McGowanGroup

ASSET MANAGEMENT

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Allocation Units™

Firm Overview

- Managing client portfolios since 1987
- Team-based approach with over 100 years of combined investment experience
- Over $500 million in assets under management
  - Individual Families
  - Institutions/non-profit organizations
  - Retirement Plans
  - Cashflow Portfolios
- Clients located throughout the United States
- Headquartered in Dallas, Texas

INVESTMENT COMMITTEE

- **Spencer McGowan**
- President, Certified Investment Management Analyst®
- Mr. McGowan is the founder of McGowanGroup Asset Management, a member of the MGAM Investment Committee, and serves as firm's chief investment strategist. Spencer McGowan began his financial advisory practice after graduating from the University of Texas in 1986, training under the mentorship of his father Loy Dean McGowan. In 1989, Mr. McGowan invested in one of the financial services industry's first CRM, customer relations management systems. In 1991, he adopted one of the industry's first investment performance tracking systems. In 1997, Spencer earned the Certified Investment Management Analyst certification from the University of Pennsylvania's Wharton School of Finance. Utilizing a proprietary cash-flow based investment discipline, coupled with an advanced performance tracking system, Mr. McGowan has built a unique private wealth management platform. In addition to authoring two books, Spencer has advised thousands of successful families and is the host of NetWorth Radio™.

- **Andrew Orton**
- Director of Research, Certified Private Wealth Advisor®
- With over 17 years of financial services experience, Andrew serves to empower clients and prospective clients through education and development. His primary role is research but also is responsible for the onboarding of new clients and trading. In 2013 he earned the designation of Certified Private Wealth Advisor® delivered by Investment Management Consultants Association (IMCA) at The University of Chicago Booth School of Business. Prior to joining McGowan Group Asset Management, Andrew was a branch manager for GunnAllen Financial and also worked as a market maker. Andrew earned a bachelor's degree in Finance from Arizona State University.

- **Dominique Henderson**
- Director of Trading and Information Technology
- Dominique serves as Director of Trading and Information Technology and is mainly responsible for fixed income trading and the integration of all firm data systems. He brings nearly fifteen years of operations, trading and project management experience to the firm. Prior to joining McGowan Group Asset Management, Dominique spent 8 years with the Dallas based hedge fund, HBK Capital Management, and was responsible for portfolio reporting and special projects.

- **Alexander G Tollen**
- Director of Client Development and Equity Trading, Certified Private Wealth Advisor®
- Alex brings with him over 20 years of experience in the financial services industry. In 2013 he earned the designation of Certified Private Wealth Advisor® delivered by Investment Management Consultants Association (IMCA) at The University of Chicago Booth School of Business. He serves as a client advocate and advanced solutions specialist responsible for outreach and development. Prior to joining McGowan Group Asset Management, he served as Director of Client Relationship Consulting for 1st Global Capital Corp., responsible for client advocacy and creating efficiencies for firms with combined assets over $900 million. Alex has also served as an institutional trader and market maker with specialties in equity market structure and execution of strategic initiatives.

The Great Rally

And

Compression of Forward Returns

The fixed income conundrum involves the, heretofore, erroneous assumption that rates have to rise dramatically and in tandem, therefore limited duration is desirable. Both assumptions have led to fixed income allocations to premium investment grade short and intermediate bonds. The compression is best illustrated by the 2014 numbers from two of the worlds largest bond funds. Fourth quarter 2014 SEC yield estimates dipped below 2% for the Pimco Total Return Fund according to Morningstar. The estimated weighted average price of the portfolio went as high as 106, a 6% estimated premium over estimated maturity values under control, MGAM's "Epsilon" measure.

Party Like its 1999

One of the greatest forward return compression scenarios occurred in the late 1990's. The investment firms drove portfolio allocation models optimizing allocations using, in large part, historic returns. The self reinforcing folly drove the S&P 500 to over 30 times earnings. The equation producing about a 3% forward earnings yield plus or minus growth. The technology implosion of 2001-2002 resulted in reduced earnings instead of overall growth in earnings.

The particularly telling possibility for indexed allocations involves energy companies reduced earnings and actual losses. The drag appears to be similar to the technology company earnings impact exacerbating the bear market of 2001-2002.

