iSectors®, LLC 2nd Quarter 2024 Summary Commentary

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Broad Market Q2 2024 Overview

- Market-cap-weighted stock indexes with concentrated exposure to the Magnificent 7 continued to outperform in the 2nd quarter of 2024. The top 10 holdings of the S&P 500 make up over 35% of the index, a level rarely seen over the last 100+ years of equity investing.

- Domestic dominance also continued, with international indexes lagging their United States-based counterparts. The MSCI ACWI has only outperformed the S&P 500 in two out of the last ten years.

- The prevailing trend also continued in the fixed income markets last quarter. Longer duration bonds underperformed short duration bonds as the "higher for longer" rhetoric regarding interest rates became more widely accepted. This rhetoric shifted slightly towards the end of the quarter, with the Fed pivoting to more dovish commentary as some of the data points they focus on began to trend in their preferred direction. Continue reading on the following pages to find out how we are reacting to the changing interest rate environment in our fixed income models.

- S&P 500 Index
  - Q2 2024 return: 4.28%.
  - Year-to-date return: 15.29%.
  - Last three years annualized: 10.01%.
- MSCI All Country World Index
  - Q2 2024 return: 3.01%.
  - Year-to-date: 11.58%.
- Bloomberg U.S. Aggregate Bond Index,
  - Q2 2024 return: 0.07%.
  - Year-to-date: -0.71%.
  - Last three years annualized: -3.02%.
- Bloomberg 1-3 Year Government/Credit Bond Index
  - Q2 2024 return: 0.95%.
  - Year-to-date: 1.38%.
- S&P Goldman Sachs Commodities Index
  - Q2 2024 return: 0.65%.
  - Year-to-date: 11.08%.
  - Last three years Annualized: 12.69%.
  - Has outperformed both stocks and bonds over the last three years.

iSectors® Allocation Q2 2024 Return Attribution Review

iSectors® Capital Preservation Allocation

- Q2 2024 return
  - Model: 1.08%.
  - Benchmark (Bloomberg 1-3 Year Government/Credit Bond Index): 0.95%.
- Year-to-date return
  - Model: 2.08%.
  - Benchmark: 1.38%.
- Last 12 months return
  - Model: 5.15%.
  - Benchmark: 4.87%.

- Holdings with positive contribution to returns during the quarter (descending order):
  - Short-term government bond ETFs.
  - Investment grade corporate bond ETFs.
  - High yield bond ETFs.

- Since the model's January 2010 inception, it has offered better risk-adjusted returns than both the Bloomberg 1-3 Year Government/Credit Bond Index and the Bloomberg US Aggregate Bond Index, as represented by its higher Sharpe ratio of 0.50 vs. 0.33 and 0.29, respectively.

- With rate cut odds increasing since the start of the quarter, the ultra-short-term treasury bond ETF utilized in the model was replaced with a 2-year treasury bond ETF at the end of Q2. The average duration of the model increased from about 1.3 to approximately 1.9 years due to this change.

- The iSectors® Capital Preservation Allocation offers a high-quality cash alternative with short durations to preserve investment principal in our current economic environment characterized by high and volatile interest rates. It also provides the potential for enhanced returns versus money market funds while maintaining daily liquidity.

iSectors® Domestic Fixed Income Allocation

- Q2 2024 return
  - Model: 0.81%.
  - Benchmark (Bloomberg US Aggregate Bond Index): 0.07%.

- Year-to-date return
  - Model: 1.69%.
  - Benchmark: -0.71%.

- Last 12 months return
  - Model: 5.19%.
  - Benchmark: 2.63%.

- The model has also outperformed the Bloomberg US Aggregate Bond Index over the past 3-, 5-, and 10-year periods.

- Holdings with positive contribution to returns during the quarter (descending order):

    - Investment grade corporate bond ETFs.
    - Treasury bond ETFs.
    - High yield bond ETFs.

