

JULEX CAPITAL

Investment solutions for short-term needs

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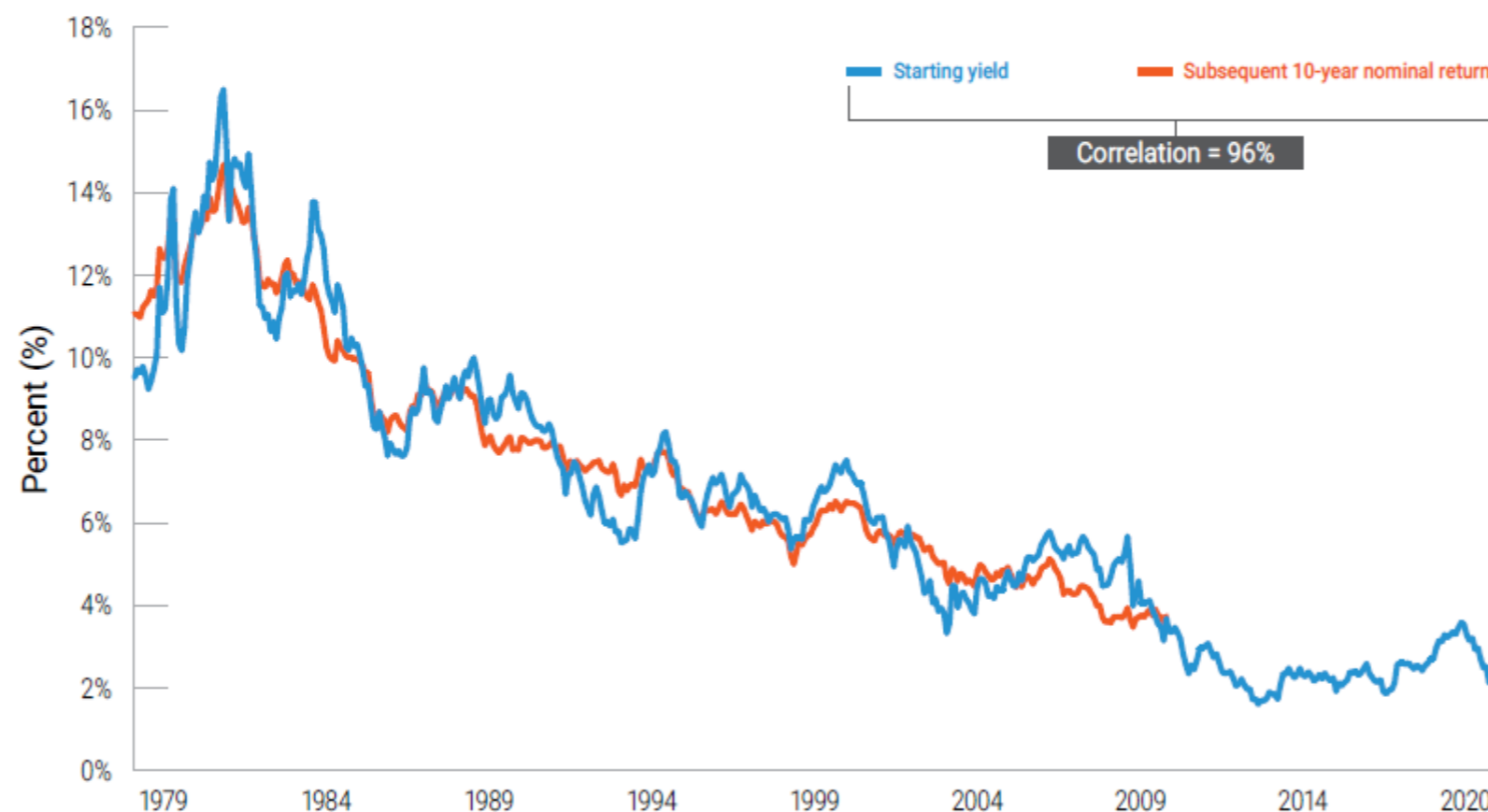
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Core bonds: Starting yields and subsequent returns

Bloomberg Barclays U.S. Aggregate Bond Index starting yield and subsequent returns



What is this chart showing?

