ASTOR S.T.A.R. - MID YEAR UPDATE

By Deepika Sharma, Managing Director of Investments

- The Stock Market appears to be placing value on sectors; Energy, Materials, Utilities and Industrials in particular, laggards from last year as well as ones projected to perform well in a risk off environment.
- However, given that we are fundamentally driven, our analysis believes that Economic indicators are pointing toward a weaker growth environment in these particular sectors compared to others such as healthcare, financials and technology, and have allocated the portfolio that reflects this analysis.
- Our view is that the performance of the S.T.A.R. portfolio YTD is the result of disconnect between The U.S. Economy and how the stock market views it.
- We believe that as political and economic uncertainty dissipates, the risk-off trades will unwind bringing market performance in line with fundamentals, which could help the following;
    - Value see some outperformance versus Growth
    - Large caps give way to small and mid-cap leadership
    - Defensive sectors give way to more economic sector leadership

---

Astor's Sector Tactical Allocation & Rotation Strategy (S.T.A.R) is a core equity solution for the risk minded Investor. STAR looks at economic fundamentals at the sector level and utilizes multiple signals and approaches to rotate out of sectors expected to underperform & overweight sectors expected to grow. Along with rotating through sectors based on sector-specific fundamentals, the ability to lower equity allocations provides the portfolio with enhanced risk control. The STAR strategy has the ability to raise up to 85% cash and fixed income allowing for tactical risk management. Not having to be fully invested in equities, in our opinion reduces volatility and drawdowns in the long run.

In this piece, we cover major themes we see playing out this year for US domestic sectors, with regards to sector fundamentals, factor selection and the overall direction of the US economy. We seek to answer questions such as:

1) How have the sector economic fundamentals evolved and how does that guide allocation?
2) So far this year, why are sectors not performing in line with fundamentals?
3) Why is value underperforming growth & is this trend expected to reverse? Is this related to small caps underperforming large/mega caps?
4) What are the implications of market uncertainty from Brexit, monetary policy, elections etc. for domestic equity?

Evolution of Economic Fundamentals for Sectors

The sector rotation component of STAR compares sectors using individual economic fundamentals to gauge the relative strength of each sector. It then seeks to under or overweight individual sectors based upon growth differentials, using trends in macroeconomic data points.

Figure 1 shows a snapshot of sectors' economic fundamentals in July 2016, July 2015 & July 2014 respectively. As of July 2016, Energy, Materials, Industrials & Consumer Discretionary are exhibiting weaker growth factors relative to their individual expected baseline growth. What's notable is that when compared to July 2014, some sectors have shifted to below average on the index creating higher relative disparity among sectors. This illustrates

