Birch Run Investments

Core Fixed Income

October 2020

Holding-Based Statistics

	Core Fixed Income	Bloomberg Barclays Agg. Index
Yield to Maturity	1.50%	1.21%
Effective Duration	6.16 years	5.97 years
Average Quality	A+	AA-

Strategy Statistics

Number of Bonds	234
Annualized Turnover	20% est
Firm Assets	241.66
Product Assets	34.73

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

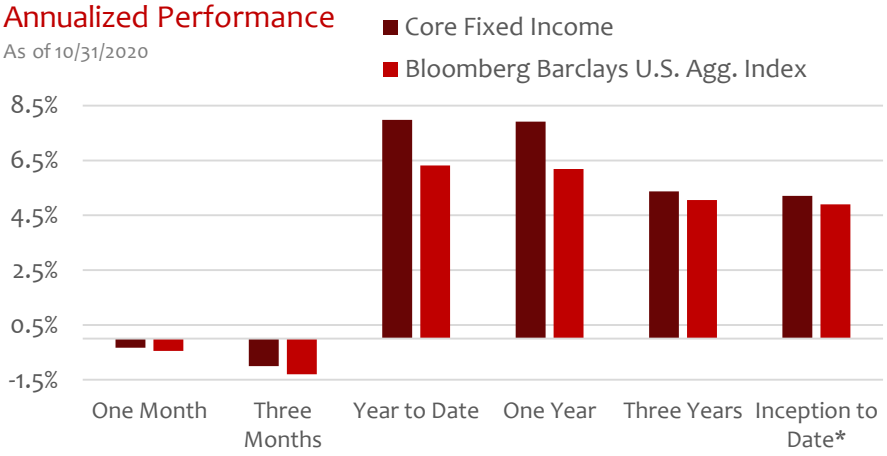
David M. Killian
Joseph D. Shacklock

Inception Date

3/31/2017

Annualized Performance

As of 10/31/2020

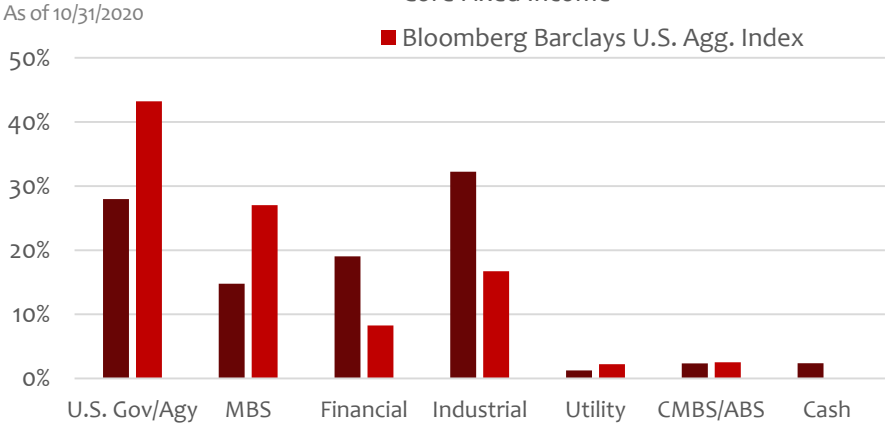


	One Month	Three Months	Year to Date	One Year	Three Years	Inception to Date*
Core Fixed Income	-0.33%	-1.00%	7.98%	7.92%	5.37%	5.21%
Bloomberg Barclays U.S. Agg. Index	-0.45%	-1.30%	6.32%	6.19%	5.06%	4.90%

