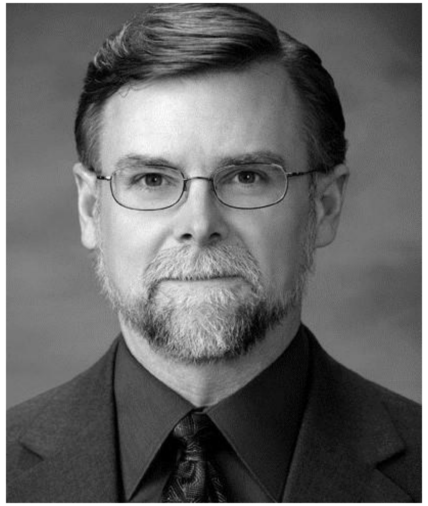
Inflation Managed 65/35 Global Stock/Bond K-1

Rob Brown, PhD, CFA

Chief Investment Officer, Senior Vice President

Supported by an Investment Committee with over 300 years of combined institutional investment experience



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Inflation Managed 65/35 Global Stock/Bond K-1

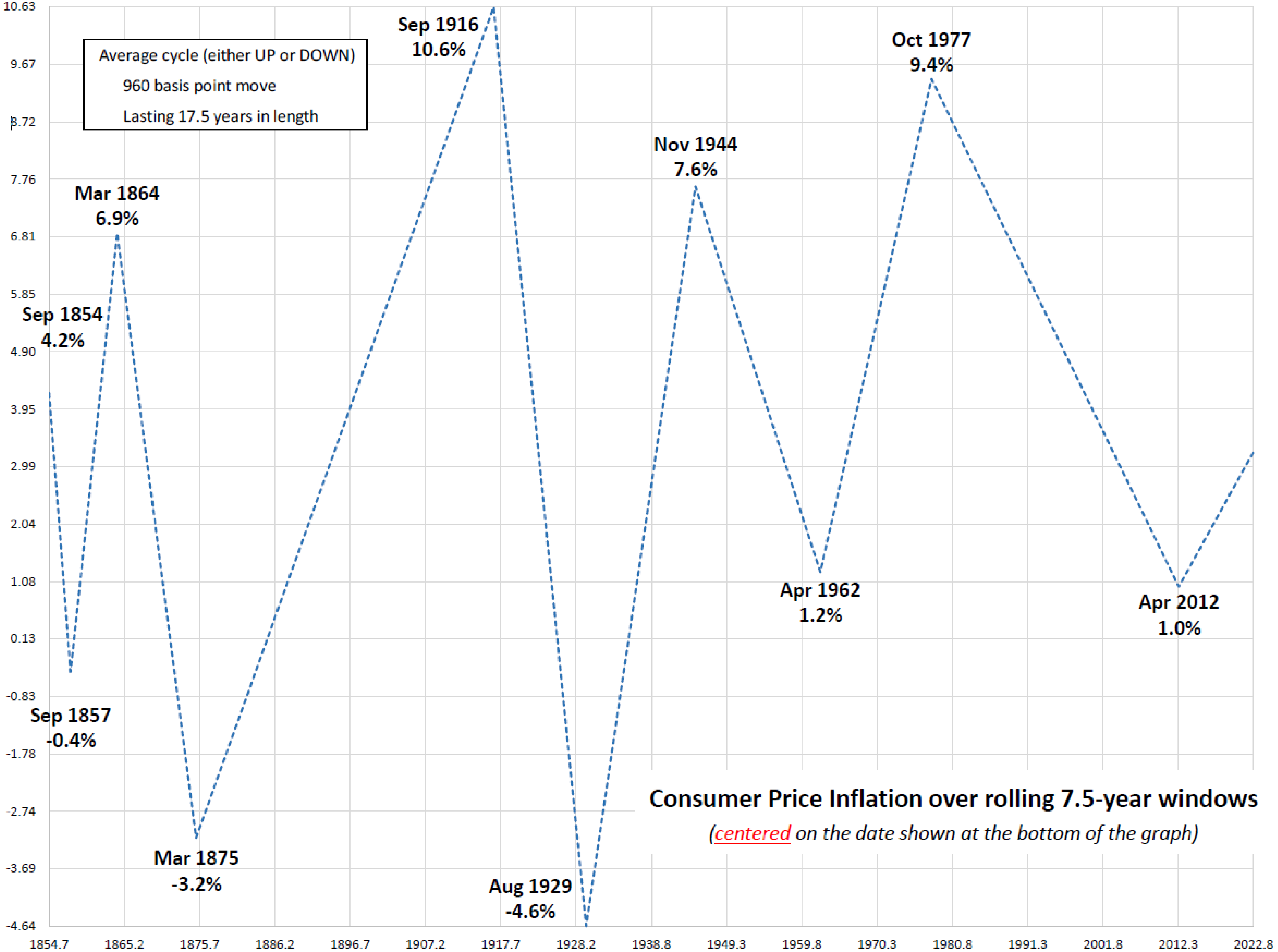
- Concentrated series
- 29bps
- $10,000 account minimum
- Approximately 20% of the years . . . it will generate a K-1 tax report

