



# Achieving Your Investment Goals: A RiskFirst® Approach

Intelligent Investment Portfolios Designed for Individual Investors

REDWOOD  
INVESTMENT MANAGEMENT





# RiskFirst® - Defined

## Why You Should Consider Risk First When Investing

---

We believe the most important risk to individual investors is the loss of capital, measured by peak to trough drawdown. **Our RiskFirst® approach is built to manage those drawdowns within pre-defined limits.**

In the past, financial advisors sold investment products based on historical returns. Unfortunately, investors can never have the performance that already occurred. Thus, when their actual performance differs from their expectations based on past returns, they often make emotional driven decisions such as chasing returns at market highs or selling in fear, near market bottoms. This is one major reason why industry studies, such as those conducted by Dalbar, show that average investors have not experienced the average returns of the funds in which they invested.

We build and manage portfolios based on that drawdown definition of risk, rather than the common practice of building portfolios to maximize or optimize return. WHY?

- 1. Maximum drawdown risk is a variable that can be effectively managed.**
- 2. The objective of portfolios staying within their risk budget can be achieved with a high degree of confidence.**

Your money is too important to simply assume that recovery from losses is inevitable. If you are in retirement, and especially if you are taking distributions from your investments, significant losses can have devastating lifestyle implications. Every distribution taken from portfolios after suffering significant losses lengthens the time necessary for the portfolio to reach its previous value. This is why we built and utilize our **RiskFirst®** philosophy. **We believe that managing downside risk first, is how to best position investors for forward-looking success.**

Traditional buy and hold asset allocation strategies, such as the common 60% stocks and 40% bonds portfolio, were originally built for large institutions that have “infinite” time horizons like pension plans and endowments. **However, individual investors don’t have infinite time horizons. In fact, dramatic or large drawdowns in investments can have far reaching consequences.** While institutions can continue to hold their positions during market downturns and may be able to contribute more capital, individual investors, especially retirees, may be reliant on withdrawals of capital to support their lifestyle. For many individuals, a loss outside of their risk tolerance may mean an impactful change to their lifestyle and financial plan.

### Avoiding Loss of Principal is a Primary Component of Success

ACTUAL LOSS	GAIN REQUIRED TO BREAK EVEN
-10.0%	11.1%
-20.0%	25.0%
-30.0%	42.9%
-40.0%	66.7%
-50.0%	100.0%

### Traditional Long-Only / Passive Allocation - How Much is Too Much Risk?

BLENDED INDICES	MAXIMUM DRAWDOWN (2002-2020)
20% S&P 500/ 80% Barclays U.S. Aggregate	-9.65%
40% S&P 500/ 60% Barclays U.S. Aggregate	-21.30%
60% S&P 500/ 40% Barclays U.S. Aggregate	-32.54%
80% S&P 500/ 20% Barclays U.S. Aggregate	-42.37%
S&P 500	-50.95%

Source: Zephyr. For illustration purposes only. An investor cannot directly invest in an index.



# Keeping It Simple: Intelligent Portfolios Designed for Individual Investors

## You Cannot Control Performance, But You Can Manage Risk

Our portfolios are built based on risk-tolerance objectives and are designed to perform within drawdown guidelines. Words such as “conservative”, “moderate”, or “aggressive” can mean different things to different people. **Our stated drawdown risk objectives help you understand when a portfolio is performing within guidelines to stay on track to meet your long-term financial goals.** Our approach is unique as it involves re-engineering an asset allocation portfolio and relabeling its components based on risk from a quantitative perspective. The result is an intelligent portfolio, dynamically managed to fit your needs.

### Risk Budget: Portfolios Designed to Put Risk First

Engineered Risk-Budgeted Portfolios have stated risk objectives. Each portfolio is managed to stay within its risk-tolerance objective.