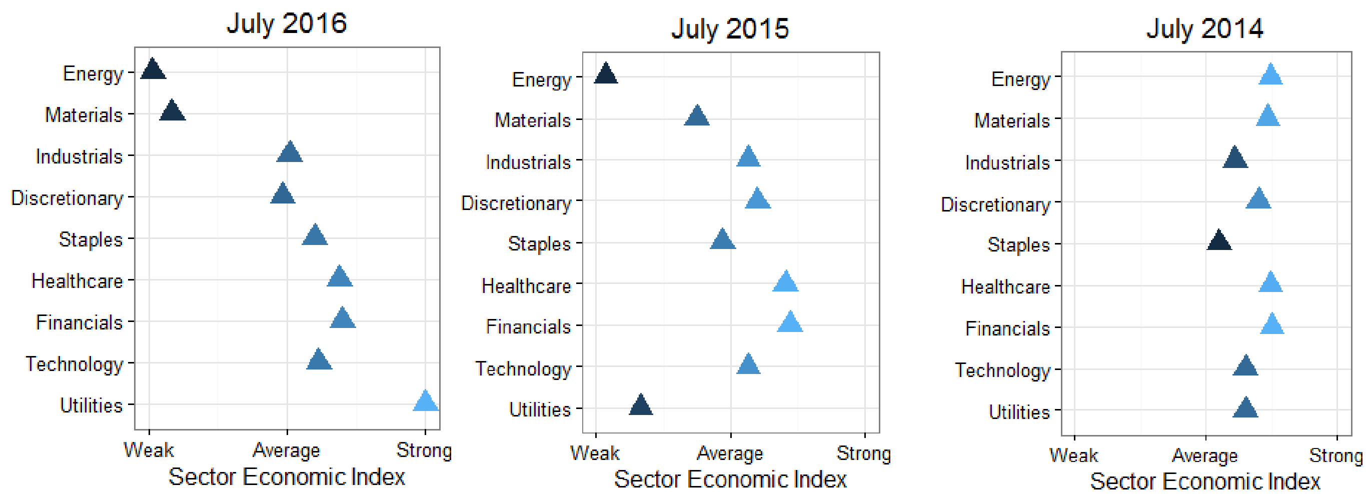

Figure 1: Sector Economic Index used in STAR for July 2016 compared to July 2015 and July 2014.
(Source: Astor Calculations) Past performance is no guarantee of future results. See definitions and disclosures on the last page for additional information

STAR's sector rotation philosophy- we seek to significantly change positions only when warranted by economic factors. Hence, the extent and size of deviations from baseline weights differs greatly between mid-2016 and mid-2015 or mid-2014. While our current positioning in STAR is not a direct map-over from the economic indices, it provides a rough guide into how the sector fundamentals tie in with STAR.

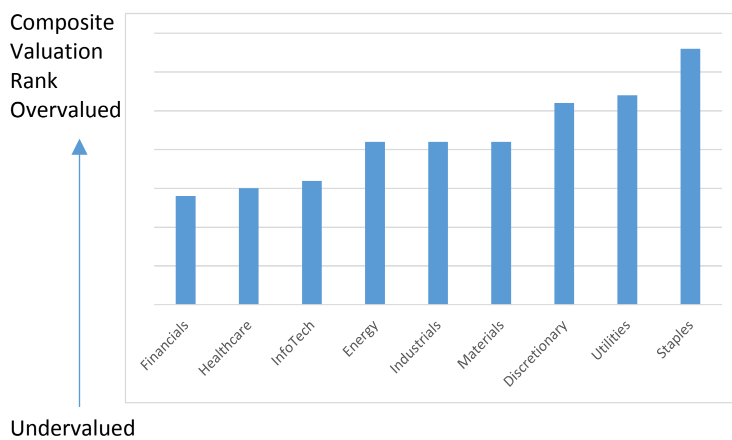

Figure 2: Sectors ranked by Composite Valuation Indicators as of June 30, 2016. The ranking shows average of ranks for Estimated P/E 2016, Projected 5-year Earnings Growth, Price/Book and Long Term Debt/Capital.

(Source: Bloomberg, Factset) Past performance is no guarantee of future results. See definitions and disclosures on the last page for additional information.

How have sectors performed relative to Fundamentals?

In Q2 2016, passive investors moved in droves towards defensives in response to a risk-off environment, making passive ownership of defensive stocks thehighest since 2007 according to UBS. Energy (XLE, +11%), Utilities (XLU, +7%), Healthcare (XLV, +6%) and Staples (XLP, +4.5%) led the market, similar to Q1 2016[1]. This has made Energy, Materials, Utilities and Industrials as the top performers in the 1st half of 2016. If you look closely at Figure 1, these are also some of the sectors with the weakest economic fundamentals and hence, the largest underweights in STAR's sector rotation model.

[1] Total Returns for Q2 2016 for Select Sector SPDR Funds

	Estimated P/E 2016	Projected 5yr Earnings Growth	Price/Book	Long Term Debt/Capital
Financials	14.13	8.0%	1.26	41.50%
Healthcare	16.04	11.1%	3.73	38.20%
Technology	16.85	13.1%	3.96	25.40%
Energy	98.54	8.5%	1.87	26.60%
Industrials	16.76	10.3%	3.91	48.40%
Materials	17.87	9.3%	3.52	47.70%
Discretionary	17.91	19.4%	4.67	57.80%
Utilities	19.01	5.5%	2.04	53.00%
Staples	22.25	8.7%	4.38	60.10%

Figure 3: Disaggregated Valuation Indicators for Sectors as of June 30, 2016. Green signifies top 3 undervalued and red signifies overvalued sector. *(Source: Bloomberg, Factset) Past performance is no guarantee of future results. See definitions and disclosures on the last page for additional information*

Additionally, those four sectors start with lower baseline weights in STAR, as they represent lower market share in the S&P 500, which in turn, in our view reflects diminished economic relevance of these sectors.

