RPg asset management

Defending Capital. Redefining Risk.

Quarterly Commentary 4q14

Solutions based upon the AlphaSector® Premium Index

Risk Paradigm Group seeks to defend capital through our ETF tactical strategies based upon the F-Squared AlphaSector ® Premium methodology. The below quarterly commentary is related to the RPg AlphaSector ® Core Domestic Equity and the RPg Premium FT portfolios available as separately managed accounts.

Overview

During the fourth quarter of 2014, there were four weeks in which the S&P 500 experienced a price movement of more than 3%. A weekly occurrence of such a move had not been experienced since the week that began with New Year's Eve 2012. Depending on your perspective, that could be considered either a new normal or a return to an old normal, for although 3% weeks were absent in 2013 and much of 2014, they did occur five times in 2012, and at least 12 times in each year from 2008 to 2011.

For the year 2014, the S&P 500 returned 13.7%, roughly in line with its arithmetic yearly average since 1980 of 13.2%. Future generations of investors may assume that 2014 was a dull year, but those who have just lived through it know better. Although the U.S. equity markets repeatedly reached new highs, it was a year of increasing volatility, uncertainty coupled with a relentless narrowing and disparity between sectors and countries, and an unprecedented collapse in the price of oil.

The AlphaSector Premium Index (the "Index") began the last quarter of 2014 with a modestly bullish stance, allocated to seven of nine possible sectors, missing only energy and utilities. Early in the quarter, sector volatilities increased and price momentum turned negative. During the second week of October, the Index eliminated consumer discretionary, followed by the removal of three additional sectors (financials, industrials, and healthcare) the following week. In the final week of October, the materials sector was removed from the Index, leaving the Index allocated to just technology and consumer staples and a 50% allocation to a cash alternative position.

This was the first time in three years that the Index had de-risked to the point of holding a cash alternative. By design, the AlphaSector Premium Index exits sectors when the methodology detects a toxic environment, primarily as measured by volatility, in which the risk of suffering significant losses outweighs the probability of enjoying gains. However, this period turned out to be a case in which the danger of a large loss was not realized. Indeed, over the two weeks ending with Halloween, the S&P 500 gained 7.0%, a two week return not matched since the fourth quarter of 2011.

After an uncertain November and a volatile December, a few sectors appeared to be safe enough according to methodology to be allocated back into the Index. Financials was added the second week of December followed by utilities and consumer discretionary. This removed the cash alternative allocation from the Index and five sectors allocated at the close of the quarter and year.

The Index performance for the quarter and for the year ended up but lagged behind the S&P 500. Not being allocated to energy, which lost nearly -11% during the quarter, was a positive however the defensive positioning of 50% cash for half of the quarter had an inevitable drag relative to the S&P 500.

Outlook

Subjective forecasts of market outlook do not have a role in the AlphaSector quantitative methodology. As a result, it is not appropriate to make formal projections about the direction of the market and offer no opinion on the near or long-term future of the equity markets.

The Index ended the quarter with allocations to five of a possible nine sectors in the quantitative model, after having allocations to only two sectors at one point during the quarter. This more defensive stance reflects a change from the seven sectors that were turned on when the quarter began.

Commentary Disclosure

Past performance is not indicative of future results. It is not possible to invest directly in an index. Index performance does not reflect charges and expenses, such as advisory fees and trading costs, both of which will decrease the return experienced by a client, and is not based on actual advisory client assets. Index performance does include the reinvestment of dividends and other distributions. This material has been prepared solely for informative purposes. The information contained herein includes information that has been obtained from third party sources and has not been independently verified. It is made available on an "as is" basis without warranty. Any projections, market outlooks, or estimates n this presentation are forward-looking statements and are based upon certain assumptions and should not be construed as indicative of actual events that will occur. The information provided herein does not constitute investment advice and is not a solicitation to buy or sell securities.

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The *AlphaSector U.S. Equity Index* ("U.S. Equity") is designed to provide exposure to the U.S. Equity market, and is constructed as an "asset allocation" overlay onto Exchange Traded Funds ("ETFs") representing major sectors of the U.S. economy. F-Squared defines the inception date for U.S. Equity, the Premium AlphaSector Index and the AlphaSector Rotation Index as October 1, 2008.

No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. All investments include a risk of loss that clients should be prepared to bear. The principal risks of the AlphaSector Indexes and Strategies are disclosed in F-Squared Investments and Risk Paradigm Group's publicly available Form ADV Part 2A.

F-Squared may change the exposures and index compositions reflected herein at any time and in any manner in response to market conditions or other factors without prior notice to investors.

Index Maintenance: F-Squared actively maintains the Quant Model that generates the signals utilized to populate the Index. The Quant Model operates based on numerous and complex underlying mathematical assumptions. F-Squared periodically updates or revises these assumptions in an effort to improve the model's accuracy and responsiveness. These changes alter Index construction moving forward. Consequently, past index performance may not be representative of future performance.

Lack of Index Transparency: F-Squared does not publish detailed information about the Index at this time, including the specific names and weightings of the ETFs comprising the Index or the weekly "buy/sell" signals. Moreover, to date, no independent third-party has verified the accuracy of the Index performance presented herein. *(Continued on following page)*

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Index Calculation Methodology: Index returns are calculated on a monthly total-return basis using published closing market prices for the constituent ETFs, as of the last business day of the month ("Market-Based ETF Valuations").They are time and asset weighted and reflect the reinvestment of all dividends and other distributions. Monthly returns are geometrically linked to create quarterly and annual returns. All returns are calculated and expressed in U.S. dollars.

Prior to April 3, 2014, Index returns were calculated using the published closing net asset values ("NAVs) for the ETFs comprising the Funds, as of the last business day of the month ("NAV Based ETF Valuations"). F-Squared switched from NAV-Based ETF Valuations to Market-Based ETF Valuation to more accurately reflect the manner in which ETFs are most commonly valued. This change did not materially impact Index performance.

References to Non-AlphaSector Indexes
The S&P 500 Index is a broad-based unmanaged index of 500 stocks, which is widely recognized as a representative of the equity market in general.

Risk Disclosures
Concentration, volatility, and other risk characteristics of a client's account also may differ from the indexes shown herein. Each of the above indexes is included merely to show general trends in the market during the periods indicated. Inclusion of these indexes is provided only for reference purposes and is not intended to imply that any AlphaSector index was comparable to any index in either composition or element of risk. There is no guarantee that any client will achieve performance similar to, or better than, an index mentioned herein.

Sources: Morningstar, F-Squared Investments.
For more information including risks of investing in our strategies, visit our website at www.rpgassetmanagement.com
For more information on F-Squared and the AlphaSector Indexes, please visit www.f-squaredinvestments.com