Birch Run INVESTMENTS

Tax Exempt Total Return

January 2020

Holding-Based Statistics

	Tax Exempt Total Return	Bloomberg Barclays Muni Bond
Yield to Maturity	2.41%	2.57%
Effective Duration	5.35 years	4.84 years
Average Credit Quality	A	AA-

Strategy Statistics

Range of Holdings (Issuers)	75 - 100 est
Annualized Turnover	20% est
Firm Assets	218.67
Product Assets	24.31

Investment Philosophy

The Tax Exempt Total Return strategy seeks to deliver total return and a high level of tax-exempt income by constructing a diversified and high quality portfolio of municipal securities. Using a value oriented and opportunistic approach, the strategy takes advantage of the entire yield curve and investment grade credit quality spectrum. This separate account strategy can be customized to meet individual liquidity needs or risk tolerance.

Portfolio Management Team

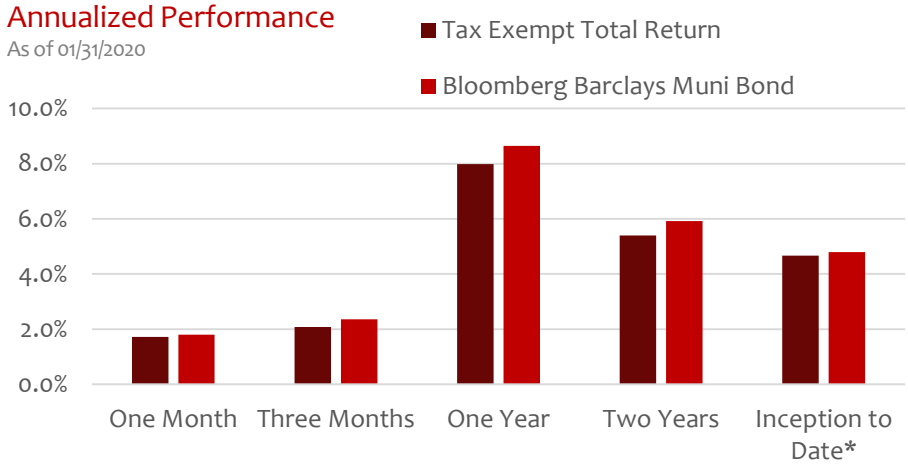
David M. Killian
Joseph D. Shacklock

Inception Date

6/30/2017

Annualized Performance

As of 01/31/2020

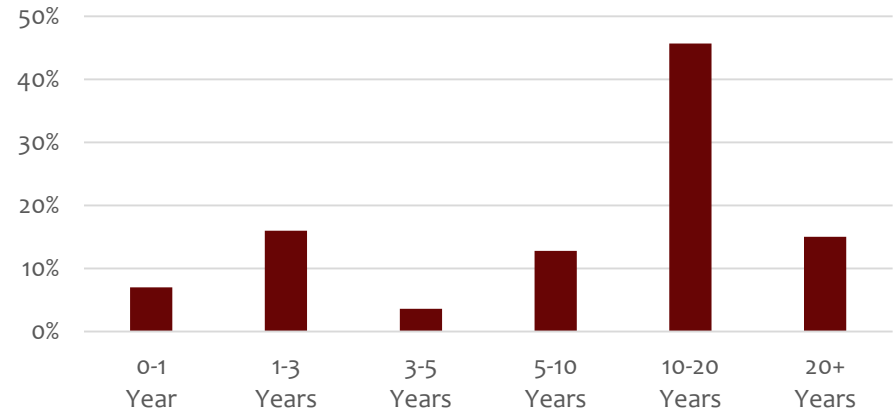


	One Month	Three Months	One Year	Two Years	Inception to Date*
Tax Exempt Total Return	1.72%	2.08%	7.99%	5.40%	4.67%
Bloomberg Barclays Muni Bond	1.80%	2.36%	8.65%	5.92%	4.79%

