ASTOR INVESTMENT MANAGEMENT

FUNDAMENTALLY DRIVEN.

INCOME STRATEGIES FOR H2 2017
MANAGING THE INCOME DILEMMA

The following conclusions and statements are Astor's opinions and thoughts:

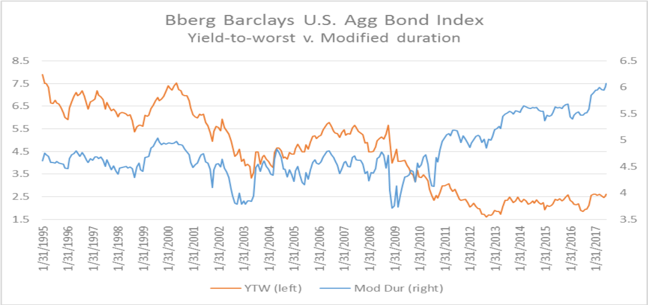
EXECUTIVE SUMMARY:

- In our opinion, the economy has been solid and the FOMC has been clear on their policy agenda for the foreseeable future; higher short-term rates and a shrinking balance sheet.

- We believe that inflation has been tame and wage pressure has been subdued. The labor market has tightened and resources are somewhat strained. With inflation expectations already currently low, and up-tick could surprise the market and move rates higher.

- Investors are, in our opinion, taking on the most interest rate risk in over two decades with historically low levels of yield. The likelihood of a move lower in rates that could potentially produce the returns we have seen over previous decades is not likely.

- **Illustration 1.1:** If 10-year treasury rates move from 2.3% to 3.3%, fixed income holdings with a duration of 10 YRS will lose 10%. Is 2.3% yield high enough to make up for a 10% loss in the capital of your portfolio?



Source: Bloomberg
Illustration: Astor

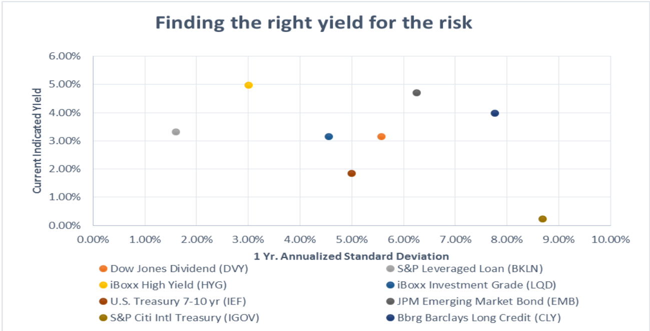
- **Illustration 1.2:** Combining non-correlated fixed income exposure into a portfolio will help manage the impact of single asset concentration in an environment when investors are not getting compensated the same as in the past for certain risks (reduced risk premia, asymmetric risk profiles, etc.).

Yield Focused Market Segment Correlations

	IG Bond	HY Bond	Agg Bond	EM Bond	DJ Div Equity	20+ Treasury	Intl Treasury	1-3 Month Bill	Leveraged Loan
IG Bond	1								
HY Bond	0.58	1							
Agg Bond	0.83	0.27	1						
EM Bond	0.76	0.77	0.61	1					
DJ Div Equity	0.24	0.55	0.10	0.46	1				
20+ Treasury	0.52	-0.19	0.79	0.19	-0.11	1			
Intl Treasury	0.56	0.36	0.54	0.57	0.30	0.25	1		
1-3 Month Bill	0.95	0.55	0.85	0.73	0.25	0.63	0.49	1	
Leveraged Loan	0.29	0.84	0.00	0.54	0.41	-0.42	0.09	0.28	1

Source: Bloomberg
Illustration: Astor

- **Illustration 1.3:** Many areas of the income market offer better yield-to–risk relationships than treasuries, with more supportive economic risks as well.



