Birch Run Investments

Short Term Fixed Income Plus

July 2022

Holding-Based Statistics

	Short Term Fixed Income Plus	Bloomberg Barclays 1-5yr Gov/Credit
Yield to Maturity	4.06%	3.13%
Effective Duration	2.37 years	2.61 years
Average Credit Quality	BBB+	AA

Strategy Statistics

Trailing 12 Month Turnover	43%
Firm Assets	291.59
Product Assets	49.44

Investment Philosophy

The Short Term Fixed Income Plus strategy is managed to provide a high degree of current income with an equal emphasis on price appreciation with limited interest rate risk. The strategy tactically allocates across a broad spectrum of investment grade corporate bonds, high yield corporate bonds, and U.S. Government securities based on relative value. The separate account strategy is actively managed with regards to security selection and yield curve exposure with an objective to generate a total return in excess of the index over a full market cycle.

Portfolio Management Team

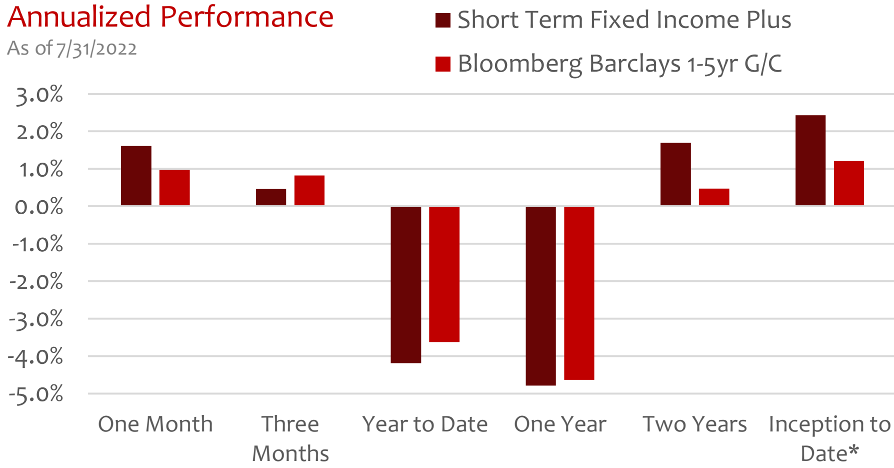
David M. Killian
Joseph D. Shacklock

Inception Date

2/28/2019

Annualized Performance

As of 7/31/2022

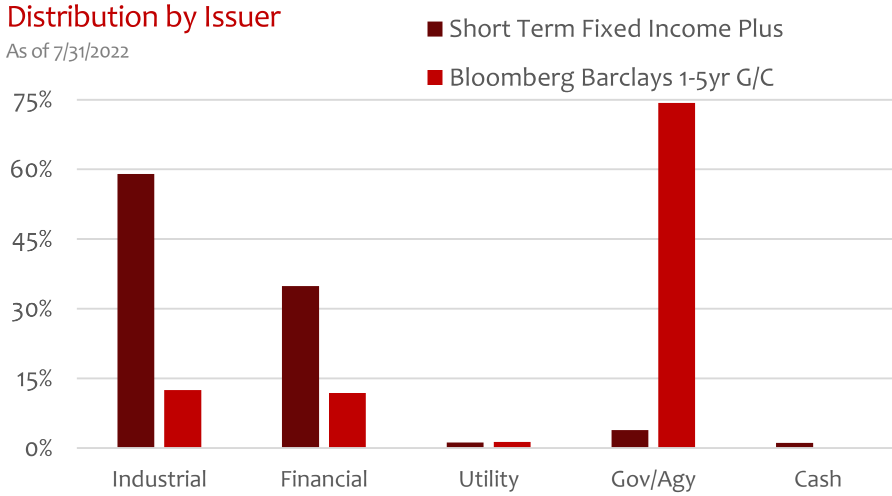


	One Month	Three Months	Year to Date	One Year	Three Years	Inception to Date*
ST Fixed Income Plus	1.61%	0.46%	-4.19%	-4.79%	1.70%	2.43%
Bloomberg Barclays 1-5yr Gov/Credit	0.97%	0.82%	-3.63%	-4.64%	0.47%	1.21%

* Inception 2/28/2019

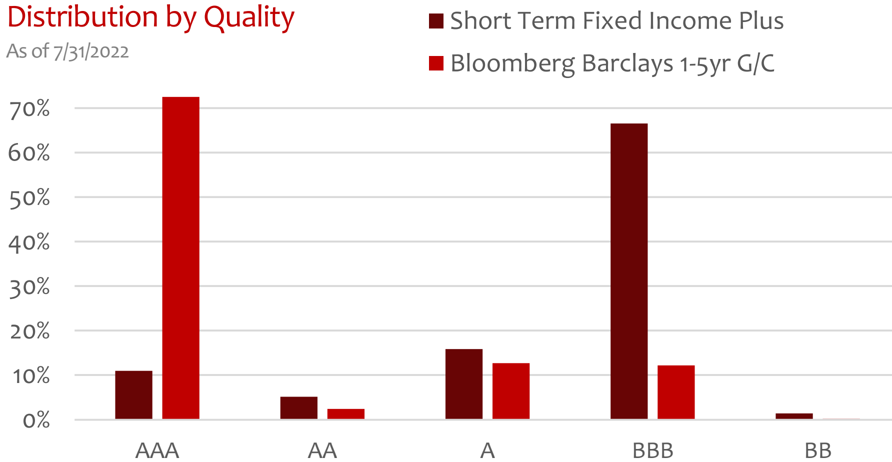
Distribution by Issuer

As of 7/31/2022



Distribution by Quality

As of 7/31/2022



Top 10 Holdings

As of 7/31/2022

US Treasury 0.125% - 2/28/23	2.42%
Apple Inc 0.75% - 5/11/23	1.85%
Apple Inc 1.80% - 9/11/24	1.80%
Bank of America Corp 3.95% - 4/21/25	1.66%
Barclays PLC 4.375% - 9/11/24	1.40%
Microsoft Corp 2.40% - 8/8/26	1.40%
Boeing Co 4.875% - 5/1/25	1.19%
US Treasury 0.125% - 4/30/23	1.14%
General Motors Co 6.125% - 10/1/25	1.13%
Owl Rock Capital Corp 4.00% - 3/30/25	1.12%