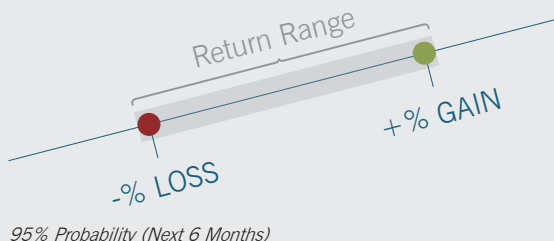
PORTFOLIO	RISK-TOLERANCE OBJECTIVE
ERB: DT 5-8	5-8% Drawdown
ERB: DT 8-12	8-12% Drawdown
ERB: DT 12-17	12-17% Drawdown
ERB: DT 17-25	17-25% Drawdown
ERB: DT 25-35	25%-35% Drawdown

*For illustration purposes only. There can be no guarantee that any objective will be achieved.*


### Returns: Understanding and Accepting Reality: Range of Outcomes

Investment returns are not linear. While any portfolio may have an average annual historical return, every year is different. When a portfolio is on its intended track, the expectation for any rolling time frame, for example, the next six months, will have a **range** of returns from negative to positive. Investors should recognize that this is normal and that risk-budgeted portfolios are **engineered to operate within an expected range**.

Given the fact that no one can predict future returns, it is important to understand that investments have a range of expected return outcomes.





A black and white photograph of a forest. The image is taken from a low angle, looking up at several tall, slender trees that reach towards the sky. Sunlight filters through the dense canopy of needles and branches, creating a dappled light effect. The trees are mostly evergreens, possibly spruce or fir. The overall mood is serene and majestic.

Words, such as “conservative”, “moderate” or “aggressive”, may not mean much to an investor when evaluating the risk in their portfolios. Without an associated number for potential loss, it is difficult for investors to fully understand the financial impact of the risk they are taking. Understanding objective drawdown limits and ranges of return expectations can help investors and financial professionals be on the same page. Engineered Risk-Budgeted Portfolios are designed to be simple, transparent, effective, and forward-looking, for the individual investor – no compromises.



# Taking Advantage of Proven Investment Management Success

## Investment “Style” Diversification is Important

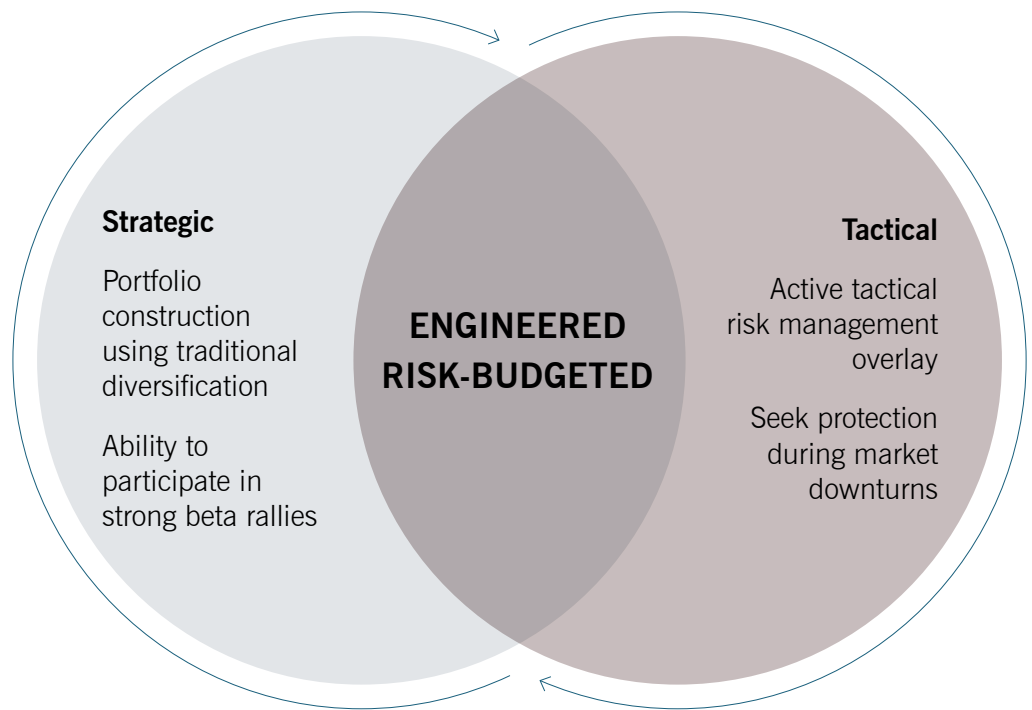
There is great debate on wall street and in academia between passive and active investment management. There isn't a clear winner. Active strategies, focused on reducing risk, may not fully participate in all the upside of a bull market. However, during major market sell-offs, passive index strategies do not have the flexibility to side step adverse events to reduce losses. We believe in the merits, backed by quantitative research, of incorporating both styles in a portfolio.

