

JULEX CAPITAL

TAA Bond Solution for Short-Term Needs

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What is it

Bond TAA (tactical asset allocation)

- Bond markets trend . . . all bond markets trend
- Therefore . . .
 - Winners repeat for just one more month
 - Losers repeat for just one more month
- Bond TAA restricts itself to bonds
- Thereby, remains focused on short-term needs
 - Needs that arrive 0 to 5 years in the future
- It is an intensely active strategy . . . therefore it will lose money during short periods

- Is all about
- Continuous adjustment
- Staying in full alignment with market dynamics of the moment
- Remaining intensely active
 - Taking BOLD moves
 - While still maintaining balance

Don't look at past performance . . .

During the 2.62 years spanning 3/9/2020 through 10/21/2022

Don't look at past performance

- Yield on the 10-year U.S. Treasury bond
 - 0.499% mid-day on 3/9/2020
 - 4.333% mid-day on 10/21/2022
- Over that 2.62 years . . . interest rates rose a proportionate 768%
- Nothing this extreme has happened since 1850 . . . 172 years ago
- Every single viable bond sector lost a lot of money during this period

If you find a product that did OK during this period

- If you find a product that did OK during this 2.62 year period
- Run in the opposite direction . . . as fast as you can
- They're obviously doing some extremely dangerous

