Market Cycle Mandates

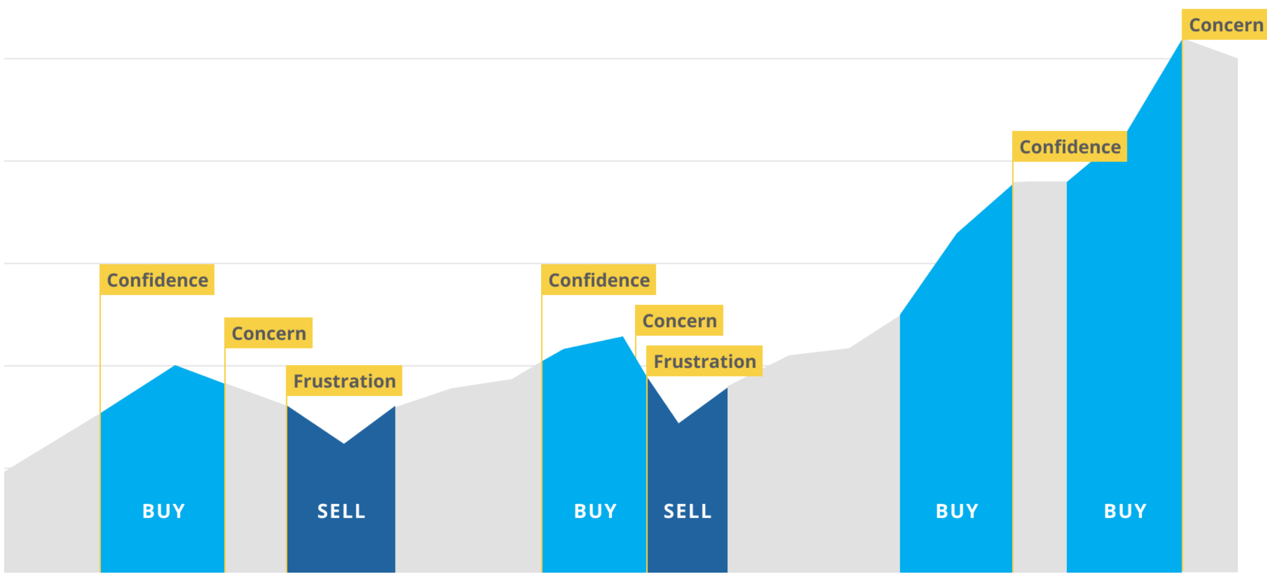
ORION
PORTFOLIO SOLUTIONS

A Better Way to Discuss Diversification and Prepare Clients for Uncertainty

The mark of a great advisor is one that helps clients navigate all market cycles with confidence – a task easier said than done.

The markets you and your clients operate in are cyclical by nature and impossible (nearly) to time. In practical terms, that means markets will move in unexpected ways. And when markets move, client portfolios are impacted – along with their emotions.

Cycle of Investor Emotions



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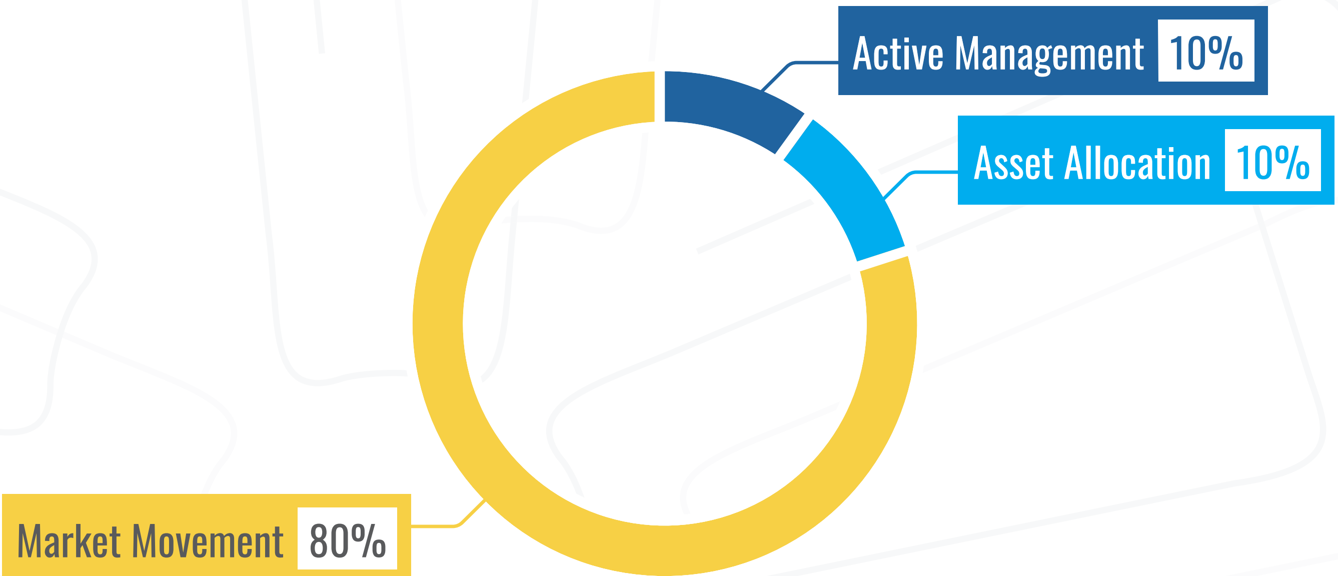
Clients look to financial advisors to help them navigate these uncertainties, particularly in declining and stagnant markets. Traditional investment strategy would tell you that the right blend of asset classes will do the job. However, an award winning 2010 study found that market movement is responsible for up to 80% of the client experience.[1]



