KALOS FINANCIAL

The Endowment Investment Model

An Advanced Investment Strategy for a New Reality

Traditional Approach

Stocks & Bonds (Often 60% stocks, 40% Bonds)

- Original Application of Modern Portfolio Theory
- Old, Tired
  - 2000-2010
  - Latest Meltdown
  - Only 2 Asset Classes
- Volatile
- Poor Fixed Income Return Expectations
- Poor Income Generation

A Different Approach

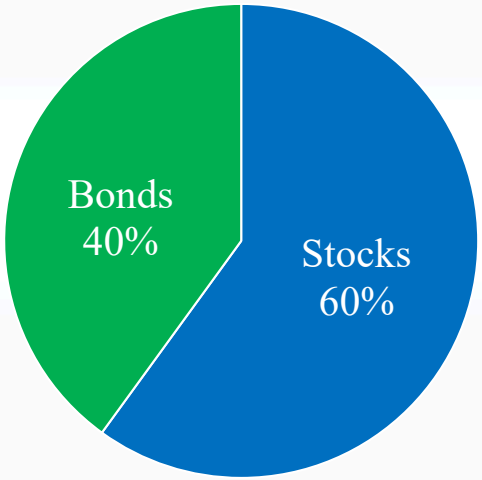
- The Endowment Investing Model
  - Adopted by endowments, institutions, and family wealth offices.
  - Super-Endowments Have Made Strategy Famous (e.g., Yale, Harvard, Stanford)
- Serious Money Seems to Prefer This Strategy
- Individuals Appear to Be Moving in this Direction

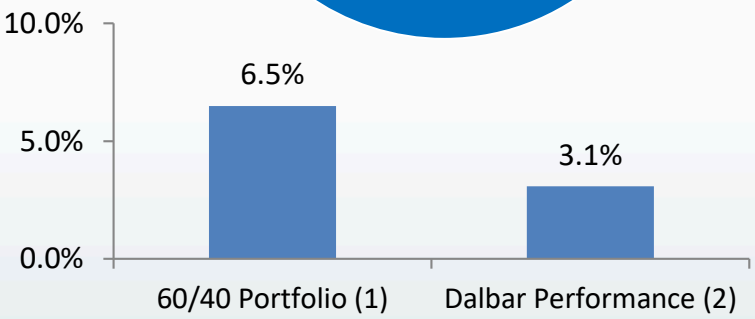
KALOS FINANCIAL

The Traditional Portfolio vs. The Endowment Model

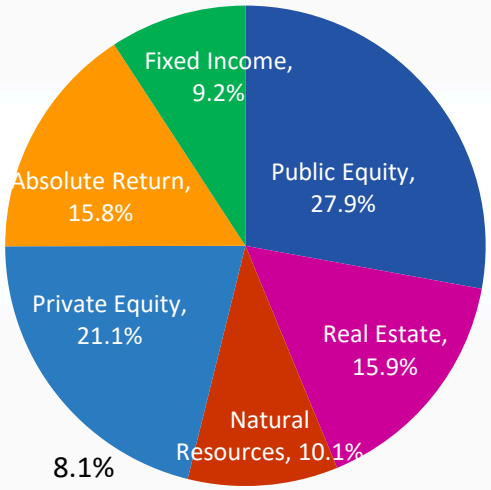
July 1, 2006 – June 30, 2016

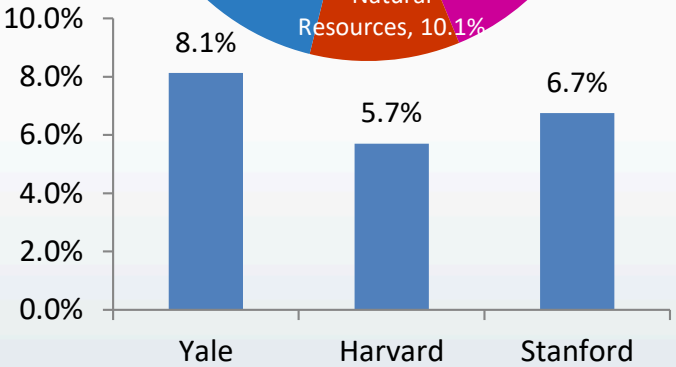
Traditional Individual Investor Allocation





Average of Yale, Harvard, Stanford 2016 Allocations[3]



