



TOPSAIL™
WEALTH MANAGEMENT

Fixed Income Investing

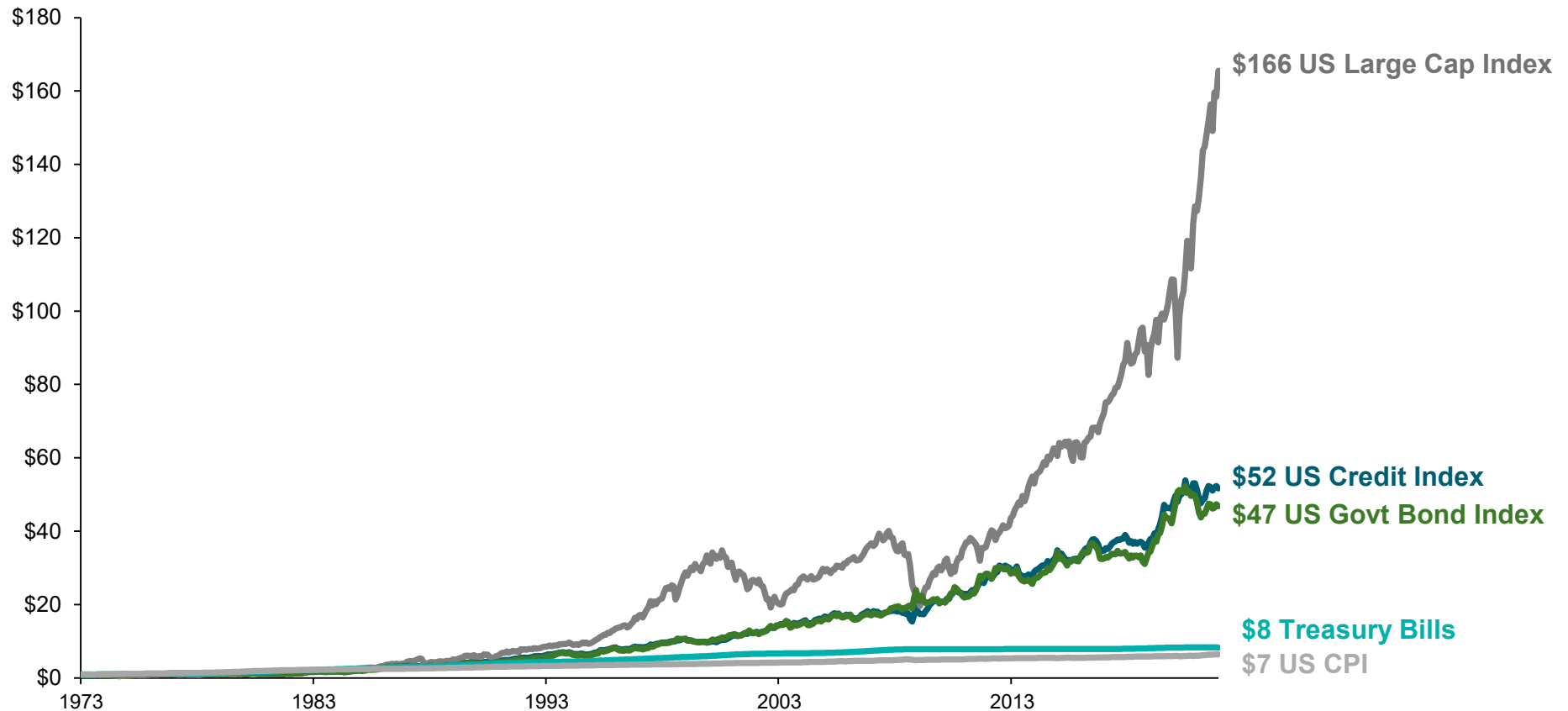
Stocks and Bonds Are Conduits for Capital



- The stock and bond markets are an important source of capital for public companies.
- Stockholders are equity owners in the company. Bondholders are lenders to a company.
- Both expect an adequate return for the terms and risk of their investment.