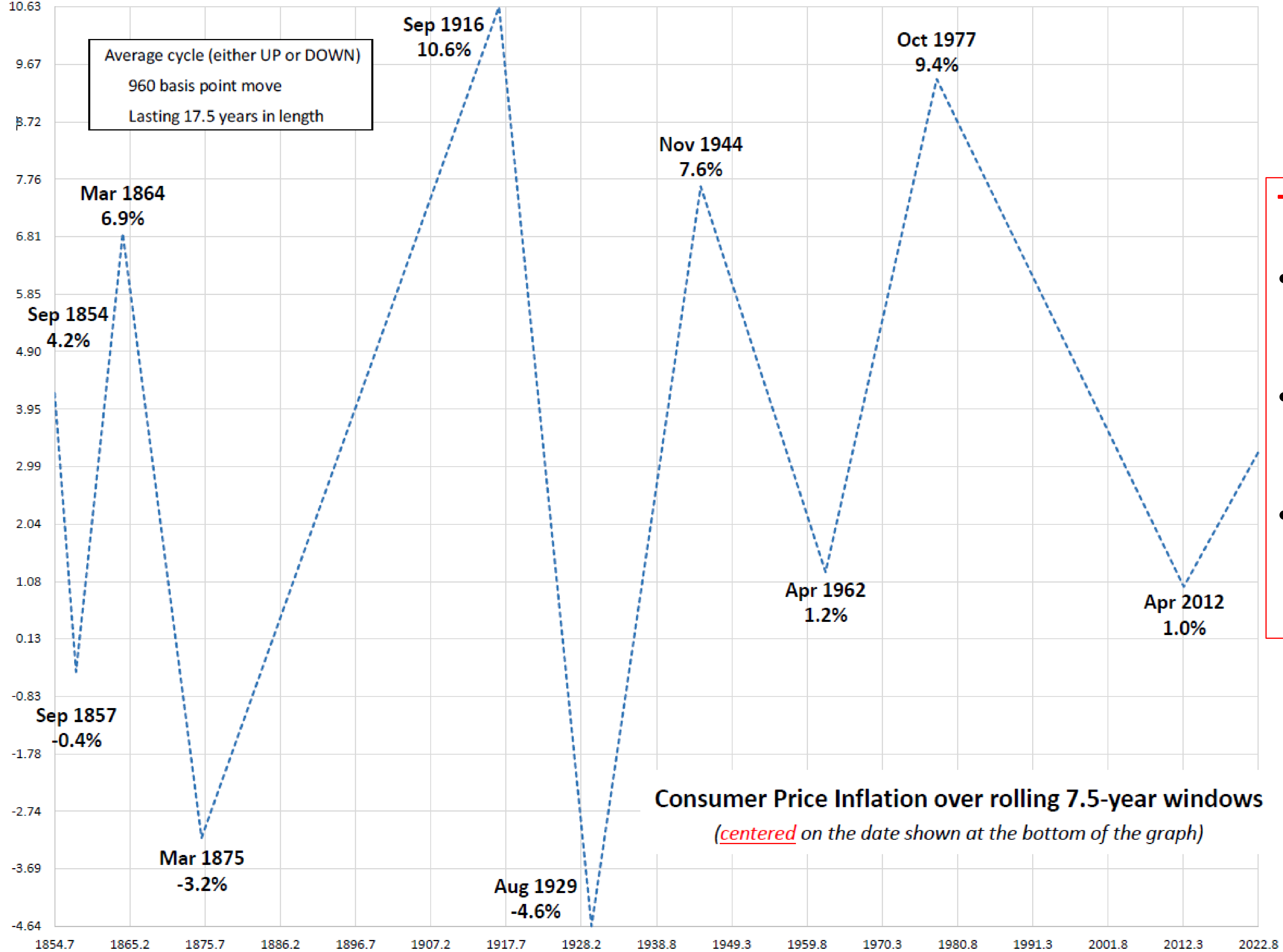
- Holds only ETFs
  - **6 ETFs** when it's <u>not</u> worried about inflation
  - **9 ETFs** when it is worried
- Uses commodities as the best possible protection against inflation
  - Ultra-diversified commodities . . . . DBC
  - Natural Gas . . . . UNG
  - Wheat . . . . WEAT

Why do you need this portfolio?

