ASTORIA Portfolio Advisors

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September 2017

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Astoria Portfolio Advisors’ Macro Insights

- **Astoria Portfolio Advisors** (“**Astoria**”) outlined our **pro-growth, cyclical bias** in our **July** and **August Macro Insights** (read here and here). We remain **constructive** given (1) earnings globally remain in an **upward trajectory** (2) financial conditions remain **very loose** (3) realized inflation remains **subdued** (4) central banks remain **accommodative**.

- The combination of the above mentioned factors is driving **levered growth complexes** like **Emerging Market Equities** and **International Small Caps** which are up **25-30%** YTD.

- We have repeatedly been asked what would cause us to **reduce our cyclical bias**. Of the **50+** indicators and models that we monitor, there are several that would **ignite risk reduction**:
  - (1) aggressive **Fed tightening**
  - (2) an **inverted** yield curve
  - (3) significantly **tighter financial conditions**
  - (4) **deterioration** in the **global earnings cycle**

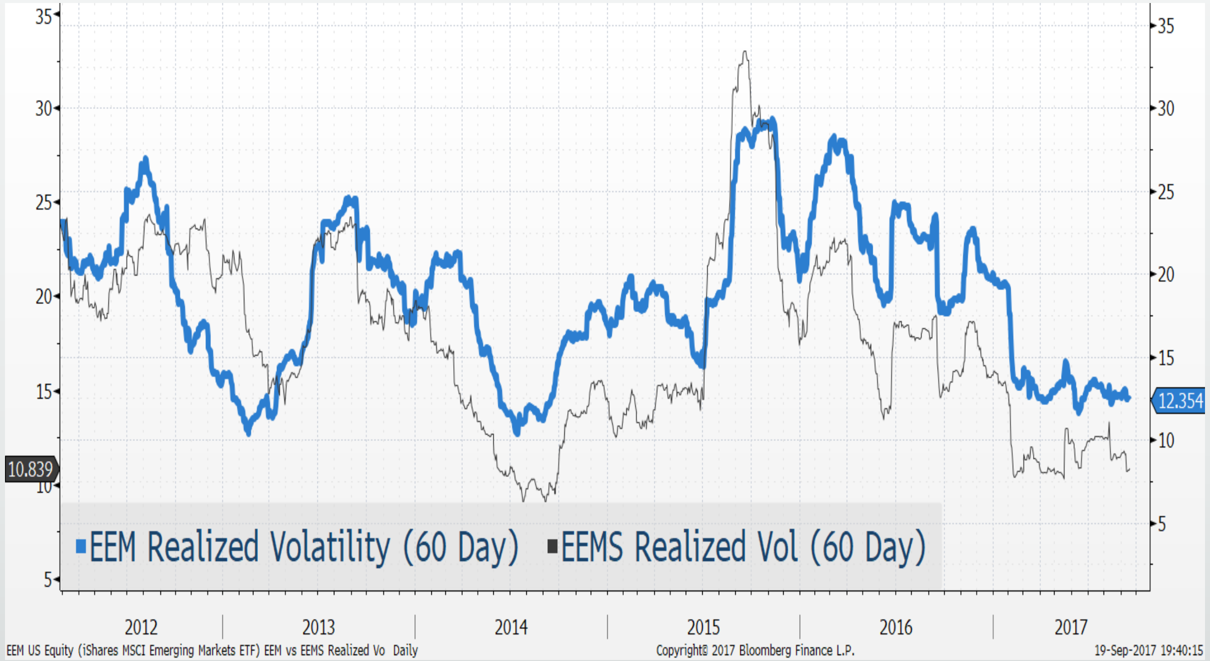
- In this month’s **Macro Insights** we discuss the solutions and characteristics of our **Multi Asset Risk Allocation Model Portfolio**.

Our Macro Insights deck is updated on a monthly basis. Refer to our website for updates https://www.astoriaportadv.com

Astoria has Been OW International Equities Since Last Year Which is a Key Driver Behind this Year's Outperformance

- **International ETFs:**
  - For our Emerging Market Equities we are utilizing **IEMG** (all cap EM) and **EPI** (India). **IEMG** includes EM Small Cap stocks which have a **lower beta** and **lower volatility** compared to EM Large Caps which makes it valuable from a portfolio construction standpoint.
  - We previously highlighted why we like India (read here).
  - For our Developed Markets ex-US Large Cap exposures, Astoria owns **ACWX** (DM ex-US unhedged)**, DBEF** (MSCI EAFE)**, HEDJ** (Europe hedged)**, DXJ** (Japan hedged), & **JHDG** (Japan unhedged)**.**

EM Small Caps have lower volatility and lower beta (0.76) compared to EM Large Caps. This is contrary to the US equity market place.

