

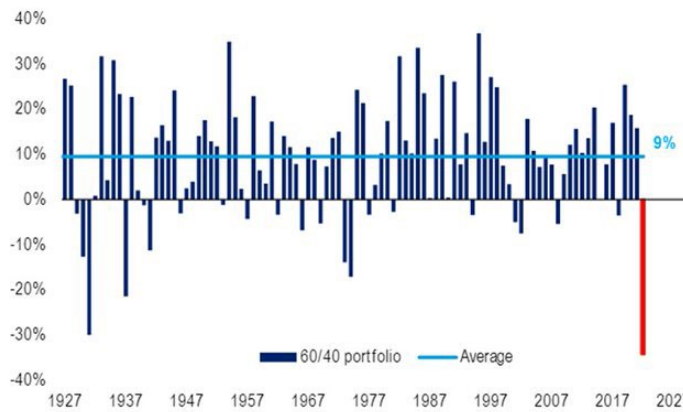
All iSectors performance is net of standard fees

Introduction

Navigating the current economic environment is becoming challenging. Inflation is higher than it has been in 40 years. 10-year treasury bond yields have been hovering around 4% after not touching that level in more than ten years. The S&P 500 is on pace for its worst year since 2008. GDP growth is slowing, and a recession is looming. This past year, as seen in the chart below, is the worst year for 60/40 stock/bond portfolios of the last 100 years!

Chart 3: "60/40" portfolio ann. worst YTD return in past 100 years

Annual 60/40 portfolio performance



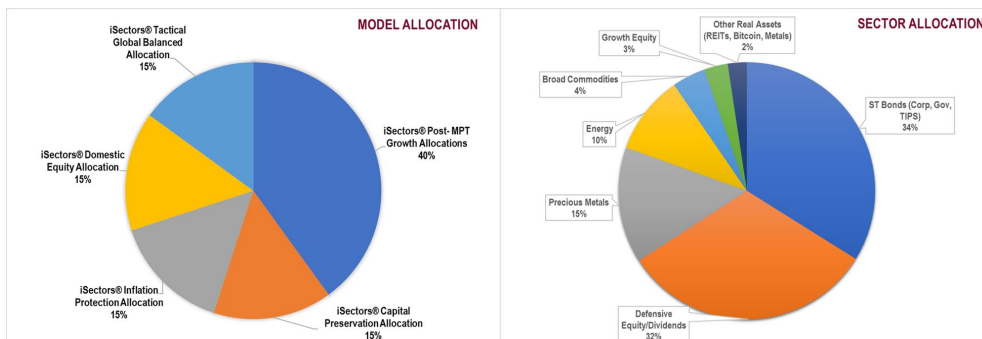
Source: BofA Global Investment Strategy, Global Financial Data, 2022 is YTD annualized

BofA GLOBAL RESEARCH

We do not claim to have all the answers. Every client's situation and goal are different and trying to predict exactly what will happen in the stock market is folly. However, we can reemphasize key principles that are important to remember when allocating a client's portfolio.

A client will be less likely to sell the low, if the low they experience is not below a level that fits their risk tolerance. Some of our recent research indicates that greater diversification (beyond 60/40) will help clients stay invested.

Taking this year as an example, a blend that mixes some ratio of the iSectors Post-MPT Moderate Allocation, the iSectors Domestic Equity Allocation, the iSectors Inflation Protection Allocation, and the iSectors Capital Preservation Allocation, would have outperformed a 60/40 index in any combination of those 4 models. A blend of these models includes much more than traditional stocks and bonds, including commodities, real estate, TIPS, quality dividend focused ETFs, various energy ETFs, and other real assets and alternatives.



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Contents are not complete without disclosures

For more information about the underlying holdings of these models, or if you would like more data on custom blends of these models, please reach out to us at 1-800-iSectors. You can view the replay of the October 20 webcast and download the presentation slides: [iSectors Q3 2022 Performance Insights](#)

Following you will find additional detailed information on the performance attribution of the iSectors models in 3Q 2022 and what drove both outperformance and underperformance vs. their respective benchmarks.

Index Overview

- Standard & Poor's 500 (S&P 500) Index fell 4.88% during the quarter, 23.87% year-to-date, and 15.47% over the past twelve months.
- MSCI All Country World ex-US Index (international stocks) lagged U.S. stocks in the 3rd quarter, with the index down 6.71%. The index has fallen 25.34% year-to-date and 20.29% over the past twelve months.
- Bloomberg U.S. Aggregate Bond Index narrowly outperformed stocks, falling 4.75% during the quarter. The index is down 14.61% year-to-date and 14.60% over the past twelve months.
- Bloomberg 1-3 Year Government Bond Index fell 1.22% in the quarter, 4.54% year-to-date, and 5.07% over the past twelve months.
- S&P Goldman Sachs Commodities Index decreased by 10.31% for the quarter but is up 21.80% year-to-date and 23.64% over the past twelve months.

