ASTOR INVESTMENT MANAGEMENT | FUNDAMENTALLY DRIVEN.

# ASTOR ACTIVE INCOME

## 2024

In the current landscape of fixed income investments, the act of purchasing bonds feels more akin to making a strategic trade rather than simply seeking steady income, especially when extending the duration beyond a year or two.

Following the Global Financial Crisis, the markets were coddled with suppressed rates and essentially non-existent inflation. Markets were so accustomed to the new, lower for longer rate environment that they revolted against the Fed's attempt to normalize rates in 2018. Rates plunged back to ground-floor levels post Covid. This rate suppression, coupled with a belief that inflation is secularly depressed, was why it took extensive inflation prints in 2021 for investors and traders, and indeed the Fed to believe rates had to go higher.

Now, investors face another issue. In January, December '24 Fed Funds futures were pricing in a substantial decline in the Fed Funds target rate of almost 1.5% by year end 2024; six cuts. This was in large part due to broadening disinflation and the idea that secular forces (population decline, productivity from AI) would win out.

Inflation has come down, and by some measures it continues to decline, but by others, it has plateaued or picked up again. Two-year treasury yields pushed as low as 4.1% early in the year before heading north near 4.75% (as of this writing). December '24 Fed Funds Futures are pricing in approximately three cuts; down from the six at year end.

Current conditions can lead to a number of potential pathways for rates in the coming year, with a variety of macro-dependent paths.

Our First Half Outlook outlined what we saw as the potential scenarios 2024 could offer investors. The first two months of the year have introduced more information for investors to digest.

With a renewed sense of duality in the path of interest rates moving forward, it is prudent to diversify exposure with a fixed income strategy prepared to invest in and through these scenarios.

The **Astor Income Strategy** can be a true core complement. It maintains characteristics of a core fixed income position with the ability to shift exposure of the two most important determinants of fixed income returns: credit and duration.

Using a risk management approach through the interest rate and economic cycles has historically provided a level of effectiveness in helping to mitigate risk exposures that could be detrimental to portfolio returns, income streams and potential portfolio goals.

**Astor's approach to managing fixed income: two key influences of portfolio risk and return, credit and duration.**

Investing in income streams across the capital structure has the potential to add significant value to a portfolio by changing the risk profile of the portfolio and sensitivity to any one specific risk event.

- Macro-economic trends not only impact risk asset pricing, but they also affect fixed income and other interest rate markets through credit spreads.

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- Evolving interest rate paradigms necessitate an approach to managing opportunities and risk by adjusting duration (rate).

- Using complementary income strategies that can find reasonable levels of income while mitigating macro-level risks can add substantial diversification to a portfolio.

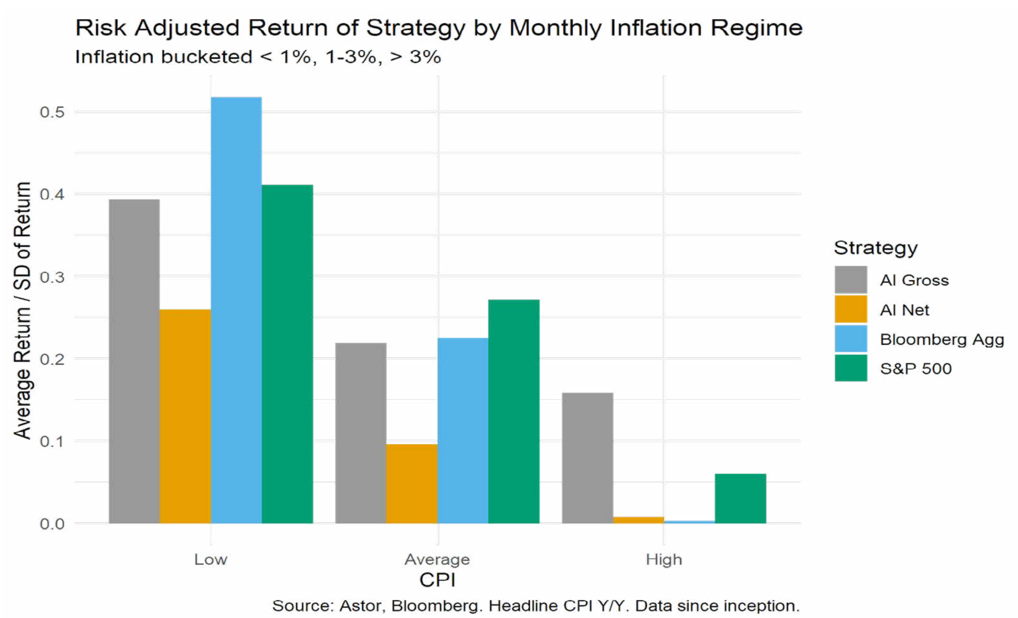
Our strategy objective is straightforward: **to outperform traditional core bond exposure (Bloomberg U.S. Agg Bond Index) through a macro cycle.**

**Crucially,we:**

1. Adjust exposure to duration risk depending on the prevailing macro conditions.

   a. Increase duration when we believe Fed policy is turning accommodative, rates are trending lower, or inflation is cooling. Decrease duration exposure when Fed policy is restrictive or rates are trending higher.

