WHAT IS DEFINED DURATION™ INVESTING?

An asset-liability matching process that helps investors better understand how their portfolios relate to their financial plan

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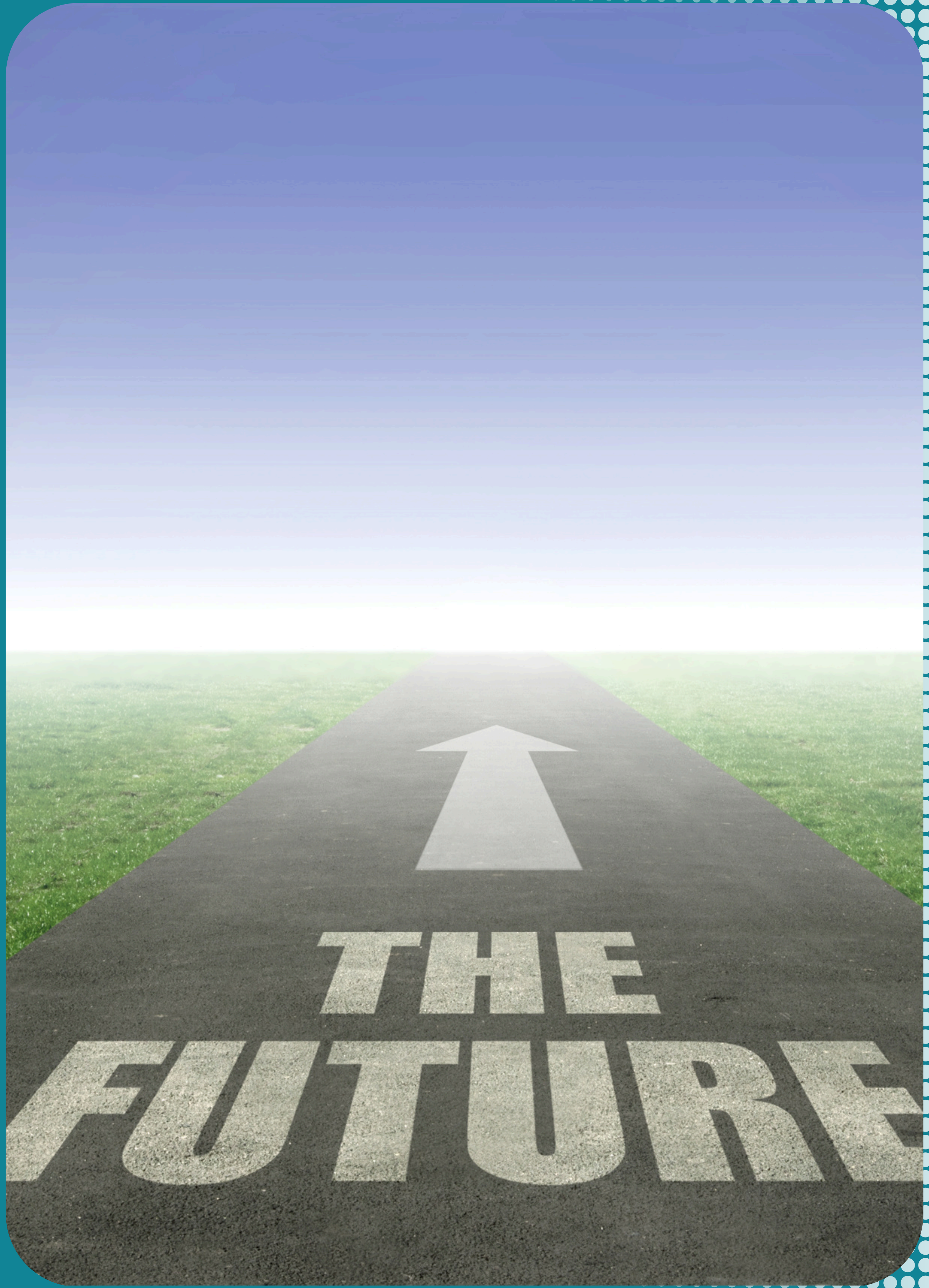

Banks and pensions have an inherent duration mismatch.

Banks lend long and borrow short. Pensions have sizable short-term liabilities funded via long-term assets.

Banks and pensions manage their portfolios to align assets and liabilities across time.

