

# **VGLT**

Vanguard Long-Term  
Treasury ETF

## Oros Fund Proposal

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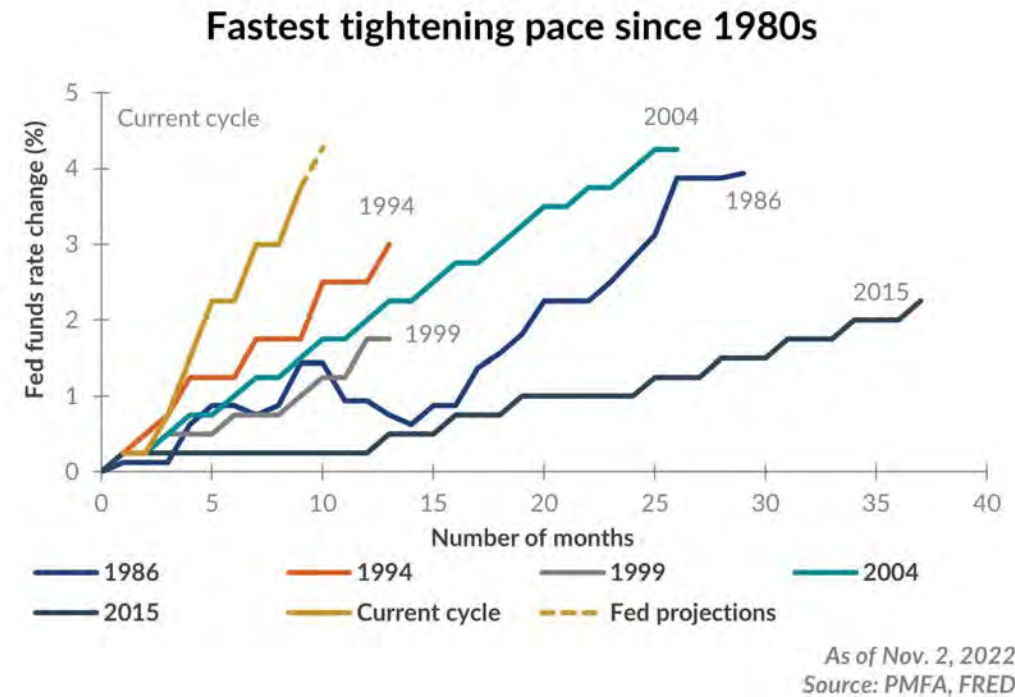
# Agenda

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1	PORTFOLIO HOLDINGS
2	PORTFOLIO PERFORMANCE METRICS AND ANALYSIS
3	MARKET CONDITIONS AND CONSIDERATIONS
4	ETF STATISTICS AND COMPARABLES
5	CONCLUSION AND FINAL RECOMMENDATION

## Portfolio Strategy

- Our current low duration holdings have provided great benefits over the last year with the higher rate environment
- Successful positioning through 2022 with seven rate hikes from the FED
- Beat the S&P by 9.64% over the last year. The Total Bond Index by 5.28%, and the 60/40 Equity/Bond Portfolio by 7.9%
- With a new economic environment ahead of us. Looking to reposition and continue the great success

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Portfolio Holdings: Realty Income (O)

Realty Income Market Data	
Price	\$63.43
Annual Dividend	\$2.976
Dividend Yield	4.61%
Average Daily Volume	3,900,236
Shares Outstanding	591,261,991
Market Cap	\$42,502,200,000
P/E Value	74.45
Enterprise Value	\$52,632,972
EV/EBITDA	32.61



Hold	
Current Price	\$63.43
Target Price:	\$64.26
Under-valued:	1.31%

## Portfolio Holdings: Reality Income (O)

Price to FFO Valuation (In Thousands)	
EBITDA	3,040,188
Less interest	(444,131)
FFO	2,596,058
Shares	605,958
Multiple	15
Value per share	64.26
Price 12/31/22	63.43
Undervalued	1.31%

- Price to FFO valuation is weighted 40% total valuation
- Used 2022 EBITDA to get FFO per share of \$4.28
- Realty income is currently trading at 15x EBITDA multiple
- Valuation of \$64.26 per share

## Portfolio Holdings: Reality Income (O)

Cap Rate Valuation	
Annualized Rent	3,226,994
Cap Rate	0.061
Market Value	52,901,535
Add	
Cash	187,745
A/R	529,248
Other Assets	2,151,895
Less	
A/P	(408,482)
Debt	(16,341,682)
Other Liabilities	(752,530)
Net Market Value	38,267,729
Diluted Shares O/S	605,958
Price Per Share	63.15
Price 12/31/22	63.43
Overvalued	0.44%

- Industry average Cap Rate of 6.1%
- Triple Net annualized rent of \$3,226,994
- Market value of \$52,901,535.
- Add change in NWC, less net debt
- Net market value of \$38,267,729
- Implied share price of \$63.15

## Portfolio Holdings: Reality Income (O)

**Discounted Cash Flow Valuation**

	2022	2023	2024	2025	2026
EBIT	3,040,188	3,016,642	3,028,708	3,040,823	3,052,986
Less: Tax	(38,288)	(37,070)	(36,334)	(37,665)	(39,039)
NOPAT	\$ 3,001,900	\$ 2,979,571	\$ 2,992,374	\$ 3,003,158	\$ 3,013,947
PPE					
Changes	(2,250,348)	(95,075)	(95,455)	(95,837)	(96,220)
NWC					
Changes	(45,126)	(54,097)	3,982	(6,961)	(7,185)
Free Cash Flows	\$ 706,426	\$ 2,830,400	\$ 2,900,901	\$ 2,900,359	\$ 2,910,542
				Smooth TV	\$ 3,006,762

