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Why Salient Tactical Growth and Why Now?

The global coronavirus pandemic precipitated one of the sharpest stock market declines in history, followed by one of the fastest recoveries ever recorded—all happening within a few months' time. This unprecedented market volatility has resulted in elevated equity valuations and optimistic investor sentiment (negative from a contrary point of view).

While the accommodative monetary policy of the U.S. Federal Reserve (Fed) has been a positive for stock prices, the stock market is likely to continue to experience increased volatility as the result of the coronavirus and subsequent economic dislocations. While the market's upward momentum is still strong, we suggest that investors take advantage of this strength and consider a strategy like Salient Tactical Growth that is designed to excel in an increasingly volatile and risky investment climate.

Salient Tactical Growth is primarily an equity-oriented strategy. However, the strategy has also had a low correlation to bonds over the last decade and has had a negative correlation to bonds during the six major increases in interest rates since 2009. This is in large part because monetary policy and credit conditions are a major component of the Salient Tactical Growth strategy's four-pillar process. The strategy's models are designed to monitor the rate of change of interest rates, credit spreads, commodity prices and other measures to identify the conditions that could adversely affect both the stock and bond markets.

If inflationary pressures prove to be more transitory than expected and interest rates rise, there could be significant risk to both stock and bond holders. While many investors have used bonds as the anchor of a traditional 60/40 stock-bond allocation, it may be time to consider Salient Tactical Growth Portfolio as an alternative to that 40% bond allocation. The Salient Tactical Growth investment process has a proven record of cushioning both stock and bond market volatility and could be considered as a core alternative to stock and bond portfolios.[1]

Where are we now in the stock market cycle?

The Salient Tactical Growth strategy seeks to produce above-average, risk-adjusted returns, in any market environment, while exhibiting less downside volatility than the S&P 500 Index. The strategy achieved this goal in 2020 during a very difficult and often baffling stock market environment. We believe providing long-term investment returns in line with equities while managing downside risk is even more important today.

The Salient Tactical Growth team's four-pillar process assesses valuations, monetary policy, investor sentiment and market momentum. Here is where the four pillars stand currently:

- **Valuations** climbed to their highest level in almost a decade in the first half of 2021. While a rise in price-earnings multiples is normal as earnings contract during a recession, this overvaluation in equity prices rivals the overvaluation levels reached during the 2000 dot-com stock market bubble. The ratio of stock prices to gross domestic product (sometimes called the "Buffett indicator") is currently higher than at the bubble peaks in 2000 and 1929. The median price-earnings ratio of common stocks on the New York Stock Exchange is near record highs, as are stock prices as compared with forward earnings estimates globally. ***The team's current valuation models indicate that there may still be meaningful risk from present levels.***

1. Past performance is not indicative of future results. No investment strategy can guarantee performance results.

- **Monetary policy** has continued to buttress the market. The Fed has responded to the pandemic by adding massive liquidity to the markets. The size and scope of monetary policy during this time has been far greater than the quantitative easing programs initiated during the 2008-2009 financial crisis. While this expansion of liquidity has been positive for the stock and bond markets, it is important to remember that the markets always look to the future. The Fed's accommodative monetary policy combined with fiscal stimulus could result in a burst of inflationary pressures. The fact that the Fed has begun to taper its monthly asset purchases may cause some jitters among investors and result in higher stock and bond market volatility.
- **Investor sentiment** showed extreme optimism as the stock market climbed to new highs during the first half of 2021. Intense speculation in areas like GameStop, silver futures and Bitcoin, in addition to the active day trading among Robinhood investors (amateur investors with larger appetites for risk than typical investors) was not unlike the dot-com mania in 2000. ***From a contrary point of view, this has been an increasingly negative development.***
- **Market momentum** has generally been positive since the March 2020 stock market low. However, while the major market indices climbed to new highs during the first half of 2021, fewer and fewer stocks participated in the uptrend, with only about half of all stocks above their 10-week moving averages. This divergence between the major market averages and the broad list of stocks is a bifurcation that has historically resulted in some type of market correction.

Why a tactical strategy in the current environment?

