Make your cash work much harder

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Rising rates have made cash more valuable once more. Our favored opportunities stress quality, selectivity, and diversification.

Making your cash work harder is central to building a great portfolio. Investing cash in income-yielding assets and reinvesting that income can enhance a portfolio's overall returns, preserve wealth, meet periodic liquidity requirements and improve portfolio diversification. In 2019, these will be important benefits for most global portfolios.

Admittedly, making cash work harder has been challenging over recent years. Unprecedented levels of central bank quantitative easing drove yields on many assets to record lows. As we expected going into 2018, stronger global economic growth and the Federal Reserve's normalization of policy has since pushed fixed income yields higher in many markets. But while higher yields mean higher future cash flows, they have also meant falling fixed income prices. Returns on global fixed income benchmarks have been negative in 2018 for exactly that reason.

Making cash work harder will be hard in 2019. Developed economies are likely to keep growing, along with corporate earnings, while inflation may continue its gradual rise. As a result, we expect major central banks to tighten monetary policy further. Therefore, fixed income prices are at risk of further declines. Nevertheless, we can identify numerous opportunities for generating income from fixed income and receiving distributions from alternative investments.

High yield opportunities: be selective

As and when clients experience mark-to-market declines in the value of their bonds, cash flows will be an important driver of fixed income returns in 2019. In particular, US fixed income continues to offer some of the most compelling opportunities for preserving portfolio performance. US economic strength and Federal Reserve rate hikes have pushed up US Treasury yields well above those of most other developed fixed income markets. The higher future cash flows that many US fixed income assets now offer can help offset price falls in the event of more rate hikes or widening credit spreads.

As an asset class, US high yield (HY) fixed income has outperformed in 2018, producing a total return of 0.5% through November 2018. Average positive interest returns of 6% have more than offset an average 5.5% fall in principal values. The US HY market currently offers a yield of more than 7% – **figure 1** – and Citi Private Bank's Global Investment Committee continues to recommend an overweight position.

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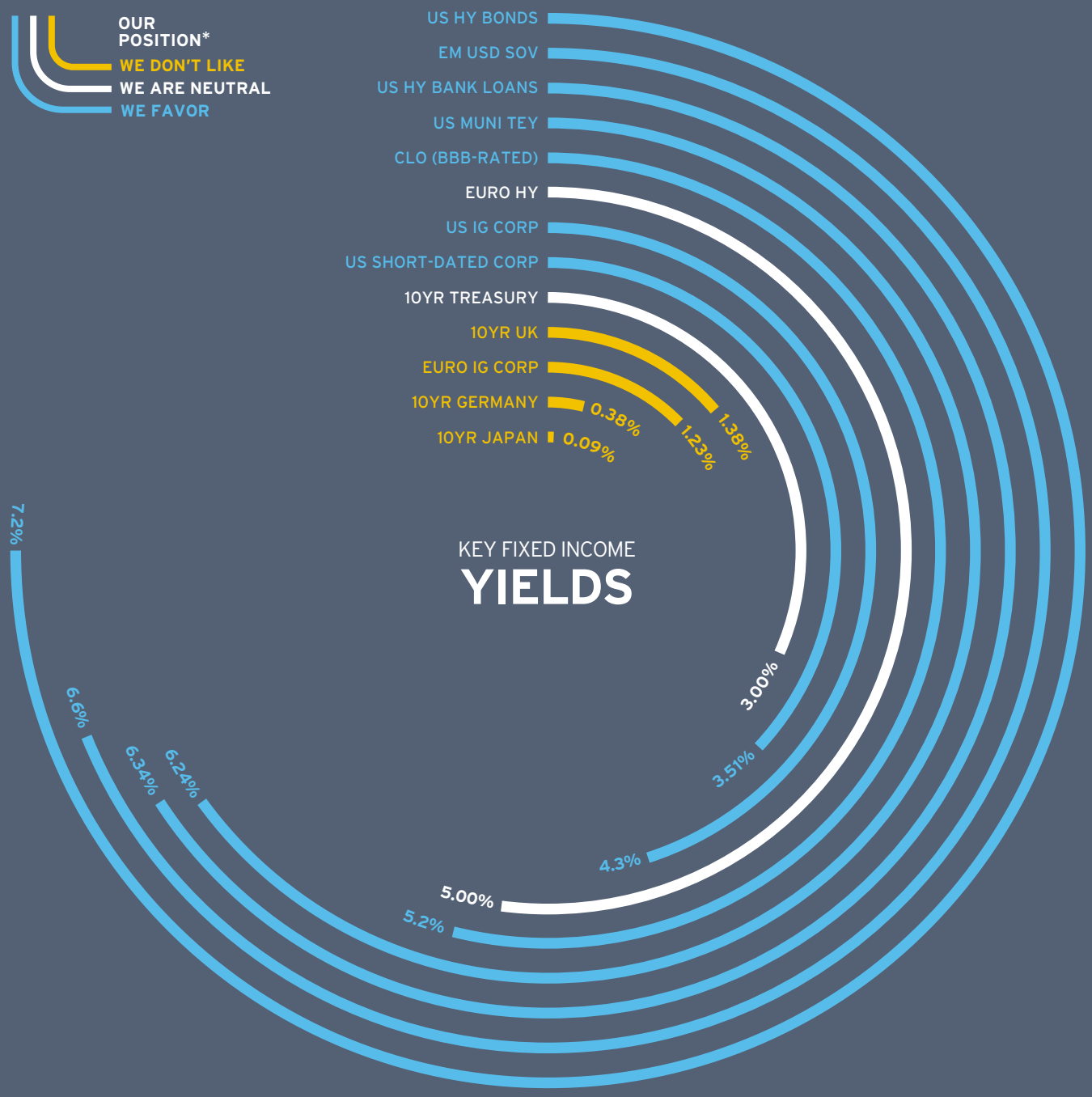
Of course, we are also recommending specific sectors where operations are less likely to be impacted by economic slowdowns. By contrast, we remain neutral European HY fixed income, whose average yields of below 5% may not be enough to offset principal losses.

