

# Disclosure - Additional Explanatory Notes and Descriptions Related to Performance Presentations

## **Important General Information**

All investing involves risk, and asset allocation and diversification do not guarantee a profit or protection against a loss. Past performance, historical returns, future projections, and statistical forecasts are not indicative of future results.

Beacon Capital Management, Inc. (“Beacon”, “us”, “we”, “our”) is providing this information for educational purposes only. This content is not intended to be used as a general guide to investing or as a source of any specific investment advice or a recommendation to invest in any particular security, strategy or investment product. We make no implied or express recommendations concerning investment strategies or the manner in which any investor’s account should or would be managed - as appropriate investment strategies will depend upon each investor’s specific circumstances and investment objectives. Beacon does not provide tax advice to its clients. All investors are strongly urged to consult with their tax professionals regarding any potential investment.

Not all investors using the portfolio models follow our recommended strategies. Furthermore, depending on an investor’s specific circumstances and current economic and/or market conditions, we may customize the construction and implementation of our strategies - including (but not limited to) the use of tax-managed mutual funds, tax-loss-harvesting techniques, and rebalancing frequency and precision. The performance of customized investor accounts may differ materially from (and may be lower than) that of our standard models.

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## **Performance Disclosures**

Performance information can be presented in many different ways. Before making any investment decision, investors should understand how any past performance presentation is calculated and presented. The purpose of the following information is to define several types of performance we utilize to present the returns of our various portfolio models, and to discuss the potential risks associated with such performance presentations so that you understand the limitations of this type of information.

### *Hypothetical Returns*

Hypothetical performance refers broadly to backward-looking or future-looking return information that does not represent the actual returns of investor accounts.

### *Model Returns*

Model performance represents the results of one or more portfolio models, and includes performance results generated by a portfolio model(s) managed with the same investment philosophy/strategies used by the adviser for actual client accounts and consisting of the same investments recommended by the adviser to clients during the same time period - with variances in specific client investment objectives

being addressed via the asset allocation process (i.e., the relative weighting of equities, bonds, and cash equivalents in each client account). This type of performance is hypothetical because although the portfolio model(s) consists of the same investments held in client accounts, the asset allocation process leads to performance results that were not actually achieved by any client. Models are often designed to represent the appropriate balance of investments for a client's account based on defined investment objectives and risk tolerance.

#### *Backtested Returns*

Backtested performance represents results created by applying a model strategy to market data from a prior time period when that model strategy was not actually used. These presentations aim to show returns that theoretically could have been achieved if the model strategy had been used during the time period presented and is often used when no actual track record exists or when only less than five years of actual results are available. Backtested results are constructed with the benefit of hindsight. As a result, an adviser can tweak a model strategy to obtain more favorable performance results. There is no assurance that the backtested results could, or would, have been achieved had actual client accounts been managed during the period presented. Likewise, there is no guarantee that the same allocations underlying for the model strategy would have been selected if actual client accounts were managed during the period presented. The model strategy underlying the backtested results may be changed at any time with the benefit of hindsight in order to obtain and show more favorable performance results and the allocations may continue to be tested and adjusted in the future.

#### *Targeted/Projected Returns*

Targeted performance presentations reflect aspirational performance goals for each portfolio model used over the course of a full market cycle, which is typically three to five years (similarly, projected performance reflects an estimated return, which is often based on historical data and assumptions). Targeted and projected presentations are hypothetical in nature and should not raise unrealistic performance expectations.

Targeted returns are used to project and measure a portfolio model against a specified performance objective. The industry-accepted baseline performance objective is inflation, as measured by the Consumer Price Index (CPI-U). Beacon measures target returns by inflation plus a constant annualized return. For example, a targeted return of inflation plus 4% is attempting to achieve a 4% return above inflation over the course of a full market cycle.

No management fees are deducted from targeted returns.

#### *Monte Carlo (Simulated) Returns*

Monte Carlo performance presentations illustrate the hypothetical simulation of thousands of future states of a given model strategy. The inputs to such simulations are typically the anticipated expected return and standard deviation of each model strategy. The expected return assumptions would be based on our views on the macroeconomic environment, historical returns, and forward-looking views and assumptions. Expected standard deviation is approximated by analyzing the back-test of the hypothetical returns of the current allocations in each given model strategy over the most recent 10-year period, and any forward-looking views and assumptions. Allocations are assumed constant over the course of the entire simulation and assumed to be rebalanced on a recurring (and no less than quarterly) basis. No trading costs or taxes are incorporated into simulations.