Why now

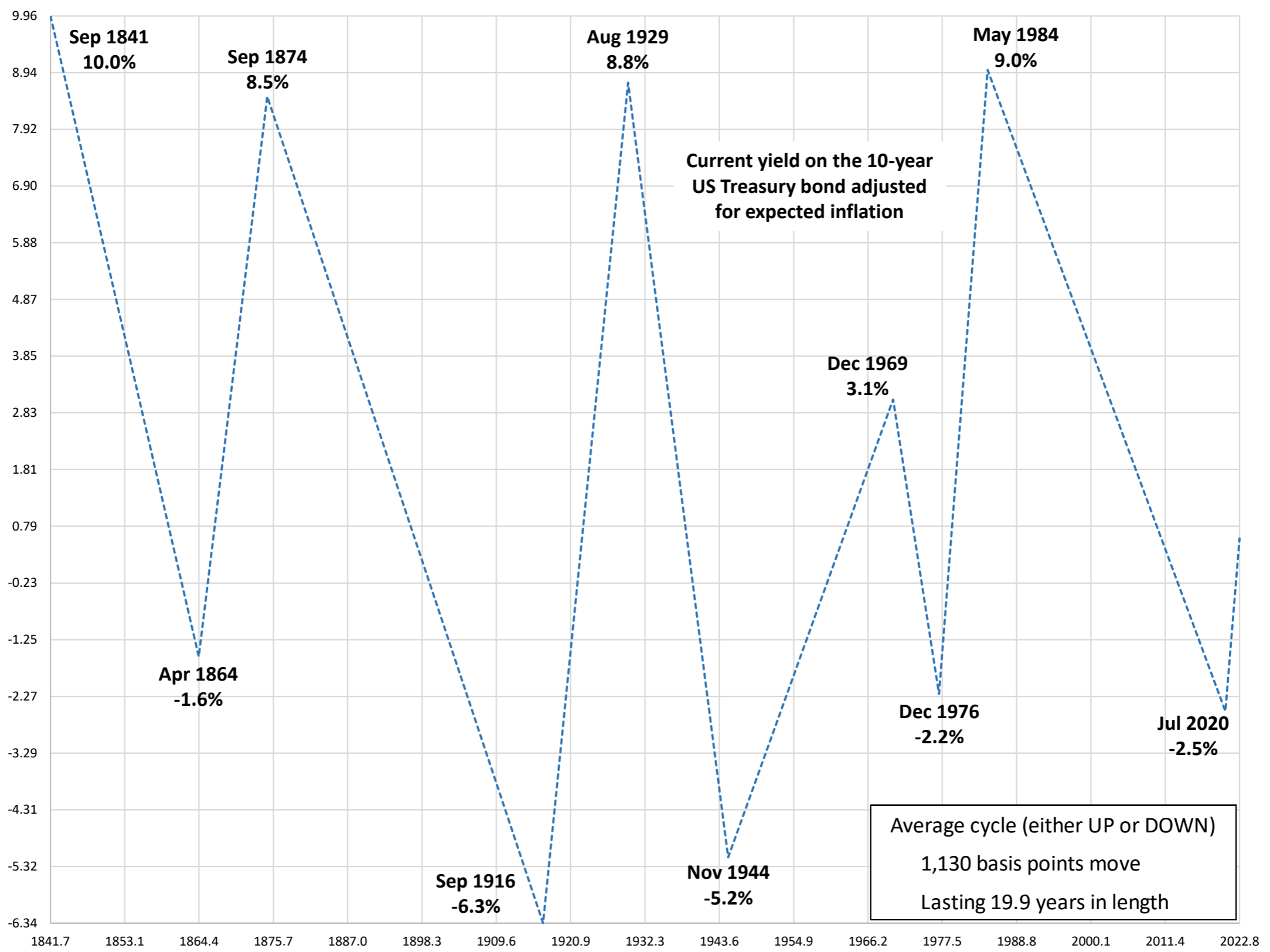
What is it about the future

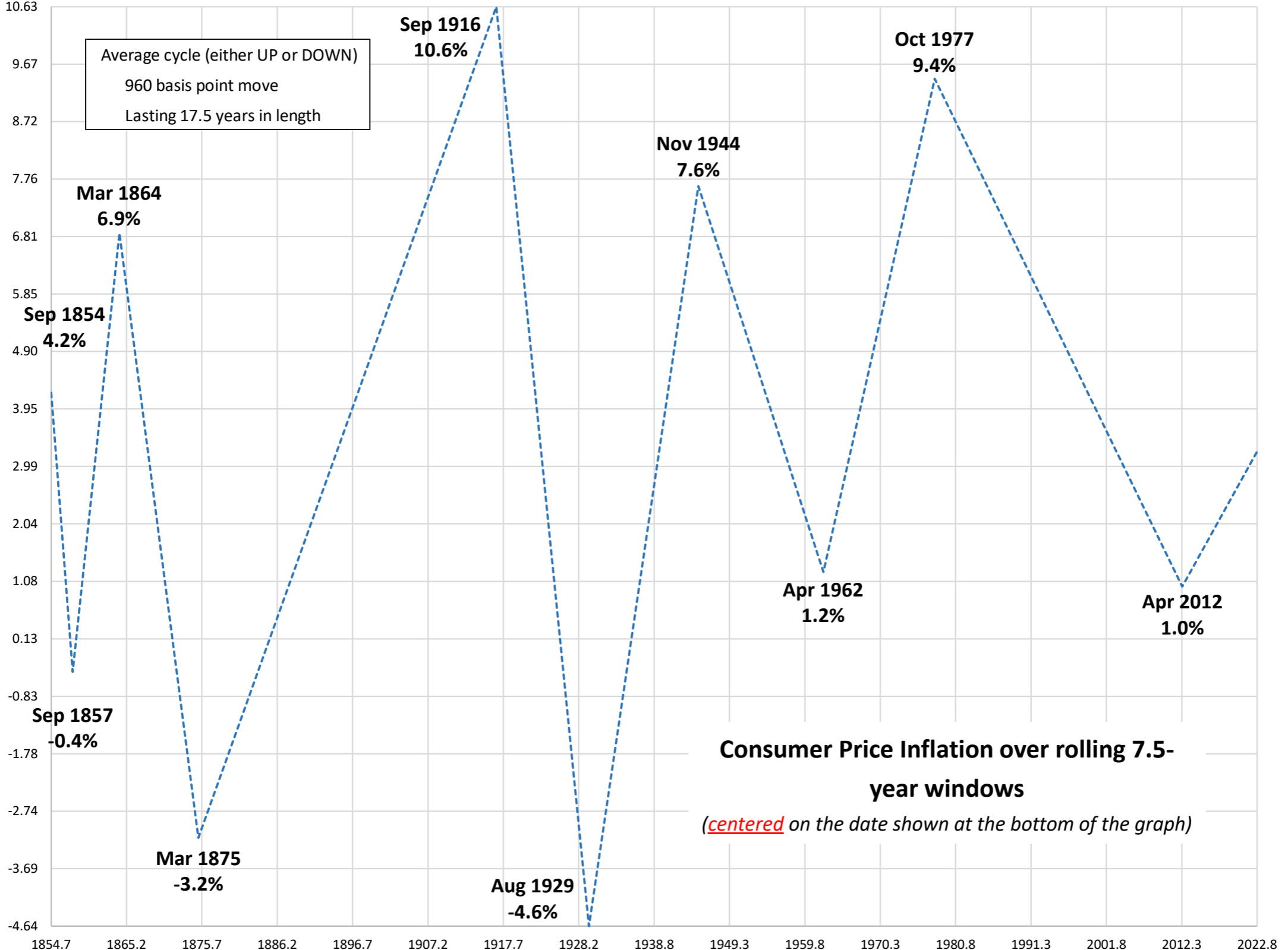
Future's - possible defining elements

- Recession
- Bear market bottom . . . not until 2023
- Inflation
 - Falling rapidly from today's current level . . . until all COVID impacts have been washed away
 - But then . . . rising strongly through 2035
 - Temporary pullback during coming recession
- Interest rates
 - Rising through 2040
 - But . . . temporary pullback during 2023-recession . . . and additional future recessions
- Small cap risk premium . . . is relatively cheap, bigtime
- Value risk premium . . . is relatively cheap, bigtime
- U.S. stocks are expensive vs international . . . unusually so
- Large volume of hot money going into certain products . . . sold to the weakest hands

Future's - possible defining elements - Part II

- Fossil to renewables
- Haves versus the have-nots
- China cold war
- Interest rates
- Fundamental intrinsic valuations *on stocks, bonds, and trophy real estate*
- Zombies
- Weather and demographics
- Suppression of creative destruction *undermining evolution, renewal, and future opportunity*
- European war
- Five new industries *Transportation, Medicine, Energy, Digitization, Artificial Intelligence*
- An “Andrew Jackson” governmental regression *populism, nationalism, nativism*
- Deglobalization





Consumer Price Inflation over rolling 7.5-year windows
(centered on the date shown at the bottom of the graph)

Today the current yield is impossibly low

- Today interest rates are impossibly low
- 3.48% is the current yield on a 10-year Treasury
- If you live in NYC and are in the highest marginal tax bracket
- 1.75% is your after-tax return
- If inflation averages 4% over the next 10 years
- You will **lose -2.25%** every single year for 10 years