This chart shows the starting yield of U.S. core bonds for the past 40+ years, along with the subsequent 10-year total return from that point.

Why is it important?

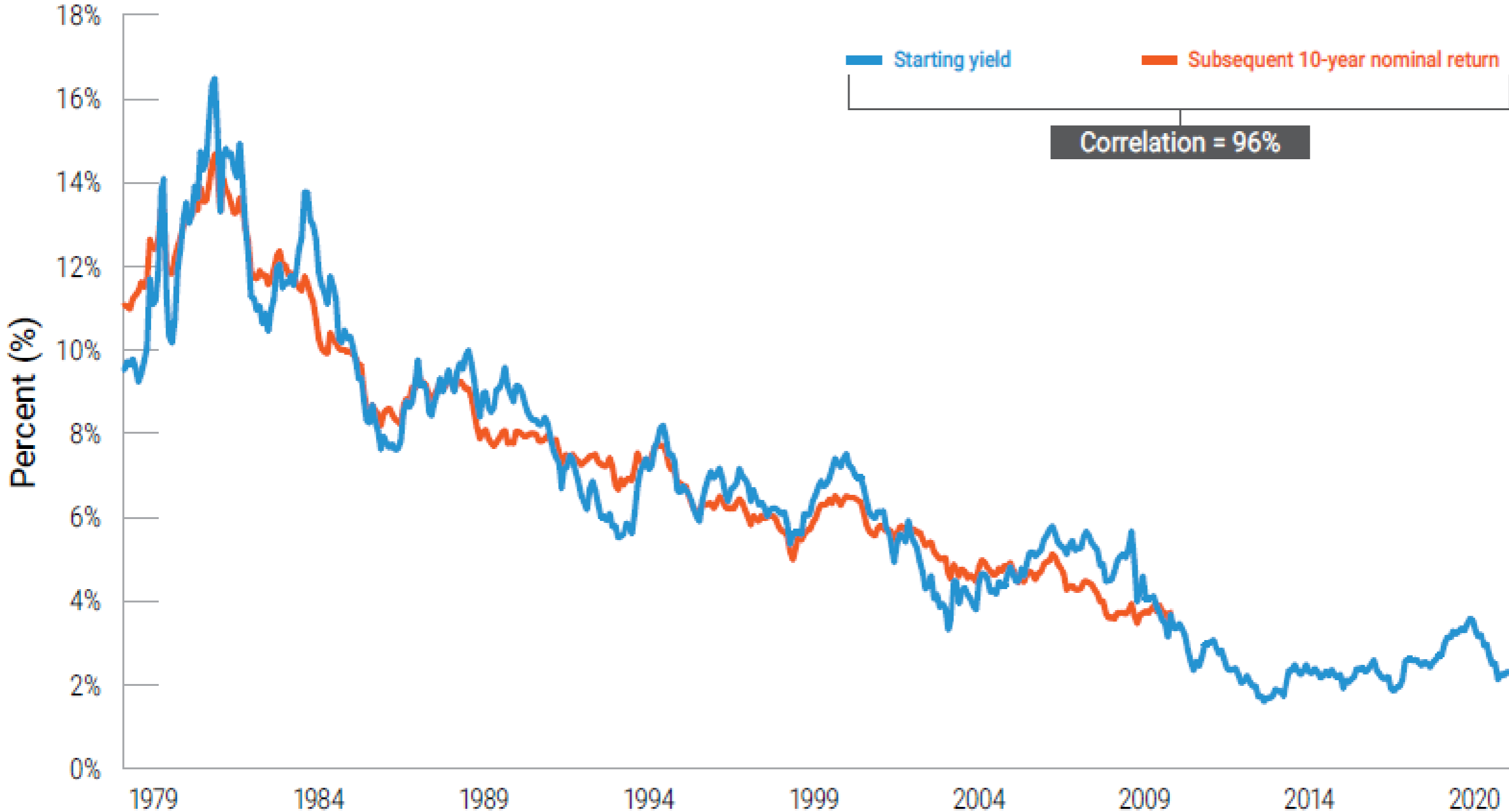
Investors commonly look to current yields to inform their total return expectations, as historically starting yield is an accurate predictor of future bond returns (96% correlation).