The assumptions used can materially impact the simulations and may be changed from time to time at our sole discretion. No assurances can be made that the assumptions will prove to be accurate. There are many variables that can affect an investment performance forecast. The most volatile variable is the expected returns, which, historically, vary on a daily basis. Even with this knowledge, most financial projections use constant investment rates over the period of the analysis. The use of these averages is

used as a start for the planning process, since the actual values are unknown. Unfortunately, however, this type of analysis illustrates only one outcome, thereby requiring that simulation be used to imitate real-life situations. In order to produce meaningful results, these simulations are processed many times. By varying the rates of return to simulate the fluctuations that can be experienced in the marketplace, a more realistic reflection of the anticipated ups and downs of the investment environment is presented. These multiple simulations produce a range of results, which are then analyzed and probabilities are associated with the outcome. Due to the random nature in which the simulations are generated and the regular updating of historical asset class data, the results may vary with each use and over time - even if the underlying assumptions are not changed.

The projections or other information generated by Monte Carlo simulations regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not indicative of future results. An investment cannot be made directly into a Monte Carlo simulation. There are limitations in using a Monte Carlo simulation, including the analysis being only as good as the assumptions; and despite modeling for a range of uncertainties in the future, it cannot completely eliminate uncertainty. The results can be presented various ways, but the ultimate goal of a Monte Carlo simulation is to educate and communicate about the uncertainty of the future, so that investors can make better educated decisions about their specific circumstances.

#### Limitations of Hypothetical Performance Data

Hypothetical performance can be misleading if not properly presented or kept in proper perspective. Please consider the following limitations when evaluating any hypothetical performance presentation:

- It is assumed that the investments used in the results were available for purchase or sale during the time period presented and the markets were sufficiently liquid to permit the types of trading used.
- It also assumes purchase and sale prices believed to be attainable.
- Trades for the returns were not actually executed. In actual trading, the prices attained may or may not be the same as the assumed order prices due to differences in the time the trades were executed and other factors.
- The actual performance achieved by a client account in one (or more) of the portfolio models may be affected by a variety of factors, including (but not limiting to):
  - the initial balance of the account,
  - the timing of additions and withdrawals from the account,
  - modifications to the model(s) to meet the specific investment needs or preferences of a particular client, and
  - the duration and timing of the investment;
- Routine maintenance of the portfolio models—which includes updates to the strategy settings, investment substitutions, and the incorporation of recent market data into computational back-tests, among other adjustments—is performed at regular intervals.
- Backtested performance also differs from actual performance because, as noted, it is achieved through the retroactive application of screening designed with the benefit of hindsight.
  - As a result, the screening process can, theoretically, continue to be changed or adjusted until desired or better performance results are achieved.
- Further, backtested performance does not represent the impact of technical factors, such as:
  - changes in signals as a result of changes in market data that occur after the cutoff time for trading, and
  - the inability to execute trades when desired;

- In addition, performance results for clients that invest in the portfolio models will vary from the backtested performance due to, for example, investment cash flows, frequency and precision of rebalancing, and tax-planning strategies.
- The results do not represent the impact that material economic and market factors might have on an adviser's decision-making process if that adviser were actually managing client assets.
  - Accordingly, the results may have over- or under-compensated for the impact, if any, of certain market factors—such as lack of liquidity and money flow, among other factors.
- Backtested performance returns are dependent on the market and economic conditions that existed during the period. Future market or economic conditions can adversely affect the returns.
- The hypothetical characteristics of backtested performance related to positions (e.g., volatility & cost), position sizes, and sector weights might differ materially from actual client accounts.

### Composite (Actual) Returns

Composites are constructed based upon the model strategies we employ. Each composite represents an aggregation into a single performance presentation of all actual, fee-paying, discretionary client accounts that are managed by us pursuant to a particular model strategy that meet set parameters for the entirety of the most recent calendar month.

Each composite only reflects actual assets under our management, and does not include any simulated portfolio models linked with the actual performance.

