Utilities sector's weighting declined, but the sector remains overweight. Although capacity utilization improved, the sector's technicals (price momentum, breadth, trend, and overbought/oversold) weakened. None of the Utilities' sectors external measures are bearish.
- The Consumer Staples sector's weighting rose further above benchmark. Short interest and the near-term trend (chart at bottom) are no longer bearish on the sector, but the intermediate-term trend has rolled over. All but one of the sector's internal indicators are bullish.
- Industrials declined to near benchmark allocation. Price momentum and volatility indicators have switched from bullish to bearish, but industrial production is improving from recent lows.



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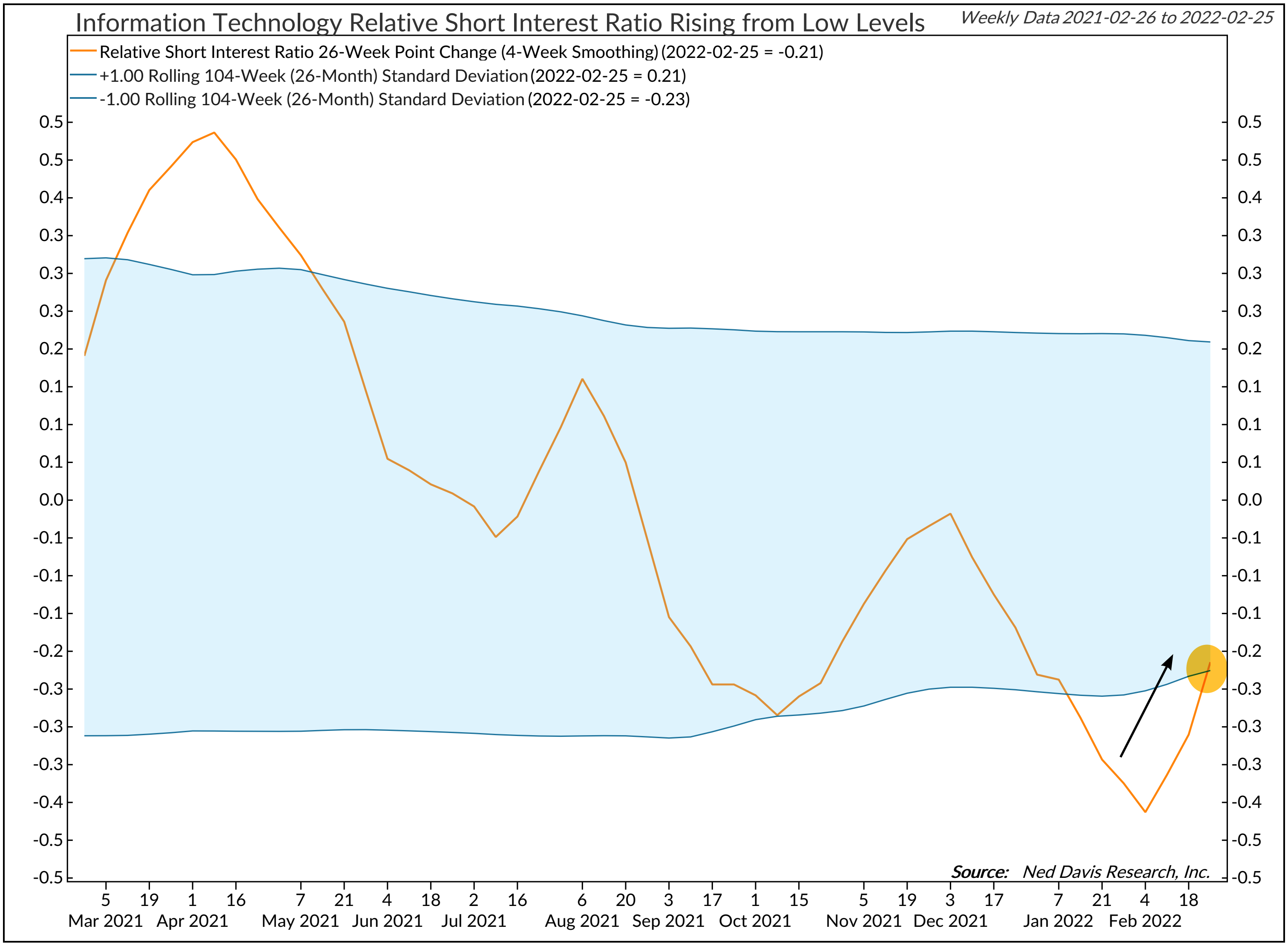
- The Real Estate sector's allocation is in line with benchmark. The sector's trend has weakened, but it has reached an oversold condition. The homebuilders subindustry and construction supplies reflect headwinds for the sector, but long-term yields and economic conditions are tailwinds for the Real Estate sector.
- The Financials sector's allocation is in line with the benchmark. No indicators changed signals this month. Only one of the sector's priced-based measures is bullish.
- The Communication Services sector's allocation improved, but it remains significantly below benchmark. Option-adjusted spreads have become less of a headwind. Only one of the sector's indicators is bullish.
- The Information Technology sector's allocation fell further below benchmark. Short interest has flipped from bullish to bearish, as it rises from low levels (chart at bottom). Only one internal indicator and one external measure are bullish on the sector.
- The Consumer Discretionary sector continues to have the most underweight allocation. Although valuations have improved, the trend has deteriorated. Only two indicators within the sector are bullish.



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Smart Sector® Strategy

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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