Retail investors also have an inherent duration mismatch.

We accrue assets today with the hope of spending them into an uncertain future.

But retail investors align assets to style boxes and factors, not time horizons **because that's what investment managers sell them.**

THE SMARTEST INSTITUTIONS INVEST BASED ON ASSET-LIABILITY MATCHING.

WHY DON'T RETAIL INVESTORS?

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THE PROBLEM

GOOD FINANCIAL PLANNING IS...

GOALS-BASED

A MULTI-TEMPORAL PROCESS

FOCUSED ON LIABILITIES TO ENSURE CORRESPONDING ASSETS CAN FUND NEEDS

VS

MODERN INVESTMENT MANAGEMENT IS...

PERFORMANCE-BASED

A SHORT-TERM PROCESS

FOCUSED AROUND STYLE BOXES TO SELL PERFORMANCE AND JUSTIFY HIGH FEES

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HOW MAIN STREET THINKS

Time Horizons

Clients think in time horizons. "When can I retire?" "Can we afford a bathroom remodel next year?"

Consumption Needs

Investors want to know how their assets are helping them achieve specific time-based goals.

Goal-Based Language

Clients speak about weddings, retirement, , children's tuition, healthcare, etc.

VS

HOW WALL STREET THINKS

Style Boxes

Wall Street thinks in factors and styles like "growth", "value", "large cap" and "small cap".

Risk Optimization

Wall Street builds portfolios to optimize a theoretical risk/reward in the pursuit of "alpha" in order to rationalize high fees and active management.

Theoretical Language

Wall Street speaks in opaque language: Alpha, Beta, Sharpe, Standard Deviation.

THE SOLUTION

FINANCIAL PLANNING

INVESTMENT MANAGEMENT

GOALS AND PLANNIG-BASED

+

MULTI-TEMPORAL PROCESS

+

TIME HORIZON ALIGNED TO PLAN

=

DEFINED DURATION® INVESTING

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THE EVOLUTION OF ASSET MANAGEMENT

THE PAST

Markowitz & Mean Variance Optimization

THE PRESENT

Factor Investing, Beta Optimization & Active vs Passive

THE FUTURE

Planning-Based Asset-Liability Matching

> "Asset-liability matching is the way financial planning will be done in the future. - Cullen Roche"

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WHAT EXACTLY IS THE DEFINED DURATION™?

Duration as the "point of indifference" relative to sequence of return risk.

- We calculate defined duration using expected real returns and potential max drawdowns to quantify the potential time horizon over which an instrument can be expected to generate a reasonable sequence of returns.
- For example, if global stocks are expected to generate 6.2% with 2.3% expected inflation then a -50% downturn would result in a Defined Duration of 18.12 years.
- In doing so we can quantify the expected time horizons of specific assets and then match them to expected liabilities thereby expanding ALM strategies beyond bonds.