Because inflation isn't going away

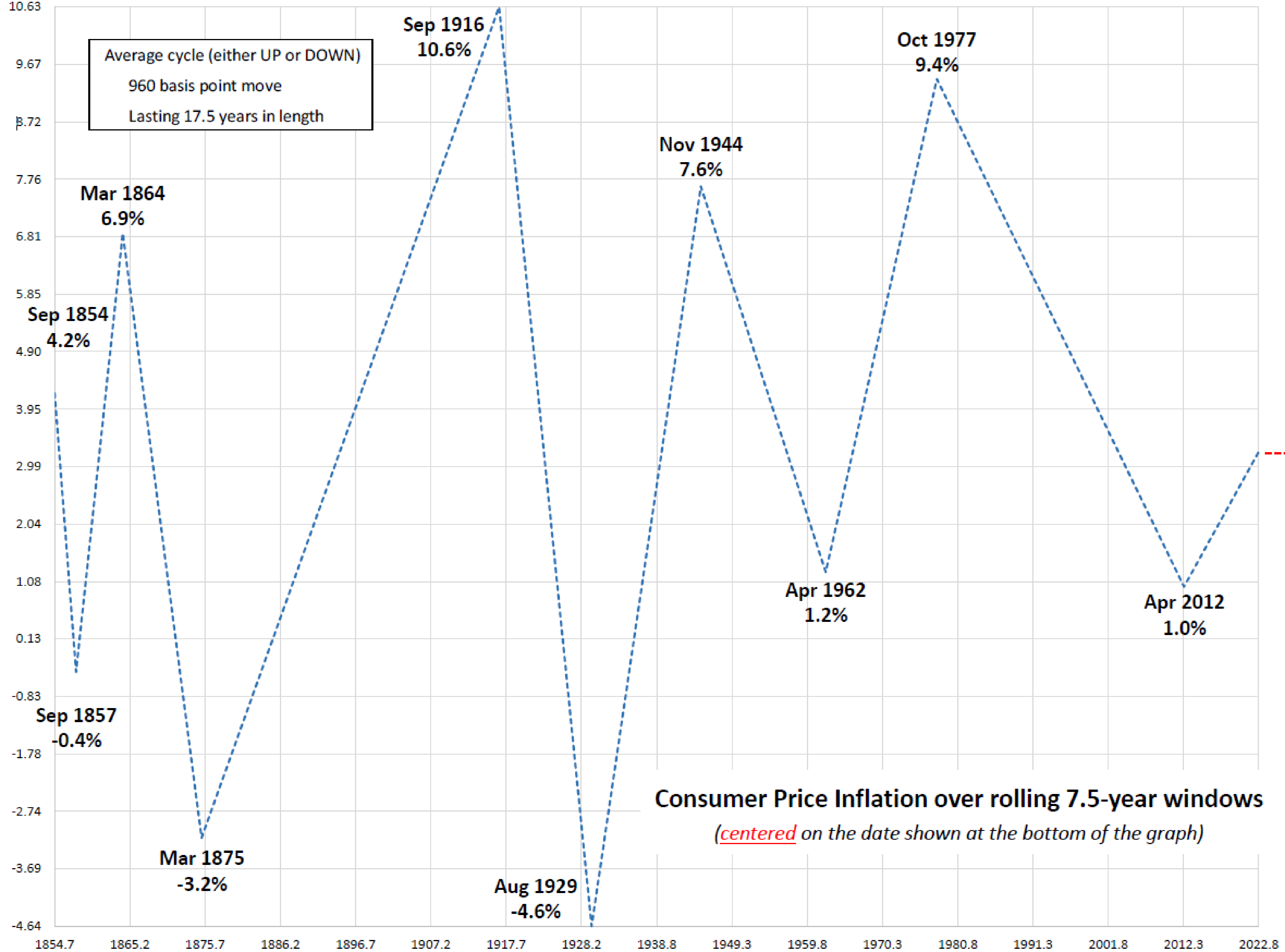
. . . . instead, inflation will be rising over the next "fifteen years"


Average cycle (either UP or DOWN)
960 basis point move
Lasting 17.5 years in length
Sep 1854
4.2%
Sep 1857
-0.4%
Mar 1864
6.9%
Mar 1875
-3.2%
Sep 1916
10.6%
Aug 1929
-4.6%
Nov 1944
7.6%
Apr 1962
1.2%
Oct 1977
9.4%
Apr 2012
1.0%
Consumer Price Inflation over rolling 7.5-year windows
(centered on the date shown at the bottom of the graph)
10.63
9.67
8.72
7.76
6.81
5.85
4.90
3.95
2.99
2.04
1.08
0.13
-0.83
-1.78
-2.74
-3.69
-4.64
1854.7
1865.2
1875.7
1886.2
1896.7
1907.2
1917.7
1928.2
1938.8
1949.3
1959.8
1970.3
1980.8
1991.3
2001.8
2012.3
2022.8



Takeaways . . .

- **Inflation is <u>never</u> constant**
- **Instead, it is either rising or falling**
- **Inflation proceeds through long episodic eras**



It has NEVER done this before

It is illogical to assume something never before seen

But why will inflation rise?

It’s always necessary to ask and adequately answer the question of “why?”

Inflation will be higher in the future

- It's all about funding (paying for) . . . projects . . . that're at play

- Society and governments have several projects that they're attempting to finance
  - Hot war with Russia
  - Cold war with China
  - Conversion from fossil fuels to renewables
  - Income inequality gap
  - Wealth inequality gap
  - Expanding social welfare programs
  - Transitioning from one political structure . . . to a different structure
  - Deglobalization

- Inflation is a method for both obscuring the cost . . . and dispersing its burden

Politics

- Just stop
- Just stop
- This has absolutely zero to do with which political party gains dominance
- The forces at play are <u>far far</u> larger than any political differences . . . which honestly are trivial

How does the portfolio work?

Is protection against inflation “always on”?

NOPE . . . . that is way way too expensive an approach

How does the portfolio work?