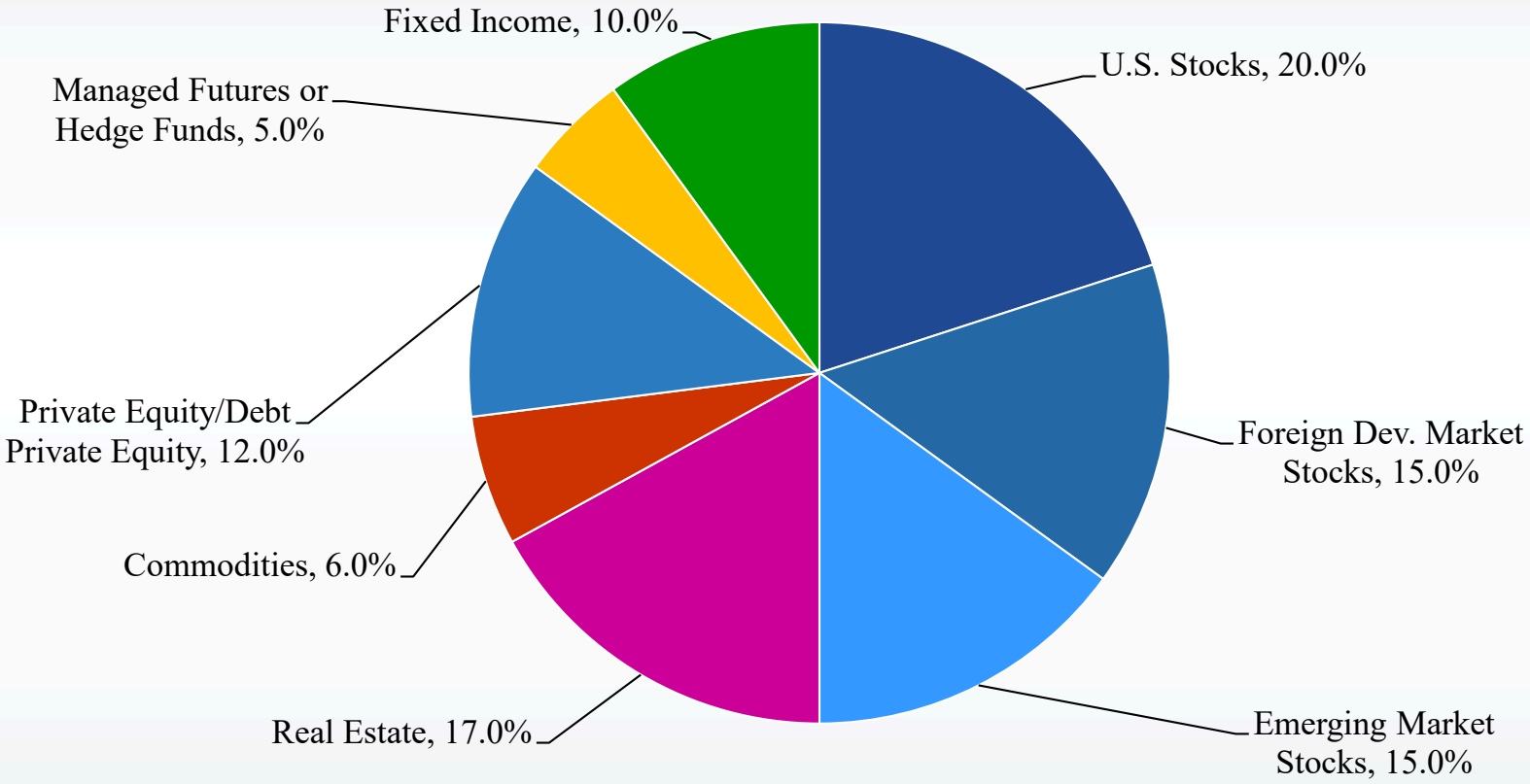


[1]Stocks are represented by the S&P 500. Data is from www.msci.com. Bonds represented by Barclays Capital U.S. Aggregate Bond Index. Data supplied by Barclays Capital, Inc. [2]DALBAR, Quantitative Analysis of Investor Behavior (QAIB) 2016 Key Findings from 2016, p. 5 reports that the average equity fund investors underperformed the S&P 500 by 4.83% , 3.31%, and 2.89% for the 5, 10, and 20 year periods respectively. Average fixed income investor underperformed the Barclay's Aggregate Bond Index by 1.16%, 3.57% and 4.48% for the same 5, 10, and 20 periods. [3]The Yale Endowment Report for years 2006-2016, Harvard University Financial Report for years 2006-2016 &, The Stanford Management Company Report for years 2006-2016.

Past Performance is not a guarantee of future results. Diversification and asset allocation do not assure or guarantee better performance and cannot eliminate the risk of investment loss.

KALOS FINANCIAL

Potential Individual Investor Portfolio



New opportunities and open global markets enable **Individual Investors** to build highly diversified portfolios containing similar asset classes to most endowments.**

**This asset allocation for an individual investor's portfolio is for educational purposes only. Allocations may not be that of the any college endowment including any endowment illustrated in this presentation.

KALOS FINANCIAL

Key Portfolio Attributes

- **Alternatives: Low Performance Correlation & Strong Performance Expectations**
  - Real estate, hybrid debt/private equity, private equity, commodities, managed futures and hedge funds. [1]
- **International Equities** [2]
- **Inflation Protection** [3]
- **Illiquidity of Some Assets**
- **Reduced Fixed Income**
  - Inflation Risk
  - Poor Return Expectations

1. These types of investments may not be suitable for all investors and may be illiquid.
2. Investing in International equities, including emerging markets, may present more risk than U.S. equities and may not be suitable for all investors.
3. Past performance is not indicative of future results.

