

**Part 2A of Form ADV: Firm Brochure**



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**Newfound Research LLC**

425 Boylston Street, 3rd Floor  
Boston, MA 02116  
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**Website**

[www.thinknewfound.com](http://www.thinknewfound.com)

**Contact**

Tom Rosedale

**Phone**

(617) 531-9773

**Email**

[tom@thinknewfound.com](mailto:tom@thinknewfound.com)

**This Brochure provides information about the qualifications and business practices of Newfound Research LLC. If you have any questions about the contents of this Brochure, please contact us at (617) 531-9773 or [tom@thinknewfound.com](mailto:tom@thinknewfound.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Newfound Research LLC is a registered investment adviser. Additional information about Newfound Research LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). One's status as a "registered investment advisor" does not imply a certain level of skill or training.**

**Item 2- Material Changes**

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This Brochure contains updates from Newfound Research LLC's ("Newfound") previous Brochure dated April 30, 2014, none of which updates are material, except the discussion herein of the Newfound Core Bond Alternative strategy, which is a new investment strategy recently launched by Newfound and currently available as model licensing and through SMAs and UMAs, and updates to Newfound's assets under management.

### **Item 3- Table of Contents**

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#### **Item 4- Advisory Business**

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##### *Background*

Newfound Research LLC (“Newfound”) is a quantitative asset management firm which focuses on innovation with its rule-based, outcome oriented investment strategies.

Newfound creates rule-based, quantitatively enabled investment strategies powered by its dynamic, volatility adjusted momentum models (the “Momentum Models”). Its clients are comprised of mutual fund families, RIA firms, asset management firms, advisors and other institutions and investors. Newfound also acts as a sub-advisor and research provider to certain mutual funds and other types of pooled investment funds, such as collective investment trusts.

The investment strategies created and managed by Newfound are often referred to as “managed ETF portfolios.” All research and development is conducted internally by Newfound’s quantitative strategies group. These individuals invest a substantial amount of time and resources in developing, testing and utilizing new investment strategies and Newfound’s intellectual property, which includes its Momentum Models.

The development of Newfound’s Momentum Models began in 2007 by Corey Hoffstein, Newfound’s co-founder and Chief Investment Officer, who is the sole architect of Newfound’s Momentum Models. Newfound’s owners include Corey M. Hoffstein (through his wholly owned company, Newfound Holdings LLC) and Tom Rosedale, who together own greater than 75% of Newfound’s equity securities. Mr. Hoffstein is Newfound’s Chief Investment Officer and Chief Technology Officer and Mr. Rosedale is Newfound’s Chief Executive Officer and Chief Compliance Officer.

Newfound was founded in August 2008 as a Delaware limited liability company in connection with the licensing of select, limited data (primary U.S. sector signals) from its Momentum Models to a third-party, which became its first client. The first phase of Newfound’s business operations included the creation of its Momentum Models and the licensing of data from its Momentum Models to certain clients. The second phase of Newfound’s business, which began in 2010, involved Newfound developing investment strategies for its “partner” firms. The third and current phase of Newfound’s business, which began in 2013, involves Newfound offering investment strategies directly to advisors, intermediaries and institutions. Direct investment strategies are marketed by Newfound and its employees. Newfound also acts as advisor and sub-advisor to mutual funds and collective investment trusts.

Newfound initially became known for its signals on the primary U.S. sector ETFs that were generated by its Momentum Models and used by clients managing tactical investment strategies, including Copeland Capital Management LLC, which manages (x) the Copeland Risk Managed Dividend Growth Fund (an open-end mutual fund launched in 2010) and (y) the Katama Capital Fund, L.P. (a long/short hedge fund launched in 2012). Newfound no longer enters into data licensing agreements with its clients, but it does honor the existing agreements to which it is a party.

##### *Newfound Investment Strategy Offerings (Direct Offerings)*

For each investment strategy created by Newfound, an outcome or desired behavior is identified. For example, Newfound's Risk Managed Global Sectors strategy invests in the eleven global sector ETFs, and has a goal of absolute performance in a bear market and relative performance in a bull market ("protect and participate"). To achieve this goal, Newfound's Momentum Models generate absolute exposure recommendations (signals) on the global sector ETFs, avoiding sectors which Newfound's models have identified as exhibiting negative momentum characteristics, and reallocating to sectors exhibiting positive momentum, or building a defensive cash position.

Newfound's investment strategy offerings include:

- The Newfound Risk Managed Global Sectors strategy,
- The Newfound Risk Managed Small-Cap Sectors strategy,
- The Newfound Target Excess Yield strategies,
- The Newfound Risk Managed Income strategy,
- The Newfound Core Bond Alternative strategy,
- The U.S. Equity Dynamic Long/Short strategy and
- The Newfound Tailwinds Allocation strategies.

See Item 8 for a description of these investment strategies.

These investment strategies are offered to clients as separately managed accounts ("SMAs"), unified managed accounts ("UMAs"), licensed model portfolios, and, for certain investment strategies, as open-end mutual funds.

- Separately Managed Accounts (SMAs)

Newfound provides discretionary investment advisory services to separate account clients, primarily through financial intermediaries (such as broker-dealers and registered investment advisors). Separate account clients select an investment strategy after consultation with the client's primary financial advisor. Newfound has engaged Argentus Capital Management, LLC ("Argentus") to provide Newfound with certain back-office services and portfolio management systems via Argentus's proprietary platform, AlphaNavigator®, in connection with Newfound providing its investment strategies to its clients as SMAs. Argentus has been engaged by Newfound to handle certain key operational tasks for Newfound and Newfound's clients, such as trading, daily database reconciliation, account billing, cost basis and performance calculation. The Argentus web-integrated system gives Newfound tools that enable it to provide investment advisory services to its clients in what is expected to be a more efficient manner. Argentus does not maintain custody of assets. Newfound also has the right to obtain some or all of such services from another third-party (other than Argentus) after the date of this Brochure, in which case Newfound will provide written notice to its clients, or to perform some or all of such services itself or through an affiliated entity and not through a third-party.