Advisors need a better way to diversify client portfolios – one that prepares them to handle the uncertainties and influence of moving markets. We help advisors do that with a unique approach to UMA portfolio design – Market Cycle Mandates.

The process is simple, and the story is compelling.

[1] Financial Analysts Journal, March/April 2010, Volume 66. "The Equal Importance of Asset Allocation and Active Management." 2010 CFA Institute

The Market Cycle Mandates Process

Market Cycle Mandates gives you the ability to easily blend three distinct mandates, or strategies, in one UMA portfolio. The three-mandate approach benefits the portfolio construction process in two ways:

1. The three distinct mandates help you create and implement well-diversified portfolios that align with client risk tolerance and overall investment expectations.
2. Breaking portfolios into three distinct mandates helps clients understand the role each piece plays in the overall investment experience, reducing fear and uncertainty.

The Three Mandates

BETA

Purpose:

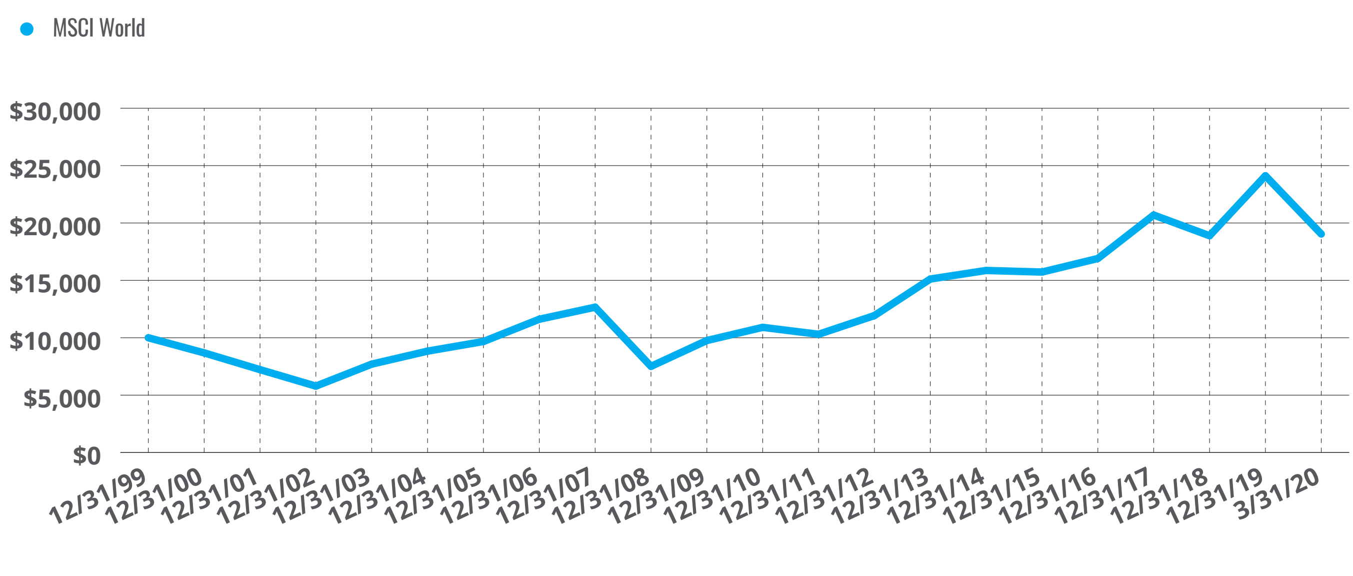
- These are strategies that are designed to capture movement of the markets. When markets rise, these strategies may participate in the upside. However, when markets fall, these strategies may also participate in the decline.