KALOS FINANCIAL

Risks and Concerns

- Tax consequences
- All investments involve risk and could involve loss.
- Investments presented may not be suitable for all investors.
- Investments in foreign markets entail special risks such as currency, political, economic and market risks.
- Alternative investments may be illiquid.
- There is no assurance that any investment strategy will meet its objectives.
- Diversification and asset allocation do not assure better performance and cannot eliminate risk of investment loss.
- May require larger minimum investment to properly diversify.

KALOS FINANCIAL

Disclosures

These slides are for educational purposes only, and are not intended to be used to make any specific recommendations or imply/guarantee any type of market performance for the assets categories discussed. Past performance is not indicative of future returns.

The information contained in these slides was taken from third-party sources that we believe to be reliable, but cannot guarantee its accuracy or completeness.

This material contains general information to help you understand our financial planning strategies. Any reference to legal and/or tax considerations are not meant to provide any advice in this regard. Legal and Tax advice should come from a qualified attorney and/or tax advisor. The presenter of this information as well as the information presented at this seminar is not related to, endorsed by, nor connected with and not approved by any government agency, college endowment, or any other organization. We do not have real-time knowledge of specific allocations or securities held in college endowment portfolios or models discussed in this presentation.

You should always carefully read the prospectus for any security before investing. Certain investments may impose restrictions, penalties or may be not be as liquid as other investments. The performance of the assets discussed in this presentation can be adversely affected by a number of risk factors such as currency exchange rates, political unrest, market volatility, regulatory changes and/or adverse economic conditions. This is not an an offer or a solicitation to purchase any products, which may be done only with a current prospectus.

Investors should consider their own specific investment objectives and risk tolerance before investing along with the product's charges and expenses before investing. You should not invest in a security or investment strategy that you do not understand. Asset allocation for your portfolio is developed by Kalos based upon research of college endowments funds. Allocations are not that of the actual college endowments illustrated in this presentation. Diversification and asset allocation do not assure or guarantee better performance and cannot eliminate the risk of investment loss. You cannot directly invest in any indexes presented in this seminar. Indexes such as the S&P 500 Composite Index are an unmanaged, but common measurement of overall stock market performance.

Kalos Financial is an unregistered designation used to represent the Kalos family of companies. Securities offered through Kalos Capital, Inc. and Investment Advisory services offered through Kalos Management, Inc. both located at 11525 Park Woods Circle, Alpharetta, GA 30005, telephone (678) 356-1100.

KALOS FINANCIAL

Disclosures

There are material differences between the terms under which endowments and individuals can invest in alternative investments. These differences include, but are not limited to commissions and fees, conflicts of interest, access to investment opportunities, size, investment time horizons, and the ability to tolerate illiquidity. There is no standard or exact definition of the endowment model. Portfolio design, specific investments and ultimately performance vary considerably among endowments and investors. Kalos does not claim that any investor will achieve the same result as any endowment, institution, or other investor. Kalos's Investment Adviser Representatives have a conflict of interest when they recommend securities where they earn a commission as Registered Representatives of Kalos Capital. We address this conflict by disclosing the fees and commissions related to the investments recommended to our clients. Also, Kalos representatives do not earn both advisory fees and brokerage commissions on the same assets.

KALOS FINANCIAL

Definitions

The **S&P 500 Index** is a composite of the 500 largest companies in the United States.

The **FTSE NAREIT US Real Estate Index Series** is designed to present investors with a comprehensive family of REIT performance indexes that span the commercial real estate space across the US economy, offering exposure to all investment and property sectors. In addition, the more narrowly focused property sector and sub-sector indexes provide the facility to concentrate commercial real estate exposure in more selected markets.

MSCI EAFEMSCI EAFE (Europe, Australasia, and Far East) index is a market-capitalization-weighted index of 21 non-U.S., industrialized country indexes, and is widely accepted as a benchmark for international stock performance. The index is unmanaged and does not represent the performance of any particular investment. You cannot invest directly into the index.

Barclays Capital U.S. Aggregate is a broad bond index covering most U.S. traded bonds and some foreign bonds traded in the U.S.

Standard deviation is a statistical measurement that sheds light on historical volatility. For example, a volatile stock will have a high standard deviation while the deviation of a stable blue chip stock will be lower. A large dispersion tells us how much the return on the fund is deviating from the expected normal returns.

Definitions Continued

Correlation is a statistical measure of how two securities move in relation to each other. Correlation is computed into what is known as the correlation coefficient, which ranges between -1 and +1. Perfect positive correlation (a correlation co-efficient of +1) implies that as one security moves, either up or down, the other security will move in lockstep, in the same direction. Alternatively, perfect negative correlation means that if one security moves in either direction the security that is perfectly negatively correlated will move in the opposite direction. If the correlation is 0, the movements of the securities are said to have no correlation; they are completely random.

Cross-correlation is a statistical measure timing the movements and proximity of alignment between two different information sets of a series of information. Cross correlation is generally used when measuring information between two different time series. The range of the data is -1 to 1 such that the closer the cross-correlation value is to 1, the more closely the information sets are.

Modern Portfolio Theory is a financial 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.

KALOS FINANCIAL