We are also attracted to US HY fixed income's diversification potential. HY fixed income has historically been less correlated with investment-grade fixed income assets, such as US Treasuries and US agency mortgage backed securities. High yield has instead moved more in line with equities, where we expect positive returns in 2019.

One major risk associated with US HY bonds are spreads. While absolute yields are somewhat appealing, spreads over US Treasury yields have narrowed significantly. Indeed, HY benchmark spreads reached their tightest levels in the last eleven years during the last quarter of 2018. While the recent decline in oil has pushed spreads wider, valuations remain below their historical average. Indeed, it is quite possible that spreads will remain below average for longer and that defaults will remain low. (They are currently 2.6% and likely to fall further in 2019.) However, we have to be mindful that demand for yield is sometimes blind to quality. We advise investors to seek the right bonds from suitable companies.



*Indicates views of the Citi Private Bank Global Investment Committee
Source: Bloomberg, The Yield Book as of 30 Nov, 2018. Past performance is no guarantee of future events. Real results may vary.
The indices are unmanaged, are not investable, have no expenses and reflect reinvestment of dividends and distributions. Index data is provided for comparative purposes only. Investors cannot invest in an index. Please see the glossary for the definition of terms.

Floating rates provide portfolio buoyancy

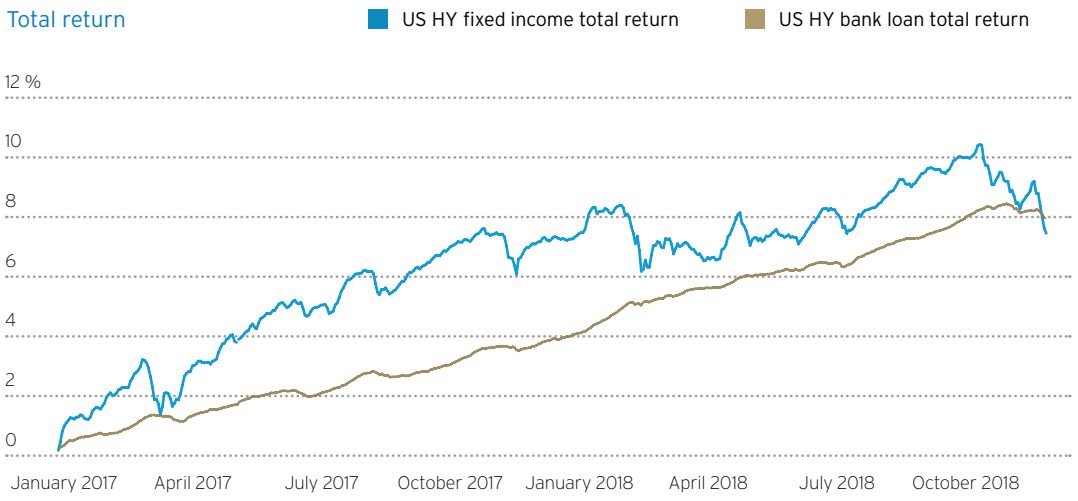
Floating rate assets may also make a useful contribution to portfolios in 2019. One variety that we favor is US HY variable rate bank loans accessed via third-party portfolio managers. Bank loans' coupon payments rise and fall with US LIBOR rates. As the Federal Reserve has hiked rates over the last twelve months, LIBOR has hit its highest levels in a decade. The appeal of earning higher rates has led to strong positive net inflows into US bank loans in each of the first nine months of 2018. Year-to-date, US HY variable rate bank loans have outperformed US HY fixed income – after underperforming in 2017 – and have generated a total return of 3%. What is more, these returns have historically been achieved with less volatility than those of US HY fixed income – **figure 2**.

As of 30 November 2018, HY bank loans offer a yield of 6.5%. This is made up of 3-month LIBOR – currently 2.75% – plus a spread. As well as their floating rate income, they may also provide potential diversification benefits.

