55 INSTITUTIONAL

Market Risk Indicator (MRI)

Measuring Risk, Not Volatility

Risk management is often an ill-defined term. Many think of volatility and risk as the same thing; however, they are not and it's important for investors to know the difference to achieve their investment goals. Volatility is bi-directional (returns can go up or down) while risk is strictly a downward movement. 55 Institutional believes that actively managing risk (not simply volatility) requires a measure that examines 3 critical issues. The measure must:

- Reflect multiple asset classes since most investors hold more than just domestic equity
- Forecast risk (not volatility) with a focus on trying to avoid big market downturns
- Factor in the price of risk as investors need to understand if risk is worth buying or selling

Hence, 55 Institutional created the first of its kind global, multi-asset class risk measure – the 55 Institutional MRI.

The 55 Institutional Market Risk Indicator (MRI)

The 55 Institutional MRI is designed to be a more meaningful risk measure for investors to assess the likelihood of significant market losses in a global, diversified portfolio in the near to medium term, so they can position their holdings more defensively.

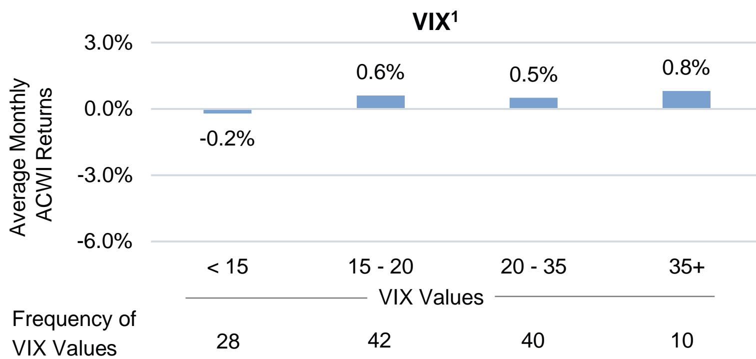
The MRI, published monthly, utilizes over a dozen quantitative metrics across global equity and bonds markets to forecast risk. It ranges from 0 to 100. When the MRI is high, it directs a shift in 55 Institutional portfolios out of equities into safer asset classes.

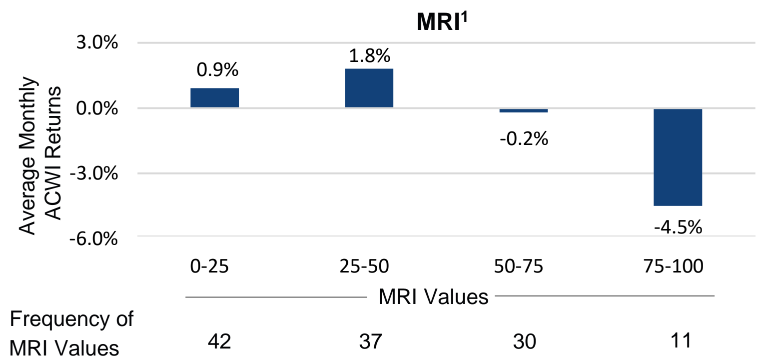
The MRI aligns with our goal of delivering clients a smoother ride by minimizing losses while participating in upward markets.

The Limitations of VIX as a Risk Measure

The Chicago Board Options Exchange (CBOE) VIX is a frequently-quoted measure of risk. However, we believe VIX does a poor job of predicting actual risk for investors. Here's why:

- VIX reflects the volatility of a single asset class. VIX is based on S&P 500 options prices – which reflects the implied volatility of U.S. large cap stocks. For a diversified investor, risk is more than a reflection of a single asset class.
- There is a limited relationship between VIX and losses. Looking at VIX levels and following month returns in the global equity markets, VIX levels don't provide any meaningful insight on returns or losses.
- VIX is a short-term measure. VIX is a measure of volatility of daily returns over a 30-day period – and long-term investors may not choose to modify their asset allocation based on forecasted daily volatility (which is bi-directional).



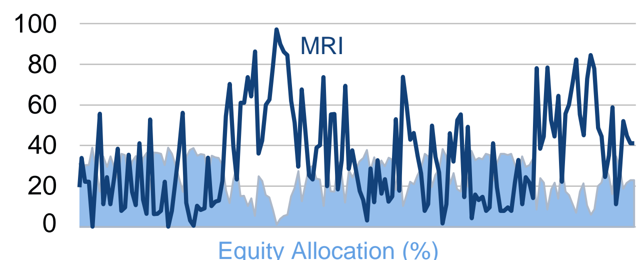


Overview

55 Institutional MRI versus VIX

	VIX	55 Institutional MRI
Asset classes	S&P 500 options	Global equities / bonds
Time frame	30 days	Multiple time periods
Predictor	Future volatility	Future risk

55 Institutional MRI & 55 Institutional Global Macro Equity Allocation[2]



1. Based on beginning of month MRI and VIX values, relative to average ACWI returns within the month; MRI and VIX values based on 120 monthly observations (1/1/07 – 12/31/16)
2. Based on 155 monthly observations (3/31/04 – 1/31/17)

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