Solutions

The solution, in our opinion, is to take a total return approach to investing. The MGAM Allocation Units discipline has a focus on high income as the main driver of total return, rather than relying on markets that "have to" continue to rise in order for clients to meet their income and portfolio targets. The traditional "mutual funds in a box" allocation strategy implies that you must sell assets to meet income needs. Allocation Units solves this dilemma with a target of 5-6% percent net income from dividends and interest plus growth exceeding inflation. That equals $50,000 - $60,000 a year in income per million without having to sell capital assets.

In a downturn, the impact on a portfolio that has a traditional allocation will be severely impacted and have a difficult recovery, as we have seen twice in the past 15 years, but a cash flow strategy, in our experience, protects the capital assets, allows for continued income, and enhanced maturity value under control for a faster recovery.

ALLOCATION UNITS™

- <u>Objective</u>
  - The MGAM Allocation Units discipline seeks to provide moderate growth and high cash flow with a secondary objective of capital preservation provided through fixed maturity investments. The discipline uses multiple asset classes and tactical allocation strategies based upon estimated forward returns including net portfolio income and potential capital appreciation. The discipline utilizes both fixed income and exchanged-traded investments.
- <u>Investment Philosophy</u>
  - MGAM Allocation Units seek to achieve the objective by selecting high income producing investments at attractive discounts to net asset or par value. The discipline may accomplish this across a variety of assets classes and categories including, but not limited to:
    - **Safety & Income**: fixed maturity investments which may include tax-exempt or taxable instruments; Money market funds
    - **High Cash Flow**: fixed income mutual funds, managers or exchanged traded funds (including below investment grade bank loan and commercial paper); debt of international or US corporations (including senior unsecured obligations)
    - **Growth with Income**: individual companies, real estate investment trusts (REITs), master limited partnerships (MLPs), closed-end equity funds (CEFs)

ALLOCATION UNITS™ (continued)

- Risks
  - The discipline will experience exposure to the following risks:
  - Call
  - Market
  - Interest Rate
  - Issuer/Credit
  - Liquidity
  - Price

- Benchmark
  - The benchmark is a blend of 33% S&P HY Dividend Aristocrats Index (SPHYDATR), 33% BofA Merrill Lynch Global High Yield Index (GI00), 10% of the S&P Municipal Bond Index (SAPIMAIN), 10% of the Barclays Aggregate Bond Index, and 14% of the S&P Municipal Bond High Yield Index (SAPIHY).