Fixed Income Markets Have Rewarded Investors

Monthly growth of wealth (\$1), 1973–2021



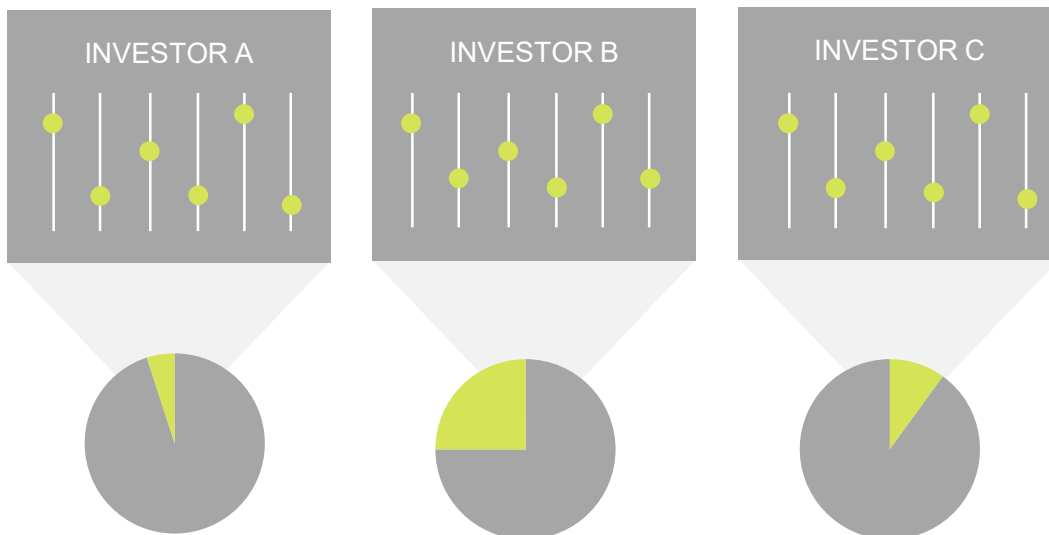
In US dollars. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is no guarantee of future results. US Large Cap Index is the S&P 500 Index. US Credit Index is long-term corporate bonds using the IA SBBI US LT Corp TR USD, provided by Ibbotson Associates via Morningstar Direct. US Govt Bond Index is long-term government bonds using the IA SBBI US LT Govt TR USD, provided by Ibbotson Associates via Morningstar Direct. Treasury Bills is the IA SBBI US 30 Day Tbill TR USD, provided by Ibbotson Associates via Morningstar Direct. US CPI is the US Consumer Price Index. US Consumer Price Index data is provided by the US Department of Labor Bureau of Labor Statistics. S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Bonds, T-bills, and inflation data provided by Morningstar.