Source of Risk/Return:

- Dependent upon market direction, with little to no active management.

Beta Market Movement

12/1999 - 03/2020
Growth of $10,000



Performance information is provided for informational purposes only regarding the correlation of this mandate to the MSCI World. The holdings of investment strategies available at Orion Portfolio Solutions will vary from the holdings constituting the benchmark.

ACTIVE

Purpose:

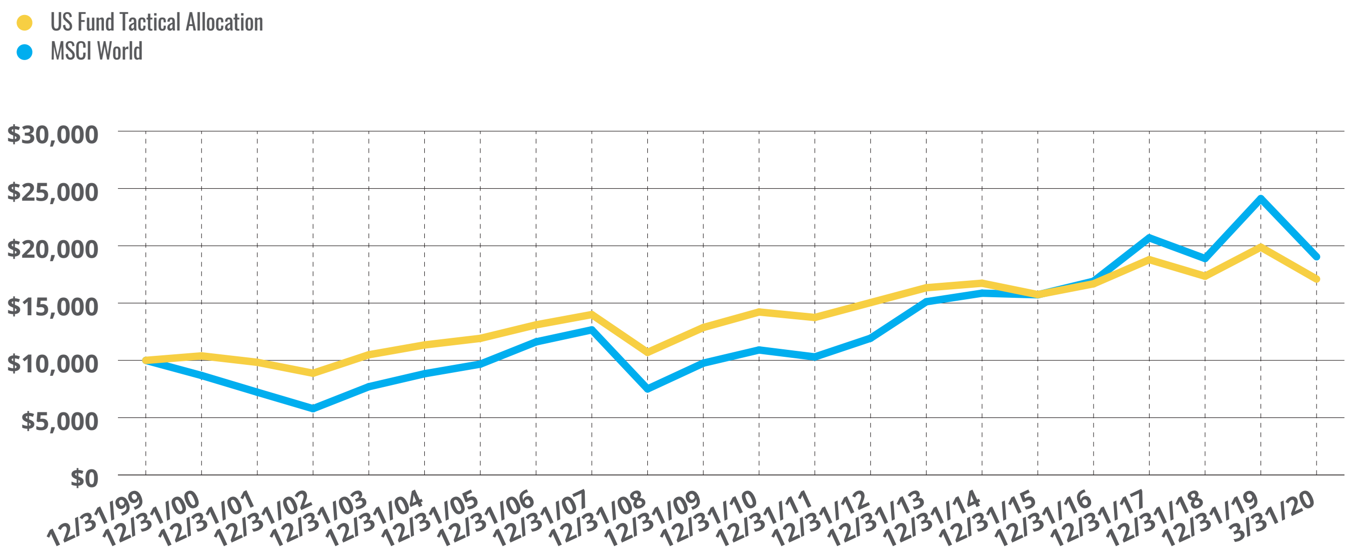
- These strategies adjust for changing market conditions. Their active approach allows them to increase/decrease exposure to market movement as their research dictates. As markets become uncertain, these strategies may be positioned to capture a good portion of the upside while possibly eliminating some of the downside.

Source of Risk/Return:

- Increasingly dependent on active manager decisions, with variable market exposure.

