Birch Run Investments

Core Fixed Income

June 2021

Holding-Based Statistics

	Core Fixed Income	Bloomberg Barclays Agg. Index
Yield to Maturity	1.28%	1.49%
Effective Duration	5.74 years	6.36 years
Average Quality	AA-	AA

Strategy Statistics

Number of Bonds	212
Trailing 12 Month Turnover	47%
Firm Assets	259.62
Product Assets	34.94

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

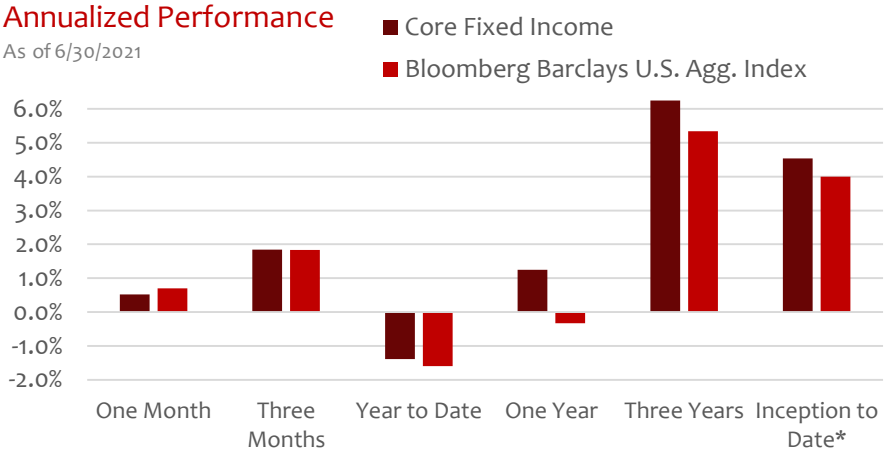
David M. Killian
Joseph D. Shacklock

Inception Date

3/31/2017

Annualized Performance

As of 6/30/2021

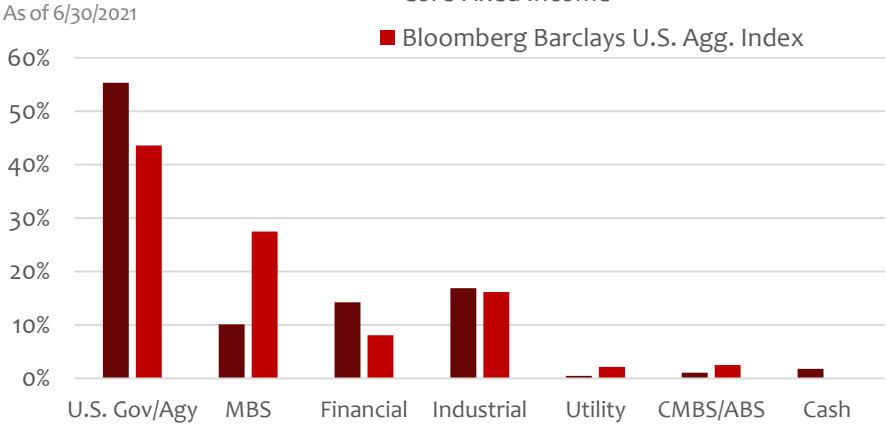


	One Month	Three Months	Year to Date	One Year	Three Years	Inception to Date*
Core Fixed Income	0.52%	1.84%	-1.39%	1.25%	6.25%	4.54%
Bloomberg Barclays U.S. Agg. Index	0.70%	1.83%	-1.60%	-0.33%	5.34%	4.00%