Birch Run
INVESTMENTS

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2Q 2022 Portfolio Commentary

As we have highlighted over the past several quarters, elevated inflation and the Federal Reserve's policy response continues to garner the most attention from investors as we enter the second half of 2022. Economic data released during the second quarter continues to show inflation running far above the Federal Reserve's target. As measured by the consumer price index, year over year prices increased at a higher than forecasted rate of 8.6% through May, marking the largest such increase in 40 years. The data revealed that prices for everyday necessities such as energy rose 34.6% from a year earlier, while groceries jumped 11.9%, the biggest increase since 1979.

The Federal Reserve, despite some early indications of an economic slowdown, has made clear that they assign a higher degree of importance to controlling inflation than they do the protection of economic growth. This steadfast commitment to taming inflation at all costs meaningfully repriced market forecasts for the path of the Fed Funds rate during the quarter with both the 2 Year and 10 Year U.S. Treasury yields increasing approximately 65 basis points. The Fed delivered on its more hawkish guidance during the quarter, increasing the short term rate by 0.50% at the May meeting and in June by 0.75%, the first increase of this size since 1994, to a new targeted range of between 1.50% and 1.75%. The consumer price index again surprised investors to the upside in June, posting a 9.1% year over year increase, the largest since 1981. Market pricing now suggests a 0.75% rate increase for the upcoming July meeting and a one-in-three chance of a 1.00% increase. The rate hike in July will be followed by additional increases, reaching a forecasted terminal rate of approximately 3.50% by March of 2023.

Despite continued strength in the labor market, low unemployment, and strong consumer fundamentals such as elevated savings and a healthy balance sheet, the impact of higher prices is beginning to take a toll on wage growth and discretionary spending. As reported by the Bureau of Labor Statistics, modest growth in average wages is being offset by persistent inflation. Real wages, which is the net result of wage growth and inflation, are down the most since 2007. Commerce Department data released in May, and adjusted for recent price increases, showed a drop in personal consumption for the first time this year while the pace of spending in prior months was revised lower. If this is an indication of a more meaningful slowdown in consumer spending, which represents close to 70% of the U.S. economic output, it would suggest that the Federal Reserve's aggressive monetary policy is taking a toll on the economy and further increases the risk of recession. Evidence of a slowing economy can also be seen in the commodity complex. Crude oil has fallen from highs above $120 a barrel to end the quarter around $106. Natural gas, wheat, copper, lumber, and other commodities experienced similar price movements.

The sharp increases in interest rates and growing concerns over an economic downturn weighed heavily on bond market returns for the quarter. As measured by the Bloomberg Barclays Aggregate Bond Index the investment grade bond market returned -4.69% for the quarter. The economically sensitive Bloomberg Barclay's U.S. Corporate Bond Index returned -7.26% for the quarter, while the higher quality Bloomberg Barclay's U.S. Treasury Index returned -3.77%. The weakness seen in economic output during the first half of 2022 supports the consensus view that we are likely experiencing "peak inflation", and the Fed's aggressive policy response will prove successful in lowering prices to a more sustainable level in the coming year. Key to the outlook, however, will be whether policymakers can achieve the elusive goal of a "soft landing", bringing inflation under control without triggering a recession. In fact, given the weakness seen during the second quarter, some investors are beginning to debate whether we are in fact already in a recession. The commonly used definition to identify a recession is two consecutive quarters of a contraction in gross domestic product. Following a contraction in GDP of 1.6 percent during the first quarter, forthcoming results for the second quarter will be the determining factor.

Another troubling market signal is the inversion of the curve for the second time in the past three months which provides further evidence that a recession in the near term is increasingly likely. A notable difference from the prior inversion however is the shape of the 1-year and 10-year U.S. Treasury yield curve. In early April, this secondary curve was still meaningfully positive at 70 basis points while today it is also very near inversion, providing additional confirmation to the current shape of the 2/10 curve. Despite the uncertain and challenging market outlook, we remain comfortable with the portfolio's current positioning. Sector and quality adjustments made over the past year have positioned the portfolio well to withstand this weaker economic environment. These adjustments included reducing exposure to economically sensitive corporate bonds, with a particular emphasis on those with a lower credit rating. Proceeds from these sales were reallocated into highly rated corporates, which historically perform relatively well during periods of uncertainty and increased risk aversion. We also took steps to reduce the portfolio's sensitivity to the negative effects of rising interest rates by directing the majority of these new investments to bonds with short average maturities.

Overall we continue to maintain this conservative approach, though we feel that the material repricing seen in the bond market year to date has resulted in U.S. Treasury yields approaching fair value. In our view, corporate bond valuations do not yet entirely reflect the likelihood of an economic downturn, which enforces our bias toward corporate issues of the highest quality. As always, we remain attentive to quickly changing market conditions and would be opportunistic in reducing our allocation to short maturity highly rated corporates in favor of higher yielding alternatives when relative valuations improve further.