We think that the risk-off sentiment has been governing sectors' performance in the first half of 2016, pushing flows & valuations higher and creating dislocation between markets and underlying fundamentals. Supporting balance sheet valuation indicators such as debt/income ratios, projected P/E, P/Book and Projected 5 year earnings growth, we believe confirm the story and show the outperforming sectors to be overvalued.

We expect that as political and economic uncertainty dissipates, the risk-off trades will unwind bringing market performance in line with fundamentals.

The Value vs. Growth Story

The STAR strategy uses Alphadex®ETFs, which provide security selection and factor tilts within the 9 US sectors. Historically, the Alphadex® selection methodology that ranks & weighs stocks based on value & growth factors has shown outperformance over a cap-weighted approach.

Since inception in mid-2007[2], a market-cap weighted index of Alphadex® sector ETFs returned 7.04% annually whereas DJ sector ETFs returned 5.5%. If we go further back using underlying indices rather than live ETF history, as shown in Figure 4, the market-cap weighted index of Alphadex™ sectors had average excess return of 3.75% annually from 1996.

But the recent relative underperformance of value has been a drag for Alphadex® ETFs and hence, STAR. In 2015, the Russell 1000 Value Index was down 950 bps against the Russell 1000 growth Index).

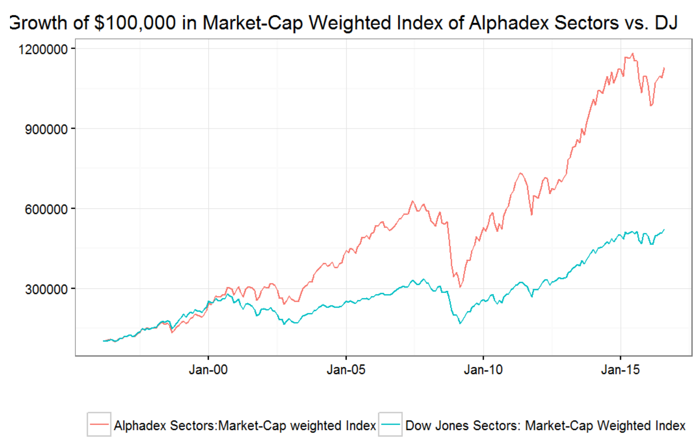

Figure 4: Growth of $100,000 invested in a market-cap weighted index of Alphadex® Sector Underlying Indices vs. Dow Jones sector indices as of June 30, 2016 *(Source: Bloomberg, Astor Calculations). Past performance is no guarantee of future results. See definitions and disclosures on the last page for additional information*

[2] *Ending June 30, 2016. Source: Astor Calculations using S&P 500 sector weights and total returns of Alphadex® sector ETFs & Dow Jones Sector Indices.*