- Model Portfolio Licensing (including UMAs)

For model portfolio licensing, Newfound provides its investment strategies to RIA firms and

UMA platform sponsors via a model-based solution. Model portfolio licensing can include a license by Newfound to the RIA firm with respect to one or more of Newfound's investment strategies or via UMA and other platforms. A model portfolio licensing arrangement involves Newfound developing and managing investment strategies and updating the investment advisors as to changes in the model portfolios. The RIA firms or UMA platform sponsors are then responsible to trade their client accounts to adjust the holdings to be in line with Newfound's recommended portfolio. When Newfound licenses an investment strategy as a model portfolio to an RIA firm or UMA platform, the RIA firm or UMA platform is responsible for making all investment decisions and handling all trading, reporting and custody matters.

With respect to these model portfolio licensing arrangements, the RIA firm or UMA platform sponsors will serve as a "sponsor" of the investment strategy and will be responsible for dissemination to, and use by, such parties' clients. In these cases where such a sponsor is involved, Newfound's obligation is to create and disseminate model portfolios to the sponsor (in a timely manner pursuant to the strategy's specific parameters). The model portfolios and the recommendations implicit in the model portfolios generally are not tailored to the specific needs or circumstances of the sponsors' clients. Newfound does not typically have the advisory relationship with the end-investor when licensing model portfolios to RIA firms or UMA platform sponsors. As between Newfound and the RIA firm or UMA platform sponsor, Newfound is not responsible for making investment decisions for the end-investors, or for determining if adherence to the model portfolio recommendations is appropriate for the individual end-investor. Typically, the RIA firm or UMA platform sponsor has sole authority and responsibility for implementing the model portfolios for its client accounts. The RIA firm is responsible for understanding and evaluating each investor's identity, circumstances, financial condition, portfolio holdings, tax situation, regulatory status, financial needs and goals, making determinations as to whether a model portfolio provided by Newfound is appropriate for each potential investor, and reporting and communicating with the investors as to their investments.

- Registered Mutual Funds

Newfound offers certain investment strategies via registered, open-end mutual funds. Newfound serves as the investment advisor of the Newfound Risk Managed Global Sectors fund (NFGAX; NFGCX; NFGIX), and expects to offer additional investment strategies as registered, open-end mutual funds in the near future. Newfound manages all registered funds in accordance with the investment objectives, policies and restrictions set forth in each respective prospectus.

*Collaborative Investment Strategy Offerings*

Newfound also offers "collaborative" investment strategy offerings, which are investment strategies or overlays created by Newfound in collaboration with a "partner" firm, where the "partner" firm typically takes responsibility for the marketing and distribution of the investment strategy. With "collaborative" investment strategies, Newfound does not have investment or voting authority or discretion.

"Collaborative" investment strategy offerings include Newfound's collaboration with:

- 3D Asset Management in connection with the 3D/Newfound PrudentPath Target Date Portfolio Series of funds, of which Newfound is sub-advisor and which are offered as collective investment trusts;
- Toroso Investments in connection with two investment strategies created by Newfound and Toroso, including the Toroso Newfound Tactical Allocation Fund (TNTAX; TNTCX) of which Newfound and Toroso Investments are both sub-advisors;
- Congress Capital Partners LLP in connection with the Congress Risk Managed Assets and Risk Managed Satellites strategies;
- Copeland Capital Management in connection with the Copeland Risk Managed Dividend Growth fund (CDGRX; CDCRX; CDIVX);
- FolioMetrix in connection with two RiskX mutual funds -- the Rx Traditional Fixed Income Fund (FMFRX; FMFSX) and the Rx Traditional Equity Fund (FMSQX; FMTSX);
- CVR Portfolio Funds in connection with a tactical, defensive equity sleeve to the CVR Dynamic Allocation Institutional fund (CVRAX);
- Investors Capital in connection with a tactical overlay to an Investors Capital wrap-fee program and a custom tactical investment strategy; and
- Virtus Investment Partners in connection with three investment strategies that are offered as mutual funds; the Virtus Disciplined Equity Style Fund (VDEAX; VDECX; VDEIX); the Virtus Disciplined Select Country Fund (VDCAX; VDCCX; VDCIX); and the Virtus Disciplined Select Bond Fund (VDBAX; VDBCX; VDBIX) – Corey Hoffstein, Newfound’s CIO, is portfolio manager for these three mutual funds.

Many of the agreements that Newfound entered into with respect to “collaborative” investment strategies are perpetual. Newfound does not generally distribute or market the “collaborative” investment strategies but provides support to its “partners” with the creation of marketing materials and will often times participate in speaking engagements and other activities relating to these investment strategies, as requested by Newfound’s “partners.”

Newfound’s “partners” act as “sponsors” of Newfound’s investment strategies. Newfound’s investment strategies sometimes carry the “Newfound” name or the “partner” may otherwise utilize Newfound’s name in connection with its marketing of the investment strategy. The design and customization of the investment strategies is performed, in whole or in part, by Newfound in collaboration with each “partner” firm.

#### *Assets under Management (Advisement)/Wrap Fee Programs*

Newfound receives a percentage fee based on its or its partners’ assets under management or advisement for those portfolios or investment strategies utilizing Newfound’s investment strategies or data, or which are otherwise subject to agreements with Newfound. Newfound’s assets under management total approximately \$26,400,000, as of July 28, 2014. Newfound expects that its AUM will increase substantially in the near future as it only recently began offering its investment strategies as SMAs, UMAs and mutual funds. In addition, as of July 28, 2014, assets invested in Newfound’s “collaborative” investment strategies and Newfound’s “direct” investment strategies through model licensing and UMA

platforms collectively exceed \$975,000,000 (excluding Newfound's largest client, which alone exceeds \$10 billion). Assets powered or advised by Newfound are not considered Newfound's AUM when Newfound does not provide continuous and regular supervisory or management services to such securities portfolios (such as when another party exercises investment discretion over such portfolio).

Newfound does not participate in any wrap fee programs.