* Inception 3/31/2017

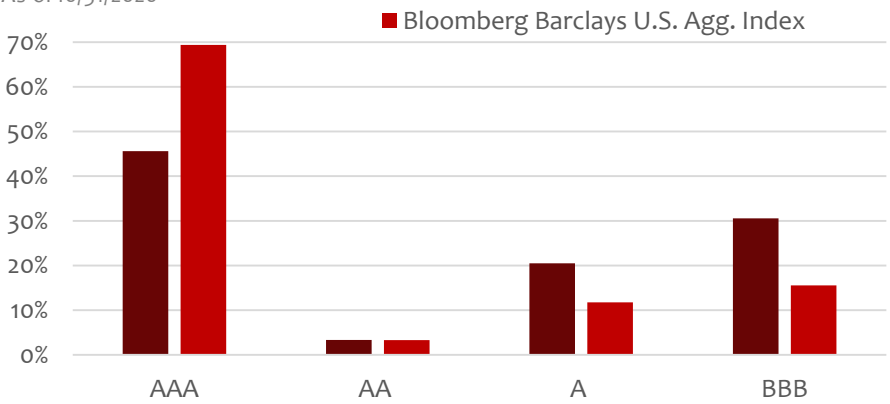
Distribution by Issuer

As of 10/31/2020



Distribution by Quality

As of 10/31/2020



Top 10 Holdings

As of 10/31/2020

US Treasury 1.625% - 11/15/22	3.37%
US Treasury 2.875% - 8/15/28	3.00%
US Treasury 1.625% - 2/15/26	2.92%
US Treasury 2.00% - 2/15/25	2.89%
US Treasury 2.00% - 8/15/25	2.58%
US Treasury 2.00% - 2/15/22	2.22%
US Treasury 0.25% - 9/30/25	2.04%
US Treasury 2.375% - 5/15/29	1.74%
US Treasury 2.50% - 3/31/23	1.39%
Morgan Stanley 3.95% - 4/23/27	1.37%

3Q2020 Portfolio Commentary

Consistent with the first two quarters of 2020, the third quarter provided its equal share of volatility and uncertainty around the timing and pace of an economic recovery—but a positive economic outlook is coming into focus. Following the devastating effects of the economic shutdown to combat the coronavirus pandemic, the global economy is now showing evidence of a sharp "V shaped" recovery as larger portions of the economy continue to reopen. The $2.2 trillion Coronavirus Aid, Relief and Economy Security (CARES) Act and policy response by the Federal Reserve have so far proven effective in providing the necessary support to households and businesses both small and large. Economic indicators released during the quarter support this view and include a surge in housing activity, better than expected consumer spending, and very strong manufacturing data. Taken as a whole, this information suggests a strengthening industrial expansion. Equity markets, as measured by the S&P 500, responded as expected to the better than feared economic outlook and posted gains of 8.9% for the quarter, bringing year to date results of 5.6% back into positive territory.

Entering the fourth quarter, investor focus now remains firmly centered on the likely outcome of the Presidential election and the prospects for additional fiscal stimulus. National polling data indicates a strong lead for former Vice President Joe Biden, which has reduced investor concerns of a contested election and has allowed a broad "risk on" sentiment to reemerge. Ongoing debate in Washington has not yielded any progress in securing a second multi-trillion dollar stimulus package prior to the election. Most investors, however, are unfazed by what would appear to be a negative development as most expect the passage of a bill early in the new year. A second round of fiscal support would further accelerate the ongoing economic recovery and limit downside potential in the months ahead.

The September FOMC meeting marked the fourth in a row where the committee left the Fed Funds rate unchanged at 0.00-0.25%. Notably, at its most recent meeting, the Fed indicated that rates will remain at this low level until inflation exceeds the committee's 2% objective on a sustained basis. This new policy framework in which the Fed has stated it will allow inflation to run above its long term objective is an important development and, in our view, will have an impact on the relative performance of longer maturity bonds which are most sensitive to inflation risks. Evidence of this can already be seen in the changing shape of the U.S. Treasury yield curve, which has begun to steepen after many years of flattening. The 6-month Treasury bill yield fell 6 basis points to end the quarter at 0.10%. The 2-year yield also fell slightly, dropping 2 basis points to a 0.13%. The 10-year yield reached an intra-quarter high of 0.75% before ending at 0.68%, 3 basis points higher for the quarter. Similarly, the 30-year yield rose 4 basis points and finished the quarter at 1.45%.

Similar to the second quarter, relative performance during the period continued to benefit from the combined effect of opportunistic increases in corporate bond exposure and adjustments made to reduce exposure to longer maturity U.S. Treasury securities. Given what we see as increased inflation risks in the short to intermediate term, we continue to reduce the interest rate sensitivity of our U.S. Treasury allocation and have structured the portfolio to benefit, on a relative basis, from an anticipated steepening of the yield curve.

While gains achieved in corporate bonds in recent periods have been significant, we believe the outlook for continued outperformance for the sector remains. Valuations in many areas of the corporate bond market still offer meaningful value, particularly in light of the improving economic backdrop. As we approach year end, we intend to be opportunistic in realizing gains in securities where appropriate and reinvesting in those areas of the market best positioned to outperform in the next stage of this ongoing economic recovery.

Birch Run Investments

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