

TOPS®

The Optimized Portfolio System

Pioneers in Strategic ETF Portfolios

PHILOSOPHY AND PROCESS OVERVIEW

TOPS® PHILOSOPHY

FOUNDATIONAL THEORY

TOPS® portfolios are built on the tenets of sound financial principles such as the Modern Portfolio Theory², Black-Litterman³ model and Efficient Market Hypothesis⁴. In practice, TOPS® portfolios are structured with an ongoing appraisal of the global market, correlation and volatility data as recommended in the Modern Portfolio Theory and Black-Litterman approaches. Given efficient market principles, each portfolio is allocated primarily using index tracking Exchange Traded Funds (ETFs). Ultimately, the goal of TOPS® is to optimize long-term, risk-adjusted returns.

INDEX INVESTING

History has consistently demonstrated that most actively managed mutual funds underperform their respective indices over time⁵. To minimize this underperformance, TOPS® invests in ETFs which are designed to closely track the returns of an underlying index. As a result, TOPS® portfolios are typically diversified, cost effective, tax efficient, transparent and liquid.

TOPS® PROCESS

TOPS® portfolio construction has 3 *distinct phases*: **Formulation of Strategic Asset Allocations**, **ETF Selection** and **Portfolio Monitoring and Management** (Exhibit 1).

EXHIBIT 1

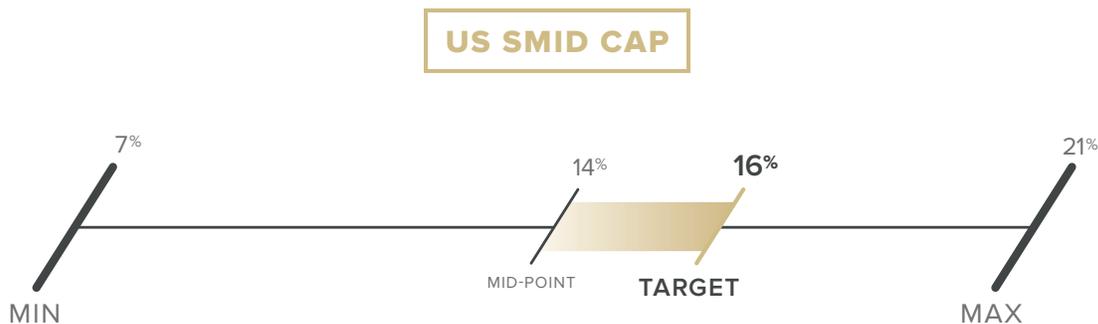




A STRATEGIC APPROACH TO ACTIVE INDEXING™

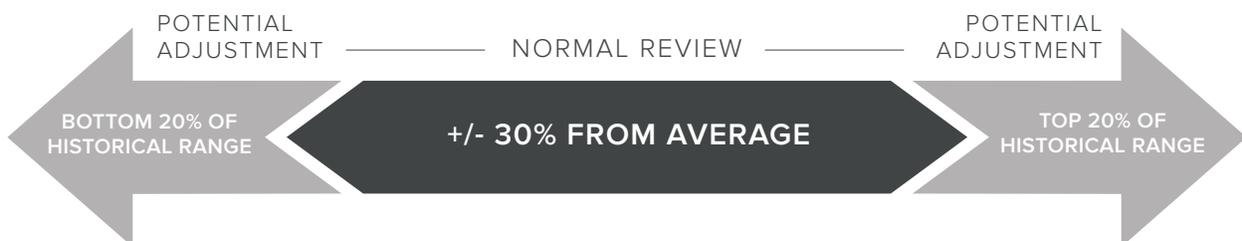
A dynamic process of formulating strategic asset allocation targets and risk controlled ranges for each major asset class (Exhibit 2) is followed in TOPS® portfolio construction. As an example, an allocation to small and mid cap U.S. stocks for a portfolio might have a range of 7–21%, with a current target allocation of 16%.