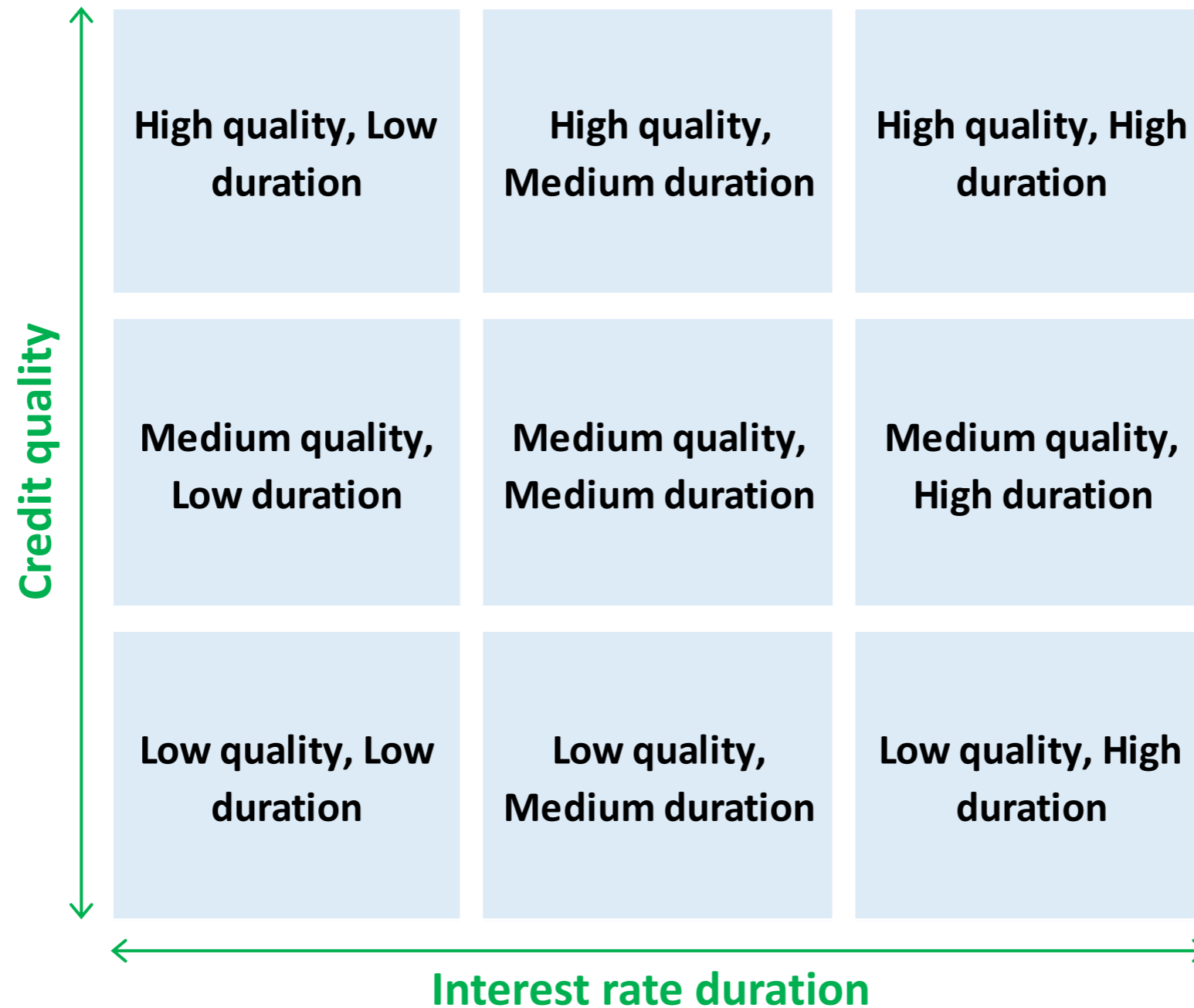
What are your practical realistic solutions

Are there solutions beyond Bond TAA

- **Bond Tactical Asset Allocation**
- **Buy & Hold bond ladder**
 - Buy it and hold it until it matures
 - Keep the extreme-end of the ladder at 6 years or less
- **A brilliant active bond manager who has the ability to time the bond markets**
 - These only exist in Disney cartoon films
 - But we can always wish

Let's stay focused on short-term needs

Needs that arrive over 0 to 5 years



- Interest rate risk
- Credit quality risk
- Sector risk
 - Corporates
 - Asset backed
 - Mortgage backed
 - Bank loans
- International
 - Foreign treasuries, currency hedged
 - Foreign treasuries, NOT currency hedged
 - Corporates in local currency
 - Corporates issued in US Dollars

The Julex Capital solution

Opportunistic Yrs 0-5 TAA

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:

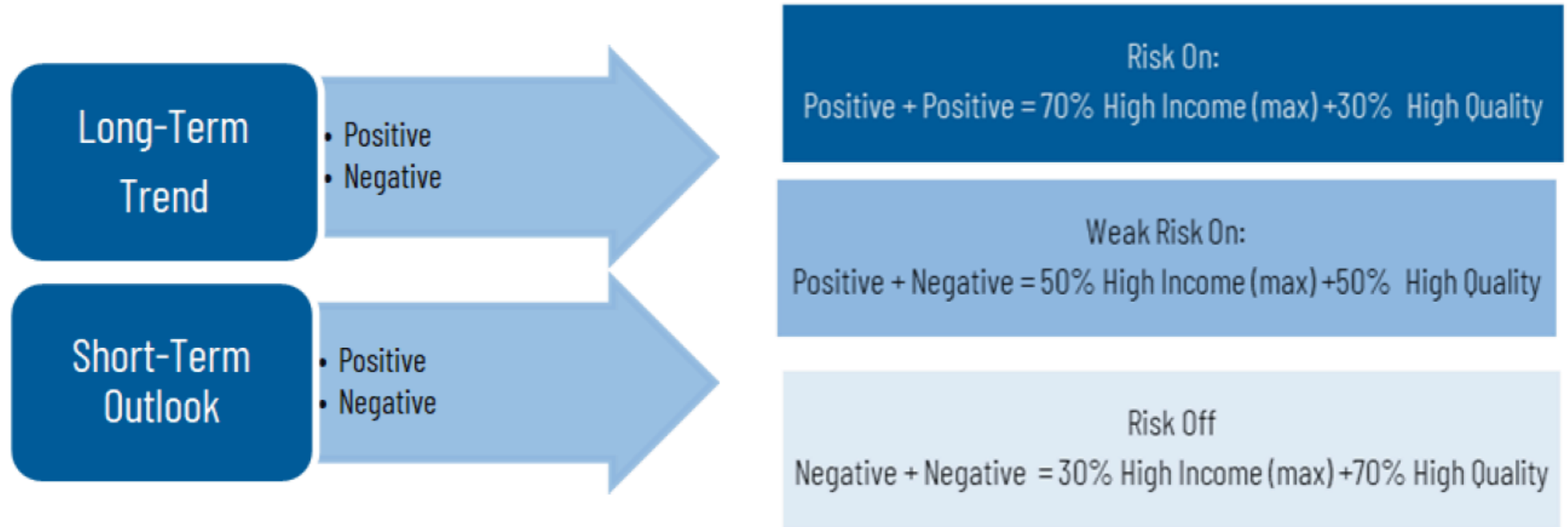
60.84% Bank Loans,
30.40% Short-Term Treasuries, 7.81%
Intermediate-Term Treasuries, 0.95% T-Bill

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

High Income Bonds

High Yield Bonds

Bank Loans

High Quality Bonds

Treasuries

Mortgages

Cash/Cash Equivalents

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.

