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Ned Davis Research 360° Dynamic Allocation ETF (NDAQ: NDAA) - Investment Case

October 2024

Contact: info@ndrfunds.com
For More Information Visit: ndrfunds.com

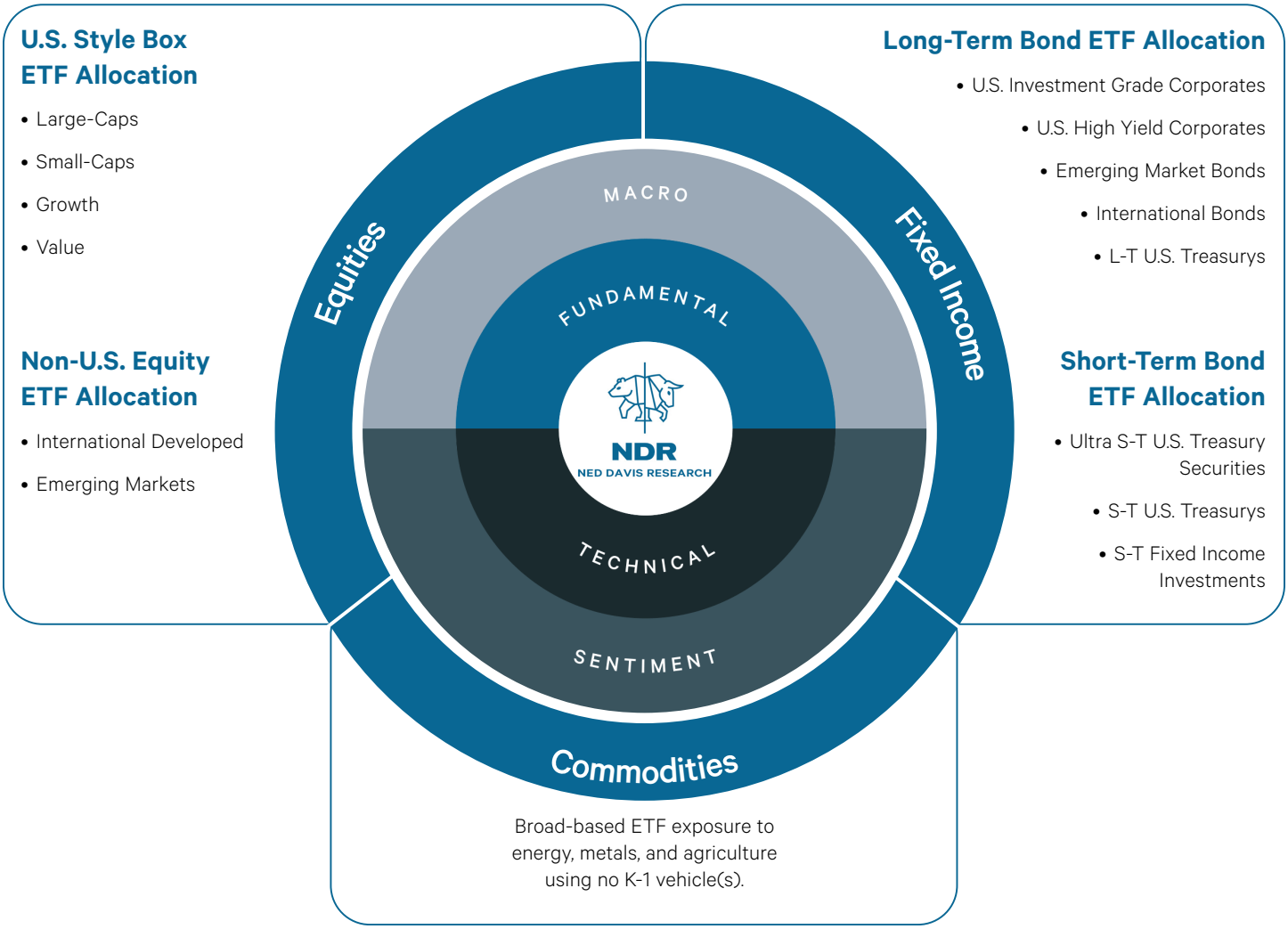
Introduction

The Ned Davis Research (NDR) 360º Dynamic Allocation ETF (NDAQ:NDAA) applies the NDR 360º research framework to objectively allocate across and within stocks, bonds, and commodities. The Fund seeks long-term capital appreciation.

As Americans grow older, they will be faced with rising costs and uncertainty around social benefit programs. As individuals invest in the financial markets looking to generate long-term gains, they can evaluate macroeconomic conditions to determine the return and risk outlook for each asset class.

Unfortunately, behavioral finance shows that people struggle to overcome their emotions. Investors fall susceptible to various biases, which can lead to ill-timed investment decisions.

NDR has developed its evidence-based, objective research approach to reduce the impact of emotional biases. This framework quantifies concepts from macroeconomic, fundamental, technical, and sentiment disciplines. These metrics are combined in a weight-of-the-evidence methodology to make investment decisions across and within asset classes.

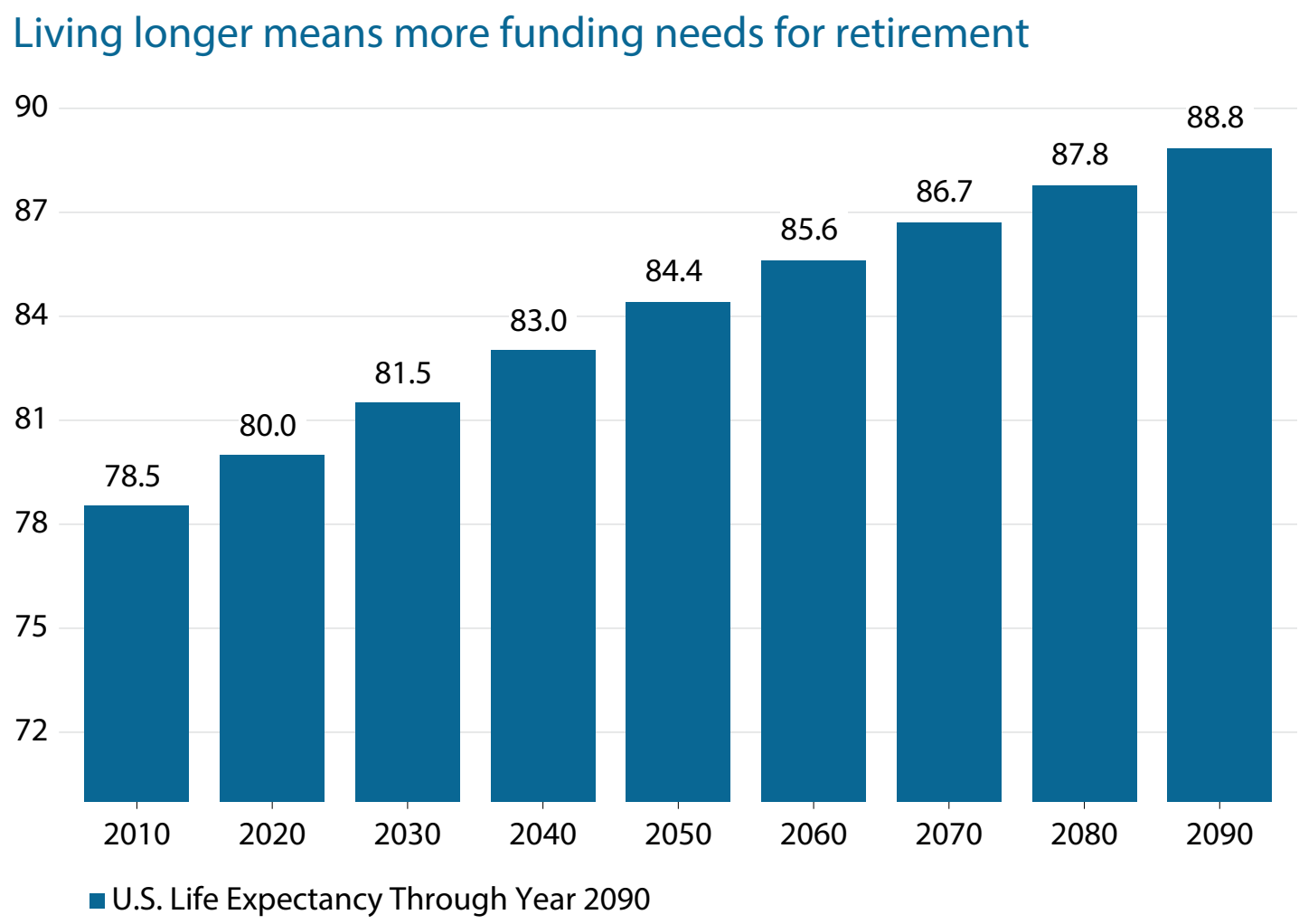


Growing Old in America Over the Coming Decades Will Pose a Significant Challenge

Americans are living longer, a trend expected to continue over the coming decades. Most younger Americans have a goal to live to the age of 100, so they are more worried about running out of money than dying[1].