**This approach has historically worked well across inflation regimes, as the exhibit below shows.**




*AI Gross = Astor Income strategy, before management and advisory fees*
*AI Net = Astor Income strategy, net of all management and advisory fees*
*Bloomberg Agg = Bloomberg U.S. Aggregate Bond Total Return*

2. Allocate to lower credit quality when the economy is stable or improving and credit spreads are tightening. Increase overall credit quality when the economy is softening and/or credit spreads begin to widen, reflecting higher risk in credit markets.

3. Identify the best source of income that is in line with credit and duration views. The objective is for the strategy to achieve higher overall yield while taking less overall risk. This is achieved by identifying the best sources of fixed and floating rate income that captures the intersectionality of our duration and credit targets.

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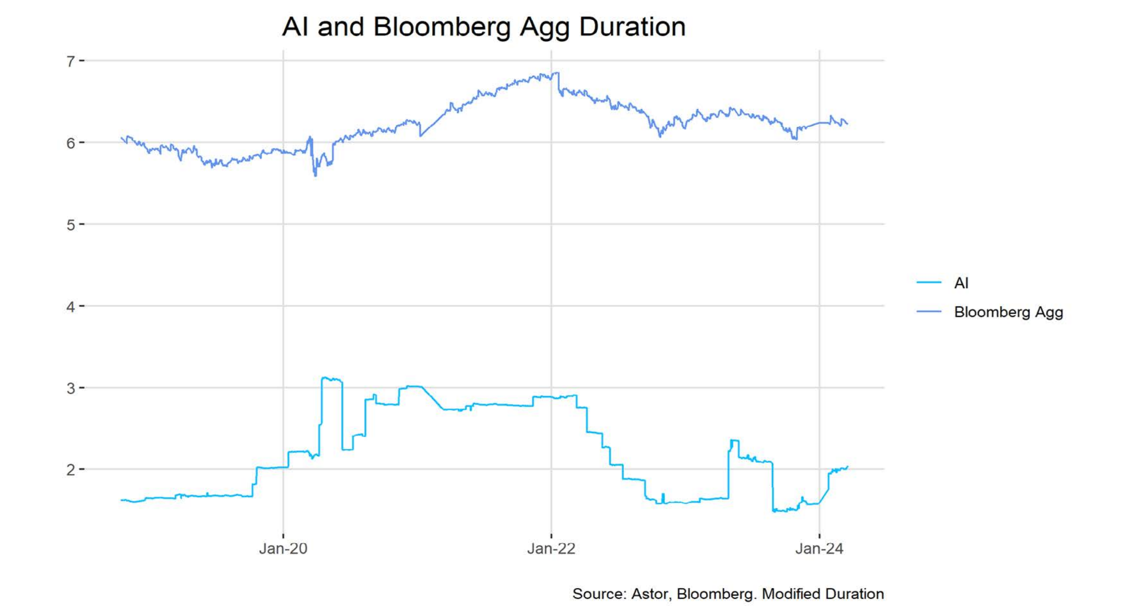
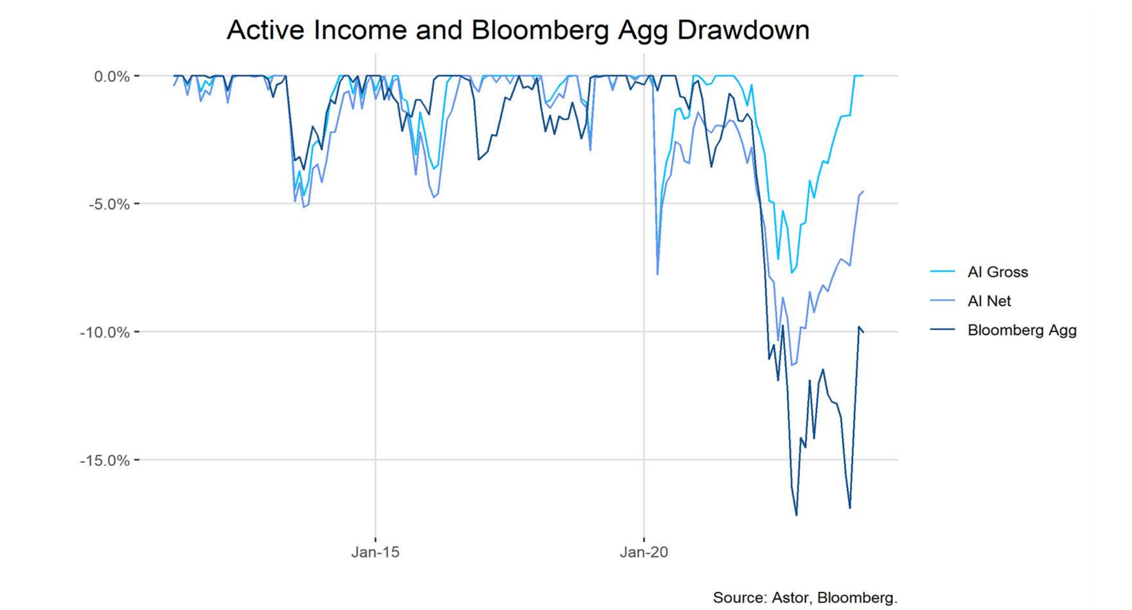
The chart below shows how much duration Active Income has had compared to the benchmark.

