

A Tactical Start to the Year

February delivered another twist in the market narrative, with duration-sensitive fixed income outperforming amid falling Treasury yields, while equities ended the month in negative territory after early strength faded. Concerns about economic deceleration and persistent inflation began to reshape investor expectations, driving volatility higher and favoring defensively positioned portfolios. Kensington's strategies navigated these developments through tactical adjustments and disciplined risk management. Below is a summary of how each strategy responded to the evolving environment.

Managed Income Strategy

Author: Kensington Asset Management PM Team

Fixed income continued its winning streak in February, though the leadership shifted toward more duration-sensitive assets, such as investment-grade corporates and longer-dated Treasuries. The 10-Year Treasury yield fell from 4.54% to 4.23% as investor sentiment pivoted on fears of slowing economic growth.

Managed Income remained in a fully "Risk-On" position for the tenth consecutive month. The portfolio continues to emphasize high-yield credit, supplemented by satellite allocations to floating rate and senior loan investments. While these satellite holdings underperformed in February, the overall positioning benefited from stable credit spreads and attractive carry.

That said, the spread between high-yield bonds and cash equivalents remains relatively tight, suggesting diminished compensation for credit risk. This reinforces the importance of diversified exposures to manage potential downside. At present, no changes to portfolio positioning are anticipated, though the strategy remains responsive to shifts in credit market conditions.

Dynamic Growth Strategy

Author: Kensington Asset Management PM Team

Equities posted modest gains in early February before a selloff emerged in the final days of the month. The decline was fueled by concerns over slowing growth and trade-related headlines, which pressured mega-cap and small-cap equities alike. All major indices finished February in negative territory.

Entering February we believed the January "Risk-Off" period would likely be transitory. However, volatility returned at month-end, ultimately extending the "Risk-Off" positioning for the entirety of February. The portfolio remained fully invested in cash equivalents and short-term Treasuries, prioritizing capital preservation and competitive yield.

Looking ahead, we expect continued volatility as markets digest mixed economic signals and policy developments. Should conditions stabilize, the model may identify opportunities to re-enter equities. For now, maintaining a defensive stance has supported performance relative to the S&P 500 through the first two months of the year.

Active Advantage Strategy

Author: Kensington Asset Management PM Team

The Active Advantage Strategy held its fully "Risk-On" stance in February, maintaining balanced exposure across fixed income and equities. There were no allocation changes during the month.

The fixed income sleeve remained diversified across high-yield corporates, senior loans, and multisector bond strategies. These allocations posted positive returns amid declining yields. In contrast, the equity sleeve, concentrated in core S&P 500 holdings, declined modestly due to the late-month equity selloff. The combined result was a slight negative return for the strategy in February.

As noted in January, rising volatility and macro uncertainty have prompted a more cautious equity allocation. While the portfolio remains fully invested, it is tilted away from growth stocks and toward core exposures to help buffer volatility until the model signals a shift.

Defender Strategy

Author: Elio Chiarelli – Lead Portfolio Manager, Liquid Strategies

The Defender Strategy posted a slight decline in February but remains positive for the year. Equities across the US and global markets pulled back amid rising concerns about persistent inflation and softening economic data. The S&P 500, Nasdaq 100, and MSCI World Index all posted negative returns. Meanwhile, bonds benefited from steady long-term yields, with the Bloomberg US Aggregate Bond Index returning a modest gain.

Despite the challenging equity environment, the Defender Strategy navigated the volatility effectively, remaining approximately 82% "Risk-On." Performance was supported by allocations to gold, European equities, commodities, and US Treasuries, while US equity exposures detracted. The strategy's multi-asset approach and dynamic momentum-based positioning helped preserve capital amid cross-asset volatility.

Looking ahead to March, Defender remains tactically positioned with continued exposure to alternative and traditionally uncorrelated asset classes. The model remains focused on identifying momentum trends and adjusting risk exposures accordingly.

Hedged Premium Income Strategy

Author: Shawn Gibson – Lead Portfolio Manager, Liquid Strategies

February presented new challenges for the Hedged Premium Income Strategy, with a late-month equity reversal and shifting volatility levels. Despite these headwinds, the strategy continued to generate premium income through tactical management of call and put spread positions.

The portfolio maintained full exposure to the S&P 500 while holding protective put spreads and selling call spreads to enhance income. This structure allowed the strategy to remain invested while managing downside risk, especially as volatility climbed late in the month.