## A Unique Investment Solution to Deliver Maximum Value

Non-binary style of investing to take advantage of the strengths of each investment style from passive to active

Investment decisions driven by quantitative research, built upon time-tested empirical research and results

Unconstrained management driven solely by a client's risk tolerance




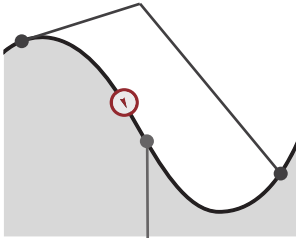
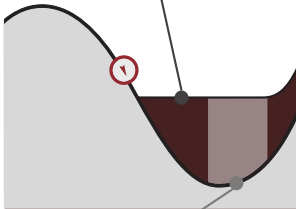
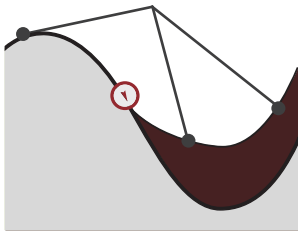


*For illustration purposes only. There can be no guarantee that any objective will be achieved.*

The traditional strategic asset allocation approach blends historically “low or non-correlated” asset classes, such as stocks and bonds. During periods of distress, all assets can decline, thus diversification can fail. Our approach utilizes different investment styles, pairing tactical risk management with lower cost strategic beta. Tactical risk management strategies are used to sidestep unfavorable investment environments by allocating defensively into cash or short-term fixed-income securities. By allocating to different investment styles, the portfolios seek to offset potential under-performance of tactical strategies during rising markets, and add potential loss minimization to strategic, long-only strategies during market downtrends. We build portfolios, based on the success of long-term asset allocation with enhanced style diversification, that seek to navigate any market environment going forward.

# The Engineered Risk-Budgeted Portfolio

## Combined Benefits of Strategic & Tactical

Methodology	Strategic Long-Only / Modern Portfolio Theory Allocation	Tactical Risk-Managed	Engineered Risk-Budgeted	
<div><div><div></div><div>Market Crisis</div></div><div><div></div><div>Market</div></div><div><div></div><div>Portfolio Value</div></div></div> <p>For illustration purposes only. There can be no guarantee that any objective will be achieved.</p>	<p><b>Pro:</b> Stays invested to capture strong market rallies.</p>  <p><b>CON:</b> During times of market crisis, long-only portfolios may incur larger drawdowns</p>	<p><b>Pro:</b> Seeks to reduce overall portfolio drawdown by moving into defensive positions such as cash.</p>  <p><b>CON:</b> During strong rallies, if in a defensive position, strategy may not participate immediately in upside, a tactical strategy may also buy back in higher than where it sold.</p>	<p><b>Pro:</b> Combines the benefits of both strategic and tactical risk-management.</p> 	
	<b>Approach to Minimize or Avoid Loss</b>	Seeks to allocate money to low or non-correlated asset classes.	Flexibility to move to cash or safe havens during a market downturn.	Incorporates tactical mandates to move risk assets to safe havens during a market downturn. Predetermined allocations to non-correlated assets.
	<b>Approach to Participate in Market Upside</b>	Portfolio will always have some type of market exposure at all times.	Flexibility to move into risk assets during a market uptrend.	Use different methodologies to move a portion of a portfolio from safe havens to risk assets during market uptrends, while maintaining beta exposure at most times.
	<b>Benefits</b>	Having a mix of different asset classes to help avoid the risk associated with being concentrated in one asset class while staying fully invested.	Potential to avoid larger drawdowns, while capturing upside.	Combine the benefits of both traditional asset allocation and investment style diversification.
<b>Drawbacks</b>	During times of financial crisis, asset classes that appear to be uncorrelated often become correlated as investors sell due to a panic.	During extended beta market rallies, fully tactical strategies can miss upside capture.	Not “STLO” (Shoot The Lights Out Capital Management).	

