

ETF Strategies Overview

FOURTH QUARTER 2017

Strategy Commentary

- Interest rate movement over the quarter saw the UST yield curve flatten to levels not experienced in more than a decade. While shorter maturities moved significantly higher on expectations of further Federal Reserve tightening (2YR UST +40bps over the period), intermediate and longer-term yields remained anchored by persistently soft inflation.
- Strategy positioning continues to favor ETFs with exposure to the intermediate and longer portions of the yield curve as our outlook for 2018 does not call for significant upward rate pressure in these maturities. We will, however, be watching closely for whether signs of long-anticipated price pressures can actually emerge in the coming year as this remains the most likely risk to higher rates.
- Concerns over proposed tax reform drove municipal issuance for the quarter to a record breaking level (\$145 billion). Despite this supply, investor demand remained strong and drove further tax-exempt outperformance over the period. A comparison of two large broad market ETFs shows AGG (iShares US Aggregate) +0.42% vs MUB (iShares Municipal) +0.63% for the quarter. We remain constructive on the municipal sector in 2018 with the expectation of a more limited supply environment.
- While spread levels have compressed over the last several years, we continue to view the current corporate credit environment as sound, with revenue growth trends helping promote balance sheet stability. As such, we remain comfortable with the corporate exposure within the strategies to provide incremental income above that of aggregate and government debt ETFs.

Caprin ETF Strategies

TACTICAL OPPORTUNITY ETF

AS OF: 12/31/2017

Duration: 5.19 yrs

Highlights: Near Neutral Duration,
50/50 Muni to Taxable,
Underweight Short Muni,
Maintain High-Yield Muni

TACTICAL MUNI ETF

AS OF: 12/31/2017

Duration: 5.24 yrs

Highlights: Near Neutral Duration,
Underweight Short Muni,
Maintain High-Yield Muni

CORE PLUS ETF

AS OF: 12/31/2017

Duration: 5.65 yrs

Highlights: Near Neutral Duration,
Underweight Short Maturity

FIGURE 1: RELATIVE VALUE (% PREM/DISC AS OF 12/31/17)

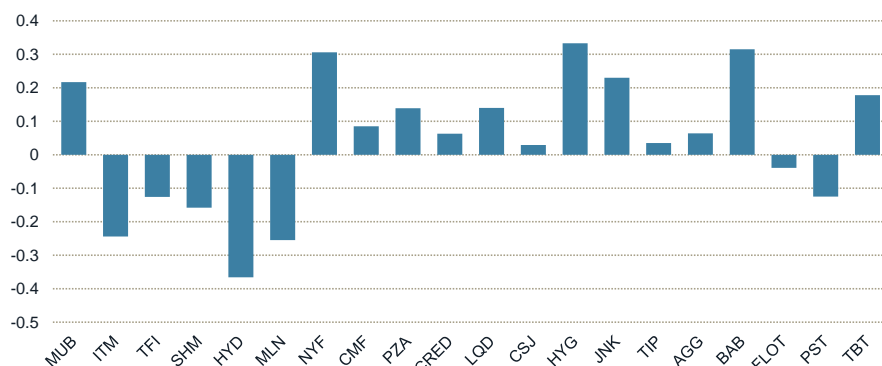
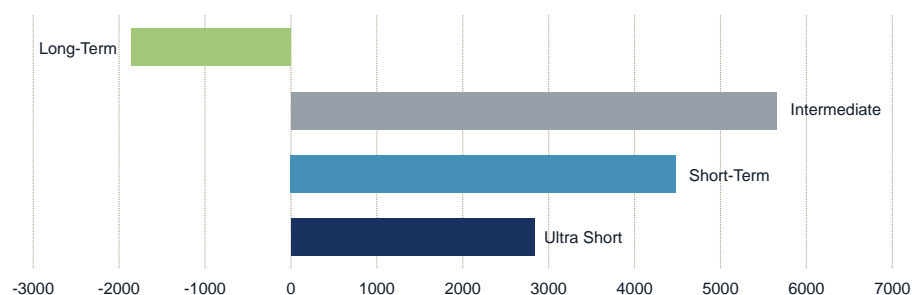


FIGURE 2: QUARTERLY FUND FLOWS BY MATURITY (\$MM)



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		0.63	0.37
ITM		0.83	0.10
TFI		0.85	0.19
SHM		-1.07	0.27
HYD		1.12	0.08
MLN		2.80	0.11
NYF		0.49	0.21
CMF		0.52	0.20
PZA		1.83	0.11
CRED		0.83	0.29
LQD		1.29	0.40
CSJ		-0.20	0.26
HYG		-0.04	0.59
JNK		0.15	0.25
TIP		1.26	0.32
AGG		0.42	0.23
BAB		2.00	0.14
FLOT		0.30	0.04
PST		0.82	0.14
TBT		-5.06	0.84

* 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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