

Leuthold Core Investment (LCORX/LCRIX)

February 2016



*Lots of managers,
some utterly untested,
promise to help you
adjust to quickly shifting
conditions. Leuthold
Core has delivered on
such promises more
consistently, with more
discipline, for a longer
period than virtually any
competitor.*

Objective and strategy Leuthold Core pursues capital appreciation and income through the use of tactical asset allocation. The objective is to avoid significant loss of capital and deliver positive absolute returns while assuming lower risk exposure and lower relative volatility than the S&P 500. Assets are allocated among stocks and ADRs, corporate and government bonds, REITs, commodities, an equity hedge and cash. At one time, the fund's commodity exposure included direct ownership of physical commodities. Portfolio asset class weightings change as conditions do; exposure is driven by models that determine each asset class's relative and absolute attractiveness. Equity and fixed-income exposure each range from 30-70% of the portfolio. At the end of 2013, equities comprised 67% of the portfolio. At the end of 2015, 55% of the portfolio was invested in "long" equity positions and 17% was short, for a net exposure under 40%.

Adviser Leuthold Weeden Capital Management (LWCM). The Leuthold Group began in 1981 as an institutional investment research firm. Their quantitative analyses eventually came to track several hundred factors, some with data dating back to the Great Depression. In 1987, they founded LWCM to direct investment portfolios using the firm's financial analyses. They manage \$1.8 billion through five mutual funds, separate accounts and limited partnerships.

Managers Doug Ramsey, Chun Wang, Jun Zhu and Greg Swenson. Mr. Ramsey joined Leuthold in 2005 and is their chief investment officer. Mr. Swenson joined Leuthold in 2006 from FactSet Research. Ms. Zhu came to Leuthold in 2008 after earning an MBA from the Applied Security Analysis Program at the University of Wisconsin-Madison. While there, she co-managed a \$60 million university endowment fund run by students at the program. Mr. Wang joined in 2009 after a stint with a Hong Kong-based hedge fund and serving as director of research & development for Ned Davis Research. Collectively the team shares responsibility for testing and refining the firm's quantitative models and for managing four of their five funds, **Grizzly Short** (GRZZX) excepted.

Strategy capacity and closure About \$5 billion, although they will soft-close in advance of that level so as to maintain ongoing capacity for existing clients. Core was hard-closed in 2006 when it reached \$2 billion in assets. That decision was driven by limits imposed by the manager's ability to take a meaningful position in the smallest of the 155 industry groups (e.g. industrial gases) that they then targeted. Following Steve Leuthold's retirement to lovely Bailey Island, Maine, the managers studied and implemented a couple refinements to the strategy (somewhat fewer but larger industry groups, somewhat less concentration) that gave the strategy a bit more capacity.

Management's stake in the fund The fund's four managers all have investments in the fund, ranging from Mr. Swenson's \$50,000-100,000 on the low end to Mr. Ramsey at over

\$1 million on the high end. All four of the fund's trustees have substantial investments either directly in the fund or in a separately-managed account whose strategy mirrors the fund's.

Opening date November 20, 1995.

Minimum investment \$10,000, reduced to \$1,000 for IRAs. The minimum for the institutional share class (LCRIX) is \$1,000,000.

Expense ratio 1.16% on assets of \$871 million, as of January 2016.

Comments Leuthold Core Investment was the original tactical asset allocation fund. While other, older funds changed their traditional investment strategies to become tactical allocation funds when they came in vogue three or four years ago, Leuthold Core has pursued the same discipline for two decades.

Core exemplifies their corporate philosophy: "Our definition of long-term investment success is making money...and keeping it."

It does both of those things. Here's how:

Leuthold Group's asset allocation funds construct their portfolios in two steps: (1) asset allocation and (2) security selection. They start by establishing a risk/return profile for the bond market and establishing the probability that stocks will perform better. That judgment draws on Leuthold Group's vast experience with statistical analysis of the market and the underlying economies. Their "Major Trend Index," for example, tracks over 100 variables. This judgment leads them to set the extent of stock exposure. Security selection is then driven by one of two strategies: by an assessment of attractive industries or of individually attractive stocks.

Core focuses on industry selection and its equity portfolio is mirrored in **Leuthold Select Industries** (LSLTX). Leuthold Group uses its quantitative screens to run through 115 industry-specific groups composed of narrow themes, such as Airlines, Health Care Facilities, and Semiconductors to establish each group's quantitative investment appeal. Core and **Select Industries** choose group investments from among those rated attractive per the model. Mr. Ramsey notes that out of the 115 group universe, only those industries in the top 20% of the ratings are viewed as attractive and considered for investment; currently they have positions in 16 of them. Within the groups, they target attractively priced, financially sound industry leaders. Mr. Ramsey's description is that they function as "value investors within growth groups." They short the least attractive stocks in the least attractive industries.