TOTAL RETURN ALLOCATION UNITS™ TARGET

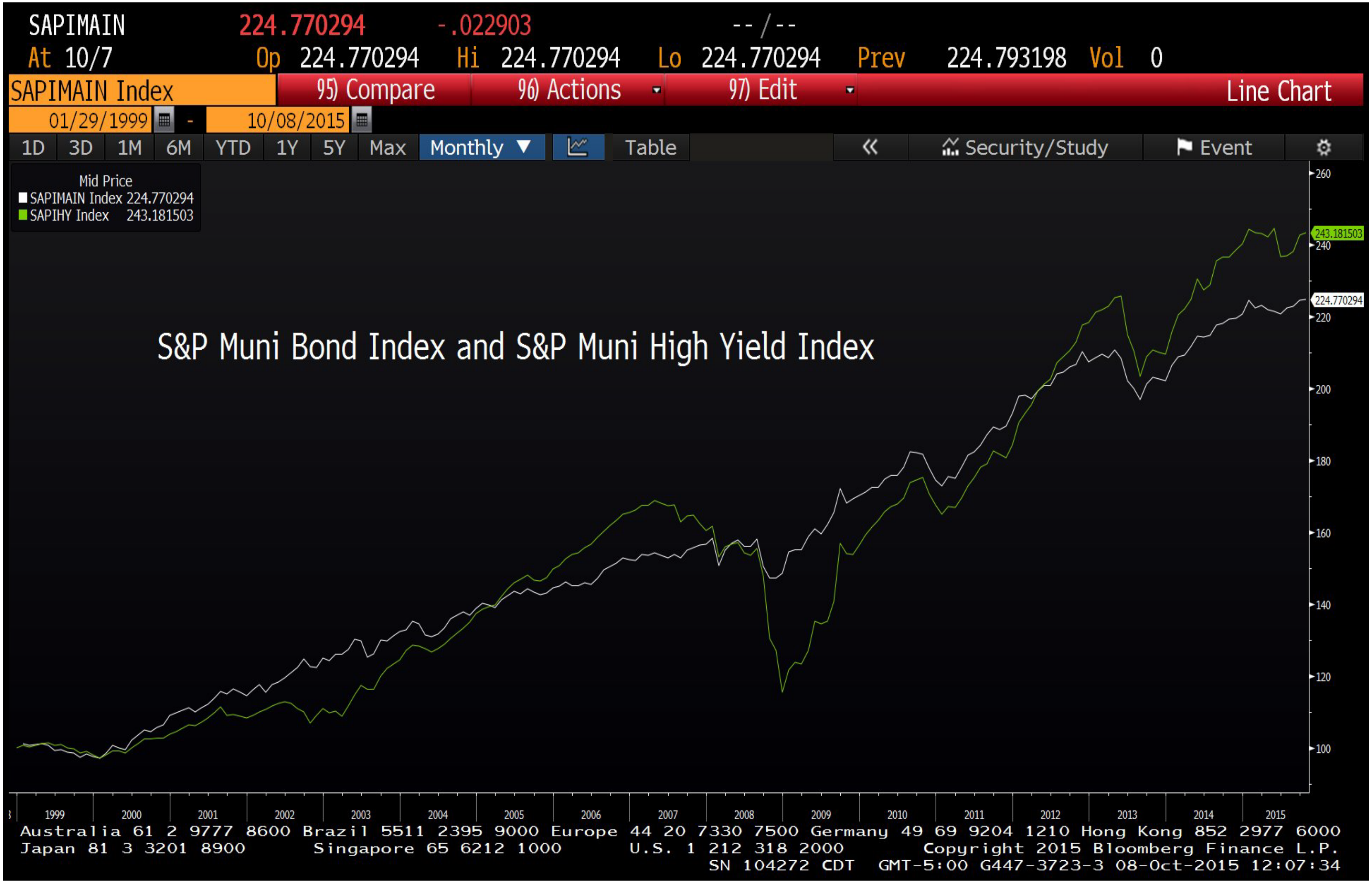
Total return = K (Cash flow from dividends and interest)+ Δ (Change in Value)

- Goal
  - 5 - 6% net in cash flow + growth exceeding inflation

- Allocation categories:

  - **Safety and Income** - The inclusion of fixed maturity bond ladders to portfolios can add reliable income with period certain principal payments. Further, when discounts are available the category can guide the overall allocation to more safety at crucial junctures in financial markets by providing a rational attraction away from riskier asset classes.