**Value Per Share**

WACC	6.10%
TV	53,960,641
PV of TV	42,580,972
Enterprise Value	\$ 52,632,972
Net Debt	(16,341,682)
Equity Value	\$ 36,291,290
Shares O/S	605,958,422
<b>Implied Share Price</b>	<b>\$ 67.16</b>
Market Price	\$ 62.16
<b>Undervalued</b>	<b>-5.58%</b>

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Portfolio Holdings: Reality Income (O)

WACC	
Cost of Equity	8.04%
Equity Weight	97.74%
Cost of Debt	3.07%
Weight of Debt	2.26%

**LT Growth  
rate:  
1.0%**

**DCF Target:  
\$67.16**

		WACC				
		\$59.89	5.00%	6.10%	7.00%	8.00%
Long Term Growth Rate	0%	71.69	53.81	43.36	34.52	
	0.50%	81.21	59.89	47.82	37.80	
	1.0%	93.12	67.16	53.01	41.55	
	1.50%	108.43	76.02	59.15	45.88	
	2.0%	128.84	87.03	66.51	50.93	



## Portfolio Holdings: Aberdeen Physical Silver Shares (SIVR)

- Original investment thesis was to hedge against inflation while gaining exposure to industrial metals
- Silver vs Gold
  - Both used to hedge against inflation
  - Silver also has industrial use
- Decision Criteria
  - SIVR expense ratio of .3% vs. SLV .5%
  - Virtually equal YoY returns



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## Portfolio Holdings: Aberdeen Physical Silver Shares (SIVR)

- Continue to see significant upside in precious metals
- Safe haven demand increasing after banking failures
- Historically, in poor banking environments silver has outperformed stock indexes
- An interest rate cut would lower the opportunity cost of silver



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# Portfolio Holdings: Aberdeen Physical Silver Shares (SIVR)

Silver Supply and Demand													Year on Year	
Million ounces	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2021	2022E	
<b>Supply</b>														
Mine Production	796	845	882	897	900	864	850	836	781	821	830	5%	1%	
Recycling	209	180	161	147	146	147	148	148	166	176	185	6%	5%	
Net Hedging Supply	0	0	11	2	0	0	0	15	8	0	0	na	na	
Net Official Sector Sales	4	2	1	1	1	1	1	1	1	2	2	28%	6%	
<b>Total Supply</b>	<b>1,008</b>	<b>1,027</b>	<b>1,055</b>	<b>1,047</b>	<b>1,046</b>	<b>1,011</b>	<b>1,000</b>	<b>1,000</b>	<b>957</b>	<b>998</b>	<b>1,017</b>	<b>4%</b>	<b>2%</b>	
<b>Demand</b>														
Industrial	445	449	439	441	474	503	499	501	472	511	539	8%	5%	
Photography	53	46	44	41	38	35	34	33	28	29	28	3%	-1%	
Jewelry	159	187	193	202	188	195	202	200	150	182	235	21%	29%	
Silverware	41	47	54	58	54	60	68	62	32	43	73	32%	72%	
Net Physical Investment	241	301	283	310	212	156	165	187	205	278	329	36%	18%	
Net Hedging Demand	40	29	0	0	12	1	8	0	0	4	5	na	42%	
<b>Total Demand</b>	<b>979</b>	<b>1,058</b>	<b>1,012</b>	<b>1,053</b>	<b>978</b>	<b>949</b>	<b>975</b>	<b>983</b>	<b>887</b>	<b>1,046</b>	<b>1,210</b>	<b>18%</b>	<b>16%</b>	
<b>Market Balance</b>	<b>29</b>	<b>-31</b>	<b>43</b>	<b>-5</b>	<b>69</b>	<b>62</b>	<b>25</b>	<b>18</b>	<b>69</b>	<b>-48</b>	<b>-194</b>	<b>na</b>	<b>3</b>	
Net Investment in ETPs	54	5	0	-17	54	7	-21	83	331	65	-110	-80%	na	
<b>Market Balance less ETPs</b>	<b>-25</b>	<b>-36</b>	<b>43</b>	<b>12</b>	<b>15</b>	<b>55</b>	<b>46</b>	<b>-66</b>	<b>-262</b>	<b>-113</b>	<b>-84</b>	<b>-57%</b>	<b>-26%</b>	
Silver Price (US\$/oz, London price)	31.15	23.79	19.08	15.68	17.14	17.05	15.71	16.21	20.55	25.14	21.00	22%	-16%	
Source: Metals Focus														

