

OPPORTUNITY INCOME

ACTIVE FIXED INCOME

As of December 31, 2023 | Updated Annually

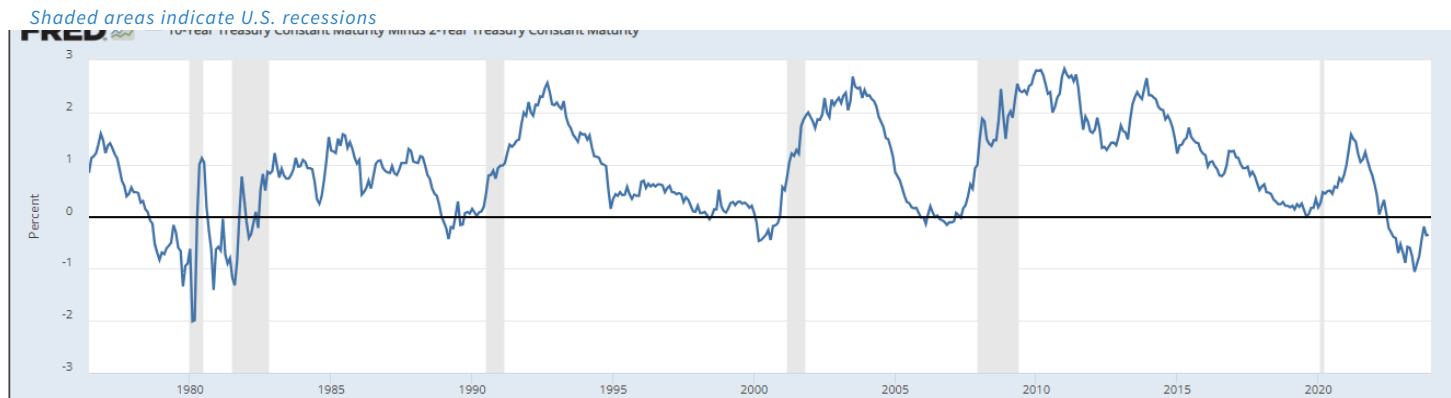
The bond market changes over time and an investor’s fixed income investments should be positioned to potentially minimize the impact of those expected changes. The bond market is not always as simple as “set and forget”. An active approach to managing key exposures to minimize the portfolio impact of surprises may achieve better outcomes over time. The Kingsview Investment Management Opportunity Income allocation aims to provide an historically informed, fundamental approach to core fixed income investing that may provide long-term superior risk-adjusted returns versus a typical aggregate bond benchmark.

ANALYZING THE 2-10 SPREAD

Fixed income markets historically tend to have very long cycles of rising or falling rates as the economy goes through expansionary and contraction phases. Traditionally investors try to guess not only where we are within the current rate cycle, but also where rates are likely to go in the months or years ahead.

Kingsview Investment Management believes trying to guess where rates are headed is a fool’s errand often fraught with fake outs. Over the past 50 years, as rates move from one extreme to another, it is the difference between the 2 and 10 year treasury yields that provide insightful clues for investors as to the current implied risk environment.

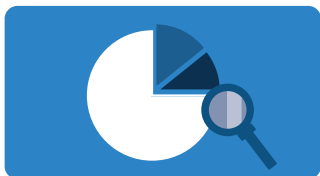
10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity



Federal Reserve Bank of St. Louis, 10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity (T10Y2Y), retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/T10Y2Y>, December 31, 2023.

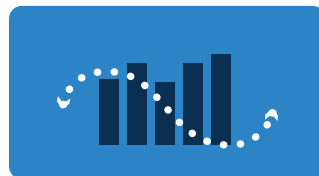
PORTFOLIO PROCESS

The Opportunity Income’s portfolio positioning is based on a risk framework that guides the specific holdings throughout the interest rate and credit cycles. This portfolio will also adjust with the goal being to optimize its positioning for the current cycle.



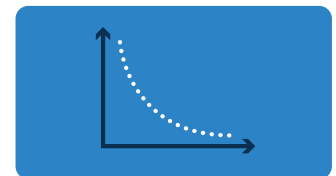
Evaluate the current yield curve and fixed income spreads

- Steepness vs History
- Current corporate spread vs history
- Current Weights of the Aggregate Bond Benchmark



Review best risk to reward opportunities within fixed income at the present position

- Probability of curve expanding or steepening from present position
- Probability of curve flattening or retracing from present position
- Review & measure correlations vs risk of all products within the Aggregate Bond Benchmark at each position



Construct Portfolio

- Attempt to build the best possible balanced FI asset allocation portfolio using components from the AGG
- Focus at this stage remains on the identifying appropriate components of the AGG bond benchmark for the month ahead
- Review monthly aiming to optimize risk vs reward

WHY OPPORTUNITY INCOME

Opportunity Income is a core fixed income holding and can be used by investors seeking a “permanent” fixed income allocation to balance the risks of investing in equities. It is a potential solution for investors wondering what to do today in the fixed income portion of their portfolios that might be worried about key bond risks such as Inflation, rising rates, or economic uncertainty.

Opportunity Income can be a core holding within a client’s portfolio that may provide long-term superior risk adjusted returns versus the Bloomberg Aggregate Bond Index. Opportunity Income is a mission specific allocation that only invests in fixed income securities and adapts to the current implied risk environment.

The portfolio provides the framework to possibly capitalize on shifts in the yield curve by recognizing where the economy and spreads are relative to historical relationships. Historically, very low or negative spreads have preceded recessions or severe market dislocations. When the curve is very steep, it is signaling a robust economy in expansion, likely with some inflationary pressure. This framework can be used to give a current position within historical reference, guiding appropriate risks to be taken. Opportunity Income provides a pure fixed income solution that addresses each of the stages in the yield curve structure.

The portfolio’s design came from the recognition that different types of bonds act differently depending on where we are in the cycle. Certain bond asset classes tend to perform better or worse based on whether we are in a steepening or declining yield curve environment.

Opportunity Income is positioned to take advantage of those differences by analyzing the current yield curve at the end of every month, and making changes as needed for the current environment.

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The Bloomberg US Aggregate Bond Total Return Index is an index designed to provide a measure of the performance of the U.S. investment grade bonds market, which includes investment grade U.S. Government bonds, investment grade corporate bonds, mortgage pass through-securities and asset-backed securities that are publicly offered for sale in the United States. The securities in the index must have at least 1 year remaining to maturity. In addition, the securities must be denominated in US dollars and must be fixed rate, nonconvertible, and taxable.