

ETF Strategies Overview

SECOND QUARTER 2017

Strategy Commentary

- Much of the global tension that grabbed headlines early in the quarter eased following the French Presidential election. At home, President Trump's policy initiatives remained deadlocked while the administration faces an investigation surrounding its ties to Russia. In the markets, stocks continued to push higher as both the Dow and S&P were up over 3% in the quarter. Q1 GDP, although stronger than first reported (1.4% vs. 0.7%), did little to improve on the longer term trend of growth malaise. The Federal Reserve raised rates as advertised in June and their updated interest rate forecasts were little changed, leading the yield curve to flatten further as the long-end remained anchored by weaker inflation.
- Credit sector exposure in both Core Plus (taxable) and Tactical Opportunity was additive over the quarter as risk markets continued their rally. Spreads, as measured by the Barclays US Credit OAS Index, tightened by approximately 9 basis points to finish June at +108 basis points, closing in on pre-crisis levels. CIU, iShares Intermediate Credit ETF, which is held in both Core Plus and Tactical Opportunity posted Q2 returns of +1.38%, nearly double that of similar duration US Treasury based funds.
- Municipal ETF's continued to benefit from strong underlying demand and more modest supply than seen in late 2016. Our outlook continues to call for supportive fundamentals as we head through the year, and as such we shifted to a modest overweight in Tactical Opportunity. Included in the overweight was HYD, Market Vectors High-Yield Muni, where we believe credit will remain stable while providing incremental yield income. HYD posted returns of +2.23% for the quarter versus a similar duration US Treasury ETF, IEF (iShares Barclays 7-10 Year Treasury), up +1.42%.
- Looking ahead, we believe rates should be relatively range-bound over the near term barring an increase in geopolitical tensions or a major market-moving event. We are closely monitoring whether hard economic data will support the need for an additional rate hike later this year, about the same time the Fed might start reducing its balance sheet.

FIGURE 1: RELATIVE VALUE (% PREM/DISC AS OF 6/30/17)

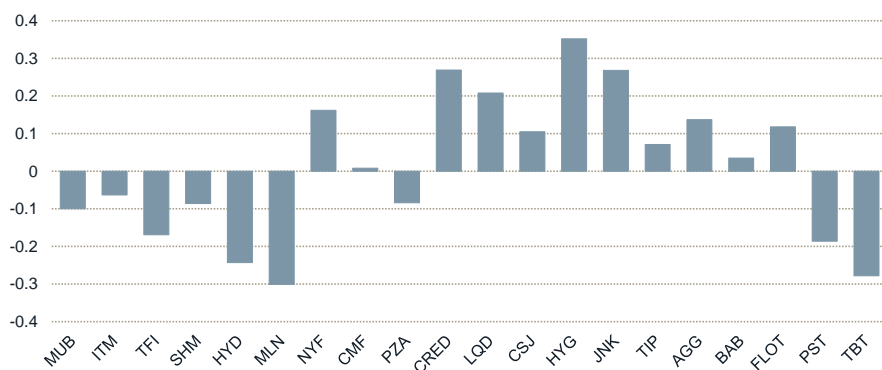
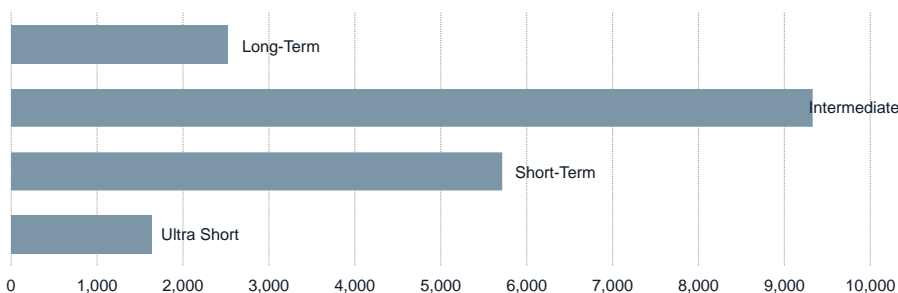


FIGURE 2: QUARTERLY FUND FLOWS BY MATURITY (\$MM)



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

Caprin ETF Strategies

TACTICAL OPPORTUNITY ETF

AS OF: 6/30/2017

Duration: 4.88 yrs

Highlights: Near Neutral Duration, Muni 55%/Taxable 45%, Increased Position to High-Yield Muni

TACTICAL MUNI ETF

AS OF: 6/30/2017

Duration: 4.58 yrs

Highlights: Near Neutral Duration, Exposure to High-Yield Muni

CORE PLUS ETF

AS OF: 6/30/2017

Duration: 5.36 yrs

Highlights: Modestly Short Duration vs. Aggregate, Overweight Credit

FIGURE 3: FIXED INCOME ETF UNIVERSE

ETF TICKER	QRTLY TREND	% Q RETURN	STD DEV
MUB		1.65	0.68
ITM		2.64	0.22
TFI		2.16	0.40
SHM		0.38	0.11
HYD		2.23	0.18
MLN		2.35	0.17
NYF		1.88	0.71
CMF		1.72	0.78
PZA		2.45	0.21
CRED		2.39	0.74
LQD		3.03	1.03
CSJ		0.47	0.09
HYG		1.99	0.42
JNK		2.24	0.19
TIP		-0.46	0.52
AGG		1.58	0.50
BAB		3.12	0.30
FLOT		0.44	0.03
PST		-2.76	0.31
TBT		-8.33	1.39

* 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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