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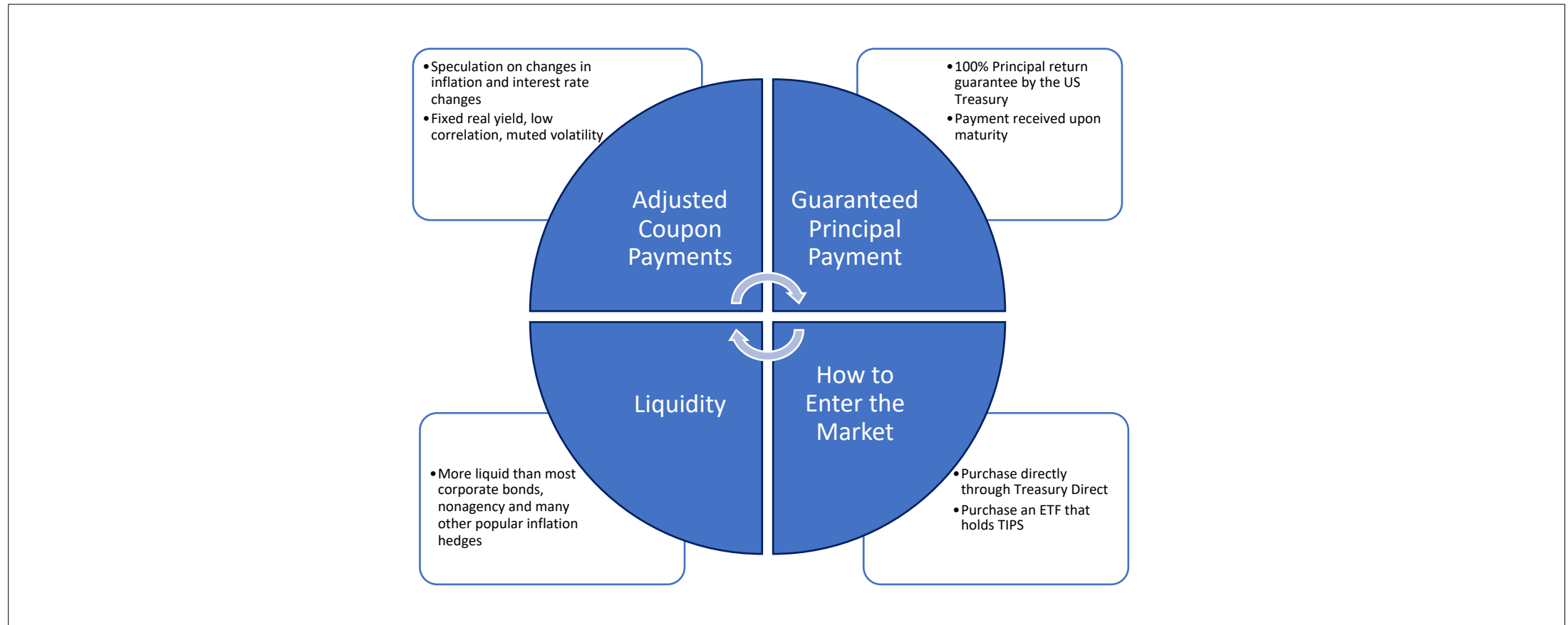
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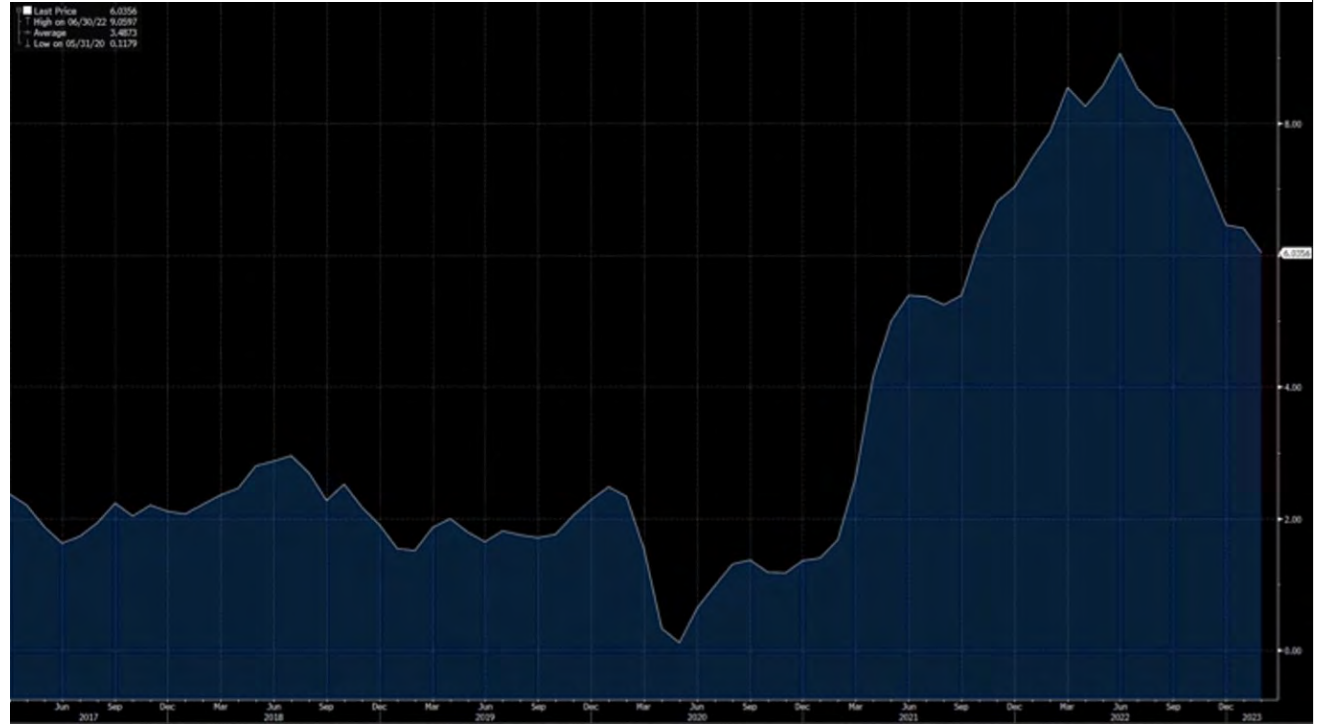
# Portfolio Holdings: IShares 0-5 Year TIPS Bond ETF (STIP)