### *Corporate Partnerships and Joint Ventures*

#### Virtus Investment Partners/Newfound Investments LLC

In October 2012, Newfound and Virtus Investment Partners Inc. ("Virtus") partnered and collaborated to establish Newfound Investments, LLC, a Delaware limited liability company jointly owned by Newfound and Virtus – 51% of which is owned by Virtus and 49% of which is owned by Newfound (the "Newfound/Virtus Company" -IARD/CRD Number: 165574). The Newfound/Virtus Company is an investment manager that expands Virtus' offerings of innovative investment solutions by adding disciplined, rule-based strategies to manage a variety of asset classes. Newfound, in collaboration with Virtus, created three investment strategies as part of the Virtus Disciplined suite of funds. The first three funds are (i) the Virtus Disciplined Equity Style Fund (which has an investment objective of capital appreciation and seeks to deliver the returns of the Newfound Equity Style Total Return Index (Nasdaq: NESX)), (ii) the Virtus Disciplined Select Country Fund (which has an investment objective of capital appreciation and seeks to deliver the returns of the Newfound Select Country Total Return Index (Nasdaq: NSCX)) and (iii) the Virtus Disciplined Select Bond Fund (which has an investment objective of high total return from current income and capital appreciation and seeks to deliver the returns of the Newfound Select Bond Total Return Index (Nasdaq: NSBX)). These open-end mutual funds were launched on December 18, 2012 by the Newfound/Virtus Company. Corey Hoffstein, Chief Investment Officer of Newfound, serves as Portfolio Manager for these funds and as Chief Investment Officer of the Newfound/Virtus Company. Tom Rosedale, Newfound's Chief Executive Officer and Chief Compliance Officer, serves as a member of the Board of Managers of the Newfound/Virtus Company. Newfound licenses data from its Momentum Models to the Newfound/Virtus Company for use in connection with the Newfound/Virtus Company's investment strategies.

#### Congress Capital Partners LLP

In January 2014, Newfound and Congress Capital LLC ("Congress"), partnered and collaborated to establish Congress Capital Partners LLP, a Massachusetts limited liability partnership ("Congress Partners"), jointly owned by Newfound and Congress – 85% of which is owned by affiliates of Congress and 15% of which is owned by Newfound (the "Newfound/Congress Company") (IARD/CRD Number: 170030). Congress Partners employs a proprietary research model designed by Congress and Newfound for the implementation and management of the Congress Capital Risk Managed Series<sup>TM</sup>, which is a core-satellite portfolio, comprised of ETFs designed to provide risk-managed exposure to global equity and fixed income markets.



## **Item 5- Fees and Compensation**

For “direct” investment strategies that Newfound licenses to clients as model portfolios, Newfound’s fee is 50 basis points. Fees for licensing of model portfolios are generally billed in arrears (unless otherwise requested by a client), and paid monthly or quarterly. Newfound requires that a client licensing investment strategies directly from Newfound as model portfolios have a minimum of \$50 million invested in the Newfound investment strategies.

Fees for Newfound’s investment strategies offered by UMA platforms are determined by the UMA platform sponsor.

For SMAs, Newfound’s fees are 65 basis points. Fees for SMAs are generally billed quarterly, in advance, based on the average daily balance of the account for the previous quarter. These fees will be assessed pro rata (based on the number of days invested in the investment strategy during the quarter). If the investment advisory agreement is executed by the client at any time other than on, or prior to, the first day of a billing period. If an investment advisory agreement is terminated prior to the last day of the quarter, then Newfound will refund to the client any unearned fees. For SMAs, Newfound generally requires a minimum account size of \$100,000. Account minimums may be waived at Newfound’s discretion. Fees do not cover any execution-related expenses, commissions and margin interest, if any, securities exchange fees, or other fees required by law or charged by the broker-dealer with custody of the separate accounts.

Advisory fees for licenses of model portfolios and for SMAs (including break-points at certain asset levels) are negotiable.

For mutual funds advised by Newfound, fees are deducted and paid monthly and amounts will vary, depending on the mutual fund (fees and minimum investment amounts for a specific open-end mutual fund can be found in the respective mutual fund’s prospectus). For the Newfound Risk Managed Global Sectors fund, the advisory fee is 1.15%.

For “collaborative” investment strategies that are offered by Newfound’s partners, fees paid by investors are often established by Newfound’s partners. Fees paid to Newfound by its partners in connection with these “collaborative” investment strategies include:

- Fixed basis points;
- Basis points that increase over time;
- Increasing or decreasing basis points as asset levels rise;
- Fixed percentages of fees paid by the investors; and
- Fees to obtain or maintain exclusivity.

Factors that are considered in determining Newfound’s fees for “collaborative” investment strategies include:

- The type of investment strategy delivered to the partner;
- The type and amount of the Newfound’s intellectual property used in the

investment strategy;

- The scope of exclusivity, if any;
- The scope of the license relating to the amount and type of data and how it can be used by the partner;
- The type of investment product (such as a mutual fund, a separately managed account or a hedge fund), and the amount of fees payable by an investor in the investment products (in the case of “collaborative” investment strategies);
- The proportion of the overall investment strategy that Newfound’s contribution represents (in the case of a “collaborative” investment strategy where there are inputs into the investment strategy other than those provided by Newfound);
- The extent to which Newfound and its employees will be involved in the marketing and support of the investment strategy; and
- Whether a partner has an existing asset base for the investment strategy.

Many of the contracts that Newfound entered into with its partners for “collaborative” investment strategies require a minimum level of assets in order for the partner to maintain a license to the investment strategy and data from Newfound, or, in certain cases, to maintain exclusivity to the investment strategy.

No officer, partner, director, employee or other person who provides investment advice on behalf of Newfound accepts compensation for the sale of securities or other investment products from Newfound’s partners. Newfound’s management team members have made personal investments in certain of Newfound’s partners’ investment strategies and hold investments in one or more of Newfound’s partners’ businesses.

## **Item 6- Performance-Based Fees and Side-By-Side Management**

### **Performance-Based Fees:**

Newfound does not collect performance-based fees, but may consider doing so in the future.

