

Setting Up Models for TRX
“How To” Guide –

STEP 1: PRELIMINARY STRUCTURE - How Do You Invest Your Clients’ Portfolios?

Assume a new client comes to you with \$1 million to invest in one account. What would you buy?

For a simple example, let’s assume that you would invest the \$1 million as follows:

Galaxy S&P 500 Fund (GALSP)	\$200,000
Galaxy U.S. Small Cap Fund (GALSC)	\$100,000
Solar International Equity Fund (SOLIE)	\$100,000
Solar Emerging Markets Fund (SOLEM)	\$100,000
Earth U.S Real Estate Fund (EUSRE)	\$ 50,000
Earth International Real Estate Fund (EINRE)	\$ 50,000
Galaxy Intermediate Term Bond Fund (GALIB)	\$150,000
Galaxy TIPS Fund (GATIP)	\$100,000
Solar International Bond Fund (SOLIB)	\$100,000
Solar Emerging Markets Bond Fund (SOLEB)	\$ 50,000

In other words, you would invest a new client in this basic “security level” model:

GALSP	20%
GALSC	10%
SOLIE	10%
SOLEM	10%
EUSRE	5%
EINRE	5%
GALCB	15%
GATIP	10%
SOLIB	10%
SOLEB	5%

STEP 2: CHOOSING LEVELS – Do You Want Models at the Class or Subclass Level?

Choosing the kind of models you want depends on how you view your portfolio structure. In any case, assuming the above basic model is how you would invest a “60/40” client, the most detailed level will contain 10 “elements.”

Choosing a Class-Level model would result in 10 Classes:

These classes could be called U.S. Large Cap, U.S. Small Cap, International Equity, Emerging Markets Equity, U.S. Real Estate, International Real Estate, U.S. Core Bonds, TIPS, International Bonds and Emerging Markets Bonds.

Choosing a Subclass-Level model would result in 10 Subclasses (as above).

However, now you need to identify Classes that contain Subclasses. For example, you might decide on 5 Classes: U.S. Equity, Non-U.S. Equity, Real Estate, U.S. Bonds and Non-U.S. Bonds. The relationship between Classes and Subclasses would be:

<u>Class</u>	<u>Subclass</u>
U.S. Equity	U.S. Large Cap U.S. Small Cap
Non-U.S. Equity	International Equity Emerging Markets Equity
Real Estate	U.S. Real Estate International Real Estate
U.S. Bonds	U.S. Core Bonds TIPS
Non-U.S. Bonds	International Bonds Emerging Markets Bonds

STEP 3: THE FINE POINTS – How Does This Apply To You?

There are fine points to the above set-up. So, let’s try to address your questions.

Question: I like to split my U.S. Large Cap between 2 funds. How do I account for this?

Answer: If you recall, STEP 1 began with determining the investments you would make for a new client. Assuming that you chose 2 U.S. Large Cap funds, you need to create individual labels for each of these. So, your most detailed level would have 11 elements. Instead of one label: U.S. Large Cap, you would have two labels, such as U.S. Large Index and U.S. Large Active.

The Bottom Line: Each position you would buy for a new client needs to be labeled at the most detailed level.

Question: Does this mean I can only have one fund for each element at my most detailed level?

Answer: No. You can have many funds classified into the same category. However, you can only have one “favorite” fund for each category. For TRX purposes, your favorite fund (preferred buy) is what you would buy for a new client coming in with all cash or what you want to buy *next* in each category. For example, your preferred buy for U.S. Large Cap is the Galaxy S&P 500 Fund (GALSP). A client might already own the Vanguard S&P 500 Fund and the DFA Large Cap Fund. Both of these funds will be classified as U.S. Large Cap – and will be counted as part of this category – but TRX will only purchase the Galaxy S&P 500 Fund when proposing transactions.

The Bottom Line: You can only have one favorite fund for each element at your most detailed level, but your clients may own other funds in each category.

Question: I buy a municipal bond fund in taxable accounts and a corporate bond fund in IRAs. Do I need separate models?

Answer: No. You would simply classify both the municipal bond fund and the corporate bond fund as Core Fixed Income. Although we said you can only have one favorite fund, you are allowed to name different favorite funds for taxable accounts, IRAs or Roths. For example, your preferred buy for Core Fixed Income would be the Galaxy Intermediate Term Bond Fund (GALCB) for IRAs and Roths and you could name the Galaxy Muni-Bond Fund (GALMB) for taxable accounts. (You can also name another fund as a “tax loss harvest” alternative fund.)

The Bottom Line: You can name different favorite funds depending on the type of account (taxable, IRA or Roth) without needing to create separate models or additional categories.

Question: What kind of mistakes might be made when setting up models in TRX?

Answer: Here are a few items to watch out for:

- 1) All models must be at the same level. In other words, you cannot have some models at the Class level and some models at the Subclass level.
- 2) Classifications must be consistent. For example, in the above example, you cannot classify U.S. Corporate Bonds to the Real Estate Sector and the Fixed Income Class. Similarly, you cannot classify Global Real Estate to the Real Estate Sector and the Fixed Income Class.

The Bottom Line: All classifications must be consistent.

- 3) All holdings must be classified. If a holding is not classified, TRX will not know whether the account is in balance or not. For example, if a client holds a legacy position, such as an individual bond, stock or “non-standard” mutual fund, the position must be classified to the relevant Class and Subclass, as applicable. It does not matter that the position is not a Preferred Buy (see above).

The Bottom Line: All holdings must be classified.