



Finding Efficient Frontiers

**SMART YIELD**  
Income Fund

2023 Q 1

A Broxton Capital Advisors Fund

Managers

- R. ALLEN COOKE
- BYRON STEAD
- ROBERT COOKE



## Get Yield, Get Return. Smart Yield.

Partnered with Schwab

Smart Yield is a multi-strategy income fund offered to managers and designed with a flexible mandate in order to perform in various economic conditions including rising interest rate environments. [Learn More](#)

### About Broxton Capital Advisors

The partners have over 90-years of collective experience managing investments and specialize in fixed income.

## MANAGER'S COMMENTARY

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Smart Yield was launched in late 2020 by Broxton Capital with the thesis that a multi asset class income fund would provide higher returns with lower volatility. Since inception, through December 31<sup>st</sup> of 2022 this dynamic allocation process across the income asset spectrum based on cash flow, yield and other factors proved to be a superior strategy. Smart Yield has returned a positive 12.03% net since inception, compared to a negative 12.61% for its benchmark and a negative 35.63% return for the 20 year treasury ETF over the same period. Our observation that traditional income instruments produce low yields that do not offset the inherent risk also proved correct. We believe the strategy will continue to provide portfolio stability and other advantages compared to traditional income allocations.

Smart Yield utilizes proprietary algorithms and technical indicators, quantitative and qualitative analysis and is overseen by Broxton Managers who have over 90 years of combined experience.

## BROXTON CAPITAL ADVISORS

### As of December 31, 2022

#### Portfolio Facts

Annual Target Return:	8.00%
Beta Target	0.35
Fund Type	SMA Composite
Opening Date	7/1/2021
Inception Date	9/30/2020

#### Performance\*

##### 2021 YEAR

Smart Yield	14.38%
Benchmark	-1.40%

##### 2022 YEAR as of 12/31/2022

Smart Yield	-6.40%
Benchmark	-13.45%

##### Since Inception

Smart Yield	12.03%
Benchmark	-12.61%

#### Performance Analysis

Beta	.29
Sharpe Ratio	.48
Treynor Ratio	13.34
Alpha	-7.72

#### Asset Mix Example

High Yield Corporates	15%
Dividend Equities	31%
Pass Through Securities	10%
Convertible Securities	9%
Growth Equities	10%
Cash/ Hedging	25%

## SMART YIELD FUND

#### Objective:

- The objective of the fund is to return 8% annually through a low volatility income and growth portfolio as an alternative to single asset income funds

#### Fund Facts

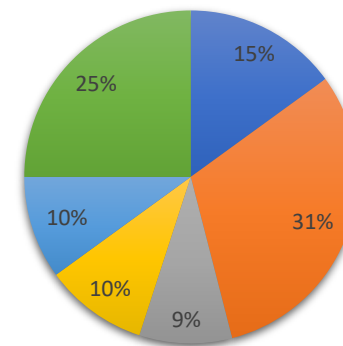
- Projected low correlation to single asset income funds and equity indexes
- Designed to achieve portfolio growth with lower risk.
- Broxtton Managers have over 90 years of combined experience

#### Process

- Managers select securities in multiple asset classes and industry sectors based on proprietary algorithms and technical indicators, statistical indicators, industry & business trajectories, coverage ratios and cash flows