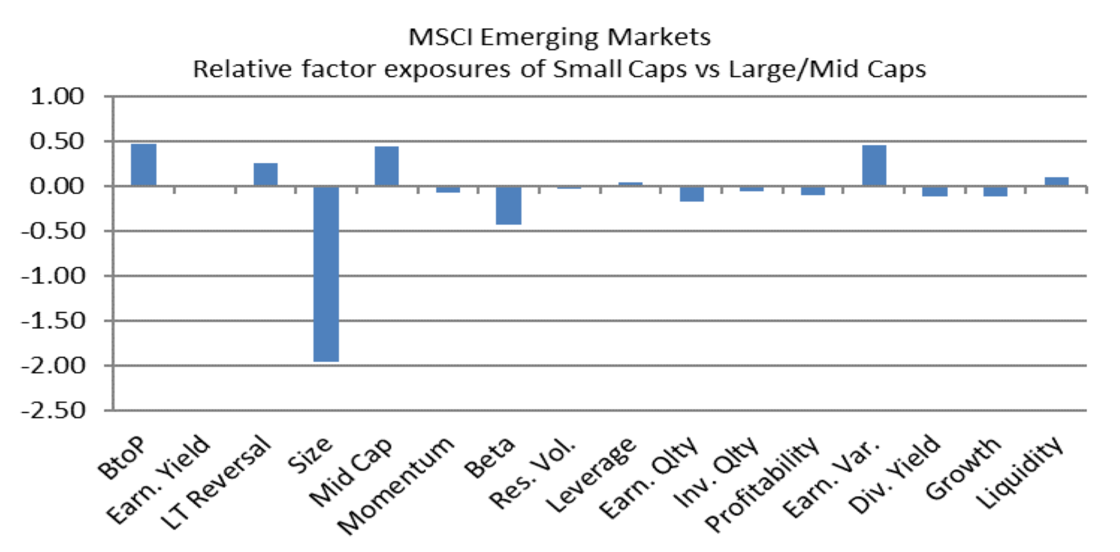


Sources: Bloomberg, Astoria Portfolio Advisors LLC

International Small Caps Have Important Portfolio Diversification Benefits

- How many research reports do you read on International Small Caps? Get our point?
- In an environment of **increased global growth**, **muted inflation**, and **an upswing in the global earnings cycle,** International Small Caps are **attractive**.
- Compared to Large Caps, International Small Caps have
  - (1) **lower correlations**
  - (2) are **pure plays** on local economies around the world
  - (3) have **varying** factor and sector exposures
  - (4) have **important diversification benefits** within a global equity portfolio
- In August we added
  - **DFE** (European Small Caps unhedged)
  - **EWX** (EM Small Caps unhedged)
  - **SCHC** (DM ex US Small Cap unhedged)
  - **SCZ** (MSCI EAFE Small Caps unhedged)

International Small Caps historically have had a value bias (positive skew to book to price) but higher earnings variability.

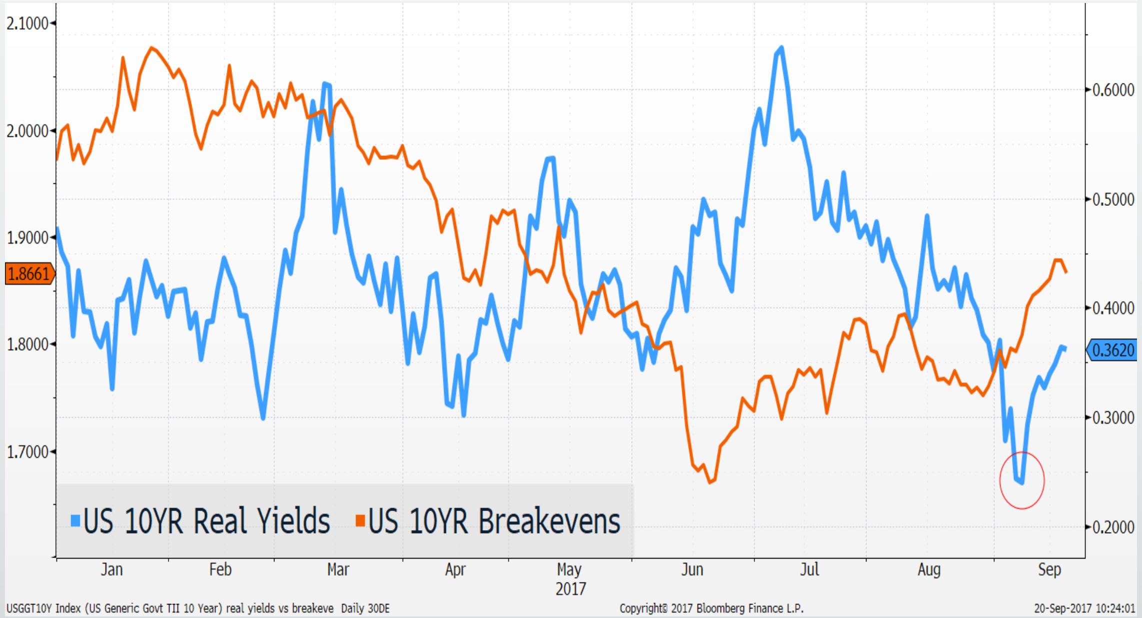


Source: MSCI Barra. Based on MSCI Barra's GEMLT average active factor exposures from Dec. 1998 to June 2017

