Julex Capital Management, LLC

Upside Participation, Downside Protection

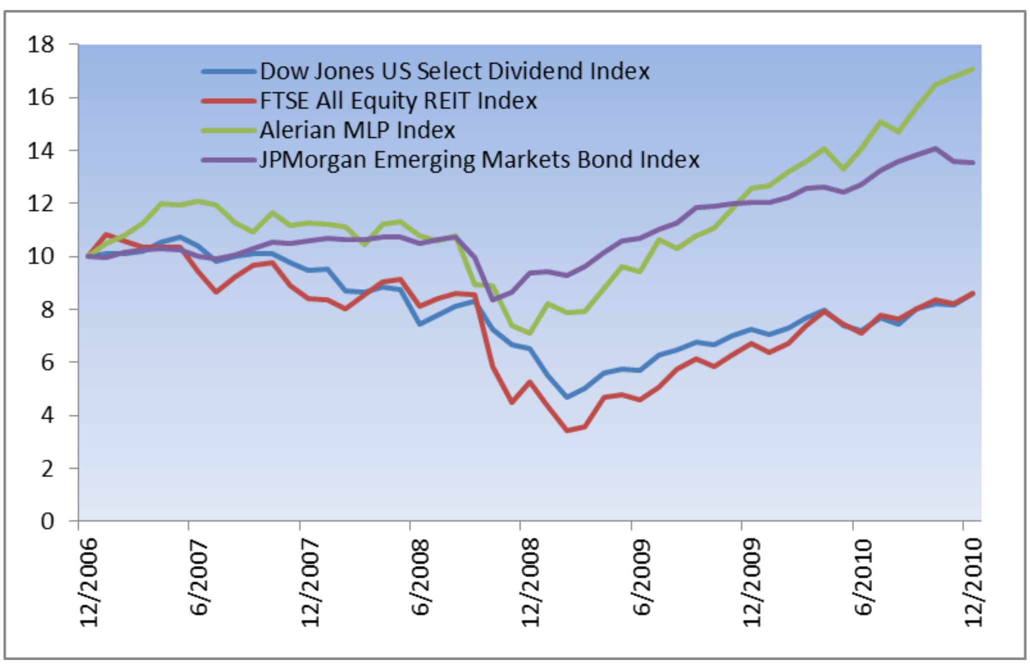
Yield-Seeking Goes Dynamic

Investors, especially those in or close to retirement have been relentlessly searching for yield in past five years as interest rates remain at a rock bottom. The traditional allocation to bonds, which yielded over 5% before 2007, is not an option when short-term interest rates are close to zero. As Jim Grant put it, the bond investments have turned from "risk-free returns" into "return-free risks". Many investors rushed to invest in the high-yielding risky assets such as dividend-paying stocks, emerging market debts, real-estate investment trusts, master limited partnerships, high yield bonds or other exotic products.

The recent rise in interest rates amid signs the Federal Reserve may taper its quantitative easing program has been painful for many yield-seekers. In last two months, real-estate investment trusts fell 8%, US dollar-denominated emerging market debts tumbled 9%, Treasury inflation-protection securities (TIPS) slid 8% and high yield debts dropped over 4%. The market volatility has put many investors on alert.

In addition to the risks of rising interest rates, many alternative income-generating asset classes are subject to significant risks such as corporate or country defaults, liquidity dry-up, real estate and equity market downturns. During the financial crisis of 2008, along with other risky assets, dividend stocks lost 57%, REITs tumbled 68%, MLPs dropped 41% and emerging market debts declined 33% (see Figure 1). These types of drawdown risks are hardly what a typical retiree can bear.

Figure 1: Income-Generating Asset Performance (2007-2010)



Data Sources: Bloomberg, Yahoo

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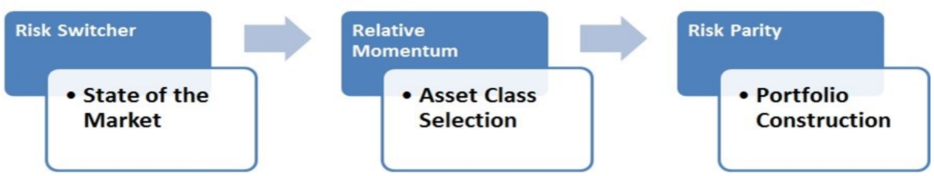
To meet the increasing demands from income investors, the fund management industry has created multi-asset income products, which experienced tremendous growth in last few years. According to a recent Barron's article, there are roughly 100 funds using multiple assets and generating high income launched since 2010, attracting $26 billion in assets. Most of these funds promise to generate better yields than traditional bond investments with allocations to a diversified set of income-generating asset classes.

However, many multi asset income funds behave like equity funds, or some aim for risk similar to that of 60%/40% stock/bond portfolio. For example, Franklin Income Fund (FKINX), Thornburg Investment Income Builder (TIBAX), Blackrock Multi Asset Income (BAICX) or Guggenheim Multi Asset Income ETF (CVY), the large funds in the space, all have 90% correlations with S&P 500 Index. They suffered 30% to 60% losses during the financial crisis. These funds are not ideal choices of a typical income investor.

Most of the income investors, who are in or close to their retirement, would prefer a safer way to generate income. For investors who are looking for high income as well as capital preservation, our innovative managed ETF product, Julex Dynamic Income Strategy, serves them better. We adopt a tactical and risk-managed approach to multi asset income investments. The strategy can invest in all the income-generating asset class ETFs and position in the most attractive assets in a systematic manner with an emphasis on capital preservation and downside protection. We have taken the best elements of proven investment strategies and combine them to create a robust rule-based investment process, which includes three steps:

- Risk on/off switcher through a composite indicator including economic, technical and risk indicators;
- Asset class/sector/country selection through relative momentum;
- Risk parity approach to portfolio construction.