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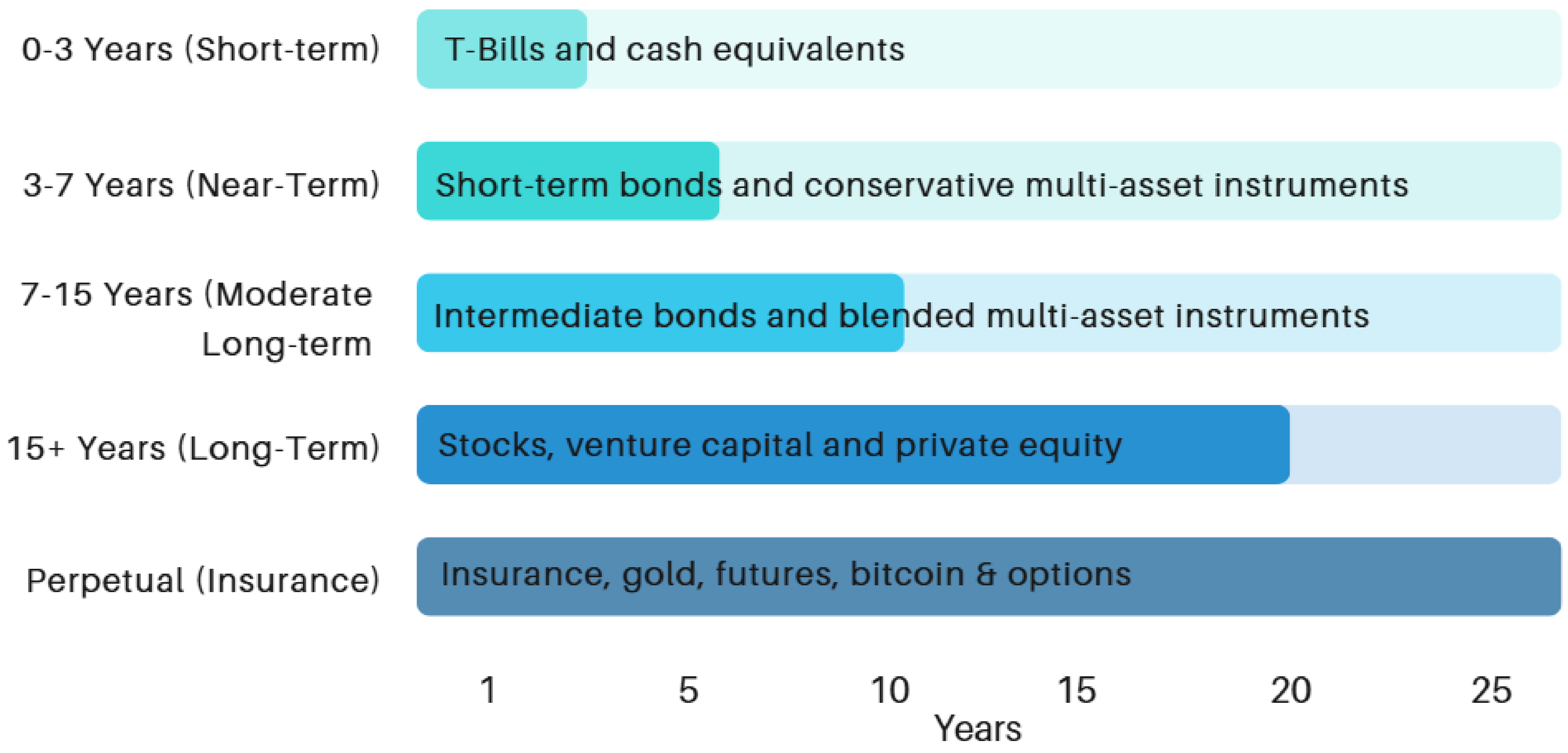
WHAT EXACTLY IS THE DEFINED DURATION™?

Bonds are poor long duration instruments. By quantifying the expected time horizon of stocks, multi-asset instruments and alternatives we can expand ALM strategies beyond bonds and improve clarity around asset performance relative to liability needs.