Tactical strategies are designed to perform best in uncertain and volatile market environments. These strategies historically outperform when there are wide-swinging trading ranges and elevated volatility. The Salient Tactical Growth investment team believes that their models are ideally suited to the current uncertain and volatile market environment. The team believes that the Salient Tactical Growth approach is particularly appropriate for multiple reasons:

1. **Stock market corrections** may become more frequent in coming years—in line with historical precedent. These corrections usually reflect the gradual but often volatile return of economic activity to more normal levels.
2. **Short selling** may again become a valuable alpha-generating tool. Pioneering market analyst and investor Marty Zweig's principle of "Don't fight the tape" may be more relevant in coming years as the market undergoes large swings up and down. Tactical investment strategies that are able to sell short in declining markets are designed for volatile markets.
3. **We may see a bumpy ride back to rate normalization.** The recovery of the global and U.S. economies from the coronavirus pandemic will likely take time and it may be a bumpy road back to normalization. The recovery will also occur amid greatly increased global debt levels, less liquidity and a shift from passive investments to more active and flexible investments. We believe active risk management is essential to navigating this—and any—period of increased market volatility.
4. **The strategy has a low correlation to bonds.** The strategy has had a low 0.11 correlation to bonds over the last decade and has had a negative correlation to bonds during the six significant periods of increases in interest rates since 2009.[2] Additionally, the strategy has outperformed bonds during each of these six periods of rising rates and produced positive returns in five of the six periods.[3]

2. Source: Morningstar Direct, as of June 30, 2021
3. Past performance is not indicative of future results. No investment strategy can guarantee performance results.

Why now?

The February-March 2020 decline in stocks was the steepest decline from an all-time high in stock market history. While the market recovered to new all-time highs in 2021, significant concerns still exist as a result of disruptions caused by the coronavirus and its variants and the monetary and fiscal stimulus programs, which may affect the market in the future. Investors who experienced the last financial crisis do not want to be subject to those types of risks again. Those investors close to retirement may not have time to make up a 50% market decline similar to the one that occurred during 2008–2009. Keep in mind:[4]

- The 2008–2009 stock market decline wiped out all the gains since 1995.
- The 1973–1974 stock market decline wiped out all the gains since 1958.
- The Nasdaq Composite Index fell 80% between 2000–2002 during the dot-com bubble. It took 15 years for the index to recover back to even.
- From the February 19, 2020, high to the March 23, 2020, low, the S&P 500 wiped out three years of gains in 23 trading days.
- A 1% rise in interest rates would result in a 9.0% decline in the 10-year U.S. Treasury Note and a 20.8% decline in the 30-year U.S. Treasury Bond.

The strong stock market rally to new highs in the major market averages since the March 2020 market bottom has exacerbated equity price overvaluation and spurred optimistic investor sentiment (negative from a contrary point of view). The accommodative Fed policies coupled with pandemic-related government stimulus have raised concerns as to whether the rise in commodity prices and uptick in recent inflation statistics will be transitory or more long-lasting. We believe that investors should consider a strategy that is designed to mitigate downside portfolio risk and cushion assets from another major stock or bond market decline.

The task of the Salient Tactical Growth strategy is to enhance downside risk mitigation, utilizing the investment tools at its disposal and aiming at positive performance during difficult times. The investment process is designed to help investors keep their portfolios prepared for impending market downturns. Salient Tactical Growth has helped cushion portfolios from larger equity market declines that have occurred in recent years.[5]

S&P 500 Decline Period	Salient Tactical Growth Portfolio – Net	S&P 500	Difference
07/07/11 - 10/03/11	-2.98%	-17.52%	14.54%
07/20/15 - 02/11/16	-4.18%	-12.89%	8.71%
01/26/18 - 02/08/18	3.54%	-9.03%	12.57%
09/20/18 - 12/24/18	-3.99%	-18.73%	14.74%
02/19/20 - 03/23/20	-1.65%	-33.47%	31.82%

Source: Morningstar Direct, September 2021. For illustrative purposes only. Past performance is not indicative of future results. No investment strategy can guarantee performance results.