Over time, they have been negatively correlated with US Treasury debt. Nevertheless, bank loans are not without risks. For example, if corporate borrowing conditions become easier – i.e. the credit spread they have to pay narrows – many companies will repay their existing loans and refinance at lower rates. If that happens, loan investors' future cash flows get reduced, even though LIBOR rates are increasing.

Tighter credit spreads were a major feature of the bank loan market in 2018, as investor demand intensified. Indeed, nearly 60% of new supply volume was either through a repricing or refinancing of a pre-existing bank loan. With the US Fed likely to tighten policy by an additional 100 basis points (bp) over the coming year, interest in floating-rate debt may remain elevated. This may keep spreads under pressure, and could act as a drag on potential performance. However, low defaults and low price volatility can help offset any slower incremental increase in cash flow.

FIGURE 2. HY BANK LOANS: ATTRACTIVE YIELDS, LESS VOLATILITY



Source: Bloomberg Barclays Indices, S&P as of 19 Nov 2018. The indices are unmanaged, are not investable, have no expenses and reflect reinvestment of dividends and distributions. Index data is provided for comparative purposes only. Past performance is no guarantee of future events. Real results may vary.

Structured credit may add portfolio strength

Structured credit, also known as 'securitized debt', involves securities backed by assets such as car loans, aircraft loans or non-agency residential mortgages. Depending on the underlying pool of assets, yields here can range from as low as 3% to 10%, or higher. Coupons generated by structured credit are typically floating-rate. They thus have the potential to outperform during periods of rising interest rates, but may suffer when rates fall.

Floating rate structured credit can also help diversify portfolios. Unlike traditional bonds, these securities do not tend to fall in price as interest rates rise. The other drivers of their returns and risks can also be rather different. For example, certain collateralized bonds can contain US residential mortgage loans. As a result, changes in US home prices may have a larger influence on the securities' price movement than any change in corporate defaults.

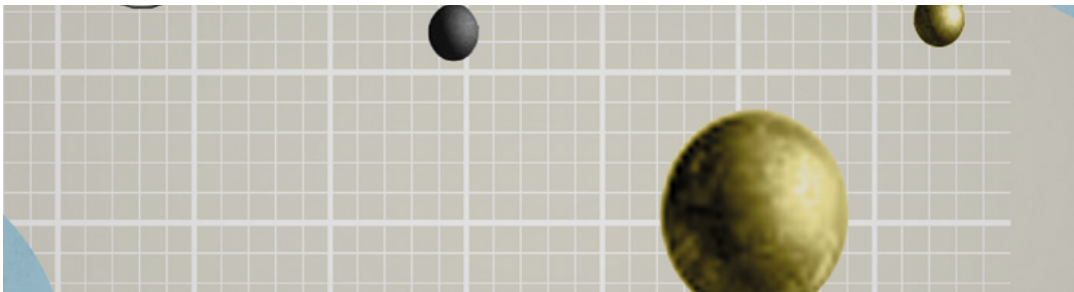
Among structured credit's main risks are relatively lower levels of liquidity. Indeed, certain securities trade less frequently, which may make them harder to exit quickly at a competitive price. However, this is not always the case. In fact, their lower liquidity may also create lower-priced buying opportunities for investors with a longer investment horizon. Given our expectation of further US economic growth and declining corporate defaults, we would expect floating rate structured credit to generate returns above aggregate bond benchmarks over the year ahead.