You cannot invest directly in an index. All indices are unmanaged and do not include fees or expenses. Please see the back of this brochure for index definitions and disclosures.

Source: Research affiliates based on data from Bloomberg and FactSet as of Dec. 31, 2020. Proxy: Bloomberg Barclays U.S. Aggregate Bond Index. **Past performance is not a guarantee or a reliable indicator of future results.**

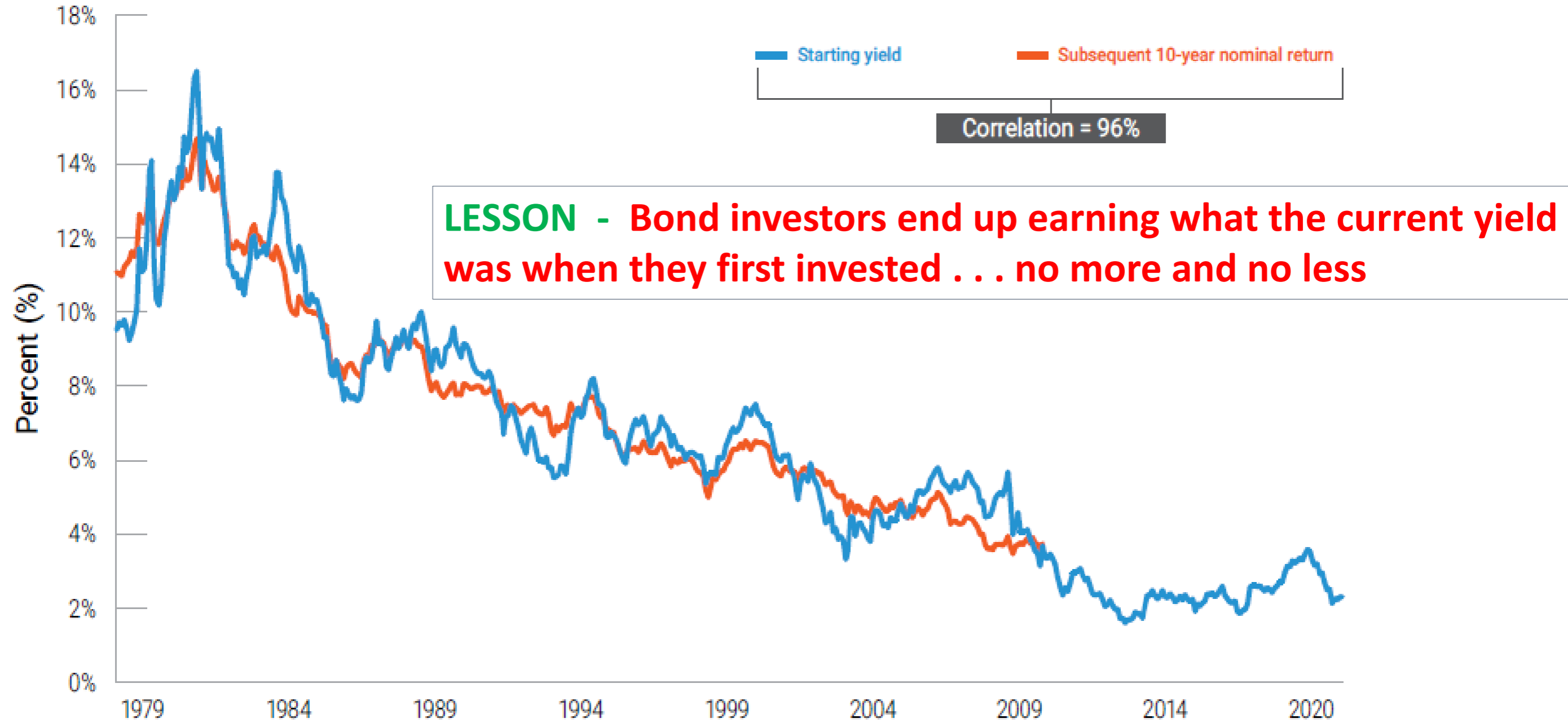
Today's current yield vs what your client will earn over the years ahead

Bloomberg Barclays U.S. Aggregate Bond Index starting yield and subsequent returns



Don't miss this point

Bloomberg Barclays U.S. Aggregate Bond Index starting yield and subsequent returns



Again . . . what is the lesson learned here?

