

## Commentary: July 2017

### ENHANCING TILTS

The Statera Investment Team maintains a vigilant watch over the mutual fund and exchange traded fund (ETF) landscape to ensure that we may maintain what in our view are the most relevant and cost-effective investment exposures within our portfolios. In that tradition, the Team has identified a range of exposures that provide more attractive positioning, a more favorable overall expense proposition or both. While we remain true to our long-term, risk-conscious, fully invested investment philosophy, we believe that both watchfulness regarding present portfolio exposures and mindfulness to identify potentially more advantageous portfolio positioning should continue to benefit our clients.

### Greater Precision

As the mutual fund and ETF marketplaces continue to evolve, our Investment Team has available to it an ever-expanding array of investment opportunities. While a good portion of this expansion amounts to more than a bit of marketing-oriented noise, the shifts continue to present additional ways via which the Investment Team may further the precision with which it defines portfolio allocations. While we often suggest there is little need to be surgical in our approach, we believe that we occasionally can separate broader exposures into narrower components seeking to more efficiently achieve specific goals in our portfolios. Further, many newer flavors of investments, particularly those representing Value-oriented equity and global corporate fixed income, have arisen the last few years that also may present better ways to maintain the portfolio allocations we seek. Finally, competition among custodians and investment fund providers continues to intensify, sometimes enhancing the potential incremental value of portfolio shifts. A relatively more recent update to our target portfolio allocations broadly acknowledges these potential gains in portfolio efficiency and long-term potential risk-relative return.

### Fixed Income Update

Regarding the context for our utilization of fixed income within our portfolios, we will remind readers that we focus on fixed income as a ballast against what are generally more volatile equity markets. Still, even in fixed income, to achieve higher expected returns we generally must assume an increasing amount of risk. Within fixed income, the two primary risks we evaluate are duration (a measure of a bond's sensitivity to changes in interest rates) and credit (potential for default). Much like equity exposures, other risks we consider range from currency risk to geopolitical risk. While U.S. Treasury bonds may be considered risk free, duration risk still applies. Both risks generally are relevant to corporate bond exposures.

Among the fixed income components of our portfolios we have optimized exposure to these varied risks in a manner that acknowledges the overall risk and time horizon contexts of each portfolio. As part of this process, we have placed a greater emphasis on domestic fixed income exposures, including U.S. Treasuries and U.S. corporate bonds. As we move up the risk tolerance spectrum (mostly by adding more equity), we have incorporated incremental exposure to both duration and credit on the fixed income side. This emphasis acknowledges that the more we tilt portfolios in favor of both characteristics, while we might experience greater risk, we also may incorporate the potential for enhanced longer-term returns.

### **Equity Update**

As with the fixed income segments of our portfolios, we similarly modestly increased portfolio tilts to factors understood to reflect greater potential long-term return vis-à-vis risk. These tilts focus on Value and Size (readers may see the February and March Commentaries for supporting discussions), and may incorporate additional factors with similar potential for more attractive prospective long-term total return. Further, we have enhanced global diversification among our equity exposures, also in direct relation to risk tolerance. Here again we must understand that there remains an expected trade-off for the prospective incremental return in the form of greater risk. That is why the approach aligns the increase in tilts with the increase in risk tolerance and time horizon.

### **Ongoing Discussion**

We hope that our revitalized monthly commentary and quarterly performance and positioning reviews continue to support reader understanding of and comfort with our work. Advancing these goals, the Investment Team will continue to strengthen the emphasis on practical explanation for portfolio positioning and candid examination of the results of our investments. The entire team at Statera wishes to express our many thanks for the trust and confidence of our advisor partners we look forward to furthering our support for them as they look to establish and ultimately meet future financial goals of their clients.

## Important Information

Investing involves risks. Past performance is not indicative of future results.

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