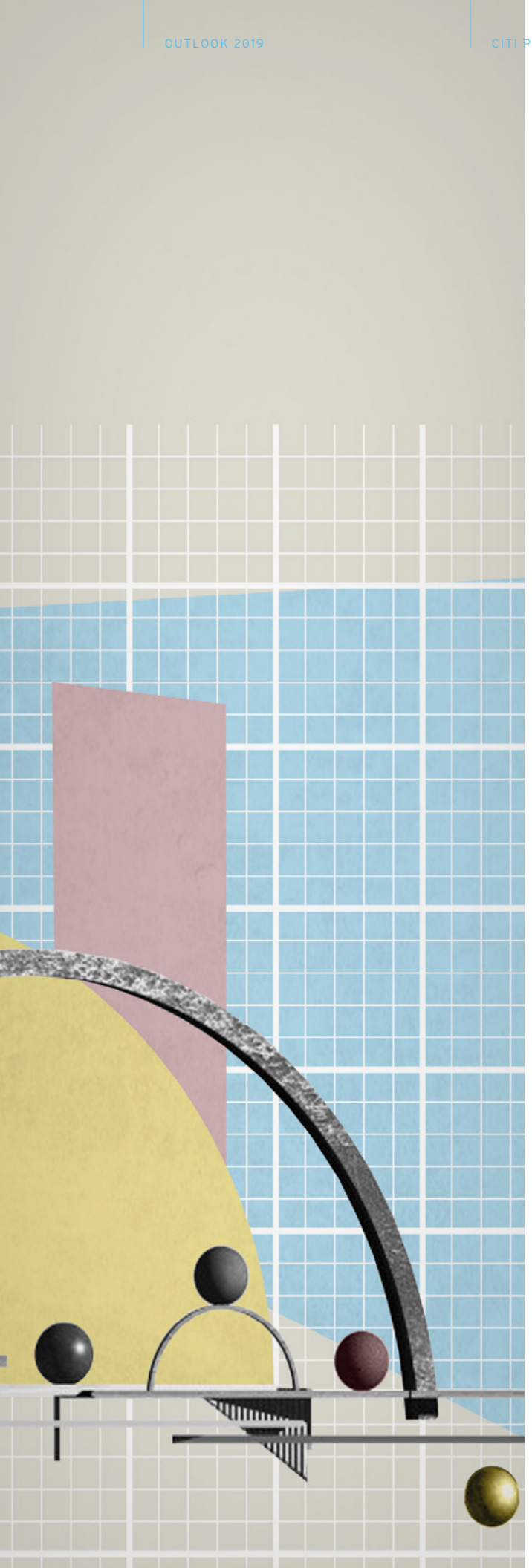
Munis with allure

We see many attractive possibilities for income-seeking investors in tax-exempt US municipal fixed income (munis). Among shorter-dated maturities, rising Fed interest rates have driven up yields of both fixed and floating rate munis. The tax equivalent yield on a US muni variable-rate demand note (VRDN) for investors in a high income US state is 3.2%. That's attractive relative to equivalent taxable yields.

We advocate a 'barbell' strategy of owning both longer-dated and shorter-term maturities. Longer-dated maturities also currently offer compelling valuations because of reduced demand from banks and insurers following the US corporate tax cut. We believe that the valuations of longer-dated tax-exempt munis compared to taxable bonds can drive outperformance if interest rates continue to rise.