- 65% stocks
  - Half of the stock allocation is international
- 35% bonds
  - One-third of the bond allocation is international

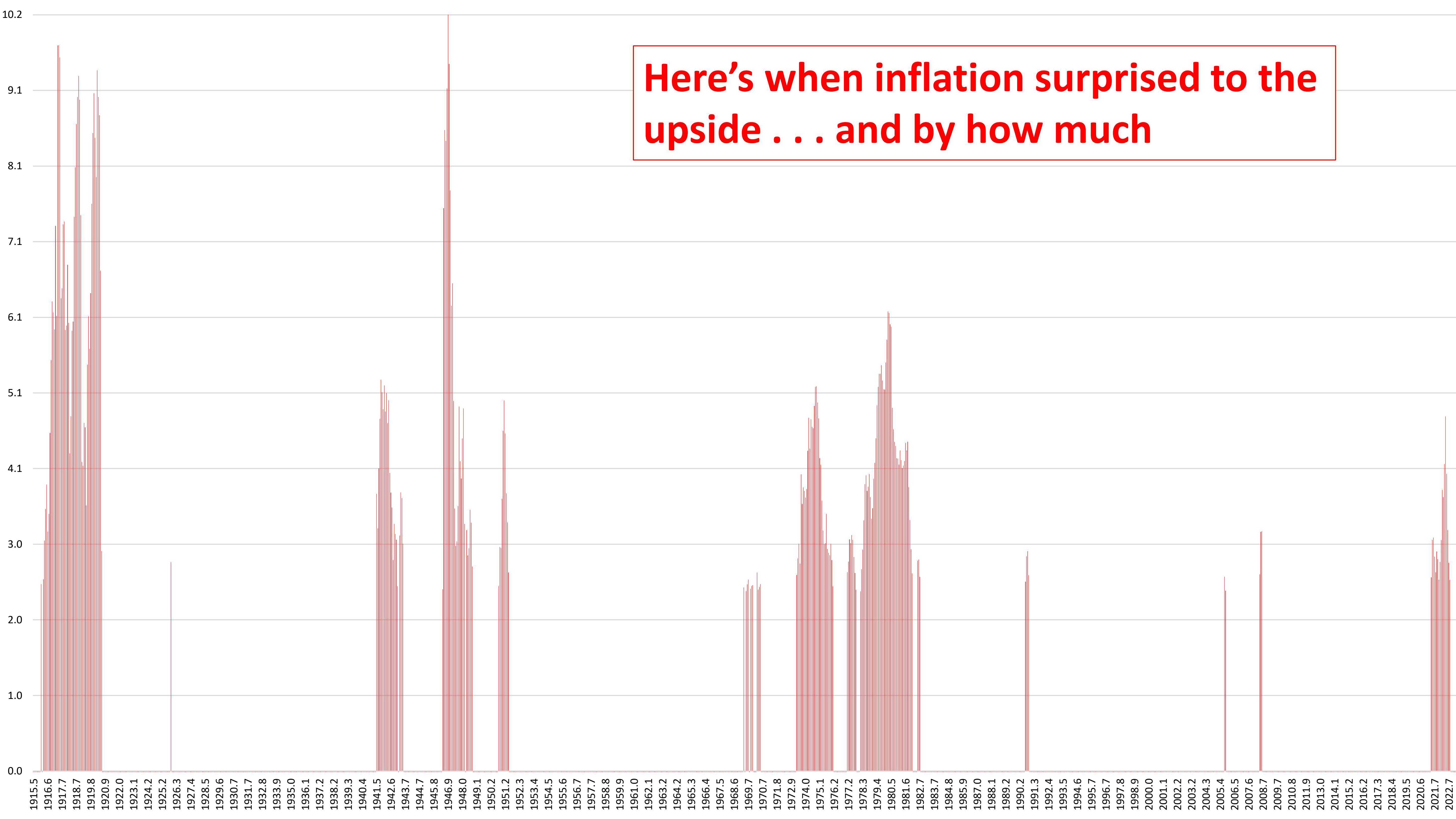
- The primary guiding principals are
  - Lowest possible cost
  - Tax efficiency
  - Passive Buy&Hold