Gold Has Done Well Despite this Summer's Flatten in Real Yields

- **US ETFs:** We are significantly UW the US. We own **VTI** which is a play on the **smaller cap, value bias** in the marketplace.
  - We added **SCHA** (US Small Caps) as the disconnect between Small Caps and the broader market got too stretched.
  - We are also utilizing **KBWB** (US Banks) given our **constructive** view on US Large Cap banks.
- **Was Risk too Low?** This summer we noticed several strange occurrences (1) EEM realized volatility fell below NASDAQ volatility (2) VIX traded below 10 (3) SPX 30 day realized volatility reached 5. **Complacency** was rampant which made us a bit uncomfortable.
- We felt it was prudent to **implement hedges** (that carry well) ahead of what has been historically a rough period for equities.
- **Gold**: We increased our **Gold** exposure (**IAU & SGOL**) and **cash** (the **only true uncorrelated asset**) in mid August. We also added **ZROZ** (Zero Coupon bonds) and **TLT** (Long Dated US Treasuries) to further **soften** the **portfolio's volatility**.
- These hedges were implemented on a **short term tactical basis**.

10 Year US Real Yields (blue line) has spiked higher in September as US 10YR Breakevens (orange line) have increased.

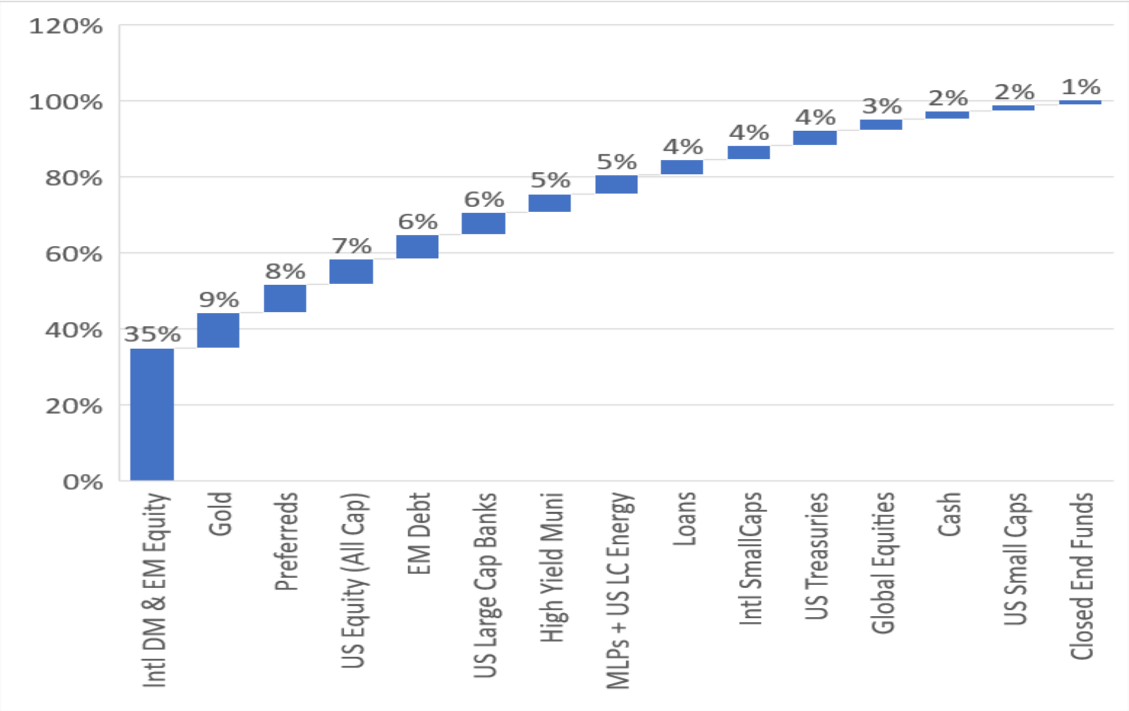


Sources: Bloomberg, Astoria Portfolio Advisors LLC

We Value Income Strategies as They Help Reduce our Portfolio Risk

- Astoria's **Multi Asset Risk Allocation** portfolio contains an income sleeve. The total current dividend yield for our model is **2.95%**.
- Can there by any value in Fixed Income after seeing **$2 trillion of inflows since 2007**? It's not easy to find value and there are bubbles throughout the asset class. However, we would note the following:
  - When factoring in the **yield relative to the risk** you are taking, Preferreds are attractive. **PFF** yields **5.67%** and the median 30 day realized volatility over the past 5 years is **4.5%**.
  - **PFF** also fits our **constructive view** on US Large Cap banks which make up **40%** of the ETF. **33%** of the bonds are rated **AAA.** Duration = **3.6.**
  - We recently wrote an article on **PFF** via **ETF.com** (click here).
- **EMB, HYD, BKLN/SRLN**, and **AMLP** are other substantive income strategies in our model.

Astoria's Multi Asset Risk Allocation Model Portfolio Weights (Sep '17)



Sources: Astoria Portfolio Advisors LLC
Note that the US Treasuries Category Includes Zero Coupon Bonds. Contact us for refined breakdown of our model.

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