Positioning remains largely unchanged heading into March. The current put spread provides a downside buffer of approximately 6%, while call spreads continue to cap upside in exchange for premium income. This balanced approach is designed to offer consistent return potential with built-in risk management in a market environment marked by uncertainty.

Looking Ahead

As macroeconomic crosswinds intensify, Kensington's strategies remain committed to disciplined risk management and adaptive positioning. Whether through defensive allocations, tactical shifts, or premium-generating overlays, our strategies are designed to respond to changing conditions and help investors pursue consistent outcomes. As we close out Q1, flexibility and vigilance remain our guiding principles.

Please see notes and disclosures on next page.

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Advisory services offered through Kensington Asset Management, LLC, Barton Oaks Plaza, Bldg II, 901 S Mopac Expy – Ste 225, Austin, TX 78746.

Managed Income Strategy

Risks specific to the Managed Income Strategy include Management Risk, High-Yield Bond Risk, Fixed-Income Security Risk, Loans Risk, Market Risk, Underlying Funds Risk, Derivatives Risk, Non-Diversification Risk, Turnover Risk, US Government Securities Risk, and Models and Data Risk.

Dynamic Growth Strategy

Risks specific to the Dynamic Growth Strategy include Management Risk, Equity Securities Risk, Market Risk, Underlying Funds Risk, Derivatives Risk, Non-Diversification Risk, Turnover Risk, and Models and Data Risk.

Active Advantage Strategy

Risks specific to the Active Advantage Strategy include Management Risk, High-Yield Bond Risk, Fixed-Income Security Risk, Equity Securities Risk, Loans Risk, Market Risk, Underlying Funds Risk, Derivatives Risk, Non-Diversification Risk, Turnover Risk, US Government Securities Risk, and Models and Data Risk.

Defender Strategy

Risks specific to the Defender Strategy include Management Risk, High-Yield Bond Risk, Fixed-Income Security Risk, Equity Securities Risk, Foreign Investment Risk, Market Risk, Emerging Market Risk, Real Estate REITs Risk, Commodities Risk, Tax Risk, Underlying Funds Risk, Derivatives Risk, Non-Diversification Risk, Turnover Risk, US Government Securities Risk, Momentum Risk, Limited History of Operations Risk and Models and Data Risk.

Hedged Premium Income Strategy

The Strategy invests in options that derive their performance from the performance of the S&P 500 Index. Selling (writing) and buying options are speculative activities and entail greater than ordinary investment risks. The Strategy's use of put options can lead to losses because of adverse movements in the price or value of the underlying asset, which may be magnified by certain features of the options. When selling a put option, the Strategy will receive a premium; however, this premium may not be enough to offset a loss incurred by the Strategy if the price of the underlying asset is below the strike price by an amount equal to or greater than the premium. Purchased put options may expire worthless and the Strategy would lose the premium it paid for the option. The Strategy may lose significantly more than the premiums it receives in highly volatile market conditions.

The Strategy will invest in short term put options which are financial derivatives that give buyers the right, but not the obligation, to sell (put) an underlying asset at an agreed-upon price and date. The Strategy's use of options may reduce the Strategy's ability to profit from increases in the value of the underlying asset. The Strategy could experience a loss or increased volatility if its derivatives do not perform as anticipated or are not correlated with the performance of their underlying asset or if the Strategy is unable to purchase or liquidate a position.

Definitions:

Call Spread: An options trading strategy where the Strategy buys and sells call options on the same asset with different strike prices or expiration dates. The strategy helps manage risk and profit from small price changes.

Put Spread: An options strategy where the Strategy buys and sells put options with different strike prices but the same expiration date. This strategy can be used to limit potential losses while still allowing for profit if the underlying asset's price declines.

S&P 500: A capitalization weighted index of 500 stocks representing all major domestic industry groups. Index assumes the reinvestment of dividends and capital gains.

Nasdaq 100 Index: A market index that comprises of the 100 largest, most actively traded companies listed on the Nasdaq stock exchange.

MSCI World Index: An index that tracks the performance of around 1,500 large and mid-cap companies across 23 developed countries. It serves as a common benchmark for global stock funds, representing a broad cross-section of global markets

Bloomberg US Aggregate Bond Index: An unmanaged index comprised of US Investment grade fixed rate bond market securities, including government agency, corporate and mortgage-backed securities. Investors cannot invest directly in an index. It is also known as US Aggregate Bond Index.

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