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# ASTOR DYNAMIC ALLOCATION STRATEGY
# 2020 PERFORMANCE REVIEW
*As of 12/31/2020*

## 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.

## INVESTING THROUGH THE PANDEMIC: WHO GOT IT RIGHT? WRONG?

Financial professionals and asset managers are often analyzed on a calendar year basis, however, the financial markets (and pandemics, as we've learned) don't have a time schedule and they certainly don't care about a calendar year turning over. To use a sports analogy in terms of COVID19 and it's full impact on the stock market, we are probably somewhere between the 2nd and 4th quarter – hopefully closer to the end of the game than halftime. There are valid agreements on why the market could climb higher and, vice versa, there are strong reasons pointing to extreme risk within the stock market (discussed further below). At this stage of the pandemic-cycle, you are either in the middle of getting it right… or in the middle of getting it wrong. Throughout this document we will outline Astor's Dynamic Allocation's exposure adjustments through 2020 and we will further explain why we believe our economic-driven process and our flexibility puts us in a position to be 'in the middle of getting it right', especially given all the uncertainties coming into 2021.

## A YEAR LIKE NO OTHER

2020 was a year that will be discussed in history classes, analyzed by economists, and studied by epidemiologists. At Astor, our methodology was battle tested by recession for another time, and believe it performed well given the unprecedented nature of the pandemic, with Astor's Dynamic Allocation (ADA) strategy ending the year +2.79% gross of fees (+0.76 net of fees).

## 2020 PERFORMANCE REVIEW

COVID-19's devastating effect on the U.S. economy and the uncertain political environment in the United States were the obvious driving forces behind equity prices in 2020. Indeed, in late Q1/early Q2, it did not matter what you bought or sold – as the adage goes, in a crisis, all correlations go to 1.

The main driver of changes in the Astor Economic Index® (and the corresponding beta target for ADA) in 2020 was the collapse and bounce back of the labor market in late Q1 through Q2. Relative to broad equity markets, ADA experienced a lower drawdown during the initial stock market pull back once COVID-19 began to spread domestically. The strategy aggressively de-risked (sold equity exposure) as the U.S. economy looked to be on the verge of a major recession/depression. As economic data improved off historic lows, the strategy added equity exposure throughout the rest of 2020 and was able to finish the year with positive returns.

## ADA 2020 ALLOCATION SUMMARY

| Dynamic Allocation | Dec 31 2018 | Dec 31 2019 | June 30 2020 | Dec 31 2020 |
|---|---|---|---|---|
| U.S. Equity | 81.0% | 51.0% | 19.1% | 58.0% |
| International Equity | 6.8% | 7.1% | 0.0% | 7.0% |
| Fixed Income | 5.3% | 33.4% | 68.5% | 23.0% |
| Cash | 6.8% | 5.6% | 2.1% | 2.0% |
| Commodity | 0.0% | 2.9% | 10.3% | 10.0% |
| Currency | 0.0% | 0.0% | 0.0% | 0.0% |

**The allocations presented are as of the quarter-end dates indicated and do not show allocations or changes during each period. Any quarter period may have higher or lower allocations than what is shown. Allocations represent the Dynamic Allocation Composite. Any individual investor's portfolio may be allocated differently than presented here due to many factors, including but not limited to, timing of entry into the investment program, discretionary decisions by the clients and referring advisors, custodial limitations, the structure of the investment product or program, and the manner in which trades are executed. Allocations are subject to change without notice.*

## QUARTER BY QUARTER COMMENTARY

**Q1 2020** Coming into 2020, ADA's equity exposure (international plus domestic) was 51%. To be clear, the reduced equity exposure in ADA coming into 2020 had nothing to do with COVID-19. The Astor Economic Index® declined due to weakening manufacturing numbers reported throughout 2019. Our strong belief is that equity markets are at greater risk of large sell offs when the economy is weaker and more susceptible to exogenous shocks, and thus we reduce risk. The reduced equity exposure was a large factor in the reduced losses experienced during the initial market drawdown in late Q1 compared to most broad equity indices.