- As mentioned previously, the probability of a rate cut was increasing toward the end of the 2nd quarter, and with the hiking cycle extending beyond two full years, we have become increasingly confident that interest rates are closer to their peak than they are to their bottom. With that, we decided to mirror the decision we made in the iSectors Capital Preservation Allocation and increase duration in the iSectors Domestic Fixed Income Allocation as well. In this case we extended the duration even further for this model because it is meant to be utilized as a core fixed income holding. The current duration is about 3.5, up from 1.0 last quarter. This is also higher than the historical average of about 2.5, while still being well below the duration of its Bloomberg Aggregate Bond Index benchmark of approximately 6.0.

iSectors® CryptoBlock® Allocation

- Q2 2024 return
    - Model: -10.52%
    - Benchmark (INDXX Blockchain Index): 2.70%
- Year-to-date return
    - Model: 24.21%
    - Benchmark: 8.58%
- Last 12 months return
    - Model: 58.51%
    - Benchmark: 17.28%
- Holdings with positive contribution to returns during the quarter (descending order):
    - Metaverse ETF
    - Blockchain equity ETFs
- Holdings with negative contribution to returns during the quarter (descending order from most negative to least negative):
    - Spot Bitcoin ETFs
    - Fintech ETF
    - Crypto-miner focused ETFs
- Bitcoin miners and Bitcoin itself both struggled in the quarter, with Bitcoin falling more than miners, after Bitcoin had done better for most of 2024.
- The model's more broad-based technology related equity exposure fared better in the quarter as they were not held back by the negativity surrounding Bitcoin in the form of payouts from the Mount Gox debacle and Germany's steady selling of its Bitcoin reserves. The semiconductor exposure in the metaverse and blockchain equity ETFs

helped keep the model relatively steady during the quarter, at least when compared to Bitcoin.

iSectors® Post-MPT Allocations

- iSectors® Post-MPT Growth Allocation
  - Model Q2 2024 return: 2.61%.
  - Benchmark: 4.28%.
  - Model year-to-date return: 8.62%.
  - Benchmark year-to-date: 15.29%.
- iSectors® Post-MPT Moderate Allocation
  - Q2 2024 return: 4.14%.
  - 60/40 stock/bond benchmark: 2.60%. (60/40 = 60% S&P 500 and 40% Bloomberg U.S. Aggregate Bond Index).
  - Model year-to-date return: 11.80%.
  - Benchmark year-to-date: 8.70%.

- Holdings with positive contribution to returns during the quarter (descending order):
  - Technology
  - Gold bullion
  - Utilities
  - Real estate
  - Long-term treasury bonds

- Holdings with negative contribution to returns during the quarter (most negative to least negative):
  - Basic materials
  - Healthcare

- The Post-MPT models remain positioned for potential stagflation, with large weightings in gold. They each also have a portion of their portfolios allocated in a similar proportion to technology in case stock market strength continues despite the risks. Both models have been steadily increasing their exposure to long-term treasury bonds over the past few quarters as an interest rate cut appears imminent.
- Historically, the iSectors® Post-MPT Growth Allocation and the iSectors® Post-MPT Moderate Allocation tend to outperform the S&P 500 index when the S&P 500 index's returns grow at an annualized rate of less than 10% or when the S&P 500's returns are negative.

iSectors® Inflation Protection Allocation and *iSectors® Precious Metals Allocation*

- Inflation Protection
  - Q2 2024: 2.21% return.
  - Year-to-date: 4.73%.
  - Last 12 months: 6.26%.
- Precious Metals
  - Q2 2024: 8.94% return.
  - Year-to-date: 12.56%.
  - Last 12 months: 17.61%.

- Holdings with positive contribution to returns during the quarter (descending order):
    - Silver bullion ETFs/closed-end funds (both models)
    - Gold bullion ETFs/closed-end funds (both models)
    - Platinum bullion ETFs (Precious Metals)
    - Short-term TIPS (Inflation Protection)
    - Broad commodity and natural resources ETFs (Inflation Protection)

- Holdings with negative contribution to returns during the quarter (most negative to least negative):
    - Rare earth/strategic metals ETF (Inflation Protection)
    - Palladium ETFs (Precious Metals)

- Changes were made to each of these models last quarter in our annual due diligence review.
    - The iSectors Inflation Protection Allocation simplified its exposure and increased its allocation to the asset classes that have shown the highest sensitivity to inflation historically. This includes increasing exposure to broad commodities and natural resources, while reducing real estate and precious metals exposure. Real estate was fully removed from the portfolio, and although combined precious metals exposure in gold and silver was decreased, the allocation to silver was increased slightly as we believe the strong recent returns have a good chance to continue into 2025 and beyond.