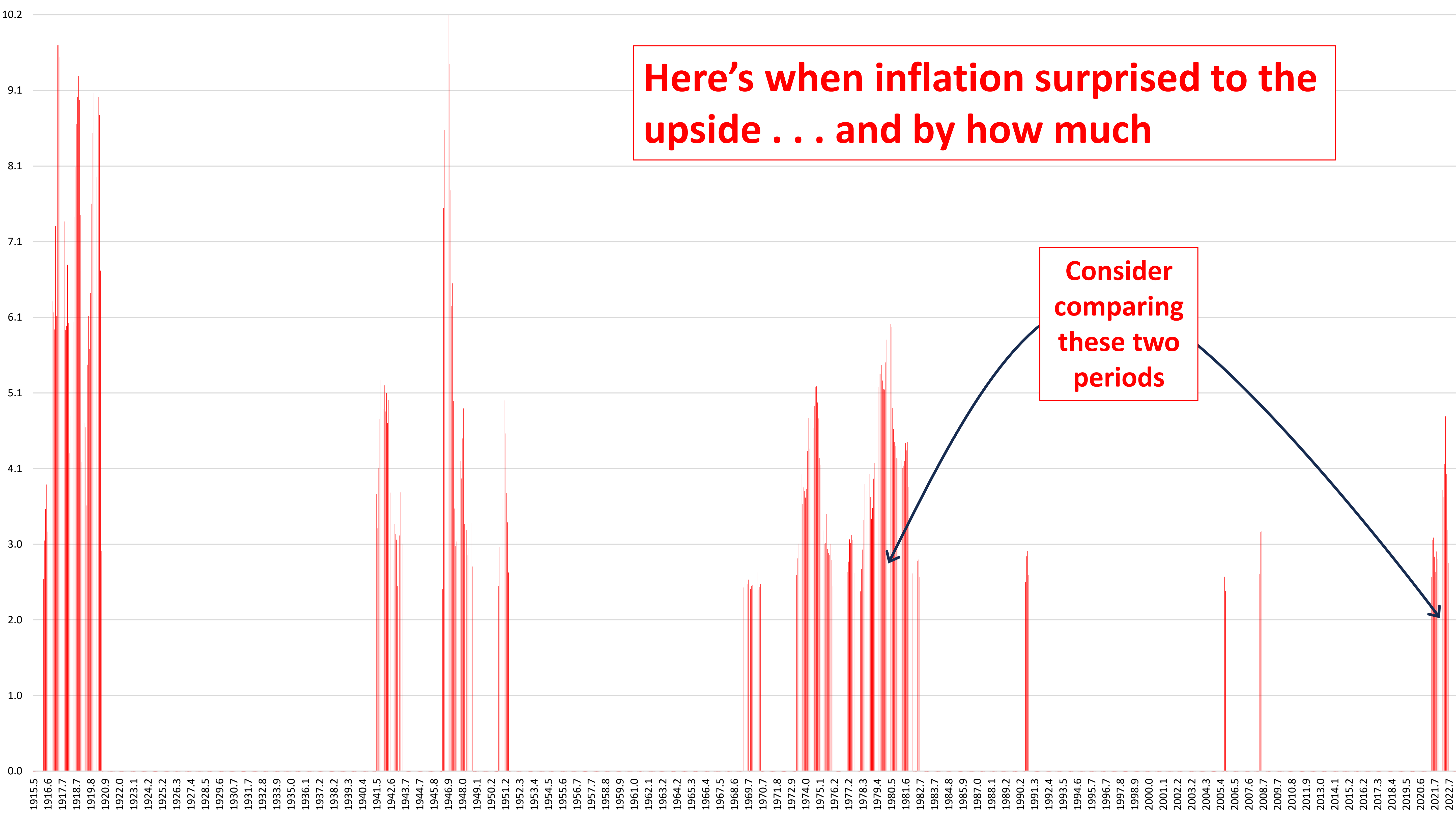
- BUT . . . When inflation surprises to the upside
  - Use commodities as the risk-mitigant
  - The absolute best inflation mitigants are
    - Ultra-diversified commodities
    - Natural Gas
    - Wheat
  - The absolute worst possible inflation mitigants are
    - TIPS bonds
    - Gold

When inflation surprises to the upside . . .

- Historically, inflation has surprised to the upside 19.04% of the time

- When this happens
  - The portfolio reallocated 50% to commodities
  - 16.67% to ultra-diversified commodities
  - 16.67% to natural gas
  - 16.66% to wheat
- Why?
  - Because this was the best possible approach during the period from 1914-2023
  - And for all of the 17.5-year long sub-periods within that 110 years


Here’s when inflation surprised to the upside . . . and by how much
10.2
9.1
8.1
7.1
6.1
5.1
4.1
3.0
2.0
1.0
0.0
1915.5 1916.6 1917.7 1918.7 1919.8 1920.9 1922.0 1923.1 1924.2 1925.2 1926.3 1927.4 1928.5 1929.6 1930.7 1931.7 1932.8 1933.9 1935.0 1936.1 1937.2 1938.2 1939.3 1940.4 1941.5 1942.6 1943.7 1944.7 1945.8 1946.9 1948.0 1949.1 1950.2 1951.2 1952.3 1953.4 1954.5 1955.6 1956.7 1957.7 1958.8 1959.9 1961.0 1962.1 1963.2 1964.2 1965.3 1966.4 1967.5 1968.6 1969.7 1970.7 1971.8 1972.9 1974.0 1975.1 1976.2 1977.2 1978.3 1979.4 1980.5 1981.6 1982.7 1983.7 1984.8 1985.9 1987.0 1988.1 1989.2 1990.2 1991.3 1992.4 1993.5 1994.6 1995.7 1996.7 1997.8 1998.9 2000.0 2001.1 2002.2 2003.2 2004.3 2005.4 2006.5 2007.6 2008.7 2009.7 2010.8 2011.9 2013.0 2014.1 2015.2 2016.2 2017.3 2018.4 2019.5 2020.6 2021.7 2022.7


Here's when inflation surprised to the upside . . . and by how much
Consider comparing these two periods
10.2
9.1
8.1
7.1
6.1
5.1
4.1
3.0
2.0
1.0
0.0

When inflation surprises to the upside . . .

- Historically, inflation has surprised to the upside 19.04% of the time

- When this happens
  - The portfolio reallocated 50% to commodities
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- Why?
  - Because this was the best possible approach during the period from 1914-2023

Everything herein assumes a 17.5-year investment time period

Long-term performance

What was it?

Can you . . . should you . . . believe it?

