Ken Stern & Associates
A Registered Investment Advisor

Active Indexing
investment strategy

At Ken Stern & Associates, we have designed a methodology that provides the potential benefits of both passive indexing and active management. Our goal is to take what we like best about investing in low-cost securities that track broad based indexes and enhance the investment strategy through active management.

Welcome to KSA ACTIVE

KSA Active Indexing

KSA ACTIVE

approach

The key to KSA Active is exposure to fundamental factors that have the potential to generate excess returns over time while maintaining a level of market risk similar to the benchmark.

Factors are characteristics that explain and influence an investment's risk and return. Examples of different factors include quality, momentum, size, value, and low volatility. KSA's approach to constructing portfolios using factor-investing emphasizes exposure to factors that may earn premiums over time. Using factor-investing for portfolio construction shifts the focus of the allocation decision from asset classes to factor exposures.

attributes

DIVERSIFIED

KSA Active strategies are diversified within and across asset classes

CONTROL RISK

KSA Active strategies seek to maintain a similar level of risk to that of the benchmark

Quantitative system with higher exposure to chosen factors relative to benchmark

SYSTEMATIC APPROACH

Seek to defer or minimize potential impact of taxes on investment returns

TAX LOSS HARVESTING

Combining Active & Passive Investing

Passively managed investments offer investors low-cost exposure to various asset classes. Our process seeks to capitalize on this benefit and improve upon the passive investments by using proactive analytical tools to establish factor tilts that exploit macro-economic trends. By adding our active overlay to these passive investments, we hope to provide an active return that can exceed the benchmark return.

Quality | Momentum | Size | Value | Low Volatility

Factors: Drivers of Performance

Quality

Companies that are efficient, profitable, and have better earnings quality tend to do better than companies that are weaker in these areas.

Sample Criteria:
high ROE, stable earnings, strong balance sheet, and low financial leverage

Momentum

Stocks with positive recent price momentum tend to outperform stocks with low momentum.

Sample Criteria:
strong price performance, typically over a 6-12 month period

Size

Smaller-cap stocks tend to outperform larger-cap stocks over time

Sample Criteria:
market capitalization

Value

Value stocks generally outperform growth stocks in the long-term.

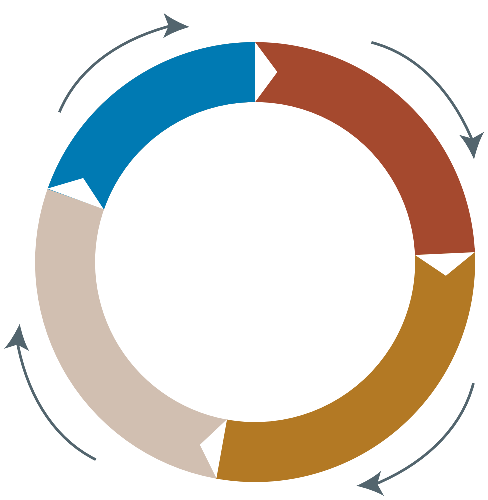
Sample Criteria:
low P/E and P/B ratios

Low Volatility

Stocks with lower historical price volatility have outperformed stocks with higher price volatility.

Sample Criteria:
standard deviation and beta

process



1 ANALYSIS OF FACTOR EXPOSURES

Analyze benchmark, asset class, and sector exposures relative to factor indices. We focus on factor valuations, growth rates, and sector breakdowns for each factor index.

2 PORTFOLIO CREATION

Sector and asset class weights are calculated based on the factor tilts derived from our analysis. Create composite factor portfolio with factor tilts using our proprietary methodology.

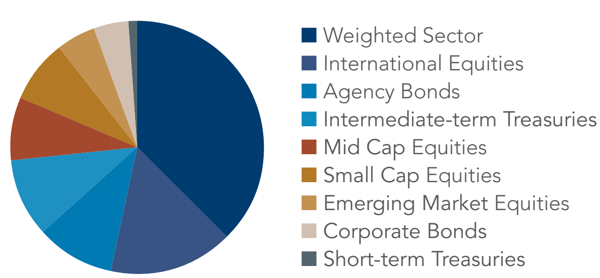
3 MANAGE RISK

Fine-tune the factor portfolio to deliver diversified exposure while maintaining a similar risk level relative to the benchmark.

4 REBALANCE

Portfolios are analyzed on a monthly basis and potential changes are dependent on factor analysis.