Figure 2: Julex Capital Investment Process



In the "risk on" environment, we allocate part of the portfolio to high income risky asset ETFs such as REITs, MLPs, dividend stocks, emerging market and high yield bonds; in the "risk off" environment, we stay in safe asset ETFs such as cash or bonds.

The objective of the strategy is to generate 2% excess return over the popular bond index, Barclays Aggregate Index, with a similar risk profile. After it was launched in October 2012, the product has outperformed its benchmark by 6% on a consistent basis (see Figure 3). Despite its short history, the rule-based strategy has been back tested with twenty years of data. The back test statistics in Table 1 shows the strategy has low drawdown and volatility. Compared to other multi asset income strategies in the market, Julex Dynamic Income offers a high return alternative to traditional bond investments, especially in the rising interest rate environment. Table 2 illustrates that Julex Dynamic Income outperformed the bond index when interest rates are rising or stay stable in last 20 years.

In Summary, the Julex Dynamic Income Strategy is an ideal choice for income investors who want to generate higher return than bond investments without sacrificing the safety and stability that bond investments provide. In addition, current rising interest rates environment makes the strategy especially attractive as bond investments may continue losing value. As the market momentums of bonds have become negative, we currently position in dividend stocks, MLPs and keep a significant amount in cash.

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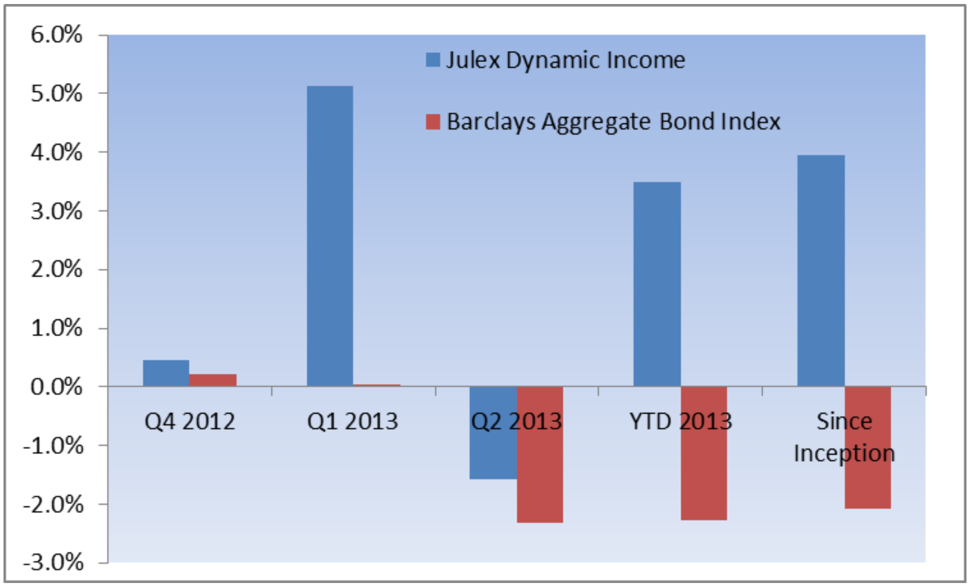
Figure 3: Julex Dynamic Income Performance (10/2012 – 06/2013)



Note: The performance for Julex strategies are un-audited gross returns before management fees. Performance is historical and does not guarantee future results.

Table 1: Back Test Performance Statistics (1993-2013)

	Dynamic Income Index	Barclays Aggregate Index
Average Monthly Return	0.7%	0.5%
Monthly Standard Deviation	1.1%	1.1%
Annualized Return	8.1%	6.0%
Annualized Standard Deviation	4.0%	3.7%
Sharpe Ratio (Risk-free Rate = 3.2%)	1.2	0.8
Maximum Drawdown (Loss)	-6.1%	-5.1%
Expected Time to Recover (Years)	0.8	0.9

Table 2: Strategy Performance in Different Interest Rate Environments

	Dynamic Income Index	Barclays Aggregate Index	Interest Rate Movement*
1993	14.5%	9.7%	Stable
1994	-0.5%	-2.9%	Rising
1995	16.4%	18.5%	Declining
1996	11.1%	3.6%	Stable
1997	13.0%	9.7%	Stable
1998	4.8%	8.7%	Declining
1999	3.5%	-0.8%	Rising
2000	9.3%	11.6%	Declining
2001	6.5%	8.4%	Stable
2002	4.5%	10.3%	Declining
2003	16.8%	4.1%	Stable
2004	6.9%	4.3%	Stable
2005	4.9%	2.4%	Stable
2006	8.3%	4.3%	Stable
2007	4.6%	7.0%	Stable
2008	1.6%	5.2%	Declining
2009	16.3%	5.9%	Rising
2010	11.8%	6.5%	Stable
2011	10.1%	7.5%	Declining
2012	5.3%	4.2%	Stable
2013 YTD	3.5%	-2.5%	Rising

Note: The performance in Table 1 and Table 2 are HYPOTHETICAL. It is based on the back tests of historical data. Hypothetical performance results have many inherent limitations. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular investment strategy.

* In Table 2, "Rising Interest Rate" is defined as over 85 basis points increase in Ten-year Treasury; "Declining Interest Rate" is defines as over 85 basis points decrease ; "Stable" is defined as interest rate movement within 85 basis points.

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