Fixed Income's Role in Portfolios

FIXED INCOME PLAYS MANY ROLES



DIFFERENT INVESTORS HAVE DIFFERENT NEEDS

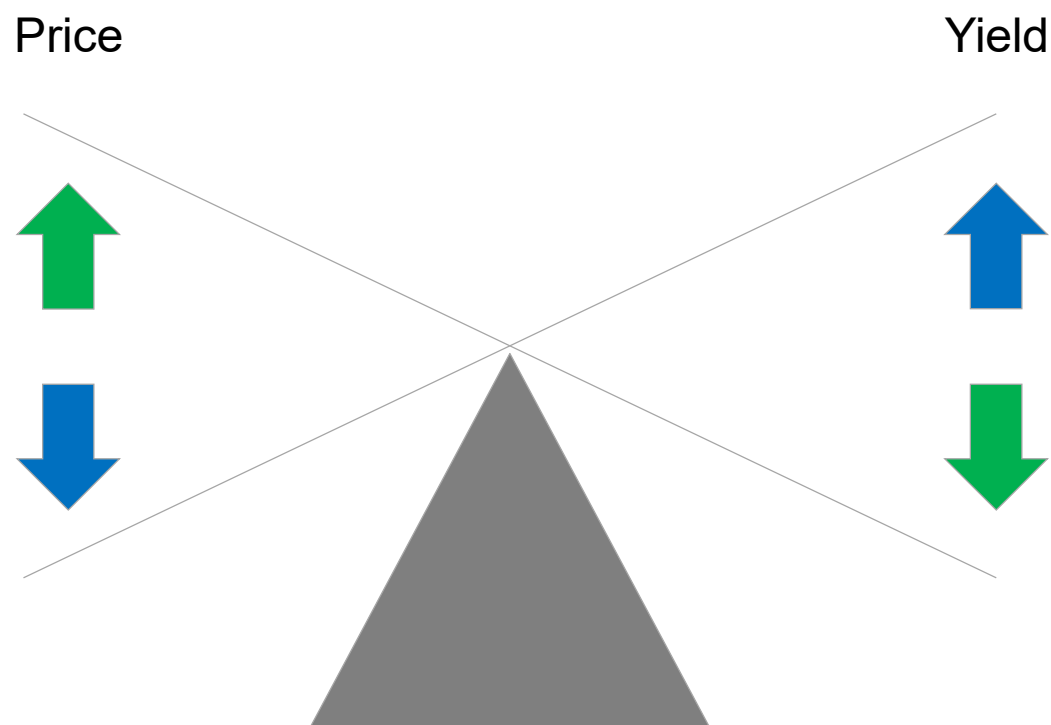


- Fixed income can play many different roles in a portfolio.
- Fixed income portfolios can be customized to meet the needs of investors.
- A financial planner can help determine what type of and how much fixed income is right for your investment goals.

Fixed income portfolios are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, call risk, and other factors. Inflation-protected securities may react differently from other fixed income securities to changes in interest rates.

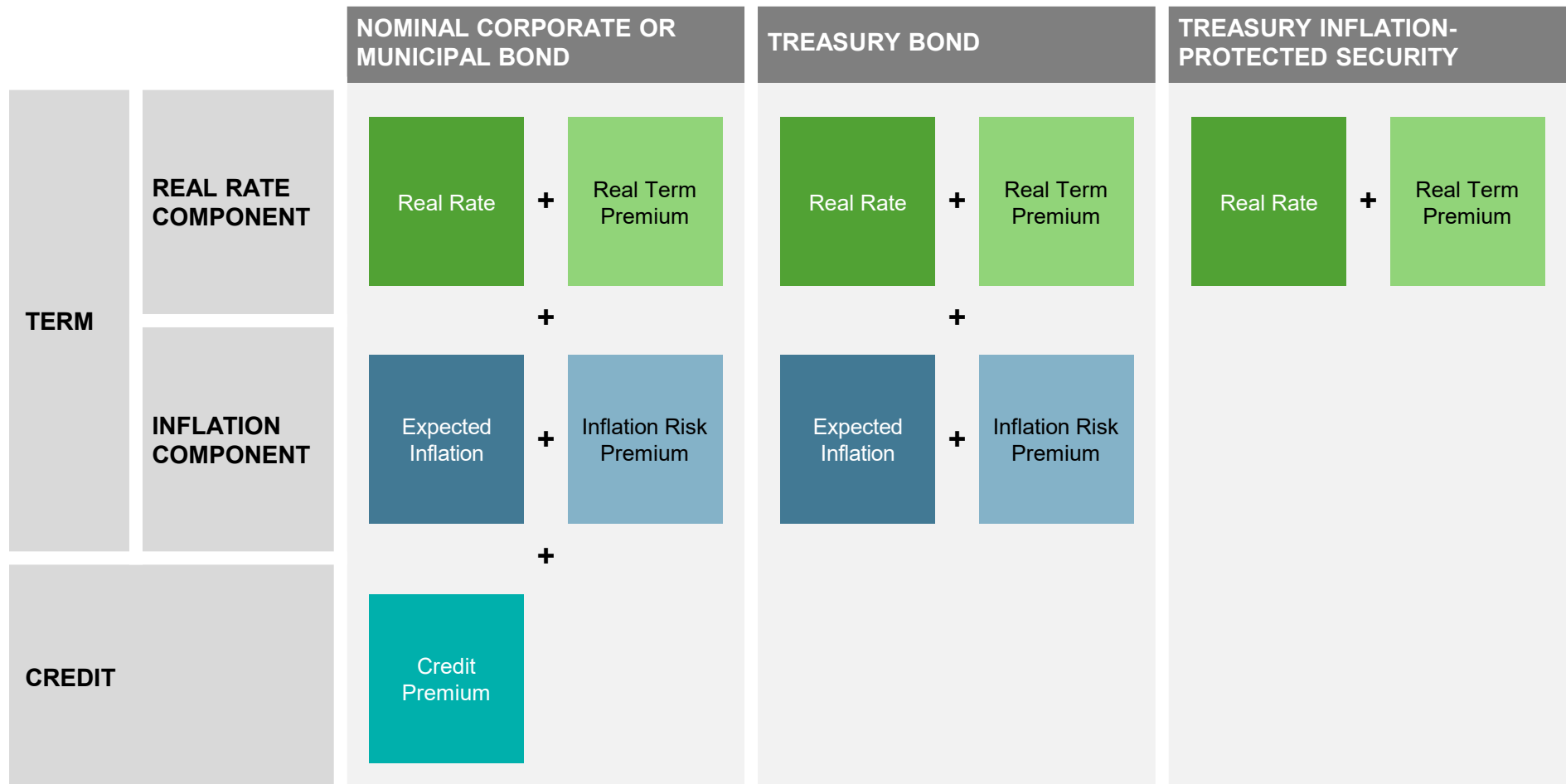
Municipal securities are subject to the risks of adverse economic and regulatory changes in their issuing states. There is no assurance that any investment objective will be met. Investing involves risks, including possible loss of principal.