SAMPLE GROWTH & INCOME PORTFOLIO



Factor Selection

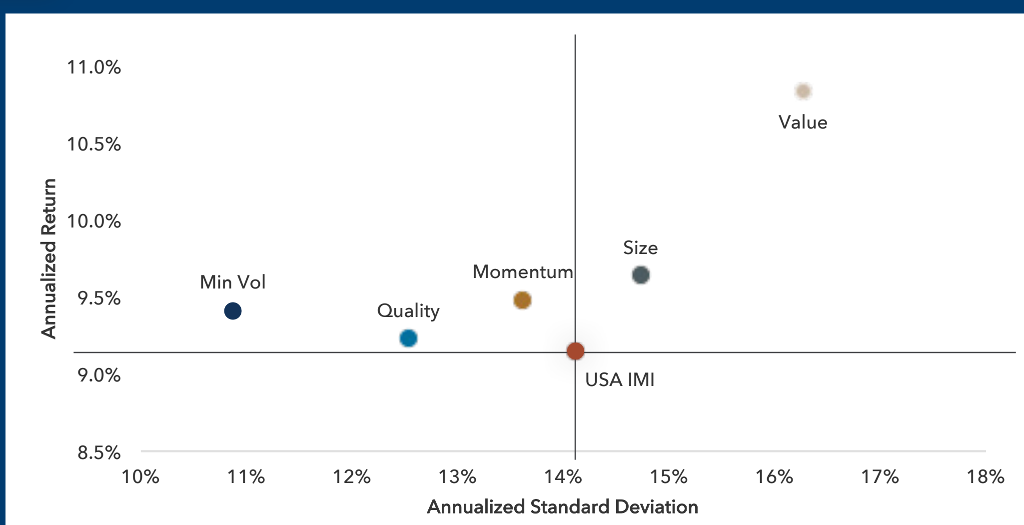
The fundamental factors described on the previous page are some of the most popular and well-studied factors used today. We focus on these factors because academic research has shown that they exhibit excess returns above the market over time, making them good considerations for long-term factor investing.

One important consideration of factor investing is factor cyclicality. Due to their cyclical nature, factor indices will have periods of underperformance compared with the broad market index. Our factor-based strategies combat this cyclicality by providing exposure to multiple factors, rather than concentrating exposure on one factor.

The graph below illustrates the performance characteristics of indices constructed based on our preferred factors and include data from June 2003 through December 2016. Based on this graph, we can see some factor indexes have higher returns and higher volatility compared to the broader market, while other factor indexes have higher returns and lower volatility.

performance characteristics

MSCI USA FACTOR INDICES



Data for these factors was obtained from Thomson Reuters Datastream

This chart illustrates the risk & return characteristics of MSCI USA Factor Indices from June 2003 through December 2016. These factor indices are based off the MSCI USA Index (parent index), which includes large and mid-cap stocks exclusively in the US equity market. The factor indices displayed above exhibit positive risk-adjusted performance and higher Sharpe ratios compared to the parent index.

Benefits of KSA ACTIVE

KSA's Active methodology seeks to take advantage of the benefits offered by passive indexing and active management. The chart below details some of these benefits and provides a comparison of KSA Active to passive indexing and active management.

	Active	Passive	KSA Active
Potential to Outperform Benchmark	Yes	Highly unlikely. Passive funds may outperform due to differences in timing of purchases/sells vs the index it tracks	Yes, by altering our sensitivities to preferred factors, we seek to outperform the relative index
Ability to take Defensive Measures	Yes, but subject to Manager style	Passive funds do not take defensive measures. The only defensive measure is to sell the passive holding	Yes, through factor analysis we can identify risk attribution and modify exposure as we see fit
Fees	Higher fees relative to passive investments	Lower fees relative to active investments	Fees more in line with Passive Investing
Diversification Benefits	Potentially diversified	Yes	Yes
Tax Harvesting	Yes, actively managed funds have discretion to manage when gains & losses are taken	No	Yes

Contact Ken Stern & Associates to learn how Active Indexing can work for you.

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800.529.2884 | 858.485.0404
www.kenstern.com

Important Disclosures

Ken Stern & Associates ("KS&A") is an SEC Registered Investment Adviser. However, such registration does not imply a certain level of skill or training and no inference to the contrary should be made.

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KS&A does not provide legal or tax advice. KS&A recommends that you consult a qualified tax or an estate planning professional if you feel that these services are necessary for your situation.

Graph Disclosures

Performance Characteristics – MSCI World Factor Indexes Graph

This graph plots risk and return characteristics of selected MSCI USA Factor Indexes using data from June 2003 through December 2016.

