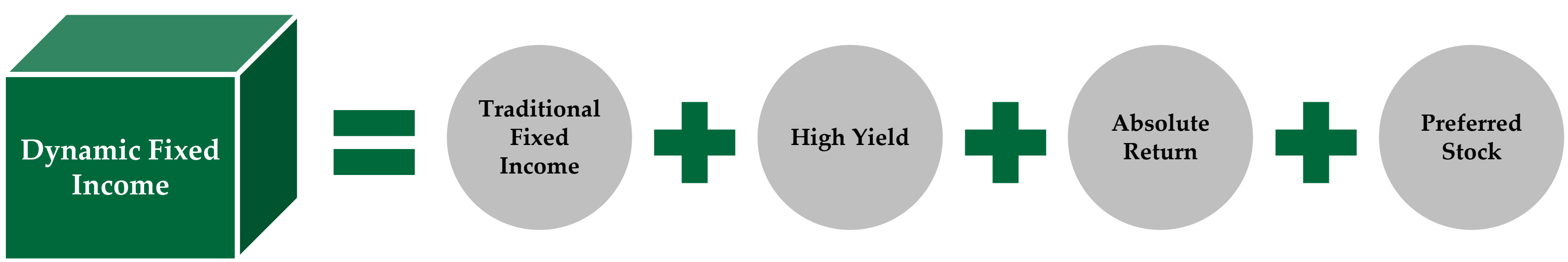
June 6, 2022

Topic: NIS Dynamic Fixed Income (DFI) update:

To Our Clients and Consultants:

Thank you for your continued trust in NIS. As many of you are aware, NIS strives to offer consistent and value added investment solutions while recognizing that we cannot and should not try to chase trends or invest in markets away from our comfort zone. It was with this philosophy and these goals in mind that NIS brought forward our Dynamic Fixed Income (DFI) offering approximately nine years ago. We hope this update underscores not only what our DFI strategy is, but how it has performed and some key component updates and current positioning. We hope you find it informative and worth consideration.

What is NIS Dynamic Fixed Income – DFI is a combination of our reliable performing traditional fixed income offerings with our conservatively managed enhanced yield strategies. The goal of DFI is to provide our clients with a flexible and diversified portfolio that aims to grow and protect assets in a variety of market conditions, all for a flat and transparent fee. NIS works closely with clients and consultants to determine the appropriate components and weighting ranges of a DFI portfolio. We then actively manage component allocations based on our views on the economy, risk, and interest rates.



What do these components look like?

NIS Dynamic Fixed Income starts with an allocation to one of our **Traditional Fixed Income offerings**, usually Intermediate or Core. Our key operating themes for these components are:

- **Investment Grade –** Treasuries, Corporates, Agency, MBS, CMBS, ABS and Taxable Municipals
- **Duration Transparency –** Interest rate exposure +/- 10% of benchmark
- **Actively Managed –** Relative value trading and fundamental research to capture market inefficiencies

Based on the client's investment risk parameter, we then make investments in two or all of the following internally managed enhanced yield strategies to round out a DFI allocation:

High Yield Strategy: $370 MM in AUM | 173 Holdings

- **Diversified High Yield –** Corporates, some Structured securities MBS, CMBS and Taxable Municipals
- **Historically lower volatility than the high yield index**
- Since brining the management of the strategy 100% in-house on August 1, 2020, the portfolio has **outperformed its benchmark** (Bloomberg HY Index 2% Issuer Cap) **by 56 bps**, annualized, gross of fess from 8/1/2020 to 4/30/22

Total Absolute Return Strategy: $731 MM in AUM | 376 Holdings

- **Low Duration –** Duration varies between 1-3 years
- **Flexible Mandate –** With regard to sector/position weightings and quality ratings
- **Treasury Future Shorts –** Deployed to control overall duration and curve exposure

NIS Preferred Stock Strategy: $382 MM in AUM | 244 Holdings

- **Relative Value –** Actively managed, range trading opportunities in $25 par issues
- **Credit and Interest Rate Hedging –** To mitigate macro and company-specific risk
- **Arbitrage Opportunities –** Composition of $25 par and $1,000 hybrid market lends itself to company and industry-specific valuation discrepancies