⌚ Market Crisis

— Market

■ Portfolio Value

For illustration purposes only. There can be no guarantee that any objective will be achieved.

# A Multi-Style Portfolio: Strategies Built By Purpose

## Allocations By Objectives

Whether it is to simply be invested in the general market or to actively minimize volatility, each strategy allocation in our investment portfolios must have a qualitative purpose. The different styles and objectives help to diversify portfolios and to reduce single investment style risk (such as long-only stocks and bonds). The components, while having independent investment strategies and mandates, are constructed to work holistically together to seek to manage the portfolio within its stated risk drawdown objectives and to best position the investor for long-term success over any market environment.

### Objective Based Investment Allocation

**Non-Traditional Fixed-Income** — Ability to participate in higher yielding, lower credit quality fixed income given a tactical risk management overlay.

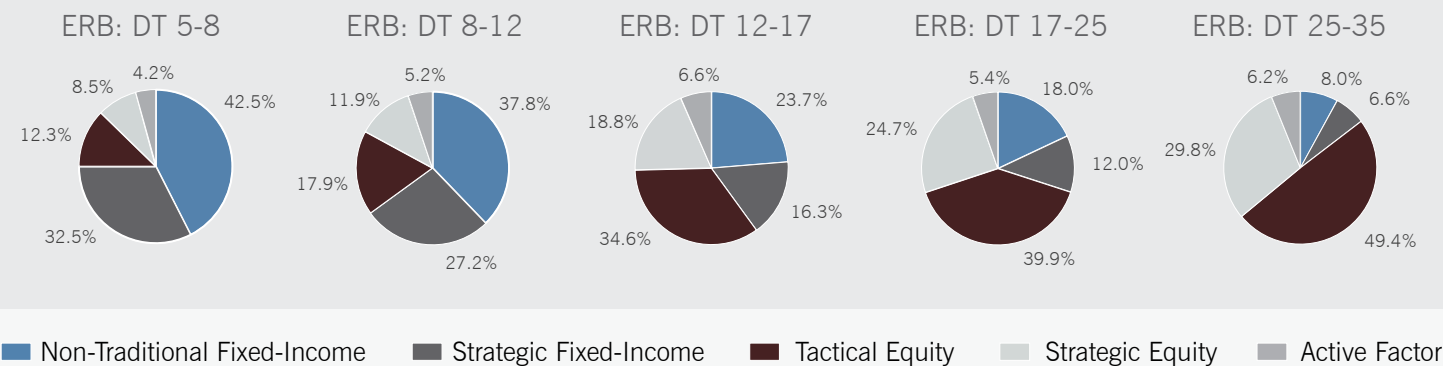
**Strategic Fixed-Income** — Traditional fixed-income to hedge equity risk during flight-to-safety.

**Tactical Equity** — Holds domestic and international equity with a tactical risk management overlays attempting to avoid major drawdowns.

**Strategic Equity Beta** — Expected to participate in equity market ups and downs via low cost implementation. Active component to seek long term alpha.