Munis will always be susceptible to changes in US Treasury rates. Despite outperforming US Treasuries in 2018, muni benchmarks still produced negative returns. That's why we advocate portfolios that go off benchmark and include slightly lower credits. Value can be found among lower-rated investment grade issuers. Indeed, yields on single A-rated muni issuers can exceed Treasury yields, enhancing their overall competitiveness relative to taxable bonds. This should also provide a boost to performance in the event US rates keep rising. However, investing in lower quality requires appropriate diversification and a more active approach while managing the potentially increased level of risk. Although spreading exposures across a broad variety of municipal localities can hold back returns, it can also limit idiosyncratic volatility. Using an active approach provides a good balance between preserving capital and enhancing performance.





Alternative strategies: Trading liquidity for higher yields

For investors willing to sacrifice liquidity and take more risk, certain alternative strategies may provide opportunities for receiving recurring distributions. These distributions are not income in the traditional sense, as they may be paid intermittently. One type of strategy that we favor involves investing in collateralized loan obligations (CLOs) via a private equity manager. A CLO is a security that is backed by a diversified pool of perhaps more than 150 senior-secured, liquid, corporate loans, and is managed by a CLO manager.

CLOs are split into various 'tranches' of seniority. In the event of underlying loan defaults, the most junior tranche – equity – suffers losses first. In return for taking additional risk, CLO equity holders can potentially receive higher yields. By focusing on the junior or riskier tranches, it is possible for active managers to generate gross equity leveraged returns of 10 to 14% a year. Obviously, portfolio managers and diversification are essential with CLOs.

Interestingly, actively managed CLOs have experienced lower default rates and high recovery rates – that is, lower overall loss rates – than broadly syndicated loans. Also, during difficult economic environments, CLO managers with locked-up structures – which prevent them from becoming forced sellers – can reinvest in cheaper loans, which may help offset any credit loss.

The current environment for CLOs continues to look attractive. CLO managers are still able to lock in debt financing at competitive rates and then capture a favorable spread between their financing rates and the returns on their loan assets. And, because the underlying loans and financing are based on floating rate LIBOR, CLO equity holders directly benefit as interest rates rise. With US GDP growth likely to continue in 2019, default rates could also keep declining.

Real estate related fixed income

With the US economic expansion intact, lending to commercial real estate borrowers offers another way to make cash work harder. The US real estate market remains robust despite global uncertainty. US real estate deal volume for both August and the year to date is ahead of the equivalent periods in 2017[1]. So, one of our investment strategies is to participate via private real estate lenders who create diversified portfolios of mezzanine loans and mortgage participations backed by US real estate assets. These performing loans are floating-rate and offer a natural hedge in a rising rate environment. As a result, these investments may perform well in our expected scenario of continued growth and Fed rate hikes.

While rising rates tend to benefit floating rate loans, they could also dampen commercial real estate activity and thus borrower demand for debt investments. However, since interest rates are still relatively low and set to rise only gradually, a slowdown in commercial real estate transaction volume in the near term seems unlikely. Increased competition among lenders to this sector represents another risk to returns. That said, banks are still reducing their exposure to commercial real estate, while private lenders continue to grow market share and borrower acceptance as an alternative commercial real estate lender.

Advice is critical as your cash becomes more valuable

In today's late-cycle environment, there are fewer obvious opportunities to make cash work harder than there were a decade ago. But they do still exist. We advocate a selective approach, combining strategies appropriate for each investor's individual portfolio requirements. We believe the time to put cash to work is now and the rewards could be attractive.

Jeffrey Locke also contributed to this article.

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1 Real Capital Analytics, August 2018

NOTES

It should be noted that investing in either private equity or real estate may change the risk profile of your portfolio. There are also additional qualification requirements that need to be met prior to investing. Private equity and real estate are Alternative investments, they are speculative and entail significant risks that can include:

- losses due to leveraging or other speculative investment practices

- lack of liquidity

- volatility of returns

- restrictions on transferring interests in the fund

- potential lack of diversification

- absence of information regarding valuations and pricing

- complex tax structures and delays in tax reporting

- less regulation and higher fees than mutual funds

- and advisor risk

Investments mentioned in this document may not be suitable for all investors. Before making any investment, each investor must obtain the investment offering materials, which include a description of the risks, fees and expenses and the performance history, if any, which may be considered in connection with making an investment decision. Each investor should carefully view the risks associated with the investment and make a determination based upon the investor's own particular circumstances, that the investment is consistent with the investor's investment objective(s) and risk tolerance. No guarantee or representation is given that any product will achieve its investment objectives.

An investor cannot invest directly in an index. They are shown for illustrative purposes only.