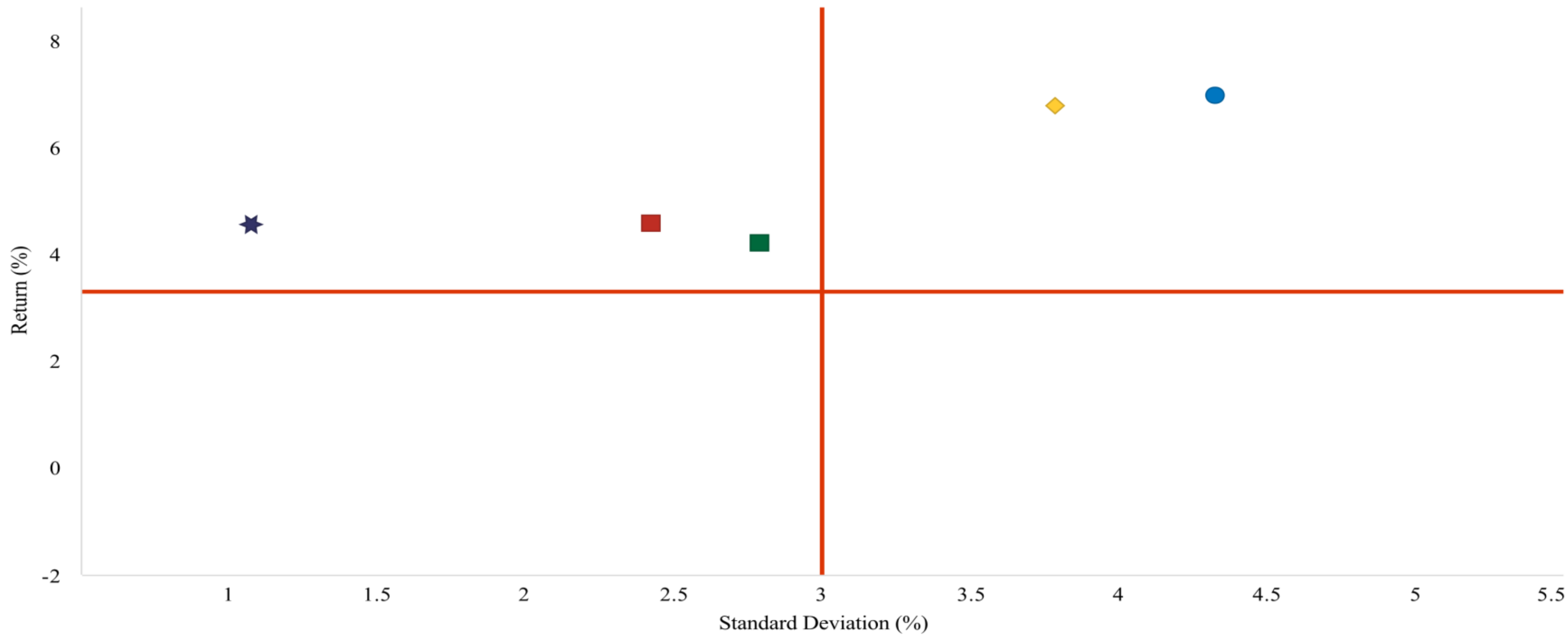
Data is approximated as of 3/31/22

Why put the components together?

Many of our clients started to become concerned about higher interest rates in late 2010 and then again in 2012-13. As a result of listening to our clients' concerns, NIS performed an interest rate sensitivity analysis on all of our products and uncovered that a few of our offerings offered uncorrelated returns to the benchmark. With Markowitz's mean variance optimization framework in mind, we postulated that our clients' portfolios might actually be able to enjoy higher relative returns than index-like fixed income or "core-plus strategies" while doing so with similar or less volatility than the broad investment grade index. It should be noted that when we designed initial DFI allocations, we erred on the conservative side to reduce volatility, as most of our mandates are already part of a larger pension or health & welfare type portfolios.