### **Side-by-Side Management:**

Newfound simultaneously manages the portfolios of a registered mutual fund and separate accounts, and provides to certain clients model portfolios for its investment strategies, according to the same or similar investment strategy (i.e., side-by-side management). The simultaneous management of these different investment products creates certain conflicts of interest, as the fees for the management of certain types of products are higher than others. Nevertheless, when managing the assets of such accounts, Newfound seeks to treat all such accounts fairly and equitably over time. Although Newfound seeks to treat all portfolios within an investment strategy fairly and equitably over time, such portfolios will not necessarily be managed the same at all times. Newfound will not necessarily purchase or sell the same securities at the same time or in the same proportionate amounts for all eligible portfolios, and a client’s performance will not necessarily be reflective of the performance of a separate account managed using a similar strategy, due to a variety of factors including differences in cash flows and the timing of trading. As a result, although Newfound manages

multiple portfolios with similar or identical investment objectives, or may manage accounts with different objectives that trade in the same securities, the portfolio decisions relating to these accounts, and the performance resulting from such decisions, may differ from portfolio to portfolio.

Newfound will endeavor to communicate instructions as promptly as possible to RIA firms licensing model portfolios, and UMA platforms so that transactions may be aggregated or “bunched” to the extent possible with transactions then being effected by Newfound for its other clients, if any. Such aggregation or “bunching” of trades may not be possible in some cases, such as when the client or a wrap program sponsor restricts the broker-dealer firms that may be used to execute transactions for that client or program.

In the case where Newfound provides a model portfolio to an RIA firm or a UMA platform, Newfound may have already commenced trading before the RIA firm or UMA platform has received or had the opportunity to evaluate or act on Newfound’s recommendations. In this circumstance, trades ultimately placed by the RIA firm or UMA platform for its clients may be subject to price movements, particularly with large orders or where the securities are thinly traded, that may result in the RIA firm or UMA platform’s clients receiving prices that are less favorable than the prices obtained by Newfound for its client accounts. On the other hand, the RIA firm or UMA platform may initiate trading based on Newfound’s recommendations before or at the same time Newfound is also trading for its own client accounts. Particularly with large orders or where the securities are thinly traded, this could result in Newfound’s clients receiving prices that are less favorable than prices that might otherwise have been obtained absent the RIA firm or UMA platform’s trading activity. Newfound takes reasonable steps to minimize the market impact of the recommendations provided to the RIA firm or UMA platform on accounts for which Newfound exercises investment discretion. However, because Newfound does not control the RIA firm or UMA platform’s execution of transactions for the RIA firm or UMA platform’s client accounts, Newfound cannot control the market impact of such transactions to the same extent that it would for its discretionary client accounts.

#### **Item 7- Types of Clients**

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Newfound develops and offers its investment strategies, provides data, and licenses analytics to mutual fund families, RIA firms and other asset management firms, advisors and institutions.

Newfound also often collaborates with its “partners”, which serve as investment strategy sponsors (each, a “sponsor”), typically mutual fund families, advisors of mutual fund and asset management firms, to research, develop, design, build and manage customized multi-asset portfolios based on Newfound’s intellectual property, including Newfound’s Momentum Models.

#### **Item 8- Methods of Analysis, Investment Strategies and Risk of Loss**

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All Newfound investment strategies are rule-based, quantitatively enabled and powered by data and signals from Newfound’s Momentum Models or other intellectual property

developed by Newfound. The “rules” mostly differ for each investment strategy established by Newfound, and address the type and universe of securities to buy or sell, the frequency and timing of rebalancing, the percentage or amount of a security to hold, the specific securities to buy or sell, and other such considerations. Newfound’s technology is utilized in investment strategy construction, and to provide data for allocation recommendations for Newfound’s clients.

The direct investment strategies offered by Newfound include:

### **Newfound Risk Managed Global Sectors**

Newfound Risk Managed Global Sectors aims to provide access to global equities with an embedded, disciplined risk management process. The product uses the eleven global sector ETFs. Each of these ETFs invests in global equities (U.S., Foreign Developed and Emerging Markets) of companies operating in a specific sector. The product has the ability to add a position in cash equivalents to protect capital in declining market environments.

### **Newfound Risk Managed Small-Cap Sectors**

Newfound Risk Managed Small-Cap Sectors aims to provide access to U.S. small-cap equities with an embedded, disciplined risk management process. The product uses the nine PowerShares small-cap sector ETFs. Each of these ETFs invests in U.S. small-cap equities of companies operating in a specific sector. The product has the ability to add a position in cash equivalents to protect capital in declining market environments.

### **Newfound Risk Managed Income**

Newfound Risk Managed Income aims to provide access to alternative income generating vehicles in a risk-managed framework. The product operates under the guiding philosophy that long-term income generation depends on both yield and capital protection. The product invests in global, high-income asset classes through ETFs including both equity (MLPs, REITs, preferreds, dividend equities) and fixed income (bank loans, high yield, EM bonds) exposures.

### **Newfound U.S. Equity Dynamic Long/Short**

Newfound U.S. Equity Dynamic Long/Short (which is sometimes referred to as the U.S. Dynamic Long/Short strategy) aims to provide non-correlated, market-neutral strategies with the ability to exploit equity market tailwinds by selectively adding U.S. equity market beta exposure when prudent. The portfolio implements the market-neutral exposure using long ETF positions, eliminating the need for direct short positions within client accounts.

### **Newfound 3% Target Excess Yield**

Newfound 3% Target Excess Yield aims to provide a yield that is 3% in excess of that offered by short-term, (1-3 year) U.S. Treasuries with the lowest volatility possible. The portfolio has the ability to lower its yield target if achieving the originally targeted yield would require taking excessive risks. The product has the ability to invest in global fixed

income ETFs including U.S. Treasuries, MBS, investment grade corporates, high yield corporates, EM bonds and international treasuries.

### **Newfound 4% Target Excess Yield**

Newfound 4% Target Excess Yield aims to provide a yield that is 4% in excess of that offered by short-term, (1-3 year) U.S. Treasuries with the lowest volatility possible. The portfolio has the ability to lower its yield target if achieving the originally targeted yield would require taking excessive risks. The product has the ability to invest in global fixed income ETFs including U.S. Treasuries, MBS, investment grade corporates, high yield corporates, EM bonds and international treasuries.

