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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.

Q2 2022 Performance Review

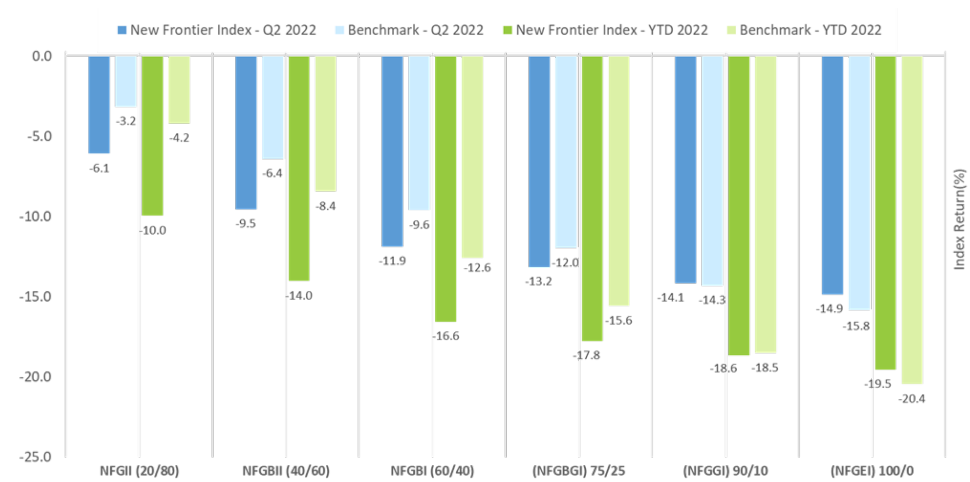
August 2, 2022

Key Takeaways

- Both equity and fixed income were under pressure with heightened volatilities, as worries over inflation and a possible recession spread.
- Consistent with broad markets anticipating a recession, New Frontier ETF portfolios saw negative returns this quarter, with different risk profiles performing as expected relative to the target risk level.
- For long-term investors, staying invested in a diversified portfolio during a bear market rather than acting on the worst possible outcomes can provide a financial advantage.

Index Performance

New Frontier Global Indices Performance



*New Frontier index performance is calculated by S&P Dow Jones Indices as of 06/30/2022.
*Benchmark is comprised of MSCI ACWI IMI NR (stocks) and FTSE Treasury Bill 3 Month USD (bonds).
PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.

In 2019, we launched six global optimized indices ranging across the risk spectrum; they are constructed in the same way as our investment strategies to provide transparency into the performance of New Frontier investments. It is important to note that the index returns reflect our performance in index form and can be compared directly to other publicly available indices. They are accessible and priced daily in real time on the S&P Dow Jones website, Bloomberg, New Frontier website, and Yahoo Finance.

While the second quarter continued to see high inflation data and shifts in Fed policy to a faster pace of rate increases, attention has now shifted towards a possible recession. With both bonds and equites under pressure, our global indices declined -6.1% to -14.9% in Q2. The bond portion unperformed the 3-month T-bill bond benchmark, which explains much of the underperformance of our indices relative to the blended benchmarks. .

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Portfolio Performance

New Frontier Global Core

Risk Profile	Q2 2022	1-Year	3-Year	5-Year	10-Year
20/80	-6.27%	-9.41%	0.73%	2.04%	2.65%
40/60	-9.75%	-12.64%	2.20%	3.47%	4.57%
60/40	-12.04%	-14.52%	3.44%	4.61%	6.12%
75/25	-13.29%	-15.29%	4.34%	5.36%	7.09%
90/10	-14.30%	-15.91%	5.21%	6.05%	7.92%
100/0	-14.97%	-17.13%	5.51%	6.30%	8.30%

*New Frontier index performance is calculated by S&P Dow Jones Indices as of 06/30/2022.
See appendix for additional disclosures.
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Global Core portfolios closed the quarter with returns of -6.27% to -14.97% on a net-of-fees basis, in line with broad markets.

