Hi-Lo Risk Momentum

Index Methodology
April 2019

Version History

No.	Date	Author	Comments
1.0	4/3/2019	R. Poirier	Initial
1.1	4/23/2019	T. Barchetto	Revised

Introduction

Equities can offer attractive long-term returns but the volatility can be unnerving for some investors. Attempting to time the market in hopes of side-stepping downturns is extremely difficult. Many studies show the impact of dramatically lower returns when missing out on just a handful of the best-performing days over long periods of time.[1]

The **Salt Hi-Lo Risk Momentum Index** blends two different large and midcap US equity strategies with distinct risk characteristics using a simple momentum indicator to tilt portfolio risk higher or lower while remaining 100% invested in equities to avoid missing out on gains.

The Index maintains a core allocation to the components of the Salt Low truBeta® US Market Index, which targets 100 lower and more stable beta securities from the 500 most liquid of the top 1000 stocks by market cap. To estimate market risk (beta), Salt captures more granular data over multiple timeframes and developed a forward-looking estimate called truBeta™.

The Salt High truBeta® US Market Index also selects 100 stocks from the same investing universe (500 most liquid of the top 1000) using truBeta™ estimates of risk only it seeks higher beta stocks with more correlation to the market. Higher beta stocks tend to be more volatile than the broader market with larger moves in the same direction—up or down.

The Salt Hi-Lo Risk Momentum Index compares the trailing three-month performance of the Salt High and Low truBeta® Indices to allocate according to risk, checking performance monthly and adjusting whenever there is a change in risk profile (the momentum of the Low relative to High).

Unlike switching strategies that may move fully to cash or back and forth between low and high-risk components, the Salt Hi-Lo Risk Momentum Index aims to capture more gains on the upside and mitigate losses on the downside while minimizing the impact of missing the market's best return periods. By remaining fully invested, the Index avoids the opportunity cost of being out of the market with bad timing. Blending a smaller allocation in the higher risk component with the core lower risk position in months judged to be better for risk also seeks to participate in stronger market moves up while providing some cushion if the market reverses.

Supporting Documents

[1] "Opposite Thinking for Investors", Calamos Investments, December 6, 2017, available at https://www.calamos.com/fundinvestor/MarketInsights/investmentideas/article?name=opposite-thinking-for-investing&utm_source=twitterpro&utm_medium=socialmedia&utm_campaign=120517post

The Salt Hi-Lo Risk Momentum Index uses two other Salt Indices ("Component Indices") to create the desired exposure. The additional documents referenced below on the Low truBeta® and High truBeta® US Market Indices provide additional detail on the methodology and maintenance of each Component Index.

Component Index	Document Location
Salt Low truBeta® US Market Index	Index Methodology
Salt High truBeta® US Market Index	Index Methodology

Both are administered by Salt Financial with Solactive AG providing calculation services.

Index Construction

The basic allocation process to create the index is as follows:

1. Calculate the Momentum Signal by comparing the total return of Low truBeta to High truBeta over the previous 63 days (3 months).

2. If Low truBeta performance is greater than High truBeta, allocate 100% of the portfolio to components of the Low truBeta Index ("Risk Off" state).

3. If High truBeta performance is greater than Low truBeta, allocate 30% to components of the High truBeta Index and 70% to components of the Low truBeta Index ("Risk On" state).

4. At the end of the next month, recompute the Momentum Signal and follow step 2 and 3, subject to the rebalancing process as defined below.

The Gross Total Return versions of the Component Indices are used for all calculations, including the Momentum Signal.

Index Tickers	SFHILO (Price Return) SFHILOT (Gross Total Return)
Component Index Tickers	Low truBeta • SFSTB (PR)/SFSTBT (GTR) High truBeta • SFMGX (PR)/SFMGXT (GTR)
Number of Stocks	Risk Off State: 100 Risk On State: 200
Rebalancing Process	The Index is potentially rebalanced monthly depending on the Momentum Signal. The Momentum Signal is captured from the close of trading on the third trading day prior to the last trading day of every calendar month ("Selection Date"). If the Momentum Signal does not indicate a change in risk state from the prior month's Selection Date, no changes are required. If the state continues to be Risk On, the allocation between Low and High is allowed to float (no rebalancing until state change).

	If the Momentum Signal does indicate a change in state from the prior month's Selection Date (Risk On to Risk Off or vice versa), the portfolio changes its allocation. • If the previous state was Risk On, the allocation returns to 100% Low truBeta. • If the previous state was Risk Off, the portfolio is re-allocated 70% to Low truBeta and 30% High truBeta. Any required changes to portfolio allocations are as of closing prices on the Effective Date (last trading day of the month). In the Risk Off to Risk On scenario (re-allocation of 30% to High truBeta), index shares are fixed on the Selection Date with the individual weights floating until the closing prices are struck on the Effective Date for ease of tracking.

Index Maintenance

The Hi-Lo Risk Momentum Index has no maintenance requirements aside from the potential monthly rebalancing. However, the Component Indices have their own set of rules for rebalancing and maintenance, which are summarized below.

Rebalancing

The Low and High truBeta® Indices are rebalanced (and reconstituted) *quarterly* according to the following timeline:

- Constituents are selected using prices and other criteria as of the close of trading on the Component Index Selection Date (second Friday of March, June, September, December).

- Share weighting for each constituent in the index is based on the price at the close on the Component Index Selection Date.

- Adjustments to capture the additions, deletions, and rebalancing weights of existing components are as of the close of trading on the Component Index Effective Date (5 trading days following the Component Index Selection Date).

Since the weighting is determined a week prior, the actual index weights at the close on the Component Index Effective Date may differ from equal weight due to market movements.

The Index Committee may change the date of a given rebalancing for reasons including market holidays or extraordinary events such as technology or other major market disruptions occurring on or around the scheduled rebalancing date. Any such change will be announced with proper advance notice where possible.

Corporate Actions

Both Component Indices use the following rules to determine handling of corporate actions. The number of securities in the portfolio will generally be either 100 (Risk Off) or 200 (Risk On), absent any changes caused by one of the following actions that leads to the removal of a Component Index security.

Action	Adjustment

Spin-off	A spun-off company remains in the index until the next rebalance date.
Stock Split	Index shares are multiplied by and the price is divided by the split factor.
Special Dividends	The price of the stock is reduced by the per share special dividend amount after the close of trading on the day before the ex-date.
Delisting, acquisition, or any other corporate action resulting in deletion of the stock as a listed equity on a public equity exchange.	The stock is dropped from the index with no additions until the next quarterly rebalancing. Absolute weights of the remaining index components change but the relative weightings stay the same. In the event there is no achievable market price for a stock being deleted due to bankruptcy, suspension or other event, it can be removed at zero or some other price at the discretion of the Index Committee.

Please see the individual index methodology documents for the Low and High truBeta® US Market Indices for more detailed information.

Disclaimer

All information for an index prior to its Inception Date is back-tested, based on the methodology that was in effect on the Inception Date. Back-tested performance, which is hypothetical and not actual performance, can frequently result in material differences between back-tested results and actual results achieved by an investment strategy.

Past performance of an index is not a guarantee of future results. Charts, graphs, and other performance indicators are provided for illustrative purposes and may reflect hypothetical historical performance. The back-test period does not necessarily correspond to the entire available history of any particular index.

Back-tested calculations are generally prepared with the benefit of hindsight. No hypothetical calculation can comprehensively account for all the factors that may impact actual performance. Index returns shown do not represent the results of any strategy tracking the index, including any sales charges, commissions, or other fees charged to purchase securities, fund, or other investment vehicles.

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