- What will your client earn on their bond portfolio?
- Pretty much . . . whatever the current yield was when they first invested

- SIDE NOTE . . . This rule does not apply to
 - Tactical asset allocation bond portfolios
 - Ultra active bond portfolios
 - These are extremely extremely rare . . . you would need to see annual turnover north of 130%
 - One classic example would be JPMorgan Strategic Income Opports I (JSOSX)

Treasury Yields

NAME	COUPON	PRICE	YIELD
GB3:GOV 3 Month	0.00	0.32	0.32%
GB6:GOV 6 Month	0.00	0.60	0.61%
GB12:GOV 12 Month	0.00	0.94	0.96%
GT2:GOV 2 Year	0.88	98.88	1.47%
GT5:GOV 5 Year	1.50	98.49	1.82%
GT10:GOV 10 Year	1.88	99.52	1.93%
GT30:GOV 30 Year	2.25	100.22	2.24%

TIPS bonds . . . current yields are seriously UGLY

Treasury Inflation Protected Securities (TIPS)

NAME	COUPON	PRICE	YIELD
GTII5:GOV 5 Year	0.13	105.90	-1.11%
GTII10:GOV 10 Year	0.13	106.49	-0.51%
GTII20:GOV 20 Year	2.13	140.98	-0.03%
GTII30:GOV 30 Year	0.13	100.17	0.12%

Yields are negative

FED AIMS TO REDUCE \$8.87T BALANCE SHEET

The Federal Reserve balance sheet is comprised of the central bank's assets and liabilities, such as government loans extended to regional banks and U.S. currency in circulation.



SOURCE: BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM • SHADED AREAS INDICATE U.S. RECESSIONS
PHOTO: GETTY IMAGES



Today's landscape

Ticker	Fund name	Size of fund in \$millions	Effective duration in years	Current yield in %
VCSH	Vanguard Short-Term Corporate Bond ETF	42,690	2.7	3.0
BSV	Vanguard Short-Term Bond ETF	38,794	2.7	1.8
IGSB	iShares 1-5 Year invmt Grd Corp Bd ETF	22,566	2.7	2.9
SHY	iShares 1-3 Year Treasury Bond ETF	21,361	1.9	1.0
JPST	JPMorgan Ultra-Short Income ETF	18,390	0.5	1.9
SHV	iShares Short Treasury Bond ETF	14,290	0.4	1.8
MINT	PIMCO Enhanced Short Maturity Active ETF	14,027	0.6	1.6
VGSH	Vanguard Short-Term Treasury ETF	13,654	2.0	1.1
SRLN	SPDR Blackstone Senior Loan ETF	9,934	0.3	7.7
SCHO	Schwab Short-Term US Treasury ETF	7,865	2.0	1.2
SPSB	SPDR Portfolio Short Term Corp Bd ETF	7,629	1.8	2.8
ICSH	iShares Ultra Short-Term Bond ETF	6,241	0.4	1.0
ISTB	iShares Core 1-5 Year USD Bond ETF	6,214	2.7	2.1
LMBS	First Trust Low Duration Oppos ETF	5,816	0.8	3.1
BKLN	Invesco Senior Loan ETF	5,633	0.1	5.0
CWB	SPDR Blmbg Barclays Convert Secs ETF	5,109	2.1	1.1
SHYG	iShares 0-5 Year High Yield Corp Bd ETF	4,932	1.9	6.0
NEAR	iShares Short Maturity Bond ETF	4,680	0.5	2.3
FTSM	First Trust Enhanced Short Maturity ETF	4,067	0.4	2.2
SPTS	SPDR Portfolio Short Term Treasury ETF	3,889	1.9	1.3
SJNK	SPDR Blmbg Barclays ST HY Bd ETF	3,872	2.1	6.0
FTSL	First Trust Senior Loan ETF	3,606	0.4	6.1
GSY	Invesco Ultra Short Duration ETF	2,629	0.7	2.0
VNLA	Janus Henderson Short Duration Inc ETF	2,585	0.2	1.6
VUSB	Vanguard Ultra-Short Bond ETF	2,415	1.0	2.3