    - The iSectors Precious Metals Allocation kept its exposure to gold and silver the same last quarter, but the split between platinum and palladium was reset to 10% each after being slightly overweight platinum vs. palladium since mid-2023. Platinum was positioned to outperform palladium early last year after a near decade long bull run in palladium was coming to an end, and the prospects for platinum were becoming more attractive. After platinum outperformed palladium by more than 30% in the last 12 months, we thought it was appropriate timing to rotate back to equal exposure between the two with the metals nearing price parity for the first time in many years.

    - Detailed target allocation percentages for all models can be found on the fact sheets posted to our website under the “Allocation Models” tab.

- At iSectors® we believe the unprecedented growth in money supply in recent years is causing, and will continue to cause, persistent price inflation over many years to come. Basically, the purchasing power of people’s savings will slowly be drained over time. Therefore, most investors would be wise to allocate at least a portion of their savings to investments that will maintain their purchasing power despite the loss of purchasing power of the dollar brought about by inflation.

iSectors® Future Growth Allocation

- Q2 2024 return
    - Model: 2.66%.
    - Benchmark (MSCI All Country World Index): 3.01%.
- Year-to-date return
    - Model: 16.57%.
    - Benchmark: 11.58%.

- Last 12 months return
    - Model: 50.86%.
    - Benchmark: 19.92%
- Holdings with positive contribution to returns during the quarter (descending order):
    - Semiconductor ETF.
    - Blockchain equity ETF.
    - Artificial Intelligence ETFs.
- Holdings with negative contribution to returns during the quarter (most negative to least negative):
    - Fintech ETFs.
- The iSectors® Future Growth Allocation is a diversified portfolio of growth stocks that are on the cutting edge of the technological revolution brought about by the changing digital economy. The combined individual stock holdings of the underlying ETFs total about 250 publicly traded companies, diversified across many sectors.

iSectors® Tactical Global Balanced Allocation

- Q2 2024 return
    - Model: 0.93%.
    - Benchmark (60/40 Stock/Bond): 2.60%.
- Year-to-date return
    - Model: 3.93%.
    - Benchmark: 8.70%.
- Last 12 months return
    - Model: 3.45%.
    - Benchmark: 15.42%.
- Holdings with positive contribution to returns during the quarter (descending order):
    - Domestic equity ETFs.
    - Developed international equity ETF.
    - Gold ETF.
    - Broad commodity ETF.
- Holdings with negative contribution to returns during the quarter (most negative to least negative):
    - Real estate ETF.
- The iSectors® Tactical Global Balanced Allocation is currently fully invested in the following asset classes: gold, broad commodities, domestic large and small-cap equities, developed international equity, emerging market equity, aggregate bonds, and REITs.

iSectors® Domestic Equity Allocation

- Q2 2024 return
    - Model: -0.96%.

    - Benchmark: 4.28%.
- Year-to-date return
    - Model: 5.92%.
    - Benchmark: 15.29%.
- Last 12 months return
    - Model: 10.53%.
    - Benchmark: 24.56%.
- Holdings with positive contribution to returns during the quarter (descending order):
    - Large cap growth ETF.
    - Dividend growth ETFs.
    - Quality dividend ETFs.
- Holdings with negative contribution to returns during the quarter (most negative to least negative):
    - Dividend aristocrat ETF.
    - Free cash flow focused ETF.

- Growth ETFs, driven mainly by their outsized technology exposure, have outperformed quality dividend/value ETFs for most of the last 18 months.

- The iSectors® Domestic Equity Allocation employs a dividend/value overweight, which has led to a lower volatility profile of the model vs. its benchmark. Over the last three years, the annualized standard deviation of the model is 15.61% vs. 17.86% for its benchmark, with a maximum drawdown of 19.33% vs. 23.87% for the S&P 500.

iSectors® Enhanced Allocations

- Q2 2024 return
    - Model (represented by the iSectors® Enhanced Balanced Allocation): 0.49%.
    - Benchmark (Morningstar Moderate Target Risk Index): 0.26%.
- Year-to-date return
    - Model: 4.90%.
    - Benchmark: 4.19%.
- Last 12 months return
    - Model: 9.25%.
    - Benchmark: 10.34%.
- The drivers of returns in these models are the same as those in the iSectors® Domestic Equity Allocation, the iSectors® Domestic Fixed Income Allocation, and the iSectors® Post-MPT Growth Allocation.
- The iSectors® Enhanced Allocation series includes Income, Conservative, Balanced, Growth, and Aggressive allocation models. Each allocation blends short-term laddered bonds, and equities focused on owning stocks that have increased their dividends for many consecutive years, with a 20% satellite allocation to the dynamic iSectors® Post-