* Inception 3/31/2017

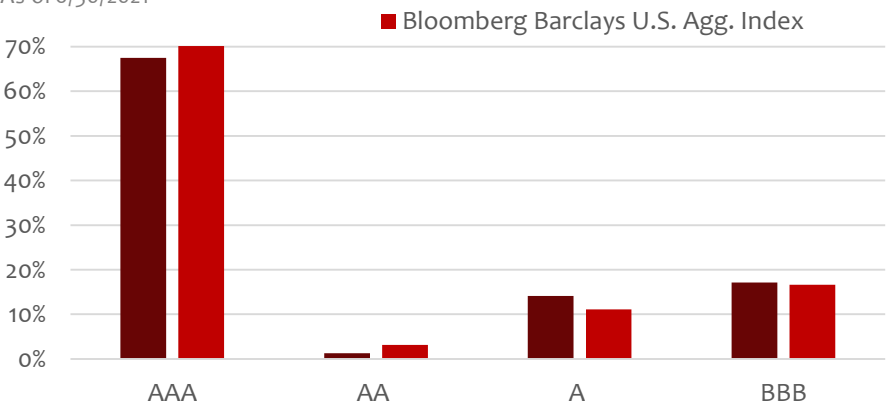
Distribution by Issuer

As of 6/30/2021



Distribution by Quality

As of 6/30/2021



Top 10 Holdings

As of 6/30/2021

US Treasury 0.25% - 9/30/25	5.28%
US Treasury 1.625% - 5/15/31	4.67%
US Treasury 0.375% - 1/31/26	4.24%
US Treasury 0.25% - 10/31/25	4.05%
US Treasury 1.625% - 11/15/22	3.32%
US Treasury 1.125% - 2/29/28	2.98%
US Treasury 2.875% - 8/15/28	2.85%
US Treasury 1.625% - 2/15/26	2.83%
US Treasury 2.00% - 2/15/25	2.81%
US Treasury 1.875% - 2/15/51	2.70%

2Q2021 Portfolio Commentary

Vaccination efforts in the U.S. have been strong with approximately 172 million Americans, or about 67% of the adult population, having received at least one dose of a COVID-19 vaccine. These figures fall only slightly short of the Biden administration's goal of 70% before the July 4th holiday. Falling rates of new infections have allowed for the easing of many pandemic related restrictions, giving way to a surge in both consumer and business spending fueled by $6 trillion in Federal stimulus and a large degree of the long anticipated pent-up demand. As measured by the S&P 500 Index, U.S. equities continue to post strong positive total return performance, gaining 8.5% in the most recent quarter, 15.2% year to date, and 96.1% from the March 2020 pandemic low. Market sentiment is mixed regarding the remainder of 2021 and beyond, with expectations of continued strength counterbalanced by the idea that an extended rally is unlikely given that the majority of the reopening momentum is already priced in.

Though near-term inflation expectations remain elevated, there is continued uncertainty around long-term projections. While the 2-Year U.S. Treasury yield has increased 9 basis points to end the quarter at 0.25%, the 10-Year U.S. Treasury yield has fallen 29 basis points to 1.45%. The spread, or difference in yield, between the 2-Year and 10-Year U.S. Treasury notes ended the quarter at 120 basis points, down from 158 basis points at the end of the first quarter. Movement at the short end of the yield curve is typically driven by the market's expectation of changes to the fed funds rate. At the long end, movement is driven by inflation expectations. The activity seen in the most recent quarter suggests that the market believes that the Federal Reserve (Fed) will respond to an inflation spike with higher rates, which will effectively cool the market and stifle inflation in the intermediate term. Risk appetite remains strong in credit markets: for the six months ending June 2021 the Barclays U.S. Corporate Bond Index returned -1.3% while high yield bonds as measured by Barclays U.S. Corporate High Yield index advanced 3.6%, both returns outpacing the Barclays U.S. Treasury Index return of -2.6%.

While the Fed continues to maintain an accommodative policy, how this policy will shift in the coming quarters is highly debated among investors. The latest commentary from Chairman Powell holds firmly to the position that the recent increase in inflation has been the result of transitory factors related to the reopening of the economy. Thus he believes the spike in inflation will subside, leading to a decline back to the Fed's long-term 2% target. As a group, the FOMC does not expect to increase the benchmark short-term rate until at least 2023. However, individual board members have been vocal in their opinion that continued strength may very likely force the Fed to act in 2022. Forward market pricing has responded to this internal debate among Fed officials and now implies a 41% probability of at least one rate increase in 2022, up from 12% at the start of the year. The most recently released employment and wage growth figures further cloud the outlook as investors question if the recent gain in wages is sustainable, or if it is a result of transitory pandemic related factors that will subside in the coming months.

While investor risk appetite remains robust and credit fundamentals hold relatively sound, corporate bond valuations now fully reflect this very favorable backdrop and have reached historic highs. We continue to use this environment as an opportunity to realize gains in issues where additional upside is limited while repositioning client portfolios by increasing the overall allocation to U.S. Treasury securities. We expect that the safety and liquidity provided by this increased U.S. Treasury allocation will position portfolios well to respond opportunistically to any market disruptions stemming from the uncertain inflation outlook the timing of future Federal Reserve policy changes. Despite the sharp move lower in yields seen in the recent quarter, we expect the trend towards higher overall yields and a steeper yield curve to resume. While we continue to maintain a bias towards shorter average maturities, we have selectively added intermediate maturities during periods of yield curve volatility.

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