**Q2 2020** The first major wave of economic data to show the impact of COVID-19 started with initial jobless claims (people filing for employment for the first time) on Thursday, March 26th, 2020. Over 3 million Americans filed for unemployment that week, with 6 million more the following week. To put that in perspective, the largest weekly number ever reported during the financial crisis of 2008 was under 700,000. The sharp

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decline in labor market statistics caused the Astor Economic Index® to fall to levels last seen in 2008 and indicated that a deep recession was becoming more and more probable. The consequence of the declining AEI was a reduction in overall beta exposure in ADA. At the end of Q2, 2020, ADA had roughly 19.1% exposure to equities. The strategy's lowest equity exposure was in April at around 5%.

**Q3 2020** Although the labor market continued to look dismal in absolute terms throughout Q2, economic data became, in a sense, "less bad": bad numbers were getting better, and the trend was upward sloping. As the virus cases declined and businesses opened back up across the U.S., more people got back to work, and the impact of an aggressive stimulus package was seen in retail reports throughout the second half of 2020. As the economic data improved off the bottoms, the Astor Economic Index® began to recover and ADA methodically added beta back into the strategy.

**Q4 2020** The fourth quarter has been one of most unique times in American economic history. Unemployment levels and jobless claims remain historically dismal by any measures and lockdowns have increased from their floor in Q3. Despite the poor level of economic output and increasing restrictions on business and consumer activity, the rate of change of the U.S. economy as we measure it has been steadily improving, buoyed by additional stimulus and a strong manufacturing sector. As a result, ADA has had a substantial allocation to equities (around 70%) throughout the past three months, allowing the strategy to benefit from the remarkable recovery in equities.

**Astor Dynamic Allocation Strategy**

**YTD 2020 Performance**

*As of 12/31/20*

| **+2.79%** | **+0.76%** |
|---|---|
| *Pure Gross* | *Net* |

**The Astor Economic Index®**

The AEI entered 2020 at a level of 'average economic growth' and ended 2020 at a level of 'above average economic growth'. As expected, the AEI dropped to close to recessionary levels during March/April of 2020.

**Astor Dynamic Allocation Strategy**

**Beta Target**

***relative to S&P 500***

| 12/31/18 | 12/31/19 | 6/30/20 | 12/31/20 |
|---|---|---|---|
| .86 | .55 | .40 | .71 |

## LOOKING AHEAD

The end of the pandemic is perhaps 6 months away, assuming all goes well with vaccinations, and the U.S. will be facing an economic situation unlike one it has ever seen before. On one hand, businesses will have been shuttered for over a year, many employees will be out of work, and some jobs and corporations will not be coming back - causing permanent damage across wide swaths of the economy. On the other hand, consumers are flush with cash, business can issue debt at historically cheap rates, and the incoming administration has signaled a desire for greater levels of stimulus. Where does this leave the U.S. economy? That question remains unanswered for now, but Astor is confident that our ability to read the data and the flexible, tactical nature of our investment strategies will allow us to respond accordingly.

