

DAILY REPORT

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|-----------------|------------|
| Date | 2016-09-16 |
| Time (Eastern) | 03:51 PM |
| Next Refit in | 16 days |
| Last Refit Date | 2016-09-12 |

MODEL INDICATORS

| Variables in Order of Frequency of Inclusion | Value ¹ |
|--|--------------------|
| Proprietary Variable X | -0.35 |
| Variance Risk Premium (VRP) | -0.26 |
| Default Spread (DEF) * | 0.39 |
| New Orders/Shipments (NOS) | -0.2 |
| Baltic Dry Index (BDI) | 0.76 |
| Implied Correlation (IC) * | -0.33 |
| Proprietary Variable Y * | -1.34 |
| Short Interest (SI) * | -0.66 |
| Consumption vs Wealth and Income (CAY) | -2.74 |
| PCA of Price Indicators (PCA.price) * | 0 |
| Moving Average (MA) * | 0 |

EQUITY RISK PREMIUM CALCULATION (ANNUALIZED)

| | Estimate | Historical ² |
|----------------------------|----------|-------------------------|
| Total Return | -0.92% | 10.96% |
| 3-Month Treasury Bill Rate | 0.28% | 4.64% |
| Equity Risk Premium | -1.21% | 6.32% |

MODEL CONCLUSIONS

| | |
|----------------------------------|------|
| Optimal Long Term Exposure: | -17% |
| Short Term Adjustment: | 32% |
| Current Optimal Equity Exposure: | 15% |

Core stock market exposure is determined at the close of each trading day based on the output of the six-month equity risk premium model. In effect, stock prices are forecasted daily, as measured by the S&P 500 Index, six months out. In November 2015, a short-term overlay was introduced, based on a series of models that forecast the next day's change in stock prices. The core stock market exposure ranges from short 50% to long 150%. The short-term overlay can add or subtract up to 50 percentage points of exposure to the core stock market position. As a result, on any one day, allocation to the stock market can be as low as 100% short or as high as 200% long. However, these extreme positions are rare. The existing models evolve over time and new models may be introduced in the future.

A glossary of terms used in this report appears on the following page.

¹Bullish indicators are denoted by positive signs and bearish indicators by negative signs. Variables marked with * are currently not in the model.
²Calculated using S&P 500 and 3-Month Treasury Bill Rate between 1954 and present.

GLOSSARY

(Terms listed in order of appearance in the Daily Report)

- **Refit** – estimating the relationship between model indicators and future stock returns with the benefit of new data.
- **Proprietary variable** – a model indicator developed internally that is not disclosed to the public.
- **Variance Risk Premium** – the difference between volatility estimates observed in markets and recent realized volatility.
- **PCA** – abbreviation for Principal Components Analysis. A statistical process that takes a large number of variables and produces a smaller number of variables that contain much or most of the information in the original large set of variables.
- **Default Spread** – the difference between the low quality and high quality corporate bond yields.
- **New Orders / Shipments** – new orders for and shipments of manufactured durable goods, as published by the U.S. Department of Commerce.
- **Baltic Dry Index (BDI)** – an assessment of the price of moving raw materials by sea, published daily in London by the Baltic Exchange.
- **Implied Correlation** – average pairwise correlation inferred from the relationship between the implied volatility of an index of stocks and the individual implied volatilities of the stocks that make up the index.
- **Implied Volatility** – an estimate of the future volatility of a stock based on prices of options on the stock.
- **Short Interest** – a measure of aggregate stock market short interest based on a weighted sum of short interest of individual stocks. A market participant sells a stock short by borrowing it from a broker and selling it, hoping to buy it back at a lower price.
- **Consumption versus Wealth and Income (CAY)** – deviations from the equilibrium relationship among these three variables can predict future stock returns, according to a 2001 paper by Lettau and Ludvigson. Consumption and income are published by the U.S. Bureau of Economic Analysis; wealth is published by the Federal Reserve.
- **Equity Risk Premium (ERP)** – the excess return that investing in the stock market provides over the return on a riskfree asset like U.S. Treasury bills. To report an annual forecast of the ERP, the 6 month forecast is taken and the historical mean ERP is added for the remaining 6 months.