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## Portfolio Holdings: IShares 0-5 Year Tips Bond ETF (STIP)

- Fund members deemed it necessary to protect the portfolio from a spike in CPI and a subsequent devaluation of the dollar
- Outperformed bond and stock index's last year due to high inflation coupon
- Serves as portfolio hedge should a recession be avoided
- Limited downside risk in our base-case recession scenario

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# Portfolio Holdings: Invesco Taxable Municipal Bond ETF (BAB)

## Tax Structure

- Offers upside of a high yield without the downside of tax liability

## Credit Rating

- Each investment in BAB has a high credit rating, reducing default risk

## Holdings

- No High Yield Bonds/Corporate Bonds, each backed by Local and State taxing authority
- One Bad Holding:
  - Western Michigan University Muni (Rating AA/Aa3 - Should be Junk Bond)

## ETF Structure

- Bond laddering structure of ETF reduces interest rate risk

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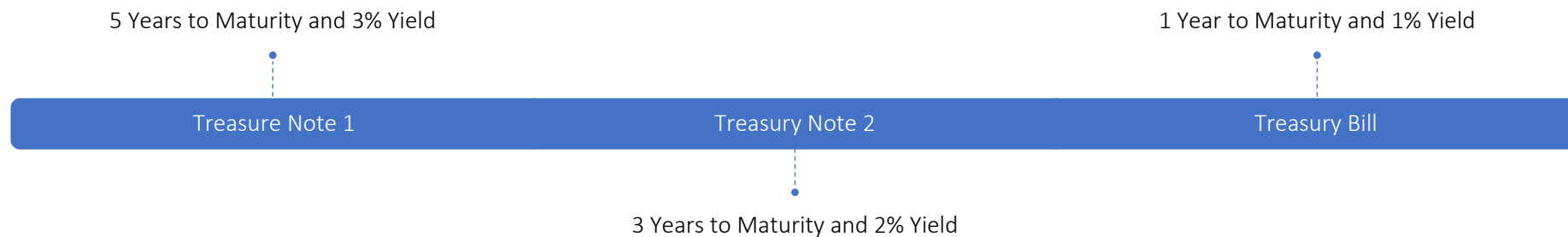
## Portfolio Holdings: Invesco Taxable Municipal Bond ETF (BAB)

Bond Laddering: Creating a laddered structure to generate income and attempt to reduce risk in a portfolio with fixed income

As interest rates rise bond prices fall, however, not all bonds have the same exposure to this risk

By purchasing bonds with multiple maturity dates, investors can reduce interest rate risk while also earning a favorable yield

Example:



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## Portfolio Performance: Key Metrics

- Positive Jensen’s Alpha indicates risk-adjusted outperformance
- Neutral performance in a turbulent environment
- Positioned effectively for higher interest rates

Performance Ratios	
Sharpe Ratio	-0.63
Treynor Ratio	-0.10
Jensen's Alpha	0.03




	Portfolio Returns			
	Portfolio	S&P 500	Total Bond Index	60/40 Portfolio
1 Month Return	0.15%	-3.87%	1.78%	-1.61%
1 Year Return	-0.16%	-9.80%	-5.44%	-8.06%
Return Since Inception (Nov 2021)	-2.05%	-14.86%	-10.84%	-13.26%

Portfolio Risk Metrics	
Beta	0.447
Portfolio 1 Year Standard Deviation	7.08%
S&P 500 1 Year Standard Deviation	23.31%



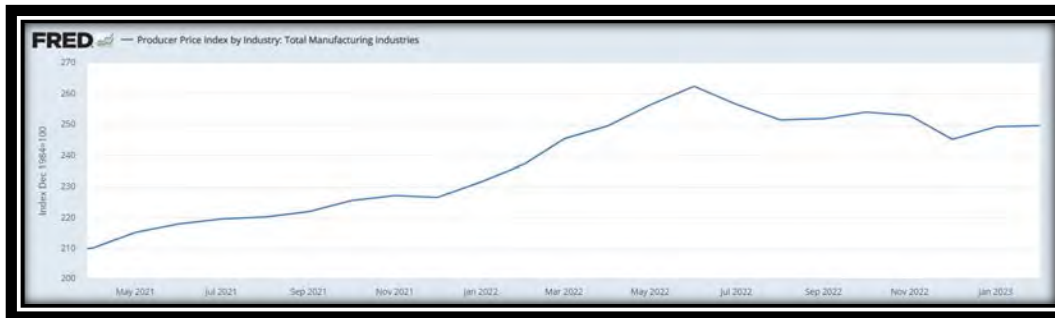
## Portfolio Performance: Duration and Positioning

- Current low duration has limited bond capital gains losses
- Goal to rotate into higher duration as short-term interest rates peak
- Increase sensitivity to fed funds rate
- Focus on high quality and high duration credit