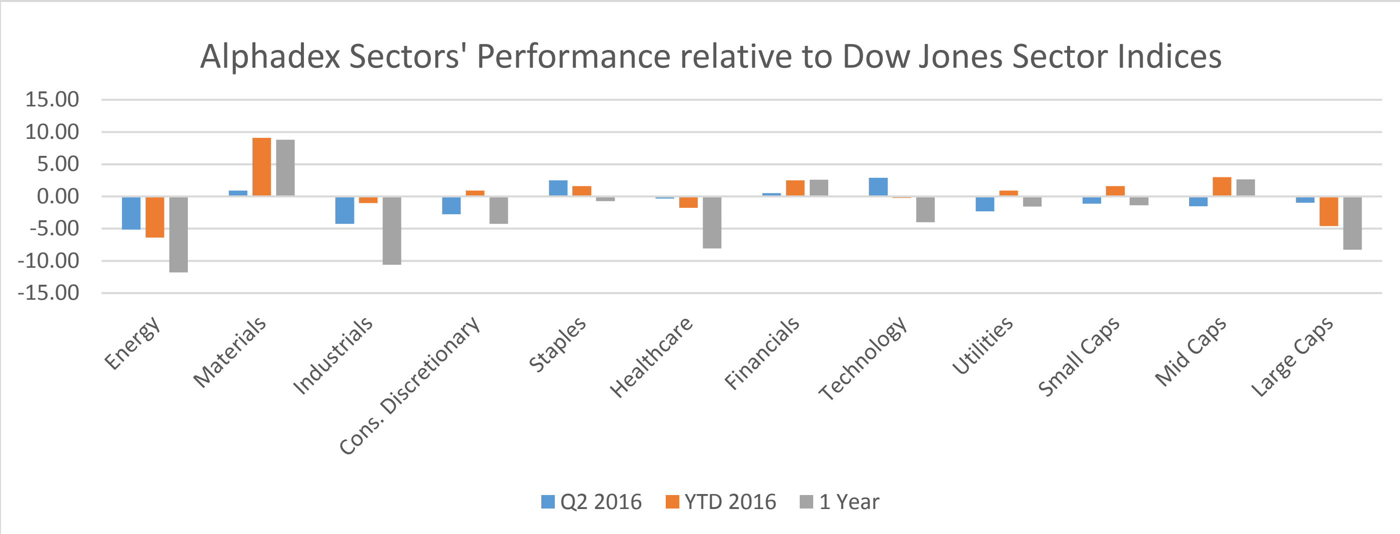

Figure 5: Alphadex® Sector & Size ETF returns vs. Dow Jones Sector Index returns over Q2 2016, YTD 2016 and 1 Year as of June 30, 2016 *(Source: Bloomberg) Past performance is no guarantee of future results. See definitions and disclosures on the last page for additional information*

We have seen a recovery in value stocks in Q1 and Q2 2016 led by energy stocks, but large cap value is still under growth by 679bps on a 2-year rolling basis whereas small cap value is 209bps below small cap growth.

		Ticker	2015	YTD 2016	2-Year Rolling
Russell 1000 Value Index	Large Value	RLV Index	-3.84%	6.30%	7.10%
Russell 1000 Growth Index	Large Growth	RLG Index	5.67%	1.35%	13.89%
Russell 2000 Value Index	Small Value	RUJ Index	-7.47%	6.08%	-1.84%
Russell 2000 Growth Index	Small Growth	RUO Index	-1.38%	-1.61%	0.25%

Source: Bloomberg (as of 6/30/2016). Past performance is no guarantee of future results. See definitions and disclosures on the last page for additional information

Figure 5 shows the performance gap (Last Quarter Q2 2016, YTD and 1 year) from Alphadex® Sector and Style ETFs compared to their market-cap weighted Dow Jones counterparts. In Q2 2016, we have seen a few of these ETFs beginning to recover but their 1 year relative numbers are still in red territory across the board.

Why is growth outperforming value?

A common explanation cited for the large return premium for growth stocks is that the search for yield has heightened valuations making value stocks less of a bargain. Conversely, the weak global growth has led investors to place more emphasis on growth companies that can show high earnings growth regardless of economic conditions. The commodities' dip also had a role to play - Energy & Materials combined make up 46% of the S&P 500 Pure Value Index[3].

Looking at last 70 years of Fama-French data on style factors, value has outperformed growth over most 5-year rolling periods. In the few distinct cases, when growth did outperform value, it has been followed by a strong rebound in absolute and relative returns.