* Inception 6/30/2017

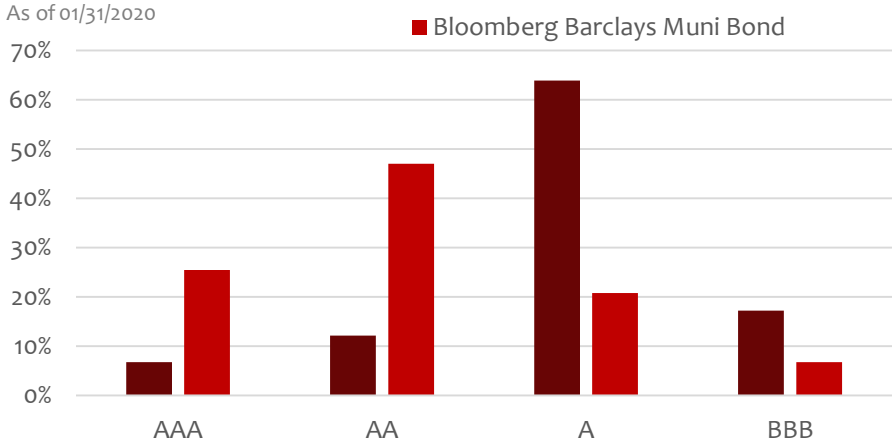
Maturity Distribution

As of 01/31/2020



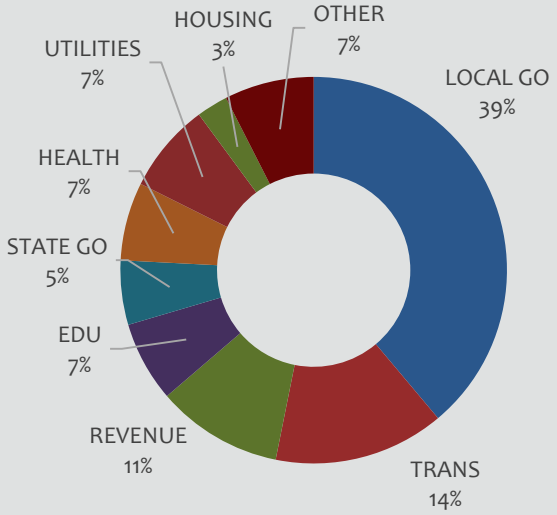
Distribution by Quality

As of 01/31/2020



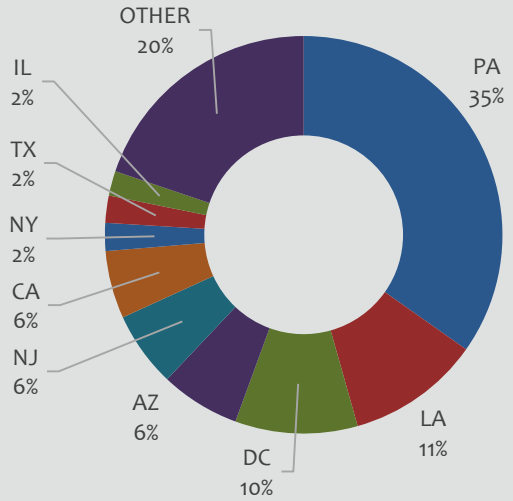
Sector Distribution

As of 01/31/2020



State Distribution

As of 01/31/2020



4Q2019 Portfolio Commentary

All major equity indices finished 2019 at all-time record highs, driven largely by a "phase one" trade deal between the US and China. Assuming the deal is finalized on January 15th, this should mark a significant milestone on the road toward lessening tensions related to the tariff war that has been prevalent for nearly two years. With the 2020 presidential election on the horizon, it is unlikely that the White House will impose any meaningful changes to tariff rates this year. While trade related recession fears are fading, broader concerns still linger. The current expansion is the longest in US history, which raises the question of how much longer it will last. Not an unreasonable point as there are certainly some areas of concern. Declining interest rates in 2019 were a contributor to a large price/earnings expansion. With this priced into the market at this point, additional equity gains will likely depend on higher corporate earnings. More recently, December manufacturing sector reports were at the lowest levels in a decade—likely a lingering product of trade concerns. On the other side of the coin, consumer confidence continues to be bolstered by generationally low unemployment, elevated stock prices, and accommodative Fed policy. This gives us little reason to think that a meaningful economic downturn is likely to occur in the near term.

December 2018 was the last time we saw an increase in the Fed Funds rate. The July 2019 FOMC meeting marked an important shift in Fed policy with the first rate cut since the financial crisis. Framed as a "mid-cycle adjustment", the move reflects meaningful uncertainty surrounding the geopolitical environment and its effects on the domestic economy. Additional cuts at both the September and October meetings give us the current target range of 1.50% to 1.75%, 75 basis points lower than this time a year ago. All parts of the yield curve have responded to this policy shift. The largest move was in the 1-year Treasury bill, ending 2019 at a yield of 1.57%, 104 basis points lower year over year. The 10-year ended 2019 at 1.92%, 76 basis points lower, while the 30-year had the smallest move, ending the year at 2.39%, 62 basis points lower than the level a year ago. While the 3-month/10-year and 2-year/10-year parts of the curve saw a period of brief inversions in 2019, the yield curve has since normalized and has a modest positive slope. Given the Fed's commitment to achieve 2% inflation coupled with an accommodative policy stance surrounding ongoing geopolitical risk, we expect no meaningful increase in rates in 2020.

In the current environment of tight credit spreads and stretched valuations, we believe portfolio performance will be driven largely by curve positioning and security selection. Municipals posted strong, consistent gains throughout 2019. In line with our previous outlook, taxables outperformed municipals on the short end of the curve. This is a trend we expect to continue, as strong demand paired with limited supply is unlikely to subside in the near term. Until the market signals an inflection point, we remain focused on high quality municipals with intermediate to long term maturities coupled with investment grade corporates on the short end.

Birch Run Investments

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