Rising costs within education, health care, and housing will put a strain on households for years to come.

- From 1993/1994 – 2023/24 the cost of both public and private college costs (tuition, fees, housing, and food) has increased more than 68% (in 2023 dollars)[2].
- A 65-year-old retiring in 2024 can expect to spend an average of $165,000 in health care and medical expenses throughout retirement[3].
- With higher interest rates, low housing supply due to the "lock-in" effect of homeowners refinancing their fixed-rate mortgages earlier in the decade, and multi-family building permits declining, housing affordability is near its lowest levels in almost 40 years[4].



Data as of 02/29/2020.
Source: *https://worldpopulation.theglobalgraph.com/p/united-states-population.html*

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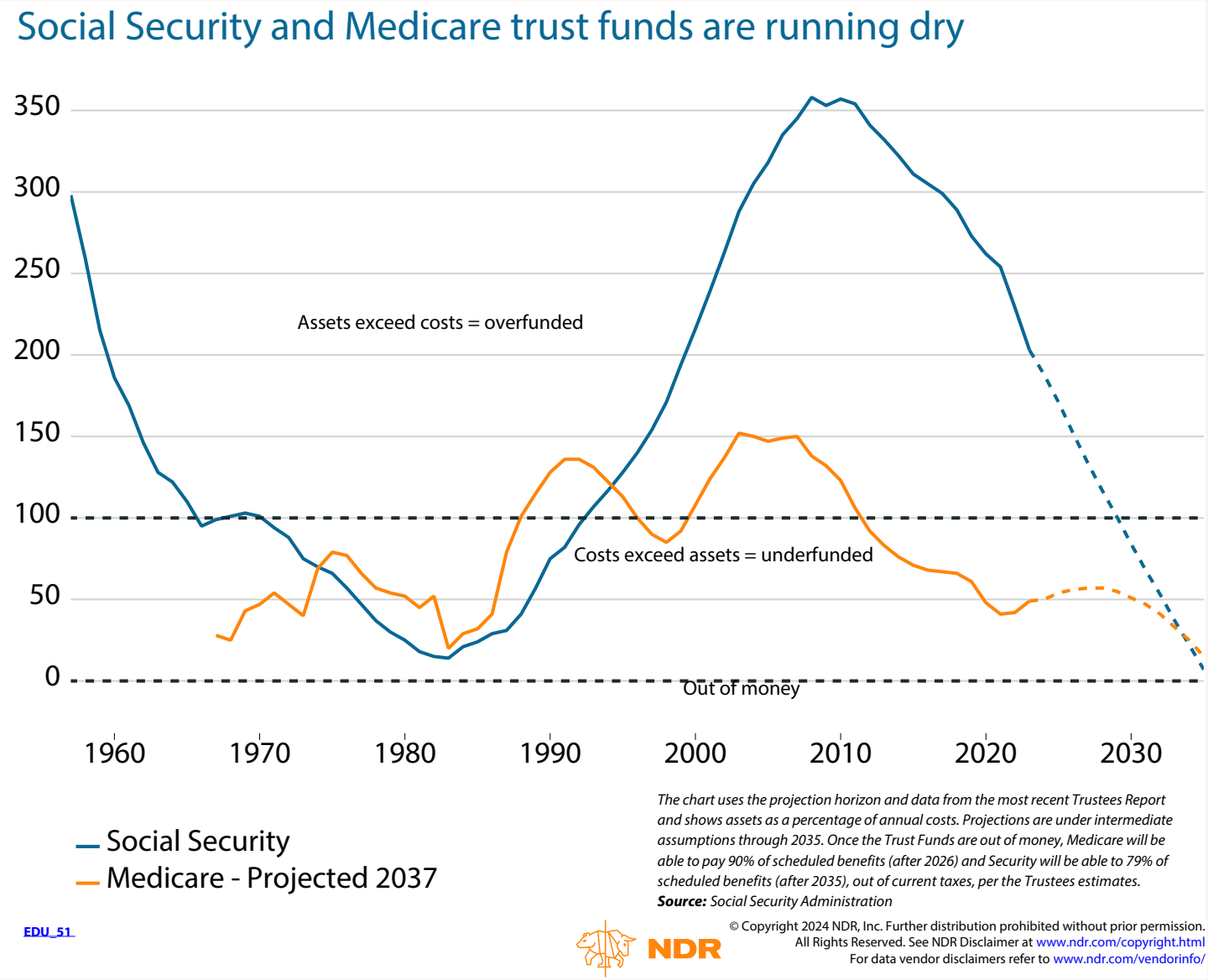
Unfortunately, both the Social Security and Medicare trust funds are expected to run dry within the next 15 years. How will Americans respond to having potentially no (or a smaller) safety net?

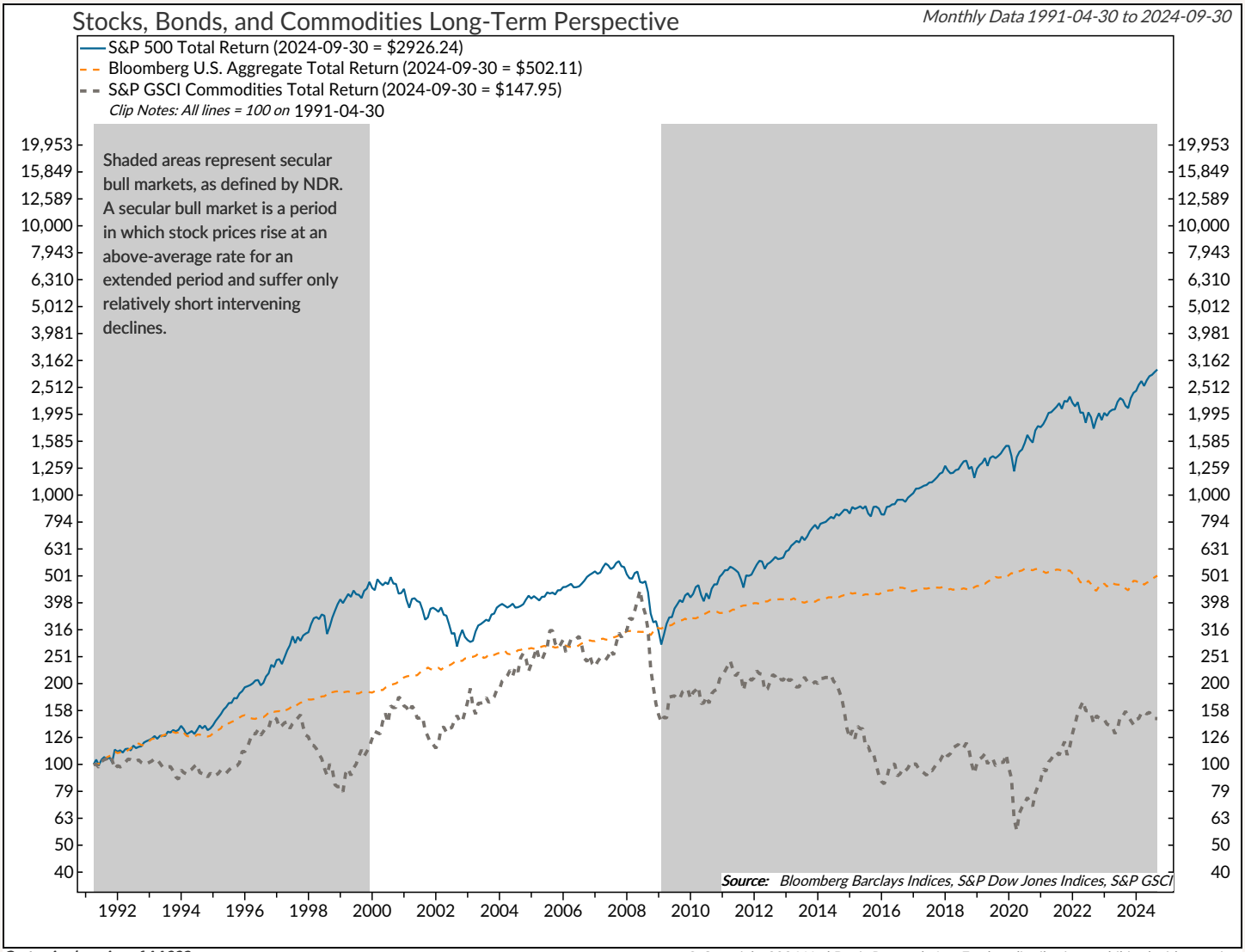
1. Survey conducted by Corebridge Financial and the Longevity Project in their 2023 Paper "Funding longer lives": https://crbgdoc.jaggedpeak.com/getDocument/?email=defalt@crbg.com&Source=default&catalogID=M6525WP1
2. Data available from the College Board in their analysis "Trends in College Pricing 2023": https://research.collegeboard.org/trends/college-pricing
3. Study conducted by Fidelity Investments in its 2024 Retiree Health Care Cost Estimate: https://newsroom.fidelity.com/pressreleases/fidelity-investments--releases-2024-retiree-health-care-cost-estimate-as-americans-seek-clarity-arou/s/7322cc17-0b90-46c4-ba49-38d6e91c3961
4. June 2024 report by Ned Davis Research, Inc.: "Waving goodbye to the American dream". https://www.ndr.com/group/ndr/content-viewer/-/v/BEC_O202406111*PDF



Evaluating Opportunities Across Asset Classes for Capital Appreciation

Many individuals will turn to the financial markets to help achieve their goals. For more than 120 years, stocks, bonds, and commodities have followed long-term price trends impacted by the macroeconomic environment and market conditions.