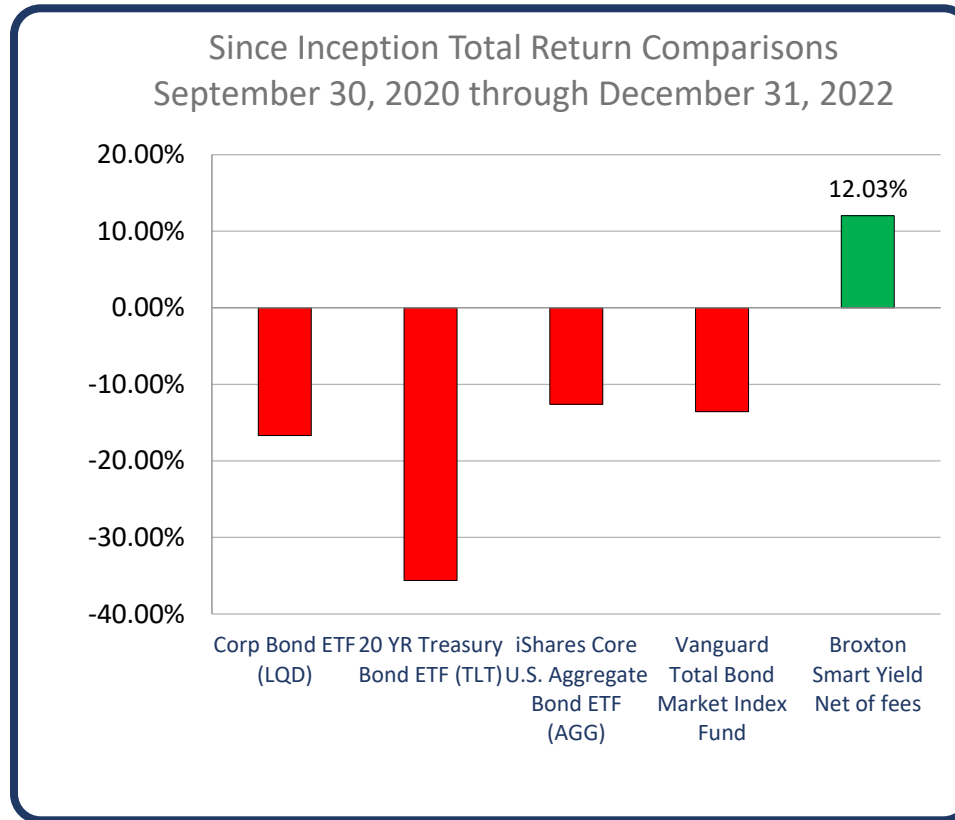
#### Asset Mix Example

- High Yield Corporates
- Dividend Equities
- Convertible Securities
- Pass Through Securities
- Growth Equities
- Cash/Hedge



## BROXTON CAPITAL ADVISORS

*The objective of the fund is to return 8% annually through a low volatility, income and growth portfolio as an alternative to single asset income funds*



\*Benchmark: S&P U.S. Aggregate Bond Index, Please see important disclosures on last page

## SYNOPSIS

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- An 8% compounded return provides powerful growth over time. The objective of Smart Yield is an 8% annualized return with safety and low volatility.
- Broxton is able to assemble an efficient portfolio with broad diversification by:
  - Collecting allocations that are overlooked by larger players
  - Using the multi class mandate to access attractive returns in multiple categories
  - Focusing on opportunities
  - Combining growth and income strategies
- Managers utilize proprietary algorithms and statistical analysis in their quantitative analysis and bring 90 + years of collective qualitative analysis into the selection process
- Flexible mandate is accretive to risk control
- The Fund objective is delivering a consistent and conservative return through rational investing

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### INCOME SECTOR SNAPSHOT

Single asset income funds (SAIFS) have low return and are subject to binary outcomes when rates rise or fall. 10-year TSY at 3.09%.

- Investors need income and or withdrawals
- SAIFS are useful in some situations but provide little income and compound slowly
- 10-year Treasury at 3%: Compounded over 20 years returns less than 100% not including withdrawals. 20 years compounded at 8% > 350% and capable of providing withdrawals
- SAIFS are bond funds, REITS, municipal bonds etc





## SMART YIELD

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#### INCOME SECTOR CHALLENGES

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- Passively managed fixed income ETFs or indexed funds still retain risk and produce low yield
- Investment management companies lack products and incentives to create them (are they calling with solutions?)
- Equity indexes contain risk. Over time portfolios need to reduce risk
- REITs, MLPs, BDCs and sector ETFs face individual and sector economic challenges, investing requires active management



#### SOLUTION

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- Smart Yield allocation improves the optimum risk reward profile of a portfolio
- Working towards an *available* efficient frontier outlined by Smart Yield for balance
- Delivers return with intelligent risk

**Smart Yield is designed to improve portfolio optimization**



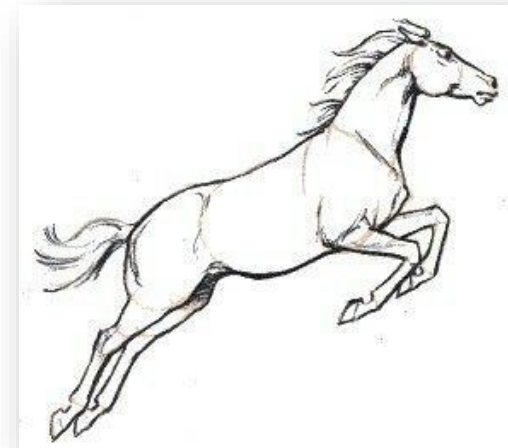
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### SELECTION PROCESS