Rising Interest Rates: High inflation and the recent Fed pivot have pushed bond yields markedly higher as we started 2022 and the resulting risk-off selling has seemed unrelenting. To emphasize this point Deutsche Bank recently pointed out that not since 1788 have 10-year Treasuries started a year so poorly! But rather than dwelling on past, we try to learn from history and look for opportunity. To that regard we have spent time examining our component performance and relative behaviors over timeframes that appear similar to now. The following risk/return chart highlights an almost four year period beginning in late 2015 thru mid-2019 as the Federal Reserve was raising rates as they felt the economy could stand on its own after the GFC. Our DFI portfolios outperformed the benchmark with each component lying closer to the efficient frontier than the benchmark. Ironically, the lowest duration offering (Absolute Return Fund) had the lowest performance of all of our funds. It did, however, exhibit very low volatility and was a "value-add" from a risk return standpoint. High Yield and Preferred Stock performed well in excess of the Bloomberg Aggregate Index while being a bit more volatile.

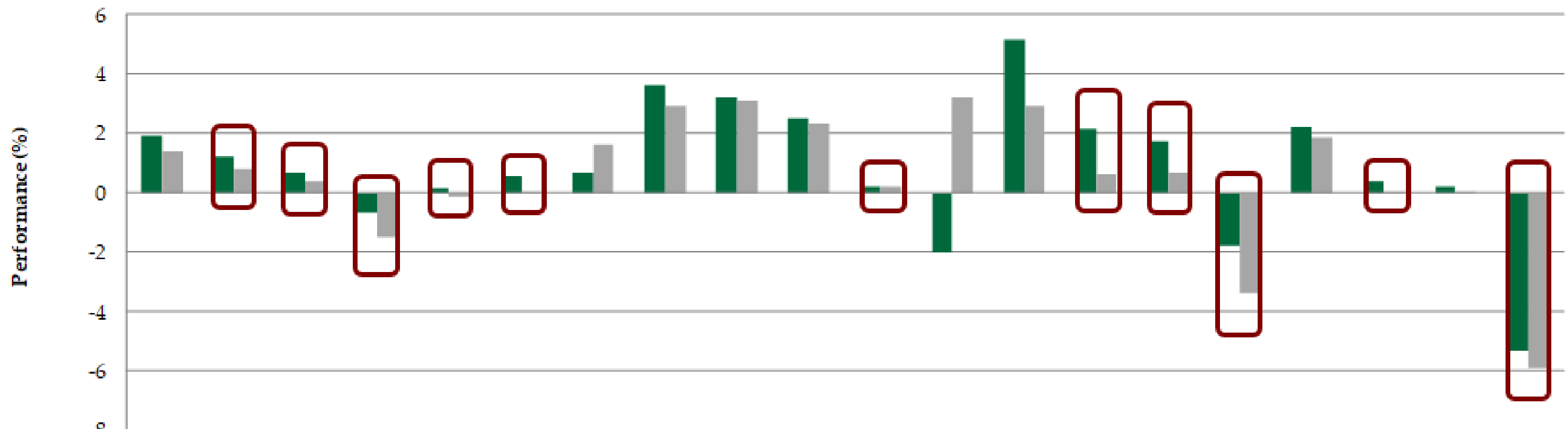
Risk vs. Return Analysis
Annualized Five Year Periods
3 Years 7 Months As Of: 6/30/2019



	DS	VT	RM	Return (%)	Standard Deviation (%)
NIS Dynamic Fixed Income - Core…	IM	SA	GF	4.6	2.4
NIS Core Fixed Income	IM	SA	GF	4.2	2.8
High Yield Fund	IM	CF	NF	6.8	3.8
Total Absolute Return Fund	IM	CF	GF	4.6	1.1
Preferred Stock Fund II	IM	CF	GF	7.0	4.3
Bloomberg US Aggregate	---	---	---	3.3	3.0

One of the by-products of the strategy's diversification has been market beating returns in periods of rising rate environments. The graph and table below highlight the relative performance when the 10 Year U.S. Treasury yield moves higher:

NIS DFI Aggressive Core vs Bloomberg Aggregate Index
Past 5 Years - Quarterly Returns