- For long periods of generally falling inflation, like from 1982 to 2020, 60% stock/40% bond portfolios performed extremely well, in what was the "Golden Age of 60/40." The buy/hold approach helped investors meet capital appreciation needs.
- During periods of generally rising inflation, such as from 1944 to 1981, 60/40 portfolio returns were more modest in real terms.
- But during periods of more extreme inflation, such as the 20-year period from 1962 to 1981, real returns were negative. The bout of inflation in 2021-22 was of the more extreme variety.



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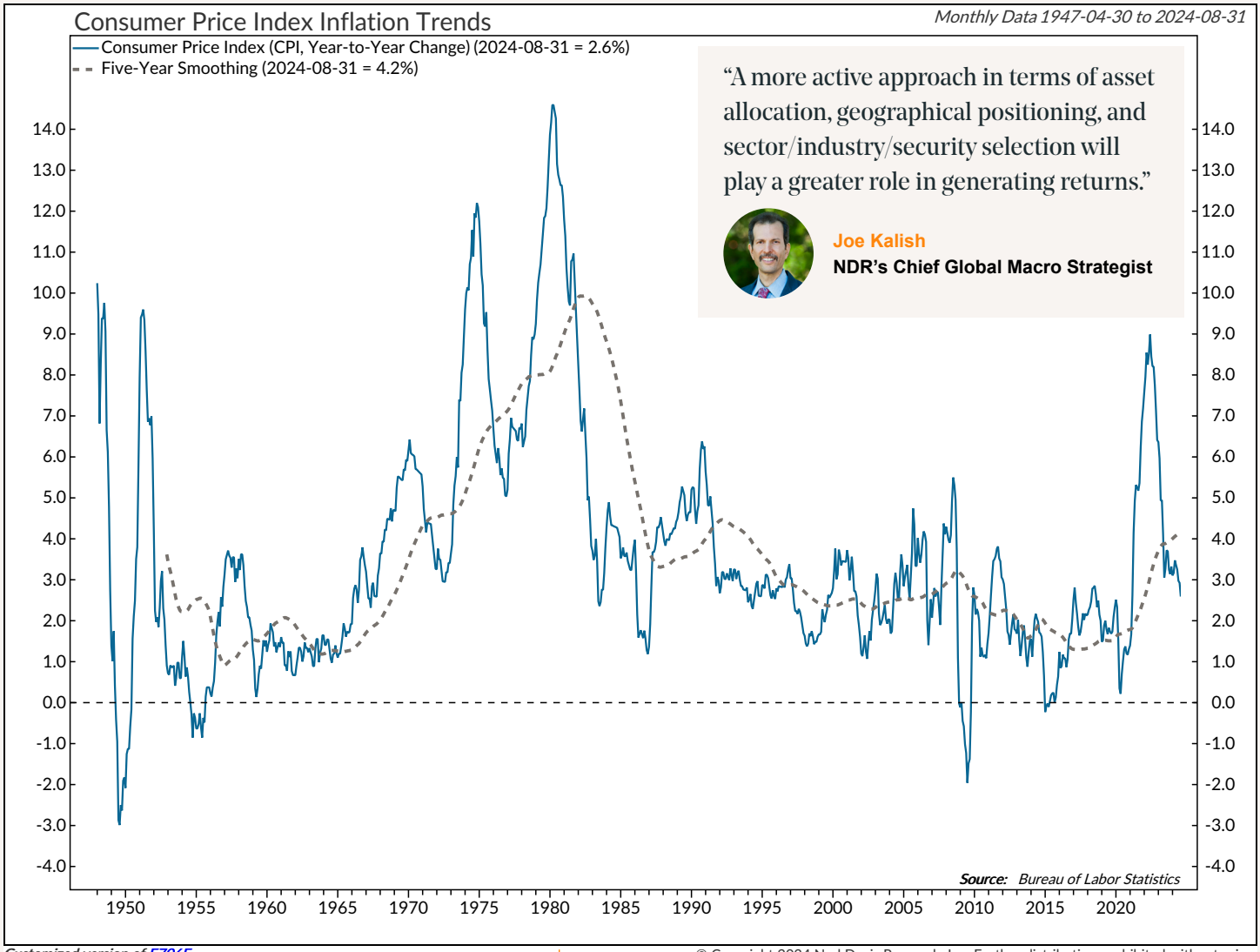
Why You Need an Active Allocation Approach Going Forward

With inflation subsiding following the 2021-2022 spike, equity returns have rebounded, and bond returns have stabilized. So, are we heading back to The Golden Age?

Probably not. After inflation comes down in the short-term, we expect it to settle in a range above the Fed's 2% inflation target.

- Fiscal policy will likely contribute to "sticky" inflation over the coming years. Based on comments during the 2024 presidential campaign, both political parties are expected to borrow to finance their plans, adding to the government debt and ignoring long-run fiscal sustainability.
- Continued tight labor market conditions, which support elevated wage growth, are one fundamental reason for higher inflation. The number of job openings per unemployed is still greater than 1.0, indicating excess labor demand.
- Shelter is the biggest Consumer Price Index (CPI) component, accounting for more than 1/3 of the weight. A persistent housing shortage which pre-dates the pandemic, and tight inventories from the mortgage lock-in effect in this cycle are upside risks to inflation.

Given the longer-term inflationary implications for the U.S., investors will probably find it harder to make money in a passive investing framework.



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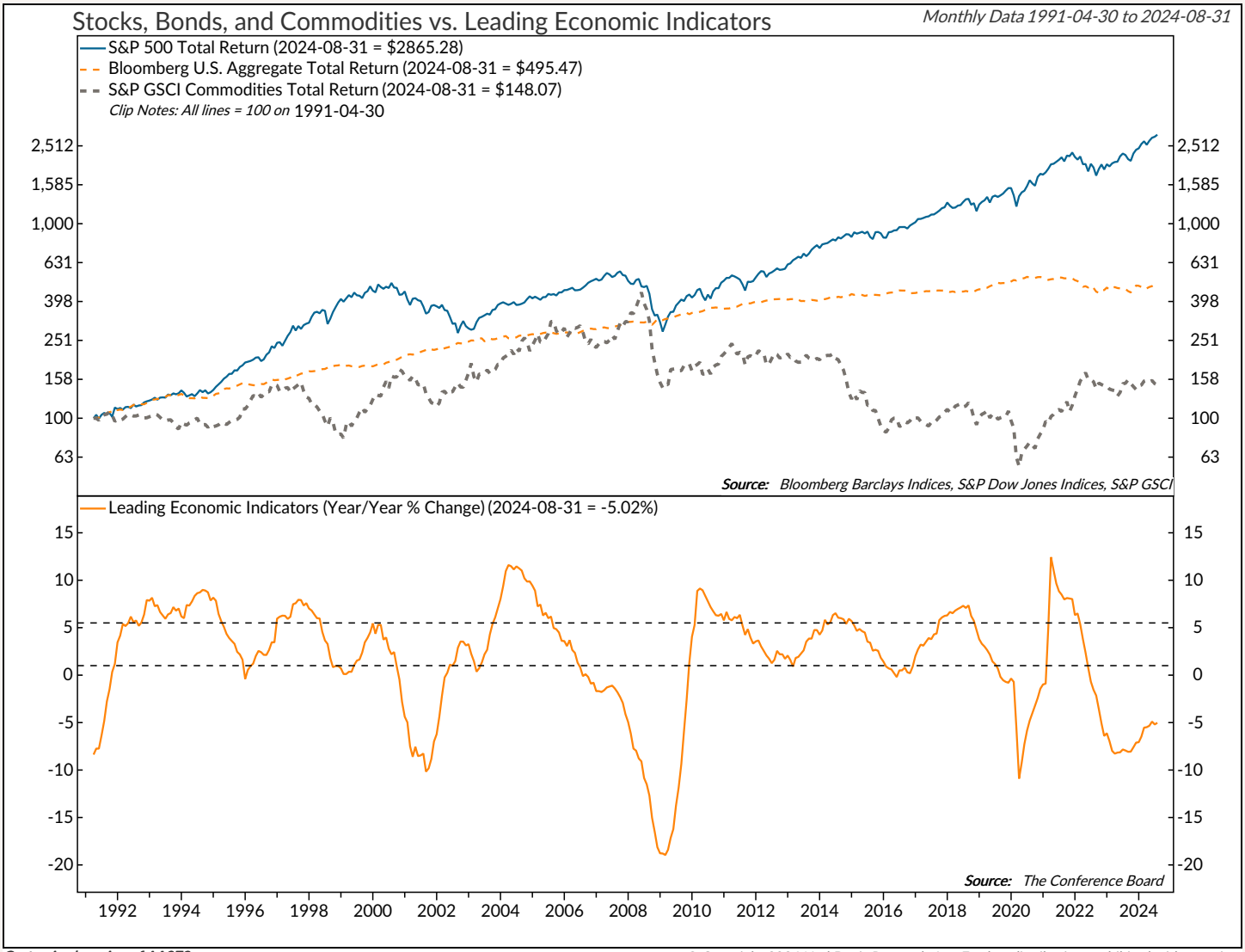
A Starting Point for Active Asset Allocation

The performance of equities, fixed income, and commodities will vary across economic growth and inflation cycles.

