



September 2019

Standing the Test of Time: Dynamic US Equity Celebrates 30 Years

An interview with: Joseph Miletich, CFA, Global Investment Strategist

Some milestones are worth celebrating. In September, our Dynamic US Equity strategy turned 30 and we are proud of its legacy. We remain steadfastly committed to its unique underlying strategy and active approach. Recently, we sat down with Joe Miletich to discuss what this legacy means and our view forward.

What accounts for the success of the strategy?

While the Dynamic US Equity strategy (DUSE) began in 1989, its foundation emerged from the pioneering work of our investment professionals with index and asset allocation portfolios in the 1970s. In response to client demand to outperform the S&P 500® Index, we sought an approach that would exploit the natural benefits of diversification and market structure while maintaining an equity risk profile.

Capital market theory is the underlying philosophy for the product. The concepts of the efficient frontier, the capital market line and tangent theory are particularly central to the strategy. By simply combining three assets (stocks, bonds and cash) and relaxing constraints (allowing for the use of leverage and shorting), we believed a portfolio could achieve a more significant, consistent excess return over the S&P 500 Index than was possible with traditional strategies.

We believe DUSE's 30-year history bears testimony to efficacy of the strategy and our ability to successfully apply financial theory. We know of no other strategy with similar objectives and such a lengthy track record.

Is the strategy the same as when it began in 1989?

There have not been any changes to the underlying philosophy and process. We continuously enhance the valuation process and downside risk management, but the underlying reliance on capital market structure has not changed.



What accounts for growth in DUSE assets?

Investors seeking excess returns in equity markets have been disappointed with the vast majority of traditional active strategies due to the efficiency of the US large cap equity market, low stock dispersion and high fees. Investors have looked for alternatives to deliver outperformance and, as a result, have become more comfortable with a different approach. Furthermore, on an annualized basis DUSE has consistently outperformed the S&P 500 Index at a similar level of risk. We consider ourselves a leader in the application of tangent theory concepts to investment portfolios.

How are investors using DUSE?

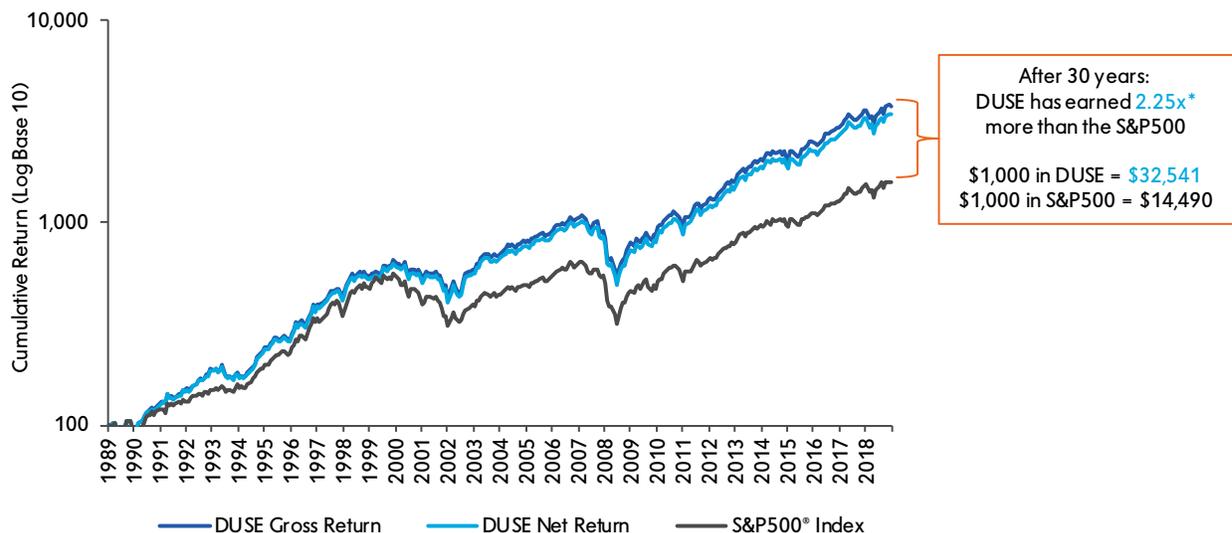
Investors view DUSE as a large cap core equity strategy given its risk characteristics over the last 30 years. We see investors add the strategy as a complement to their index exposure. Some also use it as a diversifying strategy to a multi-manager active large cap team or to multi-factor smart beta strategies.