**Active Factor** — Flexible allocation strategy that helps normalize portfolio factor biases.

### Building an Engineered Asset Allocation Framework



For illustration purposes only. There can be no guarantee that any objective will be achieved.

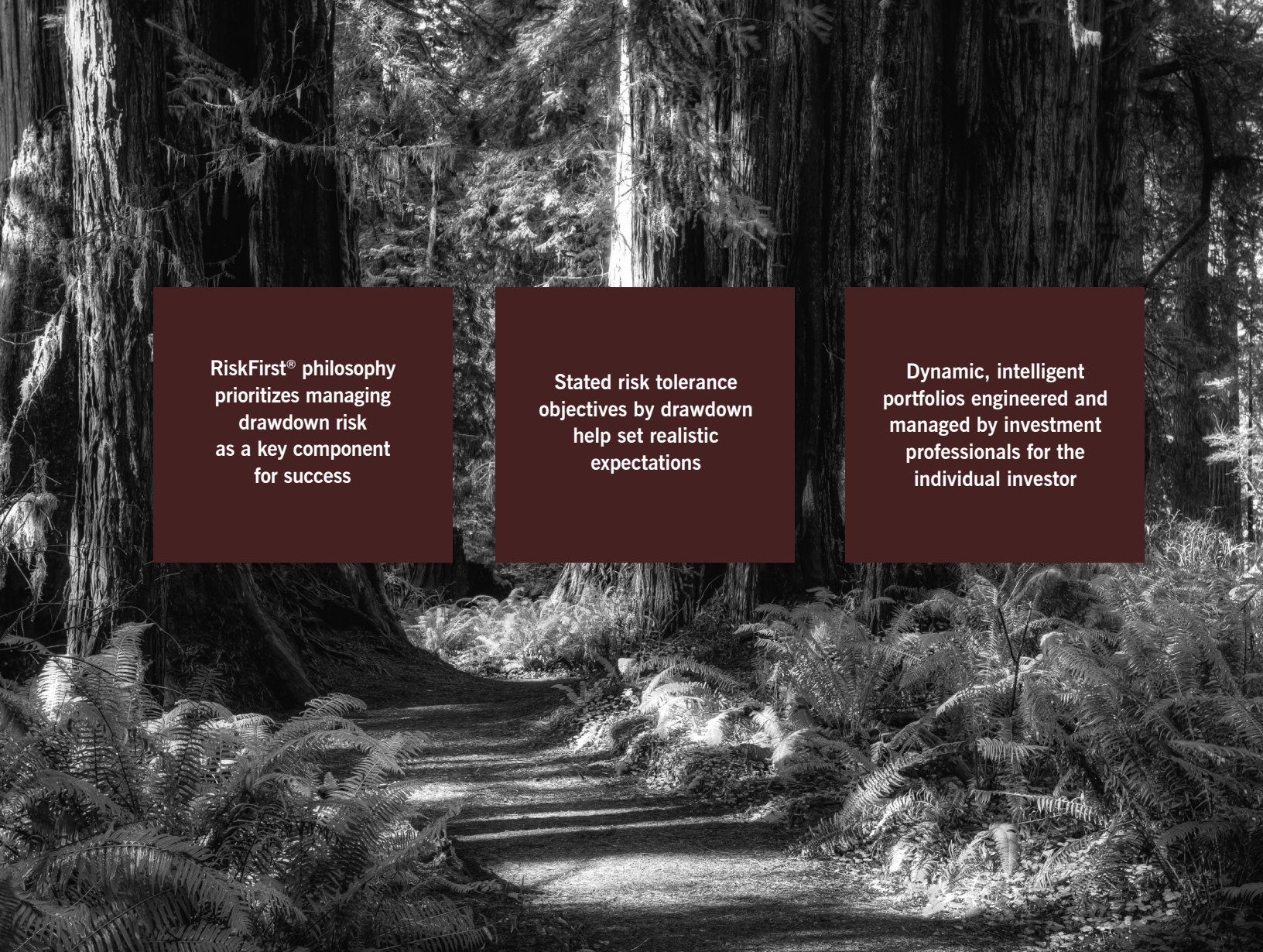


# What's Your Investment Strategy?

---

Traditionally, investment portfolios have been built and labeled with terms such as Conservative or Moderate without any direct connection to the actual risk in terms of loss to the investor. Investors often take a risk assessment to test into a pre-made “efficient” portfolio without any context on the real perceived risk to their capital. **We take a different approach. Our RiskFirst® process prioritizes defining risk numerically, measured by drawdowns.** After we have established a numeric risk objective with you, your portfolio is constructed to be fully diversified by asset class, style, strategy purpose, and is managed utilizing institutional, quantitative tools. The result is an intelligent, unparalleled investment solution built and tailored directly for you to stay on track to meet your financial goals.

## Key Takeaways



RiskFirst® philosophy  
prioritizes managing  
drawdown risk  
as a key component  
for success

Stated risk tolerance  
objectives by drawdown  
help set realistic  
expectations

Dynamic, intelligent  
portfolios engineered and  
managed by investment  
professionals for the  
individual investor

Talk to a  
Professional at  
**Redwood  
Investment  
Management**



**Michael T. Messinger**

Portfolio Manager  
[mmessinger@redwoodim.com](mailto:mmessinger@redwoodim.com)



**Richard M. Duff**

Portfolio Manager  
[rduff@redwoodim.com](mailto:rduff@redwoodim.com)



**Michael T. Cheung**

Portfolio Manager  
[mcheung@redwoodim.com](mailto:mcheung@redwoodim.com)



## **Disclosure**

*For illustration purposes only. All statements are opinions and should not be construed as facts.*