- The economic growth regime helped determine the performance of the equity portion during that period. The stronger the growth, the better the equity market performance. Bonds, however, didn't waver too much in their performance, with returns slightly better in the contracting environment.



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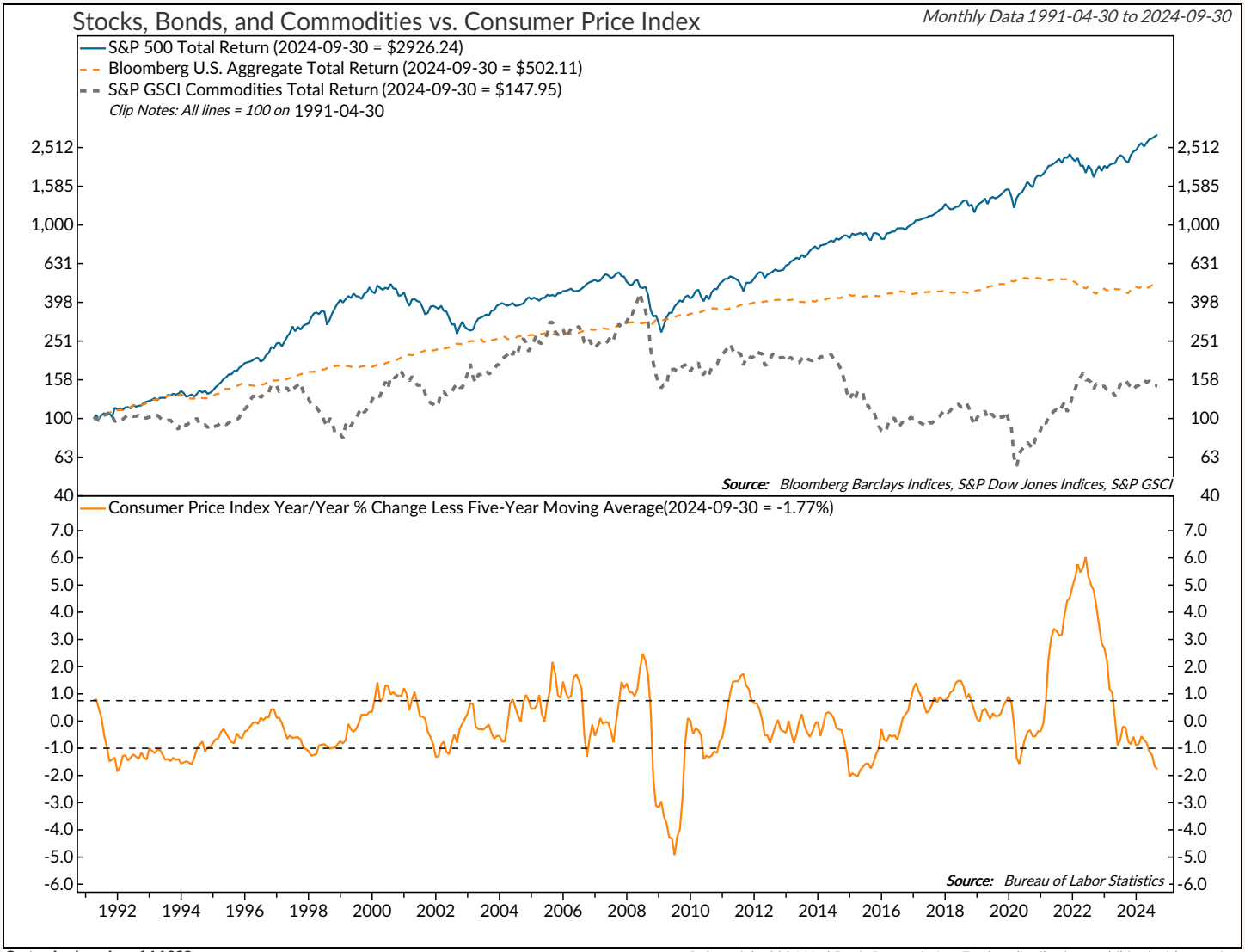
- The inflation regime had a significant impact on commodity performance. Commodities demonstrated strong performance during periods of rising inflation. Within each economic environment, bonds and stocks historically performed better during periods of falling inflation relative to rising inflation.



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Unfortunately, Most People Cannot Emotionally Navigate These Cycles

Although asset allocation can be effectively solved by focusing on the fundamentals of growth and inflation, human behavior can make it challenging to implement.

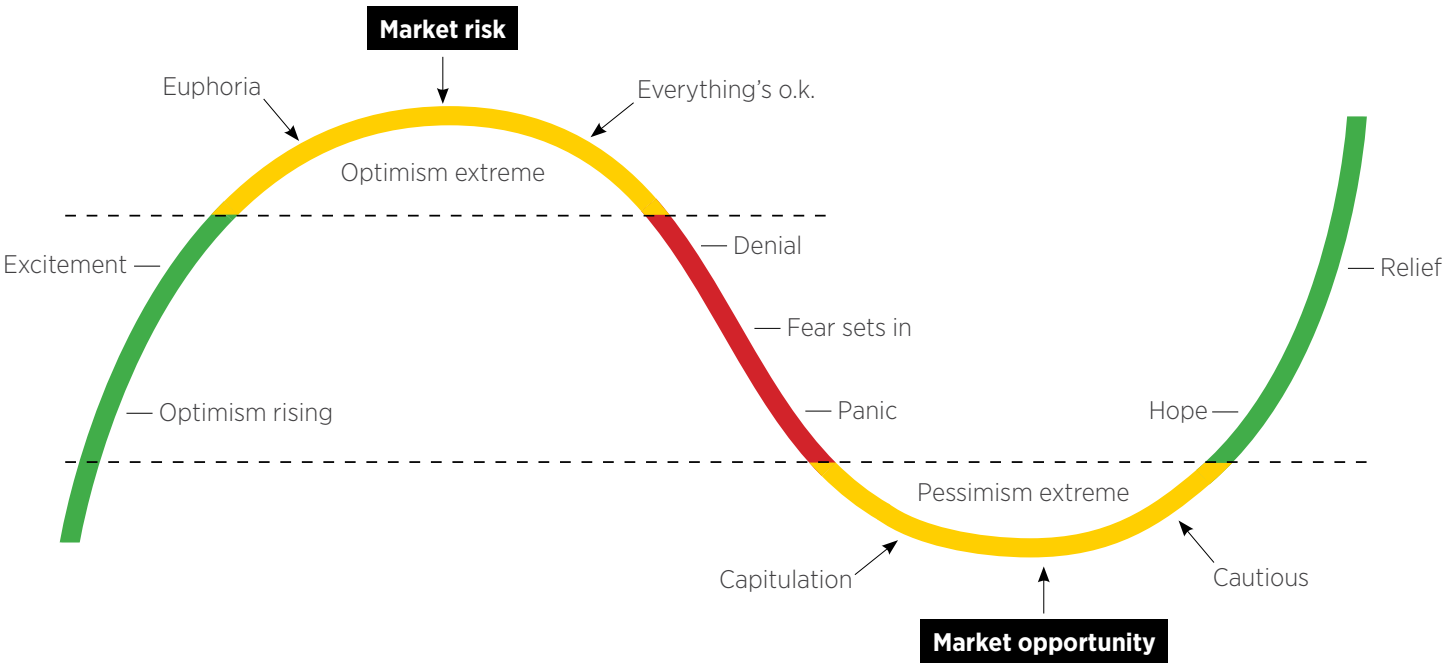
Financial behavior can be summarized through fear (avoiding losses), greed (desire for more financial gains), and biases. People move from fear to greed and have short memories of past events. Common quirks in mental perception can create familiar patterns in a person's (or a group's) irrational behavior.