Can we expect another 30 years?

We think the underlying premise of the strategy will persist—there is a high probability that risky assets, like stocks and bonds, will outperform cash over the long run. DUSE has seen several market cycles over the last 30 years and undoubtedly will experience several more cycles over the next 30 years. This highlights the need to actively manage the exposures, including the amount of leverage, if any. Looking back, we have seen the strategy at high and low equity allocations, long and short US Treasury allocations and moments when the strategy took no leverage and held an allocation to cash. We expect to travel the full range of allocations as opportunities and risks emerge through time. Further, given that DUSE only invests in the most liquid US stocks and Treasury bonds (and their highly-liquid derivatives), we do not anticipate investment capacity or liquidity to be an issue.

Finally, we have found DUSE’s underlying methodology can be applied to other large cap equity markets, such as the MSCI ACWI and MSCI ACWI ex-US. We have received funding from a DUSE client for a new application of the strategy, the Dynamic Global ex-US Strategy.

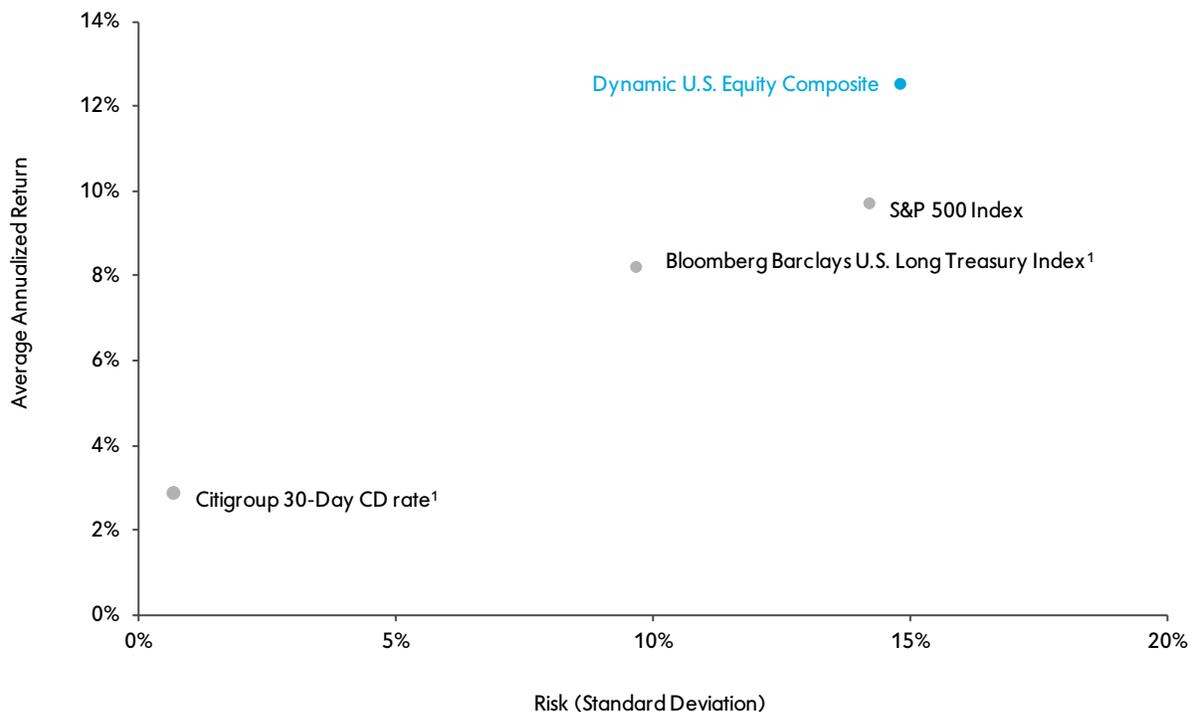
Dynamic US Equity: Happy 30th Birthday



As of August 31, 2019. *Net of fees. Net of fee performance reflects the deduction of an annual management fee of .35%. Actual fee schedule may vary. The Firm’s highest fee associated with this strategy is available in the Firm’s Form ADV Part II. Source: Standard and Poor’s, firm analysis. Inception date: August 31, 1989.

Net of Fees Performance: Dynamic U.S. Equity Composite

	Composite	S&P 500 [®]	Excess Return
YTD	23.98%	18.34%	5.64%
1 Year	4.87%	2.92%	1.95%
3 Years	14.51%	12.70%	1.81%
5 Years	12.42%	10.11%	2.31%
7 Years	16.26%	13.37%	2.89%
10 Years	17.09%	13.45%	3.64%
20 Years	9.78%	6.09%	3.69%
Inception	12.51%	9.64%	2.87%
Std. Dev. ITD (Annualized)	14.81%	14.22%	4.77%

Annualized Risk and Return | Dynamic U.S. Equity Composite (net of fees) vs. Market Indexes¹