4. Sources: Bloomberg and Ned Davis Research, as of August 13, 2021
5. Past performance is not indicative of future results. No investment strategy can guarantee performance results.

The Salient Tactical Growth Portfolio has historically outperformed bonds, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index, during every major rise in interest rates since 2009. During five of six of these rising interest rate periods, Salient Tactical Growth Portfolio produced positive returns as compared with declines in the bond market.[6]

Periods of Rising Interest Rates	Salient Tactical Growth Portfolio – Net	Bloomberg Barclays U.S. Aggregate Bond Index	Difference
11/30/09 - 12/29/09	1.33%	-1.47%	2.80%
11/04/10 - 01/31/11	4.10%	-1.65%	5.75%
07/25/12 - 09/05/13	7.65%	-3.57%	11.22%
01/30/15 - 12/30/15	-0.98%	-1.37%	0.39%
07/08/16 - 11/08/18	13.31%	-2.33%	15.64%
08/04/20 - 02/26/21	3.28%	-2.25%	5.53%

Source: Morningstar Direct, September 2021. For illustrative purposes only. Past performance is not indicative of future results. No investment strategy can guarantee performance results.

Why Salient Tactical Growth?

We believe the Salient Tactical Growth strategy may benefit long-term investors who want portfolios that are designed to be resilient in any market climate for multiple reasons.

- The Salient Tactical Growth strategy has been run by the same portfolio manager since 2001, through multiple bull and bear markets.
- The strategy can be allocated up to 100% cash and can also be net short, unlike many other tactical strategies.
- The investment team continually assesses market conditions in real time with the ability to reallocate the portfolio on an intraday basis.
- The portfolio invests in only the most liquid major market index exchange-traded funds (ETFs) and futures contracts.
- The portfolio has outperformed its peer groups and bonds since inception:

	3 Year	5 Year	7 Year	Since Inception*
Salient Tactical Growth Portfolio – Net	4.94%	5.88%	4.03%	4.27%
HFRX Equity Hedge Index	4.96%	4.90%	3.05%	2.49%
Morningstar Long/Short Equity Index	4.45%	4.79%	3.05%	3.58%
Bloomberg Barclays U.S. Aggregate Bond Index	5.36%	2.94%	3.26%	3.74%

* 08/01/09
Source: Morningstar Direct, October 2021. Annual compounded net returns as of 09/30/21. For illustrative purposes only. Past performance is not indicative of future results. No investment strategy can guarantee performance results.

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Performance (%) as of 09/30/21

	Sept 2021[1]	Q3[2]	YTD[2]	1 YR[2]	3 YR[2]	5 YR[2]	10 YR[2]	Since Inception[3]
Salient Tactical Growth Portfolio – Net	-2.56	-0.89	4.83	8.83	4.94	5.88	4.59	4.27
HFRX Equity Hedge Index	-0.51	1.28	9.24	17.74	4.96	4.90	3.74	2.49
S&P 500 Index	-4.65	0.58	15.92	30.00	15.99	16.90	16.63	15.18
Bloomberg Barclays U.S. Aggregate Bond Index	-0.87	0.05	-1.55	-0.90	5.36	2.94	3.01	3.74

1. As of 09/30/21 2. As of 09/30/21 3. 08/01/09 Returns for periods greater than one year are annualized. Net returns are calculated using a 2.00% wrap fee, applied monthly.

Performance provided represents the annualized return of the portfolio and the indices over the period. Investing involves risk, including possible loss of principal. Past performance does not guarantee future results. Index returns are for illustrative purposes only and do not represent actual performance of any securities. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

The **Tactical Growth composite** seeks to produce above-average, risk-adjusted returns, in any market environment, while exhibiting less downside volatility than the market itself. The strategy is designed to evaluate potential long and short investments in an attempt to isolate those securities believed to be undervalued or overvalued relative to their intrinsic value and offer the greatest risk-adjusted potential for returns. The portfolio primarily invests in ETFs of securities and security indices that can represent long, short, levered long or levered short positions in general asset classes of both U.S. and overseas equity markets. For comparison purposes, the composite's benchmarks are the HFRX Equity Hedge Index and the S&P 500 Index. The HFRX Equity Hedge Index is comprised of private funds with strategies that maintain both long and short positions primarily in equity securities and equity derivatives. The S&P 500 Index consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market value-weighted index and one of the most widely used benchmarks of U.S. stock performance. On January 1, 2019, the HFRX Equity Hedge Index replaced the S&P 500 Index as the strategy's primary benchmark index because the new index more closely aligns to the strategy's investment methodologies. Prior to December 31, 2018, the Morningstar Long/Short Equity Index was the secondary benchmark. It is no longer shown as the HFRX Equity Hedge Index more closely aligns to the portfolio's investment strategies.