There are many kinds of biases, but a large number are variations of confirmation bias, which causes us to overvalue (aka "cherry pick") evidence that supports our beliefs. The cognitive bias known as the focusing effect, however, is often considered to be one of the most constant culprits that drives irrational behavior in investing. People naturally tend to fixate on a particular thing—a single event, a specific person's words or actions, one data point — and overvalue it.

These motivations and their emotional variants drive stock market trends in a repeating pattern. Many investors buy when optimism is nearing its peak and sell when pessimism is nearing its worst. To overcome these challenges, NDR has developed an objective, weight-of-the-evidence approach that includes rigorous testing of data incorporating extensive historical information.

Human behavior is a key driver to investment performance

Fear, greed and hope are constant factors in stock market trends



Creating the Framework for an Objective Research Approach

Founded in 1980 by Ned Davis, NDR was one of the first firms to integrate technology and data into investment research. Ned's guiding principle was clear: the goal of investing is not just to be "right," but to carefully manage risk and achieve consistent returns.

This philosophy, captured in his book **Being Right or Making Money**, emphasizes the importance of aligning with major market trends rather than trying to predict short-term fluctuations. NDR's approach focuses on risk management, understanding that the most significant returns come from following long-term trends.

NDR's culture is built on the tenets of expertise, hard work, and humility. Our research staff embodies these values, combining a passion for financial markets with a disciplined, objective approach to investment analysis. NDR encourages a flat organizational structure, where everyone, regardless of seniority, engages deeply with the data. Humility is key at NDR; our researchers are encouraged to admit mistakes and adapt when necessary, a practice essential for long-term success.

Our "Rules of Research", which guide our approach entail:

1. Be Objective
We support our arguments through quantitative analysis, using our proprietary software to ground our work in historical data. We focus on mathematical probabilities and minimize subjective or "gut feel" decisions.

2. Be Disciplined
We do not let the noise of the market or the roller coaster of emotions sway our approach. We let the indicators and models tell us when to make the appropriate market moves.

3. Be Flexible
We use humility to drive long-term success. Data and trends change: different environments elicit different reactions. We constantly explore new data and techniques in our analysis and focus on when a trend may be changing. We do not cling to a (losing) trade for pride's sake.

4. Be Risk-Aware
We provide a disciplined approach to portfolio management, considering the rewards and risks inherent in each recommendation.

5. Don't Fight the Tape
We listen to the cold, bloodless verdict of the market. We follow market trends and go beneath the surface to examine participation in the market. Staying in tune with the tape also avoids major disasters.

6. Don't Fight the Fed
We examine the impact of monetary policy by central banks.

7. Don't Fight Fiscal Policy
We explore the significant influences that fiscal policy can have on the market.

8. Beware of Crowds at Extremes
We watch sentiment and valuation indicators as warning signs of what is being priced into the market, as the crowd is often wrong at extremes. We typically go with the flow until an extreme is reached and a reversal begins.

9. Study History to Avoid Repeating Mistakes
We use history as an objective sounding board, referencing what the market may do given certain circumstances.

10. Apply Money Management Rules
We are more interested in helping our clients make money than being "right." Our goal is to help clients let profits run and cut losses short.

See the Signals by Quantifying the Rules of Research

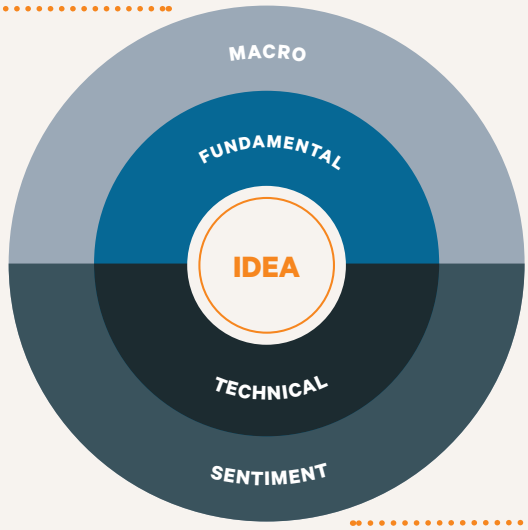
NDR's investment recommendations are built on a 360° approach that integrates four key pillars: macroeconomic, fundamental, technical, and sentiment analysis. This comprehensive framework allows us to assess both the strategic (long-term) and tactical (short-term) outlooks of the market.

1. **Macroeconomic and Fundamental:** Analyze broad economic indicators and financial metrics that drive long-term market trends.
2. **Technical and Sentiment:** Track market behavior and investor emotions, providing insight into near-term market movements.

Understanding the drawbacks and combining the strengths of different investment styles is a critical path to success. NDR builds investment recommendations by considering the weight-of-the-evidence, drawn from indicators across multiple investment pillars. As the evidence increases, so does our conviction. We use a 360° approach consisting of four traditional investment pillars.

THE 360° METHODOLOGY

EXPECTATIONS
How the market should be acting.



TIMING
How the market is acting.

How the market should be acting:

- Macroeconomic
- Fundamental

These two pillars are "big picture," and slower moving; they provide the strategic outlook. Fiscal policy decisions, employment trends, and company earnings are the fundamental drivers of stock prices and markets.

In the long run the market must respond to these factors. But in the near term — weeks, months or even quarters — the market can decouple dramatically from what it should be doing.

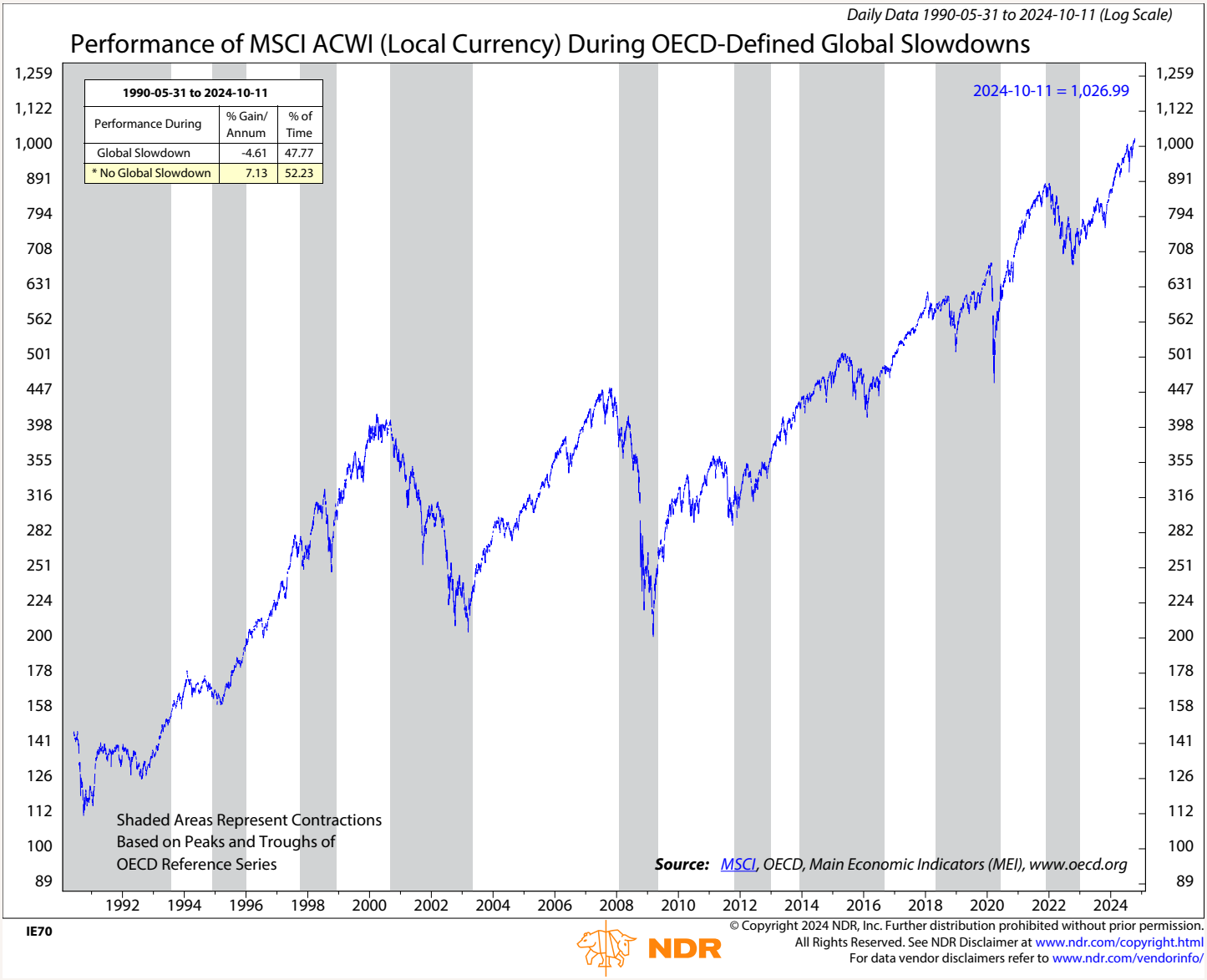
How the market is acting:

- Technical
- Sentiment

These two pillars are the pulse of the market; they are faster-moving and provide a tactical outlook. Investor behavior, price action, volume, and volatility represent the market's ever-changing, instantaneous attempts to consolidate all information into prices, moving wildly in the near term. Investors often ignore these factors at their own peril.