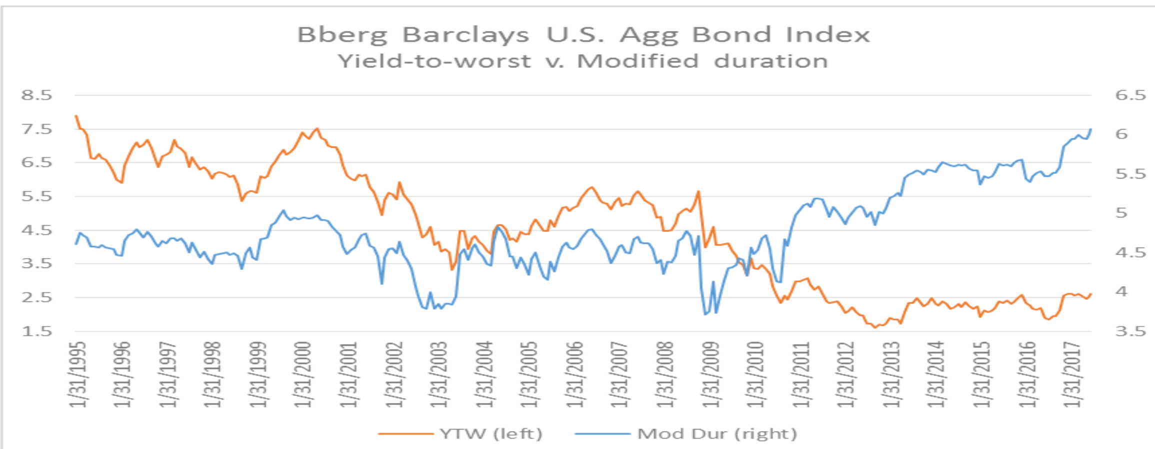
Source: Bloomberg
Illustration: Astor

At Astor, our approach to income portfolios takes the concepts of diversification and macro economic analysis to create a portfolio with the objective of achieving the best yield for the risk in the current environment.

FIXED INCOME INVESTING, U.S. ECONOMY AND INTEREST RATES

We believe that the U.S. Economy, while not spectacular, is fairly healthy. Year over year, the overall employment picture and strong manufacturing data has boosted U.S. economic prospects. With this in mind, we feel the FOMC has been clear with their policy agenda for the foreseeable future; higher short-term rates and a shrinking balance sheet. Interestingly, there has not been a noticeable uptick in inflation, which normally would be expected given the current environment. If that part of the equation (inflation) were to emerge, we believe investors should expect a greater impact on interest rates. Interest rates moving higher quicker and more aggressively than expected would create negative impacts to investors with rate sensitive holdings, and the yield they are receiving would not compensate enough against a substantial loss.

Illustration 1.1: For 30+ years, income investors with rate-sensitive exposure have fared well as bonds have enjoyed a bull market. Prior to 2008, interest rates were high enough to compensate for the risk of adverse moves. That is no longer the case. Investors are taking on the most interest rate risk in over two decades with historically low levels of yield. Betting on a move lower in rates again to produce returns or to bail investors out might not be a risk worth taking at this time. **Rising Rates have been nothing more than talk since 2013, but at some point that will cease to be the case.**



Source: Bloomberg
Illustration: Astor

The Problem - *If 10 year treasury rates move from 2.3% to 3.3%, fixed income holdings with a duration of 10 will lose 10%. Is 2.3% yield high enough to make up for a 10% loss in the capital of your portfolio? We feel the answer is no. Even shortening the duration to lessen the blow will result in losses overwhelming the yield.*

It's time to think outside your income portfolio's income box.

DYNAMICALLY MANAGING THE RISKS AND OPPORTUNITIES

Let us be clear, this is not an alarm sounding for higher rates tomorrow. However, the larger picture may suggest an evolving landscape that can have an impact on the interest rate picture in coming quarters, and thus fixed income portfolios. Given the structure of the current environment (macro economy and interest rates), combined with how much more risk investors are taking to get reasonable yields, it is extremely important today to help investors not only diversify, but take the right portfolio positions and reduce positions with less favorable risk/reward profiles.

Illustration 1.2: Correlations - The capital markets offer a wide range of income-oriented asset classes to invest in, some of which are impacted differently by the same economic factors. These categories include various income producing asset classes, such as investment grade, high yield, bank loans, treasuries and dividend equity, to name a few.

In our opinion, combining low-correlated fixed income exposure into a portfolio will help manage the impact of systemic correlation in an environment when investors are not getting compensated the same for certain risks (reduced risk premia, asymmetric risk profiles, etc.).

Yield Focused Market Segment Correlations

	IG Bond	HY Bond	Aggregate Bond	EM Bond	DJ Div Equity	20+ Treasury	Intl Treasury	1-3 Month Bill	Leveraged Loan
IG Bond	1								
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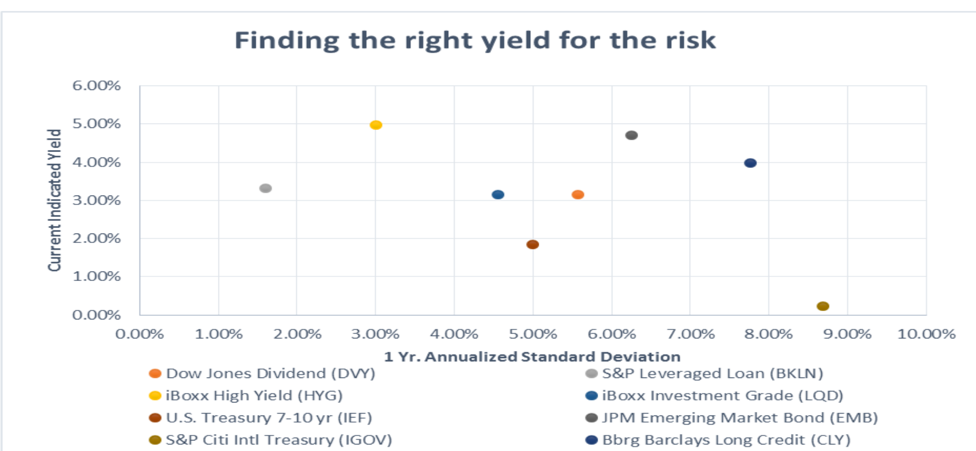
Source: Bloomberg
Illustration: Astor

