



## BondWave Advisors Program Portfolios™

# Short Government/Credit Taxable Index Targeted Program

### Program Objective and Strategy

The **Short Government/Credit Taxable Index Targeted Program** attempts to provide an index-based allocation to taxable fixed income securities. The objective of the model is to emulate the Barclays 1-5 year component of the Government/Credit index in composition and overall portfolio construction.

The Short Government/Credit Taxable Index Targeted Program includes U.S. Treasuries, agencies, and publicly issued U.S. corporate debentures. Programs are based on Bond Types – a collection of attributes such as product type, duration, yield, maturity, rating and up to 40 additional attributes used to evaluate and compare bonds. BondWave Advisors uses an objective model that filters the holdings of the bond index into Bond Types that have similar structural and risk characteristics to those of the index. The Program is used to select bonds during the portfolio construction process and is updated monthly to maintain portfolio alignment on an ongoing basis.

### Key Investment Features

**Branches** – Branches are weighted “partitions” within the portfolio. Branches are weighted by maturity and issuer type (corporation, agency, or US Treasury) in accordance with the Index. Agency bonds must have 13 months of call protection. Duration and coupon ranges are targeted to the Index.

**Restrictions** – The following bonds will be excluded from the portfolio: Treasury STRIPS, Treasury bills, and TIPS. Although included in the index, the program excludes bonds rated below A- in an attempt to create a more conservative credit profile than the Index.

**Portfolio Targets and Limits (Security Attributes)** – The following statistical guidelines are targeted to the Index: average coupon, portfolio duration, average rating, average years to effective maturity, and the percentage of financial, industrial, and utility bonds. Although not targeted to the Index, the percentage of callable bonds is another attribute considered by the Program Model.

### Benefits

- Provide a disciplined, strategy-based fixed income investment approach;
- Allow for a custom portfolio that can match the personal risk preferences or income requirements of the investor;
- Offer all the widely recognized benefits of individual bond investment – principal preservation, predictable income, portfolio control, full investment, well-defined yield to maturity and tax consequences and lower interest rate risk;
- Principal value fluctuations are reduced relative to longer-maturity strategies;
- Investment grade credit quality;
- Modified ladder construction provides partial hedge against reinvestment risk;
- Higher current income with potentially less price volatility;
- Coupon posturing can derive higher income and less volatility in rising rate environment or lower income and potential higher total return in declining rate environment.

### Considerations

- Principal valuations are potentially more affected by short-term interest rate fluctuations;
- Low income/yield relative to fixed income portfolios with lower call protection, higher volatility, longer maturities and lower credit quality;
- Credit quality may vary from Aaa-rated to A-rated securities.

## About BondWave Advisors

BondWave Advisors' (BWA) Program Portfolios™ fixed income portfolio construction process incorporates a rules-based, disciplined methodology that creates professional diversified portfolios defined by detailed bond attributes. Our approach covers the U.S. municipal, corporate, agency and treasury securities markets. BWA's approach seeks to manage risk through minimizing tracking error versus the chosen benchmark. Our highly customizable models are utilized to (1) Represent an existing professional index, (2) Create a bias by emphasizing specific attributes of an index or (3) Assist in creating a customized strategy based on the needs of the client.

Furthermore, BWA's pre-trade analysis process seeks to provide price assurance through identification of a clearly-defined peer group. This group is the result of the screening of actual trades and executable offerings available in the marketplace of bonds that meet the defined model parameters. This screening creates an acceptable pricing range (min., max., target) for offerings that will comprise the portfolio. BWA's rules-based models and price assurance create an efficient and transparent process for easily constructing, executing, monitoring and managing the elements of the portfolio.

## Risk Considerations

An investment in bonds should be made with an understanding of the risks involved, such as interest rate risk, inflation, economic recession and the possible deterioration of either the financial condition of the issuers or the general condition of the bond market. You should be aware that portfolios constructed using the program are comprised of bonds which involve additional risks. You should consider the portfolio's investment objectives, risks, and charges and expenses carefully before investing. Contact your financial advisor before investing.

The strategies do not guarantee future correlation to the stated objective or underlying index, nor should they be used as a predictor of future returns. There can be no assurance the Program Portfolios™ strategies will match or outperform a given index or sampling over any time period or that it will have positive results. The strategies have a potential for loss.

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