Birch Run INVESTMENTS

TAX EXEMPT TOTAL RETURN

October 2020

Morningstar Rating™

Overall	★★★★
3-Year	★★★★

Holding-Based Statistics

	Tax Exempt Total Return	Bloomberg Barclays Muni Bond
Yield to Maturity	2.65%	2.44%
Effective Duration	5.90 years	4.76 years
Average Credit Quality	A	AA-

Strategy Statistics

Number of Bonds	248
Annualized Turnover	20% est
Firm Assets	241.66
Product Assets	21.07

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

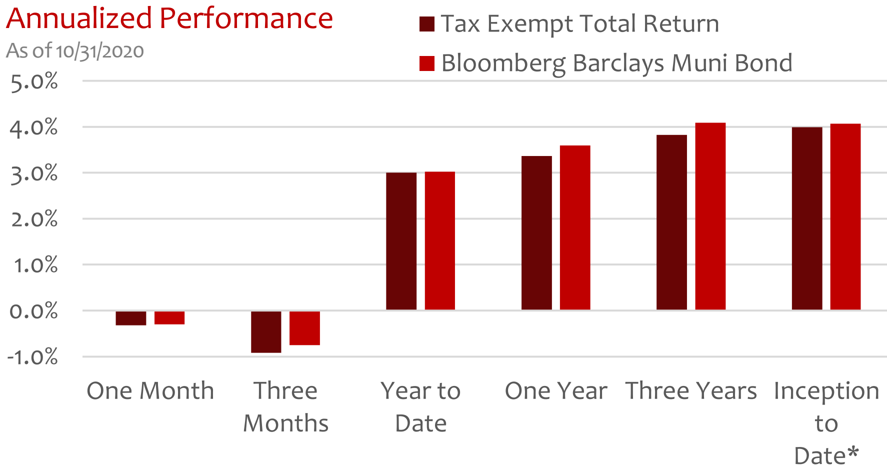
David M. Killian
Joseph D. Shacklock

Inception Date

6/30/2017

Annualized Performance

As of 10/31/2020

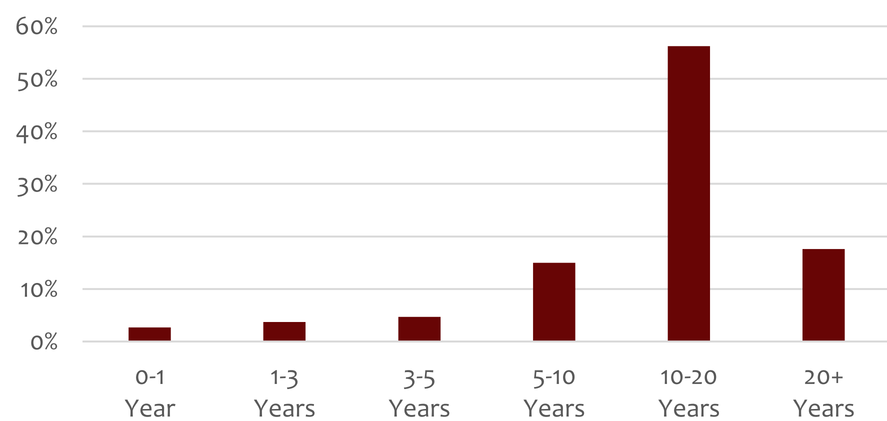


	One Month	Three Months	Year to Date	One Year	Three Years	Inception to Date*
Tax Exempt Total Return	-0.32%	-0.92%	3.00%	3.36%	3.82%	3.99%
Bloomberg Barclays Muni Bond	-0.30%	-0.75%	3.02%	3.59%	4.09%	4.07%