Why should you care? Leuthold Group believes that it adds value primarily through the strength of its asset allocation and industry selection decisions. By shifting between asset classes and shorting portions of the market, it has helped investors dodge the worst of the market's downturns. Here's a simple comparison of Core's risk and return performance since inception, benchmarked against the all-equity S&P 500.

	APR	Max DD	Months Recover	Std Dev	Downside Dev	Ulcer Index	Bear Dev	Sharpe Ratio	Sortino Ratio	Martin Ratio
<i>Good if...</i>	Higher	Lower	Lower	Lower	Lower	Lower	Lower	Higher	Higher	Higher
Leuthold Core	8.4	-36.5	35	11.0	7.5	8.9	6.8	0.55	0.81	0.68
S&P 500 Monthly Reinvested Index	8.2	-50.9	53	15.3	10.7	17.5	10.3	0.38	0.55	0.34
Leuthold:	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

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While other, older funds changed their traditional investment strategies to become tactical allocation funds when they came in vogue three or four years ago, Leuthold Core has pursued the same discipline for two decades.

Over time, Core has had slightly higher returns and substantially lower volatility than has the stock market. Morningstar and Lipper have, of course, different peer groups (Tactical Allocation and Flexible Portfolio, respectively) for Core. It has handily beaten both. Core's returns are in the top 10% of its Morningstar peer group for the past 1, 3, 5, 10 and 15 year periods.

Our Lipper data does not allow us to establish the Core Fund's percentile rank against its peer group but does show a strikingly consistent picture of higher upside and lower downside than our "flexible portfolio" funds. In the table below, Cycle 4 is the period from the dot-com crash to the start of the '08 market crisis while Cycle 5 is from the start of the market crisis to the end of 2015. The 20-year report is the same as the "since inception" would be.

	Time period	Flexible Portfolio	Leuthold Core	Leuthold
<i>Annualized Percent Return as of December 31, 2015</i>	20 Year	7.1	8.4	✓
	10 Year	4.9	5.3	✓
	5 Year	4.1	5.6	✓
	3 Year	3.3	8.6	✓
	1 Year	-5.2	-1.0	✓
	Cycle 4	7.3	11.9	✓
	Cycle 5	2.8	3.1	✓
<i>Maximum Drawdown</i>	20 Year	-38.6	-36.5	✓
	10 Year	-36.5	-36.5	✓
	5 Year	-14.9	-15.4	✓
	3 Year	-11.1	-3.7	✓
	1 Year	-9.4	-3.2	✓
	Cycle 4	-23.8	-21.8	✓
	Cycle 5	-36.9	-36.5	✓
<i>Standard Deviation</i>	20 Year	50	35	✓
	10 Year	43	35	✓
	5 Year	18	23	✗
	3 Year	12	4	✓
	1 Year	8	7	✓
	Cycle 4	39	26	✓
	Cycle 5	43	35	✓
<i>Recovery time, in months</i>	20 Year	11.9	11.0	✓
	10 Year	11.7	12.0	✗
	5 Year	9.3	8.5	✓
	3 Year	8.1	7.0	✓
	1 Year	8.7	4.9	✓
	Cycle 4	9.9	10.4	✗
	Cycle 5	12.7	12.9	✗

Modestly higher short-term volatility is possible but, in general, more upside and less downside than other similarly active funds. And, too, Leuthold Core costs a lot less: 1.16% versus 1.42% for its Morningstar peers.

Bottom Line At the Observer, we're always concerned about the state of the market because we know that investors are much less risk tolerant than they think they are. The years ahead seem particularly fraught to us. Lots of managers, some utterly untested, *promise*

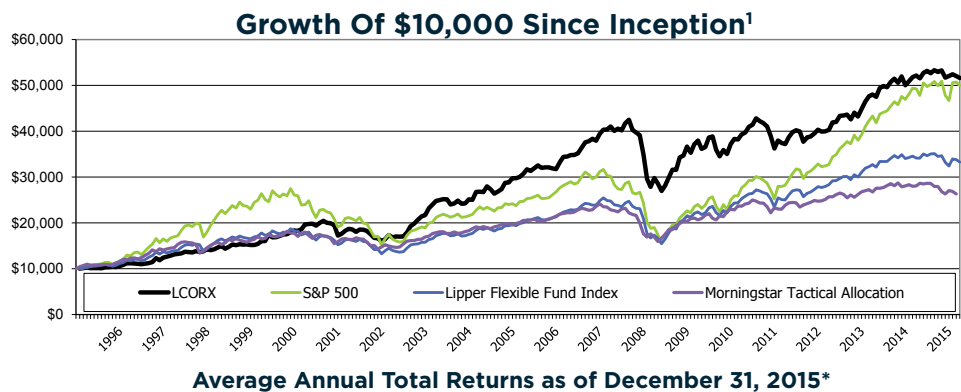


to help you adjust to quickly shifting conditions. Leuthold Core has *delivered* on such promises more consistently, with more discipline, for a longer period than virtually any competitor. Investors who perceive that storms are coming, but who don't have the time or resources to make frequent adjustments to their portfolios, should add Leuthold Core to their due-diligence list.