### **Newfound Core Bond Alternative**

The Newfound Core Bond Alternative strategy includes accounts whose objective is to track the Newfound Core Bond Alternative Index. The Newfound Core Bond Alternative Index seeks to achieve a risk profile that corresponds to that of traditional core bonds, but with reduced interest rate sensitivity. The index consists of three sleeves. The first sleeve tracks the Newfound Target Excess Yield 4% Index. The investment universe for this sleeve is a variety of fixed income instruments across geographies, durations and credit risk profiles. The second sleeve tracks the Newfound U.S. Equity Dynamic Long/Short Index. The investment universe for this sleeve is U.S. equities, long/short U.S. equity strategies and liquid alternatives. The third sleeve is a passively managed U.S. Treasury sleeve. The allocations between the three sleeves are risk-weighted.

### **Newfound Tailwinds Allocation Suite**

The Newfound Tailwinds Allocation Suite consists of three risk profiles: Conservative, Moderate and Growth. Each risk profile offers exposure to five of Newfound's core products (Risk Managed Global Sectors, Risk Managed Small-Cap Sectors, Risk Managed Income, U.S. Equity Dynamic Long/Short and 3% Target Excess Yield), along with a passive U.S. Treasury position. Each profile has both the ability to adjust its market exposure in order to offer an attractive return profile in both up and down markets, and the ability to over-/under-weight various asset classes. The products are implemented with a reduced set of ETFs in order to provide clients with access to all five of the listed Newfound strategies within one account while maintaining a strong focus on minimizing transaction costs. The products are designed so that there is an ability for capital to be reallocated between sleeves, over-/under-weighting certain asset classes over time.

### **Method of Analysis/Investment Strategies**

#### *Quantitative Integrity<sup>TM</sup>*

Newfound believes that a dynamic, quantitatively-driven process facilitates long-term consistency and success in both investment performance and risk-management. The foundation of Newfound's process is its philosophy of "*quantitative integrity*"<sup>TM</sup>, Newfound's belief that success is achieved through a balance of quantitative analytics and qualitative insight. Newfound's goal is to deliver investment strategies and tools to its

institutional clients to enable investors to meet their unique needs and risk preferences.

### *Quantitative Models*

The majority of Newfound's investment strategies rely on Newfound's Momentum Models, utilizing momentum and other factors to generate views on securities and apply them in a rule-based, disciplined and systematic process. Systematic research is a critical part of Newfound's business and its investment strategy design. Newfound designs, develops and manages quantitative technologies and analytics, and then utilizes data from these technologies to power its rule-based investment strategies.

Newfound's Momentum Models are driven by two critical components. The first is a proprietary measure of volatility, which Newfound believes is more in line with how investors experience volatility than the standard statistical definition. The second is a dynamic window that governs how much data is utilized to calibrate the momentum model. The thesis underlying the model is that when significant information moves into the market, a security's price should react beyond what can be explained as market noise ("volatility"). As significant information flows into the market place more frequently, the dynamic window will shrink, causing the model to become more reactive to short-term changes. As more time elapses between significant information, the dynamic window expands and the model becomes more robust to short-term fluctuations.

The dynamic window allows the Momentum Models to focus on different information depending on market conditions. For example, in "slow" markets, Newfound's technology recognizes that investors tend to focus on a greater horizon of information, using multiple quarters of financial information to make their forecasts. In "fast" markets, investors heavily focus on the most recent information. An example of a "slow" market was the U.S. market in 2005, where investors generally considered information over a fairly long time horizon in making an investment decision, while 2008 was a "fast" market, where investors generally considered information over a very short time horizon in making an investment decision (as information from prior quarters or years was no longer deemed relevant). Newfound's Momentum Models seek to distinguish between market environments to determine the information that should be carefully scrutinized by its models in making exposure recommendations.

The Momentum Models were designed to effectively adapt to changes in the term-structure of momentum, efficiently capture momentum opportunities, and reduce the impact of whipsaw trades.

Newfound's Momentum Models are utilized in various ways in the investment strategy construction and management processes, including the use of Newfound's "Exposure Recommendations", which are proprietary signals generated from its models and include:

- Absolute Exposure Recommendations<sup>TM</sup> – These are outputs recommending exposure or no exposure to a stock, index, mutual fund, ETF or other security (e.g., Do Newfound's Momentum Models recommend investing in the financial sector ETF, or holding cash?). This technology is used in several investment strategies, including the

Newfound Risk Managed Global Sectors strategy, the Newfound Risk Managed Small-Cap Sectors strategy and the Copeland's Risk Managed Dividend Growth Fund (the "Copeland Fund").

- Relative Exposure Recommendations<sup>TM</sup> -- These are binary outputs recommending exposure to one stock, index, mutual fund, ETF or other security versus another (e.g., If determining whether to make an investment in ETFs representing growth stocks or ETFs representing value stocks, the Newfound technology will make a recommendation as to which style will likely outperform the other). This technology is used in several of Newfound's investment strategies, including the Virtus Disciplined Equity Style Fund and the Virtus Disciplined Select Bond Fund.

## Risks

Any investment in securities involves a risk of loss. Anyone choosing to adopt Newfound's recommendations, model portfolios or investment strategies should be prepared to bear any loss that might occur. More specific risks associated with Newfound's model portfolios, investment strategies and technology are outlined below.

**Model Risk:** All quantitative analysis carries a risk that the mathematical model used might be based on one or more incorrect assumptions. For example, Newfound's model is based on the premise that price and volatility are significant factors in determining if momentum exists or is being exhibited.

**Data Risk:** Newfound's system relies on the cleanliness and accuracy of the underlying data (such as stock or ETF prices) that are input into Newfound's Momentum Models to generate exposure recommendation signals. If input data is inaccurate, then the data output will be similarly tainted. As such, live, current data is inherently more reliable than back-tested results.

**Hacking Risk:** Despite the precautions and security measures Newfound employs, there is a risk that unauthorized outside interference with Newfound's technology programming or distribution method could impair its functioning.

**Quantitative Risk:** Rapidly changing and unforeseen market dynamics could lead to a decrease in the effectiveness of Newfound's Momentum Models.

**Macroeconomic Risk:** Unusual events, such as those resulting from shifts in geo-political, systematic, economic, or social conditions may result in abrupt changes to a security's price, which could upset the model's ability to make accurate exposure recommendations.

