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Fixed Income Oros Fund Proposal

Agenda

1	Bonds, ETF Choices, and Tax Considerations
2	Portfolio Allocation and Duration
3	Bond Laddering and Long-Term Strategy
4	Economic Outlook and Investment Risks
5	Final Recommendation

Major Categories of U.S. Bonds

U.S. Treasury Bonds

- Issued by the federal government
- Not taxable on the state level
- Safest kind of bond investment
- Backed by U.S. taxing authority

Municipal Bonds

- Issued by state, local, and other government entities
- Backed by taxing authority or project cash flow
- Taxable and non-taxable municipal bonds

Corporate Bonds

- Backed by company cash flow
- Interest rates vary by credit quality
- No tax benefits for holders

High-Yield Corporate Bonds

- A subsector of corporate bonds
- Bonds with low credit quality
- Higher default rates and credit risk
- Higher yields

Tax Considerations for an Endowment Fund

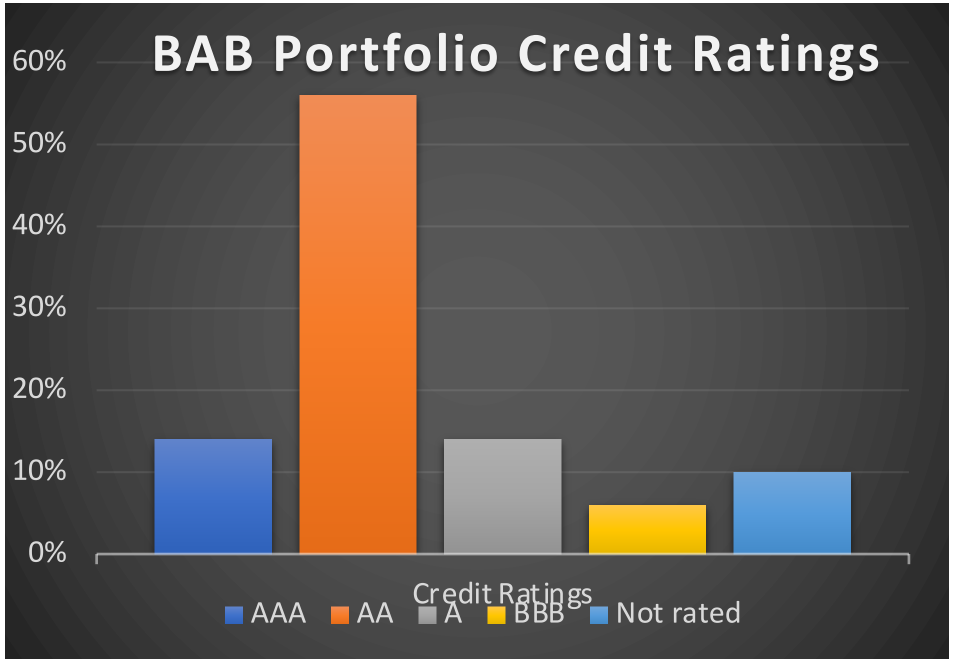
- The endowment fund pays no taxes
- The tax benefits from non-taxable Muni's and UST’s do not benefit us
- Bonds with tax benefits are priced accordingly
- The fund would be significantly overpaying if we bought a bond with tax benefits and were not able to benefit from them

ETF Choices

- TIP, iShares TIPS Bond ETF
  - Treasury Inflation Protected Securites to hedge against inflation
  - The Fed already owns a significant number of TIPS, so prices are artificially high
- LQDI, iShares Inflation Hedged Corporate Bond ETF
  - Tracks an index created to offset the inflation risk of investment-grade corporate bonds
- BAB, Invesco Taxable Municiple Bond ETF
  - 5.25% Yield
  - Effective Duration 7.9 Years
  - Total Expense Ratio 28 bps

BAB Credit Ratings

- High quality credit
- No high yield bonds
- Backed by local and state taxing authority
- Low Credit/default risk