    - **Change in Value** – We buy interest bearing bonds at a discount to par value. Purchases at a discount to par provide an inherent positive change in the value equation as it pertains to the total return equation. As bonds move towards maturity, the principal investment value increases. Theoretically, when bond prices rise to premiums (values above par), a potential opportunity arises to gather one or more years' worth of coupon payments in the form of a capital gain when the bond is sold. When bonds are out of favor, we are net buyers at a discount below par value.
    - **Interest Payments** - Coupon payments add to the total return equation.
    - **Zero Coupons** – In environments where yields in zero coupon bonds are high relative to the curve, we look to secure the long end of the plan with zero coupon bonds. For example, if your asset size is $1,000,000 we allocate 10 - 15% of the assets to buy maturity value equal to $1,000,000.
    - **Risk** - In the current environment, the fixed income portion of the portfolio is the risk offset to the overall market. In a cold crisis, when stock markets are down, money typically flows to this space providing gains and the opportunity to move cash to high cash and dividends.
    - **Yield Targets** - 5.00% cash pay or better and 5.5% or better zero coupon bond gain potential with the discount purchases under par.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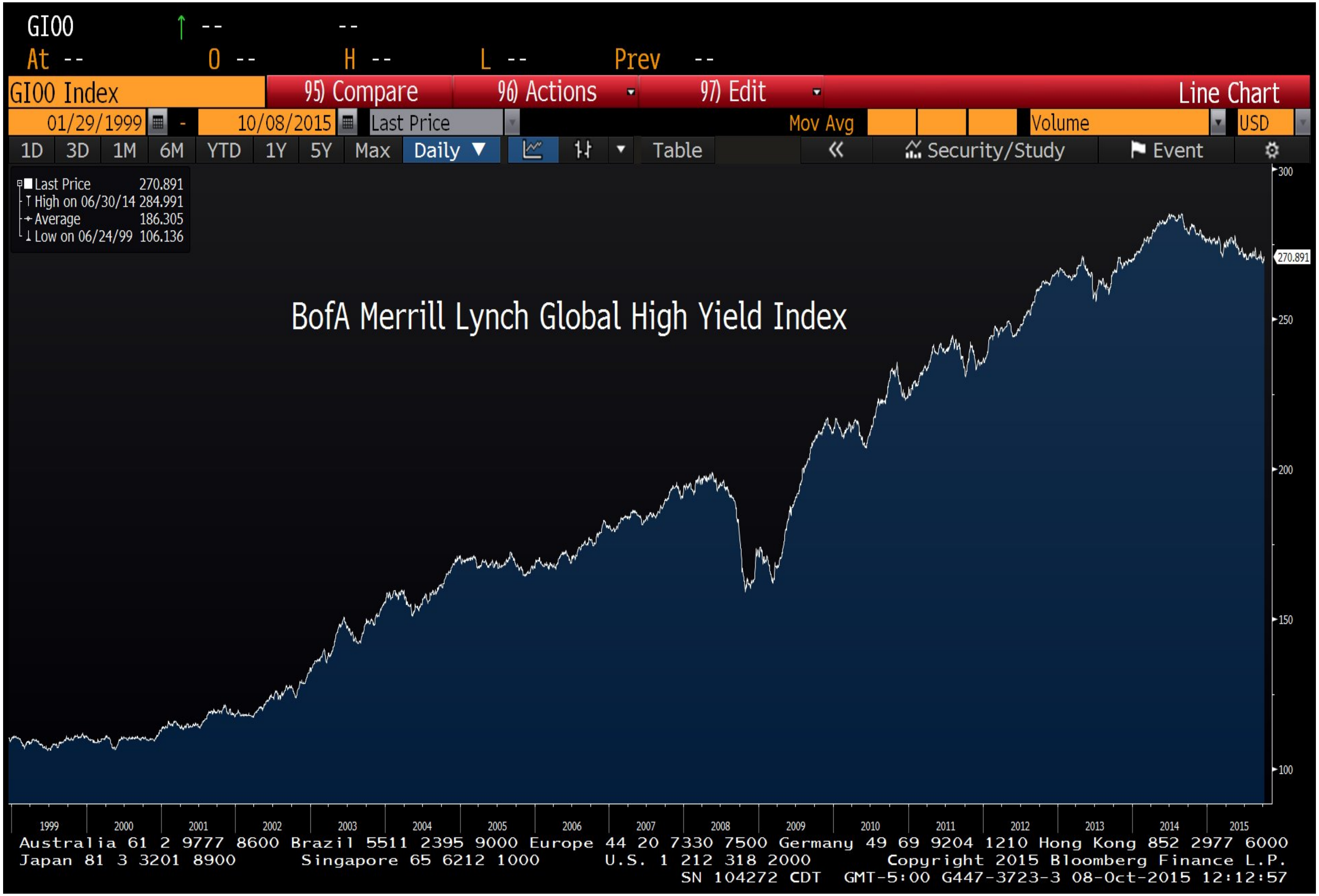
TOTAL RETURN ALLOCATION UNITS™ TARGET (continued)

- Allocation Categories:
  - **<u>High Cash Flow</u>** -"Be the bank!" Global lending to corporations and governments allows investors to deploy capital for higher income and potential capital gains. Often the corporate bond category provides a tool for helping recover from bear equity markets faster while enjoying an income stream, "getting paid to wait."
    - **Change in value** – We buy closed end mutual funds or exchange traded funds at a discount to NAV. If we can buy $1 worth of assets for discounts (say 80 or 90 cents on that dollar) then we have a comparative advantage in the arena. We look at the high cash flow space for equity, buy write, foreign debt, high yield debt, corporate debt, infrastructure among others and choose the best managers at the biggest discounts.
    - **Dividends** – Buying at discounts generate a larger yield adding to the total return equation.
    - **Risk** – In a hot crisis (meaning stocks are good), we potentially benefit from a large dividend payment AND an increase in capital gains; taking profits at targets near or above NAV. In a cold crisis, we take bond gains and buy discounts in the high cash flow space.
    - **Yield Target** - 8% closed end funds purchased at a discount to NAV (Net Asset Value) adding to gain potential .