*This presentation is for informational purposes only and should not be deemed as a solicitation to invest, or increase investments in Redwood Investment Management, LLC products or affiliated products. The information contained herein is not intended to provide any investment advice or provide the basis for any investment decisions. Please consult a qualified professional before making decisions about your financial situation. Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. Information and commentary provided by Redwood Investment Management, LLC are opinions and should not be construed as facts. There can be no guarantee that any of the described objectives can be achieved. No claims are being made that asset class or strategy diversification will eliminate portfolio loss. Information provided herein from third parties is obtained from sources believed to be reliable, but no reservation or warranty is made as to its accuracy or completeness. Advisory services are offered by Redwood Investment Management, LLC. Redwood Investment Management, LLC is an SEC Registered Investment Advisor. Such registration does not imply a certain level of skill or training and no inference to the contrary should be made. Redwood Investment Management, LLC's advisory fees and risks are detailed in Part 2 of its Form ADV.*

*Maximum Drawdown of blended indices are shown for informational purposes only; it is important to note that Redwood Investment Management, LLC's strategies differ from the indices displayed and should not be used as a benchmark for comparison to account performance. While the indices chosen represent broad market performance of each asset class, there are report limitations as to available indices and blends, which index can be selected, and how they are presented. The S&P 500 Index seeks to measure the U.S. stock market and is based on the market capitalization of 500 leading companies publicly traded in the U.S. as determined by Standard & Poor's. The Barclays U.S. Aggregate Bond Index seeks to measure the investment grade, U.S. fixed-rate taxable bond markets. **RiskFirst®** is a registered trademark of Redwood Investment Management, LLC ("Redwood").*



REDWOOD  
INVESTMENT MANAGEMENT

4110 N. SCOTTSDALE RD., STE. 140, SCOTTSDALE, AZ 85251 | 1117 S. ROBERTSON BLVD, LOS ANGELES CA 90035

888-617-1444 | [INFO@REDWOODIM.COM](mailto:INFO@REDWOODIM.COM) | [WWW.REDWOODIM.COM](http://WWW.REDWOODIM.COM)