Active Market Movement

12/1999 - 03/2020
Growth of $10,000



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DIVERSIFIER

Purpose:

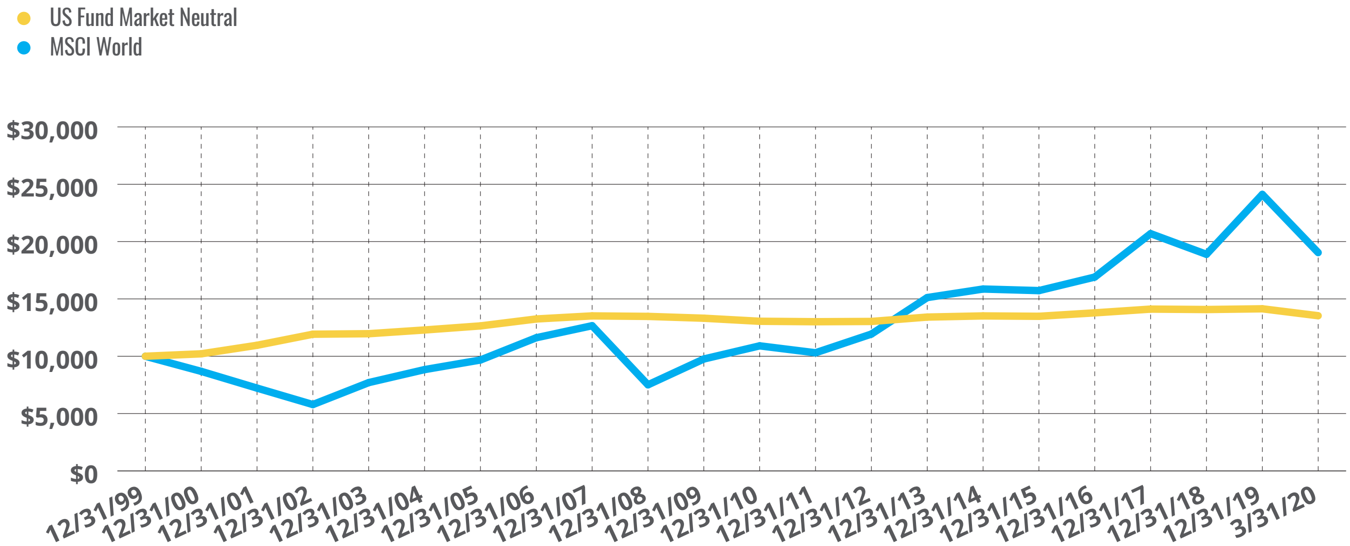
- These strategies are designed to disengage from market movement and provide new sources of potential return and risk. They tend to exhibit low correlation to other mandates, moving differently than the overall stock and bond market.

Source of Risk/Return:

- Highly reliant on active manager decisions, with very little dependence on market direction.

Market Movement Diversifiers

12/1999 - 03/2020
Growth of $10,000



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Using Diversifiers to Enable Growth?

Diversifiers, including active credit and alternative strategies, are used to deliver Alpha to the investment portfolio. These uncorrelated strategies aren't known for consistently high returns, but rather uncorrelated sources of return that don't rely on macro market movement. So how do they enable growth? Diversifiers serve as a counter balance to Beta strategies, which seek to align with market growth. That balance can help clients more comfortably accept allocations to the market-oriented strategies (Beta Mandate), responsible for the primary source of portfolio growth potential.

- Active Credit
- High Yield Timing
- Long-Short Strategies
- Stop Loss Models
- Multi Strategy
- Global Macro
- Market Neutral
- Absolute Return
- Managed Futures
- 130/30 Strategies
- Options Models
- Real Assets

Three Questions to Understand Client Expectations

The Market Cycle Mandates process is built around three unique market participation questions. These questions are designed to help frame the diversification discussion. They prime the client to understand the role and need of each mandate in their portfolio.

1 QUESTION 1

Global markets, though volatile, have historically been great engines for long-term wealth creation. Should a portion of your portfolio be exposed to the returns and volatility associated with these markets?

2 QUESTION 2

Would you expect a portion of your portfolio to be actively managed during periods of market volatility?

3 QUESTION 3

Should a portion of your portfolio be excluded from market movement during periods of market declines?

For most clients, the answer to all three of these questions will be, “Yes”. Asking these three, seemingly simple, questions provides a foundation to support the UMA process.

Identify, Pair, and Monitor Investment Options

In addition to framing the diversification discussion, the Market Cycle Mandates process features an integrated risk assessment designed to help you quickly understand client risk tolerances, identify strategies that are appropriate for each unique client, and blend those strategies in a way that positions the portfolio to perform as expected, across market scenarios.

The risk scoring methodology is also applied to each underlying strategy in the UMA proposal system – to help guide the strategy selection process.

