

### Holding-Based Statistics

	Core Fixed Income	Bloomberg Barclays Agg. Index
Yield to Maturity	1.29%	1.09%
Effective Duration	6.55 years	6.07 years
Average Quality	A+	AA-

### Strategy Statistics

Number of Bonds	233
Trailing 12 Month Turnover	47%
Firm Assets	248.17
Product Assets	35.46

### 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

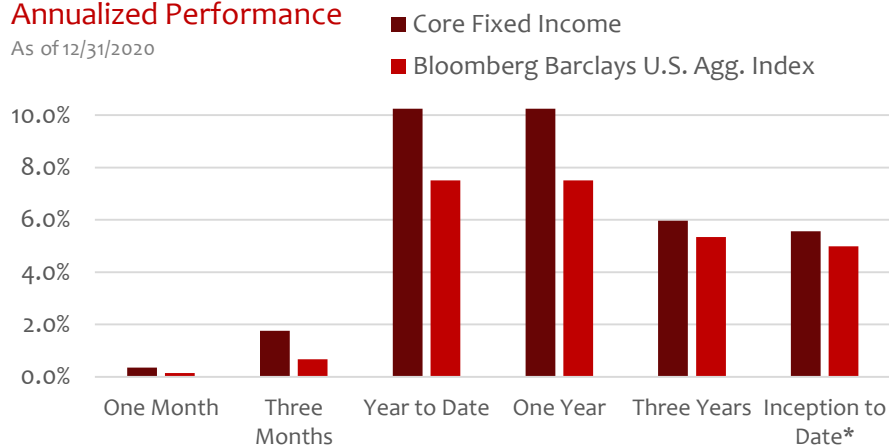
David M. Killian  
Joseph D. Shacklock

### Inception Date

3/31/2017

### Annualized Performance

As of 12/31/2020

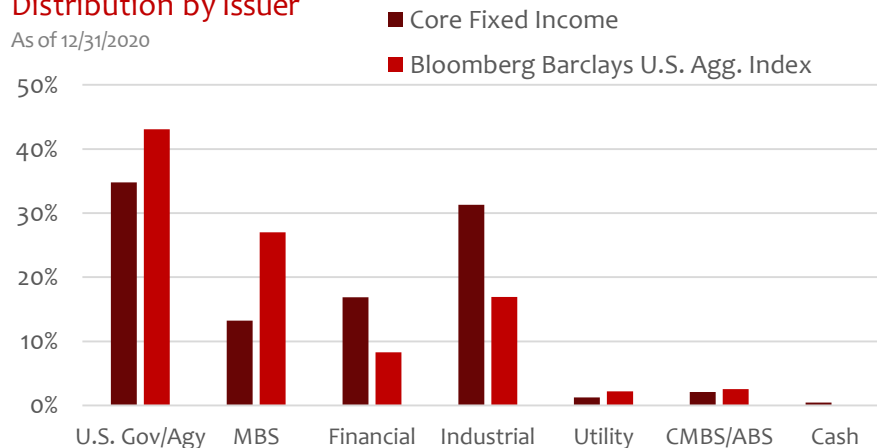


	One Month	Three Months	Year to Date	One Year	Three Years	Inception to Date*
Core Fixed Income	0.35%	1.76%	10.24%	10.24%	5.97%	5.56%
Bloomberg Barclays U.S. Agg. Index	0.14%	0.67%	7.51%	7.51%	5.34%	4.99%

\* Inception 3/31/2017

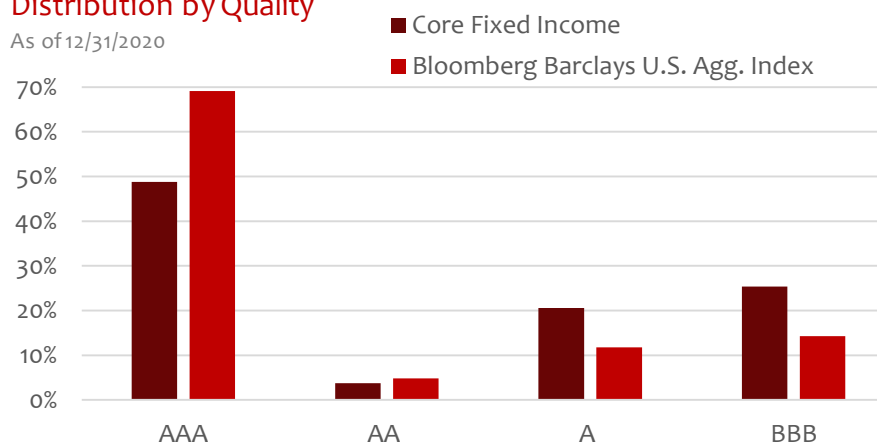
### Distribution by Issuer

As of 12/31/2020



### Distribution by Quality

As of 12/31/2020



## Top 10 Holdings

As of 12/31/2020

US Treasury 0.25% - 9/30/25	5.30%
US Treasury 1.625% - 11/15/22	3.30%
US Treasury 2.875% - 8/15/28	2.93%
US Treasury 1.625% - 2/15/26	2.87%
US Treasury 2.00% - 2/15/25	2.83%
US Treasury 2.00% - 8/15/25	2.52%
US Treasury 2.00% - 2/15/22	2.16%
US Treasury 2.375% - 5/15/29	1.70%
US Treasury 0.125% - 10/31/22	1.59%
Oneok Inc 4.95% - 7/13/47	1.41%

