Birch Run Investments

# CORE FIXED INCOME

June 2019

## Holding-Based Statistics

| | Core Fixed Income | Bloomberg Barclays Agg. Index |
|---|---|---|
| Yield to Maturity | 2.49% | 2.50% |
| Effective Duration | 5.55 years | 5.63 years |
| Average Quality | AA- | AA |

## Strategy Statistics

| | |
|---|---|
| Range of Holdings (Issuers) | 100 - 150 est |
| Annualized Turnover | 20% est |
| Firm Assets | 205.8 |
| Product Assets | 32.25 |

## Investment Philosophy

The Core Fixed Income Strategy seeks to add value by capturing market inefficiencies with regards to security selection and sector rotation. Through rigorous credit research and thoughtful analysis of risk/reward, we seek to construct portfolios with a yield advantage to the overall market. Through the compounding of this yield advantage and by minimizing other areas of portfolio volatility, we believe we can offer clients an attractive risk adjusted return through different market cycles.

## Portfolio Management Team

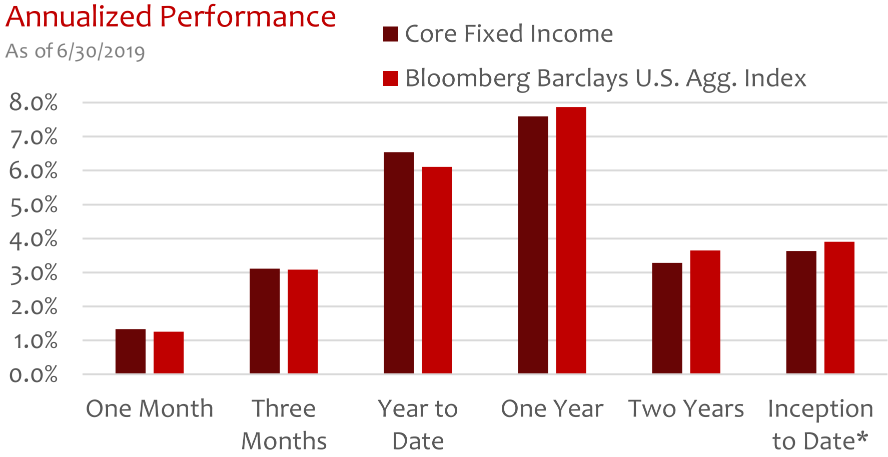
David M. Killian
Joseph D. Shacklock

## Inception Date

3/31/2017

## Annualized Performance

As of 6/30/2019

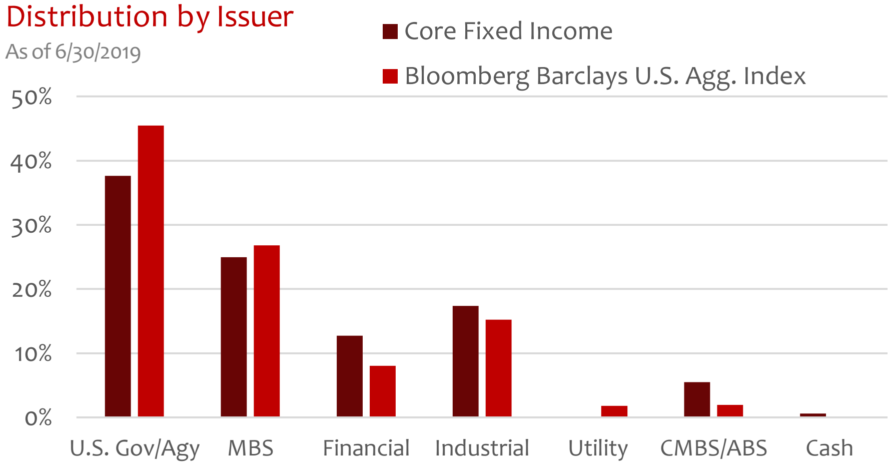



| | One Month | Three Months | Year to Date | One Year | Two Years | Inception to Date* |
|---|---|---|---|---|---|---|
| Core Fixed Income | 1.33% | 3.11% | 6.54% | 7.60% | 3.28% | 3.63% |
| Bloomberg Barclays U.S. Agg. Index | 1.26% | 3.08% | 6.11% | 7.87% | 3.65% | 3.90% |