Past performance is no guarantee of future returns. Real results may vary.

All forecasts are expressions of opinion and are subject to change without notice and are not intended to be a guarantee of future events.

There may be additional risk associated with international investing, including foreign, economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes, and differences in financial and accounting standards. These risks may be magnified in emerging markets. International investing may not be for everyone.

Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer's credit rating, or creditworthiness, causes a bond's price to decline. High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues. Finally, bonds can be subject to prepayment risk. When interest rates fall, an issuer may choose to borrow money at a lower interest rate, while paying off its previously issued bonds. As a consequence, underlying bonds will lose the interest payments from the investment and will be forced to reinvest in a market where prevailing interest rates are lower than when the initial investment was made.

ABS/MBS products

Mortgage-backed securities ('MBS'), which include collateralized mortgage obligations ('CMOs'), also referred to as real estate mortgage investment conduits ('REMICs'), may not be suitable for all investors. There is the possibility of early return of principal due to mortgage prepayments, which can reduce expected yield and result in reinvestment risk. Conversely, return of principal may be slower than initial prepayment speed assumptions, extending the average life of the security up to its listed maturity date (also referred to as extension risk).

Additionally, the underlying collateral supporting non-Agency MBS may default on principal and interest payments. In certain cases, this could cause the income stream of the security to decline and result in loss of principal. Further, an insufficient level of credit support may result in a downgrade of a mortgage bond's credit rating and lead to a higher probability of principal loss and increased price volatility. Investments in subordinated MBS involve greater credit risk of default than the senior classes of the same issue. Default risk may be pronounced in cases where the MBS security is secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying mortgage loans.

MBS are also sensitive to interest rate changes which can negatively impact the market value of the security. During times of heightened volatility, MBS can experience greater levels of illiquidity and larger price movements. Price volatility may also occur from other factors including, but not limited to, prepayments, future prepayment expectations, credit concerns, underlying collateral performance and technical changes in the market.

Please read offering documents and/or prospectus information carefully for the risks associated with the particular MBS security you are purchasing. High-Yield Bond A bond with unfavorable credit characteristics that is typically non-rated or rated below investment grade. A high-yield bond trades at yields substantially higher than bonds with more favorable credit characteristics and often suffers from lack of liquidity and marketability.

Glossary

ASSET CLASS DEFINITIONS

Cash is represented by US 3-month Government Bond TR, measuring the US dollar-denominated active 3-Month, fixed-rate, nominal debt issues by the US Treasury.

Commodities asset class contains the index composites — GSCI Precious Metals Index, GSCI Energy Index, GSCI Industrial Metals Index, and GSCI Agricultural Index — measuring investment performance in different markets, namely precious metals (e.g., gold, silver), energy commodity (e.g., oil, coal), industrial metals (e.g., copper, iron ore), and agricultural commodity (i.e., soy, coffee) respectively. Reuters/ Jeffries CRB Spot Price Index, the TR/CC CRB Excess Return Index, an arithmetic average of commodity futures prices with monthly rebalancing, is used for supplemental historical data.

Global Developed Market Corporate Fixed Income is composed of Bloomberg Barclays indices capturing investment debt from seven different local currency markets. The composite includes investment grade rated corporate bonds from the developed-market issuers.

Global Developed Market Equity is composed of MSCI indices capturing large-, mid- and small-cap representation across 23 individual developed-market countries, as weighted by the market capitalization of these countries. The composite covers approximately 95% of the free float-adjusted market capitalization in each country.

Global Developed Investment Grade Fixed Income is composed of Barclays indices capturing investment-grade debt from twenty different local currency markets. The composite includes fixed-rate treasury, government-related, and investment grade rated corporate and securitized bonds from the developed-market issuers. Local market indices for US, UK and Japan are used for supplemental historical data.

Global Emerging Market Fixed Income is composed of Barclays indices measuring performance of fixed-rate local currency emerging markets government debt for 19 different markets across Latin America, EMEA and Asia regions. iBoxx ABF China Govt. Bond, the Markit iBoxx ABF Index comprising local currency debt from China, is used for supplemental historical data.

