

DIVERSIFIED TACTICAL LONG/SHORT

Diversified Tactical Long/Short (“DTLS”) is an actively managed tactical strategy that targets the upside of various asset classes during bull markets, while also targeting partial upside during extended asset class bear markets. DTLS uses a proprietary quantitative-based model designed to eliminate exposure to weak asset classes and initiate partial inverse exposure.

OBJECTIVES

Diversified Tactical Long/Short targets the bull market upside of U.S. equities, international equities, emerging market equities, real estate, commodities, fixed income, and/or money market. In addition, DTLS attempts to generate partial profits during extended asset class bear markets by initiating partial inverse exposure and raising cash (via money market). Multiple models are available that target various risk and return characteristics. During weak markets for each asset class (as determined by the proprietary quantitative-based model), the respective percentage allocation dedicated to a particular asset class is invested partially in money market and partially in an asset class inverse security. Maximum inverse allocation exposure ranges from 40% to 50%, depending on the model. Maximum money market allocation exposure ranges from 50% to 60%, depending on the model.

PROCESS

Diversified Tactical Long/Short starts with a universe that includes securities representing U.S. equities, international equities, emerging market equities, real estate, commodities, fixed income, and/or money market. Proprietary quantitative analysis is applied to each asset class on a periodic basis to determine if exposure to each asset class is included or excluded. DTLS includes strong asset classes (as determined by the proprietary quantitative-based model) among allocations. DTLS eliminates long exposure and initiates partial inverse exposure to lagging asset classes that trigger a sell within the proprietary quantitative-based model. Some of the inverse securities use leverage. Asset classes within the portfolio, regardless of long or inverse exposure, have predetermined weightings upon initial allocation. A combination of money market and/or U.S. fixed income securities are used in the money market/fixed income portion of the portfolio.

RISK MANAGEMENT

Diversified Tactical Long/Short implements risk management procedures in an attempt to limit losses on both the long and inverse side of asset class exposure, as defined by the proprietary quantitative-based model. The ability to raise cash (via money market) and the ability to initiate partial inverse exposure are key elements of the DTLS risk management process.

RISK OF LOSS

As with any strategy, there is no guarantee that this strategy will be profitable or meet its objectives. Investors may own securities that lose a substantial portion of value or possibly drop to \$0 in value, resulting in substantial or complete losses for the portfolio. Quantitative-based models can generate negative alpha in certain market conditions or lose money. Markets that lack extended trends and volatile markets with quick price reversals can be problematic for this quantitative model by generating false buy and false sell signals. The use of inverse securities and/or leveraged securities can further increase the losses upon false buy and false sell signals. DTLS may sell an asset class, raise cash, or initiate inverse exposure at or near a relative price low then buy back later at a higher price. Similarly, DTLS may buy an asset class, reduce cash, or eliminate inverse exposure at or near a relative price high then sell at a lower price. Market timing risks and losses with the use of inverse securities and/or leveraged securities are often magnified.

MODELS

Three models targeting various percentages of equity asset class bull market exposure are available. Aggressive models target 98%; Growth models target 80%; Balanced models target 60%.