	2Q 17	3Q 17	4Q 17	1Q 18	2Q 18	3Q 18	4Q 18	1Q 19	2Q 19	3Q 19	4Q 19	1Q 20	2Q 20	3Q 20	4Q 20	1Q 21	2Q 21	3Q 21	4Q 21	1Q 22
NIS DFI	1.9	1.2	0.7	-0.7	0.1	0.6	0.7	3.6	3.2	2.5	0.2	-2.0	5.2	2.1	1.8	-1.8	2.2	0.4	0.2	-5.3
Index	1.4	0.8	0.4	-1.5	-0.2	0.0	1.6	2.9	3.1	2.3	0.2	3.2	2.9	0.6	0.7	-3.4	1.8	0.1	0.0	-5.9

: Indicates Positive 3 Month Yield Change of 10 Year U.S. Treasury

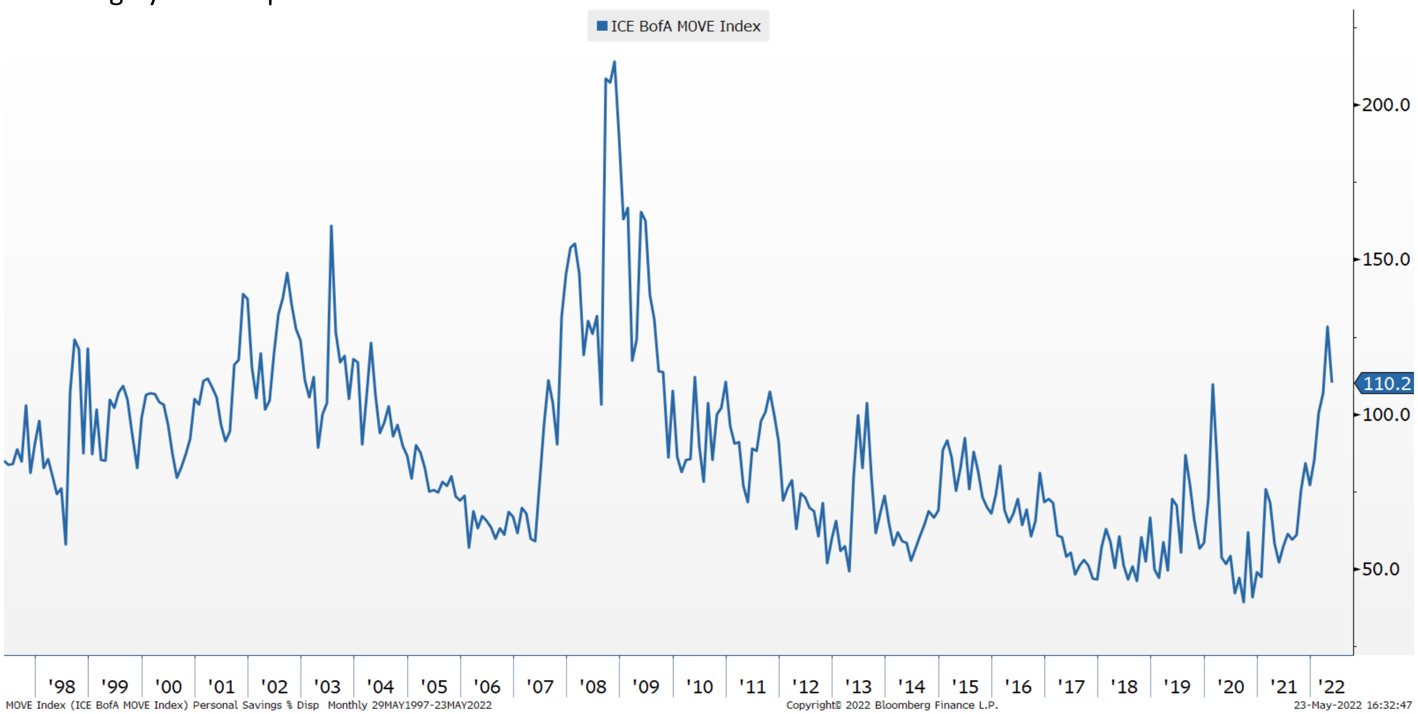
- Positive performance in 8 of 11 quarters when the 3 month change of 10 Year U.S. Treasury yield increased
- In the 3 quarters when interest rates increased but NIS DFI had a negative return, it outperformed the index

Data is approximated as of 3/31/22.

