Birch Run Investments

Short Term Fixed Income Plus

March 2024

Holding-Based Statistics

	Short Term Fixed Income Plus	Bloomberg 1-5yr Gov/Cred
Yield to Maturity	5.42%	4.74%
Effective Duration	2.60 years	2.57 years
Average Credit Quality	A3	AA2

Strategy Statistics

Trailing 12 Month Turnover	25%
Firm Assets	280.2
Product Assets	49.2

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 Killian
John DeLaney, CFA

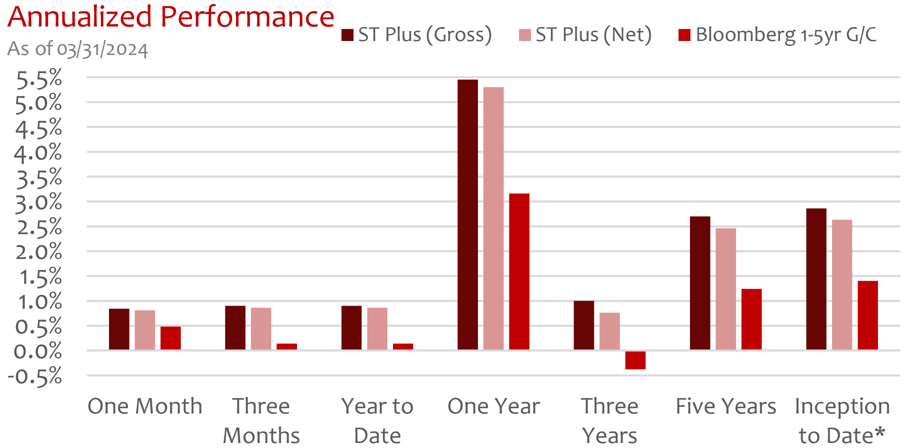
Inception Date

2/28/2019

Source: Bloomberg, Advent

Annualized Performance

As of 03/31/2024

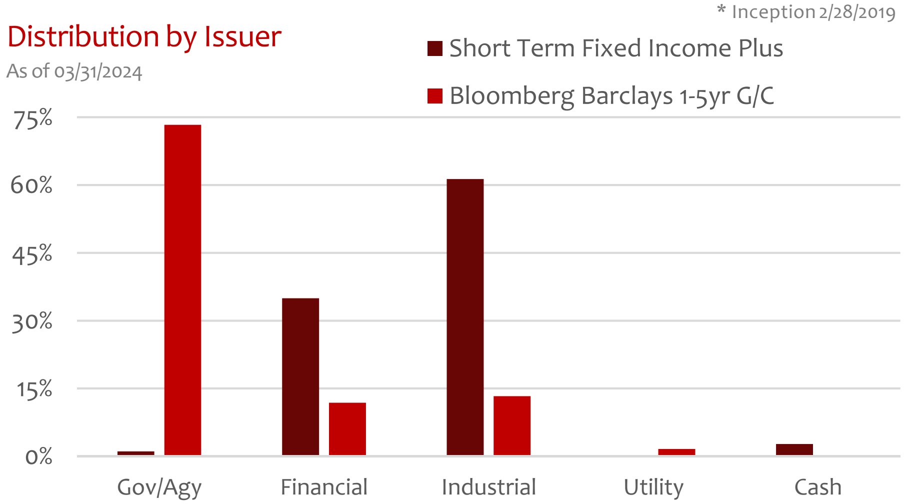


	One Month	Three Months	Year to Date	One Year	Three Years	Five Years	Inception to Date*
Short Term Plus (Gross)	0.84%	0.90%	0.90%	5.45%	1.00%	2.70%	2.86%
Short Term Plus (Net)	0.81%	0.86%	0.86%	5.30%	0.76%	2.46%	2.63%
Bloomberg 1-5yr G/C	0.48%	0.14%	0.14%	3.16%	-0.38%	1.24%	1.40%

