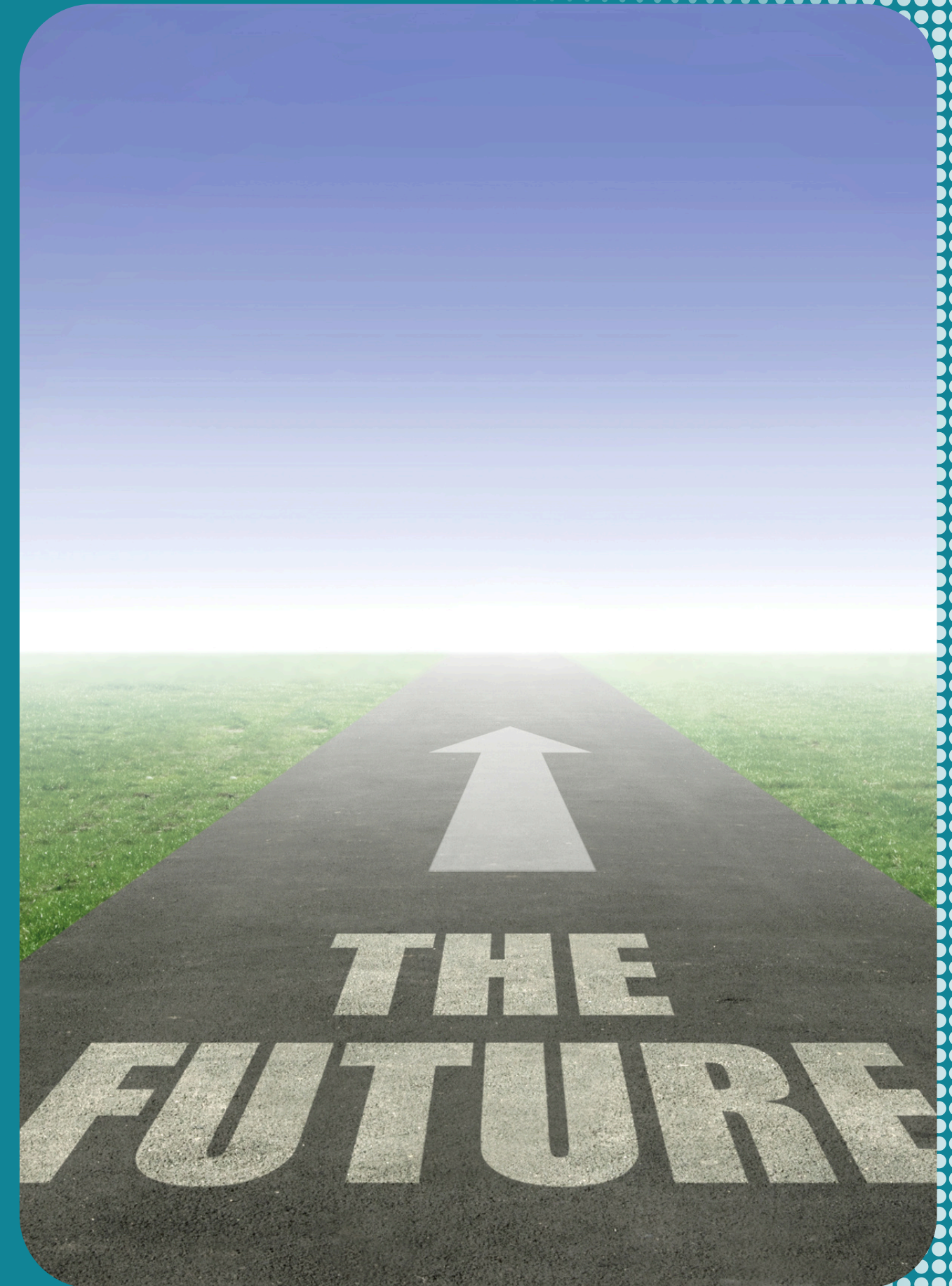


# WHAT IS DEFINED DURATION<sup>TM</sup> INVESTING?

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

**DF** DISCIPLINE  
FUNDS



## **Banks have an inherent duration mismatch.**

They borrow short and lend long. Excessive mismatches kill banks.

Banks 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 "AH HA" MOMENT - EVERYONE HAS AN ASSET-LIABILITY MISMATCH**



# THE PROBLEM

## FINANCIAL PLANNING

GOALS-BASED

MULTI-TEMPORAL  
PROCESS

FOCUS AROUND  
TIME HORIZONS

**VS**

## INVESTMENT MANAGEMENT

PERFORMANCE-BASED

SHORT-TERM  
PROCESS

FOCUS AROUND  
STYLE BOXES

# CLIENT PERSPECTIVES: REALITY VS THEORY

## Time Horizons

Clients think in time horizon based goals, not subjective style boxes.