Portfolio Allocation

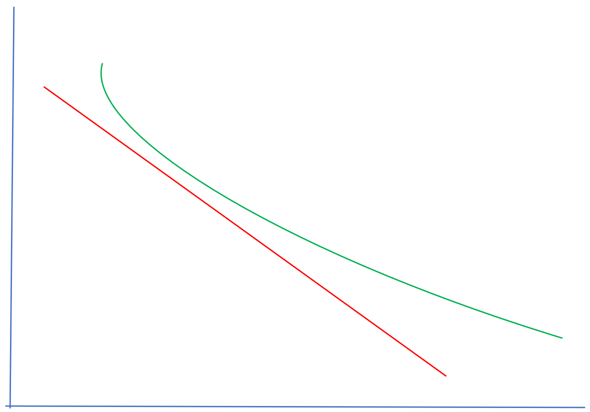
- Reality Income Corporation (REIT). 350 Shares/ MV: $22,708.77
- Silver ETF. 617 Shares/ MV: $12,858.28
- Tips ETF. 325 Shares/ MV: $31,629
- Cash on Hand: $53,078
- With $53,078 in cash, moving to an ETF investment is our best choice with cash on hand

Duration

- Time in years it will take a bond's cash flows to repay the price an investor paid for the bond
- Tells us how much a bond's price might change when interest rates change
- The higher the duration the more sensitive the price is to interest rate change
- A bond with a duration of 5 will increase or decrease 5% when interest rates change 1%
- Duration of a bond is determined by
  - Interest rate
  - Call features
  - Yield
  - Credit Quality
  - Maturity

Convexity

- Duration assumes that the relationship between interest rates and bond prices are linear
- Convexity demonstrates the curved relationship to give a more accurate representation
- More convexity means greater increases and smaller decreases when interest rates fluctuate by larger amounts



Holding Strategy: Bond Laddering vs Holding to Maturity

Bond Laddering: Creating a laddered structure to generate income and attempt to reduce risk in a portfolio with fixed income

- As interest rates rise bond prices fall, however, not all bonds have the same exposure to this risk
- By purchasing bonds with multiple maturity dates, investors can reduce interest rate risk while also earning a favorable yield

Example:

Treasury Note 1: 5 Years to Maturity and 3% Yield

Treasury Note 2: 3 Years to Maturity and 2% Yield

Treasury Bill: 1 Year to Maturity and 1% Yield

Part of the portfolio matures every two years averaging a 2% yield

If interest rates rise, reinvest the principle from the mature bond

Holding Strategy: Long-Term Outlook Post-Recession

- Largest Holding (BAB)
  - State of California Muni (AA/Aa2 Rating, Weight: 1.56%)
  - City of FT. Lauderdale (AAA/Aa2 Rating, Weight: 1.37%)
  - State of California Muni (AA/Aa2 Rating, Weight: 1.33%)
- Each Investment in BAB has high credit rating
- No High Yield Bonds/Corporate Bonds, Each backed by Local and State taxing authority
- One Bad Holding:

  - Western Michigan University Muni (Rating AA/Aa3 (Should be Junk Bond), Weight 0.16% (Will be 0 soon)). FIRE UP CHIPS

Economic Outlook

- Interest rates will decline in a recession
- Corporate and high-yield bonds are at risk of higher default rates
- Municipal bonds have a very low default rate
- Yields are the highest in a decade
- A Fed pivot in the next year will mean higher bond prices

Investment Risks

- Default rates rise within the portfolio
- Interest rates continue to rise
- Inflation is stickier then expected
- The Fed terminal rate is higher than the market currently thinks
- The Fed doesn’t pivot and leaves interest rates high

Summary & Final Recommendation

- **The Oros Fund buys $50,000 of BAB**
- **Take advantage of decade high interest rates**
- **Duration of 7.9 years**
- **Yield of 5.25%**
- **Position into safety ahead of a potential recession**
- **Realize capital gains in the event of a recession**