* Inception 3/31/2017

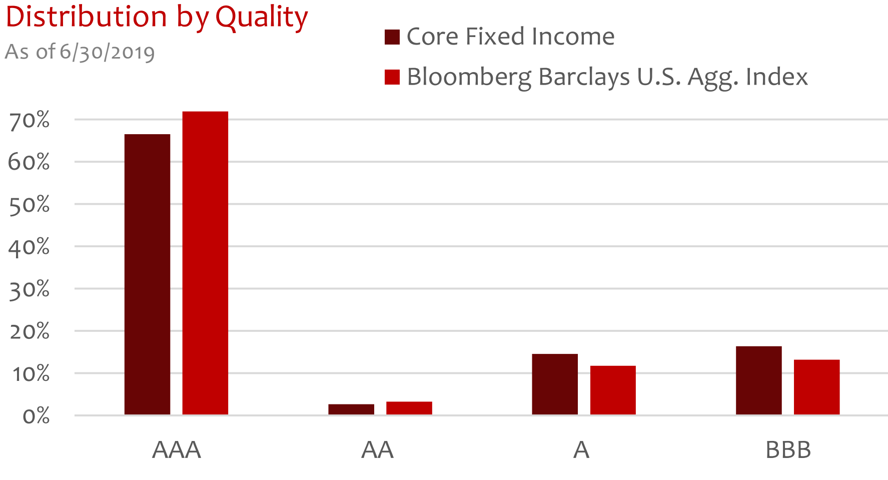
## Distribution by Issuer

As of 6/30/2019




## Distribution by Quality

As of 6/30/2019



## Top 10 Holdings

As of 6/30/2019

| | |
|---|---|
| **US Treasury 2.875%** - 8/15/28 | 6.16% |
| **US Treasury 2.625%** - 2/15/29 | 4.53% |
| **US Treasury 2.50%** - 3/31/23 | 3.95% |
| **US Treasury 1.625%** - 11/15/22 | 3.52% |
| **US Treasury 2.125%** - 5/15/25 | 3.48% |
| **US Treasury 2.00%** - 8/15/25 | 2.61% |
| **US Treasury 2.00%** - 2/15/22 | 2.35% |
| **US Treasury 2.125%** - 8/15/21 | 2.16% |
| **General Electric Co 4.125%** - 10/9/42 | 2.02% |
| **Procter & Gamble Co 2.15%** - 8/11/22 | 1.89% |

## 2Q2019 Portfolio Commentary

With the U.S. economy now entering a record 11th year of economic expansion, evidence is building that the longevity of the current cycle may be measured in quarters not years. Economic growth for the second quarter is expected to have decelerated from the first quarter advance of 3.1% to an annual growth rate of just 1.3%. This dramatic slowdown reflects both slower domestic activity and continued weakness in both Europe and China. Continued escalation in U.S. and China trade negotiations has weighed heavily on U.S manufacturing activity, which slowed to the lowest level of the Trump presidency during the month of May. Further evidence of a slowdown can be seen in weaker than expected new home sales and monthly non-farm payroll gains that have fallen below expectations. Despite the record length of the expansion and the lowest unemployment rate in close to fifty years, inflation has stubbornly remained below the Fed's target of 2.0%. Low inflation, which previously had been viewed as transitory, is now a point of growing concern among investors and the policy makers.

In light of weaker than expected economic data and persistently low inflation, the Fed has indicated a new willingness to lower interest rates in an effort to prolong the economic expansion. Such an abrupt shift by Fed officials from the 4th quarter of 2018, when they suggested interest rates would continue to climb throughout 2019, is likely underpinned by a recognition that prior rate increases were ill-timed. This pivot to a more accommodative policy can also be seen globally. ECB President Draghi has suggested that additional stimulus in the Eurozone may be warranted if inflation in the region doesn't improve. These recent developments have resulted in a repricing of interest rates globally. U.S. 10-year Treasury yields closed the quarter at 2.0%, 50 bps lower than where they traded at the end of April, while the German 10-year yield hit a new record low of negative 0.30%. U.S. Treasury yields across all maturities now trade at or below the Fed's current targeted range of 2.0%-2.5%, underscoring the likelihood of future rate reductions. Investor debate currently centers on whether pre-emptive interest rate reductions by the Fed will be successful in preventing a recession. Encouragingly, the FOMC responded in a similar way by cutting rates in the mid '90s when economic conditions changed abruptly, and the economy continued to grow for another four years.

Benefitting from the positive market sentiment during the quarter, corporate bonds were the top performing fixed income asset class, advancing 4.5%. Our continued relative overweight position to this segment of the market and our targeted yield curve exposure benefitted portfolio results. Our portfolio strategy continues to focus on selectively increasing exposure to higher yielding corporate bonds, but we remain mindful that valuations are becoming less compelling for many issuers. In instances where we view corporate bond risk/reward as unfavorable, we intend to increase exposure to higher quality sectors of the market including mortgage and asset backed securities, where in many cases we are able to secure comparable yield to maturity with reduced credit risk.

Birch Run
INVESTMENTS

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