Separately managed account strategies may not be appropriate or suitable for all investors. There is no guarantee that the strategy's objective will be achieved. It should not be assumed that investments in this strategy have been or will be profitable.

Past performance does not guarantee future results.

Other than levered and inverse ETFs, leverage or derivatives are not used. The use of levered and inverse ETFs is anticipated to be infrequent and may not materially impact returns.

The risks associated with ETFs are detailed in the individual ETF's prospectus, which will be provided upon request.

The portfolio is sub-advised by Broadmark Asset Management LLC, an independent registered investment advisor.

Salient is the trade name for Salient Partners, L.P., which together with its subsidiaries provides asset management and advisory services. Salient claims compliance with the Global Investment Performance Standards (GIPS®). Please call 800-994-0755 to obtain compliant presentation and/or a list of composite descriptions.

As of 09/30/21, Salient Tactical Growth Portfolio does not own shares in GameStop Corporation (GME).

Definition of terms

60/40 portfolio refers to a portfolio in which 60% of assets are invested in stocks and 40% are invested in bonds.

Alpha is a technical risk ratio that shows a fund's excess return relative to the performance of its benchmark index.

Bitcoin is a digital or virtual currency created in 2009 that uses peer-to-peer technology to facilitate instant payments.

Bloomberg Barclays U.S. Aggregate Bond Index represents securities that are U.S. domestic, taxable and dollar denominated. The index covers the U.S. investment-grade, fixed-rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities.

Breadth is a technique used in technical analysis that attempts to gauge the direction of the overall market by analyzing the number of companies advancing relative to the number declining.

Correlation is a statistical measure of how two securities move in relation to each other.

COVID-19 is an infectious disease caused by the novel coronavirus.

Credit spread is the spread between Treasury securities and non-Treasury securities that are identical in all respects except for quality rating.

Exchange-traded fund tracks an index but trades like a stock on an exchange.

Federal Reserve is the central bank of the United States that is responsible for regulating the U.S. monetary and financial systems.

Forward earnings are an estimate of the next period's earnings of a company, usually until the completion of the current fiscal year and sometimes to the following fiscal year.

Futures contracts are financial contracts that obligate the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price.

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced in a country in a given year. GDP is one way of measuring the size of a country's economy.

HFRX Equity Hedge Index is comprised of private funds with strategies that maintain both long and short positions primarily in equity securities and equity derivatives.

Momentum is the rate of acceleration of a security's price or volume.

Morningstar Long/Short Equity Index is an equal-weighted index that measures the average performance of all funds in Morningstar's long/short equity category.

Nasdaq Composite Index is a capitalization-weighted index designed to measure the performance of 3,000 stocks listed on the Nasdaq exchange, which includes large technology and biotech companies.

Price-earnings (P/E) ratio is a measure of the price paid for a share of stock relative to the annual income or profit earned by the company per share. A higher P/E ratio means that investors are paying more for each unit of income.

Quantitative easing refers to a form of monetary policy used to stimulate an economy where interest rates are either at, or close to, zero.

S&P 500 Index is an unmanaged index of 500 common stocks chosen to reflect the industries in the U.S. economy.

Short selling, or shorting, is the practice of selling a financial instrument that a seller does not own at the time of the sale with the intention of later purchasing the financial instrument at a lower price to make a profit.

Valuation is the process of determining the value of an asset or company based on earnings and the market value of assets.

Volatility is a statistical measure of the dispersion of returns for a given security or market index.

Volume is the number of shares or contracts traded in a security or an entire market during a given period of time.

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