- Proprietary Technical indicators, quantitative and qualitative analysis
- Proprietary algorithms provide coverage ratios and cash flows
- Statistical analysis
- Industry & business trajectories
- Qualitatively, selections are based on normal valuations, strong fundamentals, yield, and issuer financial stability.
- Use the broader selection mandate to optimize

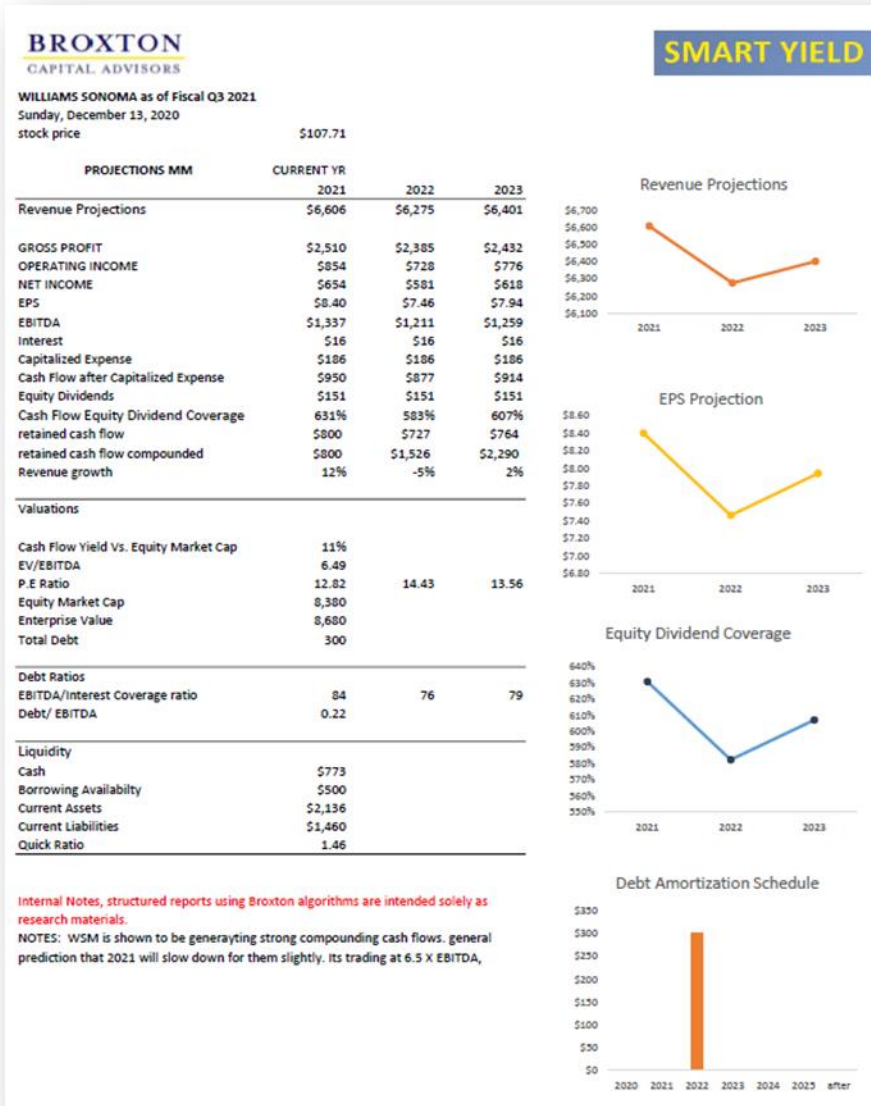
### SAMPLE PORTFOLIO METRICS<sup>1</sup>

Positions est.	50-100
Beta target vs S&P 500	.35
Current Yield (total fund)	6.78%
Standard Deviation (3y)	NA
Inception Date	9/30/2020
Benchmark	S&P U.S. Aggregate Bond Index



<sup>1</sup> Example

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- Algorithms output to structured reports
- Controls allow unlimited scenarios

## ASSET CLASS OVERVIEWS

### Corporates

- lower convexity than investment grade
- Susceptible to mispricing
- Ability for price appreciation and yield