* Inception 2/28/2019

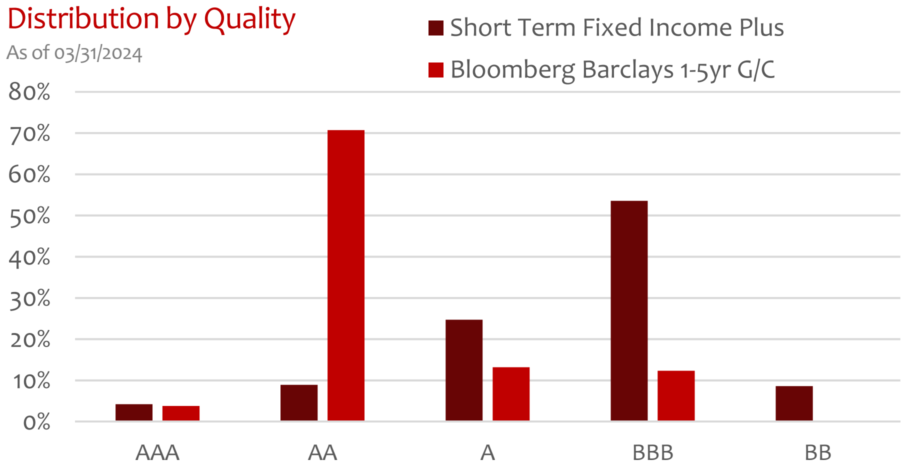
Distribution by Issuer

As of 03/31/2024



Distribution by Quality

As of 03/31/2024



Top 10 Holdings

As of 10331/2024

BANK OF AMERICA CORP 3.95% due 04/21/2025	1.66%
WELLS FARGO & CO 3% due 02/19/2025	1.40%
GOLDMAN SACHS GROUP INC 3.5% due 04/01/2025	1.31%
FORD MOTOR CREDIT CO 7.122% due 11/07/2033	1.18%
TRUIST FINANCIAL CORP 4.873% due 01/26/2029	1.09%
MORGAN STANLEY 5% due 11/24/2025	1.08%
CITIGROUP INC 5.61% due 09/29/2026	1.06%
AERCAP HOLDINGS NV 2.875% due 08/14/2024	1.02%
BOEING CO 4.875% due 05/01/2025	1.02%
GENERAL MOTORS CO 6.1% due 01/07/2034	1.01%

1Q 2024 Portfolio Commentary

While expectations remain that the Federal Reserve will begin the process of lowering interest rates before the year is out there remains considerable uncertainty with respect to the timing and degree. Fed officials indicated at their March meeting that the median estimate of committee members was for three rate cuts. The futures market however, contrary to last year, has recently repriced to reflect much less (See Chart1). After falling as low as 3.80% at the peak of rate cut optimism in December, Ten Year U.S. Treasury yields have moved steadily higher on a year to date basis and now appear to be moving back towards the 5.0% level last seen in October. Stubbornly high inflation readings surpassing expectations for three consecutive months, coupled with a continued tight labor market, will challenge the Fed's bias to lower short term interest rates in the near term.

Despite the stickiness of recent inflation readings, policymakers, and investors, remain optimistic that a successful soft landing for the economy is the base case forecast. Key to this outcome will be the Fed striking a delicate balance with how they handle the timing and pace of future rate cuts. Maintaining the current restrictive policy rate of 5.50% raises the risk of an economic slowdown. Conversely, reducing rates prematurely could allow inflation to re-accelerate and take even firmer root. In light of this framework, Fed Chair Powell has indicated that interest rates will remain at current levels until there is clear evidence that inflation is moving down a sustainable path toward their 2% target. While this set of criteria appeared to have been met in the fourth quarter, recent inflation readings clearly do not and suggest the Fed will modify its rate outlook and adopt a more data dependent approach.

Bond yields across the yield curve reacted as one might expect from the higher inflation readings and increased sharply. By mid-April, the Two-Year U.S. Treasury yield, highly sensitive to Fed policy, increased 70 basis points to nearly 5.0%. The Ten-Year U.S. Treasury Yield now stands at 4.60%, also an increase of 70 basis points from year end. On a relative basis, investment grade and high yield corporate bonds performed well both in the quarter and through mid-April, outperforming comparable maturity U.S. Treasuries. Despite tempered expectations for rate cuts, credit spreads on both investment grade and high yield bonds have continued to contract and are now approaching levels last seen in 2007.

Despite rich valuations, the yield advantage available in corporate bonds and the underlying strength of the economy leads us to maintain an above average weighting to the sector overall. Nonetheless, we remain mindful that deeply inverted yield curves, with the sole exception of 1966, have been very accurate predictors of a looming recessions (See Chart 2). For this reason, we remain cautious within our overweight allocation to the sector. We continue to emphasize issuers of higher credit quality that are less susceptible to underperformance during a period of economic contraction. In keeping with this approach, during the quarter we also increased portfolio exposure to government guaranteed mortgage backed securities, where appropriate. This is a sector of the market where for many years purchases in the open market by the Federal Reserve pushed valuations to unattractive levels. In recent months however, valuations relative to corporate bonds have improved considerably.

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