Why Macroeconomic Indicators?

The macroeconomic pillar focuses on the broader economic environment, including factors like GDP growth, inflation rates, interest rates, and unemployment levels. These indicators help NDR understand the overall health and direction of the economy, which can influence investment decisions.

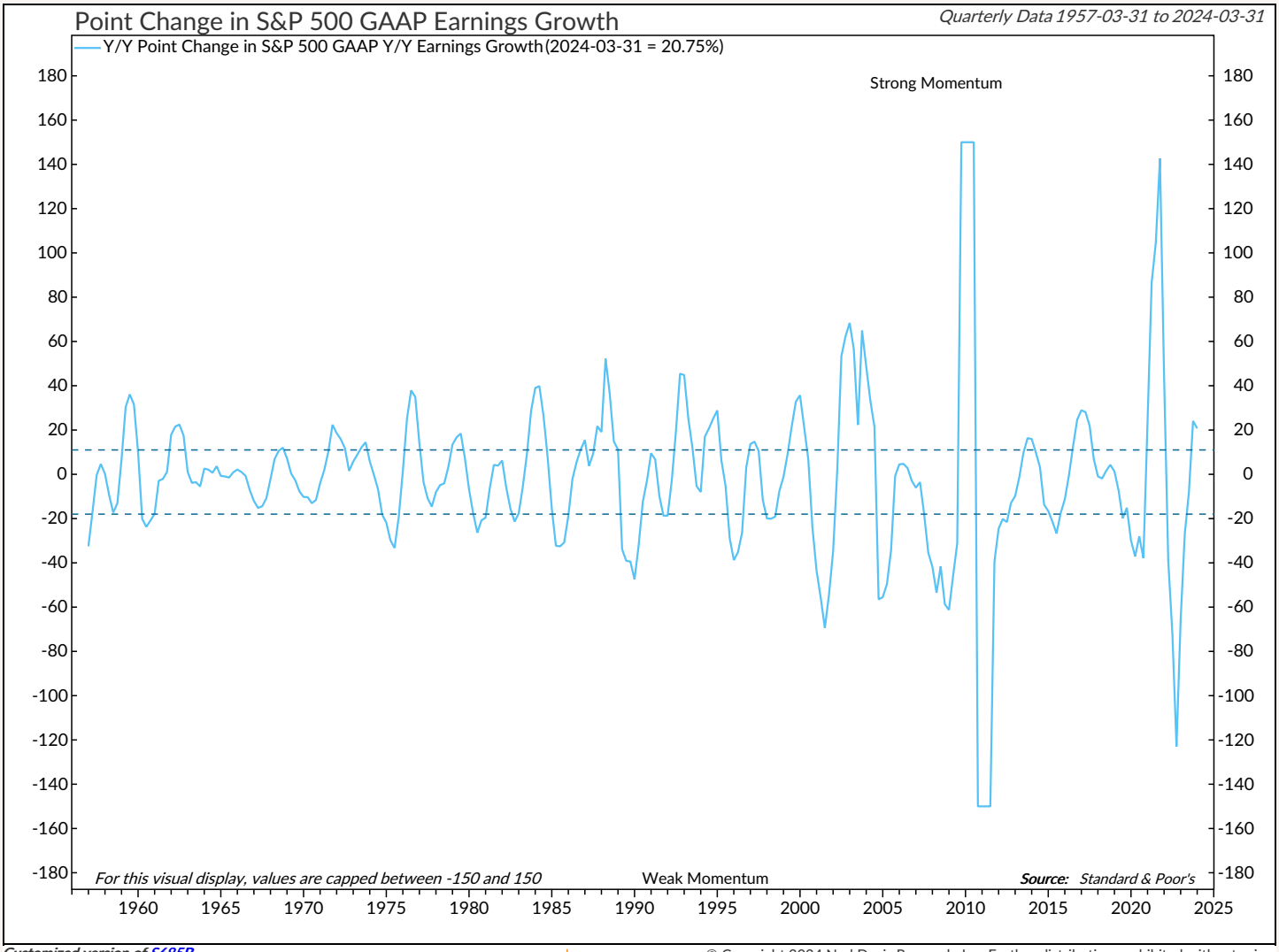


"Knowing the domestic and global macroeconomic backdrop is critical to understanding investment risk and opportunities and to putting clients on the right side of the major trends."

Alejandra Grindal
NDR's Chief Economist

Why Fundamental Indicators?

The fundamental pillar involves analyzing a company's financial health and performance through financial statements, such as balance sheets, income statements, and cash flow statements as well as financial expectations. This analysis includes evaluating metrics like earnings, revenue, profit margins, debt levels, analysts' financial estimates, and management surveys/comments to determine a company's intrinsic value. Fundamental data also can be aggregated to evaluate equity sectors, styles, or markets.



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"Historically, when aggregate earnings accelerates, the stock market has experienced double-digit gains."

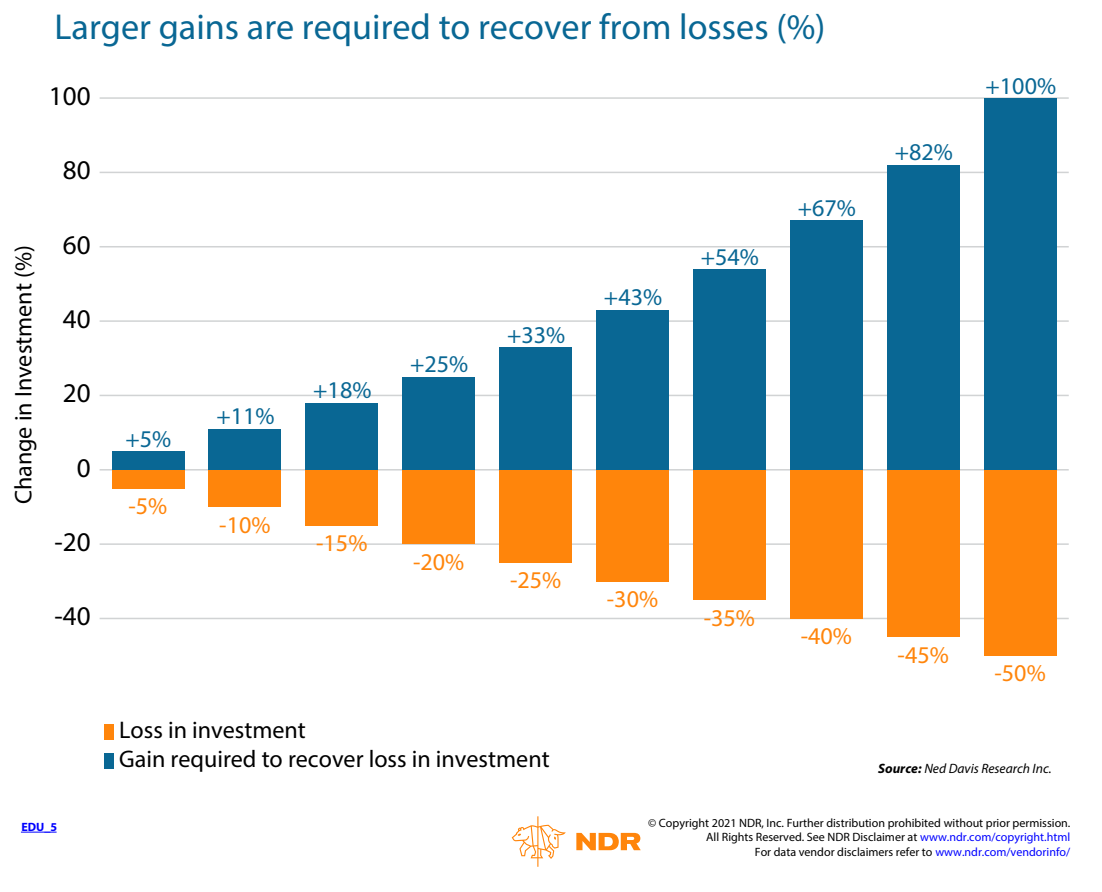
Ed Clissold, CFA
NDR's Chief U.S. Strategist

Why Technical Indicators?

The technical pillar relies on analyzing statistical trends from trading activity, such as price movements and trading volumes, to try to predict future price movements. This approach often involves chart patterns, technical indicators, and other tools to identify potential entry and exit points for investments.

NDR models incorporates trend measures into our models to identify and capitalize on existing market trends. By analyzing trends, NDR looks to buy assets that are rising in price and sell those that are falling, based on the expectation that these trends will continue.

This can help with risk management by selling securities that are in major downtrends.



