



## BondWave Advisors Program Portfolios®

# 10-Year Municipal Index Targeted / Municipal Peak Income Blend Program

### Program Considerations and Objectives

The Program is designed to assist investment advisors with their selection of tax-exempt municipal securities for their clients. The 10-Year Muni Index Targeted / Municipal Peak Income Blend Program combines an index-based core allocation with a yield and income enhancing segment. The core allocation is based on the BondWave Municipal 10-Year Index Targeted Program while the yield enhancing allocation is based on the BondWave Municipal Peak Income: A Rated Program. The Program Model recommends that each portfolio rebalance every 13 months. However, the Program Model is updated monthly to allow for portfolio monitoring.

#### Core Segment (10-Year Municipal Index Targeted Program)

The 10-Year Municipal Index Targeted Program provides an index-based allocation using a stratified approach to approximate the performance of the 10 (8-12) Year Component of the Barclays Capital Municipal Bond index (the "Index"). Duration and coupon ranges are targeted to the Index. Call protection is a minimum of 3 years. Rating must be Aa3 or greater. (See below for a description of the Index.)

The Model utilizes filters (Branches) that contain a set of attribute-based Bond Types, not specific securities. Bond types are used during the portfolio construction and maintenance process to select bonds that have similar structural and risk characteristics to those of the Index. A specified number of bonds must be purchased for each Bond Type. As a result, the bonds held in a portfolio constructed using the Model may differ from investor to investor.

The 10-Year Municipal Index Targeted Program seeks to offer principal preservation, predictable income and potentially lower price volatility (shorter duration) compared to strategies for bonds with a longer maturity. Principal value fluctuations are reduced relative to longer-maturity strategies.

Barclays Capital Municipal Bond Index - 10 (8-12) Year Component represents tax-exempt U.S. municipal bonds that have a remaining maturity of greater than or equal to 8 years and less than 12 years. Securities have at least \$7 million par amount outstanding and were issued as part of at least a \$75 million transaction. Securities must be rated investment grade (Baa3/BBB- or higher) and have a fixed rate coupon.

#### Yield Enhancing Segment (Muni Peak Income Program: A Rated)

The Municipal Peak Income Program: A-Rated is an income strategy designed to provide federally tax-free income with a yield-driven investment approach. This strategy weighs the additional yield earned with the additional interest rate risk taken for points along the yield curve. The Model is built upon the premise that the typical yield curve offers diminishing marginal returns (yield) for each unit of risk (maturity) and that there is a point at which a large percentage of available yield can be captured while taking less than that percentage of the total maturity risk. Generally speaking, but not always, this optimal point of yield for incremental maturity risk is found in the 15 – 20 year maturity range on the municipal yield curve.

The Model utilizes a slope calculation to attempt to consistently identify this "peak" income range that offers a balanced approach to yield and risk. The Model is monitored and updated monthly to maintain alignment with the dynamic changes in the shape of the municipal yield curve and to allow for portfolio monitoring.

The shape of the municipal yield curve is affected by many factors including inflation expectations, the amount of issuance over a specified period, the current income taxation levels of the federal government and state/local taxing entities, the investment environment for banks, trust companies, life insurers, bond funds and property/casualty insurers (traditional buyers of municipal bonds) and the direction of the US Treasury bill, note and bond markets.

The Program offers the opportunity to optimize the yield earned on the portfolio while seeking to preserve principal and produce predictable federally tax-free cash flows through a modified laddered investment approach targeted at the "peak" yield curve range.

Calculations are made using a municipal yield curve that is consistent with a rating of A- to A+. The slope at each maturity point on the municipal yield curve is calculated in an attempt to identify a target maturity for the Program. The objective of the target maturity is to maximize yield (with a goal of at least 85-95% of the total available yield) for a given measured increment in risk (maturity). A ladder is created with the identified maturity as the final rung of the Program. The target maturity is dynamic because the shape of the municipal yield curve is taken into account by calculating 'slope' at each maturity point.

### Key Investment Features

**Branches** - Branches are weighted "partitions" within the portfolio that describe the characteristics of bonds that are included in the Program. The branches are based on maturity and the characteristics of the Programs described in 'Program Considerations and Objectives'.

**Restrictions** - The following bonds will be excluded from the portfolio: taxable municipal bonds, non-rated bonds, bonds subject to alternative minimum tax, student loan bonds, hospital revenue bonds, housing bonds, airport bonds and non-fixed coupon municipal bonds. For the Index Targeted Program segment of the portfolio, Ratings below Aa3 will be restricted. For the Municipal Peak Income segment, bonds with an Underlying Rating less than A3 will be restricted, as well as bonds priced below the de minimis threshold. (The de minimis rule governs the tax treatment of a bond acquired at a market discount.)

**Portfolio Targets and Limits** - The overall statistical guidelines of the Program include a saturation cap of 15% for issuer, 35% for insurer and 5% for cash.

# 10-Year Municipal Index Targeted / Municipal Peak Income Blend Program *(continued)*

## 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.

**BONDWAVE**  
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