September 1989 - August 2019. ¹The indexes above are shown to illustrate various market sectors and individually are not necessarily appropriate benchmarks for the composite. Inception date: August 31, 1989. Performance results greater than one year are annualized. Net of fee performance reflects the deduction of an annual management fee of .35%. Actual fee schedule may vary. The Firm's highest fee associated with this strategy is available in the Firm's Form ADV Part II.

Dynamic U.S. Equity Composite: Performance Disclosure

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Asset-weighted Gross	-8.19	28.49	14.90	0.42	19.77	39.08	20.67	7.27	25.22	20.43
S&P 500	-4.38	21.83	11.96	1.38	13.69	32.39	16.00	2.11	15.06	26.46
Composite 3-Yr St Dev	12.64	11.40	12.28	12.55	10.68	13.44	14.89	20.08	23.98	22.49
Benchmark 3-Yr St Dev	10.95	10.07	10.74	10.62	9.10	12.11	15.30	18.97	22.16	19.91
Number of Portfolios	9	≤ 5	≤ 5	≤ 5	≤ 5	≤ 5	≤ 5	≤ 5	≤ 5	≤ 5
Composite Assets (\$mm)	3,702	1,967	1,216	1,042	1,013	628	410	325	1	125
Firm Assets (\$mm)	481,490	376,540	339,574	349,089	379,698	348,634	252,696	211,175	199,310	167,993
Assets Under Advisory (\$mm)	11,410									
Composite Dispersion	0.03	NM								

The Dynamic U.S. Equity composite measures the total return of all fee-paying, discretionary, portfolios that actively allocates assets across the equity, fixed income and cash markets of the United States using a proprietary quantitative model. Typically, a combination of individual stocks, financial futures, and options are used to allocate to each of the asset classes. The composite may increase total notional asset class exposures up to 150% and may short bonds and cash up to 50%, with each asset class having its own allocation ranges. The use of derivatives is a characteristic of this investment strategy and may be used from time to time to obtain exposure, to provide liquidity for cash flows, to hedge accruals or for other purposes that facilitate meeting the composite's objective. Prior to June 1, 2015, the composite was known as the Tangent-Added composite. The composite was created on August 31, 1995. Composite performance started on September 1, 1989. The performance of the composite is expressed in U.S. Dollars. A complete list of composites with their descriptions as well as Policies and Procedures for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

