

# ETF STRATEGIES OVERVIEW

Third Quarter 2018

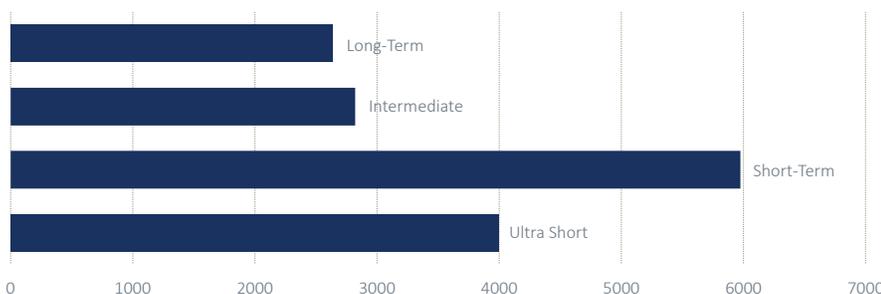
## STRATEGY COMMENTARY

- Interest rates crept higher over the quarter led by the front-end of the yield curve as the FOMC implemented its third rate hike this year in September, and reminded investors that it planned on continuing its deliberate rate normalization through at least 2019. Intermediate and longer-term yields moved up with less conviction as inflation expectations continue to be modest. Looking ahead, we believe the Fed, barring a meaningful disruptor, will have enough in the way of growth and a tight job market to continue on its planned path. The ETF strategies remain moderately short of their respective benchmarks given this thesis and the increasingly positive growth story here at home.
- Although municipal supply remained depressed over the quarter (down 10% QoQ), tax-exempts generally underperformed their taxable counterparts for the first time in 2018. The lag, while not exceptional, still had broad market muni ETFs like VTEB (Vanguard Tax-Exempt Bond) trailing AGG (iShares U.S. Aggregate Bond) by approximately 30bps for the quarter. The bright spot, however, remained in the muni high yield sector where we remain constructive with allocations in both Muni Plus and Opportunity Plus to HYD (VanEck High Yield Muni) and SHYD (VanEck Short High Yield Muni).
- Despite heightened volatility surrounding emerging market debt and continued trade disputes, domestic risk markets were able to look past the negative news and return a broad rally that left the Bloomberg Barclays US Aggregate Credit Index tighter by 17 basis points over the third quarter (closing at +100bps), and the S&P 500 setting a new high in late September. As such, overweights to corporate credit in both Core Plus and Opportunity Plus were additive to overall performance versus their benchmark. ETFs like USIG (iShares Broad IG Corporate Bond) and SJNK (SPDR Short High Yield Corporate) returned 0.97% and 2.52% respectively compared to -0.08% on AGG (iShares U.S. Aggregate Bond). Looking towards Q4 and early '19, we continue to see an environment where credit should remain reasonably supported by better than anticipated domestic growth and continued tax reform benefits. Tariffs may affect corporate earnings potential over the medium-term and we continue to closely monitor domestic confidence and outlook.

FIGURE 1:  
RELATIVE VALUE (% PREM/DISC AS OF 9/28/18)



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



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

## CAPRIN ETF STRATEGIES

### OPPORTUNITY PLUS ETF

AS OF: 9/28/2018

Duration: 4.83 yrs

#### Highlights :

- Shorter Duration Positioning
- Muni 60% / Taxable 40%
- Maintain Allocation to High-Yield Muni

### MUNI PLUS ETF

AS OF: 9/28/2018

Duration: 4.55 yrs

#### Highlights :

- Shorter Duration Positioning
- Maintain Allocation to High-Yield Muni

### CORE PLUS ETF

AS OF: 9/28/2018

Duration: 5.24 yrs

#### Highlights :

- Shorter Duration Positioning
- Maintain Credit Allocation

FIGURE 3:  
FIXED INCOME ETF UNIVERSE

ETF TICKER	QRTLY TREND	% Q RETURN	STD DEV
SUB		0.06	0.22
SHM		-0.32	0.12
MUB		-0.38	0.46
VTEB		-0.35	0.20
ITM		-0.50	0.11
SHYD		-0.08	0.09
HYD		-0.03	0.13
TFI		-0.48	0.21
MLN		-1.67	0.17
FLOT		0.69	0.05
IGSB		0.58	0.08
SJNK		2.52	0.09
JNK		3.03	0.16
HYG		2.93	0.37
IEF		-0.73	0.57
IGIB		0.80	0.17
AGG		-0.08	0.38
USIG		0.97	0.17
LQD		1.22	0.46
BAB		-0.72	0.19

\* 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](#)

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this piece, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Due to various factors, including changing market conditions, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion of information contained in this piece serves as the receipt of, or as a substitute for, personalized advice from Caprin Asset Management. To the extent that a reader has any questions regarding the applicability to their situation of any specific issue discussed above, they are encouraged to consult with the professional advisor of their choosing. A copy of our current written disclosure statement discussing our advisory services and fees is available for review upon request.