NIS DFI Aggressive Core composite performance is gross of fees.

How are we positioned for the remainder of 2022?

Admittedly, this market environment carries a tremendous amount of uncertainty, actually the most that we can recall since the onset of the Covid-19 pandemic. Both equity and bond market views are all over the place. Bloomberg recently highlighted that strategist's year-end S&P 500 targets are close to the widest they've been in the last 15 years and that included a pandemic and a financial crisis. Similarly, we like to keep an eye on the BofA Move as it is an indicator of sentiment along the U.S. Treasury Curve. Needless to say with readings not seen since the GFC, the BofA Move index was telling us that something seemed wrong earlier in the year when we shifted about 1% out of high yield and preferred stocks.



Source: Bloomberg, BofA.

This indicator has rolled over and we are becoming constructive on a few recent developments, but it has not felt like the correct time to place heavier weightings in the corporate high yield market as this market has recently widened by approximately 80 bps in the last two weeks alone.

The FED: We think the rates markets are following a pretty normal path, similar to past fed tightening cycles, even the size of the moves are not too far out of the ordinary. This one was a bit quick though!

Typical Fed Rate hiking cycle

1) Start of Fed rate hikes: Longer rates spike higher pre, or immediately after, first hike. At start of Fed hiking cycle credit/spreads do fairly well as economy is strong.

2) After initial spike: Longer rates tread water or sometimes even come down 40-50bps. In the middle of Fed hiking cycle credit/spreads have no clear direction, but more likely wider than tighter and become more volatile.

3) Middle to end of Fed Rate Hikes: Longer rates drift higher and don't reach peak until near end of Fed rate hikes. End of Fed hiking cycle credit/spreads are mixed, sometimes wider, sometimes tighter depending upon perception of economy.

Right now we believe we are in the early/middle of the Fed hiking cycle. Longer term, we expect consistently higher rates than in the past decade as some inflation (above 2%) persists.

We expect persistent inflation due to:

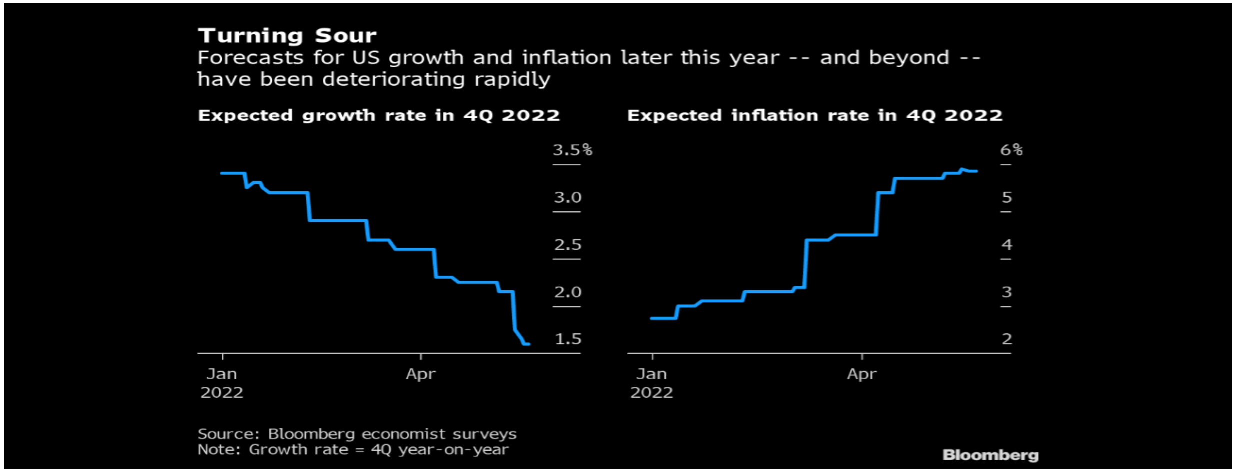
1) De-globalization of the economy (the costs of having two or more supply chains)
2) Changing demographics (fewer workers for available jobs especially as some manufacturing comes back to US)
3) De-carbonization of the economy and the associated costs
4) Money Supply - higher pool of money chasing too few goods

Rates: Long rates are now rallying, as is typical. We'd expect another leg higher though if it becomes apparent that the economy, while slower, is still fairly strong. The Fed will need to keep hiking to combat persistently strong in inflation. While we increased duration a little a few weeks ago, we are poised to incrementally reverse course if the near-term rally continues. Therefore we are currently managing DFI accounts to lower durations than their respective indices, to the tune of approximately .50 yr. less than the Bloomberg Intermediate Gov./Credit Index and about 1.2 years less than the Bloomberg Aggregate Index (depending on client index). DFI duration underweighting's to their respective benchmark are near their lowest relative point since we've been managing the strategy.