MPT Growth Allocation. Since inception, each Enhanced Allocation has lower volatility and drawdown than their corresponding Morningstar Target Risk Index benchmark with a comparable level of return.

iSectors® Global Allocations

- Q2 2024 return
  - Model (represented by the iSectors Global Balanced Allocation): 0.34%.
  - Benchmark (50/50 Global Stock/Bond Index): 0.70%.
- Year-to-date return
  - Model: 3.41%.
  - Benchmark: 3.59%.
- Last 12 months return
  - Model: 8.12%.
  - Benchmark: 9.29%.
- Holdings with positive contribution to returns during the quarter (descending order):
  - Domestic and international large-cap growth ETFs.
  - Domestic and international quality dividend/value ETFs.
  - Domestic and international high yield bond ETFs.
  - Domestic and international investment grade corporate bond ETFs.
  - Short-term government bond ETFs.
- Holdings with negative contribution to returns during the quarter (most negative to least negative):
  - Dividend aristocrat ETF.
  - Free cash flow focused ETF.
- Over the last year, the iSectors® Global Equity Allocation has underperformed the MSCI All Country World Index due to a similar underweight to growth exposure that is employed by the iSectors® Domestic Equity Allocation.
- On the other hand, the iSectors® Global Fixed Income Allocation has outperformed the FTSE World Government Bond Index in the last 1-, 3-, 5-, and 10-year periods, primarily due to the model's modest overweight to USD-denominated bonds and lower effective duration (approximately 5.0 for the model and 7.5 for the FTSE WGBI).

iSectors® Liquid Alternatives Allocation

- Q2 2024 return
  - Model: 0.64%.
  - Benchmark (HFRX Global Hedge Fund Index): 0.37%.
- Year-to-date return
  - Model: 5.31%.

    - Benchmark: 2.89%.
- Last 12 months return
    - Model: 9.90%.
    - Benchmark: 5.42%.
- Holdings with positive contribution to returns during the quarter (descending order):
    - Gold and silver bullion ETFs.
    - Broad commodity and natural resources ETFs.
    - Real estate ETF.
    - Market neutral mutual funds.
- Holdings with negative contribution to returns during the quarter (most negative to least negative):
    - Alternative private equity ETFs.
    - Managed futures ETFs and mutual funds.
- Over the last year and a half or more, the iSectors® Investment Committee has made a concerted effort to re-emphasize the focus of this model more squarely on hedge fund strategies and real asset exposure, with a smaller allocation to quasi-private equity strategies to provide a return stream that more closely resembles true alternative investments. This has manifested in outperformance vs. the model's hedge fund benchmark over the last year and in other recent periods.
- The iSectors® Liquid Alternatives Allocation provides access to a broad array of alternative and hedge fund-like exposures while providing tax efficiency (no K1s) and daily liquidity without any high performance-based fees or the need to be an accredited investor.

iSectors® Endowment Allocation

- Q2 2024 return
    - Model: 1.52%.
    - Benchmark (60/40 Stock/Bond Index): 2.60%.
- Year-to-date return
    - Model: 5.40%.
    - Benchmark: 8.70%.
- Last 12 months return
    - Model: 11.24%.
    - Benchmark: 15.42%.
- Holdings with positive contribution to returns during the quarter (descending order):
    - Pipeline and MLP ETFs.
    - Domestic and international dividend equity ETFs.
    - High yield bond ETFs.

- The iSectors® Endowment Allocation prioritizes current income over the protection of principal and invests across multiple asset classes including, equity, fixed income, and alternatives. The high-income focus of the model is what has held it back from outperforming its benchmark in recent periods, as value and income-oriented products have been out of favor.

  All model returns presented net of iSectors' management fee. Index comparisons are provided for information purposes. You cannot invest directly in an index, only in index funds that charge fees.

Disclosure

General Disclosure

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