New Frontier

Q3 2021 Performance Review

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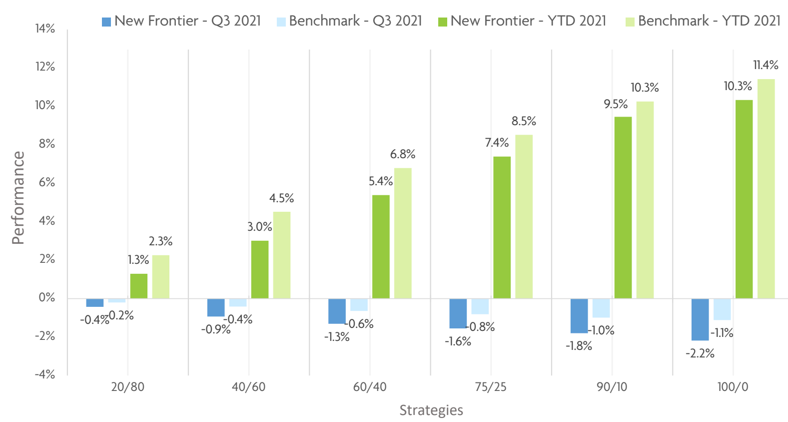
Joy Zheng joined New Frontier in 2018 as a Research Analyst after graduating from Boston University with a M.S. in Mathematical Finance. She is a member of the Investment Committee and her responsibilities include supporting the Investment and Research teams. Her interests include computational finance, quantitative analysis and risk management.

Key Takeaways

- Global equity markets remain strong year-to-date as markets hit record highs before losing momentum in early September amid growing uncertainty over economic growth.
- U.S. equities returns within the portfolios were relatively muted this quarter with gains from large cap stocks partially balancing out losses from small caps. Developed markets were mixed while emerging markets were pulled down by China.
- Broadly flat returns were seen from fixed income with yields rising towards late September in response to the Fed signaling tapering offsetting the quarter's prior gains.
- New Frontier portfolios were nearly flat or negative in Q3 with low-risk profiles outperforming the high-risk profiles on both an absolute and relative basis supported by TIPS and proportionately higher exposure to less risky equities.

Portfolio Performance

New Frontier Global Core Strategy Performance



Performance as of 09/30/2021
*New Frontier performance is net of platform and strategist fee. No fees are deducted from benchmark returns.
*Benchmark is comprised of MSCI ACWI IMI NR (stocks) and FTSE Treasury Bill 3 Month USD (bonds).
See appendix for additional disclosures.
PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.

With year-to-date performance being positive and strong, growing uncertainty around global economic recovery turned Q3 performance to flat or negative. Fixed income returns were mixed but largely muted—whereas equity performance contributed most to the picture since higher risk equities didn't do well this quarter.

The low-risk profiles outperformed the high-risk profiles on both an absolute and relative basis. Conservative portfolios benefited from TIPS and U.S. high yield as well as proportionately higher exposure to U.S. minimum volatility stocks and Pacific markets from the equity side. For aggressive portfolios, exposure to emerging markets equities and U.S. small cap stocks weighed on performance while large cap growth stocks, as the best performing equities, helped mitigate the loss.