Graph courtesy of Bloomberg LP

TOTAL RETURN ALLOCATION UNITS™ TARGET (continued)

- Allocation Categories:
  - **Growth and Income** - With the goal of outpacing inflation, dividend companies offer an attractive long term opportunity**.**
  - **Change in Value** – We seek companies that are inexpensive relative to earnings projections and/or represent an inflation hedge such as natural gas infrastructure coupled with an acceptable dividend yield and strong balance sheet.
    - **Dividends** – We look to ensure that the companies we choose have enough free cash flow to pay for current dividends AND project increase future dividends.
    - **Risk** – Overall market risk, but we diversify this portion of the portfolio with 12 solid companies and selected trading packages.
    - **Yield Target** - 5% - 6% with gain potential

Graph Courtesy of Bloomberg LP

Portfolio Summary

Type of Investment Structure

- Separately Managed Account (SMA)

Returns

- Emphasis on current net cash flow of 5 - 6% with growth exceeding inflation

Risk Disclosures

- **General Risks**

- **No representation or warranty is made that any returns indicated will be achieved. It is not possible to invest directly in an index and any benchmark indices presented are for informational/educational purposes only. Actual results vary for individual client accounts due customization, advisory fee schedules, timing of additions and withdrawals, diversification, length of relationship, and size of positions among other reasons.**

- **McGowanGroup Asset Management, Inc. Is a Federally Registered Investment Advisory Firm utilizing Pershing LLC, a BNY Mellon Company for asset Custody.**

- **Reinvestment/Call Risk**
  - If interest rates fall, callable security issuers may call or prepay their securities before maturity, causing our investment strategy to shift towards reinvesting proceeds in securities with lower interest rates and reducing potential income.
- **Market Risk**
  - General stock market fluctuations and volatile increases and decreases in value as market confidence in and perceptions of the issuers change. Investor perceptions can be based on various and unpredictable factors including expectations regarding government economic, monetary and fiscal policies, inflation and interest rates, economic expansion or contraction and political climates. The value of any security can rise or fall and when liquidated may be worth more or less than the original investment.
- **Interest rate risk**
  - Refers to a rise in interest rates will cause the value of investments to decline and or experience heightened volatility and reduced liquidity through national or international governmental policy changes.
- **Credit Risk**
  - Refers to an issuer's ability to meet its obligation to make interest and principal payments, or a decline in the market's assessment of the issuer's ability to pay. This may trigger the lowering or removal of the issuer’s credit rating. Generally, lower rated securities provide higher current income but are considered to carry greater credit risk than higher rated securities.
- **Liquidity Risk**
  - Refers to the fact that the investment strategy may hold illiquid securities that is may be unable to sell at the preferred time or price and could lose its entire investment in such securities.
- **Other Risks**
  - All or a portion of the disciplines otherwise tax-exempt income may be subject to the federal alternative minimum tax.
  - Municipal securities have the risk that legislative or economic conditions could affect an issuer’s ability to make principal and/or interest payments.
  - The value, interest rates, and liquidity of non-cash paying instruments, such as zero coupon and pay-in-kind securities, are subject to greater fluctuation than other types of securities.

- **Investment-Specific Risks**
- **Price Risk**
  - MGAM may purchase shares of closed-end investment funds that frequently trade at a discount from their net asset value. Shares at any point in time may be worth less than the original investment, even after taking into account the reinvestment of dividends and distributions.
- **Leverage Risk**
  - MGAM may purchase shares of closed-end investment funds and the risk of higher share price volatility and the cost to a fund of its leveraged capital, such as preferred stock or debt, will exceed the earnings on the related assets.
- **Tax Risk**
  - MGAM may purchase shares of closed-end investment funds and the tax treatment of Fund distributions may be affected by IRS interpretations of the Internal Revenue Code and future changes in tax laws and regulations, including changes resulting from the “sunset” provisions that may apply to the favorable tax treatment of tax-advantaged dividends. There can be no assurance as to the percentage of a Fund’s distributions that will qualify as tax-advantaged dividends.