Investors who are impressed with Core's discipline but would like a higher degree of international exposure should investigate Leuthold Global (GLBLX/GLBIX). Global applies the same disciplines as Core, but starts with a universe of 5000 global stocks rather than the 3000 domestic-plus-ADRs universe.

Fund website [Leuthold Core Investment Fund](#)

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	LCORX	LCRIX	S&P 500 ²	Lipper Flexible ²	MSTAR Tactical ²
December 2015	-0.79%	-0.79%	-1.58%	-1.53%	-1.94%
Q4 2015	-0.83	-0.78	7.04	2.69	0.02
1-Year	-0.98	-0.88	1.38	-2.53	-5.88
3-Year	8.61	8.71	15.13	5.52	1.60
5-Year	5.61	5.72	12.57	5.65	2.16
10-Year	5.33	NA	7.31	5.20	2.74
15-Year	6.65	NA	5.00	4.30	2.68
20-Year	8.43	NA	8.19	6.05	4.60
Since Inception (LCORX)³	8.50	NA	8.32	6.14	4.93
Since Inception (LCRIX)³	NA	5.16	7.09	4.91	2.54

**Returns for periods less than 1-year are not annualized. Per Prospectus dated 1/29/16, excluding dividends on short positions and acquired fund fees, annual net operating expenses for LCORX/LCRIX were 1.16%/1.06%; gross operating expenses including dividends on short positions and acquired fund fees were 1.35%/1.25%. There were no fee waivers or expense reimbursements.*

Performance data shown represents past performance and is no guarantee of future results. Investment return and principal will fluctuate so shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than that shown. For performance current to the most recent month-end, visit LeutholdFunds.com or call 800-273-6886.

1 Performance through quarter-end. Chart assumes initial gross investment of \$10,000 made on 11/20/95 in LCORX. Returns include reinvestment of dividends, but do not reflect deduction of taxes one would pay on distributions or redemption of shares. The Fund's past performance is not necessarily an indication of future performance. 2 S&P 500 is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy. Lipper Flexible Fund Index is composed of funds that allocate investments across various asset classes, with a focus on total return. MSTAR Tactical Allocation Average measures performance of funds in the Morningstar Tactical Allocation category. These indexes cannot be invested in directly. Performance return figures are historical and reflect the change in share price, reinvested distributions, change in net asset value, and capital gains distributions, if any. 3 LCORX inception date 11/20/95; minimum investment \$10,000 or \$1,000 for an IRA. LCRIX inception date 1/31/06; minimum investment for all accounts is \$1 million.

Investors should consider the investment objectives, risks, charges and expenses of the investment company carefully before investing. The Prospectus contains this and other information about the Fund. For current Prospectus, call 800-273-6886, or visit LeutholdFunds.com. Please read the Prospectus carefully before investing.

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Risk/Return Statistics

Maximum Drawdown (MaxDD): maximum loss from portfolio's peak to trough before a new peak is attained (expressed in percentage terms); an indicator of downside risk over a specified time period

Months to Recovery: number of months it takes to recover from peak to trough decline.

Standard Deviation (Std Dev.): measures historical volatility on both the upside and downside

Downside Deviation (Downside Dev.): a measure of downside risk that focuses on returns that fall below a minimum threshold or minimum acceptable return (MAR). It is used in the calculation of the Sortino Ratio

Ulcer Index: measures volatility based on price depreciation from portfolio's peak over a specific look-back period

Bear Market Deviation (Bear Dev.): indicates the typical percentage decline based only on a fund's performance during bear-market months

Sharpe Ratio: a risk-adjusted measure calculated by using standard deviation and excess return to determine reward per unit of risk

Sortino Ratio: differentiates harmful volatility from general volatility by taking into account the standard deviation of negative asset returns, called downside deviation (a modification of the Sharpe ratio)

Fund Risks (see Prospectus for more detail)

Short Selling Risk—Fund will suffer a loss if it sells a security short and the value of the security rises rather than falls; short selling could result in unlimited loss. Foreign Securities Risk—companies may be less liquid and more volatile than U.S. securities and may involve risks such as fluctuation in currency rate, differences in financial standards, and instability of governments and economies. Credit Risk—issuers of debt securities may not be able to make interest or principal payments and/or may suffer adverse changes in financial condition that could lower the credit quality, leading to greater price volatility. Asset Allocation Risk—Adviser may not correctly anticipate the relative returns and risks of the asset classes in which the Fund invests.