### Pass Through Securities

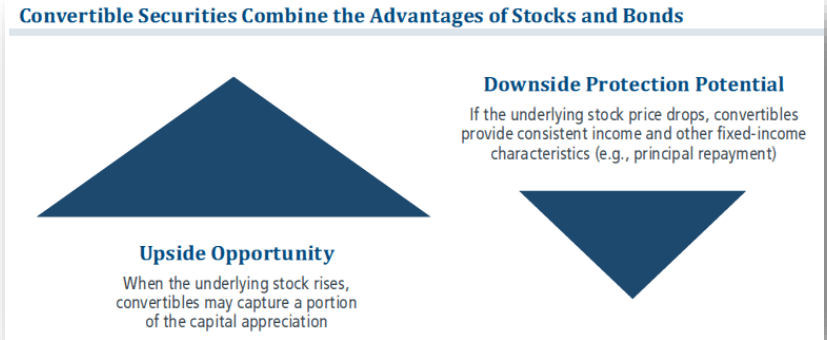
- Real estate investment trusts, Business development corporations, Closed end funds, Master limited partnerships, preferred shares
- Possibility for capital appreciation with income yield



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### Convertible Securities

- Corporate bonds, Preferred shares, "busted" converts<sup>2</sup>
- Equity upside with bond protection



### ETFs, Dividend & Growth Equities

- Basket approach reduces risk
- Offers capital appreciation
- Fundamental + technical analysis
- Alpha generation
- Our question: Where is the dividend support for each security



<sup>2</sup> Convertibles that are unlikely to offer equity upside

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### Cash/hedge

- Option writing strategies
- Hedging through option put positions or ETFs
- Cash instruments
- Other

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Option strategies are available to the managers as far as covered writes or hedging positions. Covered writing can add income and reduce volatility and is considered a conservative method of incrementally increasing yields and reducing volatility. Matched puts can reduce volatility on individual positions. ETFs offer simple hedging opportunities to obviate interest rate or market volatility.

Conclusion: Total addressable market for selection well over \$1 trillion

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### RISK CONTROLS

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- Broader mandate allows for risk controls
- Levels of risk control: asset class, industry & Issuer, portfolio level, security level, Proprietary technical analysis overlay
- Analysis quantitative and qualitative: standard deviation + industry economic + issuer economic
- Cash flow algorithms reduce risk related to individual issuer
- Compare: REITs, MLPs, BDCs and sector ETFs can face individual and or sector economic challenges, Smart Yield diversification reduces these risks

### FUND STRUCTURE

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Smart Yield is managed through a composite of individual accounts. This has several advantages:

- Investors maintain assets in their own account
- Investors and managers may increase and decrease allocations easily on a per account basis
- Investors receive individual custodial statements
- Reduced expenses
- Daily pricing
- All composite accounts receive the same allocation percentages
- Customization

## BROXTON CAPITAL ADVISORS

### MEET THE MANAGERS

The managers have over 90 years of collective fixed income experience:

- Bob Cooke: Spanning a career of over 40 years, Bob has been a municipal and corporate bond specialist, running the municipal desks at Drexel Burnham Lambert and later, Imperial Capital, a leader in bond research and trading. Bob joined Broxton in 2008.
- R. Allen Cooke: With over 25 years as a fixed income specialist, Allen worked alongside his father, Bob Cooke at Imperial Capital and later headed the corporate bond research at Western International Securities. Allen founded Broxton Capital with Byron Stead in 2005.
- Brian (Byron) Stead: Over a 25-year career, beginning at Merrill Lynch and leading to Morgan Stanley, Byron headed corporate bond trading at Western International Securities, co-founding Broxton Capital with Allen Cooke in 2005.

Broxton Capital Advisors began on Broxton Avenue in the UCLA-Westwood area of Los Angeles. Broxton Avenue is named after the civil parish in Cheshire, England. Broxton Capital is an investment manager located in San Juan, Memphis, Los Angeles, and Palm desert.







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### SPECIAL TECHNIQUES

- Creating your own convertible bonds: If you find a corporate bond trading at a discount you can combine the bond with shares of the company to create a synthetic convertible bond. Such combinations have lowered risk with unlimited upside. The risk reward metrics are improved at this point; if the shares decline but the bond is paid off the investor will still make a profit. There is also a chance that the shares will accelerate higher doubling or tripling the profits of buying the bond alone. Of course, there is a good amount of research needed in order to successfully execute this investment.
- Cashing in on stock drops: Often times a convertible bond will drop precipitously if the underlying stock it is convertible into falls. From time to time these investments become more valuable solely as a bond investment that investors can cash in on as the previous investors sell. These are known as "busted converts." Many times, the bonds are financially sound. For instance: Over the last few years, the shares of Greenbrier companies fell from \$60 to a low of \$12.89. This caused the convertible bonds to trade down briefly at a close to 10% yield. The bonds have since rebounded by about 20% from the low and to a more normal yield of about 6%.
- Staying out of trouble (also do not get run over trying to pick up a dime in the street)! Often times investors remain oblivious to problems as companies decline. Investors are currently receiving a low yield certain bonds. However, many of these companies have yet to generate a profit and some companies have a large cash burn. So, this is not the best way to yield. So always be aware is your company accreting cash or depleting it!

