New Frontier

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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.

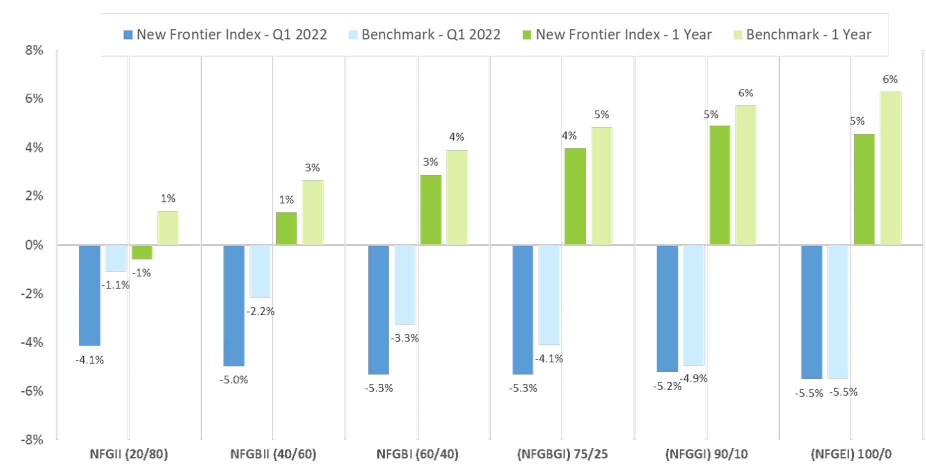
Q1 2022 Performance Review

April 28, 2022

Key Takeaways

- The first quarter was challenging for equity and especially fixed income investing against the backdrop of unexpectedly high inflation and rising rates resulting in elevated market volatility.
- Consistent with broad markets, New Frontier ETF portfolios delivered negative returns this quarter. Global Core and Tax-Sensitive performed in line and Multi-Asset Income held up relatively better due to more resilient high dividends.
- While inflation risk dominated this quarter, a lot has been priced in when it comes to future rate hikes. It's important to maintain effectively diversified exposure to duration and credit for long-term reliable investments should the economic expectation change.

Index Performance



*New Frontier index performance is calculated by S&P Dow Jones Indices.
*Benchmark is comprised of MSCI ACWI IMI NR (stocks) and FTSE Treasury Bill 3 Month USD (bonds).
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In 2019, we launched six global optimized indices ranging across the risk spectrum from 20/80 to 100/0; they are constructed in the same way as our global strategies to provide transparency into the performance of New Frontier investments in real time. They are accessible on the S&P Dow Jones website, Bloomberg, New Frontier website, and Yahoo Finance.

During our Q4 performance review, we commented that a surprisingly good 2021 means fewer positive surprises to be expected in 2022. That's certainly part of what happened in Q1 –an expected end to ultra-accommodative monetary policy though at a much faster pace than anticipated accompanied by unexpectedly high inflation and the Russian invasion of Ukraine.

During the first quarter, our global indices declined 4% to 5.5%. The bond portion unperformed the 3-month T-bill bond benchmark, which explains much of the underperformance of our indices relative to the blended benchmark. On the bright side, our global indices still performed better than broad fixed income and equity markets as measured by the Agg (Bloomberg U.S. Aggregate Bond Index) and ACWI (MSCI ACWI Index).

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Portfolio Performance

New Frontier Global Core

Risk Profile	Q1 2022	1-Year	5-Year	10-Year
20/80	-4.33%	-1.20%	3.71%	3.43%
40/60	-5.13%	0.67%	6.20%	5.71%
60/40	-5.52%	2.23%	8.07%	7.41%
75/25	-5.49%	3.38%	9.23%	8.38%
90/10	-5.39%	4.29%	10.28%	9.15%
100/0	-5.68%	3.88%	10.75%	9.50%

*New Frontier performance is net of platform and strategist fee as of 03/31/2022.
See appendix for additional disclosures.
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Global Core portfolios delivered negative quarterly returns of -4.3% to -5.7% on a net-of-fees basis, consistent with broad markets. There's not much return dispersion as usually observed among different risk profiles, as almost everything ended in negative territory besides commodities. Even for the most conservative 20/80 portfolio, it would be unrealistic to avoid losses should investors maintain the inflation-adjusted long-term investment objective by taking more risk than staying in cash.

The 60/40 portfolio, on the other hand, has balanced allocations to different risk premiums and also proportionally higher exposure to riskier long-duration bonds than more conservative portfolios. While duration hurt this quarter, rate hikes are not always bad for Treasurys, when investors shift out of risky assets due to intensified concerns over financial downturns. Ultimately, maintaining risk hedging and protection in the portfolios by holding appropriate duration exposure relative to the risk level is not the same thing as using duration as a return-seeking asset to bet on interest rates and to beat the markets. Helped by diversified exposure, our portfolios experienced less volatility than broad markets during the quarter (Treasuries preserving their negative correlations with stocks even though assets went down together).

New Frontier Tax-Sensitive

Risk Profile	Q1 2022	1-Year	5-Year	10-Year
20/80	-5.15%	-2.34%	3.59%	3.50%
40/60	-5.59%	-0.49%	6.01%	5.68%
60/40	-5.67%	1.35%	7.93%	7.34%
75/25	-5.65%	2.77%	9.15%	8.36%
90/10	-5.61%	4.06%	10.28%	9.25%
100/0	-5.82%	3.81%	10.83%	9.61%

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Constructed with our consistent investment philosophy and process, Tax-Sensitive portfolios performed largely in line with Global Core. As thoughtful tax considerations are built into the portfolios' management, tax-sensitive portfolios have tilts towards more tax-efficient assets classes like Municipal bonds and Growth stocks, which resulted in some of differences in returns from Global Core.