		Probability that you will earn MORE than the following annualized returns										
	Probability	50	55	60	65	70	75	80	85	90	95	99
If you invest in	Passive index portfolio	5.34	4.97	4.44	4.07	3.79	3.11	2.56	2.21	1.87	1.00	0.01
	Inflation managed portfolio	6.15	5.95	5.73	5.38	5.11	4.92	4.72	4.54	4.06	3.42	2.68
	Annualized benefit from using the inflation-managed portfolio (in basis points)	81	98	129	131	132	181	217	232	219	241	267

Assumes an investment time period of 17.5 years

Returns are over and above inflation

Based on actual returns spanning the time period from 1914 through 2023

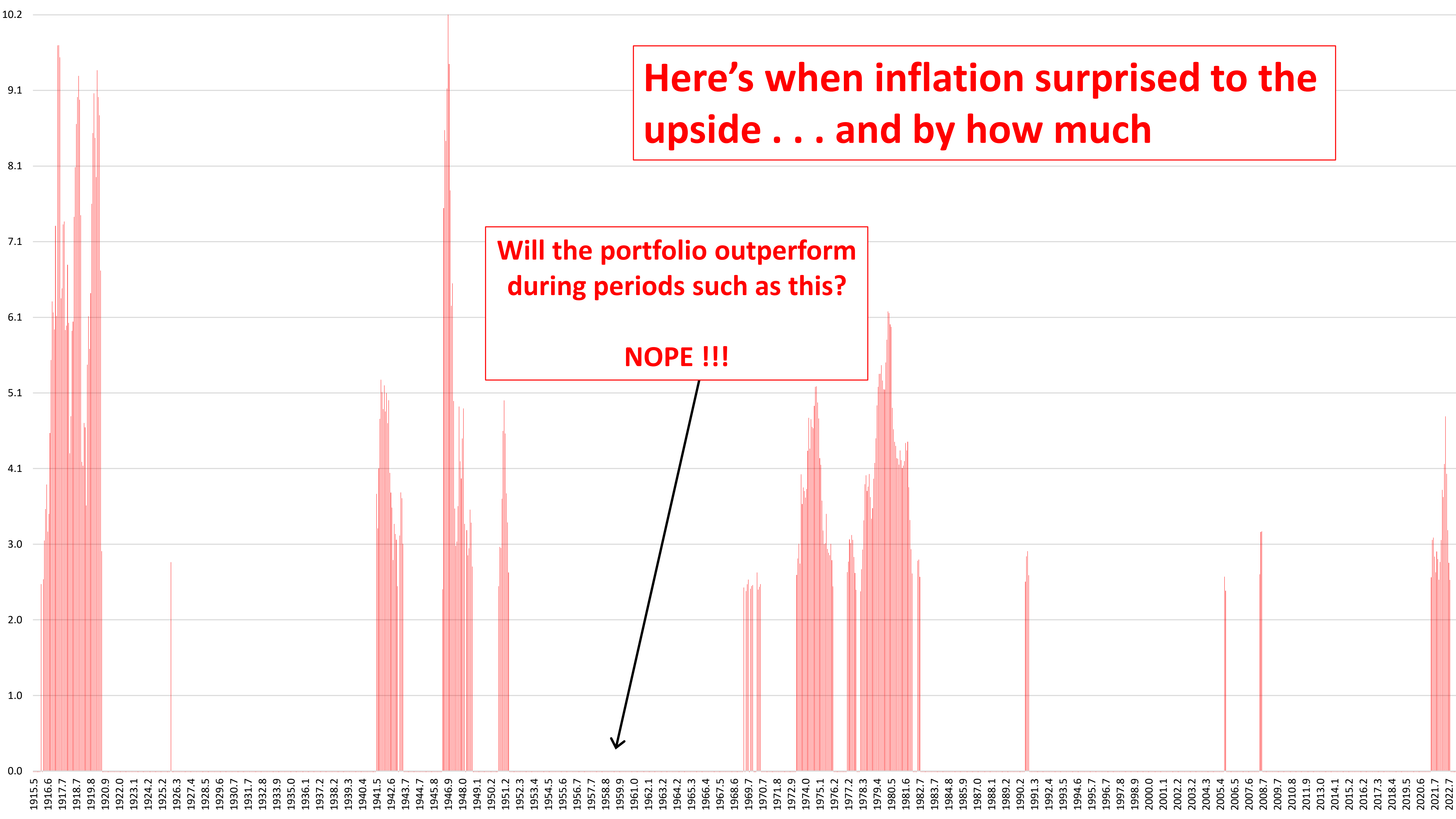
Can you believe these results?

- YES

- WHY?

- Because they never never never rely on any
  - Forecasting
  - Prediction
  - Expectations for the future
  - No crystal balls

- If CPI inflation surprises to the upside . . . then the portfolio reallocates 50% to commodities
  - And not to gold or TIPS . . . . which are terrible inflation-mitigants


Here's when inflation surprised to the upside . . . and by how much
Will the portfolio outperform during periods such as this?
NOPE !!!
10.2
9.1
8.1
7.1
6.1
5.1
4.1
3.0
2.0
1.0
0.0

Short-term performance

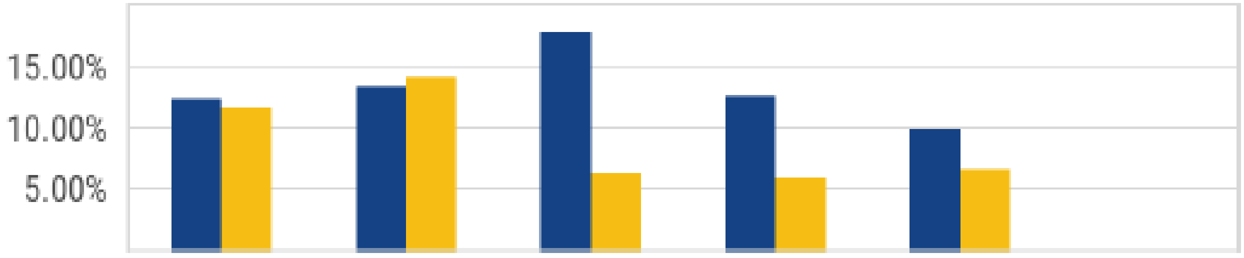
Since early-2009

. . . go to the Integrated Investment Library and see the YCharts report

Short-term performance . . . By YCharts

Periodic Return

Data as of July 14, 2023



	YTD	1Y	3Y	5Y	10Y	15Y
Concentrated...ond K-1	12.40%	13.45%	17.91%	12.72%	9.92%	--
Benchmark	11.75%	14.24%	6.40%	6.01%	6.73%	--

