Tactical Equity Income

Tactical | Disciplined | Focused®

GOOD HARBOR®
FINANCIAL, LLC

ABOUT GOOD HARBOR

Good Harbor® Financial, LLC ("Good Harbor" or the "Adviser") manages a comprehensive suite of investment strategies designed to fit into a wide range of portfolios, providing actively managed access to a broad range of global capital markets. Good Harbor's flagship investment suite, Tactical Core, was founded on our belief that disciplined analysis of the relationships between capital markets, interest rates and the economy can produce sound data to determine tactical investment exposure for participation in equity market advances while mitigating downside risk. Our investment strategies are developed by an experienced team of individuals with strong quantitative backgrounds and who understand the responsibilities that come with professional asset management.

MANAGEMENT TEAM

Jeffrey H. Kim is the lead portfolio manager for the Tactical Equity Income strategy. He is responsible for its day-to-day portfolio management including scenario testing, operations and trading. Prior to joining Good Harbor Financial he was a portfolio manager at Chicago Capital Partners. Jeffrey earned his MBA from The University of Chicago Graduate School of Business. He also holds a MS in Engineering Systems from The Massachusetts Institute of Technology and a BSEE from Northwestern University.

Neil R. Peplinski, CFA is the Chairman, Chief Investment Officer and Co-founder of Good Harbor, as well as the chief architect of the Tactical Core® series, the firm's flagship statistical asset allocation strategy. Neil is responsible for research, investment analysis and the development / oversight of new investment strategies and models. He previously served as a portfolio manager and quantitative analyst overseeing a $400 million portfolio of structured assets. Neil earned an MBA with High Honors from The University of Chicago Booth School of Business, an MSEE from The University of Michigan and a BSEE from The Michigan Technological University where he graduated *summa cum laude*.

OBJECTIVE & PHILOSOPHY

The primary objective of the Tactical Equity Income strategy ("TEI" or the "strategy") is total return on capital with opportunities for current income. The Adviser believes that equity prices are driven by changes in Equity Risk Premiums and that these premiums vary with time and over the business cycle.

Equity Risk Premium is excess return that the market participants require over and above a risk-free rate at a particular point in time, and – as a result – compensates investors for holding the relatively higher risk of the equity market. The Adviser believes that during periods of market stress, or exuberance, stock price variation is due almost exclusively to changing Equity Risk Premiums rather than changes in either expected or realized company cash flows.

A discounted cash flow analysis is a widely used method of valuing any cash generating asset. A typical discounted cash flow analysis involves an estimate of two key elements; expected cash flows and discount rates (the discount rate is used to determine the current value of future cash flows which takes into account the time-value of money, and risk).

While many traditional equity managers tend to place most of their focus on estimates of the expected future cash flows, Good Harbor's tactical investment process focuses instead on the discount rate component. As the risk premium is directly reflected through this discount rate, when investors become more risk-averse, required returns (risk premiums) tend to rise, placing downward pressure on stock prices; similarly, as investors become more tolerant of risk, required returns tend to decline, providing upward pressure on prices.

> ***"Good Harbor believes that equity prices are driven by changes in investor equity risk premiums and that these premiums vary with time and the business cycle."***

To capitalize on these factors the strategy seeks to invest in companies whose revenues and earnings are derived from tangible assets, such as Real Estate Investment Trusts ("REITs"), Master Limited Partnerships ("MLPs") or energy infrastructure companies, basic materials, and energy-related companies. These types of companies generally demonstrate stable cash flows, deliver above average yields and hold potential for modest growth accompanied by a margin of safety. In addition, the commoditized liquidation value of the assets has the potential to provide an extra layer of downside protection.

The data show that despite the stable nature of these firms' cash flows, stock price volatilities are often measurably higher than would be suggested by their underlying cash flow variations (both realized and expected). That is, investors' risk premiums are time-varying even when cash flow expectations are stable. This observation supports our belief that the primary driver of stock variation are changes in investors' equity risk premiums rather than changes in expected cash flows.

Thus our thesis is that investing in companies whose equity prices have fallen because of changes in investor sentiment (rising risk premiums), despite stable cash flows, offers an opportunity to gain exposure when their stock prices are more likely to rebound. We believe that this approach has the potential to generate more attractive risk-adjusted returns versus buying and holding the same names.

The strategy takes positions in these through direct ownership of stocks, which are supplemented with equity options. During less favorable environments when attractive investment opportunities are limited, the strategy has the flexibility to invest in cash or short-duration US Treasuries.

The strategy may also invest in conservative limited-risk options positions on these same securities in an attempt to accelerate returns, generate income or limit downside risk.

INVESTMENT PROCESS

We begin by focusing on firms engaged in businesses that generate stable or predictable cash flows and pay out substantial amounts of their excess cash flows as a dividend. These include companies in the real estate, infrastructure, basic materials and energy sectors.

We further filter the universe to companies which exhibit characteristics which we deem favorable to our investment thesis: long-cycle businesses, stable management histories, a significant presence in their industry, and revenues which are derived from tangible assets which are traded in liquid secondary markets.