**Astor's approach to managing fixed income: two key influences of portfolio risk and return, credit and duration.**




*AI = Astor Active Income – duration calculated by multiplying duration of each ETF holding times the weight*
*Bloomberg Agg = Bloomberg U.S. Aggregate Bond Index -duration is modified duration of the index itself*

For income investors (compared to equity), risk to capital can be much more detrimental. The ability to manage portfolio drawdowns by reducing risk exposure is front and center in the Astor Active Income strategy. Drawdowns are the last thing that you expect and want from your fixed income portfolio – which should be the ballast against equities in hard times.

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**Active Income's current portfolio characteristics reflect all the points we discussed in how and where the strategy perceives risk and opportunity – low duration, and modest credit exposure.**

## STRATEGY PERFORMANCE

*As of 12/31/2023*

| | | | | ANNUALIZED | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q4 2023 | YTD | 1-YR | 3-YR | 5-YR | 10-YR | Since Inception 2/28/2011 | Standard Deviation | Duration* | Yield* | Avg Credit Quality* |
| **Active Income** *(Gross)* | 3.28% | 7.86% | 7.86% | 0.88% | 2.60% | 2.59% | 2.95% | 3.75% | - | 6.95% | A- |
| **Active Income** *(Net)* | 2.77% | 5.74% | 5.74% | -1.12% | 0.62% | 0.93% | 1.24% | 3.86% | - | 6.95% | A- |
| Bloomberg U.S. Agg Bond Index | 6.82% | 5.53% | 5.53% | -3.31% | 1.10% | 1.81% | 2.14% | 4.39% | 6.36 | 3.44% | AA |

*Source: Bloomberg, Astor. The performance data shown is through 12/31/2023 and represents past performance Current performance may be lower or higher than the performance data quoted above. Past Performance is no guarantee of future results. Net of fee performance assumes the reinvestment of dividends. Gross of fee returns are shown as supplemental information only and represent "pure gross" returns. Pure gross returns are calculated before the deduction of all fees. *These statistics are calculated based on the strategy holdings as of the last day trading day of the quarter portrayed in the performance table.*

## GLOSSARY:

**Average Credit Quality:** A measure of a debt issuer's ability to meet interest and principal payment obligations as denoted by letter designations assigned by credit rating agencies, calculated as the average quality of the fixed income portion of the portfolio only based on Standard & Poor's rating scale. (BBB- is classified as Investment Grade)

**Duration:** A measure of the price sensitivity of a bond when interest rates fluctuate, expressed in years. Astor calculates a modified duration and classifies short-term as between 0-3 years, intermediate-term as 3-7 years, and long-term as 7+ years.

**Standard Deviation:** A statistical measure of the historical volatility of a mutual fund or portfolio, computed using monthly returns since inception and presented as an annualized figure. More generally, a measure of the extent to which numbers are spread around their average.

**Yield:** The income return on an investment, calculated as the sum of the most recent dividend payments annualize (indicated yield), expressed as a percentage of the current value of the portfolio.