**Operational Risk:** Newfound has developed systems and procedures to control and manage operational risk. Operational risks may cause Newfound to suffer financial loss; the disruption of its business; liability to clients or third parties; regulatory intervention; or reputational damage. Newfound relies heavily on its intellectual property, including its Momentum Models. In addition, several of Newfound's investment strategies with its

“partner” firms rely on inputs from managers from the “partner” firm, and any failure of such other managers to deliver their contributions towards the investment strategies could affect the performance of the investment strategy.

**Trading Decisions Based on Quantitative and Other Analysis:** Newfound’s investment recommendations are based on quantitative signals, other analyses and the established rules for the particular investment strategy. Any factor that would lessen the prospect of major trends occurring in the future may reduce the prospect that a particular trading method or strategy will be profitable in the future. No assurance can be given that Newfound’s strategies will be successful under all or any market conditions.

**Strategy Risk:** Newfound’s strategies are unlikely to be successful unless the assumptions underlying the models used to implement investment strategies, and the established rules of Newfound’s investment strategies are and remain realistic and relevant in the future. If such assumptions are inaccurate, or become inaccurate and are not promptly adjusted, it is unlikely that reliable signals will be generated. If, and to the extent, that the models and investment strategies do not reflect correct assumptions, Newfound will continue to test, evaluate and create new models.

**Crowding/Convergence:** There is significant competition among quantitatively focused managers, and Newfound’s ability to deliver returns that behave and perform as expected is dependent on its ability to employ models that are simultaneously profitable and differentiated from those employed by other managers. To the extent that Newfound is not able to develop sufficiently differentiated models, the investors’ investment objectives may not be met, irrespective of whether the investment strategies are successful in an absolute sense.

**Risk of Programming and Modeling Errors:** Although Newfound seeks to hire skilled individuals in its quantitative strategies group, and to provide appropriate levels of oversight, the complexity of the individual tasks, the difficulty of integrating such tasks, and the limited ability to perform "real world" testing of the end product, raises the chances that the finished model may contain an error; one or more of which errors could adversely affect the performance of an investment strategy.

**Copycat Models:** Over the last few years, Newfound has become aware of several firms that have attempted to create their own models and algorithms that pursue the philosophies and themes underlying Newfound’s Momentum Models. Based on information available to Newfound, these models and algorithms, while similar sounding in description, do not behave in manners similar to Newfound’s Momentum Models, yet they are sometimes presented by these competitors as “the same as Newfound’s”, or, “an enhancement to Newfound’s models.” Investors should not assume that a model or investment strategy utilizes Newfound’s intellectual property unless the investment strategy utilizes the “powered by Newfound” logo, or if Newfound publicly identifies the investment strategy as one it powers.

**Custom Strategies:** Newfound provides custom investment strategies to its “partners” with “collaborative” investment strategies, which are by definition new, and therefore initially lack a live track record. Newfound also creates new “direct” investment strategies, which



also initially lack a live track record. Backtested strategies are subject to several risks which are described in Newfound's 2012 whitepaper, "*Backtesting with Integrity*", which is available on Newfound's website ([www.thinknewfound.com/research](http://www.thinknewfound.com/research)).

**ETF and Mutual Funds Risk:** ETFs and mutual funds are subject to investment advisory and other expenses, which will be indirectly paid by clients. As a result, the cost of the Newfound investment strategies will be higher than the cost of investing directly in ETFs or mutual funds, as there are two levels of fees. ETFs and mutual funds are subject to specific risks, depending on the nature of the fund.

**ETFs:** ETFs are professionally managed pooled vehicles that invest in stocks, bonds, short-term money market instruments, other mutual funds, other securities or any combination thereof. ETF managers trade fund investments in accordance with fund investment objectives. ETF risk can be significantly increased for funds concentrated in a particular sector of the market, or that primarily invest in small cap or speculative companies, use leverage (i.e., borrow money) to a significant degree, or concentrate in a particular type of security (i.e., equities), rather than balancing the fund with different types of securities. ETFs can be bought and sold throughout the day like stocks, and their price can fluctuate throughout the day. During times of extreme market volatility, ETF pricing may lag versus the actual underlying asset values. This lag usually resolves itself in a short period of time (usually less than one day), however, there is no guarantee this relationship will always occur.

**Market Risk:** Overall equity and fixed income securities market risks affect the value of a client's portfolio. Factors such as domestic and international economic growth and market conditions, interest rate levels, and political events affect the securities markets.

**Small and Medium Capitalization Stock Risk:** Certain Newfound investment strategies invest in ETFs that hold securities in smaller or medium capitalization companies. The price of small or medium capitalization company stocks may be subject to more abrupt or erratic market movements than larger, more established companies or the market averages in general.

**Turnover Risk:** Tactical investment strategies tend to have higher portfolio turnover than strategic or passive investment strategies. A higher portfolio turnover will result in higher transactional and brokerage costs, and may result in higher taxes when a client's investments are held in a taxable account.

## **Item 9- Disciplinary Information**

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There are no legal or disciplinary events that are material to Newfound's client's, or prospective client's evaluation of Newfound's advisory business or the integrity of its management.

As an investment adviser registered with the Securities and Exchange Commission, Newfound from time to time receives requests for information from various regulatory agencies, self-regulatory organizations and securities exchanges. We have voluntarily assisted and responded to such agencies, organizations and exchanges with those requests.

Investment advisers registered with the SEC are required to disclose certain regulatory, disciplinary and legal matters pursuant to Part 1A, Item 11 of Form ADV. Further, investment advisers are required to disclose in their brochures all material facts regarding any legal or disciplinary events that are material to a client's or prospective client's evaluation of their advisory business or the integrity of their management. Investment advisers are obligated to update responses promptly for changes.

We answered each question in Part 1A, Item 11 of Form ADV with "No" and state in this Brochure that there are no legal or disciplinary events that are material to Newfound's client's or prospective client's evaluation of our advisory business or the integrity of our management.

#### **Item 10- Other Financial Industry Activities and Affiliations**

Tom Rosedale, a principal owner and executive officer of Newfound, is a licensed attorney and a member of the Massachusetts bar. Mr. Rosedale provides legal services to Newfound as an active member of Newfound's management team, and through BRL Law Group LLC, a corporate boutique law firm located in Boston, MA, which is wholly owned by Mr. Rosedale.