We set certain asset-level requirements for inclusion in the composite, and consistently applies the criteria for each composite. Client accounts that fail to meet the set requirements by the end of the prior calendar month are excluded, and accounts that meet the set requirements by the end of the prior calendar month are included. We set a minimum asset level for inclusion in each composite, and excludes all client accounts that fall below (i.e., are valued less) that asset level. We also set a maximum on how much cash can represent the composition of a client's account, and excludes all client accounts that exceed a certain percentage. Terminated accounts are removed from a composite after the final full calendar month under our management.

The performance of any individual client account may not be comparable to the composite performance presented. Performance of actual client accounts will differ from the performance presented. Client account performance may be affected by the timing and amounts of contributions or withdrawals, with withdrawals subject to additional fees, taxes, and penalties.

### **Benchmarks**

Benchmarks are standards of comparison used for portfolio model performance goal setting and evaluation. Although benchmarks provide the criteria against which performance returns can be measured, that should not be interpreted to mean that there will necessarily be a correlation between the returns of each applicable portfolio model and its respective benchmark(s) of choice. For example, the volatility of a benchmark may be materially different from the individual performance attained by a specific investor. In addition, portfolio model holdings may differ significantly from the securities that comprise the benchmark(s).

Beacon aims to select (and, in some cases, construct / blend) benchmarks that have risk considerations similar to the portfolio model(s) under consideration.

*Market Indexes.* Beacon has selected the following broad-based market indexes to use for both benchmarking and general market observation purposes:

The *S&P 500® Index* is a float-adjusted, market-capitalization weighted index that measures the performance of the 500 leading publicly traded U.S. companies from a broad range of industries.

The *Bloomberg U.S. Aggregate Bond Index* measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, and includes Treasuries, government-related and corporate securities, fixed-rate agency MBS, ABS and CMBS (agency and non-agency).

*Morningstar Category.* Beacon utilizes certain Morningstar Category classifications assigned by Morningstar, Inc. - an independent publisher of portfolio research and ratings - as benchmarks for the Vantage Models. The Morningstar Category classifies a portfolio model based on its investment style as measured by its underlying holdings (averaged compositions over the prior three years). If the portfolio model is new and has no history, then Morningstar estimates where it will fall before assigning a more permanent category. When necessary, Morningstar may change a category assignment based on current information. Beacon uses the following Morningstar (MS) Category classifications for one or more of the portfolio models:

The *MS Allocation - Tactical* category is assigned to portfolio models that seek to provide capital appreciation and income by actively shifting allocations across investments, and that have material shifts across equity regions and bond sectors on a frequent basis - along with additional qualification requirements.

The *MS Allocation - 15% to 30% Equity* category is assigned to portfolio models that are dominated by domestic holdings and have equity exposures between 15% and 30%.

The *MS Allocation - Interm. Core Bond* category is assigned to portfolio models that invest primarily in investment-grade U.S. fixed-income issues, including government, corporate, and securitized debt, and with below-investment-grade exposures less than 5%.

The *Long-Term Bond* category is assigned to portfolio models that invest primarily in corporate and other investment-grade U.S. fixed-income issues and typically have durations of more than 6.0 years. Because of their long durations, these portfolios are exposed to greater interest-rate risk.

*A full description of each Morningstar Category can be provided upon request.*

*Blended Benchmark.* Beacon has created a custom benchmark by blending together multiple market indices in order to better capture the approximate equivalent risk between the benchmark and our aggregated portfolio models. The custom-blended benchmark consists of both the S&P 500 Index and the Bloomberg U.S. Aggregate Bond Index, with their respective allocation adjusted to represent the different weighting of equity and bond allocations maintained in our aggregated portfolio models.

Benchmark returns assume the reinvestment of dividends and capital gains and monthly rebalancing at the end of each month. Benchmarks are neither managed, nor accessible through direct investment, nor subject to advisory fees, transaction costs or other expenses.

References to benchmarks - including indexes or other measures of relative market performance over a specified time period - are provided for informational purposes only. Reference to a benchmark(s) does not imply that Beacon believes an investor utilizing a particular portfolio model will achieve returns, volatility or other results similar to that benchmark(s). The composition of a benchmark may not reflect the manner in which a portfolio model(s) is constructed in relation to expected or achieved returns, investment holdings, guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which are subject to change over time.

### Statistical Measures (Risk-Adjusted Returns)

Beacon employs several industry-accepted statistical techniques that incorporate risk and opportunity cost when evaluating the portfolio models, particularly when comparing those models against the various benchmarks.