EXHIBIT 2



Through this disciplined formulation process, a 1–3 year prospective view on an asset class or ETF is taken before making any changes to target allocations. Potential portfolio adjustments are considered when asset class or market factor values are outside normal ranges in one of the many attributes monitored (such as valuation, yields, interest rates, earnings, inflation levels, etc). TOPS® defines values in the top or bottom 20% of their historical norms as outside normal ranges. (Exhibit 3).

EXHIBIT 3





Portfolio adjustments are also needed as markets naturally change over time. As a result, TOPS® portfolios are regularly rebalanced. Rebalancing is an important step in risk management in order to maintain portfolio exposures and minimize drift outside target allocation ranges. Finally, the process is designed with feedback loops in order to continually improve and evolve. The portfolio management team often describes the overall process as A Strategic Approach to Active Indexing™.

As opposed to tactical or market timing investment philosophies, A Strategic Approach to Active Indexing™ typically leads to a lower magnitude and frequency of trading. However, a strategic approach often leads to a higher magnitude and frequency of trading than a static approach (Exhibit 4). Likewise, a goal of strategic investing is to generally lower total portfolio expenses and enhance longer term risk adjusted performance.

EXHIBIT 4

PHILOSOPHY TYPE	TRADING MAGNITUDE	MAGNITUDE EXAMPLE	TRADING FREQUENCY	TRADING EXAMPLE
STATIC	NONE	NO CHANGES	NONE	NO CHANGES
STRATEGIC	LOW	REDUCE LARGE CAP GROWTH EXPOSURE FROM 20% TO 15%	LOW	A FEW TIMES PER YEAR
TACTICAL	MODERATE	REDUCE LARGE CAP GROWTH EXPOSURE FROM 20% TO 0%	MODERATE	AT LEAST MONTHLY
MARKET TIMING	HIGH	COMPLETELY SELL ALL EQUITY EXPOSURE AND SWAP INTO ALL BONDS	HIGH	WEEKLY OR MORE

Examples of A **Strategic** Approach to Active Indexing™ with TOPS®:

- Reduce exposure to an asset class due to historically high valuation metrics, and use proceeds to add to another asset class
- Adjust duration of fixed income portfolio due to a changing interest rate environment
- Swap ETFs due to particular exposure of underlying indexes, given the current market environment