In October 2012, Newfound and Virtus partnered and collaborated to establish the Newfound/Virtus Company (IARD/CRD Number: 165574) of which Virtus owns 51% and Newfound owns 49%. The Newfound/Virtus Company is an investment manager that expands Virtus' offerings of innovative investment solutions by adding disciplined, rule-based strategies to manage a variety of asset classes. Newfound, in collaboration with Virtus, initially created three new investment strategies as part of the Virtus Disciplined suite of funds (the first three funds of which are (i) Virtus Disciplined Equity Style Fund (VDEAX; VDECX; VDEIX) ((which has an investment objective of capital appreciation and seeks to deliver the returns of the Newfound Equity Style Total Return Index (Nasdaq: NESX)), (ii) Virtus Disciplined Select Country Fund (VDCAX; VDCCX; VDCIX) (which has an investment objective of capital appreciation and seeks to deliver the returns of the Newfound Select Country Total Return Index (Nasdaq: NSCX)) and (iii) Virtus Disciplined Select Bond Fund (VDBAX; VDBCX; VDBIX) (which has an investment objective of high total return from current income and capital appreciation and seeks to deliver the returns of the Newfound Select Bond Total Return Index (Nasdaq: NSBX)). The funds were launched on December 18, 2012 as open-end mutual funds by the Newfound/Virtus Company. Corey Hoffstein, Chief Investment Officer of Newfound, serves as Portfolio Manager for these funds and as Chief Investment Officer of the Newfound/Virtus Company. Tom Rosedale, Newfound's Chief Executive Officer and Chief Compliance Officer, serves as a member of the Board of Managers of the Newfound/Virtus Company. Newfound licenses data from its Momentum Models to the Newfound/Virtus Company for use in connection with the Newfound/Virtus Company's investment strategies.

Certain employees of Newfound are registered representatives with Northern Lights Distributors, LLC. As registered representative, the employees are authorized to sell open-end mutual funds and may receive compensation in connection with such activity. Newfound is not affiliated with Northern Lights Distributors, LLC.

Newfound does not believe these relationships present any material conflict of interests.

#### **Item 11- Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Newfound has adopted a code of ethics pursuant to SEC rule 204A-1. A copy of the code will be provided to clients or prospective clients upon request.

Newfound's Code of Ethics, among other things, requires that supervised persons:

- Adhere to the highest standards of fiduciary duties in all matters relating to Newfound's clients;
- Always place client interests above their own;
- Perform their duties in accordance with all applicable legal and ethical standards;
- Fully disclose any conflict of interest material to clients;
- Refrain from the use of material non-public information in making or formulating recommendations;
- Provide written acknowledgement of receipt of the code and any amendments;
- Report personal securities holdings and transactions periodically to the Chief Compliance Officer;
- Obtain prior approval before they directly or indirectly acquire beneficial ownership in any security in an initial public offering, in a limited or private offering, or in any open-end mutual fund or exchange traded fund of which Newfound is the investment adviser, sub-adviser or principal underwriter; and
- Report any violations of the Code of Ethics to Newfound's Chief Compliance Officer.

Members of Newfound's management team have invested in certain of Newfound's investment strategies, and certain investment strategies of its "partner" clients, and in limited cases hold equity interests in "partner" clients' businesses. Employees may buy or sell the same securities that are recommended by Newfound or securities in which clients are invested.

At times, Newfound's Momentum Models may recommend to clients the purchase or sale of securities that are owned by Newfound or its personnel.

#### **Item 12- Brokerage Practices**

##### **Brokerage for Client Referrals**

Newfound does not receive client referrals from broker-dealers in exchange for cash or other compensation, such as brokerage services or research.

##### **Soft Dollars**

As of the date of this Brochure, Newfound does not utilize soft dollars or pay excess commissions for research or other services provided by a broker-dealer. To the extent Newfound utilizes soft dollars in the future, Newfound would do so in reliance on the Safe Harbor under Section 28(e) of the Securities Exchange Act of 1934, as amended. "Soft

dollars” refers to the receipt by an investment adviser of products and services that brokers provide, without making any separate cash payments for such products or services, based on the volume of commission revenues generated from securities transactions placed with those brokers, on behalf of the advisor’s clients. The products and services available from brokers include both internally generated items (such as research reports prepared by the broker’s employees), and items acquired by the broker from third parties (such as quotation equipment).

### **Selecting Broker-Dealers**

Clients may instruct Newfound to use one or more specific brokers for the transactions in their accounts. If clients direct Newfound to use a particular broker, they should understand that this might prevent Newfound from aggregating trades with other client accounts or from effectively negotiating brokerage commissions on their behalf. This practice may also prevent Newfound from obtaining favorable net price and execution. Thus, when directing brokerage business, clients should consider whether the commission expenses, execution, clearance and settlement capabilities that they will obtain through their broker are adequately favorable in comparison to those that we would otherwise obtain for them.

### **Best Execution**

In placing orders to buy and sell securities, Newfound considers a number of factors, not solely the ability to receive the best price, in selecting appropriate broker-dealers. Newfound considers, among other factors, financial condition, reputation, level of trading expertise and capability, infrastructure, alternative trading options resulting from technology developments and market changes, and commission rates charged. In seeking best execution, Newfound is responsible for developing, evaluating and changing, when necessary, order execution practices. Newfound may employ one or more third parties to assist Newfound in seeking best execution.

### **Trade Aggregation/Allocation and Trade Rotation**

Newfound may combine multiple orders for shares of the same securities purchased for client accounts in which Newfound has discretion. Newfound will then distribute a portion of the shares to participating accounts in a fair and equitable manner. Newfound may employ one or more third parties to assist with trade aggregation and allocation practices. Trade aggregation is performed to ensure, to the extent possible, that clients receive optimal execution and consistent results across Newfound’s client base. The distribution of the shares purchased is typically proportionate to the size of the account, and is not based on account performance or the amount or structure of management fees. Subject to Newfound’s discretion regarding factual and market conditions, when orders are combined, each participating account pays an average price per share for all transactions and pays a proportionate share of all transaction costs. Accounts owned by Newfound or persons associated with Newfound may participate in aggregated orders; however, they will not be given preferential treatment. Newfound has adopted trade rotation, trade aggregation and allocation policies and procedures designed to ensure accounts are treated fairly.