* Inception 6/30/2017

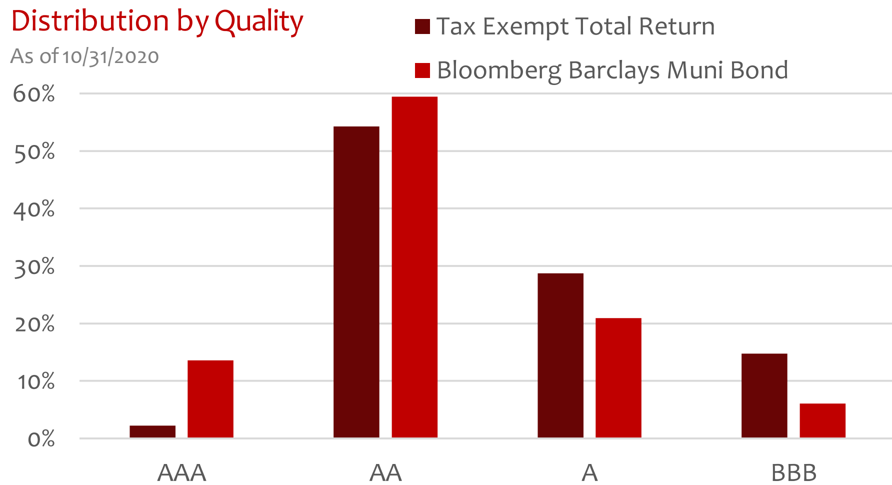
Maturity Distribution

As of 10/31/2020



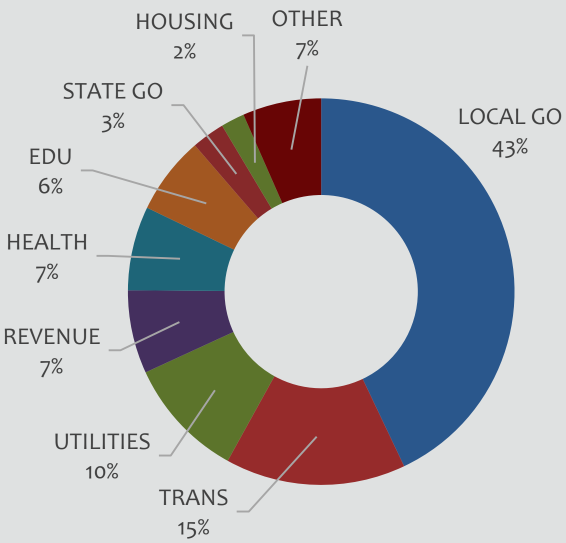
Distribution by Quality

As of 10/31/2020



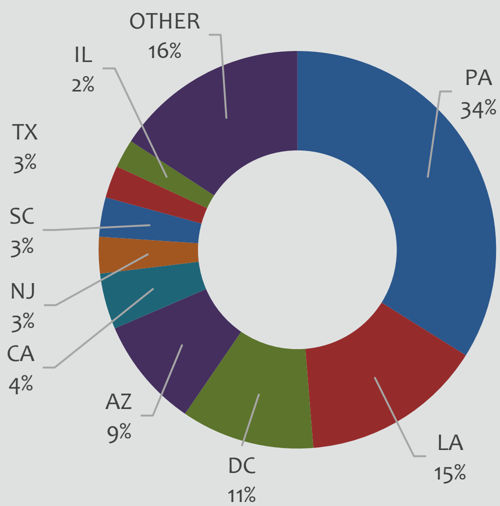
Sector Distribution

As of 10/31/2020



State Distribution

As of 10/31/2020



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Birch Run Investments

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3Q 2020 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%.

The pandemic has put significant stress on the financials of many municipalities. Issuers that were having difficulties prior to this year are now experiencing meaningful revenue shortfalls and budget deficits. Despite the challenges that persist this year, demand for municipal debt still remains very high given historically low default rates for the sector overall. With the unique circumstances of the current environment, our focus continues to be on higher quality general obligation bonds as well as issues backed by essential service revenue such as water and electricity infrastructure. In our view, the unlimited taxing authority of issuers will continue to provide support to general obligation issues while reliable revenue will do the same for essential services.

In conjunction with our efforts in finding new opportunities, continuously monitoring the performance of current holdings is a staple in our total return approach. As the price and yield of portfolio positions change over time, we are active in identifying holdings that are suitable sale candidates. We find that this process is effective in securing gains in positions that have increased in value from the time of initial purchase. Proceeds from these potential sales will be used to establish positions in new higher yielding alternatives, further improving the portfolio’s overall yield to maturity.

Birch Run Investments, an independent SEC registered investment advisor, claims compliance with the Global Investment Performance Standards (GIPS). Birch Run Investments has been independently verified for the period ending September 30, 2019. The performance data quoted represents past performance; past performance does not guarantee future results. Current performance may be lower or higher than the performance data quoted. The performance data quoted represents gross returns. The gross returns were calculated on a time weighted basis, include all dividends and interest, accrual income, realized and unrealized gains or losses, and are net of all brokerage commissions, execution costs, and do not give effect to investment advisory fees, which would reduce such returns. To receive a complete list and description of Birch Run Investments composites and/or a presentation that adheres to the GIPS standards, please contact David Killian by phone 610-321-3453, email info@birchruninvest.com, or by mail 211 Welsh Pool Rd, Suite 234 Exton, PA 19341.