Two of NDR's rules are:

- Be Risk-Aware
- Apply Money Management Rules

Large losses are very difficult to overcome. One of the keys to growing wealth is to minimize large losses.

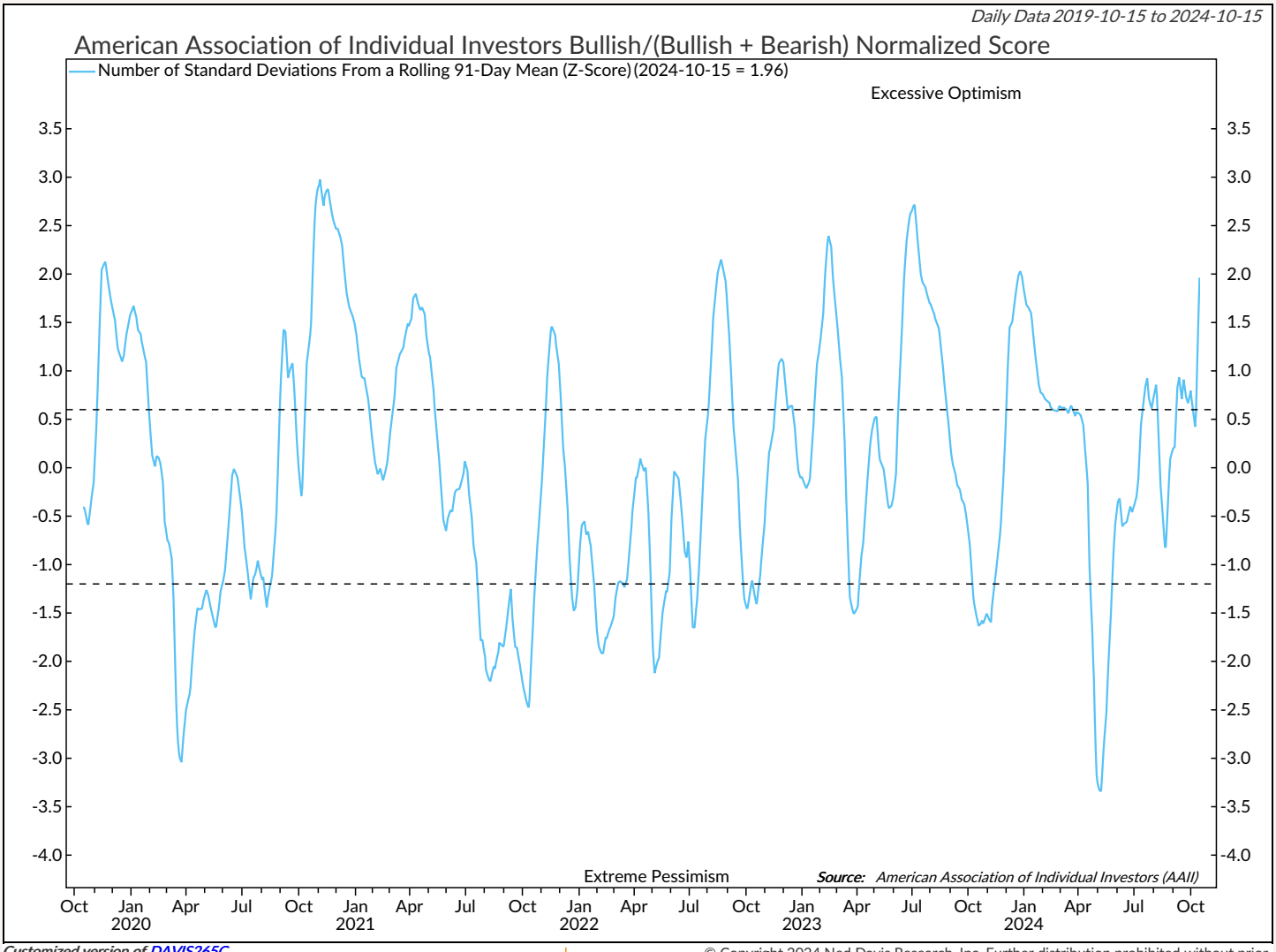
"The degree of unprofitable anxiety in an investor's life corresponds directly to the amount of time one spends dwelling on how an investment should be acting rather than the way it actually is acting. We are in the business of making mistakes. Winners make small mistakes, losers make big mistakes. Focus on risk management to keep mistakes small."

Ned Davis
NDR's Founder and Senior Advisor

Why Sentiment Indicators?

The sentiment pillar gauges the overall mood or attitude of investors towards a particular market or security. This can be assessed through various means, including market surveys, news sentiment, social media trends, and the trading and positioning behavior of institutional investors, to attempt to anticipate potential market movements based on collective investor psychology.

Excessive optimism, overvaluation, and overbought conditions, can suggest a correction to the primary uptrend of stocks, while extreme pessimism, undervaluation, and oversold conditions can suggest a contra-trend trade or simply a buying opportunity in a bull market. One of the NDR Rules of Research is to, “Beware of crowds at extremes”.



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“The major benefit of a sentiment assessment is that it can enable you to place the current market action in the framework of risk and reward.”

Tim Hayes, CMT
NDR’s Chief Global Investment Strategist

NDR's research begins with quality data sources, which forms the foundation for making informed investment decisions. Our dedicated data team collects, cleans, and maintains vast datasets, analyzed through NDR's proprietary software platform. While technology plays a crucial role, the human element remains vital. Our experienced strategists and analysts sift through the data, identifying critical relationships and trends that guide our investment recommendations. This blend of technology and human insight ensures that our clients receive actionable, data-driven guidance.

Implementing the Weight-of-the-Evidence Framework

Model Development Process

- Develop and test hundreds of theoretically sound indicator relationships in collaboration with the expert strategist.
- Evaluate the indicator relationships to ensure that the same concept does not have excessive weight.
- Analyze these measures over time, as well as during parts of the macro and market environments.
- Review statistics such as return, volatility, consistency, peak decline, upside capture, downside capture, etc.
- Independent review by the NDR Index Committee, which meets and discusses the theoretical likelihood that the indicators and composite should persist.

This process is done in a feedback loop, as indicator predictive power evolves over time.

"We need an unbiased, objective standard that weighs the evidence and passes judgement devoid of emotionalism."

Ned Davis
NDR's Founder and Senior Advisor

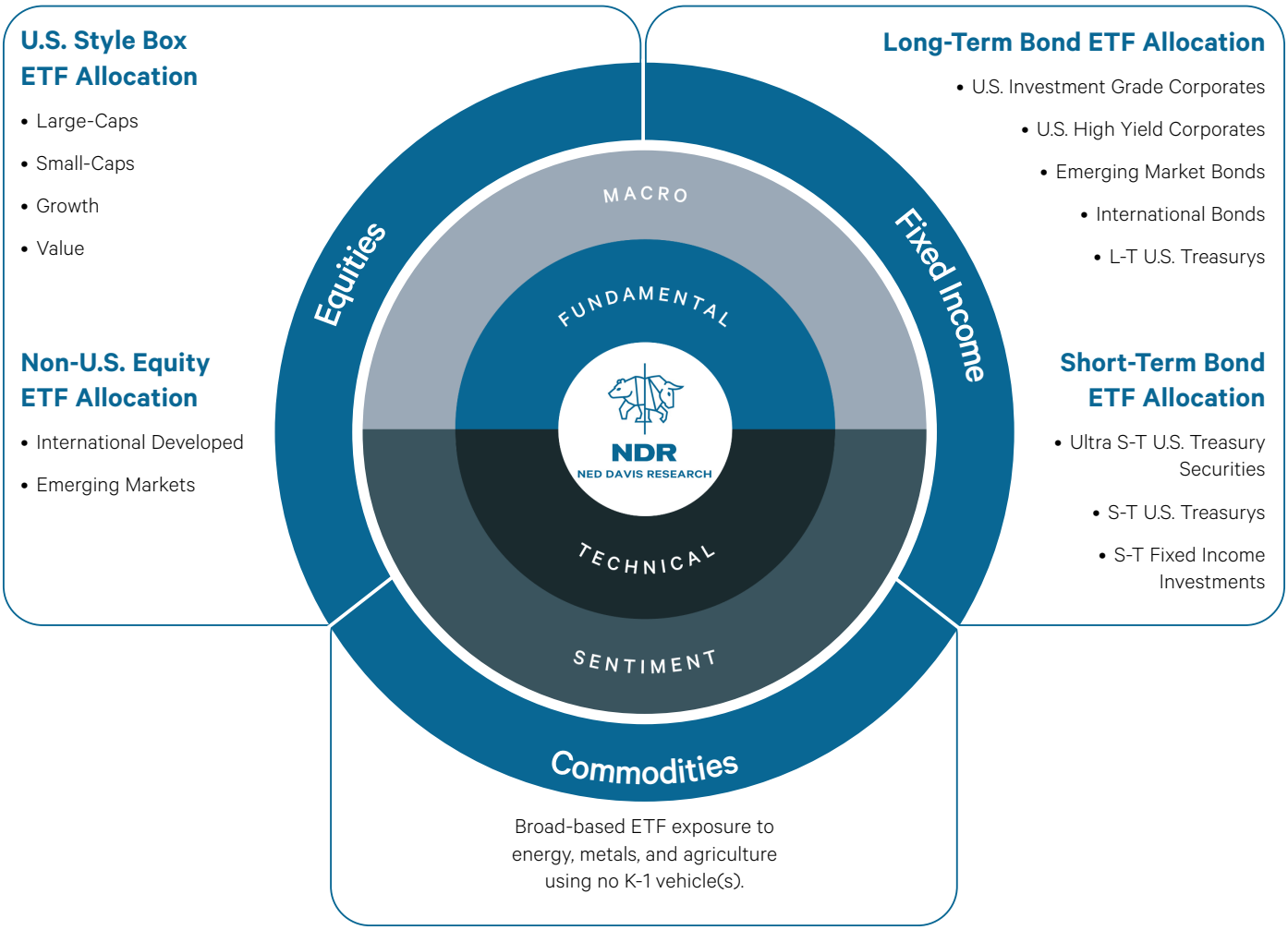
A Single Ticket Solution: The Ned Davis Research 360° Dynamic Allocation ETF (NDAQ:NDAA)