While challenges remained for risk management, our portfolios have performed as expected relative to their target risk level, as conservative portfolios experienced less volatility and smaller losses, and aggressive portfolios were more exposed to equity stress.

Zooming out to long-term performance, annualized multi-year returns are all positive for our portfolios. Our recent blog Bear with It! shows that historical one-year returns after entering bear markets are higher on average compared to overall market history. It's critical to look beyond what has happened (i.e., already priced in) and take a risk-controlled approach to achieve the long-term investment objective.

New Frontier Tax-Sensitive

Risk Profile	Q2 2022	1-Year	3-Year	5-Year	10-Year
20/80	-5.33%	-9.43%	0.78%	2.10%	2.89%
40/60	-8.61%	-12.22%	2.19%	3.55%	4.79%
60/40	-11.19%	-14.12%	3.38%	4.69%	6.28%
75/25	-12.82%	-15.15%	4.26%	5.42%	7.20%
90/10	-14.24%	-16.07%	5.03%	6.08%	8.04%
100/0	-15.07%	-17.37%	5.49%	6.37%	8.38%

*New Frontier performance is net of platform and strategist fee as of 06/30/2022.
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Constructed consistent with New Frontier's investment philosophy and process, Tax-Sensitive portfolios have performed largely in line with Global Core portfolios over the long term. As thoughtful tax considerations are built into each step of portfolio management, Tax-Sensitive portfolios have tilts towards more tax-efficient assets classes like municipal bonds, which helped the relative performance this quarter.

It's important to note that Tax-Sensitive portfolios have nearly zero ETF capital gains distributions since strategy inception – a significant tax advantage of using ETFs over mutual funds. The investment process also features tax-aware rebalancing to minimize turnover and short-term gains.

New Frontier Multi-Asset Income (MAI)

Risk Profile	Q2 2022	1-Year	3-Year	5-Year	10-Year	Trailing 12 Month Yield†
40/60	-8.64%	-9.55%	1.86%	2.94%	4.58%	3.89%
60/40	-9.63%	-8.73%	2.84%	3.66%	5.60%	4.40%
75/25	-9.91%	-7.58%	3.50%	4.10%	6.20%	4.57%

New Frontier performance is net of platform and strategist fee as of 06/30/2022.
†Yield information is provided by Morningstar for individual underlying assets.
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Multi-Asset Income (MAI) portfolios had their 10-year anniversary this quarter, featuring a 10-year track record of consistently high income and long-term capital appreciation.

MAI held up relatively better than Global and U.S. Core portfolios, mostly supported by high-dividend equities that outperformed the broad markets. On the other hand, high-yielding fixed income like long duration and credit bonds detracted from the performance (e.g., long duration bonds declined more than US high-dividend stocks), contributing to similar performance across three different risk profiles.

Current yields provided by MAI are looking more attractive compared to the last two years, with 12-month trailing yields of 3.9% - 4.6% (more than 4.5% across the portfolios by our internal forward-looking yield estimates).

Asset Class Performance

Quarterly Fixed Income Return

	Return(%) Q1 2022	Return(%) Q2 2022
U.S. Aggregate Bonds	-5.85	-4.58
Short Treasurys	-2.50	-0.50
Intermediate Treasurys	-6.37	-4.47
Long Treasurys	-10.63	-12.59
U.S. TIPS	-3.07	-6.15
Mortgage-Backed	-4.90	-3.87
IG Corporates	-8.38	-8.40
Long Corporates	-11.19	-12.31
Short High Yield	-2.37	-7.03
High Yield	-4.84	-9.68
Municipal Bonds	-5.43	-2.54
High Yield Muni	-7.54	-5.35
Intl. Treasuries	-7.78	-10.80
Emerging Bonds	-9.71	-11.70

Source: Bloomberg

After an unusually bad first quarter due to the inflation shock, bond markets remained under pressure and extended the losses, down 4.6% in Q2, led by both duration and credit risk.