Global High Yield Fixed Income is composed of Barclays indices measuring the non-investment grade, fixed-rate corporate bonds denominated in US dollars, British pounds and Euros. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. Ibbotson High Yield Index, a broad high yield index including bonds across the maturity spectrum, within the BB-B rated credit quality spectrum, included in the below-investment-grade universe, is used for supplemental historical data.

Hedge Funds is composed of investment managers employing different investment styles as characterized by different sub categories – HFRI Equity Long/Short: Positions both long and short in primarily equity and equity derivative securities; HFRI Credit: Positions in corporate fixed income securities; HFRI Event Driven: Positions in companies currently or prospectively involved in wide variety of corporate transactions; HFRI Relative Value: Positions based on a valuation discrepancy between multiple securities; HFRI Multi Strategy: Positions based on realization of a spread between related yield instruments; HFRI Macro: Positions based on movements in underlying economic variables and their impact on different markets; Barclays Trader CTA Index: The composite performance of established programs (Commodity Trading Advisors) with more than four years of performance history.

High Yield Bank Loans are debt financing obligations issued by a bank or other financial institution to a company or individual that holds legal claim to the borrower's assets in the event of a corporate bankruptcy. These loans are usually secured by a company's assets, and often pay a high coupon due to a company's poor (non-investment grade) credit worthiness.

Private Equity characteristics are driven by those for Developed Market Small-Cap Equities, adjusted for illiquidity, sector concentration, and greater leverage.

INDEX DEFINITIONS

The **Bloomberg Barclays Global Aggregate Bond Index** is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

The **Bloomberg-JP Morgan Asia Currency Index** is designed as a spot index of the most actively traded currency pairs in Asia's emerging markets valued against the US dollar.

The **CSI 300** is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges. It was considered as a blue chip index for mainland China stock exchanges

Citi US Broad Investment Grade Index (USBIG)—Corporate, is a subsector of the USBIG. The index includes fixed rate US dollar denominated investment grade corporate debt within the finance, industrial and utility sectors. This index includes US and non-US corporate securities (excludes US government-guaranteed and non-US sovereign and provincial securities).

Citi Emerging Markets Sovereign Bond Index includes local currency sovereign bond indices for 14 emerging markets countries. These indices comprise fixed-rate sovereign debt with at least one-year until maturity. They are market capitalization-weighted and rebalanced monthly for Brazil, Chile, Colombia, Hungary, Indonesia, Malaysia, Mexico, Peru, Philippines, Poland, Russia, Thailand, Turkey, and South Africa.

The **Citi Euro Broad Investment Grade Index** is a multi-asset benchmark for investment-grade, Euro-denominated fixed income bonds. It includes government, government-sponsored, collateralized, and corporate debt.

Citi's US High-Yield Market Index is a US dollar-denominated index which measures the performance of high-yield debt issued by corporations domiciled in the US or Canada. Recognized as a broad measure of the North American high-yield market amongst all Citi's fixed income indices, it includes cash-pay and deferred-interest securities. All the bonds are publically placed, have a fixed coupon, and are non-convertible.

The **Citi World Broad Investment Grade Index** is a multi-asset, multicurrency benchmark which provides a measure of the global fixed income markets.

The **Euro Stoxx 600** represents large-, mid- and small-cap companies across 17 countries across Europe including: Austria, Belgium, Czech Republic, Denmark, Finland, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

The **MSCI Emerging Markets Index** captures large- and mid- cap representation across twenty-four Emerging Markets (EM) countries. With 837 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The **MSCI Emerging Markets (EM) Latin America Index** captures large and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 113 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The **MSCI World Index** represents the performance of more than 1,600 large- and mid-cap stocks across 23 developed markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country

The **MSCI World ex-USA Index** represents the performance of large and mid-cap representation across 22 of 23 developed markets countries excluding the United States. With 1,005 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The **Standard & Poor's 500 Index** is a capitalization-weighted index that includes a representative sample of 500 leading companies in leading industries of the US economy. Although the S&P 500 focuses on the large-cap segment of the market, with over 80% coverage of US equities, it is also an ideal proxy for the total market.

OTHER TERMINOLOGY

Adaptive Valuations Strategies is Citi Private Bank's own strategic asset allocation methodology. It determines the suitable long-term mix of assets for each client's investment portfolio. Correlation is a statistical measure of how two assets or asset classes move in relation to one another. Correlation is measured on a scale of 1 to -1. A correlation of 1 implies perfect positive correlation, meaning that two assets or asset classes move in the same direction all of the time. A correlation of -1 implies perfect negative correlation, such that two assets or asset classes move in the opposite direction to each other all the time. A correlation of 0 implies zero correlation, such that there is no relationship between the movements in the two over time.