Definitions

Passive indexing: Style of management associated with mutual and exchange-traded funds (ETF) where a fund's portfolio mirrors a market index.

Active management: The use of a human element, such as a single manager, co-managers or a team of managers, to actively manage a fund's portfolio. Active managers rely on analytical research, forecasts, and their own judgment and experience in making investment decisions on what securities to buy, hold and sell.

Low-cost securities: Securities with expense ratios below industry average. (Source: Ken Stern & Associates)

Broad based indexes: An index designed to reflect the movement of the entire market.

Diversification: Risk management technique that mixes a wide variety of investments within a portfolio. The rationale behind this technique contends that a portfolio constructed of different kinds of investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio.

Benchmark: A standard against which the performance of a security, mutual fund, or investment manager can be measured.

Tax loss harvesting: Tax gain/loss harvesting is a strategy of selling securities at a loss to offset a capital gains tax liability. It is typically used to limit the recognition of short-term capital gains, which are normally taxed at higher federal income tax rates than long-term capital gains, though it is also used for long-term capital gains.

Factor tilt: Adjustment of portfolio weights to increase exposure to specific factors that have long-term return premiums associated with them. (Source: Ken Stern & Associates)

Macro-economic trends: Focuses on movements in economy-wide phenomena such as changes in unemployment, national income, rate of growth or inflation.

Return premium: Excess return compared with that of the parent index. (Source: Ken Stern & Associates)

Quality Factor Index: Seek to reflect a quality growth investment strategy by targeting stocks with historically high return on equity (ROE), stable year-over-year earnings growth, and low financial leverage. (Source: www.msci.com)

Momentum Factor Index: Seek to reflect the performance of an equity momentum strategy by emphasizing stocks with high risk-adjusted price momentum. (Source: www.msci.com)

Size Factor Index: Seek to remove the influence of market prices from an MSCI parent index at each quarterly rebalance. Tend to overweight smaller cap index constituents relative to the parent index and are considered one approach to capturing the small cap premium. (Source: www.msci.com)

Value Factor Index: Seek to overweight stocks with value characteristics and lower valuations relative to the parent index. (Source: www.msci.com)

Low Volatility Factor Index: Seek to capture the performance characteristics of a minimum variance strategy by optimizing a cap weighted MSCI parent index. Have historically shown lower realized volatility and lower beta relative to the MSCI parent index, with a bias towards smaller, less volatile stocks and towards stocks with lower idiosyncratic risks. (Source: www.msci.com)

Return On Equity – ROE: The amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Leverage: The use of various financial instruments or borrowed capital, such as margin, to increase the potential return of an investment.

Market Capitalization: Refers to the total dollar market value of a company's outstanding shares. Commonly referred to as "market cap," it is calculated by multiplying a company's shares outstanding by the current market price of one share. Large-cap companies typically have a market capitalization of $10 billion or more. Mid-cap companies generally have a market cap of between $2 billion and $10 billion. Small-cap companies tend to have a market cap of between $300 million and $2 billion. Small-cap companies tend to have a market cap of between $300 million and $2 billion.

Price-To-Earnings: – P/E Ratio: Ratio for valuing a company that measures its current share price relative to its per-share earnings. The price-earnings ratio indicates the dollar amount an investor can expect to invest in a company in order to receive one dollar of that company's earnings.

Price-To-Book - P/B Ratio: Ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share.

Standard deviation: Measure of the dispersion of a set of data from its mean. The more spread apart the data, the higher the deviation. Standard deviation is calculated as the square root of variance.

Beta: Measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole.

Sharpe ratio: Measure for calculating risk-adjusted return. It is the average return earned in excess of the risk-free rate per unit of volatility or total risk.

MSCI World/USA Factor Indexes: MSCI Factor Indexes are systematic rules-based indexes designed to represent the return of factors which have historically earned a risk premium over long periods of time - such as Low Volatility, Value, Low Size, Quality and Momentum. (Source: www.msci.com)

MSCI USA Index: Index designed to measure the performance of the large and mid-cap segments of the US market. With 620 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US. (Source: www.msci.com)

Weighted Sector: KSA strategy that seeks to track the investment results of the MSCI USA IMI Index and has the potential to outperform the index due to slight differences in KSA sector weights vs index sector weights. This strategy uses Fidelity Sector ETFs and offers exposure to each sector in the market.

*Definitions from Investopedia unless indicated otherwise

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NOBEL EXECUTIVE CENTER
3655 NOBEL DRIVE, SUITE 630
SAN DIEGO, CA 92122

800.529.2884
858.485.0404
www.kenstern.com