Understanding bond risk

Four different risks - that are rewarded and penalized at different times

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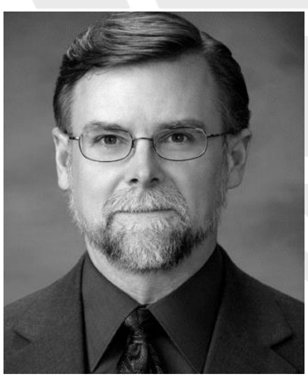

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1. Investors have different needs

1.a. Investors have remarkably varied priorities

All investors have short-term needs, those supporting expenditures over the next zero to five years. But even short-term priorities differ markedly from one investor to the next. Some investors prefer maximizing total return or current yield. While others, seek to minimize account volatility from one month to the next. A third set, may desire to protect against a specific type of risk, for example, rising inflation, the next economic recession, or even a global pandemic.

1.b. Integrated offers seven fixed income solutions

To best serve this range of investor priorities, Integrated offers seven highly differentiated fixed income portfolios. Our portfolios differ with respect to:

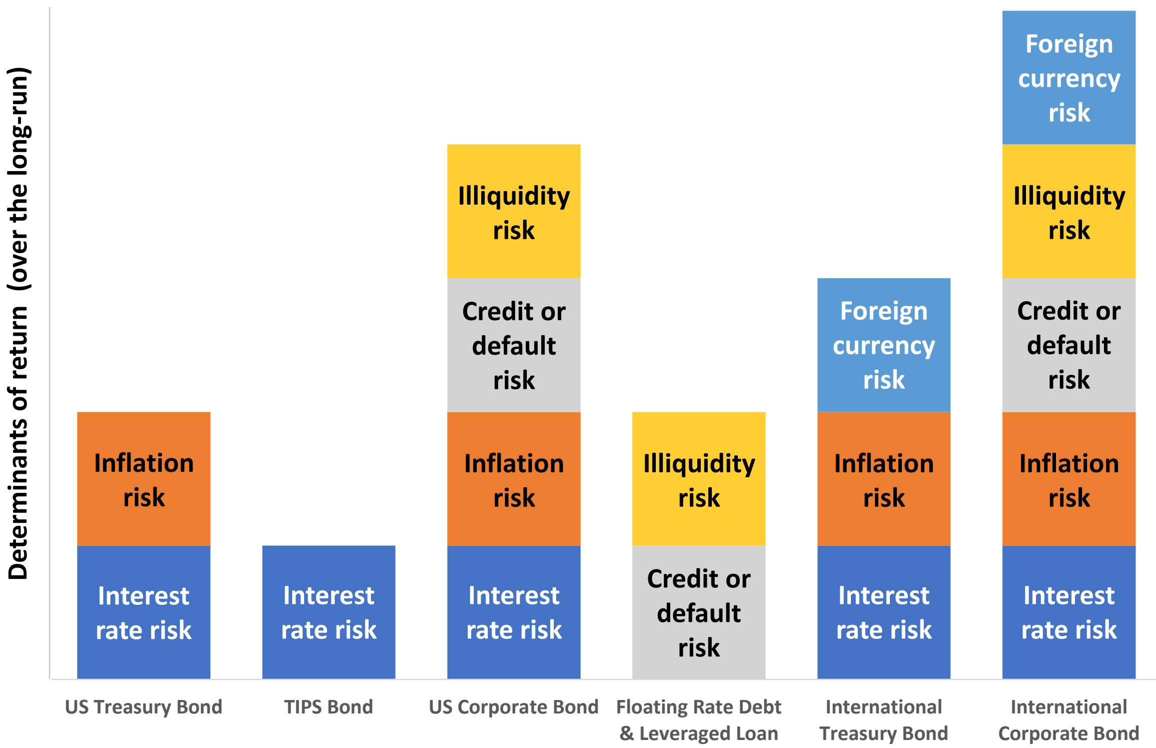
- Current yield,
- Expected total return,
- Expected month-to-month volatility, and
- Degree of protection against certain specific types of risk.

