Birch Run Investments

Intermediate Fixed Income

February 2020

Holding-Based Statistics

	Intermediate Fixed Income	Bloomberg Barclays G/C Interm
Yield to Maturity	1.42%	1.31%
Effective Duration	4.10 years	3.87 years
Average Quality	AA-	AA

Strategy Statistics

Number of Bonds	74
Annualized Turnover	20% est
Firm Assets	220.90
Product Assets	89.98

Investment Philosophy

The Intermediate 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

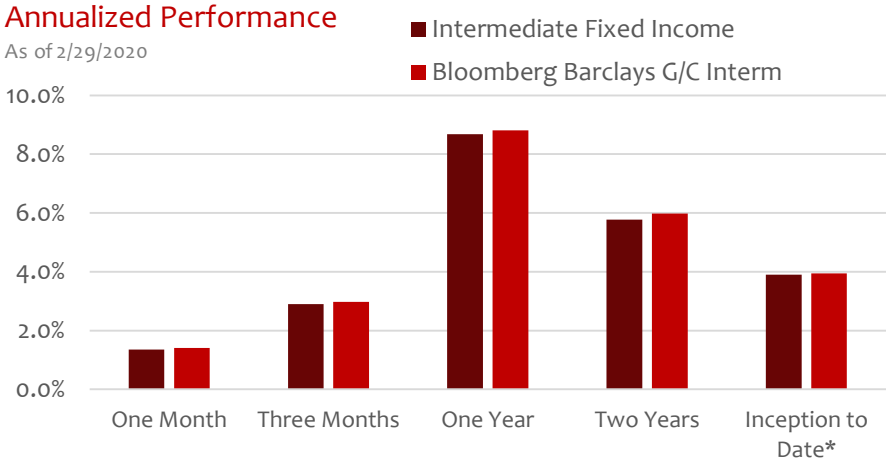
David M. Killian
Joseph D. Shacklock

Inception Date

4/30/2017

Annualized Performance

As of 2/29/2020

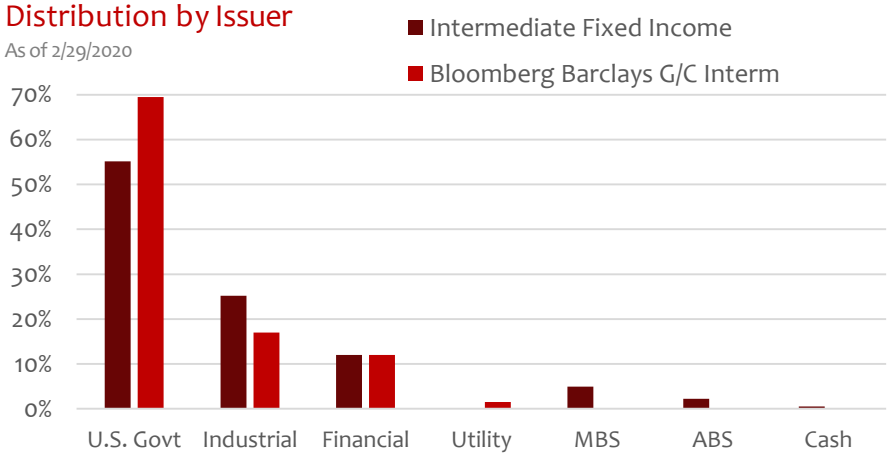


	One Month	Three Months	One Year	Two Years	Inception to Date*
Intermediate Fixed Income	1.35%	2.90%	8.68%	5.77%	3.90%
Bloomberg Barclays G/C Intermediate	1.41%	2.98%	8.81%	5.98%	3.95%

*Inception 4/30/2017

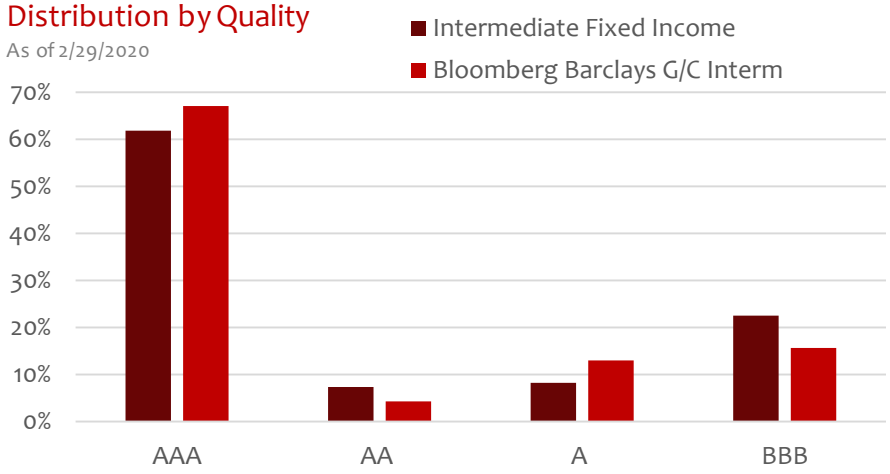
Distribution by Issuer

As of 2/29/2020



Distribution by Quality

As of 2/29/2020



Top 10 Holdings

As of 2/29/2020

US Treasury 2.25% - 11/15/24	6.29%
US Treasury 1.625% - 11/15/22	5.56%
US Treasury 2.125% - 5/15/25	5.52%
US Treasury 2.125% - 8/15/21	4.40%
US Treasury 1.875% - 4/30/22	4.21%
US Treasury 2.00% - 12/31/21	4.20%
US Treasury 2.25% - 11/15/27	3.87%
US Treasury 1.625% - 8/15/29	3.79%
US Treasury 2.00% - 2/15/22	3.52%
US Treasury 2.875% - 11/30/23	3.42%

Birch Run
INVESTMENTS

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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. While being mindful of the overall portfolio credit quality, we favor maintaining a slightly short to neutral portfolio duration, with the focus of new investments being in the 3 to 10 year, or "belly", section of the yield curve. This section should, in our view, benefit the most as the curve continues to normalize while also giving us the opportunity to lock in gains and extend when it becomes favorable to do so.