NDR uses its 360° Approach to allocate the Fund's portfolio across a mix of equity, long- and short-term bonds, and commodity ETFs.

The portfolio managers make allocation decisions between equities and fixed income using NDR's 360° Approach, which considers both macroeconomic and technical pillars. Within each asset class, NDR bases allocations on indicators such as trend-following, rate-of-change, and overbought/oversold conditions. NDR's model selects investment products with favorable technical readings for implementation. Additionally, the Fund may invest, to a limited extent, in commodity ETFs. The portfolio managers evaluate commodity ETFs based on NDR technical, macroeconomic, and sentiment indicators.

The strategy uses a target allocation of 60% global equities and 40% global bonds. However, NDR's model may dictate allocations that deviate significantly from the target depending on market conditions. It is possible that the Fund may allocate up to 100% of its assets in equities, or 100% in bonds. The Fund's portfolio will generally hold approximately between 5 and 20 Underlying ETFs. The Fund may also hold cash or cash equivalents. The portfolio managers review the Fund's portfolio for potential reallocation on at least a monthly basis.

Apply the Signals – the NDR 360° Dynamic Allocation ETF (NDAQ:NDAA)



Portfolio Managers

Amy Lubas, CFA

amy.lubas@ndrfunds.com

Ms. Lubas joined NDR in 2004 and has held several positions, including Sector Analyst and most recently was Director of Wealth Management & Advisory Solutions. Prior to NDR, Ms. Lubas worked in Boston as a Technology Analyst at State Street Research & Management and SG Cowen Securities Corporation, providing research and insights to portfolio managers. She earned her Master in Business Administration in Finance from Vanderbilt University (Owen) and her Bachelor of Science degree in Finance, cum laude, from Boston College.

Lisa Michalski, CFA

lisa.michalski@ndrfunds.com

Ms. Michalski joined NDR in 2007. Before joining NDR, Ms. Michalski was a Vice President in Credit Risk Technology for Goldman Sachs Group, Inc., where she was responsible for quantitative risk measures of derivative portfolios. Ms. Michalski earned a Master of Science degree in Computational Finance from the Tepper School of Business, Carnegie Mellon University. She received her Bachelor of Science degree in Computer Science from the University of Michigan.

Brian Sanborn, CFA

brian.sanborn@ndrfunds.com

Mr. Sanborn joined NDR in 2004. He chairs NDR's Index Committee, which reviews and approves NDR's new investment models as well as enhancements to existing models. Mr. Sanborn developed NDR's Stock Selection Service. He received a Master's degree in Statistics from Columbia University and a Bachelor of Science degree in Mathematics and Economics from Davidson College.

Definitions

360º Methodology: Ned Davis Research approach to analyzing financial markets, which incorporates macroeconomic, fundamental, technical, and sentiment data.

American Association of Individual Investors (AAII) Survey: a survey of AAII members asking whether they are bullish, bearish, or neutral on the stock market near-term.

Annualized Return (aka Gain Per Annum): the rate of return which, compounded annually over a specified period, would produce a strategy's total return over that same time.

Behavioral Finance: the study of how emotions impact investment and financial decisions.

Confirmation Bias: a bias in which a person seeks information that only confirms his/her original belief.

Consumer Price Index (CPI): measures the change in prices paid for a basket of good services by consumers.

Commodities: assets class consisting of energy (e.g., oil or natural gas), metals (e.g., gold or silver), livestock, and agricultural products.

Developed Markets: a country or economy with a mature economy and financial markets. These areas are considered to be more stable with a robust regulatory framework, advanced infrastructure, and higher standards of living.

Downside Capture: measures whether the strategy has outperformed the benchmark during periods of benchmark weakness. The ratio is calculated by taking the strategy's monthly return during the periods of negative benchmark performance and divides it by the benchmark return. A downside capture ratio of less than 100 indicates that a strategy has lost less than its benchmark in periods when the benchmark has been weak.

Economic Growth: measures the rise in production of goods and services in an economy over time.

Emerging Markets: a country or economy that may experience high growth and an improving financial system, but does not yet meet the standards of a mature developed market. These markets may experience higher volatility, greater geopolitical risks, and lower liquidity.

Equities: asset class consisting of ownership shares of companies.

Fiscal Policy: government decisions on taxation and spending that impact the economy.

Fixed Income: asset class consisting of government and corporate bonds.

Focusing Effect: a bias in which a person concentrates their attention on a small amount of available information when making a decision.

Fundamentals: data that measure a company's health and performance from financial statements. This information can be used to analyze an individual company or aggregated to study industries, sectors, styles, markets, and the equities asset class.

Gross Domestic Product (GDP): total value of goods and services produced within a country over a specified period.

Growth Stock: an ownership share of a company that has produced higher-than-average increases in a financial statement measure such as earnings or sales.

High Yield Bonds: fixed income instruments issued by companies, which have received lower credit ratings. A lower credit rating signifies higher expected risk of default relative to a bond with a higher credit rating.

Definitions (continued)

Indicator: quantifying a relationship between a data series and an asset to generate a positive, neutral, or negative view on the asset.

Inflation: the aggregate, rising price movements of goods and services for an economy.

Investment Grade Corporate Bonds: fixed income instruments issued by companies, which have received higher credit ratings. A higher credit rating signifies lower expected risk of default relative to a bond with a lower credit rating.

Log Scale: A logarithmic (log) scale shows two equivalent percentage changes in the plotted series by the same distance on the vertical axis. A logarithmic price scales tend to show less severe increases or decreases in a series than an arithmetic price scale.

Macroeconomics: data that measure how economies perform and behave, including growth, inflation, trade, and interest rates.

Market Capitalization: measures the size of a company by multiplying the price per share by the number of shares outstanding.

Maximum Drawdown: The largest peak to trough decline during a specific record period of a strategy. It is usually quoted as the percentage between the peak to the trough.

Monetary Policy: central bank decisions on the money supply and cost of borrowing with the goal of impacting prices and employment.

MSCI All Country World Index: an index produced by MSCI that tracks the performance global stocks across developed and emerging markets.

Overbought/Oversold Conditions: inputs used to assess whether an asset's price has moved too far in one direction and may be due for a reversal.

Rate of Change (ROC): This metric measures the momentum of an asset by calculating the percentage change in its price over a specified period.

S&P 500 Index: an index produced by S&P Dow Jones Indices that tracks the performance of 500 of the largest companies that trade on stock exchanges in the United States.

Sentiment: data that measure the mood of investors toward an asset class, economy, market, sector, or security. This information can be attained through surveys, news, social, media, and portfolio positioning.

Standard Deviation: A statistical measurement of dispersion about an average, which depicts how widely returns varied over a certain period of time. When a strategy has a high standard deviation, the predicted range of performance is wide, implying greater volatility.

Technicals: data that measure trading activity including price movements and volumes to help identify trends as well as entry and exit points.

Trend Following: a technical methodology to seek to identify and capitalize on an asset's general price direction. Trend followers look to buy assets that are rising in price and sell those that are falling, based on the expectation that these trends will continue.

Upside Capture: measures whether the strategy has outperformed the benchmark during periods of benchmark strength. The ratio takes the strategy's monthly return during months when the benchmark had a positive return and divides it by the benchmark return during that same month. An upside capture ratio over 100 indicates that a strategy has generally outperformed the benchmark during periods of positive returns for the benchmark.

Value Stock: an ownership share of a company that is considered undervalued (relative to other companies) when comparing the company's market capitalization to a financial metric such as sales, income, or cash flow.

Weight-of-the-Evidence: combining multiple indicators across research disciplines to determine whether there are higher risks or opportunities for an asset.

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