## Consumption Needs

Aligning assets with financial plans enhances clarity. Investors want to know how their assets are helping them achieve specific time-based goals.

## Goal-Based Language

Emergency funds, weddings, retirement, healthcare. Defined Duration helps the advisor speak in terms the investor understands by aligning consumption goals to assets.

## Style Boxes

This approach limits understanding of investor needs relative to time horizons and is based on subjective analysis of things like "growth", "value" and factors.

## Risk Optimization

Can you beat the market? Does it even matter? Modern asset management is built primarily around the subjective practice of risk/reward optimization, which isn't even a goal for any practical financial plan.

## Theoretical Language

Alpha, Beta, Sharpe, Standard Deviation. Most people don't know what these things are in many cases. And they don't care.

**VS**



# THE SOLUTION

**FINANCIAL  
PLANNING**

**INVESTMENT  
MANAGEMENT**



**GOALS BASED**



**MULTI-TEMPORAL  
PROCESS**



**THINK IN TIME  
HORIZONS**



**DEFINED DURATION<sup>®</sup>  
INVESTING**

## THE PAST

Markowitz & Mean  
Variance Optimization



## THE PRESENT

Factor Investing, Beta  
Optimization &  
Active vs Passive



## THE FUTURE

Planning-Based  
Asset-Liability Matching

# THE EVOLUTION OF ASSET MANAGEMENT

“

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

”



# WHAT EXACTLY IS THE DEFINED DURATION<sup>TM</sup> ?



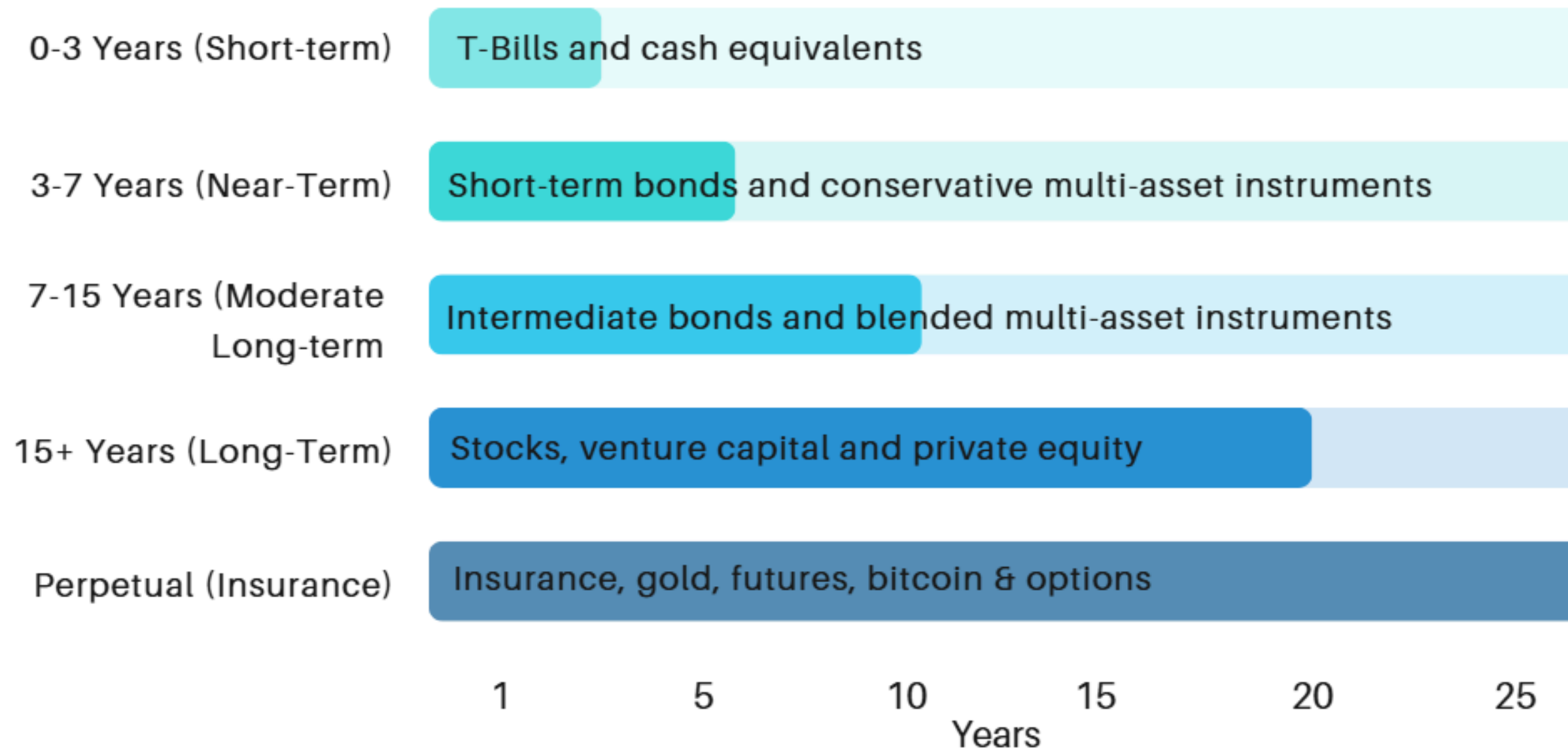
**Duration as the “point of indifference” relative to sequence of return risk.**

- 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.