Prices and Yields



- There is an inverse relationship between the price of a bond and the yield of a bond.
- As the yield of a bond increases, its price will decrease. And as the yield of a bond decreases, its price will increase.

Components of a Bond Yield



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Markets Integrate Combined Knowledge of All Participants

\$624 Billion

Average Daily Volume of US Treasuries

\$279 Billion

Average Daily Volume of US Agency MBS

\$37 Billion

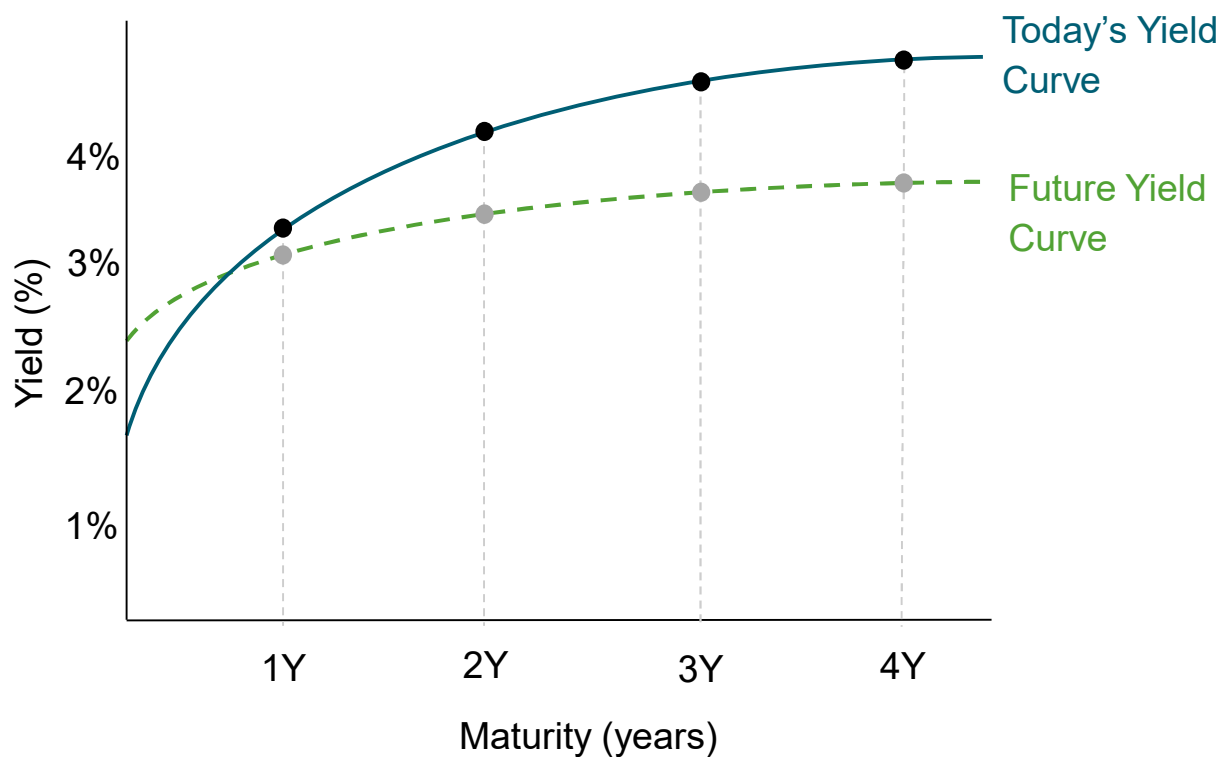
Average Daily Volume of US Corporate Debt

With maturities greater than one year

- A large volume of trading takes place in fixed income markets every day.
- Trading aggregates a vast amount of dispersed information, which is reflected in security prices.