TYPICAL

6,214

1.0

2.1



Immediate annuity

Money market
fund

Laddered bank
CDs

Traditional
*“Modern Portfolio
Theory”* diversified
bond portfolio

Laddered high
yield bonds

Tactical asset
allocation

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Tactical asset
allocation

- **Pros**

- Can use the word “guaranteed”
- Great way to charge a high advisory fee and have it hidden from the client
- Rock solid, never varying, monthly payments . . . bomb proof
- No work once it’s set up and running

- **Cons**

- Most expensive option . . . by a wide wide margin
- The four above benefits come at an offensively high price point
- Locked in and illiquid for the life of the annuity

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Tactical asset
allocation

- **Pros**

- Very very little probability of generating a negative return . . . extremely unlikely
- Near perfect liquidity
- Small account minimum

- **Cons**

- Can't use the word "guaranteed"
- Near zero rate of return
- Can't justify charging an advisory fee

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Tactical asset
allocation

- **Pros**

- Can use the word “guaranteed”
- No penalty for early withdrawal (other than giving up interest-earned)
- Rock solid, never varying, monthly payments . . . bomb proof
- Credit unions offer higher rates than banks

- **Cons**

- A lot of work to build and maintain the ladder . . . and for very little juice
- Very very low rate of return
- Can't justify charging an advisory fee above 25bps . . . **if that**

**The ladders I'm building
for my clients today are
generating 91bps
(before advisory fees)**

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Tactical asset
allocation

- **Pros**

- Conventional, vanilla, accepted
- If you use this approach, you are hidden safely well inside the crowd
- Current yield of 2.02% for a reasonable, logical, prudent well-diversified portfolio
- Modest minimum account size
- Flawless liquidity

- **Cons**

- Can charge an advisory fee . . . but not above 25bps
- Need to rebalance the portfolio perhaps once a year or once every other year
- Negative quarterly returns when interest rates rise quickly enough

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Tactical asset
allocation

- **Pros**

- Highest expected return per unit of risk . . . of anything available today, anywhere !!!
- Tremendously favorable tradeoff between risk and return
- Current yield of 3.5% . . . is a reasonable expectation
- Low account minimum
- Works fantastically well with “*buckets*” . . . Time Segmentation Investing

- **Cons**

- Clients have to embrace and have high tolerance for inordinate week-to-week volatility
- Significant work to **build-it-yourself** . . . the right way to do this, is to use a fully-modeled solution
- Does terribly every time we have a **Global Pandemic** or a **Great Recession** . . . thankfully, these only happen once every “*hundred years*”
- Clients must bring adequate patience to the table

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Tactical asset
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- **Pros**

- Best possible solution when faced with
 - “Directional” change
 - Extreme uncertainty about what comes next . . . and how things will settle out
- Continuously adapts and evolves . . . never trapped within a pre-defined narrow box
- Spans and draws upon the entire range of all fixed-income opportunities (with suitably short effective durations)

- **Cons**

- Impractical, unless you access a fully-modeled, fully-automated investment solution
- Doesn't track conventional performance benchmarks . . . makes evaluation more challenging
- Performs poorly when *nothing's changing, uncertainty is low, everyone's optimistic*

Overview

- A tactical limited duration bond strategy aiming to generate higher-than-average income while preserving capital.
- Portfolio duration: less than 4.25 years
Portfolio weighted average credit rating: BBB- or better
Monthly portfolio update
- Use unique RiskSwitch™ indicator to determine the level of participation in high yield and bank loan markets.

