

ETF Strategies Overview

SECOND QUARTER 2016

Strategy Commentary

- As global growth concerns continued to manifest on the heels of Britain's decision to leave the EU, a sharp interest rates rally developed in US markets and abroad. The movement lower in yields will undoubtedly be acknowledged by the Fed as derivative markets are now discounting any further policy tightening action until well into 2017. Sans additional geopolitical risk or tectonic shifts in sentiment, the most important numbers to watch as we move through Q3 will likely be US jobs releases.
- Strong demand for municipal securities, showcased by 39 consecutive weeks of positive fund flows, aided in outstanding performance for the sector year-to-date. Intermediate and Long dated aggregate funds (represented by MUB and MLN) posted positive returns of 2.57% and 4.76%, respectively, for Q2. With the new issuance calendar to remain light, due to seasonality, and few factors suggesting a steeper curve in the near-term, we expect the rally to persist and rates to remain suppressed as the hunt for yield continues and more atypical buyers pile into an already crowded space.
- iShares AGG, a broad market taxable ETF, posted a positive 2.20% return for the quarter, with the fund's corporate debt allocation being a big performance driver. After initial Brexit volatility, credit spreads ultimately tightened through the quarter, and helped boost corporate bond performance. This remains largely due to the technical demand for US credit as yield-starved international investors flee negative yielding assets at home. Credit funds such as CIU and LQD posted positive quarterly performance of 2.04% and 4.13%, respectively.
- The strong bond environment throughout the quarter gave us an opportunity to continue to cost-effectively adjust optionality metrics in the strategies. These adjustments, although not affecting average duration characteristics, emphasized yield curve exposure in areas that we feel will continue to perform well in both the current environment and in a less constructive fixed income landscapes.

Caprin ETF Strategies

TACTICAL OPPORTUNITY ETF

AS OF: 6/30/2016

Duration: 5.21 yrs

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

TACTICAL MUNI ETF

AS OF: 6/30/2016

Duration: 4.72 yrs

Highlights: Neutral Duration,
Overweight to CA

CORE PLUS ETF

AS OF: 6/30/2016

Duration: 5.73 yrs

Highlights: Neutral Duration,
Overweight to Treasuries

FIGURE 1: RELATIVE VALUE (% PREM/DISC)

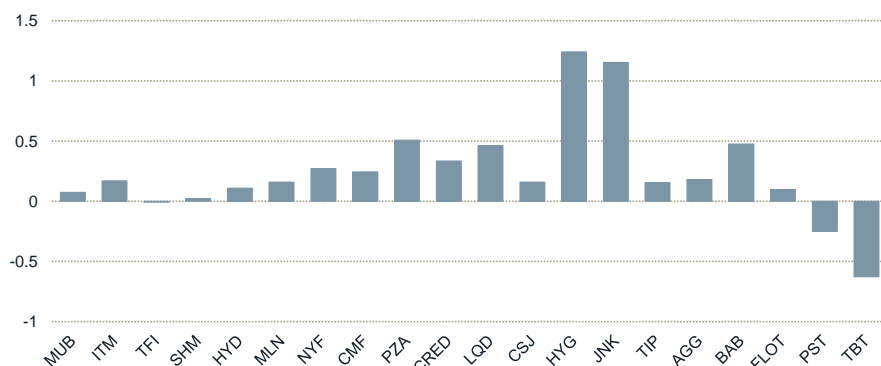
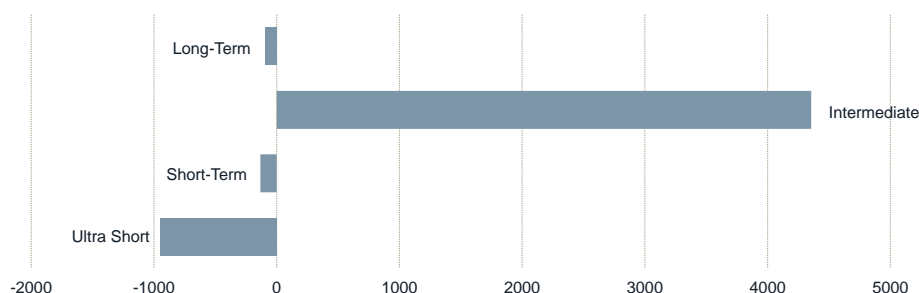


FIGURE 2: MONTHLY FUND FLOWS BY MATURITY (\$MM)



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		2.57	0.60
ITM		3.13	0.15
TFI		3.09	0.33
SHM		0.77	0.08
HYD		4.26	0.29
MLN		4.77	0.22
NYF		2.77	0.64
CMF		2.85	0.69
PZA		3.93	0.20
CRED		3.58	0.71
LQD		4.16	0.91
CSJ		1.00	0.16
HYG		5.15	0.85
JNK		5.87	0.42
TIP		1.80	0.71
AGG		2.21	0.53
BAB		5.40	0.42
FLOT		0.60	0.06
PST		-5.72	0.40
TBT		-14.03	1.63

* 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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