[3] Source: Bloomberg Calculations

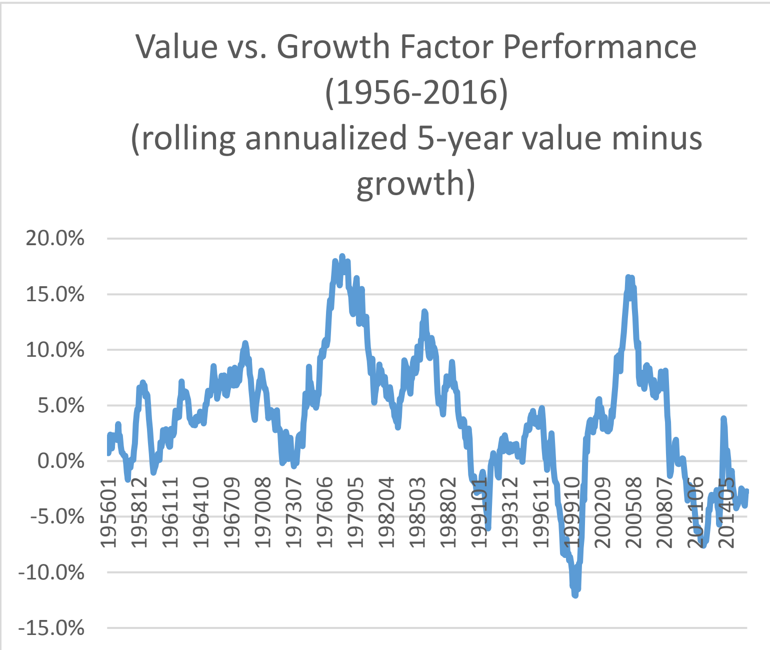

Figure 6: Rolling Five-year Annualized Returns of Value minus Growth factor (1956- 2016). Source: Fama French Data

Past performance is no guarantee of future results. See definitions and disclosures on the last page for additional information

The Leaders vs. Laggards Story

As we know, 2015 was led by mega-caps, with 10 biggest stocks in the S&P 500 up more than 20% on average. Tying this to the value & growth story, 80% of the top 10 contributors to S&P 500 return last year were growth stocks. In the second half of Q1 2016 & Q2 2016, this trend has already started reversing with large & mega-cap stocks underperforming small caps.

The Alphadex® selection process and STAR's core of large, mid & small caps weighs STAR heavily towards mid & small caps and is positioned to capture the mean reversion in size factors and long-term outperformance of the size premium.

Risk management in STAR in an Uncertain Market Environment

STAR leverages the philosophy of the Astor Economic Index® in its proprietary sector rotation model. Since the beginning of 2015, the Astor Economic Index has weakened from its 10-year highs reflecting softening in the US economic data. The overall direction of the economy impacts the equity beta in STAR, which has come down from 100% at the beginning of 2015 to about 75% at the end of June 2016. This tactical allocation away from risk assets is intended to provide protection against headwinds in periods of economic uncertainty.

Along with rotating through sectors based on sector-specific fundamentals, the ability to lower equity allocations provides the portfolio with enhanced risk control. The STAR strategy has the ability to raise up to 85% cash and fixed income allowing for tactical risk management. Not having to be fully invested in equities reduces volatility and drawdowns in the long run.

History has shown sharp equity market downturns correlate highly with economic slowdowns and recessions. The S.T.A.R portfolio seeks to identify these disruptions as they occur and adjust allocations accordingly.

Disclosures

All information contained herein is for informational purposes only. This is not a solicitation to offer investment advice or services in any state where to do so would be unlawful. Analysis and research are provided for informational purposes only, not for trading or investing purposes. All opinions expressed are as of the date of publication and subject to change. Astor and its affiliates are not liable for the accuracy, usefulness or availability of any such information or liable for any trading or investing based on such information. There is no assurance that Astor's investment programs will produce profitable returns or that any account with have similar results. You may lose money. Past results are no guarantee of future results and no representation is made that a client will or is likely to achieve results that are similar to those shown. Factors impacting client returns include individual client risk tolerance, restrictions a client may place on the account, investment objectives, choice of broker/ dealers or custodians, as well as other factors. Any particular client's account performance may differ from the program results due to, among other things, commission, timing of order entry, or the manner in which the trades are executed. Clients may not receive certain trades or experience different timing of trades due to items such as client imposed restrictions, money transfers, inception dates, and others. The investment return and principal value of an investment will fluctuate and an investor's equity, when liquidated, may be worth more or less than the original cost. An investment cannot be made directly into an index. Astor primarily purchases securities which contain embedded expenses. Although these costs are typically minimal, it results in a layering of fees.

The Astor Economic Index® is a proprietary index created by Astor Investment Management LLC. It represents an aggregation of various economic data points: including output and employment indicators. The Astor Economic Index® is designed to track the varying levels of growth within the U.S. economy by analyzing current trends against historical data. The Astor Economic Index® is not an investable product. When investing, there are multiple factors to consider. The Astor Economic Index® should not be used as the sole determining factor for your investment decisions. The Index is based on retroactive data points and may be subject to hindsight bias. There is no guarantee the Index will produce the same results in the future.