## DISCLOSURES:

Astor Investment Management LLC ("Astor") is a registered investment adviser with the Securities and Exchange Commission. 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. They are not intended as investment recommendations. These materials contain general information and have not been tailored for any specific recipient. 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. There is no assurance that Astor's investment programs will produce profitable returns or that any account will have similar results. You may lose money. Past results are no guarantee of future results and no representation is made that a client will or is likely to achieve results that are similar to those shown. Any particular client may experience results different from other clients. Factors impacting client returns, results, and allocations include account inception, money transfers, client-imposed restrictions, strategy and product selection, fees and expenses, and broker/dealer selection, as well as other factors. An investment cannot be made directly into an index.

The strategy seeks to achieve its objectives by investing in Exchange-Traded Funds ("ETFs"). ETFs are subject to substantially the same risks as those associated with the direct ownership of the securities comprising the index on which the ETF is based. The value of an ETF will fluctuate in response to the performance of the underlying index or securities. ETFs are subject to investment advisory and other expenses which are separate from those fees charged by Astor. Therefore, investments in ETFs will result in a layering of expenses. Although ETFs are exchanged traded, a lack of demand can prevent daily pricing and liquidity from being available. Investors should carefully consider the investment objectives, risks, charges and expenses of the ETF held in the strategy before investing. This information can be found in each ETF's prospectus.

The strategy can also purchase unleveraged, inverse fixed income ETFs. Inverse ETFs attempt to profit from the decline of an asset or asset class by seeking to track the opposite performance of the underlying benchmark or index. Inverse products attempt to achieve their stated objectives on a daily basis and can face additional risks due to this fact. The effect of compounding over a long period can cause a large dispersion between the ETF and the underlying benchmark or index. Inverse ETFs may lose money even when the benchmark or index performs as desired. Inverse ETFs have potential for significant loss and may not be suitable for all investors.

Valuations are computed and performance is reported in U.S. dollars. Performance results assume the reinvestment of dividends. Certain client accounts may take dividends as distributions. Gross-of-fee returns are shown as supplemental information only and represent "pure gross" returns. "Pure gross" returns are calculated before the deduction of all fees, including trading, advisory, and administrative fees. A small number of client accounts may pay for trading costs as individual expenses and the gross-of-fees returns for these accounts would be net of trading expenses. The model fee is representative of the actual fees charged to client accounts which cover trading, advisory, and other costs. The model fee produces a more conservative estimate of performance than previously reported. Generally, accounts will pay for transaction costs within a bundled fee which may also include items such as advisory, administrative, and custodial fees. In addition to these expenses, Astor primarily purchases securities which contain embedded expenses. These costs result in a layering of fees. Please note performance results include accounts which pay trading costs separately and accounts which pay a bundled fee inclusive of advisory and trading costs. No performance-based fees are assessed. The annual fee paid by clients will typically range from 1.00%–3.00% of the clients' assets under management. Annual model fees used in calculating the net performance of the strategy are as follows: March 1, 2011 to December 31, 2011: 1.50%; 2012: 1.80%; 2013: 1.85%; 2014-2015: 1.40%; 2016-2019: 1.25%; 2020: 2.50%; 2021-2022: 2.00%. Astor receives a portion of this total fee as compensation for provided advisory services. Astor's annual management fee varies based upon custodial arrangements, account size, and other factor. The Active Income Strategy ("strategy") is an actively managed strategy designed to produce income and to generate long-term capital appreciation by exclusively investing in exchange-traded funds (ETFs). The strategy invests primarily in fixed income securities and dividend-yielding equities. The portfolio manager may, at their discretion, depart from the targeted allocation range when they feel that certain sections of the financial markets are over or under-valued. The strategy may employ the use of unleveraged inverse exchange-traded funds, designed to track a single multiple of the daily inverse performance of a given index. The benchmark is the Bloomberg US Aggregate Bond Index. The performance of the Bloomberg US Aggregate Bond Index is shown for comparison because Astor uses index instruments tied to these products. Although the strategy invests in securities which may invest in assets besides fixed income securities and may invest in assets that move inversely with fixed income, the performance of the Bloomberg US Aggregate Bond Index is presented because it is a widely used benchmark and indicator of bond market performance. Annual returns are calculated using cash monthly prices with dividends reinvested. The Bloomberg US Aggregate Bond Index is a broad-based index representing the dollar-denominated, investment grade bond market and includes Treasuries, government securities, and mortgage securities. An investment cannot be made directly into an index.

***Please refer to Astor's Form ADV Part 2A Brochure for additional information regarding fees, risks, and services which can be obtained at www.astorim.com, or by phoning 800.899.8230 or write to Astor Investment Management, 111 S. Wacker Dr., Ste 3950, Chicago, Illinois 60606 or info@astorim.com.***

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