Key Stats

Net Expense Ratio 0.08%	**Distribution Yield** 3.12%
Cash Net Allocation 0.72%	**Beta vs Cat 5Y** 0.8024
Alpha vs Cat 5Y 7.632	**YTD Total Returns** 12.40%

Collateral

We’re working on it . . . .

Integrated
FINANCIAL PARTNERS

Concentrated Inflation Managed 65/35 Global Stock/Bond K-1 Balanced Stock/Bond Portfolio

Prepared for your advisor by Rob Brown at Integrated Wealth Concepts, LLC
July 14, 2023

Inflation Hedging Tools - What Works and What Doesn't

by Rob Brown, PhD, CFA

forthcoming in The Journal of Investing in Q4 of 2023

Rob Brown is the Chief Investment Officer and a Senior Vice President for Integrated Financial Partners and Integrated Wealth Concepts, and an Advisory Board member for Julex Capital Management.

ABSTRACT

Inflation hit 9.1% year-over-year, spurring significant concern on the part of both institutional and retail investors. Examining the behavior of a 60/40 stock/bond portfolio over the 108.4 years (ending 2/28/2023) one finds that it returned an inflation-adjusted return of 8.44% during the 75% of the months during which inflationary surprise was at its lowest. But it lost -5.18% per annum during the 25% of the months when inflationary surprise was at its highest. These data suggest that investor attention to this topic is well placed.

Investors, investment managers, advisors, and strategists often discuss gold, TIPS bonds, and diversified commodities as effective, useful mitigants. But are they? This article considers 29 different mitigants over the time period spanning 1914 through today and identifies those mitigants that are effective and those that are not. It presents results that strongly support the conclusion that both gold and TIPS are remarkably poor mitigants. This result is not surprising given that gold is driven in large measure by its use as an event-risk mitigant, both domestic and international. Moreover, gold lacks any significant industrial use. In a similar fashion, TIPS bonds carry significant interest rate risk, which serves to disrupt their use as an inflationary surprise mitigant. The largest TIPS ETF ("TIP") carries an effective interest rate duration of seven years.

This article shows that the most effective mitigant is a 50/50 blend of broadly diversified commodities and wheat. The inclusion of wheat may be an indirect way of reducing the overall weighting to fossil fuels. Perhaps, fossil fuels are playing a reduced role and agricultural foodstuffs an expanded role, as the global economy becomes less energy-intensive and the middleclass grows.

Finally, it is shown that the benefits of inflationary surprise mitigation, rely in large measure on the frequency with which the mitigant is applied (not too often, but still often enough) and the dosage size. Moreover, although correct timing is highly beneficial, the benefits of mitigation still accrue to those wl arrive surprisingly late to the party.

KEY TAKEAWAYS

- Gold and TIPS bonds are remarkably poor mitigants against inflationary surprise.
- Oil, silver, diversified commodities, and agricultural foodstuffs are the most effective mitigants strongly dominate all others.
- Successful mitigation relies critically on applying the mitigant with the correct level of frequenc (not too often, and not too infrequent), and the correct dosage size.

KEYWORDS

- Inflation
- Gold
- TIPS Bonds
- Commodities
- Hedging

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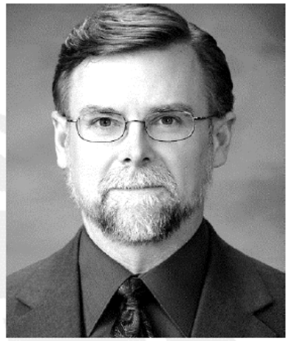

Website

www.robbrownonline.com

Previous Experience

Chief Investment Officer, Goldman Sachs Personal Financial Management, Los Angeles, CA
Chief Investment Officer, Genworth Financial Asset Management, Los Angeles, CA
Chief Investment Officer, Arizona Public Safety Personnel Retirement System, Phoenix, AZ
Director - Curriculum, CFA Institute, Charlottesville, VA
Executive Vice President, PMC International (later Envestnet), Denver, CO
Managing Director - Research, SEI, Chicago, IL
Assistant Professor of Finance, University of Colorado, Boulder, CO

Education

AB, Economics and Mathematics, Oberlin College
MA, Economics, University of Maryland at College Park
MA, Economics, Northwestern University
PhD, Finance, Northwestern University
Chartered Financial Analyst (CFA®)

Began Career in 1985

As the CIO, Rob leads discussion of macroeconomic, capital market, and behavioral finance decision-making issues with clients, advisers, business partners, and the press. He directs the Integrated Financial Partners investment management department. In that role, he provides leadership for investment product development and evolution, asset management strategy, and prospective macroeconomic and capital market assessment, to assure that Integrated's investment platform best supports its more holistic approach to wealth management and advice planning.

