

ETF Strategies Overview

FOURTH QUARTER 2016

Strategy Commentary

- The fourth quarter of 2016 will forever be remembered and defined by Donald Trump's implausible U.S. Presidential election upset of Hillary Clinton. Fundamentally little changed in the days and weeks that followed, however, money began to pour out of bonds and into stocks, igniting a euphoric equity rally heading into year-end. The Federal Reserve, as predicted, raised the benchmark lending rate 0.25% in December and updated their projections to show a slightly more accelerated pace of rate hikes in 2017.
- Municipal ETFs broadly underperformed their taxable counterparts in one of the weakest quarters for fixed income in years, AGG (iShares US Aggregate) was -3.12% and MUB (iShares Municipal) was -3.39%. With this volatility, dislocations surfaced between market levels and the underlying basket of cash bonds (as represented by NAV). Of note, Lipper reported significant outflows in Municipal mutual funds, while MUB saw moderately positive flows all through December, which contributed to its outperformance versus cash bonds.
- We continue to highlight our corporate credit overweight in the taxable strategies as it was additive through 2016 as spreads tightened and remained anchored even as yields rose in all sectors post-election. Credit spreads, as displayed by Markit's CDX Index, remained near 70+/-, and this helped the likes of CSJ (iShares Short Credit fund) post only a -0.28% loss for the quarter versus a comparable duration Muni ETF, SHM (SPDR Short Muni) that came in at -1.50%.
- In mid-December we adjusted allocations to include shorter duration and inverse ETFs to put the strategies in a more defensive position. We expect Municipals to firm up and continue to reiterate the importance of proper yield curve positioning in order to navigate tumultuous markets.

Caprin ETF Strategies

TACTICAL OPPORTUNITY ETF

AS OF: 12/31/2016

Duration: 4.34 yrs

Highlights: Short Duration,
Muni 50%/Taxable 50%

TACTICAL MUNI ETF

AS OF: 12/31/2016

Duration: 3.98 yrs

Highlights: Short Duration,
Overweight to CA

CORE PLUS ETF

AS OF: 12/31/2016

Duration: 4.85 yrs

Highlights: Short Duration,
Overweight Credit

FIGURE 1: RELATIVE VALUE (% PREM/DISC AS OF 12/31/16)

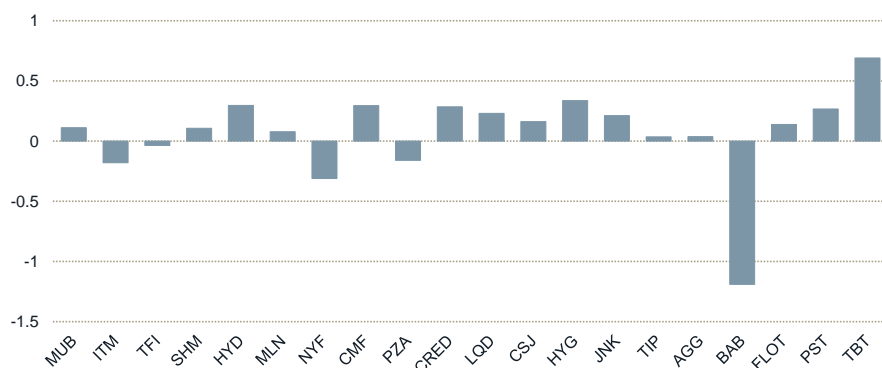
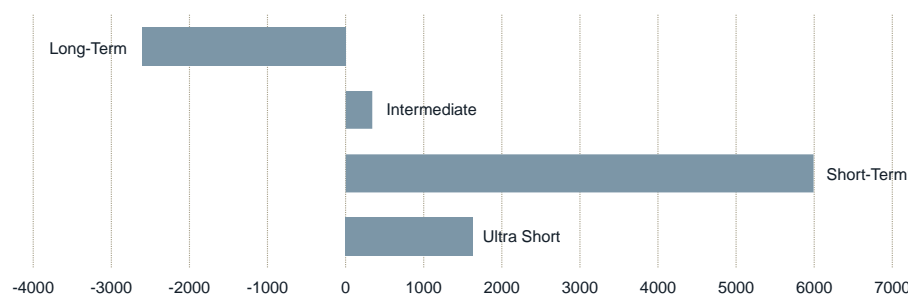


FIGURE 2: QUARTERLY FUND FLOWS BY MATURITY (\$MM)



Please refer to the second page for sources, definitions and disclosure information.

FIGURE 3: FIXED INCOME ETF UNIVERSE

ETF TICKER	QRTLY TREND	% Q RETURN	STD DEV
MUB		-3.39	1.96
ITM		-4.99	0.63
TFI		-4.43	1.07
SHM		-1.50	0.37
HYD		-6.53	1.20
MLN		-5.98	0.67
NYF		-3.77	2.15
CMF		-3.66	2.32
PZA		-3.70	0.56
CRED		-3.06	1.98
LQD		-3.85	2.57
CSJ		-0.28	0.36
HYG		0.86	0.90
JNK		1.29	0.39
TIP		-2.64	1.57
AGG		-3.12	1.76
BAB		-6.43	0.88
FLOT		0.39	0.04
PST		12.15	1.04
TBT		29.18	3.66

* Strategy positioning highlights are current as of date shown and subject to change without prior notice.

SOURCES: ETF return, standard deviation, premium and discount, and fund flow data are obtained through Bloomberg Professional Service. Information obtained from these sources is believed to be reliable but is not guaranteed and is subject to change without notice.

DEFINITIONS:

Standard Deviation: A measure of the dispersion of a set of data from its mean. Standard deviation is calculated as the square root of variance.

Duration: A measure of the timing of cash flows (i.e., the interest payments and the principal repayment) to be received from a given fixed income security. Duration is used to assess price volatility for given changes in interest rates, the reinvestment risk associated with a given portfolio or the interest rate risk associated with matching particular interest-rate-sensitive assets and liabilities.

Fund Premium and Discount: A pricing situation that occurs when the share value of an exchange traded fund is trading above or below the net asset value (NAV) of its components.

Net Asset Value (NAV): The value of each share of a fund as determined by the value of its underlying holdings, including any cash in the portfolio. NAV is calculated by dividing a fund's total net assets by its number of shares outstanding.

Month Over Month Return Trend: Fund plots represent returns for a two month period, with the X-axis value being prior month's total return and the y-axis value being the current month total return as of publication.

ETF INFORMATION

[iShares Bond ETF Information \(MUB, NYF, CMF, CRED, LQD, CSJ, HYG, TIP, AGG, BAB, IGOV, FLOT\): iShares Bond ETF Overview Page](#)

[Van Eck Market Vectors Municipal Bond ETF Information \(ITM, HYD, MLN\): Market Vectors Municipal Income ETF Overview Page](#)

[SPDR Fixed Income ETF Information \(TFI, JNK\): SPDR ETF Product Information Page](#)

[Powershares ETF Information \(PZA\): PZA Product Information Page](#)

[ProShares ETF Information \(PST, TBT\): ProShares Leveraged Inverse Treasury Information Page](#)

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