## 4Q2020 Portfolio Commentary

Following what can only be described as an incredibly challenging and volatile year that included a devastating pandemic, a deep recession, and uncertainty in Washington, a tech driven rally boosted major equity indices to end 2020 at record highs. The Nasdaq Composite index posted a 44.9% total return in 2020, marking the strongest year for the index since 2009. Rebounding from a low of -30% seen in March, the S&P 500 also posted strong returns, gaining 12.15% in the fourth quarter and ending the year with a positive 18.4% total return. Seasonally adjusted unemployment rates continue to move, albeit slowly, in the right direction with a year-end rate of 6.7% following a multi-decade high of 14.8% seen in April. Despite the unprecedented personal and economic losses brought upon us this past year, most investors anticipate a strong economic recovery in 2021 given the record setting pace of vaccine development, approval, and distribution. As the macroeconomic data helps paint a clearer picture, we remain cautiously optimistic and believe that after a challenging winter, the recovery will likely accelerate as coronavirus fears dissipate.

Swift action in the form of fiscal and monetary stimulus kept the year's health-care crisis from becoming a full blown financial crisis. Among other forms of stimulus, one-time payments, increased unemployment benefits, small business loans, and low interest rates have dramatically increased the total supply of U.S. dollars outstanding by 25% since March. Additionally, the U.S. personal savings rate was 12.9% in November, down from a high of 33.7% in April but still well above the 7.5% rate a year earlier. Stimulus packages, in conjunction with a high personal savings rate among consumers, has created a large degree of pent up demand for goods, services, travel, and leisure, which is expected to boost spending as the coronavirus begins to subside. While this is largely a positive development by almost any measure, one consequence fixed income investors are becoming increasingly focused on is what impact this will have on inflation—and more specifically, long term interest rates.

Low levels of inflation reflect poor demand for goods and services and increase the risk of future recession while high levels of inflation erode future purchasing power and increase borrowing costs. Inflation has remained stubbornly below the Fed's long standing 2% target, in stark contrast to market expectations prior to the pandemic given full levels of employment and record low interest rates. One of the consequences of this lower than anticipated inflation was a large shift in the shape of the U.S. Treasury yield curve. In normal conditions the yield curve is positively sloped, which reflects investor demand for higher yields on longer maturity bonds as compensation for the negative effect that inflation has on future purchasing power. However, beginning in 2014 investors became convinced that this low level of inflation would persist, and as a result viewed the higher yields offered by longer maturity bonds as being mispriced by the market and offered attractive value. This was the beginning of a multi-year trend that saw the yield curve flatten, with longer maturity bond yields declining while short term yields increased. To address the lower than targeted inflation challenge, as well as to combat the economic consequences of the COVID-19 pandemic, the Federal Reserve provided an open-ended commitment to keep interest rates near zero until inflation reaches the 2% target on a sustained basis. This new commitment to holding short term rates near zero has important implications for bond investors as the economy fully reopens post COVID-19 in 2021.

The likelihood of a surge in post-pandemic spending has fixed income investors wary of a potential spike in inflation beyond the Fed's objective in 2021 and beyond. This shift in sentiment can again be seen in the changing shape of the U.S. Treasury yield curve, which has reversed its flattening trend and is now in a steadily steepening trend. Investors are again demanding more yield as compensation to purchase longer maturity bonds. Having anticipated this shift in sentiment, over the past several quarters at Birch Run we have worked to reposition client portfolios with a bias toward more attractively priced segments of the market, specifically bonds maturing in five years or less. While in the near term it will be necessary to avoid longer dated maturities due to the expected rising interest rate environment, ultimately a normal positively sloped yield curve provides the ability to build a portfolio of laddered maturities, with each maturity providing an increasingly higher yield. As near term bonds mature in client portfolios, proceeds can then be reinvested at higher yields in a continuous cycle. Another positive development in our view is that as this process of yield curve normalization continues, we expect to see an increase in the overall level of income generated in client portfolios.

Continued fiscal and monetary support as we enter 2021 leaves us still comfortable with a portfolio allocation that continues to favor the higher yielding corporate bond sector. While the highest quality segments of the corporate bond market have fully retraced the COVID-19 selloff of early 2020, opportunities still remain in select industry groups. As we enter 2021 we are particularly positive on the outlook for bonds in the energy and consumer discretionary sectors. As always, 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.



211 Welsh Pool Rd, Suite 234  
Exton, PA 19341

610-321-3453  
birchruntime.com

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@birchruntime.com](mailto:info@birchruntime.com), or by mail 211 Welsh Pool Rd, Suite 234 Exton, PA 19341.