Once the investable universe is determined, we seek to invest in these tangible asset companies when their risk premiums are at higher levels by executing the following investment process:

- **Calculate and monitor the implied risk premium** being experienced by each company in our investable universe. Inputs into this proprietary calculation include expected 12-month forward cash flows, expected 10YR Treasury Note rates (as implied by futures contracts), and relative volatilities.
- **Flag when a company in this investable universe is experiencing high risk premiums** relative to what it has experienced in the past. This triggers a buy signal for the specific security.
- For each flagged investment, **perform a company specific review** to ensure no exogenous catalysts that may be responsible for the rising risk premium.
- If exposure to a company is deemed warranted, **review options market for the target firm for downside protection and income generation opportunities,** and select desired investment strategy.
- **Monitor positions and manage portfolio risk through cVaR analysis** relative to the benchmark, ensuring that the 99% CVaR level is no greater than 1.1x that of the S&P 500.
- **Remain in cash if risk premium levels do not warrant investment.**

CURRENT INCOME

The strategy will attempt to offer current income through a dividend yield that is generated by the investments that we typically hold.

Note that the dividend yield can vary based upon (i) the securities held in TEI at any point in time, and (ii) higher or lower cash levels in TEI at the time.

VEHICLE SELECTION

Under normal market conditions, the strategy will invest the majority of TEI's net assets (plus any borrowings for investment purposes) in equity securities. Equity securities may include common and preferred stock, American Depositary Receipts ("ADRs"), MLPs, REITs, US

royalty and Canadian royalty trusts and exploration production companies ("Energy Trusts"), exchange traded funds ("ETFs") or exchange traded notes ("ETNs"). Option investments may include writing (selling) covered call options, or purchasing calls and puts. The strategy aims to provide added income by writing covered calls on long positions, and to provide downside protection through the purchase of protective puts when conditions suggest a heightened risk of loss.

Cash or Fixed Income investments can be utilized when the investment opportunities are deemed unattractive. Fixed income investments will generally include ETFs that track a Treasury bond index and money market funds. The strategy may invest in various instruments designed to provide exposure to a particular equity investment, option or Treasury bond index or to replicate the returns of such investment. ■

There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. There is no assurance that dividends or income will be generated.

DISCLOSURE

Investing involve risks including the possible loss of principal. There are numerous risks associated with options transactions. Decisions as to whether, when and how to write and purchase options under the strategy's options strategy involves the exercise of skill and judgment which could be unsuccessful. Options are subject to sudden price movements and are highly leveraged, in that payment of a relatively small purchase price, called a premium, gives the buyer the right to acquire an underlying security that has a face value substantially greater than the premium paid. The buyer of an option risks losing the entire purchase price of the option. The writer, or seller, of an option risks losing the difference between the purchase price received for the option and the price of the security underlying the option that the writer must purchase or deliver upon exercise of the option. There is no limit on the potential loss. The writer of a covered call option gives up the opportunity to profit from increases in the market value of the security covering the call option above the sum of the premium and the strike price of the call, but retains the risk of loss should the price of the underlying security decline.

ETFs and ETNs are subject to investment advisory and other expenses, which will be indirectly paid by the investor. ETFs and ETNs are subject to issuer, fixed-income and risks specific to the fund. The strategy may invest directly or through ETFs in companies of any size capitalization, which may present more abrupt or erratic market movements than larger companies. The strategy may invest in fixed income securities, including US Government securities which are subject to changing financial and interest rate conditions. Issuers may not make principal payments resulting in losses to the strategy. Market conditions could cause these securities to fall in tandem, creating correlation risk.

ADRs are subject to many of the same risks as a direct investment in foreign companies including international trade, currency, political, regulatory and diplomatic risks. The value of the strategy's investments in REITs is subject to real estate values, available capital or financing opportunities and increases in property taxes and operating costs.

The strategy may invest in the basic material, energy and infrastructure industry, which could underperform the market due to adverse market conditions, legislative and regulatory changes, supply and demand and operational risks and other risks associated with a concentrated investment focus. The strategy may invest in MLPs directly or through ETFs or ETNs and include risks relating to energy prices and the market for energy commodities and unique tax consequences

Good Harbor is registered as an investment adviser with the United States Securities and Exchange Commission ("SEC"). Registration does not constitute an endorsement of the firm by the SEC nor does it indicate that the Adviser has attained a particular level of skill or ability. Good Harbor claims compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of the firm's composites and/or a presentation that adheres to the GIPS standards, please contact the firm at the address listed.

Glossary of Terms

cVar - CVaR is a risk assessment technique used to reduce the probability that the composite portfolio will incur large losses by assessing the likelihood that a specific loss will exceed the value at risk.

S&P 500 Index - An unmanaged composite of 500 large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks. You cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges.

Option- A financial derivative that represents a contract sold by one party to another party.

Call Option - An options contract that gives an investor the right (but not the obligation) to buy a stock, bond, commodity, or other instrument at a specified price within a specific time period.

Put Option - An options contract giving the owner the right, but not the obligation, to sell a specified amount of an underlying security at a specified price within a specified time.

Selling a call option - An options strategy that gives the investor an obligation to sell the underlying security at a specified price within a specified period of time.

Collar - An options strategy created by purchasing an out of the money put option while simultaneously writing an out of the money call option. Protective put - an options strategy that involves buying a put option on the underlying security that is held in a portfolio.

Covered call - Strategy whereby an investor holds a long position in an asset and sells call options on that same asset in an attempt to generate increased income.

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