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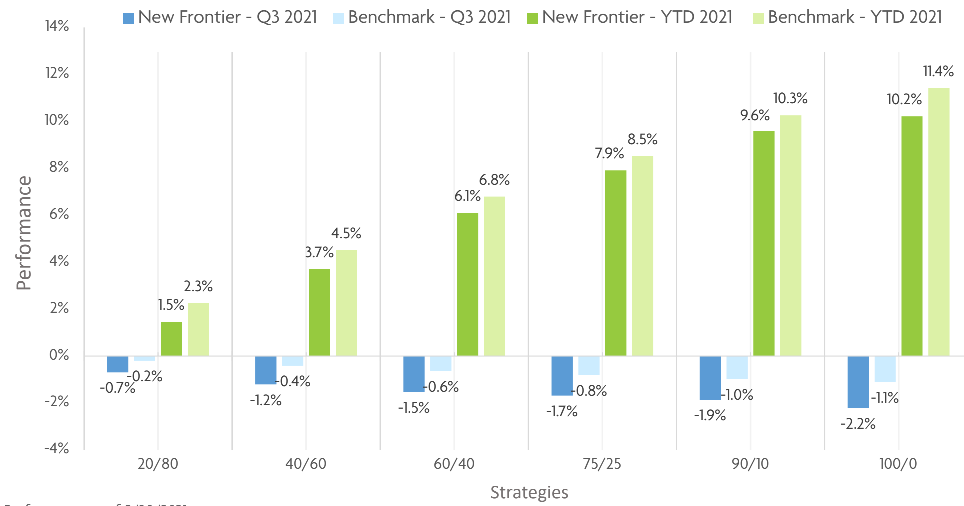
New Frontier Tax-Sensitive Strategy Performance



Performance as of 9/30/2021
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*Benchmark is comprised of Dow Jones Global Select Dividend TR USD (stocks) Bloomberg Barclays U.S. Aggregate Bond Index (bonds).
†Yield information is provided by Morningstar for individual underlying assets.
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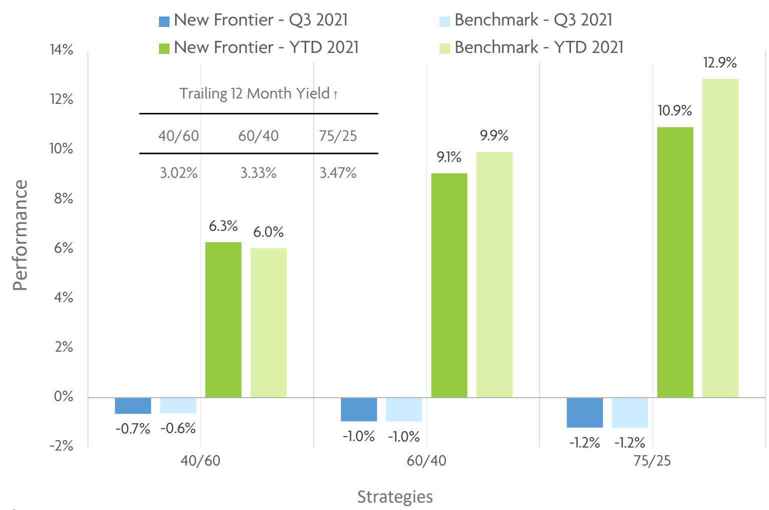
Tax-Sensitive portfolios performed in line with Global Core portfolios. Here, higher allocations to growth stocks had little impact on performance as gains from U.S. large cap stocks were partially canceled out by losses from U.S. small cap stocks. On the fixed income side, municipal bonds slightly underperformed the broad bond markets due to the changes in yields.

New Frontier Multi-Asset Income Strategy Performance



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Multi-Asset Income (MAI) portfolio performance tracked the benchmark returns this quarter, supported by a relatively overweight allocation to U.S. dividends that outperformed international dividends, along with positive returns added by global infrastructure stocks and U.S. REITs. Global infrastructure stocks were the best performing assets in the MAI portfolios, boosted by the economic reopening. The portfolios are providing a consistent and sustainable yield of 3 – 3.5%, roughly twice that of core U.S. aggregate bonds or broad global equities.