IG Grade	Iboxx USD Liquid Investment Grade Index	**US Treasury**	ICE US Treasury 7-10 Year Bond Index
HY Bond	Iboxx USD Liquid High Yield Index	**Intl Treasury**	S&P/Citigroup International Bond Ex-US Index
Agg Bond	Bloomberg Barclays US Aggregate Bond Index	**Long Credit**	Bloomberg Barclays US Long Credit Index
EM Bond	JPM Emerging Market Bond	**Bank Loan**	S&P Leveraged US Select Loan Index

Illustration 1.3: Yield versus Risk - Another quick way for investors to analyze their options is to look at then yield-to-risk ratio of available options. This is something we do regularly when analyzing and adjusting our portfolios.



Source: Bloomberg
Illustration: Astor

The growth in the ETF landscape has done wonders to allow investors access to any one of the market segments listed above and more. There are plenty of tools to help investors position their portfolios in a way to increase their chance for success in the current environment. As we mentioned above, the current environment is such that low interest rates are not compensating investors enough for the duration, or rate risk, they are taking.

Astor Investment Management publishes an ETF Fixed Income Report on a weekly basis that lists various yield producing ETFs and their individual yield to risk relative to their broad peer group.
Please email support@astorim.com to request a copy of the report.

At Astor, our approach to income portfolios takes both concepts into account when constructing our portfolio. We first focus on macro, top-down analysis. This allows us to observe key variables in the economy that impact things such as interest rates, credit as well as risk assets. By doing this, we can help identify when risks to a given asset class exist and are increasing. Conversely, we can also see when the environment is more supportive for asset classes. This can have the impact of tipping the risk/return profile more in the investor's favor than what a static exposure portfolio may achieve. Additionally, by allocating across multiple market segments and asset classes, we can diversify the portfolio to help further manage overall volatility.

The end objective is a portfolio seeking the best yield for the risk in the current macro environment.

For more information on the Astor Active Income Strategy, please email **Support@astorim.com**.

All information contained herein is for informational purposes only. This is not a solicitation to offer investment advice or services in any state where to do so would be unlawful. Analysis and research are provided for informational purposes only, not for trading or investing purposes. All opinions expressed are as of the date of publication and subject to change. Astor and its affiliates are not liable for the accuracy, usefulness or availability of any such information or liable for any trading or investing based on such information.

Asset Classes: An asset class is a group of securities that exhibits similar characteristics, behaves similarly in the marketplace and is subject to the same laws and regulations. The three main asset classes are equities, or stocks; fixed income, or bonds; and cash equivalents, or money market instruments. **Cash:** An investment in highly liquid assets in the form of legal tender and money market investments or an investment in a mutual fund or exchange-traded fund that invests primarily in these types of investments. **Correlation:** A statistic that measures the degree to which two securities move in relation to each other. **Downside:** the negative movement in the price of a security, sector or market. **Equity:** A stock or similar security representing an ownership interest in a company or an exchange-traded fund that invests primarily in such securities. **Fixed Income:** A debt investment in which a corporate or government entity borrows funds from an investor for a defined period of time at a fixed interest rate or an exchange-traded fund that invests primarily in such securities. **High Yield:** An investment in an exchange-traded fund that invests primarily in the category of debt instruments which have a higher risk of default and thus pay a higher yield. These debt instruments are rated below a certain level by the major credit rating agencies due and are also known as "junk bonds." (For Moody's rating scale this generally means bonds rated Ba and lower and for Standard & Poor's, bonds rated BB and lower.) **Investment Grade:** An investment in an exchange-traded fund that invests primarily in the category of debt instruments which are rated above a certain level by the major credit rating agencies due to their increased likelihood of meeting payment obligations. (For Moody's rating scale this generally means bonds rated Baa and higher and for Standard & Poor's, bonds rated BBB and higher.) **Municipal:** An investment in an exchange-traded fund that invests primarily in the debt obligations of states, municipalities, and counties. Interest earned on these obligations is exempt from federal tax and in certain cases, also state and local tax. **Rolling (36 month) Calculations:** refers to a 36-month period that starts at any point in the calendar and runs for 36 months.

Please refer to Astor's Form ADV Part 2A Brochure for additional information regarding fees, risks, and services.

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