FOLIOBEYOND FIXED INCOME COMMENTARY FOR AUGUST 2021

Performance Summary

FolioBeyond's algorithmic Fixed Income strategy returned +0.09% and +0.03% in its dynamic and static volatility versions, respectively, in August. The strategies outperformed the Bloomberg Barclays U.S. Aggregate Bond Index ("AGG"), which returned -0.19%. Year-to-date and on a trailing 1-year basis, the strategies have significantly outperformed AGG.

After a few months of curve flattening, Treasury yields reversed course and steepened modestly by 5 basis points between the 2-year and 10-year maturities. The 10-year yield rose by 6 basis points. Our portfolio continued to be predominantly in the short/intermediate duration sectors with credit exposures at the short end.

STRATEGY	1- Month Return	YTD Return	1-Year Return	3-Year Return	5-Year Return	10-Year Return
FolioBeyond Dynamic Volatility*	0.09%	0.85%	3.47%	5.17%	5.18%	5.18%
FolioBeyond Static Volatility*	0.03%	1.48%	3.17%	4.01%	4.64%	4.61%
Bloomberg Barclays U.S. Aggregate Bond Index ("AGG")	-0.19%	-0.69%	-0.08%	5.43%	3.11%	3.18%
Dynamic Volatility Standard Deviation	-	-	*2.35%*	*3.83%*	*3.35%*	*3.27%*
Static Volatility Standard Deviation	-	-	*1.49%*	*3.29%*	*3.13%*	*3.24%*
AGG Standard Deviation	-	-	*3.13%*	*3.80%*	*3.48%*	*3.33%*
Dynamic Volatility Sharpe Ratio	-	-	*1.44*	*1.03*	*1.19*	*1.38*
Static Volatility Sharpe Ratio	-	-	*2.05*	*0.85*	*1.11*	*1.23*
AGG Sharpe Ratio	-	-	*-0.03*	*1.10*	*0.58*	*0.78*

Source: FolioBeyond's returns are from SMAs on Interactive Brokers (from January 1, 2019, for Static Volatility and from November 3, 2020, for Dynamic Volatility) and back-tested simulated results prior to that. AGG and Multisector Bond Category returns are from Morningstar.

** FolioBeyond Dynamic and Static Volatility returns are net of underlying ETF fees and 30 bp assumed management fee. Although the information herein is believed to be reliable, FolioBeyond makes no representation or warranty as to its accuracy, and information and opinions reflected herein are subject to change at any time without notice. The past performance information presented herein is not a guarantee of future results.*

Highlight: Factor Positioning

Active Fixed Income portfolio management generally involves implementing a mix of duration, sector, and credit bets along with some individual security selection. Various approaches have been utilized, including fundamental analysis, macro-based tilts, and a myriad of quantitative approaches. Each approach, or combination of methods, exhibits both benefits and shortcomings while providing diversification along with asset allocation or security selection alpha at times.

Some of the major factors that portfolio managers overweight or underweight relative to benchmarks include duration, credit, and product type. Duration management is often tied to macro views and/or an ongoing assessment of potential Fed policy changes relative to the economic outlook. The shape of the yield curve comes into play as additional yield pick-up for duration extension is evaluated. Credit exposure is tied to default projections relative to what is priced into the marketplace, in addition to current yield spread levels in comparison to historical norms. Product type selection is another area of focus as similarly rated corporates are compared with structured products and other comparable alternatives. Momentum effects also need to be incorporated into the overall analysis, especially in a trending environment.

FoliioBeyond's quantitative asset allocation model offers a robust, comprehensive approach for incorporating the major factors that affect risk and return in Fixed Income markets. Our forward-looking value measures capture embedded option and credit risks. Risk attributes are measured based on historical return volatility adjusted for current implied volatility levels. Technical factors tied to momentum effects are incorporated into the risk dimension. Correlations capture the benefits of appropriate portfolio diversification. Stress testing limits exposures to highly risky sectors and prevent major drawdowns in distressed environments. All these factors are measured daily and incorporated into an advanced optimization framework.

The table below summarizes the current portfolio positioning of the model relative to AGG. These factor biases are a result of our comprehensive optimization analysis. Unlike other traditional approaches, the updates are not performed on a scheduled calendar basis, e.g., monthly or quarterly. We let the machine do the data crunching daily to evaluate whether a portfolio rebalancing is required. The process is proactive and timely, not reactive based on a delayed analysis of market changes.

Factors	Current Model Positioning
Duration	Shorter duration
Credit	Modest allocation to floating rate
Product Type	Overweight to Inflation Protected Bonds and Agencies
Momentum	No significant signals
Volatility	Modest increased risk vs 12-month historicals

Finally, FolioBeyond's model is risk-controlled, as the optimization is tied to the targeted risk of the benchmark as measured by historical volatility levels. Too often, investors overlook the risks taken when reviewing historical returns.

While we believe our approach offers an advanced, cutting-edge solution, no process is ideal. It does pay to utilize a combination of different methods. In a portfolio context, the goal should be to combine less correlated strategies that provide positive portfolio benefits in the long run. FolioBeyond's modeling approach has provided a less correlated return stream compared to common benchmarks and industry averages.

As a reminder, our model portfolios are available on Folio Institutional, Boutique Exchange, and as the S-Network FolioBeyond Optimized Fixed Income Index available on SMArtX and C8 Technologies. Our algorithm can also be customized and linked to other custodian platforms. Please contact us to explore how our portfolio solutions can help achieve your goals.

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