ASTOR DYNAMIC ALLOCATION STRATEGY
2019 PERFORMANCE REVIEW
As of 12/31/19

ASTOR DYNAMIC ALLOCATION (ADA) STRATEGY OBJECTIVE

ADA seeks to find the appropriate balance of risk and non-risk assets for the given economic condition. Its core objective is to help reduce or avoid losses during major wealth destroying events in equity markets associated with weak economic environments while attempting to capture positive gains during equity bull markets.

2019 PERFORMANCE REVIEW

The Astor Dynamic Allocation strategy was up 20.67% (gross of fees) and 18.31% (net of fees) in 2019. The main contributor to strategy performance was having higher than average equity exposure entering the year (~0.86 Beta Target), which allowed the strategy to capture positive returns during the Q1 2019 equity market rally off the Q4 2018 equity market slump.

As 2019 progressed, ‘cracks’ in economic data were reported. Due to moderating manufacturing data throughout 2019, the strategy experienced the largest 12-month reduction in beta since 2007/2008. The strategy ended 2019 with a beta target of 0.55, which is in line with what Astor would consider ‘average economic growth’.

ADA 2019 ALLOCATION SUMMARY

Q1 2019: As economic data started to exhibit ‘cracks’ following month/years of strength, the strategy sold equity positions in January, February and March. Generally speaking, the strategy's sold higher volatility equity holdings (Small/Mid Cap) and bought short-term fixed income positions. Equity exposure ending Q1 2019 was ~74%.

Q2 2019: As the U.S. economy continued to moderate, the strategy continued to slowly and methodically reduce overall beta exposure to the S&P 500. The strategy sold additional mid cap exposure and also exited some large cap positions. The strategy ended Q2 with approximately 57.5% overall equity exposure.

Q3 2019: Aside from a measured deterioration in manufacturing data, the moderation of economic data stalled for the most part in Q3. In other words, the economy, through Astor's lens, was neither getting weaker, or stronger. The strategy added broad U.S. equity exposure in place of emerging markets. The strategy ended Q3 with roughly 52.5% equity exposure.

Q4 2019: Some positive economic data was released in Q4 (very strong jobs report in December, unwavering consumer confidence and a tick-up in manufacturing data). This called for a slight increase in overall strategy beta. The strategy ended Q4 with approximately 56.5% equity exposure.
ADA follows a very defined, robust process. The strategy **adds beta** (buys risky assets) when the economy is healthier/getting healthier and, equally as important, the strategy methodically **reduces beta** (sells risky assets) when the economy is exhibiting signs of weakness.

At Astor, we believe that recessions can only occur when the following happen: A weakening economy PLUS some sort of ‘shock’ to the system (terrorist attack, extraordinary political uncertainty, liquidity crisis, etc.). Additionally, Astor believes that massive, sustained losses in equity markets don't occur unless the economy is in, or getting closer, to a recession. Simply put, Astor believes there is a very low probability of a recession if the economy is healthy. Vice versa, Astor believes that the risk of a recession increases as economic fundamentals deteriorate.

**BIG PICTURE: FOLLOWING AND TRUSTING THE PROCESS**

Throughout 2019, the Astor Economic Index® has seen marked deterioration of significant economic data points that has caused the index to fall from levels of ‘Strong Growth’ to ‘Average Growth’. The decline in the index in 2019 is the largest 12-month decline since 2007/2008.

**SO, WHAT IS HAPPENING NOW?**

The economy has weakened throughout 2019 to ‘average growth’ levels. This does NOT mean we think there is a recession looming, nor does it mean that Astor expects negative equity market returns. It simply means that, in our opinion, the economic growth is at a level that supports ‘average’ equity market returns. Further, the more economic fundamentals deteriorate, the harder it will be for equity markets to pull out of a correction if one were to occur.

Take Q4 2018 as an example - Some domestic equity market indices fell almost 20%! However, there was not a single economic data point that Astor followed that showed cause for concern. In that scenario (equity markets falling, economy strong), Astor expects losses to be tempered and a v-shape recovery in short order - (days/weeks/month, not quarters/years). It is our belief that if ‘something’ (trade war, election cycle, repo market, Etc.) causes equity markets to correct while the economy is ‘less-strong’, the probability of systemic losses and potential for recessionary conditions are higher compared to 18-months ago.

The ADA strategy's objective is to capture a portion of positive returns for investors during economic expansions and, more importantly, avoid/reduce losses for investors during major wealth destroying events in equity markets. **As of 12/31/19, Astor is very comfortable with a ‘balanced’ allocation between stocks and bonds. If the economy further deteriorates, the strategy will further reduce equity exposure. Vice versa, if the economy strengthens throughout 2020, equity exposure will be added.**
Manufacturing
The domestic manufacturing sector continued its slide into contraction territory in the back half of the year, with ISM manufacturing PMI printing below 50 from August onwards. Q/Q GDP growth has tempered accordingly from 3.1% in March to 2.1% in September. Given the growing importance of the service sector (approximately 77% of output), it seems likely that the broader U.S. economy will weather the storm, and trade tensions have ebbed substantially with the signing of the US/China trade deal. The ongoing strength of U.S. consumer spending and any pickup in business fixed investment are key watchpoints going into the new year.