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**Disclosures**

Broxton Capital Management is an investment management firm which was established in 2005. Smart Yield returns are shown net of actual fees and expenses. Composite returns are weighted monthly. Broxton measures composite internal dispersion using Size-Weighted Standard Deviation. Returns for periods exceeding 12 months are annualized. Broxton maintains two composites. The definition of the firm includes the total firm assets, and we practice firm-wide compliance. Smart Yield Fund targets a mix of investment in different asset classes and strategies that contain the risk of loss. Investors should carefully consider the Fund's investment objectives and risk factors before investing. Investing involves risk, including possible loss of principal. Investors should consider the loss of principle and the fact that Smart Yield targeted returns are not guaranteed. Smart Yield intends to attain an 8% annual return through capital gains, interest, dividends, and other strategies including short term and long-term holding periods. Smart Yield is a separately managed account composite. The inception date is September 30, 2020, and the opening date was July 1, 2021. Asset Mix Examples are examples and do not reflect the current holdings of the fund. Smart Yield Portfolio Metrics are targets of the fund. Asset class mix and targets may change based on the direction of the managers and there is not a minimum or maximum percentage for asset each class. Projected annual return target and beta targets are not guaranteed. Beta, Sharpe, and Treynor ratios are measured since inception. Alpha is measured using the previous full year. Beta for the fund is estimated versus the S&P 500. The target beta for the entire fund is .35. Beta is a measure of the fund's volatility in relation to the S&P 500 Index. The fund uses internal software in order to compute beta compared to a monthly total return S&P 500 Index. This index has a beta of 1.0. Broxton calculates alpha using the interest rate of the 5-year treasury at the beginning of the calendar year (first business day of the year)/ 12 compounded monthly or 1.2% whichever is higher. This is subject to change based on our analysis of the rise and fall of interest rates. The fund targets a total gross return before fees and expenses of 9.24%. The fund projects a blended return based on income securities and capital gains and may have a larger weighting in either income producing, or non-income producing assets and does not seek tax efficiency. Investors should consider that the majority of returns or possibly all of the returns will be considered ordinary income and investors could experience a higher tax rate compared to other strategies. Smart Yield attempts to continuously improve the value of investment portfolios by investing in equities corporate bonds, convertible bonds, other types of bonds (investment grade and sub-investment grade, [which may also have limited liquidity]), dividend paying equities, non-dividend paying equities, ETFs, including leveraged ETFs, reverse ETFs for hedging and other securities. Smart Yield intends to engage in covered call writing. This strategy involves risk of loss. Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. All security types mentioned in this brochure have the risk of loss. We use financial modeling, technical analysis, proprietary and third-party research. Smart Yield does not have any capitalization (market size), sector or industry allocation mandates and most likely will have large allocations during certain periods. Asset class allocation examples or percentages will be materially different from projections and or examples and may change without notice. Shorting is considered higher risk and shorting (selling and then buying) of securities can be used for hedging and as a long term or short-term strategy. The fund may allocate to leveraged ETFs as a hedge or for short term capital gain. These securities have the possibility of loss. Since Smart Yield returns will be calculated using a composite of accounts, the average account will not match the composite return and the return could be higher or lower. Broxton offers Smart Yield for investment managers. Smart Yield performance returns are net of fees and during the period September 30, 2020 through September 30, 2021 were derived from a single account. Further disclosures are available upon request. Any commentary on individual securities is solely the opinion of the Broxton Capital Advisors. It refers to securities we hold in our portfolio and sometimes ones we are considering but does not represent a complete list of positions at Broxton Capital Advisors. A complete list covering the last twelve months will be furnished upon request. Price targets are mentioned for information purposes only. Nothing contained herein constitutes a recommendation to purchase or sell securities at any designated price or time. Targeted performance and past performance does not guarantee future results. Additional disclosures are available upon request. Please visit [broxtoncapital.com](http://broxtoncapital.com) for additional information including form ADV.