Astor maintains a License Agreement with First Trust Portfolios L.P. ("First Trust") to use the term AlphaDEX® for marketing purposes which may present a conflict of interest by creating an incentive for Astor to select First Trust ETFs for investment purposes. Neither First Trust nor Astor are compensated directly as part of the agreement, but both parties will mutually benefit from an increase in assets in the strategy due to the separate fees Astor and First Trust each charge of assets under management. First Trust owns the trade name and trademark rights, title, and interest in and to the AlphaDEX® mark. An affiliate of First Trust, First Trust Advisors L.P., manages the AlphaDEX® ETFs.

The Sector Tactical Asset Rotation Composite is a tactical strategy focused on the generation of returns through shifts in domestic equity sector allocations. The Composite exclusively uses exchange-traded funds (ETFs) and focuses on investing in domestic equities during economic expansions while reducing equity exposure for fixed income and cash in weak economic periods. Prior to May 2014, the Composite previously invested in various other asset classes, including commodities, international equity, and currencies. The Composite includes a minimum 15% domestic equity allocation and does not invest in inverse funds. The benchmark is the S&P 500 Index. The S&P 500 Index is an unmanaged composite of 500 large capitalization companies. S&P 500 is a registered trademark of McGraw-Hill, Inc.

Astor's strategies seek to achieve their objectives by investing in Exchange-Traded Funds ("ETFs"). An ETF is a type of Investment Company which attempts to achieve a return similar to a set benchmark or index. The value of an ETF is dependent on the value of the underlying assets held. ETFs are subject to investment advisory and other expenses which results in a layering of fees for clients. As a result, your cost of investing in Astor's strategies will be higher than the cost of investing directly in ETFs and may be higher than other investments with similar objectives. ETFs may trade for less than their net asset value. Although ETFs are exchanged traded, a lack of demand can prevent daily pricing and liquidity from being available. Investors should carefully consider the investment objectives, risks, charges, and expenses of the ETFs held within Astor's strategies before investing. This information can be found in each fund's prospectus. International markets have risks due to currency valuations and political or economic events. Emerging markets typically have more risk than developed markets. The prices of small and mid-cap companies tend to be more volatile than those of larger, more established companies. It is important to note that bond prices move inversely with interest rates and fixed income ETFs can experience negative performance in a period of rising interest rates. High yield bonds are subject to higher risk of principal loss due to an increased chance of default.

S&P 500 Index *- The S&P 500 Index is an unmanaged composite of 500 large capitalization companies.*

S&P 500 Pure Value Index *– The S&P 500 Pure Value Index is an index designed to track the performance of stocks that have the strongest value characteristics within the S&P 500 Index.*

S&P 500 Pure Growth Index *- The S&P 500 Pure Value Index is an index designed to track the performance of stocks that have the strongest growth characteristics within the S&P 500 Index.*

Russell 1000 Index *- The Russell 1000 Index represents the 1000 largest companies in the Russell 3000 Index.*

Russell 1000 Value Index *– The Russell 1000 Value Index represents the performance of companies within the Russell 1000 Index that have low price-to-book and forecasted growth values.*

Russell 1000 Growth Index *– The Russell 1000 Growth Index represents the performance of companies with the Russell 1000 Index that have higher price-to-book and forecasted growth values.*

Russell 2000 Value Index *– The Russell 2000 Value Index represents the performance of companies within the Russell 2000 Index that have low price-to-book and forecasted growth values.*

Russell 2000 Growth Index *– The Russell 2000 Growth Index represents the performance of companies with the Russell 2000 Index that have higher price-to-book and forecasted growth values.*

Dow Jones Sector Indices- *The Dow Jones Sector Indices are part of the Dow Jones Global Indices® group, which are broad yet investable indices, targeting 95% market capitalization coverage. The sectors are defined by the proprietary classification system which classifies securities at four levels of specificity: 10 broad Industries, 19 Supersectors, 41 Sectors, and at the most granular level, 114 Subsectors.*

Fama French Data*- Fama/French Factor data calculate portfolios returns on all NYSE, AMEX, and NASDAQ firms by sorting firms on factors including size, Book-to-Market Ratios, Operating Profitability and other factors.*

Please refer to Astor's Form ADV Part 2 Brochure for additional information regarding fees, risks, and services.

306162-455