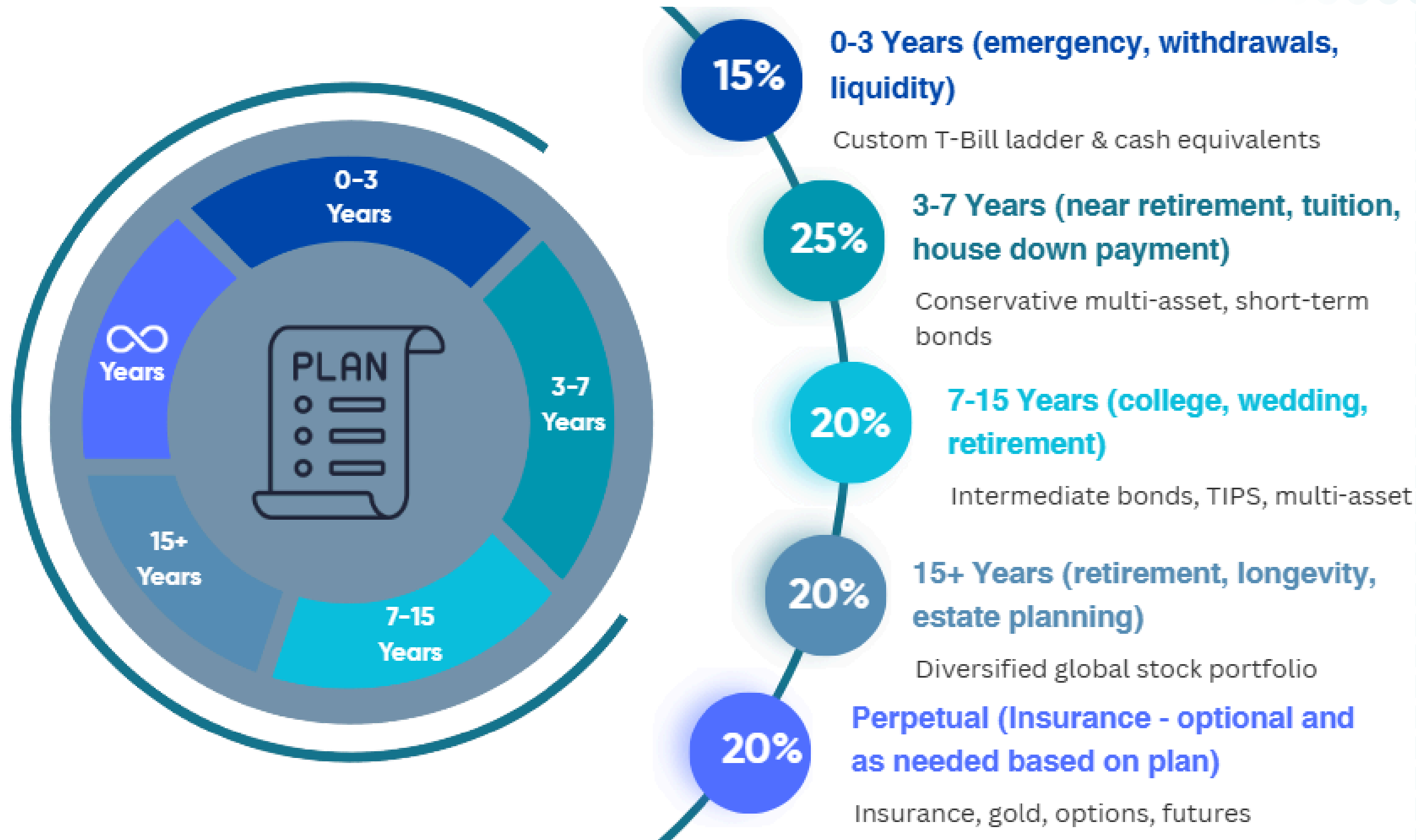
# WHAT EXACTLY IS THE DEFINED DURATION<sup>TM</sup>?

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.



# WHAT EXACTLY IS THE DEFINED DURATION<sup>TM</sup>?

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.



# KEY COMPONENTS OF THE DEFINED DURATION<sup>TM</sup> METHOD



**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<sup>TM</sup> 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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