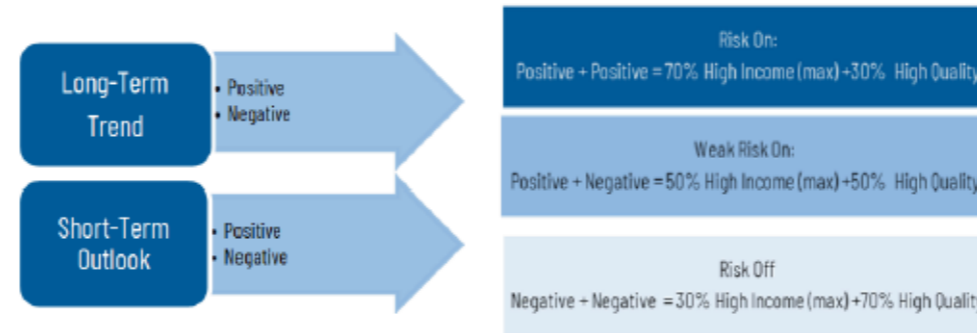
Facts

Customized Benchmark:
60.84% Bank Loans,
30.40% Short-Term Treasuries, 7.81%
Intermediate-Term Treasuries, 0.95% T-Bill

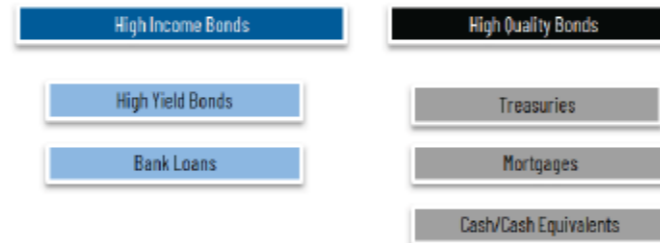
Portfolio Manager:
Henry Ma, Ph. D., CFA
25-Year Investment Experience

Investment Process

Julex Capital uses a tactical model combining both long-term trend analysis and short-term market outlook to position the portfolios among high yield bonds, bank loans, mortgages, Treasuries and cash/short-term Treasuries.



Investment Universe



Hypothetical Back Test Results*

January 2000 - December 2020	Opportunistic Years 0-5	Benchmark
Annual Return	5.67%	3.87%
Standard Deviation	3.12%	3.68%
Max. Drawdown	-4.02%	-16.19%
The Great Recession (10/31/2007-2/28/2009)	1.47%	-11.86%
COVID Crisis (12/31/2019 - 3/31/2020)	-2.77%	-4.44%
Sharpe Ratio (risk free rate = 1.60%)	1.30	0.62

*Investment performance shown on this page is HYPOTHETICAL. It is based on the back tests of historical data. Hypothetical performance results have many inherent limitations. No representation is being made that any account will or is likely to achieve profit or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular trading program.

Investment Universe

High Income Bonds

High Yield Bonds

Bank Loans

High Quality Bonds

Treasuries

Mortgages

Cash/Cash Equivalents

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What does Rob use with his own clients?

I use four solutions

WHY? Because no solution is ever “Best” and clients have different needs

I use four solutions across my own clients

- Money market fund
 - Laddered credit union CDs
 - Laddered high yield bonds . . . fully-modeled, fully-automated
 - Tactical asset allocation . . . Julex
-
- Why?
 - Clients differ
 - With respect to
 - Volatility
 - Patience
 - Understanding and appreciation for **“directional” change** and off-the-map **uncertainty**

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Destination versus Journey investment portfolios . . . Which is better?

Friday

March 4th

11:00 a.m. EASTERN

All data and statistics were provided by Global Financial Data, Inc. and NDR, Inc. (unless otherwise indicated in the exhibit)

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One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the presentation of hypothetical performance results and all of which can adversely affect actual trading results.

The composition of a benchmark index may not reflect the manner in which a Julex portfolio is constructed in relation to expected or achieved returns, investment holdings, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility, or tracking error targets, all of which are subject to change over time.

No representation or warranty is made to the reasonableness of the assumptions made or that all assumptions used to construct the performance provided have been stated or fully considered.