In US dollars. Source: SIFMA, data for 2021.

Yield Curves Change Through Time

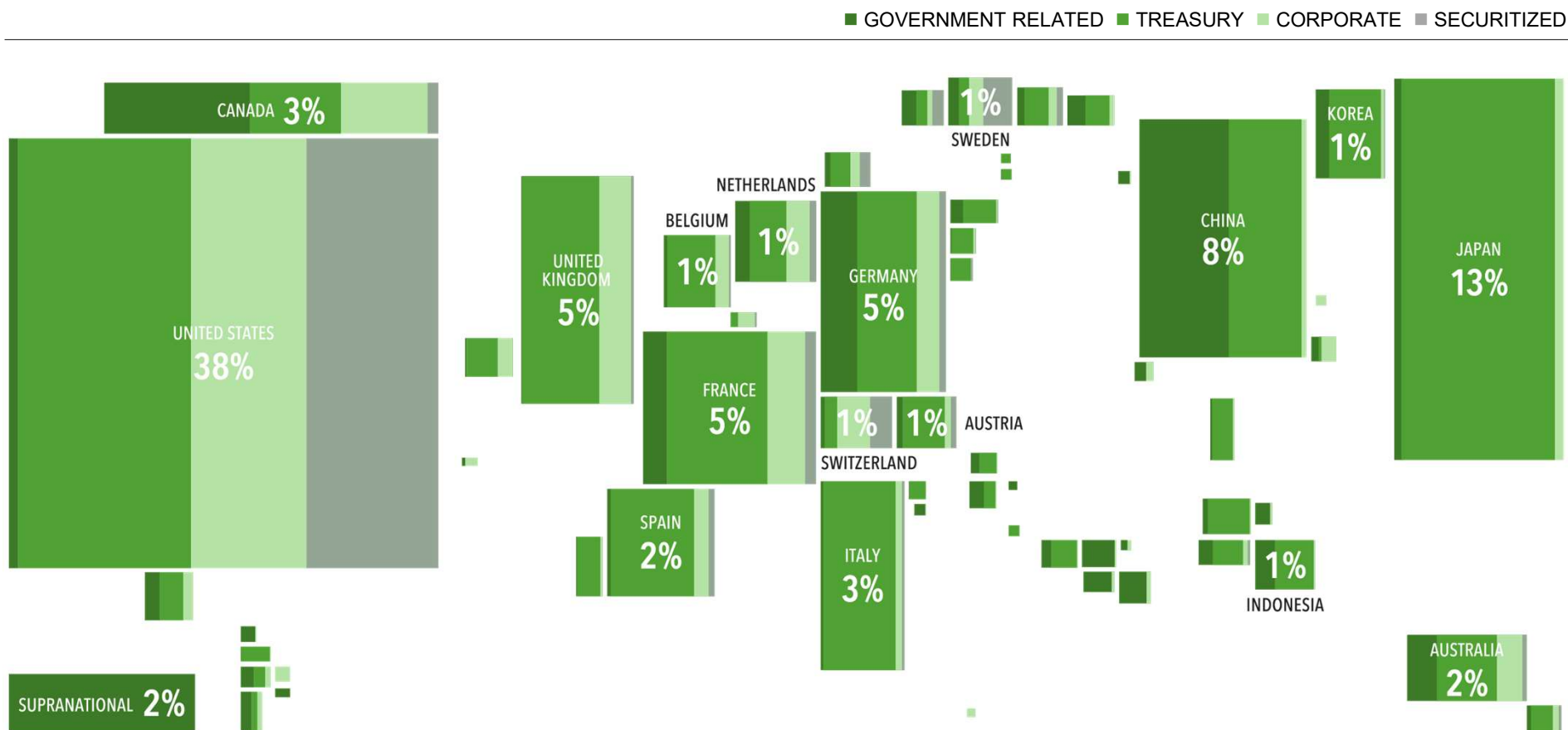


- A yield curve is a collection of yields for bonds of different maturities.
- As new information enters the market or investors' tastes and preferences change, yield curves can change.
- Global diversification may help investors reduce volatility from yield curve movements.