Labor Market/Employment
The U.S. labor market has proven impervious to the manufacturing slowdown, and the employment picture remains a highlight of the U.S. macroeconomic outlook but should slow into 2020 as slack diminishes. The second half of the year saw U-3 unemployment drop further to 3.5% as non-farm payrolls continue to exceed the natural labor force expansion. As the pool of available labor becomes smaller, wage pressures have begun to manifest, albeit without much spillover into broader inflation – average hourly earnings averaged 3.4% y/y in Q3/Q4.

International
China has undertaken a more aggressive push to expand credit by cutting the PBOC’s reserve requirement ratio and a new interest framework. As a result, the Chinese manufacturing sector has returned to expansion as exports find new legs with the reductions of some tariffs. A phase-two trade agreement with the U.S. is likely to be delayed until after the U.S. presidential elections. In Europe, Germany returned to growth in Q3, and PMIs have begun to rebound.

Fed Policy
Against a backdrop of below target inflation (y/y core PCE has remained around 1.6% in Q3/Q4) and external headwinds, the FOMC cut rates three times in the past two quarters. Barring a substantial pickup in inflation or a broader economic slowdown, we expect the Fed to be on hold for much of the year as the November elections near. Inflation expectations remained anchored, but core CPI has ticked up to 2.3% y/y.

CONCLUSION: ECONOMIC EXPANSIONS DON’T DIE OF OLD AGE...
If you measure U.S. economic expansions from peak to trough, we are currently in the longest expansion post WW2. However, economic expansions do not die of old age. In order for an expansion to end, you have to have weakened economic fundamentals. At Astor, we seek to avoid the large losses that occur during major economic contractions/recessions. We believe there is an optimal level of equity exposure for every level of ‘economic health’ in the U.S.

Although the U.S. economy moderated significantly in 2019, it continues to be in an ‘average growth’ level (according to the Astor Economic Index®). This means we expect ‘average’ returns in equities. Astor is very comfortable with Dynamic Allocation’s current allocation. The strategy is positioned to capture a portion of whatever is left in this impressive expansion, while being an Investment Committee meeting away from reducing risk if the economy shows further signs of weakness.
Valuations are computed and performance is reported in U.S. dollars. Performance results assume the reinvestment of dividends. Certain client accounts may take dividends as distributions. Gross-of-fee returns are shown as supplemental information only and represent “pure gross” returns. “Pure gross” returns are calculated before the deduction of all fees, including trading, advisory, and administrative fees. Net of fee returns are calculated using a monthly model fee based upon end of period client account market values. Certain accounts pay fees outside of the composite account and thus, require a model fee for performance calculation. In order to maintain consistency, Astor calculates a model fee across all composite accounts. The model fee is representative of the actual fees charged to client accounts, which covers trading, advisory, and other costs. The model fee provides a more conservative estimate of performance. The 2018 annual model fee for the Dynamic Allocation Composite was 2.00%.

The performance shown is of the Astor Dynamic Allocation Composite. The Astor Dynamic Allocation Composite is a multi-asset, tactical allocation strategy that exclusively uses exchange-traded funds (“ETFs”). The Composite will invest in a mix of asset classes, including equity, fixed income, commodities and currencies depending on the economic and market environment. During economic contractions, the Composite seeks to reduce risk by utilizing defensive positioning such as inverse equity and fixed income. The strategy may employ the use of unleveraged inverse exchange traded funds, designed to track a single multiple of the daily inverse performance of a given index. The portfolio managers may at their discretion, depart from the target allocation range when they feel that certain sections of the financial markets are over or under valued. For purposes of defining the composite of accounts, a minimum account size of $50,000 is imposed monthly.

The Composite seeks to achieve its 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. ETFs are subject to substantially the same risks as those associated with the direct ownership of the securities comprising the index on which the ETF is based. 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 the fund will be higher than the cost of investing directly in ETFs and may be higher than other mutual funds with similar investment 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 ETFs prospectus.

Astor Investment Management LLC is registered with the Securities and Exchange Commission as an investment adviser. 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. 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. Opinions expressed are not intended as investment recommendations. These materials contain general information and have not been tailored for any specific recipient. These materials are not intended to cause Astor to become a fiduciary within the definition of Section 3(21)(A)(ii) of the Employee Retirement Income Security Act of 1974, as amended or Section 4975(e)(3)(B) of the Internal Revenue Code of 1986, as amended. 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. 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. Please refer to Astor’s Form ADV Part 2A Brochure for additional information regarding fees, risks, and services.