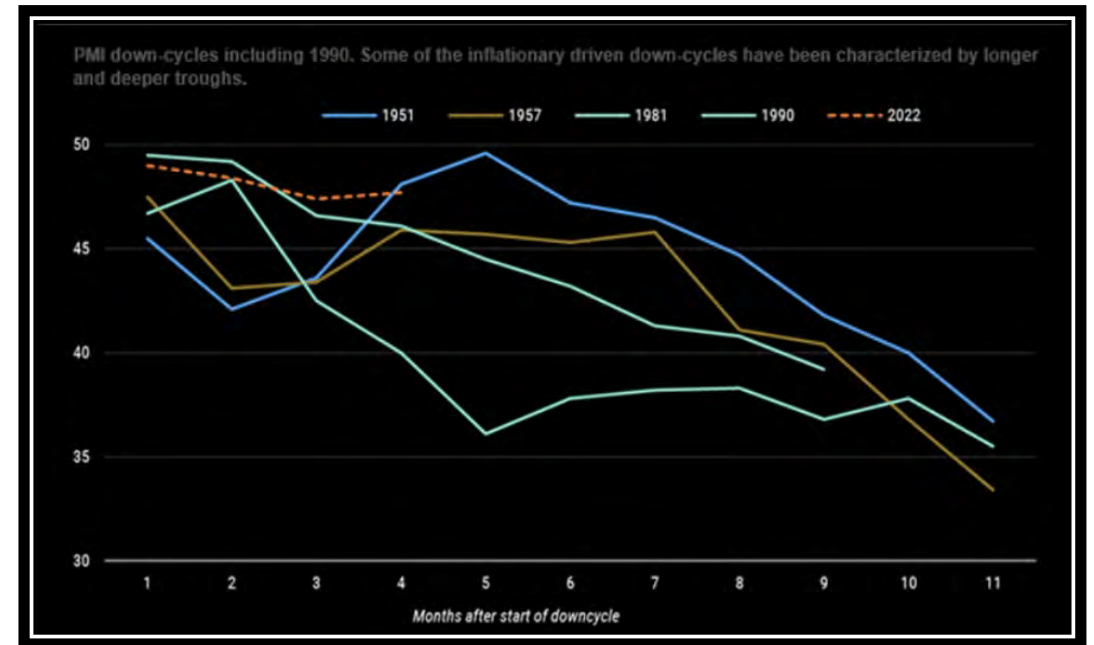
Portfolio Duration				
Security	Effective Duration (Years)	Shares	Weighting	
 iShares:0-5 TIPS Bd ETF (ARCX:STIP)	2.47	325	14.36%	
 Invesco Txb Muni Bd (ARCX:BAB)	8.12	1,955	23.71%	
Current Weighted Average Duration		5.99		
 Vanguard LT Trs;ETF (XNAS:VGLT)	16.3	1514	45.51%	
<b>Proposed Weighted Average Duration</b>		<b>11.60</b>		

# Market Conditions: Recession Already Here in Some Sectors

- Historically, inflationary driven recessions have caused further economic pullbacks
- Average duration of 11 months with PMIs in contraction
- Manufacturing PPI deflation pullback already occurring



Source: St. Louis Federal Reserve

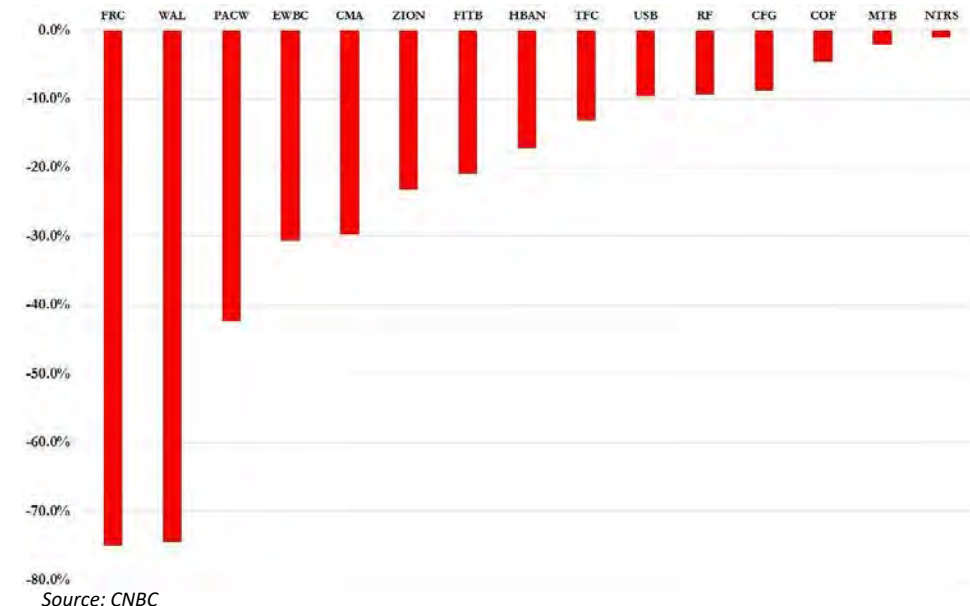


Source: Morgan Stanley

## Market Conditions: Banking Crisis

- Silvergate, SVB, and Signature bank have collapsed
- First Republic Bank and other small/regional banks are seeing increased outflows
- Yesterday, Credit Suisse, a SIFI, has been purchased out of distress by UBS
- Historic bond volatility and fed futures repricing
- Fed has opened daily USD swap lines to improve liquidity
- Uninsured deposits are flowing into SIFI's and other large banks

### Regional Banks Stock Price Drawdown



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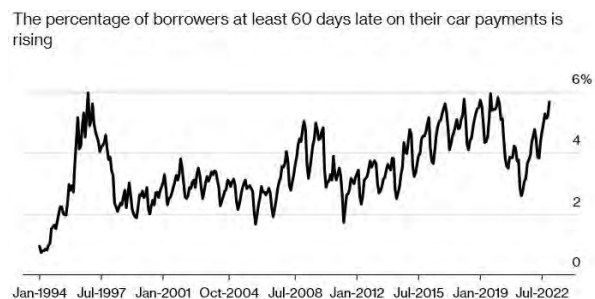
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# Market Conditions: Consumer Crisis Coming from Banking Crisis