2. Where does return come from?

2.a. No, the U.S. Federal Reserve does not determine bond returns

Where do bond returns come from? Returns come from accepting risk. No, not in the short-run. In the short-run, anything can and will happen. But, yes, in the long-run. In the long-run, what you earn on fixed income investments is determined by how much risk you accept. Unfortunately, sometimes, the long-run can be really long.

So how should we think about the risk of fixed income investing? Often, investors misunderstand fixed income risk, thinking of it as one dimensional. This is not correct. Instead, there are five primary and quite different types of risk associated with bonds. Each behaves almost nothing like the next. The following graph identifies the key risks associated with various types of fixed income.



2.b. What questions does each investor need to answer?

There are two questions that each investor should evaluate carefully:

- How much total risk do I want to accept?
- Are their specific types of risks that I seek to reduce or otherwise minimize?

3. Risk definitions

Risk is not one dimensional, there are many different types of risk Bonds or fixed income carry many different risks. However, most of a bond's risk falls into one or more of the five categories described below. It is important to understand that these risks behave differently at different points in time. It is common for one risk to be rewarded while at the same time another risk is being penalized.

Interest rate risk - Uncertainty about future interest rates paid by U.S. Treasury bonds of varying maturities.

Inflation risk - Uncertainty about both expected and realized future rates of Consumer Price Inflation.

Credit or default risk - Uncertainty about the market's expectations for the probability that a bond will default, when that default will occur, and what the eventual recovery rate will be once the default is settled.

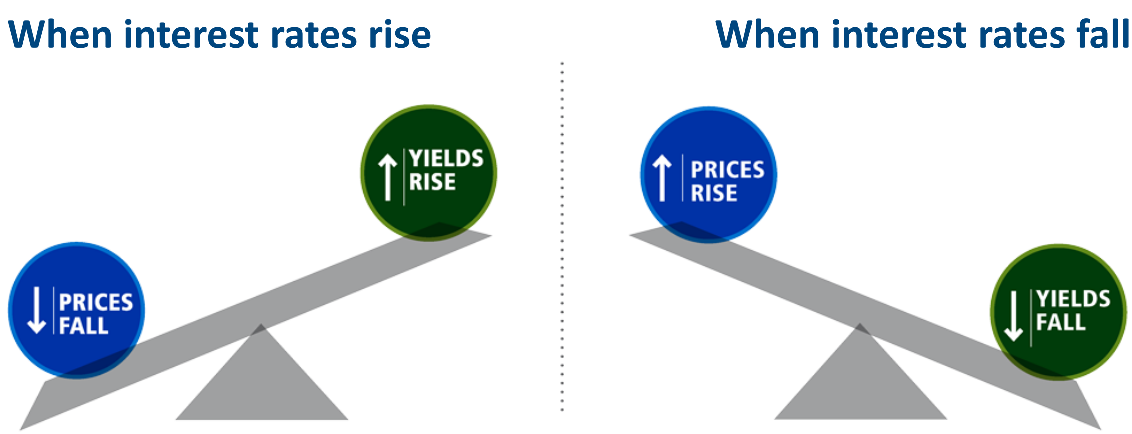
Illiquidity risk - Uncertainty about the size of the future bid/ask spread and how many bonds can be sold at the bid or bought at the ask.

Foreign currency risk - Uncertainty about the future level of the U.S. Dollar relative to various foreign currencies.

4. First important relationship

4.a. No, this is not a bank savings or checking account

We all have bank accounts, both savings and checking. When the bank increases the interest rate paid on either of these accounts, we earn more, and our accounts do not fall in value. This observation also applies to money market mutual funds and bank certificates of deposit (CDs). But that is not how fixed income or bond accounts operate.