Asset Class Performance

Fixed Income Performance

	Return(%)	
	Q3 2021	YTD 2021
U.S. Aggregate Bonds	0.05	-1.55
Short Treasurys	0.07	-0.03
Long Treasurys	0.41	-7.43
U.S. TIPS	1.75	3.51
Mortgage-Backed	0.10	-0.67
Inv-Grade Corporates	-0.19	-1.78
Long Corporates	-0.01	-2.29
High Yield	0.94	4.69
High Yield Muni	0.28	5.94
Municipal Bonds	-0.44	0.34
Intl. Treasuries	-1.91	-7.27
Emerging Bonds	-1.22	-2.62

Equities Performance

	Return(%)	
	Q3 2021	YTD 2021
Global Equity	-1.05	11.12
Global ex-U.S. Equity	-2.99	5.90
U.S. Large Cap Value	-0.78	16.14
U.S. Large Cap Growth	1.16	14.30
U.S. Small Cap Value	-2.98	22.92
U.S. Small Cap Growth	-5.65	2.82
U.S. Low Vol	0.26	9.60
U.S. High Dividends	0.94	4.69
U.S. Real Estate	0.49	21.53
Gold	-0.85	-7.93
European Markets	-1.31	10.34
Pacific Markets	1.56	5.68
Emerging Markets	-7.39	0.71
China	-16.75	-14.72
International Small Cap	-0.78	11.28

Source: Bloomberg

An Uneventful but Volatile Quarter for Bonds

The yields reversal sent bond returns to flat this quarter. Long Treasurys ended the quarter only slightly positive, but had been the best performing bond for the majority of the quarter until the Fed signaled tapering was likely in November, and the 10-year yield climbed back up. TIPS took the lead, driven by strong demand this year with investors seeking protection against sticky inflation.

Despite being fundamentally more volatile with higher default risk, high yield bonds realized less return volatility this quarter than investment grade corporate bonds and treasuries as they were less affected by changes in yields. Credit spreads narrowed further to their lowest levels in the last decade.

The U.S. dollar rose to a one-year high, up 2% this quarter. The stories behind a stronger dollar were largely centered around relatively high yields in U.S. compared to other parts of the world and increased expectations for a more hawkish Fed in contrast to other central banks as well as some concerns over global economic growth slowdown. A stronger dollar weighed on returns of international treasuries and emerging markets bonds, both of which ended in negative territory.

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Equities Vacillating Between Concern and Optimism During the Quarter

Following the prior quarter's upbeat note based on accelerating economic reopening, Q3 turned out to be a vacillating stage, where markets reset expectations amid concerns over inflation and supply-chain disruptions and cautious optimism for economic growth emerging from the pandemic.

A rising yield in late September put downward pressure on equity valuations, especially for richly-valued growth stocks, but over the quarter U.S. large cap growth stocks remained the largest contributor to portfolio performance.

Outside the U.S., pressure from inflation and supply shortages were being felt by international markets as well. Global ex-US equities were down 3% this quarter. Pacific equities markets were the only major region outside the U.S. that ended with a positive return. European markets were down more than 1%. Emerging markets were down 7%, largely pulled down by China. In fact, China was the biggest detractor from the performance for the quarter and year due to a broad-based regulatory crackdown from tech to entertainment, and growing concerns over its property markets. The rest of EM countries did relatively better, down only 2% this quarter. As a result, the China allocation in MSCI EM index is now down to 34% from 40% as of the end of last year.

Asset Allocation Changes

With low absolute returns and little asset class dispersion, New Frontier did not rebalance this quarter. However, interest rate volatility and quantitative and qualitative risks from China have been incorporated into our investment process.

China deserves special mention. Our updated risk estimate for China early this quarter reduced its optimal weight in our portfolios. Should a rebalance have taken place this quarter, we would not have allocated more assets to China. Further note that as an aggressive asset, China will have proportionately lower weights in conservative portfolios. Given the uncertainty associated with new Chinese regulations, these lower weights are appropriate risk management.

New Frontier has been closely monitoring capital market volatility and drifts from portfolio optimality on a nightly basis using our patented Michaud-Esch Rebalancing Test.