## BIG PICTURE: FOLLOWING AND TRUSTING THE PROCESS

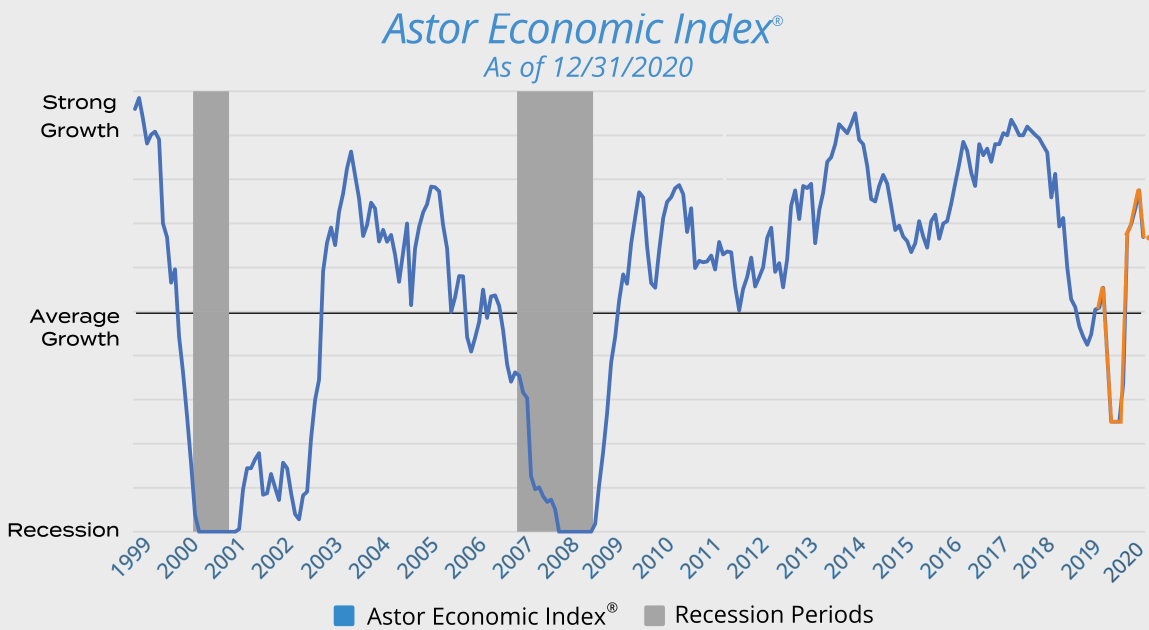
We give performance updates for ADA on a semi-annual basis. Obviously, quite a few things have changed in the world since Q4 2019. Astor's investment thesis and process, however, is not one of those. Consider the following (increasingly prophetic) quote from our 2019 Q3/Q4 review:

> ***"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."***

In a previous performance review, we noted that the AEI had undergone a substantial weakening, and that this weakening coupled with an exogenous shock could result in recession. Astor is not in the business of predicting shocks and does not believe that anyone can do so successfully over the long-term. However, what we do provide for our clients is a deep understanding of the risks and reward for risk assets in different states of the economy.

**As shown below, the AEI entered 2020 at a level of 'average economic growth' and ended 2020 at a level of 'above average economic growth'. As expected, the AEI dropped to close to recessionary levels during March/April of 2020.**

**The Astor Economic Index® :** Astor has identified key macro data points with trends that we believe have a tendency to correlate with movement in risk assets, or equities. Astor collects this data and applies a 'score' to each data point that is based on rigorous research on how impactful that particular data point is in determining the health of the U.S. economy. For example, Astor believes employment data is more meaningful compared to oil and gas inventories. The end result is a monthly score that determines the current health of the U.S. economy. The chart (below) is Astor's monthly score on the health of the economy going back over 20 years.




The AEI declined in 2020 due to unprecedented levels of job losses and a subsequent rise in the unemployment and underemployment rates. The AEI hit levels not seen since Q2 2008. As the impact from the stimulus took shape and businesses began to open back up during the summer months, the AEI rose back to 'average growth levels' and even approached 'above average' growth levels. Unfortunately, as the COVID cases surged in Q4, and business began to shutter their doors, the positive momentum in economic data paused and even retraced marginally.

*Source: NBER Astor Data: 12/31/1999 – 12/31/2020. The Astor Economic Index® is a proprietary index created by Astor Investment Management LLC. It represents an aggregation of various economic data points and is designed to track the varying levels of growth within the U.S. economy by analyzing current trends against historical data. It is not an investable product. 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. All conclusions are those of Astor and are subject to change.*

## 2020 ECONOMIC REVIEW


### Labor Market

The December number for **Non-Farm Payrolls** has been awaited eagerly.  Recall that blockbuster gains occurred earlier in the year after the precipitous fall in March and April, but that the pace of gains has slowed substantially towards year end.  Non-Farm payrolls printed back in the red in December (-140,000 m/m) as lockdowns rolled back on.

### Manufacturing

The manufacturing sector of the U.S. has proven more resilient than many economists had hoped dream, with **ISM Manufacturing PMI** manufacturing printing at 60.7 in December, well above trend and at odds with the broader pace of the economy. The subcomponents offered a little something for everyone, with prices paid (77.6) supporting the inflationistas and new orders (67.9) suggesting a durable return to growth.