4.b. When current yields go up, the value of your account goes down

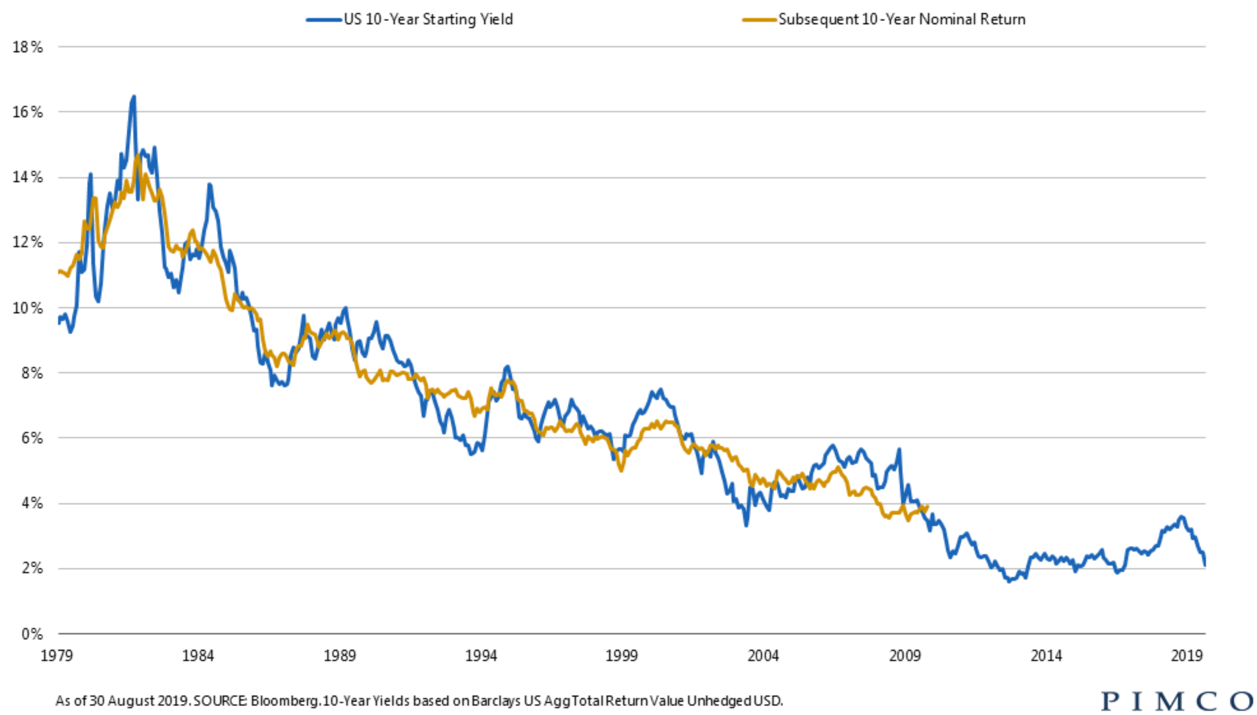
In the short-run, there is an inverse relationship between current yield or interest rates and the value of your fixed income or bond account. When one goes up, the other goes down.

5. Second important relationship

5.a. Does the past tell me anything about the future?

No, it does not. In fact, the past will mislead us about the future. The only conclusion we can draw from past bond returns is which direction interest rates took, did they rise or did they fall, and by how much.

In contrast, we can learn a great deal about what we are likely to earn in the future by looking at today's current yield on our fixed income or bond account.



5.b. The present tells us a great deal about the future

History demonstrates a remarkably strong relationship. What will you earn on your fixed income or bond account? The answer is not particularly uncertain or in particular doubt. The answer is remarkably close to the current yield on your bond portfolio (with a few important qualifications).

6. Internal or external management

Internal/external, each offers its own relative advantages. Integrated's solutions serving short-term needs were created to provide clients with a robust choice between internal and external management. We offer five portfolios managed internally by Integrated Financial Partners and an additional two managed externally by one of the most prominent institutional-quality investment organizations in the world today, BNY Mellon.

Internally managed

Investment manager Integrated Financial Partners

Makes use of Defined maturity bond term funds

Structure Buy and hold until maturity bond ladder

Five bond portfolios available

Opportunistic Yrs 0-5 Conservative	Opportunistic Yrs 0-5 Municipal	Opportunistic Yrs 0-5 Investment Grade	Opportunistic Yrs 0-5 Short Term	Opportunistic Yrs 0-5

Externally managed

Investment manager BNY Mellon

Makes use of Perpetual life ETFs (Exchange Traded Funds)