Rob is a senior level investment professional with over three decades of experience in portfolio management for large, sophisticated foundations, endowments, pensions, and the ultra-high net worth. Prior to Integrated Financial Partners, he held executive positions with Goldman Sachs, Genworth Financial, SEI, Envestnet, and the CFA Institute, where he directed the ongoing development of the educational curriculum for the CFA certification program and its examination.

During his tenure with Goldman Sachs, he directed the investment management department, a team that included 9 CFA® Charterholders who oversaw $18.6 billion. While at Genworth, Rob served as the Chief Investment Officer directing a $7.5 billion institutional portfolio of domestic and international securities. At SEI, he worked as the Managing Director of SEI's Research Department that supported the wealth management needs of over $300 billion of pension, endowment, and foundation assets under advisement. At Envestnet, Rob served as the Chairman - Investment Policy Committee, Executive Vice President, and Senior Managing Director - Consulting Division for PMC International (later acquired by Envestnet), where he led the investment decision-making for a $3.3 billion portfolio. Rob also worked in the public sector, where he held the position of Chief Investment Officer for one of our nation's larger state public pension plans, the Arizona Public Safety Personnel Retirement System.

Prior to joining the investments industry, Rob served as a Professor of Finance at the University of Colorado in Boulder from 1985 through 1989. During this time, he held a faculty position within the graduate school and taught students at the PhD, MBA, and undergraduate levels.

He is a member of the Financial Management Association and the Financial Planning Association. Rob has completed Six Sigma Quality Control training with General Electric and holds GE's Green Belt process management designation. He also maintains his FINRA Series 65 securities license.

Rob serves as an Editorial Board member for the Journal of Investing, Journal of Finance and Market, and International Journal of Economics, Finance and Management Sciences. His publications have appeared in the Journal of Derivatives and Hedge Funds, Journal of Investing, Journal of Investment Consulting, Journal of Beta Investment Strategies, Pensions & Investments, FA Magazine, RIA Central, On Wall Street Magazine, Royal Alliance Associates Sourcebook, Bank Investment Consultant, Investment News Magazine, London Financial Times, Financial Markets and Portfolio Management, Financial Planning, Financial Advisor, Journal of Finance and Market, Journal of Wealth Management, and Journal of Financial Planning.

Integrated PARTNERS

What's the investment objective?

The objective is to earn at least 6% after all fees and expenses over rolling time windows of at least 17½ years.

Who manages the portfolio?

This portfolio is managed by Integrated's Investment Management Department and its Chief Investment Officer, Dr. Rob Brown. Rob is a senior level investment professional with over three decades of experience in portfolio management for large, sophisticated foundations, endowments, pensions, and the ultra-high net worth. Prior to Integrated Financial Partners, he held executive positions with Goldman Sachs, Genworth Financial, SEI, Envestnet, and the CFA Institute . . . where he directed development of the educational curriculum for the CFA charterholder program and its associated examinations. Oversight is provided by 35 seasoned investment professionals arranged into the three independent and fully autonomous committees: Investment Advisory Council, Investment Committee, and the Oversight Board.

What's inside the portfolio?

- **80.8% of the time** *(the "Risk On" phase)* - Six ETFs allocated 65% to stocks (domestic, international developed country, and emerging country) and 35% to bonds (investment grade U.S., high yield, international developed country treasury, and local currency emerging country) . . . plus a very small allocation to cash equivalents.
- **19.2% of the time** *(the "Risk Off" phase)* - During the *"Risk Off"* phase . . . 45% of the portfolio is repositioned into commodities . . . designed to protect the portfolio (in whole or in part) against the ravages of inflationary surprise.

This portfolio is sought by those who:

- Don't mind dealing with the complexities of annual K-1 tax statements,
- Recognize that inflation and inflationary-surprise will be defining elements over the next ten to twenty years,
- Understand that a thoughtfully-constructed portfolio of global commodities, is one of the most effective tools for mitigating against the risks of inflationary-surprise . . . but only so long as it is applied **occasionally** and **when needed**,
- Require a quantitative rules-based risk management approach . . . that is fully transparent and immediately testable over the last 110 years (since 1914),
- Believe that today's geopolitical, societal, macroeconomic, monetary, and capital market environments strongly necessitate the need for an explicit inflationary-surprise mitigation strategy,
- Prefer a risk management approach that can and will pull 45% of the portfolio out of traditional stocks and bonds . . . and into commodities . . . but only when the evidence is **unusually compelling**.

How tax efficient is this portfolio?

The occasional turnover of this portfolio is expected to result in slightly above-average tax efficiency.

Over time, the portfolio is expected to:

- Maintain a balanced and prudent 65/35 mix of stocks/bonds (globally diversified) during the preponderance of time,
- But, occasionally . . . inflationary-surprise will arise . . . at which point, the portfolio will shift boldly and without equivocation into a blend of commodities that are then believed to be the best possible mitigants against inflationary-surprise,
- Journey through episodic eras, during which it is fully invested in a 65/35 stock/bond mix . . . or has allocated 45% to commodities designed to provide mitigation against inflationary-surprise, and
- Shift between the two scenarios (concern versus no concern for inflationary surprise), but only occasionally.

Julex Capital talks about 8 portfolios they manage for IFP (Dynamic, Concentrated, Opportunistic)

Monday

July 24th

11:00 a.m. EASTERN