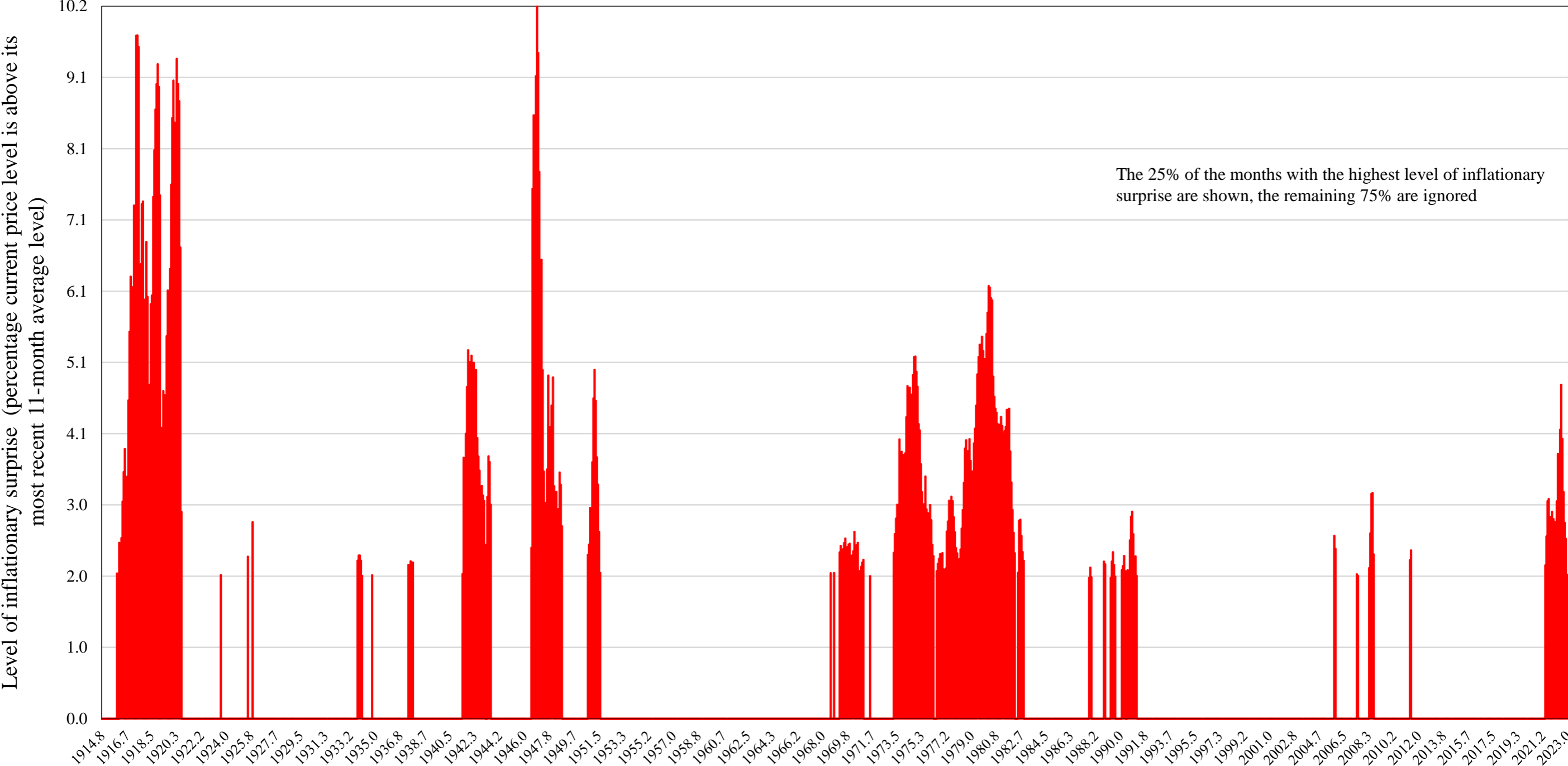
Bonus topic

The downfall of FTX and Crypto in general

The gating by BlackStone, Starwood, and others

- A little stress in the system
- FTX failed . . . And appears to be missing \$8 to \$9 billion of client assets
- Crypto in general is failing
- BlackStone, Starwood, and others have gated
- Inflation has surprised
- All of world's Central Banks are tightening at the exact same instant . . . and bigtime

Inflationary surprise, when and how severe



- **FIRST**

- We are entering a once in a lifetime instant of simultaneous Central Bank tightening
- Interest rates are likely to rise from now through 2040
- With occasional drops during the periodic recessions

- **SECOND**

- Markets are beginning the process of cleaning out the excesses
- This is the market's version of . . . windstorms and forest fires . . . designed to clean out the diseased and crippled

We've experienced

- FTX
- Crypto collapse
- Gating by BlackStone, Starwood, and others

- BUT . . . what caused this

- ONLY . . . by asking what caused these hiccups, can we understand

Causality . . . what caused these hiccups and failures

- **Historic levels of**
 - Fiscal stimulus
 - Monetary stimulus
 - And on a global scale
- **Seriously long economic expansion**
 - May 2009 through March 2023 . . . 13.8 years
 - Median (typical) economic expansion lasts only 4.4 years since 1949
- **Widely accepted belief that the government exists to**
 - Prevent pain
 - Save any business from failure
 - Minimize discomfort that results from dislocation and/or restructuring

- In all of U.S. economic history
- There has never been a period when the economy and investment markets were so protected from
 - Windstorms
 - Forest fires
 - Creative destruction . . . the reallocation of labor and capital

- **GOOD news**

- Not at all like 2007
- No major distortions

- **BAD news**

- The possibility exists for policy mistakes w/r/t
 - War in Europe
 - China cold war
 - Wealth/income inequality gap . . . Defines numerous nations
 - An “Andrew Jackson” governmental regression *populism, nationalism, nativism*

- What might be . . . the diseased and crippled parts of the market
 - Crypto
 - Liquidity constrained products
 - Non-traded real estate
 - Non-traded credit funds
 - BDCs
 - Interval funds
 - Meme stocks
 - Zombie companies
 - Cathy Woods and her ilk
 - Technology in general
 - Passive ESG ETFs
 - Small non-economic ETFs

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**The market still
needs to puke**

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Public vs private real estate - Is now the time to switch to public

Friday

January 6th

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.

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