iSectors[®] Allocation Model Commentary

[iSectors[®] Inflation Protection Allocation](#) and [iSectors[®] Precious Metals Allocation](#)

- The iSectors[®] Inflation Protection Allocation decreased by 4.86%, and the iSectors[®] Precious Metals Allocation lost 5.46% during the quarter. Year-to-date, the iSectors[®] Inflation Protection is down 6.92%, and iSectors[®] Precious Metals is down 10.69%. Over the past 12 months Inflation Protection is only down 3.92%, and Precious Metals is down 8.18%.
- Falling gold and silver prices negatively impacted both the iSectors[®] Precious Metals Allocation and the iSectors[®] Inflation Protection Allocation during the quarter. Palladium exposure in the iSectors[®] Precious Metals Allocation boosted returns for this model during the quarter and throughout 2022.
- Year-to-date iSectors[®] Inflation Protection Allocation has been consistently outperforming the iSectors[®] Precious Metals Allocation mainly because the current interest rate hiking environment has caused the value of the US dollar to increase rapidly, and this has negatively affected the price of gold and silver. iSectors[®] Inflation Protection Allocation does have exposure to gold and silver, but it is offset by short-term TIPS and other real asset exposure.
- So far this year, the iSectors[®] Inflation Protection Allocation has seen the most inflows of all the iSectors models. Many advisors are starting to realize that an alternative, inflation hedging solution should have a permanent place within client portfolios to diversify traditional equity and fixed income investments.

[iSectors[®] Post-MPT Allocations](#)

- iSectors[®] Post-MPT Growth Allocation underperformed during the third quarter of 2022, falling 7.33% versus the S&P 500's loss of 4.88%. iSectors[®] Post-MPT Moderate Allocation also underperformed its benchmark: losing 8.39% versus its 60/40 stock/bond benchmark, which was down 4.75%. (60/40 = 60% S&P 500 and 40% Bloomberg U.S. Aggregate Bond Index).
- Both Post-MPT models continue to outperform their benchmarks year-to-date with iSectors[®] Post-MPT Moderate Allocation down only 16.47% versus the 60/40 stock/bond benchmark down 20.10%, iSectors[®] Post-MPT Growth down 21.01% vs. the S&P 500 down 23.87%.
- Historically, the iSectors[®] Post-MPT Growth Allocation and the iSectors[®] Moderate Allocation tend to outperform the S&P 500 index when the S&P 500 index's returns grow at an annualized rate of less than 10% or when the S&P 500's returns are negative.
- During the quarter, energy holdings positively impacted the iSectors[®] Post-MPT Growth Allocation and the iSectors[®] Post-MPT Moderate Allocation. Treasury bonds detracted the most from returns of Moderate, while utilities and gold miners hurt Growth the most.
- During the quarter, both the iSectors[®] Post-MPT Growth and Moderate Allocations reduced exposure to treasury bond ETFs and increased exposure to healthcare ETFs. Growth is fully out of bonds for the first time since mid-2017 and Moderate has its lowest allocation to bonds since early 2018. Both models are positioned for a continued stagflationary economic environment, and given Growth's higher risk appetite it has a more concentrated allocation than Moderate with the only holdings being (in descending order of magnitude) healthcare, gold miners, energy, and utilities.
- Our interpretation of the reduction in bonds for both models is that the underlying economic data is still pointing to more rate hikes, at least at the level being communicated by the Fed, with a non-zero chance that they might be even more aggressive than expected over the coming months. The tightening has not yet flowed through to CPI or unemployment, and until those numbers show persistent changes, the Fed may very well continue on their current path, regardless of the pain it may bring to the broad market.

[iSectors[®] Tactical Global Balanced Allocation](#)

- The iSectors[®] Tactical Global Balanced Allocation lost 1.00% during the quarter. Its 60/40 stock/bond benchmark, was down 4.75% (60/40 = 60% S&P 500 and 40% Bloomberg U.S. Aggregate Bond Index).
- The model is down 4.25% year-to-date and 1.68% over the past year, handily outperforming the 60/40 stock/bond index in both of those periods.
- This is the best performing iSectors model over the last 1 and 3 years.
- Broad commodities ETFs hurt returns, while the large allocations to short-term bonds and notes helped limit losses during the quarter.
- The iSectors[®] Tactical Global Balanced Allocation is currently only invested in short-term investment grade bonds and notes, which are the cash substitutes utilized by the model. This is the only iSectors model with the ability to invest 100% in cash (or equivalents).

[iSectors[®] Capital Preservation Allocation](#)

- The iSectors[®] Capital Preservation Allocation was down 1.01% for the quarter, 3.90% year-to-date, and 3.90% over the past 12 months. It has outperformed the Bloomberg 1-3 Year Government Bond Index in each of those periods.
- The iSectors[®] Capital Preservation Allocation offers a cash alternative with short durations to preserve investment principal in our current economic environment characterized by increasing interest rates. It also provides the potential for enhanced returns versus money market funds while maintaining daily liquidity.