### Gross Domestic Product

Looking ahead to the unreleased Q4 GDP number, Bloomberg Economics' consensus **forecast for 2020 real GDP** stands at -3.5% y/y.  If accurate, that figure would be about 0.7% greater than 2009's decline and the single biggest year over year decline since 1946 and the end of WWII.

## CONCLUSION: ANYTHING CAN HAPPEN. BE PREPARED.

As noted throughout this publication, 2021 has numerous, definable headwinds that could cause economic deterioration and corresponding equity market pullbacks.  This publication has also discussed numerous, definable tailwinds that could manifest in a 'boom' for the stock market.  In our opinion, having a portion of an investor's portfolio with an asset manager with a disciplined, flexible investment process is very important during uncertain economic times.

The past 12 months and the next 12 months will prove to be shining examples of why professional money management is vital to wealth creation and preservation.  Investors that had emotional reactions to the initial equity market pullback most likely experienced the 'whipsaw' effect as markets aggressively rebounded and went on to reach new highs.   Investors should stick to an allocation that corresponds to their risk tolerance with, in Astor's opinion, a minority percentage invested in a flexible asset manager that has the process and ability to increase/decrease risk when necessary.  Coming full circle, at this stage of the 'Covid Cycle', it's not 'who got it right', or 'who got it wrong'.   It's more like 'who is in the middle of getting it right or wrong'.  Given the economic data and risk of entering a recession/depression, Astor is confident is the allocation decisions of 2020 and we look forward to working hard for investors throughout an uncertain 2021.

## DISCLOSURES

**Beta:** A quantitative measure of the volatility of a given portfolio, relative to the S&P 500 Index, computed using monthly returns. A beta above 1 is more volatile than the index, while a beta below 1 is less volatile.

**S&P 500:** The S&P 500 Index is an unmanaged composite that measures the performance of 500 large capitalization stocks, which together represent approximately 80% of the total equities market in the United States. S&P 500 is a registered trademark of McGraw Hill Financial.

**Drawdown:** is the peak-to-trough decline during a specific recorded period of an investment. It is defined as the percent retrenchment from an equity peak to an equity valley. Maximum drawdown is simply the largest percentage

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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 annual model fee used for the 2020 performance shown is 2.0%.

The performance shown is of the Dynamic Allocation Composite. The 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. Effective January 1, 2020 only wrap fee accounts are included in the Composite. Prior to December 1, 2016, the composite was known as the Long/Short Balanced Composite. For purposes of defining the composite of accounts, a minimum account size of $25,000 is imposed monthly.

The Dynamic Allocation Strategy seeks to achieve its objectives by investing in 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 the Strategy will be higher than the cost of investing directly in ETFs and may be higher than securities 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. The Strategy can purchase ETFs with exposure to equities, fixed income, commodities, currencies, developed/emerging international markets, real estate, and specific sectors. The underlying investments of these ETFs will have different risks. Equity prices can fluctuate for a variety of reasons including market sentiment and economic conditions. 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. Commodity ETFs generally gain exposure through the use of futures which can have a substantial risk of loss due to leverage. Currencies can fluctuate with changing monetary policies, economic conditions, and other factors. International markets have risks due to currency valuations and political or economic events. Emerging markets typically have more risk than developed markets. Real estate investments can experience losses due to lower property prices, changes in interest rates, economic conditions, and other factors. Investments in specific sectors can experience greater levels of volatility than broad-based investments due to their more narrow focus.

The Strategy can also purchase unleveraged, inverse fixed income and equity ETFs. Inverse ETFs attempt to profit from the decline of an asset or asset class by seeking to track the opposite performance of the underlying benchmark or index. Inverse products attempt to achieve their stated objectives on a daily basis and can face additional risks due to this fact. The effect of compounding over a long period can cause a large dispersion between the ETF and the underlying benchmark or index. Inverse ETFs may lose money even when the benchmark or index performs as desired. Inverse ETFs have potential for significant loss and may not be suitable for all investors.

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.

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