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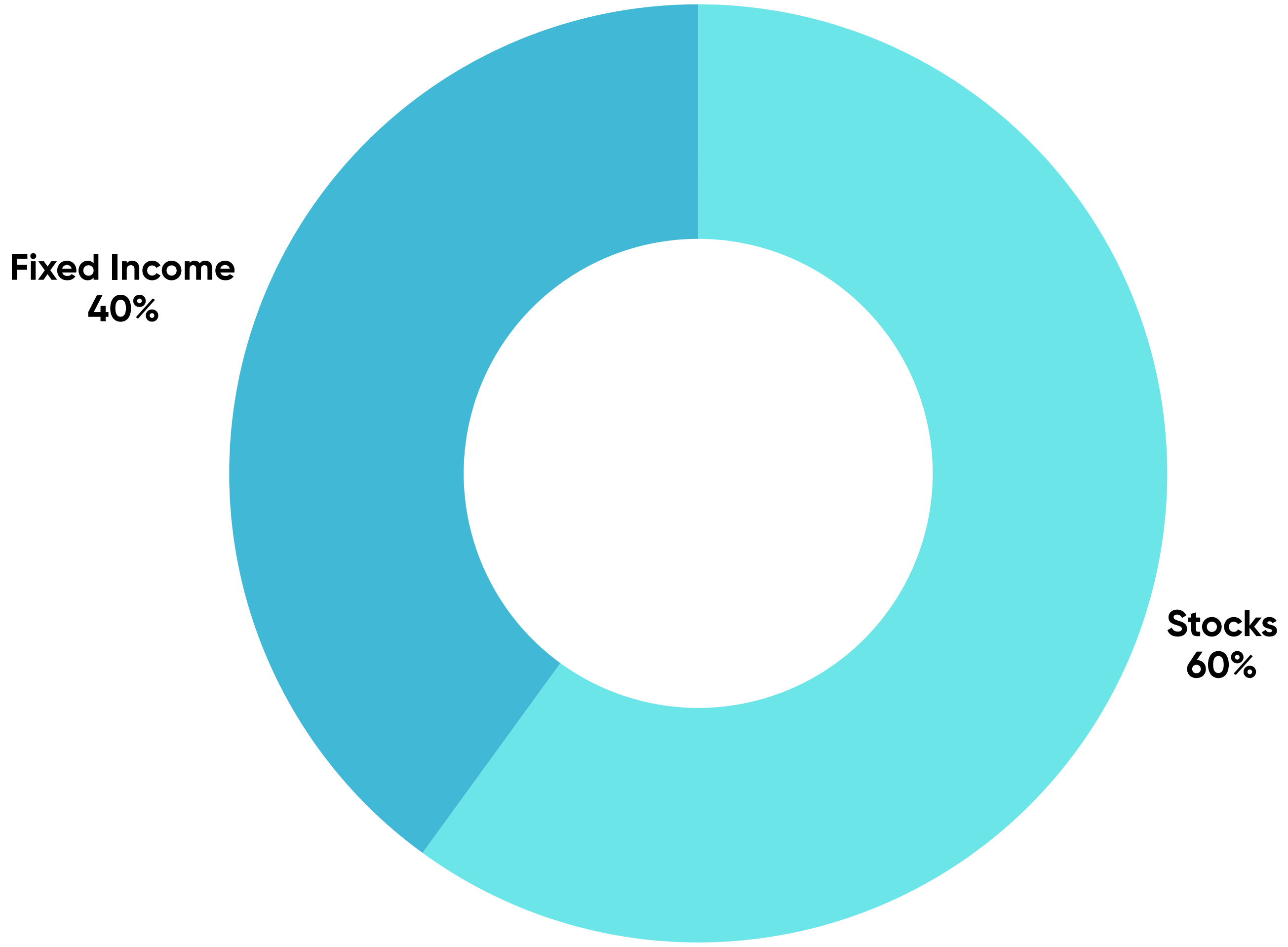
WHAT EXACTLY IS THE DEFINED DURATION™?

Asset diversification isn't the same thing as temporal diversification.