[iSectors[®] Domestic Equity Allocation](#)

- The iSectors[®] Domestic Equity Allocation was down 5.61% for the quarter, this underperformed the S&P 500 Index. Year-to-date and over the past 12 months, however, the strategy outperformed the S&P 500 index with declines of 19.33% and 11.49%, respectively.
- For the first time this year, quality dividend focused ETFs hurt relative performance by underperforming the S&P 500 in the quarter, while large cap growth ETFs outperformed the S&P 500.
- A tweak was made this quarter to increase the dividend/value sleeve of this model. A small portion of the large-cap growth exposure was sold, and with the proceeds a free cash flow focused ETF was bought. To this point, the only value exposure the model utilized was to quality dividend focused ETFs, but the new cash flow focused ETF complements the exposure of those dividend ETFs very well by owning companies with high free cash flow yield that do not find their way into either the dividend ETFs we own or the growth ETFs we own. It is a good diversifying addition to the model, and it goes along with our intermediate-term outlook of continued market volatility and value outperformance vs. growth.

[iSectors[®] Domestic Fixed Income Allocation](#)

- The iSectors[®] Domestic Fixed Income Allocation was down 0.52% for the quarter and 6.33% over the past twelve months. The model has outperformed the Bloomberg US Aggregate Bond Index over the past 1, 3, 5, and 10 year periods.
- The laddered nature of the model has helped aid returns this year as many of the 2022 dated bonds in the underlying ETFs have been maturing, leading to a natural lowering of duration throughout the year.

[iSectors[®] Enhanced Allocations](#)

- The iSectors[®] Enhanced Balanced Allocation decreased by 3.90% which outperformed the Morningstar Moderate Target Risk benchmark's decrease of 6.16% in the quarter. So far in 2022, iSectors[®] Enhanced Balanced Allocation is down 14.59%, while the moderate risk benchmark decreased by 22.82%.
- The iSectors[®] Enhanced Allocation series includes Income, Conservative, Balanced, Growth, and Aggressive allocation models. Each allocation blends short-term laddered bonds and equities focused on owning stocks that have increased their dividends for many consecutive years, with a 20% satellite allocation to iSectors' Post-MPT Growth Allocation.

[iSectors[®] Global Allocations](#)

- Third-quarter returns for the iSectors[®] Global Allocations ranged from -3.60% for iSectors[®] Global Fixed Income Allocation to -8.23% for iSectors[®] Global Equity Allocation. Each of the Global Allocations have outperformed matching blends of the MSCI All Country World Index and the FTSE World Government Bond Index year-to-date.
- Much like in iSectors[®] Domestic Equity Allocation, quality dividend-focused ETFs were relatively poor performers in the iSectors[®] Global Equity Allocation. Emerging market ETFs also contributed negatively to returns.
- The iSectors[®] Global Fixed Income Allocation's short-term high yield bond ETF exposure performed the best in the quarter. Mortgage-backed security ETFs had the worst returns in the model.

[iSectors[®] Liquid Alternatives Allocation](#)

- The iSectors[®] Liquid Alternatives Allocation lost 2.68% during the quarter, 12.42% year-to-date, and 10.10% over the past twelve months. The model underperformed its hedge fund index benchmark in each of those periods.
- The portfolio's allocations to both real estate ETFs and precious metals ETFs (bullion and miners) contributed most negatively to returns. Hedged strategies funds and ETFs protected the most from more extended declines in the model.

[iSectors[®] Endowment Allocation](#)

- The iSectors[®] Endowment Allocation's total return was down 5.69% for the quarter, 14.48% year-to-date, and 12.34% over the past twelve months. The quarterly returns underperformed vs. a 60/40 stock/bond index, but the model has outperformed year-to-date and over the last 12 months.
- The model's allocation to high yield fixed income ETFs and senior loan ETFs were the best relative performing positions in the quarter. International dividend ETFs hurt the strategy the most in the last quarter.

[iSectors[®] CryptoBlock[®] Allocations](#)

- The iSectors[®] CryptoBlock[®] Allocation lost 4.51% during the quarter, and the iSectors[®] CryptoBlock[®] II Allocation was down 2.32%.
- Spot bitcoin exposure, previously obtained via the Grayscale Bitcoin Trust (GBTC), is now being obtained via the Proshares Bitcoin Strategy (BITO). BITO is a futures-based product that has tracked the performance of bitcoin nearly as well as spot products like GBTC, without the nuance of navigating outsized premiums or discounts to NAV like GBTC has experienced over the last few years.

All model returns presented net of iSectors' management fee. Index comparisons are provided for information purposes. You cannot invest directly in an index, only in index funds that charge fees.

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