

MANAGED ETF  
PORTFOLIO  
CHARACTERISTICS\*\*  
AS OF: 6/30/2013

Tactical Muni ETF:

Duration: 3.00yrs  
Average Maturity: 3.73yrs  
Indicated Yield: 2.49%  
Blended 30-Day  
SEC Yield: 1.78%

Core Plus ETF:

Duration: 2.65yrs  
Average Maturity: 3.78yrs  
Indicated Yield: 2.07%  
Blended 30-Day  
SEC Yield: 1.93%

Tactical Opportunity ETF:

Duration: 2.94yrs  
Average Maturity: 4.64yrs  
Indicated Yield: 2.65%  
Blended 30-Day  
SEC Yield: 2.11%

\*\*Blended Portfolio  
Characteristics based upon  
official Fund data published by  
each sponsor firm and have  
been compiled using weighted  
averages of then current  
portfolio positioning. These  
characteristics are believed to  
be accurate but are not  
guaranteed.

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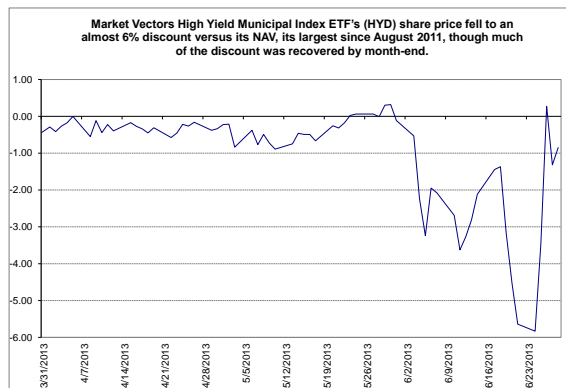
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## Strategic Overview

- All eyes and ears on the Fed. May and June's selloffs and massive bond outflows were tied to market expectations of Fed tapering. The labor market remains the key metric influencing ultimate Fed timing. We began shortening durations in tactical strategies after the debt market's negative reaction to an otherwise modest June 7<sup>th</sup> Nonfarm number. Market momentum and Fedspeak had clearly taken hold, with fundamentals taking a back seat. The late-month Fed meeting and press conference only fueled taper fears, and we reduced durations to roughly 50% of benchmarks, where we remain today.
- Municipal ETF volatility remained historically high, resulting in large disconnects between share price and the net value of the underlying Municipal bonds held within the funds. This is typical during periods of volatility as pricing of underlying assets often lags the real-time market price better reflected in ETFs. By the end of the month, most Muni ETFs were still trading at discounts to their NAV, though to a notably smaller degree as debt markets stabilized.
- Among Taxable ETFs, those funds exhibiting longer duration structures experienced more pronounced pressure due to the sharper sell-off in the longer region of the yield curve. The longer Treasury (TLT, TLH), Build America Bond (BAB), and Investment Grade Corporate ETFs (LQD, CFT) saw the most underperformance while shorter duration ETFs provided some defense against US debt market weakness.

## Chart of Interest



Source: Bloomberg

## What We Are Reading

- [Gross Caught in TIPS Trap Gundlach Sidestepped](#)
- [Buy Signal Seen in Worst Losses Since Whitney Panic](#)
- [Detroit's Legal Fees Could Top \\$100 Million for Chapter 9 Bankruptcy](#)
- [Bond ETF Liquidity Risks: Facts vs. Fiction](#)

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## Managed ETF Performance (Net of Fees)

**Tactical Muni ETF:** Munis endured a historically volatile month, witnessing large discounts in HYD and the intermediate funds we employ. Several of these disconnects improved by month end and set up further recovery in July.

|  | June 2013     | YTD 2013      | 12 Months Ending 6/13 |
|--|---------------|---------------|-----------------------|
| <b>Tactical Muni ETF Strategy</b>        | <b>-2.79%</b> | <b>-3.30%</b> | <b>-1.36%</b>         |
| iShares National Tax Free Muni ETF (MUB) | -2.68%        | -3.97%        | -1.89%                |
| Barclays Municipal Bond Index            | -2.83%        | -2.68%        | 0.24%                 |

**Core Plus ETF:** Our longer duration bias in early June and underperformance in Corporate sectors were offset in the second half of the month following a significant shortening of duration across all tactical strategies.

|                                      | June 2013     | YTD 2013      | 12 Months Ending 6/13 |
|--------------------------------------|---------------|---------------|-----------------------|
| <b>Core Plus ETF Strategy</b>        | <b>-1.69%</b> | <b>-2.86%</b> | <b>-0.87%</b>         |
| iShares US Aggregate Bonds ETF (AGG) | -1.56%        | -2.53%        | -0.97%                |
| Barclays US Aggregate Bond Index     | -1.55%        | -2.45%        | -0.67%                |

**Tactical Opportunity ETF:** Larger discounts in the Municipal ETF space relative to Taxable ETFs hurt performance in June relative to the 50/50 blended benchmarks.

|  | June 2013     | YTD 2013      | 12 Months Ending 6/13 |
|--|---------------|---------------|-----------------------|
| <b>Tactical Opportunity ETF Strategy</b> | <b>-2.79%</b> | <b>-3.43%</b> | <b>-0.62%</b>         |
| 50% MUB/ 50% AGG                         | -2.12%        | -3.24%        | -1.41%                |
| 50% Muni Index/ 50% Taxable Index        | -2.19%        | -2.56%        | -0.21%                |