Investor A - Asset Diversification Only

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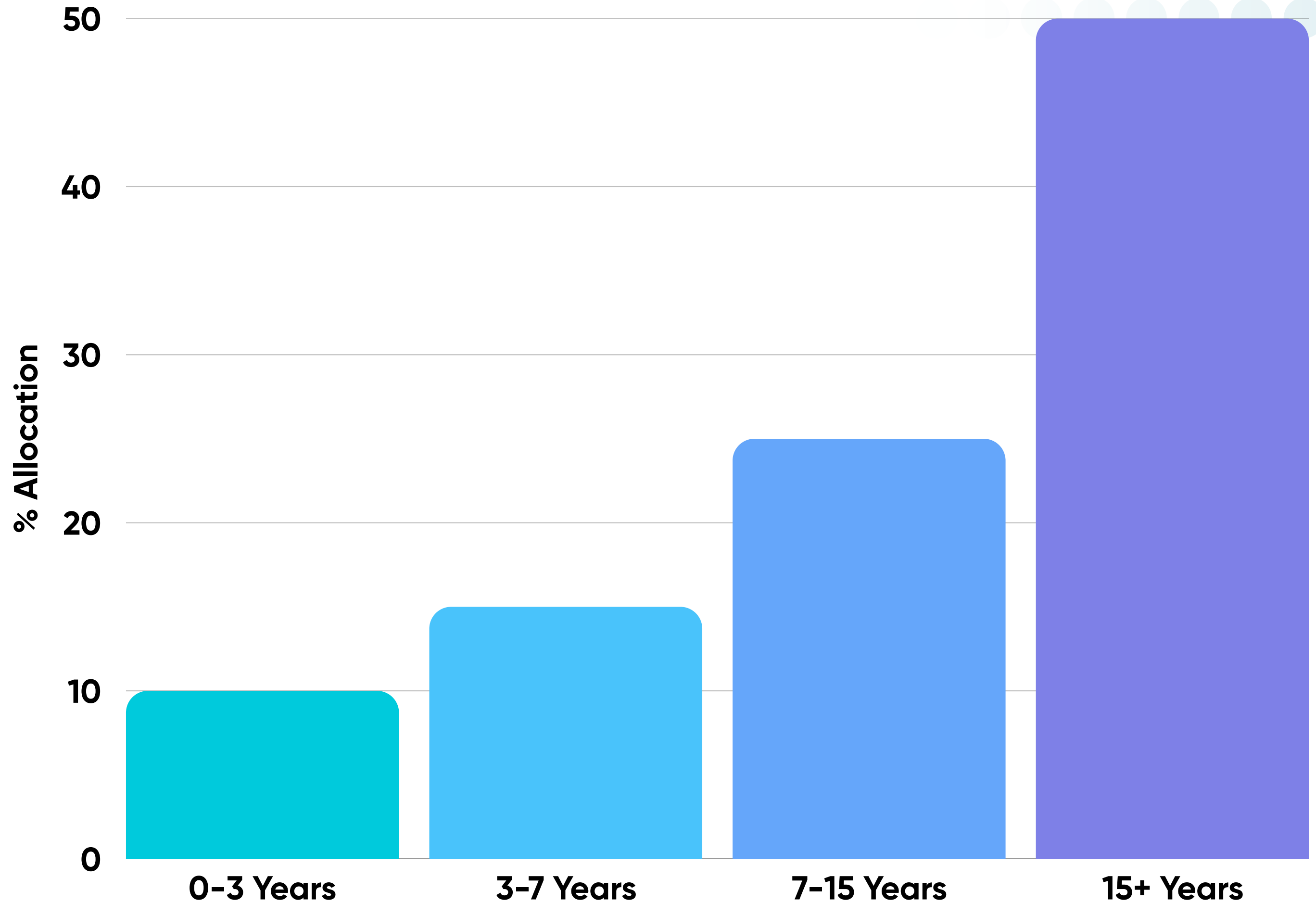

Investor B - Has the same asset diversification AND greater temporal diversification

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WHAT EXACTLY IS THE DEFINED DURATION™?

By quantifying the time horizons of the assets we can then customize portfolios and build a portfolio that expands traditional fixed income only ALM strategies.

15% **0-3 Years (emergency, withdrawals, liquidity)**

Custom T-Bill ladder & cash equivalents

25% **3-7 Years (near retirement, tuition, house down payment)**

Conservative multi-asset, short-term bonds

20% **7-15 Years (college, wedding, retirement)**

Intermediate bonds, TIPS, multi-asset

20% **15+ Years (retirement, longevity, estate planning)**

Diversified global stock portfolio

20% **Perpetual (Insurance - optional and as needed based on plan)**

Insurance, gold, options, futures

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THE BENEFITS OF TEMPORAL DIVERSIFICATION

1. Customized asset allocation that can be matched to specific liabilities.
2. Reduced sequence of returns risk through greater funding optionality across time.
3. Better behavior through superior understanding of the probability of outcomes and roles of assets relative to a financial plan.

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KEY COMPONENTS OF THE DEFINED DURATION™ METHOD

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01 Start with the financial plan

The core goal is to quantify the most predictable expenses and liabilities. That means rigorous quantification of short-term liabilities.

02 Quant-based Risk Profiling and Asset Matching for Clients

Your risk profile isn't a subjective behavioral questionnaire. It's a balance sheet vs income statement analysis!

03 Match the assets to the liabilities

A good ALM process will systematically match the right assets to the right liabilities resulting in a portfolio that is diversified across assets AND time horizons.

KEY BENEFITS OF DEFINED DURATION™ INVESTING

A Superior and Clearer Process

- Comprehensive planning process
- Quant-based process. No subjective questionnaires
- A structured framework and work-flow
- Clear matching of assets to financial needs and goals

Defined Goals and Maintenance

- Performance matched to your goals, not generic market benchmarks
- Lower costs, lower taxes and lower turnover
- Clarity about why you own what you own
- Better behavior knowing your assets are aligned to specific goals

CONTACT US

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