### **Trade Errors**

Newfound has adopted trade error policies and procedures. Trade errors will be resolved in accordance with the standards set forth in Newfound’s policies and procedures.

### **Item 13- Review of Accounts**

Client accounts and mutual funds advised by Newfound are reviewed on an ongoing basis by Newfound's investment committee and investment strategies team. Matters reviewed include securities held, adherence to investment restrictions and performance. In addition, Newfound's compliance group will periodically review client accounts for adherence to investment strategies, and whether or not Newfound is honoring investment restrictions. For mutual funds advised by Newfound, Newfound, along with third-party service providers that provide compliance, administration, and accounting support, actively monitors the mutual funds for compliance restrictions. The mutual fund's administrator will perform back-end or "post-trade" compliance monitoring. Newfound performs front-end or "pre-trade" compliance monitoring on an ongoing basis.

#### **Client Reporting**

All SMA and UMA clients should receive from the qualified custodian a monthly or quarterly report containing schedules of investments and transactions during the period.

#### **Suitability**

For clients that are referred to Newfound through a financial intermediary (such as an RIA firm or a broker-dealer), the referring advisor is responsible for the initial determination of client suitability for the selected separately managed account program and is responsible for the ongoing review of the client objectives. The financial intermediary is responsible for communicating any changes in financial condition of a client to Newfound. While Newfound retains fiduciary duty over the client accounts, Newfound relies on information provided by the financial intermediaries.

Newfound reviews daily, weekly and monthly data and recommendations to determine if its Momentum Models are working in a manner consistent with its expectations. In addition, at the request of a client, Newfound will review any client performance data provided by the client. These reviews are conducted by Corey Hoffstein and members of Newfound's quantitative strategies group. If significant deviations from benchmark results are identified, or if signals or other output from Newfound's Momentum Models appear to be inconsistent with expectations, Newfound will perform additional testing to determine if its technology is performing properly and will increase the frequency and thoroughness of its review.

### **Item 14- Client Referrals and Other Compensation**

Newfound does not typically engage third-party solicitors to bring clients to Newfound, other than in limited circumstances. Third-party solicitors who are directly responsible for bringing a client to Newfound may receive compensation from Newfound for client referrals. Under these arrangements, Newfound's client will not pay higher fees than Newfound's typical fees. Such arrangements will comply with the requirements set forth under the Investment Advisers Act of 1940 and/or the applicable state securities laws, including a written agreement between Newfound and the solicitor. Third-party solicitors who are engaged by Newfound must provide a copy of Newfound's Brochure and a separate solicitor's disclosure statement regarding the relationship between the solicitor and Newfound to the prospective client at the time of the solicitation or referral. The prospective

client will be requested to acknowledge this arrangement prior to acceptance of the account for advisory services.

#### **Item 15- Custody**

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Newfound does not act as a custodian for client assets. For separate account clients, Newfound may directly debit client accounts for the payment of advisory fees but does not take physical custody of any client funds and/or securities. Funds and securities will be held with a bank, broker-dealer or other independent, qualified custodian. Clients receive account statements monthly from the independent, qualified custodian holding their funds and securities. The account statements from the custodian will indicate the amount of advisory fees deducted from the account each billing period. Clients should carefully review account statements for accuracy. In the case of the open-end mutual funds advised by Newfound, arrangements have been made with qualified custodians as disclosed in the relevant offering documents.

#### **Item 16- Investment Discretion**

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Newfound provides investment advisory services on a discretionary basis to clients. For its discretionary clients, Newfound enters into an investment advisory agreement, or other agreement that sets forth the scope of Newfound's discretion. Newfound has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, the amount of the securities to be bought or sold, and the broker-dealer utilized to execute the transactions. Clients may request reasonable investment limitations and restrictions and Newfound may choose to accept reasonable limitations or restrictions at its discretion. All limitations and restrictions must be presented to Newfound in writing. With respect to certain accounts, such as the open-end mutual funds, Newfound's authority to trade securities may also be limited by certain securities, tax, and other laws that may, for example, require diversification of investments and impose other limitations.

For licensed model portfolios and Newfound's relationships with its "partner" clients, Newfound does not make any investment decisions or exercise investment discretion. In these situations, Newfound provides data and recommendations to its "partner" clients. Ultimately, investment decisions are made by these "partner" clients (who typically serve as the investment strategy "sponsors").

#### **Item 17- Voting Client Securities**

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##### **Statement of Policy**

Proxy voting is an important right of shareholders and reasonable care must be undertaken to ensure that such rights are properly and timely exercised. When Newfound votes the proxies of its clients, it will vote those proxies that it is required to vote in the best interest of its clients and in accordance with these policies and procedures. Newfound has been delegated the authority to vote proxies for the open-end mutual funds that it advises.

##### **Proxy Voting Procedures**

Newfound's Chief Compliance Officer oversees the process to ensure all proxies that Newfound is required to vote are being properly voted and appropriate records are being

retained. The portfolio manager for the strategy reviews the information and votes according to the guidelines set forth below.

### **Voting Guidelines**

Newfound has adopted proxy voting policies and procedures (the “Proxy Voting Policy”) to make every effort to ensure that proxies are voted in the best interest of clients and according to the value of the investment. The Proxy Voting Policy addresses how Newfound will vote proxies with regard to specific matters, such as voting rights, mergers or acquisitions, the election of board members and other issues. The Proxy Voting Policy also directs Newfound to consider certain factors with regard to specific proxy proposals to assist Newfound in voting securities properly. Newfound may also vote a proxy contrary to the Proxy Voting Policies if Newfound determines that a conflict of interest exists or that such action would be in the clients’ best interest. Newfound’s proxy voting policies and procedures are available to clients upon a client’s request.

Decisions on voting of proxies will be made by separate account clients and UMA platform sponsors unless such a party directs Newfound in writing to vote such proxies, in which case Newfound shall be permitted, but not required, to take action with respect to the voting of the proxies in accordance with its proxy voting policies and procedures.

### **Item 18- Financial Information**

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Newfound is not required to provide a balance sheet with this Brochure.