We commented in the first quarter that short-term treasuries were expected to experience less volatility going forward as much was priced in, while long-term treasuries would still be subjected to high uncertainty around the inflation expectation. This was predictive, as short treasuries declined slightly while the 10-year US Treasury yield had a volatile quarter ending at 3% after reaching 3.5% in mid-June.

Corporate bonds underperformed US Treasurys as credit spreads widened, whereas municipal bonds declined less than their taxable counterparts. Meanwhile, a continued rally this quarter of 7% in the US dollar further pushed down the returns of international Treasuries and Emerging Market bonds in dollar terms.

Quarterly Equity Return

	Return(%) Q1 2022	Return(%) Q2 2022
Global Equity	-5.67	-15.12
Global ex-U.S. Equity	-5.99	-12.39
U.S. Large Cap Value	-0.74	-12.29
U.S. Large Cap Growth	-9.02	-21.09
U.S. Small Cap Value	-2.49	-15.32
U.S. Small Cap Growth	-12.65	-19.24
U.S. Low Vol	-3.78	-9.21
U.S. High Dividends	5.25	-7.53
U.S. Real Estate	-6.07	-15.40
Gold	5.67	-6.75
Europe	-8.18	-13.86
Pacific	-4.64	-13.14
EAFE Min Vol	-6.03	-10.73
Emerging Markets	-7.20	-10.64
Intl. Small Cap	-7.52	-16.39
Intl. High Dividend	3.04	-12.61
Preferred Stocks	-7.94	-8.41

Source: Bloomberg

It's a tough quarter for equity investing as markets started to raise the probability of a recession. Stocks were challenged across the board with nowhere to hide. Global equities lost more than 15%, following a 5.7% decline in Q1. The S&P 500 fell into an official bear market on June 13 and regained 1% since then, closing the quarter with a loss of 16%.

International equities outperformed US equities this quarter, contributing to the relative performance of our global portfolios. Emerging markets led performance with losses of 10.6%, supported by positive returns from Chinese equities.

Value continued its dominance over growth. US Min Vol and EAFE Min Vol both served the role as low volatility equities and were among the top contributors in Q2, providing additional stability to conservative and balanced portfolios.

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Asset Allocation Changes

Continuing the theme from Q1 2021 to address emerging risks from interest rate volatility and high inflation, New Frontier rebalanced our Global Core ETF portfolios on June 23, and Multi Asset Income (MAI) ETF portfolios on June 30. The rebalances included the following ETF changes:

We note that the market environment has changed significantly with interest rates and inflation having risen dramatically. With heightened market uncertainty, the rebalance was triggered for risk management with a focus on effectively sourcing fixed income yields and maintaining a diversified optimal balance between risk factors.

The newly optimized portfolios incorporate updated market information (market structure, term structure of interest rates, credit spreads, etc.) and changes in risk-return characteristics of asset classes. Particular attention was given to the flatter yield curve, wider credit spreads and elevated fixed income volatility as well as inflation risk. New portfolios are anticipated to have modestly lower duration and total risk, as the rebalance brings them back to their respective stock/bond risk targets. Additional considerations on yield sustainability are taken for MAI with the goal of maintaining a good balance of income stability and capital appreciation.

For both model reallocations, the major changes include a shift to short-term Treasurys (MAI portfolios added 1-3 Year Treasury Bond ETF) from mortgage-backed bonds and longer-term Treasurys and a modest increase in credit exposure, featuring more attractive risk-adjusted yields for the portfolio given the current term structure.

Within equities, we've slightly reduced the value overweight for Global Core, and US dividends overweight for MAI, contributed by recent relative performance while still preserving a healthy value/US dividends tilt across most portfolios.

New Frontier continues to provide optimized, effectively diversified strategies via our multi-patented investment process. While many risks are unavoidable and frequently unforecastable, our time-tested process – using disciplined rebalancing to maintain optimally risk-controlled portfolios – provides an effective way for investors to weather a range of market environments, positioning them for whatever the future brings.

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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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