*Alpha:* a measure that relates portfolio model performance to market performance (represented by a benchmark), and is represented by the excess return of the portfolio model for risk borne compared to the return of that benchmark. By definition, the alpha for a benchmark is always equal to zero; and so a portfolio model with a positive alpha would indicate that the model has outperformed the benchmark.

*Beta:* a measure of the volatility of a portfolio model's return relative to market performance (represented by a benchmark); it is the risk in an investment that cannot be diversified away (AKA systematic risk). By definition, the beta for a benchmark is 1.0. A portfolio model with a beta of 1.10 tends to be 10% more volatile than the market, while a portfolio model with a beta of 0.90 tends to be 10% less volatile than the market. Usually, higher betas represent riskier investments. For portfolio models that are not broadly diversified, a low beta may only indicate that the portfolio model's volatility relative to the benchmark is low, not that the portfolio model has low risk.

*Standard Deviation:* a measure of the degree of dispersion of a distribution (historical volatility) for a portfolio model (i.e., the extent to which numbers are spread around their average). It is calculated by taking the square root of the model's "variance" (a measure of uncertainty or risk based on squaring the difference between each return and the mean return).

*Sharpe Ratio:* a measure of risk-adjusted performance of a portfolio model, calculated as the ratio of that portfolio model's mean return *minus* the risk-free rate (over the time period), *divided by* its Standard Deviation. The higher the Sharpe ratio, the better the portfolio model's historical risk-adjusted performance. A portfolio model with a Sharpe ratio that is higher than that of a benchmark would indicate that the model has outperformed the benchmark.

### Risks

The following risks are particularly pertinent to our investment strategies / portfolio models and should be considered prior to making any investment decisions.

*Exchange Traded Funds (ETFs):* ETFs are open-end investment companies, unit investment trusts or depository receipts that hold portfolios of stocks, bonds, commodities and/or currencies that commonly are designed, before expenses, to closely track the performance and dividend yield of (i) a specific index, (ii) a basket of securities, commodities or currencies, or (iii) a particular commodity or currency. The types of indices commonly sought to be replicated by ETFs most often include domestic equity indices, fixed income indices, sector indices and foreign or international indices. ETF shares are traded on exchanges and are traded and priced throughout the trading day. ETFs permit an investor to purchase a selling interest in a portfolio of stocks throughout the trading day. Because ETFs trade on an exchange, they may not trade at NAV. Sometimes, the prices of ETFs may vary significantly from the NAVs of the ETFs' underlying securities. Additionally, if an investor decides to redeem ETF shares rather than selling them on a secondary market, the investor may receive the underlying securities which must be sold in order to obtain cash.

*Alternatives:* Funds that make alternative investments or employ alternative strategies may seek returns that are designed to have little or no correlation to the securities markets. However, often those strategies perform similarly to the securities markets at times or for extended periods.

*Fixed Income:* Funds that make bond investments may be affected by several risks, including: Interest rate risk - the risk for debt securities associated with changes in the interest rates; Default or credit risk - the risk that a debt security's contractual interest or principal will not be paid when due; and Liquidity risk - the risk of an inability to convert an asset to cash quickly at any time and without any loss of principal.

*International:* Funds that make international investments may be subject to risks typical of international markets, ranging from unfavorable fluctuations in currency values, differences in financial accounting standards and foreign taxes and regulations, to economic or political instability. There is no guarantee that the fund will meet its investment objective.

*Money Market:* An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although the funds seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in a money market fund.

*Sector:* Funds that invests all, or substantially all, of its assets in a specific market sector (e.g., technology) may be subject to the risk that significant problems will affect a particular sector, or that returns from that sector will trail returns from the overall market. Daily fluctuations in specific market sectors are often more extreme or volatile than fluctuations in the overall market. A fund's overall performance will largely depend—for better or for worse—on the general condition of that specific sector.

*Asset Allocation:* Different methods of asset allocation are associated with varying degrees of risks. *Conservative* portfolio models contain low risk investments but may not earn any value over time. *Moderate / Balanced* portfolio models have a higher level of risk than conservative portfolios. *Aggressive* portfolio models mainly consist of equities, so their value tends to fluctuate widely. Portfolio models utilizing *Tactical* asset allocation are exposed to two primary performance drags: inaccurate forecasts (i.e., bad market calls) and trading costs.