How It Works:

- After completing the risk and market participation assessment, each client is assigned a risk score (which can be adjusted manually, as you see fit).
- That risk score is translated to the strategy selection process. As you select strategies, a portfolio risk score will be adjusted – in real time – to help you easily align investment decisions to client expectations.
- Strategies are segmented by mandate, and adjustable by allocation percentage to make finding the right balance of risk and market participation easy.

The Market Cycle Mandates process isn't just a story to help you sell UMA portfolios. It also works to validate your investment decisions and keep clients grounded through market volatility. Reporting is segmented by mandate, to show, clearly, how each strategy supports overall portfolio performance. A cohesive reporting structure that helps clients understand the role of diversification in their portfolio can increase trust, reduce anxiety, and reinforce your investment philosophy.

A Curated Approach to Strategist Selection

Each third-party strategist is vetted and monitored for quality by our Investment Policy Committee. Our carefully curated lineup of strategists is designed to help you more confidently and efficiently find and implement investment options for your clients.

The Benefits of Using Market Cycle Mandates

The process gives you...

A simple and effective way to build and maintain well-diversified UMA portfolios

Access to a curated list of third-party strategists that are vetted and monitored for quality and consistency

The ability to differentiate from competing firms with a story that helps clients better understand the role of diversification in their investment experience

Improved reporting structure that supports your investment philosophy in each client meeting, keeping investors grounded and bought into their investment plan

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The performance information presented in certain charts and tables represents historical performance data. Morningstar US Fund Market Neutral Category: Morningstar considers a fund market-neutral if its equity beta is between negative 0.3 and 0.3. The goal of almost every market-neutral fund is to arbitrage market mispricing by betting on the convergence of spreads, or the difference between a long and a short position pair, as the long position increases in value and the short position declines in value. The short position serves to hedge market exposure (reduce the beta) from the long position, while profiting from market inefficiencies. As the potential total return from the spread is often just a few percentage points, market-neutral funds may use leverage to enhance returns (although most market-neutral mutual funds do not use leverage). Because market-neutral funds hedge out broad market risk, a cash-like benchmark (such as Treasury bills) is more appropriate than a stock or bond market index.

Morningstar US Tactical Allocation Category: Tactical Allocation portfolios seek to provide capital appreciation and income by actively shifting allocations across investments. These portfolios have material shifts across equity regions, and bond sectors on a frequent basis. To qualify for the tactical allocation category, the fund must have minimum exposures of 10% in bonds and 20% in equity. Next, the fund must historically demonstrate material shifts in sector or regional allocations either through a gradual shift over three years or through a series of material shifts on a quarterly basis. Within a three year period, typically the average quarterly changes between equity regions and bond sectors exceeds 15% or the difference between the maximum and minimum exposure to a single equity region or bond sector exceeds 50%

The MSCI World Index, which is part of The Modern Index Strategy, is a broad global equity index that represents large and mid-cap equity performance across 23 developed markets countries. It covers approximately 85% of the free float-adjusted market capitalization in each country. MSCI World Index does not offer exposure to emerging markets.

An index is an unmanaged group of stocks considered to be representative of different segments of the stock market in general. You cannot invest directly in an index

Performance information regarding the Morningstar US Fund Market Neutral Category and the Morningstar US Tactical Allocation Category is provided for informational purposes only regarding the correlation or non-correlation of such strategies to the MSCI World Index. The holdings of investment strategies available at OPS may vary widely from the holdings constituting the benchmarks. The information is not to be considered representative of historical or future performance of any investment strategy made available by OPS. In addition, performance results for clients that invest in strategies available at OPS may vary from the historical performance of the Morningstar US Fund Market Neutral Category and the Morningstar US Tactical Allocation Category due to market conditions and other factors, including investment cash flows, mutual fund allocations, frequency and precision of rebalancing, tax-management strategies, lower or higher Strategist Fees, Administrative Fees and Advisor Fees, varying custodian, brokerage and other administrative fees and/or the timing of fee deductions. As a result of these and potentially other variances, actual performance for client accounts may differ materially from (and may be lower than) that of the listed benchmarks. As with any investment strategy, there is potential for profit as well as the possibility of loss. OPS does not guarantee any minimum level of investment performance or success of any index portfolio or investment strategy. All investments involve risk and investment recommendations will not always be profitable. Past performance does not guarantee future results.

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Want to Learn More?

Implementing the Market Cycle Mandates process in your own environment is easy.
Want to learn how? Contact us. We'd love to help you get started today.

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