We believe we are currently in a near-term 2.5%-3.25% range on the 10-yr. benchmark. We do not see it going much higher with Fed being aggressive in their fight against inflation and the economy showing some signs of cooling. If yields should break out of this range, it would lead to a reassessment and a potential shift of rate our interest rate exposure. Below is a five-year look at the 10-yr benchmark yield:

Source: Bloomberg

Credit: We are growing a bit more positive on credit in here as we feel we've already seen a pretty large move wider in spreads among all sectors while many company and consumer balance sheets remain in good shape. We don't see anything in the economy that currently would trigger a large increase in the default cycle. However, volatility is very high and in order to capitalize on the volatile market we feel we need liquidity, either cash in high yield or treasury bonds in the core accounts. So we haven't brought our full credit exposure back up and are still increasing liquidity as we see more volatility to come. Since the beginning of the year, we've reduced our high yield allocation by approximately 1.5%, while increasing our Absolute Return Fund weighting by slightly more to help mitigate some of price volatility due to rising rates.



As illustrated in the chart above, a lot of optimism has been taken out of the market, both with growth and inflation expectations. If either, or both, surprise the other way, we could see a rally in spreads.

Liquidity: With all of this we have increased liquidity (and will continue to do so). We have increased duration (since we think we have seen close to the near-term peak in 10yr yield), and we have moved some of our High Yield investments (4 duration single B rated) to the Absolute Return Fund (positioned currently as 2 duration BB rated). Being more liquid will give us the ability to respond to either cash withdrawals or very cheap investment opportunities, as we see volatility continuing.

Our most recent portfolio move had us allocating some capital back into Preferred Stocks in mid-May, as we feel their current valuations offer an attractive entry point to this value added component. One of the metrics we like to track is their relative spread to spreads of investment grade corporate bonds. When this difference exceeds 1 standard deviation (which it recently crossed) the relative performance both 12 and 24 months out can be fairly significant so we elected to scale back into this area, as our Preferred Stock Fund now yields over 6% with a duration at 3.8 yrs. Our managers are comfortable with both the fundamentals within its primary sector (mainly bank & finance) as well as the Fund's interest rate positioning with a structural overweight in $1,000 par securities that often feature fixed and then floating rate coupons which mitigates some long-term interest rate risk. The table below highlights the yields and durations of the DFI strategy and its various components:

	Average Credit Quality	5 Year Std. Dev.	Yield (%) 03/31/22	Duration (in Years) 03/31/22	5 Year Return (Gross %)
NIS DFI Core Composite	**A**	**4.00**	**3.65**	**5.15**	**3.27**
NIS Core Fixed Income Fund	AA-	4.02	3.27	5.82	2.94
NIS High Yield Fund	BB-	6.67	5.46	4.01	5.02
NIS Total Absolute Return Fund	BB+	3.90	4.48	2.24	3.83
NIS Preferred Stock Fund II	BBB	7.72	4.70	3.56	5.19
Bloomberg Aggregate Index	AA	3.57	2.92	6.58	2.14

DFI Core Component Allocations as of 05/15/22

75% NIS Core Fixed Income Strategy
5.6% NIS High Yield Strategy
11.7% NIS Total Absolute Return Strategy
7.7% NIS Preferred Stock Fund Strategy
100%

DFI Intermediate Component Allocations as of 05/15/22

71% NIS Intermediate Fixed Income Strategy
6.6% NIS High Yield Strategy
15.6% NIS Total Absolute Return Strategy
6.8% NIS Preferred Stock Fund Strategy
100%

Please feel free to contact us with any questions regarding your portfolio or the markets. We enjoy hearing from you.

Sincerely,

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