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Disclosures

The performance of New Frontier indices is calculated by S&P Dow Jones Indices. Since these are not investable securities, the performance does not include trading costs or advisor fees.
The benchmark for the global indices blends the MSCI ACWI IMI NR (stocks) and FTSE Treasury Bill 3 Month USD (bonds).

The benchmark for the U.S. indices is comprised of stock/bond ratio blend of S&P 500 NR USD (stocks) and FTSE Treasury Bill 3 Month USD (bonds). Index calculation is based on New Frontier's full transaction history beginning October 29, 2004 for the global indices and June 6, 2019 for the U.S. indices. †Yield information is provided by Morningstar for individual underlying assets. New Frontier Advisors, LLC ("New Frontier") is retained as a portfolio strategist ("Strategist") to provide model portfolios. Model portfolios are provided either (1) to registered investment advisors or broker-dealers ("Financial Advisors") through third-party asset management platforms ("Sponsors"), or (2) to individual clients where New Frontier acts as subadvisor to the client's Financial Advisor and accesses the client's account through a qualified custodian ("Custodian") to execute the model portfolio's transactions. New Frontier does not provide investment advisory services tailored to the individual needs and objectives of any investor. New Frontier acts solely as subadvisor, strategist, model provider, and/or model manager, and its relationship with any investor is limited to a subadvisory role working with the investor's Financial Advisor. Investors should consult with their Financial Advisor if they have any questions concerning the information provided here.

The performance shown here is the performance of New Frontier's model portfolios on Sponsors. Returns from inception of the taxed profiles on October 29, 2004 until July 1, 2009 (except for 20/80 which switched on October 1, 2010 and 40/60 which switched on January 1, 2010) and the inception of the MAI profiles on July 1, 2012 until October 1, 2012 for the 40/60 and 60/40 profiles or April 1, 2013 for the 75/25 profile do not reflect the actual investment results of any individual investor, as investor-level data is not available for those periods. Therefore, these returns represent the performance of a hypothetical investor's account whose assets were managed in line with the model portfolios during that period, assuming the model portfolio's signals were promptly implemented. Actual investors' performance results for those periods would have varied based upon the timing of contributions and withdrawals from individual accounts. Since the switching date when investor-level account data became available, performance results are a weighted average of actual investor returns in accounts following each model portfolio offered by New Frontier. Returns in excess of one year are annualized. New Frontier acquires gross of fees monthly composite performance data of the accounts invested in each model portfolio at each Sponsor and weights the returns according to each Sponsor's assets under management for that model. Some Sponsors provide insufficient performance information for New Frontier to include them in the weighted average. On the account level, each Sponsor sets the criteria for account exclusion and rules for return calculation. We consider our partner Sponsors to be reliable sources of information, but we are unable to warrant that the data will be complete or error-free as we do not have direct access to individual account data at any of our Sponsors. We also track our model portfolios using publicly available ETF prices as an outside check on Sponsor data.

The performance shown is net of underlying ETF fees and trading fees, and we deduct estimated Strategist and Sponsor fees from the historical data provided by our Sponsors at the highest fee rate reflected by an account in the composite for that Sponsor. Fees are subtracted on a quarterly basis, so performance for a period of less than one quarter may not show the full impact of fees. This includes reinvestment of income and deductions for transaction costs. It does not include advisory fees that may be charged by individual Financial Advisors, which may range as high as 2% per year, or custody fees. On one small platform, the custody fees are deducted since they are not separated from the Sponsor fee. Thus the reported performance does not reflect the compounding effect of any such fees.

The performance displayed here does not guarantee future results. As market conditions fluctuate, the investment return and principal value of any investment will change. Diversification may not protect against market risk. There are risks involved with investing, including possible loss of principal. Volatility represents the expected risk of the portfolio relative to major asset classes. Before investing in any investment portfolio, the investor and Financial Advisor should carefully consider the investor's investment objectives, time horizon, risk tolerance, and fees. The Financial Advisor assumes full responsibility for determining the suitability and fitness of each portfolio for their clients.

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