Diversification does not assure a profit or protect against loss. International and emerging markets investing involves special risks, such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks. 8

There's a World of Opportunity in Fixed Income

Percent of global investment grade bond market as of December 31, 2021



Data is from Bloomberg Global Aggregate Bond Index. Index excludes non-investment grade securities, bonds with less than one year to maturity, tax-exempt municipal securities, linked bonds, and floating rate issues. Treasury sector includes both nominal and inflation-linked native currency debt issued by central governments, which are backed by full faith and credit of a central government. Government-related sector groups are issuers with government affiliations, including agencies, supranationals, and local authorities. Corporate sector categorizes issuers based on primary lines of business, revenue streams, and operations used to service debt, including industrials, financial institutions, and utilities. Securitized sector is designed to capture fixed income instruments whose payments are backed or directly derived from pool of assets protected or ring-fenced from credit of particular issuer (either by bankruptcy remote special purpose vehicle or bond covenant). Underlying collateral for securitized bonds can include residential mortgages, commercial mortgages, public sector loans, auto loans, or credit card payments. Many nations not displayed. Totals may not equal 100% due to rounding. For educational purposes; should not be used as investment advice. Data provided by Bloomberg. **Diversification neither assures a profit nor guarantees against loss in a declining market.**

Global Bonds Can Enhance Diversification

CHANGES IN SHORT-TERM YIELDS: CORRELATIONS WITH THE US

	Australia	Canada	Switzerland	Germany/EMU	UK	Japan
1985–2020	0.29	0.63	0.30	0.44	0.36	0.24

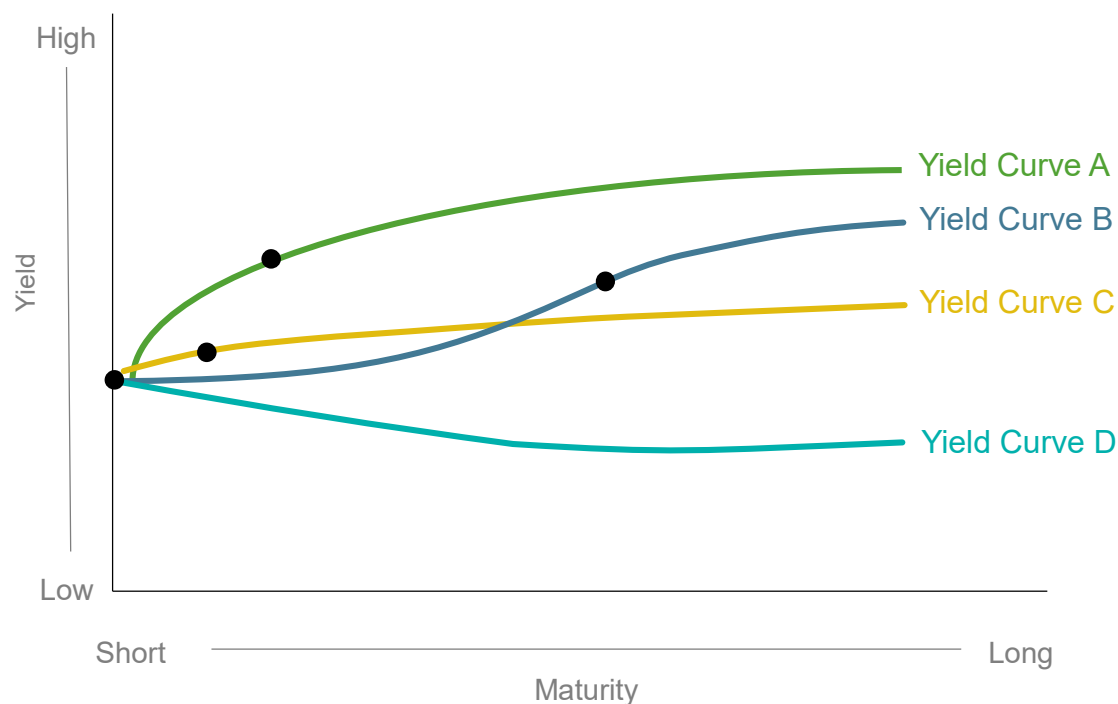
1–3 YEAR INDICES: 1985–2020

	US	WGBI (hedged to USD)
Average Returns (monthly)	0.40%	0.39%
Standard Deviation (monthly)	0.52%	0.40%
Reduction in Volatility	—	23%

- Since yields across countries do not move in lock-step, investors can reduce expected volatility by diversifying across yield curves using global bonds.