Mellon Investments Corporation ("Mellon") is a registered investment advisor and subsidiary of The Bank of New York Mellon Corporation ("BNY Mellon"). The firm also includes assets managed by Mellon personnel acting as dual officers of affiliated companies. Prior to changing its legal name on January 2, 2019, the firm was defined as BNY Mellon Asset Management North America Corporation ("BNY Mellon AMNA") a registered investment advisor and subsidiary of The Bank of New York Mellon Corporation ("BNY Mellon"). The firm was formed on January 31, 2018, through the merger of The Boston Company Asset Management, LLC ("TBCAM") and Standish Mellon Asset Management Company LLC ("Standish") into Mellon Capital Management Corporation ("Mellon Capital"). Performance is presented to show the performance of all fee-paying portfolios with substantially similar investment objectives, policies and strategies, which were managed at a prior firm affiliated with Mellon Investment Corporation until February 1, 2018. Performance results from the prior affiliated firm were linked on February 1, 2018 to the results achieved at Mellon Investments Corporation in compliance with the GIPS Guidance Statement on Performance Record Portability. Firm assets presented through December 31, 2017 represent the Firm assets of the Mellon Investments Corporation prior affiliated firm which managed this investment strategy prior to the formation of Mellon Investments Corporation.

The Composite's benchmark is the S&P 500® Index. The S&P 500 Index measures the performance of the large-cap segment of the U.S. equity market.

The standard management fee for separately managed account in this strategy is 0.35% for first \$300M, 0.30% for the next \$200M, and 0.25% for the balance of assets under management. The following provides a simplified example of the cumulative effect of management fees on investment performance: An annual management fee of 0.80% applied over a five-year period to a \$100 million portfolio with an annualized gross return of 10% would reduce the value of the portfolio from \$161,051,000 to \$154,783,041. The actual management fee that applies to a client's portfolio will vary, performance fees may apply and returns will be reduced by other expenses that the portfolio may incur. The standard fee schedules for Mellon Investments Corporation strategies are shown in Part 2A of Mellon Investments Corporation Form ADV.

Gross performance figures are time-weighted rates of return, which include the deduction of transaction costs. Performance results reflect the reinvestment of interest income and other earnings. Gross-of-fee performance figures for bank collective funds participating in the composite have been reduced by administrative fees in addition to trading expenses. Bank collective fund returns may exclude transaction costs associated with client-driven contributions and withdrawals. Internal dispersion figures are an asset-weighted standard deviation of all portfolios that were included in the composite for the entire measurement period. Dispersion figures for years containing 5 or fewer Portfolios are considered Not Meaningful or "N/M". The composite track record lacks the required 36 months necessary for the three year annualized ex-post standard deviation where "N/A" is presented.

Mellon Investments Corporation claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Mellon Investments Corporation has been independently verified for the periods January 1, 2017 through December 31, 2017. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. Mellon Investments Corporation's predecessor firms all have been independently verified for the periods January 1, 2007 through December 31, 2016.

Standard Disclosure

Mellon Investments Corporation ("Mellon") is a registered investment advisor and subsidiary of The Bank of New York Mellon Corporation ("BNY Mellon"). The Firm also includes assets managed by Mellon personnel acting as dual officers of affiliated companies. Prior to changing its legal name on January 2, 2019, the firm was defined as BNY Mellon Asset Management North America Corporation ("BNY Mellon AMNA") a registered investment advisor and subsidiary of The Bank of New York Mellon Corporation ("BNY Mellon"). The Firm was formed on January 31, 2018, through the merger of The Boston Company Asset Management, LLC ("TBCAM") and Standish Mellon Asset Management Company LLC ("Standish") into Mellon Capital Management Corporation ("Mellon Capital"). AUM, client and employee counts are as of the most recent quarter end, unless noted otherwise. Firm Assets presented include non discretionary assets as well as the notional exposure of overlay strategies. BNY Mellon Investment Management is one of the world's leading investment management organizations and one of the top U.S. wealth managers, encompassing BNY Mellon's affiliated investment management firms, wealth management services and global distribution companies. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may also be used as a generic term to reference the Corporation as a whole or its various subsidiaries generally.

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