It's important to note that tax-sensitive portfolios had 0-0.02% ETF capital gains distributions across all portfolios in 2021, and have distributed these ultra-low capital gains since inception – a significant tax advantage of using ETFs over mutual funds.

New Frontier Multi-Asset Income (MAI)

Risk Profile	Q1 2022	1-Year	5-Year	Trailing 12 Month Yield†
40/60	-3.51%	2.49%	5.26%	3.30%
60/40	-2.36%	5.05%	6.26%	3.70%
75/25	-1.22%	6.81%	6.79%	3.80%

*New Frontier performance is net of platform and strategist fee as of 03/31/2022.
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Multi-Asset Income portfolios held up relatively well in Q1, supported by high dividends that outperformed broad markets. The 75/25 portfolio thus had relatively better performance with more equity-heavy exposure. Another asset class that contributed positively to performance was global infrastructure which did particularly well during the quarter in the inflationary environment.

As a lot has been priced in already when it comes to future rate hikes (markets currently have at least 9 rate hikes baked in by the end of 2022), bonds are experiencing more attractive yields than 2 years ago, and higher yields will help mitigate future volatility should economy growth expectations dampen. MAI portfolios are providing 12-month trailing yields of 3.3% - 3.8% and even higher forward-looking yields of more than 4%, as measured by SEC 30-day yields amid rising rates.

Asset Class Performance

With unexpectedly higher inflation and the prospect of more aggressive tightening, bond markets experienced the worst quarter since 1980 with a loss of 6%, largely led by long-duration bonds. Looking at all fixed income performance, there's nowhere to hide, as any risk taken other than the 3-month T-bill didn't pay off this quarter. TIPS, though down 3%, outperformed its nominals by 3%, benefitting from higher inflation.

	Return(%) Q1 2022	1-Year
U.S. Aggregate Bonds	-5.85	-4.28
Short Treasuries	-2.50	-3.11
Intermediate Treasuries	-6.37	-3.99
Long Treasuries	-10.63	-0.95
U.S. TIPS	-3.07	4.18
Mortgage-Backed	-4.90	-5.12
Inv-Grade Corporates	-8.38	-4.86
Long Corporates	-11.19	-4.87
Short High Yield	-2.37	0.55
High Yield	-4.84	-0.77
Municipal Bonds	-5.43	-3.84
High Yield Muni	-7.54	-4.41
Intl. Treasuries	-7.78	-9.86
Emerging Bonds	-9.71	-6.63

Source: Bloomberg

Additionally, high Yield did better than investment-grade bonds, with short high yield being the best performing (or the least negatively performing) bonds in the portfolios. Inflation or interest rate risk is certainly not the only risk, bonds like short-duration credit are optimized along with duration to obtain portfolio optimality.

Stronger dollars weighed on performance of International Treasuries and Emerging Markets debt

It's not only bonds that were under pressure, stocks also fell as much as bonds during the quarter. Global equities lost 5.7%, among which the only places to gain large positive returns were from energy and commodity-related asset classes and economy. Notably Canada, as a natural resources intensive economy, greatly benefited from higher commodity prices. Gold is another bright spot, up 5.7%, providing additional stability to the portfolios.

	Return(%) Q1 2022	1-Year
Global Equities	-5.67	6.73
Global ex-U.S. Equities	-5.99	-2.69
U.S. Large Cap Value	1.00	11.43
U.S. Large Cap Growth	-10.28	14.87
U.S. Small Cap Value	-1.27	2.83
U.S. Small Cap Growth	-11.95	-14.68
U.S. Low Vol	-3.78	13.62
U.S. High Dividends	5.25	15.84
U.S. Real Estate	-6.07	21.33
Gold	5.67	12.93
Canada	4.67	21.33
Europe	-8.18	1.83
Pacific	-4.64	-4.85
Emerging Markets	-7.20	-11.09
Intl. Small Cap	-7.52	-0.75

Source: Bloomberg

Additionally, value outperformed growth by more than 10% and growth stock prices continue to face downward pressure amid rising rates environment.

International equities performed on par with US equities, with European equity markets more affected by the Russian invasion. Emerging markets were pulled down by China as its zero-Covid policy and lockdowns in Shanghai have further disrupted supply chains and hampered economic growth.

Asset Allocation Changes

Continuing the theme from late 2021 to address emerging risks from interest rate volatility and China's equity markets, New Frontier rebalanced our Global Tax Sensitive ETF portfolios on January 11, 2022, and Multi-Asset Income ETF portfolios on January 21, 2022. The rebalances included the following ETF changes:

Tax sensitive portfolios added iShares MSCI EAFE Min Vol Factor ETF (EFAV) to enhance risk management in response to elevated fixed income volatility. The allocation to a low volatility equity permitted a slightly higher overall allocation to equities (and reduction in fixed income) while reducing average equity volatility thereby maintaining the portfolio risk targets. This will improve equity diversification and help hedge interest rate and duration risk without increasing the overall portfolio risk.

All New Frontier model portfolios currently have no explicit allocations to China. Tax sensitive portfolios removed SPDR S&P China ETF (GXC). Regulatory changes in China have increased portfolio risk from GXC. Therefore, portfolios have been updated to include a moderate increase in broad emerging markets, which continue to have some exposure to China. We continue to follow developments in China and the ongoing regulatory transformation.

Multi-Asset Income portfolios added Schwab U.S. TIPS ETF (SCHP) to enhance risk management and portfolio optimality. The allocation slightly lowers portfolio exposure to inflation and features higher yield in a rising inflation environment.

Additional specific allocation changes across all recent rebalances include lower exposure to long bonds due to the flatter yield curve and elevated duration risk. Portfolios will continue to evolve for the new market environment.

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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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