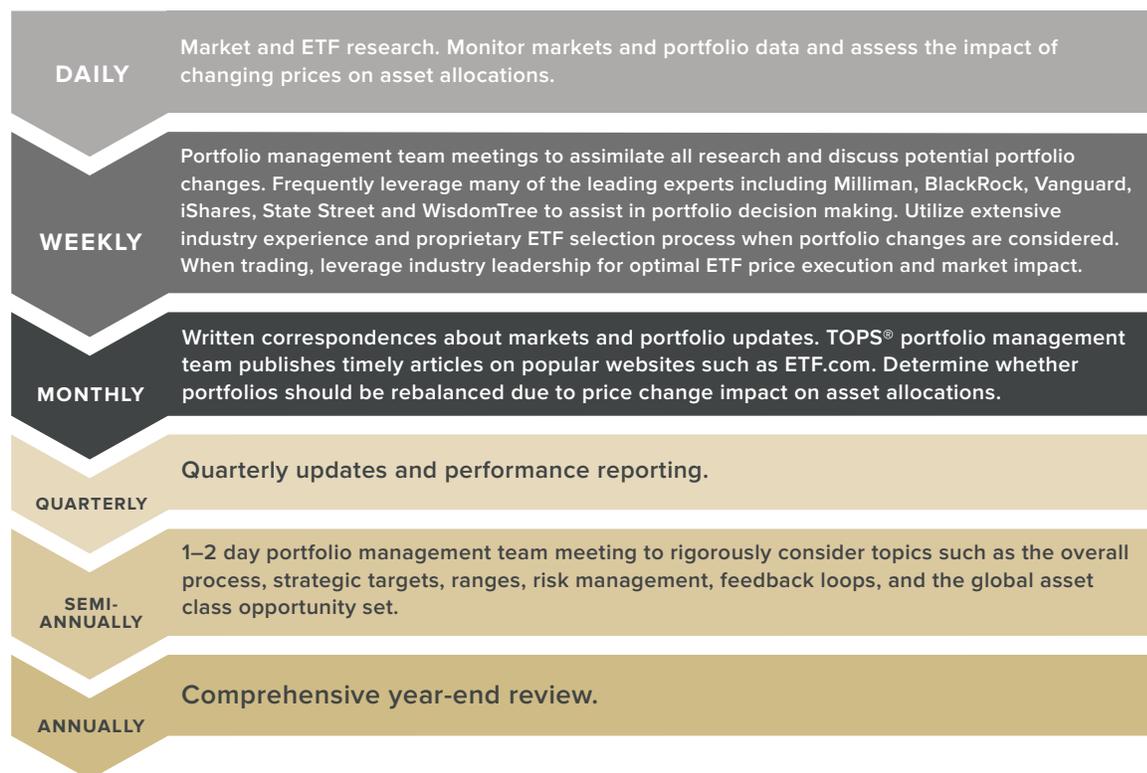


TOPS® ETF SELECTION PROCESS

The TOPS® allocations are implemented primarily through the use of ETFs. The TOPS® ETF selection process relies on a combination of industry experience and resources available in the ETF community, along with institutional quality technology. The TOPS® ETF selection process is proprietary in nature; however, it includes the following important pieces:

- Relationships and consistent communications with some of the leading ETF providers and Portfolio Managers
- Use of multiple databases of ETF information
- Experience and tools in the area of ETF trading

THE TOPS® IMPLEMENTATION, MONITORING AND MANAGEMENT PROCESS



SUMMARY

TOPS® is built on tenets of sound financial theory and offers A Strategic Approach to Active Indexing™. TOPS® portfolios are typically diversified, cost effective, transparent, tax efficient and liquid. The portfolio management team for TOPS® continually seeks to improve the process and evolve as markets change with the goal of optimizing long-term, risk-adjusted returns.

DISCLOSURES:

The material contained herein is for informational purposes only and is not intended to provide specific advice or recommendations for any individual nor does it take into account the particular investment objectives, financial situation or needs of individual investors. Nor does it constitute an offer or a solicitation of an offer to buy any securities, products or services mentioned. Exchange-traded funds (ETFs) are pooled investment vehicles that seek to provide returns that generally correspond to the return of an index and are subject to risks similar to the securities in the index. There is no assurance that the performance of an index can be fully matched. Indices are unmanaged and cannot be invested directly in.

TOPS® products are to be sold with the following documents, all of which are available to you at no cost from your financial advisor; Form ADV2A & ADV2B, TOPS Wrap Brochure and underlying ETF prospectuses. Investors are encouraged to read these documents in their entirety prior to investing. All investing involves risk, including the possible loss of principal.

Any tax advice contained herein is of a general nature. Further, you should seek specific tax advice from your tax professional before pursuing any idea contemplated herein.

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DEFINITIONS AND FOOTNOTES:

¹ This statement of philosophy is consistent for all structures in which TOPS® is offered. These structures include separately managed accounts, variable insurance trusts and collective investment funds.

² Modern Portfolio Theory - A theory on how risk-averse investors can construct portfolios to optimize or maximize expected return based on a given level of market risk, emphasizing that risk is an inherent part of higher reward.
<http://www.investopedia.com/terms/e/efficientmarkethypothesis.asp>

³ Black-Litterman - model used to estimate inputs for portfolio optimization. It mixes different types of estimates, some based on historical data, others based on equilibrium conditions to arrive at updated estimates.
<http://www.blacklitterman.org/intro.html>

⁴ Efficient Market Hypothesis - An investment theory that states it is impossible to “beat the market” because stock market efficiency causes existing share prices to always incorporate and reflect all relevant information.
<http://www.investopedia.com/terms/e/efficientmarkethypothesis.asp>

⁵ Standard & Poor’s Indies Versus Active (SPIVA) Scorecards
<http://us.spindices.com/search/?ContentType=SPIVA>