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LIBOR – The London interbank offered rate is the rate of interest at which banks offer to lend funds to each other. It is used a reference rate for large amounts of financial contracts.

Price-to-book ratio (P/B) compares the capitalization of an individual stock or of an index of stocks to the value of that stock or that index's combined shareholder capital. It is calculated by dividing the current closing price of the stock by the most recently reported book value per share. A low P/B can indicate a lowly-valued company or index, while a high P/B can indicate high valuation.

Price-earnings ratio (P/E) measures a company's or an index of companies' current share price relative to its earnings per share. A low P/E can indicate a lowly-valued company or index, while a high P/E can indicate high valuation.

Return on equity (ROE) is the amount of net income earned as a percentage of shareholders equity. It captures a company's profitability – or aggregate profitability among numerous companies – by showing how much profit is achieved with shareholders' capital.

Sharpe ratio is a measure of risk-adjusted return, expressed as excess return per unit of deviation, typically referred to as risk.

Strategic asset allocation is the process of creating a long-term investment plan by assembling an appropriate mix of equities, fixed income, cash and other investments. It can potentially enhance portfolio returns and help manage risk. Strategic Return Estimates are Citi Private Bank's forecast of returns for specific asset classes over a 10-year time horizon. The forecast for each specific asset class is made using a proprietary methodology that is appropriate for that asset class. Equity asset classes are forecast using a proprietary methodology based on the calculation of valuation levels with the assumption these valuation levels revert to their longterm trends over time. Fixed Income asset classes are forecast using a proprietary methodology based on current yield levels. Other asset classes have other specific forecasting methodologies. Please note that hedge funds, private equity, real estate, structured products and managed futures are generally illiquid investments and are subject to restrictions on transferability and resale. Each SRE is gross of actual client fees and expenses. Components of the methodology used to create the SREs include the rate of return for various asset classes based on indices. Termination and replacement of investments may subject investors to new or different charges. Past performance is not indicative of future results. Future rates of return cannot be predicted with certainty. Investments that pay higher rates of return are often subject to higher risk and greater potential loss in an extreme scenario. The actual rate of return on investments can vary widely over time, especially for long-term investments. This includes the potential loss of principal on your investment. It is not possible to invest directly in an index.

Tactical asset allocation looks to adjust the strategic asset allocation of a client's investment portfolio to incorporate shorter-term market insights.

Volatility – is a statistical measure of the variation of returns for a given security, market index, or asset class. It is most often measured by way of standard deviation. The higher the volatility, the riskier the underlying asset is considered to be.

Yield-to-Maturity (YTM) is the total return received on a bond or index of bonds when held to maturity. The total return includes both the payment of coupons and the return of the principal at maturity.

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Mortgage-backed securities ("MBS"), which include collateralized mortgage obligations ("CMOs"), also referred to as real estate mortgage investment conduits ("REMICs"), may not be suitable for all investors. There is the possibility of early return of principal due to mortgage prepayments, which can reduce expected yield and result in reinvestment risk. Conversely, return of principal may be slower than initial prepayment speed assumptions, extending the average life of the security up to its listed maturity date (also referred to as extension risk).

Additionally, the underlying collateral supporting non-Agency MBS may default on principal and interest payments. In certain cases, this could cause the income stream of the security to decline and result in loss of principal. Further, an insufficient level of credit support

may result in a downgrade of a mortgage bond's credit rating and lead to a higher probability of principal loss and increased price volatility. Investments in subordinated MBS involve greater credit risk of default than the senior classes of the same issue. Default risk may be pronounced in cases where the MBS security is secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying mortgage loans.

MBS are also sensitive to interest rate changes which can negatively impact the market value of the security. During times of heightened volatility, MBS can experience greater levels of illiquidity and larger price movements. Price volatility may also occur from other factors including, but not limited to, prepayments, future prepayment expectations, credit concerns, underlying collateral performance and technical changes in the market.

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Asset allocation does not assure a profit or protect against a loss in declining financial markets.

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