

DAILY REPORT

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|-----------------|------------|
| Date | 2016-02-10 |
| Time (Eastern) | 03:50 PM |
| Next Refit in | 9 days |
| Last Refit Date | 2016-01-26 |

MODEL INDICATORS

| Variables in Order of Frequency of Inclusion | Value ¹ |
|--|--------------------|
| Proprietary Variable X | -0.33 |
| Variance Risk Premium (VRP) | -0.49 |
| PCA of Price Indicators (PCA.price) | 0.56 |
| Default Spread (DEF) * | -0.52 |
| New Orders/Shipments (NOS) | 1.95 |
| Baltic Dry Index (BDI) | -1.53 |
| Implied Correlation (IC) * | 0.23 |
| Proprietary Variable Y * | -2.14 |
| Short Interest (SI) * | 1.06 |
| Consumption vs Wealth and Income (CAY) | -0.39 |
| Moving Average (MA) | 0 |

EQUITY RISK PREMIUM CALCULATION (ANNUALIZED)

| | Estimate | Historical ² |
|----------------------------|----------|-------------------------|
| Total Return | 6.26% | 10.96% |
| 3-Month Treasury Bill Rate | 0.31% | 4.64% |
| Equity Risk Premium | 5.96% | 6.32% |

MODEL CONCLUSIONS

| | |
|----------------------------------|-----|
| Optimal Long Term Exposure: | 71% |
| Short Term Adjustment: | 8% |
| Current Optimal Equity Exposure: | 79% |

The long term model looks out at a 6 month time horizon for trend directionality. A short term adjustment has been introduced on 11 November 2015. This model will continue to evolve with additional short term and intermediate term models.

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** – the excess return that investing in the stock market provides over the return on a risk-free asset like U.S. Treasury bills. We annualize this figure by doubling our six-month equity risk premium forecast.