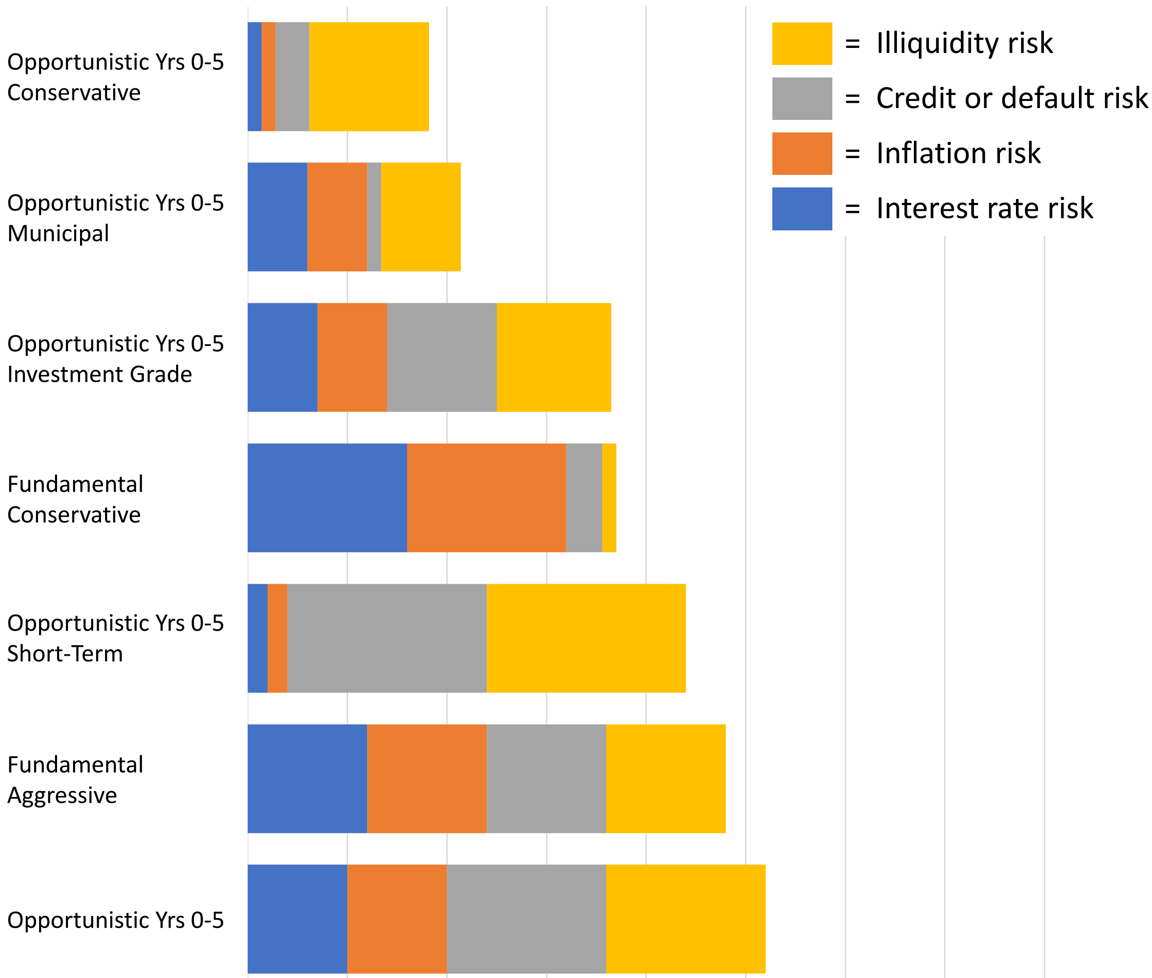
Structure Constant and fixed allocations to specific bond sectors

Five bond portfolios available

Fundamental Conservative	Fundamental Aggressive

7. Differentiated risk exposures

Integrated's fixed income portfolios provide choice in terms of level and type of risk. Risk is not one dimensional. Instead, Integrated's solutions provide exposure to four quite different types of risk. Each of these risks is rewarded by the marketplace at different times and to different degrees. But when taken together, these four risks determine the overall month-to-month volatility of Integrated's fixed income portfolios.



Important Disclosures

It is not possible to invest in an index or a package or portfolio of indices directly.

The level of portfolio risk will change from month to month. It is not possible to maintain constant and fixed levels of risk. Although, significant effort is made to maintain relatively consistent portfolio attributes over time.

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