1985–2020, FTSE WGBI Indices (1–3 years). Countries: Australia, Austria, Belgium, Canada, France, Germany, Japan, Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, UK, and the US as data becomes available. Correlations of short-term yield changes are based on unhedged yields. US average monthly return based on Dimensional calculation of FTSE WGBI US 1-3 year index data. WGBI (hedged) average monthly return based on WGBI 1-3 year index (hedged to USD). FTSE fixed income indices © 2021 FTSE Fixed Income LLC. All rights reserved. Past performance is no guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

Global Bonds Can Enhance Expected Returns

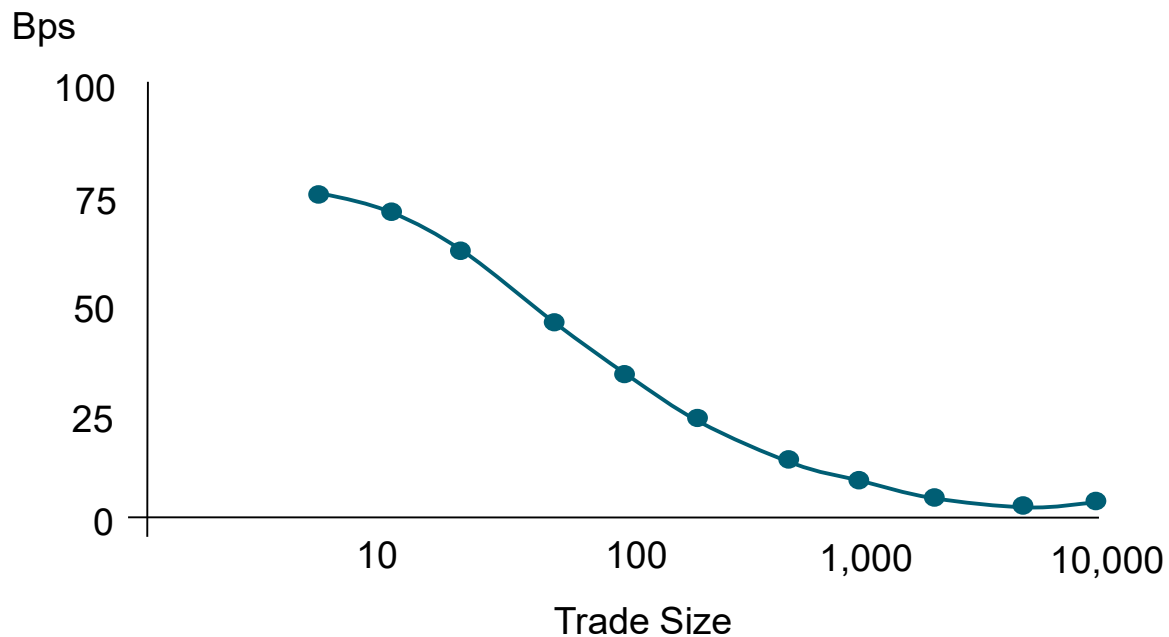


- Point of highest expected return

- Global yield curves may exhibit different shapes at different points in time, offering a broader opportunity set.
- By expanding the opportunity set, investors can target higher expected returns in different yield curves around the world.

For illustrative purposes only. International and emerging markets investing involves special risks, such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks.

Trade Size vs. Transaction Cost



- Trade size affects the cost of buying and selling bonds.
- Small trades and very large trades are forced to pay higher costs.

For illustrative purposes only. Amy Edwards, Lawrence Harris, and Michael Piwowar, "Corporate Bond Market Transaction Costs and Transparency," *Journal of Finance* 62, no. 3 (June 2007): 1421-51.