- Consumer inflation expectations falling
- Banking defaults could shake confidence further
- Defaults climbing in auto and credit card debt



Source: Bloomberg, Zerohedge



Source: Fitch Ratings, Zerohedge

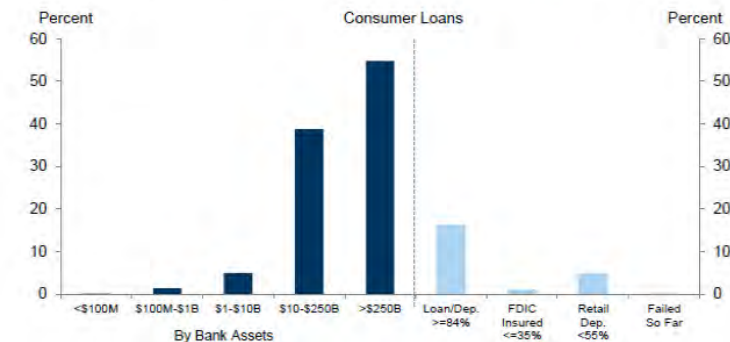


Source: Discover Financial Services Annual Report, Zerohedge

## Market Conditions: Implications for Stretched Consumer Credit

- Small and medium banks will tighten lending standards
- The credit cycle is turning for low-middle income Americans
- Significant real purchasing power decline since pre-pandemic
- The unemployment rate is at historic lows, in a recession scenario consumer credit still has significant downside risk

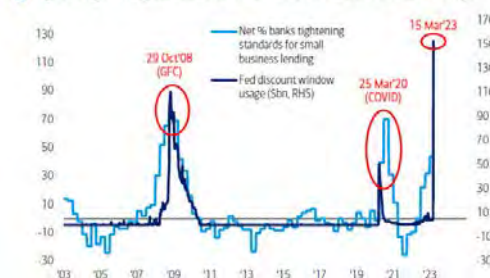
Exhibit 4: Small and Medium-Sized Banks Account for About 45% of Total Consumer Loans



Source: Goldman Sachs Investment Management, FDIC

Chart 3: Banking crises are followed by tighter lending standards

Tightening lending standards for small biz vs Fed discount window usage

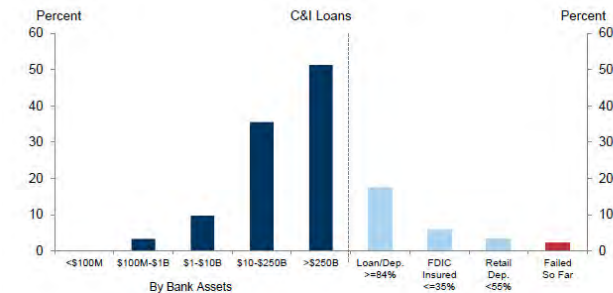


Source: BofA Global Investment Strategy, Bloomberg

## Market Conditions: Business Credit

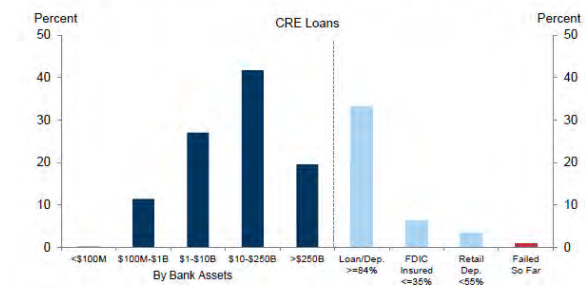
- Tighter lending standards cause slow or declining loan growth
- Bank liquidity concerns will drive up borrowing costs
- New regulatory requirements will raise cost of capital for small/medium banks
- Slower monetary growth will hurt economic growth

Exhibit 1: Banks With Less Than \$250 Billion in Assets Account for About Half of All Commercial and Industrial Lending



Source: Goldman Sachs Investment Management, FDIC

Exhibit 3: Small and Medium-Sized Banks Account for About 80% of Total Commercial Real Estate Lending



Source: Goldman Sachs Investment Management, FDIC

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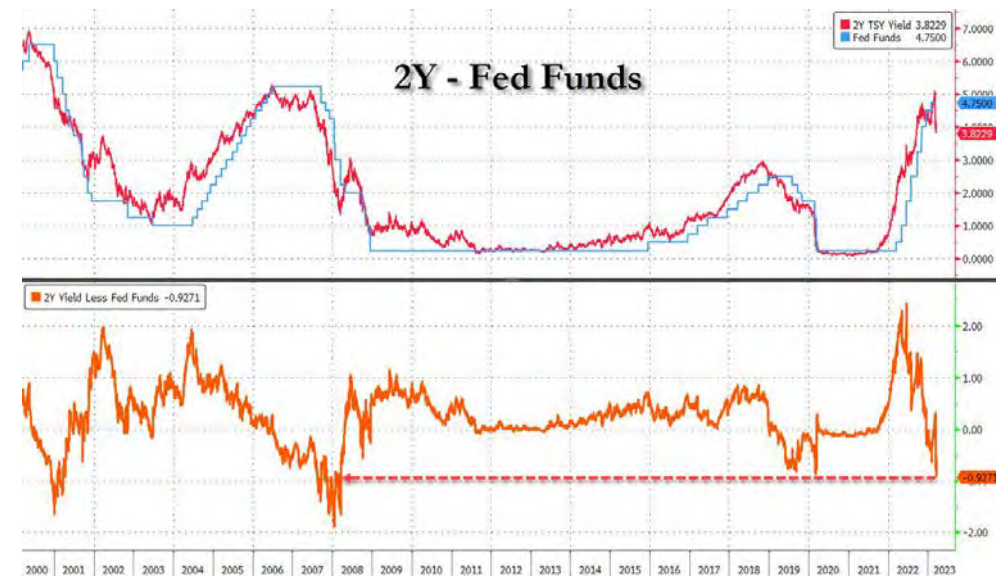
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## Market Conditions: Economic Trajectory and Portfolio Positioning

- Lower loan growth may lead to significant layoffs and worsening business conditions
- A moderate recession is our base-case scenario
- Low-quality credit is expected to suffer
- Positioning into high-quality, long duration fixed income



Source: Zerohedge, Bloomberg

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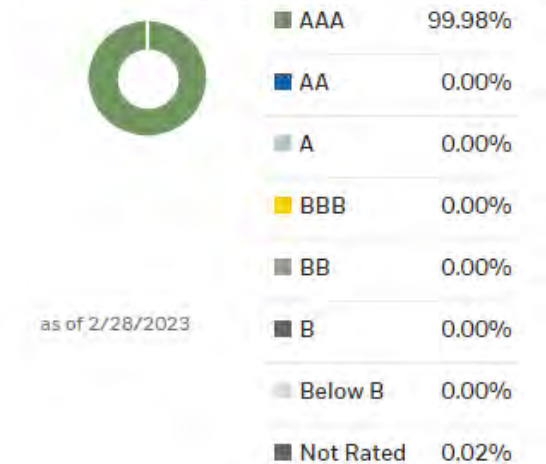
- VGLT is a solid option for investors seeking long-term bond exposure, offering low expense ratios and strong diversification through US Treasury Bonds
- Seeks to track the performance of a market-weighted Treasury index with a long-term dollar-weighted average maturity

VGLT Top 10 Holdings	
United States Treasury Bond 4.0% 15-NOV-2052	2.96%
United States Treasury Bond 2.375% 15-MAY-2051	2.82%
United States Treasury Bond 1.75% 15-AUG-2041	2.66%
United States Treasury Bond 2.875% 15-MAY-2052	2.54%
United States Treasury Bond 2.0% 15-AUG-2051	2.52%
United States Treasury Bond 1.875% 15-FEB-2051	2.49%
United States Treasury Bond 3.0% 15-AUG-2052	2.44%
United States Treasury Bond 1.875% 15-FEB-2041	2.44%
United States Treasury Bond 2.0% 15-NOV-2041	2.38%
United States Treasury Bond 2.25% 15-FEB-2052	2.32%
<b>Total Top 10 Weighting</b>	<b>25.56%</b>

## Bond Quality

Averages	VGLT	Category
Effective Duration	<b>16.26</b>	<b>0.26186</b>
Effective Maturity	<b>23.2</b>	<b>20.79</b>
Coupon	<b>2.74</b>	<b>2.48</b>

## Allocation



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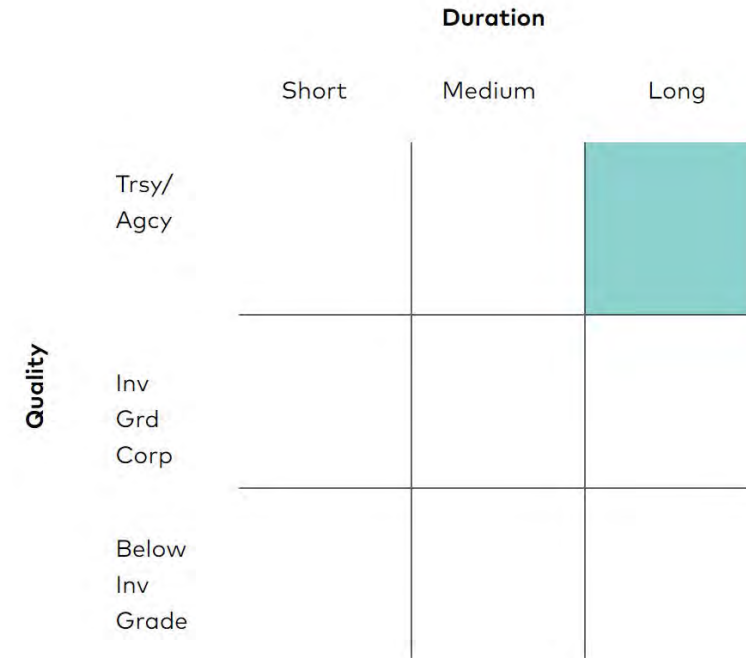
### VGLT Benefits and Comparable

- Expense Ratio of .04%. Lower expense ratio, means more of the fund's returns will be passed to the investor
- VGLT considered better option in terms of minimizing concentration risk, expense, ratio, & transaction costs
- Dividend of 2.92% (TTM) compared to TLT of 2.79% and VUSTX of 3.00%

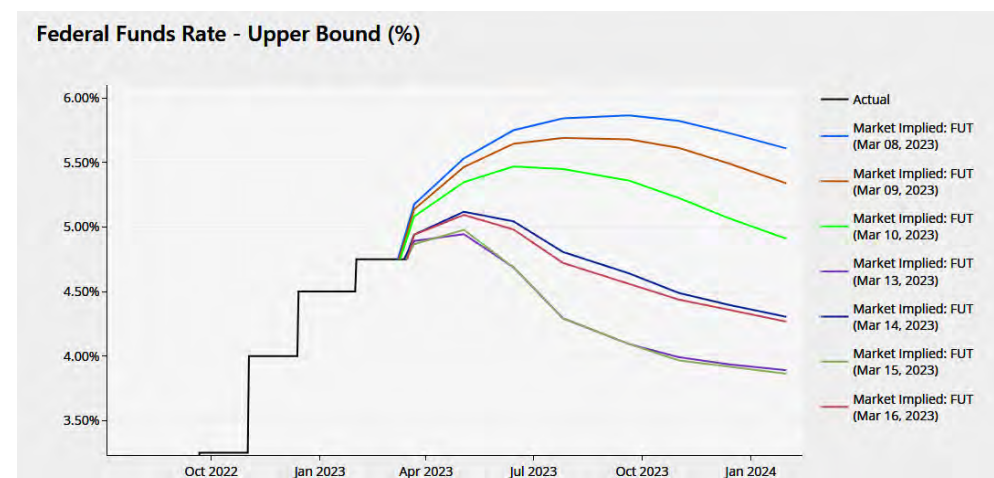
	TLT	VGLT	VUSTX
Fund Name	iShares 20+ Year Treasury Bond ETF	Vanguard Long-Term Treasury ETF	Vanguard Long Term Treasury Fund Inv
Fund Type	Taxable Bond	Taxable Bond	Mutual Fund
Issuer	iShares	Vanguard	Vanguard
Inception	07/22/2002	11/19/2009	05/19/1986
Expense Ratio	0.15%	0.04%	0.20%
AUM	\$30.29B	\$4.56B	\$3.04B
	TLT	VGLT	VUSTX
Number of Holdings	36	74	80
Assets in Top 10	61.63%	26.32%	27.06%
Turnover	43.00%	19.00%	106.00%

## VGLT Summary of Investment

- Positioning the fund for the future
- Flight to safety. Expectations of a 25-basis point hike in March. Step down from historic hikes in 2022 with the backdrop on the U.S. banking sector unexcepted impacts from a higher-rate environment
- Investment in VGLT allows for diversified exposure to long-term Treasury bonds, with a low expense ratio in anticipation of a slowdown in rate hikes / rate cuts



- Move from treasuries to investment grade bonds in a safer economic environment
- Look to reposition and realize gains upon a Federal Funds rate below 2%
- Liquidate position as a stop-loss if inflation reemerges and y/y CPI is above 7%



Source: Bloomberg, Zerohedge

## Investment Risks

### Reinvestment Risk

- Virtually everywhere in the market
- Shorter term investments are more exposed

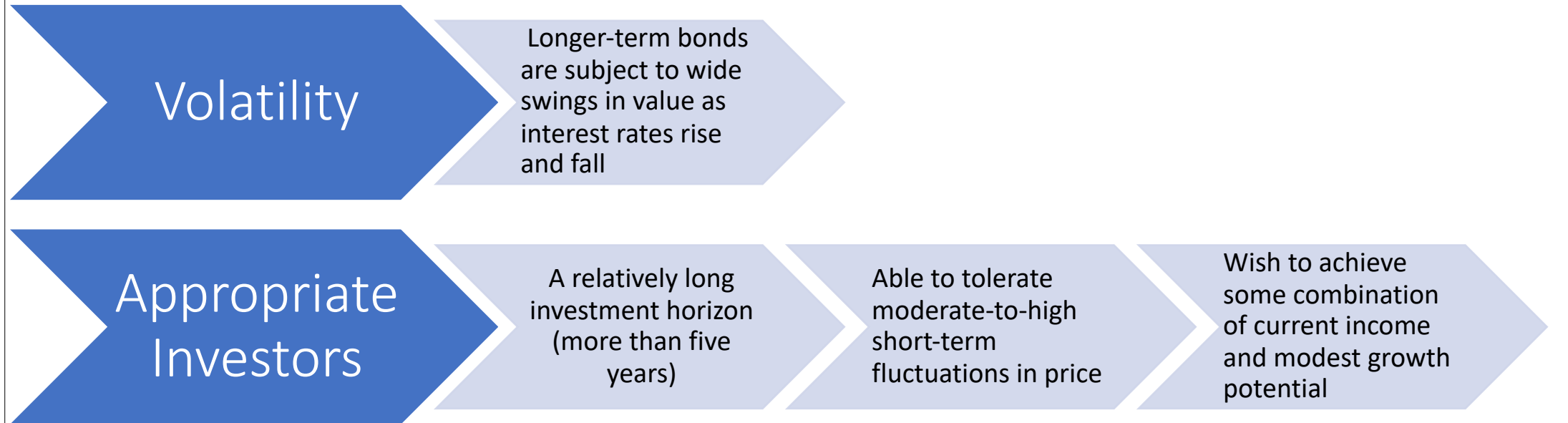
### Interest Rate Risk

- Long-term bonds are more sensitive to movement in interest rates

### Purchasing Power

- Inflation can greatly impact long-term investments
- Portfolio is positioned well against inflation

## Risks associated with moderate funds



## Conclusion/Recommendation

- VGLT will help the Oros Fund gain long-term duration exposure, with good diversification through treasuries.
- Federal Funds Rate expected to peak in 2023. With a flight to safety for long-term holdings, VGLT helps us gain exposure to expected capital gains.
- Buy \$100,000 of VGLT